

CMP: INR 2656

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)	530,850
52w H/L (INR)	2,939/2,147
Avg Yearly Vol (in 000')	641

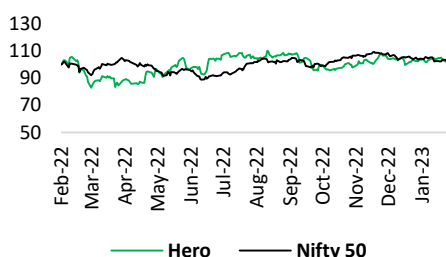
Shareholding Pattern %

(As on Dec, 2022)

Promoters	34.78
FII	27.48
DII	27.30
Public	10.45

Stock Performance (%)	1m	3m	12m
Hero MotoCorp	-3.59	-3.0	0.2
Nifty	-2.05	1.14	2.97

Hero MotoCorp Vs Nifty



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Revenue slightly below estimate led by lower volume: Standalone revenue stood at INR 80,310 Mn, against our estimate of INR 78,870 Mn registering a growth of 1.9% YoY/ (-11.5% QoQ). The company sold 12.40 lakh units during the quarter, 4% lower than the year-ago period, and more than <13% than the preceding quarter.

Maintained its EBITDA Margin on QoQ: EBITDA stood at INR 9,241 Mn, against our estimate of INR 9,303 Mn, Registering a de-growth of (-11%YoY) / (-3.7%QoQ). On the margins front, EBITDA margin expansion by 7bps QoQ/ -67bps YoY to 11.5%, against our estimate of 11.8%. Despite the lower sales, aided by price hikes and a lower share of expenses. The company has started recovering market shares and expect this journey to continue backed by exciting launches lined up over the next few quarters, especially in the premium segment.

Performance on the bottom line led by : Standalone PAT saw a growth of 3.6%YoY/ (-0.7%QoQ) to INR 7,110.6 Mn against our estimate of INR 6,466 Mn.

Exports on a recovery path: Global business is medium to long term, which is actually scaling up to be a certain percentage of overall revenue and on EV clearly it is a geographical expansion, followed by portfolio expansion. So those are broadly, Strategies for company on the medium-term moving forward and the company is going to grow on top-line and market shares.

Strengthening rural demand: The company's strengthen their position in Q3 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 for the next six months. So, the auspicious days are there. The company is looking at a further strengthening and uptake for entire entry as well as the 100, 110cc segment and that's where the strength is coming from.

Outlook and valuation

HMCL has maintained its EBITDA Margin on a sequential basis, however, the overall slightly weak set of numbers in Q3FY23 led by lower volume and export performance. Going forward, HMCL has lined up multiple product launches in different cities with entry-mid vehicles that would add ~20% to the market size also It has planned a series of launches under VIDA category for next 18-24 months and would increase its penetration to other cities in FY24. **We maintain our Buy rating on the stock and value it SOTP valuation for a revised target price of INR 3,322 per share (earlier target price; INR 3,337 per share).**

Exhibit 1: Financial Performance

YE	March Net Sales (INR Mn)	EBITDA	PAT EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)	
FY22	2,92,455	33,688	24,730	123.8	11.52	16.0	21.1
FY23E	3,37,388	39,732	28,202	141.1	11.78	17.5	18.5
FY24E	3,75,288	47,983	33,485	167.6	12.79	19.8	15.6
FY25E	4,05,148	52,264	36,358	182.0	12.90	20.0	14.4

Source: Arihant Research, Company Filings

Q3FY23 Conference call Highlights

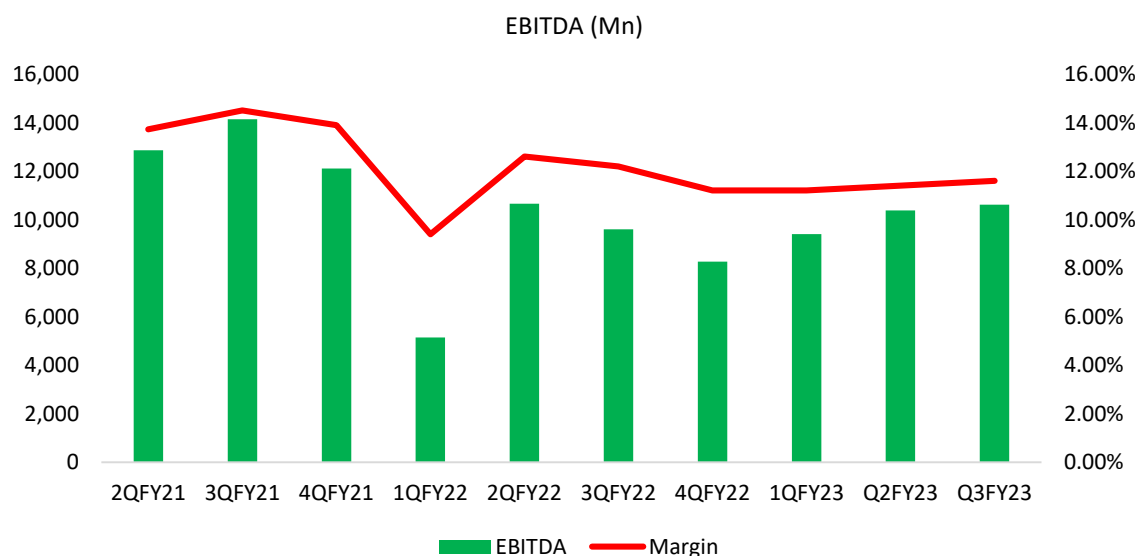
- The company's focus on increasing non-product revenue is yielding excellent results with our parts, accessories and merchandise business.
- **Gross profit** per vehicle has reached all-time high of INR19,800 per vehicle, which increases company operating leverage and will benefit of higher volumes kick-in in coming quarters, this has been made possible through a combination of judicious price increases and accelerate selling program across the supply chain.
- **Margin:** EBITDA margin At 11.5% is after absorbing spends on Emerging Mobility Business unit. To the extent of 70bps reflecting underlying ICE business margins of 12.2%, with overall inflation expected to stabilize margins should be improving moving forward.
- **EV:** During the quarter, the company commenced deliveries of Vida and are now present in three cities. The company will continue to expand more cities in coming months and quarter.
- **Product Mix:** On the 125 cc they have actually made good progress with Glamour XTEC. XTEC has added to The confidence that is given in the market at tremendous amount of acceptability. The company also had a campaign that's been running with Ram Charan and that's created a lot of excitement in the market. Strengthening 125 cc portfolio as go forward with the overall 125 cc which in the Super Splendor will be coming in with an XTEC. XTEC contributes 30% of portfolio. 125cc is work in progress and some new information toward the end of the month for 125cc.
- **Inventory:** The company has done inventory adjustments ~5%. The inventory currently stands at ~7 weeks and expects inventory in the range of 4-6 weeks going forward.
- **EV:** The company launched its first EV-scooter under VIDA brand initially in 3 cities (Delhi, Bangalore and Jaipur). It has planned a series of launches under this category for next 18-24 months and would increase its penetration to other cities in FY24. It is also developing EV ecosystem with establishment of charging stations in these 3 cities.
- **Demand Outlook:** Premium products account for 60-70% of the industry volumes, indicating strong demand and expected to continue performing well going ahead. The company expects its spare revenue business to surge going forward on the back of increasing preference towards branded components of organized players and targets the spare revenue to contribute to ~15% going forward. The company expects double-digit revenue growth for FY24.
- **Replacement:** The company indicated that the replacement buying has increased by ~20%. It indicated challenging situation in exports over near term while maintain long term double digit volume growth guidance with a target to take export contribution to 10% of overall volume over next 4-5 years.
- **Hero FinCorp:** Company's performance is improving consistently and contributing decently to consolidated bottom line. Its PAT for the quarter stood at ~INR1.9bn (vs. INR 1.6bn in 2QFY23).
- **Price hike:** The company took a price hike of ~INR 930 ex-showroom in Dec FY22 and did a leap saving of ~80bps in Q3FY23.
- **MS:** The company's market share in scooter segment increased to 9% in Q3FY23 from 6% QoQ.
- **Other income:** The company has higher non-operating income was on account of absence of MTM loss, which impacted performance over past 2-3 quarters. Moreover, better profitability from Hero FinCorp and gain on revaluation of investment in Ather supported higher PAT at consolidated level.

Exhibit 2: Quarterly result summary Q3FY23

Standalone (INR mn)	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)
Net sales	91,446	90,754	78,833	16.0	0.8
- Raw material	65,454	65,301	55,943	17.0	0.2
(% of net sales)	71.6	72.0	71.0	61bps	-38bps
Gross Profit	25992.4	25452.1	22889.5	13.6	2.1
(% of net sales)	28.4%	28.0%	29.0%	-1bps	0bps
- Staff expenditure	5,646	5,490	5,180	9.0	2.8
(% of net sales)	6.2	6.0	6.6	-40bps	12bps
- Other expenditure	9,731	9,579	8,109	20.0	1.6
(% of net sales)	10.6	10.6	10.3	35bps	9bps
Total expenditure	80,831	80,371	69,233	16.8	0.6
EBITDA	10,615	10,383	9,600	10.6	2.2
EBITDA Margin (%)	11.6	11.4	12.2	-57bps	17bps
Depreciation	1,661	1,634	1,644	1.0	1.6
EBIT	8,954	8,749	7,956	12.5	2.3
Interest	65	33	65	0.1	96.9
Other Income	997	921	1,216	(18.0)	8.4
PBT	9,886	9,637	9,107	8.6	2.6
Tax	2,425	2,476	2,246	8.0	(2.0)
Reported PAT	7,461	7,161	6,861	8.7	4.2
Adjusted PAT	7,461	7,161	6,861	8.7	4.2
Adjusted EPS (INR)	34.8	35.8	38.8	(10.1)	(2.8)
Total volumes (Nos)	12,39,693	14,28,168	12,92,136	(4.1)	(13.2)
Net realisation (INR)	73,765	63,545	61,010	20.9	16.1
EBITDA / vehicle (INR)	8,563	7,270	7,430	15.2	17.8

Source: Arianth Research, Company Filings

Exhibit 3: Hero is working on premiumization. It expects this would aid margin expansion in the near term.



Source: Arianth Research, Company Filings

Exhibit 4:SOTP valuation

SOTP Valuation	Amount (INR)
FY25E Core EPS (INR/share, A)	182
P/E Multiple assigned (x, B)	15
Value of Base Business (C =A*B)	2,730
Ather Energy (P/sales 4x) Per share Value (D)	108
Hero Fincorp (P/sales 2x) Per share Value (E)	484
D+E=F	592
Target Price (F+C)	3,322
CMP INR	2,615
Potential Upside (%)	27%

Financial Performance

Profit & Loss Statement

YE: Mar (INR mn)	FY22	FY23E	FY24E	FY25E
Net sales	2,92,455	3,37,388	3,75,288	4,05,148
Growth, %	-5	15.4	11	8
RM expenses	-2,08,267	-2,40,895	-2,64,953	-2,85,629
Employee expenses	-19,354	-20,918	-22,517	-24,309
Other expenses	-31,145	-35,843	-39,835	-42,945
EBITDA	33,688	39,732	47,983	52,264
Growth, %	-16	18	21	9
Margin, %	11.5	11.8	12.8	12.9
Depreciation	-6,498	-7,978	-9,326	-9,876
EBIT	27,190	31,754	38,657	42,389
Growth, %	-19	17	22	10
Margin, %	9.3	9.4	10.3	10.5
Interest paid	-258	-271	-284	-299
Other Income	5,569	5,625	5,687	5,749
Pre-tax profit	32,501	37,107	44,059	47,839
Tax provided	-7,771	-8,906	-10,574	-11,481
Profit after tax	24,730	28,202	33,485	36,358
Others (Minorities, Associates)	-	-	-	-
Net Profit	24,730	28,202	33,485	36,358
Growth, %	-17	14	19	9
Net Profit (adjusted)	24,730	28,202	33,485	36,358

Balance Sheet

YE: Mar (INR mn)	FY22	FY23E	FY24E	FY25E
Cash & bank	1,751	1,524	3,075	7,443
Marketable securities cost	94,320	93,632	1,01,924	1,10,950
Debtors	23,043	26,583	29,569	31,922
Inventory	11,227	12,951	14,406	15,552
Loans & advances	402	465	512	552
Other current assets	6,525	7,177	7,895	8,684
Total current assets	42,947	48,701	55,457	64,153
Investments	12,204	13,424	14,766	16,243
Gross fixed assets	1,54,669	1,64,669	1,74,669	1,84,669
Less: Depreciation	-94,339	-1,02,317	-1,11,643	-1,21,519
Add: Capital WIP	873	1,603	1,603	1,603
Net fixed assets	60,330	62,352	63,026	63,150
Total assets	2,13,479	2,25,425	2,42,490	2,61,813
Current liabilities	53,038	58,820	64,430	69,417
Provisions	3,385	3,554	3,732	3,918
Total current liabilities	56,423	62,375	68,162	73,336
Non-current liabilities	-772	-772	-772	-772
Total liabilities	55,650	61,602	67,390	72,563
Paid-up capital	399.6	399.6	399.6	399.6
Reserves & surplus	1,57,430	1,63,424	1,74,700	1,88,850
Shareholders' equity	1,57,829	1,63,823	1,75,100	1,89,250
Total equity & liabilities	2,13,479	2,25,425	2,42,490	2,61,813

Source: Arihant Research, Company Filings

Cash Flow				
YE: Mar (INR mn)	FY22	FY23E	FY24E	FY25E
Pre-tax profit	32,501	37,107	44,059	47,839
Depreciation	6,498	7,978	9,326	9,876
Chg in working capital	-1,682	-2,687	582	845
Total tax paid	-7,979	-8,906	-10,574	-11,481
CFO	21,528	28,139	37,991	41,628
Capital expenditure	-6,042	-10,729	-10,000	-10,000
Chg in investments	-1,526	-533	-9,635	-10,502
Other investing activities	5,569	5,625	5,688	5,748
CFI	-2,000	-5,637	-13,947	-14,754
Free cash flow	13,959	16,877	18,356	21,126
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-22,208	-22,208	-22,208	-22,208
CFF	-22,466	-22,479	-22,492	-22,506
Net chg in cash	-2,938	23	1,551	4,368
Opening cash balance	4,438	1,751	1,524	3,075
Closing cash balance	1,751	1,524	3,075	7,443

Ratios				
YE: Mar	FY22	FY23E	FY24E	FY25E
EPS (INR)	124	141	167.6	182.0
PER (x)	21.1	18.5	15.6	14.4
Price/Book (x)	3.3	3.2	3.0	2.8
EV/EBITDA (x)	12.7	10.8	8.7	7.7
EV/Net sales (x)	1.5	1.3	1.1	1.0
RoE (%)	16.0	17.5	19.8	20.0
RoCE (%)	21.2	23.4	26.3	26.5
Fixed Asset turnover (x)	1.9	2.0	2.1	2.2
Dividend Yield (%)	3.6	3.6	3.6	3.6
Receivable (days)	29	29	29	29
Inventory (days)	16	16	16	16
Payable (days)	60	60	60	60
Net D/E ratio (x)	(0.6)	(0.6)	(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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