

### Results inline; Ratings drive growth

April 16, 2012

<b>Reco</b>	<b>Changed from</b>
Accumulate	Buy
<b>CMP</b>	<b>Target Price</b>
Rs1,069	Rs1,240

EPS change CY12E/13E (%)	NA
Target Price change (%)	18
Nifty	5,226
Sensex	17,151

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	15	16	20	56
Rel. to Nifty	17	8	18	74

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	1,150/648
Market Cap (Rs bn/USD mn)	75/1,453
Daily Avg Volume (No of sh)	23564
Daily Avg Turnover (US\$mn)	0.4

#### Shareholding Pattern (%)

	Mar-12	Jan-12	Dec-11
Promoters	53.1	53.1	52.4
FII/NRI	11.1	10.9	10.7
Institutions	16.6	16.6	16.4
Private Corp	1.6	1.6	2.2
Public	17.6	17.8	18.3

Source: Capitaline

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- CRISIL's Q1CY12 results were inline with expectations with Adj. revenue of Rs2.27bn and Adj. net profit of Rs537mn
- Rating revenues (adjusted for one time income of Rs73mn), grew by a robust 30%yoy to Rs939mn, aided by strong growth in BLR/ debt issuances/ ratings on securitization transaction
- Research revenues remain flat qoq at Rs1.15bn. However adj for fx translation loss, full time equivalent would have grown by a strong 7-8%
- Strong cash flow generation capabilities of the comp should continue to support the exp valuations. With recent sharp run up in the stock price, rate ACC with PT of Rs1,240

#### Revenue growth inline with expectation

CRISIL Q1CY12 reported revenue at Rs2.3bn (up 30.7% yoy and 4.2% qoq) was slightly ahead of our expectation. A Large part of the growth was led by higher rating revenue at Rs1bn (40.1%yoy) as there was one time income of Rs73mn included in rating revenues, pertaining to previous year on account of price renegotiation with retrospective effect. Adjusted for the same the revenue growth came in at 26.6% to Rs2.27bn, inline with our expectation. Research revenue adjusted for Fx grew by strong 7-8% qoq in line with our expectations.

#### Income from operations\*

%	Q1CY11	Q2CY11	Q3CY11	Q4CY11	Q1CY12	YoY %	QoQ %
Rating Services Fees	722	846	840	851	1,012	40.1	19.0
Advisory services Fees	107	157	147	162	127	18.9	-21.7
Res. and Inf. Services	938	1,028	1,108	1,163	1,153	22.9	-0.8
Other operating income	26	29	53	74	52	97.7	-29.3
<b>Total Revenues</b>	<b>1,794</b>	<b>2,060</b>	<b>2,149</b>	<b>2,249</b>	<b>2,344</b>	<b>30.7</b>	<b>4.2</b>

Source: Company, Emkay Research Note: \*Reported revenues

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

#### Rise in debt mkt vol and higher PSL requirement drove rating revenues

Rating revenues reported robust growth during the quarter aided by strong growth in BLR and ratings of securitization transactions. Higher PSL requirement in FY12 due to higher credit growth in FY11 (22%), led to substantial rise in securitisation transactions during the quarter. Moreover increase in debt issuances (43%yoy in Q1CY12) also supported growth in rating revenues. Going forward in the same quarter next year, we believe the growth may not remain as high since with slower non-food credit growth this year, the requirement of PSL and securitization may remain low.

#### Valuation table

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	EPS 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	46.1	34.1	24.3
CY11	8,070	2,625	32.5	1,877	26.8	15.5	58.4	39.9	27.9	22.6
CY12E	9,903	3,355	33.9	2,483	35.4	32.3	61.8	30.2	21.4	15.8
CY13E	11,853	3,982	33.6	2,998	42.8	20.8	53.4	25.0	17.6	11.5

Source: Company, Emkay Research

## Key financials – Quarterly

Rs mn	Q1CY11	Q2CY11	Q3CY11	Q4CY11	Q1CY12	YoY (%)	QoQ (%)	CY 11	CY 10	YoY (%)
<b>Revenue</b>	<b>1,772</b>	<b>2,031</b>	<b>2,095</b>	<b>2,176</b>	<b>2,219</b>	<b>25.2</b>	<b>2.0</b>	<b>8,075</b>	<b>6,311</b>	<b>28.0</b>
<b>Expenditure</b>	<b>1,204</b>	<b>1,432</b>	<b>1,362</b>	<b>1,446</b>	<b>1,446</b>	<b>20.1</b>	<b>0.0</b>	<b>5,445</b>	<b>4,087</b>	<b>33.2</b>
as % of sales	68.0	70.5	65.0	66.5	65.2			67.4	64.8	
Rent	109	111	117	116	119	9.5	2.7	453	436	4.1
as % of sales	6.1	5.5	5.6	5.3	5.4			5.6	6.9	
Employee Cost	782	930	892	914	933	19.4	2.1	3,517	2,573	36.7
as % of sales	44.1	45.8	42.6	42.0	42.1			43.6	40.8	
Other expenditure	235	301	283	300	276	17.1	-8.1	1,120	827	35.4
as % of sales	13.3	14.8	13.5	13.8	12.4			13.9	13.1	
<b>EBITDA</b>	<b>568</b>	<b>599</b>	<b>734</b>	<b>729</b>	<b>773</b>	<b>36.1</b>	<b>6.0</b>	<b>2,630</b>	<b>2,224</b>	<b>18.3</b>
Depreciation	68	74	74	83	78	15.4	-5.3	298	213	40.3
<b>EBIT</b>	<b>500</b>	<b>525</b>	<b>660</b>	<b>647</b>	<b>695</b>	<b>39.0</b>	<b>7.4</b>	<b>2,332</b>	<b>2,011</b>	<b>15.9</b>
Other Income	26	29	53	74	52	97.7	-29.3	182	124	47.3
Interest	0	0	0	0	0			0	0	
<b>PBT</b>	<b>526</b>	<b>554</b>	<b>713</b>	<b>720</b>	<b>747</b>	<b>41.9</b>	<b>3.7</b>	<b>2,514</b>	<b>2,135</b>	<b>17.8</b>
Total Tax	82	144	216	249	222	171.4	-10.9	691	587	17.7
<b>Adjusted PAT</b>	<b>447</b>	<b>419</b>	<b>525</b>	<b>498</b>	<b>537</b>	<b>20.3</b>	<b>7.9</b>	<b>1,888</b>	<b>1,658</b>	<b>13.9</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
<b>APAT after MI</b>	<b>447</b>	<b>419</b>	<b>525</b>	<b>498</b>	<b>537</b>	<b>20.3</b>	<b>7.9</b>	<b>1,888</b>	<b>1,658</b>	<b>13.9</b>
Extra ordinary items	13	26	77	60	33			176	397	
Reported PAT	460	444	602	558	570	23.9	2.1	2,064	2,055	0.5
Reported EPS	6.4	6.2	8.3	7.7	7.9	23.9	2.1	29	28	0.5

Margins (%)	Q1CY11	Q2CY11	Q3CY11	Q4CY11	Q1CY12	(bps)	(bps)	CY 11	CY 10	(bps)
EBIDTA	32.0	29.5	35.0	33.5	34.8	279	131	32.6	35.2	-267
EBIT	28.2	25.8	31.5	29.7	31.3	309	158	28.9	31.9	-299
EBT	29.7	27.3	34.0	33.1	33.7	395	54	31.1	33.8	-270
PAT	25.2	20.6	25.1	22.9	24.2	-100	133	23.4	26.3	-289
Effective Tax rate	15.1	24.4	26.4	30.9	28.1	1294	-283	25.1	22.2	286

Source: Company, Emkay Research Note: Revenues adjusted for one time income of Rs73mn

## Operating profit slightly ahead of exp as margins expanded

The operating profit (adjusted for one time income of Rs73mn and forex loss of Rs28.3mn) at Rs773mn was slightly ahead of expectations led by improvement in EBIDTA margins. Strong rating revenue growth coupled with 2.3% decline in establishment expenses led to 279bps improvement in EBIDTA margins to 34.8%. Resultantly adj. net profit grew by 17.4%yoy to Rs525mn.

## Segmental results (reported)

	Q1CY11	Q2CY11	Q3CY11	Q4CY11	Q1CY12	YoY (%)	QoQ (%)
<b>EBIDTA (Rs mn)</b>							
Rating Services	279	330	352	330	470	68.5	42.4
Advisory services	4	21	55	48	13	229.0	-73.9
Research and Inf. Serv.	296	254	416	423	350	18.3	-17.1
<b>Total</b>	<b>579</b>	<b>606</b>	<b>823</b>	<b>801</b>	<b>833</b>	<b>43.9</b>	<b>4.0</b>
<b>EBIDTA margins (%)</b>							
Rating Services	38.6	39.0	41.9	38.8	46.5	782	764
Advisory services	3.6	13.4	37.4	29.5	9.8	628	-1,970
Research and Inf. Serv.	31.6	24.7	37.5	36.4	30.4	-119	-598
<b>Total</b>	<b>32.3</b>	<b>29.4</b>	<b>38.3</b>	<b>35.6</b>	<b>35.5</b>	<b>325</b>	<b>-7</b>

Source: Company, Emkay Research

**Segmental results (adjusted)**

	Q1CY11	Q2CY11	Q3CY11	Q4CY11	Q1CY12	YoY (%)	QoQ (%)
<b>EBIDTA (Rs mn)</b>							
Rating Services	279	330	352	330	397	42.3	20.3
Advisory services	4	21	55	48	13	229.0	-73.9
Research and Inf. Serv.	296	254	416	423	379	28.0	-10.4
<b>Total</b>	<b>579</b>	<b>606</b>	<b>823</b>	<b>801</b>	<b>789</b>	<b>36.2</b>	<b>-1.5</b>
<b>EBIDTA margins (%)</b>							
Rating Services	38.6	39.0	41.9	38.8	42.3	366	348
Advisory services	3.6	13.4	37.4	29.5	9.8	628	-1,970
Research and Inf. Serv.	31.6	24.7	37.5	36.4	32.1	50	-429
<b>Total</b>	<b>32.3</b>	<b>29.4</b>	<b>38.3</b>	<b>35.6</b>	<b>34.3</b>	<b>201</b>	<b>-132</b>

Source: Company, Emkay Research

Note: Adjusted research revenues assuming all FX losses pertain to research

**Growth levers in place**

While there has been some concerns around regarding the loss of credit rating agencies BLR business to banks, with later being asked to submit application by March 2012 (if they want to) to rate BLR 's on their internal ratings models. However management does not see any loss of business to banks at least till FY16/17, as the IRM based capital requirements will be applicable from 2014 and for another two years they will be required to run their systems parallel to credit rating agencies, before doing independent ratings. We believe with fair amount of visibility from BLR business and rising debt issuances, rating revenues will continue to grow at a healthy pace.

While there has been some amount of volatility in advisory business, with it contributing just 7% to total revenue. The management expects some pick up in advisory business, as S&P has done tie up with CRISIL, under which S&P will market its banking risk assessment model across the word under S&P's brand name, for which CRISIL will get some fee's.

Research segment has shown strong growth over the last five years with four fold increase in revenues. Going forward, we expect growth momentum to remain strong with pipal adding new clients and sectors to research.

**Valuation and view**

While at 30.9x CY12E EPS and 25.6X CY13 EPS the valuations look optically expensive, we still remain extremely positive on the stock for few reasons:

- The stock still trades at ~5% FCF yield to shareholders
- The reward of the free cash flow to the shareholders is highly certain looking at the track record over last two years in terms of dividends and share buy backs
- For CY12, the company has already announced interim dividend of Rs3/share plus a special dividend of Rs3/share
- CRISIL has bought back shares at high valuations of 25x one-year forward earnings in CY10 and at 28x in CY11. In both the buy backs, its majority shareholder S&P has not tendered its shares

Hence, we still do not find the valuations expensive looking at strong operating cash flows and willingness of the company to share the same with minority shareholders. With recent sharp run up in the stock price, we rate the stock as ACCUMULATE with TP of Rs1,240 valuing it at 30x CY13E core EPS of Rs39 plus cash per share of Rs70/share. We have also assumed total dividends of Rs30/share over next two years.

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	CY10	CY11	CY12E	CY13E
<b>Net Sales</b>	<b>6,284</b>	<b>8,070</b>	<b>9,903</b>	<b>11,853</b>
<i>Growth (%)</i>	22.1	28.4	22.7	19.7
<b>Expenditure</b>	<b>4,096</b>	<b>5,445</b>	<b>6,548</b>	<b>7,870</b>
Materials Consumed	793	935	1,116	1,322
Employee Cost	2,616	3,581	4,292	5,185
Other Exp	687	928	1,139	1,364
<b>EBITDA</b>	<b>2,189</b>	<b>2,625</b>	<b>3,355</b>	<b>3,982</b>
<i>Growth (%)</i>	16.9	19.9	27.8	18.7
<b>EBITDA margin (%)</b>	<b>35</b>	<b>33</b>	<b>34</b>	<b>34</b>
Depreciation	213	298	244	273
<b>EBIT</b>	<b>2,109</b>	<b>2,505</b>	<b>3,401</b>	<b>4,107</b>
<b>EBIT margin (%)</b>	<b>33.6</b>	<b>31.0</b>	<b>34.3</b>	<b>34.7</b>
Other Income	133	178	290	398
Interest expenses	0	0	0	0
<b>PBT</b>	<b>2,669</b>	<b>2,755</b>	<b>3,401</b>	<b>4,107</b>
<b>Tax</b>	<b>587</b>	<b>691</b>	<b>918</b>	<b>1,109</b>
<i>Effective tax rate (%)</i>	22.0	25.1	27.0	27.0
<b>Adjusted PAT</b>	<b>1,645</b>	<b>1,877</b>	<b>2,483</b>	<b>2,998</b>
<i>Growth (%)</i>	21.3	14.1	32.3	20.8
<b>Net Margin (%)</b>	<b>26.2</b>	<b>23.3</b>	<b>25.1</b>	<b>25.3</b>
(Profit)/loss from JVs/Ass/MI				
<b>Adjusted PAT After JVs/Ass/MI</b>	1,645	1,877	2,483	2,998
E/O items	560	250	0	0
<b>Reported PAT</b>	<b>2,082</b>	<b>2,064</b>	<b>2,483</b>	<b>2,998</b>
<i>Growth (%)</i>	48.1	-0.9	20.3	20.8

## Cash Flow

Y/E, Mar (Rs. mn)	CY10	CY11	CY12E	CY13E
<b>PBT (Ex-Other income)</b>	2,491	2,465	3,003	4,107
Depreciation	213	298	244	273
Interest Provided	-3	-3	-1	0
Other Non-Cash items	-559	-164	0	0
Chg in working cap	-194	665	200	250
Tax paid	-650	-689	-918	-1,109
<b>Operating Cashflow</b>	<b>2,110</b>	<b>3,293</b>	<b>3,845</b>	<b>4,630</b>
Capital expenditure	-499	-264	-237	-244
<b>Free Cash Flow</b>	<b>1,611</b>	<b>3,029</b>	<b>3,608</b>	<b>4,386</b>
Other income	133	178	290	398
Investments	925	115	0	0
<b>Investing Cashflow</b>	1,058	293	290	398
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				
<b>Financing Cashflow</b>	<b>-2,478</b>	<b>-1,674</b>	<b>-1,223</b>	<b>-1,222</b>
<b>Net chg in cash</b>	<b>-314</b>	<b>342</b>	<b>67</b>	<b>356</b>
Opening cash position	910	595	938	1,005
<b>Closing cash position</b>	<b>595</b>	<b>938</b>	<b>1,005</b>	<b>1,361</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	CY10	CY11	CY12E	CY13E
Equity share capital	71	70	70	70
Reserves & surplus	3,048	3,238	4,659	6,436
<b>Net worth</b>	<b>3,119</b>	<b>3,308</b>	<b>4,729</b>	<b>6,506</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	0	0	0	0
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net deferred tax liability	-142	-131	-292	-292
<b>Total Liabilities</b>	<b>2,977</b>	<b>3,177</b>	<b>4,437</b>	<b>6,214</b>
Gross Block	2,275	2,524	2,761	3,005
Less: Depreciation	-851	-1,081	-1,325	-1,598
<b>Net block</b>	<b>1,424</b>	<b>1,443</b>	<b>1,436</b>	<b>1,407</b>
Capital work in progress	1	6	6	6
<b>Investment</b>	<b>262</b>	<b>159</b>	<b>159</b>	<b>159</b>
<b>Current Assets</b>	<b>3,430</b>	<b>4,428</b>	<b>6,095</b>	<b>8,363</b>
Inventories	-	-	-	-
Sundry debtors	1,086	879	1,078	1,290
Cash & bank balance	587	928	1,005	1,361
Loans & advances	510	539	539	539
Other current assets	1,247	2,082	3,473	5,173
<b>Current lia &amp; Prov</b>	<b>2,139</b>	<b>2,853</b>	<b>3,253</b>	<b>3,715</b>
Current liabilities	1,677	2,319	2,479	2,751
Provisions	462	534	773	964
<b>Net current assets</b>	<b>1,291</b>	<b>1,575</b>	<b>2,842</b>	<b>4,648</b>
<b>Total Assets</b>	<b>2,977</b>	<b>3,177</b>	<b>4,437</b>	<b>6,214</b>

## Key Ratios

Y/E, Mar	CY10	CY11	CY12E	CY13E
<b>Profitability (%)</b>				
EBITDA Margin	34.8	32.5	33.9	33.6
Net Margin	26.2	23.3	25.1	25.3
ROCE	64.7	81.4	89.3	77.1
ROE	48.6	58.4	61.8	53.4
RoIC	86.3	107.0	154.2	176.7
<b>Per Share Data (Rs)</b>				
EPS	23.2	26.8	35.4	42.8
CEPS	26.4	30.8	39.0	46.8
BVPS	44.0	47.2	67.5	92.9
DPS	10.0	20.3	11.1	15.0
<b>Valuations (x)</b>				
PER	46.1	39.9	30.2	25.0
P/CEPS	40.4	34.7	27.4	22.8
P/BV	24.3	22.6	15.8	11.5
EV / Sales	11.9	9.1	7.2	5.9
EV / EBITDA	34.1	27.9	21.4	17.6
Dividend Yield (%)	1.9	1.0	1.4	1.4
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-	-	-	-
Net Debt/EBIDTA	-	-	-	-
Working Cap Cycle (days)	-	-	-	-

**Recommendation History: CRISIL – CRISIL IN**

Date	Reports	Reco	CMP	Target
17/02/2012	<a href="#">CRISIL Q4CY11 Result Update</a>	Buy	944	1,050
18/10/2011	<a href="#">CRISIL Q3CY11 Result Update</a>	Accumulate	839	1,050
21/07/2011	<a href="#">CRISIL Q2CY11 Result Update</a>	Hold	7,211	7,700
18/04/2011	<a href="#">CRISIL Q1CY11 Result Update</a>	Hold	6,834	7,000

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
22/03/2012	<a href="#">Banking Sector Update</a>			
22/03/2012	<a href="#">LIC Housing Company Update</a>	Hold	269	260
28/02/2012	<a href="#">Dewan Housing Finance Company Update</a>	Accumulate	253	283
21/02/2012	<a href="#">Banking Sector Update</a>			

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