Initiating Coverage
Crisil Ltd.

March 31, 2022

RETAILRESEARCH

Crisil Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Credit Rating	Rs 3387	Buy in Rs 3380-3420 band & add more on dips to Rs 3000-3040 band	Rs 3703	Rs 3942	2 quarters

HDFC Scrip Code	CRISILEQNR
BSE Code	500092
NSE Code	CRISIL
Bloomberg	CRISIL IN
CMP Mar 30, 2022	3387.1
Equity Capital (Rs cr)	7.3
Face Value (Rs)	1
Equity Share O/S (cr)	7.3
Market Cap (Rs cr)	24713
Book Value (Rs)	216.5
Avg. 52 Wk Volumes	77,000
52 Week High (Rs)	3496.0
52 Week Low (Rs)	1742.4

Share holding Pattern % (Dec, 2021)	
Promoters	66.9
Institutions	13.2
Non Institutions	19.9
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Atul Karwa
atul.karwa@hdfcsec.com

Our Take:

Crisil is the oldest and a leading domestic credit rating agency in India. The company has diversified over the years and ventured into research and analytics and advisory services. The research segment has grown largely through inorganic acquisitions and accounts for ~65% of consolidated revenue. The diversification has been geographic as well with offices in Argentina, Australia, China, Hong Kong, Poland, Singapore, Switzerland, UAE, UK and USA. It is majorly owned by by S&P Global which is world's foremost provider of transparent and independent ratings, benchmarks, analytics, data, research, commentary and ESG solution. This helps the company in getting a lot of business from the parent. Being the best-in-class industry leader it delivers a diversified revenue mix, superior margins, solid return ratios, and free-cash-flow yield.

The outlook of the domestic credit rating agencies has been improving given the low interest rates, incentives by Government to MSME sector and easy availability of finance for retail consumers. Corporates have continued their trend of deleveraging for the sixth straight year in FY21, uninterrupted by cash-flow disruptions and emergency funding requirements caused by the pandemic. Now as the economy revives on back of favourable macros, we expect aggregate corporate borrowings to increase which bodes well for the rating business.

Diversified revenue mix, levers for margin expansion, and solid return ratios have seen CRISIL's valuation multiples stay at a premium and to its peers. Preference for quality has seen investors/lenders prefer CRISIL, propelling it to be the best play in an otherwise crowded rating space.

Valuation & Recommendation:

CRISIL's superior rating standards, diversified and innovative product offerings and strong analytics skills has enabled it to emerge as the strongest credit rating agency (CRA) across business cycles. Improving corporate capex and additional levers with ESG ratings, has improved the outlook for the domestic ratings business. We expect CRISIL's revenue/EBITDA/PAT to grow at 13/15/18% CAGR over CY21-CY23E, led by improving macros, market share gains, cost rationalization, and synergies from acquisitions. It is likely to trade at a premium to its peers given its strong parentage, return ratios and diversified revenue mix. We believe investors can buy the stock in Rs 3380-3420 band and add on dips to Rs 3000-3040 band (38x CY23E EPS) for a base case fair value of Rs 3703 (46.5x CY23E EPS) and bull case fair value of Rs 3942 (49.5x CY23E EPS) over the next 2 quarters.

Financial Summary

Particulars (Rs cr)	Q4CY21	Q4CY20	YoY (%)	Q3CY21	QoQ (%)	CY20	CY21	CY22E	CY23E
Operating Income	706	597	18.2	571	23.7	1,982	2,301	2,608	2,897
EBITDA	193	154	24.9	147	31.4	511	606	694	782
APAT	134	110	22.1	113	19.0	355	431	504	580
Diluted EPS (Rs)	18.4	15.2	21.6	15.5	18.9	48.9	59.2	69.1	79.6
RoE (%)						28.6	29.8	30.5	32.0
P/E (x)						69.3	57.2	49.0	42.5
EV/EBITDA (x)						47.2	39.5	34.3	30.0

(Source: Company, HDFC sec)

Q4CY21 Result Update

CRISIL posted strong growth across the board in Q4CY21. Net Sales increased by 18.2% YoY to Rs 706cr led by 21.5% growth in research revenue to Rs 494cr. Rating and advisory revenues increased 9.5/17.6% respectively to Rs 165/47cr. EBITDA grew 24.9% to Rs 193cr and EBITDA margin expanded 147bps YoY to 27.3% on better operating leverage. PAT grew by 53.2% YoY to Rs 169cr and PAT margin stood at 23.9% aided by sale of immovable property. Adjusting for the exceptional item, Adj. PAT was up 22.1% and APAT margin expanded 60bps to 19%.

The Board of Directors have recommended a final dividend of Rs 15 per share and a special dividend of Rs 7 per share taking the total dividend for the year to Rs 46 per share.

Activity in the lending markets improved in line with economic recovery. Companies increasingly sought to refinance debt and strengthened their liquidity positions. Ratings business segment saw increased penetration in the mid-corporate segment and traction for stressed asset offerings. In Research, the Global Research & Risk Solutions (GR&RS) business saw client wins and continued to grow through the December quarter. Domestic research business witnessed growth following the pick-up in economic activity. The Advisory segment bagged large wins from multilaterals and expanded its overseas clients' footprint. The Global Analytical Centre (GAC) business stepped up support for surveillance, new issuances and transformation projects to S&P.

Key Triggers

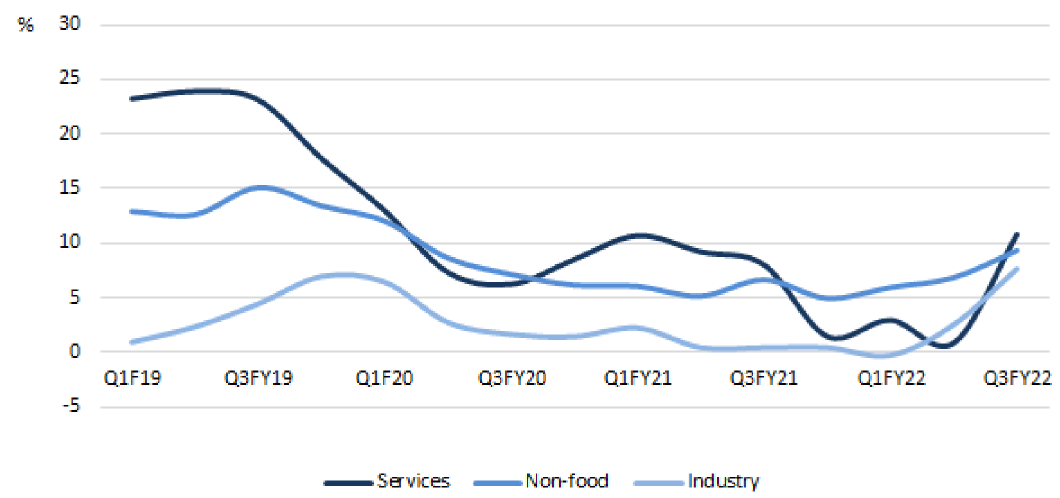
Improving macros, low interest rates to drive higher credit demand

Moody's expects India's economy to continue to recover in the next 12-18 months, with GDP growing 9.1% in CY22 and projected that the Indian economy will grow at 5.4% during the CY23. The agency noted that the speed of the recovery from the first lockdown-led contraction in Q22020, and subsequently in Q22021 during the Delta wave was stronger than expected, and the economy is estimated to have surpassed the pre-Covid level of GDP by more than 5% in the last quarter of 2021. With demand picking up across the economy, activity in the lending markets is improving and there are increasing signs of companies enhancing their bank lines and seeking refinancing.

Credit growth, which had been languishing through 2021 due to Covid-19 and also deleveraging of balance sheets by large corporates, has been recovering as indicated by the RBI data. Increasing credit would drive higher demand for ratings, benefitting rating agencies like CRISIL. Amid a spike in credit offtake by the industry, non-food bank credit saw 8.3% YoY growth in January, much above the 5.9% level a year ago, as per latest RBI data. The RBI said credit growth to industry rose 6.4% in January from 0.7% in the same month last year.

India Ratings & Research expects credit growth to clock 10% in 2022-23 for the first time since 2013-14 when it had hit 14%. It has however, reduced its estimate for the current fiscal ending March 2022 to 8.4% from 8.9%.

Credit growth has started to pick up across sectors



(Source: RBI, HDFC sec)

Deepening of bond market bodes well for credit rating agencies

SEBI is looking at several reforms to deepen the bond market, including creating a set of "market makers" and setting up a backstop facility to purchase investment grade debt securities in stressed as well as normal times. The other major reform in the pipeline is setting up of a

Limited Purpose Clearing Corporation for repo in corporate bonds. As per trends in the corporate bond market, around 97-98% of the corporate bonds are issued through the private placement route and around 90% of the issuances are of 'AA' and above ratings. Trading in the secondary market lacks depth and is largely dominated by mutual funds.

SEBI has taken certain initiatives and some more are in the pipeline. The measures taken by the regulator include limiting the number of ISINs (International Securities Identification Numbers) in a year, mandating certain minimum borrowing through bonds for large borrowers and introducing RFQ (Request for Quote) platform to improve pre and post-trade transparency.

The reforms will help in bringing liquidity and stability to the corporate debt market, address risk aversion during times of stress specially for securities rated below AAA, help in building confidence of market participants in the secondary market and create liquidity options for investors at large.

With higher number of participants and more liquidity, issues in the bond market are likely to increase leading to higher rating business for rating agencies.

Increasing NPA levels beneficial for the company

After sharp increase in corporate led NPAs and subsequent write-offs, overall NPA levels were on an improving trajectory. However, CRISIL estimates that Indian banks are likely to see a rise in gross non-performing assets (NPA) to 8-9% of total lending at the end of this fiscal year from 7.5% last year. The rise will be led by retail clients and the micro, small and medium (MSME) segments. Stressed assets in these segments are seen rising to 4-5% and 17-18%, respectively. For rating companies this is positive in the long-run, and is likely to increase the volume of business in the coming years as the number of MSME has been increasing.

Inorganic growth in Research segment

As a natural extension to its ratings business CRISIL had forayed into research and has grown significantly through acquisitions. It is regarded as India's largest independent integrated research house, providing insights, opinion and analysis on the Indian economy, industry, capital markets and companies. The research business covers 86 sectors with nearly 1,000 Indian and global clients, including 90% of India's banking industry by asset base, 15 of the top 25 domestic companies by market capitalisation, all domestic mutual fund and life insurance companies, and 4 of the world's leading consulting firms.

CRISIL operates on asset-light model and generates huge cash. Effective utilisation of cash is vital to ensure earning sufficient RoEs on this cash. CRISIL has at regular intervals resorted to acquisitions in the research business which has resulted in diversification in revenues while also being RoE accretive.

Shift in preference of corporate borrowers

Due to default by many big corporates resulting in liquidity crisis, bank have become stricter in lending to corporates. Close watch is being kept on risky accounts so that preventive measures can be taken before the account turns into NPA. Consequently, sound corporate borrowers have found alternate ways to raise funds like non-convertible debentures, company deposits, commercial papers, etc. This has opened up another source of revenue for the credit rating agencies as these instruments also need to be rated.

Risks & Concerns

Delay in economic revival

Rating revenue of credit rating agencies are dependent on economic growth which would drive higher volumes. Delays in the economic revival post the pandemic can impact revenue growth from ratings segment.

Rating standards and quality

Rating reports are used by lenders to determine the financial viability of the entity. Failure by the company to maintain the quality of rating could result in loss of trust and impact growth.

IRB based approach by banks

If Banks whose clients avail Credit Rating Services under the Basel II framework migrate to the internal rating based (IRB) approach for Credit risk, it could have an adverse effect on the company's revenue and profits.

Regulatory scrutiny

Credit rating agencies (CRAs) have come under regulatory scrutiny in the wake of loan defaults by leading corporates. To enhance CRAs' rating process and quality of disclosures, SEBI keeps prescribing higher disclosure of data by CRAs. This apart CRAs come under scrutiny of regulators and are also fined for lapses that may not be fully attributable to them.

Increasing competition

There are three major established players in the Indian credit rating market and over the last few years many new players have entered the market, thereby increasing competition. Many clients look for the best deal they can get reducing the bargaining power of credit rating agencies.

Retention of employees, a challenge

Employees are the core asset for a credit rating agency and hence retaining them is crucial. While CRISIL remains the best paymaster, the risk of employee movement can expose it to risks of attrition, retraining and reskilling.

Company Background:

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. It is amongst India's leading ratings agency and the foremost provider of high-end research to the world's largest banks and leading corporations. CRISIL is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

With a strong track record of growth, culture of innovation and global footprint it has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers. Its businesses operate from India, Argentina, Australia, China, Hong Kong, Poland, Singapore, Switzerland, the United Arab Emirates (UAE), The United Kingdom (UK) and the United States of America (USA).

Businesses

Crisil Ratings pioneered credit rating in India in 1987, and has emerged as a leader with independent, analytical rigour and innovation in ratings. Its capabilities span the entire range of debt instruments. Through its Global Analytical Centre (GAC), it provides analytical, research and data services to S&P Global Inc. GAC operates as a centralised research and analytics hub for S&P Global Ratings Services (SPGRS) teams spread across the US, EMEA and APAC regions.

CRISIL Research segments

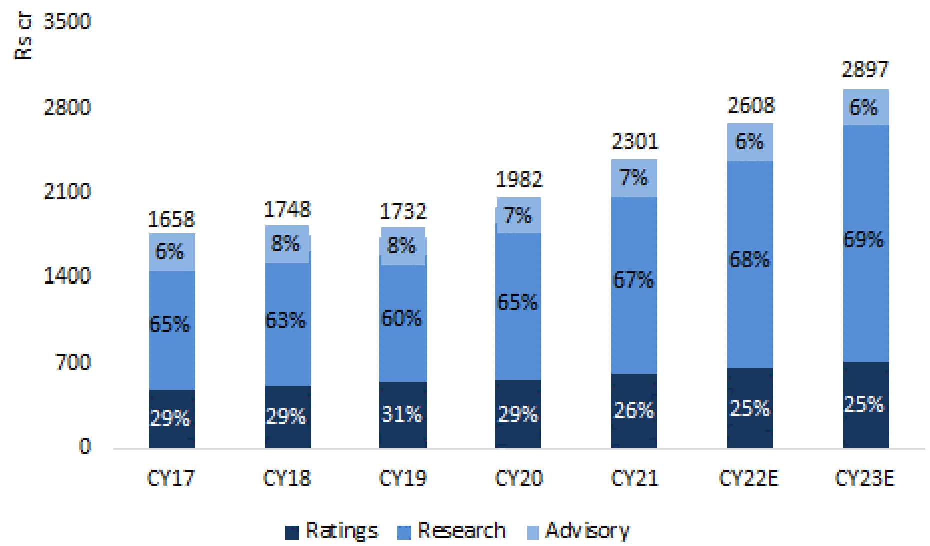
Global Research & Analytics (GR&A) is in the business of providing solutions to leading investment and commercial banks, private equity players, hedge funds, and asset management and insurance companies globally. It has offshore delivery centres in Argentina, China, India and Poland and onsite delivery centres in London, Melbourne, Sydney, and New York, supporting clients across time zones and languages. It has made significant investments in technology and has developed utilities, platforms, tools, and frameworks catering to various client requirements.

CRISIL Coalition provides objective research and high-end analytics to support strategic and tactical decision-making across four areas: competitor analytics, financial resources analytics, client analytics, and country analytics.

Greenwich Associates: Acquired in 2020 Feb'2020 for a consideration of US$40mn, it is a leading global provider of data, analytics and insights to the financial services industry. It specialises in providing unique high-value data and actionable recommendations to help our clients improve their business results.

CRISIL Infrastructure Advisory provides a comprehensive range of advisory services in urban, energy and natural resources, transport and logistics, and infrastructure financing across India and other emerging countries to governments, multilateral agencies, investors, large public and private sector firms.

Revenue breakup



(Source: Company, HDFCsec)

Segmental Performance

(Rs cr)	Q4CY21	Q4CY20	YoY (%)	Q3CY21	QoQ (%)	CY21	CY20	YoY (%)
Revenue								
Rating Services	165	151	*9.5*	154	*7.4*	604	565	*6.9*
Advsiory Serices	47	40	*17.6*	36	*31.3*	153	134	*14.0*
Research & Information Services	494	407	*21.5*	382	*29.5*	1544	1283	*20.3*
Revenue Share (%)								
Rating Services	23.4	25.2	*-186 bps*	26.9	*-354 bps*	26.3	28.5	*-225 bps*
Advsiory Serices	6.6	6.7	*-3 bps*	6.2	*39 bps*	6.6	6.8	*-12 bps*
Research & Information Services	70.0	68.1	*189 bps*	66.9	*315 bps*	67.1	64.7	*237 bps*
EBIT								
Rating Services	66	58	*13.8*	64	*2.4*	253	226.7	*11.5*
Advsiory Serices	9	6	*37.5*	1	*990.1*	17	10.1	*64.8*
Research & Information Services	108	71	*51.2*	84	*28.7*	324	209.0	*55.1*
EBIT Margin (%)								
Rating Services	40.0	38.5	*150 bps*	41.9	*-194 bps*	41.8	40.1	*171 bps*
Advsiory Serices	18.9	16.1	*274 bps*	2.3	*1661 bps*	10.9	7.5	*335 bps*
Research & Information Services	21.7	17.5	*427 bps*	21.9	*-13 bps*	21.0	16.3	*470 bps*

Peer Comparision

(FY21)	CMP (Rs)	Mcap (Rs cr)	EPS (Rs)	OPM (%)	PATM (%)	RoE (%)	D/E (x)	P/E (x)	P/B (x)
CRISIL (CY21)	3387	24713	59.1	26.3	18.7	27.3	0.0	57.2	15.6
ICRA	4102	3959	84.6	26.9	27.1	10.8	0.0	48.5	5.2
CARE Ratings	508	1505	30.2	38.6	36.0	15.2	0.0	16.8	2.6

Financials

Income Statement

(Rs cr)	CY19	CY20	CY21	CY22E	CY23E
Net Revenues	**1732**	**1982**	**2301**	**2608**	**2897**
Growth (%)	***-1.0***	***14.4***	***16.1***	***13.4***	***11.1***
Operating Expenses	1276	1471	1695	1914	2114
EBITDA	**456**	**511**	**606**	**694**	**782**
Growth (%)	***-3.3***	***12.0***	***18.6***	***14.5***	***12.7***
EBITDA Margin (%)	***26.3***	***25.8***	***26.3***	***26.6***	***27.0***
Depreciation	37	121	106	103	100
Other Income	73	83	82	91	104
EBIT	**492**	**473**	**582**	**682**	**786**
Interest expenses	0	14	9	9	10
PBT	**492**	**458**	**618**	**673**	**776**
Tax	148	104	153	170	196
PAT	**344**	**355**	**466**	**504**	**580**
Share of Asso./Minority Int.	0	0	0	0	0
Adj. PAT	**344**	**355**	**431**	**504**	**580**
Growth (%)	***-5.3***	***3.1***	***21.6***	***16.8***	***15.2***
EPS	47.6	48.9	59.2	69.1	79.6

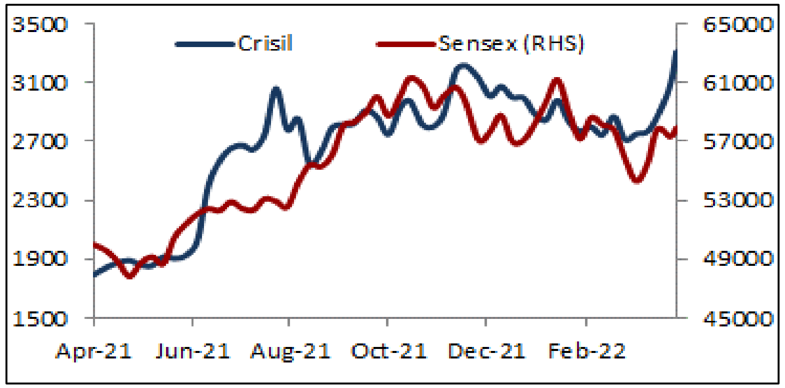
Balance Sheet

As at March (Rs cr)	CY19	CY20	CY21	CY22E	CY23E
SOURCE OF FUNDS					
Share Capital	7	7	7	7	7
Reserves & Surplus	1165	1305	1571	1722	1896
Shareholders' Funds	**1172**	**1312**	**1578**	**1730**	**1904**
Minority Interest	0	0	0	0	0
Total Debt	3	0	0	0	0
Net Deferred Taxes	-43	-64	-59	-59	-59
Total Sources of Funds	**1132**	**1248**	**1519**	**1670**	**1844**
APPLICATION OF FUNDS					
Net Block & Goodwill	349	763	661	598	539
CWIP	12	14	5	3	1
Investments	453	476	645	795	970
Other Non-Curr. Assets	120	112	149	182	208
Total Non Current Assets	**933**	**1364**	**1460**	**1577**	**1718**
Debtors	199	307	399	414	436
Cash & Equivalents	346	279	294	331	449
Other Current Assets	168	193	291	329	361
Total Current Assets	**713**	**779**	**984**	**1074**	**1247**
Creditors	75	105	134	135	157
Other Current Liab & Provisions	439	789	792	846	963
Total Current Liabilities	**514**	**895**	**925**	**981**	**1120**
Net Current Assets	199	-116	59	93	126
Total Application of Funds	**1132**	**1248**	**1519**	**1670**	**1844**

Cash Flow Statement

(Rs cr)	CY19	CY20	CY21	CY22E	CY23E
PBT	492	458	618	673	776
Non-operating & EO items	-14	-21	-70	-31	-26
Interest Expenses	-7	10	-1	9	10
Depreciation	37	121	106	103	100
Working Capital Change	84	57	-54	1	85
Tax Paid	-146	-125	-197	-170	-196
OPERATING CASH FLOW (a)	**446**	**500**	**403**	**585**	**750**
Capex	-28	-34	27	-37	-40
Free Cash Flow	418	466	430	548	710
Investments	-56	-44	-130	-150	-175
Non-operating income	6	-222	15	0	0
INVESTING CASH FLOW (b)	**-77**	**-300**	**-88**	**-187**	**-215**
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	0	0	0	-9	-10
FCFE	368	200	315	389	525
Share Capital Issuance	23	35	44	0	0
Dividend	-252	-232	-276	-353	-406
Others	0	-68	-58	0	0
FINANCING CASH FLOW (c)	**-229**	**-265**	**-291**	**-362**	**-416**
NET CASH FLOW (a+b+c)	**140**	**-64**	**24**	**36**	**118**

Price chart



Key Ratios

	CY19	CY20	CY21	CY22E	CY23E
Profitability Ratios (%)					
EBITDA Margin	26.3	25.8	26.3	26.6	27.0
EBIT Margin	28.4	23.9	25.3	26.2	27.1
APAT Margin	19.9	17.9	18.7	19.3	20.0
RoE	29.8	28.6	29.8	30.5	32.0
RoCE	42.5	38.0	40.2	41.3	43.3
Solvency Ratio (x)					
Net Debt/EBITDA	-0.8	-0.5	-0.5	-0.5	-0.6
Net D/E	-0.3	-0.2	-0.2	-0.2	-0.2
PER SHARE DATA (Rs)					
EPS	47.6	48.9	59.2	69.1	79.6
CEPS	52.7	65.5	73.7	83.2	93.4
BV	162.1	180.7	216.5	237.2	261.1
Dividend	32.0	33.0	46.0	48.4	55.7
Turnover Ratios (days)					
Debtor days	51.0	46.7	56.0	56.9	53.6
Creditors days	14.8	16.7	19.0	18.8	18.4
VALUATION (x)					
P/E	71.2	69.3	57.2	49.0	42.5
P/BV	20.9	18.7	15.6	14.3	13.0
EV/EBITDA	52.9	47.2	39.5	34.3	30.0
EV/Revenues	13.9	12.2	10.4	9.1	8.1
Dividend Yield (%)	0.9	1.0	1.4	1.4	1.6
Dividend Payout (%)	67.3	67.5	77.8	70.0	70.0

(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks
This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks
This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks
This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600