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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 MY22 and outlook.

Impact

- HCAR reported net sales of Rs108bn, increasing by 60% YoY, in MY22. The increase in net sales was accredited to (1) high demand of City's new variant, and (2) increase in prices during the year.
- HCAR volumetric sales increased by 57% YoY, to clock in at 37,603 units in MY22. Moreover, Civic & City/BR-V sales went up by 59/39% YoY during the year.
- HCAR reported profitability of Rs2,510mn (EPS Rs17.58/sh) in MY22 against Rs1,793mn (EPS Rs12.56/sh) in MY21, up by 40% YoY. While in 1QMY23, profitability clocks in at Rs4.6/Sh ↓/↑ 29/234% YoY/QoQ. Going forward, profitability is expected to decline due to drop in sales amid higher input costs and exchange loss, as per management.
- Management discussed that the suppression of margins to 5.2% (↓40bps YoY) was due to (1) Higher rupee devaluation (avg 16.6% YoY in MY22) and (2) higher freight charges (↑ 3-4x YoY). Besides, if exchange rate stayed at current levels gross margins will come in around 3% next year, as per management.
- For HCAR, around ~90% of COGS is raw material, of which 70-80% is imported, taking total currency exposure to 70%. In addition, USD/JPY exposure is 70/10%.
- Auto industry demand is expected to reduce by 25-30% in current fiscal year due to (1) increase in Interest rates (2) reduction in the auto financing facility tenure (3) and Cost led price hikes, as company passed on all of the direct costs attached to dollar appreciation and commodities.
- According to management, SBP has introduced quota system based on last quarter monthly imports for CKD units. Consequently, HCAR can import 50/60/70% of average last quarter monthly imports in July/August/September.
- In addition, company is subject to turnover tax of 1.25% and super tax of 4% for the current year.
- Management also shared the launch of new models that is expected very soon, thereby subsiding the much anticipated decline in sales volume.
- Previously, consumer financing accounts for ~45% of total sales which has now declined to 30%, stimulated by high interest rates and other measures taken by SBP.
- City/Civic/BR-V currently hold a current localization rate of 70/60/50% by parts. This amounts to ~25-30% of the vehicle's cost. Moreover, localization by value is around 25-30%.
- Additionally, sales breakup for City/Civic/BRV is 65/30/15%, while Urban/Rural split is 65/35%. Moreover, delivery time for City/Civic/BRV is Oct 22/May 23/Oct 22.

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. Moreover, the margins are expected to stay depressed in the near term given (1) depreciation of rupee, (2) rising freight costs, (3) increase in interest rates and (4) reversal of incentives given by SBP to incentivize auto financing.

Table 1: MY22 Result Review

	MY22	MY21	YoY
Net Sales	108,048	67,362	60%
COGS	102,470	63,586	61%
Gross Profit	**5,578**	**3,776**	**48%**
Distribution and Marketing Expenses	1,139	737	55%
Administrative Expenses	1,068	824	30%
Other Income	2,005	918	118%
Other Operating Expenses	984	237	315%
EBIT	**4,391**	**2,897**	**52%**
Finance Cost	116	116	0%
PBT	**4,275**	**2,781**	**54%**
(Tax)/Reversal	1,765	987	79%
Net Profit	**2,510**	**1,793**	**40%**
EPS	17.58	12.56	40%
Gross Margins	5%	6%	
Net Margins	2%	3%	
ETR	41%	36%	

Source: HCAR, Foundation Research, August'22

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Recommendations definitions

If

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