CARE Ratings Ltd — May 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat (Standalone) / Miss (Subsidiary Turnaround) **One-line:** The core Ratings "ATM" is functioning with high efficiency and improving market share, but the thesis remains capped by a widening profitability gap between the parent and its underperforming technology/advisory subsidiaries.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat (Standalone)	Standalone FY23 PAT grew 23% to □103.8 Cr; Rev from Ops +13%.	□
Earnings Quality	Moderate	PAT impacted by □1.73 Cr impairment; tax rate spiked to 32% due to disallowances.	□
Guidance Confidence	Neutral	Bullish on private CAPEX recovery; vague on subsidiary break-even timelines.	□
Management Credibility	Improving	Openly admitted subsidiary delays; committed to "flagging" buyback to Board.	□
Business Quality Signal	Improving (Core)	Incremental debt rated surged 78% YoY to □3.8 Lakh Cr.	□
Key Q&A Exchange	Q#4 - Subsidiary Losses	Non-rating losses tripled YoY while revenue declined; management cited "GTM stage" delays.	□
The Street's Primary Anxiety	Capital Allocation	Why invest □33.5 Cr in a tech subsidiary that is seeing revenue declines and impairments?	□
Capital Cycle Stage	Harvesting (Core)	Core ratings business is generating massive cash; Subsidiaries are in a "Reboot/Investment" phase.	□
Margin Trajectory	Stable (Standalone)	Standalone Operating Margin held steady at 46% despite talent cost normalization.	□
Pricing Power	Stable	Realization per mandate is showing a "consistently improving trend."	□
FCF Conversion	Not in document	Cash flow statement not provided in year-end condensed PPT.	□
Competitive Moat	Stable	Rebranding to 'CareEdge' and high outreach (155 reports) sustaining market share.	□
Balance Sheet Strength	Strong	Zero debt; significant cash surplus despite □33.5 Cr equity infusion in CRS.	□
Working Capital Efficiency	Stable	Business remains negative-to-low working capital due to advance rating fees.	□
Mgmt Track Record	Mixed	Strong core execution; poor execution/timelines on CARE Risk Solutions products.	□
Key Vulnerability	Subsidiary Drag	□18.3 Cr PAT delta between Standalone (□103.8 Cr) and Consol (□85.5 Cr).	□
Management Tone	Candid & Resilient	Mehul Pandya was direct regarding attrition (28%) and subsidiary friction.	□

Sentiment: □Positive (Core) | □Negative (Consolidated/Capital Allocation)

Key Takeaways: * **The Good:** The core ratings business is demonstrating powerful operating leverage. Incremental debt rated grew 78% YoY, and standalone revenue from operations grew 13% while expenses grew only 5% (standalone), leading to a 34% jump in standalone EBITDA. Attrition has normalized to 28%, and pricing per mandate is trending upward. * **The Bad:** The consolidated entity is suffering from a "Subsidiary Leakage." Total subsidiary losses/drag eroded □18.3 Cr of parent PAT. CARE Risk Solutions (Tech) is struggling with product development delays (re-coding for Basel IV) and revenue declines, leading to a □1.73 Cr impairment. * **Street Concern:** Analysts are frustrated by the lack of capital return (buybacks) and the tripling of losses in non-rating businesses. Management’s response—that these products are now "GTM stage"—is a repeated claim that needs to be verified by Q1FY24 revenue growth. * **Watchpoint:** Monitoring the "Initial Rating" momentum. If bank credit growth (15%) and corporate bond issuances (+32%) continue, the standalone business can carry the group even if subsidiaries take another 2-4 quarters to break even.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures as primary. Concall used for commentary and volume data.

Metric	Current Qtr (Q4FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Ratings Performance					
Incremental Debt Rated (□Cr)	□3.8 L Cr (FY)	↑ 78%	N/A	↑	Growth driven by bank loan ratings and long-term bond issuances.
Standalone Financials					
Total Income (□Cr)	78.2	↑ 16.8%	↑ 19.2%	↑	Volume-led growth; recovery in initial ratings.
EBITDA (□Cr)	25.9	↓ 10.4%	↑ 16.4%	↓	YoY decline due to one-off impairment and tax impact.
EBITDA Margin %	33.1%	↓ 1010 bps	↓ 790 bps	↓	Compressed by □1.73 Cr impairment and asset write-downs.
PAT (□Cr)	25.9	↓ 10.4%	↑ 21.0%	↓	Impacted by high effective tax rate (32%) on disallowances.
Consolidated Financials					
Total Income (□Cr)	87.9	↑ 20.3%	↑ 19.2%	↑	Subsidiary revenue growth from Nepal and Africa.
Total Expenses (□Cr)	53.8	↑ 17.8%	Not in doc	↓	Higher due to hiring for tech/advisory products.
PAT (□Cr)	20.2	↓ 13.4%	↑ 23.9%	↓	Subsidiary losses (CRS/CART) dragging down parent profit.
PAT Margin %	22.9%	↓ 900 bps	↓ 10 bps	↓	Significant gap vs Standalone 33.1% margin.
Sector Metrics					
Corporate Bond Issuances	□8.5 L Cr (FY)	↑ 32%	N/A	↑	Financial institutions driving bond demand.
CP Issuances (□Cr)	□13.7 L Cr (FY)	↓ 32%	N/A	↓	Sharp increase in short-term interest rates lowered demand.
Gross Bank Credit Growth	15%	↑ 540 bps	N/A	↑	Steered by retail (20.6%) and services (19.8%).
Attrition %	28% (FY)	↓ (Improve)	N/A	↑	Significant improvement from previous peaks.

2B. SEGMENT BREAKDOWN

Segment	Revenue (FY23)	YoY Growth	PBT Margin	Trend	vs Co Avg	Key Development
Ratings (Standalone)	₹285.9 Cr	15.5%	48.3%	↑	Outperf	Yielding high operating leverage; initial ratings surging.
Subsidiary: CART (Advisory)	Not in doc	Growth	~Breakeven	↑	Underperf	ESG assessments for 900+ companies; empanelled with AMFI.
Subsidiary: CRS (Risk Sol.)	Not in doc	Decline	Negative	↓	Underperf	Impairment taken; Basel IV product development delays.
International (Nepal/ Africa)	Not in doc	Growth	Positive	↑	Outperf	Africa assigned 50+ ratings; Nepal executed 100+ assignments.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Macro	CAPEX cycle to pick up in green energy, roads, and railways.	Feasible given deleveraged corporate balance sheets.	In-line	Rural demand recovery remains uneven.
Guidance	Margins	Standalone margins to remain "range-bound."	Currently 46-48%; sustainable if attrition stays low.	Delivered	Talent war for risk analysts.
Guidance	Tax Rate	Effective tax to return to 25%-27% in FY24.	Mathematical reversion as impairments are one-off.	Missed (FY23)	Further impairments.
Strategy	Non-Ratings	CRS products entering GTM (Go-To-Market) stage.	Needs 15-20% revenue growth in Q1 to be credible.	Missed	Software resource turmoil.
Strategy	Capital Return	"I will flag it (buyback) to the board."	₹643 Cr Net Worth allows for substantial return.	Missed	Opportunity cost of cash.
Strategy	Outreach	Focus on "Knowledge Hub" (155 reports published).	Maintaining high media visibility (514 mentions).	Delivered	Marketing spend vs ROI.

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Cred.	Verdict
1	4.5	Rajiv Mehta / YES Securities	Volume/ Growth	Business Overview	Volume of debt rated in FY23 and segments driving the 14% revenue growth.	Management confirmed incremental debt rated rose 78% to ₹3.8 Lakh Cr, with bank loan ratings being the primary growth engine. This validates that CARE is successfully capturing the shift toward bank credit in a high-inflation environment, strengthening its core franchise value.	None	5.0	Specific and quantified
2	4.0	Rajiv Mehta / YES Securities	Pricing Power	Financials	Have there been any pricing increases given the strengthened rating process?	Management stated that revenue per mandate is showing a "consistently improving trend," though pricing remains market-led. This indicates subtle pricing power and a better client mix, which should protect standalone margins from wage inflation.	Exact % increase	3.5	Directional with evidence
3	3.5	Varun Bang / Bryanston	ESG Strategy	Business Overview	Opportunities in ESG ratings now that it's part of BRSR.	CareEdge has already completed 900+ assessments and is empanelled by AMFI, focusing on hand-holding	Specific revenue targets	4.0	Directional with evidence

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Cred.	Verdict
						corporates to improve sustainability profiles. This positions the CART subsidiary to capitalize on a mandatory regulatory tailwind, though revenue contribution remains small today.			
4	4.5	Keshav Garg / Counter-Cyclical	Subsidiary Drag	Financials	Why are non-rating losses tripling while revenue is falling?	CEO of CRS explained that they were re-constructing all products for Basel IV norms and faced software talent turmoil, but products are now in the GTM phase. The investment phase has been longer than expected, making the Q1/Q2 FY24 revenue numbers a critical credibility test for the non-rating pivot.	Specific break-even month	3.0	Vague but consistent
5	5.0	Keshav Garg / Counter-Cyclical	Capital Allocation	Capex and Allocation	Request for share buyback given declining EPS and tax efficiency.	Mehul Pandya explicitly stated he would "flag it off to the board for an appropriate decision." This is the first directional shift toward	Commitment to timeline	3.5	Hedged commitment

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Cred.	Verdict
						acknowledging investor frustration on capital returns, serving as a potential re-rating trigger if a buyback is announced.			
6	4.0	Vikram Kotak / Ace Lansdowne	Quality of Ratings	Business Overview	Understanding the Rating Stability slide and industry comparisons.	CRO Sachin Gupta noted that CARE's rating stability is now better than the industry average, with only one investment-grade default in FY23. This "Quality First" approach is reducing the historical "mishap" discount CARE faced versus CRISIL/ICRA, potentially narrowing the valuation gap.	None	4.5	Specific, verifiable
7	3.5	Sanjay Kumar / ithought	Market Share	Business Overview	Are client additions for initial ratings growing?	Management confirmed "robust" new client additions over the last five quarters, though they declined to give the exact number. Sustained client acquisition in the "Initial" segment is the lead indicator for future recurring	Exact client count	2.5	Deflected

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Cred.	Verdict
						surveillance revenue.			
8	3.0	Himanshu / O3 PMS	Tech Automation	Business Overview	Is the risk solution business automated (non-linear) or man-hour based?	Management clarified it is a product-based model with "Risk as a Service" (subscription) for NBFCs and license-based for banks. Success here would lead to significant margin expansion (non-linear growth) once the initial development cost is sunk.	Current subscription count	3.0	Vague but consistent

PATTERN FLAGS & SENTIMENT * **Subsidiary Friction:** Multiple analysts (Garg, Kumar) pressed on why non-ratings are burning cash while revenue shrinks. Management's posture was defensive but candid, citing "Basel IV re-coding" and "software industry turmoil." The resolution is not yet reached; the market remains skeptical of the tech subsidiary's viability. * **Capital Return Tension:** The buyback question is now a standard fixture. Management moved from "no comment" in prior quarters to "I will flag it to the Board." This suggests internal discussions are finally maturing, which could alleviate the valuation overhang. * **Analyst Sentiment Verdict:** Analysts were **impressed by the core ratings' operational strength** but **openly critical of the subsidiary performance.** The tripling of losses in CRS while standalone profitability soared created a visible disconnect. Management's credibility improved regarding transparency (attrition, impairment), but they are now on a "ticking clock" to show subsidiary revenue in FY24.

GUIDANCE GAPS REVEALED IN Q&A | Topic | Prior Claim | Q&A Revelation | Gap / Walk-back | Risk to Thesis | |:---|:---|:---|:---|:---| | Subsidiary Growth | Pivot to non-ratings would diversify revenue. | Revenue in non-ratings actually *declined* YoY in some pockets. | Turnaround is taking 12-18 months longer than initially signaled. | Moderate - erodes consol. ROE. | | Tax Rate | Standard 25% tax. | FY23 Effective Tax hit 32%. | Impairment disallowances caused a 700bps tax spike. | Low - one-off impact. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY23)	This Quarter (Q4 FY23)	Direction
Initial Ratings Volume	+21% growth in bond market (9M).	+78% growth in incremental debt rated (FY).	↑ Improving
Capital Allocation	Silence on buybacks.	MD committed to "flagging" buyback to Board.	↑ Improving (Tone)
Asset Quality	No impairments reported.	□1.73 Cr impairment taken on tech subsidiary.	↓ Deteriorating
Tax Efficiency	Normal tax levels.	Tax rate spiked to 32% due to disallowances.	↓ Deteriorating
Attrition	High/Improving.	Quantified at 28% for FY23 (significant drop).	↑ Improving
Non-Rating Focus	Investing in products.	Products now at "GTM (Go-To-Market) stage."	→ Stable (Pending)
Market Share	Stabilizing.	Gaining share in Bank Loan and Financial Bond ratings.	↑ Improving

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