CARE Ratings Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**CARE Ratings operates as a moated oligopolist in the credit rating sector, maintaining high-quality core operations with a 34% operating profit margin.**	—
2	**Consolidated revenue growth accelerated to 18.89% YoY (□332 Cr), outperforming the previous year's 12.66% growth rate.**	—
3	***Operating margins compressed from 36% to 34% due to a 464% surge in ESOP costs and increased sub-contracting fees.***	—
4	***Earnings quality is diluted by a high reliance on non-core activities, with Other Income (47 Cr) accounting for 31.84% of PBT.***	—
5	**The balance sheet remains a "fortress" with a negligible Debt/Equity ratio of 0.03x and a massive liquid surplus of □574 Cr.**	—
6	**Cash flow generation is elite, with □82 Cr in Free Cash Flow easily covering the □67 Cr dividend payout to shareholders.**	—
7	***Capital allocation is currently inefficient as core profits are being utilized to fund a 23.08 Cr loss at the CARE Analytics subsidiary.***	—
8	***Asset risk persists with 5.99 Cr in Intangible Assets Under Development, following a similar 5.71 Cr write-off in the prior period.***	—
9	**Governance standards are superior, characterized by 77% board independence, zero promoter pledging, and clean audit trails.**	—
10	***A Madras High Court injunction restricts asset disposal, creating a legal overhang that limits the company's capital flexibility.***	—
11	**Revenue visibility is robust for the near term, evidenced by a 105.87% surge in Contract Liabilities (unearned revenue) to □26.97 Cr.**	—
12	Stance is Watch; monitor the conversion of contract liabilities and the path to EBITDA breakeven for the Analytics & Advisory segment.	—

1. Business overview

- **Business Segments:** Primarily credit ratings (94.5% of turnover), supplemented by advisory services, risk management solutions, and ESG ratings.
- **Revenue Drivers:** Core rating income (including surveillance), which grew 14.11% to □298.38 Cr, and a significant scale-up in Advisory Services (□24.10 Cr).
- **Cost Drivers:** Employee benefits (49.93% of sales), technology costs, and a new reliance on sub-contracting charges (□6.23 Cr).
- **Industry Position:** Maintains an oligopolistic "toll-booth" position with claimed leadership in Infrastructure and BFSI sectors.

- **Expansion Plans:** Aggressive international expansion into South Africa and Saudi Arabia ("Global South" strategy) and the launch of a Sovereign Ratings methodology.
- **Acquisitions & Subsidiaries:** CARE Analytics & Advisory (89% revenue growth but □23.08 Cr loss) and the newly carved-out CARE ESG Ratings to capture mandatory BRSR reporting.
- **Capacity Additions:** Focus on "Platform Modernization" and the launch of "CareEXA" (AI program) to automate rating processes.
- **Geographical Presence:** Heavily domestic (93.08% of revenue), with profitable international units in Mauritius and Nepal.

2. Management commentary & outlook

- Management is aggressively rebranding the company from a cyclical credit rating agency into a diversified "FinTech" and "Analytics" group under the theme "Action Spurs Transformation."
- A critical structural shift was implemented in the Business Development vertical, moving from a geographic structure to a sector-specific approach to improve pricing power and client "stickiness."
- The launch of Sovereign Ratings is a strategic brand-building exercise intended to facilitate international expansion, despite the dominance of global incumbents.
- Platform modernization is a high-stakes priority following a □5.70 Cr IT write-off in FY23; the current focus is on AI-driven automation to protect margins against rising talent costs.
- Management is utilizing a "Group Approach" to mitigate the cyclicality of core ratings, though the domestic Analytics subsidiary remains in a significant "burn phase" with widening losses.
- Attrition improved from 28% to 23.5% YoY, supported by a more formalized corporate approach to human capital, including a "9-Box Performance Grid."
- The Board appears responsive to shareholder optics, as CEO remuneration increased by only 1% in FY24 following a controversial 107% jump in the prior year.
- Management is tightening the credit leash on issuers, making the recovery of outstanding dues a Key Managerial Personnel (KMP) performance metric.
- The long-term vision involves "ring-fencing" the core rating brand from ESG controversies by housing ESG services in a dedicated 100% subsidiary.
- Management Tone: The tone is **"Strategically Aggressive but Operationally Cautious."** Management is talking like a growth-oriented tech firm ("Transformation," "Sovereign," "Global Footprint") while the underlying financials of the subsidiaries still reflect a struggling diversification effort. There is a clear attempt to move away from the "stodgy" image of a credit rater.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2024	Mar 2023
Sales	332	279
Sales Growth %	18.89	12.66
Expenses	220	180
Manufacturing Cost %	2.66	1.01
Employee Cost %	49.93	48.39
Other Cost %	13.61	15
Operating Profit	112	99
OPM %	34	36
Other Income	47	38
Exceptional items	0	0
Other income normal	47	38
Interest	2	1
Depreciation	10	11
Profit before tax	147	126
Tax %	30	32
Net Profit	103	85
Minority share	-2	-2
Exceptional items AT	0	0
Profit excl Excep	103	85
Profit for PE	101	84
Profit for EPS	101	84
Profit Growth %	20	11
EPS (□)	33.67	28.12
Dividend Payout %	53	89

Balance sheet (□Cr)

Line item	Mar 2024	Mar 2023
Equity Capital	30	30
Reserves	687	643
Borrowings	20	17
Lease Liabilities	19.56	17.48
Other Borrowings	-0.01	0
Other Liabilities	105	80
Non controlling int	7	7
Trade Payables	13	10
Advance from Customers	0	0
Other liability items	84	63
Total Liabilities	842	770
Fixed Assets	109	107
Building	74.67	73.22
Equipments	5.33	4.65
Computers	13.24	11.89
Furniture n fittings	10.86	8.90
Vehicles	2.47	2.47
Intangible Assets	7.95	7.95
Other fixed assets	25.36	23
Gross Block	139.88	132.08
Accumulated Depreciation	31.06	24.80
CWIP	6	4
Investments	44	44
Other Assets	683	614
Trade receivables	22	20
Receivables over 6m	3	8.11
Receivables under 6m	22.52	15.21
Prov for Doubtful	-3.04	-2.94
Cash Equivalents	58	56
Loans n Advances	9	8
Other asset items	593	530
Total Assets	842	770

Cash flow statement (□Cr)

Line item	Mar 2024	Mar 2023
Cash from Operating Activity	91	82
Profit from operations	120	110
Receivables	0	-4
Payables	0	0
Operating Deposits	0	0
Other WC items	13	8
Working capital changes	13	4
Direct taxes	-42	-32
Cash from Investing Activity	-39	13
Fixed assets purchased	-9	-12
Fixed assets sold	0	0
Investments purchased	-321	-151
Investments sold	324	151
Investment income	0	0
Interest received	40	18
Dividends received	0	0
Other investing items	-72	5
Cash from Financing Activity	-63	-63
Proceeds from shares	8	2
Interest paid fin	-2	-1
Dividends paid	-67	-60
Financial liabilities	-2	-3
Other financing items	0	-2
Net Cash Flow	-11	32
Free Cash Flow	82	71
CFO/OP	119	115

Key ratios

Line item	Mar 2024	Mar 2023
Debtor Days	25	27
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	25	27
Working Capital Days	591	638
ROCE %	21	19

3.2 Financial analysis summary

- **Revenue** grew by 18.89% to □332.00 Cr, primarily driven by a 14.11% increase in core Rating income and the successful scale-up of Advisory Services to □24.10 Cr; this growth was supported by efficient collections as Trade Receivables remained stable at □22.00 Cr with Debtor Days improving to 25.
- **EBITDA** (Operating Profit) grew 13.13% to □112.00 Cr, but OPM % contracted from 36.00% to 34.00% as Employee Cost % rose to 49.93% due to a 464.58% surge in ESOP costs and a new □6.23 Cr sub-contracting expense.
- **Other Income** of □47.00 Cr contributed a significant 31.84% to Profit before tax, largely derived from interest on a massive □574.32 Cr cash pile invested in bank deposits and mutual funds, effectively making the Balance Sheet a "cash-box" where 68.23% of Total Assets are financial investments.
- **Net Profit** increased by 20.00% to □103.00 Cr, supported by a lower effective tax rate of 30.00%, though ROE % of 14.08% remains dampened by the large, low-yielding cash balance.
- **CFO** of □91.00 Cr represents a healthy 88% conversion of PAT, significantly aided by a 105.87% jump in Contract Liabilities (unearned revenue) to □26.97 Cr, signaling strong advance billings for future services.
- The company remains essentially **Debt Free** with Total Debt of □20.00 Cr consisting almost entirely of Lease Liabilities, resulting in a Debt/Equity of 0.03 and Interest Coverage of 74.50x.
- **Capex** of □9.00 Cr was easily covered by FCF of □82.00 Cr, though CWIP and Intangible assets under development of □5.99 Cr represent a monitorable risk given the □5.71 Cr write-off in the prior year.
- **Other Assets** are dominated by □571.03 Cr in long-term bank deposits, while Other Expenses were impacted by a sharp increase in Professional Fees (□9.08 Cr) and Advertisement costs (□2.95 Cr) to support brand positioning.
- The dominant financial theme of the year is **"Robust core cash generation funding a loss-making diversification pivot while maintaining a fortress, cash-heavy balance sheet."**

3.3 Contingent liabilities & commitments

- **Regulatory Adjudication:** □1.00 Cr provision for SEBI/regulatory proceedings regarding certain credit ratings; high estimation uncertainty remains.
- **Madras High Court Litigation:** A critical legal restriction requires the Holding Company to seek court permission prior to any transfer, sale, or disposal of its assets. Management currently deems the likelihood of outflow "remote."
- **Bank Guarantees:** □4.26 Cr (lien marked) for performance obligations.
- **Capital Commitments:** □3.70 Cr primarily for software and technology infrastructure upgrades.
- **Contractual Obligations:** □0.40 Cr provision for the expected cost of cancelling a long-term service contract in subsidiary CAAPL.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — CFO of □91 Cr lags PAT of □103 Cr due to high non-cash other income.	—	Other income (□47 Cr) is 32% of PBT, primarily interest on bank deposits.
2	Receivables & channel-stuffing signal	Revenue ↑ — efficient collections; receivables grew 10% vs revenue growth of 18.9%.	—	Debtor days improved from 27 to 25; no inventory as service business.
3	Revenue timing	Revenue ↑ — strong pipeline; contract liabilities doubled to □26.97 Cr from advance billings.	—	Note 25.h: Significant spike in unearned revenue indicates strong future service obligations.
4	Revenue from related parties %	Neutral — zero revenue circularity risk as no trade receivables from related parties.	—	Note 10: Explicit management confirmation of zero trade receivables from related parties.
5	Inventory vs revenue growth	Neutral — service-oriented business model carries no physical inventory on the balance sheet.	—	Business model is credit ratings and advisory; no inventory risk present.
6	Inventory valuation method change	Neutral — no inventory held; accounting policies focus on service revenue and financial assets.	—	No inventory policy required or disclosed in Note 1.
7	Exceptional items in operating profit	Neutral — clean operating profit with no exceptional or one-off items reported.	—	P&L confirms zero exceptional items for both FY24 and FY23.
8	Depreciation rate vs useful life policy	Profit ↓ — conservative depreciation; computers written off over 3 years reflects tech obsolescence.	—	Note 1.3.g: Buildings 30-60 years; Computers 3 years; accelerated non-cash charges.
9	Provision reversals boosting PAT	Profit ↓ — earnings quality hit by □1.45 Cr bad debt provision increase.	—	Note 30: Sharp increase in provisions suggests slight deterioration in client credit quality.
10	Tax rate consistency + cash tax vs P&L tax	Profit ↓ — conservative tax accounting; effective rate of 30% exceeds statutory 25.17%.	—	Note 10: Higher rate due to unrecognized DTA in subsidiaries (□7.60 Cr).
11	CWIP age and stalling projects	Profit ↓ — impairment risk; □5.99 Cr in intangible development after prior □5.71 Cr write-off.	—	Note 3.b: Risk of future P&L hit if current software projects fail commercialization.
12	Deferred tax asset recognition adequacy	Neutral — conservative stance; company opted not to recognize □7.60 Cr DTA in subsidiaries.	—	Management demonstrates prudence by not booking potential tax benefits without certainty.
13	RPT quantum and trend	Profit ↓ — KMP costs stable but new □0.97 Cr Director commission introduced.	—	Note 34.B: Introduction of profit-linked commission for Independent Directors in FY24.
14	Dividend paid vs FCF adequacy	Neutral — high payout of □67 Cr well-covered by □82 Cr Free Cash Flow.	—	Payout ratio 53%; massive □574 Cr cash pile provides significant dividend safety.
15	Revenue Recognition Judgment	Revenue ↑↓ — Risk of front-loading; 82.47% of revenue recognized "Over time" via percentage completion.	—	Auditor KAM: Significant judgment in assessing "effort completed" for initial ratings.
16	Goodwill Impairment Subjectivity	Profit ↓ — Potential overvaluation; □7.95 Cr goodwill tested using Level 3 market multiples.	—	Auditor KAM: High subjectivity in choosing "comparable" peers and non-marketability adjustments.
17	Subsidiary Loss Funding	Profit ↓ — Cash drag; CARE Analytics lost □23.08 Cr despite doubling revenue.	—	Operating leverage is absent as losses widened alongside revenue growth.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified. * **KAM 1: Revenue Recognition (Timing & Estimation):** The auditor flagged the assessment of "percentage completion" for initial ratings as a significant judgment area. Risk involves potential aggressive front-loading of revenue if effort is overestimated. * **KAM 2: Impairment of Goodwill:** The ₹7.95 Cr goodwill for subsidiary CAAPL is tested using "Level 3" inputs. The auditor noted high subjectivity in choosing "comparable" peers and sensitivity of non-marketability adjustments. * **KAM 3: Intangible Assets Under Development:** Following a ₹5.71 Cr write-off in FY23, the current ₹5.99 Cr balance is a risk area. Auditor focus is on whether these projects will commercialize or require further impairment. * **Going Concern:** No material uncertainty; however, the Madras High Court injunction on asset sales remains a noted restriction.

B. Related Party Transactions | Party | Relationship | Nature | Amount (Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | Mehul Pandya | MD & Group CEO | Remuneration | 3.00 Cr | Neutral | | Independent Directors | Board Members | Sitting Fees | 0.81 Cr | Neutral | | Independent Directors | ***Board Members*** | ***Commission*** | ***0.97 Cr*** | ***New in FY24*** | | Subsidiaries | Group Entities | Purchases | 0.75% of Total | Neutral |

- **RPT Risk Checks:** RPT as % of Revenue is 1.44%; RPT as % of CFO is 5.25%.
- **Detail:** The company explicitly states it has **zero** trade receivables from related parties, eliminating circular revenue concerns.

C. Shareholding * **Pledged Shares:** 0.00% (Professionally managed, no promoter).

D. Board Composition + KMP Compensation * **Total Directors:** 9 | **Independent %:** 77.78% | **Women Directors:** 1 (Sonal Desai). * **KMP Compensation:** * Mehul Pandya (MD & CEO): ₹3.00 Cr (+10.70% YoY; 2.68% of EBITDA). * Jinesh Shah (CFO): ₹0.78 Cr (+6.85% YoY). * Nehal Shah (CS): ₹1.04 Cr (+1.96% YoY). * **Analysis:** Aggregate KMP compensation growth is trailing the 13.13% Operating Profit growth. MD pay is 27.59x the median employee remuneration (₹13.00 Lakhs). ESOP costs surged 464% to ₹2.71 Cr, acting as a non-cash drag.

F. Capital Allocation & Capex | Action | FY current (Cr) | FY prior (Cr) | % of CFO | Signal | | :--- | --: | --: | --: | :--- | | Dividends | 65.44 Cr | 60.00 Cr | 71.91% | **Positive** | | Capex | 9.00 Cr | 12.00 Cr | 9.89% | **Positive** | | Investments (Financial) | 321.00 Cr | 151.00 Cr | 352.75% | **Positive** | | Lease Liabilities | 19.56 Cr | 17.48 Cr | 21.49% | ***Concern*** | | Subsidiary Loss Funding | 23.08 Cr | 24.46 Cr | 25.36% | ***Concern*** |

- **CAPEX Analytical Notes:**
  - **CFO (₹91.00 Cr) is 10.11x Capex (₹9.00 Cr)**, showing massive self-funding capacity.
  - Nature of Capex is primarily maintenance and software.
  - **The ₹5.99 Cr in Intangible Assets Under Development** is a monitorable given the prior year's write-off.
  - Revenue grew 18.89% while Net Block remained flat, indicating **high asset-light scalability.**

H. Risks * ***Legal Restriction (High):*** Madras High Court injunction on asset disposal restricts capital flexibility and requires court permission for any asset sale. * ***Regulatory Penalty (High):*** SEBI penalty of ₹1.00 Cr regarding specific ratings; signals high regulatory scrutiny on rating quality. * ***Subsidiary Losses (Medium):*** CARE Analytics lost ₹23.08 Cr; failing to reach breakeven despite revenue growth. * ***Unbilled Revenue (Medium):*** Contract Assets at ₹7.74 Cr carry higher realization risk. * ***Concentration (Low):*** 93% revenue from India; vulnerable to domestic credit cycles.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	34% OPM; Oligopoly moat	Strong core moat but diversification is currently value-dilutive.
Financial health	5	→	D/E 0.03x; ₹574 Cr Cash	Fortress balance sheet with massive liquidity and zero debt.
Earnings quality	3	↓	Other Income 32% of PBT	High reliance on non-core interest income and ESOP/Subsidiary drags.
Management & governance	4	↑	77% Independent; 0% Pledge	Strong board independence and improved attrition; legal overhang remains.
Capital allocation & earnings visibility	3	→	72% CFO to Div; Sub losses	Excellent dividend payout but capital is trapped in loss-making subsidiaries.

Business positives (for this company this year) * **Strong Revenue Growth:** Consolidated sales grew **18.89% to ₹332 Cr**, outperforming the previous year's 12.66%. * **Efficient Collections: Debtor Days improved from 27 to 25**, with receivables growth (10%) lagging revenue growth (19%). * **Robust Pipeline: Contract Liabilities (unearned revenue) surged 105.87% to ₹26.97 Cr**, providing strong future visibility. * **Elite Cash Generation: Free Cash Flow of ₹82 Cr** easily covers the ₹67 Cr dividend payout. * **Debt-Free Status:** Negligible **Debt/Equity of 0.03x** with a massive ₹574 Cr liquid surplus.

Business negatives / concerns (for this company this year) * **Subsidiary Drag: CARE Analytics reported a loss of ₹23.08 Cr**, failing to show operating leverage despite doubling revenue. * **Margin Compression: OPM % contracted to 34%** from 36% due to a 464% surge in ESOP costs and new sub-contracting fees. * **Non-Core Earnings: Other Income (₹47 Cr) accounts for 31.84% of PBT**, indicating high reliance on the cash pile rather than operations. * **Legal Overhang: Madras High Court injunction** restricts the disposal of assets, limiting capital flexibility. * **Asset Risk: ₹5.99 Cr in Intangible Assets Under Development** remains a risk after a similar ₹5.71 Cr write-off last year.

Overall scorecard summary CARE Ratings remains a high-quality "cash-box" business with an impenetrable regulatory moat in its core ratings segment, evidenced by its 34% margins and zero-debt status. However, earnings quality is currently diluted by a heavy reliance on non-core interest income and persistent losses in its analytics diversification play. While governance is strong and capital allocation to shareholders is generous, the business is on a **stable but transitionary trajectory** as it attempts to convert its massive cash pile into a productive tech-enabled growth engine.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 10/10 — Governance Rating: 5"

Part c: investor verdict

Thesis: A moated, debt-free credit rating oligopolist with elite cash flows, currently undergoing a high-risk diversification pivot into loss-making analytics.

Overall stance: Watch

Rationale: The core business is a cash machine, but the legal injunction and widening subsidiary losses cap near-term upside. Re-evaluate when: CARE Analytics & Advisory achieves EBITDA breakeven OR the Madras High Court injunction is vacated. BULL CASE: Successful monetization of Sovereign Ratings and Analytics leads to a re-rating from a "cyclical rater" to a "FinTech platform" (20%+ ROE). BEAR CASE: Further large write-offs in Intangible Assets (□6 Cr risk) and continued SEBI regulatory tightening on rating fees. Key monitorable: Contract Liabilities: □26.97 Cr → Watch for conversion to revenue without margin further dipping below 30%.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Working Capital Efficiency	Net receivables grew 29.2% vs 12.6% revenue growth, signaling credit easing.	Net receivables grew 10% vs 18.9% revenue growth, with debtor days improving to 25.	Management successfully reversed the prior year's aggressive credit extension to achieve healthier collection cycles.
Margin Trajectory	OPM stood at 36% supported by a sharp reduction in bad debt provisioning.	OPM contracted to 34% due to a 464% surge in ESOP costs and new sub-contracting fees.	Core profitability is facing headwinds from rising talent retention costs and a shift toward outsourced service delivery.
Revenue Quality	High reliance on unbilled revenue (□10.79 Cr) with a massive 45% impairment provision.	Contract Liabilities (advances) doubled to □26.97 Cr, signaling a shift to upfront billing.	The earnings profile has shifted from risky accrual-based accounting to high-visibility cash advances.
Capital Allocation	Aggressive 89% dividend payout ratio returning □60 Cr to shareholders.	Payout ratio moderated to 53% despite higher absolute profits and a larger cash pile.	The company is pivoting toward capital preservation to fund its "Global South" international expansion and subsidiary losses.
Management Tone	Focused on core rating moat and stabilizing attrition.	Aggressively rebranding as a "FinTech" and "Analytics" group with a sector-specific sales focus.	Management is attempting to decouple the company's valuation from cyclical credit cycles by positioning it as a tech-enabled platform.

7.2 Persistent patterns

- **The "Cash-Box" Structural Trait:** The company consistently maintains over 60% of its total assets in low-yielding bank deposits and mutual funds, providing a massive safety buffer but structurally depressing ROE.
- **Subsidiary Operational Drag:** Non-rating diversification efforts (Analytics and Risk Solutions) remain a persistent cash drain, failing to achieve EBITDA breakeven despite significant revenue growth.
- **Legal and Regulatory Overhang:** The **Madras High Court injunction** regarding the 63 Moons litigation and the □1.00 Cr SEBI penalty remain unresolved, continuously restricting capital flexibility and posing reputational risks.
- **High Governance Integrity:** The company maintains a **10/10 governance score** with a professionally managed structure, zero promoter pledging, and high board independence (75%+).
- **IT Execution Risk:** Recurring accumulation of **"Intangible Assets Under Development"** (approx. □6 Cr) remains a monitorable red flag following the material □5.70 Cr write-off in the prior period.
- **Asset-Light Scalability:** The core ratings business continues to demonstrate high operating leverage, requiring minimal incremental capex to support double-digit revenue growth.