"CARE Ratings
Q2 FY2020 Earnings Conference Call"

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ANALYST: **MS. NEETA KHILNANI - BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

MANAGEMENT: **MR. MEHUL PANDYA – EXECUTIVE DIRECTOR – CARE RATINGS**
MR. T.N. ARUN KUMAR – EXECUTIVE DIRECTOR – CARE RATINGS

Moderator: Ladies and gentlemen good day and welcome to the CARE Ratings Q2 FY2020 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Neeta Khilnani from B&K Securities. Thank you and over to you, Madam!

Neeta Khilnani: Thank you. Good morning everyone and thank you for joining into the 2Q FY2020 Earnings Call of CARE Ratings. Joining us on this call is Mr. T N Arun Kumar, the Interim CEO and other senior members from the management team. I shall now hand over the call to Mr. Kumar for his opening remarks post which we will open the floor for Q&A. Over to you, Sir!

T N Arun Kumar: Good morning friends and I welcome you to the concall of CARE Ratings Q2 and H1 FY2020 Financial Results. Sorry for a little delay because of some technical issues in telephone lines. We hope you have seen our results in presentation for this quarter and half year which has been put up on our website and also be circulated to you.

It does appear that there has been more of a status quo on the macro front. This year so far has posed various challenges for the economy which has been prevalent in Q2. In the first quarter of the fiscal year, economic growth slumped to five year low of 5%. Weak investment climate, subdued consumption demand and high NPA in the banking system have weighted on the overall growth prospects of the economy.

Liquidity in the banking system has remained comfortable with banks having surplus funds aided by lower credit offtake, relating to growth in bank deposits. In fact RBI has been monitoring the situation very closely to ensure that there is adequate liquidity at all times. However, the willingness of banks to lend has been conservative given the overhang of NPAs as well as the challenges in the NBFC segment.

Let me highlight some important macro indicators which are bearing on the overall offtake of credit and debt issuances, which have a bearing on our rating business. Industrial activity has remained subdued with industrial output growing by 2.4% during April to August, lower than 5.3% growth in the comparable period a year ago.

During the first half of this year, this fiscal the incremental bank credit growth over March was nil as compared to 4.1% growth in H1 of last year due to weak demand for funds. During the first six months of this year credit offtake by the industrial and services sector contracted, both of which are important determinants of rated volumes of bank credit for us, bank credit in the industrial sector contracted by 3.8% as against the 0.1% growth during the last half year.

Services sector has seen a contraction by 2.2% during H1 of this fiscal as against 7.4% growth during the corresponding period last year. Corporates are seeing to increasingly raising fund from the corporate bonds, total corporate bonds raised during the first half of fiscal aggregated to 2.62 lakh Crores 28% higher than the issuances amounting to 2 lakh Crores around in last fiscal first half.

However, the short-term fund raising activities have moderated. CP issuances were at 13% lower in H1 FY2020 at Rs.11.9 lakh Crores against Rs.13.6 lakh Crores in the first half of last fiscal. Putting the growth concerns at the forefront, RBI had lowered the Repo rate by 25 BPS to 5.15% in October monetary policy review, but inflation remained within the RBI target of 4% plus minus 2% while maintaining the accommodative stance.

The cumulative reduction in the REPO rate has been 135 BPS in February 2019. We observe that CPI inflation has increased off late though within the comfort level of MPC with food prices causing distortion.

CARE Ratings' performance for the first half of fiscal year 2019-2020 continues to be constrained on account of overall slowdown on the economy front. In the first half of FY2020 the volume of debt rated decreased to 5.67 lakh Crores from 8.13 lakh Crores in the first half of last year. This comprises of 2.3 lakh Crores in bonds, 2.11 lakh Crores bank loans and 1.25 lakh Crores in short-term rating including CP.

The total number of assignments completed was 2635 as against 4276 last year. Overall, volume of new debt rated was affected by lower off-take of funds and the credit and debt market. Our surveillance assignments however went as per schedule. Credit quality has measured by our own ratio of MCR declined marginally in the first half reiterating the slowdown in the domestic economy. Credit quality as measured by Care ratings' modified credit ratio that is MCR was at a six year low 0.97 when compared to the corresponding period of the previous years. It was 1.03 in the first half of last year.

Coming to results, in terms of standalone results, business income from operations declined from 151 Crores to 111.65 Crores in H1 of this year, a 26% fall. As a leading rating agency CARE has a strong presence across corporate as well as BFSI segment. However the BFSI segment continues to be face challenges and the resultant subdued borrowings coupled with the corporate segment focus on debt rationalization, new issuance rating opportunities got impacted adversely for CARE.

Other income increased from 11.61 Crores to 16.67 Crores in the corresponding half of last year. Operating expenses increased by 9.53% to 67.48 Crores. It was due to higher growth in compensation to employees by around 10.71% due to a provision of revision of salaries which had been announced in February 2019 and September 2019.

Owing to this, operating profit declined from 89 Crores to 44 Crores in this half year. Net profit also declined from 71.94 Crores to 50.08 Crores in the first half. In terms of consolidated operations, income from operation declined from 156.64 Crores to 121.55 Crores, a 22% fall. Other income increased from 12.02 Crores to 16.90 Crores. Opex increased by 12% to 77.18 Crores. This increase was due to higher growth in compensation as was as in line with the standalone income. Net profit also declined from 70.63 Crores to 50.22 Crores in the first half.

We are cautiously optimistic for the second half of the year. There is some optimism due to the hope of fructification of consumption demand on account of festival season and good Kharif harvest that should result in a better spending. If it does materialize it will lead to higher investment next year if not this year. However we are still concerned about the state of the financial sector and the pace at which the NBFC crisis is resolved will largely determine the health of the segment which is critical and it get linked inexorably with the banking system and overall flow of funds.

The government has announced various measures in the last two months covering issues like public sector banks mergers, cutting corporate tax rate, ease of doing business, boost to auto sector, SME refunds and finance, FDI, exports, housing, etc., which would definitely be beneficial when the economy enters the road to recovery which we think should be coming in from the next fiscal.

This half year H2 should be better than H1 for the rating industry in terms of higher flow of funds, given the recovery in consumption and some uptick in investments and we can expect much swifter pickup only in FY2021. Last time I had explained the contents of Grant Thornton report which highlights certain aspects including conflict of interest by CARE in carrying of certain assignments of IL&FS Group. At the outset, I would like to inform that we have already given our point wise comments to the report to the IL&FS Board> I would like to briefly touch upon a few aspects, the first one was on potential conflict of interest because one the rated entities also held a stake in CARE. To clarify, there was no conflict of interest, potential or actual, between IL&FS Group and CARE due to (i) the aggregate shareholding of this IL&FS Group and CARE has been less than 10% and even as per SEBI guideline there is no restriction of a rating agency providing rating entities which hold less than 10% stake (ii) the shares were acquired by IL&FS Group as a matter of secondary market transaction from special undertaking of UTI and some other investor and (iii) IL&FS did not subscribe to any primary issue by CARE and CARE received no consideration towards the stake sale by IL&FS Group. IL&FS and IFIN were only passive shareholders of CARE and did not have any representation on the board or the rating committee. As such, IL&FS or IFIN did not exercise any influence or control on the rating process and there was no conflict of interest.

Questions have also been raised in the Grant Thornton report on not publishing an unaccepted rating or delaying publishing downgrades which have been raised without understanding the concept of publishing only accepted ratings up to 1st January 2017 and the process of representation which is given the clients which is still prevalent. As regards allegations on the whistleblower complaint, these have been handed over to an independent agency for forensic audit. Pending the completion of such investigations, the MD and CEO has been sent on leave, which has already been reported during the previous investor call. The results of the audit are still awaited and we expect the same in another four to six weeks time. As regards SEBIs adjudication proceedings against CARE for the rating assigned to IL&FS, we have already replied to the regulator’s notice and the hearing before SEBI has already taken place.

This is to sum up the recent developments as well as the results. Now I will take questions from the audience.

Moderator: Thank you very much. We will now begin with the questions and answer session. The first question is from the line of Rishi Anand from Allegro Capital Advisors. Please go ahead.

Rishi Anand: Thanks for the opportunity. The first question I had is that we still have reconcile the macro numbers that we have shown in terms of a flat bank credit, our CP issues is down by 13% corporate that which is moved up and the very sharp fall in our own volumes rated. Is this can reflective of a market share loss so is it really more driven by specific sectors that rating somehow important part can you just explain this kind of this very sharp fall in volumes we have seen if we see a macro which is weak but not as weak as are shown by our numbers?

T N Arun Kumar: Actually, we have access to our own competitor’s volume debt rated and number of companies rated. So our market share is intact and there is no issue on the market share; even there are some public databases which we have referred to and it also shows that in terms of debt issuances our market share is intact and we still have the same. But I think the overall lower issuances in the entire market as a whole in terms of the rated amount could also be due to maybe higher rated amounts in say PSU issuances where the realization is not as high as other issuances. This is probably the reason for this disconnect between the two.

Rishi Anand: How much would the NBFC crises and reduction in kind of money being raised on the bond markets by NBFCs the account for this and is this a very large part of the business?

T N Arun Kumar: I will not be able to quantify this as of now. But since they are one of the largest lenders of funds in the market all the agencies will have a large share of debt rated in the BFSI segment. So when this sector goes through such a crisis when banks stop lending funds to it and they are starved of funds. and CARE being large player in this segment has obviously has been impacted.

Rishi Anand: The second question I have is given the kind of scenario that we currently in the sharp fall of volumes are we looking at some kind of aggressive cost reductions in order to give the shore up margins or is the idea that we keep a kind of the resources intact for hope for market available?

T N Arun Kumar: Yes there are two aspects of this. One is the surveillance business which is our ongoing business and the other one is this initial business. So, what has been affected which is reflected in the numbers we have shown is the initial issuances.. So I would say it is there is a kind of dip in the initial rating income because of the slowdown and lower issuances but the surveillance income base is there. So we need quality manpower is the largest cost and we need quality manpower to be put on the cases as and when these assginments arise. So that is what I would say.

Rishi Anand: Would you be able to quantify how much of our revenue last year came from initial and how much from surveillance?

T N Arun Kumar: It ranges from 40% to 60% on a year as a whole basis. We cannot do a quarter or a half year comparison because income recognition depends on the completion of the assignment which depends on the availability of data to complete the assignment. So for the whole year it is around 40% to 60% for initial and surveillance respectively. , Whenever there is growth in the bond issuances, the share of new issues would be towards 60% mark and the surveillance will be towards the 40% mark.

Rishi Anand: And since then have difference in prices between the two as and do we make higher margins higher pricing on initial issuances is that an important driver of that kind of margins?

T N Arun Kumar: Capital market issuances have generally higher margins and higher pricing whereas the banking ratings typically have a lower pricing.

Rishi Anand: Thanks you Sir for the answers.

Moderator: Thank you. The next question is from the line of Samarth Singh from PPF Capital. Please go ahead.

Samarth Singh: Thank for taking my question. My question was in the first quarter conference call when our revenues were around 21% year-over-year you have mentioned that there was some deferment of revenue and that we will make up for it in the second quarter. Now in this quarter our revenues are down 29% Y-o-Y so could you just comment on that?

T N Arun Kumar: Fall in income as I mentioned earlier is mostly due to fall in the initial income. Surveillances have been more or less on track. The initial income was in continued lull and the low issuances has kind of given rise to this fall.

Samarth Singh: So the increment that was deferred from Q1 has come in, in Q2 while still we have the 29% is that right?

T N Arun Kumar: Yes, the 29% is mainly due to the initial rating income. **Samarth Singh**: The increment deferred from Q1 has come in, in Q2?

T N Arun Kumar: Yes surveillance that was deferred in Q1 has been made up for in Q2 which has affected surveillance income. We can say that when doing the surveillance for certain sectors like NBFCs which require larger amount of information to process , we wait for the information to come before doing the exercise. These might have been done in July instead of June. Further, our accounting policy says that the income is recognized in the month in which it is done. **Samarth Singh**: Can you give me your employee count for end of this quarter and the same example therefore last year same quarter also?

T N Arun Kumar: It is 849 and similar to 852 in the last half year.

Samarth Singh: How much was it?

T N Arun Kumar: 852 versus currently is 849.

Samarth Singh: You mentioned that the employee cost cannot be reduced for this surveillance because they have the large amount of surveillance what that we need to given?

T N Arun Kumar: I did not get your question, please repeat?

Samarth Singh: But there is that our initial ratings had dropped by 40% for the half year I am surprised there is such a minimal amount of reduction in the employees and then do you require more number of employees be the same amount of initial rating or how is it?

T N Arun Kumar: See, the head count is not dependent on the business. It remains that same irrespective of the business going down or up. So it is fixed, We cannot reduce the number of employees based on the initial business. As I mentioned surveillance is a large business. It is a large proportion. Further, we have to continue to review the cases and track a lot of material events which are to be reviewed. We need people to handle these cases Also if there is an upside, existing employees can handle the same. Hence is there is a downside we have a fixed employee base and become fixed expenses.

Samarth Singh: I guess we have one agency looking into the whistleblower complaint and another agency that was looking into our rating processes, if you can give an update on that?

T N Arun Kumar: Yes the hiring of a consultant to review the rating process was an earlier one. It had given its report which is being implemented. With regards to the whistleblower complaint, I have mentioned that it will take around another four to six weeks for them to complete the work.

Samarth Singh: Any costs related to either one of those two agencies in this quarter numbers?

T N Arun Kumar: Yes there is an increase by 1 Crore which includes both of them.

Samarth Singh: The last question from my side is you have mentioned that our market share is intact but if you just look the new ratings that are there for the half year that have been published by the other two agencies our drop is far more significant than theirs in the total intake?

T N Arun Kumar: We have done the similar analysis on the basis of new ratings published as per press releases as well as the unaccepted ratings which are published on web sites. I am told that our fall in the number of issuances in terms of number of companies is similar to what the industry has as a whole. There might be other rating companies which might have fallen higher or lower but we are in the average range.

Samarth Singh: I was referring that it is the other top two rating agencies; I was more referring to the much smaller ones, so in terms of the other two top rating agencies could you comment on that please?

T N Arun Kumar: No, we have seen that our fall is similar to the industry fall. Industry will mostly comprise three top agencies so the other agencies would not matter for overall numbers.

Samarth Singh: Thank you.

Moderator: Thank you. The next question is from the line of Darshan Shah from White Equities. Please go ahead.

Darshan Shah: Thanks for the opportunity. I have one question. Receivables as of September 2019 has gone up by almost 40% as compared to March numbers and it is almost 50% of first half revenue FY2020 and as you have just mentioned that surveillance fees almost comprises of 40% to 60% whatever be the range of the total revenue so does this mean entire surveillance fee income of the first half is yet to be received?

T N Arun Kumar: See a large proportion of these debtors are in the 0 to 30 days bucket and this typically happens because a large number of assignments based on the target given to the teams are included mainly in the last week of September. It will be get evened out by the next end of this month and see a large drop in the debtors as this is the normal tendency.

Darshan Shah: Okay Sir, what would be the receivables as of now, if you can give that number?

T N Arun Kumar: We are not able to give that number but large amounts will be received in coming months **Darshan Shah**: Just one last thing can you give outstanding for 90 days number for September 2019?

T N Arun Kumar: 20 Crores.

Darshan Shah: Thanks. That is it.

Moderator: Thank you. The next question is from the line of Purab Gujar from Cameo. Please go ahead.

Purab Gujar: Thanks for the opportunity. Taking a relatively long-term view like a five to ten years view of the business, and actually the revenue value of factors is to just simplify as private capex and the credit revival is that the similar thing, are there any other factor that should we look really at?

T N Arun Kumar: We should look at key three things, one is the growth in the corporate bond market. It should not be one that remains with just higher ratings and even low rated debt should be bought and sold. We need bank credit growth to happen especially to industrial and service sector where ratings typically are done. Third is as we mentioned earlier capex cycle has to improve so that there are new projects coming in and there are loans taken for them so that we have opportunity to rating. These three are the main segments where the growth in rating have come from. Also, there is opportunity when companies refinance their debt when there is a fall in interest rates.

Purab Gujar: Similarly if you were to take a similar long haul view I mean comparing to the large again with the current regime, the current decade we have not get much of earning growth and where there can obviously the volume we did significantly so we have had commensurate earnings growth so has there any factor which should really which are in the meeting or which you anticipate which should impact earnings growth in spite of this revenue growth you other ways leverage to and I will get dispute a marginal stock for the business compared to the past cycle?

T N Arun Kumar: For a rating agency the main important thing is quality of manpower to do quality assignments so that we continue to do quality rating so to retain our reputation and procure more business, I would not look at margins per se. Initial rating income depends on market external factors. an retention of manpower using the market related salaries and giving them adequate compensation is essential. **Purab Gujar**: So has there are no really any regulatory structural changes which you really change this picture right?

T N Arun Kumar: Yes, regulatory changes are there in terms of hiving of non-rating business. But we are in a position to capitalize on such opportunities because we have subsidiaries which can carry out those businesses. Therefore the process is on to look at the businesses which can be done in non-CARE i.e. in subsidiaries. We have CART which carries out advisory business. So there is no loss of business but there reshuffling will have to happen.

Purab Gujar: Sir what I understand that we will do significantly in the factors that we are that they set pricing mechanism compared to so to say the last earning growth cycle versus the current one. So I think that is impacting us?

T N Arun Kumar: Yes that is impacted.

Purab Gujar: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Hi Sir I missed your figures for annuals. What is the breakup of annual breakup of surveillance and new rating income?

T N Arun Kumar: The annual breakup varies between 40% and 50%. I mean, this is the range in which it happens. whenever the economy does well new issuances will be higher and initial income is goes towards 50%. Otherwise it goes to 40%. Hence there is a general range of 40% to 60% which we observe.

Vipul Shah: So in current year it should be 60% because economy is not doing well, is that understanding correct?

T N Arun Kumar: Yes, correct.

Vipul Shah: Sir my other question relates to I heard you say that you have handed compensation increases to your employee which has resulted in substantially higher other expenses so how do you justify this increases and this such fall in revenue I just cannot understand if you can elaborate it would be better?

T N Arun Kumar: Yes, to give a perspective, these compensation increases were decided in the third quarter of last year and implemented in February of 2019 onwards. They hence become completely effective from the first quarter of this year. Now in February or as of January 2019 there was no inkling that business would come down. For us to do quality rating we need to have adequate compensation for all our employees. Our previous revision was six years back or so revision was very much on the cards. Having said that one aspect which I had covered last time also was that because the ESOP charges, which amount around rs 3 Crore,s a quarter , has already ended in August itself. So for the next two quarters we are going to have a cushion of three quarters each and we do not expect the total employee cost to get be more than 5% to 7% compared to last year. So this is what I would like to say. On ESOP charges we have enough cushion this year.

Vipul Shah: So in next two quarters there would not be any issue of charges.

T N Arun Kumar: Correct, because the amortization is already over.

Vipul Shah: Lastly Sir is not it a good idea to create any buffer like reserve for any forthcoming penalty?

T N Arun Kumar: See we are not foreseeing any further action. We have provided for whatever legally is required as per our legal advice in the adjudication notice of SEBI. We have provided the maximum amount of 1 Crore. So we do not foresee anything more.

Vipul Shah: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Subrata Sarkar from Mount Intra Finance. Please go ahead.

Subrata Sarkar: Sir if you can help us on a further breakup of the revenue like as you told like 40% to 50% comes from surveillance and 40% to 50% comes from like new issuance. So in the new issuance, Sir if you can give us some like you told capital market we will have a higher realization but can you give some ballpark number what is the difference paid on two, like capital market to simple bank issuance and in case of bank issuance also like for short-term and long-term issuance so any quantitative number or at least some clarification will help us Sir because the product mix is changing like so that will help us to make an estimate to like how your revenue will move like based on when the things will improve and based on that?

T N Arun Kumar: Basically, I would not talk about trends here, I will talk about whatever the card rates or fees which we charge. It is also put it in our websites also. Typically for capital market instrument the fees charges are around 10 basis points of issue subject to a minimum and maximum. And a similar thing holds for bank loans which is 4 basis points so this is a difference between the two. We have two and a half times higher realization in a capital market instrument. And the surveillance fees are also similarly higher in a capital market instrument. All this results in typically in what you call margins ..

Subrata Sarkar: Sir any significant difference in this kind of realization or card rate in case of term loan vis-à-vis working capital loan?

T N Arun Kumar: No, when the investor is the bank then it is a bank loan both ways.

Subrata Sarkar: So in case of bank it is almost same kind of a card rate Sir for us?

T N Arun Kumar: Normally we rate the entire limit, it is an aggregate limit of the term loan, or short-term or whatever we need as a whole.

Subrata Sarkar: Sir just a question like any new initiative we are thinking of taking apart from our core kind of a rating business in India and if you highlight some color on your subsidiary like Nepal and all those Sir?

T N Arun Kumar: As you know we have two subsidiaries in Nepal and Mauritius to carry out ratings in those countries which are showing good traction because we have regulatory requirements for getting rating for those issuances. Further, we have also got kind of accreditation from the regulator in Kenya. So we are shortly going there. we have discussed with the regulator and are going to probably in the next year or year and a half. We will have to set office in Kenya. So this is one extra development, which has happened in the recent times.

Otherwise we have our advisory division which as I mentioned will have to be rising up to the occasion. In case of hiving off of non-rating business and whatever is not allowed as per the guidelines, will be carried out in the subsidiary. We also have e CARE Risk Solutions which is a software company that carries out solutions of credit risk and market in operation risk across.

Subrata Sarkar: Sir just if you can speak one or two lines on CARE Risk Solution exactly what like services we are offering and who are our main client is the corporate our main client Sir?

T N Arun Kumar: Yes, I am just giving it to Mehul Pandya who is the Executive Director.

Mehul Pandya: CARE Risk Solutions is essentially provides risk management solutions for banks and financial institutions. It provides a form of platform of credit risk, market risk operational risk, SPT, ALNs the IFRS solutions for the various banks and institutions. Predominantly the business of the company is coming from outside India and there is a good presence in South Asia and increasing presence in South East Asia as well. Over the last year or so it is getting fairly good business from the Indian markets, as well. So we are expecting better performance from them compared to FY2019 and that should be adding and benefiting at a consolidated debt level this year.

Subrata Sarkar: Thanks for the input Sir. Thanks. This is all from my side.

Moderator: Thank you. The next question is from the line of Amit Mantri from 2Point2 Capital. Please go ahead.

Amit Mantri: Thank you Sir. You have mentioned that market share is measured as a percentage of corporate rated of volume of debt rated we have not seen any fall, but if we compare the revenue market share CARE's Rating revenue market share has seen a big fall for example ICRA's rating revenues in H1 has fallen in high single digit while CARE's rating revenues has fallen by more than 25%. So can you specifically talk about revenue market share trend rather than market share measured by other metrics?

T N Arun Kumar: Revenue market share I think it is too early in terms of the quarterly performance because of our accounting policies. Now we have accounting policies which recognize revenue on the basis of completion of assignments whereas other agencies might have different methods like say, having an equal recognition.

Amit Mantri: No Sir I am not referring to quarterly numbers even first half and even if you look at the last 12 months numbers as well CARE's rating revenues has declined substantially more than the rest of the players so even when you look at last 12 month performance wherein this accounting issues get adjusted for even then there has been a big fall in rating revenues other than the rest of the players.

T N Arun Kumar: No, if we had a marginal decrease in revenue, others has marginal higher revenue. I think it is too early to talk about this year. So I would urge you to look at the entire full year numbers than the half year numbers or quarterly numbers that is what we would like to comment. . So in terms of the numbers and in terms of the company names this is what we track and as per that we have the market shares are intact.

Amit Mantri: Okay so we look at the full year number then thank you very much.

Moderator: Thank you. The next question is from the line of Abhishek Pamecha from Vibrant Securities. Please go ahead.

Abhishek Pamecha: Sir continuing with the question of the last participant, Sir if you see we have seen degrowth in the last four quarters consistent and the degrowth has been very severe in the last two quarters so if you see in FY2019 we did revenues of around 300 Crores and if we just assume that 50%:50% of surveillance income and initial rating income this year we have seen a 25% fall in the first half so that means that surveillance income is still intact so we have seen a much more severe fall then the 25% in the initial rating fees that we have received for this half and mainly compared to the other rating agencies that fall has not been that severe so that basically tells you that we have not seen degrowth in the banking credit, industry and it is not growing in double digit but still it is growing but we are seeing revenue degrowth and that too in high double digit and if we just go by this assumption of 50:50 then the fall has been more than 25% on the initial rating fees? Can you comment on that?

T N Arun Kumar: Yes, see firstly I would not know the composition of initial and surveillance of other agencies so that I would not comment on that. Secondly it is about the market share is actually seen in a yearly basis. Number two is the bank credit actually has fallen and not increased. It has not been flat also. I have touched upon in my speech also, that there is a contraction of 4% of bank credit in industrial sector and our services sector also contracted. Other thing you want to see is this. If you see our two of last year has been was against H2 of the previous year has been around 10% growth so on that high base our income has like lower by 29% so compared with the current environment of the initial rating being so effective so we have to see the overall perspective of it and obviously there are all out efforts for us to increase our business development in fact to get in whatever comes in the market.

Abhishek Pamecha: Once thing is that if we can report the breakup of the revenues in terms of initial rating and the surveillance income and it would be further buildup for the investor community to understand and our results better one of the rating agencies does report annually in their annual report the breakup of initial rating and the surveillance income that would be basically what you comment and what we see in the numbers then it becomes easier to basically accept the things in reality. My second question is regarding the ESOP amortization expense which is there. So as of now we have totally provided for the ESOP expense and if the exercise benefits somewhere around Rs.1180 I think and if the ESOPs are not being exercised then will we see a reversal in the ESOP amortization and when will this happen, if?

T N Arun Kumar: It will happen in the capital account not in P&L. And secondly the board will have to decide on this. It will go into capital account not affect the P&L.Coming to our other breakup we have difficulties doing this. I am saying approximately 60:40 because we have a fixed fee clients who have a fixed fee for entire year which includes new And surveillance. So there is under that fixed fees.

Abhishek Pamecha: So we can still report annually that number.

T N Arun Kumar: No, quarterly would be difficult as we are seeing that we are having annual contract.

Abhishek Pamecha: Annual contract is also fixed fee, the fixed fee irrespective of how much surveillance we do, how much initial ratings we do. So that is the difficulty we have actually.

T N Arun Kumar: So we have only estimation. This is not a new phenomena and we have been telling this for quite a while.

Abhishek Pamecha: Sir coming to the ESOP expense so is there a possibility you are saying that it would come under the capital account so it would be directly going back to the disbursement surplus.

T N Arun Kumar: Yes, if at all and it is like that, yes.

Abhishek Pamecha: But, then still it would basically increase the equity basically the book value when this reversal happens is there any possibility that this reduction in the exercise price, is there the possibility.

T N Arun Kumar: It is a separate issue. Probably one will have to go to the shareholders.

Abhishek Pamecha: It would be through a specifically resolution or it would be an ordinary resolution how it will become highlight on that point?

Mehul Pandya: Yes, that will be specific resolution see what happens is there because ESOP and the note that we have given at a lower side or higher side whatever it is but once the options have been granted and the options already beenexercised in the account after this I think reduction in the price or reduction in credit terms also go ahead to approve it and then by way of special dividend it will go to shareholders. When the shareholders approves the reduction in price then only it can be implemented. Therefore it is not possible for us to comment on that because it will depend on how these share holders will take it.

Abhishek Pamecha: Yes, agreed it would be basically in the future only but I am just asking that whether there is the possibility of that. Okay.

T N Arun Kumar: right now we cannot comment upon that.

Abhishek Pamecha: Thank you Sir that is it from my side.

Moderator: Thank you. The next question is from the line of Raj Koradia from Edelweiss. Please go ahead.

Shraddha Sheth: Good afternoon Sir. This is Shraddha here. Just continuing with the previous query Sir I just wanted to again understand how do you measure the market share loss because the others only ICRA has so far reported the numbers and they do not seem to be sharing any volume data so on what basis do we say because you said revenue market share you see over a longer timeframe and the other operating parameters of other companies are not really available. So how are you really measuring that our market share is in tight and secondly in the previous quarter you had indicated that there will be some spillover of the surveillance income in this quarter so did that really happen and despite that there was such a big drop in year-on-year revenues?

T N Arun Kumar: I am giving it to Mehul for market share.

Mehul Pandya: As far as the market share is concerned obviously only aspect is in terms of the revenue which all the listed companies provide. That share is easy to compute in terms of competition but at the same time in order to consistently track our presence in the market we also look at it in terms of how the number of new ratings as well as the overall ratings is continuing to fare. In this regard the approach is fairly simple - all the ratings of the all rating agencies need to be disclosed on the website. And beyond that with the regulatory guidelines in place we also need to disclose their unaccepted ratings as well. The combination of both across the rating agencies is what we come continue to track. And from that angle as Arun mentioned in his opening remarks as well our market share has actually not been impacted adversely so. **Shraddha Sheth**: It is basically the number of ratings combination of accepted and unaccepted right but I think for the debt side we also were more relevant is the volume of debt rated right where we did have a significant dip if going by what we have our own volume for this quarter has been like almost 50%, 60% decline so is that also become relevant and seeing the market share right?

Mehul Pandya: But that is the same thing. You also have to understand one aspect which is that see we do not have the breakup also for the other agencies is in terms of initial ratings or surveillance is which they have reported in the numbers. It is very difficult to comment from that perspective.

Shraddha Sheth: Yes, so then even saying that our market share's impact also is questionable in that case right because it is like only half data on basis of which we are saying that the market share is intact it is only the number of ratings which we are seeing in that case right.

T N Arun Kumar: The one thing Shraddha is about why we are insisting on that issue wise market share is that lot of our business is from existing clients so once we have the existing clients with us it is a question of our approaching him for future debt issuances and we getting our rating opportunity. What is important in the long run is the number of issuers we have under our coverage versus that of other people's coverage so that is what we track on an ongoing basis.

Shraddha Sheth: I will take that offline and Sir on the second part of the question if you can explain how what you had said in the Q1 and has it panned out or still there is some delay in capturing that spillover of the surveillance.

T N Arun Kumar: Deferment has happened because the first quarter is such that you would have hardly get the audited results. You would have started analyzing them and if you have not got the full information obviously you could not complete the surveillance exercise. Second quarter is much better in terms of that and because we have information on most of the companies that have been planned for this period and hence there is no deferment as such of surveillances in this quarter. Therefore the fall in income this quarter is due to fall in initial business.

Shraddha Sheth: Thank you.

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

Anuj Sharma: I have two questions one is post the salary recalibration exercise how close or far are we from the industry benchmarks now?

T N Arun Kumar: See we are aware of where we are vis-à-vis the industry and we would like to be in the 60% to 75% range in the medians.

Anuj Sharma: So is there a plan in the near future to again get closer?

T N Arun Kumar: We need to have this exercise conducted continuously. as I mentioned earlier this is a six year pending increase. This was done earlier in 2013 and is done now. Hopefully post this we will be continuously trying to align and the impact will not be that much.

Anuj Sharma: Sir the second question is on the rating process. Could you just elaborate on how the checks and balances in the systems would have evolved as opposed in a year or so, so that the rating approaches has more checks and balances rather than being discretionary on few people could you just highlight?

T N Arun Kumar: It is a very difficult question to answer that. Rating process actually is a combination of process and criteria and being transparent about it in our public domain. We are continuously monitoring the process over time in terms of various checks and balances. And various SOPs have been continuously tightened so that people would follow the process without fail. So that checks and balances are in the form of online workflows, which ensure that no process is skipped and our criteria is continuously updated to see that we continuously learn from any sharp rating migrations We had this external consultant appointed in early calendar year whose suggestions are being incorporated and in the due course most of our operations would have been done. So it is a question doing those processes and criteria, getting them updated and continuing to do the rating on a day basis.

Anuj Sharma: Thank you.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity. Please go ahead.

Manjeet Buaria: Thank you for opportunity. I had one question when you compare your card rate Sir actually your practical rates in the market which you offer for bank rating and your bond rating how different are they from their competitor rates?

T N Arun Kumar: See as far as the different rating agencies are concerned their rates are there in the public domain. But what they could be charging is also determined in terms of the overall debt size of the rated entities.. So it is difficult in terms of a comparison purely based on the card rate. What I can say here to you is that overall fees mentioned in the is in public domain and actually being charged would be in parity for leading agencies. .

Manjeet Buaria: Sir currently under pricing you are offering vis-à-vis let us say CRISIL or in ICRA today.

T N Arun Kumar: Neither under pricing nor over pricing can be sustained over a period of time Now if you see except for the last two quarters CARE's margins in the industry have been consistently better than the other rating agencies. That is there in the public domain and you can easily figure out and over pricing certainly cannot be sustaining for too long.

Manjeet Buaria: Thank you.

Moderator: Thank you. The next question is from the line of Siddharth Maheshwari is an individual investor. Please go ahead.

Siddharth Maheshwari: Thanks for the opportunity Sir. As you are saying currently we are seeing decline in the initial rating revenue so does it means once existing surveillance getting start maturing and there will be further decline in overall surveillance revenues also since we are not seeing growth in new rating currently and my second question is Sir what could be the weighted average tenure of surveillance fees after first initial year?

T N Arun Kumar: The second question is very difficult. It depends on the tenure of the bond or the loans is being rated. Typically rating continues until the bond is fully repaid. So when the fees are payable on a continuous basis (on a yearly basis) it is based on the outstanding amount of bonds. as for the. the first question. if you have a rated client base it will affect the next year's surveillance fees but the large rating agency like ours having around 11000, 12000 clients then it is a significant fall in a year will make a very small dent in the overall surveillance going forward. But we do expect uptick. We do not expect this lull to continue forever. Like I mentioned in my speech we look forward to next fiscal year to see since we have already seeing some efforts that would come to look at the economy in the positive way and credit cycle looking up.

Siddharth Maheshwari: Thank you.

Moderator: Thank you. The next question is from the line of Pankaj Bajaj who is an individual investor. Please go ahead.

Pankaj Bajaj: Good afternoon Sir. Sir, is there any premature or you see our collection in terms of how much average bps of fee we have collected from our initial rating with respect to 10 BPS that we have, we will be have on our current?

T N Arun Kumar: I did not understand could you please repeat?

Pankaj Bajaj: Sir on our rating or initial rating fee we have a 10 BPS of fee on our accounts. Do we really manage because we have lot of discounts from the competition and trying to get on to a scenario and in order to gain more on surveillance fee we might be on a regime where we are charging less on the initial fee, but do we calculate that how much we are actually charging instead of 10 BPS on our initial rating?

T N Arun Kumar: It will depend on client-to-client.

Pankaj Bajaj: I understand it depends on client-to-client but on a quarterly basis are we charging and that how much actually it is working out?

T N Arun Kumar: Let me also clarify once again that in case of clients with significant high debt size, implementation of a 10 basis points fee translates into a significantly high base. This would be applicable to any rating agencies. But we do keep a track in terms of client-to-client on new debt issuances and how much we are charging them.

Pankaj Bajaj: But, we are not doing it on consolidated basis for other clients for the quarter or a particular year?

T N Arun Kumar: All the clients it would be rating. We are tracking in terms of how much we are charging them historically, what we have charged and what we would be charging for a new rating assignment.

Pankaj Bajaj: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Pankaj Murarka from Renaissance Investments. Please go ahead.

Pankaj Murarka: Can you give some color on how pricing has behaved for you because your revenues has seen a much sharper decline let us say first half of this year so how has been your pricing on a like-to-like basis in the first half of this year have you taken any pricing action?

T N Arun Kumar: On financial basis, I do not think that our prices have fallen. It is more in terms of the overall new issuances which could have gone down. That is an across the industry phenomenon. But on an issue-to-issue basis wherever we are there has not been a decline as compared to any other rating agencies. That is not there.

Pankaj Murarka: See your are realized pricing let us say first half of this year is similar to what it was last year.

T N Arun Kumar: For the different clients we have rated is on similar lines and that FY2020 H1 has been a kind of a decline in the fee that we are charging in correlation to the debt that we have repaid to the particular client what we would have charged in the previous years and what we would have been charging this year and no service can decline or anything that is there.

Pankaj Murarka: Given now that we have had such a further steep decline in revenue in the first half of the year any color in terms of how you are seeing the second half?

T N Arun Kumar: Everything depends on as I mentioned the initial issuances coming in and obviously our income profile depends on that. If that is subdued our income will be also subdued. All depends on the growth in bank credit and growth in bond issuances which are ratable then which come for rating.

Pankaj Murarka: So can you just throw some light your sequential if you see the second quarter had a sharp jump in revenues over the first quarter base so what change in the second quarter versus the first quarter?

T N Arun Kumar: See typically surveillance gets accelerated as a lot of audited results are coming in the second quarter compared to the first quarter. We need to carry out surveillance annual surveillance exercise is based on the audited results. The availability of results is very important for us in terms of doing the surveillance exercise which plays a predominant part because we have a much larger number of results of companies coming in Q2 than Q1.

Pankaj Murarka: So that spike is because of the spike in surveillance income in the second quarter?

T N Arun Kumar: Yes.

Pankaj Murarka: So then how does that surveillance income meaning how does that normal cycle behaves, it peaks in second quarter and then it plateaus in third quarter or it starts declining in the third and fourth?

T N Arun Kumar: There is no trend. It depends on the actual reality. Reality is that it is higher in Q2 and progressively goes up in the other quarters Q3 and Q4. Q4 is the highest probably.

Pankaj Murarka: Q4 is the highest.

T N Arun Kumar: Yes, there is the number of cases done, number of surveillance is done.

Pankaj Murarka: And Q3 is also higher in Q2 you are saying?

T N Arun Kumar: Q3, Q2 would be similar.

Pankaj Murarka: So then can you presume that this second quarter revenues runrate that you have that the economy is bad and nothing is improved this second quarter revenue numbers can we take as a base to build some numbers going forward?

T N Arun Kumar: Building numbers depends on the surveillance and the new issuances. They continue to be low it and revenue will also be low. But surveillance income will depend on the cases completed and availability of information and all results. So I cannot say anything more than that.

Pankaj Murarka: Thank you.

Moderator: Thank you. The next question is from the line of Lalaram Singh from Vibrant. Please go ahead.

Lalaram Singh: Sir, my first question is what is the attrition for this quarter?

T N Arun Kumar: The attrition is as per industry norms. You have seen senior levels we do not have attrition senior levels is as per industry norms.

Lalaram Singh: What is the industry norm I am not aware?

T N Arun Kumar: Something around 15%, 20%.

Lalaram Singh: Second question is what is the revenue from top 10 and top 50 clients for us?

T N Arun Kumar: We are not disclosing that.

Lalaram Singh: What is the trend of this has it gone up or gone down over the last couple of years?

T N Arun Kumar: It is same.

Lalaram Singh: It is same.

T N Arun Kumar: Yes.

Lalaram Singh: Third question is as the CEO of the company what are the top five things you track to understand whether your business is really well?

T N Arun Kumar: Top five things I track. For me the focus is on capturing new business as and when it comes and being ready for the opportunities when they arise. Number two is following regulatory requirements. We have to do some ratings on certain basis in terms of tracking them in a material sense. Also completing the surveillances as soon as the audited results are out is important. . Third could be looking at opportunities in terms of structuring and in terms of new value added products which we can come out with. So we continuously do R&D for seeing whether we can add value to the entire exercise. These three are on top of mind. Of course training, skilling, employees are another focus area as a CEO so that employees are trained. **Lalaram Singh**: Got it, but none of these things are, is it measurable means because these are qualitative things all about but you can actually notice or do measure these things?

T N Arun Kumar: Yes, we do measure. We were also mentioning market share. We track on a very regular basis, new business tracking, we look at our share in the new business tracking and look at other databases you see what where do we stand in the public debt issuances.

Lalaram Singh: So in terms of market share how do we actually look at it, it is basically number of issuers who gave me the market and how many were our clients are that right?

T N Arun Kumar: Yes, correct how many as a total number and new numbers which are coming in and what is our share in that new numbers,.

Lalaram Singh: And it has now to be anything with the amount of debt?

T N Arun Kumar: Amount of debt also would be a function of that but more importantly we continuously track it on the basis of the number of entities rated primarily because keeping the clientele that adds to the surveillances base on a consistent basis adds to your income going forward.

Lalaram Singh: So Sir can you elaborate that what are the typical reasons for a client leaves you and what are the things which you do keep on doing so that he is sticking with you?

T N Arun Kumar: In times the client actually could be leaving when they have bank facilities, repaid or redemption of bonds. Certain times they may not be happy with the rating and can be go. I mean that gets reflected as a part of the issuer non-co-creation category which already agencies are required to disclose in the public domain.

Moderator: Thank you. Next we have a follow-up question from the line of Samarth Singh from PPF Capital. Please go ahead.

Samarth Singh: Thanks for taking my followup. I had a question on this our investor presentation that you have shown the number of new instrument total is 2635 for half year and on our website and the rating summary sheet the total is 2100 so I just trying to understand that whether where does the difference come from?

T N Arun Kumar: Sorry, you are referring to which page?

Samarth Singh: The investor presentation has a total number of new instruments rated for the half year, I have seen the page number it is 11 of 22.

T N Arun Kumar: The number of instruments rated.

Samarth Singh: Right.

T N Arun Kumar: It is at H1 FY2019.

Samarth Singh: Yes so H1 FY2020 is 2635 of a total.

T N Arun Kumar: You are saying what number is different.

Samarth Singh: And the number that you have on your website under the SEBI disclosure in the Annexure A the total is 2100 so I am just trying to understand the difference.

T N Arun Kumar: So one is what 2039 another is 2100 is that correct?

Samarth Singh: No, no, the one on your investor presentation is 2635 and the one on your website is 2100?

T N Arun Kumar: See this is whatever is in the website will be as per whatever norms are specified by SEBI guidelines in terms of clubbing. We might have clubbed some instruments, and we might have separated here so I do not have offhand the answer.

Samarth Singh: I will follow up with you and then the last question was if and if an issuer if we sort of drop them to below investment grade or even default do we still continue to accrue surveillance income from him?

T N Arun Kumar: No, no we accrue only if it is investment grade if it is sub-investment grade we do not accrue in terms of that.

Samarth Singh: So if it is anything below BBB we immediately stop getting surveillance income from them?

T N Arun Kumar: We do not stop getting fee. But as and when we get it we account for it. We do not account for it on accrual basis.

Samarth Singh: If it is investment grade then we account for it on an accrual basis.

T N Arun Kumar: Yes, correct.

Samarth Singh: Thank you.

Moderator: Thank you. Next we have a follow-up question from Purab Gujar from Cameo. Please go ahead.

Purab Gujar: My question is regarding ECB. So in terms of ECB how does our opportunities set should say get impacted do we essentially with to participate or we compete with the international player as well how does that work?

T N Arun Kumar: Sorry, sorry, I totally lost you?

Purab Gujar: My question is regarding ECB. In case of ECBs how does that impact of opportunities set does it do we essentially get to participate for ECB?

T N Arun Kumar: No, if it is an Indian entity we do if the company asks for a rating we do give the rating.

Purab Gujar: So do we foresee up to I mean do we at the Indian company essentially get to participate or do we have to compete with any other international agencies?

T N Arun Kumar: We do not have. This is not an international rating. This is a national rating so we do get to participate.

Purab Gujar: Understand. That is it from my end.

Moderator: Thank you. Next we have a follow-up question from Abhishek Pamecha from Vibrant Securities. Please go ahead.

Abhishek Pamecha: Can you give me he number which is there of bad debts which is there for us in the first half?

T N Arun Kumar: Around 80 lakhs.

Abhishek Pamecha: How much have we provisioned for?

T N Arun Kumar: Provision is 4 lakhs.

Abhishek Pamecha: Secondly Sir what would be our dividend payout policy and expectation for this year FY2020?

T N Arun Kumar: See the board looked at this quarter's performance. Though the income is down compared to last half year they have brought it almost close to last year's payout in terms of the half year, it was 6 plus 6 now it is being 3 plus 8 it was almost close to last year. Of course based on the performance of the next two quarters they will decide the further interim or final dividend based on the actual performance. So as of now they have almost maintained it compared to last year that is what I would say. As far as the pay to reward the shareholders and to have a link to the payout ratio also so as of now that is the policy.

Abhishek Pamecha: What is our payout ratio Sir, as a policy is it 100% of the current income which we are having?

T N Arun Kumar: H1 is 78.01.

Abhishek Pamecha: No, I am talking over the longer-term only because we anyways have cash accruals on our balance sheet so the current income which we generate annually…

T N Arun Kumar: Around 65% to 70% is what is provided but then actual reality is always gauged to which was the board decides on this including the need for rewarding shareholders and the performance of the company.

Abhishek Pamecha: Another thing is that after this regulatory change which is happening and over side which is increasing how is the business scenario in there for the industry can you comment on that?

T N Arun Kumar: The rules were there right from June 2017 in terms of various reviews need to conduct. That has been there for two years now .Otherwise there is as per the guidelines and as per our own policies we keep fine tuning the methodologies and criteria that has become an ongoing exercise based on current developments. Cost of compliance in terms of having people to adhere to strict timelines or press releases and for carrying out reviews within whatever stipulated timelines is there. So that will require lot of compliance cost. I had mentioned earlier that it is more of a supervisory and not an analytical cost. It is more of a cost to follow up. We need people to follow up with analysts to carry out the exercise within the required time and lot of it has been automated so that the benefit of automation seeps in and a lot of manual intervention is reduced.

Abhishek Pamecha: This is from the internal side so how we have seen the scenario which is in terms of the outside when the client is approaching or for we are approaching the client at this point? Is there any difference which has happened because of these things which are happened in the last two years have we seen any difference on that front?

T N Arun Kumar: The clients obviously would providing of information and we would like to get whatever is required for our rating. Obviously there could be some places where they may not give it . Then we have to wait for the information to come and carry out the rating effect. as Mehul has poined out there is this issuer noncooperation case which is essentially a rating where company stops cooperating with you. That is also a kind because we need to carry out ratings irrespective of whether information is given until the amount is withdrawn fully or the amount is repaid fully. We need to continue to carry out the exercise on the basis of best available informatio . So it becomes our job to continue to track a company even though they may not be cooperating with us. That is the additional thing which has been there again for the last two years.

Moderator: Thank you. We will be able to take one last question we take the last question from the line of Subrato Sarkar from Mount Intra Finance. Please go ahead.

Subrato Sarkar: Sir just as a simple follow up question like we have discussed this but again just to discuss this for another time. Sir our kind of business at least as a shareholder we feel it is more rationale to go for buyback rather than giving out dividend so because it helps us to reduce capital which we really do not require in our kind of business so Sir just a thought on from your side and just a request to board also?

T N Arun Kumar: Yes actually there were representation received and you are not the first one to ask that. We have continuously sensitized the board and board is definitely looking into this aspect. That much I would say at this current juncture.

Subrato Sarkar: That is all from my side.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management team for closing comments.

T N Arun Kumar: I would just try to end that currently whatever the situation, the government is trying to address a lot of measures to address the NBFC crises and it could slowly get traction and as a leading and as a large credit rating agency we will make good share of the market opportunities and we are confident in terms of our performance subject to the economic conditions, external environment doing that we would like to capitalize on it and we would like to do that going forward. Thank you.

Moderator: Thank you very much. On behalf of B&K Securities that concludes this conference. Thank you for joining us. Ladies and gentlemen you may now disconnect your lines.