

August 14, 2024

RESULT REPORT Q1 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 1QFY25 results were weak with EBITDA miss of ~10%/5% to our/street estimates with EBITDA margins expanded 60bp YoY (+10bp QoQ) at 14.4%. This underperformance was led by EV (margin drag of ~200bp) as underlying ICE margins were healthy at 16.4% (vs 15.6% in 4QFY24 and 14.5% in 1QFY24), supported by operating leverage, favorable mix, cost savings. ~3.4 QoQ decline in ASP was a weak piece led by seasonal decline in spares contribution at 12.5% of sales (vs 14.7% in 4QFY24). The management indicated 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 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 in demand outstripping supply to result in capacity being ramped to ~40k units/month (vs ~25k earlier). Maintain ADD with revised TP of Rs5,789 (vs Rs5,821) based on ~22x Mar'26 S/A EPS plus Rs133 for Hero FinCorp. We have tweaked FY25E/FY26E EPS to factor in for weak ASP offset by const savings. 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 10.7%/11.5%/12.1% over FY24-26E.

Result Highlights - ICE cushions large drag from EV ramp-up

- Revenues grew 15.7% YoY (+6.6% QoQ) at Rs101.4b (est Rs106.5b) as volumes/ASP grew 13.5%/+1.9% YoY and +10.3%/-3.4% QoQ respectively at ~1.53m units and Rs66.1k/unit (est ~Rs69.4k/unit). Decline in ASP QoQ was led by low share of spares at 12.5% (vs 14.7% in 4QFY24).
- Gross margins came in lower at 32.3% (+170bp YoY/-130bp QoQ). However, this was partially offset by lower staff cost at ~Rs6.1b (est Rs6.6b, -5.5% QoQ).
- Consequently, EBITDA grew ~21% YoY (+7.4% QoQ) at Rs14.6b (est ~Rs16.2b, cons Rs15.4b), leading to margins expanding by 60bp YoY (+10bp QoQ) at 14.4% (est 15.2%). ICE business margins expanded further to ~16.4% (vs ~15.6% in 4Q and ~14.5% in 1QFY24) led by operating leverage, favorable mix, cost savings and better pricing. EV vertical diluted margins by ~198bp or equivalent to Rs1.81b impact. Hence EBITDA/vehicle came in at Rs9.5k/vehicle (+6.6% YoY/-2.6% QoQ).
- Adj. PAT grew by 18.8% YoY (+10.5% QoQ) at ~Rs11.2b (est Rs12.7b).

Exhibit 1: Actual vs estimates

Rs m	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	101,437	106,538	104,322	-4.8	-2.8	Steady operating performance. ICE margins continues to be healthy.
EBITDA	14,598	16,169	15,411	-9.7	-5.3	
EBITDA margins %	14.4	15.2	14.8	-80bp	-40bp	
Adjusted PAT	11,226	12,712	11,567	-11.7	-2.9	

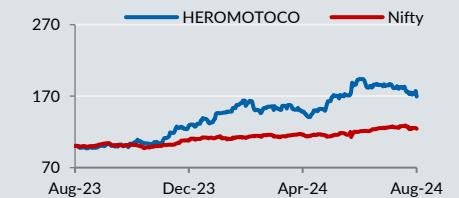
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 5,074
Target Price	: Rs 5,789
Potential Return	: +14.1%

Stock data (as on Aug 14, 2024)

Nifty	24,144
52 Week h/l (Rs)	5,895 / 2,875
Market cap (Rs/USD mn)	10,48,996 / 12,500
Outstanding Shares (mn)	200
6m Avg t/o (Rs mn):	3,516
Div yield (%):	2.6
Bloomberg code:	HMCL IN
NSE code:	HEROMOTOCO

Stock performance



	1M	3M	1Y
Absolute return	(8.6%)	+0.6%	+68.5%

Shareholding pattern (As of June'24)

Promoter	34.8%
FII+DII	56.8%
Others	8.5%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	5,789	5,821

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	237.2	257.1
EPS (Old)	233.6	258.5
% Change	+1.5%	(0.6%)

Financial Summary

Y/E MARCH (Rs b)	FY24	FY25E	FY26E
Sales	374.6	423.4	459.3
EBITDA	52.6	59.9	65.3
Adj. PAT	40.9	47.4	51.4
Adj. EPS (INR)	204.5	237.2	257.1
EPS Gr. (%)	40.4	16.0	8.4
BV/Sh. (INR)	899.8	986.9	1,084.0
RoE (%)	23.6	25.1	24.8
RoCE (%)	22.7	24.3	24.0
Payout (%)	81.1	72.7	71.6
P/E (x)	24.8	21.4	19.7
P/BV (x)	5.6	5.1	4.7
EV/EBITDA (x)	16.7	14.6	13.1
Div. Yield (%)	2.8	3.0	3.2

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Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q1FY25	Q1FY24	YoY chg	Q4FY24	FY24	FY23	YoY chg
Net Revenues	101,437	87,673	15.7	95,193	374,557	338,057	10.8
Raw Materials	68,672	60,809	12.9	63,249	254,307	238,581	6.6
% of Net Sales	67.7%	69.4%		66.4%	67.9%	70.6%	
Personnel	6,083	5,802	4.9	6,437	24,023	21,898	9.7
% of Net Sales	6.0%	6.6%		6.8%	6.4%	6.5%	
Manufacturing & Other Exp	12,085	9,000	34.3	11,916	43,669	37,715	15.8
% of Net Sales	11.9%	10.3%		12.5%	11.7%	11.2%	
Total Expenditure	86,840	75,610	14.9	81,602	322,000	298,194	8.0
EBITDA	14,598	12,063	21.0	13,592	52,558	39,862	31.8
EBITDA Margin (%)	14.4%	13.8%		14.3%	14.0%	11.8%	
Depreciation	1,932	1,690	14.3	1,851	7,114	6,570	8.3
EBIT	12,666	10,373	22.1	11,741	45,444	33,293	36.5
Interest Expenses	48	47	3.2	46	185	199	(6.9)
Non-operating income	2,317	2,222	4.3	1,800	8,926	5,652	57.9
PBT	14,935	10,948	36.4	13,496	52,584	38,746	35.7
Tax-Total	3,708	2,701	37.3	3,335	12,904	9,640	33.9
Tax Rate (%) - Total	24.8%	24.7%		24.7%	24.5%	24.9%	
Reported PAT	11,226	8,247	36.1	10,161	39,680	29,106	36.3
Adj. PAT	11,226	9,452	18.8	10,161	40,886	29,106	40.5
PAT Margin	11.1%	10.8%		10.7%	10.9%	8.6%	
Key operating metrics							
Sales Volume (nos)	1,535,156	1,352,574	13.5	1,392,254	5,621,286	5,328,545	5.5
Net Realisation/Vehicle	66,076	64,819	1.9	68,373	66,632	63,443	5.0
Material cost / vehicle	44,733	44,958	(0.5)	45,429	45,240	44,774	1.0
Gross Profit / vehicle	21,344	19,861	7.5	22,944	21,392	18,668	14.6
Employee cost /vehicle	3,963	4,289	(7.6)	4,624	4,274	4,110	4.0
Other expenses / vehicle	7,872	6,654	18.3	8,558	7,769	7,078	9.8
EBITDA/vehicle	9,509	8,918	6.6	9,762	9,350	7,481	25.0
Net Profit/vehicle	7,313	6,988	4.6	7,298	7,273	5,462	33.2

Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

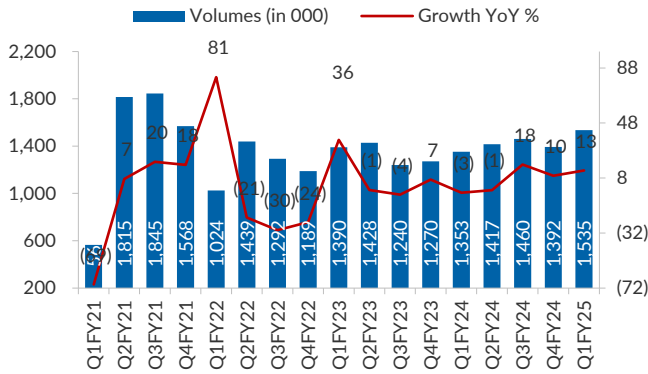
- **India outlook** - Seeing recovery in segments like entry and 125cc while maintaining market share Deluxe 100 and 110cc through Splendor and Passion. **Expect faster recovery from the rural markets.**
 - While seeing an uptick in rural, saw balanced growth between both the markets.
 - Current rural sentiments are strong and upcoming festive to further elevate the same.
 - **Expect to build up pre festive inventory in a run to festive** while will look to build back post festive inventory of 4-6 weeks.
 - Continue to see first time buyers coming back from the rural market helping entry segment while 125cc do seeing a good traction.
- **Exports** – Have seen volume and market share YoY; however, with Bangladesh (BG) market is bit of a setback currently. Current focus is to keep employees safe. BG account for 13%/0.3% of exports/co revenues.
- **RM** – Expect RM to remain range bound ahead
 - In 1QFY25, saw RM softening, steady oil and weak INR. Saw RM inflation of Rs340/unit.
 - QoQ decline in gross margins can be explained led by lower sales mix of spares sales which came in at ~12.5% (vs ~14.7% in 4QFY14), led by seasonality impact. Expect the same to even out.
 - LEAP savings also helped margins expansion.
- **EBITDA margins** - ICE business margins expanded further to ~16.4% (vs ~15.6% in 4Q and ~14.5% in 1QFY24) led by operating leverage, favorable mix, cost savings and better pricing.
 - **EV vertical diluted margins by ~198bp or equivalent to Rs1.81b impact (vs~130bp drag reported in 4QFY24).** Expect to see volume and market share expansion ahead. **Meaningful operating leverage to be realized in if EV volumes are 2x of current monthly run-rate.**
 - Healthy margins and cashflows would led to increased investments in growth priorities and EV vertical.
 - Going forward expect to grow volumes thereby improving operating leverage, aggressively grow premium portfolio, SPAM business in double digits and intensify cost savings measures across value chain.
- **Xtreme 125 supply ramp-up underway** – overall HMCL’s market share increased to ~20% in 1QFY25 vs ~13% in 4QFY25 of the 3 brands (HMCL only brand to gain market share in 125cc in 1QFY25).
 - Xtreme 125 demand is high not only at primary dealerships but also for network.
 - **Increasing capacity to ~40k unit per month** from 25k/month in couple of months.
 - Xtreme 125 is made available to all the dealers but 30-40% of the network.
- **New product launch pipeline** – Action behind for market share recovery
 - **Entry/110cc** – Passion refresh helped maintain market share at 90%. Don’t expect to launch new product/brand in the entry segment and it will be more of refreshers. **However, focusing on innovative financing initiatives Hero Digifin which will make financing accessible to wider customers.**
 - **125cc** – have 3 strong brands such as Glamour (revised), Super Splendor (Mileage) and Xtreme (youth appeal). Believe the portfolio is strong.

Hero MotoCorp (HMCL)

- **Premium** – Portfolio build up will continue within FY25.
- **Scooters** – will look at ICE (new Destiny launch next month) followed by 125cc/150cc launch. EV portfolio in mid and affordable segment to also help build premium portfolio in scooters.
- **Retail distribution** – Have ramped up Hero 2.0 stores count to >520 (vs ~400 till 4QFY24) with more than half of dealers converted already
 - **Premia stores** – count increased to ~42 and expect the same to be ramped-up to +100 stores by end of FY25E.
 - **Service centers** - ~190 customer service centers have been upgraded as well for better customer experience.
 - **EV – expanded to ~175 cities with ~300 dealers in 1QFY25** (vs ~120 cities with ~180 dealers in 4QFY24). EV is present in Hero 2.0, Premia stores, VIDA hubs (EV dedicated), 2 experience centers. Have ~3.5k charging station in collaboration with Ather.
- **Industry will continue to see alternate fuel technologies.** Co is working on flex fuel and hybrids apart from work underway to make vehicles more efficient.
- **EV - VIDA expansion underway and range expansion expected in FY26E.**
 - Sold 10k+ units in 1QFY25 with overall EV revenues at ~Rs1.25b with EBITDA loss of Rs1.81b.
 - Expect 1m+ industry volumes.
 - Working on cost reduction initiatives on multiple front such as powertrain aspects such as tech improvements, localization, and scale.
 - Expect to launch affordable products on the backdrop of cost reduction initiatives.
 - **PLI** - Expect new range of products to be PLI compliant.
- Financing share for 1QFY25 stood at to ~60% (flat QoQ).
- Expect R&D spend to further increase vs ~2.2% in FY24.
- Expect capex at Rs10-12b for FY25E.

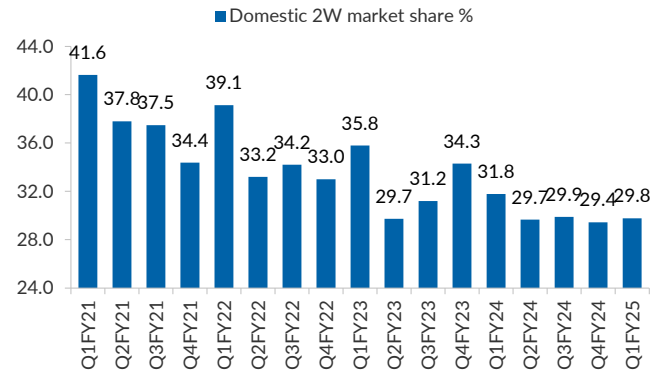
CHARTS

Exhibit 1: Volume grew 13.5% YoY/+10.3% QoQ



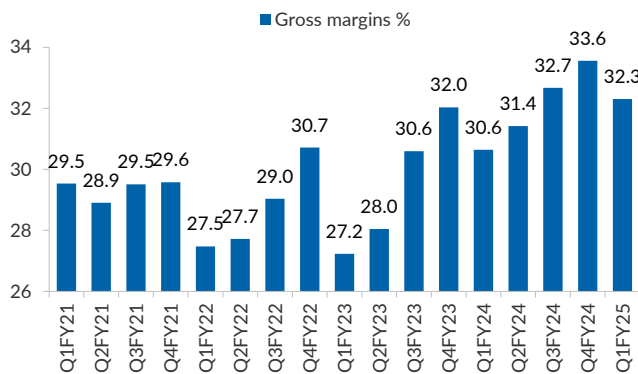
Source: Company, YES Sec

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



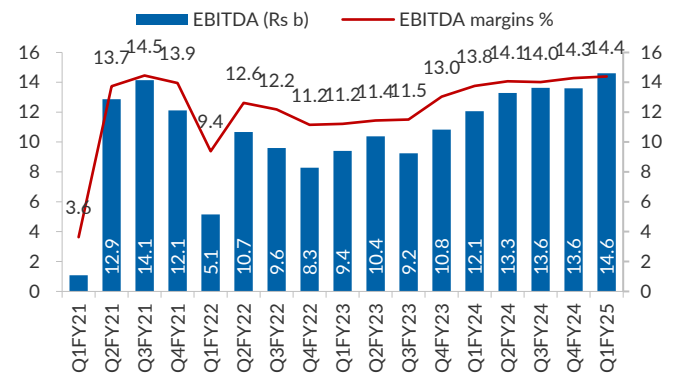
Source: SIAM, YES Sec

Exhibit 3: Gross margins expanded 170bp YoY



Source: Company, YES Sec

Exhibit 4: EBITDAM expanded 60bp YoY (+10bp QoQ)



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March	2021	2022	2023	2024	2025E	2026E
Sources of Funds						
Share Capital	400	400	400	400	400	400
Reserves	151,585	157,430	166,651	179,462	196,889	216,293
Net Worth	151,984	157,829	167,051	179,862	197,289	216,693
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
Capital Employed	158,783	164,636	174,410	187,106	204,533	223,937
Application of Funds						
Gross Fixed Assets	142,362	146,657	151,942	157,862	166,667	178,667
Less: Depreciation	82,478	88,592	94,328	99,522	106,726	114,392
Net Fixed Assets	59,884	58,065	57,614	58,340	59,941	64,274
Capital WIP	4,366	4,582	4,638	4,805	8,000	8,000
Investments	104,997	106,523	110,104	130,861	126,861	122,861
Curr.Assets, L & Adv.	52,364	47,970	60,276	61,709	84,863	110,230
Inventory	14,696	11,227	14,341	14,438	20,352	22,077
Sundry Debtors	24,268	23,043	27,982	27,034	30,528	33,116
Cash & Bank Balances	2,572	1,751	3,455	6,089	18,131	37,843
Loans & Advances	397	402	436	457	512	555
Others	10,432	11,547	14,062	13,691	15,339	16,639
Current Liab. & Prov.	62,827	52,505	58,221	68,609	75,131	81,428
Sundry Creditors	52,046	42,603	47,045	55,282	62,188	67,458
Other Liabilities	7,452	6,516	7,438	8,620	9,045	9,812
Provisions	3,328	3,385	3,738	4,708	3,898	4,158
Net Current Assets	(10,463)	(4,534)	2,055	(6,900)	9,731	28,802
Application of Funds	158,784	164,636	174,410	187,106	204,533	223,937

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March	2021	2022	2023	2024	2025E	2026E
Net Revenues	308,006	292,455	338,057	374,557	423,430	459,313
Change (%)	6.8	(5.0)	15.6	10.8	13.0	8.5
EBITDA	40,192	33,688	39,862	52,557	59,865	65,288
EBITDA Margin (%)	13.0	11.5	11.8	14.0	14.1	14.2
Depreciation	6,769	6,498	6,570	7,114	7,205	7,666
EBIT	33,424	27,190	33,293	45,443	52,660	57,621
Interest cost	218	258	199	185	165	145
Other Income	5,799	5,569	5,652	8,926	10,136	10,408
PBT	39,004	32,501	38,746	52,584	62,631	67,884
Tax	9,362	7,771	9,640	12,904	15,219	16,496
Effective Tax Rate (%)	24.0	23.9	24.9	24.5	24.3	24.3
PAT	29,642	24,730	29,106	39,680	47,412	51,388
Change (%)	(18.4)	(16.6)	17.7	36.3	19.5	8.4
% of Net Sales	9.6	8.5	8.6	10.6	11.2	11.2
Adj. PAT	29,642	24,730	29,106	40,887	47,412	51,388
Change (%)	(4.2)	(16.6)	17.7	40.5	16.0	8.4

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	62,631	67,884
Depreciation & Amort.	6,769	6,498	6,570	7,114	7,205	7,666
Direct Taxes Paid	(9,759)	(7,688)	(8,496)	(13,142)	(15,219)	(16,496)
(Inc)/Dec in Working Capital	10,700	(6,825)	(5,832)	10,747	(4,590)	641
Other Items	4,375	3,488	4,443	4,667	165	145
CF from Oper. Activity	41,727	20,203	25,791	49,065	50,192	59,841
CF after EO Items	41,727	20,203	25,791	47,465	50,192	59,841
(Inc)/Dec in FA+CWIP	(5,146)	(5,347)	(5,777)	(7,195)	(12,000)	(12,000)
Free Cash Flow	36,581	14,856	20,014	41,870	38,192	47,841
(Pur)/Sale of Invest.	(16,953)	3,828	1,089	(10,824)	4,000	4,000
CF from Inv. Activity	(22,099)	(1,519)	(4,688)	(18,019)	(8,000)	(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)
CF from Fin. Activity	(19,415)	(19,389)	(20,406)	(27,331)	(30,150)	(32,129)
Inc/(Dec) in Cash	213	(705)	697	2,115	12,042	19,712
Add: Beginning Balance	1,479	1,692	987	1,684	6,089	18,131
Closing Balance	1,692	987	1,684	3,799	18,131	37,843

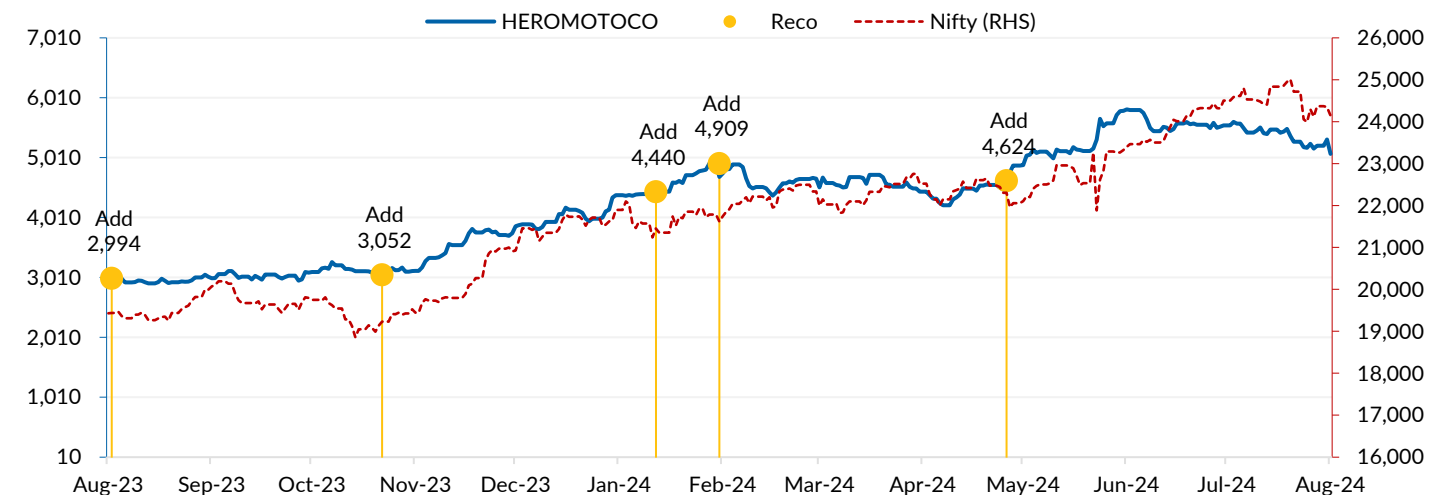
Source- Company, Yes Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	2021	2022	2023	2024	2025E	2026E
Basic (INR)						
EPS	148.4	123.8	145.6	204.5	237.2	257.1
EPS Growth (%)	(4.0)	(16.6)	17.7	40.4	16.0	8.4
Cash EPS	182.2	156.3	178.5	234.1	273.2	295.4
Book Value per Share	760.7	789.9	835.9	899.8	986.9	1,084.0
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	72.7	71.6
Valuation (x)						
P/E	34.2	41.0	34.8	24.8	21.4	19.7
EV/EBITDA	22.6	27.0	22.7	16.7	14.6	13.1
EV/Sales	3.0	3.1	2.7	2.4	2.1	1.9
Price to Book Value	6.7	6.4	6.1	5.6	5.1	4.7
Dividend Yield (%)	2.1	1.9	2.0	2.8	3.0	3.2
Profitability Ratios (%)						
RoE	20.2	16.0	17.9	23.6	25.1	24.8
RoCE	19.5	15.4	17.3	22.7	24.3	24.0
RoIC	48.2	42.0	46.3	67.5	82.3	81.7
Turnover Ratios						
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)	8.4	22.9
Asset Turnover (x)	1.9	1.8	1.9	2.0	2.1	2.1
Fixed Asset Turnover	2.2	2.0	2.3	2.4	2.6	2.7

Source- Company, Yes Sec

Recommendation Tracker



Source - YES Sec

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