

Hero MotoCorp

BSE Sensex
85,525

S&P CNX
26,177

CMP: INR5,744

TP: INR6,782 (+18%)

Buy



Bloomberg	HMCL IN
Equity Shares (m)	200
M.Cap.(INRb)/(USD\$)	1149.3 / 12.8
52-Week Range (INR)	6390 / 3323
1, 6, 12 Rel. Per (%)	-5/30/24
12M Avg Val (INR m)	3531

Financials & Valuations (INR b)

Y/E March	2026E	2027E	2028E
Sales	449.1	490.9	536.7
EBITDA	66.1	74.6	81.4
Adj. PAT	51.7	59.1	65.6
Adj. EPS (INR)	258.4	295.0	327.6
EPS Gr. (%)	14.3	14.2	11.0
BV/Sh. (INR)	1,073	1,168	1,265

Ratios

RoE (%)	25.1	26.3	26.9
RoCE (%)	24.5	25.8	26.4
Payout (%)	67.7	67.8	70.2

Valuations

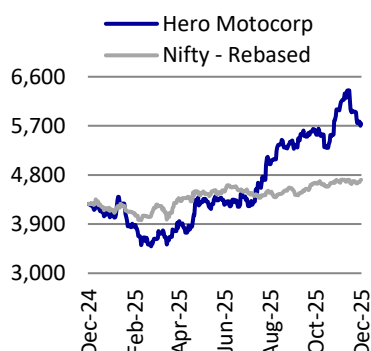
P/E (x)	22.2	19.5	17.5
P/BV (x)	5.4	4.9	4.5
Div. Yield (%)	3.0	3.5	4.0
FCF Yield (%)	4.9	5.1	5.7

Shareholding Pattern (%)

As of	Sep-25	Jun-25	Sep-24
Promoter	34.7	34.7	34.8
DII	26.4	27.8	27.0
FII	28.8	27.0	29.6
Others	10.1	10.4	8.7

FII includes depository receipts

Stock Performance (1-year)



Demand momentum for 2Ws likely to sustain

Pick up in rural demand bodes well for HMCL

We met with the management of Hero MotoCorp (HMCL) to discuss the demand trends in the domestic 2W market and the company's plan to capitalize on the same. Demand for 2Ws has picked up well post-GST rate cuts, and it is expected to be sustained, according to the management. Demand was aided by positive rural sentiment which bodes well for HMCL. Management has maintained its volume growth guidance of 8-10% for the 2W industry for H2. While it remains a dominant player in the entry segment, HMCL targets to recover lost share in the 125cc segment post recent variant launches of Glamour and Xtreme125R, which have been well received in the market. HMCL's scooter segment, both on ICE and EVs, has also picked up well. Management remains confident of a gradual market share recovery in the coming quarters. HMCL's focus on the top 10 export markets has helped revive its export momentum. We project a revenue/EBITDA/PAT CAGR of ~10%/12%/13% over FY25-28. **We reiterate our BUY rating with a TP of INR6,782 (based on 20x Sep'27E EPS + INR141/423 for Hero FinCorp/Ather after a 20% Holdco discount).**

Demand momentum for 2Ws likely to be sustained

Motorcycle demand appears to have bounced back after the GST rate cuts, as is visible in the Oct and Nov'25 sales trends. More importantly, demand has been broad-based, with healthy growth visible across all segments. Management expects the entry-level demand to be sustained, given the positive rural sentiments. Further, the company expects to recover the lost share in the 125cc segment, aided by healthy feedback for the recently launched Glamour upgrade and the Xtreme125R dual-channel ABS variant. Overall, management expects the industry to post about 8-10% growth in 2Ws in H2.

Scooters have picked up well

In scooters, HMCL has been outperforming peers over the last few months on the back of a healthy acceptance for products like Destiny125. As a result, in a highly competitive market, HMCL's scooter market share has improved by 80 bps YoY on a YTD basis to 5.9%. In EVs, the Vida VX2 has been very well received by customers, and its market share has improved to 12% currently. It targets to take this to 14-15% by the end of Mar'26. Over the long term, HMCL aims for a leadership position in EVs.

Export momentum likely to be maintained

HMCL's 2W exports have recovered, aided by focusing on the top 10 markets, which drive ~80% of its volumes. Growth is being driven by locally tailored launches and continuous strengthening of service, dealer, and export capacity. Exports now form ~8% of volumes, with a target to reach 10% by Mar'26.

Valuation and View

We expect HMCL to deliver a volume CAGR of ~6% over FY25-28, driven by rural recovery and a ramp-up in exports. We project a CAGR of ~10%/12%/13% in revenue/EBITDA/PAT over FY26-28. **We reiterate our BUY rating with a TP of INR6,782 (based on 20x Sep'27E EPS + INR141/423 for Hero FinCorp/Ather after a 20% Holdco discount).**

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Key highlights from the management meeting

Update on domestic motorcycles

- In order to remove volatility in numbers due to the impact of pent-up demand, management is considering a 100-day period for sales comparison, viz., about one month before and after the festive season. In these 100 days, HMCL's retail sales have outperformed the industry. Its retail sales grew 21% YoY, gaining 80bp market share YoY, according to the management. In fact, HMCL highlighted that the growth in Oct and Nov has been even higher than this 100-day period.
- The quality of growth was broad-based: all segments and brands recorded growth. Within 2Ws, the entry motorcycle segment grew 13%, scooters grew over 30%, and other segments grew in double digits.
- Further, growth was also driven across all regions. In fact, all regions posted double-digit growth except the central zone, which posted high single-digit growth. The relative weakness in the central zone was largely driven by weak sales in MP, which was in turn hit by the unseasonal monsoons.
- Management indicated that while it has fully passed on the GST rate cut benefit to consumers, it has taken this opportunity to reduce discounts on its products. However, the company has used this lever to increase its promotions across different brands.
- The Glamour relaunch has been well received, and it has initially been launched in the South and East, which are its key regions. One expects Glamour to be pan-India in the coming months.
- HMCL has launched a refresh of the Xtreme 125cc model with dual-channel ABS, which is a segment-first feature. On the back of both launches, management expects to regain share in the 125cc segment in the coming quarters.
- HMCL continues to focus on building its brand in the premium segment (150-250cc). It would look to launch an upgraded Xtreme160R soon. Further, its Xpulse model continues to do well in its segment. HMCL has recently launched the all-new HD440 X, which comes with a much better fit and finish, and its advertising campaign has started recently.
- For the premium customers, the company so far has about 100 "Premia" outlets, which are likely to ramp up to 125 by Mar'26 and further to 225 by Mar'27. By then, they would have covered almost 90% of the addressable market for premium motorcycles, as per management. Beyond this, management would intend to use the Hero2.0 stores to sell premium brands.
- According to management, footfalls in premia stores are higher than those at its Hero 2.0 stores, and conversion rates stand at 14-16%, which is almost 2x that of Hero 2.0 stores. As per HMCL, over 50% of dealers running Premia stores for over 12 months have already reached break-even levels.

Update on domestic scooters

- In scooters, HMCL has been outperforming peers over the last few months on the back of good acceptance for products like Destiny125, Xoom, etc. As a result, in a highly competitive market, HMCL's scooter market share has improved by 80 bps YoY on a YTD basis to 5.9%. Given the momentum, management targets to reach 9% in retail market share in scooters by Mar'26.
- In EVs, the Vida VX2 has been very well received by customers, and HMCL has now seen its market share improve to 12% and targets to take this to 14-15% by the end of Mar'25.
- The removable battery feature that can be charged at home using a normal plug is likely to be one of the key USPs of this product.

- Management did highlight that although the swappable battery feature has not been a high contributor to sales, it has helped generate very high walk-ins in showrooms and thereby helped boost sales.
- In the EV domain, HMCL is now present in 440 cities with the Vida EV brand, supported by a charging network of ~4,500 points for HMCL's Vida customers.
- HMCL is currently in the process of doubling its capacity in EV 2Ws to 30k per month, which should be operational by the end of March. Over the long term, the company aims for a leadership position in EVs.
- HMCL has recently taken a price hike of 10%. Further, it expects to receive the PLI eligibility certificate in 4Q. On the back of these, along with its aggressive cost reduction initiatives, management aims to have a positive contribution to EVs by 1QFY27E. It is likely to take about 15-18 months for the segment to become EBITDA positive in EVs after that.

Overall feedback on domestic 2Ws

- Given the multiple model launches over the last 12 months, HMCL has indicated that it would refrain from launching any new brand in the near term and look to leverage these launches through targeted campaigns.
- The company's upcoming new launches would include Xtreme variants in the premium segment, the recently unveiled HD 440, and a few Vida variants. HMCL would also look to launch a couple of upgrades in the premium segment next year, apart from a couple of Vida variant launches.
- Finished goods inventory has reduced to five weeks now, and management would look to maintain this level of dealer inventory going forward as well.
- HMCL has maintained its industry growth guidance of 8-10% for the rest of the fiscal.
- On the raw material front, management noted an inflationary trend in aluminum and copper. However, currency depreciation is likely to be a net positive, as the company's exports exceed its imports, providing a natural hedge and some margin support.
- On the proposed ABS deadline, the SIAM representatives have requested the government to consider cheaper yet safer options, such as CBS for 2Ws. They continue to await clarity on the same.

Exports – healthy pick-up, albeit over a low base

- HMCL is now seeing a healthy pick-up in the exports business as well. HMCL currently has around 8% contribution from exports, with a target to increase this to 10% by Mar'26.
- The strategy is to focus on the top 10 markets, which together account for about 80% of export volumes. The top 10 markets include Bangladesh, Colombia, Mexico, Nigeria, Turkey, Nepal, Sri Lanka, and the Philippines, with an average market share across these markets of around 12%.
- Product launches in these markets have been tailored specifically to local customer requirements. Notably, around 40% of exports now come from premium products, with Xtreme 160, Xtreme 250, and Xpulse 200 performing particularly well.
- HMCL is now working towards raising its export capacity to cater to higher demand.

Exhibit 1: Snapshot of the revenue model

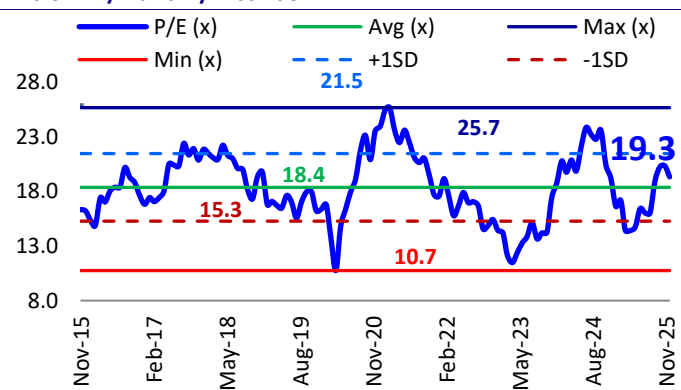
000 units	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Total M/Cycles	5,333	4,628	4,959	5,191	5,476	5,694	6,056	6,443
Growth (%)	-11.0	-13.2	7.2	4.7	5.5	4.0	6.4	6.4
% of total volumes	92.1	93.6	93.1	92.3	92.8	90.6	90.6	90.7
Total Scooters	458	316	369	431	423	591	627	664
Growth (%)	9.2	-30.9	16.8	16.6	-1.9	39.9	6.0	6.0
% of total volumes	7.9	6.4	6.9	7.7	7.2	9.4	9.4	9.3
Total volumes	5,792	4,944	5,329	5,621	5,899	6,285	6,683	7,107
Growth (%)	-9.6	-14.6	7.8	5.5	4.9	6.5	6.3	6.4
- of which Exports	172	290	162	171	258	348	390	437
% of total volumes	3.3	6.5	3.3	3.3	4.8	6.1	6.4	6.8
Net Realizations (INR/unit)	53,182	59,152	63,443	66,630	68,945	71,458	73,460	75,518
Growth (%)	18.8	10.7	8.4	6.0	3.6	3.4	2.8	2.8
Net Revenues (INR b)	308	292	338	375	407	449	491	537
Growth (%)	6.8	-5.0	15.6	10.8	8.6	10.4	9.3	9.3

SIAM, Company, MOFSL

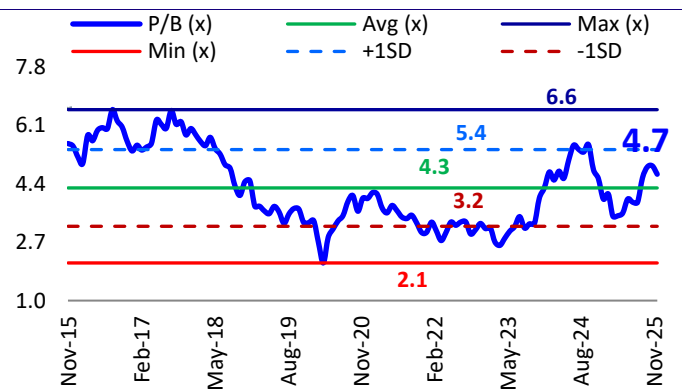
Valuation and view

- **We expect HMCL to deliver a volume CAGR of ~6% over FY25-28**, driven by 1) new model launches in scooters and motorcycles, 2) the recently launched variants in the 125cc motorcycle segment, and 3) a ramp-up in exports.
- **Gradual rural revival bodes well for HMCL**: Rural sentiments are positive, given positive terms of trade for farmers and a healthy monsoon so far. Further, management has indicated that it is seeing a gradual recovery in rural markets currently. Given that HMCL has a dominant 100-110cc portfolio, any recovery in the rural region bodes well for the company.
- **Exports offer a huge headroom for growth**: Exports to emerging markets present a huge opportunity (~2x that of the Indian market) for HMCL, given that it has a relatively smaller presence in exports so far. Over the years, HMCL has been working on launching new products customized to key markets, revamping its distribution network, and investing in brand building in key markets. In FY25, HMCL posted 43% YoY growth in exports, at 2x the industry growth, and targets 40%+ growth in FY26E as well. We expect exports to continue to be a steady growth driver for HMCL in the coming years.
- We expect HMCL to deliver a volume CAGR of ~6% over FY25-28, driven by new launches and a ramp-up in exports. HMCL will also benefit from a gradual rural recovery, given strong brand equity in the economy and executive segments. We project a CAGR of ~10%/12%/13% in revenue/EBITDA/PAT over FY25-28. **We reiterate our BUY rating on the stock with a TP of INR6,782 (based on a 20x Sep'27E EPS + INR141/INR423 for Hero FinCorp/Ather post-20% Holdco discount).**

Exhibit 2: P/E and P/B bands



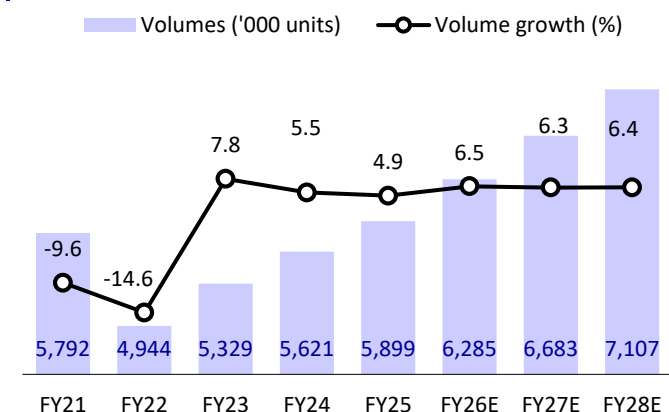
Source: MOFSL



Source: MOFSL

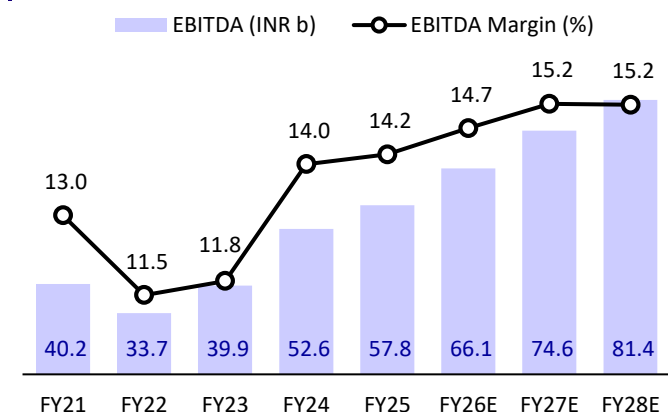
Story in charts

Exhibit 3: Steady growth expected, led by rural recovery



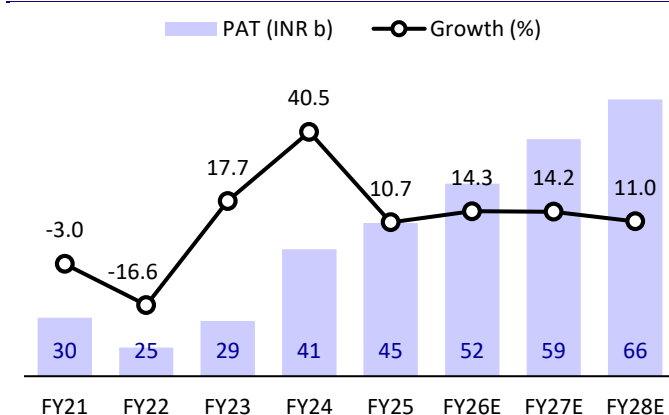
Source: Company, MOFSL

Exhibit 4: EBITDA margin trend



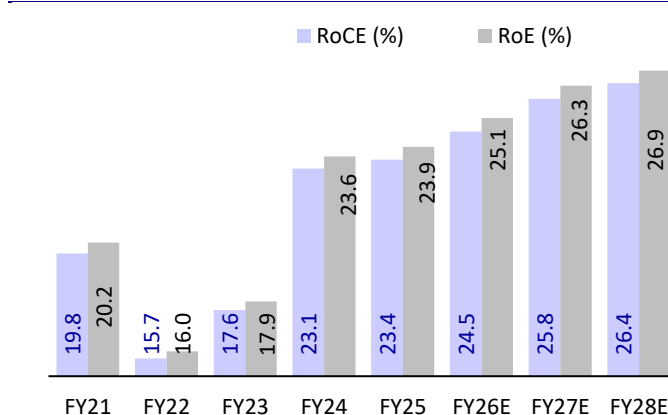
Source: Company, MOFSL

Exhibit 5: PAT growth to be steady



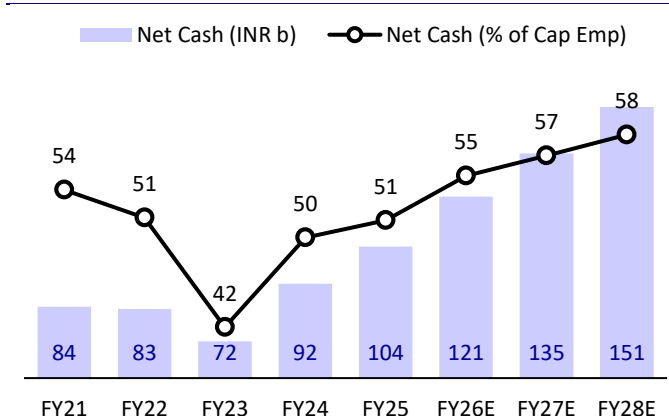
Source: Company, MOFSL

Exhibit 6: Trend in return ratios



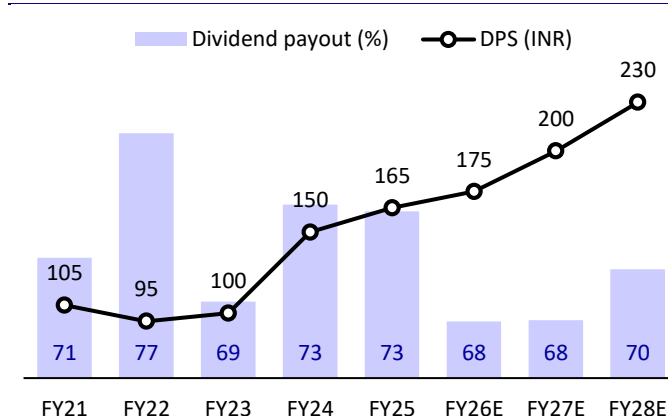
Source: Company, MOFSL

Exhibit 7: Trend in cash levels



Source: Company, MOFSL

Exhibit 8: Dividend payout trends



Source: Company, MOFSL

Financials and valuations

Income Statement						(INR m)		
Y/E March	2021	2022	2023	2024	2025	2026E	2027E	2028E
Volumes ('000)	5,792	4,944	5,329	5,621	5,899	6,285	6,683	7,107
Volume Growth (%)	-9.6	-14.6	7.8	5.5	4.9	6.5	6.3	6.4
Net Revenues	308,006	292,455	338,057	374,557	406,719	449,114	490,933	536,737
Change (%)	6.8	-5.0	15.6	10.8	8.6	10.4	9.3	9.3
EBITDA	40,192	33,688	39,862	52,557	57,832	66,122	74,571	81,423
EBITDA Margin (%)	13.0	11.5	11.8	14.0	14.2	14.7	15.2	15.2
Depreciation	6,769	6,498	6,570	7,114	7,759	8,008	8,321	8,635
EBIT	33,424	27,190	33,293	45,443	50,074	58,114	66,250	72,788
Interest cost	218	258	199	185	199	240	203	205
Other Income	5,799	5,569	5,652	8,926	10,559	10,787	12,336	14,385
Non-recurring Expense	0	0	0	1,600	0	0	0	0
PBT	39,004	32,501	38,746	52,584	60,434	68,661	78,382	86,968
Tax	9,362	7,771	9,640	12,904	15,179	16,920	19,314	21,391
Effective Tax Rate (%)	24.0	23.9	24.9	24.5	25.1	24.6	24.6	24.6
Adj. PAT	29,642	24,730	29,106	40,887	45,255	51,741	59,068	65,577
Change (%)	-3.0	-16.6	17.7	40.5	10.7	14.3	14.2	11.0

Balance Sheet						(INR m)		
Y/E March	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sources of Funds								
Share Capital	400	400	400	400	400	400	400	400
Reserves	151,585	157,430	166,651	179,462	197,669	214,374	233,402	252,933
Net Worth	151,984	157,829	167,051	179,862	198,069	214,775	233,803	253,333
Deferred Tax	4,041	3,833	4,054	4,348	5,096	5,096	5,096	5,096
Capital Employed	156,025	161,662	171,105	184,210	203,165	219,871	238,899	258,429
Application of Funds								
Gross Fixed Assets	142,362	146,657	151,942	157,862	165,383	175,383	186,383	197,383
Less: Depreciation	82,478	88,592	94,328	99,522	106,369	114,376	122,697	131,332
Net Fixed Assets	59,884	58,065	57,614	58,340	59,014	61,006	63,685	66,051
Capital WIP	4,366	4,582	4,638	4,805	4,925	4,925	4,925	4,925
Investments	105,876	107,288	111,875	131,551	150,445	164,445	180,445	198,445
Curr.Assets, L & Adv.	51,485	47,206	58,504	61,019	64,817	73,361	81,781	89,864
Inventory	14,696	11,227	14,341	14,438	14,576	18,141	19,830	21,680
Sundry Debtors	24,268	23,043	27,982	27,034	36,744	33,863	37,017	40,470
Cash & Bank Balances	1,692	987	1,684	5,399	2,891	9,670	12,158	13,746
Loans & Advances	892	402	436	457	271	298	326	356
Others	9,938	11,547	14,062	13,691	10,335	11,389	12,449	13,611
Current Liab. & Prov.	65,585	55,478	61,527	71,506	76,037	83,867	91,937	100,856
Sundry Creditors	52,046	42,603	47,045	55,282	55,661	66,517	72,711	79,495
Other Liabilities	10,211	9,490	10,744	11,516	13,317	12,094	13,220	14,454
Provisions	3,328	3,385	3,738	4,708	7,058	5,255	6,006	6,907
Net Current Assets	-14,101	-8,272	-3,022	-10,487	-11,220	-10,505	-10,157	-10,991
Application of Funds	156,025	161,662	171,105	184,210	203,165	219,871	238,899	258,429

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2021	2022	2023	2024	2025	2026E	2027E	2028E
Basic (INR)								
EPS	148.4	123.8	145.6	204.6	226.0	258.4	295.0	327.6
EPS Growth (%)	-3.0	-16.6	17.7	40.5	10.5	14.3	14.2	11.0
Cash EPS	182.2	156.3	178.5	234.1	264.8	298.4	336.6	370.7
Book Value per Share	760.7	789.9	835.9	900.0	989.4	1,072.8	1,167.8	1,265.4
DPS	105.0	95.0	100.0	150.0	165.0	175.0	200.0	230.0
Payout (Incl. Div. Tax) %	70.8	76.8	68.7	73.3	73.0	67.7	67.8	70.2
Valuation (x)								
P/E	39.0	46.7	39.7	28.3	25.6	22.4	19.6	17.6
EV/EBITDA	26.1	31.1	26.1	19.4	17.4	14.9	12.9	11.6
EV/Sales	3.4	3.6	3.1	2.7	2.5	2.2	2.0	1.8
Price to Book Value	7.6	7.3	6.9	6.4	5.8	5.4	5.0	4.6
Dividend Yield (%)	1.8	1.6	1.7	2.6	2.9	3.0	3.5	4.0
Profitability Ratios (%)								
RoE	20.2	16.0	17.9	23.6	23.9	25.1	26.3	26.9
RoCE	19.8	15.7	17.6	23.1	23.4	24.5	25.8	26.4
RoIC	50.1	44.5	49.2	71.9	85.8	102.2	121.5	132.8
Turnover Ratios								
Debtors (Days)	30	30	32	28	35	29	29	29
Inventory (Days)	18	15	16	15	14	16	16	16
Creditors (Days)	62	53	51	54	50	54	54	54
Working Capital (Days)	-17	-10	-3	-10	-10	-9	-8	-7
Asset Turnover (x)	2.0	1.8	2.0	2.0	2.0	2.0	2.1	2.1
Fixed Asset Turnover	2.2	2.0	2.3	2.4	2.5	2.6	2.7	2.8

Cash Flow Statement

Y/E March	2021	2022	2023	2024	2025	2026E	2027E	2028E
(INR m)								
Profit before Tax	39,004	32,501	38,746	52,584	60,434	68,661	78,382	86,968
Depreciation & Amort.	6,769	6,498	6,570	7,114	7,759	8,008	8,321	8,635
Direct Taxes Paid	-9,759	-7,688	-8,496	-13,142	-15,341	-16,920	-19,314	-21,391
(Inc)/Dec in Working Capital	10,700	-6,825	-5,832	10,747	-3,036	6,065	2,140	2,423
Other Items	-4,987	-4,283	-5,197	-6,637	-7,997	240	203	205
CF from Oper. Activity	41,727	20,203	25,791	50,665	41,819	66,054	69,732	76,839
Extraordinary Items	0	0	0	-1,600	0	0	0	0
CF after EO Items	41,727	20,203	25,791	49,065	41,819	66,054	69,732	76,839
(Inc)/Dec in FA+CWIP	-5,101	-5,240	-5,675	-7,102	-8,103	-10,000	-11,000	-11,000
Free Cash Flow	36,626	14,963	20,115	43,563	33,716	56,054	58,732	65,839
(Pur)/Sale of Invest.	-16,998	3,721	987	-10,917	-7,755	-14,000	-16,000	-18,000
CF from Inv. Activity	-22,099	-1,519	-4,688	-18,019	-15,858	-24,000	-27,000	-29,000
Interest Paid	-515	-458	-455	-449	-540	-240	-203	-205
Dividends Paid	-18,900	-18,931	-19,951	-26,883	-27,929	-35,035	-40,040	-46,046
CF from Fin. Activity	-19,415	-19,389	-20,406	-27,331	-28,469	-35,275	-40,243	-46,251
Inc/(Dec) in Cash	213	-705	697	3,715	-2,508	6,779	2,489	1,588
Add: Beginning Balance	1,479	1,692	987	1,684	5,399	2,891	9,669	12,158
Closing Balance	1,692	987	1,684	5,399	2,891	9,669	12,158	13,746

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	$\geq 15\%$
SELL	$< -10\%$
NEUTRAL	$-10\% \text{ to } 15\%$
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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