

Retail Equity Research Hero MotoCorp Limited

Automobiles

BSE CODE: 500182

NSE CODE: HEROMOTOCO

Bloomberg CODE: HMCL:IN

SENSEX: 80,905

BUY

12 Months Investment Period Rating as per Large Cap
CMP Rs. 5,285 TARGET Rs. 5,877 RETURN 11% ↑
(Closing: 21-08-24)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Volume supports revenue, outlook positive

Hero MotoCorp (HMCL) is India's leading two-wheelers 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 Q1FY25, its standalone revenue rose 15.7% YoY to Rs. 10,144cr, primarily owing to rural demand.
- EBITDA grew 21.0% YoY to Rs. 1,460cr and EBITDA margin expanded 60bps YoY to 14.4%, aided by better product mix and cost savings.
- HMCL reported positive trends in domestic, electric vehicle (EV), and global businesses, and anticipates increased momentum in Q4 due to positive customer sentiment, a favourable monsoon and upcoming festive season. Additionally, the company is expected to launch products in internal combustion engine (ICE) as well as Electric vehicle (EV) categories. Hence, we retain our BUY rating on the stock with a revised target price of Rs. 5,877, based on 22.5x FY26E adjusted earnings per share (EPS).

New model and strong rural demand drive sales

Standalone revenue rose 15.7% YoY in Q1FY25, surpassing Rs. 10,000cr for the first time to Rs. 10,144cr, supported by 13.5% YoY increase in sales volume to 15.35 lakh. Sales of motorcycles grew 14.1% YoY to 14.41 lakh and those of scooters rose 4.7% YoY to 94,200. The strong revenue growth was led by recovery in the 125cc segment, driven by its new model, Xtreme 125 cc, and sharp uptick in rural demand. To ensure long-term growth, HMCL's strategy hinges on investing in expanding capacity and building brands in the premium segment.

EV spends dents EBITDA margin

EBITDA rose 21.0% YoY to Rs. 1,460cr owing to superior product mix, improved operating leverage and cost savings. However, spending on the EV business of Rs. 181cr affected further improvement in margins during the quarter – overall EBITDA margin rose 60bps YoY to 14.4%. Consequently, adjusted PAT grew 14.0% YoY to a new peak of Rs. 1,123cr.

Key concall highlights

- The positive response to Xtreme 125cc has prompted the company to increase the manufacturing capacity of the model to 40,000 units/month from 25,000 units/month to fulfill demand and increase market share.
- HMCL is expected to introduce more motorcycles in FY25, focusing on growing its premium portfolio, as well as new launches of both ICE and EV scooters.
- HMCL is actively engaged in the development of scooters, with focus on Destini, which is expected to be unveiled soon. This will be accompanied by the introduction of Xoom models, with 110 cc, 125 cc and 160 cc capacities.

Valuation

HMCL has seen favourable trends across its domestic, EV and global businesses in the last quarter, with the company anticipating an acceleration in the subsequent quarters, attributed to positive customer sentiment, a favourable monsoon and upcoming festive season. Furthermore, the company has announced a series of product launches in the ICE as well as EV categories. Hence, we retain our BUY rating on the stock with a revised target price of Rs. 5,877, based on 22.5x FY26E adjusted EPS.

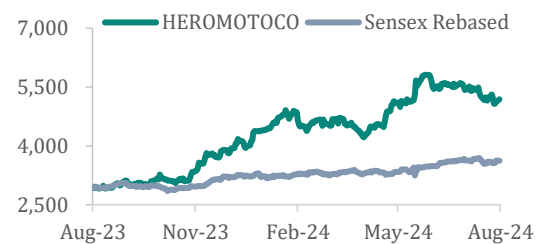
Company Data

Market Cap (cr)	Rs. 104,825
Enterprise Value (cr)	Rs. 104,791
Outstanding Shares (cr)	20.0
Free Float	65.0%
Dividend Yield	2.7%
52 week high	Rs. 5,894
52 week low	Rs. 2,889
6m average volume (lacs)	7.8
Beta	0.5
Face value	Rs. 2

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	34.8	34.8	34.8
FII's	28.3	28.9	29.9
MFs/Insti	28.1	27.8	26.9
Public	8.1	7.9	7.9
Others	0.7	0.7	0.6
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	2.8%	12.5%	79.2%
Absolute Sensex	9.2%	10.6%	24.4%
Relative Return*	-6.4%	1.9%	54.7%

*over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
Sales	37,456	42,163	46,463
Growth (%)	10.8	12.6	10.2
EBITDA	5,256	6,121	6,918
EBITDA Margin (%)	14.0	14.5	14.9
Adj. PAT	4,128	4,637	5,230
Growth (%)	41.8	12.3	12.8
Adj. EPS	206.2	231.6	261.2
Growth (%)	41.7	12.3	12.8
P/E	11.4	22.6	20.1
P/B	2.6	5.0	4.4
EV/EBITDA	8.9	17.1	15.2
ROE (%)	22.1	22.2	21.9
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

Rs. cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Revenue	10,144	8,767	15.7	9,519	6.6
EBITDA	1,460	1,206	21.0	1,360	7.3
EBITDA margins	14.4	13.8	60bps	14.3	10bps
Depreciation	193	169	14.3	185	4.4
EBIT	1,267	1,037	22.1	1,175	7.8
Interest	5	5	3.2	5	5.5
Other Income	232	222	4.3	180	28.7
Exceptional Items	-	(160)	<i>n.m.</i>	-	-
Share of profit from Associate	-	-	-	-	-
PBT	1,493	1,095	36.4	1,350	10.6
Tax	371	270	37.3	334	11.2
Reported PAT	1,123	825	36.1	1,017	10.4
Minority Interest	-	-	-	-	-
PAT att. to shareholders	1,123	825	36.1	1,017	10.4
Adjustments	-	160	<i>n.m.</i>	-	-
Adj. PAT	1,123	985	14.0	1,017	10.4
No. of shares	20.0	20.0	0.1	20.0	(0.0)
Adj. EPS (Rs.)	56.0	49.2	13.8	50.7	10.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	42,798	47,163	42,163	46,463	(1.5)	(1.5)
EBITDA	6,059	6,825	6,121	6,918	1	1.4
Margins (%)	14.2	14.5	14.5	14.9	30bps	40bps
Adj. PAT	4,637	5,177	4,637	5,230	0	1
Adj. EPS	231.8	258.8	231.6	261.2	(0.1)	0.9

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	29,245	33,806	37,456	42,163	46,463
% change	(5.0)	15.6	10.8	12.6	10.2
EBITDA	3,369	3,986	5,256	6,121	6,918
% change	(16.2)	18.3	31.8	16.5	13.0
Depreciation	650	657	711	720	722
EBIT	2,719	3,329	4,544	5,401	6,196
Interest	26	20	19	22	26
Other Income	557	565	733	803	803
PBT	3,250	3,875	5,258	6,183	6,973
% change	(16.7)	19.2	35.7	17.6	12.8
Tax	777	964	1,290	1,546	1,743
Tax Rate (%)	23.9	24.9	24.5	25.0	25.0
Reported PAT	2,473	2,911	3,968	4,637	5,230
PAT att. to common shareholders	2,473	2,911	3,968	4,637	5,230
Adj*	-	-	160	-	-
Adj PAT	2,473	2,911	4,128	4,637	5,230
% change	(16.6)	17.7	41.8	12.3	12.8
No. of shares (cr)	20.0	20.0	20.0	20.0	20.0
Adj EPS (Rs.)	123.7	145.5	206.2	231.6	261.2
% change	(16.6)	17.6	41.7	12.3	12.8
DPS (Rs.)	95.0	100.0	140.0	162.4	183.2

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	3,123	3,568	4,679	5,357	5,952
Non-cash adj.	(628)	(622)	(664)	(172)	(442)
Changes in W.C	(475)	(366)	891	439	367
C.F. Operation	2,020	2,579	4,907	5,624	5,876
Capital exp.	(524)	(568)	(710)	(939)	(920)
Change in inv.	173	(55)	(1,548)	(1,900)	(1,900)
Other invest.CF	200	154	457	111	122
C.F - Investment	(152)	(469)	(1,802)	(2,728)	(2,698)
Issue of equity	5	3	10	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(1,898)	(1,998)	(2,699)	(2,799)	(3,247)
Other finance.CF	(46)	(45)	(45)	195	120
C.F - Finance	(1,939)	(2,041)	(2,733)	(2,604)	(3,126)
Chg. in cash	(71)	70	372	292	52
Closing cash	175	346	609	901	953

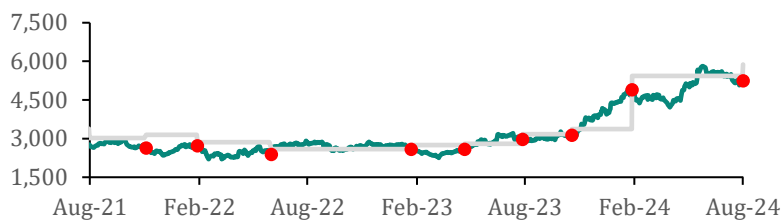
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	175	346	609	901	953
Accounts Receivable	2,304	2,798	2,703	2,867	3,113
Inventories	1,123	1,434	1,444	1,610	1,745
Other Cur. Assets	6,513	4,459	5,040	6,176	7,602
Investments	4,815	7,372	8,812	10,712	12,612
Gross Fixed Assets	9,989	10,246	10,246	11,186	12,106
Net Fixed Assets	5,508	5,261	5,305	5,525	5,723
CWIP	87	129	121	133	146
Intangible Assets	669	835	888	906	925
Def. Tax (Net)	-	-	-	-	-
Other Assets	520	629	649	653	658
Total Assets	21,714	23,263	25,572	29,484	33,477
Current Liabilities	4,913	5,438	6,268	7,084	7,896
Provisions	178	198	317	323	329
Debt Funds	457	517	566	677	754
Other Liabilities	383	405	435	541	610
Equity Capital	40	40	40	40	40
Reserves & Surplus	15,743	16,665	17,946	20,819	23,848
Shareholder's Fund	15,783	16,705	17,986	20,859	23,888
Minority Interest	-	-	-	-	-
Total Liabilities	21,714	23,263	25,572	29,484	33,477
BVPS (Rs.)	790	835	898	1,042	1,193

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	11.5	11.8	14.0	14.5	14.9
EBIT margin (%)	9.3	9.8	12.1	12.8	13.3
Net profit mgn.(%)	8.5	8.6	10.6	11.0	11.3
ROE (%)	15.7	17.4	22.1	22.2	21.9
ROCE (%)	16.7	19.3	24.5	25.1	25.1
W.C & Liquidity					
Receivables (days)	28.8	30.2	26.3	24.8	24.5
Inventory (days)	19.7	21.9	20.7	20.4	20.1
Payables (days)	74.7	72.0	79.3	79.9	81.0
Current ratio (x)	2.0	1.6	1.5	1.5	1.6
Quick ratio (x)	1.6	1.2	1.2	1.1	1.2
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	1.5
Int. coverage ratio (x)	105.4	167.6	245.6	247.9	234.8
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	1.6	1.4	1.3	2.5	2.3
EV/EBITDA (x)	13.7	11.8	8.9	17.1	15.2
P/E (x)	18.6	16.1	11.4	22.6	20.1
P/BV (x)	2.9	2.8	2.6	5.0	4.4

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
16-Feb-22	HOLD	2,857
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

Investment 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.

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

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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