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See investment cycle picking up in near term: DR Dogra, CARE Ratings

By ET Now | 10 Sep, 2014, 02.51PM IST

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In an interview with ET Now, DR Dogra, Managing Director & CEO, CARE Ratings, shares his macroeconomic outlook. Excerpts:

ET Now: The sentiment has surely changed, but is the change in sentiment translating into better business?

DR Dogra: The change in government has positively influenced the economic sentiment, which is substantiated by the really good Q1 GDP numbers that were recently announced. Though we cannot jump to the conclusion as of now, since some related numbers like credit growth were not that good compared to the last year. Moreover, growth is yet to reflect on the corporate and on the personal retail segment side. However, the government has been taking several steps, which have led to an improved sentiment. It is only a matter of time before the interest rates start coming down and the investment cycle kick-starts, which would be when all of us in the rating industry should start doing much better than what we have been doing in the past two years.

ET Now: As for CARE rating, what is your outlook on your overall revenue and profit growth? What, according to you, will be the key revenue drivers going forward?

DR Dogra: We do not give any guidelines on our revenues, but looking at the credit growth in the past decade or so, we expect a growth of 50% to 30%, though we have done much better in the past. We expect a growth of around 15% to 20% for the industry as a whole in the medium term of three to five-year period. We have always been doing much better than the industry and we should be able to maintain that.

ET Now: Do you think your margins are sustainable, given that you are likely to grow more in the SME segment this time, where yields are typically much lower?

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'The change in government has positively influenced the economic sentiment, which is substantiated by the really good Q1 GDP numbers,' says Dogra.

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DR Dogra: You are right. In fact, for the last two to three years, there has been some erosion in profit margins because our proportion of SMEs has been increasing, though we are a very small player as far SMEs are concerned. We are very focussed on the large corporate. However, after we are able to generate economies of scale on the SME front and manage to keep our cost under control, which we have been able to do more or less, we can sustain these margins once again after some time.

ET Now: Will it take just a few quarters or could it stretch down to a year or two as well?

DR Dogra: By 'some time', I mean around two years.

ET Now: As per the SEBI guidelines, before an IPO hits the primary market, it has to go to a rating agency. Is that a big business opportunity for you?

DR Dogra: IPOs were a dead vertical for us, majorly for two reasons. One, the IPOs were literally not there and secondly, IPO grading was optional. But, as you know, now the market is quite conducive for an IPO environment, and we think this business might start once again because good issues will certainly go for a rating, even if it is not compulsory.

ET Now: Exactly about six-seven quarters ago, some of your key stakeholders were keen to offload their ownership in CARE. Any update on that?

DR Dogra: As you know, this is between the shareholders and the prospective buyers to decide. We would not be in the picture most of the time, unless we keep talking to investors. Maybe, some of the investors, with whom we have talked, could be the possible buyers from our institutional shareholders, but our shareholders have been going firm with this company for the last over 20 years. IDBI and Canara Bank took the stake in our company in 1993, and together we have seen many ups and downs. So, I do not know the plans as of now, but you are right - there were plans earlier and they thought that it is not the right time for them to sell. Today we are much better on the capital markets compared to that time.

ET Now: Both Crisil and ICRA are your competitors and have strong foreign partners. Are you also looking at one or a PE player?

DR Dogra: I do not think there are any worthwhile partners in the international scene and S&P and Moody's are too large. Crisil has been considered as a rating agency number four and we are neck to neck with Crisil, except some SME work, which we do not do and large annuity which they have because they came six years before CARE came. The first, second and third are already in India and the fourth is a subsidiary of the first one. So, I do not think there could be a bigger partner available for us now.

ET Now: Is that a limiting factor, the fact that you do not have a global large player?

DR Dogra: The sceptical situation on the ground speaks contrary to that. Since domestic ratings are not done by international rating agencies but by their domestic subsidiaries, I do not think shareholding matters here. Likewise, other rating agencies with international partners do not do international ratings.

We own a company which is an international rating agency, known as ARC Ratings, where CARE owns 20% stake. We believe in that emerging markets would be one of the bigger raisers of international finance and will require international ratings. Therefore, companies from India (CARE), Malaysia (MARC), Brazil (SR Ratings) and South Africa (GCR) together have formed a company known as ARC Ratings, which is a recognised rating agency by the European security markets authority. So we have our own rating agency now and we are not owned any international rating agency.

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