

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

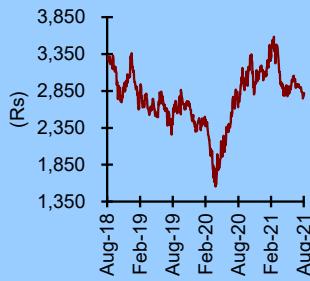
Rs2,965 from Rs3,189

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

Hero MotoCorp

ADD
Maintained**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)

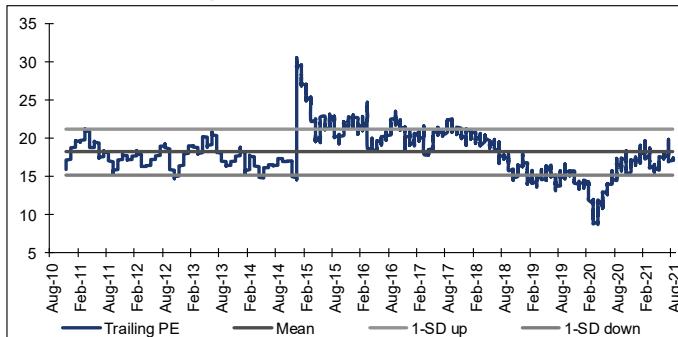
| | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E |
|--------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Motorcycle volumes | 66,77,207 | 70,79,193 | 59,90,349 | 53,33,447 | 60,76,188 | 66,78,835 |
| Scooter volumes | 9,09,986 | 7,39,958 | 4,19,370 | 4,58,013 | 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 equiv. | 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 | | | | |
| of which | 82,227 | 1,04,997 | 1,18,497 | 1,06,997 |
| 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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