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See surveillance income growing at 8% in H2: CARE

A major part of the rating income comes from surveillances, says DR Dogra, MD and CEO of Care Ratings. The company's net profit fell 27.77 percent to Rs 37.85 crore during the second quarter ended September 30. The ratings agency had clocked a net profit of Rs 52.41 crore during the corresponding period of previous fiscal.

Dogra says traditionally the third and fourth quarters have always been better for rating agencies. He also expects surveillance income in the second half of the fiscal year to grow at 8 percent.

Below is the verbatim transcript of DR Dogra's interview with Latha Venkatesh and Sonia Shenoy on CNBC-TV18.

Sonia: What is the expectation for the second half of the year in terms of revenue growth?

A: You have to look at our results in view of the present economic conditions. You know it that we can rate what comes to the market; we can't create a market for ourselves. However, looking into this, our business has to been seen from year-to-date (YTD) basis because a major part of our rating income comes out of surveillances. So, if you complete surveillances in quarter one, your quarter two maybe lower. If you do it in quarter two, quarter three and quarter four maybe lower.

So, you have to look at YTD and I think for the six months ended September 2015, what we have done is that operating revenues have gone up from Rs 117 crore to Rs 127 crore, a growth of 8 percent. We are doing much better than market but you know it that we have grown at much faster rate in the past. So, we are satisfied but we are not happy.

This quarter has been the best ever quarter as far as the operating revenues are concerned. We have booked revenue of Rs 78.23 crore which is the highest ever done in the company. In fact Q2 is never a best quarter for any rating agency. It is always the Q4 quarter which is always the best but this time we have done a little better.

Latha: We have your Q2 revenue growth numbers with us and which is why we were asking you whether you have any visibility about the Q3 and Q4? Will you be able to also generate better revenue than a 5 percent growth in the second half?

A: Q3 and Q4 have always been better for every rating agency, not only CARE because the result start coming only in the month of July-August for the audit numbers. When you get audit numbers you book your surveillance fees and you know our surveillance fee is a little conservative. We book a large part of the surveillance fees only when surveillance is completed. So, since you complete more number of surveillance in the second half of the year you would have naturally edge over first half (H1) in any case.

Therefore, I believe that if we have done 8 percent for six months for September 2015, the next six months from October to March, we should at least do either 8 percent or better than 8 percent and that is what I would like to inform you.

Even on operating profit we have been able to contain our expenses. Expenses went up only by 1.3 percent per six month period from Rs 48.18 crore to around Rs 48.81 crore during six month in the March-September 2015 and that is the reason operating profit has grown by 13 percent for six month period from Rs 68.76 crore to around Rs 77.86 crore which is one of another operating profit margin, you know it that for the quarter it is 70 percent which is one of the highest we have achieved in very recent future and even for six month basis, Q1 is always very slow quarter.

Sonia: Two more internals if you can give us, this time you saw about 758 new client additions. What is the expectation in the next couple of quarters? Will it be this much or can it grow. You also said most of your revenue has come in from surveillance income. How much of the surveillance income growth are you expecting in the second half?

A: I think we should be growing around the same rate. We grew 8 percent for six month, so we should be growing 8 percent plus even for next six months. It is very difficult for us to give a number on surveillance and initial because some of the clients are cap client, so we do a lot of initial work also of those clients and charge a cap fee.

Latha: Your share owners are Canara Bank, IDBI Bank, LIC and State Bank of India (SBI). Now, the government has been encouraging the public sector banks to sell-off their stakes to raise their own capital. Are we likely to see some of your shareholders wanting to sell-off, pare down stake to just raise money?

A: This matter is between a buyer and a seller and I don’t think the management may have a role into it. However, IDBI has already sold 10 percent of the stake, from 16 percent they owned in March 2015 to LIC and LIC has become the largest institutional shareholder of CARE.

I think Canara Bank has also been selling some part in the market but they still own above 9 percent of the company and they are the second largest institutional shareholders in the company. SBI has also been selling and buying. I think they own around 6 percent. So, only time will tell if the government want the banks to sell the non-core assets and IDBI has already done in that direction.