

CarTrade Tech | BUY

One-offs over, expect stronger quarters ahead

CarTrade reported existing business revenue of INR 955mn, a decline of 1.6%/1.8% QoQ/YoY as Remarketing business declined 16.5%/11.0% YoY/QoQ. Standalone business delivered 17.7% YoY growth, marginally lower than expected as festive season failed to deliver the corresponding jump in auto ad budgets. CarTrade's existing business delivered adjusted EBITDA margin of 20.3% (214/184bps QoQ/YoY), primarily driven by New Auto segment. On OLX Classifieds, we believe Q3FY24 Adj. EBITDA margin of 24.3% can be used to build forecasts on with expectations of 18-20% topline CAGR and sustained margin improvement post Q4FY24. The company recognised INR 455mn of one-off expenses this quarter and there are no further one-offs expected. Considering total loss from discontinued transactions business, company reported an adjusted loss of INR 242mn in 3Q. We retain 'BUY' rating with Mar'25 TP of INR 1,000 (~44% upside), as we believe the company to be perfectly positioned to benefit from the long-term secular tailwinds in Indian auto.

- Standalone business continue to gain business mix:** At INR 494mn in 3Q, Standalone business now accounts for 52% of existing business revenue. Though, New Auto business is not delivering the expected growth due to supply-demand mismatch in passenger vehicles, it is still growing healthily and we expect it to deliver 23% FY24-28 CAGR and hence continuing to gain mix. Considering the fixed cost nature of the business, it will be a strong driver of CarTrade's margin expansion and can reach 35-40% EBITDAM at steady state.
- Repossessions continue to struggle:** Remarketing revenue in 3Q stood at INR 461mn (-16.5% YoY/ -11% QoQ), a miss on JMFe of ~14%. The company did get a supply boost due to floods in certain parts of India but that supply didn't convert to vehicles sold as conversion dropped by 450bps. Despite healthy growth in retail remarketing business of ~25-27%, it was not enough to offset slowdown in repossessions. Though management feels that repossessions would be close to bottom but they were not able to convincingly suggest a near-term rebound. Our channel checks suggest that used car prices have risen sharply (20%+) over the past 2 years and are seen plateauing now, raising hope of improvement in repossessions business for CarTrade.
- OLX related one-off impact over:** With OLX transactions business shuttered last quarter, company did guide of one-time shutdown expenses of INR 250mn. Company did also expect to pay INR 100mn (USD 1.2mn) per month to Prosus for product and tech expenses. However, the company has completed this tech integration earlier and allocated the cost 50% each to transactions and classifieds business. Along with certain incremental losses, the company recognised a total of INR 455mn as losses from discontinued operations this quarter. Going forward, management will be able to focus on the growth from its profitable businesses without any further distraction.
- OLX classifieds to drive growth with margin expansion:** With tech integration done, we expect the management to fine tune the cost structure of Classifieds business over the coming quarter. As we have highlighted previously, India's used items (including used



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,000
Upside/(Downside)	43.8%
Previous Price Target	1,000
Change	0.0%

Key Data – CARTRADE IN

Current Market Price	INR696
Market cap (bn)	INR32.6/US\$0.4
Free Float	100%
Shares in issue (mn)	46.9
Diluted share (mn)	51.0
3-mon avg daily val (mn)	INR208.2/US\$2.5
52-week range	900/340
Sensex/Nifty	71,428/21,718
INR/US\$	83.0

Price Performance

%	1M	6M	12M
Absolute	-2.2	31.1	36.5
Relative*	-2.3	20.8	15.9

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	3,127	3,637	4,923	6,742	8,149
Sales Growth (%)	25.2	16.3	35.4	36.9	20.9
EBITDA	-1,342	330	599	1,471	2,160
EBITDA Margin (%)	-42.9	9.1	12.2	21.8	26.5
Adjusted Net Profit	-1,321	340	-44	1,183	1,572
Diluted EPS (INR)	-26.5	6.7	-0.9	23.2	30.8
Diluted EPS Growth (%)	0.0	0.0	0.0	0.0	32.9
ROIC (%)	-13.8	0.2	1.3	5.3	7.5
ROE (%)	-7.2	1.7	-0.2	5.6	7.1
P/E (x)	-26.3	103.8	-802.2	30.0	22.6
P/B (x)	1.6	1.6	0.7	1.5	1.5
EV/EBITDA (x)	-18.6	73.4	48.7	19.6	13.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 08/Feb/2024

auto) market is expected to grow strongly with more formalisation. With OLX being the undisputed market leader, we expect this business to deliver 18-20% revenue growth along with sustained market expansion as costs would rise only at 10-12% CAGR.

- **Retain 'BUY', Mar'25 TP unchanged at INR 1,000:** Sustained disappointment in remarketing business results in our revenue estimates cut by 4-5% over FY25-28E. Operating leverage could lead to lower than expected margins; hence we lower EBITDA margins by 25-30bps over the same period, primarily in Remarketing business. We value CarTrade using a SoTP based valuation to arrive at Mar'25 TP of INR 1,000 (~44% upside) with 20x/15x FY26E EBITDA multiple for New Auto / Remarketing business and 25x FY26E earnings multiple for OLX Classifieds business. On a consolidated basis, our TP implies 26X FY26E PE multiple.

Key Metrics

Exhibit 1. Key Financials

	3QFY23	4QFY23	FY23	1QFY24	2QFY24	3QFY24	Comments
Consolidated Net Revenue (INR mn)	972	959	3637	861	1,200	1,386	■ Consolidated net revenue grew 42.6% YoY to INR 1,386mn. Excluding OLX revenue of INR 431mn, existing business revenue declined by 1.8%/1.6% YoY/QoQ.
Change (YoY)	9.5%	2.9%	16.3%	4.0%	36.6%	42.6%	
Remarketing Revenue	552	531	2075	432	518	461	
Standalone Revenue	420	428	1563	428	453	494	■ Employee expenses decreased as a % of revenue by 100bps YoY to 45.5%.
OLX Revenue	-	-	-	-	229	431	
Employee expenses (Ex Esop)	452	440	1,774	469	557	630	■ Company's adjusted EBITDA margin improved marginally QoQ by 30bps to 21.6%.
Employee expenses (Ex Esop) % of Sales	46.5%	45.9%	48.8%	54.5%	46.4%	45.5%	
Other Expenses	341	327	1,254	290	387	457	■ Loss of INR 242mn is reported on Adj. PAT level, inclusive of INR 455mn loss from discontinued operations.
Other Expenses % of Sales	35.0%	34.1%	34.5%	33.7%	32.2%	33.0%	
EBITDA	106	118	330	55	212	254	
EBITDA margin (%)	10.9%	12.3%	9.1%	6.4%	17.6%	18.3%	
Adjusted EBITDA	179	191	609	101	256	299	
Adjusted EBITDA margin (%)	18.5%	19.9%	16.8%	11.7%	21.3%	21.6%	
Depreciation and Amortisation	72	76	287	84	91	96	
EBIT	34	42	43	-29	121	158	
EBIT Margin	3.5%	4.4%	1.2%	-3.4%	10.1%	11.4%	
Finance cost	19	20	77	22	22	23	
Other Income	187	207	640	208	159	133	
Profit before tax	201	229	606	158	258	268	
Tax Expense	61	54	201	23	25	48	
Profit after tax	140	175	404	135	232	220	
Net Margin	14.5%	18.2%	11.1%	15.7%	19.4%	15.8%	
Loss from discontinued operations	0	0	0	0	-182	-455	
Share of Minority Interest	10	25	64	5	20	7	
Net Income for common stocks	130	150	340	130	30	-242	

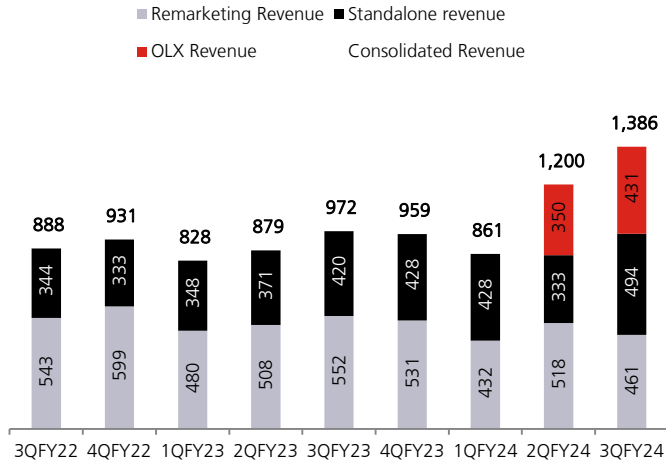
Source: Company

Exhibit 2. Key Operational Metrics

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Average monthly unique visitors (IN MN)	35.4	34.2	34.2	38.9	38.3
% of organic unique visitors	88%	86%	85%	91%	92%
No. of vehicles listed for auction (in 000's)	269	287	250	297	355
No. of vehicles sold by auction (in 000's)	59	64	49	56	51
Conversion rate	22.0%	22.4%	19.6%	18.9%	14.3%
Take rate per vehicle sold (in 000's)	9.3	8.3	8.8	9.2	9.0

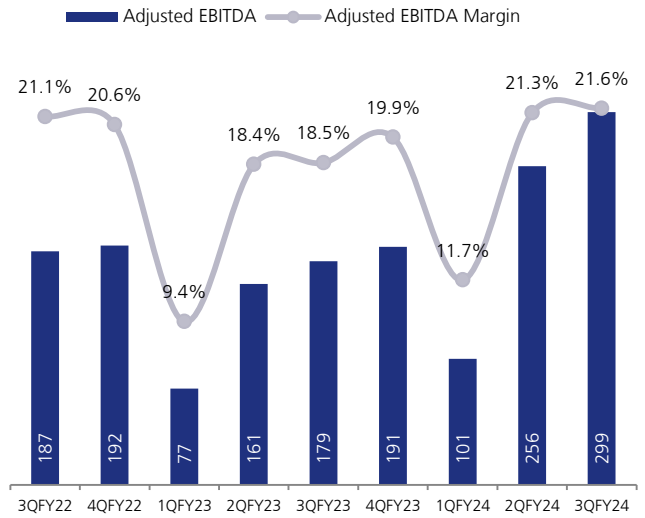
Source: Company

Exhibit 3. Consol. Net Revenue grew 42.6% YoY on account of consolidation of Sobex Auto (OLX business in India)



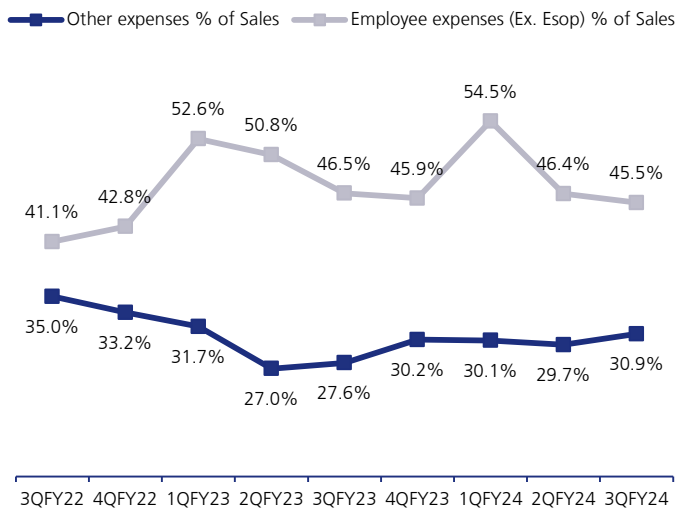
Source: Company, JM Financial

Exhibit 4. Adj. EBITDA margin increased sequentially



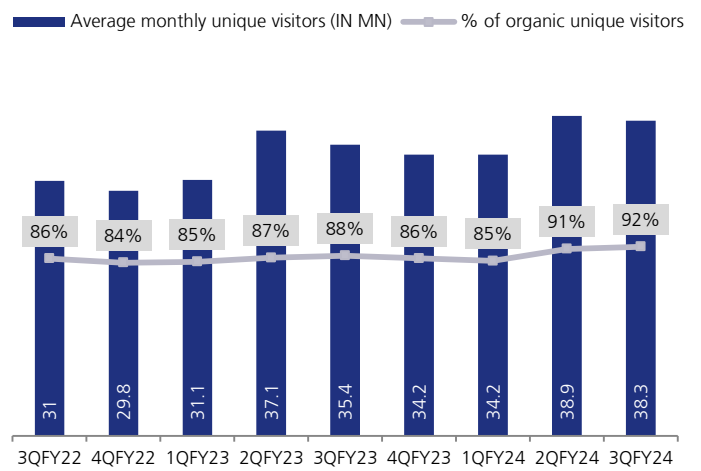
Source: Company, JM Financial

Exhibit 5. Expenses as % of Sales



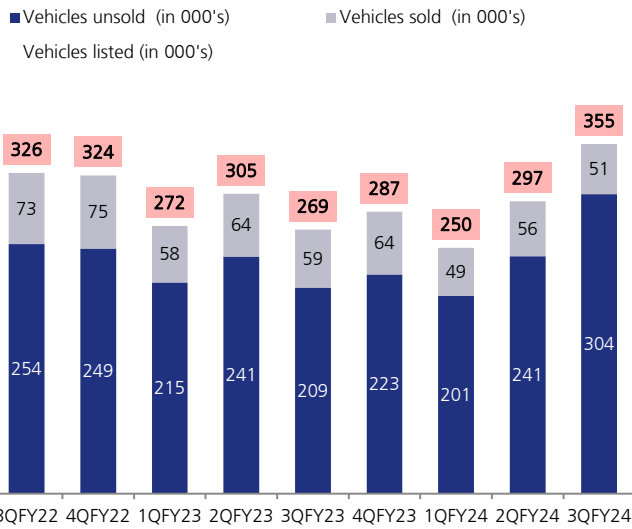
Source: Company, JM Financial

Exhibit 6. Adj. EBITDA margin increased sequentially



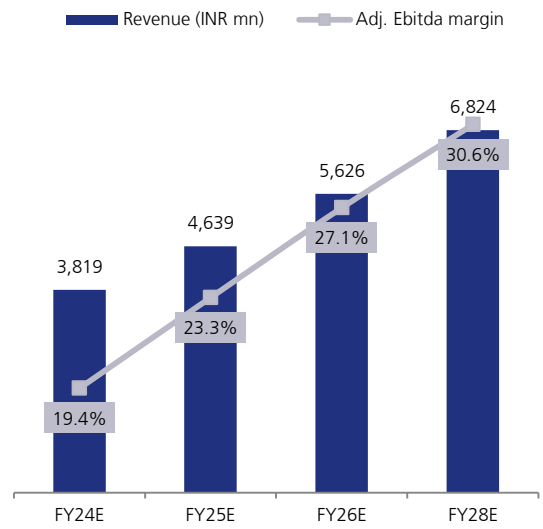
Source: Company, JM Financial

Exhibit 7. Auction listing increased sequentially



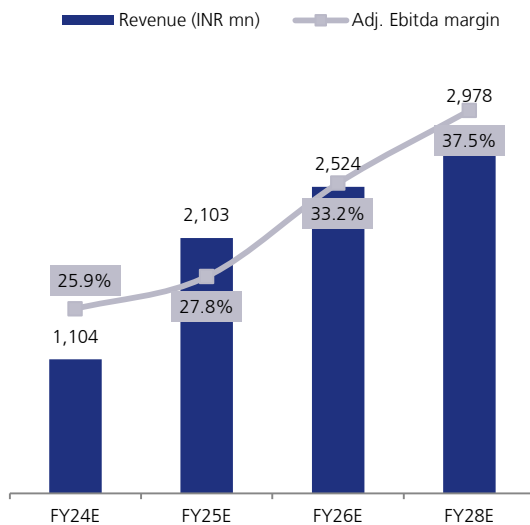
Source: Company, JM Financial

Exhibit 8. Existing business – Revenue and Adj. Ebitda estimates



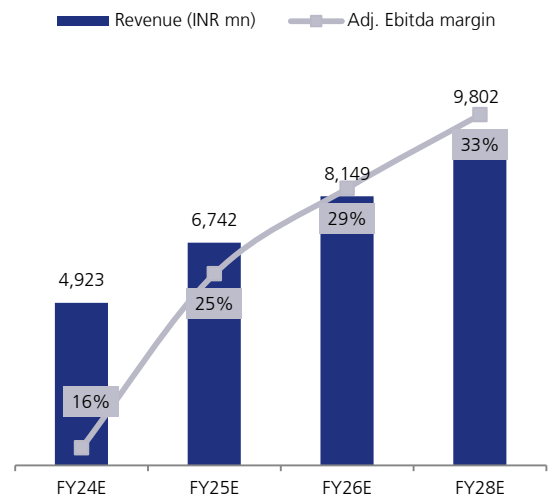
Source: JM Financial

Exhibit 9. OLX business - Revenue and Adj. Ebitda estimates



Source: JM Financial

Exhibit 10. Consolidated business - Revenue and Adj. Ebitda estimates



Source: JM Financial

Maintain BUY; TP unchanged at INR 1,000

Exhibit 11. Decline to revenue and margin estimates, primarily in Remarketing business

	OLD					NEW					Change				
	FY24E	FY25E	FY26E	FY27E	FY28E	FY24E	FY25E	FY26E	FY27E	FY28E	FY24E*	FY25E	FY26E	FY27E	FY28E
Consolidated revenue (INR mn)	5,442	7,128	8,605	10,326	12,194	4,923	6,742	8,149	9,802	11,658	-9.5%	-5.4%	-5.3%	-5.1%	-4.4%
Revenue growth rate (YoY)	49.6%	31.0%	20.7%	20.0%	18.1%	35.4%	36.9%	20.9%	20.3%	18.9%	-1427bp	596bp	15bp	29bp	84bp
EBITDA (INR mn)	442	1,572	2,307	3,130	3,999	599	1,471	2,160	2,993	3,915	35.6%	-6.5%	-6.4%	-4.4%	-2.1%
EBITDA Margin	8.1%	22.1%	26.8%	30.3%	32.8%	12.2%	21.8%	26.5%	30.5%	33.6%	405bp	-25bp	-30bp	22bp	79bp
EBIT (INR mn)	50	1,196	1,901	2,681	3,506	231	1,110	1,772	2,563	3,440	365.5%	-7.2%	-6.8%	-4.4%	-1.9%
EPS - Basic	10.91	26.30	37.08	48.37	62.33	-2.06	25.25	33.56	45.06	59.61	-118.9%	-4.0%	-9.5%	-6.8%	-4.4%

Source: Company, JM Financial. *FY24E has impact of discontinued operations dropping below EBITDA compared to our earlier estimates when we were building it in Income Statement.

Exhibit 12. Valuation Maths

	Revenue	EBITDA	Valuation
Website Services (Classifieds) - FY26	2.9	1.0	
Target EV/EBITDA multiple		20.0x	20.0
Commission Income (B2B) - FY26	2.5	0.7	
Target EV/EBITDA multiple		15.0x	5.8
Sale of Used Cars (Franchise B2C) - FY26	0.3	-0.2	
Target EV/Sales multiple	1.0x		0.3
OLX Classifieds - FY26	2.5	0.7	
Target PE Multiple		25.0x	16.8
Implied Enterprise value (INR bn) on TP date			42.8
Net Debt (INR bn) on TP Date			-8.0
Market value (INR bn) on TP date			50.8
Diluted equity shares (mn)			51.0
1-year forward target price			1,000

Source: Company, JM Financial

Key Risks

- **Key upside risks** to our price target are: (1) sooner than expected reversal in remarketing business with sharp rise in retail channel; (2) higher than expected margin improvement with the newer verticals generating value; (3) any accretive acquisition not currently priced in; and (4) OLX classifieds delivering higher than expected growth or margins.
- **Key downside risks** are: (1) market share loss in new auto advertising to newer formats; (2) any after-effects of product and tech expense integration causing margin losses; (3) sustained pressure in repossessions; and (4) any mistakes in capital allocation (stock got beaten when rumours of GoMechanic acquisition were floated).

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	3,127	3,637	4,923	6,742	8,149	
Sales Growth	25.2%	16.3%	35.4%	36.9%	20.9%	
Other Operating Income	0	0	0	0	0	
Total Revenue	3,127	3,637	4,923	6,742	8,149	
Cost of Goods Sold/Op. Exp	88	65	0	0	0	
Personnel Cost	3,328	2,053	2,519	3,096	3,529	
Other Expenses	1,054	1,190	1,805	2,175	2,460	
EBITDA	-1,342	330	599	1,471	2,160	
EBITDA Margin	-42.9%	9.1%	12.2%	21.8%	26.5%	
EBITDA Growth	0.0%	0.0%	81.6%	145.5%	46.9%	
Depn. & Amort.	247	287	368	360	388	
EBIT	-1,589	43	231	1,110	1,772	
Other Income	462	640	634	516	572	
Finance Cost	65	77	90	106	128	
PBT before Excep. & Forex	-1,191	606	775	1,521	2,216	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	-1,191	606	775	1,521	2,216	
Taxes	22	201	123	248	515	
Extraordinary Inc./Loss(-)	0	0	-637	0	0	
Assoc. Profit/Min. Int.(-)	107	64	59	90	128	
Reported Net Profit	-1,321	340	-44	1,183	1,572	
Adjusted Net Profit	-1,321	340	-44	1,183	1,572	
Net Margin	-42.2%	9.3%	-0.9%	17.5%	19.3%	
Diluted Share Cap. (mn)	49.9	50.7	51.0	51.0	51.0	
Diluted EPS (INR)	-26.5	6.7	-0.9	23.2	30.8	
Diluted EPS Growth	0.0%	0.0%	0.0%	0.0%	32.9%	
Total Dividend + Tax	0	0	0	0	0	
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	-1,191	606	775	1,521	2,216	
Depn. & Amort.	247	287	368	360	388	
Net Interest Exp. / Inc. (-)	-301	-36	-544	-410	-444	
Inc (-) / Dec in WCap.	173	-147	-453	-645	-147	
Others	1,852	-206	183	192	201	
Taxes Paid	-148	-23	-176	-248	-515	
Operating Cash Flow	632	482	154	770	1,699	
Capex	-57	-71	-4,646	-629	-550	
Free Cash Flow	574	411	-4,492	141	1,148	
Inc (-) / Dec in Investments	-2,793	-136	5,363	0	0	
Others	42	42	544	410	444	
Investing Cash Flow	-2,809	-166	1,261	-219	-106	
Inc / Dec (-) in Capital	2,473	37	-637	-139	-1,236	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	-180	-211	-269	290	233	
Others	0	-217	0	0	0	
Financing Cash Flow	2,293	-391	-906	152	-1,003	
Inc / Dec (-) in Cash	116	-75	508	703	589	
Opening Cash Balance	510	353	279	787	1,490	
Closing Cash Balance	626	279	787	1,490	2,079	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	19,793	20,434	20,573	21,809	22,347	
Share Capital	466	468	469	469	469	
Reserves & Surplus	19,793	20,434	20,573	21,809	22,347	
Preference Share Capital	0	0	0	0	0	
Minority Interest	951	790	849	938	1,067	
Total Loans	771	864	923	1,214	1,446	
Def. Tax Liab. / Assets (-)	-712	-581	-633	-633	-633	
Total - Equity & Liab.	20,802	21,508	21,712	23,329	24,227	
Net Fixed Assets	10,413	10,422	14,700	14,968	15,130	
Gross Fixed Assets	1,536	1,654	2,110	2,111	2,376	
Intangible Assets	9,170	9,103	13,293	13,217	13,143	
Less: Depn. & Amort.	292	335	703	360	388	
Capital WIP	0	0	0	0	0	
Investments	8,837	9,854	4,491	4,491	4,491	
Current Assets	2,845	2,576	4,891	6,867	8,166	
Inventories	12	0	0	0	0	
Sundry Debtors	415	516	644	908	923	
Cash & Bank Balances	626	279	787	1,490	2,079	
Loans & Advances	276	33	360	360	360	
Other Current Assets	1,516	1,749	3,099	4,109	4,804	
Current Liab. & Prov.	1,293	1,344	2,370	2,998	3,561	
Current Liabilities	209	216	351	345	448	
Provisions & Others	1,084	1,128	2,019	2,653	3,113	
Net Current Assets	1,552	1,232	2,521	3,869	4,605	
Total - Assets	20,802	21,508	21,712	23,329	24,227	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	-42.2%	9.3%	-0.9%	17.5%	19.3%	
Asset Turnover (x)	0.2	0.2	0.2	0.3	0.3	
Leverage Factor (x)	1.1	1.1	1.1	1.1	1.1	
RoE	-7.2%	1.7%	-0.2%	5.6%	7.1%	

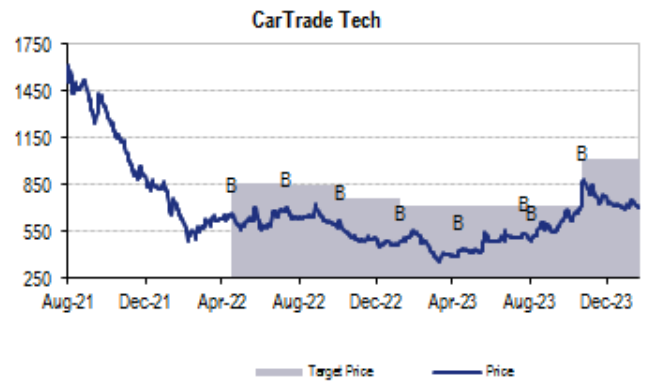
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	430.3	437.6	959.7	465.6	477.0	
ROIC	-13.8%	0.2%	1.3%	5.3%	7.5%	
ROE	-7.2%	1.7%	-0.2%	5.6%	7.1%	
Net Debt/Equity (x)	-0.4	-0.5	-0.2	-0.2	-0.2	
P/E (x)	-26.3	103.8	-802.2	30.0	22.6	
P/B (x)	1.6	1.6	0.7	1.5	1.5	
EV/EBITDA (x)	-18.6	73.4	48.7	19.6	13.3	
EV/Sales (x)	8.0	6.7	5.9	4.3	3.5	
Debtor days	48	52	48	49	41	
Inventory days	1	0	0	0	0	
Creditor days	17	24	30	24	27	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-May-22	Buy	860	
30-Jul-22	Buy	840	-2.3
23-Oct-22	Buy	760	-9.5
25-Jan-23	Buy	710	-6.6
28-Apr-23	Buy	710	0.0
10-Aug-23	Buy	710	0.0
21-Aug-23	Buy	710	0.0
10-Nov-23	Buy	1,010	42.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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