

Opinion Dominion - Its all about Credibility!



Credit Rating Industry

19th January 2009

Crisil | CMP Rs. 2345.0 | Buy

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ICRA | CMP Rs. 399.0 | Buy

McGraw Hill Corp. (Standard & Poors) | Moody's Corporation | Fimalac Group

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Opinion Dominion – Its all about Credibility !

The scandalous act of Satyam, aka India's Enron has brought many in the line of fire; the key being independent directors & auditors. We are more concerned with the auditors – which like the Credit Rating Agencies (CRA) are in the business of giving opinions. The auditors PWC is in greater trouble as just a few years ago, it was indicted for fraudulent accounting following the collapse of the Global Trust Bank. PWC lost its banking business post the GTB episode. We wonder if the share price of Satyam would go the GTB way and PWC India go the Arthur Andersen way, which had to be dissolved for its complicity in the Enron scam.

We perceive that CRA is one industry, which suffers from what N. Taleb would put it as '**a new kind of Ingratitude**'.

...The person who imposed locks on cockpit doors gets no statues in public squares, not so much as a quick mention of his contribution in his obituary. "Joe Smith, who helped avoid the disaster of 9/11, died of complications of liver disease."

- Excerpt from The Black Swan

The business may also be classified as a **Negative-Black Swan business**. A negative-Black Swan business is one where the unexpected can hit hard and hurt severely. If you are in the military, in catastrophe insurance, or in homeland security, you face only downside. Taleb has a simple decision making rule, i.e. to be conservative when it comes to negative black swans.

Interestingly for CRAs however, there is no real money risk like that of a bank or an insurance company. They just have to downgrade and nothing else. Instead any such negative instances & circumstances only go towards increasing the importance of what is needed. Post an accounting scam, the focus on accounts & audit will only increase. Similarly, every undesired financial market fallout has ~ always created new avenues for credit rating agencies. **The importance of a safety belt does not reduce even if there is a casualty in a specific case. The importance only increases. The 'new kind of ingratitude' is in our difficulty in realizing that safety belts have saved more lives than probably anything else.** In this current economic environment, we accede to the idea of this positive fallout in an otherwise negative-black swan business.

The Basel II fallout to rate corporate loans from banks has created an entirely new opportunity for CRAs. While there may be a few quarters of aberration given the financial turmoil & consequent casualties, outlook for the Indian CRAs will improve sooner than later. The key trigger being that, the drying up of international liquidity coupled with poor equity markets and the swiftly declining interest rates will accelerate the INR denominated borrowings, from banks & other financial institutions. We expect the credit rating agencies to be beneficiaries over a medium term period.

Our investment argument for the key players in this industry is easily explained through this math.

Influential Positioning
+
Excellent Business Economics
+
Entry Barriers
+
Growth Opportunities
+
Cheap Valuations

CRA's have everything to make it to one's Must-Own List. Crisil & ICRA have evolved to be some of India's most influential corporates with excellent business economics and strong entry barriers. Importantly, the companies have growth visibility and are available at very reasonable valuations.

Influential Positioning + Excellent Business Economics + Entry Barriers + Growth Opportunities + Cheap Valuations

The Edge is the business itself - Business of giving opinions!

There are various such businesses.

- *Astrologers, economic forecasters, weathermen*
- *Film critics, Art critics, Food and Car guide*
- *Stock brokers and analysts*
- *Auditors & Solicitors & legal advisors*

But these have very limited entry barriers. You have so many of each of these. For our business, things would have been different if there just a few brokers or just a few analysts. For investments, we are more interested in the relatively monopolistic business of Credit Rating Agencies.

Crisil (subsidiary of Standard & Poor's) & ICRA (associate of Moody's Investor Service) are the two key rating agencies functional in India with Fitch & CARE figuring in the also-ran list. However, given the need for Dual Ratings and more importantly, the Credibility factor, Crisil enjoys a lion's share making the market better than oligopolistic to monopolistic.

We ask ourselves two questions here :

1. Do we need CRA's (in spite of any negatives) ?

- Of course we need them. We need Khalid Mohammed & Rashmi Uday Singh for their opinions. Why won't we need credit rating agencies?

2. Would there be more players ?

- Maybe. But would be very tough & long process. To establish independence, scale up & ensure credibility. Also there are no more very credible foreign players who are yet to come in. S&P chose Crisil & Moodys chose ICRA. Fitch has been here for long now. There is no known new-competition likely to come in.

More than just monopolistic – It is truly an Excellent business.

Crisil & ICRA have the necessary **'Buffettology'** requisites to characterize it as excellent business entities.

a) The business has an identifiable consumer (financial) monopoly (oligopoly) – as explained above;

b) Earnings of the company are strong and are showing an upward trend

- Crisil : 48% CAGR Topline & 72% CAGR PAT over FY05-CY08E &
- ICRA: 35% CAGR Topline & 45% CAGR PAT over FY05-FY09E;

c) They are conservatively financed – Fixed Asset turnover > 1 & Low Working Capital requirement;

d) Consistent high rate of return on shareholder's equity

- ~15% for ICRA & ~30% for Crisil incl. Cash & 50%+ excl. cash & liquid investments for both;

e) They get to retain their earnings

- ~75% average retained for Crisil &
- ~65% average retained for ICRA;

f) Does not need to spend on maintaining current operations – almost nothing (computers, etc.);

g) Management has done well to judiciously & profitably reinvest retained earnings in new business opportunities, expansion of operations, etc.

- Demonstrated both organic growth & profitable inorganic acquisitions;

h) Company enjoys pricing power

- Brand credibility & value reflected in relatively premium pricing, especially for Crisil;

l) Value addition through retained earnings increases the market value of the company

- Crisil share price up 297% or 41% CAGR in last 4 years
- Not much for ICRA whose share price up 23% since its IPO at Rs. 330 in March 2007;

Entry Barriers

Early Mover Advantage

- ✓ Brand Name & Market Share – Crisil is the 4th largest credit rating agency (CRA) in the world, after S&P, Moody's & Fitch. This is despite of its functioning only in India versus a global platform at disposal of the other top 3 players. This say a lot about the strong brand that Crisil enjoys. One should note that Crisil has demonstrated a strong organic growth & an iconic success as a regional CRA, before it became a subsidiary of S&P. Even now, despite being a S&P subsidiary, management has no plans to phase out the Crisil brand owing to its obvious strength in its market. ICRA we can say is a smaller version of Crisil, another regional agency & now an associate of Moodys.
- ✓ Comparability across companies and industries – Consistent ratings help determine equivalent credit spreads and helps trade of various corporate papers of varied industries. Larger players like Crisil & ICRA are at an advantage here.
- ✓ Suspected rating shopping & inferiority perception !!! - This is a serious disadvantage to the late entrants & the smaller players.

Licensing

CRAs need to get a license from SEBI in India & its equivalent internationally. Though there is a case & also space to make the industry more competitive, it the non-bureaucratic moat which is difficult to break. Infact, the act of regulators to continuously delegate the responsibility of risk assessment to CRAs has only made the existing players more influential. A new entrant is either left with a meaningless profile or become an acquisition target in an alternative scenario.

Perception of Knowledge

- This along with Credibility is the biggest entry barrier.
- It helps in terms of pricing power & profitability.
- Opens up new business avenues like advisory, etc.

CYA : Cover your a@#

There is little uniformity amidst Efforts, Risks & Rewards, especially when it comes to the profession of investment management. Also as Robert Cialdini aptly modified, “ Every day in every way, I'm getting busier.” In this case, no better remedy than a credible rating in place. So much for the Investor's influence on the otherwise Issuer pay model.

Management

The People Factor is one of the most critical aspects in the operations of CRA. We perceive that the managements have done extremely well in terms of positioning the companies, organic & inorganic growth, exit decisions, managing conflict of interest and most importantly keeping up the credibility of the brand even at the cost of business & market share upon consistent downgrades. The little concern over ESOP dilutions has been reasonably done away post acquisition of stake by S&P & Moodys.

Growth Visibility**Basel II : Thank you Central Bankers of the world & RBI**

The Basel II norms which require borrowers to have a credit rating in place for every bank loan in excess of Rs. 50 Crs for FY09 and a further scale down in limit to Rs. 10 Crs for FY10, is likely to bring in a tremendous increase in ratings volume for the CRAs. Banks would benefit by making efficient use of capital by assigning risk weights to loans, based on the credit rating of the lender. A higher rating will allow the customer to borrow cheap & will lower the capital adequacy requirement for the bank and vice-versa.

Growth in financial markets and economy

The past suggest a consistent evolution of opportunities for CRAs :

1. Credit rating is mandatory for issuance of debt instruments by listed companies with maturity/ convertibility of 18 months and above.
2. SEBI along with stock exchanges made ratings mandatory for debt instruments placed under private placement basis and having a maturity of one year or more, which are proposed to be listed.
3. Requirement for certain investors to invest not more than a stipulated part of their portfolio in unrated bonds.
4. RBI has made it mandatory for all commercial banks to make fresh investment only in rated non-SLR securities.
5. Non-government PFs, Superannuation funds, Gratuity funds can only invest in bonds issued by public financial institutions, public/private sector companies, provided they are dual rated. Further, the said fund houses can only invest in shares of companies, which have investment grade rating from at least two credit rating agencies.

Offshoring

Crisil through its Global Outsourcing Centre (GAC) does a lot of Credit research work outsourced by its MNC parent, 'Standard & Poor's'. It already has almost 500 people on this assignment. This business has not only increased its importance in the overall functioning of Crisil, but has also brought in an increased steadiness to the overall entity. ICRA has about 100 people on the outsourcing task from Moodys. This

segment also bodes well in terms of growth rates & margins in the longer run. In the near term there could be some slowdown in the workflow given the international financial shakeout.

Other areas

- Independent equity research: Thank you Mr. Elliott Spitzer.
This may not materialize in India soon, as India still remains a market where value added research is provided to clients almost free of cost. Independent equity research by CRA's may find it difficult to command a charge in such a scenario.
- Grading of IPOs: Thank you Mr. Damodaran & Mr. Bhave.
Nothing much here & not very important for CRAs for the moment.
- Valuation of debt securities: Thank you MFs and Mr. Bhave.
We expect some improvement in the corporate fixed income industry with the fall in the interest rates & limited financing options.
- Grading of real estate developers. May be in future.
- Grading of stockbrokers. May be in future.
- Infrastructure advisory & Business research. Non-recurring & project-based business may see some slowdown.
- Industry & Company research: Eg. INFAC reports. Brokers may not spend much in tough times.
- Risk management solution for Banks & Corporates. May continue as usual as it also helps in protecting profitability.
Mutual Fund Services. Likely to continue as it constitutes a small portion of the overall costs.

Cheap Valuations

The excellent business economics of the company is on account of the low capital (fixed + working) intensity of the business coupled with high margins. While the companies may continue to pursue its dual – organic + inorganic growth aspirations, we expect the payout ratio to gradually improve as the company grows in size. While the historical very high growth rates may or may not sustain, there remains a fairly reasonable set of growth levers for the company for the coming few years atleast.

The PE multiples have come down in tandem with the lower expected growth rates and the subdued financial environment. Our intent is to acquire monopolistic & quality businesses, when available at attractive valuations for long holding periods. At ~ 12 times its current year earnings, both Crisil & ICRA are trading at extremely modest valuations and make a compelling BUY.

Crisil

More than 1% Holding – Over 80% of the Capitalization

Description as on (% Holding)	31-Dec-08	30-Sep-08	30-Jun-08	31-Mar-08	31-Dec-07	30-Sep-07	30-Jun-07
S and P India LLC	43.2	43.2	43.2	43.2	43.2	43.2	43.3
S and P International LLC	8.3	8.3	8.3	8.3	8.3	8.3	8.3
Jhunjhunwala Rakesh Radheshyam	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Acacia Institutional Partners LP	5.7	5.7	5.7	5.7	5.7	5.7	5.7
GIC of India	4.2	4.2	4.2	4.2	4.2	4.2	4.2
UTI	3.5	3.4	3.3	3.2	3.1	3.1	3.1
State Bank of India	2.8	2.8	2.8	2.8	2.8	2.8	2.8
CLSA Merchant Bankers Ltd	2.1	2.6	2.6	2.6	2.6	2.6	2.4
LIC of India	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Bright Star Investment Pvt Ltd	1.3	1.3	1.3	1.3	1.3	1.3	1.3

ICRA

More than 1% Holding – Over 80% of the Capitalization

Description as on (% Holding)	31-Dec-08	30-Sep-08	30-Jun-08	31-Mar-08	31-Dec-07	30-Sep-07	30-Jun-07
Moodys Investment Company	28.51	28.51	28.51	28.51	28.51	28.51	28.51
State Bank of India	10.00	10.00	10.00	10.00	10.00	10.00	10.00
ICRA Employees Welfare Trust	8.83	8.83	8.96	9.06	9.06	9.06	9.06
LIC of India	7.65	7.65	7.65	7.65	7.65	7.65	7.65
GIC of India	5.23	5.23	5.23	5.23	5.23	5.23	5.23
Punjab National Bank	5.08	5.09	5.25	5.25	5.25	5.25	5.25
Birla Sunlife Trustee Company	5.35	4.88	4.83	4.66	4.51	3.39	
Central Bank of India	2.55	2.55	2.55	2.55	2.55	2.55	2.55
Indiabulls Capital Services Ltd	2.45	2.45	2.45	2.45	2.45	1.84	
Indiabulls Insurance Advisors	1.81	1.81		1.81	1.81	1.51	
Allahabad Bank	1.72	1.72	1.72	1.72	1.72	1.72	1.72
ACACIA Partners LP	1.20	1.20					
Birla Sun Life Insurance Co.	1.22	1.19					
Principal Trustee Company	1.07	1.07	1.01				
Reliance Capital Trustee Co.			1.27	1.27	1.27	1.27	
Indian Bank				1.14	1.09	1.03	1.03

One can lament over poor liquidity in the two scrips as an excuse. We feel glad that such companies are listed (Not much capital needed; Recently listed ICRA was through an Offer for Sale). We feel lucky to have an opportunity to participate in this business. The above tables reflect the sticky holding pattern, but they also reflect how select focused institutions have been able to garner some share in this opportunity. For e.g. Principal MF & Birla MF have been able to aggregate some stake in the recent past. Even ACACIA Partners which already has been a key stake holder in Crisil has manage to garner ICRA. It along with GILC & LIC is now a key holder in both the companies. Popular and renowned investors like Rakesh Jhunjhunwala and Radhakishan Damani have the credits for identifying such an opportunity at an early stage.

- The volume of revenues is dependent on the volume and number of debt securities issued in the Indian capital markets. Nearly 60% of ICRA's revenues & ~40% of Crisil's revenues are on account of the rating services, which are primarily linked to the issuance of debt securities in the Indian capital markets.
- This industry tends to get a little cyclical and can be compared to stock exchange model for the double whammy. Unlike many international counterparts, Indian bourses earn fees on the value of contracts, rather than number of contracts. In a dull market, the Indian bourses experience the double whammy of both prices & number of contracts shrinking simultaneously. Similar is the fate for Credit Rating business, where in a dull market like it is now, not just the number of debt issuances but the average size of the issuances also shrinks. There is a consequent loss to the CRAs who generally charge as a percentage (band-wise slabs) of the borrowings.
- Any variation in interest rates and credit spreads, volatility in corporate bonds market or interest rate environment, foreign exchange fluctuations, defaults of significant issuers and other market and economic factors both domestically and globally may impact CRAs.
- The company faces increased pricing pressures from its competitors. The pricing competition will move to a new league, especially on the bank loans. Our sense is that the larger players have more to lose as compared to the smaller players. However, the larger firms are also more apt at managing productivity and may be able to maintain its overall share.
- Competition is not limited to the rating business. The other divisions have its own set of competition. For example Cris Infac competes with CMIE, Dun & Bradstreet for its Industry Research services. For the consulting services business, Crisil & ICRA competes with various players including investment banks and consulting organizations.
- Certain part of the business is non-recurring. The initial rating fees are recognized on assignment but the maintenance fees is generally amortized over the balance period & there is some recurring element to it. But a good chunk of its overall business, say consultancy, advisory, etc. is non-recurring in nature.
- Clear pockets of de-growth. Securitization, Structured Products, IPO Grading, Project Consultancy, etc. are witnessing clear signals of a slowdown & de-growth. The outsourcing from S&P and Moody's to Crisil & ICRA is likely to see a slowdown in the near to medium term following the widespread financial crisis. Crisil's subsidiary Irevna provides research to a number of international financial institutions. This is one of the largest business segments for Crisil is likely to see a deceleration in business.
- Diversification risks. While the diversifications bring about some growth to these companies and at most times also complement the business model, these other businesses are not & probably cannot be as profitable as the rating business. Therefore the overall performance becomes a weighted average of the individual businesses of the company. This also brings about some non-comparability between the key companies in the rating industry.
- Some increase in taxation for Crisil as the STPI benefits to Irevna exhausts in 2010. Although the company is starting a SEZ in Mumbai, we believe it will take some time for the SEZ facility to offset the increased taxation from the present STPI unit.
- The largest & the most important is the risk of Credibility. We have seen organizations like Arthur Andersen going down for loss of credibility, but not a CRA. Importantly there are just a few of them & the key ones command a quasi-government type of authority & weight. But this cannot be taken for granted.
- Conflict of Interest. International CRAs experienced some brunt on this aspect post the Enron trouble. The Indian CRAs have done well in keeping the various businesses separate clearly outlining the methodology & implications of its ratings. However, there still could be some interest conflict. S&P has a WOS S&P India which rates non INR debt & promotes S&P. While there is no apparent conflict, we feel there was a case for work to be outsourced to Crisil.

Crisil Limited

CMP Rs. 2345.0

Initiating Coverage

BUY

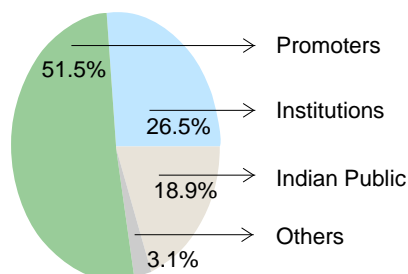
Stock Data

Bloomberg	: CRISIL.IN
Reuters	: CRSL.BO
BSE Code	: 500092
NSE Code	: CRISIL
BSE Group	: B

Stock Codes

Benchmark	: BSE500
52 Week H/L	: 3885.0/1848.15
Float	: 48.5 Mn
Mkt Cap	: Rs. 16,943 Mn
Face Value	: Rs. 10.0

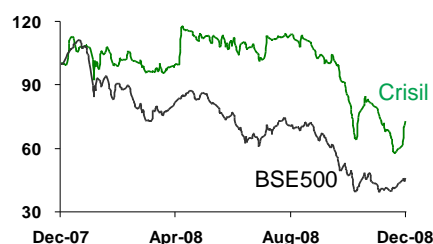
Shareholding Pattern (as on Dec '08)



Stock Returns

	1 Mth	3 Mths	6 Mths
Crisil	-5.97	-29.68	-35.13
BSE500	11.06	-27.74	-39.36

Price Comparison



Jigar Valia - jigar@ppfas.com

Crisil is India's topnotch credit rating agency with an impeccable track record and has a strong parentage in Standard & Poor's. In ratings business, there is a clear financial oligopoly. Over the years company has successfully diversified into related businesses of research & advisory. Management has done well to judiciously & profitably reinvest retained earnings in new business opportunities; expansion of operations, etc. It has demonstrated both organic growth & profitable inorganic acquisitions. Crisil has an edge over competition on account of its premium brand credibility.

In terms of financial performance, Crisil has done extremely well & even better than competition. The company has grown 48% CAGR Topline & 72% CAGR PAT over FY05-CY08E. The business has been conservatively financed & the positives are reflected in the excellent return ratios for shareholders. Crisil generates a return of 20-30% incl. Cash & 50%+ excl. cash & liquid investments for its shareholders.

There are a number of near-term concerns for Crisil, in terms of select pockets of slowdown & most importantly a possible loss of business in Irevna, which now constitutes the largest composition of the overall business. We however perceive, that these concerns are factored in the current subdued pricing to a reasonable extent.

The medium term offers a substantial opportunity for the Indian Credit market, which is likely to bolster the outlook for the CRAs. Apart from the Basel II Bank Loan Rating opportunity, the international liquidity drying up followed by the continuous falling interest rates & lastly the stimulus packages announced will bring in significant consequent benefits for Crisil.

Our advice is to buy quality & monopolistic businesses from a long holding perspective, particularly when these are trading cheap in an aberrant business environment. At under 12 times the scrip is trading at very modest valuations. We recommend BUY.

Summary Financials

Particulars (Rs. Mn.)	FY05	9M CY05	CY06	CY07	CY08E
Total Revenues	1,193.2	1,404.7	2,873.3	4,043.3	5,119.5
OPM (%)	29.0%	27.7%	28.1%	29%	38%
EPS (Rs.)	30.4	37.2	89.8	115.8	202.9
P/E (x)	77.1	63.0	26.1	20.3	11.6
ROCE (%)	28.5%	26.3%	41.4%	40.5%	53.6%
RONW (%)	18.4%	18.6%	32.1%	30.3%	38.4%
Dividend Payout (%)	41.1%	26.9%	16.7%	21.6%	24.6%

CRISIL is India's leading Ratings, Research, Risk and Policy Advisory Company. Management has done well to judiciously & profitably reinvest retained earnings in new business opportunities; expansion of operations, etc. It has demonstrated both organic growth & profitable inorganic acquisitions. Crisil has an edge over competition on account of its premium brand credibility.

CRISIL's majority shareholder is Standard & Poor's, a division of The McGraw-Hill Companies and the world's foremost provider of financial market intelligence. Its 3 key business segments explained :

Ratings

CRISIL Ratings is India's largest rating agency, having rated more than 11,026 debt instruments, of more than Rs.22,51,590 crores, issued by over 5716 companies. CRISIL Ratings has a 70 per cent penetration in the domestic debt market. CRISIL's Global Analytical Centre (GAC) supports S&P's ratings business through credit research support.

Research

CRISIL Research provides business research to over 600 domestic and international clients, including 90 per cent of India's commercial banks. Crisil has more than 17 years of experience in analysing the Indian and global business environment, the largest analytical pool in India, and the largest primary source network. Through its IPO Grading initiative, CRISIL Research has also established a presence in the equity research domain.

Irevna, now a division of CRISIL Limited, pioneered the concept of offshore investment research for the world's leading investment banks and financial institutions. Irevna is the most experienced and diversified provider of analytical services to the financial services industry, supporting Equity Research, Equity Strategy, Credit Research, Securitisation Research, and Derivatives IT and Structuring. Irevna has been voted the leader in high-end investment research and analytics outsourcing, for the second year in a row, by the US-based Brown & Wilson Group.

CRISIL FundServices is the leading provider of fund research, rankings, and ratings to India's mutual funds industry.

Advisory

WoS CRISIL Risk and Infrastructure Solutions Limited (CRIS) is engaged in the areas of infrastructure policy and transaction advisory services; integrated risk management services and consulting to banks and corporates, through its divisions CRISIL Infrastructure Advisory and CRISIL Risk Solutions.

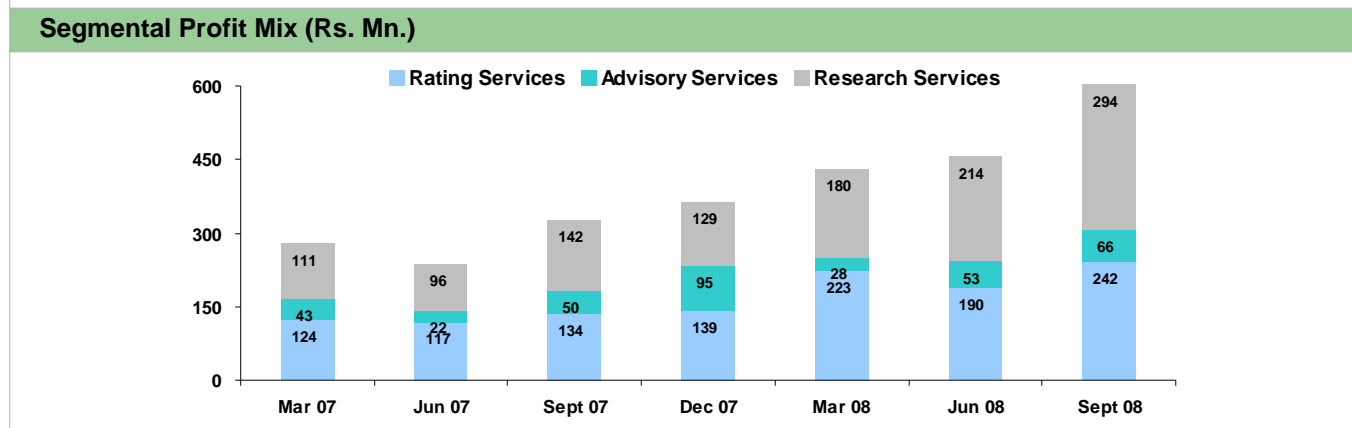
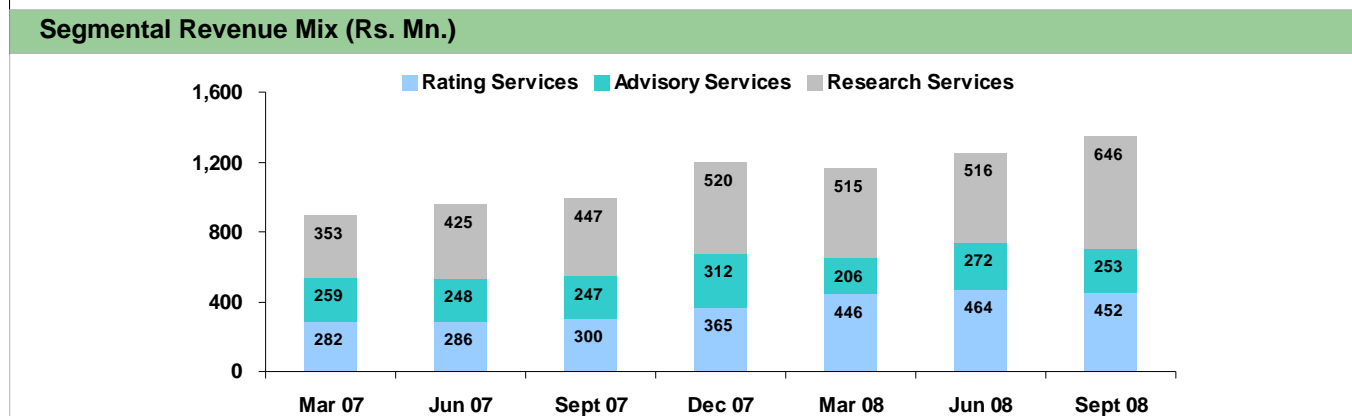
Particulars (Rs. Mn.)	Nos of Emp (x)	Revenues	Rev/Emp	EBIT	EBIT/EMP
Rating Services	800.0	1,300.8	1.6	550.5	0.7
Advisory Services	100.0	1,067.0	10.7	209.4	2.1
Research Services	850.0	1,675.6	2.0	441.6	0.5
Total	1,750.0	4,043.3	2.3	1,201.5	0.7

This apart Crisil has a 49% stake in India Index Services and Products Limited (JV) in alignment with Parent S&P's interest in Index business. Besides it has made some minority investments into NCDEX & The Caribbean Information & Credit Rating Services Limited (CariCRIS). There could some consolidation/value-unlocking happening in these in future.

In terms of financial performance, Crisil has done extremely well & even better than competition. The company has grown 48% CAGR Topline & 72% CAGR PAT over FY05-CY08E. The business has been conservatively financed & the positives are reflected in the excellent return ratios for shareholders. Crisil generates a return of 20-30% incl. Cash & 50%+ excl. cash & liquid investments for its shareholders.

Earnings Statement								
YE March (Rs. Mn.)	Sept 08	Jun 08	Q-Q(%)	Sept 07	Y-Y(%)	9MCY08	9MCY07	Y-Y(%)
Net Revenues	1,350.4	1,251.3	7.91%	993.2	35.95%	3,769.1	2,846.1	32.43%
Total Expenditure	782.0	851.4	-8.14%	688.8	13.54%	2,384.7	2,030.1	17.46%
Operating Profit	568.3	400.0	42.10%	304.4	86.68%	1,384.4	815.9	69.68%
Other Income	56.2	71.8	-21.73%	64.3	-12.63%	160.1	87.9	82.22%
EBITDA	624.5	471.7	32.38%	368.7	69.36%	1,544.5	903.8	70.90%
Depreciation	38.1	29.9	27.52%	29.0	31.57%	99.3	124.7	-20.38%
EBIT	586.4	441.9	32.71%	339.8	72.58%	1,445.2	779.1	85.51%
Interest	0.0	0.0	0.00%	0.0	0.00%	0.0	0.0	0.00%
PBT	586.4	441.9	32.71%	339.8	72.58%	1,445.2	779.1	85.51%
Tax	163.2	86.4	88.86%	70.7	130.88%	351.8	167.9	109.48%
PAT before MI	423.2	355.5	19.06%	269.1	57.27%	1,093.5	611.1	78.92%
Minority Interest	0.0	0.0		0.0		0.0	0.0	
PAT after MI	423.2	355.5	19.06%	269.1	57.27%	1,093.5	611.1	78.92%
Equity Capital	72.3	72.3	0.00%	72.3	0.00%	72.3	72.3	0.00%
EPS	58.58	49.20	19.07%	37.32	56.97%	151.35	86.39	75.19%

Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Sept 08	Jun 08	Q-Q(bps)	Sept 07	Y-Y(bps)	9MCY08	9MCY07	Y-Y(bps)
OPM (%)	42.09%	31.96%	1,012.4	30.65%	1,143.6	36.73%	28.67%	806.3
EBITDA (%)	46.25%	37.70%	854.8	37.13%	912.2	40.98%	31.76%	922.3
EBIT (%)	43.43%	35.31%	811.4	34.21%	921.6	38.34%	27.37%	1,097.1
PAT (%)	31.34%	28.41%	293.4	27.09%	424.7	29.01%	21.47%	753.8



Segment Revenues	FY05	9M CY05	CY06	CY07
Rating Services	597.6	521.4	904.7	1,300.8
Advisory Services	437.7	478.0	893.9	1,067.0
Research Services	157.8	405.4	1,074.7	1,675.6
Total	1,193.2	1,404.7	2,873.3	4,043.3

Y-Y Revenue Growth	9M CY05	CY06	CY07
Rating Services	-12.8%	73.5%	43.8%
Advisory Services	9.2%	87.0%	19.4%
Research Services	156.8%	165.1%	55.9%
Total	17.7%	104.5%	40.7%

Revenue Mix - Geography-wise	FY05	9M CY05	CY06	CY07
India UK	69.4%	53.0%	40.7%	35.0%
UK	22.9%	34.8%	41.4%	44.6%
USA	6.0%	9.7%	15.9%	18.1%
Others	1.7%	2.4%	2.1%	2.3%
Total	100.0%	100.0%	100.0%	100.0%

Segment Revenue Mix	FY05	9M CY05	CY06	CY07
Rating Services	50.1%	37.1%	31.5%	32.2%
Advisory Services	36.7%	34.0%	31.1%	26.4%
Research Services	13.2%	28.9%	37.4%	41.4%
Total	100.0%	100.0%	100.0%	100.0%

Segment Profit Mix	FY05	9M CY05	CY06	CY07
Rating Services	89.9%	67.3%	47.8%	45.8%
Advisory Services	3.0%	8.8%	20.1%	17.4%
Research Services	7.0%	23.9%	32.1%	36.8%
Total	100.0%	100.0%	100.0%	100.0%

Segment Margins	FY05	9M CY05	CY06	CY07
Rating Services	61.2%	50.9%	43.2%	42.3%
Advisory Services	2.8%	7.2%	18.4%	19.6%
Research Services	18.0%	23.2%	24.5%	26.4%
Total	34.1%	28.1%	28.5%	29.7%

Ratings is very high margin and the most profitable segment followed by research. It constituted 32% of revenues and 46% of earnings during CY07. The margins for ratings are coming down on account of the increasing share of outsourcing work from S&P (GAC), which is included in the ratings segment. Also both Advisory & Research businesses have delivered a continual growth in margins as they have been maturing over the years.

Earnings Statement						
Particulars (Rs. Mn.)	FY05	9M CY05	CY06	CY07	CY08E	CY09E
Total Revenues	1,193.2	1,404.7	2,873.3	4,043.3	5,119.5	6,194.6
- Growth (%)		17.7%	104.5%	40.7%	26.6%	21.0%
Total Expenditure	846.8	1,015.8	2,067.2	2,871.7	3,170.8	3,807.8
Operating Profit	346.4	389.0	806.0	1,171.7	1,948.6	2,386.7
- Growth (%)		12.3%	107.2%	45.4%	66.3%	22.5%
Other Income	27.4	21.1	67.0	91.6	216.1	193.9
EBITDA	373.8	410.1	873.1	1,263.3	2,164.7	2,580.6
- Growth (%)		9.7%	112.9%	44.7%	71.4%	19.2%
Depreciation	65.2	54.7	78.5	156.9	137.4	200.2
EBIT	308.7	355.4	794.5	1,106.4	2,027.3	2,380.4
Interest	0.0	0.0	0.0	0.0	0.0	0.0
PBT	308.7	355.4	794.5	1,106.4	2,027.3	2,380.4
Tax	115.2	110.3	187.9	269.7	561.3	714.1
PAT Before EI	193.5	245.1	606.6	836.6	1,466.0	1,666.3
- Growth (%)		26.7%	147.5%	37.9%	75.2%	13.7%
Extraordinary Items	5.0	0.0	7.7	0.0	0.0	0.0
Reported PAT	198.49	245.08	614.31	836.64	1466.00	1666.31

Ratio Analysis						
Particulars	FY05	9M CY05	CY06	CY07	CY08E	CY09E
OPM (%)	29.0%	27.7%	28.1%	29%	38%	39%
EBITDA (%)	31.3%	29.2%	30.4%	31%	42%	42%
PAT (%)	16.2%	17.4%	21.1%	21%	29%	27%
Interest Cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EPS (Rs.)	30.4	37.2	89.8	115.8	202.9	230.6
P/E (x)	77.1	63.0	26.1	20.3	11.6	10.2
P/BV (x)	14.2	11.7	8.4	6.1	4.4	3.4
BVPS (Rs.)	164.9	200.3	279.6	382.6	528.4	696.3
Market Cap (Rs. Mn.)	14,927.1	15,437.1	15,841.5	16,942.6	16,942.6	16,942.6
M Cap/Sales (x)	12.5	11.0	5.5	4.2	3.3	2.7
EV (Rs. Mn.)	14,771.5	15,270.7	15,456.5	16,518.4	16,479.0	16,488.6
EV/EBITDA (x)	39.5	37.2	17.7	13.1	7.6	6.4
EV/Sales (x)	12.4	10.9	5.4	4.1	3.2	2.7
ROCE (%)	28.5%	26.3%	41.4%	40.5%	53.6%	47.6%
RONW (%)	18.4%	18.6%	32.1%	30.3%	38.4%	33.1%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	0.0	0.0
Inventory T/o Days	0.0	0.0	0.0	0.0	0.0	0.0
Debtors T/o Days	68.4	87.6	83.6	79.9	85.0	85.0
Advances T/o Days	22.9	34.1	20.3	36.3	35.0	35.0
Creditors T/o Days	90.5	102.1	87.8	85.4	80.0	80.0
Wrkg Cap T/o Days (Ex.Cash)	(35.0)	(5.5)	(4.8)	(3.6)	7.8	7.8
Fixed Assets T/o (Gross)	1.3	1.2	1.8	2.2	2.2	2.2
DPS (Rs.)	12.5	10.0	15.0	25.0	50.0	55.0
Dividend Payout (%)	41.1%	26.9%	16.7%	21.6%	24.6%	23.8%
Dividend Yield (%)	0.5%	0.4%	0.6%	1.1%	2.1%	2.3%

Balance Sheet						
Particulars (Rs. Mn.)	FY05	9M CY05	CY06	CY07	CY08E	CY09E
Equity Capital	63.7	65.8	67.6	72.3	72.3	72.3
Reserves	986.2	1,252.9	1,821.5	2,692.2	3,745.8	4,958.4
Shareholders Funds	1,049.8	1,318.7	1,889.0	2,764.4	3,818.0	5,030.7
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed Funds	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liability	32.7	33.8	29.7	(32.7)	(32.7)	(32.7)
Total Liabilities	1,082.6	1,352.5	1,918.7	2,731.7	3,785.3	4,997.9
Fixed Assets	513.4	727.8	1,172.4	1,372.3	1,734.9	2,034.7
Investments	529.6	479.7	399.6	975.3	1,475.3	2,375.3
Current Assets						
Inventory	0.0	0.0	0.0	0.0	0.0	0.0
Sundry Debtors	226.9	342.0	667.1	897.4	1,208.8	1,462.6
Loans & Advances	76.0	132.9	162.0	407.2	497.7	602.2
Cash & Bank Balance	155.6	166.4	385.0	424.2	463.6	454.1
Other Current Assets	0.0	0.6	0.7	3.9	5.0	5.0
Current Liabilities						
Liabilities	299.8	398.3	700.4	958.9	1,137.7	1,376.6
Provisions	119.1	98.6	167.7	389.6	462.3	559.4
Net Current Assets	39.5	145.0	346.7	384.2	575.2	588.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	1,082.6	1,352.5	1,918.7	2,731.7	3,785.3	4,997.9

Cash Flow						
Particulars (Rs. Mn.)	FY05	9M CY05	CY06	CY07	CY08E	CY09E
Opening Cash & Bank	96.3	155.6	166.4	385.0	424.2	463.6
Profit After Tax	198.5	245.1	614.3	836.6	1,466.0	1,666.3
Invt Income	(27.4)	(21.1)	(67.0)	(91.6)	(216.1)	(193.9)
Interest Paid	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	65.2	54.7	78.5	156.9	137.4	200.2
Deferred Taxation	(3.2)	1.1	(4.1)	(36.8)	0.0	0.0
Others	25.5	(36.3)	(66.5)	(64.9)	0.0	0.0
Change in Working Cap	(40.9)	(94.7)	16.9	1.7	(151.6)	(22.4)
CF - Operating Activities	217.6	148.8	572.1	802.0	1,235.7	1,650.2
Change in Fixed Assets	(42.6)	(232.8)	(456.6)	(317.5)	(500.0)	(500.0)
Change in Investments	(72.8)	50.0	80.0	(575.6)	(500.0)	(900.0)
Investment Income	27.4	21.1	67.0	91.6	216.1	193.9
CF - Investing Activities	(88.1)	(161.7)	(309.5)	(801.5)	(783.9)	(1,206.1)
Increase in Equity	20.5	98.8	78.0	253.2	0.0	0.0
Changes in Borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Interest Paid	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(90.7)	(75.1)	(121.9)	(214.5)	(412.4)	(453.7)
CF - Financing Activities	(70.2)	23.8	(44.0)	38.8	(412.4)	(453.7)
Net Change in Cash	59.3	10.8	218.6	39.2	39.4	(9.6)
Closing Cash & Bank Bal	155.6	166.4	385.0	424.2	463.6	454.1

ICRA Limited

CMP Rs. 399.0

Initiating Coverage

BUY

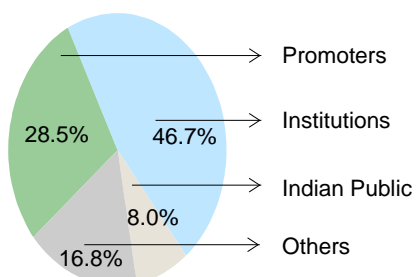
Stock Data

Bloomberg	: ICRA.IN
Reuters	: ICRA.BO
BSE Code	: 532835
NSE Code	: ICRA
BSE Group	: B

Stock Codes

Benchmark	: BSESMCAP
52 Week H/L	: 970.0/320.0
Float	: 71.5 Mn
Mkt Cap	: Rs. 3,990Mn
Face Value	: Rs. 10.0

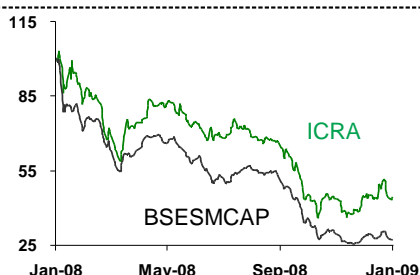
Shareholding Pattern (as on Dec '08)



Stock Returns

	1 Mth	3 Mths	6 Mths
ICRA	0.09	-2.02	-34.74
BSESM	-1.28	-24.48	-47.51

Price Comparison



Jigar Valia - jigar@ppfas.com

ICRA is now an associate of international Credit Rating Agency Moody's Investors Service, which own ~29% in the company. In ratings business, ICRA participates in the clear financial oligopoly. Over the years company has successfully diversified into related businesses of research, information, consulting & software. ICRA has an advantage in terms of its base effect. It is a smaller version of Crisil, where the opportunity from Moody's increasing its stake to a majority still remains pending.

In terms of financial performance, ICRA has done reasonably well. The company has grown 35% CAGR Topline & 45% CAGR PAT over FY05-FY09E. ICRA generates a return of ~15% incl. Cash & 50%+ excl. cash & liquid investments for its shareholders.

There are a number of near-term concerns for ICRA, in terms of select pockets of slowdown & most importantly a relatively higher exposure to ratings, which still constitutes the largest composition of the overall business. We however perceive, that these concerns are factored in the current subdued pricing to a reasonable extent.

The medium term offers a substantial opportunity for the Indian Credit market, which is likely to bolster the outlook for the CRAs. Apart from the Basel II Bank Loan Rating opportunity, the international liquidity drying up followed by the continuous falling interest rates & lastly the stimulus packages announced will bring in significant consequent benefits for ICRA. We perceive that ICRA's strategy to go establish a MoU with PSU banks beforehand will certainly help it in tapping the Basel II Bank Loan Rating opportunity.

Our advice is to buy quality & monopolistic businesses from a long holding perspective, particularly when these are trading cheap in an aberrant business environment. At under 12 times the scrip is trading at very modest valuations. We recommend BUY.

Summary Financials

Particulars (Rs. Mn.)	FY04	FY05	FY06	FY07	FY08
Total Revenues	328.6	371.5	543.2	706.1	994.5
OPM (%)	28.6%	24.4%	31.9%	34.1%	37%
EPS (Rs.)	11.7	9.2	16.2	20.0	28.5
P/E (x)	34.1	43.4	24.7	20.0	14.0
ROCE (%)	18.6%	13.3%	21.2%	18.4%	24.6%
RONW (%)	13.0%	9.6%	15.2%	13.6%	17.4%
Dividend Payout (%)	42.8%	38.1%	24.8%	22.5%	36.0%

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading institutions and financial services companies as an independent and professional Investment Information and Credit Rating Agency. Now, the international credit rating agency Moody's Investors Service is ICRA's largest shareholder with ~29% stake. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. Its key business segments explained :

Ratings

ICRA rates rupee denominated debt instruments and also rates structured obligations and sector-specific debt obligations. The other services offered include Corporate Governance Rating, Stakeholder Value and Governance Rating, Corporate Governance Assessment, Credit Risk Rating of Debt Mutual Funds, Rating of Claims Paying Ability of Insurance Companies, Project Finance Rating, and Line of Credit Rating. ICRA along with NSIC has also launched a Performance and Credit Rating Scheme for Small Scale Enterprises in India.

Grading

The Grading Services offered by ICRA employ concepts and methodologies, and include Grading of: Construction Entities; Real Estate Developers and Projects; Healthcare Entities; Maritime Training Institutes; and Initial Public Offers (IPOs).

Information Services, Research & Publications

ICRA provides sector/industry-specific studies/publications and mandate-based studies (customized research) to intermediaries, financial institutions, banks, asset managers, institutional and individual investors, and others.

Consulting Services

ICRA Management Consulting Services Limited (IMaCS), a wholly owned subsidiary offers Consulting Services in Strategy, Risk Management, Regulatory Economics, Transaction Advisory, and Process Re-engineering to various clients including multi-lateral agencies. Besides India, IMaCS has consulting experience across 35 countries in South East Asia, Northern Asia, West Asia, Africa, Western Europe, and North America.

Software Development

ICRA Techno Analytics Limited (ICTEAS), a subsidiary of ICRA offers services like traditional development of client-server, web-centric and mobile applications and also business analytics. Recently, ICTEAS acquired Kolkata based software services company, Axiom Technologies Pvt Ltd.

Online Software and Knowledge Process Outsourcing

ICRA Online Limited has two SBUs with a list of reputed global and domestic clients:

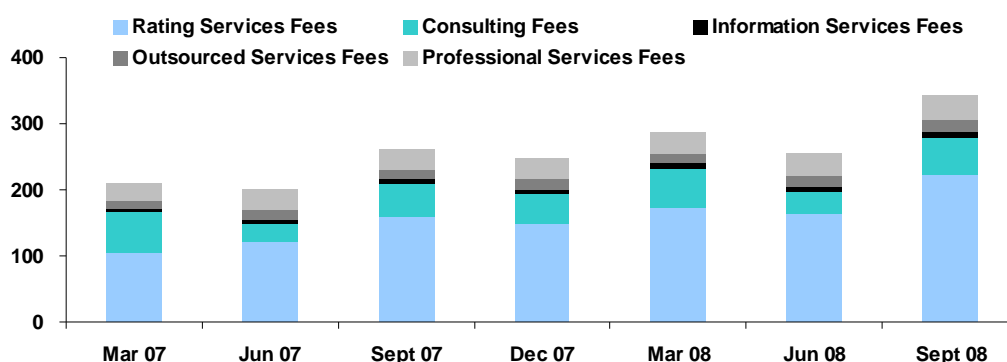
- a) The Information Services and Technology Solutions Division (MFI Division), and
- b) The Knowledge Process Outsourcing Division (KPO Division)

Particulars (Rs. Mn.)	Nos of Emp (x)	Revenues	Rev/Emp	EBIT	EBIT/EMP
ICRA Standalone	140	602.61	4.30	386.35	2.76
Consulting	80	180.53	2.26	20.15	0.25
Outsourcing	100	58.45	0.58	11.00	0.11
MF Research	80	27.33	0.34	(2.21)	(0.03)
IT	160	125.60	0.78	7.58	0.05
Total	560	994.52	1.78	422.87	0.76

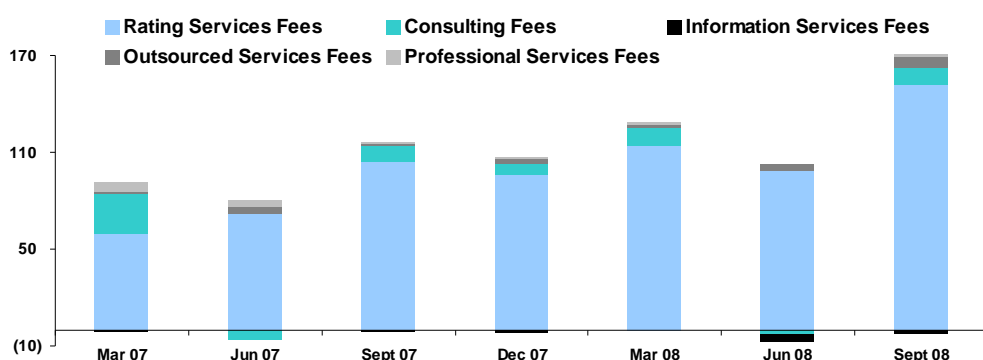
Earnings Statement								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(%)	Q208	Y-Y(%)	H109	H108	Y-Y(%)
Net Revenues	343.3	254.2	35.05%	261.6	31.26%	597.6	460.8	29.68%
Total Expenditure	192.7	176.4	9.29%	162.4	18.67%	369.1	303.8	21.48%
Operating Profit	150.6	77.9	93.38%	99.2	51.87%	228.5	157.0	45.54%
Other Income	10.8	34.3	-68.43%	20.6	-47.52%	45.1	35.7	26.41%
EBITDA	161.4	112.1	43.95%	119.8	34.77%	273.6	192.6	42.00%
Depreciation	9.5	9.3	1.60%	9.2	3.01%	18.8	17.1	9.58%
EBIT	152.0	102.8	47.79%	110.6	37.41%	254.8	175.5	45.17%
Interest	0.1	0.1	0.00%	0.0	0.00%	0.1	0.0	0.00%
PBT	151.9	102.8	47.79%	110.6	37.34%	254.6	175.5	45.10%
Tax	53.6	30.3	76.96%	29.0	84.93%	83.9	50.0	67.88%
PAT before MI	98.2	72.5	35.60%	81.6	20.42%	170.7	125.5	36.02%
Minority Interest	0.0	0.0		0.0		0.0	0.0	
PAT after MI	98.2	72.5	35.60%	81.6	20.42%	170.7	125.5	36.02%
Equity Capital	100.0	100.0	0.00%	100.0	0.00%	100.0	100.0	0.00%
EPS	9.82	7.25	35.45%	8.16	20.34%	17.07	12.55	36.02%

Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(bps)	Q208	Y-Y(bps)	H109	H108	Y-Y(bps)
OPM (%)	43.86%	30.63%	1,323.2	37.91%	595.4	38.23%	34.07%	416.7
EBITDA (%)	47.01%	44.11%	290.9	45.79%	122.5	45.78%	41.80%	397.2
EBIT (%)	44.26%	40.44%	381.7	42.27%	198.1	42.63%	38.08%	454.9
PAT (%)	28.61%	28.50%	11.6	31.19%	(257.6)	28.56%	27.23%	133.1

Segmental Revenue Mix (Rs. Mn.)



Segmental Profit Mix (Rs. Mn.)



Segment Revenues	FY05	FY06	FY07	FY08
Rating Services Fees	256.2	312.9	389.0	602.6
Consulting Fees	95.1	121.3	150.5	180.5
Information Services Fees	20.3	15.6	19.6	27.3
Outsourced Services Fees	0.0	20.8	42.8	58.5
Professional Services Fees	0.0	72.6	104.2	125.6
Total	371.5	543.2	706.1	994.5

Segment Revenue Mix	FY05	FY06	FY07	FY08
Rating Services Fees	68.9%	57.6%	55.1%	60.6%
Consulting Fees	25.6%	22.3%	21.3%	18.2%
Information Services Fees	5.5%	2.9%	2.8%	2.7%
Outsourced Services Fees	0.0%	3.8%	6.1%	5.9%
Professional Services Fees	0.0%	13.4%	14.8%	12.6%

Y-Y Revenue Growth	FY06	FY07	FY08
Rating Services Fees	22.2%	24.3%	54.9%
Consulting Fees	27.6%	24.0%	20.0%
Information Services Fees	-23.2%	26.1%	39.1%

Segment Profits	FY05	FY06	FY07	FY08
Rating Services Fees	162.3	186.9	239.7	386.4
Consulting Fees	5.7	22.2	35.8	20.2
Information Services Fees	(25.3)	(11.4)	(4.7)	(2.2)
Outsourced Services Fees	0.0	4.4	12.9	11.0
Professional Services Fees	0.0	8.7	15.2	7.6
Total	142.7	210.9	298.9	422.9

Segment Profit Mix	FY05	FY06	FY07	FY08
Rating Services Fees	113.7%	88.6%	80.2%	91.4%
Consulting Fees	4.0%	10.5%	12.0%	4.8%
Information Services Fees	-17.7%	-5.4%	-1.6%	-0.5%
Outsourced Services Fees	0.0%	2.1%	4.3%	2.6%
Professional Services Fees	0.0%	4.1%	5.1%	1.8%

Segment Margins	FY05	FY06	FY07	FY08
Rating Services Fees	63.4%	59.7%	61.6%	64.1%
Consulting Fees	6.0%	18.3%	23.8%	11.2%
Information Services Fees	-124.8%	-72.9%	-24.0%	-8.1%
Outsourced Services Fees	n.a.	21.3%	30.0%	18.8%
Professional Services Fees	n.a.	12.0%	14.6%	6.0%
Total	38.4%	38.8%	42.3%	42.5%

For ICRA, pure Ratings constitute ~60% of revenues & over 90% of profits. On paper Crisil's margins for ratings are blended & lower as it also includes GAC's business within ratings, whereas ICRA shows Outsourcing Services separately. However, the other businesses of ICRA are at an early life-cycle stage and are earning relatively lower margins. We feel that this is where, Crisil makes up & outperforms ICRA in the overall return ratios.

Earnings Statement							
Particulars (Rs. Mn.)	FY04	FY05	FY06	FY07	FY08	FY09 E	FY10 E
Total Revenues	328.6	371.5	543.2	706.1	994.5	1,158.1	1,389.7
- Growth (%)		13.1%	46.2%	30.0%	40.9%	16.4%	20.0%
Total Expenditure	234.7	281.1	370.0	465.0	631.1	686.9	835.3
Operating Profit	93.9	90.5	173.2	241.0	363.4	471.2	554.4
- Growth (%)		-3.7%	91.4%	39.2%	50.8%	29.7%	17.7%
Other Income	68.1	36.5	49.9	60.0	78.8	65.1	74.8
EBITDA	162.0	127.0	223.1	301.1	442.2	536.2	629.2
- Growth (%)		-21.7%	75.7%	34.9%	46.9%	21.3%	17.3%
Depreciation	13.7	14.3	23.2	28.9	38.0	38.8	46.5
EBIT	148.3	112.7	199.9	272.2	404.2	497.5	582.7
Interest	0.0	0.0	1.4	0.5	0.0	0.3	0.4
PBT	148.3	112.7	198.6	271.7	404.1	497.1	582.3
Tax	45.3	31.7	56.3	71.8	119.0	166.4	198.0
PAT Before MI	103.0	81.0	142.3	199.9	285.1	330.7	384.3
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PAT Before EI	103.0	81.0	142.3	199.9	285.1	330.7	384.3
- Growth (%)		-21.4%	75.7%	40.5%	42.6%	16.0%	16.2%
Extraordinary Items	(0.6)	0.4	(0.7)	(0.1)	(0.3)	0.0	0.0
Reported PAT	102.37	81.36	141.60	199.86	284.77	330.73	384.30

Ratio Analysis							
Particulars	FY04	FY05	FY06	FY07	FY08	FY09 E	FY10 E
OPM (%)	28.6%	24.4%	31.9%	34.1%	37%	41%	40%
EBITDA (%)	49.3%	34.2%	41.1%	42.6%	44%	46%	45%
PAT (%)	31.3%	21.8%	26.2%	28.3%	29%	29%	28%
Interest Cover (x)	n.a.	n.a.	148.0	570.6	44,906.4	1,471.8	1,436.6
EPS (Rs.)	11.7	9.2	16.2	20.0	28.5	33.1	38.4
P/E (x)	34.1	43.4	24.7	20.0	14.0	12.1	10.4
P/BV (x)	4.4	4.2	3.8	2.7	2.4	2.2	1.9
BVPS (Rs.)	90.3	95.6	106.3	147.4	163.9	183.0	205.2
Market Cap (Rs. Mn.)	3,513.2	3,513.2	3,513.2	3,990.0	3,990.0	3,990.0	3,990.0
M Cap/Sales (x)	10.7	9.5	6.5	5.7	4.0	3.4	2.9
EV (Rs. Mn.)	3,480.7	3,475.5	3,450.6	(24,361.7)	3,734.6	3,720.2	3,722.6
EV/EBITDA (x)	21.5	27.4	15.5	(80.9)	8.4	6.9	5.9
EV/Sales (x)	10.6	9.4	6.4	(34.5)	3.8	3.2	2.7
ROCE (%)	18.6%	13.3%	21.2%	18.4%	24.6%	27.1%	28.4%
RONW (%)	13.0%	9.6%	15.2%	13.6%	17.4%	18.1%	18.7%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventory T/o Days	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors T/o Days	80.3	97.7	85.8	99.7	78.7	90.0	90.0
Advances T/o Days	65.1	56.0	59.0	212.1	179.1	130.0	130.0
Creditors T/o Days	56.1	53.5	51.3	14,431.2	86.7	50.0	50.0
Wrkg Cap T/o Days (Ex.Cash)	(17.1)	24.1	24.2	(14,193.0)	70.7	112.5	112.2
Fixed Assets T/o (Gross)	1.4	1.3	1.6	1.9	2.5	2.6	2.8
DPS (Rs.)	5.0	3.5	4.0	4.5	10.3	11.9	13.8
Dividend Payout (%)	42.8%	38.1%	24.8%	22.5%	36.0%	36.0%	36.0%
Dividend Yield (%)	1.3%	0.9%	1.0%	1.1%	2.6%	3.0%	3.5%

Balance Sheet						
Particulars (Rs. Mn.)	FY05	FY06	FY07	FY08	FY09 E	FY10 E
Equity Capital	88.1	88.1	100.0	100.0	100.0	100.0
Reserves	753.3	848.2	1,373.9	1,538.6	1,730.0	1,952.4
Shareholders Funds	841.4	936.2	1,473.9	1,638.6	1,830.0	2,052.4
Minority Interest	0.0	0.1	0.0	0.0	0.0	0.0
Borrowed Funds	0.0	0.6	0.3	0.0	0.0	0.0
Deferred Tax Liability	3.9	6.5	7.4	2.8	2.8	2.8
Total Liabilities	845.2	943.4	1,481.6	1,641.3	1,832.8	2,055.2
Fixed Assets	185.6	198.8	229.1	237.2	247.8	251.2
Goodwill On Consolidation	0.0	51.4	51.5	51.5	51.5	51.5
Investments	596.6	589.6	685.7	901.9	901.9	1,051.9
Current Assets						
Inventory	0.0	0.0	0.0	0.0	0.0	0.0
Sundry Debtors	100.8	129.5	195.6	217.4	289.5	347.4
Loans & Advances	57.8	89.0	415.9	494.8	418.2	501.8
Cash & Bank Balance	37.7	63.3	28,352.0	255.4	269.8	267.4
Other Current Assets	2.3	2.5	2.6	5.5	5.0	5.0
Current Liabilities						
Liabilities	55.3	77.3	28,304.2	239.4	160.8	193.0
Provisions	80.8	107.1	146.9	282.9	190.1	228.1
Net Current Assets	62.6	99.9	515.1	450.8	631.6	700.6
Miscellaneous Exp W/Off	0.4	3.6	0.2	0.0	0.0	0.0
Total Assets	845.2	943.4	1,481.6	1,641.3	1,832.8	2,055.2

Cash Flow						
Particulars (Rs. Mn.)	FY05	FY06	FY07	FY08	FY09 E	FY10 E
Opening Cash & Bank	32.5	37.7	63.3	28,352.0	255.4	269.8
Profit After Tax	81.4	141.6	199.9	284.8	330.7	384.3
Invt Income	(36.5)	(49.9)	(60.0)	(78.8)	(65.1)	(74.8)
Interest Paid	0.0	1.4	0.5	0.0	0.3	0.4
Miscellaneous Exp W/Off	0.1	(3.2)	3.4	0.2	0.0	0.0
Depreciation	14.3	23.2	28.9	38.0	38.8	46.5
Deferred Taxation	0.3	2.6	1.0	(4.7)	0.0	0.0
Others	(2.6)	7.0	(24.2)	(7.2)	0.0	0.0
Change in Working Cap	(40.5)	(11.7)	27,873.5	(28,032.4)	(166.4)	(71.4)
CF - Operating Activities	16.4	110.9	28,022.9	(27,800.0)	138.4	285.1
Change in Fixed Assets	(59.8)	(43.4)	(35.0)	(39.0)	(49.4)	(50.0)
Change in Goodwill	0.0	(51.4)	(0.1)	0.0	0.0	0.0
Change in Investments	47.3	7.1	(96.1)	(216.1)	0.0	(150.0)
Investment Income	36.5	49.9	60.0	78.8	65.1	74.8
CF - Investing Activities	23.9	(37.9)	(71.2)	(176.3)	15.7	(125.2)
Increase in Equity	0.0	(6.6)	390.4	(0.0)	0.0	0.0
Changes in Borrowings	0.0	0.6	(0.3)	(0.3)	0.0	0.0
Interest Paid	0.0	(1.4)	(0.5)	(0.0)	(0.3)	(0.4)
Dividend Paid	(35.1)	(40.2)	(52.6)	(120.1)	(139.3)	(161.9)
CF - Financing Activities	(35.1)	(47.5)	337.0	(120.4)	(139.6)	(162.3)
Net Change in Cash	5.2	25.6	28,288.7	(28,096.7)	14.4	(2.4)
Closing Cash & Bank Bal	37.7	63.3	28,352.0	255.4	269.8	267.4

Standard & Poor's Corporation (Part of The McGraw Hill Corporation, Inc.)

Face Value	CMP	Year End	Exchange	Ticker
\$1	\$22.15	December	NYSE	MHP

Introduction

Standard & Poor's is a leading provider of financial market intelligence. Many investors know S&P for its respected role as an independent provider of credit ratings and as the home of the S&P 500 benchmark index. But Standard & Poor's global organization also:

- Provides a wide array of financial data and information,
- Is the largest source of independent equity research and a leader in
- mutual fund information and analysis

S&P employs approximately 8,500 employees located in 23 countries and markets.

History

Standard & Poor's traces its origins to the publication, in 1860, of Henry Varnum Poor's "History of Railroads and Canals in the United States", a precursor of modern stock reporting and analysis.

In 1906, the Standard Statistics Bureau was formed to provide previously unavailable financial information on U.S. companies and started the ratings businesses thereafter in 1916. In 1941, Poor's Publishing and Standard Statistics merged to form the Standard & Poor's Corporation. In 1966, The McGraw-Hill Companies, Inc. acquired Standard & Poor's. S&P acquired a majority stake in Crisil in 2005, in which it now owns 51.5%.

Business

Key business services for S&P include Ratings, Indices, Equity Research, Risk Solutions and Data Services. **S&P is an unlisted entity & there is no specific public financial information available. However, its parent The McGraw-Hill Companies, Inc. is a listed entity. Divisional breakup of McGraw Hill provides the financial statistics for S&P business.**

Revenue Mix - \$ Mn.	CY04	CY05	CY06	CY07
S&P	2,055.0	2,401.0	2,746.0	3,046.0
Total McGraw Hill	5,251.0	6,004.0	6,255.0	6,772.0
S&P as % of Total	39.14%	39.99%	43.90%	44.98%
Profit Mix - \$ Mn.	CY04	CY05	CY06	CY07
S&P	839.0	1,019.0	1,202.0	1,359.0
Total McGraw Hill	1,298.0	1,490.0	1,581.0	1,822.0
S&P as % of Total	64.64%	68.39%	76.03%	74.59%

Overview

The McGraw-Hill Companies is driving the financial services, education and business information markets through leading brands such as Standard & Poor's, BusinessWeek and McGraw-Hill Education.

The book departments of the two publishing companies, namely "The McGraw Publishing Company" founded by James H. McGraw & "The Hill Publishing Company" founded by John A. Hill merged to form the McGraw-Hill Book Company in 1909. Over the next many decades, the company expanded organically, inorganically & geographically, especially in the area of education publishing. The acquisition of Standard & Poor's in 1966 is a landmark event for McGraw Hill. The group has capitalized of the high growth prospects in the field of financial services, education & business information and has established various sub-brands like McGraw Hill Education, Standard & Poor's, Business Week, Plats, McGraw Hill Construction, Aviation Week, McGraw Hill Broadcasting & JD Power. Its Broadcasting Group operates 4 ABC affiliated television stations and 5 Spanish language stations affiliated with Azteca America.

SEG: School Education Group

HPI: Higher Education, Professional & International Group

CMS: Credit Market Services

IS: Investment Services

B2B: Business to Business Group
(Automotive, Aerospace, Defense, Construction & Energy)

Revenue Mix - \$ Mn.	CY04	CY05	CY06	CY07
McGraw Hill Education				
- SEG	1,279.0	1,515.0	1,327.0	1,417.0
- HPI	1,117.0	1,157.0	1,197.0	1,289.0
SubTotal	2,396.0	2,672.0	2,524.0	2,706.0
Financial Services (S&P)				
- CMS	1,487.5	1,738.0	2,074.0	2,264.0
- IS	567.5	663.0	672.0	782.0
SubTotal	2,055.0	2,401.0	2,746.0	3,046.0
Information & Media				
- B2B	686.0	819.0	864.0	917.0
- Broadcasting	114.0	112.0	121.0	103.0
SubTotal	800.0	931.0	985.0	1,020.0
Total	5,251.0	6,004.0	6,255.0	6,772.0

Revenue Mix - %	CY04	CY05	CY06	CY07
McGraw Hill Education				
- SEG	24.4%	25.2%	21.2%	20.9%
- HPI	21.3%	19.3%	19.1%	19.0%
SubTotal	45.6%	44.5%	40.4%	40.0%
Financial Services (S&P)				
- CMS	28.3%	28.9%	33.2%	33.4%
- IS	10.8%	11.0%	10.7%	11.5%
SubTotal	39.1%	40.0%	43.9%	45.0%
Information & Media				
- B2B	13.1%	13.6%	13.8%	13.5%
- Broadcasting	2.2%	1.9%	1.9%	1.5%
SubTotal	15.2%	15.5%	15.7%	15.1%
Total	100.0%	100.0%	100.0%	100.0%

Profit Mix - \$ Mn.	CY04	CY05	CY06	CY07
McGraw Hill Education	340.0	410.0	329.0	400.0
Financial Services (S&P)	839.0	1,019.0	1,202.0	1,359.0
Information & Media	119.0	61.0	50.0	63.0
Total	1,298.0	1,490.0	1,581.0	1,822.0

Profit Mix - %	CY04	CY05	CY06	CY07
McGraw Hill Education	26.2%	27.5%	20.8%	22.0%
Financial Services (S&P)	64.6%	68.4%	76.0%	74.6%
Information & Media	9.2%	4.1%	3.2%	3.5%
Total	100.0%	100.0%	100.0%	100.0%

Profit Margin - %	CY04	CY05	CY06	CY07
McGraw Hill Education	14.2%	15.3%	13.0%	14.8%
Financial Services (S&P)	40.8%	42.4%	43.8%	44.6%
Information & Media	14.9%	6.6%	5.1%	6.2%
Total	24.7%	24.8%	25.3%	26.9%

Revenue Y-Y Growth	CY05	CY06	CY07
McGraw Hill Education			
- <i>SEG</i>	18.5%	-12.4%	6.8%
- <i>HPI</i>	3.6%	3.5%	7.7%
SubTotal	11.5%	-5.5%	7.2%
Financial Services (S&P)			
- <i>CMS</i>	16.8%	19.3%	9.2%
- <i>IS</i>	16.8%	1.4%	16.4%
SubTotal	16.8%	14.4%	10.9%
Information & Media			
- <i>B2B</i>	19.4%	5.5%	6.1%
- <i>Broadcasting</i>	-1.8%	8.0%	-14.9%
SubTotal	16.4%	5.8%	3.6%
Total	14.3%	4.2%	8.3%

Profit Y-Y Growth	CY05	CY06	CY07
McGraw Hill Education	20.6%	-19.8%	21.6%
Financial Services (S&P)	21.5%	18.0%	13.1%
Information & Media	-48.7%	-18.0%	26.0%
Total	14.8%	6.1%	15.2%

Even here, Financial Services is the most profitable business followed by Education. It constitutes ~45% of sales & almost 75% of profits. Also it has delivered better growth in the past 3 years. Sure the Financial Services business is facing turbulent times, but its importance in the overall MHP business can certainly not be undermined.

We believe there is a reasonable case for Crisil to follow its parent S&P for its growth perspective. However we also perceive that, the connection will be limited to S&P and will not go the McGraw Hill, which is already present in India through its tie up with Tata Group.

Earnings Statement				
Particulars (Mn. \$)	CY05	CY06	CY07	CY08E
Total Revenues	6,003.6	6,255.1	6,772.3	6,542.8
- Growth (%)	14.3%	4.2%	8.3%	-3.4%
Total Expenditure	4,488.7	4,674.6	4,965.5	5,145.5
Operating Profit	1,514.9	1,580.6	1,806.8	1,397.3
- Growth (%)	16.6%	4.3%	14.3%	-22.7%
Other Income	1.2	0.0	17.3	353.4
EBITDA	1,516.1	1,580.6	1,824.1	1,750.8
- Growth (%)	16.7%	4.2%	15.4%	-4.0%
Depreciation	151.0	161.6	161.0	318.8
EBIT	1,365.2	1,419.0	1,663.1	1,432.0
Interest	5.2	13.6	40.6	116.3
PBT	1,360.0	1,405.4	1,622.5	1,315.7
Tax	515.7	522.6	609.0	497.0
PAT Before EI	844.3	882.8	1,013.6	818.7
- Growth (%)	11.6%	4.6%	14.8%	-19.2%
Extraordinary Items				
Reported PAT	844.31	882.77	1013.56	818.67

Ratio Analysis				
Particulars (Mn. \$)	CY05	CY06	CY07	CY08E
OPM (%)	25.2%	25.3%	26.7%	21%
EBITDA (%)	25.3%	25.3%	26.9%	27%
PAT (%)	14.1%	14.1%	15.0%	13%
Interest Cover (x)	262.4	104.1	41.0	12.3
EPS (Rs.)	2.1	2.1	2.5	2.0
P/E (x)	10.8	10.3	9.0	11.1
P/BV (x)	2.9	3.4	5.7	4.4
BVPS (\$)	7.6	6.5	3.9	5.0
Market Cap (Mn.\$)	9,119.4	9,119.4	9,119.4	9,119.4
M Cap/Sales (x)	1.5	1.5	1.3	1.4
EV (Rs. Mn.)	9,428.4	9,661.1	10,817.1	10,651.9
EV/EBITDA (x)	6.2	6.1	5.9	6.1
EV/Sales (x)	1.6	1.5	1.6	1.6
ROCE (%)	35.0%	42.2%	47.4%	34.8%
RONW (%)	27.1%	32.9%	63.1%	39.7%
Debt/Equity Ratio (x)	0.3	0.3	1.3	1.0
Inventory T/o Days	20.1	18.5	18.6	19.0
Debtors T/o Days	66.8	71.2	63.2	65.0
Advances T/o Days	6.3	5.8	6.2	7.0
Creditors T/o Days	133.4	142.0	141.2	140.0
WCap T/o Days	(40.2)	(46.5)	(53.2)	(49.0)
Fixed Assets T/o (Gross)	4.6	4.5	4.2	3.1
DPS (\$)	0.7	0.7	0.8	0.9
Dividend Payout (%)	32.2%	33.9%	33.3%	44.3%
Dividend Yield (%)	3.0%	3.3%	3.7%	4.0%

Balance Sheet				
Particulars (Mn. \$)	CY05	CY06	CY07	CY08E
Equity Capital	411.7	411.7	411.7	411.7
Reserves	2,701.4	2,267.9	1,194.9	1,651.3
Shareholders Funds	3,113.1	2,679.6	1,606.7	2,063.0
Minority Interest	0.0	0.0	0.0	0.0
Borrowed Funds	1,057.8	895.3	2,093.8	1,993.8
Deferred Tax Liability	(287.4)	(244.7)	(280.5)	(280.5)
Total Liabilities	3,883.6	3,330.2	3,420.0	3,776.3
Fixed Assets	526.8	542.2	660.8	842.0
PrePublication Costs	454.6	507.8	573.2	573.2
Goodwill	2,352.0	2,324.9	2,336.1	2,336.1
Investments	471.5	410.0	454.2	454.2
Current Assets				
Inventory	335.3	322.2	350.7	345.3
Sundry Debtors	1,114.3	1,237.3	1,189.2	1,181.3
Loans & Advances	105.2	100.3	116.5	127.2
Cash & Bank Balance	748.8	353.5	396.1	461.3
Current Liabilities				
Liabilities	2,224.8	2,468.0	2,656.9	2,544.4
Provisions	0.0	0.0	0.0	0.0
Net Current Assets	78.7	(454.8)	(604.4)	(429.2)
Total Assets	3,883.6	3,330.2	3,420.0	3,776.3

Cash Flow				
Particulars (Mn. \$)	CY05	CY06	CY07	CY08E
Opening Cash & Bank	680.6	748.8	353.5	396.1
Profit After Tax	844.3	882.8	1,013.6	818.7
Invnt Income	(1.2)	0.0	(17.3)	(353.4)
Interest Paid	5.2	13.6	40.6	116.3
Miscellaneous Exp W/Off	0.0	(53.2)	(65.3)	0.0
Depreciation	151.0	161.6	161.0	318.8
Deferred Taxation	0.0	0.0	0.0	0.0
Others	(142.3)	(36.3)	(98.9)	(0.0)
Change in Working Cap	210.5	138.2	192.2	(109.9)
CF - Operating Activities	1,067.5	1,106.7	1,225.8	790.4
Change in Fixed Assets	(502.2)	(71.0)	(227.7)	(500.0)
Change in Investments	48.9	61.6	(44.3)	0.0
Investment Income	1.2	0.0	17.3	353.4
CF - Investing Activities	(452.1)	(9.4)	(254.7)	(146.6)
Increase in Equity	(443.9)	(1,017.4)	(1,748.9)	0.0
Changes in Borrowings	148.0	(162.6)	1,198.6	(100.0)
Interest Paid	(5.2)	(13.6)	(40.6)	(116.3)
Dividend Paid	(246.0)	(298.9)	(337.6)	(362.3)
CF - Financing Activities	(547.2)	(1,492.5)	(928.5)	(578.6)
Net Change in Cash	68.2	(395.3)	42.6	65.2
Closing Cash & Bank Bal	748.8	353.5	396.1	461.3

Moody's Corporation

Face Value	CMP	Year End	Exchange	Ticker
\$0.10	\$23.07	December	NYSE	MCO

Introduction

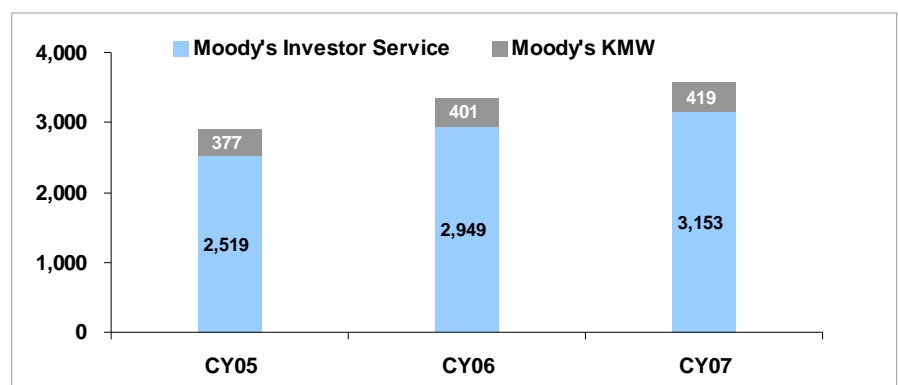
Moody's is a provider of (i) credit ratings and related research, data and analytical tools, (ii) quantitative credit risk measures, risk scoring software and credit portfolio management solutions and (iii) beginning in January 2008, fixed income pricing data and valuation models.

History

Founded in 1900, Moody's employs approximately 3,600 people worldwide & maintains offices in 27 countries. Prior to September 30, 2000, the Company operated as part of The Dun & Bradstreet Corporation. In November 1996, The Dun & Bradstreet Corporation separated into three separate public companies: The Dun & Bradstreet Corporation, ACNielsen Corporation and Cognizant Corporation ("Cognizant"). In June 1998, The Dun & Bradstreet Corporation separated into two separate public companies: Old D&B and R.H. Donnelley Corporation. During 1998, Cognizant separated into two separate public companies: IMS Health Incorporated ("IMS Health") and Nielsen Media Research, Inc. ("NMR"). In September 2000, Old D&B separated into two separate public companies: New D&B and Moody's.

Business

Moody's operates in two reportable segments: Moody's Investors Service and Moody's KMV ("MKMV"). As of December 31, 2007, Moody's had ratings relationships with more than 11,000 corporate issuers and approximately 26,000 public finance issuers. Additionally, the Company has rated more than 110,000 structured finance obligations. MKMV develops and distributes quantitative credit risk assessment products and services, including credit processing and analytical tools for credit portfolio management. MKMW has more than 1,800 clients operating in approximately 85 countries.



Moody's Investors Service is ICRA's largest shareholder with ~29% stake.

Segment Revenues	CY05	CY06	CY07
Moody's Investor Service	1,425.6	1,685.6	1,835.4
Moody's KMW	346.7	397.3	479.1
Eliminations	(40.7)	(45.8)	(55.5)
Total	1,731.6	2,037.1	2,259.0

Segment Revenue Mix	CY05	CY06	CY07
Moody's Investor Service	80.4%	80.9%	79.3%
Moody's KMW	19.6%	19.1%	20.7%

Y-Y Revenue Growth	CY06	CY07
Moody's Investor Service	18.2%	8.9%
Moody's KMW	14.6%	20.6%
Total	17.6%	10.9%

Segment Profits	CY05	CY06	CY07
Moody's Investor Service	855.7	1,002.2	1,010.7
Moody's KMW	83.9	96.7	120.3
Total	939.6	1,098.9	1,131.0

Segment Profit Mix	CY05	CY06	CY07
Moody's Investor Service	91.1%	91.2%	89.4%
Moody's KMW	8.9%	8.8%	10.6%

Segment Margins	CY05	CY06	CY07
Moody's Investor Service	60.0%	59.5%	55.1%
Moody's KMW	24.2%	24.3%	25.1%
Total	54.3%	53.9%	50.1%

People	CY05	CY06	CY07
Moody's Investor Service	2,519	2,949	3,153
Moody's KMW	377	401	419
Total Resource	2,896	3,350	3,572

S&P (\$Mn)	CY07
Credit Market Services	2,264.0
Investment Services	782.0
Total Revenues	3,046.0
Total Profit	1,359.0
Moody's (\$Mn)	CY07
Moody's Investor Service	1,835.4
Moody's KMW	479.1
Total Revenues	2,314.5
Total Profit	1131

Moody is a listed company and ~ a pure play on rating business. In terms of size it is close 2nd to S&P with slightly better margins.

There is certainly an enormous scope for outsourcing from Moody's to ICRA to increase. Crisil (GAC) has ~ 500 people vs. ICRA having ~100 people in Outsourcing services. This may not happen in the near future as Moodys is facing extremely tough in the international financial crisis. Also its stake in ICRA is just 29% vs. 51.5% for S&P in to Crisil. Over the years we expect both Moody's stake in ICRA and Moody's outsourcing to ICRA to increase substantially.

Moody has gone way ahead in its strive for shareholder value creation. It has actually borrowed money and has been buying back its shares from the market. In the interim the company was running on a negative networth; i.e. technically speaking, its ROE is infinite. Moodys is majorly owned by institutions (>85%), with Warren Buffett's Berkshire Hathway being the largest holder at over 20%.

Earnings Statement					Balance Sheet				
Particulars (\$ Mn.)	CY05	CY06	CY07	CY08E	Particulars (\$ Mn.)	CY05	CY06	CY07	CY08E
Total Revenues	1,731.6	2,037.1	2,259.0	1,802.3	Equity Capital	3.4	3.4	3.4	3.4
- Growth (%)	20.4%	17.6%	10.9%	-20.2%	Reserves	306.0	164.0	(787.0)	(869.3)
Total Expenditure	756.8	898.7	1,085.1	913.3	Shareholders Funds	309.4	167.4	(783.6)	(865.9)
Operating Profit	974.8	1,138.4	1,173.9	888.9	Minority Interest	0.0	0.0	0.0	0.0
- Growth (%)	18.8%	16.8%	3.1%	-24.3%	Borrowed Funds	568.9	630.3	1,149.0	1,339.3
Other Income	5.0	3.0	10.0	20.3	Deferred Tax Liability				
EBITDA	979.8	1,141.4	1,183.9	909.2	Total Liabilities	878.3	797.7	365.4	473.4
- Growth (%)	19.3%	16.5%	3.7%	-23.2%	Fixed Assets	55.4	62.0	214.6	242.1
Depreciation	35.2	39.5	42.9	58.5	Goodwill+Intangibles	222.9	241.8	236.8	266.5
EBIT	944.6	1,101.9	1,141.0	850.7	Current Assets				
Interest	9.9	2.0	24.3	48.7	Inventory	0.0	0.0	0.0	0.0
PBT	934.7	1,099.9	1,116.7	802.0	Sundry Debtors	421.8	475.4	443.6	348.7
Tax	373.9	506.6	415.2	310.1	Other Assets	70.7	192.0	274.1	267.9
PAT Before EI	560.8	593.3	701.5	491.9	Cash & Bank Balance	580.5	483.5	441.0	473.7
- Growth (%)	31.9%	5.8%	18.2%	-29.9%	Other Current Assets	105.9	43.0	104.5	123.3
Extraordinary Items	0.0	160.6	0.0	0.0	Current Liabilities				
Reported PAT	560.80	753.90	701.50	491.87	Liabilities	578.9	700.0	1,349.2	1,248.8
					Provisions	0.0	0.0	0.0	0.0
					Net Current Assets	600.0	493.9	(86.0)	(35.2)
					Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0
					Total Assets	878.3	797.7	365.4	473.4
Ratio Analysis					Cash Flow				
Particulars	CY05	CY06	CY07	CY08E	Particulars (\$ Mn.)	CY05	CY06	CY07	CY08E
OPM (%)	56.3%	55.9%	52.0%	49%	Opening Cash & Bank	613.4	580.5	483.5	441.0
EBITDA (%)	56.6%	56.0%	52.4%	50%	Profit After Tax	560.8	753.9	701.5	491.9
PAT (%)	32.4%	29.1%	31.1%	27%	Invnt Income	(5.0)	(3.0)	(10.0)	(20.3)
Interest Cover (x)	95.4	551.0	47.0	17.5	Interest Paid	9.9	2.0	24.3	48.7
EPS (Rs.)	1.8	2.0	2.6	2.0	Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0
P/E (x)	12.6	11.4	9.0	11.6	Depreciation	35.2	39.5	42.9	58.5
P/BV (x)	2.6	4.7	(1.0)	(0.9)	Deferred Taxation	0.0	0.0	0.0	0.0
BVPS (\$)	9.0	4.9	(22.9)	(25.3)	Others	(35.2)	(39.5)	(42.9)	(58.5)
Market Cap (\$ Mn.)	791.1	791.1	791.1	791.1	Change in Working Cap	(341.7)	9.1	537.4	(18.1)
M Cap/Sales (x)	0.5	0.4	0.4	0.4	CF - Operating Activities	224.0	762.0	1,253.2	502.2
EV (Rs. Mn.)	779.5	937.9	1,499.1	1,656.7	Change in Fixed Assets	(10.2)	(6.6)	(152.6)	(27.5)
EV/EBITDA (x)	0.8	0.8	1.3	1.8	Change in Investments	(20.5)	(18.9)	5.0	(29.7)
EV/Sales (x)	0.5	0.5	0.7	0.9	Investment Income	5.0	3.0	10.0	20.3
ROCE (%)	106.4%	137.9%	305.6%	169.4%	CF - Investing Activities	(25.7)	(22.5)	(137.6)	(36.9)
RONW (%)	181.2%	354.4%	-89.5%	-56.8%	Increase in Equity	(560.8)	(886.0)	(1,640.8)	(574.2)
Debt/Equity Ratio (x)	1.8	3.8	(1.5)	(1.5)	Changes in Borrowings	347.6	61.4	518.7	190.3
Inventory T/o Days	0.0	0.0	0.0	0.0	Interest Paid	(9.9)	(2.0)	(24.3)	(48.7)
Debtors T/o Days	87.7	84.0	70.7	69.7	Dividend Paid	(8.1)	(9.9)	(11.7)	0.0
Advances T/o Days	14.7	33.9	43.7	53.5	CF - Financing Activities	(231.2)	(836.5)	(1,158.1)	(432.6)
Creditors T/o Days	120.4	123.7	215.0	249.4	Net Change in Cash	(32.9)	(97.0)	(42.5)	32.7
WCap T/o Days	4.1	1.8	(84.0)	(101.7)	Closing Cash & Bank Bal	580.5	483.5	441.0	473.7
Fixed Assets T/o (Gross)	31.3	32.9	10.5	7.4					
DPS (\$)	0.2	0.3	0.3	0.2					
Dividend Payout (%)	12.8%	14.3%	13.2%	11.8%					
Dividend Yield (%)	1.0%	1.3%	1.5%	1.0%					

F. MARC DE LACHARRIÈRE (FIMALAC) Group

Face Value	CMP	Year End	Exchange	Ticker
€4.40	€24.91	September*	Euronext Paris	FIM

* Earlier December: till CY05

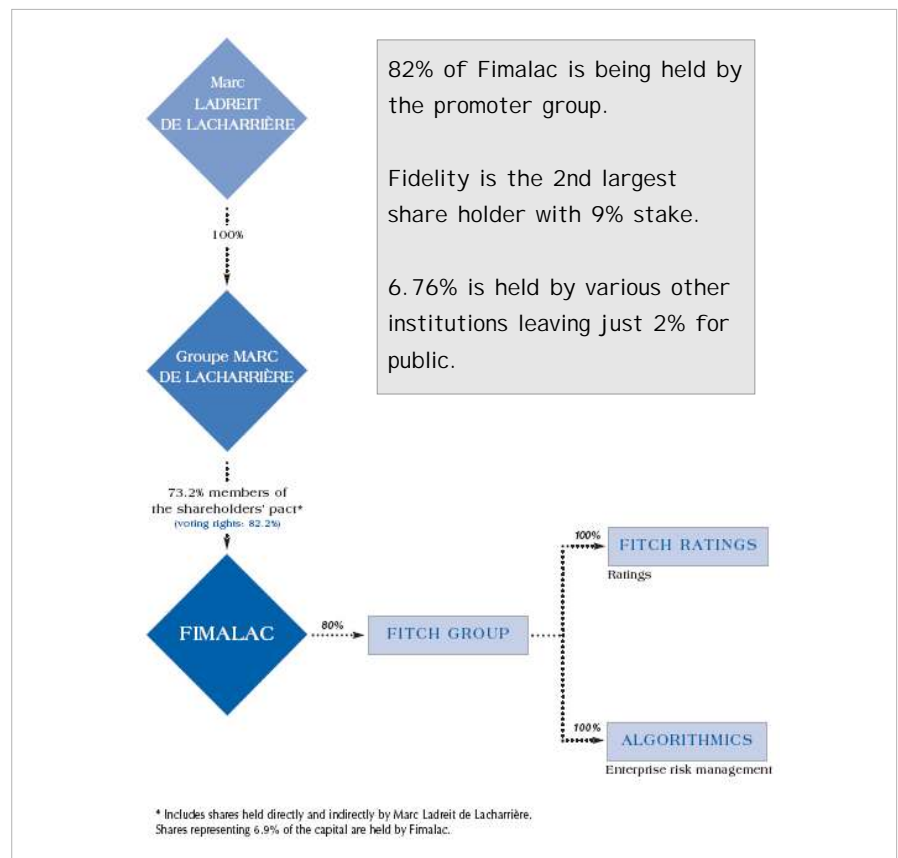
Introduction

Dual headquartered in New York and London, Fitch rates entities in more than 90 countries and has some 2,063 employees in more than 49 local offices worldwide. With the integration of three well-known rating agencies, namely, IBCA, Duff & Phelps and Thomson BankWatch into itself, Fitch has expanded its capabilities, coverage and markets. Fitch was one of the three rating agencies first recognized as a nationally recognized statistical rating organization (NRSRO) by the SEC in 1975.

At September 30, 2006, Fitch Ratings Ltd held 7.96% of Korea Ratings. In 2007 it increased its equity in the company to 53.34%. Established in 1983, Korea Ratings is the leading domestic rating agency in South Korea and is quoted on the Korean stock exchange (the Kosdaq). Based in Seoul, Korea Ratings maintains ratings on over 350 Korean companies and also has a strong presence in the structured finance market. The company generated approximately \$33 million in revenue in calendar 2006.

Fitch India is a 100% subsidiary of the Fitch Group.

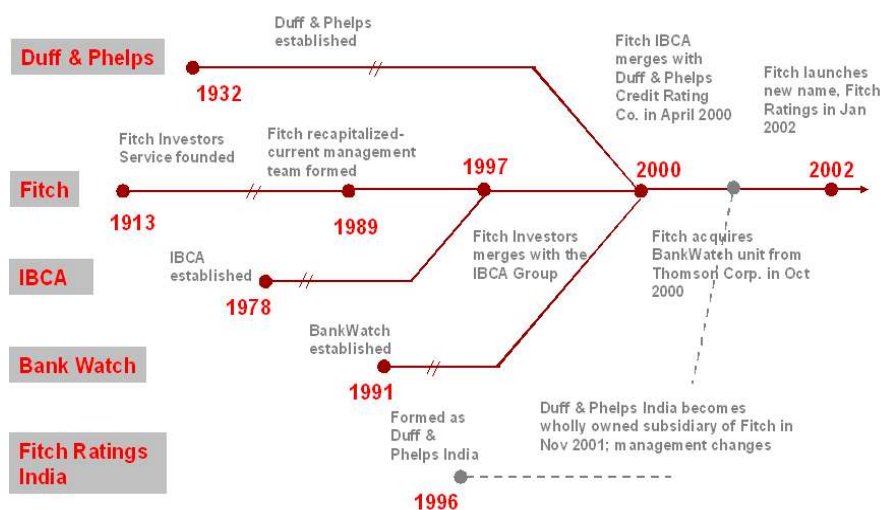
Group Structure



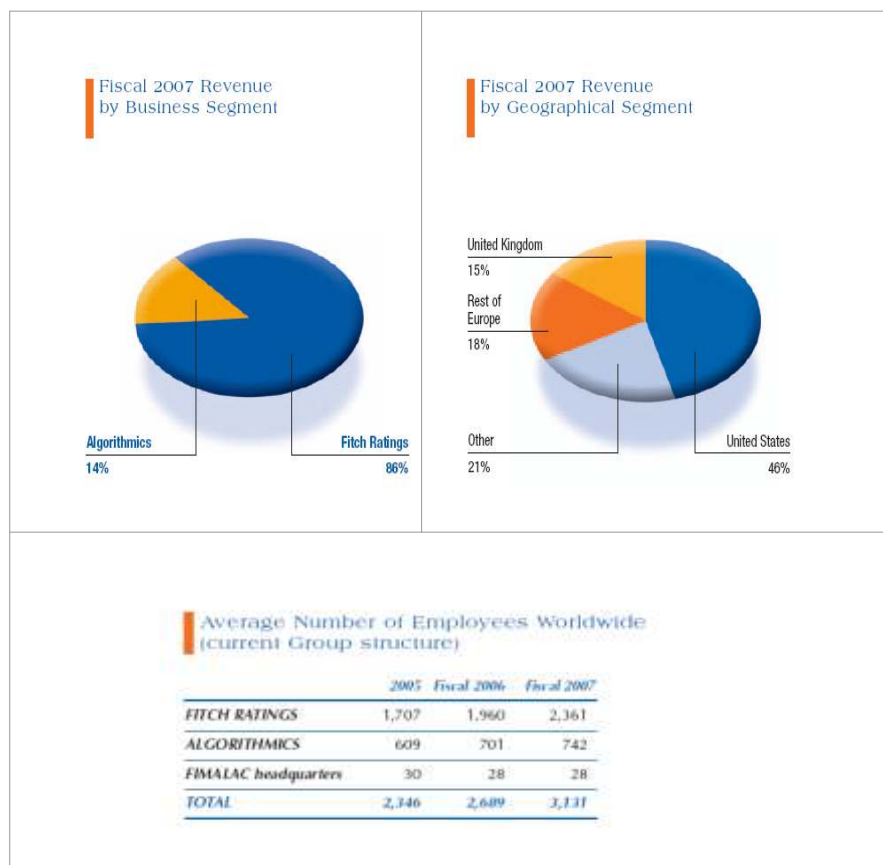
History

Fitch Ratings was founded as the Fitch Publishing Company on December 24, 1913 by John Knowles Fitch in New York. It began as a publisher of financial statistics and soon became popular after the publications of the "Fitch Bond Book" and the "Fitch Stock and Bond Manual". In 1924, Fitch introduced the now familiar "AAA" to "D" ratings scale to meet the growing demand for independent analysis of financial securities.

In 1989, Fitch was recapitalized by a new management team & experienced dramatic growth since then. In 1997, Fitch merged with IBCA Limited, headquartered in London and became a part of Fimalac S.A., a holding company which acquired IBCA in 1992. With the acquisition of Chicago headquartered, Duff & Phelps Credit Rating Co. in April 2000, Fitch leapfrogged into global competition.



Segment Analysis



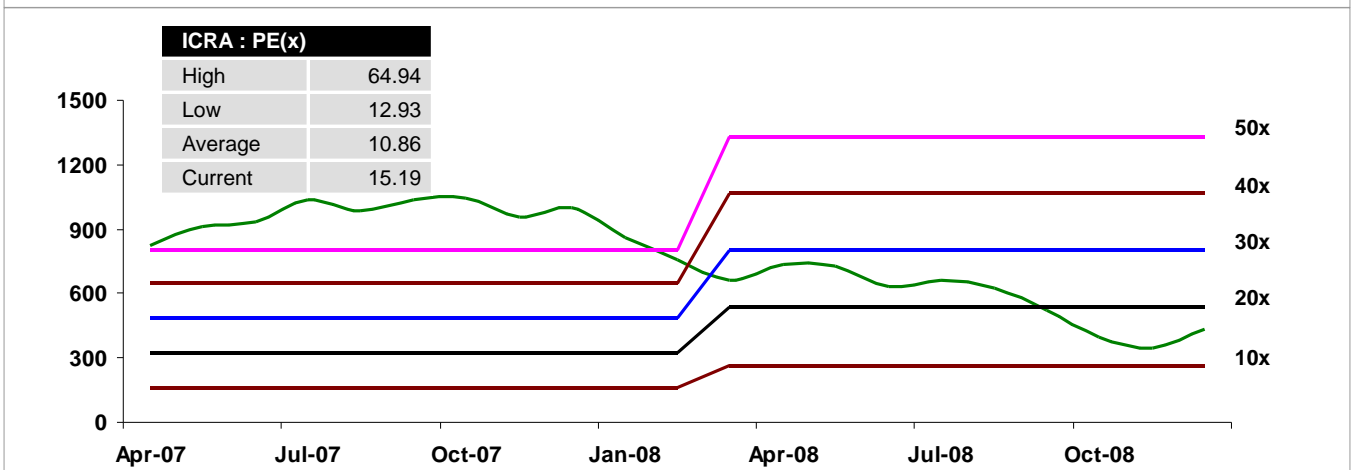
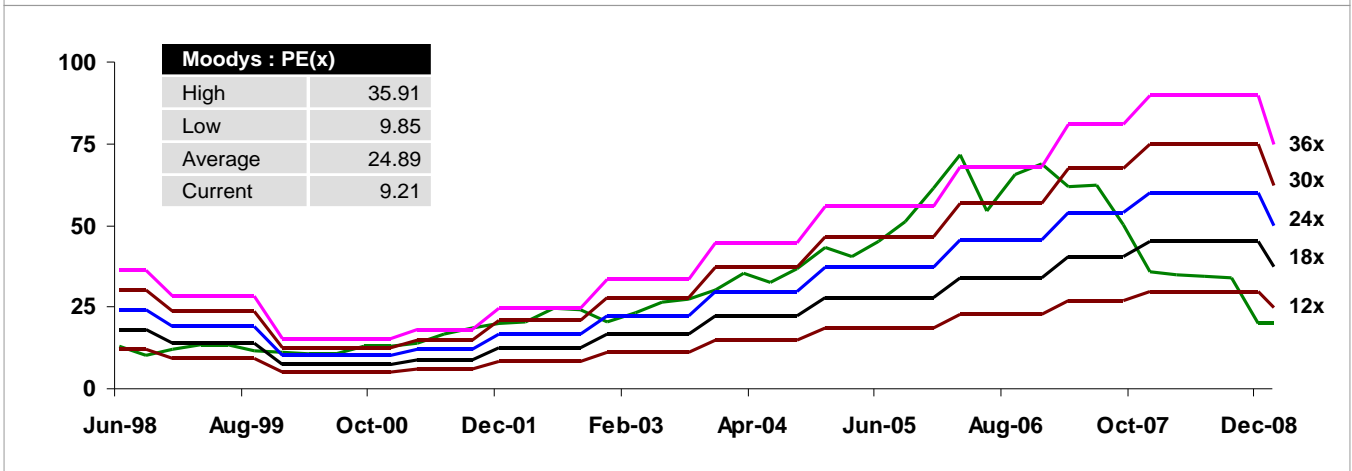
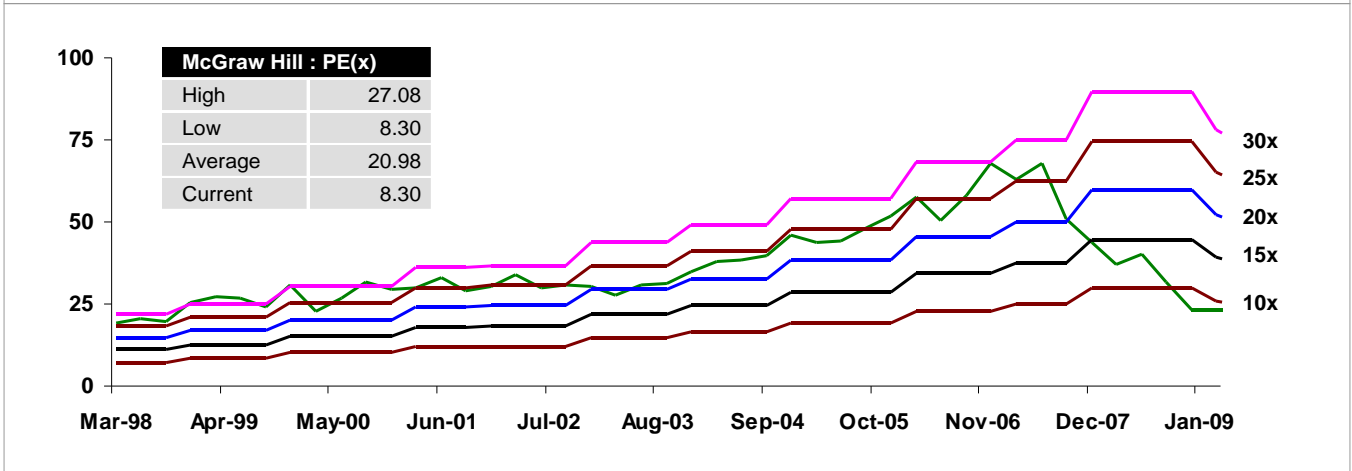
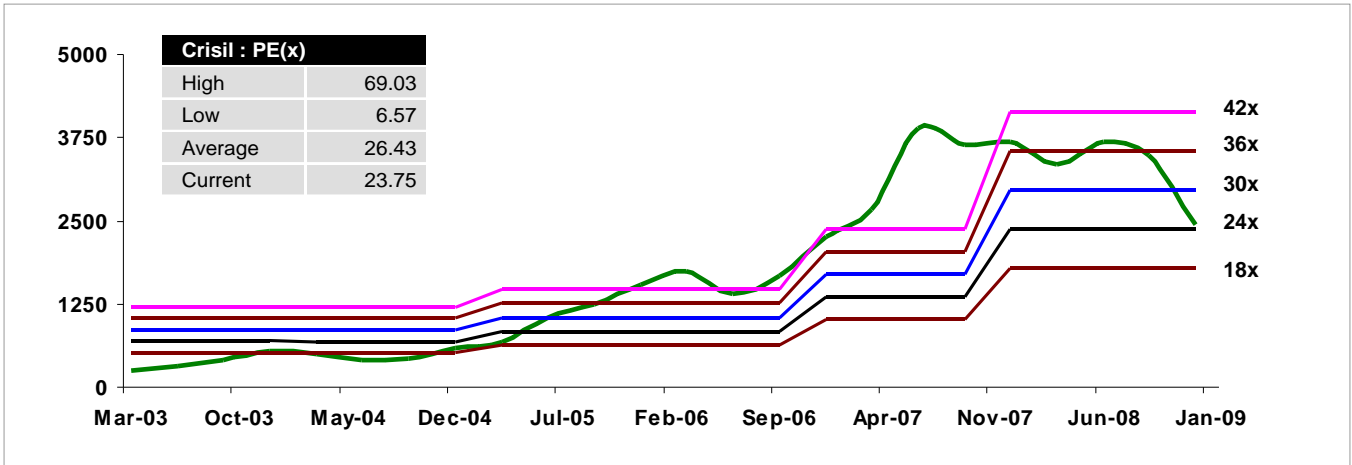
Earnings Statement				
Particulars (Euros Mn.)	Dec 05	Sept 06 (9M)	Sept 07	Sept 08
Total Revenues	557.9	457.4	744.8	586.9
- Growth (%)	35.2%	-18.0%	62.8%	-21.2%
Total Expenditure	426.5	356.9	561.7	404.0
Operating Profit	131.3	100.5	183.1	182.9
- Growth (%)	52.7%	-23.5%	82.3%	-0.1%
Other Income	3.5	9.4	40.1	(35.7)
EBITDA	134.8	109.9	223.2	147.2
- Growth (%)	58.2%	-18.5%	103.1%	-34.1%
Depreciation	24.6	20.6	34.7	30.5
EBIT	110.2	89.3	188.5	116.7
Interest	21.4	9.5	15.4	23.4
PBT	88.8	79.9	173.1	93.3
Tax	40.3	29.1	74.8	62.7
PAT Before EI	48.4	50.7	98.3	30.7
- Growth (%)	-24.3%	4.7%	93.9%	-68.8%
Extraordinary Items	9.4	450.7	0.0	0.0
Reported PAT	57.85	501.43	98.33	30.67

Ratio Analysis				
Particulars (Euros Mn.)	Dec 05	Sept 06 (9M)	Sept 07	Sept 08E
OPM (%)	23.5%	22.0%	24.6%	31%
EBITDA (%)	24.2%	24.0%	30.0%	25%
PAT (%)	8.7%	11.1%	13.2%	5%
Interest Cover (x)	5.1	9.4	12.2	5.0
EPS (Rs.)	1.3	1.5	2.9	0.9
P/E (x)	19.5	16.9	8.7	27.9
P/BV (x)	1.9	1.2	1.3	1.3
BVPS (Rs.)	13.1	21.0	19.1	19.5
Market Cap (Rs. Mn.)	944.0	855.0	855.0	855.0
M Cap/Sales (x)	1.7	1.9	1.1	1.5
EV (Rs. Mn.)	979.6	699.2	769.5	946.9
EV/EBITDA (x)	7.3	6.4	3.4	6.4
EV/Sales (x)	1.8	1.5	1.0	1.6
ROCE (%)	12.9%	8.6%	18.9%	9.1%
RONW (%)	9.7%	7.0%	15.0%	4.6%
Debt/Equity Ratio (x)	0.4	0.2	0.2	0.4
Other CA T/o Days	320.5	143.3	65.8	75.0
Debtors T/o Days	76.6	93.4	57.4	72.0
Advances T/o Days	20.0	29.9	20.6	24.7
Creditors T/o Days	741.4	531.8	426.3	443.8
Wrkg Cap T/o Days	(324.3)	(265.2)	(282.6)	(272.2)
Fixed Assets T/o (Gross)	11.6	9.1	2.1	1.4
DPS (Rs.)	1.3	1.4	1.5	0.5
Dividend Payout (%)	97.9%	94.8%	52.4%	56.0%
Dividend Yield (%)	5.0%	5.6%	6.0%	2.0%

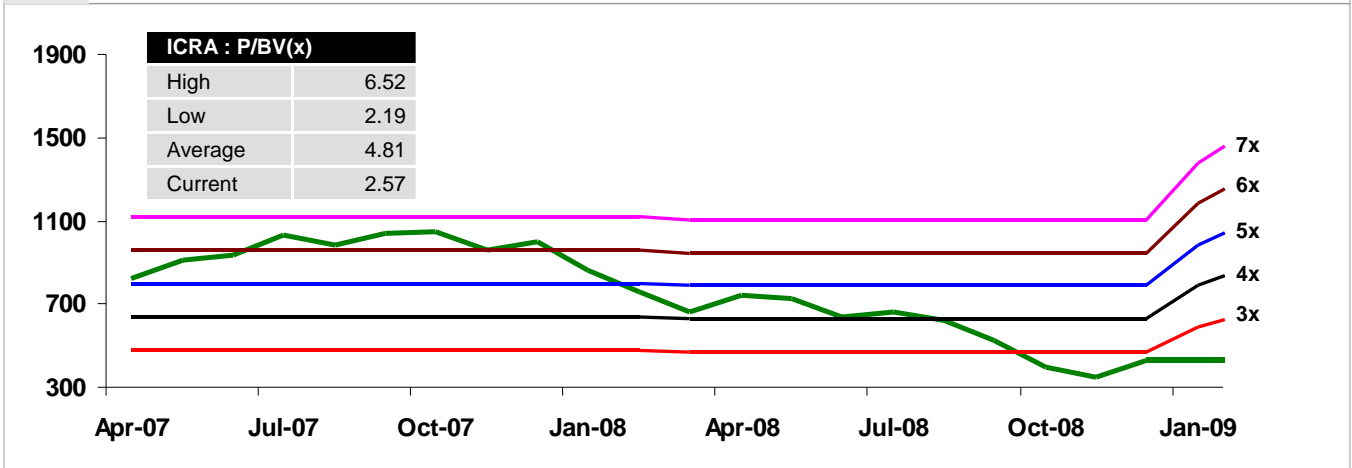
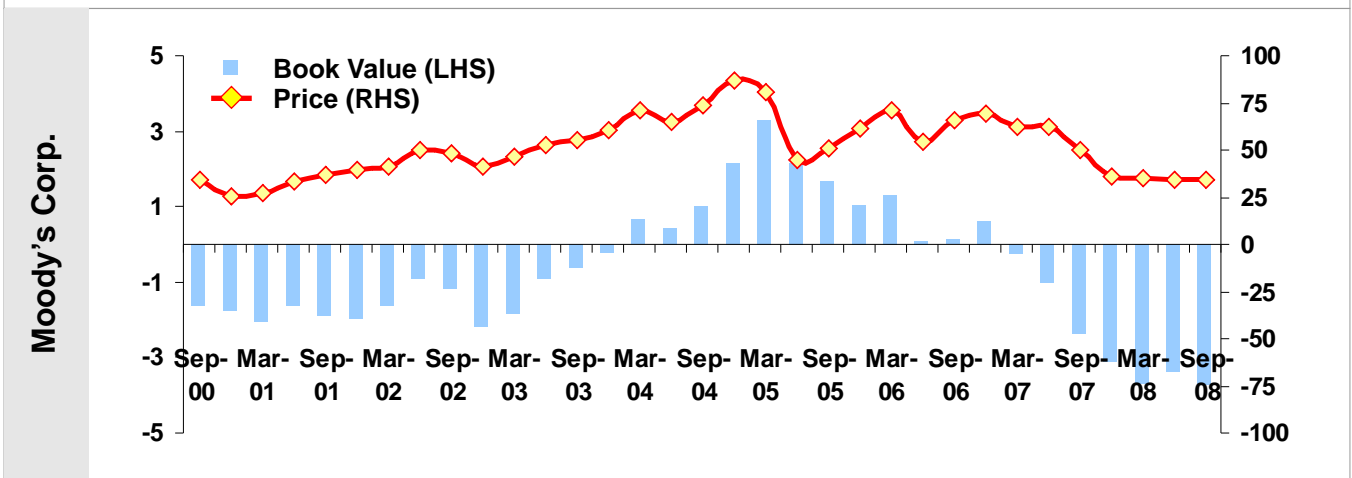
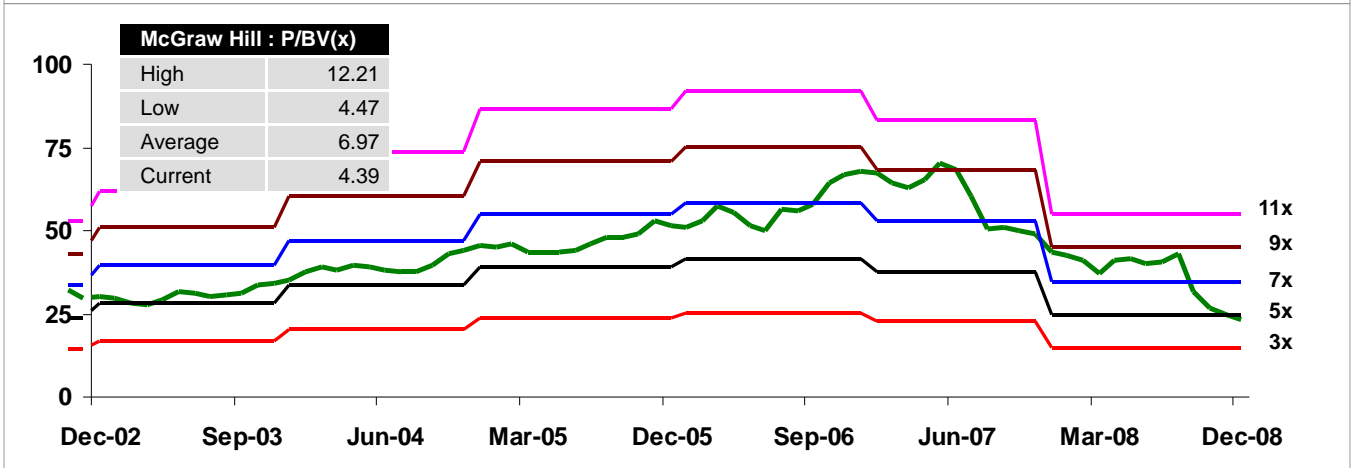
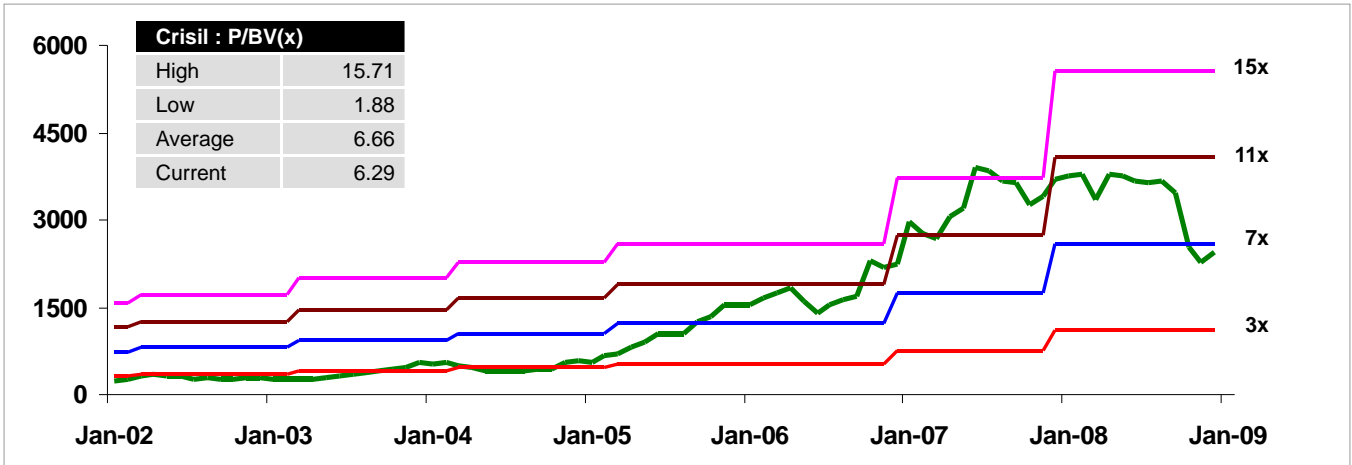
Balance Sheet				
Particulars (Euros Mn.)	Dec 05	Sept 06 (9M)	Sept 07	Sept 08E
Equity Capital	166.8	151.0	151.0	151.0
Reserves	331.0	568.6	505.0	518.5
Shareholders Funds	497.8	719.7	656.0	669.5
Minority Interest	0.7	78.2	102.1	102.1
Borrowed Funds	189.9	130.7	157.5	257.5
Total Liabilities	688.4	928.6	915.6	1,029.1
Fixed Assets	48.2	50.4	359.5	409.5
Goodwill & Intangibles	830.7	776.2	718.9	718.9
Investments in Associates	4.5	5.0	15.8	15.8
Other Investments	40.2	42.8	62.2	62.2
Current Assets				
Other Current Assets	496.7	182.1	136.1	122.3
Sundry Debtors	118.7	118.7	118.7	117.4
Loans & Advances	30.9	38.0	42.5	40.2
Cash & Bank Balance	154.3	286.5	242.9	165.5
Current Liabilities				
Liabilities	1,148.9	675.7	882.0	723.6
Provisions	0.0	0.0	0.0	0.0
Net Current Assets	(348.2)	(50.4)	(341.8)	(278.3)
Deferred Tax Assets	113.0	104.8	101.0	101.0
Total Assets	688.4	928.6	915.6	1,029.1

Cash Flow				
Particulars (Euros Mn.)	Dec 05	Sept 06 (9M)	Sept 07	Sept 08E
Opening Cash & Bank	113.5	154.3	286.5	242.9
Profit After Tax	57.9	501.4	98.3	30.7
Invnt Income	(3.5)	(9.4)	(40.1)	35.7
Interest Paid	21.4	9.5	15.4	23.4
Miscellaneous Exp W/Off	0.0	8.2	3.8	0.0
Depreciation	24.6	20.6	34.7	30.5
Deferred Taxation	0.0	0.0	0.0	0.0
Others	(56.7)	153.0	85.9	(30.5)
Change in Working Cap	282.0	(165.6)	247.8	(140.9)
CF - Operating Activities	325.8	517.6	445.9	(51.2)
Change in Fixed Assets	52.8	(2.2)	(309.2)	(50.0)
Change in Investments	(0.4)	(0.5)	(10.8)	0.0
Investment Income	3.5	9.4	40.1	(35.7)
CF - Investing Activities	55.8	6.8	(279.9)	(85.7)
Increase in Equity	(47.8)	(279.5)	(162.0)	0.0
Changes in Borrowings	(234.7)	(59.2)	26.8	100.0
Interest Paid	(21.4)	(9.5)	(15.4)	(23.4)
Dividend Paid	(36.9)	(44.0)	(58.9)	(17.2)
CF - Financing Activities	(340.8)	(392.2)	(209.5)	59.5
Net Change in Cash	40.8	132.2	(43.6)	(77.4)
Closing Cash & Bank Bal	154.3	286.5	242.9	165.5

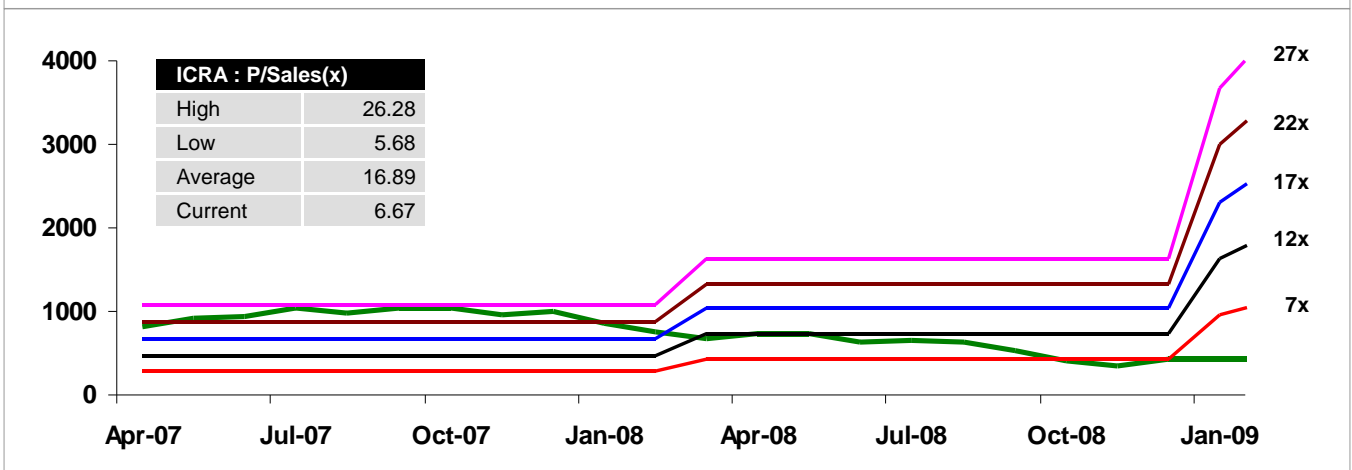
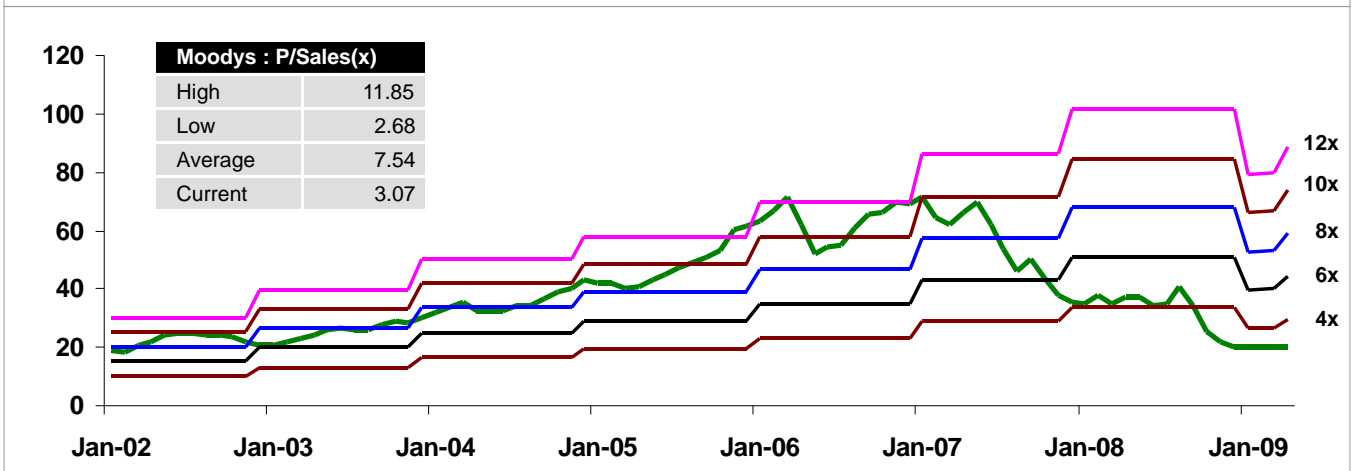
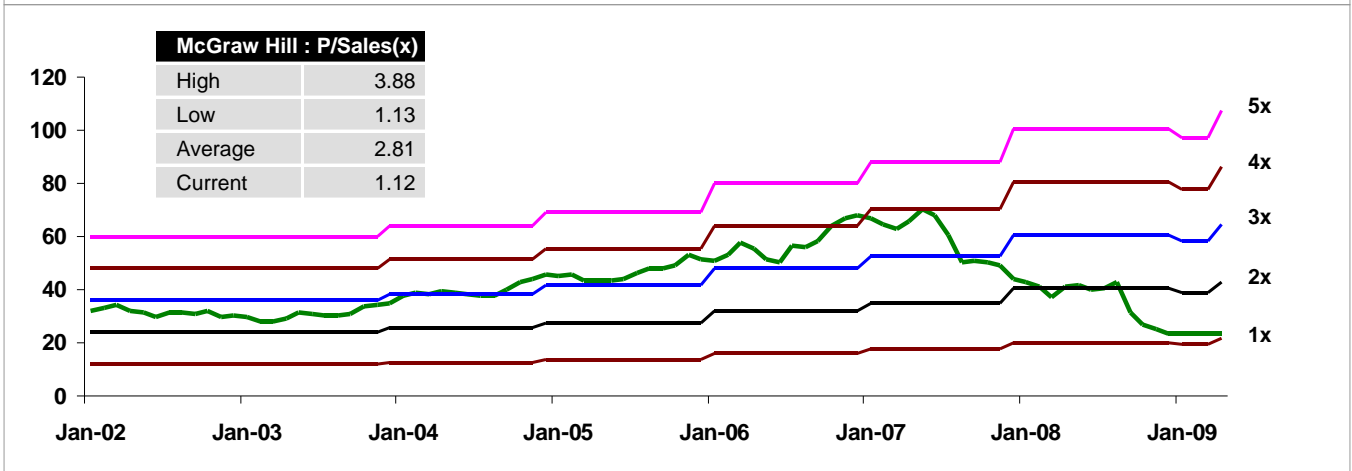
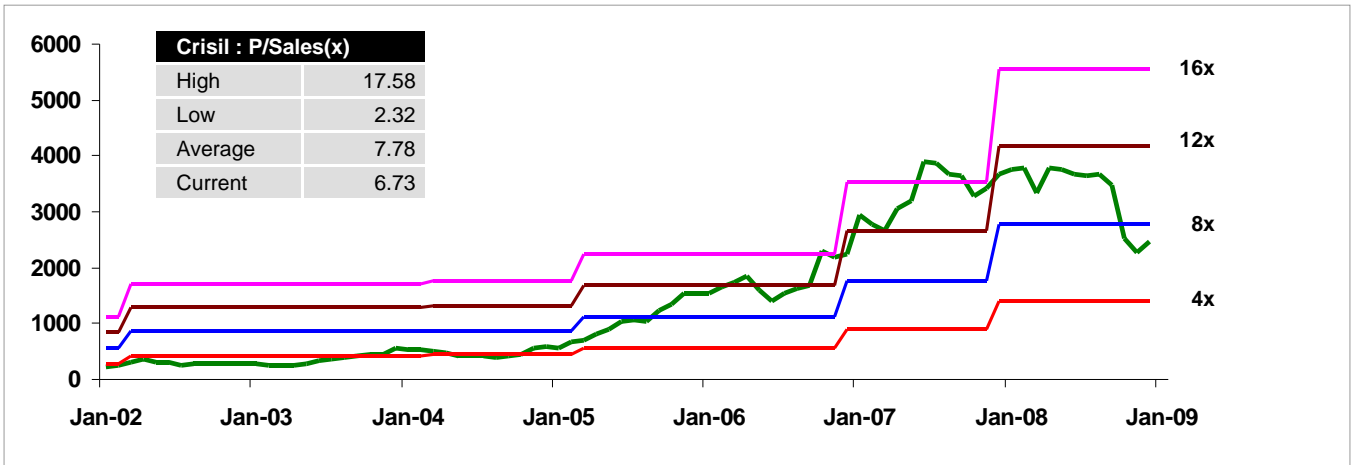
Annexures



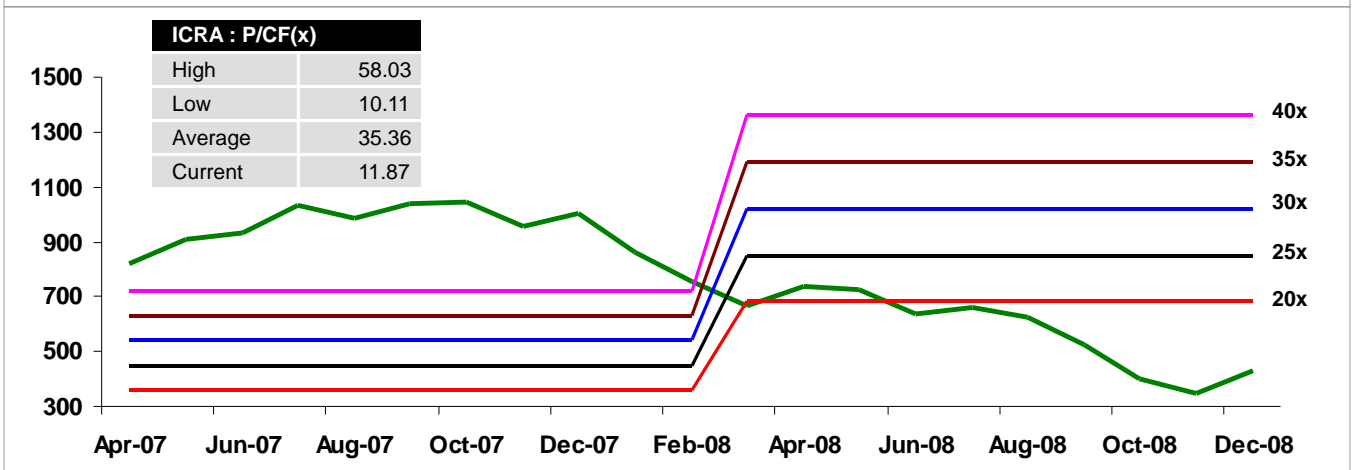
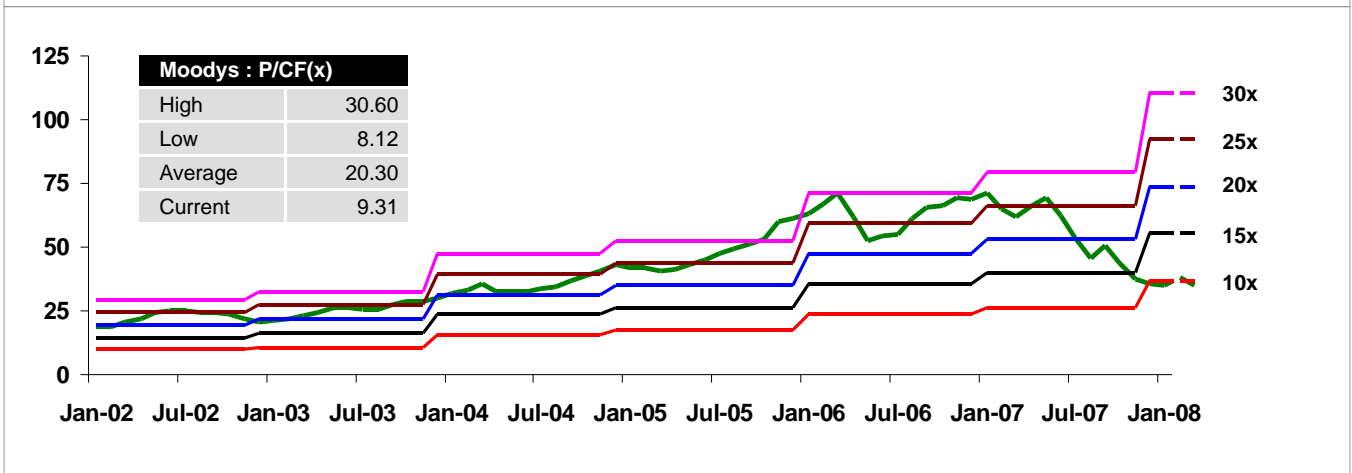
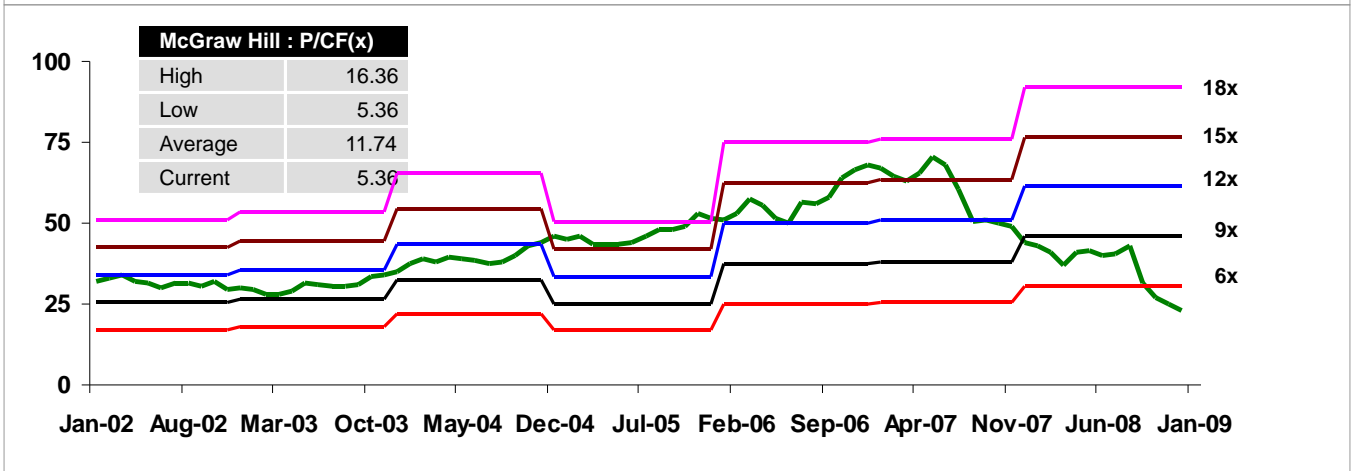
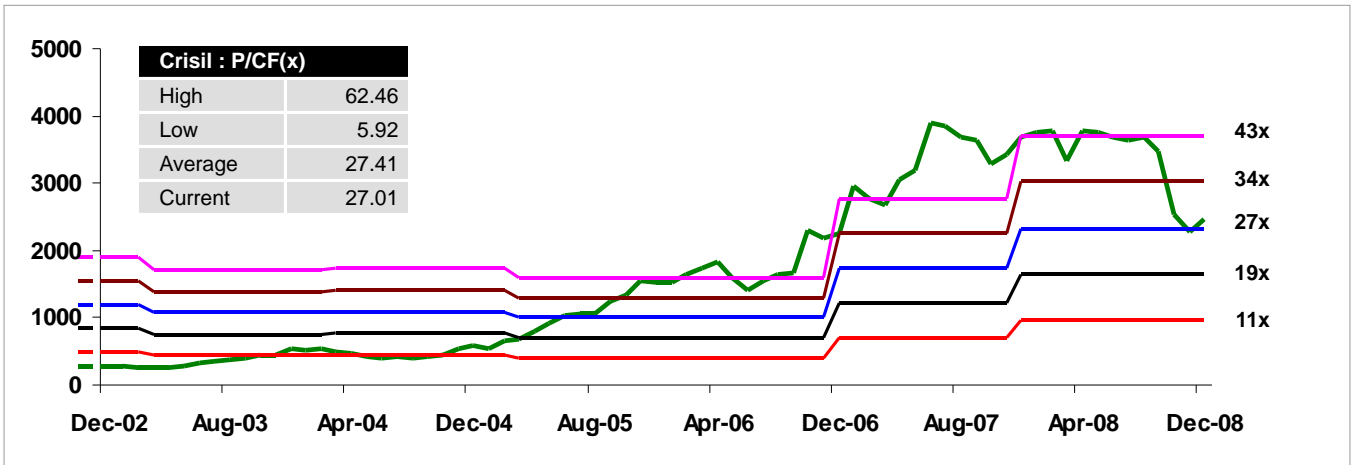
Source: Bloomberg



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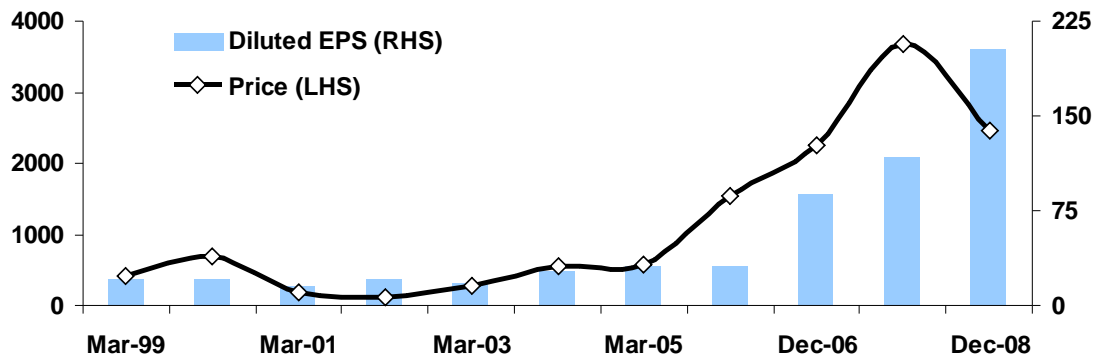


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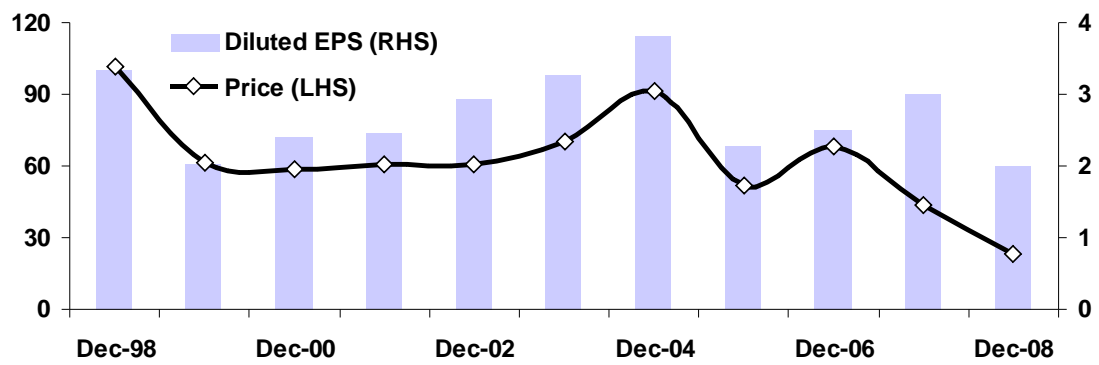


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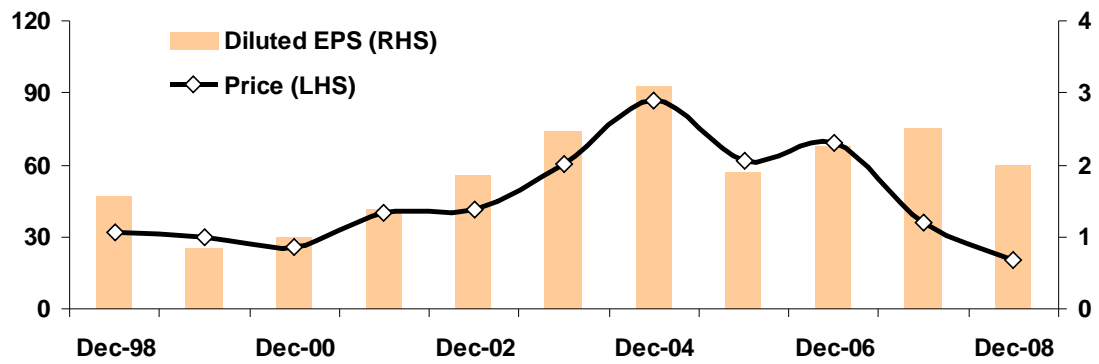
Crisil (Rs.)



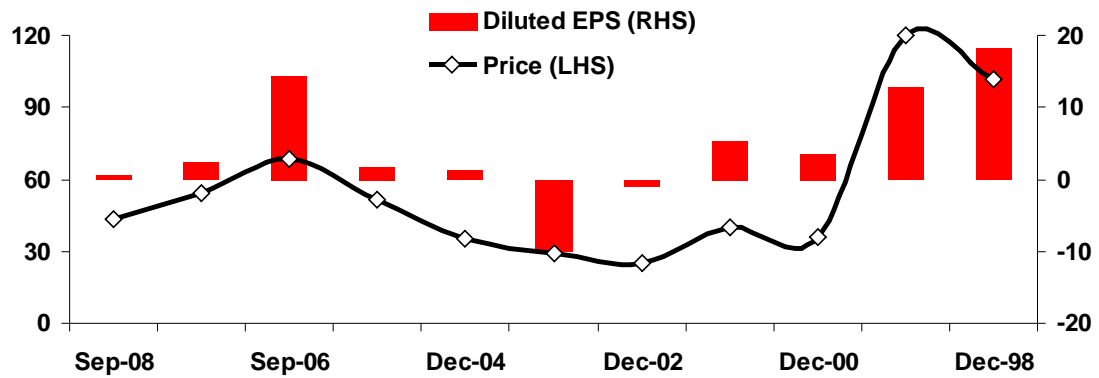
McGraw Hill (USD)



Moody's Corp. (USD)



Fimalac Group (EUR)



Source: Bloomberg

Return per Book Value		Year 1	Year 2	Year 3	Year 4
Moody's (Year 1 - Dec'05)	RONW (%) - (A)	181.2	354.4	(89.5)	(56.8)
	P/BV (x) - (B)	2.6	4.7	(1.0)	(0.9)
	(A)/(B)	70.9	75.0	88.7	62.2
McGraw Hill (Year 1 - Dec'05)	RONW (%) - (A)	27.1	32.9	63.1	39.7
	P/BV (x) - (B)	2.9	3.4	5.7	4.4
	(A)/(B)	9.3	9.7	11.1	9.0
Crisil (Year 1 - Dec'05)	RONW (%) - (A)	18.6	32.1	30.3	38.4
	P/BV (x) - (B)	11.7	8.4	6.1	4.4
	(A)/(B)	1.6	3.8	4.9	8.7
ICRA (Year 1 - Mar'06)	RONW (%) - (A)	15.2	13.6	17.4	18.1
	P/BV (x) - (B)	3.8	2.7	2.4	2.2
	(A)/(B)	4.1	5.0	7.1	8.3
Fimalac (Year 1 - Dec'05, Year 2 - 9M Sept'06)	RONW (%) - (A)	9.7	7.0	15.0	4.6
	P/BV (x) - (B)	1.9	1.2	1.3	1.3
	(A)/(B)	5.1	5.9	11.5	3.6

Moody with its negative network leads ahead of others. McGraw Hill is also steady & consistently attractive. Crisil & ICRA have been improving over the years. Europe based Fimalac has been the most vulnerable to earnings fluctuations.

Working Capital Excluding Cash				
Crisil (Rs. Mn.)	9M CY05	CY06	CY07	CY08E
	(21.4)	(38.3)	(40.0)	111.6
ICRA (Rs. Mn.)	FY06	FY07	FY08	FY09 E
	36.6	(27,837.0)	195.4	361.8
McGraw Hill (USD Mn.)	CY05	CY06	CY07	CY08E
	0.1	(1.3)	(1.5)	(0.9)
Moody's (USD Mn.)	CY05	CY06	CY07	CY08E
	19.5	10.4	(527.0)	(508.9)
Fimalac (Euro Mn.)	Dec 05	Sept 06 (9M)	Sept 07	Sept 08E
	(502.5)	(336.9)	(584.7)	(443.8)

Working Capital requirements are low or at times, even negative. This is mainly on account of advance fees for ratings business. The above table shows that international mature companies, especially the ones with higher proportion of rating business like Moody's and Fimalac are better placed in terms of their working capital requirements.

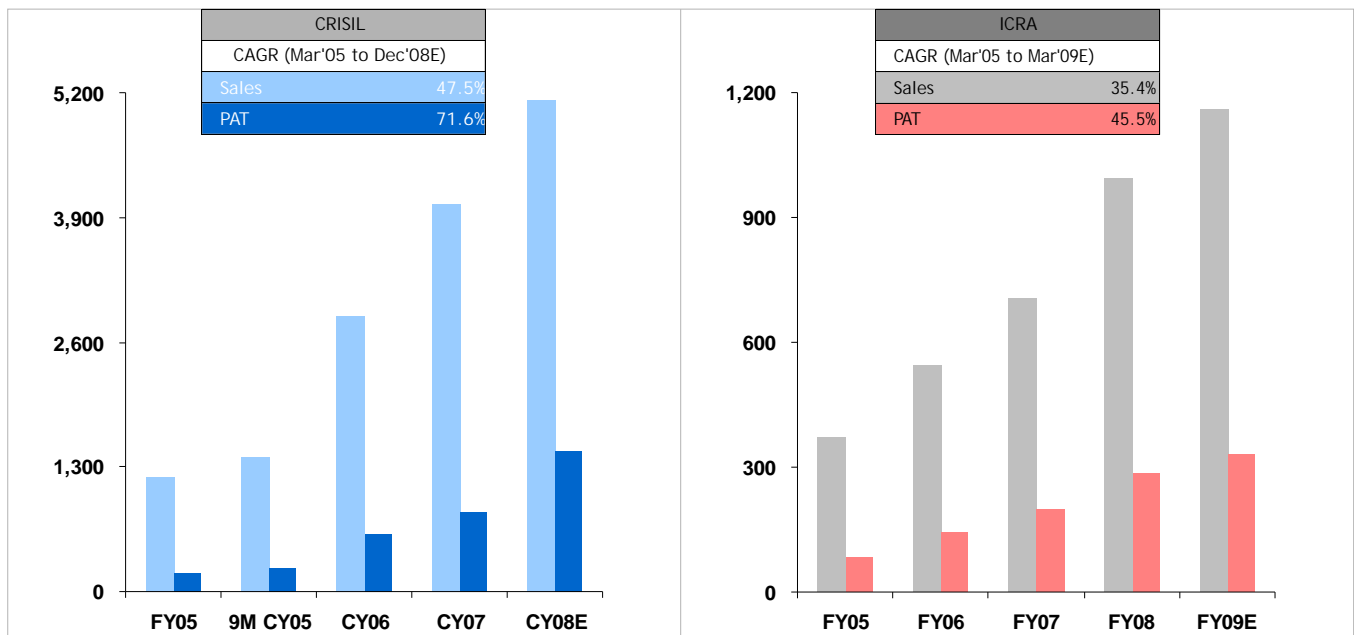
Dividend Payout (%)	Year 1	Year 2	Year 3	Year 4
Crisil (Year 1 - Dec'05)	26.9%	16.7%	21.6%	24.6%
ICRA (Year 1 - Mar'06)	24.8%	22.5%	36.0%	36.0%
McGraw Hill (Year 1 - Dec'05)	32.2%	33.9%	33.3%	44.3%
Moody's (Year 1 - Dec'05)	12.8%	14.3%	13.2%	11.8%
Fimalac (Year 1 - Dec'05, Year 2 - 9M Sept'06)	97.9%	94.8%	52.4%	56.0%

Fimalac followed by McGraw Hill have better payout policies. Moody's however has been more aggressive on share buy-backs. Indian companies, still in its early life cycles stage have lower payouts.

Particulars	Crisil	ICRA	McGraw Hill Corporation	Moody's Corporation	Fimalac Group
Year End	Dec 08E	Mar 09E	Dec 08E	Dec 08E	Sept 08E
CMP	2,345.00	399.00	22.15	23.07	24.91
FV	10.00	10.00	1.00	0.10	4.40
Exchange	BSE, NSE	BSE, NSE	NYSE	NYSE	Euronext
Currency	Rs.	Rs.	USD	USD	EUR
Recommendation	Buy	Buy	N.R.	N.R.	N.R.
Total Revenues (Mn.)	5,119.47	1,158.09	6,542.80	1,802.27	586.95
EBITDA (Mn.)	2,164.73	536.25	1,750.75	909.20	147.18
PAT (Mn.)	1,466.00	330.73	818.67	491.87	30.67
EBITDA %	42.28%	46.30%	26.76%	50.45%	25.08%
PAT %	28.64%	28.56%	12.51%	27.29%	5.23%
Market Cap (Mn.)	16,942.63	3,990.00	9,119.35	791.08	854.95
M Cap/Sales (x)	3.31	3.45	1.39	0.44	1.46
EPS	202.91	33.07	1.99	1.98	0.89
P/E (x)	11.56	12.06	11.14	11.63	27.88
Networth (Mn.)	3,818.03	1,829.99	2,063.01	(865.90)	669.51
BVPS	528.45	183.00	5.01	(25.25)	19.50
P/BV (x)	4.44	2.18	4.42	(0.91)	1.28
EV (Mn.)	16,479.01	3,720.20	10,651.87	1,656.68	946.94
EV/EBITDA (x)	7.61	6.94	6.08	1.82	6.43
EV/Sales (x)	3.22	3.21	1.63	0.92	1.61
Free CashFlow (Mn.)	735.72	89.00	290.43	474.70	(101.16)
P/FCF (x)	23.03	44.83	31.40	1.67	(8.45)
ROCE (%)	53.56%	27.14%	34.84%	169.41%	9.07%
RONW (%)	38.40%	18.07%	39.68%	-56.80%	4.58%
Debt/Equity Ratio (x)	-	-	0.97	(1.55)	0.38
Wrkg Cap T/o Days (Ex.Cash) (x)	7.84	112.47	(49.00)	(101.65)	(272.18)
Fixed Assets T/o (Gross) (x)	2.17	2.57	3.09	7.44	1.43
DPS	50.00	11.91	0.88	0.24	0.50
Dividend Payout (%)	24.64%	36.00%	44.26%	11.84%	55.96%
Dividend Yield (%)	2.13%	2.98%	3.97%	1.02%	2.01%

Finally...

Both Crisil & ICRA are trading at ~12x its current year earnings. Such valuations are extremely modest for companies with a remarkable track record. The underlying graphs speak a lot about the long term growth track of both these companies.



Finally once again we summarize our investment argument for the companies through the following equation ;

Influential Positioning
+
Excellent Business Economics
+
Entry Barriers
+
Growth Opportunities
+
Cheap Valuations

We feel lucky to have the opportunity to invest into such businesses. Amongst the two Indian listed companies, we feel ICRA will benefit on account of its low base, both on the downside as well as on the upside. On the other hand, Crisil is a relatively mature & quality play.

While the companies have done well for the shareholders so far, we feel there is still an enormous potential for future wealth creation. We would be comfortable with these two companies going in for some borrowed funds in their quest to build value. Internationally, Fimalac Group is moderately leveraged and Moodys have gone way too ahead by using leverage for buy-backs. McGraw is reasonably leveraged at 1x and earns high shareholder returns. We however are not sure if the debt is for the ratings business or mainly for the other education & publication businesses. Crisil & ICRA however, have almost no debt on their books.

We remain positive that capitalizing on this timely investment opportunity would give handsome returns over a longer term. We recommend BUY for both Crisil & ICRA.

Disclaimer

Disclosure of Interest Statement

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

Crisil	ICRA
YES	YES
YES	YES
YES	YES

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Contact

Hiten Sampat	President - Institutional Sales	hiten@ppfas.com	91 22 2284 6555 Extn 302
Ridhim Thapar	Institutional Sales	ridhim@ppfas.com	91 22 2284 6555 Extn 312
Jigar Valia	Analyst - Investment Research	jigar@ppfas.com	91 22 2284 6555 Extn 315

Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 023.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : researchcall@ppfas.com

Investment Boutique: Shiv Shakti, Gr. Floor, N. S. Rd. No.10, Opp. Haveli, Juhu Scheme, Mumbai - 400 049

Tel : 91-22- 2623 6555 Fax : 91-22-2623 6553, e-mail : ib@ppfas.com

www.ppfas.com