

Focus on New launches

CMP: INR 5,072

Rating: Accumulate

Target Price: INR 5,743

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)	400
Mkt Cap (INR mn)	1026306.4
52w H/L (INR)	5,895 / 2,889
Avg Yearly Vol (in 000')	712

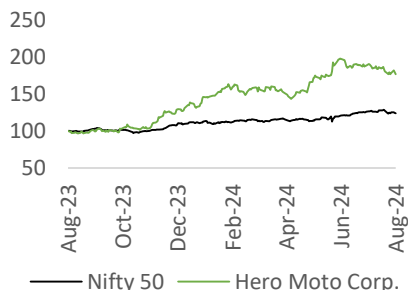
Shareholding Pattern %

(As on March, 2024)

Promoters	34.76
FII	28.34
DII	26.87
Public	8.49

Stock Performance (%)	1m	3m	12m
Hero MotoCorp	-7.82	2.00	71.66
Nifty	-1.83	9.00	24.20

Hero MotoCorp Vs Nifty



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HeroMotoCorp reported below our estimate. Standalone revenue stood at INR 1,01,437 Mn, below our estimate of INR 105,915 Mn, registering a growth of 15.7% YoY/6.6% QoQ. EBITDA stood at INR 14,598 Mn, below our estimate of INR 16,540 Mn, registering a growth of 21% YoY/7.4%QoQ. On the margins front, EBITDA margin increased by 63 bps YoY/ 11bps QoQ to 14.4%, against our estimate of 15.6% led by softening in RM price, leap savings, and product mix. Standalone PAT saw a growth of 36.1% YoY/10.5% QoQ to INR 11,226 Mn against our estimate of INR 12,480 Mn. EPS stood at INR 56.15 in Q1FY25 against INR 50.84 in Q4FY24.

Focus on Premium segments: The company is opening up new distribution, including premium stores that have come up already about, 9 opened up by end of March and already company has another 3-4 and company is going to be at about 100, 150 by FY24. The company is launching a refresh of its color options in Xoom 110 and 125cc, which should be well received by consumers. Also, company is going to launch Xoom125, Xoom 160 in H1FY25. We believe that company's poised to grow led by strong premium portfolio.

Strong demand in 125cc segment: The 125 cc has seen the sharpest increase from a 13% MS in Q4 to 20% in Q1FY25. Glamour has increased MS, so has Super Splendor. Hero Xtreme 125 has been able to bring in incremental customers into dealerships. The demand is strong for Xtreme 125 in dealerships, also in the networks. The company has been filling in the pipeline on extreme 125R as increase the capacity. Strong query and good interest from the customer.

Expansion in Market share

The company is gearing up for the festive season. Fewer marriage dates in Q1 FY25, but more are expected in November. Dispatch market share moved up QoQ from 30.2 to 30.3, while Vahan MS have moved up from 30.7 to 31.1 So retail market shares remain ahead of the wholesale MS.

Margin below estimates led by EV spending: The company's product mix shifted towards entry-level items during the wedding season, led to decrease in spare parts sales to 12.5% of revenues, down from 14.7% QoQ. Spending on EV amounted to INR 1.8 bn. In Q1, raw material costs increased modestly by INR 340 per unit. The company expects input costs to remain stable within a certain range in the near term.

Outlook and valuation

The company anticipates a boost in 2W market share through increased rural demand, premium segment product enhancements, and the launch of a mass-market EV. The emphasis on new launches in the 125cc, scooters and premium segments, and a ramp up in exports. We believe a positive stance on the rural market is supported by an evident revival in demand, PAM business expansion, expanding the EV portfolio and global expansion. This shift indicates a notable improvement in rural sentiment compared to recent months.

We downgrade our rating to Accumulate on the stock from Buy earlier and value it SOTP valuation for a revised target price of INR 5,743 per share (INR 174/218 for Ather Energy/Hero Fincorp)

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY24	374,557	52,555	39,678	198.5	14.03	22.9	25.6
FY25E	421,568	60,684	47,062	235.4	14.39	25.3	21.5
FY26E	460,728	66,846	51,485	257.6	14.51	33.2	19.7
FY27E	503,428	73,618	56,291	281.6	14.62	26.0	18.0

Source: Arihant Research, Company Filings

Management Meeting KTAs

Rural

Stronger uptick in rural areas, with more balanced growth (12% growth led by rural demand), and customer trust in Hero MotoCorp, supported by government policies and stable rainfall. Progress is good moving forward.

Export

The company announced entry into Southeast Asia, the Philippines and Brazil. These are big markets as the company star entering and launching. Nigeria comes back as it is having its own trouble in the currency and the economy as it comes back on track, that should help ramping up volumes. Colombia units, that unit has started doing better in the last quarter. The company expect ramp up from there as well.

Bangladesh is a setback, but keeping employees safe remains a priority. GB revenue is 4% of the overall company and Bangladesh is 13% of the GB revenue. So overall, Bangladesh forms around probably 0.3%, 0.4% of the overall revenues. But the operations will be coming back. The new government has come into place. The plans have opened up. So it's not something which is a medium or a long-term stoppage. It's a short-term disruption.

PAM

Premium portfolio, continue to grow PAM business in double-digits, intensify cost saving initiatives across the value chain. Continue to invest behind new products and segments, including EV and premium which company see will allow them to double down on building brands, especially premium, as move forward. Started scaling up and portfolio expansion will happen within the FY25. Coming to global business, it registered both volume and MS growth on a YoY basis.

Vida

The company is continue to augment retail experience. The company actually crossed 500 Hero 2.0 stores and premium stores crossed 40, which will cross 100+ by end of this FY25.

Strong portfolio

The entry-level 100-110cc segment, led by Passion, performed well last year, achieving a 90% market share in the deluxe category. The 125cc segment also saw strong performance, with Glamour making a comeback and the 125cc segment expected to see significant growth, especially in the premium segment. Overall, the portfolio remains strong.

Growing Premium Portfolio

The premium segment has seen several launches, with more models expected to be introduced soon, continuing to strengthen the portfolio. Significant action is planned for both EV and ICE segments, with major developments in scooters expected in FY25, alongside continued growth in the premium portfolio. The focus moving forward will be on building brands in the premium segment, leveraging recent launches to succeed in this area.

MS

Gearing up for the festive season. Fewer marriage dates in Q1 FY25, but more are expected in November. Dispatch market share moved up QoQ from 30.2 to 30.3, while Vahan MS have moved up from 30.7 to 31.1 So retail market shares remain ahead of the wholesale MS.

Rooting entry level

The company is seeing a sharp recovery in market share in the 125cc segment, driven by the new Xtreme 125cc model, while continuing to maintain a formidable market share of over 70% in the entry and deluxe 100/110cc segments, powered by brands like Splendor, Passion, and HF Deluxe. Ramp-up in the 125cc segment is ongoing.

Scooter

The company will launch new scooter models in the next two quarters to re-energize this portfolio. The EV brand Vida is increasing its presence and market share, with plans to expand into the affordable segment within this fiscal year.

Powertrain

The market continues to focus on powertrain technology, doubling down on EVs, flex-fuel, ethanol, and hybrid technology, improving fuel efficiency, and making operating costs greener across both EVs and fuel-based vehicles. Powertrain advancements are part of a long-term strategy involving multiple technologies.

EV outlook: The EV 2W market is definitely growing, with a dip in April due to changes in EMPS, but it is expected to become a 1 billion market.

Costs: Powertrain advancements and localization efforts are reducing costs, with technologies bringing scale. Cost reduction is a key backdrop.

EBITDA: 14.4% in Q1 FY25, with ICE margin of 16.4% and EV Segment impacted EBITDA Margins by 200 Bps in Q1.

Capex: 10,000-12,000 Mn and R&D spent 2.2% investment behind R&D and investment behind brands will continue to have the uptick as build technology and build brands.

Spare Part: Company has seen weaker mix due to lower spare sales and 50bps on top for commodity cost inflation. But ICE margins have gone up to ~110bps on Q3 basis.

PLI

PLI, new range of products are going to be launched and is expecting all of them to be PLI compliant.

Financial Performance Q1FY25

Standalone (INR mn)	Q1FY25	Q4FY24	Q1FY24	QoQ (%)	YoY (%)
Net sales	101,437	95,193	87,673	6.6	15.7
- Raw material	68,672	63,249	60,809	8.6	12.9
(% of net sales)	67.7	66.4	69.4	126bps	-166bps
Gross Profit	32765.7	31944.5	26863.6	2.6	22.0
(% of net sales)	32.3%	33.6%	30.6%	-1bps	2bps
- Staff expenditure	6,083	6,437	5,802	(5.5)	4.9
(% of net sales)	6.0	6.8	6.6	-77bps	-62bps
- Other expenditure	12,085	11,916	9,000	1.4	34.3
(% of net sales)	11.9	12.5	10.3	-60bps	165bps
Total expenditure	86,840	81,602	75,610	6.4	14.9
EBITDA	14,598	13,592	12,063	7.4	21.0
EBITDA Margin (%)	14.4	14.3	13.8	11bps	63bps
Depreciation	1,932	1,851	1,690	4.4	14.3
EBIT	12,666	11,741	10,373	7.9	22.1
Interest	48	46	47	5.5	3.2
Other Income	2,317	1,800	2,222	28.7	4.3
PBT	14,935	13,496	12,548	10.7	19.0
Tax	3,708	3,335	2,701	11.2	37.3
Reported PAT	11,226.3	10,160.5	9,847	10.5	14.0
Adjusted PAT	11,226	10,161	8,247	10.5	36.1
Adjusted EPS (INR)	56.15	50.84	53.70	10.4	4.6
Total volumes (Nos)	1,535,156	1,392,423	1,352,574	10.3	13.5
Net realisation (INR)	66,076	68,365	64,819	(3.3)	1.9
EBITDA / vehicle (INR)	9,509	9,761	8,918	(2.6)	6.6

Source: Arianth Research, Company Filings

	Q1FY22	Q1FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Motorcycles	959571	1306294	1262640	1307048	1,325,275	1,295,709	1,440,956
Scooters	64918	83899	89934	109478	134,657	96,714	94,200
Total	1024489	1390193	1352574	1416526	1,459,932	1,392,423	1,535,156
Domestic	940689	1328166	1317250	1363940	1,413,894	1,415,448	1,484,162
Exports	83800	62027	35324	52586	46,038	66,975	50,994
Net realization (INR)	53,559	60,370	64,819	68365	66,604	68,365	66,076
EBITDA / vehicle (INR)	5,025	6,767	8,918	9,761	9,329	9,761	9,509

Source: Arianth Research, Company Filings

Financial Performance

Profit & Loss Statement					
YE: Mar (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net sales	338,057	374,557	421,568	460,728	503,428
Growth, %	15.6	11	13	9	9
RM expenses	-238,581	-254,308	-290,882	-317,442	-346,359
Employee expenses	-21,898	-24,023	-25,294	-27,644	-30,206
Other expenses	-37,716	-43,671	-44,708	-48,797	-53,246
EBITDA	39,861	52,555	60,684	66,846	73,618
Growth, %	18	32	15	10	10
Margin, %	11.8	14.0	14.4	14.5	14.6
Depreciation	-6,570	-7,114	-8,080	-8,643	-9,318
EBIT	33,292	45,441	52,604	58,203	64,300
Growth, %	22	36	16	11	10
Margin, %	9.8	12.1	12.5	12.6	12.8
Interest paid	-199	-185	-189	-189	-189
Other Income	5,652	8,926	9,104	9,286	9,472
Pre-tax profit	38,745	54,182	61,519	67,301	73,583
Tax provided	-9,640	-12,904	-14,457	-15,816	-17,292
Profit after tax	29,105	41,278	47,062	51,485	56,291
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	29,105	39,678	47,062	51,485	56,291
Growth, %	18	36	19	9	9
Net Profit (adjusted)	29,105	39,678	47,062	51,485	56,291.3

Balance Sheet						
YE: Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Cash & bank	1,751	3,455	6,089	7,530	19,303	35,359
Marketable securities cost	94,320	96,680	116,095	114,618	112,994	111,207
Debtors	23,043	27,982	27,034	33,494	36,606	39,998
Inventory	11,227	14,341	14,438	16,250	17,759	19,405
Loans & advances	402	436	457	523	571	623
Other current assets	6,525	7,974	7,408	8,149	8,964	9,860
Total current assets	42,947	54,188	55,427	65,946	83,203	105,245
Investments	12,204	13,424	14,766	16,243	17,867	19,654
Gross fixed assets	154,669	164,669	174,669	184,669	199,669	214,669
Less: Depreciation	-94,339	-100,909	-108,023	-116,103	-124,746	-134,064
Add: Capital WIP	873	1,286	1,206	1,206	1,206	1,206
Net fixed assets	60,330	63,760	66,646	68,566	74,923	80,605
Total assets	213,394	227,158	250,611	277,009	300,622	328,338
Current liabilities	52,953	56,921	66,299	75,085	81,778	89,075
Provisions	3,385	3,738	4,708	10,340	12,261	13,809
Total current liabilities	56,337	60,659	71,007	85,425	94,039	102,885
Non-current liabilities	-772	-552	-257	-257	-257	-257
Total liabilities	55,565	60,107	70,749	85,168	93,782	102,628
Paid-up capital	399.4	399.4	399.4	399.4	399.4	399.4
Reserves & surplus	157,430	166,651	179,462	191,442	206,441	225,311
Shareholders' equity	157,829	167,051	179,861	191,841	206,840	225,710
Total equity & liabilities	213,394	227,158	250,611	277,009	300,622	328,338

Cash Flow					
YE: Mar (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	38,745	54,182	61,519	67,301	73,583
Depreciation	6,570	7,114	8,080	8,643	9,318
Chg in working capital	-7,873	11,743	5,340	3,130	2,859
Total tax paid	-9,419	-12,610	-14,457	-15,816	-17,292
CFO	22,569	51,689	51,567	54,160	59,185
Capital expenditure	-10,412	-9,920	-10,000	-15,000	-15,000
Chg in investments	-3,580	(20,757)	-	-	-
Other investing activities	5,652	8,926	9,104	9,205	9,307
CFI	-8,341	-21,752	-896	-5,795	-5,693
Free cash flow	8,576	21,011	41,567	39,160	44,185
Debt raised/(repaid)	0	0	0	0	7
Dividend (incl. tax)	-23,380	-29,685	-35,082	-36,486	-37,421
CFF	-23,579	-29,870	-35,271	-36,674	-37,603
Net chg in cash	(9,351)	66	15,400	11,691	15,890
Opening cash balance	1,751	3,455	6,089	7,530	19,303
Closing cash balance	3,455	6,089	7,530	19,303	35,359

Ratios						
YE: Mar	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS (INR)	124	146	198.5	235.4	257.6	281.6
PER (x)	41.0	34.8	25.6	21.5	19.7	18.0
Price/Book (x)	6.4	6.1	5.6	5.3	4.9	4.5
EV/EBITDA (x)	24.5	20.6	15.2	13.2	11.8	10.5
EV/Net sales (x)	2.8	2.4	2.1	1.9	1.7	1.5
RoE (%)	16.0	17.9	22.9	25.3	25.8	26.0
RoCE (%)	21.2	24.1	31.4	33.2	33.9	34.2
Fixed Asset turnover (x)	1.9	2.1	2.1	2.3	2.3	2.3
Dividend Yield (%)	1.9	2.0	2.7	3.0	3.1	3.2
Receivable (days)	29	30	26	29	29	29
Inventory (days)	16	18	16	16	16	16
Payable (days)	60	58	63	64	64	64
Net D/E ratio (x)	(0.6)	(0.6)	(0.7)	(0.6)	(0.6)	(0.6)

Source: Arian Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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