

Healthy double-digit volume growth to sustain...

About the stock: Hero MotoCorp (HMCL) is the world's largest 2-W manufacturer by volume, with domestic market share at 30.2% as of FY24. Its suite of popular models includes Splendor, Passion, Glamour, Xtreme etc.

- Scooter market share at 6.9%; motorcycle market share at 43.1% (FY24)
- Presence in EV space through its captive offerings under Vida brand as well as through investments in Ather Energy, Gogoro & Zero Motorcycles

Wholesale Volumes: Hero MotoCorp reported healthy volume prints for the month of June 2024 and Q1FY25. For June 2024, it reported total sales volumes of 5.03 lakh units, a growth of 15% on YoY basis while for Q1FY25 it reported a volume growth of 13.5% YoY at 15.4 lakh units. With tailwinds of higher rural spending by governments, successful product launches & forecast of normal to positive monsoon 2024, we maintain our positive stance on HMCL. We build in sales volume growth of 11.5% for FY25E & 10% thereafter for FY26E and expect it to lead the 2W volume recovery domestically and gain increasing traction in export markets.

Investment Rationale: Remains broadly unchanged

- **2-W space to outperform industry in FY25; Hero Moto a key beneficiary:** Over the past two years, the domestic auto industry has experienced a significant recovery with PV space surpassing its pre-Covid highs in FY23. Also, the cyclical recovery in CV space has been robust with industry up ~70% from the lows experienced during covid and nearing its pre-Covid highs. However, volume recovery has been sluggish in 2-W space with 1.8 crore units as sales volume in FY24, well below pre-Covid highs of 2.1 crore units in FY19. Nevertheless, recent prints in 2-W space are encouraging with Q1FY25 volumes up 10%+ on YoY basis. On high base, industry commentary is cautious on growth prospects in PV & CV space for FY25E, with 2-W emerging as a sole shining star and expected to outperform the industry going forward, driven by both revival in domestic demand & bottoming out of export volumes. Hero MotoCorp with market leadership in domestic motorcycle segment is expected to benefit from this trend.
- **Premiumization at its core focus with new product launches:** With increasing focus towards improving market share in premium motorcycle segment, HMCL has introduced new products on the likes of Mavrick 440, Karizma, and H-D X440 in >200cc segment & Xtreme 125 in high growing 125cc segment. It now broadly has requisite products in all sub segments & is augmenting capacities in this space for healthy growth that lies ahead.

Rating and Target Price

- Hero MotoCorp has a capital efficient business model with cash rich b/s. With focus on premiumisation and Electrification, it now has the right product slate to grow ahead of the industry. With industry tailwinds in its favour, we retain our **BUY rating** on the stock and value it at **₹ 6,620** i.e. **20x PE on standalone earnings and 3x P/B to its long-term investments**



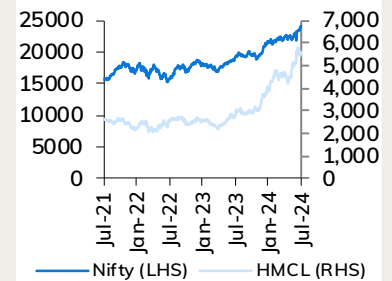
Particulars

Particular	₹ crore
Market Capitalization	1,12,231
Total Debt (FY24P)	0
Cash & Inv. (FY24P)	8,383
EV	1,03,848
52 week H/L (₹)	5,895 / 2,889
Equity capital (₹ crore)	40.0
Face value	₹ 2

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	34.8	34.8	34.8	34.8
FII	28.1	26.8	28.3	28.9
DII	27.3	29.1	28.1	27.8
Other	9.8	9.3	8.8	8.6

Price Chart



Recent event & key risks

- Reports healthy volume prints in June 2024 and Q1FY25
- Key Risk: (i) Slower than anticipated sales volume growth going forward (ii) lower than build in margin profile

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Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24P)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	28,836	30,801	29,246	33,806	37,456	2.2%	43,927	49,779	15.3%
EBITDA	3,958	4,019	3,369	3,986	5,255	1.3%	6,513	7,479	19.3%
EBITDA Margins (%)	13.7	13.0	11.5	11.8	14.0		14.8	15.0	
Net Profit	3,633	2,964	2,473	2,910	3,967	3.2%	4,991	5,663	19.5%
Normalised Net Profit	3,203	2,964	2,473	2,910	4,076	3.8%	4,991	5,663	17.9%
EPS (₹)	181.9	148.4	123.8	145.7	198.7		249.9	283.6	
P/E	30.9	37.9	45.4	38.6	28.3		22.5	19.8	
RoNW (%)	22.7	19.5	15.7	17.4	22.7		25.6	26.8	
RoCE (%)	21.3	20.8	16.3	18.9	23.9		28.0	29.8	

Key Tabled and Charts

Exhibit 1: Assumptions

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Motorcycle volumes (lakh units)	70.8	59.9	53.3	46.3	49.6	51.9	58.0	63.8
Scooter volumes (lakh units)	7.4	4.2	4.6	3.2	3.7	4.3	4.6	5.1
Total volumes (lakh units)	78.2	64.1	57.8	49.4	53.3	56.2	62.7	68.9
Growth (% YoY)		-18.0%	-9.8%	-14.5%	7.8%	5.5%	11.5%	10.0%
Gross Blended ASP (₹/unit)	43,026	44,988	53,244	59,152	63,443	66,630	70,084	72,201

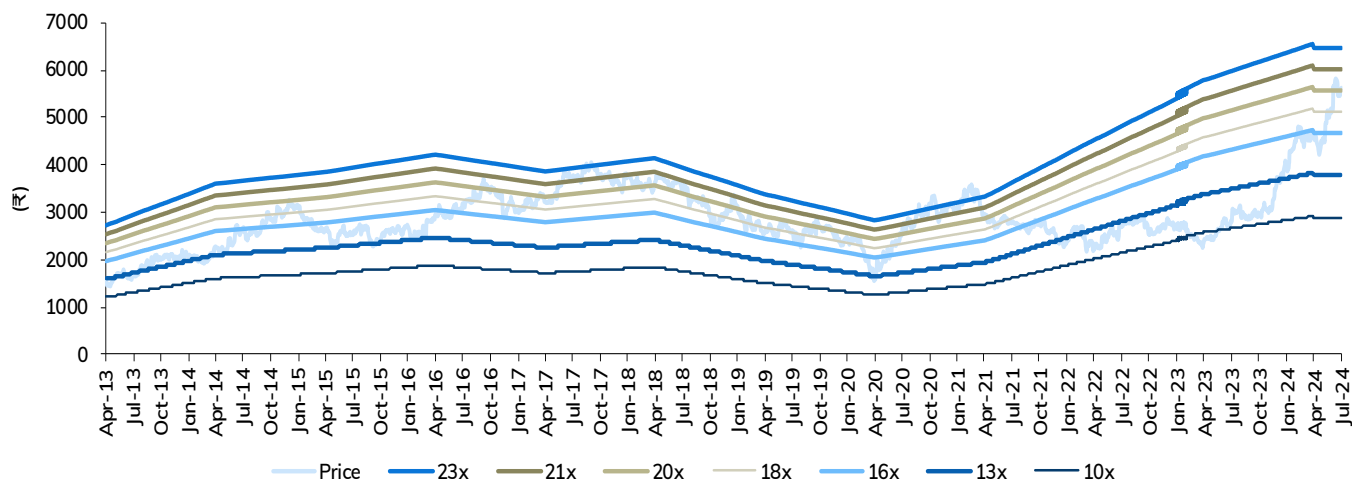
Source: ICICI Direct Research

Exhibit 2: SOTP Valuation

Particulars	Amount (₹)
FY26E Core EPS (₹/share, A)	283.6
P/E Multiple assigned (x, B)	20.0
Value of Base Business (C = A*B)	5,670
Other investment like Hero Fincorp & Ather Energy (₹ crore as of FY26E, D)	6,312
P/B Multiple Assigned (x, E)	3.0
Value of long term Investments (₹ crore, F = D*E)	18,935
Per share value of long term investments (G)	950
Target Price (C+G)	6,620
Potential Upside (%)	18%

Source: ICICI Direct Research

Exhibit 3: Hero MotoCorp currently trades at ~20x PE on 2 year forward basis (core earnings)



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Total operating Income	33,806	37,456	43,927	49,779	
Growth (%)	15.6	10.8	17.3	13.3	
Raw Material Expenses	23,858	25,431	29,244	33,091	
Employee Expenses	2,190	2,402	2,636	2,987	
Other expenses	3,771	4,367	5,535	6,222	
Total Operating Expenditure	29,820	32,200	37,414	42,300	
EBITDA	3,986	5,255	6,513	7,479	
Growth (%)	18.3	31.8	23.9	14.8	
Depreciation	657	711	769	846	
Interest	20	19	18	17	
Other Income	565	893	946	954	
PBT	3,874	5,418	6,672	7,570	
Total Tax	964	1,290	1,681	1,908	
PAT	2,910	3,967	4,991	5,663	
Growth (%)	17.7	36.3	25.8	13.5	
Normalised PAT (₹)	2,910	4,076	4,991	5,663	
EPS (₹)	146	199	250	284	
Normalised EPS (₹)	146	199	250	284	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Profit after Tax	2,910	3,967	4,991	5,663	
Add: Depreciation & Interest	677	730	786	863	
Sub: Other Income	565	893	946	954	
(Inc)/dec in Current Assets	-954	140	-803	-1,446	
Inc/(dec) in CL and Provisions	552	920	652	959	
CF from operating activities	2,620	4,864	4,681	5,084	
(Inc)/dec in Investments	1,396	-897	-600	-500	
(Inc)/dec in Fixed Assets	-617	-801	-1,010	-1,010	
Others	-1,785	-1,092	-480	-480	
Add: Other Income	565	893	946	954	
CF from investing activities	-442	-1,897	-1,144	-1,036	
Inc/(dec) in loan funds	0	0	0	0	
Dividend paid & dividend tax	-1,997	-2,796	-3,495	-3,994	
Inc/(dec) in Sec. premium & Others	-11	91	-18	-17	
CF from financing activities	-2,008	-2,705	-3,512	-4,011	
Net Cash flow	170	263	24	37	
Opening Cash	175	346	609	632	
Closing Cash	346	609	632	670	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Liabilities					
Equity Capital	40	40	40	40	
Reserve and Surplus	16,665	17,946	19,442	21,111	
Total Shareholders funds	16,705	17,986	19,482	21,151	
Total Debt	0	0	0	0	
Deferred Tax Liability	405	435	445	455	
Others	529	606	616	626	
Total Liabilities	17,639	19,027	20,543	22,232	
Assets					
Gross Block	11,584	12,340	13,290	14,315	
Less: Acc Depreciation	6,323	7,034	7,803	8,649	
Net Block	5,261	5,306	5,487	5,666	
Capital WIP	129	121	171	146	
Total Fixed Assets	5,390	5,426	5,658	5,811	
Investments	11,010	13,086	14,186	15,186	
Inventory	1,434	1,444	1,805	2,046	
Debtors	2,798	2,703	3,009	4,091	
Loans and Advances	44	46	54	61	
Cash	346	609	632	670	
Total Current Assets	5,419	5,542	6,369	7,852	
Creditors	4,704	5,528	6,017	6,819	
Provisions	176	154	168	190	
Total Current Liabilities	5,624	6,544	7,196	8,155	
Net Current Assets	-205	-1,002	-827	-302	
Application of Funds	17,639	19,027	20,543	22,232	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Per share data (₹)					
EPS	146	199	250	284	
Cash EPS	179	234	288	326	
BV	837	901	976	1,059	
DPS	100	140	175	200	
Cash Per Share	362	420	451	478	
Operating Ratios (%)					
EBITDA Margin	11.8	14.0	14.8	15.0	
PBT / Net sales	9.8	12.1	13.1	13.3	
PAT Margin	8.6	10.6	11.4	11.4	
Inventory days	15.5	14.1	15.0	15.0	
Debtor days	30.2	26.3	25.0	30.0	
Creditor days	50.8	53.9	50.0	50.0	
Return Ratios (%)					
RoE	17.4	22.7	25.6	26.8	
RoCE	18.9	23.9	28.0	29.8	
RoC	32.4	43.2	50.5	52.9	
Valuation Ratios (x)					
P/E	38.6	27.5	22.5	19.8	
EV / EBITDA	26.3	19.8	15.8	13.7	
Market Cap / Sales	3.3	3.0	2.6	2.3	
Price to Book Value	6.7	6.2	5.8	5.3	
Solvency Ratios					
Current Ratio	1.0	0.8	0.9	1.0	
Quick Ratio	0.7	0.6	0.6	0.7	

Source: Company, ICICI Direct Research

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