

November 3, 2023

Q2FY24 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	3,575		3,575	
Sales (Rs.m)	3,72,602	4,05,413	3,72,284	4,05,098
% Chng.	0.1	0.1		
EBITDA (Rs.m)	50,579	55,559	51,020	56,528
% Chng.	(0.9)	(1.7)		
EPS (Rs.)	195.2	207.1	192.9	207.6
% Chng.	1.2	(0.2)		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	338	373	405	431
EBITDA (Rs. bn)	40	51	56	60
Margin (%)	11.8	13.6	13.7	13.9
PAT (Rs. bn)	29	39	41	44
EPS (Rs.)	145.6	195.2	207.1	219.6
Gr. (%)	17.7	34.0	6.1	6.1
DPS (Rs.)	100.0	105.0	105.0	105.0
Yield (%)	3.3	3.4	3.4	3.4
RoE (%)	17.9	22.2	21.3	20.3
RoCE (%)	20.5	24.8	24.5	23.6
EV/Sales (x)	1.6	1.4	1.3	1.2
EV/EBITDA (x)	13.5	10.3	9.2	8.3
PE (x)	21.0	15.6	14.7	13.9
P/BV (x)	3.7	3.3	3.0	2.7

Key Data

HROM.BO | HMCL IN

52-W High / Low	Rs.3,275 / Rs.2,246
Sensex / Nifty	64,081 / 19,133
Market Cap	Rs.610bn/ \$ 7,327m
Shares Outstanding	200m
3M Avg. Daily Value	Rs.1895.22m

Shareholding Pattern (%)

Promoter's	34.76
Foreign	26.80
Domestic Institution	29.14
Public & Others	9.30
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.2)	22.3	15.4
Relative	2.6	17.1	9.7

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In-line results; launch pipeline remains strong

Quick Pointers:

- Festive demand strong; post festive performance is key monitorable.
- Premium products delivery to ramp-up in Q3FY24.

Hero Motocorp (HMCL) EBITDA margin increased by ~40bps QoQ, led by lower RM (-80bp) and employee expenses (-50bps) which was partially offset by higher other expenses (-90bps). HMCL is seeing recovery in the rural market and is aiming to grow ahead of the industry on back of aggressive model launch and good start to festive season. The company is confident of continuing the growth momentum post festive season and we concur given low base. The EV 2W "Vida" is on track to reach to 100 cities by CY23, followed by capacity expansion and product portfolio in FY25. Moreover, good demand is expected in premium bikes, Karizma and X440 with 10k monthly production capacity.

We expect margins to improve in the near term from operating leverage, premiumisation, cost controls and stable commodity costs (we build in ~210bps increase over FY23-26E). Key monitorables will 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 3,575 (at 16x on Sep-25E standalone EPS, Rs 83 for Fincorp and Rs 78 for Ather).

- **In line revenue and margins:** Revenue grew by c4% YoY to Rs. 94.5bn and came in line with PLe at Rs. 93.2bn and Bloomberg consensus estimates (BBGe) at Rs. 93.4bn. EBITDA margins at 14.1% (+262bps YoY and +c30bps QoQ) were exactly in line of PLe and slightly higher than BBGe (13.9%). Margin were helped by lower commodity cost, leap savings and better product mix. Higher other income aided the beat on adj PAT versus PLe and BBGe by c10%.
- **Key takeaways:** (1) HMCL noted demand recovery across all regions and rural areas as well, while urban segment continued to grow. HMCL's festive season volume has grown by 15% so far, with double digit expectation for entire season. (2) HMCL has maintained its double-digit revenue growth guidance for FY24E, with focus market share improvement. (3) New launches are performing well with Passion family retail volumes growing 2.5x YoY, new HF deluxe growing in double-digit and Glamour gaining traction in entry level segment owing to rural recovery. "Xtec" products contributed 1/3rd to overall volumes. (4) The new Karizma has received 14k bookings and along with HD X440's >25k bookings will likely be fulfilled in next four months with combined production capacity to ramp up to ~10k units per month. HMCL will launch another premium bike in 2H. (5) HMCL has ramped up its EV production to 1k units per week and plans to expand EV portfolio to cater to various price points in FY25. HMCL is on track to expand EV reach to 100 cities in CY23. (6) HMCL sees export volume to improve sequentially in 2HFY24. (7) In Q2FY24, ICE margins were at 15% with 90bps impact from EVs. HMCL sees this impact remaining near ~100bps going ahead. (8) Strong growth in spares helped margins, with Oct-23 spares revenue reaching Rs50bn. (9) HMCL noted that end of festival season inventory will be back to 4-6 weeks. (10) HMCL outlined Rs. 10bn capex with primary focus on premium and EV segment in FY24.

Exhibit 1: Q2FY24 Result Overview (Rs m)- EBITDA margin increased by 40bps QoQ, driven by lower RM & employee cost

Y/e March	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	1HFY24	1HFY23	YoY gr. (%)
Net Revenues	94,454	90,754	4.1	87,673	7.7	1,82,127	1,74,679	4.3
Raw Materials	64,780	65,301	(0.8)	60,809	6.5	1,25,589	1,26,375	(0.6)
<i>% of Net Sales</i>	<i>68.6</i>	<i>72.0</i>		<i>69.4</i>		<i>69.0</i>	<i>72.3</i>	
Personnel	5,768	5,490	5.1	5,802	(0.6)	11,569	10,872	6.4
<i>% of Net Sales</i>	<i>6.1</i>	<i>6.0</i>		<i>6.6</i>		<i>6.4</i>	<i>6.2</i>	
Manufacturing & Other Exp	10,624	9,579	10.9	9,000	18.0	19,623	17,641	11.2
<i>% of Net Sales</i>	<i>11.2</i>	<i>10.6</i>		<i>10.3</i>		<i>10.8</i>	<i>10.1</i>	
Total Expenditure	81,171	80,370	1.0	75,610	7.4	1,56,782	1,54,888	1.2
EBITDA	13,283	10,383	27.9	12,063	10.1	25,345	19,791	28.1
<i>EBITDA Margin (%)</i>	<i>14.1</i>	<i>11.4</i>		<i>13.8</i>		<i>13.9</i>	<i>11.3</i>	
Depreciation	1,749	1,634	7.0	1,690	3.5	3,439	3,264	5.4
EBIT	11,534	8,749	31.8	10,373	11.2	21,907	16,527	32.6
Interest Expenses	48	33	43.8	47	2.1	94	103	(8.5)
Non-operating income	2,483	921	169.7	622	299.3	3,105	1,450	114.1
Extraordinary Expenses	0	0		-1,205		-1,206	0	
PBT	13,970	9,637	45.0	12,153	14.9	26,124	17,875	46.1
Tax-Total	3,431	2,476	38.6	2,701	27.1	6,132	4,469	37.2
<i>Tax Rate (%) - Total</i>	<i>24.6</i>	<i>25.7</i>		<i>22.2</i>		<i>23.5</i>	<i>25.0</i>	
Reported PAT	10,538	7,161	47.2	9,452	11.5	19,991	13,406	49.1
Adj. PAT	10,538	7,161	47.2	10,658	(1.1)	21,198	13,406	58.1
<i>PAT Margin (%)</i>	<i>11.2</i>	<i>7.9</i>		<i>12.2</i>		<i>11.6</i>	<i>7.7</i>	

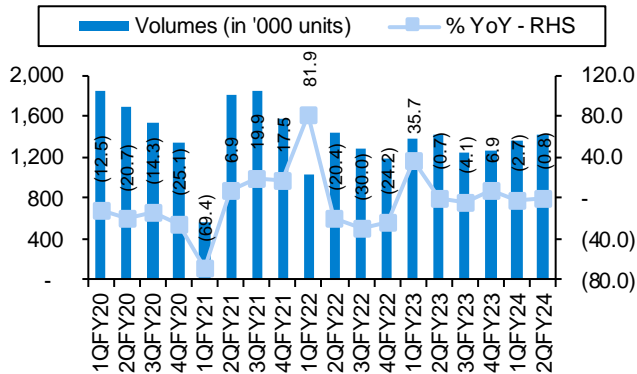
Source: Company, PL

Exhibit 2: Operating Metrics – Net realisation grew by~3% QoQ

Y/e Mar (Rs)	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	1HFY24	1HFY23	YoY gr. (%)
Sales Volume (nos)	14,16,526	14,28,168	(0.8)	13,52,574	4.7	27,69,100	28,18,360	(1.7)
Net Realisation/Vehicle	66,680	63,545	4.9	64,819	2.9	1,31,499	1,23,915	6.1
Material cost / vehicle	45,731	45,724	0.0	44,958	1.7	45,354	44,840	1.1
Gross Profit / vehicle	20,949	17,822	17.5	19,861	5.5	86,146	79,075	8.9
Employee cost /vehicle	4,072	3,844	5.9	4,289	(5.1)	4,178	3,858	8.3
Other expenses / vehicle	7,500	6,707	11.8	6,654	12.7	7,087	6,259	13.2
EBITDA/vehicle	9,377	7,270	29.0	8,918	5.1	9,153	7,022	30.3
Net Profit/vehicle	7,439	5,014	48.4	6,988	6.5	7,219	4,757	51.8

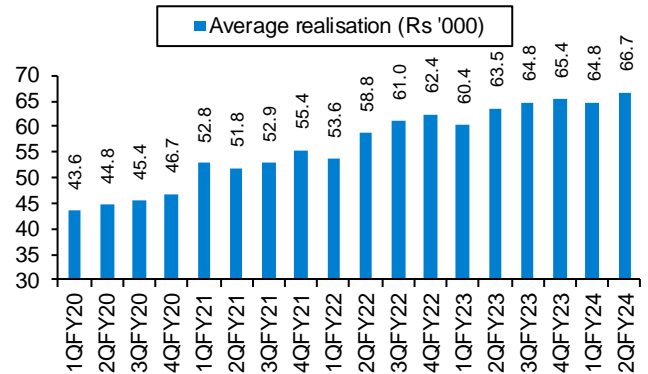
Source: Company, PL

Exhibit 1: Volumes were flatish QoQ



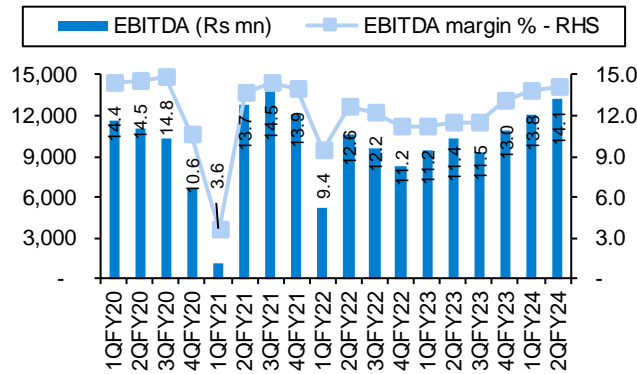
Source: Company, PL

Exhibit 2: ASPs increased by 190bps QoQ



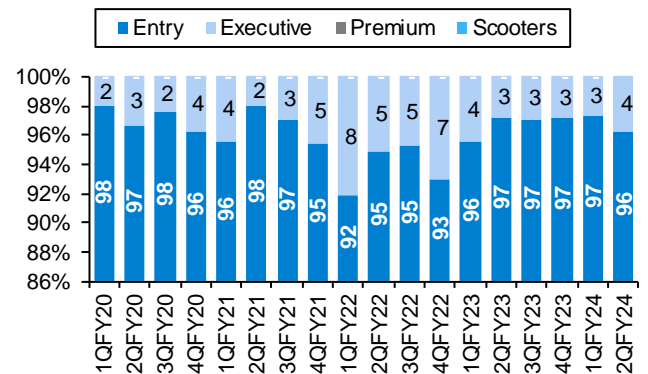
Source: Company, PL

Exhibit 3: EBITDA margin grew by 30bps



Source: Company, PL

Exhibit 4: Share of premium bikes improved QoQ



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	3,38,057	3,72,602	4,05,413	4,30,781
YoY gr. (%)	15.6	10.2	8.8	6.3
Cost of Goods Sold	2,38,581	2,56,333	2,80,529	2,97,868
Gross Profit	99,475	1,16,269	1,24,884	1,32,913
Margin (%)	29.4	31.2	30.8	30.9
Employee Cost	21,898	23,213	24,730	26,278
Other Expenses	37,715	42,477	44,595	46,955
EBITDA	39,862	50,579	55,559	59,680
YoY gr. (%)	18.3	26.9	9.8	7.4
Margin (%)	11.8	13.6	13.7	13.9
Depreciation and Amortization	6,570	6,929	7,840	8,729
EBIT	33,293	43,650	47,719	50,951
Margin (%)	9.8	11.7	11.8	11.8
Net Interest	199	200	200	200
Other Income	5,652	7,227	7,332	7,420
Profit Before Tax	38,746	52,277	54,850	58,171
Margin (%)	11.5	14.0	13.5	13.5
Total Tax	9,640	12,044	13,460	14,275
Effective tax rate (%)	24.9	23.0	24.5	24.5
Profit after tax	29,106	40,233	41,390	43,896
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	29,106	39,002	41,390	43,896
YoY gr. (%)	-	-	-	-
Margin (%)	8.6	10.5	10.2	10.2
Extra Ord. Income / (Exp)	-	(1,231)	-	-
Reported PAT	29,106	40,233	41,390	43,896
YoY gr. (%)	17.7	38.2	2.9	6.1
Margin (%)	8.6	10.8	10.2	10.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	200	200	200	200
EPS (Rs)	145.6	195.2	207.1	219.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	1,06,392	1,16,462	1,30,462	1,44,462
Tangibles	1,06,392	1,16,462	1,30,462	1,44,462
Intangibles	-	-	-	-
Acc: Dep / Amortization	53,780	60,709	68,549	77,278
Tangibles	53,780	60,709	68,549	77,278
Intangibles	-	-	-	-
Net fixed assets	52,612	55,753	61,913	67,184
Tangibles	52,612	55,753	61,913	67,184
Intangibles	-	-	-	-
Capital Work In Progress	9,640	9,511	9,396	9,291
Goodwill	-	-	-	-
Non-Current Investments	41,327	45,459	50,005	55,006
Net Deferred tax assets	(5,617)	(5,729)	(5,844)	(5,961)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	68,777	76,644	84,098	91,098
Inventories	14,341	15,312	16,661	17,703
Trade receivables	27,982	20,417	22,214	23,604
Cash & Bank Balance	3,455	11,461	15,077	22,005
Other Current Assets	12,005	12,606	13,236	13,898
Total Assets	2,32,631	2,49,910	2,75,590	3,02,966
Equity				
Equity Share Capital	400	400	400	400
Other Equity	1,66,651	1,83,908	2,04,314	2,27,226
Total Network	1,67,051	1,84,307	2,04,713	2,27,625
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	47,045	45,937	49,982	53,110
Other current liabilities	12,919	13,936	15,050	16,270
Total Equity & Liabilities	2,32,631	2,49,910	2,75,590	3,02,966

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	38,746	49,077	54,850	58,171
Add. Depreciation	6,570	6,929	7,840	8,729
Add. Interest	199	200	200	200
Less Financial Other Income	5,652	7,227	7,332	7,420
Add. Other	(5,652)	(7,227)	(7,332)	(7,420)
Op. profit before WC changes	39,862	48,979	55,559	59,680
Net Changes-WC	(4,435)	5,649	1,141	1,066
Direct tax	(9,537)	(11,931)	(13,346)	(14,158)
Net cash from Op. activities	25,890	42,697	43,353	46,588
Capital expenditures	(6,175)	(9,941)	(13,884)	(13,896)
Interest / Dividend Income	-	-	-	-
Others	(11,880)	3,094	2,786	2,420
Net Cash from Inv. activities	(18,055)	(6,847)	(11,099)	(11,476)
Issue of share cap. / premium	101	1,207	-	-
Debt changes	-	-	-	-
Dividend paid	(19,985)	(20,984)	(20,984)	(20,984)
Interest paid	(199)	(200)	(200)	(200)
Others	-	-	-	-
Net cash from Fin. activities	(20,083)	(19,977)	(21,184)	(21,184)
Net change in cash	(12,248)	15,873	11,071	13,928
Free Cash Flow	19,715	32,756	29,469	32,692

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	80,310	83,068	87,673	94,454
YoY gr. (%)	1.9	11.9	4.5	4.1
Raw Material Expenses	55,743	56,463	60,809	64,780
Gross Profit	24,567	26,605	26,864	29,675
Margin (%)	30.6	32.0	30.6	31.4
EBITDA	9,241	10,830	12,063	13,283
YoY gr. (%)	(3.7)	30.9	28.2	27.9
Margin (%)	11.5	13.0	13.8	14.1
Depreciation / Depletion	1,620	1,686	1,690	1,749
EBIT	7,621	9,144	10,373	11,534
Margin (%)	9.5	11.0	11.8	12.2
Net Interest	49	47	47	48
Other Income	1,832	2,369	2,222	2,483
Profit before Tax	9,404	11,467	10,948	13,970
Margin (%)	11.7	13.8	12.5	14.8
Total Tax	2,294	2,877	2,701	3,431
Effective tax rate (%)	24.4	25.1	24.7	24.6
Profit after Tax	7,111	8,589	8,247	10,538
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	7,111	8,589	9,452	10,538
YoY gr. (%)	3.6	37.0	51.4	47.2
Margin (%)	8.9	10.3	10.8	11.2
Extra Ord. Income / (Exp)	-	-	1,205	-
Reported PAT	7,111	8,589	8,247	10,538
YoY gr. (%)	3.6	37.0	32.1	47.2
Margin (%)	8.9	10.3	9.4	11.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	200	200	200	200
EPS (Rs)	35.6	43.0	47.3	52.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	145.6	195.2	207.1	219.6
CEPS	178.5	229.8	246.3	263.3
BVPS	835.9	922.2	1,024.3	1,139.0
FCF	98.7	163.9	147.5	163.6
DPS	100.0	105.0	105.0	105.0
Return Ratio(%)				
RoCE	20.5	24.8	24.5	23.6
ROIC	27.7	38.4	37.8	37.3
RoE	17.9	22.2	21.3	20.3
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	(15)	(20)	(20)	(20)
Valuation(x)				
PER	21.0	15.6	14.7	13.9
P/B	3.7	3.3	3.0	2.7
P/CEPS	17.1	13.3	12.4	11.6
EV/EBITDA	13.5	10.3	9.2	8.3
EV/Sales	1.6	1.4	1.3	1.2
Dividend Yield (%)	3.3	3.4	3.4	3.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Volume (units)	53,28,452	55,90,822	58,58,757	61,35,979
Net realisation (Rs/unit)	63,444	66,645	69,198	70,206

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-23	Accumulate	3,575	3,038
2	12-Aug-23	Accumulate	3,535	2,995
3	07-Jul-23	Accumulate	3,460	3,172
4	05-Jul-23	BUY	3,200	3,030
5	13-Jun-23	BUY	3,200	2,930
6	08-May-23	BUY	3,200	2,547
7	12-Apr-23	BUY	3,200	2,470
8	06-Apr-23	BUY	3,135	2,432
9	08-Feb-23	BUY	3,135	2,616
10	05-Jan-23	BUY	3,135	2,709

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	220	172
2	Bajaj Auto	Reduce	4,800	5,144
3	Bharat Forge	BUY	1,170	1,092
4	CEAT	Accumulate	2,515	2,195
5	Eicher Motors	Accumulate	3,730	3,450
6	Endurance Technologies	Accumulate	1,820	1,585
7	Exide Industries	Accumulate	295	259
8	Hero Motocorp	Accumulate	3,575	3,038
9	Mahindra & Mahindra	BUY	1,775	1,549
10	Maruti Suzuki	BUY	12,485	10,561
11	Tata Motors	BUY	760	622
12	TVS Motor Company	Accumulate	1,650	1,609

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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