

April 25, 2022

RESULT REPORT Q1CY22 | Sector: Financials

CRISIL Limited

Solid performance to continue

Our view

CRISIL delivered a robust operating performance in Q1 CY22 (4% Revenue/16-17% EBITDA & Earnings beat) characterized by multi-year high revenue growth of 20% yoy and EBITDA margin of 29.6%. The strong growth performance was driven by a) improved growth momentum in domestic ratings business (continuous market share gains), b) sustained traction in GR&RS business underpinned by strong demand for core offerings in research, risk, regulatory support, and transformation, capabilities to tap new opportunities and new client additions, c) strong performance of India Research business on continued buoyancy in capital markets and economic recovery and d) an integrated approach in GBA business driving wallet share gains within key clients and new client additions. Management remains sanguine about growth momentum in global research/benchmarking analytics businesses and about market share in the domestic ratings business.

EBITDA margin was higher 240 bps qoq and 390 bps yoy and the absolute growth in EBITDA was 38% yoy. Margins were slightly suppressed in Q1 CY21 on account of lower profitability of Greenwich (transitional period). The margin expansion came through despite high people cost inflation on account of operating leverage of non-employee cost. In our view, healthy growth in domestic ratings, traction in high-margin services within GR&RS and significant profitability turnaround in Greenwich (was profitable for whole 2021 after starting with a loss in Q1) have been key margin drivers in recent quarters. As per management, significant room for operating leverage exists in each business and attrition is being managed within the threshold.

We raise earnings estimates by 4-5% across CY22-24 by lifting growth and margin assumptions on the back of strong performance delivery in Q1 CY22 and positive management commentary about concurrent trends in market/wallet share in various businesses and readiness/capabilities to tap evolving opportunities (related to ESG and others). We estimate 15%/23% consolidated revenue/PBT CAGR over CY21-24 and ~400 bps margin expansion through the period. Improved margin and growth will cause RoE to expand by 6 ppt to 38% in CY24. Stock trades at 41x 1-yr rolling fwd. P/E, and its peak valuation has been around 55x in the past seven years. Multiple is expected to re-rate on prospects of substantial RoE expansion. Reiterate BUY and raise 12m PT to Rs4100 (earlier Rs3750).

Exhibit 1: Result table

Result table (Rs mn)	Q1CY22	Q4CY21	QoQ	Q1CY21	YoY
Revenues	5,949	7,060	-15.7%	4,952	20.1%
Employee Benefit Expenses	3,198	3,922	-18.5%	2,694	18.7%
Other Expenses	747	776	-3.7%	780	-4.2%
Total Expense	4,187	5,135	-18.5%	3,677	13.9%
Operating Profit	1,763	1,925	-8.4%	1,275	38.3%
Other Income	201	134	49.7%	135	49.5%
Finance cost	18	19	-0.5%	26	-29.8%
Depreciation	252	246	2.4%	278	-9.3%
Profit before Tax	1,693	2,253	-24.8%	1,105	53.2%
Tax Expense	477	567	-15.8%	270	76.8%
Profit After Tax	1,216	1,686	-27.9%	835	45.6%

Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 3,337
Target Price	: Rs 4,100
Potential Return	: 22.8%

Stock data (as on Apr 25, 2022)

Nifty	16,954
52 Week h/l (Rs)	3575 / 1820
Market cap (Rs/USD mn)	243507 / 3175
Outstanding Shares (mn)	73
6m Avg t/o (Rs mn):	193
Div yield (%):	1.2
Bloomberg code:	CRISIL IN
NSE code:	CRISIL

Stock performance



	1M	3M	1Y
Absolute return	8.9%	20.1%	79.3%

Shareholding pattern

Promoter	66.8%
FII+DII	13.7%
Others	19.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	4,100	3,750

Δ in earnings estimates

	CY22e	CY23e	CY24e
EPS (New)	76.1	90.9	108.5
EPS (Old)	73.2	87.3	103.9
% change	4.0%	4.1%	4.4%

Financial Summary

(Rs mn)	CY22E	CY23E	CY24E
Net Revenue	26,976	30,780	35,176
EBIDTA	7,688	9,009	10,597
Margin (%)	28.5%	29.3%	30.1%
PAT	5,550	6,629	7,910
Growth (%)	19.1%	19.4%	19.3%
ROE (%)	33.4%	35.9%	38.4%
EPS (Rs)	76.1	90.9	108.5
P/E (x)	43.8	36.7	30.8
BV (Rs)	239	267	299
P/BV (x)	13.9	12.5	11.2

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KEY CON-CALL HIGHLIGHTS

Domestic Ratings Business

- Strong growth for CRISIL despite tepid trends in lending markets - continuance of market share gains that started post the IL&FS event
- Corp Bond issuances declined by 22-23% in CY21 and Q1 CY22 on rising and volatile interest rates - issuances from NBFC sector, one of the largest issuer segments, were muted - No. of issuers dipped by 26% in CY21
- There has been a reduction in the no. of clients (nearly halved) seeking BLR rating in the past 3-4 years due to increase in minimum exposure threshold by large private banks (to near Rs500mn) - but this headwind has fully played out
- CRISIL's analytical rigor and quality of ratings (reflected in long-run avg default rates) has been much superior than other CRAs across rating categories - this is significantly valued by investors and issuers
- Stressed assets ratings business while has been growing at a healthy pace, is yet not a material contributor in domestic rating revenue
- Surveillance Fees (SF) were 50%+ of CY21 domestic rating revenue - SF are accounted over the life of the bond/loan - Initial Rating Fees (IRF) accounted in the quarter of assignment win
- Rack rates for Initial Rating Fees (IRF) at 10 bps for Bond Rating and 4 bps for Bank Loan Rating - but yields are lower than the rack rate - notably, yields have inched-up marginally over the past few years
- The mix of new issuers and existing issuers who could be under fee cap can influence the yields on quarterly basis - if new issuers increase in the market, it would positively influence the yield in general - but in India the large 10-15 issuers dominate the market
- In case of fee arrangements with the large issuers, it is difficult to segregate BR and BLR revenues due to composite work and fees
- Pricing pressure in ratings business has not gone away - co. driving better margins/profitability through market share gains and operating leverage
- Have witnessed migration of large corporates from Bond Ratings to Bank Loan Ratings market in recent years
- Capex cycle revival would be a key monitorable.

S&P Ratings Support (GAC)

- Added new areas of engagements like ESG assessment and analytics surveillance support - broadening of scope/support will continue driving growth

Global Research & Risk Solutions (GR&RS)

- Demand for CRISIL's capabilities in GR&RS business remain high underpinned by market-led changes and regulatory push
- Co. witnessing clients' spending increasing in the areas of non-financial risk, digitalization, transformation, sustainability (ESG), etc. relating to data, research, intelligence, etc. - these are additional business opportunities over traditional requirements - unlocked new opportunities by working closely with customers
- Delivered risk transformation projects for global banks - strong traction for core offerings continue
- Multiple factors driving margin expansion like stronger growth, cost focus, focus on risk side, etc.

Global Benchmarking Analytics (GBA)

- Leveraging the Greenwich acquisition through a) augmented capability to offer full-suite of benchmarking analytics services (quantitative and qualitative) and b) going with combined offering to existing clients (to expand share of wallet) and new clients (non-CIB customers like asset managers, community/commercial banks and other entities)
- Demand for benchmarking and competitive intelligence remains high from global financial institutions
- Greenwich had posted a loss in Q1 CY21, but was profitable for full-year 2021
- Co. targets better margins in GBA business, both for Greenwich and Coalition

India Research & Advisory

- India research witnessing good growth on capital market buoyancy
- Traction in Advisory Business in terms of RFPs currently way better than same time last year – future drivers to be higher budgeted Infra capex in areas such as Roads, Ports, Logistics and Energy and higher allocation under PLI scheme towards renewables and sustainability themes

ESG

- Potential of ESG opportunity for CRISIL across data, research, benchmarks, evaluation, assessment, consulting, etc. – the addressable market would be decided by capabilities and focus

EBITDA Margin

- EBIDTA margins near 30% in Q1 CY22 – best to look at full-year margin due to quarterly volatility/cyclicality
- Targeting growth in margins over coming years – every business has headroom to deliver margin expansion going ahead – however, there would be some level of non-linearity due to strategic investment in Tech and Talent
- Hired experienced talent from the market – hiring campus talent also from B schools and Top Engineering Colleges - 15% fresh talent and 85% lateral talent hired in recent quarters

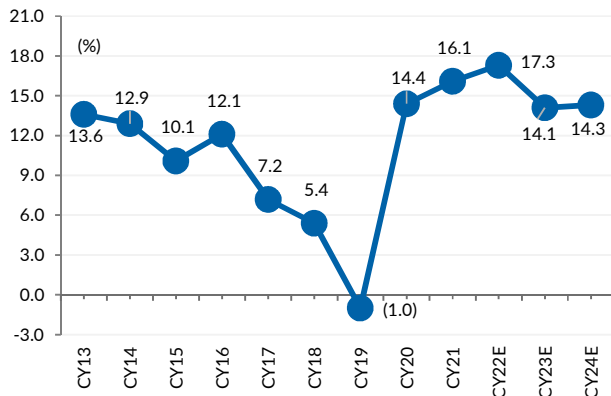
Exhibit 2: Segmental Performance

Particulars (Rs mn)	Q1CY22	Q4CY21	QoQ	Q1CY21	YoY
Ratings					
Revenue	1,633	1,650	(1.0)	1,489	9.7
PBIT	778	660	17.9	703	10.6
PBIT Margin (%)	47.6	40.0		47.2	
Research					
Revenue	3,942	4,943	(20.2)	3,122	26.3
PBIT	956	1,075	(11.1)	532	79.6
PBIT Margin (%)	24.2	21.7		17.0	
Advisory					
Revenue	374	468	(20.1)	340	9.8
PBIT	41	88	(53.2)	26	58.8
PBIT Margin (%)	11.0	18.9		7.6	

Source: Company, YES Sec

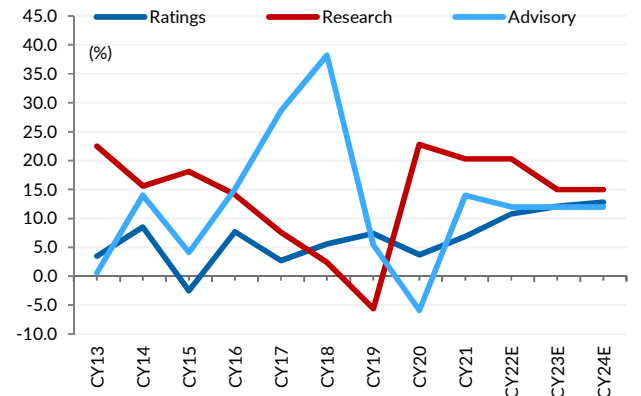
STORY IN CHARTS

Exhibit 3: Revenue growth to be consistently healthy



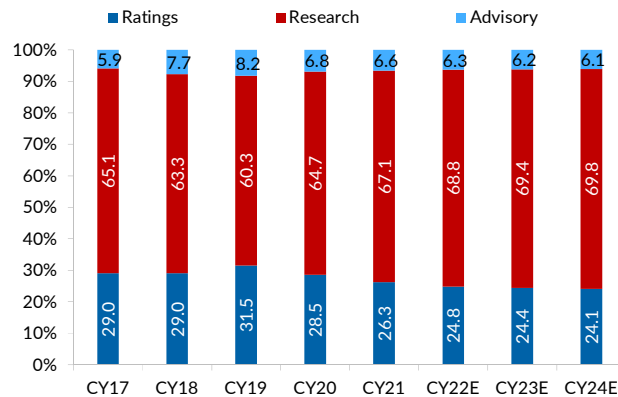
Source: Company, YES Sec

Exhibit 4: ... driven by growth across segments



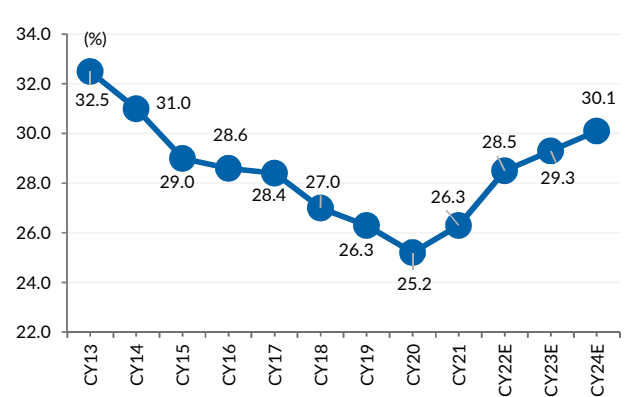
Source: Company, YES Sec

Exhibit 5: Research's revenue share to witness further expansion



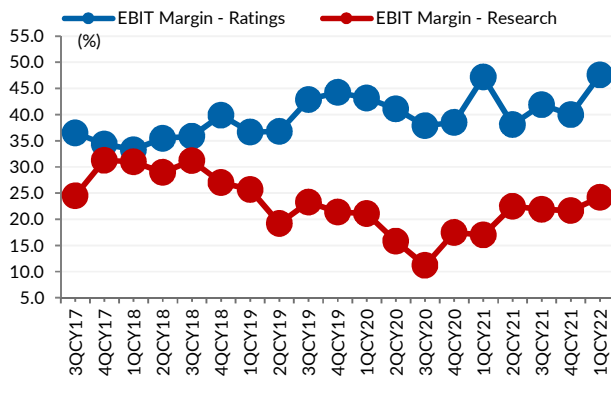
Source: Company, YES Sec

Exhibit 6: EBITDA margin to improve with margin levers across businesses



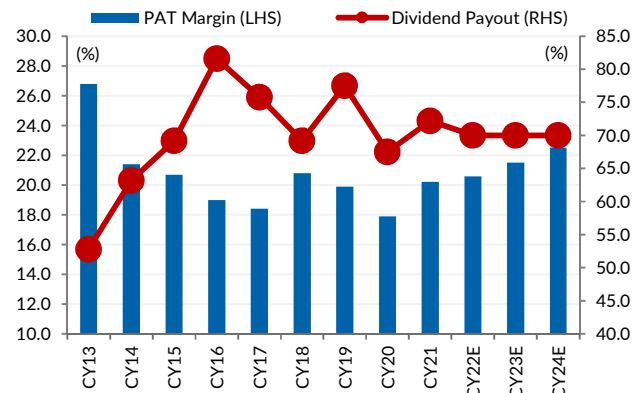
Source: Company, YES Sec

Exhibit 7: Structural uptick in Research margins



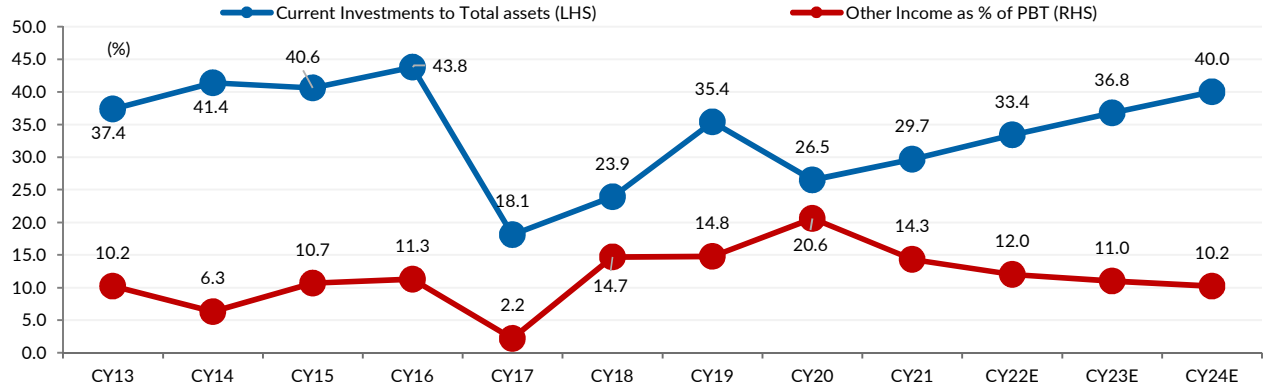
Source: Company, YES Sec

Exhibit 8: High profitability & DPR to continue



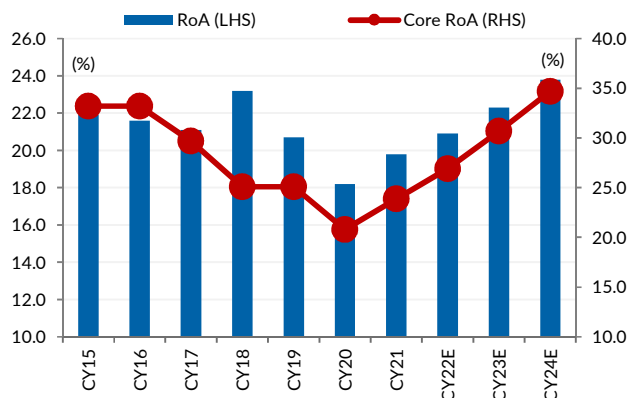
Source: Company, YES Sec

Exhibit 9: Consistent robust cash generation ensures significant liquidity on BS despite high DPR

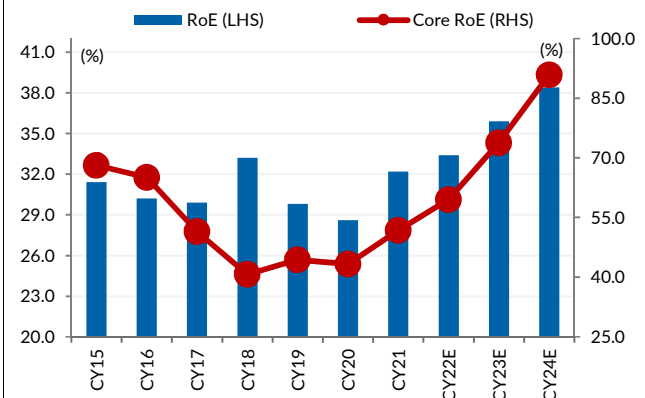


Source: Company, YES Sec

Exhibit 10: Core profitability metrics will improve underpinned by margin expansion and sturdy growth

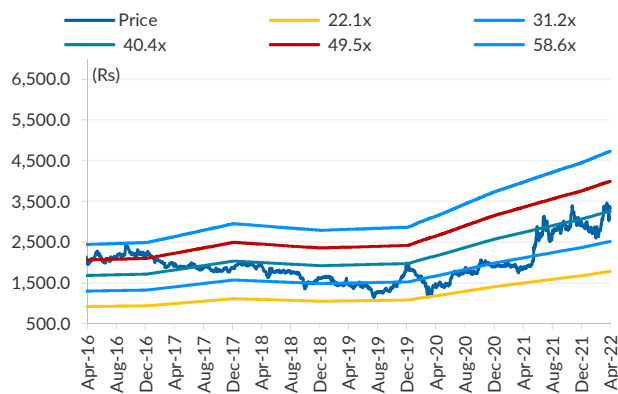


Source: Company, YES Sec



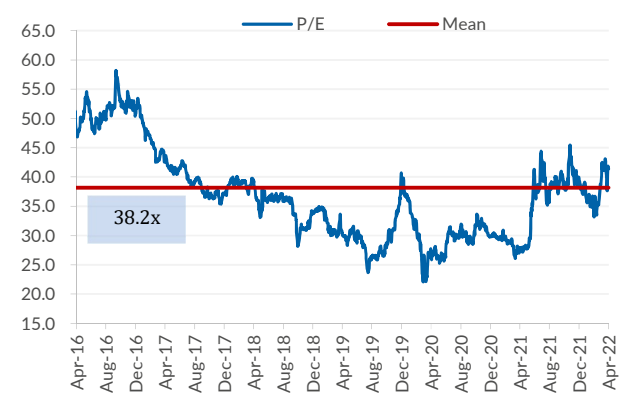
Source: Company, YES Sec

Exhibit 11: 1 year rolling P/E band



Source: Company, YES Sec

Exhibit 12: 1 year rolling P/E vis-à-vis the Mean



Source: Company, YES Sec

FINANCIALS

Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	CY20	CY21	CY22E	CY23E	CY24E
Equity	73	73	73	73	73
Reserves	13,046	15,711	17,376	19,365	21,738
Net worth	13,118	15,784	17,449	19,438	21,811
Long-Term Provisions	214	212	233	256	282
Other financial liabilities	1,846	1,026	1,026	1,026	1,026
Total Non-Current Liabilities	2,060	1,237	1,258	1,281	1,307
Trade Payables	1,054	1,337	1,568	1,789	2,044
Other financial liabilities	2,454	2,904	3,405	3,885	4,440
Other Current Liabilities	2,380	2,908	3,410	3,891	4,447
Short-Term Provisions	839	815	897	986	1,085
Current tax liabilities (net)	162	53	58	64	70
Total Current Liabilities	6,888	8,018	9,338	10,615	12,087
Total Equity & Liabilities	22,067	25,039	28,045	31,334	35,204
Tangible Fixed Asset	410	403	403	403	403
Right of Use	2,091	1,270	1,207	1,146	1,089
Intangible Fixed Asset	1,366	1,208	1,148	1,090	1,036
Intangible Assets under development	136	55	55	55	55
Goodwill	3,759	3,727	3,540	3,363	3,195
Non-current investments	1,703	1,954	2,149	2,364	2,601
Deferred tax assets (net)	641	592	651	716	788
Long term loans and advances	246	299	329	362	398
Other non-current assets	65	33	36	40	44
Non current tax assets	797	1,157	1,273	1,400	1,540
Other financial assets	11	4	5	5	5
Total Non-Current Assets	11,223	10,702	10,796	10,945	11,154
Investments	3,057	4,495	6,068	7,736	9,864
Trade receivables	3,074	3,985	4,673	5,332	6,093
Cash and cash equivalents	2,787	2,943	3,303	3,795	4,214
ST Loans and advances	212	72	79	87	95
Other current assets	664	1,274	1,402	1,542	1,696
Other financial assets	1,049	1,568	1,725	1,898	2,087
Total Current Assets	10,844	14,337	17,249	20,389	24,050
Total Assets	22,067	25,039	28,045	31,334	35,204

Source: Company, YES Sec

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	CY20	CY21	CY22E	CY23E	CY24E
Ratings	5,650	6,041	6,693	7,506	8,469
Research	12,827	15,437	18,571	21,356	24,560
Advisory	1,341	1,529	1,712	1,918	2,148
Total Revenue	19,818	23,007	26,976	30,780	35,176
Employee Expenses	10,684	12,869	14,928	16,869	19,062
Professional fees	1,084	1,239	1,214	1,385	1,583
Associate services fees	1,316	1,226	1,370	1,563	1,786
Other Expenses	1,741	1,615	1,776	1,954	2,149
EBITDA	4,993	6,058	7,688	9,009	10,597
Other Income	945	817	899	988	1,087
Depreciation	1,211	1,060	1,014	971	930
Interest Expense	144	89	72	69	65
PBT	4,583	5,726	7,500	8,958	10,689
Tax	1,036	1,526	1,950	2,329	2,779
PAT	3,547	4,658	5,550	6,629	7,910

Source: Company, YES Sec

Exhibit 15: Cashflow

Y/e 31 Mar (Rs mn)	CY20	CY21	CY22E	CY23E	CY24E
PBT	4,583	5,726	7,500	8,958	10,689
Depreciation	1,211	1,060	1,014	971	930
Change in working cap	2,316	(1,920)	154	92	130
Tax paid	1,036	1,526	1,950	2,329	2,779
Others	245	1,373	-	-	-
Cash flow from operations	7,320	4,712	6,718	7,692	8,970
Capex	(5,365)	38	(704)	(676)	(650)
Change in investments	(230)	(1,688)	(1,768)	(1,884)	(2,364)
Cash flow from investments	(5,595)	(1,650)	(2,472)	(2,560)	(3,014)
Free cash flow	1,725	3,062	4,245	5,132	5,956
Equity raised/(repaid)	0	0	-	-	-
Dividend (incl. tax)	2,394	3,365	3,885	4,640	5,537
Others			(3,885)	(4,640)	(5,537)
Cash flow from financing	(2,394)	(3,365)	361	492	419
Net change in cash	(669)	(303)	2,943	3,303	3,795
Op Cash	3,456	2,787	3,303	3,795	4,214
Cl Cash	2,787	2,943	7,500	8,958	10,689

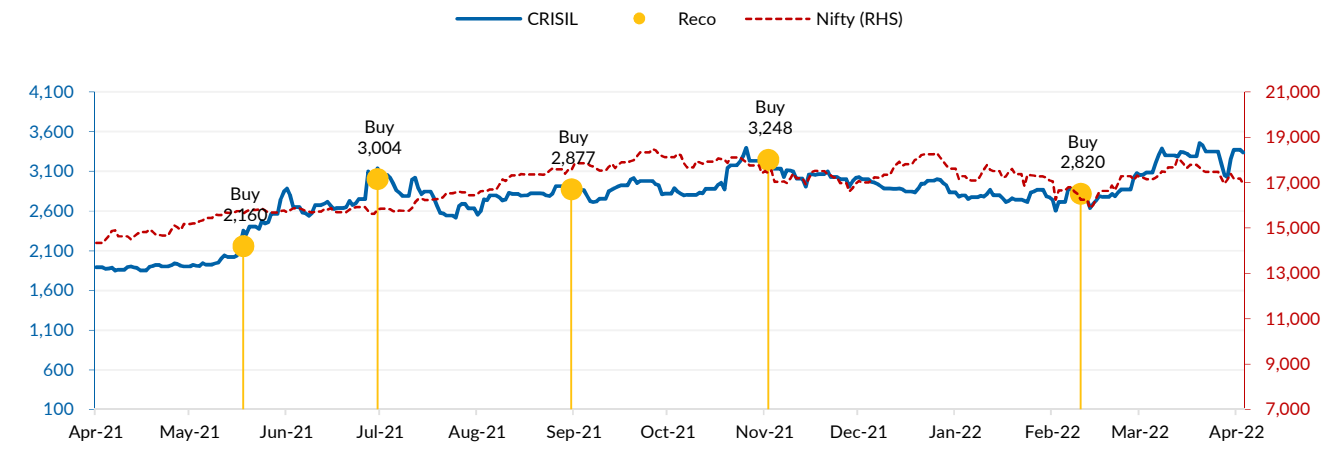
Source: Company, YES Sec

Exhibit 16: Ratio analysis

Y/e 31 Mar (Rs mn)	CY20	CY21	CY22E	CY23E	CY24E
Growth ratios (%)					
Ratings Revenue	3.7%	6.9%	10.8%	12.1%	12.8%
Research Revenue	22.8%	20.3%	20.3%	15.0%	15.0%
Advisory Revenue	-5.9%	14.0%	12.0%	12.0%	12.0%
EBITDA	9.5%	21.3%	26.9%	17.2%	17.6%
Profit Before Tax	-6.8%	24.9%	31.0%	19.4%	19.3%
Net profit	3.1%	31.3%	19.1%	19.4%	19.3%
Operating Ratios					
EBITDA Margin	25.2%	26.3%	28.5%	29.3%	30.1%
PBT Margin	23.1%	24.9%	27.8%	29.1%	30.4%
PAT Margin	17.9%	20.2%	20.6%	21.5%	22.5%
ROE	28.6%	32.2%	33.4%	35.9%	38.4%
Dividend Payout Ratio	67.5%	72.2%	70.0%	70.0%	70.0%
Per share					
EPS	48.9	63.9	76.1	90.9	108.5
Book Value	180.7	216.5	239.4	266.6	299.2
Valuation Ratios					
P/E	68.3	52.2	43.8	36.7	30.8
P/BV	18.5	15.4	13.9	12.5	11.2
Dividend Yield	1.0%	1.4%	1.6%	1.9%	2.3%

Source: Company, YES Sec

Recommendation Tracker



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