CARE RATINGS

Business

With a Market Cap of around 1,827cr, Care Ratings offers a wide range of **rating and grading services across a diverse range of instruments** and related obligations covering wide range of sectors.

The Company also provides issuer ratings and corporate governance ratings and offers rating of innovative debt instruments, such as REITs, expected loss, perpetual bonds etc. Company has evolved in Care Edge brand after it got engaged with a professional global agency (Deloitte) to reinvent the brand and its architecture.

RATIONALE

2nd Largest Player in Industry

Care is 2nd largest credit rating agency in India with 22% market share in terms of credit rating revenues.

Industry Uptick

- Rating industry gets pick up when there's **pick up in corporate capex and growing bond market** and India is poised to grow in both areas.
- We can see Bank's credit growth picking up. **Gross bank credit growth was doubled to 10%** in FY22.
- The share of the **Retail sector** in the total credit offtake was the **largest at 28%,** followed by Industry and Services at 27% and 26%, respectively.
- There has been stability in the overall environment in the credit and debt markets with the higher levels of economic activity and mobility.
- **Capex cycle recovery** is on its way and PAT-to-GDP is set to improve, notwithstanding the high interest rates.
- Major drivers remain with the robust bank credit growth, pick up in private capex due to growth in manufacturing sector given the Anti China theme.
- High Frequency indicators like **improved GST collection,** state governments' ability to spend has gone up; driving **higher government spending.**
- Policies by government are showing up as a good support like **PLI, cut on corporate taxes, etc. Infrastructure investment** can increase which will be mostly met through bond issuances, though bond issuances continue to be impacted by high interest rates.
- Also, the Corporate **India's PAT is again at ~5% of GDP** in FY22, after bottoming out at 1.2% in FY20.

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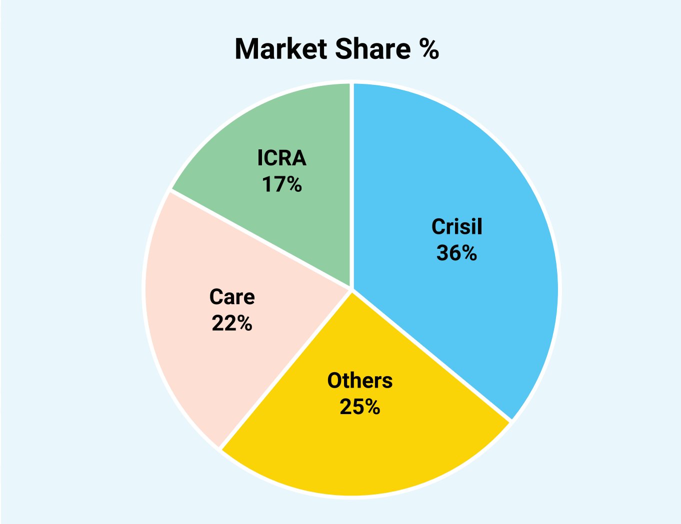
Oligopoly Market

There are not many players in Indian Credit Rating Market. Since 75% of the market is with 3 companies namely Crisil, Care Ratings and ICRA, it is oligopoly in nature.

All three rating agencies should see a good growth, with ICRA and CARE likely to recover their shares after underperforming CRISIL between FY19-22.

Recently SEBI has issued an order to Brickwork Ratings India Pvt Ltd to wind down its operations within six months stating that the credit rating agency has failed to exercise proper skill, care and diligence while discharging duties as a credit rating agency.



New Management

Mr. Mehul Pandya has been appointed as a CEO after the resignation of Mr. Ajay Mahajan. Mehul has 26 years of rich experience in rating industry and is a technocrat with management background and a CFA charter holder from CFA Institute, USA.

Prior to joining CARE Ratings, he worked with state level financial institutions and was instrumental in establishing an in-house credit rating cell for the screening of lending proposals.

Market Share Gain

The company targets to grow market share by 1% annually for the next five years in the large and medium segments.

As per the management, the industry has not grown from past 2 years and for market share gain overall industry must grow.

Diversification

Company is also focussing to derive one third of its revenues from its subsidiaries in near future.

CARE Ratings Ltd, the parent company in the group, is one of the leading credit rating agencies in India. The wholly owned subsidiaries of CARE Ratings are

1. **CARE Advisory, Research & Training Ltd,** which offers customized advisory services, credible business research and analytical services.
2. **CARE Risk Solutions Private Ltd,** which provides risk management solutions.
3. **CARE Ratings (Africa) Private Limited (CRAF)** is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius from May 7, 2015. It is also recognized by the Bank of Mauritius as an External Credit Assessment Institution (ECAI) from May 9, 2016. In February 2019, CRAF received the approval of the Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya under the Capital Markets Act and the Regulations and

Guidelines issued thereunder.

4. **CARE Ratings Nepal Ltd. (CRNL),** incorporated in Kathmandu, Nepal, is an authorized credit rating agency licensed by the Securities Board of Nepal w.e.f. November 16, 2017.

Asset Light Model

Company works on an asset light model as it generates more than 2.5x (net) asset turns with +30% net profit margins.

It's a cash rich and net debt negative with a good dividend payout.

They have infused capital in CARE Risk Solutions Pvt. Ltd of Rs. 34 Crs and Rs. 10 Crs into CARE Advisory Research & Training Ltd. to strengthen both the segments.

Management is focusing on

- Automation across businesses & improving ratings models
- Margin-accretive accounts within capital market,
- Improving the contributions of subsidiaries.
- Overhauling internal processes towards stringent compliance regulations.

High Entry Barrier

- Industry is highly regulated.
- Companies need to work in accordance with the SEBI licensing with a specified framework.
- It takes a lot of time to build the trust for structured finance, money market and other huge complex corporate debt ratings.
- Hence it becomes difficult for any new player to enter into market.

Financials

- Company has two segments contributing to the revenue and earns major revenue (~90% share) from rating business with second largest rating company in India in terms of rating turnover.
- Another revenue contributor is non-rating segment which has seen 40-45% top line growth in FY22.
- Company serves mainly to large corporate loans.

- As per the management, Advisory has started seeing traction and Risk solution will eventually improve.
- The equity infusion will support these subsidiaries and one can expect good contribution from non-rating portfolio from FY23 onwards.
- The company has also empanelled as an ESG Rating Provider (ERP) for AMCs by AMFI. This will be additional revenue generation activity.

Description	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	H1'23
Revenue	**333**	**319**	**244**	**248**	**248**	**155.32**
Growth%		-4%	-24%	2%	0%	12%
EBITDA	**211**	**175**	**81**	**96**	**80**	
Growth%		-17%	-53%	18%	-17%	
EBIT	**208**	**171**	**74**	**88**	**72**	
Other Income	**25**	30	31	31	27	
Interest expense			1	1	0	
PBT	**233**	**202**	**104**	**119**	**99**	**68.9**
PAT	**162**	**138**	**83**	**91**	**77**	**48.9**
Growth%		-15%	-40%	9%	-16%	27%

Note: All Figures in Crores

Description	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	H1'23
Revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
EBITDA	**63%**	**55%**	**33%**	**39%**	**32%**	
EBIT	**62%**	**54%**	**30%**	**35%**	**29%**	
Other Income	8%	10%	13%	13%	11%	
PBT	**70%**	**63%**	**43%**	**48%**	**40%**	**44%**
PAT	**49%**	**43%**	**34%**	**37%**	**31%**	**31%**

Particulars	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Networth	597	550	533	589	647
Net debt	-547	-469	-454	-530	-137
Net Assets	60	83	93	85	96
Debtors	39	47	41	21	17
Inventories	0	0	0	0	0
Creditors	3	1	2	4	5
Customer advance	20	20	29	21	16
Working capital	-509	-560	-494	-532	-564
Cash	29	30	115	290	570

Note: All Figures in Crores

Cash Rich

As on Mar'22, company had net cash of ~Rs. 570 Crs and it is expected to have cash & cash Equivalents of ~Rs. 530 Crs by FY24 which is **~30% of current market cap.**

Strong Shareholding

- **Crisil holds +8%**
- **LIC holds +9%**
- **Other key shareholders are Nippon Life, Franklin and Aditya Birla Sun Life**

Valuations

- Currently stock is trading at 21x PE whereas peers are trading at 40x Crisil and 39x ICRA.
- Given the growth avenues and cash at 30% of market cap, it seems a good investment opportunity.

Share Holding & Buy Back

The company has some big names in the shareholding, some amongst them are LIC (+9% holding), CRISIL (+8% holding). The Board of Directors on July 20, 2022, approved a buyback of 7.99% of the total issued and paid-up equity share capital at a price of Rs 515/- per equity share.

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