

November 5, 2022

## Q2FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	3,175		3,175	
Sales (Rs. m)	3,86,022	4,24,358	3,82,647	4,20,626
% Chng.	0.9	0.9		
EBITDA (Rs. m)	52,516	58,621	52,057	57,222
% Chng.	0.9	2.4		
EPS (Rs.)	188.1	211.1	191.6	209.5
% Chng.	(1.8)	0.8		

### Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	292	342	386	424
EBITDA (Rs. bn)	34	43	53	59
Margin (%)	11.5	12.6	13.6	13.8
PAT (Rs. bn)	25	30	38	42
EPS (Rs.)	123.8	151.5	188.1	211.1
Gr. (%)	(16.6)	22.4	24.2	12.2
DPS (Rs.)	95.0	100.0	105.0	105.0
Yield (%)	3.7	3.8	4.0	4.0
RoE (%)	16.0	18.6	21.3	21.6
RoCE (%)	17.6	22.3	25.6	25.7
EV/Sales (x)	1.5	1.2	1.1	0.9
EV/EBITDA (x)	13.0	9.8	7.9	6.9
PE (x)	21.0	17.1	13.8	12.3
P/BV (x)	3.3	3.1	2.8	2.5

### Key Data

### HROM.BO | HMCL IN

52-W High / Low	Rs.2,939 / Rs.2,147
Sensex / Nifty	60,950 / 18,117
Market Cap	Rs.519bn/ \$ 6,297m
Shares Outstanding	200m
3M Avg. Daily Value	Rs.1760.58m

### Shareholding Pattern (%)

Promoter's	34.75
Foreign	29.22
Domestic Institution	24.24
Public & Others	11.79
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(0.9)	7.8	(3.0)
Relative	(5.6)	(1.5)	(4.4)

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# Hero Motocorp (HMCL IN)

Rating: BUY | CMP: Rs2,598 | TP: Rs3,175

## Increasing focus on premiumization

### Quick Pointers:

- Higher ASPs at Rs 63.5k (+5% QoQ) led by a favorable mix and price hikes.
- Hero aims at regaining its lost market share in >125cc segment with the launch of X-Tec variants and premium models launch pipeline.

**Hero's 2QFY23 EBITDA margin at 11.4% (-120bps YoY, +20bps QoQ) came lower than our estimates of 12.1%. This was led by a sharp increase in other expenses (+24/19% YoY/QoQ) on account of higher marketing spending for the X-Tec variants. However, revenue at Rs 90.75bn came 3% ahead of our estimates led by higher ASPs (Rs 63.5k, +8/5% YoY/QoQ) on the back of improved mix and price hikes. Post reporting a 20% YoY increase in festive retails, management expects demand momentum to continue led by the upcoming wedding season and healthy rural sentiments. Hero is focusing on regaining its lost market share in the >125cc segment through (1) X-Tec variants in all key models, (2) new model launches in the premium space over the next 2 years, and (3) unveiling its new model under its tie-up with Harvey.**

**Maintain BUY, as we believe Hero will be a key beneficiary of rural recovery and any positive demand from the upcoming marriage season. It will benefit from its increasing focus on exports and premiumization. Also, softening of input costs along with its Leap savings program can lead to margin expansion (we build in 230bps expansion over FY22-25E). Maintain 'BUY' with a target price of Rs 3,175 (at 15x on Sep-24E standalone EPS, Rs 104 for Fincorp and Rs 78 for Ather).**

- 2QFY23 financial performance:** Volumes at 1.43mn units grew 3% QoQ. This, coupled with ASP growth of 5.3% QoQ to Rs 63,545 led to revenue growth of 8.1% to Rs 90.75bn (PLe: Rs 87.94bn). GM at 28% expanded 80bps QoQ. However, a sharp increase in other expenses (+19% QoQ, +24% YoY) due to higher marketing spending, led to a miss in EBITDA margin. EBITDA margin came in at 11.4% (+20bps QoQ, -120bps YoY) vs PLe: 12.1%. Other income came in at Rs 921mn (Rs 1.6bn YoY) due to MTM loss of Rs 440mn on its investment in Gogoro. PAT came in at Rs 7.1bn (-10% YoY, +15% MoM).

- Key takeaways: (1) Demand outlook post-festive season:** Hero registered a 20% YoY increase in its 32-day festive retail. Festive volumes were at 95% levels of the pre-COVID levels. Going ahead, management expects healthy volumes led by the upcoming marriage season and rural recovery. Inventory levels are at the lower end of its average 4-6 weeks. **(2) Focus on premiumization:** Earlier through Xtreme/Xpulse and now through its X-Tec variants in all key models, Hero continues to focus on this segment. X-Tec models accounted for 20% of the festive volumes. **(3) Addressing the market share losses:** Hero aims at maintaining its share in the 110cc segment. With the launch of X-Tec variants and premium model launch pipeline over the next 2 years, it is working towards recovering its share in the >125cc segment. **(4) Margin outlook:** In 2QFY23, 30-40bps of benefit came from the softening of commodity costs. Though this benefit is likely to flow in the quarters ahead, it could be offset by INR depreciation. Management remained cautious of giving any guidance.

**Exhibit 1: Q2FY23 Result Overview (Rs m)**

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
<b>Net Revenues</b>	<b>90,754</b>	<b>84,534</b>	<b>7.4</b>	<b>83,925</b>	<b>8.1</b>	<b>174,679</b>	<b>139,405</b>	<b>25.3</b>
Raw Materials	65,301	61,104	6.9	61,074	6.9	126,375	100,900	25.2
<i>% of Net Sales</i>	<i>72.0</i>	<i>72.3</i>		<i>72.8</i>		<i>72.3</i>	<i>72.4</i>	
Personnel	5,490	5,054	8.6	5,382	2.0	10,872	9,411	15.5
<i>% of Net Sales</i>	<i>6.0</i>	<i>6.0</i>		<i>6.4</i>		<i>6.2</i>	<i>6.8</i>	
Manufacturing & Other Exp	9,579	7,712	24.2	8,062	18.8	17,641	13,282	32.8
<i>% of Net Sales</i>	<i>10.6</i>	<i>9.1</i>		<i>9.6</i>		<i>10.1</i>	<i>9.5</i>	
Total Expenditure	80,370	73,870	8.8	74,518	7.9	154,888	123,593	25.3
<b>EBITDA</b>	<b>10,383</b>	<b>10,664</b>	<b>(2.6)</b>	<b>9,408</b>	<b>10.4</b>	<b>19,791</b>	<b>15,812</b>	<b>25.2</b>
<i>EBITDA Margin (%)</i>	<i>11.4</i>	<i>12.6</i>		<i>11.2</i>		<i>11.3</i>	<i>11.3</i>	
Depreciation	1,634	1,639	(0.3)	1,630	0.2	3,264	3,269	(0.1)
<b>EBIT</b>	<b>8,749</b>	<b>9,025</b>	<b>(3.1)</b>	<b>7,778</b>	<b>12.5</b>	<b>16,527</b>	<b>12,543</b>	<b>31.8</b>
Interest Expenses	33	65	(49.4)	70	(52.6)	103	126	(18.5)
Non-operating income	921	1,569	(41.3)	530	73.7	1,450	2,955	(50.9)
Extraordinary Expenses	0	0		0		0	0	
<b>PBT</b>	<b>9,637</b>	<b>10,529</b>	<b>(8.5)</b>	<b>8,238</b>	<b>17.0</b>	<b>17,875</b>	<b>15,372</b>	<b>16.3</b>
Tax-Total	2,476	2,585	(4.2)	1,993	24.2	4,469	3,774	18.4
<i>Tax Rate (%) - Total</i>	<i>25.7</i>	<i>24.5</i>		<i>24.2</i>		<i>25.0</i>	<i>24.6</i>	
<b>Reported PAT</b>	<b>7,161</b>	<b>7,944</b>	<b>(9.9)</b>	<b>6,245</b>	<b>14.7</b>	<b>13,406</b>	<b>11,598</b>	<b>15.6</b>
<b>Adj. PAT</b>	<b>7,161</b>	<b>7,944</b>	<b>(9.9)</b>	<b>6,245</b>	<b>14.7</b>	<b>13,406</b>	<b>11,598</b>	<b>15.6</b>
<i>PAT Margin</i>	<i>7.9</i>	<i>9.4</i>		<i>7.4</i>		<i>7.7</i>	<i>8.3</i>	

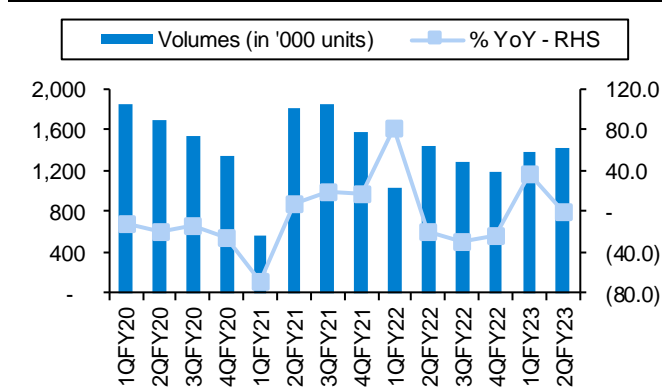
Source: Company, PL

**Exhibit 2: Operating Metrics**

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
<b>Sales Volume (nos)</b>	<b>1,428,168</b>	<b>1,438,552</b>	<b>(0.7)</b>	<b>1,390,192</b>	<b>2.7</b>	<b>2,818,360</b>	<b>2,462,967</b>	<b>14.4</b>
Net Realisation/Vehicle	63,545	58,763	8.1	60,370	5.3	61,979	56,600	9.5
Material cost / vehicle	45,724	42,476	7.6	43,932	4.1	44,840	40,967	9.5
Gross Profit / vehicle	17,822	16,287	9.4	16,438	8.4	17,139	15,634	9.6
Employee cost /vehicle	3,844	3,514	9.4	3,871	(0.7)	3,858	3,821	1.0
Other expenses / vehicle	6,707	5,361	25.1	5,799	15.7	6,259	5,393	16.1
EBITDA/vehicle	7,270	7,413	(1.9)	6,767	7.4	7,022	6,420	9.4
Net Profit/vehicle	5,014	5,522	(9.2)	4,492	11.6	4,757	4,709	1.0

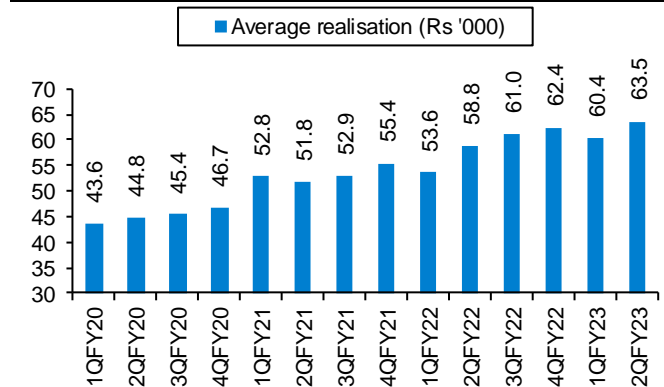
Source: Company, PL

**Exhibit 3: Volumes grew 3% QoQ**



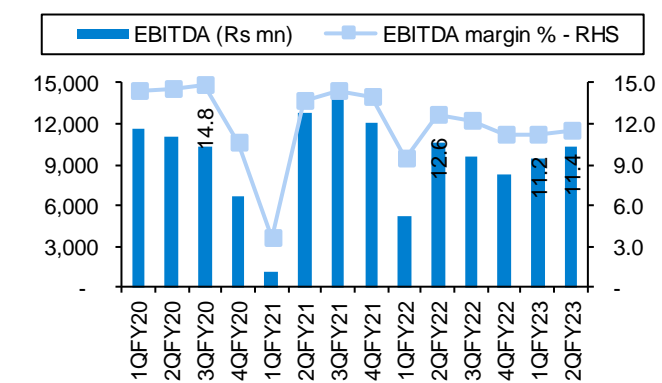
Source: Company, PL

**Exhibit 4: ASPs improved led by better mix and price hikes**



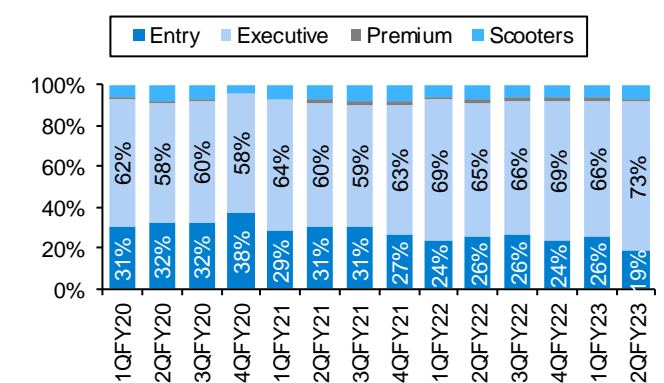
Source: Company, PL

**Exhibit 5: EBITDA margin contracted 20bps QoQ**



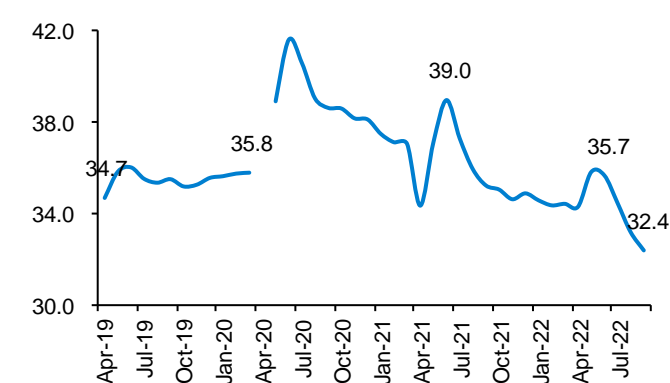
Source: Company, PL

**Exhibit 6: Higher share of 125cc bikes led to higher ASPs**



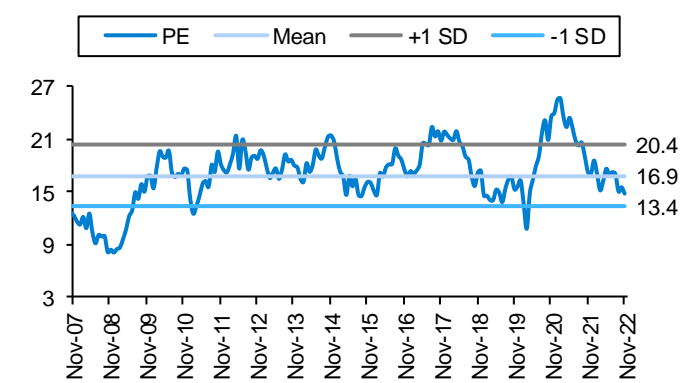
Source: Company, PL

**Exhibit 7: Hero has lost 350bps market share since FY19**



Source: SIAM, PL

**Exhibit 8: One-year forward PE band chart**



Source: Bloomberg, Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>2,92,455</b>	<b>3,42,011</b>	<b>3,86,022</b>	<b>4,24,358</b>
YoY gr. (%)	(5.0)	16.9	12.9	9.9
Cost of Goods Sold	2,08,267	2,44,521	2,74,058	3,01,277
Gross Profit	84,187	97,490	1,11,963	1,23,081
Margin (%)	28.8	28.5	29.0	29.0
Employee Cost	19,354	21,205	23,547	25,461
Other Expenses	31,145	33,175	35,900	38,999
<b>EBITDA</b>	<b>33,688</b>	<b>43,110</b>	<b>52,516</b>	<b>58,621</b>
YoY gr. (%)	(16.2)	28.0	21.8	11.6
Margin (%)	11.5	12.6	13.6	13.8
Depreciation and Amortization	6,498	6,736	7,435	8,345
<b>EBIT</b>	<b>27,190</b>	<b>36,374</b>	<b>45,081</b>	<b>50,276</b>
Margin (%)	9.3	10.6	11.7	11.8
Net Interest	258	200	200	200
Other Income	5,569	3,763	4,711	5,519
<b>Profit Before Tax</b>	<b>32,501</b>	<b>39,937</b>	<b>49,591</b>	<b>55,595</b>
Margin (%)	11.1	11.7	12.8	13.1
Total Tax	7,771	9,665	12,001	13,426
Effective tax rate (%)	23.9	24.2	24.2	24.2
<b>Profit after tax</b>	<b>24,730</b>	<b>30,272</b>	<b>37,590</b>	<b>42,169</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>24,730</b>	<b>30,272</b>	<b>37,590</b>	<b>42,169</b>
YoY gr. (%)	-	-	-	-
Margin (%)	8.5	8.9	9.7	9.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>24,730</b>	<b>30,272</b>	<b>37,590</b>	<b>42,169</b>
YoY gr. (%)	(16.6)	22.4	24.2	12.2
Margin (%)	8.5	8.9	9.7	9.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
<b>Equity Shares O/s (m)</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>
<b>EPS (Rs)</b>	<b>123.8</b>	<b>151.5</b>	<b>188.1</b>	<b>211.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,04,022</b>	<b>1,07,386</b>	<b>1,21,386</b>	<b>1,35,386</b>
Tangibles	1,04,022	1,07,386	1,21,386	1,35,386
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>48,942</b>	<b>55,679</b>	<b>63,114</b>	<b>71,459</b>
Tangibles	48,942	55,679	63,114	71,459
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>55,080</b>	<b>51,708</b>	<b>58,272</b>	<b>63,927</b>
Tangibles	55,080	51,708	58,272	63,927
Intangibles	-	-	-	-
Capital Work In Progress	7,567	7,480	7,401	7,330
Goodwill	-	-	-	-
Non-Current Investments	26,000	28,600	31,460	34,605
Net Deferred tax assets	(5,514)	(5,624)	(5,736)	(5,851)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	80,524	89,924	99,064	1,07,918
Inventories	11,227	14,055	15,864	17,439
Trade receivables	23,043	18,740	21,152	23,252
Cash & Bank Balance	1,751	4,824	4,512	9,605
Other Current Assets	11,131	11,688	12,272	12,886
<b>Total Assets</b>	<b>2,17,140</b>	<b>2,27,975</b>	<b>2,51,077</b>	<b>2,78,151</b>
<b>Equity</b>				
Equity Share Capital	400	400	400	400
Other Equity	1,57,430	1,67,722	1,84,333	2,05,523
<b>Total Network</b>	<b>1,57,829</b>	<b>1,68,121</b>	<b>1,84,733</b>	<b>2,05,922</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	42,603	42,166	47,592	52,318
Other current liabilities	11,194	12,064	13,016	14,059
<b>Total Equity &amp; Liabilities</b>	<b>2,17,140</b>	<b>2,27,975</b>	<b>2,51,077</b>	<b>2,78,151</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	32,501	39,937	49,591	55,595
Add. Depreciation	6,498	6,736	7,435	8,345
Add. Interest	258	200	200	200
Less Financial Other Income	5,569	3,763	4,711	5,519
Add. Other	(5,569)	(3,763)	(4,711)	(5,519)
Op. profit before WC changes	33,688	43,110	52,516	58,621
Net Changes-WC	(6,720)	1,211	1,451	1,372
Direct tax	(7,794)	(9,554)	(11,889)	(13,311)
<b>Net cash from Op. activities</b>	<b>19,175</b>	<b>34,767</b>	<b>42,078</b>	<b>46,682</b>
Capital expenditures	(4,894)	(3,277)	(13,921)	(13,929)
Interest / Dividend Income	-	-	-	-
Others	3,205	1,163	1,851	2,373
<b>Net Cash from Invt. activities</b>	<b>(1,689)</b>	<b>(2,114)</b>	<b>(12,071)</b>	<b>(11,556)</b>
Issue of share cap. / premium	96	-	-	-
Debt changes	-	-	-	-
Dividend paid	(18,981)	(19,980)	(20,979)	(20,979)
Interest paid	(258)	(200)	(200)	(200)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(19,143)</b>	<b>(20,180)</b>	<b>(21,179)</b>	<b>(21,179)</b>
<b>Net change in cash</b>	<b>(1,657)</b>	<b>12,473</b>	<b>8,828</b>	<b>13,947</b>
Free Cash Flow	14,280	31,490	28,157	32,753

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>78,833</b>	<b>74,217</b>	<b>83,925</b>	<b>90,754</b>
YoY gr. (%)	(19.4)	(14.6)	53.0	7.4
Raw Material Expenses	55,943	51,424	61,074	65,301
Gross Profit	22,890	22,793	22,852	25,452
Margin (%)	29.0	30.7	27.2	28.0
<b>EBITDA</b>	<b>9,600</b>	<b>8,276</b>	<b>9,408</b>	<b>10,383</b>
YoY gr. (%)	(32.1)	(31.7)	82.7	(2.6)
Margin (%)	12.2	11.2	11.2	11.4
Depreciation / Depletion	1,644	1,585	1,630	1,634
<b>EBIT</b>	<b>7,956</b>	<b>6,691</b>	<b>7,778</b>	<b>8,749</b>
Margin (%)	10.1	9.0	9.3	9.6
Net Interest	65	67	70	33
Other Income	1,216	1,398	530	921
<b>Profit before Tax</b>	<b>9,107</b>	<b>8,022</b>	<b>8,238</b>	<b>9,637</b>
Margin (%)	11.6	10.8	9.8	10.6
Total Tax	2,246	1,752	1,993	2,476
Effective tax rate (%)	24.7	21.8	24.2	25.7
<b>Profit after Tax</b>	<b>6,861</b>	<b>6,271</b>	<b>6,245</b>	<b>7,161</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>6,861</b>	<b>6,271</b>	<b>6,245</b>	<b>7,161</b>
YoY gr. (%)	(36.7)	(27.5)	70.9	(9.9)
Margin (%)	8.7	8.4	7.4	7.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>6,861</b>	<b>6,271</b>	<b>6,245</b>	<b>7,161</b>
YoY gr. (%)	(36.7)	(27.5)	70.9	(9.9)
Margin (%)	8.7	8.4	7.4	7.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Avg. Shares O/s (m)	200	200	200	200
<b>EPS (Rs)</b>	<b>34.3</b>	<b>31.4</b>	<b>31.3</b>	<b>35.8</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	123.8	151.5	188.1	211.1
CEPS	156.3	185.2	225.4	252.8
BVPS	789.9	841.4	924.6	1,030.6
FCF	71.5	157.6	140.9	163.9
DPS	95.0	100.0	105.0	105.0
<b>Return Ratio(%)</b>				
RoCE	17.6	22.3	25.6	25.7
ROIC	28.5	40.4	46.9	49.0
RoE	16.0	18.6	21.3	21.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.6)	(0.6)	(0.6)
Net Working Capital (Days)	(20)	(19)	(19)	(19)
<b>Valuation(x)</b>				
PER	21.0	17.1	13.8	12.3
P/B	3.3	3.1	2.8	2.5
P/CEPS	16.6	14.0	11.5	10.3
EV/EBITDA	13.0	9.8	7.9	6.9
EV/Sales	1.5	1.2	1.1	0.9
Dividend Yield (%)	3.7	3.8	4.0	4.0

Source: Company Data, PL Research

## Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Volume (units)	49,43,968	56,27,158	61,98,795	67,02,293
Net realisation (Rs/unit)	59,154	60,779	62,274	63,315

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	3,175	2,615
2	16-Aug-22	BUY	3,130	2,762
3	08-Jul-22	BUY	3,150	2,839
4	04-May-22	BUY	3,150	2,410
5	11-Apr-22	BUY	3,200	2,335
6	14-Feb-22	BUY	3,221	2,719
7	12-Jan-22	BUY	3,194	2,418
8	15-Nov-21	BUY	3,115	2,685

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	200	156
2	Bajaj Auto	Hold	3,865	3,571
3	Bharat Forge	BUY	875	707
4	CEAT	Accumulate	1,700	1,561
5	Eicher Motors	BUY	4,225	3,548
6	Endurance Technologies	BUY	1,590	1,412
7	Exide Industries	UR	-	157
8	Hero Motocorp	BUY	3,175	2,615
9	InterGlobe Aviation	Hold	1,985	1,851
10	Mahindra & Mahindra	BUY	1,500	1,262
11	Maruti Suzuki	BUY	10,230	9,493
12	Tata Motors	BUY	570	408
13	TVS Motors	BUY	1,085	1,036

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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