

## Hero MotoCorp

BUY

Choice

In Q2FY25, Hero MotoCorp reported an in-line performance on Revenue/EBIDTA/PAT front. Revenue for the quarter grew by 10.8% YoY to Rs.104.6bn. vs our estimates of Rs.101.9bn. The top line growth was attributed to recovery in the entry level and 125 CC segment. EBITDA for the quarter grew by 14.1% to Rs.15.16bn. vs est of Rs.14.88bn. Margin expanded by 43bps YoY/+10bps QoQ to 14.5%. EBIDTA/vehicle increased by 6.4% to Rs.9975/vehicle. RPAT for the quarter jumped by 14.2% YoY to Rs.12.04bn vs (est Rs.11.45bn).

- Hero MotoCorp's growth strategy highlights its stronghold in the two-wheeler market, positioning it as a compelling long-term investment. The company achieved record festive sales of 1.6 million units, propelling a 16% revenue increase and lifting its market share to 31.6%, reflecting robust consumer trust. Sales momentum is expected to continue, driven by the wedding season, government spending, and a favorable monsoon.
- In the electric vehicle (EV) segment, Hero doubled sales to 5,000 units per month during the quarter, reaching festive EV sales of 11,600 units and capturing a 20% market share in five key cities. Planned launches in the premium motorcycle and scooter segments will further solidify Hero's market position. Upcoming models include the Xpulse 210 with a liquid-cooled engine, the Xtreme 250R, and Xtreme R250 under the Karizma brand, as well as new ICE scooters like the redesigned Destiny and Xoom variants. Hero also plans to introduce new EV scooters by year-end.
- Investments in brand-building and customer experience, via the Hero 2.0 retail upgrade and the opening of 100 premium stores, are part of a larger strategy to enhance brand loyalty. These stores are expected to achieve sustainability within 12 to 18 months. The company's recognition in the Dow Jones Sustainability Index as the top-rated two-wheeler globally and fourth in the automotive sector underscores its commitment to ESG principles.

**Outlook and Valuations:** We expect HMCL to benefit from rural recovery on expectation of normal monsoon, rural recovery, traction in entry level bikes by new customers. Further as a long term strategy road map such as showroom revamp, upgradation of portfolio with new launches will support volume growth better than industry. We like to retain our positive view on HMCL due scaling up the EV portfolio and premium product portfolio; Harley, Mavrick, Karizma, XPulse and Xtreme. We recommend BUY rating on the stock with TP of Rs.5,314 (19x of Sep-FY27E EPS).

## Quarterly performance

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Volumes (in units)	15,19,684	14,16,526	7.3	15,35,156	(1.0)
<b>Net Sales</b>	<b>1,04,632</b>	<b>94,454</b>	<b>10.8</b>	<b>1,01,437</b>	<b>3.1</b>
Material Expenses	69,795	64,780	7.7	68,672	1.6
<b>Gross Profit/ vehicle (Rs.)</b>	<b>22,924</b>	<b>20,949</b>	<b>9.4</b>	<b>21,344</b>	<b>7.4</b>
Employee Expenses	6,535	5,768	13.3	6,083	7.4
Other Operating Expenses	13,143	10,624	23.7	12,085	8.8
<b>EBITDA</b>	<b>15,159</b>	<b>13,283</b>	<b>14.1</b>	<b>14,598</b>	<b>3.8</b>
Depreciation	1,937	1,749	10.8	1,932	0.3
<b>EBIT</b>	<b>13,222</b>	<b>11,534</b>	<b>14.6</b>	<b>12,666</b>	<b>4.4</b>
Interest Cost	49	48	3.6	48	2.5
<b>PBT</b>	<b>16,003</b>	<b>13,970</b>	<b>14.6</b>	<b>14,935</b>	<b>7.2</b>
Tax	3,967	3,431	15.6	3,708	7.0
<b>APAT</b>	<b>12,035</b>	<b>10,538</b>	<b>14.2</b>	<b>11,226</b>	<b>7.2</b>
Adj EPS (Rs)	60.2	52.7	14.1	56.1	7.2

Margin Analysis	Q2FY25	Q2FY24	YoY (bps)	Q1FY25	QoQ (bps)
EBITDA/Vehicle (Rs.)	9,975	9,377	6.4%	9,509	4.9%
Material Exp % of Sales	66.7	68.6	(187.8)	67.7	(99.4)
Employee Exp. % of Sales	6.2	6.1	14.0	6.0	24.9
Other Op. Exp % of Sales	12.6	11.2	131.4	11.9	64.8
EBITDA Margin (%)	14.5	14.1	42.5	14.4	9.7
Tax Rate (%)	24.8	24.6	22.8	24.8	(3.8)
APAT Margin (%)	11.5	11.2	34.6	11.1	43.5

Source: Company, CEBPL

	Nov 15, 2024
CMP (Rs)	4,604
Target Price (Rs)	5,314
Potential Upside (%)	15.4

\*CMP as on 14<sup>th</sup> Nov 2024

## Company Info

BB Code	HMCL IN EQUITY
ISIN	INE158A01026
Face Value (Rs.)	2.0
52 Week High (Rs.)	6,245
52 Week Low (Rs.)	3,130
Mkt Cap (Rs bn.)	920.8
Mkt Cap (\$ bn.)	10.9
Shares o/s (Mn.)/Free Float	200.0/65
Adj. TTM EPS (Rs)	220.9
FY27E EPS (Rs)	322.8

## Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	34.75	34.76	34.76
FII's	29.59	29.87	28.93
DII's	26.94	26.87	27.76
Public	8.72	8.50	8.55

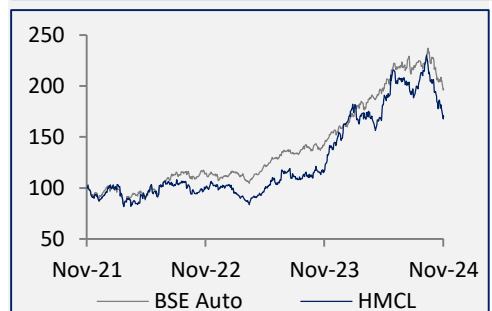
## Relative Performance (%)

YTD	3Y	2Y	1Y
BSE AUTO	97.1	73.1	36.5
HMCL	70.9	71.5	44.9

## Year end March (INR bn)

Particular	FY25E	FY26E	FY27E
Revenue	427.7	495.8	567.0
Gross Profit	140.3	162.6	186.0
EBITDA	61.6	71.9	82.8
EBITDA (%)	14.4	14.5	14.6
EPS (INR)	239.4	279.7	322.8

## Rebased Price Performance



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## CEBPL Estimates vs Actual

Particulars (Rs.mn)	Actual	Choice Est.	Deviation (%)
Revenue	1,04,632	1,01,921	2.7
EBIDTA	15,159	14,880	1.9
<b>EBIDTA Margin (%)</b>	<b>14.49</b>	<b>14.60</b>	<b>(11) bps</b>
PAT	12,035	11,453	5.1

Source: Company, CEBPL

## Change in Estimates

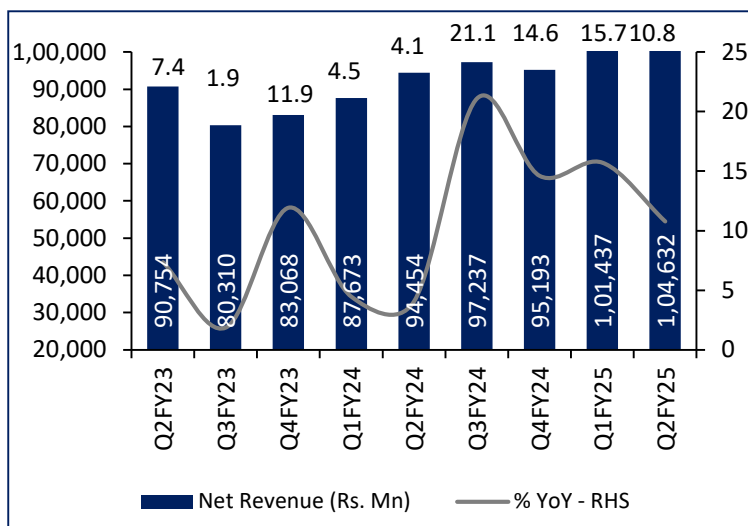
Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	New	Old	Dev. (%)	New	Old	Dev. (%)	New
Net sales	4,27,670	4,25,588	0.5	4,95,798	5,04,786	(1.8)	5,67,010
EBITDA	61,585	63,184	(2.5)	71,891	81,409	(11.7)	82,784
EBITDA margin(%)	14.4	14.8	(45) Bps	14.5	16.1	(163) Bps	14.6
APAT	47,849	47,368	1.0	55,908	60,829	(8.1)	64,531
EPS	239.4	236.97	1.0	279.7	304.31	(8.1)	322.8

Source: Company, CEBPL

## Management Call - Highlights

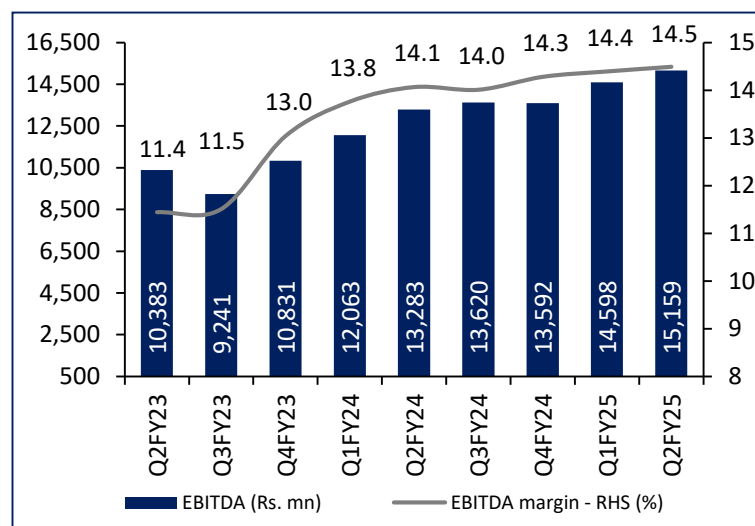
- The company achieved record festive sales of 1.6 million units, driving a 16% revenue growth during the 32-day festive period. Market share rose to 31.6%, reflecting strong customer confidence in the brand.
- Positive momentum expected to continue, driven by the wedding season, government spending, and a favorable monsoon.
- Doubled EV sales during the quarter to 5,000 units per month; festive EV sales reached 11,600 units, capturing a 20% market share in five key cities and 10% in ten cities.
- Investing in brand building, new product launches, and customer experience enhancement via the Hero 2.0 retail upgrade program.
- Expanding its premium motorcycle portfolio with the Xpulse 210 (liquid-cooled engine) and new Xtreme models, including the Xtreme 250R and Xtreme R250 under the Karizma brand, set to launch within six months.
- Revamping the scooter portfolio with three new ICE scooters, including a redesigned Destiny model and new Xoom variants (Xoom 125 and Xoom 160), launching in the next six months.
- Recognized by the Dow Jones Sustainability Index (DJSI) for 2024 as the top-rated two-wheeler company globally and fourth in the auto sector.
- New EV scooter models to launch by year-end, with further expansion planned for the next calendar year.
- ICE segment EBITDA margins improved by 160 bps to 16.5% during the quarter, driven by a favorable product mix, lower material costs, and cost-saving initiatives.
- Overall EBITDA margin rose by 40 bps to 14.5%, despite ongoing investments in the EV business.
- EV products are expected to align with the PLI scheme in FY26, enabling the company to benefit financially.
- Financing penetration during the festive season reached 66% for two-wheeler purchases, with Hero FinCorp contributing 26% of the financing.
- The company plans to open 100 premium retail stores by year-end, with these stores expected to achieve sustainability within 12 to 18 months of operation.

Revenue grew by 10.8% YoY



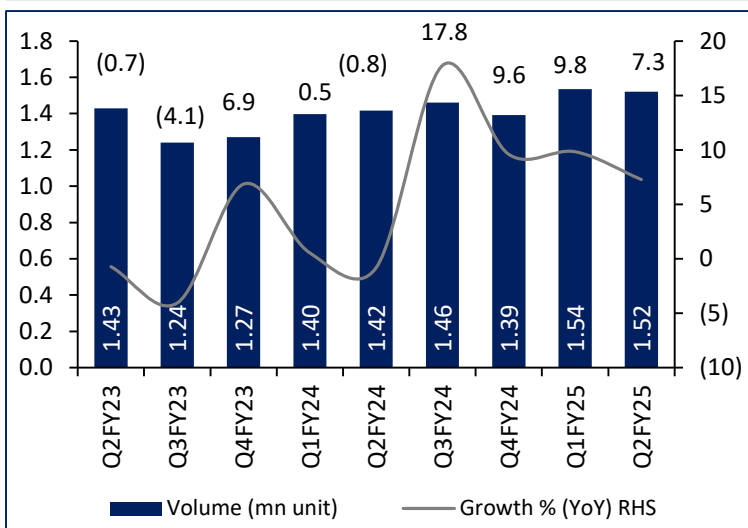
Source: Company, CEBPL

Margin improved YoY Basis



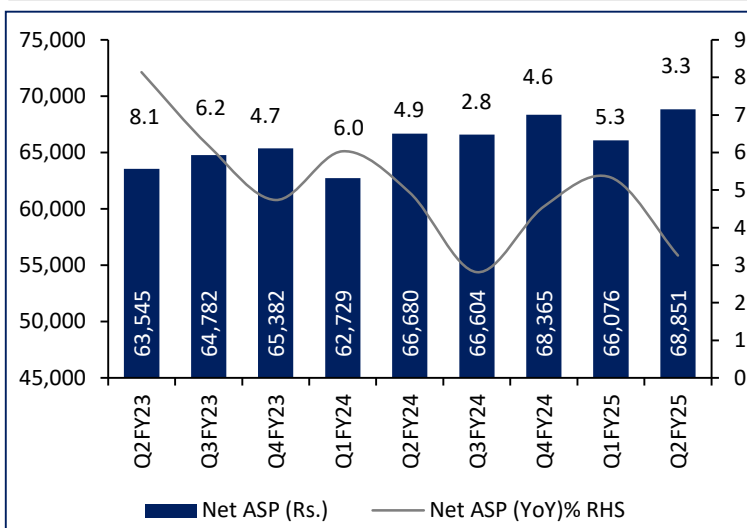
Source: Company, CEBPL

Volume grew 7.3% YoY



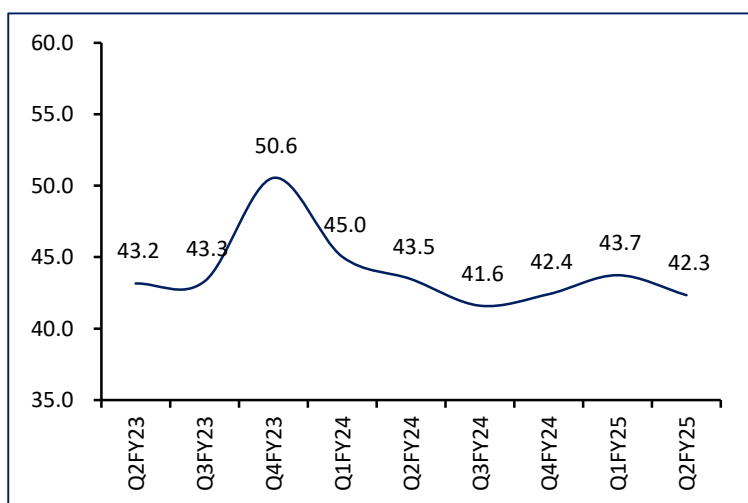
Source: Company, CEBPL

ASP improved by 3.3% YoY



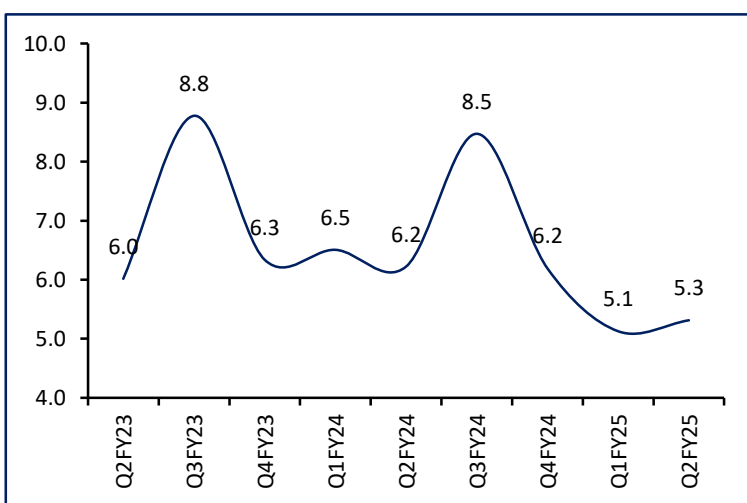
Source: Company, CEBPL

HMCL MC Market Share (%)



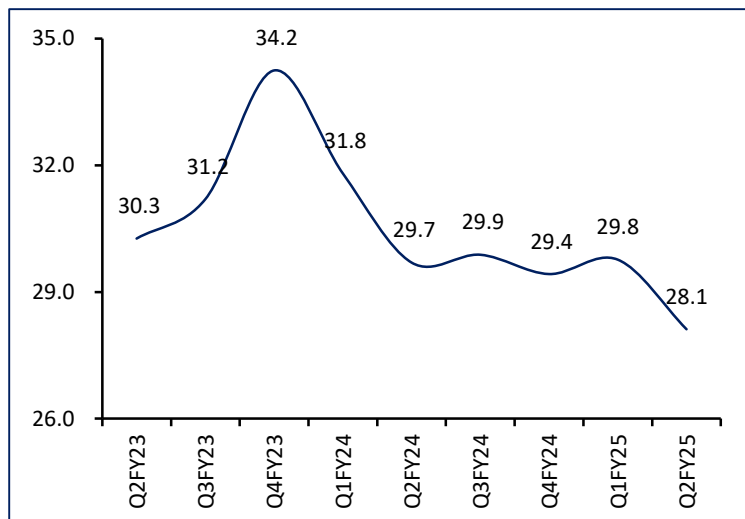
Source: Company, CMIE, CEBPL

HMCL Scooter Market Share (%)



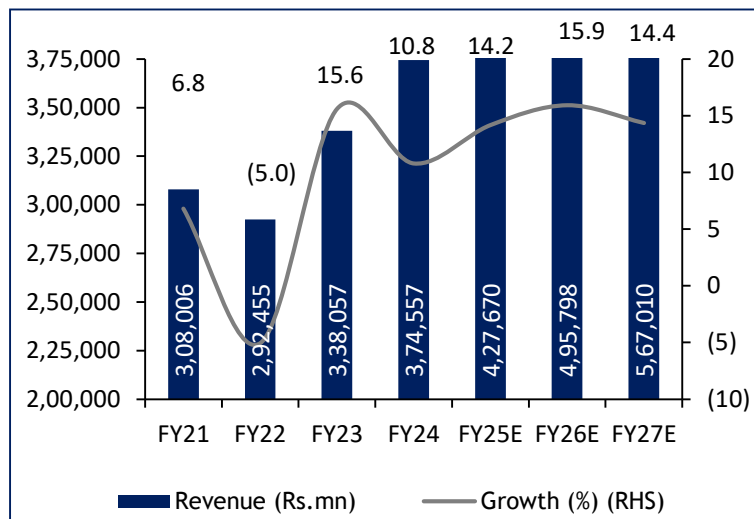
Source: Company, CMIE, CEBPL

Overall Domestic 2W Market Share (%)



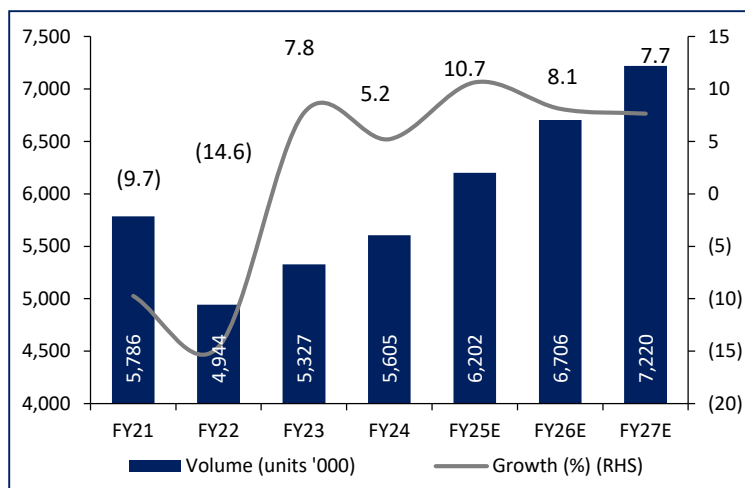
Source: Company, CMIE, CEBPL

Revenue Trend



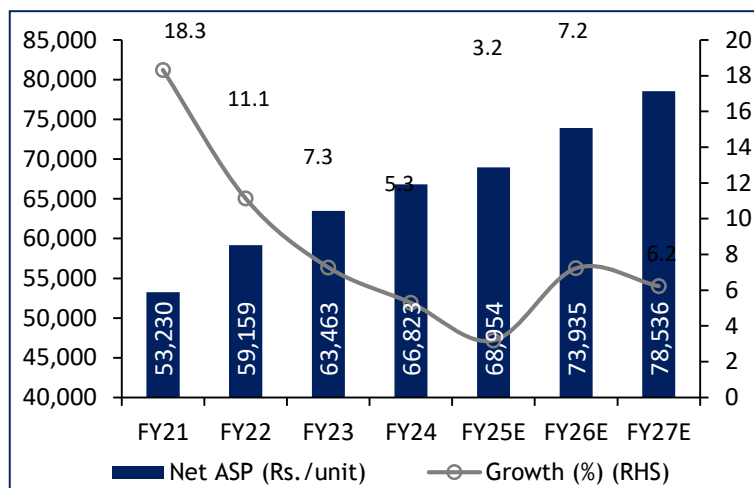
Source: Company, CEBPL

Volume Trend



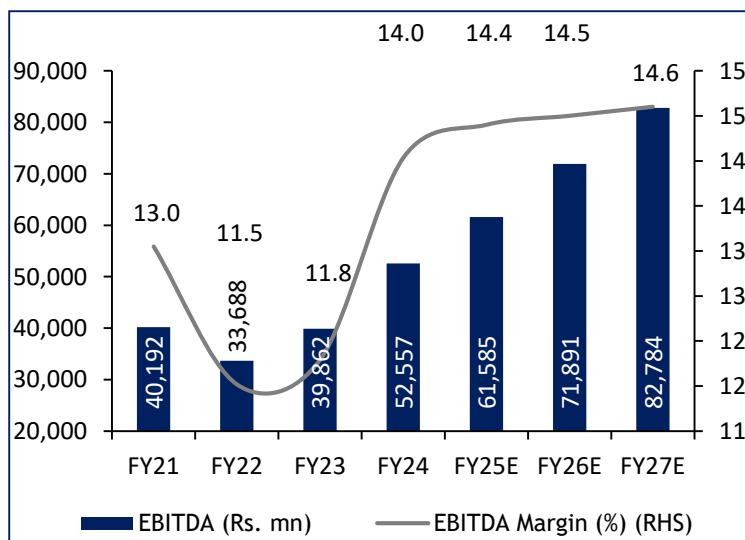
Source: Company, CEBPL

ASP to improve led by change in mix



Source: Company, CEBPL

EBITDA and Margin Trend



Source: Company, CEBPL

1 year forward PE (x) band



Source: Company, CEBPL

## Income statement

Particular (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	3,38,057	3,74,557	4,27,670	4,95,798	5,67,010
Gross profit	99,475	1,20,250	1,40,276	1,62,622	1,85,979
EBITDA	39,862	52,557	61,585	71,891	82,784
Depreciation	6,570	7,114	7,511	8,061	8,545
EBIT	33,293	45,443	54,073	63,829	74,238
Interest expense	199	185	194	204	214
Other Income (Including EO Items)	5,652	7,326	9,818	10,800	11,880
Reported PAT	29,106	39,680	47,849	55,908	64,531
Minority Interest	-	-	-	-	-
Adjusted PAT	29,106	39,680	47,849	55,908	64,531
EPS (Rs)	146	199	239	280	323
NOPAT	25,010	34,137	40,620	47,949	55,768

## Balance sheet

Particular (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Net worth	1,67,051	1,79,862	2,03,917	2,35,799	2,76,069
Minority Interest	-	-	-	-	-
Deferred tax	1,537	1,537	1,537	1,537	1,537
Total debt	-	-	-	-	-
Other liabilities & provisions	5,287	6,063	7,384	8,004	8,695
<b>Total Net Worth &amp; liabilities</b>	<b>1,76,392</b>	<b>1,90,273</b>	<b>2,15,649</b>	<b>2,48,151</b>	<b>2,89,113</b>
Net Fixed Assets	60,967	61,940	67,706	72,046	74,032
Capital Work in progress	1,286	1,206	1,706	2,206	2,706
Investments	1,10,104	1,30,861	1,55,861	1,80,861	2,05,861
Cash & bank balance	3,455	6,089	3,414	7,778	13,072
Loans & Advances & other assets	6,287	6,494	6,320	7,152	7,270
Net Current Assets	(2,251)	(10,228)	(15,945)	(14,114)	(755)
<b>Total Assets</b>	<b>1,76,392</b>	<b>1,90,273</b>	<b>2,15,649</b>	<b>2,48,151</b>	<b>2,89,113</b>
Capital Employed	1,67,051	1,79,862	2,03,917	2,35,799	2,76,069
Invested Capital	1,62,310	1,72,567	1,98,798	2,25,815	2,60,291
Net Debt	(3,455)	(6,089)	(3,414)	(7,778)	(13,072)
FCFF	20,115	41,963	50,848	61,523	63,688

Source: Company, CEBPL

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
CFO	25,791	49,065	64,626	74,424	74,719
Capex	(5,675)	(7,102)	(13,778)	(12,901)	(11,031)
FCF	20,115	41,963	50,848	61,523	63,688
CFI	(4,688)	(21,575)	(38,778)	(37,901)	(36,031)
CFF	(20,406)	(27,331)	(20,583)	(20,793)	(21,003)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth Ratios (%)</b>					
Revenue	15.6	10.8	14.2	15.9	14.4
EBITDA	18.3	31.8	17.2	16.7	15.2
PAT	17.7	36.3	20.6	16.8	15.4
<b>Margin ratios (%)</b>					
EBITDA margins	11.8	14.0	14.4	14.5	14.6
PAT Margins	8.6	10.6	11.2	11.3	11.4
<b>Performance Ratios (%)</b>					
OCF/EBITDA (X)	0.6	0.9	1.0	1.0	0.9
OCF/IC	15.9	28.4	32.5	33.0	28.7
RoE	17.4	22.1	23.5	23.7	23.4
ROCE	19.9	25.3	26.5	27.1	26.9
RoIC (Post tax)	15.4	19.8	20.4	21.2	21.4
RoIC (Pre tax)	20.5	26.3	27.2	28.3	28.5
Fixed asset Turnover (x)	2.2	2.3	2.4	2.6	2.8
<b>Turnover Ratio (Days)</b>					
Inventory	15	14	15	16	17
Debtors	30	26	26	26	26
Payables	51	54	66	67	68
Cash Conversion Cycle	(6)	(16)	(26)	(26)	(26)
<b>Financial Stability ratios (x)</b>					
Net debt to Equity	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Net debt to EBITDA	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Interest Cover	167.6	245.6	278.4	312.9	346.6
<b>Valuation metrics</b>					
Fully diluted shares (mn)	199.9	199.9	199.9	199.9	199.9
Price (Rs)	4604	4604	4604	4604	4604
Market Cap(Rs. Mn)	9,20,354	9,20,354	9,20,354	9,20,354	9,20,354
PE(x)	32	23.2	19.2	16.5	14.3
EV (Rs.mn)	9,16,899	9,14,264	9,16,940	9,12,576	9,07,281
EV/EBITDA (x)	23	17	15	13	11
Book value (Rs/share)	836	900	1,020	1,180	1,381
Price to BV (x)	5.5	5.1	4.5	3.9	3.3
EV/OCF (x)	36	19	14	12	12

Source: Company, CEBPL

## Historical recommendations and target price: HMCL



### HMCL

1.	14-02-2022	Add,	Target Price Rs.3,103
2.	04-05-2022	Add,	Target Price Rs. 2,739
3.	16-08-2022	Add,	Target Price Rs. 3,007
4.	05-11-2022	Add,	Target Price Rs. 2,911
5.	08-02-2023	Add,	Target Price Rs. 2,935
6.	06-05-2023	Outperform,	Target Price Rs. 3,058
7.	12-08-2023	ADD,	Target Price Rs. 3,389
8.	02-11-2023	ADD,	Target Price Rs. 3,477
9.	10-02-2024	ADD,	Target Price Rs. 5,364
10.	09-05-2024	BUY,	Target Price Rs. 5,173
11.	16-08-2024	BUY,	Target Price Rs. 5,478
12.	15-11-2024	BUY,	Target Price Rs. 5,314

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### CHOICE RATING DISTRIBUTION & METHODOLOGY

<b>BUY</b>	The security is expected to generate greater than or = 15% over the next 24 months
<b>HOLD</b>	The security expected to show upside or downside returns by 14% to -5% overhead 24 months
<b>SELL</b>	The security expected to show Below -5% next 24 months

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