

June 10, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

| | Current | | Previous | |
|---------------------|-------------------|----------|-------------------|----------|
| | FY21E | FY22E | FY21E | FY22E |
| Rating | ACCUMULATE | | ACCUMULATE | |
| Target Price | 2,444 | | 2,225 | |
| Sales (Rs. m) | 2,76,817 | 3,17,313 | 2,85,671 | 3,22,348 |
| % Chng. | (3.1) | (1.6) | | |
| EBITDA (Rs. m) | 36,798 | 45,308 | 37,923 | 46,060 |
| % Chng. | (3.0) | (1.6) | | |
| EPS (Rs.) | 135.4 | 175.5 | 139.6 | 174.4 |
| % Chng. | (3.0) | 0.6 | | |

Key Financials - Standalone

| Y/e Mar | FY19 | FY20 | FY21E | FY22E |
|-----------------|-------|-------|--------|-------|
| Sales (Rs. bn) | 337 | 288 | 277 | 317 |
| EBITDA (Rs. bn) | 49 | 40 | 37 | 45 |
| Margin (%) | 14.7 | 13.7 | 13.3 | 14.3 |
| PAT (Rs. bn) | 34 | 31 | 27 | 35 |
| EPS (Rs.) | 169.5 | 154.6 | 135.4 | 175.5 |
| Gr. (%) | (8.5) | (8.8) | (12.4) | 29.6 |
| DPS (Rs.) | 87.0 | 90.0 | 95.0 | 105.0 |
| Yield (%) | 3.8 | 3.9 | 4.1 | 4.6 |
| RoE (%) | 27.5 | 22.9 | 18.6 | 22.5 |
| RoCE (%) | 25.2 | 17.3 | 14.8 | 17.8 |
| EV/Sales (x) | 1.2 | 1.3 | 1.3 | 1.1 |
| EV/EBITDA (x) | 8.0 | 9.5 | 9.9 | 7.7 |
| PE (x) | 13.5 | 14.8 | 16.9 | 13.1 |
| P/BV (x) | 3.6 | 3.2 | 3.1 | 2.8 |

Key Data

HROM.BO | HMCL IN

| | |
|---------------------|---------------------|
| 52-W High / Low | Rs.3,023 / Rs.1,475 |
| Sensex / Nifty | 34,247 / 10,116 |
| Market Cap | Rs.458bn/ \$ 6,057m |
| Shares Outstanding | 200m |
| 3M Avg. Daily Value | Rs.7374.62m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 34.63 |
| Foreign | 34.27 |
| Domestic Institution | 19.89 |
| Public & Others | 11.21 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|------|-------|--------|
| Absolute | 16.8 | (1.6) | (16.5) |
| Relative | 7.9 | 15.6 | (3.0) |

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Demand outlook cautiously positive

Quick Pointers:

- Recovery in retail is better than expected as many dealers reached ~70-80% of pre-covid retails. All the plants, vendors and ~90% outlets have resumed operations.
- FY21 Capex guidance slashed at Rs6bn (v/s Rs10bn earlier).
- Target saving of ~100bp in FY21 from LEAP 2 program (v/s 60bp in FY20).

HMCL's Q4FY20 performance was in-line with revenue/EBITDA/PBT while margins came in lower at 10.6% (-300bps YoY, PLe 11.4%) led by contraction in gross margins, negative operating leverage and higher dealer support to clear off BS4 inventory. Management hinted for better than expected pickup in retails on the back of improved rural sentiments (~50% of HMCL sales), pent up demand, likely down trading and shift to personal mobility trend. We cut FY21 EPS by 3% as we cut volumes by 2.5% while we maintain FY22 EPS. We maintain 'Accumulate' with a price target of Rs2,444 (earlier Rs2,225) based on 13x Mar'22 EPS (earlier 12x, ~25% discount to 5 year LPA) and Rs162 for NBFC (v/s ~Rs150) to factor in better retails and NBFC performance.

Revenue came in-line at Rs62.4bn (-20.9% YoY) as volume declined 25.2% YoY while realizations grew 5.7% YoY at record Rs46.7k/unit. Increasing realization was led by higher BS6 share in total sales (~50%).

Higher dealer support and one offs impact EBITDA margins: Gross margin declined 20bps YoY/ 260bps QoQ at 30.8% (PLe 33.3%). Higher dealer support expense for BS4 inventory (~Rs1.2b), provision for Neemrana fiscal benefit (Rs0.6b) and BS6 transition cost impacted EBITDA margin at 10.6% (-300bps YoY, PLe 11.4%). **Lower tax rate at ~5% (PLe 30%) drive adj. PAT higher at Rs6.2bn (-15% YoY, PLe Rs3.6b).**

FY20 Revenue/EBITDA/Adj PAT declined ~14%/20%/9% YoY respectively.

Key takeaways from con-call: 1) Pick up in retail sales is better than expected with many dealers reaching ~70-80% of pre-covid retails. 2) All the plants, vendors and ~90% outlets have resumed operations. 3) Finance penetration increased to 43% in FY20 v/s 41% in FY19. Hero FinCorp accounts for 46% of share of financing. 4) FY21 Capex guidance slashed at Rs6bn (v/s Rs10bn earlier). 5) Target saving of ~100bp in FY21 from LEAP 2 program (v/s 60bp achieved in FY20). 6) Expect an increase in market share of scooter segment with launch of new products while aiming at higher single digit market share in premium segment with the launch of Xtreme 160.

Exhibit 1: Q4FY20 Result Overview (Rs m)

| Y/e March | Q4FY20 | Q4FY19 | YoY gr. (%) | Q3FY20 | FY20 | FY19 | YoY gr. (%) |
|-----------------------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|
| Net Revenues | 62,384 | 78,850 | (20.9) | 69,967 | 2,88,361 | 3,36,505 | (14.3) |
| Raw Materials | 43,200 | 54,385 | (20.6) | 46,598 | 1,96,974 | 2,33,177 | (15.5) |
| <i>% of Net Sales</i> | <i>69.2</i> | <i>69.0</i> | <i>2.6</i> | <i>66.6</i> | <i>68.3</i> | <i>69.3</i> | |
| Personnel | 4,354 | 4,473 | (2.7) | 4,697 | 18,417 | 17,302 | 6.4 |
| <i>% of Net Sales</i> | <i>7.0</i> | <i>5.7</i> | <i>1.3</i> | <i>6.7</i> | <i>6.4</i> | <i>5.1</i> | |
| Manufacturing & Other Exp | 8,231 | 9,298 | (11.5) | 8,282 | 33,390 | 36,725 | (9.1) |
| <i>% of Net Sales</i> | <i>13.2</i> | <i>11.8</i> | | <i>11.8</i> | <i>11.6</i> | <i>10.9</i> | |
| Total Expenditure | 55,785 | 68,156 | (18.2) | 59,578 | 2,48,781 | 2,87,205 | (13.4) |
| EBITDA | 6,599 | 10,693 | (38.3) | 10,390 | 39,580 | 49,301 | (19.7) |
| <i>EBITDA Margin (%)</i> | <i>10.6</i> | <i>13.6</i> | | <i>14.8</i> | <i>13.7</i> | <i>14.7</i> | |
| Depreciation | 1,747 | 1,502 | 16.3 | 2,037 | 8,180 | 6,020 | 35.9 |
| EBIT | 4,852 | 9,191 | (47.2) | 8,352 | 31,400 | 43,281 | (27.5) |
| Interest Expenses | 41 | 22 | 85.4 | 59 | 220 | 86 | 156.0 |
| Non-operating income | 1,695 | 1,642 | 3.2 | 1,822 | 7,783 | 6,913 | 12.6 |
| | 0 | 0 | | 0 | -6,774 | 0 | |
| PBT | 6,506 | 10,811 | (39.8) | 10,115 | 45,737 | 50,107 | (8.7) |
| Tax-Total | 299 | 3,508 | (91.5) | 1,311 | 9,404 | 16,259 | (42.2) |
| <i>Tax Rate (%) - Total</i> | <i>4.6</i> | <i>32.4</i> | <i>(85.8)</i> | <i>13.0</i> | <i>20.6</i> | <i>32.4</i> | <i>(36.6)</i> |
| Reported PAT | 6,207 | 7,303 | (15.0) | 8,804 | 36,333 | 33,849 | 7.3 |
| Adj. PAT | 6,207 | 7,303 | (15.0) | 8,804 | 31,985 | 33,849 | (5.5) |

Source: Company, PL

Exhibit 2: Operating Metrics

| Y/e March | Q4FY20 | Q4FY19 | YoY gr. (%) | Q3FY20 | FY20 | FY19 | YoY gr. (%) |
|---------------------------|------------------|------------------|---------------|------------------|------------------|------------------|---------------|
| Sales Volume (nos) | 13,34,511 | 17,82,930 | (25.2) | 15,40,868 | 64,09,719 | 78,20,831 | (18.0) |
| Net Realisation/Vehicle | 46,747 | 44,225 | 5.7 | 45,408 | 44,988 | 43,027 | 4.6 |
| Material cost / vehicle | 32,371 | 30,503 | 6.1 | 30,241 | 30,731 | 29,815 | 3.1 |
| Gross Profit / vehicle | 14,376 | 13,721 | 4.8 | 15,166 | 14,258 | 13,212 | 7.9 |
| Employee cost /vehicle | 3,263 | 2,509 | 30.1 | 3,048 | 2,873 | 2,212 | 29.9 |
| Other expenses / vehicle | 6,168 | 5,215 | 18.3 | 5,375 | 5,209 | 4,696 | 10.9 |
| EBITDA/vehicle | 4,945 | 5,998 | (17.6) | 6,743 | 6,175 | 6,304 | (2.0) |
| Net Profit/vehicle | 4,651 | 4,096 | 13.6 | 5,714 | 4,990 | 4,328 | 15.3 |

Source: Company, PL

Financials

Income Statement (Rs m)

| Y/e Mar | FY19 | FY20 | FY21E | FY22E |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net Revenues | 3,36,505 | 2,88,361 | 2,76,817 | 3,17,313 |
| YoY gr. (%) | 4.4 | (14.3) | (4.0) | 14.6 |
| Cost of Goods Sold | 2,33,177 | 1,96,973 | 1,86,852 | 2,14,503 |
| Gross Profit | 1,03,328 | 91,388 | 89,966 | 1,02,809 |
| Margin (%) | 30.7 | 31.7 | 32.5 | 32.4 |
| Employee Cost | 17,302 | 18,417 | 18,233 | 19,874 |
| Other Expenses | 36,725 | 33,390 | 34,935 | 37,628 |
| EBITDA | 49,301 | 39,580 | 36,798 | 45,308 |
| YoY gr. (%) | (6.6) | (19.7) | (7.0) | 23.1 |
| Margin (%) | 14.7 | 13.7 | 13.3 | 14.3 |
| Depreciation and Amortization | 6,020 | 8,180 | 8,567 | 8,855 |
| EBIT | 43,281 | 31,401 | 28,231 | 36,453 |
| Margin (%) | 12.9 | 10.9 | 10.2 | 11.5 |
| Net Interest | 86 | 220 | 180 | 80 |
| Other Income | 6,913 | 7,783 | 8,580 | 11,115 |
| Profit Before Tax | 50,107 | 45,738 | 36,631 | 47,488 |
| Margin (%) | 14.9 | 15.9 | 13.2 | 15.0 |
| Total Tax | 16,259 | 9,404 | 9,524 | 12,347 |
| Effective tax rate (%) | 32.4 | 20.6 | 26.0 | 26.0 |
| Profit after tax | 33,849 | 36,333 | 27,107 | 35,141 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 33,849 | 30,952 | 27,107 | 35,141 |
| YoY gr. (%) | (8.5) | (8.6) | (12.4) | 29.6 |
| Margin (%) | 10.1 | 10.7 | 9.8 | 11.1 |
| Extra Ord. Income / (Exp) | - | 5,381 | - | - |
| Reported PAT | 33,849 | 36,333 | 27,107 | 35,141 |
| YoY gr. (%) | (8.5) | 7.3 | (25.4) | 29.6 |
| Margin (%) | 10.1 | 12.6 | 9.8 | 11.1 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 33,849 | 36,333 | 27,107 | 35,141 |
| Equity Shares O/s (m) | 200 | 200 | 200 | 200 |
| EPS (Rs) | 169.5 | 154.6 | 135.4 | 175.5 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY19 | FY20 | FY21E | FY22E |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Non-Current Assets | | | | |
| Gross Block | 1,18,817 | 1,41,979 | 1,43,582 | 1,51,582 |
| Tangibles | 1,18,817 | 1,41,979 | 1,43,582 | 1,51,582 |
| Intangibles | - | - | - | - |
| Acc: Dep / Amortization | 70,819 | 78,998 | 87,565 | 96,420 |
| Tangibles | 70,819 | 78,998 | 87,565 | 96,420 |
| Intangibles | - | - | - | - |
| Net fixed assets | 47,998 | 62,981 | 56,017 | 55,162 |
| Tangibles | 47,998 | 62,981 | 56,017 | 55,162 |
| Intangibles | - | - | - | - |
| Capital Work In Progress | 3,607 | 1,603 | 6,000 | 6,000 |
| Goodwill | - | - | - | - |
| Non-Current Investments | - | - | - | - |
| Net Deferred tax assets | (5,365) | (3,928) | (3,928) | (3,928) |
| Other Non-Current Assets | - | - | - | - |
| Current Assets | | | | |
| Investments | 59,686 | 82,227 | 90,227 | 98,227 |
| Inventories | 10,724 | 10,920 | 10,483 | 12,016 |
| Trade receivables | 28,216 | 16,031 | 17,118 | 19,622 |
| Cash & Bank Balance | 1,365 | 2,419 | 4,072 | 11,236 |
| Other Current Assets | 23,968 | 10,417 | 10,000 | 11,463 |
| Total Assets | 1,76,412 | 1,87,493 | 1,94,777 | 2,14,712 |
| Equity | | | | |
| Equity Share Capital | 400 | 400 | 400 | 400 |
| Other Equity | 1,28,172 | 1,40,965 | 1,49,052 | 1,63,172 |
| Total Network | 1,28,571 | 1,41,365 | 1,49,453 | 1,63,573 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | - | 1,217 | 1,217 | 1,217 |
| Provisions | - | - | - | - |
| Other non current liabilities | - | - | - | - |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | - | - | - | - |
| Trade payables | 33,553 | 30,587 | 31,259 | 35,832 |
| Other current liabilities | 8,923 | 10,396 | 8,920 | 10,162 |
| Total Equity & Liabilities | 1,76,412 | 1,87,493 | 1,94,777 | 2,14,712 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY19 | FY20 | FY21E | FY22E |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| PBT | 50,107 | 45,738 | 36,631 | 47,488 |
| Add. Depreciation | 6,020 | 8,180 | 8,567 | 8,855 |
| Add. Interest | - | - | - | - |
| Less Financial Other Income | 6,913 | 7,783 | 8,580 | 11,115 |
| Add. Other | 86 | 6,994 | 180 | 80 |
| Op. profit before WC changes | 56,213 | 60,911 | 45,378 | 56,423 |
| Net Changes-WC | (24,871) | 25,217 | (1,001) | 189 |
| Direct tax | (16,010) | (10,841) | (9,524) | (12,347) |
| Net cash from Op. activities | 15,333 | 75,287 | 34,853 | 44,265 |
| Capital expenditures | (7,895) | (21,159) | (6,000) | (8,000) |
| Interest / Dividend Income | - | - | - | - |
| Others | 15,566 | (22,540) | (8,000) | (8,000) |
| Net Cash from Invt. activities | 7,671 | (43,699) | (14,000) | (16,000) |
| Issue of share cap. / premium | - | - | - | - |
| Debt changes | - | - | - | - |
| Dividend paid | (20,941) | (21,712) | (19,019) | (21,021) |
| Interest paid | (86) | (220) | (180) | (80) |
| Others | - | - | - | - |
| Net cash from Fin. activities | (21,027) | (21,932) | (19,199) | (21,101) |
| Net change in cash | 1,977 | 9,656 | 1,654 | 7,164 |
| Free Cash Flow | 7,437 | 54,128 | 28,853 | 36,265 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 |
|-----------------------------------|---------------|---------------|---------------|---------------|
| Net Revenue | 80,303 | 75,707 | 69,967 | 62,384 |
| YoY gr. (%) | (8.8) | (16.7) | (11.0) | (20.9) |
| Raw Material Expenses | 55,919 | 51,257 | 46,598 | 43,200 |
| Gross Profit | 24,384 | 24,450 | 23,369 | 19,184 |
| Margin (%) | 30.4 | 32.3 | 33.4 | 30.8 |
| EBITDA | 11,580 | 11,011 | 10,390 | 6,599 |
| YoY gr. (%) | (15.9) | (20.1) | (6.0) | (38.3) |
| Margin (%) | 14.4 | 14.5 | 14.8 | 10.6 |
| Depreciation / Depletion | 2,361 | 2,034 | 2,037 | 1,747 |
| EBIT | 9,219 | 8,977 | 8,352 | 4,852 |
| Margin (%) | 11.5 | 11.9 | 11.9 | 7.8 |
| Net Interest | 44 | 77 | 59 | 41 |
| Other Income | 2,188 | 2,078 | 1,822 | 1,695 |
| Profit before Tax | 18,738 | 10,377 | 10,115 | 6,506 |
| Margin (%) | 23.3 | 13.7 | 14.5 | 10.4 |
| Total Tax | 6,165 | 1,629 | 1,311 | 299 |
| Effective tax rate (%) | 32.9 | 15.7 | 13.0 | 4.6 |
| Profit after Tax | 12,573 | 8,748 | 8,804 | 6,207 |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 7,625 | 9,349 | 8,804 | 6,207 |
| YoY gr. (%) | (16.1) | (4.2) | 14.5 | (15.0) |
| Margin (%) | 9.5 | 12.3 | 12.6 | 9.9 |
| Extra Ord. Income / (Exp) | (7,375) | (601) | - | - |
| Reported PAT | 12,573 | 8,748 | 8,804 | 6,207 |
| YoY gr. (%) | 38.3 | (10.4) | 14.5 | (15.0) |
| Margin (%) | 15.7 | 11.6 | 12.6 | 9.9 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 12,573 | 8,748 | 8,804 | 6,207 |
| Avg. Shares O/s (m) | 200 | 200 | 200 | 200 |
| EPS (Rs) | 38.2 | 46.8 | 44.1 | 31.1 |

Source: Company Data, PL Research

Key Financial Metrics

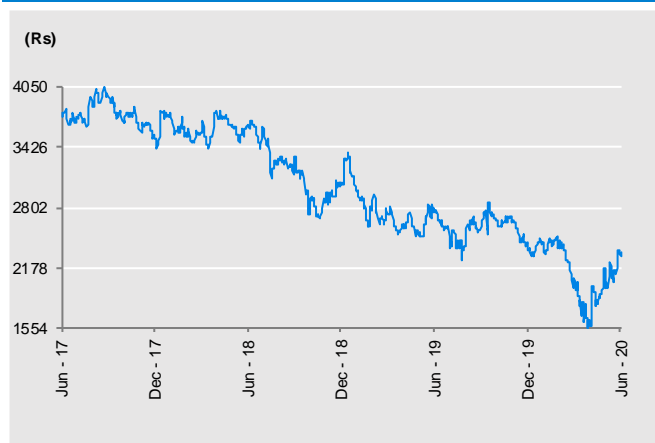
| Y/e Mar | FY19 | FY20 | FY21E | FY22E |
|----------------------------|-------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 169.5 | 154.6 | 135.4 | 175.5 |
| CEPS | 199.6 | 195.5 | 178.2 | 219.8 |
| BVPS | 643.7 | 706.1 | 746.5 | 817.0 |
| FCF | 37.2 | 270.4 | 144.1 | 181.1 |
| DPS | 87.0 | 90.0 | 95.0 | 105.0 |
| Return Ratio(%) | | | | |
| RoCE | 25.2 | 17.3 | 14.8 | 17.8 |
| ROIC | 26.4 | 25.6 | 21.6 | 28.3 |
| RoE | 27.5 | 22.9 | 18.6 | 22.5 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | (0.5) | (0.6) | (0.6) | (0.7) |
| Net Working Capital (Days) | 6 | (5) | (5) | (5) |
| Valuation(x) | | | | |
| PER | 13.5 | 14.8 | 16.9 | 13.1 |
| P/B | 3.6 | 3.2 | 3.1 | 2.8 |
| P/CEPS | 11.5 | 11.7 | 12.9 | 10.4 |
| EV/EBITDA | 8.0 | 9.5 | 9.9 | 7.7 |
| EV/Sales | 1.2 | 1.3 | 1.3 | 1.1 |
| Dividend Yield (%) | 3.8 | 3.9 | 4.1 | 4.6 |

Source: Company Data, PL Research

Key Operating Metrics

| Y/e Mar | FY19 | FY20 | FY21E | FY22E |
|---------------------------|-----------|-----------|-----------|-----------|
| Motorcycle volume (units) | 70,80,873 | 59,90,349 | 52,77,970 | 60,25,804 |
| Scooter volume (units) | 7,39,958 | 4,19,370 | 4,19,370 | 4,40,339 |
| Realisation (Rs/unit) | 41,593 | 44,149 | 47,681 | 48,158 |

Source: Company Data, PL Research

Price Chart
Recommendation History


| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|------------|----------|-------------------|
| 1 | 09-Apr-20 | Accumulate | 2,225 | 1,991 |
| 2 | 31-Mar-20 | Accumulate | 2,045 | 1,596 |
| 3 | 20-Feb-20 | Accumulate | 2,769 | 2,252 |
| 4 | 06-Feb-20 | Accumulate | 2,769 | 2,411 |
| 5 | 03-Jan-20 | Accumulate | 2,740 | 2,432 |
| 6 | 23-Oct-19 | Accumulate | 2,856 | 2,713 |
| 7 | 03-Oct-19 | Accumulate | 2,529 | 2,667 |
| 8 | 30-Jul-19 | Accumulate | 2,529 | 2,259 |
| 9 | 04-Jul-19 | Accumulate | 2,729 | 2,606 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|------------------------|------------|---------|------------------|
| 1 | Ashok Leyland | Accumulate | 59 | 46 |
| 2 | Bajaj Auto | Hold | 2,504 | 2,556 |
| 3 | Bharat Forge | Hold | 345 | 246 |
| 4 | CEAT | Accumulate | 899 | 810 |
| 5 | Eicher Motors | BUY | 17,990 | 13,742 |
| 6 | Exide Industries | Accumulate | 179 | 173 |
| 7 | Hero Motocorp | Accumulate | 2,225 | 1,991 |
| 8 | Mahindra & Mahindra | Hold | 420 | 381 |
| 9 | Maruti Suzuki | BUY | 5,830 | 5,036 |
| 10 | Motherson Sumi Systems | BUY | 116 | 102 |
| 11 | Tata Motors | Hold | 84 | 75 |
| 12 | TVS Motors | Hold | 318 | 333 |

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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