

**HERO MOTOCORP LIMITED**

New launches to drive the earnings!

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Hero Motocorp Ltd (Hero) is concentrating on launching new products in the scooters and 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 and FY 26 as the company has well expanded their overall market share in Q3. The GoI's budgetary announcements shall further boost the consumption, which would augur well for the already growing rural markets and boost the savings of middle class, which is the biggest consumer of Hero's entry level segment. Maintain BUY with a price objective of ₹5,211.

**Demand outlook**

Hero experienced strong retail sales during the festive season in Q3. This growth boosted its market share to 32.8% from 31.6% qoq and 520 bps up yoy as the flagship models of HF Deluxe 125, Splendor and new model Xtreme gained solid market share. In the EV segment, VIDA sales during the festive season was quite high as the company gained market share, however it came down post festive as phasing out of volumes happened on the back of transition to OBD 2, which will come in to play from April 1st. Management mentioned that the company shall be ready soon with the transition to OBD 2, as the distribution channels are getting full with OBD 2 compliant vehicles, which shall lead to uptick in EV sales once again. Management anticipates medium-term volume growth to be supported by the upcoming marriage season, rural recovery, tax reliefs and heightened government spending. The management has indicated that it is seeing a gradual recovery in urban markets as well. Given that Hero has a dominant 100-110cc portfolio, recovery in the rural region and middle class consumers (₹6-12 lakh income bracket) bodes well for the company. Given the normal monsoons, high reservoir levels, absence of unseasonal rains, good Khariff production, decent Rabi sowing in FY25, we expect Hero's mass as well as executive segments to post much better growth in FY25E.

Key Financials	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Revenues (₹ bn)	338	375	410	457	508
EBITDA (%)	11.8	14.0	14.6	15.0	15.3
PAT (%)	8.6	10.6	11.8	11.8	12.0
EPS (₹)	145.7	198.7	242.4	270.4	306.1
EPS growth (%)	17.7%	41.8%	17.3%	11.5%	13.2%
P/E (x)	29.2	21.4	17.6	15.8	13.9
P/B (x)	1.7	1.6	1.4	1.3	1.2
EV/EBITDA (x)	18.8	13.9	12.0	10.7	9.4
ROCE (%)	17.3%	22.3%	23.8%	24.6%	25.4%
ROE (%)	17.4%	21.2%	24.6%	25.0%	25.8%
Dividend yield (%)	2.3%	3.2%	3.7%	4.1%	4.7%

**BUY**

Current Market Price (₹)	4,247
12M Price Target (₹)	5,211
Potential upside (%)	23

**Stock Data**

Sector :	Automobiles / Two-Wheelers
Face Value (₹) :	2
Total Market Cap (₹ bn) :	849
Free Float Market Cap (₹ bn) :	551
52-Week High / Low (₹) :	6,246 / 3,998
BSE Code / NSE Symbol	500182 / HEROMOTOCO
Bloomberg :	HMCL IN

**Shareholding Pattern**

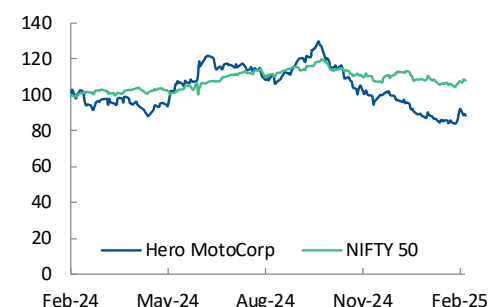
(%)	Dec-24	Sep-24	Jun-23	Mar-24
Promoter	34.74	34.75	34.76	34.76
FPIs	27.96	29.59	29.87	28.93
MFs	16.12	14.57	13.75	14.02
Other Institutions	9.53	9.60	10.49	11.37
Insurance	1.73	2.34	2.28	2.27
Others	9.92	9.15	8.85	8.65

Source: BSE

**Price Performance**

(%)	1M	3M	6M	12M
Hero Motocorp	0.6%	-13.5%	-18.2%	-11.8%
Nifty 50	-0.1%	-3.6%	-1.6%	7.6%

\* To date / current date : February 6, 2025

**Hero Motocorp vs Nifty 50**

### New product pipeline looks robust

The management highlighted that they during the quarter have launched models such as the Xpulse 210 and Xtreme 250R aimed at expanding the premium product portfolio. Additionally, Hero with intentions to broaden the EV model lineup across various price points has come up with the V2 series, wherein Hero launched their first two V2 scooters namely VIDA V2 and VIDA V2 Lite in the sub one lakh segment to take on competitive launches happened during H1. The company invested ₹1.37 bn in the EV business during Q3FY25, lower than ₹1.75 bn qoq on seasonality. Management expects PLI to flow in for its VIDA series next year. On the scooters side of the portfolio, Hero shall launch Destini new variant in Q4, along with Xoom 125 and Xoom 160 during the same period, thus beefing up its domestic scooters side. As of December 2024, Hero had launched 60 Premia stores catering to premium customers, with plans to reach 100 stores by FY25 end to drive higher customer engagement and premium positioning.

### Exports gaining traction

Hero's global business posted a 40% yoy growth in volumes in Q3, double the industry growth of 16%. The company secured >6% export market share, with profitable growth and steady demand 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 move up richer product mix

In Q3FY25, Hero's EBITDA margin for the ICE segment stood at 16%, marking an increase yoy. The overall EBITDA margin was 14.5%, up 50 bps yoy and flat qoq. The overall margin was supported by lower investments in the EV business. The company aims to sustain margins of 14-16% in the medium term as mentioned in the last quarter's conference call, driven by a richer product mix, product premiumisation, lower material costs, and enhanced operational efficiencies in the EV segment.

### Quarterly Financial Snapshot

YE Mar (₹ mn)	Q3 FY25	Q2 FY25	% qoq	Q3 FY24	% yoy
Total net sales	1,02,108	1,04,632	-2.4%	97,237	5.0%
RM cost	67,152	69,795	-3.8%	65,470	2.6%
Employee cost	6,622	6,535	1.3%	6,017	10.1%
Other expenses	13,569	13,143	3.2%	12,130	11.9%
EBITDA	14,765	15,159	-2.6%	13,620	8.4%
EBITDA Margins %	14.5	14.5	0 bps	14.0	50 bps
Other income	3,175	2,830	12.2%	2,420	31.2%
Depreciation	1,969	1,937	1.7%	1,825	7.9%
Interest	55	49	10.5%	45	20.6%
PBT	15,917	16,003	-0.5%	14,170	12.3%
Tax	3,888	3,967	-2.0%	3,437	13.1%
PAT	12,029	12,035	-0.1%	10,734	12.1%
PAT margins %	11.8	11.5	30 bps	11.0	80 bps
Exceptional items	-	-	N/A	-	N/A
Adjusted PAT	12,029	12,035	-0.1%	10,734	12.1%
APAT margins %	11.8	11.5	30 bps	11.0	80 bps

Source: Company, LKP Research

### Outlook and Valuation

Although the revenue growth in the quarter was at mid-single digit yoy, we expect Hero to deliver a volume growth of 6.5%/7%/6% during FY25E/26E/27E, 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. Hero shall launch Destini variant along with two new Xoom scooters – one in 125cc and another one in the unique 160cc segment in Q4. The company will also benefit from the ongoing rural resilience, 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 – VIDA V2 (2) Strategy in the mid-weight MC segment (125 cc and above) amidst growing competition; (3) Expansion into new international markets. Additionally, normal monsoons, government initiatives to enhance rural income tax reliefs given in recent budget and the marriage & festive season (Gudi Padwa, Ugadi, Vishu etc in Q1) are anticipated to drive 2W industry growth, benefiting Hero, particularly in the entry and 125cc segments. Consequently, 11%/14%/14% CAGR in Revenue/EBITDA/PAT over FY24-27E is estimated. The stock has corrected by >31% from its 52 week high observed in September 2024, which we believe makes the stock even more very attractive from current levels considering its business strength and value. We therefore reach to a target of ₹5,211, assigning a multiple of 17x FY27E earnings as compared to current multiple of 14x. Maintain BUY.

All figs in ₹	Q3 FY25	Q2 FY25	Q1 FY25	Q4 FY24	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23
Volumes (mn)	1.46	1.52	1.54	1.39	1.46	1.42	1.35	1.27
Net Realization	69,772	68,851	66,083	68,386	66,604	66,680	64,819	65,382
Material Cost/Unit	45,886	45,927	44,737	45,437	44,845	45,731	44,958	44,442
Staff Cost/Unit	4,525	4,300	3,963	4,625	4,121	4,072	4,289	4,385
Other Expn/Unit	9,272	8,649	7,873	8,560	8,309	7,500	6,654	8,032
Total Expn/Unit	59,682	58,876	56,573	58,622	57,275	57,303	55,901	56,858
EBITDA/unit	10,089	9,975	9,510	9,764	9,329	9,377	8,918	8,524
Net profit /unit	8,219	7,920	7,314	7,299	7,352	7,439	7,280	6,761

Source: Company, LKP Research

## Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Total Revenues	3,38,056	3,74,557	4,10,485	4,56,787	5,08,313
Raw Material Cost	2,38,581	2,54,308	2,73,793	3,05,134	3,40,570
Employee Cost	21,898	24,023	25,450	27,407	29,482
Other Exp	37,715	43,669	51,311	55,728	60,489
<b>EBITDA</b>	<b>39,862</b>	<b>52,557</b>	<b>59,931</b>	<b>68,518</b>	<b>77,772</b>
EBITDA Margin(%)	11.8	14.0	14.6	15.0	15.3
Other income	5652	8926	11000	11000	11500
Depreciation	6,570	7,114	7,437	7,769	8,592
Interest	199	185	205	235	245
<b>PBT</b>	<b>38,745</b>	<b>54,183</b>	<b>63,288</b>	<b>71,514</b>	<b>80,435</b>
PBT Margin(%)	11.5	14.5	15.4	15.7	15.8
Exceptional items	0	1600	0	0	0
Tax	9,640	12,904	14,873	17,521	19,304
<b>PAT</b>	<b>29,105</b>	<b>41,279</b>	<b>48,416</b>	<b>53,993</b>	<b>61,131</b>
PAT Margins (%)	8.6	11.0	11.8	11.8	12.0
<b>Adj PAT</b>	<b>29,105</b>	<b>39,679</b>	<b>48,416</b>	<b>53,993</b>	<b>61,131</b>
Adj PAT Margin (%)	8.6	10.6	11.8	11.8	12.0

## Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E	FY 27E
<b>Per Share Data (₹)</b>					
Adj. EPS	145.7	198.7	242.4	270.4	306.1
CEPS	178.6	234.3	279.7	309.3	349.1
BVPS	836.3	899.8	984.5	1079.1	1186.1
DPS	100.0	135.0	157.4	175.6	198.8
<b>Growth Ratios(%)</b>					
Total revenues	15.6%	10.8%	9.6%	11.3%	11.3%
EBITDA	18.3%	31.8%	14.0%	14.3%	13.5%
PAT	17.7%	41.8%	17.3%	11.5%	13.2%
EPS Growth	17.7%	41.8%	17.3%	11.5%	13.2%
<b>Valuation Ratios (x)</b>					
PE	29.2	21.4	17.6	15.8	13.9
P/CEPS	23.9	18.2	15.2	13.8	12.2
P/BV	1.7	1.6	1.4	1.3	1.2
EV/Sales	2.5	2.3	2.1	1.9	1.7
EV/EBITDA	18.8	13.9	12.0	10.7	9.4
<b>Operating Ratios (Days)</b>					
Inventory days	21.9	23.0	25.0	25.0	25.0
Receivable Days	30.2	26.3	26.5	27.0	28.0
Payables day	50.8	53.7	54.0	54.0	53.0
Net Debt/Equity (x)	0.04	0.02	(0.00)	(0.02)	(0.04)
<b>Profitability Ratios (%)</b>					
ROCE	17.3%	22.3%	23.8%	24.6%	25.4%
ROE	17.4%	21.2%	24.6%	25.0%	25.8%
Dividend yield	2.3%	3.2%	3.7%	4.1%	4.7%

## Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E	FY 27E
<b>EQUITY &amp; LIABILITIES</b>					
Equity Share Capital	400	400	400	400	400
Reserves & Surplus	1,66,651	1,79,462	1,96,407	2,15,305	2,36,701
Total Networth	1,67,051	1,79,862	1,96,807	2,15,705	2,37,101
Total debt	0	0	0	0	0
Deferred Tax Liability	7,360	7,245	7,245	7,245	7,245
Long term provisions	1,981	3,167	3,167	3,167	3,167
<b>Total non curr liabilities</b>	<b>9,341</b>	<b>10,411</b>	<b>10,411</b>	<b>10,411</b>	<b>10,411</b>
<b>Current Liab &amp; Prov</b>					
Current liabilities	47,033	55,124	60,729	67,579	73,810
Other liabilities & Provs	9,209	10,321	10,321	10,321	10,321
<b>Total Equity &amp; Liabilities</b>	<b>2,32,631</b>	<b>2,55,716</b>	<b>2,78,267</b>	<b>3,04,015</b>	<b>3,31,641</b>
<b>ASSETS</b>					
Net block	48,682	49,339	51,901	54,632	58,041
Capital WIP	5,216	4,922	6,422	7,922	9,422
Intangible assets	8,354	8,885	8,885	8,885	8,885
Deferred tax assets	0	0	0	0	0
Long term investments	73,725	88,116	90,116	92,116	94,116
Long term loans & advs	4,574	5,014	5,014	5,014	5,014
Other non curr assets	1,713	1,481	1,481	1,481	1,481
Total non-current assets	1,42,264	1,57,755	1,63,818	1,70,049	1,76,957
<b>Current Assets</b>					
Current investments	36,379	42,745	50,745	60,745	68,745
Cash and Bank	3,455	6,089	10,495	13,803	18,763
Inventories	14,341	14,438	15,752	17,974	20,527
Sundry Debtors	27,982	27,034	29,802	33,790	38,994
Loan, Advances & others	8,211	7,654	7,654	7,654	7,654
Other current assets	237	246	246	246	246
<b>Total Assets</b>	<b>2,32,631</b>	<b>2,55,716</b>	<b>2,78,267</b>	<b>3,04,015</b>	<b>3,31,641</b>

## Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E	FY 27E
PAT	29,106	39,680	48,416	53,993	61,131
Depreciation	6,570	7,114	7,437	7,769	8,592
Interest	199	185	205	235	245
Income Tax paid	(8,496)	(13,142)	(14,873)	(17,521)	(19,304)
Chng in working capital	(5,832)	10,747	1,523	642	(1,528)
<b>Cash flow from operations (a)</b>	<b>25,791</b>	<b>49,065</b>	<b>58,271</b>	<b>62,639</b>	<b>68,440</b>
Capital expenditure	(5,777)	(7,195)	(11,500)	(12,000)	(13,500)
Chng in investments	8,150	(7,985)	(10,000)	(12,000)	(10,000)
Other investing activities	(7,061)	(2,838)	0	0	0
<b>Cash flow from investing (b)</b>	<b>(4,688)</b>	<b>(18,019)</b>	<b>(21,500)</b>	<b>(24,000)</b>	<b>(23,500)</b>
<b>Free cash flow (a+b)</b>	<b>21,103</b>	<b>31,047</b>	<b>36,771</b>	<b>38,639</b>	<b>44,940</b>
Inc/dec in borrowings	0	0	0	0	0
Dividend paid (incl. tax)	(19,983)	(26,987)	(31,470)	(35,096)	(39,735)
Other financing activities	(166)	(81)	(205)	(235)	(245)
<b>Cash flow from financing (c)</b>	<b>(20,406)</b>	<b>(27,331)</b>	<b>(31,675)</b>	<b>(35,331)</b>	<b>(39,980)</b>
<b>Net chng in cash (a+b+c)</b>	<b>697</b>	<b>3,715</b>	<b>5,096</b>	<b>3,308</b>	<b>4,960</b>
<b>Closing cash &amp; cash equiv</b>	<b>1,684</b>	<b>5,399</b>	<b>10,495</b>	<b>13,803</b>	<b>18,763</b>

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