

CARE RATINGS

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	609
12 month price target (INR)	730
Market cap (INR bn/USD bn)	18/0.2
Free float/Foreign ownership (%)	100.0/47.6
What's Changed	
Target Price	↓
Rating/Risk Rating	—

QUICK TAKE

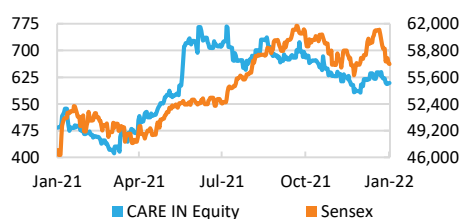
	Above	In line	Below
Profit			•
Margins			•
Revenue Growth		•	
Overall			•

FINANCIALS

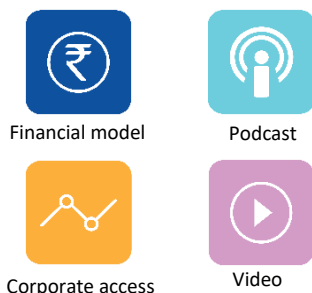
(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	2,484	2,561	2,840	3,192
EBITDA	958	857	984	1,173
Adjusted profit	895	782	856	1,011
Diluted EPS (INR)	30.4	26.5	29.1	34.3
EPS growth (%)	8.7	(12.7)	9.5	18.0
RoAE (%)	16.0	13.1	14.0	15.9
P/E (x)	20.0	23.0	21.0	17.8
EV/EBITDA (x)	13.6	15.3	13.1	10.8
Dividend yield (%)	2.8	3.1	3.2	3.6

PRICE PERFORMANCE



Explore:



Subsidiary's high base impacts growth

CARE Ratings (CARE) reported 1% sales growth in Q3FY22 (4% below estimates). While ratings sales grew 5% YoY, others segment dipped 29% YoY, owing to a high base in subsidiary CRSPL. Exacerbated by a rise in other expenses (~22% YoY), owing to higher costs on people and technology, EBITDA declined 18% YoY; missing our estimates by 20%.

With transformation for the ratings business largely complete, management is focusing on market share and maintaining surveillance income. However, across subsidiaries, the focus remains on growth along with people and technologies. Thus, higher costs on IT and employees have prompted a cut in our FY22/23E EPS by 8/10% each. Retain 'BUY' with a revised TP of INR730, at 25x FY23E EPS.

Ratings steady; CRSPL loses pace

CARE's Q3FY22 overall revenues grew 1% YoY (4% below estimates) with ratings sales inline, up 5% YoY versus 4% growth for ICRA. This was owing to an improvement in credit offtake as credit growth rose to 6.7% at the end of 9MFY22 versus 3.2% at the end of 9MFY21. While bond issuances remained muted (down 15% YoY in Q3FY22), commercial paper issuances grew sharply, up 49% YoY. However, others segment reported a lacklustre performance (29% YoY dip in revenues), led by a dip of 44% in CRSPL (high base quarter), offset by other subsidiaries displaying growth. Rise in other expenses (up 22% YoY) caused by higher attrition and hiring and technology costs led to an EBITDA dip of 18% YoY (20% below estimates). Further, ESOP charge of INR22mn (up 70% YoY) pushed employee costs up 8% YoY in Q3FY22.

Diversification: Key focus

CARE completed the internal transformation on the people, processes and product front; thus, shifting focus to regaining lost market share in ratings. Management continues to focus on other subsidiaries and plans to derive one-third of overall revenues from these over 3-4 years, as other subsidiaries barring CRSPL have turned out growth. With additional revenue streams via adjacencies being explored, management continues to look to diversify revenue streams.

Outlook and valuation: Well positioned; retain 'BUY'

CARE is well-placed to capitalise on a bond market uptick as it regains market share and contribution improves from other businesses. We build-in 14% EPS CAGR over FY22-24E. Maintain 'BUY' at 25x FY23, in line with its five-year average, yielding a revised TP of INR730 (INR810 earlier). CARE is trading at a deep discount to peers.

Financials

Year to March	Q3FY22	Q3FY21	% Change	Q2FY22	% Change
Net Revenue	0	556	(100.0)	764	(100.0)
EBITDA	(412)	183	(325.6)	335	(222.9)
Adjusted Profit	(417)	186	(323.9)	287	(245.3)
Diluted EPS (INR)	(14.2)	6.3	(323.9)	9.7	(245.3)

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	2,484	2,561	2,840	3,192
COGS	0	0	0	0
Employee costs	1,199	1,289	1,405	1,531
Other expenses	328	415	452	488
EBITDA	958	857	984	1,173
Depreciation	78	76	77	78
Less: Interest expense	6	6	6	0
Add: Other income	313	289	263	275
Profit before tax	1,186	1,064	1,164	1,370
Prov for tax	277	268	293	345
Less: Other adj	0	0	0	0
Reported profit	895	782	856	1,011
Less: Excp.item (net)	0	0	0	0
Adjusted profit	895	782	856	1,011
Diluted shares o/s	29	29	29	29
Adjusted diluted EPS	30.4	26.5	29.1	34.3
DPS (INR)	17.0	19.0	19.6	22.0
Tax rate (%)	23.3	25.2	25.2	25.2

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
Corp Debt (% of rev)	57.4	58.3	60.1	62.3
BLR (% of rev)	42.6	41.7	39.9	37.7
Gross margin (%)	51.8	49.7	50.5	52.1
EBITDA margin (%)	38.5	33.5	34.6	36.8
Net profit margin (%)	36.0	30.5	30.1	31.7
Revenue growth (% YoY)	2.0	3.1	10.9	12.4
EBITDA growth (% YoY)	17.8	(10.5)	14.8	19.3
Adj. profit growth (%)	8.7	(12.7)	9.5	18.0

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(7.3)	9.5	7.0	6.5
Repo rate (%)	4.0	4.0	4.3	5.3
USD/INR (average)	74.2	74.5	76.0	75.0
CD Issuances (% YoY)	18.0	14.0	14.0	14.0
Bank Credit (% YoY)	16.0	16.0	16.0	16.0
Debt Rated Vol (INR mn)	8,837.4	9,323.5	10,535.5	12,115.8
BLR Assignments	2,427.9	2,634.2	2,845.0	3,129.5
SME Nos.	742.6	779.7	873.3	978.0
Other costs (% of sales)	13.2	16.2	15.9	15.3

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	20.0	23.0	21.0	17.8
Price/BV (x)	3.0	3.0	2.9	2.8
EV/EBITDA (x)	13.6	15.3	13.1	10.8
Dividend yield (%)	2.8	3.1	3.2	3.6

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	295	295	295	295
Reserves	5,594	5,726	5,912	6,171
Shareholders funds	5,888	6,021	6,207	6,466
Minority interest	42	42	42	42
Borrowings	0	0	0	0
Trade payables	0	0	0	0
Other liabs & prov	666	681	695	710
Total liabilities	6,706	6,852	7,053	7,327
Net block	768	712	655	597
Intangible assets	83	83	83	83
Capital WIP	32	32	32	32
Total fixed assets	882	827	770	712
Non current inv	343	343	343	343
Cash/cash equivalent	4,876	4,822	5,029	5,295
Sundry debtors	214	470	521	586
Loans & advances	230	230	230	230
Other assets	160	160	160	160
Total assets	6,706	6,852	7,053	7,327

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	895	782	856	1,011
Add: Depreciation	78	76	77	78
Interest (net of tax)	4	4	4	0
Others	(245)	10	10	14
Less: Changes in WC	129	(257)	(51)	(65)
Operating cash flow	862	615	896	1,039
Less: Capex	(45)	(20)	(20)	(20)
Free cash flow	817	595	876	1,019

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	16.0	13.1	14.0	15.9
RoCE (%)	21.1	17.9	19.0	21.5
Inventory days	nm	nm	nm	nm
Receivable days	46	49	64	63
Payable days	nm	nm	nm	nm
Working cap (% sales)	1.2	11.2	11.9	12.6
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.8)	(0.8)	(0.8)	(0.8)
Interest coverage (x)	142.5	126.5	146.9	0

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	8.7	(12.7)	9.5	18.0
RoE (%)	16.0	13.1	14.0	15.9
EBITDA growth (%)	17.8	(10.5)	14.8	19.3
Payout ratio (%)	55.9	71.6	67.4	64.1

CARE RATINGS

Exhibit 1: Quarterly financial snapshot

Year to March	Q3FY22	Q3FY21	YoY	Q2FY22	QoQ	YTD FY22	FY22E	FY23E
Revenues	562	556	1.0	764	(26.5)	1,818	2,561	2,840
Employee cost	323	301	7.5	318	1.6	968	1,289	1,405
Other expenses	88	73	21.9	110	(19.8)	278	415	452
Total expenditure	412	373	10.3	429	(3.9)	1,246	1,704	1,857
EBITDA	150	183	(18.0)	335	(55.4)	571	857	984
Depreciation	19	20	(6.8)	18	3.7	56	76	77
EBIT	131	162	(19.4)	317	(58.8)	516	781	907
Interest	1	2		1		3	6	6
Other income	68	81	(16.3)	80	(15.0)	221	289	263
Add: Exceptional items	0	0		0		0		
Profit Before Tax	198	242	(18.2)	396	(50.1)	733	1,064	1,164
Less: Provision for Tax	49	52	(7.0)	104	(53.3)	177	268	293
Less: Minority Interest	5	3		5		14		
Reported Profit	144	186	(22.5)	287	(49.7)	542	782	856
Adjusted Profit	144	186	(22.5)	287	(49.7)	542	782	856
No. of Dil. shares outstanding (mn)	29	29		29		29	29	29
Adjusted Diluted EPS	4.7	6.2	(23.7)	9.6	(50.5)	17.9	26.5	29.1
as % of net revenues								
Staff expenses	57.6	54.1		41.7		53.2	50.3	49.5
Other expenses	15.8	13.1		14.4		15.3	16.2	15.9
EBITDA	26.7	32.8	(6.2)	43.9	(17.25)	31.4	33.5	34.6
Net profit	25.7	33.5		37.6		29.8	30.5	30.1

Source: Company, Edelweiss Research

Exhibit 2: We have cut our FY22/23E PAT by 8/10%

(INR mn)	Old		New		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	2,648	2,972	2,561	2,840	-3.3	-4.4
EBITDA	956	1,112	857	984	-10.4	-11.5
PAT	853	955	782	856	-8.4	-10.3

Source: Company, Edelweiss Research

Company Description

Credit Analysis & Research Ltd (CARE) is primarily engaged in rating services which accounts for around 98% of the total revenue of the company. CARE is the second largest rating company in India in terms of rating turnover. As on FY20, company has rated INR7.2trillion of debt.

In the last few years, the company has begun expanding internationally and is providing technical assistance services to countries like Maldives, Hongkong, Nepal and Mauritius. In addition, CARE entered into collaboration with four credit rating agencies from emerging markets like in Brazil, Portugal, Malaysia, and South Africa each to provide ratings in those countries, set up ARC ratings in those countries. CARE also provides research services and it has been expanding its product portfolio to include newer services. The company is exploring opportunities to provide risk management solutions and acquired 75.1% stake in Kalypto, a firm providing risk management software solutions in Nigeria in Nov 2011.

Investment Theme

With majority of its revenues (98%) coming from ratings, as compared to diversified profile of other companies, CARE is well placed to leverage the cyclical and structural uptick in the bank loan and corporate debt ratings. Management is focusing on i) automation across businesses and improving ratings models; ii) focus on margin-accretive accounts within capital markets; iii) improving the contributions of subsidiaries; and iv) overhauling internal processes towards stringent compliance regulations. We anticipate an improvement in CARE's market share. We have built in 14% EPS CAGR over FY22-24E.

Focus is to regain lost market share in ratings (100bps per year) from low twenties to high twenties, and new streams like REITS and InVITs which are more profitable. Management continues to focus on other subsidiaries and plans to derive one-third of overall revenues over 3-4 years.

Key Risks

Risk of defaults

Any rating default by a client would hamper the credibility of the rating agency. However, SEBI's mandatory disclosures of default rates would keep the rating agency under control of the watch guard. They have further provided for the penalty laid by SEBI related to IL&FS' default.

Concentration risk

CARE's business is concentrated on rating revenues, which account for 98% of consolidated revenues as compared to CRISIL and ICRA which are more diversified in revenue profile. As a result macroeconomic concern would impact the growth of the company. However, the company has taken small steps towards diversification with the acquisition of Kalypto, a risk management company in Nigeria. Also, the company is developing its business outside India having entered Maldives, Nepal, Mauritius, Brazil, Portugal, Malaysia and South Africa through various routes like technical assistance to local agencies and JV route.

High margin sustenance

CARE has one of the highest operating margins in the industry due to its cost competitiveness and technology-driven ratings methodology. The company's foray into newer geographies and services may potentially impact margins in the medium-term. The margins have now started normalising, in line with the industry, as they have been investing in more experienced employees.

Additional Data

Management

Chairman	Najib Shah
MD & CEO	Ajay Mahajan
CFO	Jinesh Shah
Chief Ratings Officer	Sachin Gupta
Auditor	Khimji Kunverji & Co

Holdings – Top 10*

	% Holding		% Holding
LIC of India	9.85	ABSL AMC	2.21
Franklin Resour	3.58	Russell Investm	1.80
Vanguard Group	2.87	PineBridge Inve	1.53
Polar Capital	2.86	Tata Steel	1.20
Goldman Sachs G	2.45	Raiffeisen Bank	1.12

*Latest public data

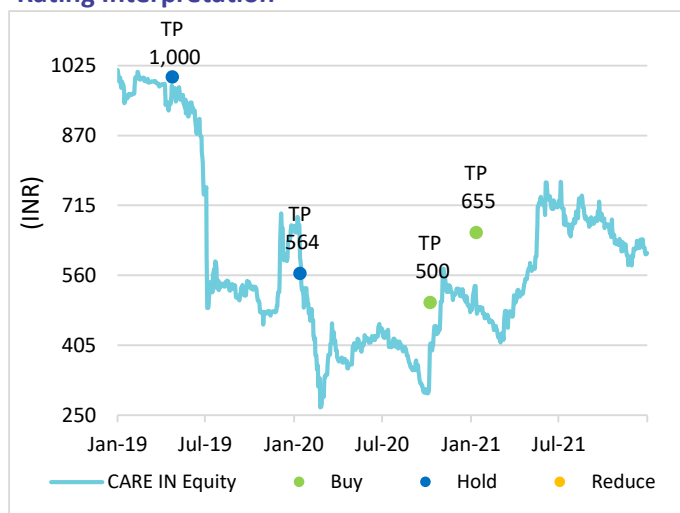
Recent Company Research

Date	Title	Price	Reco
01-Nov-21	High base hits growth; <i>Result Update</i>	664.6	Buy
04-Aug-21	Healthy sales across the board; <i>Result Update</i>	710.05	Buy
14-Jun-21	Structural transformation underway; <i>Result Update</i>	630.7	Buy

Recent Sector Research

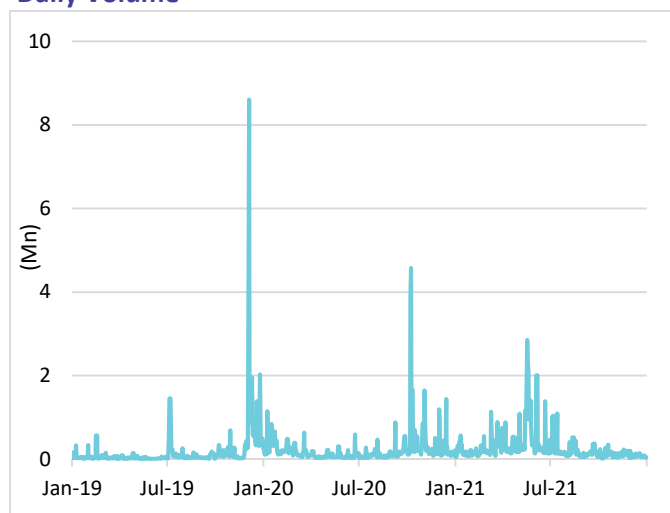
Date	Name of Co./Sector	Title
15-Nov-21	CRISIL	Solid growth across the board; <i>Result Update</i>
23-Jul-21	CRISIL	Ratings muted; research healthy; <i>Result Update</i>
23-Apr-21	CRISIL	Global recovering, domestic tempering; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	190	56	17	264
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	236	41	5	282

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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