

Hero Motocorp

Both demand and market share fail to revive

Hero MotoCorp's adjusted PAT at INR 9.4bn was ahead of our estimates of INR 8.5bn due to better-than-expected margins and higher other income. Margins were boosted by lower other expenses, which is likely to be low due to lower than normal ad spend. Despite its multiple launches over the past few quarters, HMC continues to lose share: its motorcycle market share as of Q1-end is down 680bps YoY to 45% while its scooter market share is down 40bps YoY to 6.7%. The key reasons for this loss in market share for HMC are (1) the 100cc segment continues to underperform other segments; (2) HMC sharply loses share in 125cc and above segments, which are seeing rising contributions in the industry. While HMC has a healthy launch pipeline largely focused on the 125cc and above segments, we do not expect it to recover meaningful share, given its multiple failed attempts in the past. Also, while management is hopeful of a revival in entry-level demand, we remain circumspect as we believe the key reason for the weak demand is the impact of affordability for that customer, which is likely to take longer to get addressed. Maintain REDUCE with a revised TP of INR 2,672 (from INR 2,512)—as we roll forward to June 25 earnings.

- Q1 PAT beats estimates:** Hero MotoCorp Q1 margin at 13.8% (+80bps QoQ) was ahead of our estimate of 12.8% due to lower other expenses (down 12% QoQ despite 6.5% volume growth)—possibly as the impact of higher ad spend would be seen in coming quarters post new launches. However, gross margins declined by 140bps QoQ due to a shift in the mix in favour of 100cc bikes in Q1. Other income also came in ahead of the estimate at INR 2.2bn (vs INR 1.1bn in Q1). Adjusted for the one-off, PAT grew 37% YoY to INR 9.4bn (ahead of our estimate of INR 8.5 bn).
- Call takeaways:** (1) On the demand front, management believes that all lead indicators (peaking of rates and inflation, good monsoon) are in place to drive double-digit growth in the upcoming festive season. They continue to target double-digit revenue growth for FY24. (2) Given that ICE margins are back to pre-COVID levels, their focus will now be on volume growth and market share recovery. Given their healthy launch pipeline, management remains confident of recovering lost market share. (3) Given that FY24 will be one of the strongest launch years in HMC's history, launch expenses are likely to rise, as they would focus on supporting all their new launches. (4) While they have received 25k bookings for Harley X 440, they have refrained from giving out a ramp-up timeline. They currently have Harley stores across 26 locations pan-India. (5) In EVs, with a presence in 36 cities, they are now on target to ramp up their dealer network to 100 cities by CY23 end. In FY25, they intend to focus on new product launches and achieve a leadership position in EVs in the coming years.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1 FY24	Q1 FY23	YoY (%)	Q4 FY23	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	87,673	83,925	4.5	83,068	5.5	3,38,057	3,63,731	3,99,643	4,45,480
EBITDA	12,063	9,408	28.2	10,830	11.4	39,862	48,372	50,755	57,021
APAT	9,367	6,845	36.8	8,589	9.1	29,106	35,535	36,953	41,639
Diluted EPS (INR)	46.9	34.3	36.8	43.0	9.1	145.7	177.9	185.0	208.5
P/E (x)						20.6	16.8	16.2	14.4
EV / EBITDA (x)						12.2	9.9	9.4	8.3
RoCE (%)						22.8	26.2	25.7	27.2

Source: Company, HSIE Research

REDUCE

CMP (as on 11 Aug 2023) INR 2,998

Target Price INR 2,672

NIFTY 19,428

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,512	INR 2,672
	FY24E	FY25E
EPS %	5.2%	3.1%

KEY STOCK DATA

Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (INR bn) / (\$ mn)	599/7,326
6m avg traded value (INR mn)	1,935
52 Week high / low	INR 3,244/2,246

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.0	16.1	7.6
Relative (%)	10.4	8.4	(2.5)

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	34.77	34.77
FIs & Local MFs	27.87	27.28
FPIs	27.00	28.09
Public & Others	10.36	9.86
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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