

**EV progress can boost re-rating**

**CMP: INR 2,995**

**Rating: Buy**

**Target Price: INR 3,699**

**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)	399.6
Mkt Cap (INR mn)	599,160
52w H/L (INR)	3244/2246
Avg Yearly Vol (in 000')	550

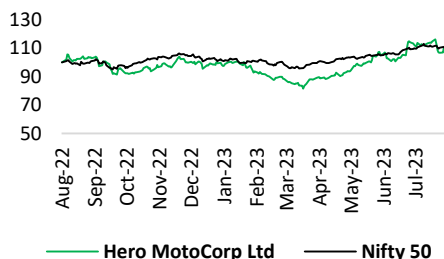
**Shareholding Pattern %**

(As on June, 2023)

Promoters	34.77
FII	27.01
DII	14.10
Public	24.12

Stock Performance (%)	1m	3m	12m
Hero MotoCorp	-0.6	6.1	10.0
Nifty	2.9	1.2	8.3

**Hero MotoCorp Vs Nifty**



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**HeroMotoCorp reported good performance beat on PAT front due to higher other income:** Standalone revenue stood at INR 87,673 Mn, against our estimate of INR 89,730 Mn registering a growth of 4.5% YoY/ 5.5% QoQ. EBITDA stood at INR 12,063 Mn, against our estimate of INR 11,235 Mn, Registering a growth of 28%YoY / 11.4%QoQ. On the margins front, EBITDA margin expansion by 153bps QoQ/ 189bps YoY to 13.8%, against our estimate of 12.5% led by softening in RM prices and accelerated savings programs and price hikes. Standalone PAT saw a growth of 57.7%YoY/ 14.6%QoQ to INR 9,847 Mn against our estimate of INR 8,729 Mn led by higher other income. (one time exceptional item of VRS INR 1599 Cr) .EPS stood at INR 41.27 in Q1FY24 against INR 42.99 in Q4FY23 (INR 31.3 in Q1FY23). Hero MotoCorp EBITDA per Vehicle grew by 6.5% YoY/(-2.7% QoQ) of INR 8915 against 8524 in Q4FY23 and INR 6767 in Q1FY23.

**EV (VIDA) expansion on Card:** In the realm of EVs, the company is successfully on course to exceed its goal of 100 cities covered by December, having already surpassed 36 cities. Their upcoming focus on portfolio development underscores their drive to attain EV industry leadership. Also, the company taking EV as starting point in a lot of global markets as well.

**Improvement on the MS and traction on the New launch:** Xoom100cc and Destini Prime 125cc gain scooter acceptance. Super Splendor Xtec 125cc grows in 125cc segment. New Glamour 125cc dispatched in AP/Telangana and North East. Passion Pro top 10 in sales, sold 10k in 15 days. Launched in West/South, expanding soon. Karizma, HD X440-based model to boost growth. New launches take 4-8 weeks for market impact. The market share getting strengthened with Passion Plus for the commuter segment and continue in the upward trajectory.

**Outlook and valuation**

HMCL reported a good set of performance during Q1FY24 led by softening in RM prices and accelerated savings programs, price hikes, and a strong demand environment. A faster rebound is expected against 2W peers due to rural focus and Entry-Executive dominance. HD X440, co-developed with HD, garnered 25k bookings. Enhanced Executive segment traction due to price alignment. Scooters are also performing well. EV progress can boost re-rating as It has a goal to expand in 100 cities (Currently 36 cities). **We maintain our Buy rating on the stock and value it SOTP valuation for a revised target price of INR 3,699 per share (earlier target price; INR 3,322 per share).**

**Exhibit 1: Financial Performance**

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY22	2,92,455	33,688	24,730	123.8	11.52	16.0	24.2
FY23	3,38,057	39,861	29,105	145.6	11.79	17.9	20.6
FY24E	3,68,390	50,058	37,245	186.4	13.59	21.3	16.1
FY25E	3,92,818	54,226	39,741	198.9	13.80	20.8	15.1
FY26E	4,18,787	58,298	42,934	214.8	13.92	27.8	13.9

Source: Arihant Research, Company Filings

**Q1FY24 Conference call highlights**

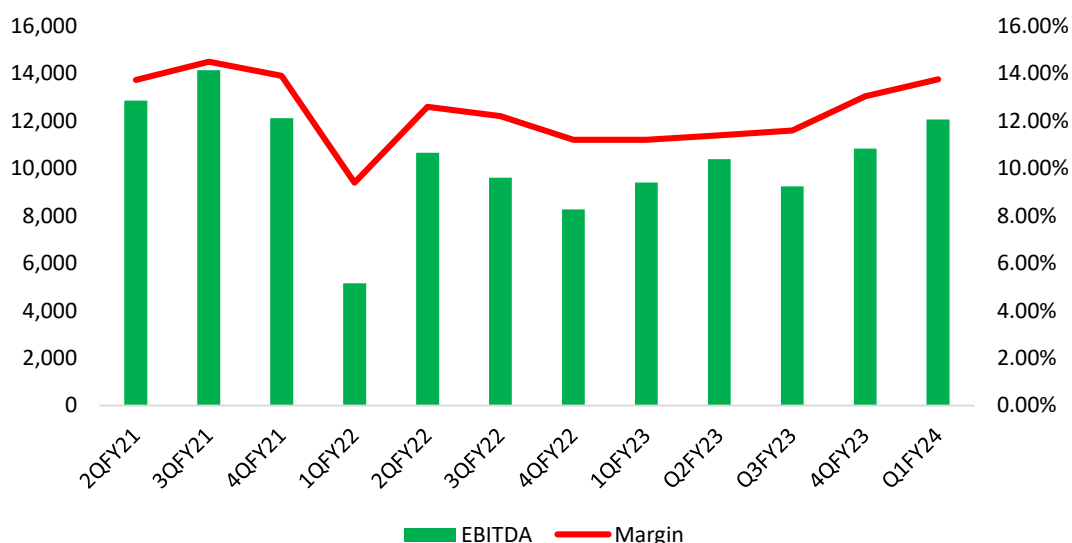
- Hero Motocorp reported a 14.5% increase in ICE business compared to the pre-pandemic level of 14%. The premium segment began well, concluding online bookings, and is aiming to expand capacity to cover 100 cities by December, having already surpassed 36 cities.
- **Margins:** ICE margins, are within the 14-16% range. Efforts have led to the return of raw margins to pre-covid levels. EV margins have improved by 100bps.
- The company is focusing on the 125cc segment, emphasizing products like Supersplendor. On the demand side, government spending has played a role. Capital expenditure is being aligned with demand.
- Recent rate hikes seem to have peaked after two or three instances. Positive prospects are anticipated for double-digit growth during the festive season.
- Urban and rural markets both show positive momentum. Stable raw material prices are expected, and normalcy in other expenses is observed.
- **HD 440X:** New bookings have been suspended upon reaching a milestone of 25,000 bookings. The company's attention is now directed towards ensuring an enhanced customer experience and efficient order fulfillment for these bookings. Presently operational in 26 cities, HD-owned stores will expand significantly with an addition of 100 stores, including Hero Premia and Hero 2.0 outlets, to strengthen distribution channels.
- **MS:** Cash burn per unit is expected to decrease, with double-digit revenue growth in the two-wheeler and market share gain.
- **Product:** Notable products include Destini Prime scooters, the Xtech Super Splendor 125cc motorcycle, and the Glamour series, focusing on classic style and comfort. Numerous products are planned for launch throughout the year.
- **Hero 2.0** initiative has initiated approximately 38 pilot dealerships, yielding favorable feedback. The aim is to incorporate 200-300 dealerships eventually, facilitating the sale of Vida and HD products through them.
- Hero's subsidiary Ather had (associates issue charges INR 1,750Mn (25% share)
- Spare parts contribute significantly to revenue, and a new line of business focusing on accessories is being developed.
- **Retail transitions** have been managed well, with inventory reduction in Q1. The company is geared up for a longer festival season and should see strong inventory stocking in 2Q/3QFY24
- Investment is being directed towards EV infrastructure. Gross margins remain steady despite time lag impacts.
- **EV:** Vida plans to expand from 36 to 100 cities, partnering with Ather for EV charging. EV leadership is a priority, with focus on servicing and test drives. HMCL adopts a three-part EV strategy: 1) Ather stake, 2) in-house development with German R&D for fixed battery, 3) Gogoro JV for battery swapping. Debut EV: V1 Vida.
- Short-term recovery is expected due to government spending and monsoons. Voluntary retirement saw a INR 160 crore.
- Minor investments were made in the Netherlands.
- Inflation is noted in the 2W sector, with replacements gaining traction. Scooters are also performing well.
- EV components are driving margins comparable to ICE products. Dealer launches are planned years in advance due to product development timelines.

**Exhibit 2: Quarterly result summary Q1FY24**

Standalone (INR mn)	Q1FY24	4QFY23	1QFY23	YoY (%)	QoQ (%)
Net sales	87,673	83,068	83,925	4.5	5.5
- Raw material	60,809	56,463	61,074	(0.4)	7.7
(% of net sales)	69.4	68.0	72.8	-132bps	-144bps
Gross Profit	26863.6	26604.9	22851.6	17.6	1.0
(% of net sales)	30.6%	32.0%	27.2%	1bps	1bps
- Staff expenditure	5,802	5,571	5,382	7.8	4.1
(% of net sales)	6.6	6.7	6.4	29bps	-9bps
- Other expenditure	9,000	10,204	8,062	11.6	(11.8)
(% of net sales)	10.3	12.3	9.6	-86bps	0bps
Total expenditure	75,610	72,238	74,518	1.5	4.7
EBITDA	12,063	10,830	9,408	28.2	11.4
EBITDA Margin (%)	13.8	13.0	11.2	189bps	153bps
Depreciation	1,690	1,686	1,630	3.7	0.2
EBIT	10,373	9,144	7,778	33.4	13.4
Interest	47	47	70	(33.2)	(0.4)
Other Income	2,222	2,369	530	319.3	(6.2)
PBT	12,548	11,467	8,238	52.3	9.4
Tax	2,701	2,877	1,993	35.5	(6.1)
Reported PAT	9,847	8,589	6,245	57.7	14.6
Adjusted PAT	8,247	8,589	6,245	32.1	(4.0)
Adjusted EPS (INR)	41.27	42.99	31.3	32.1	(4.0)
Total volumes (Nos)	13,53,000	12,70,492	13,90,193	(2.7)	6.5
Net realisation (INR)	64,799	65,382	60,370	7.3	(0.9)
EBITDA / vehicle (INR)	8,915	8,524	6,767	31.7	4.6

Source: Arianth Research, Company Filings

**Exhibit 3: Margin expansion led by softening in RM.**



Source: Arianth Research, Company Filings

**Exhibit 4:SOTP valuation**

SOTP Valuation	Amount (INR)
FY25E Core EPS (INR/share, A)	215
P/E Multiple assigned (x, B)	15
Value of Base Business (C=A*B)	3,222
Ather Energy (P/sales 4x) Per share Value (D) (stake 36.54%)	114
Hero Fincorp (P/sales 1.5x) Per share Value (E) (stake 41.19%)	363
D+E=F	476
Target Price (F+C)	3,699
CMP INR	2,995
<b>Potential Upside (%)</b>	<b>23.5%</b>

**Financial Performance**

Profit & Loss Statement					
YE: Mar (INR mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>2,92,455</b>	<b>3,38,057</b>	<b>3,68,390</b>	<b>3,92,818</b>	<b>4,18,787</b>
Growth, %	-5	15.6	9	7	7
RM expenses	-2,08,267	-2,38,581	-2,57,136	-2,73,401	-2,91,057
Employee expenses	-19,354	-21,898	-22,103	-23,569	-25,127
Other expenses	-31,145	-37,716	-39,093	-41,622	-44,305
<b>EBITDA</b>	<b>33,688</b>	<b>39,861</b>	<b>50,058</b>	<b>54,226</b>	<b>58,298</b>
Growth, %	-16	18	26	8	8
Margin, %	11.5	11.8	13.6	13.8	13.9
Depreciation	-6,498	-6,570	-7,630	-8,080	-8,530
<b>EBIT</b>	<b>27,190</b>	<b>33,292</b>	<b>42,427</b>	<b>46,146</b>	<b>49,767</b>
Growth, %	-19	22	27	9	8
Margin, %	9.3	9.8	11.5	11.7	11.9
Interest paid	-258	-199	-203	-207	-207
Other Income	5,569	5,652	6,782	6,857	6,932
Non-recurring Items	-	-	-	-	-
<b>Pre-tax profit</b>	<b>32,501</b>	<b>38,745</b>	<b>49,007</b>	<b>52,795</b>	<b>56,493</b>
Tax provided	-7,771	-9,640	-11,762	-13,055	-13,558
<b>Profit after tax</b>	<b>24,730</b>	<b>29,105</b>	<b>37,245</b>	<b>39,741</b>	<b>42,934</b>
Others (Minorities, Associates)	-	-	-	-	-
<b>Net Profit</b>	<b>24,730</b>	<b>29,105</b>	<b>37,245</b>	<b>39,741</b>	<b>42,934</b>
Growth, %	-17	18	28	7	8
<b>Net Profit (adjusted)</b>	<b>24,730</b>	<b>29,105</b>	<b>37,245</b>	<b>39,741</b>	<b>42,934</b>

Balance Sheet					
YE: Mar (INR mn)	FY22	FY23	FY24E	FY25E	FY26E
Cash & bank	1,751	3,455	3,306	23,036	41,550
Marketable securities cost	94,320	96,680	95,337	93,861	92,236
Debtors	23,043	27,982	31,288	31,210	33,274
Inventory	11,227	14,341	17,158	18,296	19,505
Loans & advances	402	436	470	499	532
Other current assets	6,525	7,974	8,771	9,649	10,613
<b>Total current assets</b>	<b>42,947</b>	<b>54,188</b>	<b>60,992</b>	<b>82,689</b>	<b>1,05,474</b>
Investments	12,204	13,424	14,766	16,243	17,867
Gross fixed assets	1,54,669	1,64,669	1,74,669	1,84,669	1,94,669
Less: Depreciation	-94,339	-1,00,909	-1,08,539	-1,16,619	-1,25,150
Add: Capital WIP	873	1,286	1,286	1,286	1,286
<b>Net fixed assets</b>	<b>60,330</b>	<b>63,760</b>	<b>66,130</b>	<b>68,049</b>	<b>69,519</b>
<b>Total assets</b>	<b>2,13,394</b>	<b>2,27,158</b>	<b>2,47,724</b>	<b>2,71,340</b>	<b>2,95,593</b>
Current liabilities	52,953	56,921	62,874	66,980	71,449
Provisions	3,385	3,738	3,089	4,642	4,874
<b>Total current liabilities</b>	<b>56,337</b>	<b>60,659</b>	<b>65,963</b>	<b>71,622</b>	<b>76,323</b>
Non-current liabilities	-772	-552	-552	-552	-552
<b>Total liabilities</b>	<b>55,565</b>	<b>60,107</b>	<b>65,411</b>	<b>71,071</b>	<b>75,772</b>
Paid-up capital	399.6	399.7	399.7	399.7	399.7
Reserves & surplus	1,57,430	1,66,651	1,81,913	1,99,870	2,19,422
Shareholders' equity	1,57,829	1,67,051	1,82,313	2,00,270	2,19,822
<b>Total equity &amp; liabilities</b>	<b>2,13,394</b>	<b>2,27,158</b>	<b>2,47,724</b>	<b>2,71,340</b>	<b>2,95,593</b>

Source: Arihant Research, Company Filings

<b>Cash Flow</b>					
<b>YE: Mar (INR mn)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
<b>Pre-tax profit</b>	<b>32,501</b>	<b>38,745</b>	<b>49,007</b>	<b>54,394</b>	<b>56,493</b>
Depreciation	6,498	6,570	7,630	8,080	8,530
Chg in working capital	-1,768	-7,873	-1,650	3,693	431
Total tax paid	-7,979	-9,419	-11,762	-13,055	-13,558
<b>CFO</b>	<b>21,443</b>	<b>22,569</b>	<b>36,646</b>	<b>46,463</b>	<b>45,170</b>
Capital expenditure	-6,042	-10,412	-10,000	-10,000	-10,000
Chg in investments	-1,526	-3,580	-	-	-
Other investing activities	5,569	5,652	6,782	6,857	6,933
<b>CFI</b>	<b>-2,000</b>	<b>-8,341</b>	<b>-3,218</b>	<b>-3,143</b>	<b>-3,067</b>
Free cash flow	13,874	8,576	26,646	36,463	35,170
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	-22,208	-23,380	-21,984	-23,382	-23,382
<b>CFF</b>	<b>-22,466</b>	<b>-23,579</b>	<b>-22,186</b>	<b>-23,589</b>	<b>-23,589</b>
<b>Net chg in cash</b>	<b>-3,023</b>	<b>-9,351</b>	<b>11,242</b>	<b>19,730</b>	<b>18,514</b>
Opening cash balance	4,438	1,751	3,455	3,306	23,036
<b>Closing cash balance</b>	<b>1,751</b>	<b>3,455</b>	<b>3,306</b>	<b>23,036</b>	<b>41,550</b>

<b>Ratios</b>					
<b>YE: Mar</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
EPS (INR)	124	146	186.4	198.9	214.8
PER (x)	24.5	20.8	16.3	15.3	14.1
Price/Book (x)	3.8	3.6	3.3	3.0	2.8
EV/EBITDA (x)	15.1	12.7	10.1	9.0	8.1
EV/Net sales (x)	1.7	1.5	1.4	1.2	1.1
RoE (%)	16.0	17.9	21.3	20.8	20.4
RoCE (%)	21.2	24.1	28.3	27.8	27.1
Fixed Asset turnover (x)	1.9	2.1	2.1	2.1	2.2
Dividend Yield (%)	3.1	3.3	3.3	3.3	3.3
Receivable (days)	29	30	31	29	29
Inventory (days)	16	18	20	20	20
Payable (days)	60	58	60	60	60
Net D/E ratio (x)	(0.6)	(0.6)	(0.5)	(0.6)	(0.6)

Source: Arianth Research, Company Filings

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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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