YES SECURITIES
INSTITUTIONAL EQUITIES

May 15, 2025

RESULT REPORT Q4 FY25 | Sector: Credit Rating Agencies

CARE Ratings Limited

Strong performance and commentary

A solid operating performance in Q4 FY25

CARE delivered a 2% revenue and 30-32% EBITDA/PAT beat on our estimates in Q4 FY25, and notably without any one-offs. Growth was stronger than expectations in Ratings business segment (89% of consol rev) at 24%/21% yoy in Q4/FY25. Revenue growth in mainstay Domestic Ratings was 22%/19% yoy in Q4/FY25, underpinned by 1) healthy growth in VoDR, 2) favourable shift in its mix (towards Bond Ratings), 3) market share gains in Bond and Securitization Ratings, 3) new client/corporate addition (active ratings with ~5000 Corporate), 4) strengthening rating performance/investor reception, 5) sharpened/verticalized business development approach and 6) some pricing breakthroughs. Traction in Rating subsidiaries (Africa, Nepal, Mauritius, Global Ratings, and ESG Ratings) has also been increasing. Growth in non-Ratings businesses (Analytics & Advisory) significantly decelerated to 3.5% yoy in Q4 FY25 after witnessing a robust growth of 37% yoy in 9M FY25.

Consol EBIDTA margin in Q4 FY25 stood at 43% (v/s est. 34%) with sequential decline in employee cost and other expenditure. Notably, the manpower cost included catch-up provisions for bonus/incentives in the preceding quarter and other expenses included certain one-time cost related to office refurbishment. Structurally, the EBITDA margin in Domestic Ratings business continue to improve and stood at 50%/46% in Q4/FY25. The non-Ratings businesses of Analytics and Advisory attained break-even in Q4 FY25 after having improved the loss margin substantially in preceding three quarters (driven by turnaround of Analytics). Other income was higher at Rs152mn (26% of PBT) with increase in Cash & Investments and better treasury yield.

Management commentary sanguine about growth and margin across businesses

CARE is confident about outpacing the Rating industry's revenue growth in the coming years also. After the reorganization of business development, CARE is able to sharply target all the segments (BFSI, Infra, Corp and MCG). Increasing acceptance of its ratings in the Bond market and rate easing should support revenue growth in coming quarters. Sustained strong ratings performance would aid pricing enhancement efforts and new client addition. Operating margin in Domestic Ratings could gradually expand on the back of operating leverage and efficiency gains from tech interventions (Automation and AI).

Co. expects growth to continue in Advisory business with good demand across the product offerings of Industry Research, ESG Services and Corporate Advisory. With critical investment largely complete, the Analytics business is expected to enter a phase of faster revenue and margin scale-up with offerings in credit processing, credit monitoring and risk & regulatory reporting for lending institutions. After a promising start (~US$3bn worth of rating assignments in H2 FY25), Management is confident about significant growth in the Global Ratings business.

Earnings get upgraded by 10-11%; move rating to BUY

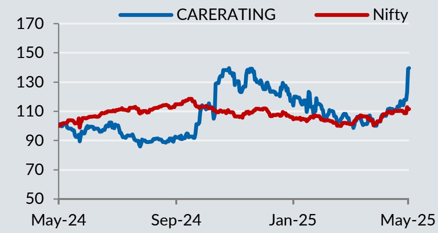
On the back of a strong operating performance in Q4 FY25 and sanguine Management commentary, we upgrade earnings estimates for FY26/27 by 10-11% through increasing both growth and margin assumptions. We expect 17%/22%/20% CAGR in consolidated Revenue/EBITDA/PAT over FY25-27. Consolidated EBITDA margin could expand by 300-400 bps during the aforesaid period, driven by improvement in profitability across businesses. We estimate a large RoE improvement notwithstanding further accumulation of Cash & Equivalents. CARE continues to evaluate inorganic growth opportunities having synergies of new markets addition or new products addition which are available at palatable valuation. Retain positive view on CARE and move rating to BUY from ADD with an upgraded one-year price target of Rs1830.

Reco	:	**BUY**
CMP	:	Rs 1,522
Target Price	:	Rs 1,830
Potential Return	:	+20.2%

Stock data (as on May 14, 2025)

Nifty	24,667
52 Week h/l (Rs)	1571 / 922
Market cap (Rs/USD mn)	45476 / 533
Outstanding Shares (mn)	30
6m Avg t/o (Rs mn):	104
Div. yield (%):	1.5
Bloomberg code:	CARE IN
NSE code:	CARERATING

Stock performance



	1M	3M	1Y
Absolute return	35.4%	32.0%	37.8%

Shareholding pattern

Promoter	0.0%
FII+DII	53.1%
Others	46.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	1,830	1,630

Δ in earnings estimates

	FY25	FY26e	FY27e
EPS (New)	46.8	57.7	67.1
EPS (Old)	42.7	51.8	60.5
% Change	9.5%	11.4%	10.9%

Financial Summary

(Rs mn)	FY25	FY26E	FY27E
Net Revenue	4,023	4,741	5,463
Growth (%)	21.3%	17.8%	15.2%
EBITDA	1,553	1,967	2,322
PAT	1,400	1,728	2,009
Growth (%)	36.5%	23.4%	16.3%
ROE (%)	18.2%	20.3%	21.7%
EPS (Rs)	46.8	57.7	67.1
P/E (x)	32.5	26.4	22.7
BV (Rs)	272	296	322
P/BV (x)	5.6	5.1	4.7

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CARE Ratings Limited

Exhibit 1: Result Table

Rs. Mn	Q4 FY25	Q3 FY25	QoQ %	Q4 FY24	YoY %
Revenue	1,097	964	13.8%	901	21.6%
Employee expenses	471	503	-6.4%	432	9.0%
As % of revenues	43.0%	52.2%		48.0%	
Other Expenses	152	156	-2.9%	179	-15.2%
As % of revenues	13.8%	16.2%		19.8%	
Total Expenses	623	659	-5.6%	611	1.9%
EBITDA	474	304	55.7%	290	63.2%
EBITDA Margin	43.2%	31.6%		32.2%	
Other Income	152	119	28.0%	103	47.5%
Finance Cost	6	6	7.0%	5	30.6%
Depreciation	31	30	2.0%	27	14.5%
Profit before Tax	589	387	52.1%	362	62.7%
Tax	155	104	49.8%	116	33.3%
Tax Rate	26.3%	26.7%		32.2%	
Profit After Tax	434	284	52.9%	246	76.7%
As % of revenues	39.6%	29.4%		27.2%	

Source: Company, YES Sec

Exhibit 2: Segmental Performance

Rs. Mn	Q4 FY25	Q3 FY25	QoQ %	Q4 FY24	YoY %
Ratings					
Revenue	976	849	15.0%	787	24.0%
PBIT	554	402	37.7%	443	25.0%
PBIT Margin	56.8%	47.4%		56.3%	
Others					
Revenue	123	115	6.6%	119	3.5%
PBIT	3	(14)	-123.4%	(67)	-104.7%
PBIT Margin	2.6%	-11.8%		-56.4%	

Source: Company, YES Sec

KEY CALL HIGHLIGHTS

Domestic Ratings

- Strong growth through the year represents CARE doing well on multiple dimensions viz. 1) growth in VoDR and its mix, 2) market share gain in Bond ratings and Securitization Rating, 3) new client/corporate addition, 4) rating performance/investor reception and 5) pricing breakthroughs.
- Management confident about outpacing the rating industry's revenue growth in coming years too.
- Strategy has been to focus on quality-led growth, preserving strong ratings performance and driving business (including new client) through enhanced/verticalized business development function.
- CARE's rating stability further improved in AA and AAA rating categories in FY25 - sharp rating actions were lowest amongst the Top rating agencies.
- Active client base increased to about 5000 by the end of Mar'25.
- With the reorg of business development, CARE can sharply target all segments (BFSI, Infra, Corp and MCG).
- CARE's market share in Bond Ratings and Securitization Ratings has increased in FY25, driven by increasing investor acceptance – the market share jumped by 20-25% during the year.
- Higher share of Bond Ratings within VoDR supported revenue growth/realized pricing in FY25.
- Increasing acceptance of ratings aiding pricing enhancement efforts and new client addition.

Margins in Domestic Ratings

- Emp Cost to Revenue would remain range bound as CARE remains steadfast focused on retaining talent and paying as per industry benchmarks.
- Operating margin could see a gradual expansion aided by operating leverage and efficiency gains from tech interventions (Automation and AI).

Analytics & Advisory

- Analytics business witnessed strong growth in FY25 and significantly reduced its losses.
- CARE offers three product stacks in Analytics business for integrated credit processing, integrated credit monitoring and risk and regulatory reporting.
- Launched EdgeAvira.AI platform which is witnessing a strong traction.
- Growth will continue to come from these existing product offerings which are targeting critical expenditures of the lending institutions.
- With critical investment complete, the Analytics business is entering a phase of faster revenue and margin scale-up.
- Advisory business witnessed healthy growth in FY25 and earned double-digit margin.
- In Advisory business, CARE has offerings for Industry Research, ESG Services and Corporate Advisory.
- The co. will focus on above offerings only (no new service/product addition) as there is enough demand and traction for them – overall good growth in Advisory business should continue.
- Combined Analytics & Advisory could reach a revenue contribution of around 20% in consol revenue in next 3-4 years.

ESG Ratings & Global Ratings

- ESG Ratings adoption slow but efforts continue to increase this pace – CARE has completed six ESG Ratings assignments.
- ESG Ratings business making initial losses due to investments but would turn profitable in medium-to-long term.
- CARE started Global Ratings business from IFSC in Oct'24 – executed 39 Sovereign/Country Ratings and 8 Corporate Ratings assignments in H2 FY25 worth ~US$3bn.
- Start has been promising and the Management is confident of significant scale up - CARE's Country Ratings have seen convergence by other global ratings.

Capital Allocation/Investment Priorities

- Further fund infusion or further investments may not be required in Analytics and Advisory businesses.
- Co. will keep investing in Ratings Subsidiaries and Global Ratings business from IFSC.
- Continue to evaluate inorganic opportunities/acquisitions – key criteria being addition of new markets, addition of new products and right price/valuation.

TRANSITION RATES

Exhibit 3: CRISIL Average 1 year Transition rates for long-term ratings (April 2020 – March 2025) – (%)

Rating Category	AAA	AA	A	BBB	BB	B	C	D
AAA	99.23	0.77	-	-	-	-	-	-
AA	3.37	95.21	1.24	-	0.11	-	-	0.07^
A	0.24	4.39	93.65	1.59	0.06	0.02	-	0.04
BBB	-	0.04	4.93	92.16	2.67	0.04	-	0.16^^
BB	-	0.01	0.03	5.56	89.55	2.77	-	2.08
B	-	0.08	0.08	-	9.24	81.10	0.27	9.24
C	-	-	-	-	3.57	14.29	42.86	39.29

Source: Company, YES Sec. Note: ^Since fiscal 2021, there have been two defaults. These were due to Covid-19 pandemic (fiscal 2021) and an operational issue (fiscal 2024). With respect to the operational issue in fiscal 2024, while the issuer serviced 97.6% of the amount due on time, a system glitch led to a one-day delay in the remaining 2.4% of the payment. If this operational issue related default were to be excluded, the average one-year transition from AA category to D would have been 0.04% instead of 0.07%. ^^In BBB rating category, there was a default in fiscal 2025 due to an operational issue. This was on account of failure by an issuer in remitting partial interest and principal to one debenture holder (out of 1,626 debenture holders) on due date amounting to Rs 71,280. The amount was not credited due to wrong bank details provided by the debenture holder. If this operational issue related default were to be excluded, the average one-year transition from BBB category to D would have been 0.15% instead of 0.16%

Exhibit 4: CARE Average 1 year Transition rates* for the last 5 financial years (FY21-FY25) – (%)

Rating Category	AAA	AA	A	BBB	BB	B	C	D
AAA	99.12	0.88	-	-	-	-	-	-
AA	1.42	96.14	2.30	-	0.07	-	-	0.07
A	0.08	4.40	91.91	3.28	0.16	0.03	-	0.14
BBB	-	0.09	4.99	90.93	3.64	0.09	-	0.26
BB	0.03	-	0.20	5.51	89.11	2.60	0.18	2.37
B	-	-	-	-	15.19	78.74	0.12	5.95
C	-	-	-	-	2.70	24.33	51.35	21.62

Source: Company, YES Sec. * For Non-CE / SO Instruments.

Exhibit 5: ICRA Average 1 year Transition rates for long-term ratings for the past 5 financial year period until FY2025 – (%)

Rating Category	AAA	AA	A	BBB	BB	B	C	D
AAA	99.60	0.40	-	-	-	-	-	-
AA	3.70	94.30	2.00	-	-	-	-	-
A	0.50	5.60	90.80	3.00	-	-	-	0.10
BBB	-	0.40	8.80	87.00	3.50	0.10	-	0.30
BB	-	0.20	0.20	6.60	87.10	2.80	-	3.20
B	-	-	-	-	7.90	82.80	-	9.30
C	-	-	-	-	-	22.70	40.90	36.40

Source: Company, YES Sec

DEFAULT RATES

Exhibit 6: CRISIL - Short-run average default rates for long term instruments – (%)

Rating Category	1-Yr Default rate	2-Yr Cumulative Default rate	3-Yr Cumulative Default rate
Period	Apr 2022-Mar 2025 (24 cohorts)	Apr 2021-Mar 2025 (36 cohorts)	Apr 2020-Mar 2025 (48 cohorts)
AAA	-	-	0.00
AA	0.07*	0.14	0.22
A	0.08	0.20	0.35
BBB	0.14^^	0.31^^	0.53^^
BB	1.31	2.51	3.59
B	1.52	2.99	4.57
C	5.59	9.84	13.58

Source: Company, YES Sec. Note: -* If the operational issue related default of fiscal 2024 were to be excluded, the 1-year, 2-year and 3-year cumulative default rates for the 'AA' category would stand at 0.00%, 0.00% and 0.00%, respectively. ^^ If the operational issue related default of fiscal 2025 were to be excluded, the 1-year, 2-year and 3-year cumulative default rates for the 'BBB' category would stand at 0.13%, 0.30% and 0.51%, respectively.

Exhibit 7: CARE - Short run average default rates for long term instruments (FY21-25) – (%)

Rating Category	1-Yr Default rate	2-Yr Cumulative Default rate	3-Yr Cumulative Default rate
AAA	-	-	-
AA	-	-	-
A	-	-	0.10
BBB	0.30	0.70	1.60
BB	2.20	4.60	7.10
B	2.40	4.60	7.00
C	6.40	11.00	14.60

Source: Company, YES Sec

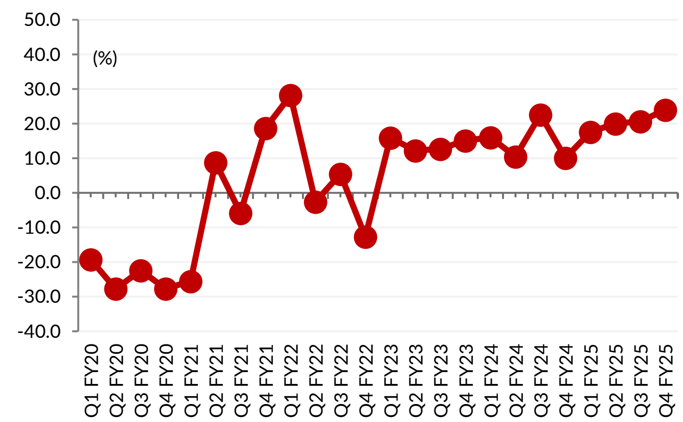
Exhibit 8: ICRA - Short-run average default rates for long term instruments until the latest financial year period of FY2025 – (%)

Rating Category	1 Yr Default rate	2-Yr Cumulative Default rate	3-Yr Cumulative Default rate
AAA	-	-	-
AA	-	-	-
A	-	-	0.10
BBB	0.30	0.60	1.10
BB	0.80	2.60	5.40
B	2.70	5.00	7.50
C	8.80	15.30	20.50

Source: Company, YES Sec

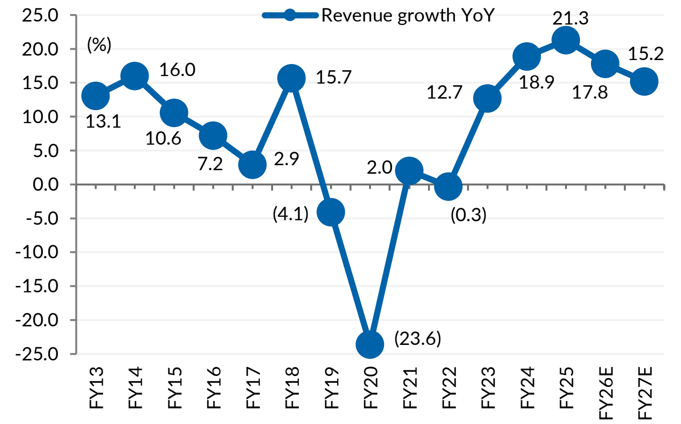
STORY IN CHARTS

Exhibit 9: Sustained recovery in ratings revenue growth



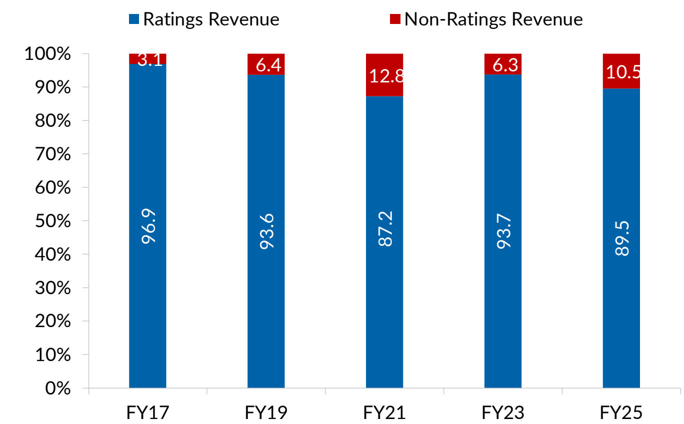
Source: Company, YES Sec

Exhibit 10: Consol Revenue growth to remain strong



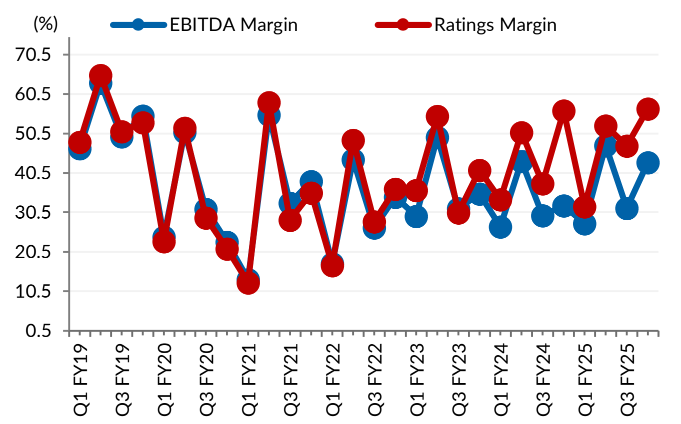
Source: Company, YES Sec

Exhibit 11: Revenue Mix - Ratings v/s non-ratings



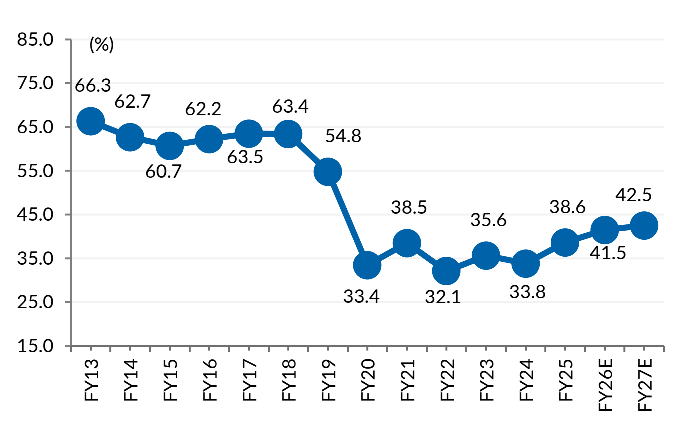
Source: Company, YES Sec

Exhibit 12: Significant margin recovery from lows



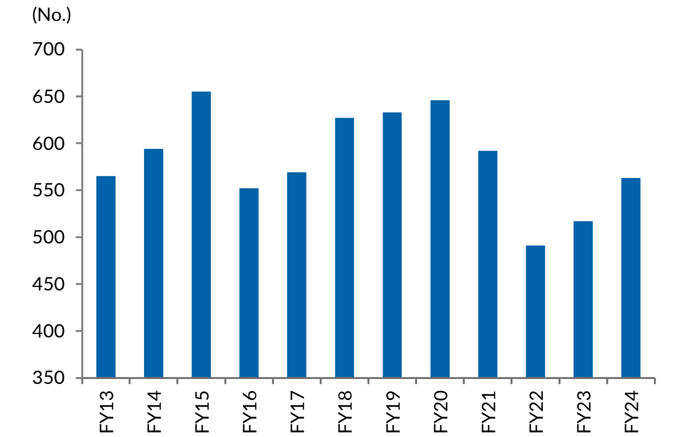
Source: Company, YES Sec

Exhibit 13: EBITDA margin to trend higher



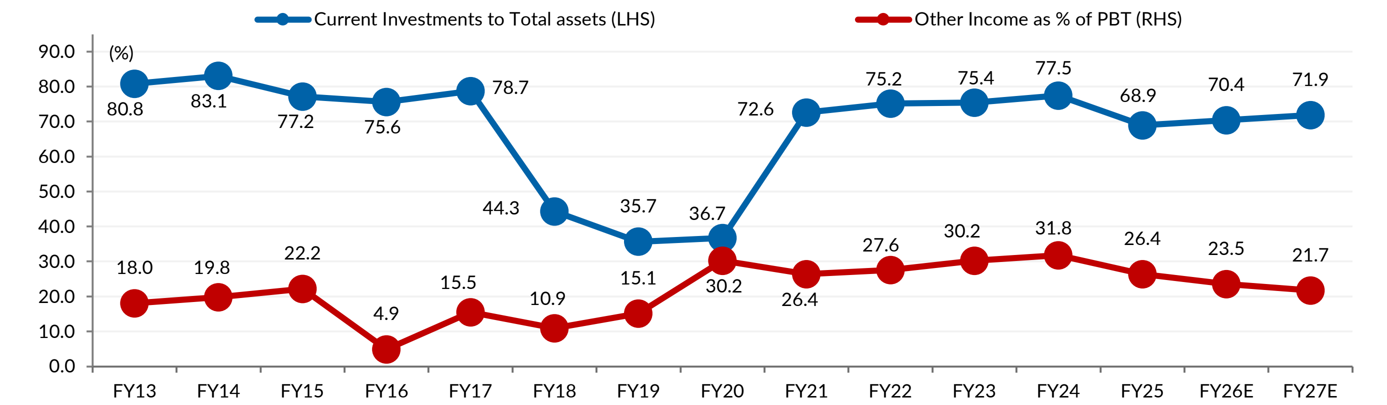
Source: Company, YES Sec

Exhibit 14: Employee base trend



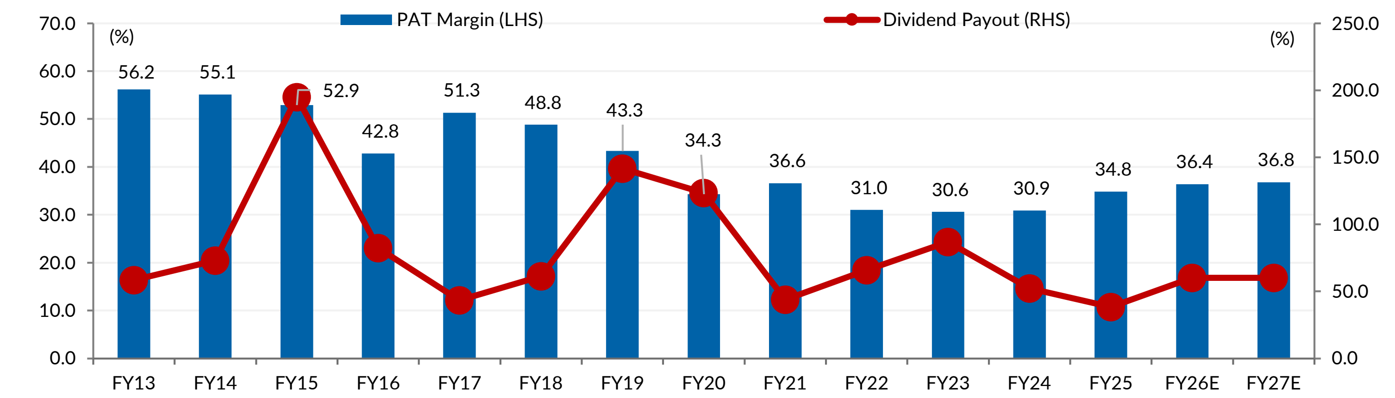
Source: Company, YES Sec

Exhibit 15: Consistent robust cash generation ensures significant liquidity on BS despite high DPR



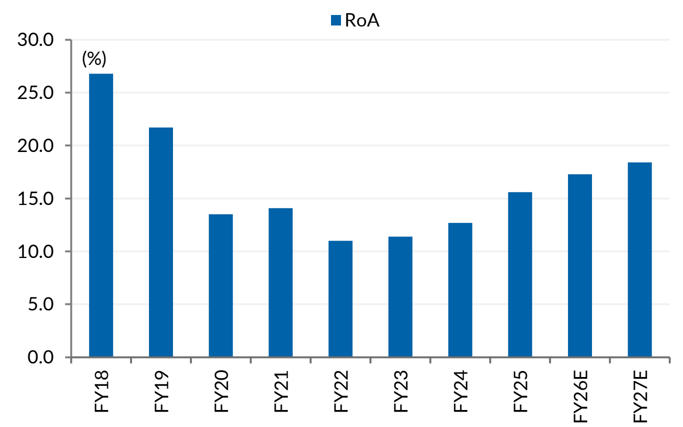
Source: Company, YES Sec

Exhibit 16: High profitability & DPR to continue

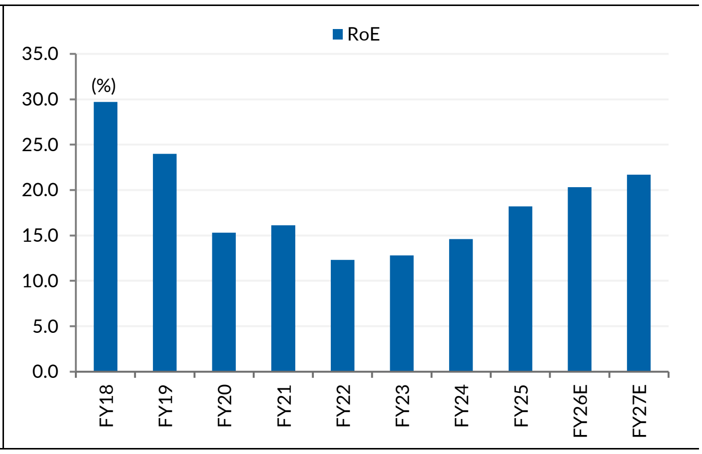


Source: Company, YES Sec

Exhibit 17: Core profitability metrics will improve underpinned by margin expansion and sturdy growth

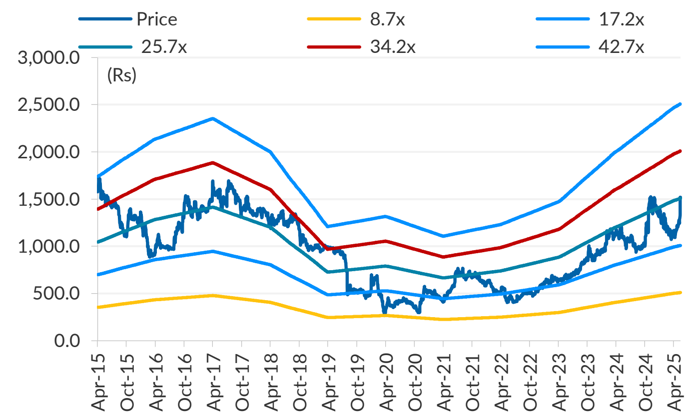


Source: Company, YES Sec



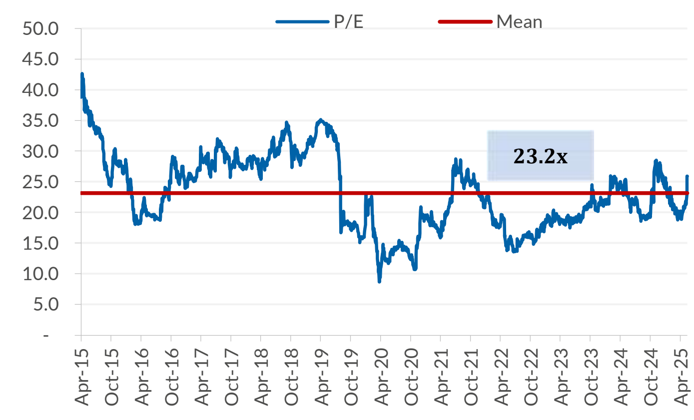
Source: Company, YES Sec

Exhibit 18: 1-yr rolling P/E band



Source: Company, YES Sec

Exhibit 19: 1-year rolling P/E vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 20: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Equity	297	299	299	299	299
Reserves	6,493	6,947	7,856	8,547	9,350
Net worth	**6,790**	**7,246**	**8,155**	**8,846**	**9,650**
Net deferred tax	52	55	66	73	80
Other liabilities	122	24	33	36	40
Current liabilities	621	934	1,150	1,265	1,392
Provisions	126	159	173	191	210
Total Equity & Liabilities	**7,710**	**8,418**	**9,577**	**10,411**	**11,371**
Fixed assets	1,115	1,148	1,221	1,271	1,321
Investments	439	438	1,341	1,341	1,341
Current investments	-	-	-	-	-
Cash and Bank Balance	565	584	970	1,277	1,667
Sundry debtors	215	225	321	366	421
Loans and advances	124	86	94	103	114
Other assets	5,252	5,937	5,630	6,053	6,507
Total Assets	**7,710**	**8,418**	**9,577**	**10,411**	**11,371**

Source: Company, YES Sec

Exhibit 21: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Total Revenue	**2,790**	**3,317**	**4,023**	**4,741**	**5,463**
Employee Expenses	1,339	1,646	1,889	2,135	2,412
Other Expenses	457	550	581	639	728
EBITDA	**993**	**1,121**	**1,553**	**1,967**	**2,322**
Other Income	379	467	508	558	597
Depreciation	105	105	117	129	137
Interest Expense	10	17	21	24	24
PBT	**1,257**	**1,466**	**1,923**	**2,373**	**2,759**
Tax	403	441	523	645	750
PAT	**855**	**1,026**	**1,400**	**1,728**	**2,009**

Source: Company, YES Sec

Exhibit 22: Cash flow statement

Y/e 31 Mar (Rs mn)	FY24	FY25	FY26E	FY27E
PBT	1,466	1,923	2,373	2,759
Depreciation	105	117	129	137
Change in working cap	(404)	453	(334)	(363)
Tax paid	441	523	645	750
Others	171	43	(500)	(169)
Cash flow from operations	897	2,013	1,023	1,613
Capex	(138)	(191)	(179)	(187)
Change in investments	1	(903)	-	-
Cash flow from investments	(137)	(1,093)	(179)	(187)
Free cash flow	760	920	844	1,427
Equity raised/(repaid)	2	1	-	-
Dividend (including tax)	743	535	537	1,037
Cash flow from financing	(741)	(534)	(537)	(1,037)
Net change in cash	19	386	307	390
Op Cash	565	584	970	1,277
Cl Cash	584	970	1,277	1,667

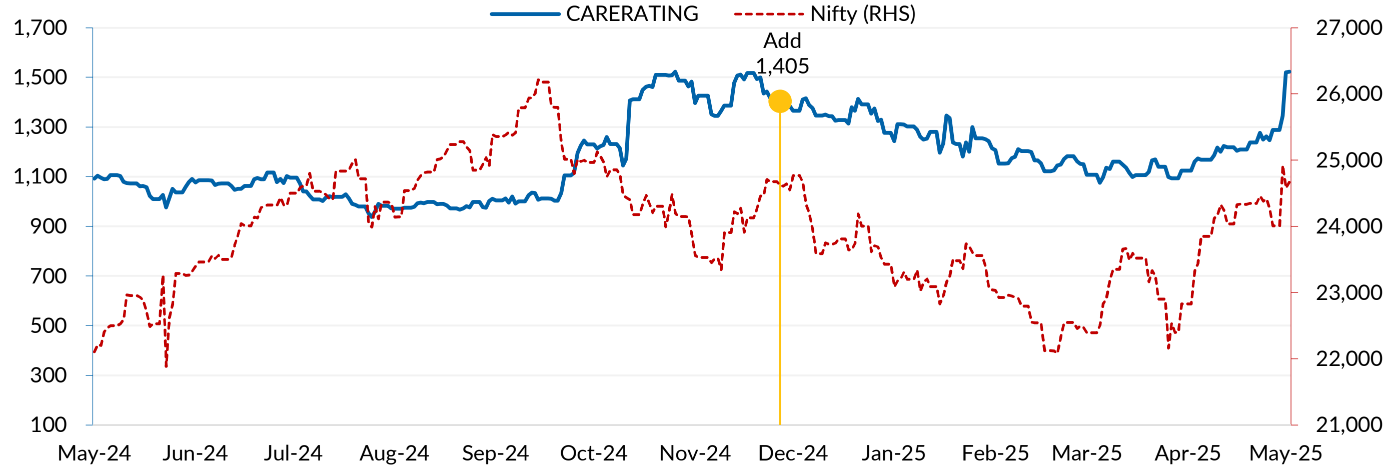
Source: Company, YES Sec

Exhibit 23: Growth and Ratio matrix

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Growth ratios (%)					
Rating Income	13.8%	14.1%	20.7%	17.0%	14.0%
EBITDA	24.8%	12.9%	38.5%	26.7%	18.0%
Profit Before Tax	27.5%	16.6%	31.1%	23.4%	16.3%
Net profit	11.2%	20.0%	36.5%	23.4%	16.3%
Operating Ratios					
EBITDA Margin	35.6%	33.8%	38.6%	41.5%	42.5%
PBT Margin	45.1%	44.2%	47.8%	50.0%	50.5%
PAT Margin	30.6%	30.9%	34.8%	36.4%	36.8%
ROE	12.8%	14.6%	18.2%	20.3%	21.7%
Dividend Payout Ratio	86.9%	52.2%	38.4%	60.0%	60.0%
Per share					
EPS	28.8	34.4	46.8	57.7	67.1
Book Value	228.6	242.7	272.5	295.5	322.4
Valuation Ratios					
P/E	52.9	44.3	32.5	26.4	22.7
P/BV	6.7	6.3	5.6	5.1	4.7
Dividend Yield	1.6%	1.2%	1.2%	2.3%	2.6%

Source: Company, YES Sec

Recommendation Tracker



CARE Ratings Limited

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Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE – 6538, NSE – 14914, MCX – 56355 & NCDEX – 1289 | CDSL & NSDL: IN-DP-653-2021 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) and YES Wealth Maximiser AIF (Cat III AIF) SEBI Registration No.: IN/AIF3/20- 21/0818 | AMFI ARN Code – 94338

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Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

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