

# Hero MotoCorp | BUY

## Healthy Qtr; New product cycle focused on driving market share

During 2QFY24, EBITDAM for Hero MotoCorp (HMCL) stood at 14.1% (+260bps YoY; +30bps QoQ), in-line with JMFe led by softening commodity costs, favourable mix and LEAP savings. Festive period has started on a good note. And with slight improvement in rural demand, the segment is expected to witness 15% YoY growth during this period. Recent premium launches have been received well. And, the near-term focus is on ramping-up distribution and production of HD 440X / Karizma (25k+/14k bookings) and EVs. Positive operating leverage, and cost control initiatives are expected to support the margins. We believe, HMCL is at the cusp of market share recovery on the back of new product cycle and expect the company to draw support from impending rural recovery leading to c.7.5% volume CAGR (over FY23-26E). We estimate standalone EPS to post c.21% CAGR over FY23-26E. Maintain BUY with Sept'24 TP of INR 3,900 (16x forward earnings). Hero remains our top pick in the 2W space.

- 2QFY24- In-line margin performance:** HMCL reported net sales of INR 94bn (+4% YoY, +8%QoQ), 1% above JMFe. Volumes grew by c.5% QoQ (-1% YoY) to c.1.35mn units. Realisations grew c.3%QoQ (+5%YoY). EBITDA stood at INR 13.3bn (+28%YoY, +10%QoQ), in-line with JMFe. EBITDA margin stood at 14.1% (+260bps YoY, +30bps QoQ), in-line with JMFe. Adj. PAT stood at INR 10.5bn (+47%YoY, +28% QoQ). Spares revenue stood at INR 13.5bn (+12% QoQ) accounting for c.14% of revenue during 2QFY24 (steady QoQ).
- Demand outlook:** Management indicated that festive period has started on a good note with retails growing by 15% YoY during this period. Rural demand, which was lagging the urban demand over the last few quarters, is showing improvement. Overall, management remains optimistic on demand scenario driven by a) new product launches, b) positive outlook on festive sales, c) continued healthy urban demand and d) some signs of improvement in rural regions (while monsoon has been patchy, Rabi crops have been good). The company indicated that replacement demand has also started to recover. Near-to-medium term focus is on driving growth and market share for HMCL led by new product launches. Management reiterated its plan to launch almost one new product every qtr over next 4-6 qtrs. Dealer inventory stands at c.8 weeks and is expected to reach normalise level to c.4-6 weeks by the end of festive season.
- Update on new launches:** The company has started dispatches of HDX440 from mid-Oct'23 and have delivered 2k units so far. Bookings for HD X440 continue to remain strong with 2k+ new bookings for HD X440 in the last 15 days. Total pending bookings for HD X440 and Karizma stands at 25k+ and 14k+ units, respectively. Current effort is on production ramp-up (current combined capacity at 10k units) and expanding/upgrading distribution network (100+ premium outlets and 500+ Hero 2.0 outlets by FY24 end). Recently launched Xoom, Passion+, Xtec variants of Glamour & Super Splendor have also been received well by customers.
- Update on EV business:** The Company continued its focus on building sales, service and charging network and drive better cost-efficiency for EVs by leveraging vendor ecosystem



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	3,900
Upside/(Downside)	27.8%
Previous Price Target	3,700
Change	5.4%

### Key Data – HMCL IN

Current Market Price	INR3,052
Market cap (bn)	INR610.0/US\$7.3
Free Float	52%
Shares in issue (mn)	199.7
Diluted share (mn)	199.9
3-mon avg daily val (mn)	INR1,895.2/US\$22.8
52-week range	3,275/2,246
Sensex/Nifty	64,081/19,133
INR/US\$	83.3

### Price Performance

%	1M	6M	12M
Absolute	-0.2	22.3	15.4
Relative*	2.1	16.8	9.6

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	2,92,455	3,38,057	3,78,758	4,29,092	4,73,611
Sales Growth	-5.0%	15.6%	12.0%	13.3%	10.4%
EBITDA	33,688	39,862	53,026	60,931	68,674
EBITDA Margin	11.5%	11.8%	14.0%	14.2%	14.5%
Adjusted Net Profit	24,730	29,106	40,043	45,535	51,448
Diluted EPS (INR)	123.8	145.6	200.4	227.8	257.4
Diluted EPS Growth	-16.6%	17.7%	37.6%	13.7%	13.0%
ROIC	42.6%	47.1%	66.0%	77.5%	88.0%
ROE	16.0%	17.9%	22.9%	23.9%	24.5%
P/E (x)	24.7	21.0	15.2	13.4	11.9
P/B (x)	3.9	3.7	3.3	3.1	2.8
EV/EBITDA (x)	16.4	14.4	10.6	9.0	7.7
Dividend Yield	3.1%	3.3%	4.1%	4.8%	4.8%

Source: Company data, JM Financial. Note: Valuations as of 02/Nov/2023

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

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and charging infra of Ather. Focus is also on ramping-up Vida production (clocking 1k units/week now). During CY24, the company plans to expand Vida's presence to over 100 cities by leveraging existing distribution strength along with adding 100 exclusive outlets. Focus is also on offering a full EV portfolio going ahead.

- **Outlook on profitability:** During 2Q, EBITDA margin improved by c.30bps QoQ (+260bps YoY) led by lower commodity cost, favourable product mix and cost control initiatives (LEAP savings). Company indicated that EBITDA margin for ICE business stood at 15% during 2Q. Impact from EV business was c.90bps. The management indicated that it will continue to reinvest higher margin for ICE business to drive various strategic initiatives (EVs, premium and revive entry-level demand) going forward. Overall, it expects higher operating leverage and continued focus on cost saving measures to be the lever for margin expansion. LT margin guidance is maintained at 14-16%.

### Exhibit 1. Quarterly financial results

INR Mn	Q2FY24	Q2FY23	% YoY	Q1FY24	% QoQ	Q2FY24E	% A/E
<b>Operating metrics</b>							
Total Volumes (Units)	1,416,526	1,428,168	-0.8	1,352,574	4.7	1,416,526	0.0
Average Realisation (Net, INR)	66,680	63,545	4.9	64,819	2.9	66,116	0.9
<b>Financial metrics (INR mn)</b>							
Sales	94,454	90,754	4.1	87,673	7.7	93,654	0.9
Cost of Goods Sold	64,780	65,301	-0.8	60,809	6.5	64,622	0.2
As a % of sales	68.6	72.0	-340bps	69.4	-80bps	69.0	-40bps
Staff Cost	5,768	5,490	5.1	5,802	-0.6	6,088	-5.3
As a % of sales	6.1	6.0	10bps	6.6	-50bps	6.5	-40bps
Other expenses	10,624	9,579	10.9	9,000	18.0	9,646	10.1
As a % of sales	11.2	10.6	70bps	10.3	100bps	10.3	90bps
<b>EBITDA</b>	<b>13,283</b>	<b>10,383</b>	<b>27.9</b>	<b>12,063</b>	<b>10.1</b>	<b>13,299</b>	<b>-0.1</b>
<b>EBITDA Margin</b>	<b>14.1</b>	<b>11.4</b>	<b>260bps</b>	<b>13.8</b>	<b>30bps</b>	<b>14.2</b>	<b>-10bps</b>
Other Income	2,483	921	169.7	2,222	11.8	2,200	12.9
Interest	48	33	43.8	47	2.1	50	-4.8
Depreciation	1,749	1,634	7.0	1,690	3.5	1,710	2.3
Extraordinary	-	-	NA	1,600	NA	-	NA
PBT	13,970	9,637	45.0	12,548	11.3	13,739	1.7
Tax	3,431	2,476	38.6	2,701	27.1	3,451	-0.6
Tax rate (%)	24.6	25.7	-110bps	21.5	300bps	25.1	-60bps
<b>PAT (Adjusted)</b>	<b>10,538</b>	<b>7,161</b>	<b>47.2</b>	<b>8,247</b>	<b>27.8</b>	<b>10,288</b>	<b>2.4</b>
<b>PAT Margin</b>	<b>11.2</b>	<b>7.9</b>	<b>330bps</b>	<b>9.4</b>	<b>180bps</b>	<b>11.0</b>	<b>20bps</b>
<b>EPS</b>	<b>52.8</b>	<b>35.9</b>	<b>47.2</b>	<b>41.3</b>	<b>27.8</b>	<b>51.5</b>	<b>2.4</b>

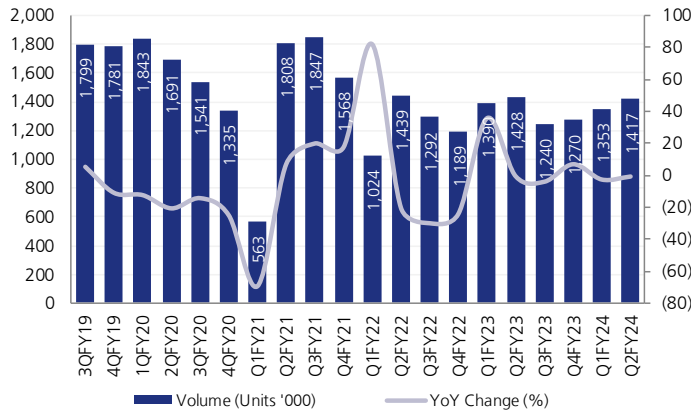
Source: Company, JM Financial

### Exhibit 2. HMCL – change in assumptions (Standalone)

HMCL	New assumption			Old assumption			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (INR mn)	378,758	429,092	473,611	378,758	429,092	473,611	0.0%	0.0%	0.0%
Volume (mn units)	5.7	6.2	6.7	5.7	6.2	6.7	0.0%	0.0%	0.0%
Growth (%)	6.9%	9.0%	7.3%	6.9%	9.0%	7.3%			
EBITDA (INR mn)	53,026	60,931	68,674	52,269	60,502	68,674	1.4%	0.7%	0.0%
EBITDA margin (%)	14.0%	14.2%	14.5%	13.8%	14.1%	14.5%	20bps	10bps	-
PAT (INR mn)	40,043	45,535	51,448	38,436	44,862	51,180	4.2%	1.5%	0.5%
EPS (INR)	200	228	257	192	224	256	4.2%	1.5%	0.5%

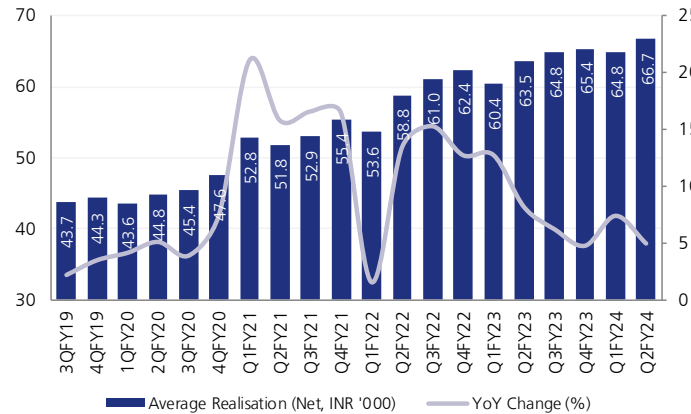
Source: Company, JM Financial

Exhibit 3. Volumes increased c.5% QoQ (-1% YoY)



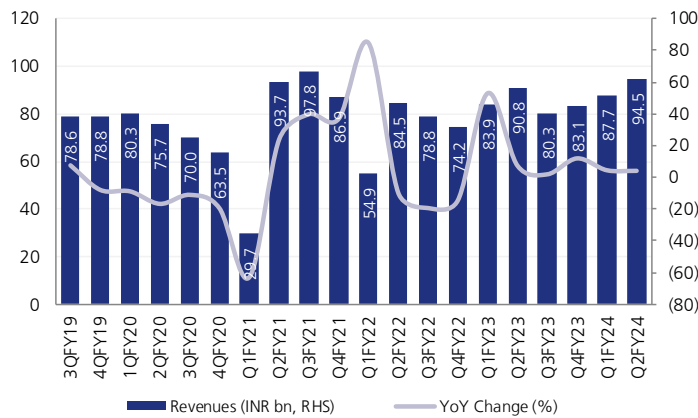
Source: Company, JM Financial

Exhibit 4. Realization increased c.3% QoQ (+5% YoY)



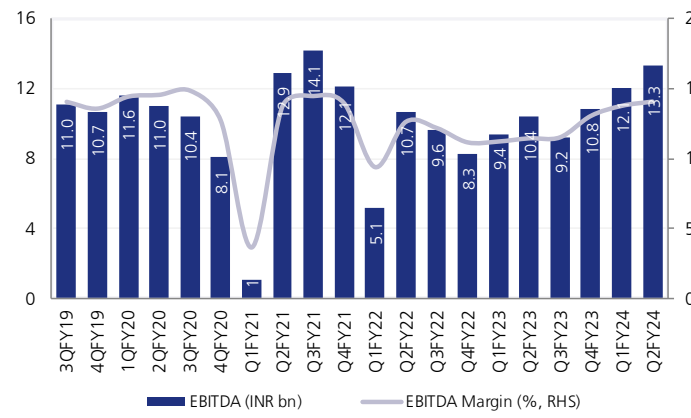
Source: Company, JM Financial

Exhibit 5. Revenue grew by c.8% QoQ (+4% YoY)



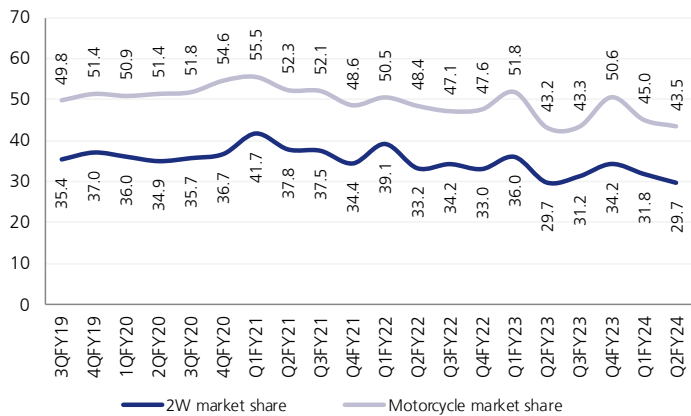
Source: Company, JM Financial

Exhibit 6. EBITDAM improved 30bps QoQ and 260bps YoY



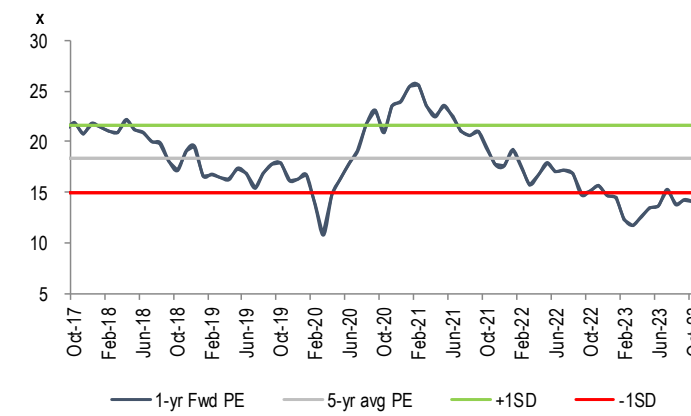
Source: Company, JM Financial

Exhibit 7. Market share trend



Source: Company, JM Financial

Exhibit 8. 1yr fwd. PE chart



Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	2,92,455	3,38,057	3,78,758	4,29,092	4,73,611	
Sales Growth	-5.0%	15.6%	12.0%	13.3%	10.4%	
Total Revenue	2,92,455	3,38,057	3,78,758	4,29,092	4,73,611	
<b>Cost of Goods Sold</b>	<b>2,08,267</b>	<b>2,38,581</b>	<b>2,60,207</b>	<b>2,94,786</b>	<b>3,24,897</b>	
Personnel Cost	19,354	21,898	23,862	26,604	28,890	
Other Expenses	31,145	37,715	41,663	46,771	51,150	
EBITDA	33,688	39,862	53,026	60,931	68,674	
<b>EBITDA Margin</b>	<b>11.5%</b>	<b>11.8%</b>	<b>14.0%</b>	<b>14.2%</b>	<b>14.5%</b>	
EBITDA Growth	59.7%	18.3%	33.0%	14.9%	12.7%	
Depn. & Amort.	6,498	6,570	6,992	7,420	7,794	
EBIT	27,190	33,293	46,034	53,511	60,879	
Other Income	5,569	5,652	6,864	7,519	8,048	
Finance Cost	258	199	210	220	220	
PBT before Excep. & Forex	32,501	38,746	52,688	60,811	68,708	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	32,501	38,746	52,688	60,811	68,708	
Taxes	7,771	9,640	12,645	15,276	17,259	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	24,730	29,106	40,043	45,535	51,448	
Adjusted Net Profit	24,730	29,106	40,043	45,535	51,448	
<b>Net Margin</b>	<b>8.5%</b>	<b>8.6%</b>	<b>10.6%</b>	<b>10.6%</b>	<b>10.9%</b>	
Diluted Share Cap. (mn)	200	200	200	200	200	
Diluted EPS (Symbol)	123.8	145.6	200.4	227.8	257.4	
<b>Diluted EPS Growth</b>	<b>-16.6%</b>	<b>17.7%</b>	<b>37.6%</b>	<b>13.7%</b>	<b>13.0%</b>	
Total Dividend + Tax	18,981	19,985	24,981	28,978	28,978	
Dividend Per Share (₹)	95.0	100.0	125.0	145.0	145.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	32,501	38,746	52,688	60,811	68,708	
Depn. & Amort.	6,498	6,570	6,992	7,420	7,794	
Net Interest Exp. / Inc. (-)	258	199	210	220	220	
Inc (-) / Dec in WCcap.	-6,720	-4,435	7,089	1,166	924	
Others	0	0	0	0	0	
Taxes Paid	-7,771	-9,640	-12,645	-15,276	-17,259	
<b>Operating Cash Flow</b>	<b>24,766</b>	<b>31,439</b>	<b>54,334</b>	<b>54,341</b>	<b>60,386</b>	
Capex	-4,894	-6,175	-10,013	-10,005	-7,524	
Free Cash Flow	19,872	25,264	44,320	44,337	52,862	
Inc (-) / Dec in Investments	-1,526	-3,580	-17,500	-15,000	-17,500	
Others	-258	-199	-210	-220	-220	
<b>Investing Cash Flow</b>	<b>-6,679</b>	<b>-9,954</b>	<b>-27,723</b>	<b>-25,225</b>	<b>-25,244</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-18,981	-19,985	-24,981	-28,978	-28,978	
Inc / Dec (-) in Loans	186	-118	0	0	0	
Others	-112	322	0	0	0	
<b>Financing Cash Flow</b>	<b>-18,908</b>	<b>-19,781</b>	<b>-24,981</b>	<b>-28,978</b>	<b>-28,978</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-820</b>	<b>1,704</b>	<b>1,629</b>	<b>138</b>	<b>6,164</b>	
Opening Cash Balance	2,572	1,751	3,455	5,084	5,222	
Closing Cash Balance	1,751	3,455	5,084	5,222	11,387	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	1,57,829	1,67,051	1,82,113	1,98,669	2,21,139	
Share Capital	400	400	400	400	400	
Reserves & Surplus	1,57,430	1,66,651	1,81,713	1,98,270	2,20,740	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	1,681	1,563	1,563	1,563	1,563	
Def. Tax Liab. / Assets (-)	3,833	4,054	4,054	4,054	4,054	
<b>Total - Equity &amp; Liab.</b>	<b>1,63,343</b>	<b>1,72,668</b>	<b>1,87,729</b>	<b>2,04,286</b>	<b>2,26,756</b>	
Net Fixed Assets	62,647	62,252	65,273	67,858	67,588	
Gross Fixed Assets	1,47,923	1,54,042	1,63,780	1,73,493	1,80,798	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	89,858	96,428	1,03,420	1,10,840	1,18,634	
Capital WIP	4,582	4,638	4,913	5,205	5,424	
Investments	1,06,523	1,10,104	1,27,604	1,42,604	1,60,104	
Current Assets	47,970	60,276	62,350	69,413	81,904	
Inventories	11,227	14,341	15,565	17,634	19,463	
Sundry Debtors	23,043	27,982	25,942	29,390	32,439	
Cash & Bank Balances	1,751	3,455	5,084	5,222	11,387	
Loans & Advances	818	2,492	2,792	3,163	3,492	
Other Current Assets	11,131	12,005	12,966	14,003	15,123	
Current Liab. & Prov.	53,797	59,964	67,498	75,589	82,839	
Current Liabilities	42,603	47,045	53,545	60,520	66,565	
Provisions & Others	11,194	12,919	13,953	15,069	16,274	
Net Current Assets	-5,827	312	-5,148	-6,176	-935	
<b>Total - Assets</b>	<b>1,63,343</b>	<b>1,72,668</b>	<b>1,87,729</b>	<b>2,04,286</b>	<b>2,26,756</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	8.5%	8.6%	10.6%	10.6%	10.9%	
Asset Turnover (x)	1.9	2.1	2.2	2.2	2.2	
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0	
RoE	16.0%	17.9%	22.9%	23.9%	24.5%	

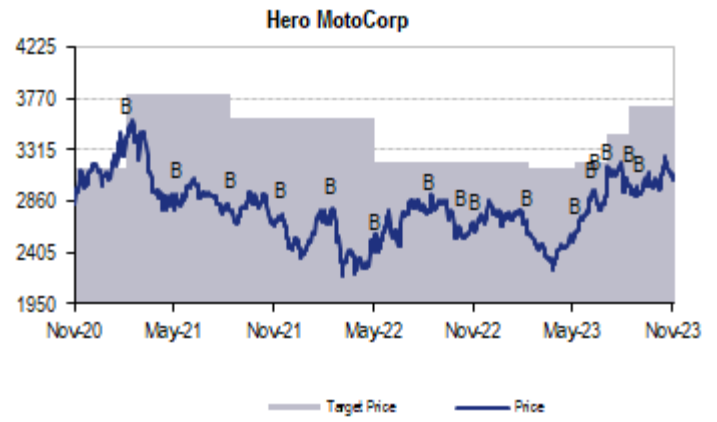
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (₹)	789.9	835.9	911.2	994.1	1,106.5	
ROIC	42.6%	47.1%	66.0%	77.5%	88.0%	
ROE	16.0%	17.9%	22.9%	23.9%	24.5%	
Net Debt/Equity (x)	-0.4	-0.2	-0.3	-0.3	-0.4	
P/E (x)	24.7	21.0	15.2	13.4	11.9	
P/B (x)	3.9	3.7	3.3	3.1	2.8	
EV/EBITDA (x)	16.4	14.4	10.6	9.0	7.7	
EV/Sales (x)	1.9	1.7	1.5	1.3	1.1	
Debtor days	29	30	25	25	25	
Inventory days	14	15	15	15	15	
Creditor days	60	58	60	60	60	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
13-Apr-20	Buy	2,400	
10-Jun-20	Buy	2,450	2.1
14-Aug-20	Buy	3,100	26.5
29-Oct-20	Buy	3,150	1.6
5-Feb-21	Buy	3,800	20.6
7-May-21	Buy	3,800	0.0
13-Aug-21	Buy	3,600	-5.3
14-Nov-21	Buy	3,600	0.0
13-Feb-22	Buy	3,600	0.0
4-May-22	Buy	3,200	-11.1
14-Aug-22	Buy	3,200	0.0
9-Oct-22	Buy	3,200	0.0
4-Nov-22	Buy	3,200	0.0
8-Feb-23	Buy	3,150	-1.6
7-May-23	Buy	3,200	1.6
5-Jun-23	Buy	3,200	0.0
12-Jun-23	Buy	3,200	0.0
4-Jul-23	Buy	3,450	7.8
13-Aug-23	Buy	3,700	7.2
31-Aug-23	Buy	3,700	0.0

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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