## 3rd November 2017

#### CMP: Rs 3,709 Target Price: Rs 3,800 Recommendation: Netural

Stock Info			
BSE Group	А		
BSE Code	500182		
NSE Symbol	HEROMOTOCO		
Bloomberg	HMCL IN		
Reuters	HROM.BO		
BSE Sensex	33,573		
NSE Nifty	10,423		

Market Info				
Market Capital	Rs 74,330 cr			
Equity Capital	Rs 39.9 cr			
6M Avg Trading Volume	3,82,940			
<b>52 Wk High / low</b> Rs 4,091/2,849				
Face Value	Rs 2			

Share holding pattern as on June 17		
Promotors	34.6	
DII's	11.6	
FII's	42.1	
Others	11.7	
Face Value	Rs 2	





Hero Motocorp Ltd. revenue increased by 9% to Rs 8,362 cr from Rs 7,670 cr in the corresponding quarter of previous year. During quarter, company has registered sales of 20.22 lakh units, increase of 11% on YoY basis and by 9% 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 Motorcycle segment.

Operating EBITDA margins decreased by 20 bps to 17.4% on YoY and EBITDA for the quarter stood at Rs 1456 cr, Q2 PAT increased marginally by 0.6% to Rs.1010 cr on YoY basis.

# **Concall highlights:**

**Subdued Margins** 

- Revenues representation has changed due to GST related adjustments.
- Taxes/Duties such as service tax, NCCD and excise duty have been excluded from revenues and expenses (RM cost, other expenses).
- Haridwar plant duty benefits have been partially accrued in revenues.
- Company has accounted for 58% of the GST incentive in Haridwar plant pertaining to Central Government share of CGST/IGST in accordance with the "Scheme of Budgetary Support under GST" issued by Ministry of Commerce and Industry on October 05, 2017 and await state notification on the balance 42%.

### Demand:

- Festive season was strong, with double-digit growth in volumes.
- Urban demand has been strong since Q1FY18, while rural demand picked up in Q2FY18.
- New products such as premium motorcycle and scooters will be launched in H2FY18.
- Glamor model sales were impacted due to supply constraints in H1FY18. It is expected to pick up in H2FY18.
- Hero Fincorp financed 180,000 units in Q2FY18, implying 9% of sales. This number is expected to increase going ahead.
- Spare parts revenue was flat yoy, though higher by 18% qoq.
- The effective tax rate was higher on account of phasing out of investment allowance and reduction in allowable deduction of R&D expenditure.
- Dealer inventory post festive season stands at 4-6 weeks.
- Dealer network stands at over 6,000. Focus has been on refreshing dealer portfolio.
- Expiry of Haridwar plant tax benefits by Mar'18 would impact margins by 100bps. This negative impact would be partially offset by tax benefits from new plants. Cumulative capex for FY18-19 is expected at Rs2500 cr

> Valuation: The stock is currently trading at Rs 3,733 at 19.2 x our estimated FY19E EPS of Rs 200 per share. We assign a price target of Rs 3800 at 19x FY19 EPS, and have "Neutral" rating on the stock.

# Sector -Auto

Y/E March, (in Rs crore)	FY17	FY18E	FY19E
Net Sales	28,475	31,292	34,806
уоу%	1.1%	9.9%	11.2%
Operating EBIDTA	4,635	5,007	5,708
Operating EBITDA %	16.3%	15.7%	16.1%
РАТ	3,377	3,514	3,995
уоу%	7.8%	4.0%	13.7%
EPS	168	176	200
P/E (x)	22.1	21.2	18.7

Quarterly P&L in Rs cr	Q2FY18	Q1FY18	Q2FY17	ΥοΥ%	QoQ%
Volumes (in numbers)	20,22,805	18,53,647	18,23,498	11%	9%
Net Realization per unit	41,339	43,005	42,059	-2%	-4%
NetSales	8,362	7,972	7,670	9%	5%
Other Operating Income	0	0	127		
Income from Operations	8,362	7,972	7,796	7%	5%
	0				
Materials Consumed	5,698	5,394	5,183	10%	6%
Employees Cost	384	374	357	7%	3%
Other Expenditure	825	908	887	-7%	-9%
Total Expenditure	6,906	6,676	6,427	7%	3%
Operating EBITDA	1,456	1,296	1,369	6%	12%
margin	17.4%	16.26%	17.6%	-1%	7%
Core EBITDA	1,456	1,296	1,242	17%	12%
margin	0	16.3%	16.2%	7%	7%
Depreciation and Amortization	136	133	119	14%	2%
	0				
Operating EBIT before Other Income & Excp Items	1,320	1,163	1,250	6%	13%
Other Income	118	132	152	-23%	-11%
Interest	2	1.58	1.55	1%	-1%
PBT before Exceptional Items	1,436	1,293	1,400	3%	11%
Exceptional item	0	0	0		
РВТ	1,436	1,293	1,400	3%	11%
Tax Expense	425	379	396	7%	12%
Effective Tax Rate	30%	29.3%	28.3%	5%	1%
Net Profit after Tax	1,010	914	1,004	0.6%	11%
EPS	50.6	45.8	50.3	0.6%	11%

Profit and Loss Account, Year Ending March			
Particulars, in Rs crore	FY17	FY18E	FY19E
Net Sales	28,475	31,292	34,806
ΥσΥ%	1.1	9.9	11.2
Other Operating Income	-	626	696
Income from Operations	28,475	31,918	35,502
Materials Consumed	19,012	21,279	23,668
Total Expenditure	23,840	26,911	29,794
Operating EBITDA	4,635	5,007	5,708
Operating EBITDA margin %	16.3	16.0	16.4
Depreciation	493	601	683
Operating EBIT	4,142	4,406	5,025
Other Income	522	516	574
Interest	6	8	11
Exceptional Item	-	-	-
РВТ	4,658	4,914	5,588
Tax Expense	1,281	1,401	1,593
Reported Net Profit	3,377	3,514	3,995
<b>ΥοΥ%</b>	7.8	4.0	13.7
Effective Tax Rate	27.5	28.5	28.5
Reported EPS	168	176	200

Cash Flow Statement, Year Ending March			
Particulars, in Rs crore	FY17	FY18E	F <b>Y19</b> E
Operating Activities			
РВТ	4,658	4,914	5,588
Add Depr + non op exp	493	601	683
Others	173	(351)	(466)
Total	5,325	5,164	5,806
Cash Taxes	1,281	1,401	1,593
Changes in Working Cap	(153)	574	917
Cash Flow from Operations	4,028	4,338	5,130
Investing Activities			
Change in investments	3,095	4,065	6,000
Capex	1,151	1,816	2,865
Cash Flow from Investing	(1,943.9)	(2,249.1)	(3,135.0)
Financing Activities			
Dividends + Taxes paid	2,091	2,044	1,959
Change in Non Curr Liab	6.1	8.1	11.3
Cash Flow from Financing	(2,096)	(2,052)	(1,970)
Opening Cash	27	15	52
Changes during year	(12)	37	25
Adj due to			
amalgamation/unpaid div			
Closing Cash	15	52	77

Liabilities + Equity(a) Share capital4040(b) Reserves and surplus10,07110,346(b) Reserves and surplus10,07110,346Shareholders' funds10,01110,386Current liab & Prov490137Current liabilities4,0935,132Total - Equity and liabilities14,69415,655Total - Equity and liabilities14,69415,655Non-current assets4,5816,690Fixed assets4,5816,690Non-current assets1,3491,619Loans + Adv + Others1,3491,619Non-current assets6,6929,341Loans + Adv + Others1,6327,703Current assets7,6597,054Current assets7,6597,054Current Assets7,6597,054Sub-total - Current assets7,7296,314Core E Larrent Assets7,72916,314Core E BITDA%16,6316,04Core EBITDA%11,1911,12Core EBITDA%11,1911,10Core EBITDA%11,1911,10Core EBITDA%11,1911,10Sales / Avg Total Assets2,11,1Core EAsi1,11,1Sales / Avg Total Assets2,11,1Core EBITDA%11,11,1Core EBITDA%11,11,1Core EBITDA%11,11,1Core EBITDA%1,11,1Sales / Avg Total Assets2,		40		FY19E
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Loans  + Adv + Others  1,031  1,032  2,168    Non-current assets  6,962  9,341  11,400    Current assets  7  7    Gash  15  52  77    Other Current Assets  7,659  7,054  7,109    Sub-total - Current assets  7,732  6,314  6,786    Total - Assets  14,694  15,655  18,186    Etito Analysis    FY17  FY18E  FY19E    Profitability  16.3  16.0  16.4    Core EBITDA%  16.3  14.0  14.4    PAT%  11.9  11.2  11.5    ROAE%  37.4  34.3  35.3    Du Pont ROAE breakup  11.9  11.0  11.3    Sales / Avg Total Assets  2.1  1.9  1.7    Avg Total Assets / Avg Eqty  1.5  1.6  1.8    ROE  37.4  34.3  35.3    Current Ratio  1.9  1.7  1.7	Fixed assets	4,581	6,690	7,290
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ProfitabilityOperating EBITDA%16.316.016.4Core EBITDA%16.314.014.4PAT%11.911.211.5ROAE%37.434.335.3Du Pont ROAE breakup10.011.0PAT / Sales11.911.0Sales / Avg Total Assets2.11.9Avg Total Assets / Avg Eqty1.51.6ROE37.434.3Other Ratios11.91.7Current Ratio1.91.4Long Term Debt / Equity0.050.01DPS80.088.088.0	. Ki		EVADE	EVIOE
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Core EBITDA%  16.3  14.0  14.4    PAT%  11.9  11.2  11.5    ROAE%  37.4  34.3  35.3    Du Pont ROAE breakup  11.9  11.0  11.3    PAT / Sales  11.9  11.0  11.3    Sales / Avg Total Assets  2.1  1.9  1.7    Avg Total Assets / Avg Eqty  1.5  1.6  1.8    ROE  37.4  34.3  35.3    Other Ratios  1.5  1.6  1.8    Current Ratio  1.9  1.7  1.6  1.8    Dug Term Debt / Equity  0.05  0.01  0.01    EPS  168.4  176.0  200.1    DPS  80.0  88.0  88.0		16.3	16.0	16.4
PAT%11.911.211.5ROAE%37.434.335.3ROAE%37.434.335.3Du Pont ROAE breakupPAT / Sales11.911.011.3Sales / Avg Total Assets2.11.91.7Avg Total Assets / Avg Eqty1.51.61.8ROE37.434.335.3Other Ratios1.91.41.2Long Term Debt / Equity0.050.010.01EPS38.088.088.0		16.3	14.0	14.4
ROAE%37.434.335.3Du Pont ROAE breakupPAT / Sales11.911.011.3Sales / Avg Total Assets2.11.91.7Avg Total Assets / Avg Eqty1.51.61.8ROE37.434.335.3Other Ratios1.91.7Current Ratio1.91.41.2Long Term Debt / Equity0.050.010.01DPS80.088.088.0				
PAT / Sales  11.9  11.0  11.3    Sales / Avg Total Assets  2.1  1.9  1.7    Avg Total Assets / Avg Eqty  1.5  1.6  1.8    ROE  37.4  34.3  35.3    Other Ratios	ROAE%			
PAT / Sales  11.9  11.0  11.3    Sales / Avg Total Assets  2.1  1.9  1.7    Avg Total Assets / Avg Eqty  1.5  1.6  1.8    ROE  37.4  34.3  35.3    Other Ratios				
Sales / Avg Total Assets  2.1  1.9  1.7    Avg Total Assets / Avg Eqty  1.5  1.6  1.8    ROE  37.4  34.3  35.3    Other Ratios  1.9  1.7    Current Ratio  1.9  1.4  1.2    Long Term Debt / Equity  0.05  0.01  0.01    EPS  168.4  176.0  200.1    DPS  80.0  88.0  88.0	Du Pont ROAE breakup			
Avg Total Assets / Avg Eqty  1.5  1.6  1.8    ROE  37.4  34.3  35.3    Other Ratios  100  100  100    Other Ratios  1.9  1.4  1.2    Long Term Debt / Equity  0.05  0.01  0.01    EPS  168.4  176.0  200.1    DPS  80.0  88.0  88.0	PAT / Sales	11.9	11.0	11.3
Control  37.4  34.3  35.3    Other Ratios  100  100  100    Current Ratio  1.9  1.4  1.2    Long Term Debt / Equity  0.05  0.01  0.01    EPS  168.4  176.0  200.1    DPS  80.0  88.0  88.0	Sales / Avg Total Assets	2.1	1.9	1.7
Other Ratios  1.0  1.2    Current Ratio  1.9  1.4  1.2    Long Term Debt / Equity  0.05  0.01  0.01    EPS  168.4  176.0  200.1    DPS  80.0  88.0  88.0	Avg Total Assets / Avg Eqty	1.5	1.6	1.8
Current Ratio  1.9  1.4  1.2    Long Term Debt / Equity  0.05  0.01  0.01    EPS  168.4  176.0  200.1    DPS  80.0  88.0  88.0	ROE	37.4	34.3	35.3
Current Ratio  1.9  1.4  1.2    Long Term Debt / Equity  0.05  0.01  0.01    EPS  168.4  176.0  200.1    DPS  80.0  88.0  88.0				
Long Term Debt / Equity  0.05  0.01  0.01    EPS  168.4  176.0  200.1    DPS  80.0  88.0  88.0	Other Ratios			
EPS  168.4  176.0  200.1    DPS  80.0  88.0  88.0	Current Ratio	1.9	1.4	1.2
DPS 80.0 88.0 88.0	Long Term Debt / Equity	0.05	0.01	0.01
	EPS	168.4	176.0	200.1
Dividend Payout ratio A7 5 50.0 44.0	DPS	80.0	88.0	88.0
omucia rayout iauo 97.3 30.0 44.0	Dividend Payout ratio	47.5	50.0	44.0
P/E 22.1 21.2 18.7	P/E	22.1	21.2	18.7
BVPS 506.4 520.1 614.6	BVPS	506.4	520.1	614.6
P/BV 7.3 7.1 6.0	P/BV	7.3	7.1	6.0

# Sector -Auto



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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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### Sector - Auto

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