

July 5, 2023

Event 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 (%)	3.1	3.3	3.5	3.5
RoE (%)	16.0	17.9	20.4	21.1
RoCE (%)	17.6	20.5	23.9	24.9
EV/Sales (x)	1.8	1.5	1.3	1.2
EV/EBITDA (x)	15.5	13.0	10.2	8.7
PE (x)	24.5	20.8	17.0	15.0
P/BV (x)	3.8	3.6	3.3	3.0

Key Data

HRM.B.O | HMCL IN

52-W High / Low	Rs.3,040 / Rs.2,246
Sensex / Nifty	65,479 / 19,389
Market Cap	Rs.605bn/ \$ 7,382m
Shares Outstanding	200m
3M Avg. Daily Value	Rs.1846.03m

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	11.8	9.8
Relative	0.1	3.6	(10.8)

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Launch of a strong contender in premium space

Quick Pointers:

- Launch price surprised positively; HD brand image to help become a strong contender in premium segment.
- HMCL branded product on the same platform could provide fillip to volumes.

Launch of Harley Davidson (HD) X440 in India within three years of collaboration marks a significant milestone for HMCL and HD itself. The bike commands good road presence and is a strong contender in premium segment given 1) its urban styling plus distinctive signature elements, 2) best-in-class performance, 3) HD brand image and 4) competitive pricing. HMCL plans to launch another premium bike based on the same platform and engine family. Hero branding bike will have more competitive pricing compared to X440 and would also benefit from association with HD brand image, thereby, helping to gain substantial share in the premium market, in our view. However, we have also seen HMCL's good product launches who failed to find success in the market. Thus, successful execution of plans and strategies in premium categories is critical.

We believe that HMCL is moving in the right direction and re-rating is possible if it can make in-roads in premium segment. The company trades at c15x PE multiple, more than c30% discount versus its peers' average. Performance of X440 could act as overhang for Eicher Motor's stock performance, which could be the biggest loser from success of X440. 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).

- Co-developed Harley product:** The Harley Davidson X440 is co-developed by Hero MotoCorp and Harley Davidson at the Hero Center for Innovation and Technology (CIT) with collaborations from HMCL's Germany Tech Center and Harley Davidson's Tech Center in Milwaukee, and will be manufactured at HMCL's Garden factory in Neemrana, Rajasthan. The product is focused on Indian market. HMCL has been re-deploying its R&D expenses on more premium products and EV vehicles. HMCL can ramp-up its production based on demand and has assurances from suppliers too.
- Positive surprise on pricing:** X440 is available in three variants and is competitively priced at an introductory offer of Rs. 2,29,000/- (Denim), Rs. 2,49,000/- (Vivid), and Rs. 2,69,000/- (S). X440's pricing is lower than expectation and at a competitive rate compared to its peers, given Harley Davidson's brand and the specifications it offers. The bike is favorably positioned within the premium motorcycle segment.
- Distribution– to be sold through HD dealerships and Exclusive Hero 2.0 stores:** The bike will be distributed through Harley Davidson's dealer networks and HMCL's Select Premium stores. HMCL plans to increase its network strength of premium exclusive stores "Hero 2.0" to close to 100 by the end of FY24. It also plans to deliver X440 pan India and with home deliveries in some

cities. Bookings are starting pan India at Rs. 5,000/-. HMCL plans to give best possible service right from: - 1) dedicated sales guide for X440 in every store, 2) providing separate servicing bays for X440 in select modified service centers and give premium experience.

- **Engine & Transmission – best in class power and torque:** X440 sports a 440cc oil-cooled, long-stroke BSVI (OBD II) and E20 compliant engine, delivering a power output of 27 bhp and maximum torque of 38 Nm. The bike offers a flat torque curve, ensuring power delivery at low RPMs and comes with a 6-speed transmission for both highway cruising and city commuting.
- **Features – incorporates iconic HD exhaust note:** X440 features distinctive styling with all-metal body components, tank design and the iconic Harley Davidson exhaust note. The bike has a robust structural chassis to suit Indian roads and has front dual cartridge damping system; rear with gas filled dual shock along with dual channel ABS.
- **Instrument cluster with features like navigation, vehicle tracking:** X440 incorporates advanced technology features, including a 3.5" speedometer with a TFT digital display, offering day and night modes. The S variant also comes with the 'Connect 2.0' feature, providing more than 25 notifications on display through mobile application. The connectivity features include turn-by-turn navigation, call alerts and vehicle tracking.
- **Our View:** We test drove the Harley Davidson X440 and found it to be quite impressive. Bike attains 100+ kmph speed with ease and minimal vibrations. It should be suitable for city as well as long rides. We believe that X440 is a strong competitor to current market leader in premium segment and has potential to clock in good volumes.

Exhibit 1: Comparison with present premium segment players

Specification	Hero-Harley Davidson X440	Triumph Speed 400	Royal Enfield Classic 350	TVS Apache RR 310	Royal Enfield Hunter 350	Bajaj Dominar 400	Royal Enfield Scram 411	KTM RC 390	Honda CB350RS
Monthly run-rate (units)			26566	296	17334	700	3793	978	3547
Ex-showroom price	Rs. 2.29 Lakh onwards	Not revealed yet	Rs. 1.93 Lakh onwards	Rs.2.72 Lakh onwards	Rs. 1.50 Lakh onwards	Rs.1.83 Lakh onwards	Rs.2.03 Lakh onwards	Rs.3.14 Lakh onwards	Rs.2.14 Lakh onwards
Mileage (City)			41.55 kmpl	33.1 kmpl	36.2 kmpl	27 kmpl	38.23 kmpl	25.89 kmpl	35 kmpl
Max Power	27 bhp @ 6000 rpm	40 PS @ 8000 rpm	20.21 PS @ 6100 rpm	34 PS @ 9700 rpm	20.4 PS @ 6100 rpm	40 PS @ 8800 rpm	24.31 PS @ 6500 rpm	43.5 PS	21.07 PS @ 5500 rpm
Body Type	Tracker	Scrambler	Cruiser	Sports	Cruiser	Sports Naked	Adventure Tourer	Sports	Cruiser
Engine & Transmission									
Engine Type	single cyclinder, air-oil cooled	4 Stroke, Air-Oil Cooled Engine, Spark Ignition, Single Cylinder	4 Stroke, Air-Oil Cooled Engine, Spark Ignition, Single Cylinder	SI, 4 stroke, 4 valve, Single cylinder, Liquid cooled, Reverse inclined	Single cylinder, 4 stroke, SOHC Engine	Single cylinder, 4 stroke, DOHC, 4 Valve, Liquid Cooled, Triple Spark, FI	Single Cylinder, 4 Stroke, Air Cooled, SOHC	1-cylinder, 4-stroke engine	4 Stroke, SI Engine
Displacement	440 cc	398.15 cc	349.34 cc	312.2 cc	349.34 cc	373.3 cc	411 cc	373 cc	348.36 cc
Max Torque	38 Nm @ 4000 rpm	37.5 Nm @ 6500 rpm	27 Nm @ 4000 rpm	27.3 Nm @ 7700 rpm	27 Nm @ 4000 rpm	35 Nm @ 6500 rpm	32 Nm @ 4250±250 rpm	37 Nm	30 Nm @ 3000 rpm
No. of Cylinders	1		1	1	1	1	1	1	-
Cooling System	Air & Oil Cooled		Air & Oil Cooled	Liquid Cooled	Air & Oil Cooled	Liquid Cooled	Air Cooled	Liquid Cooled	-
Valve Per Cylinder	4		2	4	2	4	4	4	-
Starting	Self Start Only		Self Start Only	Self Start Only	Self Start Only	Self Start Only	Self Start Only	Self Start Only	Self Start Only
Fuel Supply	Fuel Injection		Fuel Injection	Fuel Injection	Fuel Injection	Fuel Injection	Fuel Injection	Fuel Injection	Fuel Injection
Clutch			Conventional wet clutch	Wet multi-plate, 7- plate design, RT-Slipper Clutch	Conventional wet clutch	Wet, Multiplate with Assist & Slipper Clutch	Wet multi plates	PASC™ antihopping clutch, mechanically operated	Multiplate Wet Clutch
Ignition			ECU controlled	Dynamically controlled integrated high energy ignition system	ECU controlled	-	Digital Electronic Ignition	-	-
Gear Box			5 Speed	6 Speed	5 Speed	6 Speed	5 Speed constant mesh	6 Speed	5 Speed
Bore	79.6 mm		75 mm	80 mm	75 mm	-	78 mm	89 mm	70 mm
Stroke	88.4 mm		85.8 mm	62.1 mm	85.8 mm	-	86 mm	60 mm	90.519 mm
Compression Ratio	9.5:1		9.5:1	10.9:1	9.5:1	-	9.5:1	14.5:1	9.5:1
Emission Type	bs6		bs6	bs6	bs6	bs6	bs6	bs6	bs6-2.0
Dimensions and Capacity									
Width		814 mm	785 mm	786 mm	800 mm	863 mm	840 mm	760 mm	782 mm
Length	2168mm		2145 mm	2001 mm	2055 mm	2156 mm	2160 mm	2145 mm	2171 mm
Height		1084 mm	1090 mm	1135 mm	1055 mm	1243 mm	1165 mm	830 mm	1097 mm
Fuel Capacity			13 L	11 L	13 L	13 L	15 L	13.7 l	15 L
Saddle Height			805 mm	810 mm	790 mm	-	795 mm	824 mm	800 mm
Ground Clearance	170mm		170 mm	180 mm	150 mm	157 mm	200 mm	158 mm	168 mm
Wheelbase	1418mm	1377 mm	1390 mm	1365 mm	1370 mm	1453 mm	1455 mm	1340 mm	1441 mm
Kerb Weight	181 kg	170 kg	195 kg	174 kg	181 kg	193 kg	185 kg	172 kg	179 kg
Total Weight	190.5 kg		375 kg	-	360 kg				
Load Carrying Capacity				130 kg	179 kg				
Engine Oil	2.25 l		2.20 l	-	2.2 l				

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 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

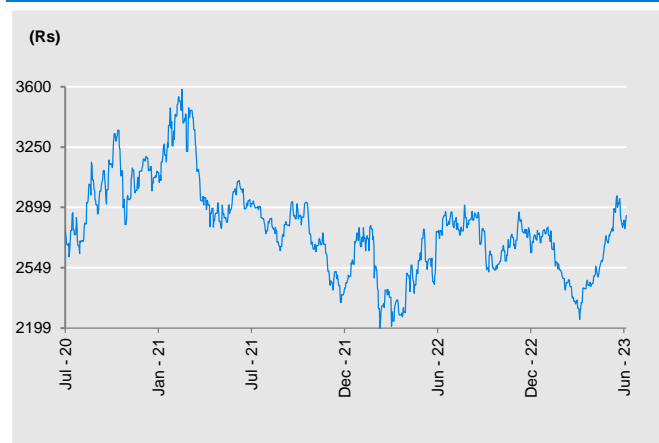
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	123.8	145.7	178.2	202.4
CEPS	156.3	178.6	214.2	242.8
BVPS	789.9	835.6	908.8	1,006.1
FCF	71.5	110.9	168.0	152.6
DPS	95.0	100.0	105.0	105.0
Return Ratio(%)				
RoCE	17.6	20.5	23.9	24.9
ROIC	29.4	33.3	45.6	48.9
RoE	16.0	17.9	20.4	21.1
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.6)	(0.6)
Net Working Capital (Days)	(20)	(15)	(20)	(20)
Valuation(x)				
PER	24.5	20.8	17.0	15.0
P/B	3.8	3.6	3.3	3.0
P/CEPS	19.4	17.0	14.1	12.5
EV/EBITDA	15.5	13.0	10.2	8.7
EV/Sales	1.8	1.5	1.3	1.2
Dividend Yield (%)	3.1	3.3	3.5	3.5

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	13-Jun-23	BUY	3,200	2,930
2	08-May-23	BUY	3,200	2,547
3	12-Apr-23	BUY	3,200	2,470
4	06-Apr-23	BUY	3,135	2,432
5	08-Feb-23	BUY	3,135	2,616
6	05-Jan-23	BUY	3,135	2,709
7	05-Nov-22	BUY	3,175	2,598
8	06-Oct-22	BUY	3,175	2,615
9	16-Aug-22	BUY	3,130	2,762
10	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	157
2	Bajaj Auto	Hold	4,130	4,342
3	Bharat Forge	BUY	940	760
4	CEAT	Accumulate	2,260	2,073
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	2,930
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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