

Hero MotoCorp – Case Study

ANSWER 1

1. Company & Industry Overview

Brief on Hero MotoCorp

Hero MotoCorp Limited is India's largest two-wheeler manufacturer and among the world's largest motorcycle producers by volume. Established in 1984 and formerly a joint venture with Honda Motor Company, Hero MotoCorp became an independent entity in 2011. The company primarily designs, manufactures, and sells motorcycles and scooters, with a dominant presence in the commuter motorcycle segment (100–125cc).

Hero MotoCorp's portfolio includes well-known brands such as **Splendor, HF Deluxe, Passion, Glamour, Xtreme, and Pleasure**. The company derives the majority of its revenue from domestic sales, supported by a strong dealer network exceeding 6,000 touchpoints. Hero MotoCorp benefits from strong brand equity, cost leadership, extensive rural reach, and a net cash balance sheet, enabling consistent free cash flow generation.

Industry Trends & Market Dynamics

The Indian two-wheeler industry is the largest globally by volume and is driven primarily by commuter motorcycles. Long-term growth is supported by population growth, rising income levels, and urbanization, though short-term demand remains cyclical and sensitive to inflation, fuel prices, and interest rates.

Key trends include gradual **premiumization**, increasing **regulatory compliance costs (BS-VI norms)**, and the **emergence of electric vehicles (EVs)**. The competitive landscape includes Hero MotoCorp, Bajaj Auto, TVS Motor Company, and Eicher Motors. Hero MotoCorp maintains leadership through scale and cost efficiency but faces increasing competition in the premium and EV segments.

ANSWER 2-

Assumption Justification

Revenue growth assumptions are based on historical averages adjusted for industry outlook. Operating margins are projected conservatively, reflecting cost pressures and moderate pricing power. Capex assumptions align with historical maintenance and incremental investments for technology and EV initiatives. Working capital assumptions are modelled as stable percentages of revenue, consistent with Hero MotoCorp's efficient operating cycle.

ANSWER 3- Revenue Forecasting

Growth Rate Assumptions

Revenue is projected to grow at a **5–6% CAGR** over the forecast period, reflecting:

- Recovery in domestic demand
- Stable market share in commuter motorcycles

- Moderate contribution from exports and premium segments

This growth rate is slightly above long-term industry growth due to Hero MotoCorp's scale advantage.

Sensitivity Analysis

- **Optimistic case:** 7–8% growth driven by faster premiumization and EV adoption
- **Base case:** 5–6% growth
- **Pessimistic case:** 3–4% growth due to weak rural demand or regulatory pressures

Revenue sensitivity materially impacts valuation, highlighting dependence on volume growth.

ANSWER4-

Expense Growth Trends

Raw material costs are forecast as a stable percentage of revenue, reflecting commodity price normalization. Employee costs and R&D expenses grow slightly faster than revenue due to investments in technology and EVs. Other operating expenses scale proportionately with revenue.

ANSWER 5 - Working Capital & Cash Flow Projections Working Capital: Hero MotoCorp operates on a negative working capital cycle. Assume "Trade Payables" continue to exceed "Inventory + Receivables" (approx. 8–10% of sales).

- FCF Calculation: $\text{\$EBIT} \times (1 - t) + \text{Depreciation} - \text{Capex} - \Delta \text{Working Capital}$

ANSWER 6 - Discounted Cash Flow (DCF) Valuation Terminal Value: Use the Perpetuity Growth Method with a terminal growth rate of 4% (aligned with long-term India GDP/Inflation).

- Enterprise Value: Sum of PV of 5-year FCFs + PV of Terminal Value

ANSWER7 - Comparable Company Analysis

Use these current market multiples for benchmarking: | Peer Company | P/E Ratio | EV/EBITDA | |
 Hero MotoCorp | ~21.5x | ~17.1x | | Bajaj Auto | ~32x | ~24x | | TVS Motor | ~48x | ~30x |

- *Observation:* Hero trades at a discount to peers, suggesting potential undervaluation.

ANSWER 8 - WACC & Sensitivity Analysis

- Cost of Equity 11.07% (Risk-Free Rate 6.66% + Beta 1.07 \times ERP 4.12%).
- Cost of Debt 9.8% (Pre-tax).
- WACC: ~11.06% (given the negligible 2% Debt-to-Equity ratio).

ANSWER 9- Final Valuation & Investment Decision

- Fair Value: Estimated between ₹5,800 – ₹6,100.
- Recommendation: BUY/HOLD. Hero's dominance in the entry-level segment provides a "cash cow" to fund its EV expansion, and it remains the cheapest among major peers.