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Eyeing inorganic growth ops; to focus on SMEs: CARE

The sale of credit rating agency Credit Analysis and Research (CARE Ratings) is likely to be revived, as investors such as IDBI Bank, Canara Bank and Franklin Templeton are seeking to exit their stake in the company, CNBC-TV18 reported earlier this month.

DR Dogra, MD and CEO at Care Ratings says he is unaware of any ongoing talks between investors and prospective buyers. However, the company is looking at inorganic growth opportunities to boost growth, he says.

Meanwhile, the ratings agency looks to strengthen its presence in the SME sector by opening additional 30-40 SME outlets, says Dogra.

The company has been growing historically at 30-40 percent. In addition, it has seen operating income growth of over 17 percent in H1FY15, he adds.

Below is the verbatim transcript of the interview:

Q: In the past, you have said that you are unaware of any talks that ongoing between investors as well as possible stake sales but has anything changed since then? Are you aware of whether investors are seeking an exit?

A: The possible secondary sale transaction between a seller and a prospective buyer is between these two guys and company will not have any idea on this till this is announced to the market. So far, we don't have any such news with us to give you but certainly if you are a shareholder in a company and if you find that opportunity is right for you at this point of time you can make an entry into the company or you can go and sell your stocks. So, that should apply even to our shareholders.

Q: That point is taken but are you aware of any prospective buyers that are currently doing due diligence of the company?

A: Not really.

Q: It appears that the company is increasing its focus on SME and you all want to increase your presence there. You want to open up 30 to 40 more outlets. Can you tell us currently what portion of your revenues come from SMEs and is it a low margin business for you all which means if as you continue to focus more on SMEs can we expect your margins to decline?

A: Yes, our business is clearly linked to the growth in debt and credit markets and you know what is the situation as of now. So, we are affected to that extent. Though we have always been doing much better than the industry and during this half year ended September, we have grown at around 17 percent over H1 FY14. In fact, our growth of total income was more than 28 percent but the operating income grew by 17 percent.

Though we have been doing quite well and yes, you are right, we are very small company as far as SME ratings are concerned our revenues are around six to seven percent of the total rating revenues in SME segment because we were very small operation as far as SMEs are concerned and for some time now we have been strengthening our SME network because you know that SME is not an analytical game, it is more a logistical and distribution game and we are trying to reach as many SME clusters as possible and that is one reason why our margins are little dipped but because our large corporates are really doing well, despite not very convenient credit and bank loan markets we are still maintaining margins.

Q: We had spoken to you post the Q2 earnings. You had indicated that the second half of the year could be better than the first half. Already you have seen a growth of about 17 percent so far, with the kind of visibility that you have in Q3 how much upside do you see from here for your earnings?

A: We don't give a call to the markets on future but certainly as we have done in the past in the bad markets we have grown around 15 percent and as you make this kind of growth even in the balance part of the year should not be a problem especially when we have already done 17 percent in the first half itself.

Q: You rightly pointed out that this is more of a logistics game for SMEs rather than analytics. Your margins already stand at 69 percent now. What kind of margins will the company be comfortable with and what is the kind of revenue share or market share that you want to acquire in the SME space?

A: Even the largest ratings in SME does around 20 to 25 percent of total revenue from SME I don't think we can go above that. So, that is one benchmark for us. Secondly as far as margin game is concerned you have to evaluate SME business like retail, same store growth. So the SME guys who come onboard two years back will start delivering economies of scale at this point of time and those who are added during last year and this year will certainly take one and half more year to start delivering economies of scale.

So, you have to give leeway to that, but once we are fully entrenched in the market may be around 200 SME locations, we are there around 70 locations as of now but if you have to reach that entire SME universe in India you have to be at least in 200, I would prefer to go even to around 300 SME clusters in India but even 200 you would cover a large part of SME universe in India. If you do that after that I don't think margins should be hit again because SME charts, skill sets are also not very costly. They are not comparable to LME skill sets. So once the economies of scales are developed there can't be any further dip in the margins.

Q: Cash on books Rs 350 crore, what is the plan and how do you plan to utilise it?

A: Rating has shown growth can be only in finite proportions. If credit markets are going by 20 percent, you can do only 25 percent because you take away some share from the other players in the market but you can't grow at 40-50 percent which we have been doing for quite long time. So, if you have to grow you have to do something more than ratings and for that we have been looking at some acquisition.

We have already one in the risk solutions business, which is a CARE Kalypto, and I think like this we will keep on seeing this. If we succeed in getting some good fit at our own price then we should go for some acquisition. If not this money belongs to shareholders, I think this will come to them at some point of time.