

RETAIL EQUITY RESEARCH

CRISIL

Other Financial Services

BSE CODE: 500092

NSE CODE: CRISIL

Bloomberg CODE: CRISIL:IN SENSEX: 36,825

Accumulate

Rating as per Mid Cap

12 month investment period

CMP Rs. 1,802 TARGET Rs. 2,000 RETURN 11% ↑

25th July, 2018

Moderate revenue growth but improved profitability...

CRISIL, a Standard and Poor's company, is India's foremost ratings, research and analytics services provider with a strong track record of growth and innovation.

- CRISIL's consolidated revenue grew by 7.1% YoY in Q2CY18 on the back of robust growth in advisory segment (↑38% YoY).
- Though EBITDA margin declined by 75 bps YoY to 24.6%, net profit increased by 14.7% YoY on account of favourable forex movement.
- We expect consolidated revenue to grow at a CAGR of 12 % over CY17-19E led by broad based growth across segments.
- With improvement in rating business, we expect EBITDA margin to improve to 28.5% by CY19E and net profit to increase at 16% CAGR over CY17-19E.
- With revival in corporate capex in the offing and improvement in banking credit growth, we are positive on long term prospects of CRISIL. Hence, we maintain 'Accumulate' rating with a TP of Rs2,000 (P/E of 35x CY19E).

Favourable forex movement boosted the profitability

CRISIL's consolidated revenue grew by 7.1% YoY (marginally below our expectation) in Q2CY18 mainly supported by strong growth in advisory segment (albeit on a low base). However, EBITDA margin declined by 75 bps YoY to 24.6% mainly due to higher employee cost (↑9.7% YoY). However, net profit increased by 14.7% YoY on the back of 104% YoY increase in other income. We believe that favourable forex movement has helped the company to report higher other income. Going forward, with improvement in credit growth coupled with favourable forex movement, we expect revenue and net profit to grow at a CAGR of 12% and 16%, respectively over CY17-19E.

Muted growth in research revenue

Research revenue (63% of revenue) disappointed with muted growth of 3.1% YoY. However, CRISIL Coalition (subsidiary) registered strong growth driven by high renewal rate and increase in wallet share across its clients. With the company's new offerings in Transaction Banking, Lending & Securities Services, it expanded its business in new client segment like regional banks. With new client additions across India and Global Research, we expect this segment to grow at a CAGR of 10% over CY17-19E.

Double digits credit growth drives rating business

Ratings revenue (29% of revenue) grew at a modest pace of 10.4% YoY despite a sharp decline in domestic corporate bond issuances as the credit growth was again in double digits in H1CY18 after trailing in low to mid-single digit during CY17. Besides, the company also received new mandates in the large corporate ratings segment and for independent credit evaluation of stressed assets. With increasing credit offtake backed by wholesale credit growth, we expect rating revenue to grow at a CAGR of 11% over CY17-19E.

Robust show in advisory business

Advisory business continued to grow at a robust pace of 38% YoY (albeit on a low base) driven by new business wins and successful delivery of existing projects. Further, Pragmatix (acquired 100% stake in November 2017) won new clients for advanced analytics in areas such as customer-centric relationship management and regulatory solutions. Going forward, we expect advisory revenue to grow by 20% CAGR over CY17-19E led by higher government spending on infrastructure in India.

Outlook & Valuation

CRISIL is India's largest credit rating agency with a strong global parentage (S&P owns 68% of the entity) and a diversified business model. Further, with revival in corporate capex in the offing and improvement in banking credit growth, we are positive on medium to long term prospects of CRISIL. Hence, we continue to maintain Accumulate rating with a similar target price of Rs2,000 valuing the company at P/E of 35x for CY19E.

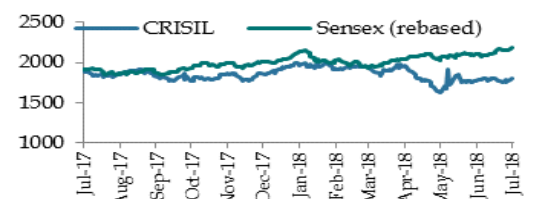
Company Data

Market Cap (cr)	Rs. 12,941
Enterprise Value (cr)	Rs. 12,650
Outstanding Shares (cr)	7.2
Free Float	33%
Dividend Yield	1.6%
52 week high	Rs. 2,021
52 week low	Rs. 1,611
6m average volume (lacs)	0.3
Beta	-0.2
Face value	Rs. 1

Shareholding (%)	Q4CY17	Q1CY18	Q2CY18
Promoters	66.7	66.7	67.9
FII's	5.8	6.1	5.8
MFs/Insti	12.0	12.5	11.7
Public	15.5	14.7	14.6
Others	-	-	-
Total	100.0	100.0	100.0

Price Performance	3month	6month	1 Year
Absolute Return	-7.4%	-8.5%	-5.6%
Absolute Sensex	6.4%	1.8%	14.2%
Relative Return*	-13.8%	-10.3%	-19.8%

*over or under performance to benchmark index



Consolidated (Rs.cr)	CY17	CY18E	CY19E
Sales	1,658	1,856	2,080
Growth (%)	7.2%	11.9%	12.0%
EBITDA	455	526	593
Margin(%)	27.4	28.3	28.5
PAT Adj	304	361	406
Growth (%)	3.4%	18.7%	12.4%
Adj.EPS	42.5	50.4	56.6
Growth (%)	3.4%	18.7%	12.4%
P/E	42.4	35.8	31.8
P/B	12.3	11.0	9.9
EV/EBITDA	28.1	24.3	21.5
RoE (%)	29.9	32.6	32.8
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs cr)	Q2CY18	Q2CY17	YoY Growth %	Q1CY18	QoQ Growth %
Sales	436	407	7.1	421	3.7
EBITDA	107	103	3.9	121	-11.5
Margin (%)	24.6	25.4	-75 bps	28.9	-423 bps
Depreciation	10	13	-18.2	10	-0.7
EBIT	97	91	7.0	111	-12.6
Interest	-	-	-	-	-
Other Income	17	8	104.5	7	148.7
Exceptional Items	-	-	-	-	-
PBT	114	99	15.3	118	-3.0
Tax	37	32	16.7	36	4.3
PAT	77	67	14.7	82	-6.2
Minority Interest	-	-	-	-	-
Reported PAT	77	67	14.7	82	-6.2
Adjustment	0.0	0.0	-	0.0	-
Adj PAT	77	67	14.7	82	-6.2
No. of shares (cr)	7.2	7.2	-	7.2	-
EPS (Rs)	10.8	9.4	14.7	11.5	-6.2

Segment-wise Revenue

(Rs cr)	Q2CY18	Q1CY17	YoY Growth %	Q1CY18	QoQ Growth %
Ratings	128	116	10.4	115	11.7
Advisory	33	24	38.0	31	6.4
Research	275	266	3.1	274	0.3

Source: Company, Geojit Research

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	CY18E	CY19E	CY18E	CY19E	CY18E	CY19E
Revenue	1,912	2,153	1,856	2,080	-2.9	-3.4
EBITDA	546	615	526	593	-3.7	-3.5
PAT	360	405	361	406	0.3	0.3
EPS	50.2	56.6	50.4	56.6	0.4	0.1

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	CY15A	CY16A	CY17A	CY18E	CY19E
Sales	1,380	1,548	1,658	1,856	2,080
% change	10.1%	12.1%	7.2%	11.9%	12.0%
EBITDA	400	443	455	526	593
% change	2.9%	10.9%	2.6%	15.6%	12.8%
Depreciation	37	55	47	51	57
EBIT	362	389	408	475	537
Interest	-	-	-	-	-
Other Income	43	50	25	40	42
PBT	406	438	434	515	579
% change	7.9%	8.1%	-1.1%	18.7%	12.4%
Tax	121	144	129	153	172
Tax Rate (%)	29.7%	32.9%	29.8%	29.8%	29.8%
Reported PAT	285	294	304	361	406
Adj*	-	-	-	-	-
Adj PAT	285	294	304	361	406
% change	6.2%	3.2%	3.4%	18.7%	12.4%
No. of shares (cr)	7.2	7.2	7.2	7.2	7.2
Adj EPS (Rs)	39.8	41.1	42.5	50.4	56.6
% change	6.2%	3.2%	3.4%	18.7%	12.4%
DPS (Rs)	23.0	28.0	26.9	28.0	31.4

Cash flow

Y.E March (Rs cr)	CY15A	CY16A	CY17A	CY18E	CY19E
Pre-tax profit	406	438	434	515	579
Depreciation	37	55	47	51	57
Changes in W.C	(20)	(124)	(55)	(17)	(19)
Others	(22)	(50)	(25)	(40)	(42)
Tax paid	(130)	(144)	(129)	(153)	(172)
C.F.O	270	175	271	356	402
Capital exp.	(26)	(43)	(32)	(35)	(35)
Change in inv.	11	(82)	(60)	(100)	(100)
Other invest.CF	16	50	25	40	42
C.F - investing	1	(75)	(67)	(95)	(93)
Issue of equity	38	(29)	0	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(197)	(240)	(231)	(240)	(269)
Other finance.CF	(102)	-	-	-	-
C.F - Financing	(262)	(270)	(231)	(240)	(269)
Chg. in cash	10	(170)	(27)	21	40
Closing cash	152	177	132	152	192

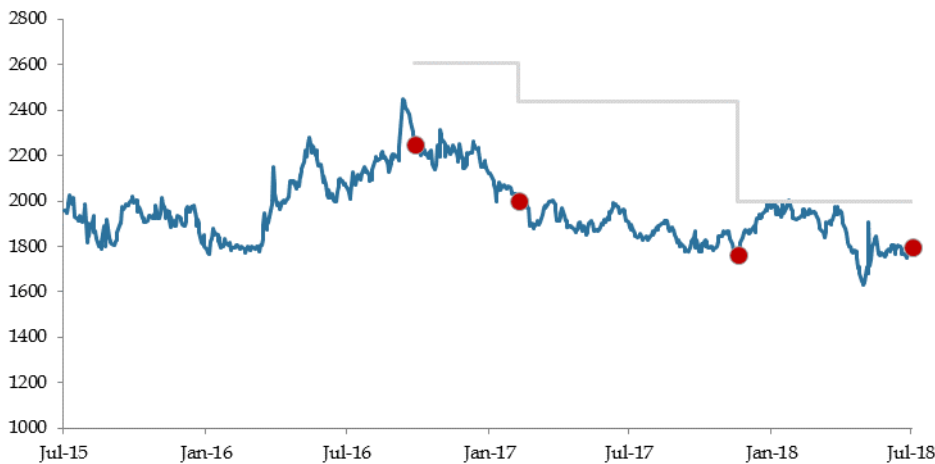
Balance Sheet

Y.E March (Rs cr)	CY15A	CY16A	CY17A	CY18E	CY19E
Cash	152	177	132	152	192
Accounts Receivable	196	207	260	291	327
Inventories	-	-	-	-	-
Other Cur. Assets	103	146	175	184	194
Investments	383	465	525	625	725
Gross Fixed Assets	293	335	358	404	440
Net Fixed Assets	98	84	61	56	35
CWIP	3	4	13	3	3
Intangible Assets	315	224	232	232	232
Def. Tax (Net)	36	17	35	35	35
Other Assets	46	59	60	61	62
Total Assets	1,331	1,385	1,495	1,640	1,804
Current Liabilities	443	385	429	452	478
Provisions	-	-	-	-	-
Debt Funds	-	-	-	-	-
Other Liabilities	32	15	17	18	19
Equity Capital	7	7	7	7	7
Reserves & Surplus	849	978	1,041	1,163	1,300
Shareholder's Fund	856	985	1,049	1,170	1,307
Total Liabilities	1,331	1,385	1,495	1,640	1,804
BVPS (Rs)	120.2	138.2	146.2	163.2	182.3

Ratios

Y.E March	CY15A	CY16A	CY17A	CY18E	CY19E
Profitab. & Return					
EBITDA margin (%)	29.0	28.6	27.4	28.3	28.5
EBIT margin (%)	26.3	25.1	24.6	25.6	25.8
Net profit mgn.(%)	20.7	19.0	18.4	19.5	19.5
ROE (%)	33.5	32.0	29.9	32.6	32.8
ROCE (%)	47.6	47.6	42.6	46.4	46.7
W.C & Liquidity					
Receivables (days)	51.7	48.9	57.3	57.3	57.3
Inventory (days)	0.0	0.0	0.0	0.0	0.0
Payables (days)	13.9	14.2	17.2	17.2	17.2
Current ratio (x)	1.0	1.4	1.3	1.4	1.5
Quick ratio (x)	1.0	1.4	1.3	1.4	1.5
Turnover &Levg.					
Gross asset T.O (x)	4.6	4.9	4.8	4.9	4.9
Total asset T.O (x)	1.1	1.1	1.2	1.2	1.2
Int. covg. ratio (x)	0.0	0.0	0.0	0.0	0.0
Valuation ratios					
EV/Sales (x)	9.1	8.1	7.6	6.8	6.0
EV/EBITDA (x)	31.3	28.2	27.7	23.9	21.2
P/E (x)	44.4	43.1	41.9	35.3	31.4
P/BV (x)	14.8	12.9	12.2	10.9	9.8

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
19 October 2016	Accumulate	2,609
09 March 2017	BUY	2,438
12 December 2017	Accumulate	2,000
25 July 2018	Accumulate	2,000

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0%-10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 10%.	Hold	-	Absolute is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL. Neutral - The analyst has no investment opinion on the stock under review.

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