“CRISIL Limited

Analyst Conference Call”

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Moderator: Good afternoon, everyone, and a warm welcome to CRISIL's Analyst Call 2024. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone.

Please note that this conference is being recorded. Before we start, as a standard disclaimer from CRISIL, we would like to state that certain forward-looking statements during our interaction today are based on the current understanding of the company profile and market conditions. These are subject to change based on changing policies of company and macro environment.

The company does not undertake to update the forward-looking statements or other information contained in the presentation, whether as a result of new information, future events, or otherwise. As a policy company refrains from giving specific and quantitative guidance on its future performance. Further, in the interest of fair disclosures to investors, operational details relating to specific business segments, customer contracts will not be possible to be disclosed.

I would now like to introduce you to the speakers of the call today. Amish Mehta, Managing Director and CEO, CRISIL Ltd. Sanjay Chakravarti, President and CFO, CRISIL Ltd. Gurpreet Chhatwal, Managing Director, CRISIL Ratings Ltd. Ashish Vora, President and Business Head, CRISIL Market Intelligence and Analytics. Duncan McCredie, President and Head, CRISIL Global Benchmarking Analytics.

Jan Larsen, President and Head, CRISIL Global Research and Risk Solutions. Subodh Rai, President, Risk and Compliance. Let me now hand over the call to Mr. Amish Mehta to commence the proceedings. Over to you, sir.

Amish Mehta: Thank you. Good evening, everyone, and a very warm welcome to each one of you. Trust you are all doing well. I am pleased to share that during 2023 and in the first quarter of 2024, we demonstrated resilience and created significant impact through our work and sustainability efforts for our stakeholders in line with our strategy and the mission, in line with our strategy of making markets function better. The trinity of integrity, insight and impact give us a winning edge in the market. We operate in 12 countries and CRISIL's family is now a 4,600 strong plus employee base.

We recently set up a delivery center in Bogota, Colombia for our North American clients, which has augmented our global delivery model. People are our biggest and most important IP, and we take pride in our people-first culture, where diversity, equity and inclusion form the bedrock as underscored by our global workforce, comprising 39% women and 40 nationalities. We continue to invest in talent to make us future ready and encourage our colleagues to think entrepreneurial.

Our focused efforts have led us to multiple recognitions in various forums. CRISIL has been certified as a great place to work for the fourth year in a row and named among the 100 best companies for women in India. We are recognized as a bronze category employer by the India Workplace Equality Index.

In a testimony to our innovation, we were named in the top 50 of the Chartis' RiskTech100® for 2024 and won in the model validation category for the second consecutive year.

Let me now share our perspective on the macro economy. The global economy remained resilient in calendar year 2023, and only a mild moderation is expected in 2024, according to the latest outlook by S&P Global in March.

A soft landing is the base case for the global economy in calendar year 2024, with 3.2% GDP growth compared with 3.4% in calendar year 2023. Geopolitics, including a spate of elections in 64 countries, pose downside risks to the outlook. Given this context, we believe that following will be the key trends in 2024.

We see the global banks turning cautious with delayed discretionary spending while they continue to focus on operational efficiencies, regulatory compliance, and business transformation. Increased volatility due to macro uncertainties translates to a greater need for enhanced value and actionable insights from our benchmarking solutions. We see continued traction in the private capital market.

We are seeing active dialogue around the possibility of leveraging Gen AI across industries, and we continue to explore ways in which we can enhance our client offerings and internal workflows through the use of Gen AI.

Coming to the domestic environment, the momentum in India's GDP growth continues to be good, underscoring the country's growth potential. India's growth has been investment-driven, largely with private consumption trailing overall GDP.

Healthy private consumption is vital for balanced and sustainable growth will remain monitorable. CRISIL expects India's GDP to grow at 6.8%, making it once again the fastest-growing large economy in fiscal 2025. Corporate bond issuances grew 9% on year in the quarter, ended 31st March 2024, versus 28% for full year 2023.

Bank credit growth was 16.5% driven by demand from retail and services sectors, large corporate credit growth was tepid at 6.6%. Overall, the medium-term growth prospects for India are expected to be healthy, thanks to strengthened corporate balance sheets, a robust banking system, government's capex focus, and broad basing of private investments.

Our businesses displayed strong growth in 2023, and momentum continued in the first quarter amid market uncertainties. Thanks to our differentiated positioning, global talent pool, and our portfolio of IP-led services, we continued to add new clients across our businesses and recorded increase in our already strong net promoter score from last year. CRISIL ratings consolidated its market leadership position with healthy revenue growth during the quarter, given the investor preference for best-in-class ratings. Our Global Analytical Center continues to strengthen its support to S&P Global in newer areas.

The research, analytics, and solutions segments saw traction in credit, risk, data and analytics, and consulting offerings for MIA. Our global businesses saw the impact of slowdown in discretionary spending by global financial institutions. The GRRS business witnessed momentum in lending solutions and regulatory support, and the business added new logos during the quarter.

The GBA continued – the benchmarking business continued to strengthen client engagement through new benchmarking solutions. We remain committed to delivering value to all our stakeholders for investments in digital technology, digital capabilities, talent, and new solutions. And our franchise activities continued well during the quarter.

We hosted the flagship India Outlook Seminar 2024 and released the India Outlook Report. Our businesses released thought-leading insights and reports and hosted webinars on pertinent topics across sectors. Our CRISIL Foundation celebrated 10 years in 2023, and our Global Analytical Center celebrated 20 years of partnership with S&P Global Ratings.

Our foundation continues to drive impactful work and meaningful, positive social and environmental change through many engagements and initiatives, especially towards women empowerment and environment conservation. Our colleagues will share a lot more detail around the individual businesses, and I'm handing over to Sanjay to walk you through the financial performance in detail. We'll be happy to take questions once we share our story.

Over to you, Sanjay.

Sanjay Chakravarti: Thank you, Amish. I'm on slide 12, where we have the financial performance of 2023 and first quarter of 2024. Let me start with the financial results of 2023.

Revenue growth for 2023 has been robust at 13.4%, with both our business segments registering growth, double-digit growth, in fact, and all our businesses in both the segments registering growth in the year 2023. With expenses growing at a lesser pace, roughly around 10% for the year, 2023 saw PBT growing by almost 17% and PAT growing at more or less the same rate at 16.7%. When we come to the first quarter of 2024, the quarter did see revenue growth momentum continuing in the rating segment. However, it was offset by slower performance in one of our global businesses in the research analytics and solutions segment.

The quarter grew by 3.2% in spite of coming off a strong base of Q1 2023, when revenue had actually grown by 20.2% last year in the first quarter of 2023. While PBT was flattish for the quarter as compared to last year, when we look at PAT, PAT has de-grown by 5.5%, and that is essentially because of increase in the tax rates after the

1st quarter last year in one of the ex-India jurisdictions. That is a summary of the financials of 2023 and the first quarter of 2024.

Even as we go into the Q&A at a later point of time during this call, questions from all of you will be more than welcome. I now hand over to Gurpreet for the ratings section.

Gurpreet Chhatwal: Thank you, Sanjay. I will take you through the segmental performance for ratings for Q1 2024 as well as CY 2023. On this slide, I think we are seeing the two main drivers of the revenue pools for the rating agencies in India.

I think the first is the corporate bond market and the other is the bank credit crop. Let me talk about them. So, we are witnessing a growth of about 9% or we witnessed about 9% in the first quarter of 2024. This was on a high base of last year. Last year, we did see a very strong growth in the corporate bond market in H1 2023, followed by a marginal decline in the second half of 2023 as the interest rates increased in the second half.

The issuers and the capital market investors are awaiting a decisive turnaround in the interest rate outlook for the market to pick up in the coming year. Bank credit, on the other hand, clocked robust, about 6.3% growth by the end of Q1 2024, supported by growth in credit towards retail and service sectors. However, the growth in credit towards large corporates remained lacklustre with about 6.6% Y-o-Y growth by the end of the first quarter of 2024. The segments of bank credit that are of relevance to us grew well in last year as well as the first quarter are the services space, which is basically NBFC growth infrastructure and mid-corporates.

The CRISIL Ratings estimates that the growth rate for bank credit and NBFC sector took about 14% and 15%-17% respectively in the financial year 2025. So we anticipate that the capital market issuances are likely to remain sluggish in the near-term due to the prevailing high interest rate conditions. We anticipate the capital market issuances will revive in the second half of the calendar 2024 with softening interest rates and gradual revival of private sector capex.

So let's move to the next slide. We are on slide 15 now. On this slide, you see a segmental performance for 2023 as well as Q1 2024 for the rating segment. The domestic ratings revenue benefited from a strong bond market in H1 2023 as we talked about and continued growth in the mid-corporates in the year 2023. We saw good bank limit growth in our mid-market customers last year. In the first quarter 2024, we've seen roughly about 12% growth, which is largely coming from surveillance fee as well as new rating revenues from mid-corporates.

We continued our focus on client engagement initiatives and strengthened our leadership leading position and the share of voice in the Indian media amongst the domestic rating agencies with our part leadership publications and webinars. Global analytical centers saw robust surveillance work delegation from S&P global rating services. Overall, the rating segment grew by about 8.4% on here in the quarter. Thank you. Over to you, Ashish.

Ashish Vora: Thanks, Gurpreet. Good evening, everyone. I'm Ashish Vora and I lead the Market Intelligence and Analytics business at CRISIL. Between me and my colleagues, Duncan and Jan, we will walk you through the segment performance for Research, Analytics and Solutions.

I am now on slide 17 of the presentation. As stated by Amish, we believe the India growth story remains positive. I will now talk about some of the underlying factors that are drivers for the Market Intelligence and Analytics business, such as loan growth, financialization of savings and capital formation.

The asset quality of banks continues to improve due to lower slippages, lower write-offs backed by comfortable capitalization and improved efficiencies in recovery process. For instance, as you can see on the slide, the GNPAs have come down sharply from about 5.9% in 2022 to about 2.9% in 2024 or in the current fiscal. Healthy bank balance sheets and low credit losses have enabled banks to plan strategies to gain or protect market share, lend more to infrastructure, to the SME segment, to farmers and for household asset creation.

We at CRISIL are working very closely with banks across the entire loan life cycle, right from opportunity identification to origination, credit assessment and risk monitoring. Our research insights and data directly feed into the bank's internal workflow systems and the up skilling solutions provided by CRISIL 1Academy are training vertical, help ramp up core teams and improve efficiency and efficacy.

Banks are also looking at digitization and automation as the way to drive growth and operational efficiency, leading to demand for CRISIL's integrated credit platform that connects data, creates data marts and automates the entire credit life cycle. Similarly, financialization of savings and steady increase in assets under management have been accompanied by a higher demand for innovative products from the investor community.

This combination has led to demand for index-linked products, need for research insights that help deliver alpha and for reaching customers through a digital interface. This has sparked demand for our services around indices, valuations, benchmarking, risk management offered to be delivered via a digital platform.

I will move on to slide 18 now and we will really talk here about the healthier corporate balance sheets and the higher capacity utilization that we are seeing in the corporate sector, which is conducive for incremental capex. Capital formation is another proximate growth driver. We expect capital investments to fire on both cylinders over the next few years as both infrastructure and industrial investments are set to increase.

In the past four years, capex in the country was primarily driven by infrastructure expenditure, supported by the central and the state governments. Currently, we are seeing industrial sectors pick up pace with investments flowing towards both conventional and the emerging sectors. In parallel, infrastructure capex is maintaining its growth momentum.

On the infrastructure side, we continue to build on our strong franchise, working with all the key stakeholders, the implementing or the nodal agencies, the infrastructure companies and the tenderers, as well as the investors. Within the industrial capex, healthy corporate balance sheets and decadal high utilization rates across most sectors are driving capital investments in traditional sectors.

For example, the net EBITDA, for instance, the net debt to EBITDA was at 1.9x at the end of fiscal 23, down sharply from about 2.8x about three years back. And as you can see on the capacity utilization slide, capacity utilizations are trending upwards of 70-odd percent down. On the other hand, policy interventions such as the PLI scheme are helping bring in large scale investments in emerging sectors, such as electronics and semiconductors, solar PV modules and EVs.

We expect about INR1.82 lakh crores of PLI incentives to be paid across 14 sectors to generate revenues of close to INR30 lakh crores and capital spending of INR3.2 lakh crores for these particular initiatives. Emerging sectors are expected to account for about a fifth of the total industrial investments over the next four years. We are building data and analytics capabilities in these new sectors to be able to help both corporates as well as financial institutions make the right investment decisions in these growth areas. In fact, the theme of our flagship event, the India Outlook that Amish referred to at the beginning of the call that happened in March this year was the emerging sectors, the three E's, electronics, EVs and energy transition.

The insights from the event covering India's current presence in the value chain, investment opportunities, global comparison and policy interventions were all well appreciated by the Senior Leaders across the industry.

I will now hand over to Duncan to share the updates on the GBA business.

Duncan McCredie: Thank you, Ashish. Hello, my name is Duncan McCredie. I joined the company in July last year and I lead the Global Benchmarking and Analytics business. So firstly, I want to thank you all for your time and to highlight what a pleasure it is to join CRISIL at this very exciting time for the company. To help contextualize the operating environment for our international businesses with slide 19 of the analyst presentation for background, I want to highlight that the revenue pools for global banks' CIB divisions has largely stagnated over the past year after a decline from 2021 to 2022. We do, however, anticipate a modest recovery in this area into 2024, but the regulatory environment and broader inflationary trends have put pressure on banks' profitability in 2022 and 2023.

This has in turn increased the bank's focus on controlling discretionary spending. With that background, now referring to slide 20 of the analyst presentation, we have still managed to generate strong progress on the two key pillars of our strategy in the Global Benchmarking and Analytics division. We've increased our penetration with the global index banks through 2023, both in the existing offerings and the deployment of new initiatives.

For example, Q^2, one of our flagship new benchmarking offerings created from the combination of Coalition and Greenwich products, has gained material traction through 2023, facilitated by the ongoing digitization of our end-to-end processes. We've also seen success in expanding our offerings into Tier 2 and commercial banks globally, which presents a material growth opportunity over time. These pillars have together allowed us to deliver double-digit revenue growth in 2023.

These trends have continued into the first quarter of 2024 with strong momentum across both global index banks and regional players. Our digital transformation is now having a tangible impact on our ability to deliver our analytics through digital channels to our clients and increasing the pace of development of our new offerings. Overall, we've seen a strong performance in 2023, laying a foundation for continued growth.

I will now hand over to Jan Larsen, who will take you through the highlights of the GRRS business. Over to you, Jan.

Jan Larsen: Thanks, Duncan. Good afternoon. I am Jan Larsen. I head the Global Risk and Research Solutions business at CRISIL, which we often refer to as GRRS. I am on slide 20 of the presentation. The global macroeconomic solution situation remained complex in 2023.

World growth was higher than expected, and inflation, despite peaking, was above target for many central banks. The operating environment was characterized by the failure of a few regional banks in the US and the consolidation of a large European bank. The GRRS business witnessed robust performance in 2023 despite these headwinds.

The risk and analytics business saw increased client engagement in areas such as regulatory compliance and reporting, targeted review of internal models, stress testing initiatives, and lending solutions, leading to wins with existing and new clients. Traditional sell-side research faced cost-cutting pressures amid headwinds driven by factors such as a challenging deal environment, regional banking crises, inflationary pressures, recessionary concerns, and ongoing budget pressure. But on the buy side, strong traction was seen in research and operations, accompanied by a resurgence in demand from traditional asset managers across asset classes.

There was sustained demand for ESG integration and monitoring services. Overall, the business added 29 new logos in 2023. While we saw the impact of curtailed discretionary spending in the first quarter of 2024, to maximize revenue in the current year and to build a broader revenue base for the future, we have amplified our focus on getting into new buying centers and existing accounts.

We have a disciplined program of outreach to key stakeholders in our current small to mid-sized accounts with early success stories in the first quarter. In the first quarter of the year, we also continued to see the momentum of new logo additions, including adding a large asset manager into our client portfolio. We also continue to focus on expanding our reach to Tier 2 and Tier 3 institutions through our partnership channels.

We are using Gen AI, Traditional AI, and Machine Learning techniques to develop new offerings as well as to create efficiencies in the delivery of our core services. Overall, the Risk, Analytics, and Solutions segment demonstrated strong growth in 2023. In the first quarter of 2024, we saw some softness due to the impact of the slowdown in discretionary spending.

Over to you, Subodh.

Subodh Rai: Thanks, Jan, and good evening to everyone. We are on slide 26 now. In this slide, we have summarized the key risks we foresee for our businesses. Let me commence with the geopolitical and market environment. Last year, the effect of higher interest rates resulted in growth slowdown in major economies, with the notable exception of the US and India. As we head into 2024, major central banks across the world appear on the verge of loosening their monetary policies by varying degrees.

However, geopolitical headwinds are becoming stronger due to the ongoing war between Israel and Hamas, which has also led to Red Sea crisis affecting one of the busiest transport corridors in the world. Escalating conflict between Iran and Israel has further heightened the regional tensions and raised the fear of Israel-Hamas conflict spiraling into much wider war. Continued war in Europe is also adding to the uncertainty.

Additionally, this year has another geopolitical risk in the form of elections in more than 60 countries, including India and US. The outcome of these elections has potential to impact global business sentiments. In such an uncertain economic environment, we are witnessing some of our clients turning more cautious and prolonging their decision-making cycles.

Now coming to cyber risk, the threat perception continues to remain very high as threat actors are becoming more sophisticated.

As you are aware, a substantial portion of our earnings are denominated in foreign currencies. Fluctuations in exchange rates tend to affect us both ways.

While CRISIL has deployed an appropriate hedging strategy, any sharp volatility in the currency moments remain a key risk to our global businesses. Lastly, I will talk about the risk emanating from large-scale deployment of Gen AI across the globe. While AI, ML-driven solutions have been in use in the financial sector for a very long time, their applications were limited to specific tasks only.

The rapid rise of Gen AI has expanded the scope of its application, and for the first time, several knowledge work categories, which are presently manual in nature, are potentially within its reach. While the pace of adoption among our clients is relatively slow, the nature of our flagship businesses is intellectual property-driven. We continue to monitor the space closely.

On the positive side, Gen AI also presents potential business opportunities for CRISIL. Therefore, we are also working towards large-scale adoption of Gen AI within CRISIL to drive efficiency gains and explore new business opportunities.

With this, we conclude our presentation. And now, I will hand it back to Amish.

Amish Mehta: Thanks, Subodh. So, I think, you know, as you heard all of us speak clearly, you know, the geopolitical environment, what happened in the global banking environment last year, and the strong growth momentum in India, the resilience of the US economy, clearly demonstrates that the underlying business, based on the environment that we operate in, I think, remains resilient. There have been some challenges in terms of the decision-making of some of the global banking clients with what they are facing in terms of challenges.

We have seen that in the slowdown of discretionary spends, which has had potential impact on our global businesses. But we see momentum in terms of the products and solutions, the offerings that we have, the dialogue that we have with our clients, and the wide spaces that we look at, the connects that we do with our key stakeholders. If you look at all the conversations, I think the underlying business continues to be robust, and we are excited about the growth strategy that we have looked at, put in place.

So, with that, I'm happy to open up for questions-and-answers.

Moderator: Thank you, sir. We would now like to open the floor for questions. The first question is from the line of Harsh Shah from HSBC Asset Management. Please go ahead.

Harsh Shah: Yes, good evening, gentlemen. Thank you for the opportunity. Just a few questions on Q1 results, and then I have a couple of questions on an overall strategy basis. That Q1, you had a heavy quarter last year, and because of which this quarter was a bit benign. On top of that, is there any slowdown that is being witnessed in this quarter, which has also led to a little bit of comparatively sluggish numbers? And if yes, will that slowdown also persist in terms of numbers throughout the calendar year '24 also?

Amish Mehta: So, I think, like I mentioned, Harsh, that in the global environment, we are seeing some slower decision-making and impact on discretionary spend by our global financial clients, which has had an impact during the quarter. And I think we will continue to see that play out for the next few months or depending on when the decision-making cycle turns around for discretionary spend.

But to address that from our perspective, I think we have put a strategy in place to look at the white spaces, to reach out to stakeholders, identify areas of opportunity on the risk regulatory side, data analytics, sustainability, private markets, and create new offering and solutions, which we try to meet up with our existing stakeholders within the banks as well as the new stakeholders that we are looking at and new clients. So, there is a plan that we have put in place. So, I think those are some of the actions that we are putting in place to help address the challenge which might be there in the environment, given the impact on discretionary spend by some of our global clients.

Moderator: The line for the current questioner seems to have dropped from the queue. So, we will move on to the next question. The next question is from the line of Nirali Gopani. Please go ahead.

Nirali Gopani: Hi. Thanks for the opportunity. So, my question is on the research division. So, if we see last few quarters, the margins have been very volatile, ranging from 18% to 24%. And this quarter, it was around 16%. So, what should we consider as a steady-state margin when it comes to the research services?

Amish Mehta: I think, Nirali, you should always look at the annual margin, not look at quarterly margins. So, from our perspective as an organization, our focus is to grow margins across all our businesses on a consistent basis. I think that is where we continue to focus. We continue to build our IP. We continue to build our domain solutions, working with our clients to create that impact.

So, I would request you to look at the annual margin numbers and not look at the quarterly numbers because there would be various aspects which are sitting in quarterly numbers. I think it is always better to look at the annual margin profile.

Nirali Gopani: Okay. And you have talked about this global uncertainty and we all know what is going on globally. So, given the situation, should we expect some growth in the research division in this calendar year or maybe next calendar year? Some outlook would be helpful.

Amish Mehta: I think we do not give any forward-looking outlook, Nirali, as you are aware.

Nirali Gopani: I do not want anything quantitatively. Any qualitatively, if you can talk about it, it would be helpful.

Amish Mehta: I think it is very clear. Our endeavor is to grow as an organization across all our business segments in all geographies that we operate. I mean, we are very focused on driving growth, on accelerating growth and that is what we will be focused on.

Nirali Gopani: Perfect. Thank you.

Moderator: Thank you. The next question is from the line of Harsh Shah from HSBC Asset Management. Please go ahead.

Harsh Shah: Yes, sorry. My line got dropped. I hope I am audible right now.

Amish Mehta: Yes, Harsh. We can hear you.

Harsh Shah: Yes. So, just to the previous participant's question, I was alluding to that also earlier that barring quarter-to-quarter, you always mentioned that we should look at the company on a yearly basis and also exhaust global slowdown. Do we have enough arsenal at our disposal that we can have a double-digit growth and also margin improvement on a full year basis?

Amish Mehta: So, Harsh, I just mentioned some time back that we do not discuss forward-looking outlooks. So, I will not be able to comment on that. However, I mentioned that as an organization, our focus is to drive growth and continuously improve margins. So, that is something that we will continue to work as an organization.

Harsh Shah: Okay. And just as an organization, do we have a correlation of how a sector, let's say BFSI, IT spends are there versus how the discretionary spends of those financial institutions also have with CRISIL because few of the IT companies are saying that financial year 2025 for BFSI globally should be better for them than financial year 2024.

Amish Mehta: So, the spend of global institutions on CRISIL as a percentage will be miniscule compared to what they would spend on the large IT companies. And if you look at the number of global institutions that I think we can potentially work with is pretty large.

Harsh Shah: Understood. And the last question from mind is in terms of ESG rating license, where are we and at what stage we are?

Amish Mehta: So, we have applied for the license as we have disclosed publicly and we are awaiting feedback from SEBI on the next steps.

Harsh Shah: And is there a deadline for that before that date SEBI has to inform everybody?

Amish Mehta: No, there is no deadline as we understand.

Harsh Shah: Okay. That's it from myself. Thank you and all the very best for CY '24.

Amish Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Anuj Sharma from M3 Investment. Please go ahead.

Anuj Sharma: Yes. Thank you for this opportunity. Two questions. One is the merger with IHS Markit has been for some time. Now, in terms of opportunities, in terms of outsourcing, could you just help elaborate what is the opportunity as the journey yet started or there's not much there to look forward to? That's question number one.

Amish Mehta: So, you are asking about the merger of IHS Markit with S&P Global, I'm assuming?

Anuj Sharma: That's right.

Amish Mehta: So, I think as you would be aware that there is a large footprint which IHS Markit and S&P Global have in India beyond CRISIL, right? And I think we continue to look for opportunities as CRISIL. So, we work very closely with the S&P Global Ratings. We have a captive which is the Global Analytical Center where we are working very closely with the S&P Global Ratings business.

We are looking for opportunities to partner with different divisions of S&P Global and identify opportunities where we can partner based on the capabilities that we have. And that's something that we are wanting to grow in terms of business. So, that is something that we are continuously evaluating and working on. We have had some success in some of the businesses and I think that's something that we will continuously evaluate.

Anuj Sharma: All right. But would it be fair to say that a large portion of opportunity will flow down to the captive which is beyond CRISIL and has it started already flowing through or you believe that will be equally divided between the two entities?

Amish Mehta: No. So, I am unable to comment on the strategy of IHS Markit. I can only comment about CRISIL. And our dialogue across the organization beyond S&P Global Ratings is to evaluate based on the capabilities that we have and see how we can leverage, how we can demonstrate value for the stakeholders and be able to leverage the value.

Anuj Sharma: All right. And my second question is, it's always been a competitive market. But what are the trends in pricing and yields in the Ratings segment? Just some thoughts into that segment?

Management: Yes. I mean, Ratings has been a competitive market throughout. So, I guess it isn't very different. That's, I mean, I'm not sure what you are exactly asking for.

Anuj Sharma: I'm trying to understand since the pricing was very competitive due to some stability and improvement in the size of market. Are we able to see some pricing power along with the competitors?

Gurpreet Chatwal: So, okay. So, if the question is, yes, in a growing market, there is enough pie for everybody. So, I think what we've seen, we saw a couple of very difficult years after the IL&FS and the DHFL incidents. Incidentally, we didn't rate both of them. But I think that they were tough for the market. The last few years, we've seen growth in the industry across. So, that has kind of created enough opportunities for everybody.

Anuj Sharma: All right. But if I may push on, is it the benefit is slowing down to the yields and pricing or it is just volume as yet?

Gurpreet Chatwal: I think it's difficult sometimes to strip that out because you work with existing customers. Obviously, there is an operating leverage there and there are new customers coming in. But I would say when the market grows, I think it helps both sides.

Anuj Sharma: All right. Thank you so much.

Moderator: Thank you. The next question is from the line of Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: Yes. Hi. Thanks for taking the question. First was I want to understand for last year, could you help with the split in the Ratings segment between bonds, bank, and bonds directionally if you want to split?

Sanjay Chakravarti: We don't give a segmental split, sub-segmental split of our businesses within a segment, Naysar.

Gurpreet Chhatwal: It's actually not also easy to do it. I mean, typically, you will have – I mean, some of it is issue-based pricing, some of it is pricing, which is bulk. So, people will shift between bond and capital market and sometimes – I mean, it is not easy for us to put that out. Ourselves as well. I mean, I'm not saying that from public domain, but internally also, if you divide it, it is – we can argue it's best in apportionment process, but usually, sometimes I'm not able to make that differentiation.

Sanjay Chakravarti: If you're asking about GAC, Naysar, if you look at the 2023 annual report, you will see that GAC's related party transactions are separately listed, and that comes to roughly around 10%-odd of our total consolidated turnover of the company, that is available for you in our annual report.

Naysar Parikh: No, no, that – Yes, that is that. No, that's fair. Okay. Second question was, in terms of the margins, and you spoke about, it a bit, but can you just give some more directional, sense, like, are we face there some kind of margin pressure that we are facing on the research side? And secondly, can you give split bit of the employees between how many are in India versus outside?

Sanjay Chakravarti: We do not give a headcount split, Naysar, but about the bulk of our employees, 75% to 80% of our employees are in India. We do not give a business-wide or segment-wide split. As far as margins are concerned, again, I think Amish alluded to this, that by one quarter on margins will not be reflective or in any way symptomatic of the underlying potential of the health of the business.

If you look at the way we performed in '22, – the research segment had 21% on margins. We were at, again, a 21% margin in '23. The idea across all our businesses and our segments is to have revenue growth along with margin expansion. There will be cycles in between where we will see margins getting hit, and when I say hit, I mean the expansion of margins might see some level of slowdown, but as an organization, as a board, and as a management, we are very clear that every business that we run has clear potential of revenue growth and margin expansion.

Naysar Parikh: Okay. And last question is, do you calculate, track your market share in the bond ratings or something like that? Any way there is a way for you to track what is your market share, and do you disclose that?

Gurpreet Chhatwal: So, the bond market, I think there are external vendors like Prime Database who kind of put that out, so we do track from them. The numbers, as I said, will vary based on quarters and on the volume set up, but on an annual basis, we typically track between

60% to 70% is what it will move, but please understand it's a – bond market is a dual-rated market. The denominator isn't 100.

Naysar Parikh: Okay. And bank ratings, there's no way to track?

Management: Bank ratings, bonds, you can identify bond, each bond, there's an ISN, you can, I mean, external agencies can do it. Bank ratings is difficult because some of the larger players can have multiple rating agencies and may not be exclusive for every loan they take, so that's difficult to track. I mean, you can estimate, but it's difficult to track.

Naysar Parikh: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: Good evening everyone. Am I audible?

Moderator: So, you're sounding a bit muffled. In case if you're using the speakerphone, may we request you use the handset mode, please?

Bhavin Pande: I hope I am clear now.

Moderator: Yes sir. Please go ahead.

Bhavin Pande: So, I was just wondering, in terms, -- as we have cited in the annual report, the growth in terms of companies that were issuing was around 6% and the overall growth in the market was around 24%, 25%.

So, for us to forecast specifically for the Ratings business, what, in your opinion, would drive growth? Is it that more the number of issuers and the amount of issuance that they're doing would keep going simultaneously or it could be either of the two?

Gurpreet Chhatwal: So, your voice was muffled a bit. But if you're asking me, how does the growth in revenue correlate with the bond and the bank loan market. Yes, I think there are two or three levers here. One broadly will be the issuance volumes which are there in the market on the bond side, as well as the bank loans taken or additional limits taken by the corporates. That's one side.

And obviously also the multiplication is what you get as yield from that customer. And obviously the third lever is you may have price arrangements with certain customers based on because some are very large, they're based on aggregate volumes and doesn't really correlate with whether you do bond or bank loan. I think that's the third aspect.

And the fourth, which I would also say, there is a good amount of surveillance revenue we as rating agencies contract. So that is a good proportion of our revenue which is independent of what's happening today in the market.

Bhavin Pande: Okay. But sir, what does specifically hinting at was in terms of number of players and the quantum of issuance, do you think is it that this -- what are the total quantum is it's driven by a few select players or do you think that over time it is changing and more number of players are also contributing to the quantum that is going up?

Gurpreet Chhatwal: That's right. So, I think it isn't usually unidirectional. We've seen years where there were a large number of players who come to the market and the more the number of players who come to the market I think usually bring incremental revenue. We've seen years where actually the number of players has dipped.

Over the last 2 years, we've seen increase in the number of players who are tapping the bond market per se. And so that has helped on that side, but on the other side, on the bank loan side, we've seen some of the smaller players dropping out of the market too.

So, the overall number of companies used to rate as rating agencies put together over the last 5, 6 years have decreased. They stabilized about a year or two back, but until about 2 years back we saw numbers declining there which is the smaller companies were dropping out of the ratings.

Bhavin Pande: Okay. That was really helpful. And secondly, on the interest rate cycle, of course, you denied giving any specific guidance, but just from a perspective that even in a worst case scenario, we start seeing a rate cut cycle maybe a couple of quarters from now, would you sort of be more optimistic about this specific segment or as you cited in the previous remark that you would want this business sort of to be independent of the market cycle?

Gurpreet Chhatwal: So, market cycle in financial industry we can't be, but let me give you a perspective. What we get paid for, what our revenues are linked to is aggregate borrowing in the economy. Now, if it happens to the bond side, you have the bond market as a proxy, but the company needs to borrow and the bond market isn't favorable, he'll go to the bank and borrow. So, it isn't the fact that the interest rate cycle comes down.

If the aggregate borrowing in the economy increases, yes, it would be accretive. With typically what we track is with the interest rate cycle when it comes down, we tend to see that companies will start favoring the bond market more than the bank loan side, because the bond market actually factors in the declining interest rate faster.

And so it does for the increased interest rates too, but because it moves faster, so we anticipate that to pick up and bond market is usually a little bit more lucrative than the bank loan. So overall, yes, if the interest rate cycle turns around, our sense is that's probably second half of the year, we would see more activity in the bond market.

Bhavin Pande: Okay. Wonderful, sir. And just one last thing on the Research business one could -- at least my understanding of the commentary that was presented in the annual report was that the business is mostly based around the increased regulatory requirements that are in the financial institutions on the tech side of things.

But also one could see the mode that CRISIL is higher in terms of the number of analysts it has and the think power it has. So when you look at this business, is it more that is it that the regulatory requirement that would of course keep going up over time would be more gripping for the business or is it that the think tank that the CRISIL has in terms of the sectoral coverage it has will also contribute to the growth?

Amish Mehta: So there are three parts to the research analytics and solutions segment out here. One is the domestic non-ratings research Market Intelligence and Analytics business that we have, where we cover the entire economy to sectors, to corporate coverage in terms of research solutions, consulting where we work on funds and fixed income. We support the asset management industry.

So, there's a large coverage which happens. This is largely India which is a non-ratings business. The second part is the global benchmarking which Duncan spoke about where we have benchmarking for corporate investment banks, global investment banks, for commercial banks largely in the US and other parts of Asia and now looking at Europe.

And the third part is working on the investment management firms where we have the offering of voice of customer. So, I think there are different offerings, and this is a combination of Coalition Greenwich that's the business where we work, and this is again another IP business that we have.

The third part of the business is where we do the Global Research and Risk Solutions where Jan Larsen is heading that business and he spoke about it, where we do work across research for global buy side, sell side firms. We do work on the credit lending side. We do work on the risk and regulatory side which you are referring to where we support global clients on risk and regulatory.

And we also support global clients on data analytics, sustainability, on change transformation, digital transformation. So, I think there are a set of solutions that we work on for our clients. And depending on the need from a risk and regulatory lens. If there are larger regulations coming in for global institutions it augurs well from our perspective because then the clients would need help for solutions and for analysts to come and help them.

Whereas if the environment becomes benign and the regulations go down, so the demand for those services will go down. But for the other parts of the business that you are talking about, those parts of business will continue to grow, but they will then become largely discretionary. And I think that's where clients make calls and then look at tech spending.

So, if clients are able to defer a decision for a quarter or two in a tough time, they would make that decision. So, I think that's the nature of the business that depending on what part of the solutions and business you are dealing with, the stakeholder you're dealing with, you will have that impact.

Bhavin Pande: Okay. That was really helpful. Thank you so much, sir and good luck for the year ahead.

Gurpreet Chhatwal: Thank you.

Moderator: Thank you. The next question is from the line of Varun Bang from Aegon Life. Please go ahead.

Varun Bang: Hi, thanks for the opportunity. My first question is on the GAC side. So, we've talked about some of the tailwinds in the GAC segments and I think there we are also expanding scope of services. So, would you say the value addition would be much higher in some of the newer opportunities vis-a-vis what we have been doing over the past many years?

Amish Mehta: So, I think the nature of the work remains analytical. I think we are expanding on different streams of the businesses, different areas of the workflow if you were to look at across the different businesses that we are talking to. Within ratings itself, we have expanded towards different workflows, supporting the ratings business in different areas.

The nature of the work remains analytical across this team or support on the technology support side. And these are the large teams that we are working on for the ratings division.

Varun Bang: And, I mean, is there a way to know, I mean, how do we track this segment? How do we know if CRISIL is able to add more value, because we don't know the billing rate there?

Amish Mehta: So here, Varun, we work on a cost-plus mark-up model which is benchmarked for the nature of the work that we do. Because as this is being exported so you have transfer pricing requirements. We have other governance requirements. So, I think this is something we have been working. And this is, as I said, we've done 20 years of partnership for GAC with S&P Global.

So, if you want to ask me how we measure the fact that you have a global client like S&P Global with whom we have done 20 years of partnership, has grown from strength to strength. We have expanded across the workflows in terms of support after starting small. So now we support all the geographies. We support all their products from an analytical support perspective across on the data support side, technology support side.

I think that, to me is the measure of success that how we have expanded across the different businesses that the S&P Global ratings have. So when they were entering into sustainability, finance, we are supporting them on that business.

So I think every new business that they would enter, question is whether we are able to support them or no, depending on the need. I think, of course, depending on the regulatory requirements because these are regulated businesses. Please understand that ratings globally is a regulated business and there is a definition of what work can be outsourced, what cannot be outsourced. So, I think our endeavor is to maximize what can be outsourced and see, make sure that we deliver value to our clients.

Varun Bang: Okay, got it. And one question on the rating side. So which are the top three sectors for us in the rating business? And what would be the revenue split between large corporate and MSME ballpark numbers if you can share?

Amish Mehta: So MSME is a very small, anyway, the MSME doesn't come in ratings at all now. So, SME grading, if you are asking for, I think we don't classify that it's a part of the Market Intelligence and Analytics segment. So what sits within ratings is what we do as ratings.

Varun Bang: Predominantly it is large corporate?

Gurpreet Chhatwal: Large and mid-corporate. So, I mean, difficult to put the sector, it depends on which borrows, but I think the larger ones are the financial services, non-banks, banks. Infra has picked up over the last few years and manufacturing is a large segment, so I mean, it's difficult to classify.

Amish Mehta: I mean, if you look at the number of companies we rate, I would say across segments from large conglomerates to across different segments. I think that would give you a perspective.

Varun Bang: Okay, got it. Thanks.

Moderator: Thank you. The next question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Yes, hi. Good evening and thank you for giving the opportunity. My first question is on the GBA business. So can we comment on sustainability of growth witnessed in GBA business despite the challenging macro?

And how is the business pipeline? See, I'm trying to check whether there was any lagged positive impact of any business one in the preceding quarter and hence Q1 looked pretty good for us. So, if you can just give us color, whether we can sustain the kind of growth momentum we saw in fourth quarter?

Duncan McCredie: So, the first quarter actually was pretty robust for us. We've had some the momentum that we saw in 2023 really has continued and the dynamic we see in our business isn't necessarily directly correlated to that discretionary spend trend because we can see some of our clients when they come under a bit more stress, they need our analytics to help them with their strategy to drive out of it. So the business actually has been pretty robust through quarter one. The business is a little bit more seasonal. And we see we tend to see more revenue into the back of the year, but we've we have seen a good quarter.

Sanjay Chakravarti: Rajiv, I think one of the questions you asked was, is there, if I understood it correctly, is there any spill over from '23 on to the first quarter of '24 driving growth? The answer is no. Nothing of that sort has happened. What we are also progressively trying to do is reduce the cyclicality in one part of the GBA business. And even as we go forward, we will see that cyclicality coming down.

Rajiv Mehta: Okay. And would it be possible to call out the service lines in GR and RS business, which have seen the impact of slowdown in discretionary spending?

Sanjay Chakravarti: No, I'm afraid not. Rajiv, we don't give, as I said, we don't give a sub-segmental or service line breakdown. But to answer your question, and I think Amish also pointed this out earlier, as had Jan in his slides when he was speaking, is that, look, looking at one quarter to see how a business is doing or to consider that that is reflective of the whole year will not be correct.

We have seen muted performance in that business. But I think we should look at the full year's performance to be able to fully understand because then the business goes through all its cycles of revenue and expense. And that is what will bring out the true potential in that business.

I think it should also suffice to say that, and again, Jan alluded to it when he was talking about in his slide, while we are seeing some level of headwind, we are also seeing opportunity. And those are the opportunities, the white spaces that we have, that we are going after.

Rajiv Mehta: And wouldn't it be safe to assume that our wallet share or competitive position remains intact in the GR and RS segment and that there was no role of we ceding market position in the revenue block, right?

Sanjay Chakravarti: No, our position, we still hold good. There have been certain external macro factors that have played a part. Our position holds good. In fact, our client stickiness continues the way it always has been.

Rajiv Mehta: And just last question on margins, if you can just call out the levers to protect margins, if we were to witness an extended period of spending slowdown, what will be the levers that you will use to drive and protect margins?

Amish Mehta: So a couple of things. One is, some of our businesses are IP businesses, where they have operating leverage. Some of our businesses are services businesses, where we look at what we are investing for new solutions, what we are investing on our capabilities. And there we then look for bench utilization, we look for productivity, we look for technology. So, there are multiple things that we will work on to try and keep working to improve margins, in addition to, of course, driving pricing and some of the other things that we will work on.

And in some cases, and if you look at our past trend, you will see that there are times when you have to invest ahead of time, right, you are building capabilities for the future. Even if you don't have business in a particular quarter, if you're going to continue to invest for a couple of quarters, you will continue to invest in capabilities. And that's where your margins might see a lower number. But the moment the revenues come in, the margins start correcting.

So, I think the endeavor is to make sure that we are focused on our utilization, focused on our building our capabilities for the future, focused on leveraging technology. Okay, and I think these are areas where we would continue to invest while driving revenue growth and making sure that we are doing what is right from driving productivity and efficiency.

Rajiv Mehta: Yes, Thank you for answering all my questions and best of luck.

Moderator: Thank you. The next question is from the line of Priyanka Goel from Trident Capital. Please go ahead. Priyanka, your line is unmuted. You can proceed with your question.

Satya Trivedi: Hi, thank you so much for taking my call. This is Satya Trivedi filling in for Priyanka. My question is slightly higher level. There is a lot of discussion around the sovereign credit rating of India and the need of the hour is to upgrade that rating to something which is more reflective of the economic reality of the country today. Now, in that context, the fact it's one of the, so one of the ways it is being discussed that this gap can be addressed or this dependency on West-based credit agencies can be reduced is to give more prominence to the home-grown credit agencies. And if they, if the home-grown credit agencies they start doing sovereign ratings, then there is almost some level of fairness that can be brought into the system.

From a competitive positioning perspective, the fact that you are owned by S&P Global, and do you see this, I'm curious to hear your views on the sovereign rating issue. I'm curious to hear your views on how you are positioned then vis-a-vis home-grown credit rating agencies who can actually start doing sovereign ratings while you cannot because you're obviously owned by S&P Global.

Gurpreet Chhatwal: I don't think it's possible for us to comment on the sovereign ratings. I think we've been set up as a domestic rating agency. The idea was to fulfil the need in the domestic credit universe to provide benchmarking.

So, 1988 we set up when there was practically way less differentiation on credit and everybody used to get the same interest rate. I think we've made a difference. And India is one of the most successful domestic credit rating, has one of the most vibrant domestic credit rating agencies in the world.

So, I think that's where we are. At this juncture, it's very difficult to talk about where the demand would come from, because ultimately when you set up a business, it is you have to look at demand, supply, etc. I think the point of time, I think it's not, it won't be possible for us to comment on that question.

Satya Trivedi: Okay. My view would be that it would be a competitive impediment if a couple of the home-grown ratings agencies start doing sovereign ratings. Then we will find ourselves at a slightly disadvantaged positions because then these home-grown agencies would sort of gain more credence, gain more prominence.

Is that something, and I don't expect you to answer this question to me in the public forum, but I'm curious if this is something that is on your radar, if this is something that you discuss internally, domestically, if this is something that you would discuss with your parents.

Amish Mehta: So, ma'am, I think as a rating agency, as an organization we look at everything which happens within the space, whether it happens here or outside, and we will continue to monitor. I think that is something that as an organization, we would look at the entire landscape.

Satya Trivedi: Okay. Fine. Thank you very much.

Amish Mehta: Thank you.

Moderator: Thank you. The last question is from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: Hello. Good evening, everyone. Not sure if this was asked earlier. I'm sorry if it's getting repeated, but on the Research side, I just particularly wanted to know, has there been any impact of some of the large M&A deals that have happened in the sector in the past year and that leading to some vendor consolidation, and whether that's had, let's say, some sort of a one-off impact for us?

Amish Mehta: So, I think we did speak around the impact from a global slowdown from a discretionary spend of global financial institutions. And I think the volatility last year, given some of the transactions which happened from an M&A perspective in the global banking industry, plus what happened in the U.S. in the global banking industry. So, I think all put together, there has been an impact in the industry on discretionary spends, and that has had some impact on our financials for the quarter.

Abhijeet Sakhare: Got that. Amish, just to capture overall broader trends better, is it possible to give some sense, I mean, right now or maybe later in the future around some components of the research business around different scope of work or verticals or geographies, whichever way kind of you would want us to look at, that would be very helpful.

Amish Mehta: Okay, we'll take that feedback. Abhijeet.

Abhijeet Sakhare: Thank you so much. Have a good day.

Amish Mehta: Thank you.

Moderator: Thank you. Thank you, sir. That concludes today's call. Thank you, everyone, for joining us. You may now disconnect.