

Strong Rural demand

CMP: INR 4,604

Rating: Accumulate

Target Price: INR 5,456

Stock Info

BSE	500182
NSE	HEROMOTCO
Bloomberg	HMCL IN
Reuters	HROM.BO
Sector	Auto-2&3wheelers
Face Value (INR)	2
Equity Capital (INR Mn)	400
Mkt Cap (INR Mn)	920,710
52w H/L (INR)	6,245 / 3,130
Avg Yearly Vol (in 000')	753

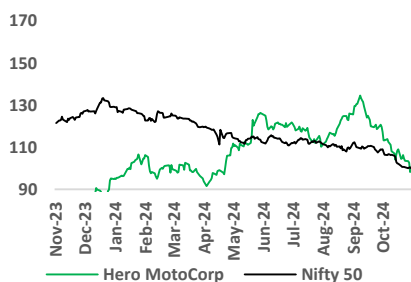
Shareholding Pattern %

(As on Sept, 2024)

Promoters	34.75
FII	29.59
DII	26.94
Public & Others	8.72

Stock Performance (%)	1m	3m	12m
HMCL	-6.3%	-2.53%	21.0%
Nifty	-17.1%	-9.2%	47.6%

HeroMotoCorp Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

HeroMotoCorp reported exceptionally strong Result; Beat our estimate on all front. Standalone revenue stood at INR 104,632 Mn, against our estimate of INR 101,410 Mn registering a growth of 10.78% YoY/3.15% QoQ. EBITDA stood at INR 15,159 Mn, against our estimate of INR 14,740 Mn, Registering a growth of 14.12% YoY/3.85%QoQ. On the margins front, EBITDA margin expansion by 40 bps YoY/10 bps QoQ to 14.5%, against our estimate of 14.5%. Standalone PAT saw a growth of 14.21% YoY/7.21%QoQ to INR 12,035 Mn against our estimate of INR 11,250 Mn.

Investment Rationale

Balanced Demand Growth Across Urban and Rural Markets: The demand during the festive season has been very balanced between urban and rural markets, with rural demand performing slightly higher but both showing strong, double-digit growth. The pent-up demand before the festival and the upcoming wedding season contributed to this. Overall, 13% growth was achieved, with rural markets slightly outperforming urban ones. In the EV market, growth has been particularly strong in towns like Kolkata, Mysore, Cuttack, and Dilwada, driven by robust dealer networks, a trusted brand presence, and the expansion of premium store footprints.

Strong Traction in EV Business led by festival sales: With volumes scaling up to 5,000 units per month and reaching 11,600 units during the festive period. This growth led to a 20% market share in five cities and 10% in 10 cities. The highest-ever festival sales of 1.6 million units were recorded, contributing to a 16% revenue growth during the 32-day festive period. Vahan market share also improved to 31.6%. Moving forward, investments will focus on expanding the premium EV portfolio, enhancing customer experience in stores with Hero 2.0, and increasing digital and technological capabilities.

Continuous Margin Improvement Driven by Premiumization: Margins have steadily improved due to a combination of commodity benefits, leap savings, and a stronger product mix, driven by premiumization efforts like the ExTech series. EV investments have added 200bps, while cost reductions and scale efficiencies are further supporting growth. As the cost curve improves, margin growth may stabilize, but continued investments are essential. The target margin range remains 14-16%.

Outlook and Valuation

Hero MotoCorp's Q2FY25 strong growth, driven by robust demand in both rural and urban markets, achieving a 31.6% MS. A positive outlook for the rural market is supported by a revival in demand, while the company's focus on premiumizing its product portfolio, EV expansion, and new launches, including Vida's 20% MS in select cities, continues. Investments in brand-building, premium stores, and sustainability initiatives will remain key, with margins expected to stay within the 14-16% target range.

We maintain our Accumulate rating on the stock value it SOTP valuation for a revised target price of INR 5,456 per share (INR 164/120 for Ather Energy/Hero Fincorp)

Exhibit 1: Financial overview

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY24	3,74,557	52,555	39,678	198.5	14.03	22.9	23.2
FY25E	4,21,568	61,527	47,707	238.7	14.59	25.6	19.3
FY26E	4,60,728	67,768	52,190	261.1	14.71	33.6	17.6
FY27E	5,03,428	75,128	57,447	287.4	14.92	26.3	16.0

Source: Arihant Research, Company Filings

Exhibit 2: Q2FY25 - Quarterly Performance (Consolidated)

Standalone (INR mn)	Q2FY25	Q1FY25	Q2FY24	QoQ (%)	YoY (%)
Net sales	1,04,632	1,01,437	95,193	3.1	9.9
- Raw material	69,795	68,672	63,249	1.6	10.4
(% of net sales)	66.7	67.7	66.4	-99bps	26bps
Gross Profit	34837.3	32765.7	31944.5	6.3	9.1
(% of net sales)	33.3%	32.3%	33.6%	1bps	0bps
- Staff expenditure	6,535	6,083	6,437	7.4	1.5
(% of net sales)	6.2	6.0	6.8	25bps	-52bps
- Other expenditure	13,143	12,085	11,916	8.8	10.3
(% of net sales)	12.6	11.9	12.5	65bps	4bps
Total expenditure	89,473	86,840	81,602	3.0	9.6
EBITDA	15,159	14,598	13,592	3.8	11.5
EBITDA Margin (%)	14.5	14.4	14.3	10bps	21bps
Depreciation	1,937	1,932	1,851	0.3	4.7
EBIT	13,222	12,666	11,741	4.4	12.6
Interest	49	48	46	2.5	8.1
Other Income	2,830	2,317	1,800	22.1	57.2
PBT	16,003	14,935	13,496	7.2	18.6
Tax	3,967	3,708	3,335	7.0	18.9
Reported PAT	12,035.4	11,226.3	10,160.5	7.2	18.5
Adjusted PAT	12,035	11,226	10,161	7.2	18.5
Adjusted EPS (INR)	60.18	56.15	50.84	7.2	18.4

	Q2FY25	Q1FY25	Q2FY24	QoQ (%)	YoY (%)
Motorcycles	14,16,134	14,40,956	1307048	(1.7)	8.3
Scooters	1,03,550	94,200	109478	9.9	(5.4)
Total	15,19,684	15,35,156	1416526	(1.0)	7.3
Domestic	14,56,504	14,84,162	1363940	(1.9)	6.8
Exports	63,180	50,994	52586	23.9	20.1
Net realization (INR)	68,851	66,076	67,202	4.2	2.5
EBITDA / vehicle (INR)	9,975	9,509	9,595	4.9	4.0

Source: Arianth Research, Company Filings

HeroMoto Corp –Q2FY25 Concall KTAs

Shubh Muhurat Aaya, Hero Saath Laya

Optimism remains strong in the 2W segment, with expectations of robust growth in both rural and urban markets. The focus is on becoming more repeatable and emphasizing product development to drive sustainable growth with a forward-looking perspective. In the upcoming ICE segment, the focus is also on cost leadership, expanding premium stores, and building a powerful brand within this space. maintaining a 14-16% margin despite ongoing investments.

Good recovery was seen in H1, with plans to ramp up in H2FY25. Revenue is diversifying, and more growth is expected. The medium-term target is to scale up the existing business.

Investments in brand building continue, with several new launches and scooters expected in the next 6 months. Optimism remains about the overall economy, especially in the auto sector.

Cash flow: In Q2FY25 INR 28170 Mn in cash from operations in H1FY25, up 160% YoY, strengthening financial position.

Realization & Discounts: Increased in realization per unit is INR 2,700 (INR 1,400 from 2w and the rest from parts). Spare parts revenue continues to improve, and two-wheeler realization is on the rise.

New launches: The existing strong brands continue to perform well in the entry-level and deluxe segments, while the premium portfolio is rapidly expanding with 3 new models (Xpulse 210, Xtreme 250R, and Karizma XMR 250) to be launched in the next 6 months, and a target to open 100 premium stores by the end of the fiscal year, supported by strong financials for aggressive brand-building investments.

Demand Outlook: Achieved highest-ever sales of 1.6 mn units during the festive season, with 16% revenue growth in 32 days. Strong rural demand was observed, and urban markets also contributed. Both rural and urban demand grew in double digits, with rural demand slightly higher.

Several new models in the scooter segment are planned, including both ICE and EV options. By March 2025, 3 new ICE scooter models featuring best-in-class features will be launched. VIDA market share continues to grow, with plans to expand the portfolio to cover all price segments soon.

Margins: Improved by 160 bps to 16.5%, driven by mix improvement, lower material costs, and cost savings. increased by 40 bps to 14.5%, despite INR 1750 Mn investment in EV business. EV, Doubled to 5,000 units/month, scaled up to 11,600 units during the festive period and Gained 20% MS in 4 town and 10% in 10 town during the festive period. Markets like Kolkata, Mysore, Kolkata and Bhilwara saw 20% MS, with strong participation in cities like Delhi, Bineshwar, and Patna, driven by a robust sales network and growing demand for reliable EVs from Hero. The expansion of Premia stores and increased dealer density in these regions are further boosting growth and customer conversions.

Vida: Hero's EV business, Vida, is gaining traction with 11,600 units sold during the festive period and MS reaching 20% in some cities. They plan to expand the EV portfolio across price points in the coming months. The first Hero Premia Store was inaugurated in New Delhi,

EV Segment: Initially focused on the high-end market, there is a gradual shift toward more affordable price segments.

In the scooter category, new user segments are targeted for FY25.

Sustainability: A steadfast commitment to ESG metrics has led to significant improvements in the S&P Dow Jones Sustainability Index (DJSI) score, increasing from 51 to 69. Hero MotoCorp now ranks #1 in India's two-wheeler industry and 4th globally in the automotive sector.

Vahan Market Share: Improved to 31.6% during the 32-day festive period, reflecting strong customer confidence in Hero.

Wedding season: Combined with the festive period, is expected to continue supporting strong sales. Retail sales for the period reached 11.6 lakh units, with a 5.4% ms. All regions showed uniform growth, with top markets continuing to expand.

Margins continuous improvement investment behind EV of 200bps. Growth targets remain aligned, with expected margin improvements continuing.

PLI Compliance: Full compliance with the PLI scheme is expected by FY26.

Automotive Market Trends: The two-wheeler segment has benefited from government spending over the past 4 years, particularly in the union budget, which has supported long-term employment and economic growth.

HFCL: the finance administration during the festive period, the number was close to 66% of which HFCL was around 26%. Performance in H1FY25 saw a slowdown in collections, impacting profitability. However, collections are expected to improve in H2FY25, with a 16% growth YoY in the loan book. GNPA increased due to external economic factors.

Premia Store Expansion: 100 Hero Premia stores are planned to open by FY25. A sustainable Premia store is expected to break even within 12-18 months. There is strong dealer interest, with existing dealers benefiting from higher profits.

Volume & Market Growth: Achieved 30% growth, compared to the industry's 16% growth. In H1FY25, sales grew by 60 bps. Positive traction is seen in Columbia and Mexico, with Bangladesh, Turkey, and Nigeria expected to contribute positively once the economic situation stabilizes.

Quick Commerce: Expansion is underway into the entry-level motorcycle and EV scooter segments, including low and medium-end models. Custom B2B segments and quick commerce are also developing. 30k vehicles have been sold through quick commerce channels.

Customer Behaviour: Customers are becoming smarter, influencing production ramp-ups based on demand. Rural participation continues to grow, with regional delays being addressed. The 125cc segment, including the Extreme and Glamour models, is seeing strong demand, and continued growth is expected in this category.

Discounts remain in line with expectations and do not significantly impact revenue compared to other quarters.

Key Financials

Profit & Loss Statement

YE: Mar (INR mn)	FY24	FY25E	FY26E	FY27E
Net sales	3,74,557	4,21,568	4,60,728	5,03,428
Growth, %	11	13	9	9
RM expenses	-2,54,308	-2,90,039	-3,16,520	-3,44,848
Employee expenses	-24,023	-25,294	-27,644	-30,206
Other expenses	-43,671	-44,708	-48,797	-53,246
EBITDA	52,555	61,527	67,768	75,128
Growth, %	32	17	10	11
Margin, %	14.0	14.6	14.7	14.9
Depreciation	-7,114	-8,080	-8,643	-9,318
EBIT	45,441	53,447	59,125	65,811
Growth, %	36	18	11	11
Margin, %	12.1	12.7	12.8	13.1
Interest paid	-185	-189	-189	-189
Other Income	8,926	9,104	9,286	9,472
Non-recurring Items	-	-	-	-
Pre-tax profit	54,182	62,362	68,222	75,094
Tax provided	-12,904	-14,655	-16,032	-17,647
Profit after tax	41,278	47,707	52,190	57,447
Others (Minorities, Associates)	-	-	-	-
Net Profit	39,678	47,707	52,190	57,447
Growth, %	36	20	9	10
Net Profit (adjusted)	39,678	47,707	52,190	57,447

Balance Sheet

YE: Mar (INR mn)	FY24	FY25E	FY26E	FY27E
Cash & bank	6,089	7,994	20,455	37,540
Marketable securities cost	1,16,095	1,14,618	1,12,994	1,11,207
Debtors	27,034	33,494	36,606	39,998
Inventory	14,438	16,250	17,759	19,405
Loans & advances	457	521	569	620
Other current assets	7,408	8,149	8,964	9,860
Total current assets	55,427	66,408	84,353	1,07,423
Investments	14,766	16,243	17,867	19,654
Gross fixed assets	1,74,669	1,84,669	1,99,669	2,14,669
Less: Depreciation	-1,08,023	-1,16,103	-1,24,746	-1,34,064
Add: Capital WIP	1,206	1,206	1,206	1,206
Net fixed assets	66,646	68,566	74,923	80,605
Total assets	2,50,611	2,77,472	3,01,772	3,30,516
Current liabilities	66,299	74,902	81,578	88,747
Provisions	4,708	10,340	12,261	13,809
Total current liabilities	71,007	85,242	93,838	1,02,556
Non-current liabilities	-257	-257	-257	-257
Total liabilities	70,749	84,985	93,581	1,02,299
Paid-up capital	399.4	400.0	400.0	400.0
Reserves & surplus	1,79,462	1,92,087	2,07,791	2,27,816
Shareholders' equity	1,79,861	1,92,487	2,08,191	2,28,216
Total equity & liabilities	2,50,611	2,77,472	3,01,772	3,30,516

Cash Flow				
YE: Mar (INR mn)	FY24	FY25E	FY26E	FY27E
Pre-tax profit	54,182	62,362	68,222	75,094
Depreciation	7,114	8,080	8,643	9,318
Chg in working capital	11,743	5,158	3,113	2,732
Total tax paid	-12,610	-14,655	-16,032	-17,647
CFO	51,689	52,031	54,848	60,214
Capital expenditure	-9,920	-10,000	-15,000	-15,000
Chg in investments	(20,757)	-	-	-
Other investing activities	8,926	9,105	9,205	9,307
CFI	-21,752	-895	-5,795	-5,693
Free cash flow	21,011	42,031	39,848	45,214
Debt raised/(repaid)	0	0	0	7
Dividend (incl. tax)	-29,685	-35,082	-36,486	-37,421
CFF	-29,870	-35,271	-36,674	-37,603
Net chg in cash	66	15,864	12,379	16,918
Opening cash balance	3,455	6,089	7,994	20,455
Closing cash balance	6,089	7,994	20,455	37,540

Ratios				
YE: Mar	FY24	FY25E	FY26E	FY27E
EPS (INR)	198.5	238.7	261.1	287.4
PER (x)	23.2	19.3	17.6	16.0
Price/Book (x)	5.1	4.8	4.4	4.0
EV/EBITDA (x)	15.2	13.0	11.6	10.3
EV/Net sales (x)	2.1	1.9	1.7	1.5
RoE (%)	22.9	25.6	26.1	26.3
RoCE (%)	31.4	33.6	34.2	34.5
Fixed Asset turnover (x)	2.1	2.3	2.3	2.3
Dividend Yield (%)	2.9	3.3	3.4	3.5
Receivable (days)	26	29	29	29
Inventory (days)	16	16	16	17
Payable (days)	63	64	64	64
Net D/E ratio (x)	(0.7)	(0.6)	(0.6)	(0.7)

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	6 Lad Colony, Y.N. Road, Indore - 452003, (M.P.) Fax: (91-731) 4217101

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion, and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880