CARE Ratings Ltd — May 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat (on Consolidated PAT) / Inline (Standalone Revenue) **One-line:** The thesis is transitioning from "cyclical credit play" to "diversified analytics group," with non-rating revenue reaching 10% of the mix and subsidiaries finally reaching a profitability inflection point.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Beat	Consolidated PAT grew 20% YoY for FY24, outstripping the 15% Standalone growth.	□
Earnings Quality	Moderate	Standalone PAT benefited from a 35% spike in Other Income (□13.67 Cr).	□
Guidance Confidence	Strong	Management re-affirmed 80:20 revenue mix target; reached 10% in FY24 (vs 6% LY).	□
Management Credibility	Strong	Delivered on the promise of non-rating growth and ESG license receipt (May 2024).	□
Business Quality Signal	Improving	Non-rating businesses grew 100%+ (Analytics) and 65%+ (Advisory).	□
Key Q&A Exchange	Q3: Capital Allocation	Management pushed back on buybacks, prioritizing growth/ dividends (□18/share).	□
The Street's Primary Anxiety	Analytics Burn	Analysts pressed on the □5 Cr sequential spike in "Other Expenses" for subsidiaries.	□
Capital Cycle Stage	Growth/ Investment	Heavy R&D spend in Analytics; South Africa license pending.	□
Margin / Return Ratio Trajectory	Stable to Compressed	Cons. EBITDA margin fell to 34% (vs 38% LY) due to product development costs.	□
Pricing Power	Stable	Realizations linked to debt quantum; no direct premium for higher rating stability.	→
FCF Conversion & Quality	Not in document	Cash flow statement absent in PPT/Concall.	□
Competitive Moat Signals	Widening	Rating stability metrics outperform industry average; entry into Sovereign ratings.	□
Balance Sheet Strength	Strong	Substantial cash reserves and zero debt implied; □46.7 Cr FY Other Income.	□
Working Capital Efficiency	Not in document	DSO/DPO data not provided.	□
Mgmt Guidance Track Record	Reliable	Meeting diversification milestones ahead of schedule.	□
Key Vulnerability / Red Flag	Expense Spikes	"Other Expenses" increased from □5 Cr to □10 Cr sequentially in non-rating units.	□
Management Tone	Confident	Focused on "Transformative journey" and "Tech-driven hub."	□

Key Takeaways (Positives & Negatives): Positives: * **Diversification Milestone:** Non-rating revenue contribution jumped from 6% to 10% YoY, a significant stride toward the 20% long-term goal. * **Operating Leverage in Ratings:** Standalone PAT grew 35% in Q4 on a 10% revenue growth, showcasing the high-margin nature of the core ratings business when volumes flow. * **New Growth Engines:** Approval for Category I ESG

Rating provider (May 2024) and the MOU with African Peer Review Mechanism (APRM) provide clear FY25 runways. * **International Resilience:** Mauritius/Africa unit reported a 35% PAT margin on ₹10 Cr revenue, proving the offshore model works.

Negatives: * **Analytics Drag:** Despite 100% growth, the Analytics division remains loss-making with losses "at a similar level to last year" due to R&D costs. * **Consolidated Margin Compression:** Consolidated EBITDA margins compressed 400bps YoY (34% vs 38%) as the group invests in "knowledge-based" human capital and tech. * **Industrial Sluggishness:** Credit to large industries grew only 7% (though an improvement over 3.1% last year), and private capex remains "sluggish" despite high capacity utilization.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary and granular subsidiary data.

Metric	Current Qtr (Q4FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Operating Inc (Cons)	₹90.15 Cr	↑ 16.3%	↑ 14.6%	↑	Driven by 10% Standalone growth + high double-digit subsidiary growth.
Total Operating Inc (SA)	₹74.80 Cr	↑ 9.9%	↑ 12.2%	↑	Volume-led growth in BFSI and Infra sectors.
EBITDA (Consolidated)	₹29.03 Cr	→ (0.0%)	↑ 11.2%	→	Margin compression due to product development in Analytics.
EBITDA Margin % (Cons)	32.2%	↓ 530 bps	↓ 100 bps	↓	Investment phase in non-rating businesses.
PAT (Consolidated)	₹24.55 Cr	↑ 21.8%	↑ 2.6%	↑	Higher PAT despite flat EBITDA due to tax efficiencies/lower interest.
Standalone PAT	₹34.83 Cr	↑ 34.6%	↑ 56.7%	↑	Boosted by higher Other Income and operating leverage.
Fee Income (Cons)	₹90.15 Cr	↑ 16.3%	↑ 14.6%	↑	Mixed growth: 14% Ratings (FY), 100% Analytics (FY).
Basic EPS (Cons) (₹)	₹8.07	↑ 22.0%	↑ 2.4%	↑	FY24 EPS at ₹33.78 vs ₹28.17 LY.
Bank Credit Growth (%)	16.2%	↓ 1.6%	↓ 0.1%	→	NBFC risk weights caused some moderation in credit flow.
Corp. Bond Issuances (₹)	₹2.9 L Cr	↑ 10%	→	↑	FY24 reached ₹10.2 Lakh Crore (up 19% YoY).
Capacity Utilization (%)	74.7%	↑ 20 bps	↑ 70 bps	↑	Manufacturing nearing levels that trigger capex (75%+ threshold).
Other Income (Cons)	₹10.29 Cr	↓ 0.8%	↓ 23.0%	↓	Standalone Other Income up 35% YoY in Q4.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□Cr)	YoY Growth (FY24)	Margin (FY24)	Trend	vs Company Avg	Key Development
Ratings (SA)	□283.07	14%	45% (EBITDA)	→	Above	Leader in BFSI/Infra; 90% of total group revenue.
Analytics (CRS)	Not Stated*	>100%	Negative	↑	Below	Focus on Credit Monitoring/ Risk products; "Couple of years" to breakeven.
Advisory	Not Stated*	>65%	Marginally Positive	↑	Below	ESG practice grew 100%; now profitable at entity level.
International (Mauritius)	□10.0	Not Stated	35% (PAT)	↑	In-line	Profitable; Step-down subsidiary in South Africa awaiting license.
Group non-rating revenue reached ~ 33 Cr based on the 90:10 mix ratio.						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue Mix	80:20 Ratings to Non-Ratings over 3-5 years.	Needs non-rating revenue to grow at 40%+ CAGR while Ratings grows at 12%.	**Delivered**: Mix improved from 6% to 10% in one year.	High reliance on BFSI for Analytics.
Guidance	ESG Launch	Assigning ratings "very soon" post-May 2 license.	Requires mandate conversion in H1 FY25.	**Delivered**: License secured exactly as promised.	Voluntary nature of ESG ratings.
Guidance	International	South Africa license in H1 FY25.	Contingent on South African regulator timelines.	**On Track**: Mauritius unit is already a dividend-paying entity.	Regulatory delay.
Strategy	Breakeven	Analytics breakeven in "a couple of years."	Requires doubling revenue again while capping "Other Expenses" at □10 Cr/qtr.	**Mixed**: Revenue grew 100% but losses remained flat YoY.	R&D cost capitalization vs P&L.
Strategy	Tech Hub	Leverage Gen-AI for analyst productivity and internal controls.	Integration into core rating workflow by FY25 end.	**Early Stage**: Exploring use cases currently.	Talent acquisition cost.
Macro	Capex Cycle	Private capex to pick up as utilization hits 75%.	Requires GDP growth to sustain 7%+ to trigger expansion.	**Lagging**: Large industrial credit growth (7%) remains below bank average (16%).	Interest rate volatility.

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	Rajiv Mehta / YES Sec	Ratings Growth	Business Overview	Was the Q4 growth moderation (10% vs 14% FY) due to NBFC risk weights?	Management clarified that while NBFC credit moderated, their diversified sector presence (BFSI/Infra) mitigated the impact. Investment implication: The core ratings engine is decoupled from any single sector's regulatory headwinds.	None	4.5	Clear and quantified
2	4.0	Rajiv Mehta / YES Sec	Market Share	Business Overview	Is market share stable or improving?	Management claimed improved share in "incremental ratings" and "initial ratings" which drove growth across all four quarters. Investment implication: Success in the mid-market and new issuer segment is offsetting saturation in legacy portfolios.	Specific share % not given.	3.5	Directional
3	4.0	Rajiv Mehta / YES Sec	Analytics Strategy	Management Commentary	What is the go-to-market strategy for Analytics and when will margins improve?	Management is reprioritizing credit monitoring and credit risk products, seeing high traction from	None	4.0	Specific timeline given

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						banks in India and neighboring countries. Investment implication: Product focus over "bespoke" solutions should lead to better scalability and eventual margin expansion.			
4	5.0	Sahil Doshi / ThinQwise	Cost Management	Financials	Why did "Other Expenses" double from □5 Cr to □10 Cr sequentially in non-ratings?	CFO explained this was due to □2 Cr of "research cost" for products going live next year, which must be expensed rather than capitalized. Investment implication: Earnings quality is conservative (no aggressive capitalization), but the P&L will remain under pressure during the product rollout phase.	None	4.5	Specific and verifiable
5	4.5	Sahil Doshi / ThinQwise	Capital Allocation	Capex and Allocation	When will capital allocation to subsidiaries taper down and what	Management emphasized that subsidiary investment is a "de-risking" priority and that buyback	Buyback timeline.	2.0	Deflected — key signal

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					about buybacks?	decisions remain the "prerogative of the Board." Investment implication: Expect high cash retention for organic growth/ dividends (□18/share) rather than immediate buybacks or capital returns.			
6	3.5	Devam / Ardeko	Rating Stability	Business Overview	Does higher rating stability than peers lead to pricing power?	Management stated there is no direct correlation between stability rates and pricing, which is instead linked to debt quantum and relationships. Investment implication: Superior rating quality is a "moat" for market share retention rather than a lever for premium pricing.	None	4.0	Specific and consistent
7	3.0	Devam / Ardeko	Africa Performance	Financials	What are the financials for the Africa/ Mauritius entity?	Revenue was ~□10 Cr with a 35% PAT margin for FY24. Investment implication: International operations are small but highly profitable,	None	5.0	Specific and quantified

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						serving as a template for the South Africa entry.			

PATTERN FLAGS & SENTIMENT Management faced a clear "double-sided" friction in the Q&A. On one side, analysts applauded the 100% growth in Analytics; on the other, they were highly skeptical of the "Other Expense" spike and the continued cash burn. Management's posture was defensive but transparent regarding the accounting of research costs (expensing vs. capitalizing). The "Capital Allocation" theme remains a persistent overhang, as the company sits on substantial cash but remains non-committal on buybacks, favoring the "growth-via-diversification" narrative.

Analyst Sentiment Verdict: Skeptically Optimistic. Analysts are beginning to see the "sum-of-the-parts" (SOTP) value as non-rating revenue hits 10%, but the lack of a clear breakeven timeline for Analytics remains the primary friction point. Management's credibility on execution improved this quarter due to the timely SEBI ESG license receipt. The greatest risk remains a potential delay in the South Africa license or a widening of losses in the Risk Solutions business.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q3) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Subsidiary Investment | Peak investment phase is passing. | Other expenses doubled QoQ (₹5 Cr to ₹10 Cr). | The "investment phase" is extending due to new product research costs. | Continued margin drag for 4-6 more quarters. | | Buyback | Board considers all investor suggestions. | No decision made; priority remains business de-risking. | Implicit walk-back on buyback immediacy. | Stock may continue to trade at a discount to peers (CRISIL/ICRA) on capital inefficiency. |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3FY24)	This Quarter (Q4FY24)	Direction
Non-Rating Rev Mix	~7-8% (implied)	10% (declared FY24)	↑
ESG Maturity	SIRIUS platform (1,100 cos)	SEBI License Received (Category I ERP)	↑
Consolidated Margin	35%	32.2%	↓
Subsidiary Contribution	Profitable (₹1.69 Cr)	PAT at ₹24.55 Cr (Cons) vs ₹34.83 Cr (SA)	↓
Dividend	N/A	₹18 Total (FY24) vs ₹15 (FY23)	↑
Tone on Analytics	Focused on "Transformation"	Focused on "Breakeven within a couple of years"	↑
Macro Outlook	"Upbeat 9M"	"Private capex still sluggish" despite utilization	↓

Investor Notes: * **The "Consolidated" Pivot:** For FY24, Consolidated PAT grew 20% vs Standalone's 15%. This confirms that the subsidiaries are now growing the bottom line faster than the core, even with the R&D burn. * **Earnings Quality:** Be cautious of the Q4 Standalone PAT beat; it was heavily assisted by Other Income. Core EBITDA (SA) grew 18%, which is healthy but not the 35% "headline" PAT growth. * **ESG Revenue:** FY25 will be the first year of ESG rating revenue. Unlike the SIRIUS tool (Advisory), ESG Ratings (Subsidiary) will have higher margins and recurring surveillance fees. * **The Breakeven Watch:** Watch the "Other Expenses" line in Q1FY25. If it stays at ₹10 Cr/qtr without a commensurate revenue jump, the Analytics division's "breakeven" may move from "couple of years" to "indefinite."

STOP HERE.