“CARE Ratings Limited
Q4 FY23 Earnings Conference Call”

May12, 2023

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Moderator: Ladies and gentlemen, good day and welcome to CARE Ratings Limited Q4 and FY23 Earnings Conference Call.

This Conference Call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as in the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants will be in a listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded.

I now hand the conference over to **Mr. Mehul Pandya – Managing Director and CEO**. Thank you and over to you, Sir.

Mehul Pandya: Good afternoon, everyone. I hope all of you are doing well. I extend a warm welcome on behalf of the entire CareEdge family to the Q4 FY23 and FY23 Investors Call.

I trust that each of you has had the opportunity to thoroughly review our quarterly results. Today alongside the valued Senior Management of CARE Ratings, I am interacting with you to provide an in-depth analysis of our company's performance over the past quarter and to address any queries you may have following my initial remarks. I will also take this opportunity to offer a brief overview of our strategic roadmap for the future. Together we will navigate through our plans and outline the path forward for CareEdge. Thank you for joining us today and I look forward to engaging in a productive and insightful discussion.

Last year, the world economy was faced with challenges from geopolitical conflict, high commodity prices, a surge in inflation levels, tightening of monetary policy by central banks and slowing growth. This year, the challenges have been amplified by the recent turmoil in the global financial sector.

In the midst of such turbulent global conditions, the Indian economy has held a relatively stable footing compared to emerging and advanced economies. The domestic economy is estimated to have grown by 7% in FY23 as per the Second Advance Estimate. While the manufacturing sector faced challenges from high commodity prices and uneven consumption demand, the rebound in services sectors supported the growth in FY23. Several high-frequency indicators, such as GST collections, E-way bill generation, manufacturing and services PMI have been recording a healthy performance.

Consumption demand in the economy has been uneven due to lack of rural demand recovery. The recovery in rural demand is expected to be aided by moderating inflationary pressures and an upbeat Rabi harvest. However, weather-related uncertainties, post some downside risks. Investment in the economy has been steered by the Centre, with strong CAPEX growth budgeted for FY24, while private sector investment has been lackluster so far. However, the ground is set for a pickup in the private CAPEX with improving capacity utilization levels and the private sector showing intent to invest. Even with the uncertain economic environment, we expect the pickup in the private CAPEX cycle to be gradual.

Retail inflation at 5.7% in March was back within RBI's tolerance band after staying above the 6% mark for most of FY23. A favorable base, some waning of the pent-up demand and a robust Rabi harvest are supportive of further moderation in retail inflation. However, the stubbornly elevated core inflation above the 6% mark remains concerning. With the full passthrough of the policy rates hike, which has been impending, the RBI decided to keep the policy Repo Rate unchanged at 6.5% after hiking by cumulative 250 basis points in FY23.

Gross Bank Credit grew by a healthy 15% in FY23 as against 9.6% in FY22. Credit growth was steered mainly by the retail segment, recording 20.6% growth, followed by services with 19.8% growth. Industrial credit grew by a subdued 5.7% in FY23 as against 7.5% last year. Credit growth to large industries accounting for nearly 75% of the total industrial credit witnessed a marginal pick up to 3% when compared with 2% last year.

Fund raising by businesses showed a mixed trend in FY23, with upbeat in corporate bond issuances while CP issuances were subdued. Corporate bond issuances clocked a growth of 32%, rising to Rs. 8.5 lakh crores in FY23. The higher bond issuances were driven by financial institutions to meet the growing credit demand amid tight liquidity conditions. Commercial paper issuances were subdued on account of the sharp increase in short-term interest rate. CP issuances were at Rs. 13.7 lakh crores in FY23, 32% lower as compared to the previous year.

On the external front, spillovers from the challenging global scenario continue to pressure merchandise exports. However, lower imports on account of easing commodity prices have translated into a moderation in the merchandise trade deficit. The upbeat trend in India's services exports and remittances has supported a moderation in India's current account deficit, thereby reducing our external vulnerabilities.

Overall, the Indian economy remains resilient despite several global headwinds. However, the domestic economy will have to tide over challenges emerging from an uncertain global scenario and some lingering domestic challenges.

Let me assure you, CareEdge is prepared to take these challenges head-on and we have been going the extra mile in further cementing our position in the market. To enhance our brand value CareEdge has significantly bolstered its outreach activities. Our dedicated teams in economics, ratings and industry research have diligently produced an impressive number of 155 reports through the quarter. These reports, ranging from timely updates to specialized analyses, have been widely acclaimed and featured across renowned publications. In addition, our senior management, economics experts, sector specialists, industry research team and the business development leaders actively participated in 35 knowledge sharing forums during the review period. This commitment to sharing knowledge and expertise reflects our dedication to fostering growth and progress within our industry.

Furthermore, our presence across media platforms has witnessed a remarkable surge in the past year and continues to expand in the current quarter. From our power-packed monthly edition of FORESIGHTS to engaging blogs and thought-provoking podcasts, we are actively disseminating valuable insights to our audience.

Continuing the tradition of hosting prominent and insightful events, I am happy to announce that in our 30th anniversary year we will be hosting our flagship events at major metros in quarter one. The COVID-19 pandemic had prevented us from conducting this in the past 2 years, but we got back on track in FY23 and will continue to provide platforms for inspiring discussions and meaningful exchanges, thereby further solidifying our commitment to driving positive changes in our industry. As the late President, Dr. S Radhakrishnan had said, "Knowledge is power and the implementation of knowledge is wisdom." And we at CareEdge have been putting into action the growth strategies devised in the past few years. From fresh talent to technological advancements, we are committed to unlocking the immense potential that lies ahead.

For the past few months, I have been personally engaging in regular interactions with the young blood at the organization to get a thorough understanding of what the future leaders of CareEdge want from the organization and how best we can all grow together. We are also focusing heavily on the human resources front to ensure your company is one of the best places to work at. To support this plan, we have come up with multiple training and incentive programs that have been well received by the staff.

Now, I would like to quickly take you through the CareEdge Group's performance:

Referring to the published standalone results for the full year FY23, CareEdge reported revenue from operations at Rs. 248.8 crores which shows growth of 13% as compared to last year where CareEdge reported the revenue from operations of around Rs. 219.3 crores. The growth in ratings income was largely attributed to the robust income generated in the initial ratings business during the year. We hope to sustain this momentum going forward. Net profit has been higher by 23% at Rs. 103.8 crores in FY23. On the profitability front, CARE Ratings has reported a stable operating profit margin of around 46% on a standalone basis.

On a quarterly basis, income from operations has increased from Rs. 60 crores in Q4 FY22 to Rs. 68 crores in Q4 FY23. While EBITDA and PBT reported an increase, PAT has moderated due to the impairment of assets and the resultant tax impact in Q4 FY23 as compared to Q4 FY22.

Let us move to the consolidated results:

On an annual basis, CARE Ratings reported revenue from operations of Rs. 279 crores, which is 13% growth from last year, which was at Rs. 248 crores. Net profit has been higher by 11% at Rs. 85.5 crores in FY23. Both the domestic subsidiaries, CARE Advisory Research and Training, as well as CARE Risk solutions, have been witnessing traction. Under CARE Advisory Research and Training, which we call as CART, we have built robust Advisory and Research teams that cover over 50 industries with research reports. On the ESG front, CART has developed a tech-enabled platform, which we call as 'SIRIUS', which is an on demand comprehensive data platform that brings together company, industry and ESG insights. The company has completed the ESG assessments of over 900 listed companies in India across various sectors and subsectors. It has also been empanelled with the Association of mutual funds in India as an ESG rating provider for the AMCs.

In CARE Risk Solutions, we had infused capital to cater to the demand from the BFSI segment, addressing their ALM management and regulatory reporting needs. We are in the process of upgrading the existing products in this company and venturing into new business lines like data analytics, banking solutions, etc., and further investing in sales franchises to foray into the global market.

Our Mauritius subsidiary CARE Ratings Africa Private Limited continued its impressive performance during the financial year under review. The company assigned ratings to more than 50 corporates from Mauritius. There has been an increase in awareness about the concept of credit rating among banks and corporates and a clear understanding of the benefits of such ratings.

Our subsidiary in Nepal, CARE Ratings Nepal Limited, also reported growth with 100 new rating assignments executed during FY23.

The transformative journey of CareEdge has seen remarkable progress in an impressively short time frame. As we move ahead, our unwavering focus remains on enhancing knowledge and productivity thereby reinforcing the analytical rigor in our ratings and diversifying our revenue streams. These strategic commitments will serve as the foundation for our continued growth and success. We understand the importance of continuous improvement and adaptability in an ever-evolving landscape. By prioritizing these key areas, we aim to stay at the forefront of our industry thereby delivering value to our stakeholders and exceeding their expectations. I must once again thank you all for your continued support and appreciate my colleagues and the team at CareEdge for their unwavering hard work.

Together let us forge ahead with determination and resilience as we unlock the full potential of our organization. Thank you.

Moderator: Thank you very much. Take our first question from the line up Rajiv Mehta from YES Securities. Please go.

Rajiv Mehta: Sir, congratulations on strong results. So, sir, firstly, could you share the volume of debt rated in FY23 and FY22? And if you can just explain the growth of 14% that we have seen in ratings revenue, which segments of the business drove this as in between bank loans, bond, CPs, securitization what drove this and which sectors drove this?

Mehul Pandya: Thanks, Rajiv. While my colleague Revati would give you the figures on the debt rated, in terms of the segments, I would say the bank loan segment has given us better growth during the year. As you would know that during the period of higher inflation, generally the bank credit is a preferred route as compared to the capital market issuances, so from that angle, we had seen a good growth on the bank debt side and this is something that we have been disclosing in our earlier quarter results as well. The fact that the higher working capital requirements of the corporates and the other entities they necessitate funding and considering this fact that the bank debt continues to remain the principal source of funding. This segment had provided us a better growth for the full year. Revati, if you can give the figures in terms of the debt rated.

Revati Kasture: The debt rated showed an increase of about 78% as compared to FY22. So, in FY23, we rated about Rs. 3.8 lakh crores of debt as compared to Rs. 2.2 lakh crores of debt in FY22. Incremental debt.

Rajiv Mehta: That is for the initial ratings, right? Okay, so sir looking at this 14% revenue growth and rating revenue this year, which is a significant improvement over the preceding year, would it be safe to assume that we have stabilized our market position and stabilized our market share? And if that is the case, how do you plan to grow and further strengthen the market position going ahead?

Mehul Pandya: See the trajectory that we are witnessing for us and something of a trend that we have observed almost since the Q4 of FY22 has been on a quarter-on-quarter we have been posting good traction as far as the initial rating business is concerned and that is something we like to sustain for the future. In terms of cementing this thing and going ahead as far as the future quarters are concerned, this business is principally driven by the credibility that you are posing before the users of the rating as also the fact that how much of a knowledge domain expertise that you are able to disseminate, which can create the kind of traction in the market for the users and the issuers who could be coming to you for the rating. So from that angle, I think our entire focus, which has been on the quality-led growth is serving us pretty much well and we will like to sustain with this strategy. I will not be in a position in terms of forecasting how much of a growth which could be there because that is an outcome of so many variables per se. But at the end of the day, what sustains for us in terms of continuing to solidify our position are the key focus areas that we have identified for ourselves related to our overall theme of quality-led growth and once again, I will like to emphasize that is the knowledge dissemination and the expertise that we have been developing in various sectors that is serving us quite well combined with the kind of focused outreach that we have been having all through the year and which will keep on having for the future as well.

Rajiv Mehta: And just last couple of things I want to check on, one is the employee count as at the end of year and second is have you taken any pricing increases through the last year since we have strengthened our rating process has there been any pricing increases?

Mehul Pandya: See, as far as the pricing increases are concerned, how we measure is, in terms of that every year we continue to map in terms of the number of mandates that we tend to get as against that, what is the kind of revenue that we are having on a per mandate basis and that has showing a consistently improving trend. So, we will like to sustain that for the future as well. As far as the employee count is concerned, on a standalone basis, we are slightly more than 500 and on a consolidated basis, we are slightly upwards of 700.

Moderator: Thank you. We take our next question from the line of Varun Bang from Bryanston Investments. Please go ahead.

Varun Bang: Congratulations on steady progress during the year and appreciate the steps that you are taking to drive the cultural transition. So, just 2, 3 questions, first one is on ESG, so what are your thoughts on the guidelines that have come on ESG rating side? And what opportunities do we sense for CARE since it is made part of BRSR? Is there enough scope to add value? Can you share your thoughts?

Mehul Pandya: See as far as the ESG domain is concerned and currently the entire activity is in this domain, they are being offered from our subsidiary CART. Over a period of time we have developed good insight into this domain and our offerings have been quite well received in the market. What we see from this the guidelines, the full guidelines are likely to come over the next few weeks or a quarter, but the overall thing that we are witnessing is in terms of a regulatory requirement emanating in this regard that should augur well as far as the offerings from our side are concerned because we have been, I would say, quite proactive in terms of developing an expertise in this domain right from the coverage of almost like 900 plus entities as far as the coverage over 'SIRIUS' platform is concerned going right up to serving the needs of the BRSR reporting requirements of the various entities as had been outlined by the regulator. Going much beyond that, in terms of hand holding them to reach a targeted level of BRSR reporting, as well as the fact that in terms of identification of any gaps in this regard, helping them and handholding them to make that BRSR reporting quite competitive. So, from that angle, I think on an overall basis the ESG practices have been serving us quite well and I will request Swati, who is the CEO of our subsidiary where these services are being offered to give further comments on this, Swati.

Swati Agrawal: So, on the ESG front, like Mehul mentioned, the final print of the guidelines are yet to come out. The role of the regulator and the intent is very clear so that you know the corporates and there is going to be a whole lot of regulatory push and in the right manner and in the right direction. Because if you really look at the sense of the guidelines, it is talking about assurance services attached to the whole sort of reporting paradigm. So, in terms of the offerings at CART, we have an IT-enabled platform as well as a very well defined framework across various industries to carry out the ratings and we also do a whole lot of set of comprehensive consultancy assignments in which we handhold the companies in terms of developing their ESG strategies as well as moving them up on the entire ESG curve.

Varun Bang: And in non-rating business in both Corporate Advisory and Research and Advisory, what are the USPs that you are looking at building and how do you think it will transpire in your opinion?

Mehul Pandya: I think the USPs that we are trying to develop in both the subsidiaries at the end of the day, it has to revolve around our core expertise, which is in the Analytics domain, so be it on the Corporate Advisory side or through the ESG aspects or any kind of customized research in CART, our offerings are always oriented towards giving value addition in the analytics domain. And coming to the Risk Solutions business as well, which is a part of the other subsidiary, the product offerings which have been there from our side, we are having a focused approach in terms of augmenting them but continues to revolve around the analytics domain. So, we believe that we have a greater understanding in that as compared to any other domain which potentially could be available as far as the activities for these subsidiaries are concerned, but we like to focus in terms of the analytics domain to continue to remain as the driver for our non-ratings business as well.

Varun Bang: And in the last year or so how do you look at our progress in non-rating business and I think initially we might have to prove our capabilities and then clients would come, so is it a long-drawn process? So, based on your assessment, what could be the timelines for visible success in this business?

Mehul Pandya: I think see non-rating businesses are always slightly challenging in terms of growing them. Considering the fact that, as I mentioned that we have the expertise drawn on the analytics domain, the teams that we have over there both in terms of the Consulting Advisory Subsidiary as well as in the Risk Management Solutions Subsidiary, the teams which are there currently, pretty strong. It takes a slightly longer time in terms of developing these businesses and getting traction in that, but what is heartening for me is the fact that as far as CART is concerned, we have done some very good assignments during FY23 which gives the foundation for capitalizing on the experience drawn from those kind of assignments and to extrapolate it to similar kind of client set as well as the multilateral institutions in the quarters and the year to come. On the Risk Management Solutions side, I think the greater aspect has been in terms of ensuring that the product development that we had envisaged, when we were going for a complete reboot of the entire business ecosystem, over there, that has sustained itself and it is taking a time. And once again mentioning, that this businesses will take slightly longer time to get to a stage where they are giving us a lot of traction. But we are on the right track that is something which is a comforting factor for us.

Varun Bang: So, you said the success timelines could be longer in non-rating piece, so can we look at any acquisition to get a ready foundation and maybe the business can be built from there on, so that sort of can help us reduce the success timelines in this business, so if you can just share your thoughts on acquisitions?

Mehul Pandya: I think from the growth perspective, all options are open before us, so until now we have been focused on organic growth, but if any good opportunity comes our way, we have an open mind on that. We do believe that a combination of various strategies that needs to be deployed in terms of ensuring that we get to that stage in terms of having the requisite traction and the scale of these entities in as short time as could be practically possible. So, I would only like to limit my submission to state that all options are open before us and any opportunity coming our way, we should be looking at it in detail.

Moderator: Thank you. We take our next question from the line of Deep Sankara Narayanan from Trustline PMS. Please go ahead.

Deepan S. Narayanan: Firstly, with CAPEX cycle turning positively and credit growth has been picking up for banks strongly, so do we foresee the double digit growth in rating business over 3 to 5-years now?

Mehul Pandya: I think it will be too much of a forecasting prematurely in terms of giving any specific number, whether it will be double-digit or single-digit in this regard. But what is important as far as our business is concerned is that the credit growth in the corporate lending shall be driven by few themes. Number one is the government push on the infra CAPEX, so the government has been persistently expanding its infra-related CAPEX, particularly in the Roads and Railways segment for the last 3 years consistently, now we believe that the multiplier effect would come into play and that should augur well for the segments like, EPC players, capital goods and the infra product companies. The second is in terms of the growing focus on the green areas, including the de-carbonization, so both the government and the private entities are taking this pretty much seriously and this segment also shall be giving us lot of CAPEX related opportunities. The third is in terms of improving logistics efficiency where once again the investments in the dedicated freight corridors coupled with Multi-Modal Logistics Park so and so forth that should also be requiring a lot of CAPEX and resultantly the debt requirements in this regard. And finally the push that we are expecting or rather a pull in this regard could be in terms of the deleveraged balance sheet for the Indian corporates. Now, the fact that the Indian corporates have significantly deleveraged, that should augur well in terms of their ability to contract further debt to capitalize on the CAPEX related opportunities in this regard. So, a combination of all these factors should augur well as far as the overall Rating industry growth is concerned because that indeed would be debt requirements pertaining to this, and as one of the main Rating agencies in the country we should be in a position to capitalize it to our benefit.

Deepan S. Narayanan: So, all these growth will be mainly driven by volumes itself or we are foreseeing realization improvement also coming in future because of strong demand?

Mehul Pandya: I think it will be a combination of both higher volumes also and in one of the earlier remarks which I made. We are quite focused in terms of a better realization as well, so that is one area where we consistently focus upon on a year-on-year basis to track our progress and I am happy to report that it is showing positive traction on that. So a combination of both is something which gives us the confidence in terms of capitalizing on these opportunities as they come our way with an overall industry led growth.

Deepan S. Narayanan: And lastly from my side, in terms of employee cost, so have you reached the industry-level benchmarks and you are able to retain them successfully if it is so, then do we foresee better operating leverage from here on speaking up for us, so employee cost growth could be much lesser than our revenue growth?

Mehul Pandya: See, on an overall basis, we are growing gradually nearer to the industry benchmarks as far as the employee cost is concerned and from the perspective of retention of this talent, so our attrition rate that has also come down significantly, which is a factor of the consistent efforts that we have been putting in terms of ensuring that the market-related benchmark pay across the cadres, they are implemented. Complemented by the fact that a lot of other employee friendly initiatives in terms of attracting and retaining this talent, have been implemented during this year. On an overall basis what I can feel is that our employees cost as a percentage of the operating revenue, that shall remain range bound, so in certain quarters, if we feel that certain skill sets are indeed required to be on-boarded, by all means we shall be going for that. Because at the end of the day, this is people led business, so on-boarding of the right talent that shall remain the focus area., but Nevertheless, we do believe that it shall be remaining range bound and it won't be increasing substantially from what the current levels are.

Moderator: Thank you. We take a next question from the line of Hitesh Agarwal from Fair Value Capital. Please go ahead.

Hitesh Agarwal: Congratulations, sir on a good set of numbers. My first question is we have taken an impairment loss of Rs. 1.73 crores in standalone statement in Q4 quarter. Could you give more details on this?

Mehul Pandya: This pertains to our assessment of our investment in our subsidiary, which is the tech subsidiary CARE Risks Solutions. So in this regard, as a matter of good governance, see you are aware that we have infused Rs. 33.5 crores as equity in this subsidiary during FY23, but from a good governance perspective, we keep on evaluating the overall things in this regard and we felt that as a prudent measure, we should be taking this impairment in Q4 and that is something that we have done. But our commitment in terms of growing this subsidiary that sustains., at the same time the decision in this regard that is the more from a good governance perspective.

Hitesh Agarwal: Are we expecting any further impairment maybe in the coming quarters on this related?

Mehul Pandya: We do not anticipate anything substantial in this regard because, as I said that the efforts which are going in terms of turning around this company, they are in the right direction. While it has taken slightly longer in this regard, but nevertheless we are in the right direction and that is something that we are hopeful in terms of having the improved performance in the coming quarters and year.

Hitesh Agarwal: So, as I look at the tax rate for FY21 and FY22, it was around 22 to 23%, whereas for FY23, the total tax rate is at 32%, so could you throw colour why there is a bit of variation in this?

Mehul Pandya: I will like my CFO Jinesh Shah: to answer that. Jinesh Shah: please.

Jinesh Shah: So, if you have seen, there is a certain impairment in FY23 the whole year, so because of that, we don't get a tax credit of that and it gets disallowed. So that is why the effective tax rate increased to 32% what you said. And in the previous years, obviously that was allowable as a CWIP and all. So, if you compare 2 years type that is the difference only for the impairment on the impairment side.

Hitesh Agarwal: And what can we expect as the tax rate going forward for FY24?

Jinesh Shah: It would be nearly to current tax rate that is between 25% to 27%. Because there are certain adjustments on deferred tax, so that we can't predict on DTA. So, the tax expense consists of current tax and the deferred tax, so that is why I am giving you a range bound.

Hitesh Agarwal: Sir my last question is, could you share throw details on the attrition level which was there for Q4 and for the whole year of FY23?

Mehul Pandya: Overall, I think the attrition level from the previous year, they have come down significantly and for FY23 it was around 28%.

Hitesh Agarwal: And in Q4?

Mehul Pandya: We don't have a quarterly-to-quarterly. Because at times there would be onboarding also which keeps on happening across the quarters. So quarter-to-quarter attrition rate is not something that we check, it is more on a yearly basis which is more reflective of the overall trend in this regard.

Moderator: Thank you, we take our next question from the line of Keshav Garg from Counter-Cyclical PMS. Please go ahead.

Keshav Garg: Sir it is very encouraging to know that the Rating business is gaining traction, sir but our other subsidiaries, non-rating business, so the losses are increasing drastically. They have tripled year-on-year, whereas the revenue has fallen. So had the revenue also grown, then it would be encouraging that at least the business is picking up, but if the revenue is declining and losses are increasing, then sir, where is the light at the end of the tunnel for the non-rating business, when in your judgment you think that this segment can break even?

Mehul Pandya: I think when we are talking of the non-rating businesses, I would say the major loss which has been there is on the Risk Management Solutions Subsidiary. As far as the Consulting Subsidiary is concerned, CART which is concerned it has largely been closer to break-even during FY23. So there was only a marginal loss which was there and it was largely a cash flow positive outcome for us. Both these businesses require a significant, I would say, deployment of the resources to get traction in the market. So, the infrastructure in terms of the human resources that needs to be created first, especially on the Risk Management Solutions side, considering the fact that a lot of product development efforts have been going on over there. From that angle, this commitment to the resource is having a right team working on those product developments, that entails investment from our side in this regard. But the fact that these products are going to the go-to-market stage and start generating revenue. It has got delayed a bit in this regard and that is why the resultant losses which have been there. But nevertheless we do believe that the products which are getting developed and the product prioritization of these products from the management side, that is with a very clear cut focus strategy and we should be seeing an improvement in this regard as we move forward. but nevertheless, I will also like my colleague and CEO of CARE Risk Solutions, Kiran, to give his perspective and how he is witnessing this trend and how he would like to take this forward on this.

Kiran Surve: So, as we say, this particular year has been a year of constructing all our products and solutions to the new norms of BASEL and that time which is going to be taken to get these solutions to the market was where we envisaged this investment, which was done. However, now our first few products are into the GTM stage and we see a very strong traction over there and as we all speak, this current particular tenure where we were developing the applications, we all know the software industry went into a very large turmoil for resources and availability of resources. Globally it is a well-known fact. So, these couple of things, which we have been able to arrest over the last quarter plus all our products are following the timelines on development and are adhering to the release dates shows us positive signs of how revenue would be generated from the products. Thank you.

Keshav Garg: Sir also lastly wanted to touch upon the share buyback issue which has been raised multiple times in the past and the company also attempted to do the same, but the pricing was incorrect, so the buyback was unsuccessful. Sir so as soon as the one-year timeline gets over, so kindly consider another share buyback. Sir, because you see our earnings per share way back in 2012 was Rs. 38, which has now declined to Rs. 28 and this is not adjusting for inflation and moreover, the ESOPs are further diluting the share capital and reducing the EPS and also share buyback is more tax efficient and it will help us increase our EPS growth also. Sir so I hope you will appreciate the same and do a share buyback. Thank you.

Mehul Pandya: I take your point and certainly I will flag it off to the board for an appropriate decision in this regard. Thank you.

Moderator: Thank you. We take our next question from the line of Vikram Kotak from Ace Lansdowne Investment Services LLP. Please go ahead.

Vikram Kotak: I have question one for Mehul and one for Jinesh Shah, if I missed earlier if you answer it earlier, you can even pass. One is on the tax side, I missed their answers, so what is the likely tax rate going forward next 2 years after this one spike in the last quarter as well as this year?

Jinesh Shah: It can be in the range of 24% to 28% or 25 to 28%.

Vikram Kotak: So, you will back to the normal in next year?

Jinesh Shah: Yes, definitely.

Vikram Kotak: And second for Mehul bhai for you, is this slide number 7 on the presentation which you talk about the rating stability and sync with the industry average, can you little elaborate on this one because it is very interesting slide and I just want to understand this slide?

Mehul Pandya: Again, what we always keep on tracking as far as the Rating performance is concerned, Rating overall should be number one, we are displaying an ordinality in the sense that the higher rating categories should be displaying greater stability and on an overall basis the investment grade ratings also should be continuing to display a greater stability. In fact, that this Rating performance has to be tracked consistently just well with our overall philosophy of quality led growth, because at the end of the day that is something as a Rating agency, which has completed 30 years and we are looking forward to a substantial time in the future also. So, we have to develop that kind of robust systems and processes to sustain the Rating performance. I will also request my colleague Sachin, who is our Chief Rating Officer, to give his perspective on this also. Sachin, over to you.

Sachin Gupta: So, you know, if you look at this slide on Rating stability, I think there are 2 key takeaways from there. One is if you see year-on-year, you know the darker blue bar is talking about the period of 2018 to 2022 and the next one is talking about the more recent 5-year that is 2019 to 2023, so as you can see, there is an improvement in the stability rates in the earlier 5-year period to the current 5-year period, so that is one. So, our Rating stability is improving over the period, so that is point number one. Second is we have also compared it to the average of the industry and there if you notice the gap you know while it was always slightly higher than average even earlier now the gap is even increasing, so you know we are better off than the industry average in terms of Rating stability, so that is the second point. The other point which I just wish to add on this same thing is that you know our another metrics that we look at is investment grade defaults apart from the stability, wherein we very simply say that at the beginning of the year in my total portfolio of entities which were in investment grade by the end of the year, how many such entities have gone into default and obviously the lower the number is, the better it is, so you will be happy to know that in the current year, we had only one such instance wherein the investment grade entity went into default. The similar numbers in the prior periods were in double digits and even last year it was a number of about 5, so we have been very sharply improving our performance in this respect and for the current year, our performance is actually either better or same as the other top Rating agencies in the country. So, in that respect, our performance of

Ratings is quite strong and that is largely because of the multiple actions that we have taken over the last few years including things like we have now sector specialized rating teams, we have dedicated teams who look after highly rated entities and especially the entities which have high amount of debt. We also have oversight from external committees like ERSC, which is our Rating Supervisory Committee, and in general there has been a strong focus within the organization to make sure that the Rating actions are very timely, more objective and that is also getting reflected in our the various mutual funds and other investors who use our Ratings, having more confidence in our Ratings. Thank you.

Vikram Kotak: Sachin, what we are trying to say that and I am very happy to see the triple B and double B are showing a good improvement that shows that you are ready in process actually kind of showing much improvement than earlier years, so that that is what I have to read in the slide, right?

Sachin Gupta: No, so if you notice it is also in the higher Rating category, you know higher Rating categories the point like say for AA the number has moved up from 92.43 to 93.61. The point is, you also have to note this is a 5-year data, so if we had say weak performance in the year 2019 and 2020 that is not, so therefore the curve is not that sharp, right. So, if I was to play it only for the current year, it would be a much sharper improvement, but because it is a 5-year average, the delta is not looking as sharp, but nonetheless there is clearly a discernable improvement across all Rating categories.

Moderator: Thank you. We take our next question from the lines of Sanjay Kumar from ithought Financial Consulting. Please go ahead.

Sanjay Kumar: Just a follow up on the Rating stability, I mean shouldn't we using the average of the industry, I mean company like us should be benchmarking ourselves against the leaders CRISIL and ICRA and one observation was our AAA and AA stability seems to be behind them whereas our A and triple B is even better than someone like ICRA why is this divergences if there is any, if you could talk about this?

Mehul Pandya: Sachin, would you like to take it?

Sachin Gupta: So, the data that we have given here is only for the industry average and I take your point that we should compare ourselves to the industry, people who are in the same industry position as ours and maybe next time we will kind of do it like that, so point taken. But if you look at the improvement, if I were to compare across the industry in the chart, it is clear that we are better off than industry across all Rating categories, so I didn't get your second part of the question that you are saying.

Sanjay Kumar: For example, our triple B stability rate is around 90, 91, we have improved to 91, but if I look at say someone like, ICRA they are still at 87, so we are better than them and BBB, whereas we are lagging behind in AAA and AA.

Sachin Gupta: So, you know the point is valid, CARE if you see historically our Rating stability in A, BBB and BB category has been fairly strong. We had submit of mishaps in AA and AAA categories during the 2017, 18 and 19 period and that is where the data is kind of showing us in a relatively weak position, but if you look at the data for the more recent periods and that is what I shared on the earlier question, if you look at the last 2 years, our performance is kind of at par or even better than some of the names that you mentioned on the Rating stability and on default statistics.

Sanjay Kumar: And in the earlier question you gave the volume, can you also give the client base for the initial ratings in FY22 and FY23, how much has that piece grown?

Mehul Pandya: See that we will not be able to disclose as a part of the public disclosures, but what we can state very clearly has been that our overall growth in terms of the incremental business which we measure in terms of the addition of the new client has been very robust and that is a momentum which is sustaining all through the last 5 quarters that I talked about starting from Q4 FY22 and till Q4 FY23. It is very clear growth over there, which has been helping us in terms of posting good results and we would like to sustain that.

Sanjay Kumar: And is a bit of pricing involved or do you think it is down to credibility expertise?

Mehul Pandya: I think the pricing has always been in terms of the market-led phenomena, means the industries like this or for that matter any of the industries where the competition is always intense, so the pricing is generally driven by the market dynamics, but at the end of the day in this kind of a business, what matters is the kind of number one, your knowledge expertise in the various sectors which are going in for the Ratings, contracting new debt as also the fact that how much of an outreach that you are having in terms of explaining your positions, your knowledge to them which can create their requisite pull for this. So, it is a combination of both these aspects, which has been serving us very well in this regard.

Sanjay Kumar: And second question on the non-rating business, looking at the P&L we will not be able to conclude anything, so if you could give us any internal metrics that you monitor for your non-rating subsidiaries, how many AMCs have you signed up for ESG, how many banks for ALM management or regulatory reporting and so on. So, can you give us what kind of internal metrics that you guys are tracking, so we can get a better picture outside of the P&L.

Mehul Pandya: I think as far as the Consulting Advisory business is concerned, we track it in terms of the number of clients that we onboarded across the offering, so be it in terms of the customized research or the corporate advisory and the ESG offerings. And as far as the Risk Management Solutions company is concerned, we track it in terms of once again, the clientele across their business clients which in terms of their existing product suite on the ALM or the Ops risk,credit risk, kind of solutions. Going into the new domains in terms of data analytics, as Kiran mentioned in his submission that some of the products which we have been developing, they are almost in this stage of go to market, something has already been done so far and some more would be getting to the GTM stage over the next few quarters, so this is the kind of a metrics that with which we keep on tracking both these businesses and on both these aspects, the subsidiaries have done well. In terms of the key aspects of figures pertaining to this may I request Swati to give her perspective in terms of the Consulting Advisory and Kiran on the Risk Management Solutions. Swati, first you.

Swati Agarwal: So, in terms of the clients added, we have added something like about in total maybe about 100 new clients, we were on-boarded and they could be across various industry spectrums or across various product offerings, whether it is ESG or whether it is Industry Research or whether it is a Consulting Business. And particularly in the ESG space, we are currently working roughly I mean, instead of giving the exact number, I will probably say that we are roughly in the high end of the 20s that we are working on, the number of assignments that we are working currently. Kiran you want to?

Kiran Surve: Yes, from the CRSPL prospective, we have been able to add not only customers in India but having marquee customers in Canada and also a customer in UAE. So, as we speak, we also been able to add some marquee customers on the lines on the financial organizations, so going further we look towards our products, once they are ready, very explorative market and the BASEL IV line, so we see a lot of growth on that line as well.

Moderator: Thank you. We take our next question from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Sir regarding ESG we mentioned that in ESG disclosures, we have covered around 900 companies, so in our other segment, can you help us understand how much we have booked for ESG disclosure, ESG Ratings and ESG for AMCs?

Mehul Pandya: Swati, you will take it?

Swati Agarwal: So, the exact break up in terms of I would just say that at this point of time, the ESG offerings, if you really look at it, we are about a year old in this and we have revenue booking from all the 3 segments whether it is ESG grading or whether it is ESG assessments or whether it is ESG Comprehensive Services. So it is all across the spectrum and a lot of work is undergoing, so may not be very fair for me to comment further on this, but it is spread all across the various product offerings that we have under the ESG space.

Devansh Nigotia: And based on the experience over the last one year, can you help us understand the unit economics based on which all 3 the revenues that we generate in all these 3 sub-segments? Even a directional you can give even that would be really helpful.

Swati Agarwal: So, from a directional perspective, see if you also look at it there are new regulations that are coming out and we really have to go through this SEBI paper to understand because the SEBI paper envisages some kind of accreditation with SEBI in terms of the ESG Rating Providers. So, in terms of it will not be fair to give guidance as such, but as far as our product portfolio is concerned, we will be concentrating on the Consulting Business as well as on the ESG grading side.

Devansh Nigotia: And as of now, how many entities are eligible to do all 3? And who are accredited with SEBI?

Swati Agarwal: So, accredited with SEBI is a phenomenon, which is just coming, AMFI registered are there. There is something called AMFI registered who are the ESG Rating Providers and to best of my knowledge, I think there are 4 guys who are AMFI or 4 or 5 guys who are AMFI empaneled. Consulting services, if you really look at the bucket it is essentially the Big 4 and some of the other larger players like us and some of the larger other competitors of ours, so they are providing all the consulting services.

Devansh Nigotia: So, consultancy would include ESG disclosures and ESG Ratings? Is that the right understanding?

Swati Agarwal: No, consulting essentially also means helping a company develop its ESG strategy so that it is a whole comprehensive set of services. It helps the company, make its ESG plan, ESG disclosures, ESG strategy etc.

Devansh Nigotia: Because within last one year we have done ESG business, but our revenues and other segments have actually declined, so I am just trying to understand is it insignificant in last one year? Or can you just help us understand how within others, the revenue mix has moved within different sub-segments?

Swati Agarwal: So, I don't think that is the right conclusion. I think if you look at CART's revenue, we have only grown over last year, so I don't think that is a fair conclusion to say that our other products have gone down, or we were grown all across all segments.

Moderator: Thank you. We will take our next question from the lines of Himanshu Upadhyay from O3 PMS. Please go ahead.

Himanshu Upadhyay: Congratulations on a good set of numbers. We had seen our one presentation on analytical driven risk solution, where we are targeting various types of services like pattern recognition and targeted advertisement and sentimental analysis, are these products more automated and because of automation, will there be nonlinearity in the business profile of these types of products? And hence once the product gets wider acceptance the margins can be much better or how? What is the nature of these services what we are trying to develop? Or it would be something like Credit Rating only where man hours will be pricing it, so some thoughts? on that?

Kiran Surve: So, mostly the analytical offerings are more towards credit risk and market risk offerings, which we are producing under our solution lines. So, there are certain elements like network analysis which is new or graph databases which are new which we added to our portfolio. Sentiment analysis or a particular type of analysis is a subset of the overall analytics portfolio that we give.

But coming back to the story, what we are doing is more on the lines of fraud analytics, Early Warning System, network analysis, industry-based analytics and stress related to portfolios. So, these are the offerings that we have which definitely add a lot of value to the organizations who are into lending or probably would take market situation based on our analysis but they are as an offering as a product and not as any service because these are very personalized analytics that we are into. Does that answer your question?

Himanshu Upadhyay: It is something like a core just an example I am taking, something like a core banking software type of a product where it is just an example where a customer pays based on license fee and then renewal fee type of business model it will be?

Kiran Surve: There are 2 offerings, one is risk as a service where we are into a smaller model, which is for NBFCs who cannot afford the complete software and hardware, so there we are, offering along with a couple of clouds like Oracle and Azure are the cloud we are tied up with. We are already offering this. We are already in prototypes to offer to 180 cooperative banks, but that is still in POC stage. So, one model is definitely risk as a service which is subscription based, but banks still in India prefer that they be it on pay model. So, we have both the model.

Himanshu Upadhyay: And can we take this business to beyond lending institutions because some of these things may be useful for other institutions also or organizations or we will focus only on that side of the business?

Kiran Surve: No, so we have built a CFO offering which has IFRS 9 as a mandate and accounting standards, in Indian accounting standards, these are the 2 new small packages, but they are not very big that can be offered to non-financial organizations also. We, however, are keeping this very small right now and we would like to grow in a very structured manner in the non BFSI sector, but yes, it can be offered.

Himanshu Upadhyay: And lastly, the cost increase under subsidiaries means that is majorly to the employee cost which was increased from Rs. 20 crores to Rs. 30 crores, so the majority of cost of employee which has grown is to develop these products and how good is the sales team? Have we also invested into the sales part of the team and are both the activities, the production and the sales are completely ready? Or you think we will need to further invest to drive these businesses, especially on the sales side now?

Mehul Pandya: I will give you a perspective on this, see the investment as far as the people in other subsidiaries concerned has been on all these counts. It is on the product side; it is on the practice and the delivery side as well as on the sales side. As Kiran mentioned, a lot of effort has been going on in terms of developing new products as well as augmentation of the existing products to make them more value accretive for us going forward. So for that developing the requisite skill sets, having the right people on board to do these things and coming out with the developed products in a time bound manner that had been the focus., so that has resulted into a higher cost which has resulted into the losses also at this stage. Going forward also our focus sustains in terms of ensuring that these products where we have invested in terms of the right people, they get to the GTM phase at the earliest combined with the focus in terms of the augmentation of the sales team so that the requisite business traction comes our way in a much faster manner. So, certainly like the focus on in terms of building up the sales team continues to remain and it cannot always be in terms of only the product development. So, the sales team and the product development team working in tandem to ensure that we generate traction at the earliest shall remain our focus.

Himanshu Upadhyay: And outside India also, we are trying to sell these products, so what could be the sales channel means would we be doing on our own or you would like to Piggy Back on some consultants or what is the move to develop the business outside India? What have you said about in your opening comments?

Mehul Pandya: So, our focus would remain in terms of tapping these opportunities as they arise and generating new opportunities in this regard. So, what matters to us is that when we are tapping the geographies outside India, we should be looking at the opportunities in totality. So, wherever we are in a position in terms of getting the business on our own, certainly, we will be going for that, considering the fact that it will always be giving us a better margin on this. But we are also equally open in terms of going for the partnership model in this regard that wherever we can partner with anybody else that also remains as a part of the overall strategic framework. It is a combination of both these things, which should be ensuring that we have the overall right product in the market fit to give us the requisite traction at the earliest in terms of tapping the geographies.It can't be only one strategy in this, it has to be a combination of both.

Himanshu Upadhyay: Thank you. Very informative and very helpful. One small suggestion, the company is going through a very interesting phase where we are entering newer businesses also, if we can do a call at least once in 6 months or mid-year and year end, it would be helpful rather than just at year end.

Mehul Pandya: Point taken. Thank you for your suggestion.

Moderator: Thank you, ladies and gentlemen, due to time constraint, that was the last question. I would now like to hand the conference back over to Mr. Mehul Pandya for closing comments. Over to you, sir.

Mehul Pandya: As I mentioned in my opening remarks, we are fully geared up in terms of unlocking the full potential at the group level. We are quite positive when it comes to the opportunities that are before us and as also in terms of the determination that as the entire senior leadership team across the group that we are having on the growth trajectory, which is the runway that was set in FY23 and shall continue determinedly on that path in the future quarters in the year as well. So, I would like to once again thank everyone for their continued support and would count on it for the days ahead. We wish you all a very fruitful FY24. Thank you so much.

Moderator: Thank you, ladies and gentlemen, on behalf of CARE Ratings Limited, that concludes this conference. Thanks for joining us. You may now disconnect your lines.