

December 12, 2022

Play on premium, luxury car sales domestically...

About the Company: Landmark Cars (LMC) is a leading premium automotive retail business in India with dealerships for Mercedes-Benz, Honda, Jeep, Volkswagen and Renault. LMC also has a commercial vehicle dealership for Ashok Leyland in India.

- LMC has a presence across the automotive retail value chain, including sales of new vehicles, after-sales service (including sales of spare parts, lubricants and accessories), sales of pre-owned passenger vehicles and facilitation of sales of third-party financial and insurance products
- It has a network of 112 outlets in eight Indian states and union territories, comprising 59 sales showrooms and outlets along with 53 after-sales service and spares outlets, as of June 30, 2022
- In FY22, LMC contributed 15.8% to retail sales of Mercedes-Benz, 5.8% to wholesale sales of Honda, 8.7% to wholesale sales of Volkswagen, 26.8% to wholesale sales of Jeep and 5.1% to wholesale sales of Renault

Key triggers/Highlights:

- Leading automotive dealership for major OEMs with strong focus on high growth segments (premium & luxury)
- Growing presence in after-sales segment leading to predictable growth in revenues and superior margins
- Inclusive business model capturing entire customer value chain
- Robust business - leveraging upon innovation and digitisation

What should investors do? Sales at LMC have grown at a CAGR of 15.8% over FY20-22, with the company turning meaningfully profitable in FY22 with PAT pegged at ₹ 66 crore in FY22, led by improvement in EBITDA margin profile to ~6% vs. ~3% in FY20. Consequently, RoE, RoCE as of FY22 are at ~27%, 15%, respectively. At the upper end of the price band (₹ 481-506) it is valued at ~28x P/E as of FY22.

- We assign **UNRATED** rating to the issue

Key risk & concerns

- Large portion of LMC's business operations are concentrated in Gujarat and Maharashtra
- Margins earned from services and repair vertical may be impacted by pricing guidelines set by LMC's OEM suppliers
- Increasing competition from automotive dealers, unauthorised service centres may have an adverse impact on its business
- LMC's PV & commercial vehicle sales are subject to seasonality



IPO Details

Issue Details

Issue Opens	13th Dec 2022
Issue Closes	15th Dec 2022
Issue Size	~₹ 552 crore
QIB (Institutional) Share	~50% of issue
Non-Institutional Share	~15% of issue
Retail Share	~35% of issue
Issue Type	OFS + Fresh Issue
Price Band (₹/share)	₹ 481-506
Market Lot	29 shares
Face value (₹/share)	₹ 5
Listing Market Cap @	~₹ 2,003 crore
Upper price band	

Shareholding pattern

	Pre-Issue	Post-Issue
Promoters	60.2	55.2
Public	39.8	44.8
Total	100.0	100.0

Objects of the issue

Objects of the issue

The issue consists of ₹150 crore as fresh capital raise of which ₹120 crore is aimed at reducing debt at subsidiaries. Rest ₹402 crore is an OFS which is primarily a partial exit by PE fund (₹325 crore) and other shareholders including promoters (₹10 crore)

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Raghvendra Goyal
raghvendra.goyal@icicisecurities.com

Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	Q1FY23	CAGR (FY20-22)
Net Sales	2,218.6	1,956.1	2,976.5	800.3	15.8%
EBITDA	72.9	109.8	174.7	51.2	54.8%
EBITDA Margins (%)	3.3	5.6	5.9	6.4	
Net Profit	(28.7)	11.3	65.5	17.8	LP
Reported EPS (₹)	(7.8)	3.1	17.9	4.9	
P/E	(64.5)	163.6	28.3	26.0	
RoNW (%)	(17.0)	6.2	26.5	26.6	
RoCE (%)	2.1	9.4	15.2	14.0	

Source: RHP, ICICI Direct Research; Ratios annualised for Q1FY23, LP= Loss to Profit

Company Background

Landmark Cars (LMC) has a leading premium automotive retail business in India with dealerships for Mercedes-Benz, Honda, Jeep, Volkswagen and Renault. LMC also has a commercial vehicle dealership with Ashok Leyland in India. It has a presence across the automotive retail value chain, including sales of new vehicles, after-sales service and repairs (including sales of spare parts, lubricants and accessories), sales of pre-owned passenger vehicles and facilitation of the sales of third-party financial and insurance products. LMC started its operations and opened its first dealership for Honda in CY98. It has expanded its network to include 112 outlets in eight states and union territories in India, comprising 59 sales showrooms and outlets along with 53 after-sales service and spares outlets, as of June 30, 2022. LMC is the No. 1 dealer in India for Mercedes in terms of retail sales for FY22, No. 1 dealer in India for Honda and Jeep in terms of wholesale sales for FY22 and was the top contributor to Volkswagen retail sales for CY21. In addition, LMC has the third largest dealership in India for Renault in terms of wholesale sales contribution for CY21.

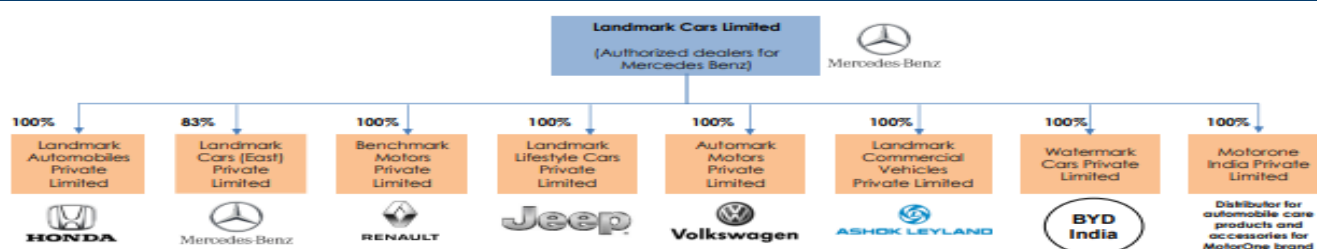
The company is focused on the premium and luxury automotive segments

Crisil Research expects the premium PV segment to grow at a CAGR of 10-12% CAGR over FY22-27E while the luxury segment is expected to grow at a CAGR of 14-16% during the same period

The company has executed a letter of intent (LoI) with the automaker BYD for sale of its EV portfolio in the National Capital Region (Delhi) and Mumbai

It also offers the electric passenger vehicles of Mercedes-Benz

Exhibit 1: LMC's corporate structure



Source: RHP, ICICI Direct Research

Exhibit 2: Sales outlets and service outlets pan India across OEMs

OEM	Sales Outlets	Service and Spares Outlets	Total Outlets
Mercedes-Benz	8	13	21
Honda	10	10	20
Jeep	9	8	17
Volkswagen	9	8	17
Renault	19	11	30
Ashok Leyland	2	2	4
BYD	2	1	3
Total	59	53	112

Source: RHP, ICICI Direct Research

Exhibit 3: Key financial matrix across new car sales and after-sales service & spare parts sales

Particular	Units	FY20	FY21	FY22	Q1FY23
Sales Volumes					
Number of new vehicles sold	nos	16,730	13,282	19,264	5,398
Number of vehicles serviced	nos	2,91,040	2,21,468	2,79,078	76,469
Vehicle sales & Other Operating Revenue					
New Vehicles	₹ crore	1,691.3	1,472.3	2,303.5	594.2
Comission Income	₹ crore	-	-	31.1	19.4
Financial Products	₹ crore	20.8	13.9	23.8	7.2
Pre Owned Vehicles sold	₹ crore	23.1	35.4	21.4	9.3
Total vehicle sales and other operating revenue	₹ crore	1,735.2	1,521.6	2,379.8	630.1
EBITDA	₹ crore	(9.7)	36.8	68.3	20.6
EBITDA Margin	%	-0.6%	2.4%	2.9%	3.3%
After-sales service and spare parts revenue					
Total Revenue	₹ crore	483.4	434.5	596.7	170.2
EBITDA	₹ crore	86.6	77.1	108.5	30.9
EBITDA Margin	%	17.9%	17.8%	18.2%	18.2%
Add: Other Income	₹ crore	10.3	10.2	12.6	1.6
Less: Unallocable Income	₹ crore	4.0	4.1	2.1	0.2
Total EBITDA	₹ crore	83.2	120.1	187.3	52.8
Total EBITDA Margin	%	3.7%	6.1%	6.3%	6.6%

Source: RHP, ICICI Direct Research; Commission income is earned from the sale of Mercedes-Benz vehicles with change in business model effective from October 1, 2021 (agency model)

Revenue sources

New vehicle sales

In the three months ended June 30, 2022 and in FY22, the company sold 5,398 and 19,264 new vehicles, respectively, including new passenger vehicles of Mercedes-Benz, Honda, Volkswagen, Jeep, Renault & new commercial vehicles of Ashok Leyland.

Exhibit 4: Sales volume across OEMs and their share of business

OEM	Vehicle Sold		Fiscal Year First Dealership Established	Market Position in India	% of India Sales for OEM sold by Landmark
	FY22	Q1FY23			
Mercedes-Benz	1,984	527	2008	No 1 for FY22	15.8%
Honda	5,282	1,346	1998	No 1 for FY22	5.8%
Jeep	3,121	988	2017	No 1 for FY22	26.8%
Volkswagen	2,405	917	2009	No 1 for CY21	8.7%
Renault	4,750	1,071	2016	No 3 for CY21	5.1%
BYD	13	38	2022	NA	NA
Ashok Leyland	1,709	511	2012	NA	NA

Source: RHP, ICICI Direct Research

After-sales service and spare parts

The company's after-sales service and spare parts offerings at each of its dealerships comprise repair and collision repair services and include warranty work, insurance claim work and customer paid services. LMC operates as an authorised service centres for Mercedes-Benz, Honda, Volkswagen, Jeep, Renault and Ashok Leyland, and provides after-sales service and repairs through 53 after-sales service and spares outlets, as of June 30, 2022. During the three months ended June 30, 2022 and FY22, FY21 and FY20, it serviced 72500; 2.7 lakh, 2.1 lakh and 2.8 lakh passenger vehicles, respectively, and 3900, 10600, 7700 and 10,000 commercial vehicles, respectively. In addition, as authorised dealers for OEMs, LMC also sells spare parts, lubricants, accessories and other products at its after-sales service and spares outlets. In the three months ended June 30, 2022 and in FY22, FY21 and FY20, it earned an average of ₹ 21,559, ₹ 21,030, ₹ 19,098 and ₹ 16,515, respectively, from each vehicle serviced. It serviced an average of 14, 14, 17 and 17 vehicles for every new vehicle sold in the respective periods.

Pre-owned passenger vehicle sales

LMC buys and sells pre-owned passenger vehicles at each of its dealerships. The company operates on two business models: (1) it facilitates the sale of used vehicles through appointed panel of agents on a commission basis and (2) also takes the vehicles on its books for sale after any needed refurbishment. LMC also receives an incentive from OEMs for used vehicles traded in for new vehicles. This incentive or over-allowance is available to it as a new car dealer and helps it in closing these transactions. LMC has also implemented a digital SaaS platform developed by Sheerdrive, an auto technology start-up in which it holds ~20% equity interest, in its pre-owned car business. Sheerdrive's technology platform enables digital evaluation and real time used car prices, which it believes will help drive transparency, accuracy and velocity of used car transactions and help drive strategy of combining its physical presence with digital scale and speed.

Third-party financial and insurance products

As a value add-on to its passenger vehicle sales, LMC facilitates the sale of third-party financial products including insurance policies and vehicle finance through its dealerships. Each of its dealerships offers finance and insurance from its recommended financial service providers, banks and insurance companies with which it has commission arrangements. The company typically receives a portion of the cost of the financing paid or sum assured by the customer for each transaction as a fee from the finance or insurance provider.

Industry Overview

Indian Passenger Vehicle Industry

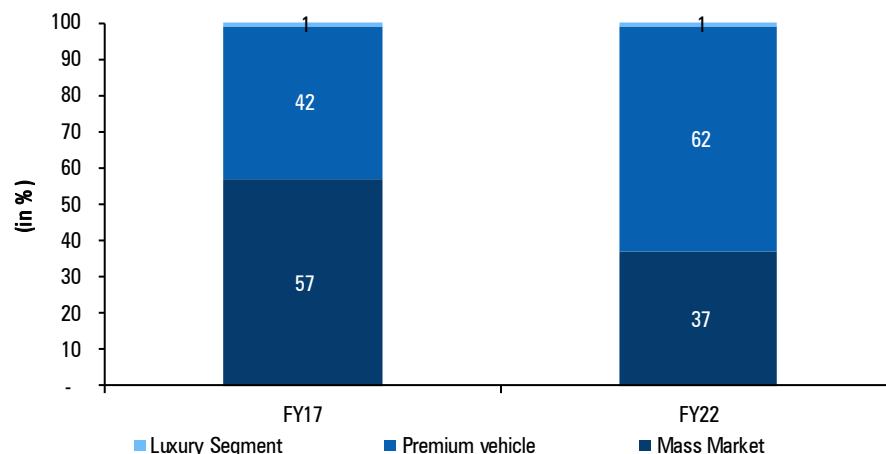
The Indian passenger vehicle industry can be broadly classified into three main segments, viz. mass market vehicles, premium vehicles and luxury vehicles. **Mass market** vehicles segment mainly comprises basic vehicles that are most economically friendly and preferred by the mass market in India. The share of mass market vehicles segment in the overall PV industry in India has declined as a result of increasing disposable income, customer preference shifting towards premium vehicles and more frequent launches of new models in the premium vehicles segment.

Premium vehicles are costlier, typically preferred by upper middle class and rich class. This segment is getting more and more traction with increasing disposable incomes, higher launches and shifting customer preferences from the mass market to premium vehicles.

Luxury vehicles segment is a niche segment offering high end vehicles at high premium prices, mainly preferred by HNIs and organisations. Vehicles of Mercedes, BMW, Audi, Volvo and JLR are part of this segment.

According to a Crisil report, in FY17, mass market vehicles dominated the Indian PV industry with 57% market share. In the last five years, premium vehicles segment has grown at a healthy 8.1% CAGR, expanding its contribution from 42% in FY17 to 62% in FY22. On the other hand, mass market vehicle sales contracted at a CAGR of 9%, with its market share declining from 57% in FY17 to 37% in FY22.

Exhibit 5: PV industry break-up market share wise



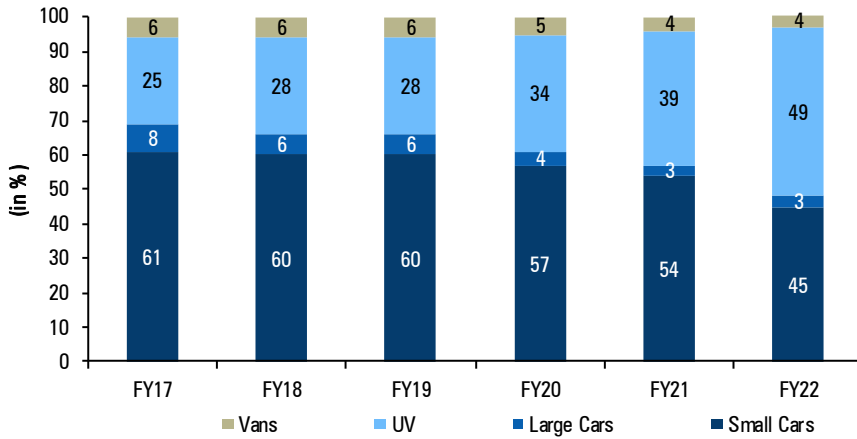
Source: RHP, ICICI Direct Research

According to the Crisil Report, the Indian **PV (mass and premium segments)** industry, in terms of sales volume, grew at a CAGR of 5.3% between FY17 and FY19, primarily due to increase in demand driven by improved economics, higher affordability and launches of new automobile modes. The industry, in terms of sales volume, contracted in FY20 and FY21, mainly due to mandatory implementation of BS-VI norms, national lockdown, economic uncertainty and struggling vehicle supply.

As the Covid-19 pandemic eased and economic sentiments improved, sales volume of the Indian PV (mass & premium segment) industry increased at a year-on growth of 13% in FY22.

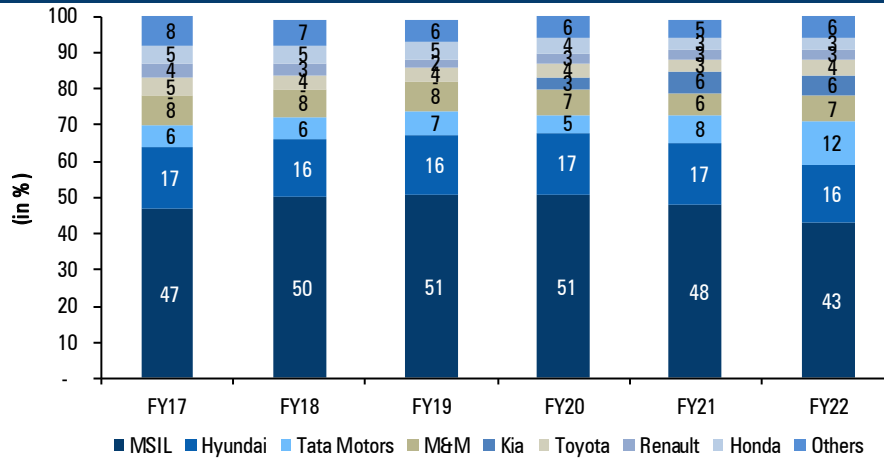
In terms of types of vehicles, small cars have a major market share (in volume terms) in the PV (mass and premium markets) industry. However, market share of small cars in the PV (mass and premium) market declined from 61% in FY17 to 45% in FY22, losing its market share to the UV segment. The size of the large car segment (sedan) has gradually shrunk, as customers shift preference towards the SUV segment due to high-end technology features and more frequent model launches.

Exhibit 6: Domestic PV category wise mix



Source: RHP, ICICI Direct Research

Exhibit 7: PV domestic OEM market share movement

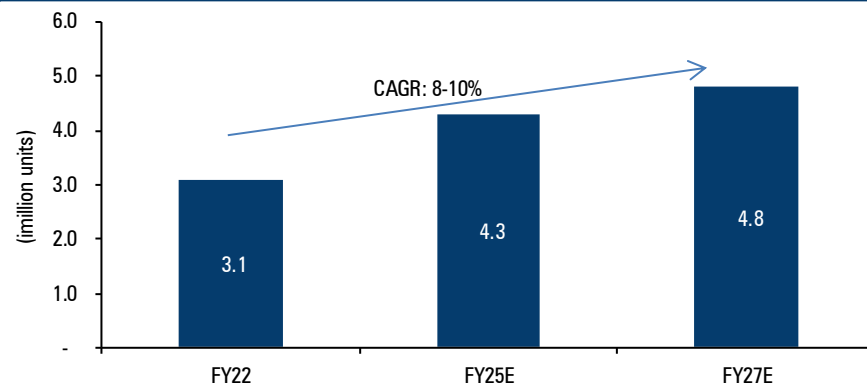


Source: RHP, ICICI Direct Research

Outlook for Indian passenger vehicles

According to the Crisil Report, overall PV sales (mass and premium markets) in India, in terms of sales volume, is expected to grow at 8-10% CAGR from ~3.1 million units in FY22 to ~4.6-4.8 million units in FY27. Crisil Research expects the premium market segment to grow at a faster pace at a CAGR of 10-12% in FY22-27, compared to a CAGR of 4-6% for the mass market segment for the same period. The growth is expected to be driven by healthy macroeconomic growth, increasing disposable income, favourable financial parameters, modest increase in cost of PV acquisitions, improved availability of auto finance and higher vehicle penetration as well as deeper reach in rural markets, tier-III and tier-IV cities.

Exhibit 8: Sales growth expectations for domestic PV industry



Source: RHP, ICICI Direct Research

Luxury PV segment

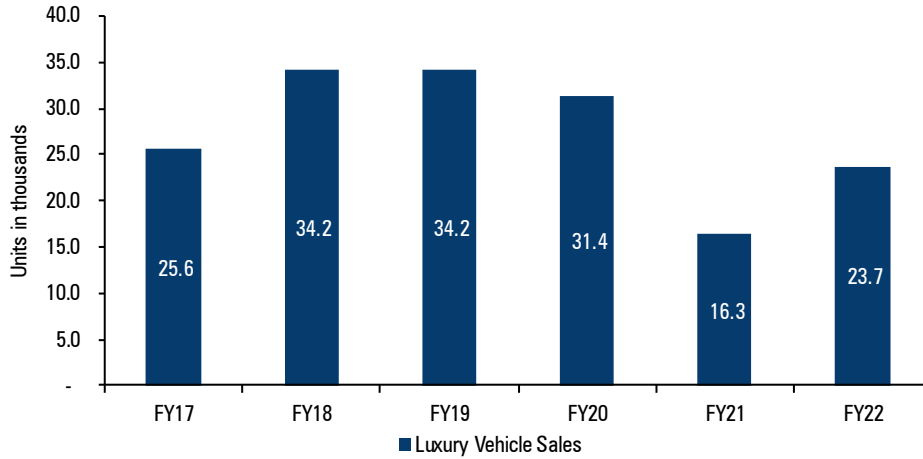
The luxury vehicles segment typically comprises ~1% of the overall PV industry in India, according to the Crisil Report. Sales volume of the luxury segment increased significantly at a CAGR of 16% in FY17-19, driven by favourable economic growth, increased disposable incomes and more model launches by the luxury OEMs/brands.

The luxury vehicles segment consists of brands like Mercedes-Benz, Audi, BMW, Volvo and JLR

The ultra-luxury brands like Ferrari, Rolls Royce, Lamborghini form an insignificant part of the overall Indian market

Sales of luxury vehicles have declined at 1.5% CAGR over the past five years

Exhibit 9: Luxury cars sales in India over past five years

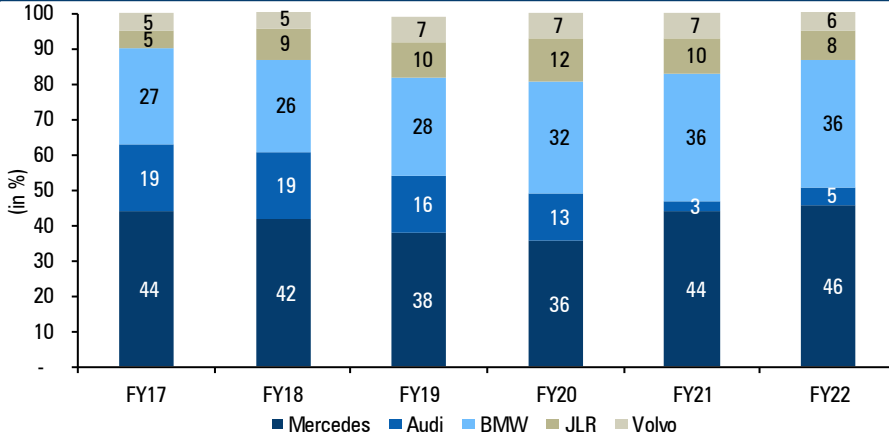


Source: RHP, ICICI Direct Research

Competitive landscape in luxury PV space

Mercedes-Benz has dominated the luxury car market in recent years. In FY22, Mercedes Benz had a 46% market share in the Indian luxury vehicles segment, followed by BMW with 36% market share, in volume terms, as per the Crisil Report.

Exhibit 10: Luxury car market share OEM wise

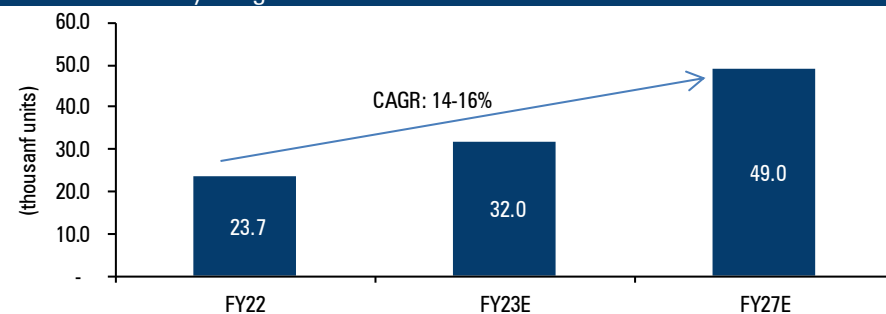


Source: RHP, ICICI Direct Research

Outlook for luxury vehicles

As per the Crisil Report, the luxury vehicles segment in India is expected to grow at a CAGR of 14-16% from 23,700 units in FY22 to 47,000 to 49,000 units by FY27.

Exhibit 11: Luxury car growth forecast



Source: RHP, ICICI Direct Research

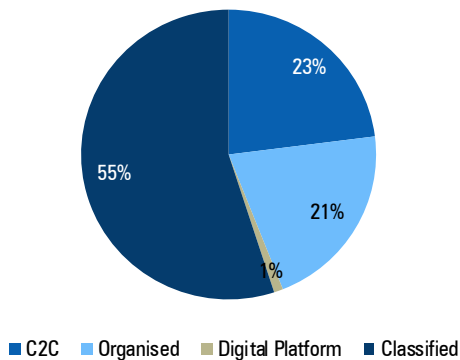
Review of pre-owned PV industry in India

There are two main participants in the pre-owned PV industry in India. Firstly, the dealers (organised and unorganised) are the primary participants in the market, as most B2C transactions are executed by dealers. Organised dealers are large dealers with showrooms and workshops. The OE backed dealerships, such as True value and H promise, are also considered as organised dealers. OE backed dealers procure their vehicles from exchanged vehicles at their sister concern new car dealership. Unorganised dealers are small local dealers who cater to nearby areas. However, unorganised dealers dominate the market with 50-55% market share.

Recent entry into the pre-owned vehicle market are the digital platforms such as OLX, Cardekho, Cars24, etc, which provide support in vehicle procurement as well as vehicle sales. Digital platforms have also expanded into B2C sales where they sell vehicles through their own retail outlets. This business is currently in a nascent stage in India.

In the pre-owned market, as of FY22, nearly half of the overall sales were executed by unorganised dealers. However, 30% of the lead generation for unorganised dealers happens through digital platforms. Organised dealers contribute 20-22% while ~25% of sales happen directly from customer to customer (C2C).

Exhibit 12: Pre-owned market segmentation as of FY21



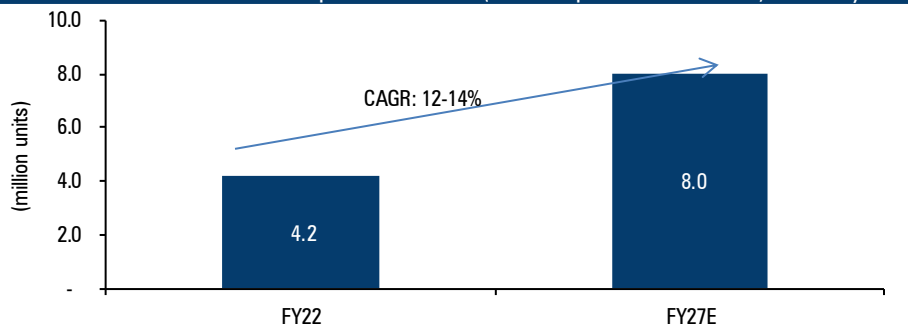
Source: RHP, ICICI Direct Research; Classified are the digital platforms through which dealers list vehicle for selling to customers (part of unorganised channel)

Going forward, Crisil Research expects the industry to move towards the organised segment (including digital platforms) backed by higher convenience, transparency, choices, value added benefits provided by the organised segment. By FY27, Crisil Research expects the organised segment (including the physical stores of digital platforms) to cater to 30-32% of the demand and support nearly 50% of the demand of unorganised segment through classifieds (i.e. digital platforms through which dealers list vehicles for sale to consumers).

Outlook for pre-owned industry (Domestic)

According to the Crisil Report, the pre-owned PV (mass and premium markets) industry is expected to grow at a CAGR of 12-14% between FY22 and FY27 to reach 7.5-8 million vehicles in FY27 vs. 4-4.2 million units in FY22.

Exhibit 13: Sales forecast for pre-owned PV (mass & premium market) industry



Source: RHP, ICICI Direct Research

Automobile dealership industry in India

Role of automobile dealer

Dealerships play an indispensable role in the overall vehicle supply chain providing local vehicle distribution channel based on a contract with an automaker. It also plays a key role in the aftermarket space by providing maintenance services and supplying spares/automotive parts and accessories.

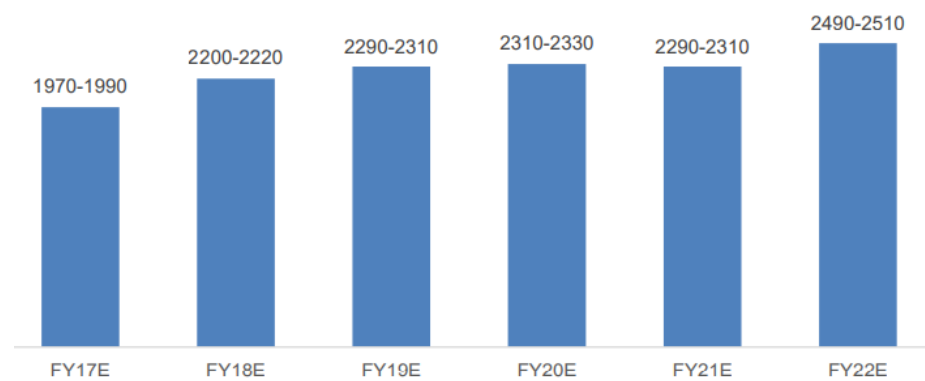
Dealership scenario in India

As of FY22, there were ~17,000 dealerships with nearly 28,000 touchpoints across India catering to customers of two-wheelers, passenger vehicles, CVs, three-wheelers and tractors. Two-wheelers dominate the number of dealerships with nearly 60% share, followed by the passenger vehicles segment with ~15% share and CVs forming another 8-10%. The remaining is formed by three-wheelers and tractor dealers. Presence of three-wheelers and tractor distributorships is relatively limited.

Passenger vehicles dealership landscape in India

PV dealerships form ~15% of overall dealerships in India and contribute to ~25% of the overall touchpoints in FY22. Primary PV dealerships are typically based out of large cities with multiple outlets throughout the city and a sub-dealer network covering nearby semi-urban and rural areas.

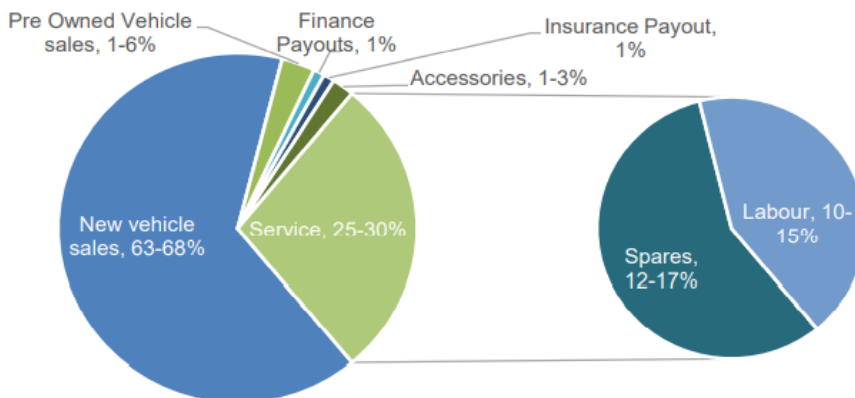
Exhibit 14: Trend in number of PV dealership



Source: RHP, ICICI Direct Research

Breakdown by revenue streams: According to Crisil, for a luxury PV dealership, new vehicle sales form ~ 63-68% share of the overall revenue while the sale of pre-owned cars accounts for 1-6%. Share of pre-owned car sales in overall revenue is relatively lower for luxury dealerships compared to mass market/premium dealerships.

Exhibit 15: Revenue break-up for luxury PV dealer



Source: RHP, ICICI Direct Research

According to the Crisil report, typically, for the passenger vehicles (mass and premium markets) segment, new vehicle sales remain the primary source of income contributing 68-72% of revenue for a dealership, followed by pre-owned vehicle sales contributing 6-10% of revenue, service contributing 15-20% of revenue and sales of accessories and insurance/finance commission contributing to the remaining portion.

Dealers are not able to expand exponentially in a short span of time, given the very high initial investment required as well as agreement conditions with manufacturers. Consolidation is the primary source of business expansion for dealers. Consolidation is achieved by acquiring smaller dealerships as well as obtaining the dealership code from a defunct dealership

Profitability streams across dealerships

Profitability share	Mass/Premium segment		Luxury segment	
	Segment margin	Share in Total profit	Segment margin	Share in Total profit
New vehicle sales	5-7%	23-28%	8-10%	22-27%
Pre-owned vehicle sales	5-10%	2-7%	4-6%	1-5%
Service	45-55%	58-63%	50-60%	63-68%
Spares	20-30%	10-15%	30-35%	23-28%
Labour	60-80%	45-50%	70-80%	30-40%
Accessories	15-25%	2-5%	20-30%	1-3%
Finance Commission	90-100%	4-6%	90-100%	2-5%
Insurance Commission	90-100%	4-6%	90-100%	2-5%

Source: RHP, ICICI Direct Research

Investment Rationale

Leading automotive dealership for major OEMs with strong focus on high growth segments

LMC is a leading premium automotive retail business in India. Its longstanding relationships with its OEM partners and market leadership position offer it several competitive advantages including: (i) opportunities from OEMs allowing it to expand business into new cities and geographies; (ii) sharing infrastructure and manpower across brands to increase margins; (iii) attracting suitable inorganic dealership acquisition targets (with the support of OEMs); (iv) opportunities to expand across business verticals like after-sales service, sales of pre-owned vehicles and sales of financial and insurance products; (v) attracting talented sales and technical personnel; (vi) executing large scale marketing and advertising campaigns and (vii) centralising certain backend and support functions all of which leads to economies of scale and margin improvement.

Growing presence in after-sales segment leading to predictable growth in revenues, superior margins

LMC's after-sales service & spares business provides a stable revenue stream and contributes to higher-margin revenues at each of its dealerships, which helps mitigate the cyclical nature that has historically impacted some players of automotive sector. Its after-sales service and spares revenue contributed to 20.6%, 19.7%, 21.6% & 21.7% of its revenue from operations while its after-sales service and spare parts EBITDA contributed to 58.5%, 57.9%, 64.2%, & 104.1% of its EBITDA during the three months ended June 30, 2022 and FY22, FY21 and FY20, respectively. In the three months ended June 30, 2022 and FY22, FY21 & FY20, its EBITDA margins from after-sales service & spares business was 18.2%, 18.2%, 17.8% & 17.9%, respectively.

Inclusive business model capturing entire customer value chain

LMC's business caters to the entire customer value-chain including retailing new vehicles, servicing and repairing vehicles, selling spare parts, lubricants and other products, selling pre-owned passenger vehicles and distribution of third party financial and insurance products. It benefits from the synergies of these complementary businesses as well as increased customer retention from servicing customer's various automotive needs. For example, each sale of a new or pre-owned passenger vehicle provides LMC the opportunity to sell the customer an extended service contract or a financial product such as vehicle financing & insurance. Customers who purchase vehicles from LMC also entrusts it with the servicing & repairs of its vehicles at its dealership's authorised service centres through products such as extended warranties. Its centres are also points of sale for spare parts, lubricants and other products such as accessories as well as value added services such as interior cleaning, polishing & sales of extended warranties.

Robust business - leveraging upon innovation & digitisation

LMC has established robust business processes, which assists it in reducing costs and increasing efficiency as well as ensure faster operationalization of new facilities. It has also made forays into technology & platforms through investment in Chatpay Commerce Pvt Ltd (known as Pitstop) and Sheerdrive Pvt Ltd (Sheerdrive). As of June 30, 2022, it held 8.26% equity interest in Pitstop, which aims to be a multi-brand car service and repair provider that focuses on reskilling & training technicians and providing access to the necessary modern equipment and OES and white labelled spare parts. In addition, it also holds 20% equity interest in Sheerdrive, an auto technology start-up. Sheerdrive focused on used car transactions at new car dealerships by leveraging its digital SaaS platform that enables digital evaluation and real time used car prices. This investment fits in with its strategy of combining its physical presence with digital scale and speed.

LMC is the No. 1 dealer in India for Mercedes in terms of retail sales for FY22, No. 1 dealer in India for Honda and Jeep in terms of wholesale sales for FY22 and were the top contributor to Volkswagen retail sales for CY21. It is also the third largest dealership in India for Renault in terms of wholesale sales contribution for CY21

LMC's business focus is on the fast-growing premium and luxury segments of the Indian passenger vehicle market. As per Crisil Research, the premium segment of PVs is expected to grow at a CAGR of 10-12% CAGR over FY22-27 while the luxury segment is expected to grow at a CAGR of 14-16% during the same period

LMC's OEMs offer manufacturers' warranties and maintenance programmes packaged with vehicle sales and, generally, only permit warranty work to be performed at their authorised service centres such as LMCs. This creates a significant barrier to entry for new competitors. In addition, emphasis on selling extended warranties and packaged service contracts has bolstered its after-sales service business in each of its dealerships by helping it to retain customers beyond the term of the standard manufacturer warranty period

It targets campaigns to existing customers by email, online campaigns and social media for upgrades, after-sales service offers and loyalty benefits.

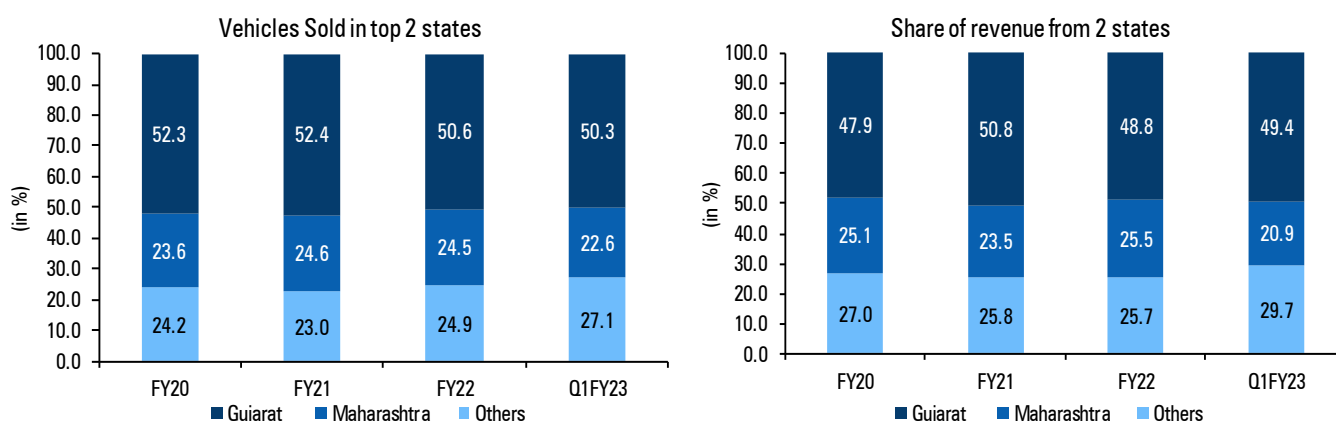
It also uses its online presence for lead generation for new vehicle sales by allowing customers to book test drives and appointments with sales agents and to provide a convenient platform to book service appointments.

Key Risk

Large portion of LMC’s business operations concentrated in Gujarat, Maharashtra

A large portion of LMC business operations are concentrated in Gujarat and Maharashtra. Any adverse developments in these states could impact its business prospects. In the three months ended June 30, 2022 and in FY22, FY21 and FY20: 50.3%, 50.6%, 52.4% & 52.2% of LMC’s number of new vehicles sold and 49.4%, 48.8%, 50.8% & 47.9% of LMC’s total consolidated revenue from sale of cars was derived from dealership operations in Gujarat and 22.6%, 24.5%, 24.6% & 23.6% of LMC’s vehicle sales and 20.9%, 25.5%, 23.5% and 25.1% of LMC’s total consolidated revenue, respectively, was derived from dealership operations in Maharashtra.

Exhibit 16: Share of vehicle sold & revenue of major states



Source: RHP, ICICI Direct Research

Pricing guidelines set by LMC’s OEM suppliers may impact margins earned from services, repair vertical...

LMC provides after-sales services and repairs through its 53 after-sales service and spares outlets, as of June 30, 2022. Pursuant to the terms of its dealership agreements, LMC’s OEMs are entitled to determine the maximum prices it may charge for certain types of repairs and services undertaken at its authorised service centres. OEMs are entitled to change the prices or discounts offered thereon, without prior notice and without incurring any liability towards LMC. Given the volume of vehicles serviced by LMC, any capping of services fees or restrictions on scope of service offerings may significantly affect its business and financial condition.

Further, company is restricted from undertaking and selling services, which are not approved by OEMs

Increasing competition from automotive dealers, unauthorised service centres may have adverse impact on its business...

Most of LMC’s dealership agreements do not grant them the exclusive right to sell vehicles manufactured by the OEMs within a given geographic area. Accordingly, its revenues or profitability could be materially adversely affected if any of the OEMs award dealerships to others in the same markets where LMC operate or if existing dealerships increase their market share in the company’s markets. Moreover, the company faces competition from the unorganised sector, comprising unauthorised service centres, which may be able to provide servicing and maintenance services at lower prices.

Consumers opting for such unauthorised service centres in place of the company’s authorised service centres could have an adverse impact on business and financial conditions

LMC’s PV, commercial vehicle sales subject to seasonality

Demand for automobiles in India tends to fluctuate between different periods within a fiscal year. Due to the Dussehra-Diwali festive season which falls in October-November and annual price increases taken in January each year, October-December tend to be the strongest sales period in any given fiscal year, while the remainder of the year is relatively average in terms of sales performance. This seasonality is expected to cause quarterly fluctuations in LMC’s revenue, profit margins and earnings.

Financial summary

Exhibit 17: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22	Q1FY23
Total operating Income	2,218.6	1,956.1	2,976.5	800.3
Growth (%)	NA	(11.8)	52.2	(73.1)
Raw Material Expenses	1,894.9	1,647.4	2,511.7	661.7
Employee Expenses	136.7	107.7	153.2	45.0
Other Expenses	114.1	91.2	136.9	42.4
Total Operating Expenditure	2,145.7	1,846.3	2,801.8	749.1
EBITDA	72.9	109.8	174.7	51.2
Growth (%)	NA	50.7	59.1	(70.7)
Depreciation	63.0	62.5	69.8	20.8
Interest	44.9	37.8	35.2	12.3
Other Income	10.3	10.2	12.6	1.6
PBT	(24.6)	19.8	82.3	19.7
Total Tax	4.3	8.6	16.1	1.5
Reported PAT	(28.7)	11.3	65.5	17.8
Growth (%)	NA	(139.4)	477.9	(72.8)
Reported EPS (₹)	(7.8)	3.1	17.9	4.9

Source: RHP, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22	Q1FY23
Profit after Tax	(28.7)	11.3	65.5	17.8
Add: Depreciation & Interest	107.8	100.3	105.0	33.2
(Inc)/dec in Current Assets	199.6	(99.3)	(33.7)	(76.8)
Inc/(dec) in CL and Provisions	(67.2)	25.9	(44.9)	(36.2)
Others	(1.8)	4.6	(15.3)	(2.5)
CF from operating activities	209.7	42.8	76.6	(64.6)
(Inc)/dec in Investments	(2.3)	2.3	-	-
(Inc)/dec in Fixed Assets	(22.4)	(14.8)	(41.5)	(12.8)
Others	(41.3)	(9.5)	7.6	(30.6)
CF from investing activities	(65.9)	(22.0)	(33.9)	(43.3)
Proceeds from Issuance of Equity	-	-	-	-
Borrowings, leases & interest	(142.7)	(31.4)	(34.0)	123.9
Dividend paid & dividend tax	-	-	(1.4)	-
CF from financing activities	(142.7)	(31.4)	(35.3)	123.9
Net Cash flow	1.1	(10.6)	7.3	16.0
Opening Cash	32.2	33.3	22.7	30.0
Closing Cash	33.3	22.7	30.0	46.0

Source: RHP, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22	Q1FY23
Liabilities				
Equity Capital	18.3	18.3	18.3	18.3
Reserve and Surplus	150.8	163.5	228.6	250.0
Total Shareholders funds	169.1	181.8	246.9	268.3
Total Debt	180.0	209.1	246.1	396.8
Deferred Tax Liability	1.4	0.9	0.6	1.4
Minority Interest / Others	128.8	110.7	196.9	198.2
Total Liabilities	479.3	502.4	690.6	864.7
Assets				
Gross Block	403.2	418.8	601.8	617.6
Less: Acc Depreciation	60.7	119.1	178.2	197.7
Net Block	342.5	299.7	423.5	419.9
Capital WIP	0.0	0.7	3.8	8.5
Total Fixed Assets	342.6	300.3	427.4	428.4
Goodwill & Investments	38.5	40.2	91.3	94.0
Inventory	225.8	288.8	329.9	385.8
Debtors	23.6	55.8	64.2	84.2
Other Current Assets	111.2	156.9	119.9	139.1
Cash	33.3	22.7	30.0	46.0
Total Current Assets	393.9	524.3	544.0	655.2
Creditors	55.7	100.2	144.9	104.7
Provisions	-	-	-	-
Other current liabilities	296.8	285.3	249.9	240.0
Total Current Liabilities	352.5	385.5	394.8	344.7
Net Current Assets	41.4	138.7	149.2	310.5
Others	56.8	23.1	22.8	31.9
Application of Funds	479.3	502.4	690.6	864.7

Source: RHP, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY20	FY21	FY22	Q1FY23
Per share data (₹)				
EPS	(7.8)	3.1	17.9	4.9
Cash EPS	9.3	20.2	36.9	10.6
BV	46.2	49.6	67.4	73.2
Cash Per Share	9.1	6.2	8.2	12.6
Operating Ratios (%)				
EBITDA Margin	3.3	5.6	5.9	6.4
PBT / Net sales	0.4	2.4	3.5	3.8
PAT Margin	(1.3)	0.6	2.2	2.2
Inventory days	37.1	53.9	40.5	44.0
Debtor days	3.9	10.4	7.9	9.6
Creditor days	9.2	18.7	17.8	11.9
Return Ratios (%)				
RoE	(17.0)	6.2	26.5	26.6
RoCE	2.1	9.4	15.2	14.0
RoIC	2.2	9.9	16.0	15.0
Valuation Ratios (x)				
P/E	(64.5)	163.6	28.3	26.0
EV / EBITDA	27.0	18.0	11.3	9.6
EV / Net Sales	0.9	1.0	0.7	0.6
Market Cap / Sales	0.9	1.0	0.7	0.6
Price to Book Value	11.0	10.2	7.5	6.9
Solvency Ratios				
Debt/EBITDA	2.5	1.9	1.4	1.9
Debt / Equity	1.1	1.2	1.0	1.5
Current Ratio	1.5	2.3	2.5	3.5
Quick Ratio	0.6	1.0	0.9	1.3

Source: RHP, ICICI Direct Research, Ratios annualised for Q1FY23

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to companies that are coming out with their initial public offerings and then categorises them as Subscribe, Subscribe for the long term and Avoid.

Subscribe: Apply for the IPO

Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets), and Raghvendra Goyal, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

ICICI Securities Limited has been appointed as one of the Book Running Lead Managers to the initial public offer of Landmark Cars Limited. This report is prepared on the basis of publicly available information