

**Weak quarter amid economic slowdown**

**CMP: Rs 2292**

**Rating: HOLD**

**Target Price: Rs 2422**

**Stock Info**

BSE	500182
NSE	HEROMOTCO
Bloomberg	HMCL IN
Reuters	HROM.BO
Sector	Auto-2&3 wheelers
Face Value (Rs)	2
Equity Capital (Rs mn)	400
Mkt Cap (Rs bn)	460
52w H/L (Rs)	3,023/1,475
Avg Yearly Vol (in 000')	1127

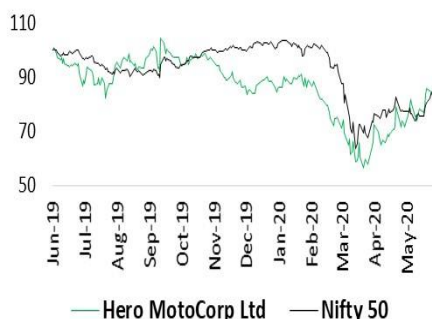
**Shareholding Pattern %**

(As on March, 2020)

Promoters	34.63
Public & Others	64.37

Stock Performance (%)	3m	6m	12m
Hero MotoCorp	26.2	2.9	-12.2
Nifty	6.3	-15.6	-14.4

**Hero MotoCorp Vs Nifty**



Hero MotoCorp reported weak performance during Q4FY20 with a 20.9% YoY fall in revenue to Rs 62,384 mn was impacted due to disruptions caused by covid-19 in late March. It had reported a revenue of Rs 78,850 mn in the corresponding quarter last year. Profit of the company declined by 15% YoY to Rs6207 mn in Q4FY20 while on a sequential basis profit fell by 29.50%. EBITDA stood at Rs 6599mn down by 38.3% YoY for the Q4FY20 as compared to Rs 10,693 mn for the Q4Y19. EBITDA margin narrowed to 10.6% in Q4FY20 as compared to 13.6% in Q4FY19. The two-wheeler major sold 13.34 lakh units during the quarter under review, down 25.71 % against 17.81 lakh units in Q4FY19.

The board also recommended a final dividend of Rs 25 per equity share for the financial year 2019-20.

**Concall highlights**

- Management stated that the Covid-19 pandemic has pushed several timelines, company has successfully navigated through the unprecedented times with business continuity. As company rapidly scale-up operations post the lockdown, it will be critical that the industry receives support from all quarters.
- On volumes front: Company gained market share in motorcycle and retained very strong leadership in entry and deluxe segments. Company has launched extreme 160R, which will start getting dispatched within couple of weeks.
- Scooters were impacted in the quarter by a conscious call to stop production before December end as they have migrated from BS4 to BS6, 125cc scooter is doing well.
- Going ahead company brought down the dealer inventory by almost five and a half lakh. The dealer network is sitting at one of the lowest inventory, which is also very important for the dealer financial health as much less working capital is locked into the system, which helps in revival and sprinting ahead.
- Management stated that the future is really uncertain. But Hero MotoCorp will be seeing pent up demand because 2 wheeler is not a luxury in India. Social distancing norms are observed leading to personal mobility. So therefore, there's going to be a mix of factors.
- The company's all plants and all its vendors are operational and 90% of retail outlets have opened up. Its retail business has started coming back and has reached pre-covid levels substantially (70-80%).

**Outlook and valuation**

At CMP of Rs 2,292, Hero MotoCorp currently trades at FY20 PE of 12.6x. Hero MotoCorp has performed exceptionally in a weak market scenario. However, Hero MotoCorp delivered disappointing performance in Q4FY20 primarily on margins front, mainly due to Covid-led nationwide lockdown towards the end of the quarter. We believe that social distancing and better placed rural economy would help two wheeler industry and Hero MotoCorp going forward. We value Hero MotoCorp at PE of 15x to FY22 EPS estimate of Rs 161.5, which yields a target price of Rs 2,422. **We maintain our Hold rating on the stock.**

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

## Quarterly result summary

Standalone (Rs mn)	4QFY20	4QFY19	3QFY20	YoY (%)	QoQ (%)
<b>Net sales</b>	<b>62,384</b>	<b>78,850</b>	<b>69,967</b>	<b>(20.9)</b>	<b>(10.8)</b>
- Raw material	43,200	54,385	46,598	(20.6)	(7.3)
(% of net sales)	69.2	69.0	66.6	27bps	265bps
- Staff expenditure	4,354	4,473	4,697	(2.7)	(7.3)
(% of net sales)	7.0	5.7	6.7	131bps	27bps
- Other expenditure	8,231	9,298	8,282	(11.5)	(0.6)
(% of net sales)	13.2	11.8	11.8	140bps	136bps
Total expenditure	55,785	68,156	59,578	(18.2)	(6.4)
<b>EBITDA</b>	<b>6,599</b>	<b>10,693</b>	<b>10,390</b>	<b>(38.3)</b>	<b>(36.5)</b>
EBITDA Margin (%)	10.6	13.6	14.8	-298bps	-427bps
Depreciation	1,747	1,502	2,037	16.3	(14.2)
EBIT	4,852	9,191	8,352	(47.2)	(41.9)
Interest	41	22	59	85.4	(31.4)
Other Income	1,695	1,642	1,822	3.2	(7.0)
<b>PBT</b>	<b>6,506</b>	<b>10,811</b>	<b>10,115</b>	<b>(39.8)</b>	<b>(35.7)</b>
Tax	299	3,508	1,311	(91.5)	(77.2)
Reported PAT	6,207	7,303	8,804	(15.0)	(29.5)
<b>Adjusted PAT</b>	<b>6,207</b>	<b>7,303</b>	<b>8,804</b>	<b>(15.0)</b>	<b>(29.5)</b>
Adjusted EPS (Rs)	31.1	36.6	44.1	(15.0)	(29.48)
<b>Total volumes (Nos)</b>	<b>13,34,511</b>	<b>17,81,250</b>	<b>15,40,868</b>	<b>(25.1)</b>	<b>(13.4)</b>
Net realisation (Rs)	46,747	44,266	45,408	5.6	2.95
EBITDA / vehicle (Rs)	4,945	6,003	6,743	(17.6)	(26.7)

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

Profit & Loss Statement				
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
<b>Net sales</b>	<b>3,36,505</b>	<b>2,88,361</b>	<b>2,68,320</b>	<b>3,01,877</b>
Growth, %	2	-14	-7	13
RM expenses	2,33,177	-1,96,974	-1,85,141	2,08,295
Employee expenses	-17,302	-18,417	-18,514	-19,622
Other expenses	-36,725	-33,390	-27,208	-30,798
<b>EBITDA</b>	<b>49,301</b>	<b>39,580</b>	<b>37,457</b>	<b>43,162</b>
Growth, %	-10	-20	-5	15
Margin, %	14.7	13.7	14.0	14.3
Depreciation	-6,020	-8,180	-8,776	-9,253
<b>EBIT</b>	<b>43,281</b>	<b>31,400</b>	<b>28,681</b>	<b>33,909</b>
Growth, %	-12	-27	-9	18
Margin, %	12.9	10.9	10.7	11.2
Interest paid	-86	-220	-220	-220
Other Income	6,913	7,783	8,562	9,418
Non-recurring Items	0	6,774	0	0
<b>Pre-tax profit</b>	<b>50,107</b>	<b>45,737</b>	<b>37,023</b>	<b>43,107</b>
Tax provided	-16,258	-9,404.3	-9,320	-10,851
<b>Profit after tax</b>	<b>33,849</b>	<b>36,333</b>	<b>27,703</b>	<b>32,256</b>
Others (Minorities, Associates)	-	-	-	-
<b>Net Profit</b>	<b>33,849</b>	<b>36,333</b>	<b>27,703</b>	<b>32,256</b>
Growth, %	-13	7	-24	16
<b>Net Profit (adjusted)</b>	<b>33,849</b>	<b>36,333</b>	<b>27,703</b>	<b>32,256</b>

Cash Flow				
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
<b>Pre-tax profit</b>	<b>50,107</b>	<b>45,737</b>	<b>37,023</b>	<b>43,107</b>
Depreciation	6,020	8,180	8,776	9,253
Chg in working capital	-19,213	12,668	-6,585	-270
Total tax paid	-16,010	-10,841	-9,320	-10,851
<b>CFO</b>	<b>15,463</b>	<b>48,180</b>	<b>21,552</b>	<b>32,041</b>
Capital expenditure	-16,420	-8,715	-9,175	-8,000
Chg in investments	15,566	-22,540	822	-8,140
Other investing activities	3,254	7,783	8,562	9,418
<b>CFI</b>	<b>2,401</b>	<b>-23,472</b>	<b>209</b>	<b>-6,723</b>
Free cash flow	14,609	16,925	13,200	15,900
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-20,333	-21,034	-21,034	-21,034
<b>CFF</b>	<b>-20,418</b>	<b>-21,254</b>	<b>-21,254</b>	<b>-21,254</b>
<b>Net chg in cash</b>	<b>-2,555</b>	<b>3,454</b>	<b>507</b>	<b>4,064</b>
Opening cash balance	1,413	1,365	2,419	2,820
<b>Closing cash balance</b>	<b>1,365</b>	<b>2,419</b>	<b>2,820</b>	<b>6,884</b>

Balance Sheet				
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Cash & bank	1,365	2,419	2,820	6,884
Marketable securities cost	50,517	72,141	70,310	77,341
Debtors	28,216	16,031	19,113	21,504
Inventory	10,724	10,920	7,351	8,271
Loans & advances	850	896	842	948
Other current assets	8,931	6,348	6,982	7,680
<b>Total current assets</b>	<b>50,085</b>	<b>36,614</b>	<b>37,109</b>	<b>45,287</b>
Investments	9,169	10,086	11,094	12,204
Gross fixed assets	1,31,322	1,42,041	1,51,322	1,59,322
Less: Depreciation	-72,893	-81,073	-89,848	-99,101
Add: Capital WIP	3,607	1,603	1,603	1,603
Net fixed assets	58,429	60,969	61,473	60,221
<b>Total assets</b>	<b>1,71,807</b>	<b>1,81,305</b>	<b>1,81,483</b>	<b>1,96,549</b>
Current liabilities	40,713	37,929	31,303	35,006
Provisions	1,762	2,689	2,824	2,965
<b>Total current liabilities</b>	<b>42,476</b>	<b>40,618</b>	<b>34,127</b>	<b>37,971</b>
Non-current liabilities	760	-677	-677	-677
<b>Total liabilities</b>	<b>43,235</b>	<b>39,941</b>	<b>33,450</b>	<b>37,294</b>
Paid-up capital	399.5	399.5	399.5	399.5
Reserves & surplus	1,28,172	1,40,965	1,47,634	1,58,856
Shareholders' equity	1,28,571	1,41,364	1,48,033	1,59,255
<b>Total equity &amp; liabilities</b>	<b>1,71,807</b>	<b>1,81,305</b>	<b>1,81,483</b>	<b>1,96,549</b>

Ratios				
YE: Mar	FY19	FY20	FY21E	FY22E
EPS (INR)	169	182	139	161
PER (x)	13.5	12.6	16.5	14.2
Price/Book (x)	3.6	3.2	3.1	2.9
EV/EBITDA (x)	8.2	9.7	10.3	8.7
EV/Net sales (x)	1.2	1.3	1.4	1.2
RoE (%)	27	27	19	21
RoCE (%)	41	29	26	28
Fixed Asset turnover (x)	2.6	2.0	1.8	1.9
Dividend Yield (%)	3.8	3.9	3.9	3.9
Receivable (days)	31	20	26	26
Inventory (days)	14	16	12	12
Payable (days)	43	44	36	36
Net D/E ratio (x)	(0.4)	(0.6)	(0.5)	(0.5)

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

## Arihant Research Desk

Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880