

CarTrade Tech Ltd

05 August 2021

CarTrade Tech Ltd IPO Analyst Meet Takeaways

CarTrade Tech, an online automotive portal and the only profitable player in this space, is the first-of-its-kind company to list on the Indian exchanges. Both of CarTrade's platforms - CarWale and BikeWale – are ranked number one on relative online search popularity. Favorable tailwinds in terms of rising digitalization, rising share of used cars to new cars, rising digital ad spends by OEMs & dealers and large TAM, combined with a reputed brand name augur well for CarTrade to deliver sustainable growth and profitability. Even though we are positive on the company's future growth prospects given the large addressable market, we take cognizance of the cyclicity element involved in the business. At the upper end of the IPO price band of Rs1,618/share, the company is being valued at ~Rs74bn i.e. at ~73x FY21 EPS (trailing 12 months) and ~30x EV/Sales (trailing 12 months).

Large total addressable market (TAM): CarTrade is a multi-channel automobile platform with coverage and presence across vehicle types and value-added services. The company is currently focusing on facilitating buy/sell/auction of used/new vehicles, advertisement & lead generation for new/used vehicles and provides software services, which will likely drive growth in the near to medium term. However, over the longer term, building the entire digital automotive ecosystem provides a huge opportunity for CarTrade by way of franchising and providing value-added services (like financing, insurance, car servicing etc). In FY20, the TAM for online automotive portals in India was ~US\$14.3bn.

Structural long-term growth drivers: The key growth drivers for online auto classified companies are rising internet penetration, low share of used cars to new cars vis-à-vis developed countries, rising share of digital ad spends by OEMs & dealers in India, low finance penetration for used cars, inefficiencies & challenges faced by dealers of used cars operating via offline channels and rising preference for online channels in the car purchase decision journey.

Strong brand recognition and leadership position: CarTrade's platforms - CarWale, CarTrade and BikeWale - collectively had an average of 27.11mn unique visitors per month for 1QFY22, with 88.14% being organic visitors, indicating its strong brand equity. Both CarWale and BikeWale enjoy leadership positions in their relative online search popularity when compared to their key competitors.

Room for strong operating leverage: CarTrade is a profitable company. Employee, Marketing & other fixed expenses form a major portion of its costs, thus providing a large operating leverage opportunity. Strong growth prospects and a large addressable market provide an opportunity to scale up. Also pace of marketing spends will likely be lower going forward, (since large share of visitors' traffic is organic). The company is debt free and has a history of generating positive FCFs.

Valuation: At the upper price end of the IPO price band of Rs1,618/share, the company is being valued at Rs74bn i.e. at ~73x FY21 EPS (trailing 12 months) and ~30x EV/Sales (trailing 12 months). The issue size is Rs18.5bn, which is entirely an offer for sale (OFS).

Y/E March (Rsmn)	FY19	FY20	FY21
Net Sales	2,433	2,983	2,497
% Growth	96.9	22.6	(16.3)
EBITDA	295	396	394
EBITDA margin (%)	12.1	13.3	15.8
Adj PAT	259	313	1,011
% Growth	(476.5)	20.7	223.0
EPS (Rs)	5.7	6.8	22.1
EPS growth (%)	(476.5)	20.7	223.0
P/E (x)	286.1	237.0	73.4
EV/Sales (x)	30.4	24.8	29.6
EV/EBITDA (x)	250.6	250.6	250.6
P/BV	5.8	5.6	4.2
RoCE (%)	2.9	3.1	2.8
RoE (%)	2.0	2.3	5.7

Source: DRHP, Company, Nirmal Bang Institutional Equities

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NOT RATED

Sector: Online Auto Classified

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Issue Details:

Sector: Online Auto Classified

Price Band: Rs1,585-Rs1,618

Issue Size (Rsbm): 29.4-30

No of shares (OFS): 18.53mn

Face Value: Rs10

Pre & post offer no of shares: 45.83mn

Post-Issue implied Mkt Cap:Rs72 -74 bn

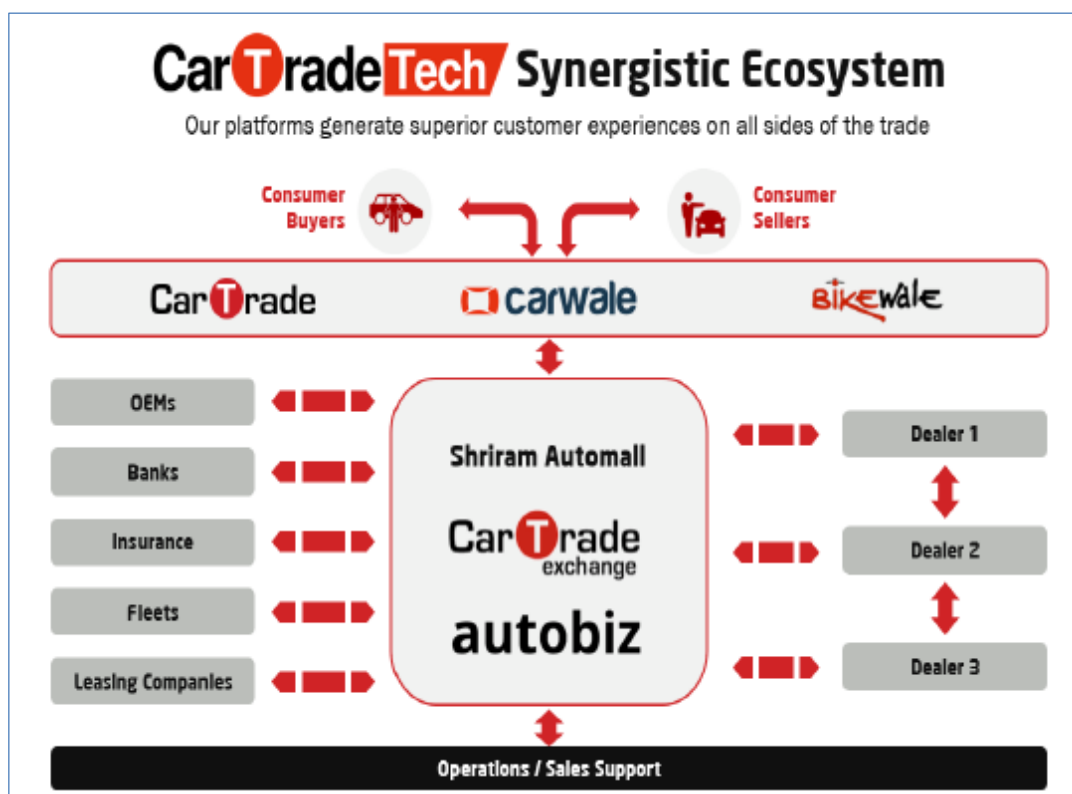
Business overview:

CarTrade is a multi-channel auto platform with presence across vehicle types and value-added services. Its platforms operate under several brands: **CarWale**, **CarTrade**, **Shriram Automall**, **BikeWale**, **CarTrade Exchange**, **Adroit Auto** and **AutoBiz**, through which they offer a variety of solutions across the automotive transaction value chain for marketing, buying, selling and financing of new and pre-owned vehicles in a simple & efficient manner. The company's vision is to create an automotive digital ecosystem, which connects automobile customers, OEMs, dealers, banks, insurance companies and other stakeholders.

Summary of its offerings are as follows:

- **CarWale** and **CarTrade** platforms facilitates car shoppers to research and connect with dealers, OEMs and other customers to sell & buy cars from the large variety of new and used cars offered by them. It also facilitates financiers and ancillary companies to offer their products & services on CarWale and CarTrade.
- **BikeWale** platform facilitates customers looking for new and used two-wheelers to research and connect with dealers, OEMs and other customers for selling and buying two-wheelers.
- **Shriram Automall** facilitates sales of pre-owned cars, two-wheelers, commercial vehicles, three-wheelers and farm & construction equipment.
- **CarTrade Exchange** is an online auction platform and a used vehicle enterprise resource planning (ERP) tool. It is used by consumers, business sellers, dealers and fleet owners to sell vehicles to automotive dealers and fleet owners. Automotive dealers also use CarTrade Exchange to manage their processes for procurement, inventory management and customer relationship management.
- **Adroit Auto** offers vehicle inspection and valuation services used by insurance companies, banks and other financial institutions.
- **AutoBiz** provides new car dealers a CRM solution to manage their customers in an efficient manner.

A snapshot of the ecosystem and network effects created by their key offerings:



Revenue Model:

Revenue lines for online automotive portals are as follows:

- Transactions: Take rate/commissions on transactions and auctions/trade-ins
- Media: Listing subscriptions and ad revenues from OEMs, dealerships and other advertisers
- Software services: Marketplace and software solutions for OEMs, dealerships and banks
- Others/Value-added services: Auto finance, auto insurance, accessories, servicing and inspections.

CarTrade generates revenue from several business streams, primarily comprising the following:

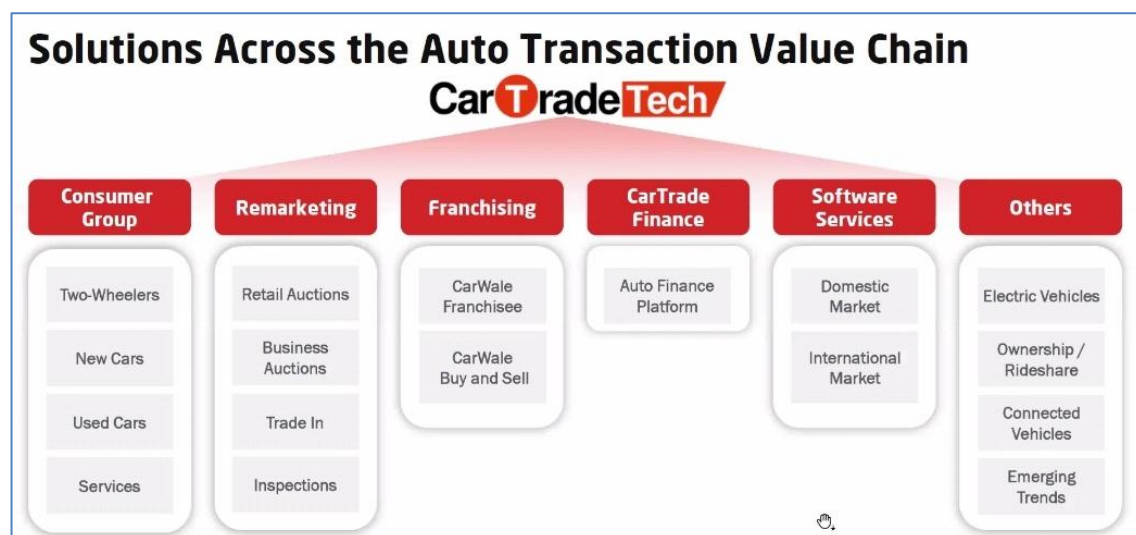
- **Commission & Fees** from auction and re-marketing services of used vehicles for retail customers, banks & other financial institutions, insurance companies, OEMs, leasing companies and fleet & individual operators (**~57% of consolidated revenue in FY21**).
- **Online advertising solutions** on CarWale, CarTrade and BikeWale for OEMs, dealers and banks & other financial institutions.
- **Lead generation** for OEMs, dealers, banks & other financial institutions and insurance companies.
- **Technology-based services** to OEMs, dealers, banks & other financial institutions and insurance companies.

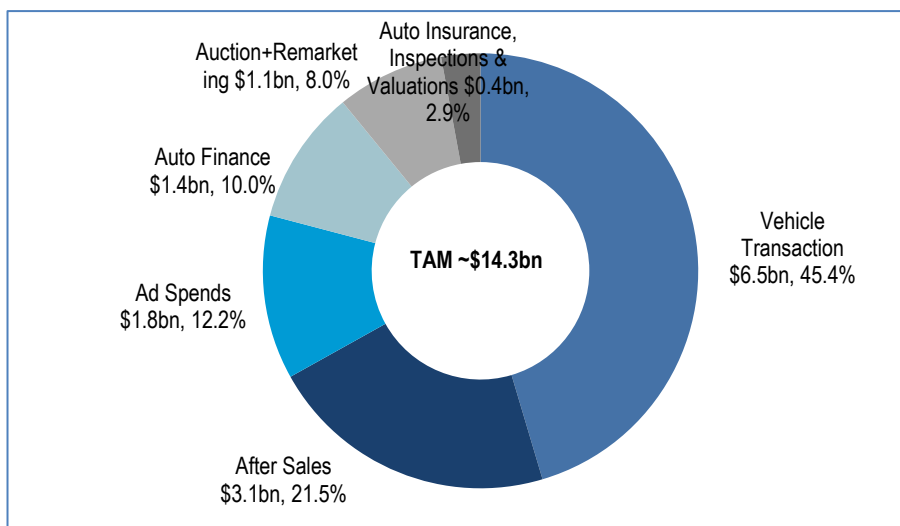
(Online advertising, lead generation and technology-based services together formed **~35% of consolidated revenue in FY21**).

- **Inspection and valuation services** for banks & other financial institutions, insurance companies and OEMs (**~7% of consolidated revenue in FY21**).

Large total addressable market (TAM):

CarTrade is a multi-channel auto platform with coverage and presence across vehicle types and value-added services. The company is currently focusing on facilitating buy/sell/auction of used/new vehicles, advertisement & lead generation for new/used vehicles and providing software services, which will likely to drive growth in the near to medium term. However, over the longer term, building the entire digital automotive ecosystem provides a huge addressable opportunity for CarTrade by way of franchising and providing value-added services (like financing, insurance, car servicing etc). In FY20, the TAM, or the revenue pool for the online automotive portals in India was ~US\$14.3bn.





Growth Drivers:

- **Internet and smartphone penetration** in India has nearly doubled from 2015 to 2020 (~49% in 2020), and is expected to increase further in the future. This will drive **growth of India's consumer internet market** from ~US\$90bn+ in FY21 to >US\$300bn+ by FY25 (source: RHP, RedSeer analysis).
- After a significant downturn in the **automobile sector** in the last two years, the automotive sector is **expected to witness a sharp recovery** in the next few years. Rise in the share of middle class & young population and low penetration will likely drive growth in passenger cars.
- The **used car market** in India is **relatively small**. The **ratio of used cars to new cars sold in India is ~1.5x** while in the developed economies it is ~2-3. Trends such as **decreasing replacement cycles and increasing preference for used cars by first-time buyers** are expected to fuel growth of the used car market in India. The used car market in India is expected to grow at a CAGR of ~11% in the next five years, from its current size of ~4.4mn cars in FY20 to ~8.3mn cars in FY26.
- Despite several opportunities in used car sales, ~50% **dealers face challenges** in conversion of leads, unavailability of full vehicle range and low volume of leads. The economics of dealerships depend largely on sales volume, gross margin and customer acquisition efficiency. Customers on the online portals are in-market customers and therefore of great value to the dealers.
- **Changing consumer preferences:** As highlighted in Auto Gear Shift India 2020, **over 90% of vehicle buyers use online channels throughout their purchase decision journey**, including for discovery, research, price comparison and value-added services. Automotive portals are well positioned across these information sources to meet buyers' need for information.
- In FY20, Indian **OEMs** spent US\$170mn on **digital advertising** or ~14% of their total advertising budget of US\$1.2bn, which is **significantly lower than the global average of 42% for OEMs**. The relatively low share of digital advertising in the total advertising spend of Indian OEMs vis-à-vis global OEMs indicates a large headroom for growth.
- **Used car dealers** in India **spent ~US\$10mn on online channels** in 2020, comprising **6-8% of their marketing spend** vis-à-vis >25-90% digital marketing spends by dealers in the developed markets, indicating a large headroom for growth in India. In addition, the number of used car dealers in India subscribing to paid services on online automotive portals is expected to increase from ~4,000 dealers in FY20 to ~8,000-11,000 dealers in FY25 (source: RHP, RedSeer analysis).
- **Auto finance, in the pre-owned vehicles market**, is highly **under-penetrated**. In FY20, ~7% of the used cars were purchased with auto finance compared to ~75% for new cars. Thus, there is significant headroom for financing penetration in both new as well as used cars.

Operational metrics:

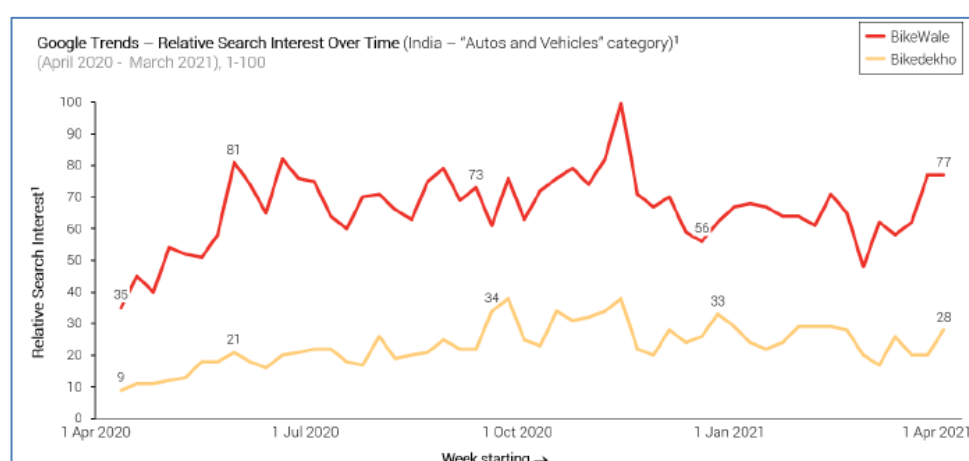
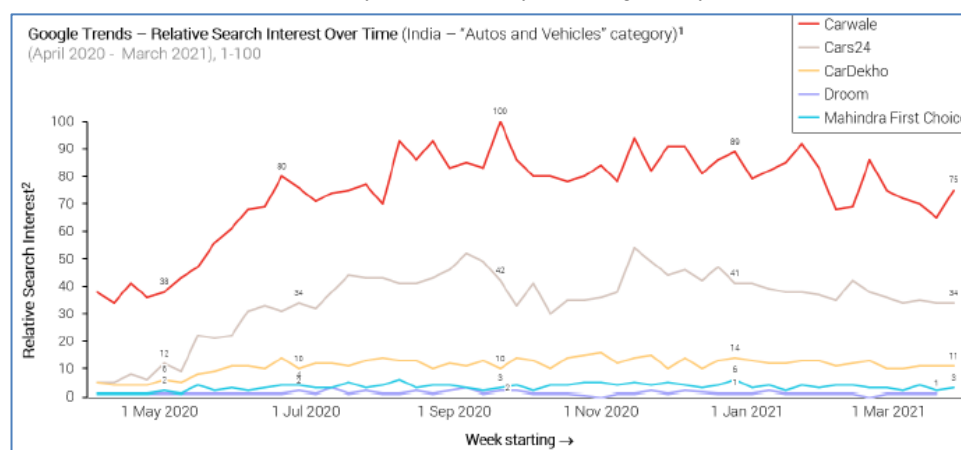
The key operational metrics for their businesses are:

Particulars	As of and for the		
	FY19	FY20	FY21
Average Monthly Unique Visitors, including on apps (in mn)	19.27	20.51	25.66
Average Monthly Unique Organic Visitors (in mn)	13.04	14.54	23.42
% of Organic Unique Visitors	64.7%	66.7%	88.4%
Number of Vehicles Listed for Auction	709,190	809,428	814,316
Number of Vehicles Sold by Auctions	199,529	197,986	156,689

Particulars	As of and for the				
	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Average Monthly Unique Visitors, including on apps (in mn)	15.35	25.32	29.96	31.99	27.11
Average Monthly Unique Organic Visitors (in mn)	14.14	22.99	27.28	29.26	24.85
% of Organic Unique Visitors	93.9%	88.9%	87.0%	87.0%	88.1%
Number of Vehicles Listed for Auction	168,913	173,809	213,090	258,504	212,552
Number of Vehicles Sold by Auctions	17,194	31,131	45,370	62,994	30,133

Competitive positioning:

CarWale and BikeWale, both platforms owned by CarTrade Tech, ranked number one on relative online search popularity when compared to their key competitors over the period from April 2020 to March 2021. Further, CarTrade Tech is the only profitable player among its key competitors in FY20.



Key risks

- The prospects for CarTrade are directly linked to the fate of the automobile industry and thus any trends that affect demand for cars might have an adverse impact on the company. The company is thus prone to cyclicalities.
- Shift in trend towards ride hailing services, public transportation and shared mobility services may continue or even intensify post-Covid, which can affect demand for new as well as used cars.

About CarTrade Tech:

CarTrade operates as a platform for business-to-business (B2B) and business-to-consumer (B2C) operations. The service is divided into two sets: (1) CarTrade.com, the B2C portal, where users can buy and sell new and used cars and (2) CarTradeExchange.com, the B2B dealer portal, which allows dealers to manage their online auctions and sales.

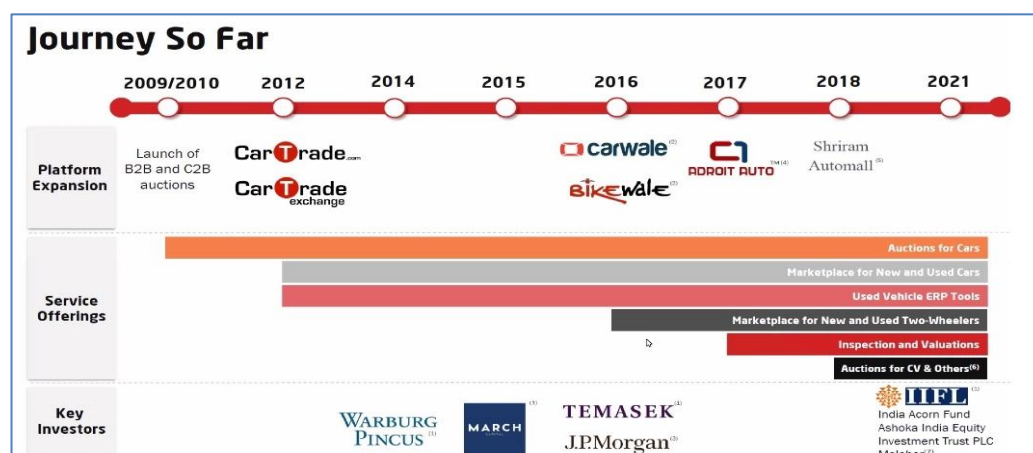
Along with car listings, the portal also offers car price related information, certification, insurance, used car finance, comparisons, on-road prices and reviews. The used car certification program is jointly conducted by CarTrade engineers & sellers, who inspect the initial condition of cars at different levels and generate a detailed condition report as part of the online listing. CarTrade also provides similar services for bikes (new and used) on its BikeWale portal.

Brands: CarTrade, CarWale, BikeWale, CarTrade Exchange, Shriram Automall, Adroit Auto and AutoBiz.

Management team

Particulars	Description
Vinay Sanghi, Chairman & MD	He has previously been associated with Mahindra First Choice Wheels Limited and Project Automobiles (Bombay) Pvt Ltd. He has over 30 years of experience in the automobile industry.
Aneesha Menon, ED & CFO	She was previously employed with S. R. Batliboi & Co. LLP and has 13 years of experience in the field of finance. She joined Automotive Exchange Pvt Ltd (an erstwhile subsidiary, which was subsequently amalgamated with the company) as AVP - Finance on December 8, 2015.
Banwari Lal Sharma, CEO - Consumer Business	He joined Automotive Exchange Pvt Ltd (an erstwhile subsidiary, which was subsequently amalgamated with the company) in 2004 and has 17 years of experience in software engineering.
Sameer Malhotra, CEO - SAMIL	He holds this position since November 16, 2010. He has over 31 years of experience in the sales industry.
Akshay Shankar, Chief Product Officer	He has 14 years of experience in product management. He was one of the first directors of Nassau IT Services Pvt Ltd, the erstwhile owner of the CarTradeIndia.com portal, in 2007.
Vikram Alva, Chief Strategy Officer	He has 24 years of experience in building businesses, product management and marketing.

History



Financials

Exhibit 1: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21
Net Sales	2,433	2,983	2,497
% Growth	96.9	22.6	(16.3)
Raw material	0	171	13
Staff costs	1,276	1,331	1,301
Other expenses	862	1,084	790
Total expenses	2,138	2,587	2,103
EBITDA	295	396	394
% Growth	(244.0)	34.3	(0.7)
EBITDA margin (%)	12.1	13.3	15.8
Other income	235	202	318
Interest costs	24	35	43
Depreciation	152	174	199
Profit before tax (before exceptional items)	354	389	470
Tax	95	76	(541)
Adj PAT	259	313	1,011
% Growth	(477)	20.7	223.0
Adj PAT margin (%)	10.7	10.5	40.5
EPS (Rs)	5.7	6.8	22.1
% Growth	(477)	20.7	223.0
DPS (Rs)	-	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21
Equity share capital	34	34	36
Instruments in the nature of equity	349	349	388
Reserves & Surplus	11,931	12,239	16,382
Net worth	12,314	12,622	16,806
Minority Interest	557	703	818
Total debt	-	-	-
Lease liabilities	217	346	464
Deferred Tax Liability (net)	96	79	63
Other non-current liab. & prov.	37	43	47
Total Liabilities	13,221	13,793	18,198
Gross block	1,040	1,239	1,492
Depreciation	291	376	501
Net block	749	863	991
Capital work-in-progress	-	2	5
Goodwill	8,977	8,980	8,980
Intangibles incl under development	377	313	254
Other non-current assets	198	184	1,027
Investments	2,871	2,947	6,455
Inventories	9	0	16
Debtors	360	467	473
Cash & Bank balance	216	216	245
Loans & advances & Other current assets	513	732	857
Total current assets	1,099	1,415	1,590
Creditors	181	196	222
Other current liabilities & provisions	869	716	882
Total current liabilities	1,050	911	1,104
Net current assets	50	504	486
Application of funds	13,221	13,793	18,198

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cash Flow Statement

Y/E March (Rsmn)	FY19	FY20	FY21
OP/(loss) before tax	354	389	470
Depreciation & amortization	152	174	199
Other non cash items	(59)	3	(164)
Direct taxes paid	(170)	(92)	(103)
(Inc.)/dec. in working capital	75	(303)	(50)
Cash flow from operations (after E/O)	352	172	352
(Inc.)/ Dec. in Fixed Assets	(24)	(48)	(54)
Free cash flow	328	124	298
(Inc.)/ Dec. in Investments/ Loans & advances	(178)	(52)	(3,424)
Interest income	22	18	71
Cash Flow from Investing	(180)	(82)	(3,408)
Issue of equity shares	-	-	3,217
Inc./(dec.) in total borrowings	-	-	-
Lease liabilities	(55)	(76)	(93)
Interest on lease liabilities	(24)	(35)	(43)
Cash from financial activities	(78)	(111)	3,081
Opening cash balance	122	216	195
Closing cash balance	216	195	220
Change in cash balance	93	(21)	25

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

Y/E March	FY19	FY20	FY21
Per share (Rs)			
EPS	5.7	6.8	22.1
EPS Growth (%)	(477)	20.7	223
Book value per share	268.7	275.4	366.7
DPS	-	-	-
Valuation (x) (at upper end of IPO price)			
P/E	286.1	237.0	73.4
EV/EBITDA	250.6	250.6	250.6
EV/Sales	30.4	24.8	29.6
P/BV	5.8	5.6	4.2
Return ratios (%)			
RoCE	2.9	3.1	2.8
RoE	2.0	2.3	5.7
RoIC	2.7	2.9	2.6
% of net sales			
Employee costs	52.5	44.6	52.1
Other expenses	35.4	36.4	31.6
EBITDA	12.1	13.3	15.8
PAT	10.7	10.5	40.5
Solvency Ratios			
Current ratio	1.0	1.6	1.4
Quick ratio	0.2	0.2	0.2
D/E ratio	-	-	-
Interest coverage ratio	11.6	9.8	25.7

Source: Company, Nirmal Bang Institutional Equities Research

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