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 performanc

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.