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Q1FY22 result review
and earnings revision

Automobiles

Target price: Rs2,965

Earnings revision

(%)	FY22E	FY23E
Sales	↓ 1.0	↓ 1.2
EBITDA	↓ 9.0	↓ 7.9
EPS	↓ 8.7	↓ 7.0

Target price revision

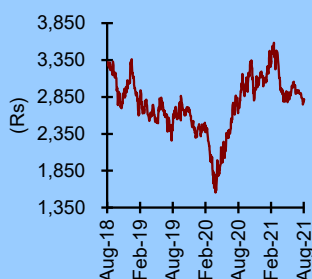
Rs2,965 from Rs3,189

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	34.8	34.8	34.8
Institutional investors	55.9	55.9	55.2
MFs and other	5.9	4.7	6.2
FIs/Banks	0.4	0.3	0.4
Insurance	8.3	8.5	8.6
FII	36.0	37.3	35.1
Other Inst	5.3	5.1	4.9
Others	9.3	9.3	10.0

Source: NSE

Price chart



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INDIA

ICICI Securities

Hero MotoCorp

ADD

Maintained

Gross margins slip as input cost pressure rise **Rs2,782**

Hero MotoCorp's (HMCL) Q1FY22 operating numbers missed consensus estimates as margins came in at 9.4% (down 449bps QoQ). Topline declined ~37% QoQ (below consensus) to ~Rs54.9bn as ASP fell ~3.2% to ~Rs54.8k/unit (potentially due to mix). Input cost pressures have finally caught up with gross margins (down 204bps QoQ), as costs continue to rise, gross margin trajectory over H2FY22 would be a key monitorable. HMCL is witnessing demand pressures in entry-level segment due to weak consumer sentiment; rising vehicle prices are likely to further hurt affordability. The imminent (Aug'21) electric vehicle product launch from the new-age challenger *Ola Electric* is likely to bring investors more clarity on the right-to-win of new-age companies in a 2W-like matured business. Hero has strategic partnerships in EVs (e.g. Ather, Gogoro ([Link](#))), which could provide it with multiple roads to future success in EVs. Maintain **ADD**.

Earnings call on 13th Aug, Friday, at 12.30 pm; on +91 22 6280 1149/ [Link](#)

- **Key highlights of the quarter:** HMCL reported EBITDA margin of 9.4%, down 337bps QoQ, as gross margins slumped 204bps QoQ at 27.5%. ASPs also surprisingly declined 3.2% QoQ to ~Rs53.5k/vehicle likely due to adverse product mix. PAT shrunk 58% QoQ to Rs3.6bn (in-line with EBITDA decline of 57%). The key points for the earnings call: a) pricing power and gross margins, b) demand situation, c) electrification strategy
- **Retail demand trends remain key as festive season approaches:** We have witnessed 2W retail demand trends gradually improving post covid reopening ([link](#)), which bodes well for demand trends in upcoming festive season (started) 4th Aug'21 with *Onam*). 2W industry inventory levels are relatively high, and we believe HMCL inventory is likely to be at the higher end of ~6-8 weeks (our Aug'21 estimate). Industry is grappling with steep increase in input costs and HMCL too needs to find ways to pass on the additional cost inflation to customers. Entry-level has been witnessing demand slack and consumer sentiment revival still remains fragile. Progress on export markets also remains a potential growth driver for HMCL.
- **Maintain ADD:** HMCL has witnessed weak demand trends since Mar'21 as entry-level demand has been significantly impacted by marriage season demand in Q1. HMCL's multi-pronged strategy (e.g. Ather/Gogoro) bodes well for its future product launches. We have cut our earnings estimates by ~-8.7% / -7.0% for FY22E / FY23E and retain our target multiple at 16x FY23E EPS of Rs185.3. Maintain **ADD** with a revised target price of Rs2,965 (earlier: Rs3,189).

Market Cap	Rs556bn/US\$7.5bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	HROM.BO/HMCL IN	Revenue (Rs mn)	2,88,361	3,08,006	3,55,885	4,00,102
Shares Outstanding (mn)	199.8	Rec. Net Income (Rs mn)	29,559	29,642	30,002	37,020
52-week Range (Rs)	3584/2713	EPS (Rs)	148.0	148.4	150.2	185.3
Free Float (%)	65.2	% Chg YoY	(12.7)	0.3	1.2	23.4
FII (%)	35.1	P/E (x)	15.3	18.7	18.5	15.0
Daily Volume (US\$/'000)	34,942	CEPS (Rs)	222.9	182.3	187.2	227.2
Absolute Return 3m (%)	(0.8)	EV/E (x)	12.7	12.1	11.7	9.5
Absolute Return 12m (%)	3.6	Dividend Yield (%)	3.2	3.8	4.1	5.0
Sensex Return 3m (%)	13.3	RoCE (%)	22.2	20.2	19.4	22.7
Sensex Return 12m (%)	44.5	RoE (%)	21.9	20.2	19.3	22.6

Please refer to important disclosures at the end of this report

Table 1: Q1FY22 result review*(Rs mn, year ending March 31)*

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Volume (units)	10,24,489	5,63,426	81.8	15,68,077	(34.7)
Net realisation	53,559	52,741	1.6	55,345	(3.2)
Total Operating Income	54,871	29,715	84.7	86,786	(36.8)
Raw Material Costs	39,796	20,939	90.1	61,173	(34.9)
Employee Costs	4,357	3,824	13.9	4,884	(10.8)
Other Expenses	5,570	3,872	43.8	8,691	(35.9)
Total operating expenses	49,722	28,635	73.6	74,748	(33.5)
Reported EBITDA	5,148	1,081	376.5	12,037	(57.2)
EBITDA Margin (%)	9.4	3.6	575 bps	13.9	-449 bps
Depreciation & Amortisation	1,630	1,708	(4.6)	1,631	(0.1)
Other income	1,386	1,485	(6.6)	874	58.6
Interest Expenses	61	63	(2.7)	63	(3.2)
Exceptional item	0	0		0	
PBT	4,844	795	509.3	11,291	(57)
Tax	1,189	182	554.1	2,642	(55)
PAT	3,654	613	496.1	8,650	(58)

Source: Company data, I-Sec research

Table 2: Earnings revision*(Rs mn, year ending March 31)*

	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	3,59,307	3,55,885	(1.0)	4,04,947	4,00,102	(1.2)
EBITDA	44,697	40,671	(9.0)	54,193	49,935	(7.9)
PAT	32,854	30,002	(8.7)	39,809	37,020	(7.0)
EPS (Rs)	164.4	150.2	(8.7)	199.2	185.3	(7.0)

Source: I-Sec research

Table 3: Key assumptions for HMCL*(Rs mn)*

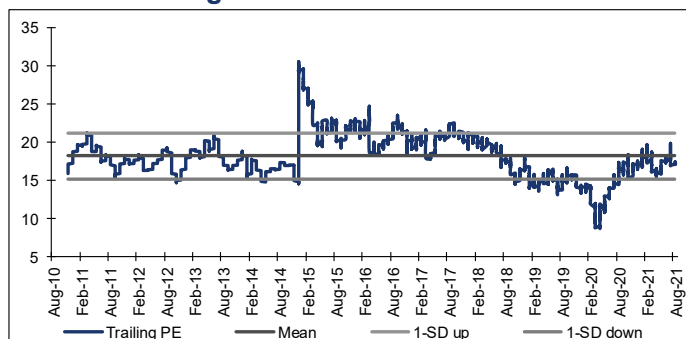
	FY18	FY19	FY20	FY21	FY22E	FY23E
Motorcycle volumes	66,77,207	70,79,193	59,90,349	53,33,447	60,76,188	66,78,835
Scooter volumes	9,09,986	7,39,958	4,19,370	4,58,013	5,36,458	5,93,544
Realisation/unit	42,480	43,036	44,988	53,183	53,819	55,017
EBITDA/unit	6,959	6,305	6,175	6,940	6,150	6,866

Source: Company data, I-Sec research

Valuation methodology and key risks

HMCL has witnessed weak demand trends since Mar'21 as entry-level demand has been significantly impacted by marriage season demand in Q1. HMCL's multi-pronged strategy (e.g. Ather/Gogoro) bodes well for its future product launches. We have cut our earnings estimates by ~-8.7% / -7.0% for FY22E / FY23E and retain our target multiple at 16x FY23E EPS of Rs185.3. Maintain **ADD** with a revised target price of Rs2,965 (earlier: Rs3,189).

Chart 1: Trailing P/E



Source: I-Sec research, 12m trailing data

Chart 2: Trailing P/B



Source: I-Sec research, 12m trailing data

Financial summary (standalone)

Table 4: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Volumes	64,09,719	57,91,460	66,12,646	72,72,379
Operating Income (Sales)	2,88,361	3,08,006	3,55,885	4,00,102
Of Which 2W	249172	266838	309074	342863
Of Which Spares	28959	31777	36199	45248
Operating Expenses	2,48,781	2,67,814	3,15,214	3,50,167
EBITDA	39,580	40,192	40,671	49,935
% margins	13.7	13.0	11.4	12.5
Depreciation & Amortisation	8,180	6,769	7,387	8,360
Gross Interest	220	218	214	210
Other Income	7,783	5,799	6,668	7,669
Recurring PBT	38,963	39,004	39,738	49,034
Add: Extraordinaries	6,774	-	-	-
Less: Taxes	9,404	9,362	9,736	12,013
Net Income (Reported)	36,333	29,642	30,002	37,020
Recurring Net Income	29,559	29,642	30,002	37,020

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	36,614	48,135	51,115	68,481
of which cash & cash eqv.	2,419	2,572	2,419	15,533
Total Current Liabilities & Provisions	42,201	65,585	76,701	76,212
Net Current Assets	(5,587)	(17,450)	(25,587)	(7,731)
Investments	82,227	1,04,997	1,18,497	1,06,997
of which				
Strategic/Group	35,282	43,082	44,582	46,082
Other Marketable	46,945	61,915	73,915	60,915
Net Fixed Assets	64,584	64,250	65,863	68,502
Of Which Royalty Intangible	-	-	-	-
Total Assets	1,42,191	1,52,343	1,59,374	1,68,429
Liabilities				
Long term Liabilities	-	-	-	-
Deferred Tax Liability	827	359	359	359
Deferred Payment Credits*	-	-	-	-
Equity Share Capital	400	400	400	400
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	1,40,965	1,51,585	1,58,615	1,67,671
Net Worth	1,41,364	1,51,984	1,59,015	1,68,070
Total Liabilities	1,42,191	1,52,343	1,59,374	1,68,429

Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Sep-20	Dec-20	Mar-21	Jun-21
Net sales	93,673	97,758	86,860	54,871
% growth (YoY)	24%	40%	39%	85%
EBITDA	12,864	14,136	12,112	5,148
Margin (%)	13.7	14.5	13.9	9.4
Other income	1,413	2,027	874	1,386
Add: Extraordinary	-	-	-	-
Net profit	9,534	10,845	8,650	3,654

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	35,160	31,434	31,798	38,507
Working Capital Changes	9,114	9,864	7,462	(5,022)
Capital Commitments	(13,600)	(5,544)	(9,000)	(11,000)
Free Cashflow	30,674	35,754	30,261	22,485
Cashflow from Investing Activities	1,178	(8,779)	(5,942)	20,095
Issue of Share Capital	-	0	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(21,034)	(20,974)	(22,971)	(27,965)
Extraordinary Items	6,774	-	-	-
Chg. in Cash & Bank balance	1,054	153	(153)	13,115

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	148.0	148.4	150.2	185.3
EPS(Basic)	181.9	148.4	150.2	185.4
Recurring Cash EPS	222.9	182.3	187.2	227.2
Dividend per share (DPS)	90	105	115	140
Book Value per share (BV)	707.9	761.1	796.3	841.6
Growth Ratios (%)				
Operating Income	(14.3)	6.8	15.5	12.4
EBITDA	(19.7)	1.5	1.2	22.8
Recurring Net Income	(12.7)	0.3	1.2	23.4
Diluted Recurring EPS	(12.7)	0.3	1.2	23.4
Diluted Recurring CEPS	11.6	(18.2)	2.7	21.4
Valuation Ratios (x)				
P/E	15.3	18.7	18.5	15.0
P/CEPS	12.5	15.3	14.9	12.2
P/BV	3.9	3.7	3.5	3.3
EV / EBITDA	12.7	12.1	11.7	9.5
EV / Operating Income	1.7	1.6	1.3	1.2
EV / Operating FCF	11.4	11.8	12.1	14.2
Operating Ratios				
Raw Material/Sales (%)	68.3	70.7	72.5	71.9
SG&A/Sales (%)	5.8	5.0	5.0	4.9
Other Income / PBT (%)	20.0	14.9	16.8	15.6
Effective Tax Rate (%)	24.1	24.0	24.5	24.5
NWC / Total Assets (%)	(41.1)	(56.1)	(66.5)	(52.7)
Inventory Turnover (days)	18.3	17.1	18.0	20.4
Receivables (days)	28.0	23.9	26.3	26.2
Payables (days)	63.8	72.9	83.5	80.3
D/E Ratio (x)	0.6	0.2	0.2	0.2
Return/Profitability Ratios (%)				
Recurring Net Income Margins	10.3	9.6	8.4	9.3
RoCE	22.2	20.2	19.4	22.7
RoNW	21.9	20.2	19.3	22.6
Dividend Payout Ratio	57.9	70.8	76.6	75.5
Dividend Yield	3.2	3.8	4.1	5.0
EBITDA Margins	13.7	13.0	11.4	12.5

Source: Company data, I-Sec research

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