

● RATING: BUY

Hero MotoCorp to boost rural outlook



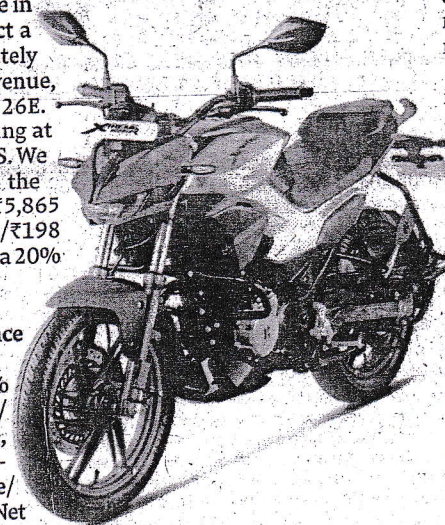
Company gearing up for a strong festive season

HERO MOTOCORP POSTED a disappointing operating performance in Q1FY25, primarily due to an adverse mix and the impact of higher expenditures on EVs. Despite this, volume growth has been healthy so far in Q1, and the company is gearing up for an anticipated strong festive season, supported by improving rural sentiment. We have revised our FY25E/FY26E EPS estimates downward by 9% each to account for the weak operating performance in Q1. However, we still expect a CAGR of approximately 12%/15%/16.5% in revenue, Ebitda, and PAT over FY24-26E. The stock is currently trading at 22x/18x FY25E/FY26E EPS. We reiterate our Buy rating on the stock, with a target price of ₹5,865 (19x Jun'26E EPS, plus ₹174/₹198 for Hero FinCorp/Ather after a 20% holding company discount).

Weak operating performance

Revenue/Ebitda/Adjusted PAT grew by 16%/21%/19% y-o-y to ₹10,140 crore/₹1,460 crore/₹1,120 crore, respectively, compared to estimates of ₹10,610 crore/₹1,600 crore/₹1,240 crore. Net realisations improved by 2% y-o-

y to ₹66.1k, though below the estimated ₹69.1k. Volumes grew by 13.5% y-o-y. Gross margins improved by 170 basis points y-o-y (but declined by 130 basis points q-o-q) to 32.3%, compared to the estimated 33%. The Ebitda margin stood at 14.4% (up 60 basis points y-o-y; estimated at 15.1%). The lower-than-expected margin was due to: (i) an adverse mix favouring entry-level products during the marriage season, (ii) lower spare parts sales at 12.5% of revenues versus 14.7% q-o-q, and (iii) the impact of ₹180 crore in EV-related expenditures. According to management, core ICE (internal combustion engine) margins were actually at 16.4%.



FINANCIALS (₹ cr)

Y/E March	2024	2025E	2026E
Sales	37,460	40,980	46,710
Ebitda	5,260	5,990	6,920
Adj. PAT	4,090	4,630	5,550
Adj. EPS (₹)	204.6	231.5	277.4
EPS Gr. (%)	40.5	13.2	19.8
BV/Sh. (₹)	900	960	1,037
Ratios			
RoE (%)	23.6	24.9	27.8
RoCE (%)	23.1	24.4	27.3
Payout (%)	73.3	73.4	72.1
Valuations			
P/E (x)	24.8	21.9	18.3
P/BV (x)	5.6	5.3	4.9
Div. Yield (%)	3.0	3.4	3.9
FCF Yield (%)	4.3	3.9	5.2

Highlights from the management commentary

Domestic demand outlook: It is seeing a good recovery in both the entry and 125cc segments for the last couple of quarters. Rural growth is also ahead of urban growth for Hero Motocorp. The management has indicated its retail market share was ahead of wholesale market share in 2Ws in the first quarter.

Performance in the entry-level and 125cc segments: Hero Motocorp has improved its market share in 125cc segment to 20% in Q1 from 13% in Q4, as per management. It has increased capacity of Xtreme 125cc to 25k per month and expects to increase to 40k per month in the next couple of months.

Margins: Hero Motocorp saw modest raw material inflation of ₹340 per unit in Q1. Input costs are likely to remain range-bound in the near term, as per management.

Valuation and view

We expect Hero Motocorp to deliver a volume CAGR of 8% over FY24-26E, driven by new launches in the 125cc, scooters and premium segments, and a rampup in exports. Hero Motocorp will also benefit from a gradual rural recovery, given strong brand equity in the economy and executive segments.

MOTILAL OSWAL