

Strong Quarter

CMP: Rs2440

Rating: HOLD

Target Price: Rs 2684

Stock Info

BSE	500182
NSE	HEROMOTOCO
Bloomberg	HMCL IN
Reuters	HROM.BO
Sector	Automobiles Two & Three Wheelers
Face Value (Rs)	2
Equity Capital (Rs mn)	400
Mkt Cap (Rs bn)	482
52w H/L (Rs)	3,021 / 2,228

Shareholding Pattern %

(As on Dec, 2019)

Promoters	34.6
Public & Others	65.4

Stock Performance (%)	3m	6m	12m
Hero MotoCorp	-9.91	-2.15	-16.11
Sensex	2.10	11.70	11.70

Hero MotoCorp Vs Sensex



Hero MotoCorp (HMCL) 3QFY20 numbers beat estimates largely due to sharp fall in tax cost. HMCL Net Profit stood at 8804mn YoY rise 14.5% for the Q3FY20 compared with Rs 7,691mn in the Q3FY19. HMCL registered Net sales of Rs 69,967mn, lower by 11% YoY compared to the Q3FY19. The company also announced an interim dividend of Rs 65 per share of Rs2 each for the FY19-FY20. At operating level, EBITDA dropped 6% to Rs 1,0390mn, but margin saw 80bps expansion YoY at 14.8% in Q3FY20 due to lower raw material cost. Earning beat our estimates on all parameters. Profit was estimated at Rs 7405mn , EBITDA was expected at Rs 9820mn and revenue 69,313mn.

Concall highlights

- The Management expects growth would be driven by strong sowing of Rabi crops, healthy monsoon and government initiatives.
- The management doesn't expect growth trajectory for 1HFY21 due to steep price increases. Positive growth expected in 2HFY21, after BS VI price settle down and led by better crops.
- Finance penetration in 2W segment is largely through NBFCs innovative financial products could be helpful to some extent to bring growth in the segment.
- All model in BS VI are ready and BS IV would be stopped by mid Feb 2020. The company stopped BS-IV scooter production in January itself.
- Spare parts revenue is Rs 800crs (+9.5%YoY). Spares revenue is 10% of total revenue.
- Most of the commodity cost benefit is passed to customers on absolute basis (per vehicles basis).
- Precious metals are 4-5% of overall material cost which are largely used in BS-VI. Prices of these metals increased very sharply in last quarter. Other commodity constitutes 70%-80% of the cost.
- 20-30bps improvement in margins was led by commodity benefits in this quarter. Commodity prices impact the company with lag of a quarter.
- Finance penetration is 46% of sales. Hero Fincorp is 50% of total finance penetration.
- Inventory level down to 6 week by end of Dec 2019 end and it will come down to 5 week by end of Jan 2020.
- Tax rate is expected to be at 25%.
- Andhra plant is expected to commission in this quarter, in starting it would be manufacturing only for OEMs based in southern part. The plant won't have meaningful impact on 4QFY20 sales.

Outlook and valuation

We believe, the demand for 2W shall continue to face challenges amid an overall economic slow down and steep price increases. Positive growth expected in 2HFY21, after BS VI price settle down and led by better crops. However, we expect Hero is well-positioned to be the key beneficiary of rural demand recovery with its strong brand equity in entry and commuter segments and high rural exposure. At CMP of Rs 2440, stock trades at 10.9 x FY22E. We maintain our rating to Hold on the stock and value it at 12x FY22E for a revised target price of Rs 2,684 with an upside of 10%.

Quarterly result summary

Standalone (INRm)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)
Net sales	69,967	78,648	(11.0)	75,707	(7.6)
- Raw material	46,598	54,145	(13.9)	51,257	(9.1)
(% of net sales)	66.6	68.8	-225bps	67.7	-111bps
- Staff expenditure	4,697	4,357	7.8	4,689	0.26
(% of net sales)	6.7	5.5	117bps	6.2	52bps
- Other expenditure	8,282	9,098	(9.0)	8,750	(5.3)
(% of net sales)	11.8	11.6	27bps	11.6	28bps
Total expenditure	59,578	67,601	(11.9)	64,696	(7.9)
EBITDA	10,390	11,048	(6.0)	11,011	(5.6)
EBITDA Margin (%)	14.8	14.0	80bps	14.5	30bps
Depreciation	2,037	1,518	34.2	2,034	0.15
EBIT	8,352	9,529	(12.4)	8,977	(6.96)
Interest	59	22	174.1	77	(22.82)
Other Income	1,822	1,876	(2.9)	2,078	(12.33)
PBT	10,115	11,384	(11.1)	10,979	(7.86)
Tax	1,311	3,693	(64.5)	1,629	(19.53)
Reported PAT	8,804	7,691	14.5	8,748	0.64
Adjusted PAT	8,804	7,691	14.5	9,349	(5.83)
Adjusted EPS (Rs)	44.1	38.5	14.4	43.8	0.64
Total volumes (Nos)	1,540,876	1,798,905	(14.3)	1,691,420	(8.90)
Net realization (Rs)	45,407	43,720	3.9	44,759	1.45
EBITDA / vehicle (Rs)	6,743	6,141	9.8	6,510	3.57

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Profit & Loss Statement					
	FY18	FY19	FY20E	FY21E	FY22E
Net sales	328,718	336,505	344,787	367,069	394,024
Growth, %	15	2	2	6	7
RM expenses	-218,346	-233,177	-237,903	-256,948	-275,817
Employee expenses	-15,401	-17,302	-18,619	-20,372	-21,868
Other expenses	-40,105	-36,725	-36,454	-35,560	-38,075
EBITDA	54,865	49,301	51,812	54,189	58,264
Growth, %	14	(10)	5	5	8
Margin, %	16.7	14.7	15.0	14.8	14.8
Depreciation	-5,556	-6,020	-6,624	-7,129	-7,514
EBIT	49,310	43,281	45,188	47,060	50,750
Growth, %	14	(12)	4	4	8
Margin, %	15.0	12.9	13.1	12.8	12.9
Interest paid	-63	-86	-86	-86	-86
Other Income	5,258	6,913	7,466	8,212	9,033
Non-recurring Items	(47)	0	0	0	0
Pre-tax profit	54,505	50,107	52,567	55,186	59,697
Tax provided	-15,468	-16,258	-13,233	-13,892	-15,028
Profit after tax	39,037	33,849	39,334	41,294	44,669
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	38,990	33,849	39,334	41,294	44,669
Growth, %	15	(13)	16	5	8
Net Profit (adjusted)	39,037	33,849	39,334	41,294	44,669

Balance Sheet					
YE: Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Cash & bank	1,413	1,365	7,249	12,871	19,797
Marketable securities cost	66,917	50,517	57,957	68,515	80,939
Debtors	15,202	28,216	24,560	26,147	28,067
Inventory	8,236	10,724	9,446	10,057	10,795
Loans & advances	732	850	867	937	1,005
Other current assets	7,567	8,931	9,824	10,807	11,887
Total current assets	33,150	50,085	51,947	60,818	71,552
Investments	8,335	9,169	10,086	11,094	12,204
Gross fixed assets	119,216	131,322	144,322	152,322	160,322
Less: Depreciation	-66,873	-72,893	-79,517	-86,646	-94,160
Add: Capital WIP	2,038	3,607	2,707	2,707	2,707
Net fixed assets	52,343	58,429	64,805	65,675	66,161
Total assets	162,783	171,806	187,395	208,704	233,458
Current liabilities	42,835	40,713	37,207	40,343	43,535
Provisions	1,747	1,762	4,888	5,132	5,389
Total current liabilities	44,583	42,476	42,095	45,475	48,924
Non-current liabilities	512	760	760	760	760
Total liabilities	45,094	43,235	42,855	46,235	49,684
Paid-up capital	399	399	399	399	399
Reserves & surplus	117,289	128,172	144,141	162,070	183,375
Shareholders' equity	117,689	128,571	144,541	162,470	183,774
Total equity & liabilities	162,783	171,806	187,395	208,704	233,458

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Cash Flow					
YE: Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Pre-tax profit	54,458	50,107	52,567	55,186	59,697
Depreciation	5,556	6,020	6,624	7,129	7,514
Chg in working capital	6,034	-19,213	3,642	131	-359
Total tax paid	-14,470	-16,010	-13,233	-13,892	-15,028
CFO	44,318	14,183	42,221	40,427	42,877
Capital expenditure	-11,331	-16,420	-11,995	-8,000	-8,000
Chg in investments	-16,353	15,566	-8,356	-11,567	-13,534
Other investing activities	4,502	7,035	7,466	8,212	9,033
CFI	-23,181	6,181	-12,885	-11,355	-12,500
Free cash flow	16,635	13,329	21,870	20,860	21,344
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	-21,028	-20,327	-23,365	-23,365	-23,365
CFF	-21,091	-20,413	-23,451	-23,451	-23,451
Net chg in cash	46	(49)	5,885	5,621	6,926
Opening cash balance	1,367	1,413	1,365	7,249	12,871
Closing cash balance	1,413	1,365	7,249	12,871	19,797

Ratios					
YE: Mar	FY18	FY19	FY20E	FY21E	FY22E
EPS (INR)	195	169	197	207	224
PER (x)	12.1	13.9	12.4	11.8	10.9
Price/Book (x)	4.0	3.7	3.4	3.0	2.7
EV/EBITDA (x)	7.3	8.5	8.1	7.5	6.6
EV/Net sales (x)	1.2	1.2	1.2	1.1	1.0
RoE (%)	36	27	29	27	26
RoCE (%)	50	41	38	36	34
Fixed Asset turnover (x)	2.8	2.6	2.4	2.4	2.5
Dividend Yield (%)	3.8	3.7	4.1	4.1	4.1
Receivable (days)	17	31	26	26	26
Inventory (days)	11	14	12	12	12
Payable (days)	44	43	37	37	37
Revenue Growth (%)	15	2	2	6	7
EBIDTA Growth (%)	14	(10)	5	5	8
EPS Growth, %	9	(13)	16	5	8
Net D/E ratio (x)	(0.6)	(0.4)	(0.5)	(0.5)	(0.5)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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