

January 24, 2024

Company Update | Sector: Automobile

Hero MotoCorp

New launches to expand premium positioning

Valuation and View

We attended HMCL's Hero World 2024 event centered around 1) New product launches such as, Xtreme 125R motorcycle (all new engine) at Rs95k (ex-show, non ABS variant) and Maverick X440 (rebadged of HD X440), 2) EV - product road-map showcase in scooters with targeted launch in varied form factors by 1HFY25. HMCL also showcased the concept EV motorcycles (product development underway) and near production ready ICE scooters such as Xoom 125 and 160. 3) Reiterated focus on premiumization across products (for both ICE and EV), distribution (ongoing store upgrades of Hero 2.0 and Hero Premia), complemented by digital initiatives for pre and post purchase functions. 4) Scale up global business by strengthening distribution. 5) Faster adoption of digital initiatives including retail financing where co is piloting the same in NCR. The co would focus on 4S strategy (Speed, Scale, Synergy and Simplification) to drive up next stage of growth. While we await Maverick pricing, the pricing of Xtreme 125R is competitive given overall customer value proposition. We maintain ADD with TP of Rs5,021 based on ~19x Mar'26 S/A EPS plus Rs118 for Hero FinCorp post 30% hold-co discount. We have raised target multiple to 19x (v/s 18x) to factor in for improving positioning in premium portfolio. Any success on newly launched ICE and VIDA supported by Ather's continued brand acceptance can be a key re-rating catalyst for the stock to watch for.

Key management meet and R&D center visit highlights: (PPT Link)

- New products to speed-up premiumization of portfolio** – Led by healthy response to recent new launches such as HD X440 (~25k bookings) and Karizma (~13.6k bookings), HMCL has further hosted its premium portfolio with the launch of 2 new bikes in a fast growing segment of 1) 125CC where it launched Xtreme 125R with all new EBT (engine balancer tech) engine at base price of Rs95k (ex-show) and 2) Maverick 440 (rebadged from HD 440X). We think with the launch of Xtreme 125R is in a sweet spot of premium 125 segment, given it would be a volume play (average monthly size of ~240k units per month in YTD FY24 with all LED, single channel ABS (segment first) and claimed fuel efficiency of up-to 66kmpl). 2) On the other hand, while the Maverick is rebadged from HD 440, the product seems more urban friendly and sporty in design. The pricing of the same is key to watch for to ensure significant volumes.
- Gradual supply chain augmentation and distribution of recent launches** – The management indicated gradual ramp-up in production of premium models especially HD and Karizma as they are running an order book of 2-3 months. HD capacity ramp-up to ~6k per month in Jan'24 from 2k units earlier. Similarly, the distribution is ramped up to HD sales happens through ~200 stores now vs 100 stores earlier.
- Charging up EV play as VIDA to launch 3 products by 1HFY25** – HMCL to extend VIDA portfolio with the launch of 3 EV scooters in mass, mid-priced and B2B segment in 1HFY25 and a new launch towards 2HFY25. Further, EV motorcycle portfolio too is under development (independent and tie-up with Zero motorcycles). The near term focus will be to expand distribution from ~100 cities (which include 150 dealerships, VIDA exclusive network in 28 cities).
- Digital penetration to increase significantly across business functions** – After revamping pre-booking and post-booking customer experience through digital initiatives (refer slide 33-42 of attached link above), HMCL has brought in retail finance platform eFin (currently piloting in NCR). By April, the same to scale up to pan India. There are 5 financiers and ~500 sanctions with average sanction time is 4.2 mins.

Reco	: ADD
CMP	: Rs 4,440
Target Price	: Rs 5,021
Potential Return	: +13%

Stock data (as on Jan 23, 2024)

Nifty	22.097
52 Week h/l (Rs)	4,561 / 2,246
Market cap (Rs/USD mn)	879,833 / 10,619
Outstanding Shares (mn)	200
6m Avg t/o (Rs mn):	2.368
Div yield (%):	2.3
Bloomberg code:	HMCL IN
NSE code:	HEROMOTOCO

Stock performance



Shareholding pattern (As of Dec'23)

Promoter	34.8%
FII+DII	55.9%
Others	9.3%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	5,021	4,763

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	216.4	241.2
EPS (Old)	216.4	241.2
% change	N/A	N/A

Financial Summary

Y/E MARCH (Rs b)	2024E	2025E	2026E
Sales	381.1	443.8	481.4
EBITDA	54.6	63.8	68.9
Adj. PAT	43.2	48.2	51.6
Adj. EPS (INR)	216.4	241.2	258.1
EPS Gr. (%)	48.6	11.4	7.0
BV/Sh. (INR)	942.3	1,063.5	1,191.5
RoE (%)	24.3	24.0	22.9
RoCE (%)	23.4	23.3	22.2
Payout (%)	58.5	57.2	57.9
P/E (x)	20.5	18.4	17.2
P/BV (x)	4.7	4.2	3.7
EV/EBITDA (x)	13.8	11.6	10.5
Div. Yield (%)	2.5	2.7	2.9

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Exhibit 1: Focus on 3 key aspects – win in premium, EV leadership and grow through digital initiatives



Win in Premium



Build EV Leadership



Being Digital

Source- Company, YEE Sec

Exhibit 2: Premiumization across products, experience and brands in focus

PRODUCT	EXPERIENCE	BRAND
<p>1. PREMIUM PORTFOLIO</p> <p>Karizma XMR H-D X440 MAVRICK 440</p>	<p>1. NEXT GEN SALES EXPERIENCE</p> <p>HERO 2.0</p>	<p>1. BUILDING BRANDS, CULTURE</p>
<p>2. PREMIUMIZING THE CORE</p> <p>VTEC RANGE 125R</p>	<p>2. SERVICE EXPERIENCE</p> <p>PREMIA Service</p>	<p>2. BIKING MERCHANDISE</p>

Source- Company, Yes Sec

Exhibit 3: New launch pipeline to be aggressive led by the launch of new form factors



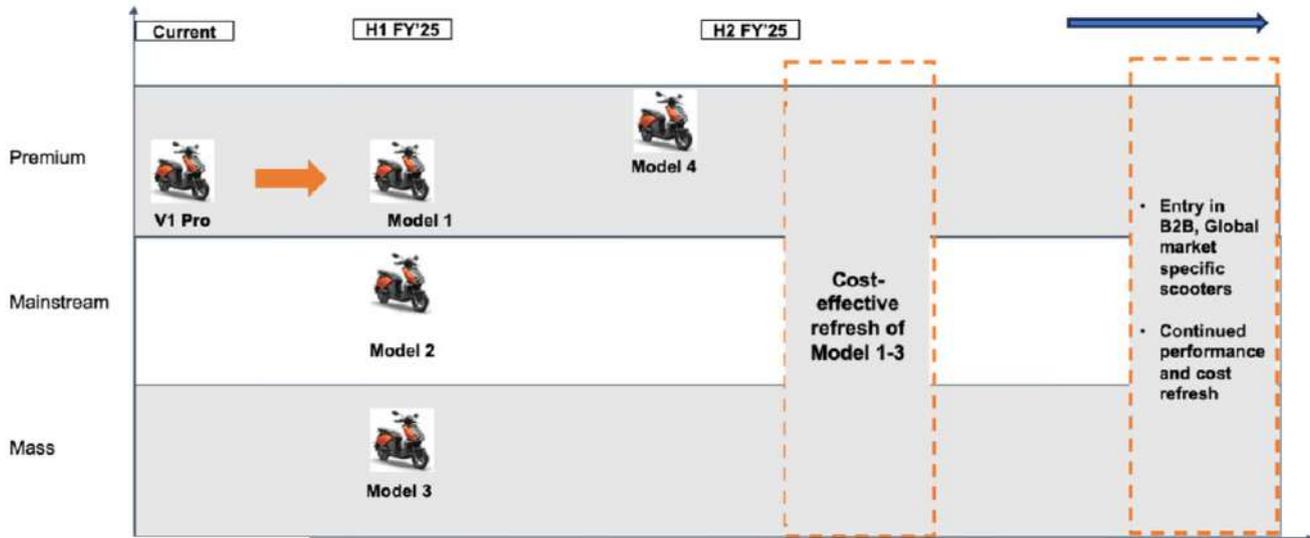
Source- Company, Yes Sec

Exhibit 4: Preimumizing core portfolio through launch of XTEC variants



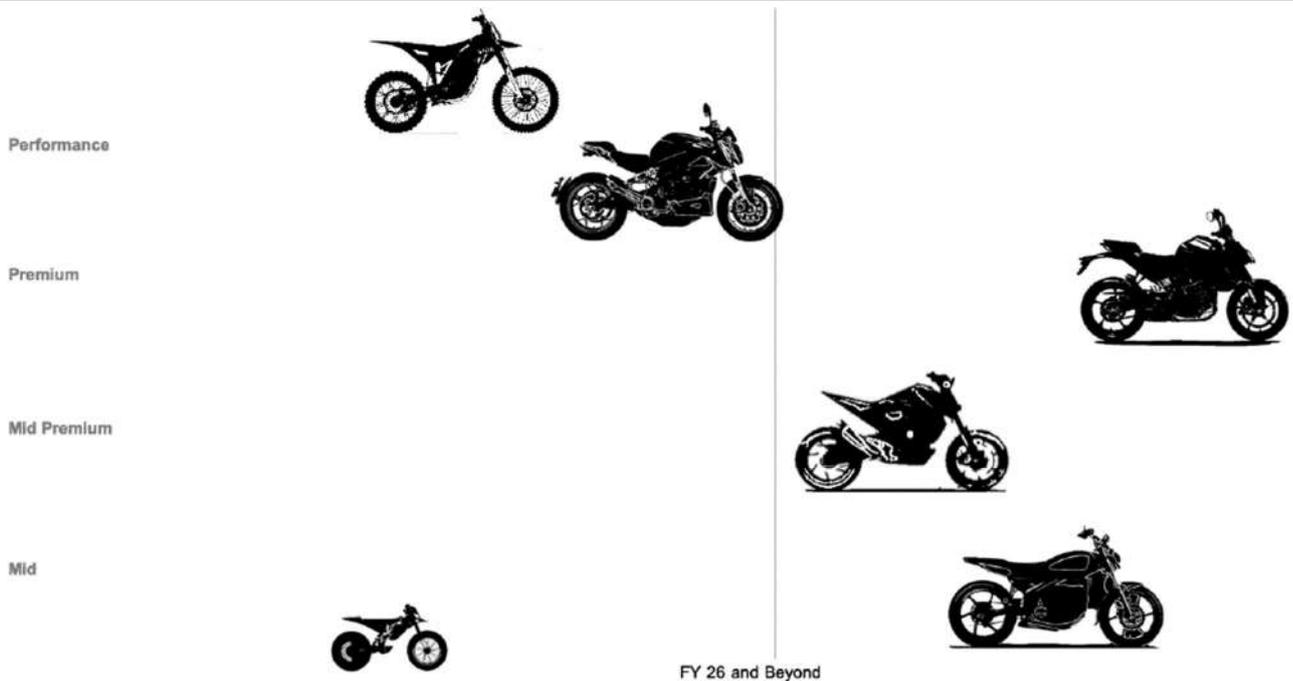
Source- Company, Yes Sec

Exhibit 5: VIDA – EV scooter portfolio expansion to be speed-up from 1HFY25



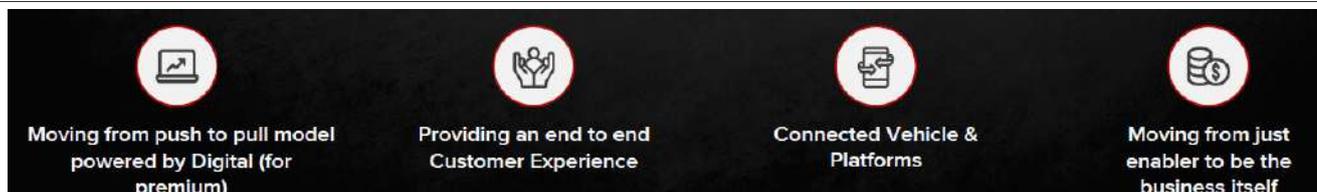
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Exhibit 6: VIDA – EV motorcycles portfolio under development



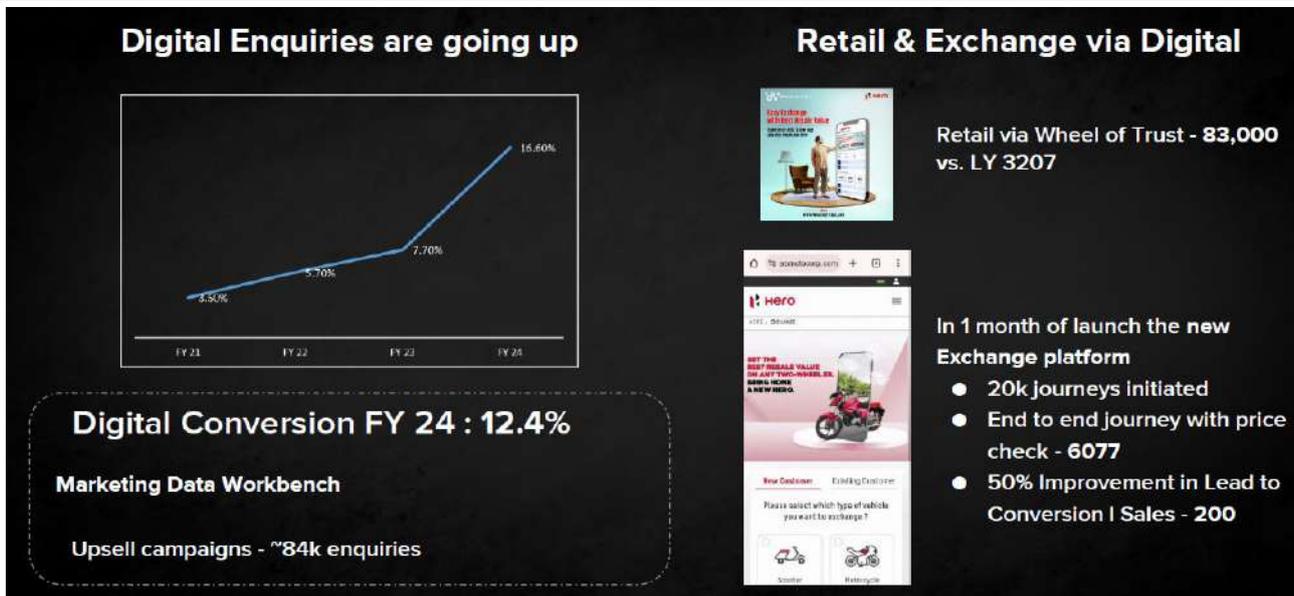
Source- Company, Yes Sec

Exhibit 7: Digital – moving from push to pull model for end to end pre and post vehicle purchase experience



Source- Company, Yes Sec

Exhibit 8: Digital – share increasing across enquiries, conversion, retail and exchange platforms



Source- Company, Yes Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/E March	2021	2022	2023	2024E	2025E	2026E
Sources of Funds						
Share Capital	400	400	400	400	400	400
Reserves	151,585	157,430	166,651	187,916	212,131	237,726
Net Worth	151,984	157,829	167,051	188,316	212,531	238,126
Deferred Tax	4,041	3,833	4,054	4,054	4,054	4,054
Loans	2,758	2,974	3,306	3,306	3,306	3,306
Capital Employed	158,783	164,636	174,410	195,675	219,890	245,485
Application of Funds						
Gross Fixed Assets	142,362	146,657	151,942	156,584	170,584	182,584
Less: Depreciation	82,478	88,592	94,328	101,578	109,594	118,246
Net Fixed Assets	59,884	58,065	57,614	55,006	60,990	64,337
Capital WIP	4,366	4,582	4,638	6,000	8,000	8,000
Investments	104,997	106,523	110,104	130,104	126,104	122,104
Curr.Assets, L & Adv.	52,364	47,970	60,276	73,649	98,397	130,878
Inventory	14,696	11,227	14,341	16,139	21,145	22,937
Sundry Debtors	24,268	23,043	27,982	31,266	36,416	39,503
Cash & Bank Balances	2,572	1,751	3,455	10,045	21,971	47,975
Loans & Advances	397	402	436	487	567	615
Others	10,432	11,547	14,062	15,712	18,298	19,849
Current Liab. & Prov.	62,827	52,505	58,221	69,083	73,600	79,834
Sundry Creditors	52,046	42,603	47,045	57,496	61,085	66,263
Other Liabilities	7,452	6,516	7,438	8,070	9,398	10,194
Provisions	3,328	3,385	3,738	3,517	3,118	3,377
Net Current Assets	(10,463)	(4,534)	2,055	4,566	24,796	51,044
Miscellaneous Expenditures	-	-	-	-	-	-
Application of Funds	158,784	164,636	174,410	195,675	219,890	245,485

Source: Company, YES Sec

Exhibit 10: Income statement

Y/E March	2021	2022	2023	2024E	2025E	2026E
Net Revenues	308,006	292,455	338,057	381,063	443,777	481,392
Change (%)	6.8	(5.0)	15.6	12.7	16.5	8.5
EBITDA	40,192	33,688	39,862	54,577	63,801	68,917
EBITDA Margin (%)	13.0	11.5	11.8	14.3	14.4	14.3
Depreciation	6,769	6,498	6,570	7,250	8,016	8,653
EBIT	33,424	27,190	33,293	47,327	55,786	60,265
Interest cost	218	258	199	179	159	139
Other Income	5,799	5,569	5,652	9,833	8,550	8,550
Non-recurring Expense	-	-	-	-	-	-
PBT	39,004	32,501	38,746	56,981	64,177	68,676
Tax	9,362	7,771	9,640	13,732	15,980	17,100
Effective Tax Rate (%)	24.0	23.9	24.9	24.1	24.9	24.9
PAT	29,642	24,730	29,106	43,248	48,197	51,576
Change (%)	(18.4)	(16.6)	17.7	48.6	11.4	7.0
% of Net Sales	9.6	8.5	8.6	11.3	10.9	10.7
Adj. PAT	29,642	24,730	29,106	43,248	48,197	51,576
Change (%)	(4.2)	(16.6)	17.7	48.6	11.4	7.0

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/E March	2021	2022	2023	2024E	2025E	2026E
Profit before Tax	29,642	24,730	19,106	56,981	64,177	68,676
Depreciation & Amort.	6,769	6,498	6,570	7,250	8,016	8,653
Direct Taxes Paid	(9,759)	(7,688)	(8,496)	(13,732)	(15,980)	(17,100)
(Inc)/Dec in Working Capital	10,700	(6,825)	(5,832)	4,079	(8,305)	(244)
Interest/Div. Received						
Other Items	4,375	3,488	14,443	179	159	139
CF from Oper. Activity	41,727	20,203	25,791	54,756	48,067	60,123
Extra-ordinary Items	-	-	-	-	-	-
CF after EO Items	41,727	20,203	25,791	54,756	48,067	60,123
(Inc)/Dec in FA+CWIP	(5,146)	(5,347)	(5,777)	(6,004)	(16,000)	(12,000)
Free Cash Flow	36,581	14,856	20,014	48,752	32,067	48,123
(Pur)/Sale of Invest.	(16,953)	3,828	1,089	(20,000)	4,000	4,000
CF from Inv. Activity	(22,099)	(1,519)	(4,688)	(26,004)	(12,000)	(8,000)
Inc/(Dec) in Debt	(218)	(149)	(224)			
Interest Paid	(218)	(258)	(199)	(179)	(159)	(139)
Dividends Paid	(18,978)	(18,981)	(19,983)	(21,984)	(23,982)	(25,981)
CF from Fin. Activity	(19,415)	(19,389)	(20,406)	(22,162)	(24,141)	(26,119)
Inc/(Dec) in Cash	213	(705)	697	6,590	11,926	26,004
Add: Beginning Balance	1,479	1,692	987	3,455	10,045	21,971
Closing Balance	1,692	987	1,684	10,045	21,971	47,975

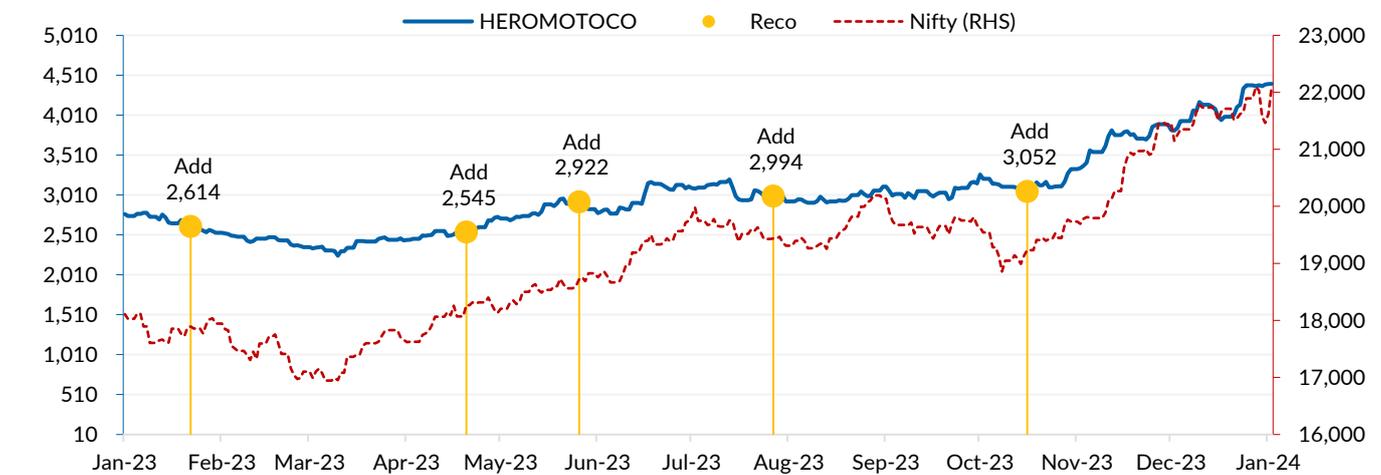
Source- Company, Yes Sec

Exhibit 12: Growth and Ratio matrix

Y/E March	2021	2022	2023	2024E	2025E	2026E
Basic (INR)						
EPS	148.4	123.8	145.6	216.4	241.2	258.1
EPS Growth (%)	(4.0)	(16.6)	17.7	48.6	11.4	7.0
Cash EPS	182.2	156.3	178.5	252.7	281.3	301.4
Book Value per Share	760.7	789.9	835.9	942.3	1,063.5	1,191.5
DPS	105.0	95.0	100.0	110.0	120.0	130.0
Payout (Incl. Div. Tax) %	81.4	88.3	79.0	58.5	57.2	57.9
Valuation (x)						
P/E	28.1	33.7	28.7	19.3	17.3	16.2
EV/EBITDA	18.1	21.6	18.2	12.8	10.8	9.7
EV/Sales	2.4	2.5	2.1	1.8	1.6	1.4
Price to Book Value	5.5	5.3	5.0	4.4	3.9	3.5
Dividend Yield (%)	2.5	2.3	2.4	2.6	2.9	3.1
Profitability Ratios (%)						
RoE	20.2	16.0	17.9	24.3	24.0	22.9
RoCE	19.5	15.4	17.3	23.4	23.3	22.2
RoIC	48.2	42.0	46.3	67.9	73.9	69.0
Turnover Ratios						
Debtors (Days)	30.3	30.3	31.9	31.6	31.6	31.6
Inventory (Days)	18.4	14.8	16.3	16.3	18.3	18.3
Creditors (Days)	61.7	53.2	50.8	55.1	50.2	50.2
Working Capital (Days)	(12.4)	(5.7)	2.2	4.4	20.4	38.7
Asset Turnover (x)	1.9	1.8	1.9	1.9	2.0	2.0
Fixed Asset Turnover	2.2	2.0	2.3	2.5	2.7	2.7

Source- Company, Yes Sec

Recommendation Tracker



Source - YES Sec

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