

01/04/2020

Hero Moto Corp

CMP:- 1639, mCap: 32,750 Crs. EPS: 190, PE ~ 8.61

DY ~ 5% at CMP

"World's Largest 2W manufacturers"

① Manufacturing facilities: Installed Capacity
 $\approx 110L$ 2Ws/Annum
 $\Rightarrow 8$ plants (6-India, 1-Columbia, 1-Bangladesh)

(i) Haridwar -

(ii) Nimbana -

(iii) Halol -

(iv) Dehradun -

(v) Gurgaon -

(vi) Chittoor - 18L/Annum -

(vii) Columbia - 80k/Annum

(viii) Bangladesh - 1.5L/Annum (20% mkt share)

② Company halt its operation accross all its mfg facilities due to COVID since 22/3/20

③ Demand, Operating efficiencies after COVID may be impacted \rightarrow Lower middle class may delay their purchase decision of 2Ws and

their focus will be more on savings.

④ Since Feb'20 company stopped prodⁿ of BS-IV and only producing BS-VI

⑤ Company announced Investment in Feb'20 of over 10,000 crs over next 5-7 years.

⑥ Hero Mkt share \approx 37% (Rural > 50%)

↳ Avg Penetration \approx 11% in India for 2w

⑦ V^m sold by company (Lakhs)

2020	-	64.09
2019	-	78.2
2018	-	75.87
2017	-	66.64
2016	-	66.32
2017	-	66.31
2014	-	62.45
2013	-	60.75
2012	-	62.35

⑧ Threats from e-bike to be considered before investing.

- ⑨ Words of Mouth for the Brand is very strong specially in rural area.
- ⑩ Corp. tax cut to 25% shall be benefitted to the company.
- ⑪ Currently export to 20 countries, target to 40 countries over next 2-3 years.
- ⑫ Price of BS-VI is 12-15% higher than BS-IV
 ↳ this may impact vol^m growth.
 } ↳ Study pricing diff. of competitors }
 { for BS-VI model before investing. }
- ⑬ Main products of the company:
 (very competitive sector)
- Bikes \approx 51%
 - Scooters - \approx 31% (mkt share 8%)
 - Spare parts \approx 10% of revenue
- ⑭ Company prefer to implement Fuel Injection (FI) technology in BS-VI as against e-carburetor by peers.
 ↳ FI is more fuel efficient

• better performance and compatible.
 FI is 1000-1500 unit more ~~than carburetor~~.
 costly than e-carburator. FI is compatible
 with On Board Diagnostic (OBD)-II technology.

↳ OBD is coming in next 2 years.

{↳ Study about OBD regulations.}

(15) In Q3 FY20 concall company said that it
 is not going to change its dividend
 distribution policy.

↳ Dividend as on date is very
 healthy by the company.

↳ Donated 100crs @ PM care for COVID - high promoters
 pedigree

(16) Company is not big fan/supported of e-bike due
 to challenges in charging infrastructure.

(17) Hero Group: (BML Munjal Family)

- Hero Moto Corp
- Hero Fin Corp
- Hero Future Energy
- Rockman Industry (Ludhiana) - My M.Tech project
- Hero Electronix



18) COVID -

- Company donated 100 Crs
- Distributing 10000+ meals to daily wage workers, stranded laborers and homeless families in Delhi-NCR, Rajasthan, Haryana, Uttarakhand, Andhra Pradesh and Gujarat.

↳ {All areas where its plant is there}

- Distributing Food Packets and 2,500 ration kits in Delhi, Maharashtra and Kerala.
- Disbursed advance the full salary for Mar'20

- 19) Fuel efficiency and mileage is ~~very~~ criticle and better for motorcycle than scooter - therefore demand for scooter is less in rural areas.
- Demand for scooter is more in urban
 - Fuel efficiency and mileage shall be better for motorcycle in BS-VI model also

- 20) Interests are charged on dealer's receivable beyond due date and same is reported under other income (excluded from EBITDA)

- 21) Industry VM is 2.10 Crs units in FY 19, out of which company delivered 76.1 Lakhs.
- ↳ Met share ≈ 36%

22) Subsegment Mkt share

Entry Segment	~ 56.4%	} ~64.5%
Delux 100cc	~ 80.8%	
Delux 125cc	~ 56.2%	
Premium (1500cc+)	~ 1.4%	
Scooter	~ 10%	

Since separation from Honda
mkt share down from 44%
to 36% (2010-2019)

Overall ~ 36%

23) Company doing Bsns with Govt/State deptt. etc.

- 76% mkt share in Govt Sales
- Bsns with Police deptt, Canteen Store deptt (CSD), Central Police Canteen (CPC) etc.

24) Company's newest plant (commissioned in Feb'20) is conceptualized as IoT, Industry 4.0

25) As per Media Report, there is a family Pact agreement underwhich HeroMoto Corp can not use 'HERO' brand for launching Electric bike/scooter or with other JV/partnership

↳ This is evidend when Hero Electric launched its Electric bike 'Hero Dash' in Aug'19. Hero Electric also launched Hero Optima, Hero Nyx in electric segment.

↳ Giving the fuel to above NITI Aayog ~~is~~ proposed (July'19) that all 2Ws below 150cc sold should be E-Vehicles only by 1st Apr 2025.

↳ Given the ^{high} mkt share of company (pt. 22) under 150cc, and limitation to use 'Hero' brand (pt. 25), they may be in big trouble from such proposal of NITI Aayog.

↳ However, the company has tied up with a private start-up firm Ather for manufacturing E-vehicles.

↳ Hero, Bajaj, TVS strongly objected the NITI Aayog's proposal to move to 100% electrical 2Ws, citing such transition is completely uncalled and could jeopardise the industry.

↳ The company is in talk with Harley-Davidson for making 250-500cc motorcycle in India, the talk has not resulted yet - report Feb'20.

↳ To cater these challenges company is investing 10,000 crs (pt. 5) for Next Gen Mobility Solutions, technology innovations, R&D expenditure etc.

{ KEEP EYE ON NITI AAYOG'S MOVEMENT }