

August 4, 2021

CarTrade Tech (CTT) is a multi-channel auto platform with a presence across varied vehicle types and value-added services. Through its platforms (operated under the brand names of CarWale, CarTrade, Shriram Automall, BikeWale, CarTrade Exchange, Adroit Auto and AutoBiz), the company serves as an integrated online and offline marketplace for vehicle owners, dealerships, OEMs and other businesses. Its services span the gamut of automotive transaction value chain, i.e. marketing, buying, selling and financing of new and pre-owned cars, 2-W, CV and other vehicles. As of FY21, CTT had 2.6 crore monthly average unique visitors on its websites/apps (of which 88.4% were organic i.e. from unpaid sources) and featured 8.14 lakh vehicle listings on its online and offline auction platforms.

Strong brand suite serving US\$14.3 billion addressable market

As of FY20, total addressable market (TAM) for Indian automotive portals was estimated at ~US\$14.3 billion (~₹ 1.06 lakh crore), of which CTT and key competitors combined covered only ~<5%. With >90% Indian customers estimated to be using online channels for research before buying a new or used car, the space is well poised for market share gains by organised players (particularly ones with end-to-end presence) at the expense of current unorganised, fragmented industry segments. In this regard, CTT stands to benefit courtesy its suite of strong brands. CarWale and BikeWale were ranked No. 1 in relative online search popularity compared to peers during FY21. Also, as of FY20, Shriram Automall was a leading used vehicle auction platform based on number of vehicles sold.

Differentiated, profitable business model

CTT enjoys high brand visibility and affinity, as evidenced by ~88% of FY21 unique visitors being organic (unpaid). Pursuant to its asset-light business model (111 out of 114 automalls are leased), controlled employee costs and low balance sheet risk due to minimal carried inventory (unlike some competitors), CTT was the only profitable automotive digital platform among its key peer set as of FY20. On the b/s front, it is a net cash positive company with surplus cash amounting to ~₹ 650 crore as of FY21.

Key risk & concerns

- Investment by OEMs and/or dealers in their own digital platforms
- Technology upgradation, safety/security lapses of platforms/data
- Muted capital efficiency due to goodwill on b/s (~50% of network)

Priced at ~30x MCap/sales (FY21) on upper price band

CTT offers a unique play on rising digitisation of new and pre-owned vehicle transaction value chain/ecosystem. Given the prevailing preference for digital platforms including the recent listings, we assign **SUBSCRIBE** rating to the issue for listing gains. Long term wealth generation at CTT will be a function of scalability, relevance and journey towards healthier return ratios.

Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	CAGR (FY19-21)
Net Sales	243.3	298.3	249.7	1.3%
EBITDA	29.5	39.6	39.4	15.5%
EBITDA Margins (%)	12.1	13.3	15.8	
Net Profit	16.7	21.9	91.2	133.8%
Net Profit (Adjusted for deferral tax credit)	15.6	18.2	27.3	32.4%
Reported EPS (₹)	3.6	4.8	19.9	
Adjusted EPS (₹)	3.4	4.0	6.0	
P/E	444.1	338.7	81.2	
Adjusted P/E	475.4	407.7	271.4	
RoNW (%)	1.4	1.7	5.4	
RoCE (%)	1.1	1.6	1.1	

Source: RHP, ICICI Direct Research

CarTradeTech

IPO Details

Issue Details

Issue Opens	9th August 2021
Issue Closes	11th August 2021
Issue Size	~₹ 3,000 crore
QIB (Institutional) Share	~50% of issue
Non-Institutional Share	~15% of issue
Retail Share	~35% of issue
Issue Type	OFS
Price Band (₹/share)	₹ 1,585-1,618
Market Lot	9 shares
Face value (₹/share)	₹ 10
Listing Market Cap @	~₹ 7,400 crore
Upper price band	

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	0.0	0.0
Public	100.0	100.0
Total	100.0	100.0

CTT has no promoters. It's existing investors are offloading their 40.4% stake

Objects of issue

Objects of the issue

This is the pure offer for sale (OFS) with company receiving no proceeds from IPO. The company wants to accrue the benefits of listing Equity shares on stock exchanges

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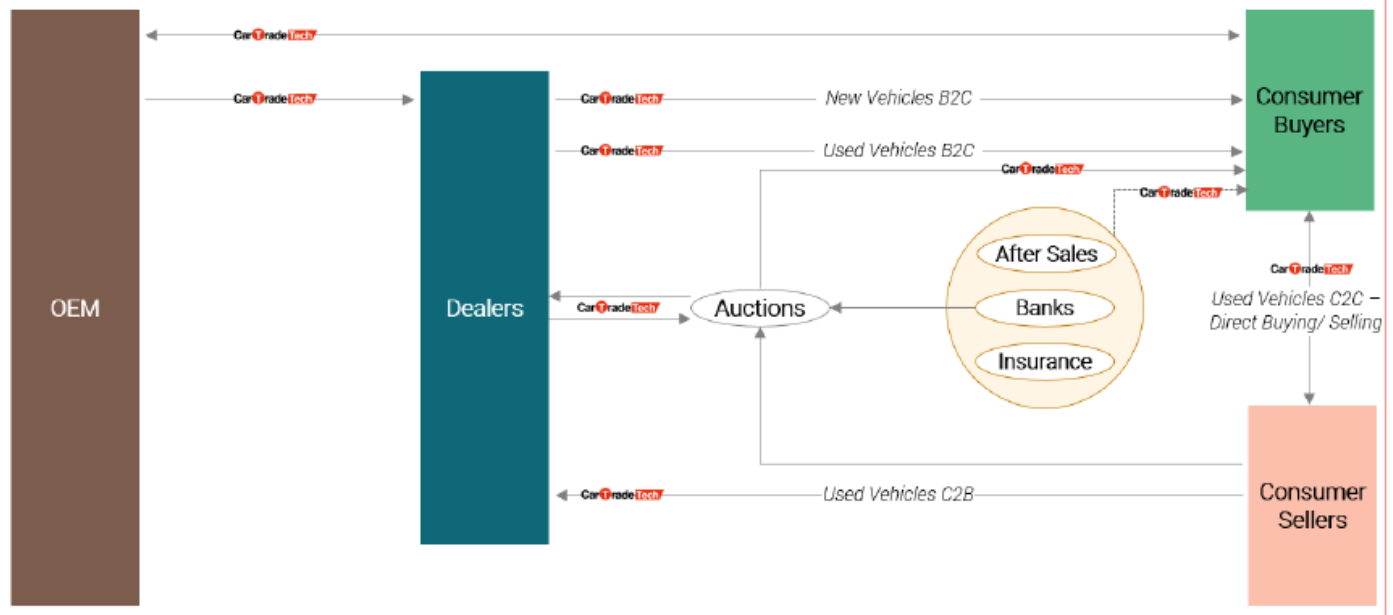
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Industry Overview

Currently, the automotive ecosystem is fragmented and complex, with vehicles reaching end buyers via various channels after having gone through multiple intermediaries. The rise of online platforms is digitising the vehicle buying journey and helping to connect various automotive stakeholders (B2B, B2C, C2B and C2C), streamline the ecosystem and improve user experience in terms of efficiency, transparency and speed.

With respect to customers, automotive portals assist in research and comparison, dealer and price discovery, financing options, auctioning process, purchase/sale, payments, etc. On the other hand, they are used by dealers for listings, sourcing, lead generation, transactions, auctions, etc.

Exhibit 1: Role of online vehicle platforms in automotive transaction ecosystem



Source: RHP, ICICI Direct Research

As per RedSeer analysis, new car sales in India are expected to grow at 10% CAGR to ~44 lakh units in FY26E amid present low penetration levels (22 cars per 1,000 population as of 2019). On the other hand, shortening of replacement cycles and changing buyer preferences post-Covid are expected to result in 11% CAGR in used car sales to ~83 lakh units in FY26E. Similarly, RedSeer expects new 2-W sales and used 2-W sales to grow at ~8% CAGR each to ~2.3 crore units, ~3 crore units, respectively, in FY26E. Coupled with strong growth expectations for base automotive industry, increasing internet penetration and evolving user choices (>90% Indians are estimated to be using online channels for research before buying a new or used car) are other tailwinds for online automotive portals.

Automotive portals provide a key service of auction and remarketing of vehicles for various customers like individual consumers, fleets, banks and other financial institutions (for repossessed vehicles), insurers (for total loss claims or salvaged vehicles), OEMs, corporates, dealers, etc. As of FY20, auction and remarketing (C2B and B2B) accounted for 41 lakh out of total 85 lakh used car sale transactions in India.

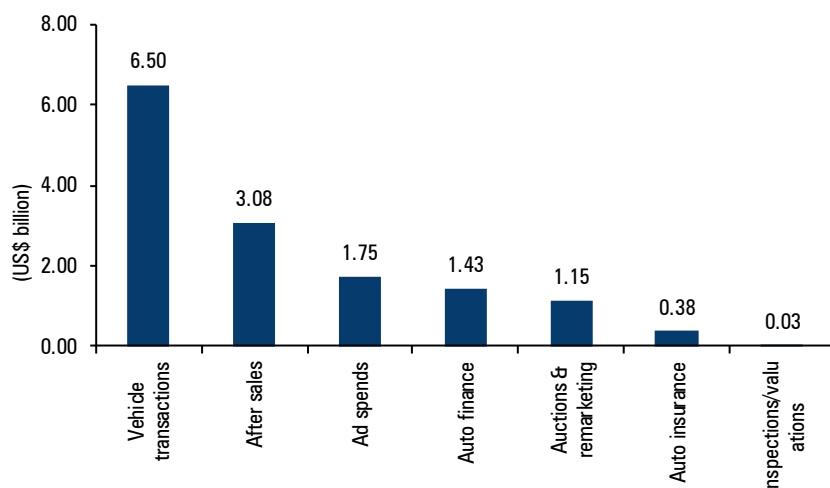
As of FY20, Indian OEMs spent ~14% of their total advertising budget of ~US\$1.2 billion on digital advertising, in contrast to global average of ~42%. Similarly, digital ad spend of Indian dealers was limited to US\$10 million i.e. ~6-8% of advertising budget vs. ~25-90% in mature markets. Going forward, growth in India's digital advertising market as well as post-Covid thrust on digital marketing is expected to benefit the sector.

Apart from these, online automotive portals provide other value-added services related to automotive accessories, insurance, auto finance and inspections/valuations.

The used car market is large (consisting of ~30,000 dealers; ~85 lakh transactions in FY20) but highly (~90%) unorganised and fragmented. Total ~50% dealers face issues in lead conversion, vehicle unavailability and low volumes. Increasingly, dealers are using online platforms to source or sell used cars. Among used car buyers and sellers as well, online channels enjoy higher net promoter scores than local offline dealers due to wide choices, price delivery and convenience

Taken together, the TAM for the Indian automotive portal industry was estimated at US\$14.3 billion in FY20 with chief revenue lines comprising commission on transactions/auctions/trade-ins, listing subscriptions & ad revenues from OEMs, dealers & others, marketplace/software solutions for OEMs, dealers & others and other value added services.

Exhibit 2: Indian automotive portal estimated at US\$14.3 billion in FY20



Source: RHP, RedSeer estimates, ICICI Direct Research

Key players in the space include CTT, Cars24, CarsDekho, Mahindra First Choice Wheels and Droom among others. As of FY20, CTT was the only profitable player in this peer set.

Exhibit 3: Comparison of consolidated FY20 financials for key players (₹ crore)

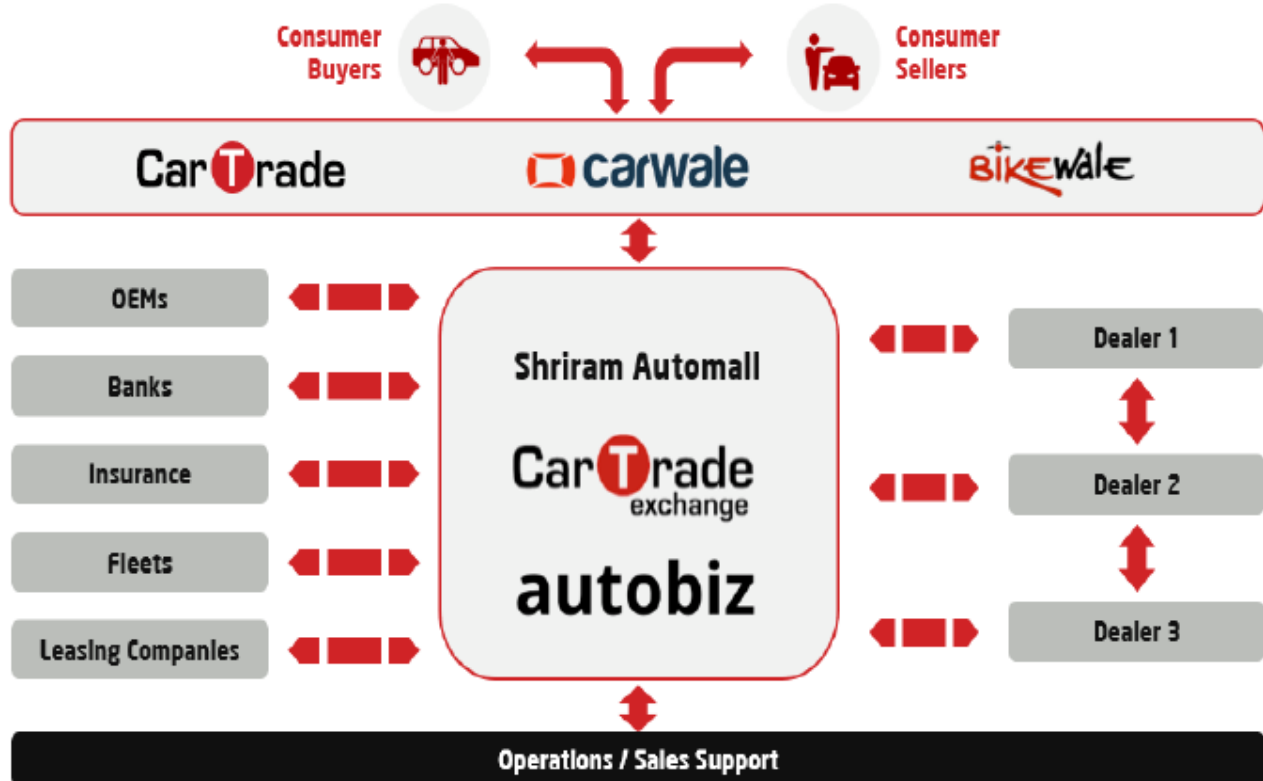
	CTT	Cars24	CarDekho	Mahindra First Choice	Droom
Revenue					
Total revenue	318.3	3,065.2	754.7	375.8	179.5
less - purchase of stock in trade	16.2	2,865.4	307.4	167.8	-
less - changes in inventory	0.9	(56.0)	(18.0)	(5.2)	-
	301.2	255.8	465.4	213.3	179.5
Expenses					
Advertising promotional expenses	24.1	141.6	146.1	14.5	197.9
Employee benefit expenses	134.2	217.2	338.8	65.3	42.0
Other expenses	107.7	305.9	410.5	147.5	217.7
Profitability					
EBITDA	59.2	(267.2)	(284.0)	0.5	(80.3)
% of total revenue	18.6	(8.7)	(37.6)	0.1	(44.7)
PAT	29.2	(285.0)	(326.5)	(7.0)	(82.9)
% of total revenue	9.2	(9.3)	(43.3)	(1.9)	(46.2)

Source: RHP, financial disclosures/MCA filings, RedSeer estimates, ICICI Direct Research

Company Background

CTT is a multi-channel auto platform with a presence across varied vehicle types and value-added services. Through its platforms (operated under the brand names of CarWale, CarTrade, Shriram Automall, BikeWale, CarTrade Exchange, Adroit Auto and AutoBiz), the company serves as an integrated online and offline marketplace for vehicle owners, dealerships, OEMs and other businesses. Its services span the gamut of automotive transaction value chain, i.e. marketing, buying, selling and financing of new and pre-owned cars, 2-W, CV and other vehicles.

Exhibit 4: CTT ecosystem



Source: RHP, ICICI Direct Research

CarWale, CarTrade and BikeWale platforms are used by shoppers to research and connect with dealers, OEMs, etc, to sell and buy cars and 2-Ws. Shriram Automall (a subsidiary) facilitates sale of pre-owned vehicles. CarTrade Exchange is an online auction platform and a used vehicle ERP tool, also used by dealers to manage their processes like procurement, inventory management and CRM. Adroit Auto offers vehicle inspection and valuation services while AutoBiz provides CRM solutions to new car dealers.

The company is led by Vinay Vinod Sanghi (MD & CEO, 30 years of automotive experience) and has marquee institutional shareholders such as Highdell Investment (affiliate of Warburg Pincus), MacRitchie Investments (affiliate of Temasek), JP Morgan and March Capital.

As of FY21, CTT had 2.6 crore monthly average unique visitors on its websites/apps (of which 88.4% were organic i.e. from unpaid sources) and featured 8.14 lakh listings on its online and offline auction platforms. Its websites and apps handled ~21.5 lakh and ~17.6 lakh user sessions per day in Q4FY21 and Q1FY22, respectively.

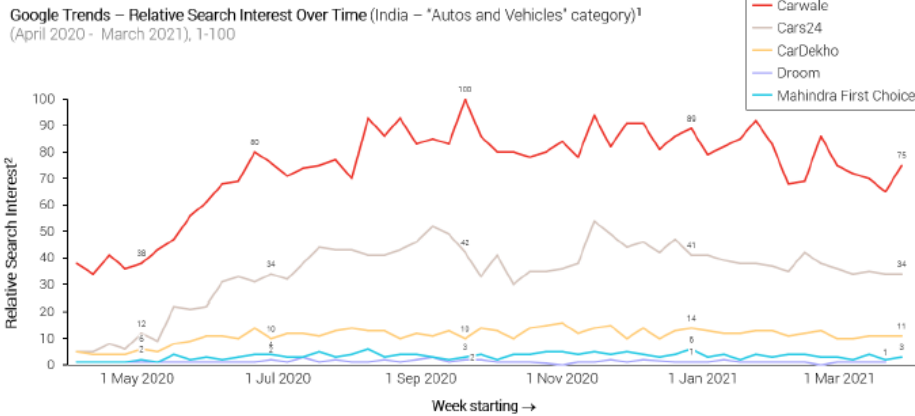
Exhibit 5: Key operational metrics across CTT businesses

Particulars	FY19	FY20	FY21	Q1FY22
Average monthly unique visitors (crore)	1.93	2.05	2.57	2.71
Average monthly unique organic visitors (crore)	1.30	1.45	2.34	2.49
% of organic unique visitors	64.47	66.65	88.44	88.14
Vehicles listed for auction (lakh)	7.09	8.09	8.14	2.12
Vehicles sold by auction (lakh)	2.00	1.98	1.57	0.30

Source: RHP, ICICI Direct Research

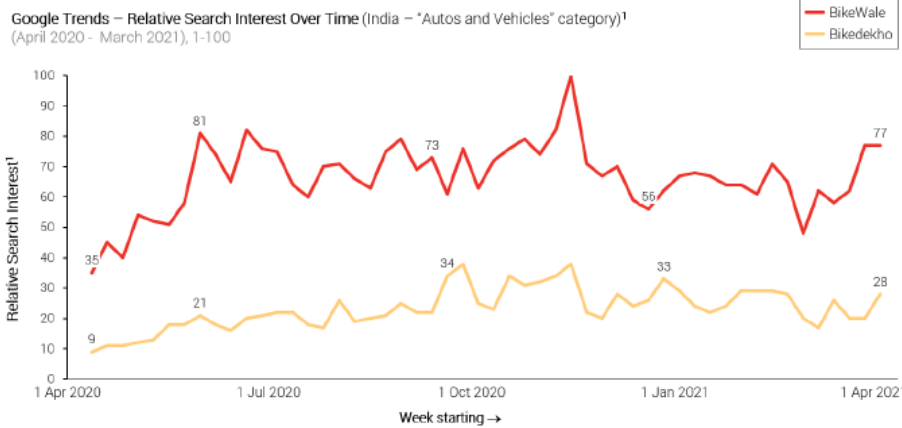
CarWale and BikeWale were ranked No. 1 in relative online search popularity compared to peers during FY21 while as of FY20, Shriram Automall was a leading used vehicle auction platform based on number of vehicles sold.

Exhibit 6: Google trends – relative online popularity of car portals in FY21



Source: RHP, Google trends tool, RedSeer analysis, ICICI Direct Research

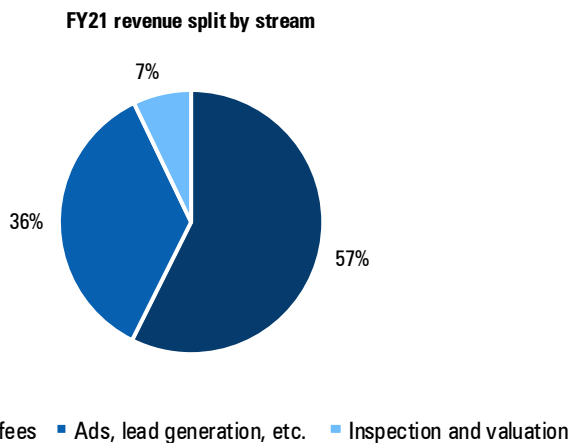
Exhibit 7: Google trends – relative online popularity of 2-W portals in FY21



Source: RHP, Google trends tool, RedSeer analysis, ICICI Direct Research

As of FY21, ~57% of CTT’s revenue was derived from commission and fees for auction, remarketing services of used vehicles. Online advertising solutions on its portals along with lead generation for OEMs, dealers, etc, and technology-based services combined accounted for ~36% of revenues while ~7% was obtained via inspection and valuation services.

Exhibit 8: FY21 revenue break-up at CTT



Source: RHP, ICICI Direct Research

Investment Rationale

Strong brand suite serving US\$14.3 billion addressable market

As of FY20, total addressable market (TAM) for Indian automotive portals was estimated at ~US\$14.3 billion (~₹ 1.06 lakh crore), of which CTT and key competitors combined covered only ~<5%. With >90% Indian customers estimated to be using online channels for research before buying a new or used car, the space is susceptible to market share gains by organised players (particularly ones with end-to-end presence) at the expense of current unorganised, fragmented industry segments. In this regard, CTT stands to benefit courtesy its suite of strong brands. CarWale and BikeWale were ranked No. 1 in relative online search popularity compared to peers during FY21, while as of FY20, Shriram Automall was a leading used vehicle auction platform based on number of vehicles sold.

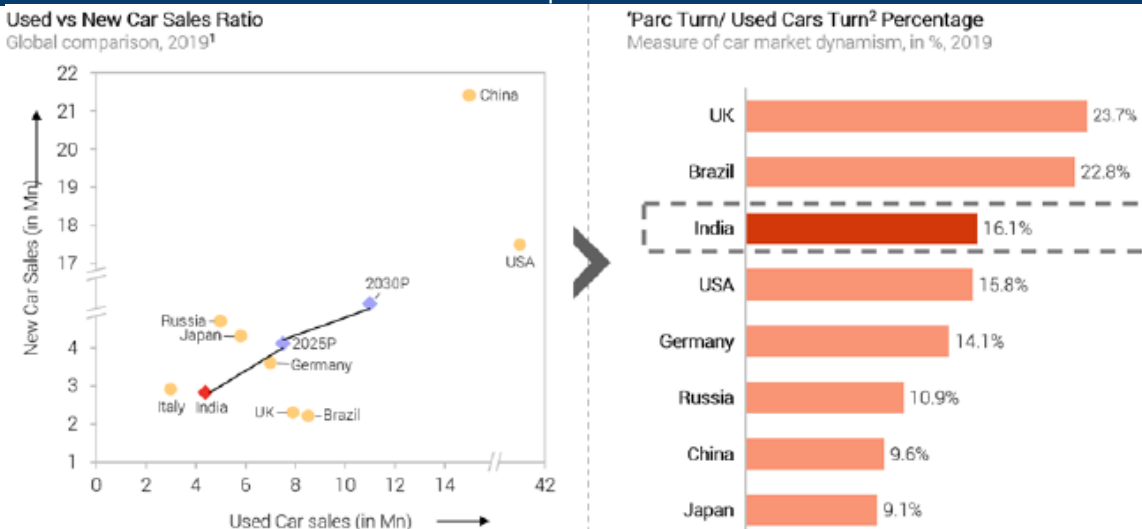
Differentiated, profitable business model

CTT enjoys high brand visibility and affinity, as evidenced by ~88% of FY21 unique visitors being unpaid. Its customer acquisition costs (per monthly unique visitor) have halved from ₹ 0.74 in FY19 to ₹ 0.37 in FY21. Pursuant to its asset-light business model (111 out of 114 automalls are leased), controlled employee costs and low balance sheet risk due to minimal carried inventory (unlike some competitors), CTT was the only profitable automotive digital platform among its key peer set as of FY20.

Healthy outlook for Indian auto sector

After about two years of sluggishness on the back of a spike in vehicle ownership and running costs, slowdown in economic activity, Covid impact, etc), the auto industry is poised to post healthy double-digit medium term growth (new vehicles) riding on pent up demand, aided initially by a lower base. India’s ratio of used cars sold to new cars sold is ~1.5 vs. ~2-3 in major economies, with parc turn rate (ratio of used cars sold divided by total car volume) at ~16%, signalling potential for faster growth than new car sales in future. The same bodes well for CTT given its direct linkage to the underlying health of the Indian auto sector. Also, CTT’s diversified presence across vehicle types ensures that its fortunes are not segment dependent.

Exhibit 9: Headroom for Indian used car market to outpace new car sales in future



Source: RHP, FHWA-DOT (USA), RedSeer analysis, ICICI Direct Research

Margins, return ratios to benefit from operating leverage

CTT’s business model allows it to gain substantially from operating leverage. Past history of controlled employee expenses and falling customer acquisition costs along with expectation of increased volumes, going forward, leads us to believe there is scope for CTT’s operating margins and return ratios to move to a higher trajectory in future.

Key Risk

Investment by OEMs and/or dealers in own digital platforms

In a post Covid world, auto OEMs and dealers are increasingly looking at online and digital mode not just for customer engagement but also de-risking traditional distribution channels and lowering distribution costs. Heightened focus on their own online portals along with possible wide scale introduction of innovative services such as vehicle financing options could emerge as a threat to incumbents like CTT.

Technology upgradation, safety/security of platforms/data

Being an online marketplace, the company is constantly exposed to a rapidly changing technology landscape. It may need to constantly innovate in service and feature offerings or user experience to keep pace with competition or user expectations, which could entail additional cost. Search engine optimisation plays an important role in relative popularity of online portals. Changes in algorithms employed by search engines or better efforts by competitors could alter the present relative strength enjoyed by CTT's platforms and, thus, lower its competitive edge. CTT relies heavily on website and app traffic for its revenue streams. They form the core of its business. As such, any interruption in operation of its technology platforms or safety/security lapses related to proprietary or other data would impact CTT's operations and brand value.

Muted capital efficiency due to high goodwill on b/s

CTT is a cash-rich company with consolidated cash and liquid investments of ~₹ 650 crore on books as of FY21. It has, in the past, relied on the inorganic route for growth. CTT acquired CarWale in FY16, Adroit in FY18 (51% stake) and Shriram Automall in FY19 (55.4% of outstanding equity interest). In the process, it recorded a combined goodwill of ~₹ 898 crore on its books, which formed ~53% of the company's FY21 net worth. Bloated capital base on account of large goodwill on the books has led to muted return ratios for CTT (FY21 RoCE, RoNW at mere 1.1%, 5.4%, respectively). Further, if any future M&A activity leads to deterioration of overall margin, profitability or return ratio profile of the company, as a whole, it could have consequences for valuation multiples commanded by CTT.

Financial summary

Exhibit 10: Profit and loss statement			
	₹ crore		
(Year-end March)	FY19	FY20	FY21
Total operating Income	243.3	298.3	249.7
Growth (%)	NA	22.6	(16.3)
Raw Material Expenses	0.0	17.1	1.3
Employee Expenses	127.6	133.1	130.1
Other Expenses	86.2	108.4	79.0
Total Operating Expenditure	213.8	258.7	210.3
EBITDA	29.5	39.6	39.4
Growth (%)	NA	34.3	(0.7)
Depreciation	15.2	17.4	19.9
Interest	2.4	3.5	4.3
Other Income	23.5	20.2	31.8
PBT	35.4	38.9	47.0
Total Tax	9.5	7.6	(54.1)
Reported PAT	16.7	21.9	91.2
Growth (%)	NA	31.1	316.9
Reported EPS (₹)	3.6	4.8	19.9
PAT (Adjusted for deferral tax credit)	15.6	18.2	27.3
Adjusted EPS (₹)	3.4	4.0	6.0

Source: RHP, ICICI Direct Research

Exhibit 11: Cash flow statement			
	₹ crore		
(Year-end March)	FY19	FY20	FY21
Profit after Tax	16.7	21.9	91.2
Add: Depreciation & Interest	17.6	20.9	24.2
(Inc)/dec in Current Assets	(9.6)	(22.0)	(27.7)
Inc/(dec) in CL and Provisions	17.0	(8.3)	22.7
Others	(6.6)	4.7	(75.2)
CF from operating activities	35.2	17.2	35.2
(Inc)/dec in Investments	(21.3)	8.3	(330.6)
(Inc)/dec in Fixed Assets	(2.4)	(4.8)	(5.4)
Others	5.7	(11.7)	(4.8)
CF from investing activities	(18.0)	(8.2)	(340.8)
Proceeds from Issuance of Equity	(2.4)	(3.5)	317.4
Others	(5.5)	(7.6)	(9.3)
Dividend paid & dividend tax	-	-	-
CF from financing activities	(7.8)	(11.1)	308.1
Net Cash flow	9.3	0.0	2.9
Opening Cash	12.2	21.6	21.6
Closing Cash	21.6	21.6	24.5

Source: RHP, ICICI Direct Research

Exhibit 12: Balance sheet			
	₹ crore		
(Year-end March)	FY19	FY20	FY21
Liabilities			
Equity Capital	38.4	38.4	42.4
Reserve and Surplus	1,193.1	1,223.9	1,638.2
Total Shareholders funds	1,231.4	1,262.3	1,680.6
Total lease liabilities	33.5	42.1	54.6
Deferred Tax Liability	9.6	7.9	6.3
Minority Interest / Others	3.7	4.2	4.5
Total Liabilities	1,333.9	1,386.9	1,828.0
Assets			
Gross Block	104.0	123.9	149.2
Less: Acc Depreciation	29.1	37.6	50.1
Net Block	74.9	86.3	99.1
Capital WIP	-	0.2	0.5
Total Fixed Assets	74.9	86.5	99.6
Goodwill & Investments	1,222.5	1,224.0	1,568.8
Inventory	0.9	0.0	1.6
Debtors	36.0	46.7	47.3
Other Current Assets	16.0	14.4	5.7
Cash	21.6	21.6	24.5
Total Current Assets	74.6	82.8	79.0
Creditors	18.1	19.6	22.2
Provisions	2.7	3.3	3.4
Other current liabilities	72.4	60.7	76.7
Total Current Liabilities	93.2	83.6	102.3
Net Current Assets	(18.6)	(0.8)	(23.2)
Others	19.8	18.4	102.7
Application of Funds	1,333.9	1,386.9	1,828.0

Source: RHP, ICICI Direct Research

Exhibit 13: Key ratios			
(Year-end March)	FY19	FY20	FY21
Per share data (₹)			
EPS	3.6	4.8	19.9
Cash EPS	7.0	8.6	24.3
BV	268.9	275.6	366.9
Cash Per Share	4.7	4.7	5.3
Operating Ratios (%)			
EBITDA Margin	12.1	13.3	15.8
PBT / Net sales	5.9	7.5	7.8
PAT Margin	6.9	7.3	36.5
Inventory days	1.4	0.0	2.3
Debtor days	54.1	57.1	69.1
Creditor days	27.1	24.0	32.5
Return Ratios (%)			
RoE	1.4	1.7	5.4
RoCE	1.1	1.6	1.1
RoIC	1.4	2.0	1.7
Valuation Ratios (x)			
Adjusted P/E	475.4	407.7	271.4
EV / EBITDA	240.4	179.3	171.4
EV / Net Sales	29.2	23.8	27.0
Market Cap / Sales	30.4	24.8	29.6
Price to Book Value	6.0	5.9	4.4
Solvency Ratios			
Debt/EBITDA	-	-	-
Debt / Equity	0.0	0.0	0.0
Current Ratio	1.1	1.7	1.6
Quick Ratio	1.1	1.7	1.6

Source: RHP, ICICI Direct Research

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