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Q3FY21 result review
and earnings revision

Automobiles

Target price: Rs3,372

Earnings revision

(%)	FY21E	FY22E	FY23E
Sales	↑ 4.1	↑ 4.0	↑ 3.8
EBITDA	↑ 19.5	↑ 5.0	↑ 5.4
EPS	↑ 24.2	↑ 7.0	↑ 6.8

Target price revision

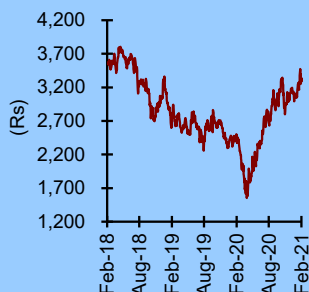
Rs3,372 from Rs3,032

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	34.8	34.8	34.8
Institutional investors	54.4	56.1	55.9
MFs and other	8.0	7.5	5.9
FIs/Banks	2.2	0.5	0.4
Insurance	9.2	9.3	8.3
FIs	33.0	33.5	36.0
Other Inst	-	5.3	5.3
Others	10.8	9.1	9.3

Source: NSE

Price chart



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INDIA

Hero MotoCorp

HOLD

Maintained

Rising input costs a key headwind to margins

Rs3,440

Hero MotoCorp's (HMCL) Q3FY21 operating numbers beat consensus estimates with EBITDA margin at 14.5% (down 39bps YoY). Topline grew ~40% (marginally above consensus) to ~Rs98bn as ASP rose ~17% YoY to ~Rs53k/unit. HMCL witnessed improvement in demand during the festive season on the back of improving rural sentiment, however, steep increase in commodity costs is likely to keep margins in check. Though we continue to prefer rural-facing companies; however, as more states are reopening public transportation / educational institutions, we expect scooters to witness release of pent-up demand. HMCL's stock has appreciated 2x since Mar'20, however, sustenance of current valuations (PE:21x/17x FY22/23 respectively) would need stronger demand. Maintain HOLD.

Earnings call on 5th February, Friday, at 11.30 am; on +91 22 6280 1342

- **Key highlights of the quarter:** HMCL reported EBITDA margin of 14.5%, down 39bps, even as gross margins declined 389bps YoY. ASP rose 16.7% to ~Rs53k/vehicle led by BS-VI related price hikes and better product mix. PAT grew 23% YoY to Rs108bn as taxes rates normalised (25% vis-à-vis 13% YoY) and other income declined 53bps with yield tapering off. HMCL invested an additional Rs900mn in Ather Energy (total investment: Rs5bn) in Q3FY21. It also declared an interim dividend of Rs65 per share and a special dividend of Rs 5 per share to mark 100 million sales milestone.
- **Retail demand trends remains the key monitorable:** We have witnessed 2-W demand retail demand trends softening post festive season ([link](#)). HMCL's inventory levels is likely ~4-6 weeks (our Dec'20 estimate), hence possible led to dispatch reductions (-3% YoY) in Jan'21. Industry is grappling with steep increase in input costs and HMCL needs to witness stronger retail demand trends so as to pass on the additional cost inflation to customers. Entry level segment has been witnessing affordability issues and weaker consumer sentiment. This remains the key to profitability.
- **Maintain HOLD:** HMCL has been a key beneficiary of good demand revival post-covid on the back of continued rural recovery, enhanced need for personal mobility as access to public transportation remained erratic. Company also continued to launch new products in both scooters and motorcycles to aid volume growth. We have revised our earnings upwards ~7%/6.8% for FY22E/23E on the back of improving operating leverage. We maintain our target multiple at 17x FY23E (roll forward) EPS of Rs193. Maintain **HOLD** with a revised target price of Rs3,372 (earlier: Rs3,032).

Market Cap	Rs687bn/US\$9.4bn	Year to Mar	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	HRM.B.O/HMCL IN	Revenue (Rs mn)	2,88,361	2,96,062	3,44,621	3,87,631
Shares Outstanding (mn)	199.8	Rec. Net Income (Rs mn)	29,559	27,035	33,435	39,618
52-week Range (Rs)	3475/1554	EPS (Rs)	148.0	135.3	167.4	198.3
Free Float (%)	65.2	% Chg YoY	(12.7)	(8.5)	23.7	18.5
FII (%)	36.0	P/E (x)	18.9	25.4	20.6	17.3
Daily Volume (US\$/'000)	67,738	CEPS (Rs)	222.9	171.9	208.4	242.9
Absolute Return 3m (%)	15.9	EV/E (x)	16.1	16.8	13.4	11.1
Absolute Return 12m (%)	45.1	Dividend Yield (%)	2.6	2.2	2.9	2.9
Sensex Return 3m (%)	24.7	RoCE (%)	22.2	18.3	20.9	22.4
Sensex Return 12m (%)	25.6	RoE (%)	21.9	18.3	20.9	22.4

Please refer to important disclosures at the end of this report

Table 1: Q3FY21 result review*(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Volume (units)	18,45,274	15,40,868	19.8	18,14,683	1.7
Net realisation	52,977	45,408	16.7	51,579	2.7
Total Operating Income	97,758	69,967	39.7	93,599	4.4
Raw Material Costs	68,912	46,598	47.9	66,600	3.5
Employee Costs	5,167	4,697	10.0	5,112	1.1
Other Expenses	9,543	8,282	15.2	9,097	4.9
Total operating expenses	83,621	59,578	40.4	80,809	3.5
Reported EBITDA	14,136	10,390	36.1	12,790	10.5
EBITDA Margin (%)	14.5	14.8	-39 bps	13.7	80 bps
Depreciation & Amortisation	1,698	2,037	(16.6)	1,732	(1.9)
Other income	2,027	1,822	11.2	1,413	43.4
Interest Expenses	47	59	(21.5)	46	0.2
Exceptional item	0	0	NC	0	NC
PBT	14,418	10,115	42.5	12,500	15
Tax	3,574	1,311	172.5	2,965	21
PAT	10,845	8,804	23.2	9,534	14

Source: Company data, I-Sec research

Table 2: Earnings revision*(Rs mn)*

	FY21E			FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	2,84,312	2,96,062	4.1	3,31,241	3,44,621	4.0	3,73,471	3,87,631	3.8
EBITDA	30,998	37,039	19.5	43,309	45,475	5.0	50,557	53,296	5.4
PAT	21,766	27,035	24.2	31,249	33,435	7.0	37,086	39,618	6.8
EPS (Rs)	109.0	135.3	24.2	156.4	167.4	7.0	185.7	198.3	6.8

Source: I-Sec research

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

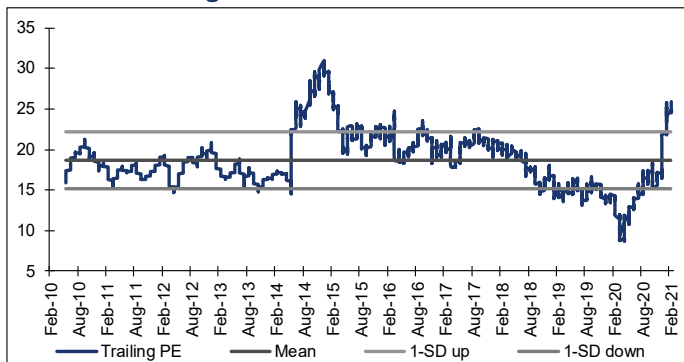
	FY18	FY19	FY20	FY21E	FY22E	FY23E
Motorcycle volumes	66,77,207	70,79,193	59,90,349	51,61,700	59,26,977	65,14,815
Scooter volumes	9,09,986	7,39,958	4,19,370	4,85,344	5,47,083	6,05,231
Realisation/unit	42,480	43,036	44,988	52,428	53,231	54,442
EBITDA/unit	6,959	6,305	6,175	6,559	7,024	7,485

Source: Company data, I-Sec research

Valuation methodology and key risks

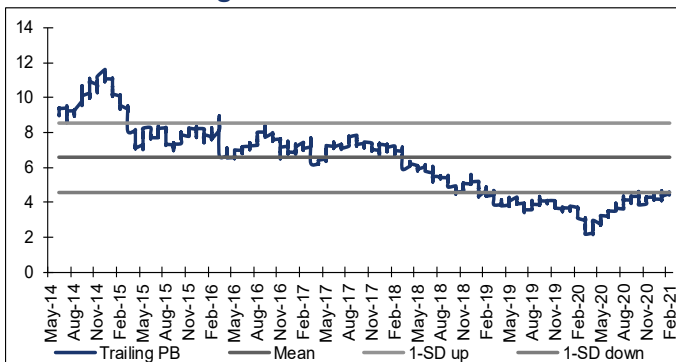
HMCL has been a key beneficiary of good demand revival post-covid on the back of continued rural recovery, enhanced need for personal mobility as access to public transportation remained erratic. Company also continued to launch new products in both scooters and motorcycles to aid volume growth. We have revised our earnings upwards ~7%/6.8% for FY22E/23E on the back of improving operating leverage. We maintain our target multiple at 17x FY23E (roll forward) EPS of Rs193. Maintain **HOLD** with a revised target price of Rs3,372 (earlier: Rs3,032).

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	FY21E	FY22E	FY23E
Total Volumes	64,09,719	56,47,044	64,74,060	71,20,047
Operating Income (Sales)	2,88,361	2,96,062	3,44,621	3,87,631
Of Which 2W	249172	255543	295359	327621
Of Which Spares	28959	28959	36199	45248
Operating Expenses	2,48,781	2,59,023	2,99,146	3,34,335
EBITDA	39,580	37,039	45,475	53,296
% margins	13.7	12.5	13.2	13.7
Depreciation & Amortisation	8,180	7,303	8,178	8,880
Gross Interest	220	209	205	201
Other Income	7,783	6,616	7,608	8,750
Recurring PBT	38,963	36,142	44,700	52,965
Add: Extraordinaries	6,774	-	-	-
Less: Taxes	9,404	9,108	11,264	13,347
Net Income (Reported)	36,333	27,035	33,435	39,618
Recurring Net Income	29,559	27,035	33,435	39,618

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	36,614	45,078	55,499	64,562
of which cash & cash eqv.	2,419	9,107	13,562	17,651
Total Current Liabilities & Provisions	42,201	42,406	49,794	56,952
Net Current Assets	(5,587)	2,672	5,704	7,610
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	64,785	65,606	67,727
Of Which Royalty Intangible	-	-	-	-
Total Assets	1,42,196	1,54,249	1,67,710	1,87,353
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	1,53,023	1,66,483	1,86,126
Net Worth	1,41,369	1,53,422	1,66,883	1,86,526
Total Liabilities	1,42,196	1,54,249	1,67,710	1,87,353

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Mar-20	Jun-20	Sep-20	Dec-20
Net sales	62,384	29,715	93,673	97,758
% growth (YoY)				
EBITDA	6,525	1,081	12,864	14,136
Margin (%)	10.5	3.6	13.7	14.5
Other income	1,695	1,485	1,413	2,027
Add: Extraordinaries	-	-	-	-
Net profit	6,133	613	9,534	10,845

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	35,953	27,883	34,635	40,301
Working Capital Changes	9,114	(1,638)	1,390	2,160
Capital Commitments	(21,431)	(6,000)	(10,500)	(12,500)
Free Cashflow	23,637	20,245	25,526	29,961
Cashflow from Investing Activities	1,178	1,424	(1,095)	(5,897)
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	6,688	4,455	4,089

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	135.3	167.4	198.3
EPS(Basic)	181.9	135.4	167.4	198.4
Recurring Cash EPS	222.9	171.9	208.4	242.9
Dividend per share (DPS)	90	75	100	100
Book Value per share (BV)	707.9	768.3	835.7	934.0
Growth Ratios (%)				
Operating Income	(14.3)	2.7	16.4	12.5
EBITDA	(19.7)	(6.4)	22.8	17.2
Recurring Net Income	(12.7)	(8.5)	23.7	18.5
Diluted Recurring EPS	(12.7)	(8.5)	23.7	18.5
Diluted Recurring CEPS	11.6	(22.9)	21.2	16.5
Valuation Ratios (x)				
P/E	18.9	25.4	20.6	17.3
P/CEPS	15.4	20.0	16.5	14.2
P/BV	4.9	4.5	4.1	3.7
EV / EBITDA	16.1	16.8	13.4	11.1
EV / Operating Income	2.2	2.1	1.8	1.5
EV / Operating FCF	14.1	23.8	16.9	13.9
Operating Ratios				
Raw Material/Sales (%)	68.3	70.7	70.6	70.3
SG&A/Sales (%)	5.8	5.0	4.9	4.9
Other Income / PBT (%)	20.0	18.3	17.0	16.5
Effective Tax Rate (%)	24.1	25.2	25.2	25.2
NWC / Total Assets (%)	(41.1)	(40.2)	(43.0)	(47.4)
Inventory Turnover (days)	18.3	19.8	20.7	19.4
Receivables (days)	28.0	21.0	20.2	20.1
Payables (days)	63.8	58.3	55.2	57.4
D/E Ratio (x)	0.6	0.5	0.5	0.4
Return/Profitability Ratios (%)				
Recurring Net Income Margins	10.3	9.1	9.7	10.2
RoCE	22.2	18.3	20.9	22.4
RoNW	21.9	18.3	20.9	22.4
Dividend Payout Ratio	57.9	55.4	59.7	50.4
Dividend Yield	2.6	2.2	2.9	2.9
EBITDA Margins	13.7	12.5	13.2	13.7

Source: Company data, I-Sec research

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