



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. 91,733 cr
52-week high/low:	Rs. 6,245/ 3,684
NSE volume: (No of shares)	7.03 lakh
BSE code:	500182
NSE code:	HEROMOTOCO
Free float: (No of shares)	13.0 cr

Shareholding (%)

Promoters	34.8
FII	29.6
DII	26.9
Others	8.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.1	-20.0	-10.3	21.1
Relative to Sensex	-7.5	-19.2	-16.9	2.6

Mirae Asset Sharekhan Research, Bloomberg

Hero MotoCorp Ltd

Expanding EV portfolio

Automobiles	Sharekhan code: HEROMOTOCO
Reco/View: Buy	CMP: Rs. 4,592 Price Target: Rs. 6,057
↑ Upgrade ↔ Maintain ↓ Downgrade	

Summary

- Hero MotoCorp Limited (HMCL) introduced second series of VIDA and entered into sub 1 lakh electric two wheeler segment.
- The company registered double-digit volume growth during the festive season, recovery in rural sales, and marriage season to take care retails in the near term.
- We retain our BUY rating on the stock with an unchanged PT of Rs. 6,057, driven by a healthy recovery in EBITDA margin, strong product response, a continuous focus on premiumisation, and expansion into the EV market.
- The stock trades at a P/E multiple of 16.7x/15.3x and EV/EBITDA multiple of 11.1x/10.0x its FY2026E/FY2027E.

Hero MotoCorp Limited (HMCL) is strategically broadening its premium product portfolio by introducing new models and variants within its established brands. This move is aimed at enhancing brand recognition and establishing powerful brands in the premium segment. The company's efforts to improve its products are reflected in a y-o-y increase of 3.3% in average selling prices (ASPs) for Q2FY2025. Despite increased investments in expanding the premium segment, HMCL maintains its margin guidance of 14-16%. In terms of profitability, the underlying EBITDA margin for HMCL's internal combustion (IC) business has already reached 16%, reflecting strong operational performance. However, the company's blended EBITDA margin is still below 16%, primarily due to cash burn in its electric vehicle (EV) segment. The underlying EBITDA margin for the IC business grew by 150 bps y-o-y, reaching 16.5% in Q2FY2025. As the EV business scales up and the company expects to benefit from the Production Linked Incentive (PLI) scheme, losses in this segment are likely to reduce, leading to improved profitability. Although HMCL has already experienced strong sales during the festive season, the company anticipates sustained demand through the upcoming marriage season. This extended demand is expected to drive growth beyond the festive period. HMCL has been strategically focussing on (1) Improving customer experience for a long-lasting experience via digitisation and new formats of dealerships, (2) Increased presence in the scooter segment via an aggressive product launch strategy, (3) achieving a dominant position in the EV space, (4) revenue-driven growth model in place of plain-vanilla volume growth model, and (5) premiumisation across the segments. Besides, the company is looking for a strategic focus on the top 10 export markets.

- **EV Business: Expanding Market Reach:** HMCL's EV brand, VIDA, targets the premium EV segment. However, to better address the growing demand in the performance segment, the company has launched the second series of VIDA, including the VIDA V2, which is priced in the sub-Rs. 1 lakh category. The VIDA V2 is available in three variants: (1) V2 Lite at Rs. 96,000, (2) V2 Plus at Rs. 115,000, and (3) V2 Pro at Rs. 135,000. The VIDA brand has already secured a 20% market share in five cities. HMCL's strategic pricing across different variants is designed to expand its addressable market and attract a broader range of customers. In addition to the domestic market, HMCL is planning to introduce VIDA in the U.K. and Europe in the second half of CY2025, further expanding its footprint in the global EV space.
- **Strong Festive Season Performance:** HMCL experienced a strong festive season, reporting a 13% y-o-y increase in sales, with a total of 15.98 lakh units sold. This growth was balanced between rural and urban markets, though rural markets saw slightly stronger growth. Management remains optimistic about future prospects, citing favourable macro-economic conditions, and the potential for increased sales among low-income groups. Although discounting and incentive schemes were prevalent during the festive season, the company indicated that these schemes were in line with previous years and not unusually high.
- **Focus on Premium Segment:** HMCL continues to focus on expanding its presence in the premium segment, which currently includes five key brands: Xpulse, Xtreme, XPulse 200 4V, Karizma, and Harley-Davidson X440. The company plans to launch new variants and models, such as the upcoming Xtreme 250R, while also expanding its premium retail network through dedicated premium stores. Over the past eight quarters, HMCL has been shifting toward a more premiumised product portfolio, positively impacting margins. The company is leveraging its existing manufacturing, distribution, and sourcing scale to maintain profitability in the premium segment without needing significant expansion. Additionally, HMCL's dealers, who benefit from the core segment, are helping drive the expansion of premium stores, ensuring sustainability.

Our Call

Valuation- Maintain BUY with a PT of Rs. 6,057: While demand growth is expected to moderate following the strong festive season, the upcoming marriage season and the expected recovery in rural sales should support retail growth. The expansion of exclusive stores for premium products and upgrades to the dealership network will likely attract new customers. Moreover, the company's aggressive plans to grow its EV business, particularly with attaining scale, are expected to reduce losses in the EV segment as more affordable products are introduced and volumes increase. HMCL's strong distribution network, particularly in rural markets, positions the company well for continued growth. The company's target of maintaining an EBITDA margin of 14-16% reflects its ongoing efforts to improve operating performance. With a strong recovery in the IC business and continued investment in the EV space, HMCL is building a balanced and sustainable future. The premiumisation of its distribution system through Hero 2.0 stores will also support growth. We retain our BUY rating with an unchanged price target (PT) of Rs. 6,057, driven by healthy recovery in EBITDA margin, strong product response, a continuous focus on premiumisation, and expansion into the EV market.

Key Risks

As HMCL is looking for aggressive product launch plans and, hence, exposed to product failure risk. The increase in raw-material cost and rise in competition along with delayed recovery in the rural market would stem its growth prospects.

Valuation (Standalone)

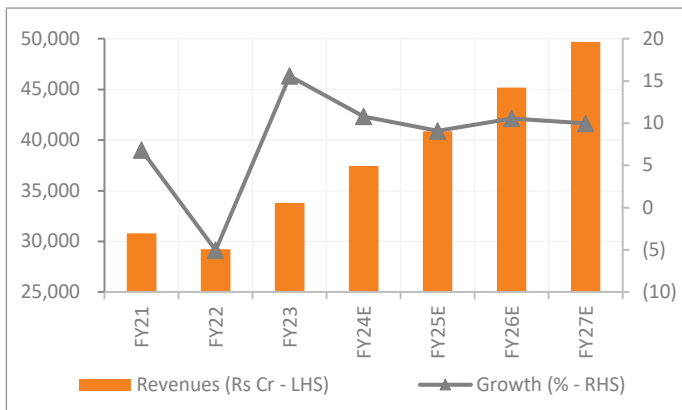
Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	33,806	37,456	40,862	45,178	49,684
Growth (%)	15.6	10.8	9.1	10.6	10.0
EBIDTA	3,986	5,256	6,048	7,093	7,800
OPM (%)	11.8	14.0	14.8	15.7	15.7
A PAT	2,911	4,128	4,674	5,485	5,991
Growth (%)	17.7	41.8	13.2	17.4	9.2
AEPS (Rs)	146	207	234	275	300
PE (x)	31.5	22.2	19.6	16.7	15.3
P/BV (x)	5.5	5.1	4.6	4.2	3.8
EV/EBIDTA (x)	20.3	14.8	13.1	11.1	10.0
RoNW (%)	17.4	23.0	23.5	24.8	24.7
RoCE (%)	17.0	22.4	23.0	24.3	24.2

Source: Company; Mirae Asset Sharekhan estimates

- ◆ **Enhancing customer experience:** HMCL is focusing on improving customer experience through digital initiatives and the introduction of new dealership formats.
- ◆ **Aggressive product launches:** The company is aiming to capture a larger share of the scooter market by launching several new products.
- ◆ **Dominance in the EV segment:** HMCL is committed to becoming a dominant player in the EV space. The company achieved 20% market share in the domestic electric 2W segment in five cities.
- ◆ **Revenue-driven growth model:** The company is shifting its focus from volume-based growth to a revenue-driven approach, with premiumisation playing a central role across its product segments.
- ◆ **Export expansion:** HMCL is also concentrating on its top 10 export markets, further expanding its global footprint.
- ◆ **Bolstering margins:** HMCL maintains its margin guidance of 14-16% despite increased investments in the premium segment's expansion.
- ◆ **Expanding EV product portfolio:** While its EV brand, VIDA, caters to the premium segment, demand is spreading more towards the performance segment. To address this issue, recently the company has launched the second series of VIDA and one of the variants in second series in VIDA (V2) is introduced in the sub Rs. 1 lakh segment. The VIDA V2 would be available in three variants: (1) V2 Lite at Rs. 96,000, (2) V2 Plus at Rs. 115,000, and (3) V2 Pro at Rs. 135,000.
- ◆ **Recovery in affordability in hope:** Management remains optimistic about the future, citing positive macro-economic factors and the potential for increased participation from the low-income group.
- ◆ **Premiumisation:** The company leverages its existing manufacturing, distribution, and sourcing scale to achieve profitability in the premium segment without requiring excessive expansion. HMCL's existing dealers, who benefit from profits in the core segment, are driving the expansion of premium stores, ensuring their sustainability.
- ◆ **Investments in brand building:** The company plans to increase investments in brand building and communication to strengthen awareness and create power brands. This will involve media campaigns and other initiatives to highlight their expanding product portfolio.

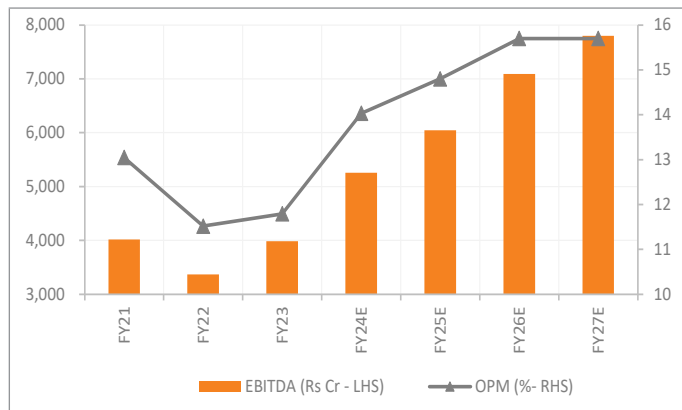
Financials in charts

Revenue and Growth Trend



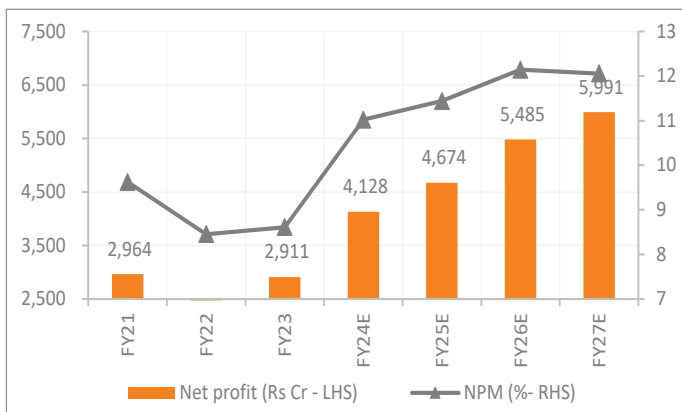
Source: Company; Mirae Asset Sharekhan Research

EBITDA and OPM Trend



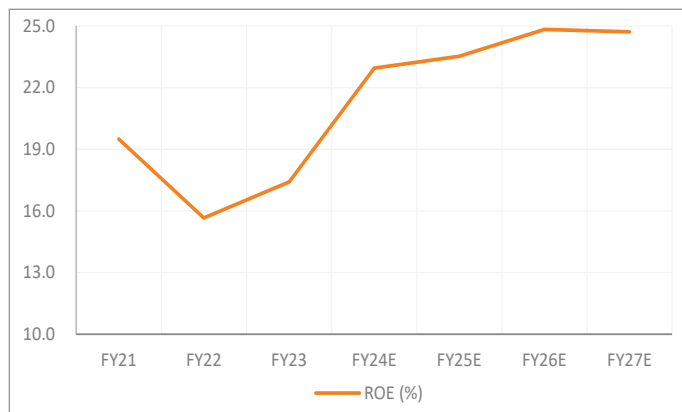
Source: Company; Mirae Asset Sharekhan Research

Net Profit and NPM Trend



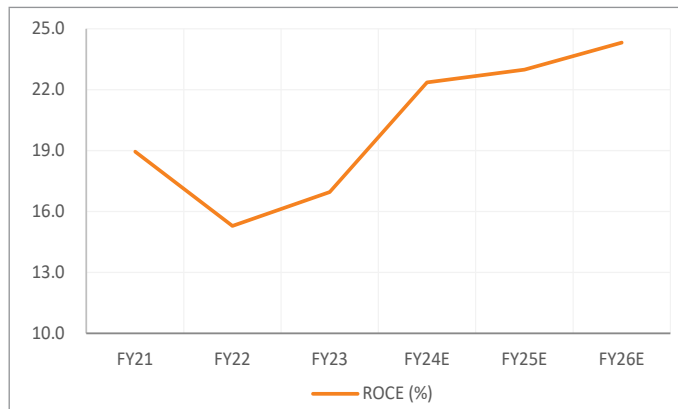
Source: Company; Mirae Asset Sharekhan Research

ROE Trend



Source: Company; Mirae Asset Sharekhan Research

ROCE Trend



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Steady improvement is on the cards

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 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, they are reaching their bottom levels. Export volumes are expected to improve gradually in the coming months. A positive recovery in African markets would augur well for 2W exports from India.

■ Company Outlook – Entered late but eyeing on significant pie in the EV space

HMCL is the market leader in the 2W space. Moreover, the company 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 HMCL to retain its leadership position. The company has a strong balance sheet with net cash. HMCL is expected to benefit from the premiumisation 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 a PT of Rs. 6,057

While demand growth is expected to moderate following the strong festive season, the upcoming marriage season and the expected recovery in rural sales should support retail growth. The expansion of exclusive stores for premium products and upgrades to the dealership network will likely attract new customers. Moreover, the company's aggressive plans to grow its EV business, particularly with attaining scale, are expected to reduce losses in the EV segment as more affordable products are introduced and volumes increase. HMCL's strong distribution network, particularly in rural markets, positions the company well for continued growth. The company's target of maintaining an EBITDA margin of 14-16% reflects its ongoing efforts to improve operating performance. With a strong recovery in the IC business and continued investment in the EV space, HMCL is building a balanced and sustainable future. The premiumisation of its distribution system through Hero 2.0 stores will also support growth. We retain our BUY rating with an unchanged PT of Rs. 6,057, driven by healthy recovery in EBITDA margin, strong product response, a continuous focus on premiumisation, and expansion into the EV market.

Change in estimates

Particulars	Old			New			% change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	40,862	45,178	49,684	40,862	45,178	49,684	0.0%	0.0%	0.0%
EBITDA	6,048	7,093	7,800	6,048	7,093	7,800	0.0%	0.0%	0.0%
EBITDA margin	14.8%	15.7%	15.7%	14.8%	15.7%	15.7%			
PAT	4,674	5,485	5,991	4,674	5,485	5,991	0.0%	0.0%	0.0%
EPS	234	275	300	234	275	300	0.0%	0.0%	0.0%

Source: Company; Mirae Asset Sharekhan Research

About the 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 ~7% of volumes. HMCL is a domestically focused company, deriving about 97% of its volumes from the Indian market. Further, HMCL has entered into the electric scooter space via its brand, VIDA.

Investment theme

HMCL is a market leader in the Indian 2W industry. The company commands a leadership position in the executive motorcycle segment. HMCL has a strong penetration in semi-urban and rural areas, aided by its largest distribution network in the 2W industry. We expect HMCL 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. HMCL 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

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 (Old data)

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Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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