

CarTrade Tech Ltd.

Recommendation	SUBSCRIBE
Price Band	Rs. 1585 – Rs. 1618
Bidding Date	9 – 11 August
BRLM	Axis, Citi, Kotak, Nomura
Registrar	Link Intime
Sector	Cap. Goods: Clean Energy

Minimum Retail Application	
Number of Shares	9
Min. Application Money	Rs. 14,562
Discount to retail	N.A
Payment Mode	ASBA
Financials (Rs Cr)	FY20
Total Income	298
EBITDA	40
Adjusted PAT	31

Valuations	Upper Band
Market Cap (Rs Cr)	7,416
Adjusted EPS*	7.7
P/E Ratio	211
EV/ EBITDA	171
Enterprise Value (Rs Cr)	6,748
*Adjusted for one off tax writeback	

Post Issue Shareholding Pattern	
Promoters	0.0%
Public	100.0%

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional Investors	15%
Retail	35%
Post Issue Equity (Rs. in Cr)	45.83
Issue Size (Rs in Cr)	2,999
Face Value (Rs)	10

Jehan Bhadha (+91 22 6273 8174)
 Sr. Research Analyst
 jehankersi.bhadha@nirmalbang.com

Mahima Mehta (+91 22 6273 8186)
 Research Analyst
 mahima.mehta@nirmalbang.com

BACKGROUND

CT (Cartrade Tech) is a multi-channel auto platform with coverage and 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 these platforms, CT enables new and used automobile customers, vehicle dealerships, vehicle OEMs and other businesses to buy and sell their vehicles in a simple and efficient manner. CT's vision is to create an automotive digital ecosystem which connects automobile customers, OEMs, dealers, banks, insurance companies and other stakeholders.

Details and Objects of the Issue

- The total issue size is Rs. 2,999 Cr constituting offer for sale of up to 1.85 Cr equity shares by investors. The offer shall constitute 40.4% of the post-offer paid-up equity capital of the company.

Investment Rationale

- Strong growth in used vehicles industry to act as a tailwind.
- Strong competitive positioning driven by superior customer experience, brand and powerful network effect.
- CT is the only profitable player among its key competitors.
- CT shall monetize value added services and untapped opportunities.

Valuation and Recommendation

CT is the only profitable player in India and one of the few players internationally in the vehicle platform space. CT owns the No.1 ranked platforms in their respective categories i.e. Carwale & Bikewale, which instills confidence in the sustainability of its growth which is powered by this network effect. Further, with a war-chest of Rs. 668 Cr in balance sheet, CT is well positioned and plans to capture adjacent business opportunities such as insurance, financing, servicing of vehicles, accessories and refurbishment cum sale of cars. We believe CT offers an attractive opportunity to participate in a new age business with a leading vehicle platform company at P/B of 4.2x & M.Cap/Sales of 27x. **We recommend "SUBSCRIBE" to the issue.**

(Rs Cr)

Financial Snapshot	FY19	FY20	FY21
Net Revenues	243	298	250
Growth		23%	-16%
EBITDA	30	40	39
EBITDA Margins	12.1%	13.3%	15.8%
Adjusted PAT	26	31	35
Growth		21%	12%
EPS	5.7	6.8	7.7
ROE	2.0%	2.3%	2.0%
P/B	5.8	5.6	4.2
EV/Sales	28	23	27
EV/EBITDA	229	170	171
P/E	286	237	211

Source: Company data, NBRR

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Company Background

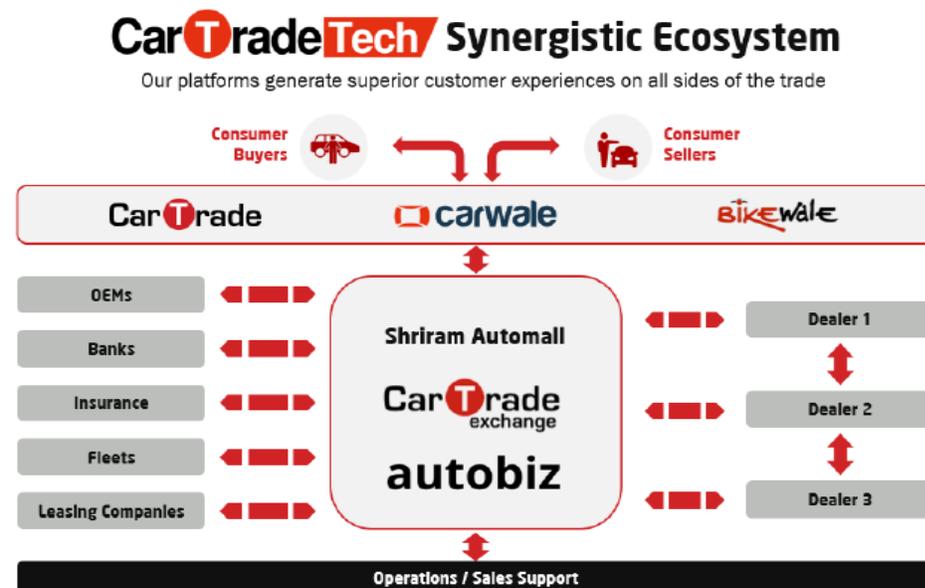
CT (Cartrade Tech) was incorporated in April 2000. It is a multi-channel auto platform with coverage and presence across vehicle types and value-added services. Its platforms operate under several brands: CarWale, CarTrade, Shriram Automall, BikeWale, CarTrade Exchange, Adroit Auto and AutoBiz. Through these platforms, CT enables new and used automobile customers, vehicle dealerships, vehicle OEMs and other businesses to buy and sell their vehicles in a simple and efficient manner. **CT’s vision is to create an automotive digital ecosystem which connects automobile customers, OEMs, dealers, banks, insurance companies and other stakeholders.**

CT’s platforms like CarWale and BikeWale are ranked number one on relative online search popularity when compared to their key competitors during FY21, while Shriram Automall is one of the leading used vehicle auction platforms based on number of vehicles listed for auction for the year FY20. Among CT’s key competitors, CT is the only profitable automotive digital platform for the year FY20.

CT offers a variety of solutions across the automotive transaction value chain for marketing, buying, selling and financing of new and pre-owned cars, two-wheelers as well as pre-owned commercial vehicles and farm and construction equipment.

Revenue streams of CT (FY21) -

- 1) **57% or Rs. 142 Cr revenue was generated from commission and fees from auction and remarketing services of used vehicles** for retail customers, banks and other financial institutions, insurance companies, OEMs, leasing companies, and fleet and individual operators.
- 2) **CT derived 36% or Rs. 88 Cr via (i) online advertising solutions on CarWale, CarTrade and BikeWale; (ii) lead generation; and (iii) technology-based services;** from OEMs, dealers and BFSI companies.
- 3) **Inspection and valuation services for BFSI companies and OEMs formed rest of the 7% of revenue.**



Source: RHP

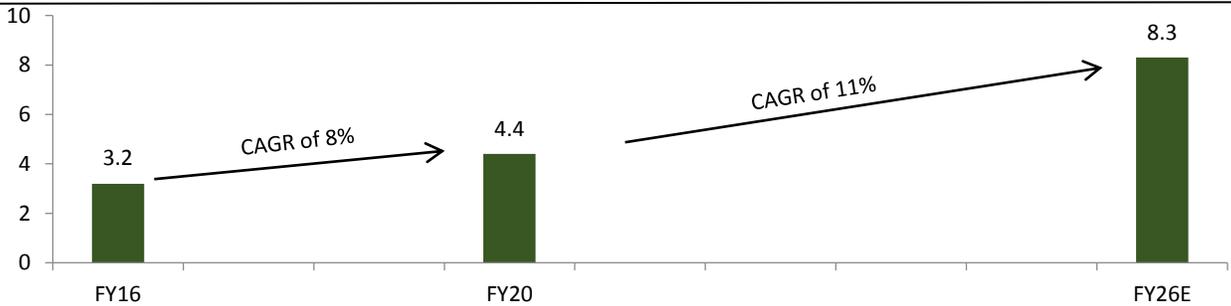
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Investment Rationale

Strong growth in used vehicles industry to act as a tailwind

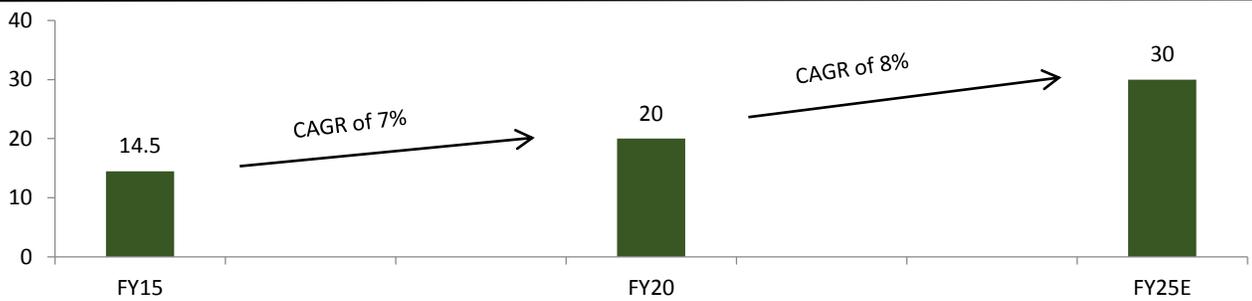
The used car market in India is relatively smaller than those of other developed countries. Decreasing replacement cycle is expected to fuel the growth of the used car market in India. The used car market in India is expected to grow at a CAGR of at least 11% in the next five years, from its current size of approximately 4.4 million cars in FY20 to approximately 8.3 million cars in FY26. Similarly the used bike market is expected to grow at 8% CAGR from 20 mn units in FY20 to 30 mn units in FY25. Used CVs are expected to grow faster at 7% CAGR from 1.1 mn units in FY20 to 1.6 mn units by FY25E. Approximately 90% of dealers are unorganized in cars, bikes and even CVs.

Used Car Market in Mn units



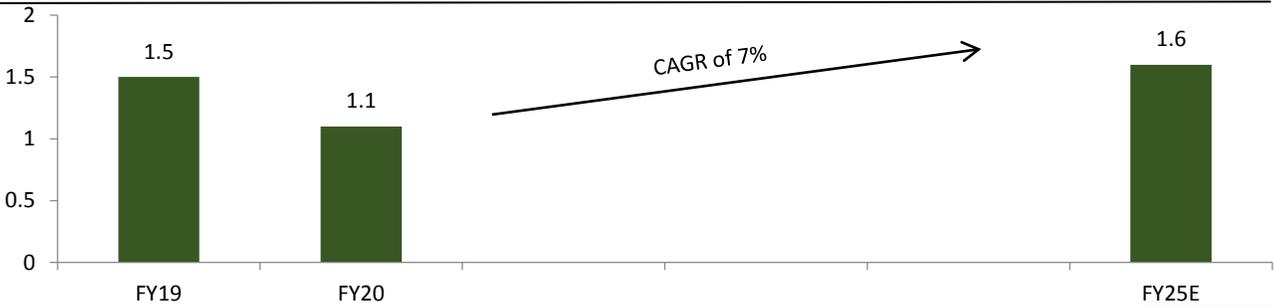
Source: RHP

Used Bike Market in Mn Units



Source: RHP

Used CV Market in Mn Units

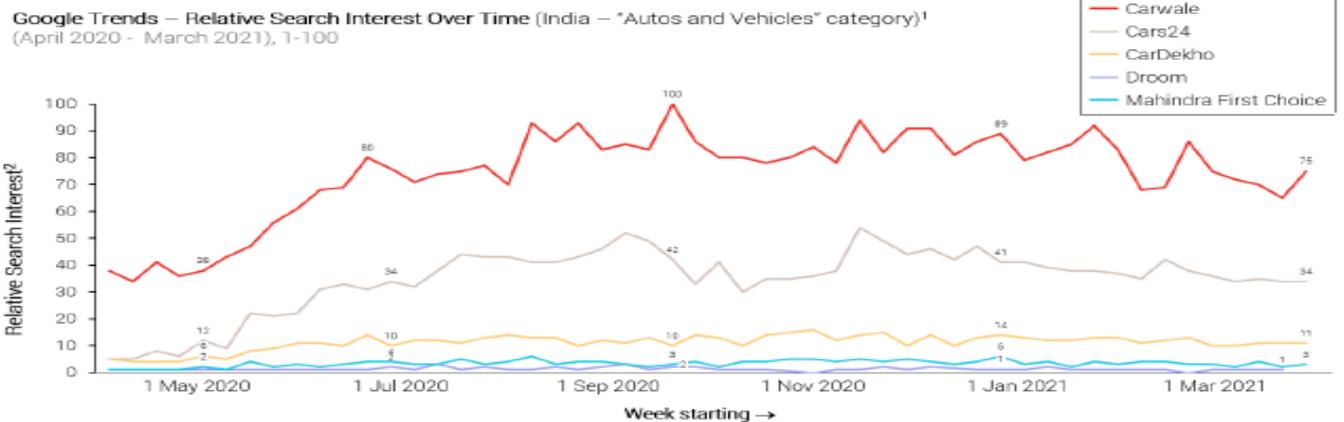


Source: RHP

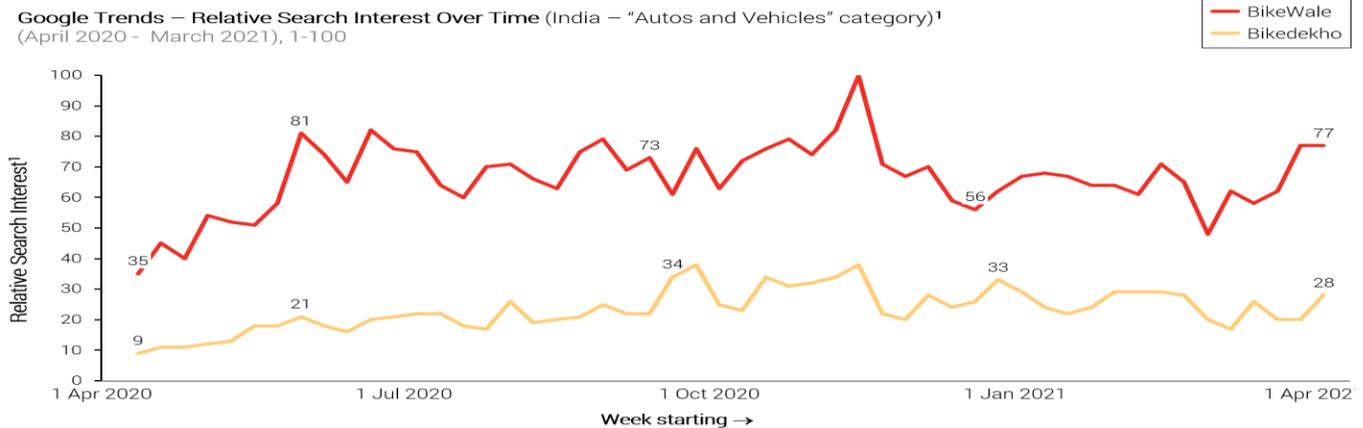
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Strong competitive positioning

CarWale and BikeWale, both platforms owned by CT, ranked number one on relative online search popularity when compared to their key competitors during FY21. This is a key competitive advantage for CarWale and BikeWale.



Source: RHP



..... driven by superior customer experience, brand and powerful network effect

CT’s brands, CarWale, CarTrade, Shriram Automall, BikeWale, CarTrade Exchange, Adroit Auto and AutoBiz, are trusted brands for automotive buyers and sellers, and enjoy a strong brand affinity. The network effects of this brands-based growth are significant and create a positive feedback loop. More listings and more transactions lead to better brand awareness creating network effects which in turn increases the stickiness of automotive dealers, OEMs, financial institutions, fleet owners and other stakeholders to CT’s platforms and creates high entry barriers for new entrants.

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CT is the only profitable player among its key competitors

CT operates on an asset-light business model, operating 114 automalls, a large majority of which it leases or rents from third parties. CT has mainly invested in building technology platforms that can manage considerably increased offerings without requiring sizable additional investments, and its growing scale has resulted in a decrease of the share of fixed costs. Together with its strong brands, longstanding relationships with customers, dealers and other stakeholders, and an expanding suite of offerings, CT is creating a profitable and scalable business model. Its operating expenses have grown at a lower rate than revenues, as it is able to leverage its operations, marketing and technology over an increasing revenue base. This operating leverage has helped drive **growth in EBITDA margins from 12.1% in FY19 to 15.8% in FY21.**

FY20 Financials	Cars24	CarDekho	Mahindra First Choice	Droom	CarTrade Tech
Gross Revenue (incl. other inc.)	3065	755	376	180	318
Less Purchase of stk in trade	2865	307	168	0	16
Changes in inventory	-56	-18	-5	0	1
Revenue adj. for stk in trade	256	465	213	180	301
Ad spends	142	146	15	198	24
% of revenue	55%	31%	7%	110%	8%
Employee costs	217	339	65	42	134
% of revenue	85%	73%	31%	23%	45%
Other expenses	164	265	133	20	108
% of revenue	64%	57%	62%	11%	36%
EBITDA (incl. other inc.)	-267	-284	1	-80	59
Margin	-104%	-61%	0%	-45%	20%
PAT	-285	-327	-7	-83	29
Margin	-111%	-70%	-3%	-46%	10%

Source: RHP

Monetize value added services and untapped opportunities

CT's traffic on its platforms like CarWale, CarTrade and BikeWale, as well as its dealer base and ecosystem approach of connecting OEMs, banks and other stakeholders, provides it with an **opportunity to grow other business lines with relatively low entry and customer acquisition costs** which shall enable it to create an end-to-end marketplace that would provide a comprehensive set of offerings for automotive customers. CT intends to increase monetization opportunities by introducing complementary, value-added products and services to improve the experience of buying, selling and owning vehicles. For example, CT provides vehicle buyers with dynamic, personalized and real-time **financing offers** from multiple financing providers digitally through its finance platforms. CT has engaged with a select group of used car dealers, who form its CarWale franchisee network. In some cases, **CT buys and sells quality cars to such used car dealers, who then refurbish the used cars to CT's standards before selling to customers. To help its dealers sell the cars, CT promotes these used cars on its platforms, thereby allowing it to provide, through the CarWale franchisee network, a curated online-offline buying experience** where customers can confidently buy used cars. CT also plans to provide **vehicle servicing, automobile accessories and automobile insurance** by engaging with product and service providers who will provide these to consumers on its websites. Subject to regulatory approvals, CT is **considering diversifying into the business of financing** the purchase of vehicles on its platforms.

Concerns

Decline in individual car ownership or sudden declines in demand for certain types of vehicles due to changes in technology

Demand for cars sold through the platform may be adversely affected if demand for certain types of used cars suddenly decline due to the introduction of innovative technologies for new cars, such as autonomous driving systems. Likewise, actions by manufacturers or dealers may have a significant impact on demand for vehicles if they decide to offer greater incentives for the sale of new vehicles which may in turn decline sales of used vehicles through the platform.

Increased competitive intensity

With India gaining prominence as a startup opportunity globally, many companies have entered the vehicle platform business since 2014 including the bigger competitors like Cars 24 and Droom who, just like CT are backed by multiple marquee global investing firms. An increase in aggression by competition fueled by large amounts of global appetite to participate in this industry in India, could impact the positioning of CT and its profitability.

Disruptions, failures or breaches of the technology platforms

Sale and purchase of vehicles through the websites and apps is the core business of the company. Dependence on the efficiency and uninterrupted operation of their platform, including proprietary pricing algorithms is very high. A disruption or failure of technology platforms due to software or hardware malfunctions, system implementations or upgrades, computer viruses, third-party security breaches, employee error, misuse, power disruptions or other causes could lead to extended interruptions of operations.

Changes in laws and legal uncertainties

The company's business is governed by various laws and regulations including the IT Act and the New Telecom Policy. Unfavourable changes in or interpretations of existing, or the promulgation of new, laws, rules and regulations including foreign investment laws could result in the company being deemed to be in contravention of such laws and may require additional approvals. The company will incur increased costs to comply with such new requirements, which may also require significant management time and other resources, and any failure to comply may adversely affect the business.

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Valuation and Recommendation

As there are no listed vehicle focused platform companies, we compare CT with unlisted Indian companies like Cars 24, CarDekho and Droom and with International companies as well.

In the latest round of funding, Cars 24 is raising USD 250 Mn which shall value the company in the region of USD 1.6-2 Bn (46x EV/Sales), as per Bloomberg reports. This is against the valuation of USD 1 Bn which the company commanded during fund raising in Nov 2020 (EV/Sales of 29x). Also, Droom is raising USD 200 Mn in pre IPO round currently which will be valuing the company at USD 1.2 Bn (EV/Sales of almost 50x). It is planning for an IPO in 2022.

Comparison of unlisted Indian vehicle focused platforms

	Cars24	Cars24**	CarDekho	Droom	CarTrade Tech
Sales adj. for stk in trade (FY20)	256	256	465	180	301
EBITDA (incl. other inc)	-267	-267	-284	-80	59
Margin	-104%	-104%	-61%	-45%	20%
PAT	-285	-285	-327	-83	29
Valuation Date	Nov-20	Aug-21	2019	Aug-21	Aug-21
Valuation (USD Bn)	1.0	1.6	0.725	1.2	1.0
Valuation (Rs Cr)	7400	11840	5365	8880	7416
EV/Sales	28.9	46.3	11.5	49.5	24.6

** Latest round of funding talks are ongoing

Source: NBRR, Media reports

We observe that not only in India but also in the US, most vehicle focused platform companies are loss making. CT is the only profitable player in India and one of the few players internationally. Higher growth in the automotive industry in India compared to the US, over the coming decade also augurs well in favor of CT to command premium valuations. CT owns the No.1 ranked platforms in the respective categories i.e. Carwale & Bikewale, which instills confidence in the sustainability of its growth which is powered by this network effect. Further, with a war-chest of Rs. 668 Cr in balance sheet, CT is well positioned and plans to capture adjacent business opportunities such as insurance, financing, servicing of vehicles, accessories and refurbishment cum sale of cars. We believe CT offers an attractive opportunity to participate in a new age business with a leading vehicle platform company at P/B of 4.2x & M.Cap/Sales of 27x. **We recommend "SUBSCRIBE" to the issue.**

Comparison of global vehicle focused platforms

CY20/FY21 Figures in USD Mn	Vroom	Carvana	LMP Automotive	ACV Auctions	CarTrade Tech
Country	US	US	US	US	India
Revenue	1,360	5,590	30	208	250
3 Year CAGR	26%	87%	101%	95%	26%
EBITDA Margin	-13.9%	-4.6%	-10.4%	-15.7%	15.8%
ROE	-62%	-71%	-42%	-5%	2%
EV/Sales	3.3	5.2	10.4	14.0	27.0
EV/EBITDA	NA	NA	NA	NA	171
P/B	4.3	42.6	7.9	6.0	4.2
P/E	NA	NA	NA	NA	211

Source: NBRR

* CarTrade Tech numbers are in Rs Cr

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Financials

P&L (Rs. Cr)	FY19	FY20	FY21
Net Revenue	243	298	250
% Growth		23%	-16%
Raw Materials	0	17	1
% of Revenues	0%	6%	1%
Employee Cost	128	133	130
% of Revenues	52.5%	44.6%	52.1%
Other expenses	86	108	79
% of Revenues	35%	36%	32%
EBITDA	30	40	39
EBITDA Margin	12.1%	13.3%	15.8%
Depreciation	15	17	20
Other Income	24	20	32
Interest	2	3	4
PBT	35	39	47
Tax	10	8	(54)
Tax rate	27%	20%	-115%
Adjusted PAT	26	31	35
% Growth		21%	12%
EPS (Post Issue)	5.7	6.8	7.7

Ratios & Others	FY19	FY20	FY21
EBITDA Margin (%)	12.1%	13.3%	15.8%
PAT Margin (%)	10.7%	10.5%	14.1%
ROE (%)	2.0%	2.3%	2.0%
ROCE (%)	2.9%	3.2%	2.9%

Turnover Ratios	FY19	FY20	FY21
Debtors Days	54	55	69
Inventory Days	1	0	2
Creditor Days	27	24	33
Asset Turnover (x)	0.2	0.2	0.1

Valuation Ratios	FY19	FY20	FY21
Price/Earnings (x)	286	237	211
EV/EBITDA (x)	229	170	171
EV/Sales (x)	28	23	27
Price/BV (x)	5.8	5.6	4.2

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY19	FY20	FY21
Share Capital	38	38	42
Non controlling interest	56	70	82
Reserve & Surplus	1,193	1,224	1,638
Networth	1,287	1,333	1,762
Other non-curr liab.	35	47	57
Trade payable	18	20	22
Other Current Liab	12	11	18
Total Current Liab.	75	60	70
Total Equity & Liab.	1,427	1,470	1,930
Fixed Assets & CWIP	1,010	1,016	1,023
Loans	26	38	49
Investments	287	295	645
Deff Tax Assets & Income	13	13	76
Inventories	1	0	2
Other non Curr. assets	8	7	27
Cash & Bank	22	20	23
Debtors	36	45	47
Other Current assets	25	38	38
Total Assets	1,427	1,470	1,930

Cash Flow (Rs. Cr)	FY19	FY20	FY21
EBITDA	30	40	39
Provisions & Others	15	17	11
Op. profit before WC	45	57	51
Change in WC	7	(30)	(5)
Less: Tax	(17)	(9)	(10)
CF from operations	35	17	35
Addition to assets	1	(17)	(16)
(Purchase)/Sale of invst.	(21)	7	(331)
Interest Received	2	2	7
CF from Investing	(18)	(8)	(340)
Proceeds	-	-	322
Principal of Lease Liabilitie:	(2)	(3)	(4)
Interest Paid	(5)	(8)	(9)
CF from Financing	(8)	(11)	308
Net Change in cash	9	(2)	3
Cash at beginning	12	22	20
Cash at end	22	20	23



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Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)

B-2, 301/302, Marathon Innova,
Opp. Peninsula Corporate Park,
Off Ganpatrao Kadam Marg,
Lower Parel (W), Mumbai-400013
Board No. : 91 22 3926 8000/8001
Fax. : 022 3926 8010