# CARE Ratings Ltd — Feb 2022 Quarterly Analysis

## 1. VERDICT & BUSINESS QUALITY SNAPSHOT

*The punchline. Read this first — it frames everything below.*

**Result:** Inline / Weak **One-line:** Transformation efforts (rebranding to CareEdge) are being masked by a shrinking "surveillance" revenue basket due to corporate deleveraging, testing investor patience on capital allocation.

| Dimension | This Quarter | Signal / Evidence | Sentiment |
|---|---|---|---|
| Beat/Miss vs Guidance / Prior Quarter | Inline | Rev □62.96 Cr vs expectations; 7% core growth (adj.) matches peers. | □ |
| Earnings Quality | Low (Accounting/ Provisions) | Prior year had a □2.67 Cr provision write-back, skewing YoY comparisons. | □ |
| Guidance Confidence | Neutral | Bullish on Budget/Infra tailwinds; cautious on "episodic" COVID shocks. | □ |
| Management Credibility | Neutral | New MD (Mahajan) admits transformation takes time; friction on buybacks. | □ |
| Business Quality Signal | Stable | Market share in "initial" ratings growing, but surveillance "leaking." | □ |
| Key Q&A Exchange | Q5 - Capital Allocation | Board is "open" but has not formally considered a buyback despite cash. | □ |
| The Street's Primary Anxiety | Growth vs Peers & Buybacks | Why is CARE not growing with bank credit? Why no buyback at □100/□50 value? | □ |
| Capital Cycle Stage | Consolidation | Brand/Tech/Talent investment phase; waiting for macro "crowding in." | □ |
| Margin / Return Ratio Trajectory | Deteriorating | Consol. PBT margins fell from 38% to 31% YoY due to talent/tech spend. | □ |
| Pricing Power | Stable | Mgmt claims "internal pricing controls" to avoid the "race to the bottom." | □ |
| FCF Conversion & Quality | Not in document | CFO data absent in quarterly snapshot; Cash corpus remains large. | □ |
| Competitive Moat Signals | Stable | License-led moat; brand refresh aims to compete with MNC peers. | □ |
| Balance Sheet Strength | Strong | High cash reserves; no debt. | □ |
| Working Capital Efficiency | Stable | High concentration of revenue in Q2/Q4 due to surveillance cycles. | □ |
| Mgmt Guidance Track Record | First entry | First quarter tracked in this analysis. | □ |
| Key Vulnerability / Red Flag | Tech Talent Exodus | "Exodus of tech talent" caused 16% revenue drop in Risk subsidiary. | □ |
| Management Tone | Defensive but Determined | Strong pushback on buyback; high conviction in "Knowledge Purveyor" pivot. | □ |

Sentiment: □Positive | □Negative | □Neutral

**Key Takeaways:** * **Positives:** Core "Initial Ratings" business is showing strong traction; the company has maintained pricing discipline despite competitive pressure; the India Ratings (standalone) revenue grew ~10-11% when excluding prior-year one-offs, which is ahead of the broader credit market. * **Negatives:** Consol. margins are under pressure (down 700bps) as the company invests in high-cost senior talent and technology; the "Surveillance" basket is shrinking as large corporates pay down debt (deleveraging), creating a revenue leak that offsets new business gains; subsidiaries (Advisory/Risk) are still sub-scale and, in the case of Risk Solutions, suffering from high attrition. * **Street Concern:** Analysts are visibly frustrated by the lack of a buyback given the stock's performance and large cash pile. Management's response that the Board hasn't formally discussed it despite the CEO's "openness" remains a major overhang on credibility. * **Forward Watchpoint:** Monitor the "Surveillance Basket Leak." If the deleveraging cycle peaks and infrastructure Capex picks up as per the Union Budget, CARE's high operating leverage should drive a significant margin expansion in FY23.

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## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

DATA SOURCE: PPT figures primary source.

| Metric | Current Qtr | YoY Change | QoQ Change | Trend | Mgmt Commentary |
|---|---|---|---|---|---|
| Total Revenue (Cons) | ₹62.96 Cr | ↓ 1% | Not in doc | ↓ | Volume-led; Bond issuances down 15% in Q3. |
| Total Expenses (Cons) | ₹43.19 Cr | ↑ 9% | Not in doc | ↓ | Driven by talent (75% of costs) and tech investments. |
| PBT (Cons) | ₹19.77 Cr | ↓ 18% | Not in doc | ↓ | Margin compression due to strategic spend. |
| PBT Margin % (Cons) | 31% | ↓ 700 bps | Not in doc | ↓ | High operating leverage hurts when growth is flat. |
| PAT (Cons) | ₹14.90 Cr | ↓ 21% | Not in doc | ↓ | Impacted by higher costs and lack of one-off credits. |
| EPS (Cons) | ₹4.93 | ↓ 22% | Not in doc | ↓ | Reflects earnings decline. |
| Standalone Revenue | ₹55.45 Cr | ↑ 1% | Not in doc | ↑ | Adjusted growth is ~7% excluding 1-off write-backs. |
| Standalone PBT Margin | 36% | ↓ 200 bps | Not in doc | ↓ | Standalone efficiency better than subsidiaries. |
| Bond Issuances (Market) | ₹1.45 L Cr | ↓ 15% | ↓ 19% | ↓ | Broad market headwind; Finance sector dominated (75%). |
| CP Issuances (Market) | ₹6.48 L Cr | ↑ 49% | ↑ 4% | ↑ | Short-term funding picking up ahead of Capex. |

### 2B. SEGMENT BREAKDOWN

| Segment | Revenue (□ Cr) | YoY Growth | Margin | Trend | vs Co Avg | Key Development |
|---|---|---|---|---|---|---|
| Ratings (SA) | □55.45 | 1% | 36% | → | Outperf | New biz growth vs surveillance leakage. |
| Africa Sub | ~□1.6 | ↑ 53% (9M) | High | ↑ | Outperf | Gaining ground from small base. |
| Nepal Sub | Not in doc | ↑ 7% (9M) | Stable | → | In-line | Flattish performance. |
| Advisory/ CART | ~□1.9 | ↑ 55% (9M) | Loss | ↑ | Underperf | Scaling from scratch; not yet profitable. |
| Risk Solutions | Not in doc | ↓ 16% (9M) | Loss | ↓ | Underperf | Hit by tech talent "exodus" and project delays. |

## 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category | Management Target / Claim | Required Run-Rate / Mathematical Feasibility | Historical Delivery | Risk Flag |
|---|---|---|---|---|---|
| Guidance | Revenue | "Substantial tailwind" from Budget Capex. | Needs strong Q4 to maintain high single-digit growth. | First entry | Execution of infra projects. |
| Guidance | Margins | Margins will improve as revenue scales. | High Op-Lev: 10% revenue growth could yield 15%+ PAT growth. | First entry | Talent cost inflation. |
| Guidance | Volume / Capacity | Focus on Infra/BFSI segments. | Infra requires high technical analyst headcount. | First entry | Competitive pricing. |
| Strategy | Rebranding | CareEdge to be "Knowledge Purveyor." | Brand value takes 12-24 months to embed in pricing. | Delivered (Rebrand) | Market perception. |
| Strategy | Capital Allocation | Open to buyback discussion. | Cash pile is >30% of market cap; board action needed. | Missed (Wait) | Board resistance. |
| Strategy | Technology | Tech-led business (RPA/AI). | Projects delayed 1-3 months due to talent exodus. | Mixed | Attrition/Vendor risk. |
| Macro | Industry Headwinds | Deleveraging of corp sector. | Expect shift to credit growth as internal accruals exhaust. | In progress | Persistent high liquidity. |
| Balance | Debt / Leverage Target | Maintain Zero Debt. | No debt needed; capital-light model. | Delivered | None. |

## 4. ANALYST Q&A

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded / Not Addressed | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 4.5 | Kunal Shah (Carnelian) | Ratings Growth | Business Overview | Why is CARE growing at 6% while peers seem to grow faster? | Management stated that adjusted for COVID provision write-backs, core growth is 7.1%, which is in-line with peers despite negative industry credit offtake. The implication is that core ratings are stable, but growth is hidden by accounting bases. | None | 4.0 | Directional with evidence |
| 2 | 4.0 | Vikas (Carnelian) | Investment ROI | Management Commentary | When will investments in senior management and rebranding result in market share gains? | Management indicated the firm has stabilized after a decline between 2018-2020 and is now poised for a "lift-off" as corporate credit revives. This confirms FY22 is an investment year with the payoff expected in FY23-24. | Specific market share targets | 3.0 | Vague timeline |
| 2a | 4.5 | Vikas (Carnelian) | Deleveraging | Business Overview | Large/ Medium sector is deleveraging; where will growth come from? | Management confirmed significant deleveraging has led to account exits but noted that new business | None | 4.0 | Specific on dynamics |

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|---|---|---|---|---|---|---|---|---|---|
| | | | | | | (initial ratings) is growing significantly. This signals a transition from "maintaining" the old basket to winning new mandates in infra. | | | |
| 5 | 5.0 | Mudit Minocha (M3) | Capital Allocation | Capex and Allocation | Why is there no buyback when the company has enough cash to buy a third of itself at depressed valuations? | Management stated that while the Board has not formally considered a buyback, they are "open to a conversation" and are internally deliberating. This remains a significant overhang on shareholder value and management-board alignment. | A firm timeline or commitment | 2.0 | Deflected — key signal |
| 6 | 3.5 | Aakash Mittal (Accenture) | Technology | Management Commentary | Why isn't technology/ AI usage as visible in CARE as it is in MNC peers? | Management admitted that some technology projects have been delayed by 1-3 months due to "efflux of talent" but insisted tech remains a central pillar. This highlights a vulnerability in execution due to the | Specific AI use-cases | 3.0 | Admitted delays |

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|---|---|---|---|---|---|---|---|---|---|
| | | | | | | current tech talent market. | | | |
| 8 | 4.5 | Shalabh Agarwal (Snowball) | Revenue Recognition | Financials | Why do Q1 and Q3 always seem lower than Q2 and Q4? | Management explained that 90% of surveillance revenue is recognized in the month the rating is completed, and historically these mandates fall in Q2/Q4. This confirms the lumpy nature of the business and why QoQ analysis can be misleading. | None | 5.0 | Clear and quantified |
| 10 | 4.0 | Keshav Garg | Subsidiary Growth | Business Overview | Non-rating advisory revenue fell from 7 Cr to 5 Cr; where is the promised growth? | Management highlighted that Africa and Advisory are up 53% and 55% respectively (9M), but Risk Solutions fell 16% due to tech talent loss. This indicates that while ratings are stable, the "non-ratings" growth engine is still sputtering. | None | 3.5 | Mixed performance |

**PATTERN FLAGS & SENTIMENT**

**Theme 1: Growth Trajectory Anxiety** Analysts repeatedly questioned why CARE isn't capturing the 16-18% credit growth seen in bank results. Management's defense was consistent: bank growth is currently "Retail-led," which does not require ratings, while "Wholesale/Industrial" credit remains in contraction. The concern is

resolved as a macro factor, but it places a heavy burden on management to prove they can capture the Capex cycle when it finally shifts from internal accruals to debt.

**Theme 2: Capital Allocation Friction** The most hostile part of the call involved buybacks. Shareholders expressed deep frustration with the "trail of evidence" of poor governance regarding cash usage. Management's posture was defensive, deferring to the Board. This issue is unresolved and will likely generate even more friction in Q4 if no action is taken, especially as ICRA/CRISIL often maintain higher payout profiles.

**Analyst Sentiment Verdict:** The overall sentiment was **Skeptical**. While analysts recognize the improved communication and brand efforts, they are impatient for top-line results and capital returns. The "Tech Talent Exodus" in the Risk subsidiary was a negative surprise that damaged credibility regarding the "Transformation" pillar. The unresolved buyback issue remains the greatest risk to management's relationship with minority shareholders.

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## 5. WHAT CHANGED vs PRIOR QUARTER

*First entry — no prior quarter to compare.*

| What Changed | Prior Quarter | This Quarter | Direction |
|---|---|---|---|
| Brand Identity | CARE Ratings | CareEdge | ↑ Evolution |
| Market Focus | Broad Ratings | Infra/BFSI/ESG focus | ↑ Sharpening |
| Tech Execution | On-track | 1-3 month delays | ↓ Deteriorating |
| Revenue Mix | Bond-heavy | Shift to CP/Initial | → Shifting |
| Mgmt Posture | New/Optimistic | Defensive on Capital Alloc | ↓ Friction |

STOP HERE.