

## Earning Review

### HCAR: 3QMY23 EPS clocked in at Rs5.68

#### Event

- Honda Atlas Car (HCAR PA) reported profit of Rs811mn (EPS Rs5.68) in 3QMY23 against profit of Rs446mn (EPS Rs3.12) in 3QMY22. This cumulated into 9MMY23 profitability of Rs1.1bn (EPS Rs7.59) compared to Rs2.3bn (EPS Rs16.20) in 9MMY22.

#### Impact

- HCAR profitability inclined due to higher gross margins despite import restrictions and imposition of super tax.
- HCAR reported net sales of Rs22.9bn, down by 22% YoY, in 3QMY23. The decrease in net sales is accredited to lower volumetric sales due to restriction on import of CKD kits.
- HCAR volumes decreased by 47/3% YoY/QoQ, to clock in at 5,477 units in 3QMY23. Moreover, Civic & City sales declined by 61% YoY during the quarter. Whereas, BR-V & HR-V sales increased by 2.9x to 1,616 units during 3QMY23.
- Higher proportion of BR-V & HR-V sales (30%) caused gross margins to jump to 7.8% (↑5.1/4.4ppts YoY/QoQ), in our view.
- Admin/Distribution expense increased by 30/21% YoY during 3QMY23 to clock in at Rs322/219mn.
- Other income clocked in at Rs325mn (↓39% YoY) accredited to lower advances from customers despite higher interest rates.
- Finance charges increased 19.7x YoY to Rs318mn during 3QMY23 amid increase in borrowing and higher interest rates, in our view.
- Effective tax rate for the period clocked in at 31%, up by 0.9ppt 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.

#### Analyst

Foundation research  
+92 21 3561 2290-94

research@fs.com.pk  
Ext: 311

Fig 1: HCAR - 3QMY23 Earning Review

Rs (mn)	3QMY23	3QMY22	YoY	QoQ	9MMY23	9MMY22	YoY
Net Sales	22,949	29,539	-22%	17%	72,743	77,280	-6%
COGS	21,159	28,738	-26%	12%	68,364	73,095	-6%
<b>Gross Profit</b>	<b>1,790</b>	<b>801</b>	<b>123%</b>	<b>166%</b>	<b>4,379</b>	<b>4,185</b>	<b>5%</b>
Distribution expense	219	181	21%	1%	677	527	29%
Admin expense	322	247	30%	-2%	983	750	31%
Other Income	325	530	-39%	-59%	1,639	1,382	19%
Other operating expense	76	246	-69%	-89%	1,546	782	98%
<b>Operating Profit</b>	<b>1,498</b>	<b>657</b>	<b>128%</b>	<b>648%</b>	<b>2,812</b>	<b>3,508</b>	<b>-20%</b>
Finance cost	318	16	1868%	670%	379	56	580%
<b>Profit before tax</b>	<b>1,180</b>	<b>641</b>	<b>84%</b>	<b>642%</b>	<b>2,433</b>	<b>3,452</b>	<b>-30%</b>
Provision for Taxation	369	195	89%	-32%	1,350	1,139	19%
<b>Net Profit</b>	<b>811</b>	<b>446</b>	<b>82%</b>	<b>-310%</b>	<b>1,084</b>	<b>2,313</b>	<b>-53%</b>
<b>EPS</b>	<b>5.68</b>	<b>3.12</b>			<b>7.59</b>	<b>16.20</b>	
Gross margins	7.8%	2.7%	5.09%	4.36%	6.0%	5.4%	
Net margins	3.5%	1.5%			1.5%	3.0%	
Effective tax rate	31.3%	30.4%	0.87%	-310.97%	55.5%	33.0%	

Source: Company Accounts, Foundation Research, January 2023

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