

Axis Annual Analysis 2021



Hero Motocorp Ltd.

Diversification Strategy On Track; Structural Growth Drivers Remain Intact

Summary

Hero Motocorp Ltd (HMCL) delivered a resilient performance in FY21 despite the adverse impact of the Covid-19 outbreak and maintained its undisputed market leadership position in the sub-125cc motorcycle segment. HMCL's competitive advantage is based on three factors: (1) Superior brand equity in the rural markets, (2) Deep-rooted and far-reaching distribution network in the remote geographies, and (3) A low operating cost matrix across cycles. In line with the management's commitment, the company continued to diversify its revenue base by focusing more on exports, spares, services, premium motorcycles, scooters, and EVs. This resulted in healthy revenue growth in these segments even during the year hit by the pandemic.

Key Highlights

- Financial Review:** The company delivered revenue growth of 7% in FY21 despite a volume decline of 9%. This was primarily on account of 10% growth in scooter volumes, 18% growth in realization (on account of BS6 transition) and 10% growth in the 'spares' revenue. While Gross Margins contracted by 235bps due to commodity headwinds, EBITDA/PAT grew by 1.5%/0.9%. However, EBITDA margins contracted by 70bps despite cost control initiatives undertaken by the company during the year. As part of various levers, the company has periodically undertaken judicious price increases to offset the adverse impact of commodity and currency on its financial performance/profitability. Furthermore, it achieved ~200bps saving in the material costs during the year on account of value engineering initiatives it took through the accelerated Leap program.
- Operational review:** During FY21, Hero increased its domestic market share by 1.4% despite volumes declining by 10% to 56 Lc units. On the exports front, however, the company's volume increased by 7.5% to just under 2 Lc units. Hero's performance improved in the premium motorcycle and scooter segments as well as in the global business/exports. Moreover, it witnessed a substantial improvement in the contribution from the 'spares' and After Sales to the total sales with spare parts registering its highest-ever sales mark amounting to Rs 3,178 Cr in FY21. Along similar lines, the company's domestic dispatches in the premium segment, too, more than doubled in FY21 primarily on account of successful product launches. Hero's global business presence also improved led by the expansion in the newer markets of Mexico as well as its strengthening position in the existing markets of Kenya, Nicaragua, and Honduras. Hero also introduced 13 new models and refreshes across all segments to further drive sales and profitability levels which received encouraging traction in the market.
- Strategies implemented:** Hero has laid out a new vision to become the future of mobility. This entails exploring emerging opportunities in the mobility space while continuing to excel in the core mobility segments it operates in. Key strategic highlights include – a) Achieving growth in motorcycle and scooter segments, b) Creating new opportunities through collaborations, c) Launching new products and developing new business models, d) Margin enhancement and e) Achieving and augmenting workplace intelligence.
- Key growth drivers:** a) Key beneficiary of rural demand recovery, b) Renewed focus on premium motorcycles and scooters, c) Emerging opportunities in the EV space, and d) Focus on expanding global footprint.

Outlook & Recommendation

HMCL has witnessed weak demand trends since Mar'21 on account of the Covid-19 induced headwinds. However, in light of the gradually normalizing economy and the company's sustained efforts to expand its footprint in exports, premium bikes, scooters, and EVs, we expect Hero's growth to revive moving forward. Post-pandemic demand levers remain intact with the rural story remaining strong. Also, the radical shift to personal mobility from shared mobility is expected to further support the demand. We expect Hero to continue its dominance in the two-wheeler industry driven by the benefits of product premiumisation, a strong foothold in the economy and executive motorcycle segments, and aggressive product offerings in the premium bikes and scooters segments. **We maintain a BUY rating on the stock and revise our TP to Rs 3,400/share as we value the stock at 16x its FY24E EPS. TP implies an upside potential of 16% from CMP.**

Key Financials (Standalone)

(Rs Cr)	FY21A	FY22E	FY23E	FY24E
Net Sales	30,801	31,765	37,285	41,454
EBITDA	4,024	4,094	5,122	5,856
Net Profit	2,934	2,954	3,727	4,246
EPS (Rs)	146.9	147.9	186.5	212.5
ROE (%)	18.8	17.7	20.6	21.0
ROCE (%)	18.4	17.4	20.2	20.7
PER (x)	19.8	19.8	15.7	13.8
P/BV (x)	3.8	3.6	3.2	2.9
EV/EBITDA (x)	14.4	14.1	11.3	9.9
Debt/Equity (x)	0.0	0.0	0.0	0.0

Source: company, Axis Research

(CMP as of Sep 17, 2021)

CMP (Rs)	2,932
Upside /Downside (%)	16%
High/Low (Rs)	3,629/2,636
Market cap (Cr)	58,570
Avg. daily vol. (6m) Shrs.	3,07,909
No. of shares (Cr)	19.9

Shareholding (%)

	Dec-20	Mar-21	Jun-21
Promoter	34.8	34.8	34.8
FII	35.9	37.2	35.0
MFs / UTI	5.9	4.7	6.3
Banks / FI	0.4	0.3	0.4
Others	23.0	23.1	23.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY22E	FY23E	FY24E
Net Sales	31,765	37,285	41,454
EBITDA	4,094	5,122	5,856
Net Profit	2,954	3,727	4,246
EPS (Rs)	147.9	186.5	212.5
PER (x)	19.8	15.7	13.8
EV/EBITDA (x)	14.2	11.3	9.9
P/BV (x)	3.6	3.2	2.9
ROE (%)	17.7	20.6	21.0

Change in Estimates (%)

Y/E Mar	FY22E	FY23E	FY24E
Sales	(6.9)	(6.8)	N.A.
EBITDA	(9.9)	(9.3)	N.A.
PAT	(10.2)	(9.5)	N.A.

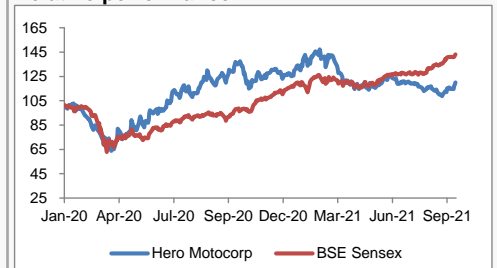
ESG Disclosure Score

Environmental Disclosure Score	47.3
Social Disclosure Score	38.6
Governance Disclosure Score	64.3
Total ESG Disclosure Score	49.2

Source: Bloomberg, Scale 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Company Overview

Hero Motocorp Ltd (HMCL) is the market leader in the two-wheeler (2W) industry with a market share of ~36% (as of Aug'21). Hero is present in both the motorcycles and the scooter segments having a market share of ~50% and ~9%, respectively. Motorcycles contribute significantly to the company's total revenues with ~90% to its total volumes, while scooters contribute 10% to its total volumes. Hero is a domestically focused company deriving ~96% of volumes from the Indian market. Entry-level motorcycles (75 cc to 110 cc) form a significant part of ~70% of overall volumes. The company has six plants in India and two international plants: one in Villa Rica, Columbia and the other in Jessore, Bangladesh. Hero has a combined manufacturing capacity of 9.5 Mn units per annum.

FY21 Performance Round-up

- **A mixed bag financial performance:** In FY21, the company's revenue grew by 7% despite a volume decline of 9%. This was due to 10% scooter volume growth, 18% realization growth (on account of BS6 transition) and 10% spares revenue growth. While Gross Margins contracted by 235bps mainly due to commodity headwinds, EBITDA/PAT grew by 1.5%/0.9% respectively. EBITDA margins contracted by 70bps despite cost control initiatives undertaken by the company during the year. As part of various levers, the company has periodically undertaken judicious price increases to offset the adverse impact of commodity and currency on its financial performance/profitability. Furthermore, its value engineering through the accelerated Leap program contributed ~200bps saving in the material costs in FY21.
- **Strengthening presence in the domestic market:** Hero MotoCorp continues to be the market leader in the entry segment and commands 68% of the market by leveraging its efficient and affordable product offerings. However, the company believes the entry segment still has ample growth headroom with a significant opportunity at the bottom of the pyramid. The company's market share in the deluxe 100-110cc segment stands solid 84% with 9% growth in FY21. In the 125cc segment, the company has a market share of 41%. It expanded its market share in the premium segment as well to 3.7% in FY21, more than twice the 1.6% share it had in FY20. Moreover, in FY21, the company's market share in the scooter segment increased by 2.7% to 9.9%.
- **Encouraging Exports market:** The contribution of exports to the company's net sales grew 31bps to 3.3% in FY21. Total export volumes increased by 7.5% in FY21 to 1.9 Lc units with strong growth witnessed across various geographies. Aggressive efforts to add new distributors, new product launches and strategic collaborations with financing partners enabled the company to deliver an impressive export growth of 142% YoY in the African markets. The company also made further inroads in Uganda, Kenya and Nigeria. Turkey witnessed the highest ever exports with 96% growth. In the Middle East market, Hero witnessed more than 200% growth led by new model launches and refreshes. In Latin America, it saw good traction and appointed new distributors in Mexico (where it made a fresh entry), Honduras, and Nicaragua. In the Asia region, Nepal witnessed the launch of 6 new models and refreshes while the premium 160cc models were introduced in Bangladesh. However, Sri Lanka dispatches continue to remain suspended due to the ban on 2W imports in the country.
- **Market share in Premium motorcycle segment doubles:** With the aim to expand its margins and improve its brand perception, HMCL forayed into the >150cc Premium motorcycle segment where it remains a marginal player behind the likes of Royal Enfield, TVS, Bajaj, Honda, among others with the Xtreme and Xpulse brands (160 and 200cc categories). These models have received an encouraging response both in India as well as in the international markets and have helped HMCL double its premium market share from 1.6% in FY20 to 3.7% in FY21.
- **Highest-ever Spare parts sales:** Revenue from spares grew 10% to Rs 3,178 Cr marking its highest-ever mark in the company's history. Spares revenue CAGR was 6% over FY17-FY21 vs. overall revenue CAGR of 2% during the same period. The company has been able to grow this business further with the number of customers increasing in recent years. As of FY21, the company has 254 HGPDs (Hero Genuine Part Distributor) and 30,000 retailers.

Segment-wise Performance

Domestic Business

HMCL's FY21 sales volume declined by 9% YoY, relatively better than the industry decline of 13%. The degrowth was on account of Covid-19 disruptions and the consequent economic slowdown. The company increased its domestic market share by 1.4% by expanding its dealer network and through various synergistic strategic partnerships. HMCL commands a 37.1% share in the 2W segment. Furthermore, it is also the market leader in the motorcycles segment, commanding a 51.5% market share in FY21. Over the long term, the management foresees significant potential in the industry in light of relatively lower penetration levels at 110 vehicles per 1,000 people vis-à-vis 240 vehicles in other ASEAN countries.

Entry Level Segment Performance: Through efficient and affordable product offerings, HMCL continues to be the market leader in the entry segment with a 68% market share. However, the company believes the entry segment still has ample growth headroom with a significant opportunity at the bottom of the pyramid. The company intends to continue building affordable solutions for the mass market and has received encouraging responses for the same. The company grew its market share in the deluxe 100-110cc segment by 9% in FY21 and commands a solid 84% share in the segment. In the 125cc segment, the company has a market share of 41%.

Premium and Scooter Segment: By relentlessly focusing on increasing its market presence in the premium segment, HMCL expanded its market share to 3.7% in FY21, more than twice the 1.6% share in FY20. The company's market share in the scooter segment, too, increased by 2.7% to reach 9.9% in FY21.

International Business

Excellent performance in Exports: The contribution of exports to the company's net sales grew 31bps to 3.3% in FY21 with strong growth across various geographies and total exports volume increasing by 7.5% to 1.9 Lc units. HMCL witnessed an export growth of 142% YoY in Africa through assertive efforts to add new distributors, product launches, and strategic collaborations with financing partners. The company made further in-roads into Uganda and Kenya and launched a revamped product portfolio for Nigeria by dispatching the Hunter series in Mar'21, which was launched in Jun'21.

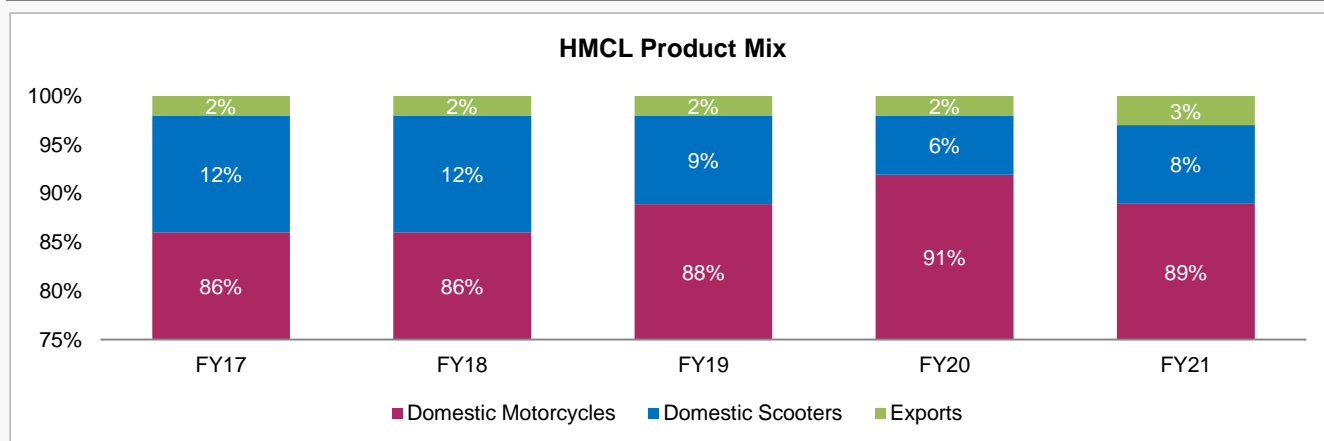
Geography-wise performance: Furthermore, HMCL witnessed the highest-ever exports to Turkey with retail growth of 96% YoY. In the Middle East, it posted over 200% YoY growth led by new model launches and revamping of existing models to meet the market demand. In the Latin American market, HMCL revamped its premium portfolio by introducing new models, thereby posting a 55% YoY sales growth along with an improved market share in Colombia and Peru. The company continued its brand association with Atletico De Madrid for Latin American markets and Yerry Mina for the Colombian market. It also appointed new distributor partners in Mexico (distribution agreement with Grupo Salinas), Honduras, and Nicaragua to further expand its presence in these markets.

Strong inroads into Bangladesh and Nepal: HMCL made strong inroads into Bangladesh with the launch of the flagship premium segment (160cc motorcycles) in Q4FY21 and has since gained a 10% market share. Despite the pandemic led challenges, this segment continues to see healthy demand. In Nepal markets, HMCL witnessed healthy volume growth with market share improvement to 19% in FY21 from 13%. The demand in this region was mainly led by the festive sales, new launches, and the company's focus on strengthening its retail finance. As the import ban on motorcycles and scooters continued in Sri Lanka, exports to this region were halted.

EV – 2W

Hero plans to aggressively enter electric mobility through a three-pronged strategy comprising (a) Speedily expand distributor network to the larger cities through the acquisition of Ather Energy, (b) Launching electric scooter (E-Maestro) towards FY22 end, and (c) setting up of battery swappable charging stations across India through a recent alliance with Gogoro (Taiwan). While India's EV market may head for consolidation by FY24, the incumbents such as HMCL would have an opportunity to make deep inroads into India's EV industry through alliances with startups cushioned with newer products focusing on connected mobility.

Exhibit 1: HMCL Product Mix



Source: company, Axis Research

Subsidiary-wise Performance

Company	Comments	% Holding	Revenue	PAT
Hero Tech Center Germany GmbH ('HTCG')	A wholly-owned subsidiary of HMCL, incorporated in Germany to undertake research and development and other ancillary activities such as manufacturing, testing, and validating 2W components/parts. It also undertakes, coordinates and facilitates 2W rally participation and development activities.	100%	Rs 80 Cr	Rs 4 Crs
HMCL Netherlands B.V. ('HNBV')	It is a wholly-owned subsidiary of HMCL, incorporated in Amsterdam as a private company with limited liability under the laws of the Netherlands with the primary objective of promoting overseas investments. HNBV has invested in operating companies in Colombia and Bangladesh.	100%	Rs 23 Cr	Rs 21 Cr
HMCL Colombia S.A.S. ('HMCLC')	It was incorporated in Colombia as a joint venture between HNBV and Woven Holdings LLC as a simplified stock corporation company. The main business of HMCLC is to manufacture and sell 2W in Colombia. It has a manufacturing facility with a production capacity of 80,000 units per annum.	68%	Rs 230 Cr	Rs 7.3 Cr Loss
HMCL Niloy Bangladesh Limited ('HNBL')	HNBL was incorporated in Bangladesh as a joint venture between HNBV and Niloy Motors Limited, Bangladesh as a limited liability company. The main business of HNBL is to manufacture and sell 2W. It has a manufacturing facility with a production capacity of 1,50,000 units per annum.	55%	Rs 503 Cr	Rs 41 Cr
HMCL Americas Inc. ('HMCLA')	HMCLA is a wholly-owned subsidiary of the company, incorporated as a Corporation pursuant to the General Corporation Law of the State of Delaware, the United States of America with the primary objective to pursue various global businesses.	100%	Rs 0.1 Cr	Rs 0.03 Cr Loss
HMC MM Auto Limited ('HMCMMMA')	HMCL has a joint venture with Marelli Europe S.p.A, Italy, namely HMC MM Auto Limited in India, which is set up to carry out manufacturing, assembly, sale and distribution of 2W fuel injection systems and parts.	60%	Rs 459 Cr	Rs 5 Cr
Hero FinCorp Limited ('HFCL')	HFCL is an associate of the company, incorporated in the year 1991. HMCL holds 41.19% of the equity share capital of HFCL. HFCL is a NBFC engaged in providing financial services, including 2W financing and providing credit to the company's vendors and suppliers. During FY21, HFCL's profit attributable to the company is Rs 23 Cr.	41.2% (Associate)	Rs 4,278	Rs 52 Cr
Ather Energy Private Limited ('AEL')	AEL is a private limited company and is focused on developing, designing, and selling premium electric 2W. The company owns 38.1% of AEL, equivalent to 34.8% on a fully diluted basis. During FY21, AEL's loss attributable to the company was Rs 70 Cr.	38.1% (Associate)	Rs 86 Cr	Rs 233 Cr Loss

Source: company, Axis Research

Capacity Updates & Capex

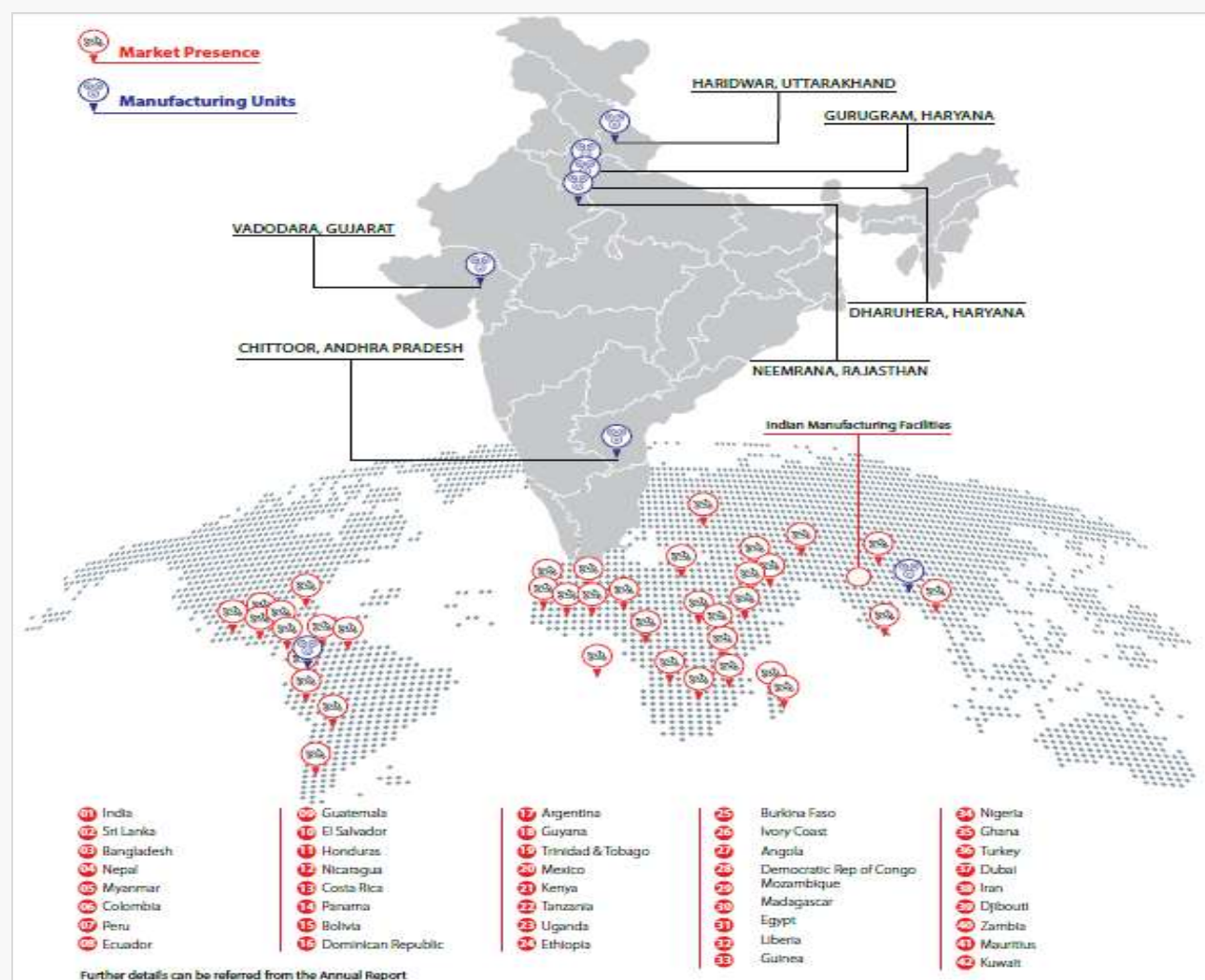
During FY21, the company focused on optimizing investments and ensuring business continuity to enhance market share across platforms. It has consistently focused on capacity benchmarking and cross plant resource optimization to ensure improved efficiencies in the overall ecosystem. Hero enhanced the capacity of the Halol (Gujarat) plant by 0.4 Mn per annum thereby consolidating the overall capacity to 9.3 Mn for domestic plants. The company cut down its Capex to Rs ~515 Cr in FY21 from Rs 1,360 Cr in FY20. The company has eight state-of-the-art manufacturing plants- including six in India and one each in Colombia and Bangladesh.

Exhibit 2: Plant-wise Capacities (Annual Capacity – Mn units)

India			International
Dharuhera	Gurgaon	Haridwar	Columbia
2.1	2.1	2.7	0.08
Neemrana	Halol	Chittoor	Bangladesh
0.8	1.2	0.4	0.15

Source: company, Axis Research

Exhibit 3: Plant-wise Capacities (Annual Capacity – Mn units)



Source: company, Axis Research

Research & Development (R&D) Activities

Built on a strong foundation of research and knowledge, Hero's long-term strategy guides its business every step of the way to shape the future of mobility. The company remains committed to investing and strengthening its research capabilities, and improve its products to enrich customer experiences. Hero is committed to address the changing dynamics of the automotive sector and align its products with customer expectations.

Hero's Centre for Innovation and Technology (CIT) at Jaipur, is a world-class facility with an in-house campus for National Accreditation Board for Testing and Calibration Laboratories (NABL) accredited labs and test tracks. The CIT houses more than 1,000 professionals and automotive experts from around the globe, working in an environment of excellence to develop future-ready products. In addition, the Hero Tech Center Germany (HTCG) near Munich is a hub of excellence, focusing on new product development for the global markets, keeping the company on the right track to meet evolving customer demands.

The company continues to aggressively ramp up its R&D capabilities with a host of innovations. Hero was among the first in the industry to successfully transform and launch all its products under the BS-VI emission norms. Its sustained investments in R&D is expected to result in a range of new product launches in 2021 and beyond. Hero will also be launching its first Electric Vehicle (EV) by end of FY22.

The company has cumulatively spent Rs 1,832 Cr on its R&D activities over the previous three years. It also filed 102 patents in FY21.

Key Competitive Strengths

Leadership in the 2W market in India

HMCL's market share in the overall 2W industry improved to 37% in FY21 from 35.8% in FY20. The company is India's largest motorcycle manufacturer and fourth-largest scooter manufacturer, accounting for 51% and 10% domestic market share, respectively (as of Mar'21). The company's market position is backed by its strong brand appeal, wide distribution and service network, and unwavering focus on growing rural markets. HMCL has also launched new brands in the premium segment - Xpulse and Xtreme and has partnered with Harley Davidson to improve market share in the premium segment. The company is also investing in the electric vehicle segment to gain an edge over competitors and controls a 34.6% stake in Ather Energy – an electric vehicle company. It has also entered into a partnership with Gogoro in Apr'21 to establish battery swapping infrastructure. The company has also been focusing on exports with new product launches in the markets such as Nigeria as well as adding newer markets such as Mexico while reworking strategies across exiting markets such as Bangladesh and Columbia. Exports volume grew by 6% in FY21 as opposed to a 14% decline in FY20.

Strong product portfolio with established brands

The company has four brands in the top 10 motorcycles sold in India. Moreover, all three scooter models were in the top 10 scooters sold in FY21 in India, the highest among any other 2W OEM. HMCL's strong brands include Splendor, HF Deluxe and Passion, which drive nearly 70% of its total volumes in the entry-level sub-segment. Dominance in the largest sub-segment of 2Ws coupled with a healthy and increasing presence in other sub-segments as well as product categories (scooters), ensures healthy revenue visibility for the company.

Robust financial position

HMCL's liquidity is superior to its peers as reflected in the strong cash and investments of nearly ~Rs 8,450 Cr as of March 31, 2021, and unutilised working capital bank limits of over Rs 900 Cr. The strong financial position enables the company to make fresh investments opportunistically as well as withstand competitive pricing generally witnessed in the industry. Moreover, healthy accruals from the business coupled with negligible debt obligations and a favourable working capital cycle have enabled it to maintain a superior liquidity profile despite the large Capex undertaken in the last few years. The entire planned investments for FY22 are expected to be funded through internal accruals.

Key Strategies Implemented

Achieving growth in the motorcycles and scooters segment

India is projected to register a strong GDP growth in FY22 making it the only major economy in the world to have the perspective of good growth in 2021. This enhances the company's prospects of double-digit growth in the domestic motorcycles and scooters industry moving ahead. However, resurgent waves of the Covid-19 may lead to a downside risk revision.

While BS-VI was supposed to be a paradigm shift for motorcycles and scooters in FY21, the year was adversely impacted by the advent of Covid-19 and consequent disruptions. Hero achieved the milestone of 100 Mn cumulative production, with the last 50 Mn units coming in just seven years. Converting post-pandemic adversity into an opportunity and corroborating its motto of 'Tomorrow Can't Wait', Hero aims to target the next 100 Mn production of motorcycles and scooters before 2030.

The company's growth is expected to be driven by a) Greater penetration opportunity in the domestic market, b) Focus on export markets, and c) Strong presence and performance in premium motorcycles and scooters with growth in urban India, among others.

Creating new opportunities through collaboration

HMCL is focused on growing its market share in the rapidly expanding premium motorcycle segment. The previous year marked the win-win partnership of Harley Davidson and Hero MotoCorp, where Hero is the sole distributor of Harley's motorcycles, parts and accessories in India. In terms of licensing agreement, Hero MotoCorp will develop and sell a range of premium motorcycles in India under the iconic 'Harley-Davidson' brand.

In 2016, HMCL invested in Ather Energy – a 2W electric vehicle company that went on to launch multiple products. HMCL also participated in other investment rounds. In Jul'20, the company invested Rs 84 Cr in Ather Energy, taking up its shareholding in the company to 38.1% (from 35.1% in FY20). Subsequently, in Nov'20, HMCL again invested in a Series D round in the Electric Vehicle start-up. HMCL recently entered into a strategic partnership with Gogoro Inc. to accelerate the shift from fuel-based mobility to sustainable electric mobility in India. Gogoro Inc. is the global leader in urban battery swapping and smart mobility innovation offerings. The companies will establish a battery swapping joint venture to bring Gogoro's industry-leading battery swapping platform to India and will collaborate on electric vehicle development to launch Hero-branded, Gogoro Network-powered vehicles in the market. HMCL plans to launch its first electric vehicle in FY22.

Hero MotoCorp also entered into a distribution agreement with Grupo Salinas, a group of fast-growing and technologically advanced firms to ride into Mexico. With Hero MotoCorp's global expertise and technology prowess, and the local market knowledge of Grupo Salinas, this partnership is directed at expanding Hero MotoCorp's global business presence rapidly over the next few years.

Launching new products and developing new business models

In tandem with its mission statement of Create, Collaborate, and Inspire, Hero opened a Tech Center in Germany (HTCG), the innovation cell of Hero MotoCorp for new and revolutionary vehicle concepts. It shall work alongside the global R&D hub – Center of Innovation & Technology (CIT), Jaipur. During its 100 Mn celebrations, the company announced the launch of a host of new models over the next 5 years with 10 new models every year till 2025. This will enable it to consolidate its leadership position. The launches will include new products, variants, refreshes and upgrades.

 <p>The HF Deluxe has for long been the second best selling motorcycle, more fuel efficient and has better performance. The new HF Deluxe also features i3S (idle start-stop system).</p> <p>Launch of Glamour 'Blaze'</p> <p>The new product offers a USB charger to the handlebar and comes with the side-stand indicator. The motorcycle features Hero's i3S (idle start-stop system) and auto sail technology. The new Glamour Blaze ups the style quotient for the aspirational youth.</p> 	 <p>XTREME 200S: BS-VI Launch</p> <p>Restating its commitment to an exciting and comprehensive premium portfolio, Hero MotoCorp has launched the Xtreme 200S in the BS-VI avatar. With the advanced XSeni technology, Xtreme 200S is a striking and powerful chapter in the company's well rounded premium portfolio.</p>  <p>XTREME 160R: Commercial Launch</p> <p>Unveiled at the Hero World 2020 event, the Xtreme 160R is inspired by the bold 1.0 concept showcased at the international automotive show IACMA in 2019. The motorcycle offers an unparalleled mix of performance, sportiness and features, while boasting a muscular stance with an optimum mix of comfort and control.</p>
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Source: company, Axis Research

Margin Enhancement

The company has planned margin enhancement through various levers, one of them being the higher share of parts, accessories, and merchandise to strengthen its overall profitability. An ongoing and continuous program to manage material and fixed costs including other non-operational activities is also helping the company to maintain steady margins.

Augmenting Workplace Intelligence

Herois dedicated to introducing workplace intelligence by creating a better work experience that drives tangible business results. With a focus on ensuring balanced organizational and employee growth, the company strives to promote an optimistic work environment and exceptional career experiences that help to build a positive work culture and improve company status as a preferred employer. The company has a diverse and inclusive team of talented people - ranging from the shop floor to the senior leadership. It is also committed to supporting its people as a top most priority - including employees, dealers, suppliers - while navigating through crisis and paving the path for a stronger comeback.

Key Growth Drivers

Key beneficiary of rural demand recovery

The rural segment, which contributes ~55% of total 2W sales, has been stronger in the last couple of years owing to better agricultural output. It witnessed higher motorcycle demand with positive rural income sentiments on account of increased sowing, adequate rainfall, better rabi and Kharif crop output and extended government support provided to farmers. Within motorcycles, the Commuter segment is preferred for its lower acquisition and operating costs. Rural sentiments are expected to be buoyant with the normal monsoons in FY22 which will support higher demand moving forward.

With the implementation of various regulatory interventions, the cost of two-wheelers has increased significantly in the last 2.5 years, primarily to accommodate inflationary cost increases. We believe with the rising cost scenario and a recovering economy, customers downgraded to the commuter segment as purchases were largely on a need basis in the short term. Hero's forte has been its commuter segment portfolio – Splendor, HF Deluxe, Passion and Glamour, which commands 87% of its overall volumes. Leveraging this dominant position, Hero has gained market share in the Motorcycle segment in the last two years.

HMCL continues to be the market leader in the entry segment (68% market share) with its efficient and affordable product offerings. The company believes the entry segment has ample headroom for growth and the opportunity at the bottom of the pyramid remains immense. The company will continue to build affordable solutions for the mass market and has received very positive responses from the market for the same.

Renewed focus on premium motorcycles and scooters

HMCL is focused on growing its market share in the rapidly expanding Premium motorcycle segment. In Oct'20, the company signed a distribution agreement with Harley Davidson under which it will sell/service motorcycles, sell parts/accessories as also general merchandise riding gear and apparel in India. In terms of licensing agreement, HMCL will develop and sell a range of premium motorcycles in India under the 'Harley-Davidson' brand to manufacture 100,000 units annually at the Hosur facility. The company has inducted 11 Harley-Davidson dealers into its distribution network with a target to be present in 20 Indian cities by end-2021. HMCL has a 38% stake in Harley Davidson, as of FY21.

In the premium segment, the competition continues to rise with the absence of a clear market leader and most players aiming to capture the growing market for this segment. The company continues to relentlessly focus on increasing its market presence in the premium segment. The scooter segment was hit largely due to suppressed urban demand and lockdowns in several metro cities. In FY21, the company's market share in the scooter segment increased by 2.7% to reach 9.9%.

Emerging opportunities in the EV space

Hero plans to aggressively enter electric mobility through a three-pronged strategy comprising (a) Speedily expand distributor network to the larger cities through the acquisition of Ather Energy, (b) Launching electric scooter (E-Maestro) towards FY22 end, and (c) setting up of battery swappable charging stations across India through a recent alliance with Gogoro (Taiwan). While India's EV market may head for consolidation by FY24, the incumbents such as HMCL would have an opportunity to make deep inroads into India's EV industry through alliances with startups cushioned with newer products focusing on connected mobility.

In 2016, HMCL invested in Ather Energy, a 2W electric vehicle company that went on to launch multiple products with an aim to augment its presence in the EV space. It also recently entered into a strategic partnership with Gogoro Inc. – the global leader in urban battery swapping and smart mobility innovation offerings, to accelerate the shift from fuel-based mobility to sustainable electric mobility in India.

Focus on expanding global footprint

The contribution of exports to the company's net sales grew 31bps to 3.3% in FY21. Total exports increased by 7.5% in FY21 to 1.9 Lc units with strong growth across various geographies. HMCL witnessed strong export growth in Africa through assertive efforts to add new distributors, product launches and strategic collaborations with financing partners. Further, HMCL witnessed the highest ever exports to Turkey. In the Middle East, HMCL posted more than 200% YoY growth, led by new model launches and revamping of existing models to meet the market demand. In the Latin America market, HMCL revamped its premium portfolio, via the introduction of new models, with improved market share in Colombia and Peru. It also appointed new distributor partners in Mexico (distribution agreement with Grupo Salinas), Honduras and Nicaragua, to further expand its presence in these markets. HMCL made strong inroads into Bangladesh with the launch of the flagship premium segment (160cc motorcycles) in Q4FY21 and has gained 10% market share, since then.

In a significant milestone in its global journey, Hero made an entry into Mexico, a key motorbike and scooter market. Its partner Grupo Salinas has enabled Hero to form one of the largest retail sales channels in the country. The company expects Mexico to become one of its key international markets in the foreseeable future.

With Hero's new strategy called R4 (Revitalize, Recalibrate, Revive and Revolutionize), the company's focus on its Global Business is very clear. Hero continues to invest in the development of new products for its international markets and is determined to expand its global footprint. Its goal is to develop new markets and strengthen its market share in the existing ones by delivering superior products and enhanced customer experiences.

Key initiatives for FY22 will include a) Big push across key markets of Nigeria, Kenya, and Uganda in Africa with a revamped product line up, network expansion, and sales promotions activities; b) Scale up market share in Colombia, Guatemala, and Peru through network expansion, investments in brand building, and product refreshes; c) Scale up retail finance in key markets; d) Brand investments in the important markets; e) Launch of Hunter in Nigeria; and f) Scale Mexico operations.

Business Outlook & Recommendation

Outlook: The management is upbeat on the company's short-term growth and remains optimistic about its long-term view as well. It intends to enhance company margins by achieving a higher share of parts, accessories, and merchandise and strengthen its overall profitability. An ongoing, continuous program to manage material and fixed costs including other non-operational activities is also helping Hero to maintain steady margins. The management mentioned that lockdowns may impact demand in the near term. However, its growth is expected to rebound back to normalcy by H2FY22.

Recommendation: We expect Hero to continue its dominance in the 2W industry driven by the benefits of premiumisation of its products, a strong foothold in the economy and executive motorcycle segments, and aggressive product offerings in the premium bikes and scooters segments. Its partnership with Ather Energy and Harley Davidson will help it increase its presence in new technology and premium segment bikes. We expect a strong recovery in FY22 and FY23 driven by normalisation of the economy, operating leverage benefits, price hikes, and margin improvement led by cost savings under the company's Leap-II program.

We maintain a BUY rating on the stock and revise our TP to Rs 3,400/share as we value the stock at 16x its FY24E EPS. TP implies an upside potential of 16% from CMP.

Risks and Mitigation

The company's risk management procedures take into consideration external as well as internal threats and devise efficient mitigating strategies. It recognizes the need to identify changing risks, including those arising from the Covid-19 advent and adopts a strategic approach for risk management.

Key risks identified, assessed, and mitigated during the year under review include

- a) **A resurgence of Covid-19 in Hero's export markets:** The resurgence of covid-19 in key export markets could lead to a decline in demand due to lockdowns and negative sentiments which inturn would impact the company's sales and profitability.

Mitigation: The company plans to support its global business by entering newer geographies and strengthening its position in the existing markets. The deep localization efforts undertaken by the company are makingHero MotoCorp a part of other value chains than just the existing one.

- b) **Intense Competition:** The Indian 2W market remains highly competitive with 12 players comprising Honda Motorcycles & Scooters India Pvt Ltd (HMSI), Bajaj Auto Ltd, TVS Motors Ltd, among others. Furthermore, these players continue to launch new models and compete aggressively for the market share.

Mitigation: HMCL has maintained its leadership position backed by new products and refreshes, the introduction of a five-year warranty, and an enhanced dealership network. The company will continue to focus on in-house research and development (R&D) to launch new models with its own technology.

- c) **Modest presence in premium motorcycles segment and in the overseas market:** While the company had a 65% market share in the entry segment (less than 125 cc) and a 10% market share in the scooter segment, its share in the premium segment (upto 200 cc) improved to 6% as on Mar'21. The share in the overseas markets is also low at 4%, though HMCL has expanded to over 40 countries now.

Mitigation: HMCL is focused on growing its market share in the rapidly expanding Premium motorcycle segment. Furthermore, under a distribution agreement with Harley Davidson, it will sell/service motorcycles, parts/accessories and general merchandise riding gear and apparel in India. It will also develop and sell a range of premium motorcycles in India under the 'Harley-Davidson' brand with an aim to manufacture 100,000 units annually at the Hosur facility. The company is focused on increasing its market share in exports over the medium term.

- d) **Significant shift from ICE vehicles to EVs:** A significant shift to Electric Vehicles from traditional Internal Combustion Engine (ICE) vehicles in the short term will impact the company's sales as the majority of the sales come from the economy and executive segment which is more vulnerable to EVs as compared to premium motorcycles.

Mitigation: The company has invested in Ather Energy which produces premium EV 2Ws along with its in-house R&D efforts to develop a mass-market EV solution by the end of FY22E. Also, its collaboration with Taiwan-based Gogoro will help it venture into battery swapping infrastructure.

- e) **Commodity Cost Inflation:** Rising RM costs headwinds may have an impact on the company's margins and profitability.

Mitigation: Hero should be able to achieve better operational performance in the medium term backed by its premiumization strategy, improving product mix, higher exports and tighter cost controls. Moreover, any meaningful softening in the commodity costs (steel, aluminium, palladium, rhodium) should drive the margin trajectory higher.

- f) **Cyber Security Risk:** Owing to the increasing importance of digitization, the majority of the business activities of the company have been witnessing a digital transformation. Cyber Attacks canlead to loss of valuable information, unauthorized access to data systems and may lead to other events of data theft.

Mitigation: Hero MotoCorp has strengthen edits IT infrastructure by scaling up the system security across geographies. It has deployed measures such as taking data backup over the internet, awareness mailers, IPSec & SSL tools to provide Virtual Private Network (VPN) access at homes, Virtual Desktop Infrastructure (VDI) for remote access, prevented corporate targeted phishing emails among others. It also renewed its Cyber Insurance.

Sustainability

Hero MotoCorp is a part of the Dow Jones Sustainability Index (DJSI) Emerging Markets Index. Hero recognizes the virtues of sustainable living. Its approach to ESG is an extension of its values, to deliver what matters most to its stakeholders, structured around the following five pillars.

Reducing environmental footprint

- Investing and building a renewable energy portfolio
- New establishments developed on sustainable platforms with Indian Green Building Council (IGBC) certification
- Focus on expanding afforestation drive to achieve carbon neutrality targets
- Initiatives for water and energy conservation
- Address environment and climate-related risks
- Initiated the principles of the circular economy - Reduce-Reuse-Recycle
- Compliance with local regulations for the disposal of hazardous and non-hazardous waste
- Monitoring emissions from manufacturing plants and keeping emissions within permissible limits
- Reducing carbon footprint at facilities
- Extended Producer Responsibility (EPR) for the treatment or disposal of post-consumer plastics
- Initiated climate risk assessment, considering plausible climate scenarios (BAU - Business as usual and 2DS – 2 Degree Scenario)

Nurturing a responsible value-chain

- Green partner development programs for suppliers and dealers
- Nurturing steady relationships with distributors
- Strengthening digital initiatives to enhance customer experience. For example, the launch of the integrated online sales platform – e-SHOP
- 24x7 Road Side Assistance (RSA) program for customers
- Mega Service Carnivals for customers across the country
- Goodlife Program - the loyalty program for customers

People policies

- Non-Discrimination and Human Rights Policy to treat every employee with respect and dignity
- “Yes Heroes Can” initiative launched to fulfil the objectives of health & wellbeing, employee capability development and employee engagement
- Hero talent initiative to showcase employee talent and keep them engaged beyond work
- ‘Unconscious Bias training’ for employees to make them tolerant
- Maintaining cohesiveness through various employee engagement initiatives
- Medical and wellness facilities for employees
- Implementation of Hero Covid-19 Standard Operating Procedures (SOP)
- 3 pillars of Diversity and Inclusion: leadership & advisory support, culture & mindset, recruitment & selection
- An integrated approach to promote education and training, career development, and mentoring programs to improve workforce heterogeneity.
- Project Tejaswini to encourage gender parity and ‘Changing Mindsets’ for a holistic workplace
- Digital recruitment and induction processes
- Skill development and training for permanent employees

Facilitating product stewardship

- Standardization of material/ components in compliance with environmental norms
- Developing End of Life vehicle strategy in cognizance with upcoming regulations on scrappage policy
- Material research portal
- Split Type Saree Guard design implemented to reduce scope 3 emissions and provide extra space for women co-passengers

Aiding inclusive growth

- Addressing environmental concerns through tree plantation drives, provision for solar street lights in villages and water conservation programs
- Creating road safety awareness with Ride Safe India Initiative
- Women empowerment initiatives to encourage skill development, livelihood generation and increase access to primary healthcare services
- Launched ‘Educate to Empower’ program to promote children’s education, encourage knowledge sharing within and outside the industry, and provide skill training to the country’s youth
- Implemented several projects to inculcate self-reliance and build a sustainable society.

Financial Statement Analysis

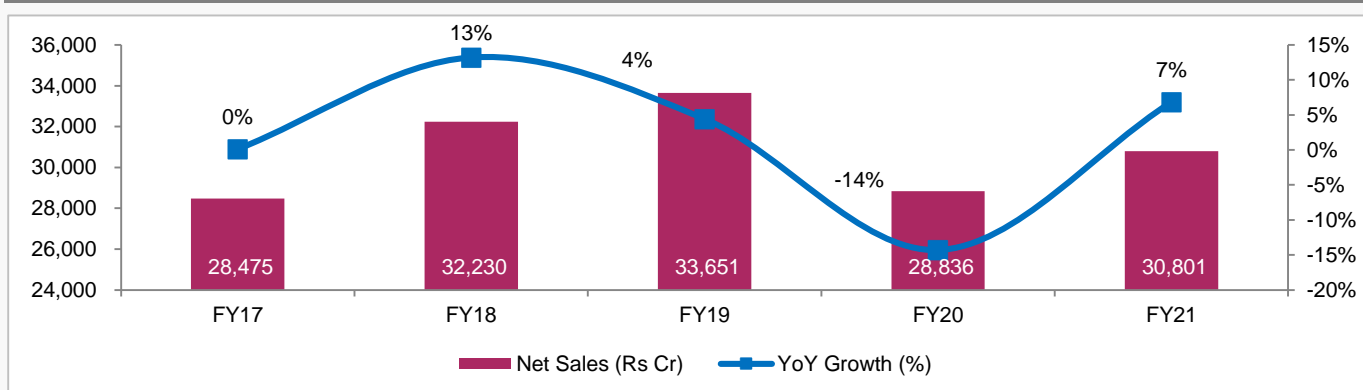
Profitability Analysis

(Rs Cr)

Particulars	FY20	FY21	Change	Comments
Sales	28,836	30,801	7%	Despite the drop in volumes, revenue from the operations increased by 7% due to improved mix, cost optimization, and the calibrated price increases to accommodate regulatory changes and BS-VI transition.
Raw Materials	19,697	21,762	(11%)	Led by commodity price increases, material cost as a percentage of revenue increased by 235bps to 71% during FY21 over the previous fiscal.
Gross Profits	9,139	9,038	(1%)	Gross Margins fell by 235bps to 29.3%, attributable to an increase in the raw material prices and the inability to immediately pass on all cost increases.
Operating Expenses	5,172	5,002	(3%)	Operating expenses came down primarily due to a reduction in variable spends on power, fuel, stores, consumables, logistics and packaging owing to the prolonged shutdowns during the lockdown and drop in volumes. Furthermore, advertising spends were reduced in line with to demand contraction in H1FY21.
Interest	22	21	(1%)	Finance Cost decreased marginally by Rs 0.2 Cr with respect to the previous year.
EBIT	3,149	3,360	7%	EBIT improved as compared to the previous year on account of lower depreciation and other expenses.
PAT	2,908	2,934	1%	Profits improved marginally by 1%.
EPS	146	147	1%	

Source: The company; Axis Securities

Exhibit 3: Revenue (Rs Cr) & Revenue Growth Trend (%)



Source: company, Axis Research

Growth Indicators

(Rs Cr)

Particulars	FY20	FY21	Change	Comments
Revenue	28,836	30,801	7%	Despite the drop in volumes, revenue from operations increased by 7% due to improved mix, cost optimization, and the calibrated price increases in response to the regulatory changes and BS-VI transition.
EBITDA	3,967	4,024	1%	Despite a drop in the Gross Margins, EBITDA improved marginally on account of cost savings undertaken by the company during the year and better product mix.
PAT	2,908	2,934	1%	PAT improved marginally by 1% over previous year.
EPS	146	147	1%	

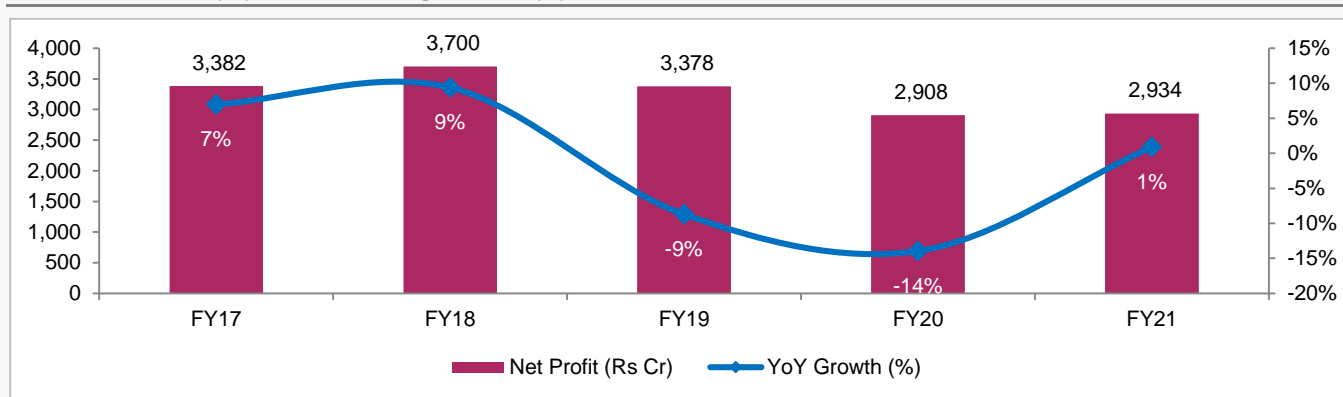
Source: The company; Axis Securities

Profitability Margins

Particulars	FY20	FY21	Change	Comments
GPM	31.7	29.3	(235 bps)	GPM was lower due to RM cost inflation
EBITDAM	13.7	13.0	(70 bps)	EBITDA margin declined marginally due to lower GPM being offset by better cost control measures undertaken and better product mix
PATM	10.1	9.5	(56 bps)	Lower PAT margin is mainly attributable to an increase in the effective tax rate in CY on account of the cumulative impact of one-time re-measurement of DTA/DTL consequent to change of rates in the LY.

Source: The company; Axis Securities

Exhibit 4: Net Profit (Cr) & Net Profit Margin Trends (%)



Source: company, Axis Research

Financial Ratios

Particulars	FY20	FY21	Change	Comments
ROE	19.8	18.8	(104 bps)	ROE contracted due to lower profits on account of Covid-19 related lockdown and disruptions.
ROCE	19.3	18.4	(91 bps)	ROCE contracted due to Lower profits on account of Covid-19 related lockdowns and disruptions.
Debtors Turnover Ratio	16.3	19.2	2.9	Debtor turnover ratio increased to 19.2x in FY21 from 16.3x in FY20, mainly on account of increased top line and lower average debtors YoY
Inventory Turnover Ratio	22.5	19.2	(3.3)	Inventory turnover ratio has marginally fallen to 19.2x in FY21 from 22.5x in FY20 because of an increase in average inventory levels in comparison to COGS.
Current Ratio	0.9	0.8	0.1	The company's overall trade receivables, inventory and trade payables have increased owing to the BS-VI pricing premium. As the company operates on negative working capital, it has resulted in a fall in the current ratio to 0.78 in FY21 from 0.9 in FY20.
Operating Profit Margin	10.9	10.9	4 bps	Operating Margins for the year is similar to those of the previous year, marginally falling by 0.4% on account of negative operating leverage
Net Profit Margin	12.3	9.5	(282 bps)	Net profit margin decreased by 282bps to 9.5% in FY21 Vs 12.3% FY20). Lower net profit margin is mainly attributable to net exceptional income in the previous year and lower effective tax rate due to the cumulative effect of changes in tax rates.
Return on Net Worth	26.9	20.2	(671 bps)	RoNW decreased by 6.7% mainly attributable to net exceptional income of Rs 677 Cr in the previous year.

Source: The company; Axis Securities

Forex Analysis

The company undertakes transactions denominated in foreign currencies. Consequent exposure to the exchange rate fluctuations is managed within approved policy parameters utilizing forward foreign exchange contracts.

Exposure in Rs Cr (for USD)

Particulars	FY20	FY21	Change	Comments/Analysis
Receivables	1.6	3.1	1.5	Not significant
Payables	0.8	1.5	0.7	Not significant
Capital Creditors	0.2	0.0	(0.2)	Not significant
Forward Cover-Bought	1.0	1.2	0.2	Not significant
Borrowings	0.4	1.2	0.9	Not significant

Source: The company; Axis Securities

Exposure in Rs Cr (for EUR)

Particulars	FY20	FY21	Change	Comments/Analysis
Payables	0.13	0.02	(0.11)	Not significant
Capital Creditors	0.04	0.23	0.19	Not significant

Source: The company; Axis Securities

Exposure in Rs Cr (for JPY)

Particulars	FY20	FY21	Change	Comments/Analysis
Payables	0.00	1.6	1.6	Not significant
Capital Creditors	26.7	0.00	(26.7)	Not significant

Source: The company; Axis Securities

Exposure in Rs Cr (for SGD)

Particulars	FY20	FY21	Change	Comments/Analysis
Payables	0.01	0.01	-	Not significant

Source: The company; Axis Securities

Exposure in Rs Cr (for BDT)

Particulars	FY20	FY21	Change	Comments/Analysis
Receivables	9.4	2.0	(7.4)	Not significant
Payables	7.0	4.5	(2.5)	Not significant
Borrowings	0.00	40.0	40.0	Not significant

Source: The company; Axis Securities

Exposure in Rs Cr (for COP)

Particulars	FY20	FY21	Change	Comments/Analysis
Receivables	1.06	1.08	0.02	Not significant
Payables	0.5	0.9	0.3	Not significant
Borrowings	5.8	5.0	0.8	Not significant

Source: The company; Axis Securities

Exposure in Rs Cr (for RMB)

Particulars	FY20	FY21	Change	Comments/Analysis
Receivables	-	-	-	Not significant
Payables	0.07	0.17	0.10	Not significant
Borrowings	-	-	-	Not significant

Source: The company; Axis Securities

Contingent Liability Analysis

Particulars	FY20	FY21	Change	Comments/Analysis
In respect of excise and other matters	75.7	87.8	(12.1)	The outflow is not probable and hence no provision has been made by the company.
Capital Commitments	434.4	400.9	(33.6)	The outflow is not probable and hence no provision has been made by the company.

Source: The company, Axis Securities

Related Party Transactions

Particulars	FY20	FY21	Change	Comments/Analysis
HMCL Columbia SAS	131.2	180.3	37%	Sales in the normal course of Business
HMCL Niloy Bangladesh Ltd	424.4	372.0	-12%	Sales in the normal course of Business
Hero MM Auto Ltd	61.5	451.8	635%	Purchase of Goods & Services
Hero Tech Centre Germany Gmbh	69.3	78.3	13%	Purchase of Goods & Services
A.G. Industries Pvt Ltd	810.4	788.3	-3%	Purchase of RM and components
Rockman Industries Ltd	1,615.4	1,669.1	3%	Same as above
A.G. Industries (Bawal) Pvt Ltd	167.0	151.1	-10%	Same as above
Rockman Industries Ltd	15.7	11.9	-24%	Purchase of assets
A.G. Industries Pvt Ltd	18.4	6.9	-63%	Purchase of assets
BML Munjal University	3.0	2.3	-23%	Payment for services
Hero Mindmine Institute Pvt Ltd	0.1	-		Payment for services
Hero Solar Energy Pvt Ltd	0.4	0.2	-50%	Payment for services

Source: The company, Axis Securities

Corporate Social Responsibility (CSR)

- The company's CSR function comprised initiatives in the areas of Covid-19 assistance, enhancing environment capital, facilitating healthcare & Skill development, creating sustainable livelihoods, supporting specially-abled people, supporting rural development, education & women empowerment, promoting and inculcating road safety practices, development of sports at the grass-root levels among others.
- The company spent ~Rs100 Cr in FY21 (including the amount of Rs 32Cr to be set-off) which is above ~2% of the average net profits of the company.

Key Balance Sheet Takeaways
(Rs Cr)

Particulars	FY20	FY21	Change	Comments/Analysis
Net Worth	14,136	15,198	8%	The company has issued ~41K equity shares under ESOP and RSUs during the year. The Equity Share Capital stood at Rs 39.96 Cr. Reserves and Surplus increased to Rs 15,158 Cr from Rs 14,096 Cr in FY20.
Non-current Assets	10,461	11,208	7%	The increase in assets is mainly on account of an increase in Investment by Rs 780 Cr which was partly offset by lower fixed asset additions and lower capitalization of capital advances, which in previous years were into fixed assets.
Current Assets	8,289	10,953	32%	Trade receivables have increased partially on account of increased prices due to BS-VI and the dispatches being lower last year because of national lockdown in the last week of Mar'20. Inventory increased mainly on account of Q4 volume being higher resulted in higher FG and RM level in comparison to LY and also the partial impact of inflation.
Non-current Liabilities	637	852	34%	Mainly attributable to other financial liabilities which increased by Rs 146 Cr on account of new business commitment during the year and increase in provisions.
Current Liabilities	3,976	6,110	54%	Mainly attributable to the increase in trade payables because of higher production in the last few months of this year as compared to LY and the impact of higher prices due to BS-VI and inflation. During Q4FY21 volume was higher by 18.5% resulting in higher trade payables which were partly offset by other current liabilities and provisions.

Key Cash Flow Takeaways
(Rs Cr)

Particulars	FY20	FY21	Change	Comments/Analysis
PBT	3,127	3,325	6%	PBT was lower on account of lower EBITDA.
Non-cash expenses				
Depreciation	818	677	(17%)	Depreciation decreased on account of accelerated depreciation charged on certain assets pursuant to phasing out of BS-IV assets in the previous year, which has been partly offset by full-year depreciation of the new plant in Chittoor.
Finance Cost	22	22	(1%)	Finance Cost decreased marginally by Rs 0.2 Cr with respect to the LY.
Others	507	(361)		
Working Capital Adjustments	2,522	1,186	(53%)	Decreased due to increase in trade payables during the year
CFO	6,973	4,827	(31%)	Declined 31% YoY due to adverse impact of the Covid-19 on sales
CFI	(4,370)	(2,921)	33%	Lower outflow due to decrease in investments
CFF	(2,498)	(1,891)	24%	
Capex	1,701	1,058	(38%)	The company incurred lower Capex as compared to LY
Free Cash Flow Generation	5,272	3,769	(28%)	FCF generation was lower due to lower CFO generation

Source: The company, Axis Securities

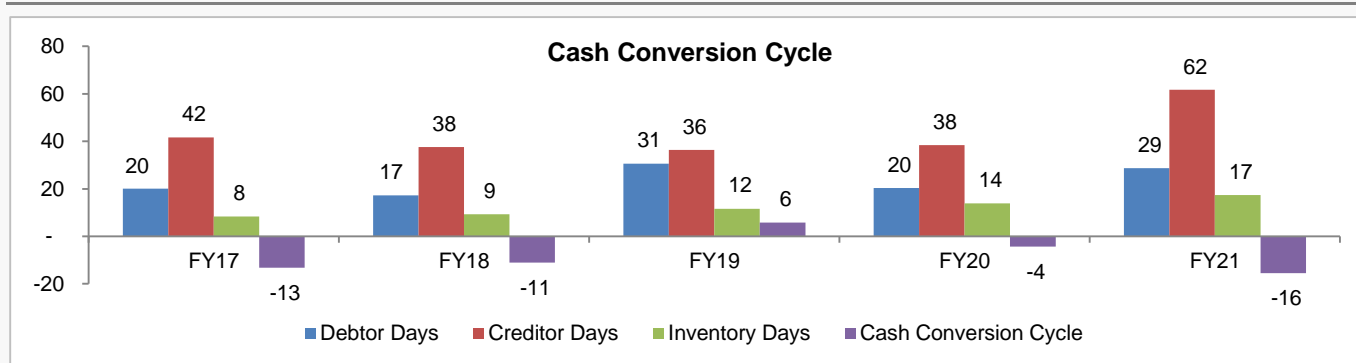
Working Capital Management

Despite a challenging FY21, the company has managed its working capital cycle efficiently. Inventory days increased to 17 days from 14 days YoY due to Q4FY21 volumes being higher resulting in higher FG & RM as compared to the previous year. Debtor days increased to 29 days versus 20 days YoY. Payable days increased to 62 days from 38 days in FY20. The cash conversion cycle stood at -16 days in FY21.

Cash Conversion Cycle

Particulars	FY20	FY21	Change	Comments
Inventory Days	14	17	3	Inventory days increased due to Q4 volumes being higher resulting in higher FG & RM YoY
Trade Receivables	20	29	9	Receivable days increased on account of lower dispatches last year because of National lockdown in the last week of Mar'20. Also, the volumes were significantly higher in Q4FY21.
Trade Payables	38	62	24	Trade payable days increased due to higher production in the last few months YoY and better credit terms with suppliers.
Cash Conversion Cycle	(4)	(16)		Overall CC improved from negative 4 days to negative 16 days

Source: The company, Axis Securities

Exhibit 5: Cash Conversion Cycle


Source: company, Axis Research

Other Important Highlights

Pre-owned Motorcycle and Scooter Business

Through its foray into the pre-owned motorcycle and scooter space, HMCL collaborated with its in-house incubation Hero Hatch to launch a revamped **Hero Sure** based on the 'Wheels of Trust' platform.

Evolving as a PHYGITAL channel, Hero Sure Outlets are now powered with the digital platforms of Wheels of Trust that leverage technology for price discovery and quality assurance. The new-age uber-scalable ways coupled with the company's operational excellence create a unique position for the company and help it to become a trustworthy partner for consumers.

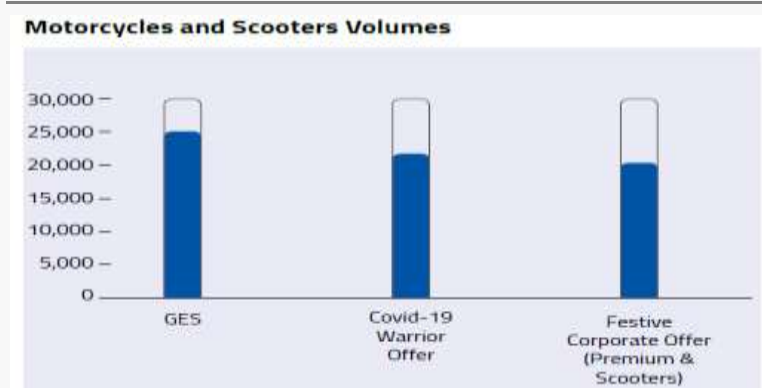
With the introduction of more than 75+ exclusive Outlets, the company's expansion roadmap is a testimony of its growing traction among stakeholders. The growth of the pre-owned motorcycles and scooters Industry is further fueled in the post-Covid-19 era. Hero MotoCorp is expected to retain its leadership in this segment in the long term.

Spare Parts Revenue

The company registered the highest-ever spare parts sales in FY21, amounting to Rs 3,178 Cr (versus Rs 2,895 Cr in FY20).

Institutional Business

During the year under review, the company registered the highest-ever sales in GeM (Govt. e-Marketplace) business. The business growth was largely driven by huge orders received from the Assam government and Panchayat & Rural Department of Assam, along with winning bids for key tenders on the government e-marketplace.

Exhibit 7: Institutional Business


Source: company, Axis Research

Financials

Profit & Loss

(Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
Net revenues	30,801	31,765	37,285	41,454
Operating expenses	26,777	27,671	32,163	35,598
EBITDA	4,024	4,094	5,122	5,856
EBIDTA margin (%)	13.1	12.9	13.7	14.1
Other income	545	606	654	654
Interest	22	24	26	29
Depreciation	677	732	769	807
Profit Before Tax	3,871	3,944	4,981	5,674
Tax	936	990	1,254	1,428
Reported Net Profit	2,964	2,954	3,727	4,246
Net Margin (%)	9.6	9.3	10.0	10.2
Adjusted Net Profit	2,934	2,954	3,727	4,246

Source: The company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
Equity capital	40	40	40	40
Reserves & surplus	15,158	16,215	18,044	20,391
Shareholders' funds	15,198	16,255	18,084	20,431
Total Loans	0	0	0	0
Deferred tax liability	404	404	404	404
Total Liabilities and Equity	15,603	16,659	18,488	20,835
Gross block	10,601	11,437	12,387	13,387
Depreciation	4,612	5,344	6,113	6,920
Net block	5,988	6,093	6,274	6,467
Capital WIP	437	400	450	450
Investments	10,500	10,100	10,900	12,900
Inventory	1,470	1,365	1,410	1,560
Debtors	2,427	2,350	2,554	2,839
Cash & Bank Bal	257	319	483	493
Loans & Advances	1,083	1,164	1,544	1,663
Current Assets	5,236	5,197	5,990	6,555
Sundry Creditors	5,205	3,728	3,673	4,084
Other Current Liability	1,354	1,404	1,454	1,454
Current Liability& Provisions	6,559	5,131	5,127	5,537
Net current assets	-1,322	66	864	1,018
Total Assets	15,603	16,659	18,488	20,835

Source: The company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
EBIT	3,347	3,362	4,353	5,049
Other Income	545	606	654	654
Depreciation & Amortization	677	732	769	807
Interest Paid (-)	-22	-24	-26	-29
Tax paid (-)	-936	-990	-1,254	-1,428
Extra Ord Income	30	0	0	0
Operating Cash Flow	3,641	3,686	4,496	5,053
Change in Working Capital	1,186	-1,326	-634	-145
Cash Flow from Operations	4,827	2,360	3,862	4,908
Capex	-1,058	-800	-1,000	-1,000
Strategic investments	0	0	0	0
Non-Strategic Investments	-1,862	400	-800	-2,000
Cash Flow from Investing	-2,921	-400	-1,800	-3,000
Change in borrowing	0	0	0	0
Others	7	0	-0	0
Dividends paid (-)	-1,898	-1,898	-1,898	-1,898
Cash Flow from Financial Activities	-1,891	-1,898	-1,898	-1,898
Change in Cash	15	62	164	10
Opening Cash	242	257	319	483
Closing Cash	257	319	483	493

Source: The company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY21A	FY22E	FY23E	FY24E
Revenue Growth	6.8	3.1	17.4	11.2
EBITDA Margin	13.1	12.9	13.7	14.1
Net Profit Margin	9.5	9.3	10.0	10.2
ROCE (%)	18.4	17.4	20.2	20.7
ROE (%)	18.8	17.7	20.6	21.0
EPS (Rs)	147	148	187	212
P/E (x)	19.8	19.8	15.7	13.8
P / BV (x)	3.8	3.6	3.2	2.9
EV / EBITDA (x)	14.4	14.2	11.3	9.9
Fixed Asset Turnover Ratio (x)	4.8	4.9	5.5	6.0
Debt Equity (x)	0.0	0.0	0.0	0.0
EV / Sales	1.9	1.8	1.5	1.4

Source: The company, Axis Securities

Hero Motocorp Price Chart and Recommendation History



Date	Reco	TP	Research
28-Aug-20	BUY	3,450	Initiating Coverage
28-Sep-20	BUY	3,450	Auto Sector Update
05-Oct-20	BUY	3,450	Pick of the week
30-Oct-20	BUY	3,450	Result Update
08-Feb-21	BUY	3,850	Result Update
10-May-21	BUY	3,300	Result Update
13-Aug-21	BUY	3,300	Result Update
20-Sep-21	BUY	3,400	AAA

Source: Axis Securities

About the analyst



Analyst: Darshan Gangar

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Sector: Auto

Analyst Bio: Darshan Gangar is Chartered Accountant with over two years of research experience in the Mid Cap space and Auto sector.

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