GOLDMINE STOCKS PVT. LTD
Research Division
Member: National Stock Exchange of India Ltd,
Bombay Stock Exchange Ltd.

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CARE Rating [15/06/2013]

CARE RATING

	Rs.Cr.
Equity	28.55
Reserves	395.66
Acc.Dep	10.00
Debt	0.50
FV	10.00
Exp.NP	130.00
Cash Pr.	133.00
EPS	45.53
CEPS	46.58
Debt:Equi	0.00
Book Value	194.10
Cash Book Value	198.65
M.Price	710.00
M.Cap	2027.25
P/E	15.59
Dividend Expected	20.00
Dividend Yield (%)	2.82
Total Worth	434.21
Sales	230.00

Shareholding Pattern

Promoters	0.00
FII	11.98
Institutions	50.01
Corp.Bodies	30.98
Public	7.03

Background: Care Ratings commenced operations in April 1993 and over nearly two decades. The company has rated debt of about Rs 45901 billion as on Dec 31, 2012. Care ratings has also emerged as the leading agency for covering many rating segments like that for banks, sub sovereigns and IPO gradings. Care Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk return expectations.

Though there are no visible promoters in the shareholding pattern, majority of the shareholding is held by leading domestic banks, financial institutions and some private sector financial companies.

CRISIL and ICRA are the two competitors. CRISIL is promoted by S&P while ICRA is promoted by Moody's.

Future Growth Triggers: RBI has recently asked banks to conduct legal audit every quarter for all loans above Rs 5 crores. Legal audit means checking all mortgaged documents, their titles and see that everything is in place and proper. There are many cases, where things are not proper and upon identification, we could see banks and other lenders asking these companies to get their debt and company rated and graded by Rating agencies again. Since corporate frauds are rising rapidly in India, we could see new rules that require companies to be graded and rated on a continuous basis. We see foreign rating

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agencies giving upgrades and downgrades for Indian companies frequently. This could result in business opening up for the sector as a whole and regular rating of Indian corporates may become a norm.

India as a country has always disliked the way global rating agencies grade and rate India. CARE is an alternative to global rating agencies like S&P, Moodys, Fitch etc. CARE has already opened operations in Maldives in 2012. We could see CARE getting into countries who perceive these Western rating agencies as threat. Even in India, most of the companies go for rating by two agencies. So, if one is being done by S&P or Moodys, the other one has to be CARE. So that also opens up opportunities.

Since the major shareholders of CARE are leading banks and financial institutions of India, there are chances that their borrowers go for rating from CARE.

There is a huge difference between the sales of CRISIL and CARE. ICRA and CARE are almost at the same levels. CRISIL is making an open offer to existing shareholders for acquiring about 22.63% of the shareholding and could get delisted. The only listed players then would be ICRA and CARE. We feel that CARE could grow at a much faster rate in India.

Risks: Risks are that the company may not grow at a rate that makes the investment at the current price profitable.

Technicals and Comments: The stock is below all its recent moving averages and for technical guys, it is still a wait. The fall in stock and fancy was triggered by somewhat weak December quarter results. However the company is back on track from March quarter. We feel that the company has the capacity to grow consistently in good for bad times. The company is almost debt free, with good return on equity and return on capital employed. The stock is available at a P/E of around 17.5 and pays dividend of Rs 20, which is nearly 3% dividend yield. The stock could be accumulated in a broad range of 600-700 by long term investors in small quantities. Equity is low, floating stock is also low and hence even in bad markets, any major downside is not expected from the current levels. We feel that the company on a long term basis has the capacity to go up at the rate of 15-20% on an annual basis in terms of price.

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