

Strong Rural demand

CMP: INR 4,230

Rating: Buy

Target Price: INR 5,168

Stock Info	
BSE	500182
NSE	HEROMOTCO
Bloomberg	HMCLIN
Reuters	HROM.BO
Sector	Auto-2&3wheelers
Face Value (INR)	2
Equity Capital (INR Mn)	400
Mkt Cap (INR Mn)	85,49,08
52w H/L (INR)	6,245 / 3,999
Avg Yearly Vol (in 000')	719

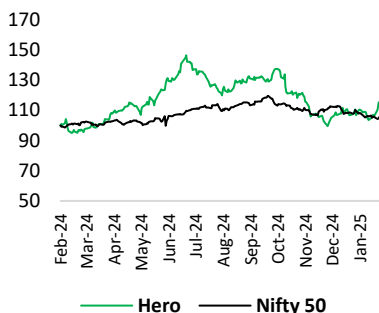
Shareholding Pattern %

(As on Dec, 2024)

Promoters	34.75
FII	29.59
DII	18.0
Public & Others	19.2

Stock Performance (%)	1m	3m	12m
HMCL	2.4	-11.4	-11.0
Nifty	-0.5	-2.5	7.4

HeroMotoCorp Vs Nifty



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HeroMotoCorp reported standalone revenue stood at INR 102,108 Mn, above our estimate of INR 101,290 Mn down by 2.4% QoQ/+5% YoY. EBITDA stood at INR 14,765 Mn, above our estimate of INR 14,229 Mn, down by 2.6%QoQ/+8.4%YoY. On the margins front, EBITDA margin down by 3 bps QoQ/+45bps YoY to 14.5%, above our estimate of 14%. Reinforcing the focus on both revenue as well as profitability. Standalone PAT saw an increase of 12.1%YoY/flat QoQ to INR 12,028 Mn above our estimate of INR 11,145 Mn. EPS stood at INR 60.15 in Q3FY25 against INR 60.18 in Q2FY25 (INR 53.70 in Q3FY24). The total volumes (Motorcycles + Scooters) flat YoY/- 3.7% QoQ to 14,63,802 units. The company realizations grew 4.7% YoY/1.3% QoQ. The company EBITDA per Vehicle was increased by 1.1% QoQ/+8.1% YoY of INR 10,087 against 9,975 in Q2FY25.

Investment Rationale

Strategic Expansion in the EV Segment: The company has recently launched the Vida V2 series, upgrading the V1 platform to enhance its presence in the EV market. Additionally, the introduction of the Vida V2 Lite, a sub-1 lac product, marks the company's entry into the fast-growing mass EV scooter segment. Strategy for Vida is centered around three key pillars: accessibility, affordability, and aspiration. Previously absent in the sub-1 lakh market, which accounts for nearly 60% of the EV segment, the V2 Lite directly addresses this opportunity. In regions where Vida is available, it has achieved over 20% MS in several towns and 10% in others. The company is actively expanding its retail distribution for Vida through Hero 2.0 stores to strengthen its market presence. While the transition from V1 to V2 temporarily impacted dispatches, the company is now focusing on improving cost structures and increasing localization for Vida products. As part of its strategic pillars, Hero MotoCorp aims to establish itself as a leader in the EV segment by expanding the Vida portfolio across various price points and use cases. Additionally, investments in charging infrastructure are being made to support broader EV adoption. Balancing aggressive market positioning with profitability.

Strong demand in rural and urban: Hero MotoCorp gained MS in 95% of its portfolio, with the 125cc segment rising from 13% to over 20%. It expanded its product lineup with launches at Bharat Mobility, the Vida V2 series, and upcoming Zoom 125 & Zoom 160 scooters. The company is strengthening its EV presence, achieving 10-20% MS in some towns. Rural demand grew by 3% in Q3, with continued momentum expected. Looking ahead, Hero anticipates double-digit revenue growth and aims to outperform the industry.

Outlook and Valuation

Hero MotoCorp's Q3FY25 strong growth, driven by robust demand in both rural and urban markets, achieving a 20% MS in 125cc. 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 in Multiple product launches across segments including premium portfolio. Premium segment stronger than ever, with export growth accelerating. Double-digit revenue growth projected for FY25 and FY26.

We upgrade our rating to Buy from Accumulate earlier on the stock and value it SOTP valuation for a revised target price of INR 5,168 per share (INR 120/163 for Ather Energy/Hero Fincorp)

Exhibit 2: Q3FY25 - Quarterly Performance

Standalone (INR mn)	Q3FY25	Q2FY25	Q3FY24	QoQ (%)	YoY (%)
Net sales	102,108	104,632	97,237	(2.4)	5.0
- Raw material	67,152	69,795	65,470	(3.8)	2.6
(% of net sales)	65.8	66.7	67.3	-94bps	-156bps
Gross Profit	34955.7	34837.3	31766.9	0.3	10.0
(% of net sales)	34.2%	33.3%	32.7%	1bps	2bps
- Staff expenditure	6,622	6,535	6,017	1.3	10.1
(% of net sales)	6.5	6.2	6.2	24bps	30bps
- Other expenditure	13,569	13,143	12,130	3.2	11.9
(% of net sales)	13.3	12.6	12.5	73bps	81bps
Total expenditure	87,343	89,473	83,617	(2.4)	4.5
EBITDA	14,765	15,159	13,620	(2.6)	8.4
EBITDA Margin (%)	14.5	14.5	14.0	-3bps	45bps
Depreciation	1,969	1,937	1,825	1.7	7.9
EBIT	12,796	13,222	11,795	(3.2)	8.5
Interest	55	49	45	10.5	20.6
Other Income	3,175	2,830	2,420	12.2	31.2
PBT	15,916	16,003	14,170	(0.5)	12.3
Tax	3,888	3,967	3,437	(2.0)	13.1
Reported PAT	12,028.4	12,035.4	10,733.8	(0.1)	12.1
Adjusted PAT	12,028	12,035	9,134	(0.1)	31.7
Adjusted EPS (INR)	60.15	60.18	53.70	(0.0)	12.0
Total volumes (Nos)	1,463,802	1,519,684	1,459,932	(3.7)	0.3

	Q3FY25	Q2FY25	Q3FY24	QoQ (%)	YoY (%)
Motorcycles	1,360,159	1,416,134	1,325,275	(4.0)	2.6
Scooters	103,643	103,550	134,657	0.1	(23.0)
Total	1,463,802	1,519,684	1,459,932	(3.7)	0.3
Domestic	1,391,332	1,456,504	1,413,894	(4.5)	(1.6)
Exports	72,470	63,180	46,038	14.7	57.4
Net realization (INR)	69,755	68,851	66,604	1.3	4.7
EBITDA / vehicle (INR)	10,087	9,975	9,329	1.1	8.1

Source: Arian Research, Company Filings

Hero MotoCorp (HMCL) Q3FY25 Concall Highlights

- Multiple product launches across segments including premium portfolio. Premium segment stronger than ever, with export growth accelerating. Double-digit revenue growth projected for FY25 and FY26.
- Market share expanded by 520bps QoQ to 32.8%.
- Strong demand for two-wheelers, with a ramp-up in the 125cc product portfolio, staying ahead of the industry, driven by both rural and urban markets. Rural demand saw a big spike in Q3, with contribution up by 3%.
- Highest ever quarterly revenue from parts, accessories and merchandise business at INR 15,550 Mn.
- Vikram Kasbekar will be taking over as a CEO of Hero MotoCorp from 1st May 2025 After Niranjn Gupta Steps Down.
- Premium, future-fit organisation, green energy, reshaping.
- Four launches in Bharat Mobility with aggressive investment in R&D and engineering.
- EBITDA at 16%, down by 50 bps QoQ for ICE, driven by higher festive spending, expected to reverse in the next quarter.
- Deluxe 125cc market share increased by 7% from the Q4FY24 low of 13%, led by strong demand for Xtreme 125R and Super Splendor, driven by product mix. Premium Xtreme 250R priced attractively. Zoom with two additional models, including a Zoom 125cc-160cc.
- Expects Vida sales and market share to accelerate now that the V1 to V2 transition is complete and dealership pipelines are full with the new models.
- Continued investment in premium products, EVs, and customer service.
- Upgraded Hero 2.0, improving both product and service offerings.
- Entry-level bikes to benefit from recent announcements; the INR 6-12 lakh segment will have a positive cash impact of INR 45K-50K, driving the two-wheeler sector.
- Gross margin: RM flat, driven by INR 1370 Mn EV investment and lower dispatches than Q2 due to diversification, but investments continue. Largely seasonal.
- V2 portfolio will apply for PLI compliance. V2 is a better platform with a slightly different look, dealer engagement, and a continued focus on profitability. Priority remains on scaling up. PLI is initially aimed at building penetration and ensuring competitiveness in the market. Advanced-stage developments extend beyond just 1-2 models.
- V2 launch has helped Hero enter the sub-1 lakh price segment, which represents about 60% of the EV market where they previously weren't present.
- MBO: Strategic push to build EV leadership with more synergy and concentrated efforts.
- EV has been separated as a standalone business, driven largely by synergy.
- Continued focus on BOM (Bill of Materials) cost reduction.
- Hero Fincorp loan book at INR 55,500 Cr, with business growth continuing.
- Lower collection efficiency, with a 150 bps increase in delinquency.
- More focus on customer credit, with a credit cost close to 6%.
- EV business strategy geared toward building EV leadership with aggressive positioning, especially in the affordable segment, with new launches in the next fiscal year.
- Exceeding 20% MS, while other models remain at 10%. Expanding retail presence through Hero 2.0 stores. Strong traction in February and March.
- 100cc HeroMoto market leader; focus on segment growth, financial solutions, and improving penetration.
- Harley-Davidson X440 platform in use, with new domestic and international product platforms in development.
- Rural demand continues post-budget, with opportunities for domestic growth. Premium, entry-level deluxe, and EV segments are gaining strength.
- Vida EV: Sales performance improving, with dealer response strong and outlook stable. No structural shift seen from motorcycles to scooters or EVs.
- Medium-term market targets of 10-20% MS, recent shortfall due to model transition. 95% of portfolio has started recovering MS. 125cc segment market share increased from 13% in Q4FY24 to 20%.
- OBD 2 phase B compliance on track, with marginal price increase of 1-2%. OBD 2 phase B compliance, they will have to necessarily manufacture compliant vehicles from April 1st onwards. They can manufacture non-compliant vehicles only up to March 31st.
- 95% share recovery underway, with future growth plans in place.
- HeroMoto expansion with 700 stores, with Premia growing from >60 to soon 100 stores.
- EBITDA margin crossed INR 10,000 per unit, allowing for accelerated investment in strategic priorities.

Key Financials

Profit & Loss Statement

YE: Mar (INR mn)	FY24	FY25E	FY26E	FY27E
Net sales	374,557	421,568	460,728	503,428
Growth, %	11	13	9	9
RM expenses	-254,308	-290,039	-316,520	-344,848
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	116,095	114,618	112,994	111,207
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	107,423
Investments	14,766	16,243	17,867	19,654
Gross fixed assets	174,669	184,669	199,669	214,669
Less: Depreciation	-108,023	-116,103	-124,746	-134,064
Add: Capital WIP	1,206	1,206	1,206	1,206
Net fixed assets	66,646	68,566	74,923	80,605
Total assets	250,611	277,472	301,772	330,516
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	102,556
Non-current liabilities	-257	-257	-257	-257
Total liabilities	70,749	84,985	93,581	102,299
Paid-up capital	399.4	400.0	400.0	400.0
Reserves & surplus	179,462	192,087	207,791	227,816
Shareholders' equity	179,861	192,487	208,191	228,216
Total equity & liabilities	250,611	277,472	301,772	330,516

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)	21.3	17.7	16.2	14.7
Price/Book (x)	4.7	4.4	4.1	3.7
EV/EBITDA (x)	13.8	11.8	10.5	9.3
EV/Net sales (x)	1.9	1.7	1.5	1.4
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 (%)	3.2	3.5	3.7	3.8
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)

Source: Arian Research, Company Filings

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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%

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