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KERALA – GSTIN 32AABCP3805G1ZW
TAMIL NADU- GSTIN 33AABCP3805G1ZU

Date: 22nd November, 2024

To,
BSE Limited ("BSE"),
Corporate Relationship Department,
2nd Floor, New Trading Ring,
P.J. Towers, Dalal Street,
Mumbai – 400 001.

Scrip Code: 544144
ISIN: INE772T01024

To,
National Stock Exchange of India Limited ("NSE"),
"Exchange Plaza",
Plot No. C-1, Block G,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051.

NSE Code: PVSL
ISIN: INE772T01024

Dear Sir/Madam,

Sub: Transcript of the Investor Conference Call - Un-audited Financial Results for the quarter and half year ended September 30, 2024.

Reference- Disclosure under Regulation 30- Schedule III- Part A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In continuation to our intimation dated 06th November, 2024, and pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Investor Call held on Thursday, 14th November, 2024 on the Un-audited Financial Results for the quarter and half year ended 30th September, 2024 is enclosed herewith.

The same is available on the Company's website at **www.popularmaruti.com**

We request you to kindly take the above information on record.

Thanking you,

Yours faithfully,
For Popular Vehicles and Services Limited
VARUN T V
Digitally signed by VARUN T V
Date: 2024.11.22 18:01:57 +05'30'
Varun T.V.
Company Secretary & Compliance Officer
Membership No: A22044
Place: Kochi

"Popular Vehicles & Services Limited

Q2 and H1 FY25 Earnings Conference Call"

November 14, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges on 14th November 2024 will prevail.

MANAGEMENT: **MR. NAVEEN PHILIP – PROMOTER AND MANAGING DIRECTOR – POPULAR VEHICLES AND SERVICES LIMITED**
MR. RAJ NARAYAN – CHIEF EXECUTIVE OFFICER – POPULAR VEHICLES AND SERVICES LIMITED
MR. JOHN VERGHESE – GROUP CHIEF FINANCIAL OFFICER – POPULAR VEHICLES AND SERVICES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Popular Vehicles & Services Limited Q2 and H1 FY'25 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance, and involve risks and uncertainties that are difficult to predict.

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 star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Naveen Philip, Promoter and Managing Director of Popular Vehicles and Services Limited. Thank you and over to you, sir.

Naveen Philip: Thank you. Good evening, everyone and a very warm welcome to our Q2 and H1 FY25 Earnings Call. Along with me, I have Raj Narayan, our CEO and John Verghese, the Group's CFO. Before I get into the final aspects of financial numbers, let me give you a quick update on the business front as such. Q2 was a mixed quarter for us. Though we saw some good inquiries, the footfalls had gone up at the start of the quarter. It didn't get converted into a good number of bookings over the subsequent months.

To give you some insight, we saw a jump in footfalls or inquiries in Q2 by approximately 26% in Arena and close to 50% in Nexa. In October, we saw a 21% increase in inquiry. The momentum didn't continue as we witnessed at the start of Q2 and the sentiment was muted when compared to the same period last year. While we recouped or recovered shortfall of Q1 volumes by growing our volumes by 33% sequentially, the festival season didn't bring much cheer as last year, resulting in a volume drop of approximately 6% if you compare H1 FY25 to H1 FY24.

Our revenue degrowth for H1 FY25 was much lower than the volume degrowth, primarily by higher volume sales of premium and luxury basically the average selling prices being much higher than the same period last year. Our focus in terms of increasing revenue from outside of Kerala has borne fruit and today the Kerala contribution is down to 61% from 63% of last year.

Coming to each OEM-wise performance, MSIL - Maruti Suzuki, our sales volume has dropped by 4% year-on-year and revenue has dropped marginally by about 1% because of the average selling price and the mixed contribution of Nexa versus Arena and hence the average selling price is up by 2%. We continue to see traction in Nexa. The all India growth of Nexa was approximately 19% and Kerala's was 23%. Premiumisation will happen in the Southern market much higher or much faster, and delta of approximately 10% growth in all India.

Small cars market continues to be a challenge. The new Dzire launch that happened two days ago will contribute to better conversions, and the EV launch of MSIL is expected in Q4. Coming to our Jaguar Land Rover business, we witnessed a 40% growth in our sales volume compared to last year's H1 and revenue increased by 18%. The reason why the revenue increase was lower is because the local manufacturing of most of the models including Range Rover and Range Rover Sports has been bigger and hence the price has dropped by approximately INR50 lakhs in Range Rover and Range Rover Sport.

We expect the supply in Q3 to have some challenges, but it will be normalised in Q4. Honda sales volume degrew by 10% Y-o-Y and there is a slight increase in the average selling price as such. The new Honda Amaze launch is slated for December 4 and we expect volumes to pick up in Q4. Bharat Benz - with the network expansion in Maharashtra, we have seen a better growth in terms of volume compared to H1 last year which is a 19% growth in sales volume and a 14% in Tamil Nadu.

The post-election in Maharashtra November 20 onwards, so probably from December and Q4, the sales volume are expected to pick up. We have opened two new service centres in H1 in Maharashtra and this month we are inaugurating a new 3S facility at Aurangabad. The expansion in touchpoints in Maharashtra will enhance the revenue contribution and diversify our revenue. Tata CV- The sales volume dropped by 11% Y-o-Y mainly in the construct segment which also resulted in the revenue drop by about 12% because it was the higher value vehicle in the CV segment.

The tipper segment shows good traction in Q4, but SCV still continues to be a challenge in terms of overall numbers and in terms of market share for Tata Motors. New product launches are expected in Q4 and that would give a boost to the entire sales results. Ather -. When we had the Q1 calls, we had said that because of the Rizta launch the vehicle supply was limited in Q1, but we have seen a good traction of Ather two-wheeler sales in Q2 and our volume increased by 60% Q-o-Q Q2FY25 v/s Q1FY25.

And if you look at Q2 versus Q2 of FY24, there's a 28% increase, mainly driven by the sale of the new model Rizta. And we think that this traction will continue as even now the demand far outstrips the supply. Coming to our service business. This vertical is critical to our business model, generating recurring revenue and enhancing customer satisfaction. Our volume for H1 was flattish. If you adjust for the additional sales in H1 last year due to multitude reasons mainly on account of various factors, we were able to get better realizations resulting in a growth in revenue by 5%.

We still maintain that we would grow the service business by about 10% to 15% Y-o-Y and we continue to have the guidance for H2, resulting in an overall guidance of about 7% to 8% or 8% to 10% for this year. And in challenging times, we have started to work on cost optimization and reducing our inventory levels and service per se.

We have already streamlined some overheads, both in terms of employees and other expenses that do up our company. We expect this benefit will add to our margins going ahead. We are also slightly monitoring our inventory levels and working to bring it down to normal levels.

We are confident by the end of FY25, we will be in a far better position in terms of inventory and should be in line with the industry. Coming to network expansion, we would like to say that out of 10 Nexa studios, basically the small format showrooms in the interior markets started off by MSIL, three have come to Popular. As indicated earlier, we are strengthening our network of footprint through organic expansion as planned in FY25.

Though it is moving slower than expected, we are taking a calibrated approach in these uncertain times, but our long-term growth remains intact. And one of the reasons why we didn't go very high in terms of expansion terms is that it is not just the cost of acquisition, but most of the dealers across the country were carrying inventory of close to 80 days to 90 days and we will have to take that on those books. For the quarters to come in H2, October month saw a good jump in PV segment. As said earlier, we saw 21% growth in terms of inquiry of Arena plus Nexa.

We expect H2 will grow by 10% to 12% and at overall year at about 5% to 6% in terms of revenue . We continue to explore inorganic growth opportunities, aiming for a balanced approach between organic and inorganic. We are in discussions with various entities across our operational stage to identify potential opportunities. With this, I would like to hand over the call to John Verghese, our Group CFO to update you on the financial performance for the quarter and half year gone by. Over to you, John.

John Verghese: Thanks. Good evening, everyone. So I'll take you through the company's operational and financial performance of Q2 as well as H1 of FY25. So as you know, we have the four segments of new vehicle business, pre-owned business, service as well as the spare parts distribution. So coming to the new vehicle business, the company sold about 12,890 new vehicles versus 14,119 in the similar period quarter of the last year which means about 8.7% Y-o-Y degrowth. The total income from new vehicles sold was about INR1,126 crores which is down about 10% Y-o-Y from INR1,250 crores of Q2 of last year.

The average selling price has decreased by 1.5% from about INR 8,86,000 to INR 8,73,000. So this is primarily because ASP has gone down in Q2, primarily because of the discount that we had to shell out during Q2. Going to the pre-owned business, this again is in line with the new vehicle business. So the company sold about 2,790 pre-owned vehicles versus 2,887 in the similar quarter of the previous year which means a degrowth of about 3.4% Y-o-Y. The income from pre-owned vehicles was about INR97 crores, which is up about 0.1% compared to the previous year.

The average selling price basically has increased about 3.5% from INR3,35,000 to INR3,47,000. The third pie, the third segment.i.e., the services the income from services stood at about INR226 crores which is nearly about 5% up from about INR216 crores in Q2 of last year.

The ASP has increased from about INR 7,900 to about INR 8,600. The spare parts distribution business clocked about INR68 crores in Q2, which is down about 0.2% Y-o-Y. The total income from the quarter stood at about INR1,500 crores versus INR1,600 crores in Q2 of last year which is basically a degrowth of about 7.3%.

EBITDA we ended up with about INR59 crores against INR90 crores last year, which is a decrease of about 35%. The EBITDA margin stands at about 3.9% in Q2. The PAT comes to about INR 7.6 crores versus INR32 crores in Q2 of last year, a decrease of about 76%. The PAT margin stands at about 0.5%. If we have a look at these segments, the three segments that we are in passenger vehicles, commercial vehicles and EV. The passenger vehicle revenue stood at about INR965 crores versus INR995 crores of last year, showing a decrease of about 3%.

Commercial vehicles had a decrease of about 16% against INR 541 crores last year, we ended up this quarter with INR 454 crores. And the EV revenue we have got about a 2% increase from about INR22.6 crores to INR23 crores this quarter. If you were to look at the H1 performance, the new vehicle sales were about 22,566 versus 23,993 last year which means a degrowth of about 6%.

At the income, there was also about INR2,000 crores which is down by about 1.8% from about INR2,095 crores last year. The ASP has increased by about 4.5% from INR 8,73,000 to INR 9, 11,000 primarily on account of more premium vehicle sales. The pre-owned vehicles here also there was a degrowth of about 6% in the volumes from 5,600 last year, we came down to 5,200 odd. The income there was a de-growth of about 3.5%. So from INR188 crores last year, we came down to INR182 crores. And the ASP basically increased by 3% from INR 3.35 lakhs to about INR 3.45 lakhs.

Service income has grown by about 4.7% in the first 6 months from about total from last year's INR423 crores to INR443 crores. The ASP increasing from INR 8,000 to INR 8,500. The spare parts distribution business clocked an income of INR131 crores, a degrowth of about 1.6% from last year.

If we look at the financial performance, the total income for H1 stood at INR2,800 crores versus INR2,800 crores which is about a flattish kind of growth for the year, for the first half. EBITDA ended up with INR111 crores against INR144 crores of last year, whereas PAT was INR13 crores for the first 6 months against INR40 crores for last year.

PV revenue stood at about INR1,700 crores, which is an increase of about 0.4%. CV revenue was about INR934 crores, which is a decrease of about 2.8%. And EV revenue was a decrease of 18%. We ended up with about INR36 crores. The balance sheet and cash flow basically, we had a strong focus on controlling our costs and other overhead expenses, resulting in better operating cash management. We were able to have positive cash flow from operations of around INR7.4 crores compared to a negative or deficit of INR148 crores the same period last year.

This was despite of low volume growth and high inventory levels. This is giving an indication that we were very conscious on the cost which has helped us to do better in these challenging times. High inventory was on the back of, slowdown in volumes. So basically, in Q1, we built up the stock, expecting a good festive season.

Unfortunately, that didn't take off, so hence we had to remove most of those stocks in the market at a discount, but at the end of September, basically, as a group, for the vehicle basically, we are more in line with the number of days that we had in the previous year.

So in September '23, we were at a 50-day stock in last year September whereas this September, we are at a 52-day stock. Sorry, it's just the reverse. I'm so sorry. Last year was 52 days. This year has been 50 days. So we were able to bring down the stock levels during the quarter by removing it through a higher discount. Due to good inquiries of footfall which we encountered at the start of the quarter and onset of the festive season, we had built up, as I mentioned, we built up inventory for it.

However, due to low uptake than expected, inventory rates have remained more or less similar to the previous quarter, which was higher than March '24. So as I mentioned, we gave higher discounts. We started with the centralized control on the inventory we are intended to maintain. We are doing a cost benefit analysis on the vehicle lifting that we do, tracking of each stock. We had also discussions with the OEM and we have curtailed the lifting. So we are sure of bringing down inventory levels to normal by the end of this quarter. And it's already, in fact, has come down to normal levels.

The debt-to-equity is at 0.8 times and net debt-to-equity is at 0.7 as of 30th September, 2024. Other updates, basically one of our group companies is Popular Auto Dealers. They've improved the credit rating to A category. So with this, five of our group companies are in the A category as far as credit rating is concerned. Another piece of information is one of our group companies is Popular Auto Works basically, the JLR division which is the wholly owned subsidiary of the PV Popular Vehicles, received nine prestigious awards in the National Sales and Service Excellence Meet.

These include the winner of the Service Manager of the Year, Parts Manager of the Year, Campaign Completion Champion and the other awards are the first and second runner-up for Service Manager, Parts Manager, CRM, etc. In fact, as we speak today, we are now informed that we are also given an award by JLR for Pan India being the best in the country for HR practices. This award came just today as we came to know about it. It was given today, basically. As mentioned by Naveen earlier, the state-wide revenue is as follows.

Kerala has come down to 61%. Tamil Nadu is 25%. Karnataka is 10%, and Maharashtra is 4%. That's it from my side. Now we are open to the Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. We'll take a first question from the line of Varun Jain from VJ Capital. Please go ahead.

Varun Jain: Sir my first question was for the sale and service business, you had earlier guided 15% to 20% for the next 3 years, 5 years. So where is that guidance being revised to now for this year and for the next 3 years, 5 years if I may ask? That's the first question?

Naveen Philip: So our guidance for the long term remains the same in terms of 15% to 20% growth that there is no change. This year, given the market conditions, we would have a slightly more muted growth in terms of probably closer to about 7% as such.

Varun Jain: Then in the coming years you will grow like 25%, 30% so that the CAGR is like 15%, 20%?

Naveen Philip: Yes.

Varun Jain: Sir another question was that when I was looking at some of your competitors, they are actively pursuing new OEMs like BYD or Mahindra who are launching new models like Thar Roxx and all which are very exciting and have a lot of wait lists and all. So why are we not adding any new vendors who are very aggressive like Maruti and all these Japanese, Honda and they kind of don't have the new products and all as of now. Any thoughts there?

Naveen Philip: I think over the last 2 years, 3 years we have been very consistent in our stance on this. It is that in terms of new vendors. The same questions we asked about 4 years, 5 years ago or probably 6 years, 7 years ago when Renault and a few other manufacturers had come in and said why don't we grow with Renault, why don't we grow with Nissan, why don't we grow with a few other vendors.

And none of those questions today the flavour of the market is Mahindra, BYD etc. Our consistent stance is that we would like to grow our service market share and for that there has to be a car parc that is available and the biggest car parc that is available today is Maruti. The only other player that comes even close is Hyundai. And here again, I would like to state and then probably the question would be in terms of Honda and here again, I would like to reiterate that the cars in terms of the average age of the cars.

So we service cars beyond 4 years and 5 years. There are very few cars like Wagon R, Alto, Swift, Swift Dzire that have lasted over 10 years or 15 years in the market. If you look at all of the cars, sans probably Honda City and to some extent Toyota Innova, there are very few cars that have been there for such a long time and hence gives you a service value and volume growth. If you look at for example, even Tata Motors. The availability of Indica, Indigo, Sumo or any of those vehicles are today not available and this holds true for most of the manufacturers and that is a clear focus area.

Having said that, we would continue to expand with the OEM that we currently have and we also look at other opportunities in expanding to other geographical areas and by Q4, we are stating that we would be available, we would be expanding to two new states at least if not three by the beginning of June

Varun Jain: And sir just a small follow-up, this is my last question. So like if you look at even the comments by Maruti Chairman. He was also quite sceptical of when the recovery in the small value cars will happen. So Honda and Maruti are more geared towards the value segment while the real growth right now is in the premium segment like all these Mercedes and all. So are we adding any luxury cars or high value cars because Honda and Maruti are more towards the value segment which is not growing and even there, Chairman was kind of sceptical. Any thoughts on that? That's all from my side.

Naveen Philip: I think you should look at what Mr. Bhargava said as the Chairman. He said that the small cars have been a challenge and we are looking at 3% to 4% growth in terms of small cars and that's a challenge, but as we said in our earnings, I mean, just prior about 10 months back, our Nexa growth has been 23%. And if you look at the all India PV car market growth, it has been close to about 2%, 3% whereas the Nexa growth which is the premium model has been 23%. And very few car companies have grown at that rate.

Honda is again in the premium segment because Honda City, Elevate are all 13 lakh, 14 lakh plus vehicles as such. But yes, that segment has not been growing so much as the SUV segment as such, but in terms of Nexa, the growth has been 23% and we'll continue to focus on that because it also gives us the service growth for that.

Varun Jain: Okay sir. Thank you, sir, and all the best.

Moderator: Thank you. We'll take our next question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Hi, Naveen. John, thanks for the opportunity. Good evening. I have two questions. In the Onam season, can you say what happened exactly because I was expecting very good numbers around Onam. So maybe some qualitative commentary you can say that and if there is a deferment of purchase, has that volume come back in the month of October?

Naveen Philip: On Onam segment, I think overall Y-o-Y, Onam to Onam, I think it was a drop of about 7%.

Raj Narayan: Yes on Arena and 23% growth on Nexa. So overall it was about 2% degrowth compared to last year.

Naveen Philip: Overall, it was about 2% degrowth compared to last year in terms of Onam. There could be specific reasons, but I think it's also because the Kerala government given the Wayanad tragedy had asked most people to be muted in their celebrations, etc. So I think that has also happened. Would this come back over the next couple of months? We are hoping that some part of the growth will come back, but not the full growth, per se, which is why we have given a guidance on H2 slightly higher than H1.

Shirish Pardeshi: My second question on the discounting and inventory. Can you split OEM wise inventory as of September?

Naveen Philip: Okay. John, over to you.

John Verghese: Discounting, I mentioned earlier that we had to shell out discounts because we wanted to bring our inventory levels down. Hence, I think this year we had to double, especially in Maruti, for example, we had to shell out more discounts, maybe double the discounts that we shelled out in last year and hence that was affecting in our EBITDA and bottom line. Coming to our next question on inventory, OEM-wise, inventory including spares is about 54 days. Maruti is about 70 days. Honda is about 46. Tata is about 28. JLR is about 46. So this is overall the break-up of inventory OEM-Wise.

Shirish Pardeshi: That's helpful, John. I wanted to check because last quarter end our Nexa inventory was higher. So has Nexa inventory come down to less than 30 days now?

Raj Narayan: Not to less than 30 days. It has gone all the way to about 80 to 83 prior to the festival where we have stocked as John said. But right now as we speak, it has come to about 67 days that was October 31st and it's gone down further and we are hoping to bring it to about closer to 60 or slightly lower than 60 by the end of this month.

Shirish Pardeshi: So does that mean, Raj, our discounting in quarter 3 will be similar to what we have seen in quarter 2 ?

Raj Narayan: To a large extent it will be similar.

Naveen Philip: Quarter 3 will be similar to quarter 2's Shirish.

Shirish Pardeshi: Okay. Thank you and all the best.

Moderator: Thank you. We'll take our next question from the line of Aman Agrawal from Carnelian Capital. Please go ahead.

Aman Agrawal: Sir, thank you for the opportunity. Just continuing on last participant's question on the inventory, can you share how is the inventory at the end of October, like after the festive season and what is our guidance basically towards the end of this year like by the end of March, what kind of inventory days do we want to keep and how are we planning to manage that basically?

Naveen Philip: Actually, if you look at Sans Maruti, for example, I'll talk about all of the OEMs and then I'll come to Maruti specifically. So, if you look at Honda, JLR, BharatBenz, and Ather, all these inventories, Ather is only about 20 days, but the rest are all around 40 days, 45 days as of September 30th. And this has further come down by October, by about two to three days in terms of inventory.

In terms of Tata commercial vehicle, the inventory which stood at 35 days last H1 is down to 28 days this H1. The only concern area was Maruti division. So, Maruti division, we were at around 60 days last H1. We are at 70 days at September 30th closing. But here again, we have to look at it in terms of inventory calculation, but as Raj said, this has further come down to about 60 days, 67 days as of October end. And by December, we are hoping that this inventory would be in the region of about 50 days, between 45 days to 50 days.

John Verghese: That's coupled with the fact that to add on to what Naveen has mentioned, there are two things that we have done. One of course is we have dialogue and discussion with OEM and we have reduced the offtake and that they are supporting us for that. And number two, as you know, in Kerala we have another festival coming up in December, Christmas and, of course, the year-end per say and plan is to reduce it to 40 days, 45 days by end of December.

Aman Agrawal: But our recurring inventory will be 45 days, 50 days for Maruti, even after December, right?

Naveen Philip: No, so by March end we are hoping to have the inventory down to normal levels of 32 days to 33 days.

Aman Agrawal: So with lesser offtake, ideally our gross margins will also come down since we have volume-based discounts and all. So that might further impact Q3 and Q4 for us?

Naveen Philip: Q4 won't be impacted, because Q3 would have some amount of impact definitely, but Q4 won't be impacted.

Aman Agrawal: Got it. Sir in terms of demand outlook in Kerala, how are we seeing demand last 2 years, 3 years, we have not had very good years in Kerala, in terms of demand compared to how the Indian PV market is doing. Are we seeing some signs of reversal since Kerala is predominantly a small car market, so any outlook on that?

Naveen Philip: No major change in terms of Kerala outlook per se, but to your last statement in terms of Kerala being a small car market, I just want to reiterate that Kerala Nexa is the highest growth rate across India. And also in terms of the Nexa penetration and Nexa versus Arena ratio, Kerala is one of the highest all India.

Aman Agrawal: Okay. Got it. So like on Maruti, can you share the volume for this quarter versus last quarter?

Naveen Philip: You're talking of Q2 versus Q2?

Aman Agrawal: Yes.

Raj Narayan: 9,443 was last year's quarter. This year it is 8,771 about minus 7% quarter-on-quarter, but if you look at H1, it's minus 4% which is 14,773 versus the 15,405.

Aman Agrawal: So 9% kind of volume decline in Q2 for Maruti basically?

Raj Narayan: 4% in H1.

Aman Agrawal: No, I'm talking about Q2?

Raj Narayan: minus 7%.

Aman Agrawal: Minus 7%, okay. And that in case of Nexa and Arena would be?

Raj Narayan: So Nexa is on a growth of 23% and Arena is on a degrowth of 7%.

Naveen Philip: That should be more than that. Arena degrowth will be higher. You're talking whole of H1?

Raj Narayan: And you specifically wanted, I was talking H1, sorry.

Naveen Philip: H1 is 23% growth for Nexa and 7% drop in Arena.

Aman Agrawal: Got it. Would you have a ready number for Q2, sir like Nexa, Arena and overall Maruti volumes?

John Verghese: Overall Maruti in Q2?

Naveen Philip: Q2, the overall Maruti is minus 7%, 8,771 vis-a-vis 9,443. I will give you the breakup of Nexa and Arena in a moment. I'll come back to you on this Aman.

Aman Agrawal: Sure. Basically again on that service question, like service business like we've seen 4% kind of volume decline in the service numbers. So like what is happening on ground if you can talk a bit on that like what might be the reasons for the slowdown and what could actually drive a reversal in overall volume growth in the service business?

Naveen Philip: If you look at the volume decline per se, we've shown that because last year in terms of CV volumes we used to account for the filling of the DEF liquid also in terms of the volume, which was approximately 12,000 numbers in terms of job cards. We've removed that in this year in terms of DEF and we've just added to the normal job card itself.

As advised by the OEM and the changes that they made in their CRM system also, which is why we dropped larger profits. Otherwise, if you look at it, it's in terms of flattish in terms of volume thing. There's hardly any drop. In terms of revenue terms, we've grown by about 5%. So H2 we're expecting a volume growth and also in terms of revenue growth which is why we've given that guidance.

Raj Narayan: To answer your earlier question, Q2-over-Q2 Arena is at minus 15% and Nexa is at about 10% growth.

Aman Agrawal: Sir, but even in Q2, Nexa also we've seen a lower growth even during the festive season?

Raj Narayan: Compared to Q1 over Q1. Q1 over Q1 was about 29%.

Aman Agrawal: Got it. Sir on the service business again, you said that CV job card thing basically impacted us. If you can give the passenger vehicle volume numbers, then that might clear a bit how the service volumes have moved in passenger vehicle business for us?

Naveen Philip: Passenger vehicles has been a flat number. 4,18,000 approximately H1 last year and similar numbers in H1 this year also. Whereas in CV, we were at 1,04,000 odd in H1 last year way down to 90,000 in H1 this year.

Naveen Philip: If you remove the job cards per se, CV was approximately 1% in terms of volume growth.

Aman Agrawal: When we are seeing H2 will be better in both volume and value growth, so we are expecting that 10%, 15% kind of volume growth in H2 or is that value growth?

Naveen Philip: You are talking of service in particular?

Aman Agrawal: Service business H2. So We are talking about 10% to 15%.

Naveen Philip: We are looking at both 10% volume growth and closer to 15%, 16% in terms of revenue growth.

John Verghese: Two, three factors to that. One is, of course, we have two, three service centers of BharatBenz. Already two centers have started in BharatBenz and two more are coming up in Maharashtra. As far as Maruti is concerned, we have about six service centers which should be available by end of Q3 or beginning of Q4. Secondly, as mentioned that Nexa, basically as you see, Nexa growth is happening for the last couple of years and that when it comes back to the service centers, the ASPs per se is much higher than the Arena vehicles.

Aman Agrawal: In terms of outlets, we will have six service outlets for Maruti in H2?

Naveen Philip: We should be adding close to about 80 days, 85 days.

Management: No, 58 plus 12 - 70 days.

Naveen Philip: 70 days in H2.

Aman Agrawal: Got it. And sir ideally, when you start a new outlet, do you take higher initial cost for initial month which might impact your gross margins and EBITDA margins or do you expect you will start getting good volume since you already have a good capital?

Naveen Philip: In service, there is no major impact in terms of expenses or costs because as I said the car parc being the strength, cars are immediately available.

Aman Agrawal: Understood. Sir, this was really helpful. Again, last thing on inorganic side. With the kind of slowdown, slight slowdown we are seeing on PV side also on the commercial vehicles, are we seeing more inorganic opportunities like more people basically willing to sell? Is there anything moving in that direction since that is one area we are focusing on a lot?

Naveen Philip: This is why I mentioned in the beginning that we were discussing a lot of inorganic opportunities as such. What is the price of the facility per se, but more importantly in this time it was also in terms of the inventory they were carrying. So most people were carrying between 65 days to 90 days of inventory. So that would also come on books.

We slowed that down and assuming that the impact of this year in terms of muted growth, most dealers don't have our service strength and hence, profitability will be even more further impacted. I'm going to understand a lot of dealers are under losses as such. So we think that the end of this year or Q4, we will see far more opportunities and far better prices to pick up.

Aman Agrawal: Got it, sir. Thanks a lot for answering my questions, sir. This was really helpful. Thank you.

Moderator: Thank you. Next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Thank you. I just want to understand…

Moderator: Sorry, can you use your handset mode, please. Your audio is not very clear.

Lakshminarayanan: I just want to understand if you have tie-ups with Maruti on passenger cars and Honda on passenger cars and also Tata and BharatBenz on CVs. What are the OE's you cannot work with something like that? If you work with Maruti, you cannot work with A and B. How does that work?

Naveen Philip: If you work with Maruti, we are working with Honda also, but if you look at it in terms of - and this is something that I explained earlier, if we go ahead and look at Hyundai per se, I don't think both Hyundai or Maruti would be happy with it. And if you look at the focus that we have in terms of service, these are the only two car companies that can give us a broad network on service per se.

We have a huge strength in Maruti, we will continue to grow with it. The rest of it, we'll take it as it comes in terms of whether we want to be, if we see any manufacturer that has traction over a period of 3 years to 4 years and service car parc is built up, then we'll take those opportunities as such.

There is no negative in terms of working with any particular manufacturer. We have with Tata Motors, we have with BharatBenz, I think both compete with each other. We are in certain markets we are common. Similarly with Maruti, Honda and Maruti, we are in certain markets common. Spare parts we distribute Tata Motors- passenger, Maruti, Tata Commercial, Ashok Leyland and JCB & in similar markets.

Lakshminarayanan: Got it. What is your market share of Maruti in new vehicle sales in Kerala?

Naveen Philip: You asked Maruti's market share in Kerala?

Lakshminarayanan: Your market share in Maruti's sales in Kerala?

Naveen Philip: It's about 26%.

Lakshminarayanan: 26%. And which are the districts, how would you split which districts you are strong?

Naveen Philip: All 14 districts we cover. We have about 13 large showrooms. Both Nexa and Arena put together.

Raj Narayan: 13 large showrooms closer to 100...

Naveen Philip: What did you ask?

Lakshminarayanan: What is the split of Nexa and Arena for you in Kerala?

Raj Narayan: 7 Arena showrooms, 6 Nexa showrooms and then we also have about 99 smaller outlets.

Lakshminarayanan: Got it. I just want to understand in the annual report you split your revenues into sale of vehicles and then there is also other operating revenues which includes finance and insurance which is growing very strong. I just want to understand for the first half, what has been the growth in finance and insurance fee income?

Naveen Philip: Finance and insurance income as a total in terms of revenue would be negligible as in terms of quantum numbers.

John Verghese: Last year we ended up with INR75 crores of insurance.

Lakshminarayanan: In the first half how much we have done?

John Verghese: Last year in FY24 we ended up with INR75 crores of finance and insurance commission on a total turnover of INR 5,600 crores for the company.

Lakshminarayanan: That must be extremely profitable, right? That's why I'm asking this. For the first half, what has been our revenues from this finance and insurance?

John Verghese: It's about INR37 crores.

Lakshminarayanan: Got it. Thank you, sir. I'll come back in queue.

Moderator: Thank you. We'll take the next question from the line of Niraj Vijay Kamtekar from ProsperoTree. Please go ahead.

Niraj Vijay Kamtekar: Thanks for the opportunity. Sir, my question is more related to our business model and higher operating expenses. Our GP margin was around 14.5% in the last year and now it is below the 14%. The other major expenses are the employee cost which is 6.5% to 7% of the revenue and EBITDA margin is below 4% and the two other major expenses are still pending, the finance cost and depreciation. So the PAT margin comes to the 0.5% on our top line of the INR5,500 crores to INR6,000 crores. If our GP margin is 14.5% and the employee cost is half of that, 6% to 7%.

Do you think the management thinks that these operating expenses are very high and if the answer is yes, what step the management is taking to control the operating expense and to improve the EBITDA margin? Because the other competitors on the listed companies have targeted to reduce the operating expenses by 4%. At this point of time when the demand is on the lower side and the company has to offer the discount, is the company taking any step to control the operating expenses?

John Verghese: Absolutely right. You are right bang on. We are taking various steps to reduce the operating expenses due to which if you look at our cash flows and I mentioned that also in the call, that we've improved our cash flows this year compared to last year in spite of the lower volumes and higher interest costs and higher inventory that we carry. So we have ended up actually with a positive operating cash operation of INR 74 million compared to last year, a negative of about INR 1,481 million. So what are the various steps we have taken? A few to cite to you?

One is, for example, for the two big companies that we have, that is the Maruti division as well as the Tata Motors division. Since we knew that the volumes were coming down, we did a proper rationalization of manpower and nearly about more than 400 manpower has been reduced in these two companies. Whereas we took the other side, for proper Maharashtra where we had to strengthen our service operations.

As you know, we just took it over a year back from another dealership. So we had to strengthen operations where we increased the manpower. So we've done those rationalizations to ensure that what we require, we do. That's point number one. Secondly, in terms of the other costs, there's a lot of centralization that we have done. We've brought in bot. In fact, even the finance function, we've started something called the shared accounting services. The back office functions of sales and services, there's a team with HR which is looking at centralization of these functions rather than having at the locations.

So all these put together, if you look at our financials of this year compared to last year, you'll find that the admin costs and the employee costs per se has not increased per se due to all these initiatives that we have taken. Secondly, to go back to your earlier point, that 0.5%, the problem is that in our industry, if you look at the turnover, that may be a slightly different way of looking at it because obviously a vehicle value which is 6 lakhs or 7 lakhs, and when you go to commercial vehicles more than 15 lakhs, 20 lakhs, if you look at the profit, obviously the percentage looks a bit skewed lower.

A better way to look at our industry is looking at the return on capital employed, which is finally the mother of all ratios. In fact, last year, I think we ended up with 18% ROCE and yes, so that's what we keep tracking.

Niraj Vijay Kamtekar: But sir, my question is that our GP margin is not on the lower side. It is only 14% to 14.5% when the top line is around INR5,500 crores. Our operating expenses are very high and particularly the employee cost is around 6.5% to 7%. Is it justifiable because we cannot improve the GP margin because there are certain fixed rates. Maruti is providing the same rate to the other dealers, so we cannot improve the GP margin. The only thing to improve the profitability is to reduce the operating expense, and in that case, our employee cost is 6.5% to 7% of the top line. Is it not on the higher side?

John Verghese: Yes, so what we are doing, sir, as I mentioned, one of our strategies, our main strategy is to improve on our service pie of the business. If you look at the service pie of the business, when you said gross margin of 14%- 15%, in service it's more than 50%. That is where we are looking at new service centers, we are looking at expanding and that has been our strategy, and we continue to focus on it.

With this, definitely EBITDA margins, we have done an internal calculation also. On a normal year, this year being an outlier, I'm not talking of this year. On a normal year, when you're looking at 20%, 25% growth in the service operations, we are looking at EBITDA margins growing by 20 basis points year-on-year. And if you look at it also in the past, if you go 3 years, 4 years back then your EBITDA margins, what were the EBITDA margins then and what is it now, of course, not this year this being different. So, that's definitely we keep on improving on it by improving our service pie of the business.

Niraj Vijay Kamtekar: I think that you are the best judge and it is our wish that we should control the operating expense which is in the hands of the company. We cannot create the new demand, we cannot do other things, but what is in control of the company is to make the optimum use of the facility and optimize the cost that is in the control of the company. That, we understand. And I think we request the company to control the cost.

My second question is that if the demand is lower and the company is offering the higher discount to the buyer to reduce the inventory, is there any mechanism by which the OEM offsets or compensates their losses which we have forgone to reduce the inventory or can the company say no to the OEM, please don't supply more vehicles because we already have the inventory of the 50 days to 60 days?

Naveen Philip: Yes, I think that's what Raj had explained that over this quarter and next quarter, we will be bringing down our inventory. And as you notice, that all other OEMs that we have built, in terms of Tata, BharatBenz, all the others, the inventory is already sub 45 days level. And it's further coming down. So, Maruti, we will be correcting it this quarter and beginning of next quarter.

Niraj Vijay Kamtekar: But what we have forgone, our margin, say, when we are offering the higher discount to the buyer, is there any mechanism by which the company offsets or compensates our margin loss?

Naveen Philip: Not offsets our margin loss, but Maruti also contributes to the discount that is offered to the customer. So, this slowdown I don't think was expected by many in terms of this rate of slowdown. So, I think manufacturing have to go on and hence there was inventory built up across the country, did not just in a particular state or a particular OEM. And that, over the next, I think, over the next 60 days to 90 days along with the OEM, in terms of the offers being given in the market this time the inventory will reduce.

Niraj Vijay Kamtekar: So, if they are not compensating the discounts, are they providing any extra credit period so we cannot have to incur the finance cost?

Raj Narayan: So, once they bill it, there is a credit period of 13 days, that is interest free. And after that, the interest starts, but we also have the same interest rates in our inventory. And again, to answer your question on discounts also now very recently, we have worked out a methodology by which when a stock comes itself, we are trying to predict based on past averages as to whether it is going to remain with us for 2 months or 3 months or 6 months or 9 months and then we do a cost-benefit analysis. What will be the discount I may have to shell out if it is remaining for more than 3 months, plus the extra interest cost. And then we do a smart discounting initially itself to kind of liquidate it faster.

Niraj Vijay Kamtekar: Okay. And, sir, in the press release, you are providing the volume data of the new vehicle say it is for the first half it is 22,566. And we are in the three to four line of business. See, we are selling the PV, CV, luxury vehicles and others, others is the EV. So, is there any because you are not providing the PV segment-wise, let's say, there is a segment result, but we don't have the data about the PV number sales, PV number luxury. Can you provide that data?

Raj Narayan: Yes. You mean the split of PV number?

Niraj Vijay Kamtekar: No, the volume, the combined volume is given, say, in the press release.

Raj Narayan: Okay, understood. The combined volume was 22,566, out of which passenger vehicle is 15,800, commercial vehicle is about 5,000, and EV is about 1,800.

Niraj Vijay Kamtekar: CV, 8,500?

Management: No, passenger car is 15,800, commercial vehicle is about 4,980 to be precise and the electric is 1,800.

Niraj Vijay Kamtekar: And what about the luxury because luxury is a part of PV?

Raj Narayan: Yes, it is a part of PV and that in H1 we did almost 200 numbers, JLR.

Niraj Vijay Kamtekar: Okay. And the luxury offer the higher GP margin?

John Verghese: Margins now are more or less the same like the other compact cars.

Raj Narayan: It's the same similar to the 14.5%

Moderator: Niraj sir I request you to join back the queue please.

Niraj Vijay Kamtekar: Okay. Thank you madam.

Moderator: Thank you. Next question is from the line of Jinay Mehta from LKP Securities. Please go ahead.

Jinay Mehta: Yes, sir. I just wanted to know the number of new showrooms you might be opening and the number of new brands which you might be onboarding in the second half of this year?

John Verghese: We are not opening any new showrooms in the second half of this year, but as I mentioned earlier, the service centers there are six in passenger car and one in commercial vehicle.

Jinay Mehta: Okay. And, sir, any new brand which we might be onboarding?

John Verghese: Naveen, you want to answer that?

Naveen Philip: Not in this quarter. Next quarter, we will have to come back on it. We will definitely be entering two or three new states per se with current OEMs, but in terms of the new OEMs, we will probably take a little more time.

Jinay Mehta: Okay. So, are we also looking, trying to move our focus towards the EV sector currently or it's open right now for all the PVs, CV?

Naveen Philip: You're asking whether we are opening up more in the EV sector?

Jinay Mehta: Yes.

Naveen Philip: So, EVs specific we have currently two OEMs as such which is Ather and Piaggio. In Ather, we are looking at further expansion. We have sort of stabilized both Tamil Nadu and Kerala operations. So, we'll be having discussions with them on that. Piaggio in terms of three-wheeler EV there are some challenges on all India basis because of government support being removed. So, we are holding on to it as of now, till we get clarity on that.

Jinay Mehta: Okay, sir. That was great. Thank you.

Moderator: Thank you. We'll take our next question from the line of Piyush from Acquaint. Please go ahead.

Piyush: Sir, can you talk about the margins in the service business post-rent and also the ROCE, what we do in a normal state, in general, in a common year?

John Verghese: In a common year, for service centers the ROCE for any new Greenfield project that we have, we do a project IRR before we start a project. And hence, it's about more than typically we get about 35% IRR for a service center. And your next question was on the gross margins. We get about 50% gross margin from our service.

Piyush: Sir on a PBT level, so you would have a…

John Verghese: We calculate at the EBITDA level, which is about 19% blended.

Piyush: So, this is post-rent, Pre-IndAS?

John Verghese: Post IndAS. This is after IndAS.

Piyush: So, if I include the rent expenses for your service. So, what would be the margins ex rent?

John Verghese: Rent would be about 5%, I guess. 6%. So, it would be about 13%, 14% would be the EBITDA if you include the rent.

Piyush: Okay. And service centers would generally not include any interest expenses because they don't have any working capital?

John Verghese: Correct.

Piyush: Okay. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand over the call to Mr. Naveen Philip, Promoter and Managing Director for closing comments. Over to you, sir.

Raj Narayan: So, this is Raj. I will do the closing remarks. Just to sum up, we are taking all the right steps and working dedicatedly towards achieving our growth target. Long-term vision and growth target remain intact as it is. Thank you all and we appreciate your participation at earnings call today. We trust that we have addressed all your queries. Should you have any further questions, please feel free to reach out to Strategic Growth Advisors, our Investor Relations Advisors. Thank you very much and have a great evening ahead. Thank you.

Moderator: Thank you sir. On behalf of Popular Vehicles & Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.