

### Strong rating business drives performance

November 2, 2011

**Reco** Changed from  
Reduce Reduce

**CMP** Target Price  
Rs990 Rs900

EPS change FY12E/13E (%) NA  
Target Price change (%) NA  
Nifty 5,258  
Sensex 17,465

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	7	(21)	(8)	(28)
Rel. to Nifty	(2)	(18)	(4)	(16)

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 1,480/875  
Market Cap (Rs bn/USD mn) 10/203  
Daily Avg Volume (No of sh) 7594  
Daily Avg Turnover (US\$m) 0.2

#### Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	28.5	28.5	28.5
FII/NRI	9.1	9.2	10.1
Institutions	43.7	43.8	42.2
Private Corp	2.7	2.5	2.7
Public	16.1	15.9	16.4

Source: Capitaline

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- **ICRA's Q2FY11 results surprise positively with revenue at Rs519mn (vs our estimate Rs 277mn) and adj net profit at Rs140mn (vs our estimate Rs 105mn)**
- **The rating revenues grow by whopping 48%qoq growth (despite low loan growth/low bond floatations during the quarter). Other businesses also show good traction**
- **Margins bounced back to a near normalized level of 37.3% during the quarter, albeit still lower than 41.2% of Q2FY11. Rating margins improved to 47.9% from 26.3% in Q1FY12**
- **Sustainability of the growth in rating revenue look difficult given rising competition, sluggish debt issuances and lower bank loan growth. Maintain REDUCE with PT of Rs900**

#### Results above expectation; Rating business drive performance

ICRA's revenues grew by 34%qoq to Rs519bn, significantly ahead of expectation led by whopping 48%qoq growth in rating revenues. We are quite surprised by such sharp growth in rating business, as there was neither large CP flotation's nor substantial growth in Bank loans in the last quarter.

#### Income from operations

Revenues	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Rating Services	335	300	384	239	353	5.4	48.0
Consulting	57	68	75	57	57	0.6	0.0
KPO/BPO/ Info. services	36	42	43	38	46	29.5	20.9
Professional Services	56	61	62	53	62	10.4	16.7
<b>Total revenues</b>	<b>484</b>	<b>472</b>	<b>564</b>	<b>387</b>	<b>519</b>	<b>7.2</b>	<b>34.0</b>

Source: Company, Emkay Research

#### Operating leverage helps margins bounce back sharply

Post substantial contraction in margin in the last quarter, the margins bounced back to a near normalized level of 37.3% during the quarter, albeit still lower than 41.2% in Q2FY11. The improvement in margins was primarily led by sharp jump in rating margins due to heavy operating leverage, which increased from 26.3% in previous quarter to 47.9% in Q2FY12.

#### ... driving net profit even higher

Driven by a strong operating performance, ICRA reported net profit of Rs86mn. However adjusted for ESOP expenses of Rs45mn and Rs8mn of investment depreciation, the net profit grew by 64.6%qoq to Rs140mn, albeit flat on yoy basis.

#### Valuation table

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E (x)	EV/ EBITDA (x)	P/BV (x)
FY10	1,623	614	37.8	477	47.7	16.0	24.2	20.7	14.8	4.7
FY11	1,930	734	38.0	515	51.5	8.1	22.4	19.2	10.8	4.0
FY12E	2,012	704	35.0	452	45.2	-12.2	17.2	21.8	11.2	3.6
FY13E	2,278	798	35.0	568	56.8	25.5	19.1	17.4	9.9	3.1

Source: Company, Emkay Research

**Valuation and view**

Though rating revenues has shown sharp bounce back from the low of last quarter, the sustainability of the same would be necessary to drive stock performance from here. Also, with almost 70%/90% dependence on rating business in term of revenues/EBIT, ICRA's business model is heavily dependent on single product. Given the intense competition and sluggish debt issuance and poor credit growth, strong growth in ratings business looks a difficult task.

We are leaving our numbers unchanged as of now and will tweak them once we get more clarity on the sustainability of the revenues in rating business. At CMP the stock trades at 21.8x/ 17.4x FY12E/13E EPS of Rs45.2and Rs56.8. Maintain REDUCE rating with price target of Rs900.

## Key financials – Quarterly

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue</b>	<b>484</b>	<b>472</b>	<b>564</b>	<b>387</b>	<b>519</b>	<b>7.2</b>	<b>34.0</b>	<b>906</b>	<b>895</b>	<b>1.3</b>
<b>Expenditure</b>	<b>284</b>	<b>307</b>	<b>328</b>	<b>293</b>	<b>325</b>	<b>14.4</b>	<b>11.0</b>	<b>618</b>	<b>564</b>	<b>9.7</b>
as % of sales	58.8	65.1	58.2	75.7	62.7			68.2	63.0	
Employee Cost	199	197	223	208	230	15.4	10.5	438	390	12.4
as % of sales	41.1	41.8	39.5	53.7	44.3			48.3	43.6	
Selling & Administrative Expenses	35	37	35	36	39	9.9	6.1	75	67	12.4
as % of sales	7.2	7.8	6.2	9.4	7.4			8.3	7.5	
Other Expenses	50	73	70	49	57	13.4	16.5	106	108	-1.8
as % of sales	10.4	15.4	12.5	12.6	11.0			11.7	12.0	
<b>EBITDA</b>	<b>200</b>	<b>165</b>	<b>236</b>	<b>94</b>	<b>194</b>	<b>-3.1</b>	<b>105.5</b>	<b>288</b>	<b>331</b>	<b>-12.9</b>
Depreciation	12	11	12	11	11	-2.5	5.8	22	22	2.2
<b>EBIT</b>	<b>188</b>	<b>154</b>	<b>223</b>	<b>83</b>	<b>182</b>	<b>-3.1</b>	<b>118.4</b>	<b>266</b>	<b>309</b>	<b>-14.0</b>
Other Income	23	44	28	35	28	21.4	-20.1	62	57	9.6
Interest	0	0	0	0	0			0	0	
<b>PBT</b>	<b>211</b>	<b>198</b>	<b>252</b>	<b>118</b>	<b>210</b>	<b>-0.4</b>	<b>77.7</b>	<b>328</b>	<b>366</b>	<b>-10.3</b>
Total Tax	70	57	81	33	69	-0.2	112.0	102	121	-15.5
<b>Adjusted PAT</b>	<b>141</b>	<b>141</b>	<b>149</b>	<b>85</b>	<b>140</b>	<b>-0.6</b>	<b>64.6</b>	<b>226</b>	<b>246</b>	<b>-8.1</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
<b>APAT after MI</b>	<b>141</b>	<b>141</b>	<b>149</b>	<b>85</b>	<b>140</b>	<b>-0.6</b>	<b>64.6</b>	<b>226</b>	<b>246</b>	<b>-8.1</b>
Extra ordinary items	3	-28	-31	-50	-54			-104	5	
Reported PAT	144	113	117	36	86	-40.0	141.3	122	250	-51.1
Reported EPS	14.4	11.3	11.7	3.6	8.6	-40.0	141.3	12	25	-51.1

## Margins (%)

EBIDTA	41.2	34.9	41.8	24.3	37.3	-394	1299	31.8	37.0	-520
EBIT	38.8	32.5	39.6	21.5	35.1	-372	1358	29.3	34.5	-522
EBT	43.6	41.9	44.6	30.5	40.5	-310	997	36.2	40.9	-470
PAT	29.2	29.8	26.4	22.0	27.1	-211	504	24.9	27.5	-255
Effective Tax rate	32.6	33.5	40.8	47.8	44.5	1199	-322	45.5	32.6	1294

Source: Company, Emkay Research

## Segmental results (reported)

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
<b>EBIT (Rs mn)</b>							
Rating Services	216	145	193	63	169	-21.7	169.1
Consulting	10	19	22	1	-5	-149.5	-515.6
KPO/BPO Services	-1	3	1	5	10		
Professional Services	3	12	0	1	7		
<b>Total</b>	<b>228</b>	<b>179</b>	<b>215</b>	<b>70</b>	<b>180</b>	<b>-21.0</b>	<b>157.0</b>
<b>EBIT margins (%)</b>							
Rating Services	64.4	48.3	50.1	26.3	47.9	-1657	2154
Consulting	18.1	28.2	29.0	2.1	-8.9	-2704	-1106
KPO/BPO Services	-1.7	7.8	1.5	12.4	21.2	2286	872
Professional Services	4.6	18.8	-0.7	2.5	10.5	582	796
<b>Total</b>	<b>47.2</b>	<b>37.9</b>	<b>38.1</b>	<b>18.1</b>	<b>34.7</b>	<b>-1,242</b>	<b>1,663</b>

Source: Company, Emkay Research

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>1,623</b>	<b>1,930</b>	<b>2,012</b>	<b>2,278</b>
<i>Growth (%)</i>	19.5	18.9	4.2	13.2
<b>Expenditure</b>	<b>1,009</b>	<b>1,197</b>	<b>1,308</b>	<b>1,479</b>
Employee Cost	685	810	879	993
Employee Cost	125	139	147	166
Other Exp	200	248	283	320
<b>EBITDA</b>	<b>614</b>	<b>734</b>	<b>704</b>	<b>798</b>
<i>Growth (%)</i>	9.8	19.5	-4.0	13.3
<b>EBITDA margin (%)</b>	<b>37.8</b>	<b>38.0</b>	<b>35.0</b>	<b>35.0</b>
Depreciation	41	45	46	51
<b>EBIT</b>	<b>706</b>	<b>793</b>	<b>754</b>	<b>873</b>
<b>EBIT margin (%)</b>	<b>43.5</b>	<b>41.1</b>	<b>37.5</b>	<b>38.3</b>
Other Income	134	105	95	126
Interest expenses	0	0	0	0
<b>PBT</b>	<b>793</b>	<b>740</b>	<b>607</b>	<b>816</b>
<b>Tax</b>	<b>258</b>	<b>259</b>	<b>243</b>	<b>286</b>
<i>Effective tax rate (%)</i>	32.5	35.0	40.0	35.0
<b>Adjusted PAT</b>	<b>477</b>	<b>515</b>	<b>452</b>	<b>568</b>
<i>Growth (%)</i>	16.0	8.1	-12.2	25.5
<b>Net Margin (%)</b>	<b>29.4</b>	<b>26.7</b>	<b>22.5</b>	<b>24.9</b>
(Profit)/loss from JVs/Ass/MI	-	-	-	1.00
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>477</b>	<b>515</b>	<b>452</b>	<b>568</b>
E/O items	86	-54	-147	-57
<b>Reported PAT</b>	<b>535</b>	<b>481</b>	<b>364</b>	<b>531</b>
<i>Growth (%)</i>	37.1	-10.1	-24.3	45.8

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	659	635	511	690
Depreciation	41	45	46	51
Interest Provided	-92	-75	0	0
Other Non-Cash items	-115	-41	-18	43
Chg in working cap	48	-28	-32	-66
Tax paid	-258	-241	-243	-286
<b>Operating Cashflow</b>	<b>417</b>	<b>475</b>	<b>507</b>	<b>616</b>
Capital expenditure	-66	-47	-45	-46
<b>Free Cash Flow</b>	<b>352</b>	<b>428</b>	<b>462</b>	<b>570</b>
Other income	322	276	95	126
Investments	-355	-1145	-38	0
<b>Investing Cashflow</b>	<b>-238</b>	<b>-1022</b>	<b>-83</b>	<b>-46</b>
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	-	-	-	1.00
Interest Paid	(0.05)	(0.01)	-	-
Dividend paid (incl tax)	-141	-198	-209	-209
Income from investments				
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>-141</b>	<b>-198</b>	<b>-209</b>	<b>-209</b>
<b>Net chg in cash</b>	<b>39</b>	<b>-744</b>	<b>216</b>	<b>361</b>
Opening cash position	1126	1165	420	636
<b>Closing cash position</b>	<b>1165</b>	<b>420</b>	<b>636</b>	<b>997</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	100	100	100	100
Reserves & surplus	2,022	2,375	2,678	3,057
<b>Net worth</b>	<b>2,122</b>	<b>2,475</b>	<b>2,778</b>	<b>3,157</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	-21	-21	-21
<b>Total Liabilities</b>	<b>2,112</b>	<b>2,455</b>	<b>2,757</b>	<b>3,136</b>
Gross Block	473	521	566	612
Less: Depreciation	232	278	324	375
<b>Net block</b>	<b>242</b>	<b>243</b>	<b>242</b>	<b>237</b>
Capital work in progress	-	-	-	-
<b>Investment</b>	<b>746</b>	<b>1,912</b>	<b>1,950</b>	<b>1,950</b>
<b>Current Assets</b>	<b>2,154</b>	<b>1,305</b>	<b>1,556</b>	<b>1,987</b>
Inventories	-	-	-	-
Sundry debtors	366	324	338	382
Cash & bank balance	1,165	420	636	997
Loans & advances	557	504	520	540
Other current assets	66	56	61	68
<b>Current lia &amp; Prov</b>	<b>1,029</b>	<b>1,005</b>	<b>991</b>	<b>1,038</b>
Current liabilities	538	465	468	472
Provisions	492	541	523	566
<b>Net current assets</b>	<b>1,124</b>	<b>299</b>	<b>565</b>	<b>949</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>2,112</b>	<b>2,455</b>	<b>2,757</b>	<b>3,136</b>

## Key ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	37.8	38.0	35.0	35.0
Net Margin	29.4	26.7	22.5	24.9
ROCE	36.2	34.7	28.9	29.6
ROE	24.2	22.4	17.2	19.1
RoIC	29%	85%	50%	42%
<b>Per Share Data (Rs)</b>				
EPS	47.7	51.5	45.2	56.8
CEPS	52.6	56.5	50.2	62.7
BVPS	212.2	247.5	277.8	315.7
DPS	1.7	1.7	1.8	1.8
<b>Valuations (x)</b>				
PER	20.7	19.2	21.8	17.4
P/CEPS	19	17	20	16
P/BV	4.7	4.0	3.6	3.1
EV / Sales	5.6	4.1	3.9	3.5
EV / EBITDA	14.8	10.8	11.2	9.9
Dividend Yield (%)	1.7	1.8	1.8	1.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-	-	-	-
Net Debt/EBIDTA	-	-	-	-
Working Cap Cycle	-	-	-	-

**Recommendation History: ICRA – ICRA IN**

Date	Reports	Reco	CMP	Target
18/08/2011	<a href="#">ICRA Q1FY12 Result Update</a>	Reduce	1,008	900
16/05/2011	<a href="#">ICRA Q4FY11 Result Update</a>	Accumulate	1,101	1,280
02/02/2011	<a href="#">ICRA Q3FY11 Result Update</a>	Accumulate	1,142	1,370
09/11/2010	<a href="#">ICRA Q2FY11 Result Update</a>	Accumulate	1,420	1,550

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
01/11/2011	<a href="#">Punjab National Bank Q2FY12 Result Update</a>	Accumulate	1,013	1,270
31/10/2011	<a href="#">Bank of Baroda Q2FY12 Result Update</a>	Accumulate	772	950
31/10/2011	<a href="#">Canara Bank Q2FY12 Result Update</a>	Hold	469	500
31/10/2011	<a href="#">Corporation Bank Q2FY12 Result Update</a>	Accumulate	427	520

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