

Strong operating performance; upgrade to BUY

October 18, 2011

Reco Changed from Buy Hold
CMP Target Price Rs839 Rs1050

EPS change CY11E/12E (%) NA
 Target Price change (%) 36
 Nifty 5,038
 Sensex 16,748

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	16	29	37
Rel. to Nifty	3	28	48	65

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector Financial Services
 Bloomberg CRISIL@IN
 Equity Capital (Rs mn) 71
 Face Value(Rs) 1
 No of shares o/s (mn) 71
 52 Week H/L 945/561
 Market Cap (Rs bn/USD mn) 60/1,217
 Daily Avg Volume (No of sh) 61609
 Daily Avg Turnover (US\$m) 1.1

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	52.4	52.4	52.4
FII/NRI	11.6	11.6	11.4
Institutions	16.6	16.8	17.0
Private Corp	1.6	1.6	1.5
Public	17.7	17.6	17.7

Source: Capitaline

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- **CRISIL's Q3CY11 revenue came in at Rs2.1bn, inline with expectation. However net profit at Rs602mn was ahead of expectation led by lower opex and one off gains of Rs104mn**
- **While rating revenues remain stable qoq, Research business continues to show strong growth (7.8%qoq). Continued momentum in IREVNA & leverage on pipal bus to drive rev**
- **Operating margins expanded by 63bps qoq to 35% led by 165/41bps yoy improvement in rating and research margins**
- **Shifting our valuation methodology from premium to Sensex valuations to cash flow discounting. Accordingly, revising price target to Rs1050 and upgrade to BUY**

Revenue growth inline with expectation

CRISIL Q3CY11 revenue at Rs2.1bn (up 32% yoy and 4.3% qoq) was Inline with our expectation. This growth in revenue was primarily led by 48% yoy (8% qoq) growth in research and information services segment at Rs1.1bn. Despite stiff competition, revenues from rating business remained healthy at Rs840mn (up14.1% yoy). Advisory services at Rs147mn were up 44% yoy (declined 6% qoq).

Income from operations

%	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY %	QoQ %
Rating Services Fees	735	746	722	846	840	14.3	-0.7
Advisory services Fees	102	152	107	157	147	44.3	-6.2
Res. and Inf. Services	749	868	938	1,028	1,108	48.0	7.8
Other operating income	42	18	26	29	53	25.9	84.4
Total Revenues	1,628	1,783	1,794	2,060	2,149	32.0	4.3

Source: Company, Emkay Research

Note: The research revenues for Q4CY10 include 29 days of Pipal Research revenues

Research revenues to drive growth

We expect the momentum in the revenue growth to sustain in coming quarters driven by research over CY11E/CY12E. The number of full time equivalents (FTE) has seen strong growth during the quarter. Same coupled with the momentum in business from Pipal research will further add to the growth trajectory in research segment in CY11/12. We believe that strong growth in research will more than compensate any slow down in the rating revenues.

Valuation table

YE-Mar	Net Sales	EBITDA (Core) (%)	APAT (%)	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
CY10	6,284	2,189	34.8	1,645	23.2	23.5	48.6	36.2	26.5
CY11E	8,095	2,780	34.3	2,001	28.6	23.3	70.1	29.4	20.4
CY12E	9,807	3,378	34.4	2,446	34.9	22.3	65.0	24.0	16.3
CY13E	11,735	4,007	34.1	2,932	41.9	19.9	49.2	20.0	13.3

Key financials – Quarterly

Rs mn	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)	YTD 12	YTD 11	YoY (%)
Revenue	1,591	1,774	1,772	2,031	2,095	31.7	3.2	5,899	4,537	30.0
Expenditure	1,044	1,072	1,204	1,432	1,362	30.4	-4.9	3,998	3,015	32.6
as % of sales	65.6	60.4	68.0	70.5	65.0			67.8	66.5	
Rent	106	104	109	111	117	10.8	5.6	338	332	1.6
as % of sales	6.7	5.8	6.1	5.5	5.6			5.7	7.3	
Employee Cost	681	651	782	930	892	31.0	-4.1	2,603	1,922	35.4
as % of sales	42.8	36.7	44.1	45.8	42.6			44.1	42.4	
Other expenditure	202	246	235	301	283	40.4	-6.0	820	581	41.1
as % of sales	12.7	13.9	13.3	14.8	13.5			13.9	12.8	
EBITDA	547	702	568	599	734	34.1	22.5	1900	1522	24.9
Depreciation	54	56	68	74	74	36.6	-0.5	216	156	38.0
EBIT	493	646	500	525	660	33.8	25.7	1685	1365	23.4
Other Income	42	18	26	29	105	147.9	263.0	161	106	52.1
Interest	0	0	0	0	0			0	0	
PBT	535	664	526	554	765	42.9	38.1	1845	1471	25.5
Total Tax	193	150	82	144	216	11.8	50.3	441	436	1.1
Adjusted PAT	426	512	447	419	549	28.8	31.2	1415	1146	23.4
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	426	512	447	419	549	28.8	31.2	1415	1146	23.4
Extra ordinary items	328	-6	13	26	53			91	403	
Reported PAT	754	506	460	444	602	-20.2	35.4	1506	1549	-2.8
Reported EPS	104.4	70.0	63.6	61.5	83.3	-20.2	35.4	208.5	214.4	-2.8

Margins (%)	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	(bps)	(bps)	YTD 12	YTD 11	(bps)
EBIDTA	34.4	39.6	32.0	29.5	35.0	63	552	32.2	33.5	-132
EBIT	31.0	36.4	28.2	25.8	31.5	51	565	28.6	30.1	-153
EBT	33.7	37.4	29.7	27.3	36.5	286	925	31.3	32.4	-114
PAT	26.8	28.9	25.2	20.6	26.2	-58	560	24.0	25.3	-128
Effective Tax rate	20.4	22.9	15.1	24.4	26.4	602	198	22.7	22.0	68

Source: Company, Emkay Research

Operating profit grows by 34%yoy

Driven by healthy revenue growth coupled with 4.9%qoq decline in opex, the operating profit grew by a strong 34.1% yoy to Rs734mn. As a result the operating margin expanded by 63bpsyoy to 35%. The decline in opex was primarily led by 4.1%qoq decline in employee cost to Rs892mn.

EBIDTA margins up 63bps yoy

%	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)
Income from operations	1,591	1,774	1,772	2,031	2,095	31.7	3.2
Total Expenditure	1,044	1,072	1,204	1,432	1,362	30.4	-4.9
EBITDA	547	702	568	599	734	34.1	22.5
EBITDA margin (%)	34.4	39.6	32.0	29.5	35.0	63	552

Source: Company, Emkay Research

Segmental results (reported)

	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)
EBIDTA (Rs mn)							
Rating Services	296	307	279	330	352	19.0	6.7
Advisory services	-12	50	4	21	55	-564.2	161.6
Research and Inf. Serv.	278	336	296	254	416	49.6	63.5
Total	562	692	579	606	823	46.4	35.9
EBIDTA margins (%)							
Rating Services	40.3	41.1	38.6	39.0	41.9	165	291
Advisory services	-11.6	32.9	3.6	13.4	37.4	4,897	2,397
Research and Inf. Serv.	37.1	38.7	31.6	24.7	37.5	41	1,280
Total	34.5	38.8	32.3	29.4	38.3	377	891

Source: Company, Emkay Research

One time gain boost earnings

The company reported a strong 35.4%qoq growth in reported net profit to Rs602mn. However this includes one time profit of Rs90mn on account of forex gains and Rs14.5mn on account of sale of office space. Adjusted for the above one off items the net profit grew by 23.1%yoy and 25.4%qoq to Rs525mn.

Board of Directors approves buyback

As the company enjoys strong operating cash flow, the company's board today approved buy back of shares, subject to shareholders approval. Average operating cash flow over the last four years stood at a strong Rs2.8bn. CRISIL completed its previous buy back between Nov 3-10, 2010 of 128,156 (1,281,560 post split) shares at an average price of Rs6,200 (Rs620 post split), totalling to Rs795mn. Though exact quantum of the buyback is not known, however, at cap of 25% of the networth CRISIL can spend another Rs800mn on buy-back of shares. At Rs839/shares (today's CMP), CRISIL can buy back up to ~1mn shares or 1.2% of the equity.

Valuation and view

While at 25x CY12E EPS the valuations look quite expensive, we believe that the strong cash flow generation capabilities of the company should continue to support the expensive valuations. Taking cognizance of the fact that (1) CRISIL's earnings growth over CY11-13E is likely to be much stronger than that of the Sensex and (2) the ability of the company to replenish its cash balances each year despite paying out special dividends and stock buy-backs, we are shifting our valuation methodology from premium to Sensex valuations to cash flow discounting. Accordingly, we are revising our price target on the stock to Rs1050 and upgrade to BUY. Recent, correction in the stock price (post buy back announcement) gives a decent 26% upside in the stock.

Assumptions

Discount rate (%)	1.11
PV of cash flows	2,352
Total PV	74,452
No of shares	71

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	CY10	CY11E	CY12E	CY13E
Net Sales	6,284	8,095	9,807	11,735
Growth (%)	22.1	28.8	21.2	19.7
Expenditure	4,096	5,314	6,429	7,729
Materials Consumed	793	987	1,198	1,419
Employee Cost	2,616	3,351	4,051	4,898
Other Exp	687	976	1,180	1,412
EBITDA	2,189	2,780	3,378	4,007
Growth (%)	16.9	27.0	21.5	18.6
EBITDA margin (%)	35	34	34	34
Depreciation	213	222	240	267
EBIT	2,109	2,741	3,351	4,016
EBIT margin (%)	33.6	33.9	34.2	34.2
Other Income	133	182	213	277
Interest expenses	0	0	0	0
PBT	2,669	2,741	3,351	4,016
Tax	587	740	905	1,084
Effective tax rate (%)	22.0	27.0	27.0	27.0
Adjusted PAT	1,645	2,001	2,446	2,932
Growth (%)	21.3	21.6	22.3	19.9
Net Margin (%)	26.2	24.7	24.9	25.0
(Profit)/loss from JVs/Ass/MI	-3	-2	-1	0
Adjusted PAT After JVs/Ass/MI	1,645	2,001	2,446	2,932
E/O items	560	0	0	0
Reported PAT	2,082	2,001	2,446	2,932
Growth (%)	48.1	-3.9	22.3	19.9

Cash Flow

Y/E, Mar (Rs. mn)	CY10	CY11E	CY12E	CY13E
PBT (Ex-Other income)	2,486	2,528	3,074	4,016
Depreciation	213	222	240	267
Interest Provided	-3	-2	-1	0
Other Non-Cash items	-553	-40	-48	-87
Chg in working cap	-219	1,029	-184	-186
Tax paid	-650	-740	-905	-1,084
Operating Cashflow	2,110	3,952	3,359	4,011
Capital expenditure	-499	176	-222	-240
Free Cash Flow	1,611	4,128	3,137	3,771
Other income	133	182	213	277
Investments	1,259	-1,414	-1,600	-1,600
Investing Cashflow	1,392	-1,231	-1,387	-1,323
Equity Capital Raised	0	-1	0	0
Loans Taken / (Repaid)	0	0	0	0
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-1,681	-898	-898	-898
Income from investments				
Others				
Financing Cashflow	-2,478	-1,708	-898	-898
Net chg in cash	-314	507	-68	450
Opening cash position	908	593	1,101	1,033
Closing cash position	593	1,101	1,033	1,483

Balance Sheet

Y/E, Mar (Rs. mn)	CY10	CY11E	CY12E	CY13E
Equity share capital	71	70	70	70
Reserves & surplus	3,048	2,516	4,873	6,907
Net worth	3,119	2,586	4,943	6,977
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	-142	-142	-142	-142
Total Liabilities	2,977	2,444	4,801	6,834
Gross Block	2,275	2,098	2,321	2,561
Less: Depreciation	-851	-1,070	-1,311	-1,578
Net block	1,424	1,028	1,010	983
Capital work in progress	1	0	0	0
Investment	262	1,676	3,276	4,876
Current Assets	3,430	3,343	3,671	4,554
Inventories				
Sundry debtors	1,086	1,399	1,695	2,028
Cash & bank balance	587	1,101	1,033	1,483
Loans & advances	114	114	114	114
Other current assets	1,643	729	829	929
Current lia & Prov	2,139	2,446	2,823	3,250
Current liabilities	1,677	1,831	2,043	2,290
Provisions	462	616	780	960
Net current assets	1,291	897	847	1,303
Total Assets	2,977	2,444	4,801	6,834

Key ratios

Y/E, Mar	CY10	CY11E	CY12E	CY13E
Profitability (%)				
EBITDA Margin	34.8	34.3	34.4	34.1
Net Margin	26.2	24.7	24.9	25.0
ROCE	64.7	83.3	76.7	65.3
ROE	48.6	70.1	65.0	49.2
RoIC	136.0	209.6	322.0	227.8
Per Share Data (Rs)				
EPS	23.2	28.6	34.9	41.9
CEPS	26.4	32.0	38.8	46.3
BVPS	44.0	36.9	70.6	99.7
DPS	10.0	20.3	11.0	11.0
Valuations (x)				
PER	36.2	29.4	24.0	20.0
P/CEPS	31.7	26.2	21.6	18.1
P/BV	19.1	22.7	11.9	8.4
EV / Sales	9.2	7.0	5.6	4.5
EV / EBITDA	26.5	20.4	16.3	13.3
Dividend Yield (%)	2.4	1.3	1.3	1.3
Gearing Ratio (x)				
Net Debt/ Equity	-	-	-	-
Net Debt/EBIDTA	-	-	-	-
Working Cap Cycle (days)	-	-	-	-

Recommendation History: CRISIL – CRISIL IN

Date	Reports	Reco	CMP	Target
21/07/2011	CRISIL Q2CY11 Result Update	Hold	7,211	7,700
18/04/2011	CRISIL Q1CY11 Result Update	Hold	6,834	7,000
15/02/2011	CRISIL Q4CY10 Result Update	Accumulate	5,910	7,000
19/10/2010	CRISIL Q3CY10 Result Update	Accumulate	6,118	7,000

Recent Research Reports

Date	Reports	Reco	CMP	Target
17/10/2011	South Indian Bank Q2FY12 Result Update	Accumulate	23	27
16/09/2011	Banking Sector Update			
08/09/2011	ICICI Bank Management Meet Update	Accumulate	897	1,200
30/08/2011	Banking Sector Update			

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