Popular Vehicles & Services Limited
IPO Note
Date: 11.03.2024

Popular Vehicles provides complete services throughout the life cycle of vehicle ownership, including sales of new and pre-owned vehicles, servicing, spare parts distribution, driving schools, and third-party financial and insurance product sales. The company's top line increased at a CAGR of 19% from FY 21. For FY23, the EBITA and PAT margins are to be 4.80% and 1.31%, respectively. For FY23, ROE and ROCE are 18.68% and 18.32%, respectively. The company's P/E is valued at 28.86x for FY23. We recommend to subscribe for listing gains.

Issue details

Issue details	
Price Band (in ₹ per share)	280-295
Issue size (in ₹ Crore)	583.68-601.55
Fresh Issue (in ₹ Crore)	250.00
OFS (in ₹ Crore)	333.68-351.55
Issue open date	12-03-2024
Issue close date	14-03-2024
Tentative date of Allotment	15-03-2024
Tentative date of Listing	19-03-2024
Total number of shares (lakhs)	208.50-203.95
No. of shares for QIBs (50%) (lakhs)	104.05-101.79
No. of shares for NII (35%) (lakhs)	72.83-71.25
No. of shares for S-HNI (1/3rd)	24.04-23.51
No. of shares for B-HNI (2/3rd)	48.80-47.74
No. of shares for retail investors (15%) (lakhs)	31.21-30.54
Minimum order quantity	50
Face value (in ₹)	2
Amount for retail investors (1 lot)	14000-14750
Maximum number of shares for Retail investors at lower Band	700(14 Lots)
Maximum number of shares for Retail investors at upper band	650(13Lots)
Maximum amount for retail investors at lower Band- upper band	191750-196000
Minimum number of shares for sHNI (2 Lakhs) at upper band	700 (14 lots)
Maximum number of shares for sHNI (10 Lakhs) at upper band	3350(67 lots)
Minimum number of shares for bHNI at upper band	3400 (68 lots)
Employee Reservation(in lakhs)	0.40-0.37
Exchanges to be listed on	BSE, NSE

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About Company

Popular Vehicles & Services Limited are a diversified automobile dealership in India in terms of revenue as of Fiscal 2023, (Source: CRISIL Report) having a fully integrated business model. They cater to the complete life cycle of vehicle ownership, right from the sale of new vehicles, servicing and repairing vehicles, distributing spare parts and accessories, to facilitating sale and exchange of pre-owned vehicles, operating driving schools and facilitating the sale of third-party financial and insurance products. They categorise their automobile dealership business into three key segments, namely, (a) passenger vehicles including luxury vehicles, (b) commercial vehicles and (c) electric two-wheeler and three-wheeler vehicles

Promoters

- John K. Paul, Francis K. Paul
- Naveen Philip

Objective of the Offer

Repayment and/or pre-payment, in full or part, of certain borrowings, availed by the company and certain of the subsidiaries, namely, VMPL, PAWL, PMMIL, KGPL, KCPL and PMPL up to Rs.192 crores

Brief Financials				
PARTICULARS (Rs. Cr)*	**Sept 23**	**FY23**	**FY22**	**FY21**
Share Capital	**12.54**	**12.54**	**12.54**	**12.54**
Net Worth	**384.21**	**343.04**	**279.88**	**246.00**
Revenue	**2834.99**	**4875.00**	**3465.87**	**2893.52**
Profit/(Loss) After Tax	**40.04**	**64.07**	**33.66**	**32.45**
EPS (in Rs)	**12.76^**	**10.22**	**5.37**	**5.17**
Net Asset Value (Rs)	**61.26**	**54.69**	**44.62**	**39.22**
P/E	**23.11**	**28.86**	**NA**	**NA**
P/B	**4.81**	**5.39**	**NA**	**NA**

Source: #calculated at upper price band * Restated consolidated financials ^annualised EPS

Industry Review

An overview of global macroeconomic conditions

The global economy continues to recover slowly from the challenges heaped by the Covid-19 pandemic, Russia's invasion of Ukraine, and considerable tightening of global monetary conditions to address elevated inflation. However, a return to prepandemic growth trajectory seems increasingly challenging, particularly in the case of emerging and developing economies. The convergence of several forces is holding back a steady recovery. Some of these are long-term fallouts of the pandemic, the war in Ukraine, and increasing geoeconomic fragmentation. Others are cyclical, including the effects of monetary policy tightening to cool inflation, withdrawal of fiscal support amid high debt levels, and extreme weather events.

As per the International Monetary Fund (IMF):

The global economy is projected to decelerate from 3.5% in 2022 to 3.0% in 2023, and further to 2.9% in 2024 In the case of advance economies as well, growth is forecast to slow down from 2.6% in 2022 to 1.5% in 2023, and 1.4% in 2024, as stronger US momentum is more than offset by weaker growth in the euro area

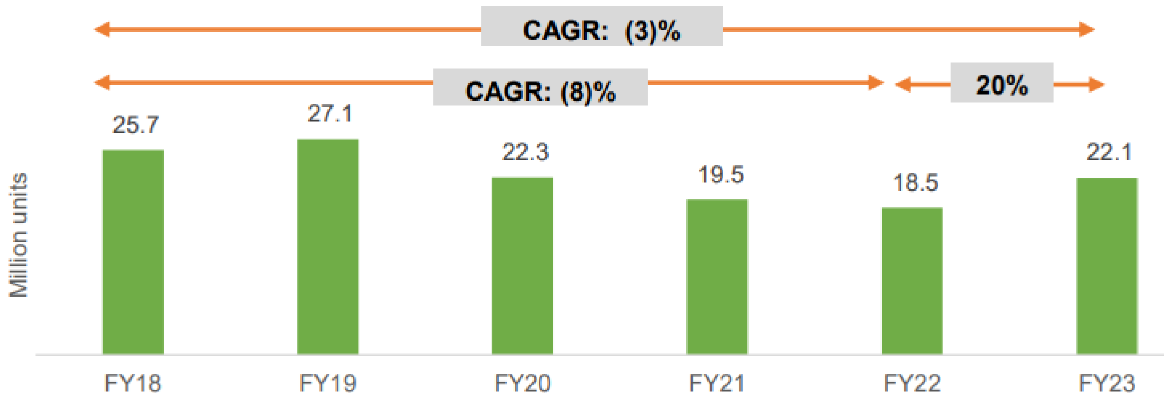
The growth rate of emerging and developing economies is projected to post a modest slowdown as well, from 4.1% in 2022 to 4.0% in 2023 and in 2024, with the downward revision of 0.1% point in 2024 reflecting a property sector crisis in China. Over the medium term, too, emerging and developing economies are forecast to grow at the slowest pace in decades, expanding just 3.1%. Thereby, these countries transitioning to higher living standards is still some way of

The Domestic auto industry

The auto industry, a key contributor to the Indian economy, has grown by leaps and bounds over the years. In fact, its contribution to India's GDP increased from 2.8% in fiscal 1993 to ~7.1% currently. The industry employs over 19 million people directly and indirectly, according to the Ministry of Information and Broadcasting report, 2023. 3.6% 3.4% 4.8% 6.2% 5.5% 6.7% 5.5% FY18 FY19 FY20 FY21 FY22 FY23 FY24E 0% 2% 4% 6% 8% 10% 12% 14% 16% Apr May June Jun Aug Sep Oct Nov Dec Jan Feb Mar Apr May June July Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec FY22 FY23 FY24 Repo rate PV CV Two wheeler 137 India is one of the largest auto markets in the world, with annual domestic sales of over 20 million vehicles. Domestic sales reached a high of 27 million in fiscal 2019, backed by favourable macroeconomic growth, rising consumption, favourable rural demand, as well as healthy demand from end-use sectors. However, domestic sales fell 17.7% in fiscal 2020 amid slowdown in GDP growth as well as inventory correction for Bharat Stage-VI (BS-VI) upgradation. The Covid-19 pandemic also hit the automotive industry hard, and sales dropped 12% on an already low base of fiscal 2020 to 19.5 million in fiscal 2021. Resurgence of Covid cases in a much severe form hit the domestic market in fiscal 2022, exerting pressure on auto sales. Fiscal 2023 witnessed normalisation in market operations, reopening of schools/colleges/offices, improvement in macroeconomic scenario, easing out of supply issues, which helped the industry clock ~20% growth on a low base of 3 years of consecutive contractions.

Industry Review

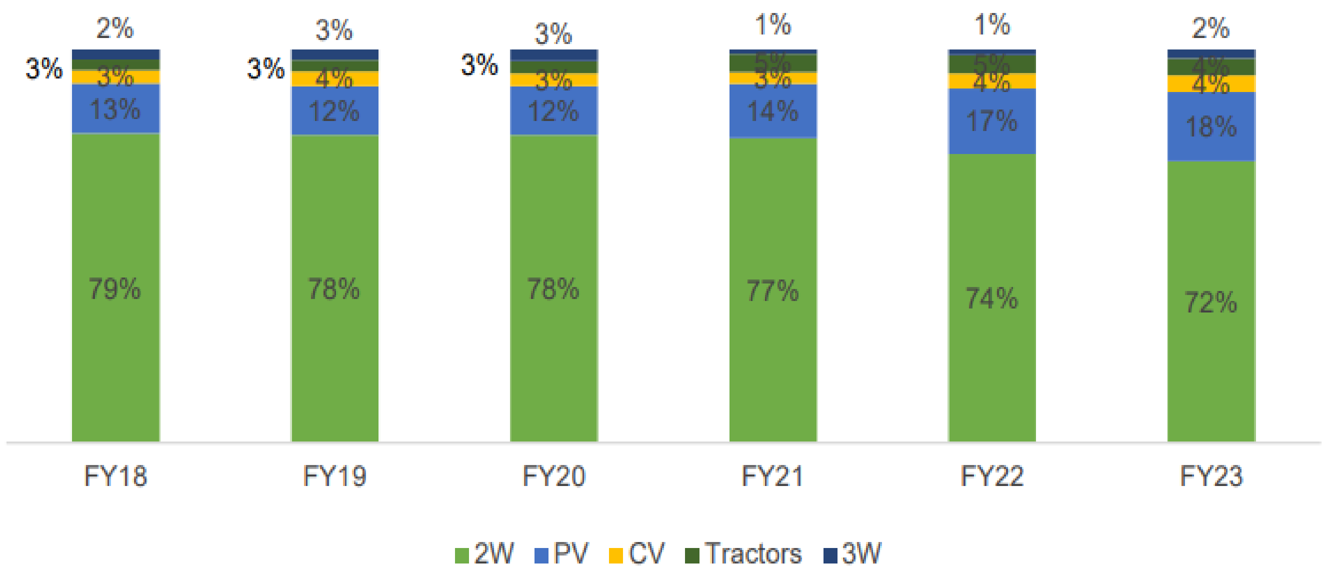
Domestic sales trend



The domestic auto industry is dominated by the two-wheeler segment (more than 70% of the industry). Two-wheeler sales were on a growth trajectory until fiscal 2019, led by a robust rural economy supported by a good monsoon. Demand started slowing after fiscal 2019, because of falling private consumption along with a hike in prices. It slowed in fiscal 2020, due to tapering in economic growth as well as inventory adjustment owing to the BS-VI migration. The pandemic and the attendant nationwide and local lock-downs to contain it led to a steeper fall in domestic sales in fiscals 2021 and 2022 and, thus, contracting the share of two-wheelers in the overall auto sales. From this low base, the industry clocked healthy growth in fiscal 2023, led by pentup demand, improved macroeconomic scenario, revival of scooter demand with reopening of colleges and offices, as well as improvement in vehicle supply. Other segments such as PVs, CVs, and three-wheelers recorded a much faster revival last fiscal, exerting further pressure on the share of two-wheelers.

PVs, the second largest contributor to domestic sales, witnessed growth till fiscal 2019, driven by expansion in the addressable market, increase in disposable income, development of infrastructure, and stable cost of vehicle ownership even as crude oil prices remained subdued. Lower private consumption, inventory adjustment on the back of new emission norms, and the liquidity crisis caused a significant drop in sales in fiscal 2020. The fall was exacerbated by the onset of the pandemic, resulting in a steep decline in demand in fiscal 2021. On this low base, some improvement was witnessed in fiscal 2022, with improved macroeconomic scenario as well as pent-up demand, increasing the share of PVs during the year. In fiscal 2023, domestic sales of PVs grew 27% on-year (vs 13% in fiscal 2022) due to healthy pent-up demand following a slump in sales volume for two years owing to the pandemic-led supply chain disruptions. The orderbooks of auto original equipment manufacturers (OEMs) were supported by a plethora of launches in the growing UV category, which witnessed high traction. In turn, the share of PVs expanded further last fiscal.

Domestic sales split by segments



Source: SIAM, TMA, CRISIL MI&A

Canara Bank Securities Ltd

Competitive Strengths

Long standing presence in the automobile industry and well-established relationships with leading OEMs

The Kuttukaran Group entered the automobile industry in 1953 with the commencement of the automobile spare parts and accessories business. They have since forayed into the automobile dealership business by partnering with various leading OEMs. Maruti Suzuki and Honda represented approximately 41.00% and 2.00% of the passenger vehicles market share in India in Fiscal 2023, respectively. Tata Motors (Commercial) represented 40.00% of the commercial vehicles market share in India in Fiscal 2023. Piaggio and Ather represented 27.00% and 11.00% of electric three-wheeler and electric two-wheeler vehicles market share (retail sales) in India in Fiscal 2023, respectively. (Source: CRISIL Report) they set up the first Maruti Suzuki showroom in Trivandrum, Kerala in 1984 under the “Popular” brand. They have since then strategically expanded their dealership network across the value-chain, from economy to premium to luxury vehicles, by partnering with Honda and JLR in 2008 and 2010, respectively, and subsequently partnering with Ather and Piaggio in 2021. They also entered the commercial vehicle dealership space in 1997 by partnering with Tata Motors (Commercial). They have further diversified their operations within the automobile dealership space by commencing their spare parts and accessories distribution business in 2005.

Penetration in markets in which they operate complemented by innovative marketing strategies

As of December 31, 2023, their network comprised of 30 showrooms and 84 sales outlets and booking offices for sale of new passenger vehicles, 21 showrooms and 44 sales outlets and booking offices for sale of commercial vehicles, 85 authorised service centres for servicing and repair of passenger vehicles and 44 authorised service centres for servicing and repair of commercial vehicles; and 10 dedicated showrooms and 22 sales outlets and booking offices for sale of pre-owned passenger vehicles. The break-up of their sales and services network of their Maruti Suzuki, Honda, JLR, Tata Motors (Commercial), BharatBenz, Piaggio and Ather

They have a deep penetration in semi-urban and rural areas in the states they operate in, which is attributable to several innovative models adopted by them including the “hub and spoke” model in respect of Maruti Suzuki and Tata Motors (Commercial) dealerships in Kerala, wherein their showrooms serve as a “hub” to their sales outlets and booking offices located in small towns and rural areas under the showroom. Their sales outlets and booking offices are typically operated out of smaller premises showcasing one or more vehicle models and are each managed by designated sales representatives with all other operational support being provided by their showrooms. Their showrooms, sales outlets and booking offices are present in almost all district of Kerala. They have 113 sales outlets and booking offices spread across 14 districts in Kerala, which significantly contributes towards increasing their brand recall among potential buyers across the state of Kerala. Similarly, the number of showrooms, sales outlets and booking offices, authorized service center’s, and pre-owned vehicles showrooms and sales outlets as of December 31, 2023

Fully integrated business model leading to business stability and higher margin

They believe that their diversified automobile dealerships and a fully integrated business model contributes to their position as a leading automobile dealership player. In addition to benefiting from the inherent synergies arising out of their business verticals, their diversified income streams also contribute to higher profitability margins at their dealerships. Their PAT increased from ₹324.55 million in Fiscal 2021 to ₹640.74 million in Fiscal 2023. Further, they have marked an increase in their revenue from sales due to an increase in the sales of Nexa vehicles in Fiscal 2023. Increasing demand and sales of electric vehicles and a consistent growth in the sale of electric two-wheeler and three-wheeler vehicles, in India in Fiscal 2023, has also contributed significantly towards their growth. In Fiscal 2023, they have also entered into an arrangement with Kochi Metro Rail Limited, a joint venture of the Government of India and the Government of Kerala, for the sale of electric three-wheeler vehicles for convenient transportation of their employees within the state. For details of their rankings in terms of volume of services/ service satisfaction index and volume of sales for Fiscal 2023. They offer fully integrated services through their authorised service centres that contribute to higher-margin revenues at each of their dealerships and helps mitigate the cyclicality that has historically impacted some elements of the automobile sector. Their authorised service centres contributed to 14.83%, 14.60%, 15.29%, and 14.82% of their total revenue and 46.60%, 55.48%, 54.10%, and 53.44% of their EBITDA during the six months period ended September 30, 2023 and Fiscals 2023, 2022, and 2021, respectively; and their spare parts and accessories distribution vertical contributed to 7.19%, 7.39%, 7.70%, and 6.24% of their EBITDA during the six months period ended September 30, 2023 and Fiscals 2023, 2022, and 2021, respectively. They serviced 419,729 passenger vehicles and 103,116 commercial vehicles, through their network of 127 authorised service centres during the six months period ended September 30, 2023.

Experienced and dedicated management team

The Kuttukaran Group (the group of entities and business operated by their Promoters and their immediate relatives) has over 70 years of experience in the automobile industry. John K. Paul, their Whole Time Director and one of their Promoters has over 49 years of experience in the automobile sector.

Risk Factors

Economic Conditions

The automotive industry is sensitive to changing economic conditions and various other factors. Any decline in demand for vehicles by individuals or entities may adversely impact their business prospects and results of operations There are several factors which affect the sales of new and pre-owned vehicles in India which are difficult to predict, including but not limited to the state of the economy, fuel prices, credit availability, interest rates, consumer preferences, the level of personal discretionary spending, unemployment rates, vehicle production levels and capacity, auto emission and fuel economy standards, the rate of inflation, currency exchange rates, tariffs, incentives, intensity of industry competition, product quality, the rise of ride-sharing platforms, improvement in public transport infrastructure, technological innovations, restrictions under environmental laws etc. As a result, the overall demand for their new and pre-owned vehicles may decline, which could adversely affect their business.

Regulatory Permits

They are required to obtain certain licenses, regulatory permits and approvals for setting up their dealership and undertake their operation. Any delay or inability to obtain such approvals may have an adverse impact on their business. They believe that the withdrawal of the abovementioned licenses or approvals will not have a material impact on the business operations of their Company. However, if they fail to obtain the necessary approvals and permits or if there is any delay in obtaining such approvals and permits, it may disrupt their operations, result in the application of penalties and may materially and adversely affect their business and financial condition.

Intense Competition

Increasing competition among automotive dealerships through online and offline marketing reduces their profit margins on vehicle sales and related businesses. Automobile selling is a highly competitive business. Their competitors include private and public companies, some of whom may be larger with access to greater financial and marketing resources than them. Their competitors sell the same or similar makes of new and pre-owned vehicles that they offer in their markets at competitive prices. Further, they operate in the automobile dealership industry which has witnessed low PAT margins in the past Since, they mainly depend on the commissions received from the OEMs on sales of their vehicles, their PAT margins and returns may not be higher in the future. Though, the share of online sales in the overall domestic vehicle sales is currently insignificant

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Peer Comparison

Name of the company	Total Revenue (in Rs Cr)	EPS (in Rs)	Return on Net Worth (%)	NAV(Per share Rs)	P/E	P/B
Popular Vehicles and Services Limited	4875.00	10.22	18.86	54.69	28.86	5.39
Landmark Cars Limited	3382.35	22.56	18.04	118.55	32.05	6.09

***P/E Ratio and P/B has been computed based on the closing market price of equity shares on the website of NSE as of March 7, 2024**

Our View

Popular Vehicles provides complete services throughout the life cycle of vehicle ownership, including sales of new and preowned vehicles, servicing, spare parts distribution, driving schools, and third-party financial and insurance product sales. The company's top line increased at a CAGR of 19% from FY 21. For FY23, the EBITA and PAT margins are to be 4.80% and 1.31%, respectively. For FY23, ROE and ROCE are 18.68% and 18.32%, respectively. The company's P/E is valued at 28.86x for FY23. We recommend to subscribe for listing gains.

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