

## Earning Review

### HCAR: 2QMY22 EPS clocked in at Rs6.58, up 43% YoY

#### Event

- Honda Atlas Car (HCAR PA) reported profitability of Rs939mn (EPS Rs6.58/sh) in 2QMY22 against Rs657mn (EPS Rs4.6/sh) in 2QMY21, up by 43/1% YoY/QoQ. This accumulated profitability for 6MMY22 to Rs1.9bn (EPS 13.08) compared to Rs146mn (EPS 1.02) same period last year.
- The result is below our expectation given higher other expense this quarter.

#### Impact

- HCAR reported net sales of Rs26.0bn, increasing by 27/19% YoY/QoQ, in 2QMY22. The increase in net sales was accredited to (1) FED reduction in Budget FY22, (2) dissipating supply chain issues, and (3) increase in CBU units.
- HCAR volumetric sales increased by 23/21% YoY/QoQ, to clock in at 9,172 units in 2QMY22. Meanwhile retention prices for HCAR remained stagnant.
- Gross margins clocked in at 6.9% in 2QMY22 (↑/↓ 8/44bps YoY/QoQ). On YoY basis, Gross margins improved due to high fixed cost coverage given high utilization level. However, on sequential basis, the decline in margins was mainly because of rupee depreciating by 7% QoQ.
- Distribution expense increased by 41/61% YoY/QoQ during 2QMY22 to clock in at Rs213mn. The increased in distribution expense was due to higher sales volume and increase in freight charges.
- Admin expenses increased by 42/18% YoY/QoQ to clock in at Rs273mn in 2QMY22.
- Other income clocked in at Rs516mn (↑7.8/1.54x YoY/QoQ), increase in other income was accredited to higher advances from customers and high delivery time for HCAR's vehicles.
- HCAR reported other expenses of Rs344mn, increasing by 13.64/1.79x YoY/QoQ. We suspect the increase in other expense is due to exchange loss and fright loss (net).
- Effective tax rate for the period clocked in at 35.1%, down/up by 3.6/3.19ppt YoY/QoQ.

#### Outlook

- We expect HCAR's sales to face intensifying competition for its market segment as new entrants position themselves with competitive prices in the market. In near term, the increase in prices by HCAR would keep the margins intact given pressure from the exchange rate.

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Fig 01: HCAR 2QMY21 Earning Review

| Rs (mn)                  | 2QMY22       | 2QMY21       | 1QMY22       | YoY        | QoQ        | 6MMY21       | 6MMY20       | YoY          |
|--------------------------|--------------|--------------|--------------|------------|------------|--------------|--------------|--------------|
| Net Sales                | 25,976       | 20,427       | 21,765       | 27%        | 19%        | 47,741       | 26,939       | 77%          |
| COGS                     | 24,188       | 19,036       | 20,170       | 27%        | 20%        | 44,358       | 25,494       | 74%          |
| <b>Gross Profit</b>      | <b>1,789</b> | <b>1,391</b> | <b>1,595</b> | <b>29%</b> | <b>12%</b> | <b>3,383</b> | <b>1,445</b> | <b>134%</b>  |
| Distribution expense     | 213          | 151          | 132          | 41%        | 61%        | 345          | 332          | 4%           |
| Admin expense            | 273          | 192          | 231          | 42%        | 18%        | 504          | 340          | 48%          |
| Other Income             | 516          | 66           | 335          | 679%       | 54%        | 852          | 157          | 442%         |
| Other operating expense  | 344          | 25           | 192          | 1264%      | 79%        | 535          | 151          | 255%         |
| <b>Operating Profit</b>  | <b>1,476</b> | <b>1,089</b> | <b>1,375</b> | <b>35%</b> | <b>7%</b>  | <b>2,851</b> | <b>780</b>   | <b>265%</b>  |
| Finance cost             | 28           | 18           | 11           | 60%        | 144%       | 40           | 107          | -63%         |
| <b>Profit before tax</b> | <b>1,448</b> | <b>1,072</b> | <b>1,364</b> | <b>35%</b> | <b>6%</b>  | <b>2,811</b> | <b>673</b>   | <b>318%</b>  |
| Provision for Taxation   | 508          | 415          | 435          | 22%        | 17%        | 944          | 528          | 79%          |
| <b>Net Profit</b>        | <b>939</b>   | <b>657</b>   | <b>928</b>   | <b>43%</b> | <b>1%</b>  | <b>1,867</b> | <b>146</b>   | <b>1182%</b> |
| <b>EPS</b>               | <b>6.58</b>  | <b>4.60</b>  | <b>6.50</b>  |            |            | <b>13.08</b> | <b>1.02</b>  |              |
| Gross margins            | 6.9%         | 6.8%         | 7.3%         |            |            | 7.1%         | 5.4%         |              |
| Net margins              | 3.6%         | 3.2%         | 4.3%         |            |            | 3.9%         | 0.5%         |              |
| Effective tax rate       | 35.1%        | 38.7%        | 31.9%        |            |            | 33.6%        | 78.4%        |              |

Source: Company Accounts, Foundation Research, Nov 2021

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