

# Hero MotoCorp Ltd

## EV and premium ICE acceleration in focus

### Valuation and View – ICE margins continue to improve

HMCL's 2QFY24 results were in-line with our/street estimates as EBITDA margins expanded 260bp YoY (+30bp QoQ) at 14.1% (ICE margins at ~15% vs 14.5% QoQ), supported by higher spare sales at Rs13.5b (v/s Rs12.2b in 1Q). While gross margins were in line at 31.4% (+340bp YoY/+80bp QoQ), the same was partially offset by higher other expense (+11% QoQ) due to new product launch expenses. The management indicated festive demand growth (first 17days of festive) was at double-digit for industry (where HMCL grew ~15%, is in-line with expectations. Going ahead while the management remain hopeful of broad-based volumes recovery within 2Ws, HMCL is aiming at market share expansion led by new product launches. Further the focus will be on demand fulfilment of Harley X440 and Karizma as have indicated ramp-up in production capacities (~10k units per month) for the same. EV ramp-up is targeted with ~100 cities before Dec'23 and the production capacity ramped-up to ~10k units per week since past 2 weeks.

The outcome of changes at the leadership remains (such as overall market share gains, improved positioning in scooters/exports and overall premiumization) key to watch for ahead as it would be the key catalyst for further rerating over FY24-25E. Maintain ADD with TP of Rs3,563 (unchanged) based on ~15x Mar'25 S/A EPS plus Rs109 for Hero FinCorp. We have not changed FY24E/25E EPS as we expect the profitability momentum to continue. Management's action to overhaul brand strategy supported by Ather's continued brand acceptance provide and additional lever for the stock. We build in revenue/EBITDA/Adj.PAT CAGR of 17.8%/27.8%/25.7% over FY23-25E.

### Result Highlights – In-line performance

- Revenues grew 4.1% YoY (+7.7% QoQ) at Rs94.5b (in-line) as volumes/ASP grew -0.8%/+4.9% YoY and 4.7%/+2.9% QoQ respectively at 1.41m units and Rs66.7k/unit (est ~Rs67k/unit).
- Gross margins came in-line at 31.4% (+340bp YoY/+80bp QoQ). However, this was partially offset by higher other expense at ~Rs10.6b (est Rs10.1b, +18% QoQ) due to new product launch spends.
- Consequently, EBITDA grew 27.9% YoY (+10.1% QoQ) at Rs13.3b (est Rs13.3b, cons ~Rs13b), leading to margins expanding by 260bp YoY (+30bp QoQ) at 14.1% (est 14.6%, cons 13.9%). Hence EBITDA/vehicle came in highest at ~Rs9.4k/vehicle (+5.2% QoQ).
- Led by steady operating performance, Adj.PAT came in Rs10.5b (in line to ours, cons at Rs9.5b), which grew 47% YoY (11.5% QoQ).

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	94,454	95,491	93,433	-1.1	1.1	HMCL reported in-line quarter to our and street estimates.
EBITDA	13,283	13,956	12,993	-4.8	2.2	
EBITDA margins %	14.1	14.6	13.9	-60bp	20bp	
Adjusted PAT	10,538	10,765	9,553	-2.1	10.3	

Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 3,052
Target Price	: Rs 3,563
Potential Return	: +16.8%

### Stock data (as on Nov 01, 2023)

Nifty	19,122
52 Week h/l (Rs)	3,275 / 2,246
Market cap (Rs/USD mn)	621,663 / 7,478
Outstanding Shares (mn)	200
6m Avg t/o (Rs mn)	1,747
Div yield (%)	3.2
Bloomberg code:	HMCL IN
NSE code:	HEROMOTOCO

### Stock performance



	1M	3M	1Y
Absolute return	2.2%	0.7%	16.9%

### Shareholding pattern (As of Sep'23)

Promoter	34.8%
FII+DII	55.9%
Others	9.3%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	3,563	3,563

### Δ in earnings estimates

	FY24E	FY25E
EPS (New)	203.3	230.3
EPS (Old)	203.3	230.3
% change	-	-

### Financial Summary

Y/E MARCH (Rs b)	2023	2024E	2025E
Sales	338.1	409.5	469.3
EBITDA	39.9	56.7	65.1
Adj. PAT	29.1	40.6	46.0
Adj. EPS (INR)	145.6	203.3	230.3
EPS Gr. (%)	17.7	39.6	13.2
BV/Sh. (INR)	835.9	929.2	1,039.5
RoE (%)	17.9	23.0	23.4
RoCE (%)	17.3	22.2	22.6
Payout (%)	79.0	62.2	59.9
P/E (x)	21.0	15.0	13.3
P/BV (x)	3.7	3.3	2.9
EV/EBITDA (x)	12.5	8.4	7.2
Div. Yield (%)	3.3	3.6	3.9

### DEEP SHAH

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## Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q2FY24	Q2FY23	YoY chg	Q1FY24	H1FY24	H1FY23	YoY chg
Net Revenues	94,454	90,754	4.1	87,673	182,127	174,679	4.3
Raw Materials	64,780	65,301	(0.8)	60,809	125,589	126,375	(0.6)
% of Net Sales	68.6%	72.0%		69.4%	69.0%	72.3%	
Personnel	5,768	5,490	5.1	5,802	11,569	10,872	6.4
% of Net Sales	6.1%	6.0%		6.6%	6.4%	6.2%	
Manufacturing & Other Exp	10,624	9,579	10.9	9,000	19,623	17,641	11.2
% of Net Sales	11.2%	10.6%		10.3%	10.8%	10.1%	
Total Expenditure	81,171	80,370	1.0	75,610	156,782	154,888	1.2
<b>EBITDA</b>	<b>13,283</b>	<b>10,383</b>	<b>27.9</b>	<b>12,063</b>	<b>25,345</b>	<b>19,791</b>	<b>28.1</b>
<b>EBITDA Margin (%)</b>	<b>14.1%</b>	<b>11.4%</b>		<b>13.8%</b>	<b>13.9%</b>	<b>11.3%</b>	
Depreciation	1,749	1,634	7.0	1,690	3,439	3,264	5.4
EBIT	11,534	8,749	31.8	10,373	21,907	16,527	32.6
Interest Expenses	48	33	43.8	47	94	103	(8.5)
Non-operating income	2,483	921	169.7	2,222	4,705	1,450	224.4
PBT	13,970	9,637	45.0	10,948	24,918	17,875	39.4
Tax-Total	3,431	2,476	38.6	2,701	6,132	4,469	37.2
Tax Rate (%) - Total	24.6%	25.7%		24.7%	24.6%	25.0%	
Reported PAT	10,538	7,161	47.2	8,247	18,786	13,406	40.1
<b>Adj. PAT</b>	<b>10,538</b>	<b>7,161</b>	<b>47.2</b>	<b>9,452</b>	<b>19,991</b>	<b>13,406</b>	<b>49.1</b>
PAT Margin	11.2%	7.9%		10.8%	11.0%	7.7%	
<b>Key operating metrics</b>							
Sales Volume (nos)	1,416,526	1,428,168	(0.8)	1,352,574	2,769,100	2,818,361	(1.7)
Net Realisation/Vehicle	66,680	63,545	4.9	64,819	65,771	61,979	6.1
Material cost / vehicle	45,731	45,724	0.0	44,958	45,354	44,840	1.1
Gross Profit / vehicle	20,949	17,822	17.5	19,861	20,418	17,139	19.1
Employee cost /vehicle	4,072	3,844	5.9	4,289	4,178	3,858	8.3
Other expenses / vehicle	7,500	6,707	11.8	6,654	7,087	6,259	13.2
<b>EBITDA/vehicle</b>	<b>9,377</b>	<b>7,270</b>	<b>29.0</b>	<b>8,918</b>	<b>9,153</b>	<b>7,022</b>	<b>30.3</b>
Net Profit/vehicle	7,440	5,014	48.4	6,988	7,219	4,757	51.8

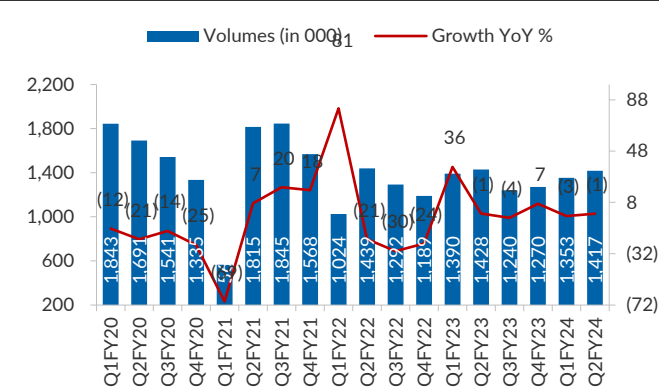
Source- Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Festive demand growth for the industry for first 17 days of festive is double digit whereas for Hero it was ~15%.
  - HF Delux saw double digit growth, rural demand has started to pick up well, New Passion has led to 2.5x more retail YoY, Glamour Classic is popular in AP, Telangana markets have started well.
  - Regions like central, west did well with east is coming on growth path.
  - X tec is ~22% for Glamour and 33% at an overall basis.
  - Passion customer profile – existing customers and first-time buyers.
  - Exports – markets are coming back and looking to scale up volumes ahead.
  - Last festive retails were at 1.2m for HMCL.
  - Scooters – Xoom is number 2 brand in many markets in short span of time.
- **Margins** – Core ICE business margins at ~15% in 2QFY24 while EV business dragged blended margins by ~90bp. LEAP, favorable mix and soft RM have led to margin expansion.
  - **Other expense was higher led by new product launches.**
- Premium products journey has started well.
  - **Harley** - Have delivered ~2k units of Harley so-far with >25k overall bookings so-far and seeing increasing orders even from second window (got ~2k bookings).
  - Supply augmentation would help meet orders in ~4 months.
  - **Karizma** - ~14k bookings in first window bookings and expect to begin the second window soon.
  - Production capacity aggregate of Karizma and Harley would be ~10k units per month at the first stage and would augment further ahead.
- **Network upgradation on track for premium/EVs** – HD 100+ stores, Hero 2.0 stores count increased from ~20 stores to ~200 stores currently and plan to get to ~500 stores by FY24E.
- **New launches** – looking to launch products in 125cc segment over 3-4 quarters.
- **EV ramp-up to accelerate** – on track to move ~100 cities. Production ramped up to ~1k per week since past 2 weeks. Will bring in EV exclusive stores which is expected to come up in cities like Pune (VIDA hub).
- **Ather investments** – HMCL would have ~34.5% stake. Key synergy would be standardized 2W fast charger connector for VIDA and Ather (and soon expect it would be standard for the industry as well which will help drive scale).
- **Spares revenues at Rs13.5b (14.3% of revenues)** in 2QFY24 (+double digit YoY, Rs12.2b in 1QFY24 at 14% of revenues) led by existing and new SKUs. Oct'23 SPAM business revenues at ~Rs5b.
- Capex guidance maintained at ~Rs10b for FY24E.

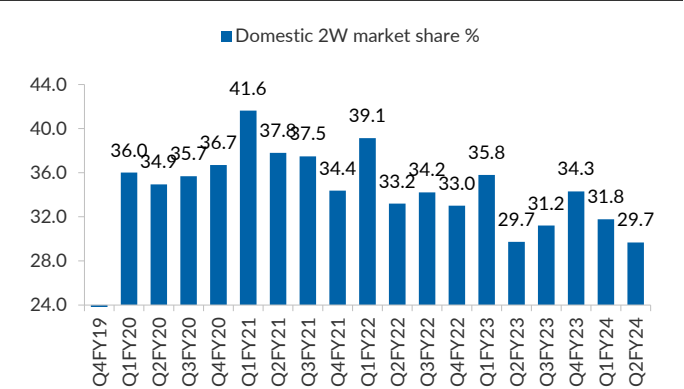
## CHARTS

**Exhibit 1: 2QFY24 volume fell ~0.8% YoY/+4.7% QoQ**



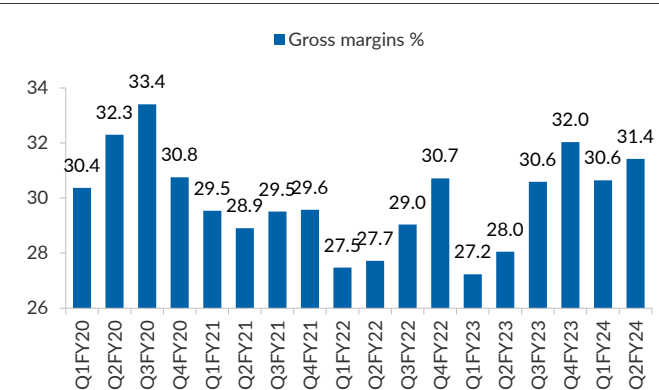
Source: Company, YES Sec

**Exhibit 2: HMCL's domestic 2W market share trend**



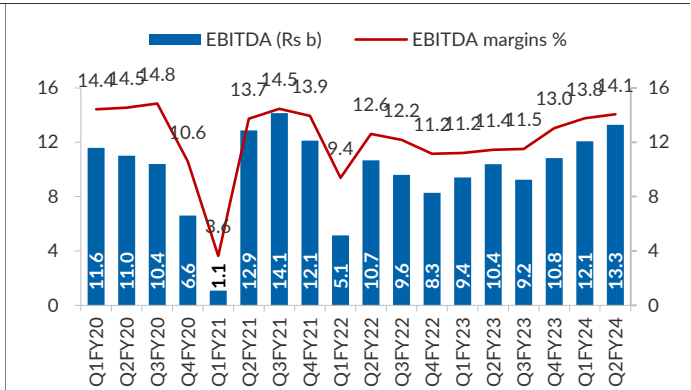
Source: SIAM, YES Sec

**Exhibit 3: Gross margins increased ~80bp QoQ...**



Source: Company, YES Sec

**Exhibit 4: ...EBITDAM expanded ~30bp QoQ at 14.1%**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 5: Balance Sheet**

Y/E March	2021	2022	2023	2024E	2025E
Sources of Funds					
Share Capital	400	400	400	400	400
Reserves	151,585	157,430	166,651	185,305	207,342
Net Worth	151,984	157,829	167,051	185,704	207,742
Deferred Tax	4,041	3,833	4,054	4,054	4,054
Loans	2,758	2,974	3,306	3,306	3,306
<b>Capital Employed</b>	<b>158,783</b>	<b>164,636</b>	<b>174,410</b>	<b>193,064</b>	<b>215,101</b>
Application of Funds					
Gross Fixed Assets	142,362	146,657	151,942	156,584	170,584
Less: Depreciation	82,478	88,592	94,328	101,424	109,439
Net Fixed Assets	59,884	58,065	57,614	55,160	61,144
Capital WIP	4,366	4,582	4,638	6,000	8,000
Investments	104,997	106,523	110,104	130,104	126,104
Curr.Assets, L & Adv.	52,364	47,970	60,276	75,772	97,509
Inventory	14,696	11,227	14,341	17,343	22,362
Sundry Debtors	24,268	23,043	27,982	33,597	38,512
Cash & Bank Balances	2,572	1,751	3,455	7,426	16,686
Loans & Advances	397	402	436	523	600
Others	10,432	11,547	14,062	16,884	19,351
Current Liab. & Prov.	62,827	52,505	58,221	73,972	77,656
Sundry Creditors	52,046	42,603	47,045	61,783	64,600
Other Liabilities	7,452	6,516	7,438	8,671	9,938
Provisions	3,328	3,385	3,738	3,517	3,118
Net Current Assets	(10,463)	(4,534)	2,055	1,800	19,853
Miscellaneous Expenditures	-	-	-	-	-
<b>Application of Funds</b>	<b>158,784</b>	<b>164,636</b>	<b>174,410</b>	<b>193,064</b>	<b>215,101</b>

Source: Company, YES Sec

## Exhibit 6: Income statement

Y/E March	2021	2022	2023	2024E	2025E
Net Revenues	308,006	292,455	338,057	409,475	469,313
Change (%)	6.8	(5.0)	15.6	21.1	14.6
EBITDA	40,192	33,688	39,862	56,683	65,091
EBITDA Margin (%)	13.0	11.5	11.8	13.8	13.9
Depreciation	6,769	6,498	6,570	7,096	8,016
EBIT	33,424	27,190	33,293	49,587	57,076
Interest cost	218	258	199	179	159
Other Income	5,799	5,569	5,652	4,703	4,361
Non-recurring Expense	-	-	-	-	-
PBT	39,004	32,501	38,746	54,110	61,277
Tax	9,362	7,771	9,640	13,474	15,258
Effective Tax Rate (%)	24.0	23.9	24.9	24.9	24.9
PAT	29,642	24,730	29,106	40,637	46,019
Change (%)	(18.4)	(16.6)	17.7	39.6	13.2
% of Net Sales	9.6	8.5	8.6	9.9	9.8
Adj. PAT	29,642	24,730	29,106	40,637	46,019
Change (%)	(4.2)	(16.6)	17.7	39.6	13.2

Source: Company, YES Sec

## Exhibit 7: Cash Flow Statement

Y/E March	2021	2022	2023	2024E	2025E
Profit before Tax	29,642	24,730	19,106	54,110	61,277
Depreciation & Amort.	6,769	6,498	6,570	7,096	8,016
Direct Taxes Paid	(9,759)	(7,688)	(8,496)	(13,474)	(15,258)
(Inc)/Dec in Working Capital	10,700	(6,825)	(5,832)	4,225	(8,793)
Interest/Div. Received					
Other Items	4,375	3,488	14,443	179	159
CF from Oper. Activity	41,727	20,203	25,791	52,137	45,401
Extra-ordinary Items	-	-	-	-	-
CF after EO Items	41,727	20,203	25,791	52,137	45,401
(Inc)/Dec in FA+CWIP	(5,146)	(5,347)	(5,777)	(6,004)	(16,000)
Free Cash Flow	36,581	14,856	20,014	46,133	29,401
(Pur)/Sale of Invest.	(16,953)	3,828	1,089	(20,000)	4,000
CF from Inv. Activity	(22,099)	(1,519)	(4,688)	(26,004)	(12,000)
Inc/(Dec) in Debt	(218)	(149)	(224)		
Interest Paid	(218)	(258)	(199)	(179)	(159)
Dividends Paid	(18,978)	(18,981)	(19,983)	(21,984)	(23,982)
CF from Fin. Activity	(19,415)	(19,389)	(20,406)	(22,162)	(24,141)
Inc/(Dec) in Cash	213	(705)	697	3,971	9,260
Add: Beginning Balance	1,479	1,692	987	3,455	7,426
Closing Balance	1,692	987	1,684	7,426	16,686

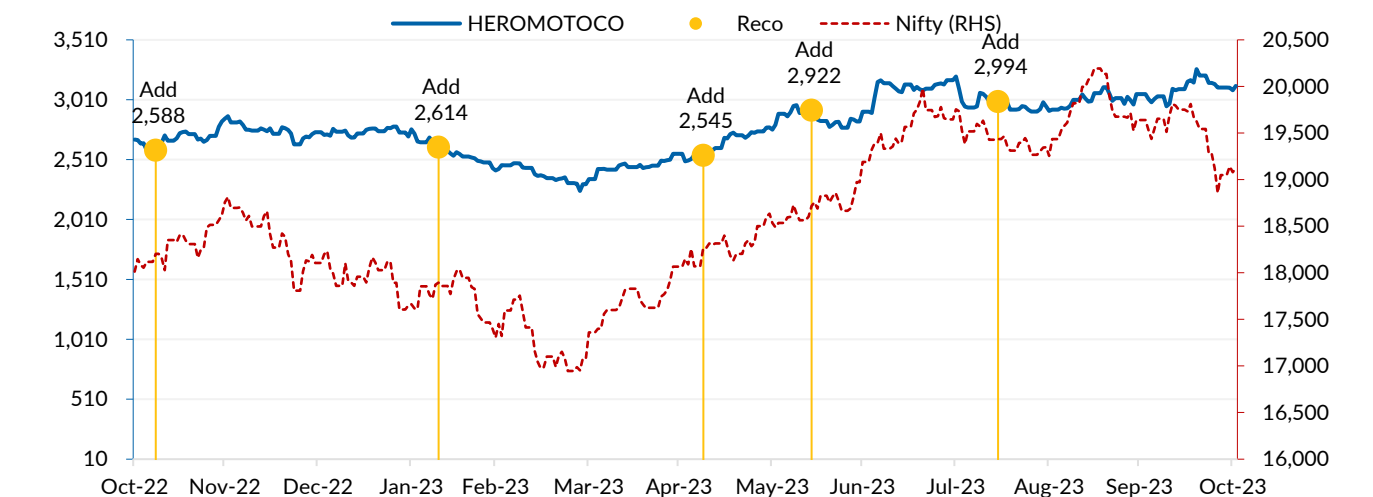
Source- Company, Yes Sec

**Exhibit 8: Growth and Ratio matrix**

Y/E March	2021	2022	2023	2024E	2025E
<b>Basic (INR)</b>					
EPS	148.4	123.8	145.6	203.3	230.3
EPS Growth (%)	(4.0)	(16.6)	17.7	39.6	13.2
Cash EPS	182.2	156.3	178.5	238.8	270.4
Book Value per Share	760.7	789.9	835.9	929.2	1,039.5
DPS	105.0	95.0	100.0	110.0	120.0
Payout (Incl. Div. Tax) %	81.4	88.3	79.0	62.2	59.9
<b>Valuation (x)</b>					
P/E	20.6	24.7	21.0	15.0	13.3
EV/EBITDA	12.6	15.0	12.5	8.4	7.2
EV/Sales	1.6	1.7	1.5	1.2	1.0
Price to Book Value	4.0	3.9	3.7	3.3	2.9
Dividend Yield (%)	3.4	3.1	3.3	3.6	3.9
<b>Profitability Ratios (%)</b>					
RoE	20.2	16.0	17.9	23.0	23.4
RoCE	19.5	15.4	17.3	22.2	22.6
RoIC	48.2	42.0	46.3	70.4	75.3
<b>Turnover Ratios</b>					
Debtors (Days)	30.3	30.3	31.9	31.6	31.6
Inventory (Days)	18.4	14.8	16.3	16.3	18.3
Creditors (Days)	61.7	53.2	50.8	55.1	50.2
Working Capital (Days)	(12.4)	(5.7)	2.2	1.6	15.4
Asset Turnover (x)	1.9	1.8	1.9	2.1	2.2
Fixed Asset Turnover	2.2	2.0	2.3	2.7	2.9

Source- Company, Yes Sec

## Recommendation Tracker



Source – YES Sec

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**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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