

Hero MotoCorp

ADD

Choice

During Q2FY24, HMCL delivered better than expected performance on the revenue front on account of better realization. However, disappointed on the margin front. It's revenue for the quarter increased by 4.1% YoY on a high base to Rs.94.45bn (vs. est. Rs.88.41bn). Despite, the low single digit growth in top line, EBITDA jumped by 27.9% YoY to Rs.13.28bn. vs est. of Rs.12.55bn. Margin expanded by 265bps YoY/30bps QoQ to 14.06% (adjusting to EV impact it was ~15% vs 14.5% in Q1FY24). Management expects ~90-100bps impact would continue due to EV ramp up till stabilization in the volume. EBITDA/vehicle also jumped by 29% to Rs.9,377 due to better mix. RPAT for the quarter jumped 47% to Rs. 10.54bn vs (est. Rs.10bn) due to higher other income.

- The festive season has started well, the company has grown 15% in the initial 17 days of the festive season and is looking to achieve overall double digit growth. Last festive season volume was close to 1.2mn, expect industry to grow in double digit. Management expects the demand momentum to continue from December onwards as well due to recovery in the rural market.
- **Portfolio premiumization and store revamp will help to grow better than industry:** The company is upgrading the showrooms, with expectations to upgrade at least 500 stores (out of a total of 6000) in the next 6 months. The company is also revamping the service centers and will continue to launch new models. Further, the company is working on a new model in the 125cc premium segment and the scooter expects some launches in the Q3 and Q4. With the introduction of new variants such as the Xtec editions of the Splendor Plus, Passion, Super Splendor motorcycles, and the Xtreme 160R Stealth 2.0 edition, the company has already begun to add premium features to its existing product line. Regarding Harley Davidson and Karizma, supply chain capacity is being built, in Phase-I aiming to produce 10,000 units per month and gradually ramp up. We believe that the company will benefit from the premiumisation trend that is happening in the industry. To recover lost market share, the company continues to focus on the entry-level and 125+CC segments.
- **Outlook and Valuations:** We expect HMCL to improve market share going forward due to its long term strategic plan like showroom revamp and upgradation of portfolio. Further we are positive on HMCL due to a lower threat to EV transition (scooter ~8% of overall volume); scaling up the EV portfolio; entry into middleweight MC with HD-X440 and Healthy dividend yield of 3.3%. We recommend **ADD** rating on the stock with TP of Rs.3477 (16x of Sep-FY25E EPS).

Quarterly performance

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Volumes (in units)	14,16,526	14,28,168	(0.8)	13,97,642	1.4
Net Sales	94,454	90,754	4.1	87,673	7.7
Material Expenses	64,780	65,301	(0.8)	60,809	6.5
Gross Profit/ vehicle (Rs.)	20,949	17,822	17.5	19,221	9.0
Employee Expenses	5,768	5,490	5.1	5,802	(0.6)
Other Operating Expenses	10,624	9,579	10.9	9,000	18.0
EBITDA	13,283	10,383	27.9	12,063	10.1
Depreciation	1,749	1,634	7.0	1,690	3.5
EBIT	11,534	8,749	31.8	10,373	11.2
Interest Cost	48	33	43.8	47	2.1
PBT	13,970	9,637	45.0	12,548	11.3
Tax	3,431	2,476	38.6	2,701	27.1
APAT	10,538	7,161	47.2	9,847	7.0
Adj EPS (Rs)	52.7	35.8	47.2	49.3	7.0

Margin Analysis	Q2FY24	Q2FY23	YoY (bps)	Q1FY24	QoQ (bps)
EBITDA/Vehicle (Rs.)	9,377	7,270	29.0%	8,631	8.6%
Material Exp % of Sales	69	72	(337)	69	(78)
Employee Exp. % of Sales	6.1	6.0	6	6.6	(51)
Other Op. Exp % of Sales	11.2	10.6	69	10.3	98
EBITDA Margin (%)	14.1	11.4	262	13.8	30
Tax Rate (%)	24.6	25.7	(113)	21.5	304
APAT Margin (%)	11.2	7.9	327	11.2	(7)

Source: Company, CEBPL

Nov 03, 2023	
CMP (Rs)	3,050
Target Price (Rs)	3,477
Potential Upside (%)	14.0
Company Info	
BB Code	HMCL IN EQUITY
ISIN	INE158A01026
Face Value (Rs.)	2.0
52 Week High (Rs.)	3,275
52 Week Low (Rs.)	2,247
Mkt Cap (Rs bn.)	611.4
Mkt Cap (\$ bn.)	7.3
Shares o/s (Mn.)/Free Float	199.8/65
Adj. TTM EPS (Rs)	172.9
Sep-25E EPS (Rs)	217.3

Shareholding Pattern (%)

	Sep-23	Jun-23	Mar-23
Promoters	34.76	34.78	34.78
FII's	26.80	28.10	27.01
DII's	29.14	27.28	27.86
Public	9.30	9.84	10.35

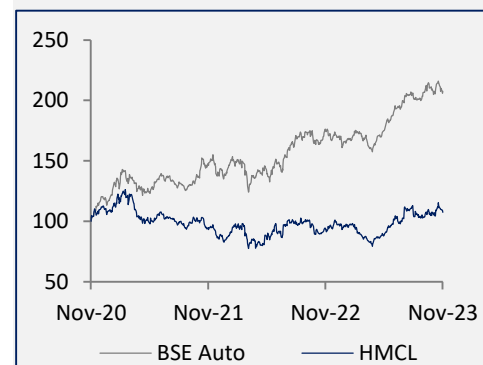
Relative Performance (%)

YTD	3Y	2Y	1Y
BSE AUTO	107.5	40.3	18.6
HMCL	7.4	13.4	15.2

Year end March (INR bn)

Particular	FY24E	FY25E	FY26E
Revenue	379.6	423.5	479.6
Gross Profit	110.1	123.7	141.2
EBITDA	48.7	56.2	64.8
EBITDA (%)	12.8	13.3	13.5
EPS (INR)	173.1	201.5	233.2

Rebased Price Performance



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CEBPL Estimates vs Actual

Particulars (Rs.mn)	Actual	Choice Est.	Deviation (%)
Revenue	94,454	88,413	6.8
EBIDTA	13,283	12,555	5.8
EBIDTA Margin (%)	14.1	14.2	(14) bps
PAT	10,538	10,079	4.6

Source: Company, CEBPL

Change in Estimates

Income Statement (INR Mn.)	FY24E			FY25E		
	New	Old	Dev. (%)	New	Old	Dev. (%)
Net sales	3,79,559	3,91,117	(3.0)	4,23,491	4,35,178	(2.7)
EBITDA	48,678	51,359	(5.2)	56,202	57,482	(2.2)
EBITDA margin(%)	12.8	13.1	(28)bps	13.3	13.2	7bps
APAT	34,585	36,599	(5.5)	40,272	41,234	(2.3)
EPS	173.1	183.1	(5.5)	201.5	206.3	(2.3)

Source: Company, CEBPL

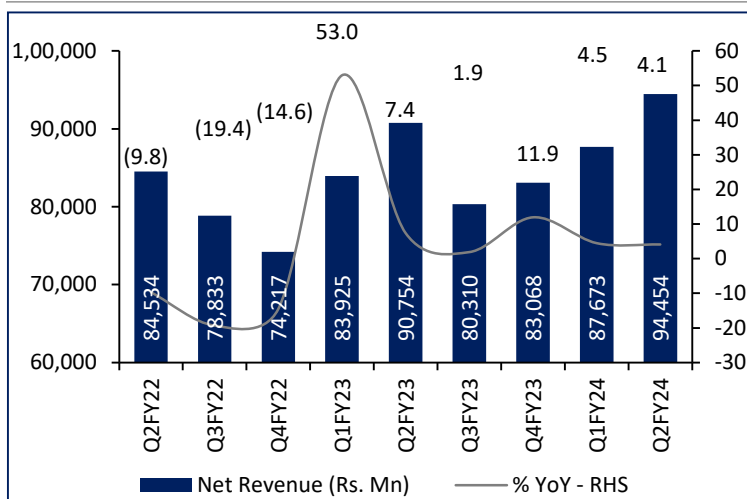
Management Call - Highlights

- The festive season has started well, and management expects the demand momentum to continue from December onwards. The recovery of cost inflation has largely been accomplished for the industry.
- The company has not raised prices above the industry average. Rural demand has picked up for HERO, especially for the Passion and Glamour brands, particularly in Telangana and the eastern market. Rajasthan, the central zone, and the north are performing well, and the eastern market is showing signs of recovery. The company has worked on various strategies to capture the festive opportunity, such as training, digital initiatives, and financing schemes.
- The supply chain is improving, and the Xtreme 125 segment and Super Splendor have performed well since their launch. Xtreme accounts for about one-third of the product portfolio. The premium segment is growing as consumer preferences are shifting, while the 100cc segment mainly caters to first-time buyers.
- Benefits are expected to come from cost savings, changes in product mix with higher premium volumes, and operating leverage to support overall margin expansion. As margins improve, the company will focus more on product launches.
- The company has grown 15% in the initial 17 days of the festive season and is looking to achieve overall double digit growth. Last festive season volume was close to 1.2mn, expect industry to grow in double digit.
- In the premium category portfolio, the company is expanding across the market. The company launched a premium store a few days back and looks to scale up to 200 stores.
- Additionally, the company is upgrading the Hero Moto showrooms, with expectations to upgrade at least 500 stores (out of a total of 6000 stores) in the next 6 months. The company is also revamping the service centers and will continue to launch new models.
- Vida production has exceeded 1000 units per week in the last few weeks. The plan is to scale up to 100 cities and introduce Vida exclusive showrooms, expecting sales to ramp up from October onwards. It is also building charging infrastructure to scale up EV sales.
- In the second slot of booking, the company has received 14,000 bookings for Harley Davidson (HD). Regarding HD and Karizma, supply chain capacity is being built, in Phase-I aiming to produce 10,000 units per month and gradually ramp up.
- HERO is working on a new model in the 125cc premium segment and the scooter. Expects some launches in the 3rd or 4th quarter.
- The ICE margin is around 15%, but the Bill of Materials (BOM) cost for EVs is still high (90-100bps for EVs). At the gross level, EVs are still not profitable.
- Ather Investment – 37.5% as of now. It is working on synergies, standardizing the charger with Ather and Vida. Looking for other opportunities to build EV category in India.
- In export markets such as Bangladesh, Nigeria, Mexico, and Turkey, volume is steadily increasing. The capital expenditure (Capex) for FY24 is expected to be Rs. 1000cr. Removable batteries will continue to be a major selling point for Hero EVs.
- In the scooter segment, the Xoom model is performing well. Receivables is high due to extended credit provided to dealers on account of the festive season.

Other Details

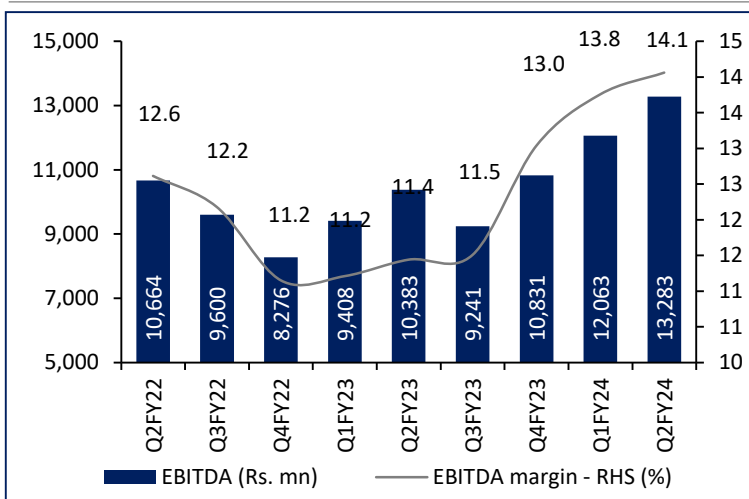
- Spare parts revenue in Q2FY24 was Rs. 1,354 crore, up from Rs. 1,210 crore in Q1FY24. Growth is being observed in parts such as oil and tires, and efforts are being made to add more dealer and retailer channels. In October, the company generated Rs.500cr in revenue from spare parts.

Revenue grew by 4.1% YoY



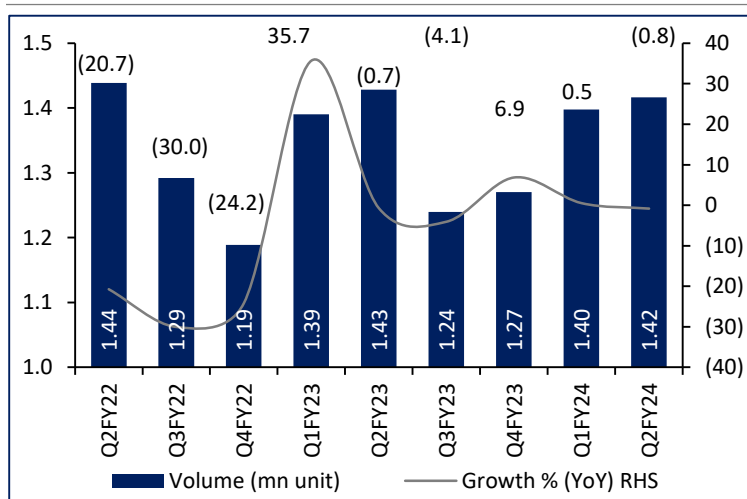
Source: Company, CEBPL

Margin improved sequentially



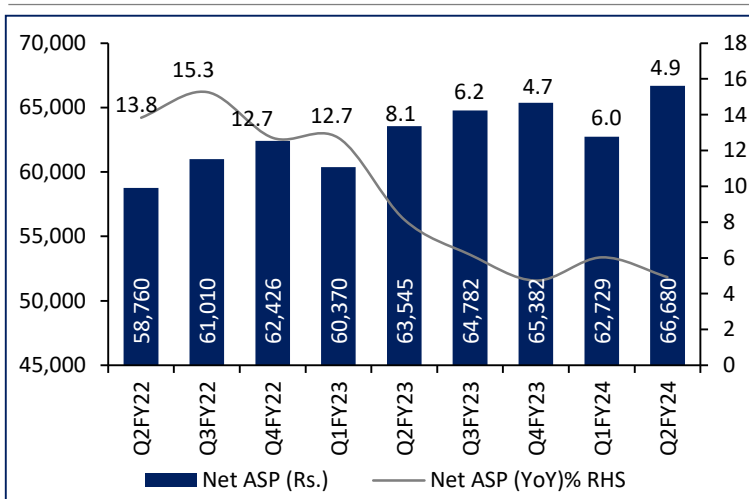
Source: Company, CEBPL

Volume de-grew 0.8% YoY



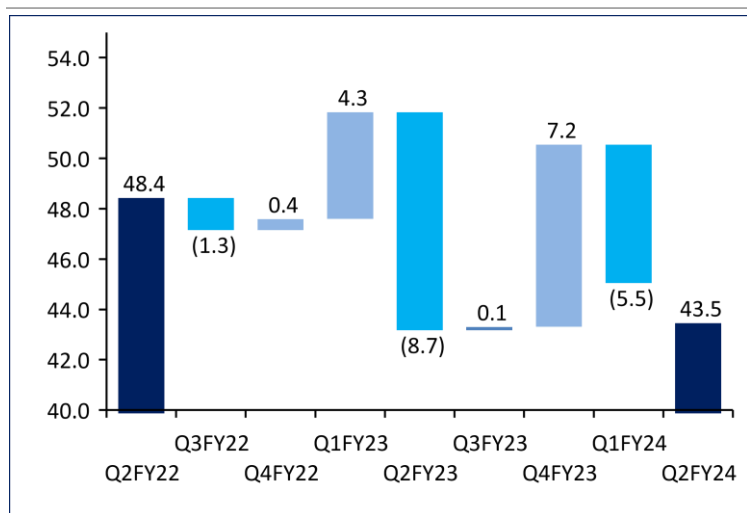
Source: Company, CEBPL

ASP improved by 4.9% YoY



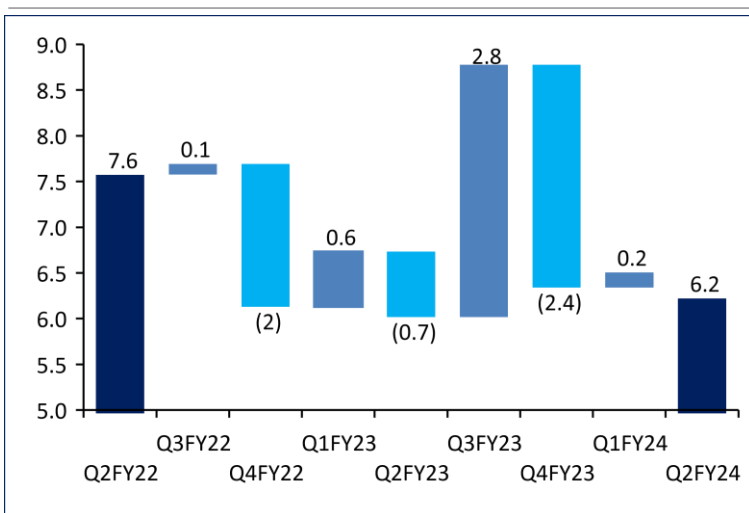
Source: Company, CEBPL

HMCL MC Market Share (%)



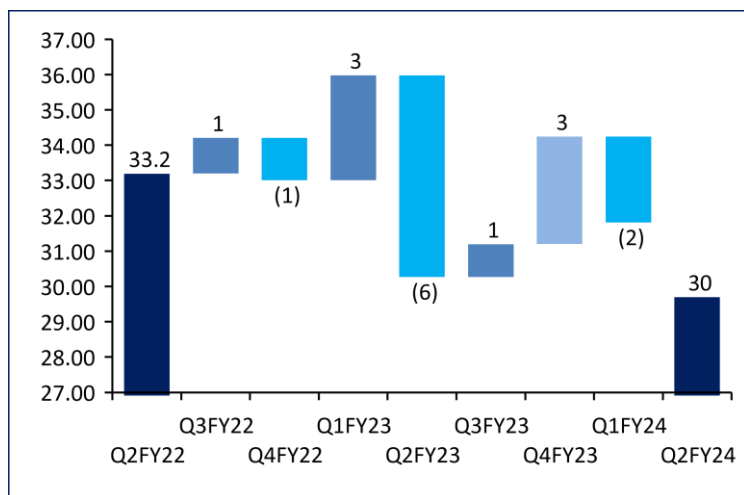
Source: Company, CMIE, CEBPL

HMCL Scooter Market Share (%)



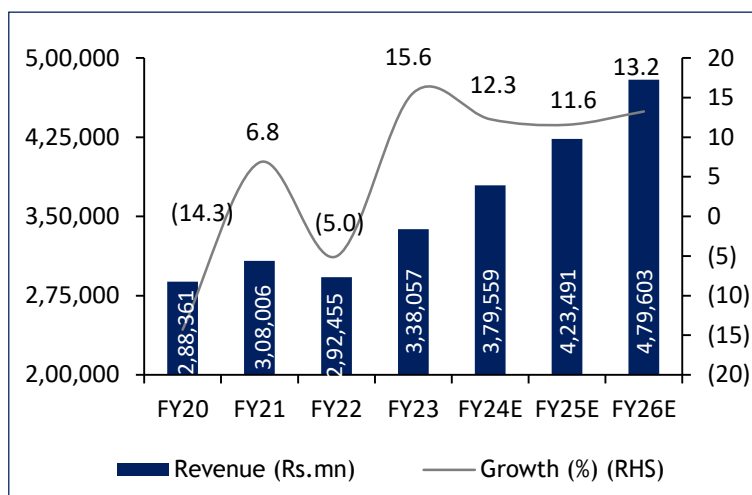
Source: Company, CMIE, CEBPL

Overall Domestic 2W Market Share (%)



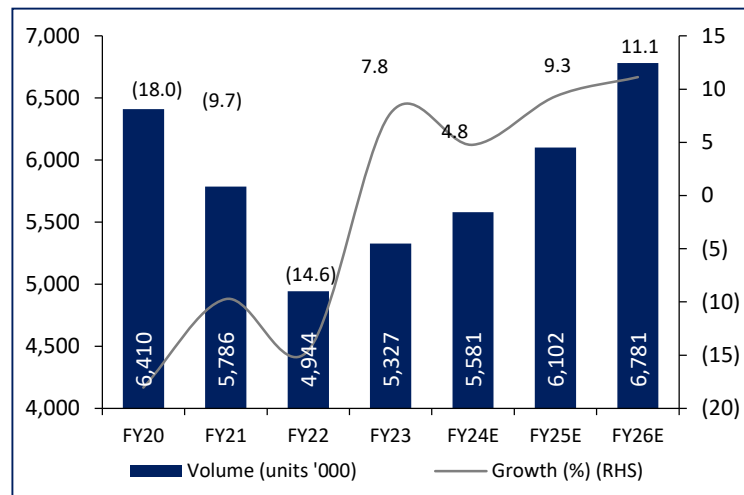
Source: Company, CMIE, CEBPL

Revenue Trend



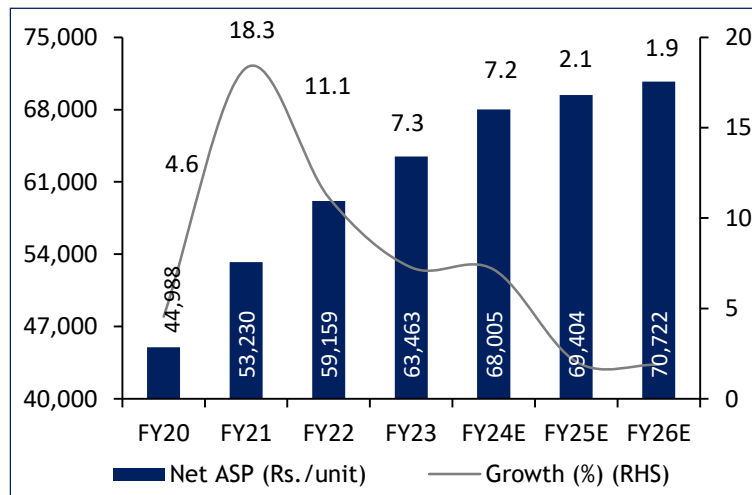
Source: Company, CEBPL

Volume to improve led by domestic recovery



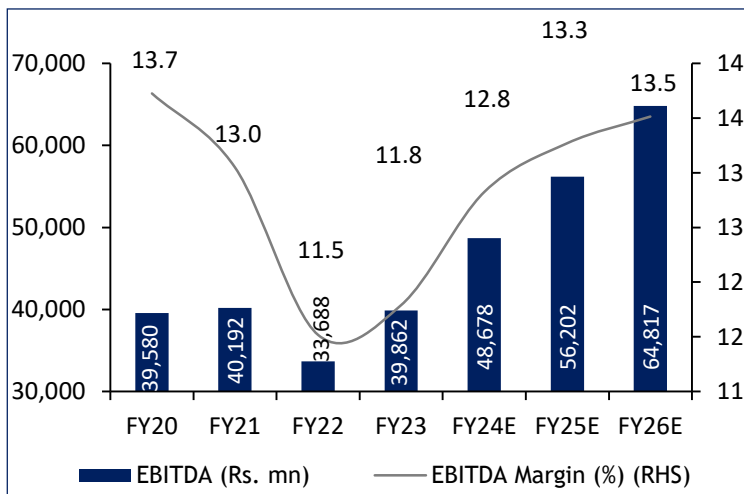
Source: Company, CEBPL

ASP to improve led by change in mix



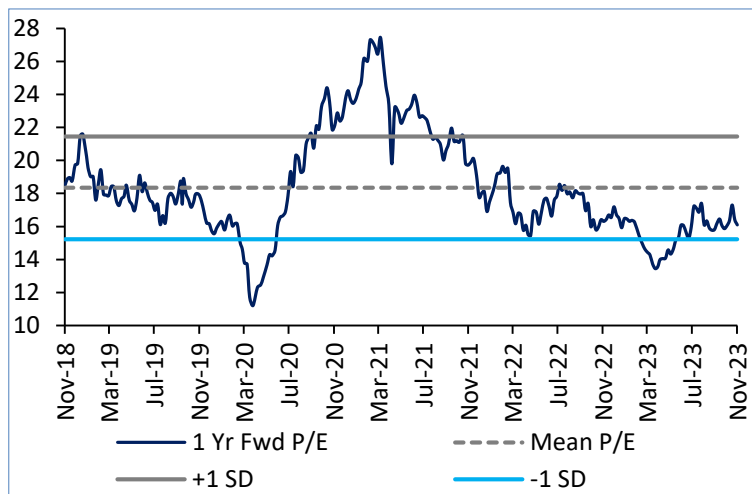
Source: Company, CEBPL

EBITDA and Margin Trend



Source: Company, CEBPL

1 year forward PE (x) band



Source: Company, CEBPL

Income statement

Particular (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,92,455	3,38,057	3,79,559	4,23,491	4,79,603
Gross profit	84,187	99,475	1,10,072	1,23,659	1,41,243
EBITDA	33,688	39,862	48,678	56,202	64,817
Depreciation	6,498	6,570	7,019	7,329	7,660
EBIT	27,190	33,293	41,659	48,874	57,157
Interest expense	258	199	209	219	230
Other Income (Including EO Items)	5,569	5,652	4,589	4,956	5,105
Reported PAT	24,730	29,106	34,585	40,272	46,598
Minority Interest	-	-	-	-	-
Adjusted PAT	24,730	29,106	34,585	40,272	46,598
EPS (Rs)	123.8	145.6	173.1	201.5	233.2
NOPAT	20,689	25,010	31,294	36,714	42,936

Balance sheet

Particular (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
Net worth	1,57,829	1,67,051	1,69,007	1,81,992	2,01,070
Minority Interest	-	-	-	-	-
Deferred tax	424	1,537	1,537	1,537	1,537
Total debt	-	-	-	-	-
Other liabilities & provisions	3,385	3,738	3,738	3,738	3,738
Total Net Worth & liabilities	1,61,638	1,72,326	1,74,281	1,87,266	2,06,344
Net Fixed Assets	61,774	60,967	60,733	60,690	60,816
Capital Work in progress	873	1,286	1,786	2,286	2,786
Investments	79,360	57,362	60,362	63,362	66,362
Cash & bank balance	28,914	56,196	67,535	78,509	94,471
Loans & Advances & other assets	6,564	9,630	10,812	12,063	13,662
Net Current Assets	13,067	43,081	40,588	48,865	62,719
Total Assets	1,61,638	1,72,326	1,74,281	1,87,266	2,06,344
Capital Employed	1,57,829	1,67,051	1,69,007	1,81,992	2,01,070
Invested Capital	1,28,910	1,10,850	1,01,466	1,03,478	1,06,594
Net Debt	(28,914)	(56,196)	(67,535)	(78,509)	(94,471)
FCFF	16,574	19,616	47,175	41,478	46,711

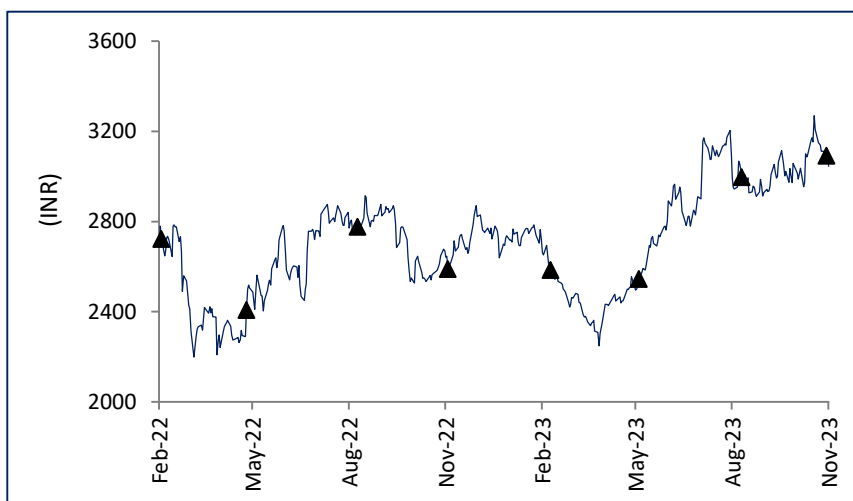
Source: Company, CEBPL

Cash Flows (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
CFO	20,203	25,791	54,460	49,263	54,996
Capex	(3,629)	(6,175)	(7,286)	(7,786)	(8,286)
FCF	16,574	19,616	47,175	41,478	46,711
CFI	(1,520)	(4,688)	(13,860)	(8,786)	(8,286)
CFF	(19,388)	(20,406)	(27,263)	(27,506)	(27,751)

Ratio Analysis	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratios (%)					
Revenue	(5.0)	15.6	12.3	11.6	13.2
EBITDA	(16.2)	18.3	22.1	15.5	15.3
PAT	(16.6)	17.7	18.8	16.4	15.7
Margin ratios (%)					
EBITDA margins	11.5	11.8	12.8	13.3	13.5
PAT Margins	8.5	8.6	9.1	9.5	9.7
Performance Ratios (%)					
OCF/EBITDA (X)	0.6	0.6	1.1	0.9	0.8
OCF/IC	15.7	23.3	53.7	47.6	51.6
RoE	15.7	17.4	20.5	22.1	23.2
ROCE	17.2	19.9	24.6	26.9	28.4
RoIC (Post tax)	16.3	19.4	28.2	36.2	41.5
RoIC (Pre tax)	21.4	25.8	37.6	48.2	55.2
Fixed asset Turnover (x)	1.9	2.2	2.3	2.5	2.7
Turnover Ratio (Days)					
Inventory	14.0	15.5	14.0	15.0	16.0
Debtors	28.8	30.2	26.0	26.0	26.0
Payables	53.2	50.8	56.7	57.2	57.9
Cash Conversion Cycle	(19.8)	(14.2)	(25.9)	(25.6)	(24.2)
Financial Stability ratios (x)					
Net debt to Equity	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
Net debt to EBITDA	(0.9)	(1.4)	(1.4)	(1.4)	(1.5)
Interest Cover	105.4	167.6	199.7	223.1	248.5
Valuation metrics					
Fully diluted shares (mn)	199.8	199.8	199.8	199.8	199.8
Price (Rs)	3050	3050	3050	3050	3050
Market Cap(Rs. Mn)	6,09,421	6,09,421	6,09,421	6,09,421	6,09,421
PE(x)	25	21	18	15	13
EV (Rs.mn)	5,80,506	5,53,224	5,41,885	5,30,911	5,14,949
EV/EBITDA (x)	17	14	11	9	8
Book value (Rs/share)	790	836	846	911	1,006
Price to BV (x)	3.9	3.6	3.6	3.3	3.0
EV/OCF (x)	29	21	10	11	9

Source: Company, CEBPL

Historical recommendations and target price: HMCL



HMCL

1.	14-02-2022	Add,	Target Price Rs.3,103
2.	04-05-2022	Add,	Target Price Rs. 2,739
3.	16-08-2022	Add,	Target Price Rs. 3,007
4.	05-11-2022	Add,	Target Price Rs. 2,911
5.	08-02-2023	Add,	Target Price Rs. 2,935
6.	06-05-2023	Outperform,	Target Price Rs. 3,058
7.	12-08-2023	ADD,	Target Price Rs. 3,389
8.	02-11-2023	ADD,	Target Price Rs. 3,477

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ADD	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
NEUTRAL	The security expected to show downside or upside returns by 5% over the next 12 months
REDUCE	The security expected to show less than -5% to greater than -15% over the next 12 months
UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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