

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	3,373
12 month price target (INR)	3,824
Market cap (INR bn/USD bn)	246/3.2
Free float/Foreign ownership (%)	32.6/5.3
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

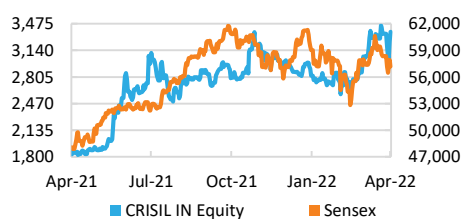
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth	●		
Overall	●		

FINANCIALS

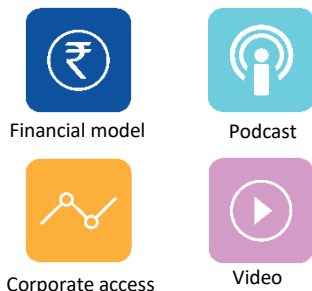
(INR mn)

Year to December	CY21A	CY22E	CY23E	CY24E
Revenue	23,007	26,383	29,842	31,343
EBITDA	6,058	7,387	8,803	9,246
Adjusted profit	4,200	5,288	6,383	6,364
Diluted EPS (INR)	57.8	72.8	87.9	87.7
EPS growth (%)	18.4	25.9	20.7	11.3
RoAE (%)	29.1	32.1	35.3	32.5
P/E (x)	57.7	45.8	38.0	31.8
EV/EBITDA (x)	38.1	30.9	25.6	19.8
Dividend yield (%)	1.4	1.3	1.5	1.8

PRICE PERFORMANCE



Explore:



Strong growth across the board

CRISIL's Q1CY22 sales shot up 20% YoY to INR5.9bn (10% ahead of our estimate) led by growth across segments: a 26% YoY uptick in Research and 10% YoY in Ratings and advisory sales. EBITDA surged 38% YoY (19% ahead of our estimate) as margins expanded 388bp.

CRISIL is well placed given its leading position in corporate bond market and improving credit growth (bank loan ratings). Despite moderating global growth, the outlook for Research is better owing to traction across risk transformation, benchmarking analytics and India research. This would expand EBIT margin by 150bp-plus per year in the Research segment. All in all, we are raising CY22/23E EPS by 6/12%. Retain 'BUY' at 45x Q3CY23E, yielding a revised TP of INR3,824.

Healthy growth in domestic ratings despite high base

For Q1CY22, ratings revenue increased 10% YoY with strong 13% YoY growth in domestic ratings. Despite bond issuances sliding 22% YoY for the industry, CRISIL maintained its leadership in corporate bonds and even added new clients during the quarter. The Global Analytical Centre (GAC) business sustained its analytics surveillance support across practices and continued to drive data and technology agenda of S&P's Global Ratings business. Segmental EBIT margin expanded 40bp YoY to 47.6% in Q1CY22. New offerings such as ESG ratings post-SEBI approval should prop up revenue further. Management remains cautiously optimistic on this segment. We estimate a revenue CAGR of 9% over CY21–23E.

Research: Robust growth and earnings outlook

Research sales shot up 26% YoY led by robust growth across businesses. Highlights: i) Global Research & Risk Solutions saw client-wins and growth led by research, risk, regulatory support, and transformation. ii) Benchmarking analytics grew well led by increased engagements with key clients in corporate, commercial and investment banking. EBIT margin expanded 720bp YoY to 24.2%. Research growth would be led by traction across risk transformation, benchmarking analytics and India research. We expect sales/EBIT CAGR of 13%/19% over CY21–23E.

Outlook and valuation: Strong growth; maintain 'BUY'

CRISIL's outperformance forces our hand to raise CY22/23E EPS by 6/12%. We remain positive that Ratings as well as Research would drive profitability, leading to overall sales/PAT CAGR of 14/23% over CY21–23E and 680bp RoCE expansion to 47%. Retain 'BUY' with a revised TP of INR3,824 (INR3,350 earlier) at 45x Q3CY23E.

Financials

Year to March	Q1CY22	Q1CY21	% Change	Q4CY21	% Change
Net Revenue	5,949	4,952	20.1	7,060	(15.7)
EBITDA	1,763	1,275	38.3	1,925	(8.4)
Adjusted Profit	1,216	835	45.6	1,686	(27.9)
Diluted EPS (INR)	16.9	11.6	45.6	23.4	(27.9)

Financial Statements

Income Statement (INR mn)

Year to December	CY21A	CY22E	CY23E	CY24E
Total operating income	23,007	26,383	29,842	31,343
Gross profit	0	0	0	0
Employee costs	12,869	14,695	16,473	16,361
Other expenses	4,079	4,300	4,566	5,736
EBITDA	6,058	7,387	8,803	9,246
Depreciation	1,060	1,239	1,283	1,758
Less: Interest expense	89	66	64	59
Add: Other income	817	900	990	990
Profit before tax	5,726	6,982	8,446	8,420
Prov for tax	1,526	1,694	2,063	2,056
Less: Other adjustment	0	0	0	0
Reported profit	4,200	5,288	6,383	6,364
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,200	5,288	6,383	6,364
Diluted shares o/s	73	73	73	73
Adjusted diluted EPS	58	73	88	88
DPS (INR)	46.0	43.0	51.0	49.0
Tax rate (%)	26.7	24.3	24.4	24.4

Important Ratios (%)

Year to December	CY21A	CY22E	CY23E	CY24E
Rating (% of rev)	26.3	24.7	23.9	24.6
Research (% of rev)	67.1	68.9	69.9	68.9
Advisory (% of rev)	6.6	6.4	6.2	6.5
EBITDA margin (%)	26.3	28.0	29.5	29.5
Net profit margin (%)	18.3	20.0	21.4	20.3
Revenue Growth (%)	16.1	14.7	13.1	9.5
EBITDA growth (% YoY)	18.6	21.9	19.2	10.6
Adj. profit growth (%)	18.4	25.9	20.7	11.3

Assumptions (%)

Year to December	CY21A	CY22E	CY23E	CY24E
GDP (YoY %)	9.5	7.0	6.5	6.5
Repo rate (%)	4.0	4.3	5.3	5.3
USD/INR (average)	74.5	76.0	75.0	75.0
Debt Issuances (% YoY)	8.0	10.0	12.0	0
Bank Credit (% YoY)	6.0	7.0	7.0	0
Debt Rated (INR bn)	11,447.0	12,425.4	13,873.6	0
BLR (New Assignments)	1,547.5	1,826.1	2,045.2	0
SME (Nos.)	11,403.9	13,456.6	15,475.1	0
Irevna (INR mn)	5,874.9	6,751.0	7,556.4	0

Valuation Metrics

Year to December	CY21A	CY22E	CY23E	CY24E
Diluted P/E (x)	57.7	45.8	38.0	31.8
Price/BV (x)	15.4	14.1	12.7	9.8
EV/EBITDA (x)	38.1	30.9	25.6	19.8
Dividend yield (%)	1.4	1.3	1.5	1.8

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to December	CY21A	CY22E	CY23E	CY24E
Share capital	73	73	73	73
Reserves	15,711	17,118	18,946	20,495
Shareholders funds	15,784	17,191	19,019	20,568
Minority interest	0	0	0	0
Borrowings	0	0	0	0
Trade payables	1,337	966	1,083	1,076
Other liabs & prov	4,931	4,931	4,931	4,931
Total liabilities	23,284	24,321	26,266	27,808
Net block	1,673	534	(648)	(2,779)
Intangible assets	4,935	4,935	4,935	4,935
Capital WIP	55	55	55	55
Total fixed assets	6,663	5,524	4,341	2,210
Non current inv	1,954	1,954	1,954	1,954
Cash/cash equivalent	7,438	9,840	12,475	15,940
Sundry debtors	3,985	3,759	4,251	4,465
Loans & advances	370	370	370	370
Other assets	2,879	2,879	2,879	2,868
Total assets	23,284	24,321	26,266	27,808

Free Cash Flow (INR mn)

Year to December	CY21A	CY22E	CY23E	CY24E
Reported profit	4,200	5,288	6,383	6,364
Add: Depreciation	1,060	1,239	1,283	1,758
Interest (net of tax)	89	66	64	59
Others	231	1,594	1,246	1,351
Less: Changes in WC	421	(370)	117	87
Operating cash flow	4,031	6,123	7,030	7,562
Less: Capex	(228)	(100)	(100)	(250)
Free cash flow	3,803	6,023	6,930	7,312

Key Ratios

Year to December	CY21A	CY22E	CY23E	CY24E
RoE (%)	29.1	32.1	35.3	32.5
RoCE (%)	40.2	42.7	47.0	43.3
Inventory days	nm	nm	nm	nm
Receivable days	56	54	49	50
Payable days	nm	nm	nm	nm
Working cap (% sales)	(3.2)	(2.2)	(0.7)	0
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(47.1)	(57.2)	(65.6)	(77.5)
Interest coverage (x)	56.0	92.7	117.0	127.6

Valuation Drivers

Year to December	CY21A	CY22E	CY23E	CY24E
EPS growth (%)	18.4	25.9	20.7	11.3
RoE (%)	29.1	32.1	35.3	32.5
EBITDA growth (%)	18.6	21.9	19.2	10.6
Payout ratio (%)	92.2	68.5	67.3	64.8

Analyst meet: Takeaways

Ratings

- For Q1CY22, ratings revenue grew strongly by 10% YoY (despite high base of 11.8% YoY growth) along with strong 13% YoY growth in domestic ratings. This is after 6.9% YoY growth for full year CY21.
- Despite decline in bond issuance by 22% YoY for the industry, CRISIL strengthened its leading position in corporate bond market, which is driven by best-in-class rating and added new clients during the quarter.
- The company highlighted their analytical rigour with consistent one-year default rates for the long run (on average for ten years ending FY21).
- Improving credit growth should sustain improving bank loan ratings. New offerings such as ESG ratings post-SEBI approval should prop up revenue further in ratings.
- The Global Analytical Centre (GAC) business sustained its analytics surveillance support across all practices and continues to drive the data and technology agenda of S&P's Global Ratings business. It grew led by support extended to S&P Global Ratings on its Environmental, Social, Governance (ESG) offerings.
- Segmental EBIT margin expanded 40bp YoY to 47.6% in Q1CY22.
- Management remained cautiously optimistic in this segment. We estimate a 9% revenue CAGR over CY21–23E.

Research

- For Q1CY22, research revenue grew 26% YoY. The company's EBIT margin expanded sharply by 720bp YoY to 24.2%.
- Growth was driven by revenue growth at Global Benchmarking Analytics led by increased engagements with key clients in the corporate, commercial, and investment banking space.
- Global Research & Risk Solutions (GR&RS) business saw client-wins and continued to grow led by increased demand for CRISIL's offerings in the areas of risk, data transformation, regulatory, product control, sustainability, and buy-side research
- GR&RS continued to cater to regulatory and transformation-oriented demand, by leveraging synergies and striking partnerships
- According to management, Global CIB revenue normalised to pre-covid levels; with RoE expected to improve.
- The India Research business witnessed growth following the pickup in economic activity with increased traction for data, sustainability and capital market research offerings.
- Going forward strong growth would sustain led by infrastructure-led capex in roads and renewables by government and PLI-led capex revival which will boost spending. Focus on newer areas such as sustainability and green sectors also will led to better growth.

- Despite moderating global growth, CRISIL's research segment has better outlook driven by traction across risk transformation, benchmarking analytics and India research. This will yield 150bp EBIT margin expansion per year in research.
- We expect 13%/19% sales/EBIT CAGR in the research segment over CY21-23E.

Advisory

- For Q1CY22, advisory revenue grew 10% YoY. Furthermore, infrastructure advisory business won mandates from multilateral and private sector. The company's EBIT margin grew by 340bp YoY to 11%.
- The Business Intelligence and Risk Solutions business saw traction for its client risk regulatory reporting solutions.
- The company focus on infrastructure and technology adoption to create needs for advisory services, analytics and digital solutions.

Others

- The company is investing in talent and technology and sizably scaled up new-age, techno-functional skilled workforce to ~1,200 employees (~30% of total employee base).
- There is significant focus on skilling employees on sustainability (ESG) as a strategic business imperative.
- CRISIL launched a comprehensive ESG compendium and ESG scores for top 225 Indian companies.
- The company offers Integrated ESG analytics, research and benchmarks for global financial institutions.
- CRISIL Ratings has commenced disclosing the impact of ESG parameters separately when assigning credit ratings.

Exhibit 1: Performance by segment (INR mn)

	Q1CY22	Q1CY21	% YoY	Q4CY21	%QoQ
Segment revenue					
Rating Services	1,633	1,489	9.7	1,650	(1.0)
Advisory Services	374	340	9.8	468	(20.1)
Research Services	3,942	3,122	26.3	4,943	(20.2)
Total	5,949	4,952		7,060	
Segment EBIT					
Rating Services	778	703	10.6	660	17.9
Advisory Services	41	26	58.5	88	(53.3)
Research Services	956	532	79.6	1075	(11.1)
Total	1,775	1,261		1,823	
Segment EBIT margin (%)					
Rating Services	47.6	47.2	0.4	40.0	7.6
Advisory Services	11.0	7.6	3.4	18.9	(7.9)
Research Services	24.2	17.0	7.2	21.7	2.5

Source: Company, Edelweiss Research

Exhibit 2: Quarterly financial snapshot (consolidated)

Year to December	Q1CY22	Q1CY21	YoY (%)	Q4CY21	QoQ (%)	YTD CY21	CY22E	CY23E
Revenues	5,949	4,952	20.1	7,060	(15.7)	23,247	26,383	29,842
Employee cost	3,198	2,694	18.7	3,922	(18.5)	12,749	14,695	16,473
Other expenses	988	983	0.5	1,213	(18.5)	4,142	4,300	4,566
Total expenditure	4,187	3,677	13.9	5,135	(18.5)	16,891	18,996	21,038
EBITDA	1,763	1,275	38.3	1,925	(8.4)	6,356	7,387	8,803
Depreciation	252	278	-9.3	246	2.4	1,050	1,239	1,283
EBIT	1,510	997	51.5	1,679	(10.0)	5,306	6,148	7,521
Less:-Interest Expense	18	26	-29.8	19		89	66	64
Other income	201	135	49.5	134	NM	690	900	990
Add: Exceptional items	0	0		458		458	0	0
PBT	1,693	1,105	53.2	2,253	(24.8)	6,454	7,048	8,511
Tax	477	270	76.8	567	(15.8)	1,620	1,694	2,063
Reported Profit	1,216	835	45.6	1,686		4,834	5,288	6,383
Adjusted Profit	1,216	835	45.6	1,686	(27.9)	4,746	5,288	6,383
No. of Diluted shares outstanding (mn)	72	72		72		72	72	72
Adjusted Diluted EPS	16.9	11.6	45.6	23.4	-27.9	65.9	72.8	87.9
as % of net revenues								
Staff expenses	53.8	54.4		55.6		54.8	55.7	55.2
Other expenses	16.6	19.9		17.2		17.8	16.3	15.3
EBITDA	29.6	25.7	3.88	27.3	2.36	27.3	28.0	29.5
Net profit	20.4	16.9		23.9		20.4	20.0	21.4

Source: Company, Edelweiss Research

Exhibit 3: Change in estimates: Raising EPS by 6/12% for CY22/23

(INR mn)	Old			New			% Change		
	CY22E	CY23E	CY24E	CY22E	CY23E	CY24E	CY22E	CY23E	CY24E
Revenue	25,904	28,629	31,343	26,383	29,842	32,963	1.9	4.2	5.2
EBITDA	7,434	8,360	9,246	7,387	8,803	10,087	(0.6)	5.3	9.1
PAT	4,978	5,718	6,364	5,288	6,383	7,326	6.2	11.6	15.1

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. Domestic ratings business has seen strong growth post IL&FS crises and sustains the same. Further led by improving corporate capex, ratings should see structural improvement ahead. Management remained cautiously optimistic in this segment. We estimate an 9% revenue CAGR over CY21–23E. CRISIL is capitalising on global recovery in its research segment (65% of revenues) leading to productivity gains. We expect 13%/19% sales/EBIT CAGR in research segment over CY21-23E.

We remain positive on CRISIL's ratings as well as research driving profitability, leading to overall sales and PAT CAGR of 14/23% over CY21–23E and 680bps RoCE expansion to 47%. Maintain 'BUY'.

Key Risks

Adverse macro economy

Ratings agencies are vulnerable to downturns in the economy when capital raising activities fall. Further rising interest rates can lead in shift from bond issuances to bank loans.

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.

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	Amish Mehta
CFO	Sanjay Chakravarti
CTO	Zak Murad
Auditor	Walker Chandio & Co

Holdings – Top 10*

% Holding		% Holding	
LIC of India	5.88	ICICI Prudential	0.68
General Insuran	3.23	ABSL AMC	0.51
Brown Capital	1.03	JP Morgan & Cha	0.50
Vanguard Group	0.85	BlackRock Inc	0.41
L&T MF	0.80	Dimensional Fun	0.29

*Latest public data

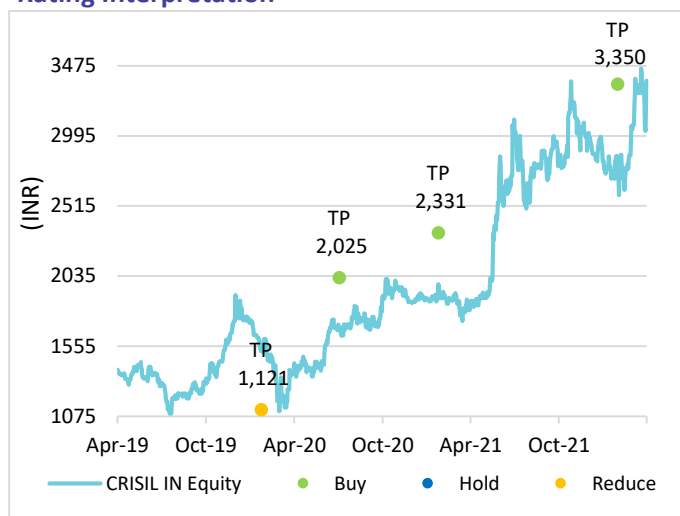
Recent Company Research

Date	Title	Price	Reco
21-Feb-22	Strong growth across; <i>Result Update</i>	2785	Buy
15-Nov-21	Solid growth across the board; <i>Result Update</i>	3175.35	Buy
23-Jul-21	Ratings muted; research healthy; <i>Result Update</i>	3053.55	Buy

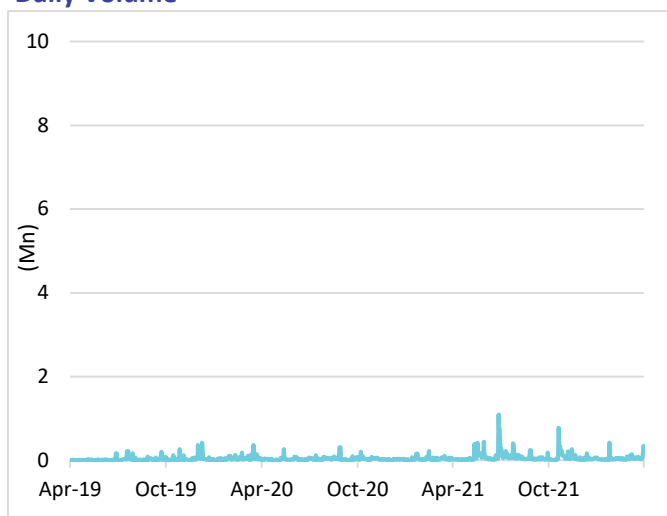
Recent Sector Research

Date	Name of Co./Sector	Title
08-Feb-22	CARE Ratings	Gradual uptick in market share ; <i>Company Update</i>
29-Jan-22	CARE Ratings	Subsidiary's high base impacts growth; <i>Result Update</i>
01-Nov-21	CARE Ratings	High base hits growth; <i>Result Update</i>

Rating Interpretation



Daily Volume



Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	193	56	17	268
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	245	34	5	284

*2 stocks under review

Rating Rationale

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

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