

**Media reports: Hero launches scooter buyback scheme**

**CMP: Rs 2551**

**Rating: Neutral**

**Target: Rs 2573**

(NR-Not Rated)

**Stock Info**

INDEX	
BSE	500182
NSE	HEROMOTOCO
Bloomberg	HMCL IN
Reuters	HROM.NS
Sector	Automobiles
Face Value (Rs)	2
Equity Capital (Rs mn)	399
Mkt Cap (Rs bn)	520
52w H/L (Rs)	3819 / 2517
Avg Weekly Vol (BSE+NSE)	143,866

**Shareholding Pattern**

<b>(As on March, 2019)</b>	<b>%</b>
Promoters	34.6
Public & Others	65.4

Source: NSE, Arihant Research

<b>Stock Performance (%)</b>	<b>3m</b>	<b>6m</b>	<b>12m</b>
HMCL	-2.5	-3.8	-30.8
SENSEX	7.7	11.6	5.4

Source: ACE Equity, Arihant Research

**HMCL v/s SENSEX**



Source: ACE Equity, Arihant Research

Media reports ([link](#)) suggest that, in a first move, Hero Motocorp (HMCL) has initiated a scooter buyback scheme in the name of “Buysurance” in tie up with CredR (used two wheeler portal) where HMCL through its dealers will issue a buyback certificate to the scooter buyer at the time of purchase of the vehicle with a value matrix ranging from six months upto five years. The consumer can claim a fixed price upto 57-65% of the scooter purchase price as per the age of the scooter in exchange of the used scooter. This scheme is over and above the five year warranty which HMCL already offers in the current scheme of things. While this is a first of its own initiative by HMCL (only seen in luxury car market until now) to revive its falling scooter market share, we would await further clarity as to how the dealers will respond to the complex buyback structure. HMCL’s scooter mix has seen a sustained fall over last couple of years owing to shift in scooter segment from 110 cc to 125 cc category where HMCL has recently entered with Destini 125 cc and it is due to launch Maestro 125 cc variant coupled with saturating penetration levels in urban scooter market.

**Our view:**

We see this effort from the HMCL as a signal to revive its lost scooter market share which has already seen a sustained decline from 19% in FY14 to 11% in FY19. Further, dealers’ response to the execution of this complex buyback scheme remains a key monitorable. The scooter market remains intensely competitive and HMCL’s market share gains in this competitive market with strong presence from TVS, Yamaha, Suzuki and HMSI’s market leadership shall remain a key driver.

**Outlook and valuation:**

The near term challenging demand underpins our argument that domestic two-wheeler is undergoing significant slowdown, which is further likely to get impacted by the increase in costs of two-wheelers by upto Rs 8,000-10,000 due to BS VI and safety related costs. While HMCL has made efforts to enter the much crowded 125 cc scooter segment and the premium bike segment with Xtreme 200R and Xpulse, we believe, HMCL will be unable to pass on the increased costs to the consumers in the high competitive environment and thus the margin recovery to peak levels still remains eluded. At CMP of Rs 2551, stock trades at 13.9x FY21E. We recommend a NEUTRAL rating on the stock and value it at 14x FY21E for a target price of Rs 2,573.

**Financial Summary**

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	286,680	328,718	336,505	347,192	364,306
YoY growth %	1	15	2	3	5
EBITDA	48,278	52,802	49,301	48,697	53,785
Margin, %	16.8	16.1	14.7	14.0	14.8
EPS (Rs)	179	185	169	166	184
PER (x)	14.3	13.8	15.1	15.4	13.9
EV/EBITDA (x)	9.5	8.4	9.3	9.2	8.2
RoE (%)	38	34	27	25	25
RoCE (%)	51	48	41	37	38

Source: Company, Arihant Capital Markets

### Profit & Loss Statement

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	286,680	328,718	336,505	347,192	364,306
Growth, %	1	15	2	3	5
RM expenses	-190,118	-218,346	-233,177	-243,034	-255,014
Employee expenses	-13,960	-15,401	-17,302	-18,748	-20,219
Other expenses	-34,324	-42,169	-36,725	-36,712	-35,288
<b>EBITDA</b>	<b>48,278</b>	<b>52,802</b>	<b>49,301</b>	<b>48,697</b>	<b>53,785</b>
Growth, %	8	9	(7)	(1)	10
<b>Margin, %</b>	<b>16.8</b>	<b>16.1</b>	<b>14.7</b>	<b>14.0</b>	<b>14.8</b>
Depreciation	-4,927	-5,556	-6,020	-6,624	-7,129
EBIT	43,351	47,246	43,281	42,073	46,656
Growth, %	8	9	(8)	(3)	11
Margin, %	15.1	14.4	12.9	12.1	12.8
Interest paid	-60	-63	-86	-86	-86
Other Income	5,224	5,258	6,913	7,466	8,212
Non-recurring Items	(1,930)	(47)	0	0	0
Pre-tax profit	48,515	52,442	50,107	49,453	54,782
Tax provided	-12,814	-15,468	-16,258	-16,319	-18,078
Profit after tax	35,701	36,974	33,849	33,133	36,704
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	33,771	36,927	33,849	33,133	36,704
Growth, %	7	9	(8)	(2)	11
Net Profit (adjusted)	35,701	36,974	33,849	33,133	36,704

Source: Company, Arianth Capital Markets

### Cash Flow

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Pre-tax profit	46,585	52,395	50,107	49,453	54,782
Depreciation	4,927	5,556	6,020	6,624	7,129
Chg in working capital	6,208	6,034	-19,213	4,019	-205
Total tax paid	-10,821	-14,470	-16,010	-16,319	-18,078
CFO	39,474	44,319	14,077	36,397	35,502
Capital expenditure	-11,635	-11,331	-16,420	-11,995	-8,000
Chg in investments	-556	-556	-556	-556	-555
Chg in marketable securities	-12,533	-15,797	16,122	-7,800	-11,012
CFI	-19,500	-23,181	6,181	-12,885	-11,355
Free cash flow	27,283	32,432	-2,899	23,846	26,947
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	-19,860	-21,028	-20,327	-23,365	-23,365
CFF	-19,921	-21,091	-20,413	-23,451	-23,451
Net chg in cash	54	47	(155)	61	696
Opening cash balance	1,314	1,367	1,413	1,365	1,319
Closing cash balance	1,367	1,413	1,365	1,319	2,015

Source: Company, Arianth Capital Markets

### Balance Sheet

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank	1,367	1,413	1,365	1,319	2,015
Marketable sec	51,322	66,917	50,517	57,957	68,515
Debtors	15,619	15,202	28,216	24,731	25,951
Inventory	6,563	8,236	10,724	9,512	9,981
Loans & advances	449	732	850	886	929
Other current assets	12,121	7,567	8,931	9,824	10,807
Total current assets	36,119	33,150	50,085	46,273	49,683
Investments	7,578	8,335	9,169	10,086	11,094
Gross fixed assets	107,216	119,216	131,322	144,322	152,322
Less: Depreciation	-61,317	-66,873	-72,893	-79,517	-86,646
Add: Capital WIP	2,707	2,038	3,607	2,707	2,707
Net fixed assets	45,899	52,343	58,429	64,805	65,675
Total assets	143,624	162,783	171,806	181,827	197,675
Current liabilities	40,543	42,835	40,713	37,840	40,104
Provisions	1,144	1,747	1,762	4,888	5,132
Total current liabilities	41,687	44,583	42,476	42,728	45,237
Non-current liabilities	824	512	760	760	760
Total liabilities	42,511	45,094	43,235	43,487	45,996
Paid-up capital	399	399	399	399	399
Reserves & surplus	100,714	117,289	128,172	137,940	151,279
Shareholders' equity	101,113	117,689	128,571	138,340	151,679
Total equity & liabilities	143,624	162,783	171,806	181,827	197,675

Source: Company, Arianth Capital Markets

### Ratios

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	179	185	169	166	184
PER (x)	14.6	14.1	15.4	15.7	14.2
Price/Book (x)	5.1	4.4	4.0	3.8	3.4
EV/EBITDA (x)	9.7	8.6	9.5	9.5	8.4
EV/Net sales (x)	1.6	1.4	1.4	1.3	1.2
RoE (%)	38	34	27	25	25
RoCE (%)	51	48	41	37	38
Fixed Asset turnover (x)	2.7	2.8	2.6	2.4	2.4
Dividend Yield (%)	3.3	3.5	3.3	3.8	3.8
Receivable (days)	20	17	31	26	26
Inventory (days)*	10	11	14	12	12
Payable (days)	50	44	43	37	37
Revenue Growth (%)	1	15	2	3	5
EBITDA Growth (%)	8	9	(7)	(1)	10
EPS Growth, %	13	4	(8)	(2)	11
Net D/E ratio (x)	(0.6)	(0.6)	(0.4)	(0.4)	(0.5)

Source: Company, Arianth Capital Markets, Inventory= RM+FG

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**Stock Rating Scale****Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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