

HERO MOTOCORP LIMITED

Robust launch pipeline in FY25 to zoom up the volumes

LKP
Since 1948

Trust • Invest • Grow

Hero Motocorp Ltd (Hero) reported strong set of numbers in Q3 FY24 with the 2W industry in a sweet spot. Volumes grew by 17.8% yoy and 3.1% qoq as 2W segment saw a gradual sequential pick-up in growth post a dull FY 23. Topline grew by 21% yoy on 3% yoy growth in ASPs and better product mix. Net realizations remained flattish to ₹66.6K. The spares business also supported the cause as they had a good growth of 13% yoy and 8% qoq to ₹14 bn. The retail demand in Q3 witnessed a solid growth on the back of array of XTech launches (30% of volumes currently), pick up in rural demand and various variants launches in different segments. Input costs to sales ratio in Q3 were at 67.3%, down from 69.4% yoy and 68.6% qoq as commodity costs softened. Other expenses to sales moved up to 12.6% from 12.3% yoy on higher EV expenses, expansion in dealerships, new launches etc. EBITDA margins were sequentially down by just 10 bps and up by 250bps at 14% supported by the input cost benefits, LEAP-2 benefits, operating leverage and product mix tilted towards high margin premium products. However, margins were dragged by 200 bps because of EV products and related expenses. As depreciation expenses rose 13% yoy and 4.4% qoq, and other income grew by 32% yoy, PBT grew by 51% yoy while PAT too grew by 51% yoy at ₹10.73 bn, a sequential growth of 2%.

Volumes to grow at a robust pace from FY25 on launches in the premium segment, EVs and scooters

The company is gaining strength through the XTech (Extra Technology) variant expansion across its brands (30% of current demand) seen in Q3. In the premium bikes segment, the company attained market share of higher single digits on the back of the launches of X-treme 160R and X-Pulse 200T bikes. Going forward, the intrinsic growth drivers are expected to remain intact with the rural markets showing good growth in the key markets of North, Central and East through Hero's mass segment bike HF Deluxe showing a double digit growth. Demand for Hero's newly launched Xtreme 125 cc is very encouraging, while the existing portfolio of the Super Splendor XTech, Passion and its variants and Glamour led bulk of demand in the quarter. Urban demand remained strong throughout the quarter. The company plans to launch 5-6 premium bikes in the next couple of quarters.

Key Financials	FY 23	FY 24E	FY 25E	FY 26E
Revenues (₹ bn)	338	373	431	502
EBITDA (%)	11.8	14.0	14.6	15.2
PAT (%)	8.6	11.2	11.8	12.3
EPS (₹)	145.7	209.2	255.3	308.5
EPS growth (%)	17.7%	43.5%	22.0%	20.9%
P/E (x)	33.7	23.5	19.2	15.9
P/B (x)	1.7	1.6	1.5	1.3
EV/EBITDA (x)	21.7	16.0	13.3	11.0
ROCE (%)	17.3%	22.7%	25.3%	27.8%
RO E(%)	17.4%	23.3%	26.2%	28.9%
Dividend yield (%)	2.0%	3.0%	3.6%	4.4%

Rating	BUY
Current Market Price (₹)	4,909
12 M Price Target (₹)	5,555
Potential upside (%)	13

Stock Data

Sector :	Two-Wheelers
FV (₹) :	2
Total Market Cap (₹ bn) :	980
Free Float Market Cap (₹ bn) :	637
52-Week High / Low (₹) :	3,275 / 2,246
BSE Code / NSE Symbol	500182 / HEROMOTOCO
Bloomberg :	HMCL IN

Shareholding Pattern

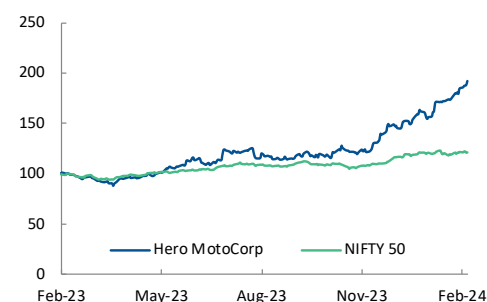
(%)	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	34.76	34.77	34.77	34.77
FPIs	28.34	26.80	28.10	27.00
MFs	13.73	12.49	10.33	12.15
Insurance	11.15	13.79	13.86	13.08
Others	12.02	12.15	12.94	13.00

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Hero Motocorp	19.4%	54.7%	60.4%	90.0%
Nifty 50	1.1%	12.3%	11.0%	22.0%

* To date / current date : February 9, 2024

Hero Motocorp vs Nifty 50

On the EV side, Hero has forged several partnerships and collaborations on this front including charging infrastructure. The company has plans to expand its EV presence upto 100 cities and 150 dealers by end of FY24 and is well on track currently. Increased emphasis on premiumization by launching high end variants under the X-Tech brand, Harley Davidson and Karizma launches in the premium segment should enable the company to post a good volume growth in FY25E and increase its market share further. Hero is poised to launch three important launches of X 440, Karizma 440 and Maverick 440 along with HD 440 in the next few months to fill in the white spaces within their portfolio, especially in the premium segment and to combat with rival launches like the ones from RE, Bajaj Triumph and KTM. In the scooters segment, the company gained market share in the 110 cc segment through Xoom scooter, while launching Destini Prime in the 125 cc in H2 FY24. The company has plans to launch more models in the 125 cc scooters segment in the first half of FY25. Demand which had softened in the seasonally weak December post festives picked up well in January and is going well in February. Thus Hero is the only 2W company with such a solid pipeline of launches in FY 25, thus filling all the white spaces in their portfolio and is set to report strong volumes thereby.

Margins may show growth as EV expenses may get offset by operating leverage tailwinds and cost savings

Hero's EBITDA margins in Q3 came 250 bps higher at 14% yoy as main input costs like those of steel and aluminium were benign. There were other cost savings under LEAP-2 program as well along with strong cost control overall. The company took reasonable price hikes in the quarter. Along with this, the favorable product mix and higher operating leverage has led the company to achieve its margin target of early of 14-16% in the medium to long term. Premiumization of bikes with the help of global partner Harley Davidson shall augur well further for a rich product mix. The launches of XTech variants which are priced higher by 5-7% than the conventional models should help the margins further to grow as operating leverage comes into play. We however believe that as volumes increase on the EV side operating leverage and cost saving programs should offset the >200 bps impact (seen in Q3) on margin performance going ahead.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q3 FY24	Q2 FY24	% QoQ	Q3 FY23	% YoY
Total net sales	97,237	94,454	2.9%	80,310	21.1%
RM cost	65,470	64,780	1.1%	55,743	17.5%
Employee cost	6,017	5,768	4.3%	5,456	10.3%
Other expenses	12,130	10,624	14.2%	9,869	22.9%
EBITDA	13,620	13,283	2.5%	9,241	47.4%
EBITDA Margins (%)	14.0	14.1	(10 bps)	11.5	250 bps
Other income	2,420	2,483	-2.5%	1,832	32.1%
Depreciation	1,825	1,749	4.4%	1,620	12.7%
Interest	45	48	100 bps	49	-7.8%
PBT	14,170	13,970	1.4%	9,404	50.7%
Tax	3,437	3,431	0.1%	2,294	49.8%
PAT	10,734	10,538	1.9%	7,111	51.0%
PAT margins (%)	11.0	11.2	(20 bps)	8.9	120 bps
Exceptional items	-	-	N/A	-	N/A
Adjusted PAT	10,734	10,538	1.9%	7,111	51.0%
APAT margins (%)	11.0	11.2	(20 bps)	8.9	120 bps

Source: Company, LKP Research

Outlook and valuation

Hero posted healthy set of numbers in Q3, led by pick up in volume performance stemming from sectoral robustness. Margins grew well as the input cost benefits, cost savings, operating leverage and product mix helped the cause. Going forward, we expect decent volume trajectory with the XTech variants launched last year, new launches coming up in the 125 cc segment, scooters and premium bike launches under the Hero as well as the HD brand. Expansion of the EV scooter in more cities soon will further add to the steam. Demand levers in the rural markets are positive, despite low monsoons on account of a strong El Nino and unseasonal rains. Hero's high stake (37.5%) in Aether Energy to manufacture Electric Scooters and battery swapping platform shall give Hero a good fillip in the EV 2W space. We expect 9-10% volume growth in FY25-26E. Profitability would improve through better product mix on Hero's premiumization theme under which the focus of the company is now on the premium bikes and X-Tech variants, price hikes, cost saving programs like LEAP-2 and operating leverage stemming from improving volumes. EV spending may impact margins in the initial period till we see an expansion of scale and volumes. We therefore maintain our BUY rating on the stock with FY 26E target price of ₹5,555 (valued at 18x v/s current multiple of 16x). Improving return ratios, zero debt and dividend yield gives investors an additional comfort.

All figs in ₹	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22
Volumes (mn)	1.46	1.42	1.35	1.27	1.24	1.43	1.39	1.19
Net Realization	66,604	66,680	64,819	65,382	64,782	63,545	60,370	62,417
Material Cost/Unit	44,845	45,731	44,958	44,442	44,965	45,724	43,932	43,248
Staff Cost/Unit	4,121	4,072	4,289	4,385	4,401	3,844	3,871	4,006
Other Expn/Unit	8,309	7,500	6,654	8,032	7,961	6,707	5,799	8,203
Total Expn/Unit	57,275	57,303	55,901	56,858	57,327	56,275	53,602	55,457
EBITDA/unit	9,329	9,377	8,918	8,524	7,455	7,270	6,767	6,960
Net profit /unit	7,352	7,439	7,280	6,761	5,736	5,014	4,492	5,274

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 23	FY 24E	FY 25E	FY 26E
Total Revenues	338,056	372,707	430,625	502,109
Raw Material Cost	238,581	255,304	294,117	341,434
Employee Cost	21,898	23,481	26,268	30,127
Other Exp	37,715	41,743	47,369	54,228
EBITDA	39,862	52,179	62,871	76,321
<i>EBITDA Margin(%)</i>	<i>11.8</i>	<i>14.0</i>	<i>14.6</i>	<i>15.2</i>
Other income	5652	9500	11000	12000
Depreciation	6,570	6,871	7,451	8,060
Interest	199	200	220	250
PBT	38,745	54,608	66,201	80,011
<i>PBT Margin(%)</i>	<i>11.5</i>	<i>14.7</i>	<i>15.4</i>	<i>15.9</i>
Exceptional items	0	0	0	0
Tax	9,640	12,833	15,226	18,403
PAT	29,105	41,775	50,974	61,608
<i>PAT Margins (%)</i>	<i>8.6</i>	<i>11.2</i>	<i>11.8</i>	<i>12.3</i>
Adj PAT	29,105	41,775	50,974	61,608
<i>Adj PAT Margin (%)</i>	<i>8.6</i>	<i>11.2</i>	<i>11.8</i>	<i>12.3</i>

Key Ratios

YE Mar	FY 23	FY 24E	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	145.7	209.2	255.3	308.5
CEPS	178.6	243.6	292.6	348.9
BVPS	836.3	899.0	975.6	1068.1
DPS	100.0	146.4	178.6	215.9
Growth Ratios(%)				
Total revenues	15.6%	10.3%	15.5%	16.6%
EBITDA	18.3%	30.9%	20.5%	21.4%
PAT	17.7%	43.5%	22.0%	20.9%
EPS Growth	17.7%	43.5%	22.0%	20.9%
Valuation Ratios (x)				
PE	33.7	23.5	19.2	15.9
P/CEPS	27.5	20.1	16.8	14.1
P/BV	1.7	1.6	1.5	1.3
EV/Sales	2.9	2.6	2.3	1.9
EV/EBITDA	21.7	16.0	13.3	11.0
Operating Ratios (Days)				
Inventory days	21.9	23.0	25.0	25.0
Receivable Days	30.2	29.0	28.0	27.0
Payables day	50.8	51.0	52.0	52.0
Net Debt/Equity (x)	0.04	0.02	(0.00)	(0.03)
Profitability Ratios (%)				
ROCE	17.3%	22.7%	25.3%	27.8%
ROE	17.4%	23.3%	26.2%	28.9%
Dividend yield	2.0%	3.0%	3.6%	4.4%

Balance Sheet

(₹ mn)	FY 23	FY 24E	FY 25E	FY 26E
EQUITY & LIABILITIES				
Equity Share Capital	400	400	400	400
Reserves & Surplus	166,651	179,184	194,476	212,959
Total Networth	167,051	179,583	194,876	213,358
Total debt	0	0	0	0
Deferred Tax Liability	7,360	7,360	7,360	7,360
Long term provisions	1,981	1,981	1,981	1,981
Total non current liabilities	9,341	9,341	9,341	9,341
Current Liab & Prov				
Current liabilities	47,033	52,077	61,349	71,533
Other liabilities & Provisions	9,209	9,209	9,209	9,209
Total Equity and Liabilities	232,631	250,208	274,772	303,439
ASSETS				
Net block	48,682	49,811	52,361	54,801
Capital WIP	5,216	6,716	8,216	9,716
Intangible assets	8,354	8,354	8,354	8,354
Deferred tax assets	0	0	0	0
Long term investments	73,725	75,725	77,725	79,725
Long term loans & advances	4,574	4,574	4,574	4,574
Other non current assets	1,713	1,713	1,713	1,713
Total non-current assets	142,264	146,893	152,942	158,882
Current Assets				
Current investments	36,379	44,379	52,379	62,379
Cash and Bank	3,455	5,725	9,673	15,310
Inventories	14,341	15,388	18,533	21,515
Sundry Debtors	27,982	29,612	33,034	37,142
Loan, Advances & others	8,211	8,211	8,211	8,211
Other current assets	237	237	237	237
Total Assets	232,631	250,208	274,772	303,439

Cash Flow

(₹ mn)	FY 23	FY 24E	FY 25E	FY 26E
PAT	29,106	41,775	50,974	61,608
Depreciation	6,570	6,871	7,451	8,060
Interest	199	200	220	250
Income Tax paid	(8,496)	(12,833)	(15,226)	(18,403)
Chng in working capital	(5,832)	2,366	2,705	3,094
Cash flow from operations (a)	25,791	51,212	61,351	73,012
Capital expenditure	(5,777)	(9,500)	(11,500)	(12,000)
Chng in investments	8,150	(10,000)	(10,000)	(12,000)
Other investing activities	(7,061)	1,771	0	0
Cash flow from investing (b)	(4,688)	(17,729)	(21,500)	(24,000)
Free cash flow (a+b)	21,103	33,483	39,851	49,012
Inc/dec in borrowings	0	0	0	0
Dividend paid (incl. tax)	(19,983)	(29,243)	(35,682)	(43,126)
Other financing activities	(166)	(200)	(220)	(250)
Cash flow from financing (c)	(20,406)	(29,443)	(35,902)	(43,376)
Net chng in cash (a+b+c)	697	4,040	3,948	5,637
Closing cash & cash equivalents	1,684	5,725	9,673	15,310

DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.