

# Retail Equity Research

## Hero MotoCorp Limited

Automobiles

BSE CODE: 500182

NSE CODE: HEROMOTOCO

Bloomberg CODE: HMCL:IN

SENSEX: 49,502

**BUY**

12M Investment period

Rating as per Large Cap

CMP Rs. 2,837 TARGET Rs. 3,378 RETURN 19% ↑  
(Closing: 10-05-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

### Robust volume growth; Outlook promising

Hero MotoCorp is India's leading two-wheeler manufacturer in terms of unit volume sales in a calendar year. It holds nearly 50% of the market share in the Indian motorcycle market. The company has 7 manufacturing facilities, including five in India and one each in Colombia and Bangladesh.

- HMCL's standalone revenue for Q4FY21 surged 39.2% YoY, primarily driven by strong recovery in urban demand and stable rural growth.
- EBITDA margin expanded 330bps YoY to 13.9%, on prudent cost control and judicious price hikes. As a result, EBITDA jumped 83.5% YoY. Adj. PAT rose 39.4% YoY, partially offset by higher taxes (+785% YoY).
- Growing demand and company's strategic planning along with the proven executional ability improves the business prospects. Despite intermediate uncertainties amidst second wave of COVID, we expect the business to retain its market position and outperform the industry. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 3,378 based on 16x FY23E adj. EPS.

### Urban demand backed by scooter sales aids topline growth

In Q4FY21, HMCL's standalone revenue grew by 39.2% YoY to Rs. 8,686cr, aided by volume growth and price hikes. Volume grew on the back of increasing market share with improved business sentiments. Scooter sales saw significant growth, as HMCL regained market share in this segment. Overall revenue was also supported by Parts business which grew competitively as distribution chain improved.

### Savings program benefit margins despite inflationary pressure

Company's EBITDA margin expand 330bps YoY to 13.9% in Q4FY21 (vs 10.6% in Q4FY20) on account of benefits from Leap- II savings program, partly offset by raw material price inflation. Standalone EBITDA number surged 83.5% YoY to Rs. 1,211cr. Consequently, PAT grew 39.4% YoY to Rs. 865cr, partially offset by lower other income (-48.4% YoY) and higher taxes (+784% YoY).

### Key concall highlights

- HMCL's market share rose by 140bps in FY21 primarily supported by increased momentum in scooter sales. 2-wheeler sales volume stood at 1568k units in Q4.
- As an addition to its focus on EV segment, Hero partnered with Gigoro, a Taiwanese EV based company, to establish lithium-ion battery swapping stations in India.
- Board announced a final dividend of Rs. 25 per share and a special dividend of Rs. 15 per share, which along with interim dividend of Rs. 60 per share led full year dividend to Rs. 105 per share (+16.7% YoY).

### Valuation

Growing cases due to second wave of COVID, rising uncertainties and extended lockdowns could impact demand in the near-term. However, recovery in urban demand boosting the scooter and premium segment sales coupled with effective executional capabilities of HMCL keeps the company outlook promising over the medium to long term. Therefore, we reiterate our BUY rating on the stock with a revised target price of Rs. 3,378 based on 16x FY23E adj. EPS.

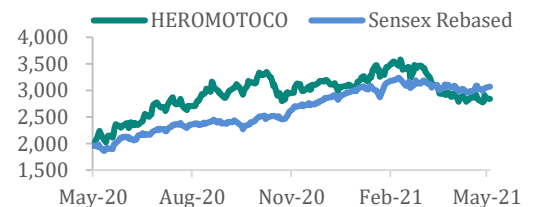
### Company Data

Market Cap (cr)	Rs. 56,687
Enterprise Value (cr)	Rs. 56,489
Outstanding Shares (cr)	20.0
Free Float	65.0%
Dividend Yield	3.7%
52 week high	Rs. 3,629
52 week low	Rs. 1,955
6m average volume (lac)	0.4
Beta	1.2
Face value	Rs. 2

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	34.8	34.8	34.8
FII's	33.3	35.9	37.2
MFs/Insti	22.9	20.0	18.7
Public	6.6	6.9	6.7
Others	2.6	2.5	2.7
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-19.8%	-3.9%	44.6%
Absolute Sensex	-3.5%	14.4%	56.4%
Relative Return*	-16.3%	-18.3%	-11.8%

\*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	30,801	36,893	41,040
Growth (%)	6.8	19.8	11.2
EBITDA	4,019	4,893	5,576
EBITDA Margin (%)	13.0	13.3	13.6
Adj. PAT	2,964	3,637	4,217
Growth (%)	0.3	22.7	15.9
Adj. EPS	148.4	182.1	211.1
Growth (%)	0.3	22.7	15.9
P/E	19.6	15.6	13.4
P/B	3.8	3.2	2.8
EV/EBITDA	14.5	11.5	10.1
ROE (%)	19.5	20.7	20.7
D/E	0.0	0.0	0.0

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Revenue	8,686	6,238	39.2	9,776	(11.1)	30,801	28,836	6.8
<b>EBITDA</b>	<b>1,211</b>	<b>660</b>	<b>83.5</b>	<b>1,414</b>	<b>(14.3)</b>	<b>4,019</b>	<b>3,958</b>	<b>1.5</b>
EBITDA margins	13.9	10.6	330bps	14.5	(60bps)	13.0	13.7	(70bps)
Depreciation	163	175	(6.6)	170	(4.0)	677	818	(17.2)
<b>EBIT</b>	<b>1,048</b>	<b>485</b>	<b>116.0</b>	<b>1,244</b>	<b>(15.7)</b>	<b>3,342</b>	<b>3,140</b>	<b>6.4</b>
Interest	6	4	54.9	5	35.3	22	22	(0.8)
Other Income	87	169	(48.4)	203	(56.9)	580	778	(25.5)
Exceptional Items	-	-	-	-	-	-	677	n.m.
<b>PBT</b>	<b>1,129</b>	<b>651</b>	<b>73.6</b>	<b>1,442</b>	<b>(21.7)</b>	<b>3,900</b>	<b>4,574</b>	<b>(14.7)</b>
Tax	264	30	784.0	357	(26.1)	936	940	(0.5)
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>865</b>	<b>621</b>	<b>39.4</b>	<b>1,084</b>	<b>(20.2)</b>	<b>2,964</b>	<b>3,633</b>	<b>(18.4)</b>
Adjustments	-	-	-	-	-	-	(677)	n.m.
<b>Adj. PAT</b>	<b>865</b>	<b>621</b>	<b>39.4</b>	<b>1,084</b>	<b>(20.2)</b>	<b>2,964</b>	<b>2,956</b>	<b>0.3</b>
No. of shares	20.0	20.0	0.1	20.0	0.0	20.0	20.0	0.1
<b>Adj. EPS (Rs.)</b>	<b>43.3</b>	<b>31.1</b>	<b>39.3</b>	<b>54.3</b>	<b>(20.3)</b>	<b>148.3</b>	<b>148.0</b>	<b>0.3</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	33,629	-	36,893	41,040	9.7	-
EBITDA	4,645	-	4,893	5,576	5.3	-
Margins (%)	13.8	-	13.3	13.6	(50bps)	-
Adj. PAT	3,516	-	3,637	4,217	3.5	-
Adj. EPS	176.0	-	182.1	211.1	3.4	-

## PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>33,651</b>	<b>28,836</b>	<b>30,801</b>	<b>36,893</b>	<b>41,040</b>
% change	2.4	(14.3)	6.8	19.8	11.2
<b>EBITDA</b>	<b>4,930</b>	<b>3,958</b>	<b>4,019</b>	<b>4,893</b>	<b>5,576</b>
% change	(6.6)	(19.7)	1.5	21.8	13.9
Depreciation	602	818	677	835	979
<b>EBIT</b>	<b>4,328</b>	<b>3,140</b>	<b>3,342</b>	<b>4,058</b>	<b>4,596</b>
Interest	9	22	22	26	28
Other Income	691	1,456	580	754	980
<b>PBT</b>	<b>5,011</b>	<b>4,574</b>	<b>3,900</b>	<b>4,786</b>	<b>5,549</b>
% change	(4.5)	(8.7)	(14.7)	22.7	15.9
Tax	1,626	940	936	1,149	1,332
Tax Rate (%)	32.4	20.6	24.0	24.0	24.0
<b>Reported PAT</b>	<b>3,385</b>	<b>3,633</b>	<b>2,964</b>	<b>3,637</b>	<b>4,217</b>
Adj*	-	(677)	-	-	-
<b>Adj PAT</b>	<b>3,385</b>	<b>2,956</b>	<b>2,964</b>	<b>3,637</b>	<b>4,217</b>
% change	(8.5)	(12.7)	0.3	22.7	15.9
No. of shares (cr)	20.0	20.0	20.0	20.0	20.0
<b>Adj EPS (Rs.)</b>	<b>169.5</b>	<b>148.0</b>	<b>148.4</b>	<b>182.1</b>	<b>211.1</b>
% change	(8.5)	(12.7)	0.3	22.7	15.9
DPS (Rs.)	87.0	90.0	105.0	114.7	133.0
CEPS (Rs.)	199.6	188.9	182.3	223.9	260.1

## CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Net inc. + Depn.</b>	<b>3,987</b>	<b>4,451</b>	<b>3,641</b>	<b>4,473</b>	<b>5,196</b>
Non-cash adj.	(1,494)	136	(395)	577	910
Changes in W.C	(1,514)	823	927	(807)	(93)
<b>C.F. Operation</b>	<b>979</b>	<b>5,410</b>	<b>4,173</b>	<b>4,243</b>	<b>6,013</b>
Capital exp.	(918)	(1,359)	(510)	(918)	(939)
Change in inv.	1,876	(1,890)	(1,827)	(744)	(2,744)
Other invest.CF	363	366	127	(2)	(2)
<b>C.F - Investment</b>	<b>1,321</b>	<b>(2,883)</b>	<b>(2,210)</b>	<b>(1,664)</b>	<b>(3,685)</b>
Issue of equity	2	0	8	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(1,897)	(1,937)	(1,898)	(2,098)	(2,292)
Other finance.CF	(399)	(482)	(52)	(121)	47
<b>C.F - Finance</b>	<b>(2,294)</b>	<b>(2,420)</b>	<b>(1,941)</b>	<b>(2,219)</b>	<b>(2,245)</b>
Chg. in cash	6	107	21	360	83
Closing cash	136	242	257	617	700

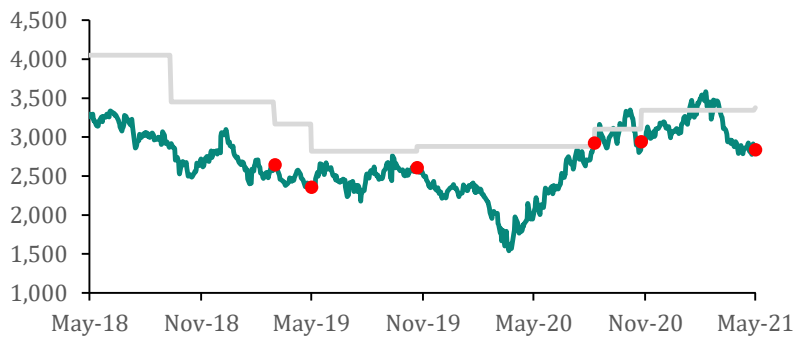
## BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	136	242	257	617	700
Accounts Receivable	2,822	1,603	2,427	3,044	3,283
Inventories	1,072	1,092	1,470	1,519	1,622
Other Cur. Assets	4,085	5,352	6,799	7,043	7,154
Investments	2,802	3,528	4,308	5,052	7,797
Gross Fixed Assets	7,854	9,212	9,722	10,640	11,580
Net Fixed Assets	4,478	5,977	5,698	5,781	5,741
CWIP	361	160	178	187	187
Intangible Assets	322	321	549	562	562
Def. Tax (Net)	-	-	-	-	-
Other Assets	1,564	474	475	477	479
<b>Total Assets</b>	<b>17,641</b>	<b>18,749</b>	<b>22,161</b>	<b>24,282</b>	<b>27,523</b>
Current Liabilities	3,909	3,695	5,931	5,794	6,122
Provisions	117	122	172	176	179
Debt Funds	221	402	455	419	439
Other Liabilities	537	393	404	345	400
Equity Capital	40	40	40	40	40
Reserves & Surplus	12,817	14,096	15,158	17,508	20,343
Shareholder's Fund	12,857	14,136	15,198	17,548	20,382
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>17,641</b>	<b>18,749</b>	<b>22,161</b>	<b>24,282</b>	<b>27,523</b>
<b>BVPS (Rs.)</b>	<b>644</b>	<b>708</b>	<b>761</b>	<b>878</b>	<b>1,020</b>

## RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	14.7	13.7	13.0	13.3	13.6
EBIT margin (%)	12.9	10.9	10.9	11.0	11.2
Net profit mgn. (%)	10.1	12.6	9.6	9.9	10.3
ROE (%)	26.3	25.7	19.5	20.7	20.7
ROCE (%)	33.1	21.6	21.4	22.6	22.1
<b>W.C &amp; Liquidity</b>					
Receivables (days)	30.6	20.3	28.8	30.1	29.2
Inventory (days)	16.8	20.2	24.6	21.9	21.2
Payables (days)	52.5	56.2	87.3	73.0	69.4
Current ratio (x)	2.0	2.1	1.8	2.1	2.0
Quick ratio (x)	1.5	1.6	1.5	1.7	1.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	4.4	3.4	3.3	3.6	3.7
Total asset T.O (x)	2.0	1.6	1.5	1.6	1.6
Int. coverage ratio (x)	503.3	142.6	153.0	157.7	166.1
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	1.5	1.1	1.9	1.5	1.4
EV/EBITDA (x)	10.4	8.1	14.5	11.5	10.1
P/E (x)	15.1	10.8	19.6	15.6	13.4
P/BV (x)	4.0	2.3	3.8	3.2	2.8

## Recommendation Summary



Dates	Rating	Target
04-May-18	BUY	4,050
20-Sep-18	BUY	3,451
11-Mar-19	BUY	3,168
10-May-19	BUY	2,820
31-Oct-19	HOLD	2,879
18-Aug-20	HOLD	3,103
03-Nov-20	BUY	3,345
11-May-21	BUY	3,378

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

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**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

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