

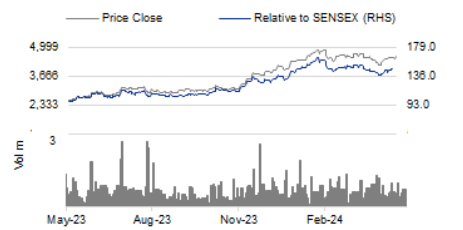
India

HOLD (previously REDUCE)

Consensus ratings*:	Buy 25	Hold 7	Sell 9
Current price:	Rs4,614		
Target price:	Rs4,766 ▲		
Previous target:	Rs3,321		
Up/downside:	3.3%		
InCred Research / Consensus:	-2.9%		
Reuters:	HROM.NS		
Bloomberg:	HMCL IN		
Market cap:	US\$11,045m	Rs922,419m	
Average daily turnover:	US\$38.9m	Rs3246.9m	
Current shares o/s:	199.8m		
Free float:	65.2%		
*Source: Bloomberg			

Key changes in this note

- FY25-26F sales raised by 3%.
- FY25-26F EBITDA margin raised by 60-80bp.
- FY25-26F PAT raised by 9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.4	(3.5)	80.1
Relative (%)	2.1	(6.0)	51.4

Major shareholders	% held
Hero Group	34.8
LIC of India	8.5
ICICI Prudential Fund	3.6

Research Analyst(s)

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Hero MotoCorp

Rural recovery beneficiary

- Sustained EBITDA margin expansion qoq led to an EPS growth of 18% yoy to Rs50.8 in 4Q, beating our estimate but in line with Bloomberg consensus.
- Management indicates a good start to the marriage season which, we feel, will improve from a bountiful rainfall outlook. Upgrade our EPS estimates by 9%.
- With forward P/E & P/BV valuations relatively comfortable on a 10-year mean, we upgrade to a HOLD rating as its better placed to benefit from rural demand.

EBITDA margin expansion continues in 4QFY24

Hero MotoCorp's (HMCL) 4QFY24 EBITDA rose by 26% yoy and was flat qoq at Rs13.6bn, which was 6% above our estimate but in line with Bloomberg (BB) consensus estimate. The EBITDA margin improved by 124bp yoy and 27bp qoq to 14.3%, aided by a 80bp qoq improvement in gross margin. Management indicates that the drag from the electric vehicle or EV division was around 130bp on the EBITDA margin in 4Q. Normalized PAT rose by 18% yoy and was flat qoq at Rs10.16bn, 6% above our estimate.

Management conference-call highlights

Management stated that there was a good start to the marriage season demand that commenced in Apr 2024. This, coupled with the above-normal monsoon rainfall outlook, enables it to expect double-digit sales in value terms in FY25F. The aggressive new vehicle launch trend to continue in FY25F, with scooters launches such as Xoom 125 and 160cc, and EV scooters in the mid and affordable price segment. The customer response to Xtreme 125cc bike is good, where it plans to double capacity to 25,000 bikes per month.

Bountiful rainfall outlook lead to 9% EPS upgrade

While HMCL's market share performance has been weak in recent quarters (Fig. 5), the strong rural demand tailwind expected via 6% above-normal rainfall prediction by the India Meteorological Department to help HMCL, which has dominance in rural and entry-level bikes. We expect close to double-digit growth in 2W sector demand, leading to a net sales upgrade of 3% for FY25F-26F. Baking in a gradual and sustained EBITDA margin trend of recent quarters and the strong pricing power in entry bikes, we upgrade EBITDA by around 8% for FY25F-26F.

Healthy valuation leads to upgrade of our rating to HOLD

While the stock has done well recently on an absolute basis, its relative performance vs. 2W peers is still lagging. With rural demand tailwind expected in FY25F for the 2W industry, HMCL is best placed to encash it and reverse the market share erosion. With the stock trading near its 10-year mean P/BV level (Fig. 11), we upgrade our rating to HOLD (from REDUCE) with a new SOTP-based target price of Rs4,766. Management action, in the form of new product launch success yielding market share gain, is still awaited. Downside risk is any delay in rainfall or uneven rainfall impacting rural demand. Upside risk is a stronger-than-expected 2W demand recovery.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	338,086	374,557	434,058	486,214	532,953
Operating EBITDA (Rsm)	39,892	52,558	62,294	67,746	73,787
Net Profit (Rsm)	29,136	41,280	48,164	52,583	57,632
Core EPS (Rs)	145.8	206.5	240.9	263.0	288.3
Core EPS Growth	17.9%	41.6%	16.7%	9.2%	9.6%
FD Core P/E (x)	31.64	22.34	19.15	17.54	16.00
DPS (Rs)	100.1	140.1	160.1	180.2	200.2
Dividend Yield	2.17%	3.03%	3.47%	3.90%	4.33%
EV/EBITDA (x)	20.26	14.94	12.62	11.44	10.34
P/FCFE (x)	42.46	31.26	34.17	22.84	22.11
Net Gearing	(68.0%)	(76.1%)	(69.4%)	(69.3%)	(69.1%)
P/BV (x)	5.52	5.13	4.70	4.34	4.00
ROE	17.9%	23.8%	25.6%	25.7%	26.0%
% Change In Core EPS Estimates			8.69%	8.97%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Rural recovery beneficiary

Management conference-call highlights➤

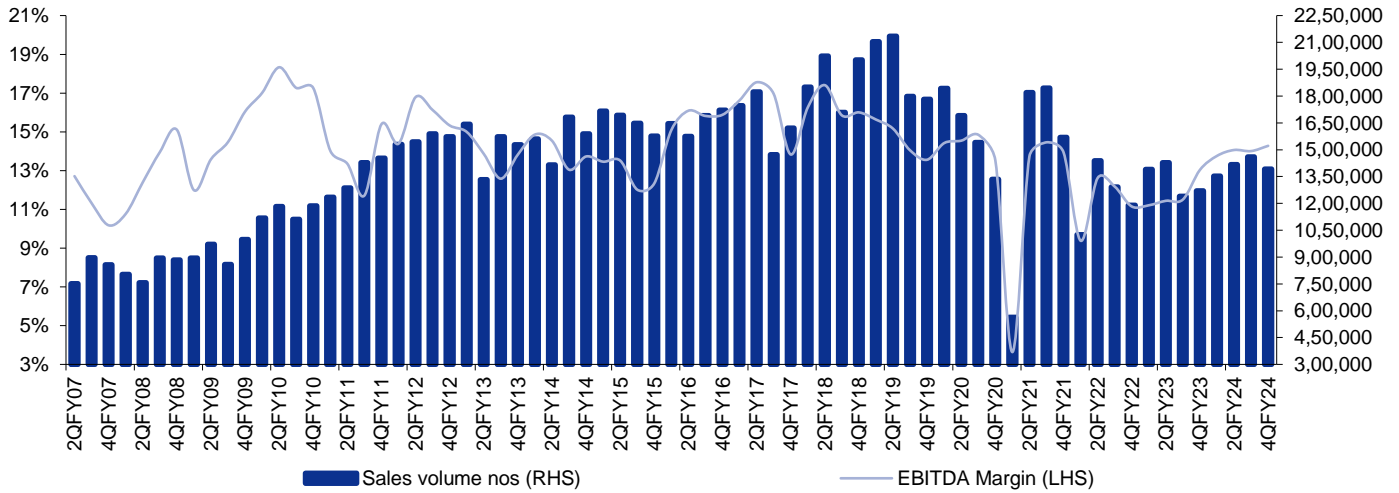
- **Demand Outlook:** Management is witnessing demand improving in both rural and urban markets, mainly led by improving consumer sentiment. Management stated that the industry is likely to witness double-digit revenue growth in FY25F. March and April months of 2024 witnessed a positive momentum led by the marriage season. The company is witnessing first-time buyers entering the market to prioritize their personal mobility.
- **Premium segment:** Management aims to gain market share in the premium segment led by the launch of its three new models recently - HD X440, Mavrick and Karishma. The company is to increase the production capacity to 10k units per month for these three models combined. The HD X440 bike is currently sold through 205 Hero 2.0 stores and management plans to launch it in more new cities in the coming quarters. For Mavrick, the company is sending the product to dealers for test drives and investing in the market to increase awareness about the product.
- **Xtreme 125R:** The recently launched Xtreme 125R is witnessing good traction across markets and management plans to ramp up its production to 25k units per month from Jun or Jul of 2024F vs. 10k sales currently.
- **Xoom:** In the 110cc scooter segment, the company witnessed market share loss with Xoom 100 and it is planning to improve the volume by new Xoom 125 and 160 in 1HFY25F.
- **Other models:** Super Splendor is gaining traction due to its high mileage, Glamor Classis doing well in South India (Andhra Pradesh and Telangana) and also in the eastern region.
- **Touch points:** Opening premium stores (100-150) by the end of the year. Hero 2.0 now has 400 stores with digital experience capability and highly skilled sales executives. The EV space now has 180 dealers spread across 120 cities.
- **Vida:** This model has a presence in 200 cities with 2,500 charging points and the company plans to launch new products in the three segments - premium, mid, and mass.
- **Electric vehicle PLI:** HMCL, as an entity, is qualified for the production-linked incentive or PLI scheme. However, the current product, which is being sold in the market, is not PLI-ready. HMCL plans to expand the product line-up in 1HFY25F. Therefore, in 2Q, it is planning for PLI-compliance.
- **EBITDA margin:** The EBITDA margin in the ICE vehicle space was at 15.6% during the quarter led by operating leverage, price action and lower commodity prices. The company had a drag of 130bp from the electric vehicle segment. For the long term, it expects 14-16% margin.
- **Export:** HMCL's board has approved the formation of a subsidiary in Brazil and in a big market the company is changing distributors, and making changes to the product portfolio as well, as per the country's requirement.
- **Spare parts revenue:** Revenue from the spare parts business was Rs13.97bn in 4Q and Rs50.87bn in FY24.
- **Others**
 - Took price hike for the full year of Rs1,300-1,400 per vehicle.
 - Capex – Rs10-15bn for the upcoming year.

Figure 1: Results comparison

Y/E Mar (Rs m)	4QFY24	4QFY23	yoy % chg	3QFY24	qoq % chg	FY24	FY23	yoy % chg	Comments
Revenue	95,193	83,068	14.6	97,237	(2.1)	3,74,557	3,38,086	10.8	2% above our estimate.
Raw material costs	63,249	56,463	12.0	65,470	(3.4)	2,54,308	2,38,581	6.6	
RM as % of revenue	66	68	(153.0)	67	(88.8)	68	71	(267.3)	136bps below our estimate.
EBITDA	13,592	10,830	25.5	13,620	(0.2)	52,558	39,892	31.7	
EBITDA margin (%)	14.3	13.0	124.0	14.0	27.1	14.0	11.8	223.2	6% above our estimate.
Depreciation & amortization	1,851	1,686	9.8	1,825	1.4	7,114	6,570	8.3	
EBIT	11,741	9,144	28.4	11,795	(0.5)	45,443	33,323	36.4	
Interest expenses	46	47	(2.6)	45	0.9	185	199	(6.9)	
Other income	1,800	2,369	(24.0)	1,825	(1.4)	8,926	5,652	57.9	10% below our estimate.
Pre-tax profit	13,496	11,467	17.7	13,575	(0.6)	54,184	38,776	39.7	
Tax	3,335	2,877	15.9	3,437	(2.9)	12,904	9,640	33.9	
Tax rate (%)	24.7	25.1	(37.9)	25.3	(60.1)	23.8	24.9	(104.5)	
Normalized net profit	10,161	8,589	18.3	10,139	0.2	41,280	29,136	41.7	6% above our estimate.
Exceptionals	-	-	-	-	nm	(1,599)	-	nm	
Other comprehensive income	-	-	nm	-	nm	-	-	-	
Reported net profit	10,161	8,589	18.3	10,139	0.2	39,681	29,136	36.2	
Normalized EPS (Rs)	50.8	43.0	18.2	50.7	0.2	206.5	145.8	41.6	
Volumes (nos)	13,92,423	12,70,492	9.6	14,59,932	(4.6)	55,56,788	53,29,004	4.3	
Net realization (Rs)	68,365	65,382	4.6	66,604	2.6	67,405	63,443	6.2	
EBITDA/vehicle	9,761	8,524	14.5	9,329	4.6	9,458	7,486	26.3	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: EBITDA margin on consistent improvement path



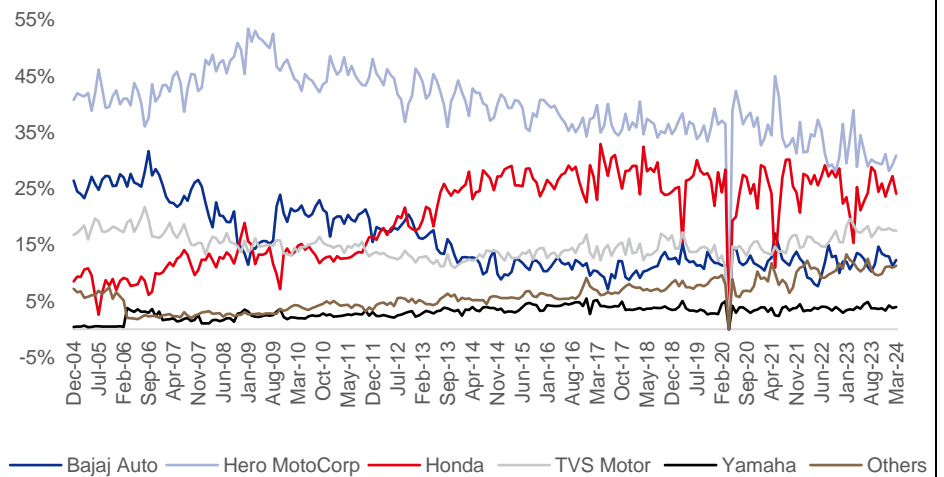
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: HMCL's model-wise performance

Motorcycles	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY23	FY24	YoY (%)
Splendor Family	8,19,199	9,08,670	(9.8)	7,89,565	3.8	29,44,067	30,01,452	1.9
Passion Family	83,835	12,407	575.7	1,09,060	(23.1)	1,69,734	3,56,273	109.9
HF Deluxe	2,38,852	1,96,781	21.4	2,95,196	(19.1)	10,52,043	10,34,178	(1.7)
Glamour	48,424	30,061	61.1	69,784	(30.6)	2,49,878	2,35,219	(5.9)
Xtreme and Xtreme 125R	24,617	1,556	1,482.1	7,852	213.5	31,987	47,862	49.6
HD X440	7,407	-	na	6,844	8.2	-	14,269	na
Others	11,949	8,637	38.3	5,655	111.3	37,866	38,792	2.4
Total motorcycles	12,34,283	11,58,112	6.6	12,83,956	(3.9)	44,85,575	47,28,045	(5.1)
Scooters								
Maestro	1,043	7,559	(86.2)	601	73.5	38,630	9,767	(74.7)
Pleasure	27,431	20,085	36.6	58,387	(53.0)	1,69,984	1,41,604	(16.7)
Destini 125	45,634	26,697	70.9	40,372	13.0	1,27,682	1,40,933	10.4
Xoom	11,136	20,781	(46.4)	19,836	(43.9)	20,781	88,344	325.1
Vida	5,759	1,250	360.7	8,246	(30.2)	1,464	19,805	1,252.8
Total scooters	91,003	76,372	19.2	1,27,442	(28.6)	3,58,541	4,00,453	(10.5)
Total 2W domestic	13,25,286	12,34,484	7.4	14,11,398	(6.1)	51,55,793	54,20,370	(4.9)
Exports	66,970	36,008	86.0	46,037	45.5	1,72,752	2,00,916	(14.0)
Gross Total	13,92,256	12,70,492	9.6	14,57,435	(4.5)	53,28,545	56,21,286	(5.2)

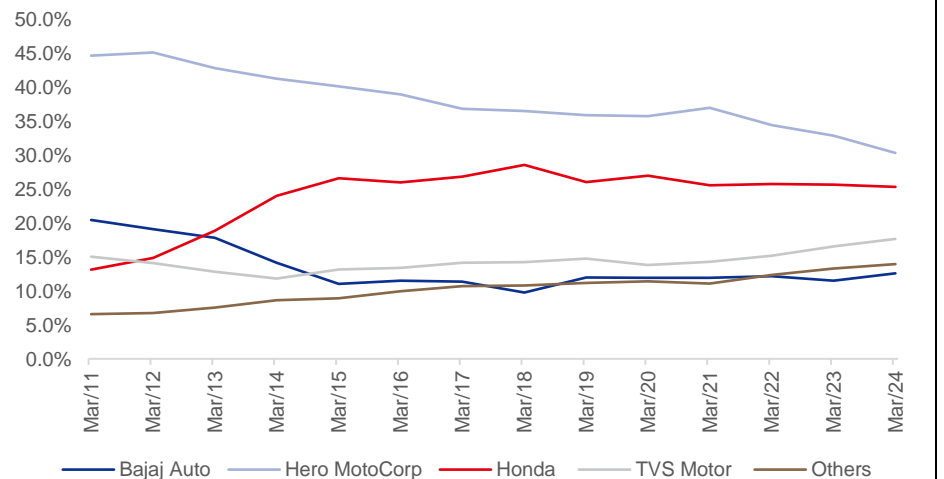
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Domestic two-wheeler market share trend



SOURCE:SIAM, INCRED RESEARCH, COMPANY REPORTS

Figure 5: HMCL's domestic 2W market share is on declining trend



SOURCE: SIAM, INCRED RESEARCH, COMPANY REPORTS

Figure 6: Our revised earnings estimates

Rs m	FY25F		FY26F	
	Old	New	Old	New
Sales volume (nos)	61,20,732	61,48,581	66,18,698	67,01,006
% change		0.5%		1.2%
Net sales	4,22,478	4,34,058	4,70,136	4,86,214
% change		2.7%		3.4%
EBITDA	57,587	62,294	62,347	67,746
% change		8.2%		8.7%
PAT	44,304	48,164	48,241	52,583
% change		8.7%		9.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Key assumptions

Key Assumptions	FY22	FY23	FY24	FY25F	FY26F
Vehicle Sales Volume (units)					
Motorcycle	46,27,585	49,59,707	51,26,006	56,58,158	61,48,699
Growth (%)	-13.2%	7.2%	3.4%	10.4%	8.7%
Scooter	3,16,383	3,69,297	4,30,782	4,90,423	5,52,307
Growth (%)	-30.9%	16.7%	16.6%	13.8%	12.6%
Total	49,43,968	53,29,004	55,56,788	61,48,581	67,01,006
Growth (%)	-14.6%	7.8%	4.3%	10.6%	9.0%
Net Realisation Per Vehicle (Rs.)					
Motorcycle	49,005	52,680	56,105	59,190	60,966
Growth (%)	6.6%	7.5%	6.5%	5.5%	3.0%
Scooter	50,440	53,920	57,155	59,727	60,922
Growth (%)	6.0%	6.9%	6.0%	4.5%	2.0%
Total	49,097	52,766	56,186	59,233	60,963
Growth (%)	6.5%	7.5%	6.5%	5.4%	2.9%
Operating Matrix per Vehicle (Rs)					
Net Realisation	49,005	52,680	56,105	59,190	60,966
Growth (%)	6.6%	7.5%	6.5%	5.5%	3.0%
Contribution	17,024	18,672	21,640	22,237	22,638
Growth (%)	9.0%	9.7%	15.9%	2.8%	1.8%
EBITDA	33,667	39,892	52,558	62,294	67,746
Growth (%)	-16.2%	18.5%	31.7%	18.5%	8.8%
EBITDA Margin (%)	11.5%	11.8%	14.0%	14.4%	13.9%
Change bps	(154)	29	223	32	(42)
Net Profit	24,710	29,136	39,681	48,164	52,583
Growth (%)	-16.0%	17.9%	36.2%	21.4%	9.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

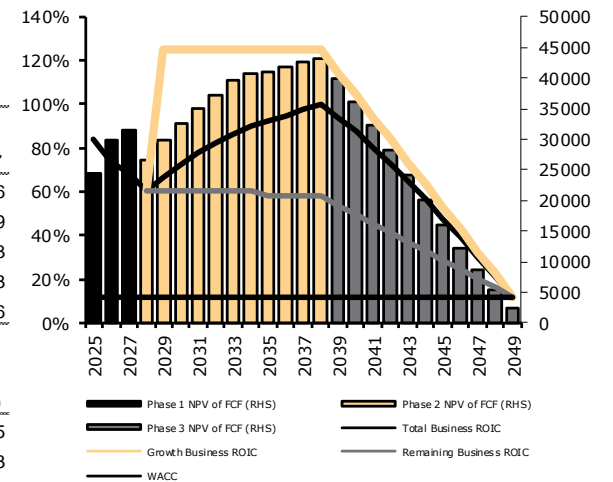
Figure 8: We have used discounted cash flow or DCF methodology to value the company's core business

Economic Profit Valuation			Discounted Cash Flow Valuation		
	Rs m	%		Rs m	%
Adjusted Opening Invested Capital	53085.8	7	Value of Phase 1: Explicit (2025 to 2027)	86123.7	11
NPV of Economic Profit During Explicit Period	93085.1	12	Value of Phase 2: Value Driver (2028 to 2038)	410575.3	55
NPV of Econ Profit of Remaining Business (1, 2)	199327.2	26	Value of Phase 3: Fade (2039 to 2049)	225060.0	30
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	407750.0	54	Terminal Value	31484.0	4
Enterprise Value	753248.0	100	Enterprise Value	753242.9	100
Plus: Other Assets	0.0	0	FCF Grth Rate at end of Phs 1 implied by DCF Valuation		6.7
Less: Minorities	0.0	0	FCF Grth Rate at end of Phs 1 implied by Current Price		30.2
Less: Net Debt (as at 08 May 2024)	-136949.4	-18			
Equity Value	890197.4	118			
No. Shares (millions)	199.5				
Per Share Equity Value	Rs 4462				

Sensitivity Table		No of Years in Fade Period				
		5	8	11	14	17
WACC	9.8%	4451	4880	5310	5739	6166
	10.8%	4139	4500	4857	5207	5549
	11.8%	3861	4166	4462	4748	5023
	12.8%	3613	3871	4117	4351	4573
	13.8%	3391	3610	3815	4007	4186

Performance Summary	2025	2026	2027	Phase 2 Avg (2028 - 2038)
Invested Capital Growth (%)	24.9	15.7	10.8	10.5
Operating Margin (%)	12.6	12.2	12.2	11.3
Capital Turnover (x)	8.9	7.9	7.5	7.0

Returns, WACC and NPV of Free Cash Flow



Source: InCred Research

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

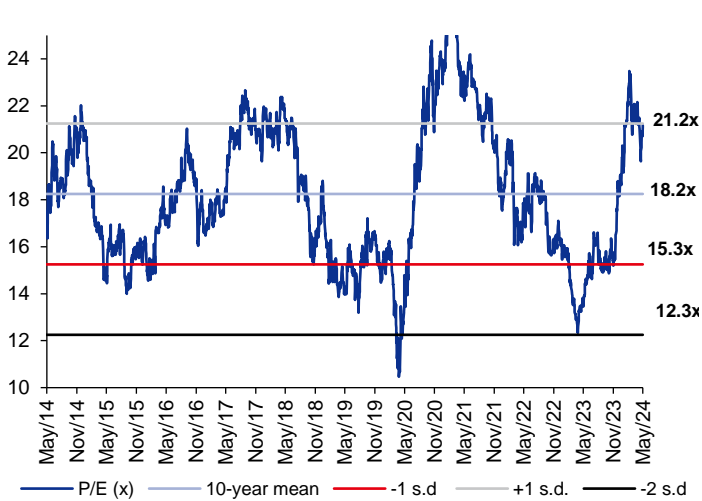
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Sum-of-the-parts or SOTP-based target price

	Methodology	Multiple	Hero MotoCorp's stake	Value per share (Rs)
Core Business	DCF			4,462
Ather Energy	Private Equity (PE) Investment Valuation		35%	86
Hero FinCorp	P/B	2.5 x FY22 Book Value	41%	218
SOTP-based valuation				4,766

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: One-year forward P/E valuation is above the mean level



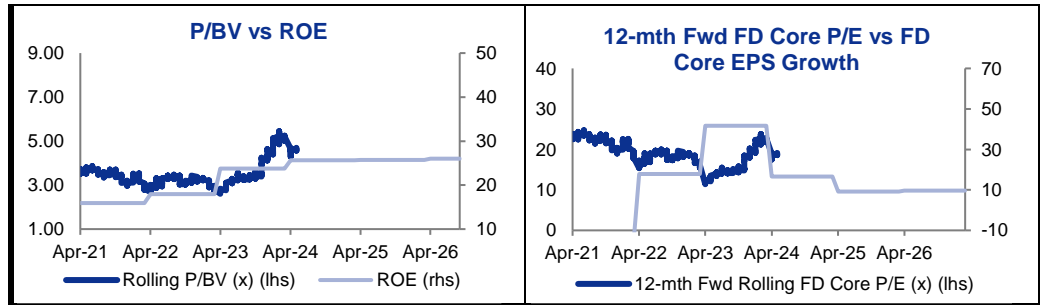
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: One-year forward P/BV is at the mean level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	338,086	374,557	434,058	486,214	532,953
Gross Profit	77,607	96,227	109,822	121,833	132,363
Operating EBITDA	39,892	52,558	62,294	67,746	73,787
Depreciation And Amortisation	(6,570)	(7,114)	(7,635)	(8,207)	(8,586)
Operating EBIT	33,323	45,443	54,660	59,539	65,200
Financial Income/(Expense)					
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,453	8,741	9,559	10,572	11,642
Profit Before Tax (pre-EI)	38,776	54,184	64,218	70,111	76,842
Exceptional Items					
Pre-tax Profit	38,776	54,184	64,218	70,111	76,842
Taxation	(9,640)	(12,904)	(16,055)	(17,528)	(19,211)
Exceptional Income - post-tax					
Profit After Tax	29,136	41,280	48,164	52,583	57,632
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	29,136	41,280	48,164	52,583	57,632
Recurring Net Profit	29,136	41,280	48,164	52,583	57,632
Fully Diluted Recurring Net Profit	29,136	41,280	48,164	52,583	57,632

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	39,892	52,558	62,294	67,746	73,787
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,613)	9,088	(11,491)	(2,607)	(3,304)
(Incr)/Decr in Total Provisions	(940)	2,092	723	(3,300)	(2,200)
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	5,453	8,741	9,559	10,572	11,642
Tax Paid	(9,640)	(12,610)	(16,055)	(17,528)	(19,211)
Cashflow From Operations	31,152	59,869	45,031	54,883	60,714
Capex	(5,954)	(8,007)	(14,041)	(7,500)	(9,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(3,485)	(22,357)	(4,000)	(7,000)	(10,000)
Cash Flow From Investing	(9,439)	(30,365)	(18,041)	(14,500)	(19,000)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(19,980)	(27,972)	(31,976)	(35,982)	(39,980)
Preferred Dividends					
Other Financing Cashflow	(30)	1,101	2		
Cash Flow From Financing	(20,010)	(26,871)	(31,975)	(35,982)	(39,980)
Total Cash Generated	1,704	2,633	(4,984)	4,401	1,734
Free Cashflow To Equity	21,714	29,504	26,990	40,383	41,714
Free Cashflow To Firm	21,714	29,504	26,990	40,383	41,714

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	113,559	136,949	135,965	147,367	159,100
Total Debtors	27,982	27,034	35,676	39,963	45,264
Inventories	14,341	14,438	19,027	22,646	24,822
Total Other Current Assets	14,498	14,147	15,000	18,500	21,000
Total Current Assets	170,379	192,569	205,668	228,475	250,187
Fixed Assets	64,633	67,186	69,552	68,845	69,259
Total Investments					
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	64,633	67,186	69,552	68,845	69,259
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	47,045	55,282	57,022	62,321	66,495
Other Current Liabilities	14,482	16,224	17,800	18,000	18,300
Total Current Liabilities	61,527	71,506	74,822	80,321	84,795
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions	4,054	4,348	4,348	4,348	4,348
Total Liabilities	65,581	75,854	79,170	84,669	89,143
Shareholders Equity	167,051	179,862	196,050	212,651	230,303
Minority Interests					
Total Equity	167,051	179,862	196,050	212,651	230,303

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	15.6%	10.8%	15.9%	12.0%	9.6%
Operating EBITDA Growth	18.5%	31.7%	18.5%	8.8%	8.9%
Operating EBITDA Margin	11.8%	14.0%	14.4%	13.9%	13.8%
Net Cash Per Share (Rs)	568.22	685.09	680.17	737.20	795.90
BVPS (Rs)	835.88	899.76	980.74	1,063.79	1,152.09
Gross Interest Cover					
Effective Tax Rate	24.9%	23.8%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	68.6%	67.8%	66.4%	68.4%	69.4%
Accounts Receivables Days	27.54	26.81	26.37	28.39	29.18
Inventory Days	17.91	18.87	18.84	20.87	21.63
Accounts Payables Days	62.81	67.09	63.21	59.77	58.69
ROIC (%)	46.9%	57.8%	79.9%	69.3%	70.2%
ROCE (%)	23.3%	30.5%	33.4%	33.6%	34.0%
Return On Average Assets	12.9%	16.7%	18.0%	18.4%	18.7%

Key Drivers

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	7.3%	6.2%	4.7%	2.8%	2.4%
Unit sales grth (% , main prod./serv.)	7.8%	4.3%	10.6%	9.0%	7.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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