

April 6, 2023

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	3,135		3,135	
Sales (Rs. m)	3,72,462	4,09,247	3,72,462	4,09,247
% Chng.	-	-	-	-
EBITDA (Rs. m)	50,672	56,534	50,672	56,534
% Chng.	-	-	-	-
EPS (Rs.)	182.0	203.4	182.0	203.4
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	292	334	372	409
EBITDA (Rs. bn)	34	38	51	57
Margin (%)	11.5	11.4	13.6	13.8
PAT (Rs. bn)	25	27	36	41
EPS (Rs.)	123.8	134.7	182.0	203.4
Gr. (%)	(16.6)	8.9	35.1	11.8
DPS (Rs.)	95.0	100.0	105.0	105.0
Yield (%)	3.9	4.1	4.3	4.3
RoE (%)	16.0	16.7	21.1	21.4
RoCE (%)	17.6	19.5	25.1	25.4
EV/Sales (x)	1.4	1.2	1.0	0.9
EV/EBITDA (x)	12.0	10.4	7.6	6.6
PE (x)	19.7	18.1	13.4	12.0
P/BV (x)	3.1	2.9	2.7	2.4

Key Data

HROM.BO | HMCL IN

52-W High / Low	Rs.2,939 / Rs.2,242
Sensex / Nifty	59,689 / 17,557
Market Cap	Rs.486bn / \$ (2,14,68,26,273)m
Shares Outstanding	200m
3M Avg. Daily Value	Rs.928.07m

Shareholding Pattern (%)

Promoter's	34.75
Foreign	29.22
Domestic Institution	24.24
Public & Others	11.79
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.2)	(7.2)	4.3
Relative	(1.0)	(9.8)	5.9

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Hero Motocorp (HMCL IN)

Rating: BUY | CMP: Rs2,432 | TP: Rs3,135

VRS could lead the path to efficiency

Quick Pointers:

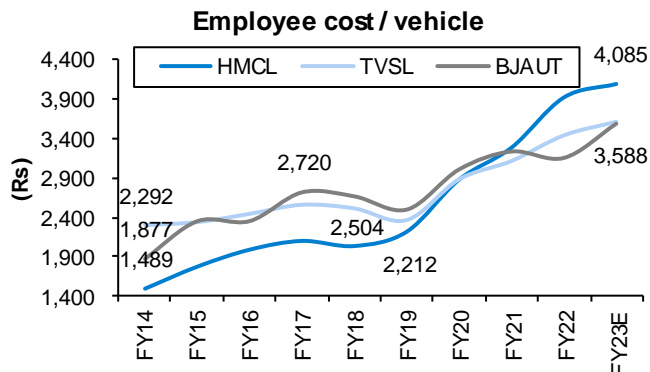
- VRS could help HMCL reduce employee cost in the range of 80bps to 120bps
- HMCL's VRS aims to improve efficiency in the organization, which has deteriorated over the years when compared to BJAUT and TVSL

HMCL's employee cost over the years have risen sharply when compared with other 2W OEMs and there was a need to keep it in check. Fixed cost for HMCL increased substantially over the years while volumes did not pick-up which became a drag on the margins (increased by c270bps from 3.7% in FY14 to 6.4% in FY23E). We analyzed cost structure of all major 2W ICE OEMs (except EIM IN) to access the scope available for HMCL to reduce the cost and we arrived at an estimate of 80bps to 120bps as percentage of revenue, which could be derived in cost savings through the VRS.

We expect HMCL to show double-digit revenue growth in FY24 benefiting from a low base, improving consumer sentiment, stable pricing environment (as commodity prices stabilise) and helped by internal factors like (1) product launches in premium/scooter segment, and (2) higher exports. HMCL has fallen c11% YTD 2023, currently trading at 13.6x (-1SD 1yr fwd PE) and offers a dividend yield of 4.3%. We have a 'BUY' rating with a target price of Rs 3,135 (at 15x on Dec-24E standalone EPS, Rs 86 for Fincorp and Rs 78 for Ather).

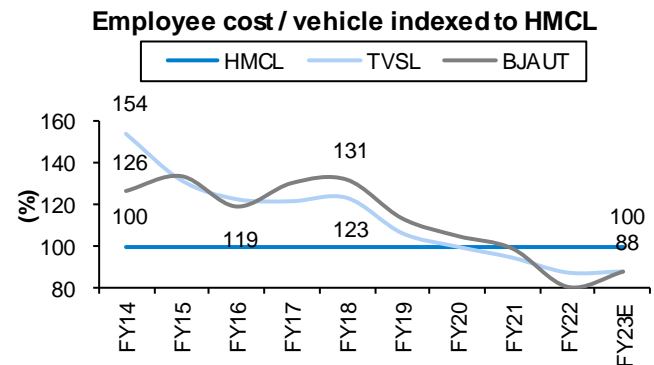
- VRS to help improve efficiency:** Hero MotoCorp has announced the launch of a voluntary retirement scheme (VRS) for its staff. This will cover all staff members. Hero claims the VRS to offer a generous severance package that includes – among other benefits - a one-time lump-sum amount, variable pay, gifts, medical coverage, retention of company car, relocation assistance, career support etc. HMCL noted the move to improve efficiency within the Company through a lean and more productive organization. This should make the organization more agile and 'future-ready', consolidating roles and reducing layers to increase empowerment and agility. Details of the VRS are not out yet. In the short term, we could see one-time costs for HMCL.
- Employee costs have substantially outgrown volumes & revenue growth:** Employee cost as % of revenue for HMCL has increased by c270bps from 3.7% in FY14 to 6.4% in FY23E, while during the same time TVSL (-c90bps) and BJAUT (+c30bps) have performed much better on the same parameter. During FY14 to FY23E, HMCL's volumes have declined by c21% while its permanent employee count has increased by c35% over the same period. In comparison, TVSL has seen volumes grow by 60% while its permanent employee count has increased by 10.2% and BJAUT volumes have been flat while its permanent employee count has declined by c5%.
- Ample scope to reduce fixed cost and could add 80bps to 120bps to margin:** We analysed cost structure of all the major 2W ICE OEMs (except EIM IN) to examine the scope available for HMCL to reduce cost and we estimate 80bps to 120bps as percentage of revenue could be derived in cost savings through the VRS if successful. The average employee cost per vehicle for BJAUT and TVSL are lower by 12% to 19% compared to HMCL and this could act as a reference for understanding the scope to reduce the employee cost for HMCL.

Exhibit 1: Employee cost/vehicle for HMCL has increased substantially over the years



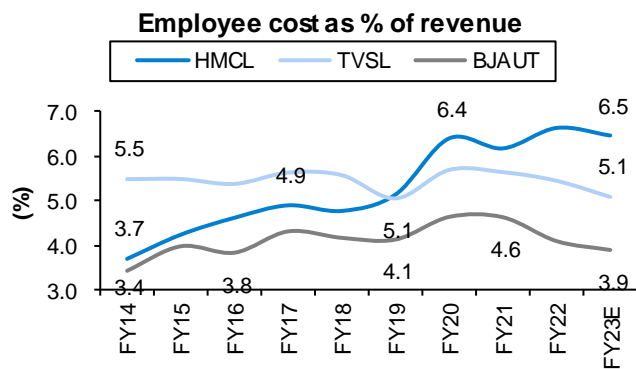
Source: Company, PL

Exhibit 2: BJAUT and TVSL have 12%- 19% lower employee cost/vehicle



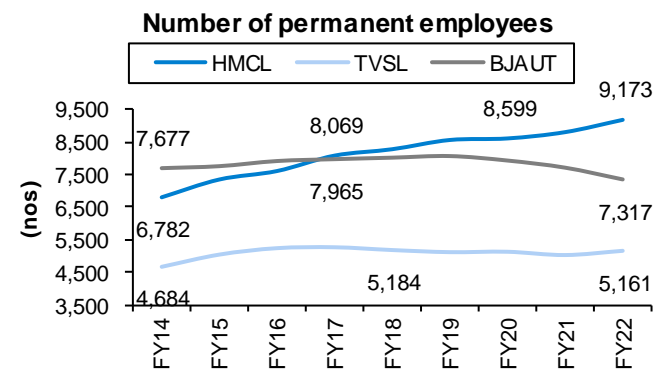
Source: Company, PL

Exhibit 3: Employee cost as % of revenue has scope to come down by 0.8% to 1.2%



Source: Company, PL

Exhibit 4: HMCL's employee count has risen despite fall in volumes



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	2,92,455	3,34,332	3,72,462	4,09,247
YoY gr. (%)	(5.0)	14.3	11.4	9.9
Cost of Goods Sold	2,08,267	2,38,027	2,64,431	2,90,548
Gross Profit	84,187	96,304	1,08,031	1,18,698
Margin (%)	28.8	28.8	29.0	29.0
Employee Cost	19,354	21,564	22,720	24,555
Other Expenses	31,145	36,609	34,639	37,610
EBITDA	33,688	38,131	50,672	56,534
YoY gr. (%)	(16.2)	13.2	32.9	11.6
Margin (%)	11.5	11.4	13.6	13.8
Depreciation and Amortization	6,498	6,736	7,435	8,345
EBIT	27,190	31,394	43,237	48,189
Margin (%)	9.3	9.4	11.6	11.8
Net Interest	258	200	200	200
Other Income	5,569	4,702	5,068	5,707
Profit Before Tax	32,501	35,896	48,105	53,696
Margin (%)	11.1	10.7	12.9	13.1
Total Tax	7,771	8,974	11,738	13,048
Effective tax rate (%)	23.9	25.0	24.4	24.3
Profit after tax	24,730	26,922	36,367	40,648
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	24,730	26,922	36,367	40,648
YoY gr. (%)	-	-	-	-
Margin (%)	8.5	8.1	9.8	9.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	24,730	26,922	36,367	40,648
YoY gr. (%)	(16.6)	8.9	35.1	11.8
Margin (%)	8.5	8.1	9.8	9.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	200	200	200	200
EPS (Rs)	123.8	134.7	182.0	203.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	1,04,022	1,07,386	1,21,386	1,35,386
Tangibles	1,04,022	1,07,386	1,21,386	1,35,386
Intangibles	-	-	-	-
Acc: Dep / Amortization	48,942	55,679	63,114	71,459
Tangibles	48,942	55,679	63,114	71,459
Intangibles	-	-	-	-
Net fixed assets	55,080	51,708	58,272	63,927
Tangibles	55,080	51,708	58,272	63,927
Intangibles	-	-	-	-
Capital Work In Progress	7,567	7,480	7,401	7,330
Goodwill	-	-	-	-
Non-Current Investments	26,000	28,600	31,460	34,605
Net Deferred tax assets	(5,514)	(5,624)	(5,736)	(5,851)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	80,524	89,924	99,064	1,07,918
Inventories	11,227	13,740	15,307	16,818
Trade receivables	23,043	18,320	20,409	22,424
Cash & Bank Balance	1,751	1,285	(395)	3,139
Other Current Assets	11,131	11,688	12,272	12,886
Total Assets	2,17,140	2,23,678	2,44,832	2,70,194
Equity				
Equity Share Capital	400	400	400	400
Other Equity	1,57,430	1,64,372	1,79,760	1,99,429
Total Network	1,57,829	1,64,772	1,80,160	1,99,829
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	42,603	41,219	45,920	50,455
Other current liabilities	11,194	12,064	13,016	14,059
Total Equity & Liabilities	2,17,140	2,23,678	2,44,832	2,70,194

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	32,501	35,896	48,105	53,696
Add. Depreciation	6,498	6,736	7,435	8,345
Add. Interest	258	200	200	200
Less Financial Other Income	5,569	4,702	5,068	5,707
Add. Other	(5,569)	(4,702)	(5,068)	(5,707)
Op. profit before WC changes	33,688	38,131	50,672	56,534
Net Changes-WC	(6,720)	1,022	1,306	1,334
Direct tax	(7,794)	(8,864)	(11,625)	(12,933)
Net cash from Op. activities	19,175	30,289	40,353	44,935
Capital expenditures	(4,894)	(3,277)	(13,921)	(13,929)
Interest / Dividend Income	-	-	-	-
Others	3,205	2,102	2,208	2,561
Net Cash from Invt. activities	(1,689)	(1,175)	(11,714)	(11,368)
Issue of share cap. / premium	96	-	-	-
Debt changes	-	-	-	-
Dividend paid	(18,981)	(19,980)	(20,979)	(20,979)
Interest paid	(258)	(200)	(200)	(200)
Others	-	-	-	-
Net cash from Fin. activities	(19,143)	(20,180)	(21,179)	(21,179)
Net change in cash	(1,657)	8,934	7,460	12,388
Free Cash Flow	14,280	27,012	26,431	31,006

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	74,217	83,925	90,754	80,310
YoY gr. (%)	(14.6)	53.0	7.4	1.9
Raw Material Expenses	51,424	61,074	65,301	55,743
Gross Profit	22,793	22,852	25,452	24,567
Margin (%)	30.7	27.2	28.0	30.6
EBITDA	8,276	9,408	10,383	9,241
YoY gr. (%)	(31.7)	82.7	(2.6)	(3.7)
Margin (%)	11.2	11.2	11.4	11.5
Depreciation / Depletion	1,585	1,630	1,634	1,620
EBIT	6,691	7,778	8,749	7,621
Margin (%)	9.0	9.3	9.6	9.5
Net Interest	67	70	33	49
Other Income	1,398	530	921	1,832
Profit before Tax	8,022	8,238	9,637	9,404
Margin (%)	10.8	9.8	10.6	11.7
Total Tax	1,752	1,993	2,476	2,294
Effective tax rate (%)	21.8	24.2	25.7	24.4
Profit after Tax	6,271	6,245	7,161	7,111
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,271	6,245	7,161	7,111
YoY gr. (%)	(27.5)	70.9	(9.9)	3.6
Margin (%)	8.4	7.4	7.9	8.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,271	6,245	7,161	7,111
YoY gr. (%)	(27.5)	70.9	(9.9)	3.6
Margin (%)	8.4	7.4	7.9	8.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	200	200	200	200
EPS (Rs)	31.4	31.3	35.8	35.6

Source: Company Data, PL Research

Key Financial Metrics

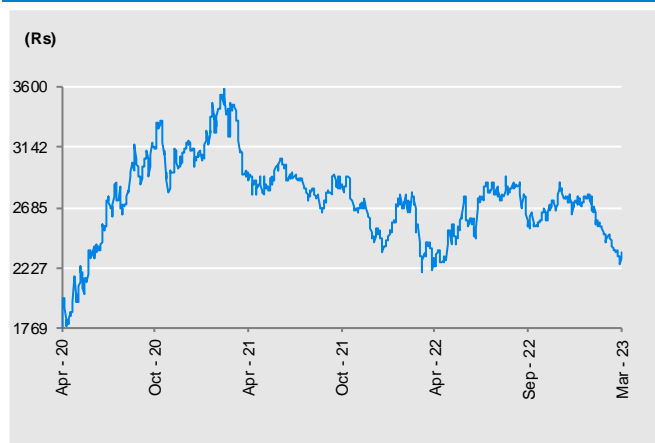
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	123.8	134.7	182.0	203.4
CEPS	156.3	168.5	219.2	245.2
BVPS	789.9	824.7	901.7	1,000.1
FCF	71.5	135.2	132.3	155.2
DPS	95.0	100.0	105.0	105.0
Return Ratio(%)				
RoCE	17.6	19.5	25.1	25.4
ROIC	28.5	33.6	44.3	46.2
RoE	16.0	16.7	21.1	21.4
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.6)	(0.5)	(0.6)
Net Working Capital (Days)	(20)	(19)	(19)	(19)
Valuation(x)				
PER	19.7	18.1	13.4	12.0
P/B	3.1	2.9	2.7	2.4
P/CEPS	15.6	14.4	11.1	9.9
EV/EBITDA	12.0	10.4	7.6	6.6
EV/Sales	1.4	1.2	1.0	0.9
Dividend Yield (%)	3.9	4.1	4.3	4.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Volume (units)	49,43,968	52,72,148	57,75,585	62,41,893
Net realisation (Rs/unit)	59,154	63,415	64,489	65,564

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Feb-23	BUY	3,135	2,616
2	05-Jan-23	BUY	3,135	2,709
3	05-Nov-22	BUY	3,175	2,598
4	06-Oct-22	BUY	3,175	2,615
5	16-Aug-22	BUY	3,130	2,762
6	08-Jul-22	BUY	3,150	2,839
7	04-May-22	BUY	3,150	2,410
8	11-Apr-22	BUY	3,200	2,335

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	200	152
2	Bajaj Auto	Hold	4,040	3,717
3	Bharat Forge	BUY	1,000	873
4	CEAT	Accumulate	1,825	1,585
5	Eicher Motors	BUY	4,120	3,176
6	Endurance Technologies	BUY	1,640	1,407
7	Hero Motocorp	BUY	3,135	2,616
8	Mahindra & Mahindra	BUY	1,560	1,365
9	Maruti Suzuki	BUY	10,600	8,699
10	Tata Motors	BUY	520	419
11	TVS Motors	BUY	1,240	984

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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