

Hero MotoCorp

Fails to recover back share despite new launches

In the current fiscal, HMC's motorcycle market share further slipped by 380 bps to 44.5%. This is despite its multiple launches in H1, which include Passion Plus, new Glamor, Xtreme160R 4V, X440, and Karizma. In the 125cc segment, it has consistently lost market share to rival launches since FY20, despite multiple attempts to regain share, and this fiscal has been no different. Also, the recent launch of Xtreme160R 4V has not helped it revive any share in the premium segment. We also believe that it is likely to take time for HMC to establish itself as a serious player in the premium segment, given its traditionally weak presence here. Even in scooters, its market share has remained static YoY despite the launch of the Xoom110. The current monsoon deficit across India, especially in the key motorcycle markets, is likely to be an incremental deterrent to the hopes of a demand revival in the entry motorcycle segment, which doesn't bode well for HMC. While valuation remains inexpensive relative to peers, the company's inability to regain market share despite repeated attempts may keep it under pressure. Reiterate REDUCE with an unchanged TP of INR 2,672 – valued at 14x June 2025 EPS.

- **Weak rainfall in August is bad news for rural:** Of the top six motorcycle states that contribute to about 65% of HMC volumes, four states face rainfall deficit in the range of 9-28%. While this is likely to have repercussions on the kharif output, reservoir levels also remain below normal, which means that rabi sowing might also be impacted this fiscal. Thus, weak rainfall is likely to lead to weak rural sentiment and any hope of a revival of 2W demand in the festive season may not materialize. Our estimates currently factor in 4% volume growth for Hero MotoCorp vs. a YTD decline of 3%, which translates to 9% growth for the remaining fiscal.
- **New launches fail to revive market share:** This fiscal so far has seen the highest number of launches ever by Hero MotoCorp. In motorcycles, they launched Xtreme160R 4V, new Passion Plus, X440 (in partnership with Harley Davidson), the new Glamor and Karizma 210cc. While Passion Plus has seen good demand, it actually cannibalized Splendor volumes. Apart from X440 and Karizma, whose deliveries are expected soon, none of its launches have helped HMC regain lost share. In fact, its market share in the 125cc segment has actually declined further by 130bps YoY to 19.6% for YTD FY24. Also, its market share in the 150-250cc segment has declined by 90bps to 3.7% for YTD FY24. Even in scooters, despite the launch of Xoom, its market share has remained stable YoY for YTD FY24.
- **Valuation and view:** One of our key arguments for downgrading the stock in June 2023 was its inability to regain back share in 125cc and above motorcycle segment, despite multiple attempts in the past. This fiscal has been no different, so far. Reiterate REDUCE with an unchanged TP of INR 2,672.

Financial Summary

YE Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	2,92,455	3,38,057	3,63,731	3,99,643	4,45,480
EBIDTA	33,688	39,862	48,372	50,755	57,021
EBITDA margins	11.5	11.8	13.3	12.7	12.8
Adj. PAT	24,730	29,106	35,535	36,953	41,639
EPS (Rs)	123.8	145.7	177.9	185.0	208.5
P/E (x)	24.7	21.0	17.2	16.6	14.7
EV / EBITDA (x)	15.0	12.5	10.2	9.7	8.5
RoCE (%)	20.3	22.8	26.2	25.7	27.2

Source: Company, HSIE Research

REDUCE

CMP (as on 15 Sep 23)	INR 3,064
Target Price	INR 2,672
NIFTY	20,192

KEY STOCK DATA

Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (INR bn) / (\$ mn)	613/7,490
6m avg traded value (INR mn)	2,008
52 Week high / low	INR 3,244/2,246

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.8	28.8	9.8
Relative (%)	(0.0)	10.9	(3.3)

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	34.77	34.77
FIs & Local MFs	27.87	27.28
FPIs	27.0	28.09
Public & Others	10.36	9.86

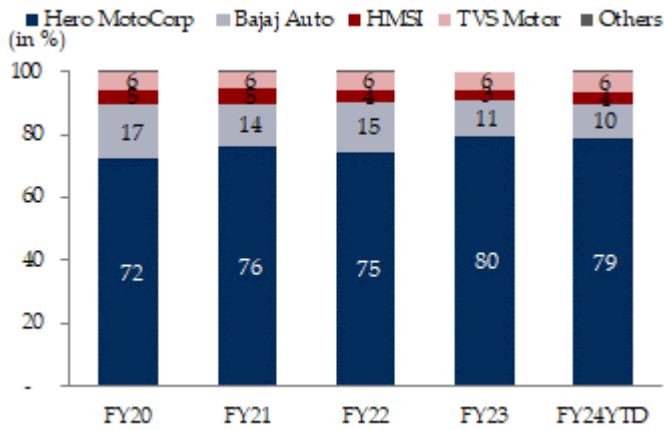
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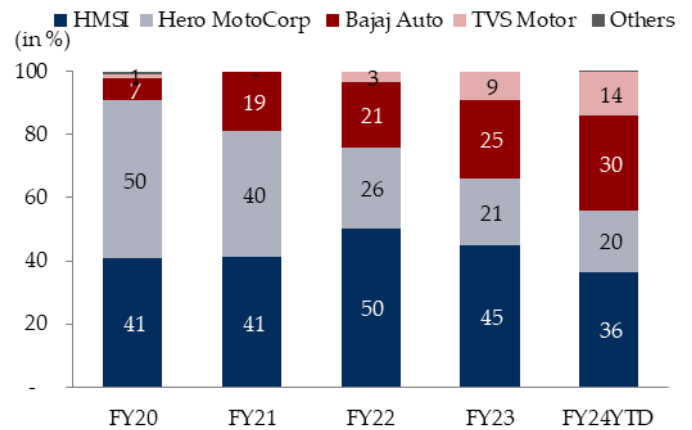
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Fig1: HMC remains dominant in 100cc motorcycles



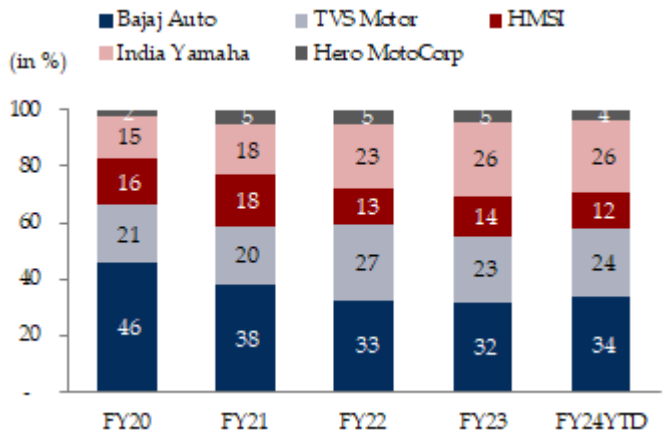
Source: SIAM; HSIE Research

Fig2: HMC continues to lose share in 125cc motorcycles



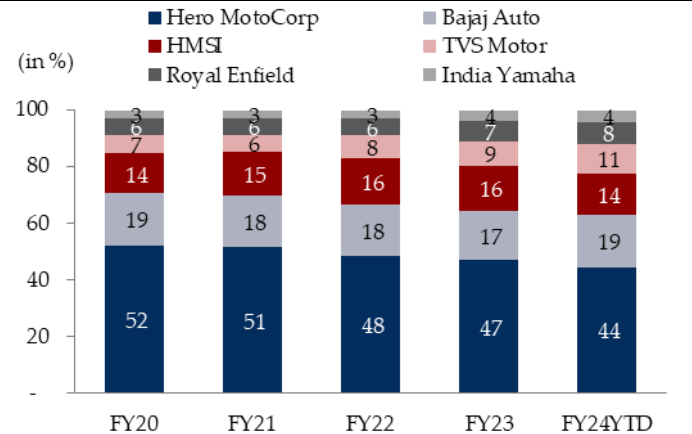
Source: SIAM; HSIE Research

Fig3: HMC has failed to revive share in premium



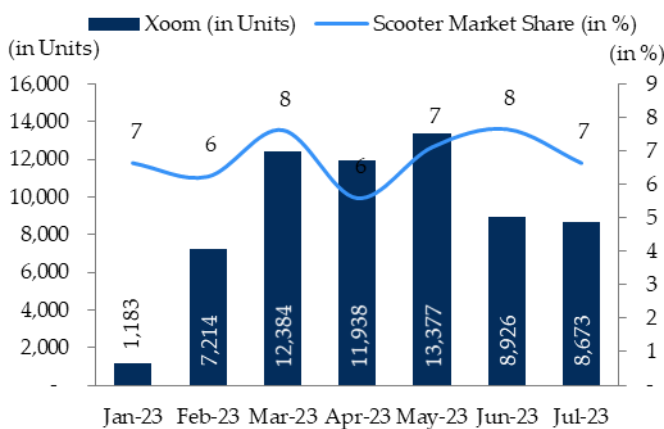
Source: SIAM; HSIE Research

Fig4: HMC losing share in motorcycles due to shift in mix



Source: SIAM; HSIE Research

Fig5: HMC scooter share static despite Xoom launch



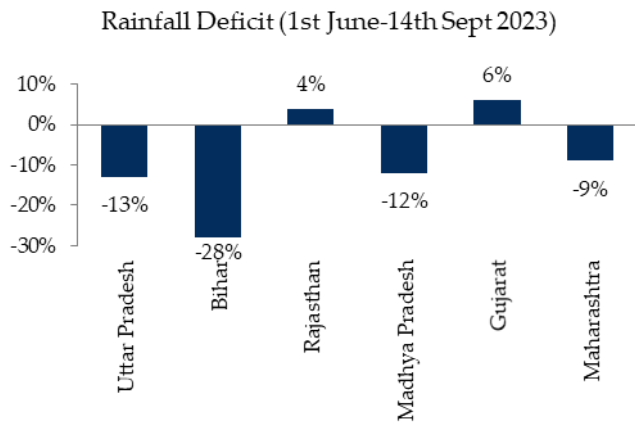
Source: SIAM; HSIE Research

Fig6: New Launches have not helped HMC gain share

Model	Segment	Date
Xoom 110	Scooter	Jan-23
Passion Plus	Economy	Jun-23
New Glamor	Executive	Aug-23
New Super Splendor X Tec	Executive	Mar-23
Karizma 210	Premium	Aug-23
Xtreme 160R 4V	Premium	Jun-23
X440	Premium	Jul-23

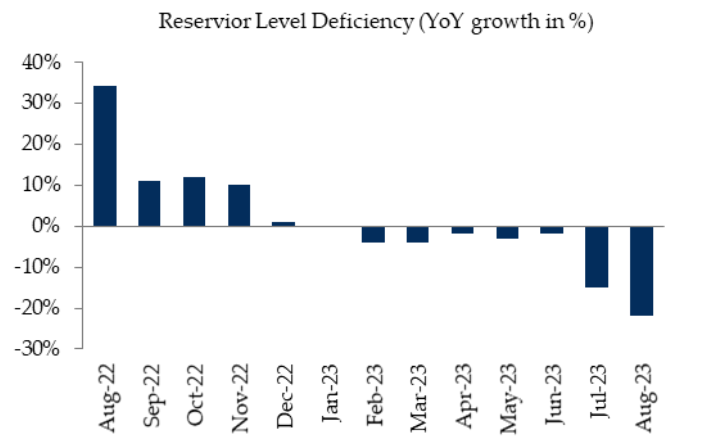
Source: Company; HSIE Research

Fig7: Rainfall has been deficient in Key HMC States



Source: IMD; HSIE Research

Fig8: Water Reservoir Level dipped below 10-yr avg



Source: CMIE; HSIE Research

Financials

Standalone Income Statement

Year to March (INR mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	2,88,361	3,08,006	2,92,455	3,38,057	3,63,731	3,99,643	4,45,480
Growth (%)	-14.3	6.8	-5.0	15.6	7.6	9.9	11.5
Material Expenses	1,96,974	2,17,623	2,08,267	2,38,581	2,50,737	2,78,951	3,11,836
Employee Expenses	18,417	18,987	19,354	21,898	24,167	26,376	28,956
SG&A Expenses	7,198	5,933	7,205	8,113	8,706	9,192	9,801
Other Operating Expenses	26,193	25,270	23,941	29,601	31,749	34,369	37,866
EBITDA	39,579	40,192	33,688	39,862	48,372	50,755	57,021
EBITDA Margin (%)	13.7	13.0	11.5	11.8	13.3	12.7	12.8
Depreciation	8,180	6,769	6,498	6,570	6,927	7,433	7,961
EBIT	31,400	33,424	27,190	33,293	41,445	43,321	49,060
Other Income (Including EO Items)	14,557	5,799	5,569	5,652	6,166	6,180	6,688
Interest	220	218	258	199	230	230	230
PBT	45,737	39,004	32,501	38,746	47,380	49,271	55,518
Tax (Incl Deferred)	9,404	9,362	7,771	9,640	11,845	12,318	13,880
RPAT	36,332	29,642	24,730	29,106	35,535	36,953	41,639
EO (Loss) / Profit (Net Of Tax)	6,774	0	0	0	0	0	0
APAT	31,591	29,642	24,730	29,106	35,535	36,953	41,639
APAT Growth (%)	-6.7	-6.2	-16.6	17.7	22.1	4.0	12.7
Adjusted EPS (Rs)	158.2	148.4	123.8	145.7	177.9	185.0	208.5
EPS Growth (%)	-7%	-6%	-17%	18%	22%	4%	13%

Source: Company, HSIE Research

Standalone Balance Sheet

Year to March (INR mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital - Equity	400	400	400	400	400	400	400
Reserves	1,40,965	1,51,585	1,57,430	1,66,651	1,77,218	1,88,204	2,00,878
Total Shareholders' Funds	1,41,364	1,51,984	1,57,829	1,67,051	1,77,617	1,88,603	2,01,278
Total Debt	0	0	0	0	0	0	0
Net Deferred Taxes	3,928	4,041	3,833	4,054	4,054	4,054	4,054
Total Liabilities	1,45,292	1,56,025	1,61,662	1,71,105	1,81,671	1,92,657	2,05,332
Net fixed assets	59,770	59,884	58,065	57,614	61,687	66,253	70,292
Capital work-in-progress	1,603	1,779	873	1,286	1,286	1,286	1,286
Investments	82,227	1,04,997	1,06,523	1,10,104	1,14,104	1,19,104	1,24,104
Other Non-current Assets	3,211	2,587	3,709	3,352	3,352	3,352	3,352
Total Non-current Assets	1,46,810	1,69,247	1,69,170	1,72,356	1,80,428	1,89,995	1,99,033
Cash & Equivalents	2,419	2,571	1,751	3,455	3,513	2,530	3,761
Inventories	10,920	14,696	11,227	14,341	15,430	16,954	18,898
Debtors	16,031	24,268	23,043	27,982	30,107	33,080	36,874
Other Current Assets	11,314	10,829	11,950	14,498	16,218	18,154	20,330
Total Current Assets	40,683	52,364	47,970	60,276	65,268	70,718	79,863
Creditors	30,305	52,046	42,603	47,045	50,618	55,615	61,994
Other Current Liabilities & Provns	11,896	13,539	12,875	14,482	13,408	12,441	11,571
Total Current Liabilities	42,201	65,585	55,478	61,527	64,025	68,056	73,564
Net Current Assets	-1,518	-13,222	-7,508	-1,251	1,243	2,662	6,298
Total Assets	1,45,292	1,56,025	1,61,662	1,71,105	1,81,671	1,92,657	2,05,332

Source: Company, HSIE Research

Standalone Cash Flow

Year to March (INR mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Reported PBT	31,400	33,424	27,190	33,293	41,445	43,321	49,060
Non-operating & EO Items	6,774	0	0	0	0	0	0
Interest Expenses	7,783	5,799	5,569	5,652	6,166	6,180	6,688
Depreciation	8,180	6,769	6,498	6,570	6,927	7,433	7,961
Working Capital Change	25,218	11,857	-6,534	-4,553	-2,436	-2,402	-2,406
Tax Paid	-10,841	-9,249	-7,979	-9,419	-11,845	-12,318	-13,880
OPERATING CASH FLOW (a)	68,513	48,598	24,744	31,542	40,256	42,215	47,424
Capex	-21,159	-6,435	-4,894	-6,175	-11,000	-12,000	-12,000
Free Cash Flow (FCF)	47,354	42,163	19,850	25,367	29,256	30,215	35,424
Investments	-22,540	-22,770	-1,527	-3,580	-4,000	-5,000	-5,000
INVESTING CASH FLOW (b)	-43,699	-29,205	-6,421	-9,755	-15,000	-17,000	-17,000
Interest Expenses	-220	-218	-258	-199	-230	-230	-230
FCFE	47,134	41,945	19,592	25,168	29,026	29,985	35,194
Dividend	-17,978	-20,974	-18,976	-19,975	-24,969	-25,968	-28,964
Others	-5,562	1,952	91	91	0	0	0
FINANCING CASH FLOW (c)	-23,760	-19,240	-19,143	-20,083	-25,199	-26,197	-29,194
NET CASH FLOW (a+b+c)	1,054	153	-820	1,704	58	-982	1,230
EO Items, Others	1,365	2,419	2,571	1,751	3,455	3,513	2,530
Closing Cash & Equivalents	2,419	2,571	1,751	3,455	3,513	2,530	3,761

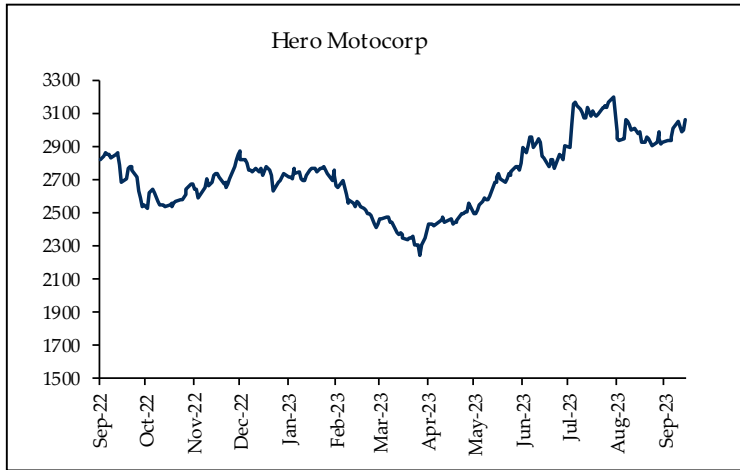
Source: Company, HSIE Research

Key Ratios

Year to March	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
PROFITABILITY (%)							
GPM	31.7	29.3	28.8	29.4	31.1	30.2	30.0
EBITDA Margin	13.7	13.0	11.5	11.8	13.3	12.7	12.8
APAT Margin	11.0	9.6	8.5	8.6	9.8	9.2	9.3
RoE	22.3	19.5	15.7	17.4	20.0	19.6	20.7
RoIC (or Core RoCE)	18.1	17.1	13.2	15.3	18.0	17.6	18.8
RoCE	27.0	25.1	20.3	22.8	26.2	25.7	27.2
EFFICIENCY							
Tax Rate (%)	20.6	24.0	23.9	24.9	25.0	25.0	25.0
Fixed Asset Turnover (x)	2.0	2.0	1.8	2.0	2.0	2.1	2.2
Inventory (days)	14	17	14	15	15	15	15
Debtors (days)	20	29	29	30	30	30	30
Payables (days)	14	13	15	16	16	17	17
Cash Conversion Cycle (days)	38	62	53	51	51	51	51
Debt/EBITDA (x)	15	16	16	16	13	11	9
Net D/E (x)	-5	-19	-12	-5	-2	0	2
Interest Coverage (x)	0	0	0	0	0	0	0
PER SHARE DATA (Rs)							
EPS	158	148	124	146	178	185	208
CEPS	199	182	156	179	213	222	248
Dividend	90	105	95	100	125	130	145
Book Value	708	761	790	836	889	944	1008
VALUATION							
P/E (x)	19.4	20.6	24.7	21.0	17.2	16.6	14.7
P/BV (x)	4.3	4.0	3.9	3.7	3.4	3.2	3.0
EV/EBITDA (x)	13.3	12.6	15.0	12.5	10.2	9.7	8.5
EV/Revenues (x)	1.8	1.6	1.7	1.5	1.4	1.2	1.1
OCF/EV (%)	13.0	9.6	4.9	6.3	8.1	8.6	9.8
FCF/EV (%)	9.0	8.4	3.9	5.1	5.9	6.2	7.3
FCFE/Mkt Cap (%)	7.7	6.9	3.2	4.1	4.7	4.9	5.8
Dividend Yield (%)	2.9	3.4	3.1	3.3	4.1	4.2	4.7

Source: Company, HSIE Research

1 Yr Price movement



Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

Hero MotoCorp: Company Update

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