

February 10, 2024

**RESULT REPORT 3QFY24** | Sector: Automobile

# Hero MotoCorp Ltd

## Underlying ICE margins continues to be healthy

### Valuation and View – Scale up in SPAM, premium products a positive

HMCL's 3QFY24 reported results were in-line with our/street estimates as EBITDA margins expanded 250bp YoY (-10bp QoQ) at 14%. However, underlying ICE margins were healthy at 16% (v/s ~15% QoQ and ~12.2% YoY), supported by higher spare sales (SPAM) at Rs14.6b (v/s Rs13.5b in 2Q and Rs12.2b in 1Q). Gross margins surprised at 32.7% (+210bp YoY/ +130bp QoQ), was partially offset by higher other expense at Rs12.1b (+11% QoQ, est Rs11.2b) due to increased festive A&P spends. The management indicated lead demand indicators from the rural remain positive with, 1) higher contribution (>3%) vs urban and 2) improving inquiry mix from 40-45% 2-3 quarters back to 50-55% currently.

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. The key strategic focus post leadership changes such as margins recovery and premium focus seems to be on-track while the meaningful ramp-up in scooters/exports yet to kick in. The intended new product launches in the scooter (125cc and 160cc) Should help improve positioning and market share gains. However, customer response to recent product launches (especially for Xtreme 125R) would be the key catalyst to watch for. Maintain ADD with revised TP of Rs5,577 (vs Rs5,021) based on ~20x Mar'26 S/A EPS plus Rs133 for Hero FinCorp. We have raised FY25E/26E EPS by 2.4%/5.5% to factor in healthy ICE margins. Management's action to overhaul brand strategy supported by Ather's continued brand acceptance provide an additional lever for the stock. We build in revenue/EBITDA/Adj.PAT CAGR of 10.7%/15.1%/13.7% over FY24-26E.

### Result Highlights – ICE margins expanded ~100bp QoQ at 16%

- Revenues grew 21.1% YoY (+2.9% QoQ) at Rs97.2b (in-line, cons Rs96.7b) as volumes/ASP grew 20.5%/flat% YoY and 5.8%/-2.7% QoQ respectively at 1.49m units and Rs64.9k/unit (est ~Rs65k/unit).
- Gross margins came better at 32.7% (+210bp YoY/+130bp QoQ) led by favorable mix, RM and +LEAP. However, this was partially offset by higher other expense at ~Rs12.1b (est Rs11.2b, +14.2% QoQ) due to increased A&P spends due to festive.
- Consequently, EBITDA grew 47.4% YoY (+2.5% QoQ) at Rs13.6b (est Rs14.5b, cons ~Rs13.45b), leading to margins expanding by 250bp YoY (-10bp QoQ) at 14% (est 14.6%, cons 13.9%). Hence EBITDA/vehicle came in at ~Rs9k/vehicle (+22% YoY/-3% QoQ). ICE margins expanded ~100bp QoQ at 16% (v/s 12.3% YoY).
- Led by steady operating performance, Adj.PAT came in Rs10.7b (est Rs11.4b, cons Rs10.4b), which grew 51% YoY (1.9% QoQ). Approved interim dividend of Rs75/share and special dividend of Rs25/share.

### Exhibit 1: Actual vs estimates

Rs m	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	97,237	99,446	96,702	-2.2	0.6	HMCL reported in-line quarter to our and street estimates.
EBITDA	13,621	14,515	13,450	-6.2	1.3	
EBITDA margins %	14.0	14.6	13.9	-60bp	10bp	
Adjusted PAT	10,734	11,427	10,421	-6.1	3.0	

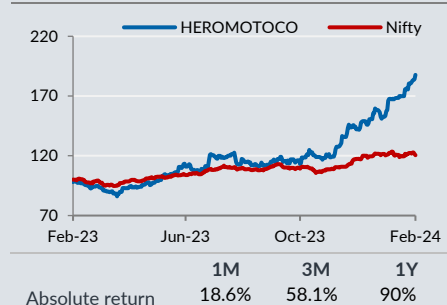
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 4,909
Target Price	: Rs 5,577
Potential Return	: +13.6%

### Stock data (as on February 09, 2024)

Nifty	21,783
52 Week h/l (Rs)	4,924 / 2,246
Market cap (Rs/USD mn)	9,61,037 / 11,562
Outstanding Shares (mn)	200
6m Avg t/o (Rs mn):	2,398
Div yield (%):	2.2
Bloomberg code:	HMCL IN
NSE code:	HEROMOTOCO

### Stock performance



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

Promoter	34.8%
FII+DII	56.4%
Others	8.8%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	5,577	5,021

### Δ in earnings estimates

	FY25E	FY26E
EPS (New)	246.9	272.2
EPS (Old)	241.2	258.1
% Change	2.4%	5.5%

### Financial Summary

Y/E MARCH (Rs b)	2024E	2025E	2026E
Sales	379.2	428.6	464.9
EBITDA	52.6	62.7	69.7
Adj. PAT	42.1	49.3	54.4
Adj. EPS (INR)	210.4	246.9	272.2
EPS Gr. (%)	44.5	17.3	10.2
BV/Sh. (INR)	916.3	1,023.2	1,145.4
RoE (%)	24.0	25.5	25.1
RoCE (%)	23.1	24.6	24.3
Payout (%)	71.0	65.2	63.4
P/E (x)	23.3	19.9	18.0
P/BV (x)	5.4	4.8	4.3
EV/EBITDA (x)	16.1	13.5	11.9
Div. Yield (%)	2.6	2.9	3.1

### DEEP SHAH

Lead Analyst

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# Hero MotoCorp (HMCL)

## Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q3FY24	Q3FY23	YoY chg	Q2FY24	9MFY24	9MFY23	YoY chg
Net Revenues	97,237	80,310	21.1	94,454	279,364	254,989	9.6
Raw Materials	65,470	55,743	17.4	64,780	191,059	182,118	4.9
% of Net Sales	67.3%	69.4%		68.6%	68.4%	71.4%	
Personnel	6,017	5,456	10.3	5,768	17,586	16,328	7.7
% of Net Sales	6.2%	6.8%		6.1%	6.3%	6.4%	
Manufacturing & Other Exp	12,130	9,869	22.9	10,624	31,753	27,510	15.4
% of Net Sales	12.5%	12.3%		11.2%	11.4%	10.8%	
Total Expenditure	83,617	71,068	17.7	81,171	240,398	225,956	6.4
EBITDA	13,621	9,241	47.4	13,283	38,966	29,032	34.2
EBITDA Margin (%)	14.0%	11.5%		14.1%	13.9%	11.4%	
Depreciation	1,825	1,620	12.7	1,749	5,264	4,884	7.8
EBIT	11,796	7,621	54.8	11,534	33,703	24,149	39.6
Interest Expenses	45	49	(7.8)	48	139	152	(8.2)
Non-operating income	2,420	1,832	32.1	2,483	7,125	3,282	117.1
PBT	14,171	9,404	50.7	13,970	39,088	27,279	43.3
Tax-Total	3,437	2,294	49.8	3,431	9,568	6,763	41.5
Tax Rate (%) - Total	24.3%	24.4%		24.6%	24.5%	24.8%	
Reported PAT	10,734	7,111	51.0	10,538	29,520	20,517	43.9
Adj. PAT	10,734	7,111	51.0	10,538	30,725	20,517	49.8
PAT Margin	11.0%	8.9%		11.2%	11.0%	8.0%	
Key operating metrics							
Sales Volume (nos)	1,498,882	1,239,693	20.9	1,416,526	4,267,982	4,058,054	5.2
Net Realisation/Vehicle	64,873	64,782	0.1	66,680	65,456	62,835	4.2
Material cost / vehicle	43,679	44,965	(2.9)	45,731	44,766	44,878	(0.3)
Gross Profit / vehicle	21,194	19,817	7.0	20,949	20,690	17,957	15.2
Employee cost /vehicle	4,014	4,401	(8.8)	4,072	4,120	4,024	2.4
Other expenses / vehicle	8,093	7,961	1.7	7,500	7,440	6,779	9.7
EBITDA/vehicle	9,087	7,455	21.9	9,377	9,130	7,154	27.6
Net Profit/vehicle	7,162	5,736	24.9	7,440	7,199	5,056	42.4

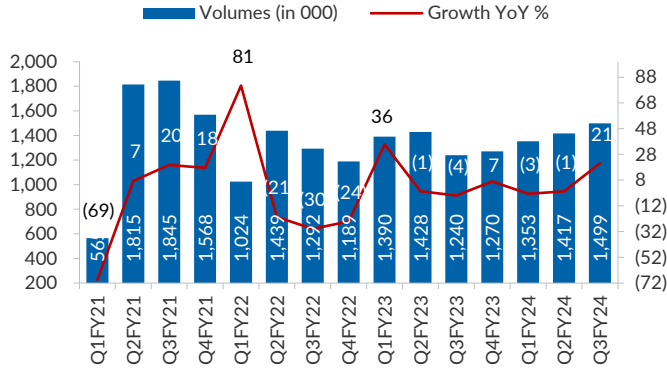
Source- Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Demand outlook** – expect industry to grow double digit in revenue terms. Gradually seeing upper and middle premium of 125cc is growing. Bottom of pyramid sentiments are also improving emanating from rural markets.
  - Festive had higher contribution from rural (>3%) vs urban.
  - **Post festive retails trend from rural - Inquiries mix from the rural markets is improving from 40%-45% 2-3 quarters back to 50-55% currently.** This suggests positive demand trend from the segment.
  - **Segmental trend** - See 125cc will drive motorcycle growth portfolio. >200CC segment expect to grow in double digit backed by new launches at an industry level and by HMCL too.
- Current inventory level is ~4-6 weeks (in-line with normalized range) while have reduced the same on annual basis for FY24. Retail demand is picking up from mid Jan.
- **Scooters** – Have gained market share in 100CC segment and have new launches planned in 125cc/160cc in 1HFY25.
- **Pricing** – maintain product and price positioning in the market. RM inflation is largely covered with current RM inflation trend is benign.
- **Gross margins improvement QoQ** – RM is stabilized currently and believe large part of the same is now part of P&L. Gross margins expansion in 3QFY24 was led by favorable mix, LEAP savings and partly due to RM softening.
  - **Core ICE margins are ~16% in 3QFY24.** Invested ~200bp in EV business in 3Q (v/s 150-160bp on annualized basis).
  - Current profit pool allows to deploy more aggressively in emerging business.
- **Other expense** – 3QFY24 A&P spends were elevated due to festive.
- **Financing** – Expect it to be the single biggest demand driver from ~3 years perspective from 2W perspective. Digital finance platform which is piloted in NCR will be scaled up to other markets. Penetration currently at 60-65% and FinCorp ~30%.
- **SPAM** crossed annualized revenues now at ~Rs55b. Hence new capacities at an investment of ~Rs6b in AP will increase SPAM business revenues opportunities to >Rs100b (annualized revenue equivalent).
  - **SPAM business will grow double digit in next few years.** Will focus more on Accessories and Merchandize with launch of premium products (HD, Maverick and Karizma).
  - **SPAM revenues in 3QFY24 at Rs14.60b** ~15% of revenues (v/s Rs12.59b YoY and Rs13.54b QoQ at ~14.3% of revenues).
- **New launches** – 1) Maverick 440 deliveries to begin by Apr'24 and bookings to begin by this month. 2) Xtreme 125 deliveries to start soon (initial inquiry traction is good).
- **EV will see meaningful scale-up in-line with multi store format strategy in FY26E** – Industry is moving from high performance scooters to more affordable scooters as affordability is still lagging. Vida hub network now available in ~100 cities with 150+ dealers and ~18 Vida hubs. Expect ~100 Vida hubs to be operational in FY25E.
  - Expect to launch new EV products in 1QFY25 in affordable (Rs100k and below) and mid-range (Rs100-125k) segment.
  - Production run-rate is currently in process to ramping up.
- **Premiumization of retail format (Hero 2.0)** – seeing fast ramp-up. Conversion are higher vs normal retail format and industry.

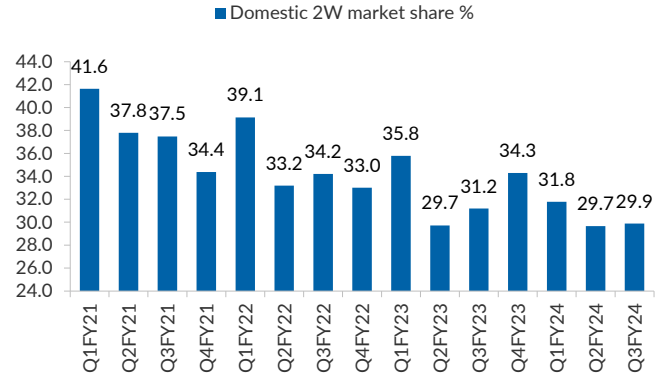
## CHARTS

**Exhibit 1: 3QFY24 volume grew 21% YoY/+5.8% QoQ**



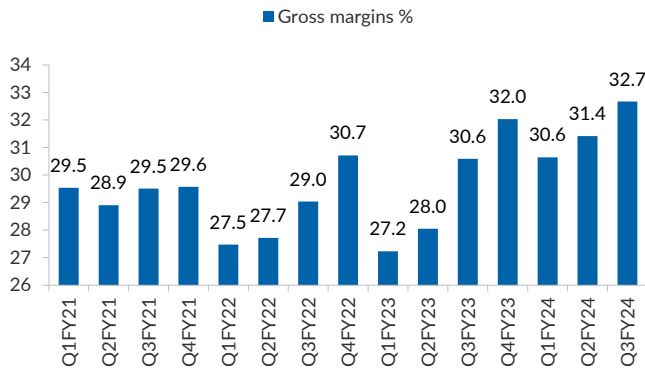
Source: Company, YES Sec

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



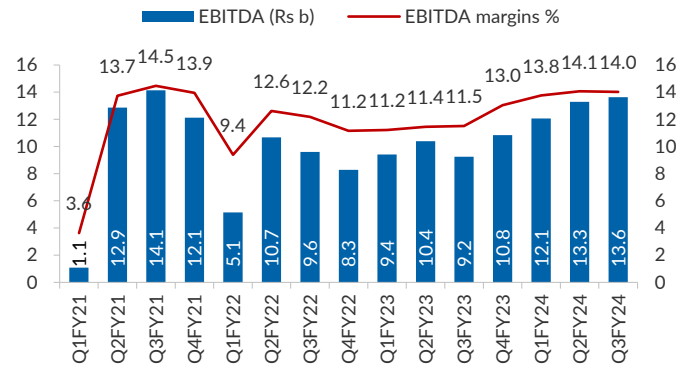
Source: SIAM, YES Sec

**Exhibit 3: Gross margins expanded ~200bp YoY**



Source: Company, YES Sec

**Exhibit 4: EBITDAM expanded 250bp YoY (flat QoQ)**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 5: Balance Sheet

Y/E March	2021	2022	2023	2024E	2025E	2026E
Sources of Funds						
Share Capital	400	400	400	400	400	400
Reserves	151,585	157,430	166,651	182,727	204,091	228,505
<b>Net Worth</b>	<b>151,984</b>	<b>157,829</b>	<b>167,051</b>	<b>183,127</b>	<b>204,490</b>	<b>228,904</b>
Deferred Tax	4,041	3,833	4,054	4,054	4,054	4,054
Loans	2,758	2,974	3,306	3,306	3,306	3,306
<b>Capital Employed</b>	<b>158,783</b>	<b>164,636</b>	<b>174,410</b>	<b>190,486</b>	<b>211,850</b>	<b>236,264</b>
Application of Funds						
Gross Fixed Assets	142,362	146,657	151,942	156,584	170,584	182,584
Less: Depreciation	82,478	88,592	94,328	101,424	108,949	117,071
<b>Net Fixed Assets</b>	<b>59,884</b>	<b>58,065</b>	<b>57,614</b>	<b>55,160</b>	<b>61,635</b>	<b>65,512</b>
Capital WIP	4,366	4,582	4,638	6,000	8,000	8,000
Investments	104,997	106,523	110,104	130,104	126,104	122,104
<b>Curr.Assets, L &amp; Adv.</b>	<b>52,364</b>	<b>47,970</b>	<b>60,276</b>	<b>69,718</b>	<b>86,133</b>	<b>116,555</b>
Inventory	14,696	11,227	14,341	16,202	20,602	22,348
Sundry Debtors	24,268	23,043	27,982	31,387	35,481	38,488
Cash & Bank Balances	2,572	1,751	3,455	5,869	11,669	35,781
Loans & Advances	397	402	436	489	553	599
Others	10,432	11,547	14,062	15,773	17,828	19,339
<b>Current Liab. &amp; Prov.</b>	<b>62,827</b>	<b>52,505</b>	<b>58,221</b>	<b>70,496</b>	<b>70,022</b>	<b>75,907</b>
Sundry Creditors	52,046	42,603	47,045	57,718	57,228	62,077
Other Liabilities	7,452	6,516	7,438	8,101	9,157	9,932
Provisions	3,328	3,385	3,738	4,676	3,637	3,897
<b>Net Current Assets</b>	<b>(10,463)</b>	<b>(4,534)</b>	<b>2,055</b>	<b>(777)</b>	<b>16,111</b>	<b>40,648</b>
<b>Application of Funds</b>	<b>158,784</b>	<b>164,636</b>	<b>174,410</b>	<b>190,486</b>	<b>211,850</b>	<b>236,264</b>

Source: Company, YES Sec

# Hero MotoCorp (HMCL)

## Exhibit 6: Income statement

Y/E March	2021	2022	2023	2024E	2025E	2026E
<b>Net Revenues</b>	<b>308,006</b>	<b>292,455</b>	<b>338,057</b>	<b>379,210</b>	<b>428,627</b>	<b>464,946</b>
Change (%)	6.8	(5.0)	15.6	12.2	13.0	8.5
<b>EBITDA</b>	<b>40,192</b>	<b>33,688</b>	<b>39,862</b>	<b>52,634</b>	<b>62,729</b>	<b>69,706</b>
EBITDA Margin (%)	13.0	11.5	11.8	13.9	14.6	15.0
Depreciation	6,769	6,498	6,570	7,096	7,525	8,123
<b>EBIT</b>	<b>33,424</b>	<b>27,190</b>	<b>33,293</b>	<b>45,538</b>	<b>55,205</b>	<b>61,583</b>
Interest cost	218	258	199	179	159	139
Other Income	5,799	5,569	5,652	9,833	10,136	10,408
<b>PBT</b>	<b>39,004</b>	<b>32,501</b>	<b>38,746</b>	<b>55,192</b>	<b>65,182</b>	<b>71,851</b>
Tax	9,362	7,771	9,640	13,136	15,839	17,460
Effective Tax Rate (%)	24.0	23.9	24.9	23.8	24.3	24.3
<b>PAT</b>	<b>29,642</b>	<b>24,730</b>	<b>29,106</b>	<b>42,056</b>	<b>49,343</b>	<b>54,392</b>
Change (%)	(18.4)	(16.6)	17.7	44.5	17.3	10.2
% of Net Sales	9.6	8.5	8.6	11.1	11.5	11.7
<b>Adj. PAT</b>	<b>29,642</b>	<b>24,730</b>	<b>29,106</b>	<b>42,056</b>	<b>49,343</b>	<b>54,392</b>
Change (%)	(4.2)	(16.6)	17.7	44.5	17.3	10.2

Source: Company, YES Sec

## Exhibit 7: Cash Flow Statement

Y/E March	2021	2022	2023	2024E	2025E	2026E
Profit before Tax	29,642	24,730	19,106	55,192	65,182	71,851
Depreciation & Amort.	6,769	6,498	6,570	7,096	7,525	8,123
Direct Taxes Paid	(9,759)	(7,688)	(8,496)	(13,136)	(15,839)	(17,460)
(Inc)/Dec in Working Capital	10,700	(6,825)	(5,832)	5,246	(11,088)	(425)
Other Items	4,375	3,488	14,443	179	159	139
<b>CF from Oper. Activity</b>	<b>41,727</b>	<b>20,203</b>	<b>25,791</b>	<b>54,577</b>	<b>45,938</b>	<b>62,228</b>
<b>CF after EO Items</b>	<b>41,727</b>	<b>20,203</b>	<b>25,791</b>	<b>54,577</b>	<b>45,938</b>	<b>62,228</b>
(Inc)/Dec in FA+CWIP	(5,146)	(5,347)	(5,777)	(6,004)	(16,000)	(12,000)
<b>Free Cash Flow</b>	<b>36,581</b>	<b>14,856</b>	<b>20,014</b>	<b>48,573</b>	<b>29,938</b>	<b>50,228</b>
(Pur)/Sale of Invest.	(16,953)	3,828	1,089	(20,000)	4,000	4,000
<b>CF from Inv. Activity</b>	<b>(22,099)</b>	<b>(1,519)</b>	<b>(4,688)</b>	<b>(26,004)</b>	<b>(12,000)</b>	<b>(8,000)</b>
Inc/(Dec) in Debt	(218)	(149)	(224)			
Interest Paid	(218)	(258)	(199)	(179)	(159)	(139)
Dividends Paid	(18,978)	(18,981)	(19,983)	(25,981)	(27,979)	(29,978)
<b>CF from Fin. Activity</b>	<b>(19,415)</b>	<b>(19,389)</b>	<b>(20,406)</b>	<b>(26,159)</b>	<b>(28,138)</b>	<b>(30,116)</b>
<b>Inc/(Dec) in Cash</b>	<b>213</b>	<b>(705)</b>	<b>697</b>	<b>2,414</b>	<b>5,800</b>	<b>24,112</b>
Add: Beginning Balance	1,479	1,692	987	3,455	5,869	11,669
<b>Closing Balance</b>	<b>1,692</b>	<b>987</b>	<b>1,684</b>	<b>5,869</b>	<b>11,669</b>	<b>35,781</b>

Source- Company, Yes Sec

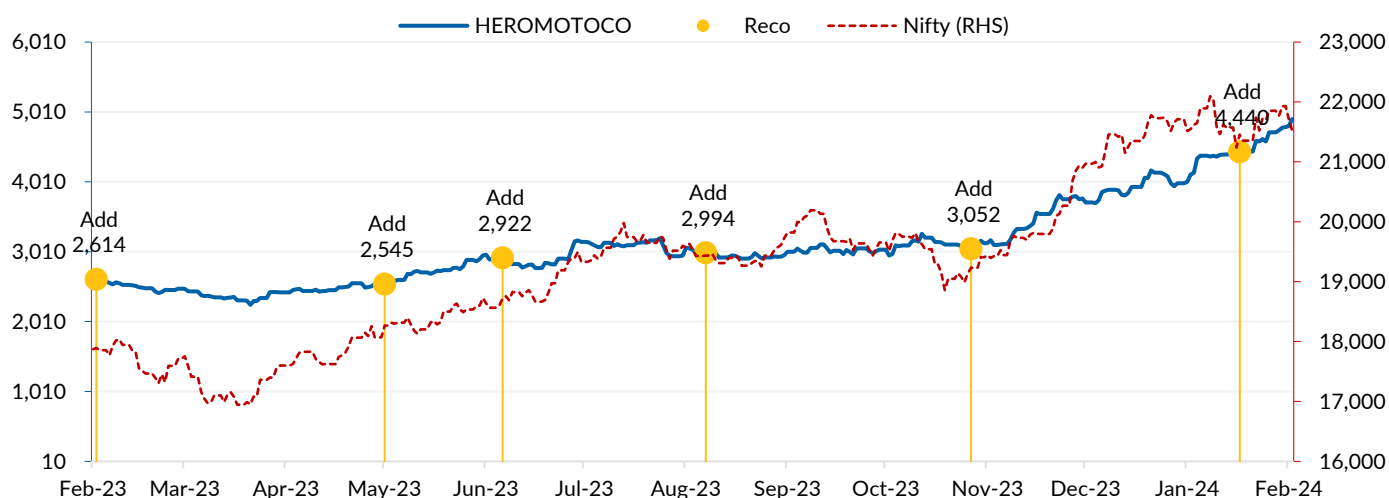
# Hero MotoCorp (HMCL)

**Exhibit 8: Growth and Ratio matrix**

Y/E March	2021	2022	2023	2024E	2025E	2026E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>148.4</b>	<b>123.8</b>	<b>145.6</b>	<b>210.4</b>	<b>246.9</b>	<b>272.2</b>
EPS Growth (%)	(4.0)	(16.6)	17.7	44.5	17.3	10.2
Cash EPS	182.2	156.3	178.5	245.9	284.6	312.8
Book Value per Share	760.7	789.9	835.9	916.3	1,023.2	1,145.4
DPS	105.0	95.0	100.0	130.0	140.0	150.0
Payout (Incl. Div. Tax) %	81.4	88.3	79.0	71.0	65.2	63.4
<b>Valuation (x)</b>						
P/E	33.1	39.7	33.7	23.3	19.9	18.0
EV/EBITDA	21.8	26.0	21.8	16.1	13.5	11.9
EV/Sales	2.8	3.0	2.6	2.2	2.0	1.8
Price to Book Value	6.5	6.2	5.9	5.4	4.8	4.3
Dividend Yield (%)	2.1	1.9	2.0	2.6	2.9	3.1
<b>Profitability Ratios (%)</b>						
RoE	20.2	16.0	17.9	24.0	25.5	25.1
RoCE	19.5	15.4	17.3	23.1	24.6	24.3
RoIC	48.2	42.0	46.3	66.3	72.9	68.3
<b>Turnover Ratios</b>						
Debtors (Days)	30.3	30.3	31.9	31.9	31.9	31.9
Inventory (Days)	18.4	14.8	16.3	16.4	18.5	18.5
Creditors (Days)	61.7	53.2	50.8	55.6	48.7	48.7
Working Capital (Days)	(12.4)	(5.7)	2.2	(0.7)	13.7	31.9
Asset Turnover (x)	1.9	1.8	1.9	2.0	2.0	2.0
Fixed Asset Turnover	2.2	2.0	2.3	2.5	2.6	2.6

Source- Company, Yes Sec

## Recommendation Tracker



Source – YES Sec

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