



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score NEW

ESG RISK RATING
Updated Feb 08, 2022

11.57

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

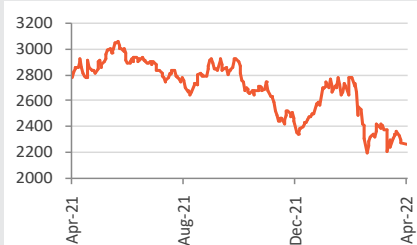
Company details

Market cap:	Rs. 45,207 cr
52-week high/low:	Rs. 3,089 / 2,148
NSE volume: (No of shares)	7.1 lakh
BSE code:	500182
NSE code:	HEROMOTOCO
Free float: (No of shares)	13.0 cr

Shareholding (%)

Promoters	34.8
FII	29.6
DII	23.7
Others	12.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.3	-11.8	-19.2	-22.3
Relative to Sensex	-4.5	-6.1	-15.8	-37.6

Sharekhan Research, Bloomberg

Hero MotoCorp Ltd

Hero is ready for action

Automobiles

Sharekhan code: HEROMOTOCO

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 2,263

Price Target: Rs. 3,210



Summary

- We maintain Buy on Hero MotoCorp Limited (Hero) with a revised PT of Rs. 3,210, led by expected recovery in rural demand.
- Hero is expected to benefit from premiumisation of its products, stronghold in the economy, executive motorcycle segments, and aggressive products offerings in premium bike and scooters segments.
- Hero's roadmap for EV is convincing given its preparedness and investments in technology and strategic partnerships. The company has launched Vida brand for e-mobility solutions in March 2022.
- Post the stock price correction of 18.5% over the past six months, the stock is trading at comfortable valuations at a P/E multiple of 12x and EV/EBITDA multiple of 5.9x its FY2024E estimates, with attractive dividend yield of 4.8%.

Hero MotoCorp Limited (Hero) has underperformed the broader market NIFTY by 37% in the past one year, driven by subdued performance of entry and executive level bikes in domestic markets, where Hero is the undisputed leader. The BS-6 transition, input cost inflation, and slower economic growth impacted buyers of entry level bikes. With the timely arrival of the monsoon season this year, we expect the rural economy to revive strongly, resulting in recovery of entry and executive level bikes. Hero is likely to be the key beneficiary due to its strong and deep-rooted distribution network in rural semi-urban areas in the country. Moreover, the company's management targets 15% volumes from global markets by 2025 in comparison to ~5% in FY2022E. In addition, the company is well placed to benefit from adoption of electric 2W vehicles through its strong research and development (R&D), investments in Ather Energy, and strategic partnership with Taiwan-based Gogoro, a global leader in battery swapping network. We remain positive on Hero, driven by its convincing roadmap for electric vehicles (EV) penetration, focus on premiumisation, export growth opportunities, and comfortable valuations. We maintain our Buy recommendation with a revised price target (PT) of Rs.3,210.

- Well positioned to benefit from recovery in the rural economy:** Hero has the strongest distribution network in the country's rural and semi-urban areas. Timely onset of the monsoon season will revive rural demand in the near future, further supported by the previous three years of normal monsoon and positive rural sentiments.
- Aggressive launches in scooters and premium bike segments:** Hero has strengthened its product portfolio in the scooters and premium bike segment through a slew of new launches in the past two years. Management remains committed to launch at least one product every year over the next four years. We expect new launches to help the company build and position its brand in the long run.
- Convincing roadmap for EV product development:** Hero's roadmap for EV is convincing, given its preparedness and investments in technology and strategic partnerships. The company has launched Vida brand for e-mobility solutions in March 2022 and expects its first mass EV product to be unveiled in July 2022. Besides its investments in Ather Energy, the company has set up an R&D centre in Germany and Jaipur and collaborated with Taiwan start-up Gogoro.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 3,210: The positive outlook conferred by Hero's management underpins our positive outlook for the 2W industry. Demand drivers for 2W remain strong and will drive growth once economic activities normalise, led by improving personal incomes, increasing penetration in the rural economy, and because of 2W being the most preferred mode of personal transportation amid COVID-19. We expect incremental growth in the 2W industry to come from the economy and executive motorcycle segments, driven largely by rural and tier-2 and tier-3 cities. We expect Hero to be the greatest beneficiary in the sector, given its leadership and largest distribution network. Moreover, the company's aggressive plans in scooters, premium bikes, and EV segments are likely to augur well for medium-term growth. Post the 18.5% correction in the stock price over the past six months, the stock is trading at comfortable valuations at a P/E multiple of 12x and EV/EBITDA multiple of 5.9x its FY2024E estimates, with attractive dividend yield of 4.8%. We maintain our Buy rating with a revised price target (PT) of Rs. 3,210.

Key Risks

Success of rival products in the entry and executive bike segments can impact Hero's market share in the segments. The company is aggressively expanding its product portfolio in the premium bikes segment. Unsuccessful launches in the premium segment can restrain its growth path.

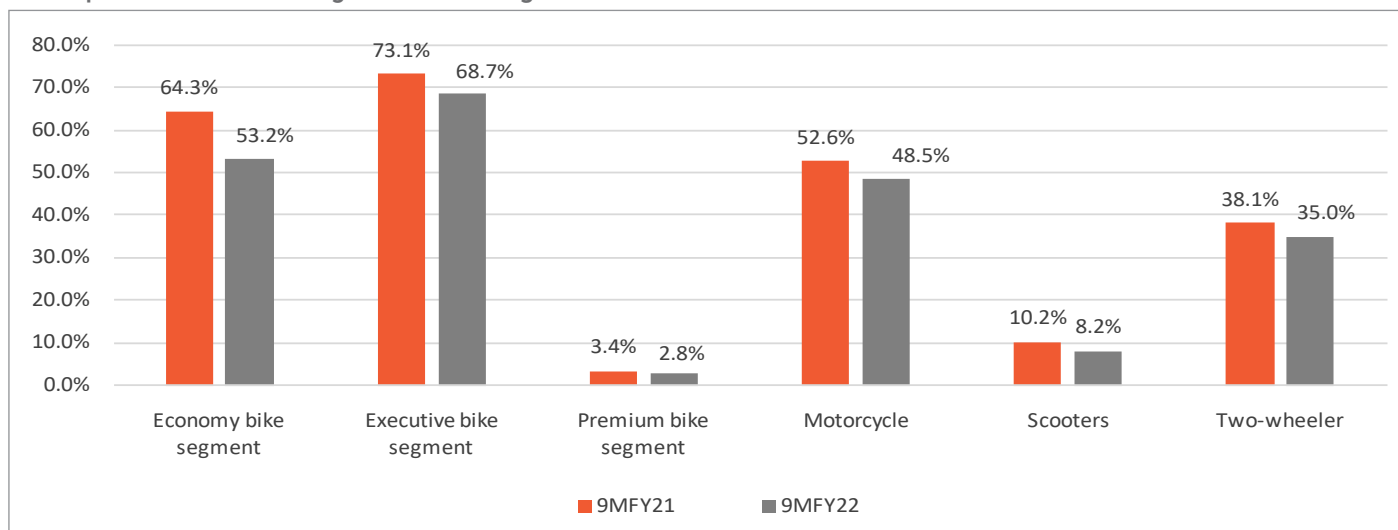
Valuation (Standalone)

Particulars	FY21	FY22E	FY23E	FY24E
Net Sales	30,801	29,238	34,546	39,743
Growth (%)	6.8	-5.1	18.2	15.0
EBIDTA	4,019	3,490	4,271	5,169
OPM (%)	13.0	11.9	12.4	13.0
PAT	2,911	2,485	3,036	3,770
Growth (%)	-19.9	-14.6	22.1	24.2
FD EPS (Rs.)	145.8	124.4	152.0	188.8
P/E (x)	15.5	18.2	14.9	12.0
P/B (x)	3.0	2.9	2.4	2.0
EV/EBIDTA (x)	9.3	10.5	7.9	5.9
RoE (%)	19.4	15.8	16.2	16.7
RoCE (%)	25.3	20.6	21.1	21.9

Source: Company; Sharekhan estimates

Well positioned to benefit from recovery in the rural economy: Hero has the strongest distribution network in the country's rural and semi-urban areas. Timely onset of the monsoon season will revive rural demand in the near future, further supported by the previous three years of normal monsoon and positive rural sentiments. Hero is likely to be the key beneficiary due to its strong and deep-rooted distribution network in the country's rural semi-urban areas. The company is the undisputed leader in the domestic entry and executive level. BS-6 transition, input cost inflation, and slower economic growth impacted the buyers of entry-level bikes, which impacted the company's sales performance in the past two years.

Hero's performance marred by slow economic growth



Source: Company, Sharekhan Research

Aggressive launches in scooters and premium bike segments: Hero has aggressively launched a slew of products in the scooters and premium bikes segments over the past two years. The company has launched three new models in the scooters segment over two years, viz. Destini 125, Pleasure+ 110, and Maestro Edge 125 to make its portfolio strong in the segment. Similarly, Hero has strengthened its product portfolio in the premium bike segment by launching three products in 160cc to 200cc segments, viz. XPulse 200T, Xtreme 200S, and Xtreme 160R. In the premium bike segment, Hero plans to launch at least one product every year over the next four years. We expect new launches to help the company build and position its brand in the long run.

Hero to remain the key beneficiary of 2W demand: We expect Hero to continue its dominance in the 2W industry, driven by its benefits from the premiumisation of its products, strong foothold in the economy, executive motorcycle segments, and aggressive products offerings in the premium bikes and scooters segments. The company has kept its dominance in the economy and executive segments despite intensifying competition in the segment due to continuous addition of new features in existing products, successfully switching to BS-VI transition, and being the beneficiary of the largest distribution network.

Management is optimistic about growth plans: Management is optimistic about growth prospects, led by the upcoming wedding season supported by good monsoon and improving consumer confidence index. The company's exports business and premium segment are showing good traction. Retail financing penetration has improved to 55% in Q3FY2022 as compared to 51% in Q3FY2021, with the share of Hero FinCorp at 35-40% in captive financing.

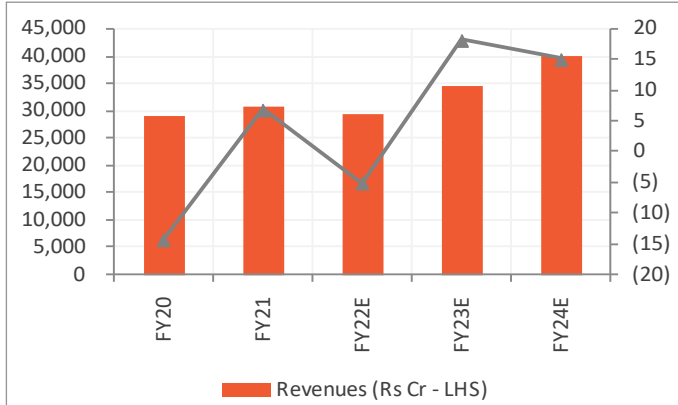
Convincing roadmap for EV product development: Management expects the EV segment to be key growth driver for the industry. Hero has taken various initiatives to strengthen its position in the emerging segment. Hero's roadmap for EV is convincing, given its preparedness and investments in technology and strategic partnerships. The company has launched Vida brand for e-mobility solutions in March 2022 and expects its first mass EV product to be unveiled in July 2022. Besides its investments in Ather Energy, the company has set up an R&D centre in Germany and Jaipur and collaborated with Taiwan start-up Gogoro. The company is

working on both technologies – fixed charging system through its own R&D and swapping technology system through its partner, Gogoro. Management expects actions in the EV space in the next calendar year. On the EV side, the company's own launch is expected in July 2022 and a joint development launch (swappable technology) with Gogoro is expected in CY2022. The company plans to increase allocation toward innovation (~Rs. 1,000 crore over the next 10 years) and partner with 10 or more firms with a focus on sustainability. Hero has also announced a \$100 million Global Sustainability Fund. The fund will aim to establish global partnerships, spearheaded by BML Munjal University (BMU) and Hero MotoCorp. The objective will be to nurture more than 10,000 entrepreneurs on ESG solutions.

Renewed focus on exports: Hero is focusing on exports and is eyeing a sizeable share in its destination markets going forward. Currently, export volumes comprise a miniscule 2-3% of its total volumes. The company has made footprints into more than 40 countries from four companies in FY2012. Hero is exploring opportunities in few export destinations such as Colombia, Bangladesh, Nepal, Sri Lanka, Africa, and Mexico. In Columbia, Hero has gained market share and is operating at breakeven levels. Recently, the company has partnered with a distributor in Mexico. The company's plan is to focus on the top 5-6 export destinations, where the market size is large enough. The company's management targets 15% volumes from global markets by 2025 in comparison to ~5% in FY2022E. We believe exports will take time before they significantly contribute to its overall revenue.

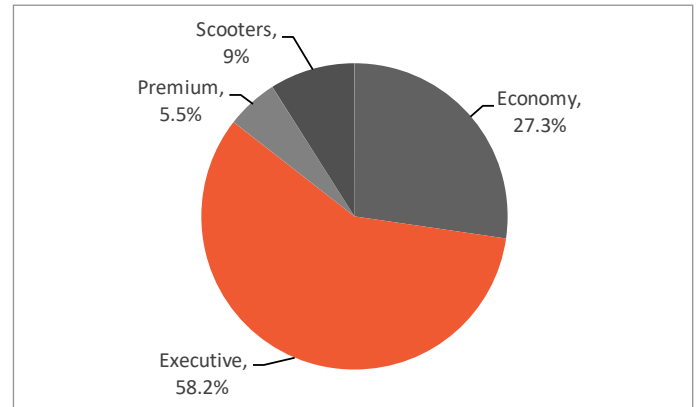
Financials in charts

Revenue and Growth Trend



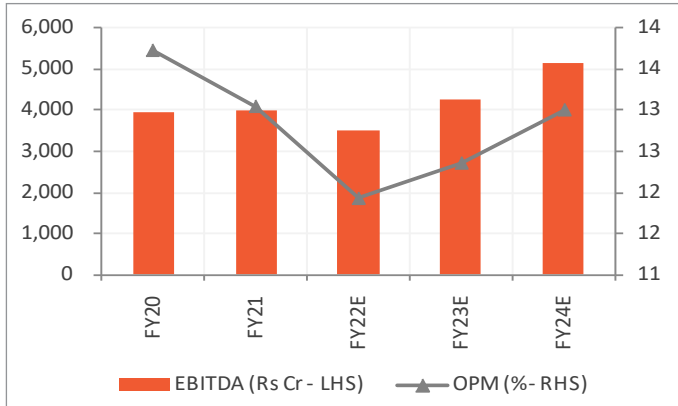
Source: Company, Sharekhan Research

Product Mix (%)



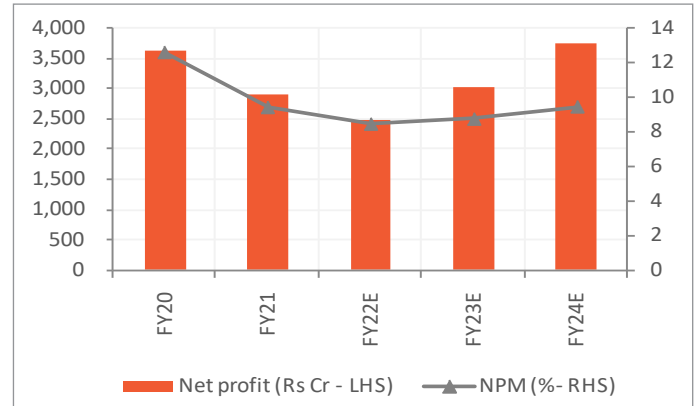
Source: Company, Sharekhan Research

EBITDA and OPM Trend



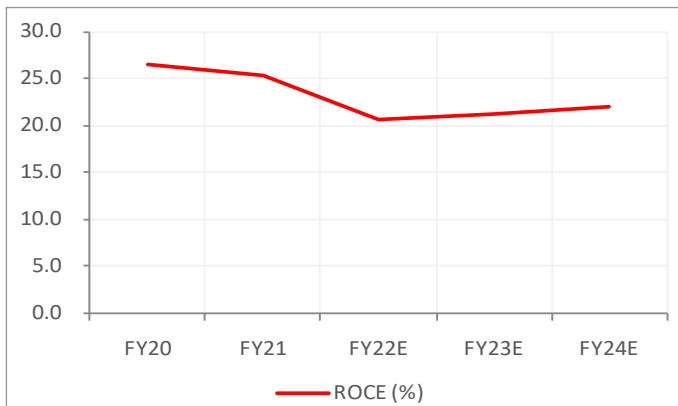
Source: Company, Sharekhan Research

Net profit and NPM Trend



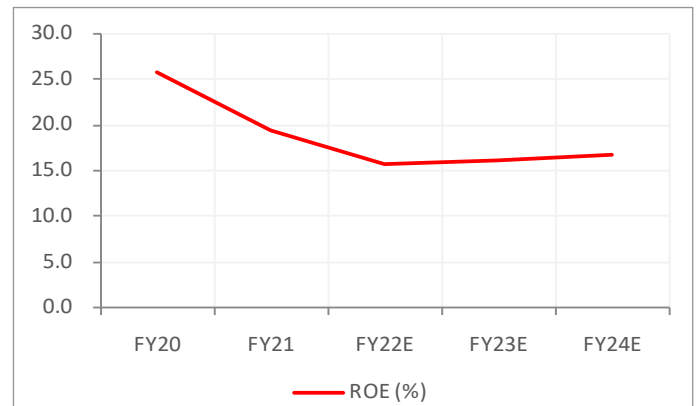
Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Demand picking up in domestic and export markets

We remain positive on demand for the 2W industry in the medium term and expect recovery across sub-segments after the normalisation of economic activities, led by pent-up demand from rural, semi-urban, and urban demand along with a favourable macro outlook. 2W demand is expected to remain strong amid COVID-19, as preference for personal transport and the 2W segment remains the most affordable mode of transport. Rural sentiments continue to remain strong, aided by strong farming income and positive prediction for monsoon this year. Export markets have witnessed a notable recovery in volume sales offtake across regional markets – ASEAN, South Asia, Middle East, and Africa. Indian OEMs are positive on recovery and expect these markets to improve.

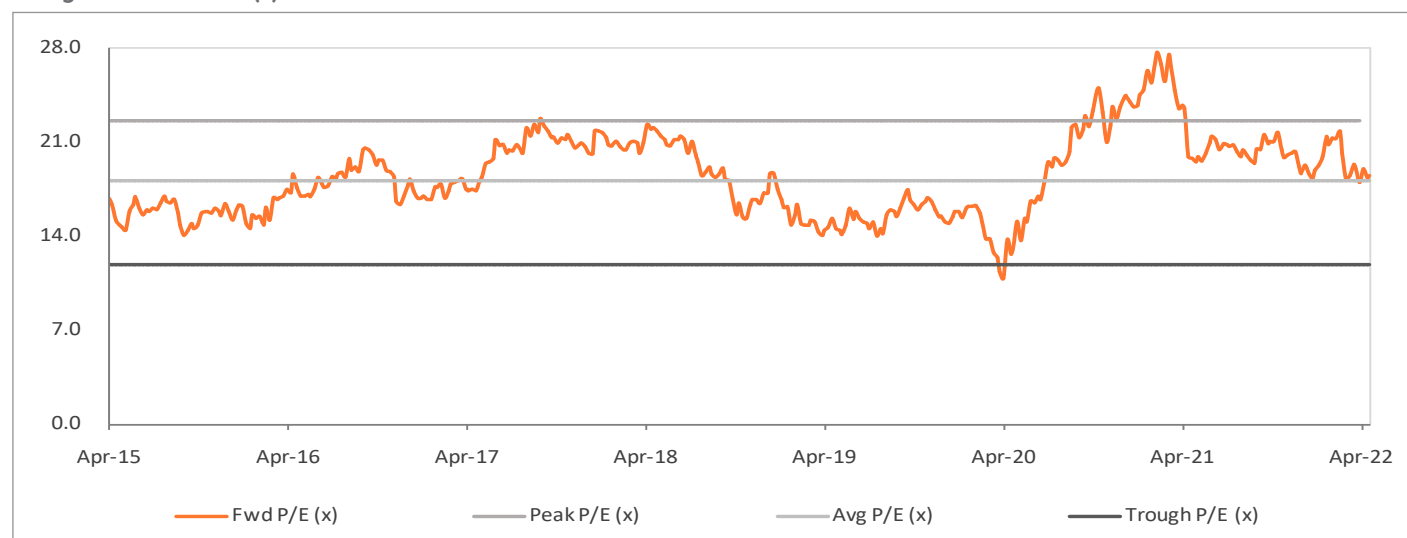
■ Company outlook - Beneficiary of recovery in rural and semi-urban markets

Hero is the market leader commanding ~38.5% market share in the 2W space. Moreover, Hero has the highest rural exposure with rural sales contributing about half of volumes. With strong farm sentiments on account of a good monsoon and higher kharif sowing, we expect Hero to retain its leadership position. Hero has a strong balance sheet with zero debt. The company has cash and cash equivalents worth Rs. 6,400 crore with strong return ratios. Hero has healthy dividend pay-out ratio of 55-65%. Hero is expected to benefit from premiumisation of its products, stronghold in the economy, executive motorcycle segments, and aggressive product offerings in the premium bike and scooters segments. In addition, the company is well positioned to benefit from the adoption of electric 2W vehicles through its strong R&D, investments in Ather Energy, and strategic partnership with Taiwan-based Gogoro, a global leader in battery swapping network. We remain positive on the company's growth prospects.

■ Valuation - Maintain Buy with a revised PT of Rs. 3,210

The positive outlook conferred by Hero's management underpins our positive outlook for the 2W industry. Demand drivers for 2W remain strong and will drive growth once economic activities normalise, led by improving personal incomes, increasing penetration in the rural economy, and because of 2W being the most preferred mode of personal transportation amid COVID-19. We expect incremental growth in the 2W industry to come from the economy and executive motorcycle segments, driven largely by rural and tier-2 and tier-3 cities. We expect Hero to be the greatest beneficiary in the sector, given its leadership and largest distribution network. Moreover, the company's aggressive plans in scooters, premium bikes, and EV segments are likely to augur well for medium-term growth. Post the stock price correction of 18.5% over the past six months, the stock is trading at comfortable valuations at a P/E multiple of 12x and EV/EBITDA multiple of 5.9x its FY2024E estimates, with attractive dividend yield of 4.8%. We maintain our Buy rating with a revised PT of Rs. 3,210.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Hero MotoCorp	2,263	15.5	18.2	14.9	9.3	10.5	7.9	25.3	20.6	21.1
Bajaj Auto	3,634	23.1	19.1	16.1	17.4	13.9	10.8	23.0	24.0	25.6
TVS Motor	632	49.1	26.7	21.3	22.1	14.3	11.7	16.2	24.7	25.8

Source: Company; Sharekhan Research

April 19, 2022

About company

Hero is the market leader in the 2W industry with a market share of 38.5%. Hero is present in both the motorcycles and scooter segments, with a market share of about 51.9% and 12.4%, respectively. Motorcycles form the major chunk of revenue, contributing about 90% to volumes, while scooters contribute about 10% of volumes. Hero is a domestically focused company, deriving about 97% of its volumes from the Indian market. Entry-level motorcycles (75 cc to 110 cc) form a major chunk of about 72.5% of overall volumes.

Investment theme

Hero is a market leader in the Indian 2W industry, commanding a ~38.5% share. The company commands ~65% market share in the economy and executive motorcycle segment, which together make up 80% of the motorcycle market size in India. Hero has strong penetration in semi-urban and rural areas, aided by its largest distribution network in the 2W industry. We expect Hero to be the beneficiary of rural demand and increased personal mobility. The company is also making in-roads in the premium bike segment in partnership with Harley Davidson. Operating leverage, price hikes, and cost saving under the leap programme would result in margin improvement. Hero is expected to reach its historical margin of 13-16%. Hence, we retain our Buy rating on the stock.

Key Risks

- ♦ Success of rival products in the entry and executive bike segments can impact Hero's market share in the segments. Hero is expanding its product portfolio aggressively in the premium bikes segment. Unsuccessful launches in the premium segment can restrain its growth path.
- ♦ Spike in COVID-19 cases may put restrictions on movement and might impact our volume estimates.

Additional Data

Key management personnel

Dr. Pawan Munjal	Chairman, Managing Director and CEO
Mr. Vikram S. Kasbekar	Executive Director and Chief Technical Officer
Mr. Niranjana Gupta	Chief Financial Officer
Ms. Neerja Sharma	Company Secretary and Chief Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bahadur Chand Investments Pvt. Ltd.	20.0
2	Pawan Munjal Renu Munjal and Suman Kant Munjal	14.0
3	Life Insurance Corp of India	7.4
4	LIC of India P & GS Fund	2.8
5	SBI Blue Chip Fund	1.2
6	WGI Emerging Markets Funds LLC	2.3
7	Government Pension Fund Global	1.3
8	NPS Trust	1.3
9	Hero Invest Corp Private Limited	0.4
10	Pawan Munjal Family Trust	0.1

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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