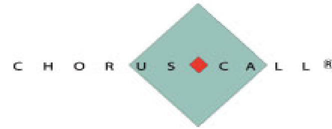
# "CARE Ratings
# Q4 FY2019 Earnings Conference Call"

## May 22, 2019



**ANALYST:** **MR. ADITYA BAGUL – AXIS CAPITAL LIMITED**

**MANAGEMENT:** **MR. RAJESH MOKASHI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – CARE RATINGS**

**Moderator:** Ladies and gentlemen, good day and welcome to the Care Ratings Q4 FY2019 Earnings Conference Call hosted by Axis Capital 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 call, 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 Mr. Aditya Bagul from Axis Capital Limited. Thank you and over to you Sir!

**Aditya Bagul:** Thank you Neerav. Good morning ladies and gentlemen and a warm welcome to the Q4 & FY2019 conference call for CARE Ratings Limited. Joining us on this call is Mr. Rajesh Mokashi, MD & CEO of CARE Ratings and other senior members from the management team. I shall now hand the phone to Mr. Mokashi for his opening comments, post which we will open the floor for Q&A. Over to you Sir!

**Rajesh Mokashi:** Good morning to all of you. I think this is amongst the history of the rating industry some of the most difficult times for the bond market, debt markets, credit markets and I think the rating companies have coped up reasonably well with these challenges including CARE Ratings and I would like to assure the inventors that CARE Ratings has held on very tightly to its market share in a broad sense, marginal plus minus does not really make a difference in a state like this because if you look at our standalone topline on ratings has been nearly around 300 Crores and one of the big rivals calendar year results were around 320 Crores, it is not much of a significant difference. The other rating companies' numbers were around 230 Crores, so we are bang on plus minus marginal variations do take place, but that is not of any material nature.

In a state where the second half of the last year was completely in a difficult state because of the NBFC issues, liquidity issues, which cropped up, subsequently they hit the mutual funds, they hit the refinancing of companies, companies also went in to a sort of a pause mode as they waited for the new government to take charge and that is I guess going to happen, tomorrow the new results of the elections will be announce and that I think should be a very significant event for the market, We have seen the market react a couple of days based on the surveys and things like that, but I guess the markets will even more strongly react when the actual results announced and whatever government comes into power is a stable government as all of you expect to come in and that should swing into action to kind of address some of the challenges that are there in the Indian economy and I am confident

that whichever government comes to power will cease the opportunity in transforming these markets and the challenges which are coming in and that should eventually augur well for the rating companies. So well our operating margins are marginally lower, but I think in a state like this these are not significant number changes, we are still very firm on our footing as a fundamental challenge in the market place vis-à-vis competitions and the Board of Directors has announced a dividend of Rs.12 per share for this quarter. So the total dividend goes up to something like Rs.30 per share, which signifies the confidence they have in the business model of the company and otherwise it is a very interesting part I must say that is that we have gone more in a organic sense as far as our non-rating businesses are concerned and in fact it is pleasantly positive for us to see that one of our subsidiaries have started firing correctly and for the first time its topline is nearing 15-odd Crores, others are also growing steadily all are profitable and that augurs well for us to bring in that much expected sort of non-rating income in some way and that eventually which is build more or less organically I would use the term and that augurs well for us in a year where our standalone results were more or less flattish. I think the total income growing by 3.19%, the operating income growing by even near about 2% is a commendable performance that the company I would say has given and future really rest on how the debt markets and the bond market shape up. Yes, there has been a temporary blip in the market because of liquidity and other issues, which have cropped up I am sure they will be addressed by the regulators in the government and the economy will be growing at a rapid pace and that should augur well for the bond markets and the rating agencies as well.

With this I will request the analysts, investors, whoever are there on this call to one-by-one raise the questions and our management team is ready here to answer all the questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of shradha sheth from Edelweiss. Please go ahead.

**Shradha Sheth:** Sir if you could just explain it has been two consecutive quarters where it has been a sluggish performance for us, understand industry also has been slow, but bond issuances have picked up in the last quarter and also in terms of relative performance also it has been two quarters for us versus the others where it has been a muted kind of a trajectory and even within this if you can explain what is this underlying 14% decline led by, is it because of BLR or CDR and is it because of NBFCs entry into securitization, which is eating away

one of our other income sources, so if you can just explain what is leading to this kind of a performance?

**Rajesh Mokashi:** Yes, if you look at our first two quarters performance we were reasonably better of I would say compared to our competition, but in the last two quarters yes there has been impact of a slowdown, which is coming in as the NBFC issues cropped up, liquidity issues cropped up and that can impact in terms of the growth that takes place, but again I would like to not read too many things because we saw the mutual fund crisis, which then came in where mutual funds became risk averse and soft the incremental investments flow from their side declined going forward. So those things does affect both the bond, there was a risk aversion part on the banking sector also, so the tendency of flight to safety where most of the investors then try to get into the AA, AA+, AAA brackets and only lend to those known parties can impact the general business flows and the fund raising by companies. So there were if you see the overall volume of debt rated it appears to be high but those volumes are all picked up in the first two quarters of the last year and the last two half the volume of growth has actually declined. So in a way it can be mix bag, you cannot really blame a particular sector that NCDs of bank loans it is across mix of issues which cropped up which could have led to a bit of a decline or slowdown in the growth of the business. But nevertheless the fact that we have at least achieved a flat trajectory vis-à-vis the marginal growth that we achieved last year in a difficulty is commendable. I would say that and some part of the business you are right in the sense shifted to the securitization space, but that is not a normal securitization, it is more of a distressed securitization where NBFCs, which were suddenly startled with refinancing issues then started using the securitization route to fund the liquidity needs and there seems to be a structural change in the NBFC space where some of the NBFCs are becoming banks, some of the NBFCs are being sold to banks, some of them want to become banks. Going forward again the thinking looks to be that NBFCs are talking about the originate and distribute model rather than raising money on their own balance sheets. So the securitization trends probably will continue going forward, but it is very, very difficult to pinpoint it, I have seen that both the NCD segment, the bank rated segment did have an adverse impact going forward, but otherwise again I would like to say that going forward one has to nearly go by the policy announcements and the restoration of confidence by the new government that will make a difference, eventually debt markets are here to stay. Capex cycle, which had sort of almost frozen and if I would say, say so will start bouncing back as, in private companies will start doing capex once the new government comes into power. Whereas in the past what has happened is volumes

have grown up, but these are all sort of very large companies with a certain ticket size, PSU companies, which where the fees are an issue in terms of commensurate volume growth increase so that affects the second half, but I do not read too much into it because again as I said if you take a sigma of what my rivals have done I made a comment in the opening remarks 300 Crores is what CARE is, 320 Crores is a calendar year number for the big rival and 230-odd not material differences that it can happen because of the mix of business each one does or the focus each one has. So I would say that the future depends on the bond market, the credit market and that has always been the fundamental for a rating company. So in its very challenging year to hold out is a big achievement I would say that.

**Shradha Sheth:** Sure. Sir, you are saying there was a hit in both the segments, banks loan as well as debt ratings right because of this slowdown?

**Rajesh Mokashi:** Yes.

**Shradha Sheth:** And are we seeing any green shoots in any of these or we see this kind of a scenario still continuing for a few more quarters?

**Rajesh Mokashi:** I would say that there could be as I mentioned I touched upon the NBFC model again, I have always very strongly believed in the NBFC model because if you see the asset quality issues of NBFCs you found most of the larger NBFCs with very low NPA number. So they always had a challenge of raising refinance, they were very good on the asset side, but they were weak on the liability side because they dependent on the capital market and the bank loan segment. Now if these two segments certainly sort of fall off or reduced interest or bit of fear psychosis then it affects the NBFC, but nevertheless the NBFCs look to be readjusting the model to look at securitization or originate and distribute as a model because banks are flushed with funds because all the deposits flow to the PSU banks or the private banks as such. So that there could be a structural shift going forward as per the models are concerned. Securitization is here to stay that RBI has also come out with a panel now to further give a boost to the securitization market, the study I am sure they will submit a report and that should make a securitization a vibrant kind of a market in India, which is all the ingredients to succeed going forward because that will permanently address the structural mismatch problem for the NBFCs going forward and of course bank credit has to take off because deposit flows keep on happening in the banking sector and the banking sector will have to kind of gradually start lending money to the corporates, which again, which have been waiting on the borderline to figure out the way forward based on the new

governments coming in and that should then start giving a capex boost. The capex boost was really on the public spending, which like infra and things like that so that should also get addressed going forward.

**Shradha Sheth:** With this new readjustment of models how do we see statutory growth for the industry?

**Rajesh Mokashi:** I would say that this year again if you see that by the time the government comes into power the first quarter has gone, so we are left with only the three quarters for the full year. So it all depends on how fast the markets bounce back or how fast the government really takes initiatives to open up the economy or give early boost and those signals will then give the confidence for further bond ratings are taking place. Otherwise typically the bond ratings from the financial markets in India takes place somewhere in the third and fourth quarter. So it is a bit of a wait and watch because they are the blockbuster quarters for the bond markets whereas they have not been so good in the last year, last two quarters have not been so good in terms of fund raising. So I think let us wait for the new government to come to power, it will be otherwise all of us know where the state of the economy is at this point of time or what the financial markets are at this point of time and my guess is the new government stepping in will give that additional boost to give the confidence and then we kind of swing into a different territory. Maybe I could better answer this question in the next call is what I would like to say.

**Shradha Sheth:** Sure. Sir and on the securitization again, this is an additional source of income for us, right or is it like substituting into our other source of income, how do we see this because this is definitely not profitable as well?

**Rajesh Mokashi:** If company raises, an NCD pays me fees and originate the asset. If there is securitization the asset will pay me further fees, but if new fund raising is not going to be there, NCD raising is not going to be there instead of only securitization is going to come in then it is a onetime fee coming in, but nevertheless both are methods of financing and in the last year the securitization was more of compensating for the loss of NCD raising and trying to go to the originated distribute model and use securitization. So there is a bit of that maybe I would say that securitization has helped us to kind of stay into this reckoning at that point of time, but as we go along the basic model will change, I see some new NBFCs recognizing the vacant space or vacant space created stepping into the NBFC area and the growth will pick up because mortgages, car loans, truck loans, all these are sectors, which

have fared very well, the asset quality has been numbers have been very low and that always is a attractive segment for financial sector players.

**Shradha Sheth:** Sure and Sir lastly on this margin for us. As you had in the past said the regulatory costs have gone up and of course our margins have been very high compared to all the other players, so how do we see the trend ahead for us for margins?

**Rajesh Mokashi:** It is true that the regulatory compliance requirement have increased and naturally we have to kind of respond to this by having proper systems and even more people wherever required and that is what we have done in fact there has been a reasonable addition of people last year and unfortunately this is all happening in a year when the topline is not growing at a pace that is expected then it all reflects in the margin. If a topline were to grow by say 6%, 7% whatever then it does not have a margin compression coming in. I have always maintained also that rating agency margins are driven by a term called operating leverage in a very, very big way and in the last one or two years I have seen that the operating leverage effect not taking place because the revenue growth numbers have not been as good as they have otherwise been. So, but going forward again I would like to believe that as the economy bounces back the bond markets come into play, the credit offtake starts improving, the operating leverage also come into play and the operating leverage increases the margin whereas the mid ticket and the smaller ticket companies reduce the margin. So end of the day I am quite hopeful that yes there is a temporary area where we have seen the regulatory cost or the employee cost go up because of the regulatory submissions or take platforms and things whether that we are investing right now. I would like to say that there is another component of the salary increase that was also they have not just driven by more employees, but we saw a bit of increased attrition in our companies in the medium and junior categories and because of that we had to address a bit of revision in pay packets also and that also was one of the factors because we could not wait for March 31, we had to do it somewhere likely before that, so that is also one element, which increased the employee cost. If you look at it the ESOP charge also increased by 4.09 Crores last year, but next year it should drop down to something like from 12 Crores last year it will drop down to 6 Crores so that is one element of cost that is fairly visible going forward, but the employee cost will have some bearing. We are further looking at increasing more manpower to align ourselves with a new regulatory requirements to be footprint so that strengthening of what you call as audit departments with more people doing vigilance and keeping a track on compliances and all those things. So that definitely we are very clear some of the experiences, which we had in the last one year definitely we

want to completely make it kind of a extremely strong state where our compliances and other things are so rock solid for that we need to invest money, investing the people as such, so that will be an element, but I would say that our margins are still higher than competition and some element of moderation in margins is inevitable, but my own belief is that this is going to be more of a temporary nature because as the operating leverage starts firing the margins may actually start improving that is my hope because that is what I have seen in the past if you see the past history where there have been years in which the margins have actually increased, now why should the margins increase in the first place so operating leverage comes into play.

**Shradha Sheth:** Right Sir. So, if you could share what is the kind of investments, which will go towards employee additional investments were improving our regulatory requirements?

**Rajesh Mokashi:** I would again say that there are normal increments taking place and those special revision in pay packets, which we did last year that had an impact of around couple of Crore because if you do couple of Crore additional, because we had a two months impact on that. Now if this two month impact can be extrapolate for the 12 months one can easily figure out that. For two months we have 2 Crores so it should correspondingly increase for the next full year because of that part, but otherwise there are normal increments, which are taking place and if you see the history of the company that is something like 7%, 8% as a kind of a general increments, which come into the company, but again all those things bring down what you call plus I think last year we had around 40, 50 people extra hired, 50 people. So I think going forward also we need some set of people, please understand that the attrition level was also high so we had to create some buffer. So in a steady state kind of a situation we do not end up creating buffers, but these are situations where we would rather carry a buffer of little bit of extra people and try to manage the negative impact of attrition. So I think it is a bit of mix bag. So it is difficult to pinpoint a number, but I have given you enough data to kind of figure out how it can be done.

**Shradha Sheth:** Sure. Sir you said 2 Crores was the impact of that regulatory cost, right?

**Rajesh Mokashi:** It is not regulatory cost; it was to address the attrition we had to increase the salaries of people below a certain level that was roughly 2 Crores.

**Shradha Sheth:** For the last quarter?

**Rajesh Mokashi:** Yes, two months.

**Shradha Sheth:** So this kind of increase we can further build in?

**Rajesh Mokashi:** It depends on the mix of people again, but that is what the fact of last year.

**Shradha Sheth:** Sure and Sir lastly what is our employee strength post this 40, 50?

**Rajesh Mokashi:** 855 was March 31, 2019 number.

**Shradha Sheth:** Sorry.

**Rajesh Mokashi:** 855.

**Shradha Sheth:** Okay great, alright. Thank you Sir.

**Rajesh Mokashi:** Thank you Shradha. I think Shradha you had taken everybody's questions because you have completely done the research report in one go.

**Moderator:** Thank you very much.

**Aditya Bagul:** Just a couple of questions from my end. Firstly in the last budget speech we had various regulatory measures around deepening of the bond market, which included 25% of the total borrowings had to come from the bond markets for large corporates and there were some provisions for insurance companies also to go one notch below when it came to their investment book. So can you elaborate a little on how this has played through over the last one year and do we see a meaningful improvement in this in FY2020?

**Rajesh Mokashi:** I think in the right earnest the government and the regulators wanted to encourage what you call increase dependence on the capital market and that was in a right sense that because in the past too much dependence on the banks, bank loan market has had impacted the banks in some way and that probably was a thinking that we need to diversify the funding sources and increase capital market activity where even a foreigner can actually come into the investor into the capital market. The foreigners are of course allowed in this investment in bonds in our country, but in the last six months the developments in the capital markets of the NBFC space have hampered the development of these particular concepts and probably I would say that awareness of various categories, concentration risks, diversification risks,

all those things come into play and obviously going forward my belief strongly still there that on a risk adjusted basis obviously everything performs correctly so I think some of the events in the past have raised issues on concentration and other things which come into play, but again from the macro perspective the growth of the capital market is essential for any economy to develop and I would say that a bit of a slowdown has been a bit of a temporary blip I would say that, but eventually the markets will bounce back because they were keep on generating the savings every day or every month or whatever to say and these have to be deployed in the economy to earn the spreads of the bank and run its operation profitably, the bank cannot keep the money in treasury and earn a negative carry. So as project starts becoming available as what you call as economic activity picks up that should get addressed, confidence will restore back and that should eventually lead to the progress of the economy.

**Aditya Bagul:** Sure, this is helpful. Sir and just one last question from my end. Can you talk a little on some of our key subsidiaries like CART you of course talked about it a little in your opening comments, but if you could talk a little more saying what are the areas that we are getting into be that in terms of advisory or any solution based offerings, so if you can just highlight a little on what we are doing on that front?

**Rajesh Mokashi:** I think our subsidiary CARE Risk Solutions is a biggest subsidiary with a topline of around last year of around 15 Crores, topline for CART at 3.5, Crores for Africa, at 2.54, Crores for Nepal, so roughly 2 Crores, all are profitable absolutely and the CARE Risk Solutions was the one, which showed 60% growth and I think the future trajectory because this is more of a risk management IT solutions company and that has suddenly picked up speed and its major operations are in Sri Lanka, Middle East, Africa and bit of the operations are in India and this I would say its solutions are credit risk, markets risk, IFRS implementation, some of these are exciting things and has huge business prospects. CART is basically our subsidiary, which does advisory research and training and it is into TEV studies, research studies, trainings, all those things are part of that particular company whereas CARE Ratings Africa and CARE Ratings Nepal or joint ventures where CARE Ratings is a majority shareholder and CARE Ratings Africa has even African development bank as a shareholder. There local Mauritian large banks affiliates who were investors in that company. Nepal again is a joint venture where local investors from Nepal are roughly 49% shareholders in that company. So all these are viable profitable companies and the growth rates are expected to higher, but I would say that CARE Risk Solutions offers the best hope for us that next year the growth will be even better. So the investor community or

analytical community has always been raising this issue that you are too much focus as a pure rating company. I think we have worked very hard towards efficiently deploying capital to ensure that our non-rating businesses also start coming up in a big way and they would promise I would say that this is just a beginning and the growth is very rapidly going to go up and as a management we have very high hopes that they will bring that element of non-rating income, but more importantly I would like to say is that the credit markets are the lifelines for any economy and you cannot undermine their role I would say the role is even bigger than the equity markets because if you talk of a gearing of say 2:1 or 3:1 on an average broad base basis that means for every rupee of equity raise there is three times debt raise by the economy. So debt markets will far more bigger role to play and this is where the rating agencies will step in because eventually we are going away from a system of banks playing a big role in financing capex plans of corporates and banks will play role more on mid cap and small cap companies like they do elsewhere in the world and the capital markets then take the risk in a proper way. So this is where we are going forward and this is where I think inevitable even despite the bit of a blip that we have seen, I think the future is inevitable on these areas and this is where I expect things to pickup in the future.

**Aditya Bagul:** Sure Sir. That is very helpful and all the best for the quarters to come.

**Moderator:** Thank you. The next question is from the line of Arun Malhotra from CapGrow Capital Advisors. Please go ahead.

**Arun Malhotra:** Just wanted to check because of regulatory concerns and lot of talks about rating agencies being lagging behind the crisis in most of the situations, is there a threat to the business model of rating agencies primarily because the issuers are paying the rating agencies, so inherently there is a conflict between the two?

**Rajesh Mokashi:** I think this has been a kind of an issue raised by various commentators from time-to-time and without doubt the American economy went through this massive crisis in 2007-2008 where the subprime crisis erupted and the rating agencies were questioned by the regulatory authorities there, but eventually what happened was that, I am going by the empirical evidence, I will share what we are aware of the dialogues taking place in India also, but eventually as much I understand the rating agencies went ahead left, right and centers strengthening the processes to far more quantitative driven, far more numerical objective driven and that is the way the transformation took place. Today the rating companies in

America are vibrant and growing and that is the reality the crisis did structurally transform the markets out there. So my guess is that there has been a challenge on this issue that rating companies are slow in terms of the response to certain situations, which come in and unfortunately I would like to say that some of the situations, which get highlighted are those were far fewer than what situation the rating agency picks up correctly, only thing that the attention it draws is far less on where we pickup correctly. Anyway that apart I think the Indian regulators we have been reading the newspapers on this that the issuer pay model, the investor pay model all these are being deliberated and I am sure the regulators SEBI and RBI are cease out the matter and with various stakeholders they will consult them and figure out whether there is any different model, but the empirical evidence clearly points out that in America that despite such a huge massive crisis that happened there the rating agencies came out of it and have changed their methods of operations going forward and made it more objective less subjective they are more quantitative driven, in fact I have seen that our own regulator has been very, very proactive and has been issuing new guidelines from time-to-time to the rating agencies earlier there were something called as there is nothing like a material event review. For example if quarterly results are announced or a rival rating agency elsewhere downgrade the ratings those were not material events, but today if a rival rating agency downgrade their rating or change the rating, I require to forcefully review the rating. So several other key triggers have been introduced by our regulators out here and I think the whole dialogue I would say is that only to strengthen the rating processes to make them far more responsive, accountable for whatever they do, conflict of interest minimization is again a massive, massive effort, which is going on and I am sure post this transformation that is there our rating companies will also come out much stronger than what they were before and flourish and grow because most western market still depend heavily on the rating companies because markets without rating companies is unthinkable I can understand a bank loan market can exist without rating agencies because the banks can do their own assessment, but in a capital market unless you have any clue on the credit quality how can two part is trade in the capital market, there is no third commentator on the thing. So I think that is essence of a bond market and all of us agree that the future really depends on how vibrant the bond market develops in. So I think it will be an essential part of the infrastructure, but I would say that the rating companies the way they work, the way they be transparent and the process they may undertake will be completely different and they will transform in the next few months or few years I would say that this whole industry will change for good and for better.

**Arun Malhotra:** Sure. Is there this issuer pay model or investor pay model across the world, what is the pattern, is there any country where the investor pay model exist?

**Rajesh Mokashi:** I distinctly remember long, long years back some 30 years back there is to be a gentlemen called Mr. McCone who is to do investor pay model in Japan, but even today the two Japanese rating agencies JCR and RNI are the ones, which formidably do the ratings and this becomes some kind of a private service by this gentlemen even his debt score for example nobody prevents Mr. Altman or whatever debt score for being decimated as a research score or a fee, but that does not constitute the rating in anyway. That would be a research score, but even today a country like Japan has those two big rating companies, which are regulated and practically do most of the ratings that are done in those countries. America is completely driven by the big three rating companies.

**Arun Malhotra:** Lastly the other two rating agencies in India are now majority or governed by the MNC the global rating agencies, we as a standalone entity with no tie-ups or with no equity stakes do we face any structurally any weakness in terms of getting more business or rating companies, the rating process on the business side?

**Rajesh Mokashi:** There will be some differences in the way the global rating agencies and their subsidiaries operate they may have the benefit of certain processes, which are there or certain affiliations, which are there, which can be recognized in the Indian market in some way because some foreign banks may prefer rating agency, which raise its parent elsewhere in the world also some of the things do happen and one cannot deny this fact, but nevertheless as I mentioned at the start of the presentation that are the homegrown agency, which was setup by IDBI and institutions like UTI and other people and today I think LIC is our one of the biggest shareholders even CRISIL is the shareholder in CARE Ratings you are aware of that.

**Arun Malhotra:** Yes I am aware.

**Rajesh Mokashi:** I think all in all CARE has fared well despite the so called multinational competition and CARE has to take the inputs from various consultants and other people if it wants to further strengthen its process and based on that it can only today information knowledge is available across the globe it is not something that I have to join hands with the international rating agency in fact we are also partners, we have an MOU with a large Japanese rating agency called Japan Credit Rating so there is a mutual dialogue on understanding certain

aspects which take place for both of us, but incrementally yes we will be working hard to transform our company, further learn from the best practices, further augmenting our strengths and similar to what happen in the western countries get far more objective, which is model driven or strengthen our process in such a way that it is clinical in nature and our reaction times are far, far faster than what ever before.

**Arun Malhotra:** Sure Sir. Alright. Thank you.

**Moderator:** Thank you very much. The next question is from the line of Gaurav Jani from Centrum Broking Limited. Please go ahead.

**Gaurav Jani:** Thanks for taking my question, I sorry I joined the call a bit late, but if you could just throw some light on the revenue growth going forward and how do we map it and what sort of a metric do we look at for revenue. I will just have some other questions, but if you can just answer this question? Thanks.

**Rajesh Mokashi:** I think revenue growth as we have seen for the last several years is a function of the capital market growth and the credit offtake growth and that has been a clear correlation between these two is more or less established for the last if you see the last few years data. In this current state the Indian financial markets are in a bit of a transition to make a clear focus at this point in time will bit hazardous or risky for me, but nevertheless I am quite bullish that the new government will be sort of announced based on the results tomorrow and a strong and stable government will come into power and I think I have never seen so much proactivism on the part of the government authorities, the regulators to learn from these situations which are there bring in reforms, bring in tightening of regulations and focus on growth. As a nation I am sure the previous government also worked very hard to make the FDI very attractive the foreign flows attractive so all those things with a nation of 1.3 million people I think the growth is the only dimension, which is there. So I am quite bullish on the growth part of it and that is translating into better growth for their credit markets and eventually the rating agencies will have to pay the due in correct role in these markets to going forward. So a absolute number giving is a little difficult for me at this point of time, but if you look at GDP growth of 7% or 8% whatever people are now even bullish that if strong governments comes into power they will push the economy growth rate to even 8% because that gives an extra mandate for doing that. So all those things then going forward will translate into better growth of capital markets and bank loans and that should translate into better growth for rating companies.

**Gaurav Jani:** Sir, I was also coming from is actually the last if you could say the last 12 odd months or so, the month-on-month non-food credit actually picked up but still we have seen some different revenues, so if you could just throw light on that, any sort of the revenue guidance would you like to give structurally for that?

**Rajesh Mokashi:** I would only say that one has to look at the components of credit growth it is there without any doubt, but it is not in a big capex spending kind of thing and many things happened in the first half, but the second half was completely a dampener in terms of the NBFC crisis and the mutual funds willing to invest and risk aversion coming in. So I think sometimes the growth numbers that are appearing are bit of a some kind of are in a deviation with the reality in terms of the capital markets and that we have seen with the results of most of the rating companies, it is not very different in that sense. So you have to look at the industrial credit offtake because agricultural part is one thing or services is part of one thing so the real credit growth that benefits the rating companies is a industrial credit growth still it remains low. We have seen some credit growth, which is more of substitution financing coming in. So instead of an NCD go to the credit markets and grow, but that has not been really translating into the kind of rating activity, which the numbers seem to indicate so that difference remains like for example early the credit numbers were appearing 1%, but the rating companies were going by 3%. Now the credit offtake numbers appearing 3% the rating companies are going by 2%. So that is a bit of a depending on the sectors and other things as to how things happen that can be an anomaly, which can come in, but credit growth in the real sense still has to pickup is what I would say.

**Gaurav Jani:** Structurally if I may ask you we are actually moving to a scenario of more longer-term financing basis the NBFC crisis plus the infrastructure segment issues that clocked up in the past since 2014, now since the domestic industry is moving towards say a more long-term financing structure do we see challenges in revenue because the short-term would probably fetch us more regular feel right, so is that reading correct or how would you like to comment on that?

**Rajesh Mokashi:** No I do not agree with you because short-term paper, eventually short-term paper becomes also get into the surveillance mode in the fees dropdown. The short-term paper does not if I rate 100 Crores CP lesser margin let us say 5 basis points paid for the first year the second year I still get some 3 basis points or 2 basis points or something like that so it is not much of a difference. So even if a long-term instrument is there I get says let us say 10 basis

points fees for the initial year I will get only 3 basis points next year onwards, but that is the reality, but I do not think it makes much of a difference.

**Gaurav Jani:** So you mean long-term or short-term the fees would be the same?

**Rajesh Mokashi:** On a recurring basis it will not change much. The growth in the volumes and rated volumes is I would say, which will make the difference.

**Gaurav Jani:** Sir last two questions from my end and if you could give some colour on each of business segments going forward for the next two years, that would be helpful, some sort of a colour as to how do you see each of these segments panning out?

**Rajesh Mokashi:** I think if you see broadly there is a corporate sector, there is a financial sector, there is a small scale sector, which is the one way we look at it, there is a securitization business, which is linked to the financial sector. The large companies we know have to step into the capex mode and start growing the SME space has been holding on has had some challenges, but then again lot of support coming from the government schemes I would say that the large capital sector holds a key to the real growth of the rating industry, but I am also reasonably bullish on the mid corporate sector is what I would say and this is where the real growth the new winners will crop up from the mid corporate sector, but as a rating company we are a large company we have large presence in what I call is large corporate sector, the mid corporate sector, the financial sector, the small, small company sector and now I identify what are the new sectors, which has already been there is what is the government sector because that also can play a very, very big role in terms of money raising municipal bonds and so many things that can happen.

**Gaurav Jani:** Sure. Just a last data keeping question, so for the full year 2019 how much would be the surveillance fees that you would have funded or booked?

**Rajesh Mokashi:** We have always said that the surveillance fee for the rating industry is roughly 50:50, but it can vary between 60 and 60:40 it is in that range only does not deviate much.

**Gaurav Jani:** Okay as a percentage of total revenues you mean?

**Rajesh Mokashi:** Yes that is the mix, 50% comes from new business or 60% come from surveillance 40% from new that mix remains more or less in the range for the past several years.

**Gaurav Jani:** Got that. Thank you Sir. That is it from my side.

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

**Lalaram Singh:** I see that in the balance sheet there has been increase of around 20 Crores in the net loss can you help us explain understand that?

**Rajesh Mokashi:** I think our Mumbai office had reached a saturation point in terms of occupancy so looking at needs of people coming from Mumbai to office we instead of enhancing the property here itself we bought a property at Andheri, office premises in Andheri where our people sit there. So because of the full utilization of property out here we bought a 20 odd Crores new property out in Andheri.

**Lalaram Singh:** And that would be the total capacity of that in terms of seats in this office?

**Rajesh Mokashi:** A small property but nevertheless it can occupy a reasonable number of 60 to 100 people.

**Lalaram Singh:** Secondly I have seen that in this year our receivables have grown much higher than revenues, so how should we read this?

**Rajesh Mokashi:** I think I would say that our day sales outstanding are more or less in line with the industry at this point of time if you take the DSOs calculation, but one good thing is that a substantial part of because this year second half was a bit of a difficult year for our clients also. So there has been a sort of issues in terms of collecting but I think as we came to our board meeting date a substantial part of the money has already been collected.

**Lalaram Singh:** And going forward for the next year when we compare the revenue growth because this year we have been showing existed and reported it is very different numbers, it is very difficult to actually comprehend what exactly is happening, so can you help us that going forward next year will it be comparable because this year every quarter there is an issue?

**Rajesh Mokashi:** I agree there is an issue, this was a problem that arose because in FY2018 we changed the accounting policy, now this is the last quarter that you will hear that accounting change will impact, last quarter means March 31 was the last time you heard that changes, next four quarters no change, next year onwards no change absolutely no adjustment required at all absolutely straight comparison.

**Lalaram Singh:** And do we plan to revoke shareholders in the buyback instead of dividends considering the cash efficiency any plan was on that?

**Rajesh Mokashi:** I think this issue has been raised by several shareholders from time-to-time they have met our board members also and I think the board members will, board will have to apply the mind and figure out how to kind of and the people explained a lot of tax benefits and other merits in the case also. So that remains a kind of a tax efficient way of doing it, but sometimes when we apply our mind or look at the other side of it a dividend goes and hits the every shareholder it reaches every shareholder no questions asked whereas the buyback is there are limits to the buyback that can be done by the company and there are possibilities that not all shareholders will benefit sometime, but nevertheless it is considered a very important and efficient way of distributing profits and our board is always updated on this so as and when they take the call I think we will have to make the announcement.

**Lalaram Singh:** One last question, this year we have seen that bank credit actually has grown at 12%, 13%, which is a increase over the last year, however the industry revenues at least for us have been relatively flat. So should we assume that there has been some loss of market share in this year because CRISIL over the last two quarters has shown 10% plus growth in the rating division I believe and ICRA has been already flat but the remaining two, three companies are private as of now, but what is your take on this, have we lose some market share in this financial year?

**Rajesh Mokashi:** I would say that when I see the results of CARE as 300 Crores of some topline rating revenues roughly and I look at the calendar year results of one of the larger rival that you mentioned 300, 320 Crores I do not think there is much of a difference in that case that there is any loss of market share. Temporary aberrations can take place from time-to-time for everybody it is not something so I do not believe that there is any loss on market share in that sense of any material nature at all 300, 320 Crores and other companies something like 230 Crores so that difference of delta is remaining so it does not point out to market share is not just about a number of entity related, but whether they are paying higher paying, lower paying all the things make a market share so as of now I do not believe that there is any material difference taking place at all, we have held on to our kind of a position in the market place is broadly what I would like to say.

**Lalaram Singh:** And do you see that there is a pressure on the pricing because of the lack of new credit to be rated is there a pressure on pricing?

**Rajesh Mokashi:** What happens is pressure on pricing comes in when the credit offtake or the business is not growing that fast because the most rating companies maybe chasing the same customer that can happen, but I would like which in a way you have seen the growth of the business for all the rating companies have not really taking place the way it should be would have been like by the investors, but I think these are phases in the market, if the economy bounces back we will not hear about any nature of pricing competition the way it is there at this point of time.

**Lalaram Singh:** Okay thank you.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint we will take the last question from the line of Adit Shah from Vibrant Securities Pvt. Ltd. Please go ahead.

**Adit Shah:** Thank you for the opportunity. Sir one question regarding the securitization that you mentioned that it has been good in terms of getting revenue in FY2019 can you quantify the portion of that for FY2018 and 2019?

**Rajesh Mokashi:** I think we have a research report in that we have quantified I will send you the research report which is in public domain I do not have the number often but that is a published research report on the securitization market I think we have done reasonably well I would say that we have done reasonably well.

**Adit Shah:** And if you can give a number in terms of the percentage of income for us?

**Rajesh Mokashi:** I do not have the exact breakup at this point in time securitization, but what I call is you can figure out based on the work done by various rating companies, all four rating companies market share will appear in that research paper, which is there. So I think it is reasonable it is not some extraordinary but it is important contribute of revenues.

**Adit Shah:** Okay and another thing is that we are going to see from FY2020 onwards that large corporate borrowers are going to borrow from the bond market, so will we see over the years will we see a change in the yields for the rating companies?

**Rajesh Mokashi:** I think over the next three, four years I am very strong believer that if you see the western markets the banks do not do all large corporate lending at all they are all mid corporate and small corporate so I think structurally we are moving towards that, but whether we will move it in one year or two years despite the government intent, whether it will take four,

five years that remains to be seen, but I am very, very clear that this is inevitable in India and entire funding from the large corporates will gradually start shifting to the bond markets and the yields are better in bond market for sure.

**Adit Shah:** Okay that is it Sir. Thank you.

**Moderator:** Thank you very much. I will now hand the conference over to Mr. Aditya Bagul for closing comments.

**Aditya Bagul:** Thank you to the management team. Sir if you could have some closing comments?

**Rajesh Mokashi:** Yes, I would only say that I think these are challenging times for the rating in the bond markets credit markets and rating companies also obviously in the process of transformation of their whole business model strengthening it further. We have been having the sort of quarterly calls in the past, but too much of the attention to the quarterly numbers is not the appropriate in a way so we are also deliberating whether we should have the call with investors twice a year at least every six months instead of every quarter because there is never much to speak in the first quarter and it is half yearly discloses very different so we are contemplating from now on that maybe we will take this investor call twice a year that means that half yearly September 30 and we will take it at the end of March. In the interim of course we do attend almost all the investor conferences held by all the big securities firm Axis, Kotak, all every name Edelweiss all those things. So our senior management is always available to interact with the investor community with the analytical community at these conferences from time-to-time. So this is all I would like to say and look forward to seeing you again whenever we meet with the investors'. Thank you very much.

**Moderator:** Thank you very much. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.