

Hero Motocorp

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Q2 EBITDA slightly above estimates; volume outlook remains positive

Q2FY23 EBITDA declined by 3% YoY (3-yr CAGR at -2%) to Rs10.4bn, slightly above our estimate of Rs10bn. Revenue increased by 7% (3-yr CAGR at 6%) to Rs90.8bn, coming in 4% above our estimate due to better-than-expected spare-part sales and realization. We increase our FY23E EPS by 4%, factoring-in higher volume assumptions. We maintain our positive stance, underpinned by: 1) expectations of a cyclical upturn in domestic 2Ws which generally lasts for three years at least; 2) increasing focus on EVs; 3) margin expansion emanating from better scale; and 4) inexpensive valuations. The stock trades at P/E of 15x/13x on FY24/25 estimates. We reaffirm BUY with TP of Rs3,420/sh (Rs3,300 earlier), based on 17x core Dec-24E EPS (Sep-24E earlier) and value of investments/cash at Rs516/share. Key downside risks are lower-than-expected demand in key geographies, increased competitive intensity, failure of new products, and adverse movement in commodity prices/currency rates.

Q2 EBITDA slightly above estimate: Revenue grew by 7% YoY (3-yr CAGR at 6%) to Rs90.8bn, above our estimate of Rs87bn, led by better-than-expected spare-part sales and realizations. Volume declined by 1% to 1.43mn units. Spare-part sales grew by 9% to Rs12.4bn. Realizations increased by 8% to Rs54,835/unit, above our estimates on improving share of XTEC variants (5-7% better pricing) in models. EBITDA declined by 3% (3-yr CAGR at -2%) to Rs10.4bn, beating our estimates by 3%. EBITDA margin contracted by 120bps to 11.4% (Emkay est.: 11.5%). Gross margin expanded by 30bps YoY (+80bps QoQ) to 72%, while other expenses/revenues increased by 140bps YoY (+90bps QoQ) to 10.6%. Other income declined by 41% to Rs921mn, owing to one-time charge of Rs440mn relating to the Gogoro investment. Accordingly, adjusted PAT fell 10% (3-yr CAGR at -8%) to Rs7.16bn in-line with our estimate of Rs7.15bn. Share of losses from associates stands at Rs241mn vs. loss of Rs629mn in Q2FY22 and of Rs211mn in Q1FY23. **What we liked:** 1) Strong growth in the recently-concluded festive season; 2) improved gross margin on sequential basis due to commodity price easing benefits, with more improvement expected. **What we did not like:** Market-share losses due to higher exposure to rural markets and inventory de-stocking.

Earnings-Call KTAs: 1) Festive-season retails grew 20% YoY and were only 5% below pre-Covid levels. Rural segment witnessed positive growth. 2) Mgmt expects rural volume improvement ahead, on marriage-season demand and anticipation of a good Rabi crop. 3) Aggressive launch pipeline over the next few years in premium motorcycles developed via own efforts and jointly with Harley Davidson. 4) E-scooter Vida V1 to be launched in 10 cities by Mar-23. 5) Commodity price easing benefits stood at 30-40bps in Q2, with further benefits expected in Q3. 6) Ather stake stands at 37% and the recent transaction implies valuation of Rs60bn. 7) Q2 financing penetration has increased to >60%, with Hero Fincorp share at 35%.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(Page 6\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	308,006	292,455	336,557	376,635	411,328
EBITDA	40,192	33,688	38,364	49,494	54,723
EBITDA Margin (%)	13.0	11.5	11.4	13.1	13.3
APAT	29,642	24,730	26,919	35,456	39,114
EPS (Rs)	148.4	123.8	134.7	177.5	195.8
EPS (% chg)	(6.9)	(16.6)	8.8	31.7	10.3
ROE (%)	20.2	16.0	16.6	20.7	21.4
P/E (x)	17.5	20.9	19.2	14.6	13.2
EV/EBITDA (x)	10.8	12.8	11.5	8.8	7.9
P/BV (x)	3.4	3.3	3.1	2.9	2.7

Source: Company, Emkay Research

CMP	Target Price
Rs 2,589 as of (November 4, 2022)	Rs 3,420 (▲) 12 months
Rating	Upside
BUY (■)	32.1 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	4.1/0.0
Target Price change (%)	3.6
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	134.7	177.5
Consensus	151.8	187.2
Mean Consensus TP (12M)	Rs 2,950	

Stock Details

Bloomberg Code	HMCL IN
Face Value (Rs)	2
Shares outstanding (mn)	200
52 Week H/L	2,939 / 2,147
M Cap (Rs bn/USD bn)	517 / 6.28
Daily Avg Volume (nos.)	643,980
Daily Avg Turnover (USD mn)	21.4

Shareholding Pattern Sep '22

Promoters	34.8%
FIIs	27.8%
DIIIs	26.9%
Public and Others	10.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(8)	7	(3)
Rel. to Nifty	(6)	(12)	(1)	(4)

Relative price trend



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Key volume assumptions; expect volume CAGR of 9% over FY22-25E

Volume (units)	FY21	FY22	FY23E	FY24E	FY25E	FY22-25E CAGR (%)
Domestic Motorcycles	5,156,401	4,337,634	4,851,175	5,296,638	5,646,561	9
<i>Growth (%)</i>	<i>(11.5)</i>	<i>(15.9)</i>	<i>11.8</i>	<i>9.2</i>	<i>6.6</i>	
Export Motorcycles	171,963	290,131	235,006	270,257	291,878	0
<i>Growth (%)</i>	<i>6.4</i>	<i>68.7</i>	<i>(19.0)</i>	<i>15.0</i>	<i>8.0</i>	
Domestic Scooters	443,458	305,892	336,481	386,953	417,910	11
<i>Growth (%)</i>	<i>10.1</i>	<i>(31.0)</i>	<i>10.0</i>	<i>15.0</i>	<i>8.0</i>	
Export Scooters	14,552	10,491	8,498	9,772	10,554	0
<i>Growth (%)</i>	<i>(12.8)</i>	<i>(27.9)</i>	<i>(19.0)</i>	<i>15.0</i>	<i>8.0</i>	
Total Volume	5,786,374	4,944,148	5,431,160	5,963,620	6,366,903	9
<i>Growth (%)</i>	<i>(9.7)</i>	<i>(14.6)</i>	<i>9.9</i>	<i>9.8</i>	<i>6.8</i>	

Source: Company, Emkay Research

Exhibit 2: Changes in estimates

Rs mn	FY23E				FY24E				FY25E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Volumes	5,228,580	5,431,160	3.9	9.9	5,815,874	5,963,620	2.5	9.8	6,208,572	6,366,903	2.6	6.8
Net Sales	322,066	336,557	4.5	15.1	364,483	376,635	3.3	11.9	397,999	411,328	3.3	9.2
EBITDA	37,165	38,364	3.2	13.9	49,074	49,494	0.9	29.0	54,221	54,723	0.9	10.6
<i>Margin (%)</i>	<i>11.5</i>	<i>11.4</i>	<i>(14) bps</i>	<i>(12) bps</i>	<i>13.5</i>	<i>13.1</i>	<i>(32) bps</i>	<i>174 bps</i>	<i>13.6</i>	<i>13.3</i>	<i>(32) bps</i>	<i>16 bps</i>
APAT	25,851	26,919	4.1	8.8	35,445	35,456	0.0	31.7	39,011	39,114	0.3	10.3
EPS	129.4	134.7	4.1	8.8	177.4	177.5	0.0	31.7	195.3	195.8	0.3	10.3

Source: Company, Emkay Research

Exhibit 3: Actual vs. Estimates (Q2FY23)

(Rs mn)	Actual	Estimates		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Total Revenue	90,754	87,027	87,905	4.3	3.2	Above estimates, led by better-than-expected spare-part sales and realizations
EBITDA	10,383	10,033	10,618	3.5	(2.2)	Above estimates
<i>EBITDA Margin (%)</i>	<i>11.4</i>	<i>11.5</i>	<i>12.1</i>	<i>(9) bps</i>	<i>(64) bps</i>	
Adjusted net profit	7,161	7,146	7,707	0.2	(7.1)	In line with estimates

Source: Bloomberg, Company, Emkay Research

Exhibit 4: Quarterly performance

Rs mn	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY (%)	QoQ (%)	FY23 YTD	FY22 YTD	YoY (%)
Revenue	84,534	78,833	74,217	83,925	90,754	7.4	8.1	174,679	139,405	25.3
Expenditure	73,870	69,233	65,942	74,518	80,370	8.8	7.9	154,888	123,593	25.3
<i>as % of sales</i>	<i>87.4</i>	<i>87.8</i>	<i>88.8</i>	<i>88.8</i>	<i>88.6</i>			<i>352.8</i>	<i>257.9</i>	
Consumption of RM	61,104	55,943	51,424	61,074	65,301	6.9	6.9	126,375	100,900	25.2
<i>as % of sales</i>	<i>72.3</i>	<i>71.0</i>	<i>69.3</i>	<i>72.8</i>	<i>72.0</i>			<i>285.3</i>	<i>212.0</i>	
Employee Cost	5,054	5,180	4,763	5,382	5,490	8.6	2.0	10,872	9,411	15.5
<i>as % of sales</i>	<i>6.0</i>	<i>6.6</i>	<i>6.4</i>	<i>6.4</i>	<i>6.0</i>			<i>25.4</i>	<i>16.4</i>	
Other expenditure	7,712	8,109	9,754	8,062	9,579	24.2	18.8	17,641	13,282	32.8
<i>as % of sales</i>	<i>9.1</i>	<i>10.3</i>	<i>13.1</i>	<i>9.6</i>	<i>10.6</i>			<i>42.2</i>	<i>29.5</i>	
EBITDA	10,664	9,600	8,276	9,408	10,383	(2.6)	10.4	19,791	15,812	25.2
<i>EBITDA margin (%)</i>	<i>12.6</i>	<i>12.2</i>	<i>11.2</i>	<i>11.2</i>	<i>11.4</i>			<i>11.3</i>	<i>11.3</i>	
Depreciation	1,639	1,644	1,585	1,630	1,634	(0.3)	0.2	3,264	3,269	(0.1)
EBIT	9,025	7,956	6,691	7,778	8,749	(3.1)	12.5	16,527	12,543	31.8
Other Income	1,569	1,216	1,398	530	921	(41.3)	73.7	1,450	2,955	(50.9)
Interest	65	65	67	70	33	(49.4)	(52.6)	103	126	(18.5)
PBT	10,529	9,107	8,022	8,238	9,637	(8.5)	17.0	17,875	15,372	16.3
Total Tax	2,585	2,246	1,752	1,993	2,476	(4.2)	24.2	4,469	3,774	18.4
Adjusted PAT	7,944	6,861	6,271	6,245	7,161	(9.9)	14.7	13,406	11,598	15.6
Extra ordinary items Loss/(Gain)	0	0	0	0	0			0	0	
Reported PAT	7,944	6,861	6,271	6,245	7,161	(9.9)	14.7	13,406	11,598	15.6
Adjusted EPS (Rs)	39.8	34.4	31.4	31.3	35.9	(9.9)	14.7	67.1	58.1	15.6

Source: Company, Emkay Research

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Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	308,006	292,455	336,557	376,635	411,328
Expenditure	267,814	258,767	298,193	327,141	356,605
EBITDA	40,192	33,688	38,364	49,494	54,723
Depreciation	6,769	6,498	6,644	7,223	7,869
EBIT	33,424	27,190	31,720	42,271	46,853
Other Income	5,799	5,569	3,944	4,676	4,966
Interest expenses	218	258	245	294	353
PBT	39,004	32,501	35,419	46,653	51,466
Tax	9,362	7,771	8,501	11,197	12,352
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	29,642	24,730	26,919	35,456	39,114
Adjusted PAT	29,642	24,730	26,919	35,456	39,114

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	400	400	400	400	400
Reserves & surplus	151,585	157,430	165,505	176,142	187,876
Net worth	151,984	157,829	165,905	176,542	188,276
Minority Interest	0	0	0	0	0
Loan Funds	0	0	0	0	0
Net deferred tax liability	4,041	3,833	4,010	4,243	4,501
Total Liabilities	156,025	161,662	169,915	180,785	192,777
Net block	59,884	58,065	64,002	68,380	72,510
Investment	104,997	106,523	110,023	116,023	124,523
Current Assets	52,364	47,970	56,653	62,672	67,234
Cash & bank balance	2,572	1,751	2,330	1,880	842
Other Current Assets	5,849	6,525	7,508	8,403	9,177
Current liabilities & Provision	65,585	55,478	62,764	68,690	73,891
Net current assets	(13,222)	(7,508)	(6,111)	(6,018)	(6,657)
Misc. exp	0	0	0	0	0
Total Assets	156,025	161,662	169,915	180,785	192,777

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	33,205	26,932	31,475	41,977	46,501
Other Non-Cash items	0	0	0	0	0
Chg in working cap	10,700	(6,825)	(1,151)	(773)	(544)
Operating Cashflow	35,929	14,634	33,305	36,687	44,634
Capital expenditure	(5,101)	(5,240)	(10,000)	(12,000)	(12,000)
Free Cash Flow	30,828	9,393	23,305	24,687	32,634
Investments	(18,287)	1,713	(3,500)	(6,000)	(8,500)
Other Investing Cash Flow	1,288	2,008	(3,944)	(4,676)	(4,966)
Investing Cashflow	(16,301)	4,050	(13,500)	(18,000)	(20,500)
Equity Capital Raised	78	50	0	0	0
Loans Taken / (Repaid)	0	0	0	0	0
Dividend paid (incl tax)	(18,978)	(18,981)	(18,981)	(18,843)	(24,819)
Other Financing Cash Flow	(357)	(315)	0	0	0
Financing Cashflow	(19,475)	(19,504)	(19,226)	(19,137)	(25,172)
Net chg in cash	153	(820)	579	(450)	(1,038)
Opening cash position	2,419	2,572	1,751	2,330	1,880
Closing cash position	2,572	1,751	2,330	1,880	842

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	13.0	11.5	11.4	13.1	13.3
EBIT Margin	10.9	9.3	9.4	11.2	11.4
Effective Tax Rate	24.0	23.9	24.0	24.0	24.0
Net Margin	9.6	8.5	8.0	9.4	9.5
ROCE	16.6	13.0	14.4	18.1	18.9
ROE	20.2	16.0	16.6	20.7	21.4
RoIC	50.1	44.5	46.2	55.4	56.8

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	148.4	123.8	134.7	177.5	195.8
CEPS	182.2	156.3	168.0	213.6	235.2
BVPS	760.7	789.9	830.4	883.6	942.3
DPS	105.0	95.0	94.3	124.2	137.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	17.5	20.9	19.2	14.6	13.2
P/CEPS	14.5	16.9	15.7	12.4	11.2
P/BV	3.4	3.3	3.1	2.9	2.7
EV / Sales	1.5	1.5	1.3	1.2	1.1
EV / EBITDA	10.8	12.8	11.5	8.8	7.9
Dividend Yield (%)	4.1	3.7	3.6	4.8	5.3

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)
Net Debt/EBIDTA	(2.1)	(2.5)	(2.0)	(1.6)	(1.6)
Working Cap Cycle (days)	(18.7)	(11.6)	(9.2)	(7.7)	(6.7)

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	6.8	(5.0)	15.1	11.9	9.2
EBITDA	1.5	(16.2)	13.9	29.0	10.6
EBIT	6.4	(18.6)	16.7	33.3	10.8
PAT	(18.4)	(16.6)	8.8	31.7	10.3

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	84,534	78,833	74,217	83,925	90,754
EBITDA	10,664	9,600	8,276	9,408	10,383
EBITDA Margin (%)	12.6	12.2	11.2	11.2	11.4
PAT	7,944	6,861	6,271	6,245	7,161
EPS (Rs)	39.8	34.3	31.4	31.3	35.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	34.8	34.8	34.8	34.8	34.8
FIs	32.3	29.6	29.2	28.8	27.8
DIs	22.0	23.7	24.2	25.6	26.9
Public and Others	11.0	12.0	11.8	10.8	10.6

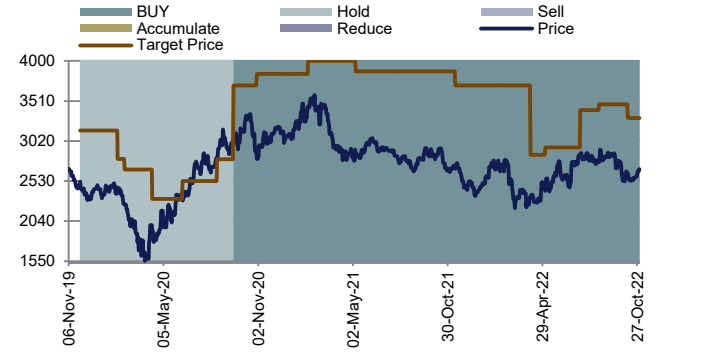
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
09-Oct-22	2,625	3,300	12m	Buy	Raghunandhan NL
15-Aug-22	2,762	3,470	12m	Buy	Raghunandhan NL
10-Jul-22	2,849	3,400	12m	Buy	Raghunandhan NL
04-May-22	2,410	2,940	12m	Buy	Raghunandhan NL
06-Apr-22	2,347	2,850	12m	Buy	Raghunandhan NL
24-Feb-22	2,490	3,700	12m	Buy	Raghunandhan NL
11-Feb-22	2,719	3,700	12m	Buy	Raghunandhan NL
13-Nov-21	2,683	3,700	12m	Buy	Raghunandhan NL
02-Jul-21	2,920	3,870	12m	Buy	Raghunandhan NL
18-Jun-21	2,891	3,870	12m	Buy	Raghunandhan NL
01-Jun-21	2,977	3,870	12m	Buy	Raghunandhan NL
30-May-21	2,992	3,870	12m	Buy	Raghunandhan NL
07-May-21	2,861	3,870	12m	Buy	Raghunandhan NL
05-Feb-21	3,429	4,000	12m	Buy	Raghunandhan NL
30-Oct-20	2,800	3,839	12m	Buy	Raghunandhan NL
11-Oct-20	3,327	3,701	12m	Buy	Raghunandhan NL
28-Sep-20	3,089	3,701	12m	Buy	Raghunandhan NL
15-Sep-20	3,037	3,701	12m	Buy	Raghunandhan NL
28-Aug-20	3,059	2,798	12m	Hold	Raghunandhan NL
15-Aug-20	2,804	2,798	12m	Hold	Raghunandhan NL
29-Jun-20	2,504	2,530	12m	Hold	Raghunandhan NL
10-Jun-20	2,292	2,530	12m	Hold	Raghunandhan NL
04-May-20	2,001	2,313	12m	Hold	Raghunandhan NL
13-Apr-20	1,919	2,313	12m	Hold	Raghunandhan NL
27-Feb-20	2,110	2,670	12m	Hold	Raghunandhan NL
20-Feb-20	2,240	2,670	12m	Hold	Raghunandhan NL
07-Feb-20	2,443	2,800	12m	Hold	Raghunandhan NL
30-Jan-20	2,482	3,150	12m	Hold	Raghunandhan NL
27-Dec-19	2,442	3,150	12m	Hold	Raghunandhan NL
27-Nov-19	2,523	3,150	12m	Hold	Raghunandhan NL

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Automobiles & Auto Ancillaries



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Sector

Automobiles and Ancillaries

Analyst bio

Raghu holds an MBA and comes with total 13 years of research experience. His team currently covers 17 stocks in the Indian Automobiles and Ancillaries space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Auto & Auto Ancillaries	5.01	5.01	0%	0	100.00	
Amara Raja Batteries	0.00	0.00	NA	0	0.00	0
Apollo Tyres	0.00	0.02	NA	2	0.49	0
Ashok Leyland	0.20	0.21	8%	2	4.26	0
Atul Auto	0.00	0.02	NA	2	0.47	0
Bajaj Auto	0.46	0.25	-44%	-20	5.07	0
Bharat Forge	0.20	0.12	-42%	-9	2.36	0
Eicher Motors	0.48	0.48	0%	0	9.54	0
Escorts	0.00	0.02	NA	2	0.45	0
Exide Industries	0.00	0.00	NA	0	0.00	0
Hero Motocorp	0.32	0.34	7%	2	6.84	0
Mahindra & Mahindra	1.19	1.21	2%	3	24.25	0
Maruti Suzuki India	1.14	1.16	2%	2	23.21	0
Minda Industries*	0.00	0.02	NA	2	0.46	0
Motherson Sumi Wiring India	0.00	0.02	NA	2	0.44	0
Samvardhana Motherson International	0.00	0.02	NA	2	0.43	0
Suprajit Engineering	0.00	0.02	NA	2	0.47	0
Tata Motors	0.68	0.69	2%	1	13.86	0
Tata Motors DVR*	0.10	0.11	7%	1	2.14	0
TVS Motor	0.24	0.26	9%	2	5.26	0
Cash	0.00	0.00	NA	0	0.0	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	3-Nov-21	4-May-22	3-Aug-22	3-Oct-22	3-Nov-22
EAP - Auto & Auto Ancillaries	100.0	136.6	127.4	155.9	149.3	159.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	135.7	126.9	155.5	148.5	159.5

*Performance measurement base date 1st April 2019

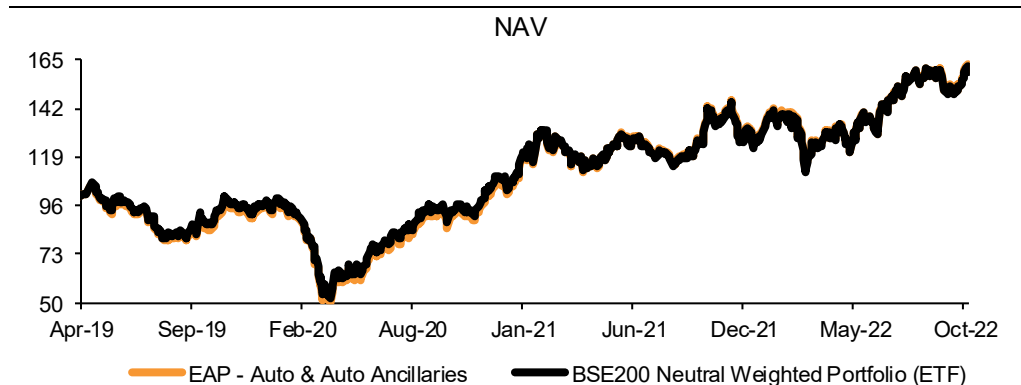
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Auto & Auto Ancillaries	7.1%	2.6%	25.5%	17.0%
BSE200 Neutral Weighted Portfolio (ETF)	7.4%	2.5%	25.7%	17.5%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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