



**ICRA Limited**

**Analyst Presentation, Q3, 2010-11**

**February 2011**

## ICRA Group: Consolidated Performance

| Revenues: (Rs. lakh)                         | 2009-10<br>9M | 2010-11<br>9M | Gr %       | 2009-10<br>Q3 | 2010-11<br>Q3 | Gr %        |
|----------------------------------------------|---------------|---------------|------------|---------------|---------------|-------------|
| Ratings                                      | 7,263         | 9,063         | 25%        | 2,699         | 3,003         | 11%         |
| Consultancy                                  | 1,385         | 1,761         | 27%        | 615           | 681           | 11%         |
| Information                                  | 261           | 215           | -18%       | 97            | 87            | -10%        |
| Outsourced Services                          | 810           | 947           | 17%        | 282           | 337           | 20%         |
| IT Related (Sales & Professional)            | 1,443         | 1,681         | 16%        | 516           | 613           | 19%         |
| <b>Total Operating Income</b>                | <b>11,162</b> | <b>13,667</b> | <b>22%</b> | <b>4,209</b>  | <b>4,721</b>  | <b>12%</b>  |
| Other Income                                 | 1,967         | 1,066         | -46%       | 368           | 443           | 20%         |
| <b>Total Income</b>                          | <b>13,129</b> | <b>14,733</b> | <b>12%</b> | <b>4,577</b>  | <b>5,164</b>  | <b>13%</b>  |
| <b>PBDT</b>                                  | <b>5,963</b>  | <b>5,737</b>  | <b>-4%</b> | <b>2,155</b>  | <b>1,810</b>  | <b>-16%</b> |
| Depreciation                                 | 295           | 329           | 12%        | 105           | 113           | 8%          |
| <b>PBT (Before Prior Period Adjustments)</b> | <b>5,668</b>  | <b>5,408</b>  | <b>-5%</b> | <b>2,050</b>  | <b>1,697</b>  | <b>-17%</b> |
| Prior Period Adjustments                     | 2             | -1            | -150%      | 0             | 0             | 0%          |
| <b>PBT (After Prior Period Adjustments)</b>  | <b>5,666</b>  | <b>5,409</b>  | <b>-5%</b> | <b>2,050</b>  | <b>1,697</b>  | <b>-17%</b> |
| Taxes                                        | 1,904         | 1,779         | -7%        | 592           | 569           | -4%         |
| <b>PAT</b>                                   | <b>3,762</b>  | <b>3,630</b>  | <b>-4%</b> | <b>1,458</b>  | <b>1,128</b>  | <b>-23%</b> |



## ICRA Group: Consolidated Performance

| Segment-Wise Profits (PBDIT, Rs. lakh) | 2009-10      | 2010-11      | Gr %       | 2009-10      | 2010-11      | Gr %       |
|----------------------------------------|--------------|--------------|------------|--------------|--------------|------------|
|                                        | 9M           | 9M           |            | Q3           | Q3           |            |
| Ratings                                | 4,255        | 5,108        | 20%        | 1,617        | 1,451        | -10%       |
| Consultancy                            | 36           | 297          | 725%       | 172          | 192          | 12%        |
| Information                            | 19           | -80          | -521%      | 70           | -17          | -124%      |
| Outsourced Services                    | 255          | 141          | -45%       | 80           | 50           | -38%       |
| IT Related (Sales & Professional)      | -26          | 117          | -550%      | 8            | 115          | 1338%      |
| <b>Total Segmental Profits (PBDIT)</b> | <b>4,539</b> | <b>5,583</b> | <b>23%</b> | <b>1,947</b> | <b>1,791</b> | <b>-8%</b> |
| <b>Segment-Wise PBDIT Contribution</b> |              |              |            |              |              |            |
| Ratings                                | 94%          | 91%          |            | 83%          | 81%          |            |
| Consultancy                            | 1%           | 5%           |            | 9%           | 11%          |            |
| Information                            | 0%           | -1%          |            | 4%           | -1%          |            |
| Outsourced Services                    | 6%           | 3%           |            | 4%           | 3%           |            |
| IT Related (Sales & Professional)      | -1%          | 2%           |            | 0%           | 6%           |            |
| <b>Total OPBDIT</b>                    | <b>100%</b>  | <b>100%</b>  |            | <b>100%</b>  | <b>100%</b>  |            |
| <b>Key Ratios</b>                      |              |              |            |              |              |            |
| Personnel Expenses/Total Income        | 37%          | 42%          |            | 35%          | 44%          |            |
| Admn. & Other Expenses/Total Income    | 18%          | 19%          |            | 18%          | 21%          |            |
| PBDIT/Total Income                     | 45%          | 39%          |            | 47%          | 35%          |            |
| Operating PBDIT/Operating Income       | 41%          | 41%          |            | 46%          | 38%          |            |
| Tax/PBT                                | 34%          | 33%          |            | 29%          | 34%          |            |
| Ratings PBDIT Margins                  | 59%          | 56%          |            | 60%          | 48%          |            |
| Consulting PBDIT Margins               | 3%           | 17%          |            | 28%          | 28%          |            |
| Information PBDIT Margins              | 7%           | -37%         |            | 72%          | -20%         |            |
| Outsourcing PBDIT Margins              | 31%          | 15%          |            | 28%          | 15%          |            |
| IT PBDIT Margins                       | -2%          | 7%           |            | 2%           | 19%          |            |



## ICRA: Financial Performance, April–December 2010

| Revenues: (Rs. lakh)                  | 2009-10<br>9M | 2010-11<br>9M | Gr % | 2009-10<br>Q3 | 2010-11<br>Q3 | Gr % |
|---------------------------------------|---------------|---------------|------|---------------|---------------|------|
| Operating Income                      | 7,264         | 9,076         | 25%  | 2,700         | 3,016         | 12%  |
| Other Income                          | 1,922         | 1,042         | -46% | 368           | 446           | 21%  |
| Total Income                          | 9,186         | 10,118        | 10%  | 3,068         | 3,462         | 13%  |
| PBDT                                  | 5,519         | 5,174         | -6%  | 1,784         | 1,465         | -18% |
| Depreciation                          | 141           | 152           | 8%   | 50            | 53            | 6%   |
| PBT (Before Prior Period Adjustments) | 5,378         | 5,022         | -7%  | 1,734         | 1,412         | -19% |
| Prior Period Adjustments              | 0             | 1             | 0%   | 0             | 0             | 0%   |
| PBT                                   | 5,378         | 5,021         | -7%  | 1,734         | 1,412         | -19% |
| Taxes                                 | 1,789         | 1,655         | -7%  | 576           | 489           | -15% |
| PAT                                   | 3,589         | 3,366         | -6%  | 1,158         | 923           | -20% |
| Operating Profits (PBDIT)             | 4,121         | 4,933         | 20%  | 1,572         | 1,399         | -11% |
| <b>Key Ratios</b>                     |               |               |      |               |               |      |
| Personnel Expenses/Total Income       | 27%           | 33%           |      | 28%           | 38%           |      |
| Admn. & Other Expenses/Total Income   | 13%           | 16%           |      | 14%           | 20%           |      |
| PBDIT/Total Income                    | 60%           | 51%           |      | 58%           | 42%           |      |
| Operating PBDIT/Operating Income      | 57%           | 54%           |      | 58%           | 46%           |      |
| Tax/PBT                               | 33%           | 33%           |      | 33%           | 35%           |      |

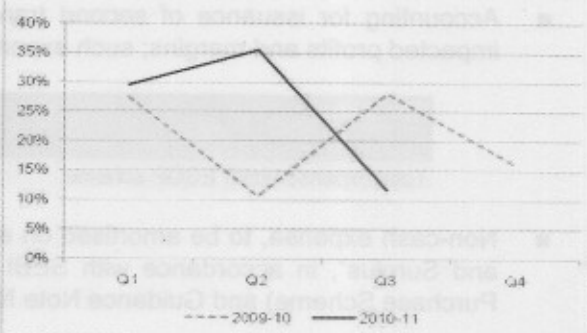
- Growth in Operating Income moderates to 12% in Q3, 2010-11, but healthy at 25% for 9M ended December 2010
- Amortisation of ESOP related expenses (Rs 281 lakh) impacts Personnel Costs in Q3, 2010-11
- Higher Legal and Consulting Expenses (Rs. 46 lakh in Q2, 2010-11 and Rs. 163 lakh in Q3, 2010-11) for evaluation of investment opportunity impact PAT
- Lower Other Income, from reversal in diminution in carrying value of investments (Rs. 862 lakh in 2009-10 and Rs. 49 lakh in 2010-11), impacts PAT for 9M ended December 2010

## ICRA: Growth in Operating Income Moderates to 12% in Q3, 2010-11

- **Base effect:** Unfavourable following high 28% growth in Q3, 2009-10
- **Debt market:** Volumes sluggish in Q3, 2010-11, particularly in December 2010, following healthy volumes in Q2, 2010-11 partly led by rising interest rates
- **Flow of mandates:** Bunching at end of Q2, 2010-11, which impacted magnitude of fresh income in Q3, 2010-11
- **Bank credit offtake:** Significant pick up in pace of growth only towards end of Q3, 2010-11
- **Structured finance:** Decline in magnitude of issuance
- **Ticket size:** Increase in relatively smaller-ticket business under Basel II as anticipated
- **Competitive pressures:** Aggressive pricing and ratings by competitors

Notwithstanding moderation of income growth in Q3, growth in Operating Income remains healthy at 25% for the 9 months ended Q3, 2010-11

Growth of Operating Income (Y-o-Y)



## ICRA: Exceptional Factors Impact Profitability

### Employee Stock Options (ESOP) Scheme

- Accounting for issuance of second tranche of Options under the existing ESOP Scheme in Q3, 2010-11 impacted profits and margins; such expenses would continue over the vesting period, i.e. until 2013-14

| (Rs. lakh)                      | 2010-11 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | Total |
|---------------------------------|---------|---------|---------|---------|---------|-------|
|                                 | Q3      | Q4      | FY      | FY      | FY      |       |
| Total expense under ESOP scheme | 281     | 478     | 1,472   | 569     | 181     | 2,981 |

- Non-cash expense, to be amortised on a straight-line basis over the vesting period, by crediting to "Reserves and Surplus", in accordance with SEBI Guidelines (Employee Stock Option Scheme and Employee Stock Purchase Scheme) and Guidance Note No.18 "Share Based Payments" issued by the ICAI
- Adjusting for amortisation of Operating Expenses under ESOP Scheme:
  - Operating Profit growth of 5% in Q3, 2010-11 and 26% for 9M ended December 2010
  - Operating Margins of 55% in Q3, 2010-11 and 57% for 9M ended December 2010
- Scheme expected to provide significant incentives to aid retention of employees and intellectual capital of ICRA, and maintain its competitive position, going forward

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## ICRA: Exceptional Factors Impact Profitability

| (Rs. lakh)                               | 2009-10      | 2010-11      | Growth     | 2009-10      | 2010-11      | Growth     |
|------------------------------------------|--------------|--------------|------------|--------------|--------------|------------|
|                                          | 9M           | 9M           |            | Q3           | Q3           |            |
| PAT                                      | 3,589        | 3,366        | -6%        | 1,158        | 923          | -20%       |
| Net Impact of Reversal Investments       | 569          | 33           |            | 19           | 0            |            |
| Net Impact of ESOP                       | 0            | 281          |            | 0            | 281          |            |
| Net Impact of Investment Activity        | 0            | 120          |            | 0            | 94           |            |
| <b>Adjusted PAT</b>                      | <b>3,020</b> | <b>3,734</b> | <b>24%</b> | <b>1,139</b> | <b>1,298</b> | <b>14%</b> |
| Gross Impact of ESOP (Operating Expense) | 0            | 254          |            | 0            | 254          |            |
| Operating Profit (Reported)              | 4,121        | 4,933        | 20%        | 1,572        | 1,399        | -11%       |
| <b>Adjusted Operating Profit</b>         | <b>4,121</b> | <b>5,187</b> | <b>26%</b> | <b>1,572</b> | <b>1,653</b> | <b>5%</b>  |
| Operating Margin (Reported)              | 57%          | 54%          |            | 58%          | 46%          |            |
| <b>Adjusted Operating Margin</b>         | <b>57%</b>   | <b>57%</b>   |            | <b>58%</b>   | <b>55%</b>   |            |

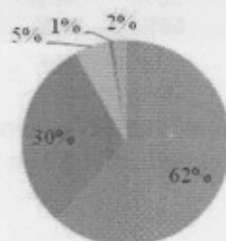
- Adjusting for impact of reversal in diminution in carrying value of investments, expenses incurred towards investment activity and amortisation of ESOP expenses, PAT growth of 14% in Q3, 2010-11 and 24% for 9M ended December 2010
- Adjusting for gross impact of amortisation of ESOP expenses, Operating Margins moderately down to 55% in Q3, 2010-11 from 58% in Q3, 2009-10



## ICRA: Segment-Wise Composition of Ratings

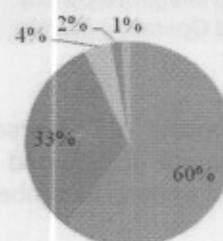
| Segment-Wise Revenues (Rs. lakh) | 2009-10      | 2010-11      | Growth     |
|----------------------------------|--------------|--------------|------------|
|                                  | 9M           | 9M           |            |
| Corporate Sector                 | 4,473        | 5,480        | 23%        |
| Financial Sector                 | 2,209        | 2,956        | 34%        |
| Structured Finance               | 384          | 372          | -3%        |
| Public Finance                   | 59           | 155          | 162%       |
| Other Ratings                    | 137          | 112          | -19%       |
| <b>Total</b>                     | <b>7,263</b> | <b>9,076</b> | <b>25%</b> |

9M, 2009-10



■ Corporate Sector ■ Financial Sector ■ Structured Finance  
■ Public Finance ■ Other Ratings

9M, 2010-11



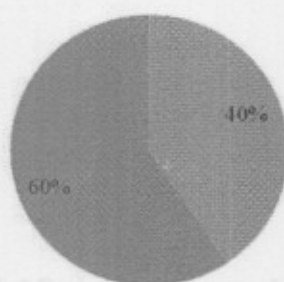
■ Corporate Sector ■ Financial Sector ■ Structured Finance  
■ Public Finance ■ Other Ratings



## ICRA: Composition of Rating Revenue

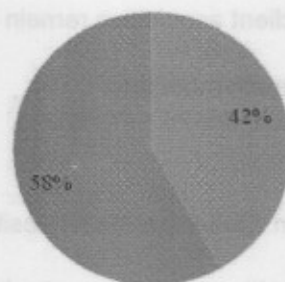
| Segment-Wise Revenues (Rs. lakh) | 2009-10 | 2010-11 | Growth |
|----------------------------------|---------|---------|--------|
|                                  | 9M      | 9M      |        |
| Basel II                         | 2,940   | 3,798   | 29%    |
| Non-Basel II                     | 4,323   | 5,278   | 22%    |

9M, 2009-10



■ Basel II  
■ Non-Basel II

9M, 2010-11



■ Basel II  
■ Non-Basel II



## ICRA: Outlook for Operating Income

### Debt Market Volumes

- Medium to long term: Potential remains favourable, with large scale investments expected particularly in infrastructure
- Short to medium term: Volumes likely to be sensitive to movements in interest rates and liquidity conditions

### Basel II

- Ratings of Bank loans under Basel II expected to continue growing
- Prospects of fresh client acquisition remain favourable
- Ticket sizes may remain moderate

### Structured Finance

- Medium to long term: Outlook remains positive
- Short term: Opportunities in priority sector loan assignments expected to provide opportunities in Q4, 2010-11

**Competitive pressures expected to remain intense**



## ICRA Group

### Advisory Services

- Revenue growth of 27% and improved PBDIT of Rs. 297 lakh for 9 months ended December 2010
- Improvement in business environment reflecting economic upturn
- Growth in average value of mandates

### IT Related Services

- Revenue growth of 16% and PBDIT of Rs. 117 lakh for 9 months ended December 2010
- Revenues and profitability supported by growth in new software projects and increased business from an existing customer
- Improved performance of ICRA Sapphire Inc.

### Outsourcing Services

- Revenue growth of 17% for 9 months ended December 2010
- Manpower being augmented to support growing business and shift into higher value-added business
- Adverse movements in foreign exchange rates impact profitability

### Information Services

- Slowdown in revenues to Rs. 215 lakh for 9 months ended December 2010
- Revamp of products being undertaken to improve alignment with market requirements



## *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. 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.

