Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Hero MotoCorp Ltd

Soft Q1, optimistic on festive sales

Automobiles	Sharekhan code: HEROMOTOCO
Reco/View: Buy ↔	CMP: **Rs. 5,055**
	Price Target: **Rs. 6,057** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

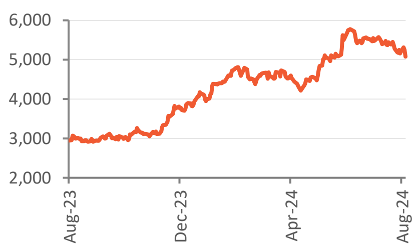
Company details

Market cap:	Rs. 1,00,983 cr
52-week high/low:	Rs. 5,894 / 2,889
NSE volume: (No of shares)	7.0 lakh
BSE code:	500182
NSE code:	HEROMOTOCO
Free float: (No of shares)	13.0 cr

Shareholding (%)

Promoters	34.8
FII	29.9
DII	26.9
Others	8.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.8	1.4	7.6	72.4
Relative to Sensex	-6.1	-6.9	-2.2	52.0

Sharekhan Research, Bloomberg

Summary

- EBITDA and PAT missed estimates by 3.1% and 2.7%, respectively.
- In Q1FY25, the underlying EBITDA margin of the IC business reached to 16.4% (vs 15.3% in Q4FY24) as against blended EBITDA margin of 14.4%.
- We retain a Buy rating on the stock with an unchanged PT of Rs. 6,057 on a healthy recovery in EBITDA margins, strong response to its latest products, continuous focus on premiumisation and expansion of its EV markets.
- Stock trades at P/E multiple of 18.4x and EV/EBITDA multiple of 12.4x its FY26 estimates.

Hero MotoCorp Ltd (HMCL) has reported a miss in blended EBITDA margins due to a drag from EV business. EBITDA and APAT missed the estimates by 3.1% and 2.7% respectively, while blended EBITDA margin came in 60 bps below estimates. HMCL's EBITDA margin in the IC segment has reached 16.4% in Q1FY24, which we believe would help the company to focus on market share gain and reinvest in future growth including EVs, premium products and new product innovations. Revenues increased by 15.7% y-o-y to Rs 10,144 crore (Rs 10,064 cr ore) on the back of 13.5% y-o-y increase in volumes and 1.9% y-o-y increase in ASPs. ASPs declined by 3.3% q-o-q due to mix impact and lower contribution from spare part sales. Spare sales contributed 12.5% to its topline in Q1FY25 as compared to 14.7% in Q4FY24. EBITDA increased by 21.0% y-o-y to Rs 1460 crore (against an estimate of Rs 1506 crore). EBITDA margin expanded by 60 bps y-o-y to 14.4% (against estimate of 15%) on the back of 170 bps y-o-y rise in gross margins. EBITDA margin performance was largely driven by LEAP savings. EV business has dragged the EBITDA margin by 200 bps in Q1FY25. On excluding the EV business the underlying EBITDA margin of IC business came out at 16.4% (upper end of guidance) as compared to 15.3% in Q4FY24. With this operating performance APAT has increased by 18.8% y-o-y to Rs 1123 crore (against estimate of Rs 1153 crore).

Key positives

- Rural demand is reviving on higher offtake by first-time buyers.
- Store upgradation is continue as it has upgraded 520 stores to Hero 2.0 stores and opened up 42 premia stores.
- HMCL's market share in 125 cc motorcycle segment has improved from 13% in Q4FY24 to 20% in Q1FY25.

Key negatives

- Spare part sales contributed 12.5% to the topline in Q1FY25 compared to 14.7% in Q4FY24.
- Gross margin fell by 130 bps q-o-q.
- Disruption in Bangladesh is marginally unfavorable in short term as Bangladesh contributes 0.3-0.4% to its sale.

Management Commentary

- Management has shared optimistic outlook for rural demand recovery and festive sales in H2FY25.
- Drag from EV business would come down in coming quarters on rise in volumes, launch of new affordable products and availability of PLI benefits to new EV products.
- HMCL plans to launch new products in premium motorcycle segment and in scooter segment (both ICs and EVs).

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 6,057: After OPM lagged estimates in Q1FY25, the management has shared an optimistic outlook for the upcoming festive season and indicated that its 125 cc products are receiving healthy response in the market leading it to enhance capacities for Xtreme 125 cc motorcycle. The losses in EV business are expected to come down on introduction of affordable products and increase in volumes. Management is expecting its upcoming products in EV segment to come with affordable price points with PLI benefits. The recovery in rural segment is auguring well for HMCL, given its strong distribution network in rural segment. On the operating performance front, the company continues to target an EBITDA margin of 14-16%. With improved operating profitability in the IC business and continuous investment in the EV business, we believe HMCL has been building up a balanced future. With improved EBITDA margin in ICs business, we believe HMCL has headroom to stimulate demand in its key markets for entry-level products, as, after the premium category, the 125cc segment has already recovered. With its Hero 2.0 stores, the company continues to focus on bringing premiumization to its distribution system. Exclusive stores for premium products and upgradation of the existing dealership network would help it attract a new set of customers. Further, the company is aggressively planning to expand its EV business. We retain our Buy rating on the stock with an unchanged PT of Rs. 6,057 on healthy recovery in EBITDA margin, strong response to its latest products, continuous focus on premiumisation and expansion of its EV markets.

Key Risks

As HMCL is looking for aggressive product launch plans and hence exposed to product failure risk. Rise in RM cost and rise in competition and a delay in recovery in rural market would stem its growth prospects.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24	FY25E	FY26E
Net Sales	29,245	33,806	37,456	40,862	45,178
Growth (%)	-5.0	15.6	10.8	9.1	10.6
EBIDTA	3,369	3,986	5,256	6,048	7,093
OPM (%)	11.5	11.8	14.0	14.8	15.7
PAT	2,473	2,911	4,128	4,674	5,485
Growth (%)	-16.6	17.7	41.8	13.2	17.4
FD EPS (Rs)	124	146	207	234	275
P/E (x)	40.8	34.7	24.5	21.6	18.4
P/B (x)	6.4	6.0	5.6	5.1	4.6
EV/EBIDTA (x)	26.9	22.6	16.5	14.6	12.4
RoE (%)	15.7	17.4	23.0	23.5	24.8
RoCE (%)	15.3	17.0	22.4	23.0	24.3

Source: Company; Sharekhan estimates

- **Volume performance:** A sequential recovery in volumes in Q1FY25 was supported by increased traction in entry level segment and 125 cc segment. Rural sales have been picking up and the demand from the first time buyers have been surging. First timer buyers demand is coming out for both entry-level products as well as for 125 cc products. A rise in availability of financing is supporting the surge in rural demand. Going forward the management has shared optimistic outlook for rural sales and festive sales in H2FY25. Traditionally it builds up inventory ahead of the festive season in Q2 as larger part of festival falls in Q3. The same inventory build up trend is likely to be visible in current year also. Despite fewer marriage dates and lack of festive season HMCL has gained marginal market share in retail sales in Q1Fy25 on q-o-q basis. Finance penetration has reached 60%.
- **Exports:** The company has been seeing healthy uptick in export volumes though it has been lagging its own expectations. Recent issues in Bangladesh are a temporary issue and likely to be resolved in near term. Bangladesh contributes 0.3-0.4% to its revenues. The entry in the markets like Philippines would enhance its export growth potential. The management assumes that the recovery in Nigerian market would be key trigger for significant uptick in its export volumes.
- **Stores upgradation:** HMCL is continue on its store upgradation strategy as it has upgraded 520 stores to Hero 2.0 stores and opened up 42 premia stores.
- **EV business:** EV (Vida) volumes doubled in Q1FY25 on y-o-y basis to 10559 units (from 3480 units in Q1FY24) and delivered a revenue of Rs 125 crore with EBITDA loss of Rs 181 crore. The losses in EV business has impacted 200 bps to blended EBITDA margin in Q1FY25. The company is guiding for a gradual reduction in losses in EV business going forward on reduction in costs, change in architecture, rise in volumes and launch of more affordable products. HMCL plans to expand its EV product portfolio from October-November onwards. Vida is now 300 dealers and is available in 175 cities. The company expects its future models in EV space would come out with PLI benefits.
- **Alternative fuel segment:** Besides EVs, the company is also working on ethanol based products and assumes that hybrid technology may have scope to grow in Indian market. The company is continuously working to reduce cost of ownership for the customers.
- **Average selling prices:** ASPs declined by 3.3% q-o-q on account of lower spare parts sales as spare parts contributed 12.5% to the topline compared to 14.7% in Q4FY25 and mix impact. The drop in spare part sales is due to seasonality, which management believes would recover in coming quarters.
- **Commodity costs:** Commodity price trend is expected to be range bound and the company has witnessed a marginal commodity cost inflation in Q1FY25. A larger part of the margin expansion was driven by its ongoing LEAP program.
- **125 CC product portfolio:** With its new product intervention the 125 cc product portfolio is strengthening. Demand for the Xtreme 125 cc is surpassing the supply. The company is planning to expand the capacity for Xtreme 125 cc from 25,000 units / month to 40,000 / month in coming period. Beyond that Speldour 125 cc and Glamour has been in demand and hence its market share in 125 cc segment has expanded from 13% in Q4FY24 to 20% in Q1FY25.
- **Product launches:** Going forward the company plans to launch few more products (including versions) in scooter, premium motorcycle segment and EV segment in coming quarters.
- **Capex:** The company has scheduled a capex of Rs 1000crores-Rs1200 crore for FY25.

Results (Standalone) Rs cr

Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Revenue	10,144	8,767	15.7	9,519	6.6
Total operating cost	8,684	7,561	14.9	8,160	6.4
EBIDTA	1,460	1,206	21.0	1,359	7.4
Depreciation	193	169	14.3	185	4.4
Interest	5	5	3.2	5	5.5
Other Income	232	222	4.3	180	28.7
PBT	1,493	1,255	19.0	1,350	10.7
Tax	371	270	37.3	334	11.2
Reported PAT	1,123	825	36.1	1,016	10.5
Adjusted PAT	1,123	945	18.8	1,016	10.5
Adjusted EPS	56.2	47.3	18.8	50.9	10.5

Source: Company; Sharekhan Research

Key Ratios (Standalone) Rs cr

Particulars	Q1FY25	Q1FY24	Y-o-Y (bps)	Q4FY24	Q-o-Q (bps)
Gross margin (%)	32.3	30.6	170	33.6	(130)
EBIDTA margin (%)	14.4	13.8	60	14.3	10
Net profit margin (%)	11.1	10.8	30	10.7	40
Effective tax rate (%)	24.8	24.7	20	24.7	10

Source: Company; Sharekhan Research

Volume Analysis (Rs/ Vehicle)

Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Volume	15,35,156	13,52,574	13.5	13,92,423	10.3
Realization	66,076	64,819	1.9	68,365	(3.3)
EBITDA/Vehicle	9,509	8,918	6.6	9,761	(2.6)
RMC/Vehicle	44,733	44,958	(0.5)	45,423	(1.5)
PAT/Vehicle	21,344	19,861	7.5	22,942	(7.0)

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Steady improvement is on card

We expect growth momentum to remain in FY2025E, driven by improvement in rural sentiments in the domestic market. The government's expenditure on infra segment coupled with increased preference for personal transport are expected to improve volumes. With a rise in ownership cost due to price hikes and implementation of new regulations, the entry-level segment is facing headwinds, however the premium segment is continuously performing. While export volumes have been muted but bottoming. Export volumes are expected to improve gradually in coming months. A positive recovery in African markets would augur well for the two-wheeler exports from India.

■ Company Outlook – Late entrant, yet eyeing significant pie in EV space

Hero is the market leader in the 2W space. Moreover, Hero has the highest rural exposure with rural sales contributing about half of the volume. With strong farm sentiments on account of a good monsoon and higher crop production, we expect Hero to retain its leadership position. Hero has a strong balance sheet with net cash. Hero is expected to benefit from the premiumization of its products, stronghold in the economy, executive motorcycle segments, and aggressive product offerings in the premium bike and scooter segments. In addition, the company is well positioned to benefit from the adoption of electric 2W vehicles through its strong R&D and investments in Ather Energy, We remain positive on the company's growth prospects.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 6,057

After OPM lagged estimates in Q1FY25, the management has shared an optimistic outlook for the upcoming festive season and indicated that its 125 cc products are receiving healthy response in the market leading it to enhance capacities for Xtreme 125 cc motorcycle. The losses in EV business are expected to come down on introduction of affordable products and increase in volumes. Management is expecting its upcoming products in EV segment to come with affordable price points with PLI benefits. The recovery in rural segment is auguring well for HMCL , given its strong distribution network in rural segment. On the operating performance front, the company continues to target an EBITDA margin of 14-16%. With improved operating profitability in the IC business and continuous investment in the EV business, we believe HMCL has been building up a balanced future. With improved EBITDA margin in ICs business, we believe HMCL has headroom to stimulate demand in its key markets for entry-level products, as, after the premium category, the 125cc segment has already recovered. With its Hero 2.0 stores, the company continues to focus on bringing premiumization to its distribution system. Exclusive stores for premium products and upgradation of the existing dealership network would help it attract a new set of customers. Further, the company is aggressively planning to expand its EV business. We retain our Buy rating on the stock with an unchanged PT of Rs. 6,057 on healthy recovery in EBITDA margin, strong response to its latest products, continuous focus on premiumisation and expansion of its EV markets.

Change in earning estimates

Particulars	Old		New		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	40,862	45,178	40,862	45,178	0.0%	0.0%
EBITDA	6,048	7,093	6,048	7,093	0.0%	0.0%
EBITDA margin	14.8%	15.7%	14.8%	15.7%		
PAT	4,674	5,485	4,674	5,485	0.0%	0.0%
EPS	234	275	234	275	0.0%	0.0%

Source: Company; Sharekhan Research

About company

HMCL is the market leader in the 2W industry with a market share of 32.5%. HMCL is present in both the motorcycles and scooter segments, with a market share of about ~47% and ~7%, respectively. Motorcycles form the major chunk of revenue, contributing about ~93% to volumes, while scooters contribute about~ 7% of volumes. HMCL is a domestically focused company, deriving about 97% of its volumes from the Indian market. Further HMCL has entered into electric scooter space via brand VIDA.

Investment theme

HMCL is a market leader in the Indian 2W industry. The company commands leadership position in executive motorcycle segment. HMCL 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 program would result in margin improvement. Hero is expected to reach its historical margin of 14-16%. Hence, we retain our Buy rating on the stock.

Key Risks

- Success of rival products in the entry and executive bike segments can impact HMCL's market share in the segments. HMCL is expanding its product portfolio aggressively in the premium bikes segment.
- Failure in the premium segment can restrain its growth path.

Additional Data

Key management personnel

Dr. Pawan Munjal	Chairman
Niranjan Gupta	CEO
Dhiraj Kapoor	Company Secretary and Chief Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bahadur Chand Investments Pvt Ltd	20.02
2	Life Insurance Corp of India	7.27
3	ICICI Prudential Asset Management	3.17
4	BlackRock Inc	2.63
5	Kotak Mahindra Asset Management Co	2.62
6	Norges Bank	2.54
7	WGI EMERGING MARKETS SMALLER COM	2.39
8	Vanguard Group Inc/The	1.92
9	SBI Funds Management Ltd	1.74
10	FMR LLC	1.58

Source: Bloomberg

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 detoriating 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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