



ICRA Limited

Performance Review, 2006-07

June 2007

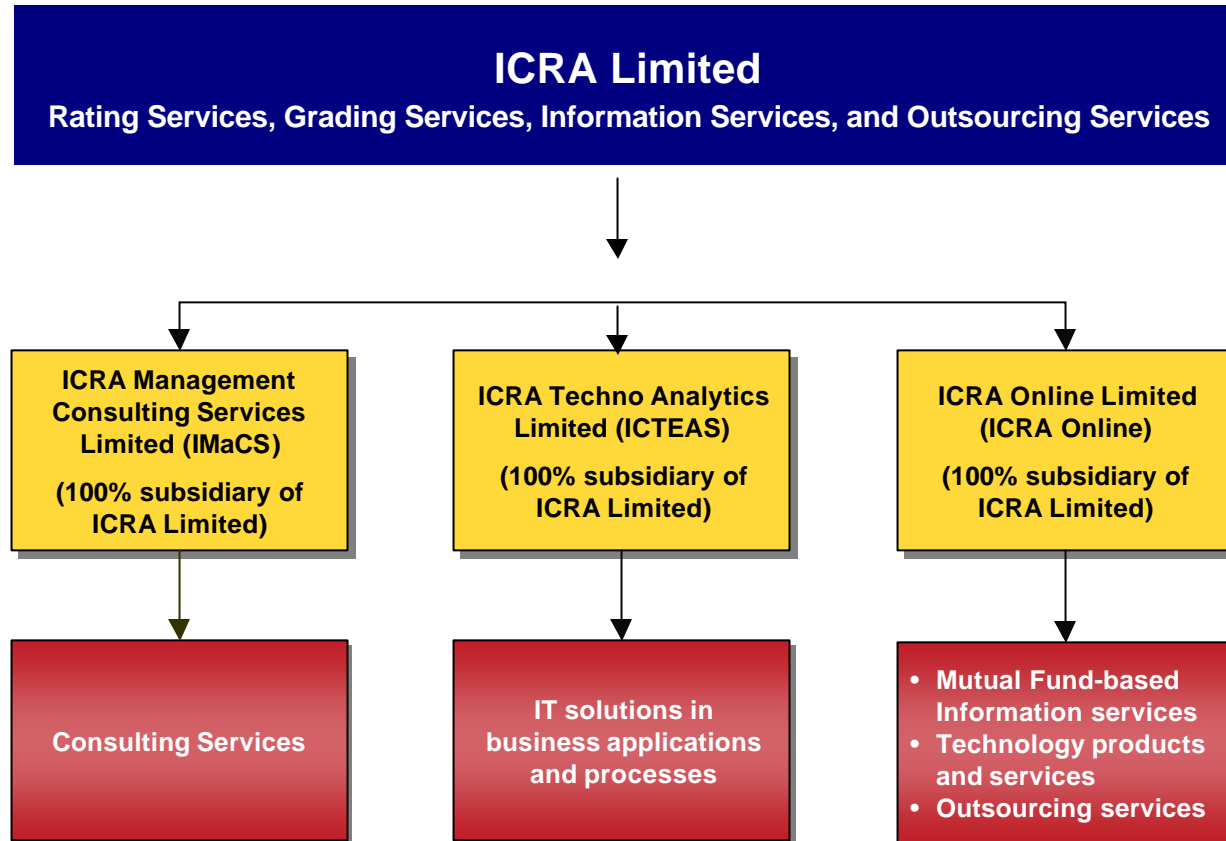
Agenda

- 1 Background and Business**
- 2 Performance Review**
- 3 Business Update**
- 4 Business Outlook and Challenges**



#1 *Background and Business*

Background and Business

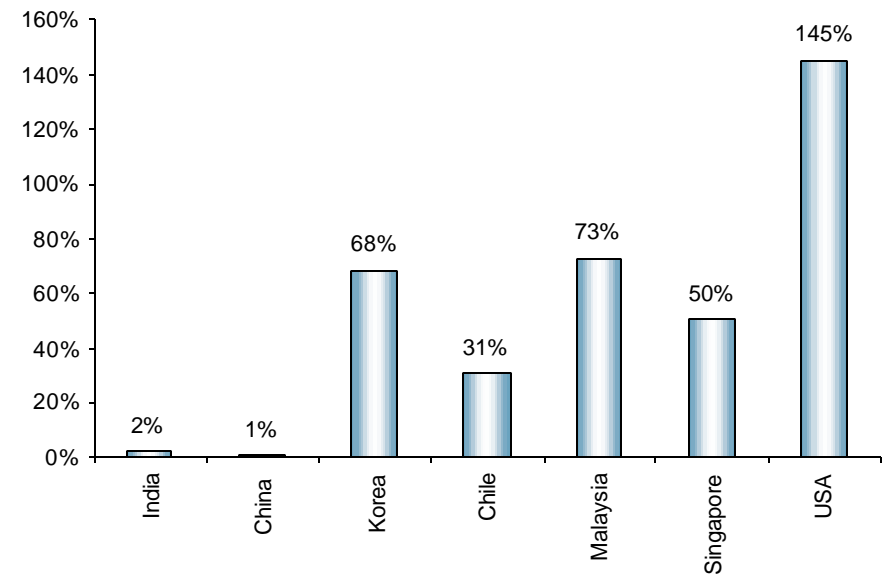


- ICRA is one of the leading Credit Rating agencies in India, and an Associate of Moody's Investors Service
- Besides Ratings, ICRA Group offers Consulting services, IT-based services, Information services, and Outsourcing services.

Rating Business: Growth Drivers

Segments	Growth Drivers
Corporate	<ul style="list-style-type: none"> Economic Growth Mergers and Acquisitions Increase in Debt Issuance Regulatory Requirements Increase in Bond Market Penetration Basel II
Financial	<ul style="list-style-type: none"> Bank Credit Capital Adequacy Requirements Regulatory Requirements
Structured Finance	<ul style="list-style-type: none"> Asset Growth Optimal Use of Capital Better Risk Management Alternative Funding
Public Finance	<ul style="list-style-type: none"> Funding Requirements Budgetary Constraints

- The Indian economy has reported an average real GDP growth of 8.6% annually during the last 3 years
- India's corporate bond market is relatively small at 2% of GDP, pointing to large growth potential. Comparison with other markets presented below



Source: *Accelerating India's Growth through Financial System Reform*, McKinsey Global Institute (May 2006)



- IMaCs provides Management Consulting Services to clients based in India and abroad through five Business Groups: Infrastructure, Energy, Banking and Insurance, Corporate Advisory, and Government
- Consulting Services include multi-line services such as Risk Management, Strategy, Corporate Advisory, and IT, across various sectors
- Clients of IMaCS are from the Banking, Government, Corporate, and Infrastructure Sectors
- Increasing changes in the legal, regulatory and policy regimes in India are driving investment propositions and creating avenues for Consulting Services in risk assessment, investment strategies, and public-private partnerships
- Opportunities are also coming up with the increase in private involvement in infrastructure development
 - The current rate of infrastructure investment in India at 3.5% of GDP is well below the target rate of 8% proposed by the Expert Group on Commercialisation of Infrastructure Projects (*Source: Asian Development Bank*)

Other Services provided by Group ICRA

Outsourcing Services

ICRA Online provides:

- Outsourcing services in the areas of knowledge process outsourcing, research, and data aggregation, besides technical services to financial sector entities
- Information management services to Moody's Investors Service
- Mutual Fund monitoring service for funds rated by Moody's Investors Service in Europe and Asia (excluding India)
- Certain outsourcing services to the Bombay Stock Exchange

Information Technology Based Services

- ICTEAS provides IT solutions in the realm of business applications and processes, including sales and distribution management, franchisee service management, financial management, and business analytics
- ICTEAS, with its team of engineers, offers computer aided engineering and design services
- ICRA Online, to complement its information services business, provides technology solutions both in the form of products and services

Information Services

- ICRA provides research-based information services through sector- and industry-specific studies and publications, corporate reports, and customised research
- ICRA Online provides content support to the Indian Mutual Funds industry



#2

Performance Review

Performance Highlights, 2006-07

- All round growth in revenues and profits
 - Consolidated revenue up 29%
 - Consolidated Net Profit up 41%

- Increase in diversity of revenue streams and operating profits
 - Rating business accounts for 51% of Group ICRA's Total Income, as against 53% in previous year
 - Rating business accounts for 80% of Group ICRA's Operating Profits, as against 89% in previous year

- Strong performance of Subsidiaries
 - All three ICRA Subsidiaries report healthy increase in revenues and profits

Group ICRA: Consolidated Performance

Rs. million	2005-06	2006-07	Y-o-Y Growth
Rating Services	312.94	388.95	24%
Advisory Services	121.33	150.12	24%
Information Services	15.58	19.64	26%
BPO Services	15.06	38.63	157%
IT Related (Sales & Professional) *	78.3	108.38	38%
Total Operating Income	543.21	705.72	30%
Other Income	49.91	59.98	20%
Total Income	593.12	765.70	29%
PBDIT	223.10	301.05	35%
Interest	1.35	0.48	-64%
PBDT	221.75	300.57	36%
Depreciation	23.18	28.86	25%
PBT	198.57	271.71	37%
Taxes	56.27	71.78	28%
PAT	142.30	199.93	40%
<i>*Including fee for an outsourcing assignment</i>			

- All businesses have reported good growth; new businesses (BPO and IT related), which are relatively small, have grown faster
- Growth in profits at all levels has outpaced increase in income

Group ICRA: Segment-wise Contributions

% Contribution to Revenues	2005-06	2006-07
Rating Services	53%	51%
Advisory Services	20%	20%
Information Services	3%	3%
BPO Services	3%	5%
IT Related (Sales & Professional)*	13%	14%
Total Operating Income	92%	92%
Other Income	8%	8%
Total Income	100%	100%
% Contribution to OPBDIT	2005-06	2006-07
Rating Services	89%	80%
Advisory Services	11%	12%
Information Services	-5%	-2%
BPO Services	1%	4%
IT Related (Sales & Professional)	5%	6%
Total	100%	100%
<i>*Including fee for an outsourcing assignment</i>		

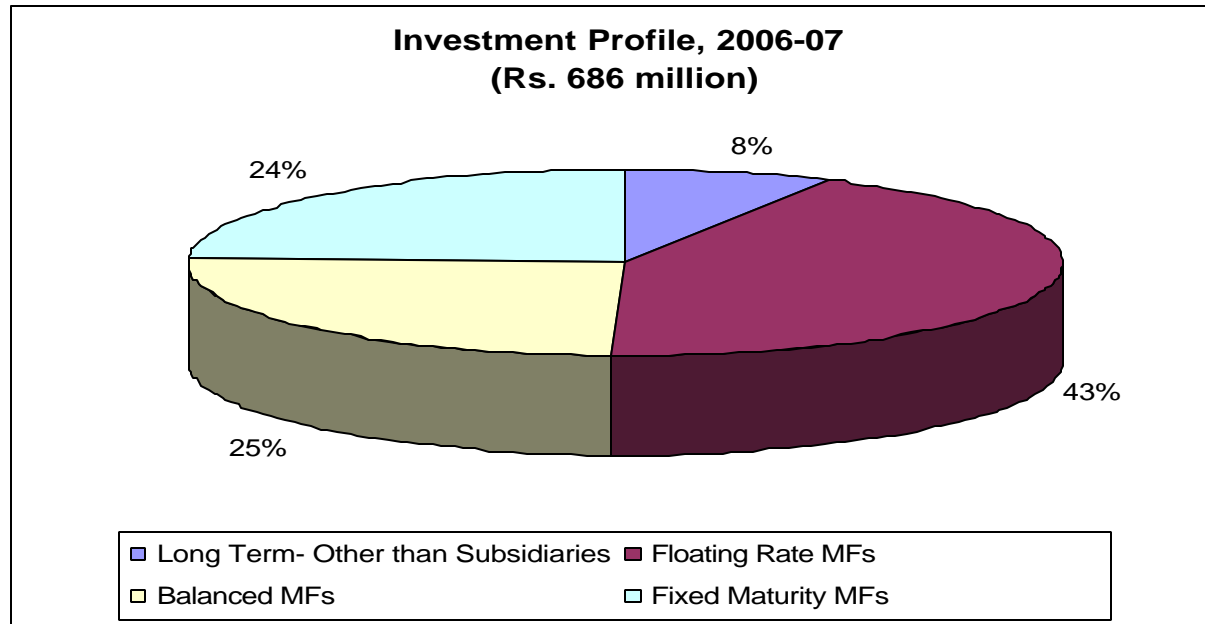
- Trend of diversification continues with other businesses increasing their percentage contribution to revenues and profits, while Rating business continues to grow

Group ICRA: Key Ratios

Profitability Related Indicators	Consolidated	
	2005-06	2006-07
Segment-wise OPBDIT/Operating Income		
Rating Services	60%	62%
Advisory Services	18%	24%
Information Services	-73%	-24%
BPO Services	12%	30%
IT Related (Sales & Professional)*	14%	15%
Overall OPBDIT/Operating Income	39%	42%
PBDIT/Total Income	38%	39%
Personnel Expenses/Total Income	40%	39%
Other Expenses/Total Income	22%	22%
PBT/Total Income	33%	35%
PAT/Total Income	24%	26%
PAT/Average Net Worth		17%
EPS (Weighted Avg.) (in Rs.)	16.16	22.64
EPS Y-o-Y Growth		40%
<i>*Including fee for an outsourcing assignment</i>		

- Profitability improved in 2006-07, leading to a robust growth in EPS

Group ICRA: Investment Profile



- Group ICRA's investments yielded returns of 8.25-8.5% in 2006-07 (7.75-8% in 2005-06)

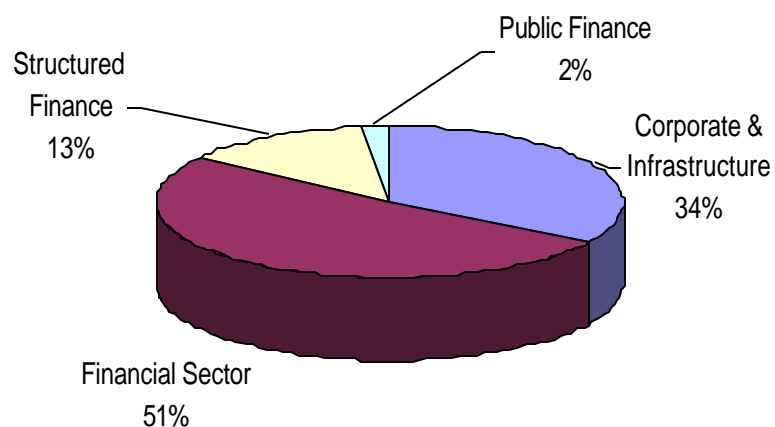


#3 *Business Update*

Business Update: Rating Services

Rs. million	2005-06	2006-07	Y-o-Y Growth
Corporate & Infrastructure	94.03	129.76	38%
Financial Sector	162.31	194.99	20%
Structured Finance	36.61	50.60	38%
Public Finance	9.67	6.97	-28%
Total	302.62	382.32	26%

Contribution to Rating Revenues (2006-07)



- Growth in Rating business was more broad based in 2006-07, unlike in 2005-06 when the Financial Sector was the sole growth driver
- ICRA rated a total debt volume of Rs. 1,776 billion in 2006-07, which was 28% higher than the previous year's volume. Growth could have been even higher, but for ICRA's "notching down" of hybrid instrument (issued by banks) in line with international best practices. Some of ICRA's competitors who do not follow international best practices for ratings hybrids, gained market share in this segment as a result
- ICRA's revenues from the Corporate Sector grew with the overall economic buoyancy increasing funding requirements (both for investments and working capital). While there was an increase in issuance of debt by existing issuers, ICRA also added some large new issuers to its portfolio
- Revenues from the Financial Sector grew as banks came out with large Bond/CD issues to support credit growth.
- The Structured Finance business saw a revival following growth in loan pool assignments and in Single Loan Sell-off transactions

Business Update: Advisory Services

- Performance highlights
 - Revenue grew by 24% in 2006-07
 - Net Profits grew by 38% (benefiting from scale economies, higher productivity and increase in mandate size)

- Growth driven by:
 - Consolidation of risk management practice towards delivering solutions
 - Deeper inroads made into infrastructure and development consulting
 - Greater specialisation in select verticals (automotive and energy)
 - Strengthening business relationships with multilateral institutions (ADB, World Bank)
 - Acquisition of fresh clients

Business Update: IT Related Services

- Performance highlights
 - Revenue grew by 38%
 - Margins improved with increase in scale of operations allowing better use of IT infrastructure and human resources
- Business
 - Growth from new business analytics domain
 - Addition of new clients
 - Steady growth in business from a prominent client (existing)
- US office
 - ICTEAS has incorporated a wholly-owned subsidiary, ICRA Techno Analytics, Inc., in April 2007 to increase its reach in the North American market
- Challenges
 - To scale up size of operations
 - To manage exchange rate risks following appreciation of the Indian rupee against the US dollar

Business Update: BPO Services

- Performance highlights
 - Revenue grew by 157%, albeit on a smaller base
 - Margins improved with increase in scale of operations
 - Data security certification (ISO 27001) obtained (process certification being targeted)

- Services offered to Moody's (which remains the major client)
 - Financial spread data support
 - Monitoring of Structured Finance and Mutual Funds ratings (small but high-growth business)

- Challenges
 - To scale up size of operations
 - To manage exchange rate risks following appreciation of the Indian rupee against the US dollar

Business Update: Information Services

- Performance highlights
 - Revenue grew by 26%
 - Losses declined following growth in subscription revenues
 - Advertising revenues from web-portal increased
 - Prominent clients were added in the Mutual Funds domain

#4

Business Outlook and Challenges

Business Outlook: Rating Services

- Current Business: Outlook appears favourable for all segments
 - Buoyant economic conditions leading to increase in funding requirements among corporate entities
 - Improvement in Rating prospects in the financial sector with corporate and retail segments driving credit growth
 - Expansion of structured finance market with growth in credit leading to increasing funding and capital requirements

- New Opportunities
 - Compliance by banks with Basel II (under standardised approach) by March 2008 and 2009
 - Mandatory Grading of Initial Public Offers (IPOs)
 - Initiative by Ministry of Finance for Grading of Public-Private Partnership (PPP) projects
 - Rating of Security Receipts of Asset Reconstruction companies
 - Increase in demand for Rating of Small and Medium Enterprises (SMEs)

Business Outlook: Rating Services

- ICRA is well positioned to exploit the emerging opportunities, given its:
 - Strong brand and competitive strengths
 - Proven ability to make product and service innovations
 - Track record of Ratings
 - Experienced and strong Management team and talent pool
 - Close association with Moody's

Business Outlook: Challenges/Risk Factors

- Any significant slowdown in economic or investment growth, especially on account of rising interest rates
- Relative cost economics of overseas funding alternatives
- Pricing pressures from other Rating agencies
- Ability to retain and attract quality manpower. Increasing compensation and related manpower costs
- Market acceptability of some of the new products viz., IPO and PPP Gradings yet to be tested

Disclaimer

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