

# Deep Dive

## Hero MotoCorp

### Challenges galore!

Our exhaustive channel checks across six of Hero MotoCorp's (HMC) key states indicate that the 125cc segment is slowly emerging as a customer favourite, and as a result, contribution of 100cc has declined to 51% of motorcycles in FY23, from 58% in FY19. This shift in mix doesn't bode well for HMC, given: (1) 100cc has always been its forte and contributes to 78% of its volumes (2) HMC has lost significant market share in 125cc segment to 21%, from 55% in FY19. This shift in mix has also led to HMC losing 510bps share in motorcycles since FY20 to 46.9%. Further, HMSI's entry in the 100cc segment with a well-established brand at a competitive price point undermarks its seriousness to gain a share in this segment, and may pose a serious threat to HMC. While HMC has a healthy launch pipeline largely focused on the 125cc and above segments, we do not expect it to recover meaningful share, given its multiple failed attempts in the past. Since we expect HMC to further lose share over FY23-25E, we lower our target multiple to 14x, from 15x, to arrive at our revised TP of INR2,512 per share. Downgrade to **REDUCE** from **BUY** earlier.



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### Shift in mix away from HMC's forte doesn't bode well for the company

One of the key feedbacks from our exhaustive channel checks in HMC's key states is that motorcycle demand is gradually shifting towards 125cc from 100cc segment. This shift in the mix does not bode well for HMC, given that: (1) 100cc contributes to 78% of its volumes, where HMC has 80% market share (2) it has lost significant share in the 125cc segment to 21%, from a high of 55% in FY19, and has been unable to recover share in the recent past.

### HMSI's entry into 100cc with a value proposition poses a risk to HMC

HMSI launched Shine100cc at a highly competitive price of INR 64,900. HMSI's seriousness to get its strategy right this time can be seen from (1) the use of its well-established brand "Shine" in 125cc; (2) competitive price positioning for Shine 100cc; (3) its target to sell 300k units in the first year. Thus, HMSI's entry in the 100cc segment, can prove to be a serious threat to HMC, if it gets its act right.

### Past track record doesn't give confidence in success of new launches

HMC has a healthy launch pipeline for FY24, with bulk of its launches likely to be in the 125cc and above segments, where it is trying to revive its share. However, we do not expect it to recover a meaningful share in these segments, given its multiple failed attempts in the past and significant competition in these segments.

### Valuation and view

Given these headwinds, we have lowered our earnings by 5% / 15% for FY24 / FY25E. We expect HMC to post 11% EPS CAGR over FY23-25E, largely revenue led, as any benefit from softening input costs is likely to be ploughed back to recover back lost share. Since we expect HMC to further lose share over FY23-25E, we lower our target multiple to 14x from 15x, to arrive at our revised TP of INR2,512 per share (from INR 2,959). Downgrade to **REDUCE** from **BUY**.

### Financial summary

Year Ending March	FY21	FY22	FY23	FY24E	FY25E
Net Sales	3,08,006	2,92,455	3,38,057	3,68,649	4,09,854
EBITDA	40,192	32,929	39,862	46,081	49,182
APAT	29,642	23,972	29,106	33,769	35,839
Diluted EPS (Rs)	148.4	120.0	145.7	169.1	179.4
P/E (x)	19.6	24.2	19.9	17.2	16.2
EV / EBITDA (x)	11.8	14.3	11.7	10.1	9.4
RoCE (%)	25.1	19.8	22.8	25.2	25.4

Source: Company, HSIE Research

## REDUCE

CMP (as on 07 Jun 2023)	INR 2,958
Target Price	INR 2,512
NIFTY	18,726

### KEY STOCK DATA

Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (INR bn) / (\$ mn)	591/7,228
6m avg traded value (INR mn)	1,164
52 Week high / low	INR 2,979/2,246

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.3	7.2	15.1
Relative (%)	14.4	6.0	0.5

### SHAREHOLDING PATTERN (%)

	Mar-23	Dec-22
Promoters	34.77	34.77
FIs & Local MFs	27.87	27.29
FPIs	27.00	27.48
Public & Others	10.36	10.46

Source : BSE

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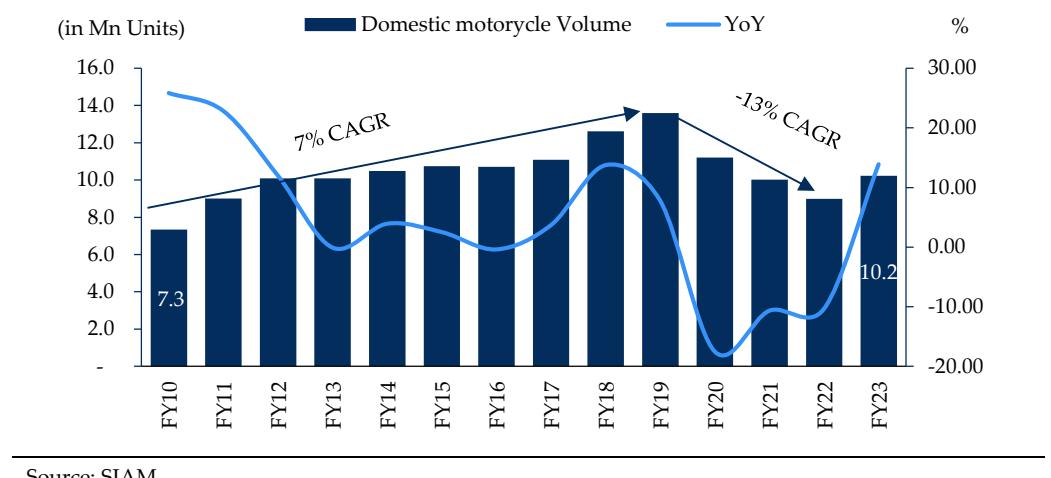
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## Interesting trends seen in motorcycles

Until FY19, which was the previous peak seen in motorcycles, the industry was growing at a steady rate of 7% volume CAGR for the past nine years. However, post that, in the next three years, it slumped at a 13% volume CAGR to over a decade low of 8.9mn units in FY22. Later, despite a 14% volume growth in FY23, its volumes were still only marginally ahead of FY12 volumes.

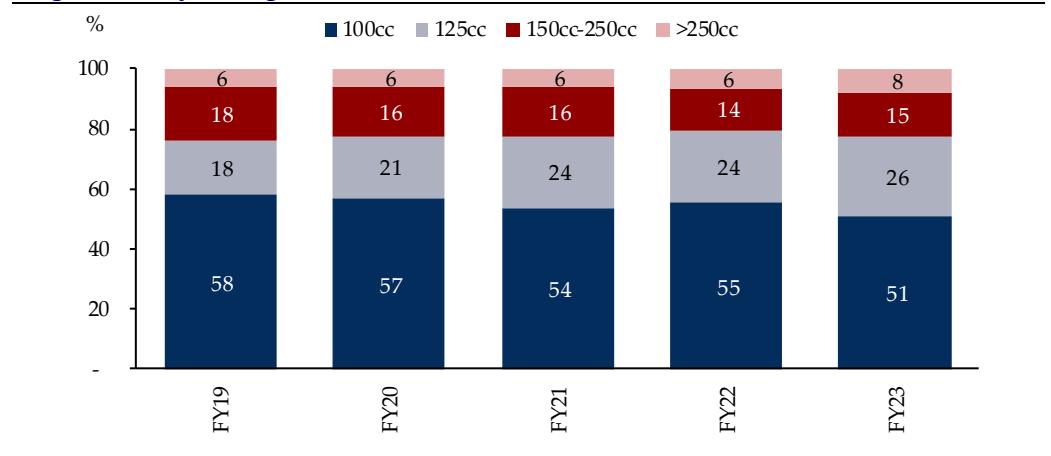
**Fig1: Domestic Motorcycle Volume Trend**



Source: SIAM

If one carefully looks at the sub-segments in the motorcycle industry, an interesting segmental trend can be observed. While the 100cc segment has declined at a CAGR of 6% between FY20-23, the 150-250cc segment has also declined at a similar 6% CAGR in the same period. This is, possibly, because some customers have been downtrading from 150 to 125cc, especially post the launch of Pulsar125. On the other hand, the 125cc segment has seen a 5% CAGR increase in sales over the last three years. The 125cc segment is clearly now evolving as the customer favourite: from a contribution of 18% of motorcycle sales in FY19, the 125cc segment contribution has now increased to 26.2% by FY23. On the other hand, the contribution of the 100cc segment has declined from 58% in FY19 to the current 51% in FY23.

**Fig2: Motorcycle Segmental Trend**



Source: SIAM

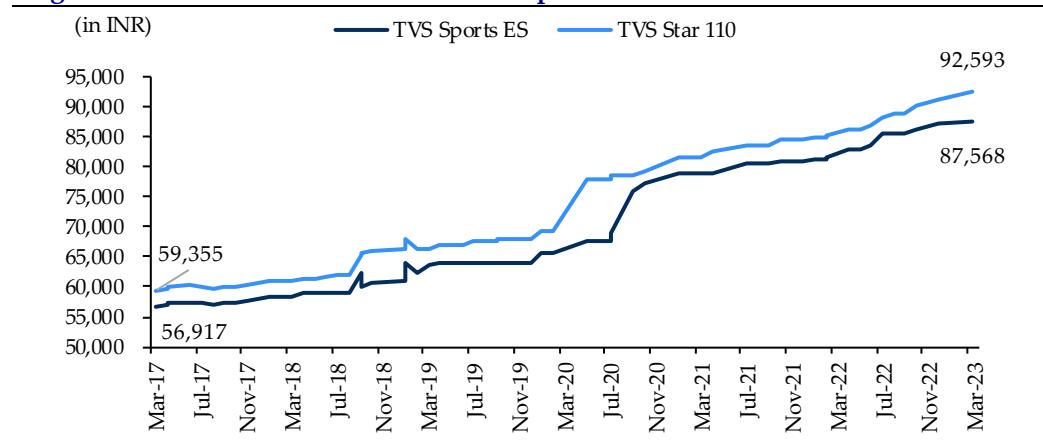
## What's ailing the 100cc segment?

As highlighted in the previous section, the 100cc segment has declined at a CAGR of 6% YoY relative to industry decline of 3% since FY20. The 100cc segment which has traditionally formed bulk of the motorcycle market is now clearly seeing a weak demand trend. One of the obvious and critical reasons for this is likely to be that the 100cc vehicles have now become "unaffordable" to the consuming class that it traditionally catered to. The reasons for the same are likely to be: 1) sharp rise in vehicle prices over the last few years and 2) macro and regulatory shocks like demonetization, GST and COVID have led to a sharp impact on the consumption capacity of the entry level consumer. We try and elaborate on this further.

### Sharp vehicle price increase has dented 100cc segment demand

As is very well-known, since FY17 onwards, there has been a noticeable rise in two-wheeler prices in each of the years for multiple reasons including an increase due to mandatory insurance, BS4 and BS6 transition, ABS/CBS transition and the sharp raw material cost pressure seen over the last couple of years.

**Fig3: Two wheelers have seen substantial price hike since FY17**



Source: HSIE Research

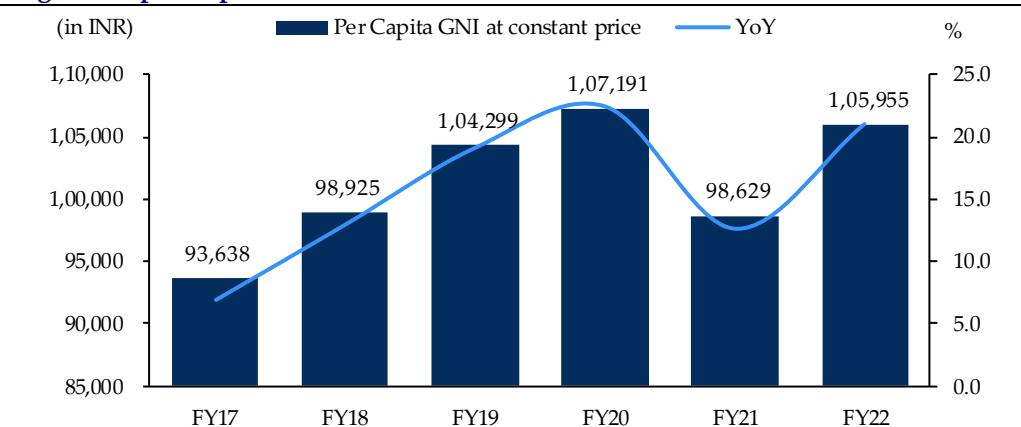
Just to highlight the extent of price hikes, we highlight that a 100cc motorcycle has seen over 50% price hike in this period (see figure 3). Typically, whenever a sharp price hike happens, it usually takes a few months for customers to absorb such a rise and; then sales normalize once the same is set as a new normal. However, as can be highlighted in the chart above, what has been different this time is that there has been consistent and a much sharp price increase each year in the last few years which has not stabilised till date! Before this, usual price hikes used to be around 3-5% on an annualized basis and even part of this increase used to be absorbed by OEMs, on the back of their operational efficiencies. Thus, a 50% price increase is an extremely significant rise over 6 years for the entry level customer, who is highly price sensitive.

One other aspect to highlight here is that while prices for all models have increased in this period, the price hike for the highly price-sensitive entry segment has been much higher than the same in the 125 and above segments. Also, needless to say, price hikes in the premium segment are usually absorbed much better relative to the entry segment. This is also likely to be a key reason why demand for entry motorcycles has been impacted much more than other categories over last few years.

### Income levels haven't grown in line with price hikes

While the cost of entry-level bikes has skyrocketed in the last five years, income levels have not risen in sync with such a sharp increase.

**Fig4: NNI per Capita at constant Price**



Source: RBI Handbook

The above chart highlights the trend in income levels in India, adjusted for inflationary pressure. As can be seen from the chart above, per capita income on a constant price basis (adjusted for inflation) has grown just 13% between FY17-22, significantly lower than the sharp cost increase that two-wheelers have seen.

Further, regulatory shocks like GST and demonetization have sharply hurt the unorganized sector of society. Apart from this, 2 years of COVID has sharply impacted the lower and middle income class, for whom a significant rise in medical expenses in this period has severely impacted the savings of this income class. A dip in savings balance has in-turn curtailed the spending capacity of the entry level category which is now struggling to get their savings back on track.

Thus, the sharp increase in vehicle prices and a bigger dent in price-sensitive customer's spending capability is likely to be one of the major reasons why the entry two wheeler segment has seen very weak demand over the years, in our view.

## Deep dive to understand segmental demand traits

While both the above-sighted reasons are the most popular expert views of demand destruction for entry motorcycles and also sound logical, the continued demand momentum in the 125cc segment in this period clearly does not support this reasoning and has taken us by surprise. In the past, whenever there has been a sharp increase in vehicle prices, one has seen that customers tend to downtrade for sometime till the new price increase is stabilized in the market.

While one may argue that the premium segment customer is downtrading to the 125cc segment, given similar or even better styling options with slightly lower power output but a much lower price point, we were curious to understand whether there is also a marked shift in demand towards the 125cc segment, even from the entry motorcycle customer OR whether there is a clear income divide at play, wherein, the middle and upper-class consumers continue to boost discretionary consumption but the lower end/price sensitive customers continue to struggle.

In order to understand the same, we did exhaustive channel checks in key 100 cc markets in India to understand customer demand trends. In order to understand the largest 100cc markets, we simply shortlisted the top six States for Hero MotoCorp (HMC) in India and spoke extensively with dealers (we spoke to 36 dealers) in these regions. Just to highlight, these six states contribute to almost 65% of HMC sales and, hence, seem to be the right fit to understand customer demand traits in the entry-level segment in a bit more detail. Also, in each of the states, we compare HMC and HMSI market share trends as a proxy for the shift in motorcycle mix, given the fact that while HMC is extremely strong in the 100cc segment, HMSI is strong in the 125cc and above segments.

**Summary findings from these key states are as below:**

### #1 Feedback from Uttar Pradesh—contributes to 19% of motorcycle sales

#### 2W market backdrop in UP

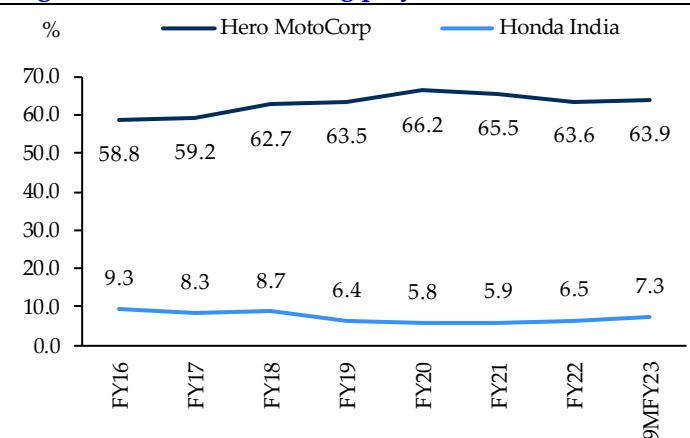
- As per our checks, UP is by far the largest 2W market and also the largest 100cc market in the country.
- For most of the dealers that we checked with, 100cc segment formed major share of their sales.

**Fig5: Uttar Pradesh Key Market Data**

Particulars	
Per Capita GDP at constant price (in INR for FY21)	39,371
2W Penetration in Household (%)	51
State Contribution in National bike Sales (%)	19
HMC's Market share in the state (%)	64
State's volume contribution in HMC Sales (%)	25

Source: RBI Handbook; National Family Health Survey; HSIE Research

**Fig6: HMC remains a strong player in UP (Mkt share %)**



Source: HSIE Research

- This is also a region where marriage-led sales form a high mix in overall annual sales. Some of the dealers indicated that almost 60-70% of customers preferred to give 100cc motorcycle as a gift in marriages.
- However, we received a mixed response on demand trends in UP. Few dealers indicated that there is rural distress in certain pockets in UP. In certain regions, this has happened due to crop failure. COVID impact has also led to price sensitive customers curtailing their discretionary consumption. A few dealers were of the view that consumers are controlling their spending unlike in pre-COVID times. As per dealers, quite a few customers seem to be postponing their purchase decision, thereby driving a prolonged replacement cycle in 2Ws.
- However, most dealers were confident that the 100cc market will bounce back soon as they expected such replacement buyers to come back in the market sooner than later.

### **Hero MotoCorp feedback in 100cc**

- Hero MotoCorp has an extremely strong brand position in UP. As per Vahan data, HMC enjoys almost 64% market share in the motorcycle segment in UP, and this has largely remained stable in the last four years since FY19
- However, post BS6 transition, HF lost some brand appeal in the market due to some teething issues. However, Hero was able to sustain its market share as those customers upgraded to Splendor.
- Within 100cc, the Splendor brand in UP is a very solid brand and is amongst the most preferred brands in the region by a wide margin, as per dealers
- While the likes of Ola, Okinawa and Hero Electric have set up shops in UP, dealers indicated that they are not seeing any impact of EV sales on their 100cc demand in the region

### **Shift to 125cc segment**

- We received mixed feedback on whether or not the UP industry is shifting to 125cc and above segments
- As per dealers, in larger cities in UP, one is seeing customers upgrading to 125cc segments. Even youngsters in such cities seem to prefer 125cc models over 100cc
- One of the dealers indicated that replacement customers in his region are upgrading to 125cc segment
- However, this was not a consistent feedback that we received from all HMC dealers that we interacted with in the state with some claiming that they are not seeing any major shift in demand towards 125cc segment

### **Feedback of HMC in 125cc**

- HMC's market share in 125cc in UP is much higher than the national average as Hero MotoCorp is a very strong brand in the state
- However, despite its strong brand presence in the region, we understand that HMC is losing market share to the recent launches from Bajaj and TVS, even in UP
- Most dealers indicated that HMC is focusing aggressively to recover lost share in 125cc
- The recently launched X Tec variants in both Super Splendor and Glamor have been well received by customers and dealers are confident that these will help HMC recover lost share in 125cc segment in the region

### Finance update

- Finance penetration has sharply increased in most regions we checked in
- One of the dealers indicated that it has risen to as high as 60-70% from under 50% earlier.

### #2 Feedback from Bihar region—contributes to 8% of motorcycle sales

#### Update on market dynamics

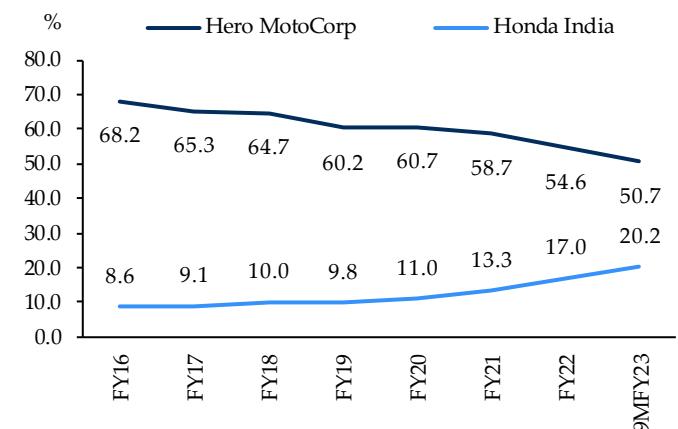
- Hero MotoCorp is an extremely well established brand in this market and it is also a very large 100cc market
- Its strong brand presence in this state is highlighted by the fact that most HMC dealers that we interacted with indicated that their total 2W market share in the region was 50%+. More importantly, few dealers hinted that their market share in scooters and even in premium segment was in low double digits, which is well above the pan-India average
- However, as per the Vahan data, we understand that HMC has been steadily losing share in Bihar in motorcycles: from a high of 68% in FY16, its market share has consistently slipped over the years to 50.7% for FY23. On the other hand, HMSI has been seeing a steady rise in its market share in Bihar in the last few years, as highlighted in the chart below

**Fig7: Bihar: Key Market data**

Particulars	
Per Capita GDP at constant price (in INR for FY21)	28,127
2W Penetration in Household (%)	27
State Contribution in National bike Sales (%)	8
HMC's Market share in the state (%)	51
State's volume contribution in HMC Sales (%)	9

Source: RBI Handbook; National Family Health Survey; HSIE Research

**Fig8: HMSI is gradually gaining market share in Bihar**



Source: HSIE Research

#### Are customers upgrading?

- One of the dealers indicated that the first vehicle for a customer in their region will always be a 100cc vehicle, given he is extremely price sensitive and also goes for best mileage product
- On the other hand, most dealers that we interacted with agree that customers seem to be now upgrading (largely a case for replacement customers). HMSI's rise in market share in the region can also be seen as a proxy for this trend as HMSI is strong only in 125cc and above segments
- Dealers indicated that customers seem to have now tasted the convenience with features and, hence, now demand such high features (Bluetooth, LEDs, etc.) in their vehicles also
- Also, given rising finance penetration, the issue of affordability also gets addressed. Given that a higher mix of customers are now forced to buy vehicles on finance, they also consider an upgrade option, given minimal incremental EMI cost. Hence, customers get tempted to upgrade to better features. Thus, rising finance penetration

is turning out to be a critical enabler for customers upgrading their purchase decisions, as per dealers

- For instance, post the launch of XTech variants, quite a few dealers indicated that these variants now contribute over 50% to the product sales for HMC

#### **Feedback on 125 cc segment—HMC**

- Most of the dealers we interacted with in the state indicated that HMC had a very strong market share in the 125cc segment in the pre-COVID days (even market leaders in a couple of cases)
- However, HMC lost some share post the BS6 transition in 2020 due to some initial teething issues on its models. HMC has also lost share in the last couple of years in the 125cc segment due to competitive launches
- Post the launch of its X Tec variant in this segment, HMC is now seeing a revival in the market share in this segment over the last few quarters
- Most dealers in this region were confident that HMC would recover to its pre-COVID market share position even in the 125cc segment in the next couple of years
- A couple of dealers indicated that while they are working hard to recover lost share in the 125cc segment, they are also getting adequate support from the company for the same (incentives + ad spend support)
- We got consistent feedback that Honda Shine is a strong market leader in the 125cc segment. Few dealers mentioned that between HMC and HMSI, they have almost 80% market share in the 125cc segment in their regions

#### **View on Shine 100cc launch**

- We got mixed feedback from dealers on this query
- Few dealers were extremely confident that the launch of Shine 100 will not have any meaningful impact on HMC's market share in their region, given its strong brand position in the segment
- However, a couple of other dealers highlighted that given that Shine 100 has been launched at competitive positioning, it may take away some share from HMC in the 100cc segment
- However, they remained confident that HMC would have a strategy ready to counter this competition. HMC would not allow a competing brand to stabilise in the 100 cc market in the region, as per dealers

#### **Financing trend**

- All HMC dealers highlighted that finance penetration has sharply increased over the last couple of years
- It has increased to 70-75% from levels of around 50% a couple of years ago
- Post financing, DP for 100cc and 125cc products is similar and EMI differential for 100cc vs 125cc is just about INR200-300

### # 3 Feedback from Maharashtra—contributes to 9% of motorcycle sales

#### Regional feedback

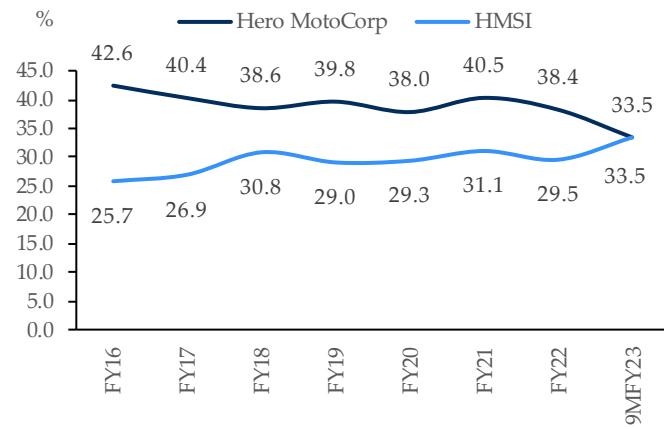
- As per major dealers, the unseasonal rains in March-April has had a major impact on crops in quite a few regions in the state
- Farmers are not getting a good rate for their crop. This is amongst the key reasons for a rural slowdown in the state

**Fig9: Maharashtra: key Market data**

Particulars	Maharashtra
Per Capita GDP at constant price (in INR for FY21)	1,33,356
2W Penetration in Household (%)	54
State Contribution in National bike Sales (%)	9
HMC's Market share in the state (%)	34
State's volume contribution in HMC Sales (%)	6

Source: RBI Handbook; National Family Health Survey; HSIE Research

**Fig10: HMSI & HMC have similar share in Maharashtra**



Source: HSIE Research

#### Competitive positioning

- While this is a large market for HMC, it is important to highlight that the company has the lowest market share in motorcycles in this market, relative to its other top regions
- Its motorcycle market share in Maharashtra has slipped to close to 34% for current fiscal, from a high of 42.6% in FY16
- This is also a market where HMSI is extremely neck-to-neck with HMC in the motorcycle segment (under 1% difference in total units sold) and certainly No. 1 in total two wheelers

#### Are customers upgrading?

- Dealers in the region indicated that over the years, price differential has declined between 100cc and 125cc bikes as the percentage increase on lower end segments has been the highest over the last few years.
- Also, on account of the sharp rise in pricing, finance penetration (increased to 55-60% from 40-45% earlier) has substantially increased over the last few years. This also means that in terms of EMI, the monthly outgo on a 125cc bike is only slightly higher (Rs200-300) than the same for a 100cc bike
- Also, the younger generation now wants many more features in their bikes than they did some years back
- One other reason for the rising mix of 125cc segment at an industry level is reduction in the overall mileage differential between 100cc-125cc products, post the FI introduction after BS6, as per dealers
- Also, consumers are seen upgrading more in metros than in rural regions
- The rising share of HMSI in Maharashtra also highlights the fact that the industry is likely to be shifting to 125cc and above segments in the region

### **Feedback on competitive positioning in 125cc segment in the regions**

- HMSI's Shine has a very solid presence in the 125cc segment in the state (some dealers even claimed its share as high as 90% in the 125cc segment in a few regions)
- As per a few dealers, Shine for Honda in the 125cc segment is as strong as Splendor for Hero MotoCorp in the 100cc segment
- Also, dealers indicated that Super Splendor needs a push in terms of offers (dealers) to be sold well in the region
- Most dealers in the region admitted that HMC is losing share in the 125cc segment in a few regions due to stylish products from the competition, including BAL's Pulsar and TVS Raider.
- Given the shift in trend towards the 125cc segment, dealers did highlight that HMC is focusing a lot on recovering lost share in the 125cc segment over the last few quarters. Some of the steps HMC is taking include supporting dealers for ad campaigns in the segment, providing schemes whenever required on the right occasions, apart from its recent new launches
- While HMC's X Tec variant in Glamor is doing well, it is not helping HMC recover lost market share, as per dealers
- Dealers also indicated that HMC and other peers recently benefitted a lot from the sharp production constraint at HMSI in Q4

### **Shine 100cc feedback**

- As per one of the dealers, HMSI has smartly launched its Shine100cc with a clear focus on the northern belt (as is visible in its launch ads), which is the key 100cc market for HMC
- Most dealers in the region agreed that they would certainly see some impact in the 100cc segment post the launch of Shine

### **# 4 Feedback from Rajasthan—contributes to 6.5% of motorcycle sales**

#### **Background of the market**

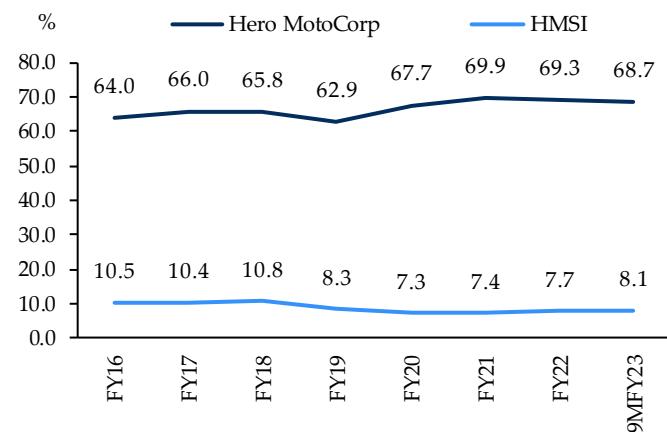
- As per dealers, Rajasthan, like UP, is one of the large 100cc bike markets in India and also a stronghold for HMC
- Most dealers we spoke to have their mix skewed in favour of the 100cc segment
- According to the dealers, customers are highly cost/mileage conscious in some of the regions we spoke to. Roads are developed and customers travel for long distances on bikes. Hence, mileage plays a critical role in bike purchases for price-sensitive customers in this region

**Fig11: Rajasthan: Key Market data**

Particulars	Rajasthan
Per Capita GDP at constant price (in INR for FY21)	74,009
2W Penetration in Household (%)	66
State Contribution in National bike Sales (%)	7
HMC's Market share in the state (%)	69
State's volume contribution in HMC Sales (%)	10

Source: RBI Handbook; National Family Health Survey; HSIE Research

**Fig12: HMC has the highest market share in the State**



Source: HSIE Research

- Apart from normal demand, this region also enjoys bulky marriage season demand in key marriage months. In marriage months, 100cc sells very well in their region
- Given the strong mix of 100cc in the region, HMC has a very dominant share in most regions we checked in (well above the pan-India average). As per Vahan data as well, HMC has the highest pan-India market share in motorcycles at 68.7% in Rajasthan. They have also gained 580bps share over the last four years in Rajasthan.

### Demand sentiment

- Given that this is a highly price-sensitive market, demand has also been weak in this market over the last few quarters. Dealers indicated that customers just don't have liquidity for discretionary consumption, especially post-COVID. The salaried class seems to be the worst impacted as salaries haven't risen in sync at all.
- Also, with prices rising so sharply, the same has gone well beyond budget for many
- One of the dealers indicated that the 100cc segment is seeing some impact due to the EV transition as well. He highlighted the example of a small shop owner who wanted to buy 3-4 2Ws for his business needs. Given the sharp rise in vehicle + petrol prices, he eventually purchased low-cost EVs for his daily commute needs (would have considered bikes otherwise)

### Feedback on the 125cc segment

- While 125cc is a relatively smaller mix in this region, dealers did admit that HMC is losing share in the segment to competition
- However, dealers also indicated that HMC management is now focusing aggressively on recovering lost share in the 125cc segment in the region

### Feedback on Shine100cc

- When asked about HMSI's Shine launch in 100cc, HMC dealers were confident that it would hardly impact its market share in the region, given the fact that it has a strong brand presence in 100cc in the state
- This is also as Honda's presence in the region is strong only in scooters. While it is also very strong in 125cc, this segment's contribution in Rajasthan is much lower, as per dealers
- They gave examples of previous Honda launches in 100cc and how they failed

### Update on financing

- Given the sharp increase in prices and given that the bulk of the consumer is highly price sensitive, finance penetration has certainly gone up in the region as per dealers
- Dealers were of the view that finance penetration has increased to almost 65-70% from around 40% earlier. In fact, in seasons ex of marriages, finance penetration has also increased to as high as 70-80%, from 40-50% earlier

## # 5 Feedback on Gujarat—contributes to 6% of motorcycle sales

### Key market trends

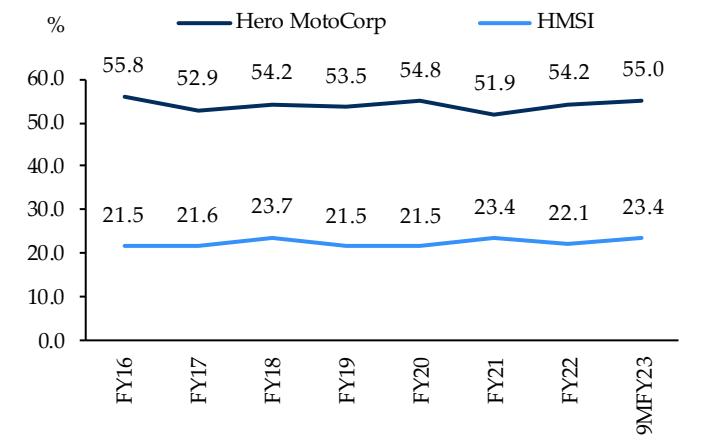
- In Gujarat, 2W penetration seems to be amongst the highest in India—most dealers indicated that the region has easily crossed 2 units per household penetration in 2Ws
- Also, unlike some of the northern regions, Gujarat is not a marriage market
- The region also has a good share of 100cc motorcycles and, hence, HMC's market share is higher than normal in the region
- However, at the same time, there are pockets where even HMSI has a very strong presence. In fact, HMSI has the second-highest share in motorcycles in Gujarat at 23.4%, within the top six markets that we checked

**Fig13: Gujarat: Key Market data**

Particulars	Gujarat
Per Capita GDP at constant price (in INR for FY21)	58,334
2W Penetration in Household (%)	61
State Contribution in National bike Sales (%)	6
HMC's Market share in the state (%)	55
State's volume contribution in HMC Sales (%)	8

Source: RBI Handbook; National Family Health Survey; HSIE Research

**Fig14: HMSI seen gradually gaining share in Gujarat**



Source: HSIE Research

### Feedback on HMC 100cc

Dealers indicated that given the technical issues in HF post-BS6, they saw some demand taking a hit in their entry segment. However, over time, Splendor was able to offset the demand destruction in HMC's entry segment, as per dealers

### Are customers upgrading to 125cc

- Dealers indicated that while 100cc sales in the region are largely flat, they are seeing growth in the 125cc segment largely as metro/tier 1-2 city customers are upgrading to this segment
- Although the 125cc mix was much smaller in most regions, its mix has been rising at an accelerated pace in the last couple of years
- Few dealers also indicated that the shift to 125cc is a function of the income divide in the country post-COVID, where the entry consumer has been hit the hardest relative to the premium customer. This has led to the entry customer either postponing his purchase or buying a second-hand vehicle while the rich customer goes ahead with his purchase decision
- A couple of dealers indicated that these days entry-level bikes are used only for gifting
- Quite a few dealers indicated that customers in this region need bikes with better features. Today, the look and feel of bikes is far more important for customers than just mileage
- The reducing price differential and the rising penetration of finance are also helping drive this premiumization trend

- The premiumization trend is also driven by youngsters preferring to buy 125cc and above vehicles relative to their parents being content with higher mileage bikes
- One of the dealers highlighted that they are these days busy “selling finance products” than actual vehicles as it has become very critical to reduce the DP of a vehicle so that they can push customers to upgrade to higher-end vehicles (also critical as rural customers come with a fixed amount of cash with them and the balance needs to be funded). Given the rising price points, customers are forced to buy vehicles on finance. Also, since customers opt for finance, they also tend to consider options that may not hurt their EMIs too much and this is where 125cc products score over 100cc—while the EMI differential is not too high, the customer gets a stylish product with a host of features in it
- Hero MotoCorp dealers are also incentivised more to sell 125cc and higher products which forces them to think differently than routine in order to convince customers to upgrade

### **Competitive dynamics in 125cc**

- HMC has a relatively lower market share in the 125cc segment in most regions that we checked in. It has also recently lost share in 125cc due to increased competition
- Most dealers indicated that given the shift in demand away from 100cc, HMC management is also now focusing aggressively on the 125cc and above segment
- Most dealers were aware that most of the incremental new launches are expected to happen only in 125cc and above segments as HMC targets to recover lost share in this segment
- While the X Tec variants from HMC are well accepted, they are not helping recover the entire lost share due to competing launches
- On the other hand, HMSI has been a dominant market leader in the 125cc segment with consistent feedback across all dealers in the state. In fact, there are some specific pockets in Junagadh where HMSI enjoys around 40%+ market share in total 2Ws with HMC being the second-largest player.

### **Feedback on other segments**

- Most dealers indicated that HMC’s share in the premium segment is very low in the region
- One of the dealers indicated that one of the reasons why HMC did not do well in the premium segment was that HMC dealers are used to selling their bread and butter 100cc vehicles without much effort, which always contributed to the lion’s share of their mix. Hence, there was very little incentive to work hard in segments where HMC traditionally had a much lower presence
- This was one of the reasons, as per a dealer, that despite having good products in the premium segment (new Xtreme 160R and XPulse), HMC has had limited success in it
- This dealer was of the view that HMC dealers would need to step out of their comfort zone and put in the effort to push products to customers in 125cc and above segments. Large dealers who are doing this are already seeing the benefit of their efforts, as per him.
- HMC is also working/training dealers on how to attract/incentivize customers to focus on premium products from HMC
- On scooters, dealers were of the view that scooter penetration is picking up in Tier-2-3 towns where road conditions have improved. Also, one of the dealers indicated

that his network now retails 10% of his mix in scooters vs nil a couple of years back—highlighting rising scooter penetration in the region

- Also, even in scooters, the premiumization trend is picking up
- However, HMC is yet to make a mark in the scooter segment, as per most HMC dealers we interacted with

### Finance penetration

- As in all other regions, dealers indicated that finance penetration in their dealership is increasing to 79-80% vs 55-60% earlier
- Dealers indicated that finance availability was not an area of concern at all in this region
- A couple of dealers indicated that customers these days get financed even if they don't have the right documents

### # 6 Feedback from Madhya Pradesh—contributes to 8% of motorcycle sales

#### Market feedback

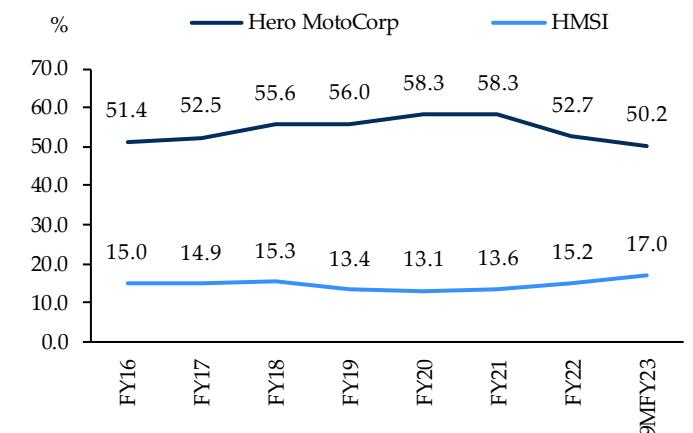
- This has traditionally been a very strong 100cc market
- However, Hero MotoCorp has seen an almost 580bps decline in motorcycle market share in MP to 50% in the last four years, as per SIAM data

**Fig15: Madhya Pradesh: Key market data**

Particulars	Madhya Pradesh
Per Capita GDP at constant price (in INR for FY21)	1,60,321
2W Penetration in Household (%)	52
State Contribution in National Sales (%)	8
HMC's Market share in the state (%)	50
State's volume contribution in HMC Sales (%)	8

Source: RBI Handbook; National Family Health Survey; HSIE Research

**Fig16: HMSI gradually gaining share in Madhya Pradesh**



Source: HSIE Research

#### Hero MotoCorp feedback 100cc

- HMC has an extremely strong brand in MP and a much stronger brand in the 100cc segment
- However, as per dealer feedback, post BS6 upgrade in FY20, HF Deluxe developed a technical snag in its fuel pump, which has resulted in a sharp impact on the model's demand over the last few years
- The saving grace was that Splendor was able to hold this arrest and a lot of HF customers have moved to the Splendor category in the last few years, as per dealers

#### Feedback on the 125cc segment

- In the 125cc segment, the consistent feedback has been that Honda is the dominant player in this category with close to 70%+ market share in certain regions in this segment

- Bajaj is also slowly gaining traction due to its Pulsar launch in the 125cc segment. Also, given its success in 125cc, it has now shifted focus towards this segment, which has also led to substantially reduced focus in 100cc (discontinued CT100 and Platina kick start)
- However, HMC is not a big player in the 125cc segment in MP, as per dealers

### **Are customers upgrading in the region?**

- Dealer feedback suggests that market is slowly shifting towards 125cc segment.
- This is also the key reason why HMC has lost share in MP in the recent past and also possibly why HMSI has gained share

### **Feedback on impact of Shine 100cc launch on HMC**

- The launch of Shine 100cc is likely to surely have an impact on HMC's sales in the segment, as per dealers
- However, dealers were of the view that HMC will also not take this lightly and would have a game plan in place to restrict their market share loss in 100cc

### **Financing trends**

- Financing penetration has gone up to 70%+ level in regions where we checked, from around 50% levels earlier
- Given that customers are used to getting a fixed amount in cash for purchase of 2Ws, even the LTV is rising in most cases over the years

### **On scooters**

Hero has a single digit market share in scooters in the region despite the recent new launches, as per dealers

### Key summary findings from our exhaustive channel checks

- One clear feedback that is coming out is that while there is certainly stress in rural regions that has impacted the demand in 100cc, there is also a sizeable customer base in 100cc segment, which is considering an upgrade option for a variety of reasons highlighted above. Within this, a rising mix of replacement customers seems to be considering the upgrade option.
- Also, one of the critical enablers that is pushing the customer to do the same is his need to finance the vehicle (given the sharp rise in prices), easy availability of financing options and the “realisation” that the incremental EMI on a higher end model is not material enough to sacrifice his aspiration to own a better vehicle loaded with much higher features.

**Fig17: EMI trend**

Particulars	Splendor 100cc	Super Splendor
On road price (in INR)	89,327	96,770
LTV	85	85
Loan availed	75,928	82,255
Down payment	13,399	14,516
Interest rate (%)	8.5	8.5
EMI for 36 months	3,451	3,739
EMI for 24 months	2,397	2,596

Source: HSIE Research

See the table 12 above for instance. The difference in pricing between 100cc Splendor and the 125cc Super Splendor now is just around Rs7k or 8%. The difference in pricing for the incremental feature addition does not seem too high. Further, given that now an increasingly higher proportion of customers are forced to avail financing option given the sharp increase in vehicle prices, the EMI differential to upgrade to a 125cc variant is just Rs300. These factors are some of the critical enablers that are now providing a very lucrative option for 100cc customers to upgrade to 125cc bikes.

- Based on our channel feedback and also from the State-wise data, it is clear that HMC has gained share in only 2 of its top 6 States since FY19 viz Rajasthan and Gujarat. Also, its market share has remained stable in Uttar Pradesh in this period. However, HMC is losing substantial share in 3 of its top 6 States viz. Maharashtra, Bihar and MP, as highlighted in the charts above
- On the other hand, HMSI has gained market share in 4 of Hero MotoCorp's 6 big States (Maharashtra, MP, Bihar, Gujarat) and has remained largely stable in the other two (UP and Rajasthan). If we drive a proxy of HMSI largely representing the 125cc and above segments, it also supports the view that demand is shifting towards 125cc segment from 100cc
- The bigger concern for HMC is that in three of the six large HMC states, HMSI has now been consistently gaining market share: in Bihar (+1000bps to 20.2%), MP (+360bps to 17%) and Maharashtra (+440bps to 33.5%). In fact, in Maharashtra, HMSI is neck-to-neck with HMC even in motorcycles, with just a few hundred units differential in sales. Even in Bihar, which has traditionally been a very strong hold for HMC, HMSI has doubled its share in the last four years (see fig8).

## HMC's new launches targeted at shifting trend

Management has highlighted in its recent interaction that it has a strong product pipeline in place and that FY24 is likely to be a strong model launch year for the company. It is likely to launch at least one new product in each quarter in FY24. Further, its focus to recover lost share in the 125cc and above segments can be highlighted by the fact that bulk of these launches are expected to be in this segment only. As per media reports, new models that are likely to be launched by HMC in the coming quarters include:

### **Hero Karizma XMR**

Apparently, HMC has recently filed trademarks for the names Hero Karizma XMR and XMR 210. This model is likely to be launched soon in the 200cc+ segment.

### **Hero Xtreme 160 R and 200 S 4V**

An upgraded version of the Xtreme 160 is likely to be launched soon with an upgraded suspension, as per media reports. We understand that there is likely to be another model under the Xtreme brand viz Xtreme 200S 4V, which is also likely to be launched soon

### **Hero XPulse 400**

As per media reports, HMC is targeting to introduce a 400cc variant of its XPulse model. This is one of the most awaited products from HMC and would mark HMC's entry in the 400cc segment.

### **New Glamor**

We understand that the company is expected to launch a new variant of Glamor in the market soon.

### **Passion Classic and X Tec variant**

HMC's Passion had lost its shine when HMC had relaunched its Passion post BS6 in a stylish look. HMC now aims to launch the "old" Passion, which was loved by customers in the same shape and form, and this model will also have an X Tec variant, given that models with X Tec features have been very well accepted by customers.

### **Xoom upgrade**

Media reports also suggest that HMC is working on a higher variant of the recently launched Xoom in the market to further gain share in scooters segment.

### **Tie-up with Harley Davidson**

In October 2020, HMC signed a distribution agreement with Harley Davidson (H-D), under which the company will sell and service H-D motorcycles and sell parts and accessories and general merchandise, riding gear and apparel in India. The company has inducted 11 dealers of Harley-Davidson into its own distribution network. Starting 1 January 2021, Hero MotoCorp Ltd. has become the distributor for Harley-Davidson in India. Hero MotoCorp Ltd. and Harley-Davidson also signed a licensing agreement under which the company will develop and sell a range of premium motorcycles under the H-D brand name. The first in a series of products scheduled is expected to be a bike with 400-499cc engine developed for Indian markets.

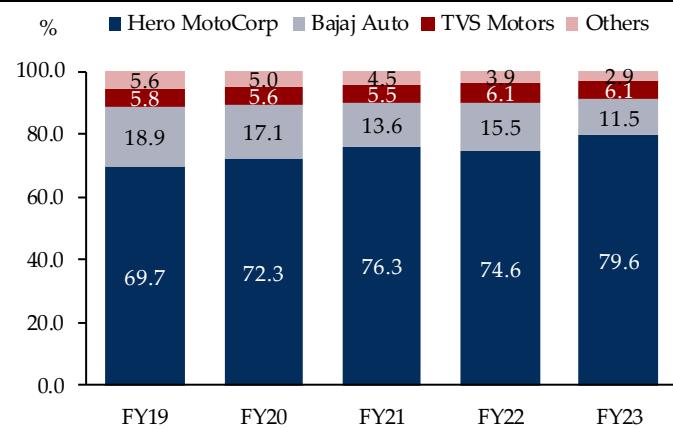
Management has indicated that the model under the Harley Davidson brand is expected to be launched in FY24 itself. While it is a great tie-up with a premium brand globally, it remains to be seen how HMC is able to leverage it to its advantage in the coming years.

## Why we remain cautious on HMC's ability to bounce back

### Premiumisation trend doesn't bode well for HMC

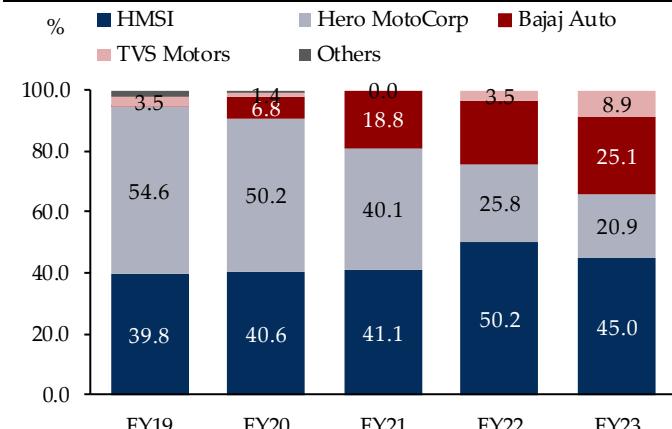
Based on our exhaustive channel checks, we now expect the 125cc and above segment to outperform the entry segment on a sustainable basis, going forward. Such a trend clearly doesn't bode well for HMC, which is not as strong a player in 125cc and above segments as it is in the 100cc segment, as can be seen in the charts below.

**Fig18: HMC remains dominant in 100cc motorcycles**



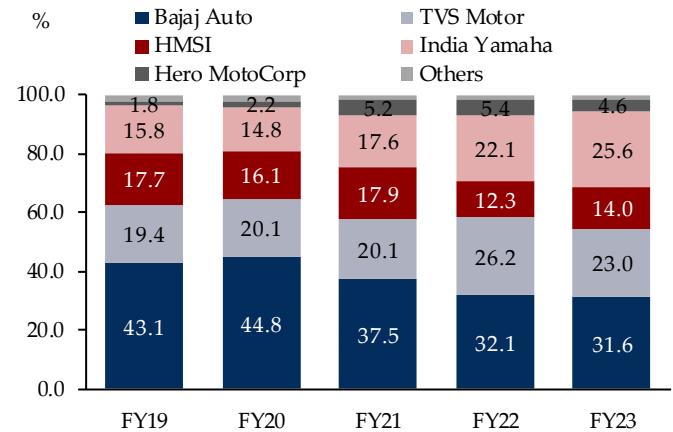
Source: SIAM; HSIE Research

**Fig19: HMC fast losing share in 125cc motorcycles**



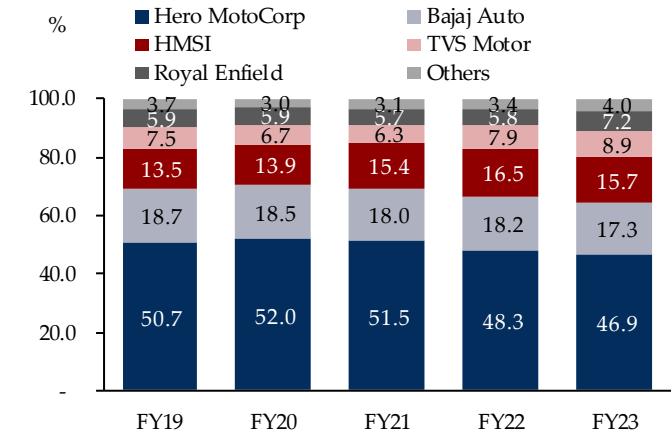
Source: SIAM; HSIE Research

**Fig20: HMC was never strong in premium motorcycles**



Source: SIAM; HSIE Research

**Fig21: HMC losing share in motorcycles due to shift in mix**



Source: SIAM; HSIE Research

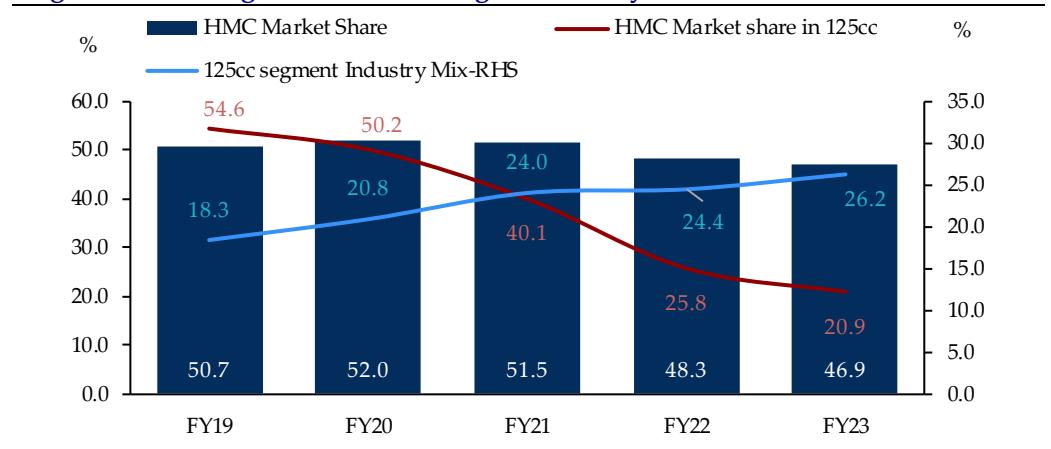
As highlighted above, HMC continues to have a dominant share in the 100cc segment and has gained a sharp 980bps share to 79.6% in this segment since FY19. More importantly, 100cc segment contributes to as high as 78% of its total volumes. However, it has lost its grip in the 125cc segment. As highlighted in the charts above, until FY20, it was a market leader in the 125cc segment with 50% share. However, in the last three years and with the launch of models from Bajaj and TVS, HMC has lost substantial market share to competition and ended FY23 with just under 21% share. It is also important to highlight that BAL with its Pulsar launch has already overtaken HMC in FY23 with 25% market share in this segment within just four years of its launch. Even TVS with its Raider has gained 9% share within 1.5 years of launch.

However, the other point to highlight is that despite this competitive onslaught, HMSI's Shine continues to be a formidable brand with a dominant share in this segment and clearly highlights its brand's resilience in this category, relative to HMC. Even during our channel checks, we got a consistent feedback from all the regions that Honda's Shine

is the undisputed market leader in the 125cc segment. It remains a brand of choice for most customers in the segment. This is visible in the fact that Shine has actually gained market share between FY19 and FY23 despite the significant increase in competition in this period.

Overall, while the 125cc segment is now emerging as the new “customer favorite” in motorcycles, HMC has been losing substantial share in this segment over the last 3 years. This has also been the primary reason for HMC’s loss in market share in domestic motorcycles in the last few years.

**Fig22: HMC losing share due to change in industry mix towards 125cc**

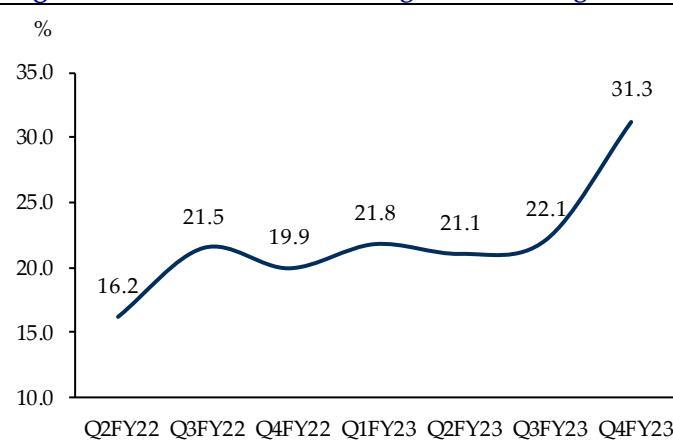


Source: SIAM; HSIE Research

We clearly believe that this rising premiumisation trend doesn't bode well for HMC as the market is shifting in a segment that is not its forte.

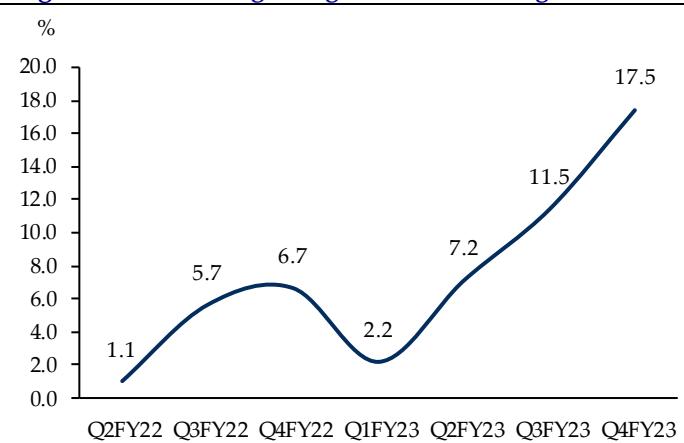
**Multiple failed attempts in past impedes confidence on success of new launches**  
**HMC has been unable to arrest its market share dip in 125cc segment over last 3 years**  
As is a well-known fact, HMC had a strong share in the 125cc segment until FY19 and together with HMSI, the two enjoyed close to 94% market share at that time. However, this was a time when this segment was largely a two player market with negligible or no focus from competition. However, this changed significantly with the introduction of Pulsar 125 by Bajaj in FY20 and more recently with the launch of the TVS Raider in FY22.

**Fig23: Pulsar125 is now the 2<sup>nd</sup> largest in 125cc segment**



Source: SIAM; HSIE Research

**Fig24: Raider is fast gaining share in 125cc segment**



Source: SIAM; HSIE Research

As can be seen from the charts above, both Pulsar and Raider 125 have been very well accepted. The other key factor to highlight is that HMC is the player that has lost the bulk of the market share to these launches in the last 3 years. In fact, if one were to adjust

for the sharp supply constraints that HMSI's Shine faced in Q4FY23, HMC's market share loss would be much higher for FY23.

Our exhaustive channel checks suggest that HMC is losing market share in the 125cc segment, even in most of its key regions that we checked in. In a bid to recover back lost share, HMC has recently launched X-Tec variants in both its 125cc brands. While most dealers indicated that their recently launched X-Tec variants seem to be doing well, dealers opined that these are largely cannibalising their own sales with little gain in incremental market share for the company in this segment. Dealers highlighted that HMC seems to be content in launching multiple variants without changing its brands too much. This also seems to be a limiting factor for market share recovery for HMC, as per dealers. A few of the HMC dealers highlighted that HMC's models lacked styling attributes, which has been a key success factor for competing launches in this segment. The 125cc segment is now a four-player market with HMC staring at a risk of moving into the fourth spot soon if it is unable to arrest its market share decline anytime soon.

***HMC's launch track record hasn't been impressive in premium and scooters segment***

HMC has been trying to gain share in the premium segment for quite a while now. Even in FY20, HMC had launched three new bikes (X Pulse 200—two variants and Xtreme 200S) in a single year in a bid to recover its lost share in this segment. However, while the bikes received a decent response, HMC's market share in the 150-250cc segment continues to hover around the 5% mark for the last three years in a row.

Hero MotoCorp has traditionally been a 'mass market' player in OEM and it is possibly this image that works against it when it comes to the premium segment. HMC would clearly need to create an aspirational brand in this category and recreate its image in the premium segment. It is possibly with this intent that HMC is now in the midst of setting up a separate network for its premium motorcycle brands in the coming years. While this seems to be a step in the right direction, it is likely to take its own time, assuming HMC starts launching good products that generate enough customer pull on a consistent basis. While HMC continues to try its best here by leveraging its R&D strength both in India and Germany, its unlikely to be easy to compete in this category where the Japanese twins (HMSI and Yamaha) are already giving the domestic duo of Bajaj and TVS an extremely tough time to sustain their share.

**Fig25: New launches in scooters and premium motorcycles have failed to boost share**

Year	Category	Model Name	Comments
FY19	Scooter	Destini125	First and only scooter to have idle stop-start system
FY19	Scooter	Maestro Edge125	2 <sup>nd</sup> launch in 125cc, commenced supplies in FY20
FY19	Premium Bike-200cc	Xtreme 200R	
FY20	Scooter	Maestro Edge 125+	
FY20	Scooter	Pleasure+	BS6 version launched with 10% faster acceleration and 10% higher fuel efficiency
FY20	Premium Bike-200cc	Xpulse 200	Feature rich product with 'Turn-by-Turn Navigation', Bluetooth connectivity, Gear Indicator, Trip meter and service reminder
FY20	Premium Bike-200cc	Xpulse 200T	India's 1 <sup>st</sup> 200cc tourer motorcycle
FY20	Premium Bike-200cc	Xtreme 200S	first-in-the-segment features such as digital console with Bluetooth connectivity and navigation
FY22	Premium Bike-200cc	Xpulse 200 4V	
	Scooter	Pleasure + Xtec	Many segment first features in 110cc
	Scooter	Maestro Edge 125	Feature-rich
	Scooter	Destini125 Xtec	
FY23	Premium Bike-200cc	Xpulse 200T 4V	Launched in 23rd Dec 2022
	Scooter	Xoom 110cc	Launched in 30th Jan 2023

Source: Company

In scooters segment as well, its market share which was at 19% at its peak in FY14 has now slipped to 7% in FY23. Over the past several years, HMC has been trying its best to recover back its lost market share on the back of multiple new launches as highlighted in the table above. Despite these launches, HMC has failed to create any meaningful customer mindshare over the years in scooters. We also got consistent feedback from most of the dealers that HMC has not been able to gain any material share in any of its key regions in scooters.

***Exports strategy hasn't yielded any tangible result so far***

One has to highlight that as early as in FY13, HMC had announced an ambitious target to get to 1mn sales by FY17. In FY20, they revised the timeline for this target by four years to FY24. However, at the end of FY23, they are at a volume that is even lower than what they delivered in FY12.

We tabulate below some of the key initiatives that HMC has taken over the last decade in a bid to ramp up its exports presence.

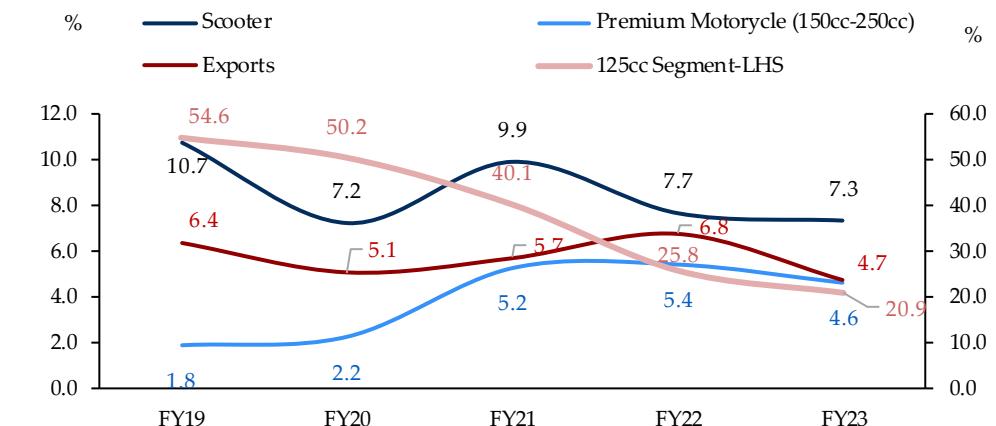
**Fig26: Key export initiatives from HMC haven't yielded any tangible results so far**

FY13	Appointment of distributor in Nigeria, Kenya, Ecuador, Angola, Mozambique & DRC;
FY14	first ever consignment of 2Ws to Central America (El Salvador, Guatemala and Honduras), South America (Peru), East Africa (Kenya) and West Africa (Burkina Faso and Ivory Coast) set up an Assembly unit in Nairobi (Kenya) Entry into 16 New Markets Creation of 4 CKD and 14 SKD Assembly Plants through Distributors. Creation of Sales & Service Network – 675 touch points. Creating customized product for Africa Taxi segment in 100cc, 125cc and 150cc.
FY15	set up a JV in Bangladesh to build 1st overseas manufacturing facility with capacity of 150k units pa Commenced the construction of 2nd overseas manufacturing plant in Colombia with total capacity of upto 150k units to be set up in 2 phases
FY17	ramped up presence in 35 markets
FY18	commenced motorcycle exports from facility in Columbia to Guatemala, El Salvador and Bolivia
FY20	new products like Destini 125, Pleasure plus, Xpulse 200 and Xpulse 200T were launched New distributors appointed in Kenya and Angola launched a revamped product portfolio for Africa by launching Hunter series of products customised for the region
FY21	Launched Hunk 190R, Hunk 160R in Latin America
FY22	appointed distributor in Mexico Super Oga Campaign in Nigeria for Hunter Series to enhance Product durability & endurance perception

Source: Company

However, despite these initiatives, HMC has not been able to gain any meaningful market share in 2W exports thus far. What is extremely disappointing is the fact that HMC has underperformed the export market in the last few years on a low base and despite all these initiatives over the years.

We tabulate below HMC's market share trend in scooters, 125cc motorcycles, premium motorcycles and Exports. It is clearly evident that HMC's new launch track record is very poor, given that it has not been able to gain any meaningful share in any other segment, apart from strengthening its foothold in the 100cc segment over the years.

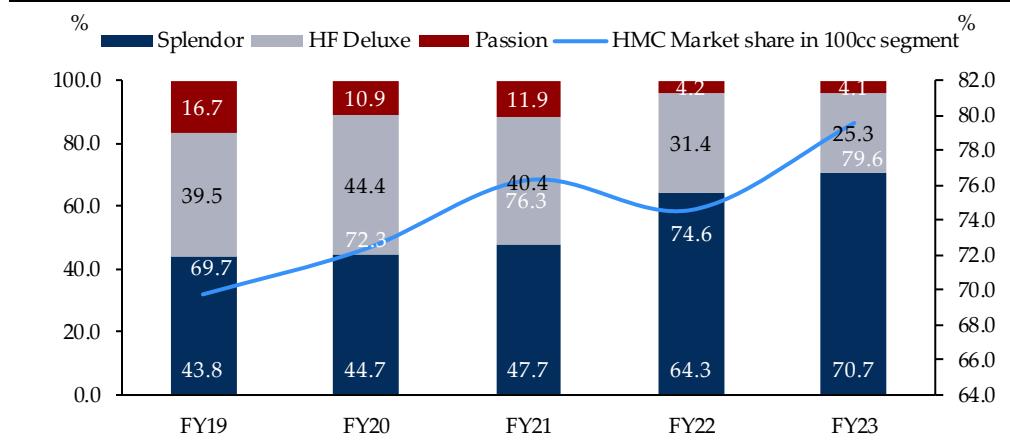
**Fig27: HMC has failed to ramp-up in scooters, 125cc and above bikes and exports**

Source: SIAM; HSIE Research

Given its multiple failed attempts in the past so many years, we do not expect its new launches to gain any material share for the company in the 125cc and above segments in the coming years.

#### HMC faces huge risk of model concentration

While HMC is a dominant player in the 100cc segment, it has had its share of failures in this segment as well. Post the BS6 transition, HMC launched a brand new Passion Pro with stylish looks and a few other changes. However, to their surprise, these changes did not go well with customers who in turn shifted to the tried and tested Splendor. A similar issue, albeit to a lesser extent, happened to HF, which saw some initial teething issues that hurt its initial ramp-up post BS6 and led to a market share loss in that category. Even this was largely arrested by Splendor.

**Fig28: HMC's 100cc mix and market share: Splendor's mix sharply rises in 100cc**

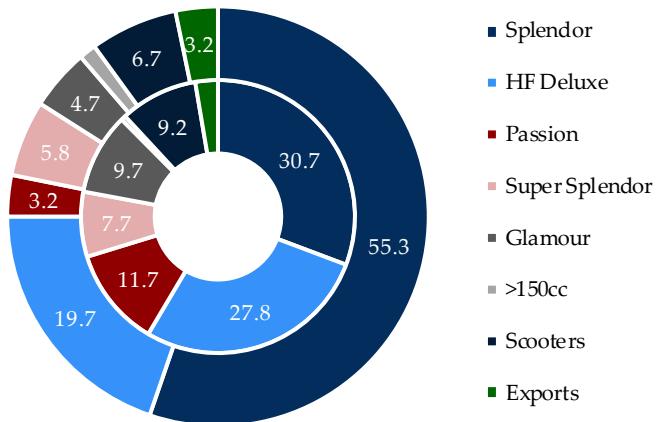
Source: SIAM; HSIE Research

From the above chart, it is clearly visible that the loss in HF and Passion has been more than offset by Splendor. In fact, HMC only strengthened its market share in the 100cc segment post BS6 transition and was aided by: (1) HMSI taking a higher than industry average price hike in Livo post BS6 transition, which led to a loss in its share and 2) Bajaj Auto discontinuing its CT100 and even Platina kickstart models, which hurt its share.

Also, as highlighted above, despite multiple attempts in the past, HMC was unable to gain any material foothold in scooters, premium motorcycles or exports. To add to its pain, increased competition in 125cc motorcycle segment led to HMC losing share in that segment as well.

A combined result of all these factors has been that HMC is now heavily dependent on a single brand (Splendor) and a lot more on a single segment (100cc). For instance, Splendor contributes to 55% of its FY23 volumes (sharply up from 31% in FY19) and the 100cc segment contributes to 78% of its total volumes (up from 70% in FY19).

**Fig29: Two models contribute to almost 75% of HMC's volumes**



Note: Inner Circle is FY19 and Outer Circle is FY23

Source: SIAM; HSIE Research

Thus, HMC is heavily reliant on just two brands in its portfolio, which we see as a huge risk in the long run, especially given that HMC for a long period has not launched and established any brand-new product in the market. It has relied too heavily on incremental changes within its existing brands.

### HMSI can evolve as a serious competitor in the 100cc segment

HMSI has launched its most affordable bike and its first launch in the 100cc segment, the Shine100cc priced at Rs64,900 (ex-showroom Mumbai) in March 2023. Shine comes with a long seat (677mm) and a low ride height (786 mm seat height). The new Shine is OBD2 compliant and is capable of running on e-20 fuel. Other features include a side-stand indicator and CBS. A couple of other functions include a fuel pump outside the fuel tank which makes for easier repairs and an auto-choke function, which ensures the bike starts irrespective of ambient temperature. Shine100 comes with a three-year warranty that can be extended by another three years.

We highlight below some of the key factors of this launch.

#### Pros

- The competitive positioning is likely to be the biggest positive for this launch. While Honda products have always been of good quality even in 100-110cc segment, their premium pricing to peers was one of the key reasons why it never succeeded in this segment previously. A strong brand at a lower price than the market leader will certainly help Honda gain share in this segment, as per dealers.
- Honda never had a product in the 100cc segment and while they will do a pan India launch, management has indicated that they would focus on three key markets, viz., UP, Bihar and Rajasthan, which contribute to 43% of total volumes in this segment.

**Fig30: HMSI's Shine100 positioning relative to competition**

Company	Model	Ex-Showroom Price (in INR)- Mumbai
HMSI	Shine	64,900
Hero MotoCorp	HF Deluxe Self Start	68,352
Bajaj Auto	Platina 100 Self Start	67,475

Source: HSIE Research

**Cons**

- Using the same brand (Shine) in a lower cc segment may lead to the risk of brand dilution. We saw this happen in the case of Bajaj's Pulsar. It remains to be seen whether the same would happen in the case of Shine.
- While the product was launched in March, deliveries have just begun in May, due to supply constraints at HMSI. It remains to be seen how quickly HMSI is able to ramp up this product in the market as delayed production ramp-up often spoils the launch momentum of any new product

**Dealer feedback and our view on HMSI's Shine 100cc launch**

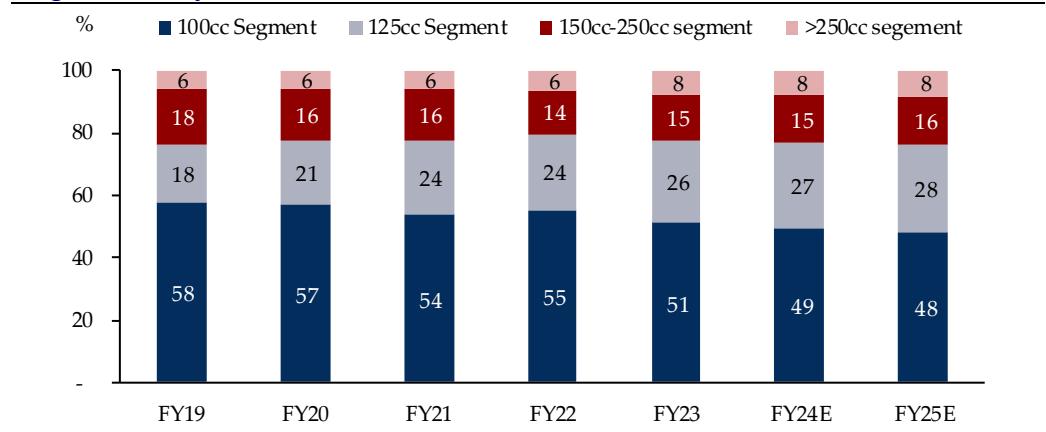
We interacted with a few dealers of HMSI to get their feedback on the model and what the management had to say about the new launch. The dealer feedback on the product is extremely positive and most HMSI dealers were very happy, given the competitive positioning of the product. While Honda has tried entering the 110 cc segment in the past, it has never priced its product aggressively to the competition. While "right positioning" is clearly the biggest positive of this launch, it remains to be seen what the extent of the impact of the delayed launch is on the momentum of the product later. As per a media article, HMSI seems to be targeting 300k unit sales from this product in the first year of its launch. This, in a market of about 1.8mn units, is almost 17% share of the category, and hence a sizeable number. Thus, this new launch clearly poses a material risk to HMC's HF segment, if HMSI gets its act right this time. We would continue to monitor the impact of this launch on HMC very closely in the coming months.

## Key financials

### Industry growth forecast

We expect the domestic motorcycle industry to grow at 10% volume CAGR over the next couple of years to 12.3mn size, which would still be 9% below its previous peak achieved in FY19. We also expect the premiumization trend to continue and expect the 125cc and above segment to grow at a faster pace of 13% CAGR over FY23-25E while the 100cc segment is expected to post a slower 7% volume CAGR in this period.

**Fig31: Industry Mix Forecast**



Source: SIAM; HSIE Research

### Competitive dynamics

We expect HMC to continue to lose share in the coming years in the two-wheeler industry, given:

**100cc segment:** From a high achieved in FY23 of close to 80% share in 100cc, we expect HMC to lose some share to HMSI, given the launch of its Shine in this segment. We expect HMC to lose 230bps market share over two years in this segment. HMC would still remain an extremely dominant player in the 100cc segment with a market share of 77%, despite the launch of HMSI's Shine.

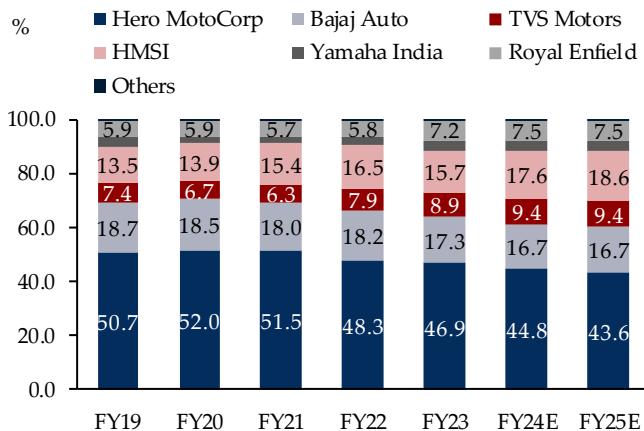
**125cc segment:** Despite its focus on the 125cc segment in the coming quarters, we expect HMC to lose some more market share, as HMSI's supply constraints are addressed and as TVS Raider ramps up its presence further. However, the pace of HMC's market share decline is likely to moderate over our forecast period. We factor in HMC to lose another 120bps market share to 19.7% over the next two years in the 125cc category.

**150cc and above segment:** Given its model onslaught expected in this segment in the coming years and given its low base, we expect HMC to gain 80bps market share in this segment to 5.4% by FY25E. However, we remain circumspect on whether HMC would be able to hold on to its gains in this segment on a sustainable basis.

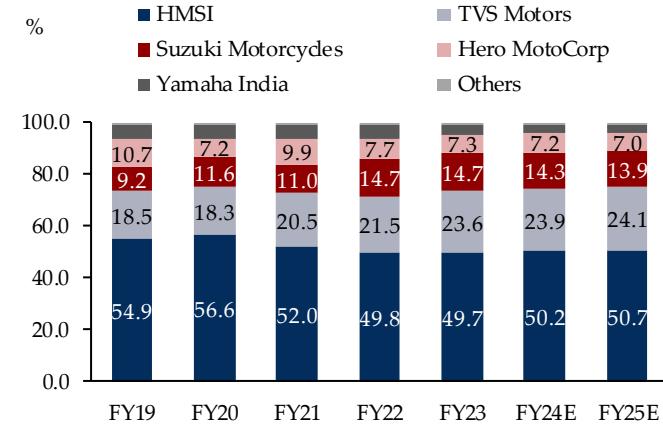
**Scooters:** We expect HMC to continue to lose share in the scooters segment over our forecast period as HMSI and TVS continue to tighten their grip on the market over our forecast period. We expect HMC to lose marginal 30 bps market share in this segment over FY23-25E to 7%.

## Hero MotoCorp: Deep Dive

**Fig32: Domestic Motorcycle Market Share trend**



**Fig33: Domestic Scooter Market Share trend**



Source: SIAM; HSIE Research

Source: SIAM; HSIE Research

Our key financial assumptions for HMC are as tabulated below:

**Fig34: HMC assumption table**

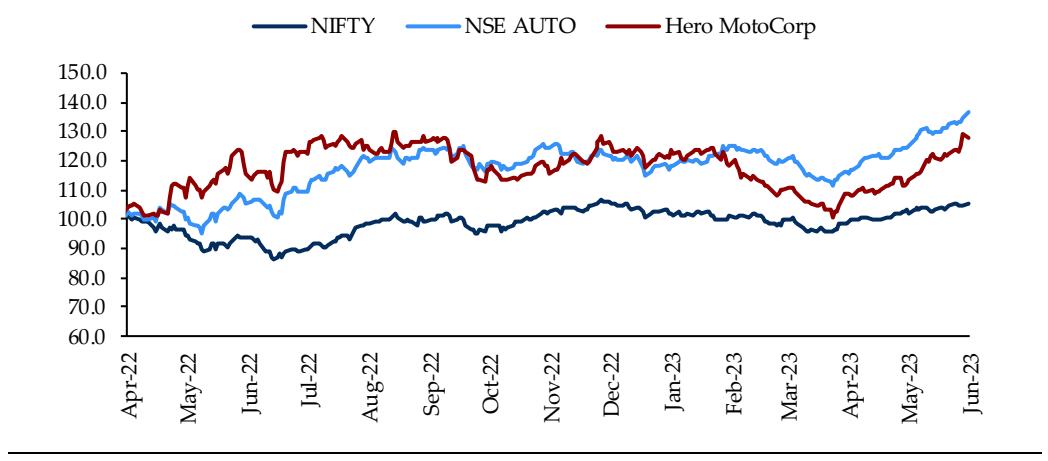
Assumption	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
100cc segment	54,93,684	46,16,386	41,08,728	37,05,145	41,65,844	43,32,478	45,92,426
YoY (in %)		-16.0	-11.0	-9.8	12.4	4.0	6.0
125cc segment	13,56,151	11,72,275	9,63,159	5,65,069	5,61,555	6,17,711	6,79,482
YoY (in %)		-13.6	-17.8	-41.3	-0.6	10.0	10.0
150cc and above segment	43,853	40,121	84,514	66,819	69,525	90,383	1,03,940
YoY (in %)		-8.5	110.6	-20.9	4.0	30.0	15.0
<b>Total Dom. Motorcycle</b>	<b>68,93,688</b>	<b>58,28,782</b>	<b>51,56,401</b>	<b>43,37,033</b>	<b>47,96,924</b>	<b>50,40,571</b>	<b>53,75,848</b>
YoY (in %)		-15.4	-11.5	-15.9	10.6	5.1	6.7
Scooter	7,19,087	4,02,676	4,43,458	3,05,892	3,58,541	3,87,224	4,18,202
YoY (in %)		-44.0	10.1	-31.0	17.2	8.0	8.0
Exports	2,08,056	1,78,261	1,86,515	3,00,622	1,72,752	1,86,572	2,32,043
YoY (in %)		-14.3	4.6	61.2	-42.5	8.0	24.4
<b>Grand Total</b>	<b>78,20,831</b>	<b>64,09,719</b>	<b>57,86,374</b>	<b>49,43,547</b>	<b>53,28,217</b>	<b>56,14,367</b>	<b>60,26,093</b>
YoY (in %)		-18.0	-9.7	-14.6	7.8	5.4	7.3
EBITDA Margin (in %)	14.7	13.7	13.0	11.3	11.8	12.5	12.0

Source: Company; SIAM; HSIE Research

## Valuation and View

Since our initiation in Apr 2022, the stock has delivered a 27% return. Also, in the same time period, while the stock has outperformed the Nifty by 16%, it has underperformed the Auto Index by 8%.

**Fig35: HMC has outperformed Nifty but underperformed Auto Index over 12M**



Source: Bloomberg; HSIE Research

Its underperformance relative to the Auto Index is likely to be a function of its market share loss in the motorcycle segment where it has lost 510bps market share in the last three years to 46.9%. Its market share loss has largely been driven by: 1) shift in industry mix towards 125cc over last few years 2) HMC's significant loss in market share in 125cc segment due to competitive pressure. This clearly remains the key risk for HMC in the coming years as the market demand seems to be shifting in a segment which is not its forte. Also, while HMC has lost significant share in the 125cc segment, Honda remains an undisputed market leader in the 125cc segment, despite competitive launches, which also signifies the relative brand strength in this segment.

Further, HMC has been trying to gain a presence in scooters, premium motorcycles and exports over the last few years. However, despite multiple attempts, it has failed to gain any meaningful share in any of these categories. Even in the 100cc segment, while Splendor continues to stand tall against all odds, its HF and Passion models have seen some loss in share in the category. Each of the above has meant that its reliance on its bread and butter model Splendor has increased multifold as it now contributes to a significant 55% of HMC's total volumes, up from 31% in FY19.

Further, the entry of HMSI Shine in the 100cc is likely to pose a serious threat to HMC in the 100cc segment, which contributes to almost 78% of its volumes.

Also, although HMC has a healthy launch pipeline in place and is focused towards recovering back lost share in the 125cc and above segment, we do not expect any of these to drive material market share gains for the company given its checkered track record.

Given a shift in motorcycle mix away from the 100cc segment and rising competition in 100cc segment, we expect HMC to continue to lose its share in motorcycles over our forecast period.

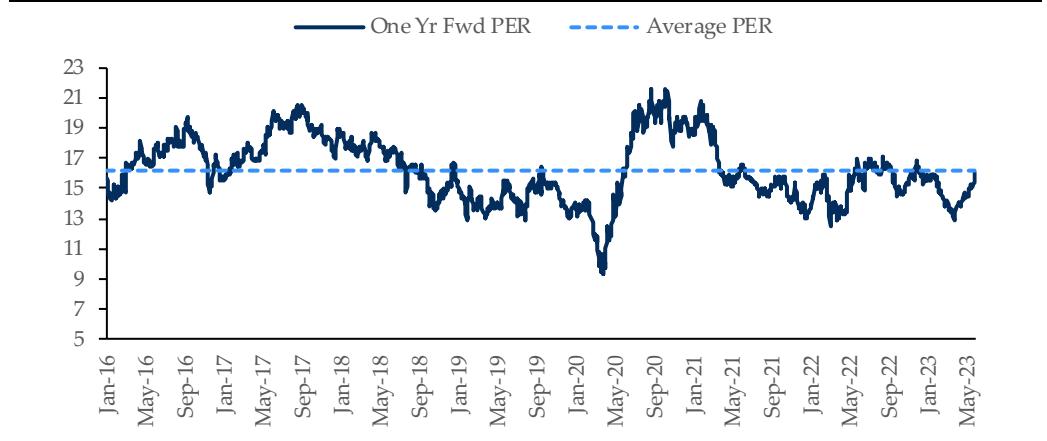
## Hero MotoCorp: Deep Dive

**Fig36: Hero MotoCorp: peer comparison**

Companies	Market Cap (in Rs Bn)	EBITDA Margin (%)			EPS CAGR FY23-25E	P/E(x)		EV/EBITDA		ROE (%)	
		FY23	FY24E	FY25E		FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Bajaj Auto	1,369	18.0	19.0	18.5	11.3	20.9	19.2	14.7	13.3	23.8	24.7
Eicher Motors	1,013	23.8	24.8	24.7	18.0	29.3	25.0	20.5	17.3	20.0	20.1
Hero MotoCorp	580	11.8	12.5	12.0	11.0	17.2	16.2	10.1	9.4	19.2	19.4
Mahindra & Mahindra	1,692	12.3	13.0	13.0	9.6	20.6	18.8	14.0	12.4	16.6	15.9
Maruti Suzuki	2,939	9.4	10.5	10.5	23.8	27.2	23.8	16.7	14.3	16.9	17.2
TVS Motors	632	10.1	11.1	11.1	27.2	32.4	27.8	17.0	14.7	25.6	24.2

Source: HSIE Research

**Fig37: Hero MotoCorp: one-year forward PER**



Source: Bloomberg

Overall, we expect HMC to post a 6% volume CAGR over FY23-25E relative to industry growth of 10% in the same period. We expect HMC's margins to remain stable over our forecast period as any benefit from softening input costs is likely to be ploughed back in attempting to recover back its lost market share.

**Fig38: Earnings revision table**

Particulars (in INR Mn)			% Change	
	FY24E	FY25E	FY24E	FY25E
Revenue	3,68,649	4,09,854	-1.4	-3.1
EBITDA	46,081	49,182	-1.4	-11.9
PAT	33,769	35,839	-4.9	-14.6

Source: HSIE Research

Overall, we factor in HMC to post 11% earnings CAGR over FY23-25E. It is currently trading at 16.2x FY25E, which looks fully valued for a company, which we believe is likely to lose share, as the market shifts away from its forte. Hence, we lower our target multiple to 14x, from earlier 15x, to arrive at our revised TP of INR 2,512 per share (from earlier INR 2,959). Downgrade to REDUCE from BUY earlier.

## Financials

### Income Statement

Year ending March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	3,22,305	3,36,505	2,88,361	3,08,006	2,92,455	3,38,057	3,68,649	4,09,854
<i>Growth (%)</i>	<b>13.2</b>	<b>4.4</b>	<b>-14.3</b>	<b>6.8</b>	<b>-5.0</b>	<b>15.6</b>	<b>9.0</b>	<b>11.2</b>
Material Expenses	2,18,346	2,33,177	1,96,974	2,17,623	2,08,267	2,38,581	2,58,423	2,89,767
Employee Expenses	15,401	17,302	18,417	18,987	19,354	21,898	23,962	25,821
SG&A Expenses	8,377	8,042	7,198	5,933	7,205	8,113	8,848	10,246
Other Operating Expenses	27,379	28,683	26,193	25,270	24,699	29,601	31,335	34,838
<b>EBITDA</b>	<b>52,802</b>	<b>49,301</b>	<b>39,579</b>	<b>40,192</b>	<b>32,929</b>	<b>39,862</b>	<b>46,081</b>	<b>49,182</b>
<i>EBITDA Margin (%)</i>	<b>16.4</b>	<b>14.7</b>	<b>13.7</b>	<b>13.0</b>	<b>11.3</b>	<b>11.8</b>	<b>12.5</b>	<b>12.0</b>
<i>EBITDA Growth (%)</i>	<b>13.9</b>	<b>-6.6</b>	<b>-19.7</b>	<b>1.5</b>	<b>-18.1</b>	<b>21.1</b>	<b>15.6</b>	<b>6.7</b>
Depreciation	5,556	6,020	8,180	6,769	6,498	6,570	6,964	7,470
<b>EBIT</b>	<b>47,246</b>	<b>43,281</b>	<b>31,400</b>	<b>33,424</b>	<b>26,432</b>	<b>33,293</b>	<b>39,117</b>	<b>41,712</b>
Other Income (Including EO Items)	5,258	6,913	14,557	5,799	5,569	5,652	6,138	6,303
Interest	63	86	220	218	258	199	230	230
<b>PBT</b>	<b>52,442</b>	<b>50,107</b>	<b>45,737</b>	<b>39,004</b>	<b>31,743</b>	<b>38,746</b>	<b>45,025</b>	<b>47,786</b>
Tax (Incl Deferred)	15,468	16,259	9,404	9,362	7,771	9,640	11,256	11,946
<b>RPAT</b>	<b>36,974</b>	<b>33,849</b>	<b>36,332</b>	<b>29,642</b>	<b>23,972</b>	<b>29,106</b>	<b>33,769</b>	<b>35,839</b>
EO (Loss) / Profit (Net Of Tax)	0	0	6,774	0	0	0	0	0
<b>APAT</b>	<b>36,974</b>	<b>33,849</b>	<b>31,591</b>	<b>29,642</b>	<b>23,972</b>	<b>29,106</b>	<b>33,769</b>	<b>35,839</b>
<i>APAT Growth (%)</i>	<b>9.5</b>	<b>-8.5</b>	<b>-6.7</b>	<b>-6.2</b>	<b>-19.1</b>	<b>21.4</b>	<b>16.0</b>	<b>6.1</b>
<b>Adjusted EPS (Rs)</b>	<b>185.1</b>	<b>169.5</b>	<b>158.2</b>	<b>148.4</b>	<b>120.0</b>	<b>145.7</b>	<b>169.1</b>	<b>179.4</b>
<i>EPS Growth (%)</i>	<b>9%</b>	<b>-8%</b>	<b>-7%</b>	<b>-6%</b>	<b>-19%</b>	<b>21%</b>	<b>16%</b>	<b>6%</b>

Source: Company, HSIE Research

### Balance Sheet

As at March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	399	400	400	400	400	400	400	400
Reserves	1,17,289	1,28,172	1,40,965	1,51,585	1,57,430	1,66,651	1,75,451	1,84,324
<b>Total Shareholders' Funds</b>	<b>1,17,689</b>	<b>1,28,571</b>	<b>1,41,364</b>	<b>1,51,984</b>	<b>1,57,829</b>	<b>1,67,051</b>	<b>1,75,851</b>	<b>1,84,724</b>
Total Debt	0	0	0	0	0	0	0	0
Net Deferred Taxes	5,117	5,365	3,928	4,041	3,833	4,054	4,054	4,054
<b>TOTAL SOURCES OF FUNDS</b>	<b>1,22,805</b>	<b>1,33,936</b>	<b>1,45,292</b>	<b>1,56,025</b>	<b>1,61,662</b>	<b>1,71,105</b>	<b>1,79,905</b>	<b>1,88,778</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	44,859	44,775	59,770	59,884	58,065	57,614	61,650	66,180
CWIP	2,038	3,607	1,603	1,779	873	1,286	1,286	1,286
Goodwill								
Investments	75,252	59,686	82,227	1,04,997	1,06,523	1,10,104	1,13,104	1,16,104
Other Non-Current Assets	2,833	3,222	3,211	2,587	3,709	3,352	3,352	3,352
<b>Total Non-current Assets</b>	<b>1,24,981</b>	<b>1,11,291</b>	<b>1,46,810</b>	<b>1,69,247</b>	<b>1,69,170</b>	<b>1,72,356</b>	<b>1,79,392</b>	<b>1,86,921</b>
<b>Cash &amp; Equivalents</b>	<b>1,413</b>	<b>1,365</b>	<b>2,419</b>	<b>2,571</b>	<b>1,751</b>	<b>3,455</b>	<b>2,845</b>	<b>1,854</b>
Inventories	8,236	10,724	10,920	14,696	11,227	14,341	15,639	17,387
Debtors	15,202	28,216	16,031	24,268	23,043	27,982	30,514	33,925
Other Current Assets	17,556	24,817	11,314	10,829	11,950	14,498	16,225	18,168
<b>Total Current Assets</b>	<b>42,407</b>	<b>65,121</b>	<b>40,683</b>	<b>52,364</b>	<b>47,970</b>	<b>60,276</b>	<b>65,223</b>	<b>71,333</b>
Creditors	33,188	33,553	30,305	52,046	42,603	47,045	51,302	57,036
Other Current Liabilities & Provs	11,395	8,923	11,896	13,539	12,875	14,482	13,408	12,441
<b>Total Current Liabilities</b>	<b>44,583</b>	<b>42,476</b>	<b>42,201</b>	<b>65,585</b>	<b>55,478</b>	<b>61,527</b>	<b>64,710</b>	<b>69,477</b>
Net Current Assets	-2,176	22,646	-1,518	-13,222	-7,508	-1,251	513	1,856
<b>TOTAL APPLICATION OF FUNDS</b>	<b>1,22,805</b>	<b>1,33,936</b>	<b>1,45,292</b>	<b>1,56,025</b>	<b>1,61,662</b>	<b>1,71,105</b>	<b>1,79,905</b>	<b>1,88,778</b>

Source: Company, HSIE Research

## Cash Flow

Year ending March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	47,246	43,281	31,400	33,424	26,432	33,293	39,117	41,712
Non-operating & EO Items	0	0	6,774	0	0	0	0	0
Interest Expenses	5,258	6,913	7,783	5,799	5,569	5,652	6,138	6,303
Depreciation	5,556	6,020	8,180	6,769	6,498	6,570	6,964	7,470
Working Capital Change	-27	-24,871	25,218	11,857	-6,534	-4,553	-2,374	-2,335
Tax Paid	-14,495	-16,010	-10,841	-9,249	-7,979	-9,419	-11,256	-11,946
<b>OPERATING CASH FLOW (a)</b>	<b>43,539</b>	<b>15,333</b>	<b>68,513</b>	<b>48,598</b>	<b>23,985</b>	<b>31,542</b>	<b>38,589</b>	<b>41,205</b>
Capex	-6,679	-7,895	-21,159	-6,435	-4,894	-6,175	-11,000	-12,000
Free Cash Flow (FCF)	36,860	7,438	47,354	42,163	19,091	25,367	27,589	29,205
Investments	-16,354	15,566	-22,540	-22,770	-1,527	-3,580	-3,000	-3,000
<b>INVESTING CASH FLOW (b)</b>	<b>-23,032</b>	<b>7,671</b>	<b>-43,699</b>	<b>-29,205</b>	<b>-6,421</b>	<b>-9,755</b>	<b>-14,000</b>	<b>-15,000</b>
Debt Issuance/(Repaid)	0	0	0	0	0	0	0	0
Interest Expenses	-63	-86	-220	-218	-258	-199	-230	-230
FCFE	36,797	7,352	47,134	41,945	18,833	25,168	27,359	28,975
Dividend	-18,972	-17,378	-17,978	-20,974	-18,976	-19,975	-24,969	-26,966
Others	-1,426	-5,588	-5,562	1,952	849	91	0	0
<b>FINANCING CASH FLOW (c)</b>	<b>-20,460</b>	<b>-23,052</b>	<b>-23,760</b>	<b>-19,240</b>	<b>-18,385</b>	<b>-20,083</b>	<b>-25,199</b>	<b>-27,196</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>46</b>	<b>-49</b>	<b>1,054</b>	<b>153</b>	<b>-820</b>	<b>1,704</b>	<b>-610</b>	<b>-991</b>
EO Items, Others	1,367	1,413	1,365	2,419	2,571	1,751	3,455	2,845
Closing Cash & Equivalents	1,413	1,364	2,419	2,571	1,751	3,455	2,845	1,854

Source: Company, HSIE Research

## Key Ratios

	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>PROFITABILITY (%)</b>								
GPM	32.3	30.7	31.7	29.3	28.8	29.4	29.9	29.3
EBITDA Margin	16.4	14.7	13.7	13.0	11.3	11.8	12.5	12.0
APAT Margin	11.5	10.1	11.0	9.6	8.2	8.6	9.2	8.7
RoE	31.4	26.3	22.3	19.5	15.2	17.4	19.2	19.4
RoIC (or Core RoCE)	29.6	23.0	18.1	17.1	12.7	15.3	17.0	17.2
RoCE	42.8	37.5	27.0	25.1	19.8	22.8	25.2	25.4
<b>EFFICIENCY</b>								
Tax Rate (%)	29.5	32.4	20.6	24.0	24.5	24.9	25.0	25.0
Fixed Asset Turnover (x)	2.6	2.5	2.0	2.0	1.8	2.0	2.0	2.2
Inventory (days)	9	12	14	17	14	15	15	15
Debtors (days)	17	31	20	29	29	30	30	30
Other Current Assets (days)	20	27	14	13	15	16	16	16
Payables (days)	38	36	38	62	53	51	51	51
Other Current Liab & Provs (days)	13	10	15	16	16	16	13	11
Cash Conversion Cycle (days)	-4	23	-5	-19	-12	-5	-2	0
Debt/EBITDA (x)	0	0	0	0	0	0	0	0
Net D/E (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Coverage (x)	756	503	143	153	102	168	170	181
<b>PER SHARE DATA (Rs)</b>								
EPS	185	169	158	148	120	146	169	179
CEPS	213	200	199	182	153	179	204	217
Dividend	95	87	90	105	95	100	125	135
Book Value	589	644	708	761	790	836	880	925
<b>VALUATION</b>								
P/E (x)	15.5	16.9	18.1	19.3	23.9	19.7	17.2	16.2
P/BV (x)	4.9	4.5	4.1	3.8	3.6	3.4	3.3	3.1
EV/EBITDA (x)	9.4	10.4	12.3	11.6	14.1	11.5	10.1	9.4
EV/Revenues (x)	1.5	1.5	1.7	1.5	1.6	1.4	1.3	1.1
OCF/EV (%)	8.8	3.0	14.0	10.4	5.2	6.9	8.3	8.9
FCF/EV (%)	7.4	1.5	9.7	9.1	4.1	5.5	5.9	6.3
FCFE/Mkt Cap (%)	6.4	1.3	8.2	7.3	3.3	4.4	4.7	5.0
Dividend Yield (%)	3.3	3.0	3.1	3.7	3.3	3.5	4.3	4.6

Source: Company, HSIE Research

## Hero MotoCorp: Deep Dive

### 1 Yr Price History



### Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	>10% Downside return potential

## Hero MotoCorp: Deep Dive

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