

# Hero MotoCorp

## REDUCE

Valuation expensive; maintain REDUCE

### Summary

Hero MotoCorp (HMCL) Q3FY21 result was above our and consensus estimates on all parameters. Revenue was higher than our and consensus estimates mainly on account of higher realization, favorable product mix and higher spare part revenue. We believe positive macro factors, vaccination program in place, more cities opening up are improving sentiments for good retail demand. We expect domestic 2W industry to see a double growth for FY22 on a low base. We do not expect any significant improvement in export sales for HMCL and wait for turnaround. We build our volume growth estimates for FY21/FY22/FY23 by -10%/+15%/+12% factoring the strong recovery in 2W domestic market. We expect revenue/earnings to grow at 5% each respectively CAGR over FY20-FY23E with EBITDA margin of ~13%. Due to recent increase in share price we maintain REDUCE rating and arrive at a TP of Rs3,140 (earlier Rs2,540) based on PER of 16x FY23E EPS.

### Result Highlights and Investment Rationale

- Result above estimates:** Revenue increased +40% YoY/+4% QoQ to Rs97.7bn. Revenue performance was driven by volume increase of +20% YoY/+2% QoQ to ~1.8mn units. Spare parts revenue grew 29% YoY to Rs10bn whereas other operating income stood at Rs1.92bn. Average realization increased 1.9% QoQ to ~Rs53k. Employee expenses increased +10% YoY/+1% QoQ to Rs5.16bn. Overall EBITDA for quarter stood increased 36% YoY/10% QoQ to Rs14.1bn. EBITDA margin stood at 14.5% on account of lower RM cost and relatively lower operating expenses. Adj. PAT increased 23% YoY/ 14% QoQ to Rs10.84bn.
- Con-call key takeaways:** 1) Student demand contributes ~10-15% of sales. As colleges/schools are opening up demand from this category is expect to come now rather than June/July period. 2) Semi-conductor impacting 4W sales. HMCL's products are less depended on semi-conductors. So far have not impacted production by shortage of semi-conductors. 3) Finance penetration stood at ~50% whereas Fincorp share stood at 40% 4) Gained market share in Columbia. Entered into Mexican market and expect major volume driver for company. Other markets like Nigeria, Bangladesh, Sri Lanka and Columbia would be focusing areas for HMCL. 5) CAPEX for FY22 would be Rs8bn-10bn.

TP	Rs3,140
CMP	Rs3,428
Potential upside / downside	-8%
Previous Rating	REDUCE

V/s Consensus			
EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	140.0	167.9	196.1
Consensus	140.4	182.4	210.1
% difference	(0.3)	(7.9)	(6.7)

Shareholding Pattern (%)	
Promoters	34.8
FII	35.9
DII	14.6
Public	14.8

Price Performance (%)			
	-1m	-3m	-12m
Absolute	11.2	16.5	42.1
Rel to Sensex	5.9	(4.6)	19.3

### Financial snapshot

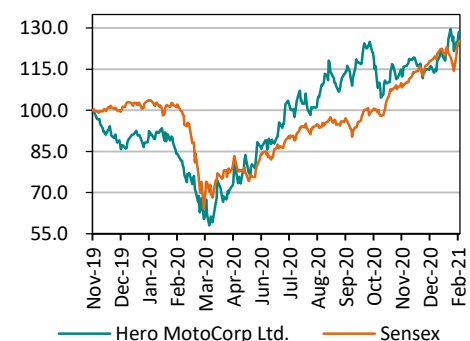
Year	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Revenue	3,36,505	2,88,361	3,01,728	3,51,354	4,00,575
EBITDA	49,301	39,580	37,431	44,864	52,422
EBITDA (%)	14.7	13.7	12.4	12.8	13.1
Adj. PAT	33,849	29,559	27,970	33,546	39,179
EPS (Rs)	169.5	148.0	140.0	167.9	196.1
EPS Growth (%)	(8.5)	(12.7)	(5.4)	19.9	16.8
PE (x)	20.2	23.2	24.5	20.4	17.5
Dividend Yield (%)	2.5	2.8	2.6	2.9	3.4
EV/EBITDA (x)	13.9	17.2	17.8	14.8	12.6
RoE (%)	27.5	21.9	19.1	21.2	22.7
RoCE (%)	23.7	18.5	15.7	17.7	19.1

Source: Company; IDBI Capital Research

## Q3FY21 Result Review

Key Stock Data	
Bloomberg / Reuters	HMCL IN / HROM.BO
Sector	Automobile
Shares o/s (mn)	200
Market cap. (Rs mn)	6,84,907
Market cap. (US\$ mn)	9,392
3-m daily avg Trd value (Rs mn)	1,572.1
52-week high / low	Rs3,575 / 1,475
Sensex / Nifty	50,732 / 14,924

### Relative to Sensex (%)



**Exhibit 1: Quarterly Snapshot**

(Rs mn)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Volumes (in units)</b>	<b>18,46,941</b>	<b>15,40,868</b>	<b>18,03,733</b>	<b>19.9</b>	<b>2.4</b>	<b>42,14,100</b>	<b>50,75,208</b>	<b>(17.0)</b>
<b>Revenue</b>	<b>97,758</b>	<b>69,967</b>	<b>93,673</b>	<b>39.7</b>	<b>4.4</b>	<b>2,21,147</b>	<b>2,25,977</b>	<b>(2.1)</b>
<b>Expenditure</b>	<b>83,621</b>	<b>59,578</b>	<b>80,809</b>	<b>40.4</b>	<b>3.5</b>	<b>1,93,066</b>	<b>1,92,996</b>	<b>0.0</b>
<i>as % of sales</i>	85.5	85.2	86.3			87.3	85.4	
Consumption of RM	68,912	46,598	66,600	47.9	3.5	1,56,451	1,53,775	1.7
<i>as % of sales</i>	70.5	66.6	71.1			70.7	68.0	
Employee Cost	5,167	4,697	5,112	10.0	1.1	14,103	14,063	0.3
<i>as % of sales</i>	5.3	6.7	5.5			6.4	6.2	
Other expenditure	9,543	8,282	9,097	15.2	4.9	22,512	25,159	(10.5)
<i>as % of sales</i>	9.8	11.8	9.7			10.2	11.1	
<b>EBITDA</b>	<b>14,136</b>	<b>10,390</b>	<b>12,864</b>	<b>36.1</b>	<b>9.9</b>	<b>28,081</b>	<b>32,981</b>	<b>(14.9)</b>
Depreciation	1,698	2,037	1,732	(16.6)	(1.9)	5,138	6,433	(20.1)
<b>EBIT</b>	<b>12,438</b>	<b>8,352</b>	<b>11,133</b>	<b>48.9</b>	<b>11.7</b>	<b>22,943</b>	<b>26,548</b>	<b>(13.6)</b>
Other Income	2,027	1,822	1,413	11.2	43.4	4,925	6,089	(19.1)
Interest	47	59	46	(21.5)	0.2	156	180	(13.4)
<b>PBT</b>	<b>14,418</b>	<b>10,115</b>	<b>12,500</b>	<b>42.5</b>	<b>15.4</b>	<b>27,713</b>	<b>32,457</b>	<b>(14.6)</b>
Total Tax	3,574	1,311	2,965	172.5	20.5	6,720	9,106	(26.2)
<b>Adjusted PAT</b>	<b>10,845</b>	<b>8,804</b>	<b>9,535</b>	<b>23.2</b>	<b>13.7</b>	<b>20,992</b>	<b>23,352</b>	<b>(10.1)</b>
Extra ordinary items Loss/(Gain)	0	0	0	NA	NA	0	-6,774	(100.0)
Reported PAT	10,845	8,804	9,535	23.2	13.7	20,992	30,126	(30.3)
<b>Adjusted EPS</b>	<b>54.3</b>	<b>44.1</b>	<b>47.7</b>	<b>23.2</b>	<b>13.7</b>	<b>105.1</b>	<b>150.85</b>	<b>(30.3)</b>
<b>Margins (%)</b>				<b>(bps)</b>	<b>(bps)</b>			
EBIDTA	14.5	14.8	13.7	(39)	73	12.7	14.6	(190)
EBIT	12.7	11.9	11.9	79	84	10.4	11.7	(137)
EBT	14.7	14.5	13.3	29	141	12.5	14.4	(183)
PAT	11.1	12.6	10.2	(149)	91	9.5	10.3	(84)
Effective Tax rate	24.8	13.0	23.7	1,182	106	24.2	28.1	(380)

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

Rs mn	Actual	IDBI Est	Var %	Consensus	Var %
Net sales	97,758	96,310	1.5	95,098	2.8
EBITDA	14,136	12,617	12.0	12,452	13.5
EBITDA Margin (%)	14.5	13.1	136 bps	13.1	137 bps
Adj net income	10,845	8,963	21.0	9,000	20.5
FDEPS (Rs)	54.3	44.9	21.0	44.0	23.3

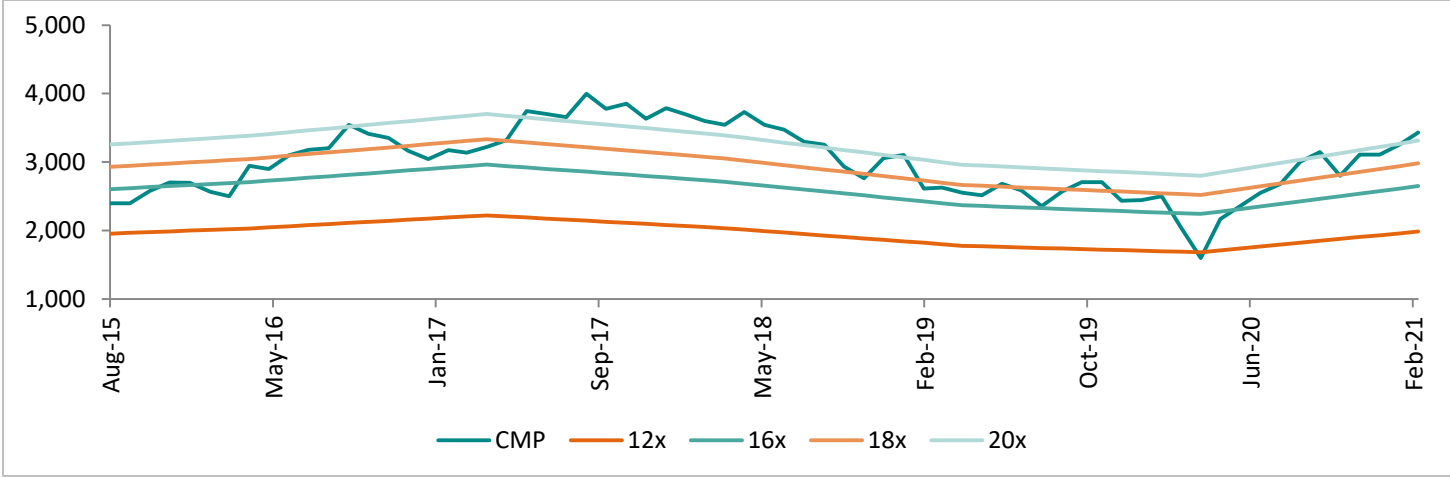
Source: Bloomberg; IDBI Capital Research

**Exhibit 3: Change in estimates**

(Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Volume	53,69,559	57,14,451	6.4	61,57,681	65,54,308	6.4	70,63,292	73,27,926	3.7
Revenues	2,56,147	3,01,728	17.8	2,97,695	3,51,354	18.0	3,46,561	4,00,575	15.6
EBITDA	31,937	37,431	17.2	39,131	44,864	14.7	46,825	52,422	12.0
Margin (%)	12.5	12.4	(6) bps	13.1	12.8	(38) bps	13.5	13.1	(42) bps
Net Profit	22,995	27,970	21.6	27,872	33,546	20.4	33,777	39,179	16.0
FDEPS	115.1	140.0	21.6	139.5	167.9	20.4	169.1	196.1	16.0

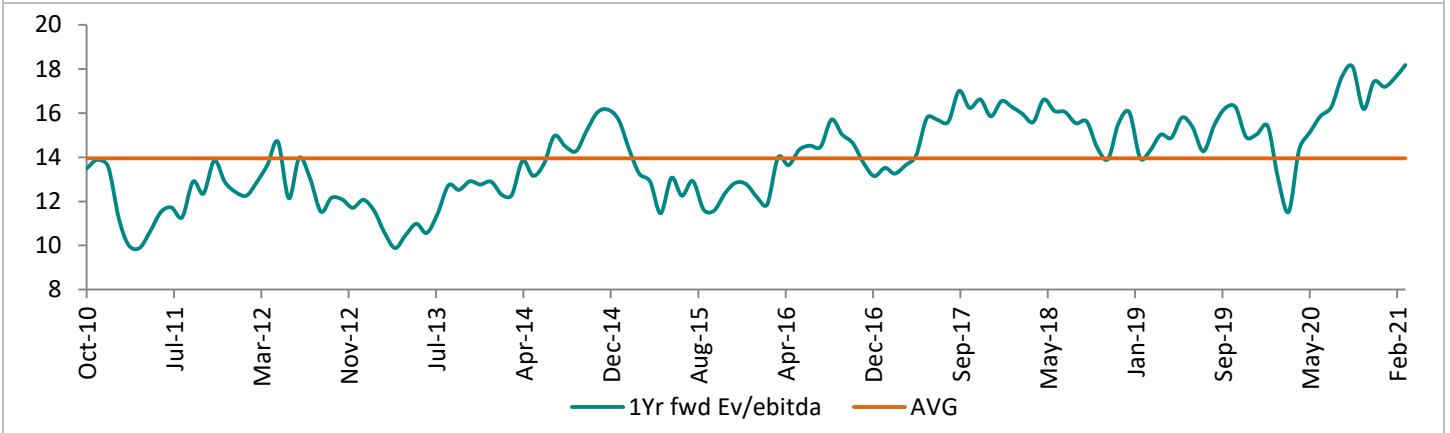
Source: Company; IDBI Capital Research

**Exhibit 4: One-year forward P/E**



Source: Company; IDBI Capital Research

**Exhibit 5: One-year forward EV/EBITDA**



Source: Company; IDBI Capital Research

**Exhibit 6: Domestic scooters sales mix - Region and Top 10 states (%)**

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>Region Wise</b>												
North	23	18	24	21	25	20	20	19	24	12	21	22
East	24	23	23	15	21	18	25	21	22	19	28	25
West	30	24	25	30	33	23	25	28	30	24	11	21
South	23	35	28	34	22	38	31	32	23	44	40	32
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Top 10 State Wise Sales</b>												
Maharashtra	8	9	6	9	11	8	7	9	8	8	1	6
Kerala	6	7	6	7	3	6	4	6	2	3	3	4
Gujarat	6	4	5	7	8	5	5	5	4	5	1	3
Andhra Prad.	4	6	5	8	4	6	8	6	6	9	9	7
Tamil Nadu	6	13	10	11	8	19	11	14	9	18	16	14
U.P.	11	9	13	9	13	12	11	8	14	5	10	11
Karnataka	4	5	3	4	4	3	4	2	3	6	6	4
Madh. Prad.	6	4	5	6	5	3	4	5	7	4	3	6
West Bengal	7	7	9	3	6	6	8	8	7	6	11	10
Telangana	3	3	3	4	3	4	3	3	3	8	5	3
Others	40	32	35	32	35	28	34	33	38	28	34	33

Source: SIAM; IDBI Capital Research

**Exhibit 7: Domestic motorcycles sales mix - Region and Top 10 states (%)**

State	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Region Wise</b>												
North	31	30	34	29	30	34	36	27	34	32	34	21
East	21	22	24	19	21	20	24	21	19	19	22	28
West	34	32	28	34	37	30	28	37	35	32	27	11
South	14	16	14	17	12	16	12	15	12	17	17	40
<b>Total</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>Top 10 State Wise Sales</b>												
U.P.	20	21	26	19	19	24	29	17	23	24	26	10
Rajasthan	10	7	7	8	11	8	8	10	11	8	8	3
Maharashtra	7	7	5	7	7	6	3	6	6	7	3	1
Gujarat	7	7	5	7	6	5	4	7	7	6	3	1
Bihar	8	9	10	7	8	8	12	7	8	8	10	4
Andhra Prad.	4	4	3	4	3	4	3	4	2	4	5	9
Madh. Prad.	8	7	8	8	10	8	9	10	8	8	10	3
Tamil Nadu	3	4	4	4	4	4	3	4	3	5	3	16
West Bengal	5	4	5	3	5	3	4	5	4	3	6	11
Telangana	3	3	3	4	3	4	3	3	3	4	4	5
Others	26	27	23	29	25	25	22	26	25	23	22	37

Source: SIAM; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>2,88,361</b>	<b>3,01,728</b>	<b>3,51,354</b>	<b>4,00,575</b>
<i>growth (%)</i>	<i>(14.3)</i>	<i>4.6</i>	<i>16.4</i>	<i>14.0</i>
Operating expenses	(2,48,781)	(2,64,297)	(3,06,490)	(3,48,152)
<b>EBITDA</b>	<b>39,580</b>	<b>37,431</b>	<b>44,864</b>	<b>52,422</b>
<i>growth (%)</i>	<i>(19.7)</i>	<i>(5.4)</i>	<i>19.9</i>	<i>16.8</i>
Depreciation	(8,180)	(6,859)	(7,559)	(8,361)
<b>EBIT</b>	<b>31,400</b>	<b>30,572</b>	<b>37,305</b>	<b>44,062</b>
Interest paid	(220)	(206)	(200)	(200)
Other income	7,783	6,928	7,622	8,377
<b>Pre-tax profit</b>	<b>45,737</b>	<b>37,294</b>	<b>44,727</b>	<b>52,238</b>
Tax	(9,404)	(9,323)	(11,182)	(13,060)
<i>Effective tax rate (%)</i>	<i>20.6</i>	<i>25.0</i>	<i>25.0</i>	<i>25.0</i>
<b>Net profit</b>	<b>36,333</b>	<b>27,970</b>	<b>33,546</b>	<b>39,179</b>
Exceptional items	6,774	-	-	-
<b>Adjusted net profit</b>	<b>29,559</b>	<b>27,970</b>	<b>33,546</b>	<b>39,179</b>
<i>growth (%)</i>	<i>(12.7)</i>	<i>(5.4)</i>	<i>19.9</i>	<i>16.8</i>
<i>Shares o/s (mn nos)</i>	<i>200</i>	<i>200</i>	<i>200</i>	<i>200</i>

### Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	45,737	37,294	44,727	52,238
Depreciation	5,594	6,859	7,559	8,361
Tax paid	(5,550)	(9,323)	(11,182)	(13,060)
Chg in working capital	10,168	15,426	3,270	5,097
Other operating activities	(1,848)	(7,076)	(7,812)	(8,606)
<b>Cash flow from operations (a)</b>	<b>54,101</b>	<b>43,178</b>	<b>36,562</b>	<b>44,030</b>
Capital expenditure	(18,573)	(4,190)	(8,000)	(8,000)
Chg in investments	(22,540)	(13,180)	(13,802)	(14,594)
Other investing activities	12,282	6,928	7,622	8,377
<b>Cash flow from investing (b)</b>	<b>(28,831)</b>	<b>(10,442)</b>	<b>(14,180)</b>	<b>(14,217)</b>
Equity raised/(repaid)	44	-	-	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	(23,325)	(17,977)	(19,974)	(23,569)
Chg in minorities	-	-	-	-
Other financing activities	(917)	(206)	(200)	(200)
<b>Cash flow from financing (c)</b>	<b>(24,198)</b>	<b>(18,183)</b>	<b>(20,174)</b>	<b>(23,769)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,072</b>	<b>14,553</b>	<b>2,207</b>	<b>6,044</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	64,584	61,915	62,356	61,996
Investments	82,227	95,407	1,09,209	1,23,803
Other non-curr assets	142	142	142	142
<b>Current assets</b>	<b>36,614</b>	<b>56,111</b>	<b>63,791</b>	<b>75,431</b>
Inventories	10,920	10,829	12,466	14,212
Sundry Debtors	16,031	20,666	24,065	27,437
Cash and Bank	2,419	16,972	19,179	25,224
Marketable Securities	-	-	-	-
Loans and advances	896	941	988	1,038
<b>Total assets</b>	<b>1,83,565</b>	<b>2,13,573</b>	<b>2,35,498</b>	<b>2,61,371</b>
<b>Shareholders' funds</b>	<b>1,41,364</b>	<b>1,51,358</b>	<b>1,64,929</b>	<b>1,80,539</b>
Share capital	399	399	399	399
Reserves & surplus	1,40,965	1,50,958	1,64,530	1,80,139
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Other liabilities	1,500	1,500	1,500	1,500
<b>Curr Liab &amp; prov</b>	<b>40,701</b>	<b>60,716</b>	<b>69,069</b>	<b>79,332</b>
Current liabilities	38,012	41,246	47,601	54,270
Provisions	2,689	19,470	21,467	25,063
<b>Total liabilities</b>	<b>42,201</b>	<b>62,216</b>	<b>70,568</b>	<b>80,832</b>
<b>Total equity &amp; liabilities</b>	<b>1,83,565</b>	<b>2,13,573</b>	<b>2,35,498</b>	<b>2,61,371</b>
<b>Book Value (Rs)</b>	<b>708</b>	<b>758</b>	<b>826</b>	<b>904</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	148.0	140.0	167.9	196.1
Adj. EPS growth (%)	(12.7)	(5.4)	19.9	16.8
EBITDA margin (%)	13.7	12.4	12.8	13.1
Pre-tax margin (%)	15.9	12.4	12.7	13.0
ROE (%)	21.9	19.1	21.2	22.7
ROCE (%)	18.5	15.7	17.7	19.1
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.6	1.5	1.6	1.6
Leverage factor (x)	1.3	1.4	1.4	1.4
Net margin (%)	10.3	9.3	9.5	9.8
Net Debt/Equity (x)	0.0	-0.1	-0.1	-0.1
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	14	13	13	13
Receivable days	20	25	25	25
Payable days	56	57	57	57

**Valuation**

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	23.2	24.5	20.4	17.5
Price / Book value (x)	4.8	4.5	4.2	3.8
PCE (x)	18.1	19.7	16.7	14.4
EV / Net sales (x)	2.4	2.2	1.9	1.6
EV / EBITDA (x)	17.2	17.8	14.8	12.6
Dividend Yield (%)	2.8	2.6	2.9	3.4



# Notes

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### Key to Ratings Stocks:

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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