

Weak quarter but Favorably positioned with fast filling of white spaces

CMP: Rs 2927

Rating: HOLD

Target Price: Rs 3,081

Stock Info

BSE	500182
NSE	HEROMOTCO
Bloomberg	HMCL IN
Reuters	HROM.BO
Sector	Auto-2&3 wheelers
Face Value (Rs)	2
Equity Capital (Rs mn)	400
Mkt Cap (Rs mn)	583278
52w H/L (Rs)	3,023/1,475
Avg Yearly Vol (in 000')	1280

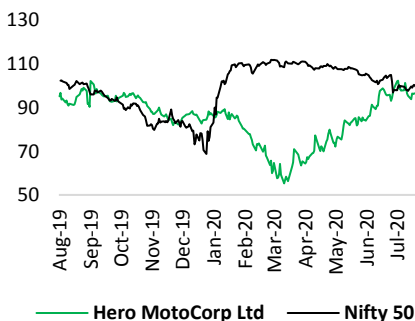
Shareholding Pattern %

(As on June, 2020)

Promoters	34.77
Public & Others	65.23

Stock Performance (%)	3m	6m	12m
Hero MotoCorp	44.3	30.3	10.9
Nifty	6.3	-15.6	-14.4

Hero MotoCorp Vs Nifty



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HeroMoto Corp reported weak set of numbers with sharp de-growth in revenue at 63% YoY, impacted due to Covid related disruption amid auto slowdown. EBITDA stood at Rs 1,081 Mn (-90.7%YoY/-83.6% QoQ with margin of 3.6% (-1078bps YoY/-694 QoQ). Profit for the quarter de-grew by 92% YoY to Rs 613 Mn during Q1FY21. The total volumes (Motorcycles + Scooters) declined by 69.3% YoY to 5,65,000 units led by subdued demand. The blended realization has seen an increase of 20.7% YoY to Rs 52,594 unit on account of better product mix.

Concall highlights

- Hero is witnessing strong traction in demand and expects MoM improvement in retail sales to continue. With the festive season kicking in, Hero expects demand improvement to sustain.
- Hero stated that retail sales have been outperforming urban areas given the strong sentiments on account of normal monsoon for the second consecutive year and increased kharif sowing. Better rural sales augur well for Hero.
- Hero stated that new launches in the premium segment Xtreme and XPulse have witnessed good customer response and the company expects share of premium motorcycles to improve. Hero is targeting at double-digit market share in the premium space compared to 3-4% currently.
- Hero raised Rs 1,000 cr of cash flows in Q1FY21 despite challenging scenario due to COVID-19.
- Hero has unveiled cost-control measures under the Leap 2 Programme (will focus on cost reduction across expense heads) and is targeting cost savings worth 100 bps.
- The company has maintained capex guidance of Rs. 600 crore for FY2022.
- Hero stated that it has witnessed increased preference for personal transportation. 2W would continue to gain, as it is the most affordable mode for personal transport.
- Hero has gained market share in the 2W segment on account of better performance in rural areas.
- Hero stated that its top markets of UP and Bihar are performing well with double-digit growth. Southern markets are performing moderately while Western markets such as Maharashtra and Gujarat are lagging behind due to low sentiments.
- Hero's inventory levels are lower than normal levels; and wholesales sales should improve with supply chain ramping up and the upcoming festive season.

Outlook and valuation

At CMP of Rs 2,927, Hero MotoCorp currently trades at FY20 PE of 16x. Hero MotoCorp has performed exceptionally in a weak market scenario. Hero is witnessing increased demand on MoM basis and consistent demand improvement for the past three months that demand pick. Strong rural sentiments on account of normal monsoon so far, higher kharif sowing, and increased preference for personal transport are driving 2W demand. Moreover, wholesale volumes are likely to improve further with inventory levels being lower than the norms and with the upcoming festive season.

We value Hero MotoCorp at PE of 19x to FY22 EPS estimate of Rs 162, which yields a target price of Rs 3,081. **We maintain our Hold rating on the stock.**

Quarterly result summary

Standalone (Rs mn)	1QFY21	4QFY20	1QFY20	YoY (%)	QoQ (%)
Net sales	29,715	62,384	80,303	(63.0)	(52.4)
- Raw material	20,939	43,200	55,919	(62.6)	(51.5)
(% of net sales)	70.5	69.2	69.6	83bps	122bps
- Staff expenditure	3,824	4,354	4,677	(18.2)	-12.18
(% of net sales)	12.9	7.0	5.8	704bps	589bps
- Other expenditure	3,872	8,231	8,127	(52.4)	(53.0)
(% of net sales)	13.0	13.2	10.1	291bps	-16bps
Total expenditure	28,635	55,785	68,723	(58.3)	(48.7)
EBITDA	1,081	6,599	11,580	(90.7)	(83.6)
EBITDA Margin (%)	3.6	10.6	14.4	-1078bps	-694bps
Depreciation	1,708	1,747	2,361	(27.7)	-2.26
EBIT	-627	4,852	9,219	(106.8)	-112.93
Interest	63	41	44	43.2	54.19
Other Income	1,485	1,695	2,188	(32.2)	-12.40
PBT	795	6,506	11,364	(93.0)	-87.78
Tax	182	299	3,739	(95.1)	-39.16
Reported PAT	613	6,207	12,573	(95.1)	-90.12
Adjusted PAT	613	6,207	7,625	(92.0)	-90.12
Adjusted EPS (Rs)	30.7	31.1	63.0	(51.2)	-1.22
Total volumes (Nos)	5,65,000	13,34,511	18,42,920	(69.3)	-57.66
Net realisation (Rs)	52,594	46,747	43,574	20.7	12.51
EBITDA / vehicle (Rs)	1,912	4,945	6,283	(69.6)	-61.32

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Net sales	3,36,505	2,88,361	2,68,320	3,01,877
Growth, %	2	-14	-7	13
RM expenses	-2,33,177	-1,96,974	-1,85,141	2,08,295
Employee expenses	-17,302	-18,417	-18,514	-19,622
Other expenses	-36,725	-33,390	-27,208	-30,798
EBITDA	49,301	39,580	37,457	43,162
Growth, %	-10	-20	-5	15
Margin, %	14.7	13.7	14.0	14.3
Depreciation	-6,020	-8,180	-8,716	-9,074
EBIT	43,281	31,400	28,741	34,088
Growth, %	-12	-27	-8	19
Margin, %	12.9	10.9	10.7	11.3
Interest paid	-86	-220	-220	-220
Other Income	6,913	7,783	8,562	9,418
Non-recurring Items	0	6,774	0	0
Pre-tax profit	50,107	45,737	37,082	43,286
Tax provided	-16,258	-9,404.3	-9,335	-10,896
Profit after tax	33,849	36,333	27,748	32,389
Others (Minorities, Associates)	-	-	-	-
Net Profit	33,849	36,333	27,748	32,389
Growth, %	-13	7	-24	17
Net Profit (adjusted)	33,849	36,333	27,748	32,389

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Cash & bank	1,365	2,419	4,805	10,824
Marketable securities cost	50,517	72,141	70,310	77,341
Debtors	28,216	16,031	19,113	21,504
Inventory	10,724	10,920	7,351	8,271
Loans & advances	850	896	842	948
Other current assets	8,931	6,348	6,982	7,680
Total current assets	50,085	36,614	39,094	49,227
Investments	9,169	10,086	11,094	12,204
Gross fixed assets	1,31,322	1,42,041	1,49,322	1,55,322
Less: Depreciation	-72,893	-81,073	-89,789	-98,863
Add: Capital WIP	3,607	1,603	1,603	1,603
Net fixed assets	58,429	60,969	59,533	56,459
Total assets	1,71,806	1,81,305	1,81,528	1,96,727
Current liabilities	40,713	37,929	31,303	35,006
Provisions	1,762	2,689	2,824	2,965
Total current liabilities	42,476	40,618	34,127	37,971
Non-current liabilities	760	-677	-677	-677
Total liabilities	43,235	39,941	33,450	37,294
Paid-up capital	399.5	399.5	399.5	399.5
Reserves & surplus	1,28,172	1,40,965	1,47,678	1,59,034
Shareholders' equity	1,28,571	1,41,364	1,48,078	1,59,434
Total equity & liabilities	1,71,807	1,81,305	1,81,528	1,96,727

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Pre-tax profit	50,107	45,737	37,082	43,286
Depreciation	6,020	8,180	8,716	9,074
Chg in working capital	-19,213	12,668	-6,585	-270
Total tax paid	-16,010	-10,841	-9,335	-10,896
CFO	15,463	48,180	21,537	31,996
Capital expenditure	-16,420	-8,715	-7,175	-6,000
Chg in investments	15,566	-22,540	822	-8,140
Other investing activities	3,254	7,783	8,562	9,418
CFI	2,400	-23,472	2,209	-4,723
Free cash flow	14,609	16,925	15,185	17,855
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-20,333	-21,034	-21,034	-21,034
CFF	-20,418	-21,254	-21,254	-21,254
Net chg in cash	-2,555	3,454	2,492	6,019
Opening cash balance	1,413	1,365	2,419	4,805
Closing cash balance	1,365	2,419	4,805	10,824

Ratios

YE: Mar	FY19	FY20	FY21E	FY22E
EPS (INR)	169	182	139	162
PER (x)	17.3	16.1	21.1	18.1
Price/Book (x)	4.5	4.1	3.9	3.7
EV/EBITDA (x)	10.8	12.9	13.6	11.5
EV/Net sales (x)	1.6	1.8	1.9	1.6
RoE (%)	27	27	19	21
RoCE (%)	41	29	26	28
Fixed Asset turnover (x)	2.6	2.0	1.8	1.9
Dividend Yield (%)	3.0	3.1	3.1	3.1
Receivable (days)	31	20	26	26
Inventory (days)	14	16	12	12
Payable (days)	43	44	36	36
Net D/E ratio (x)	(0.4)	(0.6)	(0.5)	(0.6)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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