

September 23, 2016

BSE Code: 534804 NSE Code: CARERATING Reuters Code: CREI.NS Bloomberg Code: CARE:IN

Credit Analysis & Research Limited (CARE Ratings), incorporated in 1993, is one of the largest full service rating companies in India in terms of rating income (as of FY16). CARE Ratings is promoted by major banks and financial institutions in India. The company has 13 offices in India and 1 office in Male in the Republic of Maldives. CARE offers a wide range of rating and grading services across a diverse range of instruments and has over 23 years of experience in the rating of debt instruments and related obligations covering almost all range of sectors.

Key Developments

Moderate growth in debt rated instruments:

CARE Ratings' total volume of debt rated securities increased at a moderate pace of 6.1% CAGR over FY11-16 largely due to subdued credit environment over the last two years.

Modest growth in revenue over FY11-16:

Slowdown of investment cycle and credit offtake in the economy saw system wide moderation in the rating business. As a result, operating revenue of CARE Ratings grew at a modest 9.2% CAGR over FY11-16.

Margins & return ratios:

CARE Ratings has consistently maintained its EBITDA and net profit margin above 60% and 40%, respectively over the last five years. In general, rating agencies enjoy healthy return ratios on account of higher margins and limited capital requirement. CARE Ratings has consistently maintained its RoE and RoCE above 25% and 30%, respectively over the last five years.

Dividend payout at 84% in FY16

The dividend payout ratio of CARE Ratings has improved from 22% in FY11 to 84% in FY16. Additionally, the company also declared a special dividend of Rs. 65/- per equity share of Rs. 10/- each in FY15. The company has healthy cash position of Rs. 378 crore as on FY16.

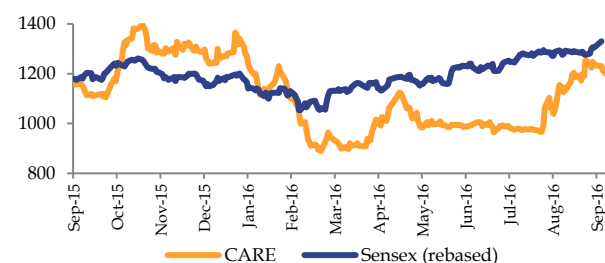
Market Data

CMP (Rs.)	1,312
Face Value	10.0
52 week H/L (Rs.)	1,412/885
Adj. all time High (Rs.)	1,739
Decline from 52WH (%)	7.1
Rise from 52WL (%)	48.3
Beta	0.2
Mkt. Cap (Rs.Cr)	3,859
Enterprise Value(Rs. Cr)	3,846

Fiscal Year Ended

	FY14	FY15	FY16
Total revenue (Rs.cr)	229	257	265
Adj. PAT (Rs.cr)	129	140	118
Share Capital (Rs.Cr)	29	29	29
EPS (Rs.)	44.4	48.4	40.0
P/E (x)	14.9	27.1	32.8
P/BV (x)	4.0	10.6	9.5
ROE (%)	28.3	33.2	30.6

One year Price Chart

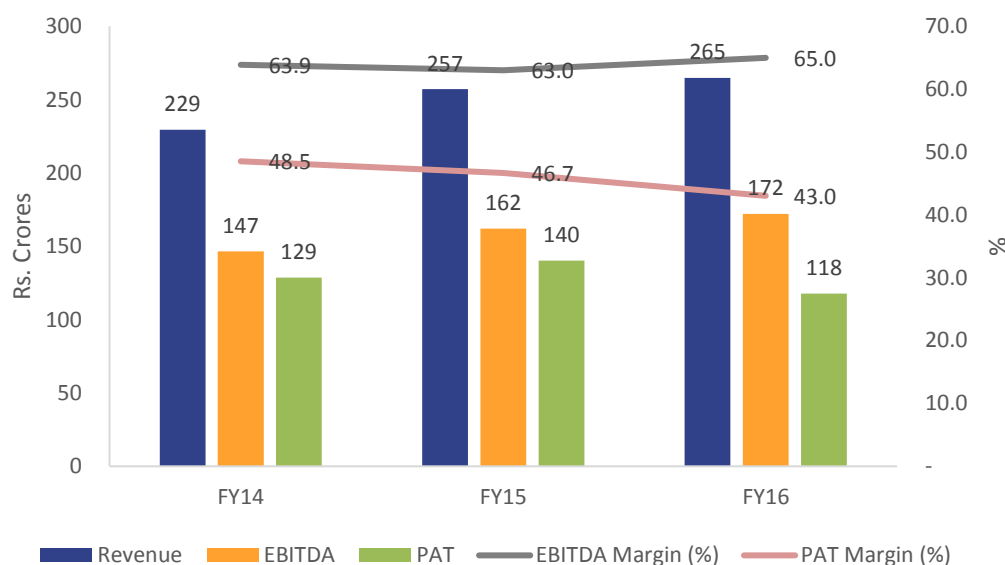


Shareholding	Jun16	Mar16	Diff.
Promoters (%)	-	-	-
Public (%)	100.0	100.0	-
Others (%)	-	-	-

Credit Analysis & Research Limited (CARE Ratings): Business overview

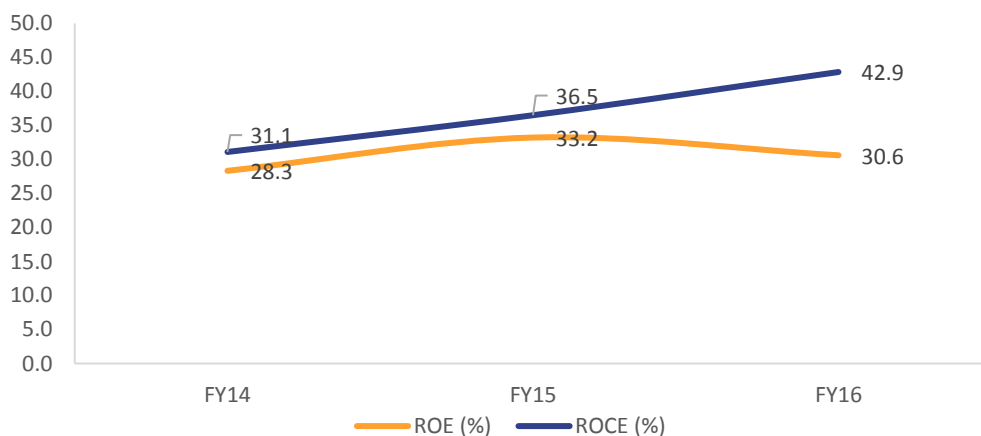
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Financial snapshot of CARE Ratings



Source: Company, In-house research

Return Ratios Trend

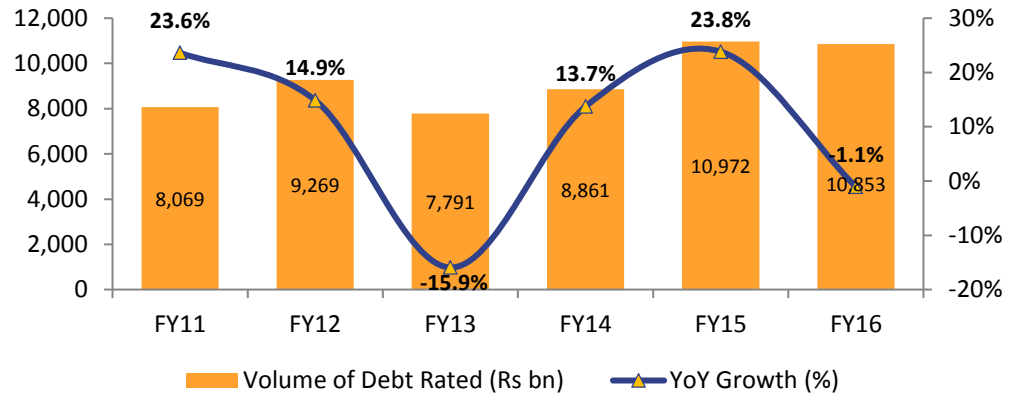


Source: Company, In-house research

Debt rating volume showing moderate pace of growth

CARE Rating is primarily engaged in rating services and enjoys a strong market position with respect to ratings for most types of debt instruments and bank loan facilities. The total volume of debt rated securities increased at a moderate pace of 6.1% CAGR over FY11-16 largely due to subdued credit environment over the last two years. However, the company continues to enjoy a prominent position in terms of market share (rating revenue) over the last five years.

Rating revenue growth over the years



Source: Company, In-house research

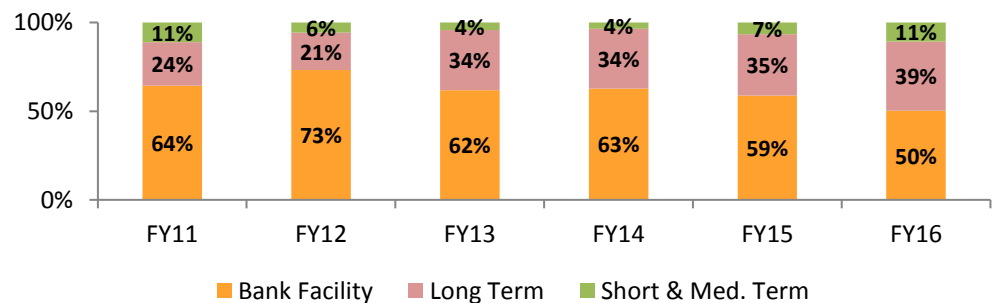
Rating volume growth across different segments

Rs bn	FY11	FY12	FY13	FY14	FY15	FY16	CAGR FY11-16
Bank Facility	5,199	6,788	4,818	5,566	6,450	5,452	1.0%
<i>YoY Growth (%)</i>		30.6	-29.0	15.5	15.9	-15.5	
Long Term	1,970	1,955	2,644	2,983	3,798	4,234	16.5%
<i>YoY Growth (%)</i>		-0.7	35.2	12.8	27.3	11.5	
Short & Med. Term	900	525	329	312	724	1,167	5.3%
<i>YoY Growth (%)</i>		-41.7	-37.3	-5.3	132.4	61.1	
Total	8,069	9,269	7,791	8,861	10,972	10,853	6.1%

Source: Company, In-house research

Long term debt instruments and bank loans are two main rating products of the company which contribute ~90% of the total rating business volumes.

More than ~90% of total rating volumes comes from Long term debt and bank loans

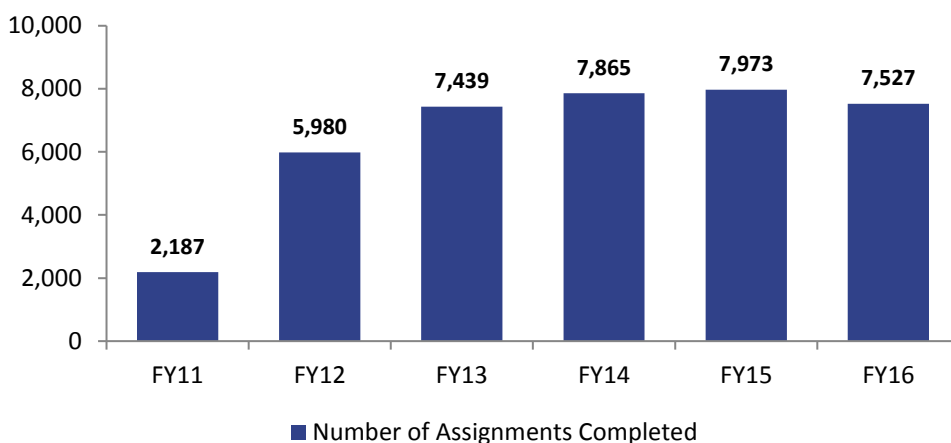


Source: Company, In-house research

Rapid growth in number of rating assignments

The total number of rating assignments increased at 28% CAGR over FY11-16 and touched 7,527 in FY16 from 2,187 in FY11. CARE Ratings emerged as a leader in terms of the number of ratings of private placement issues in FY16 and rated ~32% of total privately placed issues. However, there was a decline in the number of rating assignments completed in FY16 over FY15 on the back of lower rating assignments in SME segment.

Number of assignments growth trend

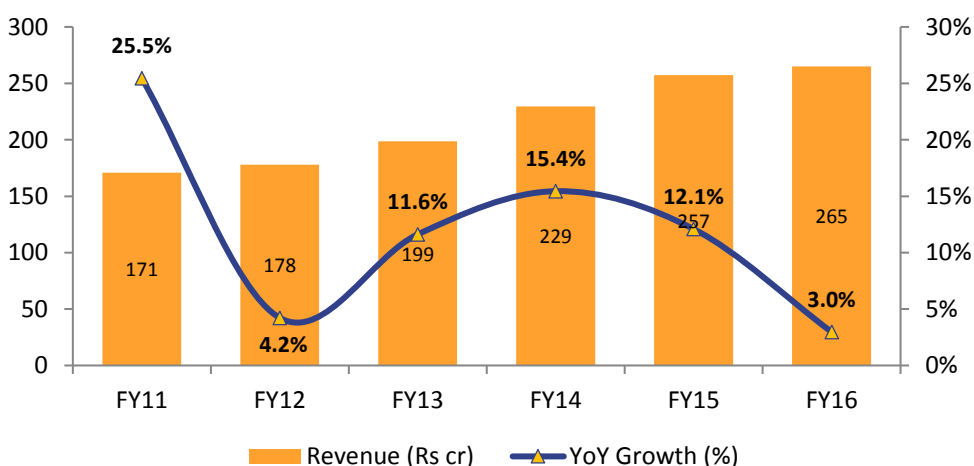


Source: Company, In-house research

Modest growth in revenue over the years

Slowdown of investment cycle and credit offtake in the economy saw system wide moderation in the rating business. As a result, operating revenue of CARE Ratings grew at a modest 9.2% CAGR over FY11-16. Besides, the company has launched income generating pool of products such as SME rating, MSE rating, Edu-grade, Equi-grade, Real Estate and Market Linked Debenture Valuation.

Revenue growth over the years

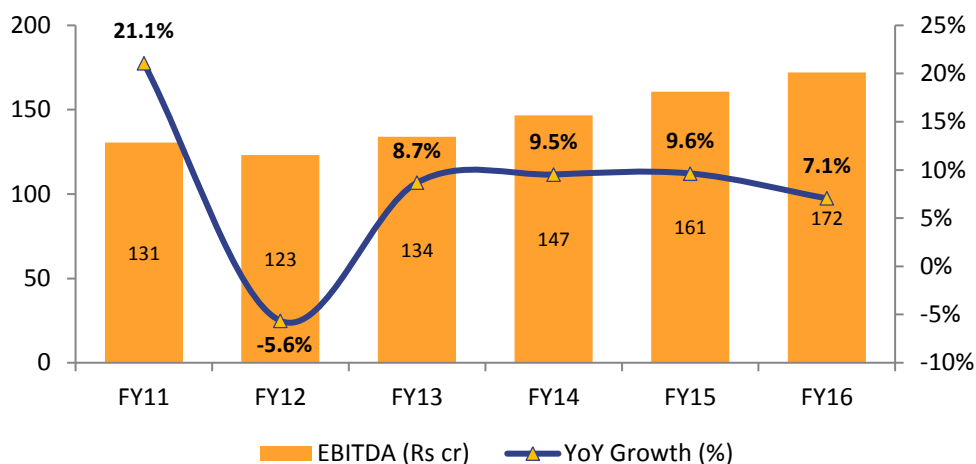


Source: Company, In-house research

Profitability Margins

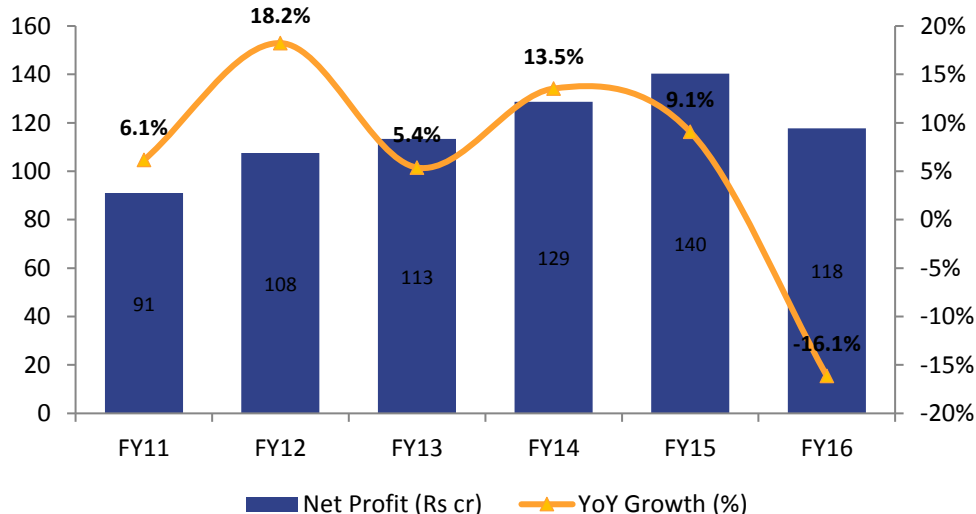
CARE Rating's EBITDA and net profit increased at a CAGR of 5.7% and 5.3%, respectively over FY11-16 on the back of slower operating revenue growth. However, the company has consistently maintained its EBITDA margin and net profit margin above 60% and 40%, respectively over the last five years. Although EBITDA margin and net profit margin of CARE Ratings reported declining trend over the last five years, it still remained one of the best among listed credit rating players due to its lower operating costs. The company's operational efficiency is the result of (1) increased use of technology and (2) Centralized backoffice in Ahmedabad leading to lower cost.

Trend in EBITDA growth



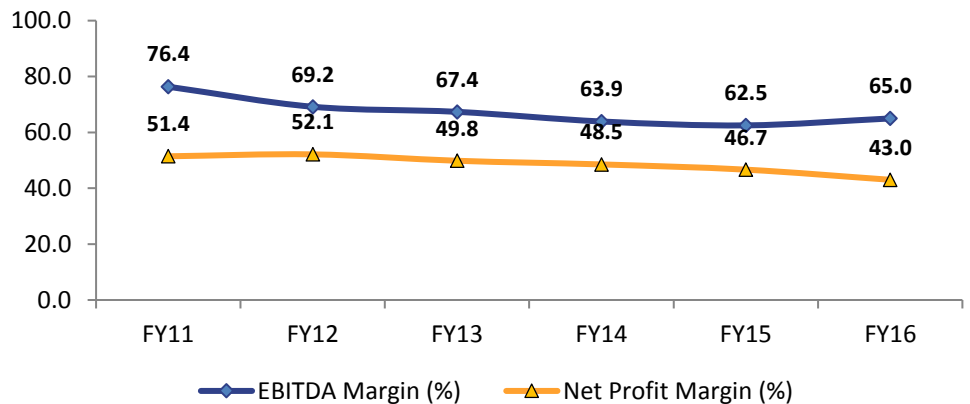
Source: Company, In-house research

Net profit grew at a CAGR of 5.3% over FY11-16



Source: Company, In-house research

EBITDA & PAT margin over the years

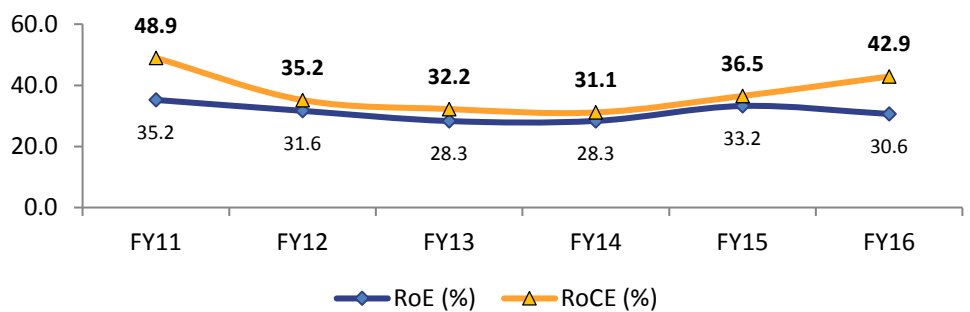


Source: Company, In-house research

Return ratios

In general, rating agencies enjoy healthy return ratios on account of higher margins and limited capital requirement. CARE Ratings has consistently maintained its RoE and RoCE above 25% and 30%, respectively over the last five years.

Strong return ratios

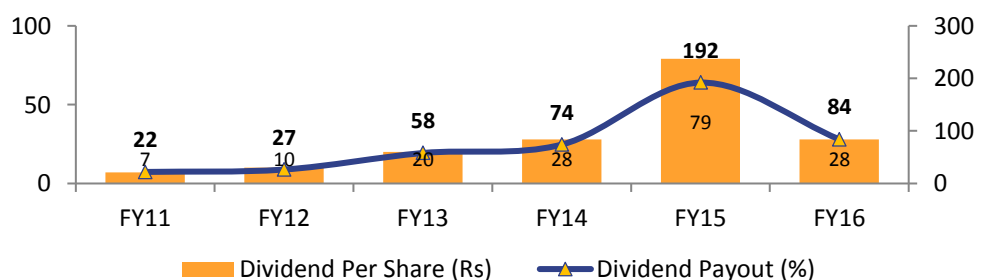


Source: Company, In-house research

Dividend payout

The dividend payout ratio of CARE Ratings has improved from 22% in FY11 to 84% in FY16. Additionally, the company also declared a special dividend of Rs. 65/- per equity share of Rs. 10/- each in FY15. The company has a healthy cash position of Rs. 378 crores as of FY16.

Strong return ratios



Source: Company, In-house research

Balance Sheet (Standalone)

(Rs.Cr)	FY14	FY15	FY16
Share Capital	29	29	29
Reserve and surplus	455	331	379
Net Worth	484	360	408
Minority Interest	-	-	-
Total Debt	-	-	-
Other non-current liabilities	4	5	5
Total Equity & Liabilities	488	366	414
Net Fixed Assets	52	56	55
Capital WIP	-	-	-
Goodwill	-	-	-
Investments	468	346	392
Net current assets	(39)	(44)	(39)
Deferred tax assets (net)	(4)	(3)	(3)
Other non-current assets	12	11	8
Total Assets	488	366	414

Cash Flow (Standalone)

Y/E (Rs. Cr)	FY14	FY15	FY16
Net profit/loss before tax& extraordinary items	179	199	177
Net cashflow from operating activities	109	107	108
Net cash used in investing activities	(47)	157	(41)
Net cash used from financing activities	(87)	(276)	(66)
Net inc/dec in cash and cash equivalents	(26)	(13)	1

Financial performance snapshot

Net sales of the company stood at Rs. 265 Crores in FY16, a growth of 3.0% as compared to Rs. 257 Crores in FY15. The operating expenses of the company decreased by 2.5% YoY to Rs. 93 Crores from Rs. 95 Crores during the year. The company's EBITDA grew by 6.2% YoY to Rs. 172 Crores in FY16 from Rs. 162 Crores in FY15. EBITDA margin expanded by 197bps to 65.0% in FY16 from 63.0% in FY15. Net profit decreased by 16.1% to Rs. 118 Crores in FY16 from Rs. 140 Crores in FY15. PAT Margin contracted by 362 bps to 43.0% from 46.7% during the period under review.

Profit & Loss Account (Standalone)

(Rs.Cr)	FY14	FY15	FY16
Net revenue	229	257	265
Expenses	83	95	93
EBITDA	147	162	172
Depreciation	3	5	4
EBIT	144	157	168
Interest cost	0	1	-
Other Income	36	44	9
Profit Before Tax	179	199	177
Tax	51	59	59
Profit After Tax	129	140	118
Minority Interest	-	-	-
P/L from Associates	-	-	-
Adjusted PAT	129	140	118
E/o expense / (income)	-	-	-
Reported Profit	129	140	118

Key Ratios (Standalone)

	FY14	FY15	FY16
EBITDA Margin (%)	63.9	63.0	65.0
EBIT Margin (%)	62.6	61.1	63.5
NPM (%)	48.5	46.7	43.0
ROCE (%)	31.1	36.5	42.9
ROE (%)	28.3	33.2	30.6
EPS (Rs.)	44.4	48.4	40.0
P/E (x)	14.9	27.1	32.8
BVPS(Rs.)	167.0	124.3	138.9
P/BVPS (x)	4.0	10.6	9.5
EV/EBITDA (x)	25.8	23.6	22.3



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