IPO Note

March 11, 2024

Popular Vehicles and Services Limited



Issue Snapshot:
Issue Open: March 12 – March 14, 2024

Price Band: Rs. 280 – 295 (Discount of Rs 28 per share for all eligible employees)

*Issue Size: Up to 20,391,651 eq sh (Fresh issue of Rs.250 cr + offer for sale of up 11,917,075 eq sh including employee reservation of Rs 1.0 cr)

Reservation for:

QIB	upto	50% eq sh
Non-Institutional ((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))	atleast	15% eq sh
Retail	atleast	35% eq sh

Face Value: Rs 2

Book value: Rs 61.26 (September 30, 2023)

Bid size: - 50 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	12.54 cr
*Post issue Equity:	Rs.	14.24 cr

Listing: BSE & NSE

Book Running Lead Managers: ICICI Securities Limited, Nuvama Wealth Management Limited, Centrum Capital Limited

Sponsor Bank: ICICI Bank Ltd & Axis Bank Limited

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	69.45	61.18
Public & Employees	30.55	38.82
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Popular Vehicles and Services Limited (PVSL) is a diversified automobile dealership in India in terms of revenue as of Fiscal 2023 having a fully integrated business model. It caters 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. It categorises 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, which contributed to its revenue from operations aggregating to Rs.16,918.51million, Rs.9,616.33 million and Rs.450.41 million, respectively, during the six months period ended September 30, 2023.

The Company operates (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 the Company, (ii) Honda Cars India Limited ("Honda") through Subsidiary, VMPL, and (iii) Jaguar Land Rover India Limited ("JLR") through its Subsidiary, PAWL; (b) commercial vehicle dealerships of (i) Tata Motors Limited ("Tata Motors (Commercial)"), through its Subsidiary, PMMIL and (ii) Daimler India Commercial Vehicles Private Limited ("BharatBenz"), through its Subsidiary, PMPL; and (c) electric three-wheeler vehicle dealership of Piaggio Vehicles Private Limited, including commercial and cargo vehicles ("Piaggio"), through its Subsidiary, KGPL and electric two-wheeler vehicle dealership of Ather Energy Private Limited ("Ather"), through its 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, PVSL operated through its network of 61 showrooms, 133 sales outlets and booking offices, 32 pre-owned 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 its sales outlets and booking offices complement its sales through showrooms, its retail outlets facilitate sale and distribution of spare parts and accessories.

PVSL 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. It has also expanded its post-sale services and repair verticals in the last three Fiscals. Its revenue from servicing of passenger vehicles and commercial vehicles has seen a significant increase, from Rs.3,651.64 million and Rs.675.06 million in Fiscal 2021 to Rs.5,716.13 million and Rs.1,418.65 million in Fiscal 2023, respectively. In Fiscal 2023, the 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 it has also increased from 252 in Fiscal 2022 to 3,381 in Fiscal 2023.

PVSL's other business verticals are as follows:
Services and Repairs: Its services, repairs and maintenance under each of its dealerships include work undertaken during warranty period, outside warranty period paid by the customer, running repair and collision repair services.

Pre-Owned Vehicles: PVSL's deal in the exchange, acquisition and sale of pre-owned passenger vehicles across its vehicle dealerships.

Spare Parts and Accessories Distribution: The Company commenced spare parts and accessories distribution business in 2005, through its Subsidiary, PADL. As on December 31, 2023, its spare parts and accessories distribution business was operated through 69 touch points comprising of 2 multi-brand pre-owned vehicle retail outlet under the brand name 'Kartrenz', 43 retail outlets and 24 warehouses across Kerala and Karnataka. It has catered to 3,200 customers including active sellers, independent workshops, authorised service centres and vehicle dealers over the last 18 years.

Facilitating the Sale of Third-party Financial and Insurance Products: As part of bouquet of offerings, PVSL also facilitates the sale of various third-party finance and insurance products in relation to the vehicles sold by it, extended warranty and maintenance contracts, as well as replacement and aftermarket services for automobile products.

Driving Schools: It set up its first driving school in Ernakulam in the year 2006. Over the years, PVSL expanded its network of driving schools by setting up a total of 7 driving schools across Kerala.

With diversified automobile dealerships and a fully integrated business model, the Kuttukaran Group (the group of entities and business operated by PVSL's Promoters and their immediate relatives) has over 70 years of experience in the automobile industry. The experience and diversity of management team and Promoters and the long-standing presence of the Kuttukaran Group in the automobile industry have enabled PVSL to become valued partners of each of its OEMs giving a distinct competitive advantage in the industry in which PVSL operates and has also helped it expand its business considerably by making strategic acquisitions over the years.

Objects of Issue:

The Offer comprises the Fresh Issue and the Offer for Sale.

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. The Company will not receive any proceeds from the Offer for Sale by the Selling Shareholder and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.

Objects of the Fresh Issue
PVSL proposes to utilise the Net Proceeds towards funding the following objects:

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

In addition, the Company expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges which, will result in the enhancement of Company's brand name and creation of a public market for Equity Shares in India.

Utilisation of Net Proceeds

Sr No	Particulars	Amount (Rs in million)
1	Repayment and/or pre-payment, in full or part, of certain borrowings, availed by the Company and certain of its Subsidiaries, namely, PAWL, PMMIL, KGPL, KCPL and PMPL; and	1,920.00
2	General corporate purposes	*
3	Total	*

Competitive Strengths

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. The Company has 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. Its long-term association with its OEMs and its strong business capabilities has resulted in it becoming a valued partner of these OEMs. Further, PVSL has been able to form new dealership associations with commercial vehicle manufacturers such as BharatBenz. Its dealerships have consistently been validated by majority of OEMs by various awards and accreditations. Further, each of its brands, namely, "Popular", "Vision", and "Marqland" under which it operates its Maruti Suzuki, Honda and JLR dealerships, respectively, is widely recognised in South India by its customers. Kuttukaran Group obtained third rank at India's coveted ET auto top dealers list 2022 from the Economic Times.

Penetration in markets in which PVSL operates complemented by innovative marketing strategies: As of December 31, 2023, PVSL'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. It has a deep penetration in semi-urban and rural areas in the states it operates in, which is attributable to several innovative models adopted by it including the "hub and spoke" model in respect of Maruti Suzuki and Tata Motors (Commercial) dealerships in Kerala, wherein its showrooms serve as a "hub" to its sales outlets and booking offices located in small towns and rural areas under the showroom. PVSL'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 its showrooms.

As of December 31, 2023, as part of Maruti Suzuki dealership operations, PVSL had 432 field sales executives in semi-urban and rural areas in Kerala who conduct field campaigns in order to increase its penetration in such areas. It has also introduced innovative marketing strategies to improve customer engagement and increase footfalls at each of its showrooms, sales outlets and booking offices and service stations. The Company has dedicated online portals through which customers can browse through its offerings, make bookings and book test drives. It organises regular customer meets, print advertisements and online contests that adds to its brand recall. Its expansive network of touch points, coupled with innovative marketing strategies, has helped PVSL to expand its reach in the markets in which it operates and tap into underserved geographies.

Fully integrated business model leading to business stability and higher margin: PVSL'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 its business verticals, its diversified income streams also contribute to higher profitability margins at its dealerships. Further, it has 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 its growth. In Fiscal 2023, PVSL has 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.

The Company offers fully integrated services through its authorised service centres that contribute to higher-margin revenues at each of its dealerships and helps mitigate the cyclicality that has historically impacted some elements of the automobile sector. PVSL serviced 419,729 passenger vehicles and 103,116 commercial vehicles, through network of 127 authorised service centres during the six months period ended September 30, 2023. It serviced 22 vehicles, for each new vehicle sold by it during the six months period ended September 30, 2023**.** Its services and repair vertical at each of its dealerships comprise of work undertaken during warranty period, outside warranty period paid by the customer, running repair and collision repair services. Further, its service centres act as points of renewal for vehicle insurance policies from the second year onwards. Out of the total vehicles sold, 56.19% are brokered by it for finance and 88.07% are insured by insurance policies facilitated by it. As part of after sales services, during the six months period ended September 30, 2023, PVSL has facilitated the sale of 21,131 and renewal of 119,803 third-party insurance policies, aggregating to a gross premium of Rs.1,394.16 million and facilitated financial assistance aggregating Rs.10,790.47 million to its vehicle customers from its empanelled lenders. Sale of such extended finance and insurance products also helps increase its service and spare parts business by building a customer base for future repair work at its locations.

Proven ability to identify and capture inorganic as well as organic growth opportunities: As part of strategic plan to expand business into other territories and states, PVSL acquired the entire operations of a sizeable spare parts distributor in Karnataka, in Fiscal 2019, which helped it gain established business channels and a steady foothold in Karnataka. The business division acquired by it contributed to a total turnover of Rs.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. The Company took over eleven service centres and two showrooms from a dealer for Maruti Suzuki in Kerala in 2021. Further, as of July 31, 2023, it acquired 8 showrooms, 17 service centres and 3 sales outlets and booking offices for BharatBenz in Tamil Nadu and Maharashtra. Such strategic acquisitions were made considering the consequent

geographic and dealership addition to its business operations. Post such acquisitions, PVSL carries on the business under its own brand name. It has successfully been able to integrate the businesses acquired through such strategic acquisitions. It has also achieved organic growth by identifying underserved locations, including through consultation with OEMs, and by setting up new outlets in such areas. The Company has added 22 showrooms, 23 sales outlets and booking offices and 47 service stations across all its dealerships from Fiscal 2021 to Fiscal 2023.

Consistent track record of profitable financial performance and increasing growth: PVSL reported a total income of Rs. 28,482.08 million, Rs.48,926.28 million, Rs.34,841.99 million and Rs.29,192.52 million for the six months period ended September 30, 2023 and Fiscals 2023, 2022, and 2021, respectively. Its EBITDA was Rs. 1,459.09 million, Rs.2,348.46 million, Rs.1,786.63 million and Rs.1,748.53 million for the six months period ended September 30, 2023 and Fiscals 2023, 2022, and 2021, respectively. Its profit was Rs.400.44 million, Rs.640.74 million, Rs.336.69 million and Rs.324.55 million for the six months period ended September 30, 2023 and Fiscals 2023, 2022, and 2021, respectively. While its growth is driven by the growth of the OEMs, growth through addition of new OEMs like BharatBenz, Piaggio and Ather to its portfolio has benefited PVSL in recent years. Further expansion of business through increase in touchpoints across all the states in which it has presence and creating a presence in new states, like Maharashtra, has attributed to increase in the sales in new geographies. Its ability to consistently demonstrate growth in business has led to a consistent track record of profitable financial performance.

Experienced promoters and management team: The Kuttukaran Group (the group of entities and business operated by PVSL's Promoters and their immediate relatives) has over 70 years of experience in the automobile industry. The experience, and diversity of its management team and its Promoters and the long standing presence of the Kuttukaran Group in the automobile industry has enabled it to become valued partners of each of its OEMs giving it a distinct competitive advantage in the industry in which PVSL operates. Commencing with the establishment and operation of first showroom in Trivandrum in 1984 and the subsequent expansion of its network in South India, its management team has gained significant and unique experience in establishing and operating an expansive network of automobile dealerships.

Business 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: PVSL intends to sustain and increase the growth of its services and repair vertical through a combination of measures including increasing the number of authorised service centres, focussing on customer retention, raising awareness about preventive maintenance amongst customers, selling vehicle service contracts in conjunction with vehicle sales and efficient management of parts inventory. It intends to add incremental service bays and additional authorised service centres in the markets in which it operates in order to cater to additional customers and further enhance its higher-margin service and repair revenues. The Company also propose to leverage the linkages between its showrooms, sales outlets and booking offices and authorised service centres to retain customers of its new and pre-owned vehicles as continuing clients of its service departments. To accomplish this end, it uses database systems and analytics that track the vehicle owners' maintenance records and provide advance notice to them when their vehicles are due for periodic service. It continues to train its service personnel to establish relationships with their service clients to promote long-term business relationships.

Given PVSL's scale of operations, it ties up with various lenders and insurers to provide financing and insurance coverage for new vehicles as well as pre-owned vehicles sold at its showrooms and sales outlets and booking offices. As on December 31, 2023, it has empanelled 20 insurers and 13 financial institutions, the sale of whose products it facilitated at its dealerships. It intends to continue to engage with a wider range of lenders and insurers in order to provide its customers with varied options. In order to improve facilitation of sales of third-party financial products such as vehicle insurance policies and vehicle financing, it proposes to continue to focus on enhancing its salesperson training program and increasing product offerings.

Continue to increase sales at existing dealerships: Given that vehicle sales is a key driver for generating income under PVSL's other business verticals including its services and repairs business, it intends to capitalise on the expected growth in demand for automobiles (including electric vehicles) in India by increasing sales of its passenger vehicles, commercial vehicles and electric vehicles at each of its existing showrooms and sales outlets and booking offices through targeted marketing efforts/strategies, operational efficiencies, as well as capital investments designed to support its growth targets. It proposes to continue to focus on enhancing enquiry capabilities, and workshop conversions. Its marketing strategies are customised to the specific segment of customers which it intends to cater to. Given that a major thrust of the growth in the automobile retail sector is expected to come from the younger population, it intends to increase customer engagement in the digital space, by adopting a comprehensive marketing strategy that encompasses all avenues of customer engagement including websites, social media, video, mobile, email marketing, online advertising, search engine optimization, branding, and content.

Expansion of network and diversification of product portfolio: Domestic passenger vehicles sales are expected to increase by 6.00%-8.00% CAGR over Fiscal 2023 to Fiscal 2028. Further, pre-owned passenger vehicle segment is expected to grow at a CAGR of 12.00%-14.00% between Fiscal 2023 and Fiscal 2028 and reach 8.3-8.8 million vehicle sales by Fiscal 2028. Over mid to long-term, moderate macroeconomic growth, increasing disposable income, modest increase in the cost of vehicle acquisition are likely to drive demand for passenger vehicles. Other factors that would aid demand are increasing urbanization, government support to farm incomes.

PVSL intends to capitalise on the increasing demand for new and pre-owned passenger vehicles by adding new showrooms, sales outlets and booking offices and authorised service centres to its existing network of 30 showrooms, 84 sales outlets and booking offices, 29 pre-owned showrooms and outlets and 85 authorised service centres for passenger vehicles as of December 31, 2023 and partnering with well-known OEMs. Its expansion plans are evaluated on the basis of factors unique to that opportunity such as expected investment and financial returns, location, concentration of the same brands in the area and the catchment area served. Given its early-mover advantage in catering to the semi-urban and rural areas through significant network of sales outlets and booking offices, it is well placed to take advantage of the expected growth in this sector. It intends to continue to increase its penetration in these areas by the addition of newer showrooms and sales outlets and booking offices. Further, it intends to expand its Maruti Suzuki business in Karnataka starting with Bangalore. It also monitors trends in customer preferences and adapt to changing preferences by managing its inventory and diversifying its portfolio. It intends to continue to strategically diversify its portfolio, and will thus, continue to evaluate prospects of introducing additional brands to its existing portfolio to meet changing customer preferences.

Grow through strategic acquisitions: Attractive expansion opportunities exist for well-capitalized dealership groups with experience in identifying, acquiring and integrating dealerships. As of December 31, 2023, PVSL's network comprised of 30 showrooms and 84 sales outlets and booking offices for new passenger vehicles, 21 showrooms and 44 sales outlets and booking offices for commercial vehicles, 85 authorised service centres for passenger vehicles, 44 authorised service centres for commercial vehicles and 32 showrooms and sales outlets and booking offices for pre-owned passenger vehicles through which it seeks to offer an optimal mix of its products and services within its key markets. It generally seeks to acquire dealerships with high-growth automobile brands which may or may not be part of its existing portfolio in highly concentrated or growing demographic areas that will benefit from its management expertise, manufacturer relations and scale of operations, as well as smaller, single location dealerships that can be effectively integrated into its existing operations. It has made strategic acquisitions, considering the consequent geographic and dealership addition to its business operations and continue to look for opportunities for inorganic growth through strategic acquisitions and undertake the same for continued growth.

Invest in technology and increase digital presence: The internet is primarily influencing the choices of customers with respect to new and pre-owned vehicle purchase decisions. The internet is generating better-informed customers and improving the efficiency of the sales process. It intends on enhancing its digital and online presence, by investing in technology, to make it more user friendly and informative about the products and services offered by it, latest launches by OEM partners, discounts, features and related information etc. Using proprietary software, website, www.popularmaruti.com, and the websites of OEMS including, www.marutisuzuki.com, www.hondacarindia.com and www.tatamotors.com, PVSL intends to create awareness among the internet users about the various new and pre-owned vehicle models available in its inventory to be able to make subsequent purchases from it.

Industry:

Review and outlook on Indian PV domestic industry

Review of Indian PV domestic industry (fiscals 2018 to 2023)

Until liberalisation, there were only three major car manufacturers in India – Hindustan Motors, Premier and Maruti Udyog. However, post liberalisation, Maruti and Suzuki's partnership was the country's first Indian-foreign joint venture. Also, major international corporations such as Hyundai and Honda entered the country following gradual implementation of economic reforms. From 2000 to 2010, almost every major car company had established manufacturing facilities in the country.

Between fiscals 2018 and 2023, India's domestic PV sales rose at 3% CAGR. The growth was despite sales contracting at 6% CAGR during fiscals 2018 to 2021. From the low base of fiscal 2021, industry sales bounced back at a healthy pace to reach a historic high of 3.9 million vehicle sales in fiscal 2023.

Premiumisation within the industry

Traditionally, Indian vehicle buyers have been cost conscious, with mileage and vehicle cost the two main pillars of decision-making. Now, amid rising disposable incomes, higher global exposure, and growing awareness as well as expanding share of younger buyers, other parameters, such as driving experience, safety, features, brand, and aesthetics, are gaining importance in the overall decision-making process. In fact, a vehicle is being seen as an extension of customer's personality, especially by young buyers.

With this, there has been a perceptible shift in the customer buying behaviour, where customers are prioritising experience over costs and are willing to pay a premium as well as even accept a longer waiting time for the desired facets in their next vehicle.

Premiumisation is resulting in intersegmental as well as intra segmental shifts. Within the segments, customer preference for premium vehicles has been on the rise; e.g., premium hatchbacks such as Baleno and Altroz are seeing faster growth compared with basic hatchbacks, such as Alto and WagonR.

The intersegmental shift is more prominent in the UV space, which is seeing accelerated growth. The UV segment has grown at 17% CAGR in the past five years while non-premium/ mass segments such as small cars have contracted at 4% CAGR. Customers are even preferring UVs like Nexon, Brezza, Venue, Fronx over premium hatchbacks like Baleno, Altroz and i20. Premiumisation is also evident from OEM actions in form of launches, where most of the new launches in recent years have been in the UV segment. To be sure, even within the UV segment, the focus has been on the larger UVs, consisting of vehicles such as Grand Vitara, Creta, Seltos, etc.

Competitive landscape

Few players dominate the Indian PV landscape with Maruti/ MSIL leading the overall landscape. Hyundai is a distant second, closely followed by Tata Motors and Mahindra. These 4 players together contribute ~80% of the market.

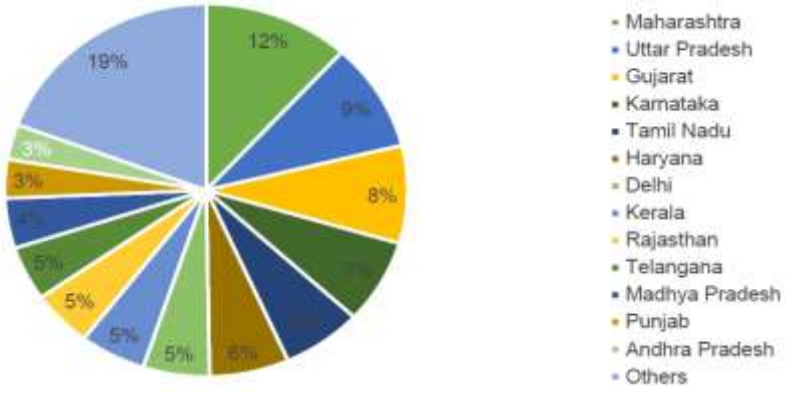
Share of Maruti has contracted from a high base of 50% in fiscal 2018 to 41% in fiscal 2023 due to the shift in customer preference from cars towards UVs and Maruti's focus on the cars segment. However, with the success of their recent launches like Grand Vitara, XL6, Fronx and continued traction for Ertiga & Brezza helped Maruti regain some lost ground during April-Nov FY24. The latest launch Invicto is providing an added kicker to the demand for Maruti.

State-wise split of domestic market

India's PV sales are concentrated in few major states. The top 5 states of Maharashtra, Uttar Pradesh, Gujarat, Karnataka, and Tamil Nadu cumulatively contribute more than 40% of national sales. While top 10 states make up for more than 70%.

In fiscal 2023, top 5 states contributed 43% to the overall domestic sales. In line with the overall domestic market, MSIL dominated sales in all these states.

State wise contribution to national sales Fiscal 2023



Review of and outlook on India's pre-owned PV market

Review of the pre-owned PV market

The pre-owned car market has come a long way in the past four decades. It logged 10% CAGR between fiscals 2018 and 2020, backed by changing buyer demographics and intermittent launches of feature-rich vehicles that have been shortening replacement cycles and aiding supply in the market. The availability of easy financing at competitive rates has also provided a fillip. Additionally, the emergence of digital platforms in this space and improved internet/smartphone penetration have ensured that buyers are presented with more options.

Organised segment expanding further

The pre-owned PV market used to be an unorganised space comprising only small brokers and sellers scattered across geographies. Buyers mostly bought pre-owned vehicles from their friends/relatives or nearby garages. Maruti was the first player to enter this segment with the launch ofMaruti True Value in 2001. It introduced organised segment practices such as warranty, financing and usage of genuine parts.

Many of the larger brick-and-mortar pre-owned car dealers with a focus on the digital medium are benefitting with consumer preference shifting from direct walk-ins to digital medium. These large dealers are offering higher convenience, more accessibility, and better options. The digital medium thus helps these dealers in expanding their customer base and acquiring customers. As of fiscal 2023, unorganised dealers accounted for less than half of the overall sales executed. However, 30% of the lead generation for unorganised dealers happened through digital platforms. Organised dealers contributed 28-30% while ~20% took place C2C. Sales through physical showrooms of digital platforms such as Spinny, and Cars24 is in a nascent stage and contributed to 2-4% of the overall sales.

Outlook of the Indian CV industry (between fiscals 2023 and 2028P)

Electric vehicles

Amid rising environmental concerns, electric vehicles (EVs) are gaining traction globally, including in India. The country is one of the signatories to the Paris Agreement under the United Nations Framework Convention on Climate Change. It is also part of the EV30@30 campaign, targeting a 30% sales share for EVs by 2030.

To accelerate EV adoption, the government has been incentivising consumers by extending support via FAME (Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles in India) subsidy as well as tax cuts. The government announced Rs 100 billion for Phase II of FAME, which commenced on April 1, 2019. The policy aims to provide a subsidy of Rs 10,000 per kWh to four-wheelers (battery EVs, plug-in hybrid EVs, strong hybrids) for commercial purposes and public transport. It envisions creation of infrastructure for charging of EVs. The subsidy for two-wheelers is Rs 15,000 per kWh, although the total subsidy was reduced from June 2023 by lowering the cap on maximum subsidy from 40% of vehicle ex showroom cost to 15%.

Furthermore, the government is taking measures to address one of the major concerns regarding EVs: range anxiety (fear of running out of charge in the middle of the journey) due to low availability of public charging infrastructure. To address this concern, and support an ecosystem to accelerate EV sales, the Ministry of Road Transport and Highways is setting up new EV charging stations as well as supporting the expansion of charging stations in homes and commercial centres. The government support, coupled with rising awareness about EVs, environmental concerns, as well as the expansion in EV infrastructure is driving electrification in India. The EV segment received a real thrust in the last two years backed by model launches at competitive rates, price hikes in ICE vehicles, elevated fuel costs as well as an improvement in infrastructure support.

Commercial vehicles

Within the commercial vehicle segment, significant electrification has happened in the bus sub-segment. However, EV penetration in the LCV and MHCV segments is still insignificant. Limited availability of EV options in these segments has restricted EV penetration.

New-age players lead electrification in bus segment

The EV bus industry in India is characterised by the presence of both legacy ICE vehicle players such as Tata Motors and Ashok Leyland (Switch Mobility) and relatively new players such as PMI, Olectra Greentech, and JBM. Other players such as EKA (a subsidiary of Pinnacle Industries) are making new strides in this space. During fiscal 2023, PMI and Olectra catered to more than half of the e-bus demand.

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.

Dealership scenario in India

In India, a typical dealer is associated with one or more manufacturers across vehicle segments: CVs, PVs, two-wheelers, three-wheelers, and tractors. While smaller dealers associate with one particular manufacturer of a single vehicle segment, larger dealers associate with multiple manufacturers across segments, diversifying their investments.

Dealers normally have three types of outlets: sales-service-spares (3S), only sales (1S), and only workshops. Most large dealers have multiple outlets or touchpoints with a few 3S outlets and many workshops/ service stations across the city. They also have a large sub-dealer network that works under the umbrella dealership and caters to smaller semi-urban/ rural areas nearby. A few dealers also have ARDs (authorised representatives of the dealer) that provide the minimal required services to customers in rural areas. ARDs are more prominent in the two-wheeler segment.

For PV dealers, the main dealer has a few 3S dealership outlets in major cities, complemented by a large number of workshops catering to service and maintenance demand. Moreover, PV dealers have an affiliated OEM franchised dealership for pre-owned vehicles, such as True Value, H-Promise, and U Trust.

CV dealers typically have their 3S dealerships outside the city, while the smaller, only sales outlets (especially for LCVs) are located within the city. They also have a large number of workshops on the major highways, providing service support. Separate affiliated pre-owned vehicle dealerships are not common in the CV segment.

Small dealers normally have 1-3 sales outlets and 2-4 workshops in one particular city or town. Large dealers have 10-15 outlets in multiple cities across 1-2 states, with 20-40 service outlets and a network of sub-dealers.

Larger dealerships offer significant advantages and better profitability to dealers in terms of economies of scale, better negotiation with manufacturers, increased workshop revenue, better insurance finance deals, and higher customer retention. These advantages have been discussed in detail in subsequent chapters.

Currently, there are only a handful of very large dealerships in India with more than 100 outlets and a presence across 4-5 states, compared with global dealership giants such as Penske Automotive (320 outlets across the US and the UK), AutoNation (over 340 outlets across the US) and Group 1 Automotive (~200 outlets across the US and UK). Indian dealerships are still in the development stages with significant room for expansion. A large size helps global dealerships expand their top line as well as bottom line, earning a few billion dollars in revenue and 8-20% in gross profits.

In CY2022, Autonation registered $26.9 billion (10.5% gross margin), Penske Automotive earned $22.3 billion in revenue (21% EBITDA), while Group 1 Automotive clocked $16.2 billion (17.2% gross margin).

These global dealerships also have a significant contribution (~30% by revenue, compared with 5-15% for their Indian counterparts) from their pre-owned vehicle business. In volume terms, for global dealerships, 50-55% of vehicles sold are pre-owned, compared with only 20-25% for Indian dealers.

The Indian pre-owned vehicle market (predominant in PVs) is still in a nascent stage, with significant room for growth. The pre-owned PV segment is covered in detail in a separate section.

Key Concerns

- 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.

- PVSL is subject to the significant influence of its OEMs. Its top two OEMs i.e., Maruti Suzuki and Tata Motors (commercial), account for more than 80% of the Company's consolidated revenue in the six months' period ended September 30, 2023 and each of Fiscal 2023, 2022 and 2021.

- Non-renewal, termination or any adverse material modifications made by OEMs to the dealership agreements, will have a material and adverse impact on the business prospects and results of operations.

- PVSL has not received the required approval from the Central Government for appointment of John K. Paul as a Whole-time Director of the Company. It cannot be assured that such approval will be received in a timely manner.

- PVSL has had negative cash flows in the past including negative cash flows from operating activities in the six months' period ended September 30, 2023, and it is possible that it may experience negative cash flows in the future which could adversely affect its cash flow requirements, its ability to operate business and implement growth plans, thereby affecting its financial performance.

- A large portion of business operations, which is approximately 96.91% the Company's consolidated revenue for the six months period ended September 30, 2023, are 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 business, results of operations and financial condition

- A large portion of business revenue, approximately 77.03%, is derived from dealership of Maruti, Tata Motors (Commercial) and Honda. Any adverse developments in the growth, demand or sales for these OEMs could have an adverse effect on the business, results of operations and financial condition.

- Increasing competition among automotive dealerships through online and offline marketing reduces the profit margins on vehicle sales and related businesses.

- Success depends on the value, perception, marketing and overall competitiveness of brand and its OEMs in India. Any damage to its or its OEMs' brands or failure to compete effectively in India could materially and adversely affect the business, results of operations and financial condition.

- PVSL may fail to successfully implement its growth strategy, which includes acquiring existing dealerships, diversifying portfolio and penetrating deeper into existing geographic locations which may adversely affect the financial condition and results of operations.

- Required to obtain certain licenses, regulatory permits and approvals for setting up dealership and undertake operation. Any delay or inability to obtain such approvals may have an adverse impact on the business.

- PVSL has certain unresolved customer complaints which may result in future litigation against the Company

- Vehicle sales are impacted by the incentive, marketing, and other programs of the OEMs. Further, any adverse impact on its sales directly impacts profit margins and adversely affects financial conditions and results of operations.

- Margins earned from services and repair vertical and spare parts and accessories distribution vertical may be impacted by pricing guidelines set by its OEMs which may adversely affect the financial condition and results of operations.

- PVSL's operations are subject to various governmental laws and regulations and certain state specific notifications and guidelines. If it is found to be in violation of or subject to liabilities under any of these laws or regulations, or if new laws or regulations are enacted that adversely affect its operations, business, operating results, and prospects could suffer.

- Highly dependent on Key Managerial Personnel and Senior Management Personnel for business. The loss of or inability to attract or retain such persons could have a material adverse effect on the business performance.

- Success depends upon ability to attract, develop and retain trained manpower while also maintaining low labour costs.

- PVSL may be subject to labour unrest, slowdowns and increased wage costs. Increase in any such cost could impact its profitability which may adversely affect the business and results of operations.

- Inability or failure to maintain optimum inventory levels or any theft of inventory may adversely affect the business, results of operations and financial condition.

- PVSL may be required to make significant capital investments to its existing showrooms, sales outlets, service centers and other premises, the cost of which it may be unable to recoup. Further, it may be required to make significant capital investment to maintain the quality of post sales service and spare parts availability.

- PVSL uses certain brands which are not registered trademarks, or specifically licensed to it. Any subsequent registration of this brand as a registered trademark by a third party would adversely affect its operations.
- Accidents and natural disasters could result in the slowdown or stoppage of business and could also cause it to incur liabilities arising from human fatalities and damage to property.
- Passenger vehicles and commercial vehicles sale is subject to seasonality, which may contribute to fluctuations in its results of operations and financial condition.
- Any termination of existing dealership or closure of its showrooms, retail outlets and service centres, may have an adverse impact on its revenue and result of operations.
- Rely on independent contractors and third party customer service providers to execute ancillary services and any failure on their part to perform their obligations could adversely affect its reputation, business, results of operations and cash flows.
- PVSL has availed unsecured loans from banks and other financial institutions, which may be recalled on demand thereby impacting its liquidity, and financial position.
- Business is capital intensive. Difficult conditions in the global as well as Indian capital markets and economy generally may cause it to experience limited availability of funds, which may adversely affect the business and results of operations. It cannot be assured that it will be able to raise sufficient financing on acceptable terms, or at all.
- Downgrade in credit ratings could materially adversely affect the business and financial condition and ability to raise capital in the future.
- COVID-19 pandemic has affected business, financial condition and results of operations in the past, PVSL cannot assure the extent to which COVID-19 or any other future calamities which are uncertain and cannot be predicted, will have a material and adverse impact on the business, financial condition and results of operations.
- Promoters will continue to hold a significant equity stake in the Company after the Offer and their interests may differ from those of the other shareholders.
- Any downturn in the macroeconomic environment in India and globally would adversely affect its business, financial condition, results of operations and cash flows.
- Regulation of greenhouse gas emissions and climate change issues may adversely affect the operations.
- If inflation rises in India, increased costs may result in a decline in profits.
- Business is substantially affected by prevailing economic, political and other conditions.
- Financial instability in Indian financial markets could adversely affect the results of operations and financial condition.
- Fluctuations in the exchange rate between the Rupee and other currencies could have an adverse effect on the value of the Equity Shares in those currencies, independent of results of operations.

Profit & Loss

Particulars (Rs in million)	H1FY24	FY23	FY22	FY21
Revenue from operations	28350.0	48750.0	34658.8	28935.3
Other Income	132.1	176.3	183.2	257.3
Total Income	**28482.1**	**48926.3**	**34842.0**	**29192.5**
Total Expenditure	**27039.0**	**46577.8**	**33055.4**	**27444.0**
Purchases of stock-in-trade	26412.7	41751.5	29671.2	24573.8
Changes in inventories of Stock-in-trade	-2396.8	-325.5	-503.6	-243.6
Impairment loss on financial assets and contract assets	1.1	30.5	9.4	24.8
Employee Benefits Expenses	1858.8	3082.1	2420.1	2035.1
Other Expenses	1163.2	2039.2	1458.1	1053.9

PBIDT	**1443.0**	**2348.5**	**1786.6**	**1748.5**
Interest	476.1	705.3	608.6	551.1
PBDT	**966.9**	**1643.1**	**1178.0**	**1197.4**
Depreciation and amortization	444.2	794.5	692.6	724.9
Exceptional Item	16.1	0.0	0.0	0.0
PBT	**538.8**	**848.7**	**485.5**	**472.5**
Tax (incl. DT & FBT)	**138.3**	**207.9**	**148.8**	**148.0**
Current tax	151.3	240.1	129.4	99.9
Deferred tax Credit	-12.9	-32.2	19.4	48.1
PAT	**400.4**	**640.7**	**336.7**	**324.5**
EPS (Rs.)	6.4	10.2	5.4	5.2
Face Value	2	2	2	2
OPM (%)	4.6	4.5	4.6	5.2
PATM (%)	1.4	1.3	1.0	1.1

Balance Sheet

Particulars (Rs in million) As at	H1FY24	FY23	FY22	FY21
Non-current assets				
Property, plant and equipment	3,094.3	2,935.4	2,464.1	2,244.2
Capital work-in-progress	19.6	77.3	123.3	173.1
Right of use assets	3,807.9	3,479.9	3,129.9	2,329.5
Other intangible assets	159.4	182.3	39.1	49.9
Intangibles under development	5.6	2.4	0.0	0.0
Goodwill	115.5	115.5	11.8	11.8
Financial assets				
Investments	79.4	57.7	44.3	49.2
Other financial assets	396.02	379.17	329.4	277.6
Deferred tax assets (net)	171.6	161.2	157.7	177.8
Other tax assets (net)	79.9	97.6	85.5	67.7
Other non-current assets	301.6	193.3	176.9	143.2
Total non-current assets	**8,230.7**	**7,681.6**	**6,561.9**	**5,524.0**
Current assets				
Inventories	6,746.3	4,349.5	3,620.4	3,116.8
Financial assets				
Investments	4.4	2.2	15.9	0.0
Trade receivables	2,996.5	2,237.8	1,766.0	1,607.3
Cash and cash equivalents	302.2	238.3	184.0	555.1
Bank balances other than cash and cash equivalents	45.0	43.4	19.6	38.9
Other financial assets	53.6	44.7	58.9	46.4
Other current assets	1,039.1	424.9	390.9	285.5
Total current assets	**11,187.1**	**7,340.8**	**6,055.6**	**5,650.0**
Assets classified as held for sale	0.0	15.4	15.4	15.4
Total assets	**19,417.8**	**15,037.8**	**12,632.9**	**11,189.4**
EQUITY & LIABILITIES				
Equity				
Equity share capital	125.4	125.4	125.4	125.4
Other equity	3,716.7	3,305.0	2,673.4	2,334.6
Total equity	**3,842.1**	**3,430.4**	**2,798.9**	**2,460.0**
Liabilities				
Non-current Liabilities				
Financial Liabilities				
Borrowings	803.7	911.3	880.6	893.3
Lease liabilities	4,407.8	3,998.0	3,570.1	2,665.1
Provisions	60.8	59.4	62.8	48.2
Deferred tax liabilities (net)	1.3	0.0	0.0	0.0
Non-current tax liabilities (net)	0.0	2.5	1.1	2.1
Other non-current liabilities	0.0	0.0	97.1	204.5
Total non-current liabilities	**5,273.5**	**4,971.2**	**4,611.6**	**3,813.1**
Current liabilities				
Financial liabilities				

Borrowings	6,842.5	4,138.7	2,838.6	2,637.1
Lease liabilities	345.1	335.4	269.9	304.4
Trade payables				
total outstanding dues of micro enterprises and small enterprises	32.7	45.8	27.7	1.9
total outstanding dues of creditors other than micro enterprise and small enterprise	1,677.2	861.9	840.6	661.5
Other financial liabilities	223.5	228.0	164.2	156.9
Other current liabilities	1,134.4	981.3	1,054.3	1,114.8
Provisions	28.8	32.7	27.1	36.5
Current tax liabilities (net)	18.0	12.3	0.0	3.2
Total current liabilities	**10,302.1**	**6,636.1**	**5,222.4**	**4,916.2**
Total liabilities	**15,575.7**	**11,607.4**	**9,834.0**	**8,729.3**
Total equity and liabilities	**19,417.8**	**15,037.8**	**12,632.9**	**11,189.4**

Source: RHP

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