

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	3,054
12 month price target (INR)	3,520
Market cap (INR bn/USD bn)	222/3.0
Free float/Foreign ownership (%)	32.6/5.3
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

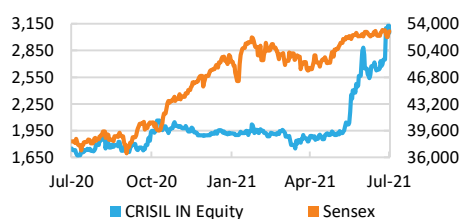
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth	●		
Overall	●		

FINANCIALS

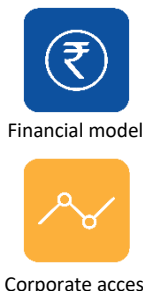
(INR mn)

Year to December	CY20A	CY21E	CY22E	CY23E
Revenue	19,818	22,235	24,778	27,073
EBITDA	5,106	6,226	7,359	8,122
Adjusted profit	3,547	4,129	5,064	5,710
Diluted EPS (INR)	48.9	56.9	69.7	78.7
EPS growth (%)	2.7	16.4	22.6	12.8
RoAE (%)	28.6	30.3	34.2	35.0
P/E (x)	62.5	53.7	43.8	38.8
EV/EBITDA (x)	41.5	33.8	28.3	25.3
Dividend yield (%)	1.1	1.1	1.3	1.5

PRICE PERFORMANCE



Explore:



Ratings muted; research healthy

CRISIL's Q2CY21 sales grew 12% YoY to INR5.3bn (6% ahead of estimate) led by a 20% YoY uptick in research that offset a 5% YoY dip in ratings. EBITDA shot up 20% YoY (7% higher than estimate).

Domestic ratings is witnessing a delayed recovery. However, CRISIL is capitalising on global recovery in the research segment (65% of revenue). Furthermore, improving corporate capex should drive a structural improvement in ratings. Hence, we are jacking up the target to 50x Q4CY22E (close to higher end, from 37x), which yields a TP of INR3,520; retain 'BUY'. Despite the strong turnaround in research since our upgrade in Jul-20 (stock up 77%), we expect a 20% EBITDA CAGR and 800bps RoCE expansion to 46% over CY20–22E.

Ratings: Muted domestic markets offset growth in GAC

For Q2CY21, ratings revenue dipped by 5% YoY due to a weak credit environment in the domestic market, with issuances plunging 61% YoY, while the number of issuers dropped sharply by 48% YoY. The Global Analytical Centre (GAC) business is believed to have stepped up, thereby mitigating the decline in the domestic ratings business. Segmental EBIT margin fell 305bps YoY in Q2CY21 to 38% due to softer domestic business. We reckon an 8% revenue CAGR is sustainable over CY20–22E. New offerings such as ESG ratings post-SEBI approval should prop up revenues further.

Research: Healthy growth and profits

Research sales shot up 20% YoY led by growth across businesses. Highlights: i) Global Research & Risk Solutions business grew across models, traded and non-financial risk, with an uptick from buy-side research. ii) Coalition-Greenwich saw accelerated business momentum with CIB normalising and further aided by non-CIB offerings. iii) India Research saw increased demand for data, capital-market insights and new products across markets. EBIT margin rose strongly for the first time post-Greenwich acquisition, by 543bps YoY to 22.5%, aided by cost and operational synergies. Management expects Greenwich to scale up further in H2CY21 and break even towards the end of CY21.

Outlook and valuation: Well-poised on global recovery; retain 'BUY'

We remain positive on CRISIL's global presence with research driving profitability, leading to an EBITDA CAGR of 20% over CY20–22E and 800bps RoCE expansion to 46%. Hence, we are raising the target to 50x Q4CY22 (close to higher end). Maintain 'BUY' with a revised TP of INR3,520 (INR2,261 earlier).

Financials

Year to March	Q2CY21	Q2CY20	% Change	Q1CY21	% Change
Net Revenue	5,285	4,718	12.0	4,952	6.7
EBITDA	1,393	1,162	19.8	1,275	9.3
Adjusted Profit	1,008	663	51.9	835	20.7
Diluted EPS (INR)	14.0	9.2	51.9	11.6	20.7

Financial Statements

Income Statement (INR mn)

Year to December	CY20A	CY21E	CY22E	CY23E
Total operating income	19,818	22,235	24,778	27,073
Gross profit	0	0	0	0
Employee costs	10,684	11,829	12,786	13,862
Other expenses	4,028	4,180	4,634	5,090
EBITDA	5,106	6,226	7,359	8,122
Depreciation	1,211	1,236	1,266	1,293
Less: Interest expense	144	111	111	111
Add: Other income	832	550	720	844
Profit before tax	4,583	5,429	6,702	7,563
Prov for tax	1,036	1,300	1,639	1,853
Less: Other adjustment	0	0	0	0
Reported profit	3,547	4,129	5,064	5,710
Less: Excp.item (net)	0	0	0	0
Adjusted profit	3,547	4,129	5,064	5,710
Diluted shares o/s	73	73	73	73
Adjusted diluted EPS	49	57	70	79
DPS (INR)	33.0	34.0	41.0	46.0
Tax rate (%)	22.6	23.9	24.4	24.5

Important Ratios (%)

Year to December	CY20A	CY21E	CY22E	CY23E
Rating (% of rev)	28.5	27.1	26.7	26.8
Research (% of rev)	64.7	66.3	66.8	66.6
Advisory (% of rev)	6.8	6.6	6.5	6.6
EBITDA margin (%)	25.8	28.0	29.7	30.0
Net profit margin (%)	17.9	18.6	20.4	21.1
Revenue growth (% YoY)	14.4	12.2	11.4	9.3
EBITDA growth (% YoY)	12.0	21.9	18.2	10.4
Adj. profit growth (%)	3.2	16.4	22.6	12.8

Assumptions (%)

Year to December	CY20A	CY21E	CY22E	CY23E
GDP (YoY %)	(6.0)	7.0	6.0	6.0
Repo rate (%)	3.5	3.5	4.0	4.0
USD/INR (average)	75.0	73.0	72.0	72.0
Debt Issuances (% YoY)	14.0	8.0	14.0	14.0
Bank Credit (% YoY)	5.0	6.0	7.0	7.0
Debt Rated (INR bn)	10,555.6	11,295.8	12,738.5	14,454.2
BLR (New Assignments)	1,209.0	1,305.7	1,371.0	1,371.0
SME (Nos.)	10,367.2	11,092.9	12,424.1	14,163.4
Irevna (INR mn)	5,034.4	5,533.9	6,083.2	6,505.7

Valuation Metrics

Year to December	CY20A	CY21E	CY22E	CY23E
Diluted P/E (x)	62.5	53.7	43.8	38.8
Price/BV (x)	16.9	15.7	14.3	12.9
EV/EBITDA (x)	41.5	33.8	28.3	25.3
Dividend yield (%)	1.1	1.1	1.3	1.5

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to December	CY20A	CY21E	CY22E	CY23E
Share capital	73	73	73	73
Reserves	13,046	14,041	15,452	17,078
Shareholders funds	13,118	14,114	15,524	17,151
Minority interest	0	0	0	0
Borrowings	0	0	0	0
Trade payables	1,054	778	841	911
Other liabs & prov	4,397	4,397	4,397	4,397
Total liabilities	20,629	21,349	22,823	24,520
Net block	2,501	1,365	349	(694)
Intangible assets	5,124	5,124	5,124	5,124
Capital WIP	136	136	136	136
Total fixed assets	7,761	6,625	5,609	4,566
Non current inv	1,703	1,703	1,703	1,703
Cash/cash equivalent	5,844	7,606	9,733	12,146
Sundry debtors	3,074	3,168	3,530	3,857
Loans & advances	458	458	458	458
Other assets	1,790	1,790	1,790	1,790
Total assets	20,629	21,349	22,823	24,520

Free Cash Flow (INR mn)

Year to December	CY20A	CY21E	CY22E	CY23E
Reported profit	3,547	4,129	5,064	5,710
Add: Depreciation	1,211	1,236	1,266	1,293
Interest (net of tax)	144	111	111	111
Others	1,199	825	965	1,205
Less: Changes in WC	153	(276)	63	71
Operating cash flow	5,005	4,725	5,830	6,537
Less: Capex	(2,861)	(100)	(250)	(250)
Free cash flow	2,144	4,625	5,580	6,287

Key Ratios

Year to December	CY20A	CY21E	CY22E	CY23E
RoE (%)	28.6	30.3	34.2	35.0
RoCE (%)	38.0	40.7	46.0	47.0
Inventory days	nm	nm	nm	nm
Receivable days	47	51	49	50
Payable days	nm	nm	nm	nm
Working cap (% sales)	(7.1)	(4.7)	(3.0)	(1.8)
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(44.5)	(53.9)	(62.7)	(70.8)
Interest coverage (x)	27.1	45.0	55.0	61.7

Valuation Drivers

Year to December	CY20A	CY21E	CY22E	CY23E
EPS growth (%)	2.7	16.4	22.6	12.8
RoE (%)	28.6	30.3	34.2	35.0
EBITDA growth (%)	12.0	21.9	18.2	10.4
Payout ratio (%)	67.5	69.3	68.2	67.8

Exhibit 1: Performance by segment

	Q2CY21	Q2CY20	% YoY	Q1CY21	%QoQ
Segment revenue					
Rating Services	1,366	1,441	(5.2)	1,489	(8.3)
Advisory Services	365	320	14.0	340	7.2
Research Services	3,554	2,957	20.2	3,122	13.8
Total	5,285	4,718		4,952	
Segment EBIT					
Rating Services	520	593	(12.3)	703	(26.1)
Advisory Services	44	3	1,262.5	26	67.7
Research Services	799	467	70.9	532	50.1
Total	1,362	1,063		1,261	
Segment EBIT margin (%)					
Rating Services	38.1	41.1	(3.0)	47.2	(9.1)
Advisory Services	11.9	1.0	10.9	7.6	4.3
Research Services	22.5	15.8	6.7	17.0	5.4

Source: Company, Edelweiss Research

Exhibit 2: Quarterly snapshot (consolidated)

Year to December	Q2CY21	Q2CY20	YoY (%)	Q1CY21	QoQ (%)	YTD CY21	CY21E	CY22E
Revenues	5,285	4,718	12.0	4,952	6.7	10,237	22,235	24,778
Employee cost	2,935	2,641	11.1	2,694	8.9	5,629	11,829	12,786
Other expenses	957	915	4.6	983	(2.6)	1,940	4,180	4,634
Total expenditure	3,892	3,556	9.5	3,677	5.8	7,569	16,009	17,419
EBITDA	1,393	1,162	19.8	1,275	9.3	2,668	6,226	7,359
Depreciation	273	313	-12.9	278	(1.9)	551	1,236	1,266
EBIT	1,120	849	31.9	997	12.4	2,117	4,990	6,093
Less:-Interest Expense	26	37		26		52	111	111
Other income	220	121	81.1	135	NM	354	550	720
Add: Exceptional items	0	0		0		0	0	0
PBT	1,314	933	40.8	1,105	18.9	2,471	5,540	6,813
Tax	306	270	13.5	270	13.5	576	1,300	1,639
Reported Profit	1,008	663	51.9	835		1,895	4,129	5,064
Adjusted Profit	1,008	663	51.9	835	20.7	1,843	4,129	5,064
No. of Diluted shares outstanding (mn)	72	72		72		72	72	72
Adjusted Diluted EPS	14.0	9.2	51.9	11.6	20.7	25.6	56.9	69.7
as % of net revenues								
Staff expenses	55.5	56.0		54.4		55.0	53.2	51.6
Other expenses	18.1	19.4		19.9		19.0	18.8	18.7
EBITDA	26.4	24.6		25.7		26.1	28.0	29.7
Net profit	19.1	14.1		16.9		18.0	18.6	20.4

Source: Company, Edelweiss Research

Company Description

CRISIL is India's leading credit rating, research, risk & policy advisory company having pioneered the concept of credit rating in India in 1987. S&P, the world's leading credit rating agency by market share, is its major shareholder (67.7%) after the recent open offer.

CRISIL is a globally diversified analytical company having ratings, research and advisory services under its fold. With market leadership in corporate bonds, bank loan ratings and SME ratings, company is strongly poised to gain from cyclical and structural uptick in domestic ratings segment. With increased interest from parent, strong growth in off shoring services to S&P will continue which will drive its offshore ratings segment (Global Analytic Center). Being a global research analytics company providing off shoring services to several large global clients like 12 of top 15 global investment banks, two of the top 10 global consulting groups, three of the top 15 global insurance companies and 37 Fortune 500 companies, company is expected to continue its strong momentum in research revenues.

Investment Theme

CRISIL is India's leading credit rating company having an overall ~35% revenue market share, and a strong parentage—Standard & Poor (S&P), world's leading credit rating agency by market share. There have been productivity gains in research. Led by fiscal expansionary policies, we expect the ratings sales to pick up for the industry in 2H CY21. Domestic ratings business is seeing a delayed recovery. However, CRISIL is capitalising on global recovery in its research segment (65% of revenues). Further led by improving corporate capex, ratings should see structural improvement ahead. We are factoring in 8% CAGR in ratings sales over CY20-22E. We have assumed 14% CAGR in research revenue over the same time frame as demand picks up organically given new launches, evolving regulations presenting new opportunities and delayed order book filling up. With turnaround expected in CY21 in Greenwich, we expect 20% EBIDTA CAGR and 800bps ROCE expansion to 46% over CY20-22E.

Key Risks

Adverse macro economy

Ratings agencies are vulnerable to downturns in the economy when capital raising activities fall. Last year, fund raising activities dipped due to weakness in the economy and corporate level stress, which in turn led to reduced bond issuances and bonds rating businesses. Also with ~65% consolidated revenue from outside India, the company's overall revenue could face some pressure.

Pricing transience to fixed fee structure

Limited bond issuance and more so done by only the A category players pose a threat to rating agencies as issuances have transcended to a fixed fee cap structure. However, with CRISIL stronger among the A rated companies is gaining share post the IL&FS crises.

Risk of defaults

Any rating default by a client would hamper the credibility of the rating agency. However SEBI's mandatory disclosures of default rates and further improvement in disclosure norms would keep the rating agency under control of the watch guard.

Additional Data

Management

Chairman	John Berisford
MD & CEO	Ashu Suyash
CFO	Sanjay Chakravarti
COO	Amish Mehta
Auditor	Walker Chandio & Co

Holdings – Top 10*

% Holding		% Holding	
LIC of India	5.91	L&T MF	0.80
General Insurance	3.30	ABSL AMC	0.51
Brown Capital	1.01	BlackRock Inc	0.40
JP Morgan & Chase	0.87	Dimensional Fund	0.33
Vanguard Group	0.84	ODIN Forvaltning	0.30

*Latest public data

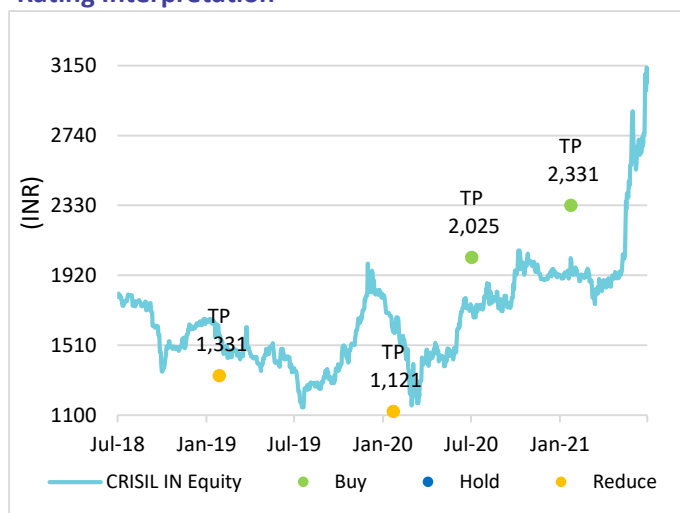
Recent Company Research

Date	Title	Price	Reco
23-Apr-21	Global recovering, domestic tempering; <i>Result Update</i>	1,855	Buy
15-Feb-21	Improved traction across the board; <i>Result Update</i>	2,021	Buy
24-Oct-20	Ratings decline, research strong; <i>Result Update</i>	1,947	Buy

Recent Sector Research

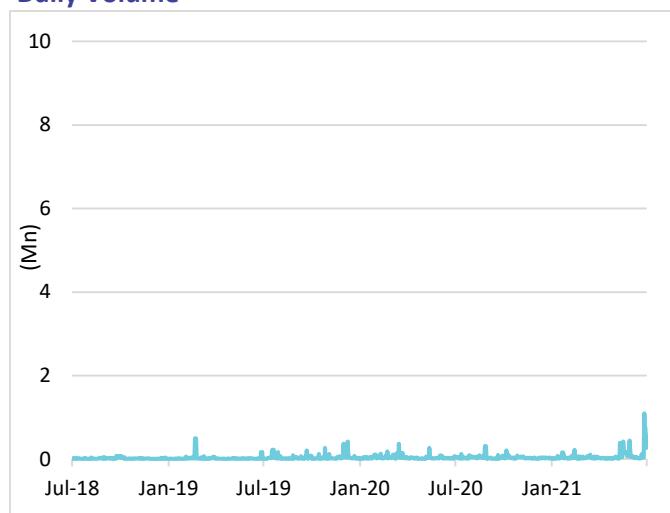
Date	Name of Co./Sector	Title
14-Jun-21	CARE Ratings	Structural transformation underway; <i>Result Update</i>
11-Feb-21	CARE Ratings	Transformation underway; <i>Company Update</i>
08-Feb-21	CARE Ratings	Growth on the anvil; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	170	54	19	244
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	214	40	5	259

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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