

Launches electric 2-W under Vida brand as V1 Pro, Plus

About the stock: Hero MotoCorp (HMCL) is the world's largest 2-W manufacturer by volume, with domestic market share at 34.5% as of FY22. Its suite of popular models includes Splendor, Passion, Glamour, etc.

- Rural geographies form ~50% sales; 48.3% FY22 motorcycle market share
- Debt-free b/s with strong return ratios; healthy >50% dividend payout ratio
- Apart from its own product offering under Vida brand, HMCL is approaching electrification through collaborative investments in Ather Energy, Gogoro (swappable battery sol) & Zero Motorcycles (premium electric motorcycles)

Key Highlights:

- The company launched its maiden captive offering in the electric vehicle space i.e. Vida V1 available in two variants i.e. Vida Vi Pro and Vida V1 Plus. Both variants have a top speed of 80 km/hr with certified range of 143-165 km and acceleration of 3.2-3.4s for 0-40 kmph
- Vida V1 Plus (battery size: 3.44 kwh) is priced at ₹ 1.45 lakh (ex-showroom) while Vida V1 Pro (battery size: 3.94 kwh) is priced at ₹ 1.59 lakh (ex-showroom), both prices are inclusive of centre driven FAME-2 subsidy while exclusive of state specific subsidies. They are powered by Li-On battery – NMC chemistry
- The company plans to launch it in three cities in phase 1 i.e. Bengaluru, Delhi and Jaipur with bookings set to commence from October 10 with deliveries set to commence in the second week of December
- It has first in industry, buy-back option wherein a customer can return the product back to HMCL in 16-18 months for 70% of the ex-showroom price
- HMCL's focus through Vida is also to develop ecosystem of services and charging network around it, providing digitally enabled end-to-end solutions

What should investors do? HMCL's share price has lagged Nifty Auto Index in the past five years, de-growing at ~7% CAGR from ~₹ 3,763 levels in September 2017.

- We maintain **HOLD** rating on HMCL amid muted volume recovery prospects in 2-W segment, HMCL's focus to target the premium segment in EV space through its offering under brand Vida with premium pricing despite being a mass market mother-brand & slower than anticipated rollout pan India

Target Price and Valuation: We value HMCL at a revised target price of ₹ 2,870 (14x P/E on FY24E EPS & 2.5x P/B to its long term strategic investments in FY24E).

Key triggers for future price performance:

- Expect sales, PAT to grow at 12.1%, 16.5% CAGR, respectively, in FY22-24E

Alternate Stock Idea: Besides HMCL, in our auto OEM coverage, we like M&M.

- Capital consciousness, UV distinction & EV ready. BUY with target of ₹ 1,590



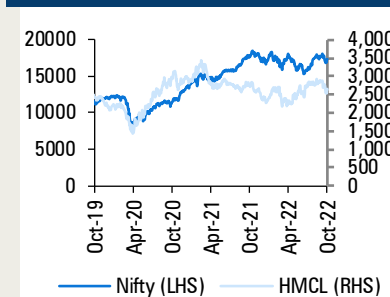
Particulars

Particular	Amount
Market Capitalization	₹ 52421.3 Crore
Total Debt (FY22)	₹ 0 Crore
Cash & Inv. (FY22)	₹ 8449 Crore
EV	₹ 43972 Crore
52 week H/L (₹)	2950 / 2147
Equity capital (₹ crore)	40.0
Face value	₹ 2

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	34.8	34.8	34.8	34.8
FII	32.3	29.6	29.2	28.8
DII	22.0	23.7	24.2	25.6
Other	11.0	12.0	11.8	10.8

Price Chart



Recent event & key risks

- Launches Vida V1 its first E-2W
- Key Risk:** (i) Innovative mass market offering in EV space (ii) Slower than expected uptick in rural demand

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	33,650.5	28,836.1	30,800.7	29,245.5	0.5%	33,720.6	36,768.8	12.1%
EBITDA	4,929.8	3,958.0	4,019.2	3,368.7	-6.2%	3,930.6	4,710.5	18.3%
EBITDA Margins (%)	14.6	13.7	13.0	11.5		11.7	12.8	
Net Profit	3,384.6	3,633.3	2,964.1	2,472.9	-6.0%	2,642.2	3,358.1	16.5%
Normalised Net Profit	3,384.6	3,202.6	2,964.1	2,472.9	-6.0%	2,642.2	3,358.1	16.5%
EPS (₹)	169.5	181.9	148.4	123.8		132.3	168.2	
P/E	15.5	14.4	17.7	21.2		19.8	15.6	
RoNW (%)	26.3	22.7	19.5	15.7		16.1	19.4	
RoCE (%)	32.0	21.3	20.8	16.3		18.7	21.8	

Key highlights from launch event & presentation highlights...

Exhibit 1: Product offerings

VIDA V1 PRO	VIDA V1 PLUS
	
Top speed 80kmph	Top speed 80kmph
Fast charging at 1.2 km/min	Fast charging at 1.2 km/min
IDC Range 165 km	IDC Range 143 km
Acceleration of 0-40 kmph in 3.2s	Acceleration of 0-40 kmph in 3.4s

Source: Company, ICICI Direct Research

Exhibit 2: Key features

 7" with touch screen	 Two way throttle	 Key less control
 Cruise control		 S.O.S alert

Source: Company, ICICI Direct Research

Exhibit 3: E-Mobility Ecosystem

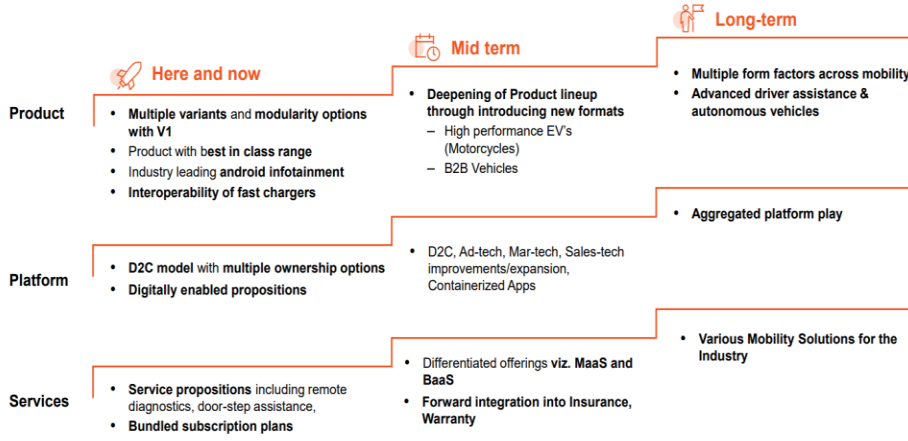
Ecosystem offering	Product	Platform	Services
			
Key messages to customers	<p>A High Performance & Personalize / customize your product</p> <p>B "Reliability and safety for complete peace of mind"</p>	<p>C Entirely digital customer journey for VIDA's digitally connected TG</p> <p>D Buy your VIDA in the comfort of your home</p>	<p>E Upgrade your VIDA with OTA, performance upgrades & buy-back</p> <p>F Get service and charging anywhere</p>

Source: Company, ICICI Direct Research

Key Highlights from Launch

- Vida V1 Plus is priced at ₹ 1.45 lakh (ex-showroom) while Vida V1 Pro is priced at ₹ 1.59 lakh (ex-showroom).
- Vida V1 comes with new offers like interest rate on loan lower by 1.5-2% than standard interest rate, assured buyback value of minimum 70% if returned within 18-20 months, test ride period of three days
- Battery packs are internally assembled with cells that are imported from LG
- Motor is co-developed by company with Brose and is manufactured in India
- It is eligible for FAME II subsidy
- The company has spent ~₹ 3,000 crore on R&D in the last five years with significant amount spent in establishing Jaipur CIT facility. This facility has class leading testing machines & labs making company as only 2-W OEM to have in-house testing
- It is planning to have largest premium product portfolio (preferable >200 cc segment) in coming three years
- Vida V1 comes in 2 battery size 3.44 Kwh (i.e. 1.7 Kwh*2 pack) & 3.94 Kwh (i.e. 1.9 Kwh*2 pack) and are portable & can be charged at home
- The company will focus on top down approach in its EV offering by targeting higher end scooters first and then gradually offering lower end products to fill price gap
- 7" TFT display in Vida V1 will soon have mobile screen mirroring feature offered through OTA updates
- Vida V1 can be driven in four modes namely Eco, Ride, Custom and Sports
- The company has undertaken ~2 lakh km testing for this product
- Bookings can be made at a token amount of ₹ 2499/unit
- It will be manufactured at HMCL's factory at Chittoor, in Andhra Pradesh. Much of its current ICE capacities are easily fungible onto electric vehicles
- VIDA V1 goes up a gradient of 18+ degrees with a 60 % SOC and two riders
- The VIDA V1 comes with standard five-year warranty for 50,000 km. The batteries are covered by a warranty valid for three years or up to 30,000 km

Exhibit 4: Vida Mid-Long term plans



Over the medium to long term the company plans to monetise on data collected through Platform & Service

Source: Company, ICICI Direct Research

Exhibit 5: Battery Features

Overview

- In-house designed, developed and manufactured
- Modular designs of both battery & BMS
- Capability for battery packs to function independently as well as in parallel combination
- Anti-theft functionality

Features / key highlights

Battery

- Removable, portable and swappable battery packs of 1.7Kwh capacity each
- Upgradeable battery capacity (upto 5Kwh)
- Highest capacity density amongst competition
- Charge anywhere

Battery management system

- Smart BMS :
 - Monitors Battery State, Health, Voltage, Temperature & Current
 - Constantly reports data to VCU
- Provides protection from **Over Current**, **Over Voltage** (during charging), **Under Voltage** (during discharging) and **Over Temperature**

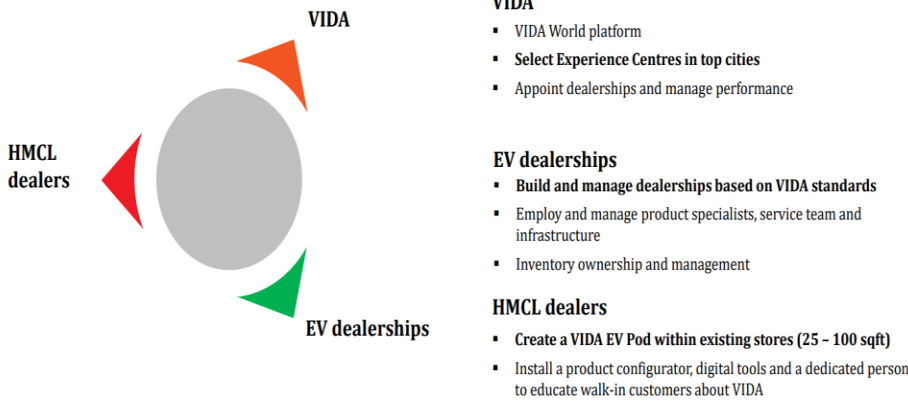
- Maintains Cell balancing
- Makes our battery SMART

Batteries are smartly designed to bear wear & tear and is tested for 25,000 hours and would be compliant for coming AS156 (i.e. battery safety standard) with little modification

Source: Company, ICICI Direct Research

Exhibit 6: Dealership Plans

3 key pillars of EMBU's GTM strategy



The company will sell Vida V1 through website & would be delivered at home also customers have option to visit near dealership that would have special pods for EV. HMCL also plans to set-up experience centres pan India at popular points like Malls etc. It also plans to open Vida exclusive dealerships in due course of time

Source: Company, ICICI Direct Research

Exhibit 7: Vida Ramp-up Plan

Launch plan	Cities	Model	End-state plan
First 3 cities	Delhi, Bangalore & Jaipur	Launch with experience centers owned & operated by VIDA	All cities transition to customized EV dealerships based on: <ul style="list-style-type: none"> Volume ramp-up, and, Maturity curve to deliver a differentiated customer experience
Next 8 cities	Chosen next 8 cities	EV dealerships with oversight from VIDA team to ensure consistent superior customer experience	
Further expansion			
Global			

Source: Company, ICICI Direct Research

Exhibit 8: Key Partnerships



Promoting 'Make in India' (90%+ bought locally) while leveraging global supply base

Source: Company, ICICI Direct Research

The company has partnered with Gogoro, HPCL & BPCL for development of charging infra. Also, Vida V1 can be charged on Ather charging station

Exhibit 9: Current Product offerings



Source: Company, ICICI Direct Research

The company plans to expand its offering in >200 cc segment and products are in development phase. Also company is planning to launch E-Motorcycle in due course of time

Exhibit 10: SoTP Valuation

Particulars	Amount (₹)
FY24E Core EPS (₹/share, A)	168.2
P/E Multiple assigned (x, B)	14.0
Value of Base Business (C = A*B)	2,355
Other investment like Hero Fincorp & Ather Energy (₹ crore as of FY24E, D)	4,129
P/B Multiple Assigned (x, E)	2.5
Value of long term Investments (₹ crore, F = D*E)	10,322
Per share value of long term investments (G)	515
Target Price (C+G)	2,870
Potential Upside (%)	9%

Source: ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	30,800.7	29,245.5	33,720.6	36,768.8
Growth (%)	6.8	-5.0	15.3	9.0
Raw Material Expenses	21,762.3	20,826.7	24,419.0	26,358.5
Employee Expenses	1,898.8	1,935.4	2,075.5	2,132.6
Other expenses	3,120.3	3,114.5	3,294.8	3,566.6
Total Operating Expenditure	26,781.5	25,876.8	29,789.6	32,057.9
EBITDA	4019.2	3368.7	3931.0	4710.9
Growth (%)	1.5	-16.2	16.7	19.8
Depreciation	676.9	649.8	687.9	742.7
Interest	21.9	25.8	27.7	29.1
Other Income	579.9	556.9	306.3	550.8
PBT	3900.3	3250.0	3521.3	4489.5
Total Tax	936.2	777.1	879.1	1,131.4
PAT	2964.1	2472.9	2642.2	3358.1
Growth (%)	-18.4	-16.6	6.8	27.1
Normalised PAT (₹)	2,964.1	2,472.9	2,642.2	3,358.1
EPS (₹)	148.4	123.8	132.3	168.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	2,964.1	2,472.9	2,642.2	3,358.1
Add: Depreciation & Interest	698.7	675.6	715.6	771.8
Sub: Other Income	579.9	556.9	306.3	550.8
(Inc)/dec in Current Assets	-1,151.9	384.5	-836.4	-448.0
Inc/(dec) in CL and Provisions	2,134.2	-1,037.8	951.5	544.5
CF from operating activities	4065.2	1938.2	3166.6	3675.7
(Inc)/dec in Investments	-1,892.5	-137.6	800.0	-200.0
(Inc)/dec in Fixed Assets	-643.6	-489.4	-1,010.0	-1,010.0
Others	-169.8	-35.9	-1,230.0	-480.0
Add: Other Income	579.9	556.9	306.3	550.8
CF from investing activities	-2126.0	-106.0	-1133.7	-1139.2
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-2,096.9	-1,897.2	-1,997.0	-2,496.3
Inc/(dec) in Sec. premium & Othe	172.8	-17.1	-27.7	-29.1
CF from financing activities	-1924.0	-1914.3	-2024.7	-2525.3
Net Cash flow	15.3	-82.0	8.2	11.2
Opening Cash	241.9	257.1	175.2	183.4
Closing Cash	257.1	175.2	183.4	194.5

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	40.0	40.0	40.0	40.0
Reserve and Surplus	15,158.5	15,743.0	16,388.2	17,250.1
Total Shareholders funds	15198.4	15782.9	16428.2	17290.1
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	404.1	383.3	393.3	403.3
Others	448.3	475.4	485.4	495.4
Total Liabilities	16050.8	16641.6	17306.9	18188.8
Assets				
Gross Block	10,714.3	11,173.8	12,198.8	13,223.8
Less: Acc Depreciation	5,016.1	5,665.8	6,353.7	7,096.5
Net Block	5698.2	5508.0	5845.1	6127.3
Capital WIP	177.9	87.3	62.3	37.3
Total Fixed Assets	5,876.0	5,595.3	5,907.4	6,164.6
Investments	10,499.7	10,652.3	11,102.3	11,802.3
Inventory	1,469.6	1,122.7	1,385.8	1,511.0
Debtors	2,426.8	2,304.3	2,771.6	3,022.1
Loans and Advances	36.9	40.2	46.4	50.6
Cash	257.1	175.2	183.4	194.5
Total Current Assets	4,761.3	4,294.8	5,139.4	5,598.6
Creditors	5,204.6	4,260.4	5,081.2	5,540.5
Provisions	160.4	160.4	191.3	208.6
Total Current Liabilities	6,110.2	5,072.4	6,023.9	6,568.4
Net Current Assets	-1,348.9	-777.6	-884.5	-969.8
Application of Funds	16050.8	16641.6	17306.9	18188.8

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	148.4	123.8	132.3	168.2
Cash EPS	182.3	156.4	166.8	205.4
BV	761.1	790.3	822.6	865.8
DPS	105.0	95.0	100.0	125.0
Cash Per Share	420.3	423.1	383.4	394.0
Operating Ratios (%)				
EBITDA Margin	13.0	11.5	11.7	12.8
PBT / Net sales	10.9	9.3	9.6	10.8
PAT Margin	9.6	8.5	7.4	7.8
Inventory days	17.4	14.0	15.0	15.0
Debtor days	28.8	28.8	30.0	30.0
Creditor days	61.7	53.2	55.0	55.0
Return Ratios (%)				
RoE	19.5	15.7	16.1	19.4
RoCE	20.8	16.3	18.7	21.8
RoIC	44.7	33.5	33.8	38.6
Valuation Ratios (x)				
P/E	17.7	21.2	19.8	15.6
EV / EBITDA	11.0	13.1	11.4	9.5
Market Cap / Sales	1.7	1.8	1.6	1.4
Price to Book Value	3.4	3.3	3.2	3.0
Solvency Ratios				
Current Ratio	0.8	0.9	0.9	0.9
Quick Ratio	0.5	0.7	0.7	0.7

Source: Company, ICICI Direct Research

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