CARE Ratings Limited Q2 FY22 & H1 FY22 Investors’ Call
1st November 2021

Ajay Mahajan – MD & CEO, CARE Ratings Ltd.

Good afternoon, and welcome to the investor call of CARE Ratings. I trust that you've had the chance to go through and analyze our results which were announced on 29th October 2021.

I am here with the Senior Management of CARE Group to share with you how the company has fared so far this year, and address questions that may pose after my preliminary remarks. I will also take you briefly through our vision for the coming years, which will give you a perspective of our plans that we have in place.

The current financial year, as you know, started on a somber note with the reimposition of the lockdown across states, although not as stringent as the national lockdown of March-May. This time around however, the intensity and the spread of the pandemic was more severe. This has had adverse implications on the economic and business activity, which was only beginning to see tentative signs of recovery late last year.

For a major part of Q1, the pandemic restrictions were in place. Lower economic activity was accompanied by reduced rate of investments which had a bearing on the borrowing appetite of the corporates. As is well known, fund raising from the debt markets and the bank loan segment is crucial for new business for us. Corporate bond issuances in Q1 were 57% lower than a year ago and the bank credit growth over March was -1%.

Following the calibrated reopening of the economy since June 2021, there has been a faster than anticipated pickup in activities. The increased mobility as well as the higher pace of vaccination has improved consumer and business sentiments. Data has been reflecting the advancement in various segments over the first quarter of this fiscal.

There's been some improvement in terms of stability in the overall environment in the credit and debt markets following the easing of lockdown. This is good sign, certainly so for rating agencies. Bond markets witnessed some semblance of stability in Q2 with issuances for three-month period between July and September being 1.77 lakh crores as compared to 1.71 lakh crores last year. These issuances, however, continue to be tilted towards the finance sector. In any case, financial sector as you know, has a higher weightage in the overall distribution of the overall capital raising in the debt markets.

The manufacturing sector, faced with surplus capacity has not embarked on fresh investments in a meaningful manner. Though that's a wide expectation that all of us hold. Also, that the infrastructure investments are largely being led by the government as a public sector with the legacy NPA issues continuing to be a limiting factor for private sector participation yet in particularly infrastructure sector. Also, some of the large borrowers have been the PSUs. These two factors do have a bearing on the revenue accruing to the company.

On the side of bank credit, although growth has improved from a year ago, it nevertheless was subdued overall. The bank credit growth during the first five months (April to August 2021) to industry and services sector continued to be in contractionary territory. The credit growth to industry and services during Apr-Aug’21 was (-)1.8%.

CP issuances however, have been higher on a sequential basis as well as annual basis. Issuance in the second quarter of this fiscal amounted to 6.22 lakh crores, which reads as a 50% increase over the year ago, and a 60% rise from Q1. However, this was largely due to rollover of commercial paper as the growth in the outstanding CPs as of September end was only 1.6% compared with 5.2% in 2020.

Here too, as in the case of corporate bonds, the issuances were dominated by the financial sector. Even though there were improvements in the quarter that has gone by, there were challenges that we had to contend with. We did work hard to combat these challenges and capitalize on the opportunities that came along the way. It is with this backdrop that our results should be viewed.

Forced by circumstance, we have adapted to the flexible work style, which enables our employees to work from home in a seamless manner when the need arises. Even as our offices across regions continue to operate with less than full physical attendance on all working days, we continue to complete all our mandated assignments, both new and surveillance within the stipulated timeline. Given the uncertainties regarding the pandemic, we are confident of being able to work effectively and efficiently for the smooth functioning of our businesses even in the future.

Now, let me give you a quick overview of our financial performance for the second quarter of the ongoing financial year, which, I am sure most of you have already seen and perhaps analyzed.

On consolidated basis, revenue from operations remained flattish with about 76 crores for the current quarter and similar figure for corresponding quarter previous year. The other income which largely consists of interest income has declined on the back of subdued interest rates scenario during the year. That has been the case and we have budgeted that accordingly. However, to explain the portal variance, it's important to note that lower interest rates have led to a little decline in our interest income.

Elevation in employee costs and other expenses has led to some moderation in operating profit margin. However, it continues to remain robust. Elevation in employee cost is partly on account of inclusion of ESOP charge to the tune of Rs 2 crores for Q2 FY22 and Rs 3.7 crores for H1 FY22. The elevation in employee cost is in line with our strategy of acquiring retaining talent. We believe that in the longer run high talent density becomes key sustainable competitive advantage. The other expenditure also elevated on back of our focus on improving IT infrastructure across the organization. This is not just good hygiene building again, but it has been viewed by our Board and Management as a key differentiator in the making.

On standalone basis which represents ratings part, the financial performance has been stable with company reporting Rs 69 crores of revenue from operations for Q2 FY22 as compared to Rs 71 Crore reported for the corresponding quarter last year. The margin decline that is seen during the current quarter is largely due to base effect. There was some spillover effect last year where in some income from Q1 FY21 had spill to Q2 FY21 and that was not the case repeated this year.

As a result, if you refer to standalone H1 to H1 comparison, revenue from operations has improved, like I mentioned about by 6% or so, which indicates that on rating side, we have reported moderate growth for the first half of this fiscal despite the backdrop of a challenging private capex environment.

I'm glad to inform you that the Board of Directors also announced an interim dividend of Rs 7 per share for Q2FY22.

During the quarter gone by, we further strengthened our outreach efforts through a series of webinars on various sectors with a panel comprising of industry experts. We were able to reach a larger audience given that these were conducted virtually. The participation of external experts enriched these webinars as it helped bringing industry perspective, even as we put forth the house view. Our research reports continue to be widely circulated and have been well received by various stakeholders encouraging us to continue to do even better in sharing knowledge through a very elaborate marketing and outreach exercise. We have also collaborated with various chambers of industry to broaden and deepen the CARE brand in the marketplace.

We continue with the initiatives to cement our transformation agenda. In this we would like to touch upon the following key points. CARE Group is open to achieve growth both through inorganic and organic means. As I have stated before, we continue to scout for good opportunities in our known domain. However, given this decision needs to be taken with a lot of care and thought and the valuation skyrocketing, we are relatively more focused on the immediate future on strongly building breadth and

strength to our new, invigorated plans for CARE Advisory and CARE Risk solutions businesses organically.

On organic side, we continue to employ the following strategy-

First, group approach - CARE, in its quest for diversification will focus on building new and exciting businesses through its two wholly owned Indian subsidiaries, which is CARE Advisory and CARE Risk Solutions Private Limited. The international subsidiaries in Africa and Nepal continue to do very good business and contribute profits and we are in the process of critically examining expansion opportunities there as well.

Turning to Indian subsidiaries, we are happy to share that critical high-quality resources have been systematically onboarded at CARE Advisory and CARE Risk Solutions over the past nine months to support the build-out of these businesses at a much higher scale. More details will follow as we roll out more products for targeted segments going forward.

Technology is the second key differentiator or key area that we are building our diversification strategy with. Technology is one of the key identified enablers of our transition endeavor - we have been upgrading, modifying, and establishing new innovative solutions for our businesses as an ongoing process. In Q2 alone, we undertook migration of our data center, enhanced system security and upgraded end user technology. In our demo, we are trying to marry technology with analytics for new product development.

We are also in the process of deploying artificial intelligence and machine learning to enhance efficiency at every level so that we can rationalize costs where possible and enhance value addition.

Human Resources - Talent density is in an important piece in our overall strategy as judgment calls will always need to be finally made by fine human talent. Thus, acquiring and retaining the right talent becomes one of the key aspects of our business. Our focus and emphasis on our human resources has been continuous and multi-pronged. We have systematically increased our learning and development budgets to offer more and more training programs for our staff to keep them up to date with the evolving and latest skill requirements. Sessions and workshops on mental well-being and employee assistance programs are also being held.

We've also introduced the employee recognition program to promote quality and thoroughness in our work. On the side of leadership, we have also hired some very senior professionals to assist in the transformation of the company. We have a new CEO at CARE Risk Solutions Private Limited, hence, almost all the top positions have been filled across the group with the best talent that is experienced in their respective fields.

Rebranding - We are in the process of rebranding the CARE Group, which will go far in strengthening the image of our company.

In conclusion, therefore, we are confident that the economy would have a stronger bounce back in the remainder of FY22. We have projected the country's GDP to grow at 9.1% in FY22. The strengthening economy is bound to stimulate investment sentiments and climate, albeit at a gradual pace. This will be reflected in the debt and credit markets. That said, even though the economy appears to be on a strong footing, the pandemic still remains somewhat of threat, and carries with it some uncertainty.

Despite this, we believe that we are better positioned to navigate these challenges due to the valuable learning from the past, as well as our transformative process that is underway. The clue is our subsidiaries where we are very confident of seeing acceleration in their businesses. We remain committed to systematically build and transform CARE to one of India's leading ratings and analytics company.

With that, I close my speech, but not before thanking you all, and wishing you all a very happy Diwali to you and your loved ones. Thank you very much.

Q&A

Q – Praful Kumar – Dymon Asia

Thanks for the presentation. From our previous interactions you have been telling us that in terms of people processes and systems, things are in place and now we are looking for a materially better next three years. Can you just overall tell in terms of rating and non-rating business your aspiration on CAGR revenue? What are you looking at versus industry growth assuming say, 5% to 10%? How do you intend to achieve that, in each of the verticals, both rating and non-rating, and for that, what resources you need in terms of people processes and technology? Where are we now against those milestones?

A - Ajay Mahajan

Sure. Thank you for your question, Praful. Let me start by saying that in the ratings business, our objective is multifold. That is the cornerstone of our key overall performance. As you know, predominantly we are a ratings business today. And we did lose market share in the last two or three years and we are rebuilding that market share slowly but surely.

We, I think, over last year broadly regained about 1% market share and we are trying very hard to increase the same and continue the momentum of acquiring market share by at least 1% per annum over the next 3-4 years, and hence get back to high 20s from low 20s. That is our objective and we are working towards it.

Both, the business development and the rating teams are entirely focused on making sure that we provide the highest level of attention to clients while maintaining total quality of our ratings exercise so that the overall business grows on the back of the strength of quality and fairness of our ratings. Our focus is on that.

So that is to the answer on the rating side. In terms of resources, we have had very good resources in Care Ratings. Historically, we have a 27-year track record in thet business, and there are only very select parts where we have had to make some hires from outside. This is more to fill gaps as some people moved. But otherwise, we have quality talent in thet business and are not really looking to change much from a standpoint of human talent. There will be some changes. But those changes are par for the course, we're not expecting large disruptive changes in our ratings business. We are pretty much well-staffed in that business and we look to grow market share, as well as our revenues in that business. So that's on the rating side.

On the non-rating side, we have a strategy in place and are working on that strategy. As they say the trick lies in execution. It is one thing to strategize and it's another to execute. So our focus is on execution. And in that context, I'm happy to report that both our Indian subsidiaries, which is where we expect substantial growth in the next few years are working well. In terms of acquisition of quality human talent, I think we are almost set in terms of having the critical mass of people in place. And we are now looking to grow these businesses. We haven't set annual or quarterly targets in the public domain yet and may do that over the next few months. But at this moment of time, I can tell you and I will reiterate what I have been saying and communicating to investors very transparently that we will be unhappy with ourselves if we can't get to one-third of our total revenue and earnings coming from non-ratings business by March of 2025 - which is exactly let's say roughly three, three and a half years away.

That's to answer part one of your question. For part two of your question which , I think partly I've answered on resources we should now look to cement our position in these new areas of growth as well and look to grow business and therefore more outreach to clients and focus on business development will be our next steps.

As far as technology is concerned, we have been rightly focused I think on technology for the last year and a half. We have improved hygiene considerably. But, admittedly hygiene by itself does not bring more business. So next step on hygiene is to improve productivity. We have an internal workflow system that should be ready in the next month or two.. But more importantly, we are building technology across the Board. Technology in CARE Ratings, technology in CARE Risks Solutions and technology in CARE

Advisory as well, will we believe will help us roll out products in CARE Ratings for our own consumption and in CARE Risk Solutions and CARE Advisory for third-party consumption. But I would wait another quarter before I start talking about those products in detail. I hope I've answered your question.

Q – Praful Kumar

Yes, that's very useful.. So just summarizing what you said. If industry grows by 'x' and so is rating by 'x', we are higher because we are gaining market share. And plus, assuming industry grew by 7/10 plus we add 1/3 of our revenue in three so another 10%. So, we are looking at a significant momentum on the revenue side over the next three years CAGR. That's a fair assumption. That's what you said?

A - Ajay Mahajan

Absolutely. That's what I have said. And that's what I'm committed k.

Q – Praful Kumar

In terms of a scale of one to 10, 10 being the best, your preparation (because you have been doing this for the last two years, with significant efforts, I know you have) so in terms of people, processes, systems, making subsidiaries, everything, you will be today at eight or nine in the acceleration that you will do over the next three years. That's correct. So the building blocks are in place?

A - Ajay Mahajan

Yes, Praful, I'm happy to confirm to you that where we stand today with respect to product, quality, quality of people and technology, where I can say confidently that we are at a point where we should now look to substantially accelerate. But the credit markets in India need to start growing, that defines the core of our earnings until such time that we diversify substantially. And e that's an extraneous factor. Leaving the extraneous aside, we are now on a very strong footing in terms of product people and processes.

Q – Praful Kumar

Understood. Finally, pick your brains on the cash that you have on the balance sheet, generally given the growth momentum, you have been generating significant cash flows as well. What are the plans, is some inorganic to augment non-rating revenue also part of the overall strategy that you have devised or it's more of normal organic growth for next two, three years? And if any acquisitions what it maybe, could be more tech based, some platforms or what exactly, because you emphasize in your opening remark as an analytics, rating and analytics company, and you emphasize on analytics as well. So some more thoughts there? Thank you.

A - Ajay Mahajan

Yes, on that, in the speech also, I did mention that a CARE Ratings is absolutely open to both inorganic and organic growth in our strategies. Organic we have discussed in detail, inorganic is so hard to discuss because there is a lot of work that goes in, but then you suddenly realize that by the time you filter down to the right side of companies, you also must think about valuation. , There are hence several considerations that must be addressed.

We must be very mindful as we are in a very regulated sector and our mindset is relatively conservative, which I believe is rightly so. So, I think it is important to fit many criteria and make people comfortable, certainly the Board, before we take a plunge into the inorganic. So, I would say I'll sum it up by saying that we will continue to scout around for the right opportunities, but it's very hard to provide any timeline on it. So, we keep the powder dry and not committed to any long-term investments, but we will keep scouting for the right opportunity.

Your second question is which areas will we be focused on? On that again, in the past, I have given some guidance and we stay committed to that guidance until it changes, in which case we will communicate it. But we don't see a reason to change that guidance presently. The guidance is that we are a knowledge company. We know clients, we know businesses, we know global domestic situation in many sectors, we therefore call ourselves a knowledge company. And as a knowledge company, we could be looking at two or three areas.

One, something to do with data interests us. Data database platforms interest us. Something to do with research, interests us. And then likewise, there are one or two other areas which interests us, it could be credit process or outsourcing. So we are looking at those areas which are synergistically aligned to our area of strength. We are not interested in anything that's unrelated to our core strengths.

Q – Praful Kumar

Yes. Finally, one suggestion, Ajay I think I was seeing on LinkedIn as well, you have some great resources, you have head of ratings from CRISIL and few other guys at the top. Maybe, we should I think let the second level also interact with investors just to see the conviction from the guys who will execute this plan over the next two, three years. That's the suggestion that will give us lot more confidence.

A - Ajay Mahajan

Certainly Praful, all my senior Management is on this call. I am happy for some questions to be answered by them, so that you can get them live.

Q – Praful Kumar

Sure. Thank you. Thank you. All the best.

A - Ajay Mahajan

I'll try to pass a few questions to them. In case you want to just hear some of my colleagues.

Q – Praful Kumar

It just showcases the kind of depth you have built in for the last two years so that we can appreciate the people who have been holding the guns and in the field of work. Thank you.

Q - Samarth Singh – TPF Capital

First question was on the competitive environment and the latest notice by SEBI regarding one of your competitors. Can you just talk about what's going on? Are you seeing your ability to take up pricing now? Or, is it still more of the same?

A - Ajay Mahajan

Yes, on the competitive environment, I want to be honest always, I don't see a change in the competitive environment. Yes, we have also heard, I would call it speculative, because it doesn't seem like a final decision yet. I've also heard about that, but it's best Samarth that we don't talk about it, I have no additional knowledge to share. I'm not being evasive, simply don't have additional knowledge to share on that.

I would simply say that, should something like that happen, we would then figure out what it means for the industry. But I think it's premature right now to talk about it.

The competitive pressures in the industry regardless, I think, remain quite strong and sharp. There are seven rating agencies vying for that share of that 1000, 1100, 1200 crore of rating fee pool. I would expect that one of us will take a slightly stronger stand for the quality of work we do as in the past. We need to, gently but firmly communicate to our clients what we think is fair pricing. And I think it's a process Samarth. We have started engaging in that process in the last one, one and a half years, perhaps even from before. But I would still think that because the pricing pressures were quite intense and continue to be intense, clients are becoming a little more discerning. I wouldn't say that they are specifically asking for us only, but they are now beginning to value the work of my rating s and business development teams.

And I think it's a process. It's not something that one can say we have arrived, but we are getting there. And I think we are definitely building credibility in the marketplace with influencers as well. That includes banks, mutual funds, AIF's, and lots of financial market players, intermediaries included. So I think we're getting there, but price pressures are still there Samarth, I wouldn't be in denial of that yet.

Q - Samarth Singh

Okay, thanks for that. And you mentioned that until the other businesses kick in are essentially the growth of credit market in India is what's going to drive our business. So could you talk to me about just one or two regulatory issues that have that are coming up over the next year or so that you think could give a significant boost to the market, if any. And what would you like to see -- what do you think would really helped grow the Indian credit market?

A - Ajay Mahajan

Well, maybe on the first part of the question, I can't immediately think of a regulatory step that would add fillip to the market other than the fact that regulators are quite focused, I think from whatever I see both RBI and SEBI are focused on improving the corporate bond markets from where they are today. As we all know, corporate bond markets in India are dominated by few large or substantially larger or mega large corporations in India. AA and plus rated companies are able to access markets consistently with good pricing, Others are not able to do that.

So, regulatory attention is focused on development and deepening of the corporate bond markets that will augur very well for rating agencies. Other than that, I can't offhand think of anything else that's in the regulatory domain that is likely to give a fillip to the rating industry.

Q - Samarth Singh

What are the one or two changes that the regulators can make that would give that fillip to the industry?

A - Ajay Mahajan

Well, I think from a regulatory standpoint, the most important thing that I keep saying meeting after meeting is the development of the corporate bond market. And I think there is some work that's happening in terms of some recommendations at the SEBI are there probably in the final stages about working on market making, and appointing intermediaries with certain commitments, and issuers, earmarking apart of their total bond raise to provide buyback to a certain extent of the issues that they come out with from time

to time. But it's an early stage to the best of my knowledge. There will be more work I'm sure SEBI and RBI would be looking to do to deepen the bond markets. It has been a challenge on the horizon for a very long time, but has not necessarily resulted in deep bond markets in India yet.

I think a lot of emerging markets suffer from this challenge. I think there is a lot of external capital, that can also be attracted should we make the bond markets lot more accessible and take out the pain in taking out money. Other issues include the duration of the bond market, commitment of the FPIs to bring in money for minimum three-year duration that was eased in the last couple of years, etc. But overall, India has not necessarily attracted a lot of external flows into the bond markets, as opposed to equities, which have done exceedingly well, in the last 20, 30 years of opening up the market. So, I think that remains the big promise of the future. I hope we are able to capitalize on it.

Apart from that, just to answer your question. I think that with massive geopolitical disturbances, which is a big theme that's prevailing in the global arena today and supply chains breaking across the board, particularly with China, now starting to get alienated somewhat, I do believe that India has a better opportunity in the next few years to play a larger role in the global economy, in terms of producing for other countries.

I think that certainly is an opportunity for India and should be grabbed with both hands. As a result of massive demand globally, putting pressure on supply of very critical, products, raw materials, commodities, at this moment of time, should lead to capital expenditure in the next year and beyond, is what our calculated guess is for the future. I won't say it's just hope, or that it is bound to happen. I would say that that's the calculated call we are making that we see credit markets in the wholesale area picking up which will help us. Presently it is retail credit which doesn't help us as much but only indirectly through NBFCs. But I do suspect that corporate credit will start seeing pick up both for capital expenditure purposes as also increased enhanced lines in working capital

Q - Samarth Singh

Okay, thanks. Last question from my side, we continue this policy of giving out dividends. And I think it's been asked of multiple times. And I'm not talking about the cash on the balance sheet, I'm talking about the dividends that we gave out and many investors have asked you to consider buyback instead of the dividend, which is a tax inefficient way of returning capital to shareholders. But we continue with this policy. Could you just explain why? I mean, have you reached out to your large shareholders to see what they would prefer as a capital return policy?

A - Ajay Mahajan

Yes, Samarth, I know that this may not necessarily be one of those things that we have been able to get to. But in our company, it's a very strongly Board managed company, as well. We have managed to at least get this subject going for a discussion at the Board meeting. But yet we have not yet been able to get to a formal answer for you.

So, I'd say this is WIP. But we have made some progress. As the CEO of the company, it's my absolute responsibility to accept a request like these and take them to the Board. Final decision obviously would be of the Board. These things do require more sustained conversations before a final decision can be made. I did mention that every company culturally is different. We are not necessarily a company that very quickly makes decisions. We think we discuss, and then we make decisions, that's the way the company operates. I can assure you that we are not ignoring this point. We have tried our best to get some discussions going but we are still a distance away from the final answer.

Q – Mahesh Jain – Motilal Oswal

Closely on the corporate bond market, the MSCI inclusion of the bond market - How do you see that panning out for the Indian bond markets going in the medium to longer term? Will that be watershed event the way we did it for equity markets a couple of decades back? So that is my first question.

Secondly, from a more longer-term perspective, how do you see the ESG ratings business coming into play for India as well as for CARE Rating?

Thirdly, rebranding – please elaborate.

Fourthly the other expenses, which have jumped sharply in the quarter both on Y-On-Y and sequential basis? What was the reason for the sharp jump? And what should we think about the same from a medium-term perspective?

A - Ajay Mahajan

So, on the first one, I would say that it will be a direct and indirect shot in the arm for Indian bond markets. There is no doubt about it- to represent the India if even at the sovereign level, if it gets represented in the indices, it does play a very strong role in terms of putting India on the sort of radar of all the global debt funds ETFs various players in the fixed income markets, where the mandate is to put money into fixed income and right now that may be just what India may be missing out.

So certainly, it will be shot in the arm even if it does not mean that we would be a part of corporate bond index from day one. It does mean that the Indian yields will be up on the radar of all the large debt funds and that augurs well for the Indian fixed income markets for the future for sure. So that's a short answer, but I'm quite clear that this will be positive for all parts of the fixed income market in India.

Second, you said what do you think about the ESG business in the long term and what happens to that. – in these early stages, a lot many of us are focused on ESG. Multiple players are focused on ESG. It's not just a buzzword, but it is now defining the way capital will flow in and to which sectors will it be directed and which players will be involved. It's already getting linked to certain 'negative sectors' and 'positive sectors'. The question is how much of money can come into which kind of companies and sectors. This will be decided substantially also with the ESG dimension. CARE will definitely play a strong role in this.t CARE is taking its time in doing all the background work, because without thinking through, we just don't want to jump in the fray. We are already doing grading and screenings and hence there's a substantial amount of work that's underway. We are working on providing appropriate and top-notch products in this domain, considering we carry a lot of knowledge in our company in various areas, particularly infrastructure, financial services, to name a few.

So ESG is very critical from a CARE and markets' perspective. Eventually, this is where I will speculate - I would say in a few years' time ESG will be a dimension that our ratings folks and analysts will consider. Also, while assigning a rating, at this moment of time, it is being seen as a separate standalone product. From an ESG perspective, my own guess is that over a few years, it will coalesce into the standard rating product, and there would be a strong ESG dimension that would have to be seen. That's admittedly speculative, and it's not possible for me to say anything more definitive, because regulators will play a big role in deciding whether ESG stays separate or becomes a vital component of the rating analysis by rating agencies. That's to answer your second question.

On rebranding, there is a plan to redo the logo of CARE Group, and I don't want to say more as then steal the thunder from our rebranding launch, but we're planning one soon. The idea is to have one common website and overall overarching group approach, which I referred to in my speech as well, so that all parts of CARE feed off the same brand, the brand property, the brand promise is shared across the multiple businesses of CARE and not as CARE Ratings - independent of CART, independent of CRSPL,

independent of other subsidiaries in international markets. So the rebranding is a part of the group approach and there will be more that you will hear from us soon.

Now, on other expenses, what we have done even better this year is we have tried to normalize the accrual of expenses from any fluctuations that we expect. We have tried to normalize that fluctuation as an if something we can get to as an expense that will accrue in Q3 or Q4 on prudent accounting policy, we have tried to normalize it through the year. Also, there are some regulatory changes for instance, CSR, there is a regulatory change that we must recognize the expense upfront. So, CSR expenses have gone up by a crore of rupees. You were mentioning that other expenses have grown up by about five odd crores, I see the numbers on first half other expense number has gone up from 9.3 crores to 14.2 crores that's about 4.9 crores- that 4.9 crores can be explained as follows; CSR up one crore, IT expenses up 1.7 crore, professional and legal fees up one crore. So that gives you the breakup.

IT expenses have to go up as mentioned, because we are investing in technology, it can't happen without making the investment. CSR is a compulsion. Professional legal fee, one can argue is also an inelastic expense -I can't do much about it. It's to do with the sort of legal cases, some continuing, and some that keep happening as a part of this industry. We have to accept it. I hope I answered all the questions.

Q – Mahesh Jain

Thank you for all the elaborate answers, one last question, the issue of the non-cooperative ratings, and until those sharp jump, and so what are the numbers there right now as to what proportion of our volumes are under that category? How do they impact our revenue and profitability?

A - Ajay Mahajan

Okay, so this is a good question. And we have talked about it in the past meetings, it is hard to give numbers, but I would say that the industry apparently is at about 50%, 55%, which was non-cooperating across almost all rating agencies. We are in the vicinity of that number, but somewhat lower than that number. So, it is beyond us to be able to help that number. We have been requesting the regulators to see if we can, you know, exit in non-cooperating issuer a little ahead of the timelines that are currently required to be adhered to regulatorily. But I think it's a matter of time that some of these regulations eventually get a little better and friendlier for rating agencies, because right now, you're not keeping your issuer non-cooperating with us for long periods of time does not help anybody, it doesn't help investor either, because the client is not sharing information.

So, if the client doesn't share information, for us to continue to carry a rating set in the past with past data does not make a whole lot of sense even for the investor. So, we are hoping that at some stage the regulator will hopefully listen to our request. They must have some reasons why they are keeping away from relaxing here. But our cases are broadly in line with industry statistics, if not somewhat better. That's all I would say.

The other thing I will say is that internally, we have reorganized that business to ensure that we are more productive as in that the INC category does not slack our productivity across the group. So, we've created a separate group to follow up and through that we believe we have addressed productivity measure across the company at CARE.

Q – Mahesh Jain

Yes, Thank you. Sir, if you put some light, so how does a company going to INC rating - How does it impact our revenues and profitability? Because we continue to give ratings right, but we are not getting the revenues. Are we booking those in our revenues as receivables? And how do we account for that NCR ratings?

Ajay Mahajan: Mehul, may I request you to answer this question?

Mehul Pandya – Executive Director, CARE Ratings Ltd.

First and foremost, as you rightly pointed out, since the issuer goes into the non-cooperation category, it does impact the revenue and the profitability in the sense that see, we don't get the fees from them. To your pointer on whether or not we are booking the revenue from them, the plain answer is no. Because the issuer is in the non-cooperation category, we're unsure in terms of whether the revenue would flow in from that customer, irrespective of whether the regulatory driven review is undertaken by us. So we simply don't look what is not sure for us. So that's the simple answer to your question. Thank you.

Q - Sanjay Kumar - ithought

Two questions broadly. In the AGM, the company says that the structured products should drive growth. I wanted to know what our market share is in the current setup of REITs and in which NHAI and possibly few of the PSUs might go on a spree as laid out in the National Monetization Policy. So how can we gain market share in this segment?

A - Ajay Mahajan

Okay, so, yes, in the AGM we said so and we stand by it.We have invested very well in our teams. We have now a strong team that works within the sectoral experts of infrastructure for InvITs. And likewise on the securitization of financial instruments, loan, receivables, all of that, direct assignments and PTC that sits within the financial sector vertical and we have specific teams that are focusing on these opportunities, as you rightly point out.

To specifically address the flow of money in these instruments, I firstly, totally agree with you that more and more instruments are likely to come out in the structured space. This will be particularly for subscription, not necessarily by just qualified institutional buyers but in my judgment, a lot of HNIs will be buyer from these instruments. Opportunities to invest in high yield will constantly be sought by HNI platforms, which are now very big s across this country which wasn't the case five years ago.

I think a lot of these instruments will find investment appetite from HNI desks and private wealth and family offices as well. There is a huge demand for these instruments. And I agree with you that there'll be more issuances in this space.

Till now some of these markets are still more talked about than there being actual flows. Will the flow back all this talk - is our expectation. But have we started to see very large flows yet from multiple places Not really. Have we been looking for these opportunities all the time and our business development team? Yes. And our ratings teams? Yes, we are. So that's my quick reaction to what you asked. Maybe I could ask, my colleague Mehul to comment if I've missed out any dimension.

A - Mehul Pandya, Executive Director

Yes, you've covered the things in a quite elaborate manner. Just to add to the few pointers that yes, the teams are indeed in place and the reach out in terms of engaging more with the potential investors as well as the originators on the securitization side becomes one of the focus areas as far as business teams are concerned. We are seeing good traction on that. But unfortunately, it's also true that for the first few months of the first half of the current year, we did not see too many transactions. There was one transaction which happened, which was a bilateral deal. More or less, we are likely to see the traction coming into specifically this space going into the second half now. Hopefully, we should be maintaining a good share of that.

Certainly, in the other aspects, which you mentioned, we also do tend to see good potential over there. And our teams are quite engaged in this aspect. We have done a few good ratings as far as the InvITs are concerned and hope to see some more activity in this space.

Q - Sanjay Kumar

So, is it early to talk about market share?

A - Ajay Mahajan

I would suspect so because till now, there have been, very few select high profile deals, one or two by public sector, two or three by private sector, in specific areas, like in REITs, as you said, but still the deal flow is somewhat limited. It's not broad based to multiple builders, multiple commercial properties coming out this way, but I suspect this will be the directionally an important product to set our eyes on and be prepared on for the future.

Q - Sanjay Kumar

Okay, sir. Second question. Can you give us more insights on that Tresata partnership and how it will help us know what products are we building? I did go through their website it's kind of interesting. And even our annual report did not give any more details on this, so something on it. This would be great.

A - Ajay Mahajan

Yeah, so very quickly, Tresata is a US based company set up in 2010. It's been in business 10-11 years. They do a lot of work with specific sectors like healthcare, financial services, and a few other manufacturing sector companies as well. They do a lot of business with Fortune 500 companies, their focus really is that they have put out a proprietary technology in place for AI, ML, in the intelligence layer that I keep talking about. Without getting too technical I would simply say that largely, it's a data driven analytics service that provides a higher order predictive analytics to time series data that you can provide to them. So now, for a rating company like ours, it does make a lot of sense to be able to fulfill even a regulatory expectation that we need to be building models to be able to predict default, and across sectors across companies, and I think this will add that very high level of caliber to our otherwise smart analyst and group heads and rating head teams to be able to give them that additional input from a predictive analytic standpoint.

That's really what Tresata is about. They also have some inbuilt models that we can use from time to time, both for our internal consumption as also when we start doing some analytics work for our clients. Hopefully soon, then some of that can come to our help both for in house as well as for third-party products.

Q - Sanjay Kumar

Yes, so it is more of intellectual property. So, it will take some time to reflect in the numbers, is it?

A - Ajay Mahajan

This is a capacity and capability building effort. The monetizable part of this effort would be indirect in Ratings and could be more direct as we launch our analytics businesses for the future. So, it's hard to directly link this to revenues at this stage it'll be premature.

Q - Sanjay Kumar

Few years ago, our employee expenses used to be less than 30%, after you joined, we spent on employees. So, it's right now at around 45% 40%. So where will this number settle at? What is your guidance on EBITDA margin? If you can do one?

A - Ajay Mahajan

You see this is a question that troubles me very often. And the trouble is not of any other reason. But that the headline revenues of the business, if they remain single digit, then it obviously gets more challenging to support expectations of employees in terms of giving them inflation related, or even otherwise, salary corrections and salary increases from time to time. So, it is obviously one of the biggest challenges for any company that has a relatively low growth trajectory in the industry that their company sort of happens to be in.

So we are currently in that phase, where we must not forget that there are parts, and there are many, many pockets of opportunities in the past where the business grew at a much faster clip than the cost. So I think at a time like this, when we just discussed the opportunities that could potentially come in the credit space going forward, I would think that some of this is a little bit of uncertainty so that nobody can predict with 100% confidence. But I would think that there should be less of a worry going forward as it has been in the last two or three years because of fact that CARE was losing market share for the first two years out of the last three years. And then it arrested its downslide, but it's still bottoming out, and it only grew by 6% this year.

I would say given where credit growth for the country we have still done, okay. But as credit picks up, this should be less of a worry going forward than it has been because percentages are somewhat misleading. If revenue stay flat, the same cost as a percentage even with 5% inflation related pay or 10% pay will start showing as a very accentuated increase in percentage. The fact of the matter is that we are in business and we must grow our business. So, I think the rest of this call would be useful for you to assess whether we will be able to grow our revenues or not. I think that is more important than continue to focus on trying to push the cost down because unless we have good people, we will not be able to build top line.

Q - Rohan Savant (Multi Act)

So, a couple of questions one on the other expenses - So, the 11 Crore that we have as other expenses in this quarter, should we assume this to be the run rate going forward? You mentioned that we have kind of normalized the lumpiness in this line item.

A - Ajay Mahajan

Well at consolidated level, it will be hard to give you a trajectory because the three businesses are very different. The ratings business is a very different business and a mature one. , It has the most predictable set of expenses, unlike the expenses that will show up in CARE Risk Solutions. CRSPL is a company which is still not yet sort of broken out of its past growth trajectory, but will break hopefully soon going forward. Here there will be lots of partners that will be involved in selling and therefore there the margins, (net margins) will drive our business as opposed to just the revenue line. So, revenue will have a lot of concomitant expenses coming from partners.

Likewise, the third business, which is the Advisory business will have both partners as well as some tech costs that will come in. So, it'll be very hard to give you one normalized trajectory of other expenses at the consolidated level. But at individual company level, i.e. CARE Ratings, Standalone level I think there should not be any surprises. To my mind at least, there are no surprises, we have committed ourselves to technology expenses, so, there will be a little bit of expense increase.

If you see standalone, our Q2 expenses are seven Crores versus four Crores last year, and that 3 crores increase or rather if you take first half, we have gone from 9.3 crore to 14.2 crore. And that 5 crores increase explained as 1.7 crore coming from IT and the balance three crores is largely CSR and professional and legal fees. So, it's very hard to predict these numbers: , these are inelastic costs, these are not costs in my control, I would say more than inelastic, these are non-discretionary costs. And these costs are not being undertaken specifically by management to achieve something as these are almost semi regulatory, or like I said, non-discretionary costs. So, I can only explain status quo, it's very hard to give you direction for the future.

Q - Rohan Savant

Sure. And second question was on receivables, which have kind of jumped up to around 50 odd crores. So, any anything to call out there in terms of why the jump is there? Or is it more of a timing issue?

A - Ajay Mahajan

Two things, we changed our accounting policies around the unbilled revenue. What we are now doing is that we are trying and billing clients with a forward date. So, if you actually see the receivables mix, I would assume more than half of that would be accounted for money that's not even due and the balance money is well in control, it's in the shortest time bucket. And I would say that there is no worry at all on the receivable side. There is not much growth in working capital as a result and quarter ends tend to obviously accentuate that number, but the receivables position across the group is in control.

Other than some pressures that we have seen in a CARE Risk Solutions where project deliveries have suffered as a result of COVID in some of the international markets and some receivables have bunched up but we are working at war footing to get some of those sorted out as well.

End of Q&A

Closing remarks -Ajay Mahajan

Well, nothing more to say than this that we continue to remain committed to strategy that has been shared several times over with all of you and if you've been attending the past sessions as well, we have remained consistent on our growth story, we will work towards adding more businesses, we will work towards strengthening our ratings business further and growing our market share. We have good teams, good people in all parts of the company and we remain committed to delivering on what we have committed to you as both, medium to long-term strategy. We continue to chip away at executing and we will come back every few months to showcase to you how we are on that path to achieving our strategic objectives in the medium to long term. Thank you for your support.

Happy Diwali, to all.