

Below estimate: Festive demand to drive volumes going ahead

CMP: INR 2,764

Rating: Accumulate

Target Price: INR 3,156

Stock Info

| | |
|--------------------------|-------------------|
| BSE | 500182 |
| NSE | HEROMOTCO |
| Bloomberg | HMCL IN |
| Reuters | HROM.BO |
| Sector | Auto-2&3 wheelers |
| Face Value (INR) | 2 |
| Equity Capital (INR mn) | 400 |
| Mkt Cap (INR mn) | 5,52,150 |
| 52w H/L (INR) | 3,629/2,713 |
| Avg Yearly Vol (in 000') | 1233 |

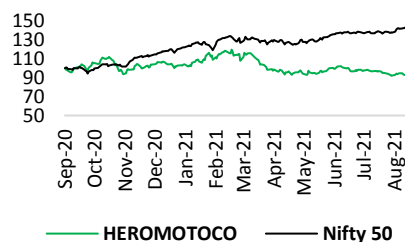
Shareholding Pattern %

(As on June, 2021)

| | |
|-----------|-------|
| Promoters | 34.76 |
| FII | 39.86 |
| DII | 15.34 |
| Others | 10.04 |

| | | | |
|-----------------------|------|-------|------|
| Stock Performance (%) | 3m | 6m | 12m |
| Hero MotoCorp | -4.9 | -21.5 | -5.4 |
| Nifty | 45.5 | 9.5 | 45.5 |

Hero MotoCorp Vs Nifty



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- Hero MotoCorp (HMCL) below estimates all front in Q1FY22. Weak realizations, Ebitda and Ebitda margins are below estimates.
- Standalone revenue from operations grew by 84.7% YoY/-36.8% QoQ stood at INR 54,871 Mn in Q1 FY22 against our estimate of INR 57,945 Mn.
- Gross margin of the company decreased by 200bps YoY/-210bps QoQ at 27.5% due to commodity cost pressure.
- EBITDA grew by 376.5%YoY/-57.5QoQ to INR 5,148 Mn against our estimate of INR 6,793 Mn.
- EBITDA margin expanded by 575bps YoY/-456 QoQ to 9.4% Q1FY22 vs our estimate of 11.7%.
- The Company reported net Profit of INR 3,654 Mn in Q1FY22 against our estimate of INR 4,943 Mn.
- The total volumes (Motorcycles + Scooters) grew by 81.3% YoY to 10,24,489 units. The blended realization has seen an increase of 1.8% YoY/-3.3% QoQ to INR 53,559 unit on account of better product mix.

Conference Call Highlights

- **EV:** The company has taken various initiatives to build up its position in the emerging vertical and has announced a three-fold strategy. While its current on-ground existence is limited to the company's ~35% stake in leading electric scooter maker Ather Energy, it will launch its 1st electric scooter from in-house R&D by end-FY22E. The current tieup with Taiwan's Gogoro Networking swappable battery technology will represent an added EV foray. Product launches will happen in partnership with Gogoro in H2CY22 which will have a battery swapping facility for customers.
- **Cost:** The company expects a price hike of INR 1,200 taken in Jul'21 and cost savings (150 bps) under the LEAP-2 program to neutralize the Q2FY22 cost inflation. The management expects commodities to ease in H2FY22 which will lead to margin improvement. Constructional margin tailwinds in the form of an elevated share of spare parts and recovered mix (exports, premium motorcycles) along with going forward price increases will further protect against elevated costs in FY22E- FY23E

Outlook and valuation

At CMP of INR 2,764, Hero MotoCorp is trading at PE of 14x, to its FY23E EPS of INR ~197. The company under the LEAP-2 program has been aggressive in cost-saving, operating leverage benefits, and price hikes which would result in margin improvement.

Secondly, Hero will benefit from its premium bikes, and the EV segment is likely to do well for growth in the medium term. While We expect Hero's earnings to post a 15.3% CAGR during FY2021-FY2023E, led by a 15.4% revenue CAGR during FY2021-FY2023E and an EBITDA margin of 13.2% in FY2023E from 13% in FY2021.

We value Hero MotoCorp at PE of 16x to its FY23E EPS estimate of INR ~197, which yields a target price of INR 3,156. We assign an Accumulate rating on the stock.

| YE March (INR Mn) | Net Sales | EBITDA | PAT | EPS (INR) | EBITDA Margin % | RoE (%) | P/E (x) |
|-------------------|-----------|--------|--------|-----------|-----------------|---------|---------|
| FY19 | 3,36,505 | 49,301 | 33,849 | 169.5 | 14.7 | 27.5 | 16.3 |
| FY20 | 2,88,361 | 39,580 | 36,333 | 181.9 | 13.7 | 26.9 | 15.2 |
| FY21 | 3,08,006 | 40,192 | 29,642 | 148.4 | 13.0 | 20.2 | 18.6 |
| FY22E | 3,49,380 | 44,412 | 32,412 | 162.2 | 12.7 | 20.6 | 17.0 |
| FY23E | 4,09,960 | 54,176 | 39,412 | 197.3 | 13.2 | 22.8 | 14.0 |

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

Quarterly result summary

| Standalone (INR mn) | 1QFY22 | 4QFY21 | 1QFY21 | YoY (%) | QoQ (%) |
|------------------------------|------------------|------------------|-----------------|----------------|----------------|
| Net sales | 54,871 | 86,860 | 29,715 | 84.7 | (36.8) |
| - Raw material | 39,796 | 61,173 | 20,939 | 90.1 | (34.9) |
| (% of net sales) | 72.5 | 70.4 | 70.5 | 206bps | 210bps |
| - Staff expenditure | 4,357 | 4,884 | 3,824 | 13.9 | (10.8) |
| (% of net sales) | 7.9 | 5.6 | 12.9 | -493bps | 232bps |
| - Other expenditure | 5,570 | 8,691 | 3,872 | 5.6 | (35.9) |
| (% of net sales) | 10.2 | 10.0 | 13.0 | -288bps | 14bps |
| Total expenditure | 49,722 | 74,748 | 28,635 | 73.6 | (33.5) |
| EBITDA | 5,148 | 12,112 | 1,081 | 376.5 | (57.5) |
| EBITDA Margin (%) | 9.4 | 13.9 | 3.6 | 575bps | -456bps |
| Depreciation | 1,630 | 1,631 | 1,708 | (4.6) | (0.1) |
| EBIT | 3,519 | 10,480 | -627 | (661.1) | (66.4) |
| Interest | 61 | 63 | 63 | (2.7) | (3.2) |
| Other Income | 1,386 | 874 | 1,485 | (6.6) | 58.6 |
| PBT | 4,844 | 11,291 | 795 | 509.3 | (57.1) |
| Tax | 1,189 | 2,642 | 182 | 554.1 | (55.0) |
| Reported PAT | 3,654 | 8,650 | 613 | 496.1 | (57.8) |
| Adjusted PAT | 3,654 | 8,650 | 613 | 496.1 | (57.8) |
| Adjusted EPS (INR) | 18.3 | 43.3 | 30.7 | (40.4) | (57.8) |
| Total volumes (Nos) | 10,24,489 | 15,68,313 | 5,65,000 | 81.3 | (34.7) |
| Net realisation (INR) | 53,559 | 55,384 | 52,594 | 1.8 | (3.3) |
| EBITDA / vehicle (INR) | 5,025 | 7,723 | 1,912 | 162.8 | (34.9) |

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

Other Highlights

- **Festive sales:** Single-day festivals (such as Rath Yatra in Gujarat, Guru Purnima, Eid, etc.) across states indicate decent improvement and the management is optimistic of demand recovery in the festive season of Navratri/Dussehra in Oct-Nov'21.
- In Indian economy, opportunity for 2W growth is likely to remain intact over the period of medium to long term, the management is very confident, for the 2W sector because the underline factor is under penetration as the personal mobility factor will slowly play out.
- The spare part was lower INR 455cr which is 8% of the revenue Q1 FY22 against in Q4FY21 INR 1050cr in the last quarter, which was 12% of the revenue. Expect to go at least 10%+in Q2 FY22.
- **Semiconductor:** Not impacting the company for the time being.
- **Capex:** INR 750-1000cr and keeps on changing as per the demand from that 50% of the investment will go EV and global business.
- The company's partnership with Harley Davidson is working as per the schedule. The distribution business has already launched with 10-15 dealerships. Both the organizations are working jointly on Hero-Harley brand.

| Profit & Loss Statement | | | | | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| YE: Mar (INR mn) | FY19 | FY20 | FY21 | FY22E | FY23E |
| Net sales | 3,36,505 | 2,88,361 | 3,08,006 | 3,49,380 | 4,09,960 |
| Growth, % | 2 | -14 | 7 | 13 | 17 |
| RM expenses | -2,33,177 | -1,96,974 | -2,17,623 | -2,48,758 | -2,91,071 |
| Employee expenses | -17,302 | -18,417 | -18,987 | -19,216 | -20,908 |
| Other expenses | -36,725 | -33,390 | -31,203 | -36,994 | -43,804 |
| EBITDA | 49,301 | 39,580 | 40,192 | 44,412 | 54,176 |
| Growth, % | -10 | -20 | 2 | 10 | 22 |
| Margin, % | 14.7 | 13.7 | 13.0 | 12.7 | 13.2 |
| Depreciation | -6,020 | -8,180 | -6,769 | -6,940 | -7,882 |
| EBIT | 43,281 | 31,400 | 33,424 | 37,472 | 46,294 |
| Growth, % | -12 | -27 | 6 | 12 | 24 |
| Margin, % | 12.9 | 10.9 | 10.9 | 10.7 | 11.3 |
| Interest paid | -86 | -220 | -218 | -229 | -241 |
| Other Income | 6,913 | 7,783 | 5,799 | 6,088 | 6,636 |
| Non-recurring Items | 0 | 6,774 | 0 | 0 | 0 |
| Pre-tax profit | 50,107 | 45,737 | 39,004 | 43,331 | 52,690 |
| Tax provided | -16,258 | -9,404.3 | -9,362 | -10,919 | -13,278 |
| Profit after tax | 33,849 | 36,333 | 29,642 | 32,412 | 39,412 |
| Others (Minorities, Associates) | - | - | - | - | - |
| Net Profit | 33,849 | 36,333 | 29,642 | 32,412 | 39,412 |
| Growth, % | -13 | 7 | -18 | 9 | 22 |
| Net Profit (adjusted) | 33,849 | 36,333 | 29,642 | 32,412 | 39,412 |

| Balance Sheet | | | | | |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| YE: Mar (INR mn) | FY19 | FY20 | FY21 | FY22E | FY23E |
| Cash & bank | 1,365 | 2,419 | 2,725 | 1,793 | 8,309 |
| Marketable securities cost | 50,517 | 72,141 | 93,902 | 1,03,293 | 1,13,622 |
| Debtors | 28,216 | 16,031 | 24,268 | 28,716 | 33,695 |
| Inventory | 10,724 | 10,920 | 14,696 | 16,669 | 19,560 |
| Loans & advances | 850 | 896 | 892 | 1,019 | 1,193 |
| Other current assets | 8,931 | 6,348 | 5,709 | 6,280 | 6,908 |
| Total current assets | 50,085 | 36,614 | 48,288 | 54,478 | 69,665 |
| Investments | 9,169 | 10,086 | 11,094 | 12,204 | 13,424 |
| Gross fixed assets | 1,31,322 | 1,42,041 | 1,49,322 | 1,59,322 | 1,69,322 |
| Less: Depreciation | -72,893 | -81,073 | -87,841 | -94,781 | -1,02,664 |
| Add: Capital WIP | 3,607 | 1,603 | 1,779 | 1,603 | 1,603 |
| Net fixed assets | 58,429 | 60,969 | 61,480 | 64,541 | 66,658 |
| Total assets | 1,71,806 | 1,81,305 | 2,16,438 | 2,36,012 | 2,64,866 |
| Current liabilities | 40,713 | 37,929 | 61,803 | 65,161 | 75,234 |
| Provisions | 1,762 | 2,689 | 3,328 | 8,170 | 8,579 |
| Total current liabilities | 42,476 | 40,618 | 65,131 | 73,331 | 83,812 |
| Non-current liabilities | 760 | -677 | -677 | -677 | -677 |
| Total liabilities | 43,235 | 39,941 | 64,454 | 72,654 | 83,135 |
| Paid-up capital | 399.5 | 399.5 | 399.6 | 399.6 | 399.6 |
| Reserves & surplus | 1,28,172 | 1,40,965 | 1,51,585 | 1,62,958 | 1,81,331 |
| Shareholders' equity | 1,28,571 | 1,41,364 | 1,51,984 | 1,63,357 | 1,81,731 |
| Total equity & liabilities | 1,71,807 | 1,81,305 | 2,16,438 | 2,36,012 | 2,64,866 |

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

| Cash Flow | | | | | |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| YE: Mar (INR mn) | FY19 | FY20 | FY21 | FY22E | FY23E |
| Pre-tax profit | 50,107 | 45,737 | 39,004 | 43,331 | 52,691 |
| Depreciation | 6,020 | 8,180 | 6,769 | 6,940 | 7,882 |
| Chg in working capital | -19,213 | 12,668 | 10,486 | 1,080 | 1,810 |
| Total tax paid | -16,010 | -10,841 | -9,362 | -10,919 | -13,278 |
| CFO | 15,463 | 48,180 | 41,316 | 34,572 | 42,709 |
| Capital expenditure | -16,420 | -8,715 | -7,351 | -9,824 | -10,000 |
| Chg in investments | 15,566 | -22,540 | -22,770 | -10,500 | -11,550 |
| Other investing activities | 3,254 | 7,783 | 5,799 | 6,088 | 6,636 |
| CFI | 2,400 | -23,472 | -24,322 | -14,235 | -14,913 |
| Free cash flow | 14,609 | 16,925 | 11,195 | 14,248 | 21,159 |
| Debt raised/(repaid) | 0 | 0 | 0 | 0 | 0 |
| Dividend (incl. tax) | -20,333 | -21,034 | -16,364 | -21,039 | -21,039 |
| CFF | -20,418 | -21,254 | -16,582 | -21,268 | -21,280 |
| Net chg in cash | -2,555 | 3,454 | 412 | -931 | 6,516 |
| Opening cash balance | 1,413 | 1,365 | 2,419 | 2,725 | 1,793 |
| Closing cash balance | 1,365 | 2,419 | 2,725 | 1,793 | 8,309 |

| Ratios | | | | | |
|--------------------------|-------|-------|-------|-------|-------|
| YE: Mar | FY19 | FY20 | FY21 | FY22E | FY23E |
| EPS (INR) | 169 | 182 | 148 | 162 | 197 |
| PER (x) | 16.3 | 15.2 | 18.6 | 17.0 | 14.0 |
| Price/Book (x) | 4.3 | 3.9 | 3.6 | 3.4 | 3.0 |
| EV/EBITDA (x) | 10.1 | 12.1 | 11.3 | 10.1 | 7.9 |
| EV/Net sales (x) | 1.5 | 1.7 | 1.5 | 1.3 | 1.0 |
| RoE (%) | 27.5 | 26.9 | 20.2 | 20.6 | 22.8 |
| RoCE (%) | 40.6 | 29.0 | 26.9 | 27.7 | 30.8 |
| Fixed Asset turnover (x) | 2.6 | 2.0 | 2.1 | 2.2 | 2.4 |
| Dividend Yield (%) | 3.1 | 3.3 | 2.5 | 3.3 | 3.3 |
| Receivable (days) | 31 | 20 | 29 | 30 | 30 |
| Inventory (days) | 14 | 16 | 20 | 20 | 20 |
| Payable (days) | 43 | 44 | 71 | 65 | 65 |
| Net D/E ratio (x) | (0.4) | (0.6) | (0.6) | (0.6) | (0.7) |

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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