



November 16, 2023

To, The Secretary, BSE Limited, P. J. Towers, Dalal Street, Mumbai- 400 001 Scrip Code – 543714	To, The Secretary, National Stock Exchange of India Limited Exchange Plaza, C-1, Block- G, Bandra Kurla Complex, Bandra(E) Mumbai – 400 051 Symbol – LANDMARK
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Dear Sir/Madam,

Subject: Transcript of Earnings Call with Analysts/Institutional Investors/Funds pursuant to regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI LODR Regulations”)

Ref: Intimation of earnings conference call vide letter dated November 02, 2023

This is further to our letter dated November 02, 2023, wherein we had given advance intimation of the earnings conference call scheduled to be held on Thursday, November 09, 2023, with several Analysts/Institutional Investors/Funds with respect to discussion on the Un-audited Financial Results (Standalone and Consolidated) for the Quarter and Half-year ended September 30, 2023.

In compliance with the SEBI LODR Regulations, please find attached the transcript of the earnings conference call held on Thursday, November 09, 2023.

We hereby further inform you that the aforesaid transcript is available on the Company’s website at: <https://www.grouplandmark.in/investor-relation.html>

You are requested to take same on the records.

For Landmark Cars Limited

Mr. Amol Arvind Raje
Company Secretary and Compliance Officer
(A19459)

Place: Mumbai

Encl: Transcript of Q2&H1 FY24 Earnings Conference Call.

Landmark Cars Limited.
(formerly known as Landmark Cars Private Limited)
CIN : U50100GJ2006PLC058553 | GSTIN : 24AABCL1862B1Z2

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“Landmark Cars Limited Q2 FY24 Earnings Conference Call”

November 09, 2023

Disclaimer: E&OE. This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on November 9th, 2023, will prevail



**MANAGEMENT: MR. SANJAY THAKKER - PROMOTER AND EXECUTIVE
CHAIRMAN, LANDMARK CARS LIMITED
MR. ARYAMAN THAKKER – EXECUTIVE DIRECTOR,
LANDMARK CARS LIMITED
MR. SURENDRA AGARWAL – CFO, LANDMARK CARS
LIMITED**

MODERATOR: MR. RAHUL DANI – MONARCH NETWORK CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to Landmark Cars Limited Q2 FY24 Earnings Conference Call hosted by Monarch Network Capital.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Dani from Monarch Network Capital. Thank you and over to you, Mr. Dani.

Rahul Dani: Thank you, Neerav. Good morning to everyone. On behalf of Monarch Network Capital, we are delighted to host the Senior Management of Landmark Cars with us.

We have with us Mr. Sanjay Thakker - Promoter and Executive Chairman, Mr. Aryaman Thakker – Executive Director and Mr. Surendra Agarwal – CFO.

I would like to hand the call to Mr. Sanjay sir for his opening remarks and then we move to Q&A. Thank you and over to you, sir.

Sanjay Thakker: Thanks, Rahul. Thanks, the Monarch team for hosting this call.

We are in midst of transformation in India. Such transformation comes maybe once in one's lifetime. There is a consensus among the world that it is India's time now. The same sentiment is shared by the Indian customers who are finally loosening their purse strings and spending. We operate in a segment where sentiments play a very big role. Thankfully, the customer sentiment is holding strong when the situation globally turns cautious. I was in Munich recently for a global Mercedes conference and I can tell you that India was the star of that show. The overall Indian auto industry grew at 5% year-on-year in the second quarter. This is in line with most estimates as we are coming from a very high base now. As I had guided in the last call, our partner OEs have started participating in this growth and we are covering up for the shortfall of the first quarter. The sales numbers for Honda, BYD, Jeep as well as Mercedes-Benz are increasing based on the new launches and better supplies. Though, I should add that the demand for Mercedes SUVs and top-end cars is still far in excess of the supplies and we have many months of waiting period here.

Let's see what were the highlights of the last quarter:

In the last quarter, we partnered with two fastest growing brands in India, MG Motors and Mahindra & Mahindra. The operations of MG Motors in Indore and Bhopal started in the month of August and is already profitable from the first month of operations. The Goa operations of MG will soon start. We are looking at starting it maybe end of this month as quickly as that. Our Mahindra operations in Howrah and the outskirts of Kolkata will start

from the next quarter. We have been focusing on increasing our revenue per transaction that we do. May it be sale of vehicles or servicing them. I am happy to share that this razor sharp focus is showing excellent results. The average selling price of cars that we sell has increased 15% over last year to over 20 lakhs and the average service revenue has increased again by 15% to cross Rs. 26,000. The EBITDA for after sales has jumped 30% year-on-year due to this. You will also notice that the profitability has grown at 20% for after sales for the half year period.

We had spoken about building a unique pre-owned car business model and the third pillar of our profitability. I am again happy to share that we have made very good progress in this. We are well on our way to surpass our Rs. 100 crores revenue guidance for the year. One should remember that we are buying and selling only our brand of cars and the business is profitable. We are aiming to double this business in the next year. We have a strong pipeline of opportunities, both organic and inorganic, that we are exploring vigorously, many of them in quite advanced stages of discussion.

In our business, we shall see some lumpy growth based on new car launches, availability and success of the new cars that are launched. The after sales business is a predictable annuity type of a growing business. And the POC business, the pre-owned car business, which is a sunrise business for us. The combination of all these three makes us confident about our future. I am reminded about the words of William Wordsworth who said, "bliss it was in that dawn to be alive, but to be young was very heaven." Thank you. I now hand over to Surendra to talk about some numbers of last quarter and the last half.

Surendra Agarwal:

Thank you, Sanjay bhai. A very good morning to everyone and warm welcome to one and all attending the earning call.

I would like to start by some operational metrics before getting into the financial number:

We continue to be the highest contributor in terms of volume for multiple OEMs and this translates into the meaningful number for all of our OEM partners. In the half year gone by, we have serviced 1,58,000 plus cars and sold 307 used cars under our new model of the used car trading. In the cars sold, we saw an ASP increase, average selling price increase of 19% rising from 16,56,000 in H1 FY23 to 19,65,000 in H1 FY24. Similarly, in the service, ASP also increased by 12% rising from 22,500 in H1 '23 to 25,218 in H1 24.

In the last quarter, our new car proforma sale was around Rs. 866 crores across all our OEM partners and after sale revenue was Rs. 211 crore. As highlighted, this is extremely predictable business with repeat customer and once we hit the tipping point in certain OEMs, we are on the course to see tremendous growth. The average selling price of cars sold in the quarter has gone up from Rs. 17,50,000 in the quarter Q2 FY23 to Rs. 20,18,000 in Q2 FY24 showcasing a growth of 15% year-on-year. So, our average selling price of car is continuously growing. This rise in ASP on the back of higher sale of top end variants being sold and shifting trend towards premium and luxury cars due to higher disposable income.

Coming to the financial numbers:

Our total pro forma revenue for the quarter stands at Rs. 1,120 crores as compared to Rs. 1,148 crores in the same quarter of the previous year. This symbolizes a marginal degrowth of 2.4% year-on-year. Sequentially the previous quarter proforma revenue was Rs. 934 crores. This accounts for a growth of 20% quarter-on-quarter. We have made up a lot of lost ground in the quarter. We look into the half-yearly number. Total proforma revenue for H1 is at Rs. 2,054 crore as compared to Rs. 2,179 crore H1 of the previous year.

Let's talk about the profitability now:

The gross profit for the quarter is Rs. 162 crore with a 14.5% margin on proforma revenue as against the gross profit of Rs. 152 crore in Q2 FY23, a 6.5% higher than last year. This year EBITDA stood at Rs. 57.1 crore for the quarter versus Rs. 63.6 crore in the same quarter of last year. EBITDA margin clocked in Q2 FY24 being 5.1% while the same in quarter 2 FY23 was 5.5%. Similarly, PAT stood at Rs. 20.5 crore with a 1.8% margin. There is a 21.6% year-on-year growth in PAT, over Rs. 16.9 crore in the same quarter last year.

Now for the corresponding figure for the half year period:

Our gross profit for H1 FY24 was Rs. 305 crore as against Rs. 292 crore in H1 FY23. EBITDA for H1 FY24 stood at Rs. 104 crore and the corresponding figure of H1 FY23 was Rs. 116 crore. Profit after tax of half year stood at Rs. 27.8 crore versus Rs. 35 crore last year for the same period. Cash PAT for the semi-annual period is Rs. 52.6 crore as against Rs. 54.95 crore in the same period last year. This is clear evidence of our streamline operation and efficient cash management. We are aware that our inventory has gone up as on 30th September. This is due to the starting of MG operation, POC business, festive season built up. We have already seen downwards in the inventory and hope to get to normalization inventory in the current quarter.

With this, I would like to hand over the call to moderator to open up floor for questions.

Moderator: Thank you very much. We'll now begin the question and answer session. The first question is from the line of Deepak Lalwani from Unifi Capital. Please go ahead.

Deepak Lalwani: Sir, I just wanted to understand, the volumes in our after-sales business, it's flat on a half yearly basis and in fact it's down in this quarter. So, just wanted to understand what is happening here?

Sanjay Thakker: Yes, sure. So, there are two, three answers to this. And the answer in all is a combination of two, three factors that we will see. During the last year, we had our Renault operations, which we have shut in this current year. So, the number of cars, the small cars that we were servicing, some of them, has gone away. So, that is one thing. The second thing is that the aftersales business also has a kind of a seasonality factor around it and the reason for that is that the cars that you sell in say good months like say a March or a Diwali come for a one

year service exactly after that or a 6-month service is kind of timed that way. So, we believe that the numbers will increase in the second half of the year. That is what we believe will happen. The other thing is that we have a focus, we are focusing on getting more revenue from the services that we impart. We have taken the car care product agencies, we are focusing on our own white branded stuff, accessories and all that. So, this is all playing out very well. So, once the volumes kick in, you will see a double impact of this going ahead.

Deepak Lalwani: But sir the ASP increases that we have seen in both the vehicle sales and the aftersales businesses should stay at these rates, right? Is there any risk to these numbers coming down.

Sanjay Thakker: Not meaningfully, it should kind of stay where we are.

Deepak Lalwani: If you can just explain what is driving these higher ASPs? Have you taken increases in our services or?

Sanjay Thakker: So, you are asking for the sales part or aftersales part?

Deepak Lalwani: Both sir, both.

Sanjay Thakker: So, as far as the sales is concerned, the vehicle prices that we are selling has been continued. The mix is changing. Within Mercedes-Benz, as you know, the top end vehicles are selling more. The prices of vehicles keep on going up. And again, I believe from January, there will be a kind of a uniform price increase. This is what all the Indian manufacturers do. So, I think come 1st January you will see a higher selling price of I think 100 out of 100 products that will be there in the market where this will play out. Our product mix is also as you see we have kind of gone away from the smaller cars and are selling the more expensive cars. Honda Elevate which is again a meaningful number for us. The average selling price is higher than the Jazz and the WR-V which went out of the consideration right now. The same is playing out that way and as far as the aftersales is concerned, I think I answered the question by saying that we have white labeled our own products, be it be annual maintenance contracts, extended warranty, our own kind of accessories which are there plus the car care product agencies that we have done. So, there is a combination of lot of effort that goes into our ecosystem. In fact, maybe if we are having an Investors Day, which we are planning to have in the next quarter, we will showcase to you the technology that we have built, the apps that we have built to kind of do it. It's a little difficult to explain on the call, but once you will see it, you will feel happy about what Landmark has built.

Deepak Lalwani: Sir, just wanted to understand as a company, do we have a thumb rule on that the debt that we want to maintain the working capital debt and the inventory in our books that we want to maintain on an absolute number or in terms of number of days. So, is there any thumb rule on these two numbers?

Sanjay Thakker: Yes, I wish I would say that we have it. It's a little dynamic Deepak, this whole business and as Surendra explained in his thing, we are aware that our debt and the inventory has built up.

Now that has built up for some 3-4 things, which comes one is the seasonality factor. So, we came out of the Shraddh period in September and the festive season started only in October. So, there was an inventory buildup, new car launches like an Elevate, for example, the pre-owned cars that we saw started the business which wasn't there last year, but we are very mindful, and we don't want to have more inventory and there will be a big focus on reducing this inventory and you will see some good results by December. We are already on our way of doing it. The industry works on a possibly one month or thereabouts of new car stocks. What we are reporting is also including our demo cars, which we could kind of separately show from next quarter just to kind of show this kind of a bifurcation.

Deepak Lalwani:

And sir if you can just give us a sense on how the BYD sales are scaling up, is there any clearance of the homologation that BYD has gotten it and also the supply challenges in Mercedes, has that eased down significantly or that will take some time to come in?

Sanjay Thakker:

I was in Munich and good you asked about BYD. The thing is that now it is clear, globally it is clear that there are two like elephants in the room as far as the electric cars are concerned. One is a Tesla and the other is BYD. They are clearly the front-runners in taking the pole position. And we are happy that we have kind of partnered with BYD and are their largest partners in India. It is a difficult thing to predict as to when the homologation happens, we have been told that it will happen like as soon as this quarter. The good news is that their consignments which were not coming are already coming and we are seeing the sale happening as it was happening earlier. This has started from the month of August if I am not mistaken and the sale of the Atto 3 as well as the E6 is going on pretty well within that 2,500 unit thing. The BYD Seal which is a fantastic product will be as of now from the information we have will be coming to us by January and the bookings of that will also start around that time. So, BYD timing is a little difficult to say, it can happen anytime but hasn't happened so far. As far as the Mercedes-Benz is concerned, the supplies have started, the GLE has got launched only some one week, 10 days back. The supplies are there, but what I can say is that the demand is far in excess of the supply. So, we could have done better than what we are doing. And I'm hoping that the company follows a January to December kind of a year, so we'll go and meet them in the first week of December for the next year's numbers. For them next year, for us the last quarter. And I'm hoping that the numbers will again show a good growth over this year.

Moderator:

Thank you. Next question is from the line of Abhisar Jain from Monarch. Please, go ahead.

Abhisar Jain:

Sir, just wanted to know in the aftersales business, we have this segmentation into four different parts, and I just wanted to know that what percentage of the aftersales business will be from only collision and repair services approximate?

Sanjay Thakker:

Yes, so actually we are getting some learning as this is only our second, third earning call and every time we are wanting to improve on our disclosures, our presentation, the granularity of the business that we do and I'm hoping that by next quarter and the quarter after that you will see more meaningful dissection of the data. The dissection of the data will also include

the high ROCE that the aftersales business does. So, what is the capital employed over there? What is the CAGR? We will disclose that. As far as the accident repair is concerned, currently it is at around 45% of our service, the aftersales revenue is coming from collision repairs. There has been a big focus on increasing this business. We have kind of gotten into a lot of innovative stuff built on tech and some innovative products. Again, we'll be happy to showcase when we have our investor day and we will be reporting more granular data going ahead.

Abhisar Jain: Sure, sir, understood. And sir, in fact, I wanted to also take an idea on the approximate capital employed, which you just mentioned that you may start disclosing it, but just considering that almost like 45% of our outlets are in the repair and the workshop mode, would it be kind of safe to assume that the capital employed also would be in that proportion or it will be higher in aftersales per se of the total capital employed that we have?

Sanjay Thakker: See, it's a difficult question to answer broadly. What we had done while we were, like a few months back, where we were doing a unit economic study, what we had figured out is that the ROCE on a very ballpark number, but let the exact numbers come. I don't want to stick my neck out but was in the region of around 50% upwards. So, once I give you that, you will have a better sense. And we'll try to do it very quickly.

Abhisar Jain: Sure, sir, understood. Okay, and so the next question was on the pre-owned car business. By the way, congratulations on a great scale up there that we see in the H1 of this year. What I can see sir from the PPT is that we have sold around 300 odd cars with a GMV of around Rs. 45 crores. So, this is for the H1, right? And this you are not accounting in the new car sales or is it like accounted there and then you are calling it out separately here?

Sanjay Thakker: We are calling it out separately.

Abhisar Jain: So, is it included sir in the new car sales already?

Surendra Agarwal: Yes, it's included and we are putting a separate number in the presentation as well.

Abhisar Jain: Okay, so as of now 300 cars that we have done is for the H1 right?

Surendra Agarwal: So, 300 car what we mentioned is our new model where we are buying and selling the pre-owned car that is the thing we also do back to back that's where we get the commission. Those numbers are separate.

Abhisar Jain: Understood. So, just to take an idea, since you mentioned that this business on its own also is profitable, though of course it might not be at the right profitability level because of the scale. How do we see it going ahead? Because this business has been there with us for quite some time, but now we are seeing the scale up, we are looking excited about it. We have done some interventions as you mentioned in the earlier calls also. So, how should we think about this business, sir, over a 3–5-year perspective, given how the industry size is 1.5x

in pre-owned, versus the base size of the industry? So, if you could give me some idea, that would be great.

Aryaman Thakker: This is Aryaman here. So, this unique business model has been in force at Landmark only this financial year onwards, where we had taken a target of Rs. 100 crores of revenue to be achieved. And we are, I think, well on our way to surpass that number in this financial year. The model, just to recap for people on this call, is where we are only focusing on the buying and selling of used vehicles which are of the brands that are represented by Landmark. Also, we are not investing in additional manpower or other fixed costs like showroom facilities. We are using our existing facilities and manpower to do the sale and purchase of these used vehicles of our own brands. Currently, we are at approximately 4% of a margin on these used vehicles that we are seeing. As Sanjay bhai said, we are looking at doubling our used car revenue next year, while following a similar model that we are doing right now and we are seeing good traction so far. We are confident that this is what we will do. And once we have received a larger scale, then we will press the pedal on increasing our margins as well.

Sanjay Thakker: And just to kind of say that this margin is kind of a net margin that we get. For most people, when they talk about a higher margin of 7%-8%, they need to take out the cost of manpower, infrastructure cost as well as the customer acquisition cost. For us, the customer acquisition cost is also zero and every other cost is practically negligible. So, that's the differentiator in our business model. So, we should surprise everybody on the upside. We are kind of saying that it will double next year, but it should go bigger than that.

Abhisar Jain: Understood sir. And sir just the last bit in the PPT, we have also mentioned that we do have visibility on a strong pipeline for both organic and inorganic expansion. While organic, I understand because you have had the new tie-ups with the MG and M&M, which can see traction, in my view. But on the inorganic side, I would like to get a little bit more clarity of what kind of opportunities or the size of outlets, either by number or by absolute acquisition cost that you are looking for to do in the next 6 to 12 months?

Sanjay Thakker: So, what has happened is that we follow a mix of both of these and sometimes with the same OEs, the acquisition also kind of comes in. So, the Indore and Bhopal was a new one. It started off as an inorganic thing. The Goa MG also happened by way of an inorganic thing where we took over the assets and the locations of the existing dealer partner. So, this can happen like that. What I can say is that we are right now focused on buying something at the right value. We do not want to overpay on kind of acquisition because we don't want it to be dilutive of our ROCE. The growth is something which is with a lag. I am not the happiest for the first quarter, but we believe that we are well on our way to kind of go beyond this past year. And the pipeline, as I can say, is strong. I am not in a position to share more numbers now, but I think every period you will find us doing something meaningful.

Abhisar Jain: Okay, sir, just a follow up. So, when you said that you look at the right payback or IRR or ROCE, what kind of payback do you generally opt for?

- Sanjay Thakker:** 4 to 4.5 years is what we look at. And that's what we will be sticking to and not wanting to pay anything more.
- Moderator:** Thank you. Next question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.
- Basudeb Banerjee:** First question for Surendraji. As last time we discussed that potential revenue from Indore, Bhopal MG outlets full year will be what, around Rs. 130 crores. Is that number correct, sir?
- Surendra Agarwal:** So, we are currently selling 100 plus car in a month. That's the pace we have. So, it will be Rs. 100 crore upwards for the year. But this year it will not be because this year we started from the month of August.
- Basudeb Banerjee:** Sure, I am saying from annualized basis, Indore, Bhopal.
- Surendra Agarwal:** Rs. 100 crore plus turnover we will get it definitely.
- Basudeb Banerjee:** Including service or any process charges?
- Sanjay Thakker:** Your number, Basu, what you had assumed is correct. And we will obviously add more MG outlets to top it up.
- Basudeb Banerjee:** Goa revenue will be proportionately similar, Rs. 50 crores – Rs. 60 crores annualized?
- Sanjay Thakker:** Goa will be, I think, around 40% of Indore-Bhopal.
- Basudeb Banerjee:** And what about annualized revenue outlook from Mahindra, the assets what you have as of now?
- Sanjay Thakker:** Mahindra operations, Basu, we will start only in the next quarter. So, once that kicks in, we will have on a steady state once that happens, I think around Rs. 200 crores of revenue is annually to kind of safe to assume.
- Basudeb Banerjee:** From that Bengal dealerships what you added?
- Sanjay Thakker:** Yes, that's right Basu.
- Basudeb Banerjee:** Out of the Rs. 70 crore – Rs. 80 crore provision for inorganic acquisitions in FY24, till date how much has been utilized sir?
- Sanjay Thakker:** So, we haven't utilized much out of our kind of an arsenal. What we have paid out for acquisitions is hardly under 20 crores for sure.
- Moderator:** Thank you. Next question is from the line of Pranay Roop from Burman Capital. Please go ahead.

Pranay Roop: Sir, my first question is regarding the cost structure, mainly two line items, employee cost and other expenses. So, I was noting personally on employee benefit expenses has increased by around 11% YOY and I was looking at your EPFO employee strength, which may not be your entire employee strength, but I think the EPFO headcount has gone down by 5% YOY. So, what could explain the difference in employees? Was there like a one-off bonus that led to this Rs. 53 crore number that was on employee? And secondly, your other expenses, it has actually remained in a very tight range of Rs. 40 crore to Rs. 45 crore. It peaked to Rs. 48 crore in Q4, which was a strong quarter for you. In this quarter, we are seeing a number of Rs. 52 crore, which is increased by Rs. 6 crore quarter-on-quarter. So, if you could just help me understand whether there were any one-offs here as well and what is the normalized level?

Sanjay Thakker: Yes, sure. Let me first talk about the manpower thing. The first answer is that no, there was no one-time bonus because of we becoming public or IPO. There was no such thing. We have a very clear kind of a policy. We were voted Pranay as the Best Manpower Guys by the Forbes Magazine, Best People Managers in 2019. And what I can say is that we are not somehow the best in revenue terms as far as the industry is concerned. Still people want to work with us and that is people has been our strength. And the top level we haven't seen any kind of people going away. The thing is that we have built newer outlets and let me kind of also say that we have recruited people in some markets, senior people in markets where we want to kind of go and the acquisitions or the organic ones are imminent. So, we have kind of put some cost ahead of what we could have done on a steady state and it also the number is also after an increment which normally happens which is around 7%-8% increment is what we kind of go with broadly speaking. So, we are not so much concerned about the manpower cost. We have in fact, as you rightly said, taken out a few people where in some of the OEs where the sales numbers don't look or didn't look very promising, we have proactively shifted people or let go of people in that. And I think the same answer goes also for cost. We also need to kind of tighten our belt. I think Rs. 1 crore or Rs. 2 crore we will also save. We have also realized that in anticipation of higher sales, we have built in some costs which we will immediately relook at because we are an organization which is quite tight on costs and we pride ourselves with that.

Pranay Roop: Got it sir, so it's fair to say that on employee costs Rs. 53 crores is the more sustainable level and on other expenses you could potentially save a few crores, is that fair?

Sanjay Thakker: Pranay, it will depend on how much we will grow, how many new geographies we will go at. To put an absolute number will not be the most correct way of looking at it. That's the submission we have.

Pranay Roop: Got it, understood. Sir, my second question is on aftersales basis my initial understanding of aftersales. After you buy a car, you need to first service it after 1000 KM, which can be like 2, 4, 5 months and then again after roughly 1 year. So, given your sales have picked up in H2, can we expect a slightly stronger growth in Q4 and then again a high teen growth in let's say second half of next year? Is that a fair way to think about this business?

Sanjay Thakker: So, let me just tell you that every brand has a different kind of service requirement. So, it would not be correct to say that it is 1000 km and then one year. It depends from manufacturer to manufacturer. Let me kind of just tell you, give you one more statistic. The point is that 2 years back, 50% of our EBITDA came from service and 50% came from sales. Now I was happy with that kind of a mix. Today, our aftersales is 70% of our total EBITDA. Now, see aftersales numbers in our mind is a given. It is some numbers that will keep on growing. And you have rightly pointed out that the moment we put more cars on road, we are kind of putting a 7-year kind of an annuity on the road. So, we are looking at doing this meaningfully. And yes, next year and the next quarter, which are strong quarters, the service revenue should pick up more.

Pranay Roop: I have two data related questions. On pre-owned, is it fair to understand that 6%-7% margins are at maybe a GM level when you execute the transaction directly flows down to PBT level?

Sanjay Thakker: See, in our case we said that we are not at 6%-7%. We will be focusing on kind of initially to build this business. We will be focusing on maybe a 4% margin, not 6%-7%. And this we want to kind of keep it a little moderate because everything practically flows down unlike the other players. So, we want to be competitive, we want to kind of build this business up and increase in margin is what we will look at once our people are used to selling these pre-owned cars and we have a meaningful number to kind of look at, but this is the strategy we have thought.

Pranay Roop: So, Rs. 200 crores revenue next year would broadly mean Rs. 8 crores of PBT?

Sanjay Thakker: That's one way of looking at it, yes.

Pranay Roop: One last data related question about noting in Gujarat, total Mercedes sales in Gujarat has actually grown 75% YOY over the last 2 months and as a share of India sales, also it has increased. Is it because you guys are doing something different or they have added more outlets in Gujarat?

Sanjay Thakker: No new outlets have been added. We generally do better, so thank you. I mean, that's what we do. We have increased our penetration on Mercedes-Benz. So, our contribution in some of the months that you spoke about, September and all, my sense is that we were upwards of 17% of the contribution. So, our people, I hope they are listening to this and I'm happy that if they are there on the call, my CEO or our Director, we should congratulate them.

Moderator: Thank you. Next question is from the line of Kunal Sabnis from Nine Rivers Capital. Please go ahead.

Kunal Sabnis: I have two questions. The first on the new car sales margin that has dropped YOY 3.2% to 1.7%. What should we read into this? And does this also include the commission on financing? Because net of that, the new car margin then looks really low. So, if you could throw some light on that, that's the first question. Thanks.

- Sanjay Thakker:** You are talking about an EBITDA margin on slide 16. That's what you are saying, the Rs. 15 crore that we are talking about. Yes, so basically the volumes is something that was a problem in the first 1 or 2 months of the quarter. That is kind of taken off right now and we believe that this will go up. But, Surendra, does this include the ROTF margin?
- Surendra Agarwal:** Yes.
- Kunal Sabnis:** So, the sales proforma revenue has dropped from say Rs. 960 crores to Rs. 908 Crores, but the EBITDA has dropped from Rs. 30 crores to Rs. 15 crores. So, yes I just want to?
- Sanjay Thakker:** Yes, so the cost of everything otherwise remains the same. It's a volume effect. The moment we have the volumes coming in, this will normalize. We didn't have supplies of a lot of vehicles where the cost of manpower, showroom rentals etc. was in any case incurred.
- Kunal Sabnis:** So, the operating leverage will take care of that.
- Sanjay Thakker:** Operating leverage will take care of it, Kunal. I mean that's the point.
- Surendra Agarwal:** Kunal, I just want to add one more point here. If you look at the gross margin is higher on the sales whereas because of the volume, our EBITDA is little lower. Because we have the facility, cost is incurred, but the volume is not happened that much. That's why the EBITDA margin is lower, whereas the gross margin of the trading gross margin is higher as compared to Q1, Q2 like for like.
- Kunal Sabnis:** Got it. Perfect. And the second thing is on the inventory. Now you mentioned three points. So, the seasonal effect will sort of go away. But then you also said about the pre-owned inventory and also the MG business. Does that sort of swing our historical inventory days which were around 45, 50, I mean, going forward?
- Sanjay Thakker:** No, it does not swing either way. So, it will normalize.
- Kunal Sabnis:** So, you should be back to about 50 days by March. Is that?
- Sanjay Thakker:** Yes. 50 days is with the demo cars. And that's how we have been reporting. For new cars, it will be like a one-month inventory that we will bound to hold.
- Moderator:** Thank you. Next question is from the line of Amar Kant Gaur from Axis Capital, please go ahead.
- Amar Kant Gaur:** I have a couple of questions, firstly on the Mercedes side. So, as we can see the Mercedes business from the standalone business it has performed exceedingly well and now it is contributing about more than 50% to overall EBITDA. So, my question now is, from the rest of the business, there has been some volume uptake especially from Honda, while Jeep volumes continue to remain weak. Could you provide some outlook on those sides and maybe some of the other brands, how they are doing?

Sanjay Thakker: Yes, that's a good idea, Amar. So, last time I had kind of started my speech by kind of giving a run through about all the OEs. Now Honda, the Elevate continues to now clock in the numbers as was predicted. So, this is something which is a heartening fact. Honda has loyal set of customers and the numbers just keep on happening. So, my sense is that Honda which in the first quarter degrew at 37%. That was the kind of the steepest drop that we had seen will make up for every kind of lost number in the first quarter. And I think for the year will close higher than last year. That will be quite a kind of a run in the next 6 months, and we will see the numbers. The Jeep, fortunately, also has seen a better offtake from September onwards, where 4x2, the Compass has been introduced. So, this will be not back to the one year back numbers, but it is my hope that it will be at least around 50% more than what we have done in the first quarter. So, this is something which is also heartening. In Jeep, the aftersales business as I think in his speech Surendra mentioned, the Jeep aftersales volume have reached a tipping point and now are contributing meaningfully for the aftersales business also. The other brands I've already spoken about BYD, MG is the fastest growing brand amongst them and I'm sure you'll hear more about MG in the times to come. Volkswagen for us, we have increased our market share. Our contribution to Volkswagen's sale by nearly 1%, so we are more than 10.5% of their sales now. So, we are clocking good numbers over there. The Ashok Leyland business which nobody really talks about is also showing decent numbers for us. Renault is what we have not, we have reduced the number of outlets because we want to focus on premium and luxury cars. So, this is something which we are not seeing any great numbers coming in, but the company is supporting us financially so that we do not burn money.

Amar Kant Gaur: Thanks for that elaborate answer. On Jeep particularly, however, our exposure is much higher in the Delhi region where there is a sort of apprehension towards buying diesel cars and Jeep is only available in diesel. Do you see that as a risk to our numbers for Jeep specifically?

Sanjay Thakker: I think what we have seen in the first half, it can only improve from here. The question is how much improvement will happen. Now you are right as far as talking about the Delhi apprehension and it is a correct apprehension except that Mahindra and Mahindra which is also predominantly diesel or Mercedes SUVs which are also predominantly diesel also sell in the NCR region. So, while this is there on a macro basis, things on the ground are not as bad as you believe. They are pretty okay. In fact, this month, the Jeep numbers from what I see are clocking decent numbers from the contracts that we are receiving before Diwali.

Amar Kant Gaur: Understood. That's heartening to know. And my final question is a little longer term. So, we are seeing some talks about FDA between India and UK, which could allow the CBUs and CKDs to be at a much lower duty structure, particularly from, let's say, the JLR. What kind of risk do you see in those terms and if you could shed some light on what kind of duty structure do we have currently on Mercedes and what could change in the near future?

Sanjay Thakker: More than FDA, Amar, what we are reading today, nowadays in the newspaper is about the electric cars being allowed at a concessional duty. We see the Tesla headlines all over every few weeks or so. So, talk is that there will be a reduction in the duty from say 100% to 15%

only for people who are wanting the manufacturers who are wanting to a kind of import electric cars mainly with the promise that they will invest the money some amount of commitment as far as the employment and investment in India over maybe in the next 5 years or so and they will have to provide a bank guarantee. If they don't do that, then it will be encashed. Now, this is a risk as well as an opportunity because what will happen is that a lot of models of say a Volkswagen group, just to give you an example, can also start coming in. It will not only be for one or the other manufacturer. So, the good part is that we are well diversified and there is always something good will which will emerge from here. So, one doesn't know because people talk about different regulations at different points. We really don't know what in which form it will come, whether it will come before elections or not, whether this, because the Chinese are clearly ahead in the electric car game. So, how will that also pan out if BYD can sneak in through this, I don't know.

Amar Kant Gaur: Thanks for such an elaborate answer. And I have some specific questions on the duty structure which I can take offline later. Thank you so much.

Moderator: Thank you. Next question is from the line of Manan Poladia from MKP Securities. Please go ahead.

Manan Poladia: So, I've read your results and I saw that basically Q2 versus Q2 last year, they're obviously 10% down in terms of total revenue but from what I understand most of that is from the new car sales that you spoke about, the model is slowing down there. So, what I want to understand is for the next three fiscal year or so, what do you think your aftersales business can go at? Also you just spoke about how you're focusing on less services but services that are making more money, right? So, I just want to understand how you are thinking about it and what you are guiding for the next 3 or 4 years?

Sanjay Thakker: You are asking about aftersales, Manan?

Manan Poladia: Yes, aftersales, specifically aftersales.

Sanjay Thakker: So, aftersales, Manan, we have grown for the last 9 years at 20% CAGR. And this year, though we could not grow at 20% CAGR in topline terms, we have grown at the bottomline terms. So, we want to kind of maintain that pace and I don't see any reason to kind of change that trajectory of ours.

Manan Poladia: Correct sir. Also sir, I want to understand how that business is basically structured fundamentally in terms of, so when you say aftersales business, are these vehicles that come to you, you repair them and you give a single bill or is there some sort of warranty structure that you are bundling with the cars that you are selling as well, so if you could just explain that?

Sanjay Thakker: Yes, so the every car comes with some kind of a warranty and within that warranty period if they need to be repaired, then the manufacturer pays that money or the insurance company

who has given that extended warranty, given that warranty. So, we do warranty work, we do annual maintenance work, we sell our own contracts also of annual maintenance contracts and then there is somebody asked earlier a collision kind of work that we do. So, one in three cars that you see on the road or what we sell meets with an accident or comes to our workshop for repair every single year. Understand this. So, this is the more cars you put on road, the more you are assured of the revenue.

Manan Poladia: Correct sir. That's great. Just one short followup on that. If you could explain the spread between all these different kinds of businesses in your aftersales revenue. Secondly, is there a differential in margins when you charge the company or the insurer per se that is when you charge an individual car owner?

Sanjay Thakker: No, I'll answer the second question first. So, the manufacturer, if there is a warranty repair, then there is a little bit of a discount that they get. They will not pay as much as the insurance company or the end customers. But the warranty percentage normally is much lower in our revenue. So, that's the thing. And as I had kind of answered this earlier, we will try to dissect this business further in the next quarter or the quarter after and we will be happy to give more granular details going ahead.

Moderator: Thank you. Next question is from the line of Mithun from Kivah Advisors. Please go ahead.

Mithun: I just wanted to understand this quarter, the EBITDA from the new car sales business is appreciably lower than last year. I just wanted to understand what is the sustainable sort of margin in this business? If you could just throw some light, especially with the new vehicles that you're launching from different brands as well?

Surendra Agarwal: So, our EBITDA margin for the sales business in the tune of 2.5%-3.5%. Only particular of the quarter two is some volume impact and the cost which we have maintained for the future growth. That's the reason. But in the steady state, it will be in the tune of 3% plus kind of thing.

Mithun: But Y-on-Y, it is half, right, the EBITDA?

Surendra Agarwal: Y-on-Y is because of the volume impact.

Mithun: But the revenue fall is not as significant as the EBITDA fall.

Surendra Agarwal: I'll tell you, our gross margin percentage term if you look at it is higher than the Y-on-Y. But being there, the volume is not there, though the volume is not sustained the cost. So, that's the reason the percentage of EBITDA is lower.

Sanjay Thakker: Also just to answer your question, I understand what you are asking. The contribution of Mercedes as somebody mentioned went up in this quarter because the other brands were not performing as well. The Mercedes revenue basically has pulled it up the other brands, the infrastructure was all in place. We are a kind of a combination of lot of brands which

happened. So, if some of the brands don't kind of perform, the cost remains where it is, then the revenue doesn't kick in. So, once they start kicking in, you will see a steady-state increase in this going out immediately.

Mithun: And just wanted to understand, over the next 2-3 years, how do you see the brand, the new sales business, which are the brands you think will drive your growth?

Sanjay Thakker: So, that's why I've realized that some of the brands that we have today don't have stronger legs as the market requires. That's why we have partnered with MG and Mahindra. So, what I can say is that the 3M's, the Mercedes, Mahindra, MG are likely to be kind of for the foreseeable future, driving our thing. The BYD if it comes, it's a complete dark horse which will happen. The other brands will kind of contribute with Honda SUV coming or one or the other launches happening. But I mean, at the top of the mind, this is what I'm saying.

Mithun: Just one last one, since you mentioned that your focus will be more on high-end cars. Is there any sort of agreement with Mercedes that you can't launch or get into other dealerships of high-end cars?

Sanjay Thakker: No, there is no such agreement and we can get into selling the other high-end brand cars.

Mithun: So, there is no plan to get into say the BMW, Audi or other brands that you?

Sanjay Thakker: No. So, we may have these plans but Mercedes will have no objection to that.

Moderator: Thank you. Next question is from the line of Suraj Chheda from 3P Investment Managers. Please go ahead.

Suraj Chheda: So, my question was on aftersales services revenue. If I look at last 10 years, the CAGR has been around 20%. And obviously the scale was low. You're also growing well from the low base. So, if I look at 1H numbers for FY24, the revenue growth has been 12%. So, from the medium term perspective, can this business will be more like say low to mid teens kind of growth CAGR or how should we look at this?

Sanjay Thakker: So, Suraj, my point here is that the moment we start new businesses like MG we started, we had some amount of car park which was there and that started clocking in. The moment we start say Mahindra in Howrah, Calcutta, there is a huge amount of car park over there which will start giving us the revenue. So, it's just that we have been a little slow in getting into these things. It has taken a little bit more time. The moment we do either acquisitions or we kind of set up our own, which is as I said a lot of it is in the pipeline, my sense is that over a period of time it will all go to this level or thereabouts. It's a little difficult to kind of predict 3-6 months or one year forward, but it will all even out.

Suraj Chheda: So, in the medium term say over next 3 to 5 years, can this business grow at say 15% to 18% kind of CAGR all in all?

Sanjay Thakker: Yes, answer is yes.

Suraj Chheda: And second question was with respect to your EBITDA margin for this aftersales business. So, in the past you have mentioned that this is more like 18% to 18.5% stable margin business. So, are there any growth drivers which can improve the margin in this segment? So, obviously 2Q delivered 18.8% margin. But what should be the sustainable margin for this?

Sanjay Thakker: So, if we are able to have a mix which is in favor of white labeled stuff, which I mentioned that we have introduced things at our end and which are really annual maintenance contracts or extended warranties that we are white labeling and our own accessories. If we are able to push more of that, our margins will increase. Else it will remain in this zone. So, a difficult call. I'm not saying that it will significantly improve from here, but we'll try to push up a percent, 1% here and there.

Suraj Chheda: Sure. And one last question from my side. What will be your CAPEX guidance for FY24? So, if I look at 1H numbers, you'll spend around Rs. 38 crores on CAPEX and around maybe Rs. 23 crores in terms of inorganic expansion. So, any target for FY24 full year?

Sanjay Thakker: So, our routine CAPEX which is the relay of our existing showroom or the service center will be tuned of Rs. 10 crores – Rs. 15 crores. The last quarter we had the MG acquisition and some other CAPEX of the complete relay of one or two locations of our Mercedes and Honda. That's why this CAPEX incurred in that last period. But in the refit CAPEX is in the Rs. 10 crore to Rs. 15 crore and then the organic or inorganic growth that will be additional.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint, that will be the last question. I will now hand the conference over to the management for closing comments.

Sanjay Thakker: Yes, thank you all for joining this call. I'm reminded of the Afghanistan-Australia match, where Australia came from behind to win the match. I think we are taking some kind of inspiration from that and we want to kind of go ahead and win the match and this year based on that. Thank you.

Moderator: Thank you very much. On behalf of Monarch Network Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.