

**CMP: INR 2,762**

**Rating: Buy**

**Target Price: INR 3,405**

**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)	39.96
Mkt Cap (INR mn)	5,51,690
52w H/L (INR)	2,953/2,148
Avg Yearly Vol (in 000')	691

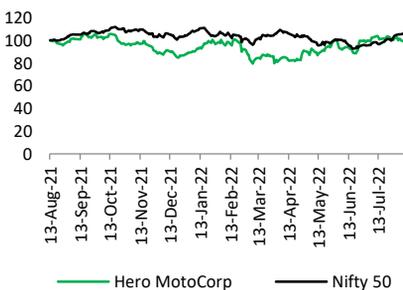
**Shareholding Pattern %**

(As on June, 2022)

Promoters	34.78
FII	42.92
DII	11.50
Public	10.80

Stock Performance (%)	1m	3m	12m
Hero MotoCorp	-3.9	15.0	-0.76
Nifty	10.2	11.9	8.1

**Hero MotoCorp Vs Nifty**



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**Revenue significant improvement on sequential basis:** Hero MotoCorp (HMCL) standalone revenue stood at INR 83,925 Mn, against our estimate of INR 87,430 Mn registering a growth 53% YoY/ 13.1% QoQ. The company shows significant improvement sequentially led by positive momentum in the industry and coupled with market share gain.

**Maintained its EBITDA Margin on QoQ:** EBITDA stood at INR 9,408 Mn, against our estimate of INR 10,750 Mn, Registering a growth of 82.7%YoY/ 13.7%QoQ. On the margins front, EBITDA margin expansion by 183bps YoY/ 6bpsQoQ to 11.2%, against our estimate of 12.3%. Despite the commodity headwinds and supply chain disruptions consequent to geo-political issues, the Company maintained its EBITDA margins sequentially, through a combination of cost saving measures, judicious price increases and premiumization of model lineup. The PBT for the quarter was impacted by lower other income arising from MTM (mark to market loss), to the extent of INR 600 Mn.

**Xtech series gaining the market share and Hero MotoCorp gearing up to launch EV in festive season:** Total Volume increased by 35.7%YoY/16.9% QoQ to 1,390,193 units. The company has launched several exciting products recently on XTEC series; Splendor XTEC, Glamour XTEC, Passion XTEC, and Destini XTEC. These combined with line up of future launches should help the company in gaining market shares. The Company is gearing up to launch Electric vehicle in festive season and has forged several partnerships and collaboration on this front including charging infrastructure.

**Outlook and valuation**

At the CMP of INR 2,762, Hero MotoCorp is trading at a PE of 15.4x, its FY24E EPS of INR 179. HMCL has maintained its EBITDA Margin on a sequential basis, however, the overall mix set of numbers in Q1FY23.

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 including upcoming Electric vehicles (EV) 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 19x to its FY24E EPS of INR 179, which yields a revised target price of INR 3,405 per share (earlier target price; INR 3,323 per share). We maintain our Buy rating on the stock**

YE March (INR Mn)	Net Sales	EBITDA	PAT EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
<b>FY21</b>	3,08,006	40,192	29,642	148.4	13.05	20.2
<b>FY22</b>	2,92,455	33,688	24,730	123.8	11.52	16.0
<b>FY23E</b>	3,40,576	43,508	31,314	156.7	12.77	17.6
<b>FY24E</b>	3,81,017	49,850	35,805	179.2	13.08	20.6

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

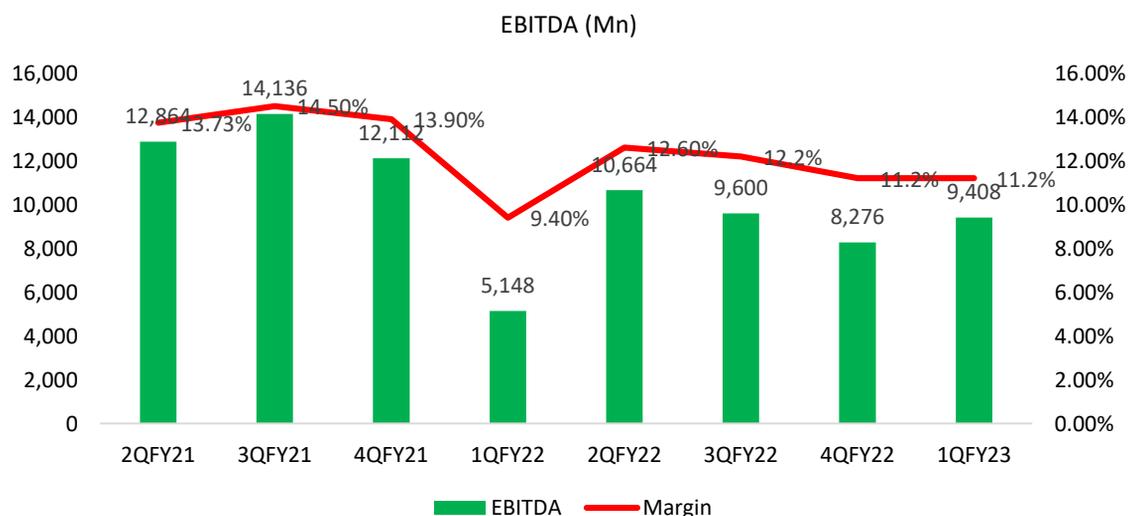
**Q1FY23 Conference call Highlights**

- **Q1FY23 shows** significant improvement sequentially on the top line led by positive momentum in the industry and coupled with market share gain.
- **Parts business (12.6% revenue contribution):** stood at INR 10,610 Mn and continue to do well.
- **Premium Portfolio:** The company focuses on building a robust portfolio in the premium segment. Also planning to do premiumization of existing model XTECH Variant- Splendor, Destini, Glamour, and fashion XTEC out skipping supply as of now. It should help to increase market share along with pricing and realization.
- **Macro and Micro Economic Factor:** As the global economy facing headwinds of inflation and the compulsion of the federal banks to raise the interest rate, geography has an impact on the growth and the management expecting it will have established in 1 or 2 quarter. While, India is a much better place in a comparison of Inflation, currency, interest rate, GST collection, and PMI Index, IIP index-all indicators in a positive direction coupled with short-term normal monsoon and crop cycle. The management is positive about the auto industry.
- **Demand Environment:** Q1FY23 is better than Q4FY22. In Q1FY23, retail is better than wholesale, and in Q2FY23, the company will build a better level as compared to July. As the festive session is coming so, more focus on that and momentum is in the right direction. With all the consumption spending which is happening month here and there is a swing.
- **Semiconductor:** Chip shortage basically for Xtech variant. The demand for the premium variant is far better than the expectation as a ratio. The consumer is willing to spend.
- **Raw Material Cost:** Overall, the balance of commodity peaked off therefore, moving forward will see stabilized or coming down depending on the all rate increased cycle have impact should be auguring well. 1<sup>st</sup> April 2022 of INR 850 ex-showrooms and 1<sup>st</sup> July 2022 of INR 1200 ex-showroom which will get reflected in Q2FY23. 6-7 quarter prices increase have lag cost increases because have to balance both growth and profitability. Going forward, once the commodity stabilized than will have the option to move the industry ahead the price increases and opportunity to recover some of the lost margins. The company Margin is at 11% and this needs to come back to at least 14%.
- **Employee headcount:** 75% employees, the company don't move employee as compared to the volume in this industry. A large part of the manifest of pandemic and BS4 used to do 8 million volumes. The company doesn't take employees up and down as compared to the volume making it more of an economic crisis, not a humanitarian crisis. The company did not fire any employees even making sure that they get their right full pay.
- **Revenue:** The company is focusing on the top line rather than adjusting employees. Scaling up the employee growth priorities in global business whether it is EV space the company will be judicial in all of them.
- **Fincorp:** Huge growth in NBFC, once the growth comes back will see huge growth on the asset side. The credit cost is 7% right now, the company is trying to come down to 6-5.5% the endeavor to bring down in 6-7 quarters so, that the ROA and ROE will improve going forward over the next 6 quarters.
- **Exports:** The exports have softer quarter due to issues on the inflation at global level and sales impacted in Bangladesh, Sri-lanka Nepal, and Columbia. The management believes this is short-term and will move up in H2FY23.
- **Scoter:** In Q1FY23, launch Xtech destini-125cc with led light and Bluetooth become the hit favorite. Going forward will see more action from 110cc itself decided to give some new features and July it's time for innovation and rejuvenation of the portfolio. Over the quarter portfolio going to be far more consolidated.
- **EV:** The company will be going to announce during the festive session.
- **Inventory level:** Looking like double-digit growth and a decrease in unemployment in a rural area that is much positive for the company. The company is expecting good momentum in the festive session. Inventory is down 6-8 weeks depending on the month as at the end of June came to 6-7 and building up as going along.
- **Regulatory:** Real driving emission norm RDE2. It does not change anything this is just the onboarding changes. The product is ready for that and not much cost-effective changes. This is a smooth transaction like any of their changes.
- **Realization QoQ:** Miss on the parts side sequentially and other operating income decline from INR 1860 Mn Q4FY22 vs INR 1090 Mn in Q1FY23 and Neemrana fiscal benefit expired in Q4FY22. Application service provider (ASP) gone up by INR 800 per vehicle INR 51200- INR 51900 better mix.
- **Replacement Mix:** Demand is coming back as seen in Q1FY23. Pre-pandemic closure to 30% does fluctuate much to 20-24% back.

### Quarterly result summary Q1FY23

Standalone (INR mn)	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)
<b>Net sales</b>	<b>83,925</b>	<b>74,217</b>	<b>54,871</b>	<b>53.0</b>	<b>13.1</b>
- Raw material	61,074	51,424	39,796	53.5	18.8
(% of net sales)	72.8	69.3	72.5	24bps	348bps
Gross Profit	22851.6	22792.9	15074.6	51.6	0.3
(% of net sales)	27.2%	30.7%	27.5%	0bps	-3bps
- Staff expenditure	5,382	4,763	4,357	23.5	13.0
(% of net sales)	6.4	6.4	7.9	-153bps	-1bps
- Other expenditure	8,062	9,754	5,570	44.8	(17.3)
(% of net sales)	9.6	13.1	10.2	-54bps	-354bps
Total expenditure	74,518	65,942	49,722	49.9	13.0
<b>EBITDA</b>	<b>9,408</b>	<b>8,276</b>	<b>5,148</b>	<b>82.7</b>	<b>13.7</b>
<b>EBITDA Margin (%)</b>	<b>11.2</b>	<b>11.2</b>	<b>9.4</b>	<b>183bps</b>	<b>6bps</b>
Depreciation	1,630	1,585	1,630	0.0	2.9
<b>EBIT</b>	<b>7,778</b>	<b>6,691</b>	<b>3,519</b>	<b>121.1</b>	<b>16.2</b>
Interest	70	67	61	14.6	4.8
Other Income	530	1,398	1,386	(61.8)	(62.1)
<b>PBT</b>	<b>8,238</b>	<b>8,022</b>	<b>4,844</b>	<b>70.1</b>	<b>2.7</b>
Tax	1,993	1,752	1,189	67.6	13.8
<b>Reported PAT</b>	<b>6,245</b>	<b>6,271</b>	<b>3,654</b>	<b>70.9</b>	<b>(0.4)</b>
<b>Adjusted PAT</b>	<b>6,245</b>	<b>6,271</b>	<b>3,654</b>	<b>70.9</b>	<b>(0.4)</b>
Adjusted EPS (INR)	31.3	31.4	18.3	70.9	(0.4)
<b>Total volumes (Nos)</b>	<b>13,90,193</b>	<b>11,88,884</b>	<b>10,24,489</b>	<b>35.7</b>	<b>16.9</b>
Net realisation (INR)	60,370	62,426	53,559	12.7	(3.3)
EBITDA / vehicle (INR)	6,767	6,961	5,025	34.7	(2.8)

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



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

Going forward, once the commodity stabilized than will have the option to move the industry ahead the price increases and opportunity to recover some of the lost margins. The company Margin is at 11% and this needs to come back to at least 14%.

## Profit &amp; Loss Statement

YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>3,08,006</b>	<b>2,92,455</b>	<b>3,40,576</b>	<b>3,81,017</b>
Growth, %	7	-5	16	12
RM expenses	-2,17,623	-2,08,267	-2,39,765	-2,67,855
Employee expenses	-18,987	-19,354	-21,116	-22,861
Other expenses	-31,203	-31,145	-36,187	-40,451
<b>EBITDA</b>	<b>40,192</b>	<b>33,688</b>	<b>43,508</b>	<b>49,850</b>
Growth, %	2	-16	29	15
Margin, %	13.0	11.5	12.8	13.1
Depreciation	-6,769	-6,498	-7,659	-8,139
<b>EBIT</b>	<b>33,424</b>	<b>27,190</b>	<b>35,849</b>	<b>41,711</b>
Growth, %	6	-19	32	16
Margin, %	10.9	9.3	10.5	10.9
Interest paid	-218	-258	-271	-284
Other Income	5,799	5,569	5,625	5,687
Non-recurring Items	-	-	-	-
<b>Pre-tax profit</b>	<b>39,004</b>	<b>32,501</b>	<b>41,203</b>	<b>47,113</b>
Tax provided	-9,362	-7,771	-9,889	-11,308
<b>Profit after tax</b>	<b>29,642</b>	<b>24,730</b>	<b>31,314</b>	<b>35,805</b>
Others (Minorities, Associates)	-	-	-	-
<b>Net Profit</b>	<b>29,642</b>	<b>24,730</b>	<b>31,314</b>	<b>35,805</b>
Growth, %	-18	-17	27	14
<b>Net Profit (adjusted)</b>	<b>29,642</b>	<b>24,730</b>	<b>31,314</b>	<b>35,805</b>

## Balance Sheet

YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
Cash & bank	4,438	1,751	3,715	6,920
Marketable securities cost	93,902	94,320	93,632	1,01,924
Debtors	24,268	23,043	26,834	30,021
Inventory	14,696	11,227	13,074	14,626
Loans & advances	892	402	463	518
Other current assets	5,709	6,525	7,177	7,895
Total current assets	50,002	42,947	51,263	59,979
Investments	11,094	12,204	13,424	14,766
Gross fixed assets	1,49,322	1,54,669	1,64,669	1,74,669
Less: Depreciation	-87,841	-94,339	-1,01,998	-1,10,137
Add: Capital WIP	178	873	1,603	1,603
Net fixed assets	61,480	60,330	62,671	64,532
<b>Total assets</b>	<b>2,16,551</b>	<b>2,13,479</b>	<b>2,28,307</b>	<b>2,48,518</b>
Current liabilities	61,803	53,038	58,589	65,024
Provisions	3,328	3,385	3,554	3,732
Total current liabilities	65,131	56,423	62,143	68,756
Non-current liabilities	-564	-772	-772	-772
Total liabilities	64,566	55,650	61,371	67,983
Paid-up capital	399.6	399.6	399.6	399.6
Reserves & surplus	1,51,585	1,57,430	1,66,537	1,80,135
Shareholders' equity	1,51,984	1,57,829	1,66,936	1,80,535
<b>Total equity &amp; liabilities</b>	<b>2,16,551</b>	<b>2,13,479</b>	<b>2,28,307</b>	<b>2,48,518</b>

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

Cash Flow				
YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
<b>Pre-tax profit</b>	<b>39,004</b>	<b>32,501</b>	<b>41,204</b>	<b>47,115</b>
Depreciation	6,769	6,498	7,659	8,139
Chg in working capital	10,486	-1,682	-3,289	1,101
Total tax paid	-9,249	-7,979	-9,889	-11,308
<b>CFO</b>	<b>41,429</b>	<b>21,528</b>	<b>30,331</b>	<b>39,646</b>
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
<b>CFI</b>	<b>-22,721</b>	<b>-2,000</b>	<b>-5,637</b>	<b>-13,948</b>
Free cash flow	12,909	13,959	19,069	20,011
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-16,364	-22,208	-22,208	-22,208
<b>CFF</b>	<b>-16,582</b>	<b>-22,466</b>	<b>-22,479</b>	<b>-22,492</b>
<b>Net chg in cash</b>	<b>2,126</b>	<b>-2,938</b>	<b>2,215</b>	<b>3,205</b>
Opening cash balance	2,419	4,438	1,751	3,715
<b>Closing cash balance</b>	<b>4,438</b>	<b>1,751</b>	<b>3,715</b>	<b>6,920</b>

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

Ratios				
YE: Mar	FY21	FY22	FY23E	FY24E
EPS (INR)	148	124	157	179
PER (x)	18.6	22.3	17.6	15.4
Price/Book (x)	3.6	3.5	3.3	3.1
EV/EBITDA (x)	11.3	13.5	10.4	8.9
EV/Net sales (x)	1.5	1.6	1.3	1.2
RoE (%)	20.2	16.0	19.3	20.6
RoCE (%)	26.9	21.2	25.7	27.4
Fixed Asset turnover (x)	2.1	1.9	2.1	2.2
Dividend Yield (%)	2.5	3.4	3.4	3.4
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: Arianth 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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