

POSITIONAL CALL

CARE RATINGS LTD



31 March 2020

Stock Data	
CMP (₹)	305
Target (₹)	360
Upside	18%
M.Cap (₹ in cr)	898.53
Equity (₹ in cr)	29.46
52 wk H/L ₹	1019/236.45
Face Value ₹	10
Div. Yield	9.5%
NSE Code	CARERATING
BSE Code	534804

Valuation Data	
P/E	8.71
P/BV	1.51
BV	202.44

Key Financial Data	
EV	868.34
Net Worth	596.39
EPS (TTM)	35.02

Index Detail	
Sensex	29468.49
Nifty	8597.75

Lead Rationale

Care being the second largest full service rating Company in India, the Company's list of clients includes banks and other financial institutions, private sector companies, central public sector undertakings, sub-sovereign entities, small and medium enterprises ("SMEs") and microfinance institutions, among others.

Slowdown in economic growth impacted the company too. The first half of FY20, even Q3 FY20 remained disappointed because of the headwinds faced by the NBFC sector which had impacted the borrowings. And the capex related borrowings not getting the much needed traction. Also, falling consumer demand impacted the growth story for the company.

A penalty of ₹25 lakh was imposed by SEBI on CARE for failing to exercise "due diligence" while assigning credit rating to the non-convertible debentures of IL&FS. (No further clarification or announcement regarding the same been reported).

Valuation

It true that the economy did not support much from quite some time. Eyeing on the numbers, GDP, inflation (the CPI & WPI), IIP numbers & USD/INR did not provide respite. While looking at the valuation front, at an EPS(TTM) of ₹35.02 the company is currently trading at a P/E ratio of 8.7x, which is quite low compared to the ratio prevailing in the industry.

Moreover, CARE is a dividend paying company generating a dividend yield of more than 10% in this topsy-turvy market. Thus, at these levels, the stock looks attractive, is undervalued and can be bought at current levels for a price target of ₹360 in short term.

From the management desk

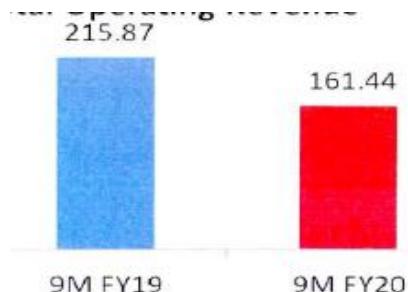
Though Indian economy remained weak for the current quarter as well, management do not expect this to rebound for the current year. *"It does appear that the economy would do better only in FY21 though Q4-FY20 should have better macroeconomic numbers compared with 9M-FY20".*

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TOTAL OPERATING INCOME ₹ in cr



Key Financial Points- 9MFY20

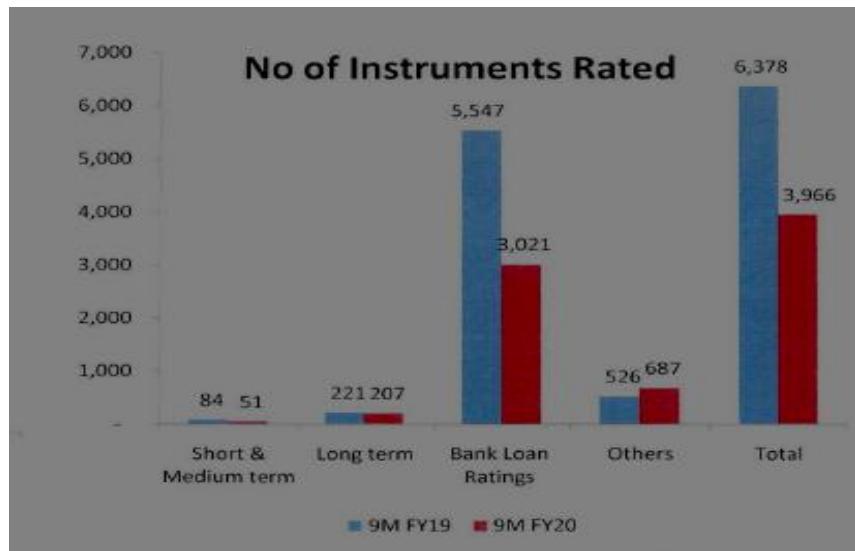
Total Income (consolidated) for 9MFY20 stood at ₹ 201.70 crores as against ₹ 250.33 crores in the previous year. Operating margin too decreased from 56.61% during 9MFY19 to 35.90% during 9MFY20. Subdued growth in the economy led to fall in operating income owing to lower borrowing by the NBFC sector since the end of the second quarter of FY19 & muted Capex of the corporate sector.

PAT moderated to ₹ 67.80 crore compared with ₹ 101.38 crore during last period. Similarly PAT margins fell to 35.87% against 42.28% in 9MFY20 owing to increase in employee expenses to ₹ 82cr and hike in other expenses.

It had total rated total debt amounting to ₹ 7.35 lakh crore compared with ₹ 11.46 lakh crore in the previous year. This comprises ₹ 2.84 lakh crore in bonds (₹ 4.10 lakh crore last year), ₹ 2.89 lakh crore in bank loans (₹ 4.88 lakh crore last year) and ₹ 1.62 lakh crore in short term ratings (including Commercial Paper) (₹ 2.48 lakh crore last year).

Below is the chart of business performance of new clients for the company during 9MFY20:

One year price chart



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Company Overview

Being the second largest full service rating Company in India, it offers a wide range of rating and grading services across a diverse range of instruments and related obligations covering wide range of sectors. The Company's list of clients includes banks and other financial institutions, private sector companies, central public sector undertakings, sub-sovereign entities, small and medium enterprises ("SMEs") and microfinance institutions, among others. The Company also provides issuer ratings and corporate governance ratings and offers rating of innovative debt instruments, such as REITs, expected loss (for infra), perpetual bonds etc. CARE Ratings is recognized for being knowledge based Company and has continued to work towards deepening the base.

Shareholding as on December,2019

Name of Top 20 Shareholders	Holding %
LIFE INSURANCE CORPORATION OF INDIA+ LIC P & GS FUND	9.85
CRISIL LIMITED	8.90
FRANKLIN TEMPLETON INVESTMENT FUNDS + Mutual fund	8.13
L&T MUTUAL FUND TRUSTEE LIMITED-L&T EMERGING BUSIN	4.80
STICHTING DEPOSITORY APG EMERGING MARKETS EQUITY P	4.55
MORGAN STANLEY ASIA (SINGAPORE) PTE.	4.24
BMO INVESTMENTS II (IRELAND) PUBLIC LIMITED COMPAN	4.02
VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERI	2.57
PINEBRIDGE GLOBAL FUNDS - PINEBRIDGE INDIA EQUITY	2.31
BAJAJ ALLIANZ LIFE INSURANCE COMPANY LTD.	1.92
RUSSELL INVESTMENTS LIMITED	1.80
BAOBAB GLOBAL FUND LTD	1.71
INDIA CAPITAL FUND LIMITED	1.69
BAJAJ HOLDINGS AND INVESTMENT LTD	1.69
GOVERNMENT PENSION FUND GLOBAL	1.50
WHITE RIVER PARTNERS, L.P.	1.39
INDIA INSIGHT VALUE FUND	1.34
DHANDHO INDIA ZERO FEE FUND, L.P	1.31
TATA STEEL LIMITED	1.20
EMERGING MARKETS CORE EQUITY PORTFOLIO (THE PORTFO	1.14
Total of Top 20 Shareholders	66.09

Source: Company's PPT

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