

HOLD

TP: Rs 4,892 | ▲ 14%

HERO MOTOCORP

| Automobiles

| 08 February 2025

Steady drive to continue; maintain HOLD

- Q3 revenue grew by ~5% YoY to Rs 102bn, driven by realisation gains as volume growth stayed muted owing to fierce competition
- EBITDAM added ~50bps YoY/QoQ to 14.5% (our estimate was 14.0%) contributed by better price gains and raw material cost rationalisation
- We cut our earnings estimates for FY25E/FY26E/FY27E by 6%/10%/10% to factor in growth, assign 18x P/E, lower TP to Rs 4,892 (from Rs 5,262)

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Realisation-driven growth: HMCL reported Q3FY25 revenue of Rs 102.1bn, up by ~5% YoY (fell 2.4% QoQ) driven by realisation gains as volumes stayed subdued. Volumes were flat YoY at 1.46mn units in Q3FY25 (-4% QoQ). Though volume growth was muted it was offset by realisation (per vehicle) gains of ~5%/1% YoY/QoQ at ~Rs 69.8k. HMCL reported its highest quarterly revenue from spares & merchandising at Rs 15.5bn (Rs 14.6bn Q2FY25).

Operating leverage and pricing drive margin expansion: The raw material cost (adjusted for inventory) rose by ~3% YoY (-4% QoQ), however raw materials as a percentage of sales fell to ~65.8% vs 67.3% in Q3FY24 (66.7% in Q2FY25). Gross margin was ~34.2% vs 32.7%, up 150bps YoY (ahead of our estimate of ~33.2%). Other expenditure shot up by ~12% YoY (~3% QoQ) to ~Rs 13.6bn and as % of sales it increased to 13.3% vs 12.5% in Q3FY24 attributed to promotional and Electric Vehicle (EV) segment expenses. Consequently, the EBITDA jumped by ~8% YoY (~3% QoQ) to ~Rs 14.8bn and EBITDA margin added ~50bps YoY/QoQ to 14.5% (ahead of our estimate of 14.0%) contributed by better price gains and RM cost rationalisation.

Portfolio expansion: HMCL launched affordable EV with VIDA V2 series (sub Rs 100k segment). HMCL has upcoming scooter launches to the likes of Destini 125 metal body, Xoom 125 and is growing its premium portfolio with Xtreme 250R and X-Pulse 210/200. In the next 6-12 months it will have a robust range of EV scooters across ranges, and has three ICE scooter models coming in by Mar'25.

Maintain HOLD: Factoring in 9MFY25 performance we have lowered our volume estimates leading to earnings revision too. We have cut our FY26 and FY27 EBITDA/PAT estimates for HMCL given the challenges from the competitive space and investments in EV. Our three-year Revenue/EBITDA/PAT CAGR is 14%/18%/18%. We assign 18x target P/E to core operations, in line with the 10-year average 1-year forward earnings, and revise the SOTP-based TP to Rs 4,892 (Rs 5,262), which includes Rs 130/sh as the value of other businesses. We retain our HOLD rating.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HMCL IN/Rs 4,275
Market cap	US\$ 9.8bn
Free float	65%
3M ADV	US\$ 32.3mn
52wk high/low	Rs 6,246/Rs 4,000
Promoter/FPI/DII	35%/30%/24%

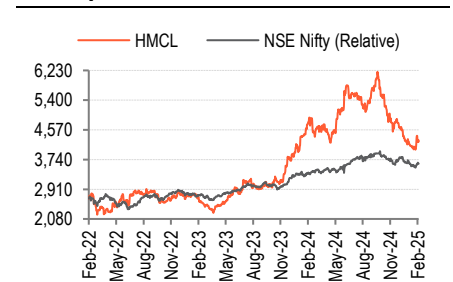
Source: NSE | Price as of 7 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,74,557	4,32,053	4,98,417
EBITDA (Rs mn)	52,557	60,096	66,293
Adj. net profit (Rs mn)	38,079	44,515	48,377
Adj. EPS (Rs)	190.7	222.9	242.3
Consensus EPS (Rs)	190.7	233.0	255.3
Adj. ROAE (%)	21.2	22.4	22.0
Adj. P/E (x)	22.4	19.2	17.6
EV/EBITDA (x)	16.2	14.1	12.8
Adj. EPS growth (%)	30.8	16.9	8.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY25	Q2FY25	Our view
Growth commentary	<p>HMCL's volumes grew to 1.464mn in Q3FY25, from 1.460mn in Q3FY24 (flat YoY). Highest-ever quarterly retail of more than 2mn units (+11.4% YoY) led by highest-ever festive retail of 1.6mn units in 32 days.</p> <p>Rural demand continues to grow with contribution to volumes spiking by 3%. Management expects this momentum to continue to be supported by government measures.</p> <p>HMCL gained market share in the 100cc segment through Splendor and in the 125cc segment through Xtreme 125R and Super Splendor.</p>	<p>HMCL's volumes grew to 1.52mn in Q2FY25, from 1.41mn in Q2FY24 (+7.34% YoY). Momentum continued into the festive month of Oct'24 with 1.6mn units sold in retail (16% revenue growth YoY).</p> <p>Rural volumes grew higher than urban volumes, with strong inquiries coming from rural markets implying continued growth momentum. The Vida team is working on the customised B2B segment to cater to quick commerce demand.</p> <p>Xtreme 125, Super Splendor and Glamour have experienced good traction. HMCL has multiple launches planned as discussed below.</p>	<p>Revival in the rural segment will be welcomed by HMCL to bolster its presence in the 100-110cc segment.</p>
Margins	<p>HMCL hiked its prices by Rs 210/Rs 100 in Oct'24/Jan'25.</p> <p>EBITDA margin for the ICE segment stood at 16% driven by mix improvement, lower material cost and deep savings. The overall EBITDA margin improved by 50bps to 14.5% YoY.</p> <p>EBITDA jumped by 8% YoY (~ -3% QoQ) to ~Rs 14.8bn and EBITDA margin added ~50bps YoY/QoQ to 14.5%.</p>	<p>Average realisation increased by Rs 2,700 QoQ out of which Rs 1,400 increased due to 2W and Rs 1,300 due to spare parts. Management expects this trend to continue.</p> <p>EBITDA margin for ICE segment improved to ~16.5% (+160bps YoY) due to improvement in product mix, softening of commodity prices and focus on premiumisation.</p> <p>Overall EBITDA margin improved by 40bps to 14.5% YoY. HMCL has guided for maintenance of EBITDA margin at ~14-16% going forward.</p>	<p>Realisation gains should continue from a better product mix. Softening costs are reversing, hence realisations will remain the more important lever for improving margins.</p>
Capacity Expansion	<p>Capex guidance for FY25 is Rs 12bn. HMCL gained market share in the 100cc segment through Splendor and in the 125cc segment through Xtreme 125R and Super Splendor. HMCL inaugurated 50 Premia stores across the country.</p>	<p>Extreme 125 experienced good traction and HMCL increased its capacity to 40k per month from 25k per month and is available pan India. Further, Super Splendor and Glamour have also done well. HMCL continues to expand Premia stores, targeting to cross 100 by the end of the current fiscal year from 58 stores now.</p>	<p>Consolidating its presence in the core base segment, along with focus on the premium segment, helps HMCL improve its product portfolio and will help enhance margins.</p>
Commentary on marketing	<p>In Q3FY25 HMCL announced an innovative festive campaign featuring Divyendu Sharma and Hansika Motwani. HMCL unveiled its latest campaign for the Hero Xtreme Power Brand featuring Virat Kohli.</p>	<p>In Q2FY25 HMCL executed multiple marketing campaigns for the brand as well as new product launches. An advertisement with Virat Kohli for Xtreme 125 and Xtreme 160, Ram Charan for Hero Glamour and a campaign for Super Splendor for its mileage of 69km per litre were the key highlights.</p>	<p>The marketing strategy is yielding results with distinct responses in different categories which augurs well for HMCL.</p>
Commentary on new launches	<p>HMCL launched affordable EV with VIDA V2 series (sub Rs 100k segment).</p> <p>HMCL has upcoming scooter launches to the likes of Destini 125 metal body, Xoom 125 and</p>	<p>HMCL unveiled three new motorcycles at EICMA 2024 – the Xpulse 210, the Xtreme 250R and the Karizma XMR 250. The company launched Hero Glamour, Mavrick 440 and Hero Xtreme 160R 2V in Q2FY25.</p>	<p>Keeping the market excited with a stream of new launches will aid all-round growth for HMCL. This will keep margins intact.</p>

Parameter	Q3FY25	Q2FY25	Our view
	Xoom 160. HMCL is growing its premium portfolio with Xtreme 250R and XPulse 210/200.	HMCL unveiled the New Hero Destini 125 Scooter. In the next 6-12 months HMCL will have a robust range of EV scooters across all ranges and three models in the ICE scooters segment by Mar'25.	
Electric Vehicle portfolio and PLI scheme	VIDA crossed a milestone by achieving the highest-ever retail sales of 11.6k units during the 32-day festive period. HMCL has launched the all-new VIDA V2 range of electric scooters entering the mass market segment. EV market share gained by 1.5% YoY to 4.7% in Q3FY25. Further, highest-ever retails of ~7k in Oct & Nov'24. Management indicates that the new Vida V2 portfolio shall also be eligible for the PLI scheme.	EV volumes scaled up to 5,000 units per month for Q2FY25. Scaled to 11.6k units (Vida) in the festive month and gained 20% market share in five cities and 10% in 10 cities at the end of the festive season and an overall market share of 5.4%. Growth was facilitated through increase in dealer networks. By FY26, products will be PLI compliant and benefits will start kicking in.	Differentiated EV products have resulted in a healthy buyer response in the initial phase. The thrust on EVs is another positive step, though it may keep margins muted.
Parts Accessories & Merchandise (PAM) segment	HMCL reported its highest quarterly revenue PAM segment at Rs 15.5bn (Rs 14.6bn Q2FY25).	Revenue from spares, accessories and merchandise was at ~Rs 14.56bn in Q2FY25 (+7.5% YoY) and management expects revenue from PAM segment to keep increasing going forward.	No major changes in the contribution from this segment and going forward it is expected to stay steady but will remain an added cushion.
Other Information	Hero FinCorp (HFCL) book size stood at Rs 555bn as on Dec'24 end (+13% YoY). Credit cost moved up by almost 150bps and is close to 6%. The company gained momentum in the global business, growing ahead of the industry; Bangladesh and Colombia lead the way. The increase in disposable income (Budget 2025), on account of reduced income tax, in the hands of consumers will support demand as most consumers have an annual income in the range of Rs 0.6mn-1.2mn.	Financing share was ~66% in Q2FY25 (60% in Q1FY25) of which Hero FinCorp (HFCL) was 26%. HFCL collections slowed down in Q2FY25. Loan book grew 16% YoY. HMCL entered Southeast Asian geography by commencing operations in The Philippines. Columbia delivered a bottom-line turnaround with being cash and EBITDA positive for the first time. Good traction from Mexico as well. Bangladesh, Turkey and Nigeria experienced some geopolitical turmoil. HMCL invested Rs 1.75bn in the EV business in Q2FY25 vs Rs 1.81bn in Q1FY25.	Overseas ventures though steady in offtake will further boost export earnings in the medium term. Higher credit cost poses a challenge to the finance arm of the company and will be keenly watched.

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance (standalone)

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Deviation (%)
Volume	14,63,802	14,59,934	0.3	15,19,684	(3.7)	14,63,802	0.0
Avg. Realisation per Vehicle	69,755	66,604	4.7	68,851	1.3	68,507	1.8
Net Revenues	1,02,108	97,237	5.0	1,04,632	(2.4)	1,00,281	1.8
Total Income (A)	1,02,108	97,237	5.0	1,04,632	(2.4)	1,00,281	1.8
Operating Expenses							
Raw materials consumed	67,152	65,470	2.6	69,795	(3.8)	66,977	0.3
Employee Expenses	6,622	6,017	10.1	6,535	1.3	6,518	1.6
Other Expenses	13,569	12,130	11.9	13,143	3.2	12,786	6.1
Total Expenditure (B)	87,343	83,617	4.5	89,473	(2.4)	86,281	1.2
EBITDA (A-B)	14,765	13,620	8.4	15,159	(2.6)	14,000	5.5
Other Income	3,175	2,420	31.2	2,830	12.2	2,910	9.1
Depreciation	1,969	1,825	7.9	1,937	1.7	1,951	0.9
EBIT	15,971	14,216	12.3	16,052	(0.5)	14,959	6.8
Finance Costs	55	45	20.6	49	10.5	48	12.6
PBT before excep items	15,916	14,170	12.3	16,003	(0.5)	14,910	6.7
Exceptional item	-	-		-		-	-
PBT after excep item	15,916	14,170	12.3	16,003	(0.5)	14,910	6.7
Tax expense	3,888	3,437	13.1	3,967	(2.0)	3,728	4.3
Reported PAT	12,028	10,734	12.1	12,035	(0.1)	11,183	7.6
Adjusted PAT	12,028	10,734	12.1	12,035	(0.1)	11,183	7.6
EPS (Rs)	60.2	53.8	12.1	60.3	(0.1)	56.0	7.6
Key Ratios (%)			(bps)		(bps)		(bps)
Gross Margin	34.2	32.7	156	33.3	94	33.2	102
EBITDA Margin	14.5	14.0	45	14.5	(3)	14.0	50
EBIT Margin	15.6	14.6	102	15.3	30	14.9	72
PBT Margin	15.6	14.6	101	15.3	29	14.9	72
Tax Rate	24.4	24.3	18	24.8	(36)	25.0	(57)
Adj PAT Margin	11.8	11.0	74	11.5	28	11.2	63

Source: Company, BOBCAPS Research

Valuation methodology

Factoring in 9MFY25 performance we have cut our volume estimates leading to earnings revision too. We have lowered our FY26E and FY27E EBITDA/PAT estimates for HMCL given the challenges from the competitive space and investments in EV. Our three-year CAGR for Revenue is 14%, EBITDA 18% and PAT 18%.

The premium segment performance is encouraging and so is the revival in the base segment thus far in FY25. However, the EV segment will drag margins in the medium term. With strong product portfolio across segments, we feel growth will not be a challenge for HMCL though margins may stay range bound.

Factoring the same we continue to assign 18x target P/E to core operations, in line with the 10-year average 1-year forward earnings, and revise the SOTP-based TP to Rs 4,892 (vs Rs 5,262), which includes Rs 130/sh as the value of other businesses. We retain our HOLD rating.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	4,32,053	4,98,417	5,62,780	4,62,228	5,32,497	5,99,979	(6.5)	(6.4)	(6.2)
EBITDA	60,096	66,293	74,774	63,835	73,811	83,208	(5.9)	(10.2)	(10.1)
Adj PAT	44,515	48,377	54,305	47,126	53,856	60,012	(5.5)	(10.2)	(9.5)
Adj EPS (Rs)	222.9	242.3	272.0	236.0	269.7	300.5	(5.5)	(10.2)	(9.5)

Source: BOBCAPS Research

Fig 4 – Key assumptions

	FY24	FY25E	FY26E	FY27E
Volumes (units)	56,21,457	62,05,142	69,49,759	76,55,832
Realisation (Rs/unit)	3,74,557	4,32,053	4,98,417	5,62,780
EBITDA (Rs mn)	52,557	60,096	66,293	74,774
EBITDA margin (%)	14.0	13.9	13.3	13.3
Adj PAT (Rs mn)	38,079	44,515	48,377	54,305

Source: Company, BOBCAPS Research

Fig 5 – Valuation summary

Business	1-year forward EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	265	18	4,761
Other Business	-	-	130
Total	-	-	4,892

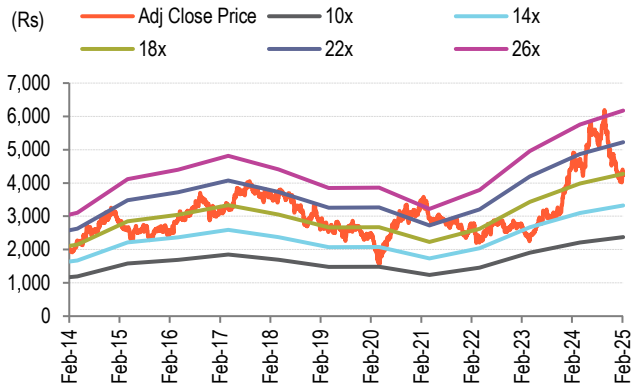
Source: BOBCAPS Research

Fig 6 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY26E	FY27E
Hero Motocorp	HMCL IN	HOLD	4,892	242.3	272.0	23.1	23.4
TVS Motor Company	TVSL IN	HOLD	2,502	74.1	84.2	29.7	26.2
Bajaj Auto	BJAUT IN	HOLD	11,088	389.5	449.2	28.6	28.0

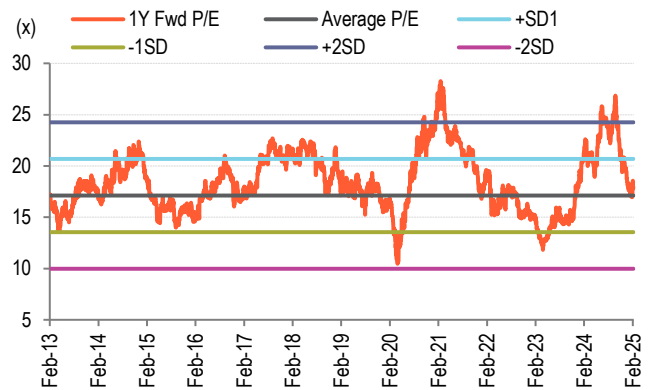
Source: BOBCAPS Research

Fig 7 – P/E band: We value HMCL at 18x 1-year forward EPS near its mean valuation



Source: Company, Bloomberg, BOBCAPS Research

Fig 8 – P/E 1Y fwd: Valuations reflect the earnings concern



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key upside/downside risks to our estimates are:

- A stronger-than-expected response to HMCL’s high-end products in the 150cc+ segment.
- Continued raw material cost inflation and slower-than-expected demand revival, especially in the rural segment.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	3,38,057	3,74,557	4,32,053	4,98,417	5,62,780
EBITDA	39,862	52,557	60,096	66,293	74,774
Depreciation	6,570	7,114	7,894	8,458	8,943
EBIT	38,944	54,368	59,407	64,580	72,534
Net interest inc./(exp.)	(199)	(185)	(251)	(291)	(320)
Other inc./(exp.)	5,652	8,926	7,205	6,744	6,703
Exceptional items	0	1,600	0	0	0
EBT	38,746	52,583	59,156	64,289	72,214
Income taxes	9,640	12,904	14,641	15,911	17,909
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	29,106	39,679	44,515	48,377	54,305
Adjustments	0	(1,600)	0	0	0
Adjusted net profit	29,106	38,079	44,515	48,377	54,305

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	49,638	58,529	66,559	73,359	82,774
Other current liabilities	8,151	8,269	8,682	9,116	9,572
Provisions	3,738	4,708	4,943	5,191	5,450
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	400	400	400	400	400
Reserves & surplus	1,66,651	1,79,462	1,98,703	2,19,124	2,43,476
Shareholders' fund	1,67,051	1,79,861	1,99,103	2,19,524	2,43,876
Total liab. and equities	2,28,578	2,51,367	2,79,287	3,07,189	3,41,672
Cash and cash eq.	3,455	6,089	5,881	7,342	8,751
Accounts receivables	27,982	27,034	34,564	40,870	46,148
Inventories	14,341	14,438	17,282	20,435	23,074
Other current assets	14,498	14,148	14,855	15,598	16,378
Investments	1,10,104	1,30,861	1,43,625	1,56,111	1,79,048
Net fixed assets	57,614	58,340	60,246	61,688	62,645
CWIP	4,638	4,805	7,000	9,000	9,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(4,054)	(4,348)	(4,166)	(3,855)	(3,372)
Other assets	0	0	0	0	0
Total assets	2,28,578	2,51,367	2,79,287	3,07,189	3,41,672

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	25,189	48,638	42,550	47,080	57,659
Capital expenditures	(6,175)	(8,007)	(11,995)	(11,900)	(9,900)
Change in investments	(3,580)	(20,757)	(12,764)	(12,486)	(22,937)
Other investing cash flows	5,652	8,926	7,205	6,744	6,703
Cash flow from investing	(4,104)	(19,839)	(17,553)	(17,642)	(26,134)
Equities issued/Others	71	241	(241)	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(199)	(185)	(251)	(291)	(320)
Dividends paid	(19,983)	(27,956)	(23,963)	(27,956)	(29,953)
Other financing cash flows	221	295	(182)	(311)	(482)
Cash flow from financing	(19,890)	(27,605)	(24,637)	(28,558)	(30,756)
Chg in cash & cash eq.	1,195	1,194	359	879	769
Closing cash & cash eq.	3,455	6,089	5,881	7,342	8,751

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	145.8	190.7	222.9	242.3	272.0
Adjusted EPS	145.8	190.7	222.9	242.3	272.0
Dividend per share	100.1	140.0	120.0	140.0	150.0
Book value per share	836.6	900.7	997.1	1,099.3	1,221.3

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.5	2.3	2.0	1.7	1.5
EV/EBITDA	21.4	16.2	14.1	12.8	11.3
Adjusted P/E	29.3	22.4	19.2	17.6	15.7
P/BV	5.1	4.7	4.3	3.9	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	75.1	72.4	75.3	75.3	75.2
Interest burden (PBT/EBIT)	99.5	96.7	99.6	99.5	99.6
EBIT margin (EBIT/Revenue)	11.5	14.5	13.8	13.0	12.9
Asset turnover (Rev./Avg TA)	208.1	215.9	228.0	238.1	242.9
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	17.9	22.0	23.5	23.1	23.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	15.6	10.8	15.4	15.4	12.9
EBITDA	18.3	31.8	14.3	10.3	12.8
Adjusted EPS	17.7	30.8	16.9	8.7	12.3
Profitability & Return ratios (%)					
EBITDA margin	11.8	14.0	13.9	13.3	13.3
EBIT margin	11.5	14.5	13.8	13.0	12.9
Adjusted profit margin	8.6	10.2	10.3	9.7	9.6
Adjusted ROAE	17.4	21.2	22.4	22.0	22.3
ROCE	18.0	23.7	23.6	23.2	23.5
Working capital days (days)					
Receivables	28	27	26	28	28
Inventory	14	14	13	14	14
Payables	72	78	76	73	72
Ratios (x)					
Gross asset turnover	0.4	0.4	0.4	0.4	0.3
Current ratio	1.0	0.9	0.9	1.0	1.0
Net interest coverage ratio	(196.0)	(293.9)	(236.7)	(221.9)	(226.6)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

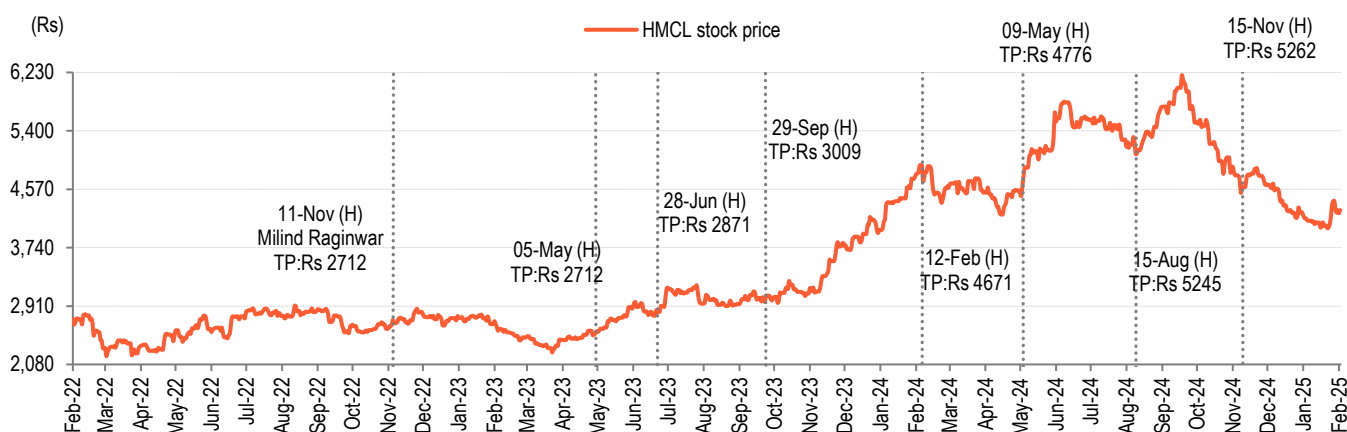
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): HERO MOTOCORP (HMCL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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