Management:  Ms. Ashu Suyash - Managing Director & Chief Executive Officer - CRISIL

Ms. Priti Arora - Chief Strategy Officer - CRISIL

Mr. Sanjay Chakravarti - Chief Financial Officer – CRISIL

Mr. Amish Mehta - Chief Operating Officer – CRISIL

Mr. Gurpreet Chhatwal - President - CRISIL Ratings

Mr. V. Srinivasan - President - CRISIL Global Research & Analytics

Mr. Stephane Besson - Chief Executive Officer - CRISIL Coalition
Moderator: We will now begin the question and answer session. The first question is from the line of Alok Shah from Centrum Broking. Please go ahead.

Alok Shah: Thanks for the opportunity. Good evening madam and congratulations on great set of numbers. I had two questions pertaining to the results that got declared, could you just help us understand this service export incentive scheme in a bit detail because the revenue, which has got reported is significantly higher that is my first question, and the second is the provisioning that we have created on the advisory business, what has really translated into an element of this big provisioning for the quarter?

Sanjay Chakravarti: This is under the service export incentive scheme of the government and is based on the incentives that we can earn as service exporters and is calculated based on the net forex that we bring into the country and the that you see is for the years of 2016 and 2017, which has gotten booked in the year of 2018. As far as the provisioning is concerned, we anyway have an accounting policy of provisioning for outstandings that are more than 365 days. Please understand that this is a provision and not a write off and going by the conservative approach that we always have had when we see some kind of risk we have gone ahead and taken a provision and not a write off.

Alok Shah: If I was to understand on the second thing first this is provision towards dues outstanding for 365 days, this is pertaining to some business on the infrastructure advisory and more from a government contract?

Sanjay Chakravarti: I am not at freedom now to exactly tell you the nature of the contracts because there are confidentiality considerations here, but yes it is in the infra advisory business.

Alok Shah: And on the first question on the exports scheme you said this pertains to the incentives of 2015-2016, do we see some similar line of revenue that could come in, in the coming period?

Sanjay Chakravarti: This is an incentive program that is authored and run by the government Alok, so depending on the incentives carrying on and how it is monitored and managed the incentive could come in 2019, but it is difficult to put down a number or surety at this point of time.

Alok Shah: That is helpful. Maybe I could squeeze in one more question and that is more on the research side, you did talk about the launch of new solution products and working through various product offerings that we can look to enhance the research piece, but what is our own sense of the revenue traction that we could see on the research business ex Coalition and India research, I will have to wait for the annual numbers, but in the interim what is the normalized run rate that we could look forward in quarters to come?

Ashu Suyash: So, Alok, thank you for asking that question. I will link it to the point I made that if there is a changing environment and technology has changed, the way customers expect traditional offerings to be delivered. We saw this trend coming up a couple of years ago and have started investing in creating these product solutions and analytics and it is a very different space with no clear winner on date. Anybody who starts early is able to capitalize on the opportunity, but commercialization takes time because with every change you see the change first and you see the benefits accruing over time. The
unique thing is if we speak of our offerings we call it out in the global business that we have because it is the largest contributor to the P&L, but we are actually witnessing similar trends even in India and we had some excellent success with the Quantix platform that we have launched, which has actually helped us on moving the pricing itself on what one would term as traditional research offerings. This is because the need for data and all kinds of data beyond financial data has become very important and also I am going to ask Srini to talk a little bit about the way we see solutions and platforms play an important role in our overall business going forward.

V. Srinivasan: To just add to Ashu I think there are three or four important elements that the products and solutions bring for us. One is as Ashu said I think it helped us in pricing in our solutions beyond because there is now something very tangible that we offer them. The second element is to differentiate ourselves against competition because in the global markets, we were largely a services player and to bring in products and solutions, which addresses the two trends that we saw, which Stephane talked about as to a flat revenue growth and an increasing cost to income ratios, how do we help them bring in productivity as well as enhanced revenues. I think the product solutions bring in that element into it. Third is that I think it allows us to enter into areas, which we have not entered within the space that we operate because we did not have products and solutions and the customer expectations were around providing them with products and solutions, for example in the whole financial crime and analytic space for us to offer a solution is the way to get into that segment and that is what this is doing, so to summarize, it is helping us with the pricing, it is helping us with the differentiation, it is helping us meet some of the key client needs and entering into newer areas, so that is how the product solutions is helping us in our business.

Alok Shah: Sure that is helpful Sir and I really appreciate the kind of revenue growth that we have seen on the ratings fees, it is really commendable in this kind of challenging markets. That is it from mine. I will get back in the queue if there is anything more.

Moderator: Thank you. The next question is from Nishchint from Kotak Securities. Please go ahead.

Nishchint: What is driving your margin expansion in the rating business as compared to your peers, are the expenses compressed to some extent and are there any one offs or should we kind of build in similar margins going forward?

Ashu Suyash: Thank you for noticing the margin expansion. The margin expansion is driven by three things, one is you are seeing operating leverage play out. As Gurpreet spoke about despite the drop in issuance given a sharp focus on quality obviously in times like this both investors and issuers value that a lot, so that has helped us both from a volume and price perspective at the same time and that is something we have been saying over the last two years. We focused a lot on bringing in operational efficiency and I have been talking about technology being a very important element of our strategy and deploying new forms of technology to be able to produce better high quality outcomes at a lower unit cost is very important and all of that has really gone in terms of delivering that margin expansion.

Nishchint: What would be the headcount in the ratings business last year and this year?
Ashu Suyash: We do not give headcount splits by business, but we are largely flat.

Nishchint: Sure. Just moving on trying to understand a little bit about what you are picking up from NBFCs in terms of their plans for bond issuances or loan sell down and in the changed circumstances should we think about your margins and growth in this segment, on one side you would possibly expect a fewer issuers in the market, which kind of means that may be you are kind of hitting caps and some of those guys and possibly it means that your margin comes down I think the realizations come down, but at the same time do you really see intensity of competition going down as well, so we are confused between these two parameters to think as to how the income especially from the NBFC part will play out for you, but first your comments on what you are picking up from NBFC?

Gurpreet Chhatwal: I do not think we put out numbers based on what we get from NBFCs and others, so I think it will be unfair to compare. Financial sector is a large sector. We have banks and other people as well, so let me just put my thoughts across. I think from a growth perspective, NBFCs will print a lower growth as we see over the next say one year. Having said that I think it is not going to be as lower as I think it was actually negative in the last quarter of 2018. The NBFC segment actually performs a vital role in the economy in terms of dispensing credit to the last mile and various segments are moving at different paces and we anticipate the growth to pick up in the second half of CY 2019. But yes what has happened though is that the securitization business, which was a very small component had actually degrown over the last few years has picked up substantially from Q4 2018 and as I mentioned I have the numbers that it was almost 89% growth on second half of 2018 vis-à-vis second half of 2017. In terms of access, NBFCs in the past got the capital from equity and debt from banks, debt capital markets and securitization. So what has happened is that as we move down the road, we believe equity and debt from corporate bond market will be relatively less, it is not going to go off altogether, the highly rated and the stronger NBFCs are still getting money from there, but the bank debt as well as securitization volumes have picked up substantially. We had put out our outlook on the NBFC sector, what we are seeing is that the growth, which was in excess of 20% or 22% in the first half of FY2019 would dip to almost half in second half of FY2019, the 20% will go to 10% and we are envisaging for the next two years it will be about 15%. We are not seeing a very substantial degrowth there and money is available though it is expensive for many of the players or most of the players.

Nishchint: Your realizations on the loan securitization side would be higher than the bond markets in the issuer ratings?

Gurpreet Chhatwal: It depends on what you are doing, complexity of that instrument all of that, it is not easy to answer this.

Ashu Suyash: If I can come in, in our capital markets no two transactions are identical so you cannot have a single price point across different issuers and it also depends on how complex the structure is. Just to kind of come in because clearly this is a sector that has been in focus, the way we look at it for many years we have stayed the course in terms of talking about quality and maintaining that standard and I think this is the time both issuers and investors value it because without that they are unlikely to achieve their own goals and targets in terms of what they want to raise from the market and at what yield they want to get that money.
Nishchint: Just finally do you see the intensity of competition coming down after these events?

Ashu Suyash: I would say that standards will go up and that is good news because the arbitrage on account of poor quality had to stop sometime.

Nishchint: Great. Thank you very much and all the best.

Moderator: Thank you very much. The next question is from Gaurang Ved from Ved Capital Advisors. Please go ahead.

Gaurang Ved: Thanks for the opportunity. My question is related to rating segment. Post bankruptcy reforms, which were implemented in 2016, the recovery rate for NPL asset is still low in our country and time for resolution is also still fairly high, so can you please throw some colour where do you see recovery rate and time for resolution of NPL assets going forward in medium term as these two factors are very critical for overall development of bond market? Thank you.

Gurpreet Chhatwal: Thanks Gaurang for asking this question. Very nice and insightful question. We have spent a good amount of time explaining this to a lot of participants, so I think there is a World Bank study, I will quote from it, it says that before this bankruptcy law came in India, the banks or lenders, on an average, used to recover about 25% of the money lent in about 4.3 years, after default. I am not sure whether it is right or wrong, but it is a World Bank study. Now what we understand that these numbers will change and they are in the process of changing though yes it says 270 days in IBC, but I think it is taking longer than that. However it is definitely shorter than 4.3 years, so it is very difficult to put a number at this juncture, but we believe it will take lesser time to resolve it. I think what is happening is that IBC is a new law. What is being done is that a lot of newer areas are being tested in a court of law. Once they are tested, I think that the next set of conflicts pertaining to that area will get resolved very fast. So we are seeing that it is taking a little bit of time for some of these cases to get resolved, but once they are resolved, I think we would see much faster movement in the future cases. We have seen in the UK in the 80s and Malaysia recently that, after five years of bankruptcy law coming in, the bond market gets a substantial uptick.

Gaurang Ved: Thank you very much Sir.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to Ms. Priti for closing comments.

Priti Arora: Thank you so much for attending the call and for your questions and we do hope that today’s interaction has provided you with good insights on fiscal, on our performance and our strategy going forward. Thank you very much from the management team.

Moderator: Thank you very much. On behalf of CRISIL Limited we end this call. Thank you for joining us. You may now disconnect your lines.
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