Landmark Cars

Operator: Ladies and gentlemen, good day and welcome to Landmark Cars Ltd. Q2 FY27 earnings conference call, hosted by 361 Capital. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as of the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Akhil Parekh from 361 Capital. Thank you, and over to you, Mr. Parekh.

Akhil Parekh – 361 Capital: Thank you. Good morning, everyone. On behalf of 361 Capital, I welcome you all to the Q2 FY27 conference call of Landmark Cars. We have with us the management of Landmark Cars, including Mr. Sanjay Thakker, Promoter, Chairman and Executive Director; Mr. Aryaman Thakker, Executive Director; and Mr. Surendra Agarwal, Chief Financial Officer. I will hand over the call to Sanjay for his opening remarks, after which we will open the floor for the Q&A session. Over to you, sir.

Sanjay Thakker – Promoter, Chairman & Executive Director: Thank you, Akhil. Good morning to everyone. I hope everybody has had a wonderful Diwali. [pause] On behalf of the company, I extend a warm welcome to everyone who has joined us today. I would especially like to thank 361 Capital for hosting this call. As Akhil mentioned, I have Aryaman Thakker [pause] and Surendra Agarwal, our CFO, with me on the call. The results and the presentations have been uploaded on the stock exchanges and on the company's website. I hope everybody has had a chance to look at them.

The growth in the auto industry has been relentless since GST 2.0 last September. The Indian PV industry, already the third-largest PV market in the world, will comfortably cross the mark of 5 million vehicles this financial year. This has brought the focus of global OEMs strongly back into India. In the last 6 months alone, board members of Mercedes-Benz Global, including the global CEO, visited India twice to firm up their India plans and further investments. Stellantis, Renault, and Honda have all announced significant plans for India starting soon.

The EU FTA is also likely to come into effect early next year. This is likely to boost our business positively. Landmark is best positioned to take advantage of the move towards New Energy Vehicles. Nearly 29% [pause] of the vehicles sold by us are New Energy Vehicles, which is nearly 3 times the industry average. BYD is launching its luxury brand Denza in India today. The initial response is overwhelming, to say the least.

The investments made by the company in the last 2 years are bearing fruit. The new brands BYD, MG, and Mahindra today hold the second, third, and fourth positions in our revenue in terms of the PVs. Our company acted decisively and boldly to embrace the changing scenario, undergoing short-term pain for long-term benefits. In the last quarter, apart from having the highest-ever EBITDA in the history of the company, we also recorded the highest-ever new car sales EBITDA. New car sales EBITDA is now 40% of total EBITDA. We have always maintained that in our business, if well run and managed with a hawk eye on expenses, both sales and service will be very profitable.

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The after-sales business has once again proved that it is an annuity business, as our service revenue keeps rising and reaching records. Our revenue per service has kept rising and has reached a record of more than Rs 30,000 per service this quarter. In our presentation, we have shared how service revenue for EV repairs has no negative impact on our workshop business. The number for the last quarter would have been better had it not been for the disruption of business in many workshops in Gujarat in August due to heavy rains and flooding.

We have commissioned a very large, state-of-the-art, multi-brand workshop in Jogeshwari in place of 3 smaller workshops in the Mumbai region. This will give us operating leverage. The quarter gone by includes some additional expenses on account of the overlap during the transition, which has normalized as we speak. In our industry, the second half of the year is generally much stronger than the first half. To summarize, we are feeling very confident about the future as we sit here today. I would now hand over to Aryaman to give us further insight into the business of the company. Thank you.

Aryaman Thakker – Executive Director: Thank you. At Landmark Cars, we continue to focus on strengthening our business relationships, expanding our offerings, and identifying new opportunities across the automotive value chain. In this context, we have made some important progress across our existing and new partnerships. Before moving to individual OEM updates, I would like to highlight a recent development in our pre-owned car business.

We have signed an agreement with OLX India, part of CarTrade Tech, to develop a phygital proposition that combines OLX India's industry-leading digital reach with Landmark's leadership in physical retail and service networks. OLX will help with digital customer journeys, while our outlets will serve as physical experience centers for vehicle inspection and handover. The vehicles will be bought and sold on a revenue-sharing basis and in a co-branded manner. The partnership will be rolled out in phases, beginning with select cities, with the objective of building a scalable, profitable, and sustainable presence in the pre-owned car market, which has so far not been done in India. Our objective is to be a prominent player in the pre-owned car industry over time.

Let me now take you through some of the important developments of our OEM partners and their respective businesses. Starting with Mercedes-Benz, the brand delivered a record quarter in India, achieving its highest quarterly volumes, supported by a strong product portfolio, new launches, and sustained demand for its models. The brand has recently introduced the India-made GLC Electric SUV, which has received a fantastic response, with over 1,000 bookings in a short period of time, and the product being sold out until March 2027. This is the first of the 40-plus new launches planned by the OEM globally. Deliveries have already started this month. We also expect improved availability of the GLA EV, which has witnessed strong customer demand alongside initial supply constraints. The new S-Class and the S-Class Maybach will further strengthen the top-end vehicle portfolio and position of the brand.

Moving to MG Motors, the company continues to strengthen its position in India's New Energy Vehicle market, with the Windsor EV remaining the highest-selling electric vehicle model in India. The recently launched Hector Tomahawk EV further broadens its electric portfolio and has received phenomenal bookings, with deliveries commencing in October and likely to ramp up going forward. The Tomahawk Hybrid, which will be launched soon, will bring another dimension to its powertrain

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portfolio, providing customers with an alternative mobility proposition.

Mahindra continues to have a strong year, crossing 6 lakh SUV sales for the second year running. The models have been very well received, and the company has recently announced that it will introduce 4 new models by June 2027. Together, these developments highlight Mahindra's strategy of strengthening its core SUV franchise while catering to evolving customer preferences across petrol, electric, and CNG vehicles.

Management: Coming to Kia, it has announced a further US$2 billion investment into India to increase production capacity and introduce new models across powertrains. The Seltos continues to anchor its demand, with most variants still in a waiting period. The Carens and the Syros EV strengthen Kia's presence in electric mobility. The new Sorento has received a strong response, with it being in a booking and waiting situation. During the last month, Kia became the fifth-largest OEM in India.

Turning to BYD, the company is expanding its ambitions in India with the introduction of its luxury brand Denza, marking its entry into the higher-end premium mobility segment. We will be establishing the dealership in Mumbai. Two models will be launched initially: the D9 luxury MPV and the Z9 GT. The response to both these models has been strong, with them already being sold out for the next quarter even prior to launch. The recently launched Sealion 7 Dynamic commenced deliveries in the previous quarter and has received encouraging customer interest.

Honda is sharpening its India growth strategy, with a focus on quicker product development cycles and deeper localization to strengthen its market presence. The updated Honda Elevate, launched first in India, underscored the strategic importance of the Indian market for the company. Its planned entry into the battery-electric vehicle segment this year with the Alpha Zero SUV also marks an important step towards broadening its portfolio and addressing emerging opportunities. Landmark continues to be the largest partner for Honda in the country.

Stellantis has announced a further 4,000 crore investment, underlining its commitment to India. The company plans to introduce 12 new models under the Jeep and Citroen brands by 2030. It has also entered into a partnership with Tata Motors to collaborate on vehicle technologies and platforms.

Landmark has recently received the Letter of Intent from JSW Motors for the markets of Ahmedabad and Bhopal. The company is heavily investing in a new production facility at Chhatrapati Sambhajinagar. The first product, called the JSW Combat, which is based on the Jetour T2, will go on sale early during Q4 FY27.

The GST cut came into effect last October. In spite of a higher base, the festive momentum remains strong. New model launches across powertrains, the ongoing effects of the GST cuts, along with the traditionally stronger H2 of the financial year, should keep the industry buoyant in the future. We remain focused on continuously adapting our business model, strengthening our OEM relationships, and building capabilities to capitalize on emerging opportunities. Thank you.

Operator: Excuse me, sir. Should we open the floor for the Q&A session?

Management: Yes, please.

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Operator: Thank you very much, sir. We will now begin the question-and-answer session. Anyone who wishes to ask questions, please press star and one on their touch-tone phone. If you wish to withdraw yourself from the question queue, you may press star and two. Participants are requested to use only handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. You may please press star and one to ask questions.

The first question is from the line of Vijay Pandey from Axis Capital. Please go ahead.

Vijay Pandey – Axis Capital: Hi, sir. Thank you for taking my questions. I have a couple of questions. I wanted to check on the margin front. Our margin came in relatively better, so I just want to understand whether you see this margin as sustainable going forward, versus some inventory gain built into this quarter that we may not see in the coming quarters. Secondly, regarding the growth expectation for the upcoming years, in the second half and moving into FY28, if you could highlight your expectation moving ahead, how do you feel about both volume and revenue expectations?

Management: [pause] Thank you, Vijay. What we are seeing in the industry today is a kind of secular growth that is happening. On the ground, we have had a great October. We believe that this momentum will continue for now unless some very major macro event happens. We believe that this growth in the industry is there for at least the next few quarters. We have entered a new, uncharted zone. We all know that the penetration of passenger cars in India is hardly 3% or so. So this is something which has a very long road ahead, and this looks good.

You spoke about the margins. Yes, there has been a significant year-on-year margin improvement at the EBITDA level, and that is something we had indicated would happen once the outlets matured. This was bound to happen, and we are happy that we have more or less reached that point. The margins would have been even higher had we not had some rain disruption and also the newer brands selling a lot of cars. As their after-sales business, as well as the after-sales business of the old brands, develops, we believe that the margin we have delivered is sustainable.

Regarding inventory, you rightly pointed out that last year the festive season was in a different quarter. So the industry itself has built inventory. If you look at the FADA announcement, they have said that industry inventory is nearly 45 days. We are at around 35 days. Our sales have also gone up. So in absolute rupee terms, it looks higher, but this should normalize in the next 2 months or so.

Vijay Pandey – Axis Capital: I was talking about the inventory pricing gain, actually.

Management: It is difficult to pinpoint how much extra money we made. The prices will go up again, Vijay, in January. This is an ongoing development within the industry. We are confident about maintaining our margins where they are as far as sales are concerned. It is difficult to put an exact number to it, but there is nothing unusual that we are seeing.

Vijay Pandey – Axis Capital: Can you guide us about the capex expectation for the year? Because I think last quarter you said around 50 crores, but we have already incurred 50 crore capex.

Management: It will be a little higher than that. You are absolutely right; this was our estimate at that time. Then JSW came along, and so did Denza, for which we did not have exact visibility at that time. Apart from our making a new workshop at Jogeshwari, we believe that it would be another 30

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crores or so based on our current assessment.

Vijay Pandey – Axis Capital: Okay, sir. I will fall in queue.

Operator: Thank you. The next question is from the line of Simran Thakkar from B&K Capital. Please go ahead.

Simran Thakkar – B&K Capital: Thank you for taking my question. What would the revenue share be for the JSW brand? What model will this follow? Will it be a model-specific agency model, as you have on a commission basis, or will the gross sales be booked under this sort of arrangement? And [trails off]

Simran Thakkar – B&K Capital: Also, what do we mean by the vehicle acquired and sold, which was mentioned in the presentation? If you could just—my second question, I will take it up post-Diwali.

Management: Simran, sorry, I would ask you to repeat the question, as it was not very clear.

Operator: Simran, I would request you to kindly use your handset. There is a disturbance when you use your headphones.

Simran Thakkar – B&K Capital: Am I audible now?

Operator: Yes, much better.

Simran Thakkar – B&K Capital: I also wanted to understand the revenue share split with the OLX JV, and what model this will follow. Will it be on a gross sales margin basis, or will it be on a commission basis, as we have in the case of the Mercedes agency model? Also, in the presentation, where you have mentioned "vehicle acquired and sold," what does that mean? Will the inventory be on our balance sheet until the time it is resold? That is my first question.

Management: I will take that question. What this is, as we said, is an industry-first sort of partnership. It is a business agreement between 2 parties. What we are doing is creating this phygital model and merging 2 leaders in their respective industries. The process is that the vehicles will be jointly acquired and co-funded. Yes, they will be carried on the balance sheet of Landmark Cars. The cars will be jointly acquired, refurbished where needed, and then put back up for sale. The margins that accrue will then, after costs, be shared between both entities.

Simran Thakkar – B&K Capital: Understood. Taking this question further, in the US, we usually see that for these used cars, the revenue share is around 30-40% for US dealers. What share of revenue and EBITDA does Landmark management expect from used cars, and what ROEs are we expecting from it?

Management: You are right. I think the US has a much more mature used car market, and new car retailers have a very healthy contribution from used car turnover as well as profits in their books. As you rightly said, it is around 30%. In India, that penetration is significantly low. New car retailers account for approximately only 3-4% of their revenue, and profitability is in the single digits.

For us, as we said, the idea is that we will roll this out in phases. In the first phase, we will go live with a certain number of cities and brands. The idea is to get the process and the exact business

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model right because we are looking at it over the long term, and we want to build a profitable and scalable model, which has so far not been successfully done in the country.

We will build it over time. We have just gone live, having completed our first few transactions in the post-Diwali period. After this phase, we will expand across our cities and brands. It is difficult to give you an exact number right now, but once we have the processes in place and are confident that they can be replicated, we will press the accelerator and see many more transactions happening here.

Simran Thakkar – B&K Capital: Understood, sir. That was clearly helpful. My third question is on inventory and the OCF turning negative for this quarter at 16.9 crores. We also see gross borrowings rising to 144.5 crores. Again, if we refer to the Q4 and Q1 FY27 conference calls, we mentioned that debt could be reduced. Could you let us know what inventory and debt we should expect by FY27, and how the trajectory will look?

Management: As I said, inventory levels will come down. It is difficult for me to put an exact number to it, but this is something we never thought would happen because demand would be so strong. Sometimes it makes sense to buy inventory because prices are going up. So it is a very dynamic situation.

There has also been some discussion about supply chain disruption because of the war and all that. Whenever inventory comes in, we sometimes take a business decision to procure it. There are certain items and certain vehicles that are imported, and the ships and the kits reach at a particular time. So it is dependent on a certain timeline.

As of now, we are comfortable with what we are holding and are not really that concerned. We believe that over a period of time this will come down. We are at around 35 days of new car inventory, which I think most people in the industry believe is good if it is below 30 days. Keeping that in mind, I would not be too worried about this matter right now.

Simran Thakkar – B&K Capital: Understood, sir. That is helpful. Just one last thing to confirm. Vahan data is showing some slower growth. Should we read it in terms of mass-market growth, or luxury cars as well? Your opinion would be really helpful.

Management: Please repeat the question. I did not get it.

Simran Thakkar – B&K Capital: I will repeat it. The new Vahan data that is out mentions that some slower growth has been seen in the market. Should we interpret it in terms of mass-market demand, or should we also see it as something that you are facing in the luxury market?

Management: I think you are referring to the Vahan numbers for October. Is your question about 25 versus 26, Simran? You are right that October 2025 was a very unusual month where the GST cut and the festival were all there, and everything was bunched together. There was 2 months of pent-up demand at the same time last year. So it is no surprise.

Clearly, the growth percentage that we have seen in the first half of the year will not continue in the second half at the same percentage. However, I personally believe that growth will happen in the next 6 months as well. This is also the view of SIAM, which believes that we will have decent growth

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even in the months to come.

Simran Thakkar – B&K Capital: Understood. Great. Thank you so much for taking my questions, sir.

Operator: Thank you. The next question is from the line of Ronak Mehta from ICICI Securities. Please go ahead.

Ronak Mehta – ICICI Securities: Thank you for the opportunity. I have 2 questions. One is with respect to your partnership with OLX. Would you be tracking any internal metrics to assess how efficiently this partnership is performing or to evaluate whether it is actually beneficial for you? There could also be a risk that some of the customers who come through OLX would have come to you anyway, and just because they have come through OLX, you will have to share some revenue or margin. Profitability on that revenue could be lower, which otherwise would not be the case. Is there any metric that you will track, such as the number of vehicles sold per employee, to see whether it is improving, or something of that sort? That would be my first question.

Management: The idea is that, of course, we have internal metrics and KPIs that we will use to track it. However, what we are also looking at is that OLX currently represents upwards of 60%. I think CarTrade-OLX together account for upwards of 60% of used car listings in India on one of their platforms. For us, the idea is also that we get expanded [trails off]

Aryaman: Increased reach while procuring used cars is there, and we need to make sure that we are also able to liquidate them at a quicker rate because that is what makes a profitable and scalable model. [pause] That is where we believe their expertise will also help us, through the listings and the reach. [pause] Because these vehicles will also be jointly branded by both parties, that will give us expanded reach and allow us to complete the transactions more quickly. [pause] What we also expect as a secondary benefit is that when customers come to sell their cars, it may also act as a funnel for new car inquiries that we will generate at our existing locations. [pause] That is another added benefit that we believe will come out of this partnership.

Sanjay: Rohan, if I were to add [pause], Aryaman answered this question [pause]. Let us look at the bigger picture. The point is that, so far, nobody has been able to crack the pre-owned car space in India profitably. A lot of money has been spent. The 2 organizations have joined hands with the idea that we will not burn money, we will be capital-efficient, and we will determine whether this entire pre-owned car business can be done profitably. Nobody has been able to do it.

So we are making an effort by bringing together an online leader and an on-ground retail leader. This is an emerging kind of business model, and we are internally very excited about its prospects. The software is being built, and the teams are being built. As time goes by, we will share more details with you on this.

Ronak Mehta – ICICI Securities: Perfect, sir. My second question is whether you could help us refresh your positioning across different brands. For instance, Mercedes and Honda are brands for which you are the largest partner in India. For some of the newer brands such as BYD, JSW, and MG, based on your current engagement with the group, do you envisage a scenario where your positioning could be similarly strong with JSW and MG? How do you see that developing for some of the other newer brands?

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Sanjay: In the newer brands, we are the largest partner for BYD. We are the third-largest partner for JSW MG Motors. If you count 4 new brands across the 2 of them, we already have a sizeable presence.

The global scenario is very dynamic, and things keep changing. Who would have thought that companies like Volkswagen—if you had been asked this question 7 years ago about what was happening with Renault, Volkswagen, or Honda—you would not have been able to answer, and I would not have been able to answer either. This is an ever-changing situation.

The good part about our organization is that we have made a lot of our infrastructure fungible. Our people are capable, and we are able to place them in different roles. Wherever the business requires investment, we put our capital and efforts behind it. To answer your question, wherever we go, generally, if the business is profitable, we become a meaningful partner for those brands. So it is not only 2; it is 4 or 5 brands where we are among their top 1 or 2 partners.

Ronak Mehta – ICICI Securities: All right, sir. Thank you.

Operator: Thank you. We will take the next question from the line of Lokesh Manik from Vallum Capital Advisors. Please go ahead.

Lokesh Manik – Vallum Capital Advisors: Good morning, Sanjay and team. Am I audible?

Sanjay: You are, Lokesh. Please go ahead.

Lokesh Manik – Vallum Capital Advisors: Great, sir. I wanted your views on the recent IRDAI announcement regarding motor insurance. If you had a chance to speak to your OEM partners, how are they looking at this, and how are you looking at this internally? What could be the broad impact on our profitability if these guidelines are implemented as proposed? It would be helpful if you could share your thoughts and provide some clarity.

Sanjay: Thank you, Lokesh. Regarding this IRDAI matter, you may know that the first phase was the consultation paper, which will be followed by draft regulations, and then the third stage is the actual regulations. The regulator asked for comments and suggestions, and our association, FADA, made a very strong representation regarding what needs to change in those draft regulations. I [hesitates] have been part of that submission, so I am aware of it.

Let us wait and see. The indication we are receiving is that the consultation paper will be modified. [pause] It is a little early. We have had no conversation with the OEMs on this matter because we do not know what is really going to happen.

Also, just so you know, the deals that happen at our end when we sell a car are like an on-road price, which includes the RTO, insurance, sometimes accessories, and all that. It is sometimes a package deal. So we will have to wait and watch how the industry evolves on this matter. It is very difficult to comment right now.

Lokesh Manik – Vallum Capital Advisors: Okay. That is it from my side, sir. Thank you so much.

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Operator: Thank you. We will take the next question from the line of Akhil Parekh from 361 Capital. Please go ahead.

Akhil Parekh – 361 Capital: Thank you for the opportunity, and congratulations on a strong set of numbers. My first question is that, in the previous call, you had broadly mentioned that the first-half and second-half split in terms of profitability is usually 40-60% or 45-55%. Does that hold true even for this year? If you could give some broader direction on that, that would be my first question.

Sanjay: That is what my 27 years have basically shown me. I hope that trend continues. There is no reason to feel otherwise. We generally have strong months: the Diwali month of October, a strong December in the industry, and then March. There are very significant months that generally occur in our industry, and we are hopeful as we look ahead.

Akhil Parekh – 361 Capital: So, broadly, you are saying that 60% of profit should come in the second half. That is very good to hear. My second question is on operating cash flows. You did mention that inventory has decreased, mainly because of the shortened festive season. Last year, we generated approximately 270 crores of operating cash flow and 200 crores of free cash flow, implying 100% EBITDA-to-OCF conversion, or perhaps 96%. Would it be fair to assume that you would achieve a similar kind of EBITDA-to-OCF conversion broadly for FY25 as well? How should OCF and free cash flow look in this context?

Sanjay: Perhaps we can have Surendra speak, as he has not participated today. Let us hear his voice as well.

Surendra: As we said, this is the seasonal impact on the September cash flow. Based on what we have published, we expect this to be slightly lower than last year. Last year, 0.95 was the ratio of operating cash flow to EBITDA, but now [pause] there is not much difference; it is slightly lower than last year.

Akhil Parekh – 361 Capital: So that implies you will have substantial free cash flow this year. You mentioned that capex is not significant for FY25. Is there anything you would like to highlight regarding what you will do with this?

Surendra: We will repay our debt with the free cash flow.

Sanjay: Let us perhaps wait for one more quarter, Akhil. Let us see what is in store.

Akhil Parekh – 361 Capital: And my third and last question before I get back in the queue is on the cost initiatives. I think you have done quite well. A year and a half ago, you had indicated that employee expenses and other expenses would go below 4.5% and 4% of revenue [cut off]

Akhil Parekh – 361 Capital: ...at the bottom of those line items. Your employee expenses are now 3.9% and other expenses are 3.4% of performance revenue. While there is a line in the presentation mentioning that further profitability can improve from the cost initiatives, could you shed more light on whether there is scope for further improvement in these 2 line items and whether you have any new guidance on employee expenses and other expenses?

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Management: This is an ongoing exercise at our end. We want to be a frugal organization where, every day, we wake up believing that there is some improvement to be made. This is something that we will continue to do. We still believe that there is further scope. It is difficult for me to put a number to it because that sometimes becomes a discussion point for a very long time. However, the effort is a continuous process.

We have internal targets for everybody to reduce costs. There are committees and process owners for one or another small item, and we continue to push costs down. I am hoping that they could be reduced further. I do not want to put a number to it right now.

Akhil Parekh – 361 Capital: Great, sir. That is it from my end, and best of luck for the quarter.

Operator: Thank you. We will take the next question from the line of Poline B Nandun from Edelweiss Public Alternatives. Please go ahead.

Poline B Nandun – Edelweiss Public Alternatives: Hello, Sanjay. I have a couple of questions. I wanted to understand slide 8, where you have mentioned that there has not been a significant difference in service revenue between ICE and EVs. Why would that be the case? Why would the frequency of visits be higher for an EV on a per-year basis versus an ICE vehicle? Also, even though preventive maintenance is, let us say, 12% and 35% lower, why would an EV car still require such a high level of repair and maintenance in Brand 1? At the same time, what is the difference on the accident side, which is the biggest difference? What is costing so much for accident repairs?

This slide is slightly counterintuitive, where even the running per kilometer per year for an EV is higher. Could you explain whether this is contrary to your initial expectation as well, and provide the details of why this is the case on each of these points?

Management: Thank you, Poline. This is something we were all accustomed to believing: that the repair cost for EVs would be significantly lower. That was the starting point in everybody's mind, including the discussions on WhatsApp. Then we analyzed the data in depth, waited for a decent sample size, and then came up with the answer.

What is happening in both Brand 1 and Brand 2, as you will see, is that the running cost of EVs is much lower than that of ICE cars. We all understand that there is no fuel cost, so EVs generally cost significantly less to run. Therefore, people use them more. This was the first thing we found: if it is an EV, people use it much more.

What happens consequently is that because the car is on the road for more kilometers and more time, the propensity to be involved in an accident is higher. It is clear mathematics. There is no other significant factor, apart from the fact that EVs accelerate faster and so on. That is a smaller issue. I think the bigger issue is that because they are on the road for a longer period of time, they are more likely to be involved in an accident.

The second thing is that because the kilometers are higher, the service interval gets compressed. Assume, I am just giving an example, that every 7,500 kilometers there is a service. Those 7,500 kilometers are reached faster. If it takes 6 months for the ICE car, it may take 4.5 months for an EV. That is why the number of visits to the workshop is higher.

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Also, local garages are completely unfamiliar with EV repairs. Therefore, most or all of the cars will come back to the authorized workshop for repair. This was also observed in the USA by Penske. If you recall their commentary from a couple of years ago, they reached a similar conclusion that EVs were actually generating higher service revenue rather than lower service revenue, as people had believed. It was a surprise to us as well, and we continue to monitor this space.

Another data point for you is that in America and some other Western countries, the insurance premium for EVs is increasing much more than for ICE cars because the cost is higher.

Poline B Nandun – Edelweiss Public Alternatives: That is very clear, Sanjay. My second question is about your Mercedes-Benz brand, which you distribute. What is the typical mindset of the customer when they walk in, particularly regarding their inclination to buy a Mercedes EV versus a Mercedes ICE vehicle? Does the conversion happen at our end, or has the customer already decided? As a follow-up question, do you think the share or overall number of ICE vehicles will continue to decline for a luxury brand like Mercedes, based on your experience and discussions with your sales managers? For a luxury brand like Mercedes, what do you think will happen in terms of the mix between ICE and EV?

Management: Since you asked specifically about Mercedes-Benz, availability was the biggest challenge this year as far as the EV portfolio is concerned. This year, EV penetration for Mercedes would be just under 10% or so, but this will increase as availability improves. {? Aryaman ?} mentioned in his talk that the GLC EV, which has been launched, is sold out for the next 4 months. We have the CLA, which is also sold out. So the issue is more about supply than demand, and as the industry evolves, more and more EVs will be sold.

Poline B Nandun – Edelweiss Public Alternatives: So, typically, what you are saying is that even for that kind of customer, the preference is more towards EV, or that you are seeing an increasing preference for EV versus ICE? What might happen is that total ICE volumes could decline for a brand like Mercedes, while EVs could see significant growth as availability improves. Is that a fair conclusion to make, or how should one...

Management: [hesitates] It is a very dynamic situation, Poline. It is difficult to say how customer preferences will change overnight. It will depend on many factors, but from where EVs are today, the numbers will clearly increase. Where they will go and stop, or whether they will continue increasing, is difficult to say. Our belief is that all powertrains will coexist, and plug-in hybrids and other new technologies will also come in. This is something that is happening globally. We will find a balance over the next 2-3 years.

Poline B Nandun – Edelweiss Public Alternatives: Thank you, Sanjay, and all the best.

Management: Thank you.

Operator: Thank you. The next question is from the line of Harsh Shah from Helios Mutual Fund. Please go ahead.

Harsh Shah – Helios Mutual Fund: Hello, good morning, Sanjay. Congratulations on a good set of numbers. My first question is with respect to the OLX partnership. Can you elaborate on how much

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capital we are going to commit initially until we get the business model right?

Management: It is going to be a very small amount of capital. Until we get the model right, there will be no meaningful capital deployment. As I think we have said, capital allocation will be shared between the 2 organizations.

Harsh Shah – Helios Mutual Fund: Will it be less than 5-10 crores to start with, or somewhat higher?

Management: Yes, it will be in that range to start with.

Harsh Shah – Helios Mutual Fund: Okay, understood. My second question is regarding capex. We had guided for 50 crores, we have incurred 15 crores in H1, and there are still 5 more branches and 5 more dealerships that we are planning to open for JSW. We have also invested around 50 crores in the subsidiary. Is there an upside risk to the 30 crore number as well?

Sanjay: Regarding the 30 crore figure, we have included JSW in our calculations. Denza is coming up at locations that are largely the same as those where BYD is present. We are keeping a hawk eye on the matter. The investment in JSW is where our subsidiary investment is going, so it is the same matter you are referring to.

Harsh Shah – Helios Mutual Fund: Understood. The last time we had very high capex, there was an impact on margins because the costs are typically incurred upfront. Given this higher capex, do you think the margin recovery we have seen over the last few quarters could moderate, and could we even see a decline in EBITDA margins going forward?

Sanjay: What you need to keep in mind is that the capex we are discussing, including the {? 33 crores ?}, also includes some vehicles. This may not be apparent here, but some Mercedes-Benz vehicles used in the workshop have been classified under capex. So it is not pure capex. That is the first point.

The second point is that the money invested has been used to relocate existing workshops. I spoke about 3 workshops becoming 1 in Mumbai, where I am sure we will invite you all in the next 2 months. This does not require any gestation period. It is simply a seamless transition. Therefore, there is really nothing in this capex that indicates any gestation period.

Harsh Shah – Helios Mutual Fund: Okay, understood. This was very helpful. Thank you.

Operator: Thank you. I request all participants to kindly limit their questions to only 2 per participant. Should you have a follow-up question, please rejoin the queue. The next question is from the line of Hitendra Pradhan from Maximal Capital. Please go ahead.

Hitendra Pradhan – Maximal Capital: Hi, Sanjay. I hope I am audible. My first question is on the after-sales volume for Q2. It was relatively flat year-on-year. I wanted to understand what contributed to this volume growth. Given the workshops that were added and the volumes of cars sold in the last few quarters, could we see a marginal uptick in service volumes going forward?

Sanjay: We have also said in our presentation that nearly 4 of our workshops were impacted by rains, and some workshops were not operating for more than a month. Different brands, including

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Honda, Volkswagen, MG, and others, were affected. Service volume was impacted by the rains in Gujarat, mainly in South Gujarat and Ahmedabad.

However, you will see that revenue growth is nearly 11%, which is good growth in my view. You will also see that revenue per service has again reached an all-time high of nearly Rs 30,300. We are making up for the lower volume with higher revenue, and sometimes this is deliberate. The infrastructure is an expensive proposition, so we do not want to utilize it for low-paying jobs just to increase volume for its own sake.

Hitendra Pradhan – Maximal Capital: My second question is on insurance commission revenue. I understand that it is still in draft form and discussions are ongoing. How do you see it evolving? Do you think there will be a glide path, or will the caps themselves be reset? Do you have any view or comment on that?

Sanjay: That is the hope of many people in the industry, not only auto dealers but also insurance brokers, agents, and others, because a glide path has been given to insurance companies to meet their management expenses. So why should there be no glide path for the other matters? Anything else I say would be pure speculation. So let us wait and watch.

Hitendra Pradhan – Maximal Capital: Sure. Thank you, sir, and all the best.

Operator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia – ICICI Securities: Good morning, Sanjay, and congratulations on a good operational performance. I also appreciate the efforts taken to explain the granularity of the business in the presentations. My first question is on margins. In new car sales, we have achieved 2% margins after quite some time. What would be your sustainable outlook there, and are there any levers for further improvement going forward?

Sanjay: Shashank, we have had this discussion. At Landmark, we have held onto the belief and understanding that both the sales and service businesses are profitable, and we have consistently demonstrated this in the past. The reason sales margins had declined over the last 2 years or so was that we had started new brands and there had been front-loading of expenses. That was playing out. We are returning to our normal position, and as of now there is no reason to believe that it will be any different.

Shashank Kanodia – ICICI Securities: Should we expect a further improvement?

Sanjay: I will not, Shashank. It also depends significantly on new car sales, the discount levels, demand, and the economy. We are tied to the state of the economy, as you know. Things are looking good as of now. Looking 1 or 2 years ahead, it is difficult to say, but as of now, we are confident about what is happening.

Shashank Kanodia – ICICI Securities: You also alluded to the fact that you realized better margins on EV sales. Should this be a base case for us, on which we can build these numbers?

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Sanjay: I will reiterate what I just said. We have done it in the past, and we are confident about what is happening. Things are looking quite fine right now.

Shashank Kanodia – ICICI Securities: On after-sales service, you have generally achieved double-digit volume growth. The last 2 quarters have been somewhat muted. Obviously, you mentioned the impact of Gujarat this quarter, but should we effectively expect double-digit sales volume growth to resume there?

Sanjay: It has been double-digit growth even in this quarter, Shashank. We have 11% growth in after-sales right now.

Shashank Kanodia – ICICI Securities: On the volume side?

Sanjay: No, we never provide guidance on volume. We are always focused on value. If you look at our presentation, it also talks about value. We are never focused on volume. Similarly, for new cars, we do not disclose the number of cars sold and so on.

Shashank Kanodia – ICICI Securities: Last time, when you achieved an ASP of Rs 30,000, you had a 20% margin profile. This time it is 17.6%. Should we expect better margins within this division going forward?

Sanjay: I have already explained this. We have said that the business is approximately an 18% margin business: 40% gross margin and 18% EBITDA. This is how we discuss our business. Last quarter, as I said, there was a transition period during which we had to pay expenses for 4 workshops while they were transitioning. That has now normalized, but a difference of 0.5% or 0.25% here or there is based on seasonality. It also depends on annual bonuses that we receive at the end of December or March. It will all even out over a period of time.

Shashank Kanodia – ICICI Securities: Are we adding any other luxury brand to our portfolio, given that other global OEMs are talking significantly about India, such as Tesla?

Sanjay: No, there is nothing I can discuss on this call and nothing I can say. We have Denza, and it has received a great response. We are launching it at 12 o'clock today.

Shashank Kanodia – ICICI Securities: I wish you all the best. Thank you so much.

Sanjay: Thank you.

Operator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to the management for closing comments. Thank you, and over to you, sir.

Sanjay: No, thank you, everybody. I think the hard work of our team has paid off, and it will continue to deliver. Thank you for having faith in us. Thank you, and Happy Diwali.

Operator: Thank you to the members of the management. On behalf of 360 One Capital, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.

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Landmark Cars

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