

CRISIL LTD.

BSE Code	: 500092
Time Duration	: 18 months
CMP	: ₹1,603.40 (as on 25 June 2020)
Target Price	: ₹1,920



Large Rhino for the month of July 2020 is CRISIL, a global analytical company and India's foremost provider of ratings, data and research, analytics and solutions. CRISIL has valued nearly US\$ 1.88 trillion of Indian debt securities. Banks that account for over 90 per cent of assets in Indian banking sector, actively uses CRISIL's research for credit decisions. CRISIL has rated over 1,50,000 micro, small and medium enterprises (MSMEs) in India, which is far better than its peers. It employs more than 3,500 employees, who are the real asset of the company. CRISIL works with 41 of the top 50 global asset managers. Besides, 17 of the top 20 global investment banks are customers of CRISIL.

CRISIL operates through three main segments:

- Research (~62 per cent of Q1CY20 revenue). It offers in-depth research on the economy industry and company spectrum.
- Rating (~31 per cent of Q1CY20 revenue). The company rates all kinds of organisation such as industrial companies, banks, SMEs, non-banking financial institutions, insurance providers, mutual funds, infrastructure entities, state governments and urban local bodies.
- Advisory (7 per cent of the revenue). The company provides advisory services on policy, infrastructure and energy through its subsidiary CRISIL Risk and Infrastructure Solutions (CRIS).

Greenwich Associates to help in strengthening its position

In February 2020, the company completed the acquisition of Greenwich Associates LLC. This acquisition is likely to benefit CRISIL as Greenwich is having over 300 clients across top investment banks, corporate banks, commercial banks, asset managers as well as the key players in the market infrastructure space globally. Thus, this acquisition will enable the company to bring in a different, new and heftier analytics together with the leading player in the growing market of global benchmarking analytics across financial services. The acquisition will complement CRISIL's existing portfolio of products and expand offerings to new segments across financial services including commercial banks, asset and wealth managers. The deal is expected to boost CRISIL's strategy to be the leading player in the growing market of global benchmarking analytics.

Diversified revenue stream

The close peers of CRISIL generate most of their revenue from rating business but unlike them, CRISIL has diversified its revenue stream to other segments like research and advisory. CRISIL generates nearly 30 per cent of its revenue from rating, which reduces the concentration risk. CRISIL also launched AlphaTrax, a multi-asset wealth tracking solution offering superior reporting and stronger risk control. CRISIL continued to be the leading provider of fixed-income indices in India and launched five new indices in 2019, taking the total count to 96. Also, the company has improved its strong position in the valuations space by winning mandates from general insurers and corporates. The advisory segment (business intelligence and risk solutions) has won several mandates in the regulatory reporting and credit monitoring space. This segment continues to maintain the flagship position in the internal credit rating platform, with the implementation of a new-age risk assessment model.

Industry tailwinds

New instruments such as real estate investment trust (REIT), infrastructure bonds, hybrid for the insurance sector will help the bond market development, going forward. New NPA under the implementation of bankruptcy code has a specific role for rating agencies. Basel III approach of liquidity guidelines will allow banks to invest up to 40 per cent in bonds and commercial papers as against 10 per cent. Rating revenue in India is less than one per cent of the entire credit market as compared to 5.6 per cent in US. Capital infu-

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sion into PSU banks and easing of liquidity situation at large, NBFCs can help revive demand in the segment. Recent credit concerns have also led to an increased risk awareness and demand for stronger credit research, analytics and risk monitoring tool. Out of the total Rs 20 trillion stimulus packages announced by the government, nearly 64 per cent is in the form of liquidity and loan guarantee, which in turn, bodes well for the rating agencies. All these provide headroom for rating agencies to grow in the future. CRISIL, being a leader in the industry, is expected to be a key beneficiary of these developments.

Financial performance

Since 2014, the income per employee has surged from Rs 36.3 lakh to Rs 46.9 lakh in 2019. The company has been paying dividend continuously and with this, maintained an average dividend payout ratio of more than 60 per cent in the last five years. In CY2019, the company had reported revenue of Rs 1,732 crore, which is almost flat as compared to Rs 1,748 in the previous year. EBITDA for the year was at Rs 528.68 crore as against Rs 544.64 crore in CY18. During the year, the advisory segment turned profitable as receivable provisioning dropped. PAT for the full year was down marginally to Rs 344 crore. As on CY19, the company holds strong cash, bank balance and other financial investment of Rs 595.35 crore.

In the recently concluded quarter (Q1CY20), its revenue was up marginally by 3 per cent YoY to Rs 427.8 crore. EBITDA for the quarter was down by 3 per cent YoY to Rs 111.1 crore with a corresponding margin contraction of 153 bps. However, PAT for Q1CY20, grew by 15 per cent YoY to Rs 88.12 crore. Meanwhile, PAT margin improved to 20.6 per cent.

Valuation and outlook

CRISIL is India's largest credit rating agency backed by a strong global parentage Standard & Poor's, which owns nearly 67.24 per cent. Unlike its peers, the company has a diversified business model, which reduces the concentration risk. Central Government's efforts to jump-start the economy by injecting liquidity and providing loan guarantee, bodes well for the rating agencies. However, the global recession and a sharp slowdown in India, owing to COVID-19 pandemic, may hurt adversely to the company's performance. The stock of CRISIL is available at P/E multiple of ~31x on TTM earnings as against five-year median P/E of 44.2x. Also, at the current level, the stock offers a healthy dividend yield of 2.1 per cent. Considering all the above factors, we recommend a BUY on the stock with a target price of Rs 1,920 apiece, representing a potential upside of 20 per cent.

Inc/Exp Statement (Consolidated)					
Description	201912	201812	201712	201612	201512
Net Sales	1731.72	1748.49	1658.46	1547.51	1379.94
Total Income	1804.56	1821.9	1683.84	1597.18	1423.16
Total Expenditure	1275.88	1277.26	1203.18	1104.18	980.34
PBIDT	528.68	544.64	480.66	493	442.82
PAT	343.95	363.1	304.43	294.33	285.15
Dividend %	3200	3000	2800	2700	2300
Adj. EPS(Rs)	47.57	50.36	42.46	41.28	40.04

Quarter On Quarter (Consolidated)					
Particulars	202003	201912	Q on Q Var %	201903	Y on Y Var %
Net Sales	427.77	464.29	-7.87	415.79	2.88
Total Expenditure	316.66	342.75	-7.61	301.43	5.05
PBIDT (Excl OI)	111.11	121.54	-8.58	114.36	-2.84
PAT	88.12	95.33	-7.56	76.64	14.98
PBIDTM% (Excl OI)	25.97	26.18	-0.8	27.5	-5.56
PBIDTM%	34.12	30.48	11.94	29.21	16.81
PATM%	20.6	20.53	0.34	18.43	11.77
Adj. EPS(Rs)	12.15	13.19	-7.88	10.61	14.51

Stock vs. Index



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