

Result Update – Q3FY23

- ❑ Revenues for the quarter ended December were increased by 1.3% to Rs.81,183 million vs Rs.80,131 for 3QFY22. Improvement in top line of the company due to sequential market share improvement and multiple launches and front end action.
- ❑ Gross profit per vehicle has reached an all time high of Rs.19,800 per vehicle, which increases company operating leverage and will benefit when higher volumes kick in, in upcoming quarters. This has been made possible through a combination of judicious price increases and accelerated saving programs across the supply chain.
- ❑ The company EBITDA lowered by -4.2% to Rs.9,417 million. EBITDA margins at 11.6% after absorbing spends on emerging mobility business units to the extent of 70 basis points, reflecting underlying ICE business margins of 12.2%. With overall inflation expected to stabilize, margins should be improving moving forward.
- ❑ For the quarter profit after tax at Rs.7,212 million reflects improvement in PAT margins to 8.9% in Q3, almost an improvement of 100 basis points sequentially. During the quarter, the company commenced deliveries of Vida and are now present in three major cities of Delhi, Jaipur and Bangalore in December and January. They will continue to expand in more cities in the coming months and quarters.
- ❑ The Company's revenue from spare parts stood higher in Q3FY23 at Rs.12,590 million vs Q2FY23 at Rs.12,440 million and Q3FY22 at Rs.11,860 million. Spare parts contribution to total revenue stood robust at 15.7%. The company will be upgrading its 125cc models towards XTEC (5-7% premium vs standard models), and it's Glomour XTEC received good traction. It will be coming up with Super Splendor XTEC in March'23 to strengthen the 125cc portfolio. The company plans to launch 2 more models in FY24 in the 125cc segment.
- ❑ Global headwinds are expected to continue with some countries coming out of the woods while others may take a little more time, India is relatively much better placed and all key economic indicators are moving in the right direction.
- ❑ The recently announced union budget further solidifies the platform with its focus on capital expenditure on one hand and increasing disposable income on the other. This should help the auto sector and management expect double digit revenue growth for the next fiscal for the two wheeler industry.
- ❑ Heromotocorp is on path to market share recovery and backed by action on all fronts including multiple product launches which are lined up in the coming quarters. We expect ourselves to grow ahead of the industry in FY24. We maintain our BUY rating on the stock with a revised target price of Rs.2,855.

Financial Results

Consolidated						
	Q3-FY23	Q3-FY22	Chg	9M-FY23	9M-FY22	Chg
Net Sales	81,183	80,131	1.3%	257,241	220,547	16.6%
Operating Expense	71,766	70,300	2.1%	227,545	194,659	16.9%
EBITDA	9,417	9,831	-4.2%	29,696	25,888	14.7%
Other Income	1,820	1,202	51.3%	3,315	4,236	-21.7%
Depreciation	1,720	1,744	-1.4%	5,176	5,211	-0.7%
EBIT	9,517	9,289	2.5%	27,834	24,913	11.7%
Interest	242	127	90.5%	858	401	113.7%
PBT	9,275	9,162	1.2%	26,976	24,511	10.1%
Tax	2,893	2,317	24.8%	7,464	5,639	32.4%
PAT	6,382	6,845	-6.8%	19,513	18,872	3.4%
Minority /Other Adj.	830	198		589	(432)	
Consolidated PAT	7,212	7,042	2.4%	20,102	18,440	9.0%

Consolidated						
Margins	Q3-FY23	Q3-FY22	Chg BPS	9M-FY23	9M-FY22	Chg BPS
Operating Margin %	11.6%	12.3%	-67	11.5%	11.7%	-19
Net Margin %	8.9%	8.8%	10	7.8%	8.4%	-55

Source: Company, Anand Rathi Research

Consolidated Financials:

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	309,592	295,513	334,816	376,668
Operating Expense	268,597	261,065	295,242	331,017
EBITDA	40,995	34,448	39,574	45,651
Other Income	5,579	5,550	10,044	11,300
Depreciation	7,151	6,895	8,070	8,982
EBIT	39,423	33,103	41,549	47,969
Interest	464	531	545	660
PBT	38,959	32,572	41,004	47,309
Tax	9,133	7,291	9,431	10,881
Minority Interest	(649)	-	-	-
PAT	29,178	25,281	31,573	36,428
Margins	FY-21	FY-22	FY-23E	FY-24E
Sales Growth %	5.8%	-4.5%	13.3%	12.5%
PAT Growth %	-19.8%	-13.4%	24.9%	15.4%
Operating Margin %	13.2%	11.7%	11.8%	12.1%
Net Margin %	9.4%	8.6%	9.4%	9.7%

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Liabilities				
Equity Share Capital	590	644	644	644
Reserves & Surplus	153,574	157,822	189,395	225,823
Total Shareholder's Funds	154,164	158,467	190,039	226,467
Minority Interest	1,432	1,481	1,481	1,481
Long-Term Liabilities	452	362	362	362
Other Long-term Liabilities	14,583	13,883	13,883	13,883
Deferred Tax Liability	4,527	3,782	3,782	3,782
Short-term Liabilities	65,045	55,177	64,173	72,195
Total	240,204	233,151	273,720	318,169
Assets				
Net Fixed Assets	68,755	67,108	75,622	88,102
Long-Term L&A	14,119	13,645	13,645	13,645
Non Current Investments	43,563	46,576	46,576	46,576
Other Non-Current Assets	62	99	99	99
Current Asset	113,705	105,723	137,777	169,746
Total	240,204	233,151	273,720	318,169
(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
EPS (₹)	730.2	116.0	158.0	182.3
P/E (x)	3.3	20.5	15.0	13.0
P/B (x)	0.6	3.0	2.5	2.1
ROE	18.9%	14.6%	16.6%	16.1%

Source: Company, Anand Rathi Research

Key Risks:

- ❑ Geopolitical tensions can affect commodity prices and supply constraints
- ❑ Rising raw material prices
- ❑ Weak export growth

Rating and Target Price history:

HEROMOTOCO rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 16 March 2023 close.

HEROMOTOCO rating details

Date	Rating	Target Price (₹)	Share Price (₹)
29-Jun-2020	BUY	3,653	2,504
16-Mar-2023	BUY	2,855	2,375

Source: Bloomberg, Anand Rathi Research

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