May 31, 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 "Q4 & FY24 Results" earnings call held on May 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: 2024.05.31 20:08:53 +05'30'

(S. Shakeb Rahman)
Company Secretary & Compliance Officer

Encl.: As above

"ICRA Limited

Q4 FY'24 Post Results Conference Call"

May 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 ENTITY
MR. K. RAVICHANDRAN -- EXECUTIVE VICE PRESIDENT & CHIEF RATING OFFICER – ICRA LIMITED
MR. JAYANTA CHATTERJEE -- MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER -- ICRA ANALYTICS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to ICRA Limited FY 2024 Post Results 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 touchtone phone. Please note that this conference is being recorded.

Joining us today from the management side, we have with us Mr. Ramnath Krishnan, Managing Director and Group CEO, ICRA Limited, Mr. Venkatesh Vishwanathan, Group Chief Financial Officer, Mr. L. Shivakumar, EVP Business Development and Chief Business Officer, ICRA Limited and CEO, ICRA ESG Ratings Entity, Mr. K. Ravichandran, Executive Vice President and Chief Rating Officer, Mr. Jayanta Chatterjee, MD and CEO, ICRA Analytics Limited, to discuss the performance of the company during the call followed by a Q&A session.

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 risk and uncertainties. Please refer to the slide number 23 of the investor presentation for a 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 statements or use of the investor presentation or its contents or otherwise arising in connection with this conference call.

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

Ramnath Krishnan: Thank you, operator and good afternoon, everyone. Very warm welcome to today's analyst investor call. I would commence by providing you broad highlights of our financial performance for the financial year 2024. I am delighted to say, ICRA as a group has delivered strong results in the financial year ending March 2024.

The overall top-line growth was 10.6% at a consolidated level. Ratings business delivered a growth of 12% year on year and the analytics business, which is our non-ratings business, delivered a growth of 8.6% year on year. Despite significant investment in our people, technology and related infrastructure, we were able to deliver a strong growth in our profit after tax by 11.3%. I am pleased to advise that the board has recommended, subject to shareholder's approval a dividend of INR100 per share, which includes a special dividend of INR60 a share.

In recent years, we have undergone a transformative journey, bolstering our credibility and fortifying our processes, enhancing our people's strengths and insights. Through investments in cutting-edge technology, we have become more agile, while our talent development initiatives have ensured a diverse and empowered workforce.

With analytics delivering on our imperatives and driving our growth, we are shaping a future-ready business in a data-driven world, catering to both domestic and global clients with customized solutions.

Moving ahead, we are excited to announce that Pragati Development Consulting Services Limited to the subsidiary of ICRA Limited has received SEBI's approval for registration as Category 1 ESG Rating Provider. We recognize environmental, social and governance areas as core growth areas for us and are committed to integrating ESG principles into our operations and services.

This development positions ICRA Group among the few entities offering holistic risk management solutions, including ESG ratings and scores. We are also excited about the prospects of our acquisition of D2K Technologies, a company that we acquired 60% of in November 2023, which aims to transform ICRA Analytics into a diversified product company.

As we reflect on the past year, we remain committed to our mission of providing superior ratings and comprehensive financial services to our clients, both within the country and outside. We will continue to pursue organic and inorganic growth opportunities, focusing on both expansion and sustainability, whilst nurturing talent and leveraging technology to drive our success.

On the near-term outlook, GDP growth outcomes remained healthy in the last financial year, benefiting from robust government capital spending, buoyant, albeit uneven, urban demand and services exports. At the same time, an unfavourable monsoon in 2023 dampened the output of most major crops and infused caution into rural demand.

Notwithstanding healthy capacity utilization, private investment remained modest compared to the exuberant seen in the previous cycles. Based on these factors, GDP growth was estimated at 7.8% in the last financial year. ICRA is, however, watchful about the momentum of economic activity in the first half of this financial year, that is FY2025, stemming from potential slowdown in government capex during the general elections and the monsoon period, weakness in merchandise export growth and dissipation of the benefit of deflation in global commodity prices.

We expect GDP growth to print below 6.5% in the first half of this financial year, before improving to 7.2% in the second half, aided by back-ended government capex, likely pick-up in private capex, improved rural demand if the monsoon turns out to be favorable and some pick-up in export growth. Overall, ICRA expects the GDP growth to land at 6.5% in this financial year.

I will now hand you over to Mr. Venkatesh Viswanathan, our group CFO to take you through the FY24 performance in greater detail. Over to you, Venkat.

Venkatesh Viswanathan: Thanks, Ram. Hi, everyone. I will be covering the financial section of the presentation, which is slide number 8 and 9. Starting with Q4 FY2024, consolidated revenue from operations increased 13.7% to INR124 crores for the quarter, driven by strong growth of 13% plus from both ratings and analytics. Profit after tax for the quarter increased by 22% to INR47.1 crores. Full year 2024, consolidated revenue from operations increased 10.6% to INR446.1 crores for the full year ended March 31, 2024.

Ratings delivered strong growth of 12%, whereas analytics grew by 8.6%. ICRA ratings delivered strong revenue growth as bond issuances, bank credit and securitisation continued their healthy growth trajectory. ICRA analytics growth was driven by a focus on growing our core banking and risk business and the recent acquisition of D2K technologies.

Overall expenses for the year include impact of consolidation of D2K for five months, arbitral award and D2K acquisition costs. Profit after tax increased by 11.3% to INR152.2 crores for the year. As informed by Ram earlier, we have declared a dividend of INR100 per share and we will continue to reward shareholders on a consistent basis. That's all from the finance section. I now hand it to L. Shivkumar to take over the balance part of the proceedings.

L. Shivakumar: Thank you, Venkat. Good afternoon, everyone. I will now provide an overview of ICRA's ratings business. I will do this in two parts. Firstly, I will talk about the business environment that we saw in FY '24 and then the outlook for the same for the current year that is FY '25.

So firstly, the business environment in FY '24. Both the bank credit outstanding as well as bond issuances grew significantly at 16.3% and 17.2% respectively in FY '24 year-on-year as the overall cost of borrowing in the global market remained elevated and large corporates preferred to borrow domestically.

On an incremental flow basis, the bank credit reached an all-time high level and so did the domestic corporate bond issuances. A buoyant economy supported by government's infrastructure spending and urban consumption supported the demand for credit. Given the government's thrust areas, expectedly the infrastructure and the iron and steel sectors led the incremental bank credit growth in the industry segment.

Likewise, bank credit outstanding to medium and small industrial sector grew at a faster clip than the large industrial sector. Credits to NBFCs and personal loan segmentsstill leads the rest in terms of incremental bank credit, though it moderated over the previous year as RBI increased the risk weight on bank lending to these segments in the later part of FY '24 as well as due to the merger of a large housing finance company with the bank in FY '24. Tighter liquidity conditions in the middle of the year to tame inflation also did its bit to moderate the bank credit growth.

Bond issuances grew significantly in the first and the fourth quarter of FY '24 as the yields moderated. Overall, the growth happened across all segments, that is banks, corporates and NBFCs. Banks issued bonds to fund their own credit growth while corporates and NBFCs took benefit of moderate yields.

Commercial paper outstanding grew 9.9% on year as security broking firms issued commercial paper to fund their working requirements and margin trading facility. Securitization volumes in the market are estimated to have grown at about 25% which is after excluding the impact of a large HFC that exited.

Existing large originators securitized higher volumes and new originators also came in as NBFCs and HFCs grew their book significantly driven by an uptake in consumption. ICRA's revenue growth in FY '24 reflects the trends in bank credit growth and market debt that I just mentioned.

Now let me move to the outlook for FY '25. We do not give future guidance. I will however talk about the key drivers for our business. Bank credit growth may face some headwinds with higher risk weights for certain high growth consumption segments as well as their elevated credit to deposit ratio for which the regulator has expressed some concern. Bond issuances are likely to benefit from competitive funding cost domestically which may additionally be supported by a possible rate cut by RBI sometimes later in FY '25. Geopolitical challenges are quite likely to keep global borrowing options dearer.

Growth in securitization would depend on the extent to which NBFCs and HFCs are able to grow their book. Given the higher risk weights for on balance sheet lending to NBFCs, securitization could become a preferred funding source for NBFCs. Government's continued trust on infrastructure, private sector capex and select sectors, pick up in exports and the interest rate trajectory would be critical for a sustained growth in credit market.

That is all from my side. I would now hand you over to K. Ravichandran, our Chief Rating Officer. Thank you.

K. Ravichandran: Thanks Shiv. Good afternoon to everyone. Over the next few minutes, I will be covering the performance update on rating operations. We finish the year FY '24 with further improvement in the rating accuracy metric, namely average default position or ADP. The ADP print was 94% for the just concluded fiscal. We saw 93.3% in the previous year and against a long period average of 76%. The higher the ADP, the more accurate are our ratings collectively. Other rating accuracy metrics, namely cumulative default rate and rating stability are also seen to be improving consistently over the past few years and FY '24 was no exception. The number of instances of defaults dipped to 5 in FY '24 compared to '22 in FY '23 and 42 in FY '22.

The severity of rating actions as measured by the large rating change rate also reduced to 0.7% in FY '24 from 1.4% in FY '23 and 2.3% in FY '22. You can refer to our website and the rating performance for granular details. It is our endeavour to maintain such rating accuracy level in the coming years.

Moving to other performance trends, the rating action trends in FY '24 mark the normalization of the rating change rate with a proportion of rating reaffirmations at 80% converging with the past 10-year average. The reaffirmation rate had been between 75% to 78% in the preceding two fiscals. In FY '24, ICRA upgraded two entities for every entity downgraded in continuation of the upgrade momentum that had been set in motion in FY '22 on the heels of the first year of the pandemic.

Also, a large majority of rating upgrades were driven by company-specific factors such as expansion in market share or order book, improvement in the cost structure, reduction in project risk or equity infusion that strengthened the balance sheet. Aviation, hospitality, auto and auto components and banks were the only few sectors in FY '24 where the upgrades were mostly induced by industry tailwinds.

ICRA rated several novel transactions with the notable ones being the first rating assignment by the CRA for a leveraged AIF securitization transaction of a NBFC where the pool was part of overseas bond transaction with receivables from the pool being the security and the first in width in education infrastructure space in the country based on securitization of rental receipts.

ICRA continues to be the preferred CRA amongst leading issuers in the securitization space. The company also maintained its leading position in the BFSA space where it added marquee clients including few new generation brokerage houses and NBFCs. On the corporate sector front, renewable energy, roads and EV sectors saw addition of marquee clients.

ICRA continued to expand its research and initiate strategic market outreach and events in H2. The company initiated 13 webinars on various focus sectors and participated in 40 market events with top leaders during the off year. Some of the notable webinars were on medium and small NBFCs, renewable energy, specialty chemicals, automobiles and hospitality sectors which saw overwhelming participation from the investors, lenders and industry participants.

With these remarks, let me hand over the floor to Jayanta Chatterjee, MD of ICRA Analytics Limited. Thank you.

Jayanta Chatterjee: Thank you, Ravi. Good evening, everybody. I shall take the opportunity to share an overview of the business of ICRA Analytics Limited, IAL for short, which we refer to as the non-rating business of the group. For each of the three businesses of IAL, I will cover the current environment in H2 FY '24 and briefly touch upon the outlook. Knowledge services is our largest vertical and in H2 FY '24, it continued to drive growth for IAL.

Although inflationary pressures continued, we were able to further expand our value-added services for our anchor client. We expect that focus will remain on business transformation, data analytics and technology services. Our client's businesses would be driven by increased demand for fintech skills in the issuer side of the structured finance business, business transformation projects work and sign-off work in rating support.

Moving over to our second business vertical, which is market data, we saw strong regulatory push for stress testing, risk management, data transparency and reporting, which continued to drive volumes for H2 FY '24. Here we expanded our coverage during the period to provide newer services like stress testing and enter into tie-ups with global data providers like FactSet, Bloomberg, Moody's Analytics and with ICE to service other larger markets including global markets. The outlook remains robust driven by trends towards cloud-based information tools and related data products and more of value-added services rather than pure data.

This is expected to drive consolidation of our services and products going forward. Coming to our third business, which is risk management, this was driven by increasing spends from banks on the risk management solutions that we saw during the year and there was a robust growth in this segment during H2 FY '24 and particularly Q4 FY '24. The NBFC segment also witnessed good demand in H2 and Q4.

Acquisition of D2K, which has sophisticated tools for credit monitoring and early warning signals has further strengthened our position in the risk management segment. The increased regulatory focus on automation of credit life cycles and calibration of risk management practices of NBFC upper layer with banks and the strengthening of the scale-based regulations continue to drive volumes for FY '24 with Q4 FY'24 to be particularly high yielding. We believe climate-related risks would significantly impact the regulated entities with potential long-term implications on financial stability.

The regulator undertook targeted macro-prudential risk management measures to limit offtake of unsecured consumer loans and bank lending to NBFCs with significant unsecured portfolios. The outlook for this vertical continues to remain robust with strengthened focus on revenue from consulting services, such as review and development of ICAP, model validation, capital computation, sensitivity and scenario analysis, as well as risk testing. We see increased opportunities for cloud-based scorecard models and pay-per-use models from smaller NBFCs and for overall IAL products and offerings.

As regards outlook, structured internal rating solutions with workflow management and ECL solutions are in demand, and we expect that this segment will continue to do well in future. This is an update from IAL side. Thank you all very much and I now hand over the call to the operator.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the land of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Hi, good evening. Congratulations on a good quarter. My first question is on the sharp EBITDA margin movement on Q-o-Q basis. I am aware that in the previous quarter, we had this one-time provision of INR8 crores pertaining to arbitration invoked by an ex-employee, but even adjusted for it, the margin delivery in this quarter has been pretty strong with the absolute opex actually falling by INR10 crores on Q-o-Q basis. So, can you elaborate on this margin performance on a core basis and what can be the sustainability of the currently reported margins going forward?

Venkatesh Viswanathan: Rajiv, in the previous quarter, we had a one-off that you mentioned. In the current quarter, we had an impact on account of the finance charges. We had acquired D2K in the previous quarter and there is a certain amount of deferred payouts that we have to make to the promoters over the next two years. We have accounted for a certain percentage of payout as a finance cost as required under Ind AS.

Rajiv Mehta: Please go ahead.

Venkatesh Viswanathan: So that's one-off which has caught up in this quarter.

Rajiv Mehta: One was a negative one-off in the previous quarter, which is not there in this quarter, but you're talking about that deferred payment to the promoter which has to be made to D2K promoters that is now counted in finance cost. I mean, is there any inter-P&L adjustment of costs or classification?

Venkatesh Viswanathan: No. And the second part, I think instead of looking at a Q-o-Q basis, we should look on financials on a full year basis because you will still have impact of certain expenses or a revenue which can slipover from one quarter to another quarter.

Rajiv Mehta: Okay. That is okay. That is fine. But what you have reported in this quarter for Q4, it is without any one-off positive or negative, right?

Venkatesh Viswanathan: So there's not much one-off in this quarter except the finance charges where you're seeing a bump-up there.

Rajiv Mehta: Okay. So in my calculation of margin, that is basically below the EBITDA.

Venkatesh Viswanathan: Okay.

Rajiv Mehta: And on knowledge services, we have seen further weakening of growth in this fourth quarter. So can you comment on trends in Moody's overall outsourcing volume, whether that has come up so significantly or whether our wallet share within that has been kind of lost? And is there weakness in any service line or work because we provide multiple kinds of services and knowledge within knowledge services? So just wanted some clarity on this slowdown. And then, a follow-up is whether -- when do we see growth kind of coming back? Yes, that is the question.

Venkatesh Viswanathan: JC, you want to pick up that.

Jayanta Chatterjee: Yes. So on knowledge services, as you know, we have been servicing our global client through this vertical. And there has been headwinds that we have seen in certain parts of the services that we offer to them. These are largely driven by the drive for automation that we are seeing globally. And that impacts all our clients. And obviously, they would like to automate the solution. To that extent, we do see some pressure which comes in.

The way we are handling it is essentially, we are looking at expanding our business and knowledge services to other clients globally as well as domestically. And we are also looking at growing our banking and risk management vertical business so that that provides a counter to the kind of pressure that we see in the knowledge services vertical. Venkat, anything else you would like to add to that, maybe you can add?

Venkatesh Viswanathan: No, you're fine.

Rajiv Mehta: Yes. And just one last question before I come back in the queue. When I look at knowledge services segmental margin, they seem to be resilient even amidst lower revenue growth in knowledge services. So what does it reflect? Does it reflect a higher amount of operating cost flexibility that despite a stable revenue or despite even say slight decline in revenue, we are able to kind of work with the same EBITDA level in absolute terms.

Venkatesh Viswanathan: You're talking about a quarter or full year?

Rajiv Mehta: So, Venkat, when I look at last three, four quarters of revenue line of knowledge services and even the PBT, segmental PBT line, it's been static while the growth per se has been coming off. So, we are not seeing any negative operating leverage playing out despite growth coming to almost zero. So, I was just trying to understand what is the operating cost modularity and flexibility here when the revenue growth is slowing down?

Venkatesh Viswanathan: The segment, in the previous year, has been under some stress in terms of growth. We have a fair amount of leverage and in case there is, let's say, a role loss we can scale down. We own the real estate due to which there is a cost leverage. But on a sustainable basis, if you ask me like five years, if we don't grow, obviously there will be impact.

Rajiv **Mehta:** Got that, clear. Thank you. And I will come back in the queue.

Moderator: Thank you very much. Next question is from the line of Balaji from IIFL Securities. Please go ahead.

Balaji: Thanks for taking my question and congrats on a great set of numbers. So, I have three questions, if I may. The first one is on, again, the knowledge services segment. So, one can see that your largest client, Moody's, they have been doing reasonably well as far as their two business signals are concerned. And I can also see that your own top line is a small fraction of their top line. So, what exactly is resulting in this slowdown in revenue growth? That is number one.

The second question will be on the current or the recent increase in risk rates for banks regarding their NBFC exposure. So will that mean that you will stand to benefit from that because typically the market link issuances have higher yield and margins. So that would be my second question. And my final question is more of housekeeping in nature. So, could you quantify the revenue and EBIT contribution of D2K for the fourth quarter?

Venkatesh Viswanathan: Balaji, I will pick up the first one and the third one. On the first one I think your point is valid that Moody's has got a fair amount of growth. Now essentially the way this market function is most of the budgeting process typically gets covered in December so there is a lag. If you look at the previous year, they did have some challenges which impacted us as well. Revenue from KS has got two broad components, one is full-time equivalent or an FTE billing which gives you a fixed revenue but the bulk or majority of the incremental growth for the segment comes from projects where here we did see some challenges

Balaji: Got it.

Venkatesh Viswanathan: And the third question I will just complete that. On the D2K side we have not specifically called out this revenue now. At this point in time, I am not sharing this information, but if you go to the segmental in the results that we have published and see the risk part of the segment, bulk of the movement would have come from D2K.

L. Shivakumar: Balaji, I will take the second question. This is on the increased risk weights on bank lending to NBFCs and HFCs. Yes, you are right that with the increase in risk weights we do expect some moderation in bank credit to this segment. Hence, these entities are likely to shift to bond markets for their funding needs. So, what is likely to happen is the larger entities and the ones with better ratings would find it easier to tap the bond markets whereas the smaller entities would need to look at securitization more than what they have done in the past.

So, we are already seeing those trends, but ultimately it also depends on the overall sentiments how the consumption trajectory pans out and to what extent the NBFCs and HFCs can grow. But yes, you are right that I do expect somewhat better traction on the bonds side as well as on securitization.

Balaji: Okay, if I can have a quick follow up on that. So, while this might show up in the volumes, will that show up in revenue because so basically to put it another way are most of these NBFCs on fee caps?

Balaji: So, are most of these clients on fee caps so that, you may see an uptick in volumes, but not necessarily in revenue?

L. Shivakumar: No. Securitization is never covered under fee cap. Secondly, while some large entities particularly those who issue large volumes do come under fee cap, but we also are quite mindful of the amount of debt they raise and they increase each year in terms of the funding requirements. So, the fee cap also gets reset on a frequent basis. So, as the VOD goes up, the fee cap also gets reset.

Balaji: Got it. Thank you, and all the best.

Moderator: Thank you. Next question is from the line of Varun Bang from Bandhan Life Asset Management. Please go ahead.

Varun Bang: So, the first question is on the risk consultancy services segment. So firstly, how has been your initial experience with D2K technologies if you can comment on that. And secondly how are our platforms in the risk consultancy services different from what is currently there in the market and what is our strategy to scale this consultancy services segment. This is the first question?

Jayanta Chatterjee: Varun, I'll take that. As far as our initial experience with D2K is concerned it's been very positive in the market. As you know the organization has been in the market for almost more than 20 years and their products are really something which are at the cutting edge in terms of technology.

We see a strong demand from D2K on three verticals. First is on credit monitoring, second is on regulatory reporting and third is on data management. Now, all these services which they provide in terms of software solutions to banks are actually timed very well because the regulator is also moving quickly on these areas where they need risk monitoring and regulatory measures on reporting are getting tighter and tighter.

So we are seeing increasing demand for their products especially on EWS, IRAC, asset classification, end-to-end automation and etcetera. And initial reaction to answer your question would be very, very positive. As far as our automation solutions go, I think the platform question that you had, we have automated a lot of our solutions in the internal risk scoring system as well as ECL systems which we provide for the banks, and we constantly take feedback from clients as to which areas of these products need upgradation.

And there is a lot of technology that gets deployed in these products to upgrade them on a continual basis. We have recently upgraded to a newer version of internal risk solutions which we call IRS3, and that has received very strong acceptance from the market. We are similarly upgrading other platforms as well, and we believe that IL products would be in tune with the technology movements which we see in the market. Maybe Shubham, if you would like to add anything on D2K?

Shubham Jain: Yes, thanks, JC. So definitely in addition to what JC has said, with the acquisition of D2K, our product suite on the risk and monitoring has got completed. As JC was saying that IAL already had tools like IRS and ECL and then D2K is very strong on the monitoring bit with its EWS and the asset classification tools. So, what value-added, we are also providing to the client is the end-to-end cycle for their entire known portfolios, where instead of going to different vendors, they can come to IAL, and we take care of the entire cycle. So that is becoming a good USP and DTM for our products overall. And then platform, yes, currently most of the products from D2K as well as IAL are on-frame, because of regulatory requirements also. But for some other segments like AMCs, etc., now we are creating lighter versions of our products, which may not be on-frame, but possibly operate as a SaaS model.

Ramnath Krishnan: Just for the benefit of everyone, Shubham Jain is our Group Head of Strategy.

Moderator: Varun, do you have any follow-up question?

Varun Bang: Yes. So the second question is on the knowledge services segment. So, in our PPT page 17, we have talked about increasing focus towards insourcing by our partners. So, if you can just share more insights on that, that would be helpful. And what is driving this shift and is this a temporary phenomenon?

Venkatesh Viswanathan: That's the general trend that we have seen in the outsourcing industry where they have a captive.

Varun Bang: Okay. And if you can just share the revenue mix between project business and FD or, let's say, recurring business and what rate is the recurring business going for us?

Venkatesh Viswanathan: That information we are not sharing in the annual report and to maintain parity of the information between all stakeholders, we're not able to share that.

Varun Bang: Okay. No problem. Lastly, one suggestion. I appreciate the stage that our organization has taken over the last couple of years and it's good to see some progress. But one of the areas where I still see some gap is the return ratio. And if I see a return on equity, it is less than half of CRISIL and that is because of the excess cash that we are holding. I think we should be targeting higher return on equity. And I had suggested the same thing in the last con call. I would suggest management to, you know, seriously look at this.

Venkatesh Viswanathan: Sure. I think it's a fair point. And just to reiterate, capital allocation is something which we review constantly. From a payout perspective, we increased the dividend last year. This year also, we have upped the dividend, and we also did an acquisition as well. When we look at allocation, we try to strike a fair balance between what we want for expansion and what we want as a payout. But your point is valid and well taken.

Varun Bang: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Abhijeet Sakhare from Kodak Securities. Please go ahead.

Abhijeet Sakhare: Hi. Good evening, everyone. Sir, the first question is on expenses. So initially, I think there was this comment that there's been some investments towards capability building, infrastructure. So where are we on that journey as of now? And if you would like to indicate going forward, is the pace of investments going to decline or there is still some more room to cover there? That's the first question.

Ramnath Krishnan: There are two parts to this. One is, of course, spends as far as people are concerned. That obviously is a core part of our capital. And that will be, of course, the significant corrections that we had to make in terms of aligning our pay structures in the market. Bulk of that was done about a year or two ago. And going forward, it will be just the normal annual corrections that one would expect to see.

Where we will continue to see spends over the next two to three years essentially will be in the technology area. This is an area where we have to naturally invest in infrastructure as well as enhancing the quality or efficiency of our applications to improve user experience both internally and with respect to our external users.

So that's an area where we will see spends, but we have a roadmap and we are done with probably about a year and a half or two years of that journey. And then we have another few years to go. That will continue till the time we are satisfied or till it reaches a normalized kind of a level and thereafter the spends will be what one would expect to see on a recurring basis.

Abhijeet Sakhare: Sure. And between ratings and non-ratings, is there a skew where you had to make bulk of the correction?

Ramnath Krishnan: Given the nature of the businesses, the bulk of the corrections had to be made in the ratings area because that's the skill set of the people that we have in the ratings world. In the non-ratings business, particularly in the knowledge services area, which is where bulk of our people are, in our subsidiary, ICRA Analytics, there in fact the pay scales are lower. That's the nature of that industry as well.

So the people investments, bulk of it did happen in ICRA Limited and that will essentially be the case even going forward. Going forward, we expect those changes or increases to be modest or normal. With respect to technology, I would say it would be slightly more skewed towards ratings. But having said that, there are spends happening within the non-ratings area as well.

Abhijeet Sakhare: Got it. And then finally, to finish this point, on the rating side when we benchmark your margins, they do look on the lower side. The exact comparison may not be possible due to how you allocate expenses versus others. But clearly, should we see this number inching up quite nicely over the next few years if the rating revenue growth sort of sustains where it is today?

Ramnath Krishnan: I think directionally we are headed well. And this is something that we have been keeping an eye on because we are, as you yourself would be aware, a little behind where we were in best of our years in the past. And we are actually moving towards that. It's probably not reasonable or fair to compare our margins with some of our competitors, because the construct of each one of these organizations is quite different.

So one doesn't really know how the cost allocation happens or where the resources etc are housed. But having said that, margin improvement is something that we are extremely sort of preoccupied with. And this is an area that will continue to receive our attention all the time. And it's I think fair to say that directionally, we are satisfied with the progress that we have been seeing year-after-year.

Abhijeet Sakhare: And then second one, on the non-ratings side, Venkat made a couple of points on the Moody's business and how you have to incrementally sort of compete harder. In fact, even on the non-Moody's clients as well. And then initially, there was also comment about willingness to expand inorganically. So are there any big areas where we need to clearly cover some ground and make some inorganic acquisitions over the next, maybe one, one and a half years?

Ramnath Krishnan: We will remain opportunistic. And the most important thing for us is to ensure that the opportunity that we choose to pursue will have to be synergistic with what we do as a group. So fundamentally, it has to be in the risk analytics space or research, which is actually aligned with what we're doing. So synergy is what we will be most first about or particular about.. If the opportunities are interesting, naturally we will pursue those But the intent is for us to grow the non-knowledge services business in terms of scale.

Venkatesh Viswanathan: Sorry, one correction there. It is not that it has become hard this year, it was always hard. Getting business and bidding with the other subsidies as a competitor was always there. I heard that comment saying incrementally, it has become hard - No, it was always hard .

Abhijeet Sakhare: Yes, sure. Well, thanks for that. And the last is a data question. What is the employee count? And if you can break it up between the ratings and others? Thank you.

Abhijeet Sakhare: Last year, we were at 1,495. So, has the number gone down this year?

Venkatesh Viswanathan: We would be at 1500. 400 ~, 450 would be Rating, and the balance would be non-rating side.

Moderator: Thank you very much. Next question is from the line of Ravi Purohit from Securities Investment Management. Please, go ahead.

Ravi Purohit: Yes, hi. Thanks for the opportunity. So, I have a slightly, long-term view and my question will be slightly longer on that. So, if you look at, over the last 10 years, right, out of the last 10 years, there have been three years where we reported double-digit revenue growth and seven years were probably flat or low single-digit growth. CRISIL, on the other hand, has probably done the reverse. Seven out of the 10 years were double-digit sales growth.

Now, over the last three years, of course, we have delivered double-digit sales within every year. And we've also kind of invested a lot on capabilities and abilities. Now, my question is, in the long term, how do you see this business? Moody's is a very, very growth-oriented organization. Do we have constraint to growth? Or when you look outside, because the rating business in India is, you can grow only so much, right?

It's a very, very small market. So, over the next five, 10 years, how do we see growth? Where does growth come from? Is our business constrained by options to grow, is what I'm trying to understand. Or when you kind of look at businesses over the next three years, five years, do you actually see opportunities for us to deliver double-digit sales growth continuously for the next five years, 10 years, right?

You know, something like CRISIL has done over the last 15 years in India. Because S&P has invested, they have 67% stake in CRISIL. So, they've ensured that the company kind of continues to deliver growth.

Ramnath Krishnan: There are two parts to this. One is the ratings business. And the ratings business will always be range-bound in terms of growth, because it is a regulated business. So, what we do, what we can do will always be dictated by how the regulatory framework evolves. And besides that, it's always a leverage play on the economy in terms of the credit, activity, if you like. So, that is one part of it. The other part of it is the non-ratings business. Our intent as a management team is to ensure that we have a book that is reasonably, de-risked, , either from a client concentration or business concentration.

So, which is the diversification that we are working on at the present time and all we have been working on for the last couple of years. And that is the intent with which we are keen to grow the non-knowledge services business, because the knowledge services business is heavily

Moody's dependent. The acquisition that we made towards the end of last year in the non-ratings space, acquisition of D2K technologies, that again is consistent with our strategy of growing the non-ratings business.

So, as a management team, our desire is to ensure that we have a well-diversified book, which will ensure that we have, essentially growth, that is acceptable to us and to the street on a consistent basis.

Ravi Purohit: Okay. So, you know, if you look at Moody's, somewhere towards the end of '23 they had launched an AI tool, right? AI-based research tool for their end customers, right? Because, of course, research agencies, both CRISIL and ICRA or S&P and Moody's globally would have access to an incredible amount of data, right?

Both on credit side, on companies, performances and time series of long data. They have launched this tool to kind of monetize that data. Does ICRA fall in that kind of ecosystem? Do we have enough systems and in place to kind of integrate into that?

And is ICRA kind of working towards monetizing the kind of data that you would have accumulated over the last 15, 20 years in India? And just an aside, I think we saw on LinkedIn, there was a post which says ICRA will now be called an affiliate of Moody's. What does that really mean for ICRA? Those are my two questions. Thanks.

Ramnath Krishnan: Right. See, the first question we will be guided by the regulatory framework. There are certain things that with certain points of data that we have, which we cannot monetize because we are precluded from being able to monetize it regulatorily. But we also have other data which can be monetized.

And those are all opportunities that will be pursued through ICRA analytics to the extent they are regulatory, permissible will be pursued. And all that is part of a larger strategy that we must grow the non-ratings business and to diversify our book from a revenue standpoint. About your question on us being called a Moody's affiliate, this is just rebranding at the group level at Moody's.

It doesn't change anything from our standpoint, from the point of view of us being a subsidiary of Moody's or being part of the Moody's group. So, it is just the branding, and this being done, globally by Moody's and which will be uniformly applied to all the entities that they have within their fold across the world.

Moderator: Thank you. Next question is from the line of Kunal Thanvi from Banyan Tree Advisors. Please go ahead.

Kunal Thanvi: Hi. Thanks for the opportunity. So in the start of the call, we talked about some challenges with the Moody's business because they have been trying to automate their work. Can you throw some light on this? What this, like, does it also play into lower projects coming to us? And what are the kind of automations they are trying to do?

And how, as ICRA Analytics, are we also part of the journey in terms of helping them automate processes? Like, is this automation an opportunity or a challenge for us from a longer-term perspective? That is question number one. The second is, we talked about FTE and the project business not being, we're not getting projects last year.

So, is it right to assume that FTE business, we did not see any drop-off in terms of revenue, continued to be steady state without any incremental growth and projects dried up, which could come say, in FY '25 or '26, depending upon the pipelines or Moody's.

Venkatesh Viswanathan: Kunal. the first question was whether the AI is a threat or an opportunity. I think it's a mix and there will be opportunity in the sense there are a lot of transformation or change management projects which keeps on happening.

AI will also have its own set of challenges for the industry and the way it works is you have a set of work that you do which people keep on automating and your business model also evolves and you get more towards higher end of the work.

Kunal Thanvi: So, it was on the FTEs and the project, right? If you see the knowledge service business last year, that is FY '24 is it right to assume that the FTE business was continuing steady state and project did not come through? And the growth even for years to come would only be the project business?

Venkatesh Viswanathan: Yes, it would be fair to say that we were hit more on the project side rather than on the FTE side.

Kunal Thanvi: Sure. And the second question was on the market services and risk management. While because of the D2K we saw strong jump in the risk. But when I look at the profitability of these businesses in the segment, they are barely making money. Can you talk about our profitability aspiration in this business? What are the numbers that we are looking at?

Because as you know, we've been giving commentary on high focus on growing non-Moody's, non-rating business over the next three to five years. Great if you can talk about the profitability of that you have in mind.

Venkatesh Viswanathan: I will not talk about specific in terms of how we are seeing the profitability because we don't give a guidance. The business that we are talking has got two components. One is the data business, and the other is the software business which is on the risk and consulting. Both has got a reasonably decent margin profile. I think the way currently we are seeing is at this point in time we are on an expansion or growth mode and as the turnover grows the software business should deliver better returns. And so in data as well because what you do is essentially you keep on recycling the same data.

That's what you would have seen in JC's presentation where we are trying to get some tie-ups done for data business. Currently there are some costs of investments also which are hitting, for example, in the new acquisition you have a cost of amortization which hits in this segment. A s and when it scales, I'm sure the margins profile will increase and that is what we are trying to achieve.

Kunal Thanvi: Sure. And on the ESG side we've got the license now, anything that you can -- you'd like to share on the pricing or the opportunity size on the ESG side?

L Shivkumar: Yes, so it's been a month since we got the license. So, it does look quite exciting. In a sense, there is a lot of interest from the corporates, large corporates who have taken a lot of initiative on sustainability. So, we are engaged with many of them.

Also, entities that are largely private equity led there is a lot of insistence from the shareholders to showcase what they are doing in this arena. So, we strongly believe that our rating and scoring would help these entities in that. So, that's an area where we just started, we are working on that, and it looks quite promising.

Kunal Thanvi: Sure. And like ratings, the pricing will be -- it will be an open market or regulated, any thoughts on that?

L Shivkumar: So, see, it is not regulated the pricing is not regulated neither on credit rating nor on ESG ratings. There is a regulatory framework which SEBI has put in place under which many entities including ours has got a license. So, pricing is -- will be market driven. So, we will see how it evolves.

Kunal Thanvi: Sure. Thank you so much, all the very best.

Venkatesh Viswanathan: Thank you.

Moderator: Thank you. Next question is from the line of Jinal Sheth from Awriga Capital Advisors. Please go ahead.

Jinal Sheth: Good evening. Thank you for taking my question. So, we have been investing on automation in the co-rating business and which we have spoken about before, which could kind of help us bridge the margin gap between our peers. Where are we in that journey and should we see the benefits in margins in the co-rating business in FY '25 and going forward?

Ramnath Krishnan: We have been seeing improvement in our operating margins overall in the last couple of years and we expect that to be a focus area for the management. Naturally, it will involve a number of things that we expect will contribute to this. Technology is one which will bring in operating efficiencies and we also constantly keep looking at our structures internally and to draw out as much efficiencies as possible.

So, this is a journey. I do not think we can draw a line at any point saying we are done with it and therefore we do not have to focus on this anymore. We are constantly looking at areas that can contribute towards operating margins.

One is of course, by bringing in efficiencies with respect to our operating platform. The other one is with respect to pricing our products and discontinuation of anything that we believe is not actually adding value. It is multiple things. So, we are using pretty much every lever that is available to us to ensure that we continue to be on this journey of improvement in margins.

Jinal Sheth: Okay, thank you. There is just another observation that I think another gentleman raised the point about capital allocation. I do take the point that, there has been an improvement in payout, as the CFO did mention, and considering the amount of cash that we are sitting on, it would be great to see if that can be improvised further, which ultimately will improvise our return ratios. That is about it from my side. Thank you.

Moderator: Thank you very much. Next question is from the line of Anuj Sharma from M3 Investment Private Limited. Please go ahead.

Anuj Sharma: My question is regarding the organic capability building and the knowledge services. Can you just help us to understand how we are deciding where to build capability? And just related to that, how is the engagement with the parent changing? Do you see more and more pull related options, or are we able to scout their portfolio and give them more value-added offerings? That is question number one.

Jayanta Chatterjee: Anuj, on the organic capability building and knowledge services, essentially, we are looking at both global and domestic, largely in the area which is our competence in data analysis and business transformation that we have been doing with our existing clients. We want to extend.

We are open for opportunities in both global and domestic, and wherever we see these opportunities coming, we would be very keen to engage and take that forward, and that is already happening. As far as engagement with parent is concerned, it's an ongoing activity. We constantly engage with them to explore newer areas.

As there was a comment about Moody's results, which were announced, I think they are going in a lot of areas. We are constantly engaging with them to see if we could partner with them in other activities and it's all based on the nature of opportunity at that point of time, and this is an ongoing conversation.

Anuj Sharma: And my second question is, how do we set targets or benchmarks in the knowledge services business? As I think all of us have alluded, the opportunity is very large. How do you really set what is a target or a benchmark for you to achieve, to at least remain a status quo as to where the outsourcing opportunity or the wallet size is, right? A little bit on that?

Venkatesh Viswanathan: I think we mentioned that we don't want to get into a give a forward-looking statement, but you've seen historically growth has been robust. I think that's one way to look at it. In the last one year, we have seen challenges on the project roles and if that comes back, I think we should be good there.

Anuj Sharma: All right. Thank you so much for this answer.

Moderator: Thank you. Next question is from the line of Nitish from Chrys Capital. Please go ahead.

Nitish: Hi. Thank you for the opportunity. So, my question is more on our EBITDA margin. Our FY'25 overall EBITDA margin, was around 35%, and you highlighted that the management is focusing on margin expansion. So, what is the roadmap to improve margin, and can we say that our overall margin at an overall P&L level will improve from next year?

Ramnath Krishnan: It will continue to improve. As we said before, this is something that will be part of our agenda perpetually. We will continue to use multiple levers to deliver on this, either in terms of cost rationalization or bringing in efficiencies through technology interface or repricing some of our offerings, rationalizing some of our offerings, etc.

So, this is a journey, I think, which we will be on, and then this will continuously receive a lot of attention from the management. And the good thing, I mean, I think what we are comfortable with is the direction that we have shown so far and what we have been seeing. And the trajectory of progress is something that the management is tracking closely and is satisfied with at the present time.

Nitish: And do we have any target margin?

Ramnath Krishnan: We do not provide any forward-looking guidance.

Nitish: Okay. Thank you so much.

Moderator: Thank you. Next question is from the line of Ronak Chheda from Awriga Capital Advisors. Please go ahead.

Ronak Chheda: Yes. Hi. Thanks for the opportunity. Sorry to hop on this Knowledge Services again. In the past, we've seen that the project business gets these Stickers on growth, especially around some regulatory involvement change, the ESG, where we could help the parent and be opportunistic. Could you talk about some of the regulatory changes which we are seeing globally over the next 18 months to 24 months where we would be, trying to build capabilities and try to bring back that project business?

Jayanta Chatterjee: So, as far as regulatory changes are concerned, I think the landscape which is happening domestically is also happening globally in terms of regulatory tightening. So, that itself is throwing up some opportunities. Plus, there is a lot of movement towards private credit, which is happening both in India as well as globally.

And this also is throwing up opportunities, which we would like to capitalize on as we move forward. So, essentially, I think it's a very dynamic environment, both in ratings space of our parent as well as non-rating and there is also a lot of opportunity which keeps coming up. We are constantly engaged, as we mentioned earlier, to see how we can capitalize on those opportunities. Yes, Ram, if you'd like to add something.

Ramnath Krishnan: No, I think you've covered all this. Thank you.

Ronak Chheda: Yes. Just a follow-up here. In the initial comments you made, you said some of these projects were, the client chose to automate some of these processes, and this is more structural then. Just when you think of the business going forward, you've already spoken about this. But are we losing this business to some of the captives, or this is just the automation journey of the client, which has led to such a decimal performance on the project side?

Venkatesh Viswanathan: I will pitch in JC and then you can add. What we tried to say or articulate in the previous conversation was in in the last 2-3 years growth was very good, especially when we got projects and ESG was one such project. The automation, it's a part which will play but we can look at it as an opportunity because we will get a lot of transformation projects.

There's a single client dependency and we see need to diversify this business because that makes your business model robust. JC, you may want to add.

Jayanta Chatterjee: Yes, the only additional point is what was made earlier that we do have to compete for every business. And the captives are a part of the set of entities which we compete with in order to get the business. So that's something which is ongoing. Hope that answers your question.

Moderator: Thank you very much. Ladies and gentlemen, we'll be taking the last question from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Can you comment on the margin levers besides the operating leverage and the tech lead efficiencies you've already spoken about? The other leavers can be from coming from pricing, wallet share gains, higher contribution of initial rating fees. Can you speak about these trends?

Ramnath Krishnan: Yes, besides this, what we also have done and have been looking at consistently is changes to the structure itself of the teams and of the organization internally, both on the business development side and the analytical side to ensure that we derive better efficiencies and better synergies. So the leverage, , I think you pretty much covered it all increase customers wallet, improvement in yields, expansion of the market share itself if you like, particularly with the universe that we do not actually rate at the present time, besides looking at efficiencies from an operating standpoint from within.

Rajiv Mehta: Okay. And Venkat, just one clarification, this D2K revenue consolidation is in the consulting revenue line, right?

Venkatesh Viswanathan: Yes, in the press release, yes, that's right.

Rajiv Mehta: Yes, in the segmental breakup. So when I look at the segmental consulting segment margin, it is a bit positive in Q4 versus a loss in Q3. Of course, quarterly margins and variations are not comparable. But this positive margin in Q4, is it reflective of the steady state profitability of D2K?

Venkatesh Viswanathan: That segment also has, apart from D2K, it also has got banking segment, which IAL had earlier.

Rajiv Mehta: Yes, but which is a very small revenue, actually, before D2K got merged?

Venkatesh Viswanathan: Yes, I'm coming to that. See, also, what happens is in these kinds of software implementation, sometimes a quick mandate execution drives revenue which is linked to an effort and execution and there's a tendency to accelerate near year end. I would not really be looking too much in the Q4 as a number. I think it's better, we see some more quarters how this moves rather than going by one quarter.

Rajiv Mehta: Correct. And just last question on the ESG products. So I mean, how quickly can we launch the products and go to market? What is the readiness in terms of team and everything? And if you can just comment on that, will be helpful?

Ramnath Krishnan: Well, we have been ready with this for some time now, because if you recall, the original consultation paper, I think was issued by SEBI a good probably about 18 months ago. And one was expecting the final framework, regulatory framework to land soon. So, we've had enough time to prepare ourselves well for it.

And so we have the, it's housed in our subsidiary called Pragati. In fact, we've got teams in place there. The entire structure is in place, we've got the board in place and Shiv, who is the Chief Business Officer for ICRA Limited, is also the CEO of the ESG business.

So, in terms of readiness, when I think we have been ready for some time. And Shiv alluded to earlier on, we are working on essentially engagement with the market and translating some of the opportunities that we are looking at into real business opportunities.

Rajiv Mehta: That's great. Thank you and best of luck.

Ramnath Krishnan: Thank you.

Moderator: Thank you very much. And now I hand the conference over to Mr. Venkatesh Vishwanathan, Group CFO, for closing comments.

Venkatesh Viswanathan: Thanks operator. We have come to the close of the analyst call. On behalf of ICRA, I thank all the participants for their time and the engaging conversation that we had today. Thank you.

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