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Company update and
reco change

Automobiles

Target price: Rs3,197

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 4.3	↑ 4.2
EBITDA	↓ 1.7	↑ 0.7
EPS	↓ 1.7	↑ 0.8

Target price revision

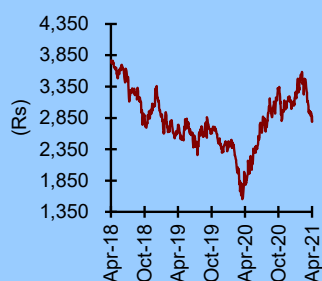
Rs3,197 from Rs3,372

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	34.8	34.8	34.8
Institutional investors	56.1	55.9	55.9
MFs and other	7.5	5.9	4.6
FIs/Banks	0.5	0.4	0.3
Insurance	9.3	8.3	8.6
FII	33.5	36.0	37.3
Other Inst	5.3	5.3	5.1
Others	9.1	9.3	9.3

Source: BSE

Price chart



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INDIA

Hero MotoCorp

ADD

Upgrade from *Hold*

ICE leader unveils plans to build EV ecosystem **Rs2,824**

Hero MotoCorp (HMCL) and Taiwan's Gogoro Inc. have announced a joint venture to collaborate on development of a battery-swapping network in India based on the latter's tech platform. *Hero*-branded vehicles would be powered by Gogoro swappable batteries. Gogoro is a global leader in urban battery swapping and smart mobility innovation. This partnership could aid HMCL's EV products' acceptance as customer capital cost could be reduced significantly (we anticipate ~30-40%) as vehicles can also be sold without a battery. We believe battery as a service (*BaaS*) could be an additional revenue stream for the JV; access to this in future be offered to other OEMs too. Recently other OEM's e.g. Honda, Yamaha, KTM, Piaggio had also announced setting up a consortium for swappable batteries. We believe this JV is likely to work alongside other HMCL EV investments (*Aether*). Valuations are attractive (14x FY23E EPS). Upgrade to ADD.

Key highlights of the partnership:

- ▶ The JV would launch *Hero*-branded electric vehicles (EVs) with Gogoro battery technology and also set up battery swapping platforms across India.
- ▶ This is Gogoro's first JV outside of Taiwan and promises to be a win-win for both the companies given HMCL's scale alongside Gogoro's battery technology, swapping architecture.
- ▶ *Gogoro Network* is a globally recognised hyper-efficient battery swapping platform with >375,000 vehicles and 2,000 battery swapping stations. It manages 265,000 daily battery swaps with a total of >174mn swaps to date. *Gogoro Network* is an open platform for battery swapping and smart mobility services, which combines the power of connectivity, artificial intelligence and machine learning.
- ▶ The partnership could address the need for sustainable, affordable mobility solutions which could aid in expediting the shift towards EVs in India. Leveraging Hero's market strength with Gogoro's industry-leading innovations on battery swapping can potentially lead to reduction in upfront vehicle cost (potentially ~30-40%) for the customer. Battery cost could be considered akin to current fuel costs.
- ▶ The '*Powered by Gogoro Network*' program gives Gogoro's OEM partners access to its innovations and intellectual property including its intelligent drivetrains and controllers, and components and smart systems. This would enable the OEMs to develop unique EVs incorporating *Gogoro Network* battery swapping.
- ▶ Gogoro in the last few years has been working with other industry giants like Yamaha to aid electrification through deals to license its plug-and-play batteries.
- ▶ Being absent in the major 2W-using countries of China and Vietnam, the deal with Hero enables Gogoro to be present in the world's second-largest 2W market with the world's largest producer of motorcycles.

Market Cap	Rs564bn/US\$7.5bn	Year to Mar	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	HROM.BO/HMCL IN	Revenue (Rs mn)	2,88,361	3,06,270	3,59,307	4,03,946
Shares Outstanding (mn)	199.8	Rec. Net Income (Rs mn)	29,559	29,043	32,854	39,909
52-week Range (Rs)	3628/1762	EPS (Rs)	148.0	145.4	164.5	199.8
Free Float (%)	65.4	% Chg YoY	(12.7)	(1.7)	13.1	21.5
FII (%)	37.3	P/E (x)	15.5	19.4	17.1	14.1
Daily Volume (US\$/'000)	5,9401	CEPS (Rs)	222.9	180.6	205.5	244.3
Absolute Return 3m (%)	(13.7)	EV/E (x)	12.9	12.7	10.8	8.7
Absolute Return 12m (%)	52.0	Dividend Yield (%)	3.2	2.7	3.6	3.6
Sensex Return 3m (%)	(2.9)	RoCE (%)	22.2	19.6	20.3	22.4
Sensex Return 12m (%)	51.8	RoE (%)	21.9	19.6	20.3	22.4

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Outlook and valuations

Post the pandemic in Q1FY21, HMCL has benefited from demand revival on the back of rural recovery, and enhanced need for personal mobility. However, in recent months, the industry has witnessed significant demand slack. We have revised our earnings (1.7)% / 0.8% for FY22E/FY23E on the back of rising commodity pressures. We have also pruned our multiple on the back of moderation of growth outlook as covid resurges. However, the stock has corrected ~20% from its Feb'21 highs, which factors-in the key near-term risks. We upgrade our rating to **ADD** (from **Hold**) on the stock at a target multiple of 16x FY23E EPS (earlier: 17x) arriving at a target price of Rs3,197 (earlier: Rs3,372).

Table 1: Earnings revision

(Rs mn)

	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	3,44,621	3,59,307	4.3	3,87,631	4,03,946	4.2
EBITDA	45,475	44,697	(1.7)	53,296	53,686	0.7
PAT	33,435	32,854	(1.7)	39,618	39,909	0.8
EPS (Rs)	167.4	164.5	(1.7)	198.3	199.8	0.8

Source: I-Sec research

Table 2: Key assumptions for HMCL

(Rs mn)

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Motorcycle volumes	66,77,207	70,79,193	59,90,349	53,33,447	61,24,082	67,31,517
Scooter volumes	9,09,986	7,39,958	4,19,370	4,58,013	5,16,473	5,71,560
Realisation/unit	42,480	43,036	44,988	52,883	54,108	55,312
EBITDA/unit	6,959	6,305	6,175	6,747	6,731	7,351

Source: Company data, I-Sec research

Financial summary (standalone)

Table 3: Profit and Loss statement
(Rs mn., year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Income (Sales)	2,88,361	3,06,270	3,59,307	4,03,946
Of Which 2W	2,49,172	2,65,751	3,10,045	3,43,936
Of Which Spares	28,959	28,959	36,199	45,248
Operating Expenses	2,48,781	2,67,193	3,14,610	3,50,260
EBITDA	39,580	39,077	44,697	53,686
% margins	13.7	12.8	12.4	13.3
Depreciation & Amortisation	8,180	7,017	8,178	8,880
Gross Interest	220	209	205	201
Other Income	7,783	6,616	7,608	8,750
Recurring PBT	38,963	38,467	43,922	53,355
Add: Extraordinaries	6,774	-	-	-
Less: Taxes	9,404	9,424	11,068	13,445
Net Income (Reported)	36,333	29,043	32,854	39,909
Recurring Net Income	29,559	29,043	32,854	39,909

Source: Company data, I-Sec research

Table 4: Balance sheet
(Rs mn., year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	36,614	48,138	59,213	68,706
of which cash & cash eqv.	2,419	10,996	15,365	19,741
Total Current Liabilities & Provisions	42,201	43,744	52,368	59,664
Net Current Assets	(5,587)	4,394	6,845	9,042
Investments	82,227	85,727	95,227	1,10,727
of which				
Strategic/Group	35,282	33,782	35,282	36,782
Other Marketable	46,945	51,945	59,945	73,945
Net Fixed Assets	64,588	65,071	65,893	68,013
Of Which Royalty Intangible	-	-	-	-
Total Assets	1,42,196	1,56,257	1,69,137	1,89,071
Liabilities				
Long term Liabilities	-	-	-	-
Deferred Tax Liability	827	827	827	827
Deferred Payment Credits*	-	-	-	-
Equity Share Capital	400	400	400	400
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	1,40,970	1,55,031	1,67,910	1,87,844
Net Worth	1,41,369	1,55,430	1,68,309	1,88,244
Total Liabilities	1,42,196	1,56,257	1,69,136	1,89,071

Source: Company data, I-Sec research

Table 5: Quarterly trend
(Rs mn., year ending March 31)

	Mar-20	Jun-20	Sep-20	Dec-20
Net sales	69,967	62,384	29,715	93,673
% growth (YoY)	(11.0)	(20.9)	(63.0)	23.7
EBITDA	10,390	6,525	1,081	12,864
Margin (%)	14.8	10.5	3.6	13.7
Other income	1,822	1,695	1,485	1,413
Add: Extraordinaries	-	-	-	-
Net profit	8,804	6,133	613	9,534

Source: Company data, I-Sec research

Table 6: Cashflow statement
(Rs mn., year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	35,953	29,733	34,168	40,599
Working Capital Changes	9,114	(1,473)	1,826	2,169
Capital Commitments	(21,431)	(6,000)	(10,500)	(12,500)
Free Cashflow	23,637	22,259	25,495	30,268
Cashflow from Investing Activities	1,178	1,299	(1,150)	(5,917)
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(21,034)	(14,981)	(19,975)	(19,975)
Extraordinary Items	6,774	-	-	-
Chg. in Cash & Bank balance	1,055	8,577	4,369	4,377

Source: Company data, I-Sec research

Table 7: Key ratios
(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	148.0	145.4	164.5	199.8
EPS(Basic)	181.9	145.4	164.5	199.8
Recurring Cash EPS	222.9	180.6	205.5	244.3
Dividend per share (DPS)	90	75	100	100
Book Value per share (BV)	707.9	778.3	842.8	942.6
Growth Ratios (%)				
Operating Income	(14.3)	6.2	17.3	12.4
EBITDA	(19.7)	(1.3)	14.4	20.1
Recurring Net Income	(12.7)	(1.7)	13.1	21.5
Diluted Recurring EPS	(12.7)	(1.7)	13.1	21.5
Diluted Recurring CEPS	11.6	(19.0)	13.8	18.9
Valuation Ratios (x)				
P/E	15.5	19.4	17.1	14.1
P/CEPS	12.6	15.6	13.7	11.5
P/BV	4.0	3.6	3.3	3.0
EV / EBITDA	12.9	12.7	10.8	8.7
EV / Operating Income	1.8	1.6	1.3	1.2
EV / Operating FCF	11.3	17.6	13.4	10.9
Operating Ratios				
Raw Material/Sales (%)	68.3	71.0	71.9	71.3
SG&A/Sales (%)	5.8	4.9	4.8	4.8
Other Income / PBT (%)	20.0	17.2	17.3	16.4
Effective Tax Rate (%)	24.1	24.5	25.2	25.2
NWC / Total Assets (%)	(41.1)	(39.9)	(43.1)	(47.4)
Inventory Turnover (days)	18.3	20.2	20.9	19.4
Receivables (days)	28.0	20.7	20.1	20.1
Payables (days)	63.8	57.1	54.2	57.0
D/E Ratio (x)	0.6	0.5	0.5	0.4
Return/Profitability Ratios (%)				
Recurring Net Income Margins	10.3	9.5	9.1	9.9
RoCE	22.2	19.6	20.3	22.4
RoNW	21.9	19.6	20.3	22.4
Dividend Payout Ratio	57.9	51.6	60.8	50.1
Dividend Yield	3.2	2.7	3.6	3.6
EBITDA Margins	13.7	12.8	12.4	13.3

Source: Company data, I-Sec research

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