

Hero Motocorp

Changing narrative

Hero's 3Q PAT (+23% YoY) surprised as profits exceeded the Rs 10bn level after several (13) quarters. The narrative at Hero is gradually changing with a focus on premium products as (1) Hero is steadily ramping up its product portfolio in the 150cc+ range; (2) the collaboration with Harley will provide the OEM an entry in the 'heritage' segment. We maintain BUY and raise our FY22/23 estimates by ~6% over FY21-23 to factor in the improved operational performance. We set a target price of Rs 3,890 at 19x FY23E EPS (at a 15% premium to its long-term average trading multiple).

- 3QFY21 financials:** Volume grew ~20% to 1.84mn units while ASP at ~Rs 53k was up ~17% YoY (+3% QoQ), led by higher premium bikes/spare parts in the mix. Revenue grew 40% YoY to Rs 97.7bn. RM cost, despite higher input costs declined -60bps QoQ. EBITDA margin at 14.5% (+80bps QoQ, -40bps YoY) benefitted from a 100bps savings from the leap program. Reported PAT grew 23% YoY to Rs 10.8bn.
- Key highlights: (1) Demand outlook:** While near-term sales have been soft post festive season, management believes growth drivers remain intact and demand will revive given (a) pro-growth budget, (b) positive rural sentiment – good rabi crop, government support, (c) gradual reopening of the economy – student demand should return, etc. **(2) Focus on premium:** The company continues to focus on expanding its share in the high-end segment and has gained market share post the launch of the Xtreme 160R. The tie-up with Harley will further increase its presence and allow it an entry in the 'heritage' biking segment. Hero is also working on its EV model, which will roll out in CY22E. **(3) Exports:** The company is steadily increasing its presence in overseas markets (recent tie-up with a large distributor in Mexico). As part of its strategy, the management will spend 70-75% of its focus in the large 2W markets (such as Nigeria, Latam). **(4) Margins:** The margins have benefitted due to price hikes taken in Oct-20, an improved product mix (higher share of premium bikes and spares) as well as cost-cutting initiatives (leap program savings of 100bps). Management reiterates its medium-term margin band of 14-16%.

Financial Summary (Standalone)

YE March (Rs mn)	3Q FY21	3QF Y20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	97,758	69,967	40	93,673	4	336,505	288,361	293,657	329,763	368,596
EBITDA	14,136	10,390	36	12,865	10	49,301	39,580	37,899	43,546	51,620
APAT	10,845	8,804	23	9,535	14	33,849	30,952	29,407	34,081	40,769
Adj. EPS (Rs)	54.3	44.1	23	47.7	14	169.5	155.0	147.2	170.6	204.1
APAT Gr(%)						(8.5)	(8.6)	(5.0)	15.9	19.6
P/E (x)						20.2	22.1	23.3	20.1	16.8
RoE (%)						27.5	22.9	19.7	20.6	21.8

Source: Company, HSIE Research

Change in estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	293,657	329,763	368,596	284,486	319,492	357,045	3	3	3
EBITDA	37,899	43,546	51,620	35,179	42,350	48,575	8	3	6
EBITDA margin (%)	12.9	13.2	14.0	12.4	13.3	13.6	54bps	-5bps	40bps
PAT	29,407	34,081	40,769	27,473	32,738	37,703	7	4	8
EPS	147.2	170.6	204.1	137.5	163.9	188.7	7	4	8

Source: Company, HSIE Research

BUY

CMP (as on 5 Feb 2021)	Rs 3,429
Target Price	Rs 3,890
NIFTY	14,924

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 3,590	Rs 3,890
EPS %	FY21E	FY22E
	7%	4%

KEY STOCK DATA

Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (Rs bn) / (\$ mn)	685/9,396
6m avg traded value (Rs mn)	4,959
52 Week high / low	Rs 3,575/1,475

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.5	27.2	44.5
Relative (%)	(6.3)	(7.5)	21.2

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	34.8	34.8
FIs & Local MFs	22.9	20.0
FPIs	33.3	35.9
Public & Others	9.1	9.4
Pledged Shares	0.0	0.0

Source : BSE

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