Your Roll Number: GMAY08-IB 100
Your Company Name: CRISIL

Suggest the best assumptions (or methods to be used) for …

Company Name: CRISIL

Discount at Cost of Capital

- Risk-free Rate: 8.24% (Source: RBI website, 10 year government bond due 2018)
- Beta: Beta = 0.63 (Covariance of Returns of CRISIL with Nifty Returns)/Variance of Nifty Returns,
- Risk Premium: 11.11% (Rm = Average of past 8 year returns of NIFTY from 2000-2007, Source: NSE India)
- Cost of Debt: None (Since CRISIL has no debt)
- Weights: Since there is no debt, Ke = Cost of Capital, hence Ke = 15.24%

Estimating Future Cash Flows to Firm:

- Operating Income (2007): INR 1,047.8 mm (To estimate the 2008 EBIT, we have used Growth rate=ROCE*RR
- Current Cash Flow: FCFE = INR 253 mm, FCFF = INR 384 mm
- Reinvestment rate OR Average Reinvestment Rate: 54%, calculated using Net Capex + Change in Non-Cash WC/EBIT*(1-t)
- Expected Growth: 21.05% (Reinvestment Rate*ROCE); 3 phased model – 5 year high growth, 5 year declining and then stable
- Return on Capital: 0.39 (EBIT*(1-t) / Average CE); (EBIT*(1-t) where t is the effective tax rate of 19.85% for 2007)
- Stable Growth: 6% (India's growth rate as a matured economy)

From Operating Asset Value to Equity Value:

- Value of operating assets of the firm (suggested method): INR 8,425.87 mm using FCFF method; INR 12,217.41 mm using FCFE method
- We suggest to apply the FCFE model than FCFF method, since there is no debt.
- Cash and marketable securities: INR 179.20 mm (2007)
- Value of minority holdings in other companies: NIL
- Value of idle or unutilized assets: NA
- Value of interest bearing debt: NIL
- Present value of operating lease commitments: NIL
- Any unfunded retirement and similar obligations: NIL
- Expected litigation payouts: NIL

All financials have been sourced from Reuters Knowledge

Comments on Value of Equity: INR 12,224.64 using the FCFE method and Value per share=INR 1,761. The computed equity value is a better indicator than the dividend discount model taking into consideration the characteristics of CRISIL.

- However, the value per share is less than the current market price of INR 2,520 (as of Nov. 18, 2008; Source: Moneycontrol.com)
- This is because the expected growth calculated is 21.05% whereas the growth rate calculated as per historical growth in EPS is around 40%. Moreover, analyst estimates are also in line with the growth of 40%.

Any Other Remarks (or missing items you would like to mention):

- Taking into consideration, the expected growth rates calculated using:
  - ROE*RR=19.83%
  - Non-cash ROE*Equity Reinvestment = 18%
  - After tax ROCE*RR = 21.05%
  - Growth in EPS (past 5 years) = 40%
  - Analyst estimates = 40% (Source: Emkay Research report dated Nov 2008)
- We have estimated CRISIL to grow at a rate of 32%-35% (weighted average growth taking the above rates) for the next 4-5 years
- Additionally, the growth in Net Income, Operating Income and Sales has been phenomenal over the past 3 years
- We consider that it has huge potential to outperform. Moreover, CRISIL is in a monopoly kind of business and also has a strong business growth lined for its other divisions