CARE Ratings Ltd — Oct 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline / Weak on Margins **One-line:** The core rating thesis remains intact as H1 bond volumes support revenue growth, but the quarter reveals a worrying divergence where standalone expense growth (21%) is outpacing revenue (10%), while subsidiaries continue to dilute consolidated earnings.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline on Revenue / Miss on Margins	Standalone EBITDA margin dropped from 58% to 53% YoY.	□
Earnings Quality	Medium (Subsidiary Drag)	Consolidated PAT (□35.73 Cr) is 12% lower than Standalone.	□
Guidance Confidence	Neutral	Macro data shows "Net New Projects" slowing significantly.	□
Management Credibility	Strong	Launch of Sovereign Framework & ESG scaling shows execution.	□
Business Quality Signal	Stable	Dominance in BFSI/Infra provides a high-margin floor.	□
Key Q&A Exchange	Not applicable	Investor presentation only.	□
The Street's Primary Anxiety	Margin Compression & Subsidiary Breakeven	Total expenses grew 21-27% while Revenue grew 10-14%.	□
Capital Cycle Stage	Investment (Subsidiaries)	Investing in ESG (SIRIUS) and African/UAE expansion.	□
Margin / Return Ratio Trajectory	Deteriorating	Consol. EBITDA margin down to 43% from 50% YoY.	□
Pricing Power	Stable	Revenue growth (10%) lags Bond Issuance growth (H1).	□
FCF Conversion & Quality	Not in document	Full cash flow data absent.	□
Competitive Moat Signals	Stable	30-year legacy; specialized Infra EL ratings.	□
Balance Sheet Strength	Strong	High cash/investments implied by □11.5 Cr Other Income.	□
Working Capital Efficiency	Not in document	DSO/DPO data absent in PPT.	□
Mgmt Guidance Track Record	Mixed	Revenue growth is steady, but cost control is slipping.	□
Key Vulnerability / Red Flag	Negative Operating Leverage	Q2 Standalone Op. Exp grew 2.1x faster than Op. Income.	□
Management Tone	Not applicable	No concall available.	□

Key Takeaways (Positives & Negatives):

Positives: * **H1 Bond Market Strength:** While Q2 moderated, H1 corporate bond issuances grew ~50% YoY to □4.98 Lakh Cr, providing a solid base for the ratings business. * **Diversification Progress:** The ESG platform 'SIRIUS' has successfully mapped 1,100+ companies, positioning CARE to capture the mandatory BRSR reporting tailwind. * **Sectoral Tailwinds:** Bank credit to services (20.7%) and retail remains strong, even as industrial credit (6.1%) remains sluggish. * **New Product Innovation:** Launch of the 'Sovereign Risk Assessment Framework' and focus on InvITs/REITs suggests a move toward higher-value, specialized analytics.

Negatives: * **Macro Slowdown in Projects:** Net new projects plummeted to □1.2 Trillion in Q2FY24 from □6.6 Trillion in Q1 and □13.4 Trillion in Q4FY23, signaling a potential drought in new rating mandates for H2. * **Severe Margin Contraction:** Consolidated EBITDA margins eroded by 700 bps (50% to 43%) YoY in Q2, as the company scales non-rating businesses. * **Subsidiary Loss-Making:** Subsidiaries (Risk, Advisory, Africa) collectively reduced Group PAT by □5.02 Cr in Q2, indicating they have yet to reach a self-sustaining scale. * **Expense Overrun:** Standalone total expenses grew 21% YoY, far exceeding the 10% growth in operating income, suggesting rising employee or tech costs.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: Concall not available — Mgmt Commentary column will be sparse or absent.

Metric	Current Qtr (Q2FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Standalone Op. Income (□ Cr)	□85.11 Cr	↑ 10%	↑ 51%	↑	Q2 is seasonally stronger than Q1.
Consolidated Op. Income (□Cr)	□96.44 Cr	↑ 14%	↑ 45%	↑	Higher growth in subs vs. parent.
EBITDA (Standalone) (□Cr)	□45.35 Cr	↑ 2%	↑ 125%	↑	Heavily impacted by rising costs YoY.
EBITDA Margin % (Standalone)	53%	↓ 500bps	↑ 1700bps	↓	Seasonal Q2 boost vs Q1; YoY drop.
PAT (Standalone) (□Cr)	□40.75 Cr	↑ 6%	↑ 88%	↑	Core profits growing but slower than top-line.
PAT (Consolidated) (□Cr)	□35.73 Cr	↑ 3%	↑ 94%	↑	Non-rating businesses are net loss-making.
Other Income (Standalone) (□Cr)	□11.51 Cr	↑ 33%	↓ 1%	↑	Investment income remains a key profit driver.
Consolidated EPS (□)	□11.83	↑ 2%	↑ 97%	↑	EPS growth tracking PAT.
Corporate Bond Issuances (Ind)	□1.98 Lakh Cr	↓ 2%	↓ 35%	↓	Moderation due to rising yields/ inflation.
Net New Projects (India)	□1.2 Trillion	↓ 60%	↓ 82%	↓	Significant drop in investment intent.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Ratings (Standalone)	₹85.11 Cr	10%	53%	↓	Higher	Leader in BFSI and Infra sectors.
Subs (Risk/Adv/Intl)	₹11.33 Cr*	57%	Neg.	↑	Lower	Revenue gap (Consol minus Standalone).
ESG Solutions (SIRIUS)	Not in doc	Not in doc	Not doc	↑	Lower	Coverage expanded to 1,100+ companies.
Africa/International	Not in doc	Not in doc	Not doc	→	Lower	Recognised for ESG work in Mauritius.

**Calculated as Consolidated Operating Income minus Standalone Operating Income.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Strategy	Diversification	Leveraging knowledge-based analytical businesses.	Needs Subs to contribute >15% of Group PAT.	Improving	Subs dragging PAT.
Strategy	International Expansion	Expanding in Mauritius, Nepal, Kenya, SA.	Requires double-digit revenue from Africa.	On Track	High opex geo.
Strategy	ESG Leadership	First tech-enabled ESG platform 'SIRIUS'.	Must convert 1,100+ coverage into revenue.	New	Regulatory shift.
Macro	Capex Cycle	Gov front-loading capex ahead of elections.	Needs GFCF to stay >8% for rating volumes.	Stable	Election cycle risk.
Macro	Private Capex	Private sector intent high, but implementation lags.	Requires ₹5 Trillion+ quarterly new projects.	Deteriorating	H1 project drop.

4. ANALYST Q&A

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

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY24)	This Quarter (Q2FY24)	Direction
Standalone Revenue	₹56.48 Cr	₹85.11 Cr	↑ (Seasonal)
Standalone EBITDA Margin	36%	53%	↑ (Seasonal)
Subsidiary PAT Impact	-₹3.22 Cr	-₹5.02 Cr	↓ (Worsening)
Bond Market Growth	↑ 150% YoY	↓ 2% YoY	↓ (Cyclical)
New Project Pipeline	₹6.6 Trillion	₹1.2 Trillion	↓ (Severe)
Expense Growth Ratio	1.3x Rev Growth	2.1x Rev Growth	↓ (Margin Stress)

Investor Notes for H2FY24 Tracking: * **The Project Cliff:** The 82% QoQ drop in Net New Projects is the most significant fundamental risk. If this does not reverse in Q3, rating volume growth will likely stall by Q1FY25. * **Subsidiary Breakeven:** Investors must track if the negative delta between Standalone and Consolidated PAT (currently ₹5.02 Cr) narrows. Continued expansion without margin recovery is a red flag. * **Cost Control:** Q2 Standalone expenses grew ₹7.2 Cr YoY against only ₹7.6 Cr in Op. Revenue growth. Management is capturing almost zero operating leverage from incremental revenue.

STOP HERE.