

Sept 17, 2024

COMPANY UPDATE | Sector: Credit Rating Agencies

ICRA Limited

Earnings growth and RoE to pick-up from FY26

Traction in Ratings to continue; business margins to improve further

Rating industry's revenue growth can sustain above 10-12% over the coming years aided by ongoing infrastructure investments, pick-up in private sector capex cycle, sustained growth of NBFCs/HFCs, widened participation (including more issuers) in bond markets with country's inclusion in global indices and incremental funding shift and refinancing through bond markets (much better yielding than BLR) with easing of rate/liquidity conditions. After witnessing moderate growth in ratings revenue during Q1 FY25 (9% yoy v/s 12%/14% yoy in FY24/23), ICRA could see an improvement in ensuing quarters underpinned by its strong position in bond ratings, infrastructure ratings and financial sector ratings including structure finance. Constant endeavor for appropriate fees and a more rational pricing approach by competition have been supplementing ratings revenue growth of ICRA. ESG ratings business is building gradually for rating agencies; however, increasing push by investors and improvement in ESG related data/information is likely to make this business significant in few years.

ICRA has witnessed a significant margin recovery in ratings business from the low point in FY21, driven by improvement in rated volume and pricing, stabilization of employee cost inflation and automation/tech initiatives. In our view, ratings margins can significantly improve further with continuance of growth triggering incremental operating leverage, expected stronger growth in bond ratings, persistent push on pricing and increased base of surveillance fees.

Still hazy growth outlook for Knowledge Services; margins managed well

Knowledge Services revenue growth was meek at 3% in FY24 (after growing by 25-30% in FY22/23), reflecting a) uncertain global macroeconomic environment, b) growth headwinds in ESG related business and c) tilt towards insourcing and automation by Moody's. Outsourcing trend from the parent Moody's is unlikely to change much in FY25, but in longer run the growth outlook hinges on additional outsourcing volumes from the parent and ICRA's engagement on new areas. Key levers supporting company's resilient margin delivery in Knowledge Services through recent quarters despite aforesaid growth challenges have been swift headcount management as per business requirement and lower fixed cost of operations.

D2K could witness significant growth but break-even may take time

A significant scale-up of D2K's revenue (acquired in Nov'23) is expected over the coming years, reflecting realization of the envisioned synergies on ICRA's platform. Incremental investments on integration, products, and marketing/outreach would propel growth. D2K acquisition has allowed ICRA to build capability in solutions for risk analytics/management and regulatory compliance, a segment which complements well given strong relationships with banks and other financial institutions. This business which is reporting loss currently could take some time to breakeven due to investments and longer sales cycles. The long-term margins are likely to be much lower than Ratings and Knowledge Services.

Maintain constructive view on the stock

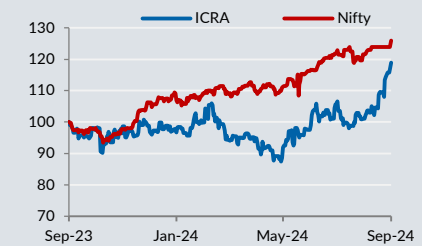
We estimate 14-15% revenue CAGR for ICRA over FY24-27 assuming sustained growth in credit ratings, moderate scale-up of ESG Ratings and some growth recovery in Knowledge Services. PAT growth/RoE expansion would likely be much faster from FY26 with resumption of margin improvement. Our estimates do not factor any new revenue opportunities that company could be exploring and inorganic growth through compatible acquisitions. ICRA is trading at 29x P/E on FY27 earnings. We increase 12m PT to Rs7500 by rolling over valuation to FY27.

Reco	: ADD
CMP	: Rs 6,810
Target Price	: Rs 7,500
Potential Return	: +10.1%

Stock data (as on Sept 17, 2024)

Nifty	25,419
52 Week h/l (Rs)	6926 / 4934
Market cap (Rs/USD mn)	64356 / 768
Outstanding Shares (mn)	9.6
6m Avg t/o (Rs mn):	43
Div. yield (%):	1.8
Bloomberg code:	ICRA IN
NSE code:	ICRA

Stock performance



	1M	3M	1Y
Absolute return	17.7%	21.9%	18.9%

Shareholding pattern

Promoter	51.9%
FII+DII	32.2%
Others	15.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	BUY
Target Price	7,500	6,300

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Net Revenue	5,008	5,763	6,650
Growth (%)	12.3%	15.1%	15.4%
EBITDA	1,612	1,960	2,333
Growth (%)	8.4%	21.6%	19.0%
PAT	1,613	1,935	2,262
ROE (%)	16.0%	17.9%	19.4%
EPS (Rs)	167.2	200.5	234.4
P/E (x)	40.7	34.0	29.1
BV (Rs)	1,079	1,159	1,253
P/BV (x)	6.3	5.9	5.4

RAJIV MEHTA

Lead Analyst

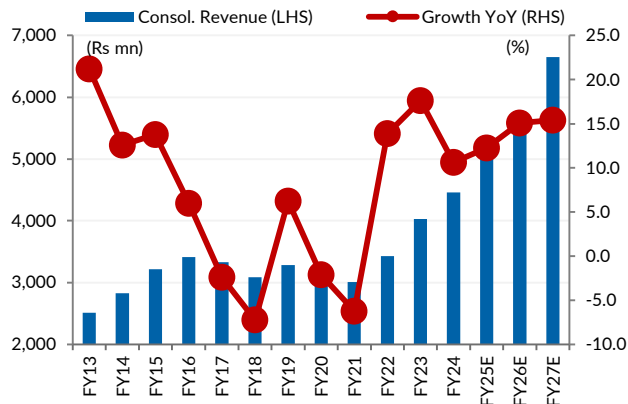
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MANUJ OBEROI, Associate

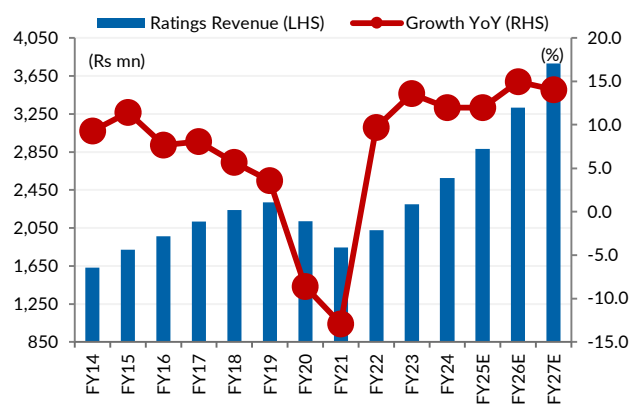
STORY IN CHARTS

Exhibit 1: Consolidated revenue growth to pick up



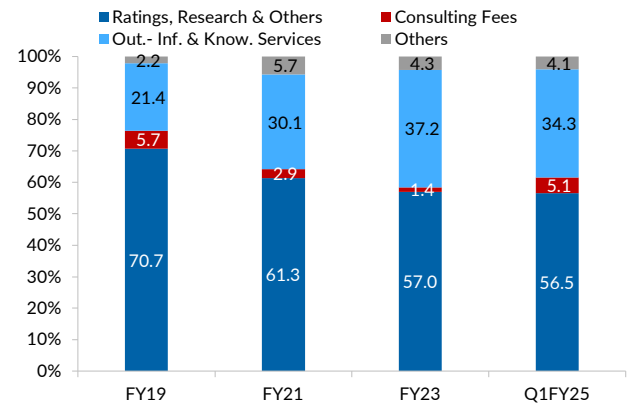
Source: Company, YES Sec

Exhibit 2: Expect sustained traction in ratings revenue



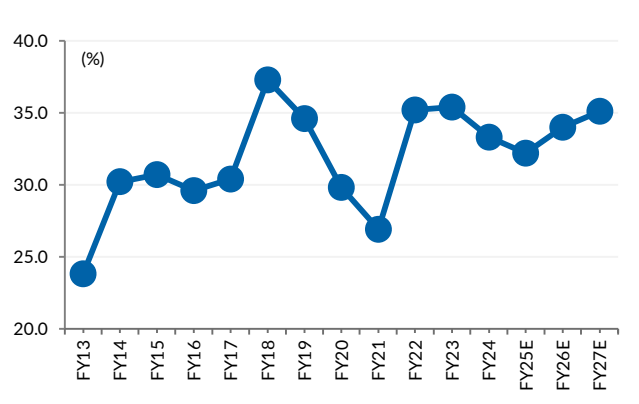
Source: Company, YES Sec

Exhibit 3: Revenue mix skewed in favor of Ratings



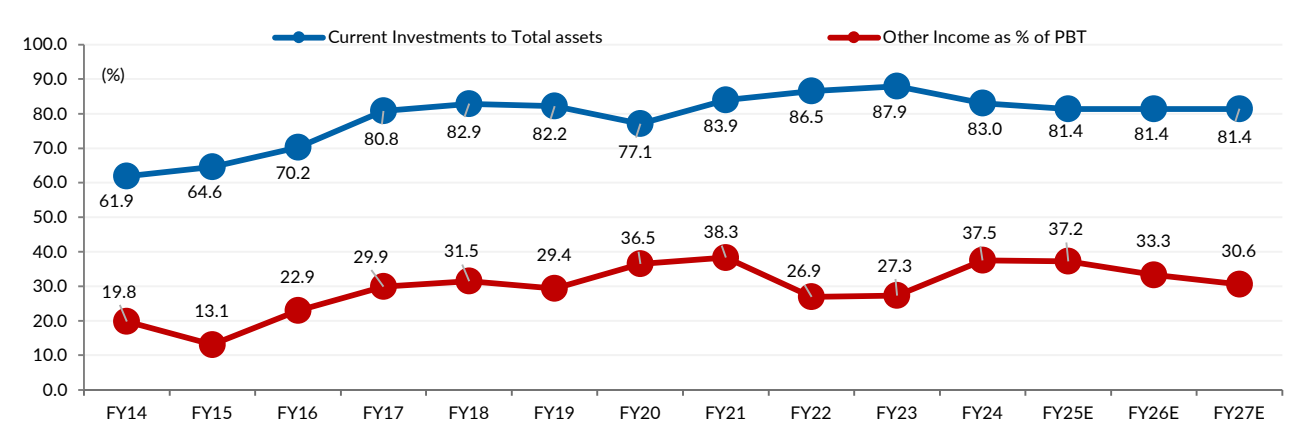
Source: Company, YES Sec

Exhibit 4: EBITDA margins enroute to recovery



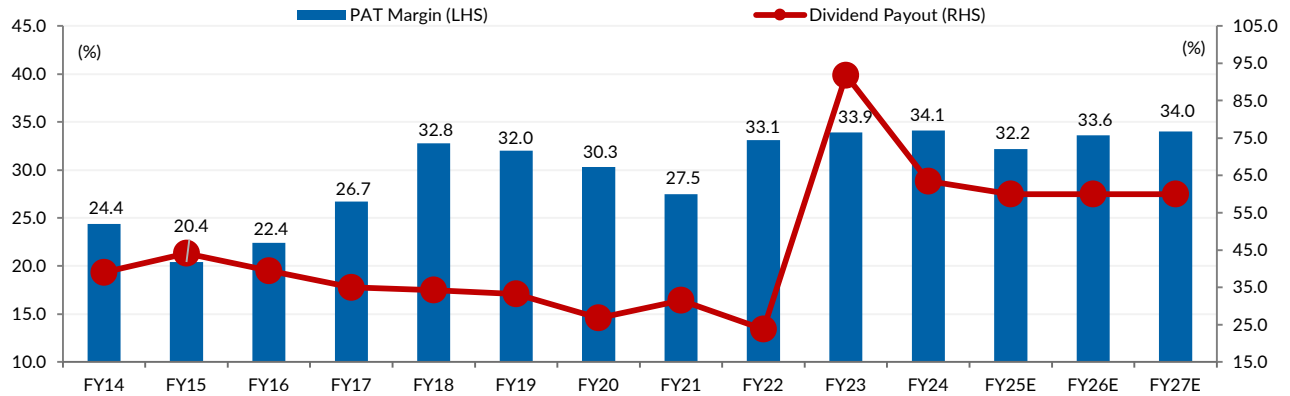
Source: Company, YES Sec

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



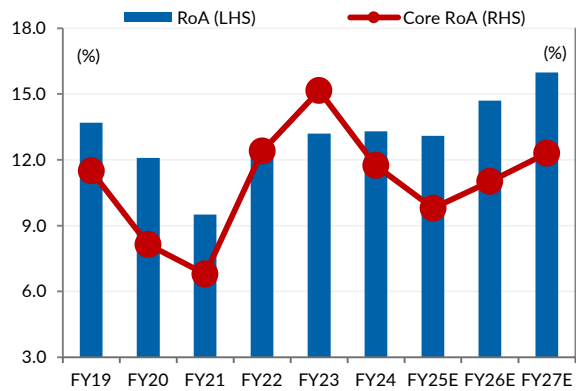
Source: Company, YES Sec

Exhibit 6: High profitability & dividend payout to continue

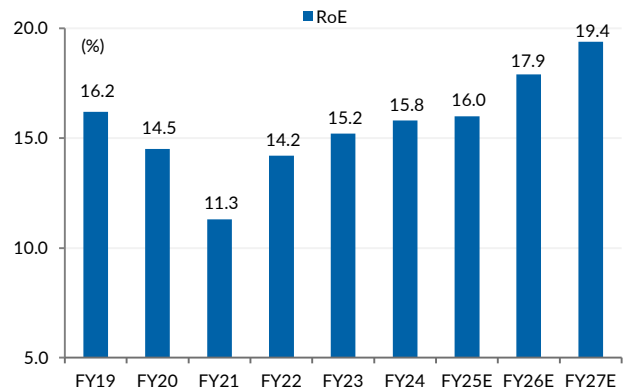


Source: Company, YES Sec

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

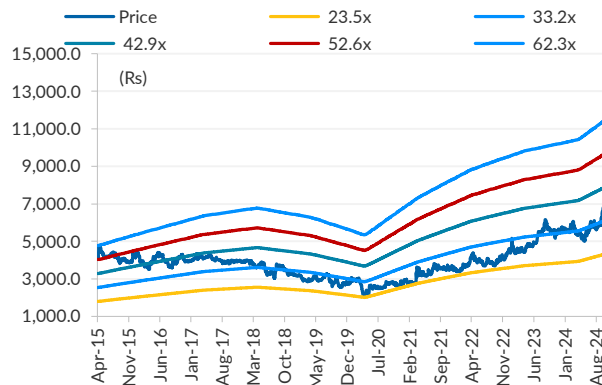


Source: Company, YES Sec



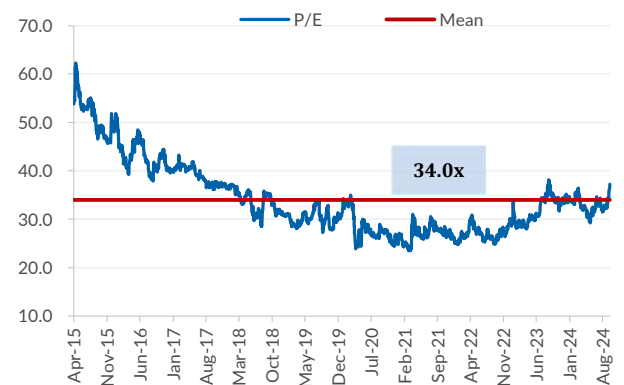
Source: Company, YES Sec

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)	FY23	FY24	FY25E	FY26E	FY27E
Equity	97	97	97	97	97
Reserves	9,406	9,668	10,314	11,088	11,993
Net worth	9,503	9,765	10,410	11,184	12,089
Long-Term Provisions	27	41	43	45	48
Other financial liabilities	114	507	532	559	587
Total Non-Current Liabilities	141	548	575	604	634
Trade Payables	84	75	86	96	109
Other financial liabilities	88	119	107	96	86
Other Current Liabilities	721	811	927	1,038	1,178
Short-Term Provisions	423	515	525	536	546
Current tax liabilities (net)	2	1	1	1	1
Total Current Liabilities	1,317	1,521	1,645	1,767	1,921
Total Equity & Liabilities	11,008	11,878	12,676	13,600	14,689
Tangible Fixed Asset	275	303	353	403	453
Intangible Fixed Asset	184	309	309	309	309
Intangible Assets under development	13	8	8	8	8
Goodwill	12	302	302	302	302
Non-current investments	4,252	3,902	4,292	4,721	5,194
Deferred tax assets (net)	23	26	24	21	19
Long term loans and advances	0	0	0	0	0
Other non-current assets	14	12	12	12	12
Non-current tax assets	207	276	262	249	236
Other financial assets	373	163	180	198	217
Total Non-Current Assets	5,354	5,302	5,741	6,223	6,750
Investments	2,634	4,232	4,656	5,121	5,633
Trade receivables	380	530	823	947	1,093
Cash and cash equivalents	2,415	1,555	1,185	1,024	914
Other current assets	192	232	243	256	268
Other financial assets	33	27	28	29	31
Total Current Assets	5,654	6,576	6,935	7,378	7,939
Total Assets	11,008	11,878	12,676	13,600	14,689

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Ratings, research & other service fees	2,300	2,576	2,885	3,317	3,782
Outsourcing	1,501	1,546	1,593	1,720	1,909
Consulting	57	164	328	493	690
Market	183	180	207	239	274
Total Revenue	4,032	4,461	5,008	5,763	6,650
Employee Expenses	2,076	2,404	2,740	3,069	3,483
Other Expenses	528	570	655	734	833
EBITDA	1,429	1,488	1,612	1,960	2,333
Other Income	496	750	787	846	910
Depreciation	98	135	162	186	214
Interest Expense	14	104	120	80	60
PBT	1,812	1,999	2,118	2,541	2,969
Tax	445	476	505	605	708
PAT	1,367	1,522	1,613	1,935	2,262

Source: Company, YES Sec

Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,812	1,999	2,118	2,541	2,969
Depreciation	98	135	162	186	214
Change in working cap	602	567	(154)	10	19
Tax paid	445	476	505	605	708
Cash flow from operations	2,067	2,224	1,621	2,131	2,495
Capex	(111)	(571)	(212)	(236)	(264)
Change in investments	(2,347)	(1,249)	(813)	(895)	(984)
Cash flow from investments	(2,458)	(1,821)	(1,025)	(1,131)	(1,248)
Free cash flow	(391)	403	596	1,000	1,247
Equity raised/(repaid)	954	(295)	-	-	-
Dividend (including tax)	1,255	965	968	1,161	1,357
Cash flow from financing	(301)	(1,260)	(968)	(1,161)	(1,357)
Net change in cash	(692)	(857)	(372)	(161)	(110)
Op Cash	3,101	2,415	1,555	1,185	1,024
Cl Cash	2,415	1,555	1,185	1,024	914

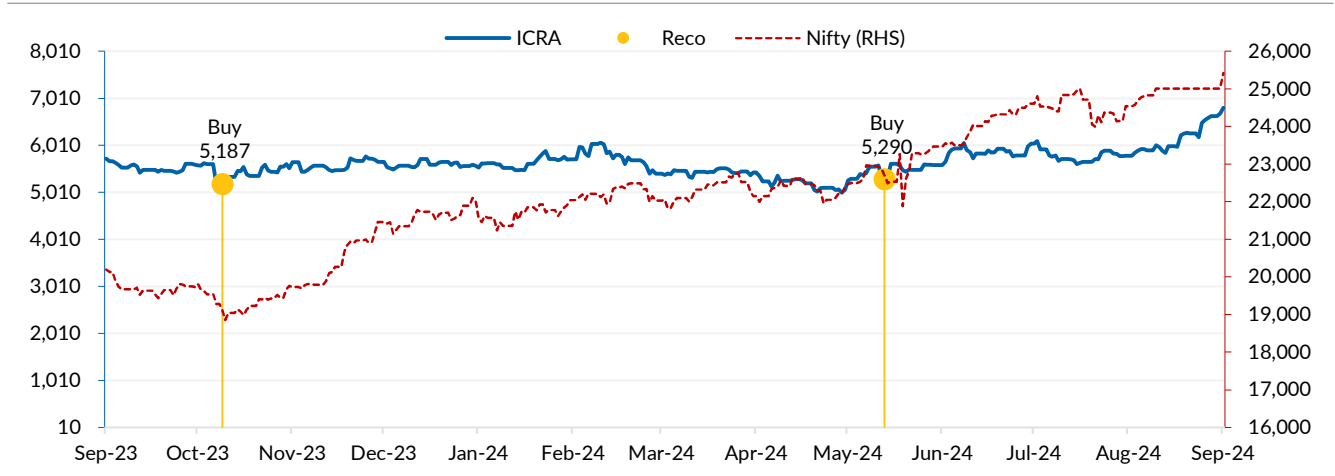
Source: Company, YES Sec

Exhibit 13: Growth and Ratio matrix

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Growth ratios (%)					
Ratings	13.6%	12.0%	12.0%	15.0%	14.0%
Outsourcing	27.5%	3.0%	3.0%	8.0%	11.0%
Other revenues	12.9%	-38.0%	0.0%	0.0%	0.0%
EBITDA	18.5%	4.1%	8.4%	21.6%	19.0%
Net profit	20.4%	11.3%	6.0%	20.0%	16.9%
Operating Ratios					
EBITDA Margin	35.4%	33.3%	32.2%	34.0%	35.1%
PAT Margin	33.9%	34.1%	32.2%	33.6%	34.0%
ROE	15.2%	15.8%	16.0%	17.9%	19.4%
Dividend Payout Ratio	91.8%	63.4%	60.0%	60.0%	60.0%
Per share					
EPS	142	158	167	201	234
Book Value	874	985	1,012	1,079	1,159
Valuation Ratios					
P/E	48.1	43.2	40.7	34.0	29.1
P/BV	6.9	6.7	6.3	5.9	5.4
Dividend Yield	1.9%	1.5%	1.5%	1.8%	2.1%

Source: Company, YES Sec

Recommendation Tracker



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