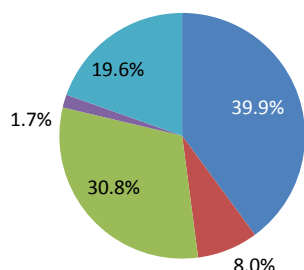


CMP: Rs 2341  
Target Price: Rs 2225  
**Recommendation: Reduce**

Stock Info	
BSE Group	A
BSE Code	500182
NSE Symbol	HEROMOTOCO
Bloomberg	HMCL IN
Reuters	HROM.BO
BSE Sensex	24234
NSE Nifty	7236

Market Info	
Market Capital	Rs 46751 cr
Equity Capital	Rs 39.9 cr
Avg Trading Volume	363,010
52 Wk High / low	Rs 2775/ 1566
Face Value	Rs 2

Latest Shareholding Pattern (Mar'14)



■ Promoters  
■ Foreign Institutions  
■ Public & Others  
■ Domestic Institutions  
■ Corporate

Hero Motocorp reported steady set of numbers its net sales grew by 6.3% yoy to Rs 6456 cr, on volume growth of 4.1%, while realizations grew by 2%. Volume growth was largely driven by strong scooter growth of 15.5%, while motorcycles grew by 2.7%.

EBITDA margin was stable at 13.8 % (13.7% in Q4FY13) as competitive pressures restricted significant price hikes. Going ahead we expect HMCL to increase the prices by Rs 1000/unit in FY15 which will result in higher EBITDA margin. Its PAT was down by 3.4% yoy to Rs 554 cr largely due to expiry of tax holidays enjoyed by its Haridwar plant.

#### According to management

- Industry is expected to grow at 10-11% whereas company will continue to outperform the industry.
- Increased scooter capacity from 60000 units to 75000 units per month.
- Newly launched Ismart is a very successful product and its production will increase from 25000 units to 50000 units per month.
- Neemrana plant will become operational by June 2014.
- Exports volume will improve in FY15.

> **OUTLOOK FOR NEXT 2 YEARS:** We remain "cautious" on HMCL's business outlook over FY15, due to expected continuing tepid growth in the domestic 2W segment, and possible pressure on domestic market share due to Honda's position. We expect Honda to capture about 15% market share in the domestic motorcycle segment by FY15, versus 11.8% in FY13. (HMSI annual capacity of 40 lakh units is already in place). The potential increase in Hero's export volumes from new markets over the next two years have a "low base", and might not be able to offset the overall domestic 2W segment headwinds. We have modelled 5% volume growth for FY15.

> **FINANCIALS, ESTIMATES & VALUATION:** We estimate Hero Moto's Revenue growth at a 2 year CAGR of 7%, expect EBITDA margins close to 14.5% and expect PAT growth at a 2 year CAGR of 7%.

> **Valuation:** The stock at Rs 2341 trades at 18.9x our estimated FY15 EPS of Rs 123.6 per share. We assign a price target of Rs 2225, at 18x FY15 EPS, and have a "Reduce" rating on this stock.

Y/E March, (in Rs crore)	FY12	FY13	FY14	FY15E
Net Sales	23,368.1	23,582.7	25,124.9	27,371.2
yoy%	21.4%	0.9%	6.5%	8.9%
Operating EBITDA	3,618.8	3,284.5	3,540.1	3,968.8
Operating EBITDA %	15.3%	13.8%	14.0%	14.4%
PAT	2,378.1	2,118.2	2,109.1	2,467.7
yoy%	23.4%	-10.9%	-0.4%	17.0%
EPS	119.1	106.1	105.6	123.6
P/E (x)	19.7	22.1	22.2	18.9



Quarterly P&L in Rs cr	Q4FY14	Q4FY13	yoy%	Q3FY14	qoq%
Volumes (in numbers)	15,89,462	15,27,351	4.1%	16,80,940	-5.4%
Net Realization per unit	40,616	39,758	2.2%	40,727	-0.3%
Net Sales	6,456	6,072	6.3%	6,846	-5.7%
Other Operating Income	57	73	-21.9%	31	85.5%
Income from Operations	6,513	6,146	6.0%	6,877	-5.3%
Materials Consumed	4,680	4,440	5.4%	4,999	-6.4%
Employees Cost	236	226	4.3%	244	-3.4%
Other Expenditure	703	631	11.5%	736	-4.4%
Total Expenditure	5,619	5,296	6.1%	5,979	-6.0%
Operating EBITDA	894	850	5.2%	898	-0.4%
margin	13.7%	13.8%		13.1%	
Core EBITDA	837	777	7.8%	867	-3.5%
margin	13.0%	12.8%		12.7%	
Depreciation and Amortization	273	266	2.8%	273	-0.1%
Operating EBIT before Other Income & Excp Items	621	584	6.3%	625	-0.5%
Other Income	123	105	17.7%	96	28.5%
Interest	3	3.07	-4.6%	3	-1.7%
PBT before Exceptional Items	741	686	8.1%	717	3.3%
Exceptional item	0	0		0	
PBT	741	686	8.1%	717	3.3%
Tax Expense	187	111	67.7%	193	-3.0%
Effective Tax Rate	25.2%	16.3%		26.9%	
Net Profit after Tax	554	574	-3.4%	525	5.7%
EPS	27.8	28.8	-3.4%	26.3	5.7%



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**Stock Rating Scale**

Recommendation	Absolute Return %
BUY	> 20
ACCUMULATE	12 - 20
HOLD	5 - 12
NEUTRAL	0 - 5
REDUCE	< 0

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**Arihant is Forbes Asia's '200 Best under a \$Bn' Company  
'Best Emerging Commodities Broker' awarded by UTV Bloomberg (2011)**

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