

August 15, 2024

Q1FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	5,911		5,914	
Sales (Rs. m)	4,27,645	4,68,838	4,33,178	4,72,611
% Chng.	(1.3)	(0.8)		
EBITDA (Rs. m)	63,308	71,984	64,127	72,563
% Chng.	(1.3)	(0.8)		
EPS (Rs.)	248.8	284.6	253.0	284.7
% Chng.	(1.7)	-		

Key Financials - Standalone

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	338	375	428	469
EBITDA (Rs. bn)	40	53	63	72
Margin (%)	11.8	14.0	14.8	15.4
PAT (Rs. bn)	29	41	50	57
EPS (Rs.)	145.6	204.6	248.8	284.6
Gr. (%)	17.7	40.5	21.6	14.4
DPS (Rs.)	100.0	140.0	150.0	160.0
Yield (%)	2.0	2.8	3.0	3.2
RoE (%)	17.9	23.6	26.2	26.8
RoCE (%)	20.5	26.2	29.7	30.4
EV/Sales (x)	2.8	2.5	2.1	1.9
EV/EBITDA (x)	23.6	17.6	14.5	12.6
PE (x)	34.8	24.8	20.4	17.8
P/BV (x)	6.1	5.6	5.1	4.5

Key Data

HROM.BO | HMCL IN

52-W High / Low	Rs.5,895 / Rs.2,874
Sensex / Nifty	79,106 / 24,144
Market Cap	Rs.1,014bn/ \$ 12,080m
Shares Outstanding	200m
3M Avg. Daily Value	Rs.3809.39m

Shareholding Pattern (%)

Promoter's	34.76
Foreign	29.87
Domestic Institution	26.87
Public & Others	8.50
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.6)	5.9	69.4
Relative	(6.9)	(3.8)	40.1

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Hero Motocorp (HMCL IN)

Rating: ACCUMULATE | CMP: Rs5,072 | TP: Rs5,911

Lower spares sales and mix impact revenue and realization growth

Quick Pointers:

- Multiple new launches and refreshers planned in ICE and EV segment.
- Encouraging response for Xtreme125R, its production to be scaled up to 40k/month.

HMCL's Q1FY25 standalone revenue increased by 15.7% YoY, 3% lower than PLe/BBGe. Despite healthy volume growth of 13.5% YoY/10.3% QoQ, ASP declined by 3.4% QoQ due to lower spares sales and slight mix impact. Its EBITDA margin came in 14.4% after accounting for the 190bps impact from the EV business; its ICE margin stood at 16.4%. Decent overall performance led APAT to increase by 18.8% YoY. Going ahead, the management aims to scale up production of Xtreme125R having received healthy response from customers. Additionally, it has planned a slew of new launches and refreshers in ICE and EV segments in the upcoming quarters, which shall aid in volume expansion.

We revise our estimates downwards by 1-2% over the forecast period to factor in the mix impact on its ASP profile. However, we maintain our positive view on HMCL based on 1) scale-up plan of Xtreme125R motorcycle in response to healthy demand, 2) healthy demand in rural & urban region during festive period, could boost volume growth, 3) healthy portfolio in the 125cc segment, which will help sustain margin profile and market share gains, and 4) steady growth in exports business aided by expansion into different regions. We maintain our "ACCUMULATE" rating with a TP of Rs5,911 (previous Rs5,914), valuing the core business at 20x and its stake in NBFC & Ather at Rs220.

- Miss on revenue estimates led by decline in spares revenue:** Q1FY25 revenue came in at Rs101.4bn (PLe Rs104.6bn; BBGe: Rs104.3bn) driven by volume growth of 13.5% YoY/10.3% QoQ. Revenue growth was below estimates due to lower spares revenue and impact of product mix. Consequently, ASP grew by 1.9% YoY, but declined by 3.4% QoQ to Rs66,076/unit (PLe: Rs 68,151; BBGe: Rs67,955). PAT came in at Rs11.2bn, against PLe/BBGe of Rs11.6bn.
- EV business impacted EBITDA margin by 198bps:** EBITDA grew by 21% YoY to Rs14.6bn (PLe: Rs14.9bn; BBGe: Rs15.4bn), while margin expanded by 60bps YoY to 14.4%. ICE EBITDA margin stood at 16.4% (up 120bps YoY/80bps QoQ), while blended EBITDA margin was at 14.4%, up 63bps YoY. The blended margin had a 198bps impact from its EV business. Overall, the growth in margin was led by better operating leverage, cost cutting measures and pricing actions.
- New launches anticipated in EV business:** Revenue from EV business came in at Rs1.3bn with 10,559 units sold in Q1FY25 with an ASP of Rs118,382/unit. EBITDA loss during the quarter was Rs1.8bn. The company aims to scale its presence in the Indian market as well as expand its product portfolio with the launch EVs in the mid and affordable segment in the upcoming quarters, which shall aid in better operating leverage. Additionally, it aims to reduce the material cost of EVs and certify its products under the PLI scheme to pave the way towards profitability.

Exhibit 1: Q1FY25 Result Overview (Rs mn) - EBITDA margin at 14.4%, while ICE EBITDA margin at 16.4%

Y/e March	Q1FY25	Q1FY24	YoY gr. (%)	Q1FY25E	Var (%)	Q4FY24	QoQ gr. (%)	FY25E	FY24	YoY gr. (%)
Net Revenues	1,01,437	87,673	15.7	1,04,622	(3.0)	95,193	6.6	4,27,645	3,74,557	14.2
Raw Materials	68,672	60,809	12.9	70,620	(2.8)	63,249	8.6	2,90,782	2,54,308	14.3
<i>% of Net Sales</i>	<i>67.7</i>	<i>69.4</i>		<i>67.5</i>		<i>66.4</i>		<i>68.0</i>	<i>67.9</i>	
Personnel	6,083	5,802	4.9	7,010	(13.2)	6,437	(5.5)	26,086	24,023	8.6
<i>% of Net Sales</i>	<i>6.0</i>	<i>6.6</i>		<i>6.7</i>		<i>6.8</i>		<i>6.1</i>	<i>6.4</i>	
Manufacturing & Other Exp	12,085	9,000	34.3	12,136	(0.4)	11,916	1.4	47,469	43,669	8.7
<i>% of Net Sales</i>	<i>11.9</i>	<i>10.3</i>		<i>11.6</i>		<i>12.5</i>		<i>11.1</i>	<i>11.7</i>	
Total Expenditure	86,840	75,610	14.9	89,766	(3.3)	81,601	6.4	3,64,336	3,22,000	13.1
EBITDA	14,598	12,063	21.0	14,856	(1.7)	13,592	7.4	63,308	52,557	20.5
<i>EBITDA Margin (%)</i>	<i>14.4</i>	<i>13.8</i>		<i>14.2</i>		<i>14.3</i>		<i>14.8</i>	<i>14.0</i>	
Depreciation	1,932	1,690	14.3	1,882	2.7	1,851	4.4	6,982	7,114	(1.9)
EBIT	12,666	10,373	22.1	12,974	(2.4)	11,741	7.9	56,326	45,443	23.9
Interest Expenses	48	47	3.2	47	3.2	46	5.5	200	185	8.1
Non-operating income	2,317	2,222	4.3	2,488	(6.9)	1,800	28.7	9,727	8,926	9.0
Extraordinary Expenses	0	1,600		0		0		0	-1,600	
PBT	14,935	10,948	36.4	15,416	(3.1)	13,496	10.7	65,853	52,584	25.2
Tax-Total	3,708	2,701	37.3	3,854	(3.8)	3,335	11.2	16,134	12,904	25.0
<i>Tax Rate (%) - Total</i>	<i>24.8</i>	<i>24.7</i>		<i>25.0</i>		<i>24.7</i>		<i>24.5</i>	<i>24.5</i>	
Reported PAT	11,226	8,247	36.1	11,562	(2.9)	10,161	10.5	49,719	39,680	25.3
Adj. PAT	11,226	6,647	68.9	11,562	(2.9)	10,161	10.5	49,719	40,887	21.6
<i>PAT Margin (%)</i>	<i>11.1</i>	<i>7.6</i>		<i>11.1</i>		<i>10.7</i>		<i>11.6</i>	<i>10.9</i>	

Source: Company, PL

Exhibit 2: Operating Metrics – Net realization declines sequentially due to mix impact and lower spares sales

Y/e Mar (Rs)	Q1FY25	Q1FY24	YoY gr. (%)	Q1FY25E	Var (%)	Q4FY24	QoQ gr. (%)	FY25E	FY24	YoY gr. (%)
Sales Volume (nos)	15,35,156	13,52,574	13.5	15,35,156	-	13,92,254	10.3	62,33,614	56,21,286	10.9
Net Realisation/Vehicle	66,076	64,819	1.9	68,151	(3.0)	68,373	(3.4)	68,603	66,632	3.0
Material cost / vehicle	44,733	44,958	(0.5)	46,002	(2.8)	45,429	(1.5)	46,647	45,240	3.1
Gross Profit / vehicle	21,344	19,861	7.5	22,149	(3.6)	22,944	(7.0)	21,956	21,392	2.6
Employee cost /vehicle	3,963	4,289	(7.6)	4,566	(13.2)	4,624	(14.3)	4,185	4,274	(2.1)
Other expenses / vehicle	7,872	6,654	18.3	7,905	(0.4)	8,558	(8.0)	7,615	7,768	(2.0)
EBITDA/vehicle	9,509	8,918	6.6	9,677	(1.7)	9,762	(2.6)	10,156	9,350	8.6
Net Profit/vehicle	7,313	6,097	19.9	7,532	(2.9)	7,298	0.2	7,976	7,059	13.0

Source: Company, PL

Conference call takeaways:

- HMCL remains optimistic of delivering better-than-industry growth rate in FY25, led by new launches and geographic expansion.
- It is witnessing healthy demand from first time buyers in rural areas, led by its strong brands like HF Deluxe and Splendor. Additionally, the 125cc segment is witnessing healthy demand due to premium quality of the products and ease of finance options.
- In Q1FY25, number of Hero 2.0 outlets stood at ~500, while Premia outlets were at ~40 in India. The company aims to increase Premia outlet number to 100+ by the end of FY25.
- Given the encouraging response towards Xtreme125R, it aims to increase the production from 25k/month to 40k/month in the upcoming months.
- The company aims to launch new products as well as refreshers in the upcoming quarters.
- HMCL will be replacing the existing line of EV products with new products, which will be launched by Oct'24. The products will be in compliance with the PLI scheme.
- Spares revenue contribution stood at 12.5% of the revenue against 14.5% in Q4FY25. The impact was mainly due to seasonality, and the management expects gradual pick-up in the upcoming quarters.
- HMCL is managing its inventories on the basis of demand increase anticipated during the festive season. The company targets to be within the 4-6 weeks range towards the end of the festive season.
- With a healthy product portfolio in the 125cc segment, it aims to gain market share in the segment gradually in the upcoming quarters.
- Due to geopolitical issues, Bangladesh volume has been impacted; however, its contribution is quite minimal at ~0.4% of its revenue.
- The capex guidance for FY25 is Rs10bn-12bn.
- Finance penetration stood at ~60%, same as in Q4FY24.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	3,38,057	3,74,557	4,27,645	4,68,838
YoY gr. (%)	15.6	10.8	14.2	9.6
Cost of Goods Sold	2,38,581	2,54,308	2,90,782	3,18,793
Gross Profit	99,475	1,20,250	1,36,863	1,50,045
Margin (%)	29.4	32.1	32.0	32.0
Employee Cost	21,898	24,023	26,086	28,130
Other Expenses	37,715	43,669	47,469	49,931
EBITDA	39,862	52,557	63,308	71,984
YoY gr. (%)	18.3	31.8	20.5	13.7
Margin (%)	11.8	14.0	14.8	15.4
Depreciation and Amortization	6,570	7,114	6,982	7,451
EBIT	33,293	45,443	56,326	64,533
Margin (%)	9.8	12.1	13.2	13.8
Net Interest	199	185	200	200
Other Income	5,652	8,926	9,727	10,994
Profit Before Tax	38,746	52,584	65,853	75,327
Margin (%)	11.5	14.0	15.4	16.1
Total Tax	9,640	12,904	16,134	18,455
Effective tax rate (%)	24.9	24.5	24.5	24.5
Profit after tax	29,106	39,680	49,719	56,872
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	29,106	40,887	49,719	56,872
YoY gr. (%)	-	-	-	-
Margin (%)	8.6	10.9	11.6	12.1
Extra Ord. Income / (Exp)	-	1,207	-	-
Reported PAT	29,106	39,680	49,719	56,872
YoY gr. (%)	17.7	36.3	25.3	14.4
Margin (%)	8.6	10.6	11.6	12.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	200	200	200	200
EPS (Rs)	145.6	204.6	248.8	284.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	1,06,392	1,11,179	1,21,463	1,35,463
Tangibles	1,06,392	1,11,179	1,21,463	1,35,463
Intangibles	-	-	-	-
Acc: Dep / Amortization	53,780	58,124	65,106	72,557
Tangibles	53,780	58,124	65,106	72,557
Intangibles	-	-	-	-
Net fixed assets	52,612	53,055	56,356	62,906
Tangibles	52,612	53,055	56,356	62,906
Intangibles	-	-	-	-
Capital Work In Progress	9,640	10,091	9,970	9,861
Goodwill	-	-	-	-
Non-Current Investments	41,327	48,765	53,641	59,005
Net Deferred tax assets	(5,617)	(5,724)	(5,838)	(5,955)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	68,777	82,097	89,220	95,856
Inventories	14,341	14,438	17,574	19,267
Trade receivables	27,982	27,034	28,119	33,397
Cash & Bank Balance	3,455	6,089	7,826	10,760
Other Current Assets	12,005	11,802	12,392	13,012
Total Assets	2,32,631	2,55,715	2,77,777	3,07,000
Equity				
Equity Share Capital	400	400	400	400
Other Equity	1,66,651	1,79,462	1,99,203	2,24,099
Total Network	1,67,051	1,79,862	1,99,603	2,24,499
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	47,045	55,282	56,238	59,086
Other current liabilities	12,919	14,848	16,098	17,460
Total Equity & Liabilities	2,32,631	2,55,715	2,77,777	3,07,000

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	38,746	52,584	65,853	75,327
Add. Depreciation	6,570	7,114	6,982	7,451
Add. Interest	199	185	200	200
Less Financial Other Income	5,652	8,926	9,727	10,994
Add. Other	(5,652)	(8,926)	(9,727)	(10,994)
Op. profit before WC changes	39,862	50,957	63,308	71,984
Net Changes-WC	(4,435)	11,367	(2,938)	(3,637)
Direct tax	(9,537)	(12,797)	(16,019)	(18,338)
Net cash from Op. activities	25,890	49,527	44,351	50,008
Capital expenditures	(6,175)	(8,007)	(10,163)	(13,891)
Interest / Dividend Income	-	-	-	-
Others	(11,880)	1,488	4,850	5,630
Net Cash from Invt. activities	(18,055)	(6,520)	(5,313)	(8,261)
Issue of share cap. / premium	101	1,110	-	-
Debt changes	-	-	-	-
Dividend paid	(19,985)	(27,979)	(29,978)	(31,976)
Interest paid	(199)	(185)	(200)	(200)
Others	-	-	-	-
Net cash from Fin. activities	(20,083)	(27,054)	(30,178)	(32,176)
Net change in cash	(12,248)	15,953	8,860	9,571
Free Cash Flow	19,715	41,520	34,188	36,117

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	94,454	97,237	95,193	1,01,437
YoY gr. (%)	4.1	21.1	14.6	15.7
Raw Material Expenses	64,780	65,470	63,249	68,672
Gross Profit	29,675	31,767	31,945	32,766
Margin (%)	31.4	32.7	33.6	32.3
EBITDA	13,283	13,621	13,592	14,598
YoY gr. (%)	27.9	47.4	25.5	21.0
Margin (%)	14.1	14.0	14.3	14.4
Depreciation / Depletion	1,749	1,825	1,851	1,932
EBIT	11,534	11,796	11,741	12,666
Margin (%)	12.2	12.1	12.3	12.5
Net Interest	48	45	46	48
Other Income	2,483	2,420	1,800	2,317
Profit before Tax	13,970	14,171	13,496	14,935
Margin (%)	14.8	14.6	14.2	14.7
Total Tax	3,431	3,437	3,335	3,708
Effective tax rate (%)	24.6	24.3	24.7	24.8
Profit after Tax	10,538	10,734	10,161	11,226
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	10,538	10,734	10,161	11,226
YoY gr. (%)	47.2	51.0	18.3	18.7
Margin (%)	11.2	11.0	10.7	11.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,538	10,734	10,161	11,226
YoY gr. (%)	47.2	51.0	18.3	36.1
Margin (%)	11.2	11.0	10.7	11.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	200	200	200	200
EPS (Rs)	52.7	53.7	50.8	56.2

Source: Company Data, PL Research

Key Financial Metrics

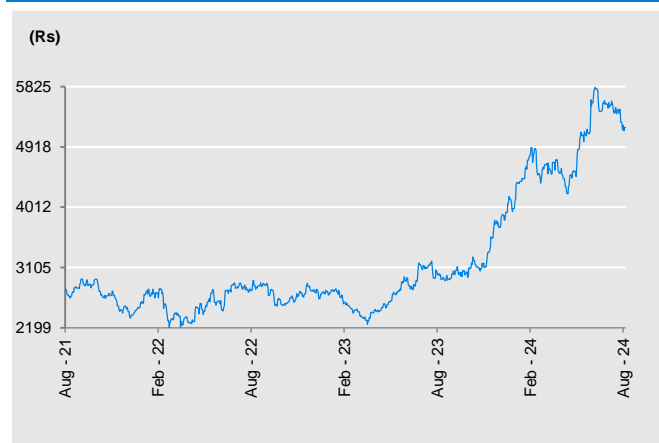
Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	145.6	204.6	248.8	284.6
CEPS	178.5	240.2	283.7	321.9
BVPS	835.9	900.0	998.8	1,123.3
FCF	98.7	207.8	171.1	180.7
DPS	100.0	140.0	150.0	160.0
Return Ratio(%)				
RoCE	20.5	26.2	29.7	30.4
ROIC	27.7	40.2	45.9	46.2
RoE	17.9	23.6	26.2	26.8
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	(15)	(23)	(19)	(15)
Valuation(x)				
PER	34.8	24.8	20.4	17.8
P/B	6.1	5.6	5.1	4.5
P/CEPS	28.4	21.1	17.9	15.8
EV/EBITDA	23.6	17.6	14.5	12.6
EV/Sales	2.8	2.5	2.1	1.9
Dividend Yield (%)	2.0	2.8	3.0	3.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Volume (units)	53,28,451	56,21,286	62,33,614	67,31,651
Net realisation (Rs/unit)	63,444	66,632	68,603	69,647

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-24	Accumulate	5,914	5,558
2	09-May-24	BUY	5,629	4,614
3	08-Apr-24	Accumulate	5,070	4,525
4	11-Feb-24	Accumulate	5,150	4,909
5	24-Jan-24	Accumulate	4,800	4,444
6	08-Jan-24	Accumulate	4,120	3,987
7	03-Nov-23	Accumulate	3,575	3,052
8	09-Oct-23	Accumulate	3,575	3,038

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	635	735
2	Ashok Leyland	Accumulate	261	246
3	Bajaj Auto	Accumulate	10,326	9,718
4	Bharat Forge	Accumulate	1,701	1,605
5	Bharat Petroleum Corporation	Reduce	269	302
6	Bharti Airtel	Accumulate	1,593	1,444
7	CEAT	Accumulate	2,992	2,667
8	Clean Science and Technology	Hold	1,516	1,562
9	Deepak Nitrite	Reduce	2,780	3,055
10	Divgi Torqtransfer Systems	Accumulate	734	665
11	Eicher Motors	BUY	5,335	4,577
12	Endurance Technologies	Hold	2,664	2,735
13	Exide Industries	Hold	559	532
14	Fine Organic Industries	Accumulate	6,172	5,535
15	GAIL (India)	Reduce	211	241
16	Gujarat Fluorochemicals	Reduce	2,907	3,330
17	Gujarat Gas	Accumulate	666	622
18	Gujarat State Petronet	BUY	417	336
19	Hero Motocorp	Accumulate	5,914	5,558
20	Hindustan Petroleum Corporation	Sell	340	396
21	Indian Oil Corporation	Sell	151	183
22	Indraprastha Gas	Sell	374	541
23	Jubilant Ingrevia	Hold	592	586
24	Laxmi Organic Industries	Sell	206	257
25	Mahanagar Gas	Sell	1,492	1,846
26	Mahindra & Mahindra	BUY	3,330	2,908
27	Mangalore Refinery & Petrochemicals	Sell	135	218
28	Maruti Suzuki	BUY	15,145	13,116
29	Navin Fluorine International	Accumulate	4,144	3,771

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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