

CARE Ratings Ltd — May 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat (Revenue) / Inline (Margins) **One-line:** CARE is successfully decoupling its growth from the sluggish underlying bond market through market share gains in high-yield segments and a definitive turnaround in its non-ratings subsidiaries.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Revenue growth of 19-21% significantly outpaced the 6% growth in corporate bond issuances.	☐
Earnings Quality	High	Growth is driven by core operating revenue and subsidiary turnaround, not just other income.	☐
Guidance Confidence	Strong	Management delivered on the promise of "CareEdge Global" and reduced Analytics losses to single digits.	☐
Management Credibility	Strong	Precise execution on diversification; non-ratings now 10.5% of mix vs <9% historically.	☐
Business Quality Signal	Improving	Transitioning from a "Domestic CRA" to a "Global Analytical Group" with improved subsidiary economics.	☐
Key Q&A Exchange	Q1 & Q3: Growth Outperformance	Analysts pressed on how CARE grew 20% when the bond market grew 6%. Mgmt cited market share gains in 'A' & above categories.	☐
The Street's Primary Anxiety	Sustainability of Growth	Fear that FY25 was an "abnormal" year for the industry. Mgmt countered with structural shifts toward bonds.	☐
Capital Cycle Stage	Growth / Inflection	Core business is harvesting; Subsidiaries (Analytics/Global) are moving from burn to break-even.	☐
Margin / Return Ratio Trajectory	Stable	Consol margins (39%) reflect heavy investment in Global/ ESG but are supported by high SA margins (46%).	☐
Pricing Power	Expanding	Management noted consistent success in pushing for better pricing on "initial" ratings.	☐
FCF Conversion & Quality	Strong	High cash balance on balance sheet; dividend payout maintained (118/year).	☐
Competitive Moat Signals	Widening	Only Indian CRA with a functional Global Scale Rating platform and IFSC sovereign ratings.	☐
Balance Sheet Strength	Strong	Zero debt; significant cash reserves for potential inorganic growth.	☐
Working Capital Efficiency	Stable	No specific red flags in receivables; automation/AI helping operational speed.	☐
Mgmt Guidance Track Record	Reliable	Consistently hitting the 15-20% growth band and delivering new entity milestones.	☐
Key Vulnerability / Red Flag	Subsidiary Opex	ESG and Global IFSC remain in the "investment phase" where opex exceeds revenue.	☐
Management Tone	Confident	Focused on "Quality-led growth" and outperforming the industry.	☐

Key Takeaways (Positives & Negatives):

- * **Positives:**
 - * **Market Outperformance:** CARE delivered 19% standalone growth despite corporate bond issuances only rising 6% and bank credit to large industry slowing to 6.2%. This suggests deep market share gains and better pricing in the AA/AAA segments.
 - * **Subsidiary Inflection:** The Analytics business reduced losses to "single digits" and launched EdgeAvira.AI, while the Advisory business is now profitably growing in double digits.
 - * **Global Footprint:** CareEdge Global IFSC has already rated \$3bn in debt and assigned 39 sovereign ratings, providing a unique "Global Scale" moat that domestic peers lack.
- * **Negatives:**
 - * **Consolidated Margin Dilution:** While Standalone EBITDA margins are robust at 46%, the Consolidated margin is 39% (and Q4 standalone was 42%), reflecting the ongoing cost of scaling ESG and International subsidiaries.
 - * **Macro Headwinds:** GDP growth is projected to moderate to 6.2% in FY26, and private sector capex remains "subdued," which could pressure volume growth in the medium term.
- * **Forward-looking Watchpoint:** The "80-20" revenue mix goal. Management expects to reach this in 3 years. Investors should track if subsidiary revenue growth continues to outpace core ratings (currently 27% vs 21%).

2. BUSINESS PERFORMANCE

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

Metric	Current Qtr (Q4FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Consol)	₹109.7 Cr	↑ 22%	↑ 1.6%	↑	Driven by Ratings (+21%) and Non-Ratings (+27%).
Revenue (Standalone)	₹91.2 Cr	↑ 22%	↑ 16.0%	↑	Highest ever standalone revenue; volume/price growth.
EBITDA (Consol)	₹47.4 Cr	↑ 63%	↑ 55.7%	↑	Recovery from Q3 troughs; operating leverage kicking in.
EBITDA Margin % (Consol)	43%	↑ 1200 bps	↑ 1500 bps	↑	Massive recovery vs Q3 (28%) as subsidiary costs stabilized.
EBITDA Margin % (SA)	50%	↑ 800 bps	↑ 1100 bps	↑	Reflects high efficiency and tech-led automation.
PAT (Consol)	₹43.4 Cr	↑ 77%	↑ 53.0%	↑	Strong growth; includes turnaround in Analytics.
PAT (Standalone)	₹44.9 Cr	↑ 29%	↑ 52.4%	↑	Standalone remains the primary profit engine.
ROCE (%)	Not stated	-	-	→	Management indicated healthy double-digit returns.
Cash Flow (OCF)	Not stated	-	-	→	Management cited "Good cash on the balance sheet."
Net Debt / (Cash)	Net Cash	-	-	→	Internal accruals funding all global expansion.
Fee Income Growth %	19% (SA)	↑	↑	↑	Successful push for better "Initial" rating fees.

2B. SEGMENT BREAKDOWN

Segment	Revenue (FY25 ₹Cr)	YoY Growth	Margin	Trend	vs Co Avg	Key Development
Ratings (Consol)	₹360.1 Cr	21%	~46% (SA)	↑	In-line	\$3bn debt rated via IFSC; 39 sovereigns.
Non-Ratings	₹42.2 Cr	27%	~10-15%	↑	Outperforming	Analytics losses down to single digits.
Advisory	Not stated	"Healthy"	Double-digit	↑	In-line	6 ESG ratings; Green bond reviews traction.
Analytics	Not stated	"Improved"	Near Break- even	↑	Inflection	Launch of EdgeAvira.AI platform.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	GDP Growth	6.2% for FY26.	Macro-dependent.	N/A	Global trade volatility.
Guidance	Revenue Mix	80% Ratings / 20% Non- Ratings.	Needs ₹100 Cr+ Non- Rating Rev (FY25 was ₹42 Cr).	On track (10.5% now).	Margin dilution.
Strategy	International	Scale CareEdge South Africa.	License received; execution pending.	Delivered on IFSC launch.	Local competitive intensity.
Strategy	Inorganic	Open to acquisitions for "New Age Products."	₹600 Cr+ cash available.	Patient approach so far.	Overpaying at high valuations.
Strategy	Efficiency	Range-bound employee costs via AI.	SA EBITDA Margin hit 50%.	Delivered.	Talent retention costs.
Macro	Bond Market	Structural shift from Bank to Bond.	AA/AAA issuers already active.	Improving market share.	Deepening of A/ BBB tiers.

4. ANALYST Q&A

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Credibility	Verdict
1	5.0	Rajiv Mehta (Yes Sec)	Growth Reconciliation	Business Overview	How did standalone growth (19%) outpace the underlying bond market growth (6%)?	Management attributed growth to four dimensions: new entity acquisition, increased debt volumes, consistent push for better pricing, and presence across all segments. This suggests market share gains and better pricing power, leading to higher revenue per client.	5.0	Clear and quantified
2	4.0	Advait Lath (Nippon)	IFSC Traction	Strategy	What is the actual progress in the GIFT City/IFSC venture?	Management reported rating US\$3 billion in debt and 8 company ratings in the first 6 months, with a compulsory rating requirement from April 2025 providing a tailwind. This establishes a "first-mover" advantage in IFSC, likely contributing to long-term consolidated growth.	4.5	Verified by data
3	4.5	Balaji (IIFL)	Industry Growth	Financials	Was FY25 a "one-off" decadal high for industry revenue, or is there a structural change?	Management noted that growth didn't come from SMEs but from increased debt requirements and enhancements in large/mid-corporates, plus a "quality pull" toward CARE's ratings. If the private capex cycle revives, this	4.0	Directional evidence

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						15-20% growth trajectory could become the new baseline.		
4	4.0	Arpit Shah (Stallion)	Margins & AI	Financials	Can margins reach pre-2018 levels (50-55%) given AI and subsidiary turnarounds?	Management indicated they want to remain "range-bound" to retain talent but are benefiting from operating leverage as subsidiaries hit break-even. Investors should expect consolidation around 40-45% consolidated margins rather than a return to legacy 50%+ levels due to investment opex.	3.5	Vague but consistent
5	3.5	Priyank Chheda (Vallum)	Capital Allocation	Capex/ Allocation	Why has the dividend payout dipped while cash balances are high?	Management stated they are prioritizing capital for inorganic opportunities (acquisitions) of new-age products and further subsidiary scaling. This indicates a shift from "cash cow" to "reinvestment" mode, which might weigh on dividend yields in the short term.	3.0	Evasive on specifics
6	3.0	Varun Bang (Bandhan)	Bond Market	Business Overview	Is the shift from Bank borrowing to Bonds structural?	Management confirmed the structural shift as the economy matures but noted that the bond market needs to deepen beyond AA/AAA categories. This	4.0	Structural signal

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						provides a long-term growth runway for high-margin bond rating fees.		

PATTERN FLAGS & SENTIMENT * **Theme: Growth Outperformance.** Analysts were highly skeptical of how CARE grew 20% in a 6% market. Management was confident, pointing to a reorganized vertical sales approach (BFSI/Infra/Corp) and market share gains in securitization. This concern was largely resolved by the data on 200+ new high-category clients. * **Theme: Subsidiary Turnaround.** There is significant interest in when the non-ratings business will meaningfully contribute to the bottom line. Management's posture was defensive but factual, noting Analytics losses are now in "single digits." * **Analyst Sentiment Verdict:** Analysts appeared **convinced but cautious**. The credibility of the "transformation" thesis improved this quarter as subsidiaries showed clear economic improvement. The friction point remains **capital allocation**—analysts want higher dividends or a clear acquisition target, while management is keeping "powder dry" for high-valuation tech products.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3FY25)	This Quarter (Q4FY25)	Direction
Consol. EBITDA Margin	28% (Quarterly Trough)	43% (Q4) / 39% (Full Year)	↑
Analytics Profitability	Double-digit losses	Single-digit losses (Near break-even)	↑
IFSC Debt Volume	US\$2 Billion rated	US\$3 Billion rated	↑
Client Onboarding	Focus on volume	200+ New 'A' and above clients	↑
Dividend Policy	High payout (historical)	Slightly lower payout to preserve cash	↓
Tech Integration	Strategy phase	EdgeAvira.AI launched and live	↑

INVESTOR NOTES: * **Earnings Quality:** CFO-to-PAT ratio was not explicitly provided, but the increase in standalone margins (50% in Q4) suggests very high cash generation from the core. * **Working Capital:** No significant build-up mentioned; the 19% growth appears to be "clean" revenue growth. * **Thesis Change:** No. The thesis of CARE becoming a diversified analytical group is **strengthening** as the non-ratings segment reaches double-digit revenue contribution (10.5%) and international licenses are secured.

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