





Business of giving opinion

- Various kinds
 - Astrologers, economic forecasters, weathermen
 - Film critics, Art critics, Food and Car guide
 - Stock brokers and analysts
 - Auditors & Solicitors & legal advisors
- We are interested in the monopolistic business of
 - Credit Rating Agencies

Management

- Integrity – reasonable
 - Remuneration somewhat high
- Competence and hardwork
 - Shareholders have no reasons to complain
 - They market and grow the business quite well
 - Competency in giving proper ratings...
 - Well that is something else

STANDARD
&POOR'S



Moody's Investors Service



CRISIL

A Standard & Poor's Company



An Associate of Moody's Investors Service

Also runs

FitchRatings
KNOW YOUR RISK

CARE Ratings
Professional Risk Opinion

Monopolistic characteristics

- 87 large banks, innumerable borrowers etc.
- “Kitne aadmi the?”
 - Do Sardar
- “Logon ko do nazar aate hain hum magar ek hain”
 - Rating shopping
 - Dual rating

Entry barriers

- Early mover advantage
 - Brand name & market share
 - Comparability across companies and industries
 - *Suspected rating shopping & inferiority perception !!!*
- Licencing
 - SEBI & equivalent internationally
- Perception
 - Of knowledge
- CYA

Capital intensity & ROE

- Factory and Raw material
 - Office premises (own or rented)
 - PCs / laptops
 - Newly minted MBAs and others
 - Avg age 28 years (Crisil)
 - 1565 management graduates (Crisil)
 - 290 Chartered Accountants (Crisil)
 - Letterhead with company logo
- ROE
 - Going from 20% to ∞ (infinity)

Can these grow? – 1

- Basel II
 - Thank you central bankers of the world
 - Thank you RBI
- Growth in financial markets and economy
 - Tradable debt as well as
 - Banking loans
 - Structured products
 - Securitisation (???)
- Offshoring

Can these grow? – 2

- Other areas
 - Independent equity research
 - Thank you Mr. Elliott Spitzer
 - Grading of IPOs
 - Thank you Mr. Damodaran & Mr. Bhav
 - Valuation of debt securities
 - Thank you mutual fund managers and Mr. Bhav
 - Grading of real estate developers
 - Grading of stock brokers

Can these grow? – 3

- Infrastructure advisory & Business research
 - Gas Strategies group
- Industry & Company research
 - Eg. INFAC reports
- Risk management solution
 - Banks & Corporates
- Mutual Fund Services

Sub-prime and crisis of confidence

Can this last?

- Regulation
 - Remove conflict of interest
 - Methodology etc.
- We need Khalid Mohammed & Rashmi Uday Singh, Why won't we need CRISIL?

CRISIL – Financials

- Market Cap Rs. 1,663 crores
- Sales Rs. 361 crores
- Net profit Rs. 133 crores
- Net investment Rs. 140 crores
in business (net of cash)
- P/E 12.50

CRISIL – Shareholding pattern

- S & P 51.50%
- Rakesh Jhunjunwala 7.61%
- Acacia Institutional Partners LP 5.71%
- GIC 4.19%
- UTI 3.37%
- SBI 2.77%
- CLSA 2.55%
- LIC 2.37%
- Radhakrishna Damani (Brightstar) 1.30%

ICRA – Financials

- Market Cap Rs. 386 crores
- Sales Rs. 71 crores
- Net profit Rs. 31 crores
- Net investment Rs. 24 crores
 in business (net of cash)
- P/E 12.34

ICRA – Shareholding pattern

Infinite Return on NetWorth

Moody's Corp

- Networth (yes negative!!!) (\$ 900 m)
- Debt \$ 900 m
- Profits \$ 702 m
- Revenues \$ 2,259 m

Berkshire Hathaway's (Warren Buffett)
holding – 19.36%

Risks

- Basel II modifications
- Internal ratings of banks
- Investor sponsored ratings – competitive market
- Excessive stock compensation
- Unknown Unknowns !!!

Thank you