AXIS CAPITAL

# Landmark Cars

## Proxy play on luxury PVs; initiating coverage with BUY

Auto | Initiating Coverage | June 13, 2023

## BUY

| | |
|---|---|
| Current Price (Rs) | : 702 |
| Target Price (Rs) | : 810 |
| Potential Upside | : 15% |

**Market Data**

| | |
|---|---|
| No. of shares | : 40 mn |
| Free Float | : 44.8% |
| Market Cap (USD) | : 338 mn |
| 52-week High/ Low (Rs) | : 731/ 433 |
| Avg. Daily Volume (6M) | : 0.21 mn |
| Avg. Daily Value (6M;USD) | : 1.40 mn |
| Bloomberg Code | : LANDMARK IB |
| Promoters Holding | : 55.2% |
| FII / DII | : 7% / 7% |

**Price Performance**

| (%) | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 1.7 | 33.5 | 0.0 |
| Relative | 0.5 | 24.5 | 0.0 |

Source: Bloomberg

We believe Landmark is a great proxy play for PVs in India, owing to (1) management's solid execution capability, (2) a strong market position, particularly in the luxury segment, (3) being highly correlated with the premiumization trend, (4) having diversified revenue streams able to absorb shocks in new-vehicle sales, and (5) a solid financial position with a healthy balance sheet and cash flows. We initiate coverage with a **BUY** rating and DCF-derived TP of Rs 810 implying 20x FY25 EPS.

### Able management executing a well-thought-out strategy

Landmark has a solid track record of growth, delivering 17% revenue CAGR over FY14-23 through calibrated organic and inorganic expansion. It is favorably positioned owing to (1) alignment with premium/luxury brands, to outperform the overall PV industry, (2) effectively executing a strategy of getting deeper with the brands (OEMs) and regions (45-65% share of sales of key brand in its regions), (3) a solid services business with higher margins (~20%) to absorb transient shocks in new-vehicle sales, and (4) healthy cash-flows (Rs 4.2 bn over FY24-26) with improving return ratios (post-tax RoCE 16-20%). Mercedes is the key brand, contributing 35/46% of its revenue/ EBITDA owing to superior margins. It is also focusing on growing other businesses (used car, car care) to prop up profitability.

### Proxy play on premiumization in domestic PV industry

There is a marked shift in the domestic PV industry towards more premium and luxury vehicles, seen in a rising share of premium models and variants leading to higher ASPs and margins for dealers alike. Landmark is poised to benefit from this, owing to its association with luxury/premium brands such as Mercedes Benz, Jeep, Volkswagen, and Honda, where it has sizeable market share within its operating states (45-65%). MB's transition to the ROTF model is a boon, insulating roughly half of Landmark's business from the risks of high inventory and discounting which are a dealer's bane. Some of the brand level challenges are also abating with Jeep's vehicle parc growing (leading to higher service/ spares sales, with higher margins of ~20%), the restructuring of Renault business (arresting cash bleed), and new launches (e.g. SUV-*Elevate*) by Honda. Landmark is also looking to steal a march on EVs through the recent addition of BYD and MG Motor brands to its portfolio.

### Initiating coverage with a Buy rating and a TP of Rs 810

The improving share of MB (higher growth) and its ROTF model, a pick-up in other brands, and the premiumization trend should drive growth for the company. We build in revenue/EPS CAGR of 14/29% over FY23-26, and initiate coverage of the stock with a **BUY** rating and a DCF-derived TP of Rs 810 (implying 20x FY25 EPS).

### Financial summary (Consolidated)

| Y/E March | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Sales (Rs mn) | 29,765 | 33,824 | 38,675 | 43,370 | 47,822 |
| EBITDA (Rs mn) | 1,747 | 2,379 | 2,838 | 3,353 | 3,788 |
| Adj. PAT (Rs mn) | 655 | 920 | 1,217 | 1,585 | 1,839 |
| Con. EPS* (Rs) | - | - | 34.6 | 42.6 | 55.3 |
| EPS (Rs) | 17.9 | 23.2 | 30.7 | 40.0 | 46.4 |
| Change YoY (%) | 478 | 30 | 32 | 30 | 16 |
| Previous EPS (Rs) | - | - | - | - | - |
| RoE (%) | 30.6 | 25.7 | 23.2 | 24.3 | 22.9 |
| RoCE (%) | 17.1 | 18.8 | 19.8 | 21.5 | 21.9 |
| P/E (x) | 39.3 | 30.2 | 22.8 | 17.5 | 15.1 |
| EV/E (x) | 17.5 | 12.8 | 10.3 | 8.4 | 7.0 |

Source: *Consensus broker estimates, Company, Axis Capital

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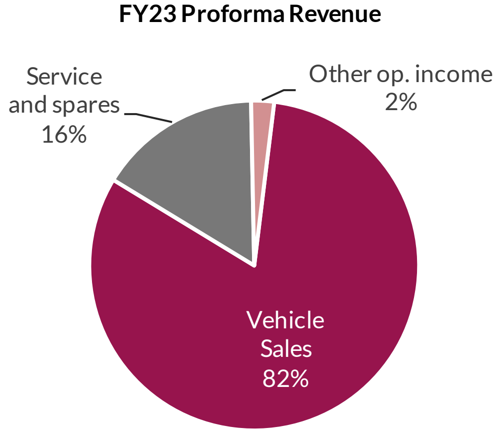
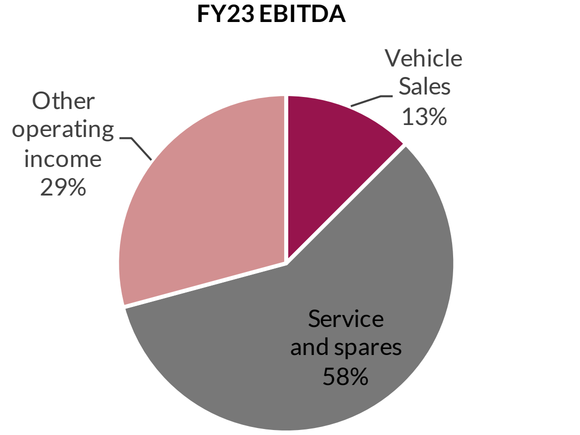
**Exhibit 1: Vehicle sales make up >80% of total revenues**



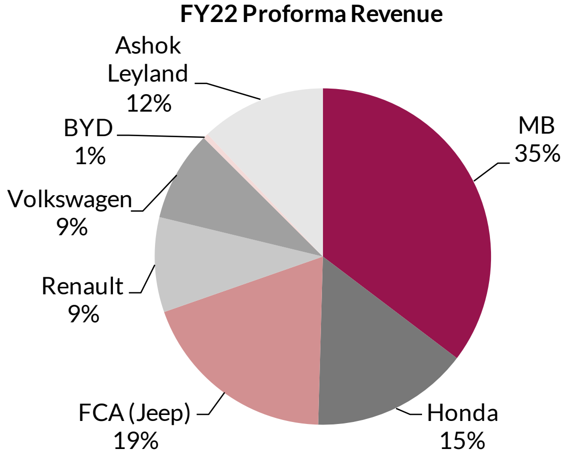

Source: Company, Axis Capital

**Exhibit 2: Service and aftersales contribute ~60% to EBITDA**



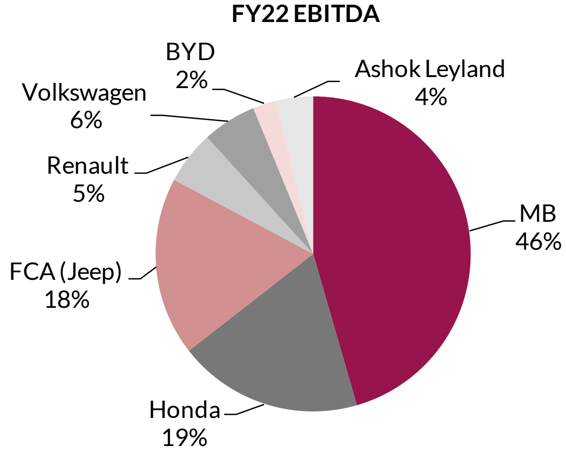

Source: Company, Axis Capital

**Exhibit 3: More than a third of sales derived from Mercedes**



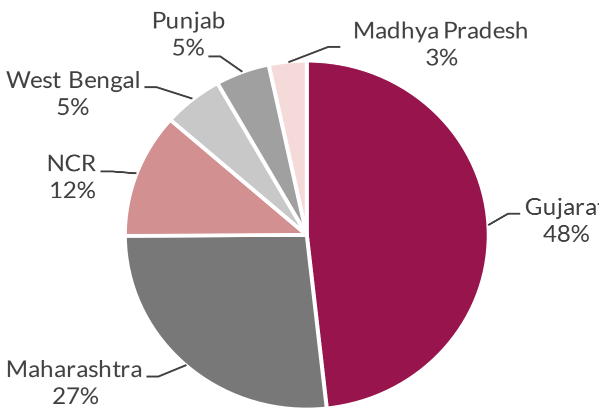

Source: Company, Axis Capital

**Exhibit 4: Mercedes contributes almost half of EBITDA**




Source: Company, Axis Capital

**Exhibit 5: State-wise revenue contribution for FY22**



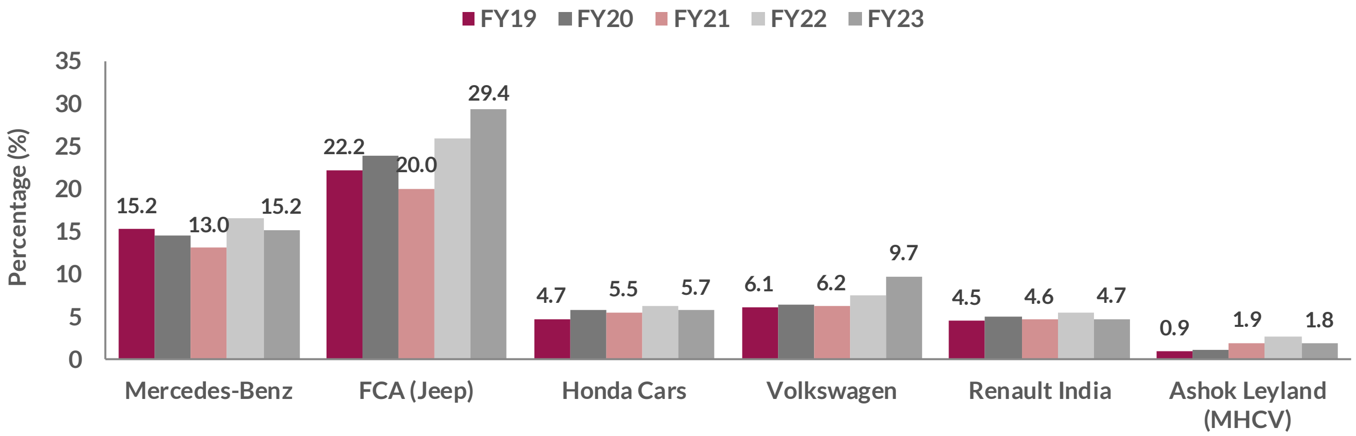

Source: Company, Axis Capital

**Exhibit 6: Landmark network presence and market share within OEMs**

| OEM/Brand | Geographical network | Year of commencement | Sales Outlets | Workshops | Total Outlets | Wholesale market share (%) - FY23 |
|---|---|---|---|---|---|---|
| Mercedes-Benz | Gujarat, Madhya Pradesh, Maharashtra, West Bengal | 2008 | 8 | 13 | 21 | 15.2 |
| Honda | Gujarat, Madhya Pradesh | 1998 | 10 | 11 | 21 | 5.7 |
| Jeep | Punjab, Delhi, Maharashtra, Haryana, Uttar Pradesh | 2017 | 10 | 9 | 19 | 29.4 |
| Volkswagen | Haryana, Gujarat, Delhi | 2009 | 9 | 8 | 17 | 9.7 |
| Renault | Punjab, Haryana, Maharashtra | 2016 | 12 | 7 | 19 | 4.7 |
| Ashok Leyland (MHCV) | Gujarat | 2013 | 2 | 2 | 4 | 1.8 |
| BYD | Mumbai, NCR | 2022 | 3 | 1 | 4 | 13.7 |
| **Total** | | | **54** | **51** | **105** | |

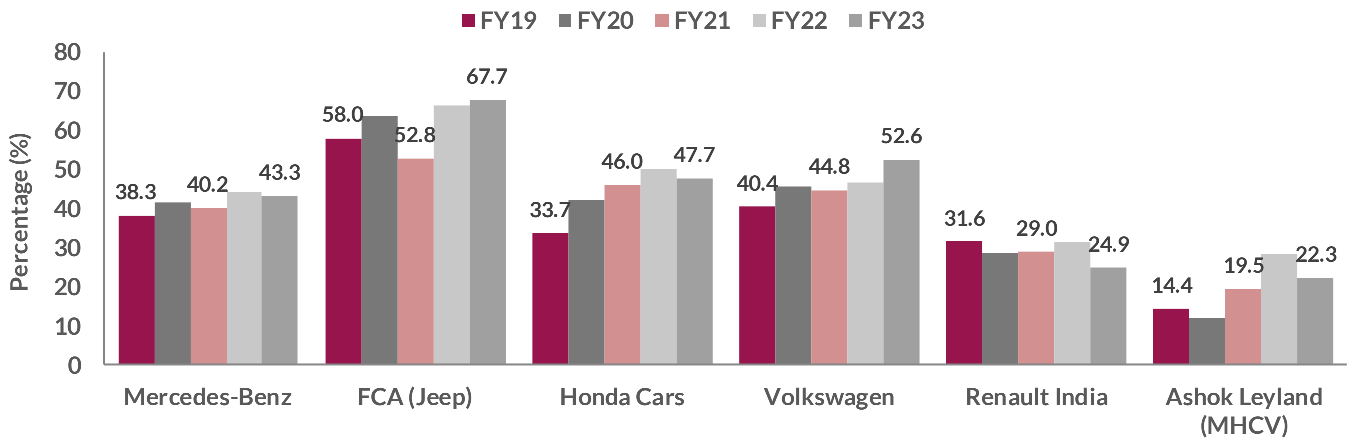
Source: Company, SIAM, Axis Capital

**Exhibit 7: Landmark has gained market share (pan-India) and established greater presence across brands**



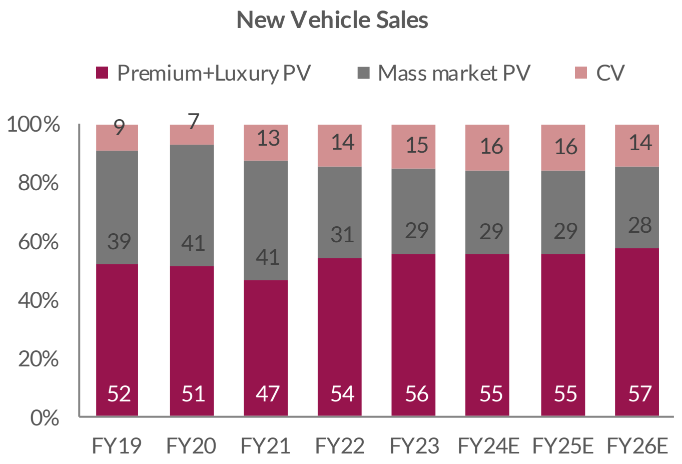

Source: Company, SIAM, Axis Capital

**Exhibit 8: Landmark is significant for each OEM in the states where it operates**



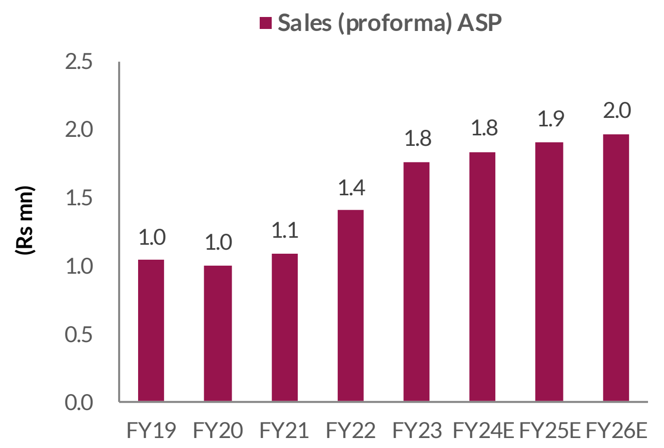

Source: Company, SIAM, VAHAN, Axis Capital

**Exhibit 9: Revenue share of Lux.+Prem. in sales has gone up…**



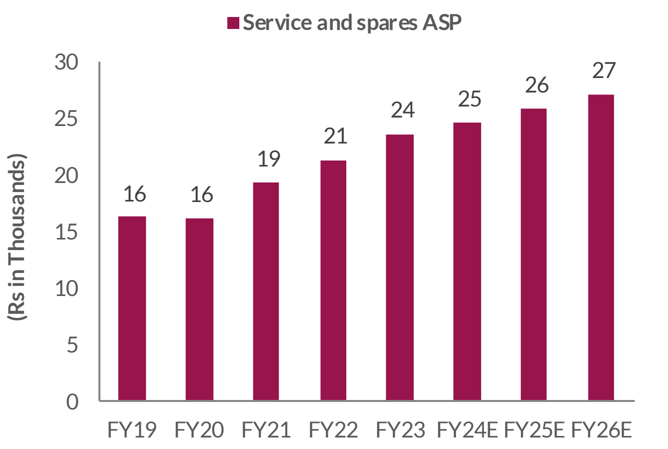

Source: Company, Axis Capital

**Exhibit 10: …causing a sharp rise in realizations**



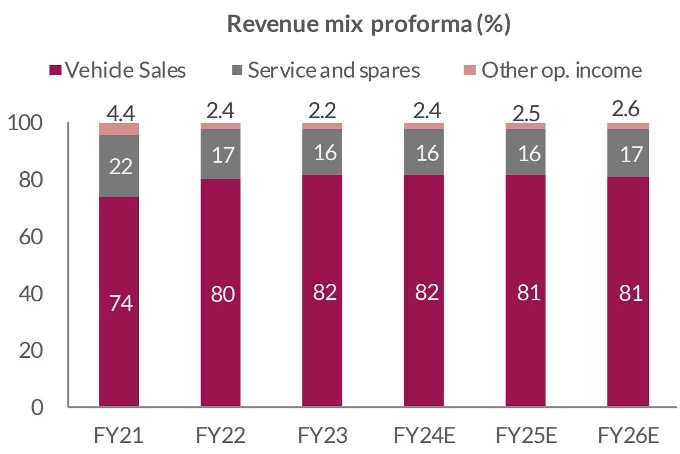

Source: Company, Axis Capital

**Exhibit 11: Service ASPs should also grow with improving mix**




Source: Company, Axis Capital

**Exhibit 12: Share of financing, insurance and others to rise**




Source: Company, Axis Capital

## Investment thesis

Landmark Cars is a leading automobile dealership with a solid track record of growth and profitability, delivering 16% revenue CAGR over FY14-22. Each of the company's businesses/brands is managed professionally, with a strong focus on customer service and return generation. Owing to its offerings of a wide range of vehicles to choose from (particularly in luxury), Landmark Cars is well positioned to deliver in the future as well.

We believe Landmark is a great proxy play for PVs in India, owing to (1) management's solid execution capability, (2) a strong market position, particularly in the luxury segment, (3) being highly correlated with the premiumization trend, (4) having diversified revenue streams able to absorb shocks in new-vehicle sales, and (5) a solid financial position with a healthy balance sheet and cash flows.

Overall, we expect the company to deliver 14/29% revenue/PAT CAGR over FY23-26. PV industry growth of ~7% (higher for Luxury OEMs) over the period, supplemented by a shift towards premium/luxury cars, should drive growth for the company. Greater salience with OEMs (premium and luxury, in particular) puts the company in a driving position to not just be a cog in the wheel, but also be a partner to the OEMs in their growth. EBITDA margin and return ratio (post-tax RoCE) will likely improve to 7.9/19.7% by FY26, driven by the rising share of luxury/premium and the ROTF (Retail of The Future) model for Mercedes Benz. We initiate coverage with a Buy rating and target price of Rs 810, based on DCF (implying a multiple of 20x FY25 EPS.

### Able management delivering through a clear, working strategy

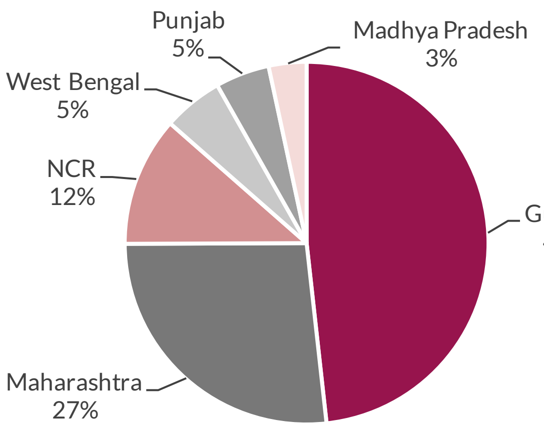
- **Sharp focus on RoI, clarity on strategy evident:** Well-run dealership businesses tend to generate strong cash-flows owing to steady service revenues. We expect Landmark to generate an average annual FCF of Rs 1.3-1.4 bn over FY24-FY26. Therefore, it becomes imperative for the business to have a clear cash-deployment strategy. The company is prioritizing return on investment and has set a 4-year payback period as the key parameter for evaluating future investments. It has largely focused on its core markets of Maharashtra, Gujarat, and NCR, which make up more than 75% of its network and 85% of its sales. Most of its inorganic expansion has also been in these regions.
- **High salience with most OEMs:** Landmark has resolved to get deeper penetration with the OEMs and within its regions. This has enabled it to emerge as a partner for its brands (OEMs) rather than just another dealer. Landmark has gained greater salience with most of its OEMs, making as much as 64/65% (for Jeep, and 45-55% for MB, Honda, and VW) of the brand sales in its operating states. This is a conscious effort from the company as opposed to spreading itself thin across multiple regions, which has led to Landmark gaining greater significance with the OEMs. This also helps the company get a more competitive position (in terms of pricing) in the region.
- **Preferred partner for OEMs:** Owing to its higher share (with brands and within regions), strong execution track record, and strength of financials, Landmark becomes a partner of choice for OEMs as and when they are looking for someone to step up and support their expansion within a region, help out with a struggling dealer, or even with expansion into a new region, which could sometimes even carry favorable terms (as compared to other dealers). The company has indicated in the past that certain (existing) OEMs are looking at expanding their business with Landmark.

**Exhibit 13: Landmark's strategy is to get deeper into the states and brands it is present in**

| | Mercedes Benz | Jeep | VW | Honda | Renault | BYD | Ashok Leyland | Total |
|---|---|---|---|---|---|---|---|---|
| Punjab | | 4 | | | 10 | | | **14** |
| Delhi (NCR) | | 8 | 2 | | | 3 | | **13** |
| Madhya Pradesh | 3 | | | 2 | | | | **5** |
| West Bengal | 3 | | | | | | | **3** |
| Gujarat | 8 | | 15 | 19 | | | 4 | **46** |
| Maharashtra | 7 | 7 | | | 9 | 1 | | **24** |
| **Total** | **21** | **19** | **17** | **21** | **19** | **4** | **4** | |
| Presence in states | **4** | **3** | **2** | **2** | **2** | **2** | **1** | **6** |

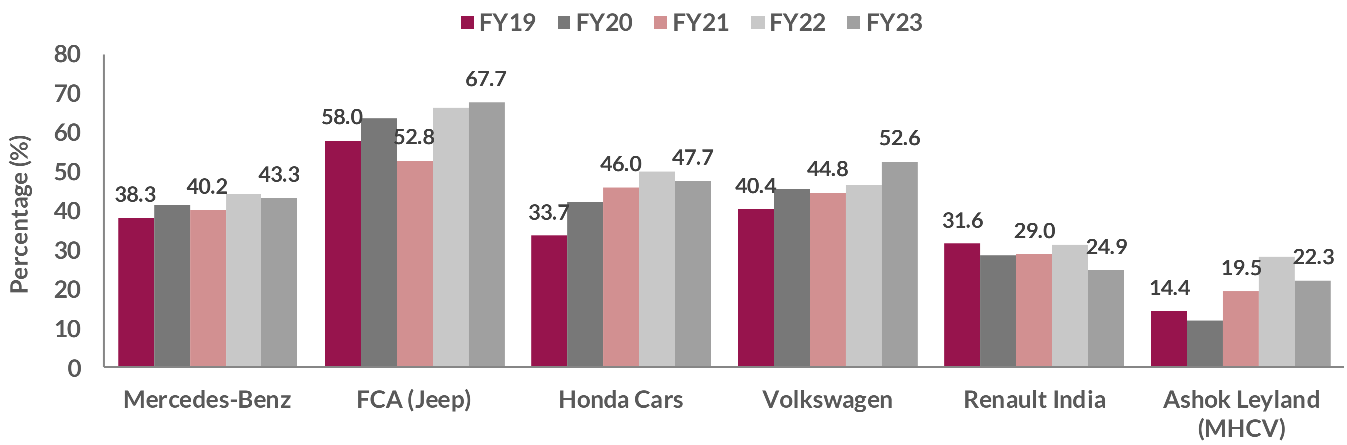
Source: Company, Axis Capital

**Exhibit 14: State-wise revenue contribution for FY22**




Source: Company, Axis Capital

**Exhibit 15: Landmark is significant for each OEM in its operating states**

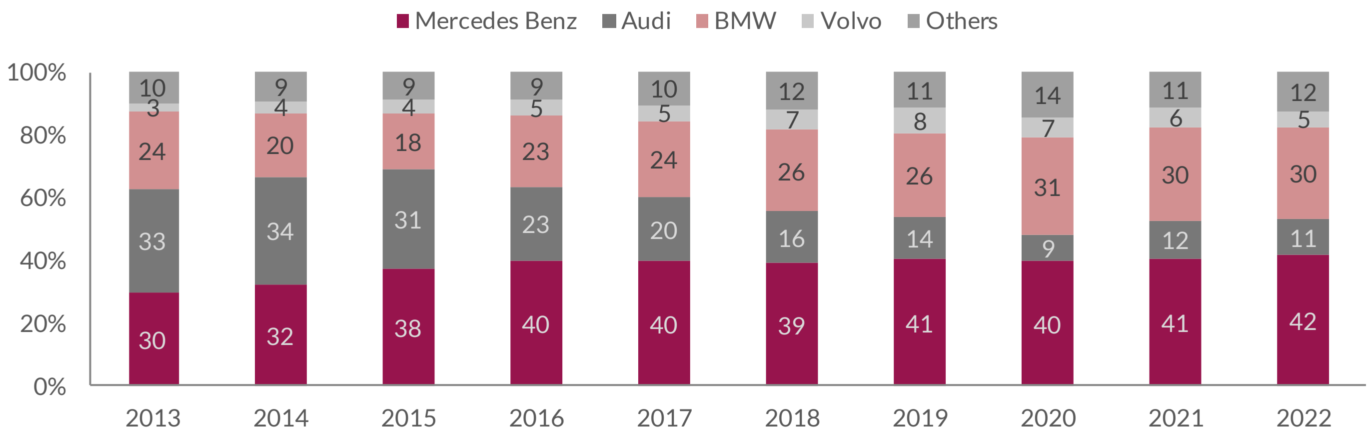



Source: Company, SIAM, VAHAN, Axis Capital

## Strong market position, particularly in the luxury segment – Mercedes Benz

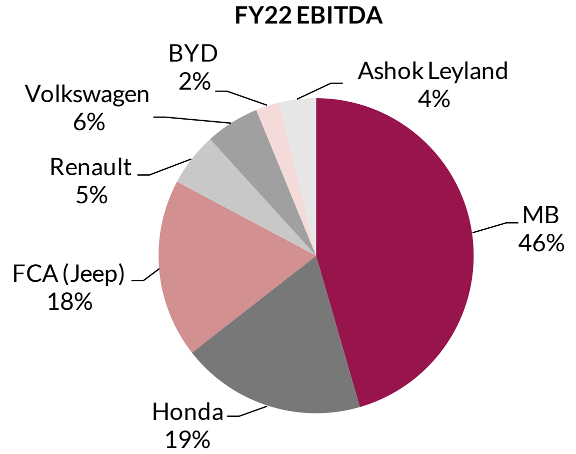
- **Mercedes is the leading luxury PV OEM:** Mercedes Benz has firmly established itself as the leading luxury OEM in India, with over 40% market share in the luxury car segment. This dominant position is largely driven by a greater focus on the Indian market, underlined by the fact that MB has 17 nameplates present in India, across the price range – Rs 4 mn to Rs 33 mn (ex-showroom). Additionally, all these models have been launched/refreshed in the last 3 years. Over the years, Mercedes has also expanded its footprint in India, from 74 dealerships in 2015 to 100-odd currently.
- **Mercedes Benz increasing focus on India:** India is increasingly becoming a focal market for luxury OEMs, particularly Mercedes, as highlighted by the recent first-ever visit by a Mercedes Benz global CEO and MD, Ola Källenius. He signified the importance of India, citing this is the fastest growing global market for Mercedes and is key to its global sales expansion.
- **Landmark highly entrenched with MB:** Landmark is strongly associated with the Mercedes story in India, with 16% overall market share. Within its operating states (where Landmark is present viz. Maharashtra, Gujarat, Madhya Pradesh, and West Bengal) every other Mercedes car is sold by Landmark (market share of ~50%).
- **Agency model to further aid profitability:** The ROTF model would be a boon for the dealerships as it significantly deleverages the balance sheet (inventory limited to demo/test-drive vehicles) and limits competition among dealers (price set by OEM), thus improving realizations. Further, it also frees up capital to be used for reinvesting into the business (marketing, digitalization etc.). Luxury brands tend to prioritize viability and profitability of their dealers, considering them as partners. Therefore, in our opinion, there is a limited risk of significant decline in commission from new-vehicle sales in this model.
- **MB makes up ~46% of Landmark's EBITDA:** Sharp expected growth in Mercedes to drive profit growth for Landmark; we build in 20% EBITDA CAGR for Mercedes over FY23-26E, driving overall EBITDA growth of 17% for the company.

**Exhibit 16: Mercedes commands over 40% share of the Indian luxury PV market**



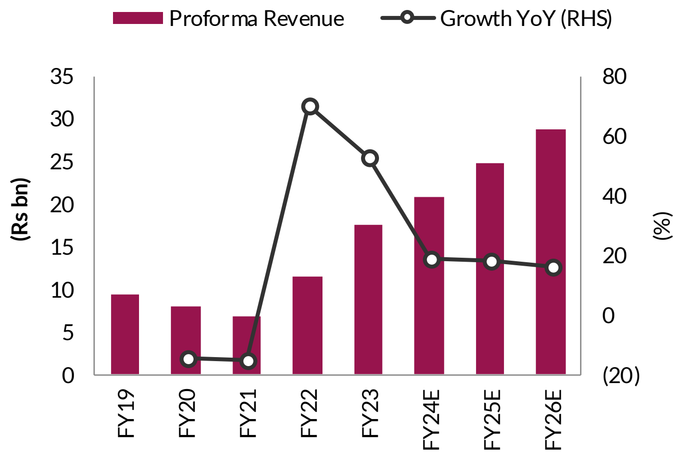

Source: Company, Axis Capital

**Exhibit 17: MB makes up almost half of Landmark's EBITDA**




Source: Company, Axis Capital

**Exhibit 18: We expect 16% revenue CAGR for MB in FY23-26**




Source: Company, Axis Capital

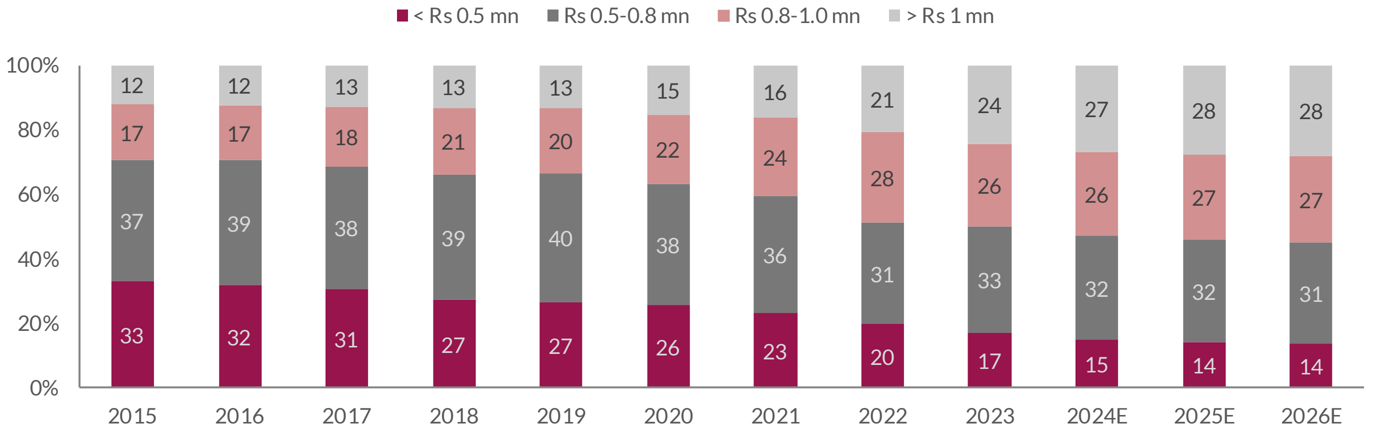
## Association with more premium brands working out well

- Landmark is aligned with more premium brands such as Jeep, Volkswagen, and now BYD. The PV market is shifting more towards premium vehicles within each brand and higher variants within each model. Also, the greater salience of small cars had been a big hindrance for premium/global OEMs in the past. Since that is no longer the case, we believe these OEMs can gain a bigger piece of the domestic pie, benefiting Landmark.
- **Share of premium within sales and service is rising:** There has been a material increase in the share of premium within sales and service. ASPs for sales/service have grown from Rs 1.0 mn/Rs 16k in FY19 to Rs 1.8 mn/Rs 24k in FY23 respectively. Higher ASPs are better for dealerships, as the incremental margin on the higher ASPs does not carry any incremental costs and flows directly to the bottom line.
- **Jeep – service volumes ramping up now:** Jeep entered India in 2017 and multiple factors have impacted profitability of the Jeep brand for Landmark so far, including: (1) sales volume has been lower than initially anticipated, (2) vehicle parc for service taking time to build up. With vehicle parc developing over time, service revenue has started to grow – from 8% of revenues in FY19 to 12% in FY22. With a rise in share of service (higher margin business), overall margins have started to improve (4.9% in FY22 vs breakeven in FY19/20).
- **Premiumization trends favor VW:** In the past, global OEMs have struggled owing to India traditionally being a small-car market. With the market now shifting towards bigger and more premium vehicles, VW can compete on a more equal footing. It has exited the small car space altogether, focusing on sedans and SUVs. This should also benefit Landmark on account of higher ASPs, both in sales and service.
- **Losses in Renault business to diminish:** The Renault brand hasn't done well for Landmark in the recent past, leading to Rs 100 mn annual loss before tax over the last 4-5 years. The company decided to rationalize the operation and closed 9 outlets in Punjab, recording an impairment of Rs 103 mn in the process in FY23. We believe the cash-flow bleed was largely arrested in the second half of FY23 and Renault will be accretive to profits from FY24 onwards, aiding overall profitability of the business.
- **BYD success is an optionality:** Landmark has got a head start in EVs with BYD, setting up a network in Delhi and Mumbai (metros expected to lead in electrification). BYD EV volumes have ramped up sharply to 1.1k units in FY23 (from 40 units in FY22) after the launch of *Atto 3*. The company is looking to expand its operations and homologate its models (limit of 2500 units/annum that can be imported without homologation). However, we are watchful of its expansion plans, as the other Chinese OEM (MG) hasn't been able to do so in the

recent past. That said, the BYD business has the potential to be quite profitable (higher realizations from lower GST, higher commission) for Landmark.

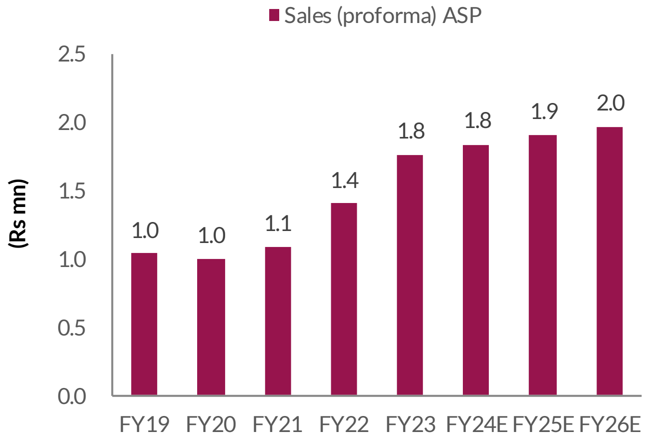
- **CV upcycle adding to the top and bottom line:** Landmark has around 2.0% market share of Ashok Leyland's heavy commercial vehicles (20-30% in Gujarat). With cyclical uptick in CV sales (particularly MHCVs), revenues are expected to grow in the near term at least.

**Exhibit 19: Industry would continue to transition further towards premium vehicles**



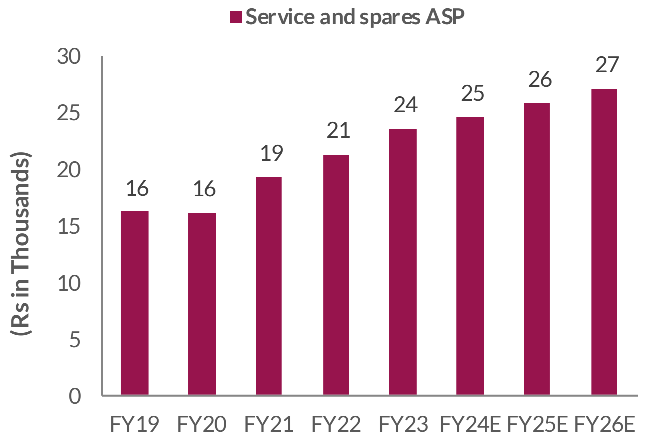

Source: Company, SIAM, Axis Capital; Note: ex-showroom prices; does not include luxury brands not part of SIAM

**Exhibit 20: High lux.+prem. mix and price hikes aid ASP growth**




Source: Company, Axis Capital

**Exhibit 21: ASPs in aftermarket to grow with mix improvement**



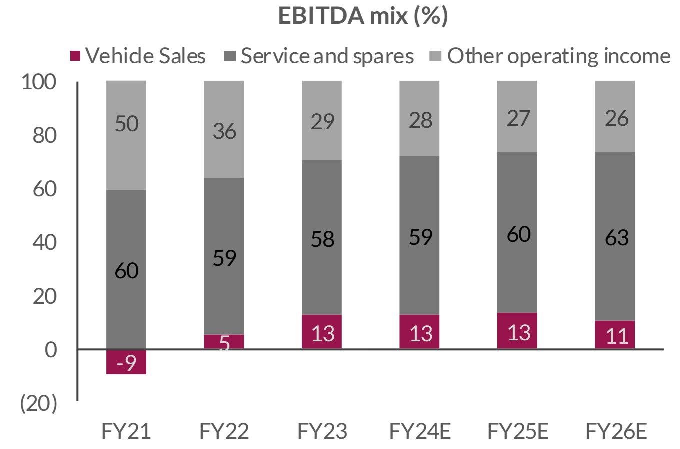

Source: Company, Axis Capital

## Diversified revenue streams absorb transient shocks in new vehicle demand

- **Service is a low volatility/sigma business…:** Roughly 16% of Landmark's revenue (proforma) comes from service and spares, which is a stable, annuity-type business. Barring Covid, this business hasn't seen a year of degrowth. This provides a cushion against the volatility/cyclicality in new-vehicle sales.
- **…but contributes significantly to margins and cash flows:** Service and spares (including others) make up ~60% of overall EBITDA (58% for FY23) and therefore contribute meaningfully to the cash flows. Lower capital requirements (limited inventory) and high asset turns lead to this business generating very high RoCEs (~50% on average).
- **Share of premium + luxury is rising:** The share of premium and luxury vehicles is rising in the service business as well, resulting in higher realizations (revenue per car serviced) and margins. Higher realizations lead to higher margins (owing to operating leverage).

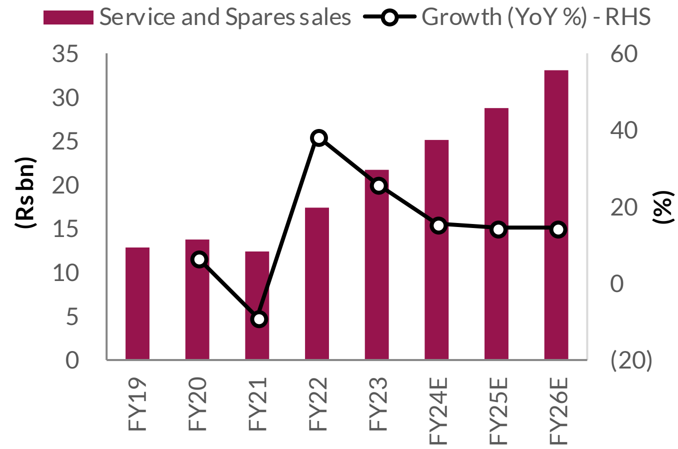
- Additional sources of income and profits:
  - **Financing and Insurance – a boost to the bottom line:** The company also receives commission from financers and insurance providers for referral and facilitation. 90% of its new-vehicle sales are financed, of which 50% are facilitated through Landmark, while its share of insurance is 70%. This income stream makes up approx. 1% of its total revenues (proforma). These incomes are pure profit (at no additional cost).
  - **Aspiring to higher growth in the pre-owned-cars business:** The company aims to leverage its strong presence across brands to expand its pre-owned franchise. It aims for pre-owned car sales (volumes) to be 20% of new-car sales, with 30-40% of that coming from the direct model.
  - **Service revenue to be augmented by accessories:** Landmark is seeing opportunities in the accessories business as customers gravitate towards premium features and improved aesthetics for their vehicles. It has collaborated with Motor One and Permagard – for the car care and paint protection business – to expand its car care franchise.

**Exhibit 22: Service contributes meaningfully to overall EBITDA**



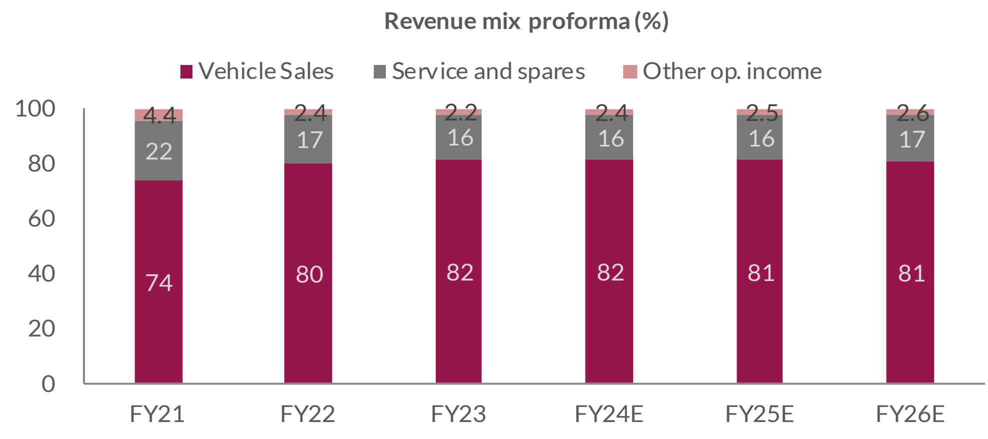

Source: Company, Axis Capital

**Exhibit 23: Service has grown consistently (barring Covid year)**




Source: Company, Axis Capital

**Exhibit 24: Other operating income to grow in line with overall revenues, aiding profitability**




Source: Company, Axis Capital

## Solid cash-flow-generating business with a sound financial position

- **High-cash-flow-generating business:** Well-run dealership businesses tend to generate strong cash-flows owing to a steady service business that has high asset turns and high profitability. With Mercedes' ROTF model, working capital requirement has come down. We expect Landmark to generate an average FCF of roughly Rs 1.3-1.4 bn annually over the next 3 years.
- **Healthy balance sheet:** Net Debt to EBITDA for the company stood at 4x in FY21. With correction in debt (owing to the ROTF model by Mercedes and repayment with IPO proceeds), Net Debt to EBITDA at the end of FY24 is expected to be 1.4x. Total debt (including lease liabilities) stands at Rs 5.0 bn (FY23), of which almost Rs 2.2 bn is lease liability. Most of the remaining debt is short-term (for working capital) which is largely backed by inventory.
- **Strong earnings growth with solid return ratios:** We build in an EPS CAGR of 29% over FY23-26, with post-tax RoCE at 20% (FY26). Therefore, we believe there is a strong case for Landmark to command a higher trading multiple.

**Exhibit 25: Consolidated summary: Expect 13%/19%/37% revenue/EBITDA/PAT CAGR over FY23-25E**

| Profit and loss model | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **28,265** | **22,186** | **19,561** | **29,765** | **33,824** | **38,675** | **43,370** | **47,822** |
| **EBITDA** | **805** | **729** | **1,098** | **1,747** | **2,379** | **2,838** | **3,353** | **3,788** |
| Other income | 81 | 103 | 102 | 126 | 121 | 141 | 161 | 181 |
| Depreciation and amortisation | 534 | 630 | 625 | 698 | 873 | 942 | 1,031 | 1,123 |
| Finance expenses | 528 | 449 | 378 | 352 | 511 | 448 | 414 | 382 |
| **PBT** | **(176)** | **(247)** | **198** | **823** | **1,041** | **1,590** | **2,069** | **2,465** |
| Tax expenses | 69 | 43 | 86 | 161 | 190 | 366 | 476 | 616 |
| **PAT** | **(244)** | **(290)** | **111** | **662** | **851** | **1,224** | **1,593** | **1,848** |
| PAT after minority interest | (244) | (287) | 113 | 655 | 845 | 1,217 | 1,585 | 1,839 |
| EPS (Rs) | (6.7) | (7.8) | 3.1 | 17.9 | 21.3 | 30.7 | 40.0 | 46.4 |
| **Balance sheet** | | | | | | | | |
| **Total shareholders funds** | **1,880** | **1,691** | **1,818** | **2,469** | **4,697** | **5,796** | **7,222** | **8,863** |
| Minority interest | 10 | 8 | 6 | 13 | 19 | 26 | 34 | 44 |
| **Total borrowings** | **2,508** | **1,800** | **2,091** | **2,461** | **2,107** | **1,807** | **1,507** | **1,207** |
| Other long term liabilities | 1,354 | 1,294 | 1,109 | 1,962 | 2,118 | 2,326 | 2,427 | 2,533 |
| Current liabilities and Provisions | 4,329 | 3,525 | 3,855 | 3,948 | 3,666 | 4,029 | 4,325 | 4,608 |
| **Total sources of funds** | **10,080** | **8,318** | **8,879** | **10,854** | **12,608** | **13,985** | **15,516** | **17,256** |
| **Fixed assets** | **3,723** | **3,426** | **3,003** | **4,274** | **4,449** | **4,457** | **4,467** | **4,464** |
| Goodwill | 135 | 232 | 232 | 478 | 478 | 478 | 478 | 478 |
| Intangible assets | 61 | 51 | 41 | 269 | 215 | 215 | 215 | 215 |
| Investments | - | 80 | 130 | 165 | 163 | 213 | 263 | 313 |
| Other non current assets | 326 | 568 | 231 | 228 | 326 | 326 | 326 | 326 |
| Inventories | 3,398 | 2,258 | 2,888 | 3,299 | 4,484 | 4,703 | 5,037 | 5,292 |
| Sundry debtors | 783 | 236 | 558 | 642 | 1,036 | 1,184 | 1,328 | 1,464 |
| Cash | 366 | 333 | 227 | 300 | 400 | 1,351 | 2,346 | 3,646 |
| Loans and advances | 1,288 | 1,134 | 1,569 | 1,199 | 1,057 | 1,057 | 1,057 | 1,057 |
| **Total uses of funds** | **10,080** | **8,318** | **8,879** | **10,854** | **12,608** | **13,985** | **15,516** | **17,256** |
| **Net debt** | **6,008** | **4,717** | **4,407** | **5,081** | **4,694** | **3,847** | **2,786** | **1,420** |
| **Cash flow statement** | | | | | | | | |
| Operating profit before working capital changes | 935 | 805 | 1,164 | 1,788 | 2,401 | 2,979 | 3,514 | 3,969 |
| Working capital changes | (242) | 1,323 | (734) | (786) | (1,450) | (86) | (205) | (133) |
| Net cash from operating activities | 549 | 2,097 | 428 | 764 | 710 | 2,527 | 2,833 | 3,220 |
| Capex | (359) | (224) | (148) | (415) | (719) | (450) | (500) | **(540)** |
| **FCF** | **(1,271)** | **488** | **(403)** | **(145)** | **(624)** | **1,296** | **1,500** | **1,794** |
| **Ratios (%)** | | | | | | | | |
| RM to sales (%) | 87.1 | 85.4 | 84.2 | 84.4 | 82.2 | 82.1 | 81.8 | 81.4 |
| Employee cost to sales (%) | 5.4 | 6.2 | 5.5 | 5.1 | 5.5 | 5.4 | 5.4 | 5.5 |
| Other expenses to sales (%) | 4.6 | 5.1 | 4.7 | 4.6 | 5.2 | 5.1 | 5.1 | 5.1 |
| EBITDA margin (%) | 2.8 | 3.3 | 5.6 | 5.9 | 7.0 | 7.3 | 7.7 | 7.9 |
| EBIT Margins (%) | 1.0 | 0.4 | 2.4 | 3.5 | 4.5 | 4.9 | 5.4 | 5.6 |
| Net debt/equity (x) | 3.2 | 2.8 | 2.4 | 2.1 | 1.0 | 0.7 | 0.4 | 0.2 |
| Net debt/EBITDA (x) | 7.5 | 6.5 | 4.0 | 2.9 | 2.0 | 1.4 | 0.8 | 0.4 |
| Cash conversion cycle (days) | 45 | 32 | 46 | 31 | 47 | 43 | 41 | 39 |
| Pre tax ROCE (%) | 3 | 1 | 6 | 11 | 13 | 15 | 18 | 20 |
| ROE (%) | (12) | (16) | 6 | 31 | 24 | 23 | 24 | 23 |

Source: Company, Axis Capital

## Valuation

We build in EPS CAGR of 29% over FY23-26E, resulting in a cumulative FCF generation of ~Rs 4.2 bn over the same period. Globally, dealership businesses (especially large dealers) command higher valuation multiples compared to OEMs, due to: (1) lower volatility of earnings owing to a large aftermarket business, (2) a large used-car business (3x new-car sales), (3) greater size (higher salience for OEMs) and higher return ratios owing to greater operating leverage. Large dealers in the US – like Penske Automotive, Autonation, and Lithia Motors – currently trade at 6-9x 1-year forward P/E, vs Ford and GM which trade at 5-7x.

In the domestic market, PV OEMs are trading at 20-25x 1-year forward P/E. However, we do not assign a premium to Landmark over domestic OEMs, owing to: (1) relatively small size, (2) small used-car business (<20% of new car volumes), and (3) potential risk with certain brands lagging currently. We value the stock at Rs 810 using DCF, implying 20x FY25E P/E.

**Key assumptions used in the DCF model**

We expect 9% revenue and 11% EBIT CAGR for Landmark over FY23-40E. We have assumed a 4% terminal growth rate and 12% WACC. The company is expected to generate FCF to the tune of 4% of revenues each year over that period. We've been conservative in our assumptions for cash deployment by the company towards organic and inorganic expansion. If the expansions are carried out well (at reasonable returns), these could further add to the revenue growth and FCF of the company, thereby depicting an upside risk to our valuation.

**Exhibit 26: Summary of DCF**

| | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E | FY27E | ... | FY40E | FY23-40E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales Volume | 13,282 | 19,264 | 21,310 | 23,597 | 25,958 | 27,948 | 29,773 | | 65,109 | 6.8% |
| *Growth YoY (%)* | *-21* | *45* | *11* | *11* | *10* | *8* | *7* | | *6* | |
| MB | 1,133 | 1,995 | 2,500 | 2,875 | 3,306 | 3,703 | 4,073 | | 12,829 | 10.1% |
| Others | 12,149 | 17,269 | 18,810 | 20,722 | 22,652 | 24,245 | 25,700 | | 52,279 | 6.2% |
| | | | | | | | | | | |
| Sales Revenue (Proforma) | 14,482 | 27,002 | 37,563 | 43,385 | 49,438 | 55,024 | 60,608 | | 2,08,145 | 10.6% |
| *Growth YoY (%)* | *-14* | *86* | *39* | *16* | *14* | *11* | *10* | | *9* | |
| MB Proforma | 4,709 | 9,003 | 12,927 | 15,461 | 18,492 | 21,539 | 24,404 | | 1,12,876 | 13.6% |
| Others | 9,772 | 17,999 | 24,635 | 27,924 | 30,946 | 33,485 | 36,204 | | 95,270 | 8.3% |
| | | | | | | | | | | |
| ASPs | 10,90,311 | 14,01,662 | 17,62,688 | 18,38,586 | 19,04,509 | 19,68,777 | 20,35,636 | | 31,96,891 | 3.6% |
| *Growth YoY (%)* | *9* | *29* | *26* | *4* | *4* | *3* | *3* | | *4* | |
| MB (Proforma) | 41,56,429 | 45,12,782 | 51,70,971 | 53,77,810 | 55,92,922 | 58,16,639 | 59,91,139 | | 87,98,189 | 3.2% |
| Others | 8,04,369 | 10,42,250 | 13,09,700 | 13,47,549 | 13,66,155 | 13,81,095 | 14,08,717 | | 18,22,325 | 2.0% |
| | | | | | | | | | | |
| Service Revenue | 4,228 | 5,876 | 7,354 | 8,535 | 9,815 | 11,276 | 12,543 | | 30,606 | 8.7% |
| Service volumes | 2,21,468 | 2,79,078 | 3,17,954 | 3,51,460 | 3,84,917 | 4,21,127 | 4,54,817 | | 7,93,482 | 5.5% |
| Service ASP | 19,091 | 21,056 | 23,129 | 24,286 | 25,500 | 26,775 | 27,578 | | 38,571 | 3.1% |
| | | | | | | | | | | |
| Revenues (reported) | | | | | | | | | | |
| Vehicle Sales | 14,808 | 23,267 | 25,437 | 28,852 | 32,056 | 34,778 | 37,669 | | 1,00,914 | 8.4% |
| Service and Spares | 4,228 | 5,876 | 7,354 | 8,535 | 9,815 | 11,276 | 12,543 | | 30,606 | 8.7% |
| Others | 528 | 622 | 1,033 | 1,288 | 1,499 | 1,768 | 1,910 | | 5,194 | 10.0% |
| **Total Revenue** | **19,564** | **29,765** | **33,824** | **38,675** | **43,370** | **47,822** | **52,121** | | **1,36,713** | 8.6% |
| *Growth YoY (%)* | *-12* | *52* | *14* | *14* | *12* | *10* | *9* | | *7* | |
| | | | | | | | | | | |
| EBITDA | 1,098 | 1,747 | 2,379 | 2,838 | 3,353 | 3,788 | 4,529 | - | 11,556 | 9.7% |
| EBITDA % | 5.6 | 5.9 | 7.0 | 7.3 | 7.7 | 7.9 | 8.7 | | 8.5 | |
| | | | | | | | | | | |
| Rental cost (Dep. + Int.) | 463 | 507 | 583 | 602 | 648 | 693 | 735 | | 1,661 | 6.4% |
| Depreciation (PP&E) | 277 | 304 | 421 | 478 | 527 | 581 | 611 | | 1,606 | 8.2% |
| | | | | | | | | | | |
| EBIT (operating) | 358 | 936 | 1,375 | 1,759 | 2,178 | 2,514 | 3,183 | | 8,289 | 11.1% |
| EBIT margin (%) | 1.8 | 3.1 | 4.1 | 4.5 | 5.0 | 5.3 | 6.1 | | 6.1 | |
| EBIT (1-tax) | 202 | 753 | 1,124 | 1,355 | 1,677 | 1,885 | 2,387 | | 6,217 | 10.6% |
| Effective tax rate (%) | 43.6 | 19.6 | 18.3 | 23.0 | 23.0 | 25.0 | 25.0 | | 25.0 | |
| (Incr)/Decr in Working Capital | (734) | (786) | (1,450) | (86) | (205) | (133) | (388) | | (719) | -4.0% |
| net WCap excl. cash (days of sales) | 52.8 | 37.6 | 49.8 | 44.4 | 41.3 | 38.5 | 38.0 | | 30.0 | |
| Capital Expenditure | (148) | (415) | (719) | (450) | (500) | (540) | (625) | | (1,641) | 5.0% |
| Capex as % of revenues | 0.8 | 1.4 | 2.1 | 1.2 | 1.2 | 1.1 | 1.2 | | 1.2 | |
| **Free Cash Flows** | **(403)** | **(145)** | **(624)** | **1,296** | **1,500** | **1,794** | **1,985** | | **5,464** | |
| **Discounted cash flow** | | | | | **1,377** | **1,471** | **1,454** | | **917** | |
| | | | | | | | | | | |
| **WACC used (%)** | **12.0** | | | | | | | | | |
| Terminal growth rate (%) | 4.0 | | | | | | | | | |
| Capitalisation rate (%) | 8.0 | | | | | | | | | |
| **Terminal value Calc** | | | | | | | | | | |
| Cash flow in terminal year | 5,464 | | | | | | | | | |
| Terminal value | 11,919 | | | | | | | | | |
| **NPV Calc** | | | | | | | | | | |
| Sum of free cash flows | 20,632 | | | | | | | | | |
| Terminal value | 11,919 | | | | | | | | | |
| **Enterprise value** | **32,551** | | | | | | | | | |
| Net cash - Mar-24 | (456) | | | | | | | | | |
| Net present value-equity | 32,095 | | | | | | | | | |
| Shares o/s (mn) | 40 | | | | | | | | | |
| **NPV /share(Rs) - Jun-24** | **811** | | | | | | | | | |

Source: Company, Axis Capital

## Global peer comparison

**Exhibit 27: Landmark competes well against global counterparts on most parameters**

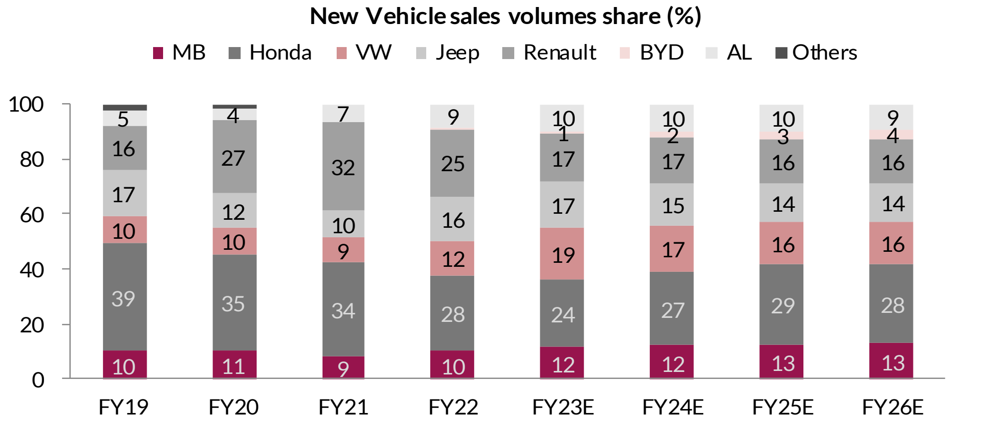
| | | | CY24E/FY25E (USD bn) | | | CAGR FY23-25E (%) | | | CY22/FY23E (%) | | CY23/FY24E (x) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Country | MCap (USD) | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT | EBITDA | ROCE | P/E | EV/E | EV/Sales |
| Landmark Cars Ltd | India | 335 | 523 | 41 | 20 | 13.3 | 18.8 | 37.4 | 7.2 | 25.9 | 20.9 | 10.5 | 0.8 |
| Penske Automotive Group Inc | United States | 9,669 | 28,839 | 1,498 | 1,004 | 1.8 | -10.0 | -14.7 | 6.7 | 30.9 | 8.9 | 6.2 | 0.3 |
| Autonation Inc | United States | 6,014 | 26,591 | 1,655 | 871 | -0.7 | -14.7 | -20.5 | 8.4 | 42.4 | 6.0 | 5.2 | 0.4 |
| Lithia Motors Inc | United States | 5,865 | 32,832 | 1,715 | 960 | 7.9 | -11.5 | -12.4 | 7.8 | 27.1 | 6.2 | 7.1 | 0.4 |
| Group 1 Automotive Inc | United States | 3,076 | 16,764 | 854 | 481 | 1.7 | -16.3 | -20.0 | 7.5 | 34.7 | 5.4 | 5.9 | 0.3 |
| China Yongda Automobiles | China | 1,404 | 12,563 | 637 | 2,256 | 10.1 | 10.6 | 25.8 | 5.0 | 14.2 | 5.2 | 3.2 | 0.2 |
| China Meidong Auto Holdings | China | 2,320 | 5,644 | 410 | 1,425 | 17.0 | 33.3 | 65.4 | 5.6 | 15.9 | 14.6 | 6.8 | 0.5 |
| Autocanada Inc | Canada | 319 | 4,743 | 174 | 90 | 3.0 | -12.4 | 2.4 | 5.1 | 23.2 | 5.6 | 6.7 | 0.2 |

Source: Company, Bloomberg, Axis Capital

## New-vehicle sales – the face of the business

New-vehicle sales contribute 82% of revenues (proforma) and 13% of EBITDA for Landmark (FY23), as per our calculations. These figures could be different for each brand depending on the segment (mass market, premium, or luxury) and on the positioning of the brand. Landmark currently has 1 CV and 6 PV brands under its umbrella (7, including MG Motor added recently). Within PVs, Landmark deals in one luxury (Mercedes Benz), two premium (Jeep, BYD) and three mass-market (Honda, Renault, VW) brands, through 55 sales outlets. We expect new vehicle sales to deliver 9% volume CAGR leading to 13% CAGR in revenues over FY23-26E. Higher revenue CAGR is driven by a rising share of luxury and premium brands on the back of superior growth and higher ASPs within each brand (Mercedes Benz in particular) owing to increasing premiumization. We expect proforma EBITDA margin to remain in the range of 0.8-1.0% over FY23-26, but this should improve from 0.4% in FY22 to 1.4% in FY25E on reported basis, from Mercedes Benz shifting to the ROTF model.

**Exhibit 28: Much of the incremental volume growth is expected to come from MB & Honda**




Source: Company, Axis Capital

## Mercedes Benz – the shining [three pointed] star

- **Largest dealer of Mercedes Benz in India:** Landmark is the largest dealer of Mercedes Benz in India with ~16% market share of volumes. Within operating states (where Landmark is the dealer for Mercedes), this rises to 44%. Traditionally, MB makes up 35% of Landmark revenues on a proforma basis. MB has shifted to the Agency model (vs Dealership model) w.e.f. Oct'21.
- **Agency Model – how it is different from the traditional dealer model:** With effect from October 1, 2021, Landmark's dealership agreement with Mercedes-Benz was converted to an agency model. Now, all car sales are made directly to customers by Mercedes-Benz. Customers place orders through the dealer directly to Mercedes-Benz; and dealers earn a commission on each such sale. This will significantly reduce working capital requirements, since the dealers will not purchase cars from MB and are not required to carry an inventory of MB cars, (except demo cars). In the P&L, this change will (1) reduce revenue from sale of Mercedes-Benz cars, as the full sales price of vehicles sold will not be booked as revenue, (2) reduce the expenses (a reduction in purchase of cars and change in inventories of stock-in-trade, and in interest expenses due to decreased working capital financing requirements and other sales-related expenses), and (3) add commission income, with commissions earned on each Mercedes-Benz vehicle sale being recorded in revenue. In the Balance Sheet, this change will reduce inventories, trade receivables, vehicle floor plan (amount borrowed to finance the purchase of new car inventories with the respective

manufacturer's captive finance company.), GST credit receivable and payable, and advances from customers.

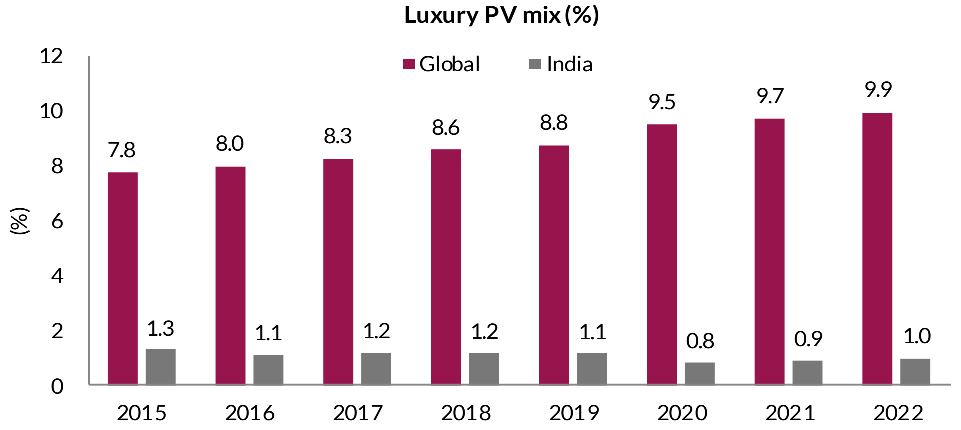
- **Reduced competitive intensity, better margins in the Agency model:** In the traditional model, dealers were not making money by selling vehicles (service was the only profitable business) as higher discounts (owing to competition with other dealers) and interest costs (on the inventory) were hurting dealers. In many cases, dealers had to liquidate vehicles just for cash-flow to pay off lenders. Higher discounts were also hurting the OEM's brand perception, and, at the same time, it was also a hassle for customers striving to get the best price. Under the new Retail of The Future (ROTF) model, pricing will be uniform and finalized by Mercedes, and dealers would only compete on customer experience, reducing downside risks for dealers.
- **Higher RoCE in the Agency model:** Landmark's overall RoCE (post-tax) improved to 13% in FY23 (vs 11% in FY22 and 6% in FY21) post the impact of a full year of the Agency model (not there in FY21, and half-year impact in FY22). The reason for improvement is lower inventory (reduced capital employed) and greater share of service (higher EBITDA margin).
- **Acquisition of Shaman added 2-3% to Landmark's market share with MB:** Landmark acquired 4 Mercedes-Benz workshops from Shaman Wheels in Mumbai. With the exit of Shaman wheels, Mumbai (18-20% of overall India sales) has now become a 2-dealer market.
- **India is becoming an increasingly significant market for MB:** India has developed into one of the key growth markets for MB, reflected by higher launches (14 nameplates currently, including EVs) and also indicated by Ola Kallenius' (Chairman of the board of management of Mercedes-Benz Group, and CEO at Mercedes Benz) recent visit here. The company expects strong double-digit volume growth in India over the next 2-3 years.
- **Multiple factors driving luxury vehicle growth:** There are several changes happening in customer profile, which are driving demand for luxury vehicles: (1) growing demand from the salaried class – (share now at ~30%, from 15-20% traditionally), (2) higher share of women buyers – (12% of volumes now, which used to be single digits), (3) declining average age of buyers (younger Indians have a propensity to spend), and (4) increased availability of finance and ability to borrow (post GST and demonetization, the books of business people have become cleaner, and balance sheets have become stronger).
- **Improving product mix:** There is a clear shift towards higher-priced vehicles even within the luxury car segment in India. This is positive for both OEM and dealers. The sales mix of vehicles priced under Rs 5 mn has reduced to ~12% currently, from ~30% pre-Covid, while there has been a commensurate rise in sales mix of vehicles priced above Rs 10 mn. The share of vehicles priced at Rs 5-10 mn has remained steady at around 58%.
- **Dealership investment needs are coming down:** Mercedes is looking to work with dealer partners to reduce the size of the showrooms in India and asking dealers to invest the savings in digital elements and better-quality manpower instead. Overall, the idea is to have smaller but more luxurious showrooms. Luxury OEMs, generally, aren't thinking about squeezing dealers' margins, as they want to maintain the premium brand and for that, the dealers also need to be profitable (so they can invest in the business). This fits well into Landmark's strategy of focusing on premium and luxury vehicles.
- **MB to be a major driver of earnings:** We expect MB volumes to witness a 14% CAGR over FY23-26E, well ahead of the domestic PV industry growth of 7% over the same period. Also, the pace of ASP growth would be much higher than the industry at 3-5%. We also expect EBITDA margins to remain at 6.5-6.8% over FY23-26E due to high growth in new-vehicle sales (vs service, which has higher margins) resulting in EBITDA CAGR of 20% over FY23-26E.

**Exhibit 29: MB has an extended, recently-refreshed portfolio of vehicles**

| Models | Body type | Starting Price (Rs mn) | Launched |
|---|---|---|---|
| GLS | SUV | 12.9 | Jan-20 |
| GLE | SUV | 9.0 | Jun-20 |
| GLC Coupe | SUV | 7.3 | Jan-21 |
| A-Class | Sedan | 4.2 | Mar-21 |
| E-Class LWB | Sedan | 7.5 | Mar-21 |
| GLA | SUV | 4.9 | May-21 |
| GLS Maybach | SUV | 29.2 | Jun-21 |
| GLE Coupe | SUV | 17.1 | Aug-21 |
| S-Class | Sedan | 17.1 | Oct-21 |
| A-Class Hatchback | Hatchback | 8.4 | Nov-21 |
| S-Class Maybach | Sedan | 26.9 | Mar-22 |
| C-Class | Sedan | 6.0 | May-22 |
| EQS | Sedan | 15.9 | Sep-22 |
| EQB | SUV | 7.8 | Dec-22 |
| GLB | SUV | 6.4 | Dec-22 |
| E-Class Cabriolet | Cabriolet | 13.0 | Jan-23 |
| AMG GT Coupe | Coupe | 33.0 | Apr-23 |

Source: Company, Axis Capital

**Exhibit 30: Share of luxury car sales in India is still low compared to global levels**




Source: Company, Axis Capital

## FCA India (Jeep) – starting to deliver, at least on service volumes

- Landmark accounted for 25-30% of overall Jeep sales in India – 1 of every 4 Jeep vehicles sold in India was by Landmark. In the operating states, the overall share is higher, at 67%. It also opened one more showroom in Navi Mumbai and expanded in Noida (NCR). It is in talks to expand its network further, but we have not built that in yet. Despite a lower share of volumes (16% in FY22 with 3.1k volumes), Jeep has a high share in overall revenues (19%) owing to higher ASPs, both in sales (higher ticket size and better terms from OEM) and service. Further, Jeep made up 18% of overall EBITDA in FY22.
- **BS6 phase 2 a transient challenge:** Jeep wants to launch more SUVs in India after Meridian, which should supplement volumes. Though there are some challenges in transitioning to BS6 phase 2 on the petrol engine, Jeep should be able to do volumes of 10-12k annually (4-5k Compass, 3-4k Meridian and small numbers from Grand Cherokee and Wrangler), which translates into 3-4k units for Landmark at ~30% share.

- **Growing parc to contribute meaningfully to service:** Jeep is a reasonably young brand in India, having sold just 70k units since its launch in 2017. Vehicle parc has just begun to turn meaningful for Landmark (15-20k in FY22/23) and should start to translate into service revenues materially from here on. We build in an ASP of 23-24k per unit in service, with a relatively higher service-to-parc ratio at least in the initial years.
- **Margins to improve considerably with higher service share:** We expect share of service within Jeep to rise (12% in FY22), following the increase in vehicle parc. This will result in higher margins for the brand owing to better margins in service (~40% GM vs 5-6% in sales).

## Honda – strong annuity business

- **Lack of new launches hurting:** Lately, Honda has been losing market share domestically due to steep price hikes in the hatchback segment (Jazz) and shift of consumer preference towards SUVs (where Honda has limited presence) from sedans. As a result, Honda's share in overall revenues has come down from ~25% in FY19 to ~16% in FY22. That said, Honda continues to contribute meaningfully to gross profit at over 20%.
- **Service business important for profitability:** Service is a more reliable annuity-type business, generating relatively predictable cash-flows for the business. Given Landmark's long history with Honda and decent vehicle sales over that period, there is a significant parc of vehicles available for Landmark to service. Current parc stands at roughly 110k-120k units as per our calculations, translating into 120k-130k service interactions annually. Given high volumes of service, this business is important from a profitability (higher margins in service) and cash-flow perspective. Honda's service business contributes 4% of overall revenues and 10% of profits for Landmark.
- **Honda service is in a Goldilocks situation:** Honda, as a brand, is in a Goldilocks situation such that its service is not prohibitively expensive and at the same time it is premium enough to not be passed on to local mechanics. As a result, most Honda cars are serviced at the authorized service center for the better part of their lives, thereby improving the profitability and operating economics of the dealers.
- **New launches in the SUV segment should shore up volumes:** Honda has launched a new SUV (*Elevate*) in the Creta segment. This should augment volumes in FY24, given *Jazz* and *WRV* are already discontinued. We build in a pick-up in Honda volumes from a low base, resulting in CAGR of 15% over FY22-26E.
- **Sales volumes necessary for service business:** The Honda service business is currently in a healthy position, and is expected to remain so, at least in the near future. That said, a pick-up in volumes is essential for the business to sustain over the medium to long term. We expect Landmark to at least maintain its market share here.
- **Higher new-vehicle sales may dilute margins:** We build in 15% CAGR for new-vehicle sales over FY23-26E, on the back of new launches. However, higher sales growth in new vehicles would result in an inferior business mix (lower share of service and spare sales), thereby offsetting impact of operating leverage and EBITDA margins would remain within 6-7% levels.

## Volkswagen (VW) – Another piece of the premium puzzle

- **Landmark partnered early with VW:** Landmark got into VW at the same time as it did with Mercedes, and has 17 touchpoints, of which 15 are in Gujarat. Volkswagen tried to make it in the mass market segment for a long time, first with *Polo* and then *Ameo*. Lately, VW has shifted its strategy, focusing on the relatively premium segment with a mid-size sedan and compact SUV. This strategy seems to be working for VW, leading to a value share of 1.5% in FY23E vs 0.9% in FY21. Landmark has around 10% share of overall VW volumes and around 50% share in the operating states.

- **EV launches to start from next year:** VW plans to launch the first of its EVs (SUV *ID.4*) in India next year, as a part of its two-pronged strategy of premiumization and electrification. We can expect more EV launches from VW in the near term, as it aims to have 25-30% of sales to be EVs by 2030.
- **New launches doing reasonably well:** VW volumes have doubled since FY21 despite discontinuing *Polo* and *Ameo* in the last couple of years. This is due to the success of new launches such as *Virtus* and *Taigun*, along with similar models of its sister brand Skoda. VW has a market share of 1.0% in FY23 (value share of 1.5%). We expect VW to grow in line with the industry, at a 6% CAGR over the FY22-25E period, not building in market share gains for VW or Landmark (within VW).
- **Mix improvement to drive ASPs and thus profitability:** With the discontinuation of *Polo* recently and the launch of *Taigun* (and *Virtus* in FY23), ASPs for VW (new vehicle sales) have risen at 15% CAGR over FY21-23. We expect this growth in ASPs to normalize from FY24 onwards and build in 4-5% ASP growth.
- **Profitability has deteriorated recently:** VW profitability declined in FY22 owing to lack of OEM support (post Covid), higher share of new vehicle sales, and lower operating leverage. Even for Q1FY23 (as per RHP) EBITDA margins were as low as 3.3%. With subsequent improvement in volumes (*Taigun*, *Virtus*), profitability should improve.
- **VW planning expansion in India:** With variants available across price points, VW is looking at volumes of 55k this year (2023) vs 42k last year. This kind of growth would have to be supported by expansion of the network. VW is planning to increase touchpoints, from 159 currently to 182 by the year-end. This should augur well for Landmark since it accounts for 8% of overall VW sales and 47% of its sales in Gujarat and Delhi (NCR).

## Renault – challenges enroute

- **The Renault brand has struggled:** Renault, as a brand, hasn't been as successful as the other brands, especially after BS6 and commodity-driven price hikes impacted the sales of its high-volume (~50% of total) product *Kwid*. Though the launches of *Triber* and *Kiger* have done reasonably well, overall volumes for Renault have come down year over year and are down 40% from the peak in FY17. As a result, Landmark's Renault business has struggled, registering just 3% EBITDA margin in FY22.
- **Some clean-up under way:** Though Landmark's share in Renault has risen over the years (5.4% in FY22 vs 3.3% in FY18), it has chosen to scale back Renault operations owing to lower profitability (losses in recent years). Landmark has already shut operations at 9 stores in Punjab (during FY23), arresting some of the cash-flow bleed. This should shore up some profitability for the brand. We build in PBT losses to reduce from ~Rs 20-25 mn per quarter and exit FY23 at about zero quarterly run rate. This should aid margins and the Renault business should start adding to overall profits FY24E onwards.
- **Renault planning portfolio expansion, including an EV:** Renault (and Nissan) have announced an investment of Rs 53 bn in the Indian market, primarily to launch six new locally-produced models – three for each brand. These would be 2 SUVs (C1 and C2 segment) and one EV (likely *Kwid EV*). The bulk of the investment would go towards localization, and the first of these models would only arrive by 2025. The company is also considering bringing in some CBUs, but those are likely to be low volumes.

## BYD – an optionality

- **Early entrant in BYD:** Landmark has sought to catch the EV trend early via an entry into BYD, an EV brand with 2 products in India currently viz. *E6* and *Atto 3*. It is also planning to launch *Seal* (another EV) towards the end of 2023. Landmark currently has 3 sales outlets and 1 service outlet for BYD between Delhi and Mumbai.

- **Volumes still low:** The EV market is nascent in India and overall volumes are still low. BYD is selling just 250-300 units per month post the launch of *Atto 3* in November 2022, owing to a higher price point for these products (>Rs 3 mn). We believe the volumes should grow from these levels but are unlikely to become significant at these price points.
- **BYD plans to expand in India:** BYD is amongst the largest EV manufacturers globally, with BEV sales of more than 900k units in 2022 (up 184% YoY). BYD is looking to expand its operations in India, targeting 40% of the Indian EV market by 2030 and has a target of 15k unit sales in FY24. It has already invested USD 200 mn in India towards electronics and automobile manufacturing. It currently has a plant in Chennai that can assemble 50k cars annually and will explore adding capacity as and when volumes ramp up. Its strategy, currently, is to prioritize premium vehicles and then slowly work towards mass-market vehicles. It also seeks to homologate the products in India to expand volumes. It plans to more than double its network to 53 showrooms in India within the year 2023.
- **BYD highly profitable for Landmark:** Owing to higher commissions (initially, at least) and higher price points (of the vehicles), BYD is emerging as a very profitable brand for Landmark. Higher commission is also aided by higher ex-factory price (lower GST at 5%).
- **BYD is an optionality for Landmark:** Though BYD has done well for Landmark so far, we are a little circumspect on the brand's expansion in India. BYD's Chinese counterpart in India – MG (from SAIC) – has been unable to expand its operations materially thus far. If BYD can homologate the models in India and if Landmark is able to retain the current margins, BYD could add significant value to Landmark, but we are not building that in yet.
- **Not building in material value from BYD:** We forecast BYD revenues to double over FY22-26E on a low base. However, not building in the optionality, we expect BYD to contribute less than 5% of Landmark's revenue and EBITDA in FY26E.

## Ashok Leyland – MHCV cycle uptick aiding business

- **Upcycle in MHCVs:** Ashok Leyland is a relatively small business for Landmark, at roughly 13% of revenue and 4% of EBITDA (FY22). Landmark has 4 touchpoints in Gujarat (2 each for sales and service) and has a market share of ~2.0% in MHCV sales for the brand. However, Landmark contributes 20-30% of Leyland's total MHCV sales in Gujarat. Following almost 3 years of downturn, MHCV volumes have started to pick up from FY21. We expect MHCV volume growth to continue in FY24 and FY25 at least.
- **Not very profitable currently:** Ashok Leyland does not contribute meaningfully to Landmark's profits as the share of service revenues (higher margin business) is relatively low (~10%). However, with the current upcycle in MHCVs, we believe the share of the AL business in Landmark's EBITDA can go up to 6-8% in FY25.
- **Shift towards higher tonnage vehicles favorable:** The share of higher tonnage vehicles within MHCVs continues to rise, leading to higher commission income on similar unit sales. The share of >25-ton vehicles has risen from 52% in FY19 to 60% in FY23. We expect this trend to continue and aid ASPs and profits for the business. Additionally, with trucks getting more complex (connected features, safety, and emission standards), the proportion of vehicles being serviced at authorized service centers is likely to rise, generating higher revenues and profits for Landmark.
- **Competition among OEMs easing:** We are witnessing less pricing competition among the large OEMs. This is positive news for CV dealers and could potentially translate into better margins for Landmark in this business.

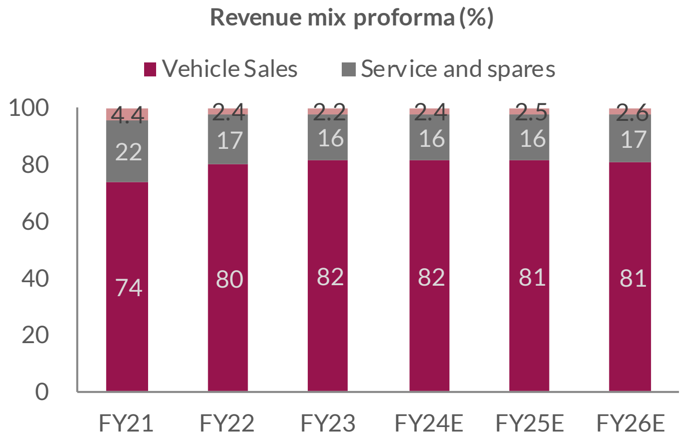
## Service and spares – the core of the business

Service and spares (aftermarket) account for 16% of revenues and 58% of EBITDA for Landmark (FY23). Service revenue is driven by vehicle parc for the brand in that region. Aftermarket margins are determined by the kind of job performed, with more labor-intensive jobs (like accident repairs) generating better margins. Landmark partners with 1 CV and 6 PV brands (7, including MG Motor, added recently). Within PVs, Landmark services one luxury (Mercedes Benz), two premium (Jeep, BYD), and three mass-market (Honda, Renault, VW) brands, through its 53 workshops. Service revenues tend to be stickier and less volatile. We expect this segment to experience 7% volume CAGR leading to 18% revenue CAGR over FY22-26E. A higher revenue CAGR is driven by the rising share of luxury and premium brands, on the back of superior growth and higher ASPs within each brand, owing to increasing premiumization. We expect EBITDA margins in this segment to remain in the 41-42% range over FY23-26E.

- **Retention varies across brands:** For luxury cars, 70% of the car parc is retained by authorized service centers at any point – 100% for the first 3 years, dropping to 50% for 8- to 9-year-old cars. To increase retention levels for servicing, Mercedes has started offering an 8-year warranty for certain models (especially the entry-level segment, where retention beyond 5 years is low). Among the other brands, retention is particularly high for Honda which lies in a sweet spot where it isn't prohibitively expensive and is premium enough to not be serviced anywhere else. Retention for Jeep and VW is expected to be lower.
- **Finance and insurance:** The company is also building its financing and insurance commission business as this is the low hanging fruit. Financing and insurance commissions make up almost 1% of total revenues, and flow directly to the margins (little to no extra cost). 75% of all new vehicles sold are financed, and roughly 65-70% of those new vehicles are financed through Landmark. Insurance for 80-90% of all cars sold by Landmark is facilitated by it. Finance commission is 1-1.2% of the loan amount, while insurance commission is ~20% of OD (Own Damage) premium (can go up to 30%).
- **Offering extended warranty:** OEMs offer extended warranty on their products, which is sold by the dealer on behalf of the OEM. Landmark (through the data collected over the years) has been able to deduce which brands/ models and what components tend to have failures, and over how many years. Based on this, it has started offering extended warranty on the brands/ models with minimal failure rates, thus retaining the entire extended warranty amount. If executed well, this could be a very profitable source of income.
- **Expansion into the pre-owned-vehicle business:** The used-car business is another area where minimum efforts could yield decent results. The company has tied up (it holds 20% equity) with Sheer Drive – founded by Ravi Mehra (formerly from Cartrade) – to enable its used car business. Landmark derives commission of 1.5-2% from the vehicles sold through Sheer Drive, and the realization from such endeavours is ~Rs 5-6k per car, which is 100% GM (adding to overall profitability). It also sells used cars (of its partner brands) independently, where it is required to hold inventory. The realization in direct sales is much higher (at Rs 500-600k per sale) with GM of ~5% translating to Rs 25-30k per vehicle. The company is looking to expand its pre-owned business, especially the direct model. It targets pre-owned sales to be 20% of its new-vehicle sales. We build in 14/31% volume/revenue CAGR (higher revenue CAGR driven by shift in mix, to direct sales) for the pre-owned business.
- **Pre-owned business as a driver of service and spares:** Expansion of its pre-owned cars business, particularly the direct sales, offers an opportunity for Landmark in the service and spares business. Refurbishment of the used vehicle can be done at its service centers, enhancing the realizable value of the vehicle disproportionately. Also, at the time of sale, a warranty can be provided to ensure the vehicle comes back to Landmark for servicing.

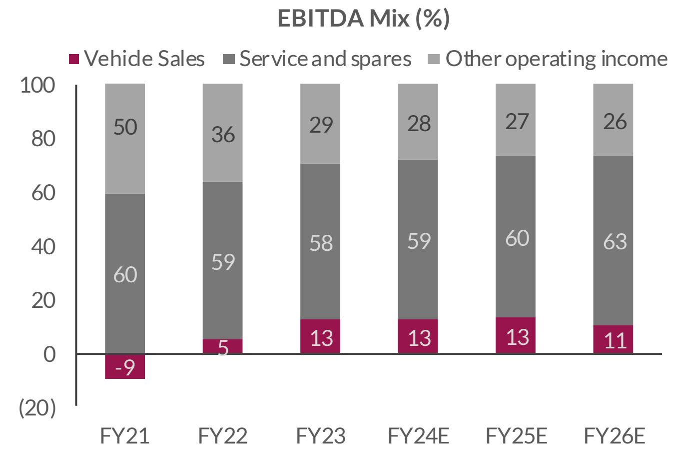
- **Collaborations for growth:** The company has collaborated with Motor One and Permagard, both providers of paint protection and car care products. With the growing trend of car care and personalization, this business has the potential to add significant value to Landmark. The company owns 20% in SheerDrive, its commission-based partner for the used-car-sales business. It also has an 8.3% stake in Pit Stop, which is a multi-brand, independent, door-step car-service and repairs provider.
- **Service business opportunities:** Average revenue per vehicle serviced is expected to grow further, due to: (1) accessories business – Landmark branded accessories (white-labelling), (2) tie-ups with Motor One and Permagard for paint protection and car care, and (3) higher share of Mercedes revenues (particularly from Shaman locations). The company is looking at 50%+ gross margins from the accessories and car-care businesses. It is also focusing on smaller body and paint jobs (when vehicles come in for servicing) with same-day delivery.
- **Service business in EVs:** Certain aspects of service are likely to change while certain others are expected to emerge with EVs.
  - **MB/Premium EV service:** For EVs, the revenue potential per car from servicing in the traditional sense does reduce, but there will be new revenue streams. Several features will be available on demand or can be subscribed to (there will be 3-4 types of packages with varying features), and 80% of services will be sold by dealers, as per the OEM's internal estimates. Even over-the-air (OTA) software updates will ultimately be enabled by dealers.
  - **EVs vs. ICE:** Service revenue will decline by 10-15%, in a worst-case scenario, if EVs completely replace ICE vehicles. 23% of service revenue for Landmark is preventive maintenance, 40% is general repair (of which 4% is engine-related) and value-added, and 37% is body and other parts. Preventive maintenance, which includes replacement of oil, oil filter etc. (lower-margin business) will go away for EVs, but there may not be much impact on the rate of accidents. Body and paint revenues for EV repairs will be higher, as customers will not go to other workshops given fears related to outsiders handling battery etc.

**Exhibit 31: Service/ spares make up 16-17% of revenues…**




Source: Company, Axis Capital

**Exhibit 32: …while share in EBITDA is much higher (~60%)**




Source: Company, Axis Capital

**Exhibit 33: Service center RoCE explained**

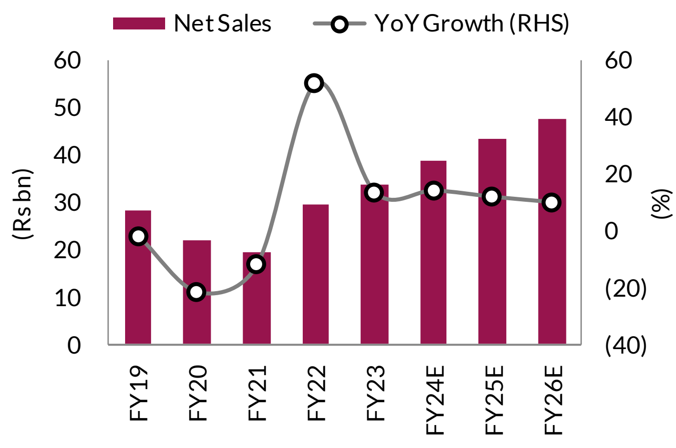
| Key assumptions | | | | Comments |
|---|---|---|---|---|
| New service outlets | 1 | | | 10,000 sq. ft. area |
| Capex per outlets (Rs mn) | 25 | | | Rs 2500 per sq. ft. expense on setup |
| Total (Rs mn) | 25 | | | |
| Working capital capex (Rs mn) | 16 | 25 | 36 | |
| Working capital days | 45 | 45 | 45 | Mainly for spares and consumables |
| Total Capital employed | 41 | 50 | 61 | |
| | | | | |
| **Particulars** | **Basic** | **Good** | **Best** | |
| No of bay areas/ outlet | 15 | 15 | 15 | |
| Total bay areas | 15 | 15 | 15 | |
| No of cars / bay (daily) | 3 | 4 | 5 | |
| No of working days / year | 300 | 300 | 300 | Assumed 25 working days per month |
| Productivity per bay | 0.70 | 0.75 | 0.80 | Utilisation rate of each bay |
| Load per annum (no. of cars) | 9,450 | 13,500 | 18,000 | |
| No. of cars per month/ bay | 53 | 75 | 100 | |
| Realisation / car | 14,000 | 15,000 | 16,000 | Company non-vehicle ASP (incl. spares) is Rs 20k |
| Total revenue (Rs mn) | 132 | 203 | 288 | |
| Gross margins | 45 | 45 | 45 | 40-50% avg. gross margin for service business |
| Gross profit (Rs mn) | 60 | 91 | 130 | |
| Employee cost (Rs mn) | 20 | 30 | 43 | |
| Rent (Rs mn) | 9 | 9 | 9 | Rs 75 per sq. ft. per month |
| Other expenses | 11 | 16 | 23 | Admin and logistic expense is 8% of sales |
| **EBITDA ((Rs mn)** | **20** | **36** | **54** | |
| **EBITDA margin** | **15.2** | **17.6** | **18.9** | |
| Depreciation (Rs mn) | 2 | 2 | 2 | |
| Depreciation rate (%) | 7 | 7 | 7 | |
| **EBIT** (Rs mn) | **18** | **34** | **53** | |
| Finance costs (Rs mn) | 4 | 5 | 6 | |
| PBT (Rs mn) | 14 | 29 | 47 | |
| Tax expense (Rs mn) | 4 | 7 | 12 | |
| Tax rate | 25% | 25% | 25% | |
| **PAT (Rs mn)** | **11** | **22** | **35** | |
| **RoCE** | **33%** | **51%** | **65%** | |

Source: Company, Axis Capital

## Financials: Expect FY23-26E revenue/EBITDA/PAT CAGR of 14/17/29%

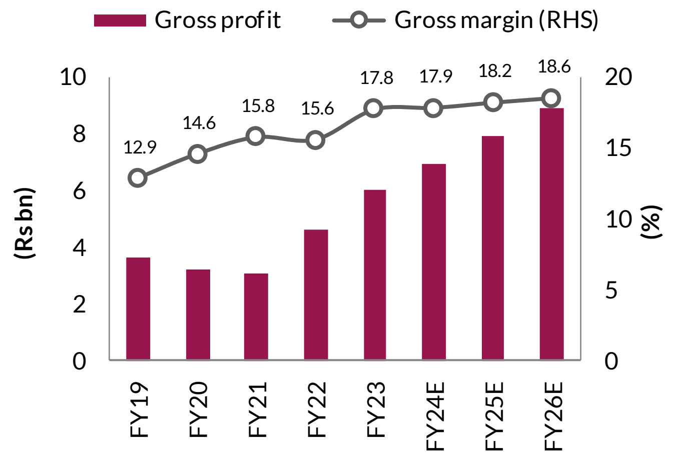
- **We expect Landmark to deliver 14% revenue CAGR over FY23-26E** led by 11% CAGR in the vehicle sales business, and 15% CAGR in the service business. Key growth drivers could be: (1) strong growth in the Mercedes Benz business in India – we build in 14% volume CAGR over FY23-26E; (2) increasing mix of BYD in overall sales – we expect ~6% of vehicle revenue in FY26E; (3) 18% CAGR in the service business – sticky volume growth and increasing share of premium brands; and (4) pick-up in the pre-owned vehicle business.
- **We expect 17% EBITDA CAGR over FY23-26E** with EBITDA margin reaching 7.9% in FY26E, as we build in 90 bps improvement over FY23 levels, driven by: (1) higher growth in Mercedes Benz with better margins; (2) higher profitability in the service business led by rising share of premium brand volumes (Jeep); and (3) reducing losses in the weak mass-market brands (Renault, VW).
- **Profit after Tax (PAT) is expected to more than double to Rs 1.8 bn in FY26E**, (over FY23) led by: (1) overall improvement in operating margins, (2) reduction in interest costs, driven by reduced working capital requirements mainly for Mercedes Benz, (3) improving operating performance at individual brands viz. Jeep, Renault, and (4) de-leveraging.
- **RoCE to improve to 20% in FY26E, from 13% levels in FY23:** Landmark's RoCE has improved from 6% in FY21 to 13% in FY23. This was driven by steps taken to contain losses in weaker dealerships, and improved profitability in Mercedes Benz given the new ROTF model which curtails working capital requirement meaningfully. Going forward, we expect this to further move to 20% levels, led by (1) improving profitability across brands, particularly Mercedes and Renault (shut down multiple ailing dealerships), and (2) operating leverage from improved utilization of recently acquired service centers in Mumbai.
- **Strong FCF generation – Rs 4.2 bn**: We expect cumulative CFO of Rs 8.6 bn over FY24-26E, aided by strong profitability (CFO/EBITDA of ~85%; historically it has been quite volatile due to working-capital swings). This, coupled with normalized capex intensity, will lead to FCF generation of Rs 4.2 bn over FY24-26E. Strong FCF generation will allow Landmark to significantly reduce its debt requirement by FY26E, and pursue inorganic opportunities.

**Exhibit 34: Sales growth momentum to continue across brands**



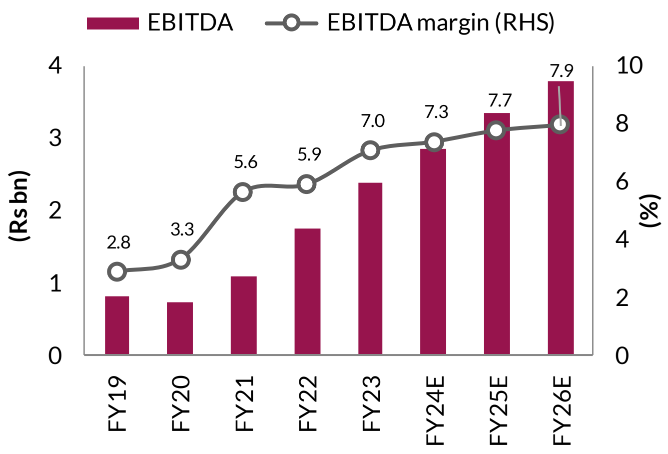

Source: Company, Axis Capital

**Exhibit 35: Gross profit to benefit from higher luxury sales**



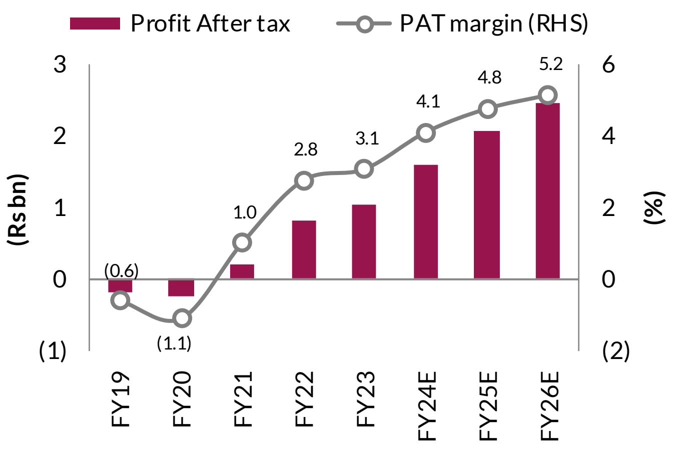

Source: Company, Axis Capital

**Exhibit 36: EBITDA margin should improve on better mix**



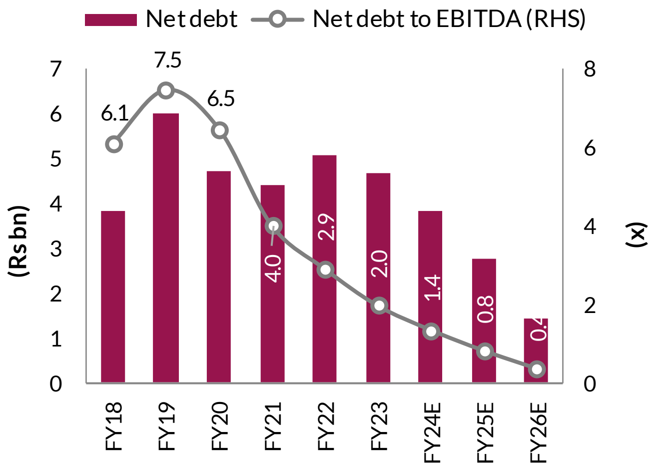

Source: Company, Axis Capital

**Exhibit 37: Expect PAT CAGR to be 29% over FY23-26E**



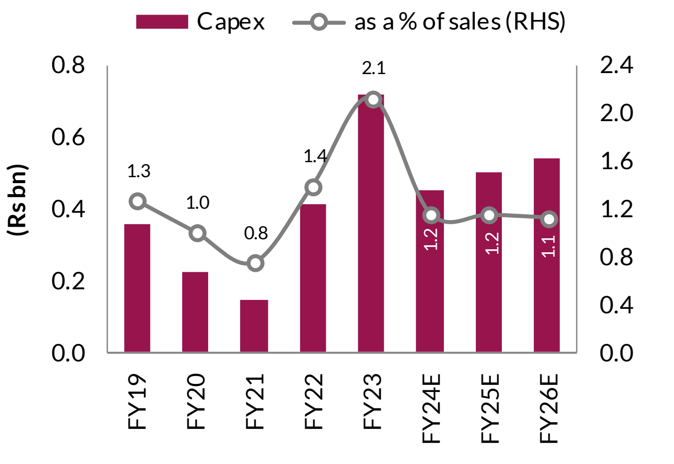

Source: Company, Axis Capital

**Exhibit 38: Net debt should drop with improved cash flow**



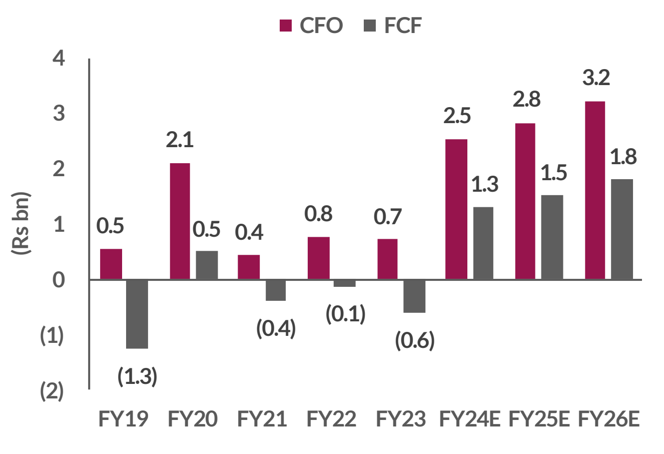

Source: Company, Axis Capital

**Exhibit 39: We are not building in significant capex growth**



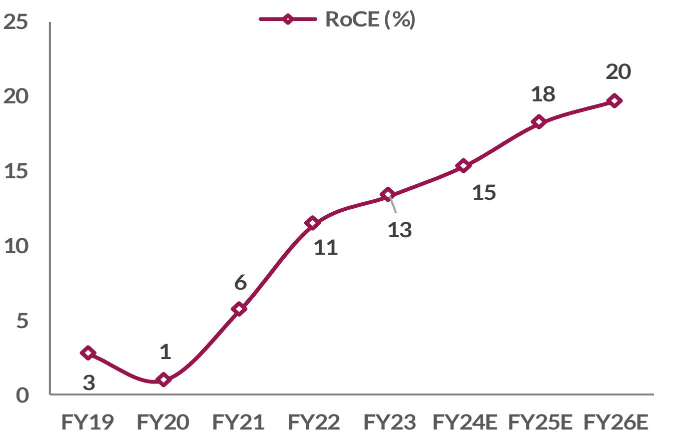

Source: Company, Axis Capital

**Exhibit 40: Business should generate significant cash flows**




Source: Company, Axis Capital

**Exhibit 41: ROTF model, improvement across brands aids RoCE**




Source: Company, Axis Capital

## Key risks

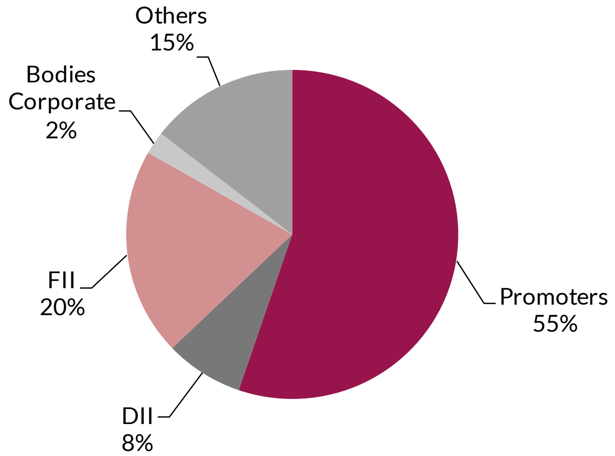
- **Slower-than-expected auto industry growth:** Landmark derives more than 70% of its revenue from vehicle sales, with larger dependence on the passenger vehicle market (90% of annual volumes). Slower-than-expected growth in PV volumes will impact Landmark's financial performance and can pose downside risks to our estimates. In the near term, key challenges that could weigh on volumes are higher inflationary trends and price hikes, weak growth in income levels for consumers (more impact on mass-market PVs), and any disruption or supply-chain issues, especially for luxury OEMs.
- **Lower OEM growth to impact the service business:** 30% of Landmark's revenue comes from its service and aftersales business, which is heavily dependent on the new vehicle sales of OEMs. The auto industry (PV and CV) has seen a sharp recovery in OEM volumes over the last 2 years led by pent-up demand, new launches, and increasing preference for personal mobility. This has led to service volumes scaling new highs in FY23, resulting in an improvement in overall profitability (18-20% EBITDA margin segment). Given the high industry base over the last 2 years, any further weakness in industry demand could impact our service volume estimates and therefore, financial performance for this segment.
- **Dealer margins hinge on industry cycles:** Post Covid, the company's new vehicle sales margins have seen material improvement, led by: (1) shortage of vehicle supply; (2) lower discounting; and (3) higher margins from Mercedes under the new ROTF model, which has positively impacted the vehicle business profitability. Typically, the dealer's vehicle margins are pre-determined by OEMs and are comprised of: (1) fixed component (4-5% of ex-factory price) and (2) variable incentives (different from OEM to OEM), while margins in the service business are more at the discretion of the dealer. However, dealer vehicle margin can contract in case of an industry downturn leading to aggressive pricing and higher discounting by larger OEMs (negative for weaker mass-market brands like Honda, Renault, VW), and lower volumes will entail lower compensation by way of incentives from OEMs. Further, the increasing fixed costs will have a negative impact on dealer profitability.
- **High working capital intensity:** An auto dealership is a working-capital-intensive business and this increases during a phase of lower volumes and higher interest rates, as dealers must maintain minimum vehicle inventory (2-4 weeks). Although the last 2 years have been favorable for dealers, aided by strong industry demand, lower production (leading to low inventory), and a benign interest rate environment, this has started to normalize aided by an improving supply situation and rising interest rates. While Landmark will benefit from a reduction in working capital driven by MB's new ROTF model (direct-to-customer sales), other PV and CV dealerships continue to operate on the traditional inventory model. The higher competitive intensity in mass-market brands, the need to maintain minimum inventory, increasing operational expenses (marketing and branding), and new launch campaigns should lead to higher WC requirement in the business, which could further impact its ability to generate free cashflows and return ratios.

# Annexure

## About the company

- Incorporated in 1998, Landmark Cars Ltd (LCL) – founded by Mr. Sanjay Thakkar, a first-generation entrepreneur – is a leading automobile retail chain in India with 108 touchpoints (one-third acquired inorganically) across India. The company has scaled up its presence both in the mass-market and luxury car market with multiple brands – Honda (1998), Volkswagen (2009), Mercedes (2009), Renault (2016), and Jeep (2017). It recently ventured into an electric vehicle dealership with BYD (2022), in Mumbai and Delhi-NCR. Simultaneously, it also diversified into MHCV dealership with Ashok Leyland in 2012.
- Landmark is the largest dealer of Mercedes Benz cars in India, with 16.1% market share (FY23), with 8 sales and 13 service outlets (Gujarat, MP, Maharashtra, and West Bengal). Apart from its organic setup, it also acquired 2 showrooms in Kolkata in 2013 to further increase market share. Given its proven expertise in premium car dealerships, the company partnered with the Jeep brand in 2017, with exclusive dealerships in Mumbai and Delhi-NCR, and within 5 years, has captured 26% market share of overall brand sales in India. Among the mass-market PV brands, over the last 5 years (FY19-23), it has consolidated its market share within key operating states and improved its vehicle profitability.
- Landmark operates a strong service network of 52 service workshops across 8 states. Over the last 5 years, it has grown its service volumes from 272,000 vehicles in FY19 to 322,000 vehicles in FY23. More importantly, it is able to increase the service ASP led by rising share of vehicle parc of Mercedes and Jeep. Recently, in Oct'21 it also acquired 4 Mercedes Benz service centers in Mumbai from Shaman Wheels for Rs 600 mn, to further boost service volume and profitability.
- Besides this, the company is also incubating multiple ancillary business such as (1) pre-owned vehicle business within the existing PV brands, (2) "Landmark" branded accessories and merchandise, and (3) customized branded service packages for existing customers by leveraging data analytics.

**Exhibit 42: Shareholding pattern**




Source: Company, Axis Capital

**Exhibit 43: Evolution summary of the company**

**1998**

Commenced automobile dealership business by setting up Honda Cars showroom in Ahmedabad, Gujarat

**2009**

- Commenced dealership for Volkswagen in Ahmedabad
- Commenced dealership for Mercedes Benz in Ahmedabad

**2012**

Commenced Ashok Leyland dealership in Ahmedabad, Kheda, Anand, Gandhinagar, Vadodara, Panchmahal and Dahod in Gujarat

**2013**

Acquired Mercedes Benz dealership in Kolkata, West Bengal

**2014**

Raised Rs 1.5 bn from TPG Growth fund - first ever PE investment in an auto dealership in India

**2016**

Commenced Renault dealership in Punjab

**2017**

- Commenced first Jeep dealership in Delhi
- Acquired Renault dealership in Punjab

**2018**

Acquired a competing Volkswagen dealer in Ahmedabad

**2019-20**

- 2019 – Invested in Chaptpay Commerce Ltd (Pitstop) – Car repair service startup in Mumbai
- 2020 – Invested in SheerDrive – a digital used car platform

**2021-22**

- Appointed as a Jeep dealer in Mumbai (Thane) and Punjab (Ludhiana and Jalandhar)
- Acquired 4 service centers of Mercedes Benz from Shaman Wheels Pvt Ltd in Mumbai and Navi Mumbai
- Acquired a Honda and Volkswagen dealership in Gujarat

Source: Company, Axis Capital

**Exhibit 44: Key Managerial Personnel**

| | |
|---|---|
| **Mr. Sanjay Karsandas Thakker** | is the Chairman and Executive Director of the Company. He has a bachelor's degree in commerce from Sydenham College of Commerce and Economics, University of Bombay. He founded the Group Landmark in 1998. He has more than two decades of experience in the automobile industry. He was awarded with the title of 'Business Leader of the Year' at the 19th global edition and 4th Indian edition of the Business Leader of the Year Awards on February 17, 2021 |
| **Mr. Aryaman Sanjay Thakker** | iis an Executive Director of the Company. He has a bachelor's degree in business administration from the Bharti Vidyapeeth Deemed University, Pune and has a master's degree of science in marketing and strategy from the University of Warwick. He joined Group Landmark in 2017 as a General Manager of LAPL |
| **Ms. Garima Misra** | is the [managing director of AMPL (Volkswagen business), Jeep North and Group Marketing. She has been associated with Group Landmark since September 5, 1998. She holds a bachelors' degree in commerce (honours) from the Delhi University and a master's degree in business administration from Fore School of Management. She has 23 years of experience in automobile retail industry and was a part of the founding team at Group Landmark. Prior to joining Group Landmark, she was associated with Blue Skies Travels & Tours Private Limited. She has been appointed as the state chairperson of Delhi chapter of the Federation of Automobile Dealers Associations for the period 2020-2022. |
| **Ms. Urvi Ashwin Mody** | is the Director -Infrastructure in Group Landmark. She holds a diploma in architecture from the Board of Technical Examinations, Maharashtra and a diploma in business management from S. P Mandali's WE School, Prin. L.N. Welingkar Institute of Management Development & Research, Mumbai. She is also registered with the Council of Architecture. She has been with Group Landmark since October 1, 1999. She has 22 years of experience in setting up retail and factory infrastructure. For Fiscal 2021, she received Rs. 4.02 million from the Company as remuneration. |
| **Mr.** Surendra Kumar Agarwal | is the Chief Financial Officer of the Company and has been associated with the Company since 2018. He holds a bachelors' degree in commerce from Rajasthan University and is also an associate of the Institute of Chartered Accountants of India. He has over two decades of experience in finance and accounting roles. Prior to this, he was associated with Trent Hypermarket Private Limited Videocon Appliances Limited and Century Rayon. For Fiscal 2021, he received Rs. 5.78 million from the Company as remuneration. |

Source: Company, Axis Capital

**Exhibit 45: Landmark's strategy is to expand within existing regions and brands**

| | Mercedes Benz | Jeep | VW | Honda | Renault | BYD | Ashok Leyland | Total |
|---|---|---|---|---|---|---|---|---|
| **Punjab** | | 4 | | | 14 | | | **18** |
| **Delhi (NCR)** | | 8 | 2 | | | 3 | | **13** |
| **Madhya Pradesh** | 3 | | | 2 | | | | **5** |
| **West Bengal** | 2 | | | | | | | **2** |
| **Gujarat** | 8 | | 15 | 19 | | | 4 | **46** |
| **Maharashtra** | 7 | 7 | | | 9 | 1 | | **24** |
| **Total** | **20** | **19** | **17** | **21** | **23** | **4** | **4** | |
| **Presence (states)** | **4** | **3** | **2** | **2** | **2** | **2** | **1** | **6** |

Source: Company, Axis Capital

**Exhibit 46: Inorganic network expansion over the years across OEMs**

| OEM/Brand | 2013 | 2016 | 2017 | 2018 | 2021-22 |
|---|---|---|---|---|---|
| Mercedes-Benz | 2 | | | | 4 |
| Honda | | | | | 2 |
| Jeep | | | | | 2 |
| Volkswagen | | | | 1 | 4 |
| Renault | | 15 | 3 | | |
| Ashok Leyland (MHCV) | | | | | |
| BYD | | | | | |
| **Total (Cumulative)** | **2** | **17** | **20** | **21** | **33** |

Source: Company, Axis Capital

**Exhibit 47: The company has largely been successful with its inorganic expansions**

| Year of acquisition | OEM | Location | Details of acquisition | Cost of acquisition (Rs mn) |
|---|---|---|---|---|
| 2021 | Mercedes Benz | Mumbai | Service stations (4) | 350 |
| 2021 | Volkswagen | Surat/Navsari | Showroom (2) and workshop (2) | 39 |
| 2021 | Honda | Vapi/Surat (Udhana)/Navsari | Showroom (3) and workshop (1) | 10 |
| 2021 | Jeep | Jalandhar (Punjab) | 3S facility (1) | 6 |
| 2018 | Volkswagen | Ahmedabad | Showroom (2) and workshop (1) | 90 |
| 2016-17 | Renault | Punjab | 17 - Showroom and workshop | 245 |
| 2013 | Mercedes Benz | Kolkata | Showroom (2) and workshop (1) | 125 |
| | **Total** | | | **866** |

Source: Company, Axis Capital

## Financial summary (Consolidated)

### Profit & Loss (Rs mn)

| Y/E March | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Net sales | 29,765 | 33,824 | 38,675 | 43,370 | 47,822 |
| Other operating income | - | - | - | - | - |
| **Total operating income** | **29,765** | **33,824** | **38,675** | **43,370** | **47,822** |
| Cost of goods sold | (25,117) | (27,817) | (31,760) | (35,457) | (38,942) |
| Gross profit | 4,648 | 6,007 | 6,915 | 7,913 | 8,880 |
| Gross margin (%) | 16 | 18 | 18 | 18 | 19 |
| Total operating expenses | (2,901) | (3,628) | (4,076) | (4,560) | (5,092) |
| **EBITDA** | **1,747** | **2,379** | **2,838** | **3,353** | **3,788** |
| EBITDA margin (%) | 6 | 7 | 7 | 8 | 8 |
| Depreciation | (698) | (873) | (942) | (1,031) | (1,123) |
| **EBIT** | **1,049** | **1,506** | **1,897** | **2,322** | **2,665** |
| Net interest | (352) | (511) | (448) | (414) | (382) |
| Other income | 126 | 121 | 141 | 161 | 181 |
| **Profit before tax** | **823** | **1,116** | **1,590** | **2,069** | **2,465** |
| Total taxation | (161) | (190) | (366) | (476) | (616) |
| Tax rate (%) | 20 | 17 | 23 | 23 | 25 |
| Profit after tax | 662 | 926 | 1,224 | 1,593 | 1,848 |
| Minorities | (7) | (6) | (7) | (8) | (10) |
| Profit/ Loss associate co(s) | - | - | - | - | - |
| Adjusted net profit | 655 | 920 | 1,217 | 1,585 | 1,839 |
| Adj. PAT margin (%) | 2 | 3 | 3 | 4 | 4 |
| Net non-recurring items | - | (75) | - | - | - |

### Balance Sheet (Rs mn)

| Y/E March | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Paid-up capital | 183 | 198 | 198 | 198 | 198 |
| Reserves & surplus | 2,286 | 4,499 | 5,598 | 7,024 | 8,665 |
| Net worth | 2,469 | 4,697 | 5,796 | 7,222 | 8,863 |
| Borrowing | 3,085 | 2,901 | 2,714 | 2,525 | 2,329 |
| Other non-current liabilities | 1,962 | 2,118 | 2,326 | 2,427 | 2,533 |
| **Total liabilities** | **7,529** | **9,735** | **10,863** | **12,208** | **13,769** |
| Gross fixed assets | 6,605 | 6,999 | 7,485 | 8,021 | 8,600 |
| Less: Depreciation | (1,623) | (1,888) | (2,365) | (2,893) | (3,474) |
| Net fixed assets | 4,983 | 5,111 | 5,119 | 5,128 | 5,126 |
| Add: Capital WIP | 38 | 32 | 32 | 32 | 32 |
| Total fixed assets | 5,021 | 5,143 | 5,151 | 5,161 | 5,158 |
| Total Investment | 165 | 163 | 213 | 263 | 313 |
| Inventory | 3,299 | 4,484 | 4,703 | 5,037 | 5,292 |
| Debtors | 642 | 1,036 | 1,184 | 1,328 | 1,464 |
| Cash & bank | 300 | 400 | 1,351 | 2,346 | 3,646 |
| Loans & advances | 334 | 1 | 1 | 1 | 1 |
| Current liabilities | 3,325 | 2,873 | 3,122 | 3,308 | 3,486 |
| Net current assets | 2,343 | 4,429 | 5,499 | 6,785 | 8,298 |
| Other non-current assets | - | - | - | - | - |
| **Total assets** | **7,529** | **9,735** | **10,863** | **12,208** | **13,769** |

Source: Company, Axis Capital

### Cash Flow (Rs mn)

| Y/E March | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Profit before tax | 823 | 1,041 | 1,590 | 2,069 | 2,465 |
| Depreciation & Amortisation | 698 | 873 | 942 | 1,031 | 1,123 |
| Chg in working capital | (786) | (1,450) | (86) | (205) | (133) |
| **Cash flow from operations** | **764** | **710** | **2,527** | **2,833** | **3,220** |
| Capital expenditure | (415) | (719) | (450) | (500) | (540) |
| **Cash flow from investing** | **(339)** | **(722)** | **(1,000)** | **(1,090)** | **(1,170)** |
| Equity raised/ (repaid) | - | 1,400 | - | - | - |
| Debt raised/ (repaid) | 371 | (412) | (300) | (300) | (300) |
| Dividend paid | (14) | (15) | (119) | (158) | (198) |
| **Cash flow from financing** | **(375)** | **1** | **(576)** | **(749)** | **(749)** |
| Net chg in cash | 50 | (11) | 951 | 995 | 1,300 |

### Key Ratios

| Y/E March | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| OPERATIONAL | | | | | |
| FDEPS (Rs) | 17.9 | 23.2 | 30.7 | 40.0 | 46.4 |
| CEPS (Rs) | 36.9 | 43.4 | 54.5 | 66.1 | 74.8 |
| DPS (Rs) | - | - | - | - | - |
| Dividend payout ratio (%) | - | - | - | - | - |
| GROWTH | | | | | |
| Net sales (%) | 52.2 | 13.6 | 14.3 | 12.1 | 10.3 |
| EBITDA (%) | 59.1 | 36.2 | 19.3 | 18.1 | 13.0 |
| Adj net profit (%) | 478.0 | 40.4 | 32.4 | 30.2 | 16.0 |
| FDEPS (%) | 478.0 | 29.9 | 32.4 | 30.2 | 16.0 |
| PERFORMANCE | | | | | |
| RoE (%) | 30.6 | 25.7 | 23.2 | 24.3 | 22.9 |
| RoCE (%) | 17.1 | 18.8 | 19.8 | 21.5 | 21.9 |
| EFFICIENCY | | | | | |
| Asset turnover (x) | 5.7 | 5.0 | 5.3 | 5.6 | 5.8 |
| Sales/ total assets (x) | 3.0 | 2.9 | 2.9 | 2.9 | 2.9 |
| Working capital/ sales (x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Receivable days | 7.9 | 11.2 | 11.2 | 11.2 | 11.2 |
| Inventory days | 43.0 | 52.0 | 47.9 | 45.9 | 43.9 |
| Payable days | 18.9 | 13.6 | 13.6 | 13.7 | 13.7 |
| FINANCIAL STABILITY | | | | | |
| Total debt/ equity (x) | 1.4 | 0.8 | 0.5 | 0.4 | 0.3 |
| Net debt/ equity (x) | 1.3 | 0.7 | 0.3 | 0.0 | (0.2) |
| Current ratio (x) | 1.7 | 2.5 | 2.8 | 3.1 | 3.4 |
| Interest cover (x) | 3.0 | 2.9 | 4.2 | 5.6 | 7.0 |
| VALUATION | | | | | |
| PE (x) | 39.3 | 30.2 | 22.8 | 17.5 | 15.1 |
| EV/ EBITDA (x) | 17.5 | 12.8 | 10.3 | 8.4 | 7.0 |
| EV/ Net sales (x) | 1.0 | 0.9 | 0.8 | 0.6 | 0.6 |
| PB (x) | 10.4 | 5.9 | 4.8 | 3.8 | 3.1 |
| Dividend yield (%) | - | - | - | - | - |
| Free cash flow yield (%) | 1.5 | 0.1 | 7.5 | 8.4 | 9.6 |

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