



CRISIL IPO grading

Definition, Approach & Methodology

Presentation structure

- What is CRISIL IPO Grading
- The place of CRISIL IPO Grading in the investment process
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- CRISIL IPO Grading – Process
- CRISIL defined fundamentals are a key driver of equity valuations
- Why CRISIL

CRISIL IPO Grading – What it is

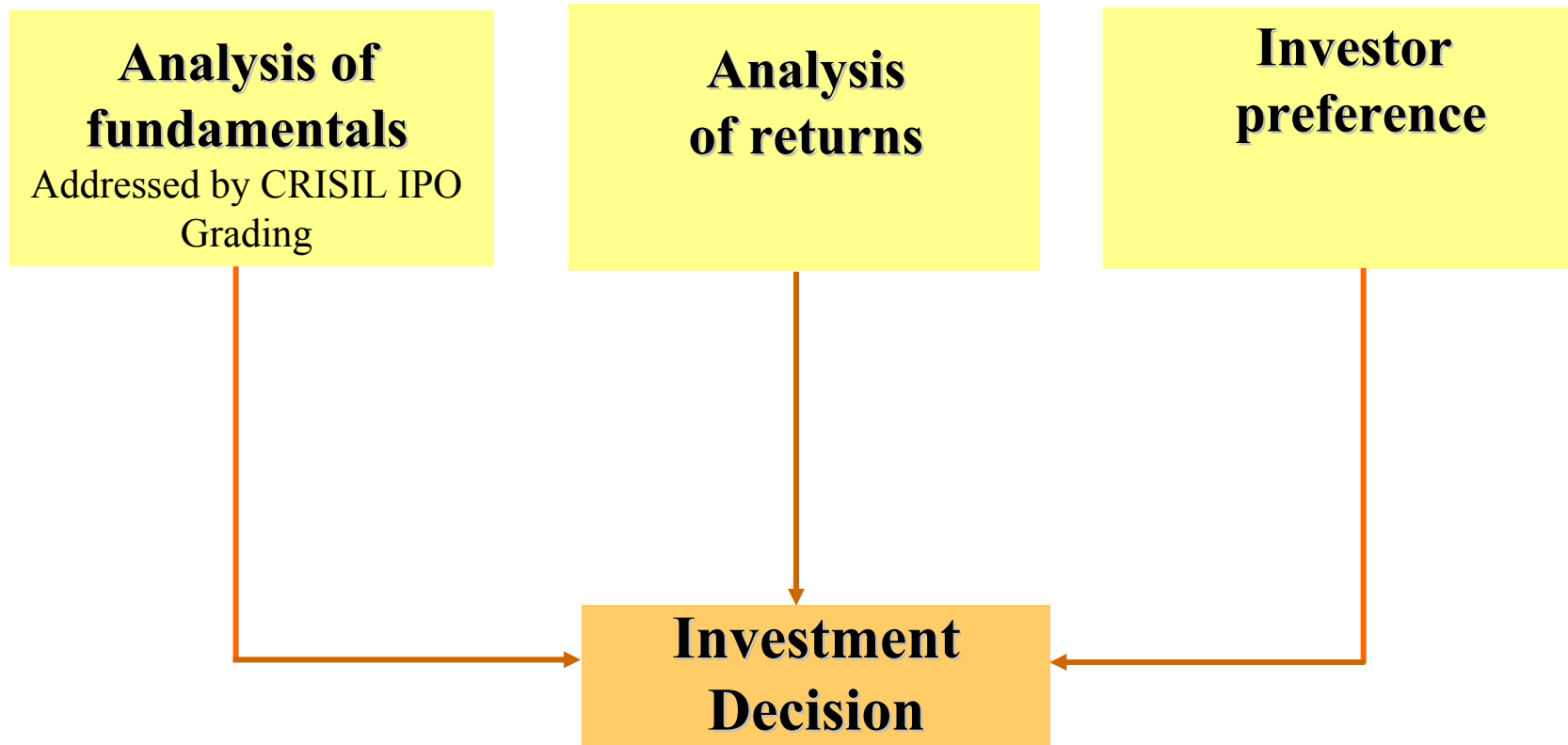
- CRISIL IPO grading is aimed at providing an independent and relative assessment of fundamentals of the IPO issue. The assessment is in relation to the universe of other listed equity securities in India and expressed as a symbol. It is a one-time exercise done at the time of issuance.
- It can be used by investors as a tool to aid investment decisions, especially for companies coming out with their ‘initial public offerings’.
- The grade is independent and unbiased because it comes from an independent rating & research agency – an entity that is not connected with the placement of the issue and has an ongoing incentive to maintain its reputation for independence.
- Over a period of time, CRISIL IPO grading can play a role as a tool to price equity securities in a manner similar to the role that credit ratings play in the pricing of debt securities.
- Grading is mandatory for all issuers who file their offer documents with SEBI after April 30, 2007.

CRISIL IPO Grading – What it is not

A CRISIL IPO Grading is not

- A recommendation to invest or not invest in the graded instrument
- A comment on the issue price of the shares being offered, likely listing price or likely movement of price post listing
- A valuation of the equity offering
- An assessment of the market risk associated with equity investments
- An audit of the issuer
- A forensic exercise that can detect fraud
- An opinion which has an ongoing validity

CRISIL IPO Grading – Its place in the investment process



CRISIL IPO grading addresses the first component – fundamentals

CRISIL IPO Grading – Fundamentals defined

- CRISIL's approach comprises of a relative assessment (relative to other equity securities) of the following :
 - *Business Prospects*
 - *Industry prospects*
 - *Company prospects*
 - *Financial Prospects*
 - *Management Evaluation*
 - *Corporate Governance*
- The grading is assigned on a five point scale from grade 5/5 (indicating strong fundamentals) to grade 1/5 (indicating poor fundamentals)

CRISIL IPO Grading - Methodology

- **Business Prospects**

- Industry Prospects

- Company Prospects

- The competitive position of the issuer will be evaluated against the relevant homogenous companies, sector-wise.

- **Financial Prospects**

- CRISIL will use its proprietary framework to reclassify, standardize financial statements to aid accurate assessment of financial health and benchmarking of companies in an industry.

- Independent financial forecasting of the issuer will be done and key parameters that influence valuations (ie., ROCE, ROE, Growth in revenue, PAT & EPS).

CRISIL IPO Grading - Methodology

- **Management Evaluation**

- Ability of the management to handle uncertainty in terms of capitalising on future business opportunity and mitigating the impact of contingencies

- **Corporate Governance**

- Is the company's governance architecture structured such that the risks and rewards of business are equally available to all shareholders in keeping with the basic tenets of a joint-stock company.

CRISIL IPO Grading Process

- The company provides an agreement alongwith the Grading fees to CRISIL
- Information to be provided to CRISIL's grading team
- Meetings with CFO, functional heads, senior management, independent directors and CEO
- CRISIL carries out detailed analysis and assessment using the information provided by the company and other information that CRISIL considers reliable and relevant
- Assessment is presented to the grading committee (which comprises senior internal resources and eminent external experts)
- Grade assigned by the Grading Committee
- Issuer is provided the grading report/rationale and the grade.
- In case the issuer believes that material relevant information has not been considered in the grading as laid out in the rationale, an appeal can be made to the grading committee pointing this out
- CRISIL makes a press release

CRISIL IPO Grading Process - Information needed

- Last 5 years annual reports
- Hard copies of the draft prospectus
- Detailed Project Report for a new project (if applicable)
- Details on promoter background, other main companies within the group and last 5 years annual reports of these major group companies.
- Financial projections for the next five years with relevant assumptions;
- Details of the instrument to be graded
- Any additional information that CRISIL may require from the company in specific circumstances

CRISIL defined fundamentals are a key driver of valuations

- Hypothesis - In an efficient market, i.e. one with frequent trading and without significant information asymmetry, valuations should reflect fundamentals
- CRISIL's applied the unique assessment methodology that it uses for IPO Grading to 45 companies in the S&P CNX Nifty index and compared scores on fundamentals to one year forward P/Es

	Score on fundamentals	One year forward P/E (average)
Quintile 1	> 4.3	22.7
Quintile 2	3.9-4.3	20.1
Quintile 3	3.7-3.9	19.5
Quintile 4	3.4-3.7	16.0
Quintile 5	<3.4	14.0

P/E multiple calculated on share prices as on July 20, 2007 and on consensus EPS estimates on Bloomberg

- QED – Fundamentals as captured by CRISIL's unique methodology are a key driver of valuations of S&P CNX Nifty companies.

Why CRISIL ?

- Twenty years of rating experience in India give CRISIL deep insights on relative analysis of fundamentals as needed for IPO Grading
- Moreover, CRISIL is India's leading, independent research house providing an integrated view on the Indian Economy, Industries and Companies
- In-depth understanding of key issues and factors that affect the performance and profitability of a large number of Industries and companies
- Large team of research analysts which is fire-walled from the ratings team
- Strong equity research skills at IREVNA (CRISIL's subsidiary), recently voted as the best investment research outsourcing firm in the world by Investment Banks, Hedge Funds and Private equity firms
- Over 500 domestic and international clients depend on CRISIL research as a key input to their decision making process
- Our industry analysis is extensively quoted in offer documents
- Quality and timely service



CRISIL Limited

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