

# Hero MotoCorp Ltd

## Underlying ICE margins continues to be healthy

### Valuation and View – Operating performance continues to be steady

HMCL's 4QFY24 reported results were in-line with our/street estimates as EBITDA margins expanded 130bp YoY (+30bp QoQ) at 14.3%. However, underlying ICE margins were healthy at 15.6% (vs 16% in 3QFY24), supported by higher spare sales (SPAM) at ~Rs14b at 14.7% of sales (vs Rs14.6b in 3Q and Rs50.9b in FY24). Gross margins surprised at 33.6% (+150bp YoY/ +90bp QoQ), was partially offset by higher staff cost at Rs6.4b (+7% QoQ, est Rs6.1b). The management indication of signs of first-time buyers coming back as reflected in positive rural momentum over past 2-3 months, is positive.

Going ahead while the management remain hopeful of broad-based volumes recovery within 2Ws, HMCL is aiming at market share expansion especially in the premium segment led by new product launches. The intended new product launches in the scooter (125cc and 160cc) should help improve positioning and market share gains. The positive customer feedback to Xtreme 125R resulted in demand outstripping supply (we highlighted the same in our recent channel check) to result in capacity being ramped to ~1k units per day and ~25k units per month (vs current monthly supply of ~10k units). Maintain ADD with revised TP of Rs5,333 (vs Rs5,327) based on ~20x Mar'26 S/A EPS plus Rs133 for Hero FinCorp. We have maintained FY26E while have cut FY25E EPS by 3.4% to reflect lower other income and higher staff costs. Management's action to overhaul brand strategy supported by Ather's continued brand acceptance provide an additional lever for the stock. We build in revenue/EBITDA/Adj.PAT CAGR of 10.8%/12.4%/12.7% over FY24-26E.

### Result Highlights – EBITDA/unit continues to be healthy at ~Rs9.8k

- Revenues grew 14.6% YoY (-2.1% QoQ) at Rs95.2b (est Rs95.1b) as volumes/ASP grew 9.6%/+4.6% YoY and -4.6%/+2.6% QoQ respectively at 1.39m units and Rs68.4k/unit (est ~Rs68.3k/unit). Gross margins came better at 33.6% (+160bp YoY/+90bp QoQ). However, this was partially offset by higher staff cost at ~Rs6.43b (est Rs6.1b, +7% QoQ).
- Consequently, EBITDA grew 25.5% YoY (flat QoQ) at Rs13.6b (est Rs13.4b), leading to margins expanding by 130bp YoY (+30bp QoQ) at 14.3% (est 14.1%). Hence EBITDA/vehicle came in at ~Rs9.8k/vehicle (+14.5% YoY/+4.6% QoQ).
- Steady operating performance was partially offset by lower other income at Rs1.8b (est Rs2.7b, -25% YoY/QoQ) restricted Adj.PAT at Rs10.2b (est Rs10.7b), which grew 18.3% YoY (-5.3% QoQ). Dividend of Rs140/share (incl. special dividend of Rs100/share vs Rs100/share in FY23), resulting in dividend yield at ~3%.

### Exhibit 1: Actual vs estimates

Rs m	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	95,193	95,130	94,013	0.1	1.3	Steady operating performance. ICE margins continues to be healthy.
EBITDA	13,592	13,402	13,229	1.4	2.7	
EBITDA margins %	14.3	14.1	14.1	20bp	20bp	
Adjusted PAT	10,161	10,733	10,508	-5.3	-3.3	

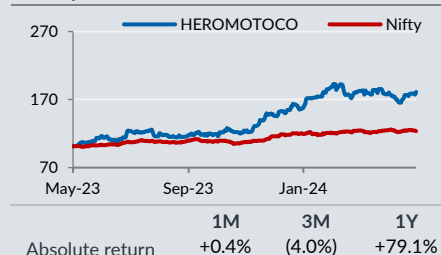
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 4,624
Target Price	: Rs 5,333
Potential Return	: +15.3%

### Stock data (as on May 08, 2024)

Nifty	22,303
52 Week h/l (Rs)	4,923 / 2,552
Market cap (Rs/USD mn)	8,95,042 / 10,721
Outstanding Shares (mn)	200
6m Avg t/o (Rs mn):	2,641
Div yield (%)	2.2
Bloomberg code:	HMCL IN
NSE code:	HEROMOTOCO

### Stock performance



### Shareholding pattern (As of March'24)

Promoter	34.8%
FII+DII	56.7%
Others	8.6%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	5,333	5,327

### Δ in earnings estimates

	FY25E	FY26E
EPS (New)	238.5	260.0
EPS (Old)	246.9	259.7
% Change	(3.4%)	0.1%

### Financial Summary

Y/E MARCH (Rs b)	FY24	FY25E	FY26E
Sales	374.6	423.7	459.6
EBITDA	52.6	60.6	66.4
Adj. PAT	40.9	47.7	52.0
Adj. EPS (INR)	204.5	238.5	260.0
EPS Gr. (%)	40.4	16.6	9.0
BV/Sh. (INR)	899.8	988.3	1,088.2
RoE (%)	23.6	25.3	25.0
RoCE (%)	22.7	24.4	24.2
Payout (%)	81.1	72.3	70.8
P/E (x)	22.6	19.4	17.8
P/BV (x)	5.1	4.7	4.2
EV/EBITDA (x)	15.0	13.0	11.6
Div. Yield (%)	3.0	3.2	3.5

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## Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q4FY24	Q4FY23	YoY chg	Q3FY24	FY24	FY23	YoY chg
<b>Net Revenues</b>	95,193	83,068	14.6	97,237	374,557	338,057	10.8
Raw Materials	63,249	56,463	12.0	65,470	254,307	238,581	6.6
% of Net Sales	66.4%	68.0%		67.3%	67.9%	70.6%	
Personnel	6,437	5,571	15.6	6,017	24,023	21,898	9.7
% of Net Sales	6.8%	6.7%		6.2%	6.4%	6.5%	
Manufacturing & Other Exp	11,916	10,204	16.8	12,130	43,669	37,715	15.8
% of Net Sales	12.5%	12.3%		12.5%	11.7%	11.2%	
Total Expenditure	81,602	72,238	13.0	83,617	322,000	298,194	8.0
<b>EBITDA</b>	13,592	10,830	25.5	13,621	52,558	39,862	31.8
<b>EBITDA Margin (%)</b>	14.3%	13.0%		14.0%	14.0%	11.8%	
Depreciation	1,851	1,686	9.8	1,825	7,114	6,570	8.3
<b>EBIT</b>	11,741	9,144	28.4	11,796	45,444	33,293	36.5
Interest Expenses	46	47	(2.6)	45	185	199	(6.9)
Non-operating income	1,800	2,369	(24.0)	2,420	8,926	5,652	57.9
<b>PBT</b>	13,496	11,467	17.7	14,171	52,584	38,746	35.7
Tax-Total	3,335	2,877	15.9	3,437	12,904	9,640	33.9
Tax Rate (%) - Total	24.7%	25.1%		24.3%	24.5%	24.9%	
<b>Reported PAT</b>	10,161	8,589	18.3	10,734	39,680	29,106	36.3
<b>Adj. PAT</b>	10,161	8,589	18.3	10,734	40,886	29,106	40.5
<b>PAT Margin</b>	10.7%	10.3%		11.0%	10.9%	8.6%	
<b>Key operating metrics</b>							
<b>Sales Volume (nos)</b>	<b>1,392,254</b>	<b>1,270,491</b>	<b>9.6</b>	<b>1,459,932</b>	<b>5,621,286</b>	<b>5,328,545</b>	<b>5.5</b>
Net Realisation/Vehicle	68,373	65,382	4.6	66,604	66,632	63,443	5.0
Material cost / vehicle	45,429	44,442	2.2	44,844	45,240	44,774	1.0
Gross Profit / vehicle	22,944	20,941	9.6	21,760	21,392	18,668	14.6
Employee cost /vehicle	4,624	4,385	5.5	4,121	4,274	4,110	4.0
Other expenses / vehicle	8,558	8,032	6.6	8,309	7,769	7,078	9.8
<b>EBITDA/vehicle</b>	<b>9,762</b>	<b>8,524</b>	<b>14.5</b>	<b>9,330</b>	<b>9,350</b>	<b>7,481</b>	<b>25.0</b>
Net Profit/vehicle	7,298	6,761	7.9	7,353	7,273	5,462	33.2

Source- Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

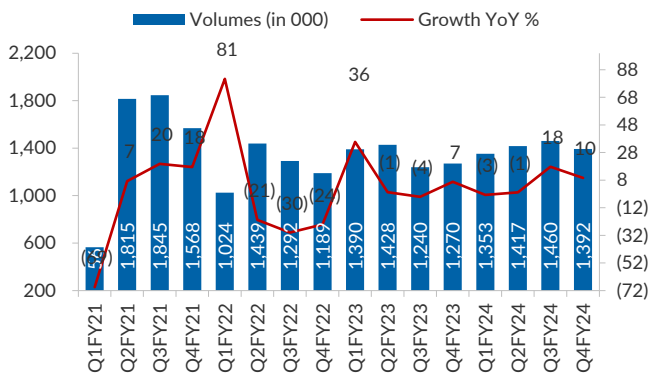
- **Demand outlook** – Seeing signs of first-time buyers coming back reflected in positive rural momentum over past 2-3 months.
  - Reiterated double digit revenue growth in FY25E.
  - Seeing better consumer sentiments. The growth in Apr'24 was led by festive and marriage season. Hero did well compared to industry.
  - **Rural momentum was positive in Mar/Apr and even in May as reflected in increase in first time buyers particularly in entry level/110cc segments.**
  - FY24 was the year of maximum launches and have covered large white spaces on the ICE side. Expect to gain further market share in premium led by 125cc led by Xtreme 125cc which have been received well, Glamour (doing well in South and East) and Super Splendor.
- **Distribution** – Have ramped up Hero 2.0 stores to >400 (at the rate of >1 stores per day).
  - **EV network** increased to ~180 dealers in ~120 cities.
  - **Premia stores** – have opened ~9 stores in Mar'24 and expect the same to be ramped-up to 100-150 stores by end of FY25E.
  - Currently have ~1k primary stores and ~6k touch points including sub dealers.
- **New product launches** – 1) Scooters at Xoom 125 and Xoom 160. Expect some launches in motorcycle premium segment as well.
  - Capacity expansion underway for 10k/unit (for 400 platforms plus Karizma) which will come on stream in ~2 months.
  - **HD have garnered ~10% in markets where the product is presence.** HD is available in ~205 stores (vs 100 stores earlier).
  - **Maverick** – making the product available in premium dealerships.
  - **Xtreme 125** – demand is outstripping supply currently. Ramping-up Xtreme 125 capacity to ~1k units per day and 25k units per month (vs current monthly supply of ~10k units).
- **Scooter** – Xoom 110, unlike the industry have grown in volumes and have gained market share. Will launch new colors alongside launch of Xoom 125.
- **EBITDA margins** - ICE business margins increased to 15.6% led by operating leverage, favorable mix, cost savings and better pricing.
  - **EV vertical diluted margins by ~130bp in 4QFY24.** Healthy margins would led to increased investments in growth priorities and EV vertical.
  - Decline in RM helped margins both YoY and QoQ. Also have taken price hikes of Rs1.3k-1.4k unit average in FY24.
- **SPAM** business grew double digit in FY24 and have doubled in 3-4 years. **Expect to grow double digit even in FY25E.**
  - 4QFY24 revenues at ~Rs13.97b (vs Rs12.71b) and Rs50.87b in FY24.
  - Expect scope of SPAM business contribution to further increase from ~14% in FY24 (vs 10-11% 2-3 years back).
- **EV – expect to launch new products on EV 2W segment.** Working on cost structures to bring down BOM cost. Focus on getting the right cost structure vs margins. Investments on capex and open to continue.
- **PLI** – as an entity qualify for PLI incentives. Vida currently do not qualify but new launches would comply for PLI. Even VIDA would qualify for PLI from 2QFY25E.

# Hero MotoCorp (HMCL)

- Financing penetration at ~60% (flat QoQ) and HFCL penetration was at ~30%.
- Capex expected at Rs10-15b in FY25E including GPC 2.0 expansion over 2 years.
- Exports market share of ~7.2% (+250bp). Have changed distributors in Nepal and Nigeria which should led to better volumes ahead. Entering high volume markets such as Brazil (more premium volumes) and Philippines. If needed launch products suitable to specific markets. Will launch E27 complied products in Brazil.

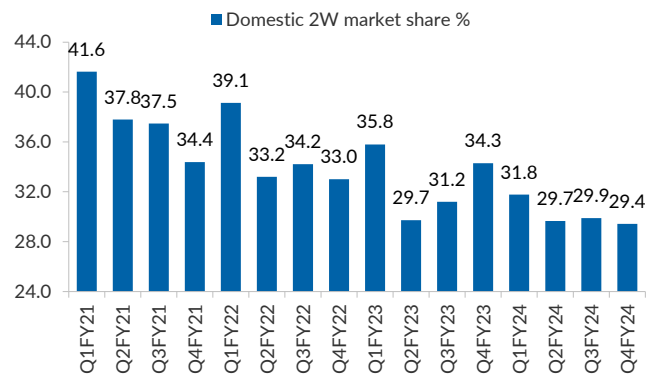
## CHARTS

**Exhibit 1: 4QFY24 volume grew 9.6% YoY/-4.6% QoQ**



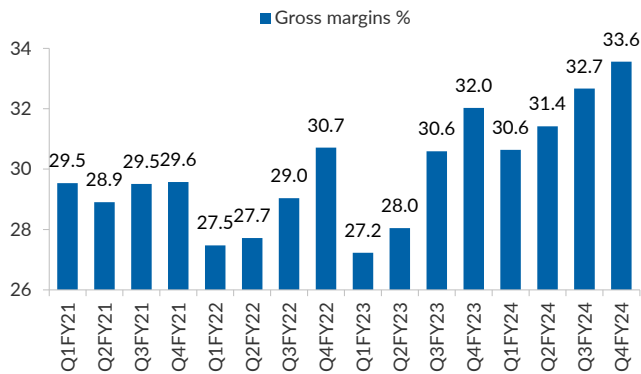
Source: Company, YES Sec

**Exhibit 2: HMCL's domestic 2W market share trend**



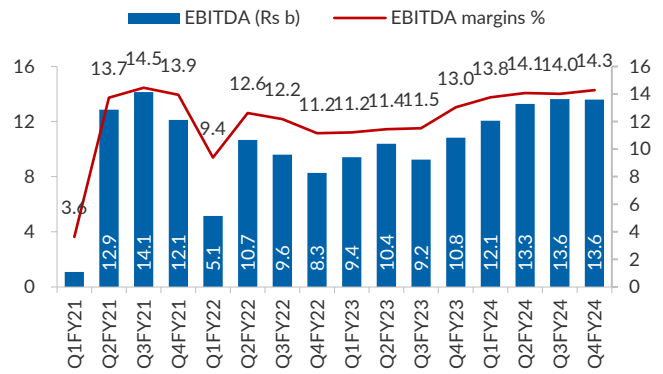
Source: SIAM, YES Sec

**Exhibit 3: Gross margins expanded 160bp YoY**



Source: Company, YES Sec

**Exhibit 4: EBITDAM expanded 130bp YoY (+30bp QoQ)**



Source: Company, YES Sec

## FINANCIALS

Exhibit 5: Balance Sheet

Y/E March	2021	2022	2023	2024	2025E	2026E
<b>Sources of Funds</b>						
Share Capital	400	400	400	400	400	400
Reserves	151,585	157,430	166,651	179,462	197,154	217,138
<b>Net Worth</b>	<b>151,984</b>	<b>157,829</b>	<b>167,051</b>	<b>179,862</b>	<b>197,554</b>	<b>217,538</b>
Deferred Tax	4,041	3,833	4,054	4,348	4,348	4,348
Loans	2,758	2,974	3,306	2,896	2,896	2,896
<b>Capital Employed</b>	<b>158,783</b>	<b>164,636</b>	<b>174,410</b>	<b>187,106</b>	<b>204,798</b>	<b>224,782</b>
<b>Application of Funds</b>						
Gross Fixed Assets	142,362	146,657	151,942	159,782	168,587	180,587
Less: Depreciation	82,478	88,592	94,328	101,442	108,994	117,025
<b>Net Fixed Assets</b>	<b>59,884</b>	<b>58,065</b>	<b>57,614</b>	<b>58,340</b>	<b>59,593</b>	<b>63,562</b>
Capital WIP	4,366	4,582	4,638	4,805	12,000	12,000
Investments	104,997	106,523	110,104	130,861	126,861	122,861
<b>Curr.Assets, L &amp; Adv.</b>	<b>52,364</b>	<b>47,970</b>	<b>60,276</b>	<b>61,709</b>	<b>81,517</b>	<b>107,832</b>
Inventory	14,696	11,227	14,341	14,438	20,364	22,090
Sundry Debtors	24,268	23,043	27,982	27,034	30,546	33,135
Cash & Bank Balances	2,572	1,751	3,455	6,089	14,600	35,245
Loans & Advances	397	402	436	457	517	561
Others	10,432	11,547	14,062	13,691	15,489	16,802
<b>Current Liab. &amp; Prov.</b>	<b>62,827</b>	<b>52,505</b>	<b>58,221</b>	<b>68,609</b>	<b>75,173</b>	<b>81,473</b>
Sundry Creditors	52,046	42,603	47,045	55,282	62,224	67,497
Other Liabilities	7,452	6,516	7,438	8,620	9,051	9,818
Provisions	3,328	3,385	3,738	4,708	3,898	4,158
<b>Net Current Assets</b>	<b>(10,463)</b>	<b>(4,534)</b>	<b>2,055</b>	<b>(6,900)</b>	<b>6,344</b>	<b>26,360</b>
<b>Application of Funds</b>	<b>158,784</b>	<b>164,636</b>	<b>174,410</b>	<b>187,106</b>	<b>204,798</b>	<b>224,782</b>

Source: Company, YES Sec

## Exhibit 6: Income statement

Y/E March	2021	2022	2023	2024	2025E	2026E
<b>Net Revenues</b>	308,006	292,455	338,057	374,557	423,677	459,582
Change (%)	6.8	(5.0)	15.6	10.8	13.1	8.5
<b>EBITDA</b>	40,192	33,688	39,862	52,557	60,563	66,419
EBITDA Margin (%)	13.0	11.5	11.8	14.0	14.3	14.5
Depreciation	6,769	6,498	6,570	7,114	7,552	8,031
<b>EBIT</b>	33,424	27,190	33,293	45,443	53,010	58,388
Interest cost	218	258	199	185	165	145
Other Income	5,799	5,569	5,652	8,926	10,136	10,408
<b>PBT</b>	39,004	32,501	38,746	52,584	62,981	68,650
Tax	9,362	7,771	9,640	12,904	15,304	16,682
Effective Tax Rate (%)	24.0	23.9	24.9	24.5	24.3	24.3
<b>PAT</b>	29,642	24,730	29,106	39,680	47,677	51,968
Change (%)	(18.4)	(16.6)	17.7	36.3	20.2	9.0
% of Net Sales	9.6	8.5	8.6	10.6	11.3	11.3
<b>Adj. PAT</b>	29,642	24,730	29,106	40,887	47,677	51,968
Change (%)	(4.2)	(16.6)	17.7	40.5	16.6	9.0

Source: Company, YES Sec

## Exhibit 7: Cash Flow Statement

Y/E March	2021	2022	2023	2024	2025E	2026E
Profit before Tax	29,642	24,730	29,106	39,680	62,981	68,650
Depreciation & Amort.	6,769	6,498	6,570	7,114	7,552	8,031
Direct Taxes Paid	(9,759)	(7,688)	(8,496)	(13,142)	(15,304)	(16,682)
(Inc)/Dec in Working Capital	10,700	(6,825)	(5,832)	10,747	(4,733)	629
Other Items	4,375	3,488	4,443	4,667	165	145
<b>CF from Oper. Activity</b>	41,727	20,203	25,791	49,065	50,661	60,773
<b>CF after EO Items</b>	41,727	20,203	25,791	47,465	50,661	60,773
(Inc)/Dec in FA+CWIP	(5,146)	(5,347)	(5,777)	(7,195)	(16,000)	(12,000)
<b>Free Cash Flow</b>	36,581	14,856	20,014	41,870	34,661	48,773
(Pur)/Sale of Invest.	(16,953)	3,828	1,089	(10,824)	4,000	4,000
<b>CF from Inv. Activity</b>	(22,099)	(1,519)	(4,688)	(18,019)	(12,000)	(8,000)
Inc/(Dec) in Debt	(218)	(149)	(224)	(150)		
Interest Paid	(218)	(258)	(199)	(195)	(165)	(145)
Dividends Paid	(18,978)	(18,981)	(19,983)	(26,987)	(29,985)	(31,984)
<b>CF from Fin. Activity</b>	(19,415)	(19,389)	(20,406)	(27,331)	(30,150)	(32,129)
<b>Inc/(Dec) in Cash</b>	213	(705)	697	2,115	8,511	20,644
Add: Beginning Balance	1,479	1,692	987	1,684	6,089	14,600
<b>Closing Balance</b>	1,692	987	1,684	3,799	14,600	35,245

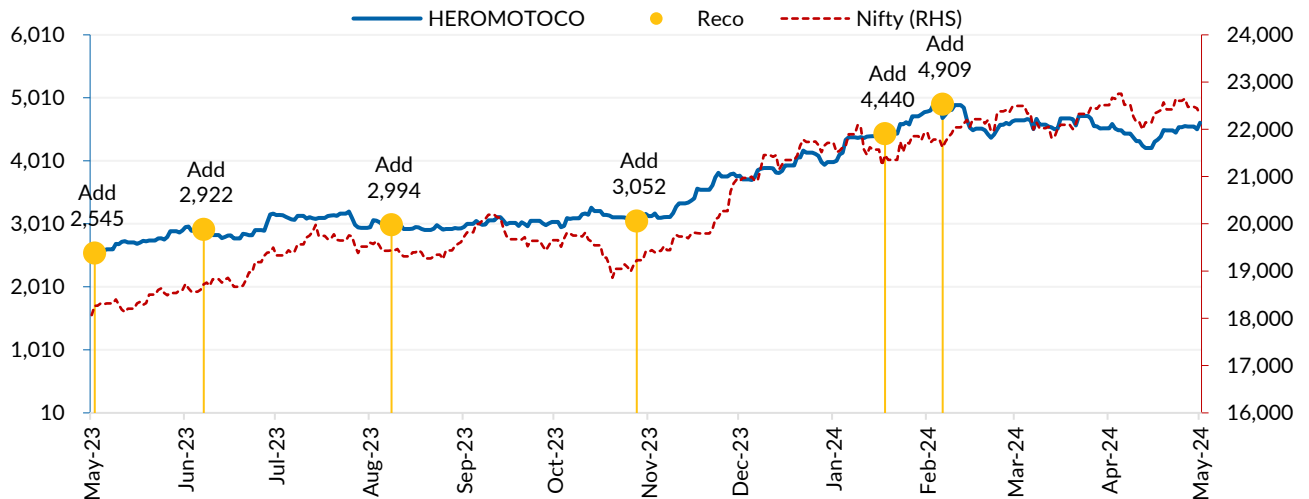
Source- Company, Yes Sec

**Exhibit 8: Growth and Ratio matrix**

Y/E March	2021	2022	2023	2024	2025E	2026E
<b>Basic (INR)</b>						
<b>EPS</b>	148.4	123.8	145.6	204.5	238.5	260.0
EPS Growth (%)	(4.0)	(16.6)	17.7	40.4	16.6	9.0
Cash EPS	182.2	156.3	178.5	234.1	276.3	300.1
Book Value per Share	760.7	789.9	835.9	899.8	988.3	1,088.2
DPS	105.0	95.0	100.0	140.0	150.0	160.0
Payout (Incl. Div. Tax) %	81.4	88.3	79.0	81.1	72.3	70.8
<b>Valuation (x)</b>						
P/E	31.2	37.4	31.7	22.6	19.4	17.8
EV/EBITDA	20.4	24.3	20.4	15.0	13.0	11.6
EV/Sales	2.7	2.8	2.4	2.1	1.9	1.7
Price to Book Value	6.1	5.9	5.5	5.1	4.7	4.2
Dividend Yield (%)	2.3	2.1	2.2	3.0	3.2	3.5
<b>Profitability Ratios (%)</b>						
RoE	20.2	16.0	17.9	23.6	25.3	25.0
RoCE	19.5	15.4	17.3	22.7	24.4	24.2
RoIC	48.2	42.0	46.3	67.5	83.0	83.4
<b>Turnover Ratios</b>						
Debtors (Days)	30.3	30.3	31.9	27.8	27.8	27.8
Inventory (Days)	18.4	14.8	16.3	14.8	18.5	18.5
Creditors (Days)	61.7	53.2	50.8	53.9	53.6	53.6
Working Capital (Days)	(12.4)	(5.7)	2.2	(6.7)	5.5	20.9
Asset Turnover (x)	1.9	1.8	1.9	2.0	2.1	2.0
Fixed Asset Turnover	2.2	2.0	2.3	2.4	2.6	2.6

Source- Company, Yes Sec

## Recommendation Tracker



Source – YES Sec



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