

Crisil Limited

CMP Rs. 2251.0
BUY

Q408 & CY08
Result Review

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Crisil has reported decent but lower than expected results for the last quarter & the fiscal of 2008. Crisil concluded the year with an reported EPS of Rs. 194.6, a good 68% increase over the previous year. This is very good even if one factors some impact of the sale of 90% stake in Gas Strategies. The results are however lower than our estimate of Rs. 202 for the full year. It was basically the staff expense which grew significantly by 37% sequentially amidst a flat topline performance sequentially. The impact of this is also reflected in the bottomline which is down 21% sequentially. However the other expenses * taxation were lower than anticipated and has provided some buffer. Crisil will be distributing Rs. 70 as dividends for the fiscal.

The Best of the three businesses, i.e. Ratings grew at a much better pace, while the research division saw a Q-Q decline of 9.6%. The margins for both ratings & research business has been slightly lower during the quarter, which we attribute to the higher salary compensation and increasing growth from the relatively lower-margin bank-loan-rating business (rating) and the generally difficult environment for Irevna (research).

In terms of outlook, the rating business seems to be comfortably poised with better prospects from the BLR, Corporate & NBFC segments. We remain concerned for the prospects of Irevna in the prolonged difficult international scenario. Advisory business is likely to witness an aberration with the elections coming up in the coming few months.

While we believe that the other rating companies in India have their business mix heavier towards ratings & may benefit out of the same, Crisil remains a quality play. A goog company in a great business available at very attractive valuations. We re-iterate that one should take advantage of the current opportunity to acquire meaningful positions in businesses like ratings. We go by our investment arguments (influential positioning + excellent business economics + high entry barriers + growth opportunities + cheap valuations) and recommend a BUY for Crisil which is available cheap at 11.6x its CY08 reported earnings.

Earnings Statement								
YE March (Rs. Mn.)	Dec 08	Sept 08	Q-Q(%)	Dec 07	Y-Y(%)	CY08	CY07	Y-Y(%)
Net Revenues	1,376.5	1,350.4	1.94%	1,197.3	14.97%	5,145.6	4,043.3	27.26%
Total Expenditure	1,005.2	782.0	28.53%	841.5	19.45%	3,389.9	2,871.7	18.05%
Operating Profit	371.3	568.3	-34.67%	355.8	4.37%	1,755.7	1,171.7	49.85%
Other Income	91.0	56.2	62.02%	3.7	2333.65%	251.1	91.6	174.17%
EBITDA	462.3	624.5	-25.97%	359.5	28.61%	2,006.9	1,263.3	58.86%
Depreciation	37.1	38.1	-2.56%	32.2	15.27%	136.4	156.9	-13.07%
EBIT	425.2	586.4	-27.49%	327.3	29.92%	1,870.5	1,106.4	69.06%
Interest	0.0	0.0	0.00%	0.0	0.00%	0.0	0.0	0.00%
PBT	425.2	586.4	-27.49%	327.3	29.92%	1,870.5	1,106.4	69.06%
Tax	112.9	163.2	-30.80%	101.8	10.95%	464.7	269.7	72.30%
PAT before MI	312.3	423.2	-26.21%	225.5	38.49%	1,405.7	836.6	68.02%
Minority Interest	0.0	0.0		0.0		0.0	0.0	
PAT after MI	312.3	423.2	-26.21%	225.5	38.49%	1,405.7	836.6	68.02%
Equity Capital	72.3	72.3	0.00%	72.3	0.00%	72.3	72.3	0.00%
EPS	43.22	58.58	-26.22%	31.21	38.48%	194.57	117.60	65.45%
Ratio Analysis								
Profitability								
YE March	Dec 08	Sept 08	Q-Q(bps)	Dec 07	Y-Y(bps)	CY08	CY07	Y-Y(bps)
OPM (%)	26.97%	42.09%	(1,511.2)	29.71%	1,237.2	34.12%	28.98%	514.3
EBITDA (%)	33.59%	46.25%	(1,265.9)	30.03%	1,622.1	39.00%	31.24%	775.8
EBIT (%)	30.89%	43.43%	(1,253.5)	27.34%	1,609.0	36.35%	27.36%	898.8
PAT (%)	22.69%	31.34%	(865.4)	18.83%	1,250.7	27.32%	20.69%	662.8

Quarterly Segmental Analysis

Segment Revenues	Dec 08	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
Rating Services	526.2	451.6	463.8	446.1	365.1	300.1
Advisory Services	265.9	252.5	271.6	206.2	311.8	246.5
Research Services	584.4	646.2	515.9	515.1	520.4	446.6
Total	1,376.5	1,350.4	1,251.3	1,167.4	1,197.3	993.2
Segment Revenue Mix	Dec 08	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
Rating Services	38.2%	33.4%	37.1%	38.2%	30.5%	30.2%
Advisory Services	19.3%	18.7%	21.7%	17.7%	26.0%	24.8%
Research Services	42.5%	47.9%	41.2%	44.1%	43.5%	45.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Q-Q Revenue Growth	Dec 08	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
Rating Services	16.5%	-2.6%	4.0%	22.2%	21.7%	4.9%
Advisory Services	5.3%	-7.0%	31.7%	-33.8%	26.5%	-0.7%
Research Services	-9.6%	25.3%	0.2%	-1.0%	16.5%	5.0%
Total	1.9%	7.9%	7.2%	-2.5%	20.5%	3.5%
Y-Y Revenue Growth	Dec 08	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
Rating Services	44.1%	50.5%	62.1%	58.4%	38.3%	4.7%
Advisory Services	-14.7%	2.4%	9.5%	-20.4%	23.8%	7.7%
Research Services	12.3%	44.7%	21.3%	46.1%	54.7%	52.1%
Total	15.0%	36.0%	30.4%	30.7%	40.5%	22.7%
Segment Profits	Dec 08	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
Rating Services	253.7	242.1	189.8	222.5	139.5	133.9
Advisory Services	70.3	66.0	52.6	27.8	94.9	49.6
Research Services	131.6	293.5	214.3	180.4	128.7	141.9
Total	455.6	601.6	456.7	430.7	363.1	325.4
Segment Profit Mix	Dec 08	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
Rating Services	55.7%	40.2%	41.6%	51.7%	38.4%	41.2%
Advisory Services	15.4%	11.0%	11.5%	6.5%	26.1%	15.2%
Research Services	28.9%	48.8%	46.9%	41.9%	35.4%	43.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Segment Margins	Dec 08	Sept 08	Jun 08	Mar 08	Dec 07	Sept 07
Rating Services	48.2%	53.6%	40.9%	49.9%	38.2%	44.6%
Advisory Services	26.4%	26.1%	19.4%	13.5%	30.4%	20.1%
Research Services	22.5%	45.4%	41.5%	35.0%	24.7%	31.8%
Total	33.1%	44.5%	36.5%	36.9%	30.3%	32.8%

Financials

Earnings Statement				
Particulars (Rs. Mn.)	CY06	CY07	CY08	CY09E
Total Revenues	2,873.3	4,043.3	5,145.6	6,226.2
- Growth (%)	104.5%	40.7%	27.3%	21.0%
Total Expenditure	2,067.2	2,871.7	3,355.0	4,031.7
Operating Profit	806.0	1,171.7	1,790.6	2,194.5
- Growth (%)	107.2%	45.4%	52.8%	22.6%
Other Income	67.0	91.6	216.2	171.2
EBITDA	873.1	1,263.3	2,006.9	2,365.7
- Growth (%)	112.9%	44.7%	58.9%	17.9%
Depreciation	78.5	156.9	136.4	200.2
EBIT	794.5	1,106.4	1,870.5	2,165.5
Interest	0.0	0.0	0.0	0.0
PBT	794.5	1,106.4	1,870.5	2,165.5
Tax	187.9	269.7	464.7	649.7
PAT Before EI	606.6	836.6	1,405.7	1,515.9
- Growth (%)	147.5%	37.9%	68.0%	7.8%
Extraordinary Items	7.7	0.0	0.0	0.0
Reported PAT	614.31	836.64	1405.74	1515.86

Ratio Analysis				
Particulars	CY06	CY07	CY08E	CY09E
OPM (%)	28.1%	29%	35%	35%
EBITDA (%)	30.4%	31%	39%	38%
PAT (%)	21.1%	21%	27%	24%
Interest Cover (x)	n.a.	n.a.	n.a.	n.a.
EPS (Rs.)	89.8	115.8	194.6	209.8
P/E (x)	25.1	19.4	11.6	10.7
P/BV (x)	8.0	5.9	4.5	3.6
BVPS (Rs.)	279.6	382.6	497.3	621.5
Market Cap (Rs. Mn.)	15,206.5	16,263.5	16,263.5	16,263.5
M Cap/Sales (x)	5.3	4.0	3.2	2.6
EV (Rs. Mn.)	14,821.5	15,839.3	15,826.6	15,751.7
EV/EBITDA (x)	17.0	12.5	7.9	6.7
EV/Sales (x)	5.2	3.9	3.1	2.5
ROCE (%)	41.4%	40.5%	52.5%	48.6%
RONW (%)	32.1%	30.3%	39.1%	33.8%
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	83.6	79.9	85.0	85.0
Advances T/o Days	20.3	36.3	35.0	35.0
Creditors T/o Days	87.8	85.4	80.0	80.0
Wrkg Cap T/o Days (Ex.Cash)	(4.8)	(3.6)	7.8	7.8
Fixed Assets T/o (Gross)	1.8	2.2	2.2	2.2
DPS (Rs.)	15.0	25.0	70.0	75.0
Dividend Payout (%)	16.7%	21.6%	36.0%	35.7%
Dividend Yield (%)	0.7%	1.1%	3.1%	3.3%

Balance Sheet				
Particulars (Rs. Mn.)	CY06	CY07	CY08E	CY09E
Equity Capital	67.6	72.3	72.3	72.3
Reserves	1,821.5	2,692.2	3,520.6	4,417.8
Shareholders Funds	1,889.0	2,764.4	3,592.8	4,490.0
Minority Interest	0.0	0.0	0.0	0.0
Borrowed Funds	0.0	0.0	0.0	0.0
Deferred Tax Liability	29.7	(32.7)	(32.7)	(32.7)
Total Liabilities	1,918.7	2,731.7	3,560.1	4,457.3
Fixed Assets	1,172.4	1,372.3	1,735.8	2,035.7
Investments	399.6	975.3	1,275.3	1,775.3
Current Assets				
Inventory	0.0	0.0	0.0	0.0
Sundry Debtors	667.1	897.4	1,214.9	1,470.1
Loans & Advances	162.0	407.2	500.3	605.3
Cash & Bank Balance	385.0	424.2	436.9	511.8
Other Current Assets	0.7	3.9	5.0	5.0
Current Liabilities				
Liabilities	700.4	958.9	1,143.5	1,383.6
Provisions	167.7	389.6	464.6	562.2
Net Current Assets	346.7	384.2	549.0	646.4
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0
Total Assets	1,918.7	2,731.7	3,560.1	4,457.3

Cash Flow				
Particulars (Rs. Mn.)	CY06	CY07	CY08E	CY09E
Opening Cash & Bank	166.4	385.0	424.2	436.9
Profit After Tax	614.3	836.6	1,405.7	1,515.9
Invnt Income	(67.0)	(91.6)	(216.2)	(171.2)
Interest Paid	0.0	0.0	0.0	0.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0
Depreciation	78.5	156.9	136.4	200.2
Deferred Taxation	(4.1)	(36.8)	0.0	0.0
Others	(66.5)	(64.9)	0.0	(0.0)
Change in Working Cap	16.9	1.7	(152.1)	(22.5)
CF - Operating Activities	572.1	802.0	1,173.8	1,522.3
Change in Fixed Assets	(456.6)	(317.5)	(500.0)	(500.0)
Change in Investments	80.0	(575.6)	(300.0)	(500.0)
Investment Income	67.0	91.6	216.2	171.2
CF - Investing Activities	(309.5)	(801.5)	(583.8)	(828.8)
Increase in Equity	78.0	253.2	0.0	0.0
Changes in Borrowings	0.0	0.0	0.0	0.0
Interest Paid	0.0	0.0	0.0	0.0
Dividend Paid	(121.9)	(214.5)	(577.4)	(618.6)
CF - Financing Activities	(44.0)	38.8	(577.4)	(618.6)
Net Change in Cash	218.6	39.2	12.7	74.9
Closing Cash & Bank Bal	385.0	424.2	436.9	511.8

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Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

Crisil

- YES
YES
YES

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