June 17, 2024

COMPANY UPDATE | Sector: Credit Rating Agencies

CRISIL Limited

H2 CY24 to be better

GR&RS growth could slowly come back from H2 CY24

GR&RS, the largest business of CRISIL, witnessed material growth moderation in recent quarters on account of slowdown in discretionary spending by global Banks & FIs amidst macroeconomic uncertainty, and the business was also impacted by consolidation/M&A of large European Banks. However, these headwinds are transient, and hence with an unchanged competitive position (not losing incremental wallet/market share), strong capabilities (across risk, transformation, regulatory, credit, research/analytics, ESG, etc. and new/emerging areas), low market penetration and focused business strategy, the growth trends in GR&RS are expected to improve from H2 CY24. The business has been adding new logos and the co. continues to win new business from existing clients. Large global banks (key clients for CRISIL) are likely to revive spending over the coming quarters as macroeconomic uncertainty dissipates. The impact of European Banks merger is behind, and the co. is focused on building back its business volume.

GBA momentum to sustain

The demand for benchmarking offerings/analytics increased in a volatile macro as banks/clients required more competitive insights. The growth traction is additionally supported by 1) market leadership position in the business, 2) synergies/benefits from the roll out of merged Voice-of-Customer and Quantitative Analytics offering, 3) significant room for incremental business engagement/growth in existing clients, and 4) addition of new customers across regions. CRISIL has a strong business development and relationship management team in GBA business and is exploring revenue opportunities through tapping of new areas and development of new solutions.

Growth in Domestic Ratings to remain healthy; mild start for ESG ratings

Company expects Domestic Ratings business to keep growing well along with the economic growth. CRISIL Ratings' growth in the past 3-4 years was largely driven by market share shift and pricing improvement. Now the industry revenue pool itself has started to grow and the co. is likely to maintain its market share and pricing differential. Bank Loan Ratings has been growing faster than Bond Ratings in recent quarters due. This could likely change when rate/liquidity conditions start to ease. CRISIL is focused on new rating products like co-lending.

ESG Ratings subsidiary is witnessing slow traction at the start. All ESG related offerings (incl. analytics, scoring, research, etc.) along with management, operational and business teams have been shifted here. ESG Ratings market will grow with Investor/User demand and through any regulatory push. While pricing would be market driven, CRISIL is confident of commanding a significant premium.

Margins may have likely troughed

The Q1 CY24 EBITDA margin of 26% seems a likely trough as it was materially impacted by margin fall in GR&RS business. As growth headwinds in this business are expected to gradually abate in coming quarters, the margin recovery should follow. Other critical margin levers for CRISIL are the realization of operating leverage in Domestic Ratings and GBA businesses, and relatively faster growth in them. Co. continues to harbor expectations of growing margins over the longer run, as it sees opportunity for expanding margins across businesses.

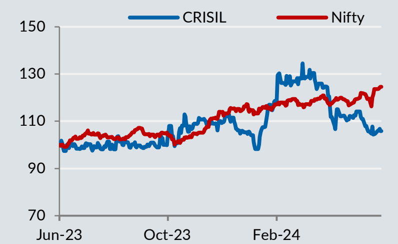
CRISIL's valuation now is more in sync with its near-term outlook, and hence the stock is likely to stabilize after recent correction. We would turn bullish after seeing cyclical recovery in GR&RS business. Our current consol. growth and margin estimates for CY24 to a large extent factor a reasonable recovery in financial performance in the remaining three quarters. However, a stronger comeback by GR&RS business, sustained traction in GBA, improvement in growth of GAC, and continued momentum in Domestic Ratings could pose upside risks to our CY25 estimates. For now, we retain Neutral rating with unchanged estimates and 12m TP of Rs4500.

Reco	:	NEUTRAL
CMP	:	Rs 4,111
Target Price	:	Rs 4,500
Potential Return	:	+9.5%

Stock data (as on June 15, 2024)

Nifty	23,466
52 Week h/l (Rs)	5269 / 3661
Market cap (Rs/USD mn)	303636 / 3634
Outstanding Shares (mn)	73
6m Avg t/o (Rs mn):	212
Div. yield (%):	1.2
Bloomberg code:	CRISIL IN
NSE code:	CRISIL

Stock performance



	1M	3M	1Y
Absolute return	-6.0%	-17.4%	5.8%

Shareholding pattern (As of Mar-24)

Promoter	66.7%
FII+DII	20.2%
Others	13.2%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	4,500	4,500

Δ in earnings estimates

	CY23	CY24e	CY25e
EPS (New)	90.1	96.0	112.5
EPS (Old)	90.1	96.0	112.5
% Change	-	-	-

Financial Summary

(Rs mn)	CY23	CY24E	CY25E
Net Revenue	31,395	34,223	38,695
EBITDA	8,815	9,268	10,761
Margin (%)	28.1%	27.1%	27.8%
PAT	6,584	7,015	8,227
Growth (%)	16.7%	6.5%	17.3%
ROE (%)	33.1%	30.1%	31.2%
EPS (Rs)	90.1	96.0	112.5
P/E (x)	45.6	42.8	36.5
BV (Rs)	299	338	383
P/BV (x)	13.7	12.2	10.7

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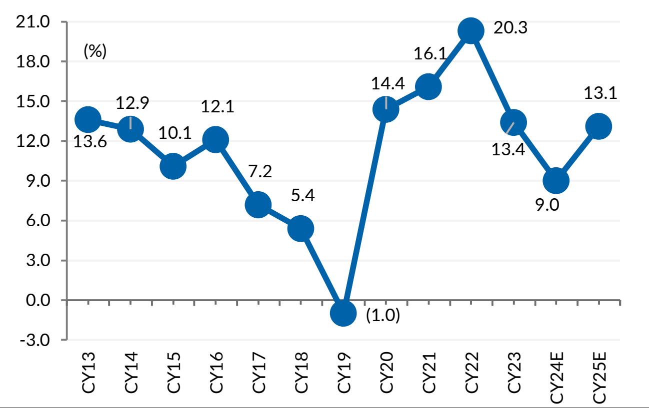
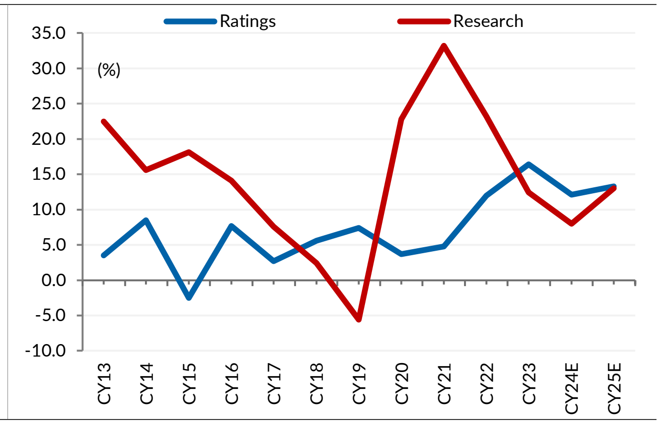
STORY IN CHARTS

Exhibit 1: Overall/Consol revenue growth trend



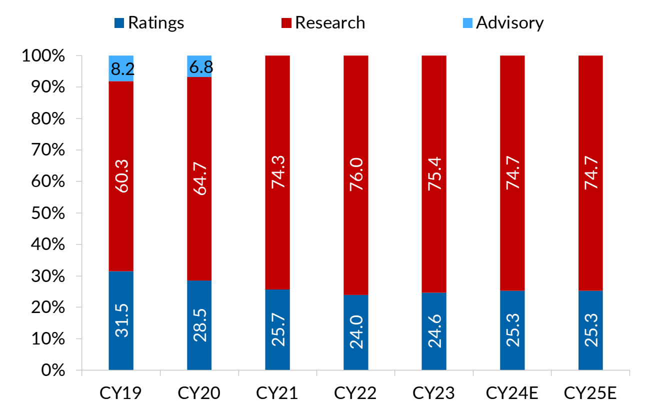
Source: Company, YES Sec

Exhibit 2: Segmental revenue growth trend



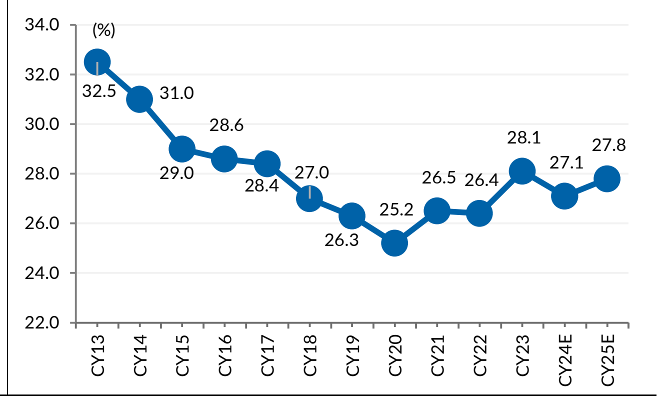
Source: Company, YES Sec

Exhibit 3: Segmental revenue mix



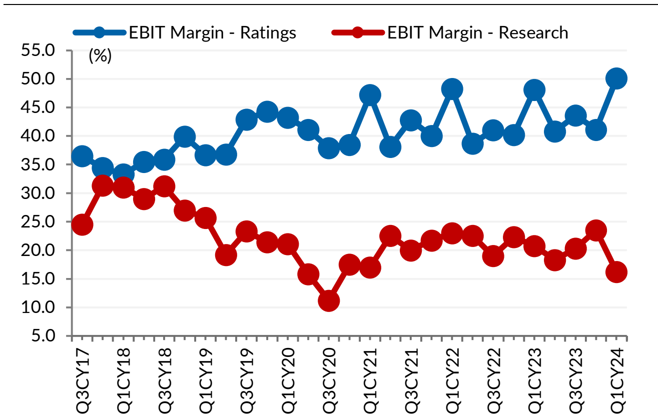
Source: Company, YES Sec

Exhibit 4: EBITDA margin movement



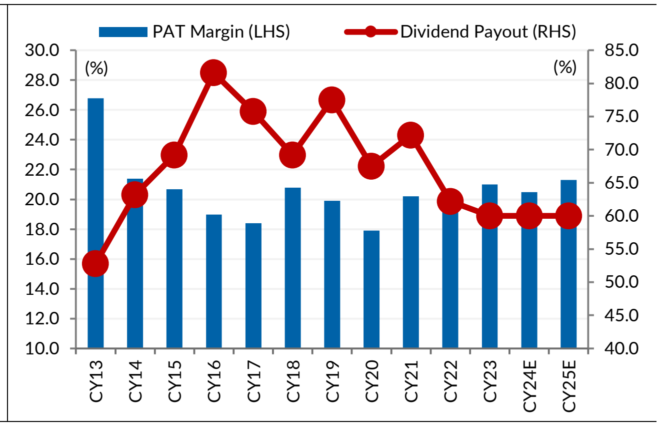
Source: Company, YES Sec

Exhibit 5: Segmental margins



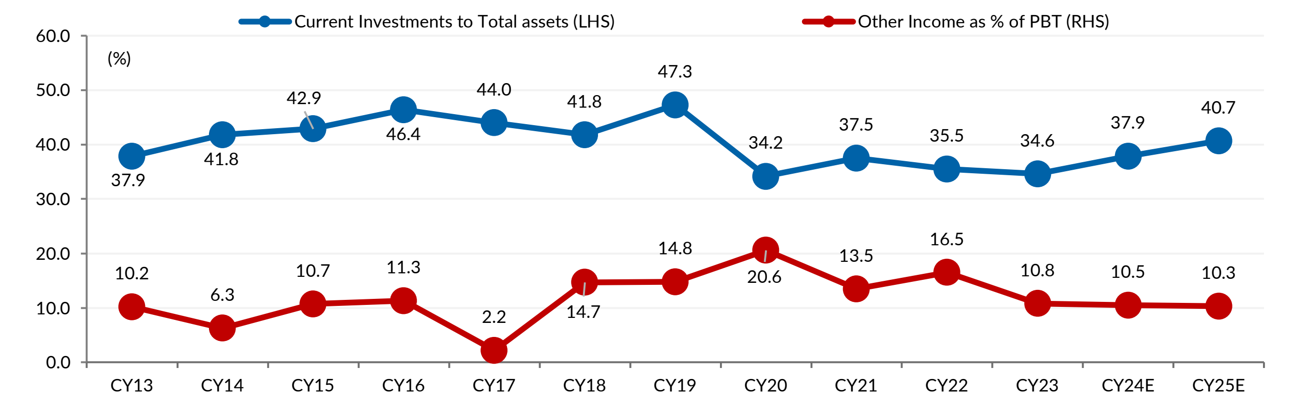
Source: Company, YES Sec

Exhibit 6: High profitability & DPR to continue



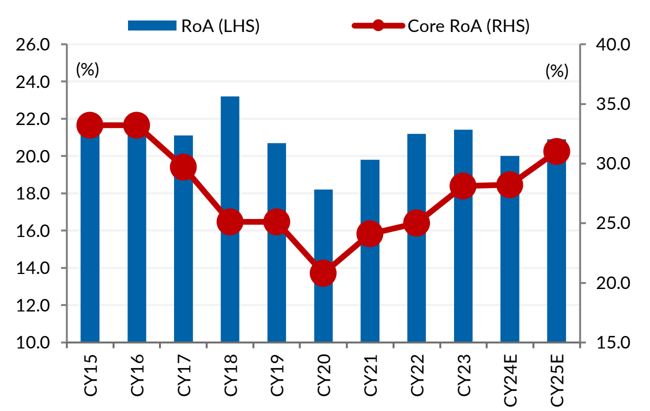
Source: Company, YES Sec

Exhibit 7: Consistent robust cash generation ensures significant liquidity on BS despite high DPR

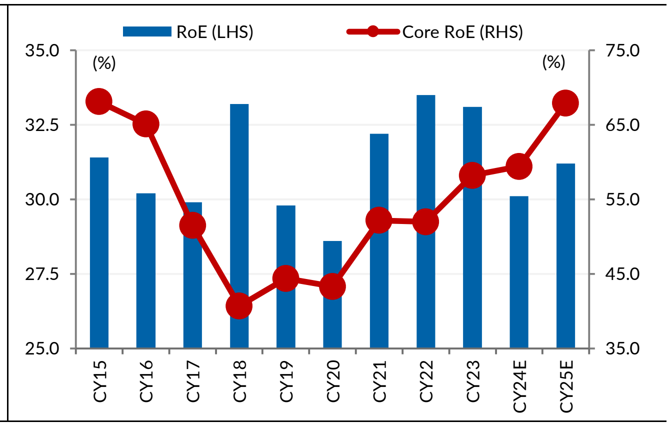


Source: Company, YES Sec

Exhibit 8: Core profitability metrics will improve underpinned by margin expansion and healthy growth

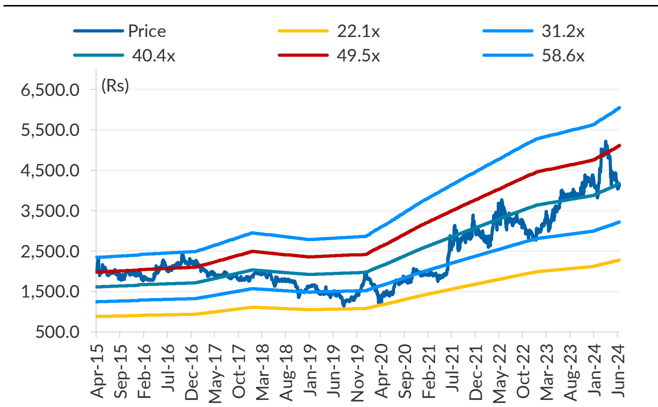


Source: Company, YES Sec



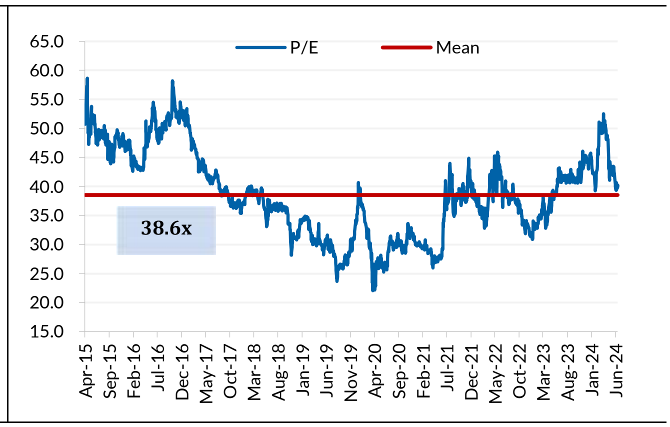
Source: Company, YES Sec

Exhibit 9: 1 year rolling P/E band



Source: Company, YES Sec

Exhibit 10: 1 year rolling P/E vis-à-vis the Mean



Source: Company, YES Sec

FINANCIALS

Exhibit 11: Balance sheet

Y/e 31 Mar (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
Equity	73	73	73	73	73
Reserves	15,711	17,847	21,820	24,626	27,918
Net worth	**15,784**	**17,920**	**21,893**	**24,699**	**27,991**
Long-Term Provisions	212	289	404	444	489
Other financial liabilities	1,026	663	780	780	780
Total Non-Current Liabilities	1,237	952	1,184	1,224	1,269
Trade Payables	1,337	1,420	1,426	1,554	1,757
Other financial liabilities	2,904	3,875	3,794	4,135	4,676
Other Current Liabilities	2,908	3,152	3,800	4,142	4,684
Short-Term Provisions	815	871	1,011	1,112	1,223
Current tax liabilities (net)	53	120	39	43	47
Total Current Liabilities	8,018	9,438	10,069	10,986	12,387
Total Equity & Liabilities	**25,039**	**28,310**	**33,145**	**36,910**	**41,646**
Tangible Fixed Asset	403	474	445	445	445
Right of Use	1,270	866	553	525	499
Intangible Fixed Asset	1,208	1,052	1,141	1,084	1,030
Intangible Assets under development	55	136	309	309	309
Goodwill	3,727	3,798	4,208	3,998	3,798
Non-current investments	1,954	1,908	2,781	3,059	3,365
Deferred tax assets (net)	592	794	857	943	1,037
Long term loans and advances	303	131	141	155	170
Other non-current assets	33	22	91	100	110
Non-current tax assets	1,157	1,518	1,648	1,812	1,994
Other financial assets	0	0	0	0	0
Total Non-Current Assets	**10,702**	**10,698**	**12,172**	**12,429**	**12,756**
Investments	4,495	4,927	7,780	10,114	13,148
Trade receivables	5,410	7,588	6,895	7,516	8,498
Cash and cash equivalents	2,944	3,214	3,699	3,864	3,811
ST Loans and advances	23	32	39	43	47
Other current assets	1,273	1,544	2,199	2,529	2,909
Other financial assets	192	306	361	415	477
Total Current Assets	**14,337**	**17,612**	**20,973**	**24,481**	**28,890**
Total Assets	**25,039**	**28,310**	**33,145**	**36,910**	**41,646**

Source: Company, YES Sec

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
Ratings	5,924	6,634	7,724	8,658	9,807
Research	17,083	21,053	23,671	25,565	28,888
Total Revenue	**23,007**	**27,687**	**31,395**	**34,223**	**38,695**
Employee Expenses	12,869	15,530	17,478	19,488	21,826
Professional fees	1,239	1,230	1,262	1,376	1,556
Associate services fees	1,226	1,322	1,476	1,609	1,819
Other Expenses	1,568	1,894	1,897	2,011	2,252
EBITDA	**6,105**	**7,296**	**8,815**	**9,268**	**10,761**
Other Income	770	1,225	936	983	1,131
Depreciation	1,060	1,033	1,038	821	839
Interest Expense	89	64	37	26	25
PBT	**5,726**	**7,424**	**8,677**	**9,404**	**11,028**
Tax	1,526	1,780	2,093	2,389	2,801
PAT	**4,658**	**5,644**	**6,584**	**7,015**	**8,227**

Source: Company, YES Sec

Exhibit 13: Cashflow

Y/e 31 Mar (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
PBT	5,726	7,424	8,677	9,404	11,028
Depreciation	1,060	1,033	1,038	821	839
Change in working cap	(1,919)	(1,816)	568	(325)	(284)
Tax paid	1,526	1,780	2,093	2,389	2,801
Others	1,373	2	1,338	-	-
Cash flow from operations	4,713	4,862	9,529	7,512	8,781
Capex	38	(696)	(1,367)	(526)	(558)
Change in investments	(1,688)	(386)	(3,727)	(2,612)	(3,340)
Cash flow from investments	(1,650)	(1,082)	(5,094)	(3,139)	(3,898)
Free cash flow	3,063	3,781	4,435	4,373	4,883
Equity raised/(repaid)	0	0	-	-	-
Dividend (incl. tax)	3,365	3,510	3,950	4,208	4,935
Others	-	-	-	-	-
Cash flow from financing	(3,365)	(3,510)	(3,950)	(4,208)	(4,935)
Net change in cash	(302)	271	485	165	(53)
Op Cash	2,787	2,944	3,214	3,699	3,864
Cl Cash	2,944	3,214	3,699	3,864	3,811

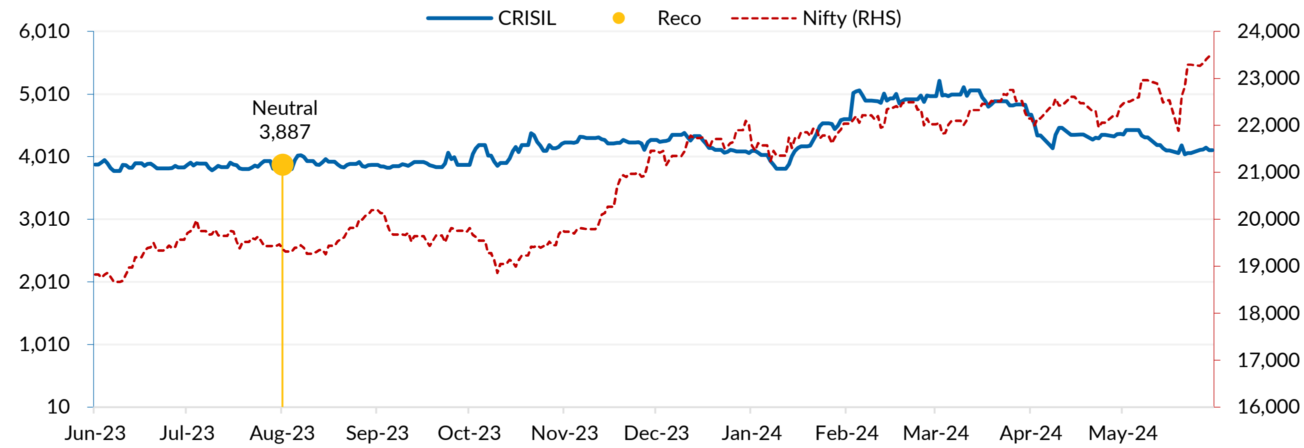
Source: Company, YES Sec

Exhibit 14: Ratio analysis

Y/e 31 Mar (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
Growth ratios (%)					
Ratings Revenue	4.8%	12.0%	16.4%	12.1%	13.3%
Research Revenue	33.2%	23.2%	12.4%	8.0%	13.0%
Advisory Revenue	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA	22.3%	19.5%	20.8%	5.1%	16.1%
Profit Before Tax	24.9%	29.6%	16.9%	8.4%	17.3%
Net profit	31.3%	21.2%	16.7%	6.5%	17.3%
Operating Ratios					
EBITDA Margin	26.5%	26.4%	28.1%	27.1%	27.8%
PBT Margin	24.9%	26.8%	27.6%	27.5%	28.5%
PAT Margin	20.2%	20.4%	21.0%	20.5%	21.3%
ROE	32.2%	33.5%	33.1%	30.1%	31.2%
Dividend Payout Ratio	72.2%	62.2%	60.0%	60.0%	60.0%
Per share					
EPS	63.9	77.2	90.1	96.0	112.5
Book Value	216.5	245.1	299.5	337.9	382.9
Valuation Ratios					
P/E	64.3	53.2	45.6	42.8	36.5
P/BV	19.0	16.8	13.7	12.2	10.7
Dividend Yield	1.1%	1.1%	1.2%	1.3%	1.6%

Source: Company, YES Sec

Recommendation Tracker



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ADD: Upside between 10% to 20% over 12 months

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