

**HOLD**

TP: Rs 4,776 | ▲ 0%

**HERO MOTOCORP**

| Automobiles

| 09 May 2024

**Healthy performance; await further clarity; maintain HOLD**

- Q4 revenue grew 15% YoY supported by double-digit volume gains YoY and realisation adding ~5%
- Lower raw material cost as proportion of sales lifted gross margin by 160bps YoY to 32.6%
- TP raised to Rs 4,776 (vs Rs 4,671) on revised FY25/FY26 earnings, maintain target P/E of 17x for core business; retain HOLD

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**Volumes surge, realisations support:** HMCL's Q4FY24 revenue grew 15% YoY (-2% QoQ) to Rs 95.2bn, steered by 8% motorcycle and 22% scooter volume gains YoY to 1.39mn units (aggregate). The double-digit 2-wheeler volume surge was supported by 5% YoY (-2% QoQ) realisation (per vehicle) gains. The export volume nearly doubled YoY to 67k units.

**Lower commodity costs lifts margin further:** Raw material cost adjusted for inventory increased 12% YoY (-3% QoQ) to Rs 62.2bn, but declined to 66.4% of sales from 68.0%/67.3% in Q4FY23/Q3FY24 due to a benign commodity pricing environment. This led to gross margin gains of 290bps/90bps YoY/QoQ to 33.6%. Other expenses climbed 17%/-2% YoY/QoQ growth to Rs 13.6bn and dented aggressive EBITDA margin gains. EBITDA rose 26% YoY (flat QoQ) to Rs 13.6bn and operating margin expanded 130bps YoY (flat QoQ) to 14.3%. Adj. PAT grew by 18%/-5% QoQ to Rs 10.2bn backed by marginally lower tax rate.

**EV and premium portfolio expansion:** HMCL indicated that capacity in the premium segment will be enhanced to ~10k units per month for Harley-Davidson X440, Mavrick 440, and Karizma put together. HMCL has gained 10% market share in the premium segment. This will be further aided by the 125cc motorcycle that will push the overall motorcycle portfolio with the momentum to continue in FY25. The recently launched Xtreme 125cc is well received by the markets. HMCL plans capacity addition to ~30k units per month for the Xtreme platform.

**Await more clarity, retain HOLD:** To factor in the healthy performance along with steady rural recovery and a premium segment focus, we raise our FY25/FY26 EBITDA/PAT estimates for HMCL by 5%/4% and 3%/2%. We await further clarity on the premium segment performance and revival in the base segment (post monsoon) and continue to assign 17x target P/E to core operations – in line with the 10-year average FY26E earnings. This gives us a new SOTP-based TP of Rs 4,776 (earlier Rs 4,671), which includes Rs 130/sh as the value of other businesses (unchanged). However, we believe current valuations bake in the positives and, hence, retain our HOLD rating.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	HMCL IN/Rs 4,765
Market cap	US\$ 11.6bn
Free float	65%
3M ADV	US\$ 43.7mn
52wk high/low	Rs 4,949/Rs 2,572
Promoter/FPI/DII	35%/30%/24%

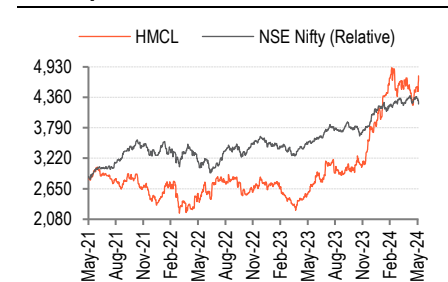
Source: NSE | Price as of 9 May 2024

**Key financials**

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	3,74,557	4,66,703	5,35,919
EBITDA (Rs mn)	52,557	63,775	72,671
Adj. net profit (Rs mn)	41,280	47,201	53,197
Adj. EPS (Rs)	206.7	236.4	266.4
Consensus EPS (Rs)	206.7	238.0	268.0
Adj. ROAE (%)	22.7	23.2	23.3
Adj. P/E (x)	23.0	20.2	17.9
EV/EBITDA (x)	18.1	14.8	13.0
Adj. EPS growth (%)	41.8	14.3	12.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q4FY24	Q3FY24	Our view
Volumes	<p>HMCL indicated the premium and 125cc segments will be the two broad drivers of HMCL's growth. With the launch of three big brands, Harley-Davidson X440, Mavrick 440 and Karizma, growth will be driven by the premium segment. HMCL indicated it has gained 10% market share in the premium segment.</p> <p>This will be further aided by the 125cc motorcycle that will push the overall motorcycle portfolio and management expects the momentum to continue in FY25.</p> <p>Additionally, with steady revival in rural sentiment, 100-110cc bike sentiment is also likely to attract healthy demand. Overall, management expects double-digit growth for HMCL with strong volume in Apr'24.</p>	<p>Volume contribution during the festive period in Q3FY24 was higher in rural areas compared to urban markets.</p> <p>Management indicated that the 125cc segment continues to lead motorcycle industry volumes and expects momentum to continue in FY25. The &gt;200cc segment has been the driver for the premium segment, and management expects double-digit growth here in FY25. The 125cc scooter segment continues to perform well in FY24 and management expects growth momentum to continue in FY25.</p> <p>Management expects double-digit growth for the 2W industry in FY25 and for HMCL to report growth higher than the industry on the back of new launches and investments.</p>	<p>HMCL's two-fold strategy of sharpening focus on the premium segment is showing early signs of paying off. Retaining a strong presence in the lower segments will aid revenue growth as this segment revives.</p>
Margins	<p>Operating profits and margins expanded in Q4FY24 due to product mix and price positioning.</p> <p>Management indicated that the softening commodity prices also helped. Blended margins for 4QFY24 were at 14.3% with 130bps impact due to the electric vehicle (EV) segment. Effectively, internal combustion engine (ICE) margin was at 15.6%.</p>	<p>Operating margin expanded YoY because of a benign commodity pricing climate and better product and price positioning.</p> <p>ICE margins stood at ~16% despite a ~200bps drag from EV segment marketing.</p> <p>Management indicated that price hikes taken during Q3FY24 were in line with industry hikes.</p>	<p>Realisation gains should continue from a better product mix. Softening costs are reversing, hence realisations will remain the more important lever.</p>
Premiumisation	<p>Management indicated that the capacity in the premium segment will be enhanced to ~10k units per month for Harley-Davidson X440, Mavrick 440 and Karizma put together.</p> <p>The recently launched Xtreme 125cc is well received by the markets. Though it is too early to speak on the market share, the product has been received well by the market. HMCL plans to increase capacity to ~30k units per month for the Xtreme platform.</p> <p>Harley-Davidson X440 bikes are presently available only in 205 stores out of 400 for exclusivity, while Karizma and Mavrick are being sold through Hero 2.0 stores. HD X440 is sold only in select Hero 2.0 stores</p>	<p>Harley-Davidson X440 bookings stood at 30k+ units as of Q3FY24, translating into revenue visibility for 3-4 months. Production ramp-up of X440 and Karizma XMR to ~10k units/month is guided to occur by March.</p> <p>HMCL launched Mavrick 440 and Xtreme 125R. Bookings for Mavrick 440 will commence in February, followed by deliveries in April. Deliveries for Xtreme 125R are due to commence shortly.</p> <p>Hero 2.0 stores numbered at ~300 as of January and management expects ~400 stores by March this year and 500+ in FY25, along with ~100 Hero Premia stores.</p>	<p>The company, however, is a late entrant in the premium segment and could face fierce competition from incumbents in the segment.</p> <p>However, HMCL's strategy of targeting high-end products will help enhance margins.</p>

Parameter	Q4FY24	Q3FY24	Our view
Electric vehicles	<p>Management indicated that the HMCL entity has been registered under the Production Linked Incentive (PLI) scheme.</p> <p>However, the current products in the market are not registered under PLI (Vida or otherwise). However, all new launches from H1FY25 will be registered under the PLI scheme.</p>	<p>EV dealerships have now been expanded to 100+ cities and 150+ dealers. HMCL has ~18 Vida Hubs as on Q3FY24, which management expects to increase to 100 in FY25.</p> <p>HMCL expects the EV space to be occupied by scooters for the next few years, until battery technology changes, as the total ownership cost for EV motorcycles remains exceedingly high.</p> <p>HMCL will be foraying into the EV motorcycle segment by launching performance motorcycles, followed by premium and mid-premium models by FY26.</p>	<p>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.</p>
Others	<p>Revenue from the spares segment in Q4FY24 was ~Rs 13.97bn against ~Rs 12.7bn in Q4FY23 (~Rs 14.3bn in Q3FY24). For the full year FY24, the spares segment was Rs 50.9bn. The parts, accessories and merchandise (PAM) segment is expected to report double-digit growth for the next few years.</p> <p>Overall financing penetration as on Q4FY24 is ~60% and penetration for Hero Fincorp is ~30% unchanged over the previous quarter.</p> <p>HMCL has received approval for forming a subsidiary in Brazil. Earlier HMCL formed a similar venture in the Philippines. Capex guidance for FY25 is around Rs20bn-25bn.</p>	<p>Revenue from the PAM segment during Q3FY24 stood at Rs 14.3bn.</p> <p>Other expenses grew 23% YoY to Rs 12.1bn driven by festive season marketing.</p> <p>Current inventory levels are back to 4-6 weeks and management expects similar levels for Q4FY24.</p> <p>Overall financing penetration as on Q3FY24 is ~60-65% and penetration for Hero Fincorp is ~30%.</p>	<p>Overseas ventures will further boost export earnings in the medium term.</p>

Source: Company, BOBCAPS Research | 2W: Two-wheelers; ICE: Internal Combustion Engine; PAM: Parts, Accessories & Merchandise

**Fig 2 – Quarterly performance (standalone)**

(Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Volume	13,92,423	12,70,492	9.6	14,59,934	(4.6)
Avg. Realisation per Vehicle	68,365	65,382	4.6	66,604	2.6
Net Revenues	95,193	83,068	14.6	97,237	(2.1)
<b>Total Income (A)</b>	<b>95,193</b>	<b>83,068</b>	<b>14.6</b>	<b>97,237</b>	<b>(2.1)</b>
<b>Operating Expenses:</b>					
Raw materials consumed	63,249	56,463	12.0	65,470	(3.4)
Employee Expenses	6,437	5,571	15.6	6,017	7.0
Other Expenses	11,916	10,204	16.8	12,130	(1.8)
<b>Total Expenditure (B)</b>	<b>81,602</b>	<b>72,238</b>	<b>13.0</b>	<b>83,617</b>	<b>(2.4)</b>
<b>EBITDA (A-B)</b>	<b>13,592</b>	<b>10,830</b>	<b>25.5</b>	<b>13,620</b>	<b>(0.2)</b>
Other Income	1,800	2,369	(24.0)	2,420	(25.6)
Depreciation	1,851	1,686	9.8	1,825	1.4
EBIT	13,541	11,513	17.6	14,216	(4.7)
Finance Costs	46	47	(2.6)	45	0.9
PBT before exceptional items	13,496	11,467	17.7	14,170	(4.8)
Exceptional items	-	-	-	-	-
PBT after exceptional items	13,496	11,467	17.7	14,170	(4.8)
Tax expense	3,335	2,877	15.9	3,437	(2.9)
Reported PAT	10,161	8,589	18.3	10,734	(5.3)
<b>Adjusted PAT</b>	<b>10,161</b>	<b>8,589</b>	<b>18.3</b>	<b>10,734</b>	<b>(5.3)</b>
Adj EPS (Rs)	50.9	43.0	18.3	53.8	(5.3)
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>
Gross Margin	33.6	32.0	153.0	33	88.8
EBITDA Margin	14.3	13.0	124.0	14	27.1
EBIT Margin	14.2	13.9	36.5	15	(39.4)
PBT Margin	14.2	13.8	37.3	15	(39.6)
Tax Rate	24.7	25.1	(37.9)	24	46.2
Adj PAT Margin	10.7	10.3	33.3	11	(36.5)

Source: Company, BOBCAPS Research

## Valuation methodology

To factor in the healthy performance along with steady rural recovery and a premium segment focus, we raise our FY25/FY26 EBITDA/PAT estimates for HMCL by 5%/4% and 3%/2%. We await further clarity on the premium segment performance and revival in the base segment (post monsoon) and continue to assign 17x target P/E to core operations – in line with the 10-year average FY26E earnings.

HMCL's focus on the high-end motorcycle segment augurs well to improve the quality of earnings and should help offset initial margin pressures from the EV foray. Further, rural segment revival benefits the company the most given its strong competency in the 125cc segment.

**Fig 3 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	4,66,703	5,35,919	4,53,665	5,16,731	2.9	3.7
EBITDA	63,775	72,671	61,017	70,019	4.5	3.8
Adj PAT	47,201	53,197	45,794	51,993	3.1	2.3
Adj EPS (Rs)	236.4	266.4	229.3	260.4	3.1	2.3

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Parameter	FY23	FY24E	FY25E	FY26E
Volume (units)	53,28,546	58,54,013	67,04,318	74,74,391
Realisation (Rs/unit)	63,443	66,615	69,612	71,701
EBITDA (Rs mn)	39,862	52,557	63,775	72,671
EBITDA margin (%)	11.8	14.0	13.7	13.6
Adj. PAT (Rs mn)	29,106	41,280	47,201	53,197

Source: Company, BOBCAPS Research

**Fig 5 – Valuation summary**

Business	FY26E EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	266	13	4,646
Other Business	-	-	130
<b>Total</b>	<b>-</b>	<b>-</b>	<b>4,776</b>

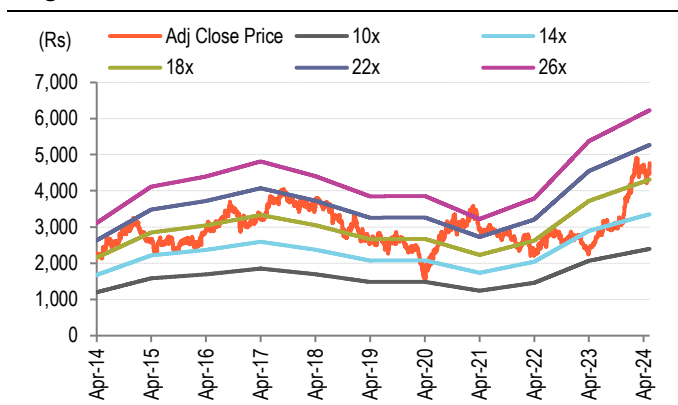
Source: BOBCAPS Research

**Fig 6 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Hero Motocorp	HMCL IN	HOLD	4,776	236.4	266.4	24.5	24.6
TVS Motor Company	TVSL IN	BUY	2,242	60.7	77.7	31.5	30.4
Bajaj Auto	BJAUT IN	SELL	6,823	299.8	359.1	28.5	27.4

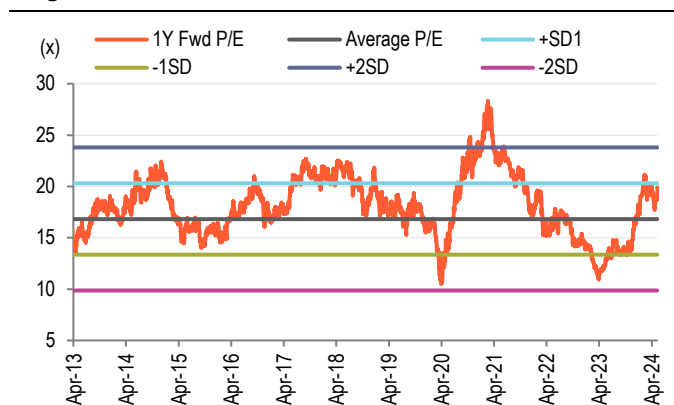
Source: BOBCAPS Research

Fig 7 – P/E band



Source: Bloomberg, BOBCAPS Research

Fig 8 – P/E 1Y fwd



Source: Bloomberg, BOBCAPS Research

### Key risks

- A stronger-than-expected response to HMCL's high-end products in the 150cc+ segment would be a key upside risk to our estimates.
- Continued raw material cost inflation and slower-than-expected demand revival, especially in the rural segment, represent key downside risks.

### Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	7.0	195	226	BUY
Bajaj Auto	BJAUT IN	31.2	8,847	6,823	SELL
Eicher Motors	EIM IN	15.2	4,568	4,045	HOLD
Escorts	ESCORTS IN	5.5	3,445	2,389	SELL
Hero MotoCorp	HMCL IN	11.6	4,765	4,776	HOLD
Maruti Suzuki	MSIL IN	46.0	12,505	12,965	HOLD
TVS Motor	TVSL IN	11.9	2,064	2,242	BUY
VST Tillers Tractors	VSTT IN	0.4	3,422	3,213	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 May 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Total revenue</b>	<b>2,92,455</b>	<b>3,38,057</b>	<b>3,74,557</b>	<b>4,66,703</b>	<b>5,35,919</b>
EBITDA	33,688	39,862	52,557	63,775	72,671
Depreciation	6,498	6,570	7,114	7,735	8,193
EBIT	32,759	38,944	54,369	63,384	71,545
Net interest inc./(exp.)	(258)	(199)	(185)	(659)	(851)
Other inc./(exp.)	5,569	5,652	8,926	7,344	7,068
Exceptional items	0	0	(1,600)	0	0
EBT	32,501	38,746	52,584	62,725	70,694
Income taxes	7,771	9,640	12,904	15,524	17,497
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>24,730</b>	<b>29,106</b>	<b>39,680</b>	<b>47,201</b>	<b>53,197</b>
Adjustments	0	0	1,600	0	0
<b>Adjusted net profit</b>	<b>24,730</b>	<b>29,106</b>	<b>41,280</b>	<b>47,201</b>	<b>53,197</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	44,498	49,638	58,239	71,464	78,567
Other current liabilities	7,595	8,151	8,559	8,987	9,436
Provisions	3,385	3,738	4,708	4,121	4,327
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	400	400	400	400	400
Reserves & surplus	1,57,429	1,66,651	1,81,459	2,03,113	2,28,355
Shareholders' fund	1,57,829	1,67,051	1,81,859	2,03,513	2,28,754
<b>Total liab. and equities</b>	<b>2,13,307</b>	<b>2,28,578</b>	<b>2,53,365</b>	<b>2,88,086</b>	<b>3,21,084</b>
Cash and cash eq.	1,751	3,455	8,087	3,340	7,354
Accounts receivables	23,043	27,982	27,034	37,336	43,945
Inventories	11,227	14,341	14,438	18,668	21,973
Other current assets	11,950	14,498	14,148	14,855	15,598
Investments	1,06,523	1,10,104	1,30,861	1,48,912	1,65,204
Net fixed assets	58,065	57,614	60,063	62,128	63,835
CWIP	4,582	4,638	3,082	7,000	7,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(3,833)	(4,054)	(4,348)	(4,153)	(3,825)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>2,13,307</b>	<b>2,28,578</b>	<b>2,53,365</b>	<b>2,88,086</b>	<b>3,21,084</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Cash flow from operations</b>	<b>18,812</b>	<b>25,189</b>	<b>50,547</b>	<b>44,760</b>	<b>50,573</b>
Capital expenditures	(4,894)	(6,175)	(8,007)	(13,718)	(9,900)
Change in investments	(1,526)	(3,580)	(20,757)	(18,051)	(16,293)
Other investing cash flows	5,569	5,652	8,926	7,344	7,068
<b>Cash flow from investing</b>	<b>(852)</b>	<b>(4,104)</b>	<b>(19,839)</b>	<b>(24,425)</b>	<b>(19,125)</b>
Equities issued/Others	106	71	(71)	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(258)	(199)	(185)	(659)	(851)
Dividends paid	(18,992)	(19,983)	(27,956)	(23,963)	(27,956)
Other financing cash flows	(208)	221	295	(195)	(328)
<b>Cash flow from financing</b>	<b>(19,352)</b>	<b>(19,890)</b>	<b>(27,918)</b>	<b>(24,816)</b>	<b>(29,135)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(1,391)</b>	<b>1,195</b>	<b>2,790</b>	<b>(4,481)</b>	<b>2,313</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,751</b>	<b>3,455</b>	<b>8,087</b>	<b>3,340</b>	<b>7,354</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	123.8	145.8	206.7	236.4	266.4
Adjusted EPS	123.8	145.8	206.7	236.4	266.4
Dividend per share	95.1	100.1	140.0	120.0	140.0
Book value per share	790.4	836.6	910.7	1,019.2	1,145.6

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	3.2	2.8	2.5	2.0	1.8
EV/EBITDA	28.2	23.8	18.1	14.8	13.0
Adjusted P/E	38.5	32.7	23.0	20.2	17.9
P/BV	6.0	5.7	5.2	4.7	4.2

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	76.1	75.1	78.5	75.3	75.3
Interest burden (PBT/EBIT)	99.2	99.5	96.7	99.0	98.8
EBIT margin (EBIT/Revenue)	11.2	11.5	14.5	13.6	13.4
Asset turnover (Rev./Avg TA)	188.0	208.1	214.7	242.2	248.0
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
<b>Adjusted ROAE</b>	<b>16.0</b>	<b>17.9</b>	<b>23.7</b>	<b>24.5</b>	<b>24.6</b>

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	(5.0)	15.6	10.8	24.6	14.8
EBITDA	(16.2)	18.3	31.8	21.3	13.9
Adjusted EPS	(16.6)	17.7	41.8	14.3	12.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.5	11.8	14.0	13.7	13.6
EBIT margin	11.2	11.5	14.5	13.6	13.4
Adjusted profit margin	8.5	8.6	11.0	10.1	9.9
Adjusted ROAE	15.7	17.4	22.7	23.2	23.3
ROCE	16.0	18.0	23.5	24.8	24.9
<b>Working capital days (days)</b>					
Receivables	30	28	27	25	28
Inventory	16	14	14	13	14
Payables	85	72	77	73	72
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.4	0.4	0.4	0.3
Current ratio	0.9	1.0	0.9	0.9	1.0
Net interest coverage ratio	(127.0)	(196.0)	(293.9)	(96.2)	(84.1)
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

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

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

**BUY** – Expected return >+15%

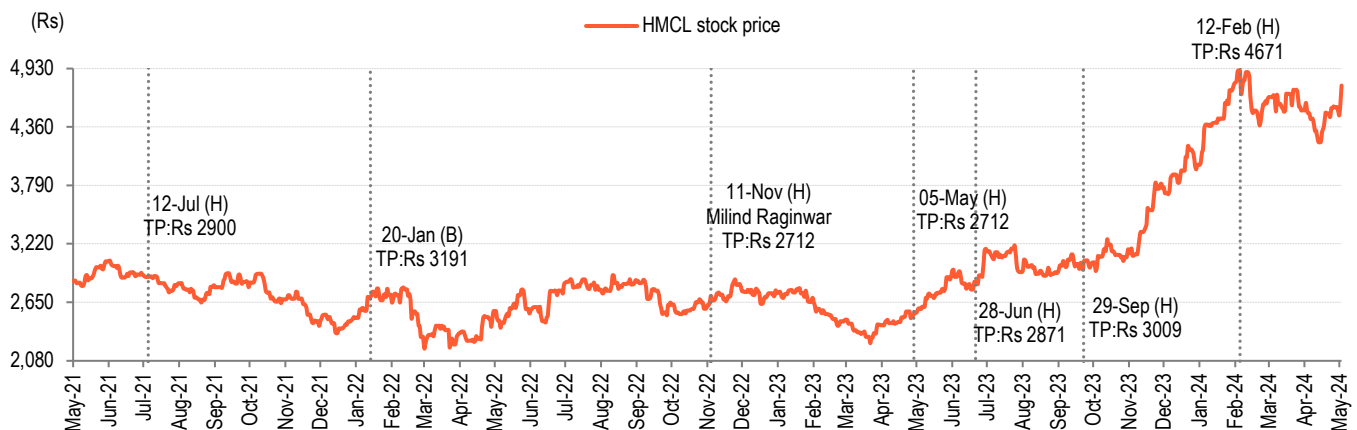
**HOLD** – Expected return from -6% to +15%

**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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