

July 23, 2010

## REDUCE

Price	Target Price
<b>Rs5,900</b>	<b>Rs4,800</b>
<b>Sensex</b>	<b>18,130</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	2	8	18	64
Rel. to Sensex	0	4	11	34

Source: Bloomberg

### Stock Details

Sector	Financial Services
Reuters	CRSL.BO
Bloomberg	CRISIL@IN
Equity Capital (Rs mn)	72
Face Value(Rs)	10
No of shares o/s (mn)	7
52 Week H/L	6,091/3,373
Market Cap (Rs bn/USD mn)	42/920
Daily Avg Volume (No of sh)	1812
Daily Avg Turnover (US\$mn)	0.2

### Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	51.5	51.5	51.5
FII/NRI	9.3	9.4	9.7
Institutions	17.6	17.8	17.7
Private Corp	3.0	2.7	2.4
Public	18.5	18.6	18.7

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- CRISIL's Q2CY10 operating revenue grew by 11.3% inline with expectations, however adjusted for 5.5% depreciation in GBP Vs Rupees, the growth would have been higher.
- 9.1% qoq growth in rating and 3% qoq (even after 5.5% rise of INR/GBP) in research segment respectively. IREVNA may have witnessed high single digit growth sequentially
- OPMs declined by 121bps qoq to 31.0% as headcount went up by ~11% in H1FY10. Frontloading of staff and premises investment has resulted in lopsided cost structure
- CRISIL has done most of the investment in human capital and the revenues are likely to be strong. But valuations steep at 25.5x CY10E/20.7x CY11E PE. Maintain REDUCE rating

### Revenues growth inline with expectations

CRISIL's revenues for the quarter grew by 11.3%yoy to Rs1.5bn inline with expectation. The growth mainly came from rating and research business, which reported growth of ~16% each.

### Income from operations

%	Q2CY09	Q3CY09	Q4CY09	Q1CY09	Q2CY10	YoY (bps)	QoQ (bps)
Rating Services Fees	608	558	634	650	710	16.8	9.1
Advisory services Fees	176	145	194	132	130	-25.9	-0.8
Res. and Inf. Services	572	624	652	646	666	16.4	3.1
Other operating income	3	3	1	6	6	79.7	10.2
<b>Total Oper. Revenues</b>	<b>1,359</b>	<b>1,329</b>	<b>1,481</b>	<b>1,433</b>	<b>1,512</b>	<b>11.3</b>	<b>5.5</b>

Source: Company, Emkay Research

### Outlook seems promising for revenues

We expect the momentum in the revenue growth to sustain in coming quarters driven by rating and research over CY10E/CY11E. The momentum in the rating business will be driven by bank loan rating and the implementation of the base rate. The initial activities post the base rate implementation has been promising.

Within research, the impact of revenue momentum was limited by appreciation of INR vs GBP. If one adjusts for ~12% rise in INR, the growth momentum in the IREVNA would be 10-11% for H1CY10. We expect the growth in research revenues to be at 17% for CY10.

### Valuation table

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
CY08	5,146	1,872	36.4	1,356	187.7	59.4	56.2	31.4	-	14.6
CY09	5,373	2,024	37.7	1,557	215.5	14.8	47.7	27.4	-	11.6
CY10E	6,338	2,201	34.7	1,673	231.6	7.5	45.9	25.5	-	11.5
CY11E	7,757	2,811	36.2	2,055	284.4	22.8	48.8	20.7	-	8.8

Source: Company, Emkay Research

## Key financials – Quarterly

Rs mn	Q2CY09	Q3CY09	Q4CY09	Q1CY10	Q2CY10	YoY (%)	QoQ (%)	YTD'10	YTD'09	YoY (%)
<b>Revenue</b>	1359	1329	1481	1433	1512	11.3	5.5	2946	2588	13.8
<b>Expenditure</b>	847	833	925	972	1043	23.2	7.4	2015	1628	23.8
<i>as % of sales</i>	62	63	62	68	69	665	121	137	126	1091
Rent	72	73	73	115	111	54.9	-3.2	226	142	58.9
<i>as % of sales</i>	5.3	5.4	5.3	8.5	8.2	290	-27	17	10	617
Employee Cost	536	525	520	590	651	21.3	10.2	1241	1033	20.1
<i>as % of sales</i>	39.5	38.6	38.3	43.4	47.9	842	445	91	76	1530
Other expenditure	239	236	332	266	281	17.7	5.6	548	452	21.1
<i>as % of sales</i>	17.6	17.4	24.5	19.6	20.7	312	110	40	33	703
<b>EBITDA</b>	512	495	555	462	469	-8.4	1.5	930	960	-3.1
Depreciation	42.0	38.6	36.1	52.1	50.3	19.6	-3.5	102	74	38.7
<b>EBIT</b>	470	457	519	410	418	-10.9	2.1	828	886	-6.5
Other Income	39.3	89.5	44.3	207.9	38.6	-1.8	-81.4	246	76	223.9
Interest	0.0	0.0	0.0	0.0	0.0	-	-	0	0	-
<b>PBT</b>	509	546	564	618	457	-10.2	-26.0	1075	962	11.7
Total Tax	115	116	124	156	87	-24.0	-44.0	243	227	7.0
<b>Adjusted PAT</b>	394	431	440	462	370	-6.2	-19.9	831	735	13.1
(Profit)/loss from JV's/Ass/MI	0.0	0.0	0.0	0.0	0.0	-	-	0	0	-
<b>APAT after MI</b>	394	431	440	462	370	-6.2	-19.9	831	735	13.1
<b>Extra ordinary items</b>	-8	-1	48	109	-36	381.7	-133.5	72	6	1046.2
<b>Reported PAT</b>	386	430	488	570	333	-13.7	-41.6	903	741	21.9
<b>Reported EPS</b>	53	60	68	79	46	-13.7	-41.6	125	103	21.9
<b>Margins (%)</b>										
EBIDTA	37.6	37.3	37.5	32.2	31.0	-665	-121	31.6	37.1	-550
EBIT	34.6	34.4	35.1	28.6	27.7	-688	-91	28.1	34.2	-612
EBT	37.4	41.1	38.1	43.1	30.2	-722	-1285	36.5	37.2	-70
PAT	29.0	32.4	29.7	32.2	24.4	-454	-775	28.2	28.4	-17
Effective Tax rate	22.6	21.1	21.9	25.3	19.1	-348	-614	22.7	23.6	-99

Source: Company, Emkay Research

## Frontloading of expenses impacted margins – worst may be behind

During H1CY10, CRISIL has added 200 (~10%) employees on roll which along with 10-11% increase in salaries has resulted in sharp rise in employee costs. CRISIL has also added premises (shifting to new rented place) resulting in sharp rise in the rental costs. As a result, the operating margins have contracted by ~665bps yoy.

We believe that the worst is behind in term of operating margins as the expenses have been frontloaded and the revenue outlook seems promising.

## EBIDTA margins down 121bps sequentially

%	Q2CY09	Q3CY09	Q4CY09	Q1CY09	Q2CY10	YoY (bps)	QoQ (bps)
Income from operations	1,359	1,329	1,481	1,433	1,512	11.3	5.5
Total Expenditure	847	833	925	972	1,043	23.2	7.4
EBITDA	512	495	555	462	469	-8.4	1.5
EBITDA margin (%)	37.6	37.3	37.5	32.2	31.0	-665	-122
<b>One offs</b>							
Forex gain/ Loss	-7.6	0.0	-27.8	-37.8	-6.4	-15.7	-83.1
Adjusted EBITDA	519	495	583	500	475	-8.5	-4.9
Adj EBITDA margin (%)	38.2	37.3	39.4	34.8	31.4	-679	-343

Source: Company, Emkay Research

**Segmental results (reported)**

	Q2CY09	Q3CY09	Q4CY09	Q1CY09	Q2CY10	YoY (bps)	QoQ (bps)
<b>EBIT (Rs mn)</b>							
Rating Services	271	199	259	288	298	10.3	3.6
Advisory services	51	29	64	24	18	-65.5	-26.2
Research and Inf. Serv.	191	261	229	177	150	-21.7	-15.3
<b>Total</b>	<b>513</b>	<b>489</b>	<b>552</b>	<b>489</b>	<b>466</b>	<b>-9.2</b>	<b>-4.7</b>
<b>EBIDTA margins (%)</b>							
Rating Services	44.5	35.7	40.9	44.3	42.0	-248.8	-225.8
Advisory services	29.1	20.0	32.9	18.2	13.6	-1553.6	-466.1
Research and Inf. Serv.	33.5	41.8	35.2	27.4	22.5	-1096.4	-489.3
<b>Total</b>	<b>37.8</b>	<b>36.8</b>	<b>37.3</b>	<b>34.1</b>	<b>30.8</b>	<b>-695.2</b>	<b>-330.6</b>

Source: Company, Emkay Research

**Net profit dips 13.7% yoy**

The reported net profit declined by a higher 13.7% yoy to Rs333mn. However, adjusted for foreign exchange loss of Rs6.3mn and gratuity expense of Rs36.4mn, net profit declined by a lower 6.2% yoy to Rs370mn.

**Valuation and view**

We expect CRISIL's revenue growth to gain pace going forward benefiting from base rate and pick up in research business. Moreover with all the inputs in place (premises and employee force), we believe the benefit of leveraging will start kicking from here on.

At the current market price, the stock is quoting at 25.2x its CY10E core EPS of Rs223 and 20.4x CY11E core EPS of Rs260. We believe the current valuations are little over stretched looking at the fact that CRISIL's peak valuations were at 28x one-year forward EPS. Hence, we maintain our REDUCE rating on the stock, with price target of Rs4,800.

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	CY08	CY09	CY10	CY11
<b>Net Sales</b>	<b>5,146</b>	<b>5,373</b>	<b>6,338</b>	<b>7,757</b>
Growth (%)	27.3	4.4	18.0	22.4
<b>Expenditure</b>	<b>3,273</b>	<b>3,349</b>	<b>4,137</b>	<b>4,946</b>
Materials Consumed	601	628	838	948
Employee Cost	1,939	2,099	2,535	3,064
Other Exp	733	622	763	934
<b>EBITDA</b>	<b>1,872</b>	<b>2,024</b>	<b>2,201</b>	<b>2,811</b>
Growth (%)	51.8	8.1	8.7	27.7
<b>EBITDA margin (%)</b>	<b>36</b>	<b>38</b>	<b>35</b>	<b>36</b>
Depreciation	136	149	184	230
<b>EBIT</b>	<b>1,805</b>	<b>2,009</b>	<b>2,213</b>	<b>2,815</b>
<b>EBIT margin (%)</b>	<b>35.1</b>	<b>37.4</b>	<b>34.9</b>	<b>36.3</b>
Other Income	69	134	196	234
Interest expenses	0	0	0	0
<b>PBT</b>	<b>1,870</b>	<b>2,075</b>	<b>2,355</b>	<b>2,815</b>
<b>Tax</b>	<b>465</b>	<b>467</b>	<b>575</b>	<b>760</b>
Effective tax rate (%)	24.8	22.5	24.4	27.0
<b>Adjusted PAT</b>	<b>1,406</b>	<b>1,608</b>	<b>1,781</b>	<b>2,055</b>
Growth (%)	67.2	14.4	10.8	15.4
<b>Net Margin (%)</b>	<b>27.3</b>	<b>29.9</b>	<b>28.1</b>	<b>26.5</b>
(Profit)/loss from JVs/Ass/MI	0	0	0	0
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>1,356</b>	<b>1,557</b>	<b>1,673</b>	<b>2,055</b>
E/O items	66	65	142	0
<b>Reported PAT</b>	<b>1,406</b>	<b>1,608</b>	<b>1,781</b>	<b>2,055</b>
Growth (%)	67.2	14.4	10.8	15.4

## Cash Flow

Y/E, Mar (Rs. mn)	CY08	CY09	CY10	CY11
<b>PBT (Ex-Other income)</b>	<b>1,870</b>	<b>2,075</b>	<b>2,355</b>	<b>2,815</b>
Depreciation	136	149	184	230
Interest Provided	0	0	0	0
Other Non-Cash items	-33	17	0	0
Chg in working cap	252	-143	-45	-937
Tax paid	-579	-467	-575	-760
<b>Operating Cashflow</b>	<b>1,647</b>	<b>2,097</b>	<b>2,494</b>	<b>2,108</b>
Capital expenditure	-219	-619	-149	-184
<b>Free Cash Flow</b>	<b>1,427</b>	<b>1,478</b>	<b>2,346</b>	<b>1,924</b>
Other income	133	0	0	0
Investments	-929	-5	0	0
<b>Investing Cashflow</b>	<b>-796</b>	<b>-5</b>	<b>0</b>	<b>0</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	0	0	0	0
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-507	-846	-1,776	-930
Income from investments				
Others				
<b>Financing Cashflow</b>	<b>-507</b>	<b>-846</b>	<b>-1,776</b>	<b>-930</b>
<b>Net chg in cash</b>	<b>46</b>	<b>174</b>	<b>-5</b>	<b>233</b>
Opening cash position	392	437	612	606
<b>Closing cash position</b>	<b>437</b>	<b>612</b>	<b>606</b>	<b>840</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	CY08	CY09	CY10	CY11
Equity share capital	72	72	72	72
Reserves & surplus	2,811	3,574	3,578	4,703
<b>Net worth</b>	<b>2,883</b>	<b>3,646</b>	<b>3,651</b>	<b>4,775</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	0	0	0	0
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net deferred tax liability	-78	-101	-101	-101
<b>Total Liabilities</b>	<b>2,805</b>	<b>3,545</b>	<b>3,550</b>	<b>4,674</b>
Gross Block	1,236	1,856	2,004	2,188
Less: Depreciation	-627	-710	-894	-1,123
<b>Net block</b>	<b>609</b>	<b>1,146</b>	<b>1,110</b>	<b>1,065</b>
Capital work in progress	40	637	0	0
<b>Investment</b>	<b>1,184</b>	<b>1,175</b>	<b>1,175</b>	<b>1,175</b>
<b>Current Assets</b>	<b>2,607</b>	<b>3,227</b>	<b>3,627</b>	<b>5,004</b>
Inventories				
Sundry debtors	771	922	1,088	1,331
Cash & bank balance	437	453	606	840
Loans & advances	172	139	139	139
Other current assets	1,226	1,713	1,794	2,694
<b>Current lia &amp; Prov</b>	<b>1,596</b>	<b>2,002</b>	<b>2,204</b>	<b>2,411</b>
Current liabilities	1,156	1,615	1,817	2,024
Provisions	440	387	387	387
<b>Net current assets</b>	<b>1,011</b>	<b>1,224</b>	<b>1,423</b>	<b>2,593</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>2,805</b>	<b>3,545</b>	<b>3,550</b>	<b>4,674</b>

## Key Ratios

Y/E, Mar	CY08	CY09	CY10	CY11
<b>Profitability (%)</b>				
EBITDA Margin	35.1	37.4	34.9	36.3
Net Margin	27.3	29.9	28.1	26.5
ROCE	76.5	63.3	61.0	65.9
ROE	56.2	47.7	45.9	48.8
RolC	244.0	216.5	189.7	213.8
<b>Per Share Data (Rs)</b>				
EPS	187.7	215.5	231.6	284.4
CEPS	206.6	236.1	257.0	316.2
BVPS	399.1	504.7	505.3	660.9
DPS	70.0	100.0	210.0	110.0
<b>Valuations (x)</b>				
PER	31.4	27.4	25.5	20.7
P/CEPS	28.6	25.0	23.0	18.7
P/BV	14.8	11.7	11.7	8.9
EV / Sales	-	-	-	-
EV / EBITDA	0.0	0.0	0.0	0.0
Dividend Yield (%)	2.8	2.3	3.6	1.9
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-	-	-	-
Net Debt/EBIDTA	-	-	-	-
Working Cap Cycle (days)	-	-	-	-

**Recommendation History: CRISIL – CRISIL IN**

Date	Reports	Reco	CMP	Target
19.04.2010	<a href="#">CRISIL Q1CY10 Result Update</a>	Reduce	5,564	4,800
19.02.2010	<a href="#">CRISIL Q4CY09 Result Update</a>	Hold	4,889	4,800
30.10.2009	<a href="#">CRISIL Q3CY09 Result Update</a>	Hold	4,305	4,200
27.07.2009	<a href="#">CRISIL Q2CY09 Result Update</a>	Accumulate	3,700	4,200

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
22.07.2010	<a href="#">YES BANK Q1FY11 Result Update</a>	Reduce	298	260
21.07.2010	<a href="#">MAGFIL Q1FY11 Result Update</a>	Buy	76	90
20.07.2010	<a href="#">HDFC Bank Q1FY11 Result Update</a>	Hold	2,050	1,950
15.07.2010	<a href="#">Axis Bank Q1FY11 Result Update</a>	Reduce	1,314	1,100

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