

Rating: Subscribe

Issue Offer

Fresh Issue of 8,474,576 equity shares up to INR 2.5 Bn and OFS of 11,917,075 equity shares up to INR 3.5 Bn, taking the total issue size at INR 6.0 Bn.

Issue Summary

Price Band (INR)	280-295
Face Value (INR)	2
Implied Market Cap (INR Mn)	21,003
Market Lot	50
Issue Opens on	March 12, 2024
Issue Close on	March 14, 2024
No. of share pre-issue	62,721,445
No. of share post issue	71,196,021
Listing	NSE, BSE

Issue Break-up (%)

QIB Portion	≤50%
NII (HNI) Portion	≥15%
Retail Portion	≥35%

Book Running Lead Managers

ICICI Securities Ltd.

Nuvama Wealth Management Ltd.

Centrum Capital Ltd.

Registrar

KFin Technologies Limited

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	65.79%	-
Public & Others	34.21%	-

Objects of the issue

- Repayment and/or pre-payment, in full or part, of borrowings by the company and its subsidiaries
- General corporate purposes

Abhishek Jain

abhishek.jain@arihantcapital.com

022-422548871

Popular Vehicles and Services Ltd. offers comprehensive services including sales of new vehicles, maintenance and repair, distribution of spare parts and accessories, as well as facilitating the sale and exchange of pre-owned vehicles. They operate driving schools and assist in the sale of third-party financial and insurance products. They operate in three main segments: passenger vehicles, commercial vehicles, and electric two-wheeler and three-wheeler vehicles. Their network includes 30 showrooms and 84 sales outlets for new passenger vehicles, 21 showrooms and 44 sales outlets for commercial vehicles, 85 authorized service centers for passenger vehicles, 44 authorized service centers for commercial vehicles, and 10 dedicated showrooms plus 22 sales outlets and booking offices for pre-owned passenger vehicles.

Investment Rationale

Expanding dealership network and industry partnerships: Popular Vehicles and Services Ltd. launched its first Maruti Suzuki showroom in Trivandrum, Kerala, in 1984 and has since expanded its network to include a range of vehicles from economy to luxury by partnering with Honda and JLR in 2008 and 2010, and with Ather and Piaggio in 2021. The company ventured into the commercial vehicle sector in 1997 through a partnership with Tata Motors and diversified into spare parts and accessories distribution in 2005. The company has established new dealership partnerships with commercial vehicle manufacturers, including BharatBenz. Its long-term relationships with OEMs and strong business practices have made it a valued partner in the industry.

Business expansion and organic growth achievements: The company strategically expanded its business through acquisitions, acquiring a spare parts distributor in Karnataka and Maruti Suzuki dealer assets in Kerala. Additionally, it acquired showrooms, service centers, and sales outlets for BharatBenz in Tamil Nadu and Maharashtra. These moves bolstered its geographic reach and dealership network, all operated under its brand. Furthermore, it achieved organic growth by identifying underserved areas and establishing new outlets; it added 22 showrooms, 23 sales outlets and booking offices, and 47 service stations across all its dealerships from FY21 to FY23.

Strategic growth plans for service and repair division: The company plans to grow its services and repair vertical by expanding authorized service centers, focusing on customer retention, promoting preventive maintenance, offering service contracts, and efficiently managing parts inventory. It aims to add more service bays and centers to cater to additional customers, leveraging connections between showrooms, sales outlets, and service centers for customer retention. Utilizing database systems and analytics, it tracks maintenance records and provides advance service reminders. Ongoing training programs for service personnel aim to foster lasting client relationships.

Seizing opportunities in India's growing automobile market: The company aims to capitalize on India's growing automobile market, including electric vehicles, by boosting sales across existing outlets through targeted marketing, operational efficiencies, and strategic investments. It plans to leverage traditional, digital, and social media channels to increase awareness and foot traffic. Special emphasis will be on engaging younger demographics through comprehensive digital marketing initiatives, including digital brochures.

Outlook and Valuation

Future expansion plans include increasing touchpoints in existing states and establishing presence in new states like Maharashtra. Growth in premium passenger vehicle category, particularly through Nexa sales, is expected to continue. Additionally, increased demand for electric vehicles and expansion in electric two-wheeler and three-wheeler segments are projected to fuel business growth. At the upper band of INR 295, the issue is valued at an EV/EBITDA of 10.97x based on FY23 EBITDA of INR 2,348.46 Mn and P/E of 28.86x based on FY23 EPS of INR 10.22 . We are recommending "Subscribe" for this issue.

Key Financials

Particular (INR Mn)	FY21	FY22	FY23
Revenue	28,935.25	34,658.79	48,750.02
Gross Profit	4,604.97	5,491.10	7,324.03
<i>Gross Profit Margin</i>	<i>15.91%</i>	<i>15.84%</i>	<i>15.02%</i>
EBITDA	1,748.53	1,786.63	2,348.46
<i>EBITDA Margin</i>	<i>6.04%</i>	<i>5.15%</i>	<i>4.82%</i>
PAT	324.55	336.69	640.74
<i>PAT Margin</i>	<i>1.11%</i>	<i>0.97%</i>	<i>1.31%</i>
EPS	5.17	5.37	10.22
<i>RoE</i>	<i>13.19%</i>	<i>12.03%</i>	<i>18.68%</i>
<i>RoCE</i>	<i>17.09%</i>	<i>16.79%</i>	<i>18.32%</i>
Net Debt / EBITDA	1.68	1.97	2.03
Debt to Equity	1.44	1.33	1.47
Net Worth	2,460.02	2,798.86	3,430.44
Total Assets	11,189.36	12,632.88	15,037.80

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared 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. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880