

## BLR volumes drive overall growth higher

We retain BUY on CARE with revised TP at Rs1,550 (vs. Rs1,600 earlier). Q2'19 revenue / PAT were below estimates. This is even as volume of debt rated grew 32.6% YoY and points to pricing pressure. The growth in high-yielding non-BLR segment remains muted (down 3% YoY for H1'19); we foresee trends to continue in H2'19 and have thus trimmed our overall volume growth assumptions for FY19E. In the backdrop of concerns around rating downgrade / delay in rating changes, CARE has strengthened its rating standards further. We will watch for outcome therein. We like CARE for its business model, return ratios and free cash flow yield. Valuations at 17.2x FY20E EPS remain attractive. Retain BUY.

- **Q2'19 results: Results overview:** CARE's Q2'19 reported revenue at Rs936mn (up 2.9% YoY) was below estimates. This is even as volume of debt rated grew 32.6% YoY and point to pricing pressures. Adjusted for the change in accounting policy implemented in FY18, Q2'19 rating revenue grew 10.5% YoY. For H1'19, rating revenues (adjusted) growth at 9% YoY is higher when compared to other players. ESOP related expenses were at Rs35.1mn. EBIDTA came in at Rs622mn (below estimates); EBIDTA margin stood at 66.5%. Other income at Rs74mn was impacted by lower MTM gains on FMP and duration product investment. Reported PAT (before OCI) came in at Rs464mn (down 4% YoY, below estimates). H1'19 PAT, (adjusted for accounting change) at Rs719mn declined 2.8% YoY.
- **Non-BLR volumes decline 3% YoY:** H1'19 volume of debt rated grew 13.7% YoY and was driven by strong traction in BLR volumes (+46.3% YoY). On the flip-side, the non-BLR volume are down 3% YoY and is reflection of overall reduction in borrowing via money market instruments. With uncertainty around money market instruments (on back of default by IL&FS group and contagion effect thereon) and the sharp rise in market rates (especially, after Sept'18) we expect volumes from the high-yielding, non-BLR segment to get impacted further. We thus have tweaked our overall volume estimates over FY18-20E and are now factoring in 14.3% CAGR in volumes (vs. 16.2% earlier). Pace of traction on the SME front (more from Basel-II requirement) remain intact; NCLT related business remains stable.
- **Earnings outlook:** The modest growth in non-BLR volumes will impact revenue growth; this to a certain extent will be off-set by strong surge in BLR volumes. However, the pricing pressure in BLR segment will impact overall rating revenues. Additionally, with lower other income and ESOP cost will impact earnings. In the backdrop of above challenges, we lower our FY19E / FY20E estimates on revenue / PAT front. We are now building in 10% / 6.4% CAGR in revenue / PAT over FY18-20E.
- **Valuation, view and key risks:** CARE management has guided for strengthening its rating standards further. We will watch for outcome of the above changes. CARE is a proxy play to revival in overall rating opportunity. Valuations at 17.2x FY20E EPS for an exit RoE / RoCE at ~27% remain attractive. Retain BUY with revised TP at Rs1,550 (valued at 25x FY20E EPS). Modest growth in BLR volume or margin pressure remains key risks. Reputational risk is the biggest risk could impact valuation multiples meaningfully.

(Rs mn)	Q2FY19	Q2FY18	% YoY	Q1FY19	% QoQ	Q2FY19E	% Var
Net sales	936	910	2.9	574	63.0	983	(4.8)
Total income	1,010	972	3.8	617	63.7	1031	(2.1)
Expenditure	314	247	27.2	289	8.7	296	6.1
EBITDA	622	663	(6.2)	286	117.9	687	(9.5)
EBIDTA margin (%)	66.5	72.9	(641)bps	49.7	1674bps	69.9	
Reported PAT	464	483	(4.0)	255	81.7	488	(5.0)
Volume of debt rated (Rs bn)	4,310	3,250	32.6	3,820	12.8		
No of assignment (nos)	2,470	2,410	2.5	1,806	36.8		

Source: Company, Centrum Research

Rsmn	Revenue	EBITDA	EBITDA (%)	Reported PAT	YoY (%)	EPS (Rs)	P/E (x)	P/BV (x)	RoCE (%)	RoE (%)
FY16	2,648	1,721	65.0	1,177	(16.1)	40.0	31.9	9.2	30.4	30.6
FY17	2,805	1,861	66.4	1,522	29.4	51.7	24.0	7.0	32.2	32.7
FY18	3,216	2,094	65.1	1,610	5.8	54.7	26.6	7.2	28.2	28.7
FY19E	3,383	2,107	62.3	1,613	0.2	54.7	22.8	5.6	25.5	25.7
FY20E	3,890	2,403	61.8	1,822	13.0	61.8	17.2	4.5	26.8	27.0

Source: Company, Centrum Research Estimates. FY16-19E YTD has 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	Rs1,550	Key Data	
CMP*	Rs1,061	Bloomberg Code	CARE IN
Upside	46.1%	Curr Shares O/S (mn)	29.5
Previous Target	Rs1,600	Diluted Shares O/S(mn)	29.5
Previous Rating	Buy	Mkt Cap (Rs bn/USDmn)	31.2/427.5
Price Performance (%)*		52 Wk H / L (Rs)	1578.8/1000
	1M 6M 1Yr	5 Year H / L (Rs)	1808/661.2
CARE IN	(4.8) (13.4) (29.3)	Daily Vol. (3M NSE Avg.)	62168
NIFTY	2.0 (0.9) 0.7		

\*as on 5 November 2018; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Sep-18	Jun-18	Mar-18	Dec-17
Promoter	0.0	0.0	0.0	0.0
FIs	45.4	42.9	42.8	43.6
DIs	22.1	23.7	23.9	24.6
Others	32.5	33.4	33.3	31.9

Source: BSE, \*as on 5 November 2018

### Earnings revision

Particulars (Rs mn)	FY19E			FY20E		
	New	Old	Var (%)	New	Old	Var (%)
Net Sales	3,383	3,463	(2.3)	3,890	3,987	(2.4)
EBIDTA	2,107	2,189	(3.7)	2,403	2,507	(4.2)
Reported PAT	1,613	1,670	(3.4)	1,822	1,894	(3.8)

Source: Centrum Research Estimates

### Centrum vs. Bloomberg Consensus\*

Particulars (Rs mn)	FY19E			FY20E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Net Sales	3,383	3,532	(4.2)	3,890	3,954	(1.6)
EBIDTA	2,107	2,126	(0.9)	2,403	2,438	(1.4)
Reported PAT	1,613	1,605	0.5	1,822	1,869	(2.5)

Bloomberg Consensus*				Target Price (Rs)	Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)			
7	0	0	1517	1,550	2.2	

\*as on 5 November 2018; 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

**Exhibit 1: Trend in rating revenue – adjusted for change in accounting policy:**

Rs mn	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-17
<b>Rating revenue (reported)</b>	571.5	804.3	655.0	763.8	613.8	909.7	748.2	944.4	574.2	935.9
% YoY growth					7.4	13.1	14.2	23.6	(6.5)	2.9
<b>Adjusted for change in accounting policy</b>					69.2	180.7	(44.2)	(19.6)		
<b>Rating revenue (adjusted) - quarterly basis</b>	<b>571.5</b>	<b>804.3</b>	<b>655.0</b>	<b>763.8</b>	<b>544.6</b>	<b>728.9</b>	<b>792.3</b>	<b>964.0</b>		
% YoY growth					(4.7)	(9.4)	21.0	26.2		
<b>Rating revenue (adjusted) - annual</b>				<b>2,795</b>				<b>3,030</b>		
% YoY growth								8.4		
<b>Rating revenue (adjusted)</b>					<b>538.1</b>	<b>846.7</b>			<b>574.2</b>	<b>935.9</b>
% YoY growth									6.7	10.5
<b>Rating revenue (adjusted) - H1 basis</b>						<b>1,384.8</b>				<b>1,510.1</b>
% YoY growth										<b>9.0%</b>

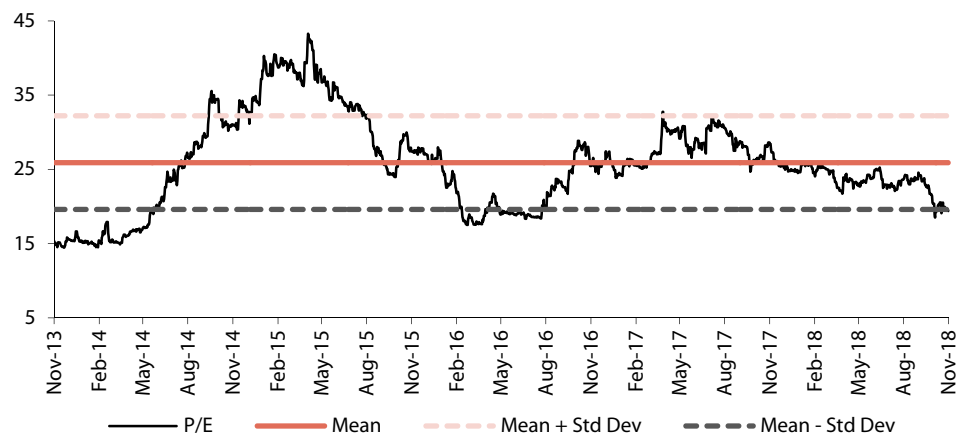
Source: Company, Centrum Research

## Sensitivity analysis and peer comparison

**Exhibit 2: Sensitivity Analysis – impact of change in BLR volumes and yield on FY19E EBITDA**

%	Rating volume				
	-10%	-5%	current levels	+5%	+10%
<b>Yields</b>					
+2%	(6.1)	(2.4)	(0.6)	1.3	2.8
+1%	(4.9)	(2.0)	(0.3)	1.6	3.2
<b>current levels</b>	(3.7)	(1.9)	0.0	1.8	3.8
-1%	(3.3)	(1.6)	0.3	2.4	4.7
-2%	(2.6)	(1.3)	0.6	2.4	5.8

Source: Centrum Research Estimates

**Exhibit 3: Rolling forward P/E chart**


Source: Bloomberg, Company, Centrum Research Estimates

**Exhibit 4: Comparative Valuations**

Co_Name	Mkt Cap (Rs mn)	CAGR FY18-FY20E (%)			P/E (x)			RoCE(x)			RoE (%)		
		Rev.	EBITDA	PAT	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
CARE	31,245	10.0	7.1	6.4	26.6	22.8	17.2	28.2	25.5	26.8	28.7	25.7	27.0
CRISIL#	1,08,156	6.5	4.7	12.2	34.4	31.5	29.2	41.1	36.4	35.8	31.0	30.0	30.9
ICRA Ltd*	32,455	9.3	10.0	14.3	41.2	31.4	25.8	18.6	15.0	15.8	17.7	16.2	16.5

Source: Centrum Research Estimates, \* denotes Bloomberg Estimates. #CRISIL is a Dec ending company. FY18-19E YTD have been valued on average market cap basis.

**Exhibit 5: Quarterly Financials**

Rs mn	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
<b>Income Statement</b>								
<b>Net sales</b>	<b>659</b>	<b>764</b>	<b>614</b>	<b>910</b>	<b>748</b>	<b>944</b>	<b>574</b>	<b>936</b>
Other income	163	63	65	63	47	79	42	74
<b>Total Income</b>	<b>822</b>	<b>827</b>	<b>679</b>	<b>972</b>	<b>795</b>	<b>1,023</b>	<b>617</b>	<b>1,010</b>
Operating expenses	216	298	222	247	285	369	289	314
<b>EBIDTA core</b>	<b>443</b>	<b>465</b>	<b>392</b>	<b>663</b>	<b>464</b>	<b>576</b>	<b>286</b>	<b>622</b>
<i>EBIDTA margins (%)</i>	<i>67.2</i>	<i>60.9</i>	<i>63.9</i>	<i>72.9</i>	<i>62.0</i>	<i>61.0</i>	<i>49.7</i>	<i>66.5</i>
Depreciation	8	8	8	8	8	6	6	7
<b>Profit before tax</b>	<b>598</b>	<b>521</b>	<b>449</b>	<b>718</b>	<b>502</b>	<b>649</b>	<b>322</b>	<b>689</b>
Tax	147	156	94	234	129	249	66	225
<b>Profit after tax</b>	<b>451</b>	<b>364</b>	<b>355</b>	<b>483</b>	<b>373</b>	<b>399</b>	<b>255</b>	<b>464</b>
<b>PAT including OCI</b>	<b>451</b>	<b>361</b>	<b>354</b>	<b>482</b>	<b>375</b>	<b>441</b>	<b>257</b>	<b>464</b>
<b>Ratios</b>								
<b>Growth YoY (%)</b>								
<i>Net sales</i>	<i>4.8</i>	<i>1.5</i>	<i>7.4</i>	<i>12.3</i>	<i>13.5</i>	<i>23.6</i>	<i>(6.5)</i>	<i>2.9</i>
<i>EBIDTA</i>	<i>9.9</i>	<i>(10.3)</i>	<i>10.7</i>	<i>10.8</i>	<i>4.7</i>	<i>24.2</i>	<i>(27.2)</i>	<i>(6.2)</i>
<i>EBIT</i>	<i>10.6</i>	<i>(10.2)</i>	<i>11.1</i>	<i>10.9</i>	<i>4.7</i>	<i>25.0</i>	<i>(27.3)</i>	<i>(6.1)</i>
<i>PAT</i>	<i>68.4</i>	<i>2.6</i>	<i>16.4</i>	<i>11.8</i>	<i>(17.4)</i>	<i>10.0</i>	<i>(28.0)</i>	<i>(4.0)</i>
<b>Margins (%)</b>								
<i>EBIDTA</i>	<i>67.2</i>	<i>60.9</i>	<i>63.9</i>	<i>72.9</i>	<i>62.0</i>	<i>61.0</i>	<i>49.7</i>	<i>66.5</i>
<i>EBIT</i>	<i>90.7</i>	<i>68.2</i>	<i>73.2</i>	<i>78.9</i>	<i>67.1</i>	<i>68.7</i>	<i>56.0</i>	<i>73.6</i>
<i>PAT margin</i>	<i>68.5</i>	<i>47.7</i>	<i>57.8</i>	<i>53.1</i>	<i>49.8</i>	<i>42.3</i>	<i>44.5</i>	<i>49.6</i>
New assignments rated	2,361	4,041	1,774	2,410	2,512	3,547	1,806	2,470
Volume of debt rated (Rs bn)	2,750	3,750	3,900	3,250	3,260	6,070	3,820	4,310

Source: Company, Centrum Research

## Financials (standalone)

### Exhibit 6: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Net Sales</b>	<b>2,648</b>	<b>2,805</b>	<b>3,216</b>	<b>3,383</b>	<b>3,890</b>
Growth (%)	3.0	5.9	14.7	5.2	15.0
<b>Expenditure</b>	<b>927</b>	<b>944</b>	<b>1,122</b>	<b>1,276</b>	<b>1,487</b>
Employee Cost	697	669	822	959	1,113
<b>EBITDA</b>	<b>1,721</b>	<b>1,861</b>	<b>2,094</b>	<b>2,107</b>	<b>2,403</b>
Growth (%)	6.2	8.1	12.5	0.6	14.0
<b>EBITDA margin (%)</b>	<b>65.0</b>	<b>66.4</b>	<b>65.1</b>	<b>62.3</b>	<b>61.8</b>
Depreciation	39	31	30	31	34
<b>EBIT</b>	<b>1,768</b>	<b>2,171</b>	<b>2,318</b>	<b>2,321</b>	<b>2,622</b>
<b>EBIT margin (%)</b>	<b>66.8</b>	<b>77.4</b>	<b>72.1</b>	<b>68.6</b>	<b>67.4</b>
Other Income	86	341	253	245	253
Interest expenses	0	0	0	0	0
<b>PBT</b>	<b>1,768</b>	<b>2,171</b>	<b>2,318</b>	<b>2,321</b>	<b>2,622</b>
<b>Tax</b>	<b>591</b>	<b>648</b>	<b>707</b>	<b>708</b>	<b>800</b>
Effective tax rate (%)	33.4	29.9	30.5	30.5	30.5
<b>Reported PAT</b>	<b>1,177</b>	<b>1,522</b>	<b>1,610</b>	<b>1,613</b>	<b>1,822</b>
Growth (%)	(16.1)	29.4	5.8	0.2	13.0

Source: Company, Centrum Research Estimates

### Exhibit 7: Key Ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
<b>Profitability (%)</b>					
EBITDA Margin	65.0	66.4	65.1	62.3	61.8
Net Margin	44.4	54.3	50.1	47.7	46.8
ROCE	30.4	32.2	28.2	25.5	26.8
ROE	30.6	32.7	28.7	25.7	27.0
<b>Per Share Data (Rs)</b>					
EPS	40.0	51.7	54.7	54.7	61.8
CEPS	41.3	52.8	55.7	55.8	63.0
BVPS	138.9	178.0	203.4	222.1	235.8
DPS	28.0	18.0	37.0	30.0	40.0
<b>Valuations (x)</b>					
P/E (adjusted)	31.9	24.0	26.6	22.8	17.2
P/BV	9.2	7.0	7.2	5.6	4.5
EV/EBITDA	19.6	17.2	18.0	14.7	10.4
Dividend yield (%)	2.2	1.5	2.5	2.4	3.8
5 Yr Avg AOCF/EV yield %	4.0	4.5	3.8	4.7	6.1

Source: Company, Centrum Research Estimates. FY16-19E have been valued on average market cap basis.

### Exhibit 8: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	294	295	295	295	295
Reserves & surplus	3,788	4,947	5,699	6,248	6,651
<b>Net worth</b>	<b>4,082</b>	<b>5,242</b>	<b>5,993</b>	<b>6,542</b>	<b>6,946</b>
Net deferred tax liability	26	114	53	58	62
<b>Total Liabilities</b>	<b>4,108</b>	<b>5,356</b>	<b>6,046</b>	<b>6,600</b>	<b>7,007</b>
<b>Net block</b>	<b>551</b>	<b>527</b>	<b>518</b>	<b>516</b>	<b>513</b>
Capital work in progress	-	-	-	-	-
<b>Investment</b>	<b>3,921</b>	<b>4,835</b>	<b>5,371</b>	<b>5,838</b>	<b>6,309</b>
<b>Current Assets</b>	<b>517</b>	<b>494</b>	<b>670</b>	<b>852</b>	<b>843</b>
Sundry debtors	222	232	372	390	448
Cash & bank balance	98	118	241	402	334
Loans & advances	124	20	20	22	24
Other current assets	73	125	37	37	37
<b>Current liabilities &amp; Prov</b>	<b>880</b>	<b>501</b>	<b>512</b>	<b>538</b>	<b>590</b>
Current liabilities	349	444	425	436	472
Provisions	531	57	87	102	118
<b>Net current assets</b>	<b>(363)</b>	<b>(6)</b>	<b>158</b>	<b>314</b>	<b>253</b>
<b>Total Assets</b>	<b>4,108</b>	<b>5,356</b>	<b>6,046</b>	<b>6,600</b>	<b>7,007</b>

Source: Company, Centrum Research Estimates

### Exhibit 9: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Operating profit before working capital changes	1,216	1,554	1,640	1,644	1,856
Changes in working capital	7	(248)	(3)	10	(4)
<b>Cash flow from operations</b>	<b>1,222</b>	<b>1,306</b>	<b>1,637</b>	<b>1,654</b>	<b>1,851</b>
Adj. OCF (OCF - Interest)	1,222	1,306	1,637	1,654	1,851
Net Capex	25	2	20	30	31
<b>Adj. FCF</b>	<b>1,198</b>	<b>1,304</b>	<b>1,617</b>	<b>1,625</b>	<b>1,820</b>
<b>Cash flow from investments</b>	<b>(490)</b>	<b>(916)</b>	<b>(555)</b>	<b>(497)</b>	<b>(502)</b>
<b>Cash flow from financing</b>	<b>(703)</b>	<b>(607)</b>	<b>(638)</b>	<b>(1,064)</b>	<b>(1,418)</b>
<b>Net change in cash</b>	<b>29</b>	<b>(217)</b>	<b>443</b>	<b>94</b>	<b>(69)</b>

Source: Company, Centrum Research Estimates

## Appendix A

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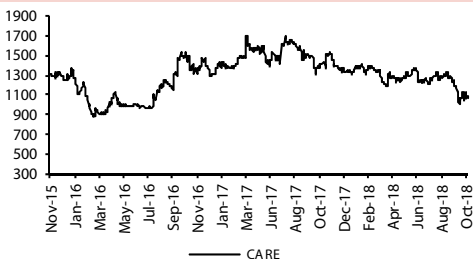
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### CARE Ratings price chart



Source: Bloomberg, Centrum Research

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		CARE Ratings	CRISIL
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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%

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SEBI REGN NO.: INP000004383

##### Research Analyst

SEBI Registration No. INH000001469

##### Mutual Fund Distributor

AMFI REGN No. ARN- 147569

##### Website: www.centrum.co.in

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

##### Compliance Officer Details:

Ashok D Kadambi  
 (022) 4215 9937; 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 Fax: +91 22 4215 9344