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CRISIL Limited	CMP Rs. 5,845.6 REDUCE	Result Update **Q2CY10**

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CRISIL Limited has reported a flat financial performance by reporting 11% rise in consolidated total income for the quarter ended June 2010 to Rs. 1,506Mn. from Rs. 1,357Mn. in June 2009. Margins have declined on account of increased headcount and rental costs. Currently the valuations are steep at 24x CY10E earnings. We maintain our REDUCE rating on the scrip.

Performance Highlights:

Revenues from rating services have improved by 17% Y-Y to Rs. 710Mn. for the quarter ended Q2CY10 as against Rs. 608Mn. for the quarter ended Q2CY09, driven by Bank Loan ratings (BLR) & Small & Medium Enterprise ratings (SME). The company announced its 4000th BLR during the quarter.

Research services segment, recorded a 16% Y-Y growth to Rs. 666Mn. in the current quarter v/s Rs. 572Mn. for the corresponding quarter of last year. On the other hand, revenues from advisory services recorded a de-growth of 26% Y-Y at Rs. 131Mn for Q2CY10 as against Rs. 176Mn. for Q2CY09.

CRISIL has added ~10-11% employees on roll, resulting in a sharp increase in staff costs. Rental costs have also increased on account of shifting to a new rented place. As a % of sales, staff and rental costs have risen by 365bps and 209bps respectively. As a result, operating margins (OPM) have been hit by 664bps to 31% for the quarter ended June 2010 as against 38% for the quarter ended June 2009.

Reported net profit declined by 13% Y-Y to Rs. 333Mn. for Q2CY10 v/s Rs. 383Mn. for Q2CY09. This was on account of forex loss of Rs. 6.4Mn. and gratuity expense of Rs. 36Mn. After adjusting for the same, PAT declined by 6% Y-Y to Rs. 370Mn.

Valuations:

At CMP of Rs. 5,845.6/-, CRISIL is quoting at 24x CY10E and 22x CY11E earnings. We have kept our estimates unchanged for CY10 and CY11 and believe that the valuations are stretched. Hence, we maintain our REDUCE rating on the scrip.

Quarterly Analysis

Earnings Statement	Q2CY10	Q1CY10		Q2CY09				
YE December (Rs. Mn.)	Jun 10	Mar 10	Q-Q(%)	Jun 09	Y-Y(%)	H1CY10	H1CY09	Y-Y(%)
Net Revenues	1,505.9	1,427.9	5.5%	1,355.6	11.1%	2,933.8	2,566.2	14.3%
Other Operating Income	6.2	5.6	10.2%	3.4	79.7%	11.8	21.7	-45.8%
Total Income	1,512.1	1,433.5	5.5%	1,359.1	11.3%	2,945.5	2,587.9	13.8%
Total Expenditure	1,043.4	971.8	7.4%	847.3	23.2%	2,015.2	1,627.9	23.8%
Operating Profit	468.6	461.7	1.5%	511.8	-8.4%	930.3	960.0	-3.1%
Other Income	38.6	207.9	-81.4%	28.3	36.4%	246.5	79.0	212.1%
EBITDA	507.2	669.6	-24.2%	540.1	-6.1%	1,176.8	1,039.0	13.3%
Depreciation	50.3	52.1	-3.5%	42.0	19.6%	102.3	73.8	38.7%
EBIT	457.0	617.5	-26.0%	498.1	-8.3%	1,074.5	965.2	11.3%
Interest	0.0	0.0	-	0.0	-	0.0	0.0	-
PBT	457.0	617.5	-26.0%	498.1	-8.3%	1,074.5	965.2	11.3%
Tax	87.4	156.0	-44.0%	115.2	-24.1%	243.4	227.7	6.9%
PAT before EI	369.6	461.5	-19.9%	382.9	-3.5%	831.1	737.5	12.7%
Extraordinary item	36.4	0.0	-	0.0	-	36.4	0.0	-
Reported Net Profit	333.1	461.5	-27.8%	382.9	-13.0%	794.6	737.5	7.8%
Equity Capital	72.3	72.3	-	72.3	-	72.3	72.3	-
Reported EPS	46.1	60.9	-24.3%	53.0	-13.0%	107.0	102.1	4.8%

Ratio Analysis

Profitability	Jun 10	Mar 10	Q-Q(bps)	Jun 09	Y-Y(bps)	H1CY10	H1CY09	Y-Y(bps)
OPM (%)	31.1%	32.3%	(121.7)	37.8%	(663.6)	31.7%	37.4%	(569.7)
EBITDA (%)	33.7%	46.9%	(1,321.2)	39.8%	(616.0)	40.1%	40.5%	(37.2)
EBIT (%)	30.3%	43.2%	(1,290.3)	36.7%	(639.6)	36.6%	37.6%	(98.5)
PAT (%)	22.1%	32.3%	(1,020.1)	28.2%	(612.1)	27.1%	28.7%	(165.2)

Operational Parameters	Jun 10	Mar 10	Q-Q(bps)	Jun 09	Y-Y(bps)	H1CY10	H1CY09	Y-Y(bps)
Staff Expense	43.2%	39.9%	333.3	39.6%	364.6	42.3%	40.3%	204.0
Establishment Expense	4.9%	4.3%	57.7	4.7%	17.8	4.7%	5.0%	(29.3)
Rent Expense	7.4%	7.8%	(37.6)	5.3%	209.0	7.7%	5.5%	216.3
Travel Expense	3.5%	3.4%	17.5	3.0%	55.0	3.5%	2.8%	74.0
Professional Fees	5.0%	4.3%	73.1	6.0%	(100.6)	4.7%	5.5%	(82.4)
Other Expense	5.2%	6.0%	(79.9)	3.9%	133.5	5.7%	4.3%	142.6
Effective Tax Rate	19.1%	25.3%	(613.7)	23.1%	(400.7)	22.7%	23.6%	(93.8)

Segmental Performance Review

Segment Revenues	Jun 10	Mar 10	Q-Q (%)	Jun 09	Y-Y (%)	H1CY10	H1CY09	Y-Y (%)
Rating Services	709.8	650.4	9.1%	607.9	16.8%	1,360.2	1,197.6	13.6%
Advisory Services	130.5	131.5	-0.8%	176.1	-25.9%	262.0	260.2	0.7%
Research Services	665.7	645.9	3.1%	571.6	16.4%	1,311.6	1,108.5	18.3%
Total	1,505.9	1,427.9	5.5%	1,355.6	11.1%	2,933.8	2,566.2	14.3%

Segment Revenue Mix	Jun 10	Mar 10	Q-Q(bps)	Jun 09	Y-Y(bps)	H1CY10	H1CY09	Y-Y(bps)
Rating Services	47.13%	45.55%	158.1	44.84%	229.3	46.36%	46.67%	(30.4)
Advisory Services	8.66%	9.21%	(54.9)	12.99%	(433.0)	8.93%	10.14%	(120.8)
Research Services	44.20%	45.24%	(103.2)	42.17%	203.7	44.71%	43.19%	151.2
Total	100.00%	100.00%	-	100.00%	-	100.00%	100.00%	-

Segment Profits	Jun 10	Mar 10	Q-Q (%)	Jun 09	Y-Y (%)	H1CY10	H1CY09	Y-Y (%)
Rating Services	298.4	288.1	3.6%	270.6	10.3%	586.5	549.3	6.8%
Advisory Services	17.7	24.0	-26.2%	51.3	-65.5%	41.7	37.3	11.9%
Research Services	149.8	176.9	-15.3%	191.3	-21.7%	326.7	370.8	-11.9%
Total	465.9	489.1	-4.7%	513.2	-9.2%	955.0	957.4	-0.3%

Segment Profit Mix	Jun 10	Mar 10	Q-Q(bps)	Jun 09	Y-Y(bps)	H1CY10	H1CY09	Y-Y(bps)
Rating Services	64.0%	58.9%	513.3	52.7%	1,132.1	61.4%	57.4%	404.2
Advisory Services	3.8%	4.9%	(110.4)	10.0%	(619.1)	4.4%	3.9%	47.6
Research Services	32.2%	36.2%	(403.0)	37.3%	(512.9)	34.2%	38.7%	(451.8)
Total	100.0%	100.0%	0.0	100.0%	0.0	100.0%	100.0%	0.0

Segment Margins	Jun 10	Mar 10	Q-Q(bps)	Jun 09	Y-Y(bps)	H1CY10	H1CY09	Y-Y(bps)
Rating Services	42.0%	44.3%	(225.8)	44.5%	(247.0)	43.1%	45.9%	(274.8)
Advisory Services	13.6%	18.2%	(466.1)	29.1%	(1,553.6)	15.9%	14.3%	159.7
Research Services	22.5%	27.4%	(489.3)	33.5%	(1,096.4)	24.9%	33.5%	(854.2)
Total	30.9%	34.3%	(331.3)	37.9%	(691.5)	32.6%	37.3%	(475.7)

Financials

Earnings Statement

Particulars (Rs. Mn.)	CY08	CY09	CY10E	CY11E
Total Revenues	5,145.6	5,372.7	5,748.8	6,208.7
- Growth (%)	27.3%	4.4%	7.0%	8.0%
Total Expenditure	3,355.0	3,379.7	3,560.0	3,825.5
Operating Profit	1,790.6	1,993.1	2,188.8	2,383.2
- Growth (%)	52.8%	11.3%	9.8%	8.9%
Other Income	216.2	230.0	253.1	278.4
EBITDA	2,006.9	2,223.1	2,441.9	2,661.6
- Growth (%)	58.9%	10.8%	9.8%	9.0%
Depreciation	136.4	148.5	151.7	157.5
EBIT	1,870.5	2,074.6	2,290.2	2,504.1
Interest	0.0	0.0	0.0	0.0
PBT	1,870.5	2,074.6	2,290.2	2,504.1
Tax	464.7	466.8	504.6	551.7
Net Profit	1,405.7	1,607.8	1,785.6	1,952.4
- Growth (%)	68.0%	14.4%	11.1%	9.3%

Ratio Analysis

Particulars	CY08	CY09	CY10E	CY11E
OPM (%)	34.8%	37.1%	38.1%	38.4%
EBITDA (%)	39.0%	41.4%	42.5%	42.9%
PAT (%)	27.3%	29.9%	31.1%	31.4%
Interest Cover (x)	n.a.	n.a.	n.a.	n.a.
EPS (Rs.)	194.6	222.5	247.1	270.2
P/E (x)	30.0	26.3	23.7	21.6
P/BV (x)	11.8	9.7	8.3	7.1
BVPS (Rs.)	494.8	600.4	701.2	819.3
Market Cap (Rs. Mn.)	42,234.1	42,234.1	42,234.1	42,234.1
M Cap/Sales (x)	8.2	7.9	7.3	6.8
EV (Rs. Mn.)	40,942.0	40,658.4	39,918.1	38,804.0
EV/EBITDA (x)	20.4	18.3	16.3	14.6
EV/Sales (x)	8.0	7.6	6.9	6.2
ROCE (%)	53.5%	49.0%	46.4%	43.6%
RONW (%)	39.3%	37.1%	35.2%	33.0%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0
Inventory T/o Days	0.0	0.0	0.0	0.0
Debtors T/o Days	54.0	61.8	62.0	62.0
Advances T/o Days	36.8	41.4	42.0	42.0
Creditors T/o Days	80.9	108.2	110.0	110.0
Wrkg Cap T/o Days (Ex.Cash)	(19.7)	(23.5)	(22.3)	(20.1)
Fixed Assets T/o (Gross)	2.7	2.8	2.9	3.1
DPS (Rs.)	70.0	100.0	125.0	130.0
Dividend Payout (%)	36.0%	44.9%	50.6%	48.1%
Dividend Yield (%)	1.2%	1.7%	2.1%	2.2%

Balance Sheet

Particulars (Rs. Mn.)	CY08	CY09	CY10E	CY11E
Equity Capital	72.3	72.3	72.3	72.3
Reserves	3,502.9	4,265.9	4,994.2	5,847.0
Shareholders Funds	3,575.1	4,338.1	5,066.4	5,919.2
Minority Interest	0.0	0.0	0.0	0.0
Borrowed Funds	0.0	0.0	0.0	0.0
Deferred Tax Liability	(78.3)	(100.7)	(135.1)	(172.7)
Total Liabilities	3,496.8	4,237.4	4,931.3	5,746.5
Fixed Assets	1,301.4	1,837.7	1,746.0	1,338.4
Investments	1,184.4	1,175.2	1,225.2	1,325.2
Current Assets				
Sundry Debtors	771.5	922.1	990.1	1,069.3
Loans & Advances	526.0	618.1	670.7	724.4
Cash & Bank Balance	1,292.1	1,575.7	2,316.0	3,430.1
Other Current Assets	17.2	110.9	160.9	210.9
Current Liabilities				
Liabilities	1,156.1	1,615.2	1,756.6	1,897.1
Provisions	439.7	387.1	421.0	454.7
Net Current Assets	1,011.0	1,224.5	1,960.1	3,082.9
Total Assets	3,496.8	4,237.4	4,931.3	5,746.5

Cash Flow

Particulars (Rs. Mn.)	CY08	CY09	CY10E	CY11E
Opening Cash & Bank	424.2	1,292.1	1,575.7	2,316.0
Profit After Tax	1,405.7	1,607.8	1,785.6	1,952.4
Invt Income	(216.2)	(230.0)	(253.1)	(278.4)
Interest Paid	0.0	0.0	0.0	0.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0
Depreciation	136.4	148.5	151.7	157.5
Deferred Taxation	(46.1)	(22.3)	(34.4)	(37.6)
Others	(67.7)	(65.8)	0.0	0.0
Change in Working Cap	241.1	70.1	4.7	(8.7)
CF - Operating Activities	1,453.2	1,508.3	1,654.6	1,785.4
Change in Fixed Assets	2.7	(619.1)	(60.0)	250.0
Change in Investments	(209.1)	9.1	(50.0)	(100.0)
Investment Income	216.2	230.0	253.1	278.4
CF - Investing Activities	9.8	(379.9)	143.1	428.4
Increase in Equity	(3.0)	1.0	0.0	0.0
Changes in Borrowings	0.0	0.0	0.0	0.0
Dividend Paid	(592.0)	(845.8)	(1,057.3)	(1,099.6)
CF - Financing Activities	(595.1)	(844.8)	(1,057.3)	(1,099.6)
Net Change in Cash	867.9	283.5	740.3	1,114.1
Closing Cash & Bank Bal	1,292.1	1,575.7	2,316.0	3,430.1

Disclaimer

Disclosure of Interest Statement	Crisil Limited
1. Analyst Ownership of the scrip	NO
2. PPFAS ownership of the scrip	YES
3. PMS ownership of the scrip	YES

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