Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

# Hero Motocorp (HMCL IN)

## Rating: BUY | CMP: Rs2,930 | TP: Rs3,200

June 13, 2023

## Analyst Meet 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 | 3,75,929 | 4,13,160 |
| *% Chng.* | - | - | | |
| EBITDA (Rs. m) | 48,888 | 55,794 | 48,888 | 55,794 |
| *% Chng.* | - | - | | |
| EPS (Rs.) | 178.2 | 202.4 | 178.2 | 202.4 |
| *% Chng.* | - | - | | |

**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 (%)* | *3.2* | *3.4* | *3.6* | *3.6* |
| *RoE (%)* | *16.0* | *17.9* | *20.4* | *21.1* |
| *RoCE (%)* | *17.6* | *20.5* | *23.9* | *24.9* |
| EV/Sales (x) | 1.7 | 1.5 | 1.3 | 1.1 |
| EV/EBITDA (x) | 14.9 | 12.5 | 9.8 | 8.4 |
| PE (x) | 23.7 | 20.1 | 16.4 | 14.5 |
| P/BV (x) | 3.7 | 3.5 | 3.2 | 2.9 |

| Key Data | HROM.BO \| HMCL IN |
|---|---|
| 52-W High / Low | Rs.3,026 / Rs.2,246 |
| Sensex / Nifty | 62,725 / 18,602 |
| Market Cap | Rs.586bn/ $ 7,104m |
| Shares Outstanding | 200m |
| 3M Avg. Daily Value | Rs.1547.7m |

**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 | 12.5 | 5.7 | 12.6 |
| Relative | 11.2 | 4.7 | (2.5) |

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## *Focus in right direction*

**Quick Pointers:**

- Model launches may rejuvenate portfolio; but rivalry could play a spoilsport.
- Focus on digitalization to drive in volumes, margins and customer experience.

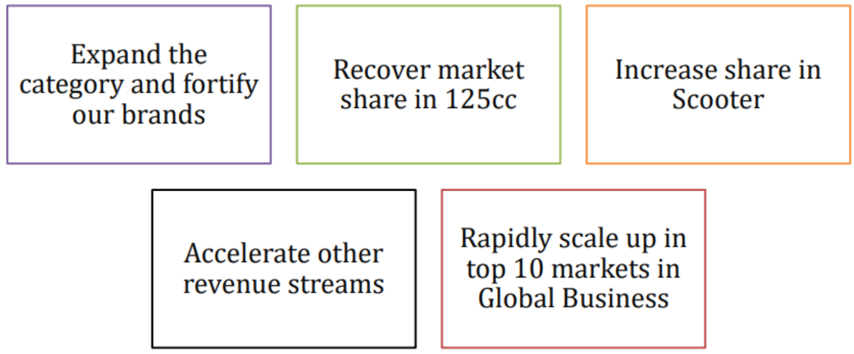
***We attended a session organized by Hero MotoCorp (HMCL) top management, and see HMCL making strategic decisions in the right direction. We agree with the management with regards to continued premiumisation in 2W industry and see their increased focus on the same to be positive. New leadership could bring in new energy at company level and help increase odds of success which has been limited in scooters and premium segment. HMCL aims at robust 2W growth and is looking at new launches, premiumisation and financing as forerunners of this growth. The company also laid out a "Changing gears" strategy to focus on 1) core business segment growth; 2) win in premium segment and 3) build leadership in EV segment. Mgnt. indicated that it wanted to adopt frugal engineering to reduce fixed costs, achieve step change in EV costs through localization and improve model mix.***

***We are positive on HMCL as we see c11% CAGR revenue growth and margin expansion (c170bps) over FY23-FY25. Maintain 'BUY' rating with a TP of Rs 3,200 at 15x Mar-25E standalone EPS (Rs 87 for Fincorp and Rs 78 for Ather). The company trades at nearly half the PE multiple compared to peers. However, we will wait for things to start moving on ground before considering prospects on re-rating the stock.***

**Favorable macro to help 2W industry:** HMCL noted favorable macro-economic factors such as govt. led capex push, strong rabi crops, robust GST collection, good water reservoirs levels etc. which should not only help consumer sentiment but also employment and thereby benefit overall 2W industry. Accordingly, the company plans to capitalize this opportunity by 1) launching highest number of models in FY24, 2) using financing to increase affordability and premiumise portfolio and 3) expanding international volumes.

**Hero MotoCorp revealed its 3-point strategy**: **1) Grow the Core:** Focus is on core 100-125cc segment and market share recovery in 125cc segment. It will also increase share in scooter segment and grow newer revenue streams. The company aims to first scale up its business in top 10 global markets and continue to prepare other markets for entry. It also plans to launch products in the 125cc motorcycle and 125cc scooter segment; leverage its Xtec features and launch other brands to fortify its position. **2) Win in Premium:** Focus is on a) building premium portfolio with vehicle segmentation in core premium and upper premium, b) elevating buying experience with exclusive stores with phy-gital experience, c) launching mobile application for an engaged buying experience. **3) EV Leadership:** The company plans to focus on premium segment EV scooters first and then move down to economical segment starting FY25. The company also plans to open "VIDA Hubs" exclusive stores and "VIDA Pods" within Hero 2.0 stores and premium outlets. Plans are to bring down costs through localization. **Margin focus:** Management noted a) adoption of frugal engineering, b) localizing resources and c) optimization of plant opex.

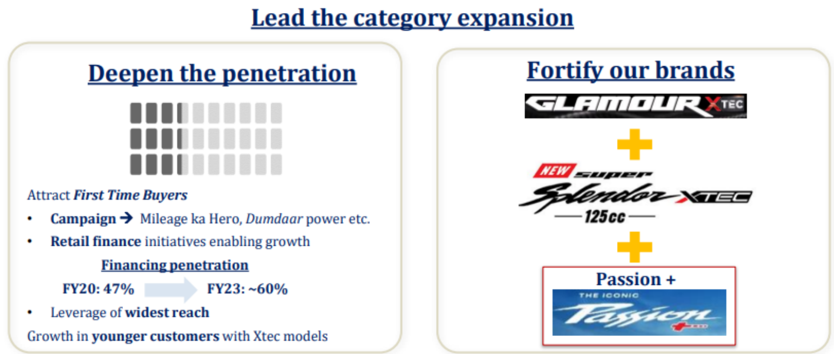
### Exhibit 1: Grow the Core;




*Source: Company, PL*

- HMCL plans to deepen the penetration of 2Ws by attracting first time buyers, increasing retail financing penetration and reach and leveraging its wide network. It aims to launch more brands and support Splendor with multiple strong brands like Glamour, Super and Passion. It has launched Passion+ to attract aspirational first time buyers.

### Exhibit 2: Expand the category and fortify brand




*Source: Company, PL*

### Exhibit 3: Recover market share in 125cc


*Source: Company, PL*

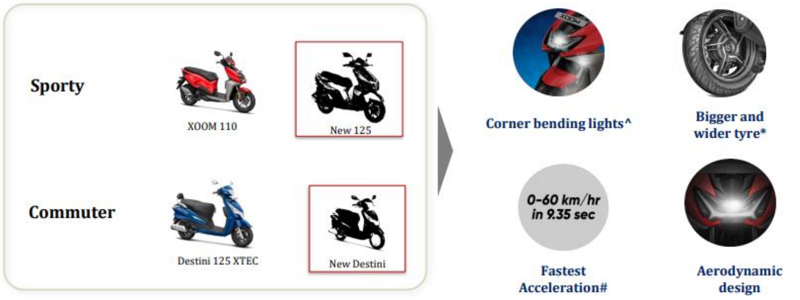
- Hero plans to launch new products in the 125cc segment to improve market share, expand the category and premiumize its portfolio. To attract new buyers and gain market share HMCL will offer industry first features and best in class performance. Thus addressing the 124cc segment comprehensively with new products and features.

**Exhibit 4: Attracting first time buyers and youth with Xtech**


Source: Company, PL

- Hero is planning to attract first time buyers through Xtech offering which has multiple connected and technology savy features. XTEC in addition to core products offer customers opportunity to up/ down trade and is offered by Hero at a premium of 4-8% over core variants. 25% of total volumes is with Xtech features while for some models like Destini 125 the contribution goes up to more than 75%.

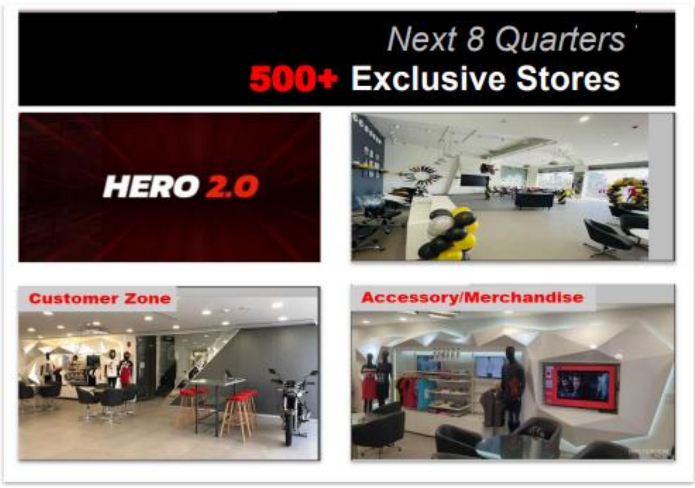
**Exhibit 5: Increase share in Scooter**




Source: Company, PL

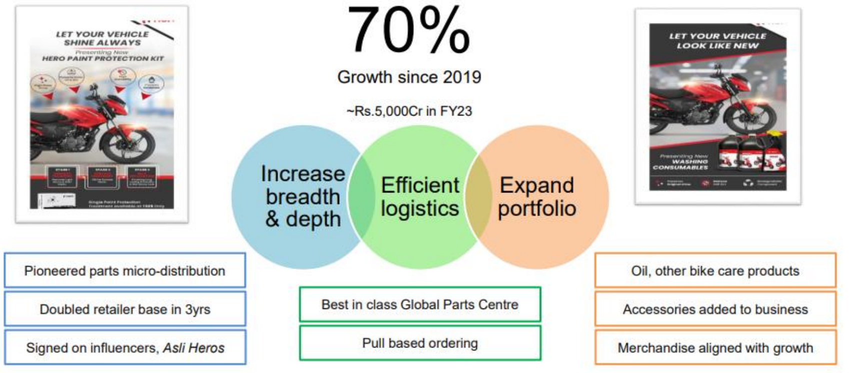
- HMCL plans to launch new products in the scooter segment to increase market share. It has received significant positive feedback for the new Xoom and plans to capitalize on the momentum.

**Exhibit 6: Upgrading the buyers experience**




Source: Company, PL

**Exhibit 7: Boost to other revenue streams; Parts, Accessories & Merchandise**



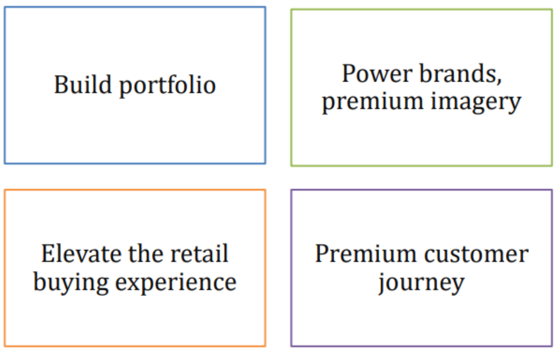

*Source: Company, PL*

**Exhibit 8: Scale up in rapidly growing global markets**


*Source: Company, PL*

- HMCL plans to focus on top 10 export markets initially and increase its export volumes, simultaneously it plans to start preparing other new markets to export its products once it consolidates in these top 10 markets.

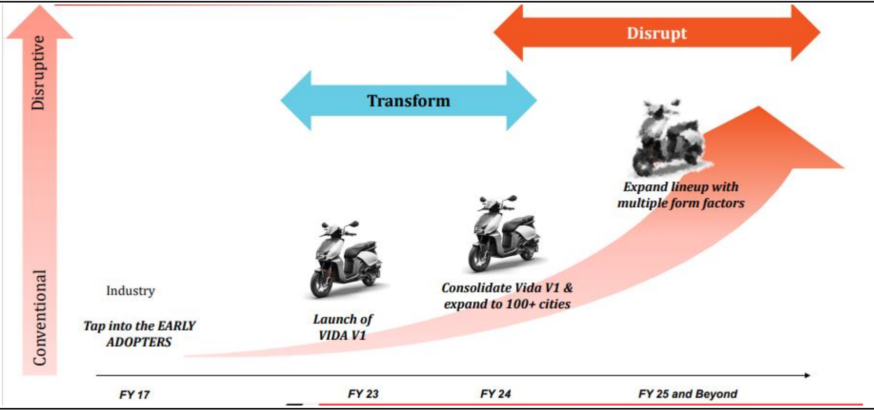
**Exhibit 9: Win in Premium Segments**




*Source: Company, PL*

- In the premium segment HMCL will build power brands in the core premium and upper premium segment. It will create premium imagery by conducting premium experience centers, track events, and community rides. It plans to open new revenue streams of merchandise and others ones it gains traction in the market. It will also launch products with collaboration with Harley Davidson. HMCL plans to open 100+ exclusive premium stores in next 4 quarters and is focusing on improving the retail buying experience.

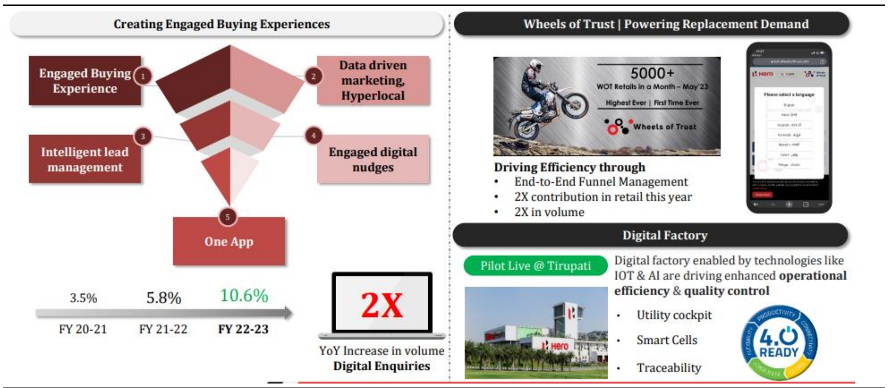
**Exhibit 10: Product lineup to transform and expand the market**




Source: Company, PL

- HMCL has planned rapid expansion in the EV space and aims to reach 100 cities in the FY24 by piggybacking on "VIDA Hubs" exclusive stores in top cities and "VIDA Pods" at Hero 2.0 stores & premium outlets. HMCL is leveraging digital platforms like Flipkart to expand its reach. HMCL plans to expand its Vida portfolio from FY25 onwards.

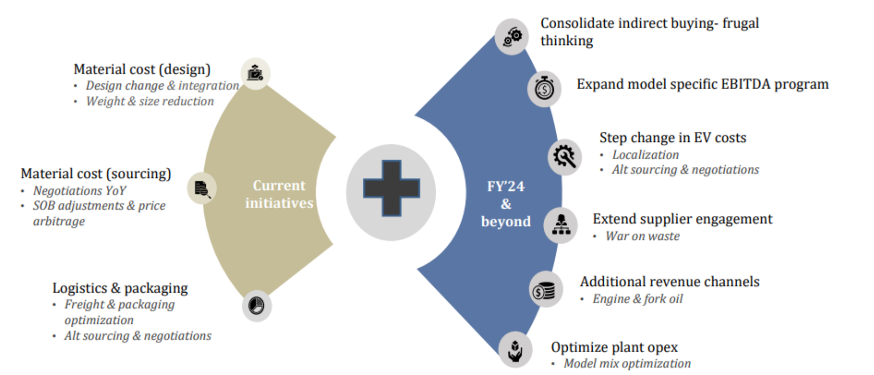
**Exhibit 11: Amplifying digital via connected vehicles**




Source: Company, PL

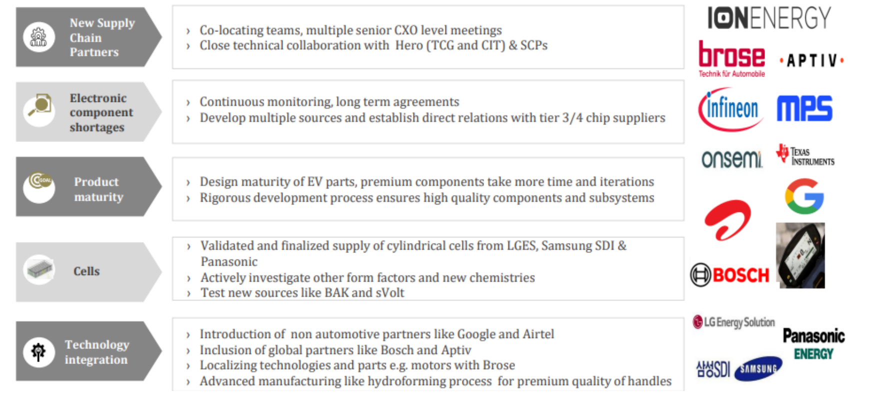
- HMCL is adopting digital technologies across its operations like retail lending, engaging buying behavior, used vehicle marketplace, digital factories, digital marketing, and D2C merchandising through online store.

**Exhibit 12: Margin support through supply chain optimization**




Source: Company, PL

## Exhibit 13: Resilience towards EV & Premium supply chain




*Source: 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 Networth** | **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 Invt. 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 | 23.7 | 20.1 | 16.4 | 14.5 |
| P/B | 3.7 | 3.5 | 3.2 | 2.9 |
| P/CEPS | 18.7 | 16.4 | 13.7 | 12.1 |
| EV/EBITDA | 14.9 | 12.5 | 9.8 | 8.4 |
| EV/Sales | 1.7 | 1.5 | 1.3 | 1.1 |
| Dividend Yield (%) | 3.2 | 3.4 | 3.6 | 3.6 |

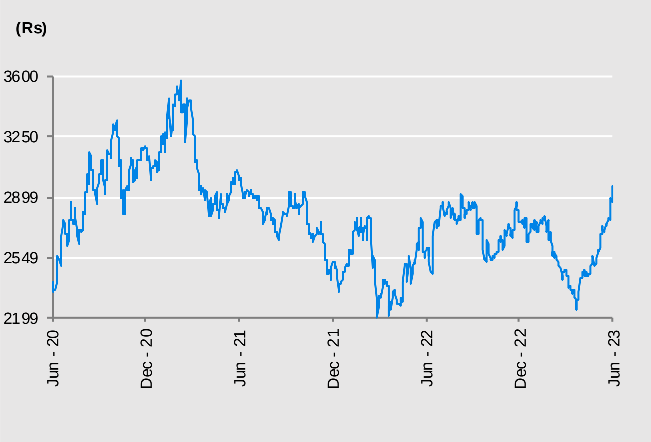
*Source: Company Data, PL Research*

## 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 | 08-May-23 | BUY | 3,200 | 2,547 |
| 2 | 12-Apr-23 | BUY | 3,200 | 2,470 |
| 3 | 06-Apr-23 | BUY | 3,135 | 2,432 |
| 4 | 08-Feb-23 | BUY | 3,135 | 2,616 |
| 5 | 05-Jan-23 | BUY | 3,135 | 2,709 |
| 6 | 05-Nov-22 | BUY | 3,175 | 2,598 |
| 7 | 06-Oct-22 | BUY | 3,175 | 2,615 |
| 8 | 16-Aug-22 | BUY | 3,130 | 2,762 |
| 9 | 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 | 215 | 150 |
| 2 | Bajaj Auto | Hold | 4,130 | 4,342 |
| 3 | Bharat Forge | BUY | 940 | 760 |
| 4 | CEAT | Accumulate | 1,800 | 1,717 |
| 5 | Eicher Motors | BUY | 4,030 | 3,404 |
| 6 | Endurance Technologies | BUY | 1,670 | 1,385 |
| 7 | Exide Industries | UR | - | 185 |
| 8 | Hero Motocorp | BUY | 3,200 | 2,547 |
| 9 | Mahindra & Mahindra | BUY | 1,585 | 1,282 |
| 10 | Maruti Suzuki | BUY | 10,300 | 8,507 |
| 11 | Tata Motors | BUY | 605 | 568 |
| 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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