“CRISIL Analyst Meet – Q&A”
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Priti Arora: I would request if you could raise your hand and the microphone will reach you. Please identify yourself and your organization.

Digant Haria: My name is Digant Haria from Antique. I have two questions. One is, let’s see, especially in the NBFC space we have seen a lot of consolidation. Similarly, across all sectors we are seeing that that is a unifying theme. So does that change the pricing power of a rating agency permanently? Because you will have more and more issuances coming from players who are strong, all those fin-techs and all the small NBFCs may no longer mushroom the way they did in the past.

And second is, those who survived this onslaught, some of them may just become that originated-to-sell kind of a model, so they will become distributors for banks. So in that scenario, how do you see the next three, five years in terms of the rating pool in India and rating for you guys? Because I assume one of the rating agencies has become weak and that offers a lot of market share gain opportunities. Thank you.

Ashu Suyash: So I am going to start by giving you a perspective, because you raised the point on pricing in the context of the NBFC sector. It’s taken long, however finally the marketplace now recognizes quality. And quality always comes at a slight premium. So the biggest outcome of the financial crisis has been recognition of quality balance sheets, quality management, and definitely quality ratings. And that certainly worked in our favour. And to my mind, it’s also something that needs to be looked at in the context of how companies behave and how buyers of that service behave. I mean, if you buy something which costs nothing, it doesn’t have much value. Also, then there is only that much of effort put against it. And I strongly believe that’s a race to the bottom. So thankfully, from the race to the bottom which was happening for a long while - we seem to have come out of it. I am now going to ask Gurpreet to dive a bit more into detail and also talk about the way we are seeing issuances keeping the near-term in mind, and definitely, as credit growth picks up, hopefully, at some point the economy will start doing better. So, over to you, Gurpreet.

Gurpreet Chhatwal: Let me talk about pricing power. I think it is a function of perception, in our business, I have been in this business for about 20 years. My take is that it is a function of how the investors perceive it. I have seen various business cycles, over the last year and a half, I think there is a flight towards quality. We have seen lenders, which is banks, and if you were to do analysis of the top 40 assets which went to NCLT, top hundred assets which actually are the NPAs in the banking sector, then you would see - what was their rating about a year before they went to default and who was the rating agency. I think you will see a clear trend. Banks have realized it, they have understood it. So we are seeing that banks are being much more discerning in terms of which rating agency they are asking for, what kind of loan it is.

On the bond market side, there was always understanding in terms of quality, but it was a question of how much they would pay. We have seen a decent amount of losses, we
have seen bond investors and many of these investors classes are actually a derived investor class, you are a mutual fund but you are actually investing somebody else's money. So I think we have seen a good amount of movement towards quality there as well. So I think the pricing power rests in how the investors and issuers perceive it, and we have seen that come back. I think that's how I would take that.

And speaking about how do I see the markets in the next year - year and a half, I think both the bond and the BLR markets will grow, at least that is my perspective. But I don't think it might not be a very high growth, and it would be a muted growth for various reasons. For the next six to 12 months, we need to see how deep is the impact from slowing economy. It also depends on how fast the consumption comes back, how fast the capacity utilization comes back, when the CAPEX happens. And also, I think the government has a large initiative on infrastructure. And if you are talking about the Rs. 100 lakh crores they are planning to spend, and if you are to divide that, I mean, I am not prejjuding their perspectives, I am saying even if it is 60% of that or 70% of what they are putting out as targets, these are numbers almost double what happened in the last five years.

And given the way I think the regulator, which is RBI, which is the bank regulator and the government's intention is, I think they want a large part of this to be funded through the bond route, not through the bank route, because the banks don't have the ability and don't have the asset liability, capability to do a 20 year lending. So, I think that is what we believe is the next growth cycle for the bond market. And we believe that largely will be a bond market opportunity.

**Paresh Singhani:** Hi, Ashu. I am Paresh Singhani from Club Millionaire. A couple of questions. Just to what Gurpreet was mentioning, I wanted to see what the traction on the bond market is. For example, SEBI had mandated that you need to move 25% of your borrowing for corpus of more than Rs. 100 crores to the bond market, has that actually taken off? It was supposed to happen from April 1, 2019, what's the status on that?

The second question is, if you are thinking from a five or 10 years down the road, what would be the biggest growth driver within CRISIL? It could be credit rating, it could be Coalition, something that you are more excited about and why?

**Ashu Suyash:** So, we will start with the second question first. We have very carefully chosen the businesses we want to operate in. And as you know, this is a portfolio that has been curated over the years. And we are excited about all the businesses we are in. And I am not just saying that because we are in those businesses, but it's about the trends that I covered in my presentation. Let's talk about what we see exciting about India, and that will perhaps answer your first question. And where do we see the opportunity globally.
If I look at India, we all know it’s a developing country. And the pace of development is a little bit in fits and starts. And we are in that fitful environment right now with sharp consumption slowdown that’s taken everybody by surprise. But what’s not been a surprise is that the investment cycle hasn’t taken off in a long time. The reality, though, is, whether you look at it from the lens of the demand consumption gap, if you project out 10 years, or if you look at the funding gap on infrastructure, or if you look at the funding gap from the public sector side, or the state government side. And if you plotted that gap versus, let’s say, any of the developed markets, let’s leave the US because it’s really evolved, but if you looked at say Malaysian market, or you looked at Europe, I mean, the opportunities are incredible. And the strength of our franchise will make sure that we will be the leader in that space. And to that extent every time there is a start and a strong start and a strong growth, you will see disproportionate growth in any case. For instance in the ratings business, it’s an area where surveillance is mandatory. So even if there isn’t new issuance, you continue to benefit from the fact that your ratings have to be surveilled.

The other thing, and maybe I am preempting a question because I have got it so many times that I might as well cover it. Often I get asked, when is RBI going to stop making this bank loan rating mandatory for risk weights. Point is, nowhere soon. I mean, if you look at the stress situation out there, that would be the last thing on a regulator’s mind. And for a minute, I don’t think anymore it’s only about the regulator. Today all lenders realize that from a credit decisioning point of view, it is important to take an expert opinion that will not absolve them from the responsibility, and it shouldn’t, because if you see what happened and part of the bit is around responsibility and accountability. So that sort of makes the case on the rating side.

But there’s an equally strong case on the data side, on the research side and on the analytics side, simply because there is no way you are going to be able to play out your strategy as a corporate or a financial institution in this market without a strong sector understanding, macro understanding. And the question of not managing risk is just not there. At one time, in India the risk management was not something that used to come up in a lot of discussions. Today it’s not only about financial companies or banks, every corporate talks about it. And that’s the important input platforms such as Quantix provides, the early warning signals that we have, the ICON, the credit origination platform. And the difference between a platform that could be provided by a tech provider versus CRISIL, is our ability to embellish it with data and models, which nobody else will be able to do it.

So our ability to ride the India growth story strongly, and make sure that we still grow, though in a muted way, when it was low growth, is one big thing around the India businesses.

When I look at our global businesses, we are in three areas. We are in the Benchmarking Analytics space, the segment in which Coalition operates. It is the most
important input into strategy, into RWA calculation, into deciding where is that next dollar of capital going to go in? Because the unique thing about our capabilities there is the data that we have which actually the banks themselves don't have. These banks have gone through M&A like several times over. So their own ability to reconcile and to be able to distinguish data sets five years ago to today is constrained. But because our analytics have been built off this contributed data, we have an edge which is going to be very difficult for somebody to compete against.

The second thing is that all of this goes to determine strategy. We are not on the strategy consulting space, but we are in the analytics space that informs strategy. And the need for that is not going away. In fact, while the CIB industry has posted very average or literally flat growth over the last couple of years, The Coalition business has shown strong growth, because when the going is good, you want to see how much more you can grow, and when the going is not so good, you want to know what you should be doing differently. And the reason for me to do this little bit of deep dive, to talk about the up-case and also to talk about when you see muted performance like this, is to how you need to look at it and what's really playing out and why is it muted?

And then coming to the Risk Analytics business. Amish, in his presentation and when I spoke about trends, I spoke about the way it's happening. This is not the end of it. I mean, I had never heard of climate risks, and mandatory modelling on climate risks up until six months. And now I am sure all of you know that company performance globally, whether it's a bank or a corporate against SDGs (Sustainable Development Goals) is mandatory. And banks actually have to be able to attest to the regulator that they have robust models, not just from a macro scenario modelling perspective, but even from any SDGs perspective. So that allows us to continue to push at that next level of analytics, because we are an intellectual capital driven business. You can only be constrained if you are not prepared. And part of the reason, our CFO Sanjay, spent time on the investment slide is to talk about how we are seeing this trend and making the investments in technology. Because it's no longer about excel spreadsheets and simple computation, it's complex. And hence, when you make investments in technology, there is a time lag before making the investment and the monetization. But the case for that is a strong one.

Finally, from a research perspective, there are many ways to look at the research landscape. One lens to look at it is the first wave which was all around cost arbitrage, it was all around offshoring. The next wave is really saying, what is MiFID to do to these businesses. And frankly, with the number of cash equities businesses that were shut in 2019, I mean, it was a surprise possibly for everybody. But the need for that is not going away, the construct of the research, the buyers of research are changing. Earlier, it was largely the sell side, but now the buy side realizes that there is only that much they can do on their own. They need additional research.
And then, of course, talking about data analytics, that's also a crucial input into research decisions because people today start looking at different analytics because they tend to be little early identifiers of either a risk in something or an opportunity. So that's the way we look at our businesses, that's where we see it playing out. And I hope that not only helps answer your question, but perhaps addresses a few other questions that may be playing out in other people's mind as well.

Gurpreet Chhatwal: So the first part of the question was 25% of the borrowing, I think it has two aspects. The first two years are about explaining and complying, so there is no financial penalty against it. If the companies who have more than Rs. 100 crore don't do it, they just have to explain and comply. Third year onwards, I think they have a minor penalty associated with it. I think we believe, that will help. But to give you a context, we did a study about a year back. If you look at the total AA universe which qualifies for this, and if you were to take the ones where the debt is, who haven't actually taken the bond route and who have already done it. The ones who have done it, comprised 80% of total debt. So the guys who are left who are to comply with that, just 20% of the debt of that population is not very high. The numbers are maybe Rs. 5,000 crores to Rs. 10,000 crores traditional issuances in a year, on a Rs. 6.5 lakh crores to Rs. 7 lakh crores market. So I guess that's not going to be very substantial unless you actually move down to lower categories in this space.

Manish Ostwal: This is Manish Ostwal from Nirmal Bang Securities. My question on the recently announced measure in the budget, that tax benefit to the sovereign wealth funds for investment in infrastructure. So, over the medium-term, do you see material inflows coming from that channel into the market?

Ashu Suyash: I think that definitely augurs well, for sovereign funds to invest in infrastructure. And the need is pretty large. And there is no question of having that ability to fund it only with domestic resources. The important point in terms of timing is, how soon will that money come in? Because that's a function of the relative risk reward. I think with the interest rates in India still being relatively high, even adjusted for risk premium for the Indian sovereign, it's an attractive market. I think the challenge with the capital gains tax benefit, it's not for the life of the instrument. In the infrastructure sector, that's not a great thing. But nevertheless, it's a strong boost to really get investors to look at this market versus some of the other emerging markets they are looking at.

Manish Ostwal: Secondly, one data point which you shared, Gurpreet. The number of defaults and the stability ratio. So, it is a borrower wise number or it is a value wise number?

Gurpreet Chhatwal: It's a number of issuers. That's how it is calculated worldwide.

Varun Goenka: Good evening. Varun Goenka, Nippon Mutual Fund. I have two questions, ma'am. One, alluding to, again, the pricing in the industry, how it's shaping? So if you see both our rating and non-rating, India or globally, the big are becoming bigger, the number of
players are becoming fewer. So, how would you manage your client concentration or your customer acquisition funnel?

Ashu Suyash:

I am going to start and then ask Amish to talk a little further. You would have noticed one very important point that I stressed when I covered CRISIL’s overall client base. We recognize the bit around client concentration. So our focus is across geography, across market cap. And that by itself ensures that you have a pretty long tail. When it comes to the global market, historically, our focus used to be the large corporate investment banks, because they were the ones that were a lot more open to doing a lot of new things. That has actually changed quite a bit. And one of the things that Amish spoke about, is, what are we seeing on the regional side, both globally and what we think about the smaller banks. Or if we look at the financial services world outside of the banking and the NBFC sector, they are also ripe now, so far everybody would say I get enough research. But today, the need for an independent opinion has certainly gone up. So Amish, you might want to talk about it.

Amish Mehta:

Sure, Ashu. So I think there are two strategies that we are adopting across clients, across businesses that we have. One is, in the large clients that we have, deepen our relationships, by going to multiple stakeholders. And that happens through different offerings that we have. So we would be doing research for the same client, we would end up doing risk analytics for the same client, and that would be different stakeholders within the same company or a bank. We would be doing benchmarking for the same client and we provide data to the same client. So you would have across the same client segment, different personas buying us for the IP and the value that we would provide. So we go up the value chain by providing IP, going to different personas and diversifying our risk on the client concentration side, and diversifying the client portfolio which is the other point which Ashu mentioned.

So how do you go beyond the top 10, 15, 20 in each segment. So, we have a strategy where we are going to the next 15, 20, it could be regionals in case of some businesses, it could be a different segments, buy side is a completely new segment where we need to have a larger penetration. So identifying new segments, identifying the next set of clients within the same segment, identifying new products and solutions that we can take. So, on the global side, it could be insurance, it could be buy side firms, and having different products and solutions for different set of clients. So, I think client concentration is a risk that we manage through multiple strategies, deepening presence with multiple stakeholders, plus new client segments. And then within the same client segment, trying to expand our client list. These are the three things broadly that we are focused on.

Ashu Suyash:

The Greenwich acquisition will play out very well here, because they work with about 300 global clients. Our global client list is much smaller. So not only it’s about the growth of that business that we acquire, but the ability to cross sell some of our services. And they are a very, very strong name on the buy side.
Varun Goenka: Maybe in the next interaction it would help if you share some data around how our cross-sell is progressing, or maybe client concentration, share of revenue segment wise is progressing. My next question is around our non-rating piece. What variables do we really track to see or understand how this will pan out, what degree or pace it would take? What are the variables in multiple geographies? And how do you see it as a proportion of the total CRISIL revenues over the next two, three years, maybe three, five years?

Ashu Suyash: So, definitely the global piece will remain large over the near to medium-term. Long-term, hopefully the Indian economy will be that large that we can kind of rebalance more towards India. When we look at how do we track the non-ratings business? The metrics are very different for each of the different businesses we are in, because the drivers for each of them are very different. Cross-sell metrics is very actively tracked, because once you get into a relationship, there's no reason for not to be able to get introductions to other stakeholders. So that's a metric that is tracked.

The second metric is around what are the different analytics bought. I mean, if somebody is only buying competitor analytics and not buying wallet, then you try and understand, is there a provider that you can displace and how do you even track within competitor are there all the offerings, within wallet are they buying the whole thing or are they not. And we actually on that benchmarking piece would also do different segments in a bank. So you would do fixed income, you would do cash equities, you would do transaction banking, etc. And definitely on the global piece, we track things like utilization, etc., very extensively. And finally, at a macro level, preparedness against all the new things that we track. We have spoken about some of the trends. Our readiness, which is about getting our talent pool ready and getting the right subject matter experts. And then you put a plan against how you will source that opportunity and how long does it take. So broadly, because this is what will underpin the eventual financial results that comes in.

Varun Goenka: To just clarify, India part is very clear in terms of leadership and capability. Again, on the global part, how do you measure yourself which markets are you winning? How are you winning in customers versus your peers? Or whom are you competing with, how are you benchmarked in?

Gurpreet Chhatwal: So I will just give one example, this Benchmarking business we spoke about, right. So, we are in the corporate investment banking business in Coalition. Now, we know the players who are in that segment, we know who are the customers in that segment. So, if we are serving today, top 15 investment banks who have the largest share of the market in that space, clearly our revenue share within that space should also reflect some of that. So I think for each of the businesses that we have, we have defined parameters on looking at either a set of clients, revenue share, penetration, new products, different stakeholders, which is leading to cross-sell. So I think different
businesses have got different metrics that we look at. But just to share on Coalition, how we look at some of the KRAs.

**Ashu Suyash:** So for your specific question in the context of market share itself on the global side we get a good sense. Obviously, we track our competitors, and Greenwich was a competitor to Coalition. So we have the competitor set for each of our offerings, because it's not like there is many equivalents of CRISIL, either here or out there. So, each of our segments have their own competitor set and we track market share against it. And also markets, like I said, if you look back in time, US was a very large share. Then we started talking about Europe for the last couple of years, then we started talking about the fact that we are tracking entry into the buy side. So it's overall market share and the different segments. Ex-India, the share across the rest of Asia, given the level of development of the other countries, it's not a very big market of focus for several offerings, but for risk solutions and infrastructure advisory, which is what Sameer covered, it's a target market. So you have to literally look at it very differently for each of the segments.

**Varun Goenka:** And maybe in future presentations if you are able to share some more segmental granularity rather than just financial, it would help us have a longer vision. Please consider that.

**Priti Arora:** Sure. Probably we will take the last two questions and then proceed for high tea.

**Gaurang Ved:** Hi, my name is Gaurang Ved from Ved Capital Advisors. First question is regarding Ratings segment. The two most important parameter for the bond market is the recovery rate for the NPA assets and the number of years it takes. So as per the last World Bank report, the percentage of recovery, percentage was around 25% odd. And the number of years it takes was around 4.2 or something. So can you please throw some color, given the IBC, where we are on this ratio for the Indian market, and where do you see this ratio? How do you see this playing out?

**Gurpreet Chhatwal:** On a lighter note, regarding this data, there are many foreign banks who are asking us and they are willing to pay for this data. So I am not sure that I can answer this question in a public forum and kind of leave revenue on the table. And genuinely they are asking us for data, what is the break up, and that's a continuing discussion. So today, if you ask me, I don't have answers to it readily. But I think the numbers are moving towards the right direction. And I will use the word ‘hope’, hoping that we are in between the 50 to 60, somewhere around that on a recovery rate perspective. And regarding years, we more in line with the two-ish years, but I mean, now the data is colored to some extent that' what has not been solved till now. And there are cases sitting in that whole pipeline which are ageing and you haven't solved them till now. So there is an approximation you will have to use. What we are seeing, that for larger assets where the banking system exposure is there, these ratios are
much, much better. Current situation where defaults happen, the moment it comes to us for ratings, for the ICE or LGD are much faster. So my take is that, I think we are under transition so these ratios will take time to stabilize. Frankly, if you ask me, I don’t have a right number, but I think we are moving towards the right direction in terms of getting this number of recovery rate up substantially. You will see these numbers will be much higher for larger assets then then smaller assets. And same goes for the recovery timeline, I think they are reducing again for larger assets is much smaller than the smaller assets.

Gaurang Ved: Thanks. That was really helpful. And my second question is on the Research segment. As you highlighted that overall research CIB revenue pie is not growing. And so for the company and us, suppose if you want to increase revenue, so we have to gain incremental market share. And as we can see from the CRISIL revenue also that our revenue from the last four years is Rs. 1,000 crores plus odd. And last year we have seen a significant dip in the margin also. And as I understand, you don’t give a guidance or anything, but PBT margin level has come down from 30% odd to 22% odd. So is this a new normal now for this division or that was just a one-time blip and we see this going forward towards the earlier rate? Thanks.

Ashu Suyash: As we pointed out, and as all these discussions that we had and queries that were answered, there are avenues out there for growth, which we are clearly investing in, and which we are clearly focusing on. And at the same time, we are investing in our core businesses. As far as de-growth is concerned, we have seen stress over the last two years in one particular segment, which is the Research segment. We believe the stress has played out and we should look at improvement going forward. But the improvement will not happen overnight, the improvement will have its time lag. But yes, in time we believe we should be able to start seeing an upward traction in margins.

So if I may just sort of point out, because we had the chart on the slide as well. And if you plotted the quarter, you will find that the de-growth is coming down. And if you just look at Q4 itself versus what you would have seen in Q1, you would see quite a big change there. And the important point that you make is around the CIB industry revenues being largely flat. There are some businesses that benefit from that flat trend and some don’t. But as an active strategy, expanding to the regionals, nationals, commercial banks and asset management or the buy side generally, not just asset management but private equity is part of the active strategy to get growth back on the research segment. And we believe that there is demand out there.

Parag: Hi, this is Parag from White Oak Capital. On Ratings business my question is, what is more important for Ratings revenue, is the overall markets growing or breadth of the market? So let’s say, if you have entity like, just I am making a name, Bajaj Finance, it grew from Rs. 1 lakh crore to Rs. 2 lakh crores. Rather than that one Rs. 1 lakh crore comes from, let’s say, 10 smaller NBFCs. So that’s the first question.
Second question is securitization edition. You mentioned that it is growing by around 18%, 20% this year and I assume that you must have grown better than that and gained market share. And again, my understanding is that this segment gives you a higher yield versus bond, and then followed by bank loans. Obviously, the underlying pool for sell-down is limited. Next year you may not see Rs. 2 lakh crores, Rs. 3 lakh crores again coming for sell-down. So if that revenue also de-grows or remains flat, it can also pressure the overall revenue for us. Thank you.

**Gurpreet Chhatwal:** Okay. The first question, the breadth, more number of companies coming to the market is beneficial than few companies borrowing.

Secondly, on the securitization you are talking about, I think this is a market we will have to take a calibrated call. We have seen some of these markets working with regulation, the regulation kind of sometimes aiding that or taking that away. At this point, where we are, our sense is that this is going to stay for some time, because the non-banks, many of them are not able to get money directly from banks. So you will have to take that call. And their ability to raise fresh money, this is easier, you actually sell your assets and show that to the banks, whoever is buying. And that you are originating high quality assets and they are buying that. And overall, if you look across the world, and I don't have numbers with me now, but this is a sustainable pool of fundraising by non-banks across the world, and actually even banks as well.

**Priti Arora:** So, thank you so much for joining us. There is hi-tea after this, where hopefully you will get a chance to engage with the management team more. Hope you found this discussion useful. Thank you once again on behalf of the management team.