

April 22, 2024

**RESULT REPORT Q1 CY24** | Sector: Credit Rating Agencies

# CRISIL Limited

## A subdued quarter

### Soft growth in GR&RS and GAC; overall margins were lower too

CRISIL delivered a significant miss on our Revenue/EBITDA/PAT expectations owing to revenue decline in GR&RS, flattish-to-marginal revenue growth in GAC and growth deceleration in Domestic Ratings. Consolidated revenue growth at 3.2% yoy was materially lower than our estimate of 10% yoy, and consolidated EBITDA margin at 26% was significantly below our estimate of 29% (qoq/yoy margin performance was weak even adjusted for currency movements and forex gains/losses). Margins in Ratings segment improved on increased share of Domestic Ratings, while margins in RAS segment declined steeply (essentially driven by GR&RS business and not GBA and MI&A). Lower EBITDA, lower other income (in context of preceding two quarters) and higher tax rate (30% v/s usual 24-25%) caused PAT to be 20%+ lower than our expectation for the quarter.

### Tepid spend sentiment impacted GR&RS; GBA had a good quarter

CRISIL ascribed revenue growth weakness in GR&RS to slower decision making and curtailed discretionary spending by global banks and financial institutions, and some impact from the global M&A activity witnessed last year. Management denied any role of market share/wallet share loss and competition in the soft growth trends reported during recent quarters. Spend uncertainty/hesitancy of clients is impacting pipeline conversion/execution, timely renewals and role expansion (new mandate), even as new client addition continues. Though spend sentiments are anticipated to remain moderate for next few months, management alluded that full-year growth performance of GR&RS business could be much better than the first quarter. CRISIL has put in place a business strategy and offering/solution pipeline to mitigate the impact of slowdown, which will help in improving share in existing clients and add new clients.

GBA business witnessed strong demand for its solutions as the macro uncertainty and perceived stress increased clients' need for benchmarking analytics. CRISIL also has been demonstrating strong progress on its strategy of increasing client penetration and new client addition through existing offerings and new initiatives. Management is reasonably confident of sustaining the growth momentum in this business with underlying dynamics largely immune to macros.

### Dominance in Domestic Ratings; no change in GAC's engagement

Ratings segment (~25% of Consol. Rev.) revenue growth decelerated to 8.4% yoy from 18% yoy in Q4 CY23 and 16% yoy for CY23. Domestic Ratings growth slowed to 12% yoy (15.5% yoy in Q4 CY23 and 17% yoy for CY23) on account of reduced growth in bond issuances and modest corporate credit growth. CRISIL maintained its dominant share in Bond Ratings and its premium pricing. GAC's growth (analytical support to S&P Global) in Q1 CY24 was much lower (flattish-to-marginal) than preceding quarter (~20% yoy) and full-year CY23 (~15% yoy). Management expects better growth performance for the year as company has expanded its engagement with the parent over the years and structurally nothing has changed.

### Earnings estimates undergo material cut; rate Neutral

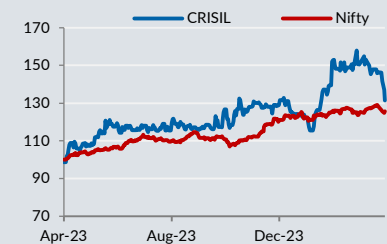
We have cut CY24/25 earnings estimates by 10%/11% by lowering both revenue and margin expectations, factoring risks of continued soft growth in GR&RS and GAC and consequent margin challenges. However, it is noted that CRISIL performs resiliently over longer timeframes even during subdued macro phases. To mitigate the impact of low growth on margins, the company has some levers like management of headcount addition/backfill, bench utilization and productivity, tech interventions, IP-led offerings, and tweaking pricing if required. Hence, the management harbors expectations of grow margins across businesses on longer timeframes. Stock trades well above its long-term mean valuation and can underperform given the likely persistence of moderate growth in near term.

Reco	: NEUTRAL
CMP	: Rs 4,345
Target Price	: Rs 4,500
Potential Return	: +3.6%

#### Stock data (as on April 19, 2024)

Nifty	22,147
52 Week h/l (Rs)	5269 / 3241
Market cap (Rs/USD mn)	331366 / 3975
Outstanding Shares (mn)	73
6m Avg t/o (Rs mn):	197
Div. yield (%):	1.1
Bloomberg code:	CRISIL IN
NSE code:	CRISIL

#### Stock performance



	1M	3M	1Y
Absolute return	-12.7%	7.5%	33.0%

#### Shareholding pattern (As of Mar-24)

Promoter	66.7%
FII+DII	20.2%
Others	13.2%

#### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	4,500	4,820

#### Δ in earnings estimates

	CY23	CY24e	CY25e
EPS (New)	90.1	96.0	112.5
EPS (Old)	90.1	107.0	125.7
% Change	%	-10.3%	-10.5%

#### Financial Summary

(Rs mn)	CY23	CY24E	CY25E
Net Revenue	31,395	34,223	38,695
EBIDTA	8,815	9,268	10,761
Margin (%)	28.1%	27.1%	27.8%
PAT	6,584	7,015	8,227
Growth (%)	16.7%	6.5%	17.3%
ROE (%)	33.1%	30.1%	31.2%
EPS (Rs)	90.1	96.0	112.5
P/E (x)	48.2	45.3	38.6
BV (Rs)	299	338	383
P/BV (x)	14.5	12.9	11.3

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## Exhibit 1: Result Table

Particulars (Rs mn)	Q1CY24	Q4CY23	QoQ	Q1CY23	YoY
Revenues	7,377	9,177	-19.6%	7,149	3.2%
Associate Service Fees	312	552	-43.6%	246	26.8%
Employee Cost	4,236	4,860	-12.9%	3,927	7.9%
Other Expenses	908	1,075	-15.5%	942	-3.5%
Total Expense	5,456	6,488	-15.9%	5,114	6.7%
Operating Profit	1,921	2,690	-28.6%	2,035	-5.6%
Other Income	211	358	-41.1%	173	21.6%
Finance cost	7	8	-10.3%	12	-40.7%
Depreciation	170	252	-32.5%	260	-34.5%
Profit before Tax	1,955	2,788	-29.9%	1,936	1.0%
Tax Expense	578	687	-15.9%	479	20.7%
Profit After Tax	1,377	2,101	-34.5%	1,458	-5.5%

Source: Company, YES Sec

## Exhibit 2: Segmental Performance

Particulars (Rs mn)	Q1CY24	Q4CY23	QoQ (%)	Q1CY23	YoY (%)
<b>Ratings</b>					
Revenue	2,022	2,096	(3.5)	1,865	8.4
PBIT	1,013	862	17.5	897	13.0
PBIT Margin (%)	50.1	41.1		48.1	
<b>Research, Analytics and Solutions</b>					
Revenue	5,355	7,082	(24.4)	5,284	1.3
PBIT	868	1,665	(47.8)	1,093	(20.6)
PBIT Margin (%)	16.2	23.5		20.7	

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### Growth & Margins

- Seeing slower decision making and curtailed discretionary spending by global clients, which may continue to play for next few months.
- Some impact on business/growth also on account of global M&A activity witnessed in the preceding year.
- Have put in place a business strategy and offering/solution pipeline to mitigate the slowdown impact and which will help in improving share in existing clients and add new clients.
- Adding new clients across businesses and retaining competitive position and wallet share in existing accounts/segments.
- GBA business witnessing strong demand for its solutions, while there was muted growth in GR&RS.
- Company alluded to soft growth reported in GR&RS for Q1 CY24 not being representative of the likely full-year performance.
- CRISIL Ratings further consolidated its market position in Domestic Ratings industry.
- GAC is strengthening support to S&P Global in newer areas.
- Persistent focus is to grow margins across businesses on consistent basis, while investing for growth and developing capabilities.
- Levers to mitigate the impact of an extended slowdown or for growing margins are 1) inherent operating leverage in IP-led offerings/solutions and 2) management of headcount addition/backfill, bench utilization and productivity, tech interventions and if required raising pricing.
- Company focused on annual margin delivery and not quarterly margin movements.
- Have 4600+ employees, of which 75-80% would be in India.
- Key risks to business/financial performance mentioned as pervasive adoption/penetration of AI/ML solutions and fluctuations in foreign currency.

### GBA Business

- The business witnessed reasonably strong growth in Q1 CY24 with momentum continuing from CY23.
- There was no spill over or lumpy recognition of revenues from the business won in CY23.
- Demonstrated good progress on strategy of increasing client penetration and new client addition through existing offerings/solutions and new initiatives.
- Macro uncertainty and perceived stress also increased need for benchmarking analytics provided by the company.
- Company has been working on reducing cyclicalities in the business and expects it to keep coming down.
- Management confident of sustaining the growth witnessed, with business dynamics not so much connected with macros.
- GBA continued to strengthen client engagement through new banking solutions.

### GR&RS Business

- The business reported muted growth in Q1 CY24 on a higher base of last year on account of slowdown in discretionary spending by global Banks & FIs amidst macroeconomic uncertainty and the impact of consolidation/M&A activity of large European Banks.
- While there are headwinds, the Management is also seeing opportunity in new areas and through the growth strategy put in place.

# CRISIL Limited

- There were new logo additions in Q1 CY24 which included a large Asset Management entity.
- The company is improving outreach to Tier 2 & 3 institutions through partnership channels.
- CRISIL set up a Delivery Centre in Columbia for a North American Client during the quarter.
- Underlying competitive position, wallet share, and client stickiness remains intact.
- Company alluded to soft growth performance in Q1 CY24 not being representative of the likely full-year performance.
- Though Global Banks could remain cautious on discretionary spending in the near term, project renewals and pipeline conversion may see positive movement after some delay witnessed in the first quarter.

## Domestic Ratings

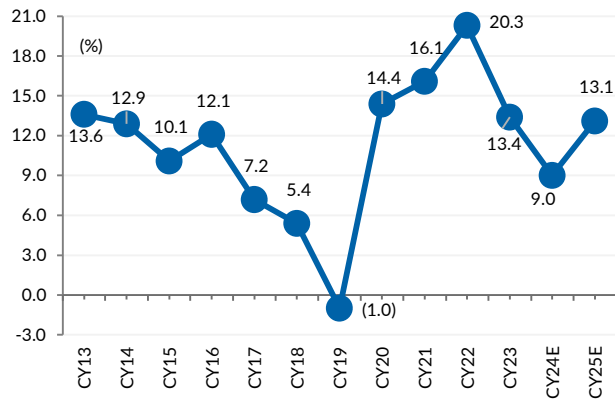
- Revenue growth was 12% yoy in Q1 CY24 with growth largely driven by Bond Ratings and Bank Loan Ratings for Mid Corporates.
- Bond Issuances growth was 9% yoy in Q1 CY24 on higher base, and Bank Credit to Large Corporates grew by 6.6% yoy.
- NBFC and Infra sectors were strong drivers of growth in Bond Ratings.
- Maintaining leading market share in Bond Ratings in the range of 60-68%.
- Pricing remains stable in Domestic Ratings with healthy underlying trends in volumes.
- Capital Market issuances could likely remain sluggish in near term due to higher rates and market tightness, but a revival is expected in H2 FY25.
- Applied for ESG Ratings and awaiting approval and feedback from SEBI.

## GAC

- GAC is near 10% of consolidated revenue.
- 20 years of partnership between GAC and S&P Global.
- Have expanded the engagement to capture different work flows on ratings side, support for various non-ratings products and supporting for various geographies.
- Cost mark-up pricing model which is based on the nature of work and value addition.

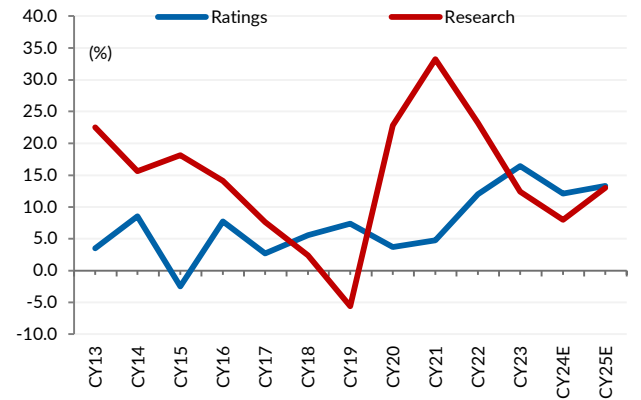
## STORY IN CHARTS

**Exhibit 3: Overall revenue growth trend**



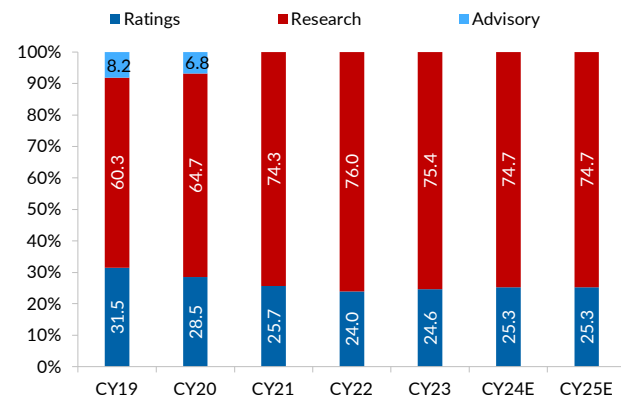
Source: Company, YES Sec

**Exhibit 4: Segmental revenue growth trend**



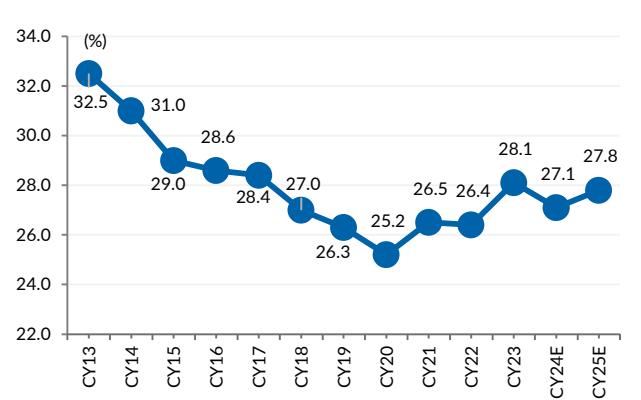
Source: Company, YES Sec

**Exhibit 5: Segmental revenue mix**



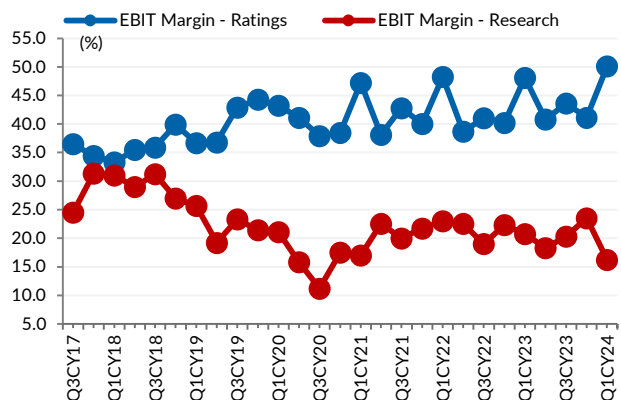
Source: Company, YES Sec

**Exhibit 6: EBITDA margin improvement**



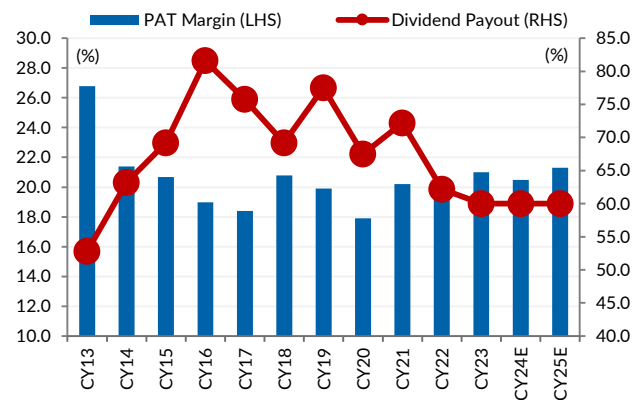
Source: Company, YES Sec

**Exhibit 7: Segmental margins**



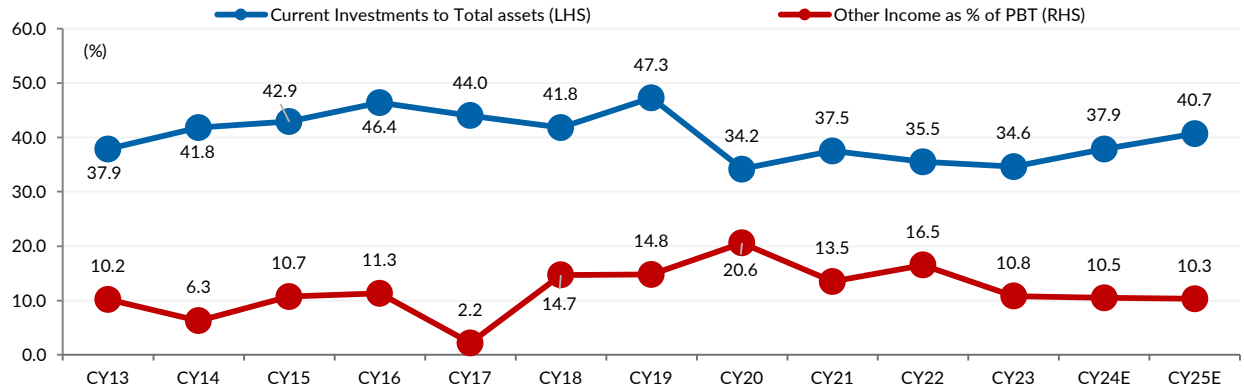
Source: Company, YES Sec

**Exhibit 8: High profitability & DPR to continue**



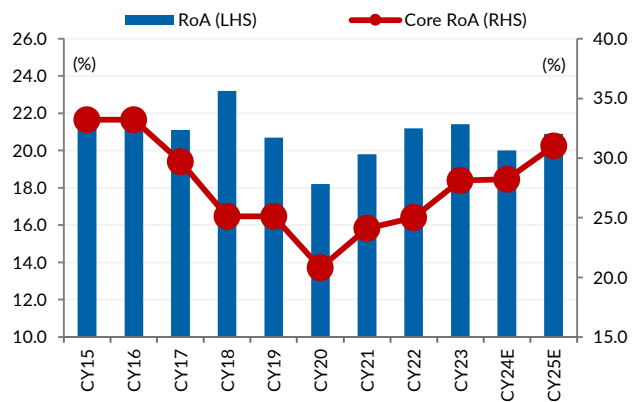
Source: Company, YES Sec

**Exhibit 9: Consistent robust cash generation ensures significant liquidity on BS despite high DPR**

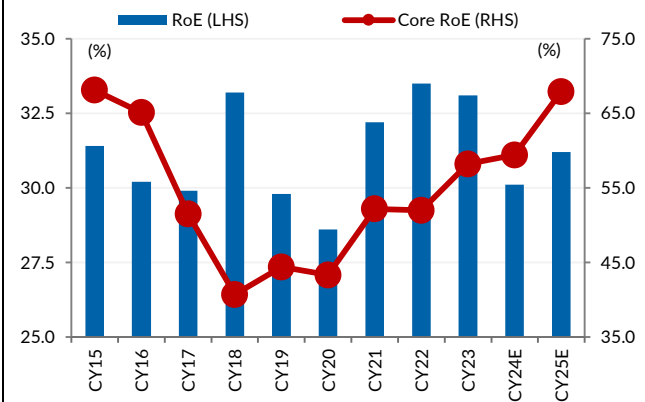


Source: Company, YES Sec

**Exhibit 10: Core profitability metrics will improve underpinned by margin expansion and healthy growth**

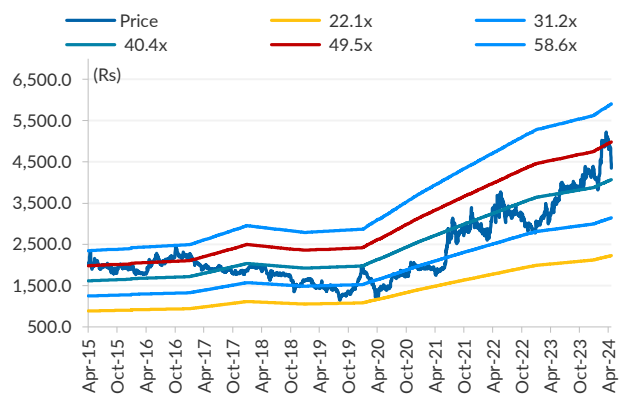


Source: Company, YES Sec



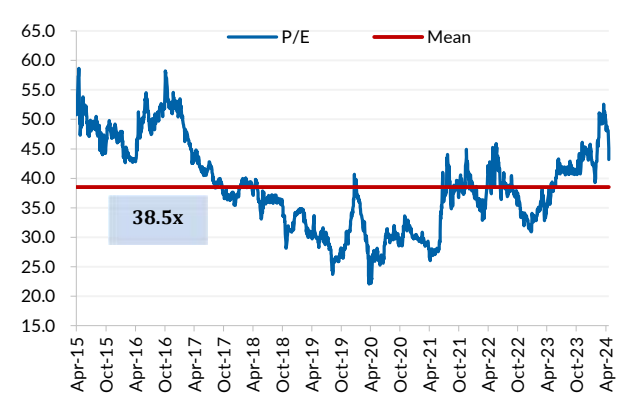
Source: Company, YES Sec

**Exhibit 11: 1 year rolling P/E band**



Source: Company, YES Sec

**Exhibit 12: 1 year rolling P/E vis-à-vis the Mean**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 13: Balance sheet**

Y/e 31 Mar (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
Equity	73	73	73	73	73
Reserves	15,711	17,847	21,820	24,626	27,918
<b>Net worth</b>	<b>15,784</b>	<b>17,920</b>	<b>21,893</b>	<b>24,699</b>	<b>27,991</b>
Long-Term Provisions	212	289	404	444	489
Other financial liabilities	1,026	663	780	780	780
<b>Total Non-Current Liabilities</b>	<b>1,237</b>	<b>952</b>	<b>1,184</b>	<b>1,224</b>	<b>1,269</b>
Trade Payables	1,337	1,420	1,426	1,554	1,757
Other financial liabilities	2,904	3,875	3,794	4,135	4,676
Other Current Liabilities	2,908	3,152	3,800	4,142	4,684
Short-Term Provisions	815	871	1,011	1,112	1,223
Current tax liabilities (net)	53	120	39	43	47
<b>Total Current Liabilities</b>	<b>8,018</b>	<b>9,438</b>	<b>10,069</b>	<b>10,986</b>	<b>12,387</b>
<b>Total Equity &amp; Liabilities</b>	<b>25,039</b>	<b>28,310</b>	<b>33,145</b>	<b>36,910</b>	<b>41,646</b>
Tangible Fixed Asset	403	474	445	445	445
Right of Use	1,270	866	553	525	499
Intangible Fixed Asset	1,208	1,052	1,141	1,084	1,030
Intangible Assets under development	55	136	309	309	309
Goodwill	3,727	3,798	4,208	3,998	3,798
Non-current investments	1,954	1,908	2,781	3,059	3,365
Deferred tax assets (net)	592	794	857	943	1,037
Long term loans and advances	303	131	141	155	170
Other non-current assets	33	22	91	100	110
Non-current tax assets	1,157	1,518	1,648	1,812	1,994
Other financial assets	0	0	0	0	0
<b>Total Non-Current Assets</b>	<b>10,702</b>	<b>10,698</b>	<b>12,172</b>	<b>12,429</b>	<b>12,756</b>
Investments	4,495	4,927	7,780	10,114	13,148
Trade receivables	5,410	7,588	6,895	7,516	8,498
Cash and cash equivalents	2,944	3,214	3,699	3,864	3,811
ST Loans and advances	23	32	39	43	47
Other current assets	1,273	1,544	2,199	2,529	2,909
Other financial assets	192	306	361	415	477
<b>Total Current Assets</b>	<b>14,337</b>	<b>17,612</b>	<b>20,973</b>	<b>24,481</b>	<b>28,890</b>
<b>Total Assets</b>	<b>25,039</b>	<b>28,310</b>	<b>33,145</b>	<b>36,910</b>	<b>41,646</b>

Source: Company, YES Sec

## Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
Ratings	5,924	6,634	7,724	8,658	9,807
Research	17,083	21,053	23,671	25,565	28,888
<b>Total Revenue</b>	<b>23,007</b>	<b>27,687</b>	<b>31,395</b>	<b>34,223</b>	<b>38,695</b>
Employee Expenses	12,869	15,530	17,478	19,488	21,826
Professional fees	1,239	1,230	1,262	1,376	1,556
Associate services fees	1,226	1,322	1,476	1,609	1,819
Other Expenses	1,568	1,894	1,897	2,011	2,252
<b>EBITDA</b>	<b>6,105</b>	<b>7,296</b>	<b>8,815</b>	<b>9,268</b>	<b>10,761</b>
Other Income	770	1,225	936	983	1,131
Depreciation	1,060	1,033	1,038	821	839
Interest Expense	89	64	37	26	25
<b>PBT</b>	<b>5,726</b>	<b>7,424</b>	<b>8,677</b>	<b>9,404</b>	<b>11,028</b>
Tax	1,526	1,780	2,093	2,389	2,801
<b>PAT</b>	<b>4,658</b>	<b>5,644</b>	<b>6,584</b>	<b>7,015</b>	<b>8,227</b>

Source: Company, YES Sec

## Exhibit 15: Cashflow

Y/e 31 Mar (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
PBT	5,726	7,424	8,677	9,404	11,028
Depreciation	1,060	1,033	1,038	821	839
Change in working cap	(1,919)	(1,816)	568	(325)	(284)
Tax paid	1,526	1,780	2,093	2,389	2,801
Others	1,373	2	1,338	-	-
Cash flow from operations	4,713	4,862	9,529	7,512	8,781
Capex	38	(696)	(1,367)	(526)	(558)
Change in investments	(1,688)	(386)	(3,727)	(2,612)	(3,340)
Cash flow from investments	(1,650)	(1,082)	(5,094)	(3,139)	(3,898)
Free cash flow	3,063	3,781	4,435	4,373	4,883
Equity raised/(repaid)	0	0	-	-	-
Dividend (incl. tax)	3,365	3,510	3,950	4,208	4,935
Others	-	-	-	-	-
Cash flow from financing	(3,365)	(3,510)	(3,950)	(4,208)	(4,935)
Net change in cash	(302)	271	485	165	(53)
Op Cash	2,787	2,944	3,214	3,699	3,864
CI Cash	2,944	3,214	3,699	3,864	3,811

Source: Company, YES Sec

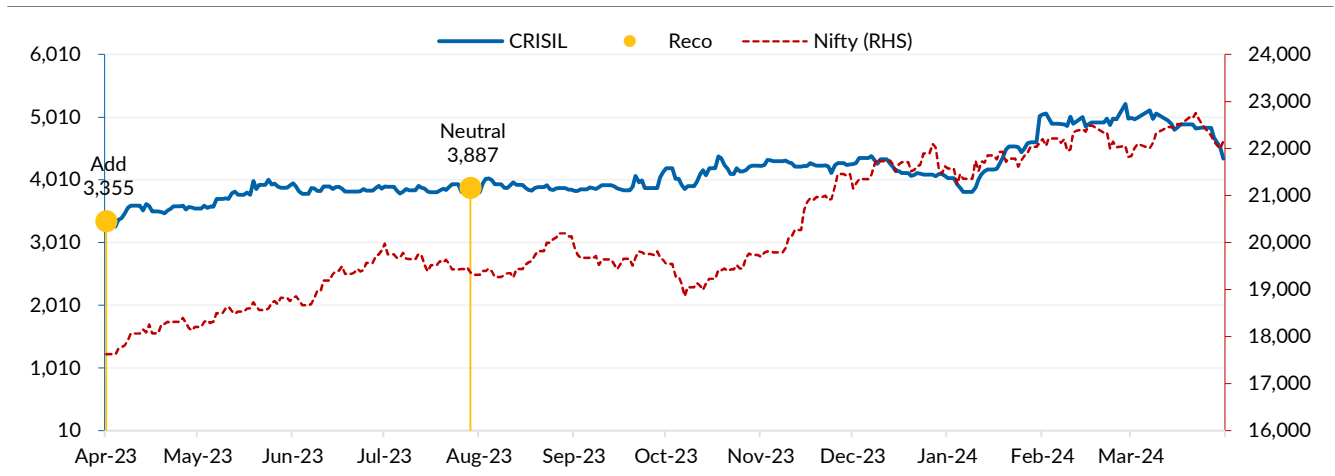


## Exhibit 16: Ratio analysis

Y/e 31 Mar (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
<b>Growth ratios (%)</b>					
Ratings Revenue	4.8%	12.0%	16.4%	12.1%	13.3%
Research Revenue	33.2%	23.2%	12.4%	8.0%	13.0%
Advisory Revenue	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA	22.3%	19.5%	20.8%	5.1%	16.1%
Profit Before Tax	24.9%	29.6%	16.9%	8.4%	17.3%
Net profit	31.3%	21.2%	16.7%	6.5%	17.3%
<b>Operating Ratios</b>					
EBITDA Margin	26.5%	26.4%	28.1%	27.1%	27.8%
PBT Margin	24.9%	26.8%	27.6%	27.5%	28.5%
PAT Margin	20.2%	20.4%	21.0%	20.5%	21.3%
ROE	32.2%	33.5%	33.1%	30.1%	31.2%
Dividend Payout Ratio	72.2%	62.2%	60.0%	60.0%	60.0%
<b>Per share</b>					
EPS	63.9	77.2	90.1	96.0	112.5
Book Value	216.5	245.1	299.5	337.9	382.9
<b>Valuation Ratios</b>					
P/E	68.0	56.3	48.2	45.3	38.6
P/BV	20.1	17.7	14.5	12.9	11.3
Dividend Yield	1.1%	1.1%	1.2%	1.3%	1.6%

Source: Company, YES Sec

## Recommendation Tracker



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