

## Product Mix to Drive Growth

1<sup>st</sup> February 2019

CMP: Rs 2,807  
Target Price: Rs 3120  
**Recommendation: HOLD**

### Stock Info

BSE Group	A
BSE Code	500182
NSE Symbol	HEROMOTOCO
Bloomberg	HMCL IN
Reuters	HROM.BO
BSE Sensex	36,257
NSE Nifty	10,831

### Market Info

Market Capital	Rs 52,206 cr
Equity Capital	Rs 39.9cr
6M Avg Trading Volume	5,26,435
52 Wk High / low	Rs 3862/2,692
Face Value	Rs 2

### Share holding pattern as on Dec 18

Promoters	34.63
DII's	15.37
FII's	39.95
Others	10.05
Face Value	Rs 2

### Price Vs Sensex Chart



### Quarterly Highlights

- Hero MotoCorp Ltd. reported a revenue of Rs7,865cr compared to Rs7,314 cr in the corresponding quarter of the previous year. During the quarter, company has registered sales of 17.98 lakh units, increase of 5% on YoY basis.
- EBITDA margin decreased to 14% which was impacted by commodity costs.
- EBITDA for the quarter was down by 5% at Rs1,105 cr YoY.
- PAT stood at Rs769 cr down by 5% on YoY basis.

### Conference Call highlights:

- Key launches such Destiny 125 and Xtreme 200 has done well and led to the growth of Hero MotoCorp.
- Destiny had a great start and enjoys 10% market share in 125 cc segment and the Xtreme200 has not done as expected but its building gradually. This is a premium segment motor bike and a high margin product. Few more launches are expected in this category.
- New R&D centre in Germany will help develop superior quality technology in future.
- Q3 had lot of head winds in regards to insurance cost, increase in interest rate which led to decrease in demand. However, management expects Q4 to be better than Q3. Q4 historically is a strong quarter.
- Management expects pre buying for BSVI which will start from FY20. So FY20 should see some volume growth.
- Hero is well geared for ABS, CBS transition where 50% of products are already manufactured as per the new norms. Company is also well geared up for BSVI norms.
- Company has seen some tailwinds such as softening of commodity prices and expects improvements in margins. 100 cc segment has seen some disruption which is affecting Hero.
- With more launches in H1CY20 Hero expects volumes to pick up. Hero aims at launching a new scooter in the fastest growing segment of 125cc which will be the growth driver.

### Valuation:

In the midst of the price war in the 100 CC segment company has seen some disruption from the competitors. Company expects to set off this decline by launching new products in the 200 CC premium segment. With more launches lined up in the 125 cc segment as well, Hero MotoCorp will be in a good position to cater the growing demand. We expect Hero MotoCorp to strengthen their portfolio in the coming quarters and also focus on premium segment motorcycles which will increase their margins. With more than 50% market share and new launches, we expect Hero to gain momentum. The stock is currently trading at Rs 2807, at a P/E of 13.5x of our estimated FY20E EPS of Rs 208 per share. We assign a price target of Rs 3120 at 15x FY20 EPS, and have **"HOLD"** rating on the stock.

### Financial Snapshot:

Y/E March, (in Rs crore)	FY18	FY19E	FY20E
Net Sales	32,212	35,858	39,802
yoy%	13.1%	11.3%	11.0%
Operating EBIDTA	5,280	5,422	6,257
Operating EBIDTA %	16.4%	15.1%	15.7%
PAT	3,697	3,575	4,153
yoy%	9.5%	-3.3%	16.2%
EPS	185	179	208
P/E (x)	15.2	15.7	13.5

### Quarter Results

Quarterly P&L in Rs cr	Q3FY19	Q2FY19	Q3FY18	YoY	QoQ
Volumes (in numbers)	1,798,905	2,134,051	1,709,107	5%	-16%
Net Realization per unit	43,720	42,599	42,796	2%	3%
Net Sales	7,865	9,091	7,314	8%	-13%
Other Operating Income					
Income from Operations	7,865	9,091	7,314	8%	-13%
Materials Consumed	5,415	6,300	4,931	10%	-14%
Employees Cost	436	434	402	8%	0%
Other Expenditure	910	978	824	10%	-7%
Total Expenditure	6,760	7,712	6,156	10%	-12%
Operating EBITDA	1,105	1,379	1,158	-5%	-20%
Margin	14.0%	15.2%	15.8%		
Core EBITDA	1,105	1,379	1,158	-5%	-20%
Margin	14%	15%	15.8%		
Depreciation and Amortization	152	152	138	10%	0%
Operating EBIT	953	1,227	1,020	-7%	-22%
Other Income	188	224	110	71%	-16%
Interest	2	2	1.57	38%	1%
PBT before Exceptional Items	1,138	1,448	1,128	1%	-21%
Exceptional item					
PBT	1,138	1,448	1,128	1%	-21%
Tax Expense	369	472	323	14%	-22%
Effective Tax Rate	32%	33%	29%		
Net Profit after Tax	769	976	805	-5%	-21%
EPS	39	49	40	-5%	-21%

**Profit and Loss Account, Year Ending March**

Particulars, in Rs crore	FY18	FY19E	FY20E
<b>Net Sales</b>	<b>32,212</b>	<b>35,858</b>	<b>39,802</b>
YoY%	13.1	11.3	11.0
Other Operating Income	-	-	-
<b>Income from Operations</b>	<b>32,212</b>	<b>35,858</b>	<b>39,802</b>
Materials Consumed	21,816	24,742	27,264
Total Expenditure	26,932	30,436	33,545
<b>Operating EBITDA</b>	<b>5,280</b>	<b>5,422</b>	<b>6,257</b>
Operating EBITDA margin %	16.4	15.1	15.7
Depreciation	556	683	778
Operating EBIT	4,725	4,738	5,479
Other Income	526	526	550
Interest	6	7	10
Exceptional Item	-	-	-
<b>PBT</b>	<b>5,244</b>	<b>5,257</b>	<b>6,019</b>
Tax Expense	1,547	1,682	1,866
<b>Reported Net Profit</b>	<b>3,697</b>	<b>3,575</b>	<b>4,153</b>
YoY%	9.5	(3.3)	16.2
Effective Tax Rate	29.5	32.0	31.0
<b>Reported EPS</b>	<b>185</b>	<b>179</b>	<b>208</b>

**Cash Flow Statement, Year Ending March**

Particulars, in Rs crore	FY18	FY19E	FY20E
<b>Operating Activities</b>			
<b>PAT</b>	<b>3,697</b>	<b>3,575</b>	<b>4,153</b>
Add Depr + non op exp	556	683	778
Total	5,315	6,172	6,960
Cash Taxes	1,494	1,682	1,866
Changes in Working Cap	160	103	5
<b>Cash Flow from Operations</b>	<b>3,981</b>	<b>4,593</b>	<b>5,099</b>
<b>Investing Activities</b>			
Change in investments	(1,113)	(1,018)	(1,048)
Capex	(802)	(1,200)	(1,400)
<b>Cash Flow from Investing</b>	<b>(1,915.2)</b>	<b>(2,217.6)</b>	<b>(2,447.6)</b>
<b>Financing Activities</b>			
<b>Dividends + Taxes paid</b>	<b>2,043</b>	<b>2,276</b>	<b>2,636</b>
Change in Non Curr Liab	6.3	7.1	9.8
<b>Cash Flow from Financing</b>	<b>(2,049)</b>	<b>(2,284)</b>	<b>(2,646)</b>
Opening Cash	15	32	123
Changes during year	16	92	6
<b>Closing Cash</b>	<b>32</b>	<b>123</b>	<b>129</b>

Source: Company data, Arihant Research

**Balance Sheet, Year Ending March**

Particulars, in Rs crore	FY18	FY19E	FY20E
<b>Liabilities + Equity</b>			
(a) Share capital	40	40	40
(b) Reserves and surplus	11,729	11,660	13,178
<b>Shareholders' funds</b>	<b>11,769</b>	<b>11,700</b>	<b>13,218</b>
Non-current liab & Prov	627	158	164
Current liabilities	4,343	6,200	7,282
<b>Total - Equity and liabilities</b>	<b>16,739</b>	<b>18,058</b>	<b>20,664</b>
<b>Assets</b>			
Non-current assets			
Fixed assets	4,973	6,867	8,325
Long Term Inv	1,934	1,496	2,081
Loans + Adv + Others	604	944	944
Non-current assets	7,891	9,307	11,350
Current assets			
Cash	32	123	129
Other Current Assets	6,102	4,842	5,017
Total Current Assets	8,848	8,751	9,314
<b>Total - Assets</b>	<b>16,739</b>	<b>18,058</b>	<b>20,664</b>

**Ratio Analysis**

	FY18	FY19E	FY20E
<b>Profitability</b>			
<b>Operating EBITDA%</b>	<b>16.4</b>	<b>15.1</b>	<b>15.7</b>
Core EBITDA%	16.4	15.1	15.7
PAT%	11.5	10.0	10.4
<b>ROAE%</b>	<b>33.8</b>	<b>30.5</b>	<b>33.3</b>
Du Pont ROAE breakup			
PAT / Sales	11.5	10.0	10.4
Sales / Avg Total Assets	2.1	2.1	2.1
Avg Total Assets / Avg Eqty	1.4	1.5	1.6
<b>ROE</b>	<b>33.8</b>	<b>30.5</b>	<b>33.3</b>
<b>Other Ratios</b>			
<b>Current Ratio</b>	<b>1.4</b>	<b>0.8</b>	<b>0.7</b>
Long Term Debt / Equity	0.05	0.01	0.01
<b>EPS</b>	<b>185.2</b>	<b>179.0</b>	<b>208.0</b>
DPS	95.0	95.0	110.0
<b>Dividend Payout ratio</b>	<b>51.3</b>	<b>53.1</b>	<b>52.9</b>
<b>P/E</b>	<b>14.1</b>	<b>14.6</b>	<b>12.6</b>
BVPS	589.4	585.9	661.9
P/BV	4.4	4.5	3.9

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**Stock Rating**

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	<-5%

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