

# Hero MotoCorp | BUY



## In-line performance; New product cycle focused on driving mkt. share

During 4QFY24, EBITDAM for Hero MotoCorp (HMCL) stood at 14.3% (+120bps YoY), in-line with JMFe led by softening commodity costs and favourable mix. Demand momentum remains healthy and the company expects 125cc+ segment to drive double-digit revenue growth in FY25. Recent premium launches have been received well. Near-term focus is on ramping-up distribution and production of these launches and EVs. Positive operating leverage and cost control initiatives are expected to support the margins. We believe, HMCL is at the cusp of market share recovery on the back of new product cycle and expect the company to draw support from impending rural recovery leading to c.8.5% vol. CAGR (over FY24-26E). We estimate standalone EPS to post c.14.5% CAGR over FY24-26E. Maintain BUY with Mar'25 TP of INR 5,400 (20x forward earnings). Hero remains our top pick in the 2W space.

- 4QFY24 - In-line margin performance:** HMCL reported net sales of INR 95.2bn (+15% YoY, -2%QoQ), in-line with JMFe. Volumes during 4Q grew +10% YoY (-5% QoQ) to c.1.39mn units. Realisations grew by 3% QoQ (+5% YoY). EBITDA stood at INR 13.6bn (+25%YoY, flattish QoQ), in-line with JMFe. EBITDA margin stood at 14.3% (+120bps YoY, +30bps QoQ), in-line with JMFe. Adj. PAT stood at INR 10.2bn (+18%YoY, -5% QoQ), 6% below JMFe on lower than expected other income. Spares revenue stood at INR 13.9bn (+10% YoY, -3% QoQ) accounting for c.15% of revenue during 4Q.
- Demand outlook:** Management indicated that retail momentum remained strong during Mar-Apr'24 led by wedding and festive related buying. Rural demand, which was lagging urban demand over the last few quarters, is showing improvement. Overall, management remains optimistic on demand scenario driven by a) new product launches, b) higher sales of premium models, c) continued rural recovery (led by normal monsoon) and d) rising finance penetration (currently c.60%). Industry volumes are expected to remain healthy and HMCL is targeting double-digits revenue growth during FY25. Near-to-medium term focus is on driving growth and market share for HMCL led by new product launches.
- Update on new launches:** HMCL indicated that Xtreme 125R has been received well among customers and the company is focusing on ramping-up capacity to 30k units/month by Jul'24. Mavrick 440 has also received good customer response and its dispatches have started in Apr'24. Management indicated that HDX440 has gained 10% market share in the regions where it is present. Near-term focus is on production ramp-up of premium models to 10k units/month. The company is also focused on expanding/upgrading distribution network (currently HDX440 sell through 205 outlets). In the scooter segment, HMCL has gained market share in 110cc scooters and the company plans to launch new ICE scooters in 125cc and 160cc segments during FY25.
- Update on EV business:** The Company continued its focus on building sales, service and charging network and drive better cost-efficiency for EVs by leveraging vendor ecosystem and charging infra of Ather. HMCL plans 2 new EV launches during 1HFY25 that will cater to – 1) mid-segment with INR 125-130k price point and 2) affordable segment with price point <INR 100k. Both these products are expected to be eligible for PLI incentives.

Vivek Kumar  
vivek.kumar@jmfl.com | Tel: (91 22) 66303019  
Ronak Mehta  
ronak.mehta@jmfl.com | Tel: (91 22) 66303125

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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	5,400
Upside/(Downside)	17.0%
Previous Price Target	5,400
Change	0.0%

### Key Data – HMCL IN

Current Market Price	INR4,614
Market cap (bn)	INR922.4/US\$11.0
Free Float	54%
Shares in issue (mn)	199.7
Diluted share (mn)	199.9
3-mon avg daily val (mn)	INR3,340.2/US\$40.0
52-week range	4,953/2,551
Sensex/Nifty	73,466/22,303
INR/US\$	83.5

### Price Performance

%	1M	6M	12M
Absolute	0.4	48.1	80.1
Relative*	2.1	30.7	51.4

\* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	2,92,455	3,38,057	3,74,557	4,35,792	4,78,379
Sales Growth	-5.0%	15.6%	10.8%	16.3%	9.8%
EBITDA	33,688	39,862	52,557	62,754	69,365
EBITDA Margin	11.5%	11.8%	14.0%	14.4%	14.5%
Adjusted Net Profit	24,730	29,106	41,280	48,714	54,019
Diluted EPS (INR)	123.8	145.6	206.5	243.7	270.2
Diluted EPS Growth	-16.6%	17.7%	41.8%	18.0%	10.9%
ROIC	42.6%	47.1%	69.7%	89.5%	93.2%
ROE	16.0%	17.9%	23.8%	25.7%	25.5%
P/E (x)	37.3	31.7	22.3	18.9	17.1
P/B (x)	5.8	5.5	5.1	4.6	4.1
EV/EBITDA (x)	25.7	22.2	16.7	13.8	12.2
Dividend Yield	2.1%	2.2%	3.0%	3.1%	3.1%

Source: Company data, JM Financial. Note: Valuations as of 08/May/2024

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Outlook on profitability:** During 4Q, EBITDA margin improved by c.120bps YoY (+30bps QoQ) led by lower commodity cost, favourable product mix and judicious price hikes. EBITDA margin for ICE business stood at c.15.6% during 4Q. Impact from EV business was a bit higher (c.130bps) due to higher R&D and marketing spends. The company indicated that it will continue to reinvest higher margin of ICE business to drive strategic initiatives (EVs, premium and revive entry-level demand) going forward. Overall, it expects higher operating leverage and continued focus on cost saving measures to support the margin performance. LT margin guidance is maintained at 14-16%.
- **Other highlights:** 1) HMCL operates through network of 1,000 primary outlets and total 6,000 touch points. The company plans to cover c.60-70% of the primary network under 'Hero 2.0' during FY25. 2) HMCL plans to expand its spares and accessories business and has guided for a growth capex of INR 10-15bn over next 2 years. The company strategy is to increase the SKUs from 26k to c.37k units by FY27.

**Exhibit 1. Quarterly financial results**

INR Mn	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ	Q4FY24E	% A/E
<b>Operating metrics</b>							
Total Volumes (Units)	1,392,423	1,270,492	9.6	1,459,932	-4.6	1,392,423	0.0
Average Realisation (Net, INR)	68,365	65,382	4.6	66,604	2.6	68,602	-0.3
<b>Financial metrics (INR mn)</b>							
Sales	95,193	83,068	14.6	97,237	-2.1	95,523	-0.3
Cost of Goods Sold	63,249	56,463	12.0	65,470	-3.4	64,478	-1.9
As a % of sales	66.4	68.0	-150bps	67.3	-90bps	67.5	-110bps
Staff Cost	6,437	5,571	15.6	6,017	7.0	5,922	8.7
As a % of sales	6.8	6.7	10bps	6.2	60bps	6.2	60bps
Other expenses	11,916	10,204	16.8	12,130	-1.8	11,463	4.0
As a % of sales	12.5	12.3	20bps	12.5	0bps	12.0	50bps
<b>EBITDA</b>	<b>13,592</b>	<b>10,830</b>	<b>25.5</b>	<b>13,620</b>	<b>-0.2</b>	<b>13,660</b>	<b>-0.5</b>
<b>EBITDA Margin</b>	<b>14.3</b>	<b>13.0</b>	<b>120bps</b>	<b>14.0</b>	<b>30bps</b>	<b>14.3</b>	<b>0bps</b>
Other Income	1,800	2,369	-24.0	2,420	-25.6	2,550	-29.4
Interest	46	47	-2.6	45	0.9	50	-8.8
Depreciation	1,851	1,686	9.8	1,825	1.4	1,825	1.4
Extraordinary	0	0	NA	0	NA	0	NA
PBT	13,496	11,467	17.7	14,170	-4.8	14,335	-5.9
Tax	3,335	2,877	15.9	3,437	-2.9	3,512	-5.0
Tax rate (%)	24.7	25.1	-40bps	24.3	50bps	24.5	20bps
<b>PAT (Adjusted)</b>	<b>10,161</b>	<b>8,589</b>	<b>18.3</b>	<b>10,734</b>	<b>-5.3</b>	<b>10,823</b>	<b>-6.1</b>
<b>PAT Margin</b>	<b>10.7</b>	<b>10.3</b>	<b>30bps</b>	<b>11.0</b>	<b>-40bps</b>	<b>11.3</b>	<b>-70bps</b>
<b>EPS</b>	<b>50.9</b>	<b>43.0</b>	<b>18.3</b>	<b>53.7</b>	<b>-5.3</b>	<b>54.2</b>	<b>-6.1</b>

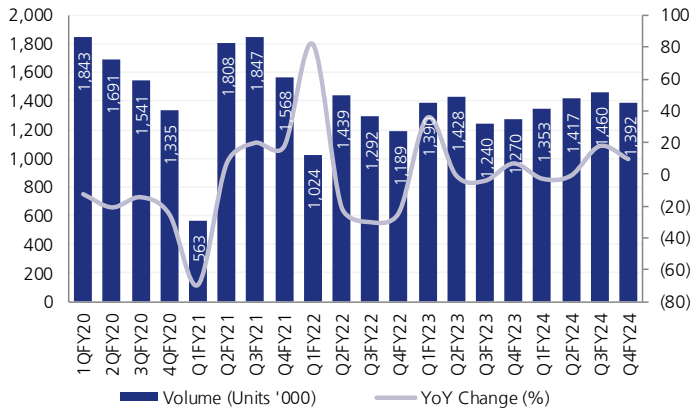
Source: Company, JM Financial

**Exhibit 2. HMCL – change in assumptions (Standalone)**

HMCL	New assumption		Old assumption		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue (INR mn)	435,792	478,379	446,945	485,300	-2.5%	-1.4%
Volume (mn units)	6.2	6.6	6.4	6.7	-2.1%	-1.2%
Growth (%)	10.6%	6.5%	11.3%	5.5%		
EBITDA (INR mn)	62,754	69,365	63,019	68,913	-0.4%	0.7%
EBITDA margin (%)	14.4%	14.5%	14.1%	14.2%	30bps	30bps
PAT (INR mn)	48,714	54,019	49,029	53,867	-0.6%	0.3%
EPS (INR)	244	270	245	270	-0.7%	0.3%

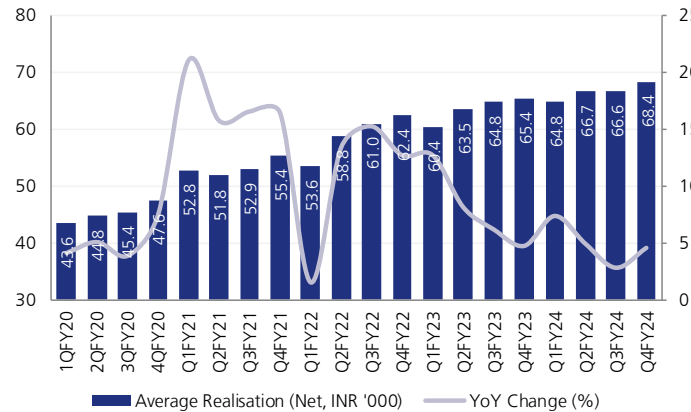
Source: Company, JM Financial

Exhibit 3. Volumes increased c.10% YoY (-5% QoQ)



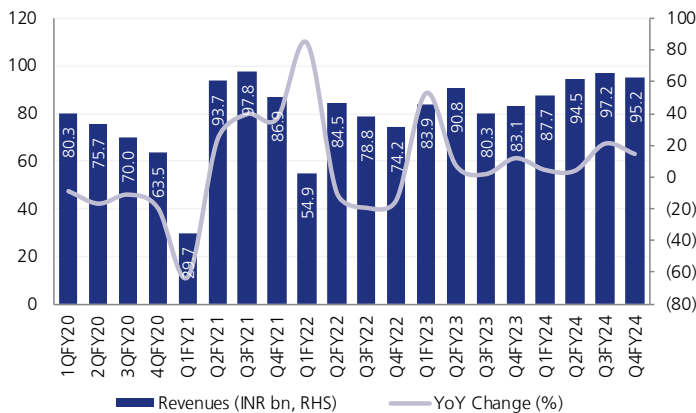
Source: Company, JM Financial

Exhibit 4. Realization improved c.5% YoY (+3% QoQ)



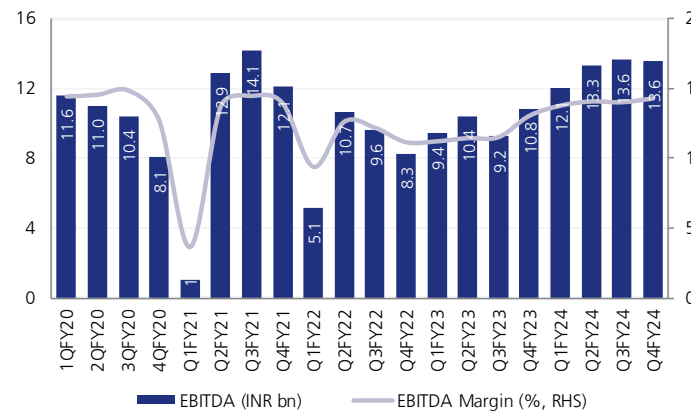
Source: Company, JM Financial

Exhibit 5. Revenue grew by c.15% YoY (-2% QoQ)



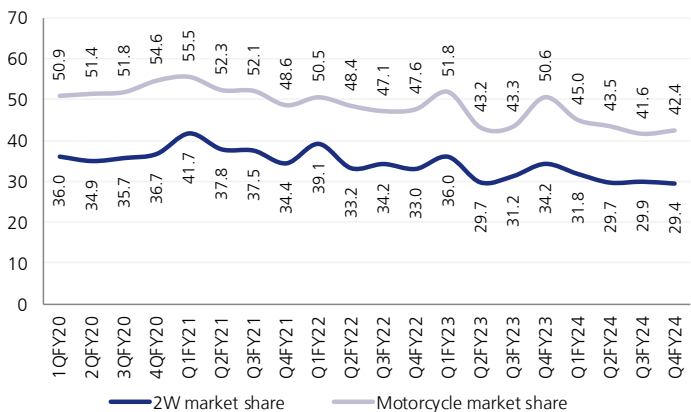
Source: Company, JM Financial

Exhibit 6. EBITDAM improved +120bps YoY (+30bps QoQ)



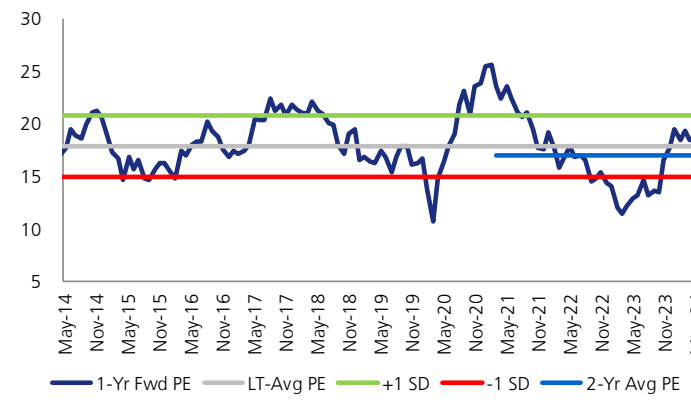
Source: Company, JM Financial

Exhibit 7. Market share trend



Source: Company, JM Financial

Exhibit 8. 1yr fwd. PE chart



Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	2,92,455	3,38,057	3,74,557	4,35,792	4,78,379	
Sales Growth	-5.0%	15.6%	10.8%	16.3%	9.8%	
Total Revenue	2,92,455	3,38,057	3,74,557	4,35,792	4,78,379	
<b>Cost of Goods Sold</b>	<b>2,08,267</b>	<b>2,38,581</b>	<b>2,54,308</b>	<b>2,98,517</b>	<b>3,28,168</b>	
Personnel Cost	19,354	21,898	24,023	27,019	29,181	
Other Expenses	31,145	37,715	43,669	47,501	51,665	
EBITDA	33,688	39,862	52,557	62,754	69,365	
<b>EBITDA Margin</b>	<b>11.5%</b>	<b>11.8%</b>	<b>14.0%</b>	<b>14.4%</b>	<b>14.5%</b>	
EBITDA Growth	59.7%	18.3%	31.8%	19.4%	10.5%	
Depn. & Amort.	6,498	6,570	7,114	7,539	8,034	
EBIT	27,190	33,293	45,443	55,215	61,331	
Other Income	5,569	5,652	8,926	9,527	10,437	
Finance Cost	258	199	185	220	220	
PBT before Excep. & Forex	32,501	38,746	54,184	64,522	71,548	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	32,501	38,746	54,184	64,522	71,548	
Taxes	7,771	9,640	12,904	15,808	17,529	
Extraordinary Inc./Loss(-)	0	0	-1,600	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	24,730	29,106	39,680	48,714	54,019	
Adjusted Net Profit	24,730	29,106	41,280	48,714	54,019	
<b>Net Margin</b>	<b>8.5%</b>	<b>8.6%</b>	<b>11.0%</b>	<b>11.2%</b>	<b>11.3%</b>	
Diluted Share Cap. (mn)	200	200	200	200	200	
Diluted EPS (Symbole)	123.8	145.6	206.5	243.7	270.2	
<b>Diluted EPS Growth</b>	<b>-16.6%</b>	<b>17.7%</b>	<b>41.8%</b>	<b>18.0%</b>	<b>10.9%</b>	
Total Dividend + Tax	18,981	19,985	27,986	28,986	28,986	
Dividend Per Share (₹)	95.0	100.0	140.0	145.0	145.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	32,501	38,746	54,184	64,522	71,548	
Depn. & Amort.	6,498	6,570	7,114	7,539	8,034	
Net Interest Exp. / Inc. (-)	258	199	185	220	220	
Inc (-) / Dec in WCcap.	-6,720	-4,435	11,367	-386	1,243	
Others	0	0	0	0	0	
Taxes Paid	-7,771	-9,640	-12,904	-15,808	-17,529	
<b>Operating Cash Flow</b>	<b>24,766</b>	<b>31,439</b>	<b>59,946</b>	<b>56,087</b>	<b>63,516</b>	
Capex	-4,894	-6,175	-8,007	-11,696	-11,016	
Free Cash Flow	19,872	25,264	51,938	44,392	52,500	
Inc (-) / Dec in Investments	-1,526	-3,580	-20,757	-15,000	-17,500	
Others	-258	-199	-185	-220	-220	
<b>Investing Cash Flow</b>	<b>-6,679</b>	<b>-9,954</b>	<b>-28,950</b>	<b>-26,916</b>	<b>-28,736</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-18,981	-19,985	-27,986	-28,986	-28,986	
Inc / Dec (-) in Loans	186	-118	-187	0	0	
Others	-112	322	-188	0	0	
<b>Financing Cash Flow</b>	<b>-18,908</b>	<b>-19,781</b>	<b>-28,361</b>	<b>-28,986</b>	<b>-28,986</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-820</b>	<b>1,704</b>	<b>2,634</b>	<b>186</b>	<b>5,794</b>	
Opening Cash Balance	2,572	1,751	3,455	6,089	6,275	
Closing Cash Balance	1,751	3,455	6,089	6,275	12,070	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	1,57,829	1,67,051	1,79,862	1,99,590	2,24,624	
Share Capital	400	400	400	400	400	
Reserves & Surplus	1,57,430	1,66,651	1,79,462	1,99,191	2,24,224	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	1,681	1,563	1,376	1,376	1,376	
Def. Tax Liab. / Assets (-)	3,833	4,054	4,348	4,348	4,348	
<b>Total - Equity &amp; Liab.</b>	<b>1,63,343</b>	<b>1,72,668</b>	<b>1,85,586</b>	<b>2,05,314</b>	<b>2,30,348</b>	
Net Fixed Assets	62,647	62,252	63,145	67,302	70,284	
Gross Fixed Assets	1,47,923	1,54,042	1,61,882	1,73,187	1,83,883	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	89,858	96,428	1,03,542	1,11,081	1,19,115	
Capital WIP	4,582	4,638	4,805	5,196	5,516	
Investments	1,06,523	1,10,104	1,30,861	1,45,861	1,63,361	
Current Assets	47,970	60,276	61,709	69,509	81,256	
Inventories	11,227	14,341	14,438	17,909	19,659	
Sundry Debtors	23,043	27,982	27,034	29,849	32,766	
Cash & Bank Balances	1,751	3,455	6,089	6,275	12,070	
Loans & Advances	818	2,492	2,346	2,729	2,996	
Other Current Assets	11,131	12,005	11,802	12,746	13,766	
Current Liab. & Prov.	53,797	59,964	70,130	77,357	84,554	
Current Liabilities	42,603	47,045	55,282	61,321	67,235	
Provisions & Others	11,194	12,919	14,848	16,036	17,319	
Net Current Assets	-5,827	312	-8,421	-7,849	-3,298	
<b>Total - Assets</b>	<b>1,63,343</b>	<b>1,72,668</b>	<b>1,85,586</b>	<b>2,05,314</b>	<b>2,30,348</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	8.5%	8.6%	11.0%	11.2%	11.3%	
Asset Turnover (x)	1.9	2.1	2.1	2.3	2.2	
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0	
RoE	16.0%	17.9%	23.8%	25.7%	25.5%	

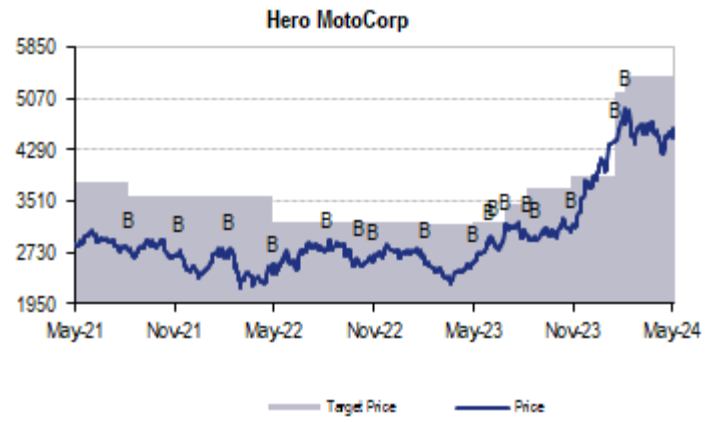
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (₹)	789.9	835.9	899.8	998.5	1,123.7	
ROIC	42.6%	47.1%	69.7%	89.5%	93.2%	
ROE	16.0%	17.9%	23.8%	25.7%	25.5%	
Net Debt/Equity (x)	-0.4	-0.2	-0.3	-0.3	-0.3	
P/E (x)	37.3	31.7	22.3	18.9	17.1	
P/B (x)	5.8	5.5	5.1	4.6	4.1	
EV/EBITDA (x)	25.7	22.2	16.7	13.8	12.2	
EV/Sales (x)	3.0	2.6	2.3	2.0	1.8	
Debtor days	29	30	26	25	25	
Inventory days	14	15	14	15	15	
Creditor days	60	58	63	60	60	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
29-Oct-20	Buy	3,150	
5-Feb-21	Buy	3,800	20.6
7-May-21	Buy	3,800	0.0
13-Aug-21	Buy	3,600	-5.3
14-Nov-21	Buy	3,600	0.0
13-Feb-22	Buy	3,600	0.0
4-May-22	Buy	3,200	-11.1
14-Aug-22	Buy	3,200	0.0
9-Oct-22	Buy	3,200	0.0
4-Nov-22	Buy	3,200	0.0
8-Feb-23	Buy	3,150	-1.6
7-May-23	Buy	3,200	1.6
5-Jun-23	Buy	3,200	0.0
12-Jun-23	Buy	3,200	0.0
4-Jul-23	Buy	3,450	7.8
13-Aug-23	Buy	3,700	7.2
31-Aug-23	Buy	3,700	0.0
2-Nov-23	Buy	3,900	5.4
24-Jan-24	Buy	5,150	32.1
11-Feb-24	Buy	5,400	4.9

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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