Stock Update

Crisil Ltd.

February 13, 2023

RETAILRESEARCH

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Crisil Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Credit Rating	Rs 3177	Buy in Rs 3160-3210 band & add more on dips in Rs 2840-2890 band	Rs 3510	Rs 3775	2-3 quarters

HDFC Scrip Code	CRISILEQNR
BSE Code	500092
NSE Code	CRISIL
Bloomberg	CRISIL IN
CMP Feb 10, 2023	3176.6
Equity Capital (Rs cr)	7.3
Face Value (Rs)	1
Equity Share O/S (cr)	7.3
Market Cap (Rs cr)	23,210
Book Value (Rs)	215.3
Avg. 52 Wk Volumes	58200
52 Week High (Rs)	3860.0
52 Week Low (Rs)	2586.0

Share holding Pattern % (Dec 2022)	
Promoters	66.7
Institutions	19.7
Non Institutions	13.6
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Crisil is the oldest and a leading domestic credit rating agency in India. It is majorly owned by by S&P Global which is world's foremost provider of transparent and independent ratings, benchmarks, analytics, data, research, commentary and ESG solution. The company has diversified over the years and ventured into research and analytics and advisory services which now accounts for ~75 of its revenue. The diversification has been geographic as well with offices in Argentina, Australia, China, Hong Kong, Poland, Singapore, Switzerland, UAE, UK and USA. This helps the company in getting a lot of business from the parent. Being the best-in-class industry leader it delivers a diversified revenue mix, superior margins, solid return ratios, and free-cash-flow yield.

With the Government focus on capex, the outlook of the domestic credit rating agencies has been improving. Incentives by Government for MSME sector and easy availability of finance for retail consumers is expected to further enhance credit demand. Corporates have also increased their borrowings with significant expansion plans announced by many of the leaders. We expect aggregate corporate borrowings to increase which bodes well for the rating business.

The Global Analytical Centre (GAC) business increased support for surveillance, new issuances and transformation projects to S&P. New offerings such as ESG ratings post-SEBI approval should raise revenues further.

Diversified revenue mix, levers for margin expansion, and solid return ratios have seen CRISIL's valuation multiplies stay at a premium and to its peers. Preference for quality has seen investors/lenders prefer CRISIL, propelling it to be the best play in an otherwise crowded rating space.

Valuation & Recommendation:

We expect CRISIL’s revenue/EBITDA/PAT to grow at 11/11/14% CAGR over CY21-CY24E, led by improving macros, market share gains, cost rationalization, and synergies from acquisitions. It is likely to trade at a premium to its peers given its strong parentage, return ratios and diversified revenue mix. We believe investors can buy the stock in Rs 3160-3210 band and add on dips in Rs 2840-2890 band (32.5x CY24E EPS) for a base case fair value of Rs 3510 (40x CY24E EPS) and bull case fair value of Rs 3775 (43x CY24E EPS) over the next 2-3 quarters.

Financial Summary

(Rs cr)	Q3CY22	Q3CY21	YoY (%)	Q2CY22	QoQ (%)	CY21	CY22E	CY23E	CY24E
Operating Income	683	571	19.6	669	2.2	2,301	2,621	2,885	3,152
EBITDA	151	147	3.4	169	-10.4	606	655	741	829
APAT	148	113	31.0	137	8.0	431	528	567	640
Diluted EPS (Rs)	20.3	15.5	30.6	18.8	8.0	59.2	72.4	77.8	87.8
RoE-%						29.8	31.9	31.1	31.9
P/E (x)						53.7	43.9	40.8	36.2
EV/EBITDA (x)						37.0	33.9	29.6	26.1

(Source: Company, HDFC sec)

Q3CY22 Result Review

CRISIL posted strong growth across the board in Q3CY22. Net Sales increased by 19.6% YoY to Rs 683cr led by 23% growth in Research, Analytics & Solution vertical to Rs 513cr. Rating services revenue increased 11% to Rs 170cr. EBITDA was subdued at Rs 151cr, +3% YoY on account of sharp increase in other expenses. Consequently, EBITDA margin declined ~350bps to 22.2%. PAT grew by 31% YoY to Rs 148cr and PAT margin stood at 21.6% aided by forex gains of Rs 48cr against Rs 5cr in Q3CY21. The Board of Directors recommended an interim dividend of Rs 10 per share taking the total dividend for the year to Rs 25 per share.

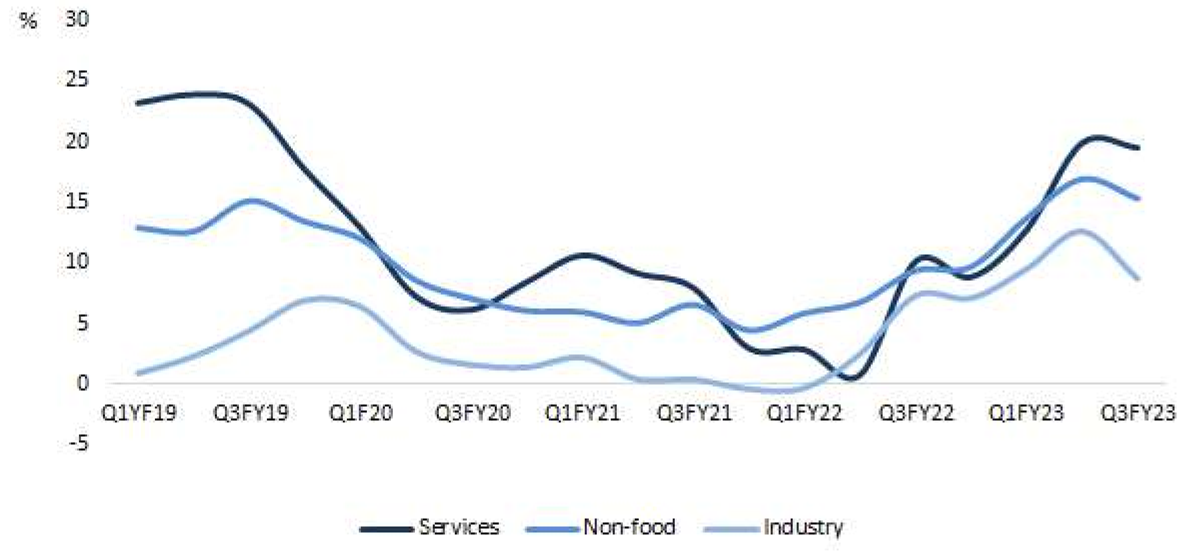
Ratings business grew on account of new client addition and continued momentum in surveillance revenue. Sharp foreign exchange movement in dollar versus rupee and British pound supported profitability during Q3CY 2022 and YTD 2022. In Research, Global businesses saw robust growth driven by client renewals; Global Benchmarking Analytics (GBA) also rolled out Client Intelligence platform. Market Intelligence & Analytics (MI&A) saw traction for credit risk and regulatory reporting solutions.

Key Triggers

Increasing credit demand

Several high frequency indicators suggest strong economic activity in H2FY23 Domestic demand has been supported by strong discretionary spending; Urban demand is resilient while rural demand is improving. Strong credit growth, resilient financial markets and government's focus on capex augurs well for investment activity. Increased capex on infrastructure would require higher amount of funding by the banks in the coming year. Consequently, credit growth is expected to remain strong which is beneficial for credit rating agencies like Crisil.

Credit growth has started to pick up across sectors



(Source: RBI, HDFC sec)

Revamped credit guarantee scheme to drive higher lending to MSME

FM Nirmala Sitharaman in the Budget speech for FY24 announced launch of a revamped credit guarantee scheme worth Rs 9,000 crore for MSMEs. Sitharaman said this would enable collateral-free credit of Rs 2 lakh crore loans to the small businesses. The scheme, which will take effect from April 1, 2023, offers a helping hand to several small firms that were hurt badly when the Covid outbreak started. The infusion of Rs 9,000 crore for a credit guarantee fund means that an additional ~Rs 2 lakh crore of collateral-free funds can now flow to MSMEs, because there will be a guarantee. The Economic Survey 2022-23 revealed that the YoY growth in credit since the January-March quarter of 2022 has moved into double digits. The credit growth to the MSME sector has been remarkably high, over 30.5% on an average, during Jan-Nov 2022, supported by the extended ECLG scheme. Increased credit to the MSME sector would entail higher business for rating agencies.

Strong momentum in Research and Advisory vertical

With corporates starting to focus on growth opportunities and significant capital raising, Crisil's customised research business has benefitted significantly, driving strong mandate flows and acquiring new clients. Its Industry research reports have witnessed excellent traction among corporate clients. EBIT margin are also on an improving trajectory. Crisil continues to maintain dominant position in Funds and Fixed Income Research business and largest provider of fixed income indices. It launched nine indices in 2021, taking the total to 107. In 9MCY22 revenue from Research and Advisory business has increased 26% YoY and EBIT margin expanded ~200bps.

Return ratios to improve further

Crisil has been delivering RoE of above 30%. However, the slowdown due to the pandemic resulted in decline in return ratios. With the return of credit momentum, and the strong growth envisaged over the next few years, driven by Government led capex, return ratios are likely to expand. We expect RoE to improve from 29.8% in CY21 to 31.9% in CY24E.

Risks & Concerns

Delay in economic revival

Rating revenue of credit rating agencies are dependent on economic growth which would drive higher volumes. Delays in the economic revival can impact revenue growth from ratings segment.

Rating standards and quality

Rating reports are used by lenders to determine the financial viability of the entity. Failure by the company to maintain the quality of rating could result in loss of trust and impact growth.

IRB based approach by banks

If Banks whose clients avail Credit Rating Services under the Basel II framework migrate to the internal rating based (IRB) approach for Credit risk, it could have an adverse effect on the company's revenue and profits.

Regulatory scrutiny

Credit rating agencies (CRAs) have come under regulatory scrutiny in the wake of loan defaults by leading corporates. To enhance CRAs' rating process and quality of disclosures, SEBI keeps prescribing higher disclosure of data by CRAs. This apart CRAs come under scrutiny of regulators and are also fined for lapses that may not be fully attributable to them.

Increasing competition

There are three major established players in the Indian credit rating market and over the last few years many new players have entered the market, thereby increasing competition. Many clients look for the best deal they can get reducing the bargaining power of credit rating agencies. Many clients insist on fixed fee cap structure which may impact revenues.

Retention of employees, a challenge

Employees are the core asset for a credit rating agency and hence retaining them is crucial. While CRISIL remains the best paymaster, the risk of employee movement can expose it to risks of attrition, retraining and reskilling.

Company Background:

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. It is amongst India's leading ratings agency and the foremost provider of high-end research to the world's largest banks and leading corporations. CRISIL is majority owned (67.7%) by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

With a strong track record of growth, culture of innovation and global footprint it has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers. Its businesses operate from India, Argentina, Australia, China, Hong Kong, Poland, Singapore, Switzerland, the United Arab Emirates (UAE), The United Kingdom (UK) and the United States of America (USA).

Businesses

Crisil Ratings pioneered credit rating in India in 1987, and has emerged as a leader with independent, analytical rigour and innovation in ratings. Its capabilities span the entire range of debt instruments. Through its Global Analytical Centre (GAC), it provides analytical, research and data services to S&P Global Inc. GAC operates as a centralised research and analytics hub for S&P Global Ratings Services (SPGRS) teams spread across the US, EMEA and APAC regions.

CRISIL Research segments

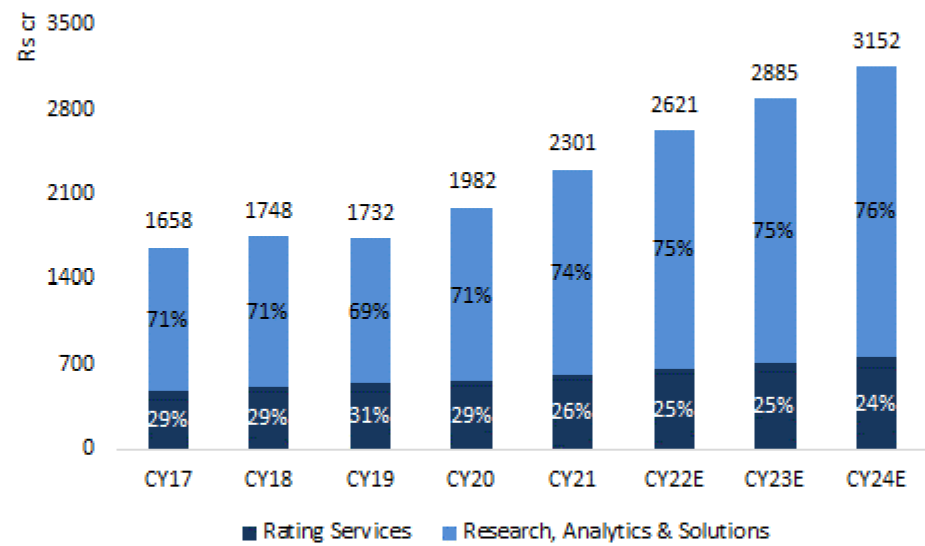
Global Research & Analytics (GR&A) is in the business of providing solutions to leading investment and commercial banks, private equity players, hedge funds, and asset management and insurance companies globally. It has offshore delivery centres in Argentina, China, India and Poland and onsite delivery centres in London, Melbourne, Sydney, and New York, supporting clients across time zones and languages. It has made significant investments in technology and has developed utilities, platforms, tools, and frameworks catering to various client requirements.

CRISIL Coalition provides objective research and high-end analytics to support strategic and tactical decision-making across four areas: competitor analytics, financial resources analytics, client analytics, and country analytics.

Greenwich Associates: Acquired in Feb’20 for a consideration of US$40mn, it is a leading global provider of data, analytics and insights to the financial services industry. It specialises in providing unique high-value data and actionable recommendations to help our clients improve their business results.

CRISIL Infrastructure Advisory provides a comprehensive range of advisory services in urban, energy and natural resources, transport and logistics, and infrastructure financing across India and other emerging countries to governments, multilateral agencies, investors, large public and private sector firms.

Revenue breakup



(Source: Company, HDFC Sec)

Segmental Performance

(Rs cr)	Q3CY22	Q3CY21	YoY (%)	Q2CY22	QoQ (%)	9MCY22	9MCY21	YoY (%)
Revenue								
Rating Services	170	154	*10.8*	155	*9.5*	489	439	*11.3*
Research, Analytics & Solutions	513	417	*22.9*	513	*-0.1*	1458	1156	*26.1*
Revenue Share (%)								
Rating Services	24.9	26.9	*-199 bps*	23.2	*167 bps*	25.1	27.5	*-242 bps*
Research, Analytics & Solutions	75.1	73.1	*199 bps*	76.8	*-167 bps*	74.9	72.5	*242 bps*
EBIT								
Rating Services	70	64	*8.3*	60	*15.6*	208	186.7	*11.3*
Research, Analytics & Solutions	97	84	*15.6*	115	*-15.6*	313	224.4	*39.3*
EBIT Margin (%)								
Rating Services	41.0	41.9	*-93 bps*	38.8	*217 bps*	42.5	42.5	*0 bps*
Research, Analytics & Solutions	19.0	20.2	*-120 bps*	22.5	*-349 bps*	21.4	19.4	*203 bps*

Peer Comparision

(FY22)	CMP (Rs)	Mcap (Rs cr)	EPS (Rs)	OPM (%)	PATM (%)	RoE (%)	D/E (x)	P/E (x)	P/B (x)
CRISIL (CY21)	3177	23210	59.2	26.3	18.7	29.8	0.0	53.7	14.7
ICRA	4585	4425	112.8	35.2	31.8	12.9	0.0	40.6	5.2
CARE Ratings	626	1857	25.3	32.1	30.3	11.6	0.0	24.7	2.9

Financials

Income Statement

(Rs cr)	CY20	CY21	CY22E	CY23E	CY24E
Net Revenues	**1982**	**2301**	**2621**	**2885**	**3152**
Growth (%)	***14.4***	***16.1***	***13.9***	***10.1***	***9.3***
Operating Expenses	1471	1695	1966	2143	2323
EBITDA	**511**	**606**	**655**	**741**	**829**
Growth (%)	***12.0***	***18.6***	***8.2***	***13.2***	***11.8***
EBITDA Margin (%)	***25.8***	***26.3***	***25.0***	***25.7***	***26.3***
Depreciation	121	106	106	109	110
Other Income	83	82	157	130	142
EBIT	**473**	**582**	**707**	**763**	**861**
Interest expenses	14	9	7	9	10
PBT	**458**	**618**	**699**	**754**	**851**
Tax	104	153	171	187	211
Adj. PAT	**355**	**431**	**528**	**567**	**640**
Growth (%)	***3.1***	***21.6***	***22.4***	***7.4***	***12.9***
EPS	48.9	59.2	72.4	77.8	87.8

Balance Sheet

(Rs cr)	CY20	CY21	CY22E	CY23E	CY24E
SOURCE OF FUNDS					
Share Capital	7	7	7	7	7
Reserves	1305	1571	1727	1901	2096
Shareholders' Funds	**1312**	**1578**	**1735**	**1908**	**2104**
Total Debt	0	0	0	0	0
Net Deferred Taxes	-64	-59	-59	-59	-59
Other Non-Curr. Liab.	185	103	105	104	113
Total Sources of Funds	**1432**	**1622**	**1780**	**1953**	**2158**
APPLICATION OF FUNDS					
Net Block & Goodwill	763	661	595	527	460
CWIP	14	5	3	1	1
Investments	476	645	840	1135	1410
Other Non-Curr. Assets	112	149	183	207	226
Total Non Current Assets	**1364**	**1460**	**1620**	**1871**	**2097**
Debtors	307	399	416	435	475
Cash & Equivalents	279	294	295	300	291
Other Current Assets	193	291	330	360	393
Total Current Assets	**779**	**984**	**1041**	**1094**	**1158**
Creditors	105	134	135	157	172
Other Current Liab & Provisions	605	689	746	855	925
Total Current Liabilities	**710**	**823**	**881**	**1012**	**1097**
Net Current Assets	68	161	160	82	61
Total Application of Funds	**1432**	**1622**	**1780**	**1953**	**2158**

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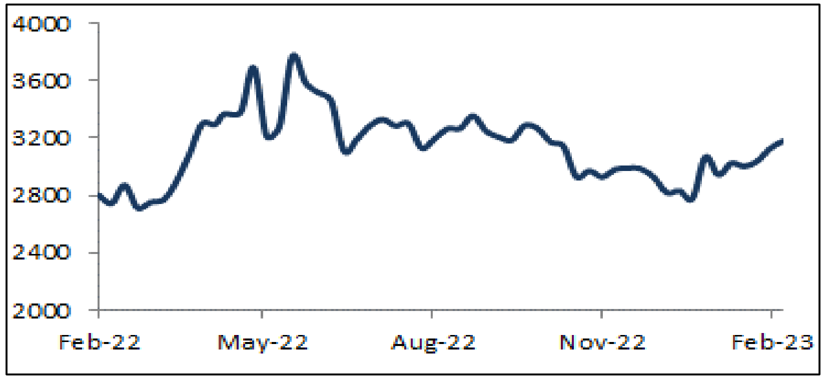
Cash Flow Statement

(Rs cr)	CY20	CY21	CY22E	CY23E	CY24E
Reported PBT	458	618	699	754	851
Non-operating & EO items	-21	-70	-31	-25	-10
Interest Expenses	10	-1	7	9	10
Depreciation	121	106	106	109	110
Working Capital Change	57	-54	1	83	12
Tax Paid	-125	-197	-171	-187	-211
OPERATING CASH FLOW (a)	**500**	**403**	**611**	**742**	**762**
Capex	-34	27	-37	-40	-42
Free Cash Flow	466	430	574	702	720
Investments	-44	-130	-195	-295	-275
Non-operating income	-222	15	0	0	0
INVESTING CASH FLOW (b)	**-300**	**-88**	**-232**	**-335**	**-317**
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	0	0	-7	-9	-10
FCFE	200	315	372	399	436
Share Capital Issuance	35	44	0	0	0
Dividend	-232	-276	-372	-394	-445
Others	-68	-58	0	0	0
FINANCING CASH FLOW (c)	**-265**	**-291**	**-379**	**-402**	**-454**
NET CASH FLOW (a+b+c)	**-64**	**24**	**0**	**5**	**-9**

Price chart



Key Ratios

Particulars	CY20	CY21	CY22E	CY23E	CY24E
Profitability Ratios (%)					
EBITDA Margin	25.8	26.3	25.0	25.7	26.3
EBIT Margin	23.9	25.3	27.0	26.4	27.3
APAT Margin	17.9	18.7	20.1	19.7	20.3
RoE	28.6	29.8	31.9	31.1	31.9
RoCE	38.0	40.2	42.7	41.9	42.9
Solvency Ratio (x)					
Net Debt/EBITDA	-0.5	-0.5	-0.4	-0.4	-0.4
Net D/E	-0.2	-0.2	-0.2	-0.2	-0.1
Per Share Data (Rs)					
EPS	48.9	59.2	72.4	77.8	87.8
CEPS	65.5	73.7	87.0	92.7	102.9
BV	180.7	216.5	238.0	261.8	288.5
Dividend	33.0	46.0	51.0	54.0	61.0
Turnover Ratios (days)					
Debtor days	47	56	57	54	53
Creditor days	17	19	19	18	19
VALUATION (x)					
P/E	65.0	53.7	43.9	40.8	36.2
P/BV	17.6	14.7	13.3	12.1	11.0
EV/EBITDA	44.2	37.0	33.9	29.6	26.1
EV / Revenues	11.4	9.7	8.5	7.6	6.9
Dividend Yield (%)	1.0	1.4	1.6	1.7	1.9
Dividend Payout (%)	67.5	77.8	70.4	69.4	69.5

(Source: Company, HDFC sec)

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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