

November 18, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	5,162		5,906	
Sales (Rs. m)	4,53,753	4,89,253	4,72,872	5,20,971
% Chng.	(4.0)	(6.1)		
EBITDA (Rs. m)	65,131	71,693	71,421	77,902
% Chng.	(8.8)	(8.0)		
EPS (Rs.)	254.4	279.2	283.8	309.0
% Chng.	(10.4)	(9.6)		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. bn)	375	420	454	489
EBITDA (Rs. bn)	53	61	65	72
Margin (%)	14.0	14.5	14.4	14.7
PAT (Rs. bn)	41	47	51	56
EPS (Rs.)	204.6	237.7	254.4	279.2
Gr. (%)	40.5	16.2	7.0	9.7
DPS (Rs.)	140.0	155.0	165.0	180.0
Yield (%)	3.0	3.4	3.6	3.9
RoE (%)	23.6	25.2	24.8	24.9
RoCE (%)	26.2	28.5	27.7	27.8
EV/Sales (x)	2.2	2.0	1.8	1.7
EV/EBITDA (x)	15.8	13.5	12.6	11.4
PE (x)	22.5	19.4	18.1	16.5
P/BV (x)	5.1	4.7	4.3	3.9

Key Data

HROM.BO | HMCL IN

52-W High / Low	Rs.6,246 / Rs.3,113
Sensex / Nifty	77,580 / 23,533
Market Cap	Rs.921bn/ \$ 10,908m
Shares Outstanding	200m
3M Avg. Daily Value	Rs.4206.2m

Shareholding Pattern (%)

Promoter's	34.76
Foreign	29.87
Domestic Institution	26.87
Public & Others	8.50
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(17.1)	(8.7)	48.4
Relative	(12.4)	(14.0)	24.2

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Spares & better mix led to healthy realizations

Quick Pointers:

- HMCL expects marriage season to sustain the demand momentum
- New launches planned across ICE & EV platform over next 6 months

HMCL's Q2FY25 standalone revenue increased by 10.8% YoY, in-line with our estimates while it was 2.5% higher than consensus estimate. The growth in revenue was driven mix improvement across its category as well as healthy contribution of spares revenue. Gross profit increased by 17.4% YoY while margin expanded by 188bps YoY to 33.3% (PLe: 32.5%), as a result of stable input cost and better operating leverage. EBITDA increased by 14.1% YoY with a margin expansion of 43bps YoY to 14.5% (PLe: 14.8%). Healthy overall performance led its PAT to increase by 14.2% YoY.

We reduce our estimates by 2-10% over the forecast period to factor in competition in the premium segment hampering their premiumization focus. Additionally, investment towards EV portfolio expansion shall suppress margin expansion despite decent mix improvement across its portfolio. However, it remains in a good position to benefit from rural demand revival and steady growth in export business owing to expansion into different regions. Factoring this, we retain our "ACCUMULATE" rating with a TP of Rs5,162 (previous Rs5,906), valuing its core business at 18.5x on its Sept'26 EPS its stake in NBFC & Ather at Rs227.

- **Q2FY25 performance in-line with estimates:** Q2FY25 revenue came in at Rs104.6bn (PLe Rs103.4bn; BBGe: Rs102.1bn) aided by healthy growth in its spare revenue and mix improvement in 125cc category. Gross profit was at Rs34.8bn as against PLe: Rs33.6bn, aided by stable input cost, better product profile and cost optimization efforts. EBITDA grew by 14.8% YoY to Rs15.2bn as against PLe: Rs15.3bn; BBGe: Rs14.8bn. PAT was reported at Rs 12bn (PLe: Rs12bn; BBGe: Rs11.5bn).
- **Realization better on the account of healthy spares revenue:** Spares revenue grew by 7.5% YoY to Rs 14.6bn, contributing 13.9% in its overall revenue. As a consequence, its Q2FY25 realization increased by 3.3% YoY to Rs68,851/unit as against PLe: Rs68,014/unit. The management expects spares revenue to continue to grow at a healthy rate and mix to improve gradually which shall aid in sustaining its realization in the upcoming period.
- **EV business affected EBITDA margin by 200bps:** Vida wholesales for Q2FY25 was ~16k units against 2k units in Q2FY24. The growth in wholesales was as a result of distribution expansion as well as traction in the EV scooters business. However, EV business continued to drag its overall EBITDA margin with an impact of ~200bps. Excluding the EV business its ICE margin stood at 16.5% which expanded by 165bps over Q2FY24. Going ahead, the company aims to launch new models across price range that shall enable it increase its volume gradually. Additionally, company expects the models to be PLI certified products in FY26, which shall enable the company for PLI benefits.

Exhibit 1: Q1FY25 Result Overview (Rs mn) - EBITDA margin at 14.5%, while ICE EBITDA margin at 16.5%

Y/e March	Q2FY25	Q2FY24	YoY gr. (%)	Q2FY25E	Var (%)	Q1FY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Net Revenues	1,04,632	94,454	10.8	1,03,359	1.2	1,01,437	3.1	2,06,069	1,82,127	13.1
Raw Materials	69,795	64,780	7.7	69,768	0.0	68,672	1.6	1,38,466	1,25,589	10.3
% of Net Sales	66.7	68.6	-188 bps	67.5	-80 bps	67.7	-99 bps	67.2	69.0	-176 bps
Personnel	6,535	5,768	13.3	6,202	5.4	6,083	7.4	12,618	11,569	9.1
% of Net Sales	6.2	6.1	14 bps	6.0	25 bps	6.0	25 bps	6.1	6.4	-23 bps
Manufacturing & Other Exp	13,143	10,624	23.7	12,093	8.7	12,085	8.8	25,228	19,623	28.6
% of Net Sales	12.6	11.2	131 bps	11.7	86 bps	11.9	65 bps	12.2	10.8	147 bps
Total Expenditure	89,473	81,171	10.2	88,062	1.6	86,840	3.0	1,76,313	1,56,782	12.5
EBITDA	15,159	13,283	14.1	15,297	(0.9)	14,598	3.8	29,756	25,345	17.4
EBITDA Margin (%)	14.5	14.1	43 bps	14.8	-31 bps	14.4	10 bps	14.4	13.9	52 bps
Depreciation	1,937	1,749	10.8	1,932	0.3	1,932	0.3	3,869	3,439	12.5
EBIT	13,222	11,534	14.6	13,365	(1.1)	12,666	4.4	25,888	21,907	18.2
Interest Expenses	49	48	3.6	48	2.5	48	2.5	97	94	3.4
Non-operating income	2,830	2,483	14.0	2,607	8.5	2,317	22.1	5,147	4,705	9.4
Extraordinary Expenses	-	-	-	-	-	-	-	-	-1,600	-
PBT	16,003	13,970	14.6	15,924	0.5	14,935	7.2	30,937	24,918	24.2
Tax-Total	3,967	3,431	15.6	3,901	1.7	3,708	7.0	7,676	6,132	25.2
Tax Rate (%) - Total	24.8	24.6	23 bps	24.5	29 bps	24.8	-4 bps	24.8	24.6	20 bps
Reported PAT	12,035	10,538	14.2	12,023	0.1	11,226	7.2	23,262	18,785	23.8
PAT Margin (%)	11.5	11.2	35 bps	11.6	-13 bps	11.1	44 bps	11.3	10.3	97 bps

Source: Company, PL

Exhibit 2: Operating Metrics – Net realization declines sequentially due to mix impact and lower spares sales

Y/e Mar (Rs)	Q2FY25	Q2FY24	YoY gr. (%)	Q2FY25E	Var (%)	Q1FY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Sales Volume (nos)	15,19,684	14,16,526	7.3	15,19,684	-	15,35,156	(1.0)	30,54,840	27,69,100	10.3
Net Realisation/Vehicle	68,851	66,680	3.3	68,014	1.2	66,076	4.2	67,457	65,771	2.6
Material cost / vehicle	45,927	45,731	0.4	45,909	0.0	44,733	2.7	45,327	45,354	(0.1)
Gross Profit / vehicle	22,924	20,949	9.4	22,104	3.7	21,344	7.4	22,130	20,418	8.4
Employee cost /vehicle	4,300	4,072	5.6	4,081	5.4	3,963	8.5	4,131	4,178	(1.1)
Other expenses / vehicle	8,649	7,500	15.3	7,958	8.7	7,872	9.9	8,258	7,087	16.5
EBITDA/vehicle	9,975	9,377	6.4	10,066	(0.9)	9,509	4.9	9,741	9,153	6.4
Net Profit/vehicle	7,920	7,439	6.5	7,911	0.1	7,313	8.3	7,615	6,784	12.2

Source: Company, PL

Conference call takeaways:

- Rural and urban region witnessed healthy participation and expects the trend to continue in the upcoming period. Rural grew faster than urban market, however, both regions grew in double digits.
- HMCL expects marriage season to help in sustaining the demand momentum beyond the festive retails.
- Spares parts revenue and mix improvement in 125cc category led to a resilient margin performance during the quarter.
- Company has been working on improving the mix and premiumizing its portfolio over the last 8 quarters, which has led it to improve its margin profile.
- The company maintains its margin performance expectation in the range of 14-16% over the medium term.
- Finance penetration stood at 66% with HFCL penetration at 26% in it.
- Expects the mix and spares revenue to continue to improve which shall aid in sustaining the margin profile.
- Expansion in premia stores to be made thru the existing stores outlet, which can help in increasing premium motorcycle sales.
- HMCL has few new products especially in the Vida scooters, which will help in increasing the scale of the business.
- Company will be working upon on building the new brands launched in the premium segment via ads and promotional campaigns.

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	3,74,557	4,20,496	4,53,753	4,89,253
YoY gr. (%)	10.8	12.3	7.9	7.8
Cost of Goods Sold	2,54,308	2,83,818	3,06,039	3,29,984
Gross Profit	1,20,249	1,36,678	1,47,714	1,59,269
Margin (%)	32.1	32.5	32.6	32.6
Employee Cost	24,023	26,071	29,040	31,312
Other Expenses	43,669	49,618	53,543	56,264
EBITDA	52,557	60,989	65,131	71,693
YoY gr. (%)	31.8	16.0	6.8	10.1
Margin (%)	14.0	14.5	14.4	14.7
Depreciation and Amortization	7,114	7,440	8,350	9,293
EBIT	45,443	53,549	56,780	62,400
Margin (%)	12.1	12.7	12.5	12.8
Net Interest	185	204	224	246
Other Income	8,926	9,987	11,229	12,233
Profit Before Tax	52,584	63,332	67,785	74,387
Margin (%)	14.0	15.1	14.9	15.2
Total Tax	12,904	15,833	16,946	18,597
Effective tax rate (%)	24.5	25.0	25.0	25.0
Profit after tax	39,680	47,499	50,839	55,790
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	40,887	47,499	50,839	55,790
YoY gr. (%)	-	-	-	-
Margin (%)	10.9	11.3	11.2	11.4
Extra Ord. Income / (Exp)	1,207	-	-	-
Reported PAT	39,680	47,499	50,839	55,790
YoY gr. (%)	36.3	19.7	7.0	9.7
Margin (%)	10.6	11.3	11.2	11.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	200	200	200	200
EPS (Rs)	204.6	237.7	254.4	279.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	1,11,179	1,25,179	1,39,179	1,54,179
Tangibles	1,11,179	1,25,179	1,39,179	1,54,179
Intangibles	-	-	-	-
Acc: Dep / Amortization	58,124	65,564	73,914	83,207
Tangibles	58,124	65,564	73,914	83,207
Intangibles	-	-	-	-
Net fixed assets	53,055	59,615	65,265	70,972
Tangibles	53,055	59,615	65,265	70,972
Intangibles	-	-	-	-
Capital Work In Progress	10,091	9,970	9,861	9,764
Goodwill	-	-	-	-
Non-Current Investments	48,765	53,641	59,005	64,906
Net Deferred tax assets	(5,724)	(5,838)	(5,955)	(6,074)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	82,097	89,220	95,856	1,01,955
Inventories	14,438	16,129	18,647	20,106
Trade receivables	27,034	28,801	32,322	34,851
Cash & Bank Balance	6,089	5,470	831	1,107
Other Current Assets	11,802	12,982	14,280	15,708
Total Assets	2,55,715	2,78,461	2,98,909	3,22,434
Equity				
Equity Share Capital	400	400	400	400
Other Equity	1,79,462	1,95,984	2,13,848	2,33,665
Total Networkth	1,79,862	1,96,384	2,14,248	2,34,065
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	55,282	59,906	60,915	63,000
Other current liabilities	14,848	16,333	17,792	19,295
Total Equity & Liabilities	2,55,715	2,78,461	2,98,909	3,22,434

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	52,584	63,332	67,785	74,387
Add. Depreciation	7,114	7,440	8,350	9,293
Add. Interest	185	204	224	246
Less Financial Other Income	8,926	9,987	11,229	12,233
Add. Other	(8,926)	(9,987)	(11,229)	(12,233)
Op. profit before WC changes	50,957	60,989	65,131	71,693
Net Changes-WC	11,367	1,184	(5,079)	(2,050)
Direct tax	(12,797)	(15,719)	(16,830)	(18,478)
Net cash from Op. activities	49,527	46,454	43,222	51,165
Capital expenditures	(8,007)	(13,879)	(13,891)	(14,902)
Interest / Dividend Income	-	-	-	-
Others	1,488	5,110	5,865	6,332
Net Cash from Inv. activities	(6,520)	(8,769)	(8,027)	(8,570)
Issue of share cap. / premium	1,110	-	-	-
Debt changes	-	-	-	-
Dividend paid	(27,979)	(30,977)	(32,975)	(35,973)
Interest paid	(185)	(204)	(224)	(246)
Others	-	-	-	-
Net cash from Fin. activities	(27,054)	(31,180)	(33,199)	(36,219)
Net change in cash	15,953	6,505	1,996	6,376
Free Cash Flow	41,520	32,575	29,331	36,263

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	97,237	95,193	1,01,437	1,04,632
YoY gr. (%)	21.1	14.6	15.7	10.8
Raw Material Expenses	65,470	63,249	68,672	69,795
Gross Profit	31,767	31,945	32,766	34,837
Margin (%)	32.7	33.6	32.3	33.3
EBITDA	13,621	13,592	14,598	15,159
YoY gr. (%)	47.4	25.5	21.0	14.1
Margin (%)	14.0	14.3	14.4	14.5
Depreciation / Depletion	1,825	1,851	1,932	1,937
EBIT	11,796	11,741	12,666	13,222
Margin (%)	12.1	12.3	12.5	12.6
Net Interest	45	46	48	49
Other Income	2,420	1,800	2,317	2,830
Profit before Tax	14,171	13,496	14,935	16,003
Margin (%)	14.6	14.2	14.7	15.3
Total Tax	3,437	3,335	3,708	3,967
Effective tax rate (%)	24.3	24.7	24.8	24.8
Profit after Tax	10,734	10,161	11,226	12,035
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	10,734	10,161	11,226	12,035
YoY gr. (%)	51.0	18.3	18.7	14.2
Margin (%)	11.0	10.7	11.1	11.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,734	10,161	11,226	12,035
YoY gr. (%)	51.0	18.3	36.1	14.2
Margin (%)	11.0	10.7	11.1	11.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	200	200	200	200
EPS (Rs)	53.7	50.8	56.2	60.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	204.6	237.7	254.4	279.2
CEPS	240.2	274.9	296.2	325.7
BVPS	900.0	982.7	1,072.0	1,171.2
FCF	207.8	163.0	146.8	181.4
DPS	140.0	155.0	165.0	180.0
Return Ratio(%)				
RoCE	26.2	28.5	27.7	27.8
ROIC	40.2	43.0	39.2	38.6
RoE	23.6	25.2	24.8	24.9
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.5)	(0.4)
Net Working Capital (Days)	(23)	(23)	(18)	(16)
Valuation(x)				
PER	22.5	19.4	18.1	16.5
P/B	5.1	4.7	4.3	3.9
P/CEPS	19.2	16.7	15.5	14.1
EV/EBITDA	15.8	13.5	12.6	11.4
EV/Sales	2.2	2.0	1.8	1.7
Dividend Yield (%)	3.0	3.4	3.6	3.9

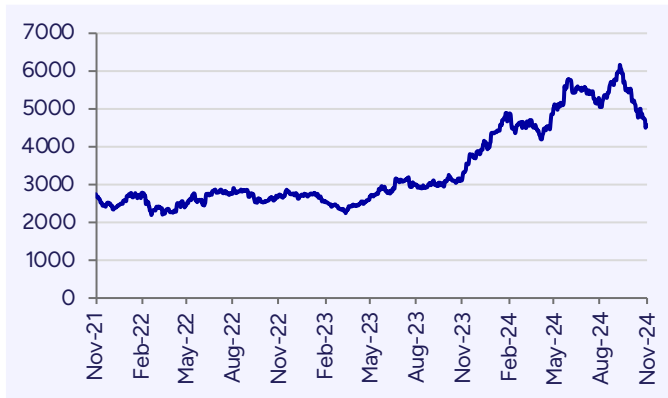
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Volume (units)	56,21,286	61,71,387	66,00,574	70,55,435
Net realisation (Rs/unit)	66,632	68,136	68,744	69,344

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Accumulate	5,906	5,495
2	15-Aug-24	Accumulate	5,911	5,072
3	08-Jul-24	Accumulate	5,914	5,558
4	09-May-24	BUY	5,629	4,614
5	08-Apr-24	Accumulate	5,070	4,525
6	11-Feb-24	Accumulate	5,150	4,909
7	24-Jan-24	Accumulate	4,800	4,444
8	08-Jan-24	Accumulate	4,120	3,987

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	411	474
2	Ashok Leyland	Accumulate	240	222
3	Bajaj Auto	Hold	11,859	11,617
4	Bharat Forge	Accumulate	1,369	1,437
5	Bharat Petroleum Corporation	Hold	316	310
6	Bharti Airtel	Accumulate	1,782	1,637
7	CEAT	Hold	3,063	2,973
8	Clean Science and Technology	Hold	1,526	1,484
9	Deepak Nitrite	Reduce	2,438	2,639
10	Divgi Torqtransfer Systems	Hold	633	591
11	Eicher Motors	BUY	5,299	4,599
12	Endurance Technologies	BUY	2,835	2,437
13	Exide Industries	Hold	456	437
14	Fine Organic Industries	BUY	5,852	5,000
15	GAIL (India)	Hold	204	209
16	Gujarat Fluorochemicals	Reduce	3,770	4,158
17	Gujarat Gas	Sell	389	486
18	Gujarat State Petronet	Hold	380	390
19	Hero Motocorp	Accumulate	5,906	5,495
20	Hindustan Petroleum Corporation	Accumulate	412	372
21	Indian Oil Corporation	Hold	156	147
22	Indraprastha Gas	Sell	321	406
23	Jubilant Ingrevia	Hold	695	682
24	Laxmi Organic Industries	Reduce	240	270
25	Mahanagar Gas	Sell	1,046	1,313
26	Mahindra & Mahindra	BUY	3,456	2,891
27	Mangalore Refinery & Petrochemicals	Sell	128	173
28	Maruti Suzuki	BUY	14,586	11,046
29	Navin Fluorine International	Accumulate	3,523	3,307

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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