

Retail Equity Research

Hero MotoCorp Limited

Automobiles

BSE CODE: 500182

NSE CODE: HEROMOTOCO

Bloomberg CODE: HMCL:IN

SENSEX: 38,051

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 2,927 TARGET Rs. 3,103 RETURN 6% ↑
(Closing:17-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Weak quarter, led down by lockdown

Hero MotoCorp (HMCL) is India's leading two-wheeler manufacturer in terms of unit volume sales in a calendar year. It holds nearly 50% of the market share in the Indian motorcycle market. The company has eight manufacturing facilities, five in India and one each in Colombia and Bangladesh.

- In Q1FY21 standalone revenue decline to Rs. 2,972cr (-63.0% YoY) due to complete shut down in April, while slow recovery from May and June 2020 onwards.
- Company's market share increased to 34.6%, a gain of 333bps YoY. Units sold stood at 5.65 lacs (-69.4% YoY).
- EBITDA margin declined to 3.6% (vs. 14.4% in Q1FY20) largely impacted by high operating leverage due to low sales volume.
- Demand from additional purchase and first time buyers has remained high. Rural demand has already picked up and Urban is expected to pick up during upcoming festive season. However, at current stock price we see limited upside potential hence we retain our HOLD rating on the stock with a revised target price of Rs. 3,103 based on 18x FY22E adj.

40 operating days in Q1FY21

HMCL posted Q1FY21 revenue of Rs. 2,972cr (-63.0% YoY) largely impacted due full closure in April and only partial operations activity in May, which led to a volume decline of 69.4% YoY (-58.0% QoQ) to 5.65 lacs units. Realization rose by 21.0% YoY, supported by price increase owing to BS-VI. Prudent cost measures helped reduce Employee benefit expense and Other expenses by 18.2% YoY and 52.4% YoY, respectively. However, EBITDA stood at Rs. 108cr (vs. Rs. 1,158cr in Q1FY20) with EBITDA margin contracting to 3.6% (vs. 14.4% in Q1FY20). As per the management, excluding the impact of fixed cost owing to the lockdown, EBITDA margin would have been 12.0% for the quarter. Resultantly, Adj. PAT dropped 88.2% YoY to Rs. 61cr with just 40 operating days in Q1FY21 due to extended lockdown.

Key concall highlights

- During the quarter, HMCL's Market share increased by 333bps to 34.6% supported by ramping up of production and customer traction towards BS-VI portfolio
- Management maintained their capex guidance of Rs. 600cr for FY21
- In June 2020, production capacity stood at ~80% with all 8 plants operational and in July 2020 the company reached ~95% pre-COVID sales levels

Rural demand recovery leading the way

With urban demand impacted by intermittent lock-down in various cities, rural demand has witnessed a sharp recovery also supported by normal monsoon so far. Urban demand might pick up during the upcoming festive season. Initial positive response to Xtreme 160R would help the company to showcase its presence in premium motorcycle segment.

Valuation

The V-shaped demand recovery from rural areas supported by normal monsoon, upcoming festive season and solid product portfolio of BS VI vehicles along with presence in premium segment should drive growth in 2HFY21. However, at current market price the upside potential remains limited, hence we maintain our HOLD rating on the stock with a revised target price of Rs. 3,103 based on 18x FY22E adj. EPS.

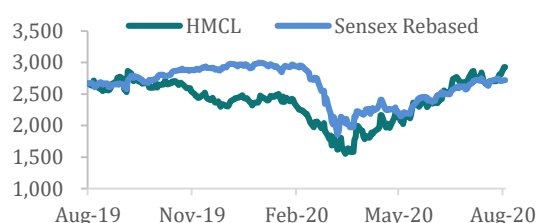
Company Data

Market Cap (cr)	Rs. 58,468
Enterprise Value (cr)	Rs. 58,443
Outstanding Shares (cr)	20.0
Free Float	65.0%
Dividend Yield	3.1%
52 week high	Rs. 3,021
52 week low	Rs. 1,475
6m average volume (lacs)	0.5
Beta	1.2
Face value	Rs. 2

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	34.6	34.6	34.8
FII's	35.3	34.3	32.7
MFs/Insti	19.6	19.9	21.7
Public	6.6	7.0	6.8
Others	3.9	4.2	4.0
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	33.3%	28.1%	9.7%
Absolute Sensex	22.4%	-7.3%	1.9%
Relative Return*	11.0%	35.5%	7.9%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	28,836	27,394	32,599
Growth (%)	(14.3)	(5.0)	19.0
EBITDA	3,958	3,422	4,574
EBITDA Margin (%)	13.7	12.5	14.0
Adj. PAT	2,956	2,555	3,443
Growth (%)	(12.7)	(13.5)	34.7
Adj. EPS	148.0	127.9	172.4
Growth (%)	(12.7)	(13.5)	34.7
P/E	10.7	22.9	17.0
P/B	2.2	3.7	3.0
EV/EBITDA	8.0	17.1	12.7
ROE (%)	25.7	16.0	17.8
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	2,972	8,030	(63.0)	6,238	(52.4)
EBITDA	108	1,158	(90.7)	660	(83.6)
EBITDA margins	3.6	14.4	(1080bps)	10.6	(700bps)
Depreciation	171	236	(27.7)	175	(2.3)
EBIT	(63)	922	(106.8)	485	(112.9)
Interest	6	4	43.2	4	54.2
Other Income	148	219	(32.4)	169	(12.4)
Exceptional Items	-	737	n.m.	-	n.m.
PBT	79	1,874	(95.8)	651	(87.8)
Tax	18	616	(97.1)	30	(39.2)
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	61	1,257	(95.1)	621	(90.1)
Adjustments	-	(737)	n.m.	-	-
Adj. PAT	61	520	(88.2)	621	(90.1)
No. of shares	20.0	20.0	(0.0)	20.0	(0.0)
Adj. EPS (Rs.)	3.1	26.0	(88.2)	31.1	(90.1)

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	36,021	-	27,394	32,599	(23.9)	-
EBITDA	5,033	-	3,422	4,574	(32.0)	-
Margins (%)	14.0	-	12.5	14.0	(151bps)	-
Adj. PAT	3,594	-	2,555	3,443	(28.9)	-
Adj. EPS	180.0	-	127.9	172.4	(28.9)	-

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	32,872	33,651	28,836	27,394	32,599
% change	6.6	2.4	(14.3)	(5.0)	19.0
EBITDA	5,280	4,930	3,958	3,422	4,574
% change	13.9	(6.6)	(19.7)	(13.5)	33.7
Depreciation	556	602	818	710	826
EBIT	4,725	4,328	3,140	2,712	3,749
Interest	6	9	22	24	20
Other Income	526	691	1,456	728	874
PBT	5,244	5,011	4,574	3,416	4,603
% change	12.6	(4.5)	(8.7)	(25.3)	34.7
Tax	1,547	1,626	940	861	1,160
Tax Rate (%)	29.5	32.4	20.6	25.2	25.2
Reported PAT	3,697	3,385	3,633	2,555	3,443
Adj*	-	-	(677)	-	-
Adj PAT	3,697	3,385	2,956	2,555	3,443
% change	9.5	(8.5)	(12.7)	(13.5)	34.7
No. of shares (cr)	20.0	20.0	20.0	20.0	20.0
Adj EPS (Rs.)	185.1	169.5	148.0	127.9	172.4
% change	9.5	(8.5)	(12.7)	(13.5)	34.7
DPS (Rs.)	95.0	87.0	90.0	61.4	82.7
CEPS (Rs.)	213.0	199.6	188.9	163.5	213.7

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	141	136	242	448	834
Accounts Receivable	1,520	2,822	1,603	1,644	1,793
Inventories	824	1,072	1,092	1,165	1,362
Other Cur. Assets	6,363	4,085	5,352	4,629	4,697
Investments	1,934	2,802	3,528	5,839	8,649
Gross Fixed Assets	7,405	7,854	9,212	9,815	11,119
Net Fixed Assets	4,486	4,478	5,977	5,869	6,348
CWIP	204	361	160	160	160
Intangible Assets	283	322	321	321	321
Def. Tax (Net)	-	-	-	-	-
Other Assets	984	1,564	474	477	481
Total Assets	16,739	17,641	18,749	20,551	24,645
Current Liabilities	4,141	3,909	3,695	3,700	4,279
Provisions	115	117	122	125	127
Debt Funds	202	221	402	422	442
Other Liabilities	512	537	393	360	484
Equity Capital	40	40	40	40	40
Reserves & Surplus	11,729	12,817	14,096	15,905	19,272
Shareholder's Fund	11,769	12,857	14,136	15,945	19,312
Minority Interest	-	-	-	-	-
Total Liabilities	16,739	17,641	18,749	20,551	24,645
BVPS (Rs.)	589	644	708	798	967

CASH FLOW

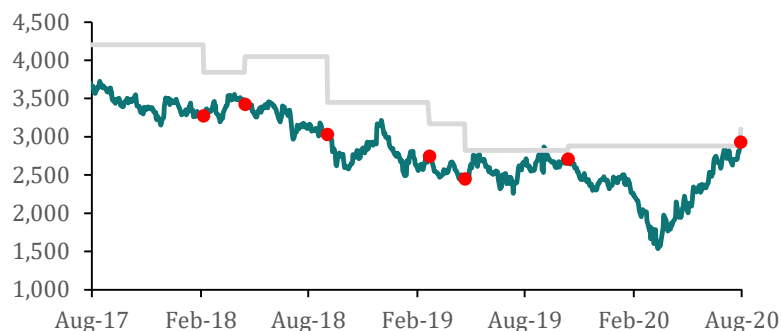
Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	4,253	3,987	4,451	3,266	4,268
Non-cash adj.	(218)	(1,494)	136	1,806	1,232
Changes in W.C	(54)	(1,514)	823	(98)	123
C.F. Operation	3,981	979	5,410	4,974	5,623
Capital exp.	(799)	(918)	(1,359)	(603)	(1,304)
Change in inv.	(1,345)	1,876	(1,890)	(2,311)	(2,811)
Other invest.CF	229	363	366	-	0
C.F - Investment	(1,915)	1,321	(2,883)	(2,913)	(4,115)
Issue of equity	3	2	0	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(1,698)	(1,897)	(1,937)	(1,798)	(1,227)
Other finance.CF	(352)	(399)	(482)	(57)	105
C.F - Finance	(2,047)	(2,294)	(2,420)	(1,855)	(1,122)
Chg. in cash	19	6	107	206	386
Closing cash	141	136	242	448	834

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	16.1	14.7	13.7	12.5	14.0
EBIT margin (%)	14.4	12.9	10.9	9.9	11.5
Net profit mgn.(%)	11.2	10.1	12.6	9.3	10.6
ROE (%)	31.4	26.3	25.7	16.0	17.8
ROCE (%)	39.5	33.1	21.6	16.6	19.0
W.C & Liquidity					
Receivables (days)	16.9	30.6	20.3	21.9	20.1
Inventory (days)	13.4	16.8	20.2	23.7	22.6
Payables (days)	53.9	52.5	56.2	62.1	58.4
Current ratio (x)	2.0	2.0	2.1	2.0	1.9
Quick ratio (x)	1.7	1.5	1.6	1.5	1.4
Turnover & Leverage					
Gross asset T.O (x)	4.6	4.4	3.4	2.9	3.1
Total asset T.O (x)	2.1	2.0	1.6	1.4	1.4
Int. coverage ratio (x)	755.9	503.3	142.6	112.6	184.8
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	2.2	1.5	1.1	2.1	1.8
EV/EBITDA (x)	13.4	10.4	8.0	17.1	12.7
P/E (x)	19.2	15.1	10.7	22.9	17.0
P/BV (x)	6.0	4.0	2.2	3.7	3.0



Recommendation Summary



Dates	Rating	Target
8-Jun-17	BUY	4,204
23-Feb-18	BUY	3,842
4-May-18	BUY	4,050
20-Sep-18	BUY	3,451
11-Mar-19	BUY	3,168
10-May-19	BUY	2,820
31-Oct-19	HOLD	2,879
18-Aug-20	HOLD	3,103

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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