CARE Ratings Limited

Q4 & FY24 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to CARE Ratings Limited Q4 and FY24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs and opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performances and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mehul Pandya, Managing Director and Group 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 and FY24 investors call.

First and foremost, I would like to thank all the investors for having reposed faith in us and have supported all throughout. Many of you have been kind enough in terms of suggesting to us new areas to focus upon and I deeply value that. I trust that each of you had the opportunity to thoroughly review our quarterly results. Today, we have with us, all my colleagues who are part of the senior management of CareEdge family. I am interacting with you to provide an in-depth analysis of our company's performance for the past quarter and to address any queries you may have following my initial remarks.

Let me start by talking about the macro economy. Despite facing headwinds from various global front, the Indian economy showcased remarkable resilience in the past year. We encountered challenges stemming from weakening external demand, geopolitical tensions and weather-related adversities. Yet, amidst these hurdles, our domestic economy stood strong, demonstrating robust growth estimated at a healthy 7.6% in FY24.

This growth was propelled by a buoyant gross fixed capital formation, which surged by 10.2%, largely attributable to the government's focus on capital expenditure. However, we did witness subdued growth in private consumption primarily due to the weather-related uncertainties and slow rural demand recovery. On a positive note, urban demand remains robust and the anticipation of a favorable monsoon augurs well for rural demand recovery in the current fiscal.

In terms of investment, while government-led capital expenditure continued to drive the growth, the private sector capex remained sluggish. However, there are promising signs with the manufacturing sector's capacity utilization surpassing the long-term average and higher investment announcements indicating and improving intent to invest. We believe that facilitating private capex will be one of the key parameters in policy framework of the future as well.

On the financial front, fundraising through corporate bond issuances increased by 19% to INR10.2 lakh crores in FY24, whereas the issuances of commercial papers remained stable at INR13.8 lakh crores. Bank credit to industries grew by 8.5% in FY24 compared to 5.6% last year, largely driven by 7% growth in large industries. However, some moderation was witnessed in credit growth to NBFCs and personal loans due to the increased risk weightage for credit disbursement.

Externally, India's current account position remains favorable, supported by healthy performance in services, exports and remittances. We expect improvement in merchandise export this fiscal year and our inclusion in global bond indices is anticipated to bolster foreign portfolio investment inflow.

In conclusion, while the Indian economy stands comfortably compared to its peers, we must remain vigilant of challenges posed by volatile commodity prices and geopolitical uncertainties, by navigating these challenges prudently we can ensure sustained growth.

At CareEdge, we stand ready to confront the challenges ahead with unwavering determination and our commitment to excellence has never been stronger. In order to strengthen our brand presence in the market, we have embarked on an extensive outreach campaign.

Our teams in ratings, economics and industry research have been tirelessly working to produce high-quality content, resulting in an impressive output of 329 reports in FY24. These reports cover a wide range of topics from timely updates to in-depth analysis and have garnered acclaim across renown publications. Moreover, our senior management, sector specialists, industry research team, economic experts, and business development leaders actively participated in over 100 knowledge-sharing forums during the fiscal year. This commitment to sharing knowledge and expertise underscores our dedication to driving growth and progress within our industry.

In addition to written content, our presence across media platforms has experienced a significant surge over the past year and continues to expand in the current quarter. From our power pack monthly edition of FORESIGHTS, to engaging blogs and thought-provoking podcasts, we are actively disseminating valuable insights to our audience.

As we move forward, let us remain steadfast in our pursuit of excellence and innovation. Together, we will continue to elevate CareEdge to new heights of success.

Let me turn now to our business performance. Firstly, I'm happy to share that the Board of Directors has recommended a final dividend of INR11 per share at a face value of INR10, which will take the total dividend declared for the year to INR18 per share.

On the performance, on the standalone business, which is the India Ratings business, for FY24, CareEdge reported revenue from operations of INR283 crores, registering a growth of 14% over FY23, as the initial ratings business continued to witness strong growth. The FY24 operating profit stood at INR128 crores, a growth of 10% over FY23. The operating profit margin stood at 45%. Our PAT was INR119 crores, a growth of 15% over FY '23.

I would reiterate that our financial performance should be assessed on an annual basis rather than on a quarter-to-quarter, Nevertheless, for Q4 FY '24, the standalone business, revenue from operations stood at INR75 crores, a growth of 10% over the corresponding Q4 of FY '23. The PAT in the quarter stood at INR35 crores, a healthy growth of 35% over Q4 FY '23.

Turning to our consolidated business performance for FY '24, we reported revenue from operations of INR332 crores, registering a growth of 19% over FY '23. The operating profit margin stood at 34% and FY '24 PAT was at INR103 crores, a growth of 20% over FY '23.

For the Q4 consolidated business performance, the revenue from operations stood at INR90 crores, a growth of 16% over Q4 FY '23. PAT was at INR25 crores, a growth of 22% over Q4 FY '23.

As of FY '24 there is a shift in our business mix with our rating to non-rating ratio now standing at 90:10 compared to 94:6 in FY '23. The shift comes on the back of the ratings segment growth of 14%, while the increasing contribution is witnessed from the non-ratings businesses.

A notable aspect of our performance lies in our investment in subsidiaries. While these entities are demonstrating promising growth reflected in the top line figures, the analytics division of our subsidiary has shown more than 100% growth over a small base of last year on the top line while investing in people, products and technology and operating at a similar loss as compared to the last year. The Advisory & Consulting division has actually shown more than 65% growth on the top line and becoming marginally profitable.

However, we remain optimistic about the trajectory of our non-rating subsidiaries. As they continue to mature and generate profit, we anticipate a corresponding improvement in our consolidated EBITDA percentage over time. This underscores our commitment to nurturing long-term value creation and reinforces our confidence in the strategic direction we have charted for sustainable growth.

I would like to now touch upon some key initiatives taken to diversify our business offerings:

Our subsidiary, CARE ESG Ratings Limited, shall function as an ESG ratings provider after having received the approval from SEBI on 2nd May 2024. The CareEdge ESG Ratings will enable the issuers to discern steps towards the betterment of its sustainability performance by comparing itself to industry benchmarks and by gauging its relative standing amongst its peers.

We have been making efforts on the ESG side over a couple of years and we believe that with this approval to operate as an ERP, we shall be able to provide value addition to the users of such ratings.

CareEdge shall offer sovereign credit ratings and global scale rating of debt securities through its entity incorporated in IFSC-GIFT City. We believe that with the inclusion of India's debt in the global bond indices, it will enhance the fund flow into the country, thereby creating opportunities for such ratings.

Our subsidiary CARE Ratings (Africa) Private Limited has signed MoU with the African Peer Review Mechanism (APRM), in the area of credit ratings.

We are optimistic on the growth potential in this new business line and look forward to their contribution in the growth of CareEdge group.

As a part of our transformative journey, we have invested tremendous effort in enhancing and automating the rating processes and improving efficiencies across our organization function. Our aim of becoming a tech-driven hub remains unwavering and we'll continue to invest in our people, technology, branding and growth initiatives to achieve this goal.

CareEdge is exploring ways to leverage large quantum of data and apply the layer of Generative AI to enhance the analyst productivity. We are also exploring the use case of AI in strengthening of our internal controls.

Lastly, I would like to highlight some of our ESG achievements and commitments. With our persistent efforts, CareEdge Ratings were able to reduce its energy intensity per employee by 8% on a Y-o-Y basis. Our Scope 1 and 2 emissions declined by 13% on a Y-o-Y basis. CareEdge Ratings average gender diversity was maintained at a healthy level of 40%. CareEdge has formalized the policy and commitment to be an equal opportunity provider as an organization.

I thank you all for your continued support and appreciate the contribution from my colleagues and the entire team at CareEdge for their continued hard work. I can now open the floor for the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Congratulations for strong results in the year gone by. Sir, I have few questions, firstly on domestic ratings business. So, there has been slight moderation in the domestic rating revenue growth in Q4. Is it largely reflective of the moderation witnessed in the bank rate growth to NBFCs because of risk rate changes? And was our market share stable or is it improving? Can you comment on this?

Mehul Pandya: Thanks, Rajiv. You're right that Q4 has witnessed a slight dip as far as the overall growth as compared to the previous quarter. But more or less, we have been able to maintain the trajectory of our growth all throughout the four quarters. As you would have witnessed, right from quarter 1 of the fiscal, we have been registering double-digit growth, and we are happy that we were able to maintain it all through the quarters.

We do believe that in this kind of an industry, there could be some fluctuations which can potentially happen in some of the quarters. That is why we always emphasize in terms of looking at the things from an annual basis. And we believe that in Q4 as well as on an annual basis, we have registered a decent growth.

To your question in terms of the NBFC sector impact, while to some extent, what happens across the segment of the economy, they do have a bearing in terms of how the credit flow to that segment could be happening. But as a full-service rating agency having its presence across the segments, we are always prepared for this kind of fluctuation. And because of that, we are able to mitigate what could be impacting one sector by our presence in the other sectors as well.

Rajiv Mehta: Okay. And broadly, our market share in the overall industry volume, maybe in terms of quantum or in terms of mandate, is it stable, is it improving?

Mehul Pandya: Yes, Rajiv. So to a good extent, we have been able to improve as far as our market share is concerned, right. And there could be some varied components of looking at it. One of the things that we always look at and in a highly competitive industry, it's always the fact that how much of an incremental rating requirement has been there during the year. And we believe that we have done well on that count in terms of improving our share as far as the incremental number of entities, which would have been rated across the rating agencies.

And if you would have witnessed consistently, all through the four quarters, we have been emphasizing on this aspect that the initial ratings have been driving the growth significantly. I mean they have been giving significant contribution towards growth performance for all the four quarters. So, we've been able to maintain that thing. So we believe that with the kind of a competitive scenario that we have in the industry, we have done well.

Rajiv Mehta: Okay. And this question on ratings segment margin that we report in the segmental pick up, so over the last two quarters, the margins have been trending better on Y-o-Y basis. So now we are delivering better margin. Is it purely a function of operating leverage or are there other positive dynamics like the segmental mix or sectoral mix or pricing or maybe incremental wallet share gains, and can you comment on this? And then whether the margins can further go up if the growth were to continue?

Mehul Pandya: Rajiv, this industry is actually a high operating leverage industry, right. So that has a significant impact in terms of how the margins tend to play out. At the same time, one of the points that you mentioned later in your statement is in terms of the increasing wallet share from across our clientele. That also helps in terms of having certain boost in some of the quarters. But largely, operating leverage has a significant role to play.

Rajiv Mehta: Okay. Just one question last on analytics business, where you are very positive on growth. So what underpins your expectations of this sustained strong growth coming, maybe if you can elaborate in terms of our strategy, go-to-market strategy, product and client sourcing plan rotation? And how quickly can we improve margins here because you are making loss and what can be the eventual level of margins for this business?

Mehul Pandya: Broadly speaking, it has been a case of prioritization of the key areas where we have been working upon as far as the product development is concerned and getting to the GTM stage. So during the year we reassessed these aspects and identified some of the products where we could see the market gaining traction on this.

And we focus more in terms of getting those products developed faster as compared to the other ones where we were putting our resources. So that has helped in terms of ensuring that the top line growth that we have witnessed from that entity that has improved significantly. Yes, there are losses and these are difficult businesses to build and grow for the future.

But we believe that the kind of traction that we have witnessed in this fiscal, it gives us the confidence in terms of taking the things forward in a much more positive and a stronger manner. Nevertheless, I will also request my colleague, Abhisheik, who is leading this vertical to give his comments as well. Abhisheik, would you like to say something?

Management: Yes, sure. So as Mehul mentioned that we have reprioritized a few products and taken some products to market where we feel that the potential for growth is higher specifically around the credit monitoring and the credit risk products that we wanted to build and we are good at. So that's something that is driving growth. And we are confident that we will see higher margins as we go forward.

Rajiv Mehta: Okay. Thank you and best of luck. I have a few question I will come back in the queue.

Mehul Pandya: Yes. Thank you Rajiv.

Moderator: Thank you very much. The next question is from the line of Varun Bang from Bandhan Life. Please go ahead.

Varun Bang: Good afternoon and thanks for the opportunity and congratulations for steady performance. So first question is on the rating business. So given our business model, I mean, just like you mentioned we are a fixed cost business. So what percentage of business would be? How do we look at this business?

I mean do we look at it at an absolute basis or the issue price or you look around the yield when you compete with your competitors? And how do you internally think about those aspect? And if you can just talk about the competition, let's say, if it is looking at the fixed price, how would we change our stance there?

Mehul Pandya: Varun, can you slightly elaborate on the fixed cost aspect and the deals that you mentioned. What exactly you're trying to understand from us, would you slightly elaborate, please?

Varun Bang: So I'm just trying to understand the competitive dynamics in the rating business. So when we compete on a few mandates on the rating side, do we look at the absolute issue price or you think about the yields when you give a quotation. How do you internally think about those aspects?

Mehul Pandya: This is, in our case, let's say, in our kind of an industry this is a combination of all aspects. So especially if we are looking at the things from the perspective of what is the quantum that we are going to rate and at what price. We also have to factor in that with whom are we dealing in the sense that if it is existing client, I mean in that case there always is a high operating leverage component which gets into that as compared to the efforts that we have to put in when we are dealing with a new client as compared to an existing client, they tend to differ and corresponding to the margins also they tend to differ on that count.

But in a broader sense the rating agencies the pricing is linked to the overall quantum of the debt size to be rated. So, from that perspective there is a certain element of stability on those accounts. Nevertheless, the focus in terms of increasing the wallet share and in certain areas, in certain segments they have their own dynamics when we build it, which we build up into our pricing on those accounts.

Varun Bang: And secondly on the African subsidiary, how long will it take to establish our presence in Africa? And how do you think it should pan out because it is all about gaining confidence of investor community and I think that would take some time. So how are we thinking about moving there?

What kind of a groundwork do we need to do before we establish our presence? And lastly over 3 years to 5 years what is the reasonable expectation in terms of revenues in Africa?

Mehul Pandya: I think the African business has to be looked from a slightly different perspective. See, when you are mentioning about subsidiary, it's not just a question of one subsidiary. Today, we are having two subsidiaries in Africa. One is already up and operating. The other one is just established and where we are awaiting the regulatory license.

So if we are first talking about the subsidiary which is already operating since 2015 now, it has been already a profit-making proposition for us and it's a profit-making dividend-paying entity for us. And largely the value creation that we have done by investment in that subsidiary that is substantial for us.

And from that angle another aspect is that when we have established a subsidiary in South Africa which is a step-down subsidiary for us for the parent company, the entire investment in South African subsidiary is also done by Mauritian entity which is our direct subsidiary. So from that angle it has been able to take care of all its expansion plans over there.

Yes, for the South African subsidiary that we have established, the license is under processing by the regulator. And while it could be difficult in terms of hazarding a guess on the exact timeline by which the regulator shall process the license. But our expectation is that in the first half of the current financial year we should be getting the license from the regulator. So if you alluded to these two subsidiaries then this will be the perspective from my side.

Varun Bang: Got it. And any expectation in terms of revenue in those two subsidiaries put together over the next 3 years to 5 years?

Mehul Pandya: I believe that the South African subsidiary while it shall be expected to start the operations during the current financial year, in the initial stages it would be taking some time to stabilize just as our Mauritian subsidiary did because in this kind of market it is also a fact that the ratings are not mandatory in that sense. It's the creation of the market that we need to do over there.

In Mauritius, we have successfully displayed our capability in terms of creating the market and in this process, we have grown quite good over there. And from the perspective of how the overall trajectory would be, I believe that these subsidiaries shall see a good potential for South Africa especially the overall bond market size is fairly significant.

So from that perspective, having been getting our presence over there for the future should augur well because of the sheer size of the overall market as compared to Mauritius. So we are confident in terms of the growth in these businesses. It will not be possible for us to give any specific number if you're asking for the next 5 years, but we believe that the success that we have demonstrated by value creation in Mauritius we should be able to take it to our South African venture as well.

Varun Bang: Okay sure. And on the non-rating side if you can just give a sense of what kind of mandates are we getting in analytics and advisory subsidiary. And what is our sustainable advantage in those mandate, products specific comments would be helpful?

Mehul Pandya: See, both these divisions of our subsidiary, CARE Analytics and Advisory, the analytics division and the advisory consulting division. Principally the mandate flow over there is contingent in terms of the entire product offering. So, turning first as far as the analytics division is concerned largely the clientele is in the BFSI segment. So principally, the mandates that we have got during the year are from the banking and financial institutions as well as the NBFCs both in India as well as outside India.

As far as our advisory consulting business is concerned, the mandate is basis the entire product mix that they are having in terms of corporate advisory, in terms of research, in terms of the ESG advisory, so that is across the segment of the corporate landscape. So in terms of the large corporates, we have also got from the mid-corporate, we have got from the financial institutions. So, it's across the strata of the offering. This is the kind of a full bouquet of advisory service that they are providing. So largely the clientele is emanating from this segment.

Varun Bang: And lastly on the ESG rating side…

Moderator: I am sorry to interrupt. Mr. Varun, I request you to rejoin the queue for your follow-up questions. Thank you. The next question is from the line of Sahil Doshi from ThinQwise Wealth Managers LLP.

Sahil Doshi: My question particularly related to non-rating business. I think if I see from Q3 to Q4, the other expenses have increased from INR5 crores to INR10 crores, with almost a INR5 crores increase as the revenue increase is around INR3 crores sequentially. So could you possibly explain what is happening in the non-rating side because you've already committed more than INR50-odd crores to the risk solution business. And directionally we're not seeing any signs of cost rationalization or profitability. So could you give us a direction of a two year, three year perspective that when do we expect to breakeven? What are the kind of products which are in pipeline? And when do we start seeing a real benefit of the same?

Mehul Pandya: I have my colleague, Jinesh, who is our CFO, who will take this question. Jinesh?

Jinesh Shah: Sahil, as mentioned that we are developing various products for the company. So the certain products which are on the research phase are putting in a P&L, for which we'll get a benefit for a longer duration. As you mentioned that there are certain two products which are already this year on go-to-market stage. So for those products, certain expenses were incurred for developing the product, which qualified as a research cost, which cannot be capitalized, are put in the P&L. That is why if you see our expense -- other expense has gone slightly higher compared to the previous year.

Sahil Doshi: Sir, could you quantify this number? Because of INR5 crores increase quarter-on-quarter and in the previous interaction, you said that this year will be the peak year of investment, whereas in fact, the expenses have only increased materially.

Jinesh Shah: It will be difficult to quantify the differential between all other expenses. But on the approximately around INR2 crores would be the research cost for this product, which are already on the live stages and certain products will go live in the next year. So both have been considered this year because they are already in the process of development.

Sahil Doshi: Okay. And the other question which I asked, sir giving how many products are in development and monetization phase? And in the next two years, what is the road map because we've already committed around INR50 odd crores, in fact, there has been a change in the management also is what I understand. And it becomes very difficult for our investors to understand how much capital will be further allocated to this business, because we are not seeing any signs of reduced existing profitability coming through.

Jinesh Shah: So there will be two products largely which will be go to live in this fiscal, because that is from till, next March. So that is one. And as you mentioned that we have selected a certain product mix, which we will focus on based on the market requirement. And in a couple of years, we see that we will be breakeven for this entity as well.

Mehul Pandya: Nevertheless, I would like to have the perspective directly being given by Abhisheik, who is leading this business. Abhisheik, over to you.

Management: So as Jinesh mentioned, I think there are two main areas that we are focusing on, one is the credit risk management and other is the credit monitoring phase. And our products are getting built in this area, and we see a lot of traction coming from banks in India and the neighbouring countries. So we are very confident that our focus in these areas is going to yield results very soon, yes.

Sahil Doshi: And just a related question in terms of capital allocation. How do we really see the allocation towards all these new initiatives because you've already committed large amounts of money. Is there a time line until which we will commit more funds to these initiatives before we decide to further invest? And second, on the cash which we are continue to build up on balance sheet, the dividend payout compared to the cash which we have has been surpassed. So any thoughts on these two aspects?

Mehul Pandya: Actually, you're right that the capital allocation to the non-rating business has been one of the major chunks as far as our investments are concerned. We believe that these businesses they were required to be built as far as their importance for the overall derisking at the corporate level, at the group level, as far as the concentration of the revenue profile is concerned. Yes, it has taken time, and we are not denying that aspect. And we are quite candid in terms of stating also that these are difficult businesses which shall be required to be built, but they are important from a diversification perspective, and we remain committed to that.

Having said that, we are absolutely conscious of the fact that the breakeven in this business, principally the risk solutions business, our analytics business, that is something which is of paramount importance. And how best and how early we will be able to get that, that is the absolute priority of the management. And that is why all the actions that we have been taking in this regard, they are quite oriented towards that.

At the same time, let me also give this aspect that the other division over there, the Advisory Consulting division has indeed reported a marginal profit as compared to the last -- over the last two years. So the point is that at times you have to be patient with these businesses to gain traction, right. At the same time, you cannot lose the focus as far as profitability aspects are concerned.

So they believe that and we are also quite conscious of the fact, working closely with the management of those subsidiaries to ensure that over a period of time, the investment from the parent company side has to taper down, right. And that is an absolute focus and the KRA for the management over there. There cannot be any second opinion on that, right. And so that's a significant focus, which is going from our side on that. And we believe that the traction that we have started getting now should lead to further sustenance and momentum to be created over there.

Sahil Doshi: Sure sir, I appreciate your candid responding, sir. Anything on the capital allocation related to the cash on balance sheet and increased dividend payout or buyback?

Mehul Pandya: Yes. Sahil, see as we have been articulating our position in the previous years as well to the suggestion of the buyback, all the suggestions which we have been getting from the investors, through the call from any resources, they are indeed put up to the Board, passed on to the Board for an appropriate consideration. And all capital allocation strategies the options before the Board, they are quite intensely looked upon. And at appropriate time, if the board feels there could be a decision in this regard, but it's entirely the prerogative of the board for this.

But irrespective of a buyback or a dividend payout, we believe that the capital appreciation for our shareholders, we believe that through our performance, we have been able to create that thing and to that extent our future endeavour also shall be that all the initiatives that we are taking should be generating the right kind of a value creation for all of our stakeholders.

Sahil Doshi: And just a request, if we can give a little more disclosure on the non-ratings business, it will be very helpful.

Mehul Pandya: Surely, yes. Thanks

Moderator: The next question is from the line of Devam from Ardeko.

Devam: Just wanted to understand that you provide a rating stability metrics in your presentation. And if you look at that metrics and if you look at the different buckets that you are showing over there, does it imply that your -- basically first thing is that your rating stability is higher than peers and the other thing is that the BB and s B categories, you are way higher than peers. Is that the right understanding?

Mehul Pandya: Rating stability has to be looked at from the perspective of the ordinality for each kind of rating categories. So it is expected that higher the rating category, the overall stability in those segments should be higher. So as we move from AAA lower down the line and our stability is depicted against the trend line of the industry average. So from that perspective, the rating performance has to be looked at.

So the ordinality, which I am again emphasizing is that the higher rating categories should be displaying a greater stability and on an overall basis, the investment grade ratings should also be continuing to display a greater stability. So from this perspective, the rating performance has to be tracked consistently and with an overall philosophy of the quality-led growth.

So the focus remains absolutely that all the investment grade ratings, we should be very diligent about and vigilant as far as the future trajectory is concerned. Nevertheless, I will also request my colleague, Sachin, who is the Chief Rating Officer, to give his perspective on the rating stability. Sachin, you would like to add something?

Sachin Gupta: Yes. So yes, as Mehul was mentioning, we have a fairly high rating stability. On that chart, I would like to focus on 2 points. One, we have given a trend of how we have improved in the current -- the more recent 5-year period than the earlier 5-year period. So there, if you will notice, both in A, AA and AAA all 3 rating categories our rating stability has improved. Rating stability essentially means that how many -- for 100 ratings in a given category.

Say, for 100 outstanding AAA rating, what percentage of rating did I move away from AAA in case of AAA can only be a down grade. So that number, which was 97.7% for the last period, 5 years, from the recent 5-year period, which is 2020 to 2024, the number is 98.2%, so it's improved. Similarly, it's improved from Single A and AA categories also...

Devam: Absolutely appreciate that point. As far as AAA point what you're saying is that 5 on 1000-odd you have improved the rating stability. My question is basically just that since you -- in the entire average curve is below your stability. Are your ratings more stable than competition. That is as per the data you have compiled in that, but we are very -- especially in BB and B, we are having a huge lead on the rating side on rating stability. Would we be right in summarizing that from this graph?

Sachin Gupta: So you're right. So across the rating categories, the stability of our ratings is superior than average. And yes, you are right, the gap is wider, as you've correctly noticed in BB and BBB category as well.

Devam: So does this reflect in any pricing power or any sectoral area where we have any pricing power compared to peers because of this majority that we have in the stability rates?

Mehul Pandya: Pricing and stability not related in any manner. So, this is purely, a pure-pure performance of the predictive capability of the ratings, which have been assigned and in correlation to that and how the movement of the rating is there. Pricing doesn't come into the picture in any way.

Devam: Yes. Just a basic intuitive understanding would be that if the rating stability is high, that means the rating product, there is a higher quality and generally a higher quality product should get a pricing power, but you are saying that, that too is not the way it is looked at.

Mehul Pandya: Does not necessarily work out that way, Devam, that the AAA and AA category would mean that the pricing in that category would be definitely be higher. Only thing which generally would be there that as compared to, say, a BB category mid-corporate, where the size of the debt, which has been rated could be on the lower side, while in case of a large corporate, where the size of the debt, which is rated could be on the higher side, that is the only difference which comes into the play. But per se, pricing as a parameter in rating stability, there is no direct correlation.

Devam: And can one say that if the overall market grows more and also if you can give cues on -- I mean, how the whole private capex market has fared in the last 1 to 1.5 years, and what would be your outlook for the coming 1 to 3 years? And over there, if that private market grows more than one should be able to see some more pricing power coming in?

Mehul Pandya: See, as the private capex and the private market, the overall bond market, they develop and continue to do well, it definitely augurs well for the top line rating agencies. So there is always a greater revenue in terms of having a good share of the overall growth in the market. So from that perspective, yes, that if the private players, if they go for more market-related borrowings, then the top trading agencies, they tend to benefit out of it.

Devam : And if you can share any flavour on what kind of price you're seeing over there right now?

Moderator: Sorry, to interrupt. I request you to rejoin the queue for your follow-up questions.

Devam: Sir, just this part, which is connected to the current question. If you can see -- if you can just put some flavor on private capex right here. That's all?

Mehul Pandya: Private capex has been eluding us for some time now, right. But as I mentioned in my opening remarks as well, since the average capacity utilization in the manufacturing sector is now at a level, where ideally, basis the past data, it should be reflective of the capex cycle kicking in. We believe that it should be a matter of time before it happens. The fact that it has not happened is also a reality that has not impacted as far as our growth is concerned.

But certainly, as and when it picks up, it would be definitely be a good thing as far as the industry is concerned. But at the same time, let's also not turn our attention from what the global developments are, all the geopolitical developments and the uncertainties which are there, which definitely hover over the minds of any corporate before they are committing themselves to a substantial investment.

So these aspects will also have a role to play in the decision of the corporate to ultimately go for a significant investment as far as their future capacities or diversifications are concerned. So all in all, yes, to the basic question, if private sector capital expenditure kicks in to the expectations that everybody is having, and certainly, yes, the industry is likely to benefit out of it.

Devam: Thanks, that's it for my side.

Moderator: The next question is from the line of Parikshit Gupta from Fair Value Capital. Please go ahead.

Parikshit Gupta: So I was just saying thank you for the opportunity. My only question is to understand, I believe the Finance Ministry has manifesto of having domestic Sovereign Credit Rating Agency. Just wanted to hear your comments on that part. Thank you very much.

Mehul Pandya: I think see as far as we are concerned, our decision is based on our assessment of the opportunities that we need to pack. When we decided to go in as far as Sovereign Ratings are concerned, it was clear in our mind that there is a space which can get created and which needs to be filled by an institution domestically, right, which has been the domain of the global rating agencies.

So we have the conviction in terms of taking that step and we believe that we have taken the right steps until now. And we are already on at a stage where the company is already incorporated. So per se, as far as the government could be having its own priorities and the decision-making, policymaking things which could be correlated to this, but that does not have any direct correlation as far as we, as a commercial independent entity, to decide our future course of action.

Parikshit Gupta: Understood. Thank you very much.

Moderator: The next follow-up question is from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Yes, hi. Thank you for allowing me to follow up. So sir, my question is on this approval we've got for ESG ratings from the regulator. So, in terms of timeline, when do we launch it, what is our readiness in terms of product, team? What will be the strategy, and then what can be the revenue potential, and then not immediately, but in the next two years that we can be looking at?

Mehul Pandya: Rajiv, first, and the foremost thing is that the ESG rating license that we have got very recently, that is on 2nd of May, we have received this thing, right. So, the license is already there, and we already have a team in place. And now it's a question in terms of taking the next step in terms of getting the mandate and going ahead with that.

So we believe that very soon we should be able to operationalize it, from the angle of actually assigning the ratings on this. So, our teams are already working on this, and we have been thinking this groundwork preparing the necessary infrastructure, having the right kind of analytical team, right kind of the management team over there. All those steps have already been taken even before the license was issued to us. So, from that perspective, we are fully ready. And now it's all up to our business development teams to get the mandates and we should be ready in terms of actually assigning those ratings.

Nevertheless, I will also be having my colleague, Rohit, who is leading this business. And before I hand over to him, the kind of products which you mentioned or you asked for, so these products in this regard would be the ESG core ratings, there is a Transition ratings, there is Combined ratings or the products which have been defined explicitly by the regulator, what an ERP can provide all these products, they are going to be provided by us. Let us also be clear that as we talk, these ratings are not mandatory per se. It is at the discretion of the corporate how to go about it. But to give a further perspective, it will be good to hear directly from Rohit, also. Rohit, your views.

Rohit Inamdar: Thanks, Mehul. And Rajiv, not to repeat Mehul's points, but just to reemphasize that we are ready to roll out the ratings. We just have to go to the market and start looking for mandates. And on this front, our strong corporate relationships, which we have developed over the last 30 years will be useful for us, because we will be sharing our BD resources with our parent, which is CARE Ratings, and Regulator allows us to share BD resources between ESG Ratings and

CARE Ratings. So that definitely is a big positive and a big boost for us. So as the business starts coming in, we are in a place to sign ESG Ratings.

We have 6 products, 3 on the plain ESG Ratings side and 3 products are on the core ESG Ratings side. These products are mandatorily required to be put out as per the SEBI regulations. So, the 3 products that I'm talking of on plain vanilla 3 products are ESG ratings, Transition ratings and Combined ratings. Combined rating is combination of ESG ratings and the transition ratings. And similar 3 products are there on the core ESG side. By core what you mean that SEBI has put out detailed guidelines on BRSR reporting. And BRSR reporting also has one subset, which is called BRSR Core. The rating is done on the basis of information obtained from BRSR Core parameters will be called BRSR Core ratings so that would be our product contour, and we are ready to assign rating across these 6 product categories.

Rajiv Mehta: Thank you for this elaborate answer. And just lastly on this, broadly in the next 3 years, how do we see our mix of overall consolidated mix moving between domestic rating and the non-rating put together?

Mehul Pandya: So Rajiv, in the previous interactions, I had mentioned that progressively, we'd like to move towards an 80-20 kind of mix rate with the 20% coming from the non-rating businesses, that's over a period of time. This year, actually, we have reached up to over 10% contribution coming from the non-rating businesses, which was 6% last year. We have made some progress on that. And in the future years we shall be giving a greater focus on this.

And when we are mentioning about this, let's also be clear that everything in this regard, this increased contribution is coming on the back of a sustained growth on the rating side as well. So, when the overall pie is increasing, the ratings also driving the overall thing, but at the same time, this contribution clearlycoming from the non-rating businesses, that is also helping. And when I talked about the ratings growth, the subsidiaries on the rating side, they have also been contributing and consistently growing. So, I think it's an all-round growth that we are talking about.

Rajiv Mehta: Just last one clarification. Do you also ensure that the overall consolidated margin don't get diluted because of higher share going up from the non-ratings segment, maybe right now at the margin, making some profit or making losses, but we don't see that's improving, but overall share going up 5%-10% will ensure that the overall consolidated margin keeps going up, right?

Mehul Pandya: Yes, the overall consolidated revenue when it goes up here, if you're talking about the impact of the increased contribution of the non-rating businesses in terms of suppressing the consolidated margins, we have to be conscious of the fact that every business has their own margin profile, right. So, the rating margins per se cannot directly be correlated with an Analytics or a Consulting advisory kind of a margin. So, ratings generally tend to have a better margin in this regard.

But nevertheless, irrespective of that, the fact has to be that over a period of time the contribution of the non-rating businesses if it increases at a group level that augurs well in terms of withstanding any kind of a fluctuation, which potentially could be impacting any of the businesses, right. So, it has to be a look from a larger angle, but some impact because of an increased contribution it cannot be wished away, considering the fact that the businesses are entirely different.

Moderator: Thank you. The next question is from the line of Devam from ARDEKO please go ahead.

Devam: Yes, sir, can we share the total revenue, EBITDA and debt for the Africa-Mauritius entity for FY '24?

Mehul Pandya: FY '24, anyhow, once the annual report is disclosed, you will get the greater details. But in a broader sense, Jinesh, can you give a broad perspective?

Jinesh Shah: For Africa, it is the revenue is around INR10 crores. And the PAT margin is around 35% PAT margin for Africa.

Devam: And what would be the current market for ESG practice generally and what potential do we see there in terms of numbers? We understand, obviously, that it's a great diversification, but also what to be the current market and what potential do you see that in terms of numbers over the next 2-5 years?

Mehul Pandya: See, when you're talking about ESG practice per se, that's largely related to our consulting advisory business, right. ESG Rating is different, ESG practice in the consulting advisory is different, right. So let me just bring in my colleague, Swati, who heads our consulting advisory piece along with the ESG advisory to give your perspective on this. Swati, are you there?

Swati Agrawal: Yes. Hi, so, essentially, if you really look at it the way ESG Advisory business is growing, it is very difficult to say a number because, different elements are getting added to it, primarily driven by the regulatory regime, the customer requirement, which could be both nationally or in the international market and the requirements in the supply chain. So essentially, if you really ballpark numbers, if you really look at it, who are the bigger players are obviously the big 4, and then there are a lot of these other agencies also. So, the market can be anybody's guess in that sense.

If you break it down into various segments and say, okay, BRSR reporting or generally reporting segment in ESG integration segment, then you can still have some kind of concrete numbers. So, from that perspective, I mean, we at CareEdge Advisory, we are very well positioned. If you really look at our practice, we've grown by more than 100% over last year. We are very well positioned across all the value offerings that we have in the ESG Advisory space. And we will be continuously receptive to the changes in the market and continue to keep evolving ourselves in terms of our capability as well as our delivery tactics and the delivery outcomes to meet the challenges and the needs of this market. I hope that answers.

Devam: Yes. Thank you so much.

Moderator: Thank you very much. That will be the last question for the day. I would now like to hand the conference over to Mr. Mehul Pandya, Managing Director and Group CEO, for closing comments. Thank you and over to you, sir.

Mehul Pandya: I would like to thank everyone for joining this call. I believe that and I hope that we have been able to address your queries. For any information, you can get in touch with our team at the company level or can contact SGA, Strategic Growth Advisors who are our Investor Relations advisors as well.

Broadly speaking, I believe that and reemphasizing on the aspect that the trust and faith of the investors that you reposed in us all through and the support that we have got, that has given us a lot of confidence in terms of taking new initiatives, and then in the process over a period of time, work towards creating better stakeholder value creation. So, thank you so much for joining this call and wish you all the best.

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