



IPO Report

SUBSCRIBE

07th Aug 21

Snapshot

Cartrade is a multi-channel auto platform with coverage and presence across vehicle types and value-added services. Company's platforms operate under several brands: CarWale, CarTrade, Shriram Automall, BikeWale, CarTrade Exchange, Adroit Auto and AutoBiz. Through these platforms, company enable new and used automobile customers, vehicle dealerships, vehicle OEMs and other businesses to buy and sell their vehicles

VALUATION

Company is bringing the issue at price band of Rs 1585-1618 per share at p/e multiple of 73 on post issue FY21 eps. Company being leading marketplace for automotive sales with a synergistic ecosystem has proprietary end-to-end technology platforms with focus on data science to provide solutions. Also company is only profitable automotive digital platform among peers with asset light model & decent EBIDTA margins. Hence we recommend "Subscribe" on issue for both listing gain & long term purpose.

Price Band (Rs./Share)	1585-1618
Opening date of the issue	09th August 2021
Closing Date of the issue	11th August 2021
No of shares pre issue	45,834,067 Eq Shares
Issue size (No)	18532216 Eq Shares
Offer For Sale (No)	18532216 Eq Shares
Face Value (Rs/ share)	10
Bid Lot	9

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 9266107 Cr Eq Shares)
Non-Institutional	15% of the offer (Approx 2779833 Cr Eq Shares)
Retail	35 % of the offer (Approx 6486276 Cr Eq Shares)
Lead managers	Axis Capital Ltd, Citigroup Global Markets India Pvt Ltd, Kotak Mahindra Capital, Nomura Financial Advisory & Scurities
Registrar to the issue	Link Intime India Pvt. Ltd.

WHAT WE LIKE

Only Profitable Automotive Digital Platform among peers

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 key competitors, company was the only profitable automotive digital platform for the financial year 2020.

Strong brand Recognition

Company's 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. Company's 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 company had 212,552, 814,316, 809,428 and 709,190 listings on company's online and offline auction platforms for the same periods

Asset Light Model

Company operate on an asset-light business model, operating only 114 automalls, a large majority of which company lease or rent from third parties. Company have invested significantly 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, company have created a profitable and scalable business model. Company's operating expenses have grown at a lower rate than its revenues, as company is able to leverage its operations, sales and marketing and technology over a broader revenue base. This operating leverage has helped drive growth in adjusted EBITDA margins which was 27.62%, 22.71% and 24.42%, respectively. Company's investments in technology have made company's platforms scalable in a highly capital-efficient manner, and its asset-light business model has also allowed company to use cash on its balance sheet for acquisitions which have formed important parts of company's strategy in the past.



COMPANY BACKGROUND

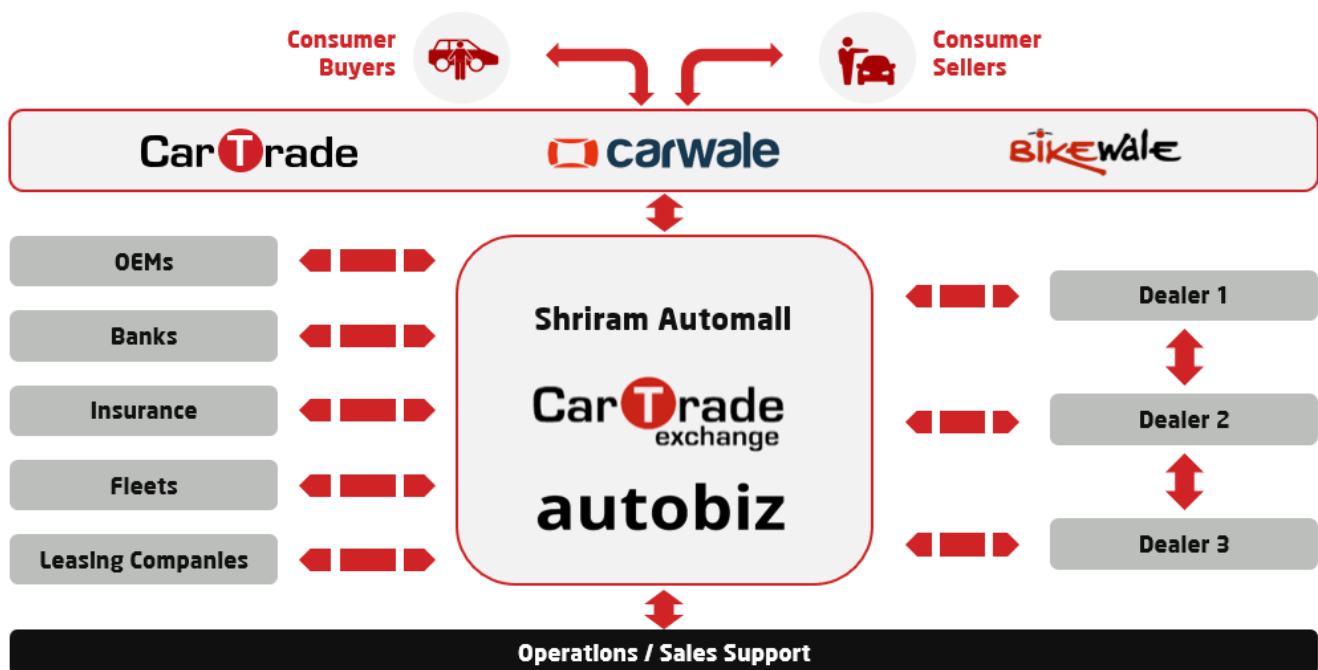
Company offer a variety of solutions across the automotive transaction value chain for marketing, buying, selling and financing of new and pre-owned cars, two-wheelers as well as pre-owned commercial vehicles and farm and construction equipment. A summary of company's key offerings is as follows:

- Car shoppers can visit 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, 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.
- Company's subsidiary, Shriram Automall, facilitates sales of pre-owned cars, two-wheelers, commercial vehicles, three-wheelers, 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.
-

A snapshot of the ecosystem and network effects created by company's key offerings is illustrated below:

CarTradeTech Synergistic Ecosystem

Our platforms generate superior customer experiences on all sides of the trade



Source:RHP



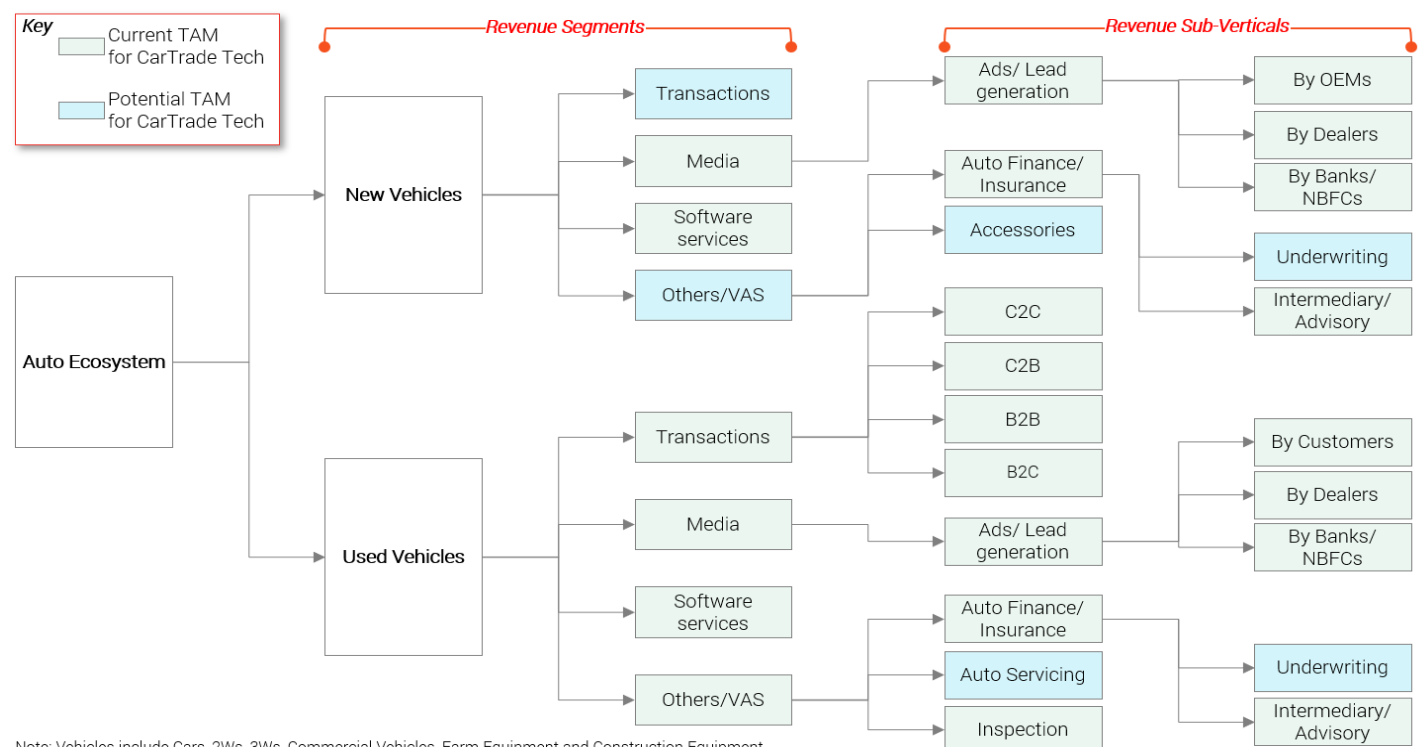
Cartrade generate revenues from several business streams primarily comprising:

- (a) 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, in the amount of ₹ 1,424.95 million for the financial year 2021;
- (b) online advertising solutions on CarWale, CarTrade and BikeWale for OEMs, dealers, banks and other financial institutions;
- (c) lead generation for OEMs, dealers, banks and other financial institutions and insurance companies;
- (d) technology-based services to OEMs, dealers, banks and other financial institutions and insurance companies;

The table below shows key operational metrics for businesses:

Particulars	Three Months Ended							
	Three months ended	Financial year ended						Financial Year Ended
	June 30,2021	March 31,2021	March 31,2021	December 31,2020	September 30,2020	June 30,2020	March 31,2020	March 31,2019
Average Monthly Unique Visitors, including on Apps (in millions)	27.11	25.66	31.99	29.96	25.32	15.35	20.51	19.27
Average Monthly Unique Organic Visitors (in millions)	24.85	23.42	29.26	27.282	22.99	14.14	14.54	13.04
Number of Vehicles Listed for Auction	212552	814316	258504	213090	173809	168913	809428	709190
Percentage of Organic Unique Visitors	88.14%	88.44%	87.00%	87.00%	88.92%	93.85%	66.65%	64.67%
Number of Vehicles Sold by Auctions	30133	156689	62994	45370	31131	17194	197986	199529

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:





INVESTMENT RATIONALE

Profitable and Scalable Business Model

Cartrade became profitable in financial year 2019, with a restated profit for the year of ₹ 259.17 million in the financial year 2019. Company was the only profitable automotive digital platform for financial year 2020 among its key competitors in India. Company operate on an asset-light business model, operating only 114 automalls, a large majority of which it lease or rent from third parties. Company have invested significantly in building technology platforms that can manage considerably increased offerings without requiring sizable additional investments, and company's 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, company have created a profitable and scalable business model. Company's operating expenses have grown at a lower rate than its revenues, as company is able to leverage its operations, sales and marketing and technology over a broader revenue base. This operating leverage has helped drive growth in company's adjusted EBITDA margins as its revenues have scaled. For the financial years 2021, 2020 and 2019, company's adjusted EBITDA margin was 27.62%, 22.71% and 24.42%, respectively. Company's investments in technology have made its platforms scalable in a highly capital-efficient manner, and its asset-light business model has also allowed to use cash on its balance sheet for acquisitions which have formed important parts of company's strategy in the past.

Brands and Customer Experience Driving Powerful Network Effects

Company'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. Company's 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 strength of company's brands and their association with trust, quality and reliability is a key attribute in company's business, which increases consumer confidence and influences their consumption behaviour. Company's 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 company had 212,552, 814,316, 809,428 and 709,190 listings on its online and offline auction platforms for the same periods.

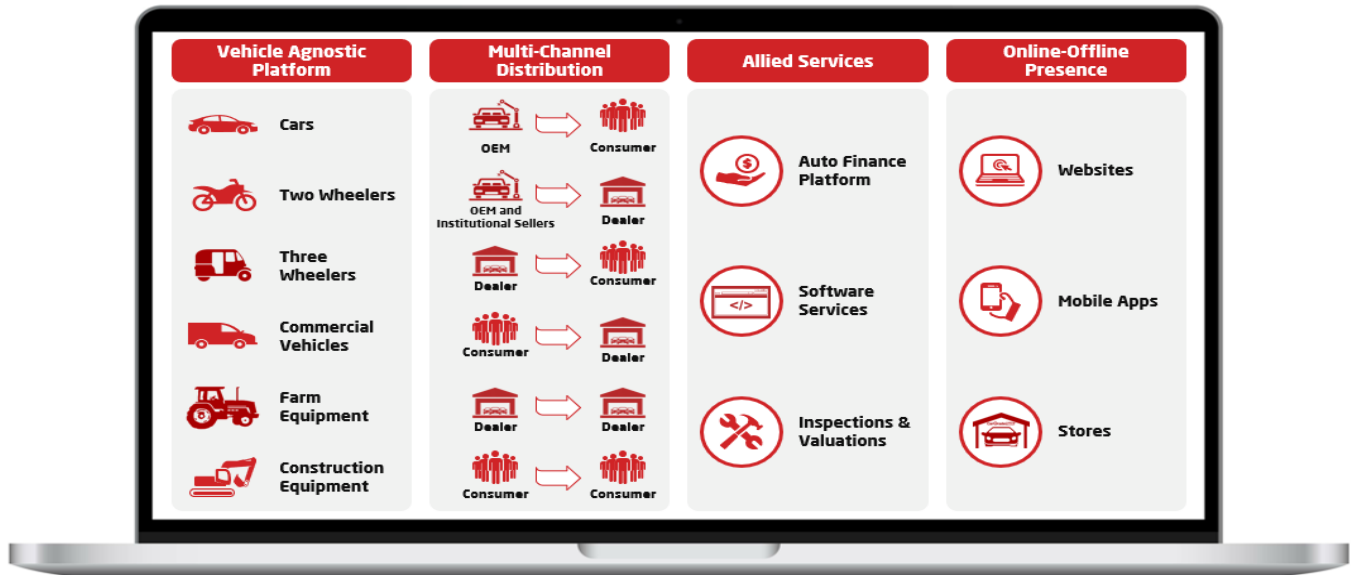
Leading Marketplace for Automotive Sales with a Synergistic Ecosystem

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 company's key competitors, company was the only profitable automotive digital platform for the financial year 2020.



COVERAGE & PRESENCE ACROSS VEHICLE TYPES & VALUE ADDED SERVICES

CarTradeTech



Source : RHP

OBJECTS OF ISSUE

The objects of the Offer are to carry out the Offer for Sale and to achieve the benefits of listing the Equity Shares on the Stock Exchanges

RISKS

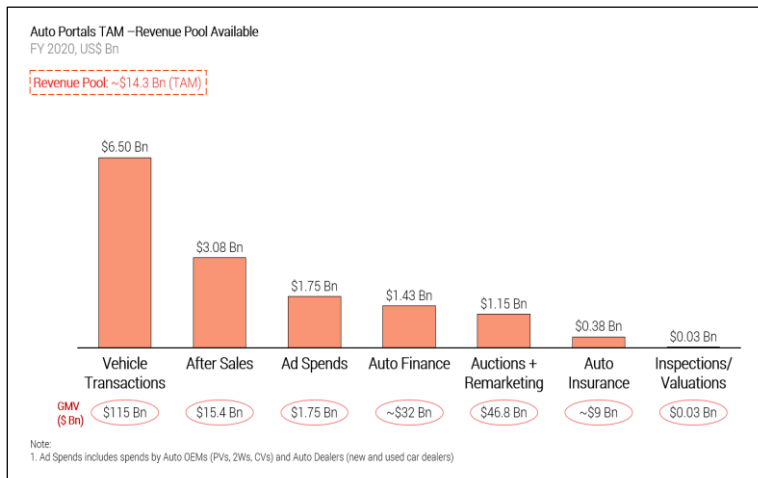
Company's key competitors include automobile portals, independent used and new vehicle dealers, branded vehicle dealerships, other online dealers of new and used vehicles, websites and apps for the publication of classified advertisements, and car leasing companies, which directly sell used cars from their fleets to consumers and dealers. Company's key competitors include brands such as Cars24 (Cars24 Services Private Limited), CarDekho and BikeDekho (Girnar Software Private Limited), Droom (Droom Technology Private Limited) and Mahindra First Choice Wheels Limited. Given that dealers are at the same time competitors who maintain their own offerings of vehicles, such dealers may decide to stop purchasing from company if they believe it threaten their competitive position or if company lose out to its online competitors, thereby forcing dealers to advertise or list their vehicles on its competitors' platforms.

Source:RHP

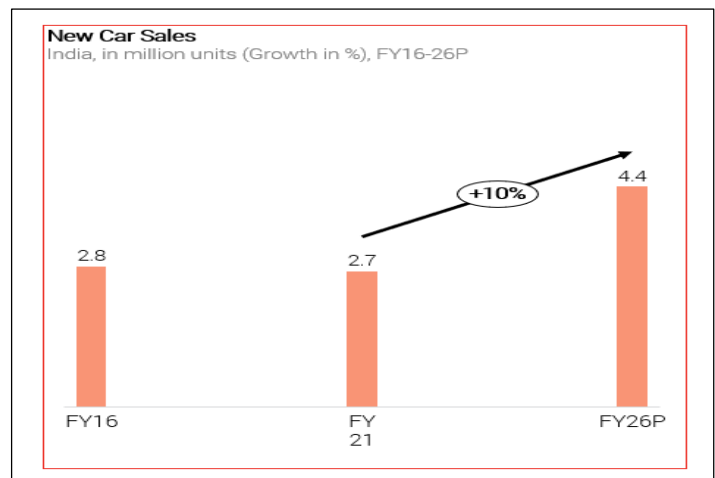


INDUSTRY OVERVIEW

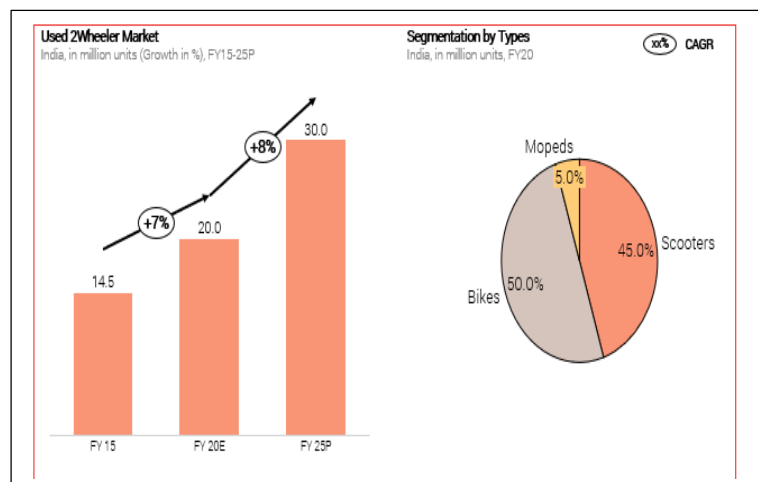
Auto Portals-Total Addressable Market (TAM)



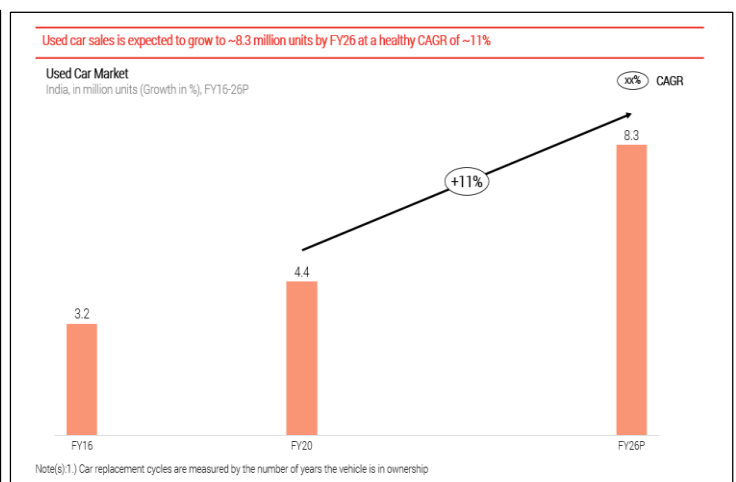
New Car Sales



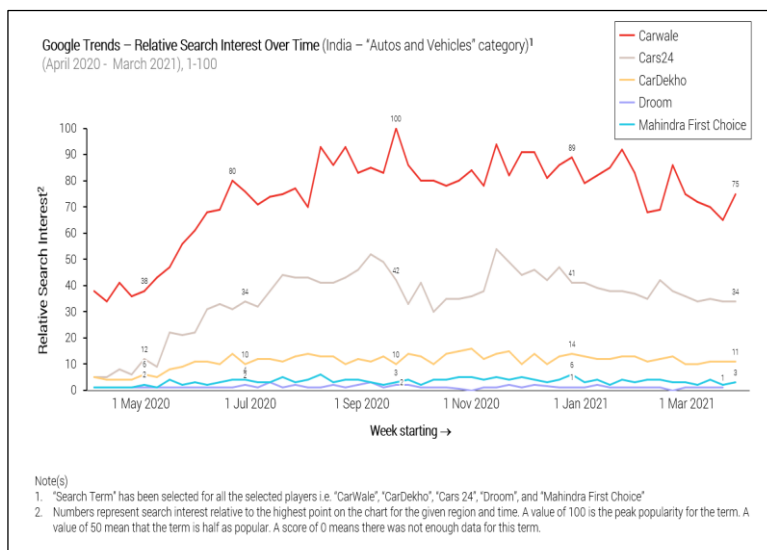
Used 2Wheeler Market



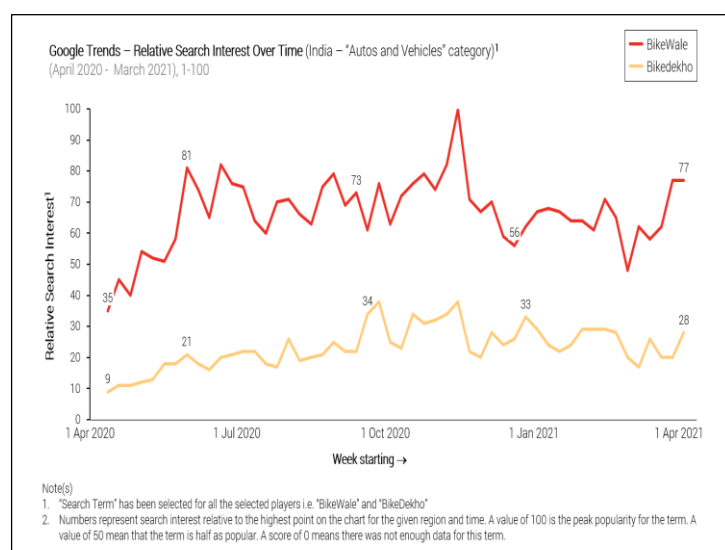
Used Car Market



Google Trends-Relative Search Interest Over Time



Trends-Relative Search Interest Over Time



Source: RHP



(Rs in Mn)

Financials	FY21	FY20	FY19
Total Revenue (A)	2496.83	2982.82	2432.78
Total Expenditure (B)	2103.22	2586.59	2137.75
EBIDTA	393.61	396.23	295.03
EBIDTA Margin	15.76	13.28	12.13
Other Income	318.40	201.63	235.27
Depreciation	199.27	173.82	152.18
EBIT	512.74	424.04	378.12
Interest	42.98	34.89	23.81
PBT	469.76	389.15	354.31
Tax	-540.98	76.21	95.14
PAT	1010.74	312.94	259.17
NPM	40.48	10.49	10.65
ROE %	5.43	1.73	1.36
EPS	22.06	5.65	4.31
Eq Cap	35.84	34.49	34.49
Net Worth	17,624.22	13,325.09	12,871.21

PEERS ANALYSIS

Following is peer group analysis:

Financials Comparison (Consolidated)
FY 20, INR Mn

Financials Comparison (Consolidated)	CarTrade Tech	Cars24	CarDekho	Mahindra First Choice	Droom
Revenue (INR Mn)					
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
Adjusted Revenue	3,012	2,558	4,654	2,133	1,795
Expenses (INR Mn)					
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
Profitability (INR Mn)					
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%

Source: RHP



DISCLAIMER

HEM Securities Limited ("Research Entity or HSL") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services, merchant banking services, Portfolio Management Services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.