

October 18, 2012

Rating	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs950	Rs1,050
EPS Chg FY13E/FY14E (%)	NA
Target Price change (%)	NA
Nifty	5,660
Sensex	18,611

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	-10	-11	8
Rel. to Nifty	2	-17	-18	-1

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/ 748
Market Cap (Rs bn/USD mn)	67/ 1,259
Daily Avg Volume (No of sh)	30,363
Daily Avg Turnover (US\$m)	0.5

Shareholding Pattern (%)

	Jun12	Mar12	Dec11
Promoters	53.0	53.1	52.4
FII/NRI	11.1	10.9	10.5
Institutions	16.6	16.6	16.4
Private Corp	1.6	1.6	2.2
Public	17.7	17.9	18.5

Source: Bloomberg

Kashyap Jhaveri

kashyap.jhaveri@emkayglobal.com
+91-22-66121249

Pradeep Agrawal

pradeep.agrawal@emkayglobal.com
+91-22-66121340

- CRISIL's Q3CY12 revenue came in slightly better than expectation at Rs2.7bn, however with higher than expected opex, adjusted PAT came inline with expectation at Rs645mn
- Rating revenues growth healthy at 22.6%yoy aided by BLR/ SME rating and pick up in securitization transaction. Bond issuance continue to remain sluggish
- Research revenues jump 38%yoy primarily led by consolidation of coalition numbers during the quarter. Ex coalition the growth would have been in mid teens
- At CMP the stock trades at 30x CY12 EPS and 24x CY13 EPS. We continue to maintain Accumulate rating with price target of 1050

CRISIL results inline with expectations; research shows better traction

CRISIL's Q3CY12 revenue came in slightly better than expectation at Rs2.7bn (29.2%yoy growth) as against our expectation of Rs2.6bn. The strong growth in revenues came on the back of 1) 37.6%yoy growth in research revenues to Rs1.5bn, aided by consolidation of Coalition numbers which was effected from this quarter 2) strong 22.6%yoy/ 13.6%qoq growth in rating revenues. As new debt issuances as well as bank credit have been under significant pressure, we believe the rating revenues have benefited from low base effect and higher reaffirmation of ratings during the quarter.

Exhibit 1: Income from operations

(Rsmn)	Q3CY11	Q4CY11	Q1CY12	Q2CY12	Q3CY12	YoY (%)	QoQ (%)
Rating Services Fees	840	851	939	907	1,030	22.6	13.6
Advisory services Fees	147	162	127	123	152	3.3	23.6
Research & Information Services	1,108	1,163	1,153	1,133	1,525	37.6	34.6
Total operating revenues	2,095	2,176	2,219	2,163	2,707	29.2	25.2

Source: Company, Emkay Research

Operating leverage and acquisition aid margin expansion

CRISIL's operating margins expanded by 109bps to 36.1% led by operating leverage coming into play in rating/research business (+500/800bps qoq each). The Margin expansion in research were also partially aided by consolidation of coalition numbers, as the later enjoys higher margins (although not disclosed by CRISIL) as compared to its existing margins in that segment. Resultantly operating profit (adjusted for Fx loss of Rs68mn) grew by relatively higher 33.2%yoy to Rs977mn.

Fx losses on receivables hit profitability

CRISIL has taken an FX loss of Rs68mn during the quarter on its FX receivables driven by 4.6%/2.6% appreciation in INR vs. USD and GBP respectively. Driven by the FX losses, the net profit for Q3CY12 remained flat yoy at Rs597. However, adjusted for FX losses, the net profit would have grown by 23% yoy to Rs645mn.

Financial Snapshot (Consolidated)

(Rsmn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Dec										
CY10	6,284	2,189	34.8	1,645	23.2	23.5	48.6	40.9	30.2	21.6
CY11	8,070	2,625	32.5	1,877	26.8	15.5	58.4	35.4	24.7	20.1
CY12E	10,072	3,247	32.2	2,252	32.1	20.0	57.4	29.5	19.8	14.7
CY13E	12,901	4,168	32.3	2,805	40.0	24.6	52.7	23.7	15.2	10.9

Exhibit 2: Key financials – Quarterly

Rs mn	Q3CY11	Q4CY11	Q1CY12	Q2CY12	Q3CY12	YoY (%)	QoQ (%)	YTD CY12	YTD CY11	YoY (%)
Revenue	2,095	2,176	2,219	2,163	2,707	29.2	25.2	7,089	5,899	20.2
Expenditure	1,362	1,446	1,446	1,569	1,730	27.0	10.3	4,745	3,998	18.7
as % of sales	65.0	66.5	65.2	72.5	63.9			66.9	67.8	
Rent	117	116	119	113	119	1.0	5.0	351	338	4.0
as % of sales	5.6	5.3	5.4	5.2	4.4			4.9	5.7	
Employee Cost	892	914	933	1,062	1,213	36.0	14.2	3,208	2,603	23.2
as % of sales	42.6	42.0	42.1	49.1	44.8			45.3	44.1	
Other expenditure	283	300	276	300	328	15.8	9.3	904	820	10.2
as % of sales	13.5	13.8	12.4	13.9	12.1			12.8	13.9	
EBITDA	734	729	773	594	977	33.2	64.5	2,344	1,900	23.4
Depreciation	74	83	78	80	92	24.8	15.6	250	216	15.9
EBIT	660	647	695	514	885	34.1	72.1	2,094	1,685	24.3
Other Income	53	74	52	19	35	-35.5	86.5	105	109	-3.5
Interest	0	0	0	0	0			0	0	
PBT	713	720	747	533	920	28.9	72.6	2,199	1,794	22.6
Total Tax	188	223	210	153	275	45.8	79.7	637	403	58.0
Adjusted PAT	525	498	537	380	645	22.9	69.7	1,562	1,390	12.4
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	525	498	537	380	645	22.9	69.7	1,562	1,390	12.4
Extra ordinary items	77	60	33	57	-48			42	116	
Reported PAT	602	558	570	437	597	-0.7	36.7	1,604	1,506	6.5
Reported EPS	8.3	7.7	7.9	6.2	8.5	2.4	36.7	22.6	20.8	8.7

Margins (%)	Q3CY11	Q4CY11	Q1CY12	Q2CY12	Q3CY12	(bps)	(bps)	YTD CY12	YTD CY11	(bps)
EBIDTA	35.0	33.5	34.8	27.5	36.1	109	863	33.1	32.2	85
EBIT	31.5	29.7	31.3	23.8	32.7	121	891	29.5	28.6	98
EBT	34.0	33.1	33.7	24.6	34.0	-7	933	31.0	30.4	62
PAT	25.1	22.9	24.2	17.6	23.8	-123	625	22.0	23.6	-153
Effective Tax rate	23.8	28.5	26.9	25.9	31.5	766	559	28.4	21.1	731

Source: Company, Emkay Research

Exhibit 3: Segmental results

EBIT (Rs)	Q3CY11	Q4CY11	Q1CY12	Q2CY12	Q3CY12	YoY (%)	QoQ (%)
Rating Services	352	330	397	324	419	18.8	29.3
Advisory services	55	48	13	4	39	-28.4	907.7
Research and Information Services	326	351	379	277	496	52.2	78.8
Total	733	730	789	605	954	30.1	57.6

EBIDTA margins (%)	Q3CY11	Q4CY11	Q1CY12	Q2CY12	Q3CY12	YoY (%)	QoQ (%)
Rating Services	41.9	38.8	42.3	35.7	40.7	-129	492
Advisory services	37.4	29.5	9.8	3.2	25.9	-1,148	2,270
Research and Information Services	29.4	30.2	32.9	24.5	32.5	312	805
Total	35.0	33.5	35.5	28.0	35.3	25	726

Source: Company, Emkay Research

Higher tax rate shave off some growth in earnings

Despite higher operating profit growth at 33%, the adjusted net profit grew by relatively lower 22.9%, as tax rate for the quarter was higher at ~30% as against 26.4% in Q3CY11 and 28.7% in Q2CY12. As some of the tax benefit which was available earlier under STPI is no longer available after some of its business got relocated from Chennai to Mumbai. However the company continues to get tax benefit under SEZ policy, which is likely to be there for another 2-3 years.

Valuation and view

We believe that sequential sharp jump in the rating revenues may have been driven by higher total volume of debt rated (including reaffirmations) which had favorable base effect in Q3CY12. However, with new debt issuances/banks' loan growth still under significant pressure, we are skeptical of sustaining such kind of growth in future.

On the other side, we are quite enthused by the growth in research business (both organic and inorganic) which has been driven by consolidation of CDL and new client additions in existing business. We are quite confident of research business growing at 30% in CY13 as well, on back of organic and inorganic (CDL) client acquisitions.

At CMP the stock trades at 30x CY12 EPS and 24x CY13 EPS with cash per share of 33/46 for CY12/13E. We continue to maintain Accumulate rating with price target of 1050.

Positive risks to our price target could come from:

- 1) **Improvement in debt market activity:** As a significant portion of the rating EBIT (revenue equally split across businesses) is bond market driven, pick up in the bond issuance could result in higher than expected growth in rating profitability. We have taken 19%yoy growth in rating revenues in CY13 in our numbers.
- 2) **Higher than expected growth in research:** The research business has shown better traction in Q3CY12 driven by both organic and inorganic route and has surprised us positively. Any traction higher than expected in recently acquired clients can result in upgrades in our earnings. We have built in organic growth of 19%/21% and inorganic revenues of Rs550mn/1.5bn for H2CY12E and CY13E in research revenues

Key Financials (Consolidated)

Income Statement

Y/E Dec (Rsmn)	CY10A	CY11A	CY12E	CY13E
Net Sales	6,284	8,070	10,072	12,901
<i>Growth (%)</i>	22.1	28.4	24.8	28.1
Expenditure	4,096	5,445	6,825	8,733
Materials Consumed	793	935	1,173	1,481
Employee Cost	2,616	3,581	4,494	5,768
Other Exp	687	928	1,159	1,484
EBITDA	2,189	2,625	3,247	4,168
<i>Growth (%)</i>	16.9	19.9	23.7	28.4
EBITDA margin (%)	35	33	32	32
Depreciation	213	298	337	559
EBIT	2,109	2,505	3,171	3,923
EBIT margin (%)	33.6	31.0	31.5	30.4
Other Income	133	178	262	314
Interest expenses	0	0	0	0
PBT	2,669	2,755	3,221	3,923
Tax	587	691	934	1,118
<i>Effective tax rate (%)</i>	22.0	25.1	29.0	28.5
Adjusted PAT	1,645	1,877	2,252	2,805
<i>Growth (%)</i>	21.3	14.1	20.0	24.6
Net Margin (%)	26.2	23.3	22.4	21.7
(Profit)/loss from JVs/Ass/MI				
Adjusted PAT After E/O items	1,645	1,877	2,252	2,805
	560	250	50	0
Reported PAT	2,082	2,064	2,287	2,805
<i>Growth (%)</i>	48.1	-0.9	10.8	22.6

Cash Flow

Y/E Dec (Rsmn)	CY10A	CY11A	CY12E	CY13E
PBT (Ex-Other income)	2,491	2,493	2,907	3,923
Depreciation	213	298	337	559
Interest Provided	-3	-3	-1	0
Other Non-Cash items	-559	-164	-262	-314
Chg in working cap	-194	665	255	267
Tax paid	-650	-689	-934	-1,118
Operating Cashflow	2,110	3,293	3,552	4,435
Capital expenditure	-499	-264	-1,487	-1,587
Free Cash Flow	1,611	3,029	2,065	2,848
Other income	133	178	262	314
Investments	925	115	0	0
Investing Cashflow	1,058	293	262	314
Equity Capital Raised	0	0	-1	0
Loans Taken / (Repaid)	0	0	0	0
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-1,681	-886	-1,222	-1,222
Income from investments				
Others				
Financing Cashflow	-2,478	-1,674	-1,223	-1,222
Net chg in cash	-314	342	-431	-78
Opening cash position	910	595	938	507
Closing cash position	595	938	507	429

Balance Sheet

Y/E Dec (Rsmn)	CY10A	CY11A	CY12E	CY13E
Equity share capital	71	70	70	70
Reserves & surplus	3,048	3,238	4,464	6,047
Net worth	3,119	3,308	4,534	6,117
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	-292	-292
Total Liabilities	2,977	3,177	4,242	5,825
Gross Block	2,275	2,524	4,011	5,598
Less: Depreciation	-851	-1,081	-1,418	-1,976
Net block	1,424	1,443	2,594	3,622
Capital work in progress	1	6	6	6
Investment	262	159	159	159
Current Assets	3,430	4,428	4,815	5,946
Inventories				
Sundry debtors	1,086	879	1,097	1,405
Cash & bank balance	587	928	507	429
Loans & advances	510	539	539	539
Other current assets	1,247	2,082	2,673	3,573
Current lia & Prov	2,139	2,853	3,326	3,901
Current liabilities	1,677	2,319	2,536	2,928
Provisions	462	534	789	973
Net current assets	1,291	1,575	1,490	2,045
Misc. exp	0	0	0	0
Total Assets	2,977	3,177	4,242	5,825

Key Ratios

Y/E Dec	CY10A	CY11A	CY12E	CY13E
Profitability (%)				
EBITDA Margin	34.8	32.5	32.2	32.3
Net Margin	26.2	23.3	22.4	21.7
ROCE	64.7	81.4	85.5	77.9
ROE	48.6	58.4	57.4	52.7
RoIC	86.3	107.0	117.2	106.8
Per Share Data (Rs)				
EPS	23.2	26.8	32.1	40.0
CEPS	26.4	30.8	36.5	47.0
BVPS	44.0	47.2	64.7	87.3
DPS	10.0	20.3	11.1	15.0
Valuations (x)				
PER	40.9	35.4	29.5	23.7
P/CEPS	35.9	30.8	26.0	20.2
P/BV	21.6	20.1	14.7	10.9
EV / Sales	10.5	8.0	6.4	4.9
EV / EBITDA	30.2	24.7	19.8	15.2
Dividend Yield (%)	2.1	1.2	1.6	1.6
Gearing Ratio (x)				
Net Debt/ Equity	-	-	-	-
Net Debt/EBITDA	-	-	-	-
Working Cap Cycle (days)	-	-	-	-

Recommendation History: CRISIL – CRISIL IN

Date	Reports	Reco	CMP	Target
21/08/2012	CRISIL Company Update	Accumulate	907	1,050
04/06/2012	CRISIL Event Update	Accumulate	1,050	1,240
16/04/2012	CRISIL Q1CY12 Result Update	Accumulate	1,069	1,240
17/02/2012	CRISIL Q4CY11 Result Update	Buy	944	1,050

Recent Research Reports

Date	Reports	Reco	CMP	Target
16/10/2012	Axis Bank Q2FY13 Concall Update	Reduce	1,146	1,050
15/10/2012	Axis Bank Q2FY13 Results Update	Hold	1,119	1,050
12/10/2012	HDFC Bank Q2FY13 Result Update	Hold	631	320
21/09/2012	Mahindra Finance Company Update	Hold	837	890

Emkay Global Financial Services Ltd.

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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