

May 8, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	3,200		3,200	
Sales (Rs. m)	3,75,929	4,13,160	3,75,870	4,13,116
% Chng.	-	-	-	-
EBITDA (Rs. m)	48,888	55,794	48,880	55,788
% Chng.	-	-	-	-
EPS (Rs.)	178.2	202.4	178.4	202.4
% Chng.	(0.2)	-	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	292	338	376	413
EBITDA (Rs. bn)	34	40	49	56
Margin (%)	11.5	11.8	13.0	13.5
PAT (Rs. bn)	25	29	36	40
EPS (Rs.)	123.8	145.7	178.2	202.4
Gr. (%)	(16.6)	17.7	22.3	13.6
DPS (Rs.)	95.0	100.0	105.0	105.0
Yield (%)	3.7	3.9	4.1	4.1
RoE (%)	16.0	17.9	20.4	21.1
RoCE (%)	17.6	20.5	23.9	24.9
EV/Sales (x)	1.5	1.2	1.1	0.9
EV/EBITDA (x)	12.6	10.6	8.3	7.0
PE (x)	20.6	17.5	14.3	12.6
P/BV (x)	3.2	3.0	2.8	2.5

Key Data

HROM.BO | HMCL IN

52-W High / Low	Rs.2,939 / Rs.2,246
Sensex / Nifty	61,054 / 18,069
Market Cap	Rs.509bn/ \$ 6,223m
Shares Outstanding	200m
3M Avg. Daily Value	Rs.1140.64m

Shareholding Pattern (%)

Promoter's	34.77
Foreign	27.00
Domestic Institution	27.87
Public & Others	10.36
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.7	(1.6)	1.8
Relative	2.4	(1.8)	(7.1)

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Aggressive plans for both ICE and EV

Quick Pointers:

- Margin beat led by inventorisation; may reverse in coming quarters.
- Aggressive on EVs (both pricing & network expansion) and ICE model launch.

Hero Motocorp's (HMCL) expanded its EBITDA margin by c150bps QoQ, largely led by inventorisation which may reverse in FY24. The company plans for an aggressive model launch cycle in premium (including Harley-partnered bike) and lower cc segment to aid revenue growth. It also plans on expansion of exports revenue from 5% to 10%-15% over the medium term. However, with low market share in scooter segment, HMCL's aggressive EV plans may not cannibalize volumes and help it grow its scooter portfolio. We like HMCL's aggressive stance but investors will have to wait to see initial success before any re-rating for the stock. The company trades at nearly half the PE multiple, as compared to peers.

We expect margins to improve in the near term from operating leverage, premiumisation, cost controls and stable commodity costs (we build in c170bps increase over FY23-25E). Key monitorables would be 1) performance of new launches, 2) uptick in EV volumes, 3) competition in core segments and 4) recovery in rural markets. We adjust our estimates by less than 1% after factoring 4Q results and management commentary for FY24E-FY25. Maintain 'BUY' at an unchanged TP of Rs 3,200 (at 15x on Mar-25E standalone EPS, Rs 87 for Fincorp and Rs 78 for Ather).

- 4QFY23 – Revenue in-line; margin beat on inventorisation:** HMCL's revenue of Rs. 83bn was up c3% QoQ and came in-line with PLe and BBG estimates (BBGe). Spare parts revenue remained flattish QoQ. HMCL's EBITDA margin came at 13.0%, ahead of PLe's above consensus estimates of 12.3% (BBGe: 12.0%), helped by inventorisation benefit in 4QFY23 which was partially offset by higher other expenses. PAT benefited from beat on EBITDA and higher other income partially offset by higher taxes.
- Key takeaways:** (1) Good traction in rural markets, due to festive sales, helped HMCL recover market share by 7ppt QoQ in 125cc segment to 22%; marriage season sales should continue to aid volumes in the near term. HMCL noted that premium segment is doing better than commuter segment and rural market is improving, however, rural spending continues to be conservative. The company noted an aggressive model launch cycle in FY24 with highest model launches ever for HMCL (at least one every quarter), alongside confirmed launch of first product from Hero-Harley partnership in FY24. (2) HMCL is targeting aggressive expansion of EV network from 8 cities currently to 100 cities in CY23, using its existing dealer network. It has reduced prices for EVs to accelerate market adoption. (3) HMCL took price increase of Rs. 4k per vehicle in FY23 and another price hike of Rs. 600 in April to pass on regulatory costs. HMCL noted that the industry has been disciplined in taking price increases and sees stable commodity environment providing headroom for pricing action and recovering margins; maintained 14-16% margin guidance. (4) Inventory level stand at ~6 weeks of future sales and retail financing is at c59% in 4Q. VRS benefit should start flowing FY24 onwards and is aimed at staff cadre (4.5k staff). On exports side, HMCL sees scope to improve mix from current 5% of sales to c10% to 15% in the medium term.

Exhibit 1: Q4FY23 Result Overview (Rs m) – EBITDA margin expansion largely driven by lower RM cost

Y/e March	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Revenues	83,068	74,217	11.9	80,310	3.4	3,38,057	2,92,455	15.6
Raw Materials	56,463	51,424	9.8	55,743	1.3	2,38,581	2,08,267	14.6
<i>% of Net Sales</i>	<i>68.0</i>	<i>69.3</i>		<i>69.4</i>		<i>70.6</i>	<i>71.2</i>	
Personnel	5,571	4,763	16.9	5,456	2.1	21,898	19,354	13.1
<i>% of Net Sales</i>	<i>6.7</i>	<i>6.4</i>		<i>6.8</i>		<i>6.5</i>	<i>6.6</i>	
Manufacturing & Other Exp	10,204	9,754	4.6	9,869	3.4	37,715	31,145	21.1
<i>% of Net Sales</i>	<i>12.3</i>	<i>13.1</i>		<i>12.3</i>		<i>11.2</i>	<i>10.6</i>	
Total Expenditure	72,238	65,942	9.5	71,068	1.6	2,98,194	2,58,767	15.2
EBITDA	10,830	8,276	30.9	9,241	17.2	39,862	33,688	18.3
<i>EBITDA Margin (%)</i>	<i>13.0</i>	<i>11.2</i>		<i>11.5</i>		<i>11.8</i>	<i>11.5</i>	
Depreciation	1,686	1,585	6.4	1,620	4.1	6,570	6,498	1.1
EBIT	9,144	6,691	36.7	7,621	20.0	33,293	27,190	22.4
Interest Expenses	47	67	(29.7)	49	(4.5)	199	258	(23.0)
Non-operating income	2,369	1,398	69.5	1,832	29.3	5,652	5,569	1.5
Extraordinary Expenses	0	0		0		0	0	
PBT	11,467	8,022	42.9	9,404	21.9	38,746	32,501	19.2
Tax-Total	2,877	1,752	64.3	2,294	25.4	9,640	7,771	24.0
<i>Tax Rate (%) - Total</i>	<i>25.1</i>	<i>21.8</i>		<i>24.4</i>		<i>24.9</i>	<i>23.9</i>	
Reported PAT	8,589	6,271	37.0	7,111	20.8	29,106	24,730	17.7
Adj. PAT	8,589	6,271	37.0	7,111	20.8	29,106	24,730	17.7
<i>PAT Margin</i>	<i>10.3</i>	<i>8.4</i>		<i>8.9</i>		<i>8.6</i>	<i>8.5</i>	

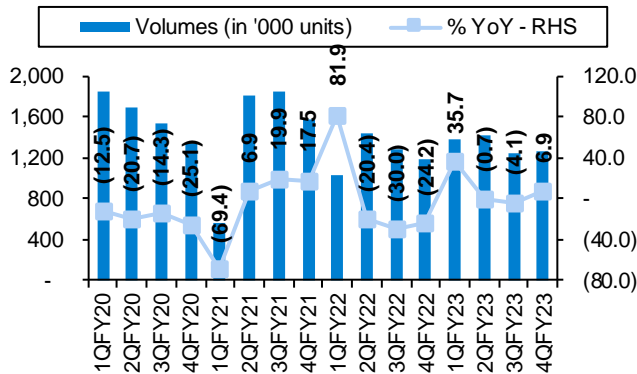
Source: Company, PL

Exhibit 2: Operating Metrics – Average realisation was flattish while average material cost declined marginally QoQ

Y/e Mar (Rs)	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Sales Volume (nos)	12,70,493	11,88,884	6.9	12,39,599	2.5	53,28,452	49,43,986	7.8
Net Realisation/Vehicle	65,382	62,426	4.7	64,787	0.9	63,444	59,154	7.3
Material cost / vehicle	44,442	43,254	2.7	44,969	(1.2)	44,775	42,125	6.3
Gross Profit / vehicle	20,941	19,172	9.2	19,818	5.7	18,669	17,028	9.6
Employee cost /vehicle	4,385	4,007	9.4	4,401	(0.4)	4,110	3,915	5.0
Other expenses / vehicle	8,032	8,204	(2.1)	7,962	0.9	7,078	6,300	12.4
EBITDA/vehicle	8,524	6,961	22.5	7,455	14.3	7,481	6,814	9.8
Net Profit/vehicle	6,761	5,274	28.2	5,736	17.9	5,462	5,002	9.2

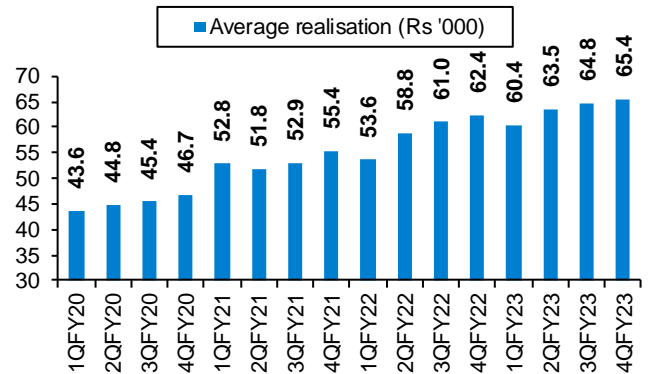
Source: Company, PL

Exhibit 1: Volumes were up by 2.5% QoQ



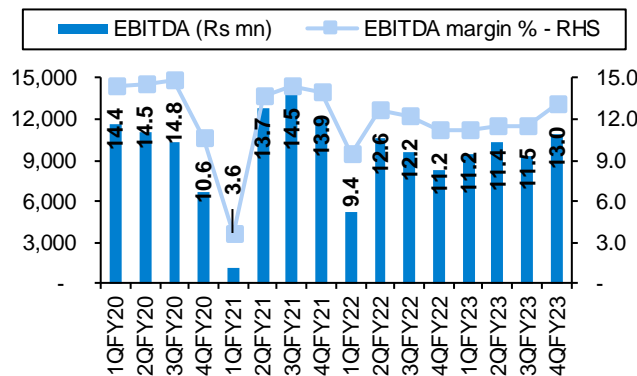
Source: Company, PL

Exhibit 2: ASPs was largely flat QoQ



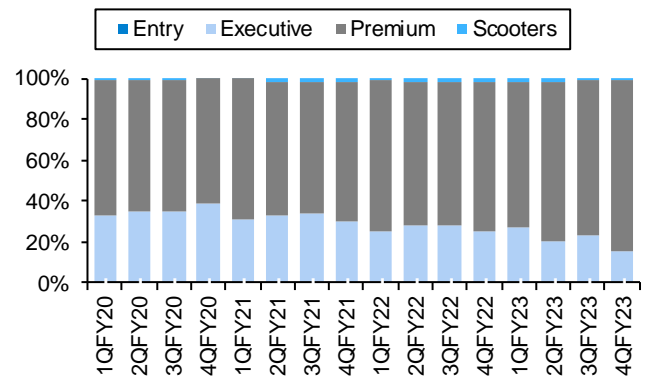
Source: Company, PL

Exhibit 3: EBITDA margin at 13.0% was up 140bps QoQ



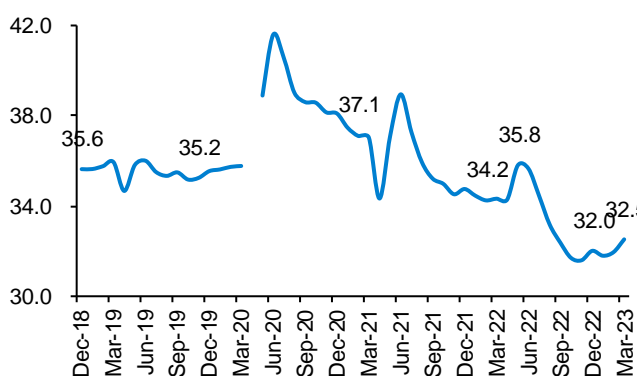
Source: Company, PL

Exhibit 4: Share of exec. + premium bikes improved QoQ



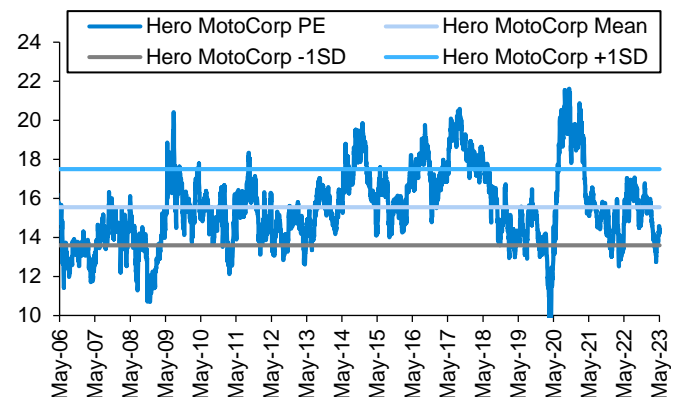
Source: Company, PL

Exhibit 5: Hero has lost 330bps market share since FY19

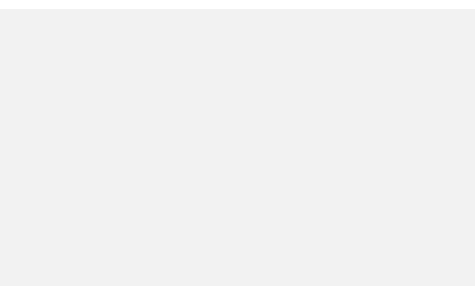


Source: SIAM, PL

Exhibit 6: One-year forward PE band chart



Source: Industry, Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	2,92,455	3,38,057	3,75,929	4,13,160
YoY gr. (%)	(5.0)	15.6	11.2	9.9
Cost of Goods Sold	2,08,267	2,38,581	2,62,757	2,87,542
Gross Profit	84,187	99,475	1,13,172	1,25,618
Margin (%)	28.8	29.4	30.1	30.4
Employee Cost	19,354	21,898	23,684	25,203
Other Expenses	31,145	37,715	40,600	44,621
EBITDA	33,688	39,862	48,888	55,794
YoY gr. (%)	(16.2)	18.3	22.6	14.1
Margin (%)	11.5	11.8	13.0	13.5
Depreciation and Amortization	6,498	6,570	7,206	8,088
EBIT	27,190	33,293	41,681	47,705
Margin (%)	9.3	9.8	11.1	11.5
Net Interest	258	199	200	200
Other Income	5,569	5,652	5,603	5,976
Profit Before Tax	32,501	38,746	47,084	53,482
Margin (%)	11.1	11.5	12.5	12.9
Total Tax	7,771	9,640	11,488	13,050
Effective tax rate (%)	23.9	24.9	24.4	24.4
Profit after tax	24,730	29,106	35,595	40,432
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	24,730	29,106	35,595	40,432
YoY gr. (%)	-	-	-	-
Margin (%)	8.5	8.6	9.5	9.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	24,730	29,106	35,595	40,432
YoY gr. (%)	(16.6)	17.7	22.3	13.6
Margin (%)	8.5	8.6	9.5	9.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	200	200	200	200
EPS (Rs)	123.8	145.7	178.2	202.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	1,04,022	1,11,316	1,21,386	1,35,386
Tangibles	1,04,022	1,11,316	1,21,386	1,35,386
Intangibles	-	-	-	-
Acc: Dep / Amortization	48,942	55,512	62,718	70,806
Tangibles	48,942	55,512	62,718	70,806
Intangibles	-	-	-	-
Net fixed assets	55,080	55,805	58,668	64,580
Tangibles	55,080	55,805	58,668	64,580
Intangibles	-	-	-	-
Capital Work In Progress	7,567	9,640	9,511	9,396
Goodwill	-	-	-	-
Non-Current Investments	23,795	26,174	28,792	31,671
Net Deferred tax assets	(5,514)	(5,624)	(5,736)	(5,851)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	82,729	83,929	93,312	1,02,433
Inventories	11,227	14,341	15,449	16,979
Trade receivables	23,043	27,982	20,599	22,639
Cash & Bank Balance	1,751	3,455	11,788	15,084
Other Current Assets	11,131	6,382	6,701	7,036
Total Assets	2,17,140	2,30,200	2,47,591	2,72,863
Equity				
Equity Share Capital	400	400	400	400
Other Equity	1,57,430	1,66,555	1,81,172	2,00,625
Total Network	1,57,829	1,66,955	1,81,571	2,01,025
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	42,603	47,045	46,347	50,938
Other current liabilities	11,194	12,919	13,936	15,050
Total Equity & Liabilities	2,17,140	2,32,543	2,47,591	2,72,863

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	32,501	38,746	47,084	53,482
Add. Depreciation	6,498	6,570	7,206	8,088
Add. Interest	258	199	200	200
Less Financial Other Income	5,569	5,652	5,603	5,976
Add. Other	(5,569)	(5,652)	(5,603)	(5,976)
Op. profit before WC changes	33,688	39,862	48,888	55,794
Net Changes-WC	(6,719)	1,188	5,997	1,524
Direct tax	(7,794)	(9,530)	(11,376)	(12,935)
Net cash from Op. activities	19,175	31,521	43,508	44,383
Capital expenditures	(4,894)	(9,367)	(9,941)	(13,884)
Interest / Dividend Income	-	-	-	-
Others	5,410	3,272	2,985	3,097
Net Cash from Inv. activities	516	(6,095)	(6,956)	(10,787)
Issue of share cap. / premium	96	-	-	-
Debt changes	-	-	-	-
Dividend paid	(18,981)	(19,980)	(20,979)	(20,979)
Interest paid	(258)	(199)	(200)	(200)
Others	-	-	-	-
Net cash from Fin. activities	(19,143)	(20,179)	(21,179)	(21,179)
Net change in cash	548	5,247	15,373	12,417
Free Cash Flow	14,280	22,153	33,567	30,499

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	83,925	90,754	80,310	83,069
YoY gr. (%)	53.0	7.4	1.9	11.9
Raw Material Expenses	61,074	65,301	55,743	56,463
Gross Profit	22,852	25,452	24,567	26,606
Margin (%)	27.2	28.0	30.6	32.0
EBITDA	9,408	10,383	9,241	10,831
YoY gr. (%)	82.7	(2.6)	(3.7)	30.9
Margin (%)	11.2	11.4	11.5	13.0
Depreciation / Depletion	1,630	1,634	1,620	1,686
EBIT	7,778	8,749	7,621	9,145
Margin (%)	9.3	9.6	9.5	11.0
Net Interest	70	33	49	47
Other Income	530	921	1,832	2,369
Profit before Tax	8,238	9,637	9,404	11,468
Margin (%)	9.8	10.6	11.7	13.8
Total Tax	1,993	2,476	2,294	2,877
Effective tax rate (%)	24.2	25.7	24.4	25.1
Profit after Tax	6,245	7,161	7,111	8,590
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,245	7,161	7,111	8,590
YoY gr. (%)	70.9	(9.9)	3.6	37.0
Margin (%)	7.4	7.9	8.9	10.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,245	7,161	7,111	8,590
YoY gr. (%)	70.9	(9.9)	3.6	37.0
Margin (%)	7.4	7.9	8.9	10.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	200	200	200	200
EPS (Rs)	31.3	35.8	35.6	43.0

Source: Company Data, PL Research

Key Financial Metrics

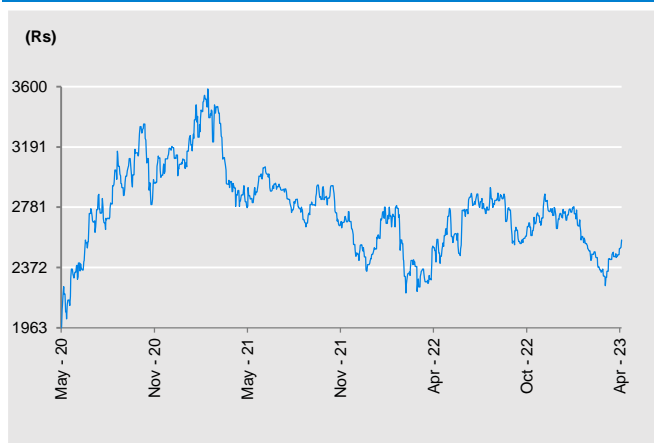
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	123.8	145.7	178.2	202.4
CEPS	156.3	178.6	214.2	242.8
BVPS	789.9	835.6	908.8	1,006.1
FCF	71.5	110.9	168.0	152.6
DPS	95.0	100.0	105.0	105.0
Return Ratio(%)				
RoCE	17.6	20.5	23.9	24.9
ROIC	29.4	33.3	45.6	48.9
RoE	16.0	17.9	20.4	21.1
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.6)	(0.6)
Net Working Capital (Days)	(20)	(15)	(20)	(20)
Valuation(x)				
PER	20.6	17.5	14.3	12.6
P/B	3.2	3.0	2.8	2.5
P/CEPS	16.3	14.3	11.9	10.5
EV/EBITDA	12.6	10.6	8.3	7.0
EV/Sales	1.5	1.2	1.1	0.9
Dividend Yield (%)	3.7	3.9	4.1	4.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Volume (units)	49,43,968	53,28,452	58,27,016	63,01,469
Net realisation (Rs/unit)	59,154	63,444	64,515	65,566

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Apr-23	BUY	3,200	2,470
2	06-Apr-23	BUY	3,135	2,432
3	08-Feb-23	BUY	3,135	2,616
4	05-Jan-23	BUY	3,135	2,709
5	05-Nov-22	BUY	3,175	2,598
6	06-Oct-22	BUY	3,175	2,615
7	16-Aug-22	BUY	3,130	2,762
8	08-Jul-22	BUY	3,150	2,839

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	200	138
2	Bajaj Auto	Hold	4,130	4,342
3	Bharat Forge	BUY	960	764
4	CEAT	Accumulate	1,635	1,432
5	Eicher Motors	BUY	4,050	3,054
6	Endurance Technologies	BUY	1,570	1,254
7	Exide Industries	UR	-	185
8	Hero Motocorp	BUY	3,200	2,470
9	Mahindra & Mahindra	BUY	1,560	1,202
10	Maruti Suzuki	BUY	10,300	8,507
11	Tata Motors	BUY	590	459
12	TVS Motor Company	BUY	1,300	1,169

PL's Recommendation Nomenclature (Absolute Performance)

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



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