

Industry
Bloomberg
BSE CODE

Automobiles
HMCL IN
500182

Margin pressure to continue in FY21

RATING	NEUTRAL
CMP	2604
Price Target	1829
Potential Upside	-30%

Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	3021/1475
Mkt Capital (Rs Cr)	47962
Free float (%)	65%
Avg. Vol 1M (,000)	2190
No. of Shares (Crs)	20
Promoters Pledged %	0%

4QFY20 Result Update

- The company reported decline in revenue by 21% YoY to Rs.6238 crores (vs expect. Rs.6242 crores) led by decline in volumes of 25% YoY. However, realization grew by 5.6% YoY.
- Spares Part revenue was Rs 751 crs in 4QFY20 and Rs 2896 crs in FY20.
- The company posted volume de-growth of 18% YoY to 64,09,719 units in FY20 as 78,19,055 units in Fy19.
- The gross margin contracted by 265 bps QoQ to 30.8% due to product mix and higher discounts given for clearance of BS-IV stock. EBITDA margin also contracted by 427 bps QoQ to 10.6% due to decline in gross margin, increased other expenses and one-off items.
- PAT stood at Rs.621 crores (vs expect. Rs.651 crores), with decline of 15% YoY.
- The company had brought down dealer inventory by almost 5.5 lakh in the quarter.
- 43% of Sales is done through financing and out of this 46% is Fincorp share.
- Accelerated depreciation in FY20 amounted to Rs 30 crs per quarter led by BS-IV to BS-VI transition.

View and Valuation

The company will have a severe impact on volumes in 1HFY21 due to the ongoing COVID situation. However, recovery is expected in 2HFY21 largely based on rural and semi urban demand. Reduction in commodity prices will not be able to completely set off the negative impact of lower volumes and it will lead to sharp decline in margins in 1HFY21. However, reduced income level of consumers will lead to downtrading in the 2-wheeler portfolio and the company will be a bigger beneficiary of this shift going ahead. Considering uncertainty in the current scenario, we reduce EPS estimates by 25%. We value HEROMOTOCO at 16x FY21e EPS to arrive at a target price of Rs.1829 and maintain NEUTRAL rating.

Key Risks to our rating and target

- Sluggishness in rural demand
- Unexpected increase in commodity prices

RESEARCH ANALYST

NAVEEN KUMAR DUBEY
Naveen.dubey@narnolia.com
+91-22-62701235

Conso./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	28585	32458	33971	29254	27679
EBITDA	4576	5325	5018	4061	3978
EBIT	4074	4750	4394	3215	3042
PAT	3546	3722	3466	3659	2866
EPS (Rs)	178	186	174	183	143
EPS growth (%)	0.1	0.0	-0.1	0.1	-0.2
ROE (%)	0.3	0.3	0.3	0.3	0.2
ROCE (%)	0.4	0.4	0.3	0.2	0.2
BV	517	599	657	721	778
P/B (X)	6.4	6.0	4.0	3.2	3.0
P/E (x)	18.6	19.4	15.0	12.6	16.1

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Sales inline; PAT below estimates

4QFY20 Results

Qtrly - Stand. & Annl - conso./Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Volumes (000)	1781154	1842920	1691420	1540868	1334511	-25%	-13%	7819055	6409719	-18.0%
Realization	44,269	43,574	44,759	45,408	46,747	6%	3%	43,446	45,640	5.0%
Net Sales	7,885	8,030	7,571	6,997	6,238	-21%	-11%	33,971	29,254	-13.9%
Other Income	164	219	208	182	169	3%	-7%	687	731	6.4%
Total Income	8,049	8,249	7,779	7,179	6,408	-20%	-11%	34,658	29,985	-13.5%
COGS	5,439	5,592	5,126	4,660	4,320	-21%	-7%	23,444	19,831	-15.4%
Staff Cost	447	468	469	470	435	-3%	-7%	1,778	1,889	6.3%
Other Exp.	930	813	875	828	823	-11%	-1%	3,730	3,473	-6.9%
Expenditure	6,816	6,872	6,470	5,958	5,579	-18%	-6%	28,952	25,193	-13.0%
EBITDA	1,069	1,158	1,101	1,039	660	-38%	-36%	5,018	4,061	-19.1%
Depreciation	150	236	203	204	175	16%	-14%	624	846	35.4%
EBIT	919	922	898	835	485	-47%	-42%	4,394	3,215	-26.8%
Interest	2	4	8	6	4	85%	-31%	37	47	25.4%
PBT	1,081	1,136	1,098	1,012	651	-40%	-36%	5,044	3,899	-22.7%
Excpt. Item	-	(737)	60	-	-	-	-	-	(677)	0.0%
Tax	351	616	163	131	30	-91%	-77%	1,638	952	-41.9%
PAT	730	1,257	875	880	621	-15%	-29%	3,466	3,659	5.6%

Concall Highlights

- Semi-urban and rural are showing good demand prospects led by good monsoon and better crops. Both are expected to perform slightly better than urban.
- In last 9 days of FY20 the company lost Rs 2.3 lacs of sales due to COVID-19.
- The company gained market share in motorcycle, retained strong position in entry and deluxe segment and expanded its premium segment.
- The company's foray in premium segment was further enhanced by launch of 160 R motorcycle.
- The company's all plants and all its vendors are operational and 90% of retail outlets has opened up. Its retail business has started coming back and have reached pre-covid levels substantially (70%-80%).
- 4QFY20's one off includes the support given to dealers in the quarter for liquidation of BS-IV vehicle and provision of finished goods and raw materials obsolescing on account of BS-IV to BS-VI transition.
- Dealers support given by company amounted to Rs 110 crs and it gave discounts of Rs 10,000-15,000 on vehicles for clearing BS IV stocks. All BS-IV stocks were sold by dealers.
- Precious metals would be close to 4-5% of overall basket.
- Fincorp has grown by 20% YoY in the quarter and continues to be profitable in 4QFY20 and FY20.
- For 2W, companies are coming forward for financing because of 24 months tenure and hence 2W financing is well placed
- Material cost is increased because BS VI vehicles and some one off. Going ahead commodity side is expected to remain soft and good volumes could help in absorbing fixed expenses.
- CAPEX: FY21 expected capex is to be Rs 600 crs. It is deferring capacity expansion and renovation plans.

Exhibit: Volume and Volume Growth Trend

Volume declined YoY due to continued weak sentiments and further worsened by COVID-19

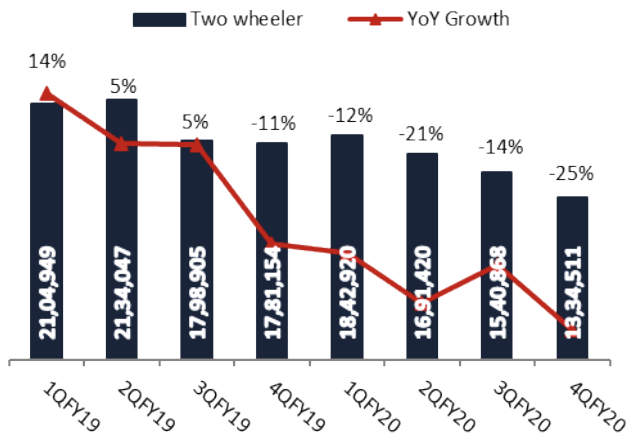


Exhibit: Realisation and Realisation Growth Trend

Realization grew by 5.6% YoY led by prices hike taken in various BSVI vehicles.

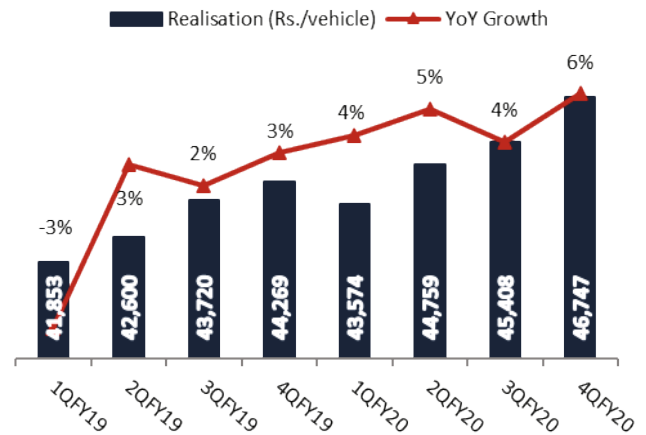


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin contracted by 427 bps QoQ due to decline in gross margin, increased other expenses and one-off items.

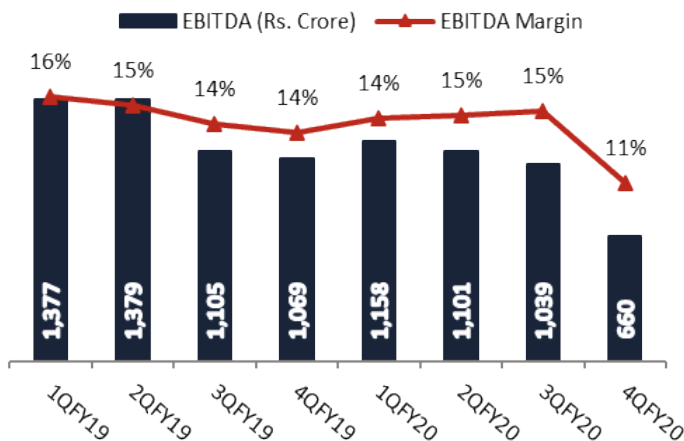


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margin declined by 263 bps QoQ to 9.9%.

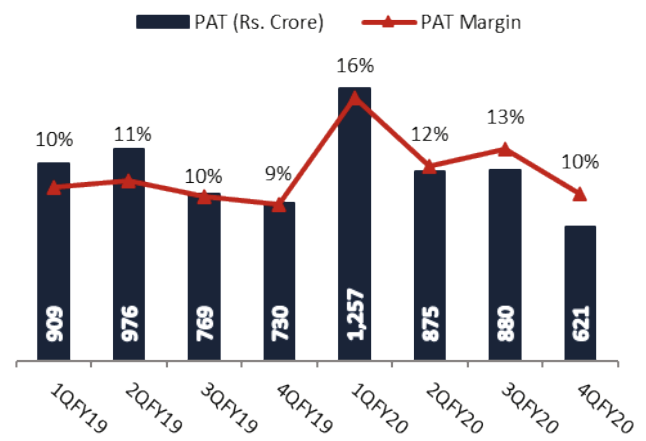


Exhibit: Capacity Utilization Trend

The company has enough capacity to cater future demand.

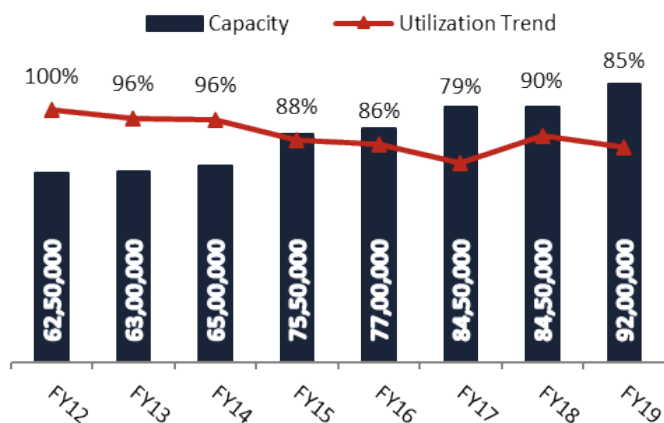
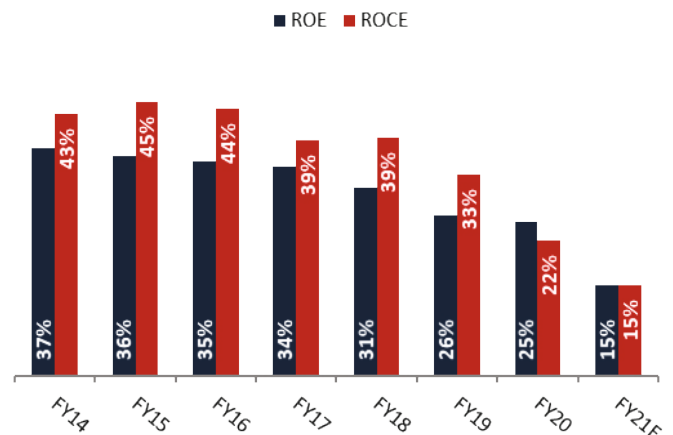


Exhibit: Return Ratios

"Declining profitability will lead to reduction in return ratios going ahead."



Financial Details

Balance Sheet

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	40	40	40	40	40	40	40	40
Reserves	5,583	6,500	8,794	10,276	11,932	13,080	14,366	15,274
Networth	5,623	6,540	8,834	10,316	11,971	13,120	14,406	15,313
Debt	24	100	230	248	225	309	210	158
Other Non Cur Liab	-	31	-	-	-	-	-	-
Total Capital Employed	5,647	6,640	9,064	10,563	12,196	13,429	14,616	15,471
Net Fixed Assets (incl CWIP)	3,102	3,671	4,437	5,180	5,316	5,525	6,864	6,450
Non Cur Investments	830	821	1,030	1,522	918	1,234	1,551	2,000
Other Non Cur Asst	48	60	848	658	560	676	122	122
Non Curr Assets	4,563	5,275	6,592	7,741	8,395	10,091	11,025	11,059
Inventory	670	861	762	709	963	1,250	1,282	909
Debtors	921	1,372	1,282	1,552	1,427	2,745	1,512	1,949
Cash & Bank	120	216	75	74	131	208	305	429
Other Curr Assets	22	60	562	524	212	262	323	261
Curr Assets	5,558	5,380	6,303	7,571	9,002	8,413	8,649	8,448
Creditors	2,291	2,855	2,675	3,266	3,375	3,438	3,128	2,598
Provisons (both)	1,594	801	98	118	179	181	284	133
Other Curr Liab	588	309	506	457	765	501	531	431
Curr Liabilities	4,424	3,898	3,487	4,137	4,406	4,226	4,113	3,338
Net Curr Assets	1,135	1,481	2,816	3,434	4,596	4,188	4,536	5,110
Total Assets	10,122	10,654	12,896	15,312	17,397	18,504	19,674	19,507

Income Statement

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	25,275	27,538	28,457	28,585	32,458	33,971	29,254	23,708
Change (%)	0	0	0	0	0	0	(0)	(0)
Other Income	444	492	413	522	523	687	731	734
EBITDA	3,539	3,497	4,398	4,576	5,325	5,018	4,061	3,224
Change (%)	0	(0)	0	0	0	(0)	(0)	(0)
Margin (%)	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1
Depr & Amor.	1,107	540	443	502	575	624	846	936
EBIT	2,432	2,956	3,954	4,074	4,750	4,394	3,215	2,288
Int. & other fin. Cost	12	12	15	27	31	37	47	22
EBT	2,864	3,437	4,353	4,568	5,242	5,044	3,899	3,000
Exp Item	-	145	-	(262)	-	-	(677)	-
Tax	758	943	1,275	1,339	1,570	1,638	952	756
Minority Int & P/L share of Ass.	(3)	16	34	55	50	61	35	40
Reported PAT	2,103	2,365	3,112	3,546	3,722	3,466	3,659	2,284
Adjusted PAT	2,103	2,365	3,112	3,546	3,722	3,466	3,659	2,284
Change (%)	(0)	0	0	0	0	(0)	0	(0)
Margin(%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Financial Details

Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	37%	36%	35%	34%	31%	26%	25%	15%
ROCE	43%	45%	44%	39%	39%	33%	22%	15%
Asset Turnover	2.50	2.58	2.21	1.87	1.87	1.84	1.49	1.22
Debtor Days	13	18	16	20	16	29	19	30
Inv Days	10	11	10	9	11	13	16	14
Payable Days	33	38	34	42	38	37	39	40
Int Coverage	206	253	271	149	154	118	69	104
P/E	22	22	19	19	19	15	14	21
Price / Book Value	8	8	7	6	6	4	4	3
EV/EBITDA	13	15	13	14	14	10	13	15
FCF per Share	2,022	1,094	2,084	2,769	3,193	53	5,518	1,799
Div Yield	2.9%	2.3%	2.4%	2.6%	2.6%	3.6%	3.8%	2.4%

Cash Flow

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	2,864	3,329	3,112	3,546	3,722	3,466	3,659	3,000
(inc)/Dec in Working Capital	55	(336)	323	462	197	(1,946)	1,195	(921)
Non Cash Op Exp	1,107	540	443	502	575	624	846	936
Int Paid (+)	12	11	15	27	31	37	47	22
Tax Paid	(649)	(1,000)	(1,103)	(1,187)	(1,513)	(2,070)	(553)	(756)
others	(426)	(294)	933	657	1,005	921	324	40
CF from Op. Activities	2,963	2,250	3,722	4,007	4,017	1,032	5,518	2,321
(inc)/Dec in FA & CWIP	(941)	(1,156)	(1,638)	(1,238)	(824)	(980)	-	(522)
Free Cashflow	2,022	1,094	2,084	2,769	3,193	53	5,518	1,799
(Pur)/Sale of Inv	(9)	1,354	(645)	(714)	(1,172)	2,564	(2,121)	-
others	(668)	(186)	(16)	(20)	138	(287)	(698)	16
CF from Inv. Activities	(1,618)	12	(2,300)	(1,972)	(1,858)	1,298	(2,819)	(505)
inc/(dec) in NW								
inc/(dec) in Debt	-	-	181	28	(33)	84	(99)	(52)
Int. Paid	(12)	(11)	(14)	(27)	(31)	(37)	(47)	(22)
Div Paid (inc tax)	(1,403)	(2,219)	(1,682)	(2,091)	(2,043)	(2,319)	(1,957)	(1,376)
others	1	-	40	54	5	20	(499)	-
CF from Fin. Activities	(1,414)	(2,231)	(1,475)	(2,036)	(2,102)	(2,252)	(2,602)	(1,451)
Inc(Dec) in Cash	(69)	32	(53)	(1)	57	78	97	364
Add: Opening Balance	135	66	127	75	74	131	208	305
Closing Balance	69	98	75	74	131	208	305	670

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and /or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.