

## CRISIL

### MISCELLANEOUS

21 FEB 2018

Quarterly Update

**BUY**

Target Price: Rs 2,241

## Revenue disappoints; payout improves

Revenue at ~Rs 4.4 bn grew 3% YoY in Q4 (CY17 at ~7%). Rating revenue declined ~2% YoY due to muted BLR and SME segment. Negative operating leverage (employee costs and profession fee) led to margin decline of ~300 bps in Q4. Lower depreciation and tax burden led to PAT growth of 5% YoY. CRISIL declared dividend of Rs 10 in Q4 (Rs 28 in CY17); payout of ~65% (65% in CY16/ 57% in CY15).

Increased bonds/ CP issuances in H2CY18 with yields stabilizing and improved regulatory landscape (NPA resolution, deepening of bond markets etc) would augur well for rating revenue growth. New product launches in research and advisory segment would aid revenue growth and margin improvement for Crisil. We expect 13-14% revenue CAGR over next 3-5 years, RoCE at 50%, and most of FCF to be distributed back to shareholders (dividends + buybacks). Maintain **BUY**.

CMP : Rs 1,992  
Potential Upside : 12%

### MARKET DATA

No. of Shares : 72 mn  
Free Float : 33%  
Market Cap : Rs 143 bn  
52-week High / Low : Rs 2,076 / Rs 1,752  
Avg. Daily vol. (6mth) : 23,176 shares  
Bloomberg Code : CRISIL IB Equity  
Promoters Holding : 67%  
FII / DII : 6% / 12%

## Result highlights

- Revenue growth was ~3% YoY in 4QCY17 and ~7% for CY17
  - Rating business declined 2% YoY, as the growth seen in debt offerings by large corporate segment was offset by muted performance in bank loan ratings and SME segments
  - Advisory services grew 41% YoY, with robust growth seen in the risk solutions and infrastructure advisory segment
  - Research segment grew just 4% YoY due to adverse currency movement
- Operating margin compressed ~300 bps YoY to 30%, primarily due to negative operating leverage witnessed in employee costs and professional fees. Segmental margin in the rating and advisory segments remained largely similar at 34% and 17% respectively. However, margin in research segment compressed ~500 bps YoY to 31% primary due to adverse forex impact and investments in new ventures which are yet not matured

## Financial summary (Consolidated)

| Y/E December   | CY16   | CY17   | CY18E  | CY19E  |
|----------------|--------|--------|--------|--------|
| Sales (Rs mn)  | 15,475 | 16,585 | 18,802 | 21,338 |
| PAT (Rs mn)    | 2,943  | 3,044  | 3,584  | 4,355  |
| Con. EPS* (Rs) | -      | -      | 51.4   | 59.7   |
| EPS (Rs)       | 41.3   | 42.7   | 50.2   | 61.0   |
| Change YOY (%) | 3.0    | 3.4    | 17.7   | 21.5   |
| P/E (x)        | 48.3   | 46.7   | 39.7   | 32.6   |
| RoE (%)        | 32.0   | 29.9   | 32.2   | 34.8   |
| RoCE (%)       | 46.9   | 42.6   | 47.2   | 51.0   |
| EV/E (x)       | 31.8   | 30.9   | 26.7   | 22.1   |
| DPS (Rs)       | 27.0   | 28.0   | 32.7   | 39.7   |

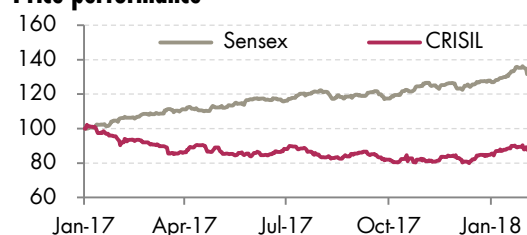
Source: \*Consensus broker estimates, Company, Axis Capital

Note: Prices as of 14 Feb 2018

## Key drivers

|                 | CY18E | CY19E | CY20E |
|-----------------|-------|-------|-------|
| Rev growth (%)  | 13%   | 13%   | 13%   |
| Op. mrgn (%)    | 28%   | 29%   | 30%   |
| FcF (Rs mn)     | 4,066 | 4,683 | 5,503 |
| Dvd. payout (%) | 65%   | 65%   | 65%   |

## Price performance



(...continued from page 1)

## Key Takeaways from Analyst Meet

### Rating segment

- ◆ Growth in revenue driven by debt offerings by large corporate segment was offset by muted performance in bank loan ratings and SME segments
- ◆ Management indicated while the corporate bond issuances grew healthy in 9m CY17, in the last 3 months the issuances dropped as the yields hardened. It expects improvement in H2CY18 as yields stabilize
- ◆ **New products and offerings**
  - Initiated independent credit evaluation for stressed assets
  - New credit rating scale for infra projects and assigned India's first rating on new infra scale
  - smefirst.com – an online portal for addressing all SME needs

### Research segment

- ◆ Revenue grew 4% during Q4CY17 and 8% YoY for CY17 with new client additions across India and Global Research. Also, management indicated it was able to tap opportunities tapped model risk management, change management, FRTB and FCC
- ◆ Segment margins reflect impact of adverse forex movement and investments in new ventures which have yet not matured
- ◆ **New products and offerings**
  - *Quantix*: Unique integrated data and analytics platform
  - *SMART* (Simple, Modular, Analytics & Research Toolkit): Innovative financial research platform for global investment banks
  - *TBLs* (Transaction Banking & Lending Services): Transaction banking analytics to expand coverage to entire CIB segment
  - *SPARC* (Shared Platform for Assessing Risk of Counterparties): Counterparty credit assessment through a common platform

### Advisory segment

- ◆ Management indicated business environment continues to be driven by policy, regulatory and technological changes. Robust revenue growth (41% YoY in Q4CY17 and 29% in CY17) was brought about with key wins across risk solutions and infrastructure advisory
- ◆ Improvement in segment profitability came about through better product mix and monetization of investments

### Recent announcements augur well for bond and credit market

- ◆ Move from 'AA' to 'A' grade ratings for investments by insurance companies, pension and provident funds will improve access to capital market for larger number of companies
- ◆ Push for one-fourth of large corporates financing needs from the bond market will provide opportunities and deepen bond market

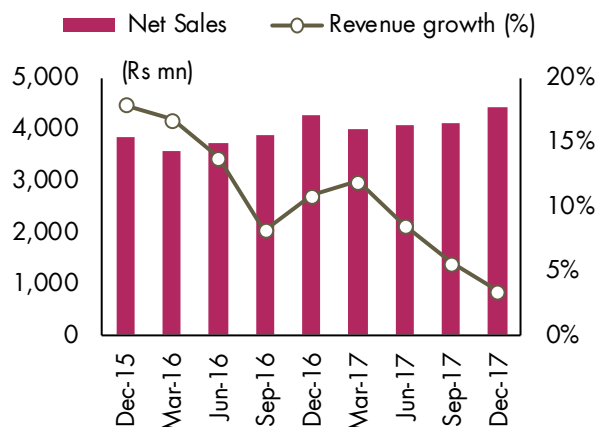
- ♦ Government focus on infrastructure, especially in the road sector bodes well for structured credit opportunities
- ♦ RBI recent revised guidelines for resolution of stressed assets puts in place a transparent and structured process
- ♦ [Click here](#) for our recent thematic report on Rating Agencies

### Exhibit 1: Results update – Consol

| (Rs. mn)              | Quarter ended |        |       |        |       | 12 months ended |        |       |
|-----------------------|---------------|--------|-------|--------|-------|-----------------|--------|-------|
|                       | Dec-17        | Dec-16 | % Chg | Sep-17 | % Chg | CY18E           | CY17   | % Chg |
| Net revenue           | 4,409         | 4,263  | 3     | 4,097  | 8     | 18,802          | 16,585 | 13    |
| EBITDA                | 1,341         | 1,424  | (6)   | 1,087  | 23    | 5,209           | 4,551  | 14    |
| Other income          | 44            | 123    | (64)  | 40     | 12    | 473             | 256    | 85    |
| PBIDT                 | 1,385         | 1,547  | (10)  | 1,127  | 23    | 5,682           | 4,807  | 18    |
| Depreciation          | 99            | 137    | (28)  | 112    | (11)  | 411             | 466    | (12)  |
| Interest              | 3             | -      | -     | 1      | -     | -               | 4      | -     |
| PBT                   | 1,283         | 1,410  | (9)   | 1,014  | 27    | 5,270           | 4,336  | 22    |
| Tax                   | 327           | 500    | (35)  | 319    | 2     | 1,687           | 1,292  | 31    |
| Adjusted PAT          | 956           | 910    | 5     | 694    | 38    | 3,584           | 3,044  | 18    |
| No. Of shares (mn)    | 72            | 71     | 1     | 72     | 0     | 72              | 72     | -     |
| EBITDA margin (%)     | 30%           | 33%    | (298) | 27%    |       | 28%             | 27%    | 27    |
| EPS - annualized (Rs) | 48            | 52     | (7)   | 39     | 24    | 50              | 43     | 18    |

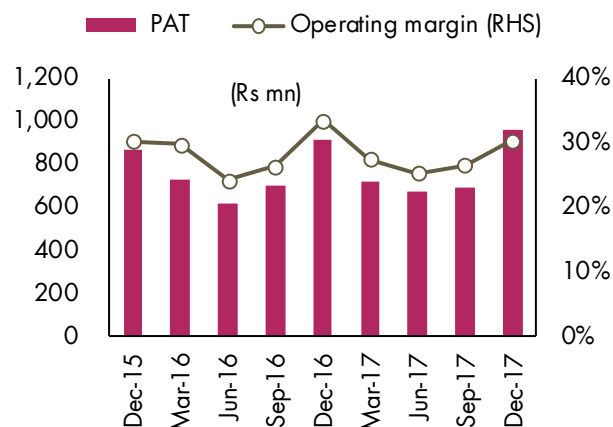
Source: Company, Axis Capital

### Exhibit 2: Revenue growth moderation led by weak BLR and SME segment, Forex impact



Source: Company, Axis Capital

### Exhibit 3: Negative operating leverage impacts margin



Source: Company, Axis Capital

## Exhibit 4: Segmental highlights

| Particulars                     | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Segmental Revenue</b>        |        |        |        |        |        |        |        |        |        |
| Rating Services                 | 1,087  | 1,125  | 1,098  | 1,100  | 1,277  | 1,277  | 1,146  | 1,163  | 1,257  |
| Advisory Services               | 156    | 239    | 162    | 207    | 215    | 211    | 212    | 240    | 282    |
| Research & Information Services | 2,346  | 2,483  | 2,326  | 2,438  | 2,771  | 2,771  | 2,656  | 2,662  | 2,870  |
| <b>Segment PBIT</b>             |        |        |        |        |        |        |        |        |        |
| Rating Services                 | 384    | 394    | 346    | 251    | 442    | 438    | 303    | 325    | 433    |
| Advisory Services               | 10     | 61     | (25)   | (8)    | 34     | 34     | 4      | 28     | 48     |
| Research & Information Services | 793    | 775    | 809    | 737    | 992    | 992    | 830    | 715    | 898    |
| <b>Growth</b>                   |        |        |        |        |        |        |        |        |        |
| Rating Services                 | 0%     | 3%     | 5%     | 1%     | 18%    | 14%    | 4%     | 6%     | -2%    |
| Advisory Services               | 3%     | 18%    | 33%    | 43%    | 38%    | -12%   | 31%    | 16%    | 31%    |
| Research & Information Services | 24%    | 26%    | 22%    | 18%    | 18%    | 12%    | 14%    | 9%     | 4%     |
| <b>Revenue Mix</b>              |        |        |        |        |        |        |        |        |        |
| Rating Services                 | 30%    | 29%    | 31%    | 29%    | 30%    | 30%    | 29%    | 29%    | 29%    |
| Advisory Services               | 4%     | 6%     | 5%     | 6%     | 5%     | 5%     | 5%     | 6%     | 6%     |
| Research & Information Services | 65%    | 65%    | 65%    | 65%    | 65%    | 65%    | 66%    | 65%    | 65%    |
| <b>PBIT Margin</b>              |        |        |        |        |        |        |        |        |        |
| Rating Services                 | 35%    | 35%    | 31%    | 23%    | 35%    | 34%    | 26%    | 28%    | 34%    |
| Advisory Services               | 7%     | 25%    | -15%   | -4%    | 16%    | 16%    | 2%     | 12%    | 17%    |
| Research & Information Services | 34%    | 31%    | 35%    | 30%    | 36%    | 36%    | 31%    | 27%    | 31%    |

Source: Company, Axis Capital

## Financial summary (Consolidated)

### Profit & loss (Rs mn)

| Y/E December                  | CY16          | CY17          | CY18E         | CY19E         |
|-------------------------------|---------------|---------------|---------------|---------------|
| Net sales                     | 15,475        | 16,585        | 18,802        | 21,338        |
| Other operating income        | -             | -             | -             | -             |
| <b>Total operating income</b> | <b>15,475</b> | <b>16,585</b> | <b>18,802</b> | <b>21,338</b> |
| Total operating expenses      | (11,058)      | (12,034)      | (13,593)      | (15,119)      |
| <b>EBITDA</b>                 | <b>4,418</b>  | <b>4,551</b>  | <b>5,209</b>  | <b>6,219</b>  |
| <i>EBITDA margin (%)</i>      | <i>28.5</i>   | <i>27.4</i>   | <i>27.7</i>   | <i>29.1</i>   |
| Depreciation                  | (545)         | (466)         | (411)         | (419)         |
| <b>EBIT</b>                   | <b>3,872</b>  | <b>4,084</b>  | <b>4,798</b>  | <b>5,800</b>  |
| Net interest                  | -             | (4)           | -             | -             |
| Other income                  | 512           | 256           | 473           | 604           |
| <b>Profit before tax</b>      | <b>4,385</b>  | <b>4,336</b>  | <b>5,270</b>  | <b>6,404</b>  |
| Total taxation                | (1,442)       | (1,292)       | (1,687)       | (2,049)       |
| <i>Tax rate (%)</i>           | <i>32.9</i>   | <i>29.8</i>   | <i>32.0</i>   | <i>32.0</i>   |
| Profit after tax              | 2,943         | 3,044         | 3,584         | 4,355         |
| Minorities                    | -             | -             | -             | -             |
| Profit/ Loss associate co(s)  | -             | -             | -             | -             |
| Adjusted net profit           | 2,943         | 3,044         | 3,584         | 4,355         |
| <i>Adj. PAT margin (%)</i>    | <i>19.0</i>   | <i>18.4</i>   | <i>19.1</i>   | <i>20.4</i>   |
| Net non-recurring items       | (247)         | (774)         | -             | -             |
| Reported net profit           | 2,696         | 2,270         | 3,584         | 4,355         |

### Balance sheet (Rs mn)

| Y/E December                  | CY16         | CY17          | CY18E         | CY19E         |
|-------------------------------|--------------|---------------|---------------|---------------|
| Paid-up capital               | 71           | 72            | 72            | 72            |
| Reserves & surplus            | 9,782        | 10,414        | 11,668        | 13,192        |
| Net worth                     | 9,854        | 10,486        | 11,740        | 13,264        |
| Borrowing                     | -            | -             | -             | -             |
| Other non-current liabilities | 13           | 46            | 46            | 46            |
| <b>Total liabilities</b>      | <b>9,867</b> | <b>10,532</b> | <b>11,786</b> | <b>13,310</b> |
| Gross fixed assets            | 5,258        | 5,571         | 5,658         | 5,808         |
| Less: Depreciation            | (2,170)      | (2,637)       | (3,048)       | (3,467)       |
| Net fixed assets              | 3,087        | 2,935         | 2,610         | 2,341         |
| Add: Capital WIP              | 43           | 132           | 132           | 132           |
| Total fixed assets            | 3,131        | 3,067         | 2,742         | 2,473         |
| Other Investment              | 4,985        | 5,403         | 5,490         | 5,761         |
| Inventory                     | -            | -             | -             | -             |
| Debtors                       | 2,073        | 2,604         | 2,833         | 3,215         |
| Cash & bank                   | 1,775        | 1,318         | 2,919         | 4,445         |
| Loans & advances              | 1,154        | 1,428         | 1,619         | 1,837         |
| Current liabilities           | 3,899        | 4,315         | 4,892         | 5,552         |
| Net current assets            | 1,103        | 1,035         | 2,479         | 3,945         |
| Other non-current assets      | 649          | 1,028         | 1,076         | 1,131         |
| <b>Total assets</b>           | <b>9,867</b> | <b>10,532</b> | <b>11,786</b> | <b>13,310</b> |

Source: Company, Axis Capital

### Cash flow (Rs mn)

| Y/E December                     | CY16           | CY17           | CY18E          | CY19E          |
|----------------------------------|----------------|----------------|----------------|----------------|
| Profit before tax                | 4,385          | 4,336          | 5,270          | 6,404          |
| Depreciation & Amortisation      | 545            | 466            | 411            | 419            |
| <i>Chg in working capital</i>    | <i>(400)</i>   | <i>(389)</i>   | <i>157</i>     | <i>59</i>      |
| <b>Cash flow from operations</b> | <b>2,790</b>   | <b>3,126</b>   | <b>4,152</b>   | <b>4,833</b>   |
| <i>Capital expenditure</i>       | <i>(233)</i>   | <i>(314)</i>   | <i>(86)</i>    | <i>(150)</i>   |
| <b>Cash flow from investing</b>  | <b>(190)</b>   | <b>(1,167)</b> | <b>(222)</b>   | <b>(477)</b>   |
| <i>Equity raised/ (repaid)</i>   | <i>133</i>     | -              | -              | -              |
| <i>Debt raised/ (repaid)</i>     | -              | -              | -              | -              |
| <i>Dividend paid</i>             | <i>(2,402)</i> | <i>(1,997)</i> | <i>(2,330)</i> | <i>(2,831)</i> |
| <b>Cash flow from financing</b>  | <b>(2,269)</b> | <b>(1,997)</b> | <b>(2,330)</b> | <b>(2,831)</b> |
| Net chg in cash                  | 330            | (38)           | 1,601          | 1,526          |

### Key ratios

| Y/E December               | CY16  | CY17  | CY18E | CY19E |
|----------------------------|-------|-------|-------|-------|
| <b>OPERATIONAL</b>         |       |       |       |       |
| FDEPS (Rs)                 | 41.3  | 42.7  | 50.2  | 61.0  |
| CEPS (Rs)                  | 45.4  | 38.4  | 56.0  | 66.9  |
| DPS (Rs)                   | 27.0  | 28.0  | 32.7  | 39.7  |
| Dividend payout ratio (%)  | 71.4  | 88.0  | 65.0  | 65.0  |
| <b>GROWTH</b>              |       |       |       |       |
| Net sales (%)              | 12.1  | 7.2   | 13.4  | 13.5  |
| EBITDA (%)                 | 10.6  | 3.0   | 14.5  | 19.4  |
| Adj net profit (%)         | 3.2   | 3.4   | 17.7  | 21.5  |
| FDEPS (%)                  | 3.0   | 3.4   | 17.7  | 21.5  |
| <b>PERFORMANCE</b>         |       |       |       |       |
| RoE (%)                    | 32.0  | 29.9  | 32.2  | 34.8  |
| RoCE (%)                   | 46.9  | 42.6  | 47.2  | 51.0  |
| <b>EFFICIENCY</b>          |       |       |       |       |
| Asset turnover (x)         | 2.0   | 1.9   | 2.1   | 2.4   |
| Sales/ total assets (x)    | 1.1   | 1.2   | 1.2   | 1.2   |
| Working capital/ sales (x) | (0.1) | -     | -     | -     |
| Receivable days            | 48.9  | 57.3  | 55.0  | 55.0  |
| Inventory days             | -     | -     | -     | -     |
| Payable days               | 106.5 | 108.1 | 108.5 | 110.7 |
| <b>FINANCIAL STABILITY</b> |       |       |       |       |
| Total debt/ equity (x)     | -     | -     | -     | -     |
| Net debt/ equity (x)       | (0.2) | (0.1) | (0.3) | (0.4) |
| Current ratio (x)          | 1.3   | 1.2   | 1.5   | 1.7   |
| Interest cover (x)         | -     | 996.2 | -     | -     |
| <b>VALUATION</b>           |       |       |       |       |
| PE (x)                     | 48.3  | 46.7  | 39.7  | 32.6  |
| EV/ EBITDA (x)             | 31.8  | 30.9  | 26.7  | 22.1  |
| EV/ Net sales (x)          | 9.1   | 8.5   | 7.4   | 6.5   |
| PB (x)                     | 14.4  | 13.6  | 12.1  | 10.7  |
| Dividend yield (%)         | 1.4   | 1.4   | 1.6   | 2.0   |
| Free cash flow yield (%)   | 1.8   | 2.0   | 2.9   | 3.3   |

Source: Company, Axis Capital

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|-----------------------|---|
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| BUY                   | More than 10%                               |
| HOLD                  | Between 10% and -10%                        |
| SELL                  | Less than -10%                              |

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