

CREDIT ANALYSIS & RESEARCH LTD (CARE)

FINANCIAL SERVICES

Q4 FY17: Credit growth in the system to drive earnings in future

CARE's net profit for the quarter grew by 8% YoY (down 45% QoQ) to Rs 38 cr on account of strong growth of 241 % YoY in Other income (primarily investment income) due to profits booked on maturity of certain investments made for a longer tenure. Rating income grew by 1.5% YoY in Q4 FY17 (6% in FY17) on account of an increase in both the volume of fresh debt rated (7.5% YoY) and surveillance exercises. In FY17, CARE's operating profit margins have improved to 65.4% from 63.5% YoY due to increase in Rating income from new business as well as surveillances. CARE reported rating revenue growth of 6% YoY in FY17 as against 4% YoY growth by Crisil. Number of instruments rated during FY17 improved by 33% at 10,027 with new client addition of 4674, volume of debt rated instrument increased by 9% to Rs 5.9 trillion led by increase in debenture rating volumes (41% YoY).

Valuation

Improvement in revenue depends upon the macro factors in the country as well as credit growth in the system which was down to 6% in FY17 due to demonetization.. Considering the economic recovery and improvement in credit growth, we are positive on the rating business of CARE. We value CARE at a PE of 25x FY19E EPS of Rs 69 to arrive at a valuation of Rs 1722 per share. We reiterate our **BUY** rating on the stock.

BUY

Target Price: Rs 1,722

CMP : Rs 1,482
 Potential Upside : 16%
 Relative to Sector : Positive

MARKET DATA

No. of Shares : 2.945 cr
 FV (Rs) : 10
 Market Cap (Rs) : 4,500 cr
 52-week High / Low : Rs 1695/ Rs 956
 Avg. Daily vol. (6mth) : 39,750 shares
 Bloomberg Code : CARE IN
 Reuters Code : CRELNS
 BSE Code : 534804
 NSE Code : CARERATING

Key Highlights

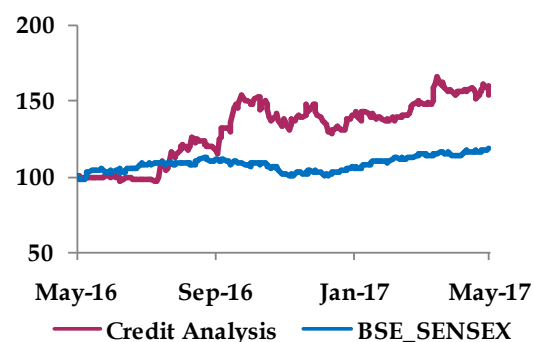
- **Strong Rating revenue:** CARE's revenue for the FY17 grew by 6% YoY at Rs 280 cr led by 21% YoY increase in volume of debt rated instruments. Going ahead, we expect the Bank credit rating and bond market segments to drive overall rating revenue growth SME rating accounted for ~5.5% of CARE's rating revenue. The SME segment is expected to witness some improvement in FY18E owing to increase in manpower in that segment by the company as it sees huge opportunity.
- **Rating business gaining market share:** CARE is continuously gaining market share in rating business, CARE has market share of 30% in rating business versus 50% market share of Crisil's as on FY16. Also, CARE has been gaining market share against Crisil in FY16 & FY17. In FY17 CARE's rating revenue has also increased at faster pace at 6% vs. Crisil's rating revenue at 4%.
- **Moderation in MCR:** Credit environment has not yet picked up in FY17, as indicated by CARE's modified credit ratio (MCR), which has moderated from 1.14% in FY15 to 1.04% in FY17.

FINANCIAL SUMMARY

Y/E March	Total Income (Rs Cr)	EBITDA (Rs cr)	EBITDA margin (%)	PAT (Rs Cr)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)
2016	264.7	172	63%	118	40.5	-16.2%	36.87	28.8
2017	280.5	187	67%	152	52.2	28.9%	28.61	30.4
2018E	317.7	203	64%	169	58.2	11.4%	25.69	29.6
2019E	332.2	216	65%	200	68.9	18.4%	21.70	31.8

Source: Company and Axis Securities

PRICE PERFORMANCE



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Key Highlights

- Outlook:** CARE is consistently outperforming industry leader in ratings growth. Also, considering strong opportunity in domestic debt market and gaining market share of CARE can drive company's performance. The highlight of CARE's business is its best-in-class EBITDA margin of 60%+ & PAT margin of ~45%. The business model is asset light with not much capex (Rs.10-15 cr) while it generates strong operating cash flow. We believe with opening up of an investment cycle and easing of interest rates will boost demand and CARE would be benefitted the most, as it is the market leader in the larger infrastructure rating space.

Results Update

Particulars (Rs Cr)	Quarter ended					12 months ended			CAGR (%)
	Q4FY17	Q4FY16	% Chg	Q3FY17	% Chg	FY17	FY18E	FY19E	
Total income	76.38	75.2	1.5	65.95	15.8	280.5	317.7	332.2	8.8
EBIDTA	47.13	51.9	(9.2)	44.30	6.4	186.5	203.3	215.9	7.6
Net Other income	8.40	2.5	241.3	16.30	(48.4)	32.9	52.6	86.8	62.5
PBIDT	55.53	54.36	2.1	60.60	(8.4)	219.4	255.9	302.7	17.5
Depreciation	0.76	0.9	(16.3)	0.76	0.2	3.1	2.2	2.4	(13.5)
Interest	0.00	0.0	-	0.00	-	0.0	0.0	0.0	-
PBT	54.77	53.45	2.5	59.84	(8.5)	216.3	253.7	300.4	17.9
Tax	16.32	17.9	(8.9)	14.68	11.2	64.8	85.0	100.6	24.6
Less: minority interest	0.00	0.00	-	0.00	-	0.0	0.0	0.0	-
Adjusted PAT	38.45	35.53	8.2	45.16	(14.9)	151.5	168.7	199.8	14.8
Extraordinary item Inc/(exp)	0.00	0.0	-	0.00	-	0.0	0.0	0.0	-
Reported PAT	38.45	35.53	8.2	45.16	(14.9)	151.5	168.7	199.8	14.8
No. of shares (cr)	2.95	2.94	-	2.95	-	2.9	2.9	2.9	-
EBIDTA margin (%)	61.7	69.0	-	67.2	-	66.5	64.0	65.0	-
Adj PAT margin (%)	50.3	47.2	-	68.5	-	54.0	53.1	60.1	-
Adj. EPS (Rs)	13.05	12.10	7.9	15.33	(14.9)	52.25	58.18	68.88	14.8

Source: Company and Axis Securities

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DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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