

CMP: INR 2547

Rating: Buy

Target Price: INR 3,322

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)	509,041
52w H/L (INR)	2,939/2,246
Avg Yearly Vol (in 000')	537

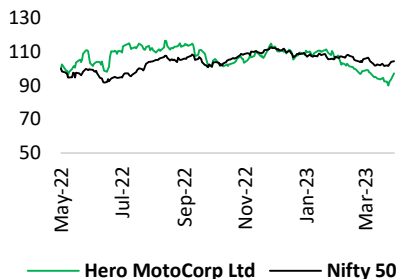
Shareholding Pattern %

(As on March, 2023)

Promoters	34.77
FII	27.01
DII	14.10
Public	24.12

Stock Performance (%)	1m	3m	12m
Hero MotoCorp	4.7	-4.0	1.8
Nifty	2.9	1.2	8.3

Hero MotoCorp Vs Nifty



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HeroMotoCorp beat our revenue estimate led by ASP and volume growth: Standalone revenue stood at INR 83,068 Mn, against our estimate of INR 83,100 Mn registering a growth of 12% YoY/ 3.4% QoQ. The increase in revenue was mainly driven by a YoY growth of 5% in average selling price (ASP), which increased by 1% compared to the previous quarter, reaching INR 65,382. Additionally, there was a YoY volume growth of 7%, which increased by 3% compared to the previous quarter, reaching a total of 12,70,492 units.

Expansion in EBITDA Margin led by LEAP program: EBITDA stood at INR 10,830 Mn, against our estimate of INR 9,890 Mn, Registering a growth of 31%YoY / 17%QoQ. On the margins front, EBITDA margin expansion by 189bps QoQ/ 153bps YoY to 13%, against our estimate of 11.8% led by price hikes and cost optimization.

Improvement on the MS and traction on the premium portfolio: On an FY basis, MS was down however it started to improve in the last 2 quarters. It plans to have more super-hit products other than Splendor. Launched various xtech variants. Few launches in the premium segment in FY24 would ensure a premiumization trend. It aims to have the maximum number of launches in HMCL history. Similarly, lot of positive traction for the HF Deluxe segment. Similarly, Hero Zoom has all the new features and customer acceptance is extremely well. A new launch in the form of Passion Plus is expected in the current quarter.

Strengthening rural demand: The company's strengthen its position in Q4 in terms of market shares. This is really a good time for the company to take it even further the marriage season is on, in fact, the marriage season is going to be there. The company is looking at further strengthening and uptake for the entire entry as well as the 100, 110ccsegment and that's where the strength is coming from.

Outlook and valuation

Going forward, HMCL has planned a series of launches under the Vida brand category for the next few months and will increase its penetration to 100 cities in FY24. The company indicated long-term margin guidance of 14%-15%. Premium products account for 60-70% of the industry volumes, indicating strong demand and expected to continue performing well. EBITDA and revenue estimates for the FY24E/FY25E have been reduced by 1%-2% respectively. However, due to lower capital expenditures resulting in lower depreciation and an increase in non-operating income from higher cash accruals, we are maintaining a similar range (PAT) for FY24E/FY25E.

We maintain our Buy rating on the stock and value it SOTP valuation for an unrevised target price of 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	20.6
FY23	3,38,057	39,861	29,105	145.6	11.79	17.8	17.5
FY24E	3,70,667	47,399	33,370	167.0	12.79	19.4	15.3
FY25E	4,02,653	51,946	36,448	182.4	12.90	20.0	14.0

Source: Arihant Research, Company Filings

Q4FY23 Conference call highlights

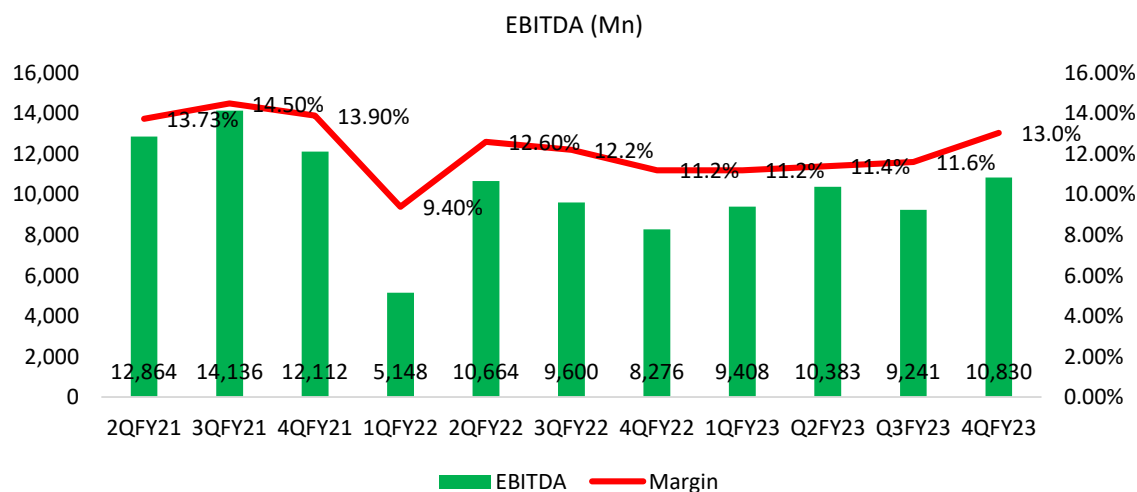
- **Parts Accessories and Merchandise revenue:** INR 1,271cr in Q4 vs. INR 1,250cr in Q3; FY23 INR 4,835cr vs INR 3,934cr in FY22. Global business revenues INR 1,150cr. PAM revenues at 15% of overall revenues for Q4 and ~25% of total revenues on an FY basis.
- **Vida:** Aim to cover 100 cities. Hero has the widest dealership network and would leverage the same. Recent re-pricing is across the industry and this should enable faster penetration in the EV category. With lower pricing, it would grow faster. Added 8 cities from 3 cities. Volumes would ramp up substantially in the next few quarters. Capacity is fungible for ICE and EV as well. Capacity ramp-up would happen based on demand. It does not require any new plants or facilities.
- Economic indicators are moving in the right direction. Management expects double-digit growth in the 2W industry.
- **Retail demand:** Overall double-digit growth in FY23 in motorcycles. Premium leading commuter, but it would come back soon. Govt plans on capex spending would generate employment and improve disposable incomes. In Q4, HMCL grew 3% market share and was ahead of the industry. Motorcycles were 51% indicating an excellent recovery.
- **125cc:** HMCL has increased its market share to 14% from ~11%. Similarly, it witnessed some improvement in the entry segment as well. Marriage season was good for the company. It has a host of new product launches lined up and would launch new motorcycles and scooters every quarter.
- **Inventory:** The company is maintaining 6 weeks' inventory.
- **Price Hikes:** Management does not expect cost escalation further as RM prices are stable. Accordingly, there is headroom to improve margins. EVs would continue to burn cash for now.
- **Cost Reduction for Evs:** LEAP program is actively working on cutting costs.
- **Urban vs Rural:** March witnessed a few festivals which led to better demand. People are still concerned about spending activity. Retail finance penetration has gone up to 59%. Seeing an upswing in March and it has continued in April and May. Harley Davidson 350cc motorcycle would be launched soon.
- **Prices Increases:** ~INR 4,000 increase in FY23 and INR 600 in April on a per vehicle basis.
- **Premium Segment:** It plans to launch products across 150-350cc segments. The strategy would be to build portfolios.
- **Demand side festive:** The government spending was ~INR 10lac cr in FY23 vs ~INR 7lac cr in FY22. Management expects the bulk of demand to come from rural as it usually comes with some lag. FY24 would be significantly better. 150cc grew by 28% while industry grew by 14%. The premium has come back while we're waiting for the entry/ commuter to come back. EBITDA Margins ~200bps of which ~80bps is coming from other expenses.
- **Marketing and Promotion:** The focus would be on new launches every year. Portfolio moving forward will be more premium and margin accretive. As it scales up, would further aid the margin profile.
- **Capital Allocation:** The company payout ratio has been one of the highest in the industry. In the past, it deployed cash in the right opportunities, for eg, Ather, Hero motorcycles, Hero Fincorp
- **Exports:** 25% of volumes come from global business. In revenue terms, it's ~5% of revenues and plan to bring it up to 10%.

Exhibit 2: Quarterly result summary Q4FY23

Standalone (INR mn)	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)
Net sales	83,068	80,310	74,217	11.9	3.4
- Raw material	56,463	55,743	51,424	9.8	1.3
(% of net sales)	68.0	69.4	69.3	-132bps	-144bps
Gross Profit	26604.9	24566.6	22792.9	16.7	8.3
(% of net sales)	32.0%	30.6%	30.7%	1bps	1bps
- Staff expenditure	5,571	5,456	4,763	16.9	2.1
(% of net sales)	6.7	6.8	6.4	29bps	-9bps
- Other expenditure	10,204	9,869	9,754	4.6	3.4
(% of net sales)	12.3	12.3	13.1	-86bps	0bps
Total expenditure	72,238	71,068	65,942	9.5	1.6
EBITDA	10,830	9,241	8,276	30.9	17.2
EBITDA Margin (%)	13.0	11.5	11.2	189bps	153bps
Depreciation	1,686	1,620	1,585	6.4	4.1
EBIT	9,144	7,621	6,691	36.7	20.0
Interest	47	49	67	(29.7)	(4.5)
Other Income	2,369	1,832	1,398	69.5	29.3
PBT	11,467	9,404	8,022	42.9	21.9
Tax	2,877	2,294	1,752	64.3	25.4
Reported PAT	8,589	7,111	6,271	37.0	20.8
Adjusted PAT	8,589	7,111	6,271	37.0	20.8
Adjusted EPS (INR)	42.99	35.6	31.4	37.0	20.8
Total volumes (Nos)	1,270,492	1,239,693	1,188,884	6.9	2.5
Net realisation (INR)	65,382	64,782	62,426	4.7	0.9
EBITDA / vehicle (INR)	8,524	7,455	6,961	22.5	14.3

Source: Arianth Research, Company Filings

Exhibit 3: Company guides for mid term target for margins at 14-16% (Q4 it was 13% vs 11% YoY)



Source: Arianth Research, Company Filings

Financial Performance

Profit & Loss Statement				
YE: Mar (INR mn)	FY22	FY23	FY24E	FY25E
Net sales	2,92,455	3,38,057	3,70,667	4,02,653
Growth, %	-5	15.6	10	9
RM expenses	-2,08,267	-2,38,581	-2,61,691	-2,83,871
Employee expenses	-19,354	-21,898	-22,240	-24,159
Other expenses	-31,145	-37,716	-39,338	-42,677
EBITDA	33,688	39,861	47,399	51,946
Growth, %	-16	18	19	10
Margin, %	11.5	11.8	12.8	12.9
Depreciation	-6,498	-6,570	-8,996	-9,546
EBIT	27,190	33,292	38,403	42,400
Growth, %	-18	22	15	10
Margin, %	9.3	9.8	10.4	10.5
Interest paid	-258	-199	-209	-219
Other Income	5,569	5,652	5,714	5,777
Non-recurring Items	-	-	-	-
Pre-tax profit	32,501	38,745	43,908	47,958
Tax provided	-7,771	-9,640	-10,538	-11,510
Profit after tax	24,730	29,105	33,370	36,448
Others (Minorities, Associates)	-	-	-	-
Net Profit	24,730	29,105	33,370	36,448
Growth, %	-16	18	15	9
Net Profit (adjusted)	24,730	29,105	33,370	36,448

Balance Sheet				
YE: Mar (INR mn)	FY22	FY23	FY24E	FY25E
Cash & bank	1,751	3,455	3,691	5,182
Marketable securities cost	94,320	96,680	1,00,842	1,10,927
Debtors	23,043	27,982	30,681	33,329
Inventory	11,227	14,341	15,724	17,081
Loans & advances	402	436	478	519
Other current assets	6,525	7,974	8,771	9,649
Total current assets	42,947	54,188	59,346	65,759
Investments	12,204	13,424	14,766	16,243
Gross fixed assets	1,54,669	1,58,669	1,68,669	1,78,669
Less: Depreciation	-94,339	-1,00,909	-1,09,905	-1,19,450
Add: Capital WIP	873	1,286	1,603	1,603
Net fixed assets	60,330	57,760	58,764	59,218
Total assets	2,17,202	2,29,052	2,41,035	2,59,465
Current liabilities	56,487	56,921	62,199	67,367
Provisions	3,385	3,738	3,925	4,121
Total current liabilities	59,872	60,659	66,124	71,488
Non-current liabilities	-772	-552	-552	-552
Total liabilities	59,100	60,107	65,573	70,937
Paid-up capital	399.6	399.7	399.7	399.7
Reserves & surplus	1,57,430	1,66,651	1,76,639	1,89,704
Shareholders' equity	1,58,102	1,68,945	1,75,463	1,88,528
Total equity & liabilities	2,17,202	2,29,052	2,41,035	2,59,465

Source: Arihant Research, Company Filings

Cash Flow				
YE: Mar (INR mn)	FY22	FY23	FY24E	FY25E
Pre-tax profit	32,501	38,745	43,908	47,958
Depreciation	6,498	6,570	8,996	9,546
Chg in working capital	1,767	-7,134	-3,731	442
Total tax paid	-7,979	-9,419	-10,538	-11,510
CFO	27,476	23,308	33,130	40,878
Capital expenditure	-6,042	-4,412	-10,317	-10,000
Chg in investments	-1,526	-3,580	-5,505	-11,561
Other investing activities	5,569	5,652	5,715	5,776
CFI	-2,000	-2,341	-10,107	-15,785
Free cash flow	19,907	15,315	17,308	19,317
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	-22,208	-23,382	-23,382	-23,382
CFF	-22,466	-23,581	-23,591	-23,602
Net chg in cash	3,010	-2,614	-568	1,491
Opening cash balance	3,863	1,751	3,455	3,691
Closing cash balance	1,751	3,455	3,691	5,182

Ratios				
YE: Mar	FY22	FY23	FY24E	FY25E
EPS (INR)	124	146	167.0	182.4
PER (x)	20.6	17.5	15.3	14.0
Price/Book (x)	3.2	3.0	2.9	2.7
EV/EBITDA (x)	12.3	10.3	8.5	7.6
EV/Net sales (x)	1.4	1.2	1.1	1.0
RoE (%)	16.0	17.8	19.4	20.0
RoCE (%)	21.2	23.9	25.7	26.6
Fixed Asset turnover (x)	1.9	2.1	2.2	2.3
Dividend Yield (%)	3.7	3.9	3.9	3.9
Receivable (days)	29	30	30	30
Inventory (days)	16	18	18	18
Payable (days)	60	58	58	58
Net D/E ratio (x)	(0.6)	(0.6)	(0.6)	(0.6)

Source: Arian 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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