



**IPO Report**

11<sup>th</sup> Mar'24

**Snapshot**

Company is a diversified automobile dealership in India in terms of revenue as of Fiscal 2023, having a fully integrated business model. Company cater to the complete life cycle of vehicle ownership, right from the sale of new vehicles, servicing and repairing vehicles, distributing spare parts and accessories, to facilitating sale and exchange of pre-owned vehicles, operating driving schools and facilitating the sale of third-party financial and insurance products. Company categorise its automobile dealership business into three key segments, namely, (a) passenger vehicles including luxury vehicles, (b) commercial vehicles and (c) electric two-wheeler and three-wheeler vehicles.

**VALUATION**

Company is bringing the issue at price band of Rs 280-295 per share at p/e multiple of 33x on FY23 PAT basis.

Company has long standing presence in the automobile industry and well-established relationships with leading OEMs. Company's Penetration in markets in which it operate complemented by innovative marketing strategies. Company has fully integrated business model leading to business stability and higher margin. Company's proven ability to identify and capture inorganic as well as organic growth opportunities along with consistent track record of profitable financial performance and increasing growth; and experienced promoters and management team.

Hence ,looking after all above we recommend “ Long term Subscribe” on issue.

<b>Price Band (Rs./Share)</b>	<b>280-295</b>
<b>Opening date of the issue</b>	<b>12<sup>th</sup> Mar '2024</b>
<b>Closing Date of the issue</b>	<b>14<sup>th</sup> Mar '2024</b>
<b>No of shares pre issue</b>	62,721,445 Eq Shares
<b>Issue Size</b>	Rs 584-602 Cr
<b>Fresh issue</b>	Rs 250 Cr
<b>Offer For Sale</b>	11,917,075 Eq Shares
<b>Face Value (Rs/ share)</b>	Rs 2/share
<b>Bid Lot</b>	50
<b>Employee Discount</b>	Rs 28/share

**BIDDING DETAILS**

<b>QIBs (Including Anchor)</b>	50% of the offer (Approx 10178875 Eq Shares)
<b>Non-Institutional</b>	15% of the offer (Approx 3053663 Eq Shares)
<b>Retail</b>	35 % of the offer ( Approx 7125214 Eq Shares)
<b>Employee Reservation</b>	Rs 1 Cr
<b>Lead managers</b>	ICICI Securities Ltd, Nuvama Wealth Management Ltd , Centrum Capital Limited
<b>Registrar to the issue</b>	Link Intime India Private Limited

**WHAT WE LIKE**

***Long standing presence in the automobile industry and well-established relationships with leading OEMs***

The Kuttukaran Group entered the automobile industry in 1953 with the commencement of the automobile spare parts and accessories business. Company have since forayed into the automobile dealership business by partnering with various leading OEMs. Maruti Suzuki and Honda represented approximately 41.00% and 2.00% of the passenger vehicles market share in India in Fiscal 2023, respectively. Tata Motors (Commercial) represented 40.00% of the commercial vehicles market share in India in Fiscal 2023. Piaggio and Ather represented 27.00% and 11.00% of electric three-wheeler and electric two-wheeler vehicles market share (retail sales) in India in Fiscal 2023, respectively.

***Consistent track record of profitable financial performance and increasing growth***

Company reported a total income of ₹ 28,482.08 million, ₹48,926.28 million, ₹34,841.99 million and ₹29,192.52 million for the six months period ended September 30, 2023 and Fiscals 2023, 2022, and 2021, respectively. Company's EBITDA was ₹ 1,459.09 million, ₹2,348.46 million, ₹1,786.63 million and ₹1,748.53 million for the six months period ended September 30, 2023 and Fiscals 2023, 2022, and 2021, respectively. Company's profit was ₹400.44 million, ₹640.74 million, ₹336.69 million and ₹324.55 million for the six months period ended September 30, 2023 and Fiscals 2023, 2022, and 2021, respectively

***Experienced promoters and management team***

The Kuttukaran Group (the group of entities and business operated by its Promoters and their immediate relatives) has over 70 years of experience in the automobile industry. John K. Paul, company's Whole Time Director and one of its Promoters has over 49 years of experience in the automobile sector.



## COMPANY BACKGROUND

Company operate (a) passenger vehicle dealerships covering economy, premium and luxury vehicles across its dealerships for the following OEMs: (i) Maruti Suzuki India Limited (“Maruti Suzuki”) for both Arena and Nexa, through Company, (ii) Honda Cars India Limited (“Honda”) through company’s Subsidiary, VMPL, and (iii) Jaguar Land Rover India Limited (“JLR”) through company’s Subsidiary, PAWL; (b) commercial vehicle dealerships of (i) Tata Motors Limited (“Tata Motors (Commercial)”), through company’s Subsidiary, PMML and (ii) Daimler India Commercial Vehicles Private Limited (“BharatBenz”), through company’s Subsidiary, PMPL; and (c) electric three-wheeler vehicle dealership of Piaggio Vehicles Private Limited, including commercial and cargo vehicles (“Piaggio”), through company’s Subsidiary, KGPL and electric two-wheeler vehicle dealership of Ather Energy Private Limited (“Ather”), through company’s Subsidiary, KCPL.

In Fiscal 2023, passenger vehicle sales in India were concentrated in a few major states. The top 5 states are Maharashtra, Uttar Pradesh, Gujarat, Karnataka, and Tamil Nadu. These states cumulatively contributed to more than 40.00% of national sales. In Fiscal 2023, Kerala, Tamil Nadu and Maharashtra featured in the top 10 contributing states of the country, contributing 23.00% to the national sales. In line with the overall domestic market, Maruti Suzuki dominated sales in all these states. As of December 31, 2023, company operated through network of 61 showrooms, 133 sales outlets and booking offices, 32 preowned vehicle showrooms and outlets, 139 authorised service centres, 43 retail outlets, and 24 warehouses located across 14 districts of Kerala, 8 districts in Karnataka, 12 districts in Tamil Nadu and 9 districts in Maharashtra. While company’s sales outlets and booking offices complement sales through its showrooms, company’s retail outlets facilitate sale and distribution of spare parts and accessories.

Company acquired 11 service centres and 2 showrooms from a dealer of Maruti Suzuki in Kerala in 2021. Further, it acquired 8 showrooms, 17 service centres and 3 sales outlets and booking offices of BharatBenz in Tamil Nadu and Maharashtra. Company have also expanded its post-sale services and repair verticals in the last three Fiscals. Company’s revenue from servicing of passenger vehicles and commercial vehicles has seen a significant increase, from ₹3,651.64 million and ₹675.06 million in Fiscal 2021 to ₹5,716.13 million and ₹1,418.65 million in Fiscal 2023, respectively. In Fiscal 2023, company was ranked ‘All India Highest in the Bodyshop Load’ for Maruti Suzuki. Further, the number of electric two-wheeler and three-wheeler vehicles sold by company has also increased from 252 in Fiscal 2022 to 3,381 in Fiscal 2023.

Company’s key segments are as follows:

1. **Passenger Vehicles** : Company operate passenger vehicle dealerships of Maruti Suzuki, Honda and JLR. Company’s passenger vehicle offerings cover a complete spectrum of vehicles ranging from economy to premium and luxury vehicles including electric vehicles. Company’s product and brand mix is well-suited to what customers demand in the markets where company operate. During the six months period ended September 30, 2023, company sold an aggregate of 16,476 passenger vehicles across its dealerships.
2. **Commercial Vehicles** : Company operate commercial vehicle dealerships of Tata Motors (Commercial) and BharatBenz. Company was awarded its first commercial vehicle dealership by Tata Motors (Commercial) in 1997. Company’s Tata Motors (Commercial) dealership is operated under the ‘Popular Mega Motors’ brand and caters to a wide range of commercial vehicles offered by Tata Motors. Its Tata Motors (Commercial) dealership was operated through 13 showrooms, 32 sales outlets and booking offices and 27 authorised service centres across 14 districts of Kerala and 5 districts of Tamil Nadu as of December 31, 2023. Company was the fourth largest commercial vehicle dealership of Tata Motors (Commercial) in terms of sales volumes in Fiscal 2023. As of September 30, 2023, company contributed to the sale of 76.73% and 48.02% of the total Tata Motors (Commercial) vehicles sold in Kerala and Tamil Nadu, respectively.
3. **Electric Two-Wheeler and Three-Wheeler Vehicles** Company entered the electric two-wheeler and three-wheeler vehicles segment in 2021 and it operate its electric two-wheeler and three-wheeler vehicle dealerships of Ather and Piaggio, respectively. Company’s Piaggio dealership is operated under the ‘Ecomarq’ brand and caters to a wide range of electric three-wheeler vehicles. Its Piaggio dealership was operated through 7 showrooms and 7 authorised service centres across 6 districts in Kerala as of December 31, 2023. As of September 25, 2023, KGPL was recognised as the biggest dealer of Piaggio electric three-wheeler vehicles in Kerala and the fifth largest dealer at an all-India level.



**INVESTMENT RATIONALE**

<p><i>Penetration in markets in which company operate complemented by innovative marketing strategies</i></p>	<p>As of December 31, 2023, company’s network comprised of 30 showrooms and 84 sales outlets and booking offices for sale of new passenger vehicles, 21 showrooms and 44 sales outlets and booking offices for sale of commercial vehicles, 85 authorised service centres for servicing and repair of passenger vehicles and 44 authorised service centres for servicing and repair of commercial vehicles; and 10 dedicated showrooms and 22 sales outlets and booking offices for sale of pre-owned passenger vehicles. Company have a deep penetration in semi-urban and rural areas in the states it operate in, which is attributable to several innovative models adopted by company including the “hub and spoke” model in respect of Maruti Suzuki and Tata Motors (Commercial) dealerships in Kerala, wherein company’s showrooms serve as a “hub” to its sales outlets and booking offices located in small towns and rural areas under the showroom. Company’s sales outlets and booking offices are typically operated out of smaller premises showcasing one or more vehicle models and are each managed by designated sales representatives with all other operational support being provided by company’s showrooms. Company’s showrooms, sales outlets and booking offices are present in almost all district of Kerala. Company’s have 113 sales outlets and booking offices spread across 14 districts in Kerala, which significantly contributes towards increasing its brand recall among potential buyers across the state of Kerala</p>
<p><i>Fully integrated business model leading to business stability and higher margin</i></p>	<p>Company’s diversified automobile dealerships and a fully integrated business model contributes to its position as a leading automobile dealership player. In addition to benefiting from the inherent synergies arising out of company’s business verticals, company’s diversified income streams also contribute to higher profitability margins at its dealerships. Company’s PAT increased from ₹324.55 million in Fiscal 2021 to ₹640.74 million in Fiscal 2023. Further, company have marked an increase in its revenue from sales due to an increase in the sales of Nexa vehicles in Fiscal 2023. Increasing demand and sales of electric vehicles and a consistent growth in the sale of electric two-wheeler and three-wheeler vehicles, in India in Fiscal 2023, has also contributed significantly towards company’s growth. In Fiscal 2023, company have also entered into an arrangement with Kochi Metro Rail Limited, a joint venture of the Government of India and the Government of Kerala, for the sale of electric three-wheeler vehicles for convenient transportation of their employees within the state. Company offer fully integrated services through its authorised service centres that contribute to higher-margin revenues at each of company’s dealerships and helps mitigate the cyclicalities that has historically impacted some elements of the automobile sector. Company’s authorised service centres contributed to 14.83%, 14.60%, 15.29%, and 14.82% of its total revenue and 46.60%, 55.48%, 54.10%, and 53.44% of its EBITDA during the six months period ended September 30, 2023 and Fiscals 2023, 2022, and 2021, respectively; and company’s spare parts and accessories distribution vertical contributed to 7.19%, 7.39%, 7.70%, and 6.24% of company’s EBITDA during the six months period ended September 30, 2023 and Fiscals 2023, 2022, and 2021, respectively. Company serviced 419,729 passenger vehicles and 103,116 commercial vehicles, through its network of 127 authorised service centres during the six months period ended September 30, 2023.</p>
<p><i>Proven ability to identify and capture inorganic as well as organic growth opportunities</i></p>	<p>As part of company’s strategic plan to expand its business into other territories and states, company acquired the entire operations of a sizeable spare parts distributor in Karnataka, in Fiscal 2019, which helped company gain established business channels and a steady foothold in Karnataka. The business division acquired by company contributed to a total turnover of ₹174.60 million and contributed to 12.02% of its total turnover and 7.26% of the total EBITDA of the Company during the six months period ended September 30, 2023</p>



## OBJECTS OF OFFER

### Offer for Sale

The Selling Shareholder will be entitled to the proceeds of the Offer for Sale after deducting its proportion of Offer related expenses and relevant taxes thereon.

### Objects of the Fresh Issue

Company proposes to utilise the Net Proceeds towards funding the following objects:

1. Repayment and/or pre-payment, in full or part, of certain borrowings, availed by Company and certain of its Subsidiaries, namely, PAWL, PMMIL, KGPL, KCPL and PMPL; and
2. General corporate purposes..

## RISKS

Company is subject to the significant influence of OEMs. Company's top two OEMs i.e., Maruti Suzuki and Tata Motors (commercial), account for more than 80% of Company's consolidated revenue in the six months period ended September 30, 2023 and each of Fiscal 2023, 2022 and 2021. Such significant influence of company's OEMs and restrictions imposed by them pursuant to the terms of dealership agreements may adversely impact company's business, results of operations, financial condition and prospects, including company's ability to expand into new territories and acquire additional dealerships.

Source:RHP

## INDUSTRY OVERVIEW

### Automobile dealership industry in India

Dealerships form an intrinsic part of the automobile sector, playing the role of an intermediary between the customers and the manufacturers. The dealership plays an indispensable role in the overall vehicle supply chain, providing a 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. From manufacturers' perspective, dealers play the crucial role of retail distribution at regional, city and local levels, and provide manufacturers with customer insights that are useful in the production planning of manufacturers. Dealers support customers from the initial phase with guidance on vehicle selection and also assist in the necessary vehicle financing. They facilitate a smooth transfer of vehicle from manufacturer to customer, assisting in registration and required insurance formalities. Additionally, dealers provide the required support for accessorising and vehicle customisation. For financial institutions, dealerships provide a huge business opportunity in the form of retail finance as well as inventory funding. Even for insurance providers, dealerships act as an easy avenue for new customer acquisitions. A dealership is a one-stop shop for all the below requirements:

- Buying a new vehicle
- Vehicle repair and servicing
- Regular maintenance/ AMC
- Buying necessary spares/ lubricants
- Vehicle accident repair
- Buying a pre-owned vehicle
- Selling/ exchanging an old vehicle
- Availing required financing
- Buying vehicle insurance
- Renewing vehicle insurance
- Vehicle registration
- Vehicle customisation/ beautification
- Buying accessories
- Insurance claims (for accident repair

Availing additional services such as anti-rust coating, paint protection, and interior clean-up

As of last fiscal, there were around 20,000 dealerships with nearly 70,000 touchpoints (including sub-dealerships, customer outreach centres, and authorised representatives of the dealer) across India catering to customers of two-wheelers, PVs, CVs, three-wheelers and tractors. Typically, two-wheelers dominate the number of dealerships (with 55-60% share), followed by PVs (~15%) and CVs (8-10%) — three-wheelers and tractors account for the rest.



**Consolidated Financials**

(Rs in Mn)

Financials	FY21	FY22	FY23	6months ended FY24
Total Revenue (A)	28935.25	34658.79	48750.02	28349.97
Total Expenditure (B)	27443.99	33055.36	46577.82	27039.04
EBIDTA	1491.26	1603.43	2172.20	1310.93
EBIDTA Margin	5.15	4.63	4.46	4.62
Other Income	257.27	183.20	176.26	132.11
Depreciation	724.91	692.57	794.45	444.19
EBIT	1023.62	1094.06	1554.01	998.85
Interest	551.10	608.60	705.35	476.14
PBT	472.52	485.46	848.66	522.71
Exceptional	0.00	0.00	0.00	16.05
PBT	472.52	485.46	848.66	538.76
Tax	147.97	148.77	207.93	138.32
PAT	324.55	336.69	640.73	400.44
NPM	1.12	0.97	1.31	1.41
ROE%	13.19	12.03	18.68	10.42
EPS	5.17	5.37	10.22	6.38
Eq Cap	125.44	125.44	125.44	125.44
Net Worth	2460.02	2798.86	3430.44	3842.11

(Source: RHP)

**Peer Comparison**

Company Name	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Popular Vehicles and Services Limited</i>		<i>487450.02</i>	<i>10.22</i>	<i>54.69</i>	<i>18.68</i>
<b>Peers</b>					
Landmark Cars Limited	34.84	33823.51	21.74	118.55	18.04

(Source: RHP)



## DISCLAIMER

HEM Securities Limited ("Research Entity or HSL") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services, merchant banking services, Portfolio Management Services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. 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 HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.