CARE Ratings Limited

Q4 & FY25 Earnings Conference Call

May 14, 2025

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Moderator: Ladies and gentlemen, good day, and welcome to CARE Ratings Limited Q4 and FY '25 Earnings Conference Call. 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 this conference call, please signal an operator: by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Mehul Pandya, MD and Group CEO, CARE Ratings Limited.

Mehul Pandya: Good afternoon, everyone. I hope all of you are doing well. I extend a warm welcome on behalf of the entire CareEdge family to the Quarter 4 and FY '25 Investors Call. At the outset, I would like to thank the investors for their continued support and encouragement, which has led us to report a good performance. I trust that each of you has had the opportunity to thoroughly review our quarterly results.

Today, I'm joined on this call by my colleagues, Revati, our ED and in charge of the business; Sachin, our ED and the Chief Rating Officer; Jinesh, our CFO; Swati, President, CareEdge Advisory; and Abhisheik, President, CareEdge Analytics. I'm interacting with you to provide an in-depth analysis of our company's performance over the last quarter and to address any queries you may have following my initial remarks.

Let me start by talking about the macroeconomic side. Over the last year, the Indian economy has navigated a challenging global environment. Headwinds from weaker external demand, heightened global uncertainty and uneven domestic demand recovery weighed on our economic momentum. The economy is estimated to have grown by 6.5% in FY '25, moderating from a 9.2% growth witnessed last year. Factors such as easing inflation, healthy agricultural activity and a reduced income tax burden are expected to support consumption demand going forward.

Investment activity faced some constraints, which were reflected in the moderation of the gross fixed capital formation growth to 6.1% in FY '25 compared to 8.8% in FY '24. While public sector capital expenditure will likely remain supportive, private sector investment might remain subdued in the coming quarters, weighed down by ongoing global trade policy uncertainties and geopolitical concerns.

Fundraising activities witnessed some improvement in FY '25. Corporate bond issuances rose by 6%, reaching to INR11 lakh crores in FY '25. In parallel, the issuance of the CPs witnessed a sharper rise of 14.5%, taking it to INR15.7 lakh crores in FY '25.

Looking ahead, we project the GDP growth to moderate to 6.2% in FY '26. The uncertainties from volatile global trade policies and geopolitical concerns remain the key headwind for the Indian economy in FY '26. Moderation in inflation, prospects of a normal monsoon and lower interest rates are some of the supporting factors for the economy.

Furthermore, the corporate sector's strengthened balance sheet and improved asset quality in the banking system will serve as catalysts for credit growth and financial stability.

As we step into FY '26, our focus at CareEdge remains clear: to navigate evolving uncertainties with agility, seize emerging opportunities and continue building on the solid foundation we have laid over the years.

Our teams in ratings, economics and industry research have been tirelessly working to produce high-quality content to publish 333 reports during FY '25, covering a broad spectrum of timely and in-depth sectoral insights. These reports have been well received in reputed publications and by industry stakeholders and various financial institutions. We hosted 28 sector-specific webinars and our senior management, sector specialists and research teams have actively participated in over 127 speaker industry forums, reinforcing our commitment to knowledge dissemination.

Our efforts and commitment on our extensive outreach campaigns have strengthened our brand presence in both domestic and the global markets. Our presence across media and social media platforms has expanded significantly through our thematic reports, opinion pieces, blogs, podcasts and events, thereby further strengthening our stakeholder engagement.

On our domestic Ratings business, we focused on our mantra of ‘Quality-led growth’ to enhance operational efficiency and future readiness, streamlining the operations with superior process controls, demonstrating strong ratings performance metrics and enhancing outreach through webinars and media presence. We also integrated automation and digitization into our processes and improving compliance management.

Let me turn now to our business performance. Firstly, I'm happy to share that the Board of Directors has recommended a final dividend of INR11 per share at a face value of INR10, which will take the total dividend declared for the year to INR18 per share.

On the performance on the stand-alone business, which is the domestic Ratings business for FY '25, the company registered its highest ever stand-alone income from operations at INR336.7 crores, which was an increase of 19% Y-o-Y, driven by continued traction in initial ratings for capital market instruments, securitizations and bank debt. Operating profit was INR155.2 crores, reflecting a growth of 22% Y-o-Y with an operating margin of 46%. PAT stood at INR147.9 crores, registering a growth of 24%.

Turning to our consolidated business performance. The company again registered the highest ever consolidated revenue from operations for FY '25 at INR402.3 crores, marking a growth of 21% Y-o-Y. This was well supported by robust performance in both the domestic and the overseas ratings businesses, along with the increased contribution from our non-ratings verticals. Operating profit was at INR155.3 crores, reflecting growth of 39% with an operating margin of again 39%. PAT was INR140 crores, reflecting a growth of 37% over FY '24.

Over the years, our strategic investments in subsidiaries have been central to our diversification agenda. In FY '25, CareEdge Analytics delivered improved performance with revenue growth and a significant reduction in losses to single digits alongside the launch of our new product platform, EdgeAvira.AI.

CareEdge Advisory division reported healthy top line growth and profitability with margins in double digits. For FY '25, the Ratings to non-Ratings business mix stood at 89.5% to 10.5%. The shift comes on the back of Ratings segment growth of 21%, while the increasing contribution is witnessed from the non-ratings businesses. Our long-term target remains to transition towards an 80-20 mix underpinned by strong growth across both the segments.

We believe our continued focus on diversification and strive for exploring new areas have yielded positive outcomes with the launch of the three new business lines in FY '25.

Through CareEdge Global IFSC Limited, which is the CareEdge Global Rating, we became the first Indian rating agency to venture into the sovereign and the global scale rating space. At our launch, we announced sovereign rating outcomes for 39 countries and within 2 quarters of operations, we have assigned global scale ratings with a combined value of close to US$3 billion.

As CareEdge Africa completed a decade of operations, its own subsidiary, CareEdge South Africa, received regulatory approval from the authority in South Africa to issue credit ratings, including sovereign ratings, marking a major milestone in our international expansion strategy.

CareEdge ESG received regulatory approval as a category 1 ESG rating provider and has completed 6 ESG ratings.

We remain optimistic about the long-term value potential of these new verticals and look forward to their increasing contribution to the group's growth.

As a part of our ongoing transformation, we have made significant strides in digitizing and streamlining our rating processes through automation and AI-driven tools, resulting in enhanced efficiency across the organization.

Our commitment to evolving into a tech-led enterprise remains steadfast, and we remain committed to investing in people, digital capabilities and strategic growth drivers that will define the next phase of CareEdge evolution.

I thank you all for your continued support and appreciate the contribution from my colleagues and the entire team at CareEdge for their continued hard work. I would now request my colleagues to give a brief about the respective domains.

We'll start with Revati giving an update on domestic Rating business, followed by Sachin giving an update on Ratings performance and then Swati and Abhisheik giving update on CareEdge Advisory and CareEdge Analytics, respectively. Over to you, Revati, first.

Revati Kasture: Yes. Thank you, Mehul, and good afternoon to all listeners. We are proud to deliver the best ever stand-alone performance in CareEdge Ratings, CARE Ratings Nepal and CARE Ratings Africa Limited in FY '25.

In FY '24, we pivoted to a verticalized approach for the business development team moving away from the previous geographical model. This strategic shift has significantly optimized our resources, resulting in a sustained uptick in new business acquisitions this year. Our ongoing efforts to scale our footprint across geographies has led to an increase in our overall new rating market share by count as well as rated debt. And this underscores our position as the leading rating agency with clients placing their trust in us as their go-to partner.

Aligned with our quality-led growth strategy, we onboarded over 200 single ‘A’ and above category clients in FY '25. Our market share in securitization ratings has also grown, and we have worked with all the large issuers and investors in that market. The business team is working on a new customer relationship management (CRM) software module, which will go live in the current fiscal year. The CRM is expected to significantly enhance our sales efficiency.

In our outreach efforts, we have introduced a roundtable format for various sectors wherein we got sector players and lenders together for exchange of ideas and plans. This has been well received by participants.

While in the India business we have garnered a good share, both on the bank loan ratings as well as the bond ratings, in Nepal, we have climbed to become the largest agency and Mauritius has also shown a high double-digit growth in ratings revenue. The suite of products offered by our company has increased to include ESG ratings and Global Scale Ratings, thus expanding our scope to areas in which we can add value to our stakeholders and clients.

Thank you, and over to you, Sachin.

Sachin Gupta: Yes. Good afternoon, everyone. I'm Sachin Gupta, the Chief Rating Officer at CARE Ratings. So three broad points I would like to make. First is the strong quality of performance that we have demonstrated in the year FY '25, essentially marked by superior default statistics, sharp downgrades and rating stability.

One data point that I can share, which is also a part of your deck is that our rating stability, which we look at the data for the last 5 years, that has continued to improve. And for the year 2025, you will see there is a significant improvement in the AA and AAA category, which is essentially the segment which does most of the bond issuances.

Secondly, the sharp rating actions, which reflects on the quality of our ratings being more predictive and stable, in the year FY '25, our sharp rating actions were actually the lowest amongst the top rating agencies. And for us also, it's improved over the last year, that is FY '24. So that is on the quality of performance.

Second point I would touch upon is how we have become more efficient. Roughly, we have a total outstanding portfolio of about 5,000 companies, and we are kind of continuing to grow that. But our margins have improved essentially because we are kind of executing more cases with similar team size.

Also, we have been using technology, as Mehul had mentioned in his opening remarks, there is usage of technology, LLM models, etc, especially to improve the quality of our publications. And also, we are using technology to improve the quality of our compliance in addition to the human control processes that we have.

Finally, on the outreach, that has been our focus over the last many years to improve the quality of our outreach, which is basically publications and conferences, which helps us to build a better brand image and earn that premium in the market.

This year, we had within the Ratings vertical, we had almost 30 conferences, both online and offline across various sectors. And also, we continue to publish, we had more than 80 opinion pieces published across a variety of sectors, which again were covered extensively in the media across digital, print and electronics. Yes. Thank you. Swati.

Swati Agrawal: Very good afternoon, everyone. This is Swati here, President, the Advisory division for CAAPL, which is CARE Analytics and Advisory Private Limited. CareEdge Advisory, as you all know, operates in the area of industry research, sustainability services and corporate advisory. And we continue to grow and show our growth story this year also with excellent performance.

Not only has our revenue grown, but our operations have also grown profitably, demonstrating the focus of the group on not only growing the non-Rating business, but also growing them in a sustainable manner. Growth has been demonstrated across all segments, our Industry Research segment growth was boosted by the buoyant capital markets as well as increasing demand from institutional investors.

Our sustainability services grew on the back of higher ESG adoption and awareness by corporates, investor demand and regulatory requirements. And we have further brought these services under this practice, and we will continue to expand our product suite in line with the evolving regulations and adoption of best practices.

During the year, we have concluded higher number of sustainability reports as compared to last year. Also, our green bond third-party review services have found good traction amongst issuers and investors. The sustainability practice also commenced impact studies in the area of sustainable finance and corporate CSR area.

The corporate advisory services has also deepened in capabilities and customers, and we see this segment also contributing to the overall growth in future. We see our growth continually backed by quality service, valuable insights and higher outreach.

Abhisheik Vishwakarma: This is Abhisheik, President, CareEdge Analytics. CareEdge Analytics is evolving into a comprehensive fintech enterprise within the CareEdge Group, which is focused on providing credit-centric analytics solutions to banks and financial institutions. Our current offering has been grouped into three product families, which is integrated credit processing, integrated credit monitoring and risk regulatory reporting, and each has been embodying a core strategy of "AI inside and AI by the side".

This strategy has led to the growth and adoption of these product families in the market. Our Risk Consulting division has seen a notable growth in the last year, which we believe that is the growth driver for us. A major milestone for us has been the launch of the product brand, which is EdgeAvira.AI, which saw a lot of market adoption through its integrated credit platform and credit monitoring suite, which is driving revenues through new client acquisitions and successful implementations.

In the past year, we've sharpened our focus on increasing the product adoption, lowering our operational losses, and this is reflected positively in the margins that we have delivered. Going forward, we will be continuing to enhance our capabilities in our flagship products and also expand our reach in the market. Thank you.

Mehul Pandya: Thank you, colleagues, for the updates. I now open the floor for questions.

Moderator: The first question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Many congratulations to the management team for strong performance in the quarter and the year. I have a few questions. Firstly, wanted to understand and reconcile the strong growth that we've been delivering in domestic ratings in the quarter as well as for the whole year.

Because when I look at it in the context of the underlying borrowing activity, be it bond issuances, CP issuances and even bank credit to NBFCs and wholesale, the movement in that has not been that significant, but our growth has been around 20% for the quarter and for the year as well. So if you can answer this by firstly sharing what was the volume of debt rated in the whole year FY '25 versus FY '24?

So pure volume growth, how much it was? And then how did the value growth play out? And how did the mix volume shifted towards bonds, CPs, maybe which are better yielding? Was there any effort to improve pricing on surveillance or even in the initial rating fee structures? Just wanted to get a sense about how volume and value has played out for us through the full year?

Mehul Pandya: Thanks, Rajiv. While I'll answer part of the things, Revati will take on the next part. Let me just give you a perspective in terms of how the growth has come. And as we have been emphasizing for every single quarter, we should be looked at from the overall year, annual performance perspective. And we have consistently delivered all across the quarters. It was just not the fourth quarter. It was all through the year that we have consistently grown.

Having said that, the performance has four dimensions. It's in terms of how the new Ratings business keeps on growing. That is in terms of how the entities, number of entities come into our fold. The second is in terms of how the volume of debt rated continues to grow. Third aspect is in terms of consistently pushing for a better pricing. And the fourth important element also is that what is our presence across the segment so that we are safeguarded from any vagaries which could be happening or impacting any particular segment.

So, I think on all these dimensions, we have done well all through the year. And that has actually culminated into the final annual performance, which is close to around 19% to 20% on this, right. Revati, you would like to add on the other dimensions of this?

Revati Kasture: Yes. Thank you, Mehul. So as Mehul rightly mentioned, apart from the four dimensions that he mentioned, as a team, as I mentioned, we have reorganized. And therefore, we are now targeting all the segments of the market, whether it is the BFSI, corporate infra as well as the MCG categories of the market. So, we are targeting all the segments of the market with as much intensity as we've probably not focused on all of them 2 years back, right. That is point number one.

Second is that our market share, if you look at the bond market, that has increased on a year-on-year basis. This is largely because the bond market and the securitization market are largely an investor-driven market. Sachin just mentioned the quality of ratings, which have come out from CARE consistently over the past years. And that has also improved our presence and our acceptance.

And therefore, our share in the bond market has also gone up. While you are right in terms of not such a very high growth in the bond market, the CP market has grown pretty well in this year. And the securitizations market has also grown pretty well in this year. So, in all these markets, we were able to garner a higher share than what we previously had.

The second is that if you plot the bank credit growth or the bond market growth over an extended period of time, then you will not exactly get a very high correlation with the growth in the rating industry size. So, to kind of just look at these aspects and then kind of look at the growth may not give you the best picture that you can get. So that is from my end.

Rajiv Mehta: Yes, ma'am, I take your point on correlation because we also have a surveillance base, which keeps on staying with us. But if you can just quantify maybe the volume growth that we had and volume of debt rated and what was the growth in it?

And maybe in terms of pricing efforts also, as sir said that one of the dimensions has been constant efforts towards improving pricing. So are we --what is the success that we have found -- because as you are saying that the ratings quality has been perceived well by the market, so I'm sure we would have had some success in pushing prices also?

Revati Kasture: So, Rajiv, two things here. One is that, as I said, our share in the bond market has upped this year and bond market typically give better pricing than the bank loan market. That is point number one. Second, in terms of pricing, definitely, the value, the amount of volume of debt rated matter.

And the second thing matters is in terms of what is the client type, what is the effort involved. So, price really depend on not only how big the loan is, but also the market conditions and the type of clientele that we are dealing with. It is our continuous efforts to get better pricing on a year-on-year basis, and it is not only this year. This is a continual effort from our side to better our pricing as compared to the previous year.

The surveillance pricing is something that we kind of fix for a period of time, but we try and concentrate on the initial pricing that we can better on a year-on-year basis. And some part of the growth also is due to our efforts in that direction.

Rajiv Mehta: So just want to get some comfort about how should we look at our growth? I mean, you see the growth delta last year over the underlying industry was much higher because of all the dimensions you spoke about in our efforts.

But can we maintain this multiplier or this extra delta of growth over the industry growth, whatever it is in the next 2 years, given the macro setup? But are we confident about getting this extra growth for all the efforts that we are putting a strategy in place?

Mehul Pandya: Rajiv, our effort continues to ensure that we continue our growth, which could be better than the industry, right. Overall dynamics, they are a derivative of what's happening in the economy and what's impacting the entire industry per se. But to the extent at whatever level the industry could be growing and if we are able to outpace the industry, that's where our entire focus consistently remains, and we'll continue to strive for that.

Rajiv Mehta: Just one last thing, if you can...

Moderator: Sorry to interrupt, sir, but I may request you to rejoin the question queue for follow-up questions. The next question is from the line of Advait Lath from Nippon India Mutual Fund.

Advait Lath: Congrats on a great set of numbers. Just wanted to ask how have we made inroads into certain segments of the ratings market like NBFCs, etc? And what is the color there in terms of what are we targeting and what is the trend we are seeing?

Mehul Pandya: Yes, thanks, Advait. See, as I mentioned in my comments on the previous question from Rajiv, one of the dimensions of the growth is being the full-service rating agency in the sense, that see we have presence across the spectrum. Now when Revati mentioned about having a sector-focused BD vertical approach on this, right, so that has helped in terms of ensuring that every single segment that we are able to service, we are trying to increase our presence on that.

So that focus on each and every vertical, each and every segment of the industry, drilling it down to the final point, right, ensuring that the push continues to be there in terms of increasing the presence, that has helped in terms of improving our presence across the segment.

It's just not one segment which has contributed, we have been able to improve our presence across the segments. And that's exactly where the entire benefit that we have got in terms of an improved performance in the year that is the result of this kind of a very focused approach. Anything from you, Revati, to add to this?

Revati Kasture: No, I think you've covered it, Mehul.

Advait Lath: Yes. So just a follow-on question on the IFSC piece, what is the traction we are seeing on the GIFT City piece?

Mehul Pandya: Okay. See, before Revati, I mean, she's the CEO of CareEdge Global Ratings. While she will take care of the specifics on this, let me just give you a flavor of how the things are evolving over there. I think it's a testimony to the brand that we have created and the receptivity that we have had that in the first 6 months of our operations, we've been able to rate the debt to the tune of almost like US$3 billion and rated close to around 8 number of total ratings within that span.

And we are currently also working on some good assignments on this. So, the start itself is very promising and which gives us the confidence in terms of the further scaling up of that business. Revati, please add to this?

Revati Kasture: Yes. So CareEdge Global IFSC actually started operations in October 2024. We received our license in July 2024 from IFSCA. And since that, we've announced rating on 39 sovereigns, which is country ratings and about 8 company ratings that we have announced from CareEdge Global IFSC.

What we're seeing hearteningly is that our country ratings, which at the time of start, if we compare our ratings with other international agencies, we see that over the last 6 months, we see a convergence of ratings of those countries by other agencies to the rating that we have given, underscoring the robustness of the methodology that has been employed to arrive at the ratings.

That is one. Second is that from 1st of April 2025, a rating from an IFSCA registered rating agency has been made compulsory. And right now, CareEdge Global is the only IFSCA registered rating agency. So, we believe that whatever issuances come out in the IFSCA ecosystem, we are well placed to be a part of those issuances.

Apart from that, we are also looking at other Asian countries to see how we can increase or make our presence felt in those countries for the issuances that come out of those countries in different markets across the world. This is going to be a significant amount of outreach that we will have to embark on, and that's the line and direction that we are really taking because CareEdge Global is a truly an international rating agency, and therefore, we would look at outside the IFSCA domain also to grow it further.

Moderator: The next question is from the line of Balaji from IIFL Capital.

Balaji: Congrats on a great set of results. I have a couple of questions. The first one is on the rating segment growth. So, while you did mention how some of your initiatives have resulted in an increase in market share gain for you, my question is, if I look at the industry growth itself in FY '25, other than ICRA, everyone else has given out their FY '25 numbers.

And I can see that this was probably the best year in terms of rating revenue growth for the industry, maybe in the last 12, 13 years. And even though if you look at the macro data points, we have had a mixed picture. I do understand that securitization, CP issuances and all have done well. But on the other hand, we really haven't seen anything meaningfully change so much in order to drive almost a decadal high as far as the industry revenue growth is concerned.

So, what exactly drove this? Was it an improvement in the pricing environment? Or was it because of some mix change where the small and smaller corporates who probably are not on rating fee caps, they also hit the market? So is there any structural change which kind of warrants for a higher revenue growth for the industry itself going ahead? So that is my first question.

My second question is on the subsidiaries, especially the ESG operations. So, since there will be some upfront costs there, is there -- how do you see the margins in the subsidiaries going forward? So, we do see that -- we can see that this year has been a pretty good year. Is there -- will you be making higher investments? And is there a chance that the losses again widen next year because of these investments? Those would be my 2 questions.

Mehul Pandya: Okay. As far as your first question on why did the industry grow as compared to what the macros are indicative, right. I think the requirement for the ratings across the segment, that keeps on increasing

And actually, the growth doesn't come much from the lower segment. It's in terms of, let's say, how the debt issuances have been there, how the enhancements have been there as far as the large and the midsized corporates, which actually drive them. SMEs, they actually do not drive too much of a growth.

But at the same time, say, in the times like this, when the macros are actually not too favorable as far as the things are concerned, it's a focused aspect in terms of having more clientele come to you as well as a consistent push on improving the pricing. Both these aspects, they play out as far as strategy is concerned. I mean this is nothing surprising about this. This is as good as remaining or rather sticking to the basics of the approach. And that consistently helps.

At the same time, what my colleagues earlier mentioned, our Chief Rating Officer mentioned, right, is the aspect in terms of getting that pull also. So, on one side, there is a business push with a focused approach. And second on the other side, because of the consistent rating performance, right, the preference changes and that helps you in terms of getting more clientele.

So, it's a combination of these factors, which actually leads to a better performance or outpacing the industry on this. I cannot comment on why or how some of the other players would have grown and each to its own as far as the strategies are concerned, but we can speak as far as we are concerned, and this is something which has driven our growth.

Coming to your aspects in terms of the future as far as the ESG space is concerned, yes, it's an evolving space. It's an evolving domain at this juncture, right. And there is a lot of, I would say, conceptual acceptance which is required to be there as far as the industry segment, industry as a whole is concerned to graduate towards acceptance of this kind of assessments, right.

So, from that angle, a lot of efforts are going into this. And in the initial stages, yes, there are losses, right, and we are absorbing that. But we do believe that this space over the years is bound to improve. And as a responsible player in the Rating industry and now having got the license from SEBI on ESG ratings also, I would say, focus remains in terms of making the market aware about these aspects, representing our approach and methodology to them, right, gaining acceptance on getting the assignments from them and then taking the things forward.

So, in the year to come, I think this continues to remain a bit of an evolving space and a lot many things are contingent in terms of how the overall dynamics remain favorable for absorption of the ESG aspects into the functioning of the companies and their own policies. So, a lot many things are contingent on that

But nevertheless, I mean, our efforts they remain. But at the same time, in the future quarters or like that, I do believe that the expenditure would be more than the revenue that we could be witnessing from this segment. But we are a patient investor in this vertical, and there is a full commitment from our side to grow it further. Revati, anything you would like to add on both these things?

Revati Kasture: No, I think you've covered it adequately.

Balaji: So, I had a quick follow-up on...

Moderator: Sorry to interrupt, sir, but I may request you to rejoin the question queue for follow-up questions. The next question is from the line of Arpit Shah from Stallion Asset.

Arpit Shah: Congratulations on a commendable outreach in FY '25, actually reflecting in whatever efforts have taken to make such kind of an outreach. So congratulations on that. I just wanted to understand a couple of things from you. If I see the market leader in the Ratings division, that actually outpaced the growth what we have been reporting and the industry has also outpaced -- the growth has been quite decent enough in FY '25.

So what do you see -- what kind of growth rates you see sustainable for FY '26, FY '27? Do you think this growth journey, which has started after a long period of time in our industry can continue going ahead? Or this year was an abnormal year for Ratings business, and we should go back to, let's say, lower growth rates or this 20%, 25% kind of growth rate should continue for our business and for the industry?

Mehul Pandya: We cannot conjecture on at what level the industry could be growing, at what rate we could be growing. As I stated that our position remains that we'll like to outpace the industry growth on a consistent basis. All efforts would remain in that direction. Having said that, I think that if you look at the overall trajectory for the economy, the growth as far as the overall economy is concerned is bound to be there.

I mean even if there is a bit of a moderation, which is expected at the GDP level in FY '26, but nevertheless, I mean, the medium- to long-term view as far as the overall GDP growth for the country remains in the positive trajectory, that would help the segments of the industry and especially the private sector capital expenditure, which has been eluding the growth story so far, at some point in time, it has to come, right.

And the manner in which it could be coming, right, it would definitely help at least the major rating agencies to capitalize on that. And that's exactly where as a full service, one of the top line rating agencies in the country, we remain agile in terms of fully exploiting those opportunities as they evolve.

Arpit Shah: Got it. Got it. So let's say, if I start to see your margins and AI is actually a big help to the industry, to the industry rating agencies and the margin accretion that you have seen at least in the last 4 quarters, how sustainable is that margin?

Because despite the expansion in new business lines, you all have seen actually dip in employee expenses this quarter. How should we think about margins going ahead? And what kind of employee salary hike we should see in FY '26?

Mehul Pandya: See, we would like to remain range bound as far as our employee cost to operating revenue is concerned. And this is a people-driven business. So, we'll continue to have a good growth and on people side to retain the talent, right. We'll definitely not like them to be paid anything lower than what the industry benchmarks are.

And we continue to strive for that, right. But at the same time, we are cognizant of this aspect in terms of keeping it well under control and that sustains. And that's how it gets reflected in the operating margin, the improvement that you have seen. And we'll continue to be having a close look on this aspect, but we'll not shy away as far as getting the right talent for the right kind of initiatives that we are taking.

I mean at the end of the day, these are the investments in people to drive the things further and we'll continue to do that. But as we have demonstrated year after year, right, there is a consistent, I would say, the focus in terms of ensuring that the operating margins, they keep on improving in a gradual manner, and we have seen the results. That's what we'd like to do for the future.

Arpit Shah: So intrinsically, are we entering in a zone where our margin should expand to what we had seen pre-crisis like 2018, 2019? Are we in that journey where we should continue to see margin expansion because now AI comes a big driver in saving costs for us and even subsidiaries, which were loss-making earlier, let's say, '23, '24, they're also turning around a lot in '25.

Do you think that we are in a journey where we should start seeing margins of, let's say, upwards of 50%, 55%, at least in terms of the improvements quarter-on-quarter? Is that the way to see it?

Mehul Pandya: I think see, if you're talking about the margins that we had prior to 2018 or like that, I mean, I don't think those should be the levels at which we could be reaching primarily because the basic variable in terms of having the people and getting them paid at the right level, having the right kind of skill sets to work for the organization, right, and take the thing forward.

Definitely, I mean that in this kind of a serious business, right, we have to be in the game for that, right. But at the same time, as we have seen this is the kind of the level at which we are operating now, we'd like to remain range bound. The biggest benefit that we now have is in terms of the operating leverage kicking in, as Sachin also mentioned in his remarks, the operating efficiency is something where the team is completely glued to in terms of continuous improvement and leveraging the tech-led interventions to the maximum extent possible.

I mean the team is completely committed towards exploring those initiatives to ensure that we derive the efficiency benefits. Sachin mentioned about the operating efficiency that we've been able to derive from the Ratings operations team, right. And that's exactly where our focus would be to derive maximum efficiencies with the use of technology and at the same time, ensure that we continue to get the benefits of the operating leverage.

Arpit Shah: Got it. Sir, if I have to just summarize, we're going to see high double-digit revenue growth and given the technology improvements, given the efficiency improvements, you're going to see profit growth is going to be higher than the revenue growth, maybe probably 1.5 to 2x of our revenue growth. Is that the way to look at it?

Moderator: Sorry to interrupt sir, but I may request you to rejoin the question queue for follow-up questions.

Arpit Shah: Can you just answer the last question, please?

Moderator: Sir, I may request you to rejoin the question queue, sir. The next question is from the line of Abhijeet Sakhare from Kotak Securities.

Abhijeet Sakhare: So, my first question is, you mentioned about higher share of bond borrowings also supporting pricing. So, would it be possible to share some numbers around this as to what was the mix earlier? And how do you see it changing? What was it in '25 versus '24?

And any possible direction based on your interactions with the large number of issuers that you deal with? And the second question, sir, is the shift that you mentioned 80-20, possible to give any timelines and whether this would also be supported by some inorganic transactions to achieve that number?

Mehul Pandya: Yes, I'll take the second part first. See, we would definitely like to reach that, I think in my earlier interactions, I told that over a 3-year period, we'd like to reach nearer to that, right. But at the same time, as this year has witnessed, I mean, we had a very robust ratings revenue growth also, right. So both the segments have grown. That's why it has improved marginally, and we are closer to around 90-10, slightly better than that, right.

But in the future, we are definitely striving for increasing contribution to this. The turning around of our non-Ratings businesses, which was the focus of the earlier years, we have seen results this year, which has significantly boosted the consolidated performance of the company, right. And that's exactly what our focus is. Now we are entering the phase that we would like to scale up these businesses faster.

And any opportunity which could be coming our way, I mean, we are perfectly well positioned in terms of evaluating that and taking the right decisions. It has to gel with the kind of segments that we want to operate in, right, and the synergies that we can potentially derive from any such opportunities as well.

So, we'll keep those options open and see and take the right decisions at the right time. So that's where our focus would be going forward, scaling up and keep on exploring new opportunities to ensure that something which could gel with our organically grown businesses and take the decisions at the right time. Revati, would you like to take the first part of the question in terms of the bond issuances?

Revati Kasture: Yes. Yes. Thank you, Mehul. So, I mentioned earlier that our share in the bond market issuances has gone up over the years and in the securitizations market, too, which is a testimony to investor-led components going up over the year.

What I would urge you to look at is the databases which are available in public domain to kind of arrive at an accurate percentage of the same. However, if I look at from where we were last year to where we are this year, there's about a 20% to 25% jump in our share of that market. That's it from my side.

Moderator: The next question is from the line of Varun Bang from Bandhan Life.

Varun Bang: So first question on the Rating business. So what I'm observing is over the last few years, the share of bank borrowing for corporates, especially large and mid-corporate is declining gradually, and it is increasing towards bond markets. So is this trend structural in your view? And how do you see corporate India looking at bond markets for long-term financing vis-a-vis bank borrowing?

Revati Kasture: Actually, the voice was very feeble. So, if you can just repeat the question?

Varun Bang: Yes, is it better now?

Revati Kasture: Yes, it's better now.

Varun Bang: Yes. So, what I'm saying is what I'm observing is over the last few years, the share of bank borrowing for corporates, especially large and mid-corporate is basically declining and the share of bond borrowing is basically increasing. Is this trend structural in your view? And how do you see corporate India looking at bond markets for long-term financing versus bank borrowing? That's the first question.

Revati Kasture: Okay. So you're absolutely right. And in case of a developmental stage of any economy, it actually moves from the bank loan market to the bond market. What is happening in India is that there is still a requirement of deepening the bond market in terms of the rating categories of bonds, which get placed.

So even today, if we look at the bond market, then it's mostly the AAs and the AAAs, which get placed. Unless and until we have a deepening of that category by introduction of more and more variety of investors into the market, we may not be able to have a significant jump in this market, and it would be a gradual process in our view. That's it from my side.

Varun Bang: Okay. Got it. And on the non-Rating side, what are our priorities going into next 1 to 2 years? And analytics and advisory segment, what will be our focus areas? Product-specific comments would be helpful to understand where we are focusing and how we are differentiating.

Mehul Pandya: Yes. First, Swati, you take care of on the Advisory side and next, Abhisheik, you can focus on the Analytics side. Swati, over to you.

Swati Agrawal: Yes. So, on the Advisory side, I mean, we operate currently in 3 lines: industry research, ESG services and corporate advisory. Our plan is to continue focusing on these areas. In our view, there is enough of demand and enough of traction, and we have built up capabilities over the last few years in all these segments, and we would continue to look at growth in these segments.

Priority, if we were to say, there is no one segment out of this that would have priority, but we think that both industry research, given the deep domain knowledge as well as the demand for independent insightful research from the institutional investors as well as the corporates is a driver. And ESG services, as we all know, are driven by the higher adoption and the higher awareness across. And we see a lot of potential as well as a lot of growth in these segments. Abhisheik.

Abhisheik Vishwakarma: So, from the Analytics side, I think as I told earlier, that the 3 product families that we are running, which is the integrated credit processing, integrated credit monitoring and risk regulatory reporting, these are the product areas that we are focusing on. We have launched EdgeAvira.AI as a platform, and that has seen traction in the market.

And this is where our growth is coming from, and this will continue to be there because these are the areas where most of the lending institutions focus from an expenditure standpoint. That's pretty much from a product standpoint that we have.

Varun Bang: Got it. Just…

Moderator: Sorry to interrupt, sir, but I may request you to rejoin the question queue for follow-up questions. The next question is from the line of Priyank Chheda from Vallum Capital.

Priyank Chheda: My question was on the bank risk weightage which went up during the year towards the NBFC lending, has come down. And now how do you see the NBFCs being aggressive in the bond market for the borrowing requirements? And would that have a bearing -- say, if they go back to the banks, would that have a bearing on your revenue growth?

Mehul Pandya: Revati.

Revati Kasture: So, if you really look at the larger NBFCs, which were resorting to the bond market, they were earlier also even before this differential provisioning requirement came in, they were taking a significant amount of money from the bond market. And that is something that has not drastically changed if you look at the portfolio or the resource raising of these large NBFCs.

And as I said earlier, only the AAs and the AAAs are able to successfully access the bond market. So NBFCs in that category were already prevalent in the bond market. The provisioning requirement will definitely ease the additional cost that NBFCs were getting from the bank loan market. But I don't think that the shift was anyway significant that it will have a huge bearing on the shift which can now result.

Priyank Chheda: Got it. I just have a few data-related questions. Is it possible to call out the size of debt that we have rated in the full year? And is it possible to call out the revenue growth for the non-Rating business within all the four subsidiaries that we have? And a subsequent question for Mehul.

On the capital allocation, we have seen dividend payout slightly going lower this year, while we have a huge cash balance. So what's the strategic thoughts behind the capital allocation and the dividend payout? Thank you.

Mehul Pandya: Yes. Priyank.

Priyank Chheda: Should I repeat my question?

Mehul Pandya: Yes. I think your first question was pertaining to the bond issuances and the related pricing on that. Is it right before we got disconnected?

Priyank Chheda: Okay. I'll repeat my question. On the data part, is it possible to call out the size and the amount of debt we have rated in this year and the revenues for each of the subsidiaries, if it's possible to call out the growth of the revenue numbers for that?

And on the subsequent question I had for Mehul on the capital allocation part, this year, we have seen a slight dip in the dividend payout that has happened. How do we see -- given the size of cash that we have on the balance sheet, how do we think about the capital allocation and the free cash flow allocation that going ahead?

Mehul Pandya: Okay. So, three parts of the question. The first part, Revati would take care on the rated debt aspect. Let me just give you a flavor in terms of how the contribution of the non-Ratings businesses that are there. If you look at Slide 12 of our investor presentation, you will see that the non-Ratings businesses, they have contributed INR42.2 crores.

Here, I would just like to explain to you that this INR42.2 crores is actually coming from the non-Ratings businesses. So that means in terms of the Advisory, Analytics and the ESG ratings. The other Rating subsidiaries per se, they get classified as far as the consolidated Ratings business performance, which has again been shown, right.

The difference of the total Ratings business at a consolidated level, which is INR360.1 crores and our stand-alone ratings revenue, which is INR336.7 crores is the contribution from the rating subsidiaries, right. And the balance is from the non-Rating activities. So, if you can just conjecture and have those things, they are a part of our investor deck on this, and you can make out that thing.

As far as the capital allocation is concerned, you are right that we have a good cash on the balance sheet. And from that angle, I think a couple of aspects they play out. First is that over the last 3 years also, we have invested quite a lot as far as growing our non-Ratings businesses are concerned, a good portion of the investment has gone over there.

We have taken the initiatives. And in the previous calls, investors had also asked to us and rightly so in terms of like say, how much further investments could be there on that side, right. But I think with the turnaround of our non-Ratings businesses, so from that angle, the further infusion of the funds probably may not be required. It could only be on a need basis, but we'd like to believe that both the divisions they are on their own to scale up further, right.

We have also invested in our Rating subsidiaries. If you see that we invested first on the ESG rating side and then as far as our GIFT City venture is concerned. So those investments have also been there, which are part of the overall capital allocation strategy.

And the other aspect remains in terms of exploring new opportunities from the inorganic side that as I mentioned in my earlier remarks also as an answer to one of the questions is that we continue to explore these opportunities, which should be giving us the synergy either in form of adding new markets to our coverage on the non-Rating side or potentially, it could be giving us new products where we are not present and that could help us in terms of serving the customer needs better, right.

So, any of these things, if they could be getting fulfilled, we would explore those opportunities and take the right decision, but it also has to be coming at the right valuation, right. So a combination of these factors could eventually drive our decisions in this regard. Broadly speaking, I think the addition of new age products at the right valuation is something that we are looking forward to.

And any good opportunity which could be coming our way, I think our Board is positively inclined in terms of exploring such opportunities, and we could be taking the right decision. Revati, over to you on the rated debt side.

Revati Kasture: Yes. Actually, I don't have that number right now because we don't track that whole volume, total debt and all. We only track the new ones. But maybe on a later date, we can communicate to the investors.

Moderator: The next question is from the line of Ronak Chheda from Awriga Capital.

Ronak Chheda: Yes, I just had one question. Firstly, congratulations, Revati ma'am and your team for a fantastic result. Just wanted to pick your thoughts on PTC now that they're getting listed for a larger participation. Do you think that could be a sizable opportunity for us as the rating agencies?

Mehul Pandya: Yes, Revati.

Revati Kasture: Yes. So, in terms of the securitizations market, definitely, we are very large, and we have been growing over the years. With the new norms, we definitely see a positive impetus to the market, and we will be able to kind of maintain or increase our presence in that market as we go ahead.

Ronak Chheda But does it open up a lot of opportunity for us as rating agencies because now it goes wider, gets listed, more retail participation, etc?

Revati Kasture: Not really. I mean the market really depends upon the requirement of funds at the issuer level or the need for going into a securitization transaction at the issuer level, right. So while it does increase the base of investors, I don't kind of see that this is going to be a mode or a modality that is going to be used more and more just because the investor base has increased.

Sachin Gupta: I can just make a quick point here that, yes, I mean, structurally, because of the high CD ratios for the banks in some ways, which has been impacting their credit growth, there is a likelihood that they may securitize more paper. Hitherto, they have been kind of a little hesitant in securitizing.

They've mostly been buying loans. That is one. Secondly, we just rated a transaction on the housing finance space. That was a large transaction, and there is a focus within the markets to kind of have more such transactions. So, if that picks up, yes, the PTC volumes could grow.

Moderator: Ladies and gentlemen, in the interest of time, this would be our last question. I would now like to hand over the conference to Mr. Mehul Pandya, MD and Group CEO, CARE Ratings Limited, for closing comments.

Mehul Pandya: Thank you. In conclusion, CareEdge has delivered a resilient and robust performance in FY '25, which was driven by strong execution, diversification benefits and operational excellence. As we enter FY '26, we remain committed to navigating the evolving macroeconomic landscape with agility, leveraging emerging opportunities and generating sustainable value for all our stakeholders.

With this, I would like to thank everyone for joining this call. I hope we have been able to address your queries. And for any further information, kindly get in touch with me or my colleagues who have joined the call or Strategic Growth Advisors, our Investor Relation advisers. Thank you very much.

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