CARE Ratings Ltd — May 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat (Profitability) / Inline (Revenue) **One-line:** The thesis is shifting from a "domestic recovery" play to a "high-margin analytical group" as loss-making subsidiaries have finally turned the corner, even as the core ratings business proves it can outpace a shrinking bond market.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	FY26 Consol EBITDA (+27%) and PAT (+24%) significantly outpaced revenue growth (+18%).	□
Earnings Quality	High	Driven by operational leverage and the turnaround of the Analytics subsidiary (CAAPL) to break-even.	□
Guidance Confidence	Strong	Management reiterated outperforming the industry; Global scale ratings reached 45 sovereigns.	□
Management Credibility	Strong	Successfully turned around loss-making subsidiaries that were a □24-25 Cr drag four years ago.	□
Business Quality Signal	Improving	Resilience in Ratings + scaling of Analytics proves the "Analytical Group" transition is maturing.	□
Key Q&A Exchange	Q2 + Mix Target	Management admits the 20% non-rating mix is hard to hit because the core rating business is growing too fast (17%).	□
The Street's Primary Anxiety	Capital Allocation	Anxiety over "lazy cash" on the balance sheet; Mgmt refused to commit to a buyback, citing disciplined inorganic search.	□
Capital Cycle Stage	Harvesting / Scaling	Operating leverage is accelerating; 60% of staff now leverage AI for productivity gains.	□
Margin / Return Ratio Trajectory	Improving	Consol EBITDA margins expanded to 42% (FY26) from 39% (FY25).	□
Pricing Power	Stable	Revenue growth in a 3.2% contracting bond market implies strong realizations in Bank Loan Ratings (BLR).	□
FCF Conversion & Quality	Not in document	Cash flow statement not provided in year-end presentation.	□
Competitive Moat Signals	Widening	58% market share in ESG Ratings (Cat 1 ERP) and 4th globally in sovereign coverage.	□
Balance Sheet Strength	Strong	Net Cash position; FY26 dividend of □22/share (Payout ~38%).	□
Working Capital Efficiency	Not in document	DSO/DPO data not provided in Q4 deck.	□
Mgmt Guidance Track Record	Reliable	Delivered on subsidiary turnaround and GIFT City accreditation targets.	□
Key Vulnerability / Red Flag	Macro Headwinds	Projected FY27 GDP growth moderated to 6.7% (vs 7.6% FY26) due to West Asia conflict and oil prices.	□
Management Tone	Confident	Tone was focused on "transformation" and "institutional strength."	□

Key Takeaways (Positives & Negatives): * **Positives:** * **Subsidiary Turnaround:** For the first time, all major non-rating subsidiaries (CAAPL) have reached break-even or profitability, removing the historical □20 Cr+ drag on consolidated margins. * **Market Decoupling:** CARE grew its Ratings segment 17% YoY in FY26 despite a

3.2% contraction in total corporate bond issuances, proving the dominance of its Bank Loan Rating (BLR) and surveillance annuity book. * **Global Scale Leadership:** The GIFT City subsidiary has rated 45 sovereigns in 18 months, ranking 4th globally by country coverage—a major validation of analytical rigor. * **Operating Leverage:** Consol EBITDA growth (27%) outstripping Revenue (18%) reflects a "leaner" growth model aided by 60% AI adoption. * **Negatives:** * **Mix Target Stagnation:** The non-rating revenue mix is stuck at 11%, unchanged YoY. To reach the 20% target, this segment must significantly outpace the core, which it currently is not doing (19% vs 17%). * **Macro Cooling:** FY27 GDP forecast of 6.7% suggests a cyclical slowdown in credit demand; corporate bond issuances fell 11.3% in Q4 alone. * **Capital Allocation Evasion:** Management continues to hold cash for acquisitions that haven't materialized in 4 years, resulting in potentially suboptimal ROE vs a buyback scenario. * **Forward-looking Watchpoint:** Monitor the "Initial Rating" fee growth in H1 FY27; if private capex pauses due to high oil/geopolitics, the surveillance annuity book will have to carry the entire growth load.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary.

Metric	Current Qtr (Q4 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Consol)	₹130.67 Cr	↑ 19%	↑ 16.5%	↑	Driven by 17% growth in Ratings and 19% in Non-Ratings.
Revenue (Standalone)	₹107.58 Cr	↑ 18%	↑ 19.2%	↑	Strong initial rating assignments despite bond market softness.
EBITDA (Consol)	₹60.76 Cr	↑ 28%	↑ 50.6%	↑	Significant expansion in margins due to subsidiary turnaround.
EBITDA Margin % (Consol)	46%	↑ 900 bps	↑ 1000 bps	↑	FY26 margin improved to 42% from 39% YoY.
PAT (Consol)	₹53.45 Cr	↑ 23%	↑ 46.3%	↑	All-time high annual PAT of ₹173.69 Cr.
PAT (Standalone)	₹53.39 Cr	↑ 19%	↑ 48.1%	↑	Standalone PAT margin at 50% for Q4.
EPS (Standalone)	₹17.77	↑ 18%	↑ 48.6%	↑	Full year EPS at ₹58.13.
Ratings Revenue Growth	17% (FY26)	↑	→	↑	Outpaced bond market decline; BLR up 16.1%.
Non-Ratings Rev Growth	19% (FY26)	↑	→	↑	Analytics reached break-even; ESG has 58% share.
Non-Ratings Share (%)	11%	→	→	→	Stuck at 11% due to strong core ratings growth.
Bank Credit Offtake (%)	16.1%	↑ 510 bps	↑	↑	Acceleration from 11% in FY25.
Corp Bond Issuance (Mkt)	₹10.8 Trillion	↓ 3.2%	↓ 11.3%*	↓	*Q4 contraction was more severe than full year.
ROCE (%)	Not in Doc	—	—	—	Not provided in Q4 presentation.
Net Cash / (Debt)	Positive	→	→	→	₹22/share total dividend declared.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (FY)	Trend	vs Co Avg	Key Development
Ratings (Consol)	□423.05 Cr	17%	~48% (SA)	↑	Higher	Rated over USD 8bn of global debt.
Non-Ratings	□50.01 Cr	19%	Positive*	↑	Lower	CAAPL turned profitable; ESG leads with 58% share.
Analytics	Not stated	"Strong"	Break-even	↑	N/A	EdgeAvira.AI platform live with clients.
Advisory	Not stated	"Consistent"	Profitable	↑	N/A	Sustainability practice saw strong momentum.
ESG Ratings	Not stated	"Significant"	Loss-making	↑	N/A	Market remains voluntary/nascent.

**Calculated based on SA vs Consol PAT delta.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	GDP Growth	6.7% for FY27 (Revised down).	Assumes $90/bbl oil; Downward revision from 7.2%.	Accurate in FY26 (7.6%).	Geopolitical risk.
Guidance	Revenue Mix	20% Non-Rating Revenue target.	Needs 35%+ growth in Non-Ratings to catch up to core.	Missed (Stuck at 11%).	Mixed.
Strategy	Digital/AI	60% staff leveraging AI.	Aiming for "Operational Excellence" and "Responsible AI."	Strong; AI agents now live.	Auditability.
Strategy	International	Global Scale Rating leadership.	Rated 45 sovereigns; aim to penetrate non-resident corporates.	High; RBI accreditation expanded.	Global adoption.
Strategy	Inorganic	Evaluate M&A for analytics/consulting.	Looking for strategic fit/ valuation discipline.	Zero acquisitions in 4 years.	Lazy cash/ ROE.
Balance	Dividend	Consistent dividend payout.	Declared □22 for FY26 (approx 38% payout).	Reliable; increased from □18.	None.

4. ANALYST Q&A

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
1	4.5	Balaji Subramanian, IIFL	Growth Attribution	Financials	Why did rating revenue grow 15% when the bond market contracted?	Management clarified that the 16.1% surge in bank credit offtake and the sticky "annuity" nature of surveillance fees offset the bond market slump. This confirms the business model's resilience to cyclical bond market volatility and its deep bench in Bank Loan Ratings (BLR).	None	4.5	Clear and quantified
2	4.0	Balaji Subramanian, IIFL	Outlook	Management Commentary	Has there been a pause in corporate capex due to geopolitics?	Management stated it is "too premature" to judge the impact of West Asia conflict but noted India's corporate deleveraging provides a buffer. The downward revision of GDP forecast to 6.7% is the primary signal for a potential slowdown in "Initial" rating fees.	Concrete capex pause data	3.0	Vague / Macro-led
3	4.0	Rajiv Mehta, YES Securities	Revenue Split	Financials	What is the growth rate of "Initial Rating" fees vs "Surveillance" fees?	Management declined to provide the split, citing that many clients have "fixed fees" for the year, making	Exact IR vs SF split	2.0	Deflected

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						bifurcation difficult. This lack of transparency makes it hard for analysts to separate one-time growth from recurring revenue stability.			
4	4.5	Priyank Chheda, Vallum Capital	Segment Mix	Strategy	Why has the non-rating mix been stuck at 11% for years vs the 20% target?	Management explained that the Ratings business (17% growth) is growing so fast that it keeps the mix static, despite Non-Ratings growing 19%. This implies that the 20% target may only be achievable via a large inorganic acquisition or a sharp cyclical slowdown in the core ratings business.	Specific timeline for 20%	3.5	Honest but cautious
5	5.0	Priyank Chheda, Vallum Capital	Capital Allocation	Capex and Allocation	Why no buyback or higher dividend despite large cash reserves and zero acquisitions?	Management emphasized "valuation discipline" and refused to overpay for fintech/ analytics assets just to deploy capital. While disciplined, this confirms that cash will continue to drag on ROE	Buyback consideration	2.5	Defensive on Cash

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						until the right-priced asset is found, as a buyback was not mentioned as an alternative.			
6	3.5	Varun, Bandhan Life	Product Traction	Business Overview	Which non-rating vertical will drive future growth?	Analytics (EdgeAvira.AI) and Advisory (Sustainability) were highlighted as having long sales cycles but high stickiness once won. The turnaround of CAAPL to break-even is the critical evidence that these segments are no longer "burning" capital.	Revenue targets per sub	4.0	Directiona
7	3.0	Devam, Ardeko	Pricing Power	Business Overview	What is the pricing direction for bank loans vs bonds?	Management stated they are "favourably placed" but that pricing is a function of competition and not easily tagged to debt volumes. This suggests that while there is no aggressive price war, the industry remains a competitive oligopoly with limited upward pricing flexibility.	Quantified pricing delta	2.0	Evasive

PATTERN FLAGS & SENTIMENT Analyst questioning focused heavily on two themes: (1) **Capital Allocation**, where there is visible frustration regarding the ₹600 Cr+ cash pile and the lack of a buyback or M&A, and (2) **Revenue Diversification**, where analysts are skeptical that the 20% non-rating target can be met organically. Management remained extremely defensive on the cash issue, sticking to their "valuation discipline" script, while appearing more confident about the internal turnaround of subsidiaries.

Analyst Sentiment Verdict: Analysts were largely impressed by the profitability "beat" but remain skeptical of management's capital allocation strategy. The friction regarding the 20% non-ratings target is growing, as the timeline for this goal keeps shifting. The primary unresolved risk is the "lazy balance sheet" which could continue to suppress consolidated ROE despite strong operating performance.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | FY27 GDP Growth | 7.2% (Initial) | 6.7% (Revised) | 50 bps downward revision due to oil/geopolitics. | Slower credit growth. | | Non-Rating Mix | 20% Target | "Stagnant at 11%" | Admitted that core growth makes the mix target difficult to hit. | Diversification lag. |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY26)	This Quarter (Q4 FY26)	Direction
Sovereign Ratings	41 Sovereigns	45 Sovereigns	↑
Global Scale Debt	USD 6 Billion	USD 8 Billion	↑
Consol EBITDA Margin	36% (Normalised)	46% (Peak Q4)	↑
FY27 GDP Forecast	7.2%	6.7%	↓
Analytics Profitability	"Approaching Break-even"	"Achieved Break-even"	↑
Bond Market (Qtrly)	-11.1% YoY	-11.3% YoY	↓
Dividend	N/A	₹22/share (Full Year)	↑
AI Adoption	Not explicitly stated	60% of staff actively using	↑

INVESTOR NOTES: * **The "Profitability Pivot":** The most material change is the **Consolidated vs. Standalone PAT delta**. In prior years, Subsidiaries were a drag. This quarter, Consolidated PAT (₹53.45 Cr) and Standalone PAT (₹53.39 Cr) are nearly identical, proving subsidiaries are now self-sustaining. * **Capital Allocation Tension:** Management is now being "pinned down" by analysts on the cash balance. Their refusal to consider a buyback while failing to find an acquisition target for 4 years is the single largest overhang on the stock's valuation multiple. * **Thesis Trajectory:** The thesis remains **Positive**. The business is successfully transitioning to an AI-enabled analytical group with global reach. However, investors must now accept that growth will be moderated by macro headwinds (6.7% GDP) in FY27.

STOP HERE.