

Healthy performance, await tangible volume recovery

About the stock: Hero MotoCorp (HMCL) is the world's largest 2-W manufacturer by volume, with domestic market share at 32.5% as of FY23. Its suite of popular models includes Splendor, Passion, Glamour, etc.

- Rural geographies form ~50% sales; 46.9% FY23 motorcycle market share
- Debt-free b/s with strong return ratios; healthy ~70% dividend payout ratio
- Presence in EV space through its captive offerings under Vida brand as well as through investments in Ather Energy, Gogoro & Zero Motorcycles

Q4FY23 Results: The company reported a healthy performance in Q4FY23.

- Topline for the quarter came in at ₹ 8,307 crore, up 3.4% QoQ, amid 2.5% QoQ growth in volumes (12.7 lakh units) & 1% QoQ rise in ASPs (₹ 65,382)
- EBITDA in Q4FY23 was at ₹ 1,083 crore with margins at 13% (up 150 bps QoQ). HMCL witnessed 144 bps gross margins expansion QoQ
- PAT for the quarter came in at ₹ 858.8 crore, up 20.8% QoQ
- It also declared a final dividend of ₹ 35/share; FY23 dividend at ₹ 100/share

What should investors do? HMCL's share price has lagged the Nifty Auto Index in the past five years, de-growing at ~7.3% CAGR from ~₹ 3,660 levels in May 2018.

- We maintain **HOLD** rating amid no visible signs of meaningful volume recovery in the commuter motorcycle segment (wherein HMCL has market leadership) in the near term as well as slower ramp up in the EV domain

Target Price and Valuation: Revising our estimates, we now value HMCL at ₹ 2,840 (i.e. 12x P/E on FY25E EPS of ~₹ 200 & 2x P/B to its long-term strategic investments)

Key triggers for future price performance:

- We expect volume, topline to grow at a CAGR of 6.2%, 10.3%, respectively, in FY23-25E, riding on likely revival in rural demand, new launches especially in the premium category & more affordable offerings in EV space
- With favourable operating leverage, stable commodity prices & higher spares revenues, margins are seen reaching 13.2% by FY25E
- Leveraging its existing tie-ups & strategic investment like Ather, Zero Mobility, Gogoro for developing more affordable EV offerings & expanding Vida network to pan-India (~100 cities) over CY23

Alternate Stock Idea: Leaving aside HMCL, in our OEM coverage, we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,665



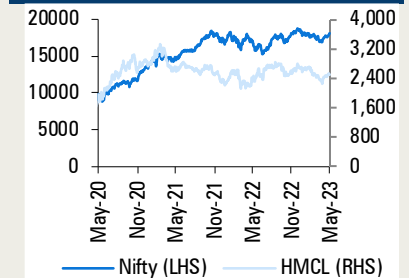
Particulars

Particular	Amount
Market Capitalization	₹ 50723.8 Crore
Total Debt (FY23P)	₹ 0 Crore
Cash & Inv. (FY23P)	₹ 7983 Crore
EV	₹ 42740 Crore
52 week H/L (₹)	2,939 / 2,246
Equity capital (₹ crore)	40.0
Face value	₹ 2

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	34.8	34.8	34.8	34.8
FII	28.8	27.8	27.5	27.0
DII	25.6	26.9	27.3	27.9
Other	10.8	10.6	10.5	10.4

Price Chart



Recent event & key risks

- Posted healthy Q4FY23 results
- **Key Risk:** (i) Slower than expected uptick in rural demand & consequent volumes (ii) Higher than expected uptick in margins amid operating leverage at play

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	33,650.5	28,836.1	30,800.7	29,245.5	33,805.7	1.0%	38,012.5	41,120.0	10.3%
EBITDA	4,929.8	3,958.0	4,019.2	3,368.7	3,985.9	-5.5%	4,950.2	5,431.1	16.7%
EBITDA Margins (%)	14.6	13.7	13.0	11.5	11.8		13.0	13.2	
Net Profit	3,384.6	3,633.3	2,964.1	2,472.9	2,910.3	-4.7%	3,647.2	3,988.8	17.1%
Normalised Net Profit	3,384.6	3,202.6	2,964.1	2,472.9	2,910.3	-4.7%	3,647.2	3,988.8	17.1%
EPS (₹)	169.5	181.9	148.4	123.8	145.7		182.6	199.7	
P/E	15.0	14.0	17.1	20.5	17.4		13.9	12.7	
RoNW (%)	26.3	22.7	19.5	15.7	17.4		20.4	20.9	
RoCE (%)	32.0	21.3	20.8	16.3	18.9		22.7	23.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Hero MotoCorp reported a healthy operational performance in Q4FY23 with more than anticipated expansion in gross margins being the key highlight from the results.

Q4FY23 Results:

- Total 2-W sales volume for the quarter was at 12.7 lakh units, up 2.5% QoQ. Consequent revenues in Q4FY23 were at ₹ 8,307 crore, up 3.4% QoQ
- Blended ASP for the quarter was at ~ ₹ 65,382/unit (up ~1% QoQ)
- EBITDA in Q4FY23 was at ₹ 1,083 crore with corresponding EBITDA margins at 13% (up 150 bps QoQ). The company witnessed a 144 bps gross margins expansion on a QoQ basis. The benefits of the same were somewhat negated by higher than anticipated other expenses, which were at 12.3%
- PAT for the quarter came in at ₹ 858.8 crore, up 20.8% QoQ. It was driven by higher than anticipated margins as well as higher other income, which, for the quarter, was at ₹ 237 crore vs. ₹ 183 crore in Q3FY23
- The company also declared a final dividend of ₹ 35/share with full year dividend pegged at ₹ 100/share (dividend payout: ~70%)

Q4FY23 Earnings Conference Call highlights

- FY24E to see record number of new product launches by HMCL ever in its history with guidance for at least one new product launch every quarter
- It maintains its expectation of double-digit revenue growth for FY24E
- It increased its market share in 125 cc segment from ~14% to ~21-22%
- Its channel inventory is comfortably placed at about six weeks with retail finance penetration further improving to ~59%
- It undertook repricing of Vida to gain wider adoption and increase market share leveraging upon its widest distribution network
- It guided for stable commodity prices with premiumisation, operating leverage & internal efficiencies providing headroom for margin uptick
- On EV segment profitability; it was of the opinion that EV is going to be a cash burn for a while and the important thing in the EV space for success was not to look at the cash burn but to stay ahead of the competition on the cost reductions for manufacturing EVs to win in a longer journey
- Its export revenues for FY23 were at ~₹ 1,150 crore
- Jointly developed product with Harley Division to be launched this year
- It is looking forward to the upcoming marriage season domestically in May 2023 and June 2023 for better volume offtake
- Spare parts revenues in Q4FY23 were at ~₹ 1,271 crore i.e. ~15% of sales

HMCL- ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	61.1	64.5	64.5
Social	30.4	34.1	33.7
Governance	84.9	84.9	84.9
Overall ESG Score	58.8	61.2	61.1

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Peer comparison

Exhibit 1: Peer Comparison (2-W)

Company	CMP	TP	Rating	Mcap	2-W Lakh volumes			EBITDA margin (%)			RoCE (%)			P/E		
	₹	₹		₹ crore	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Bajaj Auto (BAAUTO)	4,470	4,530	Hold	1,29,348	34.4	36.6	41.2	18.0	19.3	19.6	24.3	29.4	32.3	22.5	18.2	15.9
Hero Moto (HERHON)	2,540	2,840	Hold	50,724	53.3	56.7	60.2	11.8	13.0	13.2	18.9	22.7	23.6	17.4	13.9	12.7
Eicher Motors (EICMOT)	3,350	4,065	Buy	91,556	8.5	9.8	10.8	23.7	24.5	25.4	19.8	20.2	27.3	33.0	27.1	23.6

Source: Company, ICICI Direct Research; Note – Bajaj Auto sales volumes above are for its 2-W division only

In the 2-W auto OEM space, we ascribe BUY rating only to Eicher Motors amid K shaped volume recovery domestically largely driven by premium segment. We assign HOLD rating to other incumbent 2-W auto OEMs and await firm volume growth (monthly numbers) as well as more meaningful action from them on EV front before turning decisively positive.

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Operating Income	8,307	8,231	7,422	11.9	8,031	3.4	Topline was broadly in line with our estimates
Raw Material Expenses	5,646	5,699	5,142	9.8	5,574	1.3	Savings were realised on the raw materials front with QoQ gross margin expansion coming in ahead of estimates at ~144 bps
Employee Expenses	557	556	476	17.0	546	2.1	
Other expenses	1,020	947	975	4.6	987	3.4	Other expenses came in a tad higher than anticipated at 12.3% of sales
Operating Profit (EBITDA)	1,083	1,030	828	30.8	924	17.2	
EBITDA Margins (%)	13.0	12.5	11.2	190 bps	11.5	150 bps	EBITDA margins expanded 150 bps QoQ and were ahead of estimates tracking beat on gross margins
Other Income	237	138	140	69.5	183	29.3	
Interest	4.7	7.0	6.7	-29.7	4.9	-4.5	
Depreciation	168.6	169.3	158.5	6.4	162.0	4.1	Depreciation came in on expected lines
PBT after Exceptional Items	1,146.5	991.9	802.2	42.9	940.3	21.9	
Total Tax	287.7	250.0	175.2	64.3	229.4	25.4	
PAT	858.8	741.9	627.1	37.0	710.9	20.8	PAT for the quarter came in higher than our estimates tracking beat on margins
EPS (Adjusted)	43.0	37.2	31.4	37.0	35.6	20.8	
Key Metrics							
Total 2-W Sales (lakh units)	12.7	12.7	11.9	6.9	12.4	2.5	Total volumes for Q4FY23 were up 2.5% QoQ
Net Blended ASP (₹/unit)	65,382	64,782	62,426	4.7	64,782	0.9	Blended ASPs were up ~1% QoQ at ₹ 65,400/unit

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	37,590	38,013	1.1	41,042.2	41,120	0.2	Broadly maintain our topline estimates. We expect sales to grow at a CAGR of 10.3% in FY23-25E amid 6.2% volume CAGR in the same period
EBITDA	4,772	4,950	3.7	5,353.7	5,431	1.4	
EBITDA Margin (%)	12.7	13.0	33 bps	13.0	13.2	16 bps	We upgrade our margin estimates tracking healthy performance in Q4FY23 and stable commodity prices
PAT	3,390	3,647	7.6	3,761.0	3,989	6.1	
EPS (₹)	169.7	182.6	7.6	188.3	199.7	6.1	Earnings witness a single digit upgrade on account of upward revision in margin estimates. We expect PAT to grow at a CAGR of 17.1% over FY23-25E

Source: ICICI Direct Research

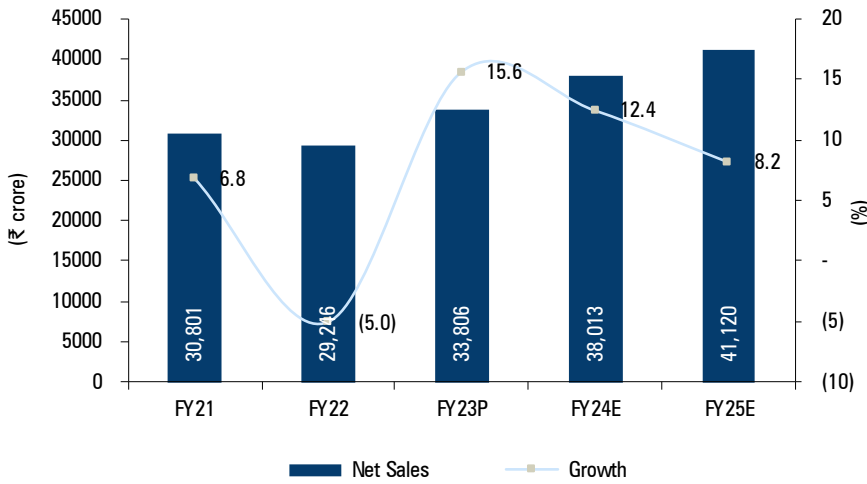
Exhibit 4: Assumptions

	Current				Earlier		Comments			
	FY19	FY20	FY21	FY22	FY23	FY24E		FY25E		
Motorcycle volumes (lakh units)	71	60	53	46	50	53	56	53	56	Marginally lower our volume estimates amid missing tangible volume recovery for the company. We expect total sales volume to grow at a CAGR of 6.2% in FY23-25E to 60 lakh units in FY25E. Revise upward our ASP estimates amid premiumisation initiatives
Scooter volumes (lakh units)	7	4	5	3	4	4	4	4	4	
Total volumes (lakh units)	78	64	58	49	53	57	60	57	61	
Growth (% YoY)		-18.0%	-9.8%	-14.5%	7.8%	6.5%	6.0%			
Gross Blended ASP (₹/unit)	43,026	44,988	53,244	59,152	63,443	67,011	68,358	66,386	67,721	

Source: ICICI Direct Research

Financial story in charts

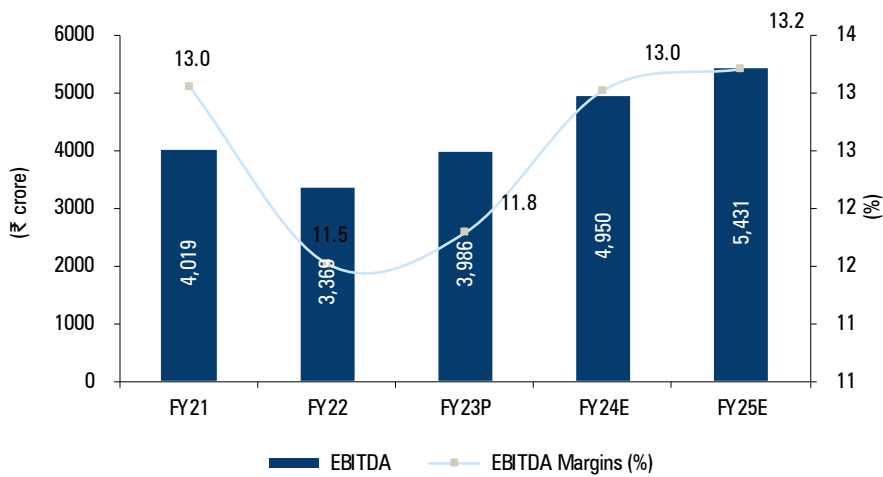
Exhibit 5: Topline trend



We expect sales to grow at a CAGR of 10.3% over FY23-25E backed by 6.2% volume CAGR in the aforesaid period

Source: Company, ICICI Direct Research

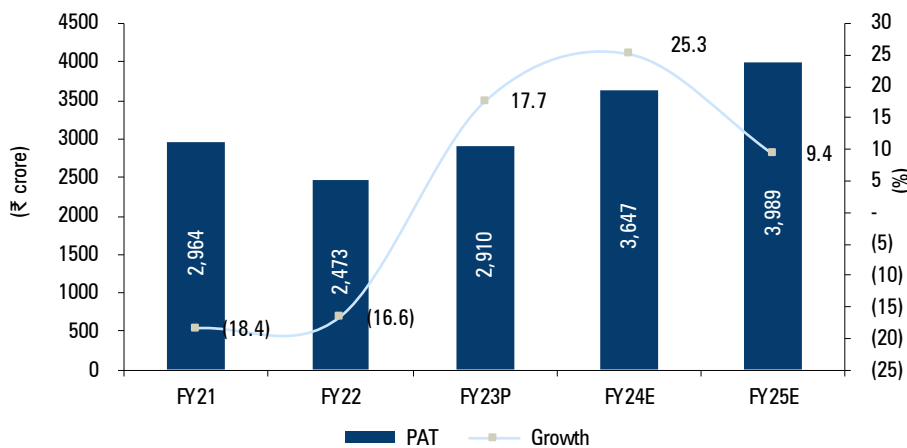
Exhibit 6: Trend in margins



Margins are seen improving to 13.2% levels by FY25E amid stable commodity prices. The company's long-term target in this domain is unchanged in the ~14-16% range

Source: Company, ICICI Direct Research

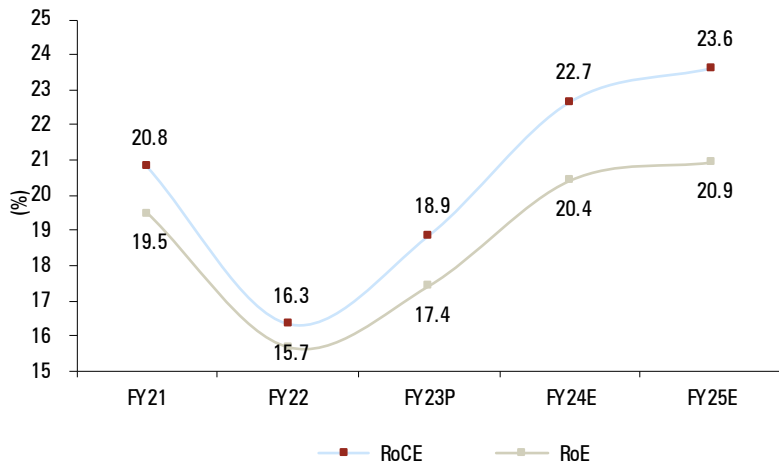
Exhibit 7: Trend in profitability



PAT is expected to grow to ₹ 3,989 crore in FY25E i.e., at a CAGR of 17.1% over FY23-25E

Source: Company, ICICI Direct Research

Exhibit 8: Trend in return ratios



Return ratios are expected to be healthy and revert back to 20%+ levels starting FY24E. This is largely driven by healthy profitability as well as high dividend payout, which is the USP at HMCL. At the CMP, it offers a lucrative dividend yield of ~4-5%

Source: Company, ICICI Direct Research

Exhibit 9: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹ cr)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	32,230.5	(4.7)	185.1	27.0	13.7	8.3	31.4	38.1
FY19	33,650.5	4.4	169.5	-8.5	15.0	9.4	26.3	32.0
FY20	28,836.1	(14.3)	181.9	7.3	14.0	11.2	22.7	21.3
FY21	30,800.7	6.8	148.4	-18.4	17.1	10.5	19.5	20.8
FY22	29,245.5	-5.0	123.8	-16.6	20.5	12.5	15.7	16.3
FY23P	33,805.7	15.6	145.7	17.7	17.4	10.7	17.4	18.9
FY24E	38,012.5	12.4	182.6	25.3	13.9	8.6	20.4	22.7
FY25E	41,120.0	8.2	199.7	9.4	12.7	7.7	20.9	23.6

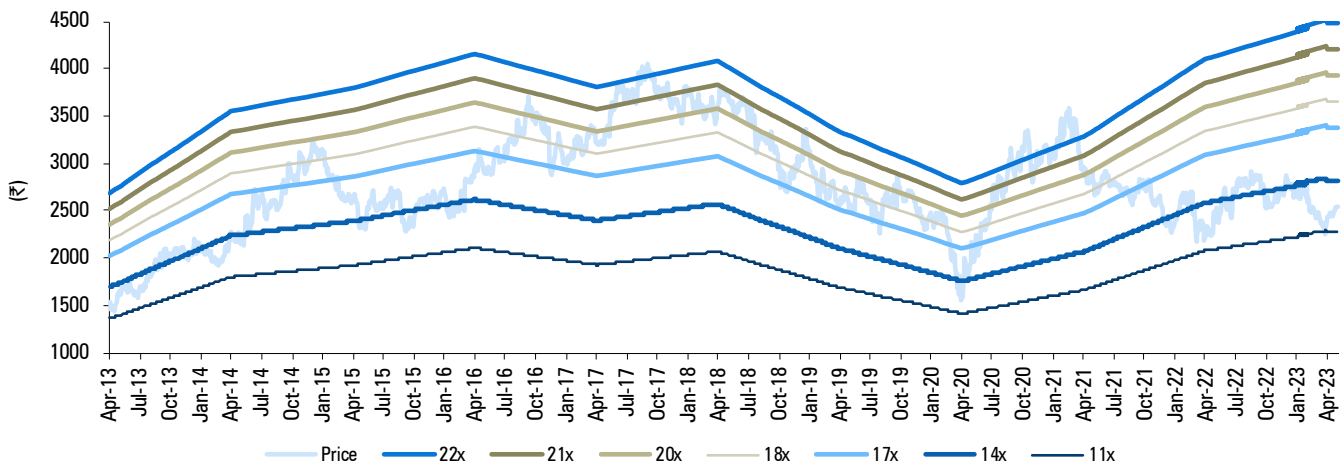
Source: Company, ICICI Direct Research

Exhibit 10: SoTP Valuation

Particulars	Amount (₹)
FY25E Core EPS (₹/share, A)	199.7
P/E Multiple assigned (~20% discount to key competition, x, B)	12.0
Value of Base Business (C = A*B)	2,400
Other investment like Hero Fincorp & Ather Energy (₹ crore as of FY25E, D)	4,372
P/B Multiple Assigned (x, E)	2.0
Value of long term Investments (₹ crore, F = D*E)	8,745
Per share value of long term investments (G)	440
Target Price (C+G)	2,840
Potential Upside (%)	12%

Source: ICICI Direct Research

Exhibit 11: Hero MotoCorp currently trades at ~13x PE on 2 year forward basis



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Total operating Income	29,245.5	33,805.7	38,012.5	41,120.0
Growth (%)	-5.0	15.6	12.4	8.2
Raw Material Expenses	20,826.7	23,858.1	25,989.9	28,058.9
Employee Expenses	1,935.4	2,189.8	2,396.2	2,592.2
Other expenses	3,114.5	3,771.5	4,675.5	5,037.2
Total Operating Expenditure	25,876.8	29,819.6	33,061.9	35,688.5
EBITDA	3368.7	3986.0	4950.6	5431.5
Growth (%)	-16.2	18.3	24.2	9.7
Depreciation	649.8	657.0	684.2	699.0
Interest	25.8	19.9	18.9	17.9
Other Income	556.9	565.2	628.8	618.5
PBT	3250.0	3874.3	4875.9	5332.6
Total Tax	777.1	964.0	1,228.7	1,343.8
PAT	2472.9	2910.3	3647.2	3988.8
Growth (%)	-16.6	17.7	25.3	9.4
Normalised PAT (₹)	2,472.9	2,910.3	3,647.2	3,988.8
EPS (₹)	123.8	145.7	182.6	199.7

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Profit after Tax	2,472.9	2,910.3	3,647.2	3,988.8
Add: Depreciation & Interest	675.6	676.8	703.1	717.0
Sub: Other Income	556.9	565.2	628.8	618.5
(Inc)/dec in Current Assets	384.5	-953.6	-558.8	-460.4
Inc/(dec) in CL and Provisions	-1,037.8	551.6	614.1	510.0
CF from operating activities	1938.2	2619.9	3776.8	4136.8
(Inc)/dec in Investments	-137.6	635.8	-350.0	-400.0
(Inc)/dec in Fixed Assets	-489.4	-617.5	-1,010.0	-1,010.0
Others	-35.9	-1,025.0	-480.0	-480.0
Add: Other Income	556.9	565.2	628.8	618.5
CF from investing activities	-106.0	-441.5	-1211.2	-1271.5
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-1,897.2	-1,997.0	-2,496.3	-2,795.8
Inc/(dec) in Sec. premium & Othe	-17.1	-11.0	-18.9	-17.9
CF from financing activities	-1914.3	-2008.0	-2515.1	-2813.7
Net Cash flow	-82.0	170.4	50.4	51.6
Opening Cash	257.1	175.2	345.6	396.0
Closing Cash	175.2	345.6	396.0	447.5

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Liabilities				
Equity Capital	40.0	40.0	40.0	40.0
Reserve and Surplus	15,743.0	16,665.1	17,816.1	19,009.1
Total Shareholders funds	15782.9	16705.1	17856.0	19049.0
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	383.3	405.4	415.4	425.4
Others	475.4	528.7	538.7	548.7
Total Liabilities	16641.6	17639.2	18810.1	20023.1
Assets				
Gross Block	11,173.8	11,584.0	12,609.0	13,634.0
Less: Acc Depreciation	5,665.8	6,322.8	7,007.0	7,706.1
Net Block	5508.0	5261.2	5602.0	5927.9
Capital WIP	87.3	128.6	103.6	78.6
Total Fixed Assets	5,595.3	5,389.8	5,705.5	6,006.5
Investments	10,652.3	11,010.4	11,860.4	12,760.4
Inventory	1,122.7	1,434.1	1,562.2	1,689.9
Debtors	2,304.3	2,798.2	3,124.3	3,379.7
Loans and Advances	40.2	43.6	49.0	53.0
Cash	175.2	345.6	396.0	447.5
Total Current Assets	4,294.8	5,418.8	6,028.1	6,540.1
Creditors	4,260.4	4,704.5	5,207.2	5,632.9
Provisions	160.4	175.7	194.5	210.4
Total Current Liabilities	5,072.4	5,624.0	6,238.1	6,748.0
Net Current Assets	-777.6	-205.1	-210.0	-208.0
Application of Funds	16641.6	17639.2	18810.1	20023.1

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
Per share data (₹)				
EPS	123.8	145.7	182.6	199.7
Cash EPS	156.4	178.6	216.9	234.7
BV	790.3	836.5	894.1	953.9
DPS	95.0	100.0	125.0	140.0
Cash Per Share	423.1	399.8	419.8	442.4
Operating Ratios (%)				
EBITDA Margin	11.5	11.8	13.0	13.2
PBT / Net sales	9.3	9.8	11.2	11.5
PAT Margin	8.5	8.6	9.6	9.7
Inventory days	14.0	15.5	15.0	15.0
Debtor days	28.8	30.2	30.0	30.0
Creditor days	53.2	50.8	50.0	50.0
Return Ratios (%)				
RoE	15.7	17.4	20.4	20.9
RoCE	16.3	18.9	22.7	23.6
RoIC	33.5	34.9	41.3	42.6
Valuation Ratios (x)				
P/E	20.5	17.4	13.9	12.7
EV / EBITDA	12.5	10.7	8.6	7.7
Market Cap / Sales	1.7	1.5	1.3	1.2
Price to Book Value	3.2	3.0	2.8	2.7
Solvency Ratios				
Current Ratio	0.9	1.0	1.0	1.0
Quick Ratio	0.7	0.7	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Apollo Tyre (APOTYR)	370	390	Buy	23,497	15.9	25.2	30.0	23.2	14.7	12.3	8.4	6.5	5.7	10.0	13.8	14.9	8.1	11.8	12.9
Ashok Leyland (ASHLEY)	140	185	Buy	40,979	3.9	6.8	8.3	36.1	20.7	16.8	16.0	11.3	9.4	15.9	23.3	27.8	14.1	22.0	23.5
Bajaj Auto (BAAUTO)	4,470	4,530	Hold	1,29,348	198.9	246.2	280.9	22.5	18.2	15.9	17.1	13.5	11.6	24.3	29.4	32.3	22.1	26.1	28.1
Balkrishna Ind. (BALIND)	2,140	2,170	Hold	41,370	52.1	77.5	95.9	41.0	27.6	22.3	29.6	18.6	15.2	8.6	15.8	19.2	13.2	17.3	18.7
Bharat Forge (BHAFOR)	760	1,050	Buy	35,383	12.7	25.2	34.4	59.7	30.1	22.1	21.0	15.6	12.4	8.0	11.7	14.8	8.5	15.0	18.0
Eicher Motors (EICMOT)	3,350	4,065	Buy	91,556	101.5	123.4	141.8	33.0	27.1	23.6	23.8	19.8	16.6	19.8	20.2	27.3	19.2	20.3	20.2
Escorts Kubota (ESCORT)	2,060	2,165	Hold	27,180	45.1	60.7	72.4	45.7	34.0	28.5	30.0	23.8	18.6	6.9	8.4	9.9	8.0	9.0	9.9
Hero Moto (HERHON)	2,540	2,840	Hold	50,724	145.7	182.6	199.7	17.4	13.9	12.7	10.7	8.6	7.7	18.9	22.7	23.6	17.4	20.4	20.9
M&M (MAHMAH)	1,215	1,665	Buy	1,51,049	54.9	66.3	75.3	22.1	18.3	16.1	14.2	12.1	10.1	13.1	14.3	15.4	16.6	15.9	15.9
Maruti Suzuki (MARUTI)	8,930	11,000	Buy	2,69,757	266.5	354.9	422.5	33.5	25.2	21.1	20.5	15.6	12.9	12.8	16.0	17.4	13.3	15.9	16.7
Uno Minda (MININD)	505	630	Buy	28,873	11.5	15.6	18.6	44.0	32.3	27.2	22.9	18.2	15.5	15.2	18.0	19.2	16.3	18.4	18.2
Tata Motors (TATMOT)	475	530	Buy	1,81,878	-3.1	24.3	35.8	-155.1	19.6	13.3	6.7	4.5	3.6	7.9	15.1	18.6	-2.5	16.3	19.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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