

CARE Ratings Limited

Firm growth and margin trajectory

Domestic Ratings - strengthening position to sustain brisk growth

After witnessing a CAGR of 16% in domestic rating revenue over FY22-25, CARE delivered a sector-leading growth of 16% in Q1 FY26 (CRISIL 16% & ICRA 14%). Sustenance of growth momentum in recent quarters despite a notable slowdown in bank credit to Large Industry and NBFCs can be interpreted as a stronger performance from CARE versus peers (as CARE has significantly higher revenue share of Bank Loan ratings). It also denotes penetration gains in capital market instrument ratings via new corporate addition and large issuer penetration. The active rated client base of CARE has increased secularly in past few years. In FY25, the company onboarded over 200 new clients who were rated in the A and above category.

Besides the robust ratings performance (reflected in latest 5-year default rates and transition rates), the transitioning of business development model from geographic to a verticalized structure sharpened sectoral strategies and enhanced client engagement/operational agility. Efforts towards strengthening presence in capital market and securitization segments has increased overall new rating market share (by count) for CARE. Securitization volume rated by the company has grown at 50%+ CAGR over FY23-25. Company has been pushing for surveillance fee improvements in certain accounts, and the improved ratings accuracy and acceptability is enabling such efforts. Management is confident of sustaining the growth momentum in FY26/27.

Rating subsidiaries growing well; Analytics business to turnaround

The performance of CareEdge Africa and CareEdge Nepal has been strong in recent years. CareEdge Africa has witnessed a revenue CAGR of 35% over the past four years, aided by growth in the volume of debt rated (stemming from new assignments and ongoing surveillance activities). This subsidiary would be adding presence in South Africa as it has received approval from the South African Financial Sector Conduct Authority to be a domestic currency and sovereign ratings agency. CareEdge Nepal also saw operations gaining traction in FY25 and it became the market leader. Both Africa and Nepal rating entities are making 35-50% PAT margins. Last year, CARE also became the first Indian credit rating agency to enter the global scale ratings space through subsidiary CareEdge Global IFSC. This entity rated international bond issuances worth US\$2bn in H2 FY25 and earned fee of Rs20mn.

There has been a significant uptick in non-Ratings revenue (Analytics and Advisory) since FY24, driven by greater management focus, strengthening/introduction of products and augmentation of business development activity. The revenue share of non-Ratings entities has increased from 6% in FY23 to 11% in FY25. In Advisory, CARE is witnessing healthy demand for its offerings in areas of Industry Research, ESG Services and Corporate Advisory, and the business is making reasonable margin. The currently loss-making Analytics business having products/solutions for credit processing & monitoring and regulatory compliance for Banks/FIs is expected to attain break-even soon. Besides India and neighbouring markets, the company is actively pushing Analytics offerings in Middle East and Africa.

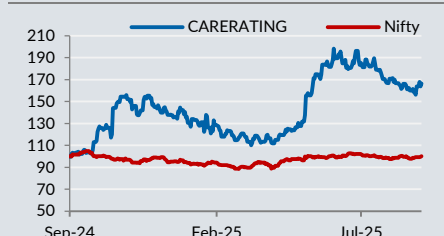
We maintain our consolidated Revenue/EBITDA/PAT CAGR estimates of 17%/22%/20% over FY25-27. We continue to believe that EBITDA margin could expand by 300-400 bps during the aforesaid period, driven by improvement in Domestic Ratings (operating leverage + instrument mix shift + pricing efforts), non-ratings businesses (mainly led by Analytics), and Global Ratings (operating leverage). EBITDA margin in Domestic Ratings was 200 bps higher in Q1 FY26, and it improved by 200 bps through FY25. CARE continues to evaluate meaningful inorganic growth opportunities in non-ratings space which can offer synergies of new markets addition or new products addition and are available at palatable valuation. Retain positive view on CARE with valuation reasonable at 24x FY27 P/E for the envisaged earnings growth/RoE trajectory and potential inorganic fillip.

Reco	: BUY
CMP	: Rs 1,628
Target Price	: Rs 1,830
Potential Return	: +12.4%

Stock data (as on Sept 10, 2025)

Nifty	24,973
52 Week h/l (Rs)	1964 / 968
Market cap (Rs/USD mn)	48036 / 546
Outstanding Shares (mn)	30
6m Avg t/o (Rs mn):	166
Div. yield (%):	1.5
Bloomberg code:	CARE IN
NSE code:	CARERATING

Stock performance



	1M	3M	1Y
Absolute return	-2.5%	-11.5%	67.0%

Shareholding pattern

Promoter	0.0%
FII+DII	53.1%
Others	46.9%

Δ in stance

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

Δ in earnings estimates

	FY25	FY26e	FY27e
EPS (New)	46.8	57.7	67.1
EPS (Old)	46.8	57.7	67.1
% Change	-	-	-

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)	34.8	28.2	24.3
BV (Rs)	272	296	322
P/BV (x)	6.0	5.5	5.0

RAJIV MEHTA

Lead Analyst

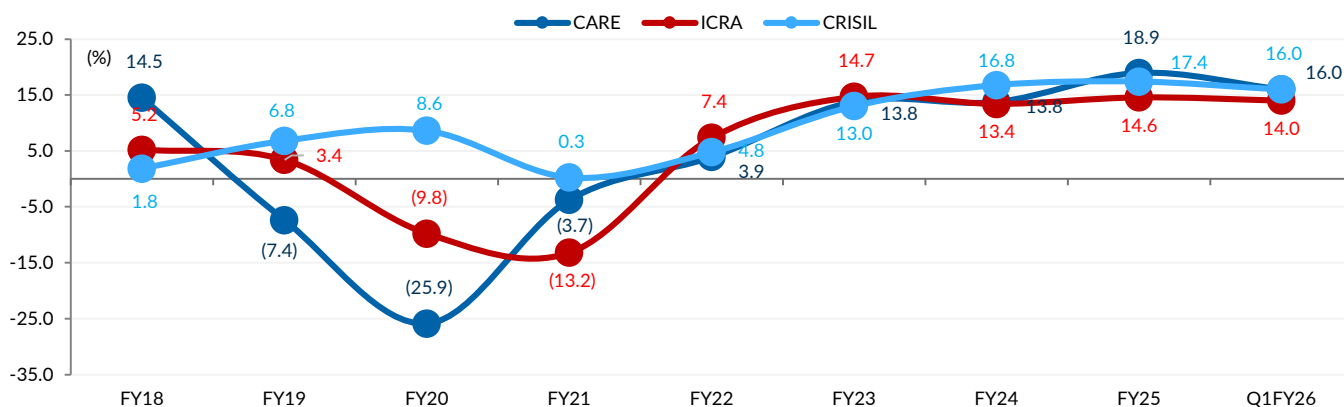
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MANUJ OBEROI, Associate

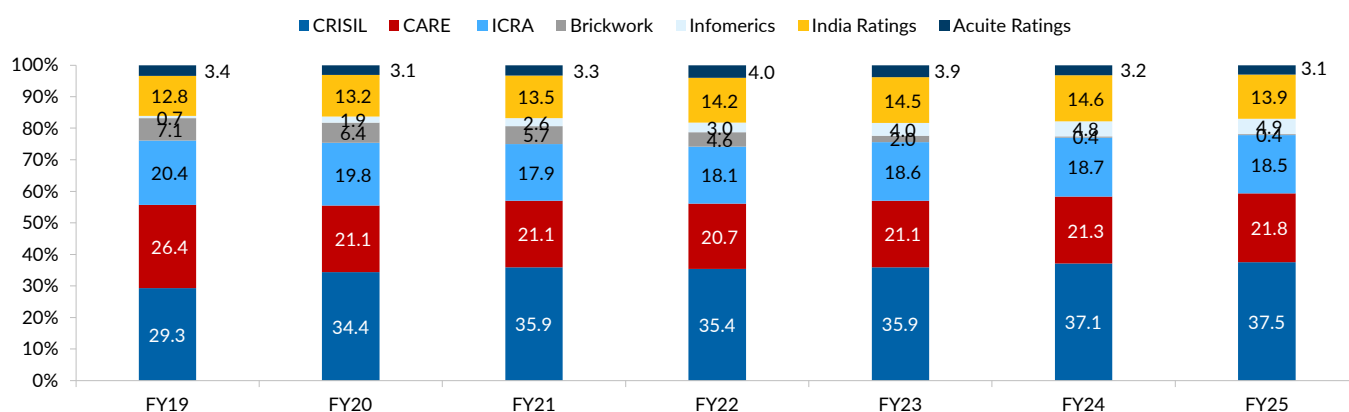
MARKET SHARE

Exhibit 1: Domestic Ratings Revenue Growth Trend



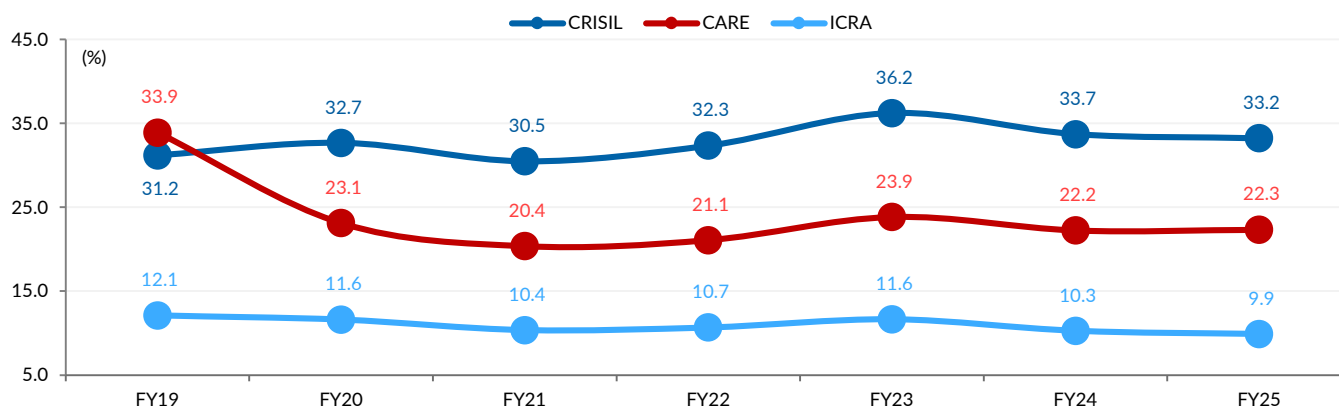
Source: Company, YES Sec

Exhibit 2: Domestic Ratings Revenue Market Share



Source: Company, YES Sec

Exhibit 3: Market Share in Total Volume of ratings on outstanding basis for all Instruments



Source: Company, YES Sec

TRANSITION RATES

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: 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 6: 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 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: 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	-	-	-
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. Note: ^^ - 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.

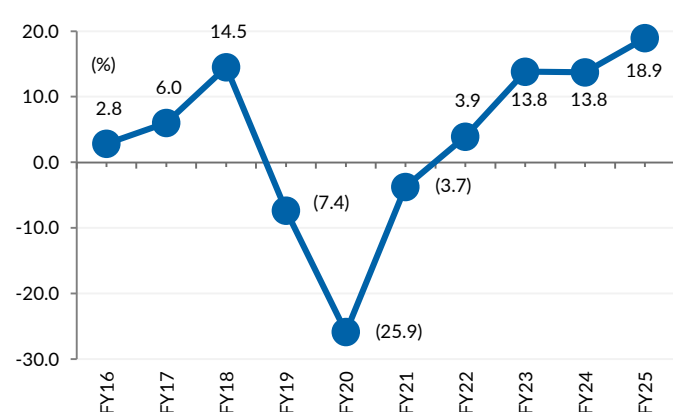
Exhibit 9: ICRA - Short-run average default rates for long term instruments until the latest financial year period of FY2025

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

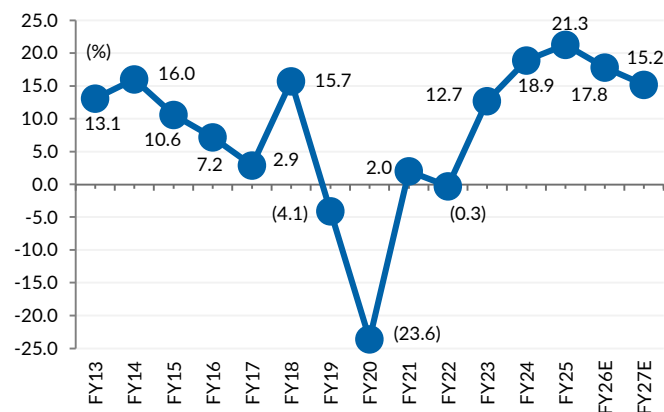
STORY IN CHARTS

Exhibit 10: Sustained recovery in ratings revenue growth



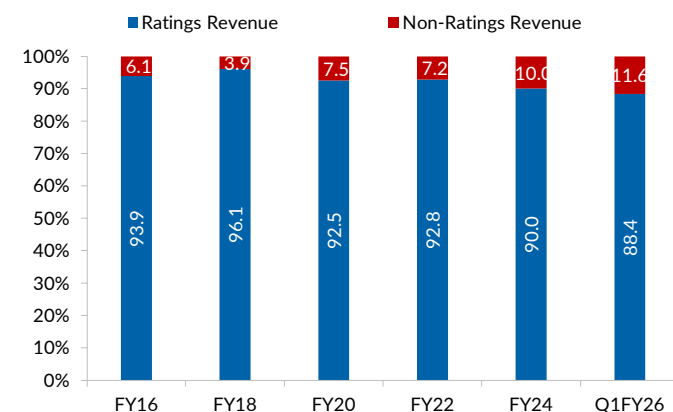
Source: Company, YES Sec

Exhibit 11: Consol Revenue growth to remain strong



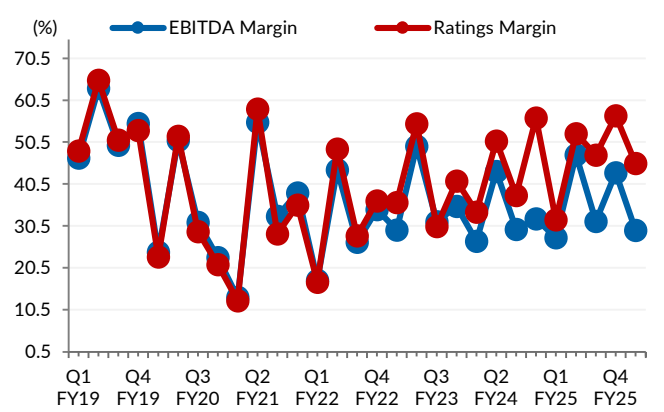
Source: Company, YES Sec

Exhibit 12: Revenue Mix - Ratings v/s Non-ratings



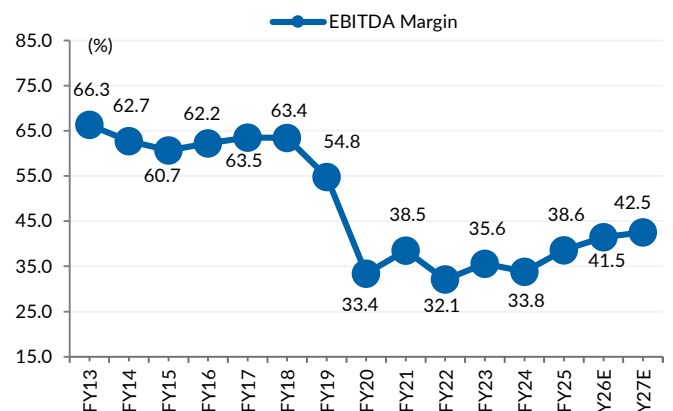
Source: Company, YES Sec

Exhibit 13: Significant margin recovery from lows



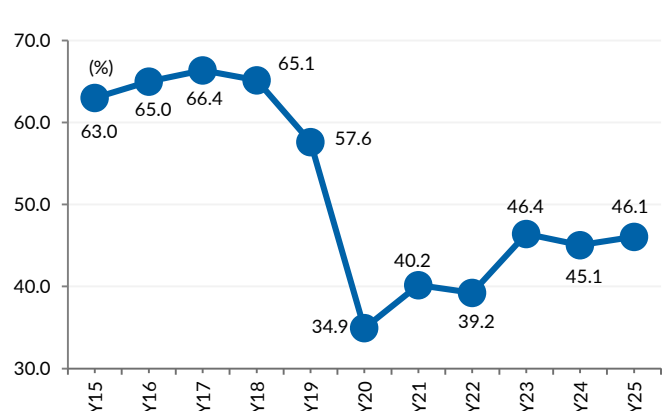
Source: Company, YES Sec

Exhibit 14: Consol EBITDA margin trending higher



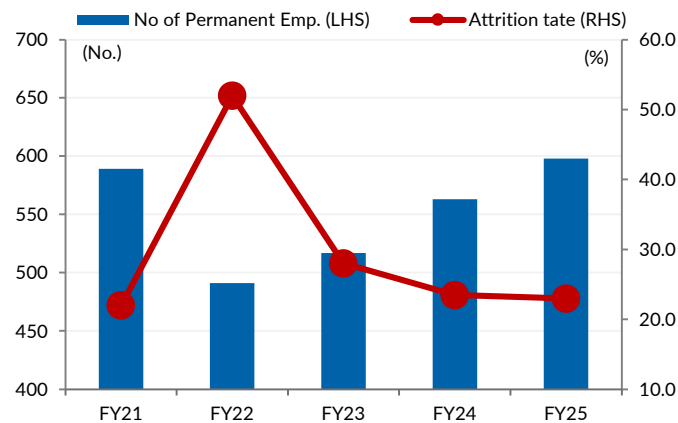
Source: Company, YES Sec

Exhibit 15: Standalone EBITDA margin to improve



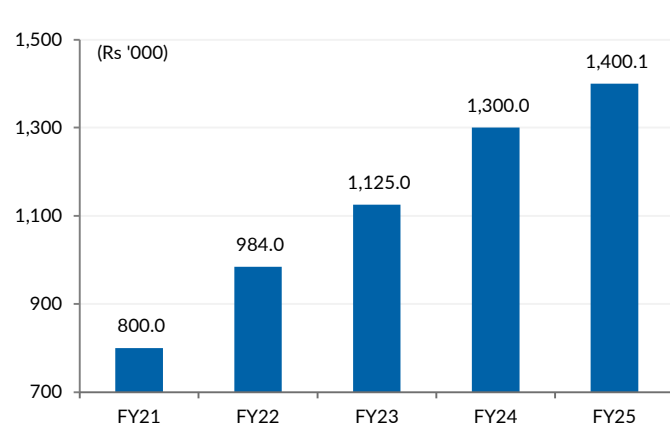
Source: Company, YES Sec

Exhibit 16: Employee attrition stable... helping ratings quality



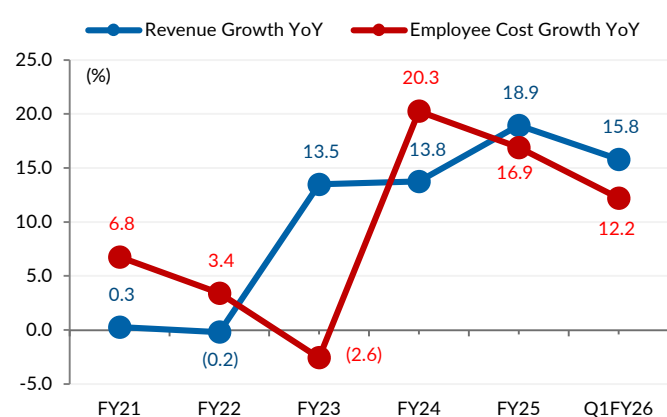
Source: Company, YES Sec

Exhibit 17: Median Remuneration of employees - rise suggests improvement in people quality



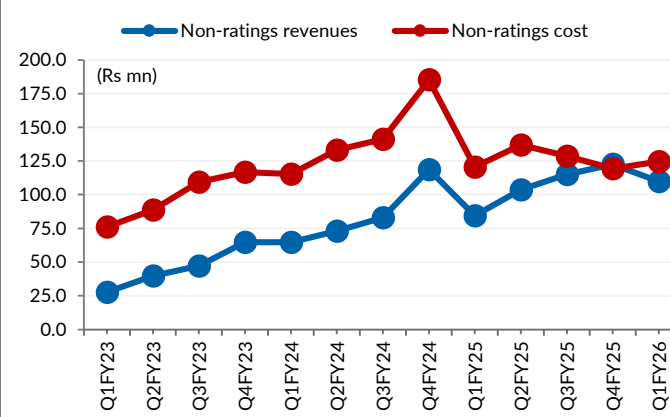
Source: Company, YES Sec

Exhibit 18: Growth in Revenue v/s Emp. Cost in SA Co.



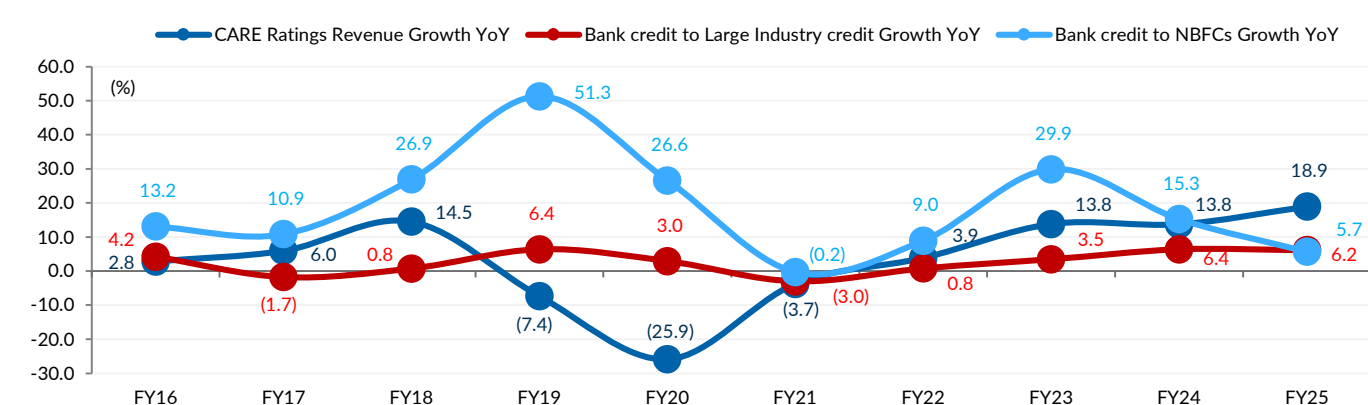
Source: Company, YES Sec

Exhibit 19: Non-Ratings – Rev. rising but Cost line flat



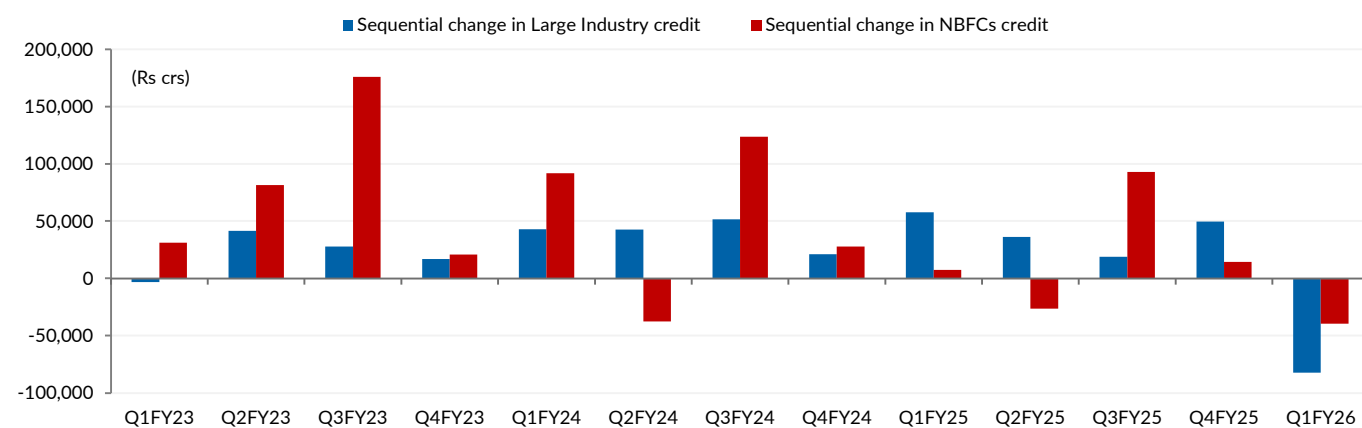
Source: Company, YES Sec

Exhibit 20: Breaking away of co-relation represents market share gains in Securitization and Bond/CP ratings



Source: Company, YES Sec

Exhibit 21: CARE's domestic rating growth strengthened in past 5-6 quarters despite significant moderation in incremental bank credit to Large Industry and NBFCs



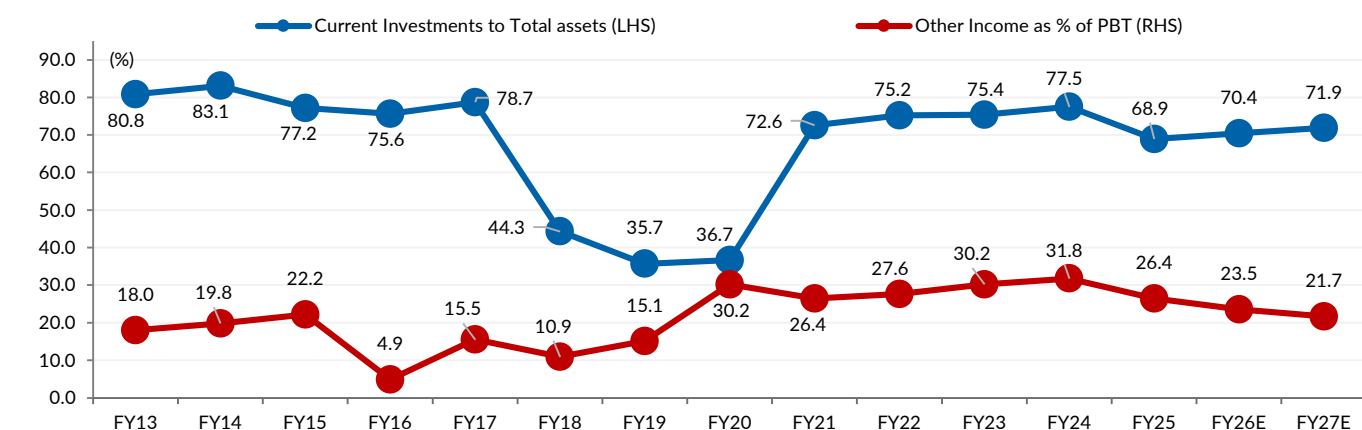
Source: Company, YES Sec

Exhibit 22: CARE Subsidiaries' Financials

Rs mn		FY21		FY22		FY23		FY24		FY25	
Subsidiary	(% Hold)	Revenue	PAT	Revenue	PAT	Revenue	PAT	Revenue	PAT	Revenue	PAT
CARE Analytics and Advisory	100	161	23	135	(97)	179	(245)	339	(231)	421	(64)
CARE ESG Ratings	100	54	(3)	74	(18)	-	(5)	-	(1)	5	(41)
CARE Ratings (Africa)	78	45	18	60	28	78	27	103	34	152	59
CARE Ratings Nepal	51	40	21	44	22	48	27	50	28	63	32
CARE Ratings South Africa (Pty)	78	-	-	-	-	-	-	-	(3)	-	(5)
CareEdge Global IFSC	100	-	-	-	-	-	-	-	-	20	(45)

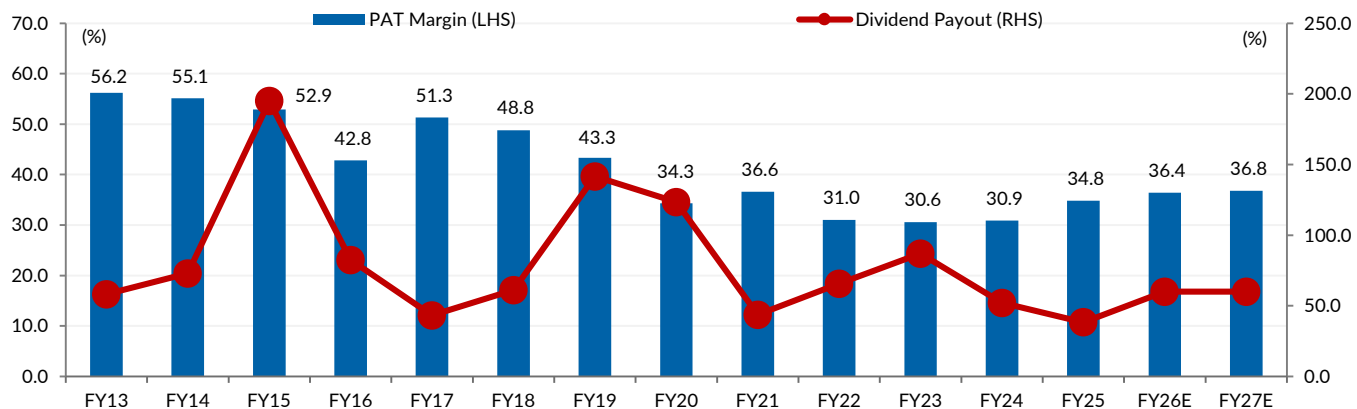
Source: Company, YES Sec

Exhibit 23: Consistent robust cash generation ensures significant liquidity on BS despite high DPR



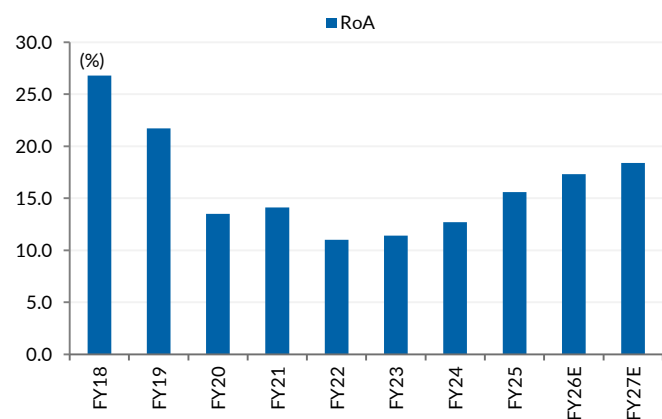
Source: Company, YES Sec

Exhibit 24: High profitability & DPR to continue

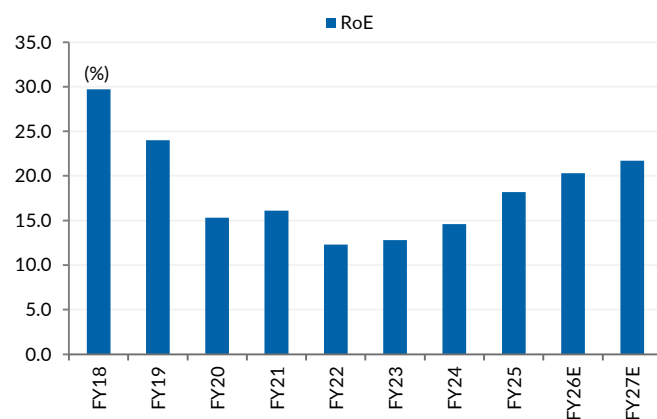


Source: Company, YES Sec

Exhibit 25: Core profitability metrics will improve underpinned by margin expansion and sturdy growth

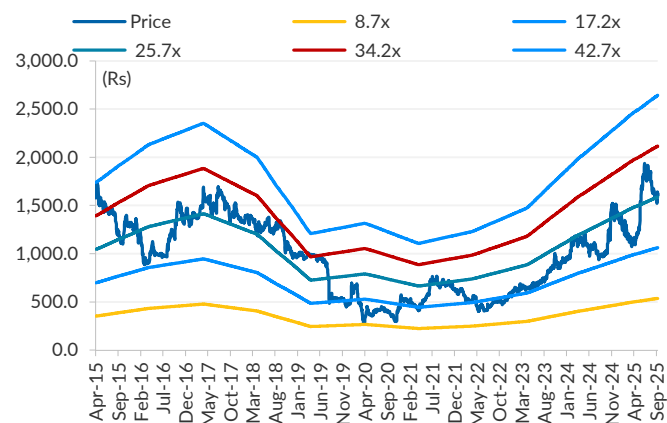


Source: Company, YES Sec



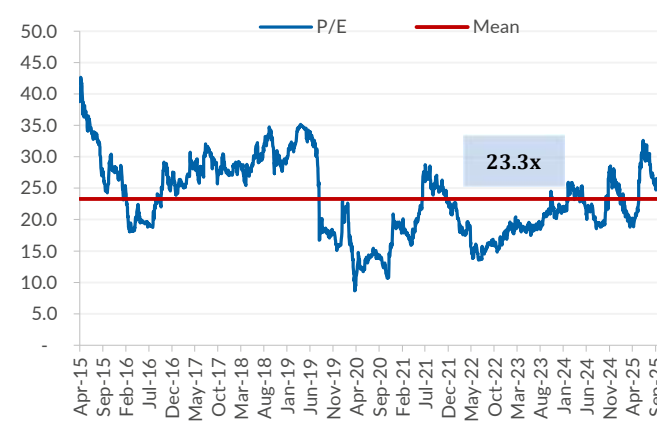
Source: Company, YES Sec

Exhibit 26: 1-yr rolling P/E band



Source: Company, YES Sec

Exhibit 27: 1-year rolling P/E vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 28: 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 29: 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 30: 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
CI Cash	584	970	1,277	1,667

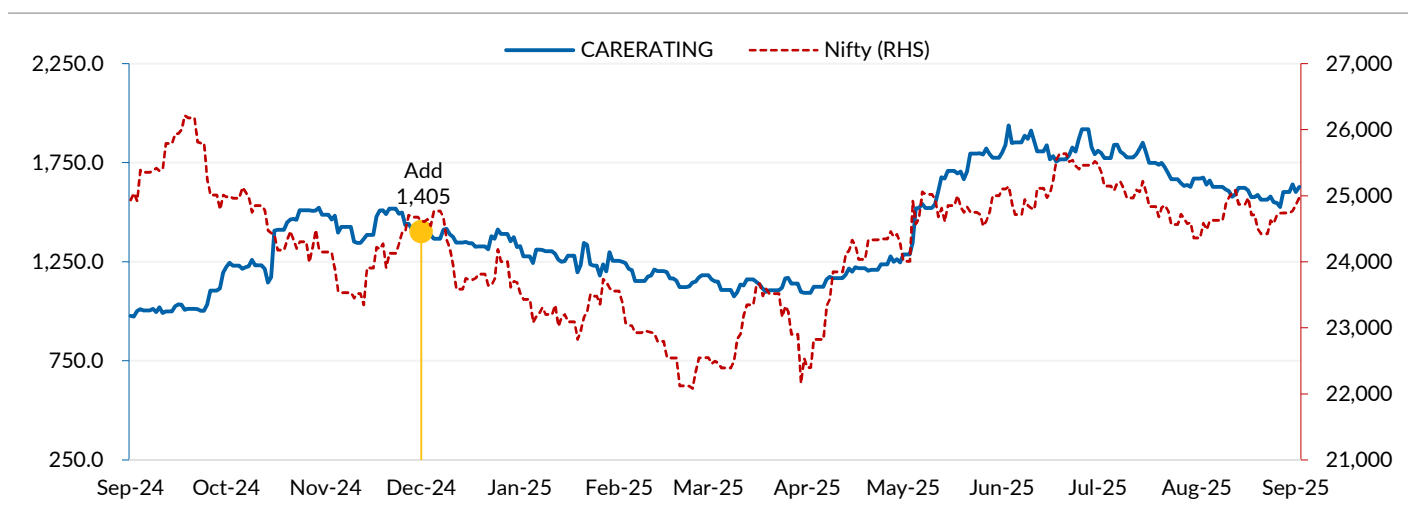
Source: Company, YES Sec

Exhibit 31: 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	56.6	47.4	34.8	28.2	24.3
P/BV	7.1	6.7	6.0	5.5	5.0
Dividend Yield	1.5%	1.1%	1.1%	2.1%	2.5%

Source: Company, YES Sec

Recommendation Tracker



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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

Details of Compliance Officer: Aditya Goenka | Email: compliance@ysil.in / Contact No.: 022-65078127 | Grievances Redressal Cell: customer.service@ysil.in / igc@ysil.in

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Analyst signature

Analyst signature

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