

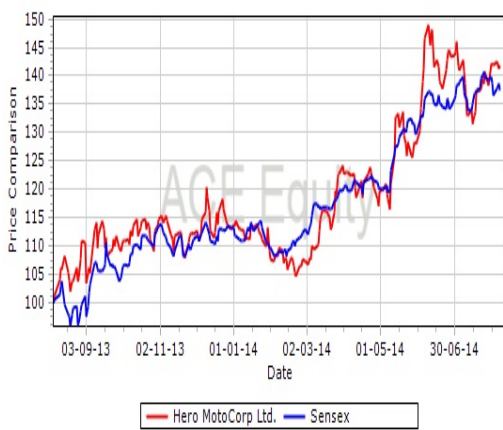
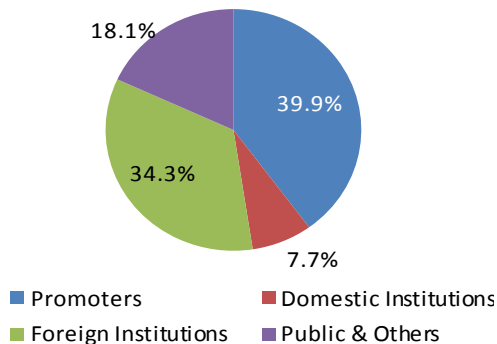
Driving in the fast lane

CMP: Rs 2,603
Target Price: Rs 2,648
Recommendation: Neutral

Stock Info	
BSE Group	A
BSE Code	500182
NSE Symbol	HEROMOTOCO
Bloomberg	HMCL IN
Reuters	HROM.BO
BSE Sensex	25,589
NSE Nifty	7,649

Market Info	
Market Capital	Rs 51,972 cr
Equity Capital	Rs 39.9 cr
Avg Trading Volume	3,92,450
52 Wk High / low	Rs 2,775/ 1,815
Face Value	Rs 2

Latest Shareholding Pattern (Jun'14)



7th August, 2014

Hero Motocorp net sales grew by 14.2% YoY to Rs 6,999 cr, on volume growth of 10%, while realizations grew by 3.9%. Volume growth was largely driven by strong scooter growth of 16.2%, while motorcycles growth recovered to 9.3%.

EBITDA margins declined by 140 bps to 13.5% on YoY basis as competitive pressures restricted significant price hikes. Margins were also impacted by anomaly in excise duty at Haridwar plant which currently enjoys exemptions from excise duty and accounts for 40% of total production. This anomaly arises from excise duty cut (from 12% to 8%) given to auto industry, however excise duty on input continues to remain at 12%. PAT grew marginally by 2.6% to Rs 563 crs on YoY basis.

Management commentary

- Higher growth 2QFY15 as festive season this year starts early.
- Margin improvement initiative saved Rs 32 crs/month during the quarter, however this is diluted by cost pressure of Rs 22cr/month. Management expects savings of Rs 50cr/month by Q4FY15.
- Impact of change in tax treatment on FMPs will nullify the investment allowance on capex.
- Lost market share in scooter segment due to higher competition from Honda and TVS, however this gap will close as Hero will be launching new models soon.
- Announced interim dividend of Rs 30 per share. Company will have 55-60% dividend payout policy for next couple of years.

> **OUTLOOK FOR NEXT 2 YEARS:** We remain optimistic on HMCL's domestic business outlook over FY15, due to expected revival of domestic economy. With two new launches (110cc scooter, 250cc premium motorcycle) we expect HMCL to prove its capabilities.

> **FINANCIALS, ESTIMATES & VALUATION:** We estimate Hero Moto's Revenue growth at a 2 year CAGR of 16%, expect EBITDA margins close to 15.5% and expect PAT growth at a 2 year CAGR of 25%.

> **Valuation:** The stock at Rs 2,603 trades at 14.1x our estimated FY16 EPS of Rs 165.5 per share. We assign a price target of Rs 2,648 at 16x FY16 EPS, and have "**Neutral**" rating on the stock.

Y/E March, (in Rs crore)	FY13	FY14	FY15E	FY16E
Net Sales	23,583	25,125	28,882	33,813
yoy%	0.9%	6.5%	15.0%	17.1%
Operating EBITDA	3,284	3,540	4,491	5,326
Operating EBITDA %	13.8%	14.0%	15.5%	15.7%
PAT	2,118	2,109	2,782	3,305
yoy%	-10.9%	-0.4%	31.9%	18.8%
EPS	106.1	105.6	139.3	165.5
P/E (x)	22.1	22.2	16.8	14.1

Source: Company data, Arihant Research



Quarterly P&L in Rs cr	Q1FY15	Q1FY14	yoy%	Q4FY14	qoq%
Volumes (in numbers)	17,15,254	15,59,282	10.0%	15,89,462	7.9%
Net Realization per unit	40,807	39,293	3.9%	40,616	0.5%
Net Sales	6,999	6,127	14.2%	6,456	8.4%
Other Operating Income	37	33	14.6%	57	-34.6%
Income from Operations	7,037	6,160	14.2%	6,513	8.0%
Materials Consumed	5,111	4,456	14.7%	4,680	9.2%
Employees Cost	268	222	20.9%	236	13.6%
Other Expenditure	711	567	25.3%	703	1.0%
Total Expenditure	6,090	5,244	16.1%	5,619	8.4%
Operating EBITDA	947	915	3.5%	894	5.9%
margin	13.5%	14.9%		13.7%	
Core EBITDA	910	883	3.1%	837	8.7%
margin	13.0%	14.4%		13.0%	
Depreciation and Amortization	292	274	6.2%	273	6.8%
Operating EBIT before Other Income & Excp Items	656	641	2.3%	621	5.5%
Other Income	113	112	0.4%	123	-8.3%
Interest	2.98	2.95	1.0%	3	1.7%
PBT before Exceptional Items	765	750	2.0%	741	3.2%
Exceptional item	0	0		0	
PBT	765	750	2.0%	741	3.2%
Tax Expense	203	202	0.6%	187	8.4%
Effective Tax Rate	26.5%	26.9%		25.2%	
Net Profit after Tax	563	549	2.6%	554	1.5%
EPS	28.2	27.5	2.6%	27.8	1.5%

Source: Company data, Arihant Research



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Stock Rating Scale

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

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