

August 12, 2023

## Q1FY24 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	3,535		3,460	
Sales (Rs. m)	3,73,621	4,10,128	3,73,553	4,10,046
% Chng.	-	-	-	-
EBITDA (Rs. m)	49,522	57,230	49,102	56,603
% Chng.	0.9	1.1	-	-
EPS (Rs.)	187.2	210.9	179.7	206.2
% Chng.	4.2	2.3	-	-

### Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	292	338	374	410
EBITDA (Rs. bn)	34	40	50	57
Margin (%)	11.5	11.8	13.3	14.0
PAT (Rs. bn)	25	29	37	42
EPS (Rs.)	123.8	145.6	187.2	210.9
Gr. (%)	(16.6)	17.7	28.6	12.6
DPS (Rs.)	95.0	100.0	105.0	105.0
Yield (%)	3.2	3.3	3.5	3.5
RoE (%)	16.0	17.9	21.4	21.8
RoCE (%)	17.6	20.5	24.4	25.6
EV/Sales (x)	1.8	1.6	1.4	1.2
EV/EBITDA (x)	15.3	13.2	10.3	8.7
PE (x)	24.2	20.6	16.0	14.2
P/BV (x)	3.8	3.6	3.3	2.9

### Key Data

### HROM.BO | HMCL IN

52-W High / Low	Rs.3,244 / Rs.2,246
Sensex / Nifty	65,323 / 19,428
Market Cap	Rs.599bn/ \$ 7,225m
Shares Outstanding	200m
3M Avg. Daily Value	Rs.2597.49m

### Shareholding Pattern (%)

Promoter's	34.78
Foreign	28.10
Domestic Institution	27.28
Public & Others	9.85
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(3.5)	15.9	7.5
Relative	(3.0)	7.7	(2.3)

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## Strong margin performance to help fund EV cost

### Quick Pointers:

- ICE margins reach pre-covid levels; 100bps drag on margins from EV.
- Improvement in replacement demand and other underlying demand drivers.

**We increase our estimates by c2% for FY24/FY25 each as we factor in beat on margins and higher other income. Hero Motocorp (HMCL) expanded its EBITDA margin by c70bps QoQ, largely led by lower other expenses (-200bp), while gross margins contracted QoQ (-140bp). HMCL is seeing indication of strong demand in the rural market and is aiming to grow ahead of the industry on back of aggressive model launch cycle across categories and gain market share. Vida (EV 2W) has already reached 36 cities and HMCL plans to increase the count to 100 by CY23, and launch new product FY25 onwards. HD X440 has received good bookings and HMCL will aggressively increase its reach.**

**We expect margins to improve in the near term from operating leverage, premiumisation, cost controls and stable commodity costs (we build in c220bps increase over FY23-25E). Key monitorable would be 1) performance of new launches, 2) uptick in EV volumes, 3) competition in core segments and 4) recovery in rural markets. Maintain 'Accumulate' at TP of Rs 3,535 (at 16x on Mar-25E standalone EPS, Rs 83 for Fincorp and Rs 78 for Ather).**

- Strong improvement in margins in Q1FY24:** Revenue grew by c5% YoY to Rs. 87.7bn and came below PLe (Rs. 89.3bn) and Bloomberg consensus estimates (BBGe) (Rs. 89.6bn). EBITDA margins at 13.8% (+255bps YoY and +c70bps QoQ) were higher than our (12.7%) and BBGe (13.2%). Gross margin was lower QoQ 140bps but came higher than our expectation, while strong control on other expenses helped increase the margin beat. Higher than expected other income and lower depreciation expenses aided the beat on adj PAT versus PLe by c15% and vs BBGe by c8%.
- Key takeaways:** (1) HMCL noted demand to be strong in urban and is seeing early indications of rural recovery aided by significant government CapEx over last few years, election year boost to demand, better rains and upcoming festive season. HMCL is seeing increase in replacement demand which has reached 10% from 4-5% few quarters back. (2) HMCL has maintained its double-digit revenue growth guidance for industry and expects to grow faster and its focus will be on growth and market share improvement. (3) New launches in the scooter segment, Super splendor and Passion Plus are getting good traction and HMCL is ramping up Glamour 125 for rural demand and model launches in the premium segment should help market share gains. (4) HD X-440 has received strong bookings (>25k units), and HMCL plans to increase its reach aggressively and launch Hero badged product by 4QFY24. (5) HMCL aims to maintain ICE margins at 14-16%, and sees no major move in commodity prices, however, EV segment will drag margins by 100bps in the short term. (6) HMCL is targeting aggressive expansion of EV network from 36 cities currently to 100 cities in CY23, using its existing dealer network. It plans to reach leadership position in the next few years. (7) Inventory level stand at c6 weeks of future sales and upcoming festive season. (8) VRS has been opted by 10% of staff.

**Exhibit 1: Q1FY24 Result Overview (Rs m)- Gross margin contracted 140bps QoQ, driven by softer commodity prices**

Y/e March	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
<b>Net Revenues</b>	<b>87,673</b>	<b>83,925</b>	<b>4.5</b>	<b>83,068</b>	<b>5.5</b>	<b>3,73,621</b>	<b>3,38,057</b>	<b>10.5</b>
Raw Materials	60,809	61,074	(0.4)	56,463	7.7	2,58,342	2,38,581	8.3
<i>% of Net Sales</i>	<i>69.4</i>	<i>72.8</i>		<i>68.0</i>		<i>69.1</i>	<i>70.6</i>	
Personnel	5,802	5,382	7.8	5,571	4.1	23,538	21,898	7.5
<i>% of Net Sales</i>	<i>6.6</i>	<i>6.4</i>		<i>6.7</i>		<i>6.3</i>	<i>6.5</i>	
Manufacturing & Other Exp	9,000	8,062	11.6	10,204	(11.8)	42,219	37,715	11.9
<i>% of Net Sales</i>	<i>10.3</i>	<i>9.6</i>		<i>12.3</i>		<i>11.3</i>	<i>11.2</i>	
Total Expenditure	75,610	74,518	1.5	72,238	4.7	3,24,099	2,98,194	8.7
<b>EBITDA</b>	<b>12,063</b>	<b>9,408</b>	<b>28.2</b>	<b>10,830</b>	<b>11.4</b>	<b>49,522</b>	<b>39,862</b>	<b>24.2</b>
<i>EBITDA Margin (%)</i>	<i>13.8</i>	<i>11.2</i>		<i>13.0</i>		<i>13.3</i>	<i>11.8</i>	
Depreciation	1,690	1,630	3.7	1,686	0.2	6,896	6,570	5.0
<b>EBIT</b>	<b>10,373</b>	<b>7,778</b>	<b>33.4</b>	<b>9,144</b>	<b>13.4</b>	<b>42,626</b>	<b>33,293</b>	<b>28.0</b>
Interest Expenses	47	70	(33.2)	47	(0.4)	200	199	0.7
Non-operating income	622	530	17.3	2,369	(73.8)	4,467	5,652	(21.0)
Extraordinary Expenses	-1,205	0		0		-1,210	0	
<b>PBT</b>	<b>12,153</b>	<b>8,238</b>	<b>47.5</b>	<b>11,467</b>	<b>6.0</b>	<b>48,102</b>	<b>38,746</b>	<b>24.1</b>
Tax-Total	2,701	1,993	35.5	2,877	(6.1)	11,442	9,640	18.7
<i>Tax Rate (%) - Total</i>	<i>22.2</i>	<i>24.2</i>		<i>25.1</i>		<i>23.8</i>	<i>24.9</i>	
<b>Reported PAT</b>	<b>9,452</b>	<b>6,245</b>	<b>51.4</b>	<b>8,589</b>	<b>10.0</b>	<b>36,660</b>	<b>29,106</b>	<b>26.0</b>
<b>Adj. PAT</b>	<b>10,658</b>	<b>6,245</b>	<b>70.7</b>	<b>8,589</b>	<b>24.1</b>	<b>37,870</b>	<b>29,106</b>	<b>30.1</b>
<i>PAT Margin (%)</i>	<i>12.2</i>	<i>7.4</i>		<i>10.3</i>		<i>10.1</i>	<i>8.6</i>	

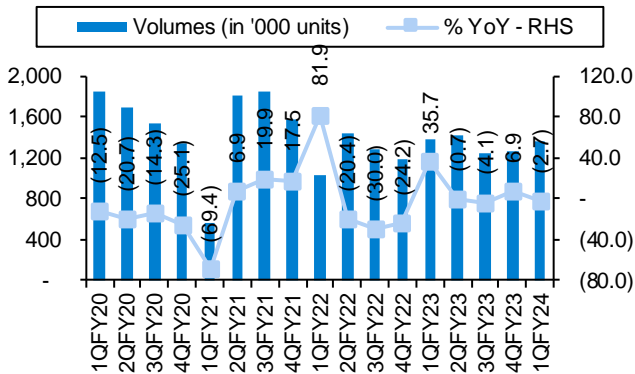
Source: Company, PL

**Exhibit 2: Operating Metrics – Net realisation was flattish QoQ**

Y/e Mar (Rs)	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Sales Volume (nos)	13,52,574	13,90,192	(2.7)	12,70,493	6.5	56,14,808	53,28,452	5.4
Net Realisation/Vehicle	64,819	60,370	7.4	65,382	(0.9)	66,542	63,444	4.9
Material cost / vehicle	44,958	43,932	2.3	44,442	1.2	46,011	44,775	2.8
Gross Profit / vehicle	19,861	16,438	20.8	20,941	(5.2)	20,531	18,669	10.0
Employee cost /vehicle	4,289	3,871	10.8	4,385	(2.2)	4,192	4,110	2.0
Other expenses / vehicle	6,654	5,799	14.7	8,032	(17.2)	7,519	7,078	6.2
EBITDA/vehicle	8,918	6,767	31.8	8,524	4.6	8,820	7,481	17.9
Net Profit/vehicle	6,988	4,492	55.6	6,761	3.4	6,529	5,462	19.5

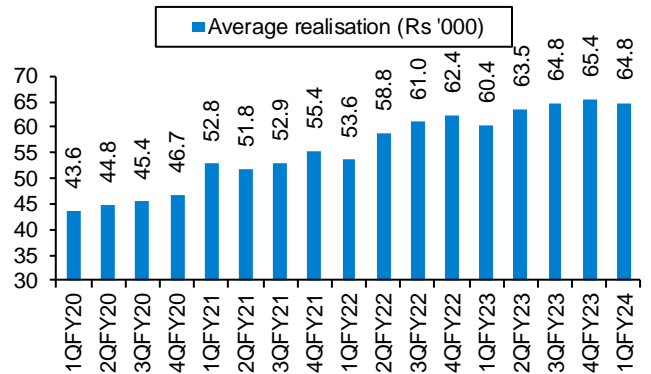
Source: Company, PL

**Exhibit 1: Volumes were up by 6% QoQ**



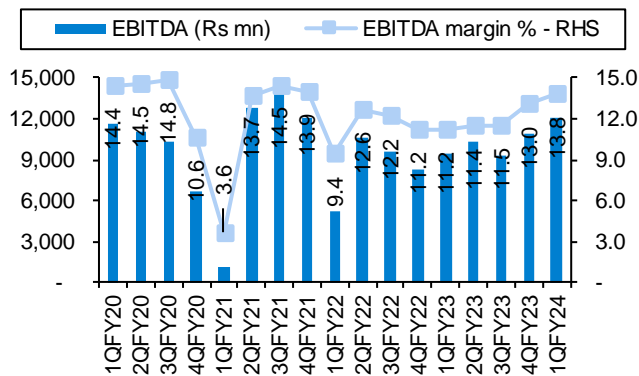
Source: Company, PL

**Exhibit 2: ASPs was largely flat QoQ**



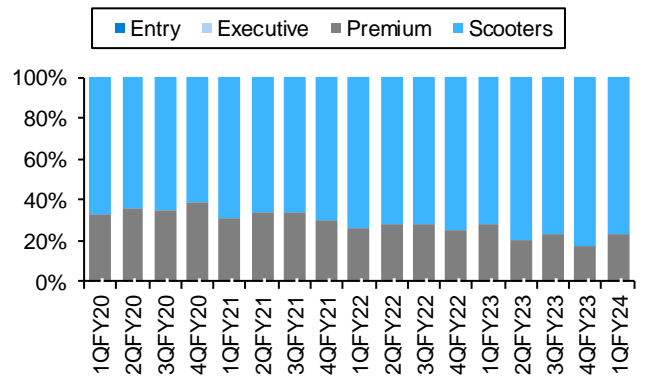
Source: Company, PL

**Exhibit 3: EBITDA margin at 13.8%**



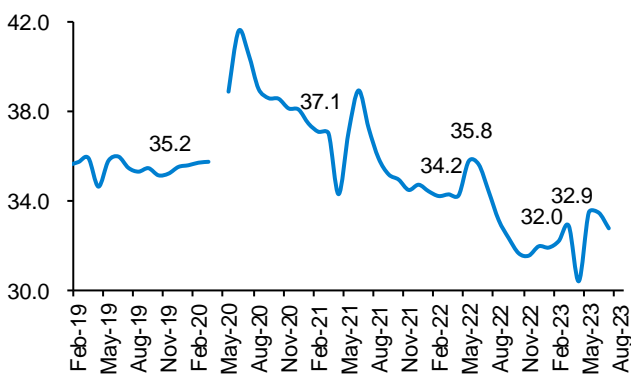
Source: Company, PL

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



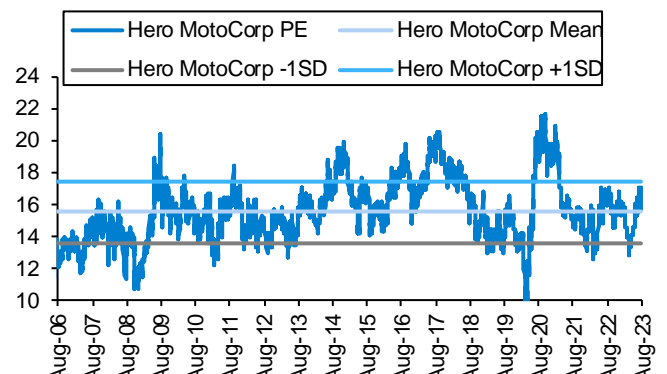
Source: Company, PL

**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
<b>Net Revenues</b>	<b>2,92,455</b>	<b>3,38,057</b>	<b>3,73,621</b>	<b>4,10,128</b>
YoY gr. (%)	(5.0)	15.6	10.5	9.8
Cost of Goods Sold	2,08,267	2,38,581	2,58,342	2,83,587
Gross Profit	84,187	99,475	1,15,279	1,26,542
Margin (%)	28.8	29.4	30.9	30.9
Employee Cost	19,354	21,898	23,538	25,018
Other Expenses	31,145	37,715	42,219	44,294
<b>EBITDA</b>	<b>33,688</b>	<b>39,862</b>	<b>49,522</b>	<b>57,230</b>
YoY gr. (%)	(16.2)	18.3	24.2	15.6
Margin (%)	11.5	11.8	13.3	14.0
Depreciation and Amortization	6,498	6,570	6,896	7,778
<b>EBIT</b>	<b>27,190</b>	<b>33,293</b>	<b>42,626</b>	<b>49,452</b>
Margin (%)	9.3	9.8	11.4	12.1
Net Interest	258	199	200	200
Other Income	5,569	5,652	6,067	6,500
<b>Profit Before Tax</b>	<b>32,501</b>	<b>38,746</b>	<b>50,092</b>	<b>55,752</b>
Margin (%)	11.1	11.5	13.4	13.6
Total Tax	7,771	9,640	11,442	13,603
Effective tax rate (%)	23.9	24.9	22.8	24.4
<b>Profit after tax</b>	<b>24,730</b>	<b>29,106</b>	<b>38,651</b>	<b>42,148</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>24,730</b>	<b>29,106</b>	<b>37,416</b>	<b>42,148</b>
YoY gr. (%)	-	-	-	-
Margin (%)	8.5	8.6	10.0	10.3
Extra Ord. Income / (Exp)	-	-	(1,234)	-
<b>Reported PAT</b>	<b>24,730</b>	<b>29,106</b>	<b>38,651</b>	<b>42,148</b>
YoY gr. (%)	(16.6)	17.7	32.8	9.0
Margin (%)	8.5	8.6	10.3	10.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
<b>Equity Shares O/s (m)</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>
<b>EPS (Rs)</b>	<b>123.8</b>	<b>145.6</b>	<b>187.2</b>	<b>210.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,04,022</b>	<b>1,06,392</b>	<b>1,16,462</b>	<b>1,30,462</b>
Tangibles	1,04,022	1,06,392	1,16,462	1,30,462
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>48,942</b>	<b>53,780</b>	<b>60,676</b>	<b>68,454</b>
Tangibles	48,942	53,780	60,676	68,454
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>55,080</b>	<b>52,612</b>	<b>55,786</b>	<b>62,008</b>
Tangibles	55,080	52,612	55,786	62,008
Intangibles	-	-	-	-
Capital Work In Progress	7,567	9,640	9,511	9,396
Goodwill	-	-	-	-
Non-Current Investments	23,795	41,327	45,459	50,005
Net Deferred tax assets	(5,514)	(5,617)	(5,729)	(5,844)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	82,729	68,777	76,644	84,098
Inventories	11,227	14,341	15,354	16,855
Trade receivables	23,043	27,982	20,472	22,473
Cash & Bank Balance	1,751	3,455	9,868	14,255
Other Current Assets	11,131	12,005	12,606	13,236
<b>Total Assets</b>	<b>2,17,140</b>	<b>2,32,631</b>	<b>2,48,455</b>	<b>2,75,349</b>
<b>Equity</b>				
Equity Share Capital	400	400	400	400
Other Equity	1,57,430	1,66,651	1,82,327	2,03,491
<b>Total Network</b>	<b>1,57,829</b>	<b>1,67,051</b>	<b>1,82,727</b>	<b>2,03,891</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	42,603	47,045	46,063	50,564
Other current liabilities	11,194	12,919	13,936	15,050
<b>Total Equity &amp; Liabilities</b>	<b>2,17,140</b>	<b>2,32,631</b>	<b>2,48,455</b>	<b>2,75,349</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	32,501	38,746	46,893	55,752
Add. Depreciation	6,498	6,570	6,896	7,778
Add. Interest	258	199	200	200
Less Financial Other Income	5,569	5,652	6,067	6,500
Add. Other	(5,569)	(5,652)	(6,067)	(6,500)
Op. profit before WC changes	33,688	39,862	47,922	57,230
Net Changes-WC	(6,719)	(4,435)	5,669	1,215
Direct tax	(7,794)	(9,537)	(11,329)	(13,489)
<b>Net cash from Op. activities</b>	<b>19,175</b>	<b>25,890</b>	<b>42,262</b>	<b>44,956</b>
Capital expenditures	(4,894)	(6,175)	(9,941)	(13,884)
Interest / Dividend Income	-	-	-	-
Others	5,410	(11,880)	1,934	1,954
<b>Net Cash from Inv. activities</b>	<b>516</b>	<b>(18,055)</b>	<b>(8,007)</b>	<b>(11,930)</b>
Issue of share cap. / premium	96	101	1,210	-
Debt changes	-	-	-	-
Dividend paid	(18,981)	(19,985)	(20,984)	(20,984)
Interest paid	(258)	(199)	(200)	(200)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(19,143)</b>	<b>(20,083)</b>	<b>(19,975)</b>	<b>(21,184)</b>
<b>Net change in cash</b>	<b>548</b>	<b>(12,248)</b>	<b>14,280</b>	<b>11,841</b>
Free Cash Flow	14,280	19,715	32,320	31,071

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>90,754</b>	<b>80,310</b>	<b>83,069</b>	<b>87,674</b>
YoY gr. (%)	7.4	1.9	11.9	4.5
Raw Material Expenses	65,301	55,743	56,463	60,809
Gross Profit	25,452	24,567	26,606	26,865
Margin (%)	28.0	30.6	32.0	30.6
<b>EBITDA</b>	<b>10,383</b>	<b>9,241</b>	<b>10,831</b>	<b>12,064</b>
YoY gr. (%)	(2.6)	(3.7)	30.9	28.2
Margin (%)	11.4	11.5	13.0	13.8
Depreciation / Depletion	1,634	1,620	1,686	1,690
<b>EBIT</b>	<b>8,749</b>	<b>7,621</b>	<b>9,145</b>	<b>10,374</b>
Margin (%)	9.6	9.5	11.0	11.8
Net Interest	33	49	47	47
Other Income	921	1,832	2,369	2,222
<b>Profit before Tax</b>	<b>9,637</b>	<b>9,404</b>	<b>11,468</b>	<b>10,949</b>
Margin (%)	10.6	11.7	13.8	12.5
Total Tax	2,476	2,294	2,877	2,701
Effective tax rate (%)	25.7	24.4	25.1	24.7
<b>Profit after Tax</b>	<b>7,161</b>	<b>7,111</b>	<b>8,590</b>	<b>8,248</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>7,161</b>	<b>7,111</b>	<b>8,590</b>	<b>9,453</b>
YoY gr. (%)	(9.9)	3.6	37.0	51.4
Margin (%)	7.9	8.9	10.3	10.8
Extra Ord. Income / (Exp)	-	-	-	1,205
<b>Reported PAT</b>	<b>7,161</b>	<b>7,111</b>	<b>8,590</b>	<b>8,248</b>
YoY gr. (%)	(9.9)	3.6	37.0	32.1
Margin (%)	7.9	8.9	10.3	9.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Avg. Shares O/s (m)	200	200	200	200
<b>EPS (Rs)</b>	<b>35.8</b>	<b>35.6</b>	<b>43.0</b>	<b>47.3</b>

Source: Company Data, PL Research

**Key Financial Metrics**

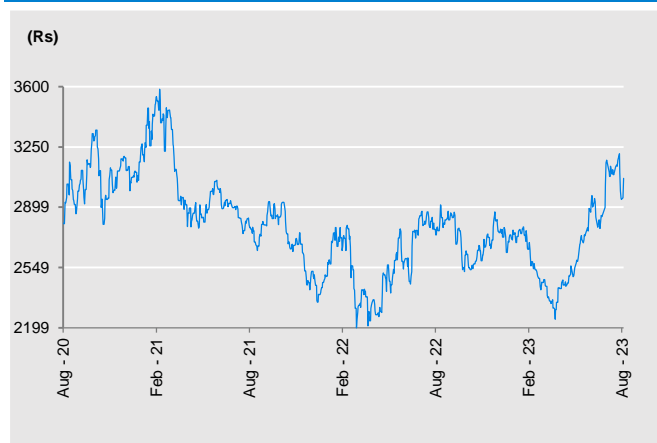
Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	123.8	145.6	187.2	210.9
CEPS	156.3	178.5	221.7	249.8
BVPS	789.9	835.9	914.3	1,020.2
FCF	71.5	98.7	161.7	155.5
DPS	95.0	100.0	105.0	105.0
<b>Return Ratio(%)</b>				
RoCE	17.6	20.5	24.4	25.6
ROIC	29.4	27.7	37.2	39.4
RoE	16.0	17.9	21.4	21.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.4)	(0.5)	(0.5)
Net Working Capital (Days)	(20)	(15)	(20)	(20)
<b>Valuation(x)</b>				
PER	24.2	20.6	16.0	14.2
P/B	3.8	3.6	3.3	2.9
P/CEPS	19.2	16.8	13.5	12.0
EV/EBITDA	15.3	13.2	10.3	8.7
EV/Sales	1.8	1.6	1.4	1.2
Dividend Yield (%)	3.2	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	56,14,808	59,20,812
Net realisation (Rs/unit)	59,154	63,444	66,542	69,269

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-23	Accumulate	3,460	3,172
2	05-Jul-23	BUY	3,200	3,030
3	13-Jun-23	BUY	3,200	2,930
4	08-May-23	BUY	3,200	2,547
5	12-Apr-23	BUY	3,200	2,470
6	06-Apr-23	BUY	3,135	2,432
7	08-Feb-23	BUY	3,135	2,616
8	05-Jan-23	BUY	3,135	2,709
9	05-Nov-22	BUY	3,175	2,598
10	06-Oct-22	BUY	3,175	2,615

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	225	182
2	Bajaj Auto	Reduce	4,575	4,839
3	Bharat Forge	BUY	1,070	963
4	CEAT	Hold	2,430	2,496
5	Eicher Motors	Accumulate	3,520	3,380
6	Endurance Technologies	Accumulate	1,745	1,654
7	Exide Industries	UR	-	185
8	Hero Motocorp	Accumulate	3,460	3,172
9	Mahindra & Mahindra	BUY	1,760	1,465
10	Maruti Suzuki	BUY	11,100	9,821
11	Tata Motors	BUY	760	639
12	TVS Motor Company	Accumulate	1,400	1,364

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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