ICRA

ICRA Limited

November 1, 2024

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

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

Dear Sir/Madam,

Sub: Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of "Q2 & H1 FY25 Results" earnings call held on October 28, 2024.

We have uploaded the transcript on our website and the same can be accessed through the below URL:

https://www.icra.in/InvestorRelation/Index

Kindly take the above on record.

Regards,

Sincerely,

SYED SHAKEB RAHMAN
Digitally signed by SYED SHAKEB RAHMAN
Date: 2024.11.01 15:09:29 +05'30'

(S. Shakeb Rahman)
Company Secretary & Compliance Officer

Encl.: As above

"ICRA Limited

Q2 H1 FY'25 Investor and Analyst Conference Call"

October 28, 2024

MANAGEMENT: **MR. RAMNATH KRISHNAN – MANAGING DIRECTOR & GROUP CHIEF EXECUTIVE OFFICER – ICRA LIMITED**
MR. VENKATESH VISWANATHAN – GROUP CHIEF FINANCIAL OFFICER – ICRA LIMITED
MR. L. SHIVAKUMAR – EXECUTIVE VICE PRESIDENT - BUSINESS DEVELOPMENT & CHIEF BUSINESS OFFICER – ICRA LIMITED AND CHIEF EXECUTIVE OFFICER - ICRA ESG RATINGS LIMITED
MR. K. RAVICHANDRAN – EXECUTIVE VICE PRESIDENT & CHIEF RATING OFFICER – ICRA LIMITED
MR. SHUBHAM JAIN – GROUP CHIEF STRATEGY OFFICER – ICRA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the ICRA Limited Half-Yearly FY 2025 Investor and Analyst Conference Call hosted by ICRA. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone.

Please note that this conference call is being recorded. Joining us today from the management side, we have Mr. Ramnath Krishnan, Managing Director and Group CEO, ICRA Limited; Mr. Venkatesh Viswanathan, Group Chief Financial Officer; Mr. L. Shivakumar, EVP, Business Development and Chief Business Officer, ICRA Limited, and CEO, ICRA ESG Ratings ; Mr. K. Ravichandran, Executive Vice President and Chief Rating Officer; and Mr. Shubham Jain, Group Chief Strategy Officer, to discuss the performance of the company, followed by a Q&A session. Mr. Jayanta Chatterjee, MD and CEO of ICRA Analytics Limited, is unable to attend today's call due to personal exigencies. Before we begin today's conference call, I would like to remind you that some of the statements made in today's conference call may be forward-looking in nature and may involve some risk and uncertainties.

Please refer to slide number 17 of Investor Presentation for detailed disclaimer. ICRA or any of its subsidiaries or the Directors, officers, or employees of ICRA or its subsidiaries shall have no liability whatsoever for any loss howsoever arising from any forward-looking statement or use of the Investor Presentation or its contents or otherwise arising in connection with this conference call.

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

Ramnath Krishnan: Thank you, operator and good afternoon, everyone. Very warm welcome to ICRA's second quarter and first half FY 2025 Investor and Analyst Connect. Let me provide you with broad highlights for financial performance.

I am pleased to share that ICRA has achieved excellent results in the second quarter FY 2025. The group recorded a top-line growth of 20.2% with the ratings delivering remarkable year-on-growth of 24.1% and research and analytics seeing a year-on-year rise of 15.2%. Despite making substantial investments in people, technology, and infrastructure, we achieved a significant PBT growth of 20.5% in this quarter.

In the first half of the year, the ratings business delivered an impressive growth of 16.6% year-on-year, whereas research and analytics recorded a rise of 15.6% year-on-year. Our top-line overall increased by 16% year-on-year, leading to a PBT growth of 7.4%. Coming to the environment presently, the bond issuances recorded robust growth in the second quarter of this financial year, although the overall first-half growth was moderate at 5%.

Meanwhile, securitization activity picked up pace driven by NBFC's need for diverse funding and banks using securitization to address their high credit deposit ratio and ALM challenges. We also announced our first ESG rating during the quarter and remain very excited for opportunities in this space. In research and analytics, we saw demand for risk management products and customized research.

D2K acquisition, which we did towards the end of last calendar year, strengthened our risk offerings to clients, and we see a fair amount of client interest in both D2K and ICRA's risk products and solutions. Our deep process expertise, domain knowledge, and proven track record, continue to drive steady progress. Coming to the near-term outlook, we estimate India's GDP growth to print at 7%t in financial year 2025 amid downside risks owing to a significant increase in global commodity and crude prices on the back of an escalation in geopolitical tensions in the region.

In risk and analytics, we see continuing traction in areas such as Model Risk and Governance, EWS, Expected Credit Loss, Climate Risk, etc. Growing regulatory emphasis on automating credit lifecycle, along with model governance and validation for banks and NBFCs, they're all creating expanded opportunities. Strategic partnerships and a strong focus on digitization and AI-driven automation will continue to play a key role in business growth.

I take this opportunity to wish everyone a very happy Diwali and a prosperous New Year in advance. Thank you very much. Over to you, Operator.

Moderator: Thank you very much. We will now begin the question-and-answer session. We'll take our first question from the line of Rishabh Gang from Sancheti Family Office. Please go ahead.

Rishabh Gang: Hello, sir. Thank you for the opportunity. Am I audible?

Venkatesh Viswanathan: Yes.

Rishabh Gang: Yes. So my question is more on the research side and the consulting side of the business. So, I would like to get insights on what is our outlook, what is the possible market size that you think for these two domains and our strategy for the industry research business and strategy consulting projects, right? Like Market entry strategy, growth strategy, commercial due diligence.

What do we think about these businesses? Because being a rating agency, I think you have all the knowledge in-house at both secondary research as well as primary research sources. And prima facie, it seems that you would be better equipped to handle such assignments than maybe normal consulting firms such as Boutique Consulting Firms or Big 4's. So, what is our strategy on this sir?

Ramnath Krishnan: See, as far as the non-rating side of the business is concerned, which is risk and analytics space our focus will be product and advisory led not so much actually consulting. The product that we will be concentrating on will be products which are linked or allied to risk management, which is where our, expertise lies. And our acquisition, that we made towards the end of last year was also synergistic with that strategy.

Customized research, which is a business that we commenced fairly recently. Again, that's an area where we have expertise and is housed in our subsidiary ICRA analytics.

So, the advisory piece that we have been working on will continue essentially on risk areas, such as ESG advisory and, such related, areas. And that is where our focus will remain. These are the areas that we will continue to grow in.

Rishabh Gang: All right. so, on the knowledge services side, I just wanted to understand how much percentage of the knowledge services revenue is export revenue or billed to global clients? And maybe some outlook on that.

Venkatesh Viswanathan: All of it is export. From an outlook perspective, we don't give any specific guidance or outlook on how the numbers will pan out. But just to, give you a sense , most of our business, including ratings and also research and analytics, if you're looking from a trending perspective, a six-month trend, which is already available, should give you a fair amount of indication on where the business trend.

Rishabh Gang: Like-to-like growth will be there. All right. just last question on this side. Further, what are the kind of restrictions, right, we have while cross-selling services to our client? What we can and cannot sell to the rating clients and what we can and cannot sell to non-rating clients? Just a bit on that front.

Venkatesh Viswanathan: The two businesses are hosted in separate legal entities. So we have a separate team, which does our rating services and a separate team which has its own board, governance which manages the analytical services, which is the research and analytics. From a service perspective, obviously, ratings can be done only from ICRA ratings and the non-ratings, which, which covers the entire gamut of research and analytics, can be done from other legal entity .

If you are asking me whether there is any specific services which we cannot do for a particular client, I don't think so there's any restriction.

Ramnath Krishnan: The only other point that I will add is the restriction is primarily on the rating side of the business, sharing any information with any of the other group entities, which are proprietary or for that matter, related to the rating assignment. Any confidential information shared by the client with us, with a view to helping us in assigning, a rating, that information cannot be shared. But sharing aggregate, portfolio level data, anything related to sector trends and so on and so forth, which camouflage the identity of a specific client, there is no restriction on that at all.

Rishabh Gang: All right. If I can add just one small question, what is our outlook of entering into geographies outside India for rating business? And for geographies where, Moody's is already present, like, is there any rule that you cannot enter? A bit on that front. Last question on this.

Ramnath Krishnan: I don't believe there are any regulatory restrictions. As we did have a subsidiary in Lanka till very recently, which we have, which business we have wound up. We have presently an operation in Nepal. We did have one in Indonesia some years ago, which again, we are no longer involved in. So, there are no restrictions, per se, in terms of any Indian rating agency getting into a geography outside of the country. Obviously, that will be subject to the local regulations, whatever that might be. But, yes so I hope I've answered your question.

Rishabh Gang: No, but let's say there's a geography in which you are interested in and Moody's is already present there, then in such case, what happens?

Ramnath Krishnan: You see, I can only answer your question differently. At the moment, our focus, as far as ratings is concerned, is going to be primarily, in India.

L Shivakumar: If I may just add, see, wherever else we are present, which is Nepal right now, and as Ram mentioned earlier in Lanka and Indonesia, we were and we are assigning ratings on domestic scale. Moody's assigns ratings on the global scale. So, there is no conflict between ICRA and Moody's. Wherever we decide to work in a particular geography outside of India, it will be not only subject to the regulations there, we'll obviously, evaluate that and then we take a call. That's the way it works.

Rishabh Gang: Thank you so much for the wonderful insights. Thank you. Bye.

Moderator: Thank you. We'll take our next question from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Yes. Hi. Good evening. Congrats on strong performance. Sir, in terms of domestic ratings, strong growth in H1 of 17%, I believe Mr. Venkatesh has indicated that the recent momentum can be somewhat, extrapolated, as a growth outcome for the next 6-12 months. Would that be right to assume like that?

Venkatesh Viswanathan: Actually, Rajiv, what I said was we don't give a guidance. The H1 numbers are up and you take more than three months rather than taking a quarter. Go for a longer tenure, six or nine months. It can give you a sense on directionally how it is going. But having said that, again, it cannot be without caveat.

So just want to be clear that I didn't say that H2 will be equal to H1. It will give you a fair indication for your analysis and modeling.

Rajiv Mehta: But would it be right to understand that we have certain strengths in bond ratings, financial sector ratings, and infrastructure ratings, and if these segments of business want to pick up because of conducive macro, then we can do well in terms of, maintaining the growth rates in the future?

L Shivakumar: Yes, you are right that, we have a fairly strong position in the bond issuances segment, the ratings of bond issuances. And if you look at H2, one of the trends which is evolving is that banks are, in fact, struggling to get deposits. So to that extent, the bank's ability to, grow credit would perhaps face some headwinds, which is a positive for the bond issuances. We have seen bond issuances pick up very well in Q2. We do expect that H2 bond issuances will be quite good. It also is a function of many factors, including how the economy grows, the governments spend on infrastructure, a pickup in rural consumption since we have had good monsoons. So, there are several drivers, but one can say that there are tailwinds for bond issuances in the coming second half.

Rajiv Mehta: So, if, I mean, so if you were to kind of, sustain the growth rates somewhere near there, what happens to the margin flow through? I mean, in Q2 we had a very strong growth and I believe

Q2 had some pushover volumes from Q1, but the margin expansion was not, as strong as the revenue growth. Now, incrementally, if you were to sustain growth, at a very healthy pace, how would the margins behave? And if you can elaborate on factors like operating leverage, segmental mix, and also our pricing approach, I mean, and what kind of margins that we aspire, maybe in the longer run.

Ramnath Krishnan: You see, as far as the, there are two parts to this, right? And you have the ratings business and the non-ratings business. In the ratings business, our focus has been on the improvement of margins for some time now, and then we have been fairly consistent in delivering what we have internally, determined for ourselves in terms of the benchmarks.

And that trajectory, we expect, will continue, and that is essentially delivered through process improvements, process engineering, re-engineering, and with technology. The other part of it is the non-ratings business. Non-ratings business, as we expand the domestic risk management, business from where it is, today, there will be some change, in the margins because the knowledge services business, in comparison to the domestic risk management business, is a much higher margin business.

So in the proportion of the risk management, the domestic risk management business, when that actually increases, the margins, obviously, will change. So, at an aggregate level, while the margins will continue to improve, but there will be a difference between the improvement with the expansion that we might see in the ratings business and the expansion in percentage terms that we might see in the non-ratings business. But that said, in absolute terms, I mean, we expect the margins to keep improving, quarter-on-quarter and year-on-year.

Rajiv Mehta: Clear, sir. And just last question on knowledge services business. I mean, so we have been highlighting over the last three quarters about automation, efficiency in sourcing. So is there a risk to the base business? So, so far as I can understand, the base business, we've been able to manage the revenue line steady and hold. Is there a risk to even that level when you speak about these trends?

And then what is the way out if you want to grow from the current levels of revenue? Is there a way out in terms of within Moody's or maybe working with, trying, tapping opportunities outside of Moody as well in this business?

Venkatesh Viswanathan: Rajiv, I will take this question. One is, see, the base business, comprises of a lot of FTEs. And here there is a mix. You have a lot of work going on in multiple areas. So when we have said there's a risk or, automation risk and efficiency, we are talking about a general risk that is applicable to the industry. Now, what essentially the way this industry plays out, eventually you will lose some of the projects due to automation but as an entity or as an organization, we will also keep on moving on the value chain and keep on building capabilities in other segments. In the near term, yes, we have seen some rapid expansion in the past couple of years back and maybe we are not seeing that kind of a growth. But having said that, it is not right to not expect any growth at all in this segment. You will keep on getting new projects in new areas.

Rajiv Mehta: Okay. And the second part of it, tapping opportunities outside of Moody's for similar services?

Venkatesh Viswanathan: Shubham, you want to pick that up?

Shubham Jain Yes, Venkat. Thanks. Rajiv, so we are already here exploring various opportunities with non-Moody clients, both domestically as well as internationally. We have brought in several sales accelerators and international consultants who are helping us with the GTM strategy to expand our services. So we expect to intensify these efforts in the coming months.

Already, if you see, our risk practice is servicing clients globally. We also want to deepen our wallet share with those clients. And further, this acquisition of D2K is helping us in strengthening these efforts. So, I think overall, we are hoping to see some good movement over the next three to four quarters.

Rajiv Mehta: Thank you for answering all my questions and best of luck.

Moderator: Thank you. We will take our next question from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: Hi, good evening, everyone. I have two or three questions. First one is just to get some idea in terms of, the linkage between issuance and our rating revenue growth. Now, what I wanted to understand is that like this quarter, we saw fairly strong, growth in rating revenues. But hypothetically, if we kind of settle here in terms of issuance levels, how does it play out in terms of how the rating revenues move forward?

Venkatesh Viswanathan: I think he's asking what's the linkage between the bond issuance and the rating revenue. And in the current quarter, we had a strong bond issuance and will the growth rate continue around it?

L Shivakumar: No, you see, it's obviously very directly correlated. But at the same time, it's a function of which segment the issuances are coming from, whether it's the government sector or the private sector. Within the private sector, we have mostly seen the engines of growth have been infrastructure and BFSI. Then it's also a function of, within our own revenue mix, there are cap clients and non-cap clients. So, there are a whole lot of drivers. But yes, at a very high level, it's positively correlated. More of the issuances, obviously, it will give a very strong upward ticker to the revenue.

Abhijeet Sakhare: So the other way to maybe, clarify on that question would be, let's say the issuances given last year's strong base for third quarter. If we are, let's say, flat Y-o-Y, would it be fair to say that the rating revenue growth can still sustain in double digits? Or is there a drop-off which is linked to the volume of issuances in a given quarter?

L Shivakumar: See, one, we don't give guidance in terms of where we land in terms of revenue growth. But as you are well aware, issuances in terms of bonds, particularly from banks and NBFCs, where we saw a very strong traction in Q2, is likely to continue. So that will support our growth.

And similarly, bank credit also, we do a while, banks have been struggling for deposits. It is more, what should I say, wider in terms of its reach and also penetration in terms of the size of clients, in terms of, the borrowings that they do. So I would put it this way that while we do expect tailwinds on the bond issuances side, which would also help commercial paper as well as securitization, at the same time, the bank credit will provide us with stability. That's the way it has been all along.

Venkatesh Viswanathan: And Abhijit, I think one of the factors is the fee cap which we should keep in mind because there is always a fee cap model. So that also plays a role and if you are trying to correlate a bond issuance as well as revenue it might not be linear.

Abhijeet Sakhare: Got it, sir. And just to complete this question, any comments on pricing intensity given, the growth has come back fairly nicely for the industry last year or so. And if you could, give further color in terms of segments as well, whether the intensity tends to vary across different segments of the market as well.

L Shivakumar: Pricing is a function of many things. Bond issuances, usually, in the market, they tend to prefer the better rating agencies and we are one of those. So it does help us. And then again, when we look at the growth segments, one has usually seen that growth segment, the pricing is better. So given all this, I think, in terms of pricing, we should be able to continue to implement or, enforce the strategy which we've been following for the last couple of years in terms of pegging ourselves at reasonable levels and also being selective about our focus on growth segments and ensuring that we keep our pricing above a certain threshold.

So I think all these things will definitely help us. Having said that, competitive intensity remains. I don't see any change, in that. It remains at the levels which we've seen all along. But largely, I would say the competitive intensity is more among the top four rating agencies which have some amount of preference in the market. But in bond issuances, we are well preferred and well accepted.

Ramnath Krishnan: To elaborate just a bit further, generally speaking, on a relative basis, the competitive intensity is far higher in the commoditized segment, like bank loan ratings, where there is no flight to quality, if you like. So at the top end, particularly the market issuances, there will always be flight to quality. So there, naturally, we have a stronger position.

Abhijeet Sakhare: So the second one was a question on expense or margin. I remember, last time we had a call, there was some discussion around, few areas where, the company had to make certain investments which were impacting margins. I think somewhere it's something got to do with, rationalization or benchmarking of our cost in line with peers and some costs around investments towards, some technology or workflow areas as well.

So I just want to understand where are we in that journey? Because while margins have improved, it seems like there is a fairly long runway when we, compare our margins versus peers, especially in the ratings business.

Ramnath Krishnan: Sure. See, there are two parts to this. One is the benchmarking that you are talking about that related to our people, where we had to align our compensation structure with what's out there in the market, with our peer group and with the rest of the industry and so on and so forth. I mean, that was a pretty much of a one-time kind of exercise that we conducted, some time back. And in that year, naturally, we saw a significant spike in our, employee costs. Thereafter, the increase has been, since then it has been normalized.

And that there, of course, we have relatively, less work to do. As far as technology is concerned, we have been looking at technology quite closely over the last couple of years. And our spends in technology, have been increasing and that will continue to be the case. But as I said, what we will remain completely focused on is to ensure that despite all of this, we continue to see margin expansion.

So, on growth or directionally, we have been actually doing well and we will continue to remain focused there. Yes, I mean there might be a divergence between us and some of the others of which we are mindful. But we have a plan to consistently improve our margins.

Abhijeet Sakhare: Thanks for the clarification, sir. Just a couple of more items. If I could get the number for D2K revenues, if possible, first half or second quarter, if available?

Venkatesh Viswanathan: Abhijit, since we do not disclose that separately, we will not be able to share that to ensure that we maintain parity of information across all stakeholders. But you can get the last year's number from the website and it is roughly around INR19 crores or INR20 crores full year

Abhijeet Sakhare: And then one last bit. Any comments on whether you are evaluating any more acquisitions in the non-ratings piece?

Venkatesh Viswanathan: On an ongoing basis, we look at both organic as well as inorganic opportunities. If there is something exciting, we will look at it.

Abhijeet Sakhare: Thank you so much.

Moderator: Thank you. We'll take a next question from the line of Sammedi from Anand Rathi Wealth. Please go ahead.

Sammedi: Hi, good evening to everyone. The question that I wanted to ask is, for the companies or NBFCs that have been evaluated by you, so if they have been issuing structure products or marketing debentures, if they have embedded derivatives in them, then how are they rated? Like, are the derivatives considered or evaluated while assigning a rating? So just like from a curiosity point of view?

K Ravichandran: Yes, we do rate a lot of these NBFCs, which come with options especially. There can be a put option. That is something we are mindful of. We generally assess what would be the ability of the company to repay that particular debt in case, put option were to be exercised by the particular investor.

Most of the NBFCs would maintain a fair amount of liquidity on balance sheet as well as off balance sheet liquidity. Only when we are satisfied, the company would be able to honor that particular redemption with this particular put option and so on so rating is assigned. So obviously it is integral part of our rating assessment.

Sammedi: Okay. Thank you sir.

Moderator: Thank you. We will take the next question from the line of Gokul Maheshwari from Awriga Capital Advisors, LLP. Please go ahead.

Gokul Maheshwari: Yes, hi. Thank you for the opportunity. So just a question. Just if you could comment on your market shares for the first half versus last year were in various products. Not specifically numbers, just broader movements whether you have held on to your market shares improved or areas where you may have lost?

L Shivakumar: Our market share is quite stable. As we have been mentioning in the previous calls and various commentaries, which we have put out. We are very selective in a sense that we look at that segment where the pricing or where the fees, the ability of the company to pay the fees is above a certain threshold, which means we don't chase the very, very small entities. But overall the segments we are in, the segments we have chosen to be in, our market share is quite stable.

Gokul Maheshwari: Okay. Secondly, just on the knowledge services business, what you are specifically catering to your parents that's been very stagnant for the last 4 to 6 quarters or so. Well, I understand you don't give an outlook but could you just help us explain in terms of what are the engagements which you are having with them and what are they really looking forward from you to create a value add for themselves? Or projects from your parents? If you could just comment on that?

Venkatesh Viswanathan: Shubham, you may want to pick this.

Shubham Jain: Yes. So see the partnership with our parents remains pretty strong and though we are seeing some stagnancy in the business but we are exploring some other projects or processes where we can again partner with Moody's and other international clients. So yes, as you have said there has been some pressure due to automation initiatives, but we are exploring ways to deepen our service offerings to them. As I said earlier also, so we are also partnering with other sales accelerators and some other consultants who are helping us to get some more international business.

Venkatesh Viswanathan: Gokul. I will just add on to that. From a continuing engagement obviously there are discussions to see if we can expand our current scope of work for them. So that's one continuous process that we always do. The second what we are also looking at Moody's products, risk solution products. We are seeing whether there are any opportunities for us to be involved in either distribution or implementation of some of these software solutions or risk solutions that Moody's has got.

And the third as mentioned by Shubham, we are also looking outside Moody's as well to drive client expansion in newer geography and that's something which is a work in progress. You would have seen that we have acquired D2K Technologies which is also a part of strategy to diversify our revenue source.

Gokul Maheshwari: Great. And just lastly on the, so just two more questions. So one of the margins when you reiterated that there is a consistent effort to improve margins, but is there a timeframe which you would think that you will be able to bridge the gap, because the gap today is still significantly quite high versus your peers in the industry and it's primarily a four-player market. So could you just comment whether it will take 3 to 4 years or it's more like a 12 to 24-month gap which you can fill in?

Ramnath Krishnan: It's difficult to give you a timeframe, but as I said, left to us, ideally we would have preferred to do it by yesterday. But the fact is we also have to be mindful of the fact that there are certain areas where we were under-invested until about a couple of years ago and then therefore it's imperative that we invest in such areas, particularly such as technology and so on.

So that will take up some part of the spends which will also dictate the time it might take for us to get to wherever some of the others might be. But as I said, directionally we are doing well and we will consistently keep looking at improvement in the operating margins. And we have been delivering on that over the last few years.

Gokul Maheshwari: On capital allocation, I mean the business has been doing well and we have more than around INR900 crores of cash in the balance sheet. So when you up the payout spend, is there a thought process of further increasing the payouts given the buyback opportunity could be less tax-efficient now for the shareholders? So is there any thought process or discussion within the board on that one?

Venkatesh Viswanathan: We evaluate capital allocation on a periodic basis and have discussions with our board. And you would have seen that, I mean in the last few years, as you rightly said, we have increased the dividend payout and we continue to evaluate and have a discussion with the board. This also includes seeing how much we need for our own growth as well and our endeavor is to maximize shareholders' returns and we are on it.

Gokul Maheshwari: Okay. Lastly, on the tax rate, for the quarter was 35%-odd. Is this primarily because of the tax changes in the budget on account of certain debt instruments?

Venkatesh Viswanathan: You are right. Due changed in indexation, there was a one-time impact in the numbers for the current quarter.

Gokul Maheshwari: And we've taken the hit in this quarter as well. So the next couple of quarters, we go back to the corporate tax rate?

Venkatesh Viswanathan: We should be closer -- the ETR should be closer to the corporate tax rate, plus or minus 1%.

Gokul Maheshwari: Great. Thank you so much and all the best.

Moderator: Thank you. We'll take our next question from the line of Ajox Frederick from Sundaram Mutual Fund. Please go ahead.

Ajox Frederick: Sir, my question is regarding the employee expenses. And once we have acquired D2K, we were supposed to have a normalized employee spend going forward. But we are seeing a sequential increase. So when can we see a stable employee cost?

Ramnath Krishnan: See, D2K was acquired just about a year ago, towards the end of last calendar year. The rest of the group, ICRA Limited, ICRA Analytics, ICRA ESG Ratings, I would say that we are in a pretty stable state at the present time. ICRA Analytics, we'll see both spikes as well as dips in the employee cost depending on how the knowledge services business actually pans out, because that is an FTE based model. So there will be some element of unpredictability, if you like, with respect to employee cost. But it's entirely a function of how many bodies we need to throw at any business.

D2K, we haven't actually realigned that entirely, because it's not yet 100% subsidiary. There is still some work to be done. There, at the present time, it is an FTE based model. But there will be some corrections which we might have to look at in due course as we go further down the road.

Venkatesh Viswanathan: Ajox, just to add to what Ram has said, the run rate has been stable for our businesses. You have to just be mindful that D2K got acquired last November . What you are seeing from an expense base, D2K employee cost was not there last year. So that itself is also causing an aberration there. From a run rate perspective we have more or less done with a correction and be hitting a normal run rate and not a very higher run rate on the employee cost.

Ajox Frederick: Understood, sir. That's very helpful. Thanks and all the best.

Moderator: Thank you. We'll take our next question from the line of Advait Lath from Nippon India Mutual Fund. Please go ahead.

Advait Lath: Hi, congrats on a great set of numbers. I just wanted to know, how we see the ESG space spanning out and could you just explain a bit more on the model -- the revenue model that we have. Is it an issuer-paid model and how that works?

L Shivakumar: Yes, so we got our license somewhere in the end of April. We have opted for the issuer-pays model. As you are aware, there are two models, the issuer-pays and the subscriber-pays. We feel that through this model it allows us to engage better with the client in terms of getting information, doing discussions with the clients, and we feel that we can do a better job in terms of arriving at the scores and the ratings through this model.

Hence, we opted for the issuer-pays model. We have already released one rating which was about a month ago and we are working on a couple of mandates. The response is quite positive. The interest is coming in across segments and we are quite optimistic about this business.

Advait Lath: Yes, I just wanted to know so the employee base you would have for ESG ratings would overlap with the domestic ratings or would this be a separate entity altogether? Like you said, it's a subsidiary but beyond that?

Ramnath Krishnan: It's a subsidiary, it's a separate legal vehicle and SEBI requires that this be a separate legal entity. It's a subsidiary legal entity and the analytical function is completely separate as required by SEBI. So there is no overlap in the analytical function between ESG ratings and our credit rating business.

Advait Lath: And this is the last question from my end. Are we looking to get into the MSME credit ratings piece because there's a lot of traction there in terms of credit and generally MSMEs look a bit credit starved?

Ramnath Krishnan: We just we are evaluating we need to see whether -- we need to understand the scale that it might entail and for that matter what -- how much traction it will have. So we are in the process of evaluating but we don't have any plans yet.

Advait Lath: Okay, thank you so much.

Moderator: Thank you. We'll take our next question from the line of Varun Bang from Bandhan Life. Please go ahead.

Varun Bang: Yes, hi. Congratulations for a strong set of numbers. Just two, three questions. In terms of the segment reporting I think we have clubbed non-rating businesses. So what is the thought process for the same because the nature of businesses in this segment is different? So, what is the reason for the same and how should we track the progress of consulting and the market services businesses going forward?

Venkatesh Viswanathan: On the segmental reporting, we have restructured businesses internally and the way internally report. The standard requires us to mirror how we are reporting internally to also to external stakeholders. So, that's the reason why we have actually merged as we are looking internally at this as a single segment. And this is also in line with the industry practice and how the other players are also reporting.

Varun Bang: And on the knowledge services side…

Moderator: Varun may I request you to speak a bit louder, please. Your voice is very low.

Varun Bang: Yes. So on the knowledge services side again, so we used to – we get business from three Moody's companies. So within that I think the business that comes from Moody's Corporation saw a major dip in 2024 FY '24. So from INR33 crores I think it fell to less than INR1 crores. So was it one kind of a business and what is the output there?

Venkatesh Viswanathan: See from a Moody's business perspective we don't look at an legal entity because is it's more like there are large divisions within Moody's and we don't treat legal entity as base to look at our business growth in knowledge services. We look at the service segment itself and there could be a shift from one legal entity to another business.

Varun Bang: And within the work that Moody's outsources, so how do you decide whether to become partner or not? What is the thought process in terms of choosing business? What areas do we focus on? And if you can also talk about some of the parameters that we evaluate or look at before deciding on whether to participate or not participate in the outsourcing activities.

Venkatesh Viswanathan: Shubham you want to pick up?

Shubham Jain: Yes, sure. So see when Moody's start discussing, so there is as we have said earlier, there is a continuous engagement of our teams with their contemporaries in Moody's and there is regular discussion on what are the future processes or projects which Moody's may be looking to outsource.

So given that what Moody's is wanting and what our capabilities are then we decide on the future course of action whether we want to participate in getting those activities in our fold. So that's how we go about it. And also other key parameters is the longevity and stability of those projects and processes that we see because even to develop the capabilities we need to invest in creating those capabilities. So we want to ensure that we make enough money to recover whatever investments we are doing.

Varun Bang: Okay. And secondly on the rating side, what I'm observing is some of the large and also some of the mid-sized corporate borrowers, who used to borrow from banks they have shifted to bond markets and the rate at which they are raising funds it seems it's very competitive vis-a-vis bank funding. So are we also observing similar trends? What are our thoughts on this and do you think some of these trends are structural? Can you share your thoughts on that?

L Shivakumar Yes, you are right that, bond issuances have been cheaper. The yield – there the yield dropped in Q2 and bank credit relatively is more expensive. It is, we know why bank credit is more expensive, it's largely because they are struggling to get deposits. It's difficult to say whether it is temporary or structural, because it depends on how long, they would perhaps struggle to get deposits.

But I would think that next couple of quarters definitely, one is also expecting a rate cut even though it might be a shallow rate cut cycle that is going to benefit bond issuances further. So I would think bond issuances definitely, would be more attractive for a couple of quarters.

Varun Bang: Okay. And lastly, again on the capital allocation strategy, what will be our strategy for this year? Like last year we had paid one-time special dividend because the cash continues to accumulate and the return ratios continue to look, I mean it's way lower than some of our peers. So how are we looking at these areas?

Venkatesh Viswanathan: As I mentioned earlier, we will be judicious and continue to look at more rigorously as we have been doing in the past. I can't disclose specifics because these are UPSI but as I mentioned we'll keep on reviewing them on a periodic basis.

Varun Bang: Okay. Thank you.

Moderator: Thank you. We'll take our next question from the line of Parikshit Gupta from Fair Value Capital. Please go ahead.

Parikshit Gupta: Okay. Thank you very much for the opportunity. I have a question on the analytics division. I know we have already been discussing the tepid growth in the global clients but considering that global banks discretionary spend has been subdued in the recent past due to the pertinent risks, however, given the moderation interest rates along with RBI's stance changing to neutral, can you tell us a little bit about how you are having these conversations with global banks, possibly increasing their spend on work flows in the credit funnel or other operational work flows internally. If you could just help with the pulse from your discussions with them, please?

Venkatesh Viswanathan: Shubham, you may want to pick up.

Shubham Jain: Yes, sure. As I said, Parikshit, that we have been in discussions with various BFSI clients, potential clients globally, specifically on the southeast side and even in the U.S. markets. But we are in the initial phase of our journey and then all players and all the banks that we are talking to definitely they are showing interest given our track record of delivering good quality data and output to our long-standing customers on the international side.

So, when you said that, okay, there were headwinds that the banks were facing earlier but now with the decline in interest rates and the neutral stance of RBI also, so possibly we may see some positive movement in the overseas or the foreign banks. But their constant focus is on rationalization of the cost and where we come as a handy partner for them. So, there are various positive discussions which we are having right now and hopefully I think if they succeed, then we will start seeing some business coming our way.

Parikshit Gupta: Thank you very much for the detailed answer and best wishes for the season. Thank you.

Shubham Jain: Thank you.

Moderator: Thank you. Ladies and gentlemen, we'll take that as the last question for today and I'll hand over the call to Mr. Venkatesh Viswanathan, Group CFO, for closing remarks. Over to you, sir.

Venkatesh Viswanathan: Thank you all for being a part of this Investor and Analyst Call. On behalf of ICRA management, I thank you all and wish you a happy, prosperous, and safe Diwali. Thanks.

Moderator: Thank you, management team. Ladies and gentlemen, on behalf of ICRA management, that concludes this conference call. I thank all the participants for joining us. Thank you once again.