

Foundation Alert

HCAR Analyst Briefing Key Takeaways

Event

- Honda Atlas Cars (HCAR PA) held its analyst briefing today to discuss the company's financial performance of MY21 and outlook.

Impact

- HCAR's sales increased by 22% YoY from Rs55.0bn in MY20 to Rs67.4bn in MY21. Resultantly, the company's gross margins dropped by 1.8ppts from 7.4% to 5.6% in MY21.
- Management accredited the increase in sales to push sales tactics which include (1) MoUs with banks to provide exclusive markups, special insurance rates and swift processing, and (2) offers from company which include free leather seats, 1yr maintenance package, and priority delivery.
- Management discussed that the suppression of margins was due to (1) plant closure for first 2 months (Apr-May'20) given the lockdown situation which incurred fixed costs and (2) higher freight charges.
- Management believes high freight charges would prevail as the 'new normal' and addressing to the chip shortage issue, management shared their strategy to procure other countries' semiconductor share from Honda Motor Co. Ltd Japan. Moreover, given the rising commodities prices HCAR would take cost hit because of their Euro 4 compliance for their product quality.
- The company added new dealerships in Quetta increasing their footprint to Baluchistan province and other dealership networks throughout the country which has now cumulated to 59 dealers in 24 cities.
- Management also shared the launch of Honda City is planned for tomorrow (29th July) and price to be disclosed thereon. Moreover, management also showed plans to enter the growing SUV and hybrid segment.
- HCAR reported profitability increased by 1.8x YoY to Rs1.79bn in MY21 due to decrease in finance cost given decrease in policy rate and repayment of foreign loan by TERF facility.
- TERF was utilized for capex into new variants of civic/city, which also allowed for better cash flow management.
- Auto financing accounts for ~45% of total sales stimulated by low interest rates.
- City/Civic/BR-V currently hold a localization rate of 70/60/40% respectively. This amounts to ~25-30% of the vehicle's cost.
- In regard to future price increase, the company shows concerns regarding adverse exchange rate movement which may lead to passing on cost to the customer.

Outlook

- We have a neutral stance on HCAR as the increase in demand generated from auto financing and new variants would be restricted by (1) competition from Kia Sportage Alpha/Yaris to Civic/City and (2) high prices.

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Fig01: MY21 Earning Review

Rs(mn)	4QMY21	4QMY20	3QMY21	YoY	QoQ	MY21	MY20	YoY
Net Sales	22,774	15,655	17,650	45%	29%	67,362	55,046	22%
COGS	21,593	14,776	16,500	46%	31%	63,586	50,955	25%
Gross Profit	1,181	879	1,150	34%	3%	3,776	4,091	-8%
Distribution expense	316	69	90	355%	251%	737	668	10%
Admin expense	277	190	207	46%	34%	824	739	11%
Other Income	517	428	244	21%	112%	918	639	44%
Other operating exp	96	401	(10)	-76%	-1084%	237	1,049	-77%
Operating Profit	1,009	647	1,107	56%	-9%	2,897	2,275	27%
Finance cost	(24)	150	33	-116%	-172%	116	727	-84%
Profit before tax	1,033	497	1,074	108%	-4%	2,781	1,547	80%
Provision for Taxation	128	526	332	-76%	-62%	987	866	14%
Net Profit	906	(29)	742	-3271%	22%	1,793	682	163%
EPS	6.34	(0.20)	5.19			12.56	4.77	
Gross margins	5.2%	5.6%	6.5%			5.6%	7.4%	
Net margins	4.0%	-0.2%	4.2%			2.7%	1.2%	
Effective tax rate	12.4%	105.7%	30.9%			35.5%	55.9%	

Source: Company Accounts, Foundation Research, Jul 2021

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If	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.