

April 22, 2013

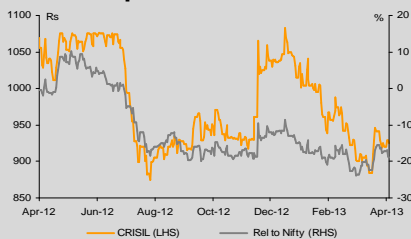
Rating	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs900	Rs1,050
EPS Chg FY13E/FY14E (%)	-9/-10
Target Price change (%)	NA
Nifty	5,783
Sensex	19,016

Price Performance

(%)	1M	3M	6M	12M
Absolute	-1	-10	-4	-16
Rel. to Nifty	0	-6	-5	-23

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Non Banking Financial Company
Bloomberg	CRISIL IB
Equity Capital (Rs mn)	70
Face Value(Rs)	1
No of shares o/s (mn)	70
52 Week H/L	1,262/ 854
Market Cap (Rs bn/USD mn)	63/ 1,168
Daily Avg Volume (No of sh)	31,064
Daily Avg Turnover (US\$m)	0.5

Shareholding Pattern (%)

	Mar'13	Dec'12	Sep'12
Promoters	53.0	53.0	53.0
FII/NRI	10.7	10.8	10.6
Institutions	16.8	16.6	16.8
Private Corp	1.9	1.8	1.7
Public	17.8	17.9	17.9

Source: Bloomberg

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- **CRISIL disappoints for the second consecutive quarter with lower than expected revenue at Rs2.5bn and Adj PAT at Rs524mn. Margins contract ~350 bps to 31.6%**
- **Sluggish bond market drags ratings growth to less than 6%, lowest in last 6 years. Tough times for global investment banks puts pressure on research revenues**
- **Despite tougher environment, client additions continue at IREVENA. CRISIL has seen better client engagements towards fag end of Q1CY13 vs. Q1CY12**
- **At CMP the stock trades at 24.8x CY13 EPS and 21x CY14 EPS. We continue to maintain Accumulate rating with price target of 1050**

Results below expectation; growth moderates across segments

CRISIL's results for the second consecutive quarter came in below expectation with growth moderating across segments of rating, research and advisory. The operating revenue came in at Rs2.5bn (14.7%yoy) as against expectation of Rs2.7bn. Revenue for the quarter also includes Coalition numbers, adjusted for the same the revenues would have remained flat on yoy basis. Growth in ratings slipped to just 5.8%yoy (adjusted for one off income of Rs73mn in corresponding quarter last year), lowest in the last 6 years. Initial rating volume for all rating agencies put together has come down by 48%yoy during the quarter inline with poor credit growth and sluggish debt issuances. Moreover with pressure on the global investment banking industry, research revenue ex Coalition also witnessed a decline of~5%yoy. However with Coalition performing on the expected lines overall research revenue grew by 23.5%yoy to Rs1.4bn.

Exhibit 1: Income from operations

(Rsmn)	Q1CY12	Q2CY12	Q3CY12	Q4CY12	Q1CY13	YoY (%)	QoQ (%)
Rating Services Fees	939	907	1,030	1,014	994	5.8	-2.0
Advisory services Fees	127	123	152	151	125	-1.4	-17.2
Research & Information Services	1,153	1,133	1,525	1,450	1,426	23.6	-1.7
Total operating revenues	2,219	2,163	2,707	2,615	2,545	14.7	-2.7

Source: Company, Emkay Research

Exhibit 2: Initial rating volume declined by 48%, steepest decline in many years

% yoy	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Initial ratings	-8	-24	14	-15	142	-3	-13	46	-48
Upgraded	52	28	-47	-55	-40	-69	-53	-57	12
Downgraded	-64	483	295	295	1100	155	599	64	71
Reaffirmed	28	36	11	14	0	31	8	29	18
Withdrawn	20	148	-29	221	100	-43	47	-74	72
Total	23	26	10	18	21	27	22	28	11

Source: Company, Emkay Research

Financial Snapshot (Consolidated)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
CY11A	8,070	2,625	32.5	1,877	26.8	15.5	46.5	33.6	23.4	17.3
CY12A	9,777	3,276	33.5	2,151	30.6	14.3	45.6	29.4	18.9	29.5
CY13E	11,874	3,914	33.0	2,546	36.2	18.4	43.7	24.8	15.7	18.7
CY14E	13,944	4,547	32.6	3,006	42.8	18.1	43.1	21.0	13.2	13.3

Exhibit 3: Key financials – Quarterly

Rs mn	Q1CY12	Q2CY12	Q3CY12	Q4CY12	Q1CY13	YoY (%)	QoQ (%)
Revenue	2,219	2,163	2,707	2,615	2,545	14.7	-2.7
Expenditure	1,446	1,569	1,730	1,727	1,741	20.4	0.8
as % of sales	65.2	72.5	63.9	66.0	68.4		
Rent	119	113	119	118	116	-2.9	-2.3
as % of sales	5.4	5.2	4.4	4.5	4.5		
Employee Cost	933	1,062	1,213	1,182	1,211	29.8	2.4
as % of sales	42.1	49.1	44.8	45.2	47.6		
Other expenditure	422	394	466	427	458	8.5	7.3
as % of sales	19.0	18.2	17.2	16.3	18.0		
EBITDA	773	594	977	888	804	4.0	-9.4
Depreciation	78	80	92	93	87	11.0	-6.9
EBIT	695	514	885	795	717	3.3	-9.7
Other Income	52	19	35	46	37	-28.5	-18.6
Interest	0	0	0	0	0		
PBT	747	533	920	841	755	1.0	-10.2
Total Tax	210	153	275	268	228	9.0	-14.7
Adjusted PAT	537	380	645	573	526	-2.1	-8.1
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
APAT after MI	537	380	645	573	526	-2.1	-8.1
Extra ordinary items	33	57	-48	27	-31		
Reported PAT	570	437	597	600	496	-13.0	-17.4
Reported EPS	7.9	6.2	8.5	8.6	7.1	-10.3	-17.4

Margins (%)	Q1CY12	Q2CY12	Q3CY12	Q4CY12	Q1CY13	(bps)	(bps)
EBIDTA	34.8	27.5	36.1	34.0	31.6	-323	-235
EBIT	31.3	23.8	32.7	30.4	28.2	-312	-220
EBT	33.7	24.6	34.0	32.1	29.7	-400	-248
PAT	24.2	17.6	23.8	21.9	20.7	-353	-122
Effective Tax rate	26.9	25.9	31.5	30.9	31.6	467	68

Source: Company, Emkay Research

Exhibit 4: Segmental results

EBIT (Rs mn)	Q1CY12	Q2CY12	Q3CY12	Q4CY12	Q1CY13	YoY (%)	QoQ (%)
Rating Services	397	324	419	425	386	-2.8	-9.1
Advisory services	13	4	39	44	15	16.8	-66.8
Research and Information Services	379	277	496	413	414	9.3	0.3
Total	789	605	954	881	815	3.3	-7.5

EBIDTA margins (%)	Q1CY12	Q2CY12	Q3CY12	Q4CY12	Q1CY13	YoY (%)	QoQ (%)
Rating Services	42.3	35.7	40.7	41.9	38.8	-346	-303
Advisory services	9.8	3.2	25.9	29.1	11.7	182	-1,743
Research and Information Services	32.9	24.5	32.5	28.5	29.1	-381	59
Total	35.5	28.0	35.3	33.7	32.0	-352	-168

Source: Company, Emkay Research *Note: Research margins are adjusted for foreign exchange gain/ loss

Coalition remains an outperformer

Coalition which was acquired in July 2012 has shown strong performance since its acquisition as it clocked GBP8mn of revenue in H2CY12 alone, equivalent of CY11 whole year revenue. On an annualized basis Coalition revenue would have grown two fold to GBP16mn (Rs1330mn) in CY12. Management is hopeful of continued strong performance by Coalition in CY13 as well, as the company is likely to pay the maximum value of the deal of ~Rs2.5bn which was linked to significant revenue and pat growth assumption. CRISIL has paid Rs1.4bn for Coalition acquisition in CY12 and has made further provision of Rs1.36 to be paid in CY13.

Exhibit 5: Coalition revenue would have grown two fold in CY12

	Q1CY13	CY12	CY11	YoY (%)
Coalition	333**	1330*	688	93.3
Ex Coalition	1,093	3,930	3,371	16.6
Total Research	1,426	5,260	4,059	29.6

Source: Company, Emkay Research Note: *annualized based on H2CY12 revenues of GBP 8mn (Rs665mn)
**assumed based on H2CY12 revenue of GBP8mn

Despite tough environment, client additions continue in IREVNA

The operating environment remained tough for IREVNA as global investment banks' revenues continued to decline.

Even as the operating environment remained challenging across US and Europe for global investment banks, CRISIL has added few new clients over past couple of quarters. Even the bench strength specific to clients has seen increase towards the end of Q1CY13 which should reflect in revenues in Q2CY13.

Lower revenues with fixed nature of costs impact margins

CRISIL's operating margins contracted by 235bps yoy (-323qoq) to 31.6% driven by lower than expected revenues and significant operating leverage due to fixed nature of costs. The operating costs remained flat at Rs1.7bn even as the revenues declined 3% qoq.

Both rating and research segment witnessed about 350bps contraction in operating margins to 38.8% and 29.1% respectively. Resultantly operating profit (adjusted for Fx loss of Rs43mn) grew by just 4%yoy to Rs804mn.

Lower other income and higher tax rates add to problems

Moreover lower other income at Rs37mn (due to lower treasury income on account of cash outflow for Coalition acquisition) and higher tax rate at 31.6% as against 26.9% in corresponding quarter last year resulted in 2.1% decline in earnings to Rs526mn.

Valuation and view

While rating revenues has been under pressure for quite some time led by poor investment activity, research which was keeping the revenue growth momentum going, now seems to be also getting impacted by adverse global developments. However near term catalyst to revenues could be 1) addition to bench strength at the end of Q1CY13, specific to clients in research, and 2) continued strong performance by "Coalition". At CMP the stock trades at 24.8x CY13 EPS and 21x CY14 EPS with cash per share of 22/44 for CY13/14E. We continue to maintain Accumulate rating with price target of 1050.

Key Financials (Consolidated)

Income Statement

Y/E Dec (Rsmn)	CY11A	CY12A	CY13E	CY14E
Net Sales	8,070	9,777	11,874	13,944
<i>Growth (%)</i>	28.4	21.2	21.4	17.4
Expenditure	5,445	6,501	7,959	9,397
Raw Materials	935	911	1,118	1,300
Employee Cost	3,581	4,432	5,471	6,516
Other Exp	928	1,158	1,371	1,581
EBITDA	2,625	3,276	3,914	4,547
<i>Growth (%)</i>	19.9	24.8	19.5	16.2
EBITDA margin (%)	33	33.5	33.0	32.6
Depreciation	298	343	444	481
EBIT	2,505	3,061	3,586	4,234
EBIT margin (%)	31.0	31.3	30.2	30.4
Other Income	178	128	115	167
Interest expenses	0	0	0	0
PBT	2,755	3,137	3,586	4,234
Tax	691	933	1,040	1,228
<i>Effective tax rate (%)</i>	25.1	29.7	29.0	29.0
Adjusted PAT	1,877	2,151	2,546	3,006
<i>Growth (%)</i>	14.1	14.6	18.4	18.1
Net Margin (%)	23.3	22.0	21.4	21.6
(Profit)/loss from JVs/Ass/MI				
Adj. PAT After JVs/Ass/MI	1,877	2,151	2,546	3,006
E/O items	250	76	0	0
Reported PAT	2,064	2,204	2,546	3,006
<i>Growth (%)</i>	-0.9	6.8	15.5	18.1

Cash Flow

Y/E Dec (Rsmn)	CY11A	CY12A	CY13E	CY14E
PBT (Ex-Other income)	2,627	3,021	3,418	4,234
Depreciation	298	343	444	481
Interest Provided	-3	-1	0	0
Other Non-Cash items	-164	-85	-115	-167
Chg in working cap	665	-288	-1,098	215
Tax paid	-689	-897	-1,040	-1,228
Operating Cashflow	3,293	3,132	2,817	4,763
Capital expenditure	-264	-430	-274	-286
Free Cash Flow	3,029	2,702	2,543	4,476
Other income	178	128	115	167
Investments	115	-992	0	0
Investing Cashflow	293	-864	115	167
Equity Capital Raised	0	103	0	0
Loans Taken / (Repaid)	0	0	0	0
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-886	-1,203	-1,471	-1,797
Income from investments				
Others				
Financing Cashflow	-1,674	-1,108	-1,471	-1,797
Net chg in cash	342	443	-152	118
Opening cash position	595	938	1,381	1,229
Closing cash position	938	1,381	1,229	1,347

Balance Sheet

Y/E Dec (Rsmn)	CY11A	CY12A	CY13E	CY14E
Equity share capital	70	70	70	70
Reserves & surplus	4,063	5,220	6,295	7,503
Net worth	4,133	5,290	6,365	7,574
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	-131	-175	-175	-175
Total Liabilities	4,002	5,115	6,190	7,399
Gross Block	3,350	5,996	6,269	6,556
Less: Depreciation	-1,081	-1,328	-1,772	-2,252
Net block	2,268	4,668	4,498	4,303
Capital work in progress	6	0	0	0
Investment	159	1,151	1,151	1,151
Current Assets	4,428	3,837	4,237	6,115
Inventories	0	0	0	0
Sundry debtors	879	1,172	1,424	1,672
Cash & bank balance	928	1,371	1,220	1,337
Loans & advances	539	703	713	725
Other current assets	2,082	591	881	2,381
Current lia & Prov	2,853	4,541	3,704	4,180
Current liabilities	2,319	3,818	2,860	3,147
Provisions	534	723	845	1,033
Net current assets	1,575	-704	533	1,935
Misc. exp	0	0	0	0
Total Assets	4,002	5,115	6,190	7,399

Key Ratios

Y/E Dec	CY11A	CY12A	CY13E	CY14E
Profitability (%)				
EBITDA Margin	32.5	33.5	33.0	32.6
Net Margin	23.3	22.0	21.4	21.6
ROCE	64.2	67.1	63.5	62.4
ROE	46.5	45.6	43.7	43.1
RoIC	71.6	66.2	57.1	63.3
Per Share Data (Rs)				
EPS	26.8	30.6	36.25	42.80
CEPS	30.8	35.2	42.2	49.4
BVPS	52.1	30.5	48.0	67.5
DPS	20.3	11.1	16.0	18.0
Valuations (x)				
PER	33.6	29.4	24.8	21.0
P/CEPS	29.2	25.5	21.3	18.2
P/BV	17.3	29.5	18.7	13.3
EV / Sales	7.6	6.3	5.2	4.3
EV / EBITDA	23.4	18.9	15.7	13.2
Dividend Yield (%)	1.2	1.8	2.0	2.4
Gearing Ratio (x)				
Net Debt/ Equity	-	-	-	-
Net Debt/EBITDA	-	-	-	-
Working Cap Cycle (days)	-	-	-	-

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