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Investment cycle unlikely to start in Q4: DR Dogra, Care Ratings

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In an interview with ET Now, DR Dogra, MD & CEO, Care Ratings, talks about the company's Q3 results. Excerpts:

"In the fourth quarter we do not expect big changes. Although inflation is down, we don't see the investment cycle starting in Q4."

ET Now: What are the highlights of your Q3 numbers? What is the reason behind this almost flat profit growth?

DR Dogra: While reviewing our business performance, you have to look at us from year-to-date angle. For a company like ours which makes major revenues from surveillance, revenue recognition will depend on the way we recognise and complete our surveillance.

If you look at the 9-month period to December 2015, we have grown by 5% on rating revenues. And if you look at operating profit, we have grown from Rs 104.9 crore for the nine months ended December 2014 to Rs 117.22 crore for the nine month period ended December 2015.

That means a growth of around 12%. Or 11.7% to be precise — which has mainly been because of a 2.8% reduction in expenses and a 5.7% improvement in operating revenues.

But if you look at our other income, you will find that there is a big fall. From Rs 40 crore in the last nine months to just Rs 6 crore. This is basically due to our investment income. As you know, last year we had declared a one-time dividend of Rs 200 crore, but we paid around Rs 220 crore including the dividend distribution tax. Income this time has gone down to Rs 6 crore because the investment kitty has come down.

Secondly, a major part of the 75% of the investment kitty in fixed maturity plan was put in fixed mutual plans, which are of a three-year duration. We cannot book any investment income on that because of the income recognition norms that will come into play only after three years.

ET Now: Operational income has also remained very flat. Why is that?

DR Dogra: Other revenues have come down because of what I've already told you. Our other major revenue is investment income, which has now come down.

There are four major reasons why rating revenues during this quarter have been flat. The 5% increase is slow for us by any standards. The first reason is that investments or new projects are not coming.

Secondly, our fees are related to the amount of the loan we rate. Since we are mostly covering small loans, the ticket ratings done at this point are also low.

Third, there is quite a bit of pricing competition in the market. There are six players now.

The fourth reason is that for all the vibrancy, the bond market issuances on the corporate bond side has been mostly in banking. For these clients, money is the raw material. So, we have a cap on the fees from these clients. The cap will go only after this year is over, and the new year sets in.

ET Now: In general, let us talk about the ratings industry and how do you see growth panning out here, hence an outlook ahead on revenues as well as profits over the rest fourth quarter and FY17 fore Care Ratings?

DR Dogra: In the fourth quarter we do not expect big changes. Although inflation is down, we don't see the investment cycle starting in Q4. But we do think that the market could revive in FY17 and ratings agencies could see better days ahead.

Let me tell you why. First, the penetration level of ratings in India is still not that deep. We have to go much deeper. Secondly, the corporate debt segment will have to come in because the infrastructure space requires a lot of money. Banks alone can't look at this long-term need.

We require $1 trillion for new infrastructure. This money cannot come from the banks. You can't also raise that kind of big money. So, corporate debt will have to revive.