Date : 15th February, 2013

CARE RATINGS LIMITED (CARE)

Stock Performance Details

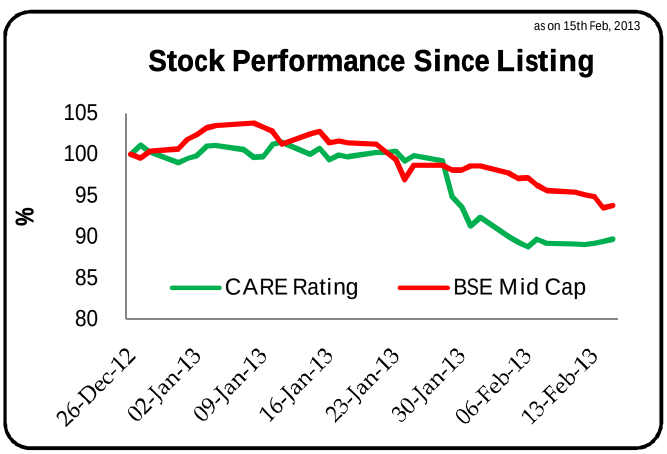
Current Price	**: Rs. 828.95****
Face Value	: Rs. 10 per share
52 wk High / Low	: Rs. 986.2 / Rs. 819.0
Total Traded Volumes	: 14,584 shares**
Market Cap	: Rs. 2,366 crore**
Sector	: Financial Services- Ratings
EPS (FY2012)	: Rs. 9.74 per share
P/E (TTM)	: 23.4 (x)^
P/BV (TTM)	: 6.28 (x)^
Financial Year End	: 1st April – 31st March
BSE Scrip Name	: CARERATING
BSE Scrip Code	: 534804

***as on15th February, 2013; ^ as on Dec, 2013*

Shareholding Details - December 2012

Particulars	Shareholding	
	Nos.	(%)
Promoter & Promoter Group Holding	0.00	0.00
Total Institutional Holdings (FIIs & DIIs)	1,65,75,810	58.05
Public Holdings	1,19,77,002	41.95
Total	**2,85,52,812**	**100.00**

Performance on the Bourses



Background

- Care Ratings (CARE) is the second largest rating company in India after CRISIL in terms of rating turnover.

- It provides a spectrum of rating and grading services across instruments and industries and has graded the largest number of IPOs since the introduction of IPO grading in the country.

- Since its inception in April 1993, CARE has completed over 19,000 rating assignments and rated over Rs. 44,000 billion of debt as of September 30, 2012 across sectors such as manufacturing, services, banks and infrastructure.

- Unlike its listed competitors, CRISIL and ICRA which have alliances with international rating agencies like S&P and Moody's, CARE is a professionally managed company with majority shareholding held by leading domestic banks and financial institutions like IDBI Bank, Canara Bank and SBI to name a few.

- The company is also recognized by the Capital Markets Development Authority, Republic of Maldives to carry out ratings of debt instruments and bank loans and facilities for Maldivian companies and is also looking to expand its footprint into countries like Nepal and Mauritius through joint ventures and to other countries.

- Last year in November 2011, CARE acquired a 75.1% equity interest in a risk management software solutions firm, Kalypto Risk Technologies Pvt. Ltd. The acquisition will enable the company to focus on enterprise risk management solutions for banking, insurance and other financial institutions.

- The company had raised Rs. 5,400 million through an Offer For Sale during December 2012. As this was an Offer for Sale, the company did not receive any proceeds.

Financial Snapshot

Particulars	Consolidated		Unconsolidated					
	6M FY 2013	FY 2012	6M FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008
Income Statement	(Rs. in Million)							(Rs. in Million)
Income from Operations	912	1,905	899	1,890	1,665	1,362	942	520
Y-o-Y Growth (%)	-	-	-	*14%*	*22%*	*45%*	*81%*	-
Other Income	128	283	126	282	58	158	58	29
Total Income	1,040	2,188	1,025	2,172	1,723	1,520	999	549
Y-o-Y Growth (%)	-	-	-	*26%*	*13%*	*52%*	*82%*	-
Operating Income	571	1,334	576	1,334	1,236	1,064	720	369
Y-o-Y Growth (%)	-		-	*8%*	*16%*	*48%*	*95%*	-
Operating Margin (%)	*55%*	*61%*	*56%*	*61%*	*72%*	*70%*	*72%*	*67%*
Net Profit	498	1,158	500	1,157	879	857	524	267
Y-o-Y Growth (%)	-		-	*32%*	*3%*	*64%*	*96%*	-
NPM (%)	*48%*	*53%*	*49%*	*53%*	*51%*	*56%*	*52%*	*49%*
Balance Sheet								
Investments (Current + Non Current)	3,375	2,659	3,465	2,749	2,586	1,860	1,172	784
Liabilities & Provisions	593	464	589	455	368	275	211	171
Net Worth	4,266	3,768	4,268	3,768	2,943	2,135	1,335	833
RONW (%)	*13%*	*35%*	*13%*	*35%*	*42%*	*50%*	*54%*	*44%*

***Source** : RHP, Note: Ratios are calculated based on data in the RHP*

From the Research Desk of LKW's Gurukshetra.com

- The primary source of revenue for the company is derived from its fees from rating services. Notably on a consolidated and unconsolidated basis, the income from operations (rating services) aggregated to over 85 per cent of the total revenues for FY 2012. The performance of the topline is directly proportional to the performance of the Indian debt market, general economic and market conditions and is inversely proportional to interest rates. Thus, the growth rate for almost all the rating agencies declined as revenue from bond ratings remained sluggish and volatile in previous quarters and is expected to remain subdued for the next quarter or so. However, with a general expectation of momentum picking up in the bond markets in FY 2013 on account of reform announcements and with further reduction in interest rates, which could be provide impetus for infrastructure investments. Being the second largest player in the ratings industry, the company is likely to benefit from the rise in the debt issuance by the corporates.

- Recent acquisition of Kalypto by the company will help it to diversify its revenue streams and enhance its product offerings. However for now, the acquired company is loss making and may continue to impact the consolidated bottomline till it turns around.

- Like its listed competitors like CRISIL and ICRA, CARE too enjoys high margins, strong cashflows and a debt free status. However, in the ratings industry it has one of the highest margins and return ratios. This can be observed from the average operating profit margin of over 65 per cent, the average net profit margin of 50 percent and RONW of over 30 per cent over the years which is on a comparative basis is higher than its competitors (ICRA and CRISIL - operating profit margin between 30 per cent to 40 per cent, net profit margin between 25 per cent to 30 per cent and return on net worth of 30 per cent to 40 per cent).

- This efficiency has led to significant investments on its books comprising of investments in fixed maturity plans, gilt and other income schemes, tax free bonds, commercial paper, certificates of deposit, equity funds and gold ETFs. The aggregate investment of Rs. 3,375 million as of September 30, 2012 which accounted for almost 70 per cent of the consolidated total assets. However such an investment is prone to volatility in the financial markets and therefore merits attention.

Peer Comparison

The below mentioned table provides a snapshot of the financial performance of the company as compared to some of the peers in the category. The financials are on a standalone basis for FY2012 ended in March, 2012.

(Rs. In million)

Particulars	CARE Rating	ICRA	CRISIL
Income from Operations	1,890	2,074	8,069
Operating Income	1,334	625	2,624
Net Profit	1,157	451	2008
Operating Margins (%)	61	42	36
PAT Margins (%)	53	30	28
P/E (x)**	NA	22	32
P/BV (x)**	NA	3.7	15

Source : Capitaline; Company RHP; ^ as on Dec 2012 (TTM Basis)

About the Industry

The Ratings Industry prospects are dependent on the Capital Markets (Equity and Debt) with the Debt Market in particular in the country. Given that the debt markets in India prior to 1992 were at a very nascent stage the demand for rating services too was relatively lower. However, post the 2003 SEBI guidelines, to mandatorily rate the debt issuance with maturity / convertibility over 18 months, activity in the Ratings Industry appears to have picked. In addition to this, RBI's guidelines to mandatorily rate commercial paper and public deposit schemes of NBFCs, there has been a marked growth in the ratings industry in Indian in terms of number and value of instruments.

RBI also issued prudential guidelines on management of non-SLR based securities of Scheduled Commercial Banks except Regional Rural Banks (RRBs) and local area banks. These guidelines require such institutions to make fresh investments in rated non-SLR securities only. Notwithstanding the above, the demand for rating services is also driven by overall capital mobilization in the economy as economic development fuels demand for investments and operations related funding.

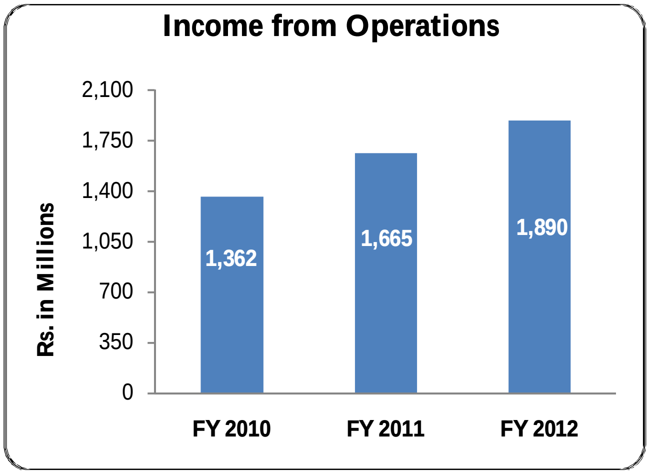
Given the overall development in the economy and development of the equity and debt markets in India, the prospects of the Rating industry appears to be satisfactory. However, increased competition from other players in the rating industry, increased focus of companies on the medium and small enterprises could result in pressure on the operating and net profit margins of players in the industry. (Source : RHP)

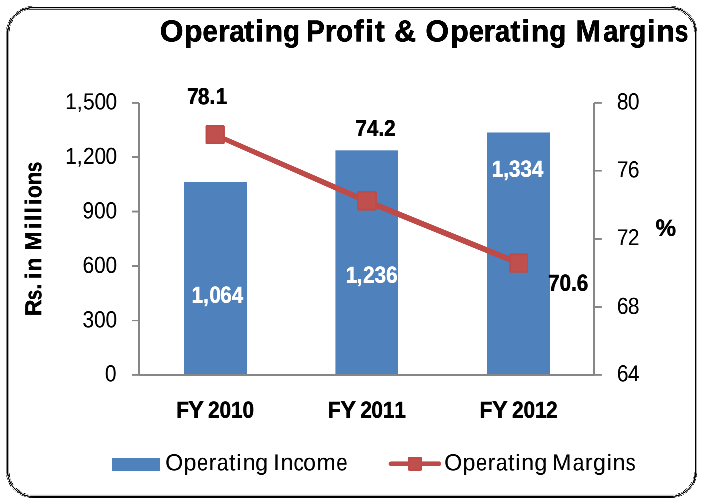
Outlook

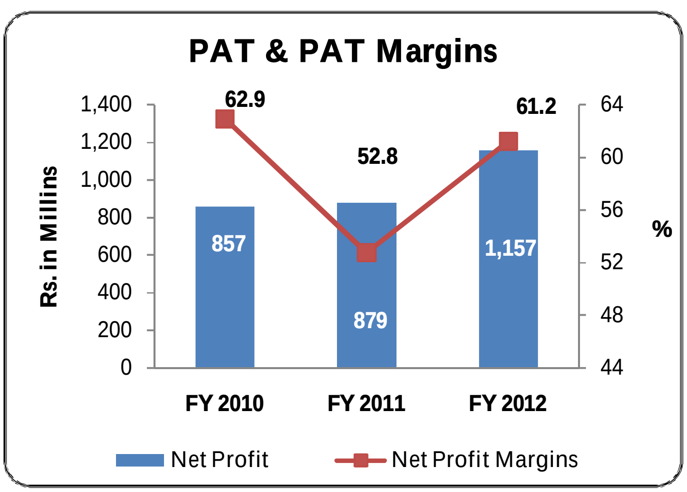
Going forward, there appear to be satisfactory growth prospects, given that the company has an established brand, strong cash flows, fair growth potential, increased momentum in the CDR space, satisfactory margins and return on equity and satisfactory financial performance over the years.

However, rising competition, non-differentiated nature of services offered, threat from internal rating based mechanism which has been allowed by RBI for the banking system to measure its credit risk capital as compared to external credit assessments pose a threat to the business going forward and thus merit attention.

Financial Graphs







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Each member of the team involved in the preparation of this report, hereby affirms that there exists no conflict of interest.

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LOTUS KNOWLWEALTH (LKW), commenced business in 1990 and is currently engaged in providing **WEALTH ADVISORY, CORPORATE ADVISORY and ECONOMIC & FINANCIAL RESEARCH & CONTENT services.**

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