

Research continues to drive growth

February 17, 2012

Reco **Changed from**
Buy Buy
CMP **Target Price**
Rs944 Rs1,050

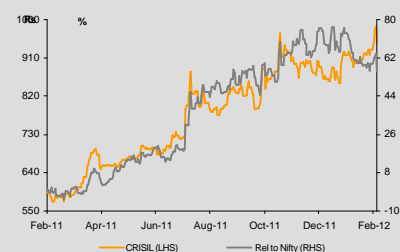
EPS change CY11E/12E (%) NA
Target Price change (%) NA
Nifty 5,564
Sensex 18,289

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	4	21	59
Rel. to Nifty	(8)	(8)	5	58

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector Financial Services
Bloomberg CRISIL@IN
Equity Capital (Rs mn) 70
Face Value(Rs) 1
No of shares o/s (mn) 70
52 Week H/L 1,000/567
Market Cap (Rs bn/USD mn) 66/1,340
Daily Avg Volume (No of sh) 44952
Daily Avg Turnover (US\$m) 0.8

Shareholding Pattern (%)

	Jan-12	Dec-11	Sep-11
Promoters	53.1	52.4	52.4
FII/NRI	10.9	10.7	11.6
Institutions	16.6	16.4	16.6
Private Corp	1.6	2.2	1.6
Public	17.8	18.3	17.7

Source: Capitaline

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- CRISIL's Q4CY11 revenue came in at Rs2.2bn, inline with expectation. However net profit at Rs498mn was slightly below expectation led by higher opex
- Research continues to grow at a strong pace at 34%yoy, while rating grew by a moderate 14%yoy. Continued momentum in IREVNA & leverage on pipal bus to drive research rev further
- Op margins contracted by 149bps qoq to 33.5% led by 313/117 bps contraction in rating and research margins. Resultantly op profit grew by 3.9%yoy, slightly below exp
- Strong cash flow generation capabilities of the company should continue to support the expensive valuations. Maintain BUY rating on the stock with PT of Rs1,050

Revenue growth inline with expectation

CRISIL Q4CY11 revenue at Rs2.2bn (up 26.1% yoy and 4.7% qoq) was inline with our expectation. This growth in revenue was led by 34% yoy (4.9% qoq) growth in research and information services segment and 14.1%yoy growth in rating revenues. Advisory services at Rs162mn were up 7% yoy .

Income from operations

%	Q4CY10	Q1CY11	Q2CY11	Q3CY11	Q4CY11	YoY %	QoQ %
Rating Services Fees	746	722	846	840	851	14.1	1.3
Advisory services Fees	152	107	157	147	162	7.0	10.5
Res. and Inf. Services	868	938	1,028	1,108	1,163	34.0	4.9
Other operating income	18	26	29	53	74	304.2	37.5
Total Revenues	1,783	1,794	2,060	2,149	2,249	26.1	4.7

Source: Company, Emkay Research

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

Pick up in debt issuances to aid growth in rating revenues in CY12

Rating revenues grew at a moderate pace in CY11 led by lower debt activity on account of highly volatile interest rate environment. However with interest rate cycle peaking out, debt issuances are likely to increase in CY12, hence aiding growth in rating revenues. Debt issuance has already improved in September and December quarter with 28-30%yoy growth in volumes. Moreover with continued traction in IREVNA and Pipal research, growth in research is also likely to remain strong in CY12 as well.

Valuation table

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
CY10	6,284	2,189	34.8	1,645	23.2	23.5	48.6	40.8	30.1	21.5
CY11	8,252	2,630	31.9	1,888	27.0	16.2	57.9	35.1	23.4	19.4
CY12E	9,807	3,378	34.4	2,446	34.9	29.5	58.5	27.1	19.1	13.4
CY13E	11,735	4,007	34.1	2,929	41.8	19.7	49.1	22.6	15.8	9.5

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q4CY10	Q1CY11	Q2CY11	Q3CY11	Q4CY11	YoY (%)	QoQ (%)	CY 11	CY 10	YoY (%)
Revenue	1,774	1,772	2,031	2,095	2,176	22.7	3.9	8,075	6,311	28.0
Expenditure	1,072	1,204	1,432	1,362	1,446	35.0	6.2	5,445	4,087	33.2
as % of sales	60.4	68.0	70.5	65.0	66.5			67.4	64.8	
Rent	104	109	111	117	116	12.0	-1.3	453	436	4.1
as % of sales	5.8	6.1	5.5	5.6	5.3			5.6	6.9	
Employee Cost	651	782	930	892	914	40.5	2.5	3,517	2,573	36.7
as % of sales	36.7	44.1	45.8	42.6	42.0			43.6	40.8	
Other expenditure	246	235	301	283	300	22.0	5.9	1,120	827	35.4
as % of sales	13.9	13.3	14.8	13.5	13.8			13.9	13.1	
EBITDA	702	568	599	734	729	3.9	-0.6	2,630	2,224	18.3
Depreciation	56	68	74	74	83	46.9	11.9	298	213	40.3
EBIT	646	500	525	660	647	0.1	-2.0	2,332	2,011	15.9
Other Income	18	26	29	53	74	304.2	37.5	182	124	47.3
Interest	0	0	0	0	0			0	0	
PBT	664	526	554	713	720	8.5	1.0	2,514	2,135	17.8
Total Tax	150	82	144	216	249	66.0	15.6	691	587	17.7
Adjusted PAT	512	447	419	525	498	-2.8	-5.2	1,888	1,658	13.9
(Profit)/loss from JV's/Ass/MI	-4	-3	-2	-1	0			-6	-4	
APAT after MI	516	450	421	526	498	-3.5	-5.3	1,894	1,662	14.0
Extra ordinary items	-6	13	26	77	60			176	397	
Reported PAT	506	460	444	602	558	10.4	-7.3	2,064	2,055	0.5
Reported EPS	70.0	63.6	61.5	83.3	77.2	10.4	-7.3	286	284	0.5

Margins (%)	Q4CY10	Q1CY11	Q2CY11	Q3CY11	Q4CY11	(bps)	(bps)	CY 11	CY 10	(bps)
EBIDTA	39.6	32.0	29.5	35.0	33.5	-606	-149	32.6	35.2	-267
EBIT	36.4	28.2	25.8	31.5	29.7	-669	-176	28.9	31.9	-299
EBT	37.4	29.7	27.3	34.0	33.1	-433	-94	31.1	33.8	-270
PAT	28.9	25.2	20.6	25.1	22.9	-598	-218	23.4	26.3	-289
Effective Tax rate	22.9	15.1	24.4	26.4	30.9	798	449	25.1	22.2	286

Source: Company, Emkay Research

Operating profit slightly below expectation, as margins contracts

Despite 26.1%yoy growth in revenues, CRISIL operating profit grew by just 3.9%yoy (slightly below expectation) to Rs729mn, as expenditure rose by 35%yoy to Rs1.4bn. Resultantly, EBIDTA margins contracted by 606bps yoy to 33.5%. The higher expenditure was primarily led by 40.5%yoy increase in employee cost as in the same quarter last year, employee cost for Pipal research was included only for 29 days.

Segmental results (reported)

	Q4CY10	Q1CY11	Q2CY11	Q3CY11	Q4CY11	YoY (%)	QoQ (%)
EBIDTA (Rs mn)							
Rating Services	307	279	330	352	330	7.7	-6.3
Advisory services	50	4	21	55	48	-4.0	-12.7
Research and Inf. Serv.	336	296	254	416	423	26.0	1.7
Total	692	579	606	823	801	15.7	-2.7
EBIDTA margins (%)							
Rating Services	41.1	38.6	39.0	41.9	38.8	-230	-313
Advisory services	32.9	3.6	13.4	37.4	29.5	-336	-782
Research and Inf. Serv.	38.7	31.6	24.7	37.5	36.4	-232	-117
Total	38.8	32.3	29.4	38.3	35.6	-321	-271

Source: Company, Emkay Research

Resultantly, net profit also came slightly below expectation

The company reported a 10.4%yoy growth in reported net profit to Rs558mn, inline with expectation. However this includes one time profit of Rs71.3mn on account of forex gains and Rs15.8mn on account of sale of office space. Adjusted for the above one off items the net profit declined by 2.8%yoy to Rs498mn, slightly below expectation.

Completes Buyback worth Rs795mn

CRISIL completed its buyback of 0.9mn shares at an average price of 871 in December 2011, totaling to Rs795mn. Resultantly the equity capital came down from Rs70.9mn to 70.1mn. 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. The frequent buyback's resembles strong operating cash flow position of the company. The average operating cash flow over the last four years stood at a strong Rs2.8bn.

ESOP's issuance upto 0.9mn shares, 1.3% of Equity

CRISIL's Board of Directors at its meeting held on February 17, 2012, approved the proposal to issue options to be converted into equity shares not exceeding 9,25,000 equity shares which is 1.32% of the issued and paid-up equity share capital of the Company to the employees and whole-time directors of the Company and its subsidiary companies, subject to the approval of the members of the Company by postal ballot mechanism. We have not factored this in our numbers for CY12/13.

Valuation and view

While at 27x 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. We maintain our BUY rating on the stock with price target of Rs1,050.

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	CY10	CY11	CY12E	CY13E
Net Sales	6,284	8,252	9,807	11,735
<i>Growth (%)</i>	22.1	31.3	18.8	19.7
Expenditure	4,096	5,445	6,429	7,729
Materials Consumed	793	803	1,198	1,419
Employee Cost	2,616	3,517	4,051	4,898
Other Exp	687	770	1,180	1,412
EBITDA	2,189	2,630	3,378	4,007
<i>Growth (%)</i>	16.9	20.2	28.4	18.6
EBITDA margin (%)	35	32	34	34
Depreciation	213	298	240	267
EBIT	2,109	2,332	3,351	4,012
EBIT margin (%)	33.6	28.3	34.2	34.2
Other Income	133	182	213	273
Interest expenses	0	0	0	0
PBT	2,669	2,744	3,351	4,012
Tax	587	691	905	1,083
<i>Effective tax rate (%)</i>	22.0	25.2	27.0	27.0
Adjusted PAT	1,645	1,888	2,446	2,929
<i>Growth (%)</i>	21.3	14.8	29.5	19.7
Net Margin (%)	26.2	22.9	24.9	25.0
(Profit)/loss from JVs/Ass/MI	-3	-2	-1	0
Adjusted PAT After JVs/Ass/MI	1,645	1,894	2,446	2,929
E/O items	560	176	0	0
Reported PAT	2,082	2,064	2,446	2,929
<i>Growth (%)</i>	48.1	-0.9	18.5	19.7

Cash Flow

Y/E, Mar (Rs. mn)	CY10	CY11	CY12E	CY13E
PBT (Ex-Other income)	2,483	2,531	3,078	4,012
Depreciation	213	222	240	267
Interest Provided	-3	-2	-1	0
Other Non-Cash items	-559	0	0	0
Chg in working cap	-194	-5	80	93
Tax paid	-650	-741	-905	-1,083
Operating Cashflow	2,110	2,962	3,671	4,372
Capital expenditure	-499	176	-222	-240
Free Cash Flow	1,611	3,138	3,449	4,132
Other income	133	186	213	273
Investments	925	-14	0	0
Investing Cashflow	1,058	173	213	273
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	0	0	0	0
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-1,681	-899	-899	-899
Income from investments				
Others				
Financing Cashflow	-2,478	-1,691	-899	-899
Net chg in cash	-314	792	946	1,150
Opening cash position	910	595	1,387	2,333
Closing cash position	595	1,387	2,333	3,483

Balance Sheet

Y/E, Mar (Rs. mn)	CY10	CY11	CY12E	CY13E
Equity share capital	71	70	70	70
Reserves & surplus	3,048	4,063	4,882	6,912
Net worth	3,119	3,404	4,952	6,982
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	-131	-142	-142
Total Liabilities	2,977	3,273	4,809	6,840
Gross Block	2,275	2,268	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	159	276	276
Current Assets	3,430	4,435	6,376	8,860
Inventories	-	-	-	-
Sundry debtors	1,086	879	1,695	2,028
Cash & bank balance	587	2,575	2,333	3,483
Loans & advances	510	539	510	510
Other current assets	1,247	435	1,839	2,839
Current lia & Prov	2,139	2,447	2,823	3,249
Current liabilities	1,677	2,319	2,043	2,290
Provisions	462	534	780	959
Net current assets	1,291	1,988	3,553	5,611
Total Assets	2,977	3,273	4,809	6,840

Key Ratios

Y/E, Mar	CY10	CY11	CY12E	CY13E
Profitability (%)				
EBITDA Margin	34.8	32.6	34.4	34.1
Net Margin	26.2	23.4	24.9	25.0
ROCE	64.7	87.8	83.0	68.9
ROE	48.6	57.9	58.5	49.1
RoIC	86.3	95.3	89.3	78.2
Per Share Data (Rs)				
EPS	23.2	27.0	34.9	41.8
CEPS	26.4	32.0	38.8	46.2
BVPS	44.0	48.6	70.7	99.7
DPS	10.0	20.3	11.0	11.0
Valuations (x)				
PER	40.8	35.1	27.1	22.6
P/CEPS	35.8	29.5	24.4	20.5
P/BV	21.5	19.4	13.4	9.5
EV / Sales	10.5	8.0	6.6	5.4
EV / EBITDA	30.1	23.4	19.1	15.8
Dividend Yield (%)	2.1	1.2	1.2	1.2
Gearing Ratio (x)				
Net Debt/ Equity	-	-	-	-
Net Debt/EBIDTA	-	-	-	-
Working Cap Cycle (days)	-	-	-	-

Recommendation History: CRISIL – CRISIL IN

Date	Reports	Reco	CMP	Target
18/10/2011	CRISIL Q3CY11 Result Update	Accumulate	839	1,050
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
13/02/2012	State Bank of India Q3FY12 Result Update	Hold	2,129	1,950
07/02/2012	ICRA Q3FY12 Result Update	Accumulate	946	1,100
06/02/2012	Manappuram Finance Q3FY12 Result Update	Hold	59	65
02/02/2012	Andhra Bank Q3FY12 Result Update	Buy	109	140

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