India Midcaps

RESULT UPDATE

CRISIL

Robust show; sustainability key

India Equity Research| Credit Rating

Edelweiss
Ideas create, values protect

CRISIL's Q1CY20 revenue grew a healthy 2.9% led by 2.8% YoY spurt in ratings and 3.8% YoY growth in research (adjusted). Adjusted for decline in SMEs, ratings jumped 14.6% YoY driven by investors' preference for its brand and traction in securitisation. Research revenue grew a robust 7.7% YoY and 3.8% YoY adjusted for the Greenwich acquisition post a 5.6% decline in last full year. This was driven by recovery in Global Research & Analytics (GR&A) riding client wins and traded risk offerings. EBITDA fell 2.8% YoY (in line) owing to rise in associate fees and losses in Greenwich. While research turned around, led by weak SME ratings we cut sales by 3% each and EBIDTA by 10/8% in CY20/21 respectively. We await visibility on new issuances in the domestic bond market and global research pool trend. Current valuations at 29.4x CY21E remain rich. Maintain 'REDUCE' with DCF-based TP of INR1,102 .

Ratings: Strong growth adjusted for SME decline

For Q1CY20, ratings revenue grew 2.8% YoY (on a high base of 12.7%). Adjusted for decline in SME ratings, the business grew a strong 14.6% YoY driven by investors' preference for CRISIL's ratings, new client acquisitions and sustained traction in securitisation transactions. Further, Global Analytical Center (GAC) grew led by support extended to S&P Global Ratings on its Environmental, Social, Governance (ESG) offerings. The company's EBIT margin jumped 660bps YoY to 43.2%.

Research: Turning around

The research segment's revenue grew 7.7% following recovery in the Global Research & Analytics (GR&A) business; Model and traded risk offerings gained good traction with new project wins. Sales grew 3.8% YoY adjusted for the Greenwich acquisition, post a 5.6% decline in CY19. Greenwich reported sales of INR97mn and post-tax loss of INR91mn (for the period Feb 26 to Mar 31, 2020). Coalition sustained strong growth through new client additions. EBIT grew 3.3% adjusted for the Greenwich acquisition.

Outlook and valuation: Rich; maintain 'REDUCE'

While ratings growth is strong and research turned around, we await visibility of new issuances in the domestic bond market and trend in the global research pool. Valuations at 29.4x CY21E remain rich. Maintain **'REDUCE'** with revised TP of INR1,102 based on DCF (6% risk free rate and risk premium rate each) (INR1,138 earlier).

Financials **(INR mn)**

Year to December	Q1CY20	Q1CY19	% Chg	Q4CY19	% Chg	CY18	CY19	CY20
Net revenues	4,278	4,158	2.9	4,359	(1.9)	17,485	17,317	17,953
EBITDA	1,111	1,144	(2.8)	1,133	(2.0)	4,615	4,558	4,578
Adjusted Profit	881	766	15.0	1,051	(16.2)	3,631	3,439	3,331
Adjusted Diluted EPS	12.2	10.6	15.0	14.6	(16.2)	50.4	46.9	45.4
Diluted P/E (x)							29.6	30.6
EV/EBITDA (x)							21.0	21.9
ROAE (%)							29.8	28.1

EDELWEISS RATINGS

Absolute Rating	**REDUCE**
Investment Characteristics	Growth

MARKET DATA *(R: CRSL.BO, B: CRISIL IN)*

CMP	: INR 1,388
Target Price	: INR 1,102
52-week range (INR)	: 2,070 / 1,053
Share in issue (mn)	: 72.5
M cap (INR bn/USD mn)	: 101 / 2,240
Avg. Daily Vol. BSE/NSE ('000)	: 32.2

SHARE HOLDING PATTERN (%)

	Current	Q2FY20	Q1FY20
Promoters *	67.2	67.4	67.4
MF's, FI's & BKs	12.2	12.0	11.9
FII's	5.5	5.7	5.3
Others	15.1	14.9	15.4
** Promoters pledged shares (% of share in issue)*	:		*NIL*

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	2.6	14.6	12.1
3 months	(26.4)	(22.3)	4.2
12 months	(24.6)	(4.8)	19.7

Shradha Sheth
+91 22 6623 3308
shradha.sheth@edelweissfin.com

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Table 1: Segment-wise performance

	Q1CY20	Q3CY18	% YoY	Q4CY19	%QoQ
Segment revenue					
Rating Services	1,332	1,296	*2.8*	1,415	*(5.9)*
Advisory Services	302	408	*(26.0)*	340	*(11.1)*
Research Services	2,644	2,454	*7.7*	2,888	*(8.5)*
Total	**4,278**	**4,158**		**4,643**	
Segment EBIT					
Rating Services	576	475	*21.2*	626	*(8.1)*
Advisory Services	7	41	*(82.6)*	26	*NM*
Research Services	557	631	*(11.7)*	619	*(10.0)*
Total	**1,140**	**1,147**		**1,271**	
Segment EBIT margin (%)					
Rating Services	43.2	36.7	*6.6*	44.3	*(1.0)*
Advisory Services	2.4	10.1	*(7.8)*	7.5	*(5.1)*
Research Services	21.1	25.7	*(4.6)*	21.4	(0.4)

Source: Company data, Edelweiss research

Financial snapshot **(INR mn)**

Year to December	Q1CY20	Q1CY19	*% change*	Q4CY19	*% change*	CY18	CY19	CY20E
Net revenues	4,278	4,158	*2.9*	4,359	*(1.9)*	17,485	17,317	17,953
Staff costs	2,251	2,033	*10.7*	2,227	*1.1*	8,874	8,776	9,587
Other expenses	916	982	*(6.7)*	999	*(8.3)*	3,997	3,983	3,788
Total expenditure	3,167	3,014	*5.1*	3,226	*(1.8)*	12,870	12,759	13,375
EBITDA	1,111	1,144	*(2.8)*	1,133	*(2.0)*	4,615	4,558	4,578
Depreciation	259	91	*184.2*	88	*193.9*	428	369	981
EBIT	853	1,053	*(19.0)*	1,045	*(18.4)*	4,187	4,190	3,597
Interest	33	1	*6,560.0*	1	*4,657.1*	22	-	-
Other income	349	71	*391.5*	435	*(19.9)*	832	728	815
Add: Prior period items								
Add: Exceptional items								
Profit before tax	1,168	1,123	*4.0*	1,480	*(21.1)*	4,996	4,918	4,412
Provision for taxes	287	357	*(19.7)*	368	*(22.1)*	1,365	1,476	948
Associate profit share								
Reported net profit	881	766	*15.0*	1,112	*(20.8)*	3,631	3,439	3,331
Adjusted Profit	881	766	*15.0*	1,051	*(16.2)*	3,631	3,439	3,331
Diluted shares (mn)	72	72		72		72	72	72
Adjusted Diluted EPS	12.2	10.6	*15.0*	14.6	*(16.2)*	50.4	46.9	45.4
Diluted P/E (x)	-	-		-		-	29.6	30.6
EV/EBITDA (x)	-	-		-		-	21.0	21.9
ROAE (%)	-	-		-		-	29.8	28.1
Market cap / rev. (x)	-	-		-		-	5.7	5.5
Employee cost	52.6	48.9		51.1		50.8	50.7	53.4
Other expenses	21.4	23.6		22.9		22.9	23.0	21.1
EBITDA	26.0	27.5		26.0		26.4	26.3	25.5
Reported net profit	20.6	18.4		24.1		20.8	19.9	18.6

Change in Estimates

	CY20E			CY21E			
	New	Old	*% change*	New	Old	*% change*	Comments
Net Revenue	17,952	18,456	*(2.7)*	19,191	19,864	*(3.4)*	
EBITDA	4,578	5,057	*(9.5)*	5,220	5,701	*(8.4)*	
EBITDA Margin	*25.5*	*27.4*		*27.2*	*28.7*		
Adjusted Profit After Tax	3,331	4,000	*(16.7)*	3,580	4,467	*(19.9)*	
Net Profit Margin	*18.6*	*21.7*		*18.7*	*22.5*		
Capex	5,160	200	*2,480.0*	250	200	*25.0*	

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 a ~35% revenue market share, and a strong parentage—Standard & Poor (S&P), world's leading credit rating agency by market share. While outperformance for CRISIL is strong in Ratings in CY19, we await sustenance of growth and green shoots in research which declined 5.6% in CY19. Based on recovery in the Indian economy and increased penetration of debt market in India, we are factoring in 7% CAGR in ratings sales over CY19-21E. Also, we have assumed 7% CAGR in research revenue over the same time frame.

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 and 29% revenue being Europe linked, the company's overall revenue could face some pressure.

Migration to internal ratings based approach by banks

If banks whose clients avail credit rating services under the Basel II framework migrate to the internal rating based approach for credit risk (the IRB Approach), it could have an adverse effect on CRISIL's rating business.

Pricing transience to fixed fee structure

Limited bond issuance and lower bank loan rating volumes pose a threat as issuances have transcended to a fixed fee cap structure. However, this is more so pronounced only in the BLR market and less in the CDR segment which is more profitable.

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 would keep the rating agency under control of the watch guard.

Financial Statements

Key Assumptions

Year to December	CY18	CY19	CY20E	CY21E
Macro				
GDP(Y-o-Y %)	6.8	5.0	3.0	6.0
Inflation (Avg)	3.4	4.3	4.0	4.0
Repo rate (exit rate)	6.3	5.2	3.0	4.0
USD/INR (Avg)	70.0	71.5	75.0	73.0
Sector				
Corp debt iss. growth(%)	8.1	10.0	8.0	11.0
Banking cr. growth (%)	18.0	20.0	20.0	20.0
Company				
Vol of debt rated(INRbn)	8,084	9,319	10,061	11,083
Number of new assigments	3,138	2,981	2,534	2,407
Nos	14,399	14,399	9,359	10,670
Rating revenues (INR mn)	5,073	5,448	5,449	5,787
Domestic Ratings	3,227	3,537	3,481	3,760
CDR inc(INR mn)	1,875	2,162	2,314	2,549
BLR inc(INR mn)	924	961	919	937
SME	428	415	248	274
S&P Ratings	1,846	1,911	1,968	2,027
Advisory services	1,352	1,425	1,397	1,536
Research revenue(INR mn)	7,749	6,730	6,313	6,426
Irevna	7,529	5,384	4,899	4,899
India Research	220	1,346	1,414	1,527
Coalition Development	3,311	3,714	3,974	4,371
Total Revenues (INR mn)	14,174	13,603	13,159	13,749
Rating revenues (%)	35.8	40.1	41.4	42.1
Domestic Ratings	22.8	26.0	26.5	27.3
S&P Ratings	13.0	14.0	15.0	14.7
Advisory services	9.5	10.5	10.6	11.2
Research revenues (%)	54.7	49.5	48.0	46.7
Irevna	53.1	39.6	37.2	35.6
India Research	1.6	9.9	10.7	11.1
Coalition Development	23.4	27.3	30.2	31.8

Income statement (INR mn)

Year to December	CY18	CY19	CY20E	CY21E
Net revenue	17,485	17,317	17,953	19,191
Gross profit	8,611	8,541	8,366	9,212
Employee costs	8,874	8,776	9,587	9,979
Other Expenses	3,997	3,983	3,788	3,992
EBITDA	4,615	4,558	4,578	5,220
Depreciation	428	369	981	1,161
EBIT	4,187	4,190	3,597	4,059
Less: Interest Expense	22	2	133	130
Add: Other income	831.7	728.4	815.01	705.9
Profit Before Tax	4,996	4,916	4,279	4,634
Less: Provision for Tax	1,365	1,476	948	1,054
Reported Profit	3,631	3,439	3,331	3,580
Adjusted Profit	3,631	3,439	3,331	3,580
Shares o /s (mn)	72	73	73	73
Adjusted Basic EPS	50.2	46.9	45.4	48.8
Diluted shares o/s (mn)	72	73	73	73
Adjusted Diluted EPS	50.2	46.9	45.4	48.8
Adjusted Cash EPS	54.8	51.2	56.3	61.9
Dividend per share (DPS)	28.8	28.8	30.0	30.0
Dividend Payout Ratio(%)	69.2	74.1	76.6	71.3

Common size metrics

Year to December	CY18	CY19	CY20E	CY21E
Operating expenses	73.6	73.7	74.5	72.8
Depreciation	2.4	2.1	5.5	6.0
Interest Expense	0.1	-	0.7	0.7
EBITDA margins	26.4	26.3	25.5	27.2
Net Profit margins	20.8	19.9	18.6	18.7

Growth ratios (%)

Year to December	CY18	CY19	CY20E	CY21E
Revenues	5.4	(1.0)	3.7	6.9
EBITDA	1.3	(1.2)	0.4	14.0
PBT	15.2	(1.6)	(13.0)	8.3
Adjusted Profit	19.2	(5.3)	(3.1)	7.5
EPS	17.6	(6.6)	(3.1)	7.5

Balance sheet (INR mn)

As on 31st December	CY18	CY19	CY20E	CY21E
Share capital	72	73	73	73
Reserves & Surplus	11,290	11,647	11,908	12,486
Shareholders' funds	11,363	11,720	11,982	12,559
Long term borrowings	1	-	2,210	2,210
Short term borrowings	25	26	-	-
Total Borrowings	26	26	2,210	2,210
Long Term Liabilities	215	230	230	230
Def. Tax Liability (net)	(1,011)	(1,013)	(1,013)	(1,013)
Sources of funds	**10,593**	**10,964**	**13,409**	**13,987**
Gross Block	4,972	5,270	10,430	10,680
Net Block	410	351	4,530	3,619
Capital work in progress	74	118	118	118
Intangible Assets	3,089	3,138	3,138	3,138
Total Fixed Assets	3,574	3,607	7,786	6,875
Non current investments	2,936	2,008	2,008	2,008
Cash and Equivalents	3,900	5,978	3,609	4,921
Sundry Debtors	2,848	1,994	2,558	2,734
Loans & Advances	453	414	414	414
Other Current Assets	1,513	1,721	1,721	1,721
Current Assets (ex cash)	4,814	4,129	4,693	4,869
Trade payable	648	755	657	656
Other Current Liab	4,009	4,031	4,031	4,031
Total Current Liab	4,657	4,785	4,687	4,687
Net Curr Assets-ex cash	157	(657)	5	182
Uses of funds	**10,593**	**10,964**	**13,409**	**13,987**
BVPS (INR)	157.1	159.8	163.4	171.3

Free cash flow (INR mn)

Year to December	CY18	CY19	CY20E	CY21E
Reported Profit	3,631	3,439	3,331	3,580
Add: Depreciation	428	369	981	1,161
Interest (Net of Tax)	15	2	89	87
Others	34	1,521	(1,930)	(891)
Less: Changes in WC	238	828	(662)	(177)
Operating cash flow	3,871	4,503	3,133	4,114
Less: Capex	982	342	5,160	250
Free Cash Flow	**2,889**	**4,161**	**(2,027)**	**3,864**

Cash flow metrics

Year to December	CY18	CY19	CY20E	CY21E
Operating cash flow	3,871	4,503	3,133	4,114
Financing cash flow	(2,514)	(2,549)	(342)	(2,552)
Investing cash flow	(494)	(106)	(5,160)	(250)
Net cash Flow	863	1,849	(2,369)	1,312
Capex	(982)	(342)	(5,160)	(250)
Dividend paid	(2,514)	(2,549)	(2,552)	(2,552)

Profitability and efficiency ratios

Year to December	CY18	CY19	CY20E	CY21E
ROAE (%)	33.2	29.8	28.1	29.2
ROACE (%)	45.9	42.5	34.0	32.9
ROA	35.3	31.9	27.3	26.1
Debtors Days	57	51	46	50
Payable Days	15	13	14	15
Cash Conversion Cycle	32	22	19	26
Debt/EBITDA (x)	-	-	0.5	0.4
Debt/Equity (x)	-	-	0.2	0.2
Interest Coverage Ratio	187.7	1,821.6	27.1	31.1
Debt / Cap employed (%)	34.7	34.7	43.9	42.1

Operating ratios

Year to December	CY18	CY19	CY20E	CY21E
Total Asset Turnover	1.7	1.6	1.5	1.4
Fixed Asset Turnover	5.4	5.0	3.2	2.7
Equity Turnover	1.6	1.5	1.5	1.6

Valuation parameters

Year to December	CY18	CY19	CY20E	CY21E
Adj. Diluted EPS (INR)	50.2	46.9	45.4	48.8
Y-o-Y growth (%)	*17.6*	*(6.6)*	*(3.1)*	*7.5*
Adjusted Cash EPS (INR)	54.8	51.2	56.3	61.9
Diluted P/E (x)	27.6	29.6	30.6	28.4
P/B (x)	8.8	8.7	8.5	8.1
EV / Sales (x)	5.5	5.5	5.6	5.2
EV / EBITDA (x)	20.9	21.0	21.9	19.0
Dividend Yield (%)	2.1	2.1	2.2	2.2

Peer comparison valuation

	Market cap	Diluted P/E (X)		P/B (X)		ROAE (%)	
Name	**(USD mn)**	**CY20E**	**CY21E**	**CY20E**	**CY21E**	**CY20E**	**CY21E**
Crisil	1,319	30.6	28.4	8.5	8.1	28.1	29.2
CARE Ratings Limited	146	11.2	10.3	1.9	1.8	16.9	17.5
ICRA	271	21.0	18.0	2.9	2.7	14.2	15.4
Median	-	21.0	18.0	2.9	2.7	16.9	17.5
AVERAGE	-	20.9	18.9	4.4	4.2	19.7	20.7

Source: Edelweiss research

Additional Data

Directors Data

Ms. Ashu Suyash	Managing Director and Chief Executive Officer	Mr. M. Damodaran	Director
Ms. Vinita Bali	Director	Mr. John L. Berisford	Chairman
MR. Ewout Steenbergen	Director	Mr. Girish Paranjpe	Director
Mrs. Arundhati Bhattachrya	Director	MR. Martin Fraenkel	Directoe

Auditors - Walker Chandiok & Co LLP

**as per last available data*

Holding – Top10

	Perc. Holding		Perc. Holding
S & p india llc	43.06	S&p glbl asian hldng	15.9
S & p international	8.28	Life insurance corp	4.95
Jhunjhunwala rakesh	3.73	General insurance co	3.68
Jhunjhunwala rekha r	1.74	L&t mutual fund	0.7
Wasatch advisors inc	0.47	Blackrock	0.44

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: *research@edelweissfin.com*

Aditya Narain
Head of Research
aditya.narain@edelweissfin.com

ADITYA NARAIN

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Coverage group(s) of stocks by primary analyst(s): ***Credit Rating***

CARE Ratings Limited, Crisil, ICRA

Recent Research

Date	Company	Title	Price (INR)	Recos
14-Feb-20	**CRISIL**	Ratings outperforms; research improves; *Result Update*	1,585	Reduce
11-Feb-20	**ICRA**	Tepid show; *Result Update*	2,994	Reduce
10-Feb-20	**CARE Ratings**	Weak operating environment and performance ; *Result Update*	597	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

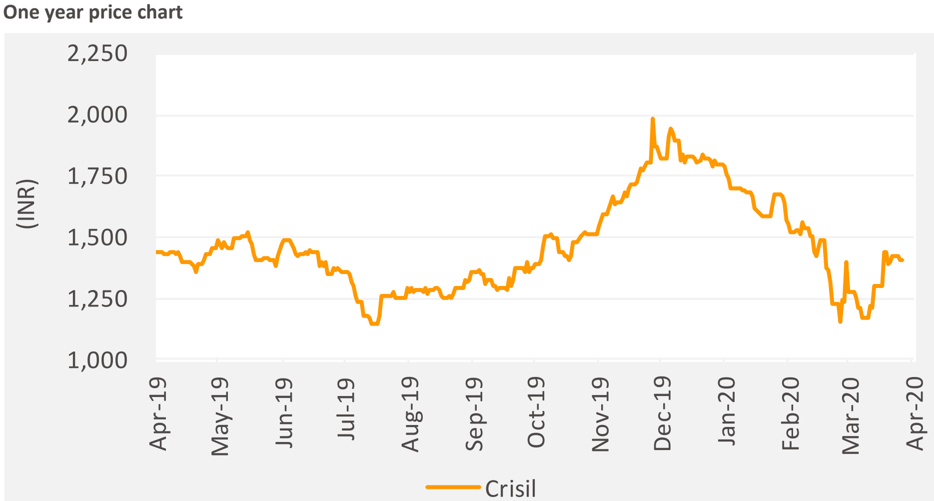
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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