May 11, 2024

RESULT REPORT Q4 FY24 | Sector: Financials

CARE Ratings Limited

Structurally moving right

CARE's PAT in Q4 FY24 was below our estimate on account of softer growth in Domestic Ratings (Stand-alone Rev.), lower-than-expected margins (reflecting growth investments in Analytics business), lower other income and higher tax rate. On structural basis, the performance was healthy characterized by 1) steady progression of market share in Ratings, 2) margin in ratings business trending up due to operating leverage, and 3) significant built-up of traction in non-Ratings businesses (Analytics and Advisory)

Fortifying market position in Domestic Ratings with gains of wallet share and new clients

CARE continues to gain share in industry's incremental rating volumes through a combination of wallet share gains and client addition. The slower 10% yoy revenue growth in Domestic Ratings needs to be looked in the context of significant moderation in bank's credit flow to the NBFC sector after increase in risk weights. CRISIL's domestic rating revenue growth also decelerated to 12% in this quarter. The share of IRF (initial rating fees) has been consistently improving as per the management. Operating leverage, wallet share gains and improving IRF contribution is reflected in Ratings' segment margins being much higher in H2 FY24 v/s H2 FY23. Continuance of healthy-to-strong growth is likely to drive further margin improvement.

Non-ratings businesses gaining traction; awaiting profitability turnaround

There has been a consistent uptick in non-Ratings revenue (Analytics and Advisory) over the past three quarters on the back of greater management focus, market introduction/strengthening of products and strong client outreach/marketing. The revenue share of non-Ratings entities has increased from 6% in FY23 to 10% in FY24 (stood at 13% in Q4 FY24). The growth in Advisory & Consulting business has been relatively steady, and it is making marginal profits. Greater focus and investments are going into the Analytics business where product focus has been reprioritized, new products are being developed and go-to-market has been accelerated, all entailing higher expenditure. Management expects this business to improve its profitability as Revenue increases. Currently, the analytics products are in the areas of credit risk management and monitoring catering to Banks and NBFCs inside and outside India. Co. aspires to improve the revenue contribution of non-Ratings businesses to 20% over a few years.

Ready to launch ESG Ratings

Recently, CARE received approval from SEBI to function as ESG Ratings Provider (ERP). With this, the co. plans to immediately launch its products/services (team in place) and solicit business. Three rating products are ready which are ESG Rating, Transition Rating and Combined Rating. Strong corporate relationships and data/information repository of the Domestic Ratings business would be leveraged for growth.

Expect strong revenue/earnings growth to continue

Without building any meaningful contribution of ESG Ratings, we expect 18-20% consolidated Revenue CAGR over FY24-26. While Domestic Ratings business can likely grow at 13-14% pa, the non-Ratings businesses (particularly Analytics) can keep growing at prolific pace on a benign base. Even though revenue contribution of non-Ratings would significantly increase, the consolidated EBIDTA margin could still expand over FY24-26 on incremental operating leverage gains in Ratings business and substantial improvement in profitability of Analytics business. Hence, a large RoE improvement is likely over next 2-3 years. We retain constructive view on CARE with an ADD rating and have raised earnings estimates and 12m PT.

Reco	:	**ADD**
CMP	:	Rs 1,093
Target Price	:	Rs 1,225
Potential Return	:	+12.1%

Stock data (as on May 10, 2024)

Nifty	22,055
52 Week h/l (Rs)	1264 / 625
Market cap (Rs/USD mn)	32900 / 394
Outstanding Shares (mn)	30
6m Avg t/o (Rs mn):	93
Div. yield (%):	2.1
Bloomberg code:	CARE IN
NSE code:	CARERATING

Stock performance

	1M	3M	1Y
Absolute return	-4.7%	-1.6%	65.1%

Shareholding pattern (As of Mar-24)

Promoter	0.0%
FII+DII	49.8%
Others	50.2%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Net Revenue	3,317	3,971	4,742
Growth (%)	18.9%	19.7%	19.4%
EBITDA	1,121	1,358	1,660
PAT	1,026	1,228	1,460
Growth (%)	20.0%	19.8%	18.9%
ROE (%)	14.6%	16.4%	18.2%
EPS (Rs)	34.4	41.1	48.9
P/E (x)	31.8	26.6	22.3
BV (Rs)	243	259	279
P/BV (x)	4.5	4.2	3.9

RAJIV MEHTA
Lead Analyst
rajiv.mehta@ysil.in
+91 22 6885 0521

MANUJ OBEROI, Associate

Exhibit 1: Result Table

Rs. Mn	Q4 FY24	Q3 FY24	QoQ %	Q4 FY23	YoY %
Revenue	901	787	14.6%	775	16.3%
Employee expenses	432	425	1.7%	372	16.3%
As % of revenues	48.0%	54.0%		48.0%	
Other Expenses	179	128	39.5%	130	37.4%
As % of revenues	19.8%	16.3%		16.8%	
Total Expenses	611	553	10.5%	502	21.8%
EBIDTA	290	234	24.3%	273	6.3%
EBIDTA Margin	32.2%	29.7%		35.2%	
Other Income	103	137	-24.8%	104	-0.8%
Finance Cost	5	5	-2.6%	5	-15.1%
Depreciation	27	26	2.6%	31	-12.6%
Profit before Tax	362	340	6.6%	341	6.2%
Tax	116	100	16.0%	139	-16.5%
Tax Rate	32.2%	29.6%		40.9%	
Profit After Tax	246	239	2.6%	202	21.8%
As % of revenues	27.2%	30.4%		26.0%	

Source: Company, YES Sec

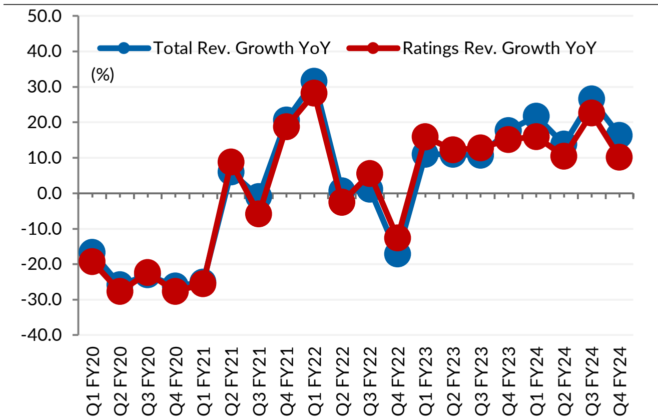
Exhibit 2: Segmental Performance

Rs. Mn	Q4 FY24	Q3 FY24	QoQ %	Q4 FY23	YoY %
Ratings					
Revenue	787	704	11.8%	714	10.1%
PBIT	337	266	26.9%	295	14.5%
PBIT Margin	42.9%	37.8%		41.2%	
Others					
Revenue	119	83	42.9%	65	83.3%
PBIT	(74)	(58)	26.6%	(52)	41.7%
PBIT Margin	-62.3%	-70.3%		-80.6%	

Source: Company, YES Sec

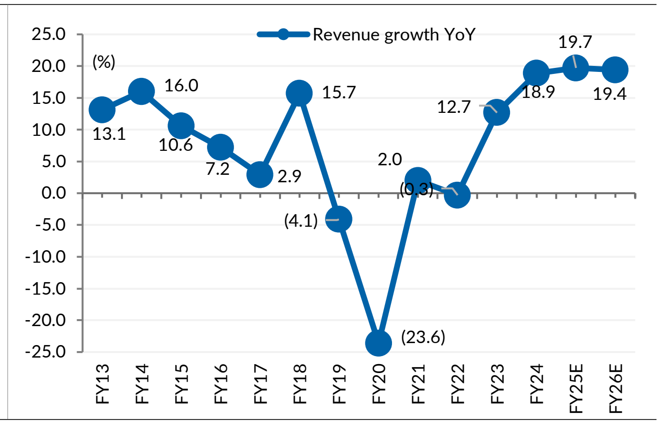
STORY IN CHARTS

Exhibit 3: Sustained recovery in ratings revenue growth



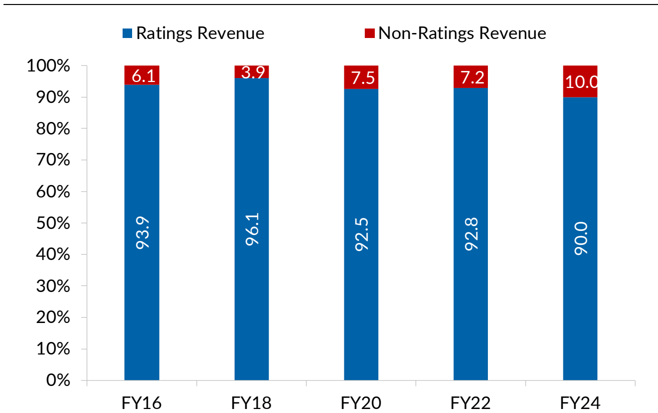
Source: Company, YES Sec

Exhibit 4: Revenue growth to remain strong



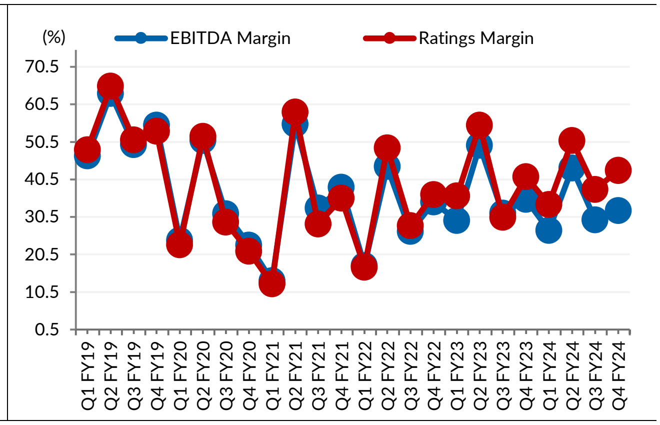
Source: Company, YES Sec

Exhibit 5: Revenue Mix - Ratings v/s Non-ratings



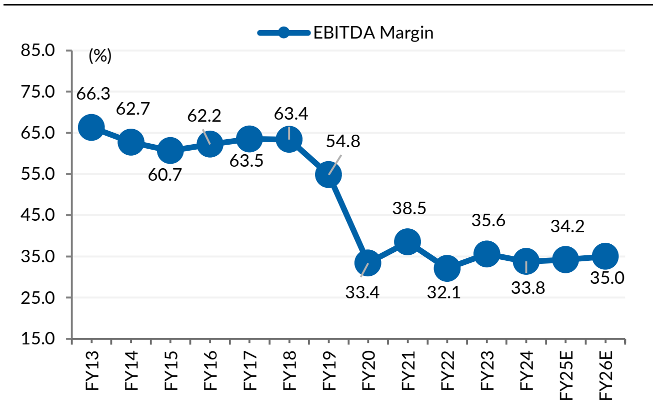
Source: Company, YES Sec

Exhibit 6: Significant margin recovery from lows



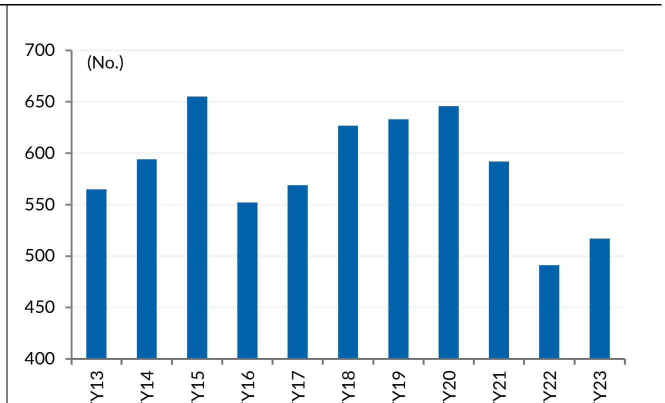
Source: Company, YES Sec

Exhibit 7: EBITDA margin to gradually trend higher



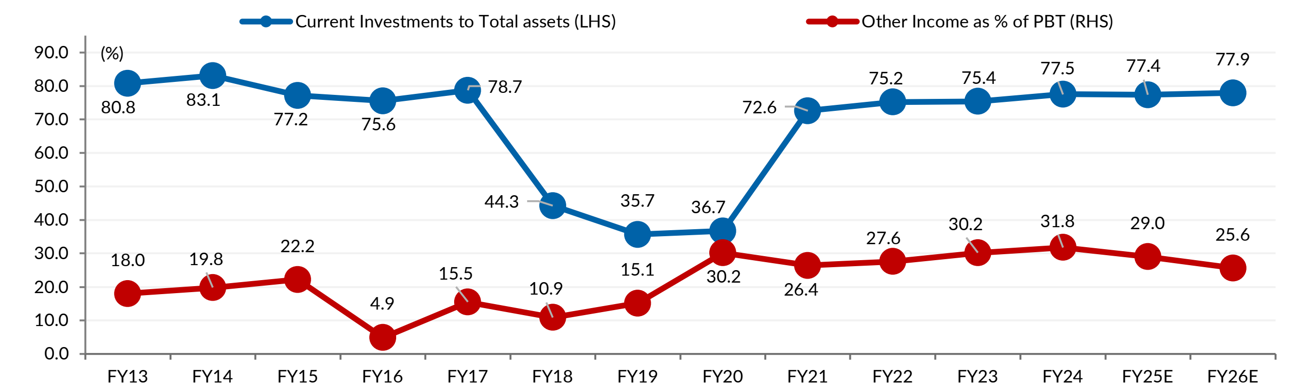
Source: Company, YES Sec

Exhibit 8: Employee base trend



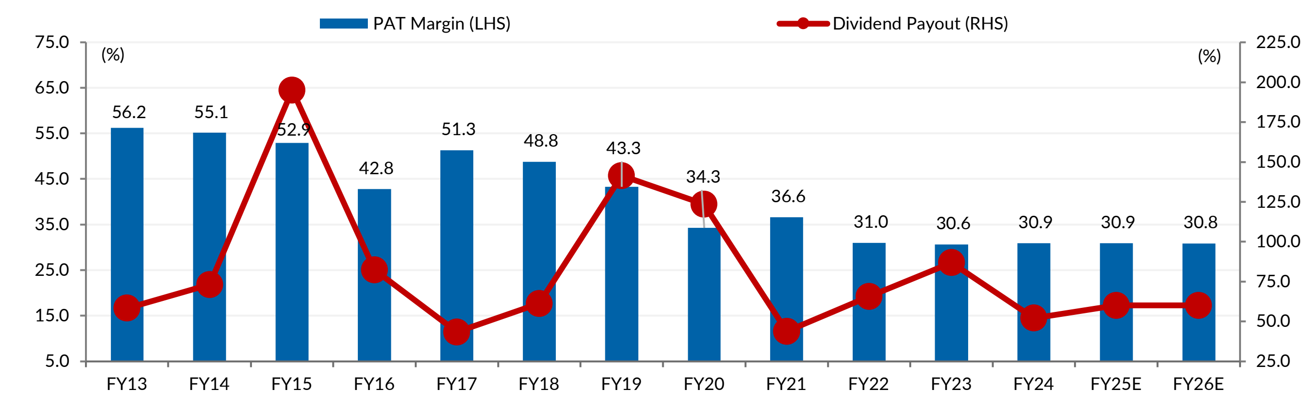
Source: Company, YES Sec

Exhibit 9: Consistent robust cash generation ensures significant liquidity on BS despite high DPR



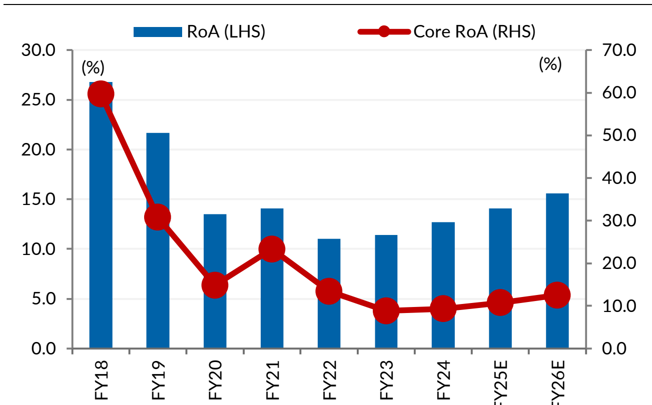
Source: Company, YES Sec

Exhibit 10: High profitability & DPR to continue

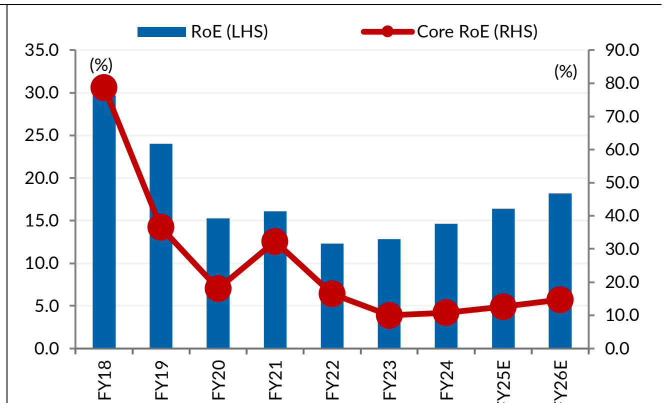


Source: Company, YES Sec

Exhibit 11: Core profitability metrics will improve underpinned by margin expansion and sturdy growth

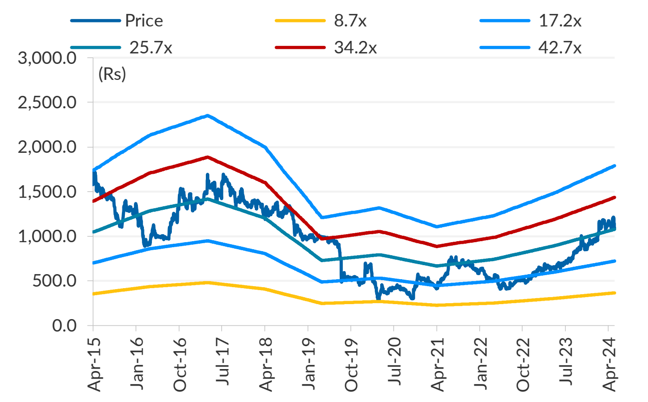


Source: Company, YES Sec



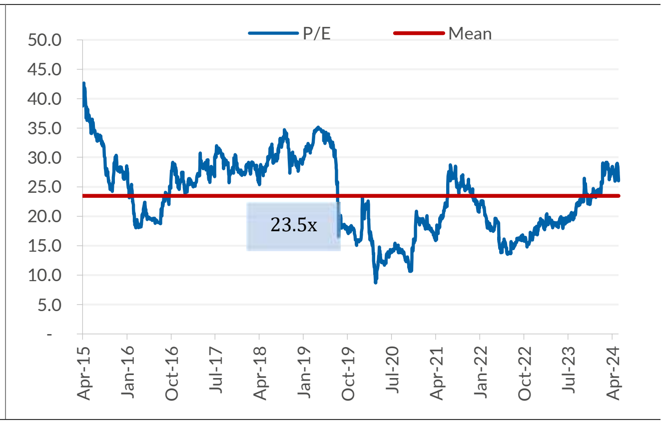
Source: Company, YES Sec

Exhibit 12: 1-yr rolling P/E band



Source: Company, YES Sec

Exhibit 13: 1-year rolling P/E vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 14: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity	296	297	299	299	299
Reserves	6,232	6,493	6,947	7,439	8,023
Net worth	**6,528**	**6,790**	**7,246**	**7,737**	**8,321**
Net deferred tax	63	52	55	60	66
Other liabilities	84	122	24	26	29
Current liabilities	483	621	934	1,028	1,130
Provisions	117	126	159	175	192
Total Equity & Liabilities	**7,274**	**7,710**	**8,418**	**9,026**	**9,739**
Fixed assets	1,038	1,115	1,148	1,198	1,248
Investments	440	439	438	438	438
Current investments	-	-	-	-	-
Cash and Bank Balance	822	565	584	607	723
Sundry debtors	166	215	225	306	366
Loans and advances	156	124	86	94	104
Other assets	4,652	5,252	5,937	6,382	6,861
Total Assets	**7,274**	**7,710**	**8,418**	**9,026**	**9,739**

Source: Company, YES Sec

Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Total Revenue	**2,476**	**2,790**	**3,317**	**3,971**	**4,742**
Employee Expenses	1,264	1,339	1,646	1,876	2,139
Other Expenses	416	457	550	737	943
EBITDA	**796**	**993**	**1,121**	**1,358**	**1,660**
Other Income	272	379	467	502	527
Depreciation	77	105	105	110	116
Interest Expense	5	10	17	20	15
PBT	**986**	**1,257**	**1,466**	**1,730**	**2,057**
Tax	218	403	441	502	597
PAT	**768**	**855**	**1,026**	**1,228**	**1,460**

Source: Company, YES Sec

Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E
PBT	1,257	1,466	1,730	2,057
Depreciation	105	105	110	116
Change in working cap	(443)	(404)	(418)	(419)
Tax paid	403	441	502	597
Others	(88)	171	(202)	(139)
Cash flow from operations	429	897	718	1,018
Capex	(182)	(138)	(160)	(166)
Change in investments	1	1	-	-
Cash flow from investments	(181)	(137)	(160)	(166)
Free cash flow	247	760	558	852
Equity raised/(repaid)	1	2	-	-
Dividend (including tax)	505	743	535	737
Cash flow from financing	(504)	(741)	(535)	(737)
Net change in cash	(257)	19	23	115
Op Cash	822	565	584	607
Cl Cash	565	584	607	723

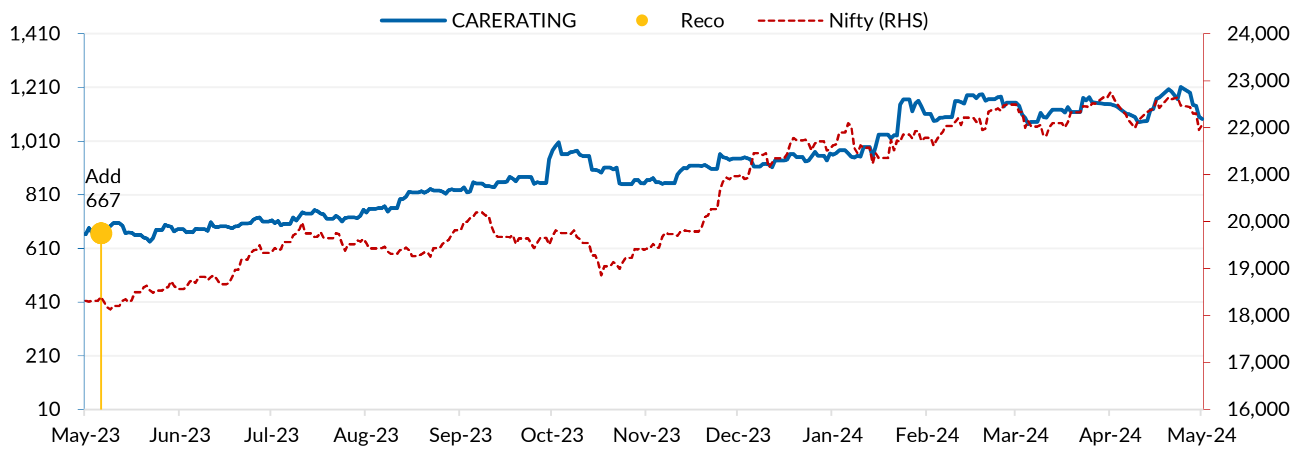
Source: Company, YES Sec

Exhibit 17: Growth and Ratio matrix

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Growth ratios (%)					
Rating Income	6.1%	13.8%	14.1%	14.1%	16.0%
EBITDA	-16.8%	24.8%	12.9%	21.1%	22.3%
Profit Before Tax	-16.8%	27.5%	16.6%	18.0%	18.9%
Net profit	-15.5%	11.2%	20.0%	19.8%	18.9%
Operating Ratios					
EBITDA Margin	32.1%	35.6%	33.8%	34.2%	35.0%
PBT Margin	39.8%	45.1%	44.2%	43.6%	43.4%
PAT Margin	31.0%	30.6%	30.9%	30.9%	30.8%
ROE	12.3%	12.8%	14.6%	16.4%	18.2%
Dividend Payout Ratio	65.7%	86.9%	52.2%	60.0%	60.0%
Per share					
EPS	25.9	28.8	34.4	41.1	48.9
Book Value	220.2	228.6	242.7	259.2	278.8
Valuation Ratios					
P/E	42.2	38.0	31.8	26.6	22.3
P/BV	5.0	4.8	4.5	4.2	3.9
Dividend Yield	1.6%	2.3%	1.6%	2.3%	2.7%

Source: Company, YES Sec

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 7th Floor, Urmi Estate Tower A, Ganpatrao Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West), Mumbai – 400 013, Maharashtra, India.

research@ysil.in | Website: www.yesinvest.in

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Details of Compliance Officer: Name: Aditya Goenka, **Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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