

October 19, 2010

Reco Changed from
ACCUMULATE REDUCE
CMP Target Price
Rs6,118 Rs7,000

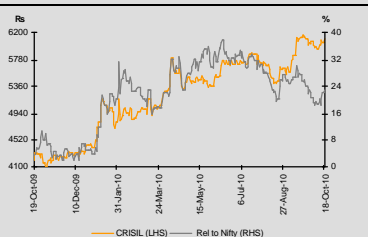
EPS change CY10E/11E (%) +0/+14
Target Price change (%) +46
Nifty 6,076
Sensex 20,169

Price Performance

(%)	1M	3M	6M	12M
Absolute	(0)	4	8	46
Rel. to Nifty	(3)	(7)	(7)	23

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector Financial Services
Bloomberg CRISIL@IN
Equity Capital (Rs mn) 72
Face Value(Rs) 10
No of shares o/s (mn) 7
52 Week H/L 6,300/4,024
Market Cap (Rs bn/USD mn) 44/993
Daily Avg Volume (No of sh) 3350
Daily Avg Turnover (US\$m) 0.4

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	51.5	51.5	51.5
FII/NRI	9.3	9.3	9.4
Institutions	17.3	17.6	17.8
Private Corp	3.7	3.0	2.7
Public	18.2	18.5	18.6

Source: Capitaline

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- **CRISIL's Q3CY10 operating revenue grew by strong 5.2% qoq. A strong 12.5% qoq growth in research surprised positively. Stable currency means FTEs have grown strong**
- **Despite yoy appreciation in INR, the research revenues have grown by 20% yoy. Rating business grew strong at 32% yoy**
- **QOQ expansion in operating margins and one time gain on sale of shares in Gas strategies Group Ltd. & NCDEX and sale of office space boost earnings growth**
- **Upgrade to ACCUMULATE with TP of Rs7000 with +14% EPS change for Pipal Research in CY11E and rolling over the multiple to avg CY11/12E EPS (CY12E introduced now)**

Revenues growth ahead of expectations

The operating revenues for the quarter have grown by 19.7% yoy and 5.2% qoq to Rs1.6bn driven by strong growth in rating business and research business. The research business (esp IREVNA) has benefited from increased utilisation. Strong sequential growth in research despite the currency remaining stable, means that growth in the full time equivalents (FTE) is picking up strong momentum.

Income from operations

%	Q3CY09	Q4CY09	Q1CY09	Q2CY10	Q3CY10	YoY (bps)	QoQ (bps)
Rating Services Fees	558	634	650	710	735	31.8	3.5
Advisory services Fees	145	194	132	130	102	-29.5	-21.9
Res. and Inf. Services	624	652	646	666	749	20.0	12.5
Other operating income	3	1	6	6	6	121.3	-9.5
Total Revenues	1,329	1,481	1,433	1,512	1,591	19.7	5.2

Source: Company, Emkay Research

Revenue growth likely to remain strong

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. Moreover the acquisition of Pipal research in September 2010, will further add to the growth trajectory in research segment in CY11E.

Valuation table

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
CY09	5,373	2,024	37.7	1,608	215.5	14.8	47.7	28.4	20.5	12.1
CY10E	6,336	2,200	34.7	2,292	241.6	12.1	47.7	25.3	18.9	12.0
CY11E	8,208	3,152	38.4	2,350	325.3	34.6	59.4	18.8	13.1	10.4
CY12E	9,946	3,830	38.5	2,851	394.6	21.3	59.6	15.5	10.6	8.3

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q3CY09	Q4CY09	Q1CY10	Q2CY10	Q3CY10	YoY (%)	QoQ (%)	YTD'10	YTD'09	YoY (%)
Revenue	1,329	1,481	1,433	1,512	1,591	19.7	5.2	4,537	3,916	15.8
Expenditure	833	925	972	1,043	1,029	23.5	-1.4	3,044	2,461	23.7
as % of sales	62.7	62.5	67.8	69.0	64.7			67.1	62.8	
Rent	73	73	115	111	106	45.8	-4.7	332	215	54.5
as % of sales	5.5	4.9	8.0	7.4	6.7			7.3	5.5	
Employee Cost	525	520	590	651	681	29.8	4.6	1,922	1,558	23.4
as % of sales	39.5	35.1	41.2	43.0	42.8			42.4	39.8	
Other expenditure	179	242	177	202	202	13.0	-0.3	581	520	11.8
as % of sales	13.4	16.3	12.3	13.4	12.7			12.8	13.3	
EBITDA	495	555	462	469	562	13.4	19.9	1,492	1,455	2.6
Depreciation	39	36	52	50	54	39.8	7.5	156	94	66.6
EBIT	457	519	410	418	508	11.2	21.4	1,336	1,343	-0.5
Other Income	90	44	208	39	43	-52.1	11.2	289	166	74.7
Interest	0	0	0	0	0			0	0	
PBT	546	564	618	457	551	0.8	20.5	1,625	1,508	7.8
Total Tax	116	124	156	87	193	67.1	120.9	436	343	27.3
Adjusted PAT	431	450	485	362	439	1.8	21.2	1,286	1,165	10.3
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	431	450	485	362	439	1.8	21.2	1,286	1,165	10.3
Extra ordinary items	0	38	85	-29	316			373	6	
Reported PAT	430	488	570	333	755	75.5	126.6	1,658	1,171	41.6
Reported EPS	59.5	67.5	78.9	46.1	104.5	75.5	126.6	229.5	162.1	41.6
Margins (%)										
EBIDTA	37.3	37.5	32.2	31.0	35.3	-197	432	32.9	37.2	-426
EBIT	34.4	35.1	28.6	27.7	31.9	-246	425	29.4	34.3	-484
EBT	41.1	38.1	43.1	30.2	34.6	-650	439	35.8	38.5	-269
PAT	32.4	30.4	33.8	23.9	27.6	-484	363	28.3	29.8	-142
Effective Tax rate	21.2	20.2	21.5	20.8	20.4	-80	-42	20.8	22.7	-182

Source: Company, Emkay Research

Higher revenues and better margins aid operating profit growth

The operating profit at Rs562mn was better than our expectations driven by higher than expected revenues. While on QoQ basis, the OPMs have expanded driven by better revenues, the YoY margins have declined by 197bps as CRISIL has done front line investments in employees and premises. The employee cost increased by 29.8%yoy and 4.6%qoq to Rs681mn. The YoY margins were also impacted due to positive currency impact in Q3CY09.

EBIDTA margins down 121bps sequentially

%	Q3CY09	Q4CY09	Q1CY10	Q2CY10	Q3CY10	YoY (%)	QoQ (%)	YTD'10	YTD'09	YoY (%)
Income from operations	1,329	1,481	1,433	1,512	1,591	19.7	5.2	4,537	3,916	146.1
Total Expenditure	833	925	972	1,043	1,029	23.5	-1.4	3,044	2,461	139.2
EBITDA	495	555	462	469	562	13.4	19.9	1,492	1,455	159.0
EBITDA margin (%)	37.3	37.5	32.2	31.0	35.3	-197	432	32.9	37.2	184
One offs										
Forex gain/ Loss	0.0	-27.8	-37.8	-6.4	15.0	-	-	-29.2	46.1	-
Adjusted EBITDA	495	583	500	475	547	10.4	15.1	1,522	1,409	157.6
Adj EBITDA margin (%)	37.3	39.4	34.8	31.4	34.4	-291	296	33.5	36.0	160

Source: Company, Emkay Research

Segmental results (reported)

	Q3CY09	Q4CY09	Q1CY10	Q2CY10	Q3CY10	YoY (%)	QoQ (%)	YTD'10	YTD'09	YoY (%)
EBIDTA (Rs mn)										
Rating Services	199	259	288	298	296	48.7	-0.8	883	748	17.9
Advisory services	29	64	24	18	-12	-140.9	-166.8	30	66	-54.8
Research and Inf. Serv.	261	229	177	150	278	6.5	85.5	605	632	-4.3
Total	489	552	489	466	562	15.0	20.7	1,517	1,446	4.9
EBIDTA margins (%)										
Rating Services	35.7	40.9	44.3	42.0	40.3	460	-174	42.1	42.6	-51
Advisory services	20.0	32.9	18.2	13.6	-11.6	-	-	8.2	16.4	-814
Research and Inf. Serv.	41.8	35.2	27.4	22.5	37.1	-470	1,462	29.3	36.5	-712
Total	36.8	37.3	34.1	30.8	35.3	-146	452	33.4	36.9	-349

Source: Company, Emkay Research

One time gain boost earnings growth

The company reported a strong 126.6%yoy and 75.5%qoq growth in reported net profit to Rs755mn. However this includes one time profit of Rs329mn on account of sale of shares In Gas strategies Group Ltd. and National commodity & derivative exchange Ltd (NCDEX) and Rs68.1mn on account of sale of office space. Adjusted for the above one off items the net profit grew by 1.8%yoy and 21.2%qoq to Rs439mn.

Valuation and view

At the CMP, the stock is quoting at 25.3x/18.8x/15.5x CY10E/11E/12E EPS. We have included Pipal Research numbers in our estimates and have introduced CY12E EPS estimates at Rs394/share. We are rolling over our multiple to average EPS for CY11E/12E. We have assigned a PER of 20.1x (in line with our earlier strategy) which is 20% premium to Sensex one-year forward multiple of 16.8x and have added cash of Rs415/share (CY11E) giving a price target of Rs7,000. The sharp upgrade in stock price comes from a 14% upgrade in CY11E EPS and 21% estimated growth in CY12E EPS. We upgrade the stock to ACCUMULATE.

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	CY09	CY10E	CY11E	CY12E
Net Sales	5,373	6,336	8,208	9,946
Growth (%)	4.4	17.9	29.5	21.2
Expenditure	3,349	4,137	5,055	6,117
Materials Consumed	628	838	1,003	1,216
Employee Cost	2,099	2,535	3,064	3,703
Other Exp	622	763	988	1,198
EBITDA	2,024	2,200	3,152	3,830
Growth (%)	8.1	8.7	43.3	21.5
EBITDA margin (%)	38	35	38	39
Depreciation	149	191	244	274
EBIT	2,009	2,309	3,219	3,905
EBIT margin (%)	37.4	36.4	39.2	39.3
Other Income	134	300	311	349
Interest expenses	0	0	0	0
PBT	2,075	3,031	3,219	3,905
Tax	467	740	869	1,054
Effective tax rate (%)	22.5	24.4	27.0	27.0
Adjusted PAT	1,608	2,292	2,350	2,851
Growth (%)	14.4	42.5	2.5	21.3
Net Margin (%)	29.9	36.2	28.6	28.7
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adjusted PAT After JVs/Ass/MI	1,557	1,745	2,350	2,851
E/O items	65	723	0	0
Reported PAT	1,608	2,292	2,350	2,851
Growth (%)	14.4	42.5	2.5	21.3

Cash Flow

Y/E, Mar (Rs. mn)	CY09	CY10E	CY11E	CY12E
PBT (Ex-Other income)	1,941	2,732	2,908	3,556
Depreciation	149	191	244	274
Interest Provided	0	0	0	0
Other Non-Cash items	17	0	0	0
Chg in working cap	-143	105	-436	-627
Tax paid	-467	-740	-869	-1,054
Operating Cashflow	2,097	3,327	3,027	3,552
Capital expenditure	-619	-230	-191	-244
Free Cash Flow	1,478	3,097	2,836	3,308
Other income	134	300	311	349
Investments	-5	-492	0	0
Investing Cashflow	129	-192	311	349
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	0	0	0	0
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-846	-1,776	-1,776	-1,776
Income from investments				
Others				
Financing Cashflow	-846	-1,776	-1,776	-1,776
Net chg in cash	174	-70	191	477
Opening cash position	437	612	542	732
Closing cash position	612	542	732	1,209

Balance Sheet

Y/E, Mar (Rs. mn)	CY09	CY10E	CY11E	CY12E
Equity share capital	72	72	72	72
Reserves & surplus	3,574	3,597	4,171	5,246
Net worth	3,646	3,670	4,243	5,318
Minority Interest	0	0	0	0
Secured Loans	0	0	0	0
Unsecured Loans	0	0	0	0
Loan Funds	0	0	0	0
Net deferred tax liability	-101	-101	-101	-101
Total Liabilities	3,545	3,569	4,143	5,217
Gross Block	1,856	2,086	2,277	2,521
Less: Depreciation	-710	-901	-1,145	-1,419
Net block	1,146	1,185	1,132	1,103
Capital work in progress	637	0	0	0
Investment	1,175	1,175	1,175	1,175
Current Assets	3,227	3,412	4,274	5,649
Inventories				
Sundry debtors	922	1,087	1,409	1,707
Cash & bank balance	453	542	732	1,210
Loans & advances	139	139	139	139
Other current assets	1,713	1,644	1,994	2,594
Current lia & Prov	2,002	2,204	2,439	2,710
Current liabilities	1,615	1,817	2,052	2,323
Provisions	387	387	387	387
Net current assets	1,224	1,208	1,835	2,939
Misc. exp	0	0	0	0
Total Assets	3,545	3,569	4,143	5,217

Key ratios

Y/E, Mar	CY09	CY10E	CY11E	CY12E
Profitability (%)				
EBITDA Margin	37.4	36.4	39.2	39.3
Net Margin	29.9	36.2	28.6	28.7
ROCE	63.3	64.9	83.5	83.4
ROE	47.7	47.7	59.4	59.6
RoIC	216.5	180.1	209.4	191.3
Per Share Data (Rs)				
EPS	215.5	241.6	325.3	394.6
CEPS	236.1	268.0	359.0	432.5
BVPS	504.7	507.9	587.3	736.0
DPS	70.0	100.0	210.0	210.0
Valuations (x)				
PER	28.4	25.3	18.8	15.5
P/CEPS	25.9	22.8	17.0	14.1
P/BV	12.1	12.0	10.4	8.3
EV / Sales	7.7	6.6	5.0	4.1
EV / EBITDA	20.5	18.9	13.1	10.6
Dividend Yield (%)	2.3	1.7	3.6	3.6
Gearing Ratio (x)				
Net Debt/ Equity	-	-	-	-
Net Debt/EBITDA	-	-	-	-
Working Cap Cycle (days)	-	-	-	-

Recommendation History: CRISIL – CRISIL IN

Date	Reports	Reco	CMP	Target
23/09/2010	CRISIL Company Update	UR	6,169	NA
23/07/2010	CRISIL Q2CY10 Result Update	Reduce	5,900	4,800
19/04/2010	CRISIL Q1CY10 Result Update	Reduce	5,564	4,800
19/02/2010	CRISIL Q4CY09 Result Update	Hold	4,889	4,800

Recent Research Reports

Date	Reports	Reco	CMP	Target
18/10/2010	Manapuram Q2FY11 Result Update	Reduce	150	160
14/10/2010	Axis Bank Q2FY11 Result Update	Reduce	1,563	1,200
14/10/2010	LIC Housing Finance Q2FY11 Result Update	Accumulate	1,458	1,490
18/08/2010	Banking Sector Update			

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