

Research and GAC continue to witness strong traction

We retain Hold on CRISIL, with a revised TP of Rs1,970 (valued at 35x Dec'17E EPS). This revision primarily follows 4%+ upward revision in our CY16E/17E estimates on the back of a) strong traction in research business with improved margins therein and b) healthy contribution from Global Analytical Centre (GAC) – the outsourcing business. Domestic rating revenues remain impacted (also evident from CY15 figures). However, the upward revision in NSIC-linked SME subsidy and the slow but steady improvement in BLR and non-BLR business will aid in higher revenue contribution over CY16E/17E. We have tweaked our estimates accordingly. While we continue to like CRISIL for its returns profile, valuations at 38x CY17E EPS are at the higher end of the band, limiting upside. Prefer CARE Ratings in the rating agencies space.

- **Results beat estimates:** CRISIL's Q1CY16 overall revenues at Rs3.6bn grew 16.6% YoY (above our estimate of 12% YoY) and was aided by strong growth of 22% YoY in research revenue, 33% YoY in advisory services and 5.2% YoY in rating revenue. Overall EBITDA came in at Rs1.12bn (+20% YoY) and EBITDA margins stood at 31.2% (vs 30.2% QoQ). Reported PAT grew 40% YoY to Rs786mn. However, adjusted for forex gains of Rs33mn, PAT grew 34% YoY to Rs753mn (vs our estimate of Rs674mn). Overall EBIT margins stood at 32.5% vs 31.9% QoQ.
- **Strong traction in research and advisory business continues:** Research revenues grew 21.8% YoY to Rs2.3bn, led by strong traction across all avenues of a) global financial research, b) risk & analytical business, c) coalition and d) domestic research. As a result, contribution of research business to overall business has steadily increased to 64.8% (vs 58.4% in Dec'13). Over the same period, EBIT margins for the research business have been on the rise, at 35.1% for Q1CY16 vs 31.2% QoQ (32.8% in Dec'13). Even on annualised basis, CY15 research EBIT stood at 31.2% (vs 29.2% in CY14) and 30.7% for the overall business. Management though has pointed for the margin profile to stabilise at 31-32% levels. Advisory services witnessed good traction with healthy order book. However, on EBIT front, it reported losses during the quarter.
- **GAC drives overall rating revenues higher:** Q1CY16 rating revenues at Rs1.1bn grew 5.2% YoY and was primarily led by strong growth in outsourcing business. According to management, while the ratings business growth was muted due to weak credit offtake and continued slowdown in the investment cycle, GAC continued to grow through increased support to McGraw Hill Financial businesses. Outsourcing business (ie, GAC) has been on the rise, evident from the fact that in comparison with 2.5%/7.2% YoY decline in overall rating revenues/domestic revenues, respectively, for CY15, outsourcing revenues grew 8% YoY. While the near-term outlook for domestic rating business, especially BLR and bond market, remains subdued, the upward revision in NSIC-linked SME subsidy and CRISIL's dominant market share therein will aid in higher revenues over CY16E/17E.
- **Earnings revision, valuation and view, key risks:** We have accordingly revised our estimates upwards by 3%/4% on revenues and 5%+ on EBITDA front for CY16E/17E to factor in continued traction in research and GAC business. Though at a slower pace, we expect gradual improvement in domestic rating revenues. Strong percentage, superior return ratios, free cash flow yield and healthy dividend payouts remain key strengths, and have traditionally witnessed CRISIL trade at premium valuations to its peers. Valuations at 38x CY17E EPS are at the upper end of the band. Retain Hold, with a revised TP of Rs1,970 (35x Dec'17E EPS). Lower-than-expected rating revenue growth or margin compression remains a key risk.

(Rs mn)	Q1CY16	Q1CY15	YoY (%)	Q4CY15	QoQ (%)	Q1CY16E	Var. (%)
Net Sales	3,582	3,072	16.6	3,847	(6.9)	3,443	4.1
EBIDTA	1,118	860	30.0	1,162	(3.8)	1,003	11.4
EBIDTA margins (%)	31.2	28.0	321bps	30.2	99bps	29.1	205bps
Reported PAT	786	563	39.6	871	(9.7)	674	16.6
Adjusted PAT	753	563	33.7	803	(6.3)	674	11.7
Segmental revenue							
- Rating	1,098	1,044	5.2	1,125	(2.4)	1,065	2.0
- Advisory	162	122	33.2	239	(32.2)	128	5.0
- Research	2,322	1,907	21.8	2,483	(6.5)	2,250	18.0
Total	3,582	3,072	16.6	3,847	(6.9)	3,443	12.0

Source: Company, Centrum Research

Y/E Dec (Rsmn)	Revenue	EBITDA	EBITDA (%)	Reported PAT	YoY (%)	EPS (Rs)	P/E (x)	P/BV (x)	RoCE (%)	RoE (%)
CY13	11,107	3,606	32.5	2,979	35.2	42.2	50.7	42.0	57.6	39.0
CY14	12,534	3,886	31.0	2,684	(9.9)	37.6	56.9	28.6	49.4	34.0
CY15	13,799	3,996	29.0	2,852	6.2	40.0	53.4	28.2	44.8	30.3
CY16E	15,993	4,772	29.8	3,367	18.1	47.3	45.2	23.6	51.2	34.4
CY17E	18,781	5,680	30.2	4,011	19.1	56.3	38.0	20.4	55.4	37.1

Source: Company, Centrum Research Estimates

Target Price		Rs1,970	Key Data	
CMP*		Rs2,136	Bloomberg Code	CRISIL IN
Downside		7.9%	Curr Shares O/S (mn)	71.2
Previous Target		Rs1,890	Diluted Shares O/S(mn)	71.2
Previous Rating		Hold	Mkt Cap (Rs bn/USDbn)	152.1/2.3
Price Performance (%)*			52 Wk H / L (Rs)	2336.1/1750
	1M	6M	1Yr	5 Year H / L (Rs)
CRISIL IN	18.6	6.9	4.4	2367.4/635.3
Nifty	4.1	(4.4)	(8.0)	Daily Vol. (3M NSE Avg.)
				13382

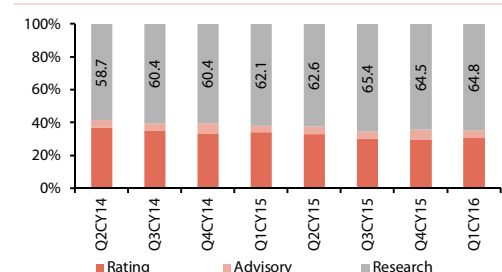
*as on 20 April 2016; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar-16#	Dec-15	Sep-15	Jun-15
Promoter	67.2	67.2	67.4	66.9
FIs	7.9	7.9	7.7	7.4
DIs	9.8	9.9	9.9	11.0
Others	15.1	15.0	14.9	14.7

Source: BSE, *as on 20 April 2016; # as per new classification

Research contributes 65% of total revenues



Source: Company, Centrum Research

Earning revision

Particulars (Rs mn)	CY16E			CY17E		
	New	Old	Var (%)	New	Old	Var (%)
Net Sales	15,993	15,573	2.7	18,781	17,984	4.4
EBIDTA	4,772	4,505	5.9	5,680	5,393	5.3
EBIDTA margin (%)	29.8	28.9	91bps	30.2	30.0	26bps
Reported PAT	3,367	3,209	4.9	4,011	3,851	4.1

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
4	1	1	1,985	1,970	(0.8)

*as on 20 April 2016; Source: Bloomberg, Centrum Research Estimates

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Exhibit 1: Segmental revenue and EBIT breakdown

(Rs mn)	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sept-15	Dec-15	Mar-16
Segmental revenue												
Rating Services Fees	1,010	1,041	1,095	1,153	1,119	1,089	1,090	1,044	1,086	1,087	1,125	1,098
Advisory services Fees	124	137	170	140	141	151	203	122	145	156	239	162
Research and Information Services	1,523	1,684	1,778	1,797	1,788	1,893	1,971	1,907	2,062	2,346	2,483	2,322
Total rating	2,657	2,862	3,043	3,090	3,048	3,133	3,263	3,072	3,292	3,589	3,847	3,582
% yoy growth												
Rating Services Fees	11.3	1.0	7.9	16.0	10.8	4.6	(0.4)	(9.5)	(3.0)	(0.2)	3.2	5.2
Advisory services Fees	0.7	(9.7)	12.6	11.3	14.3	9.8	19.1	(12.8)	2.2	3.3	17.8	33.2
Research and Information Services	34.5	10.4	22.6	26.1	17.4	12.5	10.8	6.1	15.3	23.9	26.0	21.8
Total (%)	22.8	5.7	16.4	21.4	14.7	9.5	7.2	(0.6)	8.0	14.5	17.9	16.6
Segmental EBIT												
Rating Services Fees	388	428	438	468	395	396	398	333	359	384	394	369
Advisory services Fees	10	24	27	15	8	(6)	50	(30)	(18)	10	61	(18)
Research and Information Services	507	593	584	539	469	538	627	545	627	793	775	815
Total	904	1,045	1,049	1,022	871	927	1,075	847	969	1,188	1,230	1,166
Segmental EBIT margin (%)												
Rating Services Fees	38.4	41.1	40.0	40.6	35.3	36.3	36.5	31.9	33.1	35.3	35.1	33.6
Advisory services Fees	7.8	17.6	15.9	10.8	5.3	(3.8)	24.4	(24.9)	(12.2)	6.7	25.3	(11.2)
Research and Information Services	33.3	35.2	32.8	30.0	26.2	28.4	31.8	28.6	30.4	33.8	31.2	35.1

Source: Company, Centrum Research

Earnings revision, valuation and view:**Exhibit 2: Earnings revision**

Particulars (Rs mn)	CY16E			CY17E		
	New	Old	Chg (%)	New	Old	Chg (%)
Net sales	15,993	15,573	2.7	18,781	17,984	4.4
EBIDTA	4,772	4,505	5.9	5,680	5,393	5.3
EBIDTA margin (%)	29.8	28.9	91bps	30.2	30.0	26bps
Reported PAT	3,367	3,209	4.9	4,011	3,851	4.1

Source: Centrum Research Estimates

We have revised our revenue estimates upwards by 3%/4% for CY16E/17E to factor in continued traction in research and GAC business. We have also included the upward revision in NSIC-linked SME subsidy (Rs2bn for FY17 vs Rs250mn for FY15) given CRISIL's dominant market share therein. This coupled with slow but steady improvement in domestic rating revenues will aid in 17% CAGR in overall revenues over CY15-17E. We revise our EBIDTA estimates upwards following strong revenue growth and improved margin profile in research business. We are now factoring in 17%/19% CAGR in revenues/PAT over CY15-17E.

Strong percentage, superior return ratios, free cash flow yield and healthy dividend payouts remain key strengths, and have traditionally seen CRISIL trade at premium valuations to its peers. Valuations at 38x CY17E EPS, however, limit near-term upside. Retain Hold, with a TP of Rs1,970 (35x Dec'17E EPS). Lower-than-expected rating revenue growth or margin compression remains a key risk.

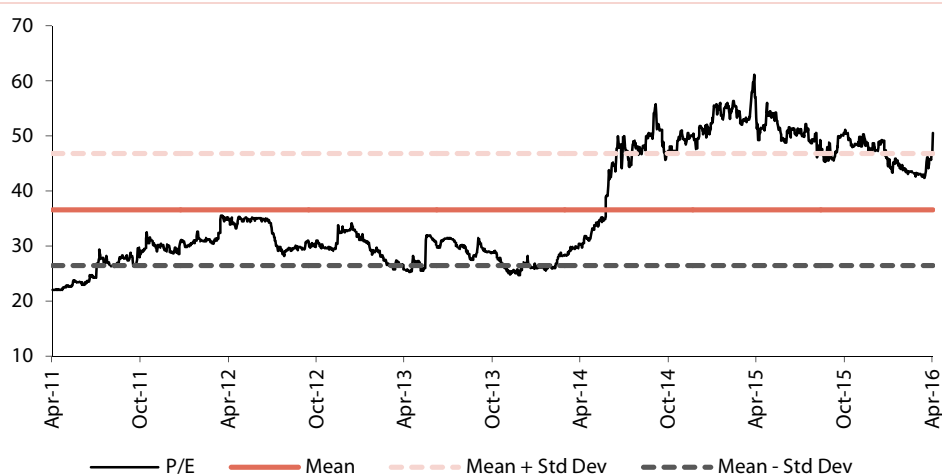
Sensitivity analysis and peer comparison

Exhibit 3: Sensitivity Analysis – impact of change in rating volumes and yield on CY17E EBITDA

	%	Rating volume				
		-10%	-5%	current levels	+5%	+10%
Yields	+2%	(6.1)	(1.9)	1.2	4.4	7.4
	+1%	(5.9)	(2.4)	0.6	3.7	7.1
	current levels	(6.7)	(3.1)	0.0	3.1	6.7
	-1%	(7.3)	(3.7)	(0.7)	2.4	5.8
	-2%	(7.4)	(4.3)	(1.3)	1.8	5.5

Source: Centrum Research Estimates

Exhibit 4: 1-yr forward PE chart



Source: Company, Centrum Research Estimates

Exhibit 5: Comparative Valuations

Sector	Mkt Cap (Rs mn)	CAGR FY15-FY17E (%)			EBITDA Margin (%)			PE (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
CRISIL*	1,52,099	13.0	10.8	12.0	31.0	29.0	29.8	56.9	53.4	45.2	34.0	30.3	34.4	1.1	1.3	1.5
CARE*	33,123	10.8	12.1	5.6	63.0	64.6	64.5	20.9	22.6	18.7	33.2	33.7	35.7	7.0	2.1	2.5
ICRA	40,859	11.0	20.6	19.2	30.4	32.6	36.0	51.1	48.9	38.5	19.9	17.7	18.9	0.7	0.7	0.7

Source: Bloomberg, * denotes Centrum Research Estimates. CRISIL is a Dec ending company. FY17E denotes CY16E nos.

Quarterly financials

Exhibit 6: Quarterly Financials

(Rs mn)	Q2CY14	Q3CY14	Q4 CY14	Q1 CY15	Q2CY15	Q3CY15	Q4CY15	Q1CY16
Income statement								
Net sales	3,048	3,133	3,263	3,072	3,292	3,589	3,847	3,582
Other income	34	145	56	35	39	71	98	71
Total Income	3,082	3,278	3,320	3,107	3,331	3,659	3,945	3,653
Operating expenses	2,176	2,211	2,242	2,213	2,387	2,546	2,685	2,465
- Employee expenses	1,506	1,503	1,522	1,501	1,738	1,782	1,917	1,763
EBIDTA core	872	922	1,021	860	905	1,042	1,162	1,118
<i>EBIDTA margins (%)</i>	<i>28.6</i>	<i>29.4</i>	<i>31.3</i>	<i>28.0</i>	<i>27.5</i>	<i>29.0</i>	<i>30.2</i>	<i>31.2</i>
Depreciation	91	91	92	100	94	95	82	99
Profit before tax	827	978	986	795	919	1,098	1,245	1,122
Tax	249	267	278	232	269	330	375	336
Profit after tax (reported)	578	711	708	563	649	769	871	786
Profit after tax (adjusted)	569	710	708	563	581	688	803	753
Segmental								
Revenue								
Rating services	1,119	1,089	1,090	1,044	1,086	1,087	1,125	1,098
Advisory services	141	151	203	122	145	156	239	162
Research and information services	1,788	1,893	1,971	1,907	2,062	2,346	2,483	2,322
EBIT								
Rating services	395	396	398	333	359	384	394	369
Advisory services	8	(6)	50	(30)	(18)	10	61	(18)
Research and information services	469	538	627	545	627	793	775	815
Ratios								
Growth YoY (%)								
<i>Net sales</i>	<i>14.7</i>	<i>9.5</i>	<i>7.2</i>	<i>(0.6)</i>	<i>8.0</i>	<i>14.5</i>	<i>17.9</i>	<i>16.6</i>
<i>EBIDTA</i>	<i>11.7</i>	<i>(3.6)</i>	<i>(4.1)</i>	<i>(18.5)</i>	<i>3.8</i>	<i>13.1</i>	<i>13.8</i>	<i>30.0</i>
<i>PAT</i>	<i>13.2</i>	<i>15.0</i>	<i>(0.4)</i>	<i>(20.5)</i>	<i>2.1</i>	<i>(3.0)</i>	<i>19.8</i>	<i>33.7</i>
Margins (%)								
<i>EBIDTA</i>	<i>28.6</i>	<i>29.4</i>	<i>31.3</i>	<i>28.0</i>	<i>27.5</i>	<i>29.0</i>	<i>30.2</i>	<i>31.2</i>
<i>EBIT</i>	<i>26.7</i>	<i>31.1</i>	<i>30.2</i>	<i>25.9</i>	<i>25.8</i>	<i>28.4</i>	<i>30.6</i>	<i>30.4</i>
<i>PAT margin</i>	<i>19.0</i>	<i>22.7</i>	<i>21.7</i>	<i>18.3</i>	<i>19.7</i>	<i>21.4</i>	<i>22.6</i>	<i>21.9</i>

Source: Company, Centrum Research

Financials (consolidated)

Exhibit 7: Income Statement

Y/E Dec (Rs mn)	CY13	CY14	CY15	CY16E	CY17E
Net Sales	11,107	12,534	13,799	15,993	18,781
Growth (%)	13.6	12.8	10.1	15.9	17.4
Expenditure	7,501	8,648	9,803	11,221	13,101
Employee Cost	5,212	6,020	7,022	8,019	9,324
EBITDA	3,606	3,886	3,996	4,772	5,680
Growth (%)	10.1	7.8	2.8	19.4	19.0
EBITDA margin (%)	32.5	31.0	29.0	29.8	30.2
Depreciation	379	361	371	362	372
EBIT	3,350	3,628	3,670	4,459	5,362
EBIT margin (%)	30.2	28.9	26.6	27.9	28.5
Other Income	124	103	45	49	54
Interest expenses	0	0	0	0	0
PBT	4,252	3,761	4,057	4,810	5,729
Tax	1,273	1,076	1,205	1,443	1,719
Effective tax rate (%)	29.9	28.6	29.7	30.0	30.0
Adjusted PAT	2,347	2,590	2,580	3,121	3,753
Growth (%)	9.1	10.3	(0.4)	21.0	20.3
Net Margin (%)	21.1	20.7	18.7	19.5	20.0
(Profit)/loss from JVs/Ass/MI					
Adj PAT After JVs/Ass/MI	2,347	2,590	2,580	3,121	3,753
E/O items	902	132	387	352	367
Reported PAT	2,979	2,684	2,852	3,367	4,011
Growth (%)	35.2	(9.9)	6.2	18.1	19.1

Source: Company, Centrum Research Estimates

Exhibit 8: Key Ratios

Y/E March	CY13	CY14	CY15	CY16E	CY17E
Profitability (%)					
EBITDA Margin	32.5	31.0	29.0	29.8	30.2
Net Margin	21.1	20.7	18.7	19.5	20.0
ROCE	57.6	49.4	44.8	51.2	55.4
ROE	39.0	34.0	30.3	34.4	37.1
RoIC	58.3	61.4	58.9	65.8	68.6
Per Share Data (Rs)					
EPS	42.2	37.6	40.0	47.3	56.3
CEPS	38.2	41.4	41.0	48.7	57.9
BVPS	50.9	74.7	75.9	90.7	104.8
DPS	19.0	20.0	23.0	27.0	35.0
Valuations (x)					
PER	50.7	56.8	53.3	45.2	37.9
P/CEPS	55.9	51.6	52.0	43.8	36.9
P/BV	42.0	28.6	28.1	23.6	20.4
Dividend yield (%)	1.0	1.1	1.3	1.5	2.0

Source: Company, Centrum Research Estimates

Exhibit 9: Balance Sheet

Y/E March (Rs mn)	CY13	CY14	CY15	CY16E	CY17E
Equity share capital	71	71	71	71	71
Reserves & surplus	6,674	8,412	8,486	9,537	10,544
Net worth	6,745	8,482	8,558	9,608	10,615
Minority Interest	0	0	0	0	0
Net deferred tax liability	(229)	(299)	(363)	(407)	(450)
Total Liabilities	6,516	8,183	8,195	9,201	10,165
Gross Block	6,137	6,158	6,110	6,290	6,463
Less: Depreciation	(1,645)	(1,839)	(1,959)	(2,264)	(2,579)
Net block	4,493	4,319	4,152	4,026	3,883
Capital work in progress	0	0	0	0	0
Investment	2,443	3,745	3,834	3,928	4,122
Current Assets	4,302	4,282	4,961	6,355	7,684
Sundry debtors	1,195	1,409	1,956	2,278	2,676
Cash & bank balance	1,515	1,189	1,099	2,003	2,736
Loans & advances	1,886	800	890	913	939
Other current assets	900	884	1,016	1,161	1,333
Current lia & Prov	4,721	4,163	4,751	5,098	5,556
Current liabilities	3,340	2,741	3,266	3,320	3,391
Provisions	1,381	1,421	1,486	1,779	2,165
Net current assets	(420)	119	210	1,257	2,128
Total Assets	6,516	8,183	8,195	9,201	10,165

Source: Company, Centrum Research Estimates

Exhibit 10: Cash Flow

Y/E March (Rs mn)	CY13	CY14	CY15	CY16E	CY17E
Profit before Tax	4,252	3,760	4,057	4,810	5,729
Total tax paid	(1,273)	(1,076)	(1,205)	(1,443)	(1,719)
Depreciation	379	362	371	362	372
Chg in debtors	(23)	(214)	(547)	(323)	(397)
Chg in loans & advances	(251)	(13)	(152)	(167)	(199)
Change in other current assets	(47)	(79)	(71)	-	-
Chg in creditors	(477)	(599)	524	54	72
Chg in other current liabilities	658	41	64	293	386
Change in other non-current liab.	(54)	(70)	(64)	(45)	(43)
Net chg in working capital	(194)	(935)	(245)	(187)	(181)
CF from op. activities (a)	3,164	2,111	2,978	3,543	4,202
Capital expenditure	(142)	(20)	48	(179)	(173)
Chg in investments	(1,293)	(1,302)	(88)	(94)	(194)
CF from invest. activities (b)	(1,435)	(1,322)	(41)	(274)	(367)
Debt raised/(repaid)					
Dividend (incl. tax)	(1,573)	(1,699)	(1,974)	(2,317)	(3,004)
Others	50	751	(767)	0	0
CF from fin. activities (c)	(1,523)	(948)	(2,741)	(2,317)	(3,004)
Net chg in cash (a + b + c)	206	(160)	196	952	832

Source: Company, Centrum Research Estimates

Appendix A

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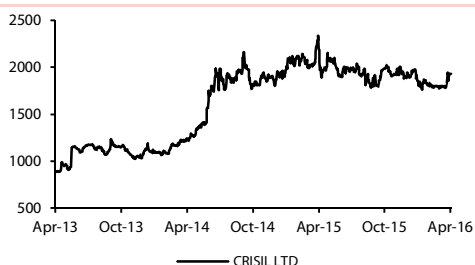
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CRISIL price chart



Source: Bloomberg

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Sell	Downside > 20%	Downside > 15%	Downside > 10%

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