




Hero MotoCorp Ltd.

BUY

Sector: Automobiles

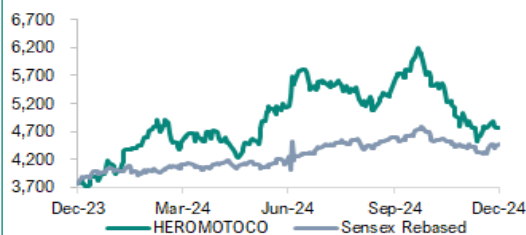
06th December 2024

Key Changes	Target		Rating		Earnings		Target	Rs. 5,269
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame	CMP	Rs. 4,631	
Large Cap	HMCL:IN	81,709	HEROMOTOCO	500182	12 Months	Return	+14%	

Data as of: 06-12-2024

Company Data			
Market Cap (Rs. cr)	92,544		
52 Week High — Low (Rs.)	6,245 - 3,684		
Enterprise Value (Rs. cr)	95,116		
Outstanding Shares (cr)	20.0		
Free Float (%)	65.0		
Dividend Yield (%)	2.9		
6m average volume (lakhs)	7.5		
Beta	1.0		
Face value (Rs.)	2.0		
Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	34.8	34.8	34.8
FII's	28.3	29.9	29.6
MFs/Institutions	28.1	26.9	26.9
Public	8.1	7.2	7.4
Others	0.7	1.3	1.3
Total	100.0	100.0	100.0
Promoter Pledge	0.0	0.0	0.0
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-14.8%	-7.2%	26.3%
Absolute Sensex	-2.8%	8.5%	18.9%
Relative Return	-12.0%	-15.7%	7.4%

*over or under performance to benchmark index



Y.E March (cr)	FY24A	FY25E	FY26E
Sales	37,456	42,282	46,794
Growth (%)	10.8	12.9	10.7
EBITDA	5,256	6,152	6,886
EBITDA Margin (%)	14.0	14.5	14.7
PAT Adjusted	4,128	4,720	5,268
Growth (%)	41.8	14.3	11.6
Adjusted EPS	206.2	236.0	263.4
Growth (%)	41.7	14.5	11.6
P/E	11.4	20.1	18.0
P/B	2.6	4.1	3.7
EV/EBITDA	8.9	15.5	13.8
ROE (%)	22.1	20.3	20.6
D/E	0.0	0.0	0.0

Solid Q2 results, Festive season to drive growth

Hero MotoCorp (HMCL) is India's leading two-wheeler manufacturer, with nearly 32% share of the domestic motorcycle market in volume terms. The company has eight manufacturing facilities — six in India and one each in Colombia and Bangladesh.

- In Q2FY25, Hero MotoCorp's standalone revenue increased 10.8% YoY to Rs. 10,463cr, driven by a 7.3% rise in sales volume and higher average selling prices due to better product mix.
- The company's parts, accessories and merchandise business saw a record high revenue of Rs. 1,456cr, up 7.5% YoY, contributing 13.9% to its total revenue.
- EBITDA rose 14.1% YoY to Rs. 1,516cr, primarily driven by lower material costs and product mix improvement. EBITDA margin increased 40bps YoY to 14.5%, despite a 200bps impact from electric vehicle (EV) operational expenses. The ICE segment EBITDA margin improved 160bps to 16.5%. The management reaffirmed its overall EBITDA margin guidance at 14-16%.
- During the 32-day festival season, the company achieved a record 1.6 million unit sales, resulting in a 16% YoY revenue increase. Its Vahan market share rose to 31.6% during the period.

Outlook & Valuation

HMCL delivered robust financial performance, with strong domestic market position and growing EV business. With a ~32% market share in the domestic motorcycle market, the company is poised to capitalise on positive customer sentiment, the festival season and the upcoming wedding season. Its EV business is gaining momentum, with a ~6% market share and plans to expand into more affordable price segments. Furthermore, HMCL's entry into Southeast Asia and planned expansion into Europe and the UK are expected to drive growth in its global business. The company's upcoming new model launches, brand strengthening and pricing strategies in both ICE and EV categories are also expected to contribute to its growth. Therefore, we reiterate our BUY rating on the stock with a target price of Rs. 5,269, based on 20x FY26E adjusted EPS.

Quarterly Financials Standalone

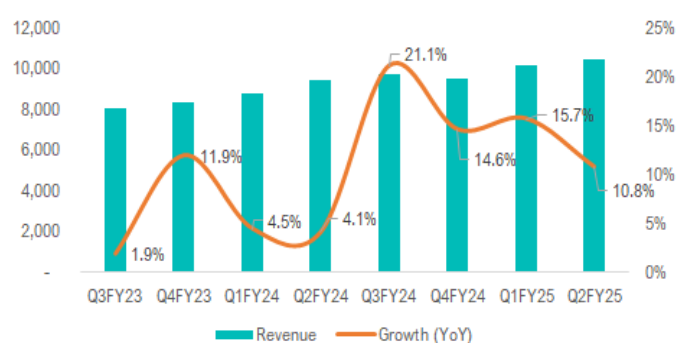
Rs. cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Sales	10,463	9,445	10.8	10,144	3.1	20,607	18,213	13.1
EBITDA	1,516	1,328	14.1	1,460	3.8	2,976	2,535	17.4
Margin (%)	14.5	14.1	40bps	14.4	10bps	14.4	13.9	50bps
EBIT	1,322	1,153	14.6	1,267	4.4	2,589	2,191	18.2
PBT	1,600	1,397	14.6	1,493	7.2	3,094	2,492	24.2
Rep. PAT	1,204	1,054	14.2	1,123	7.2	2,326	1,879	23.8
Adj PAT	1,204	1,054	14.2	1,123	7.2	2,326	2,039	14.1
EPS (Rs)	60.2	52.6	14.4	56.0	7.4	116.3	101.8	14.3



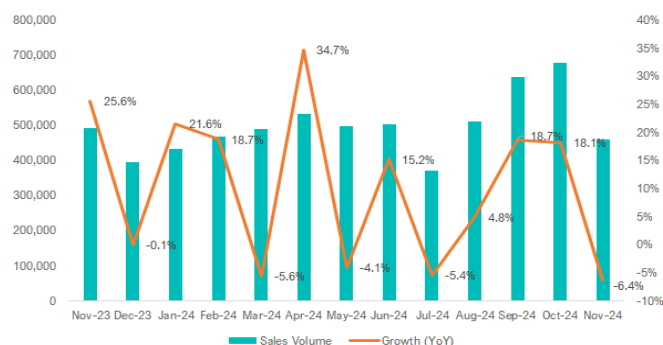
Key highlights

- **Premium motorcycles:** Expanding the portfolio by introducing new models such as the Xpulse 210 (liquid-cooled) and Xtreme 250R while strengthening existing brands such as the Xtreme 160 and Karizma XMR 250. The goal is to grow the existing premium brands by offering a broader range of models.
- **ICE scooters:** Refreshing the scooter lineup with updates like a full-body change for the Destini and expanding the Xoom series to include 125cc and 160cc models. These launches are planned before March 2025.
- **EVs:** Expanding into more affordable price segments after initially focusing on premium EVs. The strategy is to cover a wider price range in the EV segment to meet growing demand.
- Hero MotoCorp plans to expand to Europe and the UK from H2FY25, starting with the VIDA Z electric scooter and later introducing premium motorcycles. The company's tech centre in Germany and MotoSports Team Rally support this plan. It has already partnered with distributors in Italy, Spain, France and the UK to meet the market demand.
- In the festival season, HMCL achieved a finance penetration of 66%, with Hero FinCorp Ltd (HFCL) accounting for 26% of the financing. HFCL's loan book grew 16% YoY in Q2FY25, despite rising delinquency rates and credit costs negatively affected the profitability.
- Rural and urban regions have seen healthy participation in the festival season sales, with rural areas growing faster than urban markets. Both regions experienced double-digit growth. The upcoming marriage season is expected to sustain demand momentum beyond the festival season.
- HMCL has expanded into Southeast Asia by launching operations in the Philippines. The company has achieved a 30% YTD sales growth in its global business.

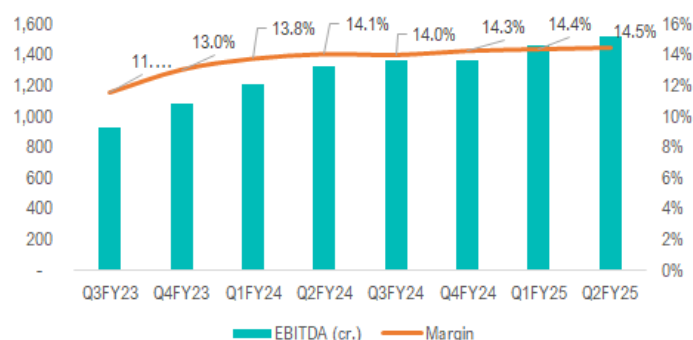
Revenue



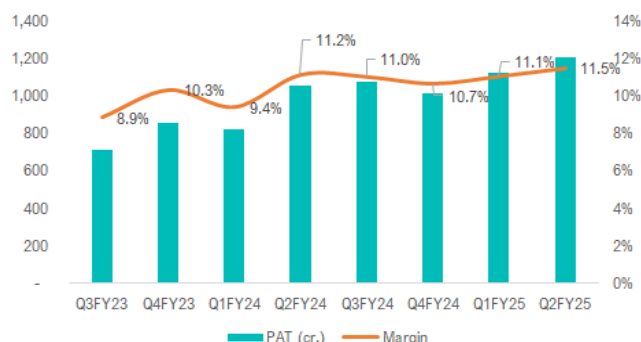
Sales Volume—monthly



EBITDA



PAT



Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	42,163	46,463	42,282	46,794	0.3	0.7
EBITDA	6,121	6,918	6,152	6,886	0.5	-0.5
Margins (%)	14.5	14.9	14.5	14.7	0bps	-20bps
Adj. PAT	4,637	5,230	4,720	5,268	1.8	0.7
EPS	231.6	261.2	236.0	263.4	1.9	0.9



Standalone Financials

Profit & Loss

Y.E March (Rs. Cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Sales	29,245	33,806	37,456	42,282	46,794
% change	-5.0	15.6	10.8	12.9	10.7
EBITDA	3,369	3,986	5,256	6,152	6,886
% change	-16.2	18.3	31.8	17.0	11.9
Depreciation	650	657	711	720	732
EBIT	2,719	3,329	4,544	5,432	6,154
Interest	26	20	19	22	23
Other Income	557	565	733	884	892
PBT	3,250	3,875	5,258	6,294	7,024
% change	-16.7	19.2	35.7	19.7	11.6
Tax	777	964	1,290	1,573	1,756
Tax Rate (%)	23.9	24.9	24.5	25.0	25.0
Reported PAT	2,473	2,911	3,968	4,720	5,268
Adj.*	-	-	160	-	-
Adj. PAT	2,473	2,911	4,128	4,720	5,268
% change	-16.6	17.7	41.8	14.3	11.6
No. of shares (cr)	20.0	20.0	20.0	20.0	20.0
Adj EPS (Rs)	123.7	145.5	206.2	236.0	263.4
% change	-16.6	17.6	41.7	14.5	11.6
DPS (Rs)	95.0	100.0	135.0	145.0	155.0

Cashflow

Y.E March	FY22A	FY23	FY24A	FY25E	FY26E
Net inc. + Depn.	3,123	3,568	4,679	5,440	6,000
Non-cash adj.	-628	-622	-664	-2,332	-1,780
Changes in W.C	-475	-366	891	-14	-203
C.F. Operation	2,020	2,579	4,907	3,094	4,017
Capital exp.	-524	-568	-710	-942	-927
Change in inv.	173	-55	-1,548	250	50
Other invest.CF	200	154	457	111	122
C.F - Investment	-152	-469	-1,802	-581	-754
Issue of equity	5	3	10	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	-1,898	-1,998	-2,699	-2,799	-3,304
Other finance.CF	-46	-45	-45	85	95
C.F - Finance	-1,939	-2,041	-2,733	-2,714	-3,209
Chg. in cash	-71	70	372	-200	53
Closing Cash	175	346	609	409	462

Balance Sheet

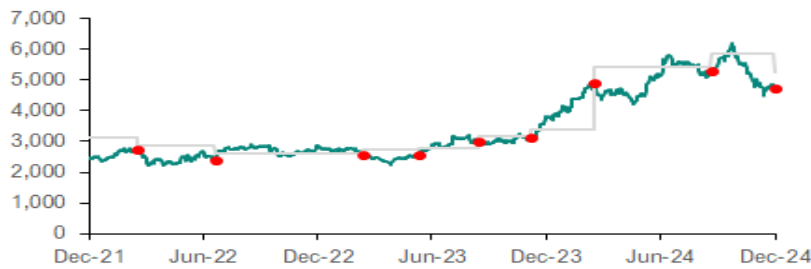
Y.E March (Rs. Cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	175	346	609	409	462
Accts. Receivable	2,304	2,798	2,703	4,271	4,305
Inventories	1,123	1,434	1,444	1,514	1,668
Other Cur. Assets	6,513	4,459	5,040	10,897	13,028
Investments	4,815	7,372	8,812	8,562	8,512
Gross Fixed Assets	9,989	10,246	10,246	11,188	12,115
Net Fixed Assets	5,508	5,261	5,305	5,528	5,723
CWIP	87	129	121	133	146
Intangible Assets	669	835	888	990	995
Other Assets	520	629	649	415	419
Total Assets	21,714	23,263	25,572	32,717	35,256
Current Liabilities	4,913	5,438	6,268	7,940	7,993
Provisions	178	198	317	427	436
Debt Funds	457	517	566	557	611
Other Liabilities	383	405	435	551	615
Equity Capital	40	40	40	40	40
Res. & Surplus	15,743	16,665	17,946	23,202	25,561
Shareholder Funds	15,783	16,705	17,986	23,242	25,601
Total Liabilities	21,714	23,263	25,572	32,717	35,256
BVPS	790	835	898	1,162	1,280

Ratios

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	11.5	11.8	14.0	14.5	14.7
EBIT margin (%)	9.3	9.8	12.1	12.8	13.2
Net profit mgn.(%)	8.5	8.6	10.6	11.2	11.3
ROE (%)	15.7	17.4	22.1	20.3	20.6
ROCE (%)	16.7	19.3	24.5	22.8	23.5
W.C & Liquidity					
Receivables (days)	28.8	30.2	26.3	36.9	33.6
Inventory (days)	19.7	21.9	20.7	19.2	19.0
Payables (days)	74.7	72.0	79.3	90.5	81.2
Current ratio (x)	2.0	1.6	1.5	2.1	2.3
Quick ratio (x)	1.6	1.2	1.2	1.8	2.1
Turnover & Leverage					
Gross asset T.O (x)	3.0	3.3	3.7	3.9	4.0
Total asset T.O (x)	1.3	1.5	1.5	1.5	1.4
Int. covge. ratio (x)	105.4	167.6	245.6	249.3	269.5
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	1.6	1.4	1.3	2.2	2.0
EV/EBITDA (x)	13.7	11.8	8.9	15.5	13.8
P/E (x)	18.6	16.1	11.4	20.1	18.0
P/BV (x)	2.9	2.8	2.6	4.1	3.7



Recommendation Summary - last 3 years



Dates	Rating	Target
20-Jun-22	HOLD	2,592
10-Feb-23	HOLD	2,755
11-May-23	HOLD	2,795
16-Aug-23	HOLD	3,176
7-Nov-23	HOLD	3,367
16-Feb-24	BUY	5,435
21-Aug-24	BUY	5,877
6-Dec-24	BUY	5,269

Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%


Not rated/Neutral


Definition:

Buy: Acquire at Current Market Price -CMP, with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

Symbols definition:

 Upgrade

 No Change

 Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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