5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

CRISIL

WHAT WE LIKE

LEADER IN THE CREDIT RATINGS INDUSTRY IN INDIA

CRISIL is the pioneer & leader of credit ratings business in India. Rating business license needs strict government approvals. That creates a barrier for entry of new players. Hence, there are only 5 rating agencies registered with the SEBI. **CRISIL being the leader garnering 60% market share**.

DIVERSIFIED SET OF CUSTOMERS

CRISIL has more than **1 lac customers** worldwide. Their clients range from micro, small and medium companies to large corporates, investors, and top global financial institutions. They work with commercial and investment banks, insurance companies, private equity players and asset management companies globally.

LEVERAGE FROM S&P GLOBAL

CRISIL is majorly owned by S&P Global Inc., a leading provider of ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide. Their collaboration gives them global reach.

STRONG BALANCE SHEET & CASH GENERATION WITH STRATEGIC INVESTMENTS

Avg ROE for the last 10 yrs is >35% with zero debt. High CFO of around 300 Cr for last 3 years have allowed them to make strategic investments like:

1. Pragmatix Services Pvt Ltd: It is focused on delivering cutting edge solutions in the 'data to intelligence' life cycle to the banking, financial services and insurance (BFSI) vertical.
2. 8.9% stake in rival credit rating agency, Care Ratings.

AVAILABLE AT LOWER VALUATION BAND IN THE LAST 10 YEARS

Due to the solid fundamentals of the business and industry, CRISIL has always traded at high valuation in the last 10 years. The range has been between 25 to 60 times earnings. Currently the stock is available at a PE of <30.

WHAT WE DON'T LIKE

CONSIDERABLE SLOWDOWN IN GROWTH

In the last 10 years the growth has not picked up the way market participants were expecting for the company.
Sales 10 Yr CAGR is 13%
Profit 10 Yr CAGR is 10%

For the company to become attractive for investors, it must show decent growth going forward.

SOME BIG INVESTMENTS HAVE NOT YET DELIVERED ON THEIR POTENTIAL VALUE

Pragmatix is a data analytics company. CRISIL bought the company for Rs 56Cr. While it suits well for the growth of the company in the long run, **it is yet to deliver the numbers for the company.**

EQUITY STAKE IN CARE RATINGS AT A PREMIUM VALUATION

Even though the future of rating industry remains bright, **paying rich valuation to buy stake in a rival company has led to severe MTM losses on their investment**. Undoubtedly this will cause some short term pain for the company but this investment should prove to be strategically good for the company in the long term.

NBFC CRISIS HAS BROUGHT THE MARKET REPUTATION OF RATINGS AGENCIES DOWN

The recent IL&FS episode and the NBFC crisis after have **raised some serious questions about the credibility of ratings agencies and their ratings**. This has caused a lot of reputation damage to the industry. Hopefully these events spur the ratings agencies to be more thorough and stringent in their rating recommendations going forward.

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