

CRISIL Ltd.

Shareholder Value Creation Framework

Corporate Valuation Assignment - I

KAKKANAM

GMAY08 – IB100

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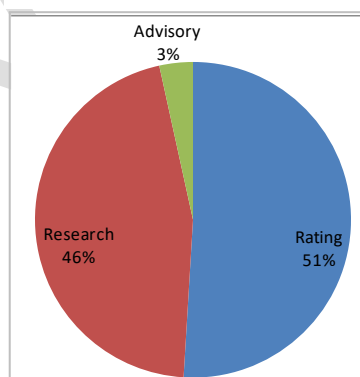
Stock Details ⁽¹⁾

Short Company Name	Crisil
Company Name	Crisil Ltd.
ISIN Code	INE007A01017
BSE Code	500092
NSE Code	CRISIL
Exchange Name	BSE
Incorporation Date	29-01-1987
Face Value	10
Industry Name	Services - Others
Major Shareholder	Standard and Poor's
Ticker Name	CRISIL
Number Of Employees (Dec 2007)	1,512

About CRISIL Limited⁽²⁾

- CRISIL is one of India's leading Ratings, Research, Risk and Policy Advisory company
- Independent provider of integrated research on economy, industry and companies
- **Key Business:** Its integrated range of capabilities includes credit ratings and risk assessment; research on India's economy, industries and companies; investment research outsourcing; fund services; risk management and infrastructure advisory services
 - **Ratings:** Only ratings agency in India to operate on the basis of sectoral specialization
 - **Research:** One of India's largest independent integrated research house providing research, analysis and forecasts on the Indian economy, industries and companies to over 500 Indian and international clients across financial, corporate, consulting and public sectors
 - **Advisory:** Policy, regulatory and transaction advisory

Revenue Breakdown (2007) ⁽³⁾



- Acquired by Standard and Poor's in 2005
- **Managing Director and CEO:** Roopa Kudva

Notes:

(1) www.securities.com

(2) Information sourced from company website: <http://www.crisil.com/crisil-investors/annual-financial-reports-crisil.htm>

(3) ISI Emerging Markets: http://securities.com/ci/cp.html?pc=IN&sv=EMIS&cmpy=1622225&view=financial_annual

VALUATION FRAMEWORK

Growth: POSITIVE (+)

Profitability: POSITIVE (+)

Risk: NEUTRAL (0)

Capital Market conditions: NEUTRAL (+)

OVERALL RATING: 2+

1. **Growth potential⁽⁴⁾:** CRISIL has strong growth potential because of the following reasons:

- Development of structured financial products and implementation of Basel-II norms brings in lot of opportunities to its perpetual nature of business
- Strategic diversification of revenue model has resulted in well-balanced business portfolio thus derisking the business and profitability
- Research business contributes almost 45% to the overall business and increased collaboration with S&P is helpful for CRISIL to attract more business
- Also, CRISIL being the premier advisor to governments and corporates related to infrastructure policy formation, there is a good opportunity to develop the advisory business as well

2. **Profitability:**

- ROE has been increasing at a CAGR of 9.75% - The main drivers of ROE being increased profitability and improved turnover of total assets (basically effective utilization of total assets to generate revenues)
- BVPS has increased at a CAGR of 19.73% - Looking at the components, there has been a significant increase in shareholder's funds due to increased profitability
- Price to BVPS has increased at 25.17% - Looking at the share price, it has increased at a CAGR of approx. 50% and at the same time the BVPS per share has been increasing at CAGR of 19.73%
- EPS has improved significantly over the last 5 years at a CAGR of 31.39%

3. **Risk:**

- CRISIL has no long term debt and hence the shareholders face no financial leverage risk
- However, the company faces strong competition from global equity research houses
- Additionally, the advisory business also faces competition from well-established global and local investment banks

4. **Capital Market conditions:**

- Interest rates and exchange rate fluctuations affect the margins⁽⁵⁾

Hence, we give an overall rating of 2+.

Notes:

(4) (5) Research view by Indsec Securities & Finance Ltd dated 13th June 2008

KEY VALUATION RATIOS ⁽⁶⁾

	31-Dec-07 (INR) 12 Months	31-Dec-06 (INR) 12 Months	31-Dec-05 (INR) 9 Months	31-Mar-05 (INR) 12 Months	31-Mar-04 (INR) 12 Months
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RETURN ON EQUITY = (PAT/SALES)*(SALES/TA)*(TA/EQUITY)

PAT/Revenue	0.26	0.23	0.20	0.22	0.21
PAT	66,24,00,000	33,97,00,000	16,75,00,000	19,85,00,000	14,73,00,000
Revenue	2,59,54,00,000	1,46,75,00,000	82,96,00,000	89,78,00,000	69,94,00,000
Sales/Total Assets	0.88	0.76	0.54	0.68	0.62
Revenue	2,59,54,00,000	1,46,75,00,000	82,96,00,000	89,78,00,000	69,94,00,000
Average Total Assets	2,96,43,00,000	1,93,62,50,000	1,54,67,00,000	1,31,80,00,000	1,12,91,00,000
Total Assets/Equity	1.39	1.35	1.29	1.29	1.28
Total Assets	3,73,11,00,000	2,19,75,00,000	1,67,50,00,000	1,41,84,00,000	1,21,76,00,000
Shareholders Equity	2,68,22,00,000	1,62,98,00,000	1,29,89,00,000	1,10,11,00,000	94,97,00,000
ROE Computation	24.70%	20.84%	12.90%	18.03%	15.51%

BOOK VALUE PER SHARE (BVPS)

BVPS	371.24	241.26	197.31	173.42	150.90
Shareholders Equity	2,68,22,00,000	1,62,98,00,000	1,29,89,00,000	1,10,11,00,000	94,97,00,000
Equity Issued	72,25,000	67,55,440	65,83,000	63,49,150	62,93,450

PRICE TO BVPS

Price to BVPS	9.77	9.33	7.85	3.94	3.18
Price per share	3,627.90	2,250.00	1,549.35	683.30	480.00
BVPS	371.24	241.26	197.31	173.42	150.90

EPS

EPS	91.68	50.29	25.44	31.26	23.41
Net Attributable	66,24,00,000	33,97,00,000	16,75,00,000	19,85,00,000	14,73,00,000
Equity Issued	72,25,000	67,55,440	65,83,000	63,49,150	62,93,450

PRICE TO EPS

Price to EPS	39.57	44.74	60.89	21.86	20.51
Price per share	3,627.90	2,250.00	1,549.35	683.30	480.00
EPS	91.68	50.29	25.44	31.26	23.41

Notes:

(5) Data sourced from Reuters Knowledge and Company filings.

KEY VALUATION RATIOS ⁽⁷⁾

	31-Dec-07 (INR) 12 Months	31-Dec-06 (INR) 12 Months	31-Dec-05 (INR) 9 Months	31-Mar-05 (INR) 12 Months	31-Mar-04 (INR) 12 Months
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TOTAL LIABILITIES TO EQUITY

Total Liabilities/Equity	0.39	0.35	0.29	0.29	0.28
Total Liabilities	1,04,89,00,000	56,77,00,000	37,61,00,000	31,73,00,000	26,79,00,000
Shareholders Equity	2,68,22,00,000	1,62,98,00,000	1,29,89,00,000	1,10,11,00,000	94,97,00,000

TOTAL LIABILITIES TO TOTAL ASSETS

Total Liabilities/Total Assets	0.28	0.26	0.22	0.22	0.22
Total Liabilities	1,04,89,00,000	56,77,00,000	37,61,00,000	31,73,00,000	26,79,00,000
Total Assets	3,73,11,00,000	2,19,75,00,000	1,67,50,00,000	1,41,84,00,000	1,21,76,00,000

RETURN OF FIXED ASSETS

Return on Fixed Assets	134.08%	78.70%	38.42%	44.45%	33.81%
Net Attributable	66,24,00,000	33,97,00,000	16,75,00,000	19,85,00,000	14,73,00,000
Average Fixed Assets	49,40,50,000	43,16,50,000	43,60,00,000	44,65,50,000	43,57,00,000

RETURN ON TOTAL ASSETS

Return on Total Assets	22.35%	17.54%	10.83%	15.06%	13.05%
Net Attributable	66,24,00,000	33,97,00,000	16,75,00,000	19,85,00,000	14,73,00,000
Average Total Assets	2,96,43,00,000	1,93,62,50,000	1,54,67,00,000	1,31,80,00,000	1,12,91,00,000

OPERATING MARGIN

Operating Margin	40.37%	40.46%	35.97%	39.65%	41.38%
Operating Result	1,04,78,00,000	59,37,00,000	29,84,00,000	35,60,00,000	28,94,00,000
Revenue	2,59,54,00,000	1,46,75,00,000	82,96,00,000	89,78,00,000	69,94,00,000

Notes:

(7) Data sourced from Reuters Knowledge and Company filings.

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