



**Choice**  
Nurturing Financial Excellence

# IPO REPORT

**“SUBSCRIBE” to  
CarTrade Tech Ltd.**

Only profitable electronic exchange catering to auto sector

## Salient features of the IPO:

- Online auto classified platform **CarTrade Tech Ltd.** (CarTrade), is coming up with an IPO to raise up to Rs. 3,000cr, which opens on 9<sup>th</sup> Aug. and closes on 11<sup>th</sup> Aug. 2021. The price band is Rs. 1,585 – 1,618 per share.
- The issue only has OFS portion, thus the company will not receive any proceeds from this IPO.
- In Apr. 2021, the company executed private placement of shares, which were at discounts to the offer price. Also few of the warrants were converted into shares, which were at significant discount to the offer price.

## Key competitive strengths:

- Leading marketplace for automotive sales with a synergistic ecosystem
- Brands and customer experience driving powerful network effects
- Proprietary end-to-end technology platforms
- Focus on data science to provide superior solutions
- Profitable and scalable business model
- Founder-led management team

## Risk and concerns:

- Unfavorable government policies
- Continued subdued economic activities
- Poor business from marketing activities
- Difficulty in adding new revenue streams
- Rise in interest rates
- Competition

## Below are the key highlights of the company:

- India was the fifth largest car market in the world in 2020 and is expected to become the third largest automotive market in the world in terms of volume by 2025. Annual new car sales in India are expected to grow from 2.7mn units in FY21 to 4.4mn units in FY26, while used car sales are expected to grow from 4.4mn units in FY20 to 8.3mn units in FY26. Moreover, new two-wheeler sales are expected to grow from 15.1mn units in FY21 to 26.6mn units by FY26.
- 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, which help in streamlining the entire ecosystem. According to the RedSeer Report, 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.
- CarTrade is a vehicle online auto portal, which plays an important role across the auto value chain by connecting different stakeholders like OEMs, dealers, financial institutions, consumers etc. According to the RHP, it was the number one online auto portal for both cars & two-wheelers (based on the online searches) in FY21 and also one of the leading used vehicle auction platforms (based on number of vehicles listed for auction) in FY20. Also among the key competitors, it was the only profitable online auto platform in FY20. The company is backed by marquee institutional shareholders like Highdell Investment (affiliate of Warburg Pincus), MacRitchie Investments (an affiliate of Temasek), JP Morgan and March Capital.

Recommendation	SUBSCRIBE
Price band	Rs. 1,585 - 1,618 per share
Face value	Rs. 10
Shares for fresh issue	Nil
Shares for OFS	1.853cr shares
Fresh issue size	N/a
OFS issue size	Rs. 2,937.4 - 2,998.5cr
Total issue size	1.853cr shares (Rs. 2,937.4 - 2,998.5cr)
Bidding date	9 <sup>th</sup> Aug. - 11 <sup>th</sup> Aug. 2021
MCAP at higher price band	Rs. 7,416cr
Enterprise value at higher price band	Rs. 6,636cr
Book running lead manager	Axis Capital Ltd., Citigroup Global Markets India Pvt. Ltd., Kotak Mahindra Capital Company Ltd. and Nomura Financial Advisory and Securities (India) Pvt. Ltd.
Registrar	Link Intime India Pvt. Ltd.
Sector	Internet software & services
Promoters	The company is professionally managed and thus does not have an identifiable promoter

Issue breakup		
Category	Percent of issue (%)	Number of shares
QIB portion	50%	0.927cr shares
Non institutional portion	15%	0.278cr shares
Retail portion	35%	0.649cr shares

Indicative IPO process time line	
Finalization of basis of allotment	17 <sup>th</sup> Aug. 2021
Unblocking of ASBA account	18 <sup>th</sup> Aug. 2021
Credit to demat accounts	20 <sup>th</sup> Aug. 2021
Commencement of trading	23 <sup>rd</sup> Aug. 2021

Pre and post - issue shareholding pattern		
	Pre-issue	Post-issue
Promoter & promoter group	0.00%	0.00%
Public	100.00%	100.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Retail application money at higher cut-off price per lot	
Number of shares per lot	9
Application money	Rs. 14,562 per Lot

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## Key highlights of the company (Contd...):

- CarTrade is a multi-channel auto platform with coverage and presence across vehicle types and value-added services. The company operates its platforms under several brands: CarWale, CarTrade, Shriram Automall, BikeWale, CarTrade Exchange, Adroit Auto and AutoBiz. The platform is scalable and vertically integrated across the value chain thereby enabling new and used automobile customers, vehicle dealerships, vehicle OEMs and other businesses to buy and sell their vehicles in a simple and efficient manner.
- CarWale and CarTrade assists the visitor to buy and sell new and used cars, while BikeWale helps in buying and selling of new and used two-wheelers. Shriram Automall facilitates sales of pre-owned vehicles and farm & construction equipments. CarTrade Exchange is an online auction platform, while Adroit Auto offers vehicle inspection and valuation reports to the financial institutions. AutoBiz provides CRM and used car ERP solutions to OEMs like BMW India Pvt. Ltd. and MG Motor India Pvt. Ltd.
- In the last three fiscals and in Q1 FY22, its consumer platforms (i.e. CarWale, CarTrade and BikeWale) collectively had an average of 19.27mn, 20.51mn, 25.66mn and 27.11mn unique visitors per month, respectively, of which 64.67%, 66.65%, 88.44% and 88.14% were organic visitors. Moreover, the vehicles auctioned on Shriram Automall and other auction platforms increased by 7.2% CAGR over FY19-21 to 0.08cr units.
- CarTrade generates revenues in the form of commission and fees from auction and remarketing services of used vehicles; online advertising solutions on CarWale, CarTrade and BikeWale; lead generation for OEMs, dealers and financial institutions; technology-based services and inspection & valuation services to the institutional stakeholders.
- CarTrade is profitable since FY19 and was the only profitable online auto platform in FY20. Over FY18-21, the company has reported a robust business growth with improvement in the profitability. Mainly on the back of higher commission income, the company reported a 26.4% CAGR rise in total revenue to Rs. 249.7cr in FY21. Total operating expenses increased by 13.4% CAGR (lower than the top-line growth), leading to an EBITDA of Rs. 39.4cr in FY21 as compared to a loss of Rs. 20.5cr in FY18. EBITDA margin was in increasing trend over FY19-21 with an average margin of 13.7%. In FY21, the company reported a deferral tax credit of Rs. 63.9cr, thereby leading to a reported PAT of 91.2cr. Reported PAT stood at Rs. 16.7cr and Rs. 21.9cr in FY19 and FY20, respectively. Baring FY18, CarTrade reported a positive operating cash flow with an average cash flow of Rs. 29.2cr. Despite 20.6% CAGR rise in financial liabilities over FY18-21, the company's operations were virtually debt free with an average debt-to-equity ratio of 0.1x. RoIC and RoE were in increasing trend with an average of 1% and 2.8%, respectively.

**Peer comparison and valuation:** CarTrade is an electronic exchange focusing on auto sector and thus there is no peer company having similar business operations. At higher price band of Rs. 1,618, CarTrade is demanding an EV/Sales multiple of 26.6x, which we feel is attractive considering its scalable business model, profitable operations and business growth opportunities in the auto sector value chain. Thus we assign a “**SUBSCRIBE**” rating for the issue.

## About the issue:

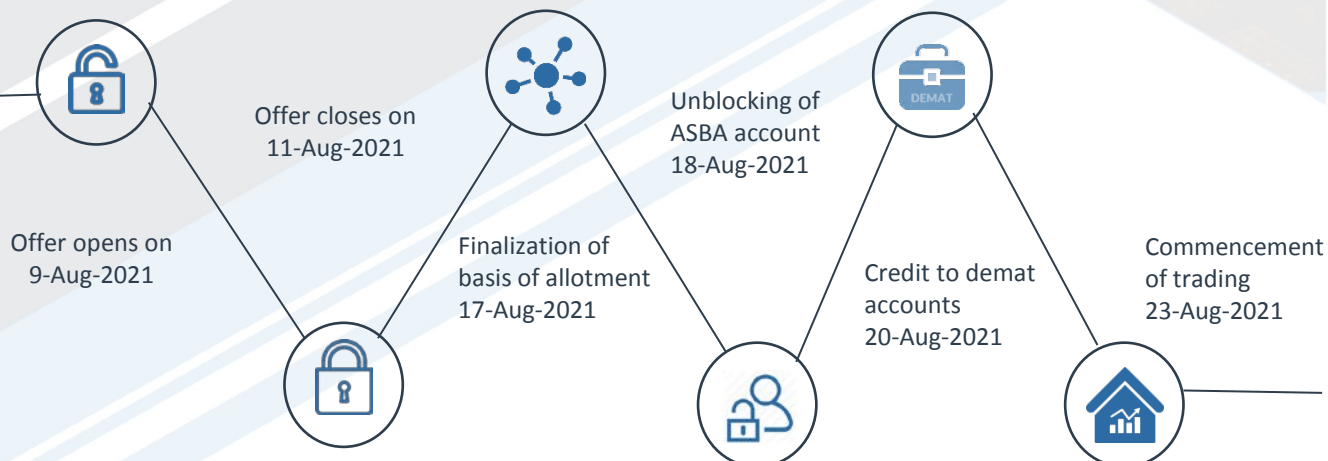
- CarTrade is coming up with an initial public offering (IPO) with 1.853cr shares (fresh issue: nil; OFS shares: 1.853cr shares) in offering. The offer represents around 40.43% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 2,937.4 - 2,998.5cr.
- The issue will open on 9<sup>th</sup> Aug. 2021 and close on 11<sup>th</sup> Aug. 2021.
- The issue is through book building process with a price band of Rs. 1,585 - 1,618 per share.
- The issue only has OFS portion, thus the company will not receive any proceeds from this IPO.
- 50% of the net issue are reserved for qualified institutional buyers, while 15% and 35% of the net issue is reserved for non-institutional bidders and retail investors, respectively.
- The company is a professionally managed and thus does not have an identifiable promoter.

### Pre and post-issue shareholding pattern (%)

	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group (%)	0.00%	0.00%
Public (%)	100.00%	100.00%

Source: Choice Equity Broking

## Indicative IPO process time line:



## Financial performance:

**Performance over FY18-21:** CarTrade is profitable since FY19 and was the only profitable online auto platform in FY20. Over FY18-21, the company has reported a robust business growth with improvement in the profitability. Mainly on the back of higher commission income, the company reported a 26.4% CAGR rise in total revenue to Rs. 249.7cr in FY21.

Employee cost in absolute terms increased by 17.5% CAGR, but relative to top-line it stood at 52.1% in FY21 as compared to 64.9% in FY18. Moreover, advertisement, marketing and sales promotion expenses declined by 21.6% CAGR during the period. As a result, total operating expenses increased by 13.4% CAGR (lower than the top-line growth), leading to an EBITDA of Rs. 39.4cr in FY21 as compared to a loss of Rs. 20.5cr in FY18. EBITDA margin was in increasing trend over FY19-21 with an average margin of 13.7%.

With increase in business, depreciation charge and finance cost increased by 35.9% and 106.1% CAGR. Other income increased by 7% CAGR, mainly on account of higher returns from the investments. Consequently, pre-tax profit stood at Rs. 47cr in FY21 as compared to a loss of Rs. 2.9cr in FY18. In FY21, the company reported a deferral tax credit of Rs. 63.9cr, thereby leading to a reported PAT of Rs. 91.2cr. Reported PAT stood at Rs. 16.7cr and Rs. 21.9cr in FY19 and FY20, respectively.

Baring FY18, CarTrade reported a positive operating cash flow with an average cash flow of Rs. 29.2cr. Despite 20.6% CAGR rise in financial liabilities over FY18-21, the company's operations were virtually debt free with an average debt-to-equity ratio of 0.1x. RoIC and RoE were in increasing trend with an average of 1% and 2.8%, respectively.

Consolidated financial snapshot (Rs. cr)	FY18	FY19	FY20	FY21	CAGR over FY18-21 (%)	Y-o-Y (% Annual)
Revenue from operations	123.6	243.3	298.3	249.7	26.4%	-16.3%
EBITDA	(20.5)	29.5	39.6	39.4		-0.7%
Reported PAT	(9.1)	16.7	21.9	91.2		316.9%
Restated reported EPS	(2.0)	3.6	4.8	19.9		316.9%
Cash flow from operating activities	(6.7)	35.2	17.2	35.2		105.1%
NOPLAT	4.9	10.0	15.8	15.4	46.9%	-2.6%
FCF		(4.8)	(5.9)	(321.6)		
RoIC (%)	0.4%	0.8%	1.2%	0.9%	52 bps	(27) bps
Revenue growth rate (%)		96.9%	22.6%	-16.3%		
EBITDA growth rate (%)		-244.0%	34.3%	-0.7%		
EBITDA margin (%)	-16.6%	12.1%	13.3%	15.8%	3,235 bps	248 bps
EBIT growth rate (%)		-150.3%	55.7%	-12.6%		
EBIT margin (%)	-23.0%	5.9%	7.5%	7.8%	3,079 bps	33 bps
Restated reported PAT growth rate (%)		-283.5%	31.1%	316.9%		
Restated reported PAT margin (%)	-7.4%	6.9%	7.3%	36.5%	4,389 bps	2,919 bps
Inventory days						
Debtor days	102.6	53.1	50.6	68.7	-12.5%	35.7%
Payable days						
Cash conversion cycle	102.6	53.1	50.6	68.7	-12.5%	35.7%
Fixed asset turnover ratio (x)	0.1	0.2	0.3	0.2	25.4%	-16.9%
Total asset turnover ratio (x)	0.1	0.2	0.2	0.1	12.4%	-36.2%
Current ratio (x)	4.2	3.8	4.6	7.1	19.3%	56.2%
Total debt (Rs.)	64.6	93.8	91.5	113.2	20.6%	23.8%
Net debt (Rs.)	(194.2)	(213.2)	(204.3)	(538.7)	40.5%	163.6%
Debt to equity (x)	0.1	0.1	0.1	0.1	8.0%	-7.0%
Net debt to EBITDA (x)	9.5	(7.2)	(5.2)	(13.7)		165.4%
RoE (%)	-0.8%	1.4%	1.7%	5.4%	618 bps	369 bps
RoA (%)	-0.7%	1.2%	1.5%	4.7%	540 bps	324 bps
RoCE (%)	-2.2%	1.1%	1.6%	1.1%	330 bps	(54) bps

Source: Choice Equity Broking





## Competitive strengths:

- Leading marketplace for automotive sales with a synergistic ecosystem
- Brands and customer experience driving powerful network effects
- Proprietary end-to-end technology platforms
- Focus on data science to provide superior solutions
- Profitable and scalable business model
- Founder-led management team

## Business strategy:

- Well positioned to benefit from growth of the automotive sector and digitalization
- Grow business through its digital ecosystem, online-offline presence and vehicle-agnostic approach
- Create an opportunity to monetize value-added services and untapped opportunities through strong customer base and technology platform
- Invest further in technology
- Supplement organic growth with selective acquisitions



## Risk and concerns:

- Unfavorable government policies
- Continued subdued economic activities
- Poor business from marketing activities
- Difficulty in adding new revenue streams
- Rise in interest rates
- Competition

## Financial statements:

### Consolidated profit and loss statement (Rs. cr)

	FY18	FY19	FY20	FY21	CAGR over FY18 - 21 (%)	Annual growth over FY20 (%)
<b>Revenue from operations</b>	<b>123.6</b>	<b>243.3</b>	<b>298.3</b>	<b>249.7</b>	<b>26.4%</b>	<b>-16.3%</b>
Purchase of stock-in-trade		(0.9)	(16.2)	(2.8)		-82.7%
Changes in inventories of stock-in-trade		0.9	(0.9)	1.6		-268.9%
<b>Gross profit</b>	<b>123.6</b>	<b>243.3</b>	<b>281.1</b>	<b>248.4</b>	<b>26.2%</b>	<b>-11.6%</b>
Employee benefits expense	(80.2)	(127.6)	(133.1)	(130.1)	17.5%	-2.2%
Other expenses	(63.9)	(86.2)	(108.4)	(79.0)	7.3%	-27.2%
<b>EBITDA</b>	<b>(20.5)</b>	<b>29.5</b>	<b>39.6</b>	<b>39.4</b>		<b>-0.7%</b>
Depreciation and amortization expense	(7.9)	(15.2)	(17.4)	(19.9)	35.9%	14.6%
<b>EBIT</b>	<b>(28.4)</b>	<b>14.3</b>	<b>22.2</b>	<b>19.4</b>		<b>-12.6%</b>
Finance cost	(0.5)	(2.4)	(3.5)	(4.3)	106.1%	23.2%
Other income	26.0	23.5	20.2	31.8	7.0%	57.9%
<b>PBT</b>	<b>(2.9)</b>	<b>35.4</b>	<b>38.9</b>	<b>47.0</b>		<b>20.7%</b>
Tax expenses	(3.9)	(9.5)	(7.6)	54.1		-809.9%
<b>PAT before minority interest</b>	<b>(6.9)</b>	<b>25.9</b>	<b>31.3</b>	<b>101.1</b>		<b>223.0%</b>
Minority interest	(2.2)	(9.2)	(9.4)	(9.9)	64.6%	4.8%
<b>Reported PAT</b>	<b>(9.1)</b>	<b>16.7</b>	<b>21.9</b>	<b>91.2</b>		<b>316.9%</b>

### Consolidated balance sheet statement (Rs. cr)

	FY18	FY19	FY20	FY21	CAGR over FY18 - 21 (%)	Annual growth over FY20 (%)
Equity share capital	3.4	3.4	3.4	3.6	1.3%	3.9%
Instruments in the nature of equity	34.9	34.9	34.9	38.8	3.6%	11.2%
Other equity	1,169.5	1,193.1	1,223.9	1,638.2	11.9%	33.9%
Non controlling interests	41.4	55.7	70.3	81.8	25.5%	16.5%
Non current lease liabilities	11.5	21.7	34.6	46.4	59.1%	34.2%
Non current provisions	3.0	3.7	4.2	4.5	15.2%	7.8%
Non current net deferred tax liabilities	11.2	9.6	7.9	6.3	-17.4%	-20.0%
Other non current liabilities			0.1	0.1		38.4%
Current lease liabilities	3.2	11.8	7.6	8.2	36.0%	7.7%
Other current financial liabilities	49.9	60.3	49.3	58.7	5.6%	19.0%
Trade payables	16.5	18.1	19.6	22.2	10.5%	13.6%
Current provisions	2.4	2.7	3.3	3.4	11.6%	2.4%
Other current liabilities	10.1	12.1	11.4	18.0	21.2%	57.6%
<b>Total liabilities</b>	<b>1,357.1</b>	<b>1,427.1</b>	<b>1,470.4</b>	<b>1,930.2</b>	<b>12.5%</b>	<b>31.3%</b>
Property, plant and equipment	47.6	47.6	49.7	51.1	2.4%	2.9%
Intangible assets	44.1	37.7	31.3	25.4	-16.8%	-19.0%
Capital work-in-progress			0.2	0.5		156.8%
Intangible assets under development	0.0	0.0				
Right of use assets	9.2	27.3	36.6	48.0	73.3%	31.2%
Goodwill	897.7	897.7	898.0	898.0	0.0%	0.0%
Non current investments	2.4	1.7	20.6	18.1	97.1%	-12.2%
Other non current financial assets	2.8	3.2	4.8	24.6	106.1%	412.2%
Non current net deferred tax assets	3.4	2.8	3.1	65.4	167.5%	2040.6%
Non current net income tax assets	4.3	9.2	8.4	10.8	35.9%	29.0%
Other non current assets	0.8	4.6	2.2	2.0	36.2%	-8.7%
Inventories		0.9	0.0	1.6		8661.1%
Trade receivables	34.7	36.0	46.7	47.3	10.9%	1.3%
Current investments	245.6	285.3	274.2	627.4	36.7%	128.8%
Cash and cash equivalents	13.3	21.6	21.6	24.5	22.6%	13.4%
Other current financial assets	4.5	9.3	20.9	30.7	89.0%	46.8%
Current loans	28.4	26.0	37.9	49.3	20.3%	30.3%
Current net income tax assets		0.9	1.7			
Other current assets	18.3	15.2	12.8	5.7	-32.4%	-55.6%
<b>Total assets</b>	<b>1,357.1</b>	<b>1,427.1</b>	<b>1,470.4</b>	<b>1,930.2</b>	<b>12.5%</b>	<b>31.3%</b>

Source: Choice Equity Broking

## Financial statements:

### Consolidated cash flow statement (Rs. cr)

Particulars (Rs. mn)	FY18	FY19	FY20	FY21	CAGR over FY18 - 21 (%)	Annual growth over FY20 (%)
Cash flow before working capital changes	(13.7)	44.7	56.6	50.5	-254.3%	-10.8%
Working capital changes	11.9	7.5	(30.3)	(5.0)		-83.5%
<b>Cash flow from operating activities</b>	<b>(6.7)</b>	<b>35.2</b>	<b>17.2</b>	<b>35.2</b>		<b>105.1%</b>
Purchase of property, plant and equipment	(1.0)	(2.4)	(4.8)	(5.4)	76.9%	12.9%
<b>Cash flow from investing activities</b>	<b>26.0</b>	<b>(18.0)</b>	<b>(8.2)</b>	<b>(340.8)</b>		<b>4079.7%</b>
<b>Cash flow from financing activities</b>	<b>(10.9)</b>	<b>(7.8)</b>	<b>(11.1)</b>	<b>308.1</b>		
<b>Net cash flow</b>	<b>8.4</b>	<b>9.3</b>	<b>(2.1)</b>	<b>2.5</b>	<b>-33.5%</b>	
Opening balance of cash	3.8	12.2	21.6	19.5	72.0%	-9.6%
<b>Closing balance of cash</b>	<b>12.2</b>	<b>21.6</b>	<b>19.5</b>	<b>22.0</b>	<b>21.6%</b>	<b>12.7%</b>

### Consolidated financial ratios

Particulars (Rs. mn)	FY18	FY19	FY20	FY21
Revenue growth rate (%)		96.9%	22.6%	-16.3%
EBITDA growth rate (%)		-244.0%	34.3%	-0.7%
EBITDA margin (%)	-16.6%	12.1%	13.3%	15.8%
EBIT growth rate (%)		-150.3%	55.7%	-12.6%
EBIT margin (%)	-23.0%	5.9%	7.5%	7.8%
Restated reported PAT growth rate (%)		-283.5%	31.1%	316.9%
Restated reported PAT margin (%)	-7.4%	6.9%	7.3%	36.5%

### Turnover ratios

Inventories turnover ratio (x)				
Trade receivable turnover ratio (x)	3.6	6.9	7.2	5.3
Accounts payable turnover ratio (x)	7.5	14.1	15.9	11.9
Fixed asset turnover ratio (x)	0.1	0.2	0.3	0.2
Total asset turnover ratio (x)	0.1	0.2	0.2	0.1

### Return ratios

RoE (%)	-0.8%	1.4%	1.7%	5.4%
RoA (%)	-0.7%	1.2%	1.5%	4.7%
RoCE (%)	-2.2%	1.1%	1.6%	1.1%

### Per share data

Restated adjusted EPS (Rs.)	(2.0)	3.6	4.8	19.9
DPS (Rs.)	0.0	0.0	0.0	0.0
BVPS (Rs.)	263.5	268.7	275.4	366.7
Operating cash flow per share (Rs.)	(1.5)	7.7	3.7	7.7
Free cash flow per share (Rs.)		(1.1)	(1.3)	(70.2)
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%

Note: Ratios calculated on pre-issue data; Source: Choice Equity Broking



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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report) Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.



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