



**ICRA Limited**

**Analyst Presentation, 2010-11**

**May 2011**

# Agenda

1 Background and Business

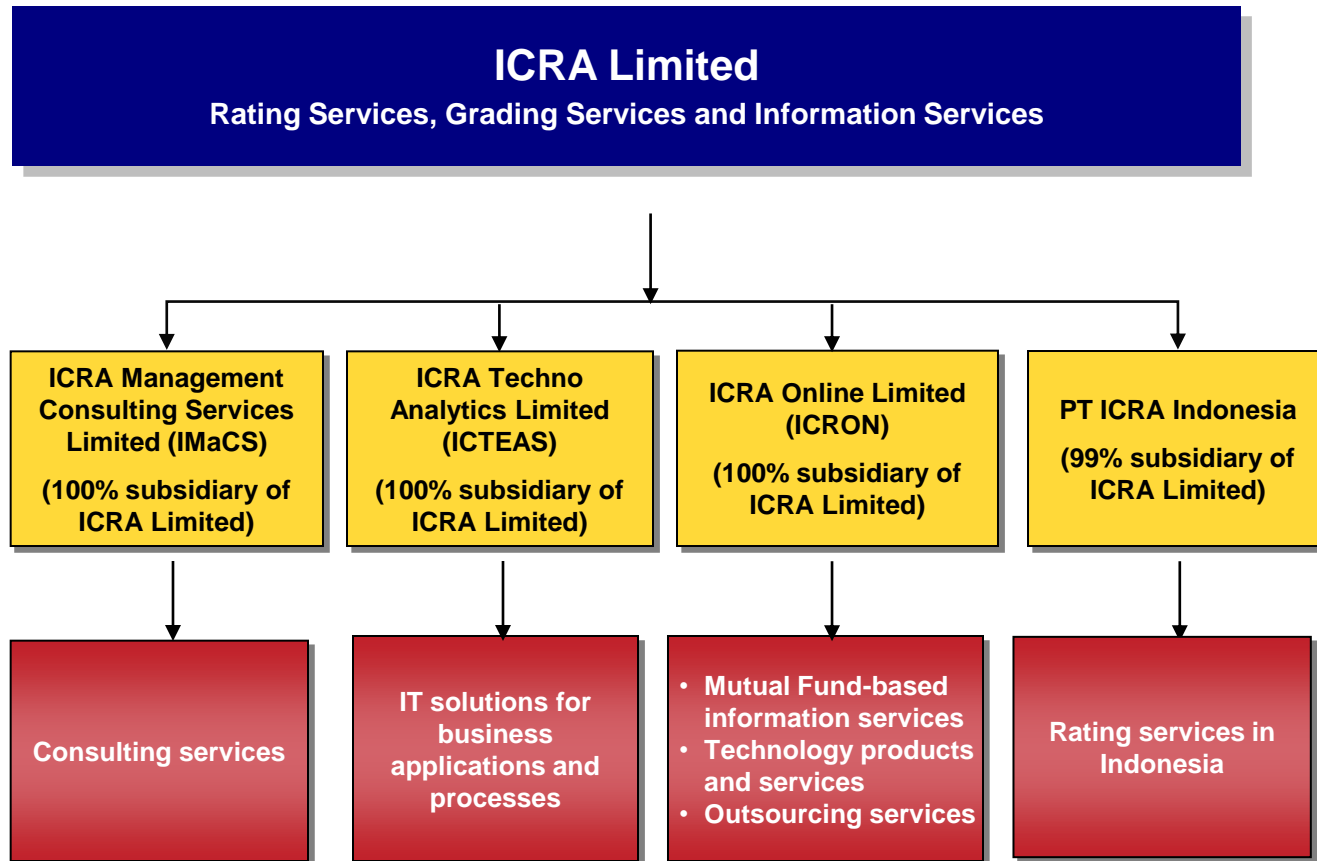
2 ICRA Limited

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## ***Background and Business***

# Background and Business



- ICRA is one of the leading Credit Rating Agencies in India, and an Associate of Moody's Investors Service
- Besides Ratings, Group ICRA offers Consulting services, IT-based services, Information services, and Outsourcing services
- In September 2010, PT ICRA Indonesia was granted licence to provide Rating services in Indonesia

## 2 *ICRA Limited*

# ICRA: Standalone Financials

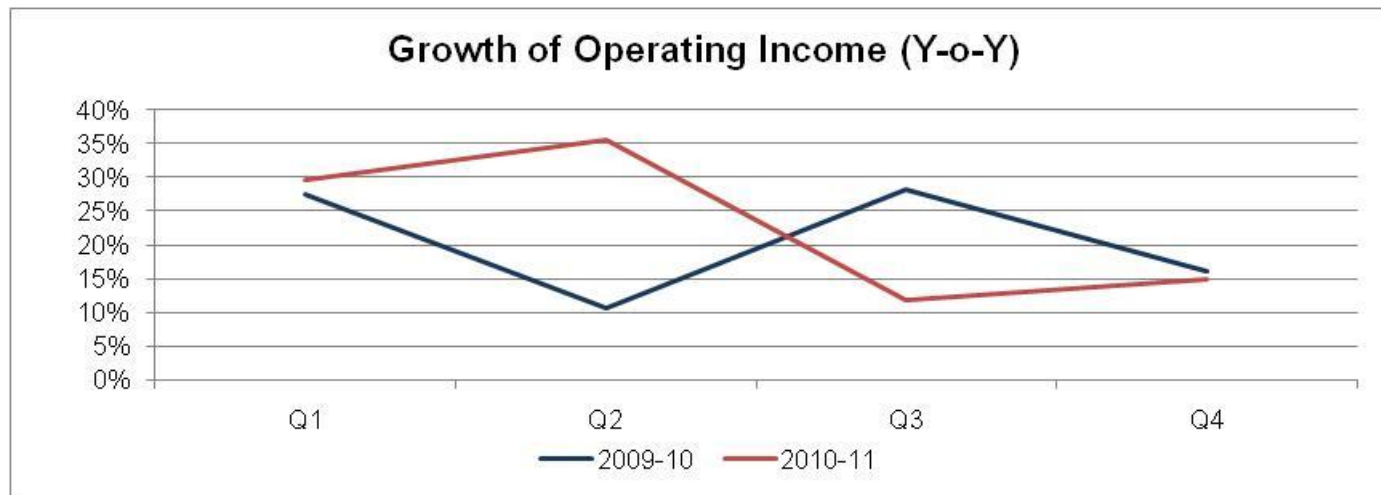
Revenues: (Rs. lakh)	2009-10	2010-11	Gr %	2009-10 Q4	2010-11 Q4	Gr %
<b>Operating Income</b>	<b>10,616</b>	<b>12,931</b>	<b>22%</b>	<b>3,352</b>	<b>3,855</b>	<b>15%</b>
Other Income	2,178	1,254	-42%	256	211	-18%
<b>Total Income</b>	<b>12,794</b>	<b>14,185</b>	<b>11%</b>	<b>3,608</b>	<b>4,066</b>	<b>13%</b>
<b>PBDT</b>	<b>7,607</b>	<b>7,084</b>	<b>-7%</b>	<b>2,087</b>	<b>1,909</b>	<b>-9%</b>
Depreciation	196	203	4%	54	51	-6%
<b>PBT</b>	<b>7,411</b>	<b>6,880</b>	<b>-7%</b>	<b>2,033</b>	<b>1,858</b>	<b>-9%</b>
Taxes	2,411	2,389	-1%	621	734	18%
<b>PAT</b>	<b>5,000</b>	<b>4,491</b>	<b>-10%</b>	<b>1,412</b>	<b>1,124</b>	<b>-20%</b>
<b>Operating Profits (PBDIT)</b>	<b>6,139</b>	<b>6,840</b>	<b>11%</b>	<b>2,018</b>	<b>1,907</b>	<b>0%</b>
<b>Operating Profits (PBDIT, excl. ESOS)</b>	<b>6,139</b>	<b>7,518</b>	<b>22%</b>	<b>2,018</b>	<b>2,331</b>	<b>16%</b>
<b>PBT (excl. ESOS)</b>	<b>7,411</b>	<b>7,631</b>	<b>3%</b>	<b>2,033</b>	<b>2,328</b>	<b>15%</b>
<b>PAT(excl. ESOS)</b>	<b>5,000</b>	<b>5,242</b>	<b>5%</b>	<b>1,412</b>	<b>1,594</b>	<b>13%</b>
<b>Key Ratios</b>						
Personnel Expenses (less ESOS)/Total Income	28%	30%		30%	28%	
Personnel Expenses on ESOS/Total Income	0%	5%		0%	12%	
Admn. & Other Expenses/Total Income	13%	15%		12%	14%	
PBDIT/Total Income	59%	50%		58%	47%	
Operating PBDIT/Operating Income	58%	53%		60%	49%	
<b>Operating PBDIT (excl. ESOS)/Operating</b>	<b>58%</b>	<b>58%</b>		<b>60%</b>	<b>60%</b>	
Tax/PBT	33%	35%		31%	40%	

- Ratings Income up by 22% (PY 20%)
- Other Income lower; no Other Income from reversal in diminution in carrying value of investments (PY Rs. 822 lakh)
- Operating profitability down from 58% to 53%; but without amortisation of non-cash expense on Employee Stock Option Scheme (ESOS), profitability still at 58%

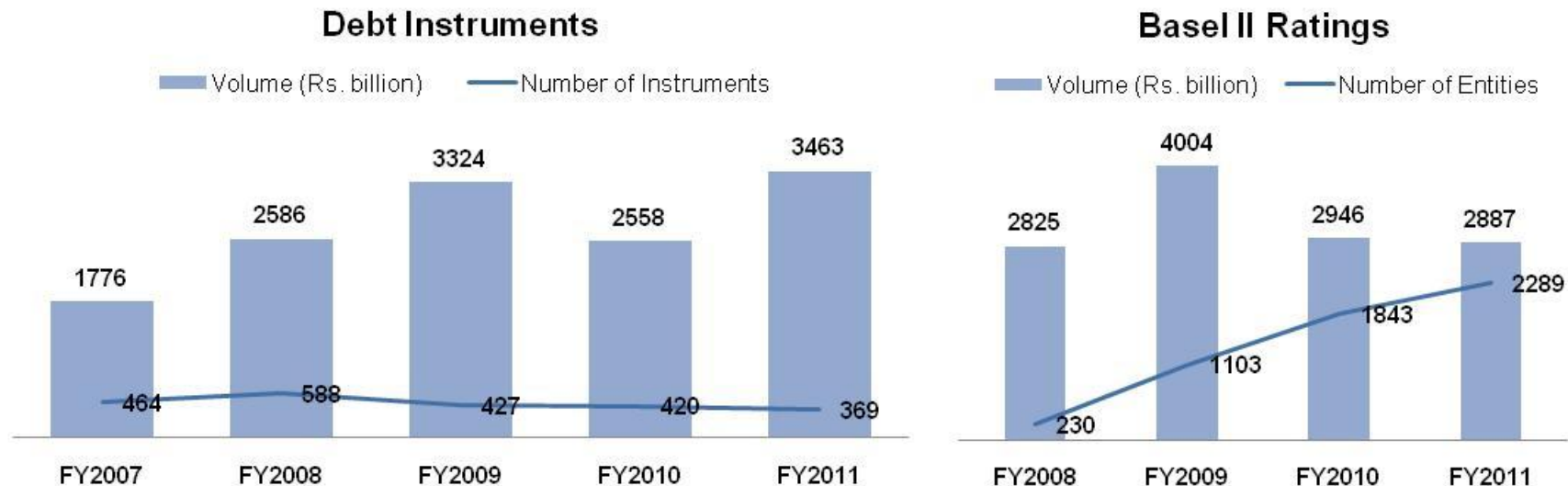
# ICRA: Growth in Operating Income Improves to 22% in 2010-11

Nevertheless, income growth moderated in H2, 2010-11; factors that had a dampening effect on growth in H2 included the following:

- **Debt market:** Volumes remained sluggish in H2, 2010-11, primarily because of rising interest rates
- **Structured finance:** Decline in magnitude of issuance in Q3, 2010-11
- **Financial sector:** Revenues displayed low growth in Q4, 2010-11, as rising deposit growth, healthy capital adequacy and capital infusion by Government of India in some public sector Banks impacted fresh issuance
- **Smaller ticket sizes:** There was an increase in relatively smaller-ticket business under Basel II, as anticipated
- **Competitive pressures:** Competitors adopted aggressive pricing and ratings strategies



# ICRA: Rated Volumes

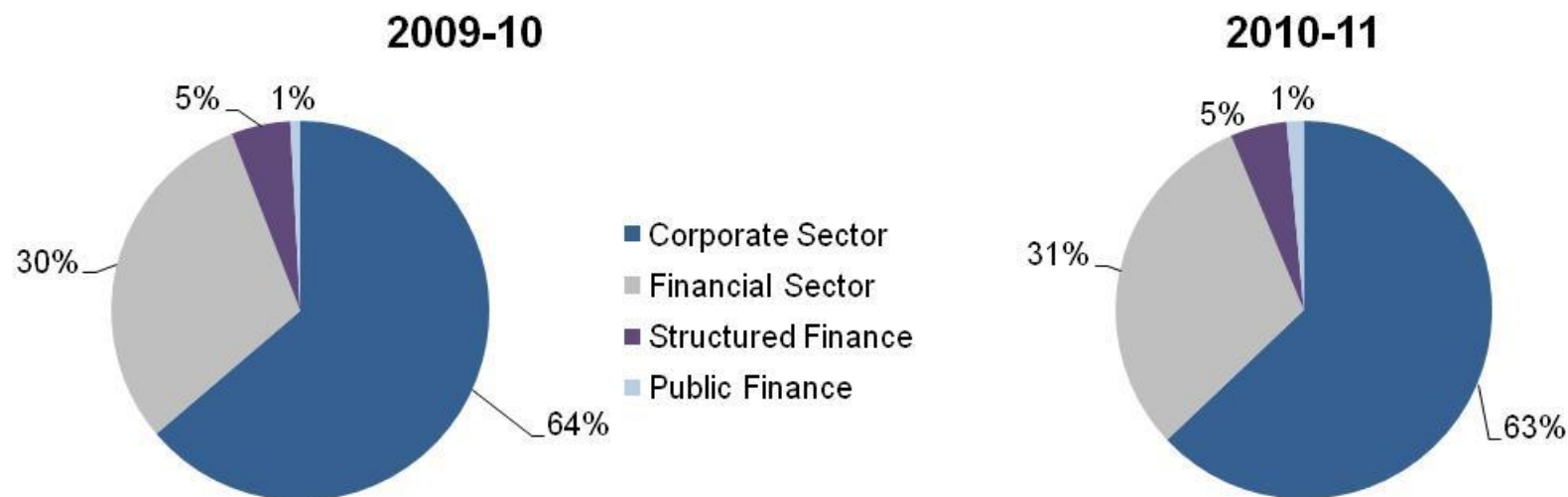


- Volume of debt rated by ICRA increased, while volume of Bank lines of credit (Basel II) declined marginally
- Number of ICRA-rated entities under Basel II increased significantly
- Basel II related revenue accounted for around 45% of total Rating Revenues (PY 44%)



# ICRA: Break-up of Rating Revenues

## Sector-wise Classification



- Sectoral distribution of revenues in 2010-11 remained similar to that in 2009-10
- While there was a significant increase in Basel II related ratings, the Corporate Sector's share of Ratings Revenues declined slightly, pointing to moderating ticket sizes and a smaller volume of rated Bank lines

## Employee Stock Options (ESOP) Scheme: Background

- ESOP scheme was instituted in 2006-07 around the time of ICRA's IPO
- Under this scheme, 9.06 lakh shares were issued by ICRA to the ICRA Employees Welfare Trust at the IPO issue price of Rs. 330 per share, for transfer to the Optionees upon exercise of the Options
- First tranche of Options (6.15 lakh shares) was granted by the Employees Stock Option Scheme (ESOS) Compensation Committee to the Optionees in March 2007
- Second tranche of Options (2.725 lakh shares) was granted by the ESOS Compensation Committee to the Optionees in November 2010
- There has been no dilution in ICRA's equity base since 2006-07, when the ESOP scheme was instituted

# ICRA: ESOP Amortisation Impacts Profitability Significantly (2)

## ESOP Scheme:

- Accounting for the issuance of the second tranche of Options (granted in November 2010) in H2, 2010-11 impacted profits and margins; such expenses will continue over the vesting period, i.e. until 2013-14

(Rs. lakh)	2010-11 Q3	2010-11 Q4	2011-12 FY	2012-13 FY	2013-14 FY	Total
Total expense on ESOP scheme	281	470	1,472	569	181	2,973

- The expense on ESOP is a non-cash expense and is to be amortised on a straight-line basis over the vesting period, by crediting to “Reserves and Surplus”, in accordance with the applicable guideline of SEBI and guidance note of ICAI
- Adjusting for amortisation of operating expenses on ESOP scheme:
  - Operating profit grew by 16% in Q4, 2010-11 and by 22% in 2010-11
  - Operating margins were 60% in Q4, 2010-11 and 58% in 2010-11
- The ESOP scheme is expected to significantly aid retention of employees and the intellectual capital of ICRA, thereby enabling it to reinforce its competitive position

## Debt Market Volumes

- **Short to medium term:** Volumes likely to be sensitive to movements in interest rates and liquidity conditions; environment to remain challenging in the short term. Additionally, an adverse base effect (growth rate was high in H1, 2010-11) may also impact growth of this segment in H1 2011-12
- **Medium to long term:** Potential remains favourable, with large scale investments expected in capacity creation

## Basel II

- Ratings coverage of Bank loans under Basel II expected to continue growing
- Prospects of fresh client acquisition remain favourable
- Ticket sizes may however continue to diminish
- Bank credit growth in the economy expected to moderate in 2011-12

## Structured Finance

- **Short term:** Regulatory changes/uncertainties and unfavourable interest rate conditions may impact business opportunities
- **Medium to long term:** Outlook remains positive

**Competitive pressures expected to remain intense**

# ICRA: Challenges/Risk Factors

- Significant slowdown in economic or investment growth
- Protracted slowdown/disruption in domestic debt/capital markets/Bank credit
- Ease of access and relative cost economics of overseas funding alternatives
- Adverse changes in regulations
- Reputation related risks
- Competitive pressures from other Rating Agencies
- Ability to retain and attract quality manpower; increasing compensation and related operating costs
- Squeeze on profit margins from pricing and cost pressures, besides increasing proportion of relatively smaller-ticket business

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## ***ICRA Group***

# ICRA Group: Financial Highlights, 2010-11

- Consolidated Group Revenue up 11% (PY 23%)
- Consolidated Group Net Profit up 4% excluding impact of amortisation of non-cash ESOS expense (PY 37%),  
impacted by decline in Other Income (from reversal in diminution in carrying value of investments in 2009-10)
- Cash EPS up to Rs. 60.12 (PY Rs. 57.62)
- Dividend of Rs. 17 per share proposed



# ICRA Group: Consolidated Performance

Revenues: (Rs. lakh)	2009-10	2010-11	Gr %
Ratings	10,615	12,905	22%
Consultancy	2,165	2,511	16%
Information	408	313	-23%
Outsourced Services	1,125	1,276	13%
IT-Related (Sales & Professional)	1,918	2,298	20%
<b>Total Operating Income</b>	<b>16,231</b>	<b>19,303</b>	<b>19%</b>
Other Income	2,267	1,294	-43%
<b>Total Income</b>	<b>18,498</b>	<b>20,597</b>	<b>11%</b>
<b>PBDT</b>	<b>8,340</b>	<b>7,848</b>	<b>-6%</b>
Depreciation	414	453	9%
<b>PBT (After Prior Period Adjustments)</b>	<b>7,926</b>	<b>7,397</b>	<b>-7%</b>
Taxes	2,578	2,589	0%
<b>PAT</b>	<b>5,348</b>	<b>4,808</b>	<b>-10%</b>
<b>PAT (excl. ESOS)</b>	<b>5,348</b>	<b>5,559</b>	<b>4%</b>
Profitability-Related Indicators	2009-10	2010-11	
<b>Segment-wise OPBDIT Margins</b>			
Consulting PBDIT Margins	10%	21%	
Information PBDIT Margins	13%	-23%	
Outsourcing PBDIT Margins	39%	23%	
IT PBDIT Margins	-3%	5%	
Total OPBDIT Margins	42%	40%	
<b>EPS (Wtd. Avg.) in Rs.</b>	<b>53.48</b>	<b>48.08</b>	
<b>Cash EPS (Wtd. Avg.) in Rs.</b>	<b>57.62</b>	<b>60.12</b>	
Cash EPS (Wtd. Avg.) y-o-y growth		4%	

- Overall Group operating profitability largely steady^ in 2010-11, mainly on the strength of Ratings and Consulting
- Other Income lower from reversal in diminution in carrying value of Investments (Rs. 2 lakh against Rs. 849 lakh in PY )
- PT ICRA Indonesia net losses up (Rs. 183 lakh against Rs. 18 lakh in PY) with the company still being in a start-up phase

^ not adjusting for impact of ESOP





# ICRA Group: Segment-wise Contributions

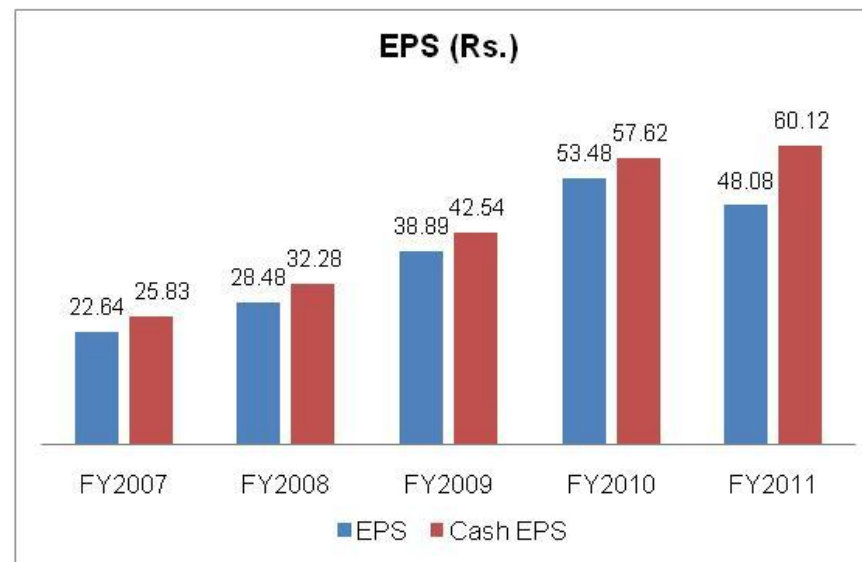
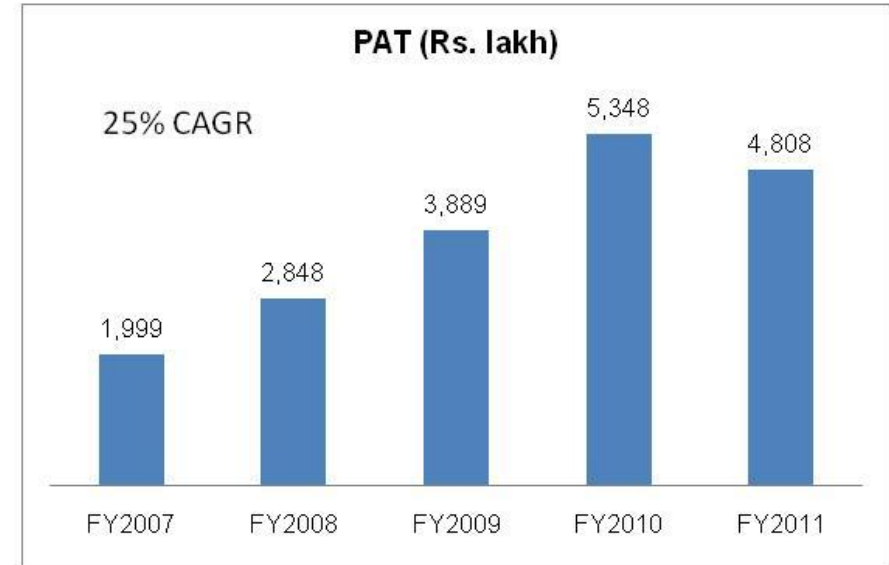
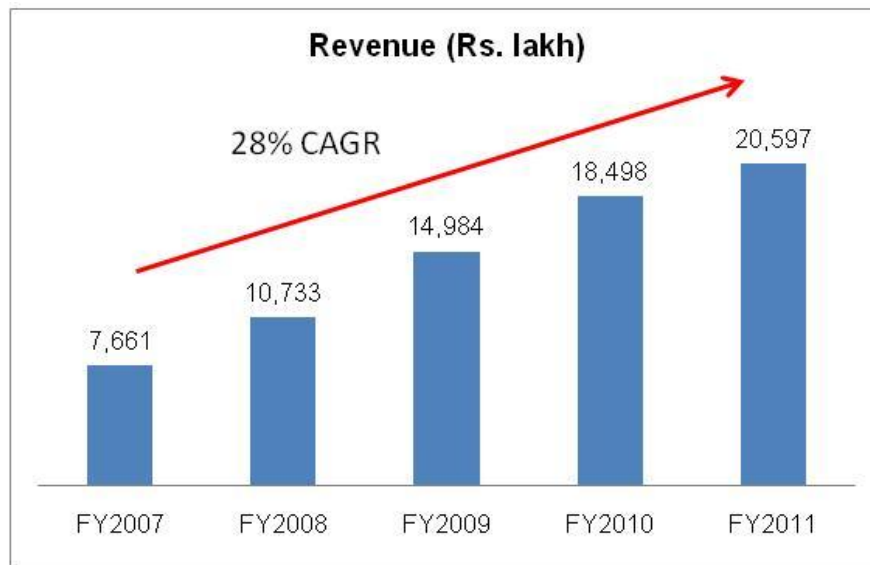
Revenue Contribution	2009-10	2010-11	
Ratings	57%	63%	
Consultancy	12%	12%	
Information	2%	2%	
Outsourced Services	6%	6%	
IT-Related (Sales & Professional)	10%	11%	
<b>Total Operating Income</b>	<b>88%</b>	<b>94%</b>	
Other Income	12%	6%	
<b>Total Income</b>	<b>100%</b>	<b>100%</b>	
Segment-Wise PBDIT Contribution	2009-10	2010-11	
Ratings	91%	89%	
Consultancy	3%	7%	
Information	1%	-1%	
Outsourced Services	6%	4%	
IT-Related (Sales & Professional)	-1%	1%	
<b>Total OPBDIT</b>	<b>100%</b>	<b>100%</b>	
Segment-Wise Profits (PBDIT, Rs. lakh)	2009-10	2010-11	Gr %
<b>Segment-wise Profits (PBDIT)</b>			
Ratings	6,229	6,877	10%
Consultancy	210	515	145%
Information	51	-73	-243%
Outsourced Services	436	297	-32%
IT Related (Sales & Professional)	-55	112	304%
<b>Total Segmental Profits (PBDIT)</b>	<b>6,871</b>	<b>7,728</b>	<b>12%</b>

- With Ratings business posting high growth, its contribution to Revenues increased^
- Share of IT-Related Services in Revenues and Operating Profits also increased

^ not adjusting for impact of ESOP



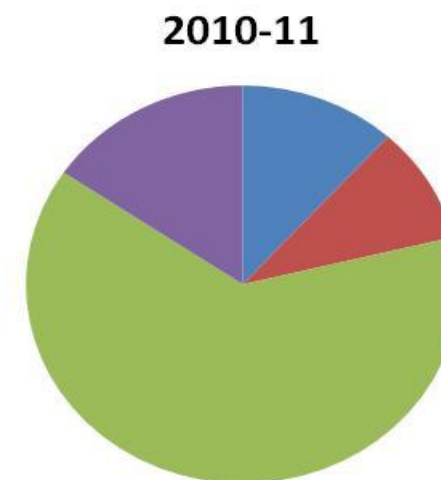
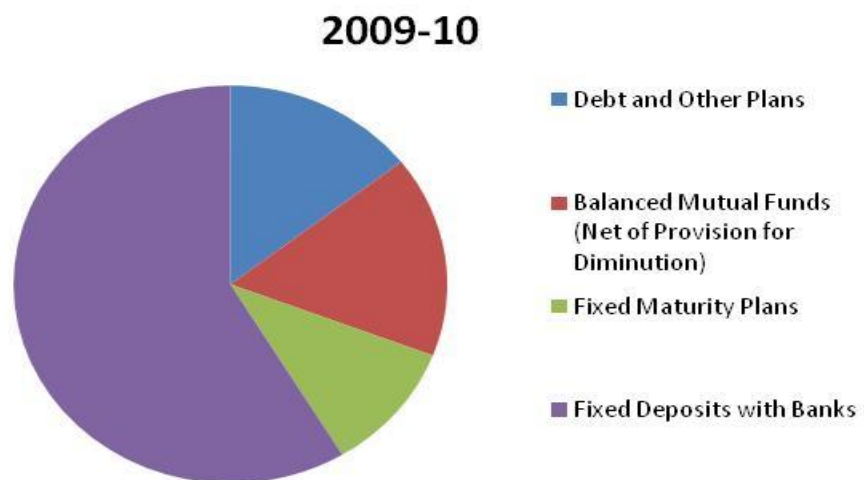
# ICRA Group: Performance Over the Years



# ICRA Group: Profile of Liquid Assets

Liquid Assets (Rs. lakh)	2009-10	2010-11
Debt and Other Plans	2,603	2,643
Balanced Mutual Funds (Net of Provision for Diminution)	2,952	2,151
Fixed Maturity Plans	1,900	14,331
Fixed Deposits with Banks	10,562	3,507
Equity and Preference Shares	5	0
<b>Total Liquid Investments</b>	<b>18,022</b>	<b>22,632</b>

- Following changes in market conditions, fixed deposits were converted into fixed maturity plans during 2010-11



## Advisory Services

- Revenue grew 16% (PY 15%)
- Profitability improvement led by increasing business focus on Multilateral Agencies and Governments, which helped increase the share of higher value mandates (in verticals such as Banking, Infrastructure and Energy), while expenses were controlled through better capacity utilisation
- Pricing pressures persisted with competition remaining intense

## IT-Related Services

- Revenue grew 20% (PY 15%)
- Growth driven by Business Intelligence and Analytics domain, acquisition of new clients and steady growth in business from existing large clients
- Profitability impacted by costs incurred on infrastructure (with the addition of floor space), capacity building and strengthening of middle management cadre, and HR-related initiatives
- Challenges
  - To scale up size of operations
  - To move into newer geographies

## Outsourcing Services

- Revenue grew 13% (PY 29%)
- Growth driven by addition of new work processes from existing clients and extension of existing work processes to other geographies (for existing clients)
- Growth constrained by lack of orders from new clients and pricing pressures
- Challenges
  - To expand client base
  - To maintain profitability in the face of pricing pressures

## Information Services

- Revenue declined 23% (PY grew 33%)
- De-growth because of competitive pressures and absence of comprehensive product in portfolio

## *Disclaimer*

This Analyst Presentation contains certain forward-looking statements (including expectations and plans) that may be identified by words, phrases, or expressions such as “expected”, “likely”, “will”, “would”, “continue”, “intend to”, “in future”, “opportunities” or their variations. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed under the sections titled “Business Outlook” and “Challenges/Risk Factors”, which are a part of this review presentation. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis only as of the date hereof. The Company assumes no obligation to publicly update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition.

