

CRISIL

Slowdown in research and rating

India Equity Research | Credit Rating

CRISIL's Q1CY18 numbers came in line with estimates with revenue growing 4.6% YoY and EBITDA jumping 10% YoY as margin expanded 147bps. Research revenue grew a moderate 3% YoY buoyed by client wins and advisory grew 47% YoY on execution of existing mandates. However, ratings segment remained flat YoY as good credit off take (up ~11% YoY) was offset by dip in corporate bond issuances (down ~14% YoY). Though credit growth is perking up and bond market developments are positive, slowdown in SME is hurting the ratings segment. Moreover, research segment is yet to see broad-based uptick. Hence, we maintain 'HOLD' with TP of INR1,825.

Research: Remains subdued; client wins support growth

Research segment's revenue (~65% of overall) growth slowed to 3.1% YoY and EBIT grew 2.3% YoY. Addition of new clients across domestic & global markets and new launches gaining traction supported the marginal revenue growth. **New launches:** Quantix, the cross-sector data analytics platform for the Indian market, added new clients; ii) GR&A leveraged tech-enabled platforms SPARC and SMART to expand its client base; and iii) launched 14 new debt & hybrid indices for the Indian market.

Slowdown in corporate debt ratings; advisory strong

Ratings segment's revenue (~27% of overall) was flat YoY due to restrained domestic capital market, where corporate bond issuances declined ~14% YoY. Recovery in bank loan ratings (BLR), led by good credit off take (up ~11% YoY), was offset by decline in corporate bond issuances due to persistent high yields. CRISIL is focussing on tapping opportunities in the BLR segment. EBIT grew a strong 26.4% YoY as greater efficiencies and cost control led to a robust ~685bps margin expansion. Advisory revenue (~8% of overall; includes recently acquired Pragmatix's financials) continued to grow strongly, albeit on a low base, at 47% YoY driven by execution of existing mandates, particularly in the infrastructure advisory business. Also, increased outreach in South-East Asia and platform & solution offerings in risk and business intelligence led to new client wins.

Outlook and valuations: Short-term benign; maintain 'HOLD'

Credit off take picking up and recent bond market developments are key positives. However, due to slowdown in SME ratings and research, we maintain 'HOLD' with TP of INR1,825. We value by DCF method (discount rate of 9.6%) factoring 12% growth in first four years, 11% in next five and then declining gradually to terminal rate of 5%.

Financials

	(INR mn)							
Year to Dec.	Q1CY18	Q1CY17	Growth %	Q4CY17	Growth %	CY17	CY18E	CY19E
Revenues	4,206	4,022	4.6	4,411	(4.7)	16,585	18,136	20,104
EBITDA	1,219	1,106	10.2	1,343	(9.3)	4,559	5,169	6,011
Adjusted Profit	822	721	14.0	956	(14.0)	3,032	3,561	4,116
Adj. Diluted EPS (INR)	11.5	10.1	13.3	13.3	(14.0)	42.5	49.9	57.7
Diluted P/E (x)							38.5	33.3
EV/EBITDA (x)							25.9	22.2
ROAE (%)						30.4	32.9	35.6

EDELWEISS RATINGS

Absolute Rating	HOLD
Investment Characteristics	Growth
MARKET DATA (R: CRSL.BO, B: CRISIL IN)	
CMP	: INR 1,922
Target Price	: INR 1,825
52-week range (INR)	: 2,023 / 1,752
Share in issue (mn)	: 71.7
M cap (INR bn/USD mn)	: 141 / 2,149
Avg. Daily Vol. BSE/NSE ('000)	: 29.5

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	66.7	66.7	66.8
MF's, FI's & BKs	12.5	12.0	11.2
FII's	6.1	5.8	6.3
Others	14.7	15.5	15.7
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	5.7	1.0	(4.7)
3 months	(5.0)	0.3	5.3
12 months	17.3	(1.0)	(18.3)

Shradha Sheth

+91 22 6623 3308
shradha.sheth@edelweissfin.com

Shanmuganandam T

+91 22 6623 3357
shanmuganandam.t@edelweissfin.com

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Credit Rating

Table 1: Segment wise performance

	Q1CY18	Q1CY17	% YoY	Q4CY17	%QoQ	CY17	CY16	% YoY
Segment revenue								
Rating Services	1,150	1,146	0.3	1,257	(8.5)	4,803	4,676	2.7
Advisory Services	312	212	47.0	282	10.5	978	761	28.6
Research Services	2,738	2,656	3.1	2,870	(4.6)	10,804	10,038	7.6
Total	4,200	4,014		4,409		16,585	15,475	
Segment EBIT								
Rating Services	383	303	26.4	433	(11.6)	1512	1,415	6.9
Advisory Services	34	4	852.8	48	(29.0)	92	(8)	NA
Research Services	849	830	2.3	898	(5.4)	3085	3,261	(5.4)
Total	1,266	1,136		1379		4689	4,668	
Segment EBIT margin (%)								
Rating Services	33.3	26.4	6.9	34.4	(1.2)	31.5	30.3	1.2
Advisory Services	11.0	1.7	9.3	17.1	(6.1)	9.4	(1.0)	10.4
Research Services	31.0	31.2	(0.2)	31.3	(0.3)	28.5	32.5	(3.9)

Source: Company

Financial snapshot

(INR mn)

Year to December	Q1CY18	Q1CY17	% change	Q4CY17	% change	CY17	CY18E	CY19E
Net revenues	4,206	4,022	4.6	4,411	(4.7)	16,585	18,136	20,104
Staff costs	2,108	1,980	6.5	2,155	(2.1)	8,452	9,159	9,992
Other expenses	879	936	(6.2)	914	(3.8)	3,574	3,809	4,101
Total expenditure	2,987	2,916	2.4	3,068	(2.6)	12,026	12,967	14,093
EBITDA	1,219	1,106	10.2	1,343	(9.3)	4,559	5,169	6,011
Depreciation	105	129	(18.4)	99	6.0	466	478	512
EBIT	1,114	978	13.9	1,244	(10.5)	4,094	4,691	5,500
Interest	5	-	-	3	82.8	-	-	-
Other income	70	70	(0.4)	42	65.8	232	396	381
Add: Prior period items								
Add: Exceptional items								
Profit before tax	1,179	1,048	12.5	1,286	(8.4)	4,325	5,087	5,880
Provision for taxes	356	327	9.1	327	8.9	1,293	1,526	1,764
Reported net profit	822	721	14.0	959	(14.3)	3,032	3,561	4,116
Adjusted Profit	822	721	14.0	956	(14.0)	3,032	3,561	4,116
Diluted shares (mn)	72	71	-	72	-	72	72	72
Adjusted Diluted EPS	11.5	10.1	13.3	13.3	(14.0)	42.5	49.9	57.7
Diluted P/E (x)	-	-	-	-	-	-	38.5	33.3
EV/EBITDA (x)	-	-	-	-	-	-	25.9	22.2
ROAE (%)	-	-	-	-	-	-	32.9	35.6

As % of net revenues

Employee cost	50.1	49.2		48.8		51.0	50.5	49.7
Other expenses	20.9	23.3		20.7		21.6	21.0	20.4
EBITDA	29.0	27.5		30.4		27.5	28.5	29.9
Reported net profit	19.5	17.9		21.7		18.3	19.6	20.5

Company Description

CRISIL is India's leading credit rating, research, risk & policy advisory company having pioneered the concept of credit rating in India in 1987. S&P, the world's leading credit rating agency by market share, is its major shareholder (67.7%) after the recent open offer.

CRISIL is a globally diversified analytical company having ratings, research and advisory services under its fold. With market leadership in corporate bonds, bank loan ratings and SME ratings, company is strongly poised to gain from cyclical and structural uptick in domestic ratings segment. With increased interest from parent, strong growth in off shoring services to S&P will continue which will drive its offshore ratings segment (Global Analytic Center). Being a global research analytics company providing off shoring services to several large global clients like 12 of top 15 global investment banks, two of the top 10 global consulting groups, three of the top 15 global insurance companies and 37 Fortune 500 companies, company is expected to continue its strong momentum in research revenues.

Investment Theme

CRISIL is India's leading credit rating company having a ~35% revenue market share, and a strong parentage—Standard & Poor (S&P), world's leading credit rating agency by market share. Based on recovery in the Indian economy and increased penetration of debt market in India, we are factoring in 10% CAGR in ratings sales over CY15-17E. Also, we have assumed 18% CAGR in research revenue over CY15-17E.

Key Risks

Adverse macro economy

Ratings agencies are vulnerable to downturns in the economy when capital raising activities fall. Last year, fund raising activities dipped due to weakness in the economy and corporate level stress, which in turn led to reduced bond issuances and bonds rating businesses. Also with ~65% consolidated revenue from outside India and 29% revenue being Europe linked, the company's overall revenue could face some pressure.

Migration to internal ratings based approach by banks

If banks whose clients avail credit rating services under the Basel II framework migrate to the internal rating based approach for credit risk (the IRB Approach), it could have an adverse effect on CRISIL's rating business.

Pricing transience to fixed fee structure

Limited bond issuance and lower bank loan rating volumes pose a threat as issuances have transcended to a fixed fee cap structure. However, this is more so pronounced only in the BLR market and less in the CDR segment which is more profitable.

Risk of defaults

Any rating default by a client would hamper the credibility of the rating agency. However SEBI's mandatory disclosures of default rates would keep the rating agency under control of the watch guard.

Financial Statements

Key Assumptions

Year to December	CY16	CY17	CY18E	CY19E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Sector				
Corp debt iss. growth(%)	20.0	12.0	16.0	16.0
Banking cr. growth (%)	15.0	16.0	18.0	20.0
Company				
Vol of debt rated(INRbn)	6,677	7,478	8,537	9,935
Number of new assignments	2,741	2,960	3,197	3,517
Nos	18,080	13,090	14,399	16,415
Rating revenues (INR mn)	4,676	4,803	5,196	5,743
Domestic Ratings	2,961	3,011	3,314	3,739
CDR inc(INR mn)	1,546	1,735	1,959	2,285
BLR inc(INR mn)	832	875	927	981
SME	583	401	428	473
S&P Ratings	1,715	1,792	1,882	2,004
Advisory services	758	977	1,153	1,361
Research revenue(INR mn)	7,443	8,016	8,761	9,672
Irevna	8,012	8,613	9,388	10,326
Pipal Research	273	287	301	319
India Research	(841)	(883)	(928)	(974)
Coalition Development	2,594	2,789	3,026	3,328
Total Revenues (INR mn)	12,877	13,797	15,110	16,776
Rating revenues (%)	36.3	34.8	34.4	34.2
Domestic Ratings	23.0	21.8	21.9	22.3
S&P Ratings	13.3	13.0	12.5	11.9
Advisory services	5.9	7.1	7.6	8.1
Research revenues (%)	57.8	58.1	58.0	57.7
Irevna	62.2	62.4	62.1	61.6
Pipal Research	2.1	2.1	2.0	1.9
India Research	(6.5)	(6.4)	(6.1)	(5.8)
Coalition Development	20.1	20.2	20.0	19.8

Income statement

(INR mn)

Year to December	CY16	CY17	CY18E	CY19E
Net revenue	15,472	16,585	18,136	20,104
Employee costs	7,749	8,452	9,159	9,992
Gross profit	7,722	8,133	8,977	10,113
Other Expenses	3,107	3,574	3,809	4,101
Total Expenditure	10,856	12,026	12,967	14,093
EBITDA	4,615	4,559	5,169	6,011
Depreciation	404	466	478	512
EBIT	4,212	4,094	4,691	5,500
Add: Other income	547.13	231.54	395.82	380.62
Profit Before Tax	4,759	4,325	5,087	5,880
Less: Provision for Tax	1,495	1,293	1,526	1,764
Reported Profit	3,263	3,032	3,561	4,116
Adjusted Profit	3,263	3,032	3,561	4,116
Shares o /s (mn)	71	71	71	71
Adjusted Basic EPS	45.7	42.5	49.9	57.7
Diluted shares o/s (mn)	71	71	71	71
Adjusted Diluted EPS	45.7	42.5	49.9	57.7
Adjusted Cash EPS	51.1	49.0	56.6	64.9
Dividend per share (DPS)	27.0	28.0	35.0	40.0
Dividend Payout Ratio (%)	71.0	76.4	81.3	80.4

Common size metrics

Year to December	CY16	CY17	CY18E	CY19E
Operating expenses	70.2	72.5	71.5	70.1
Depreciation	2.6	2.8	2.6	2.5
EBITDA margins	29.8	27.5	28.5	29.9
Net Profit margins	21.1	18.3	19.6	20.5

Growth ratios (%)

Year to December	CY16	CY17	CY18E	CY19E
Revenues	12.1	7.2	9.3	10.9
EBITDA	15.5	(1.2)	13.4	16.3
PBT	17.3	(9.1)	17.6	15.6
EPS	14.2	(7.1)	17.4	15.6
Adjusted Profit	14.4	(7.1)	17.4	15.6

Credit Rating

Balance sheet		(INR mn)			
As on 31st December	CY16	CY17	CY18E	CY19E	
Share capital	71	71	71	71	
Reserves & Surplus	9,382	10,414	11,079	11,885	
Shareholders' funds	9,454	10,486	11,150	11,956	
Long Term Liabilities	231	175	175	175	
Def. Tax Liability (net)	(385)	(667)	(667)	(667)	
Sources of funds	9,299	9,994	10,658	11,464	
Gross Block	5,871	6,171	6,571	7,071	
Net Block	664	544	466	454	
Capital work in progress	42	132	132	132	
Intangible Assets	3,037	2,391	2,391	2,391	
Total Fixed Assets	3,743	3,067	2,989	2,977	
Non-current investments	56	4,046	4,046	4,046	
Cash and Equivalents	6,014	2,711	3,333	3,799	
Sundry Debtors	2,101	2,604	2,584	2,974	
Loans & Advances	1,078	1,428	1,428	1,428	
Other Current Assets	985	324	324	324	
Current Assets (ex cash)	4,164	4,356	4,336	4,727	
Trade payable	416	567	427	465	
Other Current Liab	4,262	3,619	3,619	3,619	
Total Current Liab	4,678	4,187	4,046	4,085	
Net Curr Assets-ex cash	(514)	170	290	642	
Uses of funds	9,299	9,994	10,658	11,464	
BVPS (INR)	132.5	147.0	156.3	167.6	

Free cash flow		(INR mn)			
Year to December	CY16	CY17	CY18E	CY19E	
Reported Profit	3,263	3,032	3,561	4,116	
Add: Depreciation	404	466	478	512	
Less: Changes in WC	(400)	(740)	(120)	(352)	
Operating cash flow	2,789	2,757	3,918	4,276	
Less: Capex	233	390	400	500	
Free Cash Flow	2,556	2,367	3,518	3,776	
Others	(1,277)	(1,481)	(240)	(704)	

Cash flow metrics				
Year to December	CY16	CY17	CY18E	CY19E
Operating cash flow	2,789	2,757	3,918	4,276
Investing cash flow	(247)	(1,534)	(400)	(500)
Financing cash flow	(2,213)	(2,317)	(2,896)	(3,310)
Net cash Flow	330	(1,093)	622	466
Capex	(233)	(390)	(400)	(500)
Dividend paid	(2,402)	(2,317)	(2,896)	(3,310)

Profitability and efficiency ratios				
Year to December	CY16	CY17	CY18E	CY19E
ROAE (%)	36.2	30.4	32.9	35.6
ROACE (%)	52.8	43.4	47.0	50.9
ROA	36.6	31.4	34.5	37.2
Debtors Days	48	52	52	50
Payable Days	20	17	18	22
Cash Conversion Cycle	30	31	32	34
Debt / Cap employed (%)	46.2	35.2	31.7	29.8

Operating ratios				
Year to December	CY16	CY17	CY18E	CY19E
Total Asset Turnover	1.7	1.7	1.8	1.8
Fixed Asset Turnover	4.0	5.0	6.3	7.1
Equity Turnover	1.7	1.7	1.7	1.7

Valuation parameters				
Year to December	CY16	CY17	CY18E	CY19E
Adj. Diluted EPS (INR)	45.7	42.5	49.9	57.7
Y-o-Y growth (%)	14.2	(7.1)	17.4	15.6
Adjusted Cash EPS (INR)	51.1	49.0	56.6	64.9
Diluted P/E (x)	42.4	45.6	38.5	33.3
P/B (x)	14.6	13.2	12.4	11.6
EV / Sales (x)	8.5	8.1	7.4	6.6
EV / EBITDA (x)	28.7	29.7	25.9	22.2
Dividend Yield (%)	1.4	1.4	1.8	2.1

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		CY18E	CY19E	CY18E	CY19E	CY18E	CY19E
Crisil	2,149	38.8	33.6	12.4	11.6	32.9	35.6
CARE Ratings Limited	582	23.4	20.1	6.5	6.0	28.8	30.9
ICRA	576	36.0	32.1	6.2	5.6	18.0	18.3
Median	-	36.0	32.1	6.5	6.0	28.8	30.9
AVERAGE	-	32.8	28.6	8.4	7.7	26.6	28.3

Source: Edelweiss research

Additional Data

Directors Data

Mr. Douglas L. Peterson	Chairman	Ms. Ashu Suyash	Managing Director and Chief Executive Officer
Mr. Ravinder Singhania	Alternate Director to Douglas Peterson	Mr. H.N. Sinor	Director
Dr. Nachiket Mor	Director	Mr. M. Damodaran	Director
Ms. Vinita Bali	Director	Ms. Martina L. Cheung	Director
Mr. John L. Berisford	Director		

Auditors - S. R. Batliboi & Co

Holding Top -10

	Perc. Holding		Perc. Holding
Life Insurance Corporation of India	5.00	Blackrock	0.46
General Insurance Corp of India	3.77	ICICI Prudential Asset Management	0.38
Matthews Intl Capital	2.03	Wasatch Advisors	0.32
Unit Trust of India	1.63	UTI Asset Management	0.28
Sundaram Asset Management	0.86	Birla Sunlife Asset Management	0.28

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

**as per last available data*

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Credit Rating

CARE Ratings Limited, Crisil, ICRA

Recent Research

Date	Company	Title	Price (INR)	Recos
23-Mar-18	CARE Ratings (Coffee with CEO)	Deepening bond market to drive growth; <i>Visit Note</i>	1,230	Buy
21-Feb-18	ICRA	Operating environment weak; outlook bright; <i>Result Update</i>	3,775	Buy
19-Feb-18	CRISIL	Slowdown in research and rating; <i>Result Update</i>	1,965	Hold

Distribution of Ratings / Market Cap

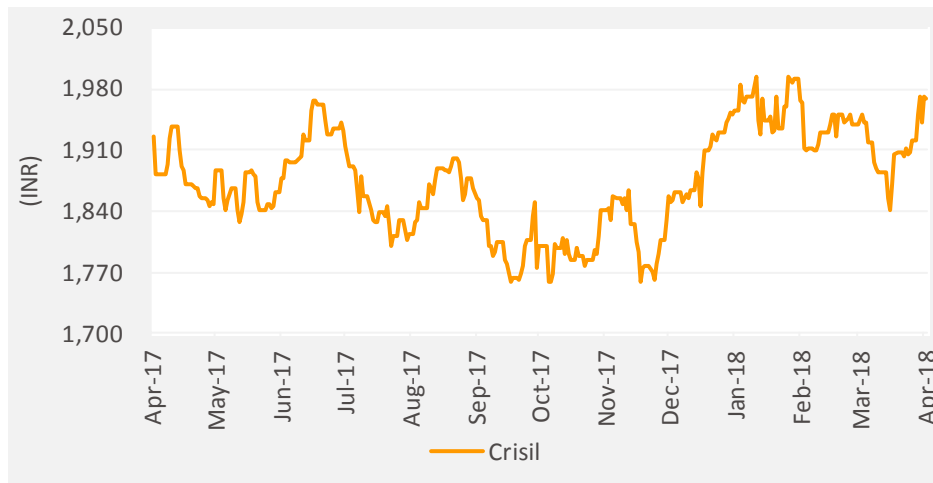
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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