

Retail Research	IPO Note
Sector: Automobile	Price Band (Rs): 280 - 295
12th March 2024	Recommendation: Subscribe for Long Term Investment Horizon

Popular Vehicles and Services Limited

Company Overview:

Popular Vehicles and Services Limited is a top automobile dealership in India, operating with a fully integrated business model. The company's services include selling new vehicles, repairing and servicing them, distributing spare parts and accessories, facilitating sale and exchange of pre-owned vehicles, operating driving schools, and selling third-party financial and insurance products. The company's three key segments include passenger vehicles, commercial vehicles, and electric two-wheeler & three-wheeler vehicles.

Key Highlights:

1. Key Business Segments:

(a) Sales of Vehicles: (i) The company sells Maruti Suzuki, Honda, and JLR passenger vehicles ranging from economy to luxury models, including electric vehicles. In 1HFY24, they sold 16,476 passenger vehicles across all dealerships. (ii) The company sells commercial vehicles made by Tata Motors (Commercial), BharatBenz, and Maruti Suzuki. In FY23, the company was the fourth largest Tata Motors (Commercial) dealership in terms of sales volumes. As of 1HFY24, the company sold 793 BharatBenz vehicles and 85 Maruti Suzuki commercial vehicles. (iii) The company entered the electric two-wheeler and three-wheeler vehicles segment in 2021 and operates electric two wheeler and three-wheeler vehicle dealerships of Ather and Piaggio, respectively.

(b) Other Business Verticals Includes: Services & repairs, pre owned vehicles, spare parts & accessories distribution, sales of third party financial and insurance products and driving schools.

2. Expansive network of 432 touchpoints: As of Dec'23, the company has a network of 61 showrooms, 133 sales outlets, 32 pre-owned vehicle showrooms, 139 authorized service centers, 43 retail outlets, and 24 warehouses. These are spread across 14 districts in Kerala, 8 districts in Karnataka, 12 districts in Tamil Nadu, and 9 districts in Maharashtra. The company's sales outlets and booking offices complement showrooms, while retail outlets facilitate the sale of spare parts and accessories.

3. Capturing organic and inorganic growth opportunities: The company acquired a spare parts distributor in Karnataka in FY19 to expand the business. The acquisition contributed to a turnover of Rs 17.5 cr, accounting for 12.0% of total turnover and 7.3% of EBITDA as of 1HFY24. The company also acquired service centers and showrooms from Maruti Suzuki in Kerala and BharatBenz in Tamil Nadu and Maharashtra. The company has successfully integrated these acquisitions and achieved organic growth, adding 22 showrooms, 23 sales outlets, and 47 service stations from FY21 to FY23.

Valuation: The company is valued at FY23 P/E and 1HFY24 annualised P/E multiple of 32.85x and 26.3x respectively at the upper price band on post-issue capital. The company is raising Rs 250 cr through fresh issue, of which Rs 192 cr will be used to reduce the debt. In FY23, the company is the 7th largest Maruti Suzuki dealer under Arena and 9th under Nexa in India by volume. Ranked fourth in Tata Motors Commercial dealership sales during FY23, the company contributed 76.7% and 48.0% of sales in Kerala and Tamil Nadu as of 1HFY24. The company's Revenue/PAT has grown significantly at a CAGR of 30%/41% from FY21-FY23. Indian Passenger and commercial vehicle market is expected to grow at the CAGR of 8% and 6% from FY23-FY28 giving an edge to the company's growth. We recommend to subscribe the issue for long term investment horizon.

Issue Details	
Date of Opening	12 th March 2024
Date of Closing	14 th March 2024
Price Band (Rs)	280 - 295
Offer for sale (Equity shares)	1,19,17,075
Fresh Issue (Rs cr)	250
Issue Size (Rs cr)	601
No. of shares	2,08,45,646 – 2,03,91,651
Face Value (Rs)	2
Post Issue Market Cap (Rs cr)	2,006 – 2,100
BRLMs	ICICI Securities Ltd, Nuvama Wealth Management Ltd, Centrum Capital Ltd.
Registrar	Link Intime India Private Limited
Bid Lot	50 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Repayment and/or pre-payment, in full or part, of certain borrowings, availed by the company and certain of the subsidiaries, namely, PAWL, PMMIL, KGPL, KCPL and PMPL	192.0
General corporate purposes*	0.0
Total proceeds from fresh issue	250.0

*To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC. The amount shall not exceed 25% of the Net Proceeds.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	4,35,58,086	69.4
Public & Others	1,91,63,359	30.6
Total	6,27,21,445	100.0

Post Issue @ Lower Price Band		
	No. of Shares	%
Promoter & Promoter Group	4,35,58,086	60.8
Public & Others	2,80,91,930	39.2
Total	7,16,50,016	100.0

Post Issue @ Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	4,35,58,086	61.2
Public & Others	2,76,37,935	38.8
Total	7,11,96,021	100.0

Source: RHP, SSL Research

Key Financials

Particulars	FY21	FY22	FY23	1HFY24
Revenue from operation (Rs cr)	2,894	3,466	4,875	2,835
EBITDA (Rs cr)	149	160	217	131
PAT (Rs cr)	32	34	64	40
EBITDA Margin (%)	5.2	4.6	4.5	4.6
PAT Margin (%)	1.1	1.0	1.3	1.4
EPS (Rs)	5.2	5.4	10.2	6.4*
ROE (%)	13.2	12.0	18.7	10.4*
ROCE (%)	17.1	16.8	18.3	8.7*
Total Debt / Equity (x)	1.4	1.3	1.5	2.0*

* Not Annualized

Source: RHP, SSL Research

Risk Factors

- **Economic conditions:** The automotive industry is sensitive to changing economic conditions and various other factors. Any decline in demand for vehicles by individuals or entities may adversely impact the business prospects and results of operations.
- **Agreement termination:** The company's top OEMs (Maruti Suzuki and TATA Motors Commercials) contributed 80% of the total revenue in the 1HFY24 and each of FY23, FY22 and FY21. Any termination of the agreement with this OEM may affect the revenue of the company significantly.
- **Negative cash flow:** The company has witnessed negative cash flow including negative cash flow from operation in the 1HFY24. It is possible that the company may experience negative cash flow in the future also.
- **Geographical revenue concentration:** The company's 96.9% of the total revenue is concentrated in the states of Kerala, Tamil Nadu and Karnataka. Any adverse developments (including any natural calamities) in these states could have an adverse effect on the operations of the company.

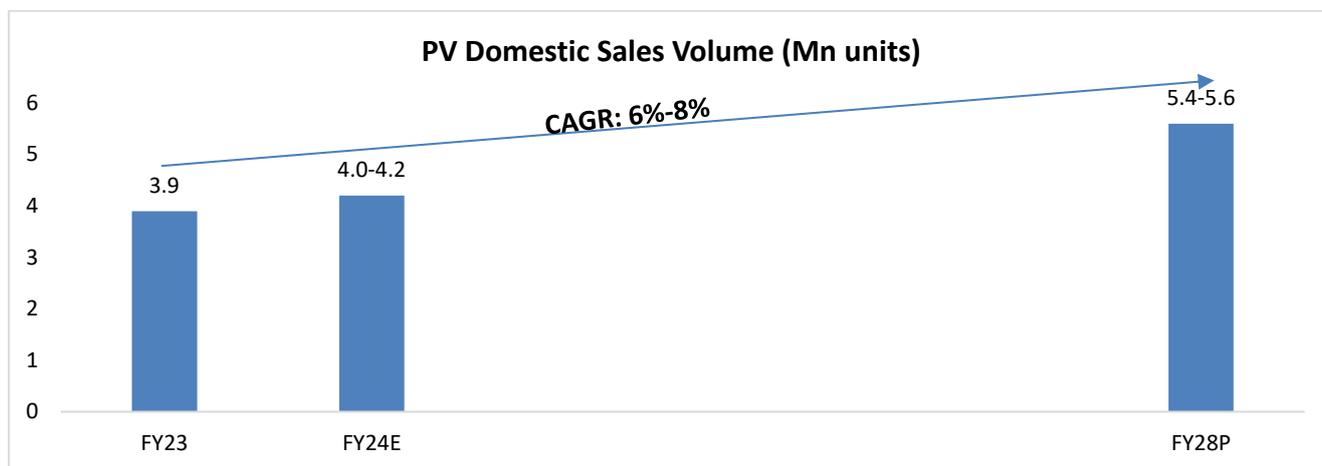
Growth Strategy

- Sustained growth of higher margin services and repair business, sale of pre-owned passenger vehicles and facilitation of sale of third-party financial products.
- Continue to increase sales at the existing dealerships.
- Expansion of network and diversification of the product portfolio.
- Grow through strategic acquisitions.
- Invest in technology and increase digital presence.

Industry Overview

Indian passenger vehicles sales outlook

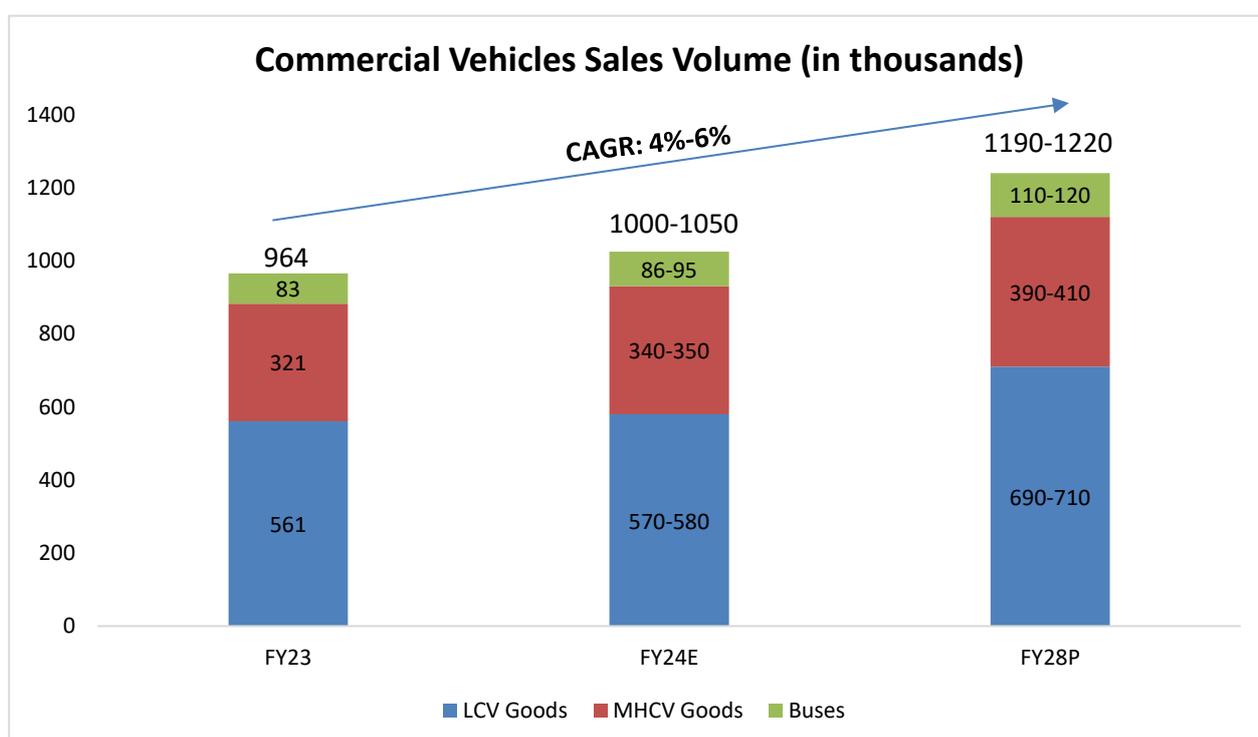
Between FY18 and FY23, India’s domestic PV sales rose at 3% CAGR. The growth was despite sales contracting at 6% CAGR during FY18 to FY21. From the low base of FY21, industry sales bounced back at a healthy pace to reach a historic high of 3.9 million vehicle sales in FY23. The Indian PVs market is expected to grow at a CAGR of 6%-8% from FY23 to FY28.



Source: RHP, SSL Research

Indian commercial vehicles sales outlook

CV sales in India are highly concentrated with top five states accounting for ~40-45% of national sales and top 10 states accounting for more than 70%. Maharashtra and Uttar Pradesh are the biggest contributors to overall CV sales in the country. These two states accounted for 21.5% of national sales in FY23. Maharashtra, Uttar Pradesh, Tamil Nadu, Gujarat, Karnataka and West Bengal together accounted for nearly half the demand during the period. The Indian CVs market is expected to grow at a CAGR of 4%-6% from FY23 to FY28.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY21	FY22	FY23
Revenue from Operations	2,894	3,466	4,875
YoY growth (%)	-	19.8	40.7
Cost Of Revenues (incl Stock Adj)	2,433	2,917	4,143
Gross Profit	460	549	732
Gross margins (%)	15.9	15.8	15.0
Employee Cost	204	242	308
Other Operating Expenses	108	147	207
EBITDA	149	160	217
EBITDA margins (%)	5.2	4.6	4.5
Other Income	26	18	18
Net Interest Exp.	55	61	71
Depreciation	72	69	79
Exceptional Items	0	0	0
PBT	47	49	85
Tax	15	15	21
Adj PAT	32	34	64
Adj. PAT margin (%)	1.1	1.0	1.3
Adj. EPS	2.6	2.7	5.1

BALANCE SHEET			
(Rs cr)	FY21	FY22	FY23
Assets			
Net Block	224	246	294
Capital WIP	17	12	8
Intangible Assets	5	4	18
Intangible Assets under development	0	0	0.24
Right of use assets	233	313	348
Other Non current Assets	73	81	100
Current Assets			
Current Investment	0	2	0
Inventories	312	362	435
Trade receivables	161	177	224
Cash and Bank Balances	59	20	28
Other Current Assets	33	45	47
Total Current Assets	565	606	734
Current Liabilities & Provisions			
Trade payables	66	87	91
Other current liabilities	127	122	122
Short-term provisions	4	3	3
Total Current Liabilities	197	211	216
Net Current Assets	368	394	518
Assets Classified as held for sale	2	2	2
Total Assets	921	1,052	1,288
Liabilities			
Share Capital	13	13	13
Reserves and Surplus	233	267	331
Total Shareholders Funds	246	280	343
Total Debt	353	372	505
Long Term Provisions	5	6	6
Lease Liabilities	297	384	433
Other Long Term Liabilities	21	10	0
Total Liabilities	921	1,052	1,288

(Rs cr)	FY21	FY22	FY23
Cash flow from Operating Activities	95	70	109
Cash flow from Investing Activities	(7)	(41)	(80)
Cash flow from Financing Activities	(71)	(65)	(24)
Free Cash Flow	68	22	55

RATIOS			
	FY21	FY22	FY23
Profitability			
Return on Assets (%)	2.9	2.7	4.3
Return on Capital Employed (%)	17.1	16.8	18.3
Return on Equity (%)	13.2	12.0	18.7
Margin Analysis			
Gross Margin (%)	15.9	15.8	15.0
EBITDA Margin (%)	5.2	4.6	4.5
Net Income Margin (%)	1.1	1.0	1.3
Short-Term Liquidity			
Current Ratio (x)	1.1	1.2	1.1
Quick Ratio (x)	0.5	0.5	0.5
Avg. Days Sales Outstanding	20	19	17
Avg. Days Inventory Outstanding	39	38	33
Avg. Days Payables	8	9	7
Fixed asset turnover (x)	12.9	14.1	16.6
Debt-service coverage (x)	0.4	0.4	0.4
Long-Term Solvency			
Total Debt / Equity (x)	1.4	1.3	1.5
Interest Coverage Ratio (x)	1.9	1.8	2.2
Valuation Ratios			
EV/EBITDA (x)	26.6	25.1	19.1
P/E (x)	113.3	109.2	57.4
P/B (x)	14.9	13.1	10.7
EV/Sales (x)	1.4	1.2	0.9

Source: RHP, SSL Research

Peer Comparison

	Popular Vehicles and Services Ltd	Landmark Cars Ltd
CMP	295.0	732.0*
Sales (Rs cr)	4,875.0	3,382.0
EBITDA (Rs cr)	217.2	238.0
Net Profit (Rs cr)	64.1	85.0
M.Cap (Rs cr)	2,100.3	3,015.0
Enterprise Value (Rs cr)	2,577.1	3,533.0
EBITDA Margin (%)	4.5	7.0
Net Margin (%)	1.3	2.5
EV/Sales (x)	0.5	1.0
PE(x)	32.8	35.5
EV/EBITDA (x)	11.9	14.8
RoE (%)	18.7	25.2
RoCE (%)	18.3	20.1

The data is based on FY23 financial data.

For Popular Vehicles and Services Limited the P/E, Market cap and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

**CMP as on 11th March 2024.*

Source: RHP, SSL Research

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