



“CARE Ratings Q2 Financial Year 2016 Earning Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to CARE Rating Q2 FY'16 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shradha Sheth from Edelweiss Securities. Thank you and over to you Madam!

Shradha Sheth: Thanks Karuna. On behalf of Edelweiss, let me welcome you all to the Q2 FY 2016 earnings call of CARE Rating. From the management today we have, Mr. D. R. Dogra – Managing Director and CEO and Mr. Rajesh Mokashi, the Deputy M.D. along with all the other senior management personnel. So without any further ado I will hand over the call to Mr. Dogra for his initial comments, thank you and over to you Sir.

D. R. Dogra: Thank you Shraddha and Edelweiss for hosting this call for us.

Good morning friends and welcome to CARE Ratings concall with analysts and investors on the occasion of the presentation of our Q2 and H1 results for FY16. I do hope that you have had time to read our press releases and presentation that was sent to you last evening and also uploaded on the web site.

I shall however give you a brief overview of our performance in this period as well as share my thoughts on what are the factors that have been affecting our performance and our own expectations of the business for the rest of the year. We can then take your questions.

I have with me Rajesh Mokashi our DMD as well as my senior management team to address any questions or concerns that you may have.

As you would have seen, our income from operations increased by 5.35% even as we have recorded the highest level of rating income this quarter. This is despite the fact that the macro environment has been fairly hazy so far this year. Most of the growth in credit has been in the agriculture and retail segments with manufacturing and services witnessing negative growth in the first 5 months of the year. While it is true that companies have tended to move to the corporate debt segment where issuances were higher, it had come mainly from the finance sector as core investment in the economy was still muted.

So if you look at our overall business numbers the growth in the same is a bit more impressive. Volume of debt raised increases from Rs 2.12 lakh crore to Rs 2.41 lakh crore with increases in both the corporate debt and bank loan segments. The same for the 6- month period was from 4.51 lakh crore to Rs 5.06 lakh crore. But as we keep reiterating in our conversations with you, our rating revenue is not directly proportional to the volume of debt rated given that several of our clients operate with a cap on fees.

Also as we have been mentioning in the past, a certain segment of our business plans had to be rolled back on SMEs given the developments taking place in the NSIC rating segment. This has had a mixed effect on our business as while our own income projections have had to be revised with the rollback of the subsidy provided by the government, we have also had to revisit our expenses. Staff rationalization on this front was through effective redeployment for some sections while an exit route had to be provided for others. This explains why our staff expenses have declined marginally as our overall head count had reduced from 615 in September 2014 to 579 in September 2015.

The profit picture needs to be viewed with a qualification. The reason is that 'other income' which has been around 16-17% of our income from operations will be subdued this time as we have invested in FMPs where the rollover of the same means that income can be booked only on maturity. This will hence work against our net profit margin which was about 47.05% for Q2 (54.06% last year) and 41.99% for H1 (51.14% last year). In this context, you may recollect that last year we did disburse Rs 220 crore as special dividend which has reduced our investable surplus.

I would however, turn your attention to the operating profit margin which probably would be a better indicator given the limitation of the 'deferred other income scenario' that we are in this year. Operating profit margin has been increasing from about 67.44% in Q2-FY15 to 70.01% in Q2-FY16. Again we have registered the highest level of operating profit this quarter. For the first half of the year, the numbers were 58.80% for H1-FY15 and 61.47% for H1-FY16. Hence, at the operational level the financial position does look quite satisfactory.

You will be glad that the Board has announced an interim dividend of 60% or Rs.6/- per share which is an acknowledgement too of the support provided by the shareholders to the company. If you combine this with a similar dividend paid in the first quarter, it sums to Rs 12/share so far this year.

For a rating agency, there are always swings in business depending on the market conditions. To a certain extent we can say that we cannot rate more than what is in the market, and while our business teams have been looking to widen the network of clients, as can be seen by our dominant position in the ET top 500 or FE Top 500 or BS Top 1000 companies, the effort required is enormous for even a marginal improvement in these numbers.

We now have close to 11,000 active clients which is an improvement over the March number of around 9800. We added a set of 1466 new clients in this half of the year, with 758 accruing in the second quarter. This effort would carry on.

How do we see the future?

First, if we have to look at the present credit environment, it is stable at best. The MCR has shown stability in H-1 compared with last year, and is slightly lower at 1.11 against 1.15 in H2-

FY15. Quite clearly there are pressures still there though the ratio is above 1. The other indicator that we track, the CDQI, which is the CARE Ratings Debt Market Index, continues to show a downward movement which gels with the picture that we have on NPAs too, though this index looks more at the quality of overall debt and not just the default accounts. This will change only when the economy turns around in a decisive manner.

On the macro economy front, there appears to be some green shoots, though as has been the case in the past, one is never too sure of their fruition to something bigger. We have scaled down our own GDP growth expectation to 7.5-7.6%, and while we do expect to see a recovery in the second half of the year, it would be muted and gradual. The present months are critical from the consumption angle and there are high hopes that the government would be more aggressive in the infra space which will have backward linkages with the private sector leading to more investment.

We need infra and private investment to pick up to add bounce to the corporate debt market as well as bank loans. Higher interest rates in the USA would make ECBs marginally less attractive and could cause companies to look at domestic options. For the rest of the year we would moderate our expectations on the pick-up in the financial markets. A gradual stable growth in the upward direction is what we expect for the year, with a major turnaround happening only in the next fiscal.

But then in business, as Warren Buffet had said, the rearview mirror is always clearer than the windshield. And we can never be too sure.

Thank you. Shradha we can open questions now.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Pravin Sahai from B&K Securities. Please go ahead.

Pravin Sahai: Sir my question again on the volume of the debt rated last quarter also we have seen a good growth in the volume of our debt rated even this quarter we have seen very good growth, even we have to seen a continuous addition in the clients so if I just look at two years back 6700 clients now it is now around 11000 clients, but again I can understand there is lot of a capped client we have and we had passed a second cue where most of the instrument renewal happened so in line with this we can assume or we can expect going ahead with the some price negotiation with the client we will see some improvement in the top-line growth?

D. R. Dogra: Pravin, I do not think there is the possibility of improvement in the fee rates at this point of time due to the competitive nature of the industry we have, but yes surveillance is not fully over so I think still we will have a lot of companies who will come for surveillance now because they were in the process of giving out their numbers and now they are available and they are attending to the questions which analysts are posing to them. So we certainly would have surveillance numbers even in Q3 and historically Q3 and Q4 is better quarters as compared to Q1 and Q2 and

simple reason is not only the economy may be little better this half year but also most of the surveillance would come in either Q2 or Q3 max.

Pravin Sahai: Right. So just I am concentrating on the volume of the debt rated because the volume of the debt rated this quarter is 14% our topline growth is around 5% so if there is a volume growth there should be some improvement in our fee as well because of some capped client also I suppose the volume is increasing so is that not giving any room for improvement in their fee for an entire year?

D. R. Dogra: No, I am not saying that in cap clients we are not able to raise fees at all but certainly they will not come in that proportion. If the cap client debt grows by 10% do not assume that I will be able to increase my cap by 10%. So there is not going to be proportionate increase in fees from all those enhancements, which come in cap clients.

Pravin Sahai: Now the next question is related to the employee, our employee strength reduced to 579, that is a quite reduction and I suppose this is mostly from the SME segment so is that a reduction is over still or we are going to reduce this?

D. R. Dogra: I think this NSIC subsidy issue is quite old issue now. It is not a very recent issue. We have been able to redeploy some of these people who can be fitted in other areas where we operate now and those who cannot be observed have to be given an exit option and I think that is almost over now.

Pravin Sahai: Sir just last one on the SME side, SME definitely the NSIC have been impacted the SME business, but some of the more initiatives from the government side like Mudra Bank and all is that giving improvement in any kind of indications we have seen in the improvement in the SME business for us?

D. R. Dogra: No Pravin it does not mean that if NSIC subsidy is over we are not in SME business, we still do lot of work for SMEs especially our standalone product known as SME grading as well as bank loan rating for SMEs. That was still on and certainly any opportunity which comes through Mudra Bank whatever you say in fact the government is also thinking of another rating known zero defect steady rating that is ZED-rating. So if that happens I think we are fully equipped to handle that kind of business and we have to ramp-up our capacity to undertake that kind of business we are fully ready for that even.

Pravin Sahai: Great Sir. Thank you.

Moderator: Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati: Sir my question is on subsidiary, is there any update on any financial numbers or what is happening over there?

- D. R. Dogra:** I do not think we are announcing the consol numbers but as I hinted even last year that the company has got good orders and it is a product business and you know that moment if they have orders they will certainly implement and report revenues as per the income recognition policy, so this half year that company has done quite better. Last half year they booked a total income of Rs. 1.69 Crores, this year they have booked the income of Rs. 6.91 Crore and against net loss of Rs. 1.16 Crore last half year this half year they have done net profit I mean PBT of Rs. 1.66 Crores against loss of Rs. 1.16 Crores last half year, so there is a swing of around 3 Crores in the PBT this time.
- Hitesh Gulati:** That is from my side.
- Moderator:** Thank you. The next question is from the line of Sameer Kapadia from Fortune Interfinance Limited. Please go ahead.
- Sameer Kapadia:** Sir from last couple of quarters your revenue growth is not happening as expected by you on the back of like weak economy and nonrevival of investment cycle. I just would like to understand as to does the management have any plan as to the increase the revenue growth or you are just going to sit back and wait for the investment cycle to pickup because again on the SME segment you are facing some disappointment and you are not seeing any growth so if you can share some sense on the outlook of the revenue growth?
- D. R. Dogra:** Sameer, I think as I said in my opening remarks that we can rate only what comes to the market we cannot create a debt market on our own. Certainly we look at various other alternative products which we can offer to the market and I think we are doing that and you know it that historically we have been growing at a much faster rate though we have done little better than what industry has grown but certainly though we are satisfied but we are not happy, we have done for half year if you see we had done a growth around 8% but you know that during this half year the corporate and infrastructure segment debt actually has degrown but much of the bank credit growth has happened in a retail space so that shows that the markets are not very conducive but still we have been able to show and in fact what we have shown on operating revenues is a best ever quarter for the company this time.
- Sameer Kapadia:** But in terms like are you planning to enter some other market or any particular segment going forward is there any plans of the company if you can throw some light on that?
- D. R. Dogra:** You know it that we have been trying to reach other markets. We own a stake in a company known as ARC Ratings where we are one of the promoters in that company, it will be international rating. They have already started doing some rating but these things will take time. We also have license to do ratings in the Republic of Maldives and we have already done some ratings there but unfortunately markets in Maldives are not conducive. We have also recently gone to Mauritius and started a subsidiary as of now it is a 100% subsidiary of CARE, but two large banks in the island wants to join us in addition to the African Development Bank and I think all these initiatives are to reach out. We went to Mauritius because we want to go to Africa

from there so that is the plan we have but all these plans will certainly take time. Even getting a license from Mauritius regulator was a long drawn process of one year, we got license ultimately at the end. We have been working with the regulators for quite good time.

Sameer Kapadia: Like how do you see going forward the markets you have entered see some traction in terms of the revenue growth or any guidance on that front?

D. R. Dogra: It is a factor of the economic and certainly the GDP growth investment cycle starts rating agency will. In fact everybody believes that the investment cycle should start anytime and I think that should be the right time for the rating agencies. Secondly the banks exposures to infrastructure and large corporates have reached such a level they would not be able to exceed the exposure levels now. Already RBI's discussion paper in the market which says that the large exposures have to be diverted towards the capital market; even if that happens we know it the rating agency will have a good time.

Sameer Kapadia: One more question with regards with your balance sheet item, your trade receivables has increased substantially from like 14 Crores to 53 Crores so why I would like to understand?

Chandresh Shah: Hi Sameer. This is Chandresh. I am the CFO. See Sameer for credit rating agencies the invoices are raised during start of the year. We keep raising invoices and the collection happens towards second half of the year so even if you compare last year's balance sheet the debtors were in line with current year's status and by the end of March we would be coming to similar level.

Sameer Kapadia: Just because I saw on like as of March we were having a status of only around 14 Crores whereas like quarter you have reported around 53 Crores of trade receivables in your balance sheet items you know like it is going to be, because it is three receivables right?

Chandresh Shah: Sorry.

Sameer Kapadia: Like 14 Crores was the debtors receivables as on March 31 in this current quarter you have maintained it as 53 Crores so like why is that I want to know that?

Chandresh Shah: See we raise invoices during first half of the year collection happens towards second half of the year.

D. R. Dogra: Sameer what happens is that as per our income recognition policy the annual service fees become payable at on an anniversary date, suppose somebody has completed one year in April I will raise the invoice for that. The annual surveillance will happen only after audited numbers are available and that would be happening somewhere in July, August, September or even sometimes go to October-November and client will pay you fees after the surveillance is over. That is why you find that all surveillance will get completed before March because we have to complete surveillance over March 31. So on March 31, we complete surveillance and we collect fees as well. March figure will be much lower as compared to the June and September figures.

- Sameer Kapadia:** Lastly what was the revenue from the SME segment if you can share?
- D. R. Dogra:** I think we would have done around 6-7 Crores this quarter its around 6-7% of the total.
- Sameer Kapadia:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sunil Jain from Aditya Birla. Please go ahead.
- Sunil Jain:** Good morning Sir. Very good operating performance, I must say. Sir I just had a question on the cash part. Sir last year in March your total cash balance which we had if you include current investments, non-current investments, cash was about 350 Crores of cash was there, and this is I am talking about March, and then 50 Crores of additional income has also been booked PBT is also there in this quarter. Yet the overall cash balance has reduced, Sir this was something, which I could not understand in terms of how, this is happening if you could just throw some light there?
- Chandresh Shah:** Sunil, cash balance is normally invested in mutual funds, liquid funds etc.
- Sunil Jain:** I am talking about all noncurrent investments, current investments and cash together is about 350 Crores in March and this quarter it is only 337 Crores.
- Chandresh Shah:** We had a payout of final dividend of Rs. 8 per share as the annual dividend got approved on September 29 in the AGM. We have also paid interim dividend of Rs. 6 per share for Q1.
- Sunil Jain:** The annual dividend was 8 Crore provision in the last quarter and this quarter there would be dividend or interim dividend of 6 Crore so that would be more or less same in the provision?
- D. R. Dogra:** No I think this year, Sunil we would have paid two dividends. One is Q1 dividend and other is the annual dividend. Secondly as Sameer pointed out that question the last question some of the money is still in debtors our debtors have gone up. These are the two reasons basically would have reduced our cash component.
- Sunil Jain:** The income which is passed in FMP if you add that on a just a NAV to NAV comparison then what would be that amount? Maybe off-line if you could tell me because that income compensate with the total loss in other income?
- D. R. Dogra:** No see there are two things here, there are two reasons which we have explained in our press release also for lower other income. It is because of two reasons one is our Rs. 204 Crores is invested in fixed maturity plans. We have not booked any income on Rs. 204 Crores. Secondly the fact that we paid special dividend of Rs. 220 Crores last year so our total kitty would have come down to some extent of course not by Rs. 220 Crores as we have also earned something last year and we earned this year as well. So we have distributed whatever we are earning last one and half years but certainly 220 Crores special dividend would have reduced our kitty to some extent.

- Sunil Jain:** The only point I want to understand, Mr. Dogra last year this non-current investment 200 Crores this year approximately 290 Crores so the 90 Crores have increased in terms of the total amount you are rolling over more FMPs okay but if you just take the NAV to NAV then on a book entry basis it cannot be accounted for as I understand but on a book entry basis then what is the incremental income that is not booked?
- D. R. Dogra:** See for FMPs you can take only when FMPs mature, we have some equity investment as well, where are also we do not book as per NAV because unless we encashed and we don't book that income, so...
- Sunil Jain:** On a book entry basis how much that would be Chanderash, if you could give us.
- Chandresh Shah:** The value of investments in FMPs would be around 204 Crores out of 304 Crores of investments.
- Sunil Jain:** Mr. Dogra, one question I want to ask you on the business side, typically we have seen earlier this is more a macro that your credit growth used to be almost like 2.5 to 3 times of the GDP, where the GDP was growing at 7% credit growth used to grow at 20%. Now it is unfortunately it is the other way round where credit growth we are seeing only 9% and GDP is growing at 7% so any comment on that exactly what is happening because it completely does not meet the logic at all?
- D. R. Dogra:** Sunil I will give this to expert Madan who will speak on this.
- Madan Sabnavis:** Sunil when we are talking of bank credit, I mean first you have to distinguish between overall growth in bank credit, a growth in bank credit to the manufacturing and service sector because whatever growth we are seeing in bank credit is happening more on the retail and agriculture front, so that's point No.1. Point No.2 is there has been certain amount of migration which has taken place from bank credit to what you call debt market and your CP market but what has happened is that most of these players who are in the debt market are from the financial sectors. So that is the story as far as the financial sector goes. Talking in terms of GDP, I think there is a bit of I would say still very nebulous about how we arrive at that 7% number because if you are looking at sectors which are leading to this kind of growth it is not really coming from the manufacturing sector, it is not coming from the core service sector, a lot of it is coming also from the unorganized sector so I think that's why we have this anomaly where we are saying that there is 7% growth in GDP or bank credit is growing only by 9%, so there is definitely not much of an uptick in terms of the demand for funds and that goes back to the fact that we are not seeing too much of investment taking place either on the infrastructure side or in terms of what manufacturing industry is doing. If you look at the RBI data for example it shows that capital utilization is around 70-72% and given the kind of structure of interest rates we have and the fact the demand is generally low there is no reason for anybody to go in for investment and if you are talking of infrastructure the government has made a lot of decisions about how they are going to spend on roads and railways. These are the two sectors which you have heard of but if you are seeing at a ground level has this translated to higher amount of infrastructure spending

investment taking place? In fact just yesterday the data on infrastructure industry shows that it has not really been much of a pick up in terms of growth in these sectors. So I would say that the investment cycle has been taken of which is also getting reflected in the financial side and in terms of GDP growth yes, even today when we are talking of 7.5% we are not really looking at any kind of a major turnaround in the manufacturing or the organized service sector. If we look at the way in which the corporate sector performs is I think the very good barometer what is really happening we have seen that even in the second quarter of growth in sales, net profit and everything is down.

Sunil Jain: Thanks.

Moderator: Thank you. The next question is from the line of Kaushik Patel from India Nivesh Securities. Please go ahead.

Kaushik Patel: Congratulations first of all for the good set of numbers. I would like to know about that our MCR modified credit ratio and CARE Ratings debt quality index, like if I see individually the modified credit ratio we have seen a quite stable and the trend is showing increasing from FY 2014 whereas if I see the debt quality index it has been deteriorating constantly since FY 2012 means, base year so how like if I combine and if I see both the index like what can be the scenario?

T.N. Arun Kumar: Actually these two are different things actually what they measure. The MCR is about upgrades and that is the ratio of this MCR so any small one notch upgrade will be taken as a point here irrespective of where it is coming from and where it is going to so it reflects the direction actually what were the directions in overall credit profile. Whereas the other one the CDQI that reflects the stock of credit quality as of a particular date where is it going, so that is an overall cumulative picture. Here, in case of MCR, what happens is, if there is a down grade from say BB to BB- it will be shown as a downgrade here but in terms of credit quality it might not have such a big fall. Fall from AA to BB or AA to A could be a big fall in CDQI because it will be shown as we look at the respective default rates and quality of that coming down so that will be a big fall. Conversely, BB- to BB will be one upgrade whereas A to AA will also be one upgrade in terms of numbers but the quality the second one will have a larger impact on CDQI and the impact on the MCR is the same. So I think you understand.

D. R. Dogra: Also it depends on amount of the debt size of the entity being downgraded or upgraded, for example a big chunk is downgraded from suppose even AAA to AA it would have a larger impact on CDQI, whereas this is one number for MCR.

Kaushik Patel: On MCR there would not be any weighted impact whereas?

Madan Sabnavis: I think if we are trying to put it in economic terms we will say when we are looking at an MCR with all the surveillances cases which come up whereby talking of whether it's been upgraded or downgraded or it is retention. So it is a kind of a flow concept, which Arun was talking of. In terms of CDQI they are talking of a stock concept. At a particular point of time what is the rating

of all the various things and as what Mr. Dogra mentioned, one is talking in terms of value that is CDQI is suppose if a debt which we will say 100 Crores three years back they are seeing whether this was A, B and where it is now that's how we are arriving at a CDQI. Now when in case of 100 Crores of an upgrade today it becomes 1Q may be if there is a 1 Crore which has been downgraded that becomes a 1Q in the downgrade. So we are talking of number of cases in case of the MCR there is a CDQI that is talking off the value.

- D. R. Dogra:** That is why CDQI will show the trend of NPA; MCR will not show that, MCR is still above 1.
- Kaushik Patel:** One more question Sir, its regarding recent regulations like there is news that SEBI is going to come with regulation for credit rating agencies and I think all the rating agencies including you had a meeting to SEBI so some idea like what kind of regulation changes we can see and how whether it will be good or like what can be the impact on the business?
- Rajesh Mokashi:** I think every regulator particularly more so SEBI is in constant dialogue not just now but on a regular basis all the CRAs it is just not now and every regulator I think all over the world the whole thought process is to try and get a new inputs, new ideas how we can bring in reforms so this kind of a dialogue is a continuous process so as and when, I mean I am sure the views are articulated properly, I am sure the regulators will want to bring in new thought processes so this is the continuous process this is not a very specific one off kind of basis. Meetings do take place on a regular basis throughout the year and appropriately at appropriate times when the regulators are convinced that there is a case for further strengthening the regulations and things like that they do it across the globe not just in India.
- D. R. Dogra:** Let me tell you, the regulations, you know currently also we have regulations and security exchange regulator SEBI is the regulator for us so we have one of the best regulation for rating agencies anywhere in the world. If you look at any other market where rating agencies are operating, I think our regulations are the toughest and that is recognized even by IFCO or SEC or ESMA and I think we will welcome any regulations that also gives a scope to improve our processes and all that and we will support any change which happens in regulation.
- Kaushik Patel:** One more thing it is related to economy, in last question we were discussing that anomaly between GDP growth and credit growth so there I would like to know like as Mr. Madan mentioned that because of unorganized sector so what to believe like if there is some credit demand with an unorganized sector side but is that unorganized sector is not within that banking that is why that gap is there, I just wanted to understand like how?
- Madan Sabnavis:** See when I am talking of unorganized sector it is essentially the way in this GDP is computed because we do not have any formal accounts which are maintained. The CSO follows a policy of imputation. To give you an example for example we know that retail is a very large part of a GDP, large part of the economy but we do not really have any idea about what is the income of the Kiranawala whom we have on the roadside so what we have is that the CSO have certain estimate about how many Kirana shops should be there in the country, we have same kind of an

estimate about what should be the average earnings of or an average value added coming from any of this Kirana shops and then you get impute this particular value. So when I am talking of the preponderance of the unorganized sector it is essentially because of around 40% of our GDP especially in the services sector and probably a large part of the agriculture which comes under this particular domain its based on imputation so therefore if you are trying to look for a one to one correspondence saying that if an unorganized sector is growing will my credit also be growing because the government that RBI talking a lot about inclusive banking lending to the priority sector the connection cannot really be gotten here. So the idea of the unorganized sector creating some kind of an anomaly should be understood from the point of view of the fact that there are certain imputations made even for example your transport operators, you know how many trucks are there how many trucks are within the country so what is the earnings of the particular truck operator one does not really know so just based on imputation you say that we have so much on an average this is how the income has gone up and therefore the GDP shows this kind of an increase. If I am taking off the SME sector you have the same thing, again it is based on imputation, you do not have a formalized system of accounting.

Kaushik Patel: Sir I just would like to know employee strength as of Q1 FY 2016?

D. R. Dogra: 627.

Moderator: Thank you. The next question is from the line of Pradeep Agarwal from Philip Capital. Please go ahead.

Pradeep Agarwal: Sir one question on the SME side you know as you mentioned that SME side is not doing because of the subsidized revenue business is going off, how has been the business momentum in nonsubsidized part of the business, if I understood correctly 75% of your SME business was nonsubsidized last year so how is the trend in that business and what is the strategy going forward where do you see the revenue share from that business this is the piece of overall revenue?

Rajesh Mokashi: See we all know that NSIC part of the business for the SME only the subsidy has been reduced I think something like 25 Crore at this point of time for the industry so that is not become zero that continues to be a small part or the business and we all known that the same SME which sort of taken NSIC rating also require a Basel II rating, many of them do seek a Basel II rating, so I think post this reduction of subsidy part of it we have focused on the smaller size smaller ticket size companies on to the Basel II business and that has a reasonable traction because Basel II ratings is still required only thing is that reaching out to the vast mass is a big task because they are all geographically dispersed but since we had already setup an SME division earlier we are further leveraging that by reaching out to more and more companies and that is a steady stream of business which is there so that would not change much. The SME segment revenues will broadly be in line with what has been in the past and we have no intention of reducing our focus in a SME sector because this is an important sector from the future perspective and it is a profitable sector.

- Pradeep Agarwal:** So Sir on a long-term basis four to five years from 6% to 7% of our overall revenue where do you aim that share to be?
- Rajesh Mokashi:** I think at the end of the day it's a question of the overall growth rate in the economy our endeavor, you know we are amongst the top two companies in the country and the leadership position is something that we will endeavor to maintain so that aggression and growth focus will continue to remain and reach out to as many SMEs as possible. We do not try to differentiate that we should be into the SME or any other segment we need to be in the leadership position in the all the segments what we normally look at.
- Pradeep Agarwal:** One related question Sir, as you said we will continue to maintain a focus in SME so the employee reduction which we have seen in this quarter so that is largely from the SME or we have seen some high aggressions from non SME business as well?
- Rajesh Mokashi:** No I think to a good extent please understand there are different skills required to sell NSIC and Basel II rating so obviously somewhere we have reduced the NSIC component skills but that does not mean we can continue to reduce the Basel II skill that will have to be increased over a period of time so you are right a bit of a reduction from the NSIC component part of it but overall as the company turnover grows manpower will need to be increased in line with the top line growth.
- Pradeep Agarwal:** If you can give us a split between SME business employees?
- Rajesh Mokashi:** Right now as I told you know everything is Basel II or capital markets so we really have stopped doing that split which we were earlier doing.
- Pradeep Agarwal:** Thirdly was the ESOP amortization amongst this quarter? Was it similar to last year?
- D. R. Dogra:** 1.2 Crores.
- Pradeep Agarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Alok Shah from Centrum Broking. Please go ahead.
- Alok Shah:** Thanks for taking my question. Sir on continuation to that SME piece, if I heard it right the contribution from SME was 6 to 7 Crores or was it 6% to 7% of total NPA?
- D. R. Dogra:** Pardon.
- Alok Shah:** The SME contribution this time around towards the revenue was it 6 to 7 Crores or was it 6% to 7% of our total revenue, the SME revenues for the quarter?
- D. R. Dogra:** 5.5%.

- Alok Shah:** Looking at one of another peer who is big into SME business they have talked about some kind of revival happening there, do we also see that kind of momentum getting better for us and do we see the 5.5% number increasing in coming quarters for us?
- Rajesh Mokashi:** All these initiatives of the Government of India for make in India and Mudra and SME everybody recognizes that this entire campaign which the Government of India runs on make in India really rests heavily on the shoulders of SME business and MSME business. I have been attending several government policy discussions and conferences everybody seems to be bullish on the whole idea that Make in India is going to be driven by the progress in the SME sector so I think there is a sense of bullishness across the country on this and I am sure we are no exception to that.
- Alok Shah:** Because if I recollect a couple of quarters back you said SME is 8% of our total revenue now that has kind of come down to 5.5% so there is scope for that number to inch upwards in the coming quarter?
- Rajesh Mokashi:** I think we will, because of the sudden blip in the NSIC there could be a marginal thing, but otherwise I do not see any fall in the numbers that is there across an industry as such.
- Alok Shah:** The other question is on our overall cost, particularly employee cost, do you expect the cost kind of stabilize at the current run rate of 22 to 23-odd Crores?
- Rajesh Mokashi:** I think costs are a function of the general growth of the company also has to be in line with the costs will need to move up across the system because the employees are given increment every year so cost will go up but again the topline also grows and the contribution is if the margins are maintained the topline the cost growth does not affect the margins in anyway.
- Alok Shah:** What I am trying to understand here is because we have revenue growth the potential primarily from new fees would be limited larger dependence would now be on surveillance and also on new client additions and we have lower other income vis-à-vis what we find in FY 2015 because of a change in the SME policy so the larger question is how do we look at our EBITDA margin in the coming years?
- D. R. Dogra:** See lower other income it got the two reasons No.1 is the investable surplus used because of the special dividend and second is the FMP but I do not think FMPs are big issue on that because if we don't book today we can book tomorrow. Now at one year FMP, now it is not allowed tax benefits, so we have all three years FMP. So for two years you would not be looking any income you will book income in the third year for the all the three years so you will suddenly feel in FY'18 that I have done very well in other income but that you know is because of FY'16 FY'17 FMP income not being booked in those two years. I do not think that is an issue. I mean that doesn't affect us a lot because after all NAV is going up there and I will book it when I encash it. As far as staff cost is concerned, if there is inflation in the market there has to wage inflation for any service industry like us so we cannot be away from it. We have been able to contain this base

increase because of one big reason this time is because of lowering the SME staff size, that was one reason but certainly if the investment cycle opens up certainly we will have to expand our staff and certainly costs will go up but certainly the increasing income will take care of this and we will be able to you know it for last few years we have been able to maintain leadership in profit margins for to a great extent. In fact we have shown much better operating profit margin this time, because actually despite just 5% increase in income operating income this quarter our profit margin has gone up by 3% you have seen that.

Alok Shah: Correct, but the big question is we are all taking about 8% revenue growth for first half which probably would end at 12%-13% for the full of FY 2016, our expenditure growth will be a bit higher to our income growth this quarter or this year as a whole?

D. R. Dogra: I do not think that is right. You see our expenses have gone up during six months period from 48.18 Crores to 38.81 Crores. This is just 1.3% increase in expenses, against 8.3% increase in the operating revenue and that is the reason of profit despite operating revenue is growing only by 8.3% during the half year our operating profit have grown up by 13.2%. That shows we have been able to contain cost to a large extent this time.

Alok Shah: Okay that is where I was more coming from that do we foresee our revenue growth kind of to outpace our expense growth. I think that has kind of answered my question. That is it from me. Thank you so much.

Moderator: Thank you. The next question is from the line of Nischint Chawate from Kotak Securities. Please go ahead.

Nischint Chawate: Sir just wanted to check, could you give any guidance on the dividend payout policy?

D. R. Dogra: I do not think SEBI is working on this so if they force us to have a dividend distribution policy we will have it but as of now there is no defined dividend policy but I think our board is quite aware of the share holders expectations and you have seen that Q1 we have announced Rs.6 per share this time I mean we have announced Rs.6 per share so you can imagine what kind of dividend distribution payout we have in mind.

Nischint Chawate: You highlighted that in this quarter the SME rating revenue was 5.5% any color if you could give for the second quarter of the previous year?

D. R. Dogra: It will be little better actually previous year. It was almost similar. But you would have little better NSIC mandates component last year as compared to this year because last year I think mid-October they stopped subsidy.

Nischint Chawate: So in that sense the base effect of this should start playing out from the next quarter onwards is that the way to look at it?

- D. R. Dogra:** But I think we should compensate it by as September 2014 when subsidy was available and we were again around 5.5% we are again at 5.5% because you have to replace that NSIC business with SME grading or SME bank loan grading business.
- Nischint Chawate:** Any sense of how much of gross sell would you have done on this in terms of SME clients migrating them to bank loan or bond ratings?
- D. R. Dogra:** You can see that we were last year as Chandresh tells me that this were around 5.5% and this time also 5.5% so we have not gone through any dip in SME business this time.
- Nischint Chawate:** No so the point I was trying to say is that of the SME customers that you have how many of them would have migrated?
- D. R. Dogra:** I think that my existing SME NSIC client would have migrated to bank loan rating or SME grading but certainly we have been able to mobilize some more SME clients towards Basel II or SME grading if not the existing ones. You know it in SME NSIC business the renewals are hardly 10% to 20%. Mostly they are one shot grading.
- Nischint Chawate:** Finally if I can use this forum to ask one question it was slightly more macro question and this is on the LAP business in India. I guess a lot has been discussed on this and there are lot of anxieties about the base at which LAP has grown and still the demand for certain kind of loans so do you see any kind of a pollution or a risk out there in terms of players trying to be lot more aggressive in LAP and do you foresee any kind of a risk out there?
- Rajesh Mokashi:** I think there have been concerns raised by commentators on the LAP business but you know we rate a quite few NBFCs which have that product portfolio as a part of the segment some of them do good bit of LAP business but so far you know because we track their asset quality and static portfolio is also on a regular basis because of some kind of securitization or rating reviews, we have not really noticed a significant part of any change in the asset quality parameters as such, so I mean at least the portfolio that we track seems to be in a proper has not flagged up the concerns but I think general overall concerns of the industry have merits because beyond a point there is a sense of your using the kind of a property to raise money, the owners equity is used to raise money and it has to be done judiciously and one should not go over board on that particular product as such and that concern may be there in some of the NBFCs which we have not been rating as such and but the ones which we are rating are definitely seem to be showing a lot of consistent performance and not something which is cause of alarm to us.
- Nischint Chawate:** Just a different way to put this is would the first or second collateral piece for these kinds of instruments would that have gone up in last couple of months or because the track record is similar that may not have changed as yet?
- Rajesh Mokashi:** No I do not think so, I do not think so that has happened I think the while the loan against property is a crucial product but I think the kind of entities the lenders are lending money the

SME I think the finance company is extremely careful and cautious in terms of making sure that the collateral is adequate and there is no compromise on that.

Nischint Chawate: Thank you Sir.

Moderator: Thank you. The next question is from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah: Thanks for the opportunity. I just have two questions, one is I just wanted to reconfirm that the other income portion should remain subdued in FY'17 and from FY'18 onwards after we see the bump up it should get normalized is it a fair assessment?

D. R. Dogra: Yes it is fair, because last year with the change in income tax rules FMP of one year were actually when they matured they were rolled over to FMP of three years.

Umang Shah: I just wanted to confirm two data points one out of total 300-odd Crores of investment 204 Crores are parked into FMP or 250 Crores?

D. R. Dogra: 204 Crores.

Umang Shah: Lastly all our income recognition happens on a cash basis right not on accrual basis?

D. R. Dogra: When you redeem then only you book income.

Umang Shah: No not only from the other income perspective but even from our revenues perspective?

D. R. Dogra: Yes, you cannot book on cash basis. Operating revenues are on accrual basis only, only our investments also on accrual basis except fixed maturity plans and equity mutual funds.

Umang Shah: That is all on cash basis?

D. R. Dogra: Bonds you do on accrual basis. It is not even cash that is on realization basis, when you redeem we realize it. Let me tell you one thing, our accounting policies are a little conservative in some cases we write, in some cases where we think that we should recognize fees only on cash basis there we do that also, I mean I cannot give a more specific on this but we do recognize fees in some basis some income only on cash basis also.

Umang Shah: So just to extend this slightly further just a clarification so let say for example of surveillance fee accruing from a particular client ideally is booked on an accrual basis but on a case to case basis you may choose to book it once you receive the fees right?

D. R. Dogra: Let me tell you that in initial fees there is no problem because we collect fees and then only do initial ratings most of the time, initial fees, there is no problem. It comes and we book it but in surveillance fees our policy is very different as compared to other industry players. We book our

fees only a part of the fees on pro-rata basis whereas we book a part of the balance part of the fees only when surveillance is completed because you do more work when you do have the audited numbers and you do full drill annual surveillance exercise we recognize as per the work involved at that point of time. So you will feel we are little more conservative that some of the fees will go to the next year even, they cannot be booked in because suppose your period is from October to September you will fees only half surveillance fees this time and half next year.

- Umang Shah:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Nishant Rungta from Spark Capital. Please go ahead.
- Nishant Rungta:** Thank you so much for the opportunity. I have couple of questions. Sir in fact we have seen that you have added about 1456 clients in H1. Would it be possible for you to give us split between your bank loan rating client and your bond market client or the market based issuances client?
- D. R. Dogra:** No this is not possible because a client will come to you and you will do a capital market rating as well as bank loan rating for him so you cannot have him both sides. The total number of companies added during the half year could be most of them would be bank loan client let me tell you that, we do not have that number but many a clients will have bank loan and capital market or most of them only bank loans.
- Nishant Rungta:** Sir how are the margins or the spread difference between bank loan clients and the market issuances clients?
- D. R. Dogra:** You will have better margin in capital market instruments.
- Nishant Rungta:** Correct Sir, exactly. Sir the next question is in fact related to this, again there is been a 12% increase in your volume of debt rated in H1 Sir, and we have seen that the systemic growth in credit in the banking system is only about 9% so bulk of it would have come in from the market based issuances for you so what would be the proportion of incremental growth coming in from bank loan rating and market issuances is it possible for you to comment on that Sir?
- D. R. Dogra:** We have that in our presentation. This number is there in the presentation. We have split both the numbers. Bank loan has increased from 1.17 lakh Crores to 1.24 lakh Crores whereas long-term capital market instruments have gone up from 74000 Crore to 97000 Crore, short-term and medium terms of CPR short-term debt is almost stable around 20,000 Crores. So this is the part of our slide No.13.
- Nishant Rungta:** My another question was in fact on Sir which sector are you seeing increasing traction in terms of raising issuances or tapping the capital markets more from the macro perspective where do you see traction coming in from which sectors are you kind of buoyant and upbeat about?

- D. R. Dogra:** I do not think you should jump from our numbers directly because it does not mean that if suppose I have done better in steel the steel industry investment cycle have started it may also be that you know some of my steel client have I am rating somebody who has existing loan and he comes to me for rating it does not mean it is a new credit expansion during the quarter that is why our numbers also you should not, you said 12% but I think we have done debt rated is around 13.67% so but our fees have not grown up by that, that shows because we are capped somewhere in some of these clients.
- Nishant Rungta:** So Sir when do you see volume increase coming in from new clients emerging in the market? Is it when RBI or SEBI reduces the cap from 5 Crores of bank loan rating regulations have to 1 Crore or is it when do you see things moving in terms of is there any talk in terms of reducing that debt regulation from 5 Crores so let say a lesser amount and see the market growing?
- D. R. Dogra:** See that is a factor and we also do not bank on this, you know it historically we have been quite averse to the SMEs you know it, we have been largely a LME and infrastructure rating company and we would love this 5 Crore to go to 1 Crore that is not the case actually I do not think that is in offing also. Certainly the movement in investment cycle starts we should have been historically you know it we have been growing at 15% to 20%, but industry should do once the investment cycle starts and it is your and my guess when it would start, we have been all hoping that this could happen in FY'16 itself, I think I will better ask Madan to take this question further.
- Madan Sabnavis:** I think practically speaking the investment cycle probably would start only in the next financial year because I think all the prerequisites are probably in place right now so when I say prerequisites in terms of seeing stable growth especially in the industry sector and in terms of all the announcements which the government have made. The question of when will it get translated as we keep saying that probably if we met you six months back we would have told you in the second half we should be seeing traction, but it does not look as if there is going to be too much of movement on the investment side in the second half. So we need to see if demand revives in the second half, which we are quite sanguine that such a thing could happen. That itself should be a kind of a prerequisite cursor to higher investment taking place. Since we always believe that the government will be the starting point for investment and as and when the government starts spending there will be a virtuous backward linkage, which will come to the private sector and there will be private sector investment also taking place.
- Nishant Rungta:** Sir, one last question as a house are we buoyant about Mudra Bank or with Digital India campaign as a smart city programs. Do you see that helping the business or is it a far fetch idea right now? Will it take some time to pan out and that is when we see these schemes fructifying and then helping us in terms of our revenue growth or is it too early to be commenting on the impact of these initiatives where the government on our business?
- Madan Sabnavis:** I think if you look at why the Mudra Bank has come in you know if you see the mix of our constitution of micro, small and medium enterprises nearly, 85% to 90% of the enterprises in the

country are micro enterprises and that be the case, there was no direct kind of a focused approach to providing credit to these entities and today's micro enterprises are tomorrow's small and medium enterprises. So, I think this is a very, very focused strategic focus of the government of India where they have chosen to have a special institution to finance the needs of micro enterprises because they were marginalized in terms of the traditional bank financing and I think all these initiatives, we believe are important strategic initiatives and they will bear fruits as time goes on they will get implemented in a proper way and they will benefit the country.

- Nishant Rungta:** Thank you so much Sir. Thank you for answering the questions. Thank you.
- Moderator:** Thank you. We will take up the last question that is from the line of Sushrut Mapara from Kotak Investment Advisors. Please go ahead.
- Sushrut Mapara:** Good afternoon Sir. We would like to understand that your operating profit has risen but EBITDA has fallen any specific reason for that Sir?
- D. R. Dogra:** It is other income. EBITDA has other income whereas operating profit does not have other income and you know that we have not booked a large part of that income because that is invested in fixed maturity plans, which will be booked only on redemption. 204 Crores is in FMPs, which will get only in FY 2018.
- Sushrut Mapara:** Thank you. Sir.
- Moderator:** Thank you. The last question is from the line of Pravin Yeolekar from iAlpha Enterprises. Please go ahead.
- Pravin Yeolekar:** Thank you for taking my question. In Q1 FY 2016 we have rated a bank loan rating as 953 number of assignment wherein Q2 FY 2016 it was 1466. There was a significant jump from 953 to 1466 the number of assignment.
- D. R. Dogra:** 1466 is no. of new clients added for half year. That is for the full half-year.
- Pravin Yeolekar:** Full half-year.
- D. R. Dogra:** That is for both the quarters.
- Pravin Yeolekar:** So, if we compare YOY, there is a significant jump of 34% in bank loan rating assignment.
- D. R. Dogra:** Yes.
- Pravin Yeolekar:** Could you comment on that?
- D. R. Dogra:** I think our marketing team had done better this time.

- Pravin Yeolekar:** The same time the bank loan rating our ticket size has declined by 26%?
- D. R. Dogra:** If you do low debt size clients certainly you will have more number of ratings with less volumes you rate.
- Pravin Yeolekar:** So is it due to the capped clients or you are saying that?
- D. R. Dogra:** It is because of the debt size. You are talking about the debt size, lower debt size. For example, if you get more low debt size clients you will have more ratings with less volume rated.
- Pravin Yeolekar:** Thank you.
- Moderator:** Thank you. With this I would now like to hand over the conference to Shradha Sheth for her closing comments. Over to you Madam!
- Shradha Sheth:** Thanks. On behalf of Edelweiss, we would like to thank the management of CARE and all the participants for taking time to be on the call. Dogra Ji would you want to add any closing comments?
- D. R. Dogra:** Thank you Shradha and Edelweiss and thank you ladies and gentlemen to be on this call. If you have any other questions we are available, me, Mokashi as well as our CFO, Chandresh is available and you can shoot any questions. We will be able to reply to any query you have on our numbers or any other matters which concerns us please. Thank you so much.
- Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.