

Hero Motocorp

Outperformance continues

Hero continues to gain market share (currently at 39%, +300bps YTD), driven by its revamped product strategy and higher rural share. While festive season trends for the industry have been subpar, we believe that Hero has outperformed the market in the mass market 100cc segment. Further, the premium strategy has got a leg up with the OEM's arrangement to sell and manufacture products of Harley Davidson, the benefits of which will be visible in the medium term. We maintain BUY. We trim our FY22/23 estimates by ~6% to factor in lower-than-expected industry volumes and set a target price of Rs 3,380 at 19x Sep-22E EPS (at a 15% premium to its long-term average trading multiple, 20x earlier). The key risks are slower-than-expected industry growth and a rise in competitive intensity.

- 2QFY21 financials:** Volume grew 7% to 1.81mn units while ASP was up 15.3% YoY (-2% QoQ) led by BSVI transition. Revenue grew 24% YoY to Rs 93.6bn. EBITDA margin at 13.7% (vs. 3.6% QoQ, -80bps YoY) benefitted from operating leverage - other expense ratio declined 185bps YoY due to lower marketing expenses. Reported PAT grew 9% YoY to Rs 9.53bn. Adjusted for the VRS of Rs 6bn in the base quarter, PAT grew by 3%. The tax rate was at 23.7% vs. 15.7% YoY due to the change in tax regime in FY20.
- Key highlights: (1) Festive season:** In the first 10 days of the festive season, retails are at 96% of last year's level for Hero, which is ahead of the industry sales. Navratri accounts for 1/3rd of the festival period and sales are expected to pick up during Diwali in northern India. Rural continues to outperform urban markets. Post festive season, management is confident that inventory will normalise to four weeks. **(2) Market share gains:** The OEM has gained share across segments. The consumer response to the Xtreme 160cc has been encouraging. **(3) Partnership with Harley Davidson (HD) also includes a manufacturing arrangement:** As per the distribution and licensing agreements, Hero will sell and service HD motorcycles/parts; besides, the OEM will develop and manufacture a range of premium motorcycles under license from HD in the future.

Financial Summary (Standalone)

YE March (Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	93,673	75,707	23.7	29,715	215	336,505	288,361	279,334	313,705	350,668
EBITDA	12,865	11,011	16.8	1,081	1,091	49,301	39,580	35,101	42,524	48,760
APAT	9,535	9,255	3.0	613	1,455	33,849	30,952	27,412	32,947	38,102
Adj. EPS (Rs)	47.7	46.3	3.0	3.1	1,455	169.5	155.0	137.2	164.9	190.7
APAT Growth (%)						(8.5)	(8.6)	(11.4)	20.2	15.6
P/E (x)						17.1	18.7	21.1	17.5	15.2
RoE (%)						27.5	22.9	18.5	20.2	20.9

Source: Company, HSIE Research

Change in estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	279,334	313,705	350,668	278,048	316,165	364,733	0	(1)	(4)
EBITDA	35,101	42,524	48,760	34,384	42,857	51,627	2	(1)	(6)
EBITDA margin (%)	12.6	13.6	13.9	12.4	13.6	14.2	20bps	0bps	-25bps
PAT	27,412	32,947	38,102	27,484	34,364	41,435	(0)	(4)	(8)
EPS	137.2	164.9	190.7	137.6	172.0	207.4	(0)	(4)	(8)

Source: Company, HSIE Research

BUY

CMP (as on 29 Oct 2020)	Rs 2,894
Target Price	Rs 3,380
NIFTY	11,671

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 3,800	Rs 3,380
EPS %	FY21E 0%	FY22E -4%

KEY STOCK DATA

Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (Rs bn) / (\$ mn)	578/7,772
6m avg traded value (Rs mn)	4,934
52 Week high / low	Rs 3,395/1,475

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.1	46.9	7.1
Relative (%)	(0.3)	25.4	7.3

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	34.8	34.8
FIs & Local MFs	21.7	22.9
FPIs	32.7	33.3
Public & Others	10.8	9.1
Pledged Shares	0.0	0.0

Source : BSE

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