CARE Rating Limited
Q1-FY20 Earnings Conference call
(August 01, 2019)

Moderator: Ladies and gentlemen good morning and welcome to the Q1 FY20 Earnings Call of CARE Ratings Limited 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. If you need assistance during the conference call, please signal the operator by pressing '*' and '0' on your phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Neeta Khilnani. Thank you and over to you, ma'am.

Neeta Khilnani: Good morning everyone and thank you for joining into the Q1 FY20 Earnings Conference 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: Thank you Neeta and good morning friends and welcome to our Investor Call for the declaration of Q1 FY20 Results. I do hope you have had the time to see and analyze our results and presentation which we have put in our website and also circulated to you. I shall quickly make the presentation in three parts before we take your questions.

Firstly, I shall take you through the economic background to better understand our performance this quarter as our business is linked directly to the overall level of activity in the financial markets. Next, I put forth our financial and business performance for the quarter under consideration and lastly give a prognosis on the likely economic outcomes for the rest of the year. I am joined by Madan Sabnavis – our Chief Economist and Mr. Mehul Pandya – Executive Director (Marketing).

The economic performance so far this year has been subdued with limited traction witnessed in industrial growth. Hence, demand for funds has been impacted to an extent with both consumption and investment being fairly lackluster. NPAs in the banking system are still high though appear to have stabilized. However, in the present environment, banks have become even more cautious while lending and still prefer retail to corporate portfolios. While several measures have been taken to revive the NBFC sector in terms of making liquidity available, the situation has not yet normalized. As some of the NBFC are particularly under stress, this impacted their lending operation which has been only partly substituted by the bank. We believe that some sectors like auto, real estate, housing, SME have been affected to an extent due to inability of some larger NBFCs to lend on account of tight liquidity conditions and funds constraint.

The overall liquidity situation in the banking system has, however, improved during the quarter with surplus debt balances as against major infusion of funds by RBI earlier through the Repo window. RBI has also been supportive with open market operations as well as purchase of dollars from banks and is added to liquidity in the system. Therefore, in our assessment availability of liquidity has not been a problem this quarter though the willingness to lend has been limited.

While the price pressures are increasing especially in terms of food inflation, core inflation remains subdued during the quarter. With the RBI lowering the interest rate, the cost of borrowing has also come down though marginally as a transmission of rate is still sticky.

During the quarter, there has been some pickup in the funds raised from the corporate bond markets. The total corporate bond raised in the first quarter was around 1.7 lakh crores, CP issues have also increased by around 11% to 6.2 lakh crores. Bank's credit growth over March however has witnessed contraction from 0.1% in Q1 to a larger contraction of 1.3% in Q1 this year and in April-May credit to the industrial and services sector also witnessed contraction. Bank credit in the industrial sector contracted by 2.5% in May over March compared to 2% in the previous period.

Likewise, services sector credit offtake contracted at a faster pace at 5% compared to 2.5% or 2.8% during the first two months. Our performance needs to be viewed against this background.

CARE Rating's performance in the first quarter of fiscal FY20 shows that our income from operations has decreased from Rs.59.99 crores to Rs.49.92 crores. Other income increased from Rs.4.57 crores to Rs.7.81 crores on a consol basis in this quarter. The operating expenses increased by 22.19% to Rs.39.89 crores. As a result, the operating profit declined from Rs.27 crores to Rs.10 crores and net profit also declined accordingly from Rs.25.16 crores to Rs.13.49 crores.

Our Standalone business volumes have increased from Rs.3.8 lakh crores to Rs.3.9 lakh crores in the quarter. This comprises Rs.1.91 lakh crores in bonds and Rs.1.16 lakh crores bank loans and Rs.0.82 lakh crores in short term rating including CP.

The number of assignments has declined from 1806 to 1223. In the first quarter, the credit quality as measured by our standard ratio called Modified Credit Ratio has declined to a 6 year low of 0.8. The ratio in the corresponding period of last year was 1.02. The future outlook is being looked at with caution by us given that the green shoot is still not visible. The budget has highlighted the importance of the NBFC sector which is positive for the economy. It has stated that NBFCs that are fundamentally sound to continue to get funding from banks and mutual funds without being unduly risk averse. In this context, government will provide one-time six-month partial guarantee to public sector banks for first lot of 10% which is being announced for purchase of highly rated pool assets for financially sound NBFC amounting to a total of 1 lakh crores.

In order to enable the banks to implement this announcement and deal with NBFCs/HFCs effectively, the RBI has also followed a concept that it will provide required liquidity backstop to the banks against their excess G-Sec holding. In addition, RBI also decide to frontload the FALLCR especially to avail liquidity for LCR to permit banks to reckon with immediate effect and increase the FALLCR of 1% of bank NDTL to the extent of incremental outstanding credit to NBFC and HFC, over and above the account already exposure to NBFC and HFC. This will enable the banks to avail of additional liquidity of around 1.3 lakh crores. It needs to be seen, however, how this will work as this holds the key for the performance of the financial sectors.

Some factors that will determine the state of growth in the economy would be spread of the monsoon, rural income, overall spending and consumption, employment created in private sector investment especially in infrastructure.

Based on the conditions prevalent today and our assessment of future we expect the economy to grow at around 7% in FY20 with a slight downward bias. One of the limiting factors for the economic growth would be limited, fiscal stimulus by the government as in budget FY19 the government had opted for fiscal prudence. RBI is being giving a push by way of lowering the borrowing rate, however, the demand problem continues to persist, low growth in that industry is not expected to create the required buoyancy in the financial market on the demand side. All this indicates that the rating industry the business will be challenging. Inflation is likely to be within RBI's target of 4% for the rest of the year assuming normal monsoon. The markets are expecting another rate cut by RBI in the upcoming monetary policy in August. However, we feel that there could be a pause in the rate cut as the policy maker may wait for to see how the monsoon progresses and we are expecting the rate cuts of around 25 to 50 basis points.

With this I now leave the floor open. We will now take questions.

Moderator: Ladies and gentlemen, we will now begin the questions and answer session. We have a first question from Mr. Ravikiran Surana from Infina Finance. Please go ahead.

Ravikiran Surana: So, my question related to this filing which you have done in exchange regarding this anonymous complaints received against erstwhile MD, so what I want to understand is can you share some of the contents of this complaint, what I want to understand is, is it specific to a person or it also raises some questions on basically the systems and processes which you have followed. The context being while we all know that macro is bad if whether this proceeding can have a further negative impact on your business operations?

T.N. Arun Kumar: This exchange filling we have done, we have made it I think clear about the reasons and we are presently not aware about the exact contents of the anonymous complaint. So they have instituted a forensic investigation to be carried out here, so the erstwhile MD and CEO has been asked to go on leave by the board to make it a very fair investigation as a matter of good practice. So, we are presently appointing an agency and I cannot hazard against as to what the complaint contained, but let me assure you that there is system and our process are fine, our rating performance is all right and there is no difference in the two. We have to just go through this phase and pass this test. We would feel that there is nothing wrong we have done, but then we have to go through this test that is what I will say.

Ravikiran Surana: Basically, are you having any conversation with large users or large issuer of your ratings what is the feedback that you are receiving from them post this event?

T.N Arun Kumar: There is no adverse feedback, I mean. Obviously, we are all waiting for these findings and even the board has instituted a study for this. So, we are going to wait for this study to happen and then take a call. As it is there is nothing, whatever has been said in that complaint is still unknown to us. So, we have to wait and watch and do the necessary things what the board has told us so that is what we are on.

Moderator: Thank you. We have a question from Mr. Dheeraj Dave from Sambat.

Dheeraj Dave: I was going through the results of the company basically what I find interesting is when the revenue has declined by 17% and the major hit we get is from total expenditure. Can you just throw light on what exactly resulted in this means basically is there any ESOP charges. Because whatever results you uploaded on stock exchange actually the scan copy we cannot even read it is very difficult to read that scan copy it is completely blur so we have to rely on presentation we cannot look at item wise expenditure detail it is very difficult to read.

T.N. Arun Kumar: Basically, there are two things here one is about the income side and one is expenses side. In the income side as we know that we book only if we do the rating assignments can we book a revenue and especially in the first quarter this happens that if you are not getting full information, audited results and all clarifications from the company that assignment get postponed. So, looking at the quarterly results in this case is actually not correct because they have to be looked as a whole, we get the surveillance fees depending on when we do the case. So, it so happened that a few large cases we had to wait for it we could not do it in Q1 because of lack of information so that is on the revenue side.

Dheeraj Dave: Could you quantify that amount what would be the amount which would be postponed due to this surveillance fees?

T.N Arun Kumr: No, we cannot exactly quantify, but I am telling you there are some large guys, large clients were targeted and that could not be done and something have already been done in July and something are targeted for this quarter. So, this is just a postponement of that and because of our accounting policies we do not book that revenue then that is in the revenue side. In terms of expenses side there have been as you know we have had a round of salary hikes, we have done a in fact a salary study to find out our level of salaries of our executives vis-à-vis the industry in the market and the board decided to have a salary hike across the board and it is being done in phases and the increase in that is because of that. It is just a correction of salaries which was probably long overdue.

Dheeraj Dave: So, this would be now ongoing item it is not one off of ESOP charges something like that so that is one part and second is on revenue also when we look into credit growth it decline by 2% to industry. I am looking at specifically industry and not services and we also look at volume of issue rated by us has increased significantly while number has declined your presentation does give indication that number has declined substantially, so could you just explain more in detail is it like that the larger so basically what it means is per issue rating which we did is actually is a larger amount vis-à-vis Q1 last year?

T. N. Arun Kumar: I think we cannot directly correlate the two because the fees especially for large clients is not proportional to the amount rated. Suppose there is a Rs.1 lakh crores we rate we do not get 10 basis point on that there is a mix of the two, but nevertheless there will be pricing and because of this lower demand for even money there has been lower growth in the new issue done even those amount looks large, they may not translate to a direct increase in revenue. If you look at our presentation, there is a marginal increase in the overall volume of the debt created. If you see the overall bank debt which has been rated has actually come down. This phenomenon that we have been observing in terms of the subdued bank credit growth and which impact the bank loan rating space so it has to be seen in that context.

Dheeraj Dave: So, basically, bank loan kind of degrowth or whatever decline which actually affected us?

T.N. Arun Kumar: That is a major factor. Actually, that is one big factor yes.

Management: Arun has also mentioned in his presentation that when we talk of manufacturing and services where the credit growth has decelerated because this is actually the section of bank credit which is rated by rating agency. So, today we are talking of the overall universe.

Dheeraj Dave: Service is by to an extent disagree because most of it are retailers, they also have financial sectors NBFC etcetera, but prominently wholesaler, retailer which gets classified into services sector. So, I do not know; you would be having a better perspective but at least whatever RBI released as a data there you do not find service which should be besides hotel and probably transportation services and NBFC. These are the only three services which account for some significant part, but still is a wholesale chain and kind of retailer and those kinds of thing probably that get classified as RBI data. In that also if you look at it is a 5.3% growth and last year also it was 2.8% negative. Just one clarification when you said that amount rated so is it a surveillance fee would by any chance get would you say if you have done surveillance that would get as a amount whatever this one lakh crores

T.N. Arun Kumar: It is a new rating.

Dheeraj Dave: Surveillance is completely out of it.

T.N. Arun Kumar: Surveillance is different.

Dheeraj Dave: And how you see way forward in say 9 to 12 months how you see scenario and things because you have a reduced dividend also which does communicate something we just wanted your view how exactly you see the scenario and particularly you have now cash again how you intend to utilize that?

T.N. Arun Kumar: See board considers this. Whenever we have meetings, the board does consider the fact that we have the cash and they have decided to go along with profits earned here. Going forward if things improve dividend would be made that is what the board has mentioned.

Dheeraj Dave: Only one suggestion and this would be last point from my side you may request to board that investor are saying that this does not make sense because we do not have any secured universe left except you go in G-Sec because mutual fund also we know what kind of problem we are facing. So, in that context generating 5% return and killing the 40%, 45% ROC business I do not know what sense does it make but anyway you are more capable to take that call and wish you all the best.

Moderator: We have question from Amit Dalal from Tata Investment Corp. Please go ahead.

Amit Dalal: So, at the outset the drop in revenue is far an excess of what perhaps we will see as a percentage for any of the other rating company and therefore please give us some kind of a reconciliation of what you consider as unbooked for this quarter if there is anything. Otherwise this is the norm of the income which will be there as a loss in market share please explain how you expect to get out of this situation and second question I had was if you are going to increase expenses like this at 21% in one quarter and revenue potential has come down even in the revenue of last year the same quarter if I were to take that means you have suddenly crashed the margin because you have no ability to increase price per unit of whatever services you are offering, how are you going to content with that otherwise it is basically a going to only result in a poor performance at the end of the year?

T N. Arun Kumar. See just we have to understand the context of revenue first. As I mentioned revenue in some agencies are booked across the years so it does not have any basis or does not have any relation to the quantum of the rated debt for that quarter and because of availability of information these tend to get if you look at not the quarterly results but the entire results and audited results have just started coming and information is whatever is crucial for carrying out an exercise if it is not available, we have to postpone it. So, we have done that and we will be doing that it will be made up in this quarter Q2 that is what I would say. So, the combination of the two, one is about the revenue recognition policy had we recognized it irrespective of the case completion it would have probably not done any do not have any difference whereas here we base it on the case completion and that is how there is the fluctuation between last year we would have done a case A, B, C these are postponed to Q2 so those revenues of that A, B, C get counted in Q1 that is simple math. Second is regarding the expenses again like to emphasize that our salary levels there were lot of benchmarking studies done during the year the board has instituted some and as a result of that there was a dire need of having quality people having kind of comparable salary structure. So, this is essentially investment in good people here.

Amit Dalal: But definitely that means that you would not expect to earn the margins which you did last year because you cannot price yourself very different, I mean your margins are substantially higher than the industry.

T.N. Arun Kumar: See margins are substantially higher due to various reasons. One was the high growth in income and high credit growth and the favorable factors which were there for the rating industry. Second was the comparative lower employee cost in other expenses and even ESOP expenses have also dampened it a bit here.

Amit Dalal: So, from what you are telling me the next quarter the revenue growth will be substantial relative to Q2 of last year because you have so much of un-booked revenue in Q1 is that correct?

T.N. Arun Kumar: Compared to H1 as a whole we will have growth because we will have to look at the revenues both surveillance and initial and the postponed revenue of Q1 would be done in Q2 that is what I am saying.

Amit Dalal: Q2 will be H1 of this year record a growth of H1 over last year, correct?.

T.N. Arun Kumar: I am saying that is the postponement of the revenue from Q1 has resulted in that lower income here so that is not a thing to be seen.

Amit Dalal: I am just saying in the reconciliation wise at the end of the half year period everything should be Apple to Apple for last year to this year on a revenue correct?

T.N. Arun Kumar: Technically I would say full year because this can get postponed further, but whatever has been the gap this year this quarter would be filled up in next quarter in terms of the surveillances and revenues in initial rating.

Participant: Sir, regarding the expenses side also this year our expenses because they are looking up in the first quarter what is going to happen?

T.N. Arun Kumar: Last year we had a provision of about Rs.13.5 crores on account of ESOP and this year the provision would be about 5 crores because they are getting vested on that period we will have a additional cushion of 8 crores as compared to last year. So, year-on-year basis we are not expecting the expenses to go up that substantially which they are looking as of now.

Participant: So, when was that stock options debit, in which quarter?

T.N. Arun Kumar: Till August the expenses will be there and after August all the expenses would have been booked. So, for remaining 7 months there is no additional expenses is going to come. So, 8 crores cushion in expenses on salary account will come there. So, year-on-year basis there will not be any substantial growth main expense is salary.

Participant : In your results you know I think because you do not have a proper top management right now please put all these in the note to the account why do you want suddenly all negative surprises to become visible which are not necessarily anything more than depended on this quarter only.

Moderator: Thank you. We have a question coming from Mr. Rohan Samant from Multi-Act. Please go ahead.

Rohan Samant: So, on the surveillance fee how much is the share of surveillance fee in overall revenue?

T.N. Arun Kumar: We do not compute that. Roughly fee is around 50% of the revenue could be surveillance fees and 50% would be initial fees.

Rohan Samant: So, this quarter there would be a significant drop in surveillance fees is that right?

T.N. Arun Kumar: I mean it also depends on the initial fees whenever we have information, we do not have information that affects the initial fees also. So, there is a combination of the two actually. So, just the postponement it affects both.

Rohan Samant: So, the drop that we have seen in BLR so I understand the economic context that we are in currently, but the drop in BLR the number of BLR ratings as well as the value that drop is pretty sharp so is that also related to this postponement or is it something different?

T.N. Arun Kumar: Fall in revenue in terms of surveillance fees we would be getting lower surveillance fees if our rated facilities go down, but the rate of growth is what we have to see. If the rate of growth is there and we have to see the volumes of debt rated in both initial and surveillance. Overall if you see the initial revenue has somewhat impacted in terms of because of the bank credit growth fall. Surveillance revenue remains similar.

Rohan Samant: So, the fall is almost like 40% in terms of number of BLR ratings 41% in this quarter, so this would be all initial ratings right?

T.N. Arun Kumar: Yeah initial rating.

Rohan Samant: So, that is a very sharp fall right what is the reason for that?

T.N. Arun Kumar: Some new assignments as well as in terms of the fee certain enhancement that we could be affecting from the clients planned it for additional Capex if that would have fructified in that case it does impact the overall initial rating income. So, from that angle at even the context of the subdued bank credit growth and sanctions for the clients that also get impacted. So, resultantly bank loan rating income that got impacted.

Rohan Samant: So, basically at some point it will kind of come back?

T.N. Arun Kumar: There is a pickup in demand and bank credits show some.

Rohan Samant: So, you feel there is no loss of market share in this?

T.N. Arun Kumar: In terms of number of ratings as we see across the rating agencies, we have not observed any decline in the market share in any segment.

Rohan Samant: And in the notes you have mentioned that you have kind of provided for that adjudication notice, so what is the quantum what is the amount?

T.N. Arun Kumar: It is around 1 crores actually.

Moderator: Thank you. We have a question from Mr. Abhay an Individual Investor. Please go ahead.

Abhay: Just wanted to understand that there are various subsidiary also I mean which are contributing to this revenue and all those stuffs, so just from an understanding perspective I mean currently if we look at the organization more than 90% of the revenue is contributed from rating and remaining very minuscule is contributed from the subsidiaries, so in the next three to four years maybe I mean just wanted to get the way we are going to work, how do you see this revenue share planning out maybe in the next three to four years from 95% to what level?

T. N. Arun Kumar: What in terms of overall income you are saying for total income you are saying.

Abhay: Yeah.

T.N. Arun Kumar: Total income probably of the year and in the next medium term two to three years is expected around to be 10% of the entire console income. It is kind of give some kind of cushion against because we have spread over, we have operations in Nepal, we have operations in Africa.

Abhay: So, currently the contribution is almost 95 what is the current contribution and where do you see it maybe three years down the line?

T.N. Arun Kumar: 3% to 5% is the contribution of the other entities other than cash. We expected to go up to maximum of 10%.

Abhay: In this current budget the government announced that corporate which have less than 400 crores of topline I mean they would be having some tax benefit. Apart from that there are certain mandates on SEBI like dual rating for all the corporate that needs to rate some amount so these are visible tailwinds so I hope all these benefits are hitting in your top line as well as bottom line, is this understanding correct?

T.N. Arun Kumar: Yeah time and again we have regulations for use of ratings and even in commercial paper there was last year there was requirement of dual rating if it is more than 1,0000 issuances in a year which we did capitalize a lot. So, anything in development in bond market we are there to capitalize.

Abhay: No regarding this cash benefit still CARE as an organization does less than 400 crores of sales that is corporate act of 40% to 25%, is that benefit applied currently or it would be applied in future?

T.N. Arun Kumar: Yeah it is applied currently.

Abhay: As of now since you have guided that lot of revenue has been deferred for upcoming quarter, so I mean on a comparable basis or a year-on-year basis let us forget quarter-on-quarter because currently if I look at the results it is not good actually. So, if I look on a year-to-year basis just a broad guidance as an investor I mean it will be more or less profitability would be more or less flat or a bit of variance or you see a major variance once we end this current year?

T.N. Arun Kumar: See as you rightly mentioned the revenue for a rating agency record has to be measured not on a quarterly basis but on a yearly basis and we expect that yearly basis to be maintained, but all this depends on conditions outside. We are totally depended on the market factors because bank credit growth is important to us, important bond market growth is important to us, other conditions are very important subject to things being favorable we expect favorable performance.

Abhay: Arun sir I mean everybody even a small layman on the street would know that financial market is facing stress what we are seeing today is not something that is unplanned. I mean everybody knew the financial system is in stress, CP is showing stress, and credit market is weak and we as an organization has actually initiated when we waited IL&FS, I mean we knew everything that what is happening right now was known to us almost a year back. I as an investor want to understand as a proactive organization knowing that the upcoming time is going to be tough. What was your plans I understand things are not good and everything is bad and everything, but this is something which was known almost a year back? As an investor I just wanted to understand for this coming bad time how as an organization what was your preparedness?

T.N. Arun Kumar: See I need to understand the perspective of where we operate. We operate under the SEBI guidelines as a credit rating agency and we cannot the realm of what all can do is restricted to rating of that instruments and rate those instruments which are approved by RBI and SEBI. So, to that extent we cannot issue new products, we cannot plan new products since we can grade or rate.

Abhay: So, to interrupt you Mr. Arun I mean I understand that top line is depended on multiple factors. As an organization we are ready with our excellent services and we are doing our active work and let the work come, but there are certain things which we can control knowing that in the coming time the revenue is going to be muted, industry is facing challenging time, so was it the right time to increase your expenses and everything and to exuberate the conditions actually. I mean this is not the right time as an investor if I look as an investor as of now, I mean for the last many years currently the dividend has been halved, why the dividend has been halved. The answer which I am getting is because the company is facing challenging time so Abhay because you are a part of this company so you have to take some sort of heats, I just wanted to understand as an organization what all other people, other stakeholder in the company has sacrificed what they have done I mean if we can sacrifice the dividend and all those stuff because of challenging times so this is not the right time ton increase your expenses by 22% and when you knew that revenue is going to be (-16%). I mean our value the market gap of the company is almost getting destroyed in the market. So, I mean what have you done for your investor so I just wanted to understand. I mean see there are three stakeholders. One is the companies for whom you work I understand that is done by SEBI and other people and you are constraints, fair enough, for your employee agreed then you need to provide them, but in the last salary and all those stuff you received their salary, but as an investor what have you thought and what you people have done to safeguard in these times I want to understand.

T.N. Arun Kumar: What I would like to state here Mr. Abhay is that we are in a knowledge industry and very important to have going forward we are under increasing scrutiny by all we need to have sharper decision making, we need to have strong process, we need to have better quality people and it is utmost important for us to have very good quality people.

Abhay: Sorry Mr. Arun I mean I am also a part owner of this organization so I have the right to ask logical question and I would request please provide me logical and state forward answers I mean I understand that we need to invest in people, we need to increase their salary, we need to do everything, but these are planned. I mean a year before we knew we are going to have a stressful year, so is this the right time to do everything in one go this can be segregated also. As and when revenue would keep on coming in, we would keep on increasing your salary, the way you have done as an investor. Okay currently we are putting your dividend to half, but tomorrow once the company performance would come to an optimal level we would again revert back to the original amount and we may possibly try to increase it. So, these things are coming as a part owner of this organization I want to understand what was the plan for us as an owner of this company, what was your plan how do you wanted to safeguard us I mean we are left in a toss actually right now. I mean profits have halved actually I mean if we look even it; yes, I am not naming anyone they all have muted or flat revenue, but look at their cost. So, are you telling me before this year you were having subpar people, no salary across I mean profit have halved actually I mean 10%, 15%, 20% is fine from on a revenue of 49 crores you are having an expense of 39 crores I mean this type of organization give is I am really very disappointed with the type of results you have shown. I want to understand how these expenses is going to be mitigated I just wanted to get an understand how we are going to improve going forward I am really very disappointed I mean I have been investing in CARE for almost 10 years now. This is the first time I am feeling the pain actually I cannot believe in my organization whom I have trusted so much has come with such a shameful result? I mean how come you can present this result to the people.

T.N. Arun Kumar: See we are fully aware of your understand appreciate your problem you have seen your expenses.

Abhay: I only request you I understand there are some logical work to be done with entire kindness and as a family I am also a part of a CARE family and being so for the last decade actually last many years I have seen lot of down cycle, up cycle everything this is the first time I am venting my frustration because I am being a part of the family I am feeling free myself to express out. Now what I would request you please at least as an organization if you are sensing you know internally what is going to be your incoming revenue numbers you have to plan internally what is your outgoing expenses match in tough times I mean these are the challenging and tough time for the industry as well as for the organization, employee as well as for a investors ensure that there is an equilibrium all our balanced that is maintained across all the stakeholders no one’s value gets eroded and gradually as the performance picks up at that point you can have bonus linked pay and all such stuff. See when good time we would reward you proportionately, but during bad times I mean this is how we are going to work out so that as an organization we ready ourselves for the challenging time which may come again in the future I mean this is just a feedback.

T.N. Arun Kumar: Okay feedback taken we will obviously will consider all your suggestions. Only my point is that on the revenue side it is just a matter of that taking the quarterly figures is not correct. Analysis wise, we will have to take the longer period because it all depends on our work what we do which are already repeated and on expenses side, it is again as Mr. Navin pointed out it is going to be year as a whole it is going to be neutral it is not going to be compensated by that non ESOP end in August after August there could not be an ESOP charge. So, as a whole year we do not see a great increase in expenses this way so I would definitely take all your feedback and I will tell the board about this feedback.

Moderator: Thank you. We have a next question from Mr. Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: Sir, I just want to ask you couple of questions you have mentioned about postponement of revenue this quarter was it true even for the last quarter last year because you know this annual report delay etcetera would have been true in the last year as well I mean I am not seeing any company which has been delaying the revenue only particularly in this financial year?

T.N. Arun Kumar: There are two things what I mentioned delay is vis-à-vis last year only and we are comparing last Q1 to this Q1 so say companies A to A,B, C which were done last year Q1 we have not done this Q1 may not be results might be some crucial information is missing so that rating is not done we do not do without complete information so that is a result of not doing it in that timing it is a timing problem. So, if you do not do it in June if you do it in July, we do not capture the revenue in June quarter that is a difference vis-à-vis Q1 of last year only.

Parag Jariwala: That I agree but is that among so material I understand it but.

T.N. Arun Kumar: It is material it is affecting the revenue and since there is no variable cost here the same amount is like affecting the pattern.

Parag Jariwala: That I understand it does not have a variable cost. Secondly and I understand and I respect that you do not want to give the exact number. At the same time in your press release you have mentioned that on the operational data on the Page #1 itself that the volumes have actually total debt rated volumes is either same or marginally higher. So, is it fair to assume let us say again I appreciate that you cannot reveal lot of details, but let us say this postponement was not of the factor then is our revenue would have been flat?

T.N Arun Kumar: That pertains to initial ratings and there is a fall in BLR initial rating so that is another factor which has happened due to the economic conditions, but I would say the revenue postponed because of information not being there is a larger proportion among the two.

Parag Jariwala: And are you sensing any loss in terms of market share for because of the two reasons.

T.N. Arun Kumar: We regularly track market shares and we are closely tracking that; we have not seen anything so far, we have got the latest figures so we have maintained or in some segments we are higher in fact.

Parag Jariwala: Last thing in terms of let us say like you mentioned that now basically the quality companies are only getting the money where there is lot of the Tier-2, Tier-3 companies service sector as well as NBFC they are finding difficult and they are slowing down, so you know just as a broader understanding where would be our market share higher, are we more with the high rated and the bell-weather companies or are we more in market share is higher in terms of Tier-2 to Tier-4 NBFC and companies manufacturing companies.

T.N. Arun Kumar: See I would have that industry wise breakup, but in terms of large corporate or the small corporate large corporate we have maintained or increase our revenue rest small corporate might have been flat and the market share would be flat in the large, small differentiation.

Parag Jariwala: And sir just one change I mean we are an institutional investor and I appreciate the one suggestion given on this call whenever the fall in the revenue is high because of certain technical issue it warrants normal disclosure even without the figure is fine.

T.N. Arun Kumar: Point taken we have written it in some manner in the press release also. Now SHA has written about the conditions and led to information lack and we are waiting not being able to done that we have written actually written that in one of the slides.

Moderator: Thank you. We have a question from Mr. Samarth Singh from KPS Capital. Please go ahead.

Samarth Singh: Could you tell me what was our revenue from the IL&FS group in financial year 2019?

T.N. Arun Kumar: Yean we cannot disclose client specific information.

Samarth Singh: The reason I ask is because I believe you are the largest rater of IL&FS and IL&FS Group entities and I am assuming that revenue just not going to be there this year going forward, so I just want to get at least the percentage of top line that just disappear?

T.N. Arun Kumar: We will not be able to give, but all the agencies whether we are not the largest one or something, but other agencies are equally there.

Samarth Singh: As per the Grant Thornton report the others were there but we were the largest [47:30]?

T.N. Arun Kumar: No that is a very wrong way of looking at it I will tell you the example suppose commercial paper comes to you. Rs.100 crores is rated four times. It is taken the Grant Thornton report as 4 whereas you might have done a long term loan of Rs.1,000 crores only once in a year because it does not require any validation so it will come as 1 so that is kind of a portray kind of wrong portray which has been done. The number is actually misleading. It refers to lot of revalidation because companies requires revalidation let us say 6 times a year or 12 times a year based on what the investor wants and every time you cannot treat as a new rating that is how it has been taken care of.

Samarth Singh: And you mentioned the total volume of that rating has gone up number of instruments has come down, is that right?

T.N. Arun Kumar: Yeah from 1806 to 1223.

Samarth Singh: Do you know if I mean this numbers of instruments it has come down is it because these instruments are not there in the marketing or is it because they want to do different rating agencies?

T.N. Arun Kumar: See as I mentioned the market shares of ours is either gone up little or remained flat depending on the segment and in the large sector we have gained a little market share so there is no problem in market share it is a question of bank loan ratings as a whole which have been subdued actually that is the reason for this number to come down. Number wise the bank loan instruments have been more.

Samarth Singh: I mean because we are doing less business given the macro economic scenario I am guessing we have got extra capacity in terms of employee, so is there anything we can do in terms of reducing our cost?

T.N. Arun Kumar: See we keep employees based on the efficiency levels which are prescribed by us and as per which there is no excess per se employee and obviously there need to be have salaries to be matching so that is what as a result led to this increase. So, there is no scope for that actually of course we do look at business wise if there is any segment has lower scope we do look at requirements of employees or we skill them or as in we use it.

Samarth Singh: Ever since the IPO management has maintained that we can maintain our above average margins in this business as of Q1 results I mean it does not look like that holds true anymore so I would like to know whether that has changed or we still believe we can maintain the 50% plus operating margins that we had in the past.

T.N. Arun Kumar: See again margin is a function of because we do not have a variable cost it is a function of total income and total income been deferred kind of. So, it is wrong to say that the margins have come down because it will be made up. Having said that then obviously you have we have not revised salaries for quite a long time and we have done that to maintain and there is also this increase in compliance cost which were present to number of people in that compliance department and doing all those things related to SEBI guidelines. So, that has slightly increased, the number of staff and the requirement of our people.

Samarth Singh: So, if I have to say basically that it will be lower than historical margins but better than Q1 margins is that what you are saying.

T.N. Arun Kumar: Yes.

Moderator: Thank you. We have a question from Mr. Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: Just wanted to understand so on the overall volume of debt rated this bank loan ratings have fallen by 19% but long-term debt rated has increased by 46%, so does that mean that realization overall has come down sharply in this debt rated?

Management: So, it is also a function of how many issuers this is spread out. Now in case of one particular issuer money could have increased it may not have resulted into significantly a larger fee to be charged from them, but it depends upon the number of issuers to be seen in sync with the volume of debt rated.

Deepan Shankar: So, can we say that bank loan ratings have higher realization than this long term debt ratings?

T.N. Arun Kumar: Not necessarily you cannot come to real conclusions by this numbers versus revenues directly but initial rating obviously depends on new issuances and here the new issuances could have been affected by banks credit growth not really doing well.

Deepan Shankar: Why I was asking is because this bank loan rating overall it is around close to 50% of that volume of debt rated, but the fall has been only 19%, but overall top line fall has been more than that so that is why I wanted to understand?

T.N Arun Kumar: No top line fall is because of that reasons I mentioned about deferment of surveillance and the rapid growth of this initial bank loan ratings I mean do not compare the two things I mean we cannot have a formula of this because the fees is not exactly linked to the amount of debt-rated beyond a point.

Moderator: Thank you. We have a question from Mr. Shailesh Nayak an Individual Investor. Please go ahead.

Shailesh Nayak: Basically there are lot of similar questions which have been asked I think I will not repeat that here basically now I want to know from the future outlook point what can be made by us differently to increase a increase one and what can be areas where we can since we have got a better resource now what else can be tapped in terms of to improve our overall margins?

T.N. Arun Kumar: What could be done I think historically also which have been going fairly well. So, firstly in terms of any particular area that we need to work upon I do not think there is going to be any change in that.

Management: As Arun mentioned in his remark, we have not actually felt any loss in the market share. So I think that strategy would continue in terms of what we have been doing over the years the focus on those segments the sectors that could continue. Having said that your second aspect that was pertaining to be it was specifically mentioned on…..

Shailesh Nayak: Expenses since we are saying that we have recruited better people or we have the people who have been more to people who are doing well, you have improved the quality of resources obviously that explore helps us to really get something better.

T.N. Arun Kumar: If I were to repeat and understand your thing correctly so you are mentioning in terms of whatever existing staff could be doing in addition to what they have been doing that is what you are pointing at.

Shailesh Nayak: Because the resource quality you are saying is improve and we have announced some department resources. So, obviously the output efficiency per person can be high right.

T.N. Arun Kumar: So, I only would like to highlight in this regard as far as the core activities are concerned they could be doing only rating. It is a regulatory guideline that CRAs are not supposed to do anything other than the rating. Having said that, within the rating, there could be certain aspect they potentially could be doing and you keep on exploring in terms of kind different offerings within the credit rating spectrum that they can provide in terms of the value added services to clients. So, nothing beyond rating but within the rating space they could be doing certain more thing that potentially could be required by our clients.

Management: Some examples are this partial guarantees structures these are some new things which have come in the market so people are skilled re-skilled on this aspect and we have started commenced doing such assignments. These are really I mean different assignments they are security based, they are rating based assignments but still they are not plain vanilla bank loan or instruments rating.

Shailesh Nayak: And you do not see much because last time when we presented it was said that there is going to be huge opportunity in the corporate bonds market because they are getting allowed, so you do not see anything happening on that where your team can be used more for that.

Management: See it actually depends upon how many companies are raising corporate bonds. Now we are seeing the regulation of SEBI with mix and mandatory for large companies of over 100 crores of long term debt necessarily go into the bond market, but I think the whole thing lies in whether the investment cycle turns around, companies are going and they are investing and whether they are come in to do bond marketing. So, I think once again the answer will be that it depends on the external situation whether there is an improvement and how quickly does the improvement take place. Now to be honest I would say that at least for a next three, four months we are not really expecting any kind of upset in the corporate bond market. So, it could be more in case of the existing issuers who will be raising money and you will hear once it realize that around 70% to 75% of the bond which are raised are coming from the financial sector and from the NBFC. So, I think we need to have a quicker resolution of the NBFC crisis. I think a lot of things have been done by the government if this is by the RBI, but they need to fructify only then we will see some kind of an increase, but definitely I think the environment from the policy perspective is positive for corporate bond market, but in terms of the supplier paper coming I think that will have to probably wait for another three, four months before really picks up that is when the opportunity will come for a rating agency like us.

Shailesh Nayak: Just last one point in the next quarter presentation I will request you to pull down some strategy how you would increase your revenue and margins because this time nothing has been coming concretely in spite having the slightly lower profits, so if you can really put a few points I mean it will be helpful for us and we can eliminate lot of questions during the Q&A part.

Moderator: Thank you. We have a question from Mudit Minocha from M3 Investment. Please go ahead.

Anuj Sharma: Mr. Arun now that you are at you might have details in various manners, but could you just highlight three or four initiatives which you have taken or you plan to take to fortify the institution especially with the two regards one is the rating regards and second is the perception of our company in the in the market?

T.N. Arun Kumar: See in terms of rating, I will come to the perception of the market. We are in constant touch with our investors and with the banking fraternity and the users of our rating to insist to kind of get their feedback on our ratings and continuously have a feedback loop on what can be improved and what can be, if any shortcomings are there how to break them. And in terms of my first priority would be to know how kind of fully compliant culture where the quality of ratings is utmost important thing to be inculcated and to have improved systems and improve processes. So, that the number of your manual errors or number of such errors can be minimized. And there’s a continuous loop of the learning’s of whatever happens in terms of any sharp downgrades which happen, we have including systems to have continuous learning system so that in future such mistakes don’t happen and we are fully aware of every time when we do a rating of company, we are aware of the factors which have in the past, lead to failures and what all to take more care about, so that we learn from our mistakes and take things going forward. So, these few are my initial priorities to start with. Of course, this is a transition phase and I would, obviously, we are all expecting to finish that assignment fast and get over with. With life being normal and business is going on as usual and you synced and processes and systems, that would be my three, four things which I am looking at.

Moderator: Thank you. We have a question from Mr. Amit Verma an Individual Investor. Please go ahead sir.

Amit Verma: So, I would just, I just want to clarify things which have been asked again and again, but just wanted to clarify. So, revenue last year we did 330 crores odd. So, you are saying we would be the same ballpark range on a year to year basis?

T.N. Arun Kumar: Yes, should we. We don’t give guidance, but yes. Only this thing is that fall in Q2, Q1 should be seen in perspective that’s all.

Amit Verma: Okay, understood. Our employee costs have been increasing over the last three years, we have been hearing this a lot which is good, I think no one says you can’t increase your employee cost. What we want to understand is, do you have a pricing power, can you pass on that inflation to the customers, because if we are going to have good rating employees, so vis-à-vis other rating agencies we should be at par or slightly better in terms of a pricing. So, this employee cost of 26% or 28% would that be a norm, will you be able to pass on this to customer?

T.N. Arun Kumar: See, in a industry like ours you don't have an option on passing on employee costs to customer, the rating fees which is cater to the is mostly a market force driven thing. And our aim should be to have the best quality to arrive at the best kind of rating. So, that we give the best service to the investor. So, that this gives impact on reputation we get more business. So, are our aim is to have the best quality so that our reputation continuously is on the highest side. And we get more business from that. So, there is no such concept of passing on, passing on this price is not a way. We don't, we are in a service industry, where employees are the main asset. So, we should understand that having a continuously high quality product is what will induce future customers to come in. It will give us future market share.

Amit Verma: Yes, but Arun as said that the number of employees are constant and the amount of rating they are doing cannot increase. You have a standard formula, whatever. So, what we are trying to understand is so let's say there's an inflation in India 5-6% 7%. So, that's the usual salary increase which will happen every year. Plus, you are saying maybe you are doing market correction vis-à-vis others. So, there is this delta coming in so, we want to understand now how do you exhaust all your operating margins remain in the range that we have experienced? Although it has come down from 69% in 2012 to almost it's touching around 63 to 55 sometimes? So, what is the play there? How do you manage that because this is what even knowledge-based companies do? I happen to be from one of those companies so?

T.N. Arun Kumar: Okay, so see where I will be coming from is, we have this normal rate of inflation and we have the need for keeping the salaries up to the level because we need good quality people. On the other hand, you have the price side where you have the revenue side where there are competitive pressures where you need to charge or give a discount or something. So, the giving this high reputation and high quality would ensure that such discounts are minimized, will have people asking for your rating directly. So, you have chances of that going up. So, that is an indirect way of revenues going up because of reputation, not because of price increase, but discounts decreasing so that's what I would look at it from.

Amit Verma: Okay, so discount vis-à-vis competition, because competition will also have the same pressures?

T.N. Arun Kumar: We need to show that we are the best and we give good quality. We give the best quality so that the investors prefer us. Lot of it is actually investor driven is not a show driven it's a investor driven market, so investors prefer agency. So, our aim is to meet the investors and ensure that overall our product is the best.

Moderator: Thank you. We have a question from Sharda from Edelweiss. Please go ahead.

Sharda: Again, at the cost of being repetitive, what I am not able to understand is since three quarters, we have had a double-digit decline in sales. And this is versus our competitor which is reporting growth and which was a double-digit growth in the previous two quarters and this quarter also was a low single digit growth. So, on what basis do we say that we have been maintaining market share?

T.N. Arun Kumar: See, I had only asked you to compare the rating accounting policies of the agency, because it all depends on that. As I mentioned our accounting policy is based on completion of an assignment in a quarter and not on a kind of a even basis, so that leads to that kind of fluctuations every quarter.

Sharda: Sir but three quarter in a row?

T.N. Arun Kumar: Yes, year the whole it would be more comparable than quarter-quarter revenues.

Sharda: Yes, So, that is what I am saying, if you take on a three-quarter basis or a four-quarter basis, ideally that should be nullified. So, after that if we are having decline of almost double-digit decline, how are we saying that we have not?

T.N. Arun Kumar: Don't look at four quarter on a rolling basis look at the financial year as a whole because as per our conditions, as per our practices we complete a rating agreement every year, we have to do a surveillance of a company every year irrespective of which quarter it will come in wherever it comes in, we will get revenue in that quarter. So, look at look at the financial year as a whole don't look at last, that way if you think that is more comparable. And market share is doing in terms of the number of assignments doing which is it is there in from the public domain we are not doing anything else we are looking at market share in terms of number of assignments done, number of companies done, is what we are now telling today.

Sharda: And sir segment wise if you can please share, how is the decline? Was it more pronounced in the bond rating revenues or it was it in the bank loan ratings? I mean, clearly from the number of issuances it looks like the BLR but.

T.N. Arun Kumar: Yes, BLR is the main culprit actually in terms of because of overall conditions in the market.

Sharda: So, is it possible to share what was the decline in each segment. This 20% decline, if you can break it up into the two halves?

T.N. Arun Kumar: No, I am sorry I can't, not feasible now. Because we have two BLR and instruments for companies. Companies, when we rate a company, we rate their BLRs also, their market instruments also as a whole. So, we cannot actually distinguish the two.

Sharda: Right. And lastly sir, just on the employee expense posted this ESOP, you said we will be on an increasing trajectory only right? and with the increased compliance costs, if you can give some direction, I know we have lower variable costs but if we can give some direction on an annual basis what is the new normal will we be looking at being in line with the other agencies or even that looked challenging in terms of?

T.N. Arun Kumar: As Navin had pointed out, there is going to be a release from the ESOP charged from August onwards. So, they are going to be for five months, we will have ESOP charged or beyond for seven months, we are not going to have that charge. So, there is going to be some competition in that.

Sharda: And what about increased compliance costs?

T.N. Arun Kumar: Increased compliance costs, is going to be.

Navin: Sharda it's Navin here. Our employee cost on year-on-year basis will be what it is in FY19 so FY20 will not show any kind of major increase in the expenses maybe 2-3% here and there.

Sharda: Okay. And sir just lastly. Sir just last question, is it possible to share how much is the discount you were mentioning in terms of pricing versus peers which you want to narrow now?

Management: Quantification of discounts is not what Arun was pointing towards. It was something larger in the sense that for clients, pricing is actually determined by the market forces. As we mentioned, the concept of passing on the higher cost to the clients doesn't happen. So, what we mentioned in terms of discount was that today, if there could be a rating on three instruments of a particular client, possibly we can increase that coverage and to the extent see that any of these three instruments get repaid, automatically the fees from that would not be there. But if on a continuous basis if our wallet share for a particular client keeps on increasing, to that extent we can guard against the slippage in the revenue from that particular client. It has to be seen from that point.

Moderator: Thank you Ms. Sharda. We have a question from Raven Chalagala. Please go ahead sir.

Raven Chalagala: I am calling from Hyderabad. Okay, now there are couple of things that I found disturbing in some of your answers. I think it was to the very first person who asked the question, you said there was nothing wrong done by CARE Rating? Now, I am not getting into the fact, that there was corruption or anything of that. But there is clearly wrong, done in the sense there was not proper due diligence in the ILFS thing. There should have been a proper due diligence and a correct rating given over there that was wrong for whatever reasons, okay. Now, because of that you may be incurring huge legal fees from the lenders to ILFS I don't know if they have sent notices to you maybe it's in future or maybe not, I don't know, but definitely there as maybe SEBI will also put penalties. Is the SEBI matter closed or there are still penalties in future that we have to be scared off?

T.N. Arun Kumar: See ILFS about rating whether we did the right thing or not? The regulators are looking into it and I would not like to comment on it unnecessarily. Having said that in terms of the cost or whatever we think is a maximum penalty in terms of one crores we have already provided here, in terms of that is for with respect to ILFS only in terms of adjudication with SEBI. So, that has already been provided so, we don't expect any more further at this juncture, any further legal expenses and loss and all that on ILFS.

Raven Chalagala: So, any of the lenders to ILFS have sent you notices?

T.N. Arun Kumar: No.

Raven Chalagala: Nothing of that sort off?

T.N. Arun Kumar: Nothing of that sort, no.

Raven Chalagala: Okay, that's good to know.

T.N. Arun Kumar: As a regulator SEBI has got the right to question us, they have questioned, we are cooperating with them and it's going on their dialogue and the processes on?

Raven Chalagala: Yes, my share was some of the mutual funds who took bonds of ILFS. And, they could send you notices saying, look you gave a wrong rating and we subscribed on that basis.

T.N. Arun Kumar: Yes, technically, theoretically they can do that, we have not got any and with everybody we need to understand that rating is not a recommendation to buy, it's not a recommendation to invest or lend to somebody. So, that is the case we are fully aware, we are fully cooperating giving all information whatever is required we are put in place a lot of learning from there. So, we are improving other processes so that such things don't recur. And obviously with specific reference to ILFS I would not like to anything not action or comment anything more further.

Raven Chalagala: No, that's all right. But you know, what they say probably the stables have to be clean, right? Already two of your top guys have been asked to go on leave or terminated. I don't know, what's the real thing. And when the grant Autumn report came out, I know you had sent an email to all the investors. But, I would like more emails or more information, see there are whole lot of employees are involved in this? It's not just the top two, right? There a whole lot of analyst, managers who are all involved in reviewing all these things.

T.N. Arun Kumar: There is only one, this other one is another agency not us there's only one from our side.

Raven Chalagala: No, I am talking about the employees in your organization who were involved in the ILFS for instance, the analysts of your company or I mean, there's a lot of mistakes made by a whole lot of people from your organization. Right?

T.N. Arun Kumar: No, see the current matter where Mr. Mokashi is being asked to go on leave by the board? We don't know what is the complaint it's a whistleblower complaint. So, there is no link to IL&FS as well.

Raven Chalagala: Yes, that a letter to SEBI that is.

T.N. Arun Kumar: Yes, so there is no link. We don't know actually; we have to get into the matter and we are trying to get into the matter.

Raven Chalagala: Okay, that's fine.

T.N. Arun Kumar: There is no two employees here. He is the only person who is involved here in terms…..

Raven Chalagala: I thought, maybe I am missed informed I thought two employees were asked to leave.

T.N. Arun Kumar: No, the other one is from another agency.

Raven Chalagala: Okay, got it. Now, I am a little perplexed regarding the market scenario. Now, the economy hasn't been doing well from the last one year or one and a half years now. Now in such a junction my personal expectation is that the corporates borrow money, businesses need more money to tide over the bad times so they borrow IPOs, of course will come to zero because when the market is bad no one is going to come out with an IPO. But people borrow money by way of bonds or bank borings or whatever businesses have to borrow. So, I would expect actually the market scenario to be better. Am I wrong? Or am I missing something?

Management: See we are talking in terms of bonds, normally you issue bonds to finance investment. Now in this you can come in for manufacturing or you can come for infrastructure. So, what you are talking in terms of saying that company have to borrow that could probably apply in for working capital purposes like business have to keep on we are not closing down. But talking on bond market we are actually require people to borrow for investment purposes and today, we see that investment is not being undertaken by companies because they have excess capacity or you are not getting into infrastructure not much private investment going into infrastructure its more of government investment which is going. That's what the reasons why the bond market has been fairly stagnant and as I mentioned sometime back that the NBFC had been larger borrowers in the past 70-75% of issuances comes from them which is used for refinance on other people in the sense the financial takes place. NBFC is also getting into this kind of rush, we have seen that there has been a slowdown in terms of their borrowing. So, we cannot really take it for granted that the bond market is going to grow, so I take a point that when we are talking in terms of working capital that will probably be have to be an ongoing process. It is something I am not closing because there is a slowdown in the economy.

Raven Chalagala: So, what you are saying basically that capital investment will come down so the borrowing will be less on that sector? It's only the working capital that will go up?

Management: Exactly.

Moderator: Thank you. We have a question from Mr. Abhishek Pameja from Vibrant Securities. Please go ahead sir.

Abhishek Pameja: Sir the rating industry and the regulations which are there. So, under the current regulations, firstly, what can be the maximum quantum of penalty which can be put on a rating agency? And secondly, our rating agencies under current regulations protected from litigation and if you can throw some light on these two points?

T.N. Arun Kumar: Okay, rating agencies are governed by SEBI regulations. And SEBI Act provide for kind of a penalty and on adjudication with SEBI can come in. Maximum penalty as per the act is one crores, penalty ranges from 1 lakh minimum to 1 crores is the maximum that is what is provided by the SEBI Act.

Abhishek Pameja: Okay, so, this is the maximum penalty which SEBI can put us 25 crores. But you are talking?

T.N. Arun Kumar: No, I am not aware of any other provision, this is an adjudication, SEBI does start an adjudication process where the maximum penalty is 1 crores as per that section 54 B or something it was provided in the act.

Abhishek Pameja: And secondly in terms of protection from litigations?

T.N. Arun Kumar: See we have, because SEBI is our regulator since under jurisprudence concept SEBI would be the right person to go through. So, we do have complaints, there is a portal on complaints which we get and we answer those complaints and SEBI look at them on an overall basis. So, SEBI is overall regulator so there are CRAs does not practice of direct litigation by investors and funds.

Abhishek Pameja: Okay. So, in the past, there has not been any instance where in the rating agency in India has been particularly the suit has been filed against any rating agency for any wrongdoing, which has happened, it is the relator only who takes action. So, does the regulation protects us in that way the current regulations, we don’t know what would be prospectively but the current regulations which are there?

Management: As far as regulatory environment is the considered the concept of rating actually understood from the angle that it is only an opinion which has been given, it is not a recommendation to buy or sell security or to lend or recall loan for debt. All the stakeholders they need to understand the role of the ratings which have been assigned from that angle. So, we will like to restrict ourselves at that in terms of our comments.

T.N. Arun Kumar: And then SEBI is obviously this is all there in SEBI this FAQ and rating what are credit ratings. So, it is clearly mentioned about this aspect, it is not just what we are saying is what the regulatory is saying about the limitation or what a rating would mean and what it will not mean.

Abhishek Pameja: Okay, and another thing is that whatever revenue which a rating agency gets and if that revenue is basically been due to some laxity, which has been done by the rating agency, then the current regulations do we need to again pay back that amount to the regulator in the form of penalty or something like that?

Management: Yes, **a**s we mentioned the penalty there is a maximum amount which has been stipulated as per the SEBI Act which is one crores as of today as per the SEBI Act today nothing else.

Abhishek Pameja: That answers my question, thank you sir. And another thing is that we have basically filed our results and these are not visible only and thing is not the first time it has happened but previously also we assume that the scan copy but the you have a big organization, and I don't think you don't have the resources. But the thing is, it is not at all visible.

Management: Sorry for that. We regret that your point is absolutely valid and will ensure that all the further upload anything on this regard we will take care on that, we sincerely regret this?

Abhishek Pameja: Sir seriously this has not happened for the third time, this is I think the second or third time if I am seeing that things are not visible only.

Management: Okay, fine noted. I will definitely take care.

Management: Thanks for your feedback we will correct it.

Moderator: Thank you. We have a question from Cyrus Dadabhoy from Centrum broking. Please go ahead.

Cyrus Dadabhoy: Just a couple of questions. One any guidance on revenue?

Management: We don't, have the practice of that. We don't give guidance. Only one point is that about the deferment of revenue we would say that overall, in terms of the thing will make it in the further quarters. Because, again, I am repeat that quarterly revenue performances.

Cyrus Dadabhoy: Yes, basically the BLR going down, so BLR to my understanding is a higher fee product and therefore, you would expect that once BLR comes back, you would expect some amount of margin accretion to happen.

T.N. Arun Kumar: No, BLR is not higher the bond market will be the ultimate, ultimately higher profitable segment. But BLR going down does impact our initial revenues, initial volumes and revenues.

Cyrus Dadabhoy: Okay, second question is what kind of investments have we been making to improve the risk analytics and the process essentially?

T.N. Arun Kumar: See we have invested in things like the market intelligence is very important nowadays. So, we have invested or we are investing in this. And also, within the company we have workflow processes, which are being refurbished and modernized. So, that there could be quick response to things and they could be data where quick response to things and easy performance evaluation metrics are possible. And lot of it is actually done with a semi-automatic fashion, which we want to make it fully automatic. So, this is another way and obviously, we have a data warehousing system, that is already there, but there is a plan to make it kind of integrated system of entire rating office.

Cyrus Dadabhoy: So, could I ask, do you track the correlation between pricing in the market on your outstanding ratings versus the rating that is assigned?

T.N. Arun Kumar: Yes, we do we do.

Cyrus Dadabhoy: Is that published somewhere?

T.N. Arun Kumar: It is been stipulated we don't publicly mention it, but it is analyzed because SEBI has also asked us to analyze the bond spreads. So, we do analyze bond spreads operating vis-à-vis, what is the say a benchmark spread like a FIMMDA spread and all.

Cyrus Dadabhoy: So, would you be able to throw some color on that or is that?

T.N. Arun Kumar: We are on track on that, there is no deviation, there is no significant amount of differences between the market spreads and our spread. We don't see any difference in that.

Moderator: Thank you Mr. Cyrus. Due to shortage of time we are taking one last question from Mr. Kunal Bhatia. Please go ahead sir

Kunal Bhatia: Just a couple of questions. One, I wanted to understand if we have appointed a new CFO in place of Mr. Agarawal?

T.N. Arun Kumar: Selection process is on at this juncture so and when we finalize, we will let you know.

Kunal Bhatia: Alright and is there a specific timeframe within which we can find or appoint a CFO?

T.N. Arun Kumar: Normally six months period is there, but here we will be doing it much earlier.

Kunal Bhatia: Alright. And my second question is a bit of interlinking question was, we mentioned that it's primarily an investor driven market and they go for the highest quality products. So, given that the reputational impact that we have had in the last few months, how do you foresee it adversely impacting our operations going forward and what we will be doing to mitigate or negate that impact? And that was while, sorry please go ahead.

T.N. Arun Kumar: No, you go ahead and finish it.

Kunal Bhatia: And link to that was while we have mentioned that we are not losing any market share in terms of the number of volume or assignments that we have rated, but looking from a consolidated industrial revenue or profit wise situation, we see that the share has been going on even on a Y-o-Y basis from 2018 to 2019. And what share of revenue or profit be a better metric to try track in terms of market share rather than just the volume of debt or assignments that we rate? Thanks.

T.N. Arun Kumar: We track market share on both revenue side in terms of annual revenues and the number of ratings assigned under different segments that's what Mehul was coming to in terms of thing that we have maintained or we have slightly improved or so over the others. So, that is what our numbers say. And as I mentioned, there is no link between the two because the revenue doesn't go up proportionately to the volume reiterated. So, these two are not linked to each other. And to answer your first question, we need to, we are going through this phase now and we are going to execute this to study this investigation. And we are in constant touch with our investors with our debt people, debt investors who are our main users to clarify their situation because there is a lot of misconception and misreporting which has happened including some reports come on all agencies. So, our duty is to clarify the real situation, what exists and what our perspective is on those while we are formally writing to people formally writing to them about whatever findings in the report, which we have already one brief press release has already come out you might have seen on the Grant Thornton report. So, our duty is to also meet and explain in person so that that work is on, on a continuous basis.

Kunal Bhatia: Understood and my final question was, given the state of downgrade that has been happening, is it also impacting or are we losing clients or assignments because of that?

T.N. Arun Kumar: See, the downgrades have been is an industry factor it is not just us it's the entire rating industry which has to since we do have to reflect the market credit. You know, what is the corporate credit quality it's our duty to keep adjusting ratings as per what the actual situation is. So, since the overall market phenomenon it is just not restricted to our rating.

Moderator: Thank you, Mr. Bhatia. I now hand over the floor to the management for closing comments.

T.N. Arun Kumar: Yes, no specific ones. I have covered a wide range of questions and just have to say that don't just merely go by the quarterly numbers and these are based on various factors, which will definitely make it up in the next few quarters.

Moderator: Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using iJunxion Conference Service. You may please disconnect your lines now. Thank you and have a great day.