



Duration: 6-9 Months

CMP (Rs)	Target (Rs)	Potential Upside (%)
5,551	6,106	10%

MARKET DATA

No. of Shares	20 cr
Market Cap (Rs Cr)	1,10,987 cr
52-week High / Low	5894 / 2889
BSE Code	500182
NSE Code	HEROMOTOCO

Why Hero Motocorp Ltd ?

- ✓ **Rural Recovery**
- ✓ **Focus on Premiumisation – New Products Launched**
- ✓ **Robust margin trajectory**

About the Company

Hero Motocorp Ltd (Hero) holds the market leader position in the Indian 2W industry with a market share of ~34.6% (as of Mar'22). Motorcycles constitute the primary source of its revenue, contributing ~94% of total volumes, while scooters contribute 6% to its total volumes. Hero is primarily focused on the domestic market, with ~94% of its volumes originating from India. Entry-level motorcycles (75cc to 110cc) represent a significant portion of ~75% of overall volumes. The company operates six plants in India and two international plants in Colombia and Bangladesh. Hero boasts a domestic manufacturing capacity of 9.30 Mn units per annum and a Global capacity of 0.23 Mn units per annum.

Investment Rationale

- A. **New Products Rollout, Execution Strategy to be in Spotlight:** With the launch of differentiated products offering multiple industry-first features, Hero has built a strong product portfolio, thereby filling white spaces. The company has a clear strategy to win market share in the premium category of 2W, growing EV business, expanding Premia stores, upgrading existing stores to Hero 2.0, and investing in marketing (via both traditional and digital routes). While the change in top management has hit the throttle – all eyes are now on volume growth in coming quarters.
- B. **2W Business:** The current industry (domestic + exports) volumes in FY24E are approximately 14-16% below the industry peak of around 2.45 crore units in FY2018-19 (pre-COVID). This suggests that there is still potential for growth in the 2W industry, largely led by the expected revival in the rural economy. Overall, in the 2W domestic industry, we expect the 125cc and above segment to grow faster than the entry-level segment. With stable increase in models, we expect the company to grow at par with the industry (previously below industry). As the execution strategy plays out in FY25, we conservatively build in a 7% CAGR volume growth over FY23-26E for Hero.
- C. **Strong EBITDA Margins:** The company's EBITDA margin in Q3 came in at 14%, with ~a 200bps impact due to EV-related expenses. It is expected to improve further on the back of new product launches in the premium category and the management's focus on exports in key geographies. With commodity prices expected to largely remain stable, operational efficiency in EVs, and higher ASP led by product premiumization, we factor in a conservative 14.5% EBITDA margin in FY26E.
- D. **Outlook & Valuation:** We closely monitor (1) Hero's roadmap in the EV product portfolio – investments in Ather, ramp up of VIDA, and association with Gogoro. (2) Foray into the mid-weight MC segment (Karizma, HarleyX440, Mavrick440) amidst the landscape of increasing competition where both existing and new players are seeking to gain market share. Actual volume growth across key segments will be the key monitor. We expect 2W industry growth to play in favor of Hero specifically in the entry and 125cc segment.
- E. **Recommendation:** We recommend a BUY on the stock with a target price of Rs 6,106 /share, implying an upside of 10% from the CMP 5,551.

Financial Summary

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	EV/ EBITDA	P/BV	RoE (%)
FY23A	33,806	3,991	2,910	145	16.2	11.7	2.8	17.9
FY24A	37,456	5,256	4,089	205	23.1	17.8	5.2	23.6
FY25E	40,736	5,647	4,486	225	24.7	15.0	3.7	19.1
FY26E	44,081	6,322	4,979	249	22.3	12.6	3.1	17.7

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