

## Automobiles

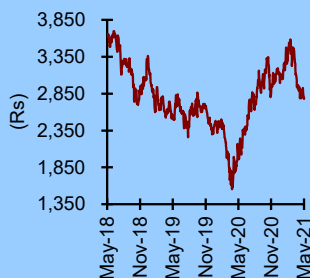
Target price: Rs3,189

### 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
FII	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



### Research Analysts:

#### Nishant Vass

nishant.vass@icicisecurities.com  
+91 22 6637 7260

#### Pratit Vajani

pratit.vajani@icicisecurities.com  
+91 22 6637 7161

INDIA

# Hero MotoCorp

**ADD**

**Maintained**

**Rs2,856**

## Strong cost savings focus aids margins

Hero MotoCorp's (HMCL) Q4FY21 operating numbers beat consensus estimates as margins came in at 13.9% (up 337bps YoY). Even in the wake of rising input cost (~5% QoQ), gross margins held well at 29.6% (up 12bps QoQ) on the back of price hikes (~2%) and LEAP benefits (~3%). As input costs continue to rise, gross margin in H1 is expected to face further headwinds. HMCL witnessed demand pressures in Q4 on the back of weaker consumer sentiment. The resurgence of covid has coincided with auspicious wedding season (Apr- Jun), thus is likely to delay recovery into Q3. On long term basis, HMCL has made good strategic choices in EVs with investments/ partnerships (e.g. Aether, Gogoro ([link](#))) which are likely to help it be future ready on technology side. Maintain ADD.

### Key highlights of the call:

- ▶ HMCL achieved market share gains of 140bps in FY21, powered by scooters (up 270bps to 10% share) and gain in the premium category (up to 4%) from its *XPulse* and *Xtreme* brands. In 125cc segment, the company held its market share in rural segment and gained share in urban regions on the back of strong sales of *Super Splendor*.
- ▶ Exports too witnessed growth (8% YoY) clocking 300k units (annualised) run-rate in Q4. Company has recently started operations in Mexico, also improved its market share in Colombia to 6% (from 4% in FY20), and plans to enter Nigeria too in FY22.
- ▶ Commodity inflation in FY21 was at 6-7% YoY and was balanced by taking 4% price hike and 2% savings from LEAP cost-saving program (300bps in Q4). Net raw material cost per vehicle was up 4.5% QoQ (2.5% on 2W and 2% on parts). Company expects ~4% cost inflation in FY22.
- ▶ BS-VI cost rebasing has helped management of precious metals usage in fuel injection systems and catalytic converters, which in turn aided HMCL to lower its consumption of platinum and rhodium (precious metals costs were up 150-200% on a YoY basis).
- ▶ On EVs, HMCL plans to operate on both fixed battery (in-house/Aether) as well as swappable battery system with Gogoro partnership. First EV is likely to launch in CY22.
- ▶ Revenue from spares in Q4FY21 stood at Rs10.5bn (Q4FY20: Rs7.5bn) and that for FY21 was ~Rs31.8bn (FY20: Rs29bn) reaching 10% of total revenues. HMCL has been able to improve its net promoter score with customers to 60 from 12 in three years. HMCL spent ~ Rs6bn of capex in FY21.

Market Cap	Rs570bn/US\$7.7bn	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)	15.7	19.2	17.4	14.3
Daily Volume (US\$/'000)	52,701	CEPS (Rs)	222.9	182.3	201.2	241.6
Absolute Return 3m (%)	(14.9)	EV/E (x)	13.1	12.5	11.3	9.1
Absolute Return 12m (%)	44.0	Dividend Yield (%)	3.2	3.7	4.0	4.9
Sensex Return 3m (%)	(3.5)	RoCE (%)	22.2	20.2	20.9	23.8
Sensex Return 12m (%)	54.5	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)
<b>Net realisation</b>	<b>55,393</b>	<b>46,747</b>	<b>18.5</b>	<b>52,937</b>	<b>4.6</b>
<b>Total Operating Income</b>	<b>86,860</b>	<b>62,384</b>	<b>39.2</b>	<b>97,684</b>	<b>(11.1)</b>
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)
<b>Total operating expenses</b>	<b>74,748</b>	<b>55,785</b>	<b>34.0</b>	<b>83,621</b>	<b>(10.6)</b>
<b>Reported EBITDA</b>	<b>12,112</b>	<b>6,599</b>	<b>83.5</b>	<b>14,062</b>	<b>(13.9)</b>
<b>EBITDA Margin (%)</b>	<b>13.9</b>	<b>10.6</b>	<b>337 bps</b>	<b>14.4</b>	<b>-45 bps</b>
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)
<b>PAT</b>	<b>8,650</b>	<b>6,133</b>	<b>41.0</b>	<b>10,845</b>	<b>(20)</b>

Source: Company data, I-Sec research

**Table 2: Key assumptions for HMCL**

(Rs mn)

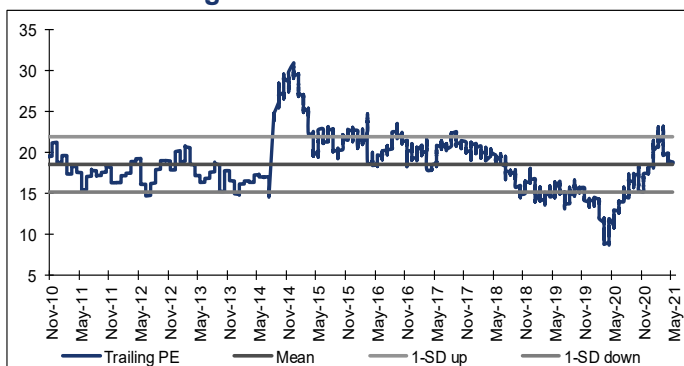
	FY18	FY19	FY20	FY21	FY22E	FY23E
Motorcycle volumes	66,77,207	70,79,193	59,90,349	53,33,447	61,24,082	67,31,517
Scooter volumes	9,09,986	7,39,958	4,19,370	4,58,013	5,36,458	5,93,544
Realisation/unit	42,480	43,036	44,988	53,183	54,082	55,282
EBITDA/unit	6,959	6,305	6,175	6,940	6,720	7,398

Source: Company data, I-Sec research

### Valuation methodology and key risks

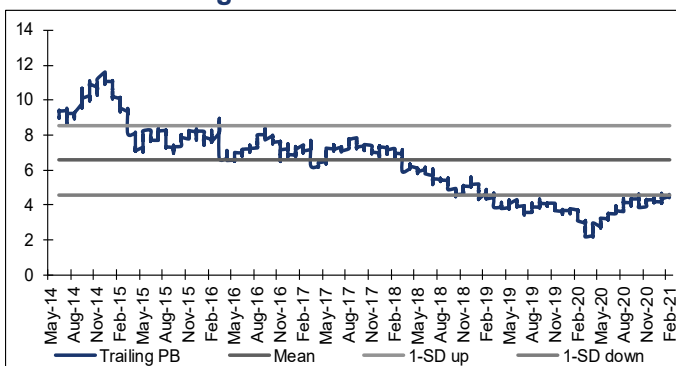
HMCL had witnessed good demand revival post-covid on the back of rising need for personal mobility; however, the entry-level segment demand has been impacted by delayed wedding season (North) and surge in covid cases. Company's investment/partnership strategy (e.g. Ather / Gogoro) in EVs augurs well for future powertrain migration. We maintain our target multiple at 16x FY23E EPS of Rs199. Maintain **ADD** with a target price of Rs3,189.

**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 3: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Total Volumes</b>	<b>64,09,719</b>	<b>57,91,460</b>	<b>66,60,540</b>	<b>73,25,061</b>
<b>Operating Income (Sales)</b>	<b>2,88,361</b>	<b>3,08,006</b>	<b>3,60,213</b>	<b>4,04,947</b>
Of Which 2W	249172	265751	310951	344937
Of Which Spares	28959	28959	36199	45248
<b>Operating Expenses</b>	<b>2,48,781</b>	<b>2,67,814</b>	<b>3,15,456</b>	<b>3,50,753</b>
<b>EBITDA</b>	<b>39,580</b>	<b>40,192</b>	<b>44,756</b>	<b>54,193</b>
% 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
<b>Recurring PBT</b>	<b>38,963</b>	<b>39,004</b>	<b>43,757</b>	<b>53,221</b>
Add: Extraordinaries	6,774	-	-	-
Less: Taxes	9,404	9,362	11,027	13,412
<b>Net Income (Reported)</b>	<b>36,333</b>	<b>29,642</b>	<b>32,730</b>	<b>39,809</b>
<b>Recurring Net Income</b>	<b>29,559</b>	<b>29,642</b>	<b>32,730</b>	<b>39,809</b>

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Assets</b>				
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
<b>Net Current Assets</b>	<b>(5,587)</b>	<b>(17,096)</b>	<b>(22,438)</b>	<b>(1,722)</b>
<b>Investments</b>	<b>82,227</b>	<b>1,04,997</b>	<b>1,18,497</b>	<b>1,06,997</b>
of which				
Strategic/Group	35,282	43,082	44,582	46,082
Other Marketable	46,945	61,915	73,915	60,915
<b>Net Fixed Assets</b>	<b>64,588</b>	<b>63,901</b>	<b>65,447</b>	<b>68,015</b>
Of Which Royalty Intangible	-	-	-	-
<b>Total Assets</b>	<b>1,42,196</b>	<b>1,52,348</b>	<b>1,62,107</b>	<b>1,73,951</b>
<b>Liabilities</b>				
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
<b>Net Worth</b>	<b>1,41,369</b>	<b>1,51,989</b>	<b>1,61,748</b>	<b>1,73,592</b>
<b>Total Liabilities</b>	<b>1,42,196</b>	<b>1,52,348</b>	<b>1,62,107</b>	<b>1,73,951</b>

Source: Company data, I-Sec research

Table 5: 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	-	-	-	-
<b>Net profit</b>	<b>613</b>	<b>9,534</b>	<b>10,845</b>	<b>8,650</b>

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Operating Cashflow</b>	<b>35,953</b>	<b>32,325</b>	<b>32,382</b>	<b>41,126</b>
Working Capital Changes	9,114	9,510	(8,274)	2,107
Capital Commitments	(13,600)	(6,081)	(9,000)	(11,000)
<b>Free Cashflow</b>	<b>31,468</b>	<b>35,754</b>	<b>15,108</b>	<b>32,233</b>
<b>Cashflow from Investing Activities</b>	<b>1,178</b>	<b>(8,779)</b>	<b>(2,241)</b>	<b>(6,942)</b>
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(21,034)	(20,974)	(22,971)	(27,965)
<b>Extraordinary Items</b>	<b>6,774</b>	-	-	-
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,055</b>	<b>153</b>	<b>(11,604)</b>	<b>(4,174)</b>

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
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
<b>Growth Ratios (%)</b>				
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
<b>Valuation Ratios (x)</b>				
P/E	15.7	19.2	17.4	14.3
P/CEPS	12.8	15.7	14.2	11.8
P/BV	4.0	3.8	3.5	3.3
EV / EBITDA	13.1	12.5	11.3	9.1
EV / Operating Income	1.8	1.6	1.4	1.2
EV / Operating FCF	11.5	12.0	21.0	11.4
<b>Operating Ratios</b>				
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
<b>Return/Profitability Ratios (%)</b>				
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	3.2	3.7	4.0	4.9
EBITDA Margins	13.7	13.0	12.4	13.4

Source: Company data, I-Sec research

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