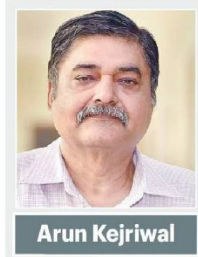


# CarTrade Tech: A medium-term opportunity



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**C**ar Trade Tech Limited is the only car platform making profits. This company is tapping the capital markets with its offer for sale for 1,85,32,216 equity shares in a price band of Rs 1,585-1,618. The issue opened on Monday (August 9) and would close on Wednesday (August 11).

Earlier on Friday, the company had allotted 55,59,664 shares at Rs 1,618 to 43 anchor investors. The highest allocation was made to American Funds Insurance Series who was allotted 4,63,527 equity shares or 8.34 per cent of the anchor book. This was followed by an equal allotment to three mutual funds of 3,24,468 equity shares or 5.84 per cent to Axis, Aditya Birla and HDFC. Thus, the top four anchor investors were allotted 25.86 per cent of the anchor book. At the bottom end of the anchor allocation, eight anchors were allotted 32,361 shares or 0.58 per cent of the anchor book each.

The entire issue is an OFS and the bulk of the shares are being sold by private equity investors. The founder and key management's sale would be less than five per cent of the OFS, demonstrating that the founder has skin in the game and is there for the long haul.

Coming to the business of Car Trade, it is a platform where buyers and sellers meet. The platform ensures a market place where new cars and also second-hand cars can be bought and sold. The platform charges the seller commission and fees and the buyer pays nothing. In case the seller of a second-hand car is an individual, then he too pays nothing.

The question that then comes to mind is how does the platform make money? It makes money from commissions and fees and also from advertising where advertisers pay to list their products and services. Further the company has acquired ownership of Shriram Auto

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mall which is a pioneer in selling repossessed cars. These are passenger vehicles and also LCV, MCV and HCV, which are typically repossessed when instalments are not paid. Banks whether private or PSU and also NBFCs authorise such repossession and these vehicles are sold in auction as the number is large.

Car Trade has vehicles in stock at its malls spread across the country, but unlike competitors does not own a single vehicle. The top line of this company as compared to its competitors is therefore significantly different and just not comparable. While this company has revenues which are commissions and fees, the other has sales and purchase. There is a very interesting thought that the company provides its potential investors with which I would like to reiterate. It says "Buyers will be sellers and sellers will be buyers". This is a very powerful line and captures the essence of the company's platform. Future opportunities would be to expand the companies' offerings and grow the business. Currently it has an arm which assists people in valuation of cars, two wheelers and other vehicles. Going forward it would offer allied services such as insurance and other related activities where the basic business model remains fee and commission based. In terms of

competition, there could always be competition, but the first mover advantage would always remain. Secondly the founder of this company is a third or probably fourth generation car and auto dealer from Mumbai. Many of you would recall the name as Sah and Sanghi. It would be fair to mention that cars are the DNA of Vinay Sanghi, the founder.

The company reported a net profit of Rs 101.1 crores, of which there was an entry of Rs 63.9-crore one-off adjustment on account of deferred tax. On an adjusted basis, the profit would be Rs 37.2 cr. The EPS as mentioned by the company on diluted basis is Rs 19.6 against Rs 5.1 in the previous year. This would get adjusted to Rs 8. This means the PE for the company is a staggering 200 times. To sum up, Car Trade Tech Limited is a great platform which would see growth in the coming years. As there is no inventory that the company owns, there would be substantial growth and almost all of it would flow to the bottom line. While there could be some listing pop available, investors with a medium-term investment horizon or longer alone, should invest.

*(The author is the founder of Kejriwal Research and Investment Services, an advisory firm)*