

Sept 03, 2023

COMPANY UPDATE | Sector: Credit Rating Agencies

ICRA Limited

Ratings on firm wicket, Analytics may see choppiness

Ratings business in fine fettle led by macro and micro factors

ICRA's full participation in the extant ratings cycle has been a function 1) reorganization of ratings team structure with sharpened sectoral rigor, 2) restructuring of business development team on lines of key sectors, 3) strong ratings performance and timely actions, 4) focus on remunerative and appropriate pricing/yields, and 5) inherent strength (leading market position) in faster growing sectors (Financial incl. Securitization, and Infra) and Bond Ratings (issuances have increased in recent quarters). After tuning around in FY22 (10% growth v/s 13% de-growth in FY21), ICRA's ratings revenue growth has kept on strengthening (14% growth in FY23 and 16% growth in Q1 FY24). An evolved business approach (focus on revenue share and not volume share), raising of pricing threshold (aligned to ratings quality) across sectors/customers and transmission of employee cost inflation has also aided growth.

As typically witnessed during ratings upcycle, the share of initial rating fees (IRF) has started to inch-up. With momentum in Financial and Infrastructure Sectors to continue and possibility of private capex picking-up and rates declining (triggering refinancing business) in 12-18 months, the ratings growth should sustain. ICRA's ESG offerings are ready, and it would be soon applying to SEBI under the prescribed set-up of separate entity. The subsequent go-to-market would create additional revenue opportunity.

Near-term volatility in ICRA Analytics, but Moody's biz on strong footing

While the choppiness in global environment and uncertainty around short-term projects from parent Moody's could transiently weigh on ICRA Analytics' growth, further enlargement of engagement with Moody's and scaling-up of Market Data and Risk Management Solutions is expected to support healthy growth in longer term. Growth deceleration in ICRA Analytics was sharp in Q1 FY24 (4% yoy v/s growth of 25-30% in FY22/23) owing to delay in renewal of a project (being in new area and evaluated for scale-up). In recent years, ICRA Analytics has become more ingrained within Moody's Group by enlarging engagement of rating support, adding new areas of service (for instance, significant scale-up of ESG association) and supporting multiple entities of the Corporation. Moody's business flows to ICRA based on capabilities, competitiveness, and delivery quality, as it also has two captive centers in India.

The co. is keen on growing Market Data and Risk Management solutions businesses for the domestic market and Management's time and efforts have been focused on it. The intent is to diversify revenues of ICRA Analytics and significantly increase the share of these domestic offerings in the next three years. Products & Services suite has been ready, and the focus now is on go-to-market and business development.

Multiple levers for an improved margin performance

Notwithstanding strong revival in ratings revenue growth in past couple of years, the trend in ratings margin has been modest due to employee cost/attrition challenges, industry benchmarking of compensations and lag in transmission through pricing. Margins, however, could improve from hereon on account of 1) stabilized attrition and peak employee cost challenges behind, 2) pursuit of better remunerative mandates and pricing increases, 3) shifting revenue mix towards initial rating business, 4) strong traction in more profitable segments of bond ratings and securitization and 5) benefits from operating leverage and productivity improvements through tech investments. In Analytics, the margin trajectory would be determined by growth trends in Moody's business and quick scaling-up of market data and risk analytics offerings.

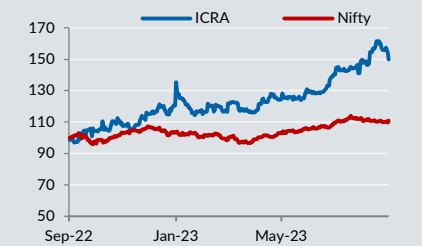
Based on our management interaction, we believe that ICRA's soft performance of Q1 FY24 is not reflective of its likely full-year performance. Over next two years, we see sustained strong growth in ratings, healthy albeit moderated growth in Analytics and reasonable margin expansion. At consol level, we estimate 14%/17%/18% CAGR in Revenue/EBITDA/PAT over FY23-25 and RoE expansion of 2 ppt despite significant accretion of BS liquidity. Our estimates do not factor revenues from ESG offerings and any acquisitions which co. has been evaluating in non-ratings segment. Stock trades at 32x 1-yr roll. fwd. P/E and it has traded at higher multiples in preceding rating cycle. We continue to prefer ICRA over CRISIL.

Reco	: BUY
CMP	: Rs 5,709
Target Price	: Rs 6,700
Potential Return	: 17.5%

Stock data (as on Sept 01, 2023)

Nifty	19,435
52 Week h/l (Rs)	6249 / 3616
Market cap (Rs/USD mn)	56277 / 681
Outstanding Shares (mn)	10
6m Avg t/o (Rs mn):	32
Div. yield (%):	2.3
Bloomberg code:	ICRA IN
NSE code:	ICRA

Stock performance



	1M	3M	1Y
Absolute return	0.3%	15.7%	51.9%

Shareholding pattern

Promoter	51.9%
FII+DII	32.0%
Others	15.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	6,700	5,750

Δ in earnings estimates

	FY23	FY24e	FY25e
EPS (New)	141.7	167.8	196.3
EPS (Old)	141.7	164.8	192.5
% Change	-	1.8%	2.0%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	4,032	4,569	5,262
Growth (%)	17.6%	13.3%	15.2%
EBITDA	1,429	1,647	1,959
Growth (%)	18.5%	15.3%	18.9%
PAT	1,367	1,620	1,894
ROE (%)	15.2%	16.1%	17.0%
EPS (Rs)	141.7	167.8	196.3
P/E (x)	40.3	34.0	29.1
BV (Rs)	985	1,094	1,221
P/BV (x)	5.8	5.2	4.7

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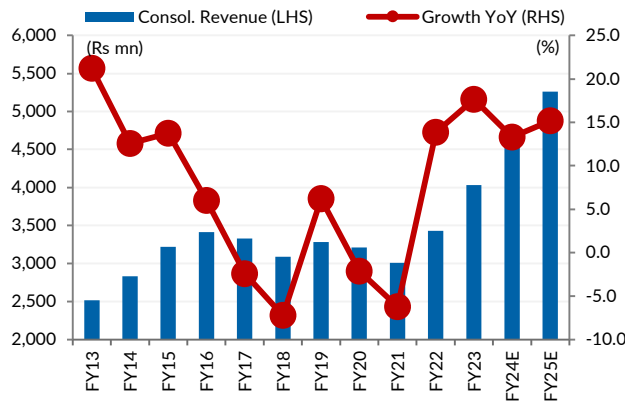
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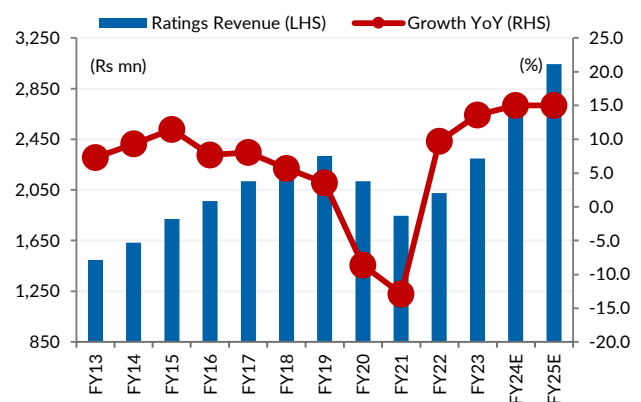
STORY IN CHARTS

Exhibit 1: Strong consolidated revenue growth



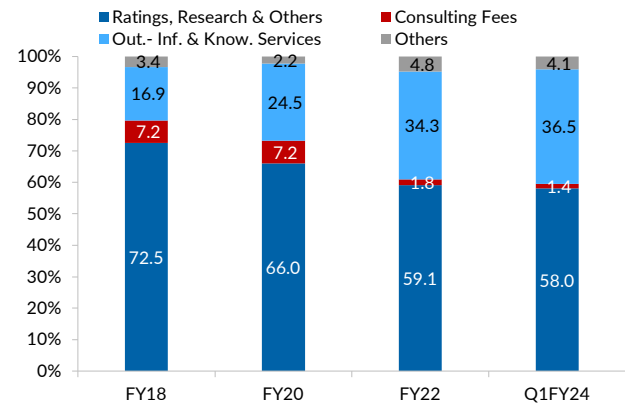
Source: Company, YES Sec

Exhibit 2: Ratings revenue growth to sustain



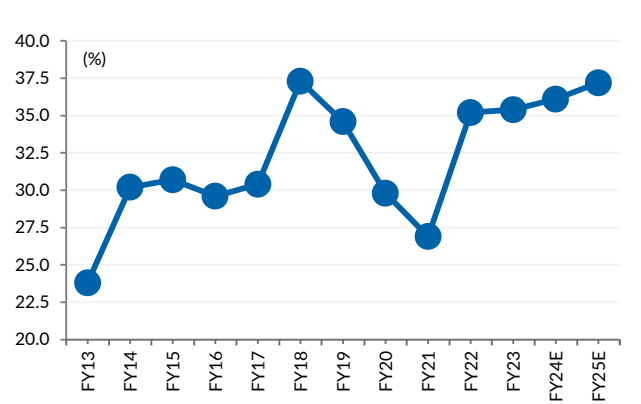
Source: Company, YES Sec

Exhibit 3: Revenue mix shifted in favor of Analytics



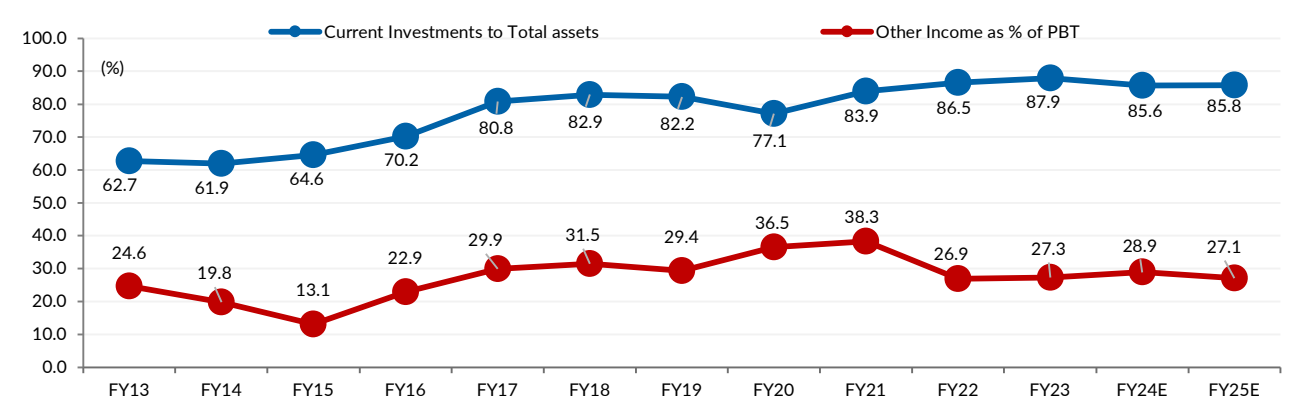
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Exhibit 4: EBITDA margin enroute to recovery



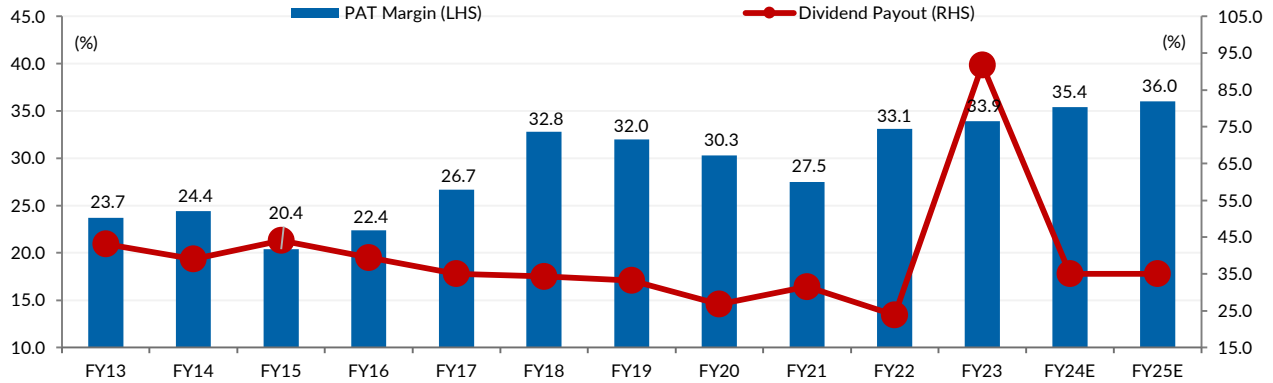
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Exhibit 5: Consistent robust cash generation ensures significant liquidity on BS despite high DPR



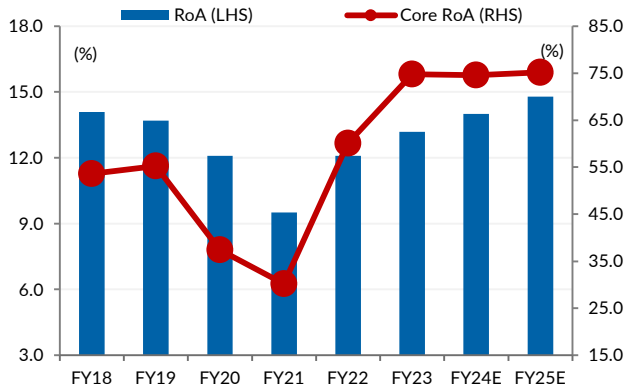
Source: Company, YES Sec

Exhibit 6: High profitability & healthy dividend payout to continue

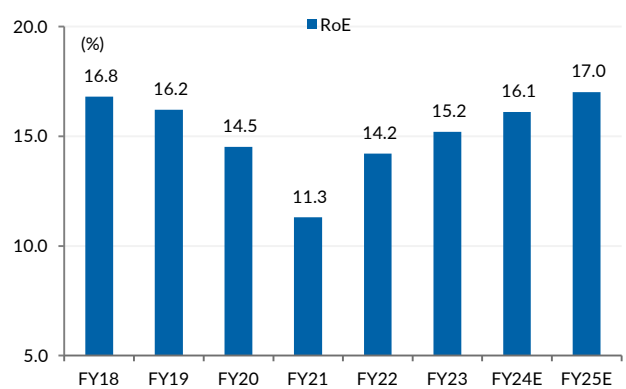


Source: Company, YES Sec

Exhibit 7: Core profitability metrics will improve underpinned by margin expansion and growth uptick

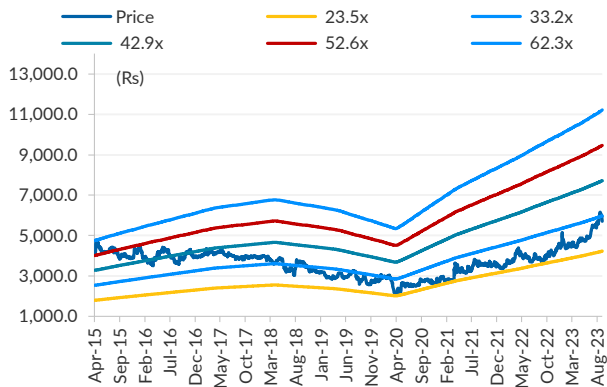


Source: Company, YES Sec



Source: Company, YES Sec

Exhibit 8: 1-yr rolling P/E band



Source: Company, YES Sec

Exhibit 9: 1-year rolling P/E vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity	97	97	97	97	97
Reserves	7,481	8,340	9,406	10,459	11,690
Net worth	7,577	8,436	9,503	10,556	11,787
Long-Term Provisions	34	31	27	29	30
Other financial liabilities	155	121	114	120	126
Total Non-Current Liabilities	189	153	141	149	156
Trade Payables	78	92	84	92	104
Other financial liabilities	120	81	88	80	72
Other Current Liabilities	662	609	721	809	914
Short-Term Provisions	293	365	423	431	440
Current tax liabilities (net)	9	7	2	2	2
Total Current Liabilities	1,161	1,155	1,317	1,414	1,531
Total Equity & Liabilities	8,960	9,785	11,008	12,164	13,521
Tangible Fixed Asset	269	254	275	325	375
Intangible Fixed Asset	183	190	184	184	184
Intangible Assets under development	32	16	13	13	13
Goodwill	12	12	12	12	12
Non-current investments	1,578	3,917	4,252	4,677	5,144
Deferred tax assets (net)	58	46	23	21	18
Long term loans and advances	1	1	0	0	0
Non-current tax assets	114	154	207	197	187
Other financial assets	1,754	825	373	410	451
Total Non-Current Assets	4,010	5,425	5,354	5,854	6,400
Investments	190	622	2,634	2,897	3,187
Trade receivables	475	265	380	751	865
Cash and cash equivalents	3,995	3,101	2,415	2,426	2,820
Other current assets	117	173	192	201	211
Other financial assets	172	199	33	35	37
Total Current Assets	4,950	4,359	5,654	6,311	7,120
Total Assets	8,960	9,785	11,008	12,164	13,521

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Ratings, research & other service fees	1,846	2,025	2,300	2,645	3,042
Outsourcing	905	1,177	1,501	1,681	1,933
Others	259	225	231	243	287
Total Revenue	3,011	3,428	4,032	4,569	5,262
Employee Expenses	1,717	1,792	2,076	2,341	2,650
Other Expenses	482	430	528	580	653
EBITDA	811	1,206	1,429	1,647	1,959
Other Income	428	409	496	619	681
Depreciation	99	78	98	108	119
Interest Expense	21	16	14	12	10
PBT	1,120	1,521	1,812	2,147	2,511
Tax	293	386	445	527	616
PAT	827	1,135	1,367	1,620	1,894

Source: Company, YES Sec

Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	1,120	1,521	1,812	2,147	2,511
Depreciation	99	78	98	108	119
Change in working cap	(1,180)	983	602	(303)	(30)
Tax paid	293	386	445	527	616
Cash flow from operations	(254)	2,197	2,067	1,424	1,984
Capex	(31)	(53)	(111)	(158)	(169)
Change in investments	(728)	(2,771)	(2,347)	(689)	(757)
Cash flow from investments	(759)	(2,823)	(2,458)	(847)	(926)
Free cash flow	(1,013)	(627)	(391)	578	1,058
Equity raised/(repaid)	(5)	(6)	954	-	(0)
Dividend (including tax)	261	270	1,255	567	663
Cash flow from financing	(266)	(276)	(301)	(567)	(663)
Net change in cash	(1,279)	(903)	(692)	11	394
Op Cash	5,268	3,995	3,101	2,415	2,426
Cl Cash	3,995	3,101	2,415	2,426	2,820

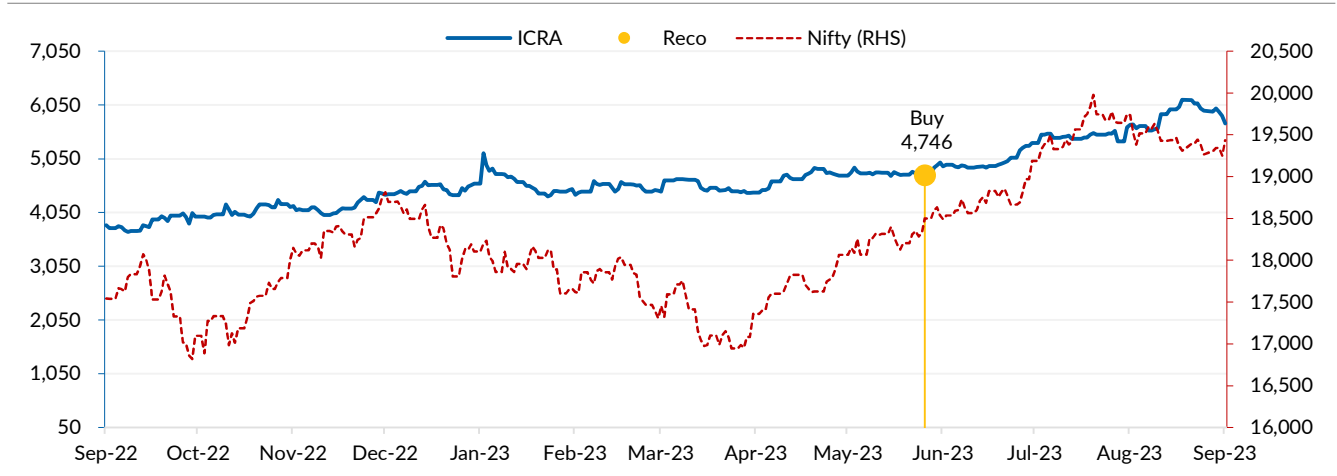
Source: Company, YES Sec

Exhibit 13: Growth and Ratio matrix

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Growth ratios (%)					
Ratings	-12.9%	9.7%	13.6%	15.0%	15.0%
Outsourcing	15.1%	30.1%	27.5%	12.0%	15.0%
Other revenues	-63.9%	-130.3%	12.9%	10.0%	10.0%
EBITDA	-15.3%	48.6%	18.5%	15.3%	18.9%
Net profit	-15.0%	37.3%	20.4%	18.5%	17.0%
Operating Ratios					
EBITDA Margin	26.9%	35.2%	35.4%	36.1%	37.2%
PAT Margin	27.5%	33.1%	33.9%	35.4%	36.0%
ROE	11.3%	14.2%	15.2%	16.1%	17.0%
Dividend Payout Ratio	31.5%	23.8%	91.8%	35.0%	35.0%
Per share					
EPS	86	118	142	168	196
Book Value	727	785	874	985	1,094
Valuation Ratios					
P/E	66.6	48.5	40.3	34.0	29.1
P/BV	7.3	6.5	5.8	5.2	4.7
Dividend Yield	0.5%	0.5%	2.3%	1.0%	1.2%

Source: Company, YES Sec

Recommendation Tracker



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