

<b>CRISIL Limited</b>	<b>CMP Rs. 6,118.0 REDUCE</b>	<b>Result Update Q3CY10</b>
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## Outlook Promising, but valuations steep!

CRISIL Limited has reported a good performance by clocking 19.5% Y-Y rise in its consolidated total income for the quarter ended September 2010 to Rs. 1,585.5Mn from Rs. 1,326Mn in September 2009. The growth mainly came from rating and research businesses. Operating margins have declined on account of increased headcounts & rental costs. We expect the momentum in revenue growth to sustain in the coming quarters. But, valuations are steep at 25x CY10E and 23x CY11E earnings. We maintain our REDUCE rating on the scrip.

### Performance Highlights:

Revenues from rating services have improved by 32% Y-Y to Rs. 735Mn for the quarter ended Q3CY10 as against Rs. 558Mn for the quarter ended Q3CY09, driven by Bank Loan ratings (BLR) & Small & Medium Enterprise ratings (SME). During the quarter the company achieved an important milestone with the release of 5000th bank loan rating. Further CRISIL has also launched its Real Estate Star Ratings, to positive response.

Research services segment, recorded a 20% Y-Y growth to Rs. 749Mn in the current quarter v/s Rs. 624Mn. for the corresponding quarter of last year. On the other hand, revenues from advisory services recorded a negative growth of 29.5% Y-Y at Rs. 102Mn for Q3CY10 as against Rs. 144.5Mn for Q3CY09.

Demand for Irevnas' services continues to be strong across equities and derivatives research. The actuarial vertical saw a pick-up during the quarter. Irevna is also getting good traction in demand for resources from its Poland research centre.

CRISIL has done most of its investment in human capital, resulting in a sharp rise in staff costs. Rental costs have also increased on account of shifting, to a new rented place. As a % of sales, staff and rental costs have risen by 338.5bps and 121bps respectively. Hence, operating margins (OPM) have been hit by 188bps to 35% for the quarter ended Sept'10 as against 37% for the quarter ended Sept'09.

Other Income for Q3CY10 has reported a growth of 391% to Rs. 439.5Mn v/s Rs. 89.5Mn for Q3CY09. This includes a profit of Rs. 329Mn on account of sale shares in Gas Strategies Group Ltd. & National Commodity and Derivative Exchange Ltd. (NCDEX). After adjusting for the same, reported net profit shows a marginal decline of 1% Y-Y to Rs. 425Mn for the quarter ended Sept'10 as compared to Rs. 430Mn for the quarter ended Sept'09.

### Recent Developments:

- Pipal Research Acquisition – Crisil signed an agreement with Pipal, to buy the later for a sum of USD12.75Mn. Pipal, headquartered in Chicago is a leading custom research firm offering high quality financial and business research and quantitative analytics to organizations globally. CRISIL's endeavour has always been to invest in businesses when they are in nascent stage, then using their existing capabilities and client base to scale up even further.
- The Irevna – Pipal combination will be uniquely positioned in the high-end analytical offshoring space with the widest range of services, geographic locations and customer diversity. Pipal's services, clients and delivery locations are complementary to Irevna's, enabling the combine to strengthen its leadership in the KPO industry.
- CRISIL also announced a buyback programme of shares upto Rs. 800Mn at a price not exceeding Rs. 6,500/- per share.

**Our Call:**

At CMP of Rs. 6,118/-, CRISIL is quoting at 25x CY10E and 23x CY11E earnings. We have kept our estimates unchanged for CY10 and CY11. Going ahead we believe the revenue growth will be sustained, driven mainly by the ratings and research services. Moreover with all the expenses in place, the benefit of leveraging will start kicking from here on. Currently, the valuations are a little over stretched. Hence, we maintain our REDUCE rating on the scrip.

**Quarterly Analysis**

<b>Earnings Statement</b>								
<b>YE December (Rs. Mn.)</b>	<b>Sept 10</b>	<b>Jun 10</b>	<b>Q-Q(%)</b>	<b>Sept 09</b>	<b>Y-Y(%)</b>	<b>9MCY10</b>	<b>9MCY09</b>	<b>Y-Y(%)</b>
Net Revenues	1,585.5	1,505.9	5.3%	1,326.3	19.5%	4,519.3	3,892.5	16.1%
Other Operating Income	5.6	6.2	-9.5%	2.5	121.1%	17.4	24.2	-28.4%
Total Income	1,591.1	1,512.1	5.2%	1,328.8	19.7%	4,536.6	3,916.8	15.8%
Total Expenditure	1,029.2	1,043.4	-1.4%	833.9	23.4%	3,044.4	2,461.8	23.7%
Operating Profit	561.9	468.6	19.9%	494.9	13.5%	1,492.3	1,454.9	2.6%
Other Income *	439.5	38.6	1038.4%	89.5	391.0%	686.0	168.5	307.1%
EBITDA	1,001.5	507.2	97.4%	584.5	71.3%	2,178.3	1,623.4	34.2%
Depreciation	54.0	50.3	7.5%	38.6	39.8%	156.3	112.4	39.1%
EBIT	947.4	457.0	107.3%	545.8	73.6%	2,022.0	1,511.0	33.8%
Interest	0.0	0.0	-	0.0	-	0.0	0.0	-
PBT	947.4	457.0	107.3%	545.8	73.6%	2,022.0	1,511.0	33.8%
Tax	193.1	87.4	120.9%	115.5	67.1%	436.5	343.2	27.2%
PAT before EI	754.4	369.6	104.1%	430.3	75.3%	1,585.5	1,167.8	35.8%
Extraordinary item	0.0	36.4	-	0.0	-	36.4	0.0	-
Reported Net Profit	754.4	333.1	126.5%	430.3	75.3%	1,549.0	1,167.8	32.6%
Equity Capital	72.3	72.3	-	72.3	-	72.3	72.3	-
Reported EPS	104.4	46.1	126.4%	59.6	75.3%	214.4	161.6	32.6%
(* Other Income includes profit of Rs. 329Mn on account of sale of shares in Gas Strategies Ltd. & NCDEX)								
<b>Ratio Analysis</b>								
<b>Profitability</b>	<b>Sept 10</b>	<b>Jun 10</b>	<b>Q-Q(bps)</b>	<b>Sept 09</b>	<b>Y-Y(bps)</b>	<b>9MCY10</b>	<b>9MCY09</b>	<b>Y-Y(bps)</b>
OPM (%)	35.4%	31.1%	432.2	37.3%	(187.6)	33.0%	37.4%	(435.7)
EBITDA (%)	63.2%	33.7%	2,948.0	44.1%	1,909.6	48.2%	41.7%	649.4
EBIT (%)	59.8%	30.3%	2,941.1	41.2%	1,860.1	44.7%	38.8%	592.2
PAT (%)	47.6%	22.1%	2,545.9	32.4%	1,513.5	34.3%	30.0%	427.5
<b>Operational Parameters</b>	<b>Sept 10</b>	<b>Jun 10</b>	<b>Q-Q(bps)</b>	<b>Sept 09</b>	<b>Y-Y(bps)</b>	<b>9MCY10</b>	<b>9MCY09</b>	<b>Y-Y(bps)</b>
Staff Expense	43.0%	43.2%	(26.6)	39.6%	338.5	42.5%	40.0%	250.5
Establishment Expense	4.1%	4.9%	(86.6)	4.5%	(46.6)	4.5%	4.8%	(35.9)
Rent Expense	6.7%	7.4%	(69.6)	5.5%	120.7	7.4%	5.5%	182.7
Travel Expense	3.4%	3.5%	(11.7)	3.0%	41.2	3.5%	2.9%	62.7
Professional Fees	5.3%	5.0%	27.3	5.9%	(67.8)	4.9%	5.7%	(76.9)
Other Expense	2.5%	5.2%	(270.7)	4.4%	(182.1)	4.6%	4.3%	28.8
Effective Tax Rate	20.4%	19.1%	125.0	21.2%	(78.8)	21.6%	22.7%	(112.8)

## Segmental Performance Review

Segment Revenues	Sept 10	Jun 10	Q-Q (%)	Sept 09	Y-Y (%)	9MCY10	9MCY09	Y-Y (%)
Rating Services	734.9	709.8	3.5%	557.7	31.8%	2,095.0	1,755.2	19.4%
Advisory Services	101.9	130.5	-21.9%	144.5	-29.5%	363.9	404.7	-10.1%
Research Services	748.7	665.7	12.5%	624.1	20.0%	2,060.3	1,732.6	18.9%
Total	1,585.5	1,505.9	5.3%	1,326.3	19.5%	4,519.3	3,892.5	16.1%
Segment Revenue Mix	Sept 10	Jun 10	Q-Q(bps)	Sept 09	Y-Y(bps)	9MCY10	9MCY09	Y-Y(bps)
Rating Services	46.35%	47.13%	(78.2)	42.05%	430.3	46.36%	45.09%	126.5
Advisory Services	6.43%	8.66%	(223.7)	10.90%	(447.0)	8.05%	10.40%	(234.5)
Research Services	47.22%	44.20%	302.0	47.06%	16.7	45.59%	44.51%	107.9
Total	100.00%	100.00%	-	100.00%	-	100.00%	100.00%	-
Segment Profits	Sept 10	Jun 10	Q-Q (%)	Sept 09	Y-Y (%)	9MCY10	9MCY09	Y-Y (%)
Rating Services	296.1	298.4	-0.8%	199.1	48.7%	882.7	748.4	17.9%
Advisory Services	(11.8)	17.7	-	28.9	-	29.9	66.2	-54.8%
Research Services	277.9	149.8	85.5%	261.0	6.5%	604.7	631.8	-4.3%
Total	562.2	465.9	20.7%	489.0	15.0%	1,517.2	1,446.4	4.9%
Segment Profit Mix	Sept 10	Jun 10	Q-Q(bps)	Sept 09	Y-Y(bps)	9MCY10	9MCY09	Y-Y(bps)
Rating Services	52.7%	64.0%	(1,137.5)	40.7%	1,195.8	58.2%	51.7%	643.4
Advisory Services	-2.1%	3.8%	-	5.9%	-	2.0%	4.6%	(260.6)
Research Services	49.4%	32.2%	1,728.1	53.4%	(394.2)	39.9%	43.7%	(382.8)
Total	100.0%	100.0%	0.0	100.0%	0.0	100.0%	100.0%	0.0
Segment Margins	Sept 10	Jun 10	Q-Q(bps)	Sept 09	Y-Y(bps)	9MCY10	9MCY09	Y-Y(bps)
Rating Services	40.3%	42.0%	(174.4)	35.7%	459.7	42.1%	42.6%	(50.8)
Advisory Services	-11.6%	13.6%	-	20.0%	-	8.2%	16.4%	(814.0)
Research Services	37.1%	22.5%	1,461.7	41.8%	(470.0)	29.3%	36.5%	(711.9)
Total	35.5%	30.9%	452.3	36.9%	(140.9)	33.6%	37.2%	(358.7)

## Financials

Earnings Statement					Balance Sheet				
Particulars (Rs. Mn.)	CY08	CY09	CY10E	CY11E	Particulars (Rs. Mn.)	CY08	CY09	CY10E	CY11E
Total Revenues	5,145.6	5,372.7	5,748.8	6,208.7	Equity Capital	72.3	72.3	72.3	72.3
- Growth (%)	27.3%	4.4%	7.0%	8.0%	Reserves	3,502.9	4,265.9	4,994.2	5,847.0
Total Expenditure	3,355.0	3,379.7	3,560.0	3,825.5	Shareholders Funds	3,575.1	4,338.1	5,066.4	5,919.2
Operating Profit	1,790.6	1,993.1	2,188.8	2,383.2	Minority Interest	0.0	0.0	0.0	0.0
- Growth (%)	52.8%	11.3%	9.8%	8.9%	Borrowed Funds	0.0	0.0	0.0	0.0
Other Income	216.2	230.0	253.1	278.4	Deferred Tax Liability	(78.3)	(100.7)	(135.1)	(172.7)
EBITDA	2,006.9	2,223.1	2,441.9	2,661.6	Total Liabilities	3,496.8	4,237.4	4,931.3	5,746.5
- Growth (%)	58.9%	10.8%	9.8%	9.0%	Fixed Assets	1,301.4	1,837.7	1,746.0	1,338.4
Depreciation	136.4	148.5	151.7	157.5	Investments	1,184.4	1,175.2	1,225.2	1,325.2
EBIT	1,870.5	2,074.6	2,290.2	2,504.1	Current Assets				
Interest	0.0	0.0	0.0	0.0	Inventory	0.0	0.0	0.0	0.0
PBT	1,870.5	2,074.6	2,290.2	2,504.1	Sundry Debtors	771.5	922.1	990.1	1,069.3
Tax	464.7	466.8	504.6	551.7	Loans & Advances	526.0	618.1	670.7	724.4
PAT Before EI	1,405.7	1,607.8	1,785.6	1,952.4	Cash & Bank Balance	1,292.1	1,575.7	2,316.0	3,430.1
- Growth (%)	68.0%	14.4%	11.1%	9.3%	Other Current Assets	17.2	110.9	160.9	210.9
Extraordinary Items	0.0	0.0	0.0	0.0	Current Liabilities				
Reported PAT	1,405.7	1,607.8	1,785.6	1,952.4	Liabilities	1,156.1	1,615.2	1,756.6	1,897.1
					Provisions	439.7	387.1	421.0	454.7
					Net Current Assets	1,011.0	1,224.5	1,960.1	3,082.9
					Total Assets	3,496.8	4,237.4	4,931.3	5,746.5
Ratio Analysis					Cash Flow				
Particulars	CY08	CY09	CY10E	CY11E	Particulars (Rs. Mn.)	CY08	CY09	CY10E	CY11E
OPM (%)	34.8%	37.1%	38.1%	38.4%	Opening Cash & Bank	424.2	1,292.1	1,575.7	2,316.0
EBITDA (%)	39.0%	41.4%	42.5%	42.9%	Profit After Tax	1,405.7	1,607.8	1,785.6	1,952.4
PAT (%)	27.3%	29.9%	31.1%	31.4%	Invnt Income	(216.2)	(230.0)	(253.1)	(278.4)
EPS (Rs.)	194.6	222.5	247.1	270.2	Interest Paid	0.0	0.0	0.0	0.0
P/E (x)	31.4	27.5	24.8	22.6	Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0
P/BV (x)	12.4	10.2	8.7	7.5	Depreciation	136.4	148.5	151.7	157.5
BVPS (Rs.)	494.8	600.4	701.2	819.3	Deferred Taxation	(46.1)	(22.3)	(34.4)	(37.6)
Market Cap (Rs. Mn.)	44,203.6	44,203.6	44,203.6	44,203.6	Others	(67.7)	(65.8)	0.0	0.0
M Cap/Sales (x)	8.6	8.2	7.7	7.1	Change in Working Cap	241.1	70.1	4.7	(8.7)
EV (Rs. Mn.)	42,911.5	42,628.0	41,887.7	40,773.5	CF - Operating Activities	1,453.2	1,508.3	1,654.6	1,785.4
EV/EBITDA (x)	21.4	19.2	17.2	15.3	Change in Fixed Assets	2.7	(619.1)	(60.0)	250.0
EV/Sales (x)	8.3	7.9	7.3	6.6	Change in Investments	(209.1)	9.1	(50.0)	(100.0)
ROCE (%)	53.5%	49.0%	46.4%	43.6%	Investment Income	216.2	230.0	253.1	278.4
RONW (%)	39.3%	37.1%	35.2%	33.0%	CF - Investing Activities	9.8	(379.9)	143.1	428.4
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	Increase in Equity	(3.0)	1.0	0.0	0.0
Inventory T/o Days	0.0	0.0	0.0	0.0	Changes in Borrowings	0.0	0.0	0.0	0.0
Debtors T/o Days	54.0	61.8	62.0	62.0	Interest Paid	0.0	0.0	0.0	0.0
Advances T/o Days	36.8	41.4	42.0	42.0	Dividend Paid	(592.0)	(845.8)	(1,057.3)	(1,099.6)
Creditors T/o Days	80.9	108.2	110.0	110.0	CF - Financing Activities	(595.1)	(844.8)	(1,057.3)	(1,099.6)
Wrkg Cap T/o Days (Ex.Cash) (19.7)	(23.5)	(22.3)	(20.1)		Net Change in Cash	867.9	283.5	740.3	1,114.1
Fixed Assets T/o (Gross)	2.7	2.8	2.9	3.1	Closing Cash & Bank Bal	1,292.1	1,575.7	2,316.0	3,430.1
DPS (Rs.)	70.0	100.0	125.0	130.0					
Dividend Payout (%)	36.0%	44.9%	50.6%	48.1%					
Dividend Yield (%)	1.1%	1.6%	2.0%	2.1%					

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## Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

Crisil Limited

NO  
YES  
YES

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