



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

CARTRADE TECH

WHAT WE LIKE

LEADING DIGITAL AUTO DEALER WITH ASSET-LIGHT MODEL

In the new car lead generation/Ad business, CarTrade has a **40% market share**. It also owns **55.43% of Shriram Automall India Ltd (SAMIL)**, the undisputed organized player in the Indian auto auction space with a **15% market share with a large portion of the market being unorganized**. Both these businesses are asset-light and scaling up requires very little incremental capital.

GOOD MARKET POSITION & POTENTIAL

- The new car market in India is expected to grow from **2.7 Mn Units (FY21) to 4.4 Mn (FY26)** at a **CAGR of 10%** while the used car market is expected to grow from **4.4 Mn Units (FY20) to 8.3 Mn (FY26)** at a **CAGR of 11%**.
- CarTrade has **31 mn avg monthly unique visitors with 86.20% organic visitors**.
- **700+ paying dealers**.
- SAMIL's market- leading position in auction (**100+ malls + strong & long relationships with buyers & sellers + early mover advantage+ Tech enabled**)

VALUATION, NUMBERS & OPTIONALITY

- Current Market Cap of CarTrade: **2800 Cr**
- Volume CAGR of vehicles over 5-7 year: **10%+**
- Value growth of vehicles in 10 years due to inflation: **1.5x to 2x**
- **800 Cr Cash** (Can be used for acquisitions)
- Profitable SAMIL business (Undisputed leader in Auction space) **FY21 Rev 157 Cr & EBITDA 35 Cr**
- New Vehicle Online Business (40% market share, Nascent Space): **FY21 Rev 85 Cr & EBITDA 15 Cr**
- **Optionality in future high-growth possible business opportunity** in facilitation platform for spares & servicing, finance & insurance that requires zero incremental Capex

VALUATION

Today's public market valuation (INR 2800 Cr) of CarTrade is **less than its private market valuation in 2017 (INR 3000 Cr)**. **One year ago, in the pre-allotment stage, the value was INR 7000 Cr**.

Despite the recent fall for the global peers, valuation suggests **high growth in this sector worldwide**.

Company	Country	Model	Valuation (\$ Mn)
Carvana	USA	Inventory	12,040
Carmax	USA	Inventory	17,940
Autotrader	USA	Marketplace	6,210
Carsales.com	Australia	Marketplace	5,816
Copart	USA	Auction	29,601

WHAT WE DON'T LIKE

LOWER MARKETING SPEND & BRAND RECALL VS PEERS

Peers like Cars 24 & CarDekho have a much higher budget slated for A&P. FY20 Numbers were:

Company	A&P (FY20) INR Cr
CarTrade	24.1
Cars24	141.6
Car Dekho	146.1

Our scuttlebutt with new and used car dealers in the western market also suggested a high brand recall for brands like Cars 24 & Car Dekho rather than Carwale.

USED CAR FRANCHISE MODEL: UNCERTAINTY

Peers like Car Dekho, Cars 24, OLX & Mahindra 1st choice are using an **asset-heavy model** in the used car space and **expanding aggressively**. CarTrade has recently made entry and is using a **franchisee-based model** to keep its book asset-light. While unit economics of a franchise model is better, we at SSS, believe it is too early to bet on its success and need to watch the developments closely.

SLOWDOWN IN THE AUTO INDUSTRY

Short-term hurdles like chip shortage, prolonged industry slowdown of passenger vehicles, and **long-term upcoming trends** like car rentals and ride-sharing can lead to lower than the expected growth rate for the auto industry.

Digitalization in the industry is at a very nascent stage. It may take a long time to reach critical mass.

VAGARIES OF A PLATFORM BUSINESS

"If everyone on each side of the network could coordinate their behavior, they could all agree to join the network and everyone would benefit. But in practice, this almost never happens. That's where the platform's management of its network comes in. This coordination problem must be solved by incentivizing users to join."

~ Excerpts from the book, Modern Monopolies
Hence, we at SSS, believe the biggest risk is execution and scale-up.

