

<b>ICRA Limited</b>	<b>CMP Rs. 770.0 HOLD</b>	<b>Result Update Q2FY10</b>
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### Performance Highlights:

On the consolidated front, ICRA has reported 6% increase in revenues to Rs. 363.5Mn, driven by a rise in all segments, besides consulting revenues, which should a dip of 33.5% to Rs. 37.4Mn for the quarter ended Sep'09 as against Rs. 56Mn for the quarter ended Sep'08. Overall, earnings for the company have risen by 9% to Rs. 107Mn for Q210 from Rs. 98Mn for Q209.

The growth in Rating Services Income during the quarter is attributable mainly to the increase in income from Corporate Sector Ratings. Debt Instruments Ratings and Basel II Ratings contributed significantly to the growth in the Corporate Ratings business.

On the segmental front the company has reduced its losses sequentially. On a Y-Y basis, margins of the rating segment, consulting segment and outsourced services segment has slipped down and resulted in the contraction of OPM by 786bps to 36% for the current quarter from 46% for the corresponding quarter previous year. Thus the operating profit has decreased down by 13% to Rs. 131Mn. However, more than three fold rise in the other income to Rs. 31.5Mn coupled with Rs.20Mn of income from reversal of diminishing in carrying value of investments has boosted Net Profit up by 9% to Rs. 107Mn for Q210 as compared to Rs. 98Mn for Q209.

### Our Call:

We are keeping our estimates for FY10E unchanged and also introduce our FY11E numbers. At CMP of Rs. 770/- the scrip is trading at 15.3x FY10E and 12.5x FY11E earnings of Rs. 50/- and Rs. 61.8/- respectively. We maintain our HOLD call on the scrip, with price target of Rs. 865/- (12% upside).

## Quarterly Consolidated Financials

Earnings Statement								
Particulars (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(%)	Q2FY09	Y-Y(%)	H1FY10	H1FY09	Y-Y(%)
Net Revenues	363.5	331.8	9.6%	343.3	5.9%	695.2	597.6	16.3%
Total Expenditure	232.6	241.8	-3.8%	192.7	20.7%	474.4	369.8	28.3%
Staff Expense	158.3	161.3	-1.9%	126.9	24.7%	319.6	249.1	28.3%
Administrative Expense	29.8	35.8	-16.7%	22.5	32.6%	65.6	48.0	36.7%
Other Expenditure	44.5	44.7	-0.4%	43.4	2.6%	89.2	72.8	22.5%
Operating Profit	130.9	90.0	45.4%	150.6	-13.1%	220.9	227.8	-3.0%
Other Income	51.3	108.4	-52.7%	10.8	374.2%	159.7	45.1	254.4%
EBITDA	182.2	198.4	-8.2%	161.4	12.8%	380.6	272.9	39.5%
Depreciation	10.0	9.0	11.9%	9.5	5.8%	19.0	18.8	1.0%
EBIT	172.1	189.5	-9.2%	152.0	13.3%	361.6	254.1	42.3%
Interest	0.0	0.0	-	0.1	-	0.0	0.1	-
PBT	172.1	189.5	-9.2%	151.9	13.3%	361.6	253.9	42.4%
Tax	65.3	65.8	-0.8%	53.6	21.7%	131.1	83.9	56.2%
PAT before EOI	106.8	123.6	-13.6%	98.2	8.7%	230.5	170.0	35.6%
Extraordinary Items	0.0	0.0	-	0.0	-	0.0	0.0	-
Reported PAT	106.8	123.6	-13.6%	98.2	8.7%	230.5	170.0	35.6%
Equity Capital	100.0	100.0	-	100.0	-	100.0	100.0	-
EPS	10.7	12.4	-13.6%	9.8	8.7%	23.0	17.0	35.6%
Ratio Analysis								
Profitability	Q2FY10	Q1FY10	Q-Q(bps)	Q2FY09	Y-Y(bps)	H1FY10	H1FY09	Y-Y(bps)
OPM (%)	36.0%	27.1%	887.4	43.9%	(785.9)	31.8%	38.1%	(634.7)
EBITDA (%)	50.1%	59.8%	(969.9)	47.0%	310.1	54.7%	45.7%	908.4
EBIT (%)	47.4%	57.1%	(975.7)	44.3%	310.3	52.0%	42.5%	949.9
PAT (%)	29.4%	37.3%	(788.6)	28.6%	77.2	33.1%	28.4%	470.1

### Quarterly Consolidated Segmental Analysis

Segment Revenues	Sep 09	Jun 09	Q-Q(%)	Sept 08	Y-Y(%)	H110	H109	Y-Y(%)
Rating Services Fees	247.3	209.1	18.3%	222.5	11.1%	456.4	385.7	18.3%
Consulting Fees	37.4	39.6	-5.5%	56.2	-33.5%	76.9	91.2	-15.6%
Information Services Fees	10.0	6.5	54.3%	8.3	19.6%	16.4	13.7	19.8%
Outsourced Services Fees	25.6	27.3	-6.3%	19.1	34.1%	52.9	35.2	50.0%
Professional Services Fees	43.3	49.4	-12.3%	37.3	16.1%	92.7	71.8	29.0%
<b>Total</b>	<b>363.5</b>	<b>331.8</b>	<b>9.6%</b>	<b>343.3</b>	<b>5.9%</b>	<b>695.2</b>	<b>597.6</b>	<b>16.3%</b>
Segment Revenue Mix	Sep 09	Jun 09	Q-Q(bps)	Sept 08	Y-Y(bps)	H110	H109	Y-Y(bps)
Rating Services Fees	68.0%	63.0%	500.6	64.8%	323.5	65.6%	64.5%	110.2
Consulting Fees	10.3%	11.9%	(164.3)	16.4%	(608.2)	11.1%	15.3%	(419.0)
Information Services Fees	2.7%	1.9%	79.4	2.4%	31.4	2.4%	2.3%	6.9
Outsourced Services Fees	7.0%	8.2%	(119.2)	5.6%	148.3	7.6%	5.9%	170.8
Professional Services Fees	11.9%	14.9%	(296.6)	10.9%	105.1	13.3%	12.0%	131.1
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0</b>	<b>100.0%</b>	<b>0.0</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0</b>
Segment Profits	Sep 09	Jun 09	Q-Q(%)	Sept 08	Y-Y(%)	H110	H109	Y-Y(%)
Rating Services Fees	149.0	114.8	29.8%	152.1	-2.0%	263.8	250.6	5.3%
Consulting Fees	(5.9)	(7.7)	-	10.8	-154.2%	(13.6)	7.9	-272.2%
Information Services Fees	(1.5)	(3.6)	-	(2.6)	-	(5.1)	(6.9)	-
Outsourced Services Fees	5.9	11.6	-49.1%	6.3	-6.5%	17.5	10.2	72.0%
Professional Services Fees	1.9	(6.7)	-	1.5	29.5%	(4.8)	1.9	-345.9%
<b>Total</b>	<b>149.5</b>	<b>108.4</b>	<b>37.9%</b>	<b>168.1</b>	<b>-11.1%</b>	<b>257.9</b>	<b>263.8</b>	<b>-2.2%</b>
Segment Profit Mix	Sep 09	Jun 09	Q-Q(bps)	Sept 08	Y-Y(bps)	H110	H109	Y-Y(bps)
Rating Services Fees	99.7%	105.9%	(619.3)	90.5%	922.6	102.3%	95.0%	730.0
Consulting Fees	-3.9%	-7.1%	322.0	6.4%	(1,035.4)	-5.3%	3.0%	(827.3)
Information Services Fees	-1.0%	-3.3%	231.6	-1.5%	53.6	-2.0%	-2.6%	63.7
Outsourced Services Fees	4.0%	10.7%	(675.8)	3.8%	19.6	6.8%	3.9%	293.1
Professional Services Fees	1.3%	-6.2%	741.6	0.9%	39.5	-1.9%	0.7%	(259.6)
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0</b>	<b>100.0%</b>	<b>0.0</b>	<b>100.0%</b>	<b>100.0%</b>	<b>(0.0)</b>
Segment Margins	Sep 09	Jun 09	Q-Q(bps)	Sept 08	Y-Y(bps)	H110	H109	Y-Y(bps)
Rating Services Fees	60.3%	54.9%	535.7	68.4%	(811.9)	57.8%	65.0%	(717.3)
Consulting Fees	-15.7%	-19.6%	388.4	19.2%	(3,493.0)	-17.7%	8.7%	(2,635.3)
Information Services Fees	-15.0%	-55.7%	4,070.4	-31.0%	1,599.7	-31.0%	-50.2%	1,926.9
Outsourced Services Fees	23.1%	42.5%	(1,943.8)	33.1%	(1,002.8)	33.1%	28.9%	422.4
Professional Services Fees	4.3%	-13.5%	1,786.6	3.9%	45.0	-5.2%	2.7%	(788.1)
<b>Total</b>	<b>41.1%</b>	<b>32.7%</b>	<b>844.2</b>	<b>49.0%</b>	<b>(785.2)</b>	<b>37.1%</b>	<b>44.1%</b>	<b>(705.2)</b>

## Financials

Earnings Statement					Balance Sheet				
Particulars (Rs. Mn.)	FY08	FY09	FY10E	FY11E	Particulars (Rs. Mn.)	FY08	FY09	FY10E	FY11E
Total Revenues	996.0	1,359.3	1,631.3	1,874.6	Equity Capital	100.0	100.0	100.0	100.0
- Growth (%)	40.7%	36.5%	20.0%	14.9%	Reserves	1,538.6	1,787.1	2,125.7	2,556.7
Total Expenditure	631.1	892.4	1,052.2	1,190.4	Shareholders Funds	1,638.6	1,887.1	2,225.7	2,656.7
Operating Profit	364.9	466.9	579.1	684.2	Minority Interest	0.0	0.0	0.0	0.0
- Growth (%)	50.3%	27.9%	24.0%	18.2%	Borrowed Funds	0.0	0.0	0.0	0.0
Other Income	78.8	140.0	191.4	210.5	Deferred Tax Liability	2.8	(29.7)	(66.1)	(83.1)
EBITDA	443.7	606.9	770.5	894.8	Total Liabilities	1,641.3	1,857.4	2,159.6	2,573.6
- Growth (%)	46.5%	36.8%	27.0%	16.1%	Fixed Assets	237.2	241.0	236.4	230.4
Depreciation	38.0	36.5	42.3	45.9	Goodwill On Consolidation	51.5	71.0	71.0	71.0
EBIT	405.7	570.4	728.2	848.8	Investments	901.9	299.2	449.2	549.2
Interest	0.0	0.2	0.0	0.0	Current Assets				
PBT	405.7	570.2	728.2	848.8	Inventory	0.0	0.0	0.0	0.0
Tax	119.0	176.7	225.8	230.7	Sundry Debtors	217.4	281.6	362.5	416.6
PAT Before MI	286.6	393.5	502.4	618.2	Loans & Advances	494.8	579.5	679.7	781.1
Minority Interest	0.0	0.0	0.0	0.0	Cash & Bank Balance	255.4	1,126.3	1,303.1	1,609.7
PAT Before EI	286.6	393.5	502.4	618.2	Other Current Assets	5.5	31.1	10.0	10.0
- Growth (%)	42.1%	37.3%	27.7%	23.0%	Current Liabilities				
Extraordinary Items	(0.3)	(3.5)	0.0	0.0	Liabilities	239.4	367.5	453.1	520.7
Reported PAT	286.3	390.0	502.4	618.2	Provisions	282.9	404.9	499.2	573.7
					Net Current Assets	450.8	1,246.2	1,403.0	1,722.9
					Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0
					Total Assets	1,641.3	1,857.4	2,159.6	2,573.6

  

Ratio Analysis				
Particulars	FY08	FY09	FY10E	FY11E
OPM (%)	36.6%	34.3%	35.5%	36.5%
EBITDA (%)	44.5%	44.6%	47.2%	47.7%
PAT (%)	28.8%	28.9%	30.8%	33.0%
Interest Cover (x)	45,073.8	3,355.2	n.a.	n.a.
EPS (Rs.)	28.6	39.0	50.2	61.8
P/E (x)	26.9	19.7	15.3	12.5
P/BV (x)	4.7	4.1	3.5	2.9
BVPS (Rs.)	163.9	188.7	222.6	265.7
Market Cap (Rs. Mn.)	7,700.0	7,700.0	7,700.0	7,700.0
M Cap/Sales (x)	7.7	5.7	4.7	4.1
EV (Rs. Mn.)	7,444.6	6,573.7	6,396.9	6,090.3
EV/EBITDA (x)	16.8	10.8	8.3	6.8
EV/Sales (x)	7.5	4.8	3.9	3.2
ROCE (%)	24.7%	30.7%	33.7%	33.0%
RONW (%)	17.5%	20.9%	22.6%	23.3%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0
Inventory T/o Days	0.0	0.0	0.0	0.0
Debtors T/o Days	78.6	74.6	80.0	80.0
Advances T/o Days	178.8	153.5	150.0	150.0
Creditors T/o Days	86.5	97.3	100.0	100.0
Wrkg Cap T/o Days (Ex.Cash)	70.6	31.7	22.0	21.8
Fixed Assets T/o (Gross)	2.5	3.2	3.5	3.7
DPS (Rs.)	10.3	12.0	14.0	16.0
Dividend Payout (%)	35.8%	30.8%	27.9%	25.9%
Dividend Yield (%)	1.3%	1.6%	1.8%	2.1%

  

Cash Flow				
Particulars (Rs. Mn.)	FY08	FY09E	FY10E	FY11E
Opening Cash & Bank	28,352.0	255.4	1,126.3	1,303.1
Profit After Tax	286.3	390.0	502.4	618.2
Investment Income	(78.8)	(140.0)	(191.4)	(210.5)
Interest Paid	0.0	0.2	0.0	0.0
Misc. Exp W/Off	0.2	0.0	0.0	0.0
Depreciation	38.0	36.5	42.3	45.9
Deferred Taxation	(4.7)	(32.6)	(36.4)	(17.0)
Others	(7.2)	(8.2)	0.0	0.0
Change in Working Cap (28,032.4)		75.6	20.0	(13.4)
CF - Operating Activities (27,798.5)		321.4	336.9	423.2
Change in Fixed Assets	(39.0)	(32.0)	(37.7)	(40.0)
Change in Goodwill	0.0	(19.5)	0.0	0.0
Change in Investments	(216.1)	602.6	(150.0)	(100.0)
Investment Income	78.8	140.0	191.4	210.5
CF - Investing Activities	(176.3)	691.1	3.7	70.5
Increase in Equity	(1.5)	(0.7)	0.0	0.0
Changes in Borrowings	(0.3)	0.0	0.0	0.0
Interest Paid	(0.0)	(0.2)	0.0	0.0
Dividend Paid	(120.1)	(140.7)	(163.8)	(187.2)
CF - Financing Activities	(121.9)	(141.6)	(163.8)	(187.2)
Net Change in Cash	(28,096.7)	870.9	176.8	306.5
Closing Cash & Bank Bal	255.4	1,126.3	1,303.1	1,609.7

# Disclaimer

## Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

## ICRA

- NO  
YES  
YES

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