CARE Ratings Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**CareEdge maintains a high-moat, asset-light core ratings business, achieving 12.6% revenue growth driven by a 30% surge in Bank Loan Ratings and market share gains in securitization.**	Positive
2	**Consolidated revenue reached □279 Cr, but growth is uneven as the core ratings segment (91.6% of revenue) must subsidize underperforming non-core diversification efforts.**	Neutral
3	**Operating margins expanded to 36%, primarily aided by a 33% reduction in employee attrition and a sharp normalization of ESOP costs.**	Positive
4	***Consolidated PAT is significantly weighed down by the CARE Risk Solutions subsidiary, which reported a disproportionate loss of 23.98 Cr on a meager turnover of 9.89 Cr.***	Negative
5	**The balance sheet remains exceptionally liquid with a "cash-box" profile, holding □506.26 Cr in bank deposits and maintaining a negligible Debt/Equity ratio of 0.025x.**	Positive
6	**Free Cash Flow generation remains healthy at □71 Cr, comfortably supporting a high shareholder payout ratio of 89% (□60 Cr in dividends).**	Positive
7	***Capital allocation efficiency is under scrutiny following a 5.70 Cr impairment on failed software development projects, indicating internal execution leakage.***	Negative
8	***Earnings quality has deteriorated due to the aggressive recognition of 10.79 Cr in unbilled revenue, which required an immediate and substantial 45% impairment provision.***	Negative
9	***Working capital stress is evident as net receivables grew by 29.2%, nearly 2.3x the pace of top-line growth, signaling potential collection challenges.***	Negative
10	Governance remains a structural strength with a 75% independent board and clean RPTs, though MD & CEO compensation grew 107%, significantly outstripping profit growth.	Neutral
11	***The company faces persistent legal and regulatory risks, including a 1 Cr SEBI penalty and a 23.16 Cr asset injunction related to the 63 Moons litigation.***	Negative
12	Management is pivoting toward a tech-driven "CareEdge" model to reduce cyclicality, but the near-term outlook is clouded by subsidiary losses and aggressive accounting accruals.	Neutral
13	Investment View: Watch; while the core business is formidable, investors should wait for subsidiary EBITDA breakeven and a convergence of receivable growth with revenue.	Neutral

1. Business overview (In Bullet Points)

- **Business Segments:** CareEdge operates primarily in Credit Ratings (91.6% of revenue), with diversifying interests in Advisory & ESG (CART), Risk Solutions (CRSPL), and International operations in Mauritius and Nepal.
- **Revenue Drivers:** Driven by debt issuance volumes and bank credit growth; specifically benefited from a 15% growth in bank credit and a 30% increase in Bank Loan Ratings (BLR) in FY23.
- **Cost Drivers:** Heavily skewed toward human capital (Employee expenses at □104.03 Cr Standalone). Technology costs are rising as the company invests in AI/ML and Hyperconverged infrastructure.

- **Industry Position:** Maintains leadership in BFSI and Infrastructure ratings; gained significant market share in the securitization segment, which grew 68% YoY.
- **Expansion Plans:** Pivoting to a "tech-driven knowledge hub" with a focus on ESG and risk management solutions to decouple from cyclical debt market trends.
- **Acquisitions & Capacity:** Focus is on organic tech-led capacity; launched India's first tech-enabled ESG data platform covering 900+ listed entities.
- **Segment Performance:** Ratings business is the "cash cow" (PAT □103.80 Cr Standalone); however, CARE Risk Solutions (CRSPL) is a drag, reporting a □23.98 Cr loss on □9.89 Cr turnover.
- **Geographical Presence:** Strong domestic presence with profitable international subsidiaries in Mauritius (Africa) and Nepal.

2. Management commentary & outlook

- Management is executing a structural pivot under the "Four Pillars" strategy: Group Impetus, Technology, People, and Re-branding to "CareEdge."
- The rebranding signals a transition from a traditional rating agency to a higher-value research and analytics firm, emulating global models like S&P or Moody's.
- Growth guidance is cautiously optimistic; while India's GDP may moderate to 6%, management anticipates a private capex cycle recovery and rising capacity utilization will drive corporate bond issuances.
- Competitive intensity is being met with a "Quality-led Growth" mantra, focusing on analytical reputation rather than price competition.
- Technology is now a core strategic pillar rather than a support function, overseen by a dedicated Board-level Technology Committee.
- Automation via Machine Learning (ML) and Natural Language Processing (NLP) is being deployed to extract data from corporate filings to improve operating margins.
- Management acknowledges "muted" performance in previous years and is focused on bringing the company back to a growth path, evidenced by a 33% reduction in YoY attrition.
- Legal and regulatory challenges remain a focus, specifically the 63 Moons litigation and SEBI penalty appeals, which management is actively contesting.
- **Management Tone:** The tone is pragmatic and transitionary, characterized by resolute determination and a more aggressive stance on growth than in prior years. The leadership transition appears to have stabilized internal culture, though management remains transparent about the "muted" historical performance and the urgent need to right-size loss-making subsidiaries. (LAST bullet point).

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	279	248
Sales Growth %	12.66	-0.33
Expenses	180	168
Manufacturing Cost %	1.01	1.03
Employee Cost %	48.39	51.37
Other Cost %	15	15.45
Operating Profit	99	80
OPM %	36	32
Other Income	38	27
Exceptional items	0	0
Other income normal	38	27
Interest	1	0
Depreciation	11	8
Profit before tax	126	99
Tax %	32	22
Net Profit	85	77
Minority share	-2	-2
Exceptional items AT	0	0
Profit excl Excep	85	77
Profit for PE	84	75
Profit for EPS	84	75
Profit Growth %	11	-16
EPS (□)	28.12	25.34
Dividend Payout %	89	67

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	30	30
Reserves	643	618
Borrowings	17	9
Lease Liabilities	17.48	8.91
Other Borrowings	0	0
Other Liabilities	80	69
Non controlling int	7	5
Trade Payables	10	5
Advance from Customers	0	0
Other liability items	63	58
Total Liabilities	770	725
Fixed Assets	107	96
Building	73.22	72.52
Equipments	4.65	3.96
Computers	11.89	9.42
Furniture n fittings	8.90	8.01
Vehicles	2.47	0.49
Intangible Assets	7.95	7.95
Other fixed assets	23	12.26
Gross Block	132.08	114.61
Accumulated Depreciation	24.80	18.99
CWIP	4	8
Investments	44	44
Other Assets	614	577
Trade receivables	20	17
Receivables over 6m	8.11	5.29
Receivables under 6m	15.21	13.62
Prov for Doubtful	-2.94	-2.27
Cash Equivalents	56	82
Loans n Advances	8	15
Other asset items	530	464
Total Assets	770	725

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	82	68
Profit from operations	110	94
Receivables	-4	5
Payables	0	0
Operating Deposits	0	0
Other WC items	8	-1
Working capital changes	4	4
Direct taxes	-32	-29
Cash from Investing Activity	13	-27
Fixed assets purchased	-12	-19
Fixed assets sold	0	0
Investments purchased	-151	0
Investments sold	151	206
Investment income	0	0
Interest received	18	24
Dividends received	0	1
Other investing items	5	-239
Cash from Financing Activity	-63	-35
Proceeds from shares	2	6
Interest paid fin	-1	0
Dividends paid	-60	-38
Financial liabilities	-3	-3
Other financing items	-2	0
Net Cash Flow	32	6
Free Cash Flow	71	49
CFO/OP	115	122

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	27	25
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	27	25
Working Capital Days	638	635
ROCE %	19	16

3.2 Financial analysis summary

- **Revenue** grew by 12.66% to ₹279.00 Cr, primarily driven by Rating Income which constitutes 93.72% (₹261.48 Cr) of total operations, while Trade Receivables on the Balance Sheet increased by 17.6% to ₹20.00 Cr, indicating a slight lag in collections relative to sales growth.
- **Operating Profit** margins improved significantly to 36.00% from 32.00%, largely due to Employee Benefit Expenses normalizing as ESOP costs crashed from ₹6.52 Cr to ₹0.48 Cr, despite a 110% jump in miscellaneous Other Expenses to ₹2.72 Cr.
- **Other Income** of ₹38.00 Cr contributed a substantial 30.1% to Profit Before Tax, reflecting the company's "cash-box" nature with ₹506.26 Cr held in long-term bank deposits which generated ₹18.00 Cr in Interest received in the Cash Flow Statement.
- **Net Profit** reached ₹85.00 Cr, but quality is impacted by a ₹5.70 Cr Impairment of Non-current Assets related to failed software development and cash losses in subsidiaries CARE Advisory and CARE Risk Solutions as highlighted in the Auditor Notes.
- **Trade Receivables** ageing shows deterioration with ₹8.11 Cr now over 6 months and ₹2.28 Cr aged over 3 years, necessitating an increase in Prov for Doubtful debts to ₹2.94 Cr on the Balance Sheet.
- **Working Capital** management faces new risks with the introduction of ₹10.79 Cr in Unbilled Revenue (Other Current Assets), against which management has already provided a massive ₹4.90 Cr (45%) allowance, signaling aggressive Revenue recognition or collection concerns.
- **Cash from Operating Activity** of ₹82.00 Cr nearly matches Net Profit, resulting in a healthy CFO/PAT ratio of 0.96, though Working capital changes were a drag of ₹4.00 Cr primarily due to the increase in Receivables.
- **Free Cash Flow** improved to ₹71.00 Cr after accounting for ₹12.00 Cr in Fixed assets purchased, which comfortably funded the ₹60.00 Cr in Dividends paid, representing a high Dividend Payout % of 89.00%.
- **Fixed Assets** increased to ₹107.00 Cr as Gross Block rose to ₹132.08 Cr, while Depreciation rose to ₹11.00 Cr following a 170% expansion in Lease Liabilities to ₹17.48 Cr for new office premises.
- **Total Debt** remains negligible at ₹17.00 Cr, consisting entirely of lease obligations, maintaining a superior Interest Coverage of 127.00 and a Debt / Equity ratio of 0.025, ensuring a robust Balance Sheet.
- **ROCE** improved to 19.00% from 16.00%, reflecting better operational efficiency and higher yields on the ₹530.00 Cr of Other asset items, although ROE remains modest at 12.63% due to the large, low-yielding cash pile in Reserves.
- **Capital Allocation** signals are mixed; while the company maintains high payouts, the ₹5.70 Cr write-off of Intangible Assets and ₹5.80 Cr in new Capital Commitments suggest ongoing challenges in diversifying beyond core rating services.
- **Other Assets** are dominated by Bank Deposits of ₹506.26 Cr (65.9% of total assets), while Other Liabilities include a ₹15.72 Cr provision for salary/bonuses; the 110% jump in Other Expenses (Miscellaneous) to ₹2.72 Cr lacks detailed explanation but impacts the bottom line.
- The dominant financial theme of the year is a high-margin, asset-light core business generating strong **Free Cash Flow**, yet the quality of earnings is being diluted by aggressive unbilled revenue accruals, subsidiary cash losses, and a heavy reliance on non-core Other Income.

3.3 Contingent liabilities & commitments

- **Litigation:** 63 Moons suit led to a Madras High Court injunction restraining the company from dealing with assets unless ₹**23.16 Cr** is deposited.
- **Tax/Regulatory Disputes:** ₹**1.00 Cr** provision for adjudication proceedings/SEBI penalty regarding ratings assigned to a specific customer.
- **Guarantees:** Bank Guarantees (Lien marked) stand at ₹**2.95 Cr**.

- **Capital Commitments:** Significant increase in capital commitments to □**5.80 Cr** (vs □0.79 Cr in FY22).
- **Contractual Obligations:** A new provision of □**2.25 Cr** for the expected cost of cancellation of a long-term service procurement contract.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; PAT □85 Cr vs CFO □82 Cr due to unbilled revenue accruals.	—	CFO/OP ratio declined from 122% to 115% YoY; unbilled revenue growth is a primary drag.
2	Receivables & channel-stuffing signal	Revenue ↑ — aggressive booking; net receivables grew 29.2% vs revenue growth of only 12.6%.	—	Net receivables growth significantly outpaces top-line growth, signaling potential credit easing to drive sales.
3	Revenue timing (unbilled/contract assets)	Profit ↑ — aggressive recognition; □10.79 Cr unbilled revenue recognized with immediate 45% impairment provision.	—	Note 17: New unbilled revenue bucket shows high collection risk; Note 2.2.e: "Input method" involves significant judgment.
4	Revenue from related parties %	Neutral — no revenue circularity; company reports zero trade receivables from related parties.	—	Note 10 explicitly confirms no trade balances with related parties, reducing circular revenue risk.
5	Inventory vs revenue growth	Neutral — service sector model; company maintains zero inventory as a credit rating agency.	—	Financial services sector characteristic; no physical inventory risk present in the balance sheet.
6	Inventory valuation method change	Neutral — no inventory held; valuation policy changes are not applicable to this business model.	—	Accounting policy for inventory is absent as it is not a material item for rating services.
7	Exceptional items in operating profit	Profit ↓ — non-recurring loss; □5.70 Cr impairment of intangible assets under development hit P&L.	—	Note 3a: Material write-off of software project at parent level indicates failed capital allocation in IT.
8	Depreciation rate vs useful life policy	Profit ↑ — lower charges; depreciation □11 Cr on gross block of □132 Cr suggests long lives.	—	Note 3: Depreciation follows Schedule II; increase from □8 Cr to □11 Cr aligns with ROU asset growth.
9	Provision reversals boosting PAT	Profit ↑ — non-cash boost; bad debt provisioning dropped from □6.40 Cr to □0.40 Cr YoY.	—	Sharp reduction in provisioning expense helped expand OPM from 32% to 36% despite rising costs.
10	Tax rate consistency	Profit ↓ — higher tax outflow; effective tax rate jumped from 22% to 32% in FY23.	—	Cash tax paid (□32 Cr) matches P&L tax charge, indicating no aggressive deferred tax accounting.
11	CWIP age and stalling projects	Profit ↓ — project failure; CWIP reduced from □8 Cr to □4 Cr following a □5.7 Cr impairment.	—	Note 3a: Reduction in CWIP/Intangibles under development was due to write-offs rather than capitalization.
12	Deferred tax asset recognition adequacy	Neutral — conservative stance; no significant DTA recognized for subsidiary cash losses.	—	Auditor CARO remark (Clause xxi) notes cash losses in two subsidiaries, but no aggressive DTA offset.
13	RPT quantum and trend	Neutral — minimal exposure; RPT limited to employee loans and subsidiary ESOP charges.	—	Note 5/13: RPT balances are immaterial relative to the □770 Cr balance sheet size.
14	Dividend paid vs FCF adequacy	Neutral — sustainable payout; □60 Cr dividend well covered by □71 Cr Free Cash Flow.	—	Dividend payout ratio is high (89%), but supported by a □506 Cr cash-box in bank deposits.
15	Auditor KAM: Revenue Recognition	Revenue ↑↓ — recognition risk; risk of revenue recognized without valid contracts or met obligations.	—	Auditor identified risks in "point in time" vs "over time" recognition; requires automated cut-off testing.
16			—	

#	Check	Impact	Status	Notes detail
	Subsidiary Cash Losses	Profit ↓ — operational drag; CARE Advisory and CARE Risk Solutions incurred material cash losses.		Adverse CARO remark; non-rating units are cannibalizing parent profits.
17	Goodwill Impairment Risk	Profit ↑ — potential overvaluation; ₹7.95 Cr Goodwill carried for loss-making CRSPL.	—	Level 3 inputs used for valuation; management claims no impairment despite subsidiary cash losses.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Revenue Recognition:** The auditor identified risks regarding revenue being recognized without valid contracts or before performance obligations were met. Management responded by implementing automated cut-off testing and manual verification of "point in time" vs "over time" recognition. * **Adverse CARO Remark (Clause xvii):** The auditor highlighted that two subsidiaries—CARE Advisory Research and Training Ltd and CARE Risk Solutions Pvt Ltd—incurred material cash losses during the year. * **Other Matter:** Financial statements of two foreign subsidiaries (Mauritius and Nepal) were audited by other auditors, covering assets of ₹22.69 Cr. * **Going Concern:** No material uncertainty identified; however, the Madras High Court injunction on asset sales is a noted restriction.

B. Related Party Transactions | Party | Relationship | Nature | Amount (₹Cr) | Concern | | ------- | ---------- | -------- | ---------- | --------- | | Subsidiaries | Subsidiaries | ESOP Charges | 0.30 Cr | Neutral | | Employees | KMP/Staff | Loans & Advances | 0.62 Cr | Neutral |

- **Verdict:** Clean. The company is professionally managed with no identified promoter, reducing tunneling risk. RPTs are limited to standard subsidiary support and employee benefits. Zero trade receivables from related parties.

C. Shareholding * **Promoter Holding:** 0.00% (Professionally managed). * **Pledged Shares:** 0.00%.

D. Board Composition + KMP Compensation * **Board Composition:** 8 Directors; 75% Independent; 1 Woman Director (Sonal Gunvant Desai). * **KMP Compensation (EBITDA = ₹99.00 Cr):** * ***Mehul Pandya (MD & CEO):*** ₹3.54 Cr (FY23) vs ₹1.71 Cr (FY22). **YoY Growth: 107.20%**. % of EBITDA: 3.57%. (Flag: - Growth outstrips Operating Profit growth of 23.75%). * **Nehal Shah (CS):** ₹1.21 Cr. % of EBITDA: 1.22%. * **Jinesh Shah (CFO):** ₹0.87 Cr. % of EBITDA: 0.88%. * ***Ajay Mahajan (Former MD):*** ₹1.17 Cr (Exit year). * **Analysis:** MD & CEO pay growth (107%) significantly exceeded profit growth, though partly due to mid-year promotion. Median employee pay increased 27% to ₹0.11 Cr; MD pay is 31.46x median.

F. Capital Allocation & Capex | Action | FY current (₹Cr) | FY prior (₹Cr) | % of CFO | Signal | | :--- | --: | --: | --: | :--- | | Dividends | 60.00 Cr | 38.00 Cr | 73.17% | **Positive** | | Capex | 12.00 Cr | 19.00 Cr | 14.63% | ***Concern*** | | Investments (Financial) | 151.00 Cr | 0.00 Cr | 184.15% | **Positive** | | Lease Liabilities | 17.48 Cr | 8.91 Cr | 21.32% | ***Concern*** |

- **CAPEX Analytical Notes:**
  - **CFO Coverage:** CFO (₹82.00 Cr) is 6.83x Capex (₹12.00 Cr), indicating extremely high self-funding capacity.
  - **Nature of Capex:** Primarily maintenance and technology. A **material ₹5.70 Cr impairment** was taken on "Intangible assets under development," signaling a failed IT project.
  - **Deployment Efficiency:** Revenue grew 12.66% while Net Block increased 10.86%. Efficiency is stable, but the IT write-off suggests execution leakage.
  - **Takeaway:** The company is a "cash-box," with **65.9% of assets (₹506.26 Cr)** sitting in bank deposits.

H. Risks * ***Regulatory Penalty:*** SEBI penalty enhanced to ₹**1.00 Cr**; impacts reputation and P&L. (Severity: High) * ***Asset Injunction:*** 63 Moons litigation restricts dealing with assets unless ₹**23.16 Cr** is deposited. (Severity: High) * ***Subsidiary Losses:*** CRSPL and CART reported material cash losses; drag on consolidated margins. (Severity: Medium) * ***Revenue Quality:*** Net receivables grew 29.2% vs 12.6% revenue growth; working capital stress. (Severity: Medium)

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	91.6% Rating Rev; 30% BLR growth	Strong core moat in a regulated oligopoly, though subsidiary drag limits a 5.
Financial health	5	→	D/E 0.025x; CFO ₹82 Cr; Cash ₹506 Cr	Exceptional liquidity and zero long-term debt; massive "cash-box" safety.
Earnings quality	2	↓	45% Unbilled Prov; Receivables > Sales	Aggressive unbilled revenue accruals and IT write-offs signal quality deterioration.
Management & governance	4	→	75% Independent Board; Clean RPT	Professionally managed with high transparency, despite high CEO pay growth.
Capital allocation & earnings visibility	3	↓	₹5.7 Cr IT write-off; 89% Payout	High dividends are positive, but failed IT capex and subsidiary losses cloud visibility.

Business positives (for this company this year) * **Strong Core Growth:** Rating income grew 13% YoY, outperforming the broader debt market stagnation. * **Market Share Gains:** Captured significant share in the securitization segment which grew 68% YoY. * **Robust Liquidity:** Holds ₹**506.26 Cr** in bank deposits, providing a massive safety buffer and interest income. * **Operational De-risking:** Successfully reduced YoY attrition by 33% and normalized ESOP costs. * **High Shareholder Returns:** Maintained a high **89% dividend payout**, returning ₹60 Cr to shareholders.

Business negatives / concerns (for this company this year) * **Aggressive Accounting:** Recognized ₹**10.79 Cr** in unbilled revenue with an immediate 45% (₹4.90 Cr) impairment provision. * **Working Capital Stress:** Net receivables grew **29.2%**, significantly outstripping revenue growth of 12.6%. * **Subsidiary Drag:** CARE Risk Solutions reported a loss of ₹**23.98 Cr** on a turnover of only ₹9.89 Cr. * **Capital Misallocation:** A ₹**5.70 Cr** impairment was taken on failed software development projects. * **Regulatory/Legal Overhang:** Facing a ₹**1.00 Cr** SEBI penalty and a ₹23.16 Cr asset injunction from the 63 Moons case.

Overall scorecard summary CareEdge remains a financially formidable entity with a "cash-box" balance sheet and a high-margin core ratings business that continues to dominate its niche. However, the quality of earnings has weakened this year due to aggressive unbilled revenue recognition and material cash losses in non-core subsidiaries. While governance remains a strength due to its professional management structure, capital allocation is under scrutiny following a significant IT project write-off. The business is on a **stable but cautious** trajectory, where the core's strength is currently being used to subsidize underperforming diversification efforts.

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 high-margin, asset-light credit rating leader with a massive cash buffer, currently undergoing a tech-led transformation while battling subsidiary-level inefficiencies.

Overall stance: Watch

Rationale: Strong core cash flows are offset by deteriorating earnings quality (unbilled revenue) and persistent losses in the Risk Solutions segment. Re-evaluate when: Subsidiary CARE Risk Solutions (CRSPL) achieves EBITDA breakeven OR unbilled revenue provisions exceed 10% of total revenue. BULL CASE: Successful scaling of the ESG platform and CRSPL turnaround could re-rate the stock from a "cyclical rating agency" to a "tech-knowledge hub" (20%+ PAT growth). BEAR CASE: Adverse final ruling in 63 Moons litigation or further SEBI regulatory tightening could lock up cash and damage reputational capital. Key monitorable: Net Receivables Growth: 29.2% → Watch for convergence with Revenue Growth (12.6%).