

Earning Review

HCAR: 2QMY23 LPS clocked in at Rs2.70

Event

- Honda Atlas Car (HCAR PA) reported loss of Rs385mn (LPS Rs2.70) in 2QMY23 against profit of Rs939mn (EPS Rs6.58) in 2QMY22. This cumulated into 1HMY23 profitability of Rs273mn (EPS Rs1.91) compared to Rs1.9bn (EPS Rs13.08) in 1HMY22.

Impact

- HCAR profitability declined due to (1) lower sales amid import restrictions, (2) excessive exchange rate volatility and (3) imposition of super tax.
- HCAR reported net sales of Rs19.5bn, down by 25% YoY, in 2QMY23. The decrease in net sales is accredited to lower volumetric sales due to restriction on import of CKD kits.
- HCAR volumetric sales decreased by 39/40% YoY/QoQ, to clock in at 5,626 units in 2QMY23. Moreover, Civic & City/BR-V sales went down by 35/58% YoY during the quarter.
- Excessive volatility in Rs-US\$ exchange rate during the quarter resulting in depreciation of avg Rs-US\$ by 26.3% YoY and higher City skewness caused gross margins to collapse to 3.4% (↓3.4/2.9ppts YoY/QoQ).
- Admin/Distribution expense increased by 2/21% YoY during 2QMY23 to clock in at Rs328/216mn.
- Other income clocked in at Rs788mn (↑53% YoY) accredited to higher advances from customers and high delivery time for HCAR vehicles amid higher interest rates.
- HCAR reported other expenses of Rs716mn, up by 108% YoY. We suspect the increase in other expense is due to exchange loss.
- Effective tax rate for the period clocked in at 342%, up by 307ppts YoY, given imposition of super tax.

Outlook

- We expect HCAR profitability to struggle in the near term amid (1) imposition of import restrictions by Gov't, (2) dampening of car demand due to elevated interest rates, high car prices and rupee depreciation and (3) intensifying competition for its market segment as new entrants position themselves with competitive pricing in the market.

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Fig 1: 2QMY23 Earning Review

Rs (mn)	2QMY23	2QMY22	YoY	QoQ	1HMY23	1HMY22	YoY
Net Sales	19,549	25,976	-25%	-35%	49,795	47,741	4%
COGS	18,875	24,188	-22%	-33%	47,206	44,358	6%
Gross Profit	673	1,789	-62%	-65%	2,589	3,383	-23%
Distribution expense	216	213	2%	-11%	458	345	33%
Admin expense	328	273	21%	-1%	661	504	31%
Other Income	788	516	53%	50%	1,314	852	54%
Other Op. Expense	716	344	108%	-5%	1,469	535	175%
Operating Profit	200	1,476	-86%	-82%	1,314	2,851	-54%
Finance cost	41	28	47%	109%	61	40	54%
Profit before tax	159	1,448	-89%	-85%	1,253	2,811	-55%
Provision for Taxation	544	508	7%	25%	980	944	4%
Net Profit	(385)	939	na	na	273	1,867	-85%
EPS	(2.70)	6.58			1.91	13.08	
Gross margins	3.4%	6.9%			5.2%	7.1%	
Net margins	-2.0%	3.6%			0.5%	3.9%	
Effective tax rate	342.3%	35.1%			78.2%	33.6%	

Source: Company Accounts, Foundation Research, November 2022

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