

November 9, 2010

**Reco** Changed from  
Accumulate Reduce

**CMP** Target Price  
Rs1,420 Rs1,550

EPS change CY10E/11E (%) NA/5.3  
Target Price change (%) 29  
Nifty 6,302  
Sensex 20,932

### Price Performance

(%)	1M	3M	6M	12M
Absolute	17	16	47	88
Rel. to Nifty	13	1	20	46

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Financial Services
Bloomberg	ICRA@IN
Equity Capital (Rs mn)	100
Face Value(Rs)	10
No of shares o/s (mn)	10
52 Week H/L	1,480/755
Market Cap (Rs bn/USD mn)	14/316
Daily Avg Volume (No of sh)	18115
Daily Avg Turnover (US\$mn)	0.5

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	28.5	28.5	28.5
FII/NRI	7.0	6.5	5.9
Institutions	44.6	44.4	44.1
Private Corp	3.1	3.2	3.0
Public	16.8	17.4	18.5

Source: Capitaline

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- **ICRA's Q2FY11 results above expectations with operating revenue at Rs484mn and Adj. net profit at Rs141mn**
- **The revenue growth was driven by healthy growth in rating, consulting and professional services segment**
- **Operating margins expanded by 524bps yoy to 41.2% as the operating leverage played out partially with controlled costs**
- **We expect the 23% CAGR in core earnings over FY10-13E. Upgrade to ACCUMULATE with TP of Rs1,550, valuing at 16x FY13E EPS (now introduced) plus cash of Rs365/share**

### Revenues growth ahead of expectations

ICRA's revenues for the quarter grew by 33.2% oyo to Rs484mn ahead of our expectations (Rs464mn). The growth mainly came from rating segment which reported growth of 35.6% yoy followed by consulting and professional services. The growth in rating segment was driven by increase in debt ratings and bank loan ratings.

### Income from operations

%	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Rating Services Fees	247	274	331	271	335	35.6	23.8
Consulting Fees	37	62	78	51	57	52.0	11.0
Information Services Fees	10	10	15	7	6	-41.9	-17.4
KPO/BPO Services Fees	26	24	49	31	30	17.0	-3.6
Professional Services Fees	43	52	34	50	56	30.1	11.7
<b>Total operating revenues</b>	<b>363</b>	<b>421</b>	<b>507</b>	<b>410</b>	<b>484</b>	<b>33.2</b>	<b>17.9</b>

Source: Company, Emkay Research

### Rating business will continue to drive growth going forward

We expect the momentum in the revenue growth to sustain in coming quarters driven by rating business over FY11/FY12. Continued traction in Bank loan rating, increased debt issuances, implementation of the base rate will drive rating revenues going forward. Moreover the launch of rating services in Indonesia in the last quarter will provide further impetus to the rating business.

### Valuation table

YE-Mar	Net Sales	EBITDA (Core)	(%) APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV	
FY10	1,623	614	37.8	477	47.7	16.0	24.2	30.1	20.4	6.8
FY11E	2,014	761	37.8	577	57.7	21.1	25.0	24.9	16.1	5.8
FY12E	2,470	964	39.0	727	72.7	25.9	26.2	19.7	12.4	4.7
FY13E	2,949	1,151	39.0	892	89.2	22.8	26.3	16.1	9.3	3.8

Source: Company, Emkay Research

## Key financials – Quarterly

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue</b>	<b>363</b>	<b>421</b>	<b>507</b>	<b>410</b>	<b>484</b>	<b>33.2</b>	<b>17.9</b>	<b>895</b>	<b>695</b>	<b>28.7</b>
<b>Expenditure</b>	<b>233</b>	<b>242</b>	<b>299</b>	<b>280</b>	<b>284</b>	<b>22.3</b>	<b>1.7</b>	<b>564</b>	<b>474</b>	<b>18.9</b>
as % of sales	64.0	57.6	59.0	68.1	58.8			63.0	68.2	
Employee Cost	158	160	205	190	199	25.8	4.6	390	320	21.9
as % of sales	43.6	38.1	40.4	46.4	41.1			43.6	46.0	
Selling & Administrative Expenses	30	29	30	32	35	17.7	11.1	67	66	1.7
as % of sales	8.2	7.0	5.9	7.7	7.2			7.5	9.4	
Other Expenses	45	53	64	58	50	12.7	-12.8	108	89	20.7
as % of sales	12.2	12.5	12.7	14.0	10.4			12.0	12.8	
<b>EBITDA</b>	<b>131</b>	<b>178</b>	<b>208</b>	<b>131</b>	<b>200</b>	<b>52.6</b>	<b>52.6</b>	<b>331</b>	<b>221</b>	<b>49.6</b>
Depreciation	10	10	12	10	12	16.3	17.0	22	19	13.9
<b>EBIT</b>	<b>121</b>	<b>168</b>	<b>196</b>	<b>121</b>	<b>188</b>	<b>55.6</b>	<b>55.5</b>	<b>309</b>	<b>202</b>	<b>53.0</b>
Other Income	32	34	34	34	23	-27.7	-33.0	57	74	-22.7
Interest	0	0	0	0	0			0	0	
<b>PBT</b>	<b>152</b>	<b>202</b>	<b>230</b>	<b>155</b>	<b>211</b>	<b>38.4</b>	<b>36.0</b>	<b>366</b>	<b>276</b>	<b>32.8</b>
Total Tax	65	59	67	51	70	6.6	35.3	121	131	-7.7
<b>Adjusted PAT</b>	<b>95</b>	<b>144</b>	<b>162</b>	<b>104</b>	<b>141</b>	<b>49.4</b>	<b>35.3</b>	<b>246</b>	<b>152</b>	<b>61.8</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
<b>APAT after MI</b>	<b>95</b>	<b>144</b>	<b>162</b>	<b>104</b>	<b>141</b>	<b>49.4</b>	<b>35.3</b>	<b>246</b>	<b>152</b>	<b>61.8</b>
Extra ordinary items	12	2	-3	2	3			5	79	
Reported PAT	107	146	159	106	144	34.9	35.8	250	230	8.6
Reported EPS	10.7	14.6	15.9	10.6	14.4	34.9	35.8	25.0	23.0	8.6
<b>Margins (%)</b>										
EBIDTA	36.0	42.4	41.0	31.9	41.2	524	936	37.0	31.8	518
EBIT	33.2	39.9	38.7	29.5	38.8	559	938	34.5	29.0	550
EBT	41.9	48.0	45.4	37.8	43.6	163	579	40.9	39.6	127
PAT	26.0	34.1	31.9	25.4	29.2	316	373	27.5	21.8	562
Effective Tax rate	37.9	28.9	29.9	32.6	32.6	-537	-8	32.6	36.3	-367

Source: Company, Emkay Research

## Higher revenues and expansion in margins boost operating profit

The operating profit at Rs200mn was better than our expectations driven by higher than expected revenues and better margins. The operating margins expanded by 524bps yoy to 41.2% led by margin expansion across segments, as the operating leverage played out partially with controlled costs. The rating segment witness significant 418bps yoy expansion in margins to 64.4%, back to historical levels.

## Segmental results (reported)

EBIT (Rs)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Rating Services	149	159	214	150	216	45.0	44.3	366	264	38.6
Consulting	-6	17	17	0	10	-275.6	5101.0	10	-14	-177.1
Information Services	-1	7	3	-3	-4	148.7	44.2	-6	-5	23.5
KPO/BPO Services	6	11	16	6	3	-47.5	-48.0	9	18	-48.2
Professional Services	2	0	-14	-2	3	38.8	-206.7	0	-5	-103.4
<b>Total</b>	<b>149</b>	<b>194</b>	<b>235</b>	<b>151</b>	<b>228</b>	<b>52.8</b>	<b>51.4</b>	<b>379</b>	<b>258</b>	<b>47.0</b>
<b>EBIT margins (%)</b>										
Rating Services	60.3	58.0	64.5	55.3	64.4	418	917	60.3	57.8	254
Consulting	-15.7	28.0	22.2	0.4	18.1	3,381	1,774	9.7	-17.7	2,740
Information Services	-15.0	72.1	21.6	-36.7	-64.1	-4,917	-2,741	-49.1	-31.0	-1,815
KPO/BPO Services	23.1	44.7	31.6	19.2	10.4	-1,273	-884	14.9	33.1	-1,825
Professional Services	4.3	0.1	-42.7	-4.9	4.6	29	949	0.2	-5.2	532
<b>Total</b>	<b>41.1</b>	<b>46.1</b>	<b>46.4</b>	<b>36.7</b>	<b>47.2</b>	<b>605</b>	<b>1,043</b>	<b>42.4</b>	<b>37.1</b>	<b>530</b>

Source: Company, Emkay Research

**Lower tax rate helps further**

The reported net profit grew by 34.9%yoy to Rs144mn. However, adjusted for reversal in diminution in value of investment, the net profit grew by even higher 49.4%yoy to Rs141mn. The lower tax rate during the same quarter helped the performance further as the effective tax rate in Q2FY11 was at 32.6% compared with 37.9% in Q2FY10.

**Valuation and view**

At the current market price, the stock is quoting at 24.9x/19.7x/16.1x FY11E/FY12E/FY13E earnings. We have upgraded our earnings estimate for FY12E by ~5.3% to take into account stronger traction in revenues and controlled costs. We are also introducing our FY13E estimates with EPS of Rs89.2. We upgrade the stock to ACCUMULATE with a revised TP of Rs1,550, valuing the stock at 16x FY13E (earlier 16x FY12E) plus cash per share of Rs365.

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
<b>Net Sales</b>	<b>1,623</b>	<b>2,014</b>	<b>2,470</b>	<b>2,949</b>
<i>Growth (%)</i>	19.5	24.0	22.6	19.4
<b>Expenditure</b>	<b>1,009</b>	<b>1,253</b>	<b>1,506</b>	<b>1,797</b>
Employee Cost	685	850	1,042	1,243
Employee Cost	125	155	185	221
Other Exp	200	248	279	333
<b>EBITDA</b>	<b>614</b>	<b>761</b>	<b>964</b>	<b>1,151</b>
<i>Growth (%)</i>	9.8	23.9	26.7	19.5
<b>EBITDA margin (%)</b>	<b>37.8</b>	<b>37.8</b>	<b>39.0</b>	<b>39.0</b>
Depreciation	41	45	50	56
<b>EBIT</b>	<b>706</b>	<b>855</b>	<b>1,077</b>	<b>1,323</b>
<b>EBIT margin (%)</b>	<b>43.5</b>	<b>42.5</b>	<b>43.6</b>	<b>44.9</b>
Other Income	134	139	163	227
Interest expenses	0	0	0	0
<b>PBT</b>	<b>793</b>	<b>855</b>	<b>1,252</b>	<b>1,498</b>
<b>Tax</b>	<b>258</b>	<b>278</b>	<b>407</b>	<b>487</b>
<i>Effective tax rate (%)</i>	32.5	32.5	32.5	32.5
<b>Adjusted PAT</b>	<b>477</b>	<b>577</b>	<b>727</b>	<b>892</b>
<i>Growth (%)</i>	16.0	21.1	25.9	22.8
<b>Net Margin (%)</b>	<b>29.4</b>	<b>28.7</b>	<b>29.4</b>	<b>30.3</b>
(Profit)/loss from JVs/Ass/MI	-	-	-	1.00
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>477</b>	<b>577</b>	<b>727</b>	<b>892</b>
E/O items	86	0	175	175
<b>Reported PAT</b>	<b>535</b>	<b>577</b>	<b>845</b>	<b>1,010</b>
<i>Growth (%)</i>	37.1	7.9	46.4	19.6

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	572	716	914	1095
Depreciation	41	45	50	56
Interest Provided	0	0	0	0
Other Non-Cash items	87	57	199	115
Chg in working cap	-66	-304	-441	-449
Tax paid	-258	-278	-407	-487
<b>Operating Cashflow</b>	<b>511</b>	<b>375</b>	<b>478</b>	<b>558</b>
Capital expenditure	-36	-41	-45	-50
<b>Free Cash Flow</b>	<b>475</b>	<b>333</b>	<b>433</b>	<b>508</b>
Other income	134	139	163	227
Investments	-447	-37	0	0
<b>Investing Cashflow</b>	<b>-483</b>	<b>-78</b>	<b>-45</b>	<b>-50</b>
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	-	-	-	1.00
Interest Paid	-	-	-	-
Dividend paid (incl tax)	-125	-149	-199	-224
Income from investments	-	-	-	-
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>-125</b>	<b>-149</b>	<b>-199</b>	<b>-224</b>
<b>Net chg in cash</b>	<b>-96</b>	<b>147</b>	<b>234</b>	<b>284</b>
Opening cash position	69	-27	120	354
<b>Closing cash position</b>	<b>-27</b>	<b>120</b>	<b>354</b>	<b>637</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	100	100	100	100
Reserves & surplus	2,022	2,388	2,952	3,646
<b>Net worth</b>	<b>2,122</b>	<b>2,488</b>	<b>3,052</b>	<b>3,746</b>
<b>Minority Interest</b>				
Secured Loans	0	0	0	0
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>				
Net deferred tax liability	-10	-10	-10	-10
<b>Total Liabilities</b>	<b>2,112</b>	<b>2,478</b>	<b>3,042</b>	<b>3,737</b>
Gross Block	473	515	560	610
Less: Depreciation	232	277	327	383
<b>Net block</b>	<b>242</b>	<b>238</b>	<b>233</b>	<b>227</b>
Capital work in progress	-	-	-	-
<b>Investment</b>	<b>746</b>	<b>783</b>	<b>783</b>	<b>783</b>
<b>Current Assets</b>	<b>2,154</b>	<b>2,485</b>	<b>3,178</b>	<b>4,805</b>
Inventories	-	-	-	-
Sundry debtors	366	454	557	665
Cash & bank balance	109	120	354	637
Loans & advances	557	572	589	610
Other current assets	1,122	1,339	1,678	2,892
<b>Current lia &amp; Prov</b>	<b>1,029</b>	<b>1,095</b>	<b>1,303</b>	<b>1,429</b>
Current liabilities	538	547	556	566
Provisions	492	548	748	863
<b>Net current assets</b>	<b>1,124</b>	<b>1,390</b>	<b>1,874</b>	<b>3,376</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>2,112</b>	<b>2,478</b>	<b>3,042</b>	<b>3,737</b>

## Key ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	37.8	37.8	39.0	39.0
Net Margin	29.4	28.7	29.4	30.3
ROCE	36.2	37.8	40.6	36.4
ROE	24.2	25.0	26.2	26.3
RoIC				
<b>Per Share Data (Rs)</b>				
EPS	47.7	57.7	72.7	89.2
CEPS	52.6	63.4	79.3	96.9
BVPS	212.2	248.8	305.2	374.6
DPS	1.5	1.8	2.4	2.7
<b>Valuations (x)</b>				
PER	30.1	24.9	19.7	16.1
P/CEPS	27	23	18	15
P/BV	6.8	5.8	4.7	3.8
EV / Sales	7.7	6.1	4.8	3.6
EV / EBITDA	20.4	16.1	12.4	9.3
Dividend Yield (%)	1.0	1.3	1.7	1.9
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-	-	-	-
Net Debt/EBIDTA	-	-	-	-
Working Cap Cycle	-	-	-	-

**Recommendation History: ICRA – ICRA IN**

Date	Reports	Reco	CMP	Target
13/08/2010	<a href="#">ICRA Q1FY11 Result Update</a>	Reduce	1,219	1,200
19/05/2010	<a href="#">ICRA Q4FY10 Result Update</a>	Reduce	967	800
21/01/2010	<a href="#">ICRA Q3FY10 Result Update</a>	Reduce	851	800
04/11/2009	<a href="#">ICRA Q2FY10 Result Update</a>	Reduce	760	700

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
08/11/2010	<a href="#">State Bank of India Q2FY11 Result Update</a>	Reduce	3,423	3,000
29/10/2010	<a href="#">Andhra Bank Q2FY11 Result Update</a>	Buy	176	210
28/10/2010	<a href="#">Bank of Baroda Q2FY11 Result Update</a>	Buy	1,011	1,160
28/10/2010	<a href="#">Punjab National Bank Q2FY11 Result Update</a>	Buy	1,310	1,500

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