

Earning Review

HCAR: 4QMY23 LPS clocked in at Rs5.77

Event

- Honda Atlas Car (HCAR PA) reported a loss of Rs824mn (LPS Rs5.77) in 4QMY23 against profit of Rs196mn (EPS Rs1.37) in 4QMY22.
- This cumulated into MY23 profitability of Rs260mn (EPS Rs1.82) compared to Rs2.5bn (EPS Rs17.58) in MY22.

Impact

- HCAR profitability declined due to (1) higher other operating expense given exchange losses and (2) lower volumetric sales amid import restrictions on CKD kits and high car prices despite higher gross margins.
- HCAR reported net sales of Rs22.3bn, down by 27% YoY, in 4QMY23. The decrease in net sales is accredited to lower volumetric sales due to restriction on import of CKD kits.
- HCAR volumes decreased by 51/6% YoY/QoQ, to clock in at 5,175 units in 4QMY23. Moreover, Civic & City sales declined by 62/10% YoY/QoQ during the quarter. Whereas, BR-V & HR-V sales increased by 36/5% YoY/QoQ to 1,700 units during 4QMY23.
- Higher sale prices and higher proportion of BR-V & HR-V sales at 33% (up 21/3ppts YoY/QoQ) caused gross margins to jump to 12.5% (↑7.9/4.7ppts YoY/QoQ), in our view.
- Distribution expense decreased by 63% YoY during 4QMY23 amid lower sales.
- Other operating expenses clocked in at a whopping Rs3.4bn (up 16.7x YoY) given exchange losses.
- Other income clocked in at Rs683mn (↑10% YoY) accredited to higher interest rates despite lower advances from customers.
- Finance charges recorded a reversal of Rs33mn in 4QMY23 compared to Rs61mn in 4QMY22.
- Tax for the period was Rs373mn despite posting a loss before tax compared to Rs627mn in 4QMY22 due to imposition of turnover 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 high car prices, elevated interest rates 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: HCAR - 4QMY23 Earning Review

| Rs (mn) | 4QMY23 | 4QMY22 | YoY | QoQ | MY23 | MY22 | YoY |
|--------------------------|---------------|--------------|-------------|------------|--------------|--------------|-------------|
| Net Sales | 22,344 | 30,768 | -27% | -3% | 95,087 | 108,048 | -12% |
| COGS | 19,562 | 29,375 | -33% | -8% | 87,926 | 102,470 | -14% |
| Gross Profit | 2,782 | 1,393 | 100% | 55% | 7,161 | 5,578 | 28% |
| Distribution expense | 226 | 613 | -63% | 3% | 902 | 1,139 | -21% |
| Admin expense | 339 | 317 | 7% | 5% | 1,322 | 1,068 | 24% |
| Other Income | 683 | 623 | 10% | 110% | 2,322 | 2,005 | 16% |
| Other Opex | 3,384 | 202 | 1572% | 4328% | 4,930 | 984 | 401% |
| Operating Profit | (483) | 884 | N/A | N/A | 2,329 | 4,391 | -47% |
| Finance cost | (33) | 61 | N/A | N/A | 346 | 116 | 197% |
| Profit before tax | (451) | 823 | N/A | N/A | 1,983 | 4,275 | -54% |
| Provision for Taxation | 373 | 627 | -41% | 1% | 1,723 | 1,765 | -2% |
| Net Profit | (824) | 196 | N/A | N/A | 260 | 2,510 | -90% |
| EPS | (5.77) | 1.37 | | | 1.82 | 17.58 | |
| Gross margins | 12.5% | 4.5% | 7.92% | 4.65% | 7.5% | 5.2% | |
| Net margins | -3.7% | 0.6% | | | 0.3% | 2.3% | |
| Effective tax rate | N/A | 76.2% | -158.88% | -114.00% | 86.9% | 41.3% | |

Source: Company Accounts, Foundation Research, May 2023

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