

**Rural Recovery On Cards**

**CMP: INR 4,909**

**Rating: Accumulate**

**Target Price: INR 5,603**

**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)	981,216
52w H/L (INR)	4,924/2246
Avg Yearly Vol (in 000')	661

**Shareholding Pattern %**

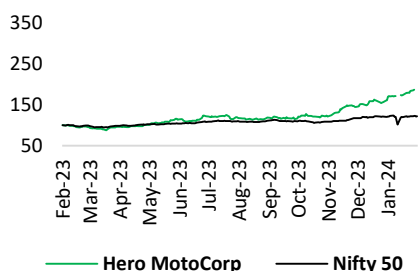
(As on Dec, 2023)

Promoters	34.76
FII	28.34
DII	16.27
Public	20.63

**Stock Performance (%)**

	1m	3m	12m
Hero MotoCorp	22.9	29.0	34.6
Nifty	1.1	12.3	21.7

**Hero MotoCorp Vs Nifty**



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HeroMotoCorp reported a good performance beat on all fronts: Standalone revenue stood at INR 97,237 Mn, against our estimate of INR 96,937 Mn registering a growth of 21.1% YoY/2.9% QoQ. EBITDA stood at INR 13,620 Mn, against our estimate of INR 13,283 Mn, Registering a growth of 47.4% YoY/2.5%QoQ. On the margins front, EBITDA margin expansion by 291 bps YoY/down 6bps QoQ to 14.0%, against our estimate of 14.1% led by softening in RM price, leap savings, and product mix. Standalone PAT saw a growth of 51% YoY/1.9%QoQ to INR 10,734 Mn against our estimate of INR 10,538 Mn.

**Strong traction in EV:** The company has rapidly expanded its electric vehicle (EV) presence across 100 cities in India and is actively collaborating with Ather to build a robust charging infrastructure. For FY25, the company plans to launch new EV products in both the mid (INR 1.25-INR 1.3 lakh/unit) and affordable (~INR 1 lakh or below/unit) segments, demonstrating a commitment to innovation with extensive research and development investments in EV technology. Complementing its EV initiatives, the company strategically operates around 18 exclusive Vida hubs, small-format stores across India, with ambitious plans to expand this network to 100 hubs by the end of FY25.

**Festive Surge: Rural Dominance in Sales with Financing Fueling Transition:** During the festive season, the company experienced elevated sales in rural areas, surpassing urban regions. Enquiries for its models from rural areas increased to ~50%-55%, up from ~40% a year ago. This shift is primarily attributed to financing emerging as the key driver in this transition.

**Global Expansion Strategy:** Expanding Global Presence: Management pledges to accelerate growth in existing ~50 countries in the exports market, with planned product launches to strengthen market share in these regions

**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 premium vehicles will rise with new model launches and expanded premium outlets. We believe a positive stance on the rural market is supported by an evident revival in demand, marked by a surge in rural inquiries, currently accounting for 50%-55% of total inquiries. This shift indicates a notable improvement in rural sentiment compared to recent months. **We revised our rating to Accumulate on the stock and value it SOTP valuation for a revised target price of INR 5,603 per share (earlier target price; INR 4,607 per share).**

**Exhibit 1: Financial Performance**

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
<b>FY23</b>	338,057	39,861	29,105	145.6	11.79	17.9	33.7
<b>FY24E</b>	385,661	54,307	43,052	215.4	14.08	24.2	22.8
<b>FY25E</b>	421,568	59,841	45,369	227.0	14.19	22.7	21.6
<b>FY26E</b>	460,728	65,925	50,166	251.0	14.31	30.3	19.6

Source: Arihant Research, Company Filings

### **Management Meeting KTAs**

**EBITDA margin at 16% for ICE two-wheelers;** EV (Vida) brand efforts cause a ~200 bps dip, settling at 14% this quarter but improving 250 bps YoY. Factors include favorable commodity costs, leap savings, premiumization, and strategic pricing.

### **Dividend**

The company declares INR 75/share interim dividend, plus INR 25/share special dividend, totaling INR 100/share interim dividend.

### **PAM Business Growth**

Annualized revenue for the Parts Accessories & Merchandise (PAM) business surpasses INR 55000 Mn. Planned capacity expansion with a INR 6000 Mn investment over two years aims for an annualized revenue of ~INR 100,000 Mn. Q3FY24 revenue from the PAM segment reaches ~INR 14260 Mn, compared to ~INR 12590 Mn in Q3FY23.

### **Strategic Initiatives and EV Expansion**

- Successful launches in the premium segment, including Xtreme 125R and Mavrick 440, prompt capacity ramp-up.
- EV presence extended to 100 cities; charging infrastructure development in collaboration with Ather.
- Plans to launch new EV products in mid (~₹1.25-₹1.3 lakh/unit) and affordable (~₹1 lakh or below/unit) segments in FY25.
- ~18 exclusive Vida hubs set to expand to 100 hubs by FY25, emphasizing strong growth in retail footprint.
- It commenced deliveries for the Harley-Davidson X440 across the country. Company's order booking for Harley Davidson X440 is ~30,000 units and the company shall ramp up the capacity towards the same by March 2024.

**Industry Growth Projection:** Anticipated double-digit industry growth in the upcoming year.

### **Rural Sales Surge**

- Higher sales during the festive season in rural areas compared to urban regions.
- Enquiries for models from rural areas increase to ~50%-55%, up from ~40% a year ago, with financing driving this transition.

### **Financing Penetration**

- Financing penetration for the company stands at 60%-65%.

### **Segment Expectations**

- Expects the 125 cc motorcycle segment to drive a significant portion of growth in the coming year, with new launches contributing momentum.

### **Hero 2.0 Project Progress**

- Hero 2.0 project sees continuous expansion of dealerships, leading to higher conversion rates.
- Premia stores generate strong sales, including 110 cc model sales.

### **Inventory Management and Retail Sales**

Current inventory level maintained at 4-6 weeks.

Retail market sales surpass wholesale market sales.

### **Global Expansion Focus**

- Focus on accelerating growth in existing ~50 countries in exports market.
- Planned launches in the exports market to enhance market share.

Exhibit 4:SOTP valuation

SOTP Valuation	Amount (INR)
FY26E Core EPS (INR/share, A)	251
P/E Multiple assigned (x, B)	21.0
Value of Base Business (C =A*B)	5,271
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)	5,603
CMP INR	4,909
<b>Potential Upside (%)</b>	<b>14.1%</b>

Financial Performance

Profit & Loss Statement (Standalone)					
YE: Mar (INR mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>292,455</b>	<b>338,057</b>	<b>385,661</b>	<b>421,568</b>	<b>460,728</b>
Growth, %	(5)	15.6	14	9	9
RM expenses	-208,267	-238,581	-267,263	-291,725	-318,363
Employee expenses	-19,354	-21,898	-23,140	-25,294	-27,644
Other expenses	-31,145	-37,716	-40,951	-44,708	-48,797
<b>EBITDA</b>	<b>33,688</b>	<b>39,861</b>	<b>54,307</b>	<b>59,841</b>	<b>65,925</b>
Growth, %	(16)	18	36	10	10
Margin, %	11.5	11.8	14.1	14.2	14.3
Depreciation	-6,498	-6,570	-5,935	-8,080	-8,530
<b>EBIT</b>	<b>27,190</b>	<b>33,292</b>	<b>48,373</b>	<b>51,761</b>	<b>57,394</b>
Growth, %	(19)	22	45	7	11
Margin, %	9.3	9.8	12.5	12.3	12.5
Interest paid	-258	-199	-203	-207	-207
Other Income	5,569	5,652	8,477	8,647	8,820
Non-recurring Items	-	-	-	-	-
<b>Pre-tax profit</b>	<b>32,501</b>	<b>38,745</b>	<b>56,647</b>	<b>60,201</b>	<b>66,007</b>
Tax provided	-7,771	-9,640	-13,595	-14,832	-15,842
<b>Profit after tax</b>	<b>24,730</b>	<b>29,105</b>	<b>43,052</b>	<b>45,369</b>	<b>50,166</b>
Others (Minorities, Associates)	-	-	-	-	-
<b>Net Profit</b>	<b>24,730</b>	<b>29,105</b>	<b>43,052</b>	<b>45,369</b>	<b>50,166</b>
Growth, %	(17)	18	48	5	11
<b>Net Profit (adjusted)</b>	<b>24,730</b>	<b>29,105</b>	<b>43,052</b>	<b>45,369</b>	<b>50,166</b>

Balance Sheet					
YE: Mar (INR mn)	FY22	FY23	FY24E	FY25E	FY26E
Cash & bank	1,751	3,455	7,180	32,833	58,721
Marketable securities cost	94,320	96,680	95,337	93,861	92,236
Debtors	23,043	27,982	32,755	33,494	36,606
Inventory	11,227	14,341	17,962	19,635	21,459
Loans & advances	402	436	488	533	582
Other current assets	6,525	7,974	8,771	9,649	10,613
<b>Total current assets</b>	<b>42,947</b>	<b>54,188</b>	<b>67,157</b>	<b>96,144</b>	<b>127,980</b>
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	-106,843	-114,924	-123,454
Add: Capital WIP	873	1,286	1,286	1,286	1,286
<b>Net fixed assets</b>	<b>60,330</b>	<b>63,760</b>	<b>67,825</b>	<b>69,745</b>	<b>71,215</b>
<b>Total assets</b>	<b>213,394</b>	<b>227,158</b>	<b>255,583</b>	<b>286,490</b>	<b>319,795</b>
Current liabilities	52,953	56,921	64,927	70,695	76,985
Provisions	3,385	3,738	3,089	4,642	4,874
<b>Total current liabilities</b>	<b>56,337</b>	<b>60,659</b>	<b>68,016</b>	<b>75,337</b>	<b>81,859</b>
Non-current liabilities	-772	-552	-552	-552	-552
<b>Total liabilities</b>	<b>55,565</b>	<b>60,107</b>	<b>67,464</b>	<b>74,786</b>	<b>81,308</b>
Paid-up capital	399.4	399.4	399.4	399.4	399.4
Reserves & surplus	157,430	166,651	187,720	211,305	238,088
Shareholders' equity	157,829	167,051	188,119	211,705	238,488
<b>Total equity &amp; liabilities</b>	<b>213,394</b>	<b>227,158</b>	<b>255,583</b>	<b>286,490</b>	<b>319,795</b>

Source: Arihant Research, Company Filings

Cash Flow					
YE: Mar (INR mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Pre-tax profit</b>	<b>32,501</b>	<b>38,745</b>	<b>56,647</b>	<b>61,800</b>	<b>66,007</b>
Depreciation	6,498	6,570	5,935	8,080	8,530
Chg in working capital	-1,768	-7,873	-1,887	3,987	573
Total tax paid	-7,979	-9,419	-13,595	-14,832	-15,842
<b>CFO</b>	<b>21,443</b>	<b>22,569</b>	<b>38,825</b>	<b>50,595</b>	<b>50,656</b>
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
<b>CFI</b>	<b>-2,000</b>	<b>-8,341</b>	<b>-1,523</b>	<b>-1,353</b>	<b>-1,257</b>
Free cash flow	13,874	8,576	28,825	40,595	40,656
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	-22,208	-23,380	-21,984	-23,382	-23,382
<b>CFF</b>	<b>-22,466</b>	<b>-23,579</b>	<b>-22,186</b>	<b>-23,589</b>	<b>-23,589</b>
<b>Net chg in cash</b>	<b>(3,023)</b>	<b>(9,351)</b>	<b>15,116</b>	<b>25,653</b>	<b>25,810</b>
Opening cash balance	4,438	1,751	3,455	7,180	32,833
<b>Closing cash balance</b>	<b>1,751</b>	<b>3,455</b>	<b>7,180</b>	<b>32,833</b>	<b>58,721</b>

Ratios					
YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
EPS (INR)	124	146	215.4	227.0	251.0
PER (x)	39.7	33.7	22.8	21.6	19.6
Price/Book (x)	6.2	5.9	5.2	4.6	4.1
EV/EBITDA (x)	26.3	22.1	16.2	14.3	12.6
EV/Net sales (x)	3.0	2.6	2.3	2.0	1.8
RoE (%)	16.0	17.9	24.2	22.7	22.3
RoCE (%)	21.2	24.1	32.1	30.3	29.5
Fixed Asset turnover (x)	1.9	2.1	2.2	2.3	2.4
Dividend Yield (%)	1.9	2.0	2.0	2.0	2.0
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	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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