

Prioritize premiumization

CMP: INR 3,797

Rating: Buy

Target Price: INR 4,607

Stock Info

BSE	500182
NSE	HEROMOTCO
Bloomberg	HMCL IN
Reuters	HROM.BO
Sector	Auto-2&3 wheelers
Face Value (INR)	2
Equity Capital (INR mn)	399.6
Mkt Cap (INR mn)	758,691
52w H/L (INR)	3,889/2246
Avg Yearly Vol (in 000')	552

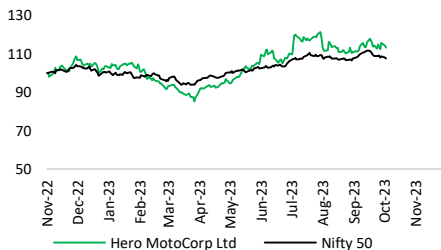
Shareholding Pattern %

(As on Sep, 2023)

Promoters	34.77
FII	26.80
DII	15.21
Public	23.22

Stock Performance (%)	1m	3m	12m
Hero MotoCorp	22.9	29.0	34.6
Nifty	7.5	5.9	10.6

Hero MotoCorp Vs Nifty



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On December 4, 2023, our meeting with HeroMoto Corp Management showed a robust outlook for the upcoming year, marked by strong growth. The discussion highlighted the introduction of new launches in both the x440 and 125cc segments, maintaining stable margins. Additionally, a successful festive season contributed to a better growth.

Strong festive session for HeroMoto Corp: Festive sales soared by an impressive 19% in just 32 days, signaling a dynamic market response. The management's strategic emphasis on the 125cc segment aims to yield higher volumes in the upcoming quarters. This targeted approach showcases a keen understanding of market trends and consumer preferences. The positive post-festive momentum is anticipated to contribute to sustained growth. The company's adaptability and strategic focus position it favorably in a competitive market.

HMCL's Strategic Product Revamp and Market Insights: HMCL is revamping its product portfolio to fill gaps. Glamour 125cc is gaining market share, and the Harley X440 collaboration received 27k bookings. Hero Xoom and Destini Prime will boost scooter sales.

Margin Expansion and Market Adaptation Strategies at HMCL: We expect improved margins in the next quarter due to lower metal prices, a focus on premium products, and increased sales volume. HMCL has adapted to changing market trends with a strong demand for premium products like Passion, Glamour, and XTEC variants. This is likely to boost market share and further enhance product mix and ASPs, positively impacting margins.

Outlook and valuation

The festive sales surge and focus on the 125cc segment project a promising trajectory for increased volumes in the coming quarters. Festive sales surged by an impressive 19% in just 32 days compared to the previous period. Rural demand is increasing, especially in the entry-level segment with HF Deluxe and Passion showing substantial growth. Furthermore, the recently launched models, HD - X440 and Karizma XMR, are witnessing robust bookings. ASP in the premium segment range from 60k-65k, reflecting a 2.5% increase from the previous range of 50-52k. **We maintain our Buy rating on the stock and value it SOTP valuation for a revised target price of INR 4,607 per share (earlier target price; INR 3,896 per share).**

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT EPS (INR)		EBITDA Margin %	RoE (%)	P/E (x)
FY23	338,057	39,861	29,105	145.6	11.79	17.9	26.1
FY24E	370,667	52,217	40,175	201.0	14.09	22.8	18.9
FY25E	410,209	58,243	44,155	220.9	14.20	22.5	17.2
FY26E	448,267	64,156	48,822	244.3	14.31	30.0	15.5

Source: Arihant Research, Company Filings

Management Meeting KTAs

Festive Surge and Future Focus

Festive sales surged by an impressive 19% in just 32 days compared to the previous period. The management's strategic focus on the 125cc segment is poised to translate into higher volumes over the next few quarters, maintaining a positive post-festive momentum.

Passion and Market Share

Passion witnessed a substantial 2x growth in Q2, contributing to HMCL's increased market share in 110cc scooters, attributed to the success of Xoom.

Glamour Passion Plus

Glamour Passion Plus achieved an average of 70k sales per festive season, while Passion experienced a threefold increase, averaging 40k sales monthly.

Regional Dynamics

In regional performance, the central, northern, and southern markets are performing well. However, some confusion is noted in western markets due to high-security plates. Overall, domestic demand remains robust.

Margin Outlook and Price Adjustments

Margins are expected to be in the range of 14%, with a slight ~90bps drag from the EV segment. Management has indicated price hikes ranging from INR 500-520.

Inventory Management and New Launch

Inventory is maintained below a 3-week supply, with certain models experiencing waiting periods in rural areas. A notable addition to the lineup is the plan to launch Super Splendor Sporty in the 125cc segment.

Export and Premium Segment

Export performance is bottoming out, while in the premium segment, Karizma XMR bookings total ~14k units. Deliveries for Harley-Davidson X440 (>2k) have commenced, with the current order book for X440 standing at 25k+. Production is set to ramp up to ~10k units per month for Karizma and Harley. Hero 2.0 stores are expected to reach 500 in the next six months, with a new product planned for launch in the 440 platform by March FY24.

Electric Vehicle Expansion

Electric vehicle production has consistently exceeded 1k units per week for the last 3-4 weeks. Management anticipates expanding to ~100 cities, highlighting HMCL's differentiated detachable battery structure.

Premium Segment Pricing

ASP in the premium segment range from 60k-65k, reflecting a 2.5% increase from the previous range of 50-52k.

Competitive Landscape in HD

Competition remains healthy on the RE side, with affordable prices in the range of 2.39k.

Exhibit 4:SOTP valuation

SOTP Valuation	Amount (INR)
FY26E Core EPS (INR/share, A)	244
P/E Multiple assigned (x, B)	17.5
Value of Base Business (C =A*B)	4,275
Ather Energy (P/sales 4x) Per share Value (D) (stake 36.54%)	114
Hero Fincorp (P/BV 2x) Per share Value (E) (stake 41.19%)	218
D+E=F	332
Target Price (F+C)	4,607
CMP INR	3,797
Potential Upside (%)	21.3%

Financial Performance

Profit & Loss Statement

YE: Mar (INR mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	292,455	338,057	370,667	410,209	448,267
Growth, %	(5)	15.6	10	11	9
RM expenses	-208,267	-238,581	-256,872	-283,865	-309,753
Employee expenses	-19,354	-21,898	-22,240	-24,613	-26,896
Other expenses	-31,145	-37,716	-39,338	-43,489	-47,462
EBITDA	33,688	39,861	52,217	58,243	64,156
Growth, %	(16)	18	31	12	10
Margin, %	11.5	11.8	14.1	14.2	14.3
Depreciation	-6,498	-6,570	-7,630	-8,080	-8,530
EBIT	27,190	33,292	44,587	50,163	55,626
Growth, %	(19)	22	34	13	11
Margin, %	9.3	9.8	12.0	12.2	12.4
Interest paid	-258	-199	-203	-207	-207
Other Income	5,569	5,652	8,477	8,647	8,820
Pre-tax profit	32,501	38,745	52,862	58,603	64,239
Tax provided	-7,771	-9,640	-12,687	-14,449	-15,417
Profit after tax	24,730	29,105	40,175	44,155	48,822
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	24,730	29,105	40,175	44,155	48,822
Growth, %	(17)	18	38	10	11
Net Profit (adjusted)	24,730	29,105	40,175	44,155	48,822

Balance Sheet

YE: Mar (INR mn)	FY22	FY23	FY24E	FY25E	FY26E
Cash & bank	1,751	3,455	5,883	30,290	54,822
Marketable securities cost	94,320	96,680	95,337	93,861	92,236
Debtors	23,043	27,982	31,481	32,592	35,616
Inventory	11,227	14,341	17,264	19,106	20,878
Loans & advances	402	436	469	519	566
Other current assets	6,525	7,974	8,771	9,649	10,613
Total current assets	42,947	54,188	63,869	92,154	122,495
Investments	12,204	13,424	14,766	16,243	17,867
Gross fixed assets	154,669	164,669	174,669	184,669	194,669
Less: Depreciation	-94,339	-100,909	-108,539	-116,619	-125,150
Add: Capital WIP	873	1,286	1,286	1,286	1,286
Net fixed assets	60,330	63,760	66,130	68,049	69,519
Total assets	213,394	227,158	250,600	280,805	312,615
Current liabilities	52,953	56,921	62,821	69,101	75,239
Provisions	3,385	3,738	3,089	4,642	4,874
Total current liabilities	56,337	60,659	65,909	73,744	80,114
Non-current liabilities	-772	-552	-552	-552	-552
Total liabilities	55,565	60,107	65,358	73,192	79,562
Paid-up capital	399.6	399.7	399.7	399.7	399.7
Reserves & surplus	157,430	166,651	184,842	207,214	232,653
Shareholders' equity	157,829	167,051	185,242	207,613	233,053
Total equity & liabilities	213,394	227,158	250,600	280,805	312,615

Cash Flow					
YE: Mar (INR mn)	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	32,501	38,745	52,862	60,202	64,239
Depreciation	6,498	6,570	7,630	8,080	8,530
Chg in working capital	-1,768	-7,873	-2,003	3,955	561
Total tax paid	-7,979	-9,419	-12,687	-14,449	-15,417
CFO	21,443	22,569	37,528	49,349	49,300
Capital expenditure	-6,042	-10,412	-10,000	-10,000	-10,000
Chg in investments	-1,526	-3,580	-	-	-
Other investing activities	5,569	5,652	8,477	8,647	8,743
CFI	-2,000	-8,341	-1,523	-1,353	-1,257
Free cash flow	13,874	8,576	27,528	39,349	39,300
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	-22,208	-23,380	-21,984	-23,382	-23,382
CFF	-22,466	-23,579	-22,186	-23,589	-23,589
Net chg in cash	(3,023)	(9,351)	13,819	24,407	24,454
Opening cash balance	4,438	1,751	3,455	5,883	30,290
Closing cash balance	1,751	3,455	5,883	30,290	54,822

Ratios					
YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
EPS (INR)	124	146	201.0	220.9	244.3
PER (x)	30.7	26.1	18.9	17.2	15.5
Price/Book (x)	4.8	4.5	4.1	3.7	3.3
EV/EBITDA (x)	19.7	16.5	12.6	10.9	9.5
EV/Net sales (x)	2.3	1.9	1.8	1.5	1.4
RoE (%)	16.0	17.9	22.8	22.5	22.2
RoCE (%)	21.2	24.1	30.2	30.0	29.3
Fixed Asset turnover (x)	1.9	2.1	2.1	2.2	2.3
Dividend Yield (%)	2.5	2.6	2.6	2.6	2.6
Receivable (days)	29	30	31	29	29
Inventory (days)	16	18	20	20	20
Payable (days)	60	58	60	60	60
Net D/E ratio (x)	(0.6)	(0.6)	(0.5)	(0.6)	(0.6)

Source: Arianth Research, Company Filings

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Stock Rating Scale

BUY
 ACCUMULATE
 HOLD
 NEUTRAL
 REDUCE
 SELL

Absolute Return

>20%
 12% to 20%
 5% to 12%
 -5% to 5%
 -5% to -12%
 <-12%

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