

HERO MOTOCORP LIMITED

Growth to be driven by rural recovery....A value BUY!

LKP
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Hero Motocorp Ltd (Hero) is concentrating on launching new products in the premium category, expanding the EV portfolio to include more affordable options, establishing new Premia stores and Vida Hubs, and upgrading existing stores and service centres to Hero 2.0 standards. Additionally, the rise in enquiries from rural areas, especially for vehicles with engine capacities of 125cc and above, boosts management's confidence in outpacing the average industry growth rate in FY25. The company maintains a long-term EBITDA margin guidance of approximately 14-16%. Maintain BUY with a price objective of ₹5,796.

Demand outlook

Hero experienced a 13% yoy increase in retail volumes during the 32-day festive season, driven by targeted marketing, effective inventory and product-mix planning. This growth boosted its market share to 31.6%. In the EV segment, VIDA sales reached 11.6k units during the festive period, compared to 5,000 units in the prior period translating into 5.4% market share. Management highlighted strong demand persisting post-festive season and anticipates medium-term volume growth to be supported by the upcoming marriage season, rural recovery and heightened government spending. Hero achieved a 20% EV market share in five cities (including Kolkata, Mysore, and Cuttack) and 10% in ten cities (such as Delhi, Patna, and Bhubaneswar). The management has indicated that it is seeing a gradual recovery in rural markets currently. Given that Hero has a dominant 100-110cc portfolio, any recovery in the rural region bodes well for the company. Given the normal monsoon in FY25, we expect Hero's 100cc segment to post much better growth in FY25E.

New product pipeline looks robust

The management highlighted plans for new product launches in H2FY25 and FY26, targeting both the entry-level and premium segments, including models such as the Xpulse 210, Xtreme 250R, and Karizma XMR250, aimed at expanding the product portfolio. Additionally, the management intends to broaden the EV model lineup across various price points over the next few quarters. The company invested ₹1.75 bn in the EV business during Q2FY25 and anticipates receiving PLI benefits in FY26. As of September 2024, Hero had launched 58 Premia stores catering to premium customers, with plans to reach 100 stores by FY25 end to drive higher customer engagement and premium positioning.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Revenues (₹ bn)	338	375	409	442
EBITDA (%)	11.8	14.0	14.2	14.4
PAT (%)	8.6	10.6	11.5	11.4
EPS (₹)	145.7	198.7	235.2	252.0
EPS growth (%)	17.7%	41.8%	13.8%	7.1%
P/E (x)	33.5	24.6	20.7	19.4
P/B (x)	1.7	1.6	1.5	1.3
EV/EBITDA (x)	21.5	15.9	14.1	13.1
ROCE (%)	17.3%	22.3%	23.1%	23.2%
ROE (%)	17.4%	21.2%	23.9%	23.5%
Dividend yield (%)	2.1%	2.8%	3.1%	3.4%

BUY

Current Market Price (₹)	4,870
12 M Price Target (₹)	5,796
Potential upside (%)	19

Stock Data

Sector :	Automobiles / Two-Wheelers
Face Value (₹) :	2
Total Market Cap (₹ bn) :	970
Free Float Market Cap (₹ bn) :	628
52-Week High / Low (₹) :	6,246 / 3,555
BSE Code / NSE Symbol	500182 / HEROMOTOCO
Bloomberg :	HMCL IN

Shareholding Pattern

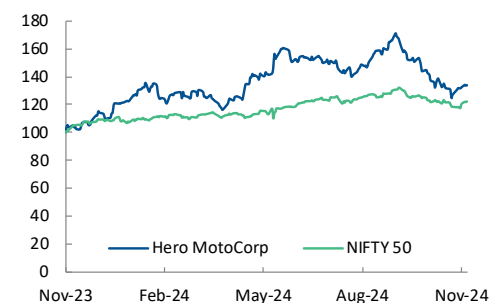
(%)	Sep-24	Jun-23	Mar-24	Dec-23
Promoter	34.75	34.76	34.76	34.76
FPIs	29.59	29.87	28.93	28.34
MFs	14.57	13.75	14.02	13.73
Other Institutions	9.60	10.49	11.37	11.73
Insurance	2.34	2.28	2.27	2.27
Others	9.15	8.85	8.65	9.17

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Hero Motocorp	-2.5%	-9.5%	-4.6%	33.9%
Nifty 50	0.4%	-2.9%	5.9%	22.1%

* To date / current date : November 27, 2024

Hero Motocorp vs Nifty 50

Exports gaining traction

Hero's global business posted a 30% yoy growth in volumes in Q2, outperforming the industry growth of 16%. The company secured a 6.1% export market share, with Colombia achieving its first profitable quarter, marked by positive EBITDA and cash flow. Steady demand was observed in Mexico and Latin American countries, while markets such as Bangladesh, Turkey, and Nigeria faced economic and geopolitical challenges, which the company continues to monitor while pursuing growth opportunities.

Margins to be maintained in 14-16% range as per management

In Q2FY25, Hero's EBITDA margin for the ICE segment stood at 16.5%, marking an increase of 160 bps. The overall EBITDA margin was 14.5%, up 40 bps yoy and 10 bps yoy. The overall margin was notably impacted by EV-related operational expenses, which had a 200 bps impact. The company aims to sustain margins of 14-16% in the medium term, driven by a richer product mix, product premiumisation, lower material costs, and enhanced operational efficiencies in the EV segment.

Outlook and Valuation

We expect Hero to deliver a volume growth of 7%/6% during FY25E/26E, driven by 1) new launches in the 125cc, scooters, and premium segments and 2) a ramp-up in exports. It is ramping up the capacity for Xtreme 125R and its premium products, which would help drive growth in these segments. It targets to launch two new scooters in 125cc and 150cc segments in the coming quarters. The company will also benefit from a gradual rural recovery, given the strong brand equity in the economy and executive segments. We would monitor (1) Hero's roadmap in the EV product portfolio, including investments in Ather, the ramp-up of Vida, and the launch of a new affordable product range over the next few quarters; (2) Strategy in the mid-weight MC segment amidst growing competition; (3) Expansion into new international markets. Additionally, normal monsoons, government initiatives to enhance rural income, and the marriage season are anticipated to drive 2W industry growth, benefiting Hero, particularly in the entry and 125cc segments. Consequently, 9%/10%/11% CAGR in Revenue/EBITDA/PAT over FY24-26E is estimated. **The stock has corrected by >22% from its 52 week high observed in September 2024, which we believe makes the stock very attractive from current levels considering its business strength and value. We therefore reach to a target of ₹ 5,796, assigning a multiple of 23x FY26E earnings as compared to current multiple of 19.4x. Maintain BUY.**

All figs in ₹	Q2 FY25	Q1 FY25	Q4 FY24	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23
Volumes (mn)	1.52	1.54	1.39	1.46	1.42	1.35	1.27	1.24
Net Realization	68,851	66,083	68,386	66,604	66,680	64,819	65,382	64,782
Material Cost/Unit	45,927	44,737	45,437	44,845	45,731	44,958	44,442	44,965
Staff Cost/Unit	4,300	3,963	4,625	4,121	4,072	4,289	4,385	4,401
Other Expn/Unit	8,649	7,873	8,560	8,309	7,500	6,654	8,032	7,961
Total Expn/Unit	58,876	56,573	58,622	57,275	57,303	55,901	56,858	57,327
EBITDA/unit	9,975	9,510	9,764	9,329	9,377	8,918	8,524	7,455
Net profit /unit	7,920	7,314	7,299	7,352	7,439	7,280	6,761	5,736

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	3,38,056	3,74,557	4,08,792	4,42,108
Raw Material Cost	2,38,581	2,54,308	2,76,752	3,00,633
Employee Cost	21,898	24,023	25,345	26,526
Other Exp	37,715	43,669	48,646	51,285
EBITDA	39,862	52,557	58,048	63,664
<i>EBITDA Margin(%)</i>	<i>11.8</i>	<i>14.0</i>	<i>14.2</i>	<i>14.4</i>
Other income	5652	8926	11000	11000
Depreciation	6,570	7,114	7,437	7,769
Interest	199	185	205	235
PBT	38,745	54,183	61,406	66,660
<i>PBT Margin(%)</i>	<i>11.5</i>	<i>14.5</i>	<i>15.0</i>	<i>15.1</i>
Exceptional items	0	1600	0	0
Tax	9,640	12,904	14,430	16,332
PAT	29,105	41,279	46,976	50,328
<i>PAT Margins (%)</i>	<i>8.6</i>	<i>11.0</i>	<i>11.5</i>	<i>11.4</i>
Adj PAT	29,105	39,679	46,976	50,328
<i>Adj PAT Margin (%)</i>	<i>8.6</i>	<i>10.6</i>	<i>11.5</i>	<i>11.4</i>

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	145.7	198.7	235.2	252.0
CEPS	178.6	234.3	272.5	290.9
BVPS	836.3	899.8	982.0	1070.1
DPS	100.0	135.0	152.7	163.6
Growth Ratios(%)				
Total revenues	15.6%	10.8%	9.1%	8.1%
EBITDA	18.3%	31.8%	10.4%	9.7%
PAT	17.7%	41.8%	13.8%	7.1%
EPS Growth	17.7%	41.8%	13.8%	7.1%
Valuation Ratios (x)				
PE	33.5	24.6	20.7	19.4
P/CEPS	27.3	20.8	17.9	16.8
P/BV	1.7	1.6	1.5	1.3
EV/Sales	2.9	2.6	2.4	2.2
EV/EBITDA	21.5	15.9	14.1	13.1
Operating Ratios (Days)				
Inventory days	21.9	23.0	25.0	25.0
Receivable Days	30.2	26.3	26.5	27.0
Payables day	50.8	53.7	54.0	54.0
Net Debt/Equity (x)	0.04	0.02	0.00	(0.00)
Profitability Ratios (%)				
ROCE	17.3%	22.3%	23.1%	23.2%
ROE	17.4%	21.2%	23.9%	23.5%
Dividend yield	2.1%	2.8%	3.1%	3.4%

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
EQUITY & LIABILITIES				
Equity Share Capital	400	400	400	400
Reserves & Surplus	1,66,651	1,79,462	1,95,903	2,13,518
Total Networkth	1,67,051	1,79,862	1,96,303	2,13,918
Total debt	0	0	0	0
Deferred Tax Liability	7,360	7,245	7,245	7,245
Long term provisions	1,981	3,167	3,167	3,167
Total non current liabilities	9,341	10,411	10,411	10,411
Current Liab & Prov				
Current liabilities	47,033	55,124	60,479	65,408
Other liabilities & Provisions	9,209	10,321	10,321	10,321
Total Equity and Liabilities	2,32,631	2,55,716	2,77,512	3,00,056
ASSETS				
Net block	48,682	49,339	51,901	54,632
Capital WIP	5,216	4,922	6,422	7,922
Intangible assets	8,354	8,885	8,885	8,885
Deferred tax assets	0	0	0	0
Long term investments	73,725	88,116	90,116	92,116
Long term loans & advances	4,574	5,014	5,014	5,014
Other non current assets	1,713	1,481	1,481	1,481
Total non-current assets	1,42,264	1,57,755	1,63,818	1,70,049
Current Assets				
Current investments	36,379	42,745	50,745	60,745
Cash and Bank	3,455	6,089	9,693	11,196
Inventories	14,341	14,438	15,923	17,709
Sundry Debtors	27,982	27,034	29,679	32,704
Loan, Advances & others	8,211	7,654	7,654	7,654
Other current assets	237	246	246	246
Total Assets	2,32,631	2,55,716	2,77,512	3,00,056

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PAT	29,106	39,680	46,976	50,328
Depreciation	6,570	7,114	7,437	7,769
Interest	199	185	205	235
Income Tax paid	(8,496)	(13,142)	(14,430)	(16,332)
Chng in working capital	(5,832)	10,747	1,225	119
Cash flow from operations (a)	25,791	49,065	56,533	58,451
Capital expenditure	(5,777)	(7,195)	(11,500)	(12,000)
Chng in investments	8,150	(7,985)	(10,000)	(12,000)
Other investing activities	(7,061)	(2,838)	0	0
Cash flow from investing (b)	(4,688)	(18,019)	(21,500)	(24,000)
Free cash flow (a+b)	21,103	31,047	35,033	34,451
Inc/dec in borrowings	0	0	0	0
Dividend paid (incl. tax)	(19,983)	(26,987)	(30,534)	(32,713)
Other financing activities	(166)	(81)	(205)	(235)
Cash flow from financing (c)	(20,406)	(27,331)	(30,739)	(32,948)
Net chng in cash (a+b+c)	697	3,715	4,294	1,502
Closing cash & cash equivalents	1,684	5,399	9,693	11,196

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