



ICRA Limited

May 26, 2023

**BSE Limited**  
Phiroze Jeejeebhoy Towers  
Dalal Street  
Mumbai 400 001, India  
**Scrip Code: 532835**

**National Stock Exchange of India Limited**  
Exchange Plaza,  
Plot no. C/1, G Block  
Bandra-Kurla Complex  
Bandra (East)  
Mumbai - 400 051, India  
**Symbol: ICRA**

Dear Sir/Madam,

**Sub: Disclosure under Regulation 30 of the Securities and Exchange Board of India  
(Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcript of  
earnings conference call**

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached transcript of the earnings call held on May 25, 2023. We have uploaded the transcript on our website and the same can be accessed through the below URL:

<https://www.icra.in/InvestorRelation/ShowAnalystPresentationReport/?Id=54&Title=Investor%20Call%20Transcript&Report=ICRA%20Q4FY23%20IR%20Call%20Transcript.pdf>

Kindly take the above on record.

Regards,

Sincerely,

(S. Shakeb Rahman)  
Company Secretary & Compliance Officer

Encl.: As above

**Post-Results Investors Conference Call  
ICRA Limited**

Transcript of the Investors Relations Conference Call for  
**“FY2023 Results”**

**Management:**

Mr. Ramnath Krishnan, MD & Group CEO  
Mr. Venkatesh Viswanathan, Group CFO  
Mr. L. Shivakumar, EVP - Chief Business Officer  
Mr. K Ravichandran, Chief Ratings Officer  
Ms. Sushmita Ghatak, MD & CEO, ICRA Analytics

**Day & Date:** Thursday, 25th May 2023

**Time:** 4:30 PM (IST)



**Moderator:**

Ladies and gentlemen, good day and welcome to the ICRA Limited FY2023 Post-Results Conference call hosted by ICRA.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Joining us today from the Management side, we have Mr. Ramnath Krishnan – Managing Director and Group CEO, ICRA Limited, Mr. Venkatesh, Vishwanathan – Group Chief Financial Officer, L Shivakumar – Executive Vice President (Business Development and Chief Business Officer), Mr. K Ravichandran – Executive Vice President & Chief Rating Officer, and Ms. Sushmita Ghatak – MD & CEO, ICRA Analytics to discuss the performance of the company during the call, followed by a Q&A session.

Before we begin today's conference call, I would like to remind you that some of the statements made in today's conference call may be forward-looking in nature and may involve some risks and uncertainties. Please refer to Slide #25 of "Investor Presentation" for detailed disclaimer. ICRA or any of its subsidiaries or the directors, officers or employees of ICRA or its subsidiaries shall have no liability whatsoever for any loss howsoever arising from any forward-looking statement or use of the "Investor Presentation" or its contents, or otherwise arising in connection with this Conference Call.

Now I would like to hand over the call to Mr. Ramnath Krishnan – Managing Director & Group CEO, ICRA Limited, to commence the proceedings. Thank you and over to you, Sir.

**Ramnath Krishnan:**

Thank you, operator, and good afternoon everyone. Very warm welcome to today's Analyst/Investor Call.

Let me provide you with broad highlights of our "Financial Performance" for the year that has just gone by Year Ended March '23:

I'm pleased to say ICRA as a Group has delivered strong results in the last year. For the first time in the history of the group, the top line has crossed INR 4 billion. The Rating business delivered a growth of 14% year-on-year and the non-Rating business housed in our subsidiary, ICRA Analytics, delivered a growth of 23% year-on-year. Overall, top line growth was 18%.

Despite significant investment in our people, technology and related infrastructure, we maintained our operating margins and that resulted in strong growth in our PAT by 20%. All this was naturally possible on the back of significant growth in credit offtake in the Rating business and strong growth in our Knowledge Services business in ICRA Analytics.

Finally, before I provide some perspectives on our “Strategic Imperatives and Outlook” for FY24, I'm pleased to advise that the board has recommended subject to shareholders’ approval, a higher dividend of Rs. 40 per share and additionally a one-time special dividend of Rs. 90 per share.

**Now coming to our Strategic Imperatives:**

Our endeavor will be to deliver better operating margins consistently by improving our yields on our Products and Services and by bringing in better operating efficiencies through process reengineering and technology. We acknowledge that the Rating business is a highly regulated business and our ability to grow in this space will be dictated by the regulatory landscape and of course, the level of economic activity. Our endeavor, therefore, will be to increase our Domestic Analytics business more significantly, while continuing to work on the Rating business. At the moment, the pie is split 57:43 between the Rating and the Analytics businesses and this is better than where we were a year earlier. So, directionally we are well-positioned.

People are core to our strategy and we will continue to invest in our talent with a view to grooming them for the future.

We will continue to invest in technology significantly and expect technology to be a key pillar to drive growth and efficiency in all our businesses. You may

recall that we hired a Chief Technology Officer last year to lead this transformation.

**Outlook:**

On the near-term outlook, we have forecasted a GDP growth of 6% in FY24 and we expect interest rates to be largely stable, inflation to moderate, credit offtake to be buoyant and a number of risk Analytics opportunities to emerge in the BFSI space.

Further, it is expected that the Government of India's planned spend on infrastructure of INR 10.5 trillion will have a material effect in the coming financial year.

**In Summary:**

We remain sanguine about the prospects for ICRA Group.

Finally, in terms of flow of events, we will cover the Group Financial Performance, Overview of our Rating and the non-Rating businesses in that order and then open it up for Q&A.

I will now hand you over to Mr. Venkatesh Viswanathan – our Group CFO, to talk you through the FY23 Performance. Thank you. Over to you Venkat.

**Venkatesh Viswanathan:** Thank you, Ram. Hello everyone.

I will be covering the “Financial Section of the Presentation” which is from Slide #12 to Slide #13.

Our consolidated revenue from operations increased 16% to Rs. 109.1 crore for the 4th Quarter ended March 31, 2023, driven by strong growth from Rating and Analytics. The growth in revenue in Q4 reflects the continued demand for bank credit, market issuances and securitization as the domestic market continued to gain from the prevailing high global interest rates.

The Analytics growth was largely on account of Knowledge Services due to the increase in requirements for analytical support.

We also saw an increase in expense over the previous year. This was largely on account of true-up for incentives based on performance merit increase in previous year where we had to do a one-time correction based on benchmarking and role adds in the Knowledge Services linked to revenue.

Profit after tax increased by 15% to Rs. 38.6 crores from Rs. 33.7 crores for the corresponding quarter of the previous year.

**Now I'm covering the Full Year 2023 numbers:**

Consolidated revenue from operations increased 18% to Rs. 403 crores for the year ended March 31, 2023. Rating grew by 14% year-on-year, whereas Analytics had a good run with the strong growth of 23%. The overall growth in bond issuances, bank credit and securitization market reflected in the robust performance for the Rating business.

ICRA Analytics performance for the year was led by strong growth in Knowledge Services where we saw good traction in ESG Analytics. We also saw an increased demand for Research and Analytics from both domestic and international clients. Market data and banking also supported the growth through client and product additions.

Overall expenses also we saw a reasonable amount of growth over the previous year. Expense growth in the current year was due to the merit increase in the previous year. I did explain that this was on account of a one-time compensation benchmark increase that we did last year. And also, on account of role adds in Knowledge Services which is linked to revenue. We also did see some cost coming up on account of investments in technology.

Profits after tax increased by 20% to Rs. 137 crores from Rs. 114 crores for the corresponding previous year

We declared a dividend of Rs. 130 per share. We will continue to review capital allocation and reward our shareholders on an ongoing basis.

This is the end of the financial part of the Presentation. And I now request L. Shivakumar, who heads business development for the rating to take over the rating specific details.

**L. Shivakumar:**

Thank you, Venkat. Good afternoon everyone. I'm Shivakumar. I'll talk about the Rating business in two parts. The business environment we saw in FY23 and the outlook for the same in FY24.

**Talking about the business environment first:**

FY23 was a good year for the domestic credit market. Despite the global headwinds on account of the geopolitical crisis due to the Russia-Ukraine war that broke out in February '22.

Rising inflation led to higher interest rates globally, making the domestic funding options more competitive. As rates in India too started rising, bond yields rose first, leaving the bank credit more competitive. Bank credit hence saw a decadal high in FY23, as demand for credit to fund high working capital requirements rose significantly. The differential rate transmission continued for most of the first half of FY23 but as the bank rates started increasing and converging with the bond yields, bond issuances picked up strongly in the second half of the year. Overall, bank credit outstanding grew at (+15%) year-on-year, and bond issuances grew at (+28%) year-on-year. With increasing bank credit, banks issued more bonds to shore up their capital and raise money through certificates of deposits.

Mutual funds preferred certificates of deposits over commercial papers leading to flat commercial paper outstanding at the end of the year.

Securitization volumes too grew significantly as the NBFCs and HFCs grew the book improved collection efficiencies, improved investor confidence, which had dipped during the pandemic. Need for cheaper sources of funds as

prevailing rates were high throughout the year and the need for alternate funding sources during times of tighter liquidity gave a boost to securitization. Securitization also saw an increase in the number of transactions with several small NBFCs accessing the market through this route. As a result of all these drivers, namely increase in bank credit, higher bond issuances and surge in securitization volume, the rated volume for the industry grew well in FY23 and in Q4 specifically.

ICRAs growth in revenue for Q4 as well as FY23 reflect the growth in the domestic credit market.

**I'll now move on to the outlook for the Rating business:**

We do not give future guidance. I would, however, give some idea on broader market prospects for the Rating business. The Government in the Union budget has placed an enhanced outlay for infrastructure. We expect significant investments in road, EV infrastructure, real estate and other key sub-sectors. Domestic demand, supported by a projected GDP growth of 6%, will support corporate growth, leading to heightened working capital requirements. NBFC/HFCs will continue to grow their book at a healthy pace. These in turn are expected to support the growth in bank credit as well as bond issuances. Bank credit is expected to moderate compared with the higher base of last year, but still grow at a significant rate.

Bond issuances too are expected to grow despite fewer issuances from a few large issuers and banks as rates are likely to stabilize. Given our strong positioning in the market, we expect to garner a commensurate share of the market opportunity.

With this I conclude my remarks and would like to hand you over to Ravichandran who is our Chief Rating Officer.

**K. Ravichandran:**

Thanks Shiv. Good afternoon to all the participants. Over the next few minutes, I'll be giving a "Performance Update on Rating Operations".



We finished the year 20 to 23 on a high note with all time high rating accuracy metric that is average default position or ADP. For those of you who are not familiar with this metric, let me take a few seconds to explain this metric. For a credit rating agency, getting the rating right is a key expectation from the market participants and the regulators. In this regard, CRA encountered two kinds of analytical errors, namely type-1 error and type-2 error. Type-1 error happens when you assign an investment grade rating to an entity and that entity goes on to default in the next few years. Type-2 error happens when you assign a conservative rating and that entity displays much better stability or improvement in credit fundamentals in the subsequent period. Controlling both these errors in the short as well as long run would be key imperative for any CRA to be trusted in the debt markets. ADP captures both these errors as it tries to pin down the average position of the defaulted credits. We ended the year with an ADP of 93.3% as compared to 89.5% as of FY22 end and long period average of 76%. The higher the ADP, the more accurate our Rating collectively.

There are also other rating accuracy metrics, namely – Cumulative Default Rate and Rating Stability which have also seen significant year-on-year improvement. You can refer to our website under rating performance for granular details.

I believe these improvements are on account of a confluence of few developments, namely – tightening of analytical rigor at our end over the last few years, improved operating environment for the rated credits and shift in the composition of the portfolio towards a higher share of investment grade. It's our endeavor to maintain such high rating accuracy levels in the coming years.

Moving to other performance trends in FY23, the proportion of entities whose ratings were reaffirmed or remained unchanged normalized to about 80% aligned with the long period average. However, as in Financial Year '22, the proportion of entities whose ratings were upgraded in FY23 remained elevated at about 15% in relation to the long period average of 11%. The

proportion of rating downgrades had already reduced to 6% in FY22 as business fundamentals rebounded, both economic growth slowdown and the COVID induced credit pressures seen in FY20 and FY21. The proportion of rating downgrades remained low at about 5% in FY23 as the recovery momentum continued to hold steady overall, even as supply chain concerns, cost inflation, interest rate hardening and currency depreciation pose challenges.

On the Research front, the Research Reports of ICRA continue to be well-appreciated by various stakeholders for their analytical content. ICRA published multiple thematic reports across sectors, covering relevant events and their impact on the industry, which were particularly appreciated by the clients. These reports helped in positioning ICRA as a thought leader. ICRA continues to actively engage with the investor community by regularly holding interactive sessions on macroeconomy and industries through its webinar series, thereby building a strong market franchise.

With these remarks, let me hand over the floor to Sushmita, who is the MD and CEO of ICRA Analytics Limited.

**Sushmita Ghatak:**

Thank you, Ravi. Good evening everybody, and I shall take this opportunity to walk you through Slide #18, which is a representation of our non-Rating business which is housed in ICRA Analytics. I will also touch upon what has worked well for us in this year and in iteration of our strength as we continue to go with our business.

On the Slide, you would see that there are three Knowledge Services, Market Data and Risk Management that is written and each represents a business vertical for us and I would go sequentially with each of them.

Starting with Knowledge Services, which is our largest vertical and that's essentially our outsourcing or our knowledge process outsourcing business. In this we serve our anchor client primarily in the area of financial analysis and interpretation. It is done by the excellent command that we have over IFRS and GAAP accounting principles and this expertise that we have extends

across all global entities at across all sectors. It's really sector agnostic and we also support in the area of ESG Analytics and in the area of structured finance, we are strong in the area of modeling using Python as well as other software platforms as well as data management. So, essentially that is our core expertise and our focus has been that we've continuously upskilled ourselves and we have been proactive so that we are always able to offer services that are relevant to our anchor client and by doing this, not only do we serve them, but we've continuously moved up the value spectrum, which has enabled us to increase our rates and also keep the people engaged.

Domain service and service quality are truly our USP. We've never missed a single SLA in our history of 20 years and we hope to continue with our strategy of learning new skill sets, which includes technology and also continuing to improve productivity so that we remain competitive. And Needless to say, that in this year the USD-INR depreciation definitely did add a fillip to the numbers of Knowledge Services.

Moving away from our global clients to the domestic market:

As we heard Ram say in his opening remarks that the domestic business is a focus area for us and we had two objectives in mind:

- The first one was to improve profitability.
- The second was to really remain in our area of core competence.

So, to ensure that we meet this strategy over the last 2-3 years, we have exited multiple unprofitable areas and this has of course, helped us become more expert in the areas that we are good at and obviously improve our profitability. So, the two conscious areas, the two areas where we've kind of consciously remained are what you see on the right-hand side of the slide, which is Market Data as well as Risk Management. And our endeavor is to make them grow with more product addition, better outreach and definitely in terms of higher automation.

To be a bit more specific about these two verticals, let me first talk about Market Data and that's our second largest area of business:

We are a provider of content and analytics in the mutual fund and fixed income space to a multitude of market participants in India. Our mutual fund database is more than 20 years old. It is extremely comprehensive and we are a preferred vendor in the market for this data and this is sold through on-premise product, it is sold through SaaS cloud hosted solutions, it is sold as research report, fact sheet, etc., and also through API calls. We also disseminate mutual fund ranking for all the active MF Scheme in India through our proprietary methodology. We are the trusted provider of fixed income valuation to mutual funds to the PMS industry and to other market participants. And as we are all aware, this is an extremely market-critical role that needs to be done on a daily basis for all the outstanding fixed-income instruments that are held by our clients.

Other than this, we've also have an overlay of analytics layer on the work that we do and we sell multi-asset workflow and analytical solutions for specific segments like Independent Financial Advisors, Corporate Treasuries and these are essentially sold on a pay-as-you-go model. Our website is e-commerce enabled and one can purchase it from there and we also kind of do direct sale. Our domain expertise in this area, along with our focus on quality and timely delivery has helped us to grow our business.

And the other thing that we've done is we keep rolling out tech-enabled contemporary solutions that keeps addressing the regulatory requirements and other requirements that might emerge in the market.

The last and the third business vertical that we have is Risk Management and what we do here is we provide internal rating models for banks and NBFCs. Apart from that, we provide expected credit loss solutions and we have our clients across many NBFCs. We provide industry risk score and counterparty risk assessment. On counterparty risk assessment is essentially around SME and vendor grading. What we do differently is we use alternate data and

passed it through an automated platform, so that helps us to scale up quickly. That also helps us in efficiency. The one thing in this business that has worked well for us is the robustness of our model, which is across different portfolios and we keep validating it periodically. And we've been able to grow our business from existing clients and acquire new clients based on the strength of our offerings and our domain expertise.

To conclude, moving away from the three businesses and taking a more holistic view at the company level, which is ICRA Analytics, we are focused on process orientation, people development and technology assimilation as the work that we do is extremely time sensitive, quality sensitive. It has to be very data secure and we have different certifications. We are "Great Place to Work" certified ISO 9001, ISO 27,001 and these are a testimony to the kind of rigor that we follow at our end.

ICRA Analytics has also been a recipient of the "STPI Awards" in our particular cohort and the last award that we won was in FY22, this was for "Growth of Business as well as for "Gender Ratio".

We expect that on a continued basis, our domain and our functional expertise across multiple businesses, the strong client relationships that we've been able to develop and hold on to and as we continue to focus on the enablers of people, process and technology should definitely stand us in good stead.

With that, I would just roll this up and thank you for your time and I will hand it back to the operator for the next section. Thank you so much.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

**Rajiv Mehta:**

The first question is on the Rating business. If you can elaborate on the revenue mix movement in FY23 versus FY22 in terms of what was the share of initial rating fee and surveillance fee, how that is moved in FY23 and if you can also comment on trends in our pricing or average revenue per mandate

throughout the year. And also kind of talk about the competitive dynamics because one of your closer competitor has come back and they're also growing at a pretty much similar rate now.

**Venkatesh Viswanathan:** Just quickly, the first two questions, one is on the mix and the other is the pricing per mandate. I don't think we put these on the public domain and hence it won't be appropriate for us to comment in terms of the mix. But if you want to generically look at the industry level, it varies between 40% to 70%, that's a range I can give to you on the mix that we are talking about. Coming back to the mandates these are all several different assignments you have. Again, a mix of it, you have a different client set. Again, coming back and putting a number may not be right and at this forum at least when we don't disclose for competitive reasons also. Now, as regards your the third part I would ask Shiv to pick up on the numbers of the competitive landscape.

**L. Shivakumar:** See, I will put it this way. As I had mentioned in my remarks, last year was a good year supported by a good growth in the volume of debt, both for bank credit that is the bank loan ratings as well as the bond issuances. See overall I would put it this way. There are three to four key players as you all are well aware, there are three listed entities on which you can get a lot more data. Competitive intensity is high. It continues to be so, but what is important to note as far as FY23 is concerned that it was the first year post the pandemic where we had growth happening in terms of credit in almost all key segments that is BFSI segment, the infra segment and even the non-infra corporate segment. Now within that we have made good gains which is what is reflected in our performance. So, that's what I would say in terms of our competitive strength and we would like to emphasize that we put in place the right technology as Ram was mentioning, we have looked at our people and we have the right strategy and approach in place in terms of approaching the market and all this has helped us in gaining significant share in the relevant segments.

**Rajiv Mehta:** But on the first two questions that I had asked, if you can comment directionally for us whether the movement have been positive in terms of the share of IRF and in terms of pricing, just a qualitative comment.

**Venkatesh Viswanathan:** Qualitatively, what we can say is if you look at the growth over the last four to five quarters, there's been a fair amount of growth and it has been positive for both IRF as well as surveillance.

**Ramnath Krishnan:** And it has been consistent as well.

**Rajiv Mehta:** And on the margin outlook while Sir said that we are looking, our endeavor will be to improve margins going ahead. So, while in the second half of FY23, our margins did not improve despite we were growing at an accelerated rate. And we spoke about certain business critical investments for employees and in tech but so are these are these investments some more recurring in nature and thus margin improvement may not be very significant even if the revenue growth would continue in the next year? What will be the key drivers of margin expansion that we aspire in the next year?

**Ramnath Krishnan:** Last year, in fact, as I said, despite the fact that we had made a significant investments in our human capital and infrastructure including technology we managed to maintain the margins and that naturally came through significant improvement in our overall revenues. Now the people related cost we expect it to be largely under control going forward because we had to actually look at some of the gaps that we had in our compensation structure and they had to be corrected and that was done in all seriousness during the course of last financial year. So, therefore that is not something that is going to wreck up. The technology spends will actually continue, but that has been baked into our planning or our budgets for that matter. Generally speaking, I mean the expectation is that our margins will continually improve and there are two levers that we will continually pull. One is of course ensure that our revenues grow at a healthy rate and we price our products and services appropriately and at the same time ensuring that the costs remain under control.

**Rajiv Mehta:** Just one last question in ICRA Analytics in the knowledge Services part what will be the share of the work we do for our parent Moody's?

**Venkatesh Vishwanathan:** So, from an overall number perspective I think I would say it is roughly around in the range of around 80% odd would be coming this you can anyway find out in the related party transaction. So, roughly it will be in that range maybe I am not giving you the exact I do not recollect, but it will be in that range.

**Rajiv Mehta:** Sorry you said 80% in ICRA Analytics?

**Venkatesh Vishwanathan:** That is right.

**Rajiv Mehta:** And we have seen very good growth so when I look at that annual report related party transaction in the last three, four years there has been good consistent growth of work and flow coming from Moody's, so can you just elaborate on that what is driving that and how should we look at it in the future?

**Venkatesh Vishwanathan:** Sushmita you may want to take this.

**Sushmita Ghatak:** So, there are a couple of things that has been driving that one has been the new business that we have got and it started during COVID time. We have set up a very large team for ESG analytical support. So, the addition of new work has been one driver. The other drive has been our ability to transition from a kind of routine work to more value-added work and that is where our long association and our ability to understand the requirements of the market is helping us partner them. So, in existing lines of business that we support Moody's we are being able to get more value-added work and in the area where we were not there earlier we are getting new work. So, those two trends have helped us grow our business over the last three or four years. And moving forward yes we do. We would expect that as we continue to upskill as we continue to partner with them more such opportunity should come our way.



**Moderator:** The next question is from the line of Paresh Sangani from Club Millionaire Financial Services. Please go ahead.

**Paresh Sangani:** My question has been asked earlier, but I have some thoughts on ESG rating, what do you see the process of ESG ratings in India?

**Ramnath Krishnan:** At the momentum as you would be aware that SEBI had actually come out with the consultation paper some time back and then they came out with a broad framework. I think a couple of months ago the Gazette notification is yet to come. So, we are not entirely sure at the present time in terms of the form and shape it is going to land in. Opportunity I mean certainly you know would be there, there is no doubt about that at all. It will naturally evolve over time and it is as you will be aware the regulators are increasingly paying a lot of attention to this both the lending community, the investor community they are looking at it quite closely as well. So, while it is difficult to size the market at the present time and determine what exactly the dollar value of the market is going to be, but it is certainly a market that should see fairly attractive growth over time whether it is going to happen in one year or whether it is going to happen in three or four years and I think it is difficult to tell, but certainly an area that will evolve quite significantly.

**Paresh Sangani:** The second question was regarding market share gains about five years back we had market share of about 19% in terms of rating revenue sorry it was 22% and now it is closer to 19%, so what are the structural drivers to gain market share in such a sticky business where the products are associate with customers?

**Ramnath Krishnan:** See, we are not increasingly and our focus has been actually shifting to pricing our products and services appropriately. The historical metric of actually measuring market share just in terms of shares that we have in the value of debt rated. We are actually moving away from whilst we obviously track it, but it is not an imperative for us anymore because it just results in large transactions being made at completely suboptimal levels.

**Venkatesh Vishwanathan:** Paresh, what typically happens is when any of the large, for example, PSU comes, they come with a very large VOD, but in terms of the pricing it may not work out something positive for us. So, I think what essentially we are saying is we are going to work in a more profitable way rather than blindly going behind the market share.

**Paresh Sangani:** And the question is again to you Venkat in terms of what will be the dividend payout policy generally, if you look at the peers they are anywhere between 70% to maybe even say 90% payout of the annual profits this time I know there has been a special dividend, but even then we have almost 1,100 crore of cash and the dividend payout should not be more than say 125 crores. I am adding these special dividend and the normal dividend. So, with such a large cash as well what would be the annual dividend payout ratios or in terms of continuing or something like a special dividends as well given the high cash that we see in the balance sheet?

**Management:** See, I think the way we are looking at the cash in the balance sheet is that we review this very periodically bit more seriously and what we will do is if we have certain in terms of what is our requirement, what kind of working capital that we need.

**Venkatesh Vishwanathan:** So, I think we do have a dividend policy which articulates I mean that is there and it is a part of our website as well, but coming back to your specific question in terms of how we see this I think we review this periodic and we also intend in case let us take an example we do not require a particular cash we will not shy away from returning to the shareholders. So, I think that you would have seen an intent from what we did right now essentially. So, we work it out periodically and if you are asking from a trend I think it would not be correct for me to give you a trend per say because that is something specific board activity, but having said that if you look at the even the regular dividend what I can say is that also we have upped. So, that is the best I can at this point in time tell you.

**Paresh Sangani:** Venkat sorry, but could you just tell me what would be the typical dividend payout ratio of the annual profit earlier historically we had about 30% and like I mentioned the peers have been closer to 70% to maybe even 90% and I am talking about a long-term trend as well?

**Venkatesh Vishwanathan:** So, the policy I think it is 25% to 50% of the PAT.

**Paresh Sangani:** So, the final question is Sushmita interview I remember reading a note on it at the ICRA Analytics plan to add more delivery centers from India. I think the number were **4 40.30** earlier, so any thought processes Sushmita in terms of how many centers are we planning to add and what is the employee count that is going to increase maybe say couple of years down the road?

**Sushmita Ghatak:** No, in terms of the delivery centers, in any case we do have them in Bombay so Kolkata of course, but we also operate in Bombay and in Noida Delhi which is essentially to serve our domestic clients. So, I am not sure which particular node that was, but in terms of serving our global clients is done from one center, serving our domestic clients is done from couple of centers and yes, we do have keeping in mind the way the business would grow and from the business continuity we are looking at other places where we could be putting up our next center. We have not these are still kind at the discussion table and I do not have any firm plans to share as of now

**Paresh Sangani:** And the final question was to Shiv I mean we know that HDFC as an NBFC is going to go away from the market, but I was very curious and very happy to hear that we will not miss in terms of the business from it is really made-up in some form. So, Shiv can you explain what are the other important contributors to kind of manage this business related to absence from this market?

**L. Shivakumar:** The last part was not clear.

**Ramnath Krishnan:** The last part of your question was not very clear Paresh.

**Paresh Sangani:** Ram and Shiv my question was how are we going to make up the absence of the large scale like HDFC going from the debt market?

**L. Shivakumar:** I will put it this way see HDFC is getting merged with HDFC Bank. So, the debt portfolio of HDFC which we are rating will just move to HDFC Bank and we will continue to rate that portfolio and we rate HDFC as well as HDFC Bank now. As of individually we rate both the entities.

**Paresh Sangani:** So, you are saying despite its absence from the debt markets so to speak what I call a major way still it will not be much of a problem for the industry as a whole in terms of rating revenues?

**Ramnath Krishnan:** In fact, it is quite the contrary I mean such a large organization post-merger the requirement for actually raising debt will be quite significant and that has been actually evidenced even in the last 6 months so the issuances they have come out with in the last six months, it is all essentially to support their liquidity requirements because they have their own growth aspirations as well so which also needs to be funded and what should I say the market that is there for deposits that is getting to be more and more tricky for banks. So, they have to necessarily look at avenues outside of conventional deposits and which every bank will be doing and that is what has been evident in the last 6 months as well.

**Paresh Sangani:** I thought a lot of these borrowings will get substituted in form of deposit and generally what happens is most of the entities have what I call a cap on terms of the rating revenue, so therefore even if it becomes a larger entity I guess you might get subject to what I call an annual caps in terms of the pricing and that that is why I was a bit apprehensive on that?

**L Shiv Kumar:** See, there is a practice of having caps for entities with very large amount of debt. Having said that, in this specific case A that the large amount of debt which we are currently rating at HDFC will move to the merged entity anyway and we do rate HDFC and secondly as Ram said the merged entity will have debt requirements. It may be in different form, but the debt requirement

would continue. So, we do hope that we will continue to rate the merged entity and I do not expect any challenge on this front.

**Ramnath Krishnan:** And similar to all commercial arrangements I mean all agreements including cap agreements are all subject to revision at annual intervals anyway.

**Moderator:** The next question is from the line of Girish Shetty from Banyan Tree Advisors. Please go ahead.

**Girish Shetty:** So, just two questions first is I wanted to know the reason for the sharp increase in the employee cost, so if I see the run rate for the last two, three quarters it has been higher as compared to the previous year, so how should one look at the run rate going ahead in terms of employee cost?

**Ramnath Krishnan:** No, I think I responded to that earlier as Venkat said and I mentioned it as well. We looked at a fairly significant what should I say changes to our entire compensation structure which was actually put into place in the last financial year that is the reason why there is a significant increase in the employee costs and there was some increase to the senior management bench strength as well, but as I said we do not expect this to be a repeat phenomenon bulk of it has actually been done.

**Venkatesh Vishwanathan:** And just to answer the second part of it when you said from a run rate I think it is better that we look at the full year because you will still have some timing differences coming in because of true-up of incentives or some other spend coming in. So, it is better to look at it from a full year perspective rather than the H2 or H1 perspective.

**Girish Shetty:** Because sir I think last year it was around 180 crores even full year and now it has gone to like 208 crores so that is like you can say normal increase for the business?

**Venkatesh Vishwanathan:** It has got two, three components actually so one is a catch up for the last year which we did. So, there is a component sitting there. The second is obviously this year the performance has been good you would have seen the

numbers in terms of the revenue the growth has been achieved. So, there is the amount of incentives also kicking in which would be slightly on the higher side and the third part is the staff additions that we would have done in the knowledge services which is actually a revenue limit. So, that also plays a part here because I think we have added people there which has also increased the cost, but we have a proportionate revenue for that.

**Girish Shetty:** I think my second question was related to that. So, in terms of the non-Rating business margins have come down sharply in this particular quarter, so can we attribute that to the same thing like you mentioned?

**Venkatesh Vishwanathan:** Yes, that is right.

**Girish Shetty:** And I believe next year it should be better in terms of how you were seeing in the first three quarters as compared to the fourth quarter?

**Venkatesh Vishwanathan:** Ideally, we do not give a forward-looking statement so that way it will be difficult for me to comment on that, but the point I was making was that look at from a full year trending perspective rather than on the quarter-on-quarter basis next year we do not give a forward-looking statement sorry about that.

**Moderator:** Thank you. The next question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

**Devansh Nigotia:** Sir regarding ESG Analytics, the business that you received from parent if you can give us a broader picture of what is the opportunity size over here to understand what is the headroom for growth, also what is our wallet share with the parent for the kind of service that we offer and which other regions are we specific competing with in terms of household business and we highlighted especially for ESG Analytics and how do we see the growth coming from this business cannot really sustain these high growth rates number and related to that how does the unit economics work here, is it a cost plus model or is it tender based, how does in terms of revenue work here in terms of a number of projects that we get?

**Sushmita Ghatak:**

Let me start with the first question which is around ESG Analytics and this is an evolving market and as our parent looks at improving their methodology and improving the coverage this business would grow. So, I apologize that I am unable to put a particular dollar number in terms of what the size may be, but this has been something that is kind of started and I said the methodology got developed over the last couple of years where the intervention or the coverage would happen that was also something that the analyst team sitting at Moody's etcetera has been looking at. So, yes I mean as I said unable to give you a dollar number, but our experience has been that it has been growing that is point number one. Point number two I think was in terms of with whom else do we compete or what is the wallet share. So, for certain lines of business in the area where we are in some cases we might be the only vendor. In certain other cases depending upon their requirement there might be other vendors. We do not have full clarity in each particular line of business, but when we talk about the analytical work because the outsourcing might happen at different levels. So, it might happen for technology, it might happen for modeling, it might happen for the kind of accounting the IFRS the gap kind of work that we do. So, in that particular area we definitely do have a strong market share. However, as is true for any company they also do keep looking for other vendors who could have other capabilities and at the same time as I said we also continuously continue to upscale ourselves, be more aligned with contemporary technology. So, it is really kind of happening I mean both the wheels are turning at the same time, we try to upgrade, we offer more relevant solutions. They would also look for other vendors, but what the domain expertise that we have built over the last 20 years we found as I said in the initial text also that does standards in good stead. The third question was in terms of is it cost plus, is it tender, how are the rates set. So, yes we do have given the volume of our relationship and the strength of our relationship. There are certain rates that are set for us and those rates we have seen the margins that come from the business. So, they do deliver good margins for us. However, at the same point of time as is true with any client they also do benchmark us with any other kind of vendor that might be there that there is definitely a premium that would be there in terms of the quality

that we serve and the timeliness as I said that we haven't missed a single SLA till date in the last 20 years that we have been working. So, we do have long-term rates, but definitely depending upon market situations there might be repricing either way, it does work either way. So, is it tender? No, it is not tender, but at times, benchmarking might happen. So, I think these were the three things that you had or is there anything I am missing.

**Devansh Nigotia:** So, I mean coming back like you mentioned that we do some benchmarking, so is it based on the number of employees where the benchmark of the revenues are set is that what you are trying to say?

**Sushmita Ghatak:** No, I possibly could not communicate properly. The question was more from the customers end and so while we do have long term rates with them there are also opportunities for repricing that come up and these opportunities for repricing are when a benchmarking would be done with any other vendor that might be there who might want to offer something similar, so that was what I was referring to and in such situations we found what has held us in good stead has been our domain expertise and the fact that our error rate and our daily deliverables that we do we absolutely commit to whatever we do. So, that was the benchmarking I was referring to more market driven for the business contracts.

**Devansh Nigotia:** And regarding the Rating business if you look at our margin if we compare it with our peers, so it is actually lower by 10%, 11% and higher even also with one more company, so how do this margin differential will be bridged, is it only sales performance that will bridge the margin differential or is there something else?.

**Venkatesh Vishwanathan:** See on the margins perspective I think we are cognizant of the fact and in terms of the margins I think there is some way to go for us I mean there are two parts which come into play. One is the kind of investments that we spoke about in terms of people that we have done last year and the second is the investments on the technology we are actually did something and we are continuing to do. So, in the immediate or the near term the margins has been



slightly lower because of these kind of investments. Having said that, I think it is imperative for us that you know we are able to grow on this and that is where our thought process is.

**Moderator:** The next question is from the line of Aditya Doshi from Chanakya Capital. Please go ahead.

**Aditya Doshi:** I wanted to understand in Analytics business what is the headcount of our analytics team and what are the plans for hiring this year in current year?

**Sushmita Ghatak:** I would really not be able to share specific headcount plans, but the way we kind of do our planning I could share that with you. So, one is as we kind of get visibility on business we do hire and we do hire with about a 1-month overlap, 2-month overlap which is the time that we spend on training in terms of background verification etcetera. The other thing that we do is we do maintain a bench so as to ensure that for long leaves, maternity leave, etc., peak cycles, we are well taken care of, but I apologize that in terms of specific hiring numbers for this year I would not be able to kind of share that but suffice to say that it is directly kind of linked to the business that we would get I hope that helps.

**Ramnath Krishnan:** At the moment we have roughly about 800 people in Analytics.

**Sushmita Ghatak:** That is right 840 to be more precise in terms of the total employee strength for the company.

**Aditya Doshi:** In our Rating business what are the opportunities in adjacent areas for the next three to five years and how are we preparing to expand our skill set to take advantage of this?

**Ramnath Krishnan:** Sorry, can you repeat your question?

**Aditya Doshi:** What are the opportunities in adjacent areas to Rating business in next three to five years, how are we preparing to expand our skill set to take advantages of those opportunities?

**Ramnath Krishnan:** As I said in my opening remarks that it is a regulated industry. So, what we can do as a rating agency is going to be entirely a function of how the regulatory framework evolves and what credit rating agencies are permitted to do. So, now recently about a year or so ago credit rating agencies were permitted to do the monitoring activity if you like for public issuances so that that was actually permitted so that is an activity that has been onboarded by CRAs in the last 12 to 18 months. ESG we are waiting for further guidance from the regulators. It is likely that some part of it or all of it might land within the CRA world so that is one part of it. So, the new products or services that we can get into from the rating side is always going to be a function of the regulatory framework, but what we are actually primarily focused on so we have obviously no control over that. So, we have to capitalize on those opportunities as and when they get presented, but what we are actually primarily focused on is ensuring that our proposition is right up there in terms of analytical rigor, analytical quality etcetera as Ravi mentioned in his remarks and to ensure that the our pricing of our products and services is actually consistent with what we believe is actually appropriate.

**Moderator:** Thank you. The next question is from the line of Viraj Sanghavi from Banyan Capital. Please go ahead.

**Viraj Sanghavi:** So, can you throw some light on the non-Rating India business in terms of size, growth and profitability?

**Ramnath Krishnan:** Sushmita would you like to take that.

**Sushmita Ghatak:** So, as I did say at the beginning given the fact that we have exited some of our consulting businesses which we felt were not core to our expert area. So, as of now our non-domestic to global business to the total business would be approximately 20% that is the first point. In terms of profitability earlier they definitely were not profitable, but today they are not only on a path to profitability, but they are also profitable and the way we have done this has been more in terms of selling it because some part of it is a very volume driven game. The second part of the business is in terms of more ability to configure

rather than customize because some part of it is in the area of software and the other is by of course in terms of automation at our own end. So, in terms of the path to profitability as well as in terms of being profitable it is much lower obviously than the global business, but it has stepped up over the last couple of years and if you were to talk about in terms of how do we see it growing definitely our focus areas and this is where we are trying to build on the adjacencies in terms of if we were only say doing models we are now possibly trying to integrate with other core systems, with other players to give a more unified solution products which have better technology better UX, better UI. So, yes the market is growing and we also intend to grow it with the right intervention. So, definitely this is an area that is our focus and we do expect it to grow.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Venkatesh Vishwanathan for closing comments.

**Venkatesh Vishwanathan:** We have come to the close of the analyst call. On behalf of the ICRA Management I thank all the participants for their time and engaging conversation that we had today. We look forward to stay connected with the analyst and the investor community.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of ICRA Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.