



TM

13 August 2021

## Hero MotoCorp

### All eyes on festive season

#### RESULT UPDATE

**Sector:** Auto **Rating:** BUY  
**CMP:** Rs 2,787 **Target Price:** Rs 3,465

#### Stock Info

Sensex/Nifty	54,225 / 16,182
Bloomberg	HMCL IN
Equity shares (mn)	200
52-wk High/Low	Rs 3,628/2,703
Face value	Rs 2
M-Cap (Rs bn)/(USD bn)	Rs 551bn/USD 7.4bn
3-m Avg volume	USD 22mn

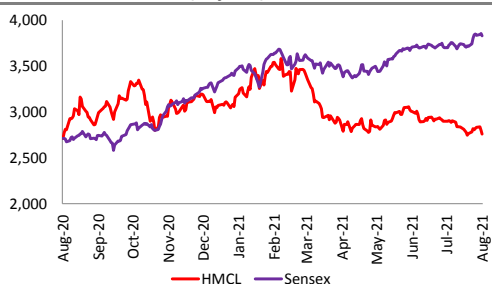
#### Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Volume growth (%)	-10	6	12
Net Sales	308,006	343,623	386,481
EBIDTA	40,192	41,994	50,106
PAT	29,642	31,753	38,239
EPS (Rs)	148	159	191
PE (x)	18.8	17.5	14.5
EV/EBIDTA (x)	11.5	10.8	8.8
RoE (%)	20	20	22
RoCE (%)	26	26	28
FCF yield	6.6	3.7	5.5
Dividend yield (%)	3.8	3.2	3.6

#### Shareholding Pattern (%)

	Jun'21	Mar'21	Dec'20
Promoter	34.8	34.8	34.8
-Pledged	-	-	-
FII	35.0	37.2	35.9
DII	20.2	18.7	20.0
Others	10.0	9.3	9.3

#### Stock Performance (1-year)



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Hero MotoCorp (Hero)'s 1QFY22 EBITDA margin of 9.4% was below consensus and our estimates as gross margin contraction hurt profitability. Strict cost controls have partially offset the impact of sharp raw material inflation. The management indicated that [domestic demand](#) was impacted due to local lockdowns, but is showing signs of improvement ahead of the festive season. Normal monsoon and healthy reservoir levels should also drive rural demand in the festive season. Hero has lost the market share it gained last year (~300bps) owing to weak demand, particularly in the executive segment. For EVs, Hero has a three-pronged strategy of (1) investment in Ather – the company has a premium scooter offering, (2) launching an in-house developed mass-market, fast charging EV in Mar'22 and (3) swappable battery solution through the JV with Gogoro later in CY22. We cut our FY22/23E EBITDA by 16%/13% to factor in the weak 1Q performance and maintain our BUY rating with a target price of Rs 3,465. We see value at the CMP as the company is on course to deliver a 5% FCF yield with 20% RoE in FY23. A sharp improvement in 2W demand and quicker-than-expected launches in the EV space can drive re-rating.

#### Key concall takeaways:

- Demand scenario and outlook:** Demand has picked up with the lifting of lockdowns and retail sales have reached ~80% of the pre-COVID levels. The management highlighted that festive occasions like Rath Yatra (in Gujarat/Oriassa) and Eid saw an uptick of ~40% in sales. It expects these positive trends to continue through the festive season and 2HFY22. The company remains optimistic about the medium-term demand outlook on the back of positive underlying macro factors.
- RM cost headwinds and LEAP 2.0 cost savings:** Given the consistent increase in raw material costs, the company took an average price hike of 1% in 1QFY22 (in Apr'21) and 1-1.5% in 2QFY22 (in Jul'21). The management believes that price hikes along with LEAP cost savings should offset RM inflation. It expects RM costs to stabilise by 3Q, leading to an improvement in margins.
- Financing:** Retail financing penetration for Hero stood at 41% in 1Q vs. 48% QoQ; of this, its in-house financing arm, Hero Fincorp, contributed 40% (flat QoQ). The management expects financing to normalize gradually to ~50% by the festive season.
- EV segment plans:** Hero has a three-pronged EV strategy which includes mass-market, in-house products (being developed at its Germany & Jaipur R&D facilities), investment in Ather Energy and tie-up with Gogoro, Taiwan ([see our detailed note on EVs](#)). The management highlighted that its EV products are based on a fixed charging solution while the tie-up with Gogoro will provide swapping solutions along with swapping infrastructure, thus providing multiple charging options to buyers. The company plans to launch its first in-house electric 2W by Mar'22 with a fast-charging option.
- Spare parts sales:** Spare parts sales for the quarter stood at Rs 4.6bn (-57% QoQ), forming ~8% of sales against 12% of sales QoQ due to lockdown-led reduced mobility. Hero has increased its focus on the spare parts business by adopting a micro-distribution strategy (15% increase in retailers, direct connects with mechanics, etc.). The management expects spare parts to form ~10% of sales sustainably going forward.
- Capex:** Management has guided for a capex of Rs 7.5-10bn per annum over FY22-23E.

**Outlook and valuation:** We estimate volume/revenue/EBITDA/APAT CAGRs of 9%/12%/12%/14% between FY21-23E and see upside risks to our estimates. At the CMP, the stock trades at 14.5x PER and 8.8x EV/EBITDA on FY23E.

**Exhibit 1: Reported numbers vs. expectations**

Rs mn	Reported	Est	Var %	Consensus	Var %
Net Sales	54,871	57,875	(5.2)	58,474	(6.2)
EBITDA	5,148	6,382	(19.3)	6,166	(16.5)
EBITDA Margin (%)	9.4	11.0	(164)	10.5	(116)
Adj PAT	3,654	4,975	(26.5)	4,637	(16.5)
Adj EPS	18.3	24.9	(26.5)	23.2	(21.2)

Source: Company, Systematix Institutional Research

**Exhibit 2: Quarterly performance**

Standalone (Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
<b>Net sales</b>	<b>29,715</b>	<b>93,673</b>	<b>97,758</b>	<b>86,860</b>	<b>54,871</b>	<b>84.7</b>	<b>(36.8)</b>
- Raw material	20,939	66,600	68,912	61,173	39,796	90.1	(34.9)
(% of net sales)	70.5	71.1	70.5	70.4	72.5	206	210
- Staff expenditure	3,824	5,112	5,167	4,884	4,357	13.9	(10.8)
(% of net sales)	12.9	5.5	5.3	5.6	7.9	(493)	232
- Other expenditure	3,872	9,097	9,543	8,691	5,570	43.8	(35.9)
(% of net sales)	13.0	9.7	9.8	10.0	10.2	(288)	14
Total expenditure	28,635	80,809	83,621	74,748	49,722	73.6	(33.5)
<b>EBITDA</b>	<b>1,081</b>	<b>12,864</b>	<b>14,136</b>	<b>12,112</b>	<b>5,148</b>	<b>376.5</b>	<b>(57.5)</b>
<b>EBITDA Margin (%)</b>	<b>3.6</b>	<b>13.7</b>	<b>14.5</b>	<b>13.9</b>	<b>9.4</b>	<b>575</b>	<b>(456)</b>
Depreciation	1,708	1,732	1,698	1,631	1,630	(4.6)	(0.1)
<b>EBIT</b>	<b>-627</b>	<b>11,133</b>	<b>12,438</b>	<b>10,480</b>	<b>3,519</b>	<b>(661.1)</b>	<b>(66.4)</b>
Interest	63	46	47	63	61	(2.7)	(3.2)
Other Income	1,485	1,413	2,027	874	1,386	(6.6)	58.6
<b>PBT</b>	<b>795</b>	<b>12,500</b>	<b>14,418</b>	<b>11,291</b>	<b>4,844</b>	<b>509.3</b>	<b>(57.1)</b>
Tax	182	2,965	3,574	2,642	1,189	554.1	(55.0)
<b>Reported PAT</b>	<b>613</b>	<b>9,534</b>	<b>10,845</b>	<b>8,650</b>	<b>3,654</b>	<b>496.1</b>	<b>(57.8)</b>
<b>Adjusted PAT</b>	<b>613</b>	<b>9,534</b>	<b>10,845</b>	<b>8,650</b>	<b>3,654</b>	<b>496.1</b>	<b>(57.8)</b>
Adjusted EPS (Rs)	3.1	47.7	54.3	43.3	18.3	496.1	(57.8)
<b>Total volumes (Nos)</b>	<b>563,426</b>	<b>1,820,278</b>	<b>1,845,274</b>	<b>1,568,313</b>	<b>1,024,489</b>	<b>81.8</b>	<b>(34.7)</b>
<b>Net realisation (Rs)</b>	<b>52,741</b>	<b>51,461</b>	<b>52,977</b>	<b>55,384</b>	<b>53,559</b>	<b>1.6</b>	<b>(3.3)</b>
EBITDA / vehicle (Rs)	1,918	7,067	7,661	7,723	5,025	162.0	(34.9)

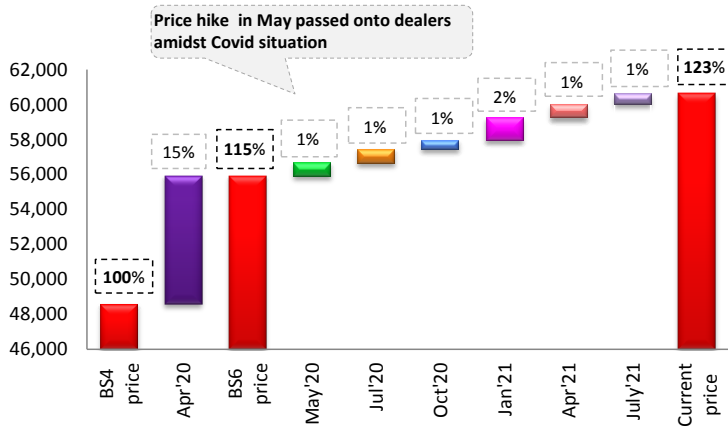
Source: Company, Systematix Institutional Research

**Exhibit 3: Volume mix**

Volume mix	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
Motorcycles	525,503	1,689,866	1,689,034	1,437,368	959,571	82.6	(33.2)
Scooters	37,923	130,412	156,240	130,945	64,918	71.2	(50.4)
<b>Total Volumes</b>	<b>563,426</b>	<b>1,820,278</b>	<b>1,845,274</b>	<b>1,568,313</b>	<b>1,024,489</b>	<b>81.8</b>	<b>(34.7)</b>
Exports out of above	27,639	41,770	53,147	71,764	83,800	203.2	16.8
<b>Scooters as % of Total Volumes</b>	<b>6.7%</b>	<b>7.2%</b>	<b>8.5%</b>	<b>8.3%</b>	<b>6.3%</b>	<b>(39)</b>	<b>(201)</b>
<b>Export as % of Total Volumes</b>	<b>4.9%</b>	<b>2.3%</b>	<b>2.9%</b>	<b>4.6%</b>	<b>8.2%</b>	<b>327</b>	<b>360</b>

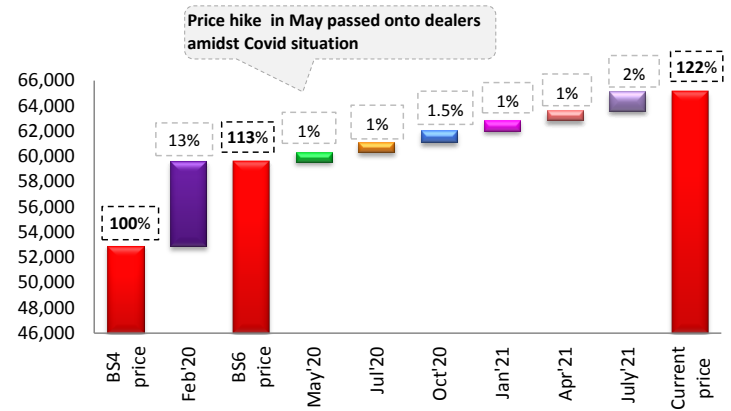
Source: Company, Systematix Institutional Research

Exhibit 4: Price hikes for Hero HF Deluxe



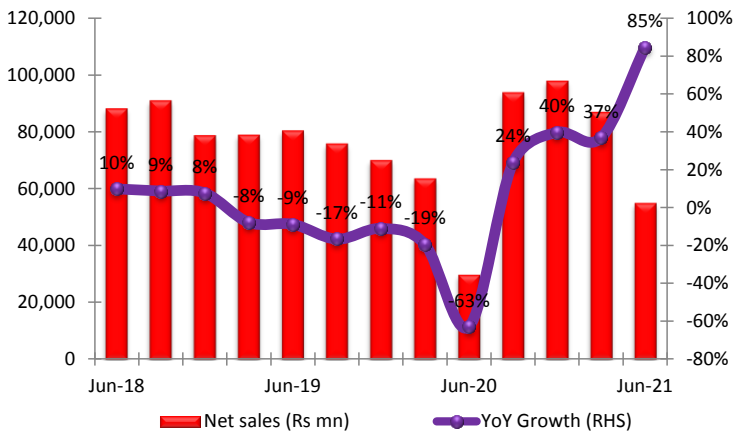
Source: Company, Systematix Institutional Research

Exhibit 5: Price hikes for Hero Splendor



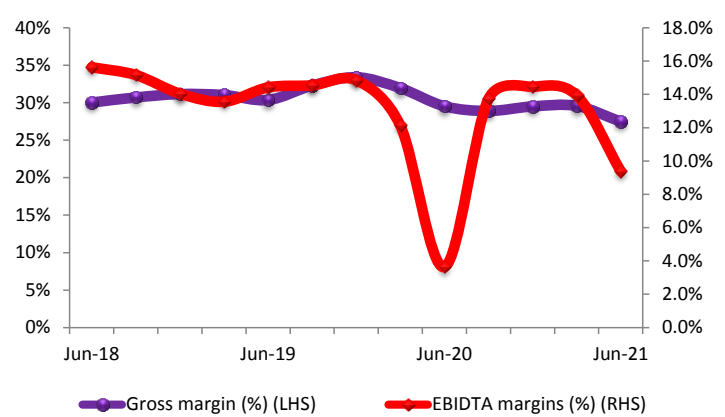
Source: Company, Systematix Institutional Research

Exhibit 6: Revenue and YoY growth trend



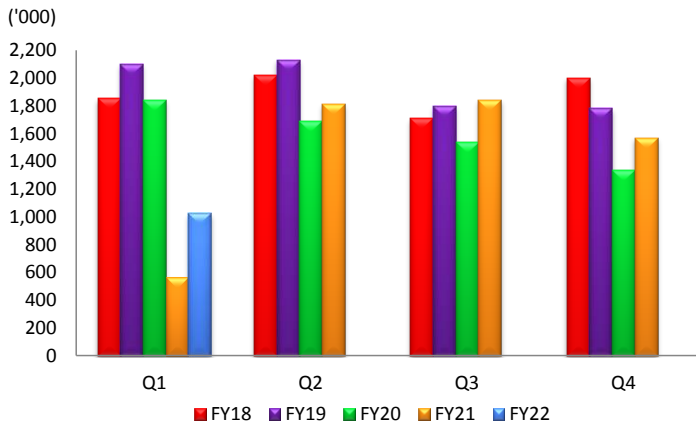
Source: Company, Systematix Institutional Research

Exhibit 7: Gross margin/EBITDA margin trend



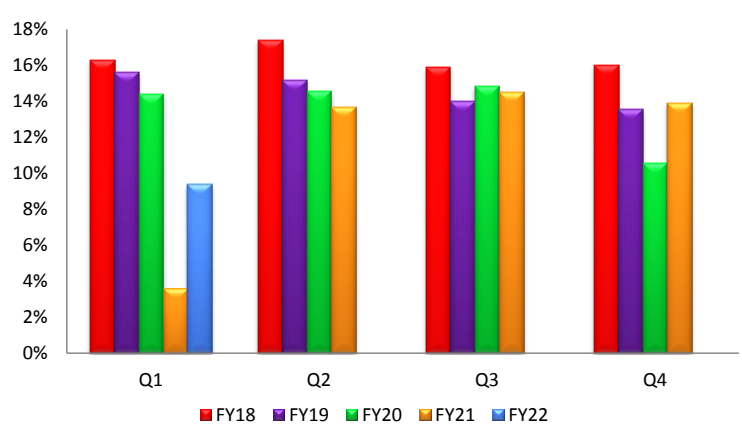
Source: Company, Systematix Institutional Research

Exhibit 8: Quarterly volume trend



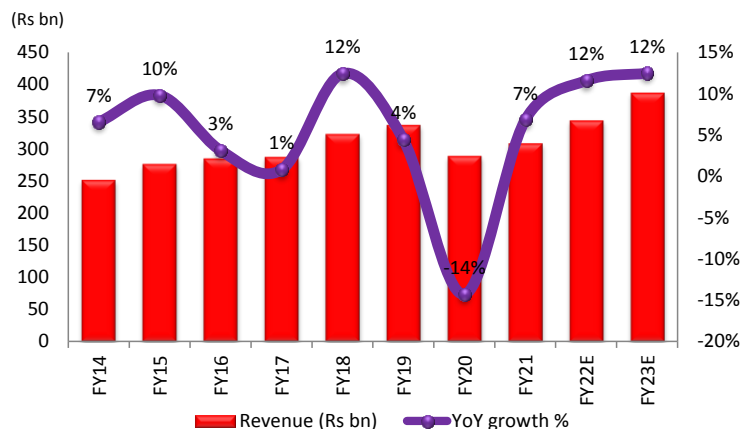
Source: Company, Systematix Institutional Research

Exhibit 9: Quarterly EBITDA margin trend



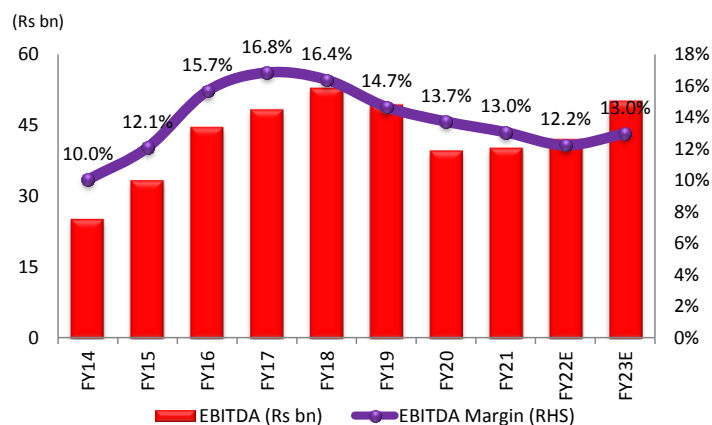
Source: Company, Systematix Institutional Research

Exhibit 10: Annual revenue and YoY growth (RHS)



Source: Company, Systematix Institutional Research

Exhibit 11: Annual EBITDA and EBITDA margins (RHS)



Source: Company, Systematix Institutional Research

Exhibit 12: Annual segment-wise volume trend

Volume (units)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Domestic Motorcycles	5,679,634	5,603,136	5,693,681	6,499,051	6,893,688	5,828,782	5,157,415	5,363,712	6,001,993
YoY growth %	5%	-1%	2%	14%	6%	-15%	-12%	4%	12%
Domestic Scooters	752,052	818,777	789,974	883,667	719,087	402,676	443,458	478,935	536,407
YoY growth %	9%	9%	-4%	12%	-19%	-44%	10%	8%	12%
Exports	200,017	210,239	180,391	204,475	208,056	178,261	190,823	303,862	340,325
YoY growth %	53%	5%	-14%	13%	2%	-14%	7%	59%	12%
<b>Total volume</b>	<b>6,631,703</b>	<b>6,632,152</b>	<b>6,664,046</b>	<b>7,587,193</b>	<b>7,820,831</b>	<b>6,409,719</b>	<b>5,791,696</b>	<b>6,146,508</b>	<b>6,878,725</b>
YoY growth %	6%	0%	0%	14%	3%	-18%	-10%	6%	12%

Source: SIAM, Company, Systematix Institutional Research

## FINANCIALS (STANDALONE)

### Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>336,505</b>	<b>288,361</b>	<b>308,006</b>	<b>343,623</b>	<b>386,481</b>
Growth, %	4	(14)	7	12	12
RM expenses	-233,177	-196,974	-217,623	-248,440	-274,402
Employee expenses	-17,302	-18,417	-18,987	-18,899	-20,870
Other expenses	-36,725	-33,390	-31,203	-34,291	-41,104
<b>EBITDA</b>	<b>49,301</b>	<b>39,580</b>	<b>40,192</b>	<b>41,994</b>	<b>50,106</b>
Growth, %	(7)	(20)	2	4	19
Margin, %	14.7	13.7	13.0	12.2	13.0
Depreciation	-6,020	-8,180	-6,769	-6,952	-7,364
<b>EBIT</b>	<b>43,281</b>	<b>31,400</b>	<b>33,424</b>	<b>35,042</b>	<b>42,742</b>
Growth, %	(8)	(27)	6	5	22
Margin, %	12.9	10.9	10.9	10.2	11.1
Interest paid	-86	-220	-218	-218	-218
Other Income	6,913	7,783	5,799	6,958	7,793
Non-recurring Items	0	6,774	0	0	0
<b>Pre-tax profit</b>	<b>50,108</b>	<b>38,963</b>	<b>39,004</b>	<b>41,781</b>	<b>50,316</b>
Tax provided	-16,258	-9,404	-9,362	-10,028	-12,077
<b>Profit after tax</b>	<b>33,849</b>	<b>29,559</b>	<b>29,642</b>	<b>31,753</b>	<b>38,239</b>
Others (Minorities, Associates)	-	-	-	-	-
<b>Net Profit</b>	<b>33,849</b>	<b>36,333</b>	<b>29,642</b>	<b>31,753</b>	<b>38,239</b>
Growth, %	(8)	7	(18)	7	20
<b>Net Profit (adjusted)</b>	<b>33,849</b>	<b>29,559</b>	<b>29,642</b>	<b>31,753</b>	<b>38,239</b>

Source: Company, Systematix Institutional Research;

### Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	1,360	2,419	2,572	1,379	8,144
Marketable securities cost	50,517	72,141	91,230	99,251	107,877
Debtors	28,216	16,031	24,268	18,829	21,177
Inventory	10,724	10,920	14,696	9,414	10,589
Loans & advances	850	896	892	1,018	1,124
Other current assets	23,971	10,417	9,938	10,931	12,024
Total current assets	65,121	40,683	52,364	41,571	53,059
Investments	9,169	10,086	13,767	16,245	19,169
Gross fixed assets	119,079	142,244	147,726	155,726	165,726
Less: Depreciation	-72,893	-81,073	-87,841	-94,793	-102,158
Add: Capital WIP	5,419	3,413	4,366	4,366	4,366
Net fixed assets	46,186	61,171	59,884	60,932	63,568
<b>Total assets</b>	<b>176,411</b>	<b>187,493</b>	<b>221,611</b>	<b>222,365</b>	<b>248,038</b>
Current liabilities	40,713	39,512	62,257	52,071	57,462
Provisions	1,762	2,689	3,328	498	2,521
Total current liabilities	42,475	42,201	65,585	52,569	59,983
Non-current liabilities	5,365	3,928	4,041	4,041	4,041
Total liabilities	47,840	46,129	69,626	56,610	64,024
Paid-up capital	399	400	400	400	400
Reserves & surplus	128,172	140,965	151,585	165,356	183,615
Shareholders' equity	128,571	141,364	151,984	165,755	184,015
<b>Total equity &amp; liabilities</b>	<b>176,411</b>	<b>187,493</b>	<b>221,611</b>	<b>222,365</b>	<b>248,038</b>

Source: Company, Systematix Institutional Research

### Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Pre-tax profit</b>	<b>50,108</b>	<b>45,737</b>	<b>39,004</b>	<b>41,781</b>	<b>50,316</b>
Depreciation	6,020	8,180	6,769	6,952	7,364
Chg in working capital	-24,871	25,222	11,857	-3,416	2,692
Total tax paid	-16,010	-10,841	-9,249	-10,028	-12,077
<b>CFO</b>	<b>7,527</b>	<b>54,101</b>	<b>41,727</b>	<b>28,549</b>	<b>40,721</b>
Capital expenditure	-7,895	-13,586	-5,146	-8,000	-10,000
Chg in investments	-556	-556	-555	-555	-555
Chg in marketable securities	16,122	-21,984	-22,215	-9,945	-10,994
<b>CFI</b>	<b>14,706</b>	<b>-28,831</b>	<b>-22,099</b>	<b>-11,541</b>	<b>-13,756</b>
Free cash flow	-925	39,959	36,026	19,994	30,166
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	-22,197	-23,991	-19,257	-17,982	-19,980
<b>CFF</b>	<b>-22,283</b>	<b>-24,211</b>	<b>-19,475</b>	<b>-18,200</b>	<b>-20,198</b>
<b>Net chg in cash</b>	<b>(50)</b>	<b>1,059</b>	<b>153</b>	<b>(1,193)</b>	<b>6,766</b>
Opening cash balance	1,410	1,360	2,419	2,572	1,379
<b>Closing cash balance</b>	<b>1,360</b>	<b>2,419</b>	<b>2,572</b>	<b>1,379</b>	<b>8,144</b>

Source: Company, Systematix Institutional Research

### Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	170	148	148	159	191
PER (x)	16.4	18.8	18.8	17.5	14.5
Price/Book (x)	4.3	3.9	3.7	3.4	3.0
EV/EBITDA (x)	10.2	12.2	11.5	10.8	8.8
EV/Net sales (x)	1.5	1.7	1.5	1.3	1.1
RoE (%)	27	22	20	20	22
RoCE (%)	39	28	26	26	28
Fixed Asset turnover (x)	2.8	2.0	2.1	2.2	2.3
Dividend Yield (%)	3.4	3.2	3.8	3.2	3.6
Receivable (days)	31	20	29	20	20
Inventory (days)	14	16	20	11	11
Payable (days)	43	44	71	49	49
Revenue Growth (%)	4	(14)	7	12	12
EBITDA Growth (%)	(7)	(20)	2	4	19
EPS Growth, %	(8)	(13)	0	7	20
Net D/E ratio (x)	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)

Source: Company, Systematix Institutional Research

## Institutional Equities Team

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