CRISIL

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	2,021
12 month price target (INR)	2,331
Market cap (INR bn/USD bn)	147/2.0
Free float/Foreign ownership (%)	32.6/5.3

What's Changed

Target Price	↑
Rating/Risk Rating	–

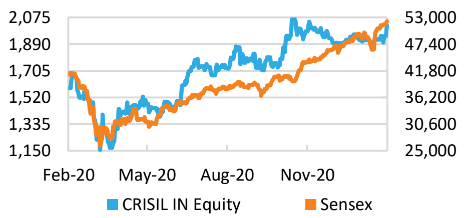
QUICK TAKE

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

FINANCIALS (INR mn)

Year to December	CY20A	CY21E	CY22E	CY23E
Revenue	19,818	21,405	23,043	24,692
EBITDA	4,993	6,036	6,590	7,087
Adjusted profit	3,547	4,362	4,786	5,223
Diluted EPS (INR)	48.9	60.1	65.9	71.9
EPS growth (%)	2.7	23.0	9.7	9.1
RoAE (%)	28.6	32.2	33.1	33.9
P/E (x)	41.4	33.6	30.7	28.1
EV/EBITDA (x)	27.7	22.7	20.5	18.8
Dividend yield (%)	1.6	1.7	2.0	2.2

PRICE PERFORMANCE



Explore:

Financial model

Podcast

Corporate access

Video

Improved traction across the board

Crisil's Q4CY20 revenue grew 28% YoY to INR5.9bn (18% above our estimate) driven by strong sales across segments: a 41% YoY spurt in research (-1% YoY adjusted for Greenwich acquisition) and a 7% YoY increase in ratings. EBITDA grew 27% YoY to INR1.5bn—22% above our estimate due to a much lower EBIT loss at Greenwich.

In the wake of fiscal expansionary policies, we expect ratings' sales to pick up in CY22 and research to scale up as Greenwich-related synergies are realised. Furthermore, new products and evolving regulations should lead to better traction in research. Factoring in a better business outlook, we are raising CY21/22E revenue by 2/5%. Retain 'BUY' with a revised TP of INR2,331 (37x Jun-22E EPS).

Ratings: Market share gains in a tepid environment

For Q4CY20, ratings revenue grew by 7% YoY (versus -6% YoY for CARE and -10% YoY for ICRA), and 4% YoY for CY20 led by high-quality ratings from large corporates, offsetting the dip in mid-corporate ratings. Bond issuances grew 8% YoY in value for CY20, but volumes fell 8% YoY as issuers dipped 18% YoY. Global Analytical Center (GAC) increased its coverage for S&P Global Ratings. Segmental EBIT margin declined 579bps YoY in Q4CY20. Ratings business is likely to see better traction in H2CY21, as credit growth picks up led by the government's expansionary policies.

Research: Greenwich and GR&A drive growth in sales and EBIT

Research sales grew 41% YoY in Q4CY20 led by the Global Research & Analytics business and contribution from Greenwich. The company saw strong demand for model and traded risk products, offset by a muted performance of Coalition. Ex-Greenwich, research dipped 1% YoY, while CY20 revenue grew 1%. Profit rose 15% YoY after eight quarters of decline driven by the Greenwich loss of merely INR7.7mn (INR200mn loss in previous two quarters). Management expects demand to pick up organically given new launches, evolving regulations (Dodd Frank stress test, etc) benefiting IREVNA, and delayed order book filling to benefit Coalition. Profitability should improve as synergies are realised from Greenwich (INR505mn loss in CY20).

Outlook and valuation: Superior performance; maintain 'BUY'

Strong leadership position in the high-margin ratings segment and improving profitability in research continues to be encouraging. Maintain **'BUY/SO'** with a revised TP of INR2,331 (earlier TP: INR2,230), valuing the stock at 37x Jun-22E EPS, average of past five years' band. The parent (S&P Global) is trading at 30x CY22E EPS.

Financials

Year to March	Q4CY20	Q4CY19	% Change	Q3CY20	% Change
Net Revenue	5,972	4,643	28.6	4,850	23.1
EBITDA	1,541	1,215	26.8	1,134	35.9
Adjusted Profit	1,100	953	15.4	902	22.0
Diluted EPS (INR)	15.3	13.2	15.4	12.5	22.0

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Financial Statements

Income Statement (INR mn)

Year to December	CY20A	CY21E	CY22E	CY23E
Total operating income	19,818	21,405	23,043	24,692
Gross profit	0	0	0	0
Employee costs	10,684	11,045	11,913	12,741
Other expenses	4,141	4,324	4,539	4,864
EBITDA	4,993	6,036	6,590	7,087
Depreciation	1,211	1,235	1,253	1,282
Less: Interest expense	144	129	120	120
Add: Other income	945	984	1,020	1,136
Profit before tax	4,583	5,656	6,237	6,821
Prov for tax	1,036	1,294	1,451	1,598
Less: Other adjustment	0	0	0	0
Reported profit	3,547	4,362	4,786	5,223
Less: Excp.item (net)	0	0	0	0
Adjusted profit	3,547	4,362	4,786	5,223
Diluted shares o/s	73	73	73	73
Adjusted diluted EPS	49	60	66	72
DPS (INR)	33.0	35.0	40.0	45.0
Tax rate (%)	22.6	22.9	23.3	23.4

Balance Sheet (INR mn)

Year to December	CY20A	CY21E	CY22E	CY23E
Share capital	73	73	73	73
Reserves	13,046	13,940	14,877	15,830
Shareholders funds	13,118	14,012	14,950	15,903
Minority interest	0	0	0	0
Borrowings	0	0	0	0
Trade payables	1,054	726	783	838
Other liabs & prov	4,397	4,397	4,397	4,397
Total liabilities	20,629	21,196	22,191	23,198
Net block	2,501	1,516	513	(519)
Intangible assets	5,124	5,124	5,124	5,124
Capital WIP	136	136	136	136
Total fixed assets	7,761	6,776	5,772	4,741
Non current inv	1,703	1,703	1,703	1,703
Cash/cash equivalent	5,844	7,420	9,185	10,989
Sundry debtors	3,074	3,049	3,283	3,518
Loans & advances	458	458	458	458
Other assets	1,790	1,790	1,790	1,790
Total assets	20,629	21,196	22,191	23,198

Important Ratios (%)

Year to December	CY20A	CY21E	CY22E	CY23E
Rating (% of rev)	28.5	28.7	29.2	29.8
Research (% of rev)	64.7	64.5	63.8	63.0
Advisory (% of rev)	6.8	6.9	7.0	7.2
EBITDA margin (%)	25.2	28.2	28.6	28.7
Net profit margin (%)	17.9	20.4	20.8	21.2
Revenue growth (% YoY)	14.4	8.0	7.7	7.2
EBITDA growth (% YoY)	9.5	20.9	9.2	7.5
Adj. profit growth (%)	3.1	23.0	9.7	9.1

Free Cash Flow (INR mn)

Year to December	CY20A	CY21E	CY22E	CY23E
Reported profit	3,547	4,362	4,786	5,223
Add: Depreciation	1,211	1,235	1,253	1,282
Interest (net of tax)	144	129	120	120
Others	1,199	669	617	763
Less: Changes in WC	153	(327)	57	54
Operating cash flow	5,005	4,774	5,383	5,844
Less: Capex	(2,861)	(250)	(250)	(250)
Free cash flow	2,144	4,524	5,133	5,594

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	15.0	15.0	15.0
Bank Credit (% YoY)	5.0	6.0	7.0	7.0
Debt Rated (INR bn)	10,700.4	12,305.5	14,257.7	16,396.4
BLR (New Assignments)	2,235.8	2,124.0	2,017.8	1,916.9
SME (Nos.)	10,799.2	12,311.1	14,034.6	15,999.5
Irevna (INR mn)	5,693.0	5,974.8	6,270.6	6,581.3

Key Ratios

Year to December	CY20A	CY21E	CY22E	CY23E
RoE (%)	28.6	32.2	33.1	33.9
RoCE (%)	38.0	42.6	43.9	45.0
Inventory days	nm	nm	nm	nm
Receivable days	47	52	50	50
Payable days	nm	nm	nm	nm
Working cap (% sales)	(7.1)	(5.1)	(4.0)	(3.0)
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(44.5)	(53.0)	(61.4)	(69.1)
Interest coverage (x)	26.3	37.1	44.5	48.4

Valuation Metrics

Year to December	CY20A	CY21E	CY22E	CY23E
Diluted P/E (x)	41.4	33.6	30.7	28.1
Price/BV (x)	11.2	10.5	9.8	9.2
EV/EBITDA (x)	27.7	22.7	20.5	18.8
Dividend yield (%)	1.6	1.7	2.0	2.2

Valuation Drivers

Year to December	CY20A	CY21E	CY22E	CY23E
EPS growth (%)	2.7	23.0	9.7	9.1
RoE (%)	28.6	32.2	33.1	33.9
EBITDA growth (%)	9.5	20.9	9.2	7.5
Payout ratio (%)	78.3	67.6	70.4	72.6

Source: Company and Edelweiss estimates

Q3FY21 Conference all: Key takeaways

Business environment

- CY20 saw a severe economic slowdown across the globe with lockdowns, and normalcy only returning with lockdowns easing. Consequently, global GDP fell 4% YoY.
- India's GDP is expected to fall 7.7% in FY21, driven by a sharp reduction in revenue. Corporates (ex-BFSI and Oil) are expected to see 10-12% decline in revenues and 8-10% contraction in EBITDAs, cushioned by steel, telecom and cement.
- In 9mFY21 domestic credit growth slipped to 2.1%, with credit pick up across MSME and Retail sectors, owing to fiscal thrust on the same. Credit growth is likely to pick up in FY22.
- While bond issuances grew 8% in CY20, issuers were narrower as unique issuers fell 18% YoY, while no. of issuances reduced by 8% YoY. Majority of the successful fund raises were by AAA-rated companies and few AA-rated companies.
- CRISIL's credit ratio stood at 0.5, lowest in a decade. During CY20, downgrades were higher, however, various high frequency indicators witnessed trends reverse towards December. This is expected to move towards 1 with pick up in infrastructure and construction demand by H2FY22.
- Driven by volatility in capital markets, AUMs across domestic mutual funds and global CIB revenue pools are expected to do well in CY20, but should taper off in CY21.
- The infrastructure thrust in the budget should aid infrastructure advisory business.

Ratings

- As per SEBI mandate, the ratings business has been segregated to CRISIL Ratings Ltd. However, this should not have any business impact as the businesses were earlier separated by the Chinese Wall Policy.
- CY20 witnessed a continuation of flight to quality by investors. With this backdrop, the ratings segment registered healthy growth driven by performance of large corporate ratings. However, mid-corporate ratings remained impacted, offsetting the growth in the segment.
- GAC increased collaboration with SPGI on enhanced surveillance, data and transformation projects as well as partnered on ESG.
- Ratings business launched Ratings Analytica, a personalised portal and mobile application and hosted flagship events and webinars virtually to increase mind share.
- Debt markets are expected to improve in H2CY21 led by government infrastructure and spending, which is likely to improve lending. The government's efforts on creation of ARC and AMC should augur well for banks as they then focus on clean lending.
- Pricing for capital markets would be 2.5x the pricing for bank loan ratings.

Research

- CY20 was challenging ex of Greenwich, as lot of senior-level meets lead to business conversions, which got postponed.
- Management continues to see opportunities across regulatory tightening and maturing in Europe and US, while pockets of growth remain in Asia, which will benefit IREVNA.
- Research business saw strong performance driven by GR&A in traditional areas such as model and traded risk and acquisition of Greenwich. The business also saw traction in non-financial and credit risk. However, Coalition saw headwinds amidst cost tightening and delayed decision-making on mandates by clients. Order book are expected to pick up.
- CY20 includes one-time acquisition related costs and impact of covid as client decision-making slowed across markets.
- Despite challenges, Crisil launched India's first AIF benchmarks, and various new analytics and research including work on ESG.
- Greenwich accelerates Crisil's strategy to be the leading player in the global benchmarking analytics across financial services. It complements the existing Coalition CIB benchmarking products and expands offerings to commercial banking, asset and wealth managers. The acquisition was completed in Q1CY20. However, Greenwich was sharply impacted by the pandemic, especially the 'Voice of the Client' surveys as senior stakeholder data could not be taken. Clients were continuously engaged to and management focused on investing in the capability of Greenwich. The combination of the quantitative benchmarking of Coalition and qualitative benchmarking of Greenwich should be seen in CY21. During Q4CY20, performance of Greenwich improved, as part of migration and offshoring of the back-end processes were completed, which had taken a back seat in the covid period.
- While Irevna has witnessed pressures in the past, the business has been restructured to some of the emerging areas to support customers like ESG. The business faces a unique outlook with regulatory deadlines driving growth in Europe and US and economic challenges in Asia leading to growth in pockets.
- Management continues to witness traction for model and traded risks offerings with new risks emerging amidst covid and lockdowns.
- Crisil's investment in platforms and tools continued and aided in providing newer offerings to banks amidst covid.
- While margin has seen dips in the past few years owing to regulatory remediation, demand in model and traded risk has aided growth and the business witnessed margin expansion ex of Greenwich during CY20.
- Management sees opportunities across markets with evolving regulations. In US, maturing regulations like Comprehensive Capital Analysis and Review (CCAR), Dodd-Frank Act Stress Tests (DFAST), Current Expect Credit Loss (CECL), Fundamental Review of the Trade Book (FRTB), Interbank Lending Rate (IBOR) and Uncleared Margin Rules (UMR) Phase V and VI; in Europe tightening of regulations like European Banking Authority (EBA)/PRA stress testing, BASEL III, FRTB, Targeted Review of Internal Models (TRIM), IBOR and UMR Phase V and VI; and in Asia nascent regulations like IFRS 9, IBOR and Stress testing present opportunities.

Advisory

- The infrastructure advisory business is likely to be aided by pro-growth budget. Management is increasing emphasis on end-to-end solutions and technology-enabled project monitoring dashboards.
- The risk solutions business has several proprietary models utilised by 90% of the banking industry. Management sees need for integrated credit and risk solutions, combining workflow and data analytics for clients, including digital enablement across financial services. This should see traction driven by move of financial firms from an on-premise model to cloud-enabled offerings.
- Management does not see the need to allocate much capex to the business, however, some capex will be incurred to push technology to the next level in risk solutions to enable readiness.
- The advisory business witnessed strong traction during Q4CY20 driven by new mandates, however, CY20 was impacted delayed decision making and implementation delays.
- Crisil launched portfolio impact assessment offering, to guide clients on addressing the impact of covid-19 and launched the new ICON platform with new-age risk assessment models.

Exhibit 1: Performance by segment

	Q4CY20	Q4CY19	% YoY	Q3CY20	%QoQ
Segment revenue					
Rating Services	1,507	1,415	6.5	1,371	9.9
Advisory Services	398	340	16.9	321	23.9
Research Services	4,068	2,888	40.9	3,158	28.8
Total	5,972	4,643		4,850	
Segment EBIT					
Rating Services	580	626	(7.4)	519	11.7
Advisory Services	64	26	150.8	26	146.0
Research Services	711	619	14.8	355	100.3
Total	1,355	1,271		900	
Segment EBIT margin (%)					
Rating Services	38.5	44.3		37.9	
Advisory Services	16.1	7.5		8.1	
Research Services	17.5	21.4		11.2	

Source: Company, Edelweiss Research

Exhibit 2: Quarterly financial snapshot

Year to December	Q4CY20	Q4CY19	YoY (%)	Q3CY20	QoQ (%)	CY20	CY21E	CY22E
Revenues	5,972	4,643	28.6	4,850	23.1	19,818	21,405	23,043
Employee cost	3,084	2,295	34.4	2,709	13.9	10,684	11,045	11,913
Other expenses	1,348	1,132	19.0	1,008	33.7	4,141	4,324	4,539
Total expenditure	4,432	3,428	29.3	3,716	19.3	14,826	15,369	16,453
EBITDA	1,541	1,215	26.8	1,134	35.9	4,993	6,036	6,590
Depreciation	313	93	235.2	327	(4.2)	1,211	1,235	1,253
EBIT	1,228	1,122	9.4	807	52.1	3,782	4,801	5,337
Less:-Interest Expense	37	1		36		144	129	120
Other income	150	200	-24.9	370	NM	945	984	1,020
Add: Exceptional items	0	0		0		0	0	0
PBT	1,341	1,321	1.5	1,141	17.5	4,727	5,785	6,357
Tax	240	368	-34.6	239	0.6	1,036	1,294	1,451
Reported Profit	1,100	953	15.4	902		3,547	4,362	4,786
Adjusted Profit	1,100	953	15.4	902	22.0	3,547	4,362	4,786
No. of Diluted shares outstanding (mn)	72	72		72		72	72	72
Adjusted Diluted EPS	15.3	13.2	15.4	12.5	22.0	48.9	60.1	65.9
as % of net revenues								
Staff expenses	51.6	49.4		55.8		53.9	51.6	51.7
Other expenses	22.6	24.4		20.8		20.9	20.2	19.7
EBITDA	25.8	26.2		23.4		25.2	28.2	28.6
Net profit	18.4	20.5		18.6		17.9	20.4	20.8

Source: Company, Edelweiss Research

Exhibit 3: Estimates increased by 2/5% for CY21/22 PAT

(INR mn)	CY20			CY21		
	Old	New	% Change	Old	New	% Change
Revenue	20907	21,405	2.4	22506	23,043	2.4
EBITDA	6042	6,036	(0.1)	6392	6,590	3.1
PAT	4276	4,362	2.0	4545	4,786	5.3

Source: 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. i) With consistent outperformance in high margin ratings, led by flight to safety post IL&FS crises by market participants; ii) improving bond market momentum; and iii) productivity gains in research we remain positive. Led by fiscal expansionary policies, we expect the ratings sales to pick up for the industry in 2H CY22. We are factoring in 8% CAGR in ratings sales over CY20-22E. We have assumed 7% 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 15% EBIDTA CAGR 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 Chandiok & Co

Holdings – Top 10*

	% Holding		% Holding
LIC of India	5.95	JP Morgan & Chase	0.52
General Insurance	3.31	ABSL AMC	0.51
Vanguard Group	0.83	BlackRock Inc	0.37
Brown Capital	0.81	Dimensional Fund	0.34
L&T MF	0.60	Invesco Ltd	0.32

**Latest public data*

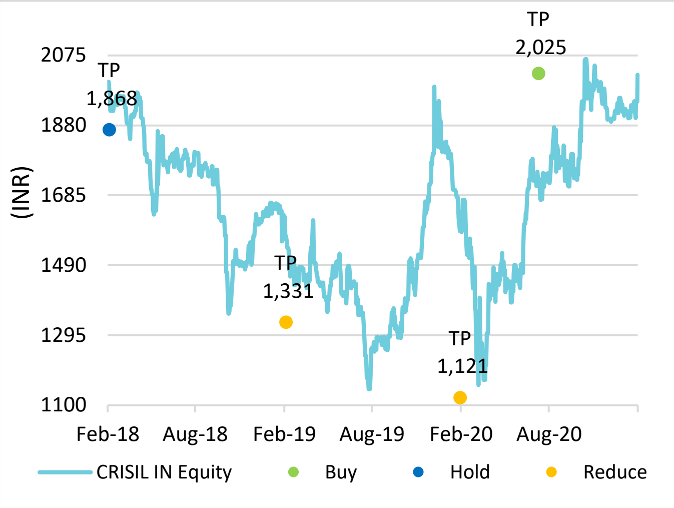
Recent Company Research

Date	Title	Price	Reco
24-Oct-20	Ratings decline, research strong; *Result Update*	1946.75	Buy
20-Oct-20	Ratings decline; research strong; *Oven fresh*	1870.8	Buy
25-Jul-20	CRISIL - Result Update Q1FY21 - Consiste; *Result Update*	1731	Buy

Recent Sector Research

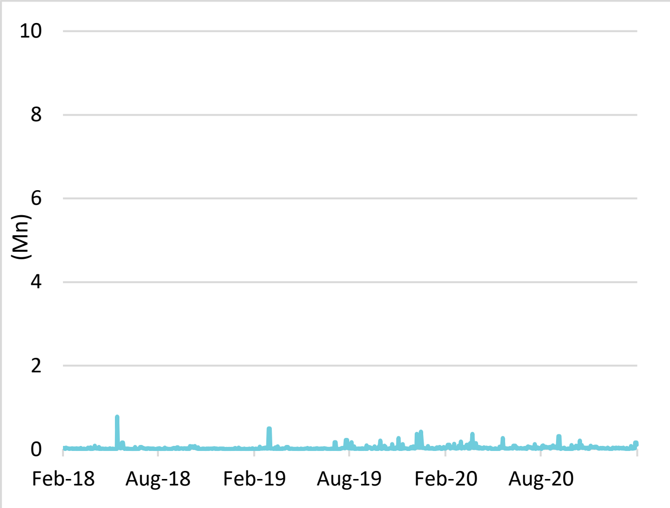
Date	Name of Co./Sector	Title
11-Feb-21	CARE Ratings	Transformation underway; *Company Update*
08-Feb-21	CARE Ratings	Growth on the anvil; *Result Update*
05-Nov-20	CARE Ratings	The tide turns ; *Result Update*

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	163	61	17	241
	>50bn	**>10bn and <50bn**	**<10bn**	**Total**
Market Cap (INR)	196	51	4	251

* *stocks under review*

Rating Rationale

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

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