CARE Ratings Ltd. – Investors Call – Q4FY21 and FY21

14th June 2021 – 2 pm to 3 pm IST

Transcript

Mradul Mishra - Corporate Communications, Care Ratings [0:00:03]

Good afternoon, ladies and gentlemen. I am Mradul Mishra from the Corporate Communication team and on behalf of CARE Ratings, welcome you to our Quarter 4 FY ’21, and FY ‘21 Earnings Conference Call.

We wish to inform you that all the participants are in listen-only mode, and there will be a Q&A session, once the address concludes. During the Q&A session, you can click on raise your hand option which will enable me to unmute you for posing your query. Also, please note that this conference is being recorded. Mr. Ajay Mahajan, Managing Director and CEO at CARE Ratings will be interacting on this call.

Now, may I request Mr. Ajay to take over the proceedings please?

Ajay Mahajan - MD & CEO, CARE Ratings [0:00:46]

Thank you, Mradul. Good afternoon, friends, and welcome to the investors call at CARE Ratings. I trust you have had the chance to go through our results which were announced on Saturday, late in the evening and analyzed the same.

I am here with the senior management of CARE Group to explain to you how the company has fared through the year, and address questions that you 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.

Now, as you all know FY ’20 was a challenging year for the entire industry and also for us, as this was the first time the economy registered a negative growth of 7.3%. This coupled with a further fall in the investment rate, further impacted the borrowing appetite of corporates. And as you know, our new business is driven by growth in the debt markets as well as the bank loan segment.

Corporate debt issuances were highest this year at Rs. 7.64 lakh crores. A large part of this increase was due to the liquidity operations of RBI through TLTROs in particular, which led to the infusion of funds into the system that had investment in bonds as one option. However, the issuances were tilted towards the financial sector, as manufacturing was working with surplus capacity, and private sector involvement with the infrastructure was also limited.

The NPA issue we believe is still a challenge to contend with when it comes to investments. Further some of the large borrowers were PSUs, and these two factors do not necessarily add to the revenues of the company even though the quantum of debt rated was higher.

On the side of the bank credit, growth to manufacturing was lower at 0.4% versus 0.7% last year, and that to services was 1.4% as opposed to 7.4% the previous year. This further pressurizes our initial ratings income.

CP issuances were lower this year at Rs. 17.4 lakh crores versus Rs. 21.97 lakh crores last year. This clearly tells you that the economic environment was quite dull, and had affected overall demand for credit. There was a new piece of business however, which came in the form of one-time restructuring scheme, which we were able to add to our portfolio.

While the contribution to total income was limited, we believe all this is beneficial as it establishes our strong presence in a new area. Further, there was success in the securitization space with the addition of several clients, which should stand us in good stead in the future.

Hence, there were more challenges in the market however, we did work hard to take advantage of the small opportunities that came along the way. It is against this background that our results should be viewed. Under the force of circumstance, we have now almost perfected the art of working from home. And even through this lockdown, it has gone quite seamlessly.

This year too, we had to close our offices in mid-March, but we did complete our mandated assignments, both new and surveillance on time. Given the uncertainties in the future of the pandemic, we are confident to keep working in a way that business does not get affected.

Let me first give you an overall view of our financial performance for the year, which I am sure most of you have already read and analyzed, so I will not belabor in too much detail. Let us talk about the entire CARE Group performance first. The total income for the year came in at Rs 279.74 crore compared with Rs 275.11 crore last year, an increase of about 2% at the top-line level. PAT increased from Rs 83.48 crores to Rs 90.97 crores, which is an increase of about 9%.

We are happy to state that all four subsidiaries have made a positive pattern in the fourth quarter, and three of them are PAT positive for the full year, which is encouraging. Revenue diversification as you know is our key objective, and we will be focusing on seeking new growth opportunities for our risk solutions and advisory businesses.

On a standalone basis, talking only of CARE Ratings, total income increased from Rs 250.44 crores to Rs 251.78 crores for the full year, while our expenses decreased by Rs 11.14 crore from Rs 150.19 crores to Rs 139.05 crores. Employee cost rose by Rs 6.54 crore, while other expenses actually came down sharply by Rs 17.7 crores. Our PBT increased from Rs 100.25 crores to Rs 112.73 crores, with margins improving from 40% to 45%. That was up at Rs 85.83 crores and PAT margin improved from 30% to 34%.

I am glad to inform you that the Board of Directors have announced a total dividend of Rs 17 per share, of which Rs 11 has already been paid. This is in line with our strategy to keep payouts robust and healthy, while retaining some resources to make investments in new businesses, as those will be the key to CARE Group story going forward.

Just to place the financial results for the quarter four before you, our total income was of Rs 74.82 crore, while our PBT and PAT was Rs 29.56 crore, and Rs 22.09 crore, respectively.

During the year, we did strengthen our outreach efforts through a series of webinars on various sectors of the economy. As it was an online mode, we were able to reach a larger audience and keep the audience engaged. The webinars had external experts participate as well, which helped to blend the house view with industry perspective. This made the experience richer for listeners. Our research reports are circulated widely, and have been well-received, as we believe the company should be valued for the knowledge that we have built over the years. We have also collaborated with various chambers of industry, either as knowledge partners, or speakers to deepen the CARE brand in the industry.

While we did take several initiatives this year, we were also implementing our new transformation agenda as has been spoken about before with all of you. I would like to mention that we signed a contract with Tresata, a cloud-based data platform provider based in USA last year. This is in keeping with the deployment of more sophisticated data science capabilities across the CARE Group to build a data analytics organization. While technology will be at the heart of our innovative solutions, we have established technology centers of excellence to provide scale and efficiency, in modifying existing applications and developing new applications for our businesses.

We have also put emphasis on human resources, which has been multi-pronged. Given that COVID, particularly the second wave was strong and continue to be lethal with many employees and their families affected, we stayed focused on doing our best for employees at a time that they were jostling between personal and family's health issues and work pressures. Several measures were taken to increase support to them through this difficult time.

On the work front, we stayed focused on the larger objective of improving productivity of the firm. That required realigning organization structure, improving analytical rigor, and investments in better systems and processes. Lastly, we have introduced a new talent management scheme, where high performers are rewarded with an accelerated growth path.

Simultaneously, as the organization has evolved over the years, we have hired some very senior professionals to assist in the transformation of the company. We have new professionals as Chief Ratings Officer, Chief Information and Technology Officer, Chief Finance Officer, Head of Legal Company, Secretarial and Compliance, CEO of one of our very strategic subsidiaries called CART, and also a Chief Culture Officer.

We are firmly on a transformative journey at CARE Ratings, and we are pleased about the overall performance in such challenging times. Our focus firmly remains on improvement in productivity, strengthening analytical rigor and ratings, as also diversifying revenue streams going forward.

As we move ahead, we have identified four edifices which will serve as our props. First, it's a group concept, where while ratings remain our mainstay. We work on CART and CRSPL, the business advisory and research and risk solutions companies to push the envelope.

Second is the technology factor. There, we are going to use artificial intelligence, machine learning and other sophisticated data analytics tools to enhance efficiency at every level, cut our costs and enhance value addition.

Third, we continue to harness human resources as we grow. And we recognize that any initiative in this knowledge management industry has to be multiplied as the complexities in businesses increase, and the skill requirements have to match these compulsions. Therefore, training is a big part of our agenda as well. And lastly, we are in the process of rebranding CARE Group, which will go far in strengthening the image of the company.

In conclusion, I must admit that we were convinced that FY ‘22 would be significantly better than the last year. And our house view was the GDP growth could be in the region of 11.2% this year.

However, the second wave and the lockdown has dented optimism. And while conditions are still evolving, we estimate now that the growth may possibly be a little muted at levels of 8.8% to 9%, with a slight downward bias. This will get reflected in the investment climate, and the debt and credit markets as well.

But on the positive side, we believe we are better positioned as an institution due to the learnings from last year, as well as the new approach which is already in progress that will hopefully deliver better shareholder value in the coming years.

With that, I close my preliminary comments. And I would request my colleague to get into the Q&A session please. Thank you.

Mradul Mishra - Corporate Communications, Care Ratings [0:11:15]

Thank you, sir. Dear participants, we now begin our Q&A session. You are please requested to click on raise your hand option for posing your queries.

Okay. We have a query from Mr. Chetan from Pragya Equities.

Chetan Bhatt - Pragya Equities Pvt. Ltd. [0:13:04]

Yeah. Congratulation for the good set of numbers. I had two things. I've read that your target is to reach 40% to 50% of revenue from the other than the rating business. So, how we will achieve that and what will be the roadmap?

Ajay Mahajan - MD & CEO, CARE Ratings [0:13:34]

Good question. See, the 40% to 50% is not to be taken as sacrosanct. I think, I have formally communicated this over at least two to three years. One-third of our business should come from alternative businesses that we do, and two-thirds could still come from our predominant business, which is ratings.

So let me comment on one-third. I am reducing the 40% down to maybe 33% over two to three years. We have four subsidiaries, of which two of them are in the ratings business, one in Mauritius and one in Nepal. Assuming that is ratings business only, I will elaborate on the two subsidiaries that we have in India which are focused on risk solutions and advisory practice.

Our CART business has a new CEO, Sudip Sural, who joined us on 4th of January this year. And under his leadership, we are building three distinct pieces of business. Without getting into too much detail, because some of those businesses are work in pipeline, I would say that there are some distinct business opportunities that have been identified in the areas of advisory whether it is corporate advisory, or in the areas of where investors need help with regard to their investments in India, and so on and so forth. There are a lot of projects that are underway, which CART is focused on. They have also built a reasonably smart team of people to put into effect to these projects over time.

Now, as you know, advisory businesses are hard to build and they also take time to commensurately start bringing in the revenues. So, we are prepared, that even if there is a larger investment over returns in the very short period, we are prepared to build these businesses for the future, as we believe we are fundamentally in a knowledge business. Also as we understand analytics essentially through ratings today, we have this overall skill of understanding and analyzing financial and non-financial information of any company. And we can sort of piggyback that skill set to build new businesses. So that is the broad rationale for the growth opportunities we see on the overall financial advisory side.

In addition to that, we have a risk solutions business under CRSPL. This business which used to be a Rs 4 crore to Rs 5 crore business a few years ago, has catapulted into the space of Rs 15 crore to Rs 20 crores over the last two or three years. And we believe that this business has a significant opportunity to be scaled up. There is a lot of effort on strategy that is going into CRSPL.

Here, we offer products mainly to BFSI, and within BFSI banks, NBFCS. On the risk management side, we also have a product focused on the CFO. And whether it is NDS or it is

FTP or its ALM Management, a lot of that advisory with proper technological modules is being done out of this company. We believe that with some investments, we need to upgrade products here, and diversify into newer areas. So that is the broad roadmap to be able to get one-third of our turnover from these two businesses in over 3 year period.

Chetan Bhatt - Pragya Equities Pvt. Ltd. [0:17:35]

Yeah, much helpful. Second question is we are distributing so much of money with a dividend. And for the recipient that is the worst form of income.

I think, it is better to do a buyback than giving a dividend. Anyway, a recipient is unnecessarily paying 40% tax on that. I think you can cancel that dividend announced and instead use that money for buyback.

Ajay Mahajan - MD & CEO, CARE Ratings [0:18:21]

So, on that Chetan, I would just say that this proposal or this suggestion has come from a multitude of investors. Earlier, I thought the pressure on the company was to be able to do a buyback on the cash on hand. But the cash on hand is required for pursuing growth opportunities in the future. However, I fully take your point that as a substitution to a dividend, could there be a buyback opportunity of an equivalent amount in order to make the cash in the hands of the investor more tax friendly. I think, like I have probably mentioned elsewhere, we will take up the proposal. It is a good proposal, we will take it up with our board. I cannot obviously, underwrite the decision. But I will take it up to the board ASAP.

Chetan Bhatt - Pragya Equities Pvt. Ltd. [0:19:21]

Thank you very much.

Mradul Mishra - Corporate Communications, Care Ratings [0:19:25]

Thank you, Mr. Chetan. We'll take the next query from the line of Mr. Prayesh Jain from YSL.

Prayesh Jain - YES Securities (India) Limited [0:19:40]

Yeah. So just a couple of questions. Firstly, now when you're talking about the mix change, wherein you will be moving to almost one-third of business coming in from non-ratings business, how would your EBITDA margins shape up for that business and the overall company?

Ajay Mahajan - MD & CEO, CARE Ratings [0:20:00]

It’s a good question. I don't have a EBITDA comparison,

–I am not saying that we will not focus on the ratings business. I want that clarity to be there, that ratings is the mainstay of our existence. We will remain sharply focused on both improving the quality of our ratings through analytical rigor that we are pursuing, improved workflow systems that we have implemented and are in the process of implementing. So that remains the mainstay of our activity.

For the other two businesses we want to put a little more focus and make them more remunerative for the shareholder.

In terms of EBITDA, if I correctly remember, I think it may not match exactly the ratings business, because ratings is a mature business and these two businesses will be a built in over next 2-3 years. But I would assume if planning for 5 years in 4-5 years for the risk solutions business, EBITDA would be fairly healthy at 30% to 40%.

For advisory business, we will have to see, as there is no point in predicting EBITDA. I think, initially, it will be the acceptance, building the brand, our knowledge management capabilities, and having both investors and issuers appreciate what we are trying to bring to the table and how we can help them meet their needs. That to me, I think is a little more important in the first couple of years.

We will make sure that we are not diluting CARE Ratings earnings. That is all I can say to you just now.

Prayesh Jain - YES Securities (India) Limited [0:22:27]

Okay, that's helpful, sir. So, secondly, purely on the ratings business, I had a couple of questions. Firstly, you alluded to the fact that you all are working on improving the quality of ratings. So could you outline certain measures that you have been taking for doing the same?

And secondly, how do you see the profitability of the core ratings business shaping up from here in terms of EBITDA?

Ajay Mahajan - MD & CEO, CARE Ratings [0:22:53]

Let me just quickly comment on the quality of ratings. There is a lot of work that has already been done, even frankly, even before I joined this company on 15th of April 2020. As a CEO it is my job to continue that good work and maintain momentum, in the overall quality of our product.

Quality is key to us. Because, if we don't have quality, we can survive a year, two years, three years, but that is not a long-term strategy. So our focus is quality, quality and quality. What that means is first and foremost, rating teams must be absolutely independent with no pressure from anybody. The decisions will come from the ratings teams. The analyst will feel empowered because there is no pressure on him. And that analyst will go to his group head, discusses it, and then go to his ratings head and then the rating committee. This is the most empowered group of people and most knowledgeable group of people at CARE, will make a call on the ratings.

So first and foremost, is just the integrity of the process and the undying, unstinting focus on quality. That comes from ethos. That comes from a culture change in the institution. I'm not saying, they weren't focused before and I am not alluding anything to the past. It's just the way I operate and the senior leadership in the company operates. This is the undying focus on quality, and we will not compromise that under any condition. .

Two, is the process of how do we go about creating the right structure for people. Without belaboring on too much detail here, I think all of this has been actively looked into, by even Board of Directors through the risk subcommittee of the board, There has been in active interaction with senior people, whether in criteria and quality or ratings. The CRO is the key coordinator on all of this.

And we are improving the analytical rigor, in arriving at a fair rating. We don't need to be overly conservative. We don't need to be overly aggressive; we need to give the client what the client deserves. And the client, over a period of time will see that, that we are very, very focused on being fair with the client. So that I think is the rigor that I talked about.

And then, the final point around the profitability. I think our, the margins as an outcome. Our focus is to be razor sharp on expenses. Let every rupee we spend count for itself. And whatever is an investment in the business will not be compromised?

So our focus really is do our best on the revenue, do our best on the expenses. And operating margins is therefore a deductible from that activity, and not necessarily a target for me.

Prayesh Jain - YES Securities (India) Limited [0:26:41]

Thank you for that elaborate answer.

So you alluded to a lot of investments that you would be making, and that's the reason you're keeping a lot of cash on your balance sheet as well. So, what are these investments that you are lining up in the years to come? Could you give some granularity as to, how much would be technology or what other investments are you looking to make? And any inorganic activities that are around the corner?

Ajay Mahajan - MD & CEO, CARE Ratings [0:27:12]

The core investment in the business will be in technology, apart from people. People are the biggest asset in a knowledge industry, and we will still exceedingly focused on people, whether it is training our existing people, or getting more people wherever there are gaps I would assume that a large part of the gaps at leadership levels have been filled. Therefore, we are feeling more secure with the entire team being in place for imparting their strengths to this company over the next year.

Apart from people, technology is going to be a key spending area, but we will be very careful and mindful of not going overboard. We have already put out in the public space our efforts for improving processes and workflow systems. It eases the life of the analyst. We are also focusing on adding business edge through improved data focus. We want to be a data focused data management company and try to create businesses out of that.

Do remember, Mr. Jain here, that this is somewhat entrepreneurial. This is not something that I can put out there to say I'll make X rupees with y expenditure, we will make ABC PAT. I can't put that out. I can only say to you, that this management will be absolutely resolute in this focus and will be very prudent in the interest of the shareholders. But we must pursue growth, because we have been a single product company for far too long. And we have to be ready to face the future. The future belongs to data analytics, and crisp solutions, helping CFOs, promoters, CEOs in making decisions. And CARE has to swiftly get into that mode.

Now, as regards to your second question on inorganic growth, all I can say to you is, the strategy has been taken to the board. And we are in very early stages of discussing it in the public domain. I can't say anything more. But I can tell you that we are focused on this. In the last one year, we had so much ground to cover through COVID and other issues. We had our company to stabilize, we had to understand our businesses well. We had to restructure. We had to hire leadership. We had to focus on strategy and take it to the board. So we've done a lot of that. Now starts the time to execute. I will not be able to guide you when the execution will bring fruition to the table, but we are focused on it.

Prayesh Jain - YES Securities (India) Limited [0:30:14]

Thank you so much for those elaborate answers. All the best. I'll come back in the queue.

Ajay Mahajan - MD & CEO, CARE Ratings [0:30:19]

Thank you, Mr. Jain.

Mradul Mishra - Corporate Communications, Care Ratings [0:30:20]

Thank you, Mr. Jain. Thank you. The next query we'll take from the line of Mr. Sunil Jain from Nirmal Bang.

Sunil Jain - Nirmal Bang [0:30:29]

Good afternoon, sir. So my question relates to more of like, you were losing market share earlier. And this year, it seems like you are coming back. So how's the path going forward in the rating business? How you're seeing your markets here going forward?

Ajay Mahajan - MD & CEO, CARE Ratings [0:30:52]

It's a very good question. As professionals, we can only say things very humbly to our shareholders. We had seen a decline in our business over the last three years. All we said was that, let's take charge, let's understand what we have, what we do as a company, because I'll be very candid with you, I didn't come from ratings, I came from banking.

And banking was a big user of ratings, but I did not know the industry very well. So, we said in the first year, that we will do our best first to understand and grasp the business. And second, we will try our level best through hard work. And this is not my hard work. This is the company's hard work. This is the hard work of business development folks, analysts, rating senior people, k of operational staff, And my objective as the CEO is to make sure that we harness the energy of everyone in the company, and make sure that we are prepared to fight back in the market

We have now started to pave the road for our clawback. And I will not be making any tall statements. We will keep doing our hard work, but you can surely question us if we do not improve our market share.

Sunil Jain - Nirmal Bang [0:32:27]

Great, sir. That was good thing to hear from you. Sir, another data question, like we are seeing employee cost increasing because of lot of new generation people are coming in. So whatever the employee cost which has come up now what you're managing per quarter, is this going to be continuous in the coming quarters? Or, is there anything extra which has come this quarter also?

Ajay Mahajan - MD & CEO, CARE Ratings [0:33:19]

I can just say the following things to you. You see, when I joined the company last year, repeatedly, I was told in most meetings, and I've also seen data now that our analysts and junior ranks are not paid as well as some of the competitors do. And, I'm happy to candidly talk about this. So we have a job to do. We can't just have a focus on quality product, we must have a focus on attracting the best to work for us. And that, as they say, Rome wasn't built in a day, the same way, this objective cannot be met in one single year, as shareholders will lose confidence in the management team.

So what we have to do is to keep our sharp focus, keep improving our salary levels to competitive benchmark of the industry. Obviously, in the first year, you're seeing a little uptick in the numbers, but do remember, a large part of that uptake could also be because of the CEO himself, because last year there was no CEO or was there for just two- or three-months' time.

There is a cost of senior leadership that definitely is getting added. There are also salary hikes across the board that we had to consider since people were not paid even normal hikes in the last two years. We did a very extensive exercise on performance appraisals this year.

The third point I want to make is, when you see a growth of about Rs 6 odd crores in the manpower cost, it does not take into account the savings on off rolls. We have reduced our off -roll cost by Rs 3 crores this year. So, if you adjust that Rs 3 crore off role cost, which reports to the other expenses line, the actual cost increase in manpower expenses is only Rs 3.5 crores.

With some hikes coming this year, that manpower cost number will obviously increase. And therefore, there is a certain assumption that we will be able to offset that with more increased activity from the business side, rather than suppress expenses artificially and kill the quality of our product. We much rather take the challenge on the revenue side and try to offset that. So, that's a comprehensive answer to your question that does tell you, that manpower expenses will go up some more this year.

At the same time, I must tell you while the unit cost of manpower will go up, I'm not sure of the total cost of manpower going up, because we are also exceedingly focused on productivity and efficiency of our teams. And therefore, we believe that a large part of increases for people will come from the overall pool, as the number of people that we employ in the business will become leaner and meaner towards a more efficient and productive organization. I hope that helps.

Sunil Jain - Nirmal Bang [0:36:39]

Yeah. Great, sir. Thank you very much, and all the best for FY 2021.

Mradul Mishra - Corporate Communications, Care Ratings [0:36:44]

Thank you, Mr. Jain. We will take the next query from the line of Ms. Shradha Sheth from Edelweiss. Shradha, I'm unmuting you. You can please go ahead with your query.

Shradha Sheth - Edelweiss [0:36:58]]

Hi, good afternoon, sir. Congratulation on a very good set of numbers. I wanted some color for the bond market, as we know, last year was supported by the 10% 12% growth that we had where the industry was supported mainly by a lot of those liquidity measures like the LTRO and the TLTROs. So, going forward, and also you said there is some supply available within the manufacturing sector. So going forward, how are we seeing -- if you could give some overview on the bond issuances? Thank you.

Ajay Mahajan - MD & CEO, CARE Ratings [0:37:42]

Thank you. Shradha, that this is a tricky question. I'll tell you why it's tricky, because overall, we are seeing about 9% economic growth for full year FY '22. And these numbers come from our Chief Economist, Madan Sabnavis' team. And I support these numbers.

I think the credit growth is the key here. TLTROs and LTROs honestly favor absolutely the top few large corporates in this country, the large banks, large NBFCs, large PSUs. But, as I probably mentioned in some other call today, that all of those large corporate growth in bond markets, that volume does not translate into necessarily rating earnings for the industry. This is because, many of these large accounts are fixed fee accounts. And PSUs, don't pay at the same level as the private sector does. So it does not necessarily increase our rating revenues.

We have, therefore, to look at other areas and avenues of growing our businesses in the future, which includes securitization, resolution ratings, and anything else that we potentially do in the space of new products, like InvITs, REITs, as promoters and large companies release capital through these very interesting, innovative structures. And I think they're a win-win situation for both the existing set of companies as well as for the incoming sort of buyers. So these products will definitely catch more fancy. And we expect more volumes there.

If you ask me, to give you a view of the corporate debt market next year, I think we are honestly going through currently a goldilocks period. We have a very stable rupee. We have a very stable bond market. We also have the central bank having done a very good job through these last couple of years. But I think internationally, we are getting into a slightly difficult spot with inflation raising its head or likely to raise its head towards the second half of this year for sure. And we're also seeing a massive demand for commodities pent-up over the last two or three years through COVID cycles.

So I'm not as sanguine on inflation going forward. And therefore, if inflation were to come in in a more aggressive manner, you must have seen the WPI numbers today, those numbers are not long-term sustainable. They may be able to manage for a couple of months, but not long-term sustainable. So therefore, I would think that fixed income business in the next few months be okay maybe, but beyond that, it would get a little bit difficult placing very long tenor bonds at attractive yields, considering that in the last one or two years, we have had a very stable interest rate environment.

Having said this, if the credit demand picks up, because some sectors will go short on capacity, due to the commodity supercycle hopefully taking roots. I'm not saying it will all play out in six months, but it's taking roots. And with that, my view is that the demand for funds would be good. And banks, I think, are in a good position to continue to do what they do best long-term loans at floating rates, and not necessarily only the capital markets would be provider of capital to the corporate sector.

Last couple of years, corporate yields were lower than bank yields, and therefore the market grew there. I think going forward, the market may shift a bit more on the term side to the banking system.

Shradha Sheth - Edelweiss [0:41:40]

So, you believe the wholesale credit should also come back with this shift?

Ajay Mahajan - MD & CEO, CARE Ratings [0:41:46]

Yes, I'm hopeful of a stronger rebound in wholesale credit over retail credit this year.

Shradha Sheth - Edelweiss [0:41:57]

Thank you.

Ajay Mahajan - MD & CEO, CARE Ratings [0:41:58]

Thank you, Shradha.

Mradul Mishra - Corporate Communications, Care Ratings [0:41:59]

Thank you, Shradha. The next query we'll take from the line of Mr. Rohan Advant from Multi-Act.

Rohan Advant - Multi-Act [0:42:11]

Sir most of my questions have been answered. So one question I had was on the issuer not cooperating ratings. If you look at the outstanding base of ratings, I think a large part of it is issuer not cooperating in volume terms, of course, the value would be much lower. And I believe that, we have to do surveillance here, deploy our resources, but we really do not get any revenue from it. So I just wanted to know, what is the impact of this on the industry on ourselves? And what are you doing, as an industry to really solve this issue, because it's not really fair on you?

And I also saw that you've invested some small amount to create a body to represent rating agencies. So, what issues do you think you want to sort of raise there? So that's the question I had. Thank you.

Ajay Mahajan - MD & CEO, CARE Ratings [0:43:03]

Rohan, thank you. It's a very good question. This is a troublesome topic for a lot of CRAs, because, if a customer just does not give us information, how do we process that customer's rating. So you pick this up as a real thorny item that we deal with. But I guess we have to be a little patient and work with the regulators. The regulators must have had a reason to tell us to do this, regardless of issuer not cooperating earlier. There have been some more relaxations over the years that have come from the regulator.

And we believe that, there are two ways to deal with this. One is internal and the other is extraneous. The extraneous is to constantly work with the regulators to tell them that this is not adding value and study the data, like my one of the senior people on the board on IRA, Shanker and I spoke last week. As we built IRA, as an agency, and we expect others to join very soon, When you actually do data analytics, which he has done, , there is, a lot of these clients are not necessarily active with other rating agencies and INC with their own agency.

In other words, it's not that they're active elsewhere, and we have to therefore, continue to keep the rating so on. We need to do this data analytics a bit more. And, as you rightly picked up, IRA will do a lot of work together on building a communication channel with the regulators to present credibly, institutionally as an industry, the items that bother the us to the regulator and seek their opinions on this. I can just tell you this is WIP, but very important.

From an internal perspective, we are trying to see how best we can address this. There are some steps afoot internally, to bring unit economics to the table on matters relating to INC and control costs here in a more sensible manner. I can share details with you only later about this. It's work in progress on both ends.

Rohan Advant - Multi-Act [0:45:26]

Thank you, and all the best for the coming quarters and years.

Ajay Mahajan - MD & CEO, CARE Ratings [0:45:31]

Thank you very much.

Mradul Mishra - Corporate Communications, Care Ratings [0:45:33]

Thank you, Mr. Rohan. The next query we'll take from the line of Mr. Anuj Sharma from M3 Investments.

Anuj Sharma - M3 Investments [0:45:51]

Yeah. Mr. Mahajan, thank you, and congratulations for the good set of numbers. I believe a lot of changes as you also alluded to have taken place in the rating industry, partly by self and partly due to regulatory interventions. Now, the quality of rating has improved, but when do you see the pricing also reflecting the improved rating quality? So, just some thoughts into the pricing environment and when do you see this evolving? Thank you.

Ajay Mahajan - MD & CEO, CARE Ratings [0:46:22]

In banking, we used to say that all banks are sort of falling head over heels to get good assets, and therefore, yields are crashing. When I joined the rating industry last year, I was completely astonished to see the levels of pricing vis-à-vis international businesses, because I have a little glimpse of that from outside India through my foreign banks stints. And the pricing there is significantly higher than India. And it astonishes me that after so many years of being in the business, and such large move in the GDP to Rs 3 trillion and now people talking about Rs 5 trillion in the next few years, our rating industry’s pool of revenue is very, very small, less than $200 million to the best of my knowledge. And that is not a good thing.

There are seven CRAs in the country that have been aggressively competing. so, I can only give you some inputs of why pricing is where it is, how it can go up. Obviously, it can't go up through any oligopoly system. But it can go up if people start to value their work, and price it appropriately, regardless of what competition is doing. And that is easier said than done, because at the end of the day, you will lose market share if you focus just on that.

I personally believe, it's a bit of many things. If the product quality improves, if our people when they interact with the customer, leave an impression that we have a better understanding of the sector and dynamics of the industry and we overall come across as strong knowledge managers, I think corporate India will pay better.

I don't think the corporate India will say, look, another guy's at Rs 5 lakhs cheaper, so I'll go there. So, we have to improve conviction in our own product, and our own delivery. And I think once we do that, as an industry though, I can only comment of CARE Ratings, I would believe that we will be able to gently over time improve our pricing. There is no other solution to this.

Anuj Sharma - M3 Investments [0:49:03]

Sure. Appreciate it and hope for the best. And my second question you partly addressed earlier, but congratulations for taking this initiative on association of India ratings. But what is the scope of this platform on which areas also do you want to cover in this platform? Thank you so much.

Ajay Mahajan - MD & CEO, CARE Ratings [0:49:22]

Thank you, Anuj. It's an initiative taken jointly with Acuité and with other rating agencies. They're slowly coming on board; they're all waiting for their board approvals. So I hope that if not all, most of them would be on board soon. It is an industry wide initiative. I cannot take sole credit for this at all. But I could say that institutions have been involved in this more than people.

In terms of the scope, I think there is a lot of scope. There is a scope to discuss issues like INC, and any other issues that come to the table from time to time. When we are hit by issue like COVID, there are a lot of dispensations we needed from the regulator in terms of either extending some deadlines or hearing us out as to what the problems that we are facing.

In the second phase this time, the rating agencies had a lot of their own analysts that fell prey to COVID and therefore, we couldn't complete a few things on time. I'm not talking about CARE, and I'm talking about the industry in general. So there are issues that come from time to time which require regulatory interface. These interactions help, improve credibility of the industry, focus on policies, processes, and build the most transparent ways of operating in the business.

If there are studies which suggest ways to improve market standards and benchmarks, they can be discussed with the RBI with the SEBI. Ultimately, we all stand together as an industry. We must have a little better brotherhood in the industry. And I think though it is just a starting step, the industry will do well to come behind this initiative, and actually join this initiative, because this will help us represent ourselves as a body as opposed to individual organizations, which has been the strategy so far, by all.

Anuj Sharma - M3 Investments [0:51:36]

Thank you so much for the answers and wish you all the best.

Ajay Mahajan - MD & CEO, CARE Ratings [0:51:40]

Thank you, Anuj.

Mradul Mishra - Corporate Communications, Care Ratings [0:51:43]

Thank you, Anuj. The next query we will take from the line of Mr. Arpit Agrawal, Electrum Capital.

Arpit Agrawal - Electrum Capital [0:51:52]

Sir, thank you for taking my question. Most of the questions are answered. Just one question. So on the rating business, I would like to understand from what is your pitch? Because there are -- most of the other rating agencies have the international backing. So, is there any niche where we operate? In terms of competitive intensity, what is our pitch? Do we pay on pricing? Or, is there any certain activities which we do better than others?

So, what is our right to win in the competitive landscape is what I basically want to understand.

Ajay Mahajan - MD & CEO, CARE Ratings [0:52:28]

I don't want to give you a very elaborate answer. But let me just tell you that CARE has been in business for 27, 28 years. And it has its rightful place in the industry, being a second largest in market share in at least some products like bank loans, and in the bond market, maybe we are neck to neck with ICRA.

So, we have almost three decades of experience in the industry and have been able to hold our market share. Yes, the events of the last two, three years did lead to a drop in our market share. But we are working very steadily on improving ourselves as a company.

It's very hard to say, why one should someone go to CARE versus the MNCs. We are not seeing this as that. The MNCs have heir structure in India, but are held by the majority offshore. I see it this way, that all of us are doing domestic India business largely. Some of the international guys are also doing foreign currency denominated business. But our scope is the rupee business. And all I know is rather than be cutthroat competitive with agency A, B, or C, I just want to operate in the absolute and want to focus on my product, quality, the way my people communicate, client centricity, efficiency of balance sheet and profitability account and my technology. I want to be focused on improvement on productivity in a big way.

Technology will bring us that productivity improvement. So I believe that there is so much to do in the absolute that we don't have to necessarily always be overly competitive. For instance, I'll give you an example. I'm a banker, and in the past banking assignments, whether in Bank of America or in Yes, or in IDFC or in UBS, we never really fought hard against any other bank, we just did our thing.

And that is enough for all. I truly believe there is enough for all here as well. The way I look at it is this. My product should speak for itself, my knowledge management should be perfect and I must know everything about the industry before calling a client. If d I'm able to impress the client with the work we do, as opposed to going half-heartedly, half-baked I will get business and I don't need to compare myself with anybody. And I truly mean that.

Arpit Agrawal - Electrum Capital [0:55:03]

Thank you, sir. Thank you for a very elaborate answer. But, just wanted to understand one thing, do we have like - in short I don’t understand the space very well, I've been started tracking lately. But do we have any edge in a particular industry or maybe sizes of business? So is it like in certain industry or certain areas where we are like leaders? Is it like we compete with everyone in every instance?

Ajay Mahajan - MD & CEO, CARE Ratings [0:55:33]

I think we're quite strong in BFSI, banking, financial services, NBFCs including housing finance. I don't want to on investor call say something which gets later debated by anybody else. So I won't say we are the largest, but I think we are very, very large in our infrastructure book. We are focused on roads ports airports, seaports. renewable energy. So, I think we are a force to reckon with an infrastructure, a force to reckon within BFSI.

These two, alone, are the largest seekers of long-term capital in the debt markets. I would assume, as much as 50%, 60% of the overall business in this country would come from these two sectors. So, we are dominant in this space, I would say. And we will continue to work hard on maintaining our dominance in these two areas, apart from finding opportunities elsewhere. Like I said, stressed assets, resolution plan ratings, that are coming as a result of OTR or anything on the stress side, or securitization. InvITs and REITs, there we have done a few transactions, but we are not the best there. We are working hard to become the best in some of these new areas as well and compete hard in new product areas.

Arpit Agrawal - Electrum Capital [0:57:08]

Last one if I may. On the growth outlook, you have mentioned earlier in the call that you plan to have one-third of your business from businesses rather than ratings. So that obviously will be a growth driver. And normally, will we see the focus which government has and globally all the governments have, the recovery post-pandemic would definitely be investment-driven. So can we assume that, if you see both the growth drivers next three to five years, the growth for rating industry, because obviously the investment-driven growth will largely have a mix of debt and equity, the growth likely would be strong.

So I just want to get a sense if you think that maybe post- second-half, or maybe from next year onward you will resume the growth part.

Ajay Mahajan - MD & CEO, CARE Ratings [0:58:01]

Yes. Arpit, I agree with what you're saying. It's just that for the last three, four years, we've been waiting for investment demand to pick up, and every year it creates a new low, including FY ‘21. Now, we are hoping that things change. And we are seeing that those countries that are now nicely vaccinated at 50%, 60% of their population are seeing massive demand for commodities for infrastructure assets for growth, in steel, in cement, so in cyclical industries, you're seeing a growth pick up substantially coming in.

We believe that a lot of our industries have not seen capacity addition meaningfully in the last few years, barring some of the very large companies that have continuously as a program continue to augment capacity. So, I think there is a reasonable likelihood of investment demand coming back sharply in India as well. Government has been the biggest spender in infrastructure so far. But it is more a wishlist at this moment of time than any discernible trend.

Having said this, from a macro-economic top-down analysis, we believe that there is an opportunity, but honestly in some sectors, there is going to be likelihood of supply shortages. And there are very early signs of that, we believe that there could be a reasonable CapEx program that industry would start announcing in times to come. When will that be, three months, six months, one year, we can't say that, but we have to remain optimistic, because for years we have had a pent-up on supply side.

Arpit Agrawal - Electrum Capital [0:59:41]

Thank you. Thank you for taking my questions and all the best.

Ajay Mahajan - MD & CEO, CARE Ratings [0:59:44]

Thank you.

That was the last question taken up for the day. So we can close this now. Over to you sir for your closing remarks

Ajay Mahajan – MD & CEO, CARE Ratings [1:00:51]

Well, thank you all for joining us today. And we want to just assure you that we will be very professionally bound and focused on doing the right thing by the company, that you all are holding as an investment or may not be holding as an investment, but this management is totally committed to delivering the goods and being as professional in decision making as anyone can be.

So rest assured, we will keep focusing on growing our ratings business as also focus on revenue diversification, as has been shared before. Thank you very much for joining us this afternoon. Thank you.

Mradul Mishra - Corporate Communications, Care Ratings [1:01:32]

Thank you, sir. And thank you all participants for registering and being a part of this conference. Thank you very much.

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