

## Healthy performance, more gains lie ahead...

**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, 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

**Q4FY24 Results:** Total 2-W sales volume for the quarter stood at 13.9 lakh units, up 10% YoY. Consequent topline in Q4FY24 came in at ₹ 9,519 crore, up 15% YoY. EBITDA in Q4FY24 stood at ₹ 1,359 crore with corresponding EBITDA margins at 14.3% (up 30 bps QoQ). PAT for the quarter came in at ₹ 1,016 crore, up 18% YoY. Blended ASPs for the quarter came in at ₹ 68,365/unit, up 2.6% QoQ. Gross margins expanded 90 bps on QoQ basis with ICE portfolio margins at 15.6%.

### Investment Rationale

- **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 Q4FY24 and April'24 volumes up ~20%+ on YoY basis. On high base & impending union election industry commentary is cautious on growth prospects in the 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 amid slew of exciting recent launches.
- **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. Consequently, we turn positive on HMCL and assign **BUY rating** on the stock. We have valued it at ₹ 5,600 i.e. 17x PE on standalone earnings and 3x P/B to its long-term investments

### Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24P)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	33,650.5	28,836.1	30,800.7	29,245.5	33,805.7	37,455.8	2.2%	43,340.8	48,181.7	13.4%
EBITDA	4,929.8	3,958.0	4,019.2	3,368.7	3,985.9	5,255.0	1.3%	6,425.4	7,238.5	17.4%
EBITDA Margins (%)	14.6	13.7	13.0	11.5	11.8	14.0		14.8	15.0	
Net Profit	3,384.6	3,633.3	2,964.1	2,472.9	2,910.3	3,967.3	3.2%	4,881.9	5,445.9	17.2%
Normalised Net Profit	3,384.6	3,202.6	2,964.1	2,472.9	2,910.3	4,076.1	3.8%	4,881.9	5,445.9	15.6%
EPS (₹)	169.5	181.9	148.4	123.8	145.7	198.7		244.5	272.7	
P/E	28.3	26.4	32.3	38.8	32.9	24.2		19.6	17.6	
RoNW (%)	26.3	22.7	19.5	15.7	17.4	22.7		25.1	25.8	
RoCE (%)	32.0	21.3	20.8	16.3	18.9	23.9		27.5	28.8	

Source: Company, ICICI Direct Research



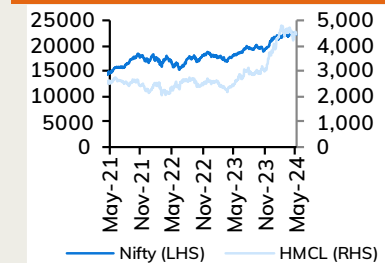
### Particulars

Particular	₹ crore
Market Capitalization	95,856
Total Debt (FY24P)	0
Cash & Inv. (FY24P)	8,383
EV	87,473
52 week H/L (₹)	4,980 / 2,572
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

- Posted healthy Q4FY24 results
- Sales/PAT growth seen at 13%/16% CAGR over FY24-26E
- Key Risk: (i) Slower than expected uptick in rural demand & consequent volumes (ii) lower than expected uptick in margins

### Research Analyst

Shashank Kanodia, CFA  
shashank.kanodia@icicisecurities.com

Manisha Kesari  
manisha.kesari@icicisecurities.com

## Key Takeaways of Recent Quarter

### Exhibit 1: Quarterly Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Total Operating Income	9,519	8,307	14.6	9,724	-2.1	Topline for the quarter was up 15% YoY amid 10% growth in volumes and 5% growth in ASP's
Raw Material Expenses	6,325	5,646	12.0	6,547	-3.4	Savings were realised on the raw material front with gross margins up 90 bps QoQ
Employee Expenses	644	557	15.6	602	7.0	
Other expenses	1,192	1,020	16.8	1,213	-1.8	Other expenses stood at 12.5% of topline
Operating Profit (EBITDA)	1,359	1,083	25.5	1,362	-0.2	
EBITDA Margins (%)	14.3	13.0	120 bps	14.0	30 bps	EBITDA margins for the quarter expanded 30 bps on QoQ basis at 14.3%
Other Income	180	237	-24.0	242	-25.6	
Interest	4.6	4.7	-2.6	4.5	0.9	
Depreciation	185.0	168.6	9.7	182.5	1.4	
PBT after Exceptional Items	1,349.5	1,146.5	17.7	1,416.9	-4.8	PBT was up 18% on YoY basis
Total Tax	333.5	287.7	15.9	343.6	-2.9	
PAT	1,016.0	858.8	18.3	1,073.3	-5.3	PAT for the quarter came in at ₹ 1,016 crore a growth of 18% on YoY basis
EPS (Adjusted)	50.9	43.0	18.3	53.7	-5.3	
<b>Key Metrics</b>						
Total 2-W Sales (lakh units)	13.9	12.7	9.6	14.6	-4.6	Volumes in Q4FY24 stood at 13.9 lakh units
Net Blended ASP (₹/unit)	68,365	65,382	4.6	66,604	2.6	ASP's for the quarter stood at ₹ 68,365/unit

Source: Company, ICICI Direct Research

### Q4FY24 Earnings Conference Call highlights

- Premium Segment:** HMCL is expanding the capacity of its premium offerings like Mavrick, Harley and Karizma to 10,000 per month, which will be commissioned in the next two months. It anticipates an improvement in market share within 125cc segment, with the recent launch of Xstream 125cc complimented by other offerings like Super Splendor, and Glamour Magnetic. It has surpassed sales of more than 10,000 units of Xstream 125cc per month and intends to increase the capacity for this segment to 1,000 units per day, resulting in a monthly capacity of ~30,000 units.
- New Launches and Distribution:** HMCL will be launching Xoom 125 and Xoom 160 scooters in H1FY25. As a part of Hero 2.0, it operates over 400 stores towards offering premium products like Karizma and Maverick, and plans to expand its distribution network.
- Exports:** HMCL has received an approval for forming subsidiary company in Brazil and it will concentrate more towards premium products in that region. It has recently changed the distribution in the export markets including Nigeria, which will augur well for FY25.
- Management Guidance:** HMCL aims for double digit revenue growth for FY25 with long term EBITDA Margin guidance of 14%-16%. Capex for FY25 is expected to be ₹ 1000 to 1500 crores. It witnesses a positive consumer sentiment across rural and urban areas with an increase in first time buyers, particularly in the 110cc entry level segment. It expects positive momentum to continue going forward.
- Others:** Overall financial penetration stood at ~60% and the contribution from Hero FinCorp is at ~30%. Price increase for the full year taken ~₹ 1300 to 1400 per vehicle. Revenue from Parts, Accessories, and Merchandise stood at ₹ 1,397 crores in Q4FY24, up by 10% YoY. For the full year FY24, the revenue came in at ₹5,087 crores (~2x over past 3-4 years)

Pure ICE margin stood at ~15.6% for the quarter. The negative impact of EV Margins of 130 bps has led to overall EBITDA margin for the quarter to be reported at 14.3%. The upcoming new EV launches for H1 FY25 will have PLI benefits. EV dealership network has grown to >120 cities, with number of dealerships reaching 180 stores

Exhibit 2: 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	57.2	61.2
Scooter volumes (lakh units)	7.4	4.2	4.6	3.2	3.7	4.3	4.8	5.2
Total volumes (lakh units)	78.2	64.1	57.8	49.4	53.3	56.2	62.0	66.4
Growth (% YoY)		-18.0%	-9.8%	-14.5%	7.8%	5.5%	10.3%	7.1%
Gross Blended ASP (₹/unit)	43,026	44,988	53,244	59,152	63,443	66,630	69,908	72,554

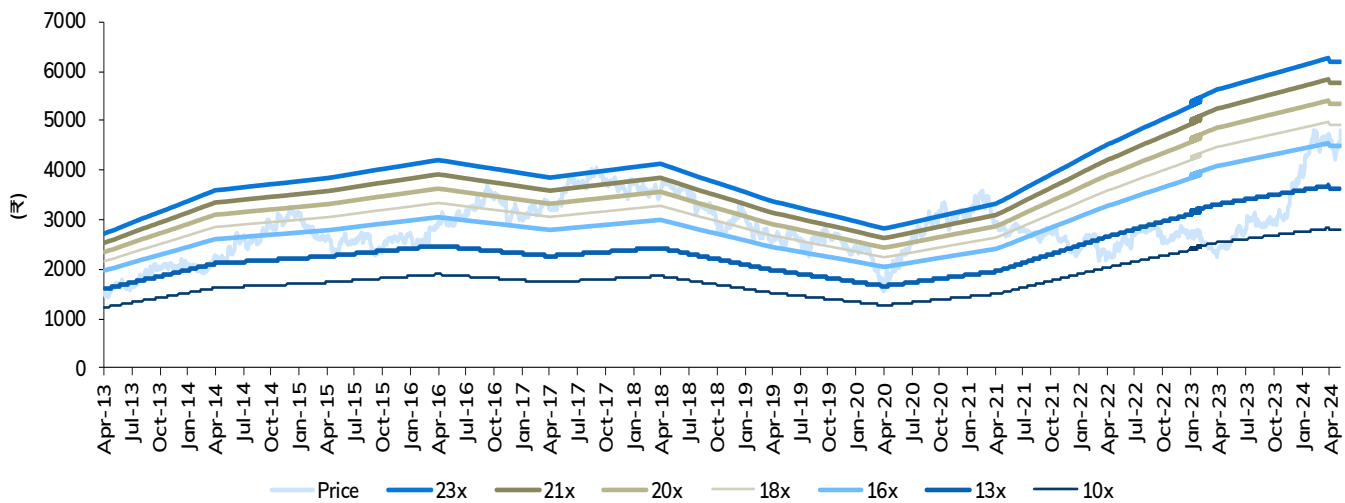
Source: ICICI Direct Research

Exhibit 3: SOTP Valuation

Particulars	Amount (₹)
FY26E Core EPS (₹/share, A)	272.7
P/E Multiple assigned (~20% discount to key competition, x, B)	17.0
Value of Base Business (C = A*B)	4,650
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)	5,600
Potential Upside (%)	17%

Source: ICICI Direct Research

Exhibit 4: Hero MotoCorp currently trades at ~17.5x PE on 2 year forward basis



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 5: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Total operating Income	33,806	37,456	43,341	48,182	
Growth (%)	15.6	10.8	15.7	11.2	
Raw Material Expenses	23,858	25,431	28,853	32,029	
Employee Expenses	2,190	2,402	2,644	2,891	
Other expenses	3,771	4,367	5,418	6,023	
Total Operating Expenditure	29,820	32,200	36,915	40,943	
EBITDA	3,986	5,255	6,426	7,239	
Growth (%)	18.3	31.8	22.3	12.7	
Depreciation	657	711	780	843	
Interest	20	19	18	17	
Other Income	565	893	899	902	
PBT	3,874	5,418	6,527	7,281	
Total Tax	964	1,290	1,645	1,835	
PAT	2,910	3,967	4,882	5,446	
Growth (%)	17.7	36.3	23.1	11.6	
Normalised PAT (₹)	2,910	4,076	4,882	5,446	
EPS (₹)	145.7	198.7	244.5	272.7	
Normalised EPS (₹)	145.7	198.7	244.5	272.7	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Profit after Tax	2,910	3,967	4,882	5,446	
Add: Depreciation & Interest	677	730	798	860	
Sub: Other Income	565	893	899	902	
(Inc)/dec in Current Assets	-954	140	-726	-1,292	
Inc/(dec) in CL and Provisions	552	920	556	793	
CF from operating activities	2,620	4,864	4,610	4,905	
(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	899	902	
CF from investing activities	-442	-1,897	-1,191	-1,088	
Inc/(dec) in loan funds	0	0	0	0	
Dividend paid & dividend tax	-1,997	-2,796	-3,395	-3,794	
Inc/(dec) in Sec. premium & Others	-11	91	-18	-17	
CF from financing activities	-2,008	-2,705	-3,413	-3,811	
Net Cash flow	170	263	7	6	
Opening Cash	175	346	609	615	
Closing Cash	346	609	615	621	

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
<b>Liabilities</b>					
Equity Capital	40	40	40	40	
Reserve and Surplus	16,665	17,946	19,433	21,085	
Total Shareholders funds	16,705	17,986	19,473	21,125	
Total Debt	0	0	0	0	
Deferred Tax Liability	405	435	445	455	
Others	529	606	616	626	
Total Liabilities	17,639	19,027	20,534	22,206	
<b>Assets</b>					
Gross Block	11,584	12,340	13,290	14,315	
Less: Acc Depreciation	6,323	7,034	7,814	8,658	
Net Block	5,261	5,306	5,476	5,657	
Capital WIP	129	121	171	146	
Total Fixed Assets	5,390	5,426	5,646	5,803	
Investments	11,010	13,086	14,186	15,186	
Inventory	1,434	1,444	1,781	1,980	
Debtors	2,798	2,703	2,969	3,960	
Loans and Advances	44	46	53	59	
Cash	346	609	615	621	
Total Current Assets	5,419	5,542	6,275	7,573	
Creditors	4,704	5,528	5,937	6,600	
Provisions	176	154	166	184	
Total Current Liabilities	5,624	6,544	7,100	7,893	
Net Current Assets	-205	-1,002	-825	-320	
Application of Funds	17,639	19,027	20,534	22,206	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY23	FY24P	FY25E	FY26E
<b>Per share data (₹)</b>				
EPS	145.7	198.7	244.5	272.7
Cash EPS	178.6	234.3	283.5	314.9
BV	836.5	900.7	975.1	1,057.8
DPS	100.0	140.0	170.0	190.0
Cash Per Share	361.7	419.8	450.2	475.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.8	14.0	14.8	15.0
PBT / Net sales	9.8	12.1	13.0	13.3
PAT Margin	8.6	10.6	11.3	11.3
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
<b>Return Ratios (%)</b>				
RoE	17.4	22.7	25.1	25.8
RoCE	18.9	23.9	27.5	28.8
RoIC	32.4	43.2	49.6	50.9
<b>Valuation Ratios (x)</b>				
P/E	32.9	23.5	19.6	17.6
EV / EBITDA	22.2	16.6	13.5	11.9
Market Cap / Sales	2.8	2.6	2.2	2.0
Price to Book Value	5.7	5.3	4.9	4.5
<b>Solvency Ratios</b>				
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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Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
Third Floor, Brillanto House,  
Road No 13, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal  
Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: Mr. Prabodh Avadhoot Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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