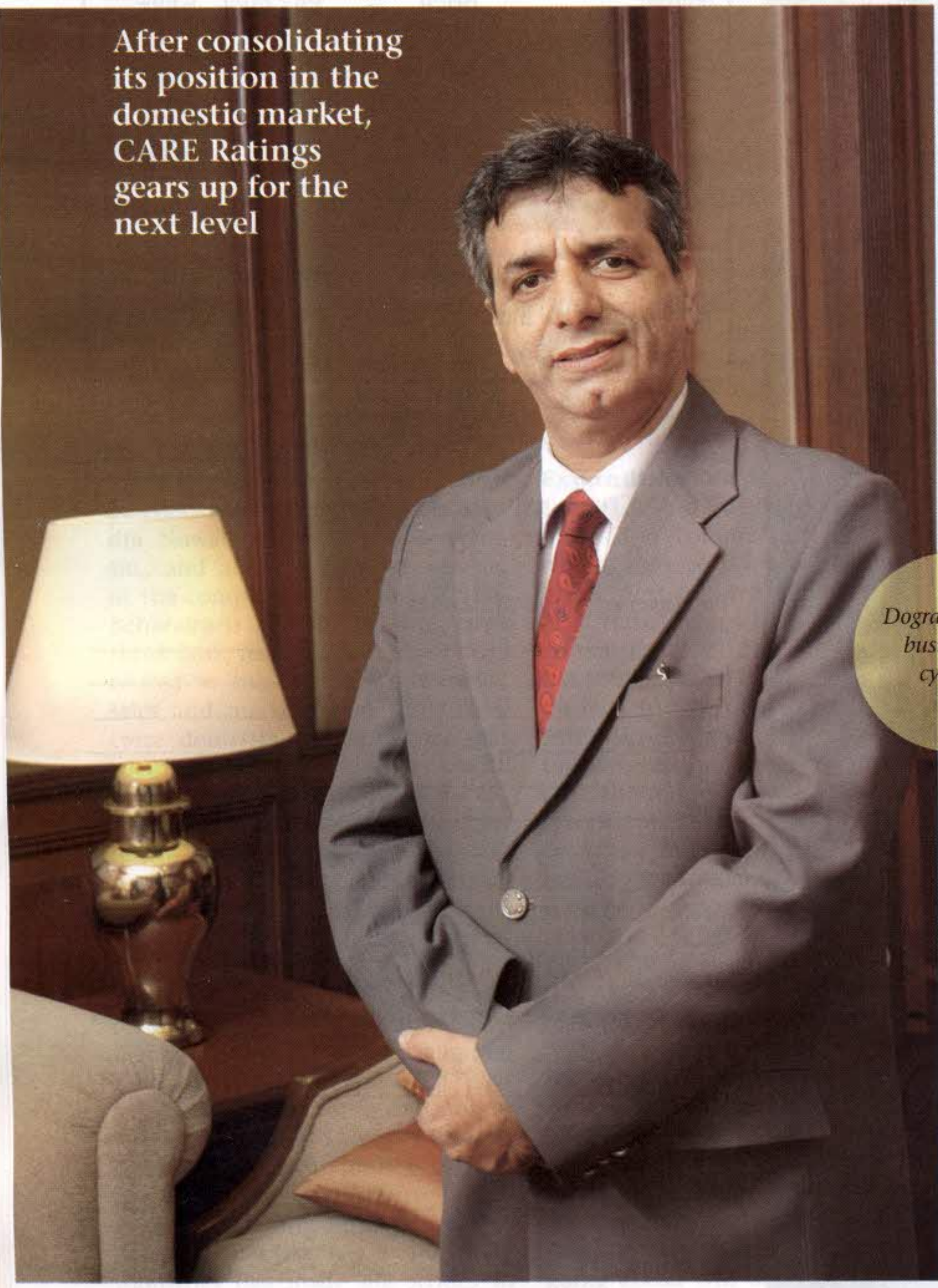
The game changers!

After consolidating its position in the domestic market, CARE Ratings gears up for the next level



PHOTOS: SANJAY BORADE

Dogra: Ratings business is cyclical

Since its inception in 1993, Credit Analysis and Research Limited or CARE Ratings (market cap: ₹3,500 crore) has already changed its corporate headquarters thrice in Mumbai for want of space as it increases marketshare and team size. But ask Desh Raj Dogra, CARE's MD and CEO whether he is pleased with the fact that CARE has been second-largest rating agency by market share for a while, he refuses to give a definitive answer. "The ratings business is highly cyclical and we have found our place under the sun but it was never easy," he replies.

In the early 1990s, when the idea of CARE was mooted by its promoters – IDBI, SBI, UTI and Canara Bank, it was to be the third entrant in the credit rating sector in India. CRISIL, which still continues to be the largest player by market share, was around for more than six years while ICRA, which began operations in 1991, was backed by a host of PSU banks and financial institutions, and was steadily building its brand.

But such conditions notwithstanding, CARE managed a flying start and broke even in the very first year of operations. "I would attribute a lot to the luck factor for our success in the initial days," says Dogra. "When we entered the market it was also the time when the Reserve Bank of India (RBI) had eased borrowing norms for non-banking financial companies (NBFCs),who for the first time were allowed to raise money through public deposits. As such there was a huge business opportunity for rating agencies in the NBFC market."

But the joyride didn't last very long. With the easing of norms also came a surge of public deposit schemes across the country, many of which turned unviable and soon a large number of NBFCs began shutting amidst widespread panic among investors. And for rating agencies the crisis presented a classic *catch-22* situation. "In such a situation, a downgrade could only add to the panic and make the sector further vulnerable to a meltdown but doing nothing could also add to the escalation of the crisis," explains Dogra.

Growth years

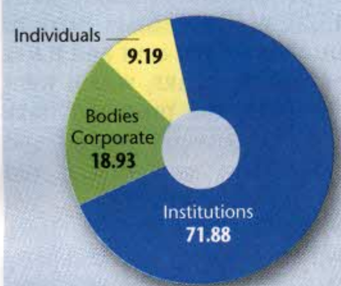
The crisis also brought a fair amount of learning for the company and by the end of it, CARE had begun to focus on the corporate debt market as a thrust area. But the real growth impetus for CARE came in 2008 when

CARE Ratings FINANCIALS

(₹ crore)	FY2014	FY2013	FY2012
Income from services	236	203	180
EBIDTA	148	135	123
EBIDTA (%)	63	66	69
Other income	36	29	28
Total income	271	232	208
Net profit	129	114	108
NPM (%)	48	49	52
Diluted EPS (₹)	44.94	39.78	37.69

Consolidated figures

SHAREHOLDING PATTERN (%)



As on 30 June 2014

TOP 5 SHAREHOLDERS (%)

1	IDBI Bank	16.62
2	Canara Bank	13.25
3	SBI	5.62
4	Bajaj Holdings	4.34
5	Franklin Templeton	4.25

the Reserve Bank, in accordance with Basel II norms, made bank loans ratings mandatory for corporate borrowing. "The RBI's move had a huge positive impact on us and soon we were up from around 500 ratings per year to almost 7,000," says Dogra. "We became the second-largest player sometime around 2009 and since then we have only narrowed the gap with the leading credit rating agency." In the domestic credit ratings market, which has an annual growth rate of 15-20 per cent, CARE's track record has been impressive. In terms of earnings from domestic ratings business, CARE has the largest share amongst India's top 1,000 companies, according to available data.

"It's a relationship driven business," says Rajesh Mokashi, deputy managing director of CARE, who was part of the start up team. "Ratings is a unique business where you are essentially working on behalf of the investor and not the borrower even though he is the one paying you. Most of our clients stay with us even after we downgrade them and we have a 70 per cent ratings acceptance level. Our clients trust us and that's what matters the most."

Meanwhile, there have also been instances of 'bad blood' among ratings agencies and in the past, rivals have accused each other of excessive liberal interpretation of rating principals to secure business. But the CARE management brushes aside the charges. "We can speak for ourselves and the fact remains that we have the most independent and impartial rating committee headed by independent professionals," says Mokashi. "Unlike some of our competitors, who have appointed internal heads of their rating committees, we always had Y.H. Malegam as the chairman of our rating committee from the very beginning. Few can match the credentials of our rating committee, which is headed by Y.M. Malegam and has others such as V. Leeladhar (former RBI DG), P.P. Pattanayak (former MD, State Bank of Mysore) and V.K. Chopra (former wholetime member of SEBI) who individually have decades of experience in some of the highest decision making bodies pertaining to financial regulations in India."

In the first quarter this year, CARE's operating income grew by 23.1 per cent from ₹34.7 crore to ₹42.7 crore while its total income grew by 14.4 per cent from ₹50.3 crore to ₹57.5 crore. It's EBITDA increased by 12.9 per cent from ₹30.9 crore to ₹34.9 crore and net profit increased by 9.4 per cent. In the same quarter, the first quarter, CARE's rating income improved by 23.1 per cent. And the company says that its growth was driven by two factors: higher surveillance income as well as marginal increase in the total volume of debt rated, which stood at ₹2.39 lakh crore. But the impressive growth in ratings business notwithstanding analysts have often lamented CARE's

Mokashi: Loyalty of our clients

excessive dependency on the ratings business for topline growth as compared to its rivals like CRISIL and ICRA who have diversified into consulting and BPO businesses as alternative revenue streams. But the CARE management says that this ratings revenue will be a focus area and fears of over dependence on a single revenue stream are misplaced.

The next level

While some of CARE's competitors have positioned themselves to develop other businesses because they are now subsidiaries of foreign rating agencies, "we are a domestic agency and will remain focused on the domestic ratings business as we feel that the market still has huge potential for growth, especially with the deepening of the corporate debt securities market and the arrival of newer instruments," says T.N. Arun Kumar, chief general manager, CARE Ratings. "But if we do decide to expand it will be in the field of analytics and in a domain which will complement our ratings business."

But with cash reserves of over ₹500 crore, diversification cannot be ruled out. CARE has recently relaunched its advisory business, which was shut down a few years ago and is actively considering acquisitions in the technology-driven analytics


Arun Kumar: Growth opportunities in analytics

space . "Whenever we do an acquisition we will have management control but we are yet to decide where the acquisition will be, but it will be in the technology space, which will help add value to the ratings business," explains Dogra. In 2011, CARE acquired a 75 per cent stake in Kalypto Risk Technologies, which provides risk management solutions to banks and financial services institutions. Meanwhile, in November last year, CARE along with CPR of Portugal, GCR of South Africa, MARC of Malaysia, and Brazil's SR Rating-launched ARC Ratings, which offer ratings services to a global clientele on the lines of Moody's S&P and Fitch. The company is currently headquartered in Portugal and will soon move its headquarters to London. "ARC Ratings is registered with the European Securities and Markets Authority (ESMA)," says Dogra. However, he denies that ARC is an attempt to displace the existing players. "A large number of our domestic clients were going to our competitors for international ratings and that has been the key reason why we decided to be a part of ARC," adds Dogra, who is also currently the chairman of ARC Ratings.

But along with expansion, the company aims to add product innovation to their oferrings. For instance, IPO grading has been a very important product for CARE where they have retained leadership ever since it was made mandatory by regulators. "The whole idea of such a grading is to evaluate the company – promoters and financials, amongst other aspects. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of that issuer. The grading gives an idea to the investor about the company, which could be used to make an investment decision. It is not to be interpreted as a call on share price."

Real estate

Similarly, CARE has been among the first movers to focus on the highly fragmented real estate sector where regional dynamics and smaller players often suffer from low level of Investor trust. The company's Real Estate Star Rating delves upon these critical aspects enabling investors and individuals to make informed decisions. It also helps in due diligence activities conducted by PE investors and banks during funding of the projects. The grading process involves meetings with the client's management and their project-related teams, conduct site visits, analyse past projects, assess the city and project location along with a project financial/break-even analysis. "The primary focus is to determine the quality of a particular real estate project. After analysing the set parameters, a rating is assigned and the project is then put under 'surveillance' (annual exercise) throughout its tenure," says Dogra.

In January this year, the IDBI-led consortium, which control CARE's majority stake, made an unsuccessful

FINANCIALS

(₹ crore)	Care	Crisil*	Icra
Marketcap	3,497	13,221	2,622
Revenue	271	1,147	302
PAT	129	298	69
Price (₹)	1,206	1,863	2,622
Diluted EPS (₹)	45	42	69
P/E	27	44	38

Consolidated figures. *December ending

SHARE PRICE

bid to dilute its stake in the company. While IDBI owns a 34 per cent stake in the company, Canara Bank owns 15.21 per cent, State Bank of India another 6.4 per cent and IL&FS 5.99 per cent. For CARE, which went public in 2012, the proposed stake did not garner enough bidders and the management says that it did not come as a disappointment. "All our promoters, barring UTI, have remained invested in the company for all these years and it's only fair if they want to dilute some stake at this point," maintains Dogra.

But all said and done in the event of the stake sale going through, would the new promoters have the same faith in the existing management? It remains to be seen. The fact remains that the entire top management of CARE has remained relatively intact since its inception. Both Dogra and Mokashi, who were appointed managing director and deputy managing director, respectively, in 2009, have been with the company since 1993 and the majority of the senior management has spent atleast 10 years with the company. "For a company to succeed it is important that the team understands each other and this stretches to our clients; and it reflects in our culture.

Meanwhile, Dogra, who is slated to retire this year, says that the promoters have shown unwavering faith in CARE's management all these years and that's been the key reason for the company to succeed and flourish despite the odds. "And I hope that will be the case always," he says as he sums up his innings in CARE.

♦ DEBORSHI CHAKI