

Hero MotoCorp

BSE SENSEX
62,725

S&P CNX
18,602

CMP: INR2,929

TP: INR3,500 (+20%)

Buy



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Bloomberg	HMCL IN
Equity Shares (m)	200
M.Cap.(INRb)/(USDb)	585.3 / 7.1
52-Week Range (INR)	3026 / 2247
1, 6, 12 Rel. Per (%)	11/5/-2
12M Avg Val (INR M)	1470
Free float (%)	65.2

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	338.1	378.4	419.7
EBITDA	39.9	51.3	55.7
Adj. PAT	29.1	37.2	41.0
Adj. EPS (INR)	145.6	186.1	204.8
EPS Gr. (%)	17.7	27.8	10.1
BV/Sh. (INR)	836	915	1,010

Ratios

RoE (%)	17.9	21.3	21.3
RoCE (%)	17.6	20.9	20.9
Payout (%)	68.7	56.4	53.7

Valuations

P/E (x)	20.1	15.7	14.3
P/BV (x)	3.5	3.2	2.9
Div. Yield (%)	3.4	3.6	3.8
FCF Yield (%)	3.4	6.6	7.7

Focus on growing core; building premium/EVs

Upgrading retail network; investing INR10b-15b p.a to support its goals

In HMCL's Analyst Meet, the management, led by Mr Niranjana Gupta (the new CEO), highlighted its focus on changing gears by a) growing the core business, b) winning in the premium segment, and c) building leadership in EVs. It is upgrading its retail network to support its aspirations in the premium segment as well as in EVs. It is backing these aspirations with annual investments of INR10b-15b, largely directed toward the premium segment and EVs. The company maintained its EBITDA margin target of 14%-16%, supported by improving product mix, operating leverage, and cost-saving initiatives. Key highlights from the meet are:

Focus on growing core business

- The company is focused on expanding the categories in its core business of commuter segment (100cc motorcycle). This is primarily due to the limited potential for further growth in its already dominant market share of 80%.
- It sees scope for increasing the penetration by attracting the first-time buyers. The company aims to support the growth in this customer segment by offering retail financing options.
- In the 125cc motorcycle segment, the company is preparing to recover lost market share through product actions, particularly in the Premium 125cc segment.
- Its XTEC variants, which are feature rich, are doing well and are already 25% of the portfolio (Super Splendor XTEC has gained 3pp market share within three months of launch).

Increase scooter market share; expand exports reach

- In the scooter segment, the company has received a positive response for its new model, Xoom. The company is actively working on several new models in both the 100cc and 125cc scooter categories. It aims to increase its market share in the scooter segment in FY24.
- For exports, the company has identified 10 markets (including Nigeria, Columbia, Mexico, the Philippines, and SAARC countries) for focused expansion efforts. The company aims to allocate significant resources and efforts for scaling up its presence in these markets.

Win in Premium segment

- In the Premium motorcycle segment, the company has just 3% market share and it is focused on building product portfolio across sub-segments.
- The company has lined up a series of upcoming launches, which includes a collaboration with Harley Davidson (set to launch in the first week of Jul-23).
- Further, it would elevate the buying experience by having over 100 exclusive stores for premium products in the next 12 months.

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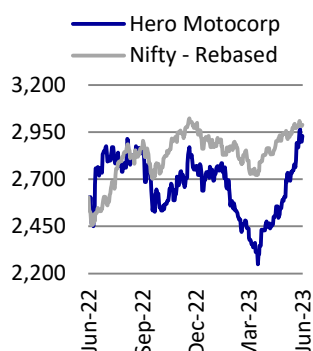
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Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	34.8	34.8	34.8
DII	27.9	27.3	24.2
FII	27.0	27.5	29.2
Others	10.4	10.5	11.8

Stock Performance (1-year)**Building leadership in EVs**

- After launching Vida V1 in three cities on pilot basis, it is planning to launch it in over 100 cities by the end FY24.
- Also, it would set up exclusive EV stores in top cities as well as Vida Pods at Hero 2.0 stores (new retail format) and premium outlets. It would also be sold online through Flipkart.
- Further, it plans to expand its product line-up with multiple form factors (FY25 & beyond). In the EV space, the company is focused on reducing costs through localization efforts, exploring alternate sourcing options, and engaging in negotiations.

Other takeaways

- **Commuter segment customers** faced significant challenges due to substantial cost inflation and the impact of the Covid-19 pandemic. As a result, prices within this segment have increased by over 30%. It would take time for customers to absorb and adjust to the new pricing levels. However, with the gradual recovery in consumer confidence, the company expects growth in this segment.
- **Retail finance penetration** has been improving and now stands at 60% (v/s 47% in FY20). This has helped dilute the impact of cost inflation and also enable sales of more premium variants within the same brand. Further, HMCL is actively focused on increasing access to finance options.
- It is looking to **upgrade its existing retail format**. It has already established 20 pilot stores with a new retail identity and plans to transition 500 stores to the new format in the next two years.
- It is targeting to **grow non-vehicle revenues** to INR80b-100b in the next three years (from INR50b in FY23) by expanding its portfolio of spares and accessories, and leveraging its reach.
- As per the management, the **risk of EV is the least in the commuter segment** (100cc motorcycle) due to factors such as cost and the need for longer range. In the motorcycle segment, the company expects electrification of the premium segment as the high-performance requirements can be easily met by EVs.
- It maintained its **guidance for EBITDA margin at 14%-16%**, driven by improving product mix, operating leverage, and cost-saving initiatives.
- It plans to **invest INR10b-15b p.a.**, with a large part of investments directed toward premium and EV segments. The company does not require substantial investments for capacity creation or its core 100c motorcycle segment.

Valuation & view

- We have upgraded our EPS estimates for FY24E/FY25E by 5%/6% to factor in sustained volume recovery in the domestic market.
- 2W demand recovery in the domestic market is expected to sustain on a low base, led by good recovery in the urban market and gradual recovery in the rural market. HMCL is a pure play domestic 2W industry and its core strength lies in the 100cc motorcycle segment. The company has low vulnerability to EVs. Scooters account for just 8% of the company's volumes. Moreover, 100CC Motorcycle, which is the core product of the company, is considered less prone to being disrupted by EVs.

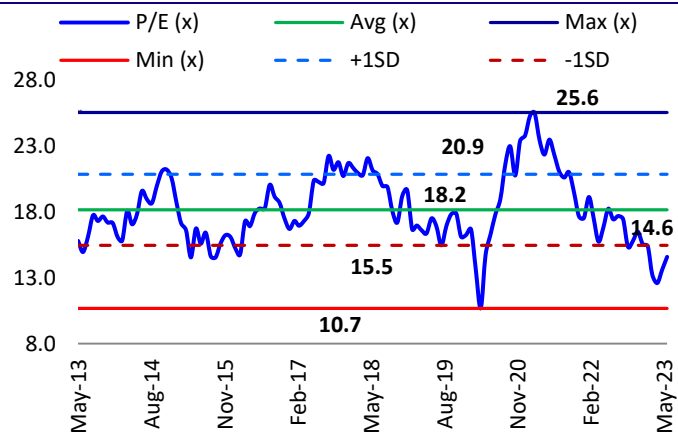
- We estimate revenues/EBITDA/PAT to register a CAGR of 11%/18%/19% over FY23-25E. Our estimates do not factor in any material ramp-up in scooters and premium motorcycle.
- The stock currently trades ~15.7x/14.3x FY24E/FY25E EPS. We increase our target multiple to 16x (vs 14x earlier) to reflect the recovery in earnings growth. We reiterate our Buy rating with a TP of INR3,500 (16x Jun-25 + INR231/sh for stake in NBFC business + INR116/sh for its stake in Ather Energy).

Exhibit 1: Revisions to our estimates

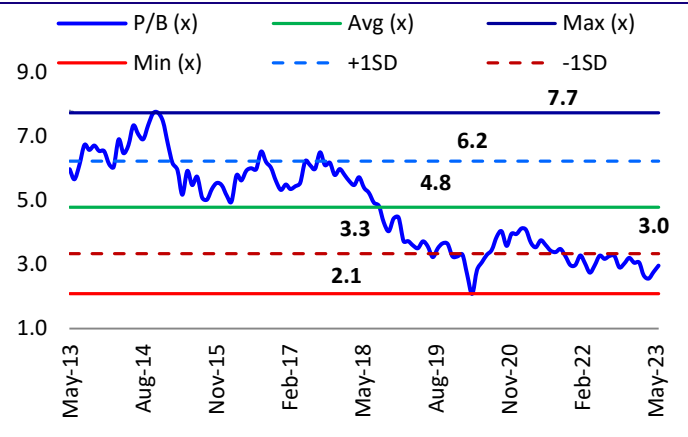
(INR B)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Volumes ('000 units)	5,824	5,704	2.1	6,321	6,140	2.9
Net Sales	378.4	369	2.5	419.7	404	3.9
EBITDA	51.3	49	4.6	55.7	53	5.4
EBITDA Margins (%)	13.5	13.3	30	13.3	13.1	20
Net Profit	37.2	36	4.7	41.0	39	5.7
EPS (INR)	186.1	177.6	4.7	204.8	193.7	5.7

Source: MOFSL

Exhibit 2: P/E and P/B band



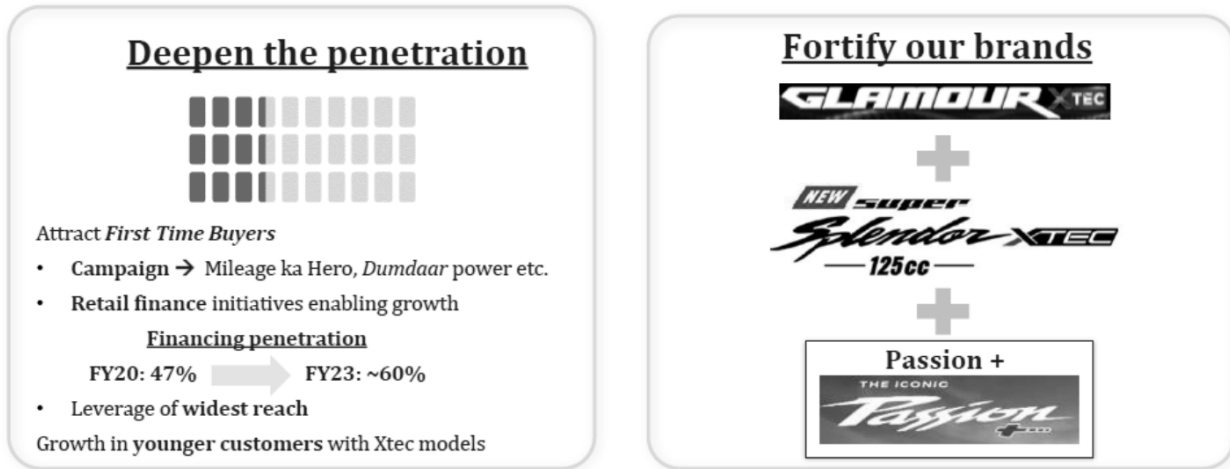
Source: MOFSL



Source: MOFSL

Exhibit 3: In 100cc commuter segment, it is focused on expanding the category

Lead the category expansion



Support Splendor with multiple strong brands viz. Glamour, Super and Passion




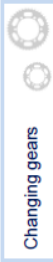

Source: Company, MOFSL

Exhibit 4: HMCL’s strategy to recover market share in 125cc is to comprehensively address the segment with more products



Source: Company, MOFSL

Exhibit 5: HMCL is focused on increasing share in the scooter segment by launching new exciting products

Sporty	 XOOM 110	 New 125	 Corner bending lights [^]	 Bigger and wider tyre*	 Changing gears
	Commuter	 Destini 125 XTEC			

Significant positive feedback for the new Xoom

[^] 1st in Scooter industry

* Based on unique combination of front & rear tyre dimension compared to all scooter models in 110cc segment


[#] Fastest compared to all scooter models in 110cc segment as per internal testing


Source: Company, MOFSL


Exhibit 6: The new retail format, Hero 2.0, has got good customer and dealer feedback at the pilot showrooms


- Enhanced visual identity
- Rich customer experience
- Tech enabled
- Youthful energy
- Universal appeal

Next 8 Quarters
500+ Exclusive Stores



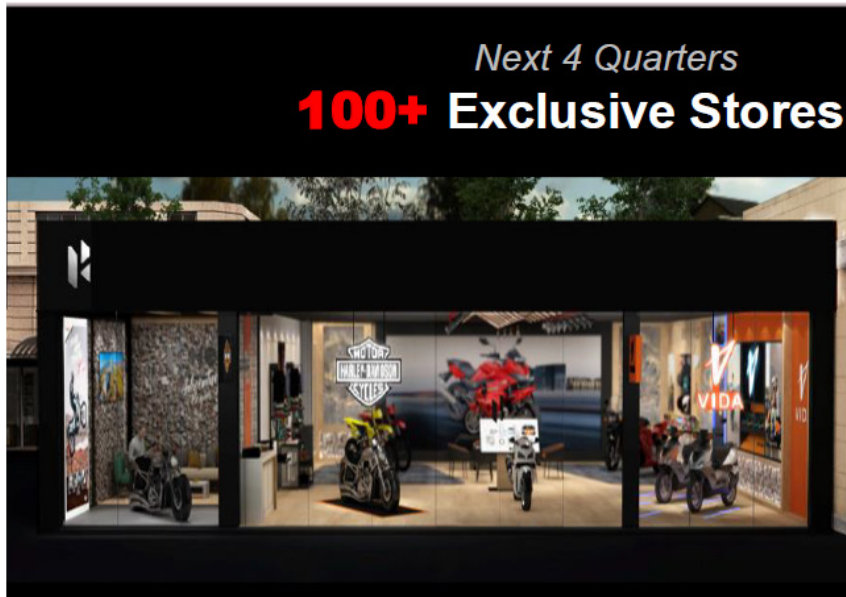


Customer Zone


Accessory/Merchandise


Source: Company, MOFSL

Exhibit 7: Targeting over 100 exclusive stores for premium products in the next 12 months

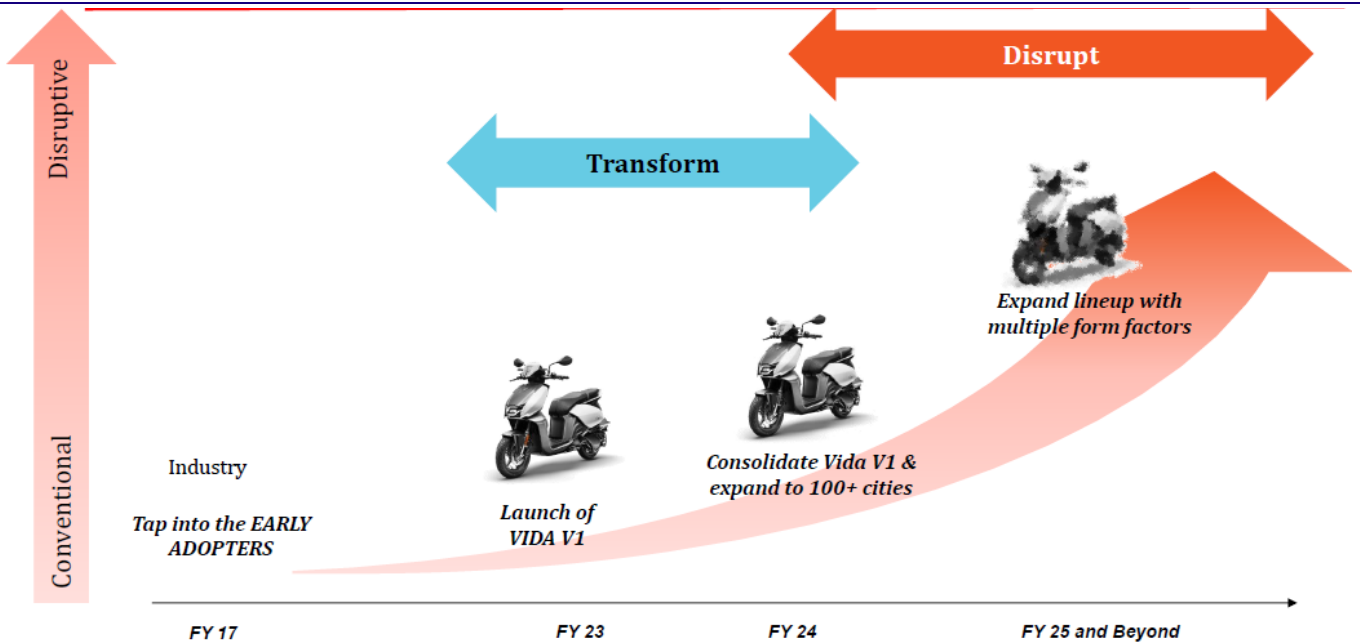


Next 4 Quarters
100+ Exclusive Stores

- Premium portfolio
- Phy-gital customer journey
- Sensorial experience
- Pre-defined planogram
- Prime locations
- Soft skills, training and capabilities

Source: Company, MOFSL

Exhibit 8: EVs – product line-up to transform and expand the market



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)	
Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Volumes ('000)	6,664	7,587	7,821	6,410	5,792	4,944	5,329	5,824	6,321
Volume Growth (%)	0.5	13.9	3.1	-18.0	-9.6	-14.6	7.8	9.3	8.5
Net Revenues	2,85,005	3,22,305	3,36,505	2,88,360	3,08,006	2,92,455	3,38,057	3,78,431	4,19,683
Change (%)	0.2	13.1	4.4	-14.3	6.8	-5.0	15.6	11.9	10.9
EBITDA	46,348	52,802	49,301	39,579	40,192	33,688	39,862	51,253	55,677
EBITDA Margin (%)	16.3	16.4	14.7	13.7	13.0	11.5	11.8	13.5	13.3
Depreciation	4,927	5,556	6,020	8,180	6,769	6,498	6,570	6,818	7,103
EBIT	41,421	47,246	43,281	31,400	33,424	27,190	33,293	44,435	48,574
Interest cost	61	63	86	220	218	258	199	200	200
Other Income	5,224	5,258	6,913	7,283	5,799	5,569	5,652	5,335	6,180
Non-recurring Expense	0	0	0	-7,274	0	0	0	0	0
PBT	46,585	52,442	50,107	45,736	39,004	32,501	38,746	49,570	54,554
Tax	12,813	15,468	16,259	9,404	9,362	7,771	9,640	12,321	13,550
Effective Tax Rate (%)	27.5	29.5	32.4	20.6	24.0	23.9	24.9	24.9	24.8
Adj. PAT	33,771	36,974	33,849	30,554	29,642	24,730	29,106	37,249	41,004
Change (%)	6.9	9.5	-8.5	-9.7	-3.0	-16.6	17.7	28.0	10.1

Balance Sheet								(INR m)	
Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Share Capital	399	399	400	400	400	400	400	400	400
Reserves	1,00,714	1,17,289	1,28,172	1,40,965	1,51,585	1,57,430	1,66,651	1,82,879	2,01,861
Net Worth	1,01,113	1,17,689	1,28,571	1,41,364	1,51,984	1,57,829	1,67,051	1,83,280	2,02,261
Deferred Tax	4,143	5,117	5,365	3,928	4,041	3,833	4,054	4,054	4,054
Loans	0	0	0	0	0	0	0	0	0
Capital Employed	1,05,256	1,22,805	1,33,936	1,45,292	1,56,025	1,61,662	1,71,105	1,87,333	2,06,315
Application of Funds									
Gross Fixed Assets	1,03,772	1,11,344	1,16,282	1,38,161	1,42,362	1,47,040	1,53,159	1,60,297	1,66,297
Less: Depreciation	59,816	64,799	70,097	76,991	82,478	88,975	95,545	1,02,362	1,09,466
Net Fixed Assets	43,956	46,545	46,186	61,171	59,884	58,065	57,614	57,934	56,831
Capital WIP	4,651	3,184	5,419	3,413	4,366	4,582	4,638	3,500	3,500
Investments	58,899	75,252	59,686	82,227	1,04,997	1,06,523	1,10,104	1,10,104	1,10,104
Curr.Assets, L & Adv.	39,438	42,407	65,121	40,683	52,364	47,970	60,276	84,187	1,11,534
Inventory	6,563	8,236	10,724	10,920	14,696	11,227	14,341	17,062	18,922
Sundry Debtors	15,619	15,202	28,216	16,031	24,268	23,043	27,982	30,110	31,166
Cash & Bank Balances	1,367	1,413	1,365	2,419	2,572	1,751	3,455	20,779	43,440
Loans & Advances	725	732	850	896	892	402	436	488	541
Others	15,163	16,823	23,968	10,417	9,938	11,547	14,062	15,747	17,464
Current Liab. & Prov.	41,686	44,583	42,476	42,201	65,585	55,478	61,527	68,392	75,654
Sundry Creditors	32,473	33,188	33,553	30,305	52,046	42,603	47,045	55,202	61,220
Other Liabilities	8,071	9,647	7,161	9,207	10,211	9,490	10,744	10,037	11,131
Provisions	1,143	1,747	1,762	2,689	3,328	3,385	3,738	3,153	3,303
Net Current Assets	-2,249	-2,176	22,646	-1,518	-13,222	-7,508	-1,251	15,795	35,880
Application of Funds	1,05,256	1,22,805	1,33,936	1,45,292	1,56,025	1,61,662	1,71,105	1,87,333	2,06,315

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Basic (INR)									
EPS	169.1	185.1	169.5	153.0	148.4	123.8	145.6	186.1	204.8
EPS Growth (%)	6.9	9.5	-8.5	-9.7	-3.0	-16.6	17.7	27.8	10.1
Cash EPS	193.8	213.0	199.6	222.8	182.2	156.3	178.5	220.1	240.3
Book Value per Share	506.3	589.3	643.7	707.7	760.7	789.9	835.9	915.5	1,010.3
DPS	85.0	95.0	87.0	90.0	105.0	95.0	100.0	105.0	110.0
Payout (Incl. Div. Tax) %	60.6	61.8	62.9	71.8	70.8	76.8	68.7	56.4	53.7
Valuation (x)									
P/E	15.0	13.7	15.0	16.6	17.2	20.6	17.5	15.7	14.3
EV/EBITDA	9.7	8.2	9.1	10.7	10.0	11.9	9.9	8.9	7.8
EV/Sales	1.6	1.3	1.3	1.5	1.3	1.4	1.2	1.2	1.0
Price to Book Value	5.0	4.3	4.0	3.6	3.3	3.2	3.0	3.2	2.9
Dividend Yield (%)	3.3	3.7	3.4	3.5	4.1	3.7	3.9	3.6	3.8
Profitability Ratios (%)									
RoE	35.7	33.8	27.5	22.6	20.2	16.0	17.9	21.3	21.3
RoCE	34.5	32.5	26.4	22.0	19.8	15.7	17.6	20.9	20.9
RoIC	77.3	80.0	53.0	40.0	50.1	44.5	49.2	63.1	71.4
Turnover Ratios									
Debtors (Days)	21	18	32	21	30	30	32	31	29
Inventory (Days)	9	10	12	15	18	15	16	17	17
Creditors (Days)	42	38	36	38	62	53	51	53	53
Working Capital (Days)	-3	-2	25	-2	-16	-9	-1	15	31
Asset Turnover (x)	2.7	2.6	2.5	2.0	2.0	1.8	2.0	2.0	2.0
Fixed Asset Turnover	2.9	3.0	3.0	2.3	2.2	2.0	2.3	2.4	2.6

Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
(INR m)									
Profit before Tax	46,585	52,442	50,107	45,736	39,004	32,501	38,746	49,570	54,554
Depreciation & Amort.	4,927	5,556	6,020	8,180	6,769	6,498	6,570	6,818	7,103
Direct Taxes Paid	-11,865	-14,943	-20,515	-5,443	-9,759	-7,688	-8,496	-12,321	-13,550
(Inc)/Dec in Working Capital	4,208	-2,682	-19,189	12,027	10,700	-6,825	-5,832	278	2,576
Other Items	-1,606	1,723	-6,634	-6,399	-4,987	-4,283	-5,197	200	200
CF from Oper. Activity	40,280	39,809	9,791	54,101	41,727	20,203	25,791	44,544	50,883
Extra-ordinary Items	0	0	0	0	0	0	0	0	0
CF after EO Items	40,280	39,809	9,791	54,101	41,727	20,203	25,791	44,544	50,883
(Inc)/Dec in FA+CWIP	-11,491	-7,992	-9,179	-13,586	-5,101	-5,240	-5,675	-6,000	-6,000
Free Cash Flow	28,790	31,816	611	40,515	36,626	14,963	20,115	38,544	44,883
(Pur)/Sale of Invest.	-7,949	-11,160	22,392	-15,245	-16,998	3,721	987	0	0
CF from Inv. Activity	-19,439	-19,152	13,212	-28,831	-22,099	-1,519	-4,688	-6,000	-6,000
Interest Paid	-61	-63	-86	-874	-515	-458	-455	-200	-200
Dividends Paid	-20,896	-20,404	-22,854	-23,323	-18,900	-18,931	-19,951	-21,021	-22,022
CF from Fin. Activity	-20,956	-20,467	-22,940	-24,198	-19,415	-19,389	-20,406	-21,221	-22,222
Inc/(Dec) in Cash	-116	190	63	1,072	213	-705	697	17,323	22,661
Add: Beginning Balance	270	154	344	407	1,479	1,692	987	1,684	19,007
Closing Balance	154	344	407	1,479	1,692	987	1,684	19,007	41,668

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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