

CMP: INR 2,410

Rating: Buy

Target Price: INR 3,323

Stock Info

BSE	500182
NSE	HEROMOTCO
Bloomberg	HMCL IN
Reuters	HROM.BO
Sector	Auto-2&3 wheelers
Face Value (INR)	2
Equity Capital (INR mn)	400
Mkt Cap (INR mn)	556,663
52w H/L (INR)	3,629/2,310
Avg Yearly Vol (in 000')	664

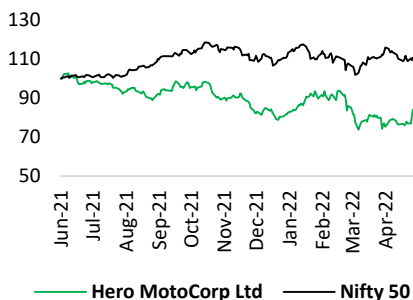
Shareholding Pattern %

(As on March, 2022)

Promoters	34.75
FII	43.02
DII	10.44
Public	11.79

Stock Performance (%)	1m	3m	12m
Hero MotoCorp	11.0	-7.96	-11.7
Nifty	-3.4	-4.0	16.6

Hero MotoCorp Vs Nifty



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Hero MotoCorp (HMCL) has reported revenue slightly above our estimates in Q4FY22, while both EBITDA and PAT are below estimates. Standalone revenue stood at INR 74,217 Mn, against our estimate of INR 73,831 Mn registering a de-growth of 5.9% QoQ/ 14.6% YoY. EBITDA stood at INR 8,276 Mn, against our estimate of INR 9,042 Mn, Registering a de-growth of 13.8%QoQ/31.7%YoY. On the margins front, EBITDA margin contracted by 103bps QoQ/ 279bps YoY to 11.2%, against our estimate of 12.2%. On account of inflationary pressure of commodity costs as well as negative operating leverage. Standalone PAT saw a decrease of 8.6%QoQ/27.5% YoY to INR 6,271Mn against our estimate of INR 6,571 Mn. EPS stood at INR 31.4 in Q4FY22 against INR 38.8 in Q3FY22 (INR 43.3 in Q4FY21). The total volumes (Motorcycles + Scooters) de-grew by 24% YoY/10.2% QoQ to 1,188,884 units. The company realizations grew 12.7% YoY/3.8% QoQ led by improved product mix, price hikes, and higher spare parts revenue. The company EBITDA per Vehicle was decreased by 9.9% YoY/6.3% QoQ of INR 6,961 against 7,723 in Q4FY21. The company has recommended a final dividend of INR 35 per share.

EVs: The company primarily focuses on quality and safety first, apart from providing core features. Following its tie-up with Gogoro, HMCL will launch its products in FY23. It will also introduce homegrown products during FY23 and more details are expected by early July. There is no ban on the EV launch from the government side. The company is seeing more sales in the low-speed range due to age groups that are not able to handle the hi-speed range.

Outlook and valuation

At the CMP of INR 2,410, Hero MotoCorp is trading at a PE of 14.5x, its FY24E EPS of INR 166.2. HMCL has reported performance below our estimates in Q4FY22 due to inflationary pressure of commodity costs as well as negative operating leverage. The company's exports are doing well, while 360-degree efforts on EVs will provide an edge. The company under the LEAP 2 program has been aggressive in cost-saving to offset the higher commodity prices and input costs and facilitate cash flow management. Going forward, HMCL has lined up multiple product launches in different segments with an aim to continue building the premium portfolio as well as premiumization of existing models, we believe, which will help the company to deliver growth and profitability and gain market share going ahead. **We value Hero MotoCorp at a PE of 20x to its FY24E EPS of INR 166, which yields a revised target price of INR 3,323 (earlier target price; INR 3,738). We maintain our Buy rating on the stock.**

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY21	308,006	40,192	29,642	148.4	13.05	20.2	16.2
FY22	292,455	33,688	24,730	123.8	11.52	16.0	19.5
FY23E	340,576	40,783	29,243	146.4	11.97	18.1	16.5
FY24E	381,017	46,421	33,199	166.2	12.18	19.5	14.5

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q4FY22 Conference call Highlights

Outlook: Cost inflation triggered due to geo-political. On the Input cost front, the company will be going to maintain through cost-saving, Leap-II, and a broad-based portfolio. The growth outlook, the macro indicator is all-time good, the monsoon forecast is good and consumer confidence bouncing back. In FY23, the company has lined up multiple product launches in different segments intending to continue building the premium portfolio as well as premiumization of existing models, which will help the company to deliver growth and profitability and gain Market share going ahead.

Inventory level: April is looking good due to marriage, Gudi Padwa, the retail segment has been good, and Inventory is down 6-7 weeks earlier it was 7-8 weeks down. The company's mom exited 6-2% and the campaign for the mileages is very good.

Demand: The April, May, and June continue to be robustly supported by better agriculture, exports, and semi-urban looking very strong which in turn is expected to improve cash flows in the rural sector. All these factors are likely to help in a steady recovery in consumer sentiments and market demand. Also good booking on akshaya Tritiya.

EV: In Q4FY22, Hero MotoCorp unveiled Vida, powered by Hero, a brand-new identity for its emerging mobility solutions, including the upcoming EV. The company will reveal its first product on 1st July FY22.

Margin: The company will maintain a medium range. On the headwinds side -Commodity inflation and cost inflation. The company is doing a Leap- II savings program to offset the higher commodity prices and input costs and cash flow management. The operating leverage will come positive this year it was negative.

Gross Margin: The company saves the 300bps through Leap-II saving programmers and Price hikes.

Parts business: Continue moving on the upper side from 6-7% it moves to 10% and now between 10%-13%.

Semiconductor: The company is managing the supply chain very well. Hero Glamour extract bike is doing very well. April month sales were good. As per the overall portfolio basis, chip shortage is very lower in number.

Global business: Hero MotoCorp for the first time surpassed the landmark 300,000 units in volume sales in a single FY in its global markets outside of India, registering a growth of >57% over the corresponding period in FY21.

Splendor (82% of revenue) did very well and overall good start in April.

Price increase: The company took the price increase of INR 1000 in April's first week.

Other expenses: There are no major changes on the other expense as per the full-year basis.

ICE Industry: The company is focusing on the scooter side and going to launch variants as the company did in the bike segment, there is huge scope in the scooter segment. The company believes there is huge headroom in the ICE industry.

Ather: The company's total INR 150 cr invested and total contribution 420 cr likely to happen in this quarter which is balance INR 270 Cr.

Spares (39.5% revenue mix): in Q4FY22 INR 1151 cr parts business revenue against 1040 cr.

Trade payable: DSO is low on an annual basis due to lower production.

Financing: CSR spend 15-16bps up due to the company were not able to manage the CSR activity during the pandemic.

Financing share: In Q4 it's 52%. Fin crop from 52% out of that 34% and 53% against 49% last year.

Replacement: Pretty consistent, 1st-time buyer 65-70% and 30-35% split in the premium and normal, dealership, very consistent story.

Scooter: Excellent launch in 110cc along with the good campaign with a lot of engagement for the brand building and further strengthen in 110cc with new launch 105cc expanding it in another market. Maestro, in the connected series across portfolio real, going to make a mark in 110cc.

Exports: The company is just made the start growth trajectory on the exports front and it will be robust going forward and better than its competitors. The company is on pretty much on track.

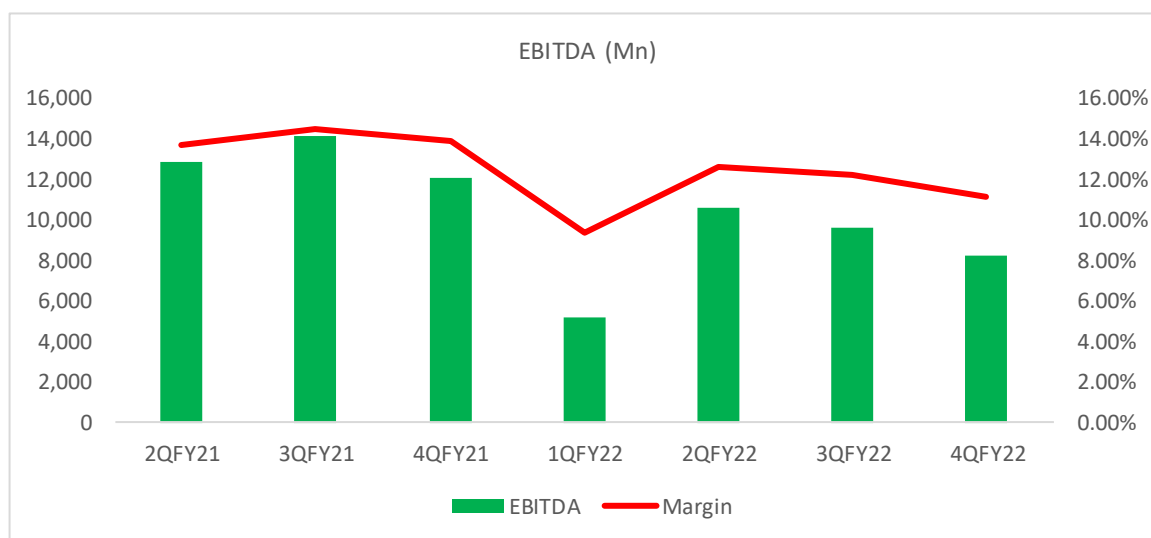
2W Industry: Replacement demand is much higher and financing is higher, rural income is being there. Going forward, the company is expecting double-digit growth in the industry.

Fincorp: The company will raise capital in the next quarter. Cashbook; total investment 10,000cr. Ather continues to cash burn for the company.

Quarterly result summary

Standalone (INR mn)	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)
Net sales	74,217	78,833	86,860	(14.6)	(5.9)
- Raw material	51,424	55,943	61,173	(15.9)	(8.1)
(% of net sales)	69.3	71.0	70.4	-114bps	-168bps
Gross Profit	22792.9	22889.5	25687.0	(11.3)	(0.4)
(% of net sales)	30.7%	29.0%	29.6%	1bps	2bps
- Staff expenditure	4,763	5,180	4,884	(2.5)	(8.0)
(% of net sales)	6.4	6.6	5.6	79bps	-15bps
- Other expenditure	9,754	8,109	8,691	12.2	20.3
(% of net sales)	13.1	10.3	10.0	314bps	286bps
Total expenditure	65,942	69,233	74,748	(11.8)	(4.8)
EBITDA	8,276	9,600	12,112	(31.7)	(13.8)
EBITDA Margin (%)	11.2	12.2	13.9	-279bps	-103bps
Depreciation	1,585	1,644	1,631	(2.9)	(3.6)
EBIT	6,691	7,956	10,480	(36.2)	(15.9)
Interest	67	65	63	5.9	2.3
Other Income	1,398	1,216	874	59.9	14.9
PBT	8,022	9,107	11,291	(29.0)	(11.9)
Tax	1,752	2,246	2,642	(33.7)	(22.0)
Reported PAT	6,271	6,861	8,650	(27.5)	(8.6)
Adjusted PAT	6,271	6,861	8,650	(27.5)	(8.6)
Adjusted EPS (INR)	31.4	38.8	43.3	(27.5)	(19.0)
Total volumes (Nos)	1,188,884	1,292,136	1,568,313	(24.2)	(8.0)
Net realisation (INR)	62,426	61,010	55,384	12.7	2.3
EBITDA / vehicle (INR)	6,961	7,430	7,723	(9.9)	(6.3)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Margins were 11.2%. In the coming months, the company will be able to drive profitable growth through the combination of key strategic initiatives such as acceleration of Leap-II savings program to offset the higher commodity prices and input costs and cash flow management.

Profit & Loss Statement				
YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
Net sales	308,006	292,455	340,576	381,017
Growth, %	7	(5)	16	12
RM expenses	-217,623	-208,267	-242,490	271,284
Employee expenses	-18,987	-19,354	-21,116	-22,861
Other expenses	-31,203	-31,145	-36,187	-40,451
EBITDA	40,192	33,688	40,783	46,421
Growth, %	2	(16)	21	14
Margin, %	13.0	11.5	12.0	12.2
Depreciation	-6,769	-6,498	-7,659	-8,139
EBIT	33,424	27,190	33,124	38,282
Growth, %	6	(19)	22	16
Margin, %	10.9	9.3	9.7	10.0
Interest paid	-218	-258	-271	-284
Other Income	5,799	5,569	5,625	5,687
Non-recurring Items	0	0	0	0
Pre-tax profit	39,004	32,501	38,478	43,684
Tax provided	-9,362	-7,771	-9,235	-10,485
Profit after tax	29,642	24,730	29,243	33,199
Others (Minorities, Associates)	-	-	-	-
Net Profit	29,642	24,730	29,243	33,199
Growth, %	(18)	(17)	18	14
Net Profit (adjusted)	29,642	24,730	29,243	33,199

Balance Sheet				
YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
Cash & bank	4,438	1,751	2,197	2,938
Marketable securities cost	93,902	94,320	93,632	101,924
Debtors	24,268	23,043	26,834	30,021
Inventory	14,696	11,227	13,074	14,626
Loans & advances	892	402	469	524
Other current assets	5,709	6,525	7,177	7,895
Total current assets	50,002	42,947	49,750	56,004
Investments	11,094	12,204	13,424	14,766
Gross fixed assets	149,322	154,669	164,669	174,669
Less: Depreciation	-87,841	-94,339	-101,998	110,137
Add: Capital WIP	178	873	1,603	1,603
Net fixed assets	61,480	60,330	62,671	64,532
Total assets	216,551	213,479	226,794	244,543
Current liabilities	61,803	53,038	59,147	65,725
Provisions	3,328	3,385	3,554	3,732
Total current liabilities	65,131	56,423	62,701	69,457
Non-current liabilities	-564	-772	-772	-772
Total liabilities	64,566	55,650	61,928	68,685
Paid-up capital	399.6	399.6	399.6	399.6
Reserves & surplus	151,585	157,430	164,466	175,458
Shareholders' equity	151,984	157,829	164,865	175,858
Total equity & liabilities	216,551	213,479	226,794	244,543

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Cash Flow				
YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
Pre-tax profit	39,004	32,501	38,479	43,686
Depreciation	6,769	6,498	7,659	8,139
Chg in working capital	10,486	-1,682	-2,737	1,244
Total tax paid	-9,249	-7,979	-9,235	-10,485
CFO	41,429	21,528	28,812	37,182
Capital expenditure	-5,750	-6,042	-10,729	-10,000
Chg in investments	-22,770	-1,526	-533	-9,635
Other investing activities	5,799	5,569	5,625	5,687
CFI	-22,721	-2,000	-5,637	-13,948
Free cash flow	12,909	13,959	17,550	17,547
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-16,364	-22,208	-22,208	-22,208
CFF	-16,582	-22,466	-22,479	-22,492
Net chg in cash	2,126	(2,938)	696	742
Opening cash balance	2,419	4,438	1,751	2,197
Closing cash balance	4,438	1,751	2,197	2,938

Ratios				
YE: Mar	FY21	FY22	FY23E	FY24E
EPS (INR)	148	124	146	166
PER (x)	16.2	19.5	16.5	14.5
Price/Book (x)	3.2	3.1	2.9	2.7
EV/EBITDA (x)	9.5	11.4	9.5	8.1
EV/Net sales (x)	1.2	1.3	1.1	1.0
RoE (%)	20.2	16.0	18.1	19.5
RoCE (%)	26.9	21.2	24.1	25.9
Fixed Asset turnover (x)	2.1	1.9	2.1	2.2
Dividend Yield (%)	2.9	3.9	3.9	3.9
Receivable (days)	29	29	29	29
Inventory (days)	20	16	16	16
Payable (days)	71	60	60	60
Net D/E ratio (x)	(0.6)	(0.6)	(0.6)	(0.6)

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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