

May 4, 2022

Q4FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	3,150		3,200	
Sales (Rs. m)	3,41,731	3,86,102	3,45,501	3,88,345
% Chng.	(1.1)	(0.6)		
EBITDA (Rs. m)	44,100	52,527	46,660	53,220
% Chng.	(5.5)	(1.3)		
EPS (Rs.)	165.8	196.3	176.2	199.6
% Chng.	(5.9)	(1.7)		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	308	292	342	386
EBITDA (Rs. bn)	40	34	44	53
Margin (%)	13.0	11.5	12.9	13.6
PAT (Rs. bn)	30	25	33	39
EPS (Rs.)	148.4	123.8	165.8	196.3
Gr. (%)	(4.3)	(16.6)	34.0	18.3
DPS (Rs.)	105.0	95.0	100.0	105.0
Yield (%)	4.4	3.9	4.2	4.4
RoE (%)	20.2	16.0	20.2	21.8
RoCE (%)	22.8	17.6	22.7	25.0
EV/Sales (x)	1.3	1.4	1.1	1.0
EV/EBITDA (x)	9.9	11.8	8.6	7.0
PE (x)	16.2	19.5	14.5	12.3
P/BV (x)	3.2	3.1	2.8	2.5

Key Data

HROM.BO | HMCL IN

52-W High / Low	Rs.3,079 / Rs.2,147
Sensex / Nifty	55,669 / 16,678
Market Cap	Rs.481bn / \$ 6,300m
Shares Outstanding	200m
3M Avg. Daily Value	Rs.2287.49m

Shareholding Pattern (%)

Promoter's	34.75
Foreign	29.22
Domestic Institution	24.24
Public & Others	11.79
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.2	(10.0)	(12.9)
Relative	11.0	(3.4)	(23.8)

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Hopes pinned on rural recovery

Quick Pointers:

- ASPs improved by 13/2% YoY/QoQ to Rs 62.4k given multiple price hikes, increased spares revenue and higher exports.
- Management expects positive turnaround in coming months led by rural recovery and wedding season.

Hero's 4QFY22 EBITDA margin at 11.2% (PLe: 11.9%) was impacted due to higher other expenditure (13.1% of sales vs 10.3% QoQ) on account of CSR spends (50-60bps impact). However gross margin expansion of 170bps to 30.7% surprised positively, driven by commodity inflation being softer than price hikes taken. Management expects turnaround in coming months with economy picking up. The company will continue to navigate margin pressure (in 1HFY23) through price hikes, cost savings and premiumisation.

We maintain BUY, as we believe Hero will benefit from (1) rural recovery and wedding season demand (2) increasing focus on exports and premiumisation (3) incremental savings through Leap savings program leading to margin expansion and (4) success in EV via investment in Ather, in-house mass product (Vida) and JV with Gogoro. Our EBITDA margin estimates contracts by 60/10bps for FY23/24, considering the impact of commodity inflation. Maintain 'BUY' with a target price of Rs 3,150 (at 15x on FY24E standalone EPS, Rs 143 for Fincorp and Rs 63 for Ather).

- 4QFY22 financial performance:** Volumes for the quarter at 11.89 lakhs units declined 29/8% YoY/QoQ, which led to revenue decline of 15/6% to Rs 74.2bn, in-line with our estimates. Decline in revenue was cushioned by higher average realisation at Rs 62.4k (+13/+2%) due to price hikes, higher spares revenue and improved product mix. EBITDA margin came in at 11.2% (-280/-100bps YoY/QoQ) vs our estimate of 11.9%. Surprisingly, gross margins expanded by 170bps QoQ. However, other expense ratio came in at 13.1% vs 10.3% QoQ, owing to CSR spends in the quarter. PAT at Rs 6.27bn declined 28/9% YoY/QoQ. Tax rate came in at 21.8% vs 24.6% QoQ.

- Key takeaways: (1) Demand scenario robust:** In Apr22, retails have been healthy driven by beginning of marriage season and festivals. Inventory has come down to 6-7 weeks vs 7-8 weeks at the end of Mar22. Over the coming months, demand will be supported by wedding season, rural volumes coming back (due to good Rabi crop & monsoons) and new launches planned. **(2) Non-auto business contribution risen:** PAM business (Parts, accessories and merchandise) contributed 13% to FY22 revenue vs 10% in FY21. Focus remains on further enhancing segmental revenue. **(3) Focus on exports:** Company's exports at 300k for FY22 have risen by over 60% YoY; given channel expansion in multiple geographies. Management expects this segment to be a major growth driver. **(4) Navigating the margin risk:** Cost inflation is expected to impact margins in 1HFY23, however, the company will navigate this risk through price hikes, leap savings program and focus on premiumisation. In Q4, commodity inflation was softer than price hikes taken. Also, Leap savings program aided in 300bps savings.

Exhibit 1: Q4FY22 Result Overview (Rs m)

Y/e Mar (Rs.mn)	4QFY22	4QFY21	YoY gr. (%)	3QFY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Net Revenues	74,217	86,860	(14.6)	78,833	(5.9)	2,92,455	3,08,006	(5.0)
Raw Materials	51,424	61,173	(15.9)	55,943	(8.1)	2,08,267	2,17,622	(4.3)
<i>% of Net Sales</i>	<i>69.3</i>	<i>70.4</i>		<i>71.0</i>		<i>71.2</i>	<i>70.7</i>	
Personnel	4,763	4,884	(2.5)	5,180	(8.0)	19,354	18,987	1.9
<i>% of Net Sales</i>	<i>6.4</i>	<i>5.6</i>	<i>0.8</i>	<i>6.6</i>		<i>6.6</i>	<i>6.2</i>	
Manufacturing & Other Exp	9,754	8,691	12.2	8,109	20.3	31,145	31,203	(0.2)
<i>% of Net Sales</i>	<i>13.1</i>	<i>10.0</i>		<i>10.3</i>		<i>10.6</i>	<i>10.1</i>	
Total Expenditure	65,942	74,748	(11.8)	69,233	(4.8)	2,58,767	2,67,813	(3.4)
EBITDA	8,276	12,112	(31.7)	9,600	(13.8)	33,688	40,193	(16.2)
<i>EBITDA Margin (%)</i>	<i>11.2</i>	<i>13.9</i>		<i>12.2</i>		<i>11.5</i>	<i>13.0</i>	
Depreciation	1,585	1,631	(2.9)	1,644	(3.6)	6,498	6,769	(4.0)
EBIT	6,691	10,480	(36.2)	7,956	(15.9)	27,190	33,425	(18.7)
Interest Expenses	67	63	5.9	65	2.3	258	218	18.1
Non-operating income	1,398	874	59.9	1,216	14.9	5,569	5,799	(4.0)
Extraordinary Expenses	0	0		0		0	0	
PBT	8,022	11,291	(29.0)	9,107	(11.9)	32,501	39,005	(16.7)
Tax-Total	1,752	2,642	(33.7)	2,246	(22.0)	7,771	9,362	(17.0)
<i>Tax Rate (%) - Total</i>	<i>21.8</i>	<i>23.4</i>	<i>(6.7)</i>	<i>24.7</i>		<i>23.9</i>	<i>24.0</i>	<i>(0.4)</i>
Reported PAT	6,271	8,650	(27.5)	6,861	(8.6)	24,730	29,643	(16.6)
Adj. PAT	6,271	8,650	(27.5)	6,861	(8.6)	24,730	29,643	(16.6)
<i>PAT Margin (%)</i>	<i>8.4</i>	<i>10.0</i>		<i>8.7</i>		<i>8.5</i>	<i>9.6</i>	

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	4QFY22	4QFY21	YoY gr. (%)	3QFY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Sales Volume (nos)	11,88,884	15,68,265	(24.2)	12,92,136	(8.0)	49,43,969	57,86,397	(14.6)
Net Realisation/Vehicle	62,426	55,386	12.7	61,010	2.3	59,154	53,229	11.1
Material cost / vehicle	43,254	39,007	10.9	43,295	(0.1)	42,126	37,609	12.0
Gross Profit / vehicle	19,172	16,379	17.0	17,714	8.2	17,028	15,620	9.0
Employee cost /vehicle	4,007	3,115	28.6	4,009	(0.1)	3,915	3,281	19.3
Other expenses / vehicle	8,204	5,542	48.0	6,276	30.7	6,300	5,393	16.8
EBITDA/vehicle	6,961	7,723	(9.9)	7,430	(6.3)	6,814	6,946	(1.9)
Net Profit/vehicle	5,274	5,515	(4.4)	5,310	(0.7)	5,002	5,123	(2.4)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	3,08,006	2,92,455	3,41,731	3,86,102
YoY gr. (%)	6.8	(5.0)	16.8	13.0
Cost of Goods Sold	2,17,623	2,08,267	2,43,295	2,74,115
Gross Profit	90,383	84,187	98,435	1,11,987
Margin (%)	29.3	28.8	28.8	29.0
Employee Cost	18,987	19,354	21,187	23,552
Other Expenses	31,203	31,145	33,148	35,907
EBITDA	40,192	33,688	44,100	52,527
YoY gr. (%)	1.5	(16.2)	30.9	19.1
Margin (%)	13.0	11.5	12.9	13.6
Depreciation and Amortization	6,769	6,498	6,735	7,434
EBIT	33,424	27,190	37,365	45,093
Margin (%)	10.9	9.3	10.9	11.7
Net Interest	218	258	200	200
Other Income	5,799	5,569	6,433	6,704
Profit Before Tax	39,004	32,501	43,598	51,597
Margin (%)	12.7	11.1	12.8	13.4
Total Tax	9,362	7,771	10,464	12,383
Effective tax rate (%)	24.0	23.9	24.0	24.0
Profit after tax	29,642	24,730	33,135	39,214
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	29,642	24,730	33,135	39,214
YoY gr. (%)	-	-	-	-
Margin (%)	9.6	8.5	9.7	10.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	29,642	24,730	33,135	39,214
YoY gr. (%)	(18.4)	(16.6)	34.0	18.3
Margin (%)	9.6	8.5	9.7	10.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	200	200	200	200
EPS (Rs)	148.4	123.8	165.8	196.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	1,01,413	1,04,001	1,07,365	1,21,365
Tangibles	1,01,413	1,04,001	1,07,365	1,21,365
Intangibles	-	-	-	-
Acc: Dep / Amortization	44,431	48,921	55,656	63,090
Tangibles	44,431	48,921	55,656	63,090
Intangibles	-	-	-	-
Net fixed assets	56,982	55,080	51,709	58,275
Tangibles	56,982	55,080	51,709	58,275
Intangibles	-	-	-	-
Capital Work In Progress	7,269	7,567	7,480	7,401
Goodwill	-	-	-	-
Non-Current Investments	23,636	26,000	28,600	31,460
Net Deferred tax assets	(5,536)	(5,514)	(5,624)	(5,736)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	81,361	80,524	89,924	99,064
Inventories	14,696	11,227	13,107	14,809
Trade receivables	24,268	23,043	9,362	10,578
Cash & Bank Balance	2,572	1,751	13,296	15,345
Other Current Assets	9,938	11,131	11,688	12,272
Total Assets	2,21,611	2,17,140	2,26,122	2,50,284
Equity				
Equity Share Capital	400	400	400	400
Other Equity	1,51,585	1,57,430	1,70,584	1,88,819
Total Network	1,51,984	1,57,829	1,70,984	1,89,219
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	52,046	42,603	37,450	42,313
Other current liabilities	12,044	11,194	12,064	13,016
Total Equity & Liabilities	2,21,611	2,17,140	2,26,122	2,50,284

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	39,004	32,501	43,598	51,597
Add. Depreciation	6,769	6,498	6,735	7,434
Add. Interest	218	258	200	200
Less Financial Other Income	5,799	5,569	6,433	6,704
Add. Other	(5,799)	(5,569)	(6,433)	(6,704)
Op. profit before WC changes	40,192	33,688	44,100	52,527
Net Changes-WC	11,861	(6,720)	6,821	2,189
Direct tax	(9,254)	(7,794)	(10,353)	(12,271)
Net cash from Op. activities	42,800	19,175	40,568	42,445
Capital expenditures	(6,435)	(4,894)	(3,277)	(13,921)
Interest / Dividend Income	-	-	-	-
Others	1,953	3,205	3,833	3,844
Net Cash from Invt. activities	(4,482)	(1,689)	557	(10,077)
Issue of share cap. / premium	1,957	96	-	-
Debt changes	-	-	-	-
Dividend paid	(20,979)	(18,981)	(19,980)	(20,979)
Interest paid	(218)	(258)	(200)	(200)
Others	-	-	-	-
Net cash from Fin. activities	(19,240)	(19,143)	(20,180)	(21,179)
Net change in cash	19,078	(1,657)	20,945	11,189
Free Cash Flow	36,365	14,280	37,291	28,524

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	54,871	84,534	78,833	74,217
YoY gr. (%)	84.7	(9.8)	(19.4)	(14.6)
Raw Material Expenses	39,796	61,104	55,943	51,424
Gross Profit	15,075	23,430	22,890	22,793
Margin (%)	27.5	27.7	29.0	30.7
EBITDA	5,148	10,664	9,600	8,276
YoY gr. (%)	376.5	(17.1)	(32.1)	(31.7)
Margin (%)	9.4	12.6	12.2	11.2
Depreciation / Depletion	1,630	1,639	1,644	1,585
EBIT	3,519	9,025	7,956	6,691
Margin (%)	6.4	10.7	10.1	9.0
Net Interest	61	65	65	67
Other Income	1,386	1,569	1,216	1,398
Profit before Tax	4,844	10,529	9,107	8,022
Margin (%)	8.8	12.5	11.6	10.8
Total Tax	1,189	2,585	2,246	1,752
Effective tax rate (%)	24.6	24.5	24.7	21.8
Profit after Tax	3,654	7,944	6,861	6,271
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,654	7,944	6,861	6,271
YoY gr. (%)	496.1	(16.7)	(36.7)	(27.5)
Margin (%)	6.7	9.4	8.7	8.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,654	7,944	6,861	6,271
YoY gr. (%)	496.1	(16.7)	(36.7)	(27.5)
Margin (%)	6.7	9.4	8.7	8.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	200	200	200	200
EPS (Rs)	18.3	39.8	34.3	31.4

Source: Company Data, PL Research

Key Financial Metrics

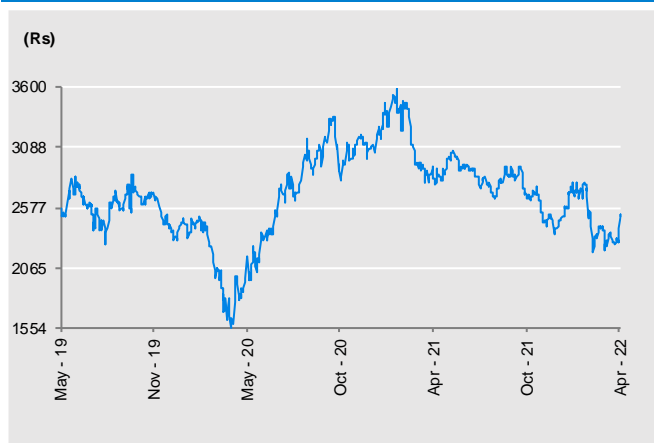
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	148.4	123.8	165.8	196.3
CEPS	182.2	156.3	199.5	233.5
BVPS	760.7	789.9	855.8	947.0
FCF	182.0	71.5	186.6	142.8
DPS	105.0	95.0	100.0	105.0
Return Ratio(%)				
RoCE	22.8	17.6	22.7	25.0
ROIC	40.5	28.5	46.4	52.2
RoE	20.2	16.0	20.2	21.8
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.5)	(0.6)	(0.6)
Net Working Capital (Days)	(26)	(20)	(25)	(25)
Valuation(x)				
PER	16.2	19.5	14.5	12.3
P/B	3.2	3.1	2.8	2.5
P/CEPS	13.2	15.4	12.1	10.3
EV/EBITDA	9.9	11.8	8.6	7.0
EV/Sales	1.3	1.4	1.1	1.0
Dividend Yield (%)	4.4	3.9	4.2	4.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Volume (units)	57,91,491	49,43,968	56,55,238	62,36,718
Net realisation (Rs/unit)	53,183	59,154	60,427	61,908

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-22	BUY	3,200	2,335
2	14-Feb-22	BUY	3,221	2,719
3	12-Jan-22	BUY	3,194	2,418
4	15-Nov-21	BUY	3,115	2,685
5	07-Oct-21	Accumulate	3,057	2,842
6	16-Aug-21	BUY	3,266	2,772
7	07-Jul-21	Accumulate	3,516	2,919
8	07-May-21	Accumulate	3,392	2,861

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	170	131
2	Bajaj Auto	Accumulate	4,120	3,834
3	Bharat Forge	BUY	942	740
4	CEAT	UR	-	1,108
5	Eicher Motors	BUY	3,071	2,541
6	Endurance Technologies	BUY	1,690	1,204
7	Exide Industries	BUY	218	161
8	Hero Motocorp	BUY	3,200	2,335
9	Mahindra & Mahindra	BUY	1,042	857
10	Maruti Suzuki	BUY	9,000	7,718
11	Tata Motors	BUY	656	452
12	TVS Motors	BUY	786	651

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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