

Stock Update Crisil Ltd.

March 4, 2024





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Credit Rating	Rs 4940	Buy in Rs 4900-5000 band & add more on dips in Rs 4400-4500 band	Rs 5414	Rs 5821	2-3 quarters

HDFC Scrip Code	CRISILEQNR
BSE Code	500092
NSE Code	CRISIL
Bloomberg	CRISIL IN
CMP Mar 2, 2024	4939.7
Equity Capital (Rs cr)	7.3
Face Value (Rs)	1
Equity Share O/S (cr)	7.3
Market Cap (Rs cr)	36116
Book Value (Rs)	328.4
Avg. 52 Wk Volumes	41,800
52 Week High (Rs)	5250.0
52 Week Low (Rs)	2971.5

Share holding Pattern % (Dec 2023)	
Promoters	66.7
Institutions	20.1
Non Institutions	13.2
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

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Our Take:

Crisil is the oldest and a leading domestic credit rating agency in India. It is majorly owned by S&P Global which is world's foremost provider of transparent and independent ratings, benchmarks, analytics, data, research, commentary and ESG solution. The company has diversified over the years and ventured into research and analytics and advisory services which now accounts for ~75 of its revenue. The diversification has been geographic as well with offices in Argentina, Australia, China, Hong Kong, Japan, Poland, Singapore, Switzerland, UAE, UK and USA. 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.

With the Government focus on capex, the outlook of the domestic credit rating agencies has been improving. Incentives by Government for MSME sector and easy availability of finance for retail consumers is expected to further enhance credit demand. Corporates bond issuance increased by 25% in 2023 and could further increase 20% in 2024 as interest rates reverse. The Global Analytical Centre (GAC) continued to drive surveillance support across S&P Ratings' analytical practices and partnered on data and technology transformation programmes.

Diversified revenue mix, levers for margin expansion, and solid return ratios have seen CRISIL's valuation multiples stay at a premium 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:

In 2024, the expected soft landing of the global economy could have a bearing on discretionary spends by global clients. CRISIL remains focused on customer centricity and delivering value to all its stakeholders through investments in technology, talent and new solutions.

We expect CRISIL's Revenue/PAT to grow at 11%/14% CAGR over CY23-CY25E, led by improving macros, market share gains, cost rationalization, and synergies from acquisitions. We believe investors can buy the stock in Rs 4900-5000 band and add on dips in Rs 4400-4500 band (38.25x CY25E EPS) for a base case fair value of Rs 5414 (46.5x CY25E EPS) and bull case fair value of Rs 5821 (50x CY25E EPS) over the next 2-3 quarters.



Financial Summary

(Rs cr)	Q4CY23	Q4CY22	YoY (%)	Q3CY23	QoQ (%)	CY22	CY23	CY24E	CY25E
Operating Income	918	822	11.6	736	24.7	2,769	3,140	3,488	3,891
EBITDA	269	216	24.4	192	40.3	713	868	980	1,097
APAT	210	158	33.0	152	38.2	564	658	758	851
Diluted EPS (Rs)	28.7	21.6	33.0	20.8	38.2	77.2	90.1	103.7	116.4
RoE-%						33.5	33.1	32.4	31.9
P/E (x)						64.0	54.8	47.6	42.4
EV/EBITDA (x)						49.5	40.3	35.2	31.0

(Source: Company, HDFC sec)

Q4CY23 Result Review

CRISIL reported robust topline growth of 12% YoY to Rs 918cr driven by 18% growth in Rating Services to Rs 210cr and 10% increase in Research, Analytics & Solution vertical to Rs 708cr. EBITDA grew by 24% to Rs 269cr as other expenses remained under control. Consequently, EBITDA margin expanded ~300bps to 29.3%. PAT grew by 33% YoY to Rs 210cr and PAT margin stood at 22.9% on account of one-off gain of Rs 29.4 crore due to sharp devaluation of the Argentinian peso in December. The Ratings segment grew 18.3% in the quarter and 16.4% for the year ended CY23. The research, analytics and solutions segment grew 9.8% in the quarter and 12.4% in year ended CY23. The Board of Directors recommended final dividend of Rs 28 per share taking total dividend for the year to Rs 54 per share.

After strong growth in the corporate bond market during the first half of 2023, issuances declined in the second half as yields rose. Bank credit growth was steady, supported by both retail and services. In Research, Global Research & Risk Solutions (GR&RS) saw traction in research and lending solutions. Global Benchmarking Analytics (GBA) saw momentum in corporate and investment banking (CIB), driven by the emphasis on client engagement and product innovation. Market Intelligence & Analytics (MI&A) witnessed momentum in credit, risk and consulting offerings.

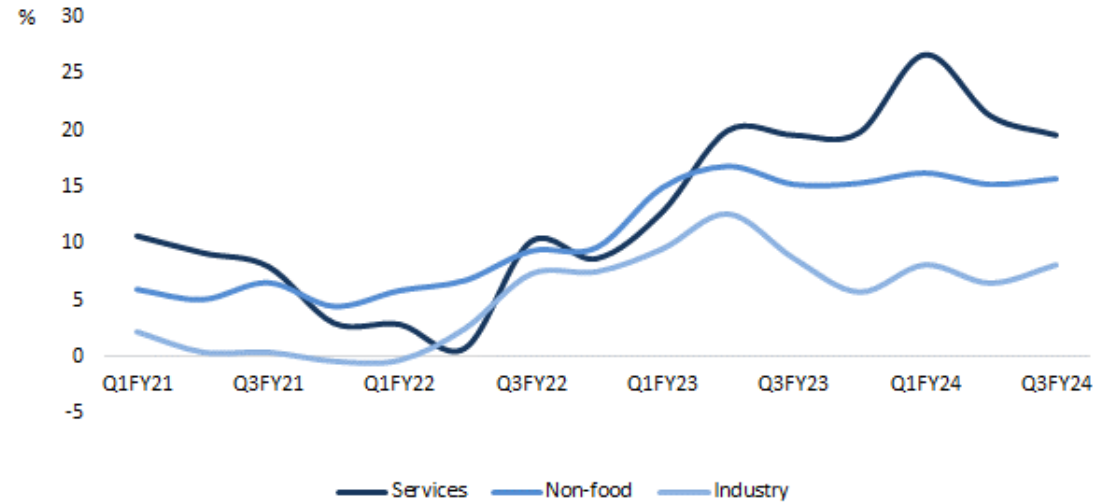
Long term Triggers

Credit demand remains strong; growth to moderate

Credit growth in India is expected to moderate to 14 per cent in FY25 from the existing 16 per cent as deposit growth is unable to keep pace with loans, according to a report by S&P Global Ratings. Credit demand continues to remain strong, driven by resilient economic backdrop which is highly conducive to growth. Asset quality is improving, buoyed by a confluence of supportive structural and cyclical factors enabling banks to lend more. Banks have bolstered their capitalization in the past few years following several stints of fund raising and government infusions into the public sector banks (PSBs).



Credit growth has remained strong across sectors



(Source: RBI, HDFC sec)

Revamped credit guarantee scheme to drive higher lending to MSME

FM Nirmala Sitharaman in the Budget speech for FY24 announced launch of a revamped credit guarantee scheme worth Rs 9,000 crore for MSMEs. Sitharaman said this would enable collateral-free credit of Rs 2 lakh crore loans to the small businesses. The scheme, which took effect from April 1, 2023, offers a helping hand to several small firms that were hurt badly when the Covid outbreak started. The infusion of Rs 9,000 crore for a credit guarantee fund means that an additional ~Rs 2 lakh crore of collateral-free funds can now flow to MSMEs, because there will be a guarantee. The Economic Survey 2022-23 revealed that the YoY growth in credit since the January-March quarter of 2022 has moved into double digits. The credit growth to the MSME sector has been remarkably high, over 30.5% on an average, during Jan-Nov 2022, supported by the extended ECLG scheme. Increased credit to the MSME sector would entail higher business for rating agencies.

Strong momentum in Research and Advisory vertical

With corporates starting to focus on growth opportunities and significant capital raising, Crisil’s customised research business has benefitted significantly, driving strong mandate flows and acquiring new clients. Its Industry research reports have witnessed excellent traction among corporate clients. EBIT margin are also on an improving trajectory. Crisil continues to maintain dominant position in Funds and Fixed Income Research business and largest provider of fixed income indices. It launched nine indices in 2021, taking the total to 107. In CY23 revenue from Research and Advisory business has increased 17% YoY. However, EBIT margins contracted 120bps from highs of CY22 to 20.9%.



Risks & Concerns

Slowdown in economic activity

Rating revenue of credit rating agencies are dependent on economic growth which would drive higher volumes. Slowdown in economic activity 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. Many clients insist on fixed fee cap structure which may impact revenues.

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 (66.7%) 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.

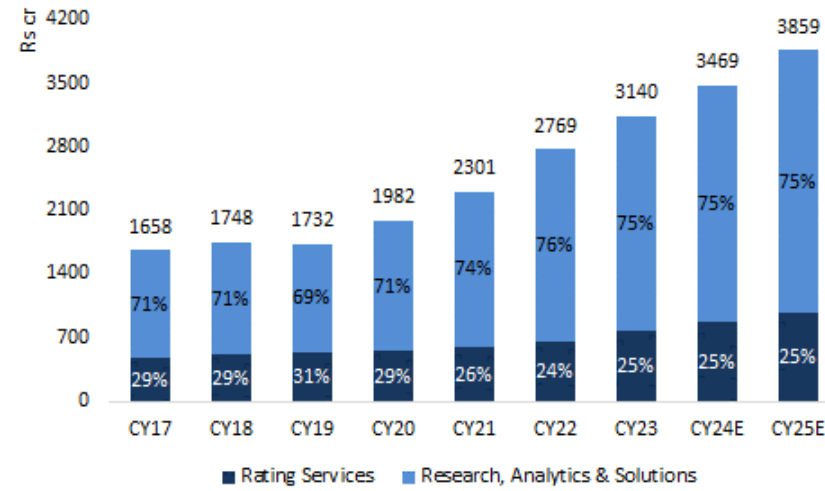
CRISIL Coalition provides objective research and high-end analytics to support strategic and tactical decision-making across four areas: competitor analytics, financial resources analytics, client analytics, and country analytics.

Greenwich Associates: Acquired in Feb'20 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, HDFC Sec)

Global Presence



(Source: Company, HDFC Sec)



Segmental Performance

(Rs cr)	Q1CY21	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Q2CY23	Q3CY23	Q4CY23
Revenue												
Rating Services	149	137	154	165	163	155	170	177	187	191	186	210
Research, Analytics & Solutions	346	392	417	541	432	513	513	645	528	580	550	708
Revenue Share (%)												
Rating Services	30.1	25.8	26.9	23.4	27.5	23.2	24.9	21.6	26.1	24.7	25.2	22.8
Research, Analytics & Solutions	69.9	74.2	73.1	76.6	72.5	76.8	75.1	78.4	73.9	75.3	74.8	77.2
EBIT												
Rating Services	70	52	64	66	78	60	70	71	90	78	81	86
Research, Analytics & Solutions	56	84	84	116	100	115	97	144	109	106	112	166
EBIT Margin (%)												
Rating Services	47.2	38.1	41.9	40.0	47.6	38.8	41.0	40.2	48.1	40.8	43.6	41.1
Research, Analytics & Solutions	16.1	21.5	20.2	21.5	23.1	22.5	19.0	22.3	20.7	18.3	20.3	23.5

Peer Comparison

(TTM, Dec'23)	CMP (Rs)	Mcap (Rs cr)	EPS (Rs)	OPM (%)	PATM (%)	RoE (%)	D/E (x)	P/E (x)	P/B (x)
CRISIL	4940	36116	93.9	27.7	21.0	27.4	0.0	52.6	15.0
ICRA	5807	5605	143.8	31.8	33.4	15.5	0.0	40.4	6.0
CARE Ratings	1167	3482	34.4	34.6	30.8	13.9	0.0	33.9	4.9



Financials

Income Statement

(Rs cr)	CY21	CY22	CY23	CY24E	CY25E
Net Revenues	2301	2769	3140	3488	3891
Growth (%)	16.1	20.3	13.4	11.1	11.6
Operating Expenses	1695	2056	2271	2508	2794
EBITDA	606	713	868	980	1097
Growth (%)	18.6	17.7	21.8	12.9	11.9
EBITDA Margin (%)	26.3	25.8	27.7	28.1	28.2
Depreciation	106	103	104	106	111
Other Income	82	139	107	129	140
EBIT	582	749	871	1003	1126
Interest expenses	9	6	4	4	5
PBT	618	742	868	999	1121
Tax	153	178	209	241	270
Adj. PAT	431	564	658	758	851
Growth (%)	21.6	30.9	16.7	15.1	12.3
EPS	59.2	77.2	90.1	103.7	116.4

Balance Sheet

(Rs cr)	CY21	CY22	CY23	CY24E	CY25E
SOURCE OF FUNDS					
Share Capital	7	7	7	7	7
Reserves & Surplus	1571	1785	2182	2487	2826
Shareholders' Funds	1578	1792	2189	2494	2834
Total Debt	0	0	0	0	0
Net Deferred Taxes	-59	-79	-86	-86	-86
Other Non-Curr. Liab.	103	66	78	87	97
Total Sources of Funds	1622	1779	2182	2496	2845
APPLICATION OF FUNDS					
Net Block & Goodwill	661	619	635	589	535
CWIP	5	14	31	15	8
Investments	645	683	1056	1501	1946
Other Non-Curr. Assets	149	167	188	219	237
Total Non Current Assets	1460	1483	1909	2324	2726
Debtors	399	759	690	717	768
Cash & Equivalents	294	321	370	371	371
Other Current Assets	291	188	260	296	320
Total Current Assets	984	1269	1319	1384	1458
Creditors	134	144	143	181	194
Other Current Liab & Provisions	689	829	905	1032	1146
Total Current Liabilities	823	973	1047	1212	1339
Net Current Assets	161	296	272	171	119
Total Application of Funds	1622	1779	2182	2496	2845



Cash Flow Statement

(Rs cr)	CY21	CY22	CY23	CY24E	CY25E
Reported PBT	618	742	868	999	1,121
Non-operating & EO items	-70	-54	-75	-22	-8
Interest Expenses	-1	-2	4	4	5
Depreciation	106	103	104	106	111
Working Capital Change	-54	-112	125	101	52
Tax Paid	-197	-220	-244	-241	-270
OPERATING CASH FLOW (a)	403	456	780	948	1,012
Capex	27	-39	-59	-45	-50
Free Cash Flow	430	417	721	903	962
Investments	-130	-27	-249	-445	-445
Non-operating income	15	4	-18	0	0
INVESTING CASH FLOW (b)	-88	-62	-327	-490	-495
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	0	-6	-4	-4	-5
FCFE	315	388	450	454	512
Share Capital Issuance	44	36	9	0	0
Dividend	-276	-343	-358	-453	-512
Others	-58	-54	-55	0	0
FINANCING CASH FLOW (c)	-291	-368	-408	-457	-517
NET CASH FLOW (a+b+c)	24	26	46	1	0

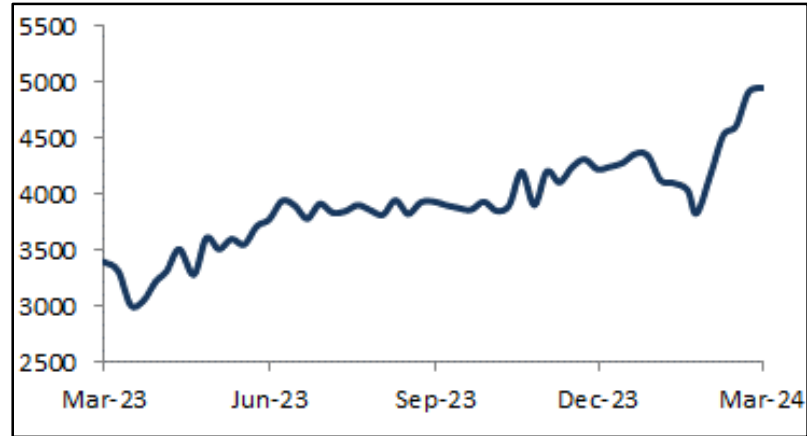
Key Ratios

Particulars	CY21	CY22	CY23	CY24E	CY25E
Profitability Ratios (%)					
EBITDA Margin	26.3	25.8	27.7	28.1	28.2
EBIT Margin	25.3	27.0	27.8	28.7	28.9
APAT Margin	18.7	20.4	21.0	21.7	21.9
RoE	29.8	33.5	33.1	32.4	31.9
RoCE	40.2	44.4	43.8	42.8	42.3
Solvency Ratio (x)					
Net Debt/EBITDA	-0.5	-0.5	-0.4	-0.4	-0.3
Net D/E	-0.2	-0.2	-0.2	-0.1	-0.1
Per Share Data (Rs)					
EPS	59.2	77.2	90.1	103.7	116.4
CEPS	73.7	91.3	104.3	118.3	131.6
BV	216.5	245.1	299.5	341.2	387.6
Dividend	46.0	48.0	54.0	62.0	70.0
Turnover Ratios (days)					
Debtor days	56	76	84	74	70
Creditor days	19	18	17	17	18
VALUATION (x)					
P/E	83.5	64.0	54.8	47.6	42.4
P/BV	22.8	20.2	16.5	14.5	12.7
EV/EBITDA	58.4	49.5	40.3	35.2	31.0
EV / Revenues	15.4	12.7	11.1	9.9	8.8
Dividend Yield (%)	0.9	1.0	1.1	1.3	1.4
Dividend Payout (%)	77.8	62.2	60.0	59.8	60.1

(Source: Company, HDFC sec)



Price chart



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 cyclicity 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.



Disclosure:

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