

# **Credit Analysis & REsearch Ltd.**



**Nineteenth Annual Report  
2011-2012**

# Credit Analysis & REsearch Ltd.

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## Directors

Shri O.V. Bundellu	<i>Chairman</i>
Dr. N.K. Sengupta	
Shri Venkatraman Srinivasan	
Ms. Bharti Prasad	
Shri D. R. Dogra	<i>Managing Director &amp; CEO</i>
Shri Rajesh Mokashi	<i>Dy. Managing Director</i>

## Rating Committee

Shri Y. H. Malegam	<i>Chairman</i>
Shri P. P. Pattanayak	
Shri V. Leeladhar	
Shri V. K. Chopra	
Shri D. R. Dogra	

## Bankers

HDFC Bank Ltd.  
IDBI Bank Ltd.  
State Bank of India

## Statutory Auditors

M/s. Khimji Kunverji & Co.  
Chartered Accountants

## Internal Auditors

M/s. Khandelwal Jain & Co.  
Chartered Accountants

## Registered & Head Office

Godrej Coliseum, 4th Floor, Somaiya Hospital Road,  
Off Eastern Express Highway Sion (East),  
Mumbai – 400 022

## Regional Offices

3rd Floor, Prasad Chambers,  
(Shagun Mall Building), 10 A,  
Shakespeare Sarani, Kolkata – 700 071

Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002

32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad – 380 015

9<sup>th</sup> Floor, Pride Kumar Senate, Plot No. 970,  
Bhamburda Senapati Bapat Marg,  
Shivaji Nagar, Pune – 411 016

304, Pashupati Akshat Heights,  
Plot No. D-91, Madho Singh Road,  
Bani Park, Jaipur - 302016

## Audit Committee

Shri Venkatraman Srinivasan	<i>Chairman</i>
Dr. N.K. Sengupta	
Ms. Bharti Prasad	
Shri Rajesh Mokashi	

## Investment Committee

Shri O.V. Bundellu	<i>Chairman</i>
Shri Venkatraman Srinivasan	
Shri D.R. Dogra	
Shri Rajesh Mokashi	

## Remuneration Committee

Dr. N.K. Sengupta	<i>Chairman</i>
Shri Venkatraman Srinivasan	
Ms. Bharti Prasad	
Shri D. R. Dogra	

## IPO Committee

Shri O.V. Bundellu	<i>Chairman</i>
Shri Venkatraman Srinivasan	
Shri D. R. Dogra	
Shri Rajesh Mokashi	
Shri Navin K. Jain	<i>(Member Secretary)</i>

3rd Floor, B – 47, Inner Circle, Near Plaza Cinema,  
Connaught Place, New Delhi – 110 001

401, Ashoka Scintilla, 3-6-520, Himayat Nagar,  
Hyderabad – 500 029

Unit No. 8, I Floor, Commander's Place, No. 6,  
Raja Ram Mohan Roy Road, (Opp. P F Office),  
Richmond Circle, Bangalore - 560 025

4<sup>th</sup> Floor, Champa Centre Point,  
Chaandhanee Magu, Male 20153  
Maldives.

## Corporate Events



(From left) Mr. D R Dogra, MD & CEO and Mr. O.V. Bundellu, Chairman of CARE Ratings at the acquisition of Kalypto Risk Technologies Private Limited (KRTL)



Mr. Rajesh Mokashi, DMD, CARE Ratings at the ADEA Award ceremony at Delhi



Ms. Shyamala Gopinathan, Ex Deputy Governor of RBI speaking at the CARE Ratings' seminar on Credit Default Swaps on August 05, 2011



Ms. Revati Kasture, Head Research - CARE Ratings honored with the CA Professional Achiever - Women award by ICAI in Bangalore



(From left) Mr. D R Dogra, MD & CEO, CARE Ratings, and Mr. Mehul Pandya, General Manager - CARE Ratings at the Round Table on the Importance of Rating for countries and companies in Africa held in Germany during March, 2012



Mr. D R Dogra, MD & CEO, CARE Ratings attending Real Estate Investment Forum and Business Spaces organized by Economic Times

## Corporate Events



Mr. D R Dogra, MD & CEO, CARE Ratings, second from left, along with other CARE officials at a Seminar on Capital Markets in Maldives on July 24, 2011



Mr. D R Dogra, MD & CEO, CARE Ratings delivering his address at the ASSOCHAM 2nd Annual Summit on January 12, 2012



Mr. Rajesh Mokashi, DMD, CARE Ratings, as a part of the panel discussion organized at the CII CFO Summit 22 December, 2011



Mr. D R Dogra, MD & CEO, CARE Ratings, far left, Mr. Rajesh Mokashi, DMD, CARE Ratings, far right, addressing the audience at a seminar organized by CARE post budget 2012.



Mr. R. Suryanarayan, General Manager - CARE Ratings speaking on the occasion of the Centennial Celebrations of Central Bank of India at Hyderabad on December 16, 2011



Certificate of Excellence to CARE from India Inc

## Directors' Report for FY 2012

Your directors have pleasure in presenting the Nineteenth Annual Report of your company along with the audited accounts for the year ending March 31, 2012.

### Economic background

Following the financial crisis of 2008-09, the Indian economy had recovered to grow by 8.4% per annum in the subsequent two successive years. However, conditions turned adverse in FY12 with growth slowing down to 6.5% and industrial growth, in particular, to just 2.8%. Production was affected by a slowdown in investment, where the gross fixed capital formation rate declined from 32.5% in FY11 to 32.0% in FY12. While overall demand remained subdued with the government trying to get its reins on the deficit, high persistent inflation had the RBI taking an aggressive stance on interest rates. The repo rate was hiked by 175 bps during the year to combat inflation. All these conditions played a major role in driving the financial markets during the year which confronted the twin issues of tight liquidity conditions and increasing cost of funds.

Global economic conditions too were challenging with growth slipping to 3.9% in 2011 (5.3%) with the USA growing by 1.7% (3.2%) and Euro region by 1.4% (1.9%). Among the emerging markets China registered growth of 9.2% (10.4%) which was still lower than that of 2010. The Euro crisis response has been volatile with Greece, Ireland, Portugal, Spain and Italy raising indebtedness issues. The ECB, EFSF and IMF had worked hard to resolve the default crisis in Greece which finally has pledged to resort to austerity measures. Alongside, monetary policy has been liberal with the Fed maintaining its rate at 25 bps, while the ECB has lowered rates more recently to 75bps and Bank of England to 50 bps. Quantitative easing in the USA and LTRO (long term refinancing operations) in Euro enabled the flow of liquidity to provide a boost to Bank lending. However, given that austerity measures had to be pursued by the Euro nations under stress such as Greece, Portugal, Spain and Italy, there was a tendency for Banks to deleverage.

The Indian economy was affected by the global crisis in various ways. To begin with trade flows were impacted. Secondly, foreign investors looked positively towards the Asian markets sporadically though the perceived recovery in the USA did at times cause the flow of funds to reverse. This led to volatility in their flows in 2011. Third, the rupee became vulnerable to the dollar-euro relationship, and remains so even today with the possibility of a Greek default and problems in countries like Spain still making the rupee volatile. The rupee moved from Rs 44.37/\$ in March 2011 to a range of between Rs 45.28 to 52.67 during August to December before closing at Rs 50.32 in March 2012. FII inflows in particular were lower for the year at \$ 18.9 bn as against \$ 32.2 bn in FY11. The RBI has been active in the forex market to defend the rupee and has put in \$ 20.1 bn during FY12. Such sale of dollars did in turn put pressure on liquidity conditions in the market.

GDP growth was 6.5% for the year as against 8.4% last year. This was to be brought about by growth of 2.8% in agriculture and 2.5% in manufacturing. Growth has been under pressure with inflation reining high for most part of the year. It ranged between 9-10% up to December when it crossed the double digit mark. It started moderating subsequently to end at 6.9% in March 2012. The RBI had subsequently taken a decision to lower the repo rate for the first time in two years by 50 bps with the rider that the market was not to expect further rate cuts until inflationary conditions improved.

The government's budget was affected by lower than expected growth in GDP and hence lower revenue growth as well as higher expenditure. This impacted revenue collections as well as pressurized the deficit as the subsidy burden in particular increased on account of food, fuel and fertilizers. The disinvestment programme too was not realized and consequently the fiscal deficit increased from a targeted 4.6% to 5.9% for FY12 (revised subsequently to 5.8%). For FY13, it has been budgeted at 5.1%, which again would be contingent on several assumptions being met. Higher deficit meant higher borrowings which in turn strained liquidity in the system.

The monetary scene in the country was subdued. Bank deposits grew by 13.4% in FY12 as against 15.9% in FY11. Bank credit on the other hand grew by 17% (21.5%). Lower growth in deposits may be attributed to households spending more on account of inflation and saving less consequently. Bank credit on the other hand increased with the following sectors accounting for the same: beverages and tobacco, paper, petroleum, coal, chemicals, cement, vehicles, and gems and jewellery. There was a distinct slowdown in growth in case of credit to infrastructure and basic metals and metal products industries. The shortage in liquidity led to the RBI intervening positively through open market operations (OMOs). Net OMOs were Rs 1.34 lakh crore (Rs 0.67 lakh crore). Further, the average repo borrowings from the RBI were over Rs 1 lakh crore from December onwards. By March it averaged Rs 1.55 lakh crore. Towards the end of the year, the RBI had also lowered the CRR by 125 bps which released Rs 80,000 crore.

At the same time, government borrowing overshoot the initial estimate of Rs 4.17 lakh crore and the total borrowings were Rs 5.1 lakh crore. This put pressure on interest rates. The 10-year GSec yield moved within a range of a low of 8.13% in April to a high of 8.88% in October. In March it ended at 8.53%. The average base rate of banks had increased from 9.17% in April 2011 to 10.48% in March 2012.

The performance of your company should hence be viewed against this background of extremely challenging economic and financial conditions

### Change in accounting policy:

During the year, the Company changed its revenue recognition policy for surveillance fees. Uptill now the Company was recognising surveillance fees in full in the year in which they became due. However, in the current year the management has estimated a portion of surveillance fees to be recognised as income, commensurate with the efforts involved on the date the surveillance activity is completed. The balance surveillance fee is recorded equally over the 12 months surveillance period which commences 1 year after the date of assigning a rating.

### Financial Performance

The financial results of the Company for the year ended March 31, 2012 are presented below:

	(Rs. Lakh)	
Particulars	For the year ended March 31, 2012	For the year ended March 31, 2011
Income from Operations	178,08	170,87
Other Income	28,21	5,76
<b>Total Income</b>	<b>206,29</b>	<b>176,63</b>
Total Expenditure	56,78	42,62
+ / (-) Prior period adjustments	-	9
<b>Profit before Tax (PBT)</b>	<b>149,51</b>	<b>134,10</b>
Provision for Tax	41,97	43,15
<b>Profit after Tax (PAT)</b>	<b>107,54</b>	<b>90,95</b>
<b>Appropriations</b>		
Interim Dividend	28,55	-
Tax on Interim Dividend	4,63	-
Final Dividend	-	6,19
Tax on final dividend	-	1,00
Transferred to General Reserve	12,00	20,00
<b>Balance carried forward</b>	<b>62,36</b>	<b>63,76</b>

Total income increased by 16.79% with income from operations increasing by 4.21%. This may be attributed to both increase in rating assignments from new companies as well as from existing clients offset by impact due to change in accounting policy. Total expenditure increased by 33.22% mainly due to an increase in the wage bill which was on account of an increase in staff count from 303 as on March 31, 2011 to 500 on March 31, 2012. Profit before tax increased by 11.50% in FY12 and with tax provisions reducing by 2.73%, profit after tax increased by 18.24%.

During the year the Company has changed its revenue recognition policy for surveillance fees. Had the Company continued with its earlier policy, Rating Income including Surveillance Fees for the year would have been higher by Rs. 19.79 crore resulting in an increase of 15.80% in income from operations in FY12 over FY11. Profit after tax and revenue reserves would have been higher by Rs. 13.37 crore (i.e. an increase of 32.94% in FY12 over FY11).

### Issue of Bonus shares

CARE, in September, 2011 allotted bonus shares in the ratio of 2:1, i.e. two shares for every one share held and issued 1,90,35,208 new shares. The paid up capital of the Company went up to Rs. 28,55,28,120 from Rs. 9,51,76,040.

## Dividend

An interim dividend @Rs. 10/- per share was declared and paid in March 2012. No final dividend is recommended for FY 2011-12.

## Business operations

While overall economic conditions were challenging, your company was aggressive in terms of both lengthening the customer base and deepening the relationships with existing clients. This effort is evidenced in the following achievements. Your company has now completed over 15,000 rating assignments since inception to reach 15,824 as of March 2012. The total amount of debt rated has increased to Rs. 40.46 lakh crore as of March 2012 from Rs. 31.19 lakh crore as on March 2011. As of March 2012, we had business relationships with 3,900 clients (2,094 in March 2011). The relentless thrust on expanding the client base will set the foundations for further leveraging in future.

Instrument	Number of assignments completed		Volume of debt rated (Rs crore)	
	FY12	FY11	FY12	FY11
Short term	109	123	52,522	88,801
Medium term	-	4	-	1,242
Long term	307	238	195,518	196,973
Bank facility rating	4,883	1,654	678,821	519,862
Others	681	168	-	-
<b>Total</b>	<b>5,980</b>	<b>2,187</b>	<b>926,860</b>	<b>806,878</b>

Two facets stand out in the table above. The first is that the total number of assignments completed more than doubled, increasing by 173% in FY12 and the other is that there was an increase in the total volume of debt rated by 15%.

In terms of the number of assignments completed, there was an increase in the number of long term rating by 29% and bank loan ratings by 195% indicating higher penetration levels in these areas. However, there was a decline in short-term rating assignments by 13%. The miscellaneous category (including gradings) witnessed an increase of 305% which was mainly due to the NSIC - MSME ratings.

Total volume of debt rated however had increased for bank facility but declined in case of both short term (- 41%) and long term (marginally by - 0.7%) which were reflective of the slowdown in overall investment in the economy.

## CARE's business during the year

Your company continued to focus on widening the client base across both the large and SME segments to provide services for borrowers. Further, the existing relations with clients have been deepened with our business teams working on cross selling products. While conventional rating of debt has been accepted, the use of other products such as grading has yet to catch on and hence efforts have been made to educate corporates on their use. Some of the more noteworthy products that have caught interest are Edu grade and Real estate star ratings besides equi grade.

We have particularly witnessed significant interest being shown in equi grade which deals with equity research. These products, it is believed will contribute progressively more to the revenue base of the Company in the years to come.

## Overseas operations

Your company also commenced operations in the Republic of Maldives and completed two rating assignments there. We have established our office in Male which is fully operational and we are working closely with the authorities and do hope to grow the business along with the market in course of time. More importantly we see this venture as an enterprise which can be leveraged going ahead in our global forays to be made.

## Acquisition of majority stake in Kalypto Risk Technologies Private Limited

Kalypto Risk Technologies Private Limited (KRTL), a company providing risk management software solutions with a focus on banking and financial services domain addressing the areas of enterprise risk management. KRTL is engaged in developing specialized risk management solutions addressing the area of credit and operation risk for financial institutions and banks. The credit risk product serves as a foundation to meet evolving regulatory risk requirements in the backdrop of Basel II recommendations and for integrating the bank's entire credit risk information. The operational risk product facilitates Banks in assessing, identifying, measuring, monitoring, controlling and reporting of losses resulting from inadequate or failed internal processes, people or systems. Your company has acquired 75.13% stake in KRTL at an investment of Rs 893.68 lakhs. This acquisition will result in diversification of revenue streams by enhancing product offerings and building up alternative revenue streams for the organization.

## Knowledge strength-CARE Research Division

Our business is concentrated on leveraging our research capabilities when doing a rating exercise. The independent CARE Research Division has now widened its canvas to cover 39 sectors, which are up from 28 in FY11. These research reports, which are available on a subscription basis, have found progressively more acceptance in the market. We are working towards enhancing the coverage so that customers, especially those from institutions, are able to procure latest cutting edge research on the entire spectrum of sectors.

## Economics

The Economics Division continues to provide real time economic analysis through reports that are released almost immediately after economic announcements are made. These reports are circulated widely to clients, banks, mutual funds, government officials and the media. The purpose is to both showcase CARE Ratings brand as well as disseminate your company's viewpoint on all issues relating to both the global and domestic economy.

As part of building our visibility we have started printing and circulating our major reports to several opinion makers and the response has been encouraging. This is over and above the wide circulation through e-mail to clients, banks, mutual funds, investors, media, government officials etc.

## Rating Committee

Your company is committed to maintaining high standards of professional quality and integrity. In line with this, we have an internal rating committee comprising senior executives of our Company and an external rating committee, comprising a majority of independent members. Each rating report is considered by our internal rating committee or our external rating committee, if not both. Ratings decided by our internal rating committee are reported to the external rating committee. Our rating committees are assisted in the evaluation by a team of professional analysts with relevant industry knowledge. The external rating committee members are Shri Y. H. Malegam (Chairman), Shri P. P. Pattanayak, Shri V. Leeladhar, Shri V.K. Chopra and Shri D.R. Dogra.

## Working with the Government of India

Your company had collaborated with the Department of Economic Affairs, Ministry of Finance, to bring out a dossier on the Indian Economy. The dossier was comprehensive and covered all aspects of the economy highlighting the strengths in detail.

## Brand CARE Ratings

We have been continuously espousing our brand in various conferences and events as well as media. We had organized two major events during the year. The first was a seminar on Credit Default Swaps in Mumbai and the other a debate on the Union Budget 2012-13 in New Delhi. (The former was graced by Smt S. Gopinath (Ex Deputy Governor, RBI) and Smt. Shilpa Kumar (Chairperson FIMMDA). For the latter, the main speakers were Shri T K Arun (Opinions Editor: The Economic Times) and Shri Sunil Jain (Opinions Editor: Financial Express). Our DMD, Shri Rajesh Mokashi was the third speaker on both the occasions while our MD & CEO, Shri D R Dogra, made the inauguration and welcome addresses.

Besides, we were active in terms of participation as sponsors in various events such as CII Finance and Investment Summit 2012, CNBC CFO Awards 2012, ASSOCHAM 2nd Annual Summit on Financial Markets, The CFO Summit 2011 and the ET REIFBS 2011 (Economic Times Real Estate Investment Forum and Business Spaces Conference).

Your company's top management has participated actively in global events such as the WG Round Table on- The Importance of Rating for Countries and Companies in Africa, at Theodor-Heuss-Academy, Gummersbach (Cologne), Germany, where a presentation on 'Rating of Companies in Africa: Specific Challenges' was made by our MD & CEO, Shri D. R. Dogra and Shri Mehul Pandya, General Manager. Shri D. R. Dogra was also appointed Director on the Board of Directors of Association of Credit Rating Agencies in Asia (ACCRA) on January 20, 2012.

CARE's participation was also visible in FICCI's seminar involving business meeting with the Prime Minister of Mauritius, RBI's Second International Research Conference, Kotak Institutional Equities 'Global Investor Conference', Meeting of FICCI – Maharashtra State Council, International Conference on 'Growth with stability in affordable Housing Markets', India Investment Conference – Positioning Portfolio for Turbulent Times, Global Steel Conference 2012, International Conference on Accounting, Finance and Taxation, ASSOCHAM, 2<sup>nd</sup> Annual Summit on Financial Markets.

## Human Resources

Human resources are the most critical asset for a company as plans can be executed thoroughly only in case we have the right people. Your organization realizes the importance of developing and maintaining a highly skilled and motivated staff. The focus has been on recruiting the best talent from top management institutes. However, for specialized functions at higher levels, lateral recruitment has been done from some of the best companies so as to match experience and superior skills with different roles.

As of March 31, 2012 we had 500 employees spread across the country which is a substantial increase from 303 as on March 31, 2011. This has been necessitated from the demands of business development and ratings which has widened, as we have been reaching out to potential customers across the country with special focus on the MSME segment. Out of these, 337 are management graduates, out of which 87 are having engineering background. Further, there are 88 Chartered Accountants and 11 Post Graduates in specialized fields like Economics, Commerce etc. The remaining 64 have other varied qualifications according to the required roles.

We also do recognize the importance of training our staff so that they are equipped with better skill sets for both professional and personal development. Apart from a rigorous induction programme for all fresh recruits, we had sent 54 colleagues for attending 28 external training programmes across the country. This serves us dual purpose of skills enhancement as well as employee retention strategies.

## IT Upgradation

The Ci3 application has been made fully operational during the year. It helps in better MIS reporting and control. It is an end-to-end solution for all information relating to rating activity which enables ease in generating reports, monitoring activity as well as used for planning.

The web site of any company is a useful marketing tool. Your company's web site has been changed to present a different look and offers easier maneuverability to visitors. A lot of data and reports are available on the website. As this is an evolving process, we are still in the process of making changes in the web site to be more effective not just from the point of view of information but also marketing.

## Directors

Pursuant to the provisions of Section 256 of the Companies Act, 1956 and Articles of Association of the Company, Shri O V Bundellu retires by rotation and being eligible offers himself for reappointment.

## The following are the Standing Committees of the Board

### Audit Committee

The Committee met four times in FY 12. The Committee comprises of Shri S. Venkatraman, Dr. N.K. Sengupta, Ms Bharti Prasad and Shri Rajesh Mokashi.

### Investment Committee

The Investment Committee comprises Shri O.V. Bundellu, Shri S. Venkataraman, Shri D. R. Dogra and Shri Rajesh Mokashi. It met four times in FY12. The Committee decided on various investment options for the company's funds to derive the maximum return while optimizing the risk level.