



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

CARTRADE TECH

WHAT WE LIKE

INDIA'S LEADING DIGITAL AUTOMOTIVE SYSTEM WITH AN 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 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. Used car business, where the competition is more severe, currently forms an insignificant portion of the revenue.

MARKET POTENTIAL & HOW CARTRADE IS POSITIONED

- The new car market size in India is expected to grow from 2.7 Mn Units (FY21) to 4.4 Mn (FY26) at a CAGR of 10%
- The used car market size is expected to grow from 4.4 Mn Units (FY20) to 8.3 Mn (FY26) at a CAGR of 11%
- CarTrade has 35 mn avg monthly unique visitors, 87.64% organic
- 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, a leading player in the market: 2200 Cr
- Volume growth of vehicles over 5-7 years 10%+ CAGR
- Value growth of vehicles in 10 years due to inflation: 1.5x to 2x
- 1000 Cr Cash (Can be used for acquisitions)
- Profitable SAMIL business (Undisputed leader in Auction business) FY22 Rev 157 Cr & PAT of 28 Cr
- Optionality in a future high-growth possible business opportunity in facilitation platform for spares & servicing, finance & insurance that requires zero incremental capex

MORE ON VALUATION

- Today's public market valuation of INR 2200 Cr (6 times the Price to Sales) is less than its private market valuation in 2017 (INR 3000 Cr).
- Two years ago, in the pre-allotment stage, the value was INR 7000 Cr.
- Global players after a sharp fall in their valuation in the last year or so give us a sense of how large these businesses can become over time.

Company	Country	Model	Valuation (\$ Bn)
Carvana	USA	Inventory	18.00
Carmax	USA	Inventory	10.92
Autotrader	USA	Marketplace	5.40
Carsales.com	Australia	Marketplace	7.80
Copart	USA	Auction	33.83

WHAT WE DON'T LIKE

LOWER MARKETING SPENDS & BRAND RECALL COMPARED TO PEERS

Peers like Cars 24, Spinny & CarDekho have much higher budget slated for A&P.

Company	A&P as a % of Comparable Revenue (FY21)
CarTrade	5%
Cars24	35%
Car Dekho	44%
Spinny	128%

On one hand, Cartrade is not bleeding like its peers but on the other hand, peers score over it in terms of brand recall.

USED-CAR FRANCHISEE MODEL: UNCERTAINTY

Peers like Car Dekho, Cars 24, Spinny, OLX & Mahindra 1st choice are using an asset-heavy model in the used car space and expanding aggressively. CarTrade has recently made an entry and is using a franchisee-based model (Absure) to keep its book asset-light. They are expecting 90-95 Absure franchisees by FY23 end. While the unit economics of a franchisee model is better but we, at SSS, believe it is too early to bet on its success and need to watch the developments closely. Used Car is a high-touch business. So, owning the inventory does have its advantages.

SLOWDOWN IN THE AUTO INDUSTRY

- Industry slowdown of passenger vehicles and long-term upcoming trends like car rentals and ride-sharing can lead to lower than 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.

