

Expanding Premium Bike and EV Portfolio

Hero, at its investor day, highlighted a strong focus on expanding its premium bike and EV portfolio, along with upscaling its dealer network and increasing use of digital technologies in business. The new premium 125cc bike fills a key product gap and could help Hero regain some share in the segment. We maintain Buy on Hero as we expect a strong cyclical recovery in 2Ws, and believe any potential success in premium bikes and EVs can enhance its growth outlook.

Aggressive pace of product launches: Hero, at its investor day, highlighted a strong focus on expanding its product portfolio in premium motorcycles and EVs. The company launched a new 125cc bike, Xtreme-125R, which fills a key product gap in its portfolio. Hero's market share in 125cc motorcycles has slipped from an average 43% over FY19-21 to just 18% in YTD-FY24 as Bajaj and TVS gained; the new Xtreme-125R can potentially help Hero regain some of its lost share in the segment. Hero also launched a new 440cc motorcycle, Mavrick-440, based on the jointly developed platform with Harley; the acceptance of Hero brand in this category would be key. In EVs, Hero is planning to expand its portfolio by launching 3 new electric scooters across price categories in 1HFY25, and a fourth scooter in 2HFY25.

Upscaling dealer network: Hero recognizes the need to provide a superior buying and after-sales experience to its customers as it plans to expand its presence in higher-priced motorcycles and EVs. The company is establishing a separate premium dealer network, Hero Premia, which is plans to expand from 3 stores currently to 100 by June-2024. Hero has also upscaled 300 existing sales outlets, and plans to expand this to 400 outlets by March 2024.

Maintain Buy: We continue to like the Indian 2W space as we believe the industry is poised for a strong cyclical recovery; we expect industry volumes to grow 11% in FY24E followed by 15% CAGR over FY24-26E. We expect Hero's EPS to rise 32% YoY in FY24E followed by 18% CAGR over FY24-26E. Any potential success in premium bikes and EVs can enhance Hero's growth outlook, providing further upside to earnings. We maintain estimates and retain Buy with revised Rs5,325 PT (earlier Rs4,800) at 20x FY26E PE.

Exhibit 1 - Hero launched a new 125cc motorcycle, Xtreme 125R



Source: Company data

(FY Mar)	2023A	2024E	2025E	2026E
Rev. (MM)	338,057	374,751	440,655	498,221
EBITDA (MM)	39,862.3	50,793.3	60,929.0	69,466.8
Net Profit	29,105.8	38,394.2	46,825.5	53,231.8
DPS	100.00	115.27	140.59	159.82

TARGET CHANGE

RATING	BUY
PRICE	INR4,440.20*
PRICE TARGET % TO PT	↑ INR5,325 (INR4,800) +20%
52W HIGH-LOW	INR4,450.80 - INR2,246.75
FLOAT (%) ADV MM (USD)	64.9% 42.47
MARKET CAP	INR886.9B \$10.7B
TICKER	HMCL IN

*Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEF		JEF vs CONS	
	2024	2025	2024	2025
REV	NA	NA	NM	+5%
EPS	NA	NA	-2%	+8%

2024 (INR)	Q1	Q2	Q3	Q4	FY
EPS	-	-	-	-	192.12
PREV					

Source: FactSet, Jefferies

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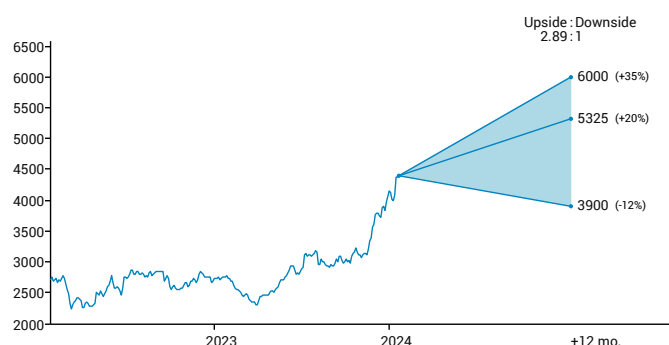
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The Long View: Hero MotoCorp

Investment Thesis / Where We Differ

- Hero should benefit from the expected revival in Indian 2W demand, but is likely to face an adverse demand profile shift.

Risk/Reward - 12 Month View



Base Case, INR5325, +20%

- Hero's total volumes to grow 5%/13%/11% over FY24E/25E/ 26E.
- Hero's EBITDA margin to expand to 13.6%-13.9% by FY24E-26E.
- EPS to bounce back to Rs192/Rs234/Rs266 in FY24E/ 25E/26E.
- Price target of Rs5,325 based on 20x FY26E EPS.

Upside Scenario, INR6000, +35%

- Hero's total volumes to grow at 5%/18%/16% YoY over FY24-26E.
- FY25-26E EBITDA margins 100bps higher vs the base case.
- FY24E/25E/26E EPS of Rs192/ Rs260/ Rs307.
- Price target of Rs6,000 based on 20x FY26E EPS.

Downside Scenario, INR3900, -12%

- Hero's total volumes to grow at 5%/8%/6% YoY over FY24-26E.
- FY25-26E EBITDA margins 100bps lower vs the base case.
- FY24E/25E/26E EPS of Rs192/ Rs210/ Rs230.
- Price target of Rs3,900 based on 17x FY26E EPS.

Sustainability Matters

Top Material Issue(s): **1)** Life-cycle emissions: With a rising focus on climate change and cutting greenhouse gases, we believe life-cycle vehicle emissions are a key ESG metric for Hero **2)** Product safety: India consumers are becoming more conscious of the safety aspect of vehicles and the government has introduced multiple regulations in this regard **3)** Other factors include labor & governance, waste management, and material efficiency & recycling.

Company Target(s): **1)** Hero has set a goal to achieve 100% carbon-neutral operations by 2030 **2)** Hero aims to have 500% water-positive facilities and 100% zero waste to landfill by 2025 **3)** Hero plans to achieve 100% product recyclability and 100% green dealership by 2030.

Qs to Mgmt: **1)** What initiatives have been taken to reduce the life-cycle emissions of vehicles? How do EVs fit in the product roadmap? **2)** What steps has the company taken to enhance vehicle safety across the product portfolio? **3)** How is the company improving material efficiency and promoting a circular economy?

[ESG Sector Integration: Indian Autos](#)

Catalysts

- Recovery in Indian 2Ws
- Consensus earning upgrades

Exhibit 2 - Xtreme-125R fills a key gap in Hero's product portfolio

Models	Honda Shine 125	Hero Super Splendor	Hero Glamour 125	Hero Xtreme 125R	Bajaj Pulsar 125	TVS Raider
Starting price (Rs K, ex-showroom Delhi)	80	81	82	95	90	95
Power (kW @ rpm)	7.9 @ 7500	8.0 @ 7500	8.0 @ 7500	8.5 @ 8250	8.7 @ 8500	8.4 @ 7500
Torque (Nm @ rpm)	11 @ 6000	10.6 @ 6000	10.6 @ 6000	10.5 @ 6000	10.8 @ 6500	11.2 @ 6000
Kerb Weight (kg)	113	123	123	136	142	123
Tank capacity (L)	10.5	12	10	10	11.5	10
Domestic average monthly volumes in 9MFY24 (K units)	95	27	21	NA	71	39

Source: Company data, Jefferies

Exhibit 3 - Hero also launched a new 440cc motorcycle, Mavrick 440



Source: Company data

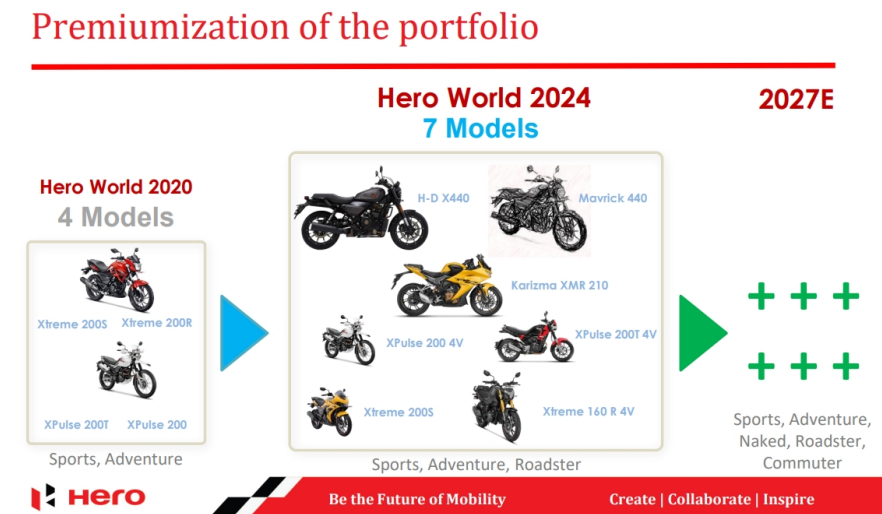
Mavrick-440 is based on the jointly developed platform with Harley; the acceptance of Hero brand in this category would be key.

Exhibit 4 - Hero Mavrick 440 is based on the jointly developed platform with Harley

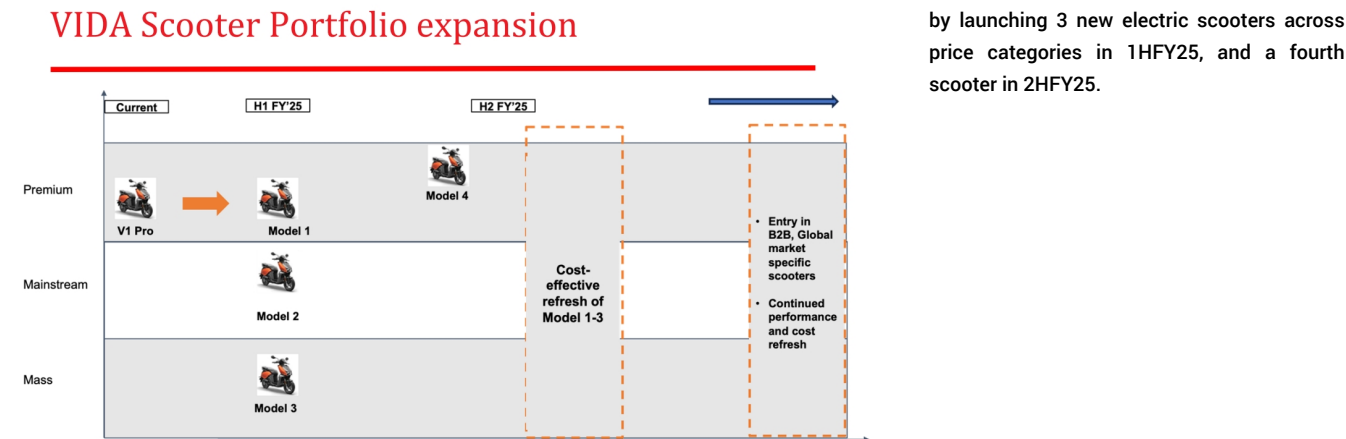
Model	Hero Mavrick 440	Harley Davidson X440	Triumph Speed 400	Triumph Scrambler 400 X	Royal Enfield Hunter 350	Royal Enfield Classic 350	Royal Enfield Meteor 350	Royal Enfield 650cc twin
Price (Rs K, ex-showroom)	Yet to announce	240	233	263	150	193	206	303
Engine (cc)	440	440	398	398	349	349	349	648
Max power (bhp @ rpm)	27 @ 6000	27 @ 6000	39.5 @ 8000	39.5 @ 8000	20.2 @ 6100	20.2 @ 6100	20.2 @ 6100	47 @ 7250
Max torque (NM @ rpm)	36 @ 4000	38 @ 4000	37.5 @ 6500	37.5 @ 6500	27 @ 4000	27 @ 4000	27 @ 4000	52.3 @ 5150
Domestic average monthly volumes in 9MFY24 (K units)	NA	NA	NA	NA	16	27	7.9	1.4

Source: Company data, Jefferies

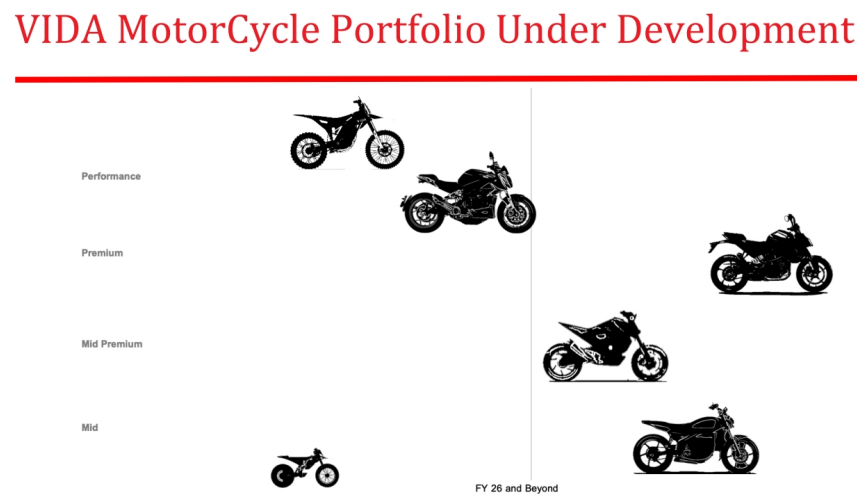
Exhibit 5 - Hero is aggressively expanding its premium motorcycle portfolio



Source: Company data
Exhibit 6 - Expanding EV portfolio in FY25

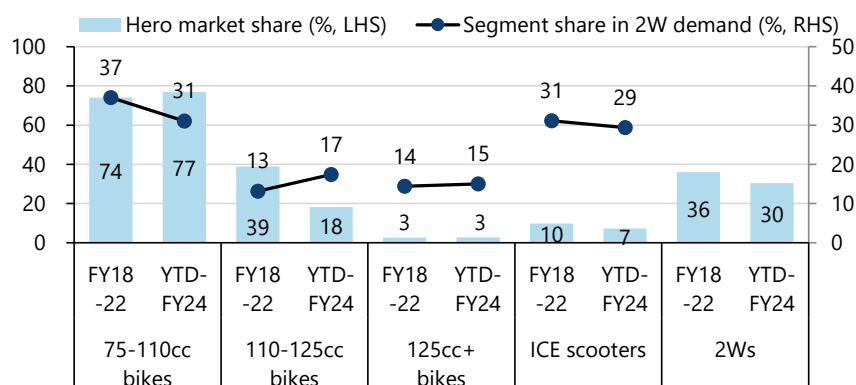


Source: Company data
Exhibit 7 - Hero also has electric motorcycles under development



Source: Company data

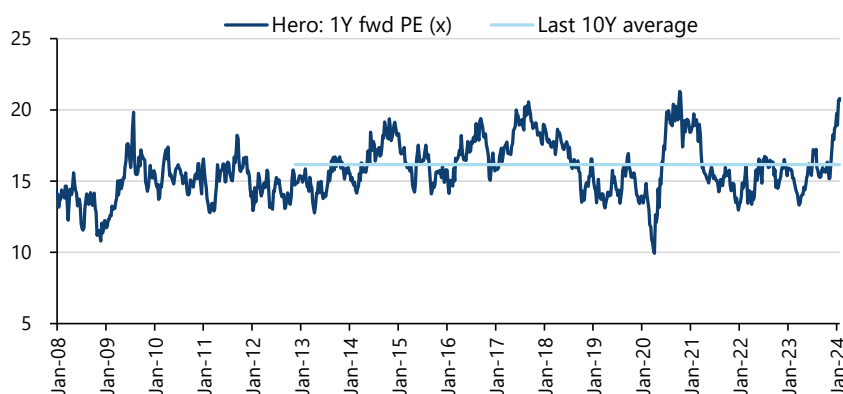
Exhibit 8 - Hero's 2W market share has slipped



Source: CMIE, Company data, Jefferies

Hero's 2W wholesale market share has slipped from average 36% in FY18-22 to 30% in 9MFY24. Over this period, Hero has gained market share in 75-110cc motorcycles from 74% to 77%, but its share has slipped: 1) from 39% to 18% in 110-125cc bikes, and 2) from 10% to 7% in ICE scooters. Adverse demand profile shift also impacted Hero as share of 75-110cc bikes in industry fell 6ppt over this period.

Exhibit 9 - Hero is at 19x FY25E PE on our estimates



Source: FactSet, Jefferies

Exhibit 10 - Volume assumptions

Volumes (K units)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Domestic motorcycles	6,894	5,829	5,156	4,337	4,797	4,995	5,618	6,212
Export motorcycles	187	162	172	290	162	146	160	176
Total motorcycles	7,081	5,990	5,328	4,628	4,959	5,141	5,778	6,388
Domestic scooters	719	403	443	306	358	435	516	624
Export scooters	21	17	15	10	11	40	44	48
Total scooters	740	419	458	316	369	475	560	671
Total volumes	7,821	6,410	5,786	4,944	5,328	5,615	6,338	7,060
YoY growth (%)								
Domestic motorcycles	6	(15)	(12)	(16)	11	4	12	11
Export motorcycles	5	(14)	6	69	(44)	(10)	10	10
Total motorcycles	6	(15)	(11)	(13)	7	4	12	11
Domestic scooters	(19)	(44)	10	(31)	17	21	19	21
Export scooters	(21)	(20)	(13)	(29)	5	265	10	10
Total scooters	(19)	(43)	9	(31)	17	28	18	20
Total volumes	3	(18)	(10)	(15)	8	5	13	11

Source: Company data, Jefferies estimates

Exhibit 11 - Hero Motocorp: Financial snapshot

(Rs bn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	337	288	308	292	338	375	441	498
Ebitda	49.3	39.6	40.2	33.7	39.9	50.8	60.9	69.5
PBT before exceptionals	50.1	39.0	39.0	32.5	38.7	52.7	62.4	71.0
Recurring PAT	33.8	31.8	29.6	24.7	29.1	38.4	46.8	53.2
Diluted EPS (Rs)	169.5	159.2	148.4	123.8	145.6	192.1	234.3	266.4
Networkth	129	141	152	158	167	182	201	222
Gross debt	0	0	0	2	2	2	2	2
Current liabilities	41	40	61	50	56	61	70	78
Other liabilities	7	6	9	7	8	8	8	8
Total liabilities	176	187	222	217	233	253	281	310
Fixed assets	52	60	60	59	58	61	64	67
Cash & financial investments	44.0	64.9	83.9	83.0	72.2	82.2	95.7	112.0
Other assets	81	62	77	76	102	110	121	131
Total assets	176	187	222	217	233	253	281	310
Operating cash flow	9.8	54.1	41.7	20.2	25.8	38.6	46.2	52.5
Capex	(16.0)	(16.4)	(9.0)	(6.8)	(15.4)	(13.0)	(14.0)	(14.2)
Free cash flow	(6.2)	37.7	32.8	13.4	10.4	25.6	32.2	38.3
Net interest income	6.8	7.6	5.6	5.3	5.5	9.0	9.3	10.0
Free cash flow to Equity	0.6	45.3	38.3	18.7	15.8	34.6	41.5	48.3
Key metrics (%)								
Sales growth	4.4	(14.3)	6.8	(5.0)	15.6	10.9	17.6	13.1
Ebitda growth	(6.6)	(19.7)	1.5	(16.2)	18.3	27.4	20.0	14.0
EPS growth	(8.5)	(6.1)	(6.8)	(16.6)	17.7	31.9	22.0	13.7
Ebitda margin	14.7	13.7	13.0	11.5	11.8	13.6	13.8	13.9
Ebitda/vehicle (Rs K/vehicle)	6.3	6.2	6.9	6.8	7.5	9.0	9.6	9.8
Ebit margin	12.9	10.9	10.9	9.3	9.8	11.7	12.1	12.2
Net debt	(44)	(65)	(84)	(81)	(71)	(81)	(94)	(110)
Net debt/Equity	(0.3)	(0.5)	(0.6)	(0.5)	(0.4)	(0.4)	(0.5)	(0.5)
RoAE	27.5	23.6	20.2	16.0	17.9	22.0	24.4	25.1
RoACE	35.2	23.3	22.8	17.5	20.3	24.8	27.5	28.6

Source: Company data, Jefferies estimates

Company Description

Hero MotoCorp

Hero Motocorp is the market leader in the Indian two-wheelers. It has a dominant share in sub-125cc motorcycles but has relatively weaker presence in 125cc+ motorcycles and scooters.

Company Valuation/Risks

Hero MotoCorp

We value Hero at 20x FY26E PE. Key downside risks are a protracted industry downturn and market share loss for Hero in Indian 2W.

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(Article 3(1)e and Article 7 of MAR)

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A member of the Research Analyst's team owns a long,equity position in Hero MotoCorp Ltd

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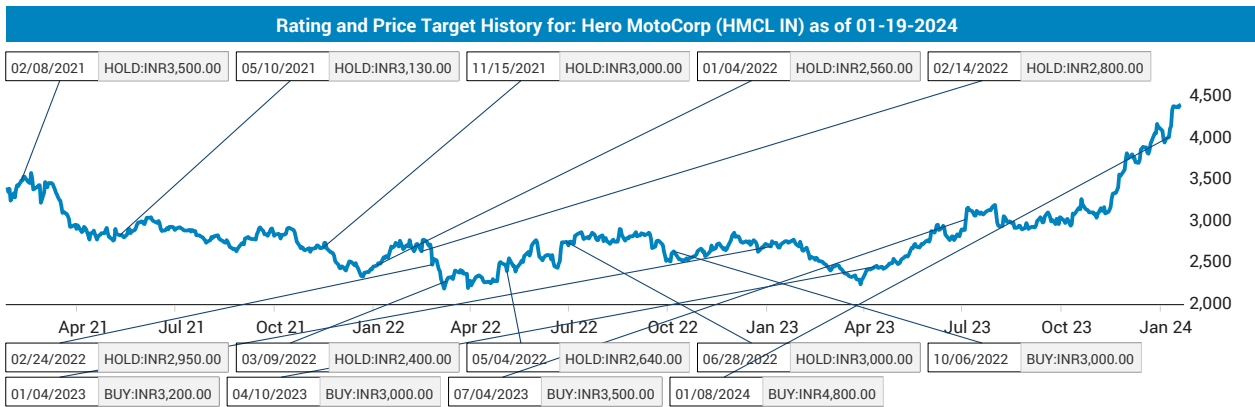
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- Hero MotoCorp (HMCL IN: INR4,440.20, BUY)



A member of the Research Analyst's team owns a long equity position in Hero MotoCorp Ltd

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

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D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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