

November 15, 2024

RESULT REPORT Q2 FY25 | Sector: Automobile

Hero MotoCorp Ltd

Underlying ICE margins continues to be healthy

View – ICE margins to sustain while EVs ramp-up to continue

HMCL's 2QFY25 results were steady and in-line to our/street with EBITDA margins expanded 40bp YoY (+10bp QoQ) at 14.5%. This was constrained by EV (margin drag of ~200bp) as underlying ICE margins were healthy at 16.5% (vs 16.4% in 1Q, 15.6% in 4QFY24 and 14.5% in 1QFY24), supported by operating leverage, favorable mix, cost savings and price hikes. ~4.2% QoQ increase in ASP was led by favorable mix ~15% QoQ increase in spares revenues with contribution at ~14% (vs 12.5% in 1Q and vs 14.7% in 4QFY24). The management indicated signs of first-time buyers coming back as reflected in positive rural momentum over past 6-7 months, is positive.

Going ahead while the management remain confident 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 with capacity being ramped to ~40k units/month (vs ~25k earlier). Maintain ADD with revised TP of Rs5,377 (vs Rs5,789) based on ~19x Mar'27 S/A EPS plus Rs148 for Hero FinCorp. 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% over FY24-27E.

Result Highlights – ASP and EBITDA/vehicle came highest ever

- Revenues grew 10.8% YoY (+3.1% QoQ) at Rs104.6b (est Rs102.6b) as volumes/ASP grew 7.3%/+3.3% YoY and +1/+4.2% QoQ respectively at ~1.52m units and Rs68.9k/unit (est Rs67.5k/unit). Of Rs2.7k/unit ASP expansion QoQ, ~Rs14k/unit was led by 2Ws & balance from parts.
- Gross margins came in better at 32.3% (+190bp YoY/+100bp QoQ). However, this was partially offset by higher staff cost at ~Rs6.5b (est ~Rs6.2b, +7.4% QoQ).
- Consequently, EBITDA grew ~14.1% YoY (+3.8% QoQ) at Rs15.2b (est Rs14.5b, cons Rs14.8b), leading to margins expanding by 40bp YoY (+10bp QoQ) at 14.5% (est 14.2%). ICE business margins expanded further to 16.5% (vs ~16.4% in 1Q and ~14.5% in 1QFY24) led by positive mix, benign RM and LEAP Savings of 50bp in 2Q. EV vertical dragged margins by ~200bp at co. level. Hence EBITDA/vehicle came in at Rs9.97k/vehicle (+6.4% YoY/+4.9% QoQ).
- Adj.PAT grew by 14.2% YoY (+7.2% QoQ) at ~Rs12b (est Rs11.2b, cons Rs11.5b).
- 1HFY25 revenues/EBITDA/Adj.PAT grew 13%/17.4%/16.4%.

Exhibit 1: Actual vs estimates

Rs m	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	104,632	102,624	102,128	2.0	2.5	Steady operating performance. ICE margins continues to be healthy.
EBITDA	15,159	14,547	14,823	4.2	2.3	
EBITDA margins %	14.5	14.2	14.5	30bp	0bp	
Adjusted PAT	12,035	11,238	11,519	7.1	4.5	

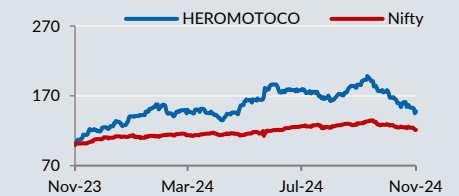
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 4,604
Target Price	: Rs 5,377
Potential Return	: +16.8%

Stock data (as on Nov 14, 2024)

Nifty	23,533
52 Week h/l (Rs)	6,246 / 3,085
Market cap (Rs/USD mn)	903,830 / 10,702
Outstanding Shares (mn)	200
6m Avg t/o (Rs mn):	3,784
Div yield (%):	2.5
Bloomberg code:	HMCL IN
NSE code:	HEROMOTOCO

Stock performance



	1M	3M	1Y
Absolute return	(16.4%)	(9.2%)	+44.9%

Shareholding pattern (As of Sep'24)

Promoter	34.8%
FII+DII	56.8%
Others	8.7%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	5,377	5,789

Δ in earnings estimates

	FY26E	FY27E
EPS (New)	252.0	269.6
EPS (Old)	257.1	274.9
% Change	(2.0%)	(2.0%)

Financial Summary

Y/E MARCH (Rs b)	FY25E	FY26E	FY27E
Sales	423.4	459.3	497.6
EBITDA	62.8	64.8	70.0
Adj. PAT	49.4	50.4	53.9
Adj. EPS (INR)	247.3	252.0	269.6
EPS Gr. (%)	20.9	1.9	7.0
BV/Sh. (INR)	997.1	1,089.1	1,188.7
RoE (%)	26.1	24.2	23.7
RoCE (%)	25.2	23.4	23.0
Payout (%)	69.7	73.0	72.5
P/E (x)	18.6	18.3	17.1
P/BV (x)	4.6	4.2	3.9
EV/EBITDA (x)	12.4	11.7	10.6
Div. Yield (%)	3.3	3.5	3.7

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Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q2FY25	Q2FY24	YoY chg	Q1FY25	1HFY25	1HFY24	YoY chg
Net Revenues	104,632	94,454	10.8	101,437	206,069	182,127	13.1
Raw Materials	69,795	64,780	7.7	68,672	138,466	125,589	10.3
% of Net Sales	66.7%	68.6%		67.7%	67.2%	69.0%	
Personnel	6,535	5,768	13.3	6,083	12,618	11,569	9.1
% of Net Sales	6.2%	6.1%		6.0%	6.1%	6.4%	
Manufacturing & Other Exp	13,143	10,624	23.7	12,085	25,228	19,623	28.6
% of Net Sales	12.6%	11.2%		11.9%	12.2%	10.8%	
Total Expenditure	89,473	81,171	10.2	86,840	176,313	156,782	12.5
EBITDA	15,159	13,283	14.1	14,598	29,756	25,345	17.4
EBITDA Margin (%)	14.5%	14.1%		14.4%	14.4%	13.9%	
Depreciation	1,937	1,749	10.8	1,932	3,869	3,439	12.5
EBIT	13,222	11,534	14.6	12,666	25,888	21,907	18.2
Interest Expenses	49	48	3.6	48	97	94	3.4
Non-operating income	2,830	2,483	14.0	2,317	5,147	4,705	9.4
PBT	16,003	13,970	14.6	14,935	30,937	24,918	24.2
Tax-Total	3,967	3,431	15.6	3,708	7,676	6,132	25.2
Tax Rate (%) - Total	24.8%	24.6%		24.8%	24.8%	24.6%	
Reported PAT	12,035	10,538	14.2	11,226	23,262	18,786	23.8
Adj. PAT	12,035	10,538	14.2	11,226	23,262	19,991	16.4
PAT Margin	11.5%	11.2%		11.1%	11.3%	11.0%	
Key operating metrics							
Sales Volume (nos)	1,519,684	1,416,526	7.3	1,535,156	3,054,840	2,769,100	10.3
Net Realisation/Vehicle	68,851	66,680	3.3	66,076	67,457	65,771	2.6
Material cost / vehicle	45,927	45,731	0.4	44,733	45,327	45,354	(0.1)
Gross Profit / vehicle	22,924	20,949	9.4	21,344	22,130	20,418	8.4
Employee cost /vehicle	4,300	4,072	5.6	3,963	4,131	4,178	(1.1)
Other expenses / vehicle	8,649	7,500	15.3	7,872	8,258	7,087	16.5
EBITDA/vehicle	9,975	9,377	6.4	9,509	9,741	9,153	6.4
Net Profit/vehicle	7,920	7,440	6.5	7,313	7,615	7,219	5.5

Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Domestic

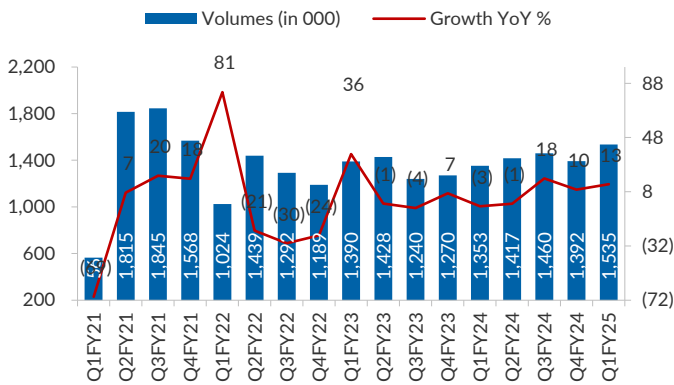
- **Festive growth (~32 days) healthy at ~13%** with volumes of 1.6m units in and revenue growth of ~16%. Surge in volumes led by positive impact of regional A&P.
 - Second half of festive was much better than first part of festive. Saw balanced demand trends between rural and urban with double digit growth in both.
 - **Expect to grow ahead of industry ahead.** Seeing positive demand for marriage season while bottom end of the customers continued to come back. Dhanteras sales were highest ever for the co.
 - **EV momentum positive too for festive** – ~11.6k units in retails with market share of ~5.4%. Each of the zones have contributed to the growth.
- **Xtreme 125** - seeing good traction led by features, sporty look. Increased capacity to ~40k units now. Products is available to secondary network with presence now available pan India.
- **Rural contribution grew to ~53.7% in 2QFY25** vs ~52% YoY reflecting rural grew faster than urban YoY. Last 6 days of festive stronger period for rural sales contribution ~56%.
- **Inventory much under control** - Average 2Q inventory at 10-11 weeks which declined to ~4.1 weeks post festive (7-8 weeks in 1QFY25 and 9-10 weeks in 2QFY24).
- **Quick commerce segment** – use entry MC, lot of them use EV scooters (low to med end). Institutional business segment works on suitable format with festive sales of ~30k vehicles.
- **Exports** – have ramp-up plans for 2HFY25. Seeing traction from Columbia (operation is cash positive already) and Mexico. Expect rest of the countries to come back.
- **Margin** – ICE margins at 16.5% (vs ~16.4% in 1Q, ~15.6% in 4Q and ~14.5% in 1QFY24)
 - **LEAP savings of 50bp in 2QFY25** (vs 40bp YoY and 20bp QoQ). 1HFY25 leap savings at 40bp (vs 30bp YoY). ICE margins expansions are led by positive mix, benign RM and LEAP savings. EV vertical dragged margins by ~200bp at co level. Expect to maintain EBITDAM of 14-16%.
 - **Weighted average price hikes (ex-show)** – Oct'24 Rs209, Jul'24 Rs569, Apr'24 Rs134, FY24 Rs2,129, FY23 Rs3,850 and FY22 Rs3,564.
 - Healthy margins will allow continued investments behind brand building, new product launches in premium MC/ scooter segments.
 - Din't saw incentives/schemes/discounting disproportionately higher vs previous festive.
- **ASP expansion QoQ** was led by Rs1,400/unit by 2W and balance from parts. Expect ASP to continue improve.
- **Retail distribution** – Seeing increase in NPS led by improving customer experience
 - **Hero 2.0** - Have ramped up Hero 2.0 stores count to ~600+ 2QFY25 (vs >520 in 1QFY25 and ~400 till 4QFY24). Expect to reach ~800 stores by end of FY25.
 - **Premia stores** count increased to ~58 (vs ~42 in 1QFY25) and expect the same to be ramped-up to +100 stores by end of FY25. Most of the stores are opened from existing dealers. Expect premia stores to be sustainable with 15-18 months.
 - **EV – expanded to 310+ cities and 488 dealerships in 2QFY25 with ~507 touchpoints** (vs ~175 cities with ~300 dealers in 1QFY25, ~120 cities with ~180 dealers in 4QFY24).
- **EV - VIDA expansion underway and product range expansion expected in FY25 and FY26.**
 - Market share in top 30 towns (Festive): +20% in 4 towns (Kolkata, Mysore, Cuttack, Bhilwara), +10% in 10 towns (such as Delhi, Bhubaneshwar and Patna).

Hero MotoCorp (HMCL)

- **New scooter launch** - Expect to launch affordable products on the backdrop of cost reduction initiatives by end of CY24. And launch of other user segment within 6 months covering most of the price points.
- **EV MC** - developing in partnership with Zero MC. First launch will be in performance and middle weight segment but have not revealed the timelines.
- **PLI** - expect the benefits from FY26 as products would comply for the same.
- **Spares (SPAM) revenues grew 8.2% YoY (+15.1% QoQ) to Rs1.456b** with share in revenues at 13.9% in 2Q (vs 14.3% YoY and 12.5% QoQ). 1HFY25 revenues grew 6.1% YoY at Rs2.7b with revenue share at 13.2% (vs 14.1% YoY)
- **Financing share for 2QFY25 stood at ~65.6% (vs 59.5% QoQ and 67.8% YoY)** of which Hero FinCorp (HFCL) share at 26.2% (vs 29.7% QoQ and 27.5% YoY). 1HFY25 share at 62.1% (vs 62.3% YoY) of which captive share is 28.3% (vs 30.6% YoY).
 - Festive financing share at ~66% of which HFCL share at ~26% (flat YoY).
 - **HFCL** - Delinquency and collection slowing down impacted profitability. See collections coming back in 2H. Loan book grew +16% YoY.
- **Capex guidance - FY25 at Rs12b** including ~Rs6b for global parts center (vs FY24 capex at Rs12b). FY26 capex guidance at Rs7.5-10b. Investments in EV at Rs.1.75b in 2QFY25.

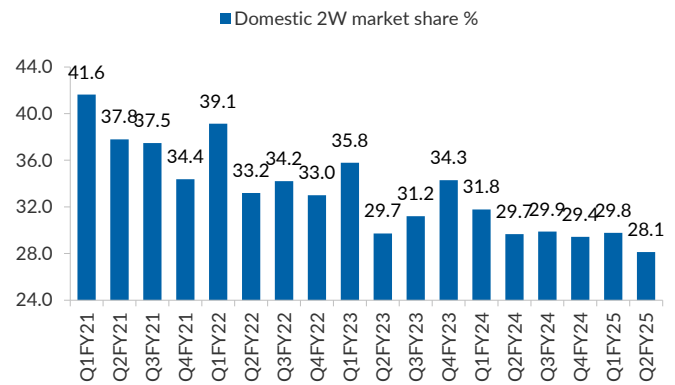
CHARTS

Exhibit 1: Volume grew 7.3% YoY/-1% QoQ



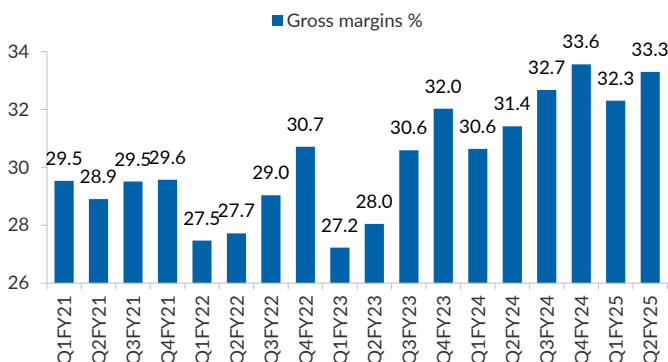
Source: Company, YES Sec

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



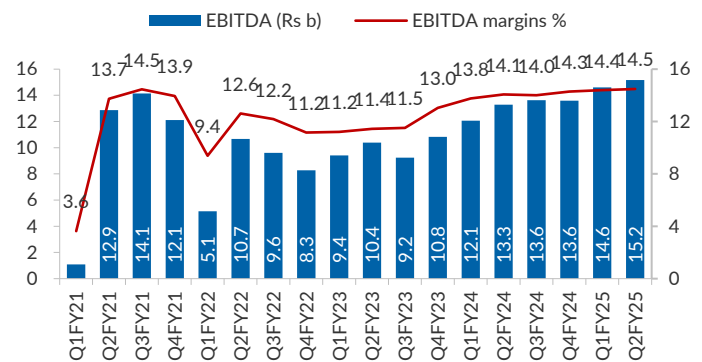
Source: SIAM, YES Sec

Exhibit 3: Gross margins expanded 190bp YoY



Source: Company, YES Sec

Exhibit 4: EBITDAM expanded 40bp YoY (+10bp QoQ)



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March	2022	2023	2024	2025E	2026E	2027E
Sources of Funds						
Share Capital	400	400	400	400	400	400
Reserves	157,430	166,651	179,462	198,915	217,314	237,215
Net Worth	157,829	167,051	179,862	199,315	217,713	237,615
Deferred Tax	3,833	4,054	4,348	4,348	4,348	4,348
Loans	2,974	3,306	2,896	2,896	2,896	2,896
Capital Employed	164,636	174,410	187,106	206,560	224,958	244,860
Application of Funds						
Gross Fixed Assets	146,657	151,942	157,862	166,667	178,667	190,667
Less: Depreciation	88,592	94,328	99,522	107,310	115,598	124,462
Net Fixed Assets	58,065	57,614	58,340	59,357	63,069	66,205
Capital WIP	4,582	4,638	4,805	8,000	8,000	8,000
Investments	106,523	110,104	130,861	150,861	170,861	190,861
Curr.Assets, L & Adv.	47,970	60,276	61,709	63,473	64,456	67,916
Inventory	11,227	14,341	14,438	20,352	22,077	23,915
Sundry Debtors	23,043	27,982	27,034	30,528	33,116	35,873
Cash & Bank Balances	1,751	3,455	6,089	(3,259)	(7,931)	(10,499)
Loans & Advances	402	436	457	512	555	602
Others	11,547	14,062	13,691	15,339	16,639	18,024
Current Liab. & Prov.	52,505	58,221	68,609	75,131	81,428	88,122
Sundry Creditors	42,603	47,045	55,282	62,188	67,458	73,075
Other Liabilities	6,516	7,438	8,620	9,045	9,812	10,629
Provisions	3,385	3,738	4,708	3,898	4,158	4,418
Net Current Assets	(4,534)	2,055	(6,900)	(11,658)	(16,972)	(20,206)
Application of Funds	164,636	174,410	187,106	206,560	224,958	244,860

Source: Company, YES Sec

Hero MotoCorp (HMCL)

Exhibit 6: Income statement

Y/E March	2022	2023	2024	2025E	2026E	2027E
Net Revenues	292,455	338,057	374,557	423,430	459,313	497,561
Change (%)	(5.0)	15.6	10.8	13.0	8.5	8.3
EBITDA	33,688	39,862	52,557	62,796	64,797	69,992
EBITDA Margin (%)	11.5	11.8	14.0	14.8	14.1	14.1
Depreciation	6,498	6,570	7,114	7,789	8,288	8,864
EBIT	27,190	33,293	45,443	55,007	56,509	61,128
Interest cost	258	199	185	205	185	165
Other Income	5,569	5,652	8,926	10,679	10,408	10,408
PBT	32,501	38,746	52,584	65,481	66,731	71,371
Tax	7,771	9,640	12,904	16,043	16,349	17,486
Effective Tax Rate (%)	23.9	24.9	24.5	24.5	24.5	24.5
PAT	24,730	29,106	39,680	49,438	50,382	53,885
Change (%)	(16.6)	17.7	36.3	24.6	1.9	7.0
% of Net Sales	8.5	8.6	10.6	11.7	11.0	10.8
Adj. PAT	24,730	29,106	40,887	49,438	50,382	53,885
Change (%)	(16.6)	17.7	40.5	20.9	1.9	7.0

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March	2022	2023	2024	2025E	2026E	2027E
Profit before Tax	24,730	29,106	39,680	65,481	66,731	71,371
Depreciation & Amort.	6,498	6,570	7,114	7,789	8,288	8,864
Direct Taxes Paid	(7,688)	(8,496)	(13,142)	(16,043)	(16,349)	(17,486)
(Inc)/Dec in Working Capital	(6,825)	(5,832)	10,747	(4,590)	641	666
Other Items	3,488	4,443	4,667	205	185	165
CF from Oper. Activity	20,203	25,791	49,065	52,842	59,497	63,580
CF after EO Items	20,203	25,791	47,465	52,842	59,497	63,580
(Inc)/Dec in FA+CWIP	(5,347)	(5,777)	(7,195)	(12,000)	(12,000)	(12,000)
Free Cash Flow	14,856	20,014	41,870	40,842	47,497	51,580
(Pur)/Sale of Invest.	3,828	1,089	(10,824)	(20,000)	(20,000)	(20,000)
CF from Inv. Activity	(1,519)	(4,688)	(18,019)	(32,000)	(32,000)	(32,000)
Inc/(Dec) in Debt	(149)	(224)	(150)			
Interest Paid	(258)	(199)	(195)	(205)	(185)	(165)
Dividends Paid	(18,981)	(19,983)	(26,987)	(29,985)	(31,984)	(33,983)
CF from Fin. Activity	(19,389)	(20,406)	(27,331)	(30,190)	(32,169)	(34,148)
Inc/(Dec) in Cash	(705)	697	2,115	(9,348)	(4,672)	(2,568)
Add: Beginning Balance	1,692	987	1,684	6,089	(3,259)	(7,931)
Closing Balance	987	1,684	3,799	(3,259)	(7,931)	(10,499)

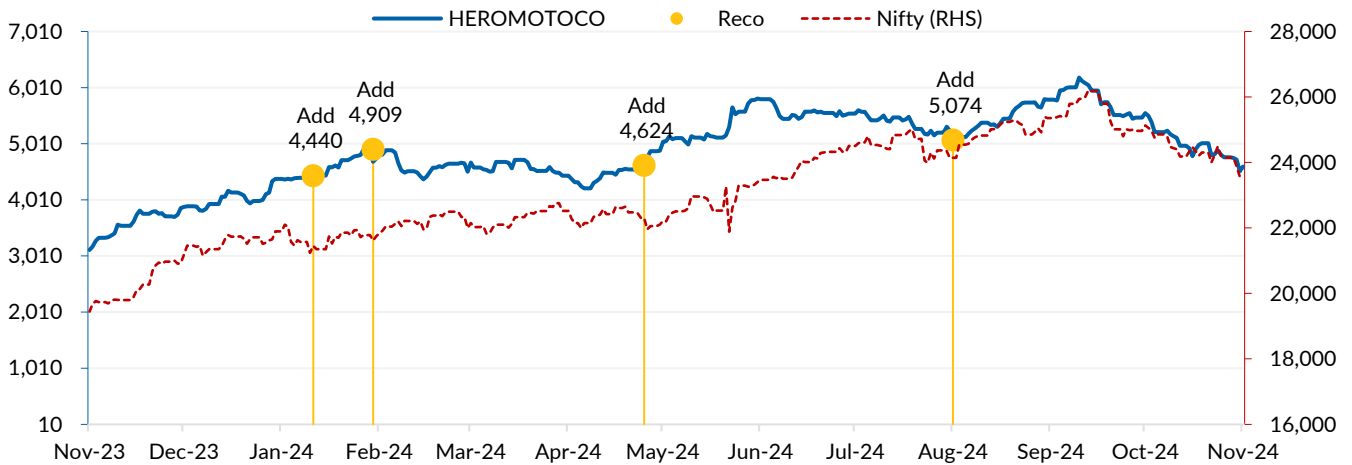
Source- Company, Yes Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	2022	2023	2024	2025E	2026E	2027E
Basic (INR)						
EPS	123.8	145.6	204.5	247.3	252.0	269.6
EPS Growth (%)	(16.6)	17.7	40.4	20.9	1.9	7.0
Cash EPS	156.3	178.5	234.1	286.3	293.5	313.9
Book Value per Share	789.9	835.9	899.8	997.1	1,089.1	1,188.7
DPS	95.0	100.0	140.0	150.0	160.0	170.0
Payout (Incl. Div. Tax) %	88.3	79.0	81.1	69.7	73.0	72.5
Valuation (x)						
P/E	37.2	31.6	22.5	18.6	18.3	17.1
EV/EBITDA	24.2	20.3	15.0	12.4	11.7	10.6
EV/Sales	2.8	2.4	2.1	1.8	1.7	1.5
Price to Book Value	5.8	5.5	5.1	4.6	4.2	3.9
Dividend Yield (%)	2.1	2.2	3.0	3.3	3.5	3.7
Profitability Ratios (%)						
RoE	16.0	17.9	23.6	26.1	24.2	23.7
RoCE	15.4	17.3	22.7	25.2	23.4	23.0
RoIC	42.0	46.3	67.5	86.2	81.3	83.5
Turnover Ratios						
Debtors (Days)	30.3	31.9	27.8	27.8	27.8	27.8
Inventory (Days)	14.8	16.3	14.8	18.5	18.5	18.5
Creditors (Days)	53.2	50.8	53.9	53.6	53.6	53.6
Working Capital (Days)	(5.7)	2.2	(6.7)	(10.0)	(13.5)	(14.8)
Asset Turnover (x)	1.8	1.9	2.0	2.0	2.0	2.0
Fixed Asset Turnover	2.0	2.3	2.4	2.6	2.7	2.7

Source- Company, Yes Sec

Recommendation Tracker



Source – YES Sec

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Analyst signature

Analyst signature

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