

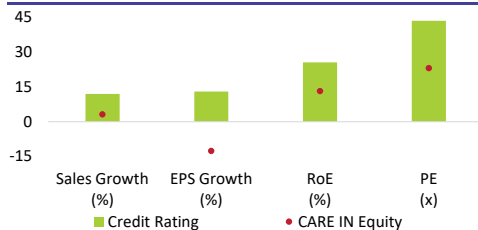
CARE RATINGS

POST- CONFERENCE NOTES

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	569
12 month price target (INR)	730
Market cap (INR bn/USD bn)	17/0.2
Free float/Foreign ownership (%)	100.0/47.6
What's Changed	
Target Price	—
Rating/Risk Rating	—

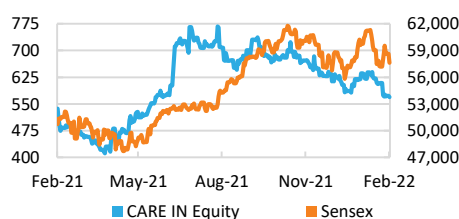
INVESTMENT METRICS



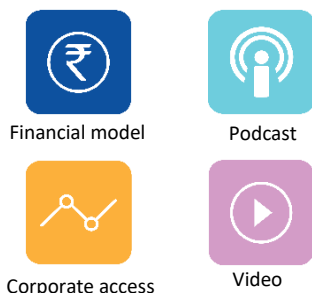
FINANCIALS

	(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:



Gradual uptick in market share

We hosted top management of Care Rating (CARE) at the *Edelweiss India e-Conference 2022: The New Edge*. Highlights: i) The company expects to benefit from strong capex announced in the union budget due to an expected pickup in bond issuances, versus a 26% dip in 9MFY22. ii) CARE expects to regain 100bp market share per year in ratings among large corporates. iii) Others segment grew merely 2% in 9MFY22, but the company expects strong growth ahead.

CARE has completed the internal transformation on the people, processes and products front, and is awaiting growth ahead. Maintain **'BUY'** at 25x FY23E EPS, in line with its five-year average, yielding a revised TP of INR730. CARE is trading at a deep discount to peers.

Key takeaways

- CARE had engaged a professional global agency (Deloitte) to reinvent the brand and its architecture, and thus evolved into the Care Edge brand. The company targets to grow market share by 1% annually for the next five years in the large and medium segments.
- While bond issuances remained muted (down 26% in 9MFY22), commercial paper issuances grew sharply, leading to short-term borrowings. However, in the wake of strong capex announced by the government in the union budget, CARE expects an uptick in new bond issuances with term loan growth expected.
- Management continues to focus on other subsidiaries and plans to derive one-third of overall sales from these over three–four years (versus 14% currently), as other subsidiaries barring CRSP posted strong growth in 9MFY22.
- The company rolled out 18 rating models with sector specific checklists to better capture risk.
- CARE's ESG data platform will be launched soon and provide rankings, grading and corporate advisory.

Outlook and valuation: Well positioned; retain 'BUY'

CARE is well-placed to capitalise on a bond market uptick as it regains market share while contribution from other businesses improves. We are building in a 14% EPS CAGR over FY22–24E. Maintain **'BUY'** at 25x FY23E EPS, in line with its five-year average, yielding a revised TP of INR730. CARE is trading at a deep discount to peers.

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

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 revenues (98%) coming from ratings as compared to diversified profile of other companies, the company 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 (100 bps 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 route 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 started now 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

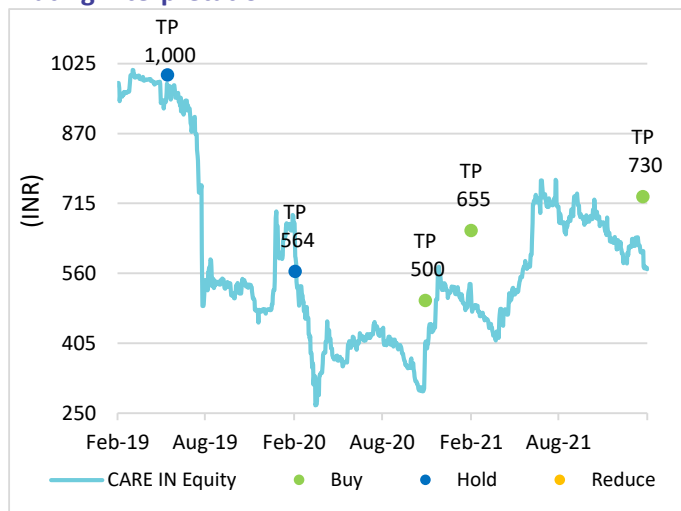
Recent Company Research

Date	Title	Price	Reco
29-Jan-22	Subsidiary's high base impacts growth; <i>Result Update</i>	609.15	Buy
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

Recent Sector Research

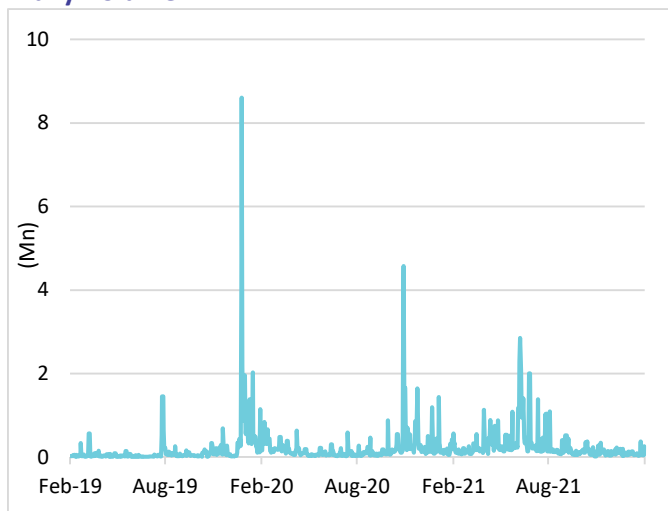
Date	Name of Co./Sector	Title
15-Nov-21	CRISIL	Solid growth across the board; <i>Result Update</i>
23-Jul-21	CRISIL	Ratings muted; research healthy; <i>Result Update</i>
23-Apr-21	CRISIL	Global recovering, domestic tempering; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	191	56	16	264
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	237	41	4	282

*1 stocks under review

Rating Rationale

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

DISCLAIMER

Edelweiss Securities Limited ("ESL" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, Investment Adviser, Research Analyst and related activities.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Disclaimer for Hong Kong persons

This report is distributed in Hong Kong by Edelweiss Securities (Hong Kong) Private Limited (ESHK), a licensed corporation (BOM -874) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to Section 116(1) of the Securities and Futures Ordinance "SFO". This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The report also does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of any individual recipients. The Indian Analyst(s) who compile this report is/are not located in Hong Kong and is/are not licensed to carry on regulated activities in Hong Kong and does not / do not hold themselves out as being able to do so.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved.

Aditya Narain

Head of Research

Aditya.Narain@edelweissfin.com
