

## Research Team

## Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	29,985
Fresh Issue (No. of Shares in Lakhs)	Nil
Offer for Sale (No. of Shares in Lakhs)	185.32
Bid/Issue opens on	9-Aug-21
Bid/Issue closes on	11-Aug-21
Face Value	Rs. 10
Price Band	1585-1618
Minimum Lot	9

## Objects of the Issue

**Fresh Issue:** NIL

**Offer for Sale:** ₹ 29,985 Million

- The company will not receive any proceeds from the Offer for Sale.
- The company wants to accrue the benefits of listing Equity shares on stock exchanges.

## Book Running Lead Managers

Axis Capital Ltd
Citigroup Global Markets India Private Ltd
Kotak Mahindra Capital Company Ltd
Nomura Financial Advisory and Securities (India) Private Ltd
Registrar to the Offer
Link Intime India Private Ltd

Capital Structure (Rs Million)	Aggregate Value
Authorized share capital	607.30
Subscribed paid up capital (Pre-Offer)	458.34
Paid up capital (Post - Offer)	458.34

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	0.0	0.0
Public	100.0	100.0
<b>Total</b>	<b>100.0</b>	<b>100</b>

## Financials

Particulars (Rs. In Million)	FY21	FY20	FY19
Revenue from operations	2496.8	2982.8	2432.8
Operating expenses	2103.2	2586.6	2137.8
EBITDA	<b>393.6</b>	<b>396.2</b>	<b>295.0</b>
Other Income	318.4	201.6	235.3
EBIDT	712.0	597.9	530.3
Interest	43.0	34.9	23.8
Depreciation	199.3	173.8	152.2
PBT	469.8	389.2	354.3
Tax	-541.0	76.2	95.1
<b>Consolidated PAT</b>	<b>1010.7</b>	<b>312.9</b>	<b>259.2</b>
Ratio	FY21	FY20	FY19
EBITDAM	15.8%	13.3%	12.1%
PATM	40.5%	10.5%	10.7%
Sales growth	-16.3%	22.6%	

## Company Description

CarTrade Tech Ltd is a multi-channel auto platform with coverage and presence across vehicle types and value-added services. The Company's platforms operate under several brands: CarWale, CarTrade, Shriram Automall, BikeWale, CarTrade Exchange, Adroit Auto and AutoBiz. Through these platforms, the company enable new and used automobile customers, vehicle dealerships, vehicle OEMs and other businesses to buy and sell their vehicles in a simple and efficient manner. The vision of the company is to create an automotive digital ecosystem which connects automobile customers, OEMs, dealers, banks, insurance companies and other stakeholders.

Their platforms, CarWale and BikeWale, ranked number one on relative online search popularity when compared to their key competitors over the period from April 2020 to March 2021, while Shriram Automall is one of the leading used vehicle auction platforms based on number of vehicles listed for auction for the financial year 2020. Among the company's key competitors, they were the only profitable automotive digital platform for the financial year 2020.

In the three months ended June 30, 2021, the company's consumer platforms, CarWale, CarTrade and BikeWale collectively had an average of 27.11 million unique visitors per month, with 88.14% being organic visitors (i.e., as a result of unpaid searches). The Company believe that the strength of their brands and their association with trust, quality and reliability are key attributes in their business, which increase consumer confidence and influence their consumption behaviour. They endeavour to deliver a superior consumer experience, which is reflected by an average time per visit of 3 minutes and 7 seconds during the three months ended June 30, 2021 on the CarWale website.

The Company generate revenues from several business streams primarily comprising:

- 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.
- Online advertising solutions on CarWale, CarTrade and BikeWale for OEMs, dealers, banks and other financial institutions.
- Lead generation for OEMs, dealers, banks and other financial institutions and insurance companies.
- Technology-based services to OEMs, dealers, banks and other financial institutions and insurance companies.

## Valuation

CarTrade Tech Ltd has a unique business model with no listed peers in the market. Covid-19 has impacted its FY21 financials. At the upper end of the IPO price band, it is offered at 4.4x P/BV and 29.6x EV/Sales and 73.4x P/E if we exclude accounting adjustments for deferred tax and attribute it on equity, then the asking price is at a P/E of around 199.26x to its FY21 earnings with a market cap of Rs.74,159.5 million which shows the issue is priced exorbitantly.

However, considering the future prospect of the company and it is also placed at a sweet spot as the first mover advantage we assign "Subscribe" Rating to this IPO investors can invest in this company with medium to long term perspective.

For the financial years 2021, 2020 and 2019, their total income was ₹ 2,815.23 million, ₹ 3,184.45 million and ₹ 2,668.05 million, respectively, and restated profit for the year was ₹ 1,010.74 million, ₹ 312.94 million and ₹ 259.17 million, respectively. Their Adjusted EBITDA margin was 27.62%, 22.71% and 24.42% for the financial years 2021, 2020 and 2019, respectively.

The Company is a multi-channel auto platform with coverage and presence across vehicle types and value-added services. They offer 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. A summary of their key offerings is as follows:

- Car shoppers can visit their CarWale and CarTrade platforms to research and connect with dealers, OEMs and other partners to sell and buy cars from the large variety of new and used cars offered by them. In addition, the company engage with financing and automotive ancillary companies to offer their products and services on CarWale and CarTrade.
- Customers looking for new and used two-wheelers can research and connect with dealers, OEMs and other partners on BikeWale to sell and buy two-wheelers from the large variety of new and used two-wheelers offered by them.
- The Company's subsidiary, Shriram Automall, facilitates sales of pre-owned cars, two-wheelers, commercial vehicles, threewheelers, and farm and 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 ("CRM").
- 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.

The Company believe that the diversity and number of users across all their platforms provides value to their buyers and sellers and creates a network effect in their businesses.

The Company believe that they have an advanced and sophisticated technology platform. Their data-driven digital platforms operate on an integrated technology infrastructure which is powered by their self-collected data and analytics. The Company leverage data to increase the effectiveness of their brands, enhance the customer experience, analyse market dynamics at scale, calibrate the search results on their platforms and optimise the inventory management by dealers and OEMs. Their platforms are operated by 221 technology employees working at their three technology centers as of June 30, 2021. The Company's technology platforms are both scalable and vertically integrated across the entire value chain, which allows them to address each step of the vehicle life cycle.

The Company have a large data set on vehicles in India. Their websites and apps handled approximately 1.76 million and 2.15 million user sessions per day for the three months ended June 30, 2021 and March 31, 2021, respectively, and directly deliver the relevant data into their systems. Their team of statisticians and data scientists has developed complex and proprietary algorithms to transform this data into useable information that power their platforms and scale as traffic increases. They present such information through their web and mobile user interface that is immersive, simple and intuitive. Leveraging their market-leading position and growing audience, the company also provide valuable inputs to automotive dealers and manufacturers as they develop their digital marketing strategies through their consumer insights and innovative products, helping them reach customers more effectively and increasing the value of their offerings to such dealers and manufacturers.

The Company have a strong management team with significant industry experience. Led by their Chairman, Managing Director and CEO, Vinay Vinod Sanghi, who has 30 years of experience in the automotive industry, they believe that their entrepreneurial leadership team has demonstrated the ability to successfully create, build and grow their various businesses. The organization focuses on building an environment of innovation, trust, respect, ownership, agility and teamwork. The Company's marquee institutional shareholders include Highdell Investment Ltd (affiliate of Warburg Pincus LLC), and MacRitchie Investments Pte. Ltd. (an affiliate of Temasek), JP Morgan and March Capital.

#### **Strengths:**

##### **➤ Leading Marketplace for Automotive Sales with a Synergistic Ecosystem**

The Company's platforms, CarWale and BikeWale, ranked number one on relative online search popularity when compared to their key competitors over the period from April 2020 to March 2021, while Shriram Automall is one of the leading used vehicle auction platforms based on number of vehicles listed for auction for the financial year 2020. Among their key competitors, they were the only profitable automotive digital platform for the financial year 2020. They are a multi-channel auto platform with coverage and presence across vehicle types and value-added services. The Company's custom-built platforms provide an intuitive vehicle buying and selling experience. The Company offer a variety of solutions across the automotive transaction value chain from discovery and research tools, pricing and auto financing information to connecting consumers with dealers and OEMs for both used and new vehicle purchases. They also provide vehicle buyers with dynamic, personalized and real-time financing offers from multiple finance providers digitally through their finance platforms. The Company believe that their end-to-end model allows them to offer a superior solution and experience to all stakeholders while reducing their cost of operations and enhancing their ability to offer complementary products and services and derive multiple revenue streams from a single customer.

The Company's remarketing business, Shriram Automall facilitates sales of pre-owned cars, two-wheelers, commercial vehicles, three wheelers, and farm and construction equipment. Shriram Automall is one of the leaders in used vehicle auctions in India, in terms of number of vehicles listed for auctions for the financial year 2020. They also provide other related services such as vehicle inspection and valuation through Adroit Auto as well as ERP and CRM tools through AutoBiz for their stakeholders. The Company believe that their combination of online and offline auctions as well as related services is synergistic and drives customer traffic, creates competition among their network of professional dealers and helps ensure that they can achieve the best price for the users. Additionally, data collected from offline and online transactions can be used for the benefit of sellers on CarWale, CarTrade, CarTrade Exchange and Shriram Automall, who can get insights into vehicle pricing and leverage price and supply differences across India.

➤ **Brands and Customer Experience Driving Powerful Network Effects**

The Company believe that their 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. Their brands, CarWale and BikeWale, ranked number one on relative online search popularity when compared to their key competitors over the period from April 2020 to March 2021. The Company believe that the strength of their brands and their association with trust, quality and reliability is a key attribute in their business, which increases consumer confidence and influences their consumption behaviour.

The Company believe that they are able to offer a superior experience to all stakeholders through their large inventory selection, trust and unbiased transparency and intuitive search results. Their recognizable brands and the quality and reliability of their user experience and interface have led to a consistent growth in consumer traffic across their platforms. Their monthly average number of unique visitors was 27.11 million, 25.66 million, 20.51 million and 19.27 million in the three months ended June 30, 2021 and the financial years 2021, 2020 and 2019, respectively, and they had 212,552, 814,316, 809,428 and 709,190 listings on their online and offline auction platforms for the same periods. The network effects of this brands-based growth are significant and create a positive feedback loop. For instance, more listings and more transactions lead to better brand awareness. As more consumers utilize their consumer platforms, or more buyers and sellers use their auction platforms, the incremental information added to their proprietary database and algorithm increases the utility of their data and analytics platforms for all participants and enables the company to offer superior customer experiences. All of these help the company to attract and retain more automobile customers at various points of the vehicle buying and selling process, creating network effects which in turn increases the stickiness of automotive dealers, OEMs, financial institutions, fleet owners and other stakeholders to their platforms and creates high entry barriers for new market entrants. The Company's strong recognizable brands have also allowed them to develop new offerings such as price tools, financing solutions and trade-in solutions.

➤ **Proprietary End-to-End Technology Platforms.**

The end-to-end technology platforms largely developed by their in-house team allows the company to offer a seamless solution to their customers. The Company have a team of 221 technology employees located at their three technology centers as of June 30, 2021. The Company believe that their agile and flexible technology is capable of supporting new offerings and scale. They also use machine learning and artificial intelligence ("AI") to advance their proprietary pricing, marketing and inventory technology for customers to enhance their experience and to keep their systems up to date with technological advancements. The Company focus on leveraging their proprietary technology platforms and analytics and data frameworks to guide consumers on their vehicle search, enable better price discovery and provide efficient inventory management for used car dealers and institutional sellers. Due to their deep understanding and technology penetration in each of the businesses they run, the company offer a suite of products which can be deployed or sold to third parties such as automotive dealers, OEMs, financial institutions or fleet owners. For instance, their white-labelled solutions in CRM, used car ERP and other areas have been used by or licensed to BMW India Private Limited ("BMW India") and MG Motor India Private Limited ("MG Motor").

➤ **Focus on Data Science to Provide Superior Solutions.**

The Company analyze vehicle sales that happen through their auctions, as well as vehicles offered for sale by dealers on CarWale, CarTrade and BikeWale using data science and proprietary algorithms based on a number of factors, including vehicle-specific information on automotive transactions, vehicle registration records, consumer buying patterns and behaviour, demographic information, and macroeconomic data. They obtain data through their websites and apps, when, for example, a vehicle is listed on CarWale or when data is entered by dealers into CarTrade Exchange, their ERP tool for dealers. Their websites and apps handled approximately 1.76 million and 2.15 million user sessions per day for the three months ended June 30, 2021 and March 31, 2021, respectively, and directly deliver the relevant data into their systems. As a result, the company have a large data set on vehicles in India.

The statisticians and data scientists have developed complex and proprietary algorithms to leverage this data to provide pricing tools, product reviews and market insights as well as reports to consumers, dealers, financial institutions and OEMs through their web and mobile user interfaces in an engaging and easy to understand way. The Company also rely on insights from their quantitative data analysis to maximize operational metrics. For example, their data allows used car dealers to make educated buying decisions and guides new car dealers in executing trade-ins. The Company also use data science to maximize relevance of their digital advertisements to visitors on their platforms. Further, their new car recommendation tool is based on data science.

The Company believe that their data analytics-driven decision making provides the company with a key competitive advantage in designing offerings which can be deployed to third parties such as dealers, OEMs, fleet owners, financial institutions and other stakeholders. They believe that their optimal usage of data also results in superior products and services for their customers, increased business efficiencies for them and their customers and thus increased profitability for the Company.

### ➤ Profitable and Scalable Business Model

The Company became profitable in financial year 2019, with a restated profit for the year of ₹ 259.17 million in the financial year 2019. They were the only profitable automotive digital platform for financial year 2020 among their key competitors in India. For the financial years 2021, 2020 and 2019, the total income was ₹ 2,815.23 million, ₹ 3,184.45 million and ₹ 2,668.05 million, respectively, the restated profit for the year was ₹ 1,010.74 million, ₹ 312.94 million and ₹ 259.17 million, respectively, and the Adjusted EBITDA was ₹ 777.49 million, ₹ 723.27 million and ₹ 651.50 million, respectively.

The Company operate on an asset-light business model, operating only 114 automalls, a large majority of which they lease or rent from third parties. The Company have invested significantly in building technology platforms that can manage considerably increased offerings without requiring sizable additional investments, and their growing scale has resulted in a decrease of the share of fixed costs. Together with their strong brands, longstanding relationships with customers, dealers and other stakeholders, and an expanding suite of offerings, the company believe they have created a profitable and scalable business model. Their operating expenses have grown at a lower rate than the revenues, as the company is able to leverage their operations, sales and marketing and technology over a broader revenue base. This operating leverage has helped drive growth in their Adjusted EBITDA margins as the revenues have scaled. For the financial years 2021, 2020 and 2019, the profit before tax margin was 16.69%, 12.22% and 13.28%, respectively, while the Adjusted EBITDA margin was 27.62%, 22.71% and 24.42%, respectively. The Company's investments in technology have made their platforms scalable in a highly capital-efficient manner, and their asset-light business model has also allowed them to use cash on their balance sheet for acquisitions which have formed important parts of their strategy in the past.

### ➤ Founder-led Management Team.

The Company have a capable management team with significant industry experience. They are led by Chairman, Managing Director and CEO, Vinay Vinod Sanghi, who has over 30 years of experience in the automobile industry. Under his leadership, the Company acquired Automotive Exchange Private Limited (CarWale and BikeWale) in 2015 and 55.43% of the outstanding equity interest in Shriram Automall India Limited (SAMIL) in 2018 and successfully integrated these businesses. The key managerial personnel have been with the company for nine years on average. Their leadership team enables the company to successfully create, build and grow new businesses as well to create value through inorganic growth. The Company believe that they have created a distinct entrepreneurial structure within the organization, with each of their business lines being managed as an independent profit centre. They strive to motivate their management team by providing them employee stock options, pursuant to ESOP Schemes, thereby enabling a strong alignment of their interests with the Company's performance. As a result, the company have developed a skilled and experienced pool of talent across their engineering, customer experience and design, technology and other departments. They are also backed by several marquee institutional shareholders, such as Highdell Investment Ltd (affiliate of Warburg Pincus LLC), Temasek, JP Morgan and March Capital through their affiliates MacRitchie Investments Pte. Ltd., CMDDB II and Springfield Venture International, respectively.

### Key Strategies:

#### ➤ Well Positioned to Benefit from Growth of the Automotive Sector and Digitalization:

India was the fifth largest car market in the world in calendar year 2020 and is expected to become the third largest automotive market in the world in terms of volume by 2025. The vehicle penetration in India was approximately 22 cars per thousand population in 2019, which is one of the lowest ratios in the world. In comparison, the same ratio for the United States and Germany is 750 and 562, respectively, per thousand population. Thus, there is substantial headroom for the Indian auto industry to grow. Annual new car sales in India are expected to grow from 2.7 million new cars in financial year 2021 to 4.4 million new cars in financial year 2026, while annual used car sales is expected to grow from 4.4 million used cars in financial year 2020 to 8.3 million used cars in financial year 2026. Annual new two-wheeler sales in India are also expected to grow from 15.1 million new two-wheelers in financial year 2021 to 26.6 million new two-wheelers in financial year 2026.

In addition to the growth in the automotive market, which the company expect will benefit them greatly, they also expect a further increase in digitalization of the automotive sector. More than 90% of customers in India use online channels for research before buying a new or used car, with online platforms being rated higher than offline platforms in terms of quality and trust. In the financial year 2020, Indian car and two-wheeler OEMs spent only approximately 14% of their total advertising budgets on digital advertising, which is significantly lower than the global average for OEMs of 42% in the calendar year 2019. The automotive sector has been amongst the three largest contributing sectors to the digital advertising market in India, in terms of amount spent. Digital marketing spend by OEMs is expected to increase in line with the growth of the digital advertising market in India, which has been growing at a CAGR of approximately 20% from financial year 2018 to 2020. The Company expect that their advertisement income will increase with the expected increased spending by OEMs on digital advertising due to their market leadership and brand strength. Further, the number of used car dealers in India subscribing to paid services on online automotive portals is expected to increase from approximately 4,000 dealers in financial year 2020 to between 8,000 to 11,000 dealers in financial year 2025. They believe that increased dealer spending on online services will greatly favour the strongest brands and platforms and that, based on their brand strength, which is evidenced by the number one rank of their brands, CarWale and BikeWale, in terms of relative online search popularity compared to the key competitors over the period from April 2020 to March 2021, the company will benefit from the shift to digital by OEMs and dealers

Similar to the car markets, the used commercial vehicle market in India is expected to grow from approximately 1.0 to 1.2 million units in financial year 2020 to 1.5 million to 1.7 million units in financial year 2025. Because sales in the second-hand commercial vehicle market are driven through middlemen, inefficiencies and information asymmetry arise due to lack of standardization of pricing and quality checks, which represents a huge opportunity for organized players. The Company expect their subsidiary Shriram Automall to benefit from the growth of both the used car market and the used commercial vehicle market as well as from the shift to more organized players resulting in more transactions.

➤ **Grow the Business through Digital Ecosystem, Online-Offline Presence and Vehicle-Agnostic Approach:**

Leveraging their leading brands, the company provide services across different vehicle categories, including new and used cars, new and used two-wheelers and used commercial vehicles and farm equipment. Their multi-vehicle approach increases their efficiencies and profitability as the services and technology can be leveraged and applied across vehicle categories. In addition, because banks, insurance companies, vehicle accessory companies and their other business partners work across multiple vehicle categories, the company believe that they can be an efficient and effective partner for such companies as the company can work with them in their transactions spanning multiple vehicle categories.

Through their various business operations the company work with several stakeholders in the vehicle ecosystem. They work with automobile consumers, dealers, insurance companies, financiers and leasing companies through their technology platforms. For example, their technology product CarTrade Exchange connects stakeholders such as dealers, consumers, insurance companies, financiers and auction sellers on a single platform. With company's relationships and integration with their stakeholders and large customer base, they believe they can create and build products and services for their customers quickly and efficiently, giving them opportunities to grow their business with these partners.

In addition to the company's online presence, they have created a physical presence through Shriram Automall and the CarWale franchisee network comprising a select number of used car dealers who carry the CarWale brand and who are required to adhere to certain standard operating processes so that customers can buy used cars with confidence. The Company believe this online and offline pan-India presence will enable them to efficiently grow their products and services and cater to their customer needs across touch points.

➤ **Create an Opportunity to Monetize Value-Added Services and Untapped Opportunities Through Strong Customer Base and Technology Platform:**

The Company use their technology to not only facilitate sales of new and used vehicles, but to also build scalable proprietary technology solutions. They believe that the complexity of a vehicle purchase transaction provides substantial opportunity for technology investment and that their leadership and continued growth will enable them to further distinguish their offerings.

The Company believe that their technologically advanced online experience for consumers attracts a large and quality customer base which is of great value to the dealers and OEM partners. Their unique visitor traffic on their platforms CarWale, CarTrade and BikeWale, as well as their dealer base and their ecosystem approach of connecting OEMs, banks and other stakeholders, provides them an opportunity to grow other business lines with relatively low entry and customer acquisition costs and could enable the company to create an end-to-end marketplace that would provide a comprehensive set of offerings for automotive customers. The Company intend to increase monetization opportunities by introducing complementary, value-added products and services to improve the experience of buying, selling and owning vehicles. For example, the company provide vehicle buyers with dynamic, personalized and real-time financing offers from multiple financing providers digitally through their finance platforms. They have engaged with a select group of used car dealers, who form their CarWale franchisee network. In some cases, the company buy and sell quality cars to such used car dealers, who then refurbish the used cars to their standards before selling to customers. To help the dealers sell the cars, the company promote these used cars on their platforms, thereby allowing the company to provide, through the CarWale franchisee network, a curated online-offline buying experience where customers can confidently buy used cars. They also plan to provide vehicle servicing, automobile accessories and automobile insurance by engaging with product and service providers who will provide these to consumers on their websites. Further, the company offer software and technology service to automotive clients domestically and plan to grow that business internationally and invest in new trends such as connected vehicles, electric vehicles, ridesharing and vehicle subscription services. Finally, subject to regulatory approvals, the company may consider diversifying into the business of financing the purchase of vehicles on their platforms.

➤ **Invest Further in Technology.**

The Company plan to continue to invest in improving their technology such as their AI and machine learning capabilities in order to provide more relevant and timely information to their customers, and enhance user experience. In addition, the company will continue to build advance technology to digitalize offline elements of the customer's vehicle buying journey to the extent practicable. They will continue to engage with dealers, OEMs and other stakeholders such as financial institutions and insurance companies so they can seamlessly offer more of their own services digitally on their platforms. For example, the company have provided a dealer management system ("DMS") to BMW India to support all BMW dealers in India run their used car businesses in an efficient and digitally optimized manner. BMW India also uses their DMS to power its consumer interfaces such as websites and apps. They are also building technologies for MG Motor so it can digitally offer a platform for retail finance solutions for new car buyers and additionally support sales and operational processes related to its used car business. The Company's price tools available across their platforms leverage data science and AI and help their customers make informed buying and selling decisions.

➤ **Supplement Organic Growth with Selective Acquisitions**

The Company believe they are well-positioned to pursue value-enhancing investments and acquisitions. Given their track record of successful consolidations, the company believe that they are well positioned to take advantage of the expected consolidation and shift towards organized providers in their industry. The Company will be both opportunistic and disciplined in their acquisition strategy. Being an established business, they expect that their strengths in market reach and efficient advertising solutions, coupled with their proven track record for developing innovative and complementary products and services, will help drive innovative approaches to revenue generation, efficiency gains in acquired businesses and synergy benefits across their entire business.

The Company acquired CarWale in January 2016, recording goodwill of ₹ 7,840.93 million in the financial year 2016, and grew its revenue from ₹ 347.29 million in financial year 2016 to ₹ 880.18 million in financial year 2020. Similarly, they acquired 51% of the paidup share capital of AISPL in May 2017 and 55.43% of the outstanding equity interest in Shriram Automall in January 2018, recording goodwill of ₹

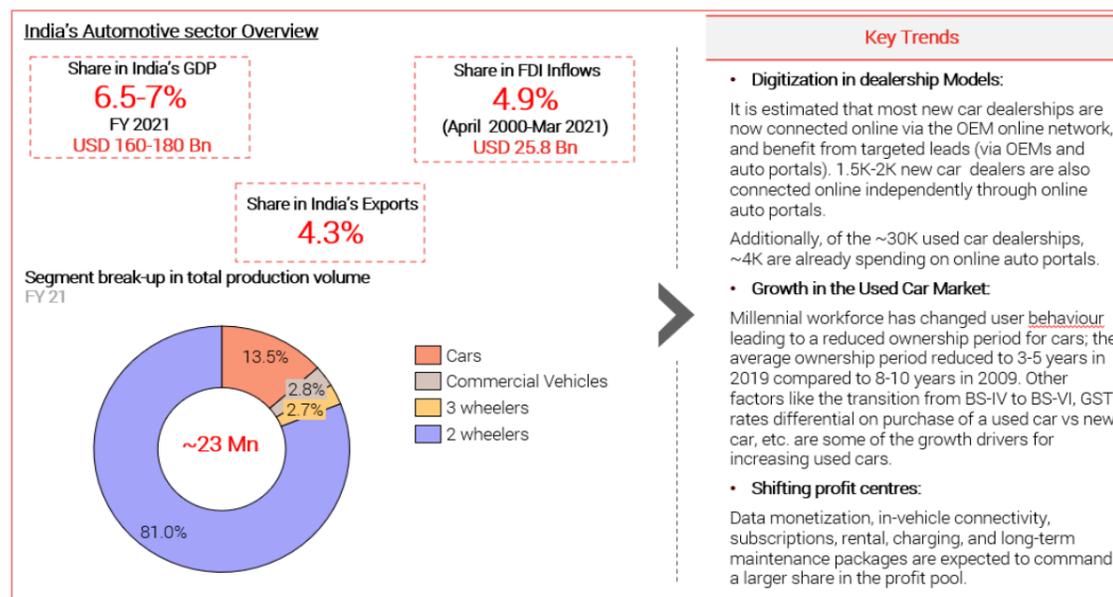
59.47 million and ₹ 1,076.35 million, respectively, in the financial year 2018. The total income was ₹ 2,815.23 million, ₹ 3,184.45 million and ₹ 2,668.05 million in financial years 2021, 2020 and 2019, respectively. Through their expertise and demonstrated track record of identifying appropriate targets, successfully integrating them and helping them grow, the company believe that they are well positioned to create synergies and drive growth of their business through inorganic route.

**Industry Snapshot:**

➤ **Automotive Sector in India.**

India became the fifth largest car market in the calendar year 2020. Domestically, the two-wheeler segment dominates the market in terms of volume, owing to a growing middle class and a young population. Moreover, the growing interest of companies in exploring the rural markets further aided the growth of the sector.

The figure below gives an overview of India’s automotive sector:



• **New Vehicles.**

India is expected to become the world’s third largest automotive market by 2025 in terms of volume, driven by key factors such as digitization, changing consumer behavior and innovative services. The automotive industry in India is a significant driver of macroeconomic growth and technological development, representing 7.1% of India’s GDP in financial year 2020. The automotive sector is expected to have held a similar share of exports in financial year 2021, given that both automobile production units and nominal GDP are estimated to have fallen by approximately 7% to 9% year-on-year.

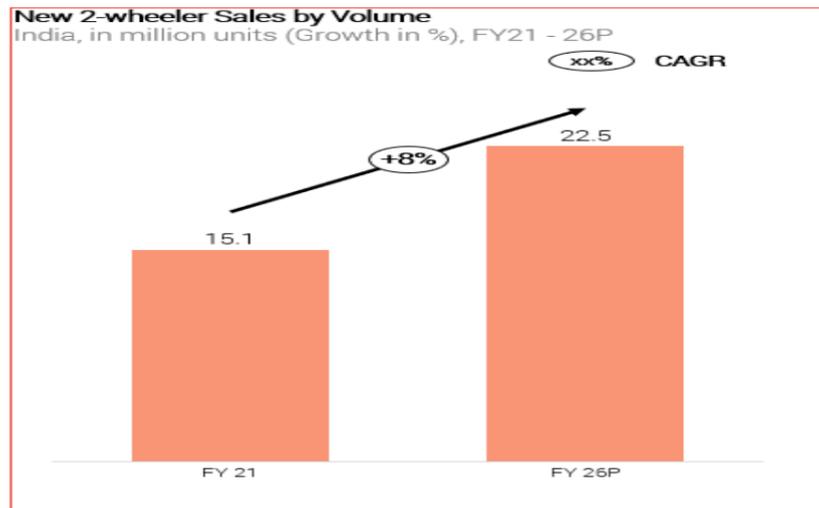
○ **Passenger cars**

The car market in India was the fifth largest car market in the world in calendar year 2020 and is expected to grow at a CAGR of approximately 10% from financial year 2021 to financial year 2026, as shown in the figures below.



○ Two-wheelers

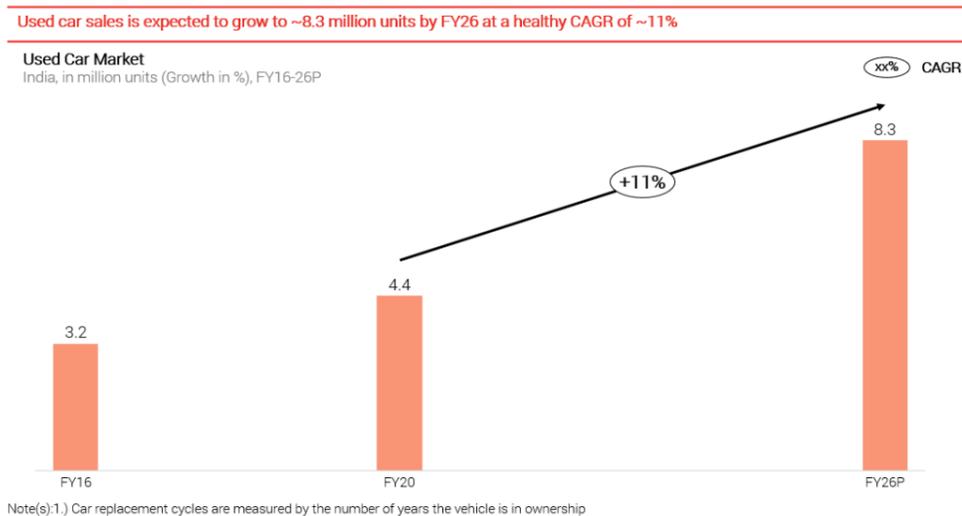
The two-wheeler market in India is expected to grow at a CAGR of approximately 8% to reach around 23 million units in financial year 2026, driven by increased demand in urban and semi-urban areas and the relatively low cost of ownership of two-wheelers, which makes them the preferred alternative to public transport and four-wheelers. The figure below shows the growth in sales volume of two-wheelers:



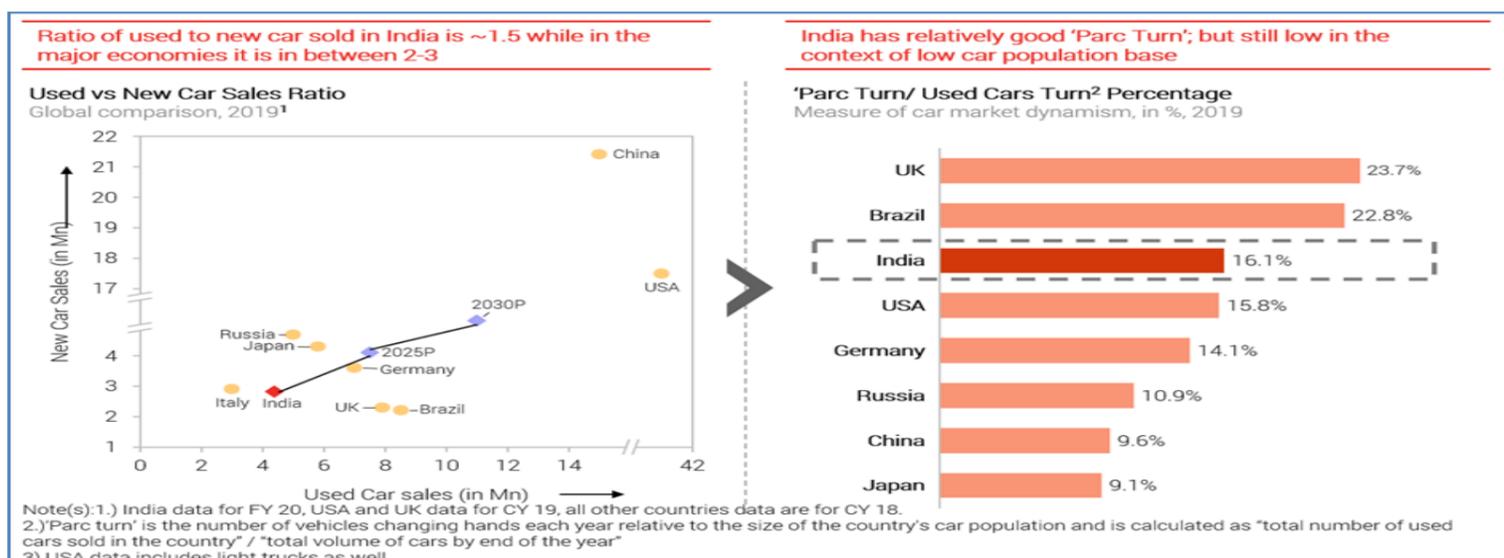
● Used Vehicles

○ Used cars

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 financial year 2020 to approximately 8.3 million cars in financial year 2026, as shown in the figure below:



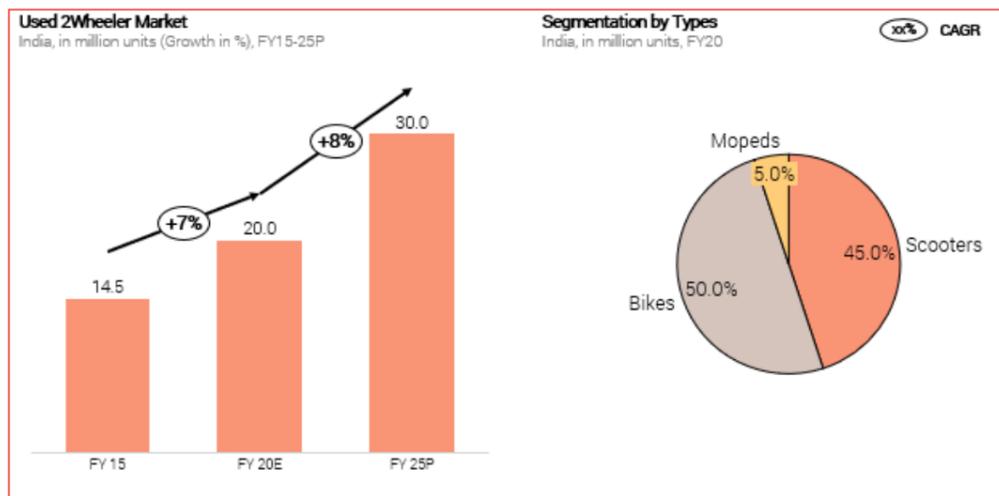
The used car market in India is relatively smaller than those of other developed countries. In India, the parc turn rate, which is the total number of used cars sold divided by the total volume of cars, is approximately 16%, indicating significant headroom for used car sales. The figure below shows the ratio of used to new cars sold and the parc turn rate in India compared to that of other countries:



○ Used two-wheelers

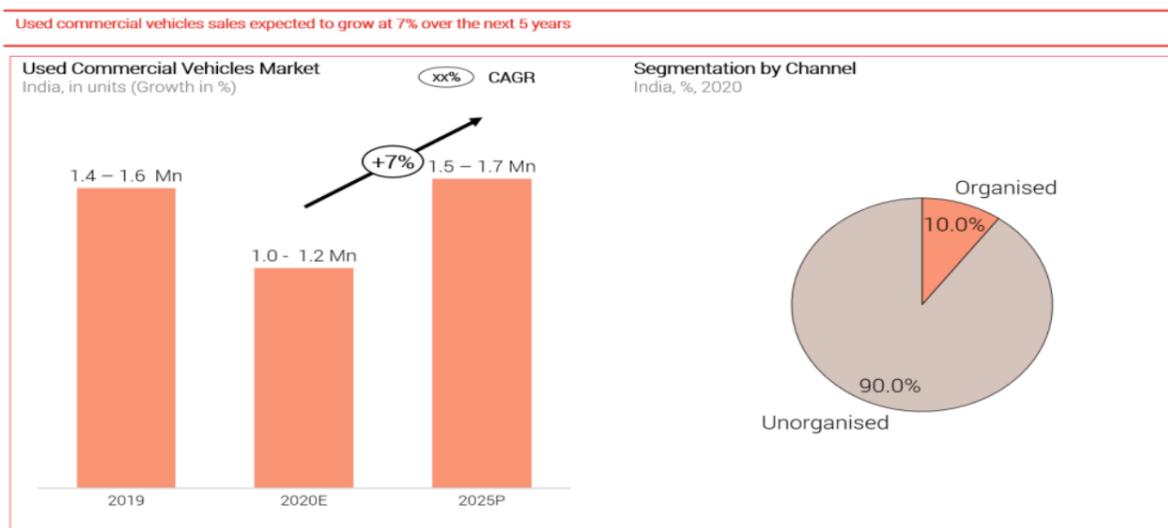
The used two-wheeler market in India is expected to increase, in terms of units sold, at a CAGR of approximately 8%, from 20 million units in financial year to 30 million units in financial year 2026, driven by trends such as shorter replacement cycles and increasing preference of first-time buyers for used two-wheelers.

The figure below shows the expected growth of the used two-wheeler market and the segments by type:



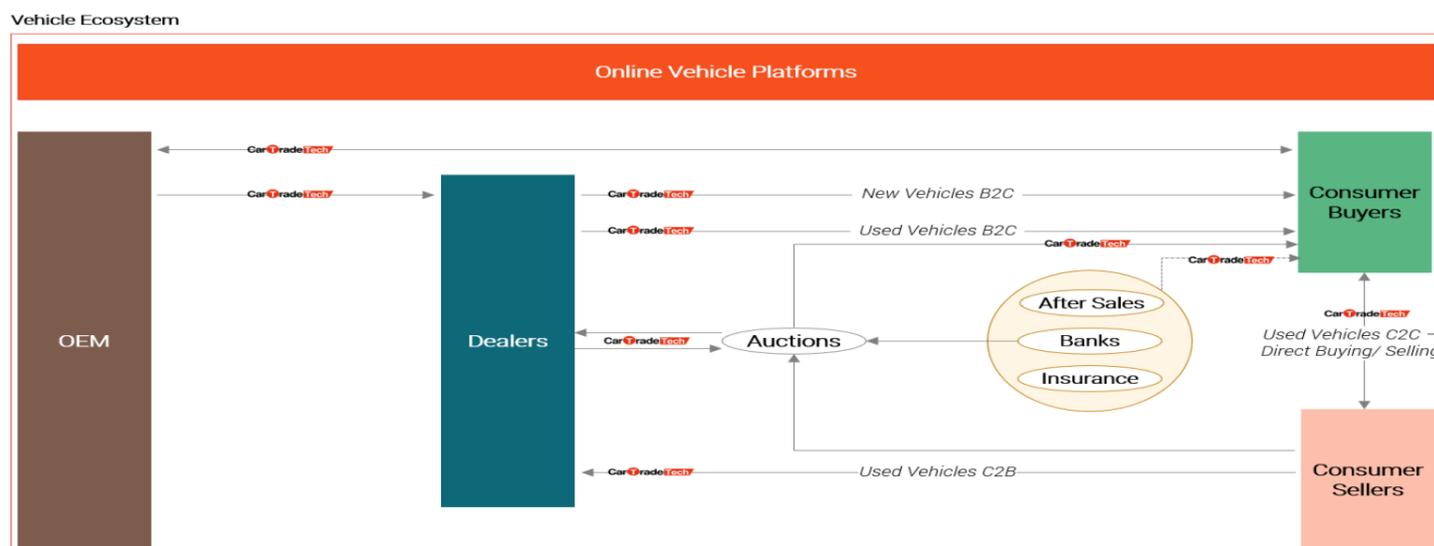
○ Used commercial vehicles

The market for used commercial vehicle sales in terms of volume is expected to grow at a CAGR of 7% over the next five years, as shown in the figure below. Only 10.0% of sales in the commercial vehicle markets are made through the organized channel, as also shown in the figure below:



➤ Role of Online Platforms

The entire automotive ecosystem is highly fragmented, complex and riddled with challenges. Vehicles reach end buyers through several channels and after going through multiple intermediaries and exchanges. The multiplicity of transactions creates potential inefficiencies that negatively affect the overall system. Online platforms are present across new and used vehicles. Online platforms are present across new and used vehicles and are helping to streamline this ecosystem. CarTrade Tech Limited (“CarTrade Tech”) plays an important role across the value chain by connecting different stakeholders, as shown in the figure below:

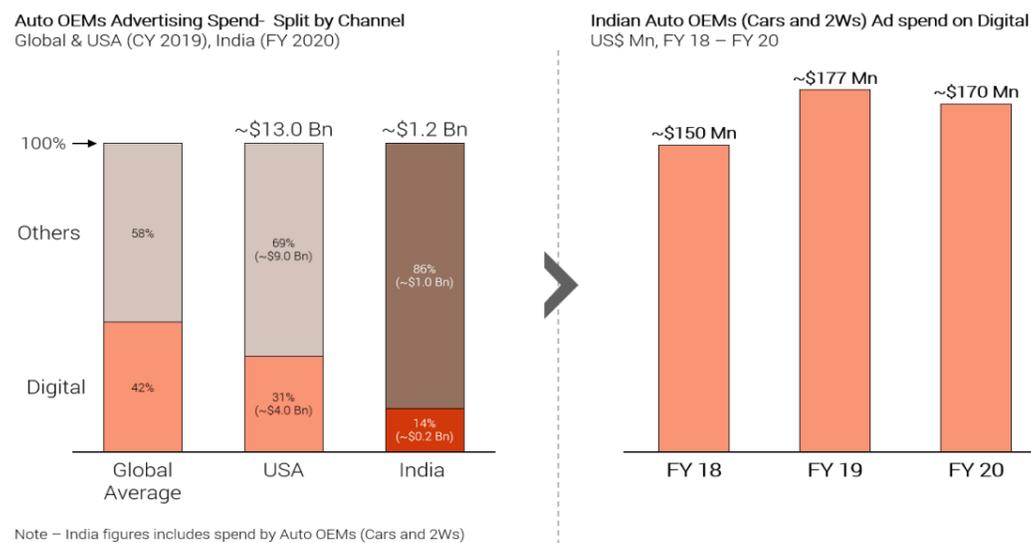


• **Growth drivers for automotive portals**

- Digital journey transformation of customers.
- Digital transformation of dealers' journey.
- Digital media spend.
- Auto finance.
- Auctions / remarketing.
- Strong growth of the automotive market in India.

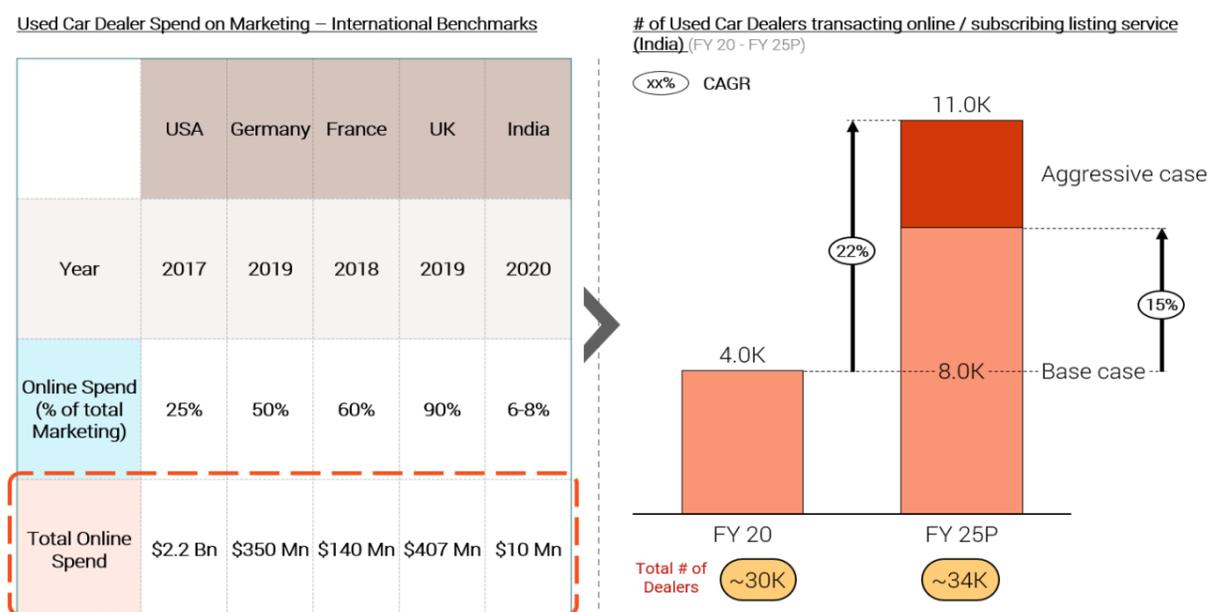
➤ **Digital Advertising Market by the Automotive Sector in India.**

Globally, both OEMs and dealers spend a significant part of their advertising budgets on digital channels, a trend which is likely to be followed in India. In the financial year 2020, Indian car and two-wheeler OEMs spent only US\$ 170 million on digital advertising, or approximately 14% of their total advertising budget of US\$ 1.2 billion, which is significantly lower than the global average for OEMs of 42%, as shown in the figure below:



The automotive sector has been amongst the three largest contributing sectors to the digital advertising market in India in terms of amount spent. Digital marketing spend by OEMs is expected to increase in line with the growth of the digital advertising market in India, which has been growing at a CAGR of approximately 20% from financial year 2018 to 2020. The relatively low share of digital advertising in the total advertising spend of Indian OEMs, compared to that in other countries, also indicates headroom for growth.

On the other hand, as shown in the figure below, used car dealers in India spent approximately US\$ 10 million on online channels in 2020, comprising 6% to 8% of their marketing spend. In other mature markets, dealers spent between 25% to 90% of their marketing spend on online channels, indicating strong 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 approximately 4,000 dealers in financial year 2020 to between 8,000 to 11,000 dealers in financial year 2025, representing a CAGR of as much as 22%, as shown in the figure below:



Further, it is estimated that there are approximately 7,000 to 8,000 new car dealers that are connected online via the OEM network and receive online directed leads through OEMs. Approximately 20% of such new car dealers, i.e., 1,500 to 2,000 dealers, also use online automotive portals independently for lead generation services and pay for such services. These 1,500 to 2,000 dealers collectively spent approximately US\$ 7 million to US\$ 9 million on digital channels, representing approximately 10% of the overall marketing budget of all new car dealers in financial year 2020. A portion of the new car dealers' overall marketing spends, ranging from 50% to 70%, is subsidized by automotive OEMs as part of their marketing expense agreements

➤ **Auction and Remarketing Services**

Customers rely on auction facilitators to sell their inventory to consumers, individual and fleet operators, dealers and wholesale buyers. The figure below shows the split of the channels through which used cars are sold, including through auction and remarketing services

Used cars (Transaction breakdown)	FY 20 (Million units)
C2C	1.4
B2C (direct sales to consumers)	3.0
Auction & Remarketing - C2B and B2B (Includes Consumer auctions, Bank Repo Auctions, Insurance Salvage, Corporate, dealer exchanges, fleet and individual operators, trade-ins, and other auctions)	4.1
<b>Total</b>	<b>8.5</b>

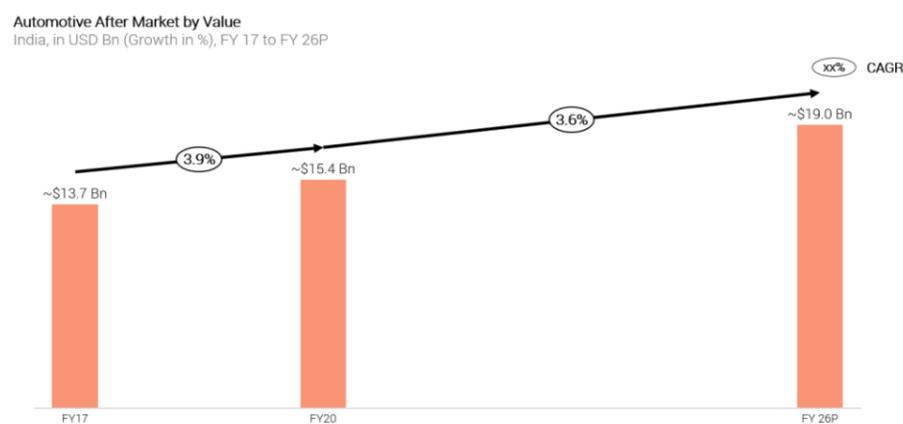
Figure 26

Source: RedSeer estimates

➤ **Automotive Value-Added Services**

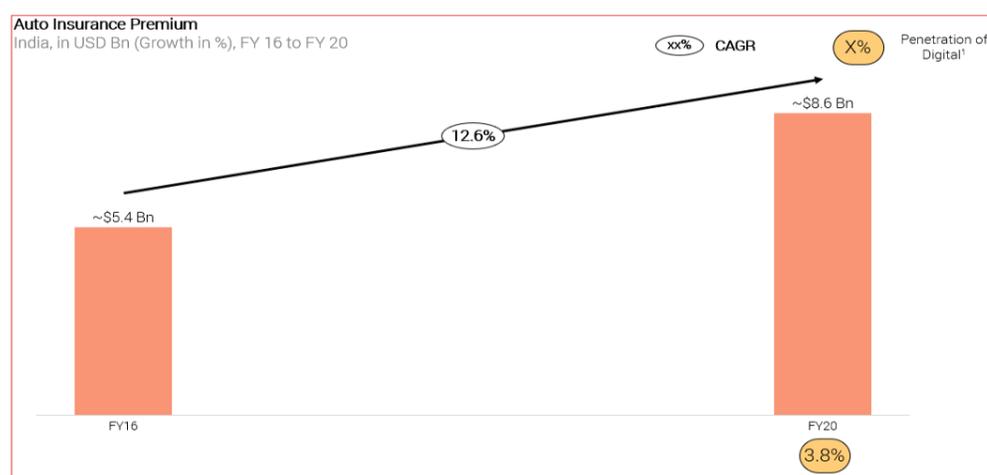
• **Accessories (Automotive Aftermarket)**

The automotive aftermarket in India has grown at a moderate pace, with stable demand year-on-year and increased vehicle parc turn rate as major drivers of growth. The automotive aftermarket in India is expected to grow at a similar pace from financial year 2020 to 2026, as seen in the figure below:



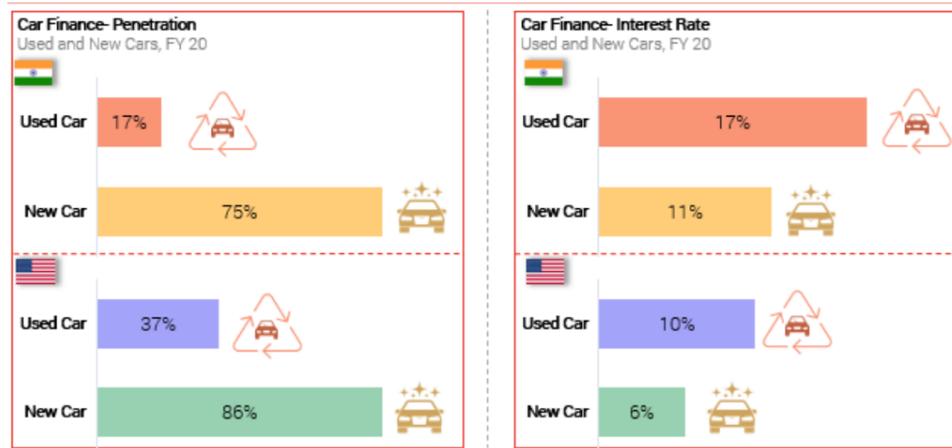
• **Automotive Insurance**

Premiums on automotive insurance account for approximately 40% of non-life insurance premiums. Premiums on automotive insurance grew at a CAGR of 12.6% from financial year 2016 to financial year 2020, as shown in the figure below:



• **Auto Finance**

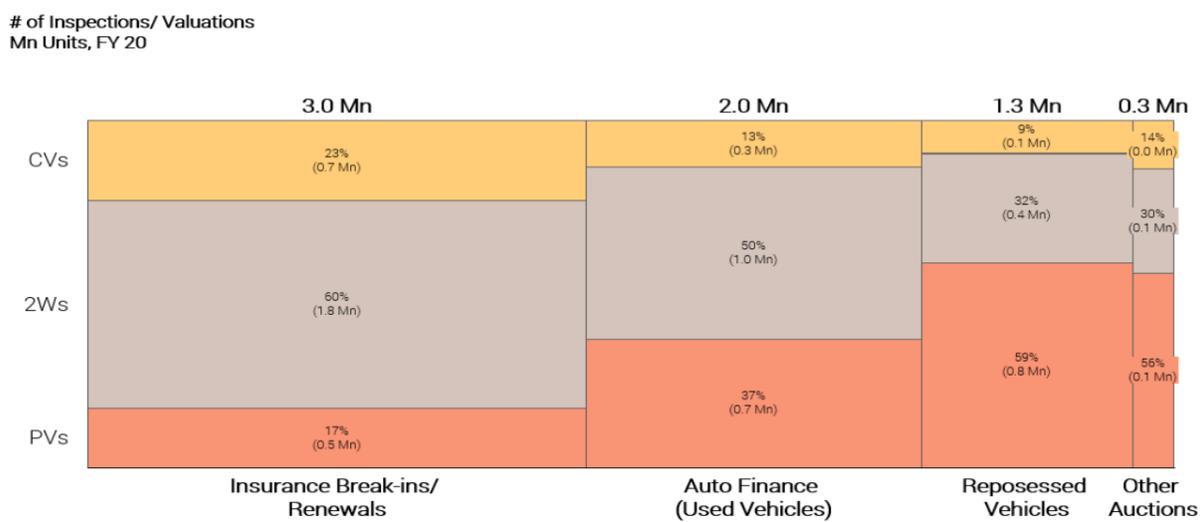
According to a report by the RBI entitled Sectoral Deployment of Bank Credit and dated April 2020, approximately US\$ 34.5 billion of vehicle loans were outstanding as of March 31, 2021. Auto finance, especially in the pre-owned vehicles market, is a highly under-penetrated market, and thus has potential for growth. In finance year 2020, approximately 17% of used cars were purchased with auto finance, compared to 75% for new cars. Auto loan financing rates for used cars in financial year 2020 was higher than that for new cars. Compared to some developed countries, such as the U.S. as shown in the figure below, there is significant headroom for financing penetration in both new and used cars in India:



• Inspections and Valuations

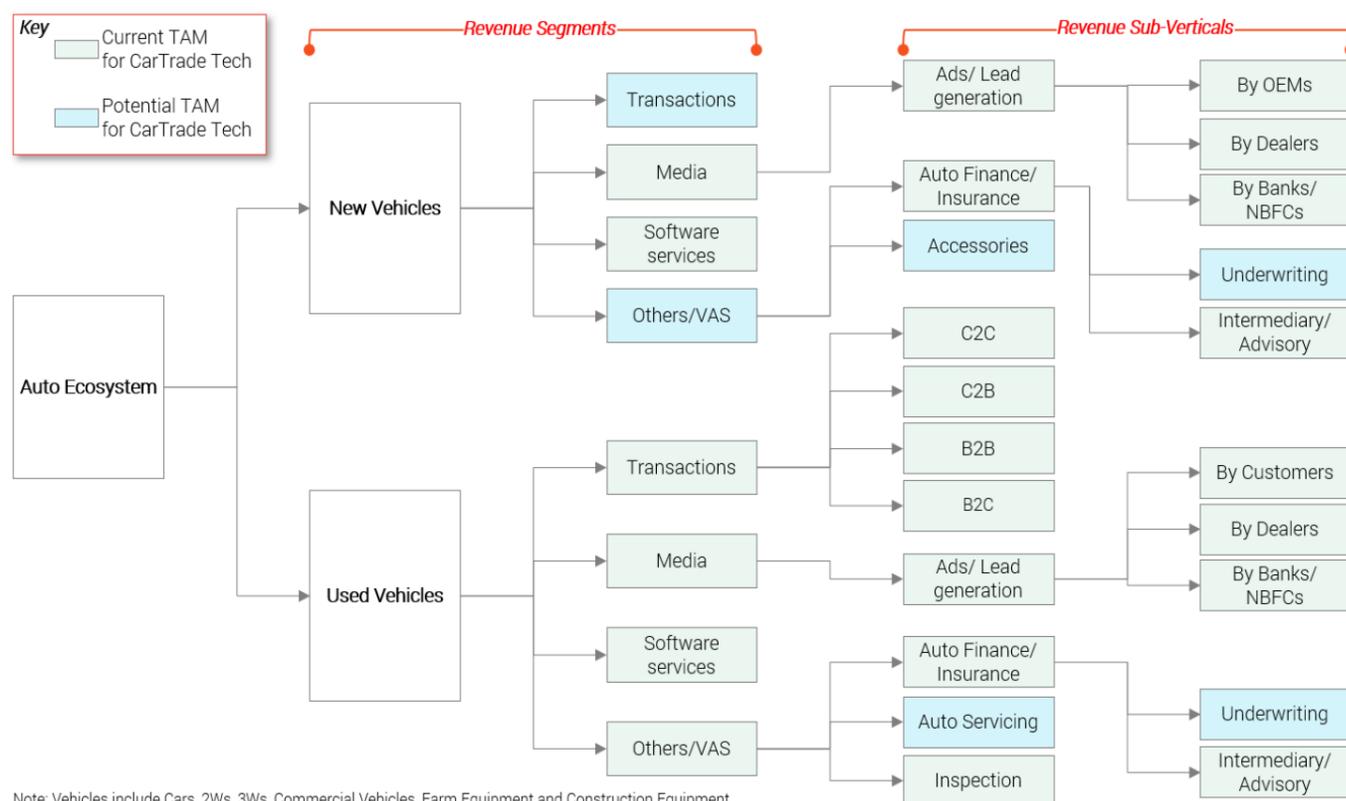
Automotive portals also offer inspections and evaluations to cater to the used car auto loan financing industry, as well as to the secondary market for insurance renewals. CarTrade Tech’s valuation and inspection business, Adroit Auto, caters to this space.

Approximately 6.5 million inspections and valuations were conducted in financial year 2020, as shown in the figure below:



➤ Business Models and Competition Overview

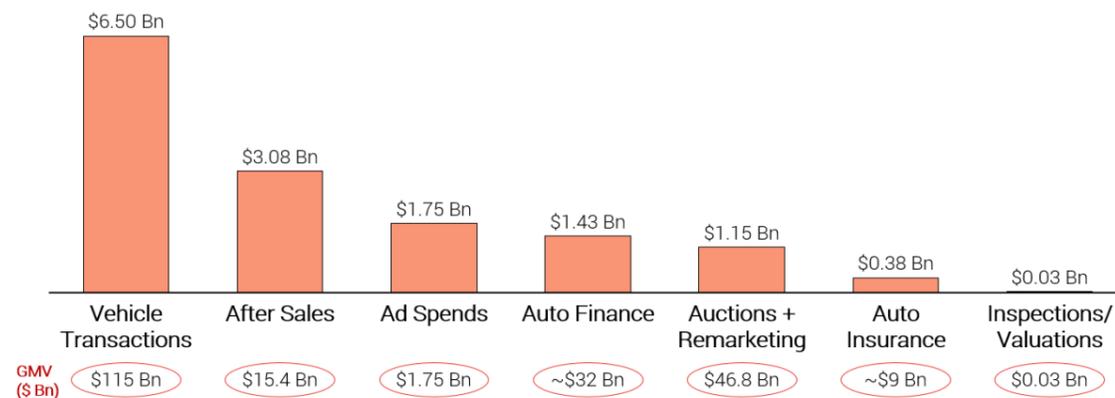
CarTrade Tech is a multi-channel auto platform with coverage and presence across vehicle types and value-added services. The digital automotive ecosystem provides huge opportunity for CarTrade Tech, as shown in the figure below:



In financial year 2020, the total addressable market ("TAM"), or the revenue pool for online automotive portals in India was approximately US\$14.3 billion, as shown in the figure below:

Auto Portals TAM –Revenue Pool Available  
FY 2020, US\$ Bn

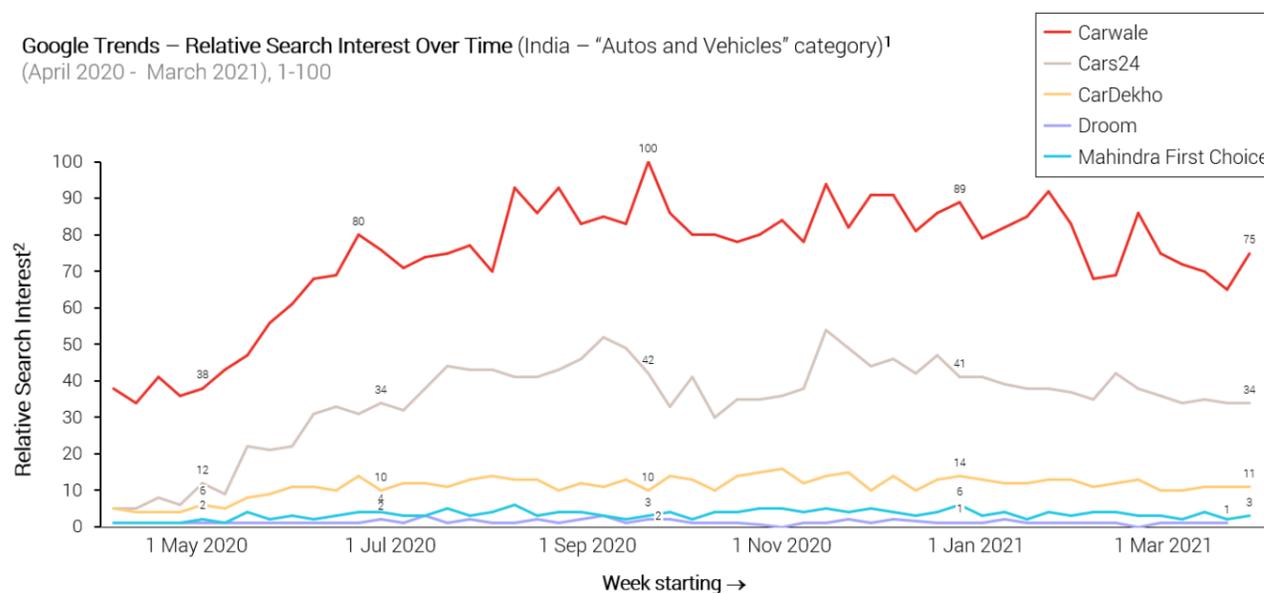
Revenue Pool: ~\$14.3 Bn (TAM)



Note:  
1. Ad Spends includes spends by Auto OEMs (PVs, 2Ws, CVs) and Auto Dealers (new and used car dealers)

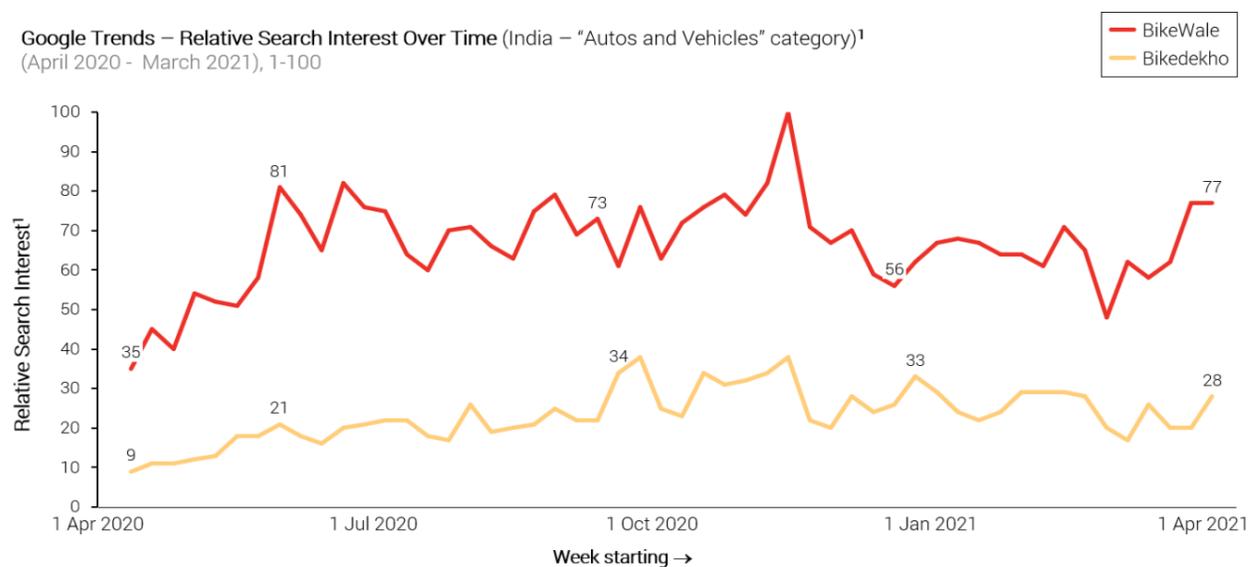
CarWale and BikeWale, both platforms owned by CarTrade Tech, ranked number one on relative online search popularity when compared to their key competitors over the period from April 2020 to March 2021. This is a key competitive advantage for CarWale and BikeWale.

Google Trends – Relative Search Interest Over Time (India – "Autos and Vehicles" category)<sup>1</sup>  
(April 2020 - March 2021), 1-100



Note(s)  
1. "Search Term" has been selected for all the selected players i.e. "CarWale", "CarDekho", "Cars 24", "Droom", and "Mahindra First Choice"  
2. Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 mean that the term is half as popular. A score of 0 means there was not enough data for this term.

Google Trends – Relative Search Interest Over Time (India – "Autos and Vehicles" category)<sup>1</sup>  
(April 2020 - March 2021), 1-100



Note(s)  
1. "Search Term" has been selected for all the selected players i.e. "BikeWale" and "BikeDekho"  
2. Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 mean that the term is half as popular. A score of 0 means there was not enough data for this term.

As shown in the figure below, CarTrade Tech is the only profitable player among its key competitors, based on financial disclosures for financial year 2020.

Financials Comparison (Consolidated)  
FY 20, INR Mn

Financials Comparison (Consolidated)	CarTrade Tech	Cars24	CarDekho	Mahindra First Choice	Droom
<b>Revenue (INR Mn)</b>					
Total Revenue	3,183	30,652	7,547	3,758	1,795
Less: Purchase of Stock in Trade	162	28,654	3,074	1,678	0
Changes in inventories of finished goods, work-in-progress and stock-in-trade	9	-560	-180	-52	0
<b>Adjusted Revenue</b>	<b>3,012</b>	<b>2,558</b>	<b>4,654</b>	<b>2,133</b>	<b>1,795</b>
<b>Expenses (INR Mn)</b>					
Advertising Promotional Expenses	241	1,416	1,461	145	1,979
Employee Benefit Expenses	1,342	2,172	3,388	653	420
Other Expenses (excluding Finance costs, Depreciation & Amortisation expenses & Taxes)	1,077	3,059	4,105	1,475	2,177
<b>Profitability (INR Mn)</b>					
EBITDA	592	-2,672	-2,840	5	-803
% of Total Revenue	18.6%	-8.7%	-37.6%	0.1%	-44.7%
PAT	292	-2,850	-3,265	-70	-829
% of Total Revenue	9.2%	-9.3%	-43.3%	-1.9%	-46.2%

### Key Risk:

- The extent to which the COVID-19 pandemic may affect the company's business, results of operations, cash flows and financial condition in the future is uncertain and cannot be predicted.
- The Company may experience disruptions, failures or breaches of their technology platforms.
- If the company's websites do not achieve a high ranking in organic search results or are removed from app stores, this could reduce traffic to their websites and apps and prevent the company from competing successfully.
- Company's failure to provide quality content on CarWale, CarTrade and BikeWale may reduce traffic to sites and adversely affect their business, results of operations, cash flows and financial condition.
- Increase in competition among automotive digital platforms may adversely affect their profitability.
- 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
- Changing laws, rules and regulations and legal uncertainties, including the withdrawal of certain benefits or adverse application of tax laws, may adversely affect the business, results of operations, cash flows and financial condition.
- The Company rely on third-party service providers for many aspects of their business, and any failure to maintain these relationships could harm their business.
- The Company is subject to risks related to online payment methods.

### Valuation:

CarTrade Tech Ltd has a unique business model with no listed peers in the market. Covid-19 has impacted its FY21 financials. At the upper end of the IPO price band, it is offered at 4.4x P/BV and 29.6x EV/Sales and 73.4x P/E if we exclude accounting adjustments for deferred tax and attribute it on equity, then the asking price is at a P/E of around 199.26x to its FY21 earnings with a market cap of Rs.74,159.5 million which shows the issue is priced exorbitantly.

However, considering the future prospect of the company and it is also placed at a sweet spot as the first mover advantage we assign "Subscribe" Rating to this IPO investors can invest in this company with medium to long term perspective.

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Ratings Guide (12 months)	Buy	Hold	Sell
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