CARE Ratings Ltd — May 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline / Weak **One-line:** Core rating income is showing resilience (+4% FY22) despite a collapsing corporate bond market (-24%), but consolidated performance is being dragged down by conservative provisioning for Sri Lanka exposure and subsidiary volatility.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Cons. Revenue □274.82 Cr for FY22 vs □279.57 Cr YoY; aligns with industry bond headwinds.	□
Earnings Quality	Low (Accounting/ Provisions)	PAT impacted by conservative provisioning for Sri Lanka business; residual exposure now □2.36 Cr.	□
Guidance Confidence	Neutral	Macro outlook projections (GDP 7.2-7.5%) are standard; specific business targets absent in PPT.	□
Management Credibility	Stable	Management is proactively cleaning up the balance sheet via provisioning for international exposure.	□
Business Quality Signal	Stable	Standalone Rating income grew 4% despite bond issuances falling 24% nationwide.	□
Key Q&A Exchange	N/A — PPT_ONLY	No concall conducted or available.	□
The Street's Primary Anxiety	Market Share & Capital Allocation	Will the rebranding to "CareEdge" arrest market share loss? (No mention of buybacks in PPT).	□
Capital Cycle Stage	Consolidation	Brand/Tech investment phase; cleanup of legacy subsidiary exposures.	□
Margin / Return Ratio Trajectory	Deteriorating	Consol. PBT margin fell from 42% (FY21) to 36% (FY22).	□
Pricing Power	Stable	Initial rating business growth suggests competitive positioning remains intact.	□
FCF Conversion & Quality	Not in document	Cash flow statement not provided in the quarterly snapshot.	□
Competitive Moat Signals	Stable	License-led oligopoly; rating stability rates (90.9% for 'A' category) remain in sync with industry.	□
Balance Sheet Strength	Strong	Net exposure to Sri Lanka reduced significantly; business remains debt-free.	□
Working Capital Efficiency	Stable	No material change indicated in the PPT slides.	□
Mgmt Guidance Track Record	Mixed	Navigating macro headwinds well, but subsidiary performance remains a "leak."	□
Key Vulnerability / Red Flag	Subsidiary Drag	Consolidated PAT is 10% lower than Standalone PAT due to subsidiary losses/provisions.	□
Management Tone	Professional/Analytical	Tone focused on macro-economic research and knowledge leadership.	□

Sentiment: □Positive | □Negative | □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** Core standalone rating income grew by 4% in FY22. This is a significant outperformance given that the total corporate bond market issuances shrank by 24% in the same period. The growth was largely driven by "initial ratings," suggesting CARE is successfully winning new mandates despite the macro environment. Pricing discipline appears to be holding. * **Negatives:** Consolidated margins are under pressure, with PBT margins compressing 600 bps YoY. The primary culprit is the subsidiary portfolio, specifically the conservative provisioning for the Sri Lanka business. While this "cleans the slate," it highlights the volatility of the non-rating ventures. Expenses grew 9% at the consolidated level vs. only 1.3% at the standalone level, indicating heavy spend in subsidiaries or tech/talent overheads. * **Street Concern:** Investors remain focused on when the "CareEdge" transformation will translate into top-line acceleration and whether the company will return its significant cash pile to shareholders. This PPT provides no updates on capital allocation (buybacks/dividends). * **Forward Watchpoint:** Monitor the recovery of the Sri Lanka subsidiary and the "initial ratings" momentum. If bank credit offtake (now at 9.6%) continues to accelerate, it should eventually trigger a "crowding in" of corporate bond issuances, benefiting CARE's high-margin surveillance business.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: Concall not available — Mgmt Commentary column absent.

Metric	Current Qtr (Q4)	YoY Change	QoQ Change	Trend
Total Income (Cons)	□69.46 Cr	↓ 5.9%	Not in doc	↓
Total Income (SA)	□66.94 Cr	↓ 10.5%	Not in doc	↓
Net Profit (Cons)	□23.31 Cr	↓ 12.0%	Not in doc	↓
Net Profit (SA)	□28.92 Cr	↑ 30.9%	Not in doc	↑
FY22 Revenue (Cons)	□274.82 Cr	↓ 1.8%	N/A	→
FY22 PBT Margin (Cons)	36%	↓ 600 bps	N/A	↓
FY22 PBT Margin (SA)	43%	↓ 200 bps	N/A	↓
Bond Issuances (Market)	□5.8 L Cr (FY22)	↓ 24%	N/A	↓
CP Issuances (Market)	□20.2 L Cr (FY22)	↑ 16%	N/A	↑
Bank Credit Offtake (Market)	9.6% (FY22)	↑ 500 bps	N/A	↑
Rating Income (SA)	Not stated (Q4)	↑ 4% (FY)	N/A	↑
Total Expenses (Cons)	□176.19 Cr (FY)	↑ 9.4%	N/A	↓
Basic EPS (Cons)	□25.45 (FY)	↓ 16.2%	N/A	↓

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
Ratings (Standalone)	₹247.63 (FY)	↓ 1.6%	43%	→	Outperf	Core rating income +4%; dragged by lack of provision reversal.
Subsidiaries (Consol)	₹27.19* (FY)	↓ 3.7%*	-32%*	↓	Underperf	Hit by Sri Lanka provisions; residual exposure ₹2.36 Cr.
ESG Ratings	Not in doc	N/A	N/A	↑	N/A	Empanelled as ERP for AMCs; assessed 300+ companies.
Risk Solutions	Not in doc	Not in doc	Not in doc	→	Not in doc	Won RiskTech Award; focused on Cloud Tech.

**Derived from Consol minus Standalone figures.*

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3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Macro - GDP	India's GDP growth projected at 7.2-7.5% for FY23.	Requires sustained 9%+ bank credit growth.	N/A	High Inflation (7.8%)
Guidance	Macro - Yields	10-year G-Sec yield expected to rise to 7.75-8.00%.	Already at 7.23%; implies 50-75bps further rise.	N/A	RBI rate hikes (75-100bps)
Guidance	Revenue	Growth contributed by "increase in initial ratings business."	Needs bond market to stabilize to offset surveillance churn.	Delivered (4% growth)	Bond market volatility
Strategy	International	Hopeful of recovery in Sri Lanka once situation improves.	Dependent on SL sovereign debt restructuring.	Missed (Provision taken)	Political instability
Strategy	New Business	ESG assessments for 300 listed companies completed.	Scaling ERP business for AMCs.	Delivered	Competitive intensity
Strategy	Outreach	15 Knowledge sharing forums conducted in Q4.	High brand visibility for "CareEdge" pivot.	Delivered	Marketing ROI
Balance	Provisions	Net exposure to Sri Lanka stands at ₹2.36 Cr.	Majority of provisions already taken in Q4.	Delivered	Further SL collapse

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4. ANALYST Q&A

Section not applicable — investor presentation only. No concall conducted or available.

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5. WHAT CHANGED vs PRIOR QUARTER

Based on comparison with Q3 FY22 context.

What Changed	Prior Quarter	This Quarter	Direction
Provisioning Profile	Normal	Heavy (Sri Lanka specific)	↓ Deteriorating
Rating Income Trend	Adjusted 7.1% growth	Full Year 4.0% growth	↓ Slowing
Market Headwinds	Bond issuances ↓ 15%	Bond issuances ↓ 24% (FY)	↓ Deteriorating
Consolidated Margins	31% (Q3)	36% (FY) / ~33% (Q4)	↑ Improving (QoQ)
Subsidiary Risk	Tech Talent Exodus (Risk)	Sovereign Risk (Sri Lanka)	↓ New Risk Added
ESG Progress	Rebranding Phase	ERP Empanelment / 300+ Assessments	↑ Improving
Tone on Credit Cycle	Cautiously Optimistic	Research-backed projection of 7.2-7.5% GDP	→ Stable

STOP HERE.