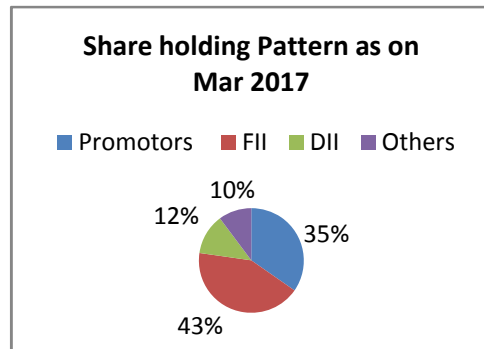




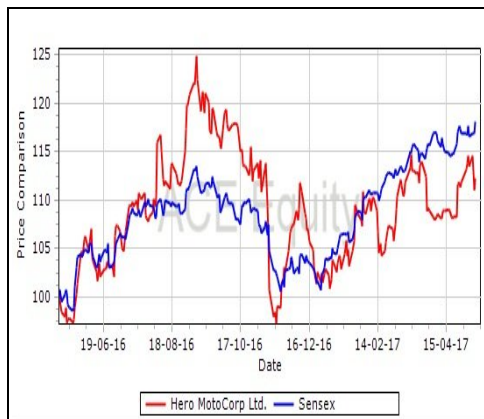
CMP: Rs 3,322
Target Price: Rs 3,632
Recommendation: HOLD

Stock Info	
BSE Group	A
BSE Code	500182
NSE Symbol	HEROMOTOCO
Bloomberg	HMCL IN
Reuters	HROM.BO
BSE Sensex	30,251
NSE Nifty	9,422

Market Info	
Market Capital	Rs 69,171 cr
Equity Capital	Rs 39.9 cr
Avg Trading Volume	4,16,730
52 Wk High / low	Rs 3,739/2,844
Face Value	Rs 2



Price Vs Sensex Chart



Hero Motocorp Ltd. revenue declined by 6.4% to Rs 6,915 cr from Rs 7,385Cr in the corresponding quarter of previous year. During quarter, company has sold 16.21 lakh units, declined by 5.8% on YoY basis and inclined by 10.1% on Q-o-Q basis. Hero Motocorp's strong point is the executive segment in the motorcycle market, but this is also the category that is increasingly being cannibalized by scooters, owing to similar price points. Company has continued to maintain leadership in Motorcycles segment.

Due to lower operating leverage, Operating EBITDA margins decreased by 185 bps to 13.8% on YoY basis which is lower than our expectation and EBITDA for the quarter stood at Rs 958 cr, Q4 profit declined by 11.8% to Rs.718 crore on YoY.

Other highlights

- Management expects high single digit growth for two-wheeler industry in FY18. However, it expects Hero Motocorp to grow by double digit.
- The growth trajectory has been the 125cc segment where the company now commands well over 50% market share which is contributed by Glamour and Super Splendor.
- Company is facing headwinds in export markets like Mexico, Columbia mainly due to dollar currency crisis. While, management expects good export growth from Sri Lanka, Argentina, Bangladesh, Nigeria, and Nepal.
- Management has given guidance to maintain EBITDA Margin between 14%-16% and capex about Rs2500cr in FY18.

> **Outlook for next two years:** We remain optimistic on Hero MotoCorp domestic business outlook over next 2 years, due to expected revival of domestic economy. We have modelled for 12% volume growth and 6% price realisation growth in FY18E and 12% volume growth and 4% price realization for FY19E.

> **Financial, Estimates :** We estimate Hero MotoCorp's Revenue growth of 19% in FY18E and 16% in FY19E, expect EBITDA margins close to 16% for FY18E and FY19E, expect PAT growth of 6% in FY18E and 19% in FY19E.

> **Valuation:** The stock at Rs 3,322 trades at 14.7x our estimated FY19E EPS of Rs 227 per share. We assign a price target of Rs 3,632 at 16x FY19 EPS, and have "HOLD" rating on the stock.

Y/E March, (in Rs crore)	FY16	FY17	FY18E	FY19E
Net Sales	28,160	28,585	34,051	39,472
yoy%	3.0%	1.5%	19.1%	15.9%
Operating EBITDA	4,447	4,576	5,448	6,473
Operating EBITDA %	15.5%	16.0%	15.7%	16.1%
PAT	3,132	3,546	3,798	4,523
yoy%	31.3%	13.2%	7.1%	19.1%
EPS	157	179	190	227
P/E (x)	18.8	18.6	17.5	14.7

Source: Company data, Aриhant Research

Quarterly P&L in Rs cr	Q4FY17	Q4FY16	yoy%	Q3FY17	qoq%
Volumes (in numbers)	16,21,805	17,21,240	-5.8%	14,73,548	10.1%
Net Realization per unit	42,639	42,906	-0.6%	42,387	0.6%
Net Sales	6,915	7,385	-6.4%	6,246	10.7%
Other Operating Income	0	127		119	
Income from Operations	6,915	7,512	-7.9%	6,365	8.7%
Materials Consumed	4,736	4,955	-4.4%	4,128	14.7%
Employees Cost	328	351		374	
Other Expenditure	893	1,031		783	
Total Expenditure	5,958	6,336	-6.0%	5,285	12.7%
Operating EBITDA	958	1,176	-18.6%	1,080	-11.3%
margin	13.85%	15.7%		17.0%	
Core EBITDA	958	1,049	-8.7%	961	-0.4%
margin	13.8%	14.2%		15.4%	
Depreciation and Amortization	135	115	17.2%	125	8.4%
Operating EBIT before Other Income & Excp Items	822	1,060	-22.5%	955	-13.9%
Other Income	118	102		132	
Interest	1.48	0.53		1.52	
PBT before Exceptional Items	939	1,162	-19.2%	1,085	-13.5%
Exceptional item	0	0		0	
PBT	939	1,162	-19.2%	1,085	-13.5%
Tax Expense	221	348		313	
Effective Tax Rate	23.6%	30.0%		28.9%	
Net Profit after Tax	718	814	-11.8%	772	-7.0%
EPS	35.9	40.8		38.7	

Source: Company data, Arian Research

Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY16	FY17	FY18E	FY19E
Net Sales	28,160	28,585	34,051	39,472
YoY%	3.0	1.5	19.1	15.9
Other Operating Income	439	-	681	789
Income from Operations	28,599	28,585	34,732	40,261
Materials Consumed	19,315	19,091	23,155	26,841
Total Expenditure	24,152	24,009	29,284	33,788
Operating EBITDA	4,447	4,576	5,448	6,473
Operating EBITDA margin %	15.8	16.0	16.0	16.4
Depreciation	441	502	601	683
Operating EBIT	4,006	4,074	4,848	5,790
Other Income	391	522	477	553
Interest	2	27	12	17
Exceptional Item	-	317	-	-
PBT	4,395	4,885	5,312	6,326
Tax Expense	1,262	1,339	1,514	1,803
Reported Net Profit	3,132	3,546	3,798	4,523
YoY%	31.3	13.2	7.1	19.1
Effective Tax Rate	28.7	27.4	28.5	28.5
Reported EPS	157	179	190	227

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY16	FY17	FY18E	FY19E
Operating Activities				
PBT	4,395	4,885	5,312	6,326
Add Depr + non op exp	441	502	601	683
Others	(176)	(516)	(351)	(376)
Total	4,660	4,872	5,562	6,634
Cash Taxes	1,262	1,339	1,514	1,803
Changes in Working Cap	(515)	(143)	(362)	(706)
Cash Flow from Operations	2,883	3,389	3,686	4,125
Investing Activities				
Change in investments	2,007	2,300	2,450	2,850
Capex	817	801	862	865
Cash Flow from Investing	(1,190.0)	(1,499.1)	(1,588.4)	(1,985.0)
Financing Activities				
Dividends + Taxes paid	1,728	1,896	2,109	2,109
Change in Non Curr Liab	2.2	27.3	11.9	16.6
Cash Flow from Financing	(1,730)	(1,924)	(2,121)	(2,125)
Opening Cash	98	60	27	4
Changes during year	(38)	(33)	(23)	15
Adj due to amalgamation/unpaid div	71.0	80.5	80.5	80.5
Closing Cash	131	108	85	100

Source: Company data, Arihant Research

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY16	FY17	FY18E	FY19E
Liabilities + Equity				
(a) Share capital	40	40	40	40
(b) Reserves and surplus	7,905	9,555	11,245	13,659
Shareholders' funds	7,945	9,595	11,285	13,699
Non-current liab & Prov	347	135	150	169
Current liabilities	4,049	4,744	5,839	6,849
Total - Equity and liabilities	12,341	14,473	17,274	20,717
Assets				
Non-current assets				
Fixed assets	4,442	5,536	6,690	7,998
Long Term Inv	1,019	1,142	1,370	1,644
Loans + Adv + Others	944	840	1,321	2,312
Non-current assets	6,406	7,517	9,381	11,954
Current assets				
Cash	131	108	85	100
Other Current Assets	5,804	6,848	7,808	8,663
Sub-total - Current assets	5,935	6,955	7,893	8,762
Total - Assets	12,341	14,473	17,274	20,717

Ratio Analysis

	FY16	FY17	FY18E	FY19E
Profitability				
Operating EBITDA%	15.8	16.0	16.0	16.4
Core EBITDA%	14.2	16.0	14.0	14.4
PAT%	11.1	12.4	11.2	11.5
ROAE%	43.2	40.4	36.4	36.2
Du Pont ROAE breakup				
PAT / Sales	11.0	12.4	10.9	11.2
Sales / Avg Total Assets	2.5	2.1	2.2	2.1
Avg Total Assets / Avg Eqty	1.6	1.5	1.5	1.6
ROE	43.2	40.4	36.4	36.2
Other Ratios				
Current Ratio	1.5	1.5	1.4	1.3
Long Term Debt / Equity	0.04	0.01	0.01	0.01
EPS	156.9	179.5	190.2	226.5
DPS	72.0	80.0	88.0	88.0
Dividend Payout ratio	45.9	44.6	46.3	38.9
P/E	18.8	18.6	17.5	14.7
BVPS	397.9	480.5	565.1	686.0
P/BV	7.4	7.0	5.9	4.9

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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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