

Underlying thesis gaining strength

We retain Hold on Credit Analysis And Research (CARE) with TP at Rs1,560 (vs. earlier TP at Rs1,600). Q2'18 reported revenue was a tad higher to our estimates and follows the change in accounting policy towards surveillance related income recognition. Margins, though saw some moderation and we expect trend therein to continue. H2'18 promises to be better than H1'18 and is given the favourable regulatory framework its likely impact on the rating revenues for the credit rating agencies (CRA's). CARE with its strong business model and respectable market share remains one of the key beneficiaries. While we remain positive on CARE, valuations at 22.4x FY19E EPS limit near-term upside.

- **Q2'18 results: Results Overview:** CARE's Q2'18 reported revenue came in at Rs910mn (+12.3% YoY) and is higher by ~Rs181mn following the change in accounting policy towards recognition of surveillance fees. Adjusted for the same, revenue stood at Rs729mn. H1'18 reported revenue stood at Rs1.52bn (+10.3% YoY); revenue adjusted for the above change came in at Rs1.27bn. The like-to-like comparable for Q2'17 / H1'17 are not available. EBIDTA came in at Rs663mn (vs. our estimates of Rs635mn); EBIDTA margins stood at 72.9% (vs. 73.9% YoY). PAT stood at Rs483mn (vs. our estimate of Rs463mn). Volume of debt rated for Q2'18 grew 12.1% YoY; no of new assignments rated at 2,410 cases have grown 4.8% YoY.
- **ESOP expenses to hit margins; overall business momentum intact:** The ESOP related expenses (under Ind-AS) saw employee cost at Rs191mn, up 17% QoQ. We have tweaked our estimates accordingly. On the business front, H2'18 promises to be better than H1'18 and follows the improved rating opportunities on back of the favourable regulatory framework. Management has guided for continued thrust at bond and BLR market. It has also laid higher emphasis at improving the share of SME rating revenues given the opportunity towards cross-selling therein. In FY17, the SME related business contributed 9% to the total revenue (vs. 6% in FY16).
- **Regulatory framework supportive; earnings growth set to accelerate:** Though at a nascent stage of implementation, regulatory framework aimed at a) deepening of the corporate bond market, b) norms towards the aggregate sanctioned credit limit effective April, 2017 c) partial credit enhancement d) increased RWA for unrated exposures effective June' 2017 and e) norms on commercial paper issuances have all started to exhibit positive results. This in our view, will enable CRA's report healthy growth in revenues over H2FY18-19E which otherwise have witnessed muted / low single digit growth over the past several quarters.
- **Valuation, view and key risks:** We have tweaked our estimates for FY18E/ FY19E marginally and are now building in 14.5%/ 13.9% CAGR in revenues/ EBIDTA over FY17-19E. We continue to like CARE for its business model and the free cash flow yield. Valuations at 22.4x FY19E EPS however limit near term upside. Retain Hold with TP at Rs1,560 (valued at 25x FY19E EPS). In our earlier notes, we have argued for higher valuation multiples for CARE (discount gap with peers to narrow) and we expect the trend to continue as more signs of superior growth get visible. We continue to prefer CARE as a proxy play to revival in rating opportunities. Lower-than-expected volume growth/ price reduction are key risks.

(Rs mn)	Q2FY18	Q2FY17	% YoY	Q1FY18	% QoQ	Q2FY18E	Var (%)
Net sales	910	810	12.3	614	48.2	871	4.5
Total income	972	867	12.1	679	43.2	934	4.0
Expenditure	247	212	16.6	222	11.2	235	4.8
EBITDA	663	598	10.8	392	69.1	635	4.4
EBIDTA margin (%)	72.9	73.9	(99bps)	63.9	901bps	73.0	
Reported PAT	483	432	11.8	355	36.2	463	4.4

Source: Company, Centrum Research *OCI – Other comprehensive income

Rsmn	Revenue	EBITDA	EBITDA (%)	Reported PAT	YoY (%)	EPS (Rs)	P/E (x)	P/BV (x)	RoCE (%)	RoE (%)
FY15	2,572	1,621	63.0	1,403	9.0	48.4	26.6	10.3	47.1	33.2
FY16	2,648	1,721	65.0	1,177	(16.1)	40.0	31.9	9.2	45.7	30.6
FY17	2,805	1,865	66.5	1,515	28.7	51.4	26.2	8.0	47.3	33.4
FY18E	3,202	2,126	66.4	1,606	6.0	54.5	27.8	8.1	45.2	30.5
FY19E	3,679	2,421	65.8	1,843	14.8	62.6	22.4	6.7	46.9	31.6

Source: Company, Centrum Research Estimates. FY15-18E YTD have been valued on average market cap basis.

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs1,560	Key Data	
CMP*	Rs1,408	Bloomberg Code	CARE IN
Upside	10.8%	Curr Shares O/S (mn)	29.5
Previous Target	Rs1,600	Diluted Shares O/S(mn)	29.5
Previous Rating	Hold	Mkt Cap (Rs bn/USDmn)	41.3/631.3
Price Performance (%)*		52 Wk H / L (Rs)	1800/1274.3
	1M 6M 1Yr	5 Year H / L (Rs)	1808/415
CARE IN	(1.4) (12.7) 1.3	Daily Vol. (3M NSE Avg.)	49451
NIFTY	(0.2) 7.4 25.9		

*as on 16 November 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Sep-17	Mar-17	Dec-16	Sep-16
Promoter	0.0	0.0	0.0	0.0
FIs	39.4	37.8	36.0	32.5
DIs	27.1	38.2	39.5	41.0
Others	33.5	24.0	24.5	26.6

Source: BSE, *as on 16 November 2017

Earning revision

Particulars (Rs mn)	FY18E			FY19E		
	New	Old	Var (%)	New	Old	Var (%)
Net Sales	3,202	3,202	(0.0)	3,679	3,724	(1.2)
EBIDTA	2,126	2,120	0.3	2,421	2,451	(1.2)
EBIDTA margin %	66.4	66.2	19.1	65.8	65.8	(1.6)
Reported PAT	1,606	1,618	(0.7)	1,843	1,864	(1.1)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Net Sales	3,202	3,149	1.7	3,679	3,575	2.9
EBIDTA	2,126	2,007	5.9	2,421	2,332	3.8
Reported PAT	1,621	1,558	4.1	1,843	1,787	3.1

Source: Centrum Research Estimates

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
4	1	1	1,745	1,560	(8.9)

*as on 16 November 2017; Source: Bloomberg, Centrum Research Estimates

Aalok Shah, aalok.shah@centrum.co.in; 91 22 4215 9075

Gaurav Jani, gaurav.jani@centrum.co.in; 91 22 4215 9110

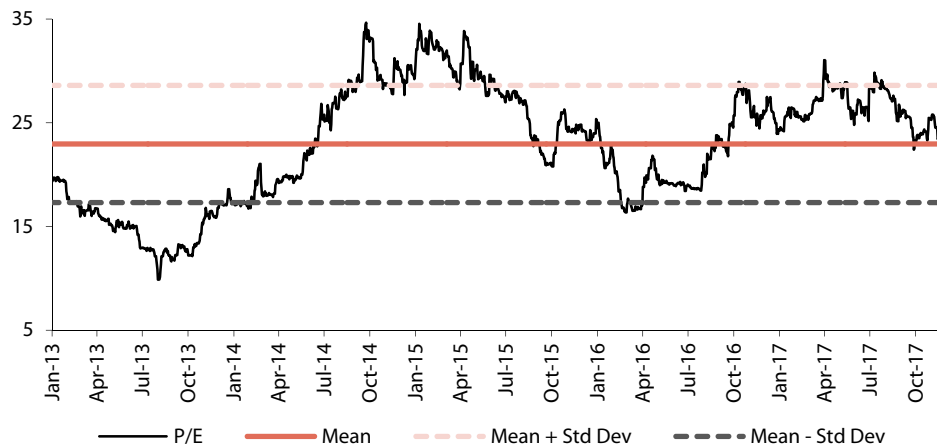
Sensitivity analysis and peer comparison

Exhibit 1: Sensitivity Analysis – impact of change in BLR volumes and yield on FY18E EBIDTA

%	Rating volume				
	-10%	-5%	current levels	+5%	+10%
Yields					
+2%	(5.8)	(2.4)	(0.6)	1.3	2.8
+1%	(4.8)	(2.0)	(0.3)	1.6	3.2
current levels	(3.9)	(1.9)	0.0	1.8	3.8
-1%	(3.1)	(1.6)	0.3	2.4	4.7
-2%	(2.8)	(1.3)	0.6	2.4	5.8

Source: Centrum Research Estimates

Exhibit 2: 1-yr rolling forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: Comparative Valuations

Co_Name	Mkt Cap (Rs mn)	CAGR FY17-FY19E (%)			EBITDA Margin (%)			PE (x)			RoE (%)			Dividend Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
CARE	41,259	14.5	13.9	10.3	66.5	66.4	65.8	26.6	27.8	22.4	33.4	30.5	31.6	3.7	2.1	2.5
CRISIL#	1,29,080	15.1	18.3	16.1	29.7	30.6	31.4	48.2	36.3	29.2	32.3	34.5	37.4	3.1	1.7	2.1
ICRA Ltd*	39,026	4.4	10.1	23.0	32.3	32.5	35.8	54.2	43.8	35.0	15.6	17.4	23.0	0.7	0.8	0.7

Source: Centrum Research Estimates, * denotes Bloomberg Estimates. #CRISIL is a Dec ending company. FY16-18E YTD have been valued on average market cap basis.

Exhibit 4: Quarterly Financials

Rs mn	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Income Statement								
Net sales	629	752	571	810	659	764	614	910
Other income	10	25	99	57	163	63	65	63
Total Income	639	777	671	867	822	827	679	972
Operating expenses	226	233	217	212	216	298	222	247
EBIDTA core	403	519	354	598	443	465	392	663
<i>EBIDTA margins (%)</i>	<i>64.0</i>	<i>69.0</i>	<i>62.0</i>	<i>73.9</i>	<i>67.2</i>	<i>60.9</i>	<i>63.9</i>	<i>72.9</i>
Depreciation	9	9	9	8	8	8	8	8
Profit before tax	404	535	445	648	598	521	449	718
Tax	135	179	140	215	147	156	94	234
Profit after tax	268	355	305	432	451	364	355	483
PAT including OCI	268	355	306	432	451	361	354	482
Ratios								
Growth YoY (%)								
<i>Net sales</i>	<i>0.8</i>	<i>(3.3)</i>	<i>18.0</i>	<i>3.5</i>	<i>4.8</i>	<i>1.5</i>	<i>7.4</i>	<i>12.3</i>
<i>EBIDTA</i>	<i>4.8</i>	<i>(0.2)</i>	<i>46.7</i>	<i>7.3</i>	<i>9.9</i>	<i>(10.3)</i>	<i>10.7</i>	<i>10.8</i>
<i>EBIT</i>	<i>5.6</i>	<i>0.2</i>	<i>49.7</i>	<i>7.9</i>	<i>10.6</i>	<i>(10.2)</i>	<i>11.1</i>	<i>10.9</i>
<i>PAT</i>	<i>2.2</i>	<i>1.2</i>	<i>74.3</i>	<i>14.2</i>	<i>68.4</i>	<i>2.6</i>	<i>16.4</i>	<i>11.8</i>
Margins (%)								
<i>EBIDTA</i>	<i>64.0</i>	<i>69.0</i>	<i>62.0</i>	<i>73.9</i>	<i>67.2</i>	<i>60.9</i>	<i>63.9</i>	<i>72.9</i>
<i>EBIT</i>	<i>64.1</i>	<i>71.0</i>	<i>77.8</i>	<i>80.0</i>	<i>90.7</i>	<i>68.2</i>	<i>73.2</i>	<i>78.9</i>
<i>PAT margin</i>	<i>42.6</i>	<i>47.2</i>	<i>53.3</i>	<i>53.4</i>	<i>68.5</i>	<i>47.7</i>	<i>57.8</i>	<i>53.1</i>
New assignments rated	1,751	2,550	1,325	2,300	2,361	4,041	1,774	2,410
Volume of debt rated (Rs bn)	2,300	3,420	3,780	2,900	2,750	3,750	3,900	3,250
New client additions	660	979	555	1,004	1,087	2,030	817	1,894
Cumulative clientele	11,838	12,373	12,127	13,159	14,575	15,098	15,222	16,188

Source: Company, Centrum Research

Financials (standalone)

Exhibit 5: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	2,572	2,648	2,805	3,202	3,679
Growth (%)	12.1	3.0	5.9	14.1	14.9
Expenditure	951	927	939	1,076	1,258
Employee Cost	707	697	669	766	893
EBITDA	1,621	1,721	1,865	2,126	2,421
Growth (%)	10.5	6.2	8.4	14.0	13.9
EBITDA margin (%)	63.0	65.0	66.5	66.4	65.8
Depreciation	50	39	31	34	36
EBIT	2,007	1,768	2,163	2,397	2,751
EBIT margin (%)	78.0	66.8	77.1	74.9	74.8
Other Income	436	86	329	305	367
Interest expenses	13	0	0	0	0
PBT	1,993	1,768	2,163	2,397	2,751
Tax	590	591	648	791	908
Effective tax rate (%)	29.6	33.4	29.9	33.0	33.0
Reported PAT	1,403	1,177	1,515	1,606	1,843
Growth (%)	9.0	(16.1)	28.7	6.0	14.8

Source: Company, Centrum Research Estimates

Exhibit 6: Key Ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E
Profitability (%)					
EBITDA Margin	63.0	65.0	66.5	66.4	65.8
Net Margin	54.6	44.4	54.0	50.2	50.1
ROCE	47.1	45.7	47.3	45.2	46.9
ROE	33.2	30.6	33.4	30.5	31.6
Per Share Data (Rs)					
EPS	48.4	40.0	51.4	54.5	62.6
CEPS	50.7	41.6	53.1	56.3	64.5
BVPS	124.3	138.9	169.4	187.9	208.3
DPS	79.0	28.0	18.0	30.0	35.0
Valuations (x)					
P/E (adjusted)	26.6	31.9	26.2	27.8	22.4
P/BV	10.3	9.2	8.0	8.1	6.7
EV/EBITDA	21.0	19.6	19.0	18.8	14.8
Dividend yield %	6.1	2.2	1.3	2.0	2.5
5 Yr Avg AOCF/EV yield %	3.7	4.0	4.0	3.5	4.2

Source: Company, Centrum Research Estimates. FY15-18E have been valued on average market cap basis.

Exhibit 7: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	290	294	295	295	295
Reserves & surplus	3,314	3,788	4,696	5,238	5,841
Net worth	3,604	4,082	4,990	5,533	6,136
Minority Interest	0	0	0	0	0
Net deferred tax liability	29	26	39	43	48
Total Liabilities	3,633	4,108	5,029	5,576	6,183
Net block	561	551	527	525	522
Capital work in progress	0	0	1	1	1
Investment	3,456	3,921	4,511	4,859	5,275
Current Assets	431	517	495	743	1,004
Sundry debtors	146	222	232	264	303
Cash & bank balance	67	98	60	310	503
Loans & advances	127	124	130	154	183
Other current assets	92	73	73	15	15
Current liabilities & Prov	815	880	504	558	626
Current liabilities	372	349	367	402	443
Provisions	443	531	137	157	183
Net current assets	(384)	(364)	(9)	184	378
Misc. exp	0	0	0	0	0
Total Assets	3,633	4,108	5,029	5,576	6,183

Source: Company, Centrum Research Estimates

Exhibit 8: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Operating profit before working capital changes	1,453	1,216	1,547	1,640	1,880
Changes in working capital	29	7	(379)	61	5
Cash flow from operations	1,481	1,222	1,167	1,701	1,884
Adj. OCF (OCF - Interest)	1,468	1,222	1,167	1,701	1,884
Net Capex	106	25	2	31	34
Adj. FCF	1,363	1,198	1,166	1,669	1,850
Cash flow from investments	1,115	(490)	(591)	(379)	(450)
Cash flow from financing	(2,635)	(703)	(607)	(1,063)	(1,241)
Net change in cash	(39)	29	(31)	258	193

Source: Company, Centrum Research Estimates

Appendix A

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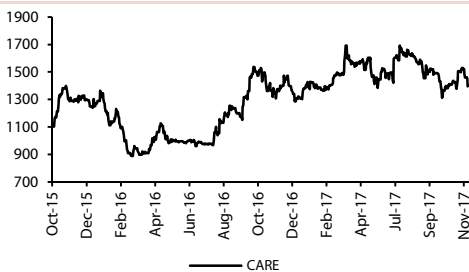
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CARE Ratings price chart



Source: Bloomberg, Centrum Research

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		CARE Ratings	CRISIL
4	Whether Research analyst's or relatives' have any financial interest in the subject company and nature of such financial interest	No	No
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6	Whether the research analyst or his relatives has any other material conflict of interest	No	No
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8	Whether the Research Analyst has received any compensation or any other benefits from the subject company or third party in connection with the research report	No	No
9	Whether Research Analysts has served as an officer, director or employee of the subject company	No	No
10	Whether the Research Analyst has been engaged in market making activity of the subject company.	No	No

Rating Criteria

Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
Buy	Upside > 20%	Upside > 15%	Upside > 10%
Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
Sell	Downside > 20%	Downside > 15%	Downside > 10%

Member (NSE and BSE)

Regn No.:

CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239
 CAPITAL MARKET SEBI REGN. NO.: NSE: INB231454233
 DERIVATIVES SEBI REGN. NO.: NSE: INF231454233
 (TRADING & CLEARING MEMBER)
 CURRENCY DERIVATIVES: MCX-SX INE261454230
 CURRENCY DERIVATIVES:NSE (TM & SCM) – NSE 231454233

Depository Participant (DP)

CDSL DP ID: 120 – 12200
 SEBI REGD NO.: CDSL : IN-DP-CDSL-661-2012

PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Kavita Ravichandran

(022) 4215 9842; Email ID: Compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)

Registered Office Address	Corporate Office & Correspondence Address
Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	Centrum House 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000