"ICRA Limited Q2 FY17 Earnings Conference Call"

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Moderator: Good Day, Ladies and Gentlemen and Welcome to the Q2 FY17 Earnings Conference Call of ICRA Limited hosted by IIFL Capital Limited. As a reminder, all participants' 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. I now hand the conference over to Mr. Balaji Subramanian from IIFL Capital. Please go ahead. Thank you and over to you, sir.

B Subramanian: Thank you, Margaret. Ladies and Gentlemen, Good Afternoon and thank you for joining us on the 2Q FY17 Post Results Conference Call of ICRA Limited. My name is Balaji Subramanian, I cover rating agencies at IIFL and it is my great pleasure to introduce the senior management team of ICRA who are with us to discuss the results. We will begin the call with opening remarks by Mr. Naresh Takkar -- M.D. and Group CEO, ICRA Limited, following which we will open up the call for a Q&A Session.

I would now like to hand over the call to Naresh to take it forward. Thank you. Over to you, Naresh.

Naresh Takkar: Thank you, Balaji. Good Afternoon, Everybody. Thanks a lot for joining for this call. We will start with ICRA standalone first, but before we get into our specific business for the financial numbers; it would be a useful thing to get an overview of the operating environment which as you would know is a critical driver for the Rating business.

Overall, economic activity though it has picked up but still it is not broad-based and importantly, the private sector CAPEX cycle has not really revived and we think it will take at least three-four quarters before it really starts picking up. As a result, the overall bank credit growth has been quite subdued, not only because of lack of new private sector projects, but also the risk appetite of the bank seems to have been impacted due to concerns on asset quality and we also see their inability to reduce interest rates in line with the market yields, as a result, there is a substitution which is happening by at least higher rated entities who are raising commercial paper and some issuance in this market. As a result, the overall debt market which was flattish for the last three-four quarters, has shown a pick up, in fact, has bounced back in this quarter or the increase is about 29%-odd and commercial paper market is also expanding by close to about 30%-odd. But again even the debt market issuance if one must look at the contributors, it seems to be concentrated on very few segments and is not broad-based. NBFCs is the main driver of this growth, NBFCs share used to about 51% of the total issuance but in this quarter it has gone up to about 65%-odd.

Given this macro context, coming back to the financial and the overall business performance, our business has expanded by 8% and importantly we have also made some strategic shift whereby we have reduced our focus on lesser profitable segments, to that extent these numbers reflect that shift. With this change, in business of higher operating leverage, we have exercised good control on the costs and as a result, our operating profits on YoY basis have grown by about 10% and in terms of the margins, there is an expansion of about 100 bps. The performance on sequential basis seems even more robust; however, we do want to point out that there is a seasonality element and typically our Q1, Q2 are relatively smaller than Q3 and Q4 from a business point of view; however, from the expense point of view, the expense trend is largely uniform across the quarter. We generate good amount of cash flows, we do not have any debt on our balance sheet and as a result we do have the good liquidity in terms of overall standalone numbers, our total investment portfolio is close to about Rs.400-odd crores and this is largely deployed in fixed deposits and liquid mutual funds.

Moving on to the Overall Group Performance: The overall group business increased by about 9%. One of the main contributors to the group growth besides the Rating business which I just talked about is the growth in our outsourcing business where the growth has been very robust at 23%. Also, their contribution to the profitability is to that extent much improved.

In terms of our other businesses, Consulting business still continues to be impacted by lack of project and also importantly there is still significant amount of competitive pressure in the line of businesses that we operate and as a result the business is still experiencing headwinds from the operating environment including the high intensity of competition. Having said that, again, in the Consulting business too, we are making a strategic shift thereby we have reduced our presence in certain segments which are non-strategic and also businesses which do not we think overall would contribute significantly to our profitability. So common theme across our businesses is that we have certainly focus on the growth but also growth in profitable segments.

Consulting business operating margins got impacted because of one specific large provision which we have to do because of some age wise provisioning which we follow. This is from a government department, a project which is being put on hold, we have some indications that this project is likely to be revived, it is a World Bank supported project, but because of age wise provisioning policy, we made that provision; as a result the operating margins for the Consulting business have been impacted.

As far as IT business is concerned, I would like to point out, as you will be aware, we have divested that business and this quarter is the last reported quarter. Again, in terms of divestment of this business is to focus on the strategic businesses and also invest in businesses which are core to the overall growth and businesses where we can have a differentiated presence.

In terms of going back to the flagship business of ratings, we are also very infused by the trends we are seeing in the bond markets and also importantly the reforms which have been recently announced by the Reserve Bank of India and supported by Ministry of Finance. We believe bond markets in India have a very significant potential to grow. As the economic cycle revives, there would be a pick up in the bank credit as well; however, in the debt market space, we would see significant opportunities in the refinancing activity and also in the short-term commercial paper related activity. We would also expect significant issuance as the bank credit picks up through AT1 issuance and the other senior bond issuances which are done by the banks. Overall, from a medium-term perspective, we think with the interest rate cycle looking more benign, we think debt markets should do quite well in the medium-term.

This is all what I had to say and we will be very happy to take questions from the investors.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Ritika Dua from B&K Securities. Please go ahead.

Ritika Dua: Sir, my first question is regarding the subsidiary which we have recently divested. Sir, if I am not wrong, as per our last discussion, I think the contribution of the subsidiary to the revenue as of FY16 was roughly some 22% and to the EBITDA largely only 4%. Firstly, are we correct in this? Can we maybe get some more color as to what is firstly on a data point perspective, what is the absolute EBITDA of this company, and what are the kind of head counts which were there in this company, and what was the contribution of that headcount in our overall OPEX?

Naresh Takkar: First of all, we have in our segment wise profitability given the details relating to the operating profits in each segment. As far as IT business is concerned, for the last quarter, their contribution to the top line was close to 20% of the group revenue and as far as the contribution to the operating profits it was about 7-8%. So to that extent, as we have divested out of this business, on the top line there is going to be an impact of about 20%-odd, on the bottom line the impact is likely to be around 5%; however, the overall consolidated margin should see an improvement because this business on this standalone basis had relatively lower margins. In terms of your question relating to the headcount, the total headcount was close to about 250-odd people but this business as we have divested, the entire headcount has moved with the business.

Ritika Dua: What is the total headcount as of September for the company as a whole?

Naresh Takkar: Headcount is about 1200, that includes as I said about 250-odd people from India, so total is about 900-1000, between that number after the IT business.

Ritika Dua: In your initial remarks you mentioned that there are certain less profitable businesses that you have reduced focus to, one example you gave regarding consulting**,** are there any other example you want to help us with?

Naresh Takkar: Even in the Rating segment, or for that matter even if I speak about Outsourcing business, the businesses which do not contribute much to the profitability and importantly we do not have good visibility on profitability and not "less profitable"in the sense. Those are the businesses we have reduced our focus on. So if I was to give you an example, in the Rating business, we have reduced our focus on SME business, we have reduced our focus on low ticket bank loan rating related business where the profitability is lower and there is no strategic interest in those segments rather no specific mandates.

Ritika Dua: My third question is regarding the regulations which came day before yesterday, so there is this one thing which has mentioned regarding the formation of the rating committee, so the SEBI have said that they prefer an external rating committee, which is the MD and CEO being part as like from the company. So what are our views on that because I believe we have an internal rating committee, so how would that change for us?

Naresh Takkar: First of all, I do not think anywhere SEBI says that they prefer external rating committee, what they have said is, only in a situation where there are majority of independent members in the rating committee, MD and CEO can be part of the rating committee. In our case, last many years, we have based on the international best practices; we have only internal rating committee. Since I have taken over this role as a group CEO, in any case I do not participate, because of potential conflict of interest, because I am also responsible for the business that is not part of the rating committee. I do not think a rating committee function which is an integral part of the rating process, can be outsourced.

Ritika Dua: At the moment, the rating committee which we have, so none of the BU heads are part of the rating committee, we have all people are internal to ICRA as part of the committee, is that…?

Naresh Takkar: It is all internal people, but people who are not responsible for business origination, but people who are responsible for the analytical and the operations.

Ritika Dua: So when SEBI had mentioned this, they only meant that it can be internal but then they should not be part of the business? So we do not have to make any changes to our committee?

Naresh Takkar: Not at all.

Moderator: Thank you. The next question is from the line of Dipochal Saha from Antique Stock Broking. Please go ahead.

Dipochal Saha: Sir, do you give an indicative yield of let us say what is the margin from bond versus the bank loans because as you say some kind of the substitution has taken place from the bank loans to the bond market, so what would be the likely rating fee yield sir?

Naresh Takkar: We do not publish separate numbers on the yields, but broadly speaking the bond market pricing tends to be higher than the bank loan related rating. Also, from a profitability point of view, because the yields are higher in the bond markets, generally speaking, the profitability on the bond markets is relatively higher. But when I say 'generally', let me illustrate why I say that, for example, if I have already got a rating relationship on a bond market issuance, and the entity wants the bank loan rating done, so even if the pricing is low on the bank loans, I would add significantly to my profitability

Moderator: Thank you. The next question is from the line of Dhawal Gala from Birla Sun Life Asset Management. Please go ahead.

Dhawal Gala: A couple of questions, sir. First question being the recent positive developments or news flow regarding bond market developments, just wanted to understand is it more from across segments of the market and do we actually see more deepening in the bond markets?

Naresh Takkar: Certainly, as I mentioned in my earlier remarks, we would see significant growth opportunities in the debt market related issuance. In the initial phase, we would expect activity to be concentrated in a few areas simply because as we speak the market appetite and the investor base limited and that too is limited to specific rating categories. So to that extent, I would expect significant amount of opportunities in the refinancing area which would mean assets which are more predictable which have demonstrated cash flow generation potential would be the ones who would be the first candidates to approach the market and obviously the higher rated entity. Also, we would expect continued pick up and increase in volumes on securitization particularly in the NBS related segments. We would also see good potential in the refinancing of renewable projects. We would also see as the bank credit picks up, good amount of pick up in the capital related bonds as well as their senior related bonds. These are the some of the specific sectors where we would see good amount of pick up going forward. Having said that, as you noticed possibly, from the RBI new initiatives, they have also talked about incentivizing the large borrowers to diversify their source of funding by raising money from the bond markets and reducing the dependence on the banking system. There some of they go to corporates certainly would be the candidates and many of them already raised significant resources from the bond markets. But the concern there would be that some of the large borrowers whose credit profiles are weak would really struggle in terms of raising resources from the bond markets. But overall from the medium-term perspective, we can expect significant expansion in the bond markets at a rate which would be significantly higher than the bank credit growth rates.

Dhawal Gala: Second, just to know a few days back, there was a newspaper article regarding SEBI wanting to tighten norms for credit rating companies. So, any comments on the same?

Naresh Takkar: Actually, a couple of days back, they issued the new guidelines and those guidelines are directionally positive because they would overall improve the discipline and hopefully behavior in the entire rating industry. Having said that, there are a couple of elements in those new announcements which would have some impact on the business for all rating agencies which includes things like having to maintain and update the ratings for entities which stop cooperating with the rating agencies. At one level, it is a good measure because we had seen in the past instances where some rating agencies were preemptively withdrawing ratings. That has been stopped, which is a good thing for the industry; however, the fact that some of these entities may not pay for the monitoring of the ratings, but still they need to maintain those ratings based on the best available information is something which may have some impact on the cost structure. That would be uniform across the rating agencies. But overall, if I was to put the initiatives by the Reserve Bank of India and SEBI's attempt at overall having a closer oversight on the rating business including having the requirement of expanded scope for the internal auditors, I think this should improve the overall working for the rating industry and players like us should definitely stand to benefit "from" the level playing field.

Dhawal Gala: So this should also help in the SME rating pool as well?

Naresh Takkar: I do not think I really can answer that question because there is no mention and this is not really supposed to be focused on SME.

Dhawal Gala: One more of a financial or data keeping sort of question; as you mentioned from the next quarter, the IT company which we sold, means that will be not included in the financials from the next quarter, right. So that should help to propel our EBITDA margins materially because the contribution to EBITDA from that business was pretty low?

Naresh Takkar: Yes, quite right, in terms of the margins, we would see expansion of margins but at the same time we are very excited about the growth opportunities and we would also be investing in terms of additional businesses or additional resources which we prepared to fully realize the potential that the growth opportunities offer to us.

Dhawal Gala: But that should not have an impact on operating margins, right?

Naresh Takkar: We do not give earnings or operating margin guidance, but as I said, we are in the investment mode. So to that extent, really in any case we do not comment on future margins.

Moderator: Thank you. The next question is from the line of (Karishma Kothari from Edelweiss). Please go ahead.

Shraddha: Shraddha here. A few questions from my side; Just wanted to understand this ratings particularly as you mentioned, our focus will be on certain profitable segments only, so you did mention about the low ticket BLRs. So if you could quantify like what is the size where we would not be getting in and would this be the case even within the bond segment where we would not be getting into certain issuances?

Naresh Takkar: I cannot give you a templated answer that for a particular segment we would not be there, we would certainly be present, we are a full service rating agency and we have presence in all the areas, but on those business opportunities, which offer us profitability is the one or it should have the strategic significance for us which means either that particular relationship should have a future business potential for us or it should provide us the prominence in terms of the visibility. So if it qualifies on overall basis, we are able to execute those mandates with the idea on maintaining good profitability, we would certainly address those segments. But segments which are not strategic, we do not have future potential for business growth or profitability expansion are the businesses we would like to not withdraw completely but reduce our presence. That is what I mentioned.

Shraddha: So would it also mean that there would be certain pricing discipline which floor below which we would not be going in the bids that we would be making? Just wanted to understand, how has the pricing pressure been because we are continuously seeing that and has that also impacted our growth because in such a good as you highlighted 30% was the growth in bond issuances, yes, our growth was like a 7% which itself slowed down from the previous quarter?

Naresh Takkar: First of all, the growth was close to about 8% and the overall business we have two-three components in the business – one, of course, the debt market which has grown well but at the same time, have almost 35-38%-odd business opening basis go, we had about 38% business from bank loan related market. Now bank rated growth has been pretty sluggish. So to that extent, that also has ways on the growth of the business. Second, of course, the carryforward surveillance business which means that if the market was subdued in the last few quarters, the surveillance growth also picks up with a lag.

Shraddha: Sir, can you just comment on how are we seeing the pricing trend in both the segments – are we seeing some stability or still the pressure continues?

Naresh Takkar: Pressure continues, but you would be happy to note that with that pressure and the fact that we have reduced our presence in certain segments and the fact that our business is that of a high operating margin, given all that we still expands our margins.

Shraddha: Sir, just wanted to understand this SME budget increase allocation this year, are we seeing some pick up and is that our focus area going forward?

Naresh Takkar: Only some part of that business is part of our strategy coverage. But really speaking, again we will apply the same rules which I just described, that we are seeking growth but we are seeking growth only under certain conditions of profitability, strategic value of those relationships, future potential of those businesses, future potential of those entities to grow and so on.

Shraddha: Just wanted to understand your comment on additional resources as we prepare for the growth uptick. So would you say we were underinvested for the opportunities which are coming up in the debt market or you would want to additionally put in resources to leverage on the same?

Naresh Takkar: We would like to make investments in advance of emerging opportunity. When I talk about investments, these investments would include organically throwing certain businesses and also looking at inorganic opportunities.

Moderator: Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Just on the Rating business part, it is more like an understanding; I think you mentioned that we want to focus on high margin businesses. But could you just throw some light on rating business growth vis-à-vis the volume growth, just some color on that because what we have seen in some of the competitors case is that the linearity between the rating revenue over the rating volume is low, so we might see a strong volume growth but it is not sort of reflecting in the rating revenue growth, is it a function of the pricing indiscipline we have seen in the last few quarters?

Naresh Takkar: It is a combination of various things: First of all, the mix of the business has an impact on the overall business growth. Second, not only the pricing pressures, but the fact where at least in the short-term you could have a situation where the growth is happening, also some issuers which are large issuers and possibly would also have a relationship gap for a particular period. So that also has an impact. There is no one-to-one relationship and then of course as I mentioned the overall business typically would also have the weight of the surveillance business which is a significant portion of the overall top line. So when the new business expands, the surveillance growth moves in line with the past business which you have done.

Ashish Sharma: So, in your opinion, if there is a some bit of pricing discipline, this dichotomy in terms of volume versus the rating revenue can sort of come down?

Naresh Takkar: It would be partly addressed but as I said the overall components which I just described they would continue to have a play on the overall growth.

Ashish Sharma: In your initial comments, you mentioned that maybe in 4-5-quarters we could see some positive developments or maybe some sort of volume growth coming to the market but is 4-5-quarters conservative sort of thing or because we have seen that I think the whole private cycle CAPEX expectation was maybe around FY18, but if we are seeing 4-5-quarters again I think it seems like it is going to FY19?

Naresh Takkar: No, first of all, 4-5-quarters point which I made, that is related to the revival of the private CAPEX cycle and it does not mean for the debt market issuance, because that is something which I described, has already started showing some traction with the reduction in yields and people also substituting part of the bank credit from the markets or the commercial paper related segments. In terms of the CAPEX revival, we think 4-5-quarters is something which would be reasonable. If it picks up earlier, it would only positively benefit us. But as things stand, our own internal view is there is still significant amount of overhang of capacities in the system, average capacity utilization at the industry level, if I was to give you that number, it is about 74% as per the data released by RBI. So if you look at the real economic activity, it seems to be expanding at about 7% or thereabouts. So it is typically when capacity utilization reaches about 82% to 84%, then people start investing in new capacities. So that is something which could happen from 3-5-quarters anytime, so I described 4-5-quarters. Then importantly, I would think that in the initial phase, it would result in pick up in the bank credit and that would with the overall capital requirements that the banking sector is facing, it would result in a greater amount of refinancing activity happening from the existing assets from the banking balance sheet.

Moderator: Thank you. The next question is from the line of Mansi Sajeja from SBI Mutual Fund. Please go ahead.

Mansi Sajeja: This is regarding the new SEBI guidelines again. So two things there: One is that since you say that you cannot withdraw rating or any instrument outstanding, so you are clear that it includes all kinds of bank facilities also, so it will include any fund base, non-fund base limit and till the time you have a rating, you cannot withdraw even if the issuer does not cooperate?

Naresh Takkar: That is right. So you need to update those ratings based on the best of available information.

Mansi Sajeja: On the unaccepted rating, that we believe would be prospective, not retrospective that…?

Naresh Takkar: Quite right, it has to be prospective.

Mansi Sajeja: So right from the day, so it is November 1st, so right from say 1st January onwards or whatever if there are any unaccepted rating, there would be a separate kind of disclosure on your website on those?

Naresh Takkar: Quite right.

Mansi Sajeja: On the recognition of default, they have written that bank loan ratings default recognition will be in line with RBI guidelines. So will you change your default recognition based on RBI guidelines or will we stick to what credit rating agencies have been doing in terms of any delay or any default?

Naresh Takkar: No, first of all, they have given the entire schedule for the lines and the ways the default has to be recognized. Simple principle is when it is debt market, I do not think there is any question, single rupee; single day kind of delay is taken as a default. Similarly for the term loans, it is the same norm. So there is no difference between what the RBI expects you to do and what the bond markets do. On the cash credit kind of a facility, there is no specific repayment date or a certain LC kind of a credit or a non-fund based kind of a facility. They have clarified that in case for example the cash credit on continuous basis remains overdrawn for 30-days, would be taken as a default. So they have clarified these aspects specifically relating to certain specific guidelines. So otherwise, there is no difference in how we were interpreting it earlier. It is just that now it gets standardized across everybody.

Mansi Sajeja: So no difference in ICRA recognition of default, as you are saying it is now standard for …?

Naresh Takkar: It is standard and if we have to make any adjustment for any specific bank credit line, we will abide by whatever the regulations want us to do. But as far as debt market or term loans which have in dates, there is no change for working in the way from what we would do. As per my knowledge, even for the other lines, there is no change as far as I know.

Moderator: Thank you. The next question is from the line of Ravi Purohit from Securities Investment Management. Please go ahead.

Ravi Purohit: I just have two questions, in the sense if we look at our presentation which has been released, the cash and cash equivalents there it shows about Rs.420-odd crores. I presume the Rs.68 crores which we will receive for the ICTEAS sale has not yet been booked there, because it is as of today you have not….. So that adds another I would say by the end of the year about Rs.68 crores. So, we are looking at more like Rs.500-odd crores of cash balance on the company's balance sheet which keeps increasing every year. So, two-fold questions: one is do we have a dividend policy in mind or like you mentioned earlier in the call that you are looking to invest now and you are excited about investments. So can you just throw some color on what kind of investments if at all you are also looking at inorganic, what kind of size of investments so that we have some idea as to where the company is headed over the next two to three years on this aspect?

Naresh Takkar: At this stage, I will possibly outline the areas in which we may look at inorganic opportunities. This will include areas like analytics, this will include research, and this may include value added outsourcing related. At this stage, I would not like to get into what will be the specific ticket size and all but definitely you would be very mindful of the businesses which we acquire and also the value that we end up paying for those businesses because we would like to grow that business ourselves rather than buying to fully mature business.

Ravi Purohit: Because in the past we have also acquired few businesses and now we are of course hiving off some of those businesses. So in future, I just wanted to kind of understand as to where we are headed. Another thing is we are not really looking to buy another rating agency, right?

Naresh Takkar: No, we are not looking at buying any other rating agency.

Ravi Purohit: Do we have a stated dividend policy or…?

Naresh Takkar: We do have a stated dividend policy, we have been maintaining dividend payout ratio of about 45%-odd and we are conscious of the fact that we have surpluses available with us, but at the same time as I describe that we are also excited about the growth opportunities and we do think it is a fair where we can make investments by work. If we are not able to get good opportunities, we may have to at some stage revisit our distribution stand.

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

Alok Shah: Sir, a couple of questions here: First, you talked about an employee count which is close to 900. When we look at your 'Annual Report' it talks of an employee count of 426. So I think it is a standalone entity. If you could give me the number for consol for FY15 and '16 please?

Naresh Takkar: I do not have off hand available; it must be there in our balance sheet.

Alok Shah: Second, you talked about provisioning amount in the Consultancy business; you had to do some provisions there. Could you specify the amount there?

Naresh Takkar: I could do that but I am very mindful of the regulations that if I mention that amount, it has to be publicly disclosed. So if we disclose that amount, it would have to be disclosed to the stock exchanges, I cannot just do it on a call.

Alok Shah: You have talked about looking to shade away businesses which have not really been profitable. If I look at our FY16 ROE, we were 16%, for the first half, if I was to annualize the number; we are at close to 15.5%. Is there some internal target that we are looking at in terms of overall ROE improvement over the next two-three years?

Naresh Takkar: ROE is also a function of your balance sheet composition and you may also notice that in terms of our balance sheet on standalone if you see we just talked about significant amount of investments which we carry. That has a bearing on the return on equity. But if you really speak about our standalone again flagship business, I think we do provide details on the capital employed and you would notice that capital employed is negative in the Rating business. To really form a return on equity perspective, I think that business has a very-very healthy return on equity.

Alok Shah: You have talked about pricing discipline. So is it that there are rating agencies which are even doing business below the minimum floor price which is disclosed on the website?

Naresh Takkar: They may be doing that but I cannot really comment on others. But my another comment since there was a question earlier to one the pricing discipline, currently, there has been competitive intensity and it has created pricing pressure. But my own sense is typically if you look at across industries, last two-three years, the overall business for the industry was relatively slower. My experience across sectors is when the demand slows down; typically the competitive pressure and the pricing pressures further intensify. So as business starts expanding for the entire industry, hopefully, the intensity to cut on the prices should reduce as we…but that is just observation which I am looking at various other businesses. It may or may not be true here, but I thought I will just make this point.

Alok Shah: Would it be fair to say that this pricing discipline to a certain extent is maintained in the non-BLR market?

Naresh Takkar: It is not a question of discipline, discipline would mean that we are talking to each other and maintaining some kind of pricing this thing, it is not like that. Yes, we do have expectations on certain amount of profitability on different businesses and we benchmark and review our business decisions around that.

Moderator: Thank you. The next question is from the line of Balaji Subramanian from IIFL Capital. Please go ahead.

B Subramanian: A couple of questions: First, RBI has mandated 150% risk weight for unrated bank exposure w.e.f. June 30th of 2017. The earlier regulation had anomaly that the risk weight on unrated exposure was 100% while BB or below rating was 150%. So because of this, do you foresee any sharp increase in rating activity in BLR in March and June quarters? The second question is a bit more open-ended. So when do you think one should be able to see potential benefits from the implementation of bankruptcy code?

Naresh Takkar: First of all, that anomaly which RBI has addressed certainly would have larger number of unrated exposures getting rated. But "Whether it would be a sharp growth in business?" That is something which I really cannot comment. But certainly from banks perspective, their own ability to retain large number of unrated exposures is something which banks would not like to retain unrated exposures and they would possibly be distracted. So banks would possibly push more of the unrated exposures to get themselves rated; however, "How much impact it has on the business?", difficult to comment on this time, because really speaking from the issuers perspective, the impact is on the banks rather than on the issuers because issuer if it is unrated, and in case it was to be rated and rated lower, that issuer would be indifferent on this particular change. But from a banking point of view, the banking sector would need to sign higher capital if the exposure is either unrated or rated lower. Then your second question related to the 'bankruptcy code', I think it is again actually a very good step, but we think lot needs to be done in terms of creating the infrastructure and the benefits out of that would start possibly accruing after a couple of years.

Moderator: Thank you. The next question is a follow up from the line of Ritika Dua from B&K Securities. Please go ahead.

Ritika Dua: Where does your pricing for securitization lies, like in one of the previous questions you were mentioning that is relatively a better margin than BLR, can we get that kind of a sense for securitization as well, just on an industry wide basis… like how RBI had mentioned that core basis is like the floor for BLR, 10 basis points is a floor for debt, at least we have the sense that debt is better margin business than BLR, so that angle, can I understand based on the past transactions you would have done, where does securitization lies, does it lie above that or in between debt and BLR?

Naresh Takkar: I do not think I can answer that question. Second, importantly, it is not that RBI has mandated a particular price level. All they said is for the bank loan ratings, whatever your fee schedule and the minimum charges is you disclose. Four bps which is our estimate that has the minimum charge, RBI has no role in that.

Moderator: Thank you. The next question is from the line of Srikesh Nair from Franklin Templeton. Please go ahead.

Srikesh Nair: Just going back to a previous question on capital allocation, you mentioned that you would be interested in acquisition in analytics and research verticals, right. My understanding is that Moody's has presence in India where different subsidiaries in these verticals. So just wanted to understand how this arrangement is looking to acquire?

Naresh Takkar: We are an independent company and as I described these are the interest areas, and the strategic segments in which we would like to grow. Again, I will repeat that, we would like to get into a business which is not fully mature and offers us growth opportunities and that too in certain niches in which we see strategic value.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Balaji Subramanian for closing comments.

B Subramanian: Thank you, Margaret. I would like to thank the management team for taking the time to participate on this call and I would also like to thank all the participants for joining in. Thanks again and with that we conclude this call.

Naresh Takkar: Thank you very much.

Moderator: Thank you. On behalf of IIFL Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.