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Q4FY21 result review
and earnings revision

Automobiles

Target price: Rs3,189

Earnings revision

| (%) | FY22E | FY23E |
|--------|-------|-------|
| Sales | ↑ 0.3 | ↑ 0.2 |
| EBITDA | ↑ 0.1 | ↑ 0.9 |
| EPS | ↓ 0.4 | ↓ 0.2 |

Target price revision

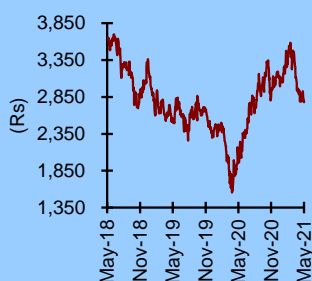
Rs3,189 from Rs3,197

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 | 4.7 |
| FIs/Banks | 0.5 | 0.4 | 0.3 |
| Insurance | 9.3 | 8.3 | 8.5 |
| FIs | 33.5 | 36.0 | 37.3 |
| Other Inst | 5.3 | 5.3 | 5.1 |
| Others | 9.1 | 9.3 | 9.3 |

Source: NSE

Price chart



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INDIA

ICICI Securities

Hero MotoCorp

ADD

Maintained

Rs2,913

Margins remain resilient

Hero MotoCorp's (HMCL) Q4FY21 operating numbers beat consensus estimates as margins came in at 13.9% (up 337bps YoY). Topline grew ~39% (slightly above consensus) to ~Rs87bn as ASP rose ~19% YoY to ~Rs55.4k/unit (driven by BSVI price increases/ mix improvement). Even in the wake of input cost increases, gross margins surprisingly held well at 29.6% (up 12bps QoQ). As input costs continue to rise, gross margin trajectory over 1H would be a key monitorable. HMCL witnessed demand pressures in 4Q on the back of weaker consumer sentiment in the entry-level segment, rising vehicle prices are likely to further challenge customer affordability. However, as urban reopening happens (2H), we expect scooters to witness release of pent-up demand. Hero has made good strategic choices in EVs with partnerships (e.g. Gogoro ([Link](#))). Maintain ADD.

Earnings call on 7th May, Friday, at 12.30 pm; on +91 22 6280 1366/ +91 22 7115 8267.

- **Key highlights of the quarter:** HMCL reported EBITDA margin of 13.9%, up down 45bps QoQ, even as gross margins rose 12bps. ASP also rose 4.6% QoQ to ~Rs55.4k/vehicle led by input cost related price hikes and better product mix. PAT grew 41% YoY to Rs86bn as tax rates normalised (23% vis-à-vis 5% YoY) and other income declined 48% with yield tapering off. In FY21 HMCL declared a cumulative dividend of Rs105 per share (~3.6% dividend yield) including a special dividend of Rs25 per share.
- **Retail demand trends remains the key monitorable:** We have witnessed 2-W retail demand trends softening post strong start in CY21 ([link](#)). HMCL's inventory levels are likely amongst the highest in the industry (~6-8 weeks (our Apr'21 estimate)), hence possibly leading to despatch reductions (-35% MoM) in Apr'21, plant shutdowns. 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 demand slack and covid cases surge could delay recovery into 2H. This remains the key near-term monitorable.
- **Maintain ADD:** HMCL had witnessed good demand revival post-covid on the back of rising need for personal mobility; however, the entry-level segment demand has been impacted by delayed wedding season (North) and surge in covid cases. HMCL's investment/partnership strategy (e.g. Aether /Gogoro) in EV's augurs well for future powertrain migration. We have tweaked our earnings estimates by ~-0.4%/-0.2% for FY22E/FY23E and maintain our target multiple at 16x FY23E EPS of Rs199. Maintain **ADD** with a revised target price of Rs3,189 (earlier: Rs3,197).

| Market Cap | Rs582bn/US\$7.9bn | Year to Mar | FY20 | FY21P | FY22E | FY23E |
|-------------------------|-------------------|-------------------------|----------|----------|----------|----------|
| Reuters/Bloomberg | HROM.BO/HMCL IN | Revenue (Rs mn) | 2,88,361 | 3,08,006 | 3,60,213 | 4,04,947 |
| Shares Outstanding (mn) | 199.8 | Rec. Net Income (Rs mn) | 29,559 | 29,642 | 32,730 | 39,809 |
| 52-week Range (Rs) | 3584/1963 | EPS (Rs) | 148.0 | 148.4 | 163.9 | 199.3 |
| Free Float (%) | 65.2 | % Chg YoY | (12.7) | 0.3 | 10.4 | 21.6 |
| FII (%) | 37.3 | P/E (x) | 16.0 | 19.6 | 17.8 | 14.6 |
| Daily Volume (US\$/000) | 52,809 | CEPS (Rs) | 222.9 | 182.3 | 201.2 | 241.6 |
| Absolute Return 3m (%) | (13.3) | EV/E (x) | 13.4 | 12.8 | 11.5 | 9.3 |
| Absolute Return 12m (%) | 48.0 | Dividend Yield (%) | 3.1 | 3.6 | 3.9 | 4.8 |
| Sensex Return 3m (%) | (3.4) | RoCE (%) | 22.2 | 20.2 | 20.9 | 23.8 |
| Sensex Return 12m (%) | 56.2 | RoE (%) | 21.9 | 20.2 | 20.9 | 23.7 |

Please refer to important disclosures at the end of this report

Table 1: Q4FY21 result review*(Rs mn, year ending March 31)*

| | Q4FY21 | Q4FY20 | YoY (%) | Q3FY21 | QoQ (%) |
|---------------------------------|---------------|---------------|----------------|---------------|----------------|
| Volume (units) | 15,68,077 | 13,34,511 | 17.5 | 18,45,274 | (15.0) |
| Net realisation | 55,393 | 46,747 | 18.5 | 52,937 | 4.6 |
| Total Operating Income | 86,860 | 62,384 | 39.2 | 97,684 | (11.1) |
| Raw Material Costs | 61,173 | 43,200 | 41.6 | 68,912 | (11.2) |
| Employee Costs | 4,884 | 4,354 | 12.2 | 5,167 | (5.5) |
| Other Expenses | 8,691 | 8,231 | 5.6 | 9,543 | (8.9) |
| Total operating expenses | 74,748 | 55,785 | 34.0 | 83,621 | (10.6) |
| Reported EBITDA | 12,112 | 6,599 | 83.5 | 14,062 | (13.9) |
| EBITDA Margin (%) | 13.9 | 10.6 | 337 bps | 14.4 | -45 bps |
| Depreciation & Amortisation | 1,631 | 1,747 | (6.6) | 1,698 | (4.0) |
| Other income | 874 | 1,695 | (48.4) | 2,027 | (56.9) |
| Interest Expenses | 63 | 41 | 54.9 | 47 | 35.3 |
| Exceptional item | 0 | 0 | NC | 0 | NC |
| PBT | 11,291 | 6,432 | 75.6 | 14,418 | (22) |
| Tax | 2,642 | 299 | 784.0 | 3,574 | (26) |
| PAT | 8,650 | 6,133 | 41.0 | 10,845 | (20) |

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 | 3,60,213 | 0.3 | 4,03,946 | 4,04,947 | 0.2 |
| EBITDA | 44,697 | 44,756 | 0.1 | 53,686 | 54,193 | 0.9 |
| PAT | 32,854 | 32,730 | (0.4) | 39,909 | 39,809 | (0.2) |
| EPS (Rs) | 164.5 | 163.9 | (0.4) | 199.8 | 199.3 | (0.2) |

Source: I-Sec research

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

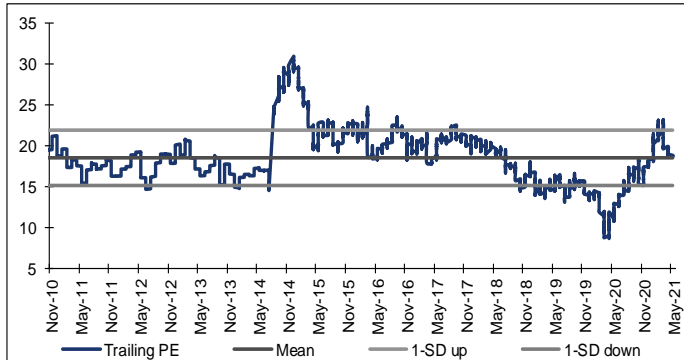
| | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E |
|--------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Motorcycle volumes | 66,77,207 | 70,79,193 | 59,90,349 | 53,33,447 | 61,24,082 | 67,31,517 |
| Scooter volumes | 9,09,986 | 7,39,958 | 4,19,370 | 4,58,013 | 5,36,458 | 5,93,544 |
| Realisation/unit | 42,480 | 43,036 | 44,988 | 53,183 | 54,082 | 55,282 |
| EBITDA/unit | 6,959 | 6,305 | 6,175 | 6,940 | 6,720 | 7,398 |

Source: Company data, I-Sec research

Valuation methodology and key risks

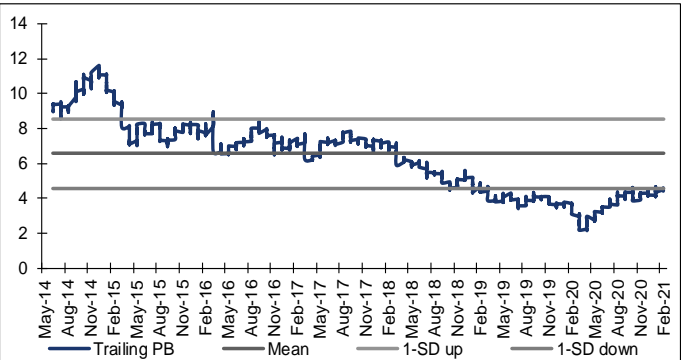
HMCL had witnessed good demand revival post-covid on the back of rising need for personal mobility; however, the entry-level segment demand has been impacted by delayed wedding season (North) and surge in covid cases. HMCL’s investment/partnership strategy (e.g. Aether /Gogoro) in EV’s augurs well for future powertrain migration. We have tweaked our earnings estimates by ~-0.4%/-0.2% for FY22E/FY23E and maintain our target multiple at 16x FY23E EPS of Rs199. Maintain **ADD** with a revised target price of Rs3,189 (earlier: Rs3,197).

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 | FY22P | FY23E |
|---------------------------------|------------------|------------------|------------------|------------------|
| Total Volumes | 64,09,719 | 57,91,460 | 66,60,540 | 73,25,061 |
| Operating Income (Sales) | 2,88,361 | 3,08,006 | 3,60,213 | 4,04,947 |
| Of Which 2W | 249172 | 265751 | 310951 | 344937 |
| Of Which Spares | 28959 | 28959 | 36199 | 45248 |
| Operating Expenses | 2,48,781 | 2,67,814 | 3,15,456 | 3,50,753 |
| EBITDA | 39,580 | 40,192 | 44,756 | 54,193 |
| % margins | 13.7 | 13.0 | 12.4 | 13.4 |
| Depreciation & Amortisation | 8,180 | 6,769 | 7,454 | 8,431 |
| Gross Interest | 220 | 218 | 214 | 210 |
| Other Income | 7,783 | 5,799 | 6,668 | 7,669 |
| Recurring PBT | 38,963 | 39,004 | 43,757 | 53,221 |
| Add: Extraordinaries | 6,774 | - | - | - |
| Less: Taxes | 9,404 | 9,362 | 11,027 | 13,412 |
| Net Income (Reported) | 36,333 | 29,642 | 32,730 | 39,809 |
| Recurring Net Income | 29,559 | 29,642 | 32,730 | 39,809 |

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|--|-----------------|-----------------|-----------------|-----------------|
| Assets | | | | |
| Total Current Assets | 36,614 | 48,135 | 51,689 | 57,738 |
| of which cash & cash eqv. | 2,419 | 2,572 | 2,528 | 2,697 |
| Total Current Liabilities & Provisions | 42,201 | 65,231 | 74,126 | 59,460 |
| Net Current Assets | (5,587) | (17,096) | (22,438) | (1,722) |
| Investments | 82,227 | 1,04,997 | 1,18,497 | 1,06,997 |
| of which | | | | |
| Strategic/Group | 35,282 | 43,082 | 44,582 | 46,082 |
| Other Marketable | 46,945 | 61,915 | 73,915 | 60,915 |
| Net Fixed Assets | 64,588 | 63,901 | 65,447 | 68,015 |
| Of Which Royalty Intangible | - | - | - | - |
| Total Assets | 1,42,196 | 1,52,348 | 1,62,107 | 1,73,951 |
| 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* | 1,40,970 | 1,51,590 | 1,61,348 | 1,73,193 |
| Net Worth | 1,41,369 | 1,51,989 | 1,61,748 | 1,73,592 |
| Total Liabilities | 1,42,196 | 1,52,348 | 1,62,107 | 1,73,951 |

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

| | Jun-20 | Sep-20 | Dec-20 | Mar-21 |
|----------------------|------------|--------------|---------------|--------------|
| Net sales | 29,715 | 93,673 | 97,758 | 86,860 |
| % growth (YoY) | -63% | 24% | 40% | 39% |
| EBITDA | 1,081 | 12,864 | 14,136 | 12,112 |
| Margin (%) | 3.6 | 13.7 | 14.5 | 13.9 |
| Other income | 1,485 | 1,413 | 2,027 | 874 |
| Add: Extraordinaries | - | - | - | - |
| Net profit | 613 | 9,534 | 10,845 | 8,650 |

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|---|---------------|----------------|-----------------|----------------|
| Operating Cashflow | 35,953 | 32,325 | 32,382 | 41,126 |
| Working Capital Changes | 9,114 | 9,510 | (8,274) | 2,107 |
| Capital Commitments | (13,600) | (6,081) | (9,000) | (11,000) |
| Free Cashflow | 31,468 | 35,754 | 15,108 | 32,233 |
| Cashflow from Investing Activities | 1,178 | (8,779) | (2,241) | (6,942) |
| Issue of Share Capital | - | - | - | - |
| 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 | 1,055 | 153 | (11,604) | (4,174) |

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|--|--------|--------|--------|--------|
| Per Share Data (Rs) | | | | |
| EPS(Basic Recurring) | 148.0 | 148.4 | 163.9 | 199.3 |
| EPS(Basic) | 181.9 | 148.4 | 163.9 | 199.3 |
| Recurring Cash EPS | 222.9 | 182.3 | 201.2 | 241.6 |
| Dividend per share (DPS) | 90 | 105 | 115 | 140 |
| Book Value per share (BV) | 707.9 | 761.1 | 810.0 | 869.3 |
| Growth Ratios (%) | | | | |
| Operating Income | (14.3) | 6.8 | 16.9 | 12.4 |
| EBITDA | (19.7) | 1.5 | 11.4 | 21.1 |
| Recurring Net Income | (12.7) | 0.3 | 10.4 | 21.6 |
| Diluted Recurring EPS | (12.7) | 0.3 | 10.4 | 21.6 |
| Diluted Recurring CEPS | 11.6 | (18.2) | 10.4 | 20.0 |
| Valuation Ratios (x) | | | | |
| P/E | 16.0 | 19.6 | 17.8 | 14.6 |
| P/CEPS | 13.1 | 16.0 | 14.5 | 12.1 |
| P/BV | 4.1 | 3.8 | 3.6 | 3.4 |
| EV / EBITDA | 13.4 | 12.8 | 11.5 | 9.3 |
| EV / Operating Income | 1.8 | 1.7 | 1.4 | 1.3 |
| EV / Operating FCF | 11.8 | 12.3 | 21.4 | 11.7 |
| Operating Ratios | | | | |
| Raw Material/Sales (%) | 68.3 | 70.7 | 72.0 | 71.4 |
| SG&A/Sales (%) | 5.8 | 4.9 | 4.8 | 4.7 |
| Other Income / PBT (%) | 20.0 | 14.9 | 15.2 | 14.4 |
| Effective Tax Rate (%) | 24.1 | 24.0 | 25.2 | 25.2 |
| NWC / Total Assets (%) | (41.1) | (55.9) | (51.7) | (57.7) |
| Inventory Turnover (days) | 18.3 | 17.1 | 18.0 | 19.4 |
| Receivables (days) | 28.0 | 23.9 | 22.9 | 20.1 |
| Payables (days) | 63.8 | 72.6 | 67.2 | 56.8 |
| D/E Ratio (x) | 0.6 | 0.2 | 0.2 | 0.2 |
| Return/Profitability Ratios (%) | | | | |
| Recurring Net Income Margins | 10.3 | 9.6 | 9.1 | 9.8 |
| RoCE | 22.2 | 20.2 | 20.9 | 23.8 |
| RoNW | 21.9 | 20.2 | 20.9 | 23.7 |
| Dividend Payout Ratio | 57.9 | 70.8 | 70.2 | 70.2 |
| Dividend Yield | 3.1 | 3.6 | 3.9 | 4.8 |
| EBITDA Margins | 13.7 | 13.0 | 12.4 | 13.4 |

Source: Company data, I-Sec research

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