

## Rationale:

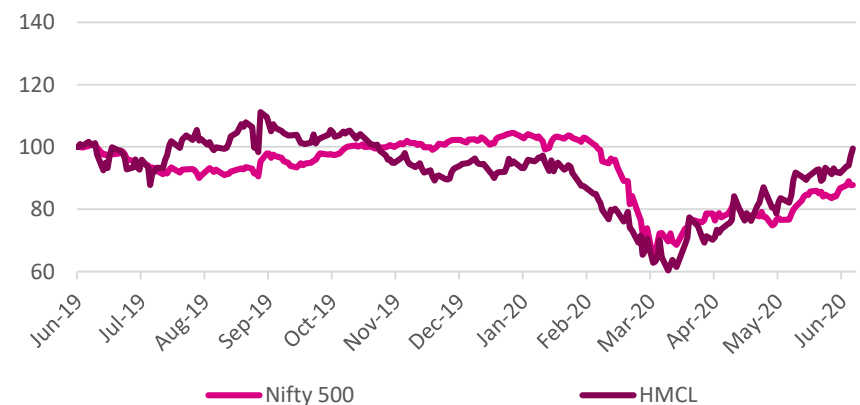
- ❑ With innovation at the core of its philosophy, the New Delhi (India) headquartered Hero MotoCorp (HMCL) has been at the forefront of designing and developing technologically advanced motorcycles and scooters for customers around the world. It became the world's largest two-wheeler manufacturer in 2001, in terms of unit volume sales in a calendar year, and has maintained the coveted title for the past 18 consecutive years.
- ❑ HMCL has taken rapid strides to expand its presence to 37 countries across Asia, Africa, and South & Central America. The company is a market leader in the domestic motorcycle space, commanding ~52% market share, as of FY20.
- ❑ HMCL reported mixed Q4-FY20 results. Total 2-W volumes at 13.3 lakh units were down 25.1% YoY. Net sales were at Rs.6,238 crore (down 21% YoY), with blended ASPs up 5.6% YoY to Rs.46,747/unit. EBITDA margins came in at 10.6%, a multi-year low (down 420 bps QoQ) on the back of 260 bps QoQ gross margin deterioration. Consequent PAT was at Rs.621 crore, supported by lower tax outgo (tax rate a mere 4.6%).
- ❑ The company gained market share in Motorcycles and have retained very strong leadership in Entry and Deluxe. It has also made a foray in the Premium Motorcycle segment which will further be boosted by the launch of Xtreme 160R which will start getting dispatched in a couple of weeks.
- ❑ The volumes are ramping up gradually. In terms of the vendors, all the vendors have opened up from the raw material side. In terms of outlets, more than 90% of outlets have opened up, so the physicality of restart is close to complete in terms of restarting the operations.
- ❑ The management refrained from giving any volume, margin guidance for FY21E. However, they said rural, semi-urban markets (~50% of HMCL sales) are expected to outperform the urban segment in FY21E
- ❑ India's two-wheeler story stays intact as two-wheeler is a not a luxury in India, it is about mass mobility and also as social distancing norms are observed, it could give rise to a shift towards personal mobility.
- ❑ We initiate our coverage on **Hero Motocorp Ltd (HMCL)** with a **BUY** rating and a target price of **Rs.2902 per share**.

52 Week Low / High	1,475 /3,021
Avg. Daily Volume (3M) ('000)	1,992
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	200/50,016
Shareholding (Promoters/Institutional/Others)	35%/54%/11%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	3,39,722	2,92,553	2,70,855	3,21,310
EBITDA	50,184	40,609	33,666	43,442
EBITDA Margin	14.8%	13.9%	12.4%	13.5%
PAT	34,441	36,381	25,768	33,141
PAT Margin	10.1%	12.4%	9.5%	10.3%
EPS (₹)	172	182	130	164
P/E (x)	14.5	13.7	19.3	15.2
ROE	27.2%	25.3%	15.2%	16.3%

Source: Company, Anand Rathi Research, Bloomberg Consensus Note: Prices are as on 29-June-2020

## Price Performance (June'19=100)



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