

Retail Equity Research

Hero MotoCorp Limited

Automobiles

BSE CODE: 500182

NSE CODE: HEROMOTOCO

Bloomberg CODE: HMCL:IN

SENSEX: 39,758

BUY

12M Investment period Rating as per Large Cap
CMP Rs. 2,835 TARGET Rs. 3,345 RETURN 18%
(Closing: 02-11-20) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Hero records highest ever sales, PAT soars

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.

- Standalone revenue makes significant recovery jumping 215.2% QoQ, as company records highest ever sales in the month of September and for the quarter. HMCL makes market share gains of 300bps.
- EBITDA margin rose to 13.7% (vs. 3.6% in Q1FY21) on higher price realisations coupled with stringent cost management measures, and restoration of supply chains. Resultantly, PAT up to pre-COVID levels.
- Company has adequate inventory levels in place for the upcoming festive season as it sees traction in both rural and urban markets.
- New launches, improved consumer sentiments and ongoing festivities to aid growth in the coming months. HMCL looks very well positioned to take advantage of the rising demand. We upgrade our rating to BUY with a revised target price of Rs. 3,345 based on 19x FY22E adj. EPS.

Topline jumps on higher volumes

Q2FY21 standalone revenue made a staggering recovery on a sequential basis rising 215.2% QoQ (+23.7% YoY) to Rs. 9,367cr, aided by significant increase in sales volume during the quarter. Volumes were helped by improved consumer sentiments coupled with pent-up demand and government policy support. EBITDA recovered substantially to Rs. 1,286cr (vs. Rs. 108cr in Q1FY21, +16.8% YoY), as EBITDA margin improved to 13.7% (vs. 3.6% in Q1FY21) supported by prudent cost measures. As a result, PAT rose 1,455.1% QoQ (+2.0% YoY) to Rs. 953cr.

Key concall highlights

- HMCL's market share improved 300bps owing to strong sales registered during the quarter, with Q2FY21 sales totaling 1,815k units (+7.3% YoY).
- Management reiterated the long-term EBITDA margin guidance to remain in the range of 14-16%.
- Despite constraints faced by the industry, company managed to rapidly ramp up its production, having produced 30k units a day for consecutively ten days, and also recorded its highest ever production in a single day during this period.

Company to benefit from Harley-Davidson deal

On Oct. 27, Hero announced it has entered into an arrangement with US-based Harley-Davidson to develop and sell a range of premium motorcycles going forward under the latter's brand name. The deal gives a way out for the US firm as it grappled with declining sales in the Indian market owing to lower volumes. At the same time, the new arrangement will benefit Hero, as it can leverage its large production capabilities and extensive distribution networks to develop and sell the motorcycles at lower costs and higher volumes thereby driving margin growth.

Valuation

As expected, company benefited primarily from improved demand from the rural areas, while growth rates remained on the lower side in semi-urban and urban areas. Nonetheless, company's YTD sales figures look encouraging and should improve further with the festive season. At current price levels, the valuation looks attractive. Hence, we upgrade our rating on the stock to BUY with a revised target price of Rs. 3,345 based on 19x FY22E adj. EPS.

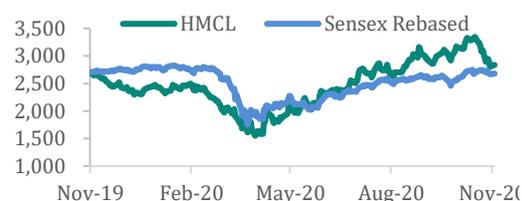
Company Data

Market Cap (cr)	Rs. 56,616
Enterprise Value (cr)	Rs. 56,376
Outstanding Shares (cr)	20.0
Free Float	65.0%
Dividend Yield	3.2%
52 week high	Rs. 3,394
52 week low	Rs. 1,475
6m average volume (lac)	0.6
Beta	1.2
Face value	Rs. 2

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	34.6	34.8	34.8
FII's	34.3	32.7	33.3
MFs/Insti	19.9	21.7	22.9
Public	7.0	6.8	6.6
Others	4.2	4.0	2.6
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	5.9%	30.8%	4.7%
Absolute Sensex	5.7%	17.9%	-1.0%
Relative Return*	0.2%	12.9%	5.7%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	28,836	28,259	33,629
Growth (%)	(14.3)	(2.0)	19.0
EBITDA	3,958	3,536	4,645
EBITDA Margin (%)	13.7	12.5	13.8
Adj. PAT	2,956	2,638	3,516
Growth (%)	(12.7)	(10.8)	33.3
Adj. EPS	148.0	132.1	176.0
Growth (%)	(12.7)	(10.8)	33.3
P/E	14.1	21.5	16.1
P/B	3.0	3.5	2.9
EV/EBITDA	10.6	15.9	12.1
ROE (%)	25.7	16.5	18.1
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	9,367	7,571	23.7	2,972	215.2	12,339	15,601	(20.9)
EBITDA	1,286	1,101	16.8	108	1,090.6	1,394	2,259	(38.3)
EBITDA margins	13.7	14.5	(80bps)	3.6	1010bps	11.3	14.5	(320bps)
Depreciation	173	203	(14.9)	171	1.4	344	440	(21.8)
EBIT	1,113	898	24.0	(63)	1,875.3	1,051	1,820	(42.3)
Interest	5	8	(39.5)	6	(25.9)	11	12	(9.5)
Other Income	141	148	(4.3)	148	(4.8)	290	1,104	(73.8)
Exceptional Items	-	(60)	n.m.	-	n.m.	-	(60)	n.m.
PBT	1,250	1,038	20.4	79	1,472.5	1,329	2,912	(54.3)
Tax	297	163	82.0	18	1,530.9	315	779	(59.6)
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	953	875	9.0	61	1,455.1	1,015	2,132	(52.4)
Adjustments	-	60	n.m.	-	-	-	60	n.m.
Adj. PAT	953	935	9.0	61	1,455.1	1,015	2,192	(52.4)
No. of shares	20.0	20.0	-	20.0	-	20.0	20.0	-
Adj. EPS (Rs.)	47.7	46.8	2.0	3.1	1,454.7	50.8	109.7	(53.7)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	27,394	32,599	28,259	33,629	3.2	3.2
EBITDA	3,422	4,574	3,536	4,645	3.3	1.6
Margins (%)	12.5	14.0	12.5	13.8	0bps	(20bps)
Adj. PAT	2,555	3,443	2,638	3,516	3.2	2.1
Adj. EPS	127.9	172.4	132.1	176.0	3.2	2.1

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	32,872	33,651	28,836	28,259	33,629
% change	6.6	2.4	(14.3)	(2.0)	19.0
EBITDA	5,280	4,930	3,958	3,536	4,645
% change	13.9	(6.6)	(19.7)	(10.7)	31.4
Depreciation	556	602	818	710	862
EBIT	4,725	4,328	3,140	2,826	3,783
Interest	6	9	22	24	29
Other Income	526	691	1,456	580	753
PBT	5,244	5,011	4,574	3,381	4,508
% change	12.6	(4.5)	(8.7)	(26.1)	33.3
Tax	1,547	1,626	940	744	992
Tax Rate (%)	29.5	32.4	20.6	22.0	22.0
Reported PAT	3,697	3,385	3,633	2,638	3,516
Adj*	-	-	(677)	-	-
Adj PAT	3,697	3,385	2,956	2,638	3,516
% change	9.5	(8.5)	(12.7)	(10.8)	33.3
No. of shares (cr)	20.0	20.0	20.0	20.0	20.0
Adj EPS (Rs.)	185.1	169.5	148.0	132.1	176.0
% change	9.5	(8.5)	(12.7)	(10.8)	33.3
DPS (Rs.)	95.0	87.0	90.0	63.4	84.5
CEPS (Rs.)	213.0	199.6	188.9	167.6	219.2

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	4,253	3,987	4,451	3,348	4,378
Non-cash adj.	(218)	(1,494)	136	(2,311)	575
Changes in W.C	(54)	(1,514)	823	1,101	(2,057)
C.F. Operation	3,981	979	5,410	2,138	2,897
Capital exp.	(799)	(918)	(1,359)	(622)	(1,345)
Change in inv.	(1,345)	1,876	(1,890)	689	189
Other invest.CF	229	363	366	-	-
C.F - Investment	(1,915)	1,321	(2,883)	68	(1,156)
Issue of equity	3	2	0	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(1,698)	(1,897)	(1,937)	(1,798)	(1,266)
Other finance.CF	(352)	(399)	(482)	(70)	(185)
C.F - Finance	(2,047)	(2,294)	(2,420)	(1,868)	(1,451)
Chg. in cash	19	6	107	338	290
Closing cash	141	136	242	580	870

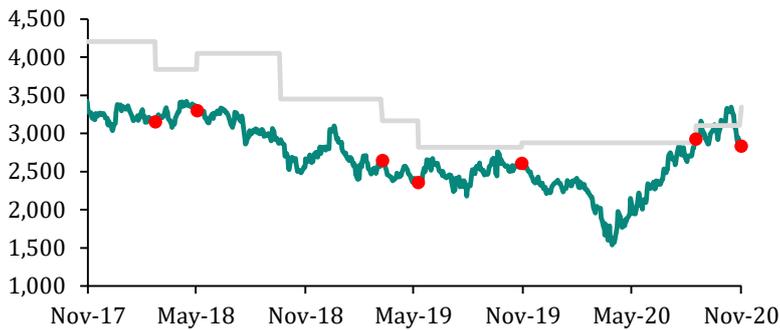
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	141	136	242	580	870
Accounts Receivable	1,520	2,822	1,603	2,261	2,774
Inventories	824	1,072	1,092	924	1,247
Other Cur. Assets	6,363	4,085	5,352	8,837	9,384
Investments	1,934	2,802	3,528	2,839	2,649
Gross Fixed Assets	7,405	7,854	9,212	9,834	11,179
Net Fixed Assets	4,486	4,478	5,977	5,888	6,371
CWIP	204	361	160	168	177
Intangible Assets	283	322	321	330	340
Def. Tax (Net)	-	-	-	-	-
Other Assets	984	1,564	474	477	481
Total Assets	16,739	17,641	18,749	22,305	24,292
Current Liabilities	4,141	3,909	3,695	5,406	4,147
Provisions	115	117	122	122	125
Debt Funds	202	221	402	340	295
Other Liabilities	512	537	393	409	298
Equity Capital	40	40	40	40	40
Reserves & Surplus	11,729	12,817	14,096	15,987	19,388
Shareholder's Fund	11,769	12,857	14,136	16,027	19,428
Minority Interest	-	-	-	-	-
Total Liabilities	16,739	17,641	18,749	22,305	24,292
BVPS (Rs.)	589	644	708	802	973

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	16.1	14.7	13.7	12.5	13.8
EBIT margin (%)	14.4	12.9	10.9	10.0	11.3
Net profit mgn.(%)	11.2	10.1	12.6	9.3	10.5
ROE (%)	31.4	26.3	25.7	16.5	18.1
ROCE (%)	39.5	33.1	21.6	17.3	19.2
W.C & Liquidity					
Receivables (days)	16.9	30.6	20.3	29.2	30.1
Inventory (days)	13.4	16.8	20.2	18.3	20.1
Payables (days)	53.9	52.5	56.2	91.3	54.8
Current ratio (x)	2.0	2.0	2.1	2.2	3.3
Quick ratio (x)	1.7	1.5	1.6	2.0	2.8
Turnover & Leverage					
Gross asset T.O (x)	4.6	4.4	3.4	3.0	3.2
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	117.4	131.4
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	2.2	1.5	1.5	2.0	1.7
EV/EBITDA (x)	13.4	10.4	10.6	15.9	12.1
P/E (x)	19.2	15.1	14.1	21.5	16.1
P/BV (x)	6.0	4.0	3.0	3.5	2.9

Recommendation Summary



Dates	Rating	Target
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
3-Nov-20	BUY	3,345

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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