Landmark Cars (LANCAR)

ICICI direct Research

CMP: ₹ 720 | Target: ₹ 920 (28%) | Target Period: 12 months | BUY

February 29, 2024

Drive into the realm of PV premiumization…

About stock: Landmark Cars is a leading auto retailer for premium/luxury cars in India. Its key OEM partners in PV space include Mercedes Benz, Jeep, Honda, Volkswagen, Renault with recent additions being MG Motors, Mahindra & Mahindra and BYD. It has also partnered with Ashok Leyland in the Commercial Vehicle space.

- It has presence across automotive retail value chain, including new vehicle sales, pre-owned vehicle sales, after-sales service and spare parts, etc.
- It has a network of 117 outlets in nine Indian states and across 28 cities.

Investment Rationale

- Low penetration of luxury cars a tailwind, landmark cars best placed to capture this premiumisation trend: Luxury car penetration in Indian PV market stand at ~1%, one of the lowest globally, vs, ~10% across major economies of China/US. Domestic annual luxury car sales stood at ~40k units amidst total PV sales pegged at ~4 million units. Only ~4% of Indian millionaires purchases luxury cars, vs. the global average of 60%. Thus, with significant growth in income levels, consequent rise in HNI's/UHNI's share of population & growing consumer preference for premium products, there exists significant tailwind of growth for luxury car segment in India. As per industry estimates, luxury PV segment is expected to grow healthy double digit in volumes vs. mid-single digit long term growth envisaged for the PV space in general. Landmark is strategically positioned to seize this opportunity, leveraging its long-standing relationships with existing marquee OEM partners like Mercedes Benz, etc. as well as diversifying its offerings with other OEMs like BYD, M&M and MG Motors. With increase in partnerships & healthy new product launch pipeline (~12 for Mercedes in CY24), we built in new vehicle sales volume CAGR of 12% over FY24E-26E.
- After-sales service, a lucrative play supporting earnings and RoCE profile: After-sales service is the most lucrative business proposition for the auto retailer and provides stability to the overall earnings and return ratios profile. Gross margins in this business are healthy at ~40% with EBITDA margins at ~18% and RoCE at ~30%+. Landmark drives ~25% of its topline from this segment, the contribution of which to the total EBITDA is pegged at ~70%. Thus, with increasing car sales, the company is expected to witness a recurring & stable revenue stream from this segment thereby supporting the overall earnings & RoCE profile. We have built-in 18% sales CAGR in this space over FY23-26E & margins improving to 20% by FY26.

Rating and Target Price

- We have a positive view on Landmark Cars amidst premiumisation tailwind in domestic PV space, long standing marquee OEM relationships at the company, its diversification efforts including pre-owned car business & healthy financial profile (ROCEs: ~20%+ & CFO yield: ~7% on forward basis)
- We assign BUY rating with target price placed at ₹ 920 i.e. 22x PE on FY26.

Landmark — You drive us

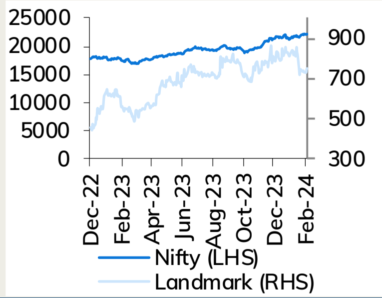
Particulars

Particulars	₹ crore
Market capitalisation	2,902
Total Debt (FY23)	211
Cash & Investment (FY23)	40
EV (₹ crore)	3,072
52 week H/L (₹)	905 / 441
Equity capital (₹ crore)	20.2
Face value (₹)	5.0

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	55.2	53.1	52.9	51.8
FII	7.0	10.5	8.6	8.4
DII	7.5	14.3	15.5	15.2
Other	30.3	22.2	23.1	24.6

Price Chart



Recent Event & Key risks

- Steady Q3FY24: Sales growth of 9.5% YoY & EBITDA margins at 6.8%, down 30 bps QoQ
- Key Risk: (i) lower than anticipated new vehicle sales growth (ii) increasing competitive intensity limiting margin gains

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Manisha Kesari
manisha.kesari@icicisecurities.com

Conviction Pick

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Sales	2,218.6	1,956.1	2,976.5	3,382.3	15.1%	3,485.9	4,116.1	4,778.3	12.2%
EBITDA	72.9	109.8	174.7	238.0	48.3%	243.8	298.4	358.4	14.6%
EBITDA Margins (%)	3.3	5.6	5.9	7.0		7.0	7.2	7.5	
Net Profit	(28.8)	11.3	65.5	84.5	LP	73.9	115.3	168.9	26.0%
EPS (₹)	(7.9)	3.1	16.5	21.3		18.3	28.6	41.9	
P/E	(91.7)	232.8	43.6	33.8		39.2	25.2	17.2	
RoNW (%)	(17.2)	6.2	26.7	19.4		13.5	18.1	21.4	
RoCE (%)	2.1	9.4	15.2	16.9		14.4	18.0	21.3	

Source: Company, ICICI Direct Research

Company background

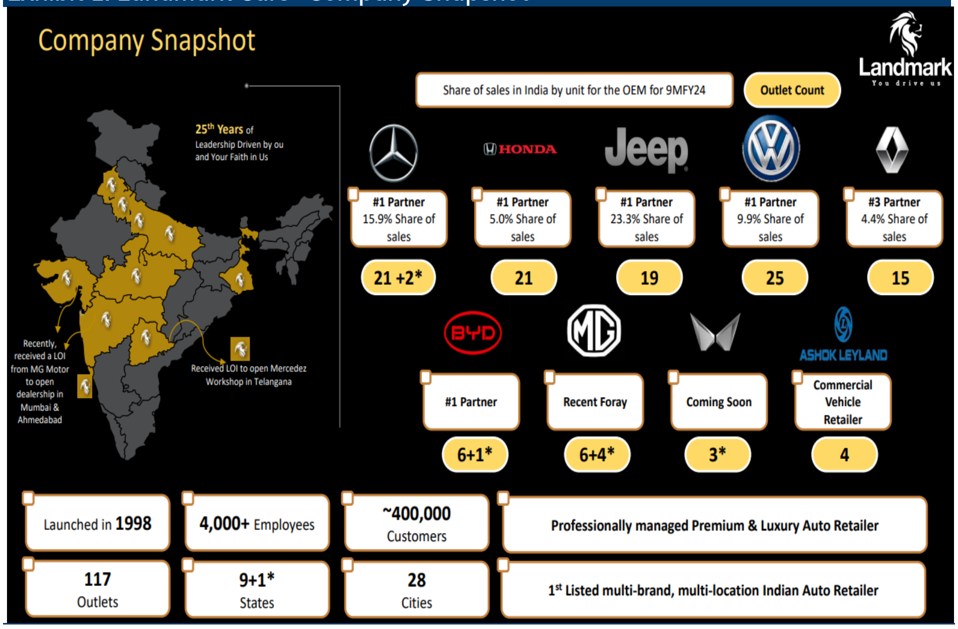
Landmark Cars stands as one of India's leading premium automotive retail businesses, with dealerships for prestigious brands such as Mercedes Benz, MG Motors, Mahindra and Mahindra, Honda, BYD, Jeep, Volkswagen, and Renault for passenger vehicle and Ashok Leyland for commercial vehicles. It commenced operations with its first dealership for Honda in CY 1998. Since then, LMC has expanded its network to 117 outlets including more than 50 service and spare outlets spread across 28 cities. It has presence across the automotive retail value chain encompassing: (i) new vehicle sales (ii) after-sales service and repairs, comprising repair and collision repair services covering warranty work, insurance claim work and customer paid services (iii) pre-owned vehicle operation through two business models: selling used vehicles through appointed agents on a commission basis and taking refurbished vehicles on their book for sales (iv) third-party financing and insurance products facilitating value added services to its passenger vehicle sales.

During 9MFY24, Landmark held the top dealer position in India for Mercedes, Honda, Jeep, and Volkswagen commanding OEM sales shares of 15.9%, 5%, 23.3%, and 9.9% respectively. Moreover, it ranked as the third largest dealership in India for Renault, capturing a sales share of 4.4%. In terms of revenue mix, new vehicle sales contributed 78%, followed by after-market sales at 19%, pre-owned vehicle sales at 2%, and the finance and insurance segment accounting for the remaining 1%.

OEM	Sales Outlets	Service and Spare Outlets
Mercedes Benz	8	13
Honda	10	11
Jeep	10	9
Volkswagen	15	8
Renault	12	7
BYD	3	1
MG Motors	2	2
Ashok Leyland	2	2
Total	62	53

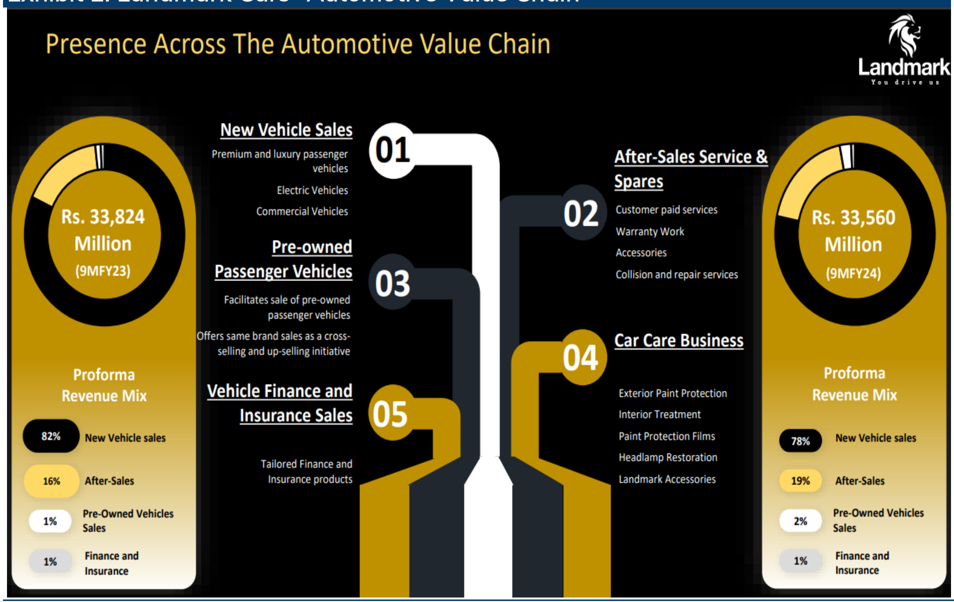
Note: Number of Outlets as on Q1 FY24

Exhibit 1: Landmark Cars- Company Snapshot



Source: Company, ICICI Direct Research

Exhibit 2: Landmark Cars- Automotive Value Chain



Source: Company, ICICI Direct Research

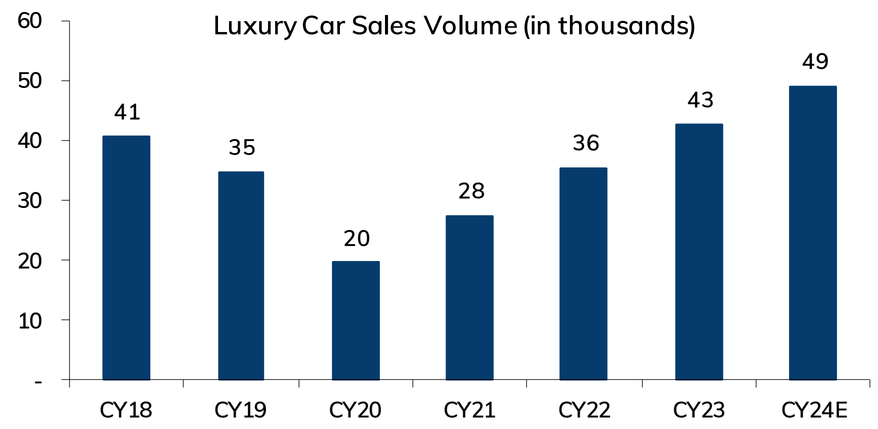
Investment Rationale

Structural drivers for growth in India's luxury car space- Landmark best play

India is the third largest car market globally, yet the penetration of luxury cars domestically is pegged at ~1% of overall car sales. In comparison, as per media articles, emerging economies such as Brazil, Thailand and Indonesia have luxury car penetration ranging from ~5-8%, while developed economies such as UK & Germany boast penetration rates of ~15% & ~25%, respectively. Only ~4% of Indian millionaires purchase luxury cars, in contrast to global average of ~60%, highlighting significant untapped potential in this space. As per an industry report, the number of high-income Indians households i.e. with household >₹33 lakhs as annual income will more than triple by 2030 vs. the levels in 2018. All these factors are structurally positive for domestic luxury car segment which is expected to witness healthy double-digit growth going forward. Others enabling factors include a demographic shift towards young buyers, growing penetration in semi-urban areas, increasing number of high-end salaried personnel & rise in the preference for top-end variants. Landmark is strategically well positioned to seize this opportunity, leveraging upon its long-standing relationships with marquee OEM partners like Mercedes Benz, which holds a dominant ~40% market share in the domestic luxury car segment (CY23).

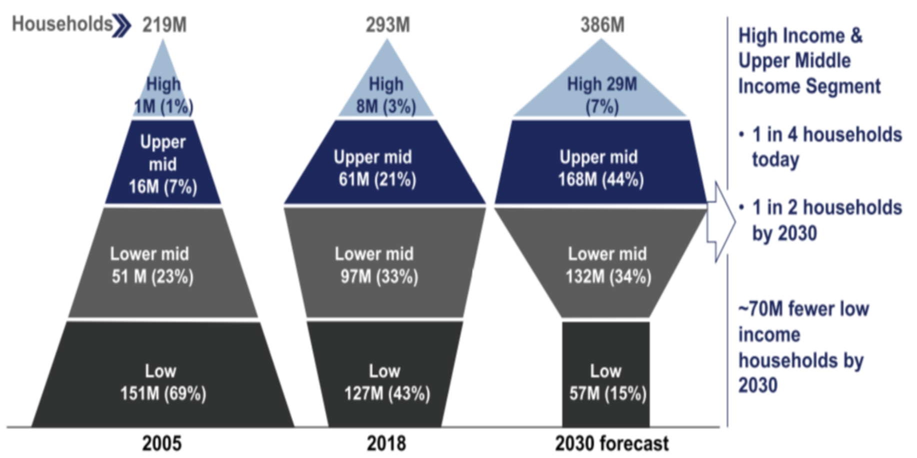
Landmark cars is the leading dealer partner for Mercedes Benz India, contributing ~15.9% to the brand's domestic retail sales. Since forging partnership with Mercedes Benz in 2009, Landmark has expanded its network to 21 outlets across eight cities.

Exhibit 3: Luxury Car segment sales volume trend



Source: Media Articles, Industry Reports, ICICI Direct Research

Exhibit 4: India's Household Income Pyramid – Changing dynamics*



Source: World Economic Forum-Future of Consumption Report, ICICI Direct Research

*Note

Low income: <$4,000 (~₹3.3 lakhs),

Lower-mid: $4,000-8,500 (~₹3.3-7.0 lakhs),

Upper-mid: $8,500-40,000(~₹7.0-33 lakhs),

High Income: >$40,000 (~₹33 lakhs)

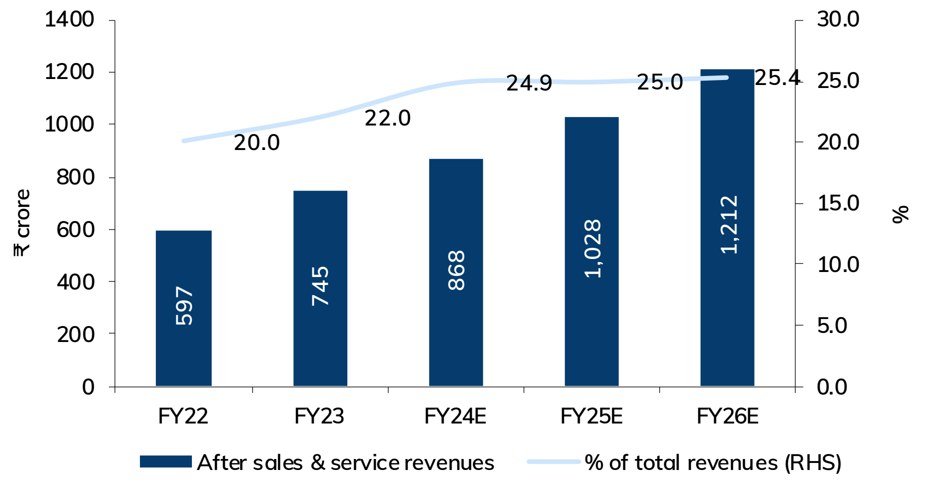
German luxury car markers Mercedes Benz & BMW continue to dominate the Indian luxury car market. As per media sources, Mercedes Benz led the market with ~17,400 units (up by ~10% YoY), followed by BMW with ~13,300 units (up by ~18% YoY) in CY23. As per media sources, Mercedes Benz has lined up ~12 new products across internal combustion engine (ICE) and battery electric vehicle (BEV) for CY24, with 50% of the new launches targeted at the top-end vehicle segment. Mercedes Benz India expects double digit growth in volumes in CY24 with investments of ₹200 crores envisaged for Pune Plant for new product line up and capacity expansions. This is further positive for Landmark cars with company expected to make good for shortfall in volumes witnessed in FY24E going forward in FY25E.

After-sales & service: Stable & growing revenue stream- fillip to earnings

Landmark Car's after sales service & spare parts division serves as a steady revenue stream pursuant to its healthy car parks domestically. Sales in this segment have grown at a CAGR of 16% over FY20-23 to ₹ 745 crore in FY23, constituting ~22% of overall sales at the company. Interestingly however given the high margin nature of this business at ~18%, its contribution to the overall EBITDA stands at healthy ~57% (FY23). The company serviced ~3.2 lakh cars in FY23 with an average billing of ~₹ 23,400. With average billing now improved to ~₹ 26,000 per service and increasing car parks we expect revenue from this space to grow at a CAGR of 18% over FY23-26E with its share in total EBITDA envisaged at ~70%. Functioning as authorized service centres for renowned OEM partners, Landmark cars enjoys a competitive edge, as warranty services are exclusively permitted through these centres.

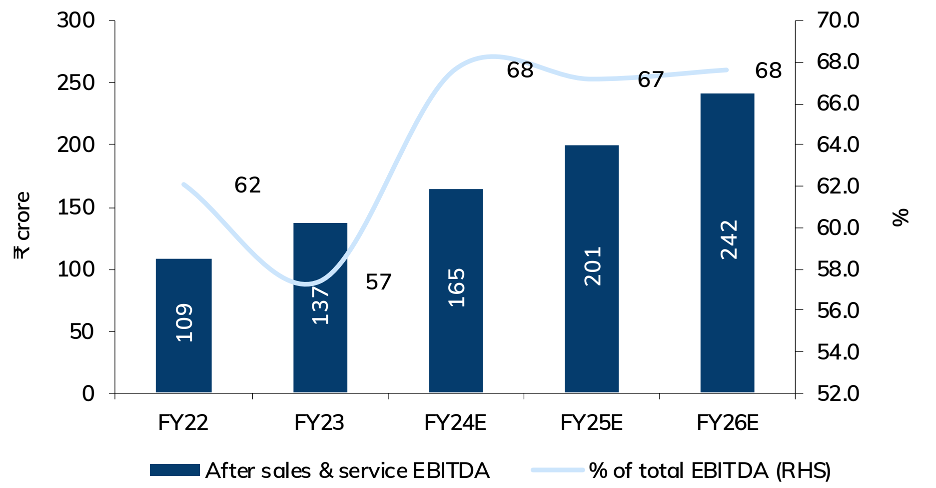
Landmark is due to commission a new workshop in Telangana for Mercedes Benz, marking its maiden entry into the South Indian market

Exhibit 5: After-Sales & service revenue trend



Source: Company, ICICI Direct Research

Exhibit 6: After-Sales & service EBITDA trend



Source: Company, ICICI Direct Research

To augment revenues under this segment, the company is also focussing upon branding its white labelled car accessories along with annual maintenance contracts and extended warranties. Additionally, it aims to expand its accident repair services, which contributes ~45% of aftermarket services.

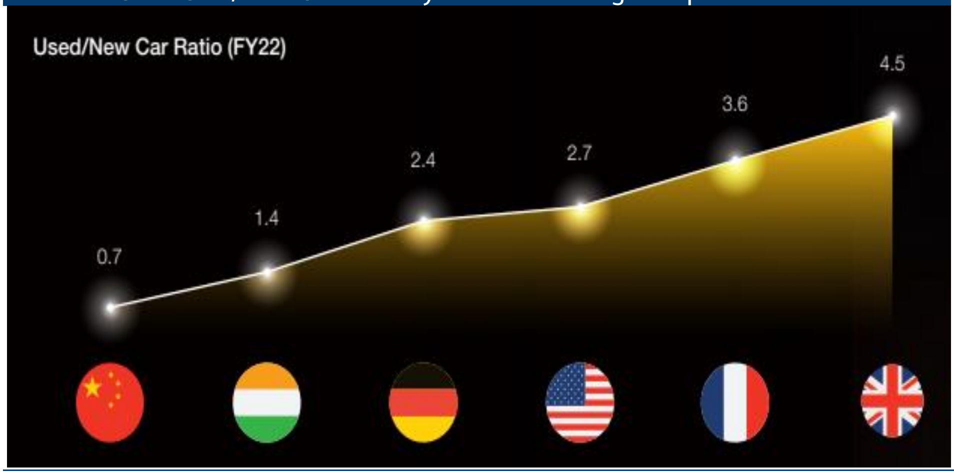
Through partnerships with Permagard Automotive (USA) and MotorOne Car care (Australia), Landmark cars has secured exclusive brand and distribution rights for these brands for Indian market, enhancing aftermarket sales, bolster customer retention while driving higher revenue per serviced vehicle.

Building blocks in place for higher growth in pre-owned car market

The pre-owned car market provides a lucrative opportunity for Landmark cars, given used car to new car ratio is ~1.4x domestically vs. 2.7x and 4.5x in USA and UK respectively. The used car market is expected to reach ~1.9x of new car sales by FY27 driven by increased need for personal mobility, rise in disposable incomes, lower replacement cycles, and increasing financial penetration. As per Industry reports, the share of organized players in the used car market is expected to reach ~45% in 2027 from ~20% levels in 2022. This augurs well for Landmark Cars which is looking to expand its presence in this segment by leveraging its existing infrastructure and technology platform. In the initial phase it plans to sell only its own brand cars which have been sold by them in the past and have been services at their workshops. It will help them to optimize refurbishment costs and implement disposition of the same through new car showrooms. It offers a unique proposition by providing lower EMI facilities inclusive of warranty, service cost, insurance and future buy-back guarantees, thereby enhancing Landmark's position in the pre-owned car market.

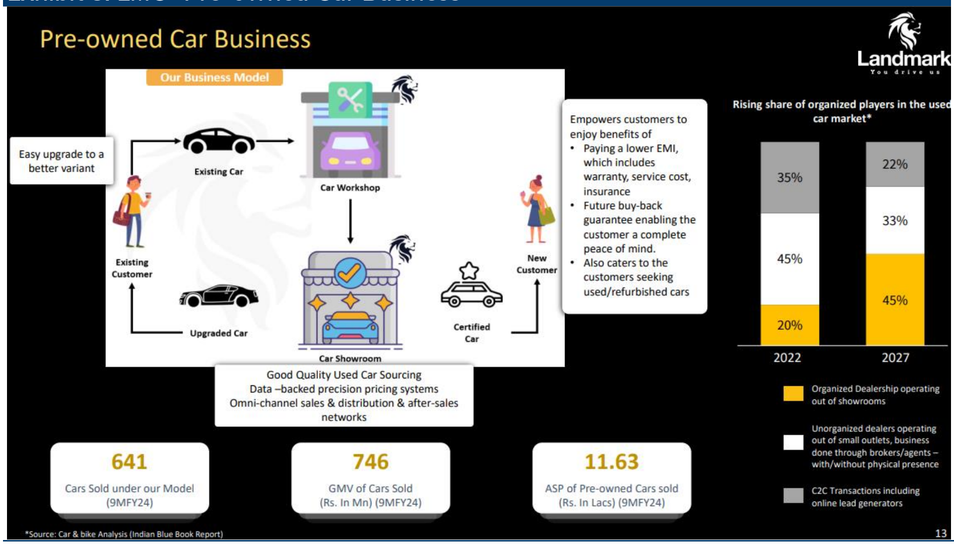
Landmark expects to clock revenues to the tune of >= ₹100 crores in FY24 from its pre-owned car business segment and expects it to double it going forward in FY25E

Exhibit 7: Used Cars/New Car industry size – India vs. global peers



Source: Company, ICICI Direct Research

Exhibit 8: LMC- Pre-owned Car Business



Source: Company, ICICI Direct Research

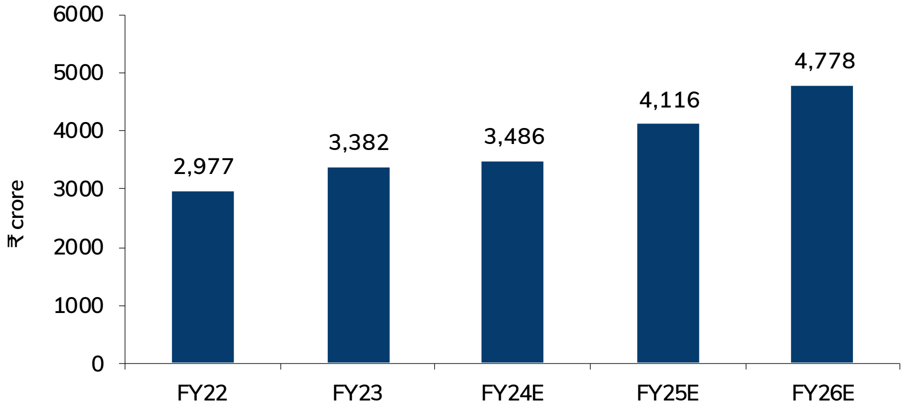
Increasing OEM count to capture further opportunities in premium PV space

Landmark has a successful & long-lasting relationship with its existing OEM partners. It is also diversifying its offerings by venturing into Luxury EV Market through partnership with BYD and the SUV space through partnerships with M&M and MG Motors. It has already started operating outlets for its new partners, with additional ones on the horizon, including a planned showroom in South Mumbai following a LoI from BYD. Furthermore, it has secured an LoI with MG Motors to establish dealerships in Ahmedabad and Mumbai, increasing its total showroom count to 10. M&M's showroom located in Kolkata is expected to be operationalised in near term. These new partnerships are expected to further fuel growth for the company going forward.

Landmark expects Mercedes Benz, MG Motors, Mahindra and Mahindra, and BYD to be the growth driver in the coming years, given these brands are currently launching new models and expanding manufacturing capacities

Key Financial charts

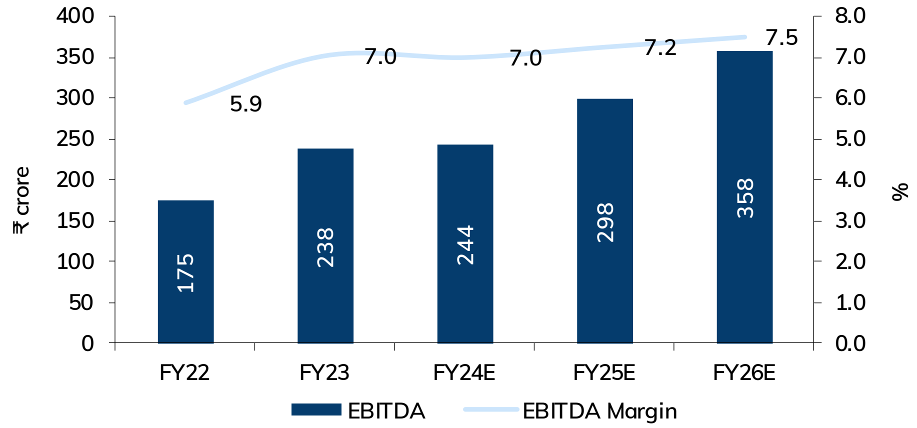
Exhibit 9: Trend in topline



Source: Company, ICICI Direct Research

Topline is expected to grow at 12.2% CAGR at Landmark Cars over FY23-26E to ₹ 4,778 crore as of FY26E. New Vehicle volume growth in the aforesaid period is pegged at ~4%, whereas volume growth of number of vehicles serviced is pegged at ~8% over FY23-26E.

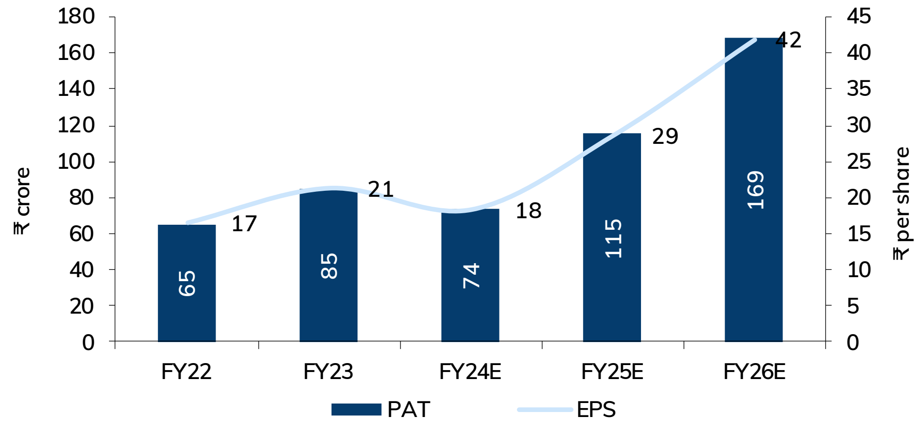
Exhibit 10: Trend in EBITDA & margins



Source: Company, ICICI Direct Research

At Landmark Cars EBITDA is expected to grow at 14.6% CAGR over FY23-26E to ₹ 358 crore in FY26E with margins reaching ~7.5% in that timeframe.

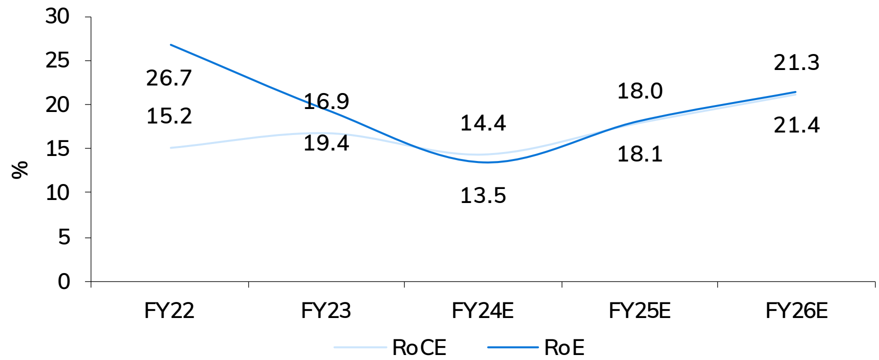
Exhibit 11: Trend in bottom-line & EPS



Source: Company, ICICI Direct Research

PAT is expected to grow at a CAGR of 26% over FY23-26E at Landmark Cars to ₹ 169 crore in FY26E with corresponding EPS seen at ₹42 in FY26E

Exhibit 12: Trend in return ratio



Source: Company, ICICI Direct Research

Landmark Cars has on a consistent basis realised healthy return ratios and is expected to report RoE/RoCE of ~21% in FY26.

Risk and Concerns

Slower than expected growth in new vehicle sales

New Vehicle sales contribute more than 70% to the Landmark cars revenue, with higher dependence on the passenger vehicle market, thereby making them susceptible to the any slowdown in industry sales in this space. Few macroeconomic demand headwinds include muted economic growth, higher inflationary trend, rising fuel prices, price hikes by OEMs, supply chain issues and low discretionary spending. These factors could have an adverse impact on the company's overall growth, posing a downside risk to our forward estimates. Sales growth at Landmark is also determinant of new model launches at its OEM partners and hence any delay in new model launches or absence of the same poses a risk to its growth going forward.

Growth of Electric Vehicle pose risk to after sales service-albeit long term

After-sales service segment (most lucrative space for auto retailers) faces a risk from the growing electric vehicle market, as electric vehicles have fewer moving parts and serviceable items compared to their petrol or diesel equivalents, with cost composition primarily skewed towards battery packs and associated software. This shift could significantly impact this segment, which is expected to contribute ~25% to the company's topline and ~70% to the total EBITDA. The risk however is not imminent in this space given the low population of EV's domestically. Going forward, as the EV penetration grows in the luxury car segment this is a risk to after sales service segment of the business at Landmark albeit over a longer time horizon.

Rise in competition from automotive dealers & unauthorised service centres

Many of Landmark Cars dealership agreements do not grant exclusive right to sell vehicles from OEMs within specific geographic area. If OEMs award dealerships to others in the same markets where Landmark operates or existing dealerships increase their market share in Landmark's market, it could affect its revenue and profitability going forward. Additionally, the company contends with competition from the unorganized sector, including unauthorized service centres, which may offer servicing and maintenance at lower prices.

Financial Summary

Exhibit 13: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24E	FY25E	FY26E
Net Sales	3,382.3	3,485.9	4,116.1	4,778.3
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	3,382.3	3,485.9	4,116.1	4,778.3
Growth (%)	13.6	3.1	18.1	16.1
Raw Material Expenses	2,781.5	2,815.8	3,313.4	3,837.0
Employee Expenses	187.4	218.2	257.3	296.3
Other Operating Expense	175.4	208.1	247.0	286.7
Total Operating Expenditure	3,144.3	3,242.2	3,817.7	4,419.9
EBITDA	238.0	243.8	298.4	358.4
Growth (%)	36.3	2.4	22.4	20.1
Depreciation	87.3	101.4	111.3	126.9
Interest	51.1	56.6	43.4	18.2
Other Income	12.0	8.9	10.9	12.9
PBT	111.6	94.7	154.6	226.2
Exceptional Item	7.5	-2.9	0.0	0.0
Total Tax	19.0	17.3	38.7	56.5
PAT	84.5	73.9	115.3	168.9
Growth (%)	27.7	-12.5	56.0	46.5
EPS (₹)	21.3	18.3	28.6	41.9

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement ₹ crore

(Year-end March)	FY23	FY24E	FY25E	FY26E
Profit after Tax	84.5	73.9	115.3	168.9
Add: Depreciation	87.3	101.4	111.3	126.9
(Inc)/dec in Current Assets	-143.6	-91.0	-100.7	-109.8
Inc/(dec) in CL and Provisions	-28.2	5.3	67.2	70.7
Others	51.1	56.6	43.4	18.2
CF from operating activities	51.1	146.2	236.5	274.9
(Inc)/dec in Investments	0.2	-2.0	-2.0	-2.0
(Inc)/dec in Fixed Assets	-99.5	-100.0	-110.0	-130.0
Others	6.4	-0.4	-0.3	-0.3
CF from investing activities	-92.8	-102.4	-112.3	-132.3
Issue/(Buy back) of Equity	1.5	0.3	0.0	0.0
Inc/(dec) in loan funds	-35.4	25.0	-55.0	-105.0
Dividend & interest outgo	-52.6	-65.6	-55.5	-34.3
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	138.3	0.0	0.0	0.0
CF from financing activities	51.8	-40.3	-110.5	-139.3
Net Cash flow	10.0	3.5	13.7	3.3
Opening Cash	30.0	40.0	43.5	57.3
Closing Cash	40.0	43.5	57.3	60.6

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet ₹ crore

(Year-end March)	FY23	FY24E	FY25E	FY26E
Liabilities				
Equity Capital	19.8	20.2	20.2	20.2
Reserve and Surplus	449.9	514.7	618.0	770.8
Total Shareholders funds	469.7	534.9	638.1	790.9
Total Debt	210.7	235.7	180.7	75.7
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	213.7	216.4	219.0	221.7
Total Liabilities	894.1	987.0	1,037.9	1,088.4
Assets				
Gross Block	700.6	801.4	911.4	1,041.4
Less: Acc Depreciation	239.9	341.3	452.6	579.6
Net Block	460.7	460.1	458.7	461.8
Capital WIP	5.7	5.0	5.0	5.0
Total Fixed Assets	466.4	465.1	463.7	466.8
Investments	64.1	66.1	68.1	70.1
Inventory	448.4	525.3	586.4	654.6
Debtors	103.6	114.6	135.3	157.1
Loans and Advances	0.1	0.2	0.2	0.2
Other Current Assets	105.5	108.6	127.5	147.3
Cash	40.0	43.5	57.3	60.6
Total Current Assets	697.6	792.2	906.6	1,019.7
Current Liabilities	116.9	114.6	135.3	157.1
Provisions	79.3	81.8	96.5	112.1
Current Liabilities & Prov	366.6	371.9	439.2	509.8
Net Current Assets	331.0	420.2	467.5	509.9
Others Assets	32.6	35.6	38.6	41.6
Application of Funds	894.1	987.0	1,037.9	1,088.4

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E
Per share data (₹)				
EPS	21.3	18.3	28.6	41.9
Cash EPS	43.4	43.5	56.2	73.4
BV	118.5	132.7	158.3	196.3
DPS	2.3	2.3	3.0	4.0
Cash Per Share	10.1	10.8	14.2	15.0
Operating Ratios (%)				
EBITDA Margin	7.0	7.0	7.2	7.5
PAT Margin	2.5	2.1	2.8	3.5
Inventory days	48.4	55.0	52.0	50.0
Debtor days	11.2	12.0	12.0	12.0
Creditor days	12.6	12.0	12.0	12.0
Return Ratios (%)				
RoE	19.4	13.5	18.1	21.4
RoCE	16.9	14.4	18.0	21.3
RoIC	17.8	15.2	19.2	22.6
Valuation Ratios (x)				
P/E	33.8	39.2	25.2	17.2
EV / EBITDA	12.9	12.7	10.1	8.1
EV / Net Sales	0.9	0.9	0.7	0.6
Market Cap / Sales	0.9	0.8	0.7	0.6
Price to Book Value	6.1	5.4	4.5	3.7
Solvency Ratios				
Debt/EBITDA	0.9	1.0	0.6	0.2
Debt / Equity	0.4	0.4	0.3	0.1
Current Ratio	2.3	2.6	2.5	2.4
Quick Ratio	0.7	0.8	0.8	0.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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