CARE Ratings
Professional Risk Opinion

CARE Ratings Q4FY20 and FY20 Investors' Call

Friday – June 19, 2020 – 11:30 AM to 1:00 PM IST

Mradul Mishra – Corporate Communications, CARE Ratings [0:00:03]
Good morning ladies and gentlemen. I'm Mradul Mishra from the Corporate Communications team of CARE Ratings, and on behalf of the Company welcome you to our Q4 and FY '20 earnings conference call. We wish to inform that all participants are in listen only mode and there will be a question and answer session once the presentation concludes.

During the Q&A session, you can click on raise your hand option which will enable me to unmute you for posing your queries. Also, please note that this conference is being recorded. Our management team is represented by Mr. Ajay Mahajan, Managing Director and CEO, CARE Ratings. Along with him we have Mr. TN Arun Kumar, Executive Director and Chief Ratings Officer, Mr. Mehul Pandya, Executive Director and Mr. Navin Jain, Executive Director and Company Secretary.

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

Ajay Mahajan – MD & CEO, CARE Ratings [0:00:59]
Hi. Good morning. We are excited to welcome you all to this investor call which is my first as the MD and CEO; and we will be discussing our quarter four and FY '20 results. Now first of all, I'd like to introduce myself. I am Ajay Mahajan and I have taken over as the MD and CEO of CARE Ratings in April, 2020. I have around three decades of experience in the banking sector, and was with Bank of America for a very long time, then with UBS, Yes Bank and IDFC First Bank.

After being on the other side of the table, I do feel privileged now to work with CARE Ratings. It is, as we all know, a very challenging time. Upfront let me say that it will be my endeavor to do everything that's required in the coming years to enhance shareholder value.

I do hope that you got time to analyze our results that we declared yesterday and before we really get to the Q&A session, I want to spend a little bit of time in sharing my thoughts with you on how the results are and what our perspective on the same is.

First and foremost, the credit rating business, as you know, is one which depends on the overall size of the cake and expands with the rateable universe. The storyline does not change for a CRA, as you can only rate that much that comes to the market. Of course, the cutting edge comes in being able to get new clients from within the pie. And that is something that's an ongoing endeavor at CARE as well.

However, when we look at FY'20, a factor, which has to be considered, is the turmoil in the NBFC space. And frankly, that turmoil has been there for some time, the genesis of which was in 2018 and carried on in 2019 and early FY'20. And there have been substantial defaults as you know in that sector. Hence, rating income associated for CARE was tremendously under pressure because of some very high profile names getting into the default territory.

CARE has therefore not been immune. Our results need to be seen also in the context of the overall macroeconomic environment and backdrop. We saw GDP growth only at 4.2%. It's been steadily climbing down from levels of 7% and higher over the last three- four years. And industrial growth last year was actually minus 0.7%. And services also grew at a lower rate compared with the past. And therefore, the growth in bank credit to both industry and to services has been 0.7% and 6.1% respectively. And these two segments are the backbone of our business in a normal year. As I talked about the difficulties faced by the NBFC sector we've seen banks actually reduce and shy away from lending to this sector.

Further, the NPA levels have sort of reached between 9% and 10% across the industry and that also does not allow banks too much of leeway to aggressively lend. All of this has had an impact on our performance. While we have seen some LTROs being announced in February, this year, we still believe that they have only addressed a part of the problem.

Corporate debt market grew to Rs 6.9 lakh crores from Rs 6.5 lakh crores, but bulk of the money that was raised was from financial and infrastructure sectors - as much as 85%. That does not therefore talk very well about the revenues being well spread for rating agencies since there is massive concentration in these two sectors. The dominance of PSU's was also noticeable. And that segment, as you know very well, is not necessarily attuned to being ad valorem to the size of the debt issued. In fact, many of these clients are capped in terms of fees.

In addition to that, the ECB registrations in the market actually grew by $11 billion over FY'19, raising the total registrations in ECB to about $50 billion, which, in a way, also hurts the revenue creating opportunity for domestic rating agencies like us.

At the macro level, the RBI policy was accommodative, as we all know, the repo rates have moved from 6.25% to 4.4% at the end of March.

Now against this backdrop, of low level of activity in the financial sector and the overhang of defaults that have taken place, our rating revenue was impacted significantly. Total debt rated declined from Rs 19.9 lakh crores to Rs 12.73 lakh crores last year. And this was one of the factors that affected our financial performance.

The total income on a standalone basis declined from Rs 327 crores in FY19 to Rs 250 crores in FY20. If we include the subsidiaries total income would be Rs 275 crores.

The total expenditure increased from about Rs 129 crores to Rs 150 crores with staff costs going up by Rs 8.77 crores and a couple of other heads adding to expenses. Our provision for stock options were lower however by Rs.7.39 crores and therefore, the total manpower cost including stock options increased only by about Rs 2 crores. The impact as a result of expenses going up and revenues declining, was that net profits declined from Rs 135 crores to Rs 80.5 crores. The PAT margin hence was about 32% versus 41% the previous year.

For the quarter, total operating income came down from Rs 81.5 crores in Q4-19 to Rs 57.67 crores in Q4-20 and PAT from Rs 34.6 scores to Rs 13.95 crores.

The Board of Directors has announced a dividend of 2.5 rupees per share, taking the total dividend for the year to 19.5 rupees per share, a healthy 195% subject to the approval of shareholders.

Let me also take you through some developments in our company this year. We had appointed external consultants for suggesting improvements to our processes and systems with a view to modernizing the same. Now going forward, the processes will get augmented with the use of best digital technologies. I can assure all investors that this is one of our very serious focus areas as we build this company.

During the year the rating process was also strengthened with sectoral committees and enhanced transparency aided by technology. As a service organization, right skilling of employees cannot be overstated. And we are adopting a multi-skilling approach to actually professionally continue to invest in our analysts and even our senior people with a mix of technical and soft skills to cultivate talent within the organization. As a service organization we need to continue to build and generate talent in the company.

I would also like to add that the entire country was in the midst of a lockdown as you all know in the last week of March, which did pose us a challenge in terms of completing surveillances on time. However, I am happy to report that we did finish a majority of our surveillances within the year as we were very well prepared on the IT front. While the decision taken was sudden, we were still able to complete all our work with most people working from home very effectively and our operations were unscathed through this period.

To strengthen our bonds with our clients across the country, we also had interactive sessions last year, under the umbrella of Conversations over Dinner in four or five cities like Mumbai, Ahmedabad, Delhi, Kolkata and Pune. We have also been proactively working with the regulators on the evolving policy framework and have built a good relationship with regulators.

Looking ahead FY21, it would be quite challenging. The lockdown has been persistent in the fiscal so far and even now only about 10% of people can work from private offices in Mumbai. Therefore, economic activity still remains fairly subdued. The services segment has been pushed back considerably and would take even a longer time to recover as the progress is limited, given its close proximity to the concept of social distancing.

The government has brought about several reforms for the medium term. The RBI has extended liquidity supply as we all know and there has been Rs 20 lakh crore packages announced which includes underwriting that the government has done on certain category of loans. And all of this will take some time to bear fruit. The outlook for GDP growth this year as a result remains quite cloudy with most forecasts in the range of minus 5%. We at CARE have scenarios ranging from minus 1.5% to minus 5%.

Bank credit growth is still negative, and we do not expect much momentum and growth to industry and services given the prospects for the overall state of the economy. Bond market has received some

impetus with TLTROs but this only helps the exceedingly well rated clients to raise money. But because the risk appetite is very low, the access to capital markets is really limited to top notch names which necessarily do not add to rating revenue. This is so because some of these very large clients are very cost conscious and also happen to be capped clients for us.

We are therefore cautiously optimistic on growth in these segments as we look at FY'21. But we are at the same time quite excited about the overall transformation opportunity at CARE. I will hand this over now to Mradul, who can then coordinate the rest of the session.

Mradul Mishra – Corporate Communications, CARE Ratings [0:12:07]
Sure, sir. Thank you. Dear participants, we'll begin the Q&A session. In case of any queries you are please requested to click on raise your hand option. Thank you. We have a query from the line of Mr. Akshay Jogani.

Akshay Jogani (White Oak Capital Management) [0:13:09]
First of all, congratulations on the new move. Would be very good to know your thoughts on how you're thinking about your role after taking over? So how you think about CARE Ratings from a three year or five year point of view? What are the things that you're going to do? What is it that you plan to do going forward?

Ajay Mahajan, MD & CEO, CARE Ratings [0:13:38]
Yeah Akshay, thank you very much. I think it's a very good question. I took the reins on 15th of April- and am still in early stages. I haven't seen many of my colleagues yet in person simply because of the lockdown. But hopefully we will be working aggressively going forward to create shareholder value.

But to answer your question more specifically, there are broadly three things that I think that we should be doing in the next three to five years. First and foremost, we need to continue to invest in our existing rating processes and rating diligence that we do as a firm. I must tell you that ahead of my joining, the Board has been very focused on these aspects.

And a lot of this work is actually 'momentum' as this has been inherited from the last 1-1.5 years, or maybe even two years of work. And I will be candid. There have been criticisms that have been leveled against the entire rating business. Some of those criticisms are pretty much common since the global financial crisis happened in 2008.

But to come back, I want to focus on three things. The first pertains to the rating processes - transparency, criteria, quality control - a lot of this work is already underway. And we will want to continue to enhance this work with more aggressive use of digital technologies, market and fraud intelligence proactively to avoid loss of reputation under any circumstances.

Now, having said this may be something again will slip through the cracks. But I can assure you that we are committed to reduce these incidences of such mistakes in the future through a lot more wired

technological footprint as opposed to just relying on disclosures and numbers from the relevant companies.

The second point will be that we will want to add new products to our suite. While the new products will not necessarily be completely new innovations in the market, it should suffice to say, that these products would be in areas like securitization, structured credit business, stressed asset rating. Also in the NBFC domain, ability to raise fresh money will be limited and hence in these products we can try and make a more aggressive foray for the short term as well as long term perspective and hence build our prominence in these three products.

The third last thing that I would say would be to diversify the revenue potential of CARE Ratings as a consolidated parent which has four subsidiaries. And how do we consolidate or how do we grow the non rating revenue piece from it being typically 1% to 2% of contribution over a period of time to 30% 40% 50%.

We have to start working aggressively on diversification on non-rating revenue business. And in that respect, we will explore everything from research to data analytics, to basically services and products across the board. We already do a lot of work in risk solutions to our clients in our subsidiary company CARE Risk Solutions Private Limited. And we will want to continue to augment that and hopefully over a period of time gain dominance in supporting our clients make data driven decisions. So that's our broad game plan for the future. I hope I answered your question.

Akshay Jogani (White Oak Capital Management) [0:18:51]
Yeah, sure. That was very helpful. One more follow up on simply on the first point where you said that you want to reduce the incidences of something that slips through the cracks, that would be good to understand if you could, or you could articulate how you're going to do it. I mean, I get the objective; it is still harder to understand the method.

Ajay Mahajan, MD & CEO, CARE Ratings [0:19:19]
We'll be happy to answer that more comprehensively going forward. It will require a lot of work as you can imagine. I've been on board two months. Like I said, some of this work is going on from the past, but some of this specific work will require all of us to sit down together, externalize the need, spend a lot of time with service providers and build a specific intelligence unit internally that can go specifically into more detail.

So I think for now if you can live with this answer, and I'm happy to articulate more detail as we move forward.

Akshay Jogani, (White Oak Capital Management) [0:20:05]
Definitely, definitely.

Ajay Mahajan, MD & CEO, CARE Ratings [0:20:08]
Thank you

Mradul Mishra, Corporate Communications, CARE Ratings [0:20:11]
We have another raise hand option from Mr. Rahul Nandvani from Centrum. Mr. Rahul if you can hear me, can you please go ahead with your query?

Rahul Nandvani (Centrum) [0:20:22
Yes. So, I have a question on the other expense line items so for the standalone basis it's up quite a bit. So Rs 70 million is explained by the trade receivables but from that what is the reason for the increase?

Ajay Mahajan, MD & CEO, CARE Ratings [0:20:40]
Sorry, could you ask the question again Rahul?.

Rahul Nandvani (Centrum) [0:20:46]
On expense line item, that has gone up very sharply by around say Rs 120 million. So, Rs 70 million is explained by the trade receivables. What is the balance sir?

Ajay Mahajan, MD & CEO, CARE Ratings [0:20:46]
Okay, because it was a very specific question. May I request my colleague, Bharat Adnani to answer this question.

Bharat Adnani, CFO, CARE Ratings [0:21:27]
Yeah, good morning. This is Bharat Adnani, Chief Financial Officer of CARE Ratings Limited. I would like to answer this question. In case of other expenses, we had expenditure on account of forensic audit as advised by SEBI and also there was a one-time penalty provided for Rs. 1 crore. We have made a provision against receivables account of COVID. And we have also an expense of RS 4.5 crores. We have to spend some money on other rating process improvement which will impact our other expenditure in this particular financial year.

Rahul Nandvai (Centrum) [0:21:59]
Thanks.

Bharat Adnani, CFO, CARE Ratings [0:22:07]
Hope I've answered the question.

Mradul Mishra, Corporate Communications, CARE Ratings [0:22:16]
We have another raise hand option from Mr. Umang Shah.

Umang Shah (AMSEC) [0:22:29]
Hi, my name is Umang. I had two questions. Sir, could you give me a break up of surveillance income and your one-time rating fees for FY'20?

Ajay Mahajan, MD & CEO, CARE Ratings [0:22:41]
Umang, this is very hard for us to do, because the surveillance numbers are not actually a fixed number. There is an upside and downsides on that number through the year as some companies are able to

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access more debt. There are enhancements in the total debt borrowings from time to time besides initial ratings coming from the same client. So it's very hard to separate the two.

And normally, Umang we don't give this guidance in that much detail because as far as we're concerned, it is one large revenue pool associated with rating. It captures the overall leverage ability of a company and hence we do not focus too much on what is 'initial' or 'surveillance' fee. For us everything is valuable. So kindly allow me to say that you should just look at the total revenue pool as opposed to separation between initial and surveillance.

However, we are very happy to guide you that the total debt we rated last year was in the region of Rs 12.75 lakh crores versus about Rs 19.5 lakh crores the previous year. This is fresh debt rated. And apart from that, it's very hard for us to truly segregate between initial and surveillance fee as the dividing lines are very thin between the two revenue pools.

Umang Shah (AMSEC) [0:24:21]
Okay, sir, yeah thank you sir. And one more question was sir SEBI has relaxed some default recognition guidelines recently. So do you think it will have any impact on MCR and CDQI that we calculate? And also how do you interpret both these levels as far as making decisions at CARE Ratings is concerned?

Ajay Mahajan, MD & CEO, CARE Ratings [0:24:42]
So first and foremost, SEBI's relaxation and default recognition is already incorporated in our policy framework. SEBI left some discretion to us as to how we want to deal with it. And specifically, as regards to default recognition there has been sort of a broad guidance that if the default is only coming because of COVID-19, then we can take a more benign view of it. And I will ask my colleague, Chief Ratings Officer, Arun Kumar to add to this if there is something that I'm missing.

As regards to the MCR is concerned, very clearly the MCR is pointing towards, the overall health of debt or rather health of issuers which is going down in the economy. And that is really not a surprise. The broad GDP growth in the country has been declining for the last three, four years pretty steadily and we came down to 4.2% last year. This year, we are talking of anywhere between like I said in my opening speech, anywhere between minus 1.5% to 10%. The jury's out there.

So if the overall economic growth is going to falter so badly, the ability of organizations to raise more debt will be that much more limited as also their financials will see more deterioration. That would obviously lend itself to more downgrades than upgrades. So MCR has been steadily declining. May I request my colleague Arun to give specific numbers and add to what I just said.

TN Arun Kumar, Executive Director & Chief Ratings Officer [0:26:27]
Thanks, Ajay. As Mr. Ajay mentioned, the leeway given to us in terms of this treatment of COVID related defaults is to have a kind of a reprieve on default recognition. While on this, we cannot have any reprieve in terms of downgrading of ratings as we may have to act on weakening of credit profiles. Hence due to the current pandemic and the resultant impact on various sectors, we do have larger downgrades post the lockdown.

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And due to the current economic scenario in the last two years, in the last year, the modified credit ratio MCR which has come down to around 0.96 for the last year and specifically for investment grade ratings of up to June 15, the ratio stands at around 0.78. So, in terms of CDQI, yes, it is going to have an effect. But in terms of MCR all I mean, the general industry itself has seen higher intensity of downgrades.

Umang Shah (AMSEC) [0:27:50]
Thank you, sir. Thank you so much. I'll join back the queue. Thank you.

Mradul Mishra, Corporate Communications, CARE Ratings [0:27:56[
Thank you. We have a query from Mr. Atman Shah.

Atman Shah [0:28:04]
Yeah. Hi, Ajay. You did mention that you want to focus on creating the shareholder value, right, in your first answer. But you are also aware that right from the IPO times this company, the wealth has not been created, in fact, it's been destroyed. And it's been a very long period of time. It's not be one or two years. I think you've came in 2012 or '13, if I recollect, right. And one of the primary reason for not getting shareholder value has been apart from the market conditions, which keeps going up and down has been the quality of ratings and the management in this company. Right.

So I'm sure you have come here to focus on that and I appreciate that you are going to work on doing that which is a must otherwise the survival of this company will be at stake. We cannot keep getting chances by SEBI and just letting Rs 1 crore or Rs 2 crore fine and get away with it. But one simple way to create value will be by giving back the Rs 400 crore cash lying in the company. That money belongs to the shareholder of this company and the shareholders have suffered a lot, right due to various reason, market condition, management, MD, Chairman, the rating processes etc. So why don't you speak and work on that return the cash by way of dividend, let there be a dividend distribution tax and all that. Let the shareholders pay the tax, we're okay with it.

You come out with a buyback or dividend and give away a substantial portion of the Rs 400 crore cash. You don't need so much money. And for your rating business to improve the processes, you don't need so much money. We have been telling this to the previous managements in the AGMs we attend. They say yeah, yeah, our dividend payout ratio is 80%, 90% right? But you have so much money collected. What is your view on that?

Ajay Mahajan, MD & CEO, CARE Ratings [0:29:55]
Atman, you may be very right in all the questions you raised. Let me take a part of the questions today and maybe we can spend more time as we go along to answer comprehensively about some of the other things you raise. It is probably somewhat not fair I would say on the average to address the past without allowing me enough time to change course and strategy. We are a listed company and have a duty to our shareholders, but allow me to complete what I have say and then we can have a more comprehensive discussion later. I will not avoid any questions.

The simple point is as follows like I said at the outset, perhaps in my speech, as well as in my answer to the first question that came from Akshay Jogani. I said there are three things that we will build. First is that we are totally committed to enhancing transparency and reliability of our ratings. And you have to give a little bit of fair time for us to be able to show you outcomes on that. The second is that, we will add more on the product suite which will call for some more short term investments to be able to reap longer term benefits out of the growth of the revenue pool and diversification of the revenue pool.

And the third is that we want to focus on both organic and inorganic opportunities in the space of data analytics, research, specific industries and sectoral work for our clients. And we have not given it as fair a shot to my mind as we could have in the past. So you have to give us a little bit of time on working on all of these simultaneously rather than ask us to pay out dividends and empty the small corpus of money of about 400 odd crores. We will be effectively using these funds for building growth opportunities, shareholder equity and shareholder return on equity going forward.

So, you have to give the new management time is all I would say. If you have more specific questions on this, we can definitely meet separately after I settle down a little bit more in a month or two's time.

Atman Shah [0:32:25]
Sure. Sure, I appreciate that you want to build non-rating revenue in streams, but the confidence of the shareholders is so low that we fear that some portion of the Rs 400 crore will also get lost in some unrelated diversification or something. So, I just want to make sure that you have to be very sure about your diversification or whatever capital you invest.

Ajay Mahajan [0:33:03]
A good point Atman is that you can see my credentials from the past and by team's credentials as well. Sometimes it requires a little bit more sort of stronger leadership to be able to make these decisions the right way. And I can also tell you that we have a reasonably smart board and we will not make silly acquisitions or spend the money or squander the money. We are protecting the money of the shareholders very carefully. When the risk appetite on liquid funds itself was low, we took the money out and put it only with the best of the banks in the market. I don't want to specifically name any banks, but rest assured that we are watching even liquid funds risk sitting in CARE.

So you need to have a little more confidence and faith in us. I can't expect you to only follow my words, follow our actions and then we will talk some more.

Atman Shah [0:34:00]
Okay, let's see.

Ajay Mahajan, MD & CEO Ratings [0:34:02]
Yeah. Yeah.

Mradul Mishra, Corporate Communications, CARE Ratings [0:34:04]
Thank you, Mr. Shah. We have other query from Mr. Samarth Singh. Yeah, Mr. Samarth, are you able to hear me?

Samarth Singh (TPF Capital) [0:34:42]
Yes. Can you hear me?

Mradul Mishra [0:34:43]
Yeah, yeah, sure. Please go ahead.

Samarth Singh (TPF Capital) [0:34:46]
Yeah. Hi Ajay, this is Samarth Sigh from TPF Capital. Congrats on the position. You've taken up this role in this company during a very difficult time. What is it that you saw in this company that you decided that this is a venture worth taking up?

Ajay Mahajan, MD & CEO, CARE Ratings [0:35:10]
Right. It's a very good question. I would say, I'll put it this way that I was at a stage in my life where I was looking for an entrepreneurial opportunity. And I have worked in banks for the last several decades. I took the risk of leaving Bank of America where I was well ensconced in the top 200 employees in the world in a population of 55,000 people. I left a multi-billion dollar capitalized bank in India to work for a $47 million capitalized bank called Yes Bank in 2004.

I have done that multiple entrepreneurial assignments including the one in UBS, which was a start from scratch foreign bank set up in India. And this is really not about so much about me, but you want to understand how the leadership will work going forward. So I can assure you that there has been a lot of thought that has gone into my taking this assignment. Obviously, I need all the support going forward from my teams and from the board, which has been very forthcoming. And I have no reason to doubt it.

I took this assignment because I truly believe that we can turn CARE around completely on multiple things. It's not that everything is wrong here. And it's also not that everything is right here. There are a bunch of things that we do very well. Maybe we did not make some very good sort of leadership related decisions in the past. I don't really want to comment on that Samarth.

I like challenges and in a way my resume is a little testimony towards what I'm just saying. And this is a very challenging opportunity. And somehow I like the challenge. I like to take it with both my hands and we'll work very hard. I hope that with the support of the board, shareholders and the team, we can turn this company around into a very successful organization where no shareholder has this type of complaint that they have seen shareholder value destruction.

Samarth Singh (TPF Capital) [0:37:53]
Thanks for that Ajay. My second question was, you've laid out your long term vision on the three things that you're focusing on. What about the short term? I know this may be unfair, you've been here for a month, a little over a month during a lockdown. But over the short term, what are the things you're focusing on over the next year? And what should we as shareholders be looking at to see whether we are moving in the right direction or not?

Ajay Mahajan, MD & CEO, CARE Ratings [0:38:23]
Given the economic backdrop there is no doubt that this year in all fairness could work out even more challenging from a purely financial perspective over last year. And this is no forward guidance, but it doesn't take much to guess this from the way the GDP growth is being projected, and the inability of even the Reserve Bank of India to be able to get all banks to lend against the TLTROs. So that at least tells you that there is massive aversion of risk appetite at this juncture. And therefore, the comments of mine will be more qualitative than quantitative.

Qualitatively, the short term requires a massive focus on building the lost or somewhat lost credibility of the brand. So, my focus will be building brand. How do we build that brand? We will build that brand back not in a jiffy but over the long term. But we have to start taking short term steps.

And the short term steps are like I mentioned a lot of internal critique and beefing up of institutional processes across the board to be able to capture real time information wherever possible using data technologies in very detailed manner. And I can't share more than this at this moment because I really need to get to work in physical, not just work from home, because that works only up to a point as far as some serious transformative changes are required.

So, I will work along with my team on resurrecting the brand. And that will only happen if the quality of our work improves substantially so as to reduce incidences of wrongly rated companies and taking their word for it. A lot of secondary market sources of data, market intelligence, fraud protection and related technological advances will need to be made. And that is my immediate focus apart from changing many other things around processes internally to be able to make things more robust and build back the confidence in the market.

Samarth Singh (TPF Capital) [0:40:58]
Thank you. And my one last question, then I'll get back in the queue. Our revenues for the year are similar to our revenues that we had in 2014. And our expenses are double of what they were in 2014. You know, a smaller, a similar smaller listed credit rating agency, their revenues for the year are similar to what they were in 2015, but the expenses are more or less the same as they were in 2015. So how is it that they are able to manage their expenses over a period of time and we are not?

Ajay Mahajan, MD & CEO, CARE Ratings [0:41:42]
It's a good question Samarth. And I must confess that I haven't necessarily drawn five year comparisons yet. I will simply say this that at this moment of time, when I look at the total or the average remuneration that CARE has been able to pay, and look at the market benchmark I don't think on the average, we are paying people excessively. Having said this, as you rightly said, if two-thirds of our expenses or more are likely to be human resources related expenses, then generally speaking, people do expect market related benchmark salaries to be paid to them as you will lose talent to the street. I can't answer for the others as to why they are able to peg their expenses. They have either managed their headcount better than us or they have managed to use technology.

So allow me some more time to think through some of this. And like I said, as we get more technologically better, we may or may not be the as much need for large sets of teams. Maybe we can

economize over a period of time as technology gives us more impetus in our processes. But it's just a prospective statement. It's not something I can commit to today. I have to see how we can evaluate the use of technologies more effectively to reduce if not completely eliminate human judgment up to a certain level in rating companies.

Samarth Singh (TPF Capital) [0:43:40]
Okay, thanks. One follow on, there was supposed to be a senior management compensation increase. Is that still happening? Has that happened? Is it still in the works?

Ajay Mahajan - MD & CEO, CARE Ratings [0:43:52[
It is still in the works. We require some more time. Given the circumstances of lockdown getting the stat audit done appropriately in time challenged us from taking up this issue, but we will address this as we go along for only a very select set of senior management.

Samarth Singh – TPF Capital[0:44:13]
Okay, thanks so much.

Amit Mantri (2point2 Capital) [0:47:04]
Okay.. So I had two questions. Sir, the first question is that CARE used to publish this default and transition study some years back. Is it still published? Or if not, what is the new document from which we can understand the movement of default that has been across investment grades.

Ajay Mahajan – MD & CEO, CARE Ratings [0:47:24]
Yeah. So we publish the studies and to the best of my knowledge some of that at least for FY'20 on the MCR and CDQI are both on the on the website as well, but if you are looking for very specific information for this quarter, I would request my colleague Arun to comment on it.

TN Arun Kumar – Executive Director & Chief Ratings Officer, CARE Ratings [0:47:51]
Yeah, we do publish defaults ratios and statistics. Actually, this year has been a small change in the SEBI regulations where the method of calculation has changed. And there is a consolidated default statistics which is published, which is available in our website and under regulatory statistics section.

Amit Mantri (2Point2 Capital) [0:48:13]
Sure, sir. I'll check that, just wanted the number if you have that of defaults like companies moving from investment grade to non-investment grade this year as a percentage as compared to last year.

TN Arun Kumar – ED & Chief Ratings Officer, CARE Ratings [0:48:27]
Okay, I will just tell you,. What you mean is transition matrix, right?

Amit Mantri (2Point2 Capital) [0:48:28]
Right.

TN Arun Kumar [0:48:35]
Yeah.

Amit Mantri [0:48:35]
Okay fine, I can check that also. Not a problem.

TN Arun Kumar [0:48:39]
Yeah. In terms of operation actually transition matrix is also published in the same section, you can check it there.

Amit Mantri [0:48:44]
Sure. I will check that and one more question that I had was Ajay sir if you could talk about business, so you've been on the other side, you've been on the side of banks who would get credit rating business, would give credit rating business to various agencies out there. So when you're looking at Business Development for CARE Ratings going forward or what are the top three factors that are the most important like how is it that CARE has been able to gain such a high market share over the last so many years? And will those methods still work going forward? So, if you could talk about business development and how you understand it, it would be really helpful.

Ajay Mahajan – MD & CEO, CARE Ratings [0:49:21]
I believe is that business development is a very important area for us to focus on. The rating revenue pool for India unfortunately due to some accident or the other that keeps happening after every few years, has not really moved from a broad thousand crore number. And even if you are a reasonable player at 20%, 30%, there is only that much upside to revenue. But even in order to maintain that revenue, there is a lot of work that we need to do due to aggressive competition from seven rating agencies in the business and also the resulting pricing pressures from this competition.

In order to make sure that investors and issuers see value, we have to therefore work very hard. And like I said we have already done a lot of work under the aegis of the Board even before I joined and that work will continue and will perpetuate further. So first and foremost if the product backbone improves and gets stronger, it gets that much easier with clients to be able to tell them why they need us as opposed to just making pitches, right.

And I think these two things work hand in hand, product capability and business development. And like I said, we will also add new product capabilities. Mehul Pandya runs it all India; and I will be also joining him to work hard on growing our relationships even further from where we have.

So it's a bit of both product capability as well as improvement in our overall branding and marketing efforts that matter. And typically the client base that borrows the most is where CARE has built a lot of strength. And, I have to salute the past management and MDs – notwithstanding some of the other criticisms that go there. But let's also recognize the good work that has been done in the area of BFSI, the area of infrastructure, and in several other sectors where we hold as much as 30% to 50% market share.

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So we will continue to grow and focus on those areas as well. A lot of good things have got done in the last many years and we will continue to remain focused to win more business in the marketplace.

Amit Mantri [0:52:02]
Okay, thank you so much.

Mradul Mishra [0:52:09]
We'll take the next query from Mr. Saral Bhansali.

Saral Bhansali (ENAM Securities) [0:53:11]
Mr. Mradul can you hear me?

Mradul Mishra [0:53:14]
Yes, I can sir. Please go ahead.

Saral Bhansali (ENAM Securities) [0:53:18]
Okay. Wonderful. So firstly would like to appreciate your very candid and straightforward style of communication with you clearly identifying all the problems that need to be fixed. My question -- my questions are primarily two, one is, we have credible information to suggest that we've lost meaningful share in the corporate bond market in the last one year. In FY'20, we lost meaningfully there. So of course, BFSI being a strength in the past, BFSI, PSU those segments hurting is one factor. But we are far from the leadership positions so what can be done there to improve our position?

Ajay Mahajan – MD & CEO, CARE Ratings [0:54:04]
There is a lot that can be done. I don't have the numbers specifically to address the point that you raised as to how much market share we have lost and some of these studies are somewhat internal to a lot of analysts, so it's very hard for me to comment on the percentages. The fact is that in very good markets, maybe an A rated company has a chance but in tough markets, even a double A struggles. So we are aware of the challenges that this economy is going to pose for companies to raise money from the bond market unless those credits are seen to be creme de la crème. It is not going to be possible to see an immediate revival in corporate bond rating volume as well as perhaps profitability. Only the best are able to raise money in these difficult times. And those best also are very cost conscious and typically enforce caps at play.

Having said that is there more work that this country needs to do? I have been from 1990 (when I joined banking) onwards on various panels. And it is not about me, this is about CARE. I can tell you that there's a lot of work that has been done in the corporate bond space in the past. But you know, for some strange reason - some of those reasons are known to all of us, this market just does not grow beyond the point. It's also has a very fragmented investor base with multiple regulators prescribing different rating cut offs under which they cannot participate in the bond market and so on and so forth.

So essentially, the top rated corporates and public sector undertakings really have it in them to be able to access bond markets in India. That's the reality. Now what can we do in that space? In these constraints, they will obviously want to push our market share up. So that's point number one. Point

number two is that you will see CARE take a pivotal sort of role in development of bond markets working closely with RBI, CII, SEBI, and so on so forth going forward.

We will do our best to be able to work not selfishly for CARE alone, but for the marketplace. Because if the pie grows, so can all of us grow then rather than keep competing in the same pie and continue to participate in the race to the bottom on pricing. All of us have a duty towards building of markets. And I assure you that a lot of our efforts will be focused on growing these markets, taking impediments out wherever possible, working with regulators, giving them data, timely data from time to time, although they have access to data of their own, but we will share more details of our portfolios.

And collectively as CRAs we also make presentations and representations to regulators to see how we can develop this market further, what we can do on risk weights, what we can do on more aggressive participation by investors, and a lot of that also has to do with defaults and some of that bad news, right, that keeps coming.

So while all of this is well meaning from the heart conversation, we must realize that risk appetite is not expected to come back in a V shaped recovery format this year. So we will work on all of this, but we must have a three to five year and not a one year timeframe to see results out of the efforts that I've just mentioned.

Ajay Mahajan, MD & CEO, CARE Ratings [0:59:52]
Mradul, could you please unmute Madan, and may I request if Madan is on the line then he could comment on the size of the debt we rated and I'm hoping that Saral can hear. And even if he can't hear, some of the other investors who can hear can actually get the benefit of some statistics that Madan wants to share.

Madan Sabnavis – Chief Economist, CARE Ratings [1:00:28]
Okay. Now in terms of the debt market, I think there was a question raised about us losing market share. Now, just to put it in perspective, I think as our presentation shows that we have rated around RS 6.3 lakh crores of debt and if you see the amount which has been raised during the year was RS 6.7 lakh crores, it means we haven't really done that badly. Of course, we admit that what we rate may not necessarily be raised this particular year. So, in fact, if you look at last year, we had rated around Rs 8 lakh crores of debt so that obviously some part of that spillover would have gone into that RS 6.7 lakh crores.

So what I would tend to believe is that in terms of bond market rating, I think CARE has been doing fairly well. Well, you'll maybe having certain information about certain companies which may not have been rated by us but if you just look at the overall macro numbers, and compare 6.7 and 6.3, you will admit that it's not really a major loss of market share as such, when you're talking of debt market.

I think the interesting part is, and as I think the reason why Ajay has been focusing on the banking sector is, because that's where we have seen a sharp decline in terms of our new volumes of debt rated,

where the bank loan ratings have really come down sharply. And that's mainly because of the fact that both bank credit to manufacturing as well as services had slowed.

Ajay Mahajan [1:01:59]
Thank you, Madan.

Mradul Mishra [1:01:56]
Sir, we have a raise hand option from Anup Sharma. Yeah, Mr. Sharma can you please start with your query?

Anuj Sharma (M3 Investments) [1:02:07]
Yeah. Hi, Ajay. So, I just wanted to know every new management would like to have a preferred team for the organization. So, in your assessment what percentage of the team building is complete and how much there is more to go or you know, the current existing setup is fine for you to take it forward? Thank you.

Ajay Mahajan, MD & CEO, CARE Ratings [1:02:29]
My own style, Anup is to work with the people and learn from them in a different industry whenever you make an industry switch. So I have no reason at this moment of time, having worked here for eight weeks to feel that we lack capability in any area. Yes, there are improvements always possible. And yes, there are a lot of technological strides we need to make in our assessments and change our processes for the better. That is true for any team, it has less to do with people, it has more to do with the advent of technologies in improving our efficiencies and productivities over a period of time, but there is no reason for me to doubt the capabilities of my team.

And, you know, whatever I've seen till now works exceedingly well for me. That however doesn't obviously take away from the fact that if there are some gaps seen in skills we may want to buttress the teams with acquire god quality talent from the marketplace, but whatever I've seen till now works exceedingly well.

Anuj Sharma (M3 Investments) [1:03:34]
All right. And another question is, we had initially an external committee headed by Mr. Malegam, then we shifted to having him as a consultant, what's the way forward in terms of the -- I know it's, it's early days, but how do you see the rating committee being formulated?

Ajay Mahajan – MD & CEO, CARE Ratings [1:03:56]
So, this is a very specific matter on which if you allow me I will reserve my final comment on this for a little while as this is under the active consideration of both management and the board.

Anup Sharma [1:04:11]
All right. Thank you, then.

Ajay Mahajan [1:04:10]
Yes, thank you.

Mradul Mishra [1:04:17]
Sir, there are no more queries coming in probably we can conclude sir with your closing remarks.

Ajay Mahajan – MD & CEO, CARE Ratings [1:04:25]
Well, so I have only this to say to all our esteemed investors. Our company is nothing if the investors don't repose their faith in the management. And on behalf of my entire team, I stand before you today to tell you that we have only one singular purpose in the way this company works, which is that we want to build one of the best rating agencies in the country. Perhaps in part we would like to do whatever we can in terms of building international business without squandering any resources as highlighted as a concern by some investors.

We will not squander resources. We will be very purposeful. Whatever we do will be very related to the three areas I talked about new products, new skills, technological innovation, So, I would request you to have faith in the team. And we will turn for the better for sure, and we will keep you posted. We will be very transparent.

And this will be our style going forward. I can assure you and we will be always available for any specific meeting that you would need. At times we may be caught up in our internal stuff in terms of doing all of what I promised you today. You may have to bear with us if we can't meet specific time of yours. But we will want to build your faith in our sort of motives, strategies going forward, and will keep you posted. And we need your support as we move forward.

Mradul Mishra, Corporate Communications, CARE Ratings [1:06:17]
Thank you, sir. With this, dear participant we'll be closing this session. Thank you.

Ajay Mahajan – MD & CEO, CARE Ratings [1:06:20]
Thank you all.