

Hero Motocorp

All hopes on the much-awaited rural revival

Hero MotoCorp's (HMC) Q3 PAT, at INR 7.1bn, was in line with our estimate of INR 7bn. EBITDA margin remained stable QoQ, on expected lines, as benefits from softening input costs were offset by weak volumes in Q2 (down 13% QoQ). Management is hopeful of a rural revival in the coming quarters on the back of the positive rural sentiment and hence expects the 2W industry to post double-digit revenue growth in FY24. HMC would target to outperform industry growth and recover back lost market share, especially in the 125cc and above motorcycle segment as also in scooters, on the back of a healthy launch pipeline—it aims to launch one new model each quarter from here on. Its recent launch, Xoom, in the 110cc segment, comes loaded with many segment-first features and is in line with the same strategy highlighted above. However, given a lower-than-expected demand in Q3 and sustained weakness in Q4, we lower our earnings estimates by 1-6% over FY23-25E. At 14.7x FY24 PER, the valuation is attractive. We maintain BUY with a revised TP of INR 2,959 (from INR 3,086)—valued at 15x September 2024 earnings.

- Q3 earnings were in line with our estimate:** HMC Q3 PAT at INR 7.1bn was in line with our estimate of INR 7bn. EBITDA margin remained flat QoQ at 11.5% and was in line with our estimates. Margins remained stable QoQ as the impact of weak volumes was offset by softening input costs. Management has indicated that the benefit from input cost correction in Q3 was 70bps QoQ and the same from Leap savings stood at 80bps. However, other expenses were elevated in Q3 due to (1) costs related to the EV launch (70bps) and (2) festive spending. Adjusted for the impact of EV business, the underlying ICE business margin stood at 12.2%. Other income came in higher at Rs1.8bn vs average of INR 1.25bn in H1 due to the absence of the MTM loss on Gogoro investment and improved yields.
- Call takeaways:** (1) **Outlook:** Management expects the 2W industry to post double-digit revenue growth for FY24 on the back of an anticipated rural revival, given a healthy farm sentiment and good demand in the ongoing marriage season. (2) HMC aims to launch one new model each quarter from here on in scooters and 125cc and above motorcycles. (3) On the back of its healthy launch pipeline, HMC targets to outperform the 2W industry in FY24. (4) HMC has launched its 2W EV Vida in three cities so far and plans to ramp up pan-India over FY24, post which it would aim to launch other EV platforms including a mass-market product. (5) HMC expects to transition all models to BS-6 phase 2 before April and expects a price hike of about INR500-800 per vehicle due to the same. (6) Share of profit from associates at the consolidated level has been higher due to (a) Hero FinCorp posting INR1.92bn PAT in Q3 vs INR1.31bn PAT YoY (b) the company recognising a one-time gain on an investment in Ather by GIC post the initial round.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	80,310	78,833	1.9	90,754	-11.5	2,92,455	3,37,523	3,74,052	4,23,085
EBITDA	9,241	9,600	-3.7	10,383	-11.0	32,929	38,936	46,757	55,847
APAT	7,111	6,861	3.6	7,161	-0.7	23,972	29,083	35,508	41,970
Diluted EPS (INR)	35.6	34.3	3.6	35.8	-0.7	120.0	145.6	177.8	210.1
P/E (x)						21.8	18.0	14.7	12.4
EV / EBITDA (x)						12.6	10.5	8.7	7.2
RoCE (%)						19.8	22.5	25.9	28.5

Source: Company, HSIE Research

BUY

CMP (as on 08 Feb 2023) INR 2,614

Target Price INR 2,959

NIFTY 17,872

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,086	INR 2,959
EPS %	FY23E	FY24E
	-1.4%	-6.0%

KEY STOCK DATA

Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (INR bn) / (\$ mn)	522/6,331
6m avg traded value (INR mn)	1,414
52 Week high / low	INR 2,939/2,147

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.2)	(4.5)	(2.1)
Relative (%)	0.6	(7.6)	(7.1)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	34.77	34.77
FIs & Local MFs	26.39	27.22
FPIs	27.78	27.47
Public & Others	11.06	10.54
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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