CARE Ratings Ltd – Earnings Call – Q4 FY22 and FY 2021-22 - 1st June 2022 – 3 pm to 4 pm IST

Executives

Mehul Pandya - Interim CEO, CARE Ratings Limited
Jinesh Shah - CFO
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Analysts

Deepan Sankara Narayanan - Trust India
Anna Yagnik - Ace Lansdowne Investments
Vivek Ganguly - Nine Rivers Capital
Rohit Potti
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Mudit Minocha - M3 Investments
Rohan Samant - Multi-Act
Yash Shah

Mradul Mishra [0:00:04]

Good afternoon, ladies and gentlemen! I'm Mradul Mishra from the Corporate Communications team at CareEdge. On behalf of CareEdge, I welcome you to our Q4, FY22 and FY22 earnings conference call. I wish to inform you that all participants are in listen-only mode and there will be a question-and-answer session once the CEO's address concludes. Also, please note that this conference is being recorded.

Mr. Mehul Pandya, Interim CEO, CARE Ratings Limited, will be interacting on this call. Hi sir! Welcome. I request Mr. Mehul Pandya to take over the proceedings, please.

Mehul Pandya [0:00:47]

Thank you, Mradul.
Good afternoon, everyone. I hope you all are doing well. It gives me pleasure as the interim CEO to welcome you to the investors' call for Q4 FY22 and FY21-22 on behalf of the CareEdge family. I would also like to take this opportunity to thank my former colleague and CEO Ajay Mahajan for being a part of the leadership team since the last two years.

Let's get to the numbers now. I hope you have had the chance to go through our results for the March quarter. I'm here with the senior management of the CARE Ratings to explain how the company has fared in the past quarter and address any questions that you may pose after my remarks. I will also briefly take you through our vision for the coming years, which will give you a perspective of our plans.

As you all are aware, the global economy is going through a turbulent phase with high commodity prices, rising inflation, aggressive monetary policy tightening and fear of slowing economic growth. While the Indian economy is relatively better placed in midst of this global turmoil, there are headwinds posed by the global uncertainties and volatilities. Inflation has emerged as a big cause of concern for India. CPI inflation at 7.8% and core CPI inflation at 6.8% in April are much beyond RBI's comfort level.

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The high inflation has led to a slew of measures from the central government and the RBI to control inflation. However, with global commodity prices on a boil, inflation is likely to remain a cause of concern in the coming months. While the economy was gaining momentum post the Covid-19 crisis, the Russia Ukraine war and the ensuing global turbulence have made the recovery process more complex. This is getting reflected in the latest GDP numbers.

GDP for FY22 has come out at 8.7%, which is a shade lower than the second advanced estimate of 8.9%. Consumption in the economy remains weak and rising inflation will further dampen consumer sentiments. However, the positive aspect is that with the economy opening up, the employment scenario has started improving and that should bolster sentiments. Capacity utilisation levels have started improving and that should provide a boost to capital expenditure. The government has budgeted a strong capex growth of 24% in FY23. As far as the private sector is concerned, the intent to invest is showing improvement as per data on new investment projects announced. However, the current uncertain economic environment could slow down the pickup in the investment cycle.

The fourth quarter of FY22 was adversely impacted by the Omicron variant of Covid and the Russia-Ukraine war resulted in a spike in commodity prices and inflationary concerns. GDP for Q4 FY22 has decelerated to 4.1% from 5.4% in the previous quarter. Fundraising by businesses, which has a direct bearing on the company has presented a mixed picture. While fundraising from the corporate bond markets and commercial paper was subdued during the quarter, bank credit demand by corporates gained pace. Corporate bond issuances during the quarter totalled Rs 1.53 lakh crore, which was 6.4% higher than the issuance in the preceding quarter but 17.5% lower than a year ago. Total issuances in FY22 at Rs 5.77 lakh crore were 23.5% lower than the last year.

Commercial paper issuances in the fourth quarter stood at Rs 3.60 lakh crore which was 44.5% lower than the third quarter and 13.8% less than a year ago. However, the issuances of these short-term securities during FY22 were 16% higher than the last year.

Credit offtake from banks improved with the bank credit fitness and growth of 9.6% y-o-y in FY22, which was up from 4.6% in FY21. Retail credit has continued to be the key driver and saw a growth of 5.4% y-o-y in March 2022. The industry segment registered a credit growth of 7.1% y-o-y in March 2022 from a contraction of 0.4% a year ago. Credit growth to the large enterprises (that account for 77% of the total industrial borrowing) was at a low of 0.9% on a year-on-year basis. Medium and micro-enterprises registered robust growth in the credit offtake driven by the emergency credit line guarantee scheme ECLGS. Services sector credit growth accelerated to 8.9% in March22, compared with 3% a year ago, and it was going to the robust credit offtake by trade transport operators and the NBFCs.

Going forward, India will remain one of the fastest-growing economies globally, with GDP growth projected at around 7% in FY23. However, we need to be cautious of the volatility and uncertainties posed by the global environment and its impact on the Indian economy.

True to our aim of enhancing our brand value both in the domestic and global arenas, CareEdge has strengthened its outreach activities further. Our economics, ratings and industry research teams published as many as 158 reports in Q4. Be it topical updates or special analyses, our reports have been well received across publications.

Our senior management, economists, sector specialists, industry research teams, along with business development leaders participated in 15 knowledge sharing forums in the quarter under review.

As Benjamin Franklin once said, "All investment in knowledge pays the best interest". CareEdge is committed to becoming an enabling knowledge hub, and with technology being one of the key identified enablers of our transition endeavour. We have been upgrading, modifying and establishing new innovative solutions for our business as an ongoing process.

Our focus and emphasis on human resources have been continuous and multipronged. Training programmes have been conducted for our staff on an ongoing basis to keep them up to date with the evolving and latest skill requirements. On the side of leadership, we have also hired some senior professionals to assist in the transformation of the company.

Now, I would like to quickly take you through CareEdge's performance. Referring to the published standalone results for the full year FY22, CareEdge reported Revenue from Operations of Rs 219.3 crores for FY22. Optically, this figure looks largely the same as compared to the last year, where CareEdge reported the Revenue from Operations of around Rs 219.6 crore.

However, in FY21, the figures included the income of Rs 9.31 crore under the head 'other operating income', which was part of the Revenue from Operations last year. That income was for the reversal of the provisions made in FY'20 for debtors, on a conservative basis due to the Covid situation. So, if we make the ratings income comparison for FY22 with respect to FY21, ratings income witnessed a growth of around 4% on a year-on-year basis.

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 almost been at the same level of Rs 84.47 crores in FY22. On the profitability front, CARE Ratings largely reported a stable operating profit margin of around 39% on a standalone business.

On a quarterly basis, income from operations optically appears to have declined from Rs 69 crore in FY21 to Rs 60 crore in FY22. However, the decline is largely on account of the same issue as explained earlier, that is the income for Q4 FY21 includes the Covid provision reversal income, which was not present during this year. Overall profitability continues to remain good.

Let us now move to consolidated results. On an annual basis, CareEdge Reported revenue from Operations of Rs. 248 crore, again, the previous year has provision reversal income, thus negating the same, that is marginal growth witnessed in income. However, the operating profit margin witnessed a decline on the back of two reasons.

First is the elevation in employee cost, and second, the provisions made for Sri Lanka business. The elevation in employee cost was on account of incremental ESOPs and a marginal increase in manpower cost. This is largely because, for the last two years, we have been focusing on having the right quality people at the right places to improve the quality of analysis and provide the right mentorship and training to the analyst teams.

Now, let us address the Sri Lanka point. One of our subsidiaries, CARE Risk Solutions has live and ongoing projects in Sri Lanka. However, given the current situation where Sri Lanka will not be able to remit the foreign currency funds as consideration for the risk solution products, on a conservative basis, we have taken the provisions for the same. Further, I would like to reiterate that these projects are live and ongoing for PSU banks, and we believe that as and when the situation improves, the amount could be recovered.

The total exposure of CARE Risk Solutions to Sri Lanka business was around Rs.9.46 crore. Adjusting for the provisions, the residual Sri Lanka exposure is limited to Rs.2.35 crore.

At this point, I would like to take few minutes to draw your attention to the diversification efforts made by the management of CareEdge. The board has approved equity infusion of Rs.33.5 crore in CARE Risk Solutions and Rs.10 crore in CARE Advisory Research and Training Limited. Under the Risk solutions business, we have products that cater to the demand from the BFSI segment addressing their ALM management and regulatory reporting needs. With this infusion, we intend to upgrade the existing products (in Risk solutions) and venture into new business lines like data analytics, banking solutions, etc. and invest in sales franchises to foray into the global markets.

Under CARE Advisory Research and Training (CART), we have built robust advisory and industry research teams that cover over 50 industries with research reports.

On the ESG front, CART is now empanelled as an ESG rating provider for AMCs by AMFI. As a result, AMCs will be able to use the ESG scores provided by CART for ESG portfolio creation. CareEdge has analysed more than 300 entities into the listed universe, which covers 90% of the market cap of the top 1,000 listed entities and we are rapidly scaling up this coverage every month. CareEdge has created an analytics platform that not only provides the ESG scores but also enables the analyst to perform their analysis on various key indicators on both ESG and non-ESG themes and performance indicators.

With this infusion (in CARE Advisory Research and Training), we intend to invest in products and sales franchise and be in contention for all the RFPs and contracts with the threshold net-worth requirement. We are firmly on a transformative journey at CareEdge and have come a rather long way in a very short span of time with dedication and commitment. Our focus formally remains on improvement in productivity, strengthening analytical rigour in ratings, and diversifying revenue streams going forward.

Socrates said, "The secret of change is to focus all your energy not on fighting the old but on building the new." I hope with your help, and our hard work, we write new chapters of success for CareEdge. Thank you.

Question-and-Answer Session

Mradul Mishra [0:14:46]

Thank you, Mr. Mehul. Dear participants, we now will begin the Q&A session.

We have a request from Deepan Sankara Narayanan from Trust India. Deepan,

Deepan Sankara Narayanan [0:15:47]

Good afternoon, everyone, and thanks a lot for the opportunity. So, firstly wanted to understand what was the amount of provision reversal reported during Q4 of last year?

Mehul Pandya [0:16:02]

The provision reversal amount was Rs.9.31crore in FY21, which is not there in the current year.

Deepan Sankara Narayanan [0:16:12]

So, for Q4, how much was that?

Mehul Pandya [0:16:22]

Q4 was Rs.6.64 crores.

Deepan Sankara Narayanan [0:16:25]

Rs. 6.64 crores. Okay. With the credit growth of the banking sector growing at higher levels currently, are we looking at Care as one of the key beneficiaries as compared to other players? And are we hopeful of gaining market share in our rating business?

Mehul Pandya [0:16:49]

See, the focus of CARE Ratings has largely been on the large and mid-corporates and lesser on the SME side. If I can refer to my comments earlier in my remarks, while the bank credit growth has increased, there is no doubt about it. The credit growth to industry has increased certainly, but to the large corporates per se, which I mentioned is constituting almost three-fourths of the total borrowings, growth had been less than 1%.

So, we would like to see the growth happening over there. But on an overall basis, to the extent that the bank credit growth to the industry increases, we believe that we are on a sound footing in terms of capitalising on the opportunity.

Deepan Sankara Narayanan [0:17:36]

India is on the cusp of capex recovery, which will be starting to get visible in the last couple of quarters. So, are we seeing a strong growth cycle coming back over the next two to three years in this rating business?

Mehul Pandya [0:17:59]

I guess the sentiments that are expressed in terms of the capex cycle, were right. FY23 onwards, this cycle has to pick up. I mean, this was long overdue.

Having said that, the volatility that we are witnessing since Q4, in terms of the Russia-Ukraine war, the overall global economy and the geopolitics has just prompted the corporates to go into a bit of a pause mode, and just wait and watch in terms of how the trajectory evolves. But on an overall basis, I think, for the future, we are hopeful that this capex cycle should get revived, and to the extent that it gets revived, as one of the leading rating agencies, we hope to exploit the opportunities.

Deepan Sankara Narayanan [0:18:51]

Are we confident of entering double-digit growth in FY23 for our topline?

Mehul Pandya [0:19:00]

I wish it could be like that. But having said that, I think let's also understand how the overall industry has grown. The figures are there for the different rating agencies, and you can easily see that over the last more than three years or so, either the industry has stagnated or there has been single-digit growth. So, to the extent that the overall pie increases, I think there shall be business for at least the leading rating agencies in the country. But to put it in terms of having double-digit growth, I think the overall pie has to increase, and at least up to FY22, we haven't seen the overall industry increasing at that rate.

Deepan Sankara Narayanan [0:19:45]

Okay. On the expenses, specifically employee expenses trend, so are we through with our raise and salary cycle and how are we comparable with industry benchmark. So, are we now expecting a normal run-rate growth on employee expenses from year on?

Mehul Pandya [0:20:11]

I think to a good extent, we have had this cycle in terms of having a benchmark service, and also in terms of the hiring that we have had over the last few years at certain important positions. Going forward, we'll continue to have the right mix in terms of the lateral recruitments, as well as in terms of the fresh recruits that could be coming. And with combination of all these factors, we would strive in terms of having the employee cost at a certain benchmark level and not increase significantly.

Deepan Sankara Narayanan [0:20:49]

Okay, thanks a lot, and all the best.

Mehul Pandya [0:20:51]

Thank you.

Mradul Mishra [0:20:52]

Thank you, Deepan. The next query is from the line of Anna Yagnik. Yeah, Anna, I'm unmuting you please go ahead with a query?

Anna Yagnik [0:21:57]

I have two-three questions. My first question:
We have said that we are going to get at least 100 basis points of market share into ratings business. How are we going on that track?

My second question is - What is the growth rate we are expecting going forward?
My third question is - How we are turning our advisory business? Is it going to remain on the same level as it is right now -- I think it is less than 5%? So are we going to increase the component percentage into advisory business - as diversification is one of the risks to Care. So, how we are planning to increase diversification and how much contribution we're expecting from the advisory services?

Mehul Pandya [0:22:52]

Okay. Your first two questions are pertaining to the market share in the ratings business. You mentioned in your first point, that is 100 basis points kind of an expectation. I think that's not what we have conveyed. What we have conveyed is that we expect the ratings business to grow in terms of the overall pie at the industry level, and to that extent we'll continue to have a reasonably good share of that market being one of the leading rating agencies.

For the last few years, the overall industry has not grown or grown in the single digits. But to the extent that this grows, I think we will be there in terms of having the right opportunities and capitalising on that.

Your next question is in terms of the future growth rate, which is slightly difficult conjecture to make because that must be seen in the overall context. And not just looking at the company in isolation. For us, I think, taking some aspects of the first question, the key factor that matters to us is the is how the macros are doing, how the bank credit growth is happening, how the capital market issuances are growing, how the capex cycle kicks in, and how fast it kicks in. The combination of these will determine the future growth rate.

But as I mentioned in my remarks, what gives us confidence is that we have seen good growth in the initial ratings business in FY22. And we hope to continue that momentum.

Your third question was pertaining to the advisory business and to what extent we should be seeing the traction in that in terms of having some meaningful contribution going forward. With respect to concerns on that, as a part of our diversification process, we indeed are looking forward in terms of growing both in rating subsidiaries and on the advisory & consulting side over the last year, but in terms of the overall contribution to the topline, it has not been significant. But we saw close to around 40% to 45% growth in terms of the topline for the advisory & consulting business subsidiary last year.

We have got some good prestigious assignments, and now that we are also going to launch our ESG services as a part of that subsidiary, I think we are at a firm footing in terms of getting the right kind of mix as far as the overall business play is concerned and hope to grow this subsidiary to a reasonable level over the next three years or so.

In terms of an expectation of the growth rate, I think with the lower base, we should be able to do well in terms of the overall percentage growth for this. But to expect this to count for a significantly good contribution in terms of the overall business at the consolidated level, I think we just have to be slightly more patient for few more years. What I can say is that we are on the right path.

Anna Yagnik [0:26:12]

Sir, can just quantify, what is the contribution you expect of this non-rating business to be to the overall revenue mix? Right now, 98% comes from the credit rating. So, are you seeing any number if you can give…how much you are targeting for the non-rating businesses?

Mehul Pandya [0:26:41]

I think for the total FY22, as you are rightly saying that the ratings business is predominant component in terms of our overall income profile. Both the subsidiaries - advisory as well as the risk solutions business, we are almost in a state of reset as far as the overall development of the product profile is concerned. FY22 was the first year in terms of having this kind of a change in product mix. The advisory & consulting business has already started getting traction in that. The other subsidiary, Risk management solutions, is still under that phase, and as we have disclosed in our press release, there shall be equity infusion aimed at developing the products, which could be the value-added ones, which could be finding the right traction in the markets where we are still not there. Building upon that, I think it would be better in terms of witnessing a good contribution coming from both these subsidiaries few years down the line.

So FY23 might see ratings continuing to be the major component as far as the overall income profile is concerned. But the overall product development at both the non-ratings subsidiaries is certainly underway, that is something which I can tell you with conviction.

Anna Yagnik [0:28:11]

Okay., Thank you.

Mradul Mishra [0:28:14]

Thank you, Anna. The next query we'll take from the line of Mr. Vivek Ganguly from Nine Rivers Capital. Yes, Vivek. Please go ahead.

Vivek Ganguly [0:28:27]

Thank you for the opportunity. I have two questions. One is on the early exit of Mr. Ajay Mahajan, which was very unexpected and abrupt? We see that the notification went to BSE late in the night. So, can you shed a little more light on what exactly is within the confidentiality clauses that you have? What exactly transpired the exit?

And second is where are we on finding a replacement for the top-tier position.

And what are the kinds of things that you're looking for in the person?

Mehul Pandya [0:29:14]

As far as Ajay's resignation is concerned, as we have disclosed, it's for personal reasons. We hope and wish him well on that. As far as the replacement is concerned, I think the board will be making the decision at the right time. Maybe certain processes need to be done. And I think over a period of time, you should be seeing the decision of the board forthcoming on this. At this juncture, I don't have anything more to add.

Vivek Ganguly [0:29:50]

Okay. That wasn't too enlightening, but I respect your constraints. One small query that we have in the provisioning that you have done for this year. One is the Sri Lanka provisioning that you have done. And the second is the ESOP. So, how much of an ESOP provisioning has been done?

Mehul Pandya [0:30:23]

The total ESOP charge for FY22 is Rs 6.29 crores, which was Rs 3.56 crores in FY21. And as far as Sri Lanka is concerned, we have already disclosed. So, with the provisions that we have made, the residual exposure is around Rs 2.35 crores. So, the total provision made is Rs 7.12 crores.

Vivek Ganguly [0:30:46]

Rs 7.12 crores. Okay. All right. Thank you. I'll come back into the queue.

Mehul Pandya [0:30:51]

Thank you.

Mradul Mishra [0:30:54]

Thank you, Vivek. Our next query will take along the line of Mr. Rohit Kutty. Yes, Rohit, please go ahead.

Rohit Kutty [0:31:05]

Yeah, thank you for the opportunity. So this is sort of a follow up to the previous participant's question itself. So, more general based on attrition. He referred to Mr. Mahajan in particular, but I was curious about the attrition in the organisation in general, because what I see is, that we are seeing attrition across the board from senior to mid to lower as well. So, in addition to Mr. Mahajan, I noticed that Mr. Sudeep Sural, who was brought in to head the advisory & consulting business, he has exited as well. And I did notice through LinkedIn research, etc., that a lot of VPs also have exited.

I also understand that a lot of mid-level salespeople etc. have left for fintech start-ups in India. What one gets is there's a lot of attrition from Care, while there is attrition at other rating agencies as well, that seems to be restricted to the lower end or lower-level employees, or at least till the mid-level employees. But we have seen attrition across the entire spectrum. Could you speak about that a little more, please?

Mehul Pandya [0:32:19]

Sure, what I would like to point out is that it is true that certain exits have happened. But you also need to look in terms of the overall context, in the sense senior-level hiring has also been happening. And as I mentioned in my remarks also, I think we have had good hiring at the senior levels, across the functions, and if you look at it in totality, I think, all in all, we are net gainers, in terms of having more talent incoming rather than outgoing.

But in terms of the attrition at the mid-to-lower level, I think it's an industry phenomenon. FY22 has seen most of the industries faced attrition. We're certainly not an exception to that. But at the same time, what I can tell you is that in terms of the overall management of this aspect is concerned, we have done reasonably well. During this year, we had lateral hires, we have recommenced our hire for freshers, which we believe that over a period of time having the right mix can go on and address this situation, because at the end of the day, at a certain level, we have to be ready in terms of having a certain industry linked attrition levels.

So, from an overall perspective, I think the organisation is net gainer when it comes to having the incoming flow of the right talent.

Rohit Kutty [0:33:58]

So in the past, what we've done is that we've disclosed the senior level people who have come onboard and we're expected to transform the organisation positively. I remember a presentation where references made to Mr. Sachin Gupta Chief Rating Officer, Sudeep Sural, Mr. Ajay Mahajan, and a couple of others also. So could we do that in the next presentation where we can show that who's the so you've mentioned that there is an end gainer, but it would be great for our shareholders to know who these new people who have come in are at least a senior level positions if not, obviously not expecting the entire hiring that you've done, but at least at senior-level positions. It'd be great to know it will be important information, at least for me as an input as a shareholder in the business.

Am I right in thinking that Mr. Sachin Gupta continues to be with the organisation?

Mehul Pandya [0:34:41]

That's right. He's there on the call.

Rohit Kutty [0:34:42]

Perfect. The last question I have is a recurring theme that I think a lot of shareholders have consistently put across with the management. So, I mean, why -- it just doesn't make sense to us that you're not considering a buyback. I think one-third of the market share today is cash. And I mean, I understand we have growth initiatives and we have done investments into the subsidiaries. But what is stopping us from let's say doing a Rs. 50 crore to Rs. 100 crore buy-back. A dividend is not as efficient as a buyback is under the current tax laws. So, what exactly is stopping the management from doing a buyback? Because instead of -- I mean, it just seems to indicate that we are not as confident in our business because the best investment is in our business itself. And when it is trading so low, what is stopping us from doing a buyback and showing that confidence in the company itself ? It could come at the cost of some amount of dividend.

Mehul Pandya [0:35:43]

I take your point; you have fair and valuable suggestion. All I can say at this juncture is that we absorb your suggestion, certainly this will be conveyed to the board, and the board will have to decide on this. But that notwithstanding, the fact remains that our confidence in our business sustains, as a rating agency which has been in operation since almost three decades. We are confident in terms of our core business as also in terms of growing the other pieces of the business at the group level.

So that has prompted in terms of taking the decision for further capitalising the subsidiaries so that they are in a better position to go for value added products, which can actually help in terms of growing their pie in terms of the contribution at the group level.

Our confidence both in our core business as well as in the business of our subsidiaries sustains.

Rohit Kutty [0:36:40]

Thank you. So, I mean, just a reiteration of this particular buyback question. So, I've been in the AGM, let's say two years back as well. So since then, we've been conveying this to the board and other than the fact that the board will take it into consideration there has not been any update on this. So, which is why I mean, it will just -- so it will help if the board can or -- if the board through the management can explain why we are not doing a buyback. So two years or two and a half years is a long enough time to take this into consideration I would think. It'd be great to get I mean if it's -- if there's an explanation that will be perfectly understandable, but the only answer we get is that it will be considered and it will be discussed by the board and nothing more.

So that's all from my end. Thank you so much.

Mehul Pandya [0:37:24]

Thank you, Rohit.

Mradul Mishra [0:37:26]

Thank you. Rohit. The next query will take from the line of Mr. Gopinatha Reddy.

Gopinatha Reddy [0:38:22]

Yes, sir. Am I audible?

Mradul Mishra [0:38:25]

Yes, please.

Gopinatha Reddy [0:38:26]

Even I want to ask the same thing. You say you not only you -- I mean to say, anybody who comes into the conference call, they say, buyback is something we convey to the board. It looks like the board is not at all answerable to minority investors. They're neither kings nor any wall or something like they got to answer us. And you got to convey to us also from them, saying why there is no buyback?

I'm asking two questions here. In buybacks, there are two types. One is a normal buyback. There is no answer for there is no buyback. That is one question. The second thing is whatever amount, we are not talking about the normal full-fledged buyback. We are talking about the second item, which is whatever amount you are giving as a dividend. The same thing if you get you through tender buyback, where everybody participates, there is a tax saving to every investor. Here, it looks illogical not to give the buyback -- the dividend amount can be given as buyback through tender offer. All the big companies like TCS, Infosys, and every company in this country is doing and saving tax to all investors, why not CARE Ratings? This is not answered. This is to be answered right. Every time conveying but, what are we for why are we asking this question? I don't understand.

Mehul Pandya [0:39:55]

Mr. Reddy, your point is valid. And in that case, in terms of the tax efficiency of buyback vis-a-vis the dividend point also is quite valid. And certainly, we will convey this aspect to the board. My answer does not change, but that does not take away the fact that the suggestions are not welcome or for that matter the suggestions are not taken into consideration. Right. But certainly, this shall be conveyed to the board.

Gopinatha Reddy [0:40:23]

There should be an answer, sir, from anybody, either from the board or through the board, what is the answer that is coming to you is that we should get to know, right. I think for three to four years we've been asking this question.

Mehul Pandya [0:40:40]

Right. I appreciate your concern. And I appreciate your suggestion. And certainly, I mean, this shall be conveyed to the board.

Gopinatha Reddy [0:40:49]

At least we should be knowing whether the board is not answering us at all. That also is an answer.

Mehul Pandya [0:40:57]

This aspect shall be conveyed.

Gopinatha Reddy [0:41:00]

Is it just conveyed already, from the past three years? Is it conveyed or is not conveyed? Or is there any response?

Mehul Pandya [0:41:08]

Yeah, and as you would have also seen that the investors have pointed it out at the AGM also. This aspect has been conveyed at the board level, and certainly will once again be conveyed to the board.

Gopinatha Reddy [0:41:23]

My only concern is, if not in quarterly reports, quarterly conference calls, at least at the AGM level, there must be board members also. Even there, there is no answer.

Mehul Pandya [0:41:39]

Yes, Mr. Reddy. In the AGM, certainly the board members are there.

Gopinatha Reddy [0:41:44]

But they're not answering. I'm wondering what is in the board's mind. If rating agencies are behaving like this, what's the point in being a rating agency itself? It's a shameful act to CARE Ratings and to the board. I want it to be strongly conveyed to the board that it's shameful to be a board of a rating agency this way, not answering minority investors.

Mehul Pandya [0:42:15]

Thank you for bringing it so solidly. So, I appreciate your concern.

Gopinatha Reddy [0:42:26]

It's shameful to behave in this way. I just want to convey it in this way.

Mehul Pandya [0:42:33]

Sure.

Mradul Mishra [0:42:34]

Sure. Thank you, Mr. Gopinatha. The next query we will take from the line of Mudit Minocha from M3 Investments. Yeah, Mudit, you can please unmute yourself and yeah.

Mudit Minocha [0:42:55]

Yes. Hi, thanks for the opportunity. I have one question and comment thereafter. So I wanted to ask that rating pie itself anyways is so small, so why are we so picky of not creating a model that can tap an SME segment as well? And what are your views on gaining market share there and is there -- I understand the economics of SME segment would be very different from the bank loan rating or the other ratings. So, is there a case to be made where we create a model which is suitable for an SME segment? And I would want to -- I would want your views on the same. Have you had a thought on that?

And the other point, that I also wanted to reiterate that the shareholder wealth hasn't been created for so long by CARE Ratings, which is why you could see the earlier participant's -- you can say the emotional outburst. So, I just wanted to reiterate that buying back a company lower than intrinsic value creates instant shareholder value and also showcases the trust in your own business. So, what is that -- which is not visible to the board and why is it being not considered till now? I think enough has been said but please do convey our remarks to them. Thanks.

Mehul Pandya [0:44:44]

Thanks, Mudit. On your first aspect in terms of the rating of SMEs and the model-based approach. We do have models in terms of the various industry segments and SMEs are also part of that. So, it's not as if we are not targeting that segment or we are completely away from that segment. It is just the overall focus for the organisation. We are continuing to have the focus on the large corporates, we are continuing to have the focus on the mid corporates the non-MSMEs per se. More from the angle of having the better value addition coming from their side.

But nevertheless, in terms of completely shifting to a model-based approach, I think that's also something that is a kind of a work in progress over there, we do have models augmenting that thing. And over a period of time, I think the implementation of all these aspects can help us in terms of addressing much larger volumes in that segment. But all in all, I think our focus, we are quite clear that we will continue to remain on the large and medium corporates.

Mudit Minocha [0:45:51]

So sorry, I might have not conveyed my thoughts properly. But I wanted to share was since rating revenue, market size itself is quite limited. Giving up part of a segment does not seem very intuitive where the ROEs is of -- all the three businesses are quite good as showcased by other rating agencies. So why not create a model, means I was suggesting that a low-cost model for a segment which is less remunerative could create a decent sizeable income on that site. So, I just wanted to know your thoughts, are you putting any efforts to rejigger the way that business is done so that we can also gain market share there, and not only focus on bank loan ratings?

Mehul Pandya [0:46:45]

I think the key aspect of rating when we are talking about the MSMEs is also the fact that when it comes to the overall requirement of the rating in that segment, I think the change in the threshold of the various banks, has also impacted the overall rating universe in that segment. So, over a period of time, most of the rating agencies in terms of the coverage of MSMEs, it has certainly come down.

Take into consideration the other piece of the MSME, where we are talking about the non-bank loan ratings for them. As per the regulatory requirements, some of the assessments that we were doing, which were non-BLR (non-ratings business) in nature that has been transferred to the subsidiary. But in terms of the overall assessment, that segment has large volumes, and model-based approach is important as you're suggesting. So that's something which we also have been implementing at our end. And on an overall basis, I think it's not out of our radar. So let me reiterate on that aspect, your suggestion is welcome. But in terms of our focus areas, they would be large and the medium corporates. MSMEs are not out of the radar, but it's more of a question in terms of the current offering that we are doing and that is in terms of the BLR and the capital market instruments, as far as the core credit rating services are concerned.

In terms of BLR what has impacted, as I mentioned is in terms of the change in the threshold and generally, this segment is out of the purview most of the time when it comes to the capital market issuances are concerned. So, it's a combination of both this which potentially could be given in terms of the optics that this segment is not getting addressed as far as the rating service offerings are concerned.

But that's actually not the case except for the fact that in terms of both these core aspects, the underlying reasons are right there. In terms of the overall entities that we are rating, we have a sizable share in terms of the MSME segment currently.

Mudit Minocha [0:48:50]

Okay, appreciate that. Thanks. I'll join back in the queue.

Mradul Mishra [0:48:55]

Thank you, Mudit. The next query will take from the line of Mr. Rohan Samant from Multi-Act. Yes, Rohan if you could yourself unmute yourself?

Rohan Samant [0:49:35]

Yes, Hello, thanks for the opportunity. My first question is, there is an item regarding the impairment of an asset. What is that Rs. 21 lakhs?

Mehul Pandya [0:49:53]

Jinesh can you take that. He is our CFO.

Jinesh Shah - CFO [0:50:08]

Thanks for the question. So, in one of the subsidiaries CART, we previously had training business, for that one software was developed, which was used to provide the training. But from last year we have discontinued that business. So, that software got impaired. So, around Rs 21 lakh was the impact cost.

Rohan Samant [0:50:40]

Okay. And the provision for this Sri Lanka business would be where?

Jinesh Shah - CFO [0:50:49]

Yeah, it is into one of the subsidiaries. So, it's in the other expenses that are under provisions --in other expenses.

Rohan Samant [0:50:56]

Okay. And lastly on the cash balance. If I look at the balance sheet, there is a significant amount now standing under other financial assets. So, why is it not under investments cash on bank balance?

Jinesh Shah - CFO [0:51:15]

That's correct. So, whatever fixed deposit we place for more than a year, it should be classified under non-current. So, it is just a classification based on the tenure for which we have placed the fixed deposits. So up to one year, we can show under cash and bank balances. And whatever is above one year should go under non-current financial.

Rohan Samant [0:51:42]

Okay, so those are fixed deposits. Okay, fine.

Jinesh Shah - CFO [0:51:47]

Bifurcation. Yeah, yeah.

Rohan Samant [0:51:48]

Okay. Well, one more last question on the employee costs. So, this quarter we have seen a bit of a dip in the employee cost run-rate. So, should we assume that this is the run-rate that would continue going forward?

Jinesh Shah - CFO [0:52:05]

See employee costs reduced in this quarter is mainly because of the ESOP charge, because last year, the ESOP was given in the second half. So, in the first year, we have around 67% of the cost in P&L then the costs reduced on year-to-year basis because we have graded vesting ESOP given to the employees.

So yeah, you can see this till that time, further ESOPs are announced, otherwise, this would be the run rate.

Rohan Samant [0:52:47]

Okay, thanks.

Jinesh Shah [0:52:50]

Thanks, Rohan.

Mradul Mishra [0:53:00]

So, next query, this will be probably the last question for the day, because we are running short of time. I'll take this from Yash Shah.

Yash Shah [0:53:30]

Yeah, so, the question basically relates to the fixed deposit that we have kept for materials over here. So that is a sizable amount. So, I would just like to know whether there is any specific reason that we have moved this amount from other investments like mutual funds and other investments to fixed deposits, which are very low rates of interest, any specific reason for the same? Hello?

Mehul Pandya [0:54:08]

Yes, Jinesh?

Jinesh Shah - CFO [0:54:14]

Yeah. So, in the last year, certain FMPs were there, which got mature, and due to the current scenario, it was prudent to put the money in the safe fixed deposits, and that's why we are investing in the fixed deposits.

Yash Shah [0:54:37]

Okay, but as everyone is aware fixed deposits do not fetch anything beyond 6% or 7%. Keeping surplus cash instead of returning as previous investors are also highlighted there instead of keeping such money in fixed deposits facing such low returns, isn't it prudential to return the amount to the shareholders if the company isn't able to generate sufficient returns on it?

Jinesh Shah- CFO [0:55:03]

Yeah, so as mentioned earlier, we will have this conveyed to the board and have an appropriate decision.

Mehul Pandya [0:55:11]

Point taken, Yash.

Yash Shah [0:55:13]

Yeah, but we have been waiting for many -- I guess years now. It's been three years. So we expect -- and I guess Mr. Mahajan also had commented last time that he'll be back with an answer in the next call. So we were expecting an answer this time also. So I hope the next time we get an answer may be in the AGM, which may happen before the investor call.

Mehul Pandya [0:55:40]

Yash, as I mentioned earlier, these are suggestions from various investors. So, we appreciate that and certainly, that will be conveyed to the board. Thank you.

Unidentified Analyst [0:55:50]

Yeah. Thank you so much.

Mradul Mishra [0:55:53]

Thank you, Yash. So, with this, time is up. So, I'll be ending this session. Thank you to all the attendees for participating in our earnings call. Goodbye for now. Thank you.

Mehul Pandya [0:56:06]

Thank you.