CARE Ratings

Professional Risk Opinion

22nd ANNUAL REPORT 2014-15

Credit Analysis & Research Ltd.

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Message from Managing Director & CEO

I am happy to inform you that your company continued to be on a stable path during 2014-15 even though the overall business environment had not changed significantly as was expected at the beginning of the year. The business climate continued to be volatile with little new investment taking place, and while we were hopeful that the stalled projects that were cleared would lead to some movement in economic activity, there was a muted revival. While there were several indicators that pointed to a recovery like the GDP growth or industrial production numbers, this did not get reflected in higher investment or credit offtake. Against this background, when I do look back, there is a sense of satisfaction that your company has still emerged stronger and more importantly resilient which gives one reason to believe that a better external environment could provide more opportunity for our business.

It is said that the true challenge for any company comes during troubled or uncertain times. One can look at 2014-15 being in this category. Our focus continued to be on expanding the rating business through a blended policy of widening our client base and deepening the relationships with them. This effort has gotten manifested in our business numbers improving with an increase in the number of clients on our portfolio as well as assignments completed across the rating spectrum. Our financials for the year also narrate the same story with our rating revenue increasing by 12.3% from Rs 226.91 crore in FY14 to Rs 254.92 crore in FY15. Other income, which is primarily from our investment income, increased by 22.1% from Rs 35.66 crore to Rs 43.56 crore leading to an increase of 13.5% in total income. With expenses increasing at a rate of 18.3% from Rs 85.72 crore to Rs 101.39 crore, operating profit rose by 8.4% from Rs 143.74 crore to Rs 155.82 crore and profit after tax from Rs 128.67 crore to Rs 140.33 crore, an increase of 9.06%.

The core strength of our approach lies in the focus on the medium and large sized companies and we were able to maintain this position of strength in 2014-15 too. We do continue to have a dominant position in terms of having the largest proportion of rated companies in the ET-500 FE-500 and BS-1000 companies at 54%, 52% and 46% respectively. This is an achievement because ratings being a sticky business, there is a first mover's advantage and to get some of these companies on board requires a lot of persuasion and convincing as these companies have been with other credit rating agencies, which came before CARE was established. Therefore, it is to the credit of the brand name of CARE Ratings, and the perseverance of our business and ratings teams that we have managed to accomplish this achievement.

We have been simultaneously concentrating on building and developing alternative rating products over the course of the year, which even though relatively small from the revenue perspective would add up to a progressively significant number over a period of time. During the year, we have worked on these products and are quite satisfied with the beginning made here. We have also been fairly active on the SME front working on both the NSIC rating as well as bank loan ratings for these companies, which can create a strong foundation going forward.

Our global ventures have been progressing quite satisfactorily too. We now have our subsidiary CARE Ratings (Africa) Pvt. Ltd. operating in Mauritius. This we believe will provide some space in the continent of Africa. Further, our global venture, ARC Ratings has already given sovereign ratings to India, Malaysia, Mauritius, and Portugal and is gradually trying to making a mark in the global sphere.

Going ahead we do believe that the economy is now only poised for accelerated growth, though the timing is still uncertain. We do appear to be past the low growth period and given the initiatives that have been taken by the government and a large focus on 'Make in India' and "Smart Cities", there will be some hastened pace of investment taking place in 2015-16. This should be beneficial for the financial sector which has been fairly subdued last year. There has been a growing awareness of the limitations of the banking sector to meet the challenge of the increase in demand for funds for investment purpose and hence the inevitability of a larger recourse to the corporate debt market. This should be good for the rating business of your company and we do hope that this works out soon so that the circumference of the rating basket widens even as we work towards occupying more space within the existing perimeter. However given that past scenarios, conjectures were not always realized at the macro level, we would prefer to follow the path of cautious optimism in FY16 and work on alternative scenarios materializing.

D.R. Dogra
MD & CEO - Mumbai

Message from Deputy Managing Director

The recovery in the economy in FY15 was more muted than was expected even though a lot of economic data pointed to conditions improving. However, at the ground level, such a turnaround was not visible to a discernible extent, which kept investment down. This in turn had restricted activity in the debt and credit markets, which had a bearing on the performance of your company.

Our strategies were two fold to begin with. The first prong was to be prepared for meeting higher demand for ratings as companies borrowed more and this was accomplished by preparing our systems – both technology and human resources for the same. The second line of strategy was to get a greater share of the existing macro business. This meant strengthening our business and ratings teams to carry out the rating assignments on a timely basis. The way things progressed during the year, we had to focus more on the second prong as the inherent buoyancy in the rating universe was missing. However, we have continued to build on our Knowledge Centre in Ahmedabad to update and upgrade facilities to prepare us to handle greater volumes over the years. This has been an efficiency enhancer in our scheme of things and will continue to be so as business scales up.

We have also had to relook at our approaches especially on the SME front when the subsidy from NSIC was utilized before the calendar year end. As we had built a team for this segment, we changed track and focused on bank loan ratings within this segment and hence kept the momentum up. We believe that going ahead too, there could be uncertainty in certain segments which could make it essential to change track to ensure that we have alternative back-up plans. Therefore, we have realized that as a rating agency we need to be nimble footed and be prepared to confront any change in the regulatory space with appropriate responses.

Similarly we kept building on the grading products which come under the basket called 'alternative rating products'. Here too we are aware, as the potential is still unknown being market driven products, that there is need to test the specific product market once they are launched which involves strong marketing and also time. So products like alternative investment funds or ITI grading or even more recently launched REITs are manifestations of these efforts which hopefully would show positive results over time.

We have also been having regular interactions with our clients and making presentations to them on the economic and business climate so that we keep sharing our views on the same. In this effort we have also been focusing on bringing out reports on various subjects – economy and industry specific so that we are able to brand the company well besides sharing our own views on various subjects. A credit rating agency like ours' is well positioned to do so given our experience and reach in almost every segment of industry where the concept of rating involves taking informed call on the firm, sector and the macro-economy. This is an ongoing process and we have had good exposure in the media on some of the reports. The crux is to bring out reports in a timely manner.

Looking ahead, the approach would be the same, though this time we are more hopeful that macro conditions will turn around favorably and the investment cycle revives. Some green shoots are visible though they have tended to be mirages in the past. We would still be conservative in our approach and work on the assumption of a modest revival in the investment climate - and that too during the second half of the year. But the effort to go beyond where we are today would remain our goal as we create higher value for our clients and investors.

Rajesh Mokashi
Dy. MD - Mumbai

Directors & Committee Members

Directors

Mr. S. B. Mainak..Chairman
(with effect from August 17, 2015)

Mr. A. K. Bansal..Director

Dr. Ashima Goyal..Director

Mr. S. Ananthakrishnan..Director
(with effect from October 06, 2014)

Mr. B. S. Keshava Murthy...Director
(with effect from October 06, 2014)

Mr. D. R. Dogra................................Managing Director & CEO

Mr. Rajesh Mokashi..............................Dy. Managing Director

Audit Committee

Dr. Ashima Goyal ....Chairperson

Mr. A. K. Bansal...

Mr. Rajesh Mokashi ....

Stakeholders Relationship Committee

Mr. A. K. Bansal...Chairman

Mr. D. R. Dogra...

Nomination & Remuneration Committee

Dr. Ashima Goyal ....Chairperson

Mr. A. K. Bansal...

Mr. S. Ananthakrishnan...

Rating Committee

Mr. Y. H. Malegam...Chairman

Mr. V. Leeladhar...

Mr. V. K. Chopra ....

Mr. P. P. Pattanayak..

Mr. D. R. Dogra ....

Risk Management Committee

Dr. Ashima Goyal ....Chairperson

Mr. Rajesh Mokashi ....

Mr. T. N. Arun Kumar ....

Corporate Social Responsibility Committee

Mr. A. K. Bansal...Chairman

Mr. D. R. Dogra...

Mr. Rajesh Mokashi ....

ESOP Compensation Committee

Mr. A. K. Bansal...Chairman

Mr. D. R. Dogra...

Bankers

IDBI Bank Ltd.

HDFC Bank Ltd.

State Bank of India

Statutory Auditors

M/s. Khimji Kunverji & Co.
Chartered Accountants

Internal Auditors

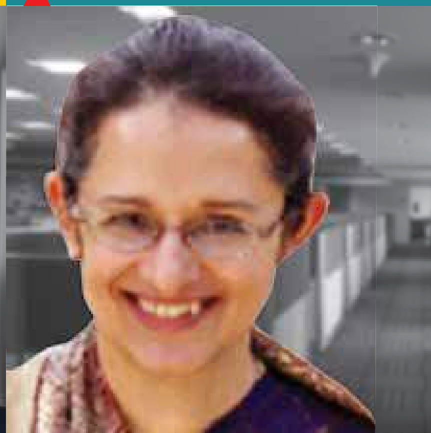
M/s. Pravin Chandak & Associates
Chartered Accountants

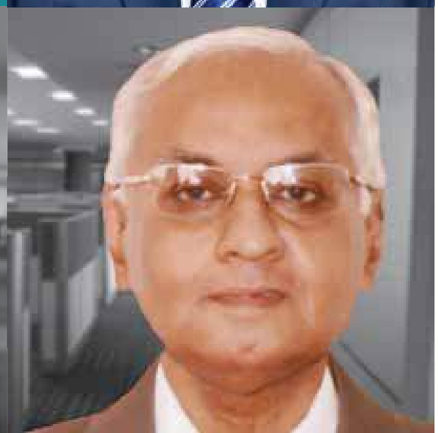

CARE Ratings
Professional Risk Opinion

Board of Directors

Mr. S. B Mainak
Chairman
Managing Director, LIC of India

Dr. Ashima Goyal
Independent Director
Professor at Indira Gandhi Institute of Development Research





Mr. A.K. Bansal
Independent Director
Ex-Executive Dir. of Indian Overseas Bank

Mr. S. Ananthakrishnan
Addl. Dir. in the capacity of Non-Executive Dir.
Ex-Executive Director at IDBI Bank

Mr. D. R. Dogra
Managing Director & CEO, CARE Ratings

Mr. B. S. Keshava Murthy
Addl. Dir. in the capacity of Non-Executive Dir.
Ex CGM at Indian Overseas Bank

Mr. Rajesh Mokashi
Deputy Managing Director, CARE Ratings

Rating Committee Members

Mr. Y. H. Malegam
Chairman of Rating Committee.

Former Managing Partner of S.B. Billimoria & Co, C.A. and former Co-chairman of Deloitte, Haskins & Sells C.A. Member – Central Board of Directors of Reserve Bank of India.

Mr. P.P. Pattanayak
Former Managing Director, State Bank of Mysore and former Deputy Managing Director and Chief Credit Officer of SBI.

Mr. V. Leeladhar
Former Deputy Governor, RBI, and Chairman of Indian Banks Association (IBA).

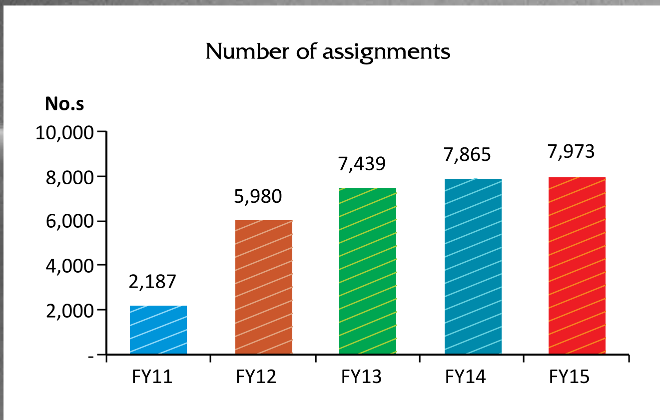
Mr. V.K. Chopra
Former Whole Time Member of SEBI and Chairman and Managing Director of Corporation Bank and Small Industries Development Bank of India

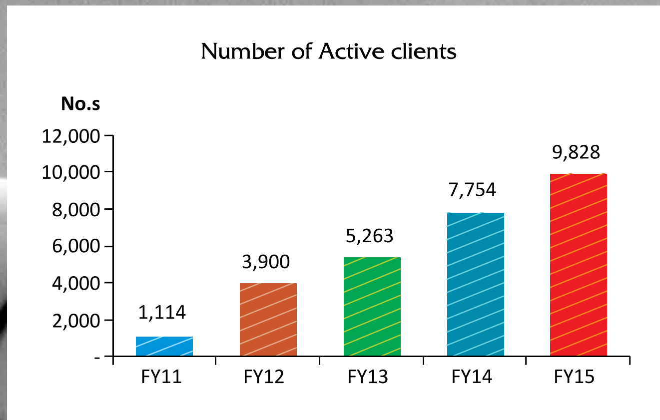
Mr. D. R. Dogra

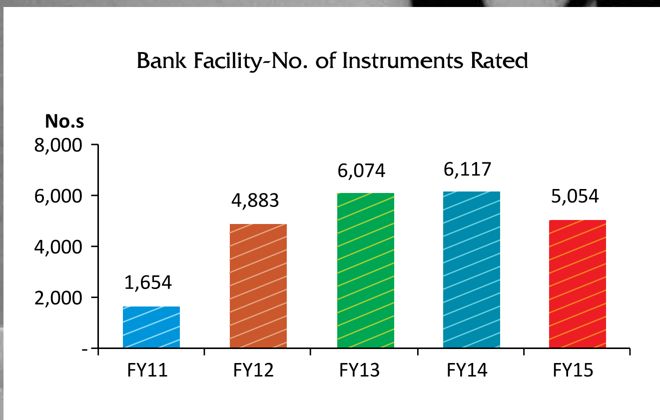
Managing Director & CEO, CARE Ratings

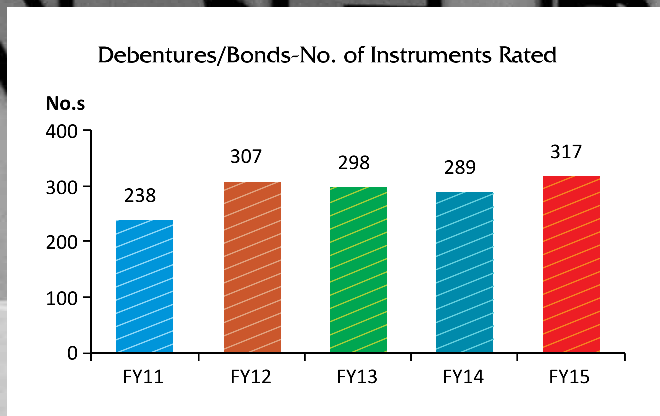
PERFORMANCE

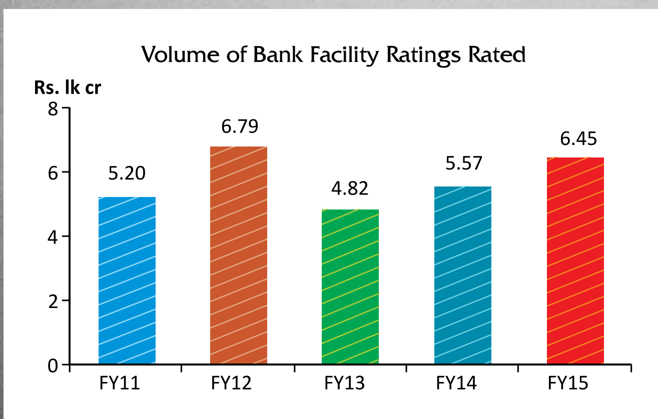
Expansion in Business

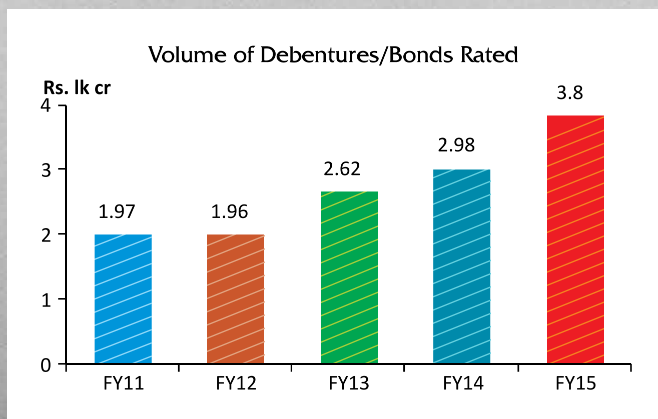












Value Creation