

# Hero MotoCorp

## BUY

### Positive Outlook

#### Summary

Hero Motocorp (HMCL) Q4FY22 results were below our expectations on all counts due to lower sales and operating profits. Going forward, the Management remains positive on volume growth front due to a) rural economy pick up b) opening up of all the sectors of economy in urban and semi urban areas and c) under-penetration of 2W's in India. The Company plans to launch its first EV product in July 2022 and has lined up investments and new product launches over next few years. To factor in changing business environment and commodity price inflation, we have revised our Volume and PAT estimates downwards by 15.8%/14.8% and 16.9%/15.2% for FY23 and FY24 respectively. We rate the stock as BUY with revised price target of Rs 2,872 (13x FY24E earnings + Rs388 Associate Value).

#### Result Highlights and Investment Rationale

- Q4FY22 Result Highlights:** During Q4FY22, HMCL sales declined by 14.6% YoY to Rs74.2bn (our Estimates Rs93.2bn), driven by 24.2% YoY volume decline and 12.7% increase in average realizations. EBITDA margins contracted by 279bps to 11.2% (Our Estimates 10.8%). PAT declined by 36.2% YoY to Rs6.3bn (Our estimates Rs7.4bn).
- Earning Revision:** To factor in soft business environment and high raw material inflation, we have lowered our volume estimates by 15.8% and 14.8% for FY23 and FY24 respectively. We have also revised our PAT estimates downward by 16.9%/15.2% for FY23 and FY24 respectively.
- Attractive Valuation - BUY:** We expect, HMCL to report 10.3% volume CAGR and 24.8% PAT CAGR over FY22-24E. At CMP of Rs2,410 HMCL stock is quoting at PE of 10.6x FY24E, adjusted to associate values. We rate the stock as BUY with price target of Rs 2,872 (13x FY24E earnings + Rs388 Associate Value).

**TP** **Rs 2,872**
**CMP** **Rs 2,410**

Potential upside/downside +19%

Previous Rating BUY

#### Price Performance (%)

	-1m	-3m	-12m
Absolute	7.5	(13.3)	(13.7)
Rel to Sensex	13.6	(8.0)	(28.0)

#### V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	166	191
Consensus	162	191
% difference	2.7	(0.1)

#### Key Stock Data

Bloomberg/Reuters	HMCL IN / HROM.BO
Sector	Automobile
Shares o/s (mn)	200
Market cap. (Rs mn)	481,527
3-m daily avg Trd value (Rs mn)	101.4
52-week high / low	Rs3,089 / 2,148
Sensex / Nifty	55,669 / 16,678

#### Shareholding Pattern (%)

Promoters	34.8
FII	29.2
DII	10.4
Public	25.6

#### Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	2,88,361	3,08,006	2,92,455	3,51,479	3,88,938
Change (yoy, %)	(14)	7	(5)	20	11
EBITDA	39,580	40,192	33,688	45,302	51,762
Change (yoy, %)	(20)	2	(16)	34	14
EBITDA Margin(%)	13.7	13.0	11.5	12.9	13.3
Adj.PAT	29,559	29,642	24,730	33,107	38,174
EPS (Rs)	148	148	124	166	191
Change (yoy, %)	(13)	0	(17)	34	15
PE(x)	16	16	19	15	13
Dividend Yield (%)	4	4	4	5	6
EV/EBITDA (x)	12	12	14	10	9
RoE (%)	22	21	16	20	22
RoCE (%)	23	23	18	24	26

Source: IDBI Capital Research

**Earnings Call Highlights:**

- HMCL's Total Sales volumes in FY22 at 4.9mn units (5.8mn FY21). Volumes in Q4FY22 at 1.19mn units (1.57mn units in Q4FY21). Strong recovery was witnessed in Entry level segment in Q4FY22 with market share of 68.5%.
- HMCL has gained market on MoM basis from Jan-Mar 2022 with Mar-22 & FY22 share at 74% and 62% respectively. The Splendor model has 82% market share in Mar-22 and had impressive performance.
- HMCL took price hike of Rs 1,000 (ex. showroom) in first week of April. The current inventory levels at 6-7 weeks compared to 7-8 weeks at end of Mar-22.
- The Spares revenue in FY22 at Rs 39bn (Rs 32bn in FY21); in Q4FY22 at Rs 11bn (Rs 10bn in Q4FY21 & Rs 12bn in Q3FY22). On full year basis, the spares revenue at 13.5% of total sales compared to 10% 3-4 years back.
- In terms of demand recovery, the Management expects May and June months to witness robust growth amid the marriage season. The rural and semi-urban areas are on stronger side with festive season sales during Padwa and Akshay Tritiya being positive. The industry is expected to grow by double-digit in FY23 with signs of recovery seen in April-22 month and HMCL is confident of gaining market share.
- The Vida brand (EV platform) launched in Mar-22 will launch its first product in July 2022. The Management stated that it has not received any official notification related to ban on EV's in context to fire incidents taken across the nation.
- On investment in Ather Energy, HMCL has invested 1.5bn as on Q4FY22 and the balance Rs 2.7bn will be invested in Q1FY23 with total contribution of Rs 4.2bn. On the Gogoro JV, the product launch is well planned and is expected to be released in FY23.
- The overall impact of chip shortages on HMCL's 100-125cc models was very low along with improvement seen in supply chain.
- As per the Management, equal focus to be given to both ICE and EV models in next 3-4 years of span with favorable economic conditions and under penetration to drive growth.

- On the future outlook, to counter the dynamic situations of Commodity inflation and Geo-political tensions, the managements aims to focus on prudent price increases, cost savings and broad based portfolio growth including premiumization of certain models.
- The financing share in Q4FY22 at 54%, with Fincorp's share at close to 34%. In FY22, Fincorp's share at 50-53% compared to 49% in FY21.
- As on Mar-22, HMCL's investment pool at Rs 100bn, with 60-70 bn invested in various instruments and balance in Subsidiaries, Associates and other strategic investments.

## Exhibit 1: Quarterly Snapshot

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Volumes (in units)	11,88,884	15,68,313	(24.2)	12,92,136	(8.0)
Revenue	74,217	86,860	(14.6)	78,833	(5.9)
Expenditure	65,942	74,748	(11.8)	69,233	(4.8)
<i>as % of sales</i>	88.8	86.1		87.8	
Consumption of RM	51,424	61,173	(15.9)	55,943	(8.1)
<i>as % of sales</i>	69.3	70.4		71.0	
Employee Cost	4,763	4,884	(2.5)	5,180	(8.0)
<i>as % of sales</i>	6.4	5.6		6.6	
Other expenditure	9,754	8,691	12.2	8,109	20.3
<i>as % of sales</i>	13.1	10.0		10.3	
<b>EBITDA</b>	<b>8,276</b>	<b>12,112</b>	<b>(31.7)</b>	<b>9,600</b>	<b>(13.8)</b>
Depreciation	1,585	1,631	(2.9)	1,644	(3.6)
<b>EBIT</b>	<b>6,691</b>	<b>10,480</b>	<b>(36.2)</b>	<b>7,956</b>	<b>(15.9)</b>
Other Income	1,398	874	59.9	1,216	14.9
Interest	67	63	5.9	65	2.3
<b>PBT</b>	<b>8,022</b>	<b>11,291</b>	<b>(29.0)</b>	<b>9,107</b>	<b>(11.9)</b>
Total Tax	1,752	2,642	(33.7)	2,246	(22.0)
<b>Adjusted PAT</b>	<b>6,271</b>	<b>8,650</b>	<b>(27.5)</b>	<b>6,861</b>	<b>(8.6)</b>
Extra ordinary items Loss/(Gain)	0	0	NA	0	NA
Reported PAT	6,271	8,650	(27.5)	6,861	(8.6)
<b>Adjusted EPS</b>	<b>31.4</b>	<b>43.3</b>	<b>(27.5)</b>	<b>34.3</b>	<b>(8.6)</b>
<b>Margins (%)</b>			<b>YoY (bps)</b>		<b>QoQ (bps)</b>
EBIDTA	11.2	13.9	(279)	12.2	(103)
EBIT	9.0	12.1	(305)	10.1	(108)
EBT	10.8	13.0	(219)	11.6	(74)
PAT	8.4	10.0	(151)	8.7	(25)
Effective Tax rate	21.8	23.4	(156)	24.7	(282)

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

Rs mn	Actual	IDBI Est	Var %
Revenue	74,217	93,225	(20.4)
EBITDA	8,276	10,054	(17.7)
EBITDA Margin (%)	11.2	10.8	37bps
Adj net income	6,271	7,413	(15.4)

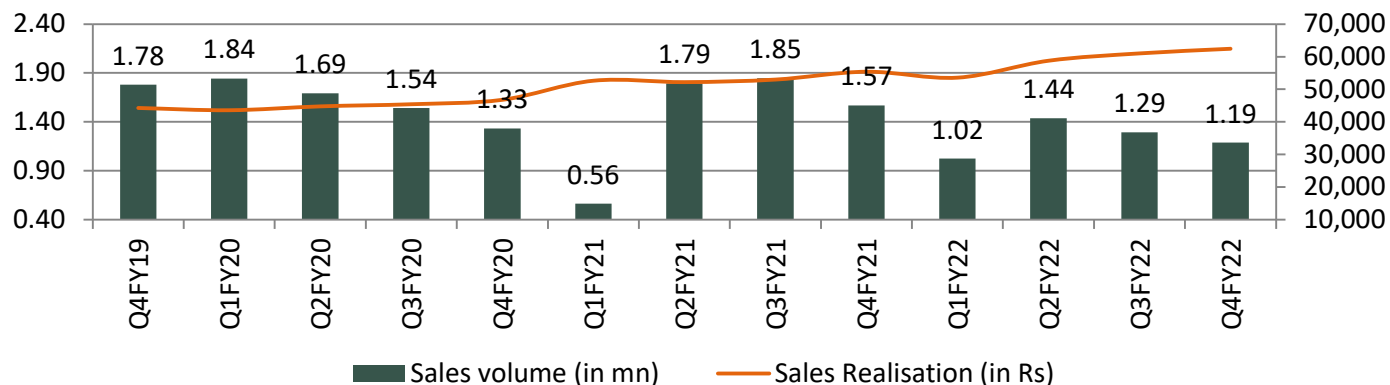
Source: Bloomberg; IDBI Capital Research

**Exhibit 3: Change in estimates**

(Rs mn)	FY23E			FY24E		
	Old	New	% Chg	Old	New	% Chg
Volumes	65,20,799	54,89,140	(15.8)	70,62,989	60,19,567	(14.8)
Net Sales	3,91,531	3,51,479	(10.2)	4,29,250	3,88,938	(9.4)
EBITDA	53,023	45,302	(14.6)	59,172	51,762	(12.5)
EBITDA margin (%)	13.5	12.9	(65)bps	13.8	13.3	(48)bps
Net Profit	39,829	33,107	(16.9)	45,029	38,174	(15.2)

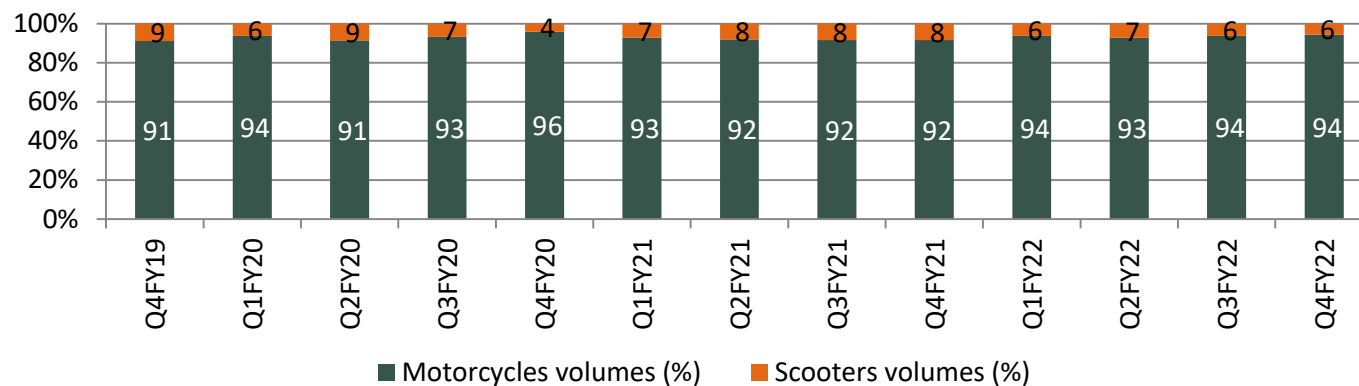
Source: Company; IDBI Capital Research

**Exhibit 4: Quarterly Sales volume and Realisations**



Source: Company; IDBI Capital Research

**Exhibit 5: Quarterly Sales volume mix (%)**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>3,36,505</b>	<b>2,88,361</b>	<b>3,08,006</b>	<b>2,92,455</b>	<b>3,51,479</b>	<b>3,88,938</b>
<i>Change (yoy, %)</i>	4	(14)	7	(5)	20	11
Operating expenses	(2,87,205)	(2,48,781)	(2,67,814)	(2,58,767)	(3,06,177)	(3,37,176)
<b>EBITDA</b>	<b>49,301</b>	<b>39,580</b>	<b>40,192</b>	<b>33,688</b>	<b>45,302</b>	<b>51,762</b>
<i>Change (yoy, %)</i>	(7)	(20)	2	(16)	34	14
<i>Margin (%)</i>	14.7	13.7	13.0	11.5	12.9	13.3
Depreciation	(6,020)	(8,180)	(6,769)	(6,498)	(6,896)	(7,163)
<b>EBIT</b>	<b>43,281</b>	<b>31,400</b>	<b>33,424</b>	<b>27,190</b>	<b>38,406</b>	<b>44,600</b>
Interest paid	(86)	(220)	(218)	(258)	(258)	(258)
Other income	6,913	7,783	5,799	5,569	5,995	6,556
<b>Pre-tax profit</b>	<b>50,107</b>	<b>38,963</b>	<b>39,004</b>	<b>32,501</b>	<b>44,143</b>	<b>50,898</b>
Tax	(16,259)	(9,404)	(9,362)	(7,771)	(11,036)	(12,725)
<i>Effective tax rate (%)</i>	32.4	24.1	24.0	23.9	25.0	25.0
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>33,849</b>	<b>29,559</b>	<b>29,642</b>	<b>24,730</b>	<b>33,107</b>	<b>38,174</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>33,849</b>	<b>29,559</b>	<b>29,642</b>	<b>24,730</b>	<b>33,107</b>	<b>38,174</b>
<i>Change (yoy, %)</i>	(8)	(13)	0	(17)	34	15
EPS	169	148	148	124	166	191
Dividend per sh	95	97	105	95	124	143
<i>Dividend Payout (%)</i>	68	79	85	77	75	75

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Shareholders' funds</b>	<b>1,28,571</b>	<b>1,41,364</b>	<b>1,47,624</b>	<b>1,57,829</b>	<b>1,66,106</b>	<b>1,75,649</b>
Share capital	400	400	400	400	400	400
Reserves & surplus	1,28,172	1,40,965	1,47,225	1,57,430	1,65,706	1,75,250
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other liabilities	(3,028)	827	359	424	424	424
<b>Curr Liab &amp; prov</b>	<b>42,476</b>	<b>40,618</b>	<b>62,473</b>	<b>52,247</b>	<b>65,795</b>	<b>64,981</b>
Current liabilities	40,713	37,929	59,144	48,862	61,727	60,479
Provisions	1,762	2,689	3,328	3,385	4,068	4,502
<b>Total liabilities</b>	<b>39,448</b>	<b>41,445</b>	<b>62,832</b>	<b>52,671</b>	<b>66,219</b>	<b>65,404</b>
<b>Total equity &amp; liabilities</b>	<b>1,68,019</b>	<b>1,82,809</b>	<b>2,10,456</b>	<b>2,10,500</b>	<b>2,32,325</b>	<b>2,41,054</b>
Net fixed assets	51,604	61,782	50,350	55,526	53,630	52,467
Investments	59,686	82,227	1,04,997	1,06,523	1,09,223	1,09,223
Other non-curr assets	-	-	-	-	-	-
<b>Current assets</b>	<b>56,729</b>	<b>38,801</b>	<b>55,110</b>	<b>48,451</b>	<b>69,472</b>	<b>79,363</b>
Inventories	10,724	10,920	14,696	11,227	12,938	13,525
Sundry Debtors	28,216	16,031	24,268	24,268	28,202	30,143
Cash and Bank	1,365	2,419	2,572	1,751	14,865	20,794
Loans and advances	850	896	892	4,681	5,626	6,225
<b>Total assets</b>	<b>1,68,019</b>	<b>1,82,809</b>	<b>2,10,456</b>	<b>2,10,500</b>	<b>2,32,325</b>	<b>2,41,054</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	50,107	38,963	39,004	32,501	44,143	50,898
Depreciation	6,020	8,180	6,769	6,498	6,896	7,163
Tax paid	(16,259)	(9,404)	(9,362)	(7,771)	(11,036)	(12,725)
Chg in working capital	(20,270)	17,124	5,699	(4,387)	5,640	(3,941)
Other operating activities	248	5,337	113	-	-	-
<b>Cash flow from operations (a)</b>	<b>19,847</b>	<b>60,200</b>	<b>42,222</b>	<b>26,840</b>	<b>45,644</b>	<b>41,395</b>
Capital expenditure	(7,173)	(13,066)	4,083	(11,401)	(5,000)	(6,000)
Chg in investments	10,244	(22,540)	(22,770)	(1,526)	(2,700)	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>3,071</b>	<b>(35,606)</b>	<b>(18,688)</b>	<b>(12,927)</b>	<b>(7,700)</b>	<b>(6,000)</b>
Equity raised/(repaid)	(93)	(215)	1,900	4,456	0	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(22,874)	(23,325)	(25,282)	(18,981)	(24,830)	(28,630)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(22,966)</b>	<b>(23,540)</b>	<b>(23,382)</b>	<b>(14,525)</b>	<b>(24,830)</b>	<b>(28,630)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(49)</b>	<b>1,054</b>	<b>153</b>	<b>(612)</b>	<b>13,113</b>	<b>6,765</b>

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	644	708	739	790	831	879
Adj EPS (Rs)	169	148	148	124	166	191
Adj EPS growth (%)	(8)	(13)	0	(17)	34	15
EBITDA margin (%)	15	14	13	12	13	13
Pre-tax margin (%)	14.9	13.5	12.7	11.1	12.6	13.1
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	(0.1)	(0.1)
ROCE (%)	35	23	23	18	24	26
ROE (%)	27	22	21	16	20	22

### DuPont Analysis

Asset turnover (x)	2.0	1.6	1.6	1.4	1.6	1.6
Leverage factor (x)	1.3	1.3	1.4	1.4	1.4	1.4
Net margin (%)	10.1	10.3	9.6	8.5	9.4	9.8

### Working Capital & Liquidity ratio

Inventory days	12	14	17	14	13	13
Receivable days	31	20	29	30	29	28
Payable days	43	44	71	60	65	57

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	14	16	16	19	15	13
Price/Book value (x)	3.7	3.4	3.3	3.1	2.9	2.7
EV/Net sales (x)	1	2	2	2	1	1
EV/EBITDA (x)	10	12	12	14	10	9
Dividend Yield (%)	4	4	4	4	5	6

Source: Company; IDBI Capital Research



# Notes

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Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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