

CMP: INR 2,840

Rating: Accumulate

Target Price: INR 3,345

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)	5,67,290
52w H/L (INR)	3,629/1,955
Avg Yearly Vol (in 000')	1393

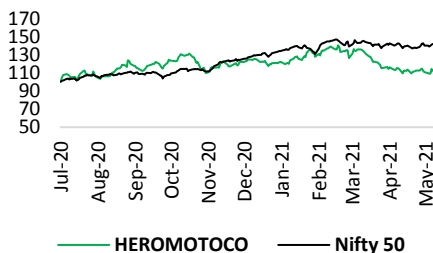
Shareholding Pattern %

(As on March, 2021)

Promoters	34.76
FII	42.28
DII	13.58
Others	9.38

Stock Performance (%)	3m	6m	12m
Hero MotoCorp	16.6	27.4	44.7
Nifty	5.3	34.7	23.7

Hero MotoCorp Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851
Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Hero MotoCorp (HMCL) reported a good set of numbers in Q4FY21. Improved realizations, Ebitda and Ebitda margins are above estimates. Standalone revenue from operations grew by 39.2% YoY/-11.1% stood at INR 86,860 Mn in Q4FY21 against our estimate of INR 88,010 Mn. EBITDA grew by 83.5%YoY/-14.3QoQ to INR 12,112 Mn against our estimate of INR 11,873 Mn. EBITDA margin expanded by 337bps YoY/-52QoQ to 13.9% Q4FY21 vs our estimate of 13% in Q4FY20. Company reported net Profit of INR 8,650 Mn in Q4FY21 against our estimate of INR 9,046 Mn. Board has recommended a dividend of INR 25 a share and special dividend INR 10 a share. Hence, total dividend was at INR 105/share for FY21.

The total volumes (Motorcycles + Scooters) grew by 17.5% YoY to 15,68,313 units. The blended realization has seen an increase of 18.5% YoY to INR 55,384 unit on account of better product mix.

Conference Call Highlights

- HMCL foresees demand returning gradually from June onwards, with Q2FY22E set to benefit from underlying demand drivers in the form of normal monsoons, high crop production levels, need for personal mobility and increase in economic activity levels.
- On an overall basis, the company wants to improve upon the exports run rate seen in Q4FY21.
- HMCL gained market share in scooters, premium motorcycles and exports during FY21. While rural market share held steady, it made inroads into urban markets.
- For FY21, commodity costs rose 6-7% YoY with HMCL mitigating the same via price hikes (to the tune of 4%) and cost savings under LEAP2 Programme (3%). For FY22, input costs are seen rising by a further 4-5%, which are sought to be addressed via price hikes (2%) and cost savings (2%).

Outlook and valuation

At CMP of INR 2,840, Hero MotoCorp is trading at FY23 PE of 14.4x, to its EPS of INR 196.8. HMCL has clocked better than expected operating margins (13.9%) despite a 5% hike in commodity costs. This was a result of a 4% price hike taken by Hero in Q4 and 3% hike through LEAP program. The company under the LEAP program has been aggressive in saving employee costs and other expenses including sales and promotion expenses.

Secondly, Hero will benefit from its premiumization strategy in the medium term. While the near-term demand uncertainty remains particularly in the entry-level segment, which accounts for ~32% of its bike volumes.

We value Hero MotoCorp at PE of 17x to FY23 EPS estimate of INR 196.8, which yields a target price of INR 3,345. 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	16.9
FY20	2,88,361	39,580	36,333	181.9	13.7	26.9	15.6
FY21	3,08,006	40,192	29,642	148.4	13.0	20.2	19.1
FY22E	3,79,859	47,331	34,071	170.5	12.5	21.5	16.7
FY23E	4,17,045	54,311	39,312	196.8	13.0	22.6	14.4

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

Quarterly result summary

Standalone (INR mn)	4QFY21	3QFY21	4QFY20	YoY (%)	QoQ (%)
Net sales	86,860	97,758	62,384	39.2	(11.1)
- Raw material	61,173	68,912	43,200	41.6	(11.2)
(% of net sales)	70.4	70.5	69.2	118bps	-7bps
- Staff expenditure	4,884	5,167	4,354	12.2	-5.46
(% of net sales)	5.6	5.3	7.0	-136bps	34bps
- Other expenditure	8,691	9,543	8,231	5.6	(8.9)
(% of net sales)	10.0	9.8	13.2	-319bps	24bps
Total expenditure	74,748	83,621	55,785	34.0	(10.6)
EBITDA	12,112	14,136	6,599	83.5	(14.3)
EBITDA Margin (%)	13.9	14.5	10.6	337bps	-52bps
Depreciation	1,631	1,698	1,747	(6.6)	-3.96
EBIT	10,480	12,438	4,852	116.0	-15.74
Interest	63	47	41	54.9	35.27
Other Income	874	2,027	1,695	(48.4)	-56.89
PBT	11,291	14,418	6,506	73.6	-21.69
Tax	2,642	3,574	299	784.0	-26.08
Reported PAT	8,650	10,845	6,207	39.4	-20.24
Adjusted PAT	8,650	10,845	6,207	39.4	-20.24
Adjusted EPS (Rs)	43.3	54.3	31.1	39.3	-20.24
Total volumes (Nos)	15,68,313	18,45,274	13,34,511	17.5	-15.01
Net realisation (Rs)	55,384	52,977	46,747	18.5	4.54
EBITDA / vehicle (Rs)	7,723	7,661	4,945	56.2	0.81

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

Other Highlights

- Margin performance in Q4FY21 was helped by LEAP-2 Programme savings (300 bps), price increases and higher spares revenues. Raw material costs rose 4.5% QoQ in Q4FY21. Increase in prices of precious metals by 150-200% over the past few months has been one of the factors behind sharp commodity cost inflation.
- Spares revenues for a second successive quarter were above the INR 1,000 crore mark at INR 1,050 crore (vs. INR 750 crore in Q4FY20 and INR 1,034 crore in Q3FY21). FY21 spares revenues were at INR 3,178 crore vs. INR 2,896 crore in FY20. Spare part revenues are now at 10% of overall sales vs. 7-8% earlier with management intent to grow it to 12% of sales.
- The company's tech center in Germany is primarily developing EV products using fixed charging system. HMCL's tie-up with Taiwan's Gogoro Network utilizes battery swapping technology. The company expects the two ecosystems to be complimentary to each other, with product introduction set for CY22E
- Distribution for Harley Davidson motorcycles has started. The present dealer count is 14-15 dealers. The two companies are working on joint development of Harley and Hero branded middleweight bikes.
- Other operating income for Q4FY21 was at INR 206 crore vs. INR 192 crore in Q3FY21 and INR 137 crore in Q4FY20
- EV: Alongside its investment in Ather, Hero has entered a strategic partnership with Gogoro to build a battery swapping network and manufacture EVs. Hero's first EV product launch is expected in FY22.

Profit & Loss Statement					
YE: Mar (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	3,36,505	2,88,361	3,08,006	3,79,859	4,17,045
Growth, %	2	-14	7	23	10
RM expenses	-2,33,177	-1,96,974	-2,17,623	-2,71,368	-2,93,975
Employee expenses	-17,302	-18,417	-18,987	-20,892	-23,355
Other expenses	-36,725	-33,390	-31,203.3	-40,269	-45,405
EBITDA	49,301	39,580	40,192	47,331	54,311
Growth, %	-10	-20	2	18	15
Margin, %	14.7	13.7	13.0	12.5	13.0
Depreciation	-6,020	-8,180	-6,769	-7,217	-7,932
EBIT	43,281	31,400	33,424	40,113	46,379
Growth, %	-12	-27	6	20	16
Margin, %	12.9	10.9	10.9	10.6	11.1
Interest paid	-86	-220	-218	-229	-241
Other Income	6,913	7,783	5,799	5,665	6,418
Non-recurring Items	0	6,774	0	0	0
Pre-tax profit	50,107	45,737	39,004	45,549	52,556
Tax provided	-16,258	-9,404.3	-9,362	-11,478	-13,244
Profit after tax	33,849	36,333	29,642	34,071	39,312
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	33,849	36,333	29,642	34,071	39,312
Growth, %	-13	7	-18	15	15
Net Profit (adjusted)	33,849	36,333	29,642	34,071	39,312

Balance Sheet					
YE: Mar (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	1,365	2,419	2,725	4,633	9,900
Marketable securities cost	50,517	72,141	93,902	1,03,293	1,13,622
Debtors	28,216	16,031	24,268	31,221	34,278
Inventory	10,724	10,920	14,696	18,124	19,898
Loans & advances	850	896	892	1,112	1,205
Other current assets	8,931	6,348	5,709	6,280	6,908
Total current assets	50,085	36,614	48,288	61,370	72,188
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	-95,059	-1,02,990
Add: Capital WIP	3,607	1,603	1,779	1,603	1,603
Net fixed assets	58,429	60,969	61,480	64,263	66,331
Total assets	1,71,806	1,81,305	2,16,438	2,42,626	2,67,062
Current liabilities	40,713	37,929	61,803	70,117	75,870
Provisions	1,762	2,689	3,328	8,170	8,579
Total current liabilities	42,476	40,618	65,131	78,287	84,449
Non-current liabilities	760	-677	-677	-677	-677
Total liabilities	43,235	39,941	64,454	77,610	83,772
Paid-up capital	399.5	399.5	399.6	399.6	399.6
Reserves & surplus	1,28,172	1,40,965	1,51,585	1,64,617	1,82,891
Shareholders' equity	1,28,571	1,41,364	1,51,984	1,65,016	1,83,290
Total equity & liabilities	1,71,807	1,81,305	2,16,438	2,42,626	2,67,062

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	45,549	52,557
Depreciation	6,020	8,180	6,769	7,217	7,932
Chg in working capital	-19,213	12,668	10,486	1,983	610
Total tax paid	-16,010	-10,841	-9,362	-11,478	-13,244
CFO	15,463	48,180	41,316	37,835	41,678
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	5,665	6,418
CFI	2,400	-23,472	-24,322	-14,658	-15,132
Free cash flow	14,609	16,925	11,195	17,512	20,128
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	1,909	5,267
Opening cash balance	1,413	1,365	2,419	2,725	4,633
Closing cash balance	1,365	2,419	2,725	4,633	9,900

Ratios					
YE: Mar	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	169	182	148	171	197
PER (x)	16.9	15.6	19.1	16.7	14.4
Price/Book (x)	4.4	4.0	3.7	3.4	3.1
EV/EBITDA (x)	10.5	12.4	11.7	9.7	8.2
EV/Net sales (x)	1.5	1.7	1.5	1.2	1.1
RoE (%)	27	27	20	21	23
RoCE (%)	41	29	27	29	30
Fixed Asset turnover (x)	2.6	2.0	2.1	2.4	2.5
Dividend Yield (%)	3.0	3.2	2.5	3.2	3.2
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)	(0.7)	(0.7)

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

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880