

Focus on Premium Segments

CMP: INR 4,614

Rating: Buy

Target Price: INR 5,682

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')	729

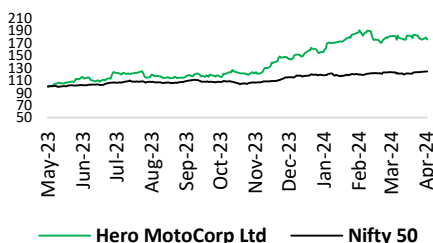
Shareholding Pattern %

(As on March, 2024)

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 in-line with our estimate. Company expects favorable macroeconomic conditions to boost industry growth, with stable commodity prices, anticipated normal monsoons, increased government spending, and plans for market share gains through recent launches and upcoming scooter and EV introductions, signaling a positive outlook for the future. Standalone revenue stood at INR 95,193 Mn, above our estimate of INR 93,550 Mn registering a growth of 14.6% YoY/ -2.1% QoQ. EBITDA stood at INR 13,592 Mn, above our estimate of INR 13,252 Mn, Registering a growth of 25.5% YoY/-0.2%QoQ. On the margins front, EBITDA margin expansion by 124 bps YoY/+27bps QoQ to 14.3%, above our estimate of 14.2% led by softening in RM price, leap savings, and product mix. Standalone PAT saw a growth of 20% YoY/-2% QoQ to INR 10,315 Mn against our estimate of INR 10,538 Mn. EPS stood at INR 50.8 in Q4FY24 against INR 53.7 in Q3FY24. Recommended final dividend of INR 40 per share. The company also disclosed the setting-up of a wholly owned subsidiary in Brazil.

Strong traction in EV: The company has rapidly expanded its electric vehicle footprint, spanning 120 cities in India, and is actively partnering with Ather to fortify a comprehensive charging infrastructure network. In FY25, it intends to unveil fresh EV offerings across both mid-range and affordable segments. Collaborating with Ather extends its reach to 200 cities with access to 25 charging points. While existing products in the market are not yet PLI-ready, upcoming launches will be, underlining the company's commitment to innovation and brand development, with plans for brand-building initiatives and new product launches slated for the H1FY25.

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 poised to grow led by strong premium portfolio.

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, PAM business expansion, expanding the EV portfolio and global expansion. This shift indicates a notable improvement in rural sentiment compared to recent months. **We upgrade our rating to Buy on the stock from Accumulate and value it SOTP valuation for a revised target price of INR 5,682 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	31.7
FY24	374,557	52,555	39,678	198.5	14.03	22.9	23.2
FY25E	421,568	60,684	47,062	235.4	14.39	25.3	19.6
FY26E	460,728	66,846	51,485	257.6	14.51	33.2	17.9
FY27E	503,428	73,618	56,291	281.6	14.62	26.0	16.4

Source: Arihant Research, Company Filings

Management Meeting KTAs

Management estimates accelerated growth in FY25 and beyond, driven by new launches, focus on the premium segment, expansion of the PAM business, and a positive demand environment. Plans to strengthen the scooter portfolio with upcoming launches of Xoom 125cc and Xoom 160cc in the H1FY25. The company is committed to expanding its EV portfolio and reducing costs in response to the evolving EV subsidy landscape. Additionally, Hero MotoCorp aims to establish a wholly owned subsidiary in Brazil, explore new markets, and strengthen its presence in key international markets. However, the company is addressing concerns regarding MS decline and closely monitoring the impact of the evolving EV subsidy landscape.

Margin: The impact of spend on EV business on the company's margin was 130bps thereby taking the overall EBITDA margin down to 14%. The long-term timeline for margin remains at 14% to 16%. The margins of EV are dependent on regulatory, game subsidy, pricing scenario in the market, and how different players feel about that.

Premium and 125cc Segments: Market share gains in the premium segment and expectations for improvements in the 125cc segment were emphasized.

Scooter Segment: Plans to strengthen the scooter portfolio with upcoming launches of Xoom 125cc and Xoom 160cc in the first half of FY25.

Hero 2.0 Stores: Rapid expansion of the Hero 2.0 store network, offering premium customer experience and contributing to better conversion rates and customer satisfaction.

PAM: The Parts and Accessories (PAM) business continues its strong performance, achieving double-digit growth and contributing significantly to overall revenue. Revenue were INR 13,970 Mn in Q4FY24 and FY24 INR 50,870 Mn.

Market Share: Company plans to address the overall MS decline through new launches, marketing investments, and expanding Hero 2.0 store network.

PLI: Keeping a close watch on the impact of the evolving EV subsidy landscape on the company's EV business. Subsidy on the basis of (Localization+ other parameters) current product not eligible for the PLI but upcoming product will be eligible for the PLI scheme.

Acquisition: Open to M&A Opportunities

Capex: The company expects CapEx to be between INR10,000 Mn to INR 15000 Mn for the upcoming year. The CapEx includes the GPC-2 expansion that was approved and will be spent over the next two years.

Product

The company will continue to invest behind new products and segments, including EV and premium, going digital to enhance customer buying experience, and new product development. The company is launching new products, including the Glamour Magnetic in the South and East regions, and scooters at EICMA. The company is also refreshing some of its existing products, such as the Zoom 125.

Stores & Dealer

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.

Demand

Demand for Xtreme 125 is also pulling up demand for Xtreme 160. The company is willing to develop new products for specific markets, such as Brazil, if there is a demand for it.

Price

Price increases overall for the FY24 were INR 1,300 to INR 1,400 per vehicle. The company will not compromise on the competitiveness of the product, while continuing to navigate the category with the right cost reduction and pricing.

Financial Performance Q4FY24

Standalone (INR mn)	Q4FY24	Q3FY24	4QFY23	QoQ (%)	YoY (%)
Net sales	95,193	97,237	83,068	(2.1)	14.6
- Raw material	63,249	65,470	56,463	(3.4)	12.0
(% of net sales)	66.4	67.3	68.0	-89bps	-153bps
Gross Profit	31944.5	31766.9	26604.9	0.6	20.1
(% of net sales)	33.6%	32.7%	32.0%	-1bps	1bps
- Staff expenditure	6,437	6,017	5,571	7.0	15.6
(% of net sales)	6.8	6.2	6.7	57bps	6bps
- Other expenditure	11,916	12,130	10,204	(1.8)	16.8
(% of net sales)	12.5	12.5	12.3	4bps	23bps
Total expenditure	81,602	83,617	72,238	(2.4)	13.0
EBITDA	13,592	13,620	10,830	(0.2)	25.5
EBITDA Margin (%)	14.3	14.0	13.0	27bps	124bps
Depreciation	1,851	1,825	1,686	1.4	9.8
EBIT	11,741	11,795	9,144	(0.5)	28.4
Interest	46	45	47	0.9	(2.6)
Other Income	1,800	2,420	2,369	(25.6)	(24.0)
PBT	13,496	14,170	11,467	(4.8)	17.7
Tax	3,335	3,437	2,877	(2.9)	15.9
Reported PAT	10,160.5	10,733.8	8,589	(5.3)	18.3
Adjusted PAT	10,161	9,134	8,589	11.2	18.3
Adjusted EPS (INR)	50.84	53.70	42.99	(5.3)	18.3
Total volumes (Nos)	1,392,423	1,459,932	1,270,492	(4.6)	9.6
Net realisation (INR)	68,365	66,604	65,382	2.6	4.6
EBITDA / vehicle (INR)	9,761	9,329	8,524	4.6	14.5

Source: Arianth Research, Company Filings

Exhibit 4:SOTP valuation

SOTP Valuation	Amount (INR)
FY27E Core EPS (INR/share, A)	282
P/E Multiple assigned (x, B)	19.0
Value of Base Business (C =A*B)	5,350
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)	5,682
CMP INR	4,614
Potential Upside (%)	23.2%

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

Source: Arihant Research, Company Filings

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)	37.3	31.7	23.2	19.6	17.9	16.4
Price/Book (x)	5.8	5.5	5.1	4.8	4.5	4.1
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 (%)	2.1	2.2	2.9	3.3	3.4	3.5
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: Arihant 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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