"CARE Ratings Limited Q3 FY19 Earnings Conference Call"

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Moderator: Good morning ladies and gentlemen. Welcome to the CARE Ratings Limited Q3 FY19 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aditya Bagul from Axis Capital Limited. Thank you and over to you, sir.

Aditya Bagul: Thank you Lizann. Good morning ladies and gentlemen and a warm welcome to the 3Q FY10 earnings conference call of CARE Ratings Limited. We have from the management Mr. Rajesh Mokashi and other senior management personnel from CARE Ratings. I shall hand over the call to Mr. Mokashi to give us a brief overview of the results and his outlook going forward, post which we will open the floor for Q&A. Over to you, sir.

Rajesh Mokashi: Good morning all of you. This is Rajesh Mokashi here. We have just announced the results for the 9-month ended 31st December 2018 and some of the brief highlights are like this that on the console basis, the growth in revenue is 6.4% and thanks to our subsidiaries starting to fire now and you can see the difference where our standalone revenues have grown by just 3.3, but our console revenues have grown by 6.4, so the amount of energy and effort that we have been putting in into building our subsidiaries are now starting delivering results. That is one part of it.

Yes, the growth has been slow and I had explained that in the earlier quarter results that next two quarters are going to be somewhat challenging and not surprisingly, we find that if you look at the expense growth and then subsequently, there is a marginal dip in profited operating level and at the net level also, but nonetheless, the most important thing I would like to say is that our operating margin still continue to be substantially higher than competition and this is one phase in the industry where we have seen, the market has its own challenges in terms of the NBFC issues and other things coming in and that has led to a sudden drop down in credit market activity in terms of bond issues or commercial paper or in terms of bank loans also and not surprisingly it will have sort of impact on rating companies, but my own guess is that this is a temporary phenomena and that should set right post the elections when we find some sense of stability coming in and as the new government steps in that should start getting back to normalcy. Even the NBFC issues are now gradually come, the volatility is diminishing and gradually things are beginning to become normal is what I would say and looking at debt volumes, of course, the volumes are higher as such, no doubt about it, but that doesn't necessarily translate into revenues depending on the mix of ratings that we do and otherwise, our modified credit ratio has near about unity for the 9 months ended December 31, 2018.

The CDQI also has marginally dipped when you look at data and otherwise, the macros are what they are in terms of the GDP or the inflation and those things are positive, but nonetheless, the challenges in the economy in the last 1 or 2 quarters have, with particularly large NBFCs getting affected, have affected the flow of new rating activity to the rating agencies. Otherwise, I believe that the economic environment is beginning to improve in the sense of inflation dipping and other macros becoming steady state and the new government taking lot of steps to encourage consumption, so all this I guess should auger well post the elections and things should come to a more steady state and my belief is a bit of a transient phenomenon, which would start easing up as we go in the next few quarters and things should start improving with my own reading for the debt markets as such. So with this, I would now look forward to questions from the members who are attending this conference call.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will move onto the next participant that is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir, the question just to cut it short is one, with this IL&FS episode and the transition of rating from AAA to D in a very short span of time, which was never heard of and this is more of as an industry, I am not saying that or many of the rating agencies have got it wrong. The question is what does it mean from a user of rating perspective, the confidence is a bit shaken and second, is there any reputational/financial risk from the regulatory enquiry/perspective?

Rajesh Mokashi: I think the rating agency does an analysis of company based on certain criteria that we well laid out and credit rating is a kind of a call, a kind of prognosis of the future and it is not just about the financial analysis of current finances, but about the future expectations, certain assumptions, all those things. If some of these assumptions substantially go wrong, the rating may undergo a large transition; however, such rapid transitions are unheard of and as a rating company, our endeavour is always to minimize the transitions by moving the ratings at a certain steady state basis and rating companies like CARE has delivered the goods for the last 25 years, where our transitions are well within the certain norm that are published by various CRAs and even international CRAs.

Our cumulative default rates are also delivered the goods in terms of the inverted default curve on a consistent basis for the last 25 years and of course, I cannot get too much into the nitty-gritty of a particular specific case because the regulators also will look at it at this point of time, but generally if you drop out this particular case, I would say that the rating companies have created a substantial value in the market place in terms of their analysis or their predictive power. The whole science of rating is not an exact science, not a bundle of mathematics simplistically. It is hard to say it is a prognosis, sometimes many things can actually turn to be very different than what it is, so IL&FS will remain a unique case where regulators and other participants will examine it closely and come to their own conclusions as we go forward. There is certain what you call, so from a consumer perspective, I would only say that raters are people who provide opinions with the detailed analysis. People have to apply the mind, see whether they like the analysis, whether they have any questions, grilled rating agency, ask questions, see counsels and once they satisfied with those answers, they may take their own decision based on their own risk tolerance.

So I think if you look at the long history of rating companies in India, I don't think there is anything to panic, we have also seen this whole phenomena of NBFCs happening, which was unheard of very frankly, so way the NBFC suddenly came under cloud when they were absolutely if you see the asset quality and other indicators, they were fabulously doing well. At the end of the day, the asset quality is a core under which you do the financing. All these were retail housing finance companies or retail finance companies which were there and one fine morning, the NBFCs with retail investors panic and start saying, I am not going to do funding any more, that fund built on something, so these are all very unique situations which come about in a particular market, I would say that and many of this NBFCs has held on to this particular imposed stress, which came into in the market place and have service the debt obligation.

As you rightly said, there is not just particular rating agency's thought process, but there is a sense of similarity in the kind of analysis done by multiple rating agencies and we have seen that the rational and other things have been consistently giving in particular logic for the last 25 years. It is only in the hindsight that in the 25th year, it tends to default, but 24th year, it has the same logic; 23rd year, it has a same logic, so I think it is something for raters and other people to introspect and see how we can further sharpen our predictive ability, but just by one incident, one can't downplay the valuable role played by rating agencies and again, the rating agency's own analytical skills are often complimented by the smart fund managers and other institutional lenders that we have and despite X or Y rating, we have seen that some people despite a very good rating and not buying the security, some people despite very poor rating and buy a security, so these are all individual calls made by institutional investors based on own risk tolerance and their own assessment. That is the way I will put it, I think look at the overall spirit of things, the rating companies have created value, they have created reasonably good debt market. Even recently, we found RBI governor stipulating risks weeds for NBFC exposure using ratings, so I think even if you look at the crisis in America in 2007, post the crisis rating agencies, yes that crisis was a unique event, which was there which had lot of lessons to be learned by the international rating community, but things have moved further and things are fairly stable in those markets even today. So I think every time, an outlier event takes place as some kind of lessons to be learned by all the market participants, but that does not mean that we have to panic because all of the ratings are based on a very solid fundamental analysis and except for this 0.1%, 99.9% ratings have delivered the value that we have seen empirically from the market place. So that is the way I will put things across.

Amish Kanani: And sir, what is our share of NBFC rating revenue in the overall pie, is it very high and can we share the number?

Rajesh Mokashi: We don't generally give a particular sectoral revenue, but I will only say that we are amongst the larger rating companies of India and who are the biggest borrowers in the market place, the NBFCs and large corporate, so when you are large rating agency there is importance for sure but nothing out of the world or something. If you say we are operating in Indian debt market, we are large rating company, just like similar to another rating company, so its mix is not very different is what I could say. I wouldn't be able to exactly define particular, but all of us are aware that NBFCs, banks, financial institutions are the biggest borrowers from the capital markets, not mid-size or other corporates, that is all Basel-II activity. This is proportionately divided amongst the big three or the big two.

Amish Kanani: And sir, you also mentioned as volume not generating or translating into revenues. Can you just explain that phenomena because we saw the NCDs in the market places are going on and in fact this can generate securitization revenue from NBFC to banks? Those kind of things also can come up, so the point is just wanted to understand?

Rajesh Mokashi: I think sometimes, there are different kind of clients who raise money from the market place, not all issuances are full payment fees. There are discounts, there is some kind of different issuers who sees extremely low, mid-level PSUs, many things happen in the sense. I would say that one should not effect, for every call, we have always said that it is very difficult to draw a correlation between the volume of debt rated and the fees, which are charged by rating companies and that is across the board for all the rating companies. It depends on the mix, for example, till September CPs were dominating, for example, CPs generate a sense of volume, for example, but in the last quarter CPs dwindle down completely, so 9 months figure captures euphoric times in the first two quarters, but the third quarter we had challenges coming in the space. I would say that yes, you are right in the sense that now we are seeing the same NBFCs by using the securitization route, today's money. So there is a bit of substitution effect taking place and our securitization volumes are now improving as a result of that reason, but generally it is very difficult to draw a fewer correlation between its size of issue at 10,000 crore or 15,000 crore issue and straight away to the rating because, of course, there is a sense of rating caps in the proportionate sense coming in and that didn't affect, but largely the first two quarters were reasonably okay, but third quarter, I was expecting challenges as the so called NBFC liquidity challenges issue cropped up and that anyway affected incremental new business coming in from the rating perspective.

Moderator: Thank you. We will move under the next question that is from the line of Ashi Anand from Allegro Capital. Please go ahead.

Ashi Anand: Sir, the question I had was really see quite a rapidly evolving market, we have SPVs and other structures getting challenged by the regulators there are also issues around the ability to actually impose pledge shares both in terms of what we have seen with Essel as well as with Reliance. Given the fact that reasonable part of the rating would be dependent on these kind of structures holding, how really do we look at rating in the environment where a lot of these assumptions actually been questioned?

Rajesh Mokashi: I think very interesting question because a sort of pledge of share's transaction has been happening not today, but the last 25 years, in fact, a normal borrower can also borrow against pledge of shares, so it is not completely new. Yes, at the promoter funding using shares is being grossly sort of being watched and certain developments are there in the market place in the last few months, I would say and the regulators and other people also carefully observing this things, but I would only say that the rating agency at a point of time looks at the track record, the fundamentals of the company and has the certain level of collateral coming in, fundamentally, like AA, AAA companies are strong companies only the share based transition generally looked at, not the weaker elements as such because they are vulnerable, their own fundamentals are weak. So far, the kind of the ratings that CARE at least has looked at in the past have been reasonably large and stronger companies where sudden depletion of fundamental chances are remote and as far as we are concerned, at least I don't think we have had any situation where we haven't done too many of them, but the kind of transitions we have done, we have not seen any sharp or may be a marginal change in rating at best, but otherwise, we have seen the collateral being maintained. We did not rate the Reliance or some of these transitions, we did not rate those, so I can't comment on them, but those were direct from whatever we had read in the papers, they are all direct transactions of lending money by let us look at L&T Finance or Edelweiss or whatever the finance companies are, but from the rater's perspective, we have had transactions which are stronger companies, very few are as such, but they have held onto their this thing and collateral is being maintained. End of the day, again I will only say that empirical evidence has not shown that an asset class which is back by some kind of pledge of shares or something in the broader sense of the word, I cannot to the extent that I have data has not yet, I have not known about major losses support by investors in the past on those large transition that rated by rating companies at least from the CARE's perspective, we have not come across anything in our history, so I think some of this transaction have a challenge, I cannot deny this fact that a steady state ship is suddenly disturbing a big way. It can create a sense of volatility, but as I said our history has been generally on fairly larger sounded companies as such and because of that the volatility could be somewhat lower, but the volatility could be introduced because of some peculiar governance or some other issues, which are difficult to control from the outside perspective, but nevertheless, these transactions are typically to the best of our knowledge has subscribed the institutional investors who understand the volatility in this transaction. By nature, they have the inherent volatility if certain things happen and to that extent, they are bought by qualified institutional investors, not by retail public at large, but nevertheless, there is a criteria, there is a disclosure, what is the basis do I arrive at the rating and I am sure a qualified institutional investor applies his mind, looks at the criteria, the logic given by rating and then he decides to buy or not buy a particular paper as such is what I would like to believe.

One more thing you mentioned about this so called SPVs and things like that, now SPVs there are certain sections of business which is always conducted in the SPV route, like, for example, a road project or a particular real estate transaction. These are all driven by SPVs and there is no other way of doing it because you need to insulate the cash flows of that particular entity using the SPV route. The recent developments on a particular case and the NCLT's decision was bothering investors at large, but I believe I have read a good news yesterday in the papers that NCLT has allowed certain SPVs which are at their own cash flows to continue debt servicing, so I think sometimes the legal system gets tested in a particular manner, but I think the law is again moved in a favourable manner where it is agreed to release the payments and economy evolves, nation evolves in terms of the legal structure, but I think some of this things get tested and things are back to normal is what in the sense that what I have heard so far. So I think that assumption that the SPV's insulated ring-fenced is a very important assumption and investor also buys in that assumption. The loss of the land sometimes get tested in a particular case and that again as I said, news yesterday has been good that the authorities have said that you need to start debt servicing of these papers, so that assumption of rating companies that these are insulated in a way stands vindicated and I am sure going forward because the legal systems get tested at the particular point of time. So I think that should not, these are all unique case by case episodes and one has to actually go by case by case situations and that is true for any countries, it is not the SPV structure holds good for any country and again these investments are generally bought by people who are the knowledge and wisdom to apply the mind and understand the risks before they buy this paper.

Ashi Anand: And sir, could you just have a small follow up on the SPV issue, if we look at yesterday's ruling, ultimately, they ruled only for small segments of the SPVs to allow them to continue to service their debt but a much larger segment of the SPVs continue to remain under the interest and principal payment moratorium. Now whilst Tier-3 is evolving and at least over the larger chunk of the SPV is, the bifurcation has been questioned or is still under question, do you see lenders willing to lend to other SPVs, I am really just worried about potential spill over of concerns around the SPV structure impacting lender's willingness to lend to other structures, which also are around SPVs until this is cleared up and that causing a larger contusion impact and how do you see that?

Rajesh Mokashi: I get your point, I think obviously when an event like this happens, there is a sense of caution coming in the minds of every lender, but end of the day, I think the inflow deposits is taking place through the banks, they will have to lend money somewhere where there is, of course, the security of the deposit holders is intact or structures they are confident off, so I think specific legal inputs need to be I am sure would be taken by various parties to ensure that their security interests are protected and I am sure some element of caution is inevitable, but once you get behind the legal framework and other things, I am sure the legal advice or inputs coming in would be helping people take the right decisions. Whenever something happens, some caution is inevitable but I am sure that the framework is fairly conducive for lending and the temporary setback or temporary caution will ease up and people will start again lending to projects because all the banks, eventually there is an element of risk taking. How you legally guard your interest is important and I think the sense of legal advice and other things which will be sort by this people will eventually facilitate our lending to safeguard the interest of the particular entities.

Ashi Anand: Just one last question. Any clarity around SEBI in terms of, they are speaking of tighter regulations around rating agencies. Any sense in terms of what they are looking at or is it still very early days?

Rajesh Mokashi: As of now, I don't have any clarity as to what changes will come in and how SEBI will apply the mind on the new regulations. They will run through a consultative process with market participants, stakeholders, experience from other markets, all those things will remain, but if you go by how the other markets have shaped up or other markets have responded post regulation, then I think rating agencies, their role will remain critical in the bond market because it is difficult to visualize the bond market without rating companies and somewhere I think there is a sense of introspection to be done by rating companies as well and the entire stakeholders at large. I think to ensure that the value prognosis is consistently of a high quality by itself rating cannot prevent certain market challenges happening in the market place because they are a cumulative effect of multiple factors coming into place and I am sure the regulators will apply the mind in a proper manner to see to it that investor interests are safeguarded, rating agencies have further strengthened, so that we eventually create a healthy bone markets and other markets.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Sir, my question is more 3 to 4 years oriented. While we have seen reasonably anaemic growth in the last few quarters, do you see a scenario over the next 3 to 4 years, wherein we see double digit kind of volume growth and our yields improving from where they are today and if you can just help us understand how the situation was from 2008 to 2015, 2016 and how this will turn out to be or what is our expectations for FY20-21 in that sense? Give some qualitative idea?

Rajesh Mokashi: End of the day, I think rating companies have travelled a long distance and this credit cycle eventually in the last few years or so, there has been sense of slowdown in the growth of rating companies and more or less single digit kind of growth has happened. We are beginning to almost coming to the end of the credit cycle where the NPA recognition is taking place, the NPA resolution is underway, the insolvency bankruptcy code is also underway and started delivering results, of course, any new law require some time to stabilize and not surprisingly, the IBC code had also gone through some changes, but nevertheless, at least there is a proper mechanism in place, challenges remain, one cannot have a perfect law coming in that sense, but having a law which is reasonably delivering the results is far better than having no law and the biggest game changer I would say for rating companies going forward, I mean is that first and foremost, I don't believe there is any substitute to the rating companies because rating companies faithfully follow every issuer which has issued some securities in the market place. There is no other researcher who follows all the securities. Even in the equity markets, we don't have people who follow all the 4000, 5000 companies, so here everything is followed. We also feel that the incremental, some of the regulatory actions going forward like, for example, the SEBI rule that we say is the 25% of the incremental borrowings have to come from the capital market starts coming for AA companies from April 1, 2019 and the RBI large exposure by banks again has come into play already, so we are saying that gradually we will go towards developing a bond market, but the most important aspect of the bond market change is the IBC which I have always said that the loss given default was something like 75 paisa or the recovery given default was just 25 paisa pre-IBC days and we are moving to something like 60 paisa or 70 paisa post-IBC coming in and that means that pricing of bonds is going to be far more rational going forward in the market place, which means that the healthy bond market can develop. We have also seen a shift which had been happening in a big way to the mutual funds and to my mind it continues. The stock changes in the PCA banks and other things also have shifted focused to the so called mutual funds as such.

So structurally, the whole idea of the bond market moving at a faster pace, the regulators also are keen to distribute risks, is already happening and that accompanied by pick up in the economy will give a boost to eventually the credit offtake and bond issuances and rating revenues, so I am hopeful that going forward, we will get into sooner than later moving from single digit to double digits and if you have a sustained economic growth of a certain level coming in which, of course, this current year is election year, it will take time to stabilize a bit, but eventually I believe that the bond market development is inevitable for a country like India. We have rationalization of the bank participants taking place with some kind of mergers of some banks. We have already seen the BOB and Vijaya plus, Dena underway right now. There are talks and reports, media reports or other things happening, so rationalization there will take place, not too many private banks are coming in, so obviously there has to be an important role played by mutual funds and if we have a proper risk trade-off with the loss given default numbers shrinking down substantially that should auger well for FPIs and other people wanting to buy even A rated or BBB rated bonds. That makes it eventually a healthy bond market which I believe will eventually lead to a better growth rate for the rating industry. That I think is the simple way of looking at life.

We are also looking at several avenues of how to address rating for different segments, the large corporate, the mid corporate, the small corporate, whether technology should be used in the bigger way, whether AI should be used, whether machine learning should be used, all this thought processes, latest tools and techniques to improve productivity, technology driven, all those things are being examined at this point of time. Of course, the regulatory compliance requirements has increased over the last 1 or 2 years and I think the compliance has to be fulfilled from time to time, but we are further strengthening our processes to make sure that further robustness comes into a rating process and further strengthening, so that the speed of response, so many other things are requirements of the regulations and we are swiftly and in a timely and accurate manner reacting to certain stages but we will extensively take the help of technology going forward. I think broadly that is the way I will put things across. We have also as a CARE rating group have subsidiary companies which are also doing CARE risk solutions, we have CART as a subsidiary which have also started firing correctly as I said, this time, our non-rating revenues have pushed our growth further to 6 plus and if they start caring up in a big way that should augment our revenue streams also, not just the ratings. So that typical charge by analytical community that we are expensively dependent purely on rating is diminishing if you see the growth numbers that are coming in from the non-rating space. That is the way I look at. Our EBITDA margins still continue to be higher, of course, as the cost rationalization take place, some moderation may take place, but otherwise that still continue to be higher than competition is what we have seen till date.

Moderator: Thank you. The next question is from the line of Shradha Sheth from Edelweiss. Please go ahead.

Shradha Sheth: Sir, just on this particular quarter, the run rates in the 9 months, just wanted to understand if you can talk about how concentrated our clients are and is it that because we are seeing some variance in the results between the companies, so is it that any particular clients which have brought down, scaled down their exposure is impacting us more or how do we read into the numbers and even if we look at the 9-month run rate, there has been slow down in our numbers versus others which was historically outperforming, so if you can give some colour in terms of concentration of clients, so that it doesn't impact our numbers as much or how do we look at the numbers?

Rajesh Mokashi: I think as a large rating company, we have practically exposure to the market in a broad sense of the word so to say that in a concentration will not be appropriate. We have exposure to large companies, we have exposure to mid-size companies, and we have exposure to smaller companies. Historically, we did not enter the SME space, we entered the SME space much later. To that extent, we have larger mid corporate and large corporate exposure coming in, but to say that this is concentrated is not true because that is the way the Indian bond markets or Indian debt markets are the way it is. I mean there are large ticket borrows. To that extent, the exposure will be there from the rating companies as well. We can rate only those who approach the bond market or the credit markets as such, so I would not put any specific. Even in the past, we have had revenues getting diminished because certain clients become NPAs, but they are getting compensated by new rating revenues coming in. Now, if you have a rating revenue diminishing because of any NPAs happening but that not getting compensated by the credit growth taking place, then you see some impact coming in the interim sense of the word, so I wouldn't attribute too much meaning to any specific exposure as such at this point of time. I think the credit markets are slowing down and I expect that all the rating companies, the third quarter, if you have seen the other rating company which is announced results the fourth quarter number is completely different than the third quarter number, so I think each one has a certain way of doing the surveillances or other activity as such and that eventually will reflect in the fourth quarter going forward, so I don't read too much into it, yes there are specific developments in market place, which affect multiple players because some of these companies which got affected are not rated by just CARE, they are rated by other large CRAs as well, but I think these are situation, which come in a specific quarter or whatever one may say and eventually, I would say that credit offtake, the bond market activity, the credit growth will bounce back that should eventually lead to CARE revenue again coming back on stream in terms of the rating part of it, but as I said, for the first time in so many years, we have seen that the non-rating piece pulling up the CARE's growth rate that is the interesting phenomena that needs to be noted.

Shradha Sheth: And by this quarter, we did see bond issuances, some pick up as compared to the last 1-1.5 years, while yes CP did come off, but the long-term issuances did pick up, so how do we see cash flowing into?

Rajesh Mokashi: It is not necessary that every bond issuance that was done has been rated by CARE, so it depends on the mix of business and which ratings were done, which ratings were not done, but I think eventually my own expectation that we should eventually pick up speed going forward and not get worked up on a particular bond which I have never evaluated rating companies based on quarters because I know fairly well that there is review piece which is travelling across the 12 months and sometimes it get done in the third quarters, sometimes in the fourth quarter, sometimes in second quarter. Some of these variables do exist in the rating company, so it is difficult to fathom and say that the particular quarter has been, like for example, first half we were some like 7%-8% growth rate if you notice correctly while others were at 4 to 5%. There is a bit of switch taking place in that context, but otherwise I don't read too much into it.

Moderator: Thank you. We will move onto the next question that is from the line of Lalaram Singh form Vibrant Securities. Please go ahead.

Lalaram Singh: Can I get the spilt of the ratings revenue between surveillance and non-surveillance for this quarter and the corresponding last year?

Rajesh Mokashi: I don't have the data immediately at this point of time, but I will only say that the general mix is 50-50 is what I would say. I don't have the exact piece of data right now with me.

Lalaram Singh: Secondly, within the non-rating business, which of the subsidiaries have driven the revenue growth if you can share some more data?

Rajesh Mokashi: CARE risk solution has driven the growth. Risk solution is the subsidiary which is in the business of Basel II risk solutions to international bank as such and that has started delivering or growing faster and that is one of the main reasons why the console level has grown up faster. We call it CARE risk solution which is predominantly operating in Sri Lanka and other international markets.

Lalaram Singh: So should we annuity based income or should we expect this will continue this run rate in CARE risk solutions or it is not the case?

Rajesh Mokashi: Our expectation is that the base of the company is much lower and that in the strategic sense, broad based approach of that particular company and that has started firing currently what I would say and we are pretty bullish on this because it is an IT platform, risk solution platform and currently, the prospects of that particular company definitely look good.

Lalaram Singh: Last question is on sharing the new clients added in this quarter or the total number of clients' credit ratings as of today and may be what is the Q-o-Q change or something of that sort?

Rajesh Mokashi: It is difficult because we are adding clients on the regular basis and there are some clients who could get into INC mode also, issue noncooperating mode also, so that is the normal process. I am not sure whether there is any substantial change because of that. We are only growing the number of client, but obviously there is INC list which is also across the board there for various rating companies.

Moderator: Thank you. The next question is from the line of Neeta Khilnani from B&K Securities. Please go ahead.

Neeta Khilnani: Sir, you have mentioned that because of cost rationalization, our margins may moderate a bit. I also wanted to understand how will the increasing share of non-rating revenues add further pressure to our margins because as I can see in the segment results, in the 9 months, you still reported a loss, which although is much lower than in the previous year, so if you can just give some thoughts on the profitability aspect of your non-rating business?

Rajesh Mokashi: All the non-rating businesses, one is CART is profitable, CARE risk solutions is profitable for the quarter, but for the 9 months, it is not profitable, but quarter it is profitable, the quarter profit has turned around, Nepal is profitable, and Africa is profitable. This means that if we continue the profits in the next quarter, then there will be no loss-making subsidiary at all. That should mean that on a console basis, the revenues will also grow, and the profits will also grow because there is no loss making quarter anymore in any of the subsidiaries coming in.

Neeta Khilnani: Sir, what is the EBITDA margins of the non-rating business verticals if you could approximately give us a range?

Rajesh Mokashi: If you see the change in console EBITDA and gives in clue as to what is to say that console EBITDAs are something like 57 to 58% whereas standalone is 61%. It marginally pulls down the EBITDA, but nevertheless, please understand that these are not very capital gurgling companies and these are more manpower intensive companies which make the margin, so from an ROE perspective, these are all valuable positive things for the company because the analytical community has always said that we are more concentrated in our rating business. To that extent and diversify the business, it gets nonbond market link revenues coming in and it doesn't mean any substantial drop in EBITDA if you see, the operating margins are fairly close to the rating margin. They are slightly lower, no doubt about it, but nevertheless, from an ROE perspective that should add value because they are very limited capital gurgling company.

Moderator: Thank you. The next question is from the line of Manan Patel from Equirus Portfolio Management Services. Please go ahead.

Manan Patel: Sir, again probing a bit more on the non-rating piece, so just wanted to understand, is there any seasonality or lumpiness in the nature of revenues of this piece because we had a significant spurt in this quarter around from 2.8 crores to around 6.17 crores, so just wanted to understand if there is some lumpiness or seasonality in the revenues of this?

Rajesh Mokashi: There are two rating subsidiaries which are more or less with a very low base and they are growing for sure, the revenues are growing fairly rapidly, but the base is very low. CART also is a kind of an advisory and research kind of subsidiary which is also growing at a much faster pace, but the base level is low. The real revenues are pulled in by CARE risk solution which is more of a project driven company in the sense that it has IFRS implementation for a particular bank XYZ and that requires a period of same project percentage completion method comes into play and it has to implement and say 8 months or 12 months, so accordingly the revenue gets booked. To that extent, there is some sense of timing which is coming in, but that will be the feature of that particular company, but once the scale is up, scale is raised to a new level. I think if the top line of risk solution is 100 crores or cso with that scale coming and I would say that seasonality if any will disappear with my own expectation and the project implementation because percentage completion method comes into play and there are certain milestones on which the revenues are to be accrued. So that is the only bit, otherwise there is no lumpiness, I can assure you on that. There is no lumpiness in the sense.

Manan Patel: And sir, when you say project revenue, do you have any visibility, do you maintain an order book or something like that for the company?

Rajesh Mokashi: Again, the company is pretty tiny and there is a reasonable visibility of revenues for the next year as well at this point of time.

Manan Patel: And the last question is on ESOP charges, so we had around 9 crores, so any more charges to be recognized in this quarter or next year?

Rajesh Mokashi: Every quarter up to September, the ESOP charges will have to be booked as such, about 3 crores per quarter.

Manan Patel: Till the September quarter?

Rajesh Mokashi: They vest in the people and if they then exercise the right shares or purchase, otherwise they are not. One more thing I will tell you, suppose, for example, in a theoretical sense the share price remains where it is. Right now, the options are below water right now so then the ESOP charges will have to be reverse if tomorrow somebody does not, most people don't exercise the options within the certain period. As the share prices move up, the value of the ESOP remains intact.

Manan Patel: Certainly sir, we definitely hope that share prices move up.

Rajesh Mokashi: Technicality, also look at the Black Scholes model and all the evaluations looked at based on the accounting requirements.

Moderator: Thank you. The next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: Sir, my question is on CARE risk solution, you said that currently again doing the run rate of around 8 to 10 crores, do you mind sharing the opportunity size market and currently how many clients we have and what could be the scale of this business in next 2 to 5 years?

Rajesh Mokashi: I would say that CARE risk solution is a fairly small subsidiary compared to the size and scale of CARE ratings, one. Its turnover up to 9 months is around 8 to 9 crores, 9.5 crores is the turnover till 9 months. It is basically something like 60% market share in Sri Lankan banking sector, predominantly in Sri Lankan banking market, it is fairly dominant present down there as the risk solution provider for operation risks, credit risks, market risks, IFRS, loan management system, capital computation. It is also getting into other markets in Africa, Middle East and other sectors and this is the first year that we have seen the huge robustness, so I am keeping all the options in the sense that it is better that we give positive surprises on that rather than we building some expectations on this to start with right now, so whatever we have analysed so far, we are quite hopeful that this company has got into a different scheme of growth and is doing well and it has fairly strong market acceptance and it is trying to mention the new markets and it is getting acceptance. It had very limited presence in India, by the way it had done the solution for Bandhan bank, one of the new modern-age banks, Bandhan Bank. Some of the track record that establish it is getting fairly good, enquiries from local banking system as such because it is very cost competitive and it is delivered to solutions on IFRS in these markets and IFRS is the in thing right now, you know that very well how Indian banks and NBFCs and other people are working hard to comply with the IFRS from next year onwards. Some of these opportunities have suddenly cropped up and we are also fairly positive, I would say, I won’t like to attribute any particular number, but we are generally positive on this particular company and to delivering much more value going forward that what it has delivered in the past.

Lalaram Singh: So as of now, most of the revenues accrue from Sri Lanka, is it fair to say that?

Rajesh Mokashi: Yes, absolutely.

Lalaram Singh: Sir, which other regions are we trying to penetrate apart from India?

Rajesh Mokashi: I just said India will also be an important element, but we are in Middle East, Africa and South East Asia. We have bidded for those projects, some are with us, some are not with us. We are not looking at Europe and North America as such, but other markets definitely we are looking at.

Moderator: Thank you. The next question is from the line of Aalok Shah from Centrum Broking. Please go ahead.

Aalok Shah: I had two questions. One is trying to understand what has been kind of rating standards, practices that we have tried to work through in the last 2 quarters or so to avoid such kind of sudden rating downgrades, one obviously would be trying to identify clients who don't share database on a quick through basis, but apart from that what is it that we are trying to change in the system as a whole, more from a qualitative part of view, is it trying to strengthen the internal rating team, is it trying to assign more responsibilities to the rating analyst or getting accountable everyone in the team who is rated that instrument that was my first question and second is more of a book keeping question, trying to understand the employee account now?

Rajesh Mokashi: The first question I will say that I think rating process, or the quality of rating is a continuous exercise by every rating agency. This is something like look back mechanism, in fact, this whole challenges in the NBFC sector face. We were constantly trying to gauge the ALM and updates on the ALM, so there are specific reactions to a particular situation which came into the market place and getting particular NBFC is trying to collect this data, trying to take a view on the ratings and not necessarily reacting knee jerk reaction manner as well. That is very important in this challenging times that came in, so I think all this point out that sometimes, when you look at fundamental analysis is fine, but sometimes even the way the group reacts to the situation, the group company suddenly getting into trouble may have implication for the other company that you rate, so I think it is becoming more and more clearer in this spirit that the assessment cannot be completely in isolation. It has to be as much as possible in the broader sense of the group, how the group companies are faring whether there are weakness emerging anywhere, whether the SEBI new regulations also talked about the parent and the subsidiary companies, how to look at these companies, what are the support mechanisms available. All this need to be strengthened is what the SEBI regulations also pointed out and we are also looking at one important factor, how does one use intelligence information to gather and figure out much more information than what is published in the market place. Those sources can reveal much more than what the printed numbers are saying in, but nevertheless, these things have their own limitation. You can't just take decisions based on these informations unless you verify certain price. The SEBI has also come out with regulations which talked out material event for it was defined in a very broad manner and very detailed manner the so called material events to be looked at, for example, if substantial fall in share price is a material event which we are obliged to do a review quickly and publish it in the market place. Credit spread now, this is an interesting project which SEBI has initiated where the credit spread which are there in the market place should be also trigger points for the review of the rating. However, sometimes markets may react very differently than fundamental, but I think there are lot which is happening in terms of strengthening the mechanism operating company in terms of the way we approach certain things, the way we need to get deeper into certain areas and try and figure out the broad reaction. So I think there are so many things to learn from a situation like this and the regulators are also playing a very vital role in terms of strengthening this whole situation and building more confidence in the system as such.

Aalok Shah: On those line sir, I will just try and get when there are some clients who get suspended or there are some clients who don't cooperate with us on data franchise, we disclosed that on the website stating that this is suspended and all?

Rajesh Mokashi: We call it issue of non-cooperation**,** there is a term call INC nowadays for the regulation, there is nothing like a suspended term anymore.

Aalok Shah: Non-cooperative clients, do they go to another rating agencies and get their work done and if that is the case, how is the regulator looking at this?

Rajesh Mokashi: I think the regulator has made it very clear that whenever issuance of noncooperative claims first of all the disclosure takes place that means we as a rating agency have disclosed, a few of them may go to another rating company, but in that sense the investor is aware that he has moved from rating agency A to B and there are some reasons why he is not cooperating with rating agency A, so he will have to look at such ratings with the pinch of salt before he deals with them, but at least the disclosure is there in the market place that this particular entity had X or Y or some of the ratings from other rating companies before they moved. So I think that is the way transparency is established in the market place and the investors can then examine this particular point of data and see whether it is important from their perspective dealing with this particular entity.

Aalok Shah: But this will be more prominent in BLR kind of business and may be to some extent?

Rajesh Mokashi: In BLR, the bankers then become aware that there is a rating A which has either downgraded and put on issue at non-cooperation and suddenly another rating is giving X or Y rating, so there is a transparency, there is a difference of opinion, there is a logic. Now, this is where the bank officer or whoever it is dealing with is private to that information and within that framework, he has to apply his mind and see how to deal with that situation.

Aalok Shah: And would you have this number handy with you in terms of percentage of our portfolio clients who are noncooperative or the term that you used to?

Rajesh Mokashi: I think all the rating companies are disclosing that in their website. I don't have a specific number, but all this disclosure is required to be made and they are there in public domain for all the CRAs, not just CARE.

Aalok Shah: And also in case, if that is increased that is also the reason why our revenues are getting impacted in addition to the new?

Rajesh Mokashi: That can because when we have a situation where liquidity is a difficulty getting back finances difficulty, some of the weaknesses on clients may lead them to become noncooperative, so that can happen, but that can ease up sooner than later. I wouldn't read too much into it at this point of time.

Aalok Shah: And my second question sir, the employee count, would there be some number to it that is handy with you.

Rajesh Mokashi: 856 is the number right now.

Aalok Shah: And finally if I could just dip in one last question, this CARE risk solutions, is this team operating out of head office?

Rajesh Mokashi: No, they have a separate office in Millennium Business Park, there is IT Park in Mahape. They operate this as IT community, all lives that side, so they have an office at that side.

Aalok Shah: And what is the head count there if that number will be available because that?

Rajesh Mokashi: 60 to 65 people are there, I am not mistaken.

Moderator: Thank you. The next question is from the line of Siddhant Maheshwari, an Individual Investor. Please go ahead.

Siddhant Maheshwari: Sir, my question is, what is your opinion on rising interest rate scenario impacting NBFC sector and how it impacts rating company's business during this rising interest rate cycle and what is the share of NBFCs in the overall rating revenue?

Rajesh Mokashi: Rising interest rates, in fact they are falling right now. Thanks to the initiative the recent monetary policy we found repo rate reduced by quarter percentage and the RBI seems to have given an outlook that the inflation expectations are less than 4%, right, 3.8 or something was the expectation that means it is probably signal that interest rates are going to come down in this country. If interest rates come down, the consumption cycle will pick up, we all know the budget presented by Mr. Piyush Goyal which is more of consumption oriented with money being deposited to farmers and rural economy and things like that, so that accompanied by low interest rates will mean that the credit from NBFC and other entities, banks and all will increase. That should auger well for the economy as such and the rating companies as well. So I would say that should auger well for the spreads done by the NBFCs as well because if interest rates come down, the existing portfolio is at a higher yield and the newer incremental money is at a lower yield. That should then further increase the spreads going forward if the interest rates continue to decline, which looks to be the scenario currently the way the monetary policies presented by the RBI and as I said, we are a large rating company, not specifically concentrated with NBFCs, but please understand despite the kind of challenges the NBFCs are facing, we have fairly large number of NBFCs which has not reported any asset quality issues if you see the big 10 or 20, there is steady state kind of things which are there in terms of the asset quality, so the fundamentals of these companies except for the bit of an

ALM challenge which has come in because of the sudden withdrawal or disinterest by mutual funds in terms of their investments. This challenge seems to be easing up a bit and the fundamental in terms of NPA level seem to be fairly good and the consumer credit market, for example, the asset quality issues and car finance and truck finance or home finance continue to be very comfortably placed, so that is a reasonably good point of view looking at NBFCs. That at least they are on a solid asset quality perspective till the extended data is available at this point of time.

Siddanth Maheshwari: Sir, I just have one more question, though you try to explain this one, how significant is the opportunity in terms of NCLT cases and how does this impact rating agency exactly I would like to understand a little?

Rajesh Mokashi: inference is that earlier era, when you saw the earlier credit cycle take-off, the NPA level started worsening and now there is expectation that we have more or less reached a particular level from which we will start diminishing and then came the IVC just about the couple of years back. Earlier when the NPA used to happen the revenues, the surveillance revenues of rating companies have dropped down to 0, but now with the NCLT coming in, the IVC coming in, the semblance of revenue on the resolution plan rating taking place. So this is where in sense of revenue element comes into play when the resolution plans are aided by rating companies, unlike in the past when NPA happened, there was no revenue for the rating company, so in the past what used to happen was that there was a new business growth which was taking place and the NPAs happening which is not generating revenue. Now the NCLT case has also been rated by some of the rating companies, but the new business is slowing down because the credit offtake is somewhat slower, but yes, there is the element of fees that rating companies earn from this exercise and going forward also, I am sure there is steady state as the business stabilises more and more such cases, the backlog of NCLT cases or NPA is still not diminished substantially, so there will be opportunity for rating companies to rate this entities as well.

Siddhant Maheshwari: And sir, will it be possible to quantify anything here or not really possible?

Rajesh Mokashi: Absolutely difficult, still a small element of the total revenue mix, one should not attribute its one stream of revenues, but difficult to quantify.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Rajesh Mokashi: I think the bond market, the credit markets have gone through very challenging times in the last quarter or so and a sense of stability is beginning to come about and other rating company as well I think are geared to ensure that we serve the market to strengthen our franchise and ensure that. I think we are gung-ho Indian economy as such, we all say that the Indian economy has a great potential and some of the reforms which are coming underway, which holds the great promise that the Indian economy will start growing above 7% growth rate going forward post the elections, the policy measure should again help us get into a different traction mode for the Indian credit markets and bond markets as such. The inflation expectations are fairly positive in the sense that the inflation rate is coming down. That should mean the interest rates also should come down. That should generally auger well for the bond markets and in turn for the rating companies, so we are working very hard in terms of strengthening our franchise and reaching out and serving our investor community with quality ratings which are dependable and fairly driven by analytical content going forward. I think with this, I would like to conclude my presentation.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.