

September 10, 2018

Management Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	3,824		3,824	
Sales (Rs. m)	3,69,469	4,08,892	3,69,469	4,08,892
% Chng.	-	-	-	-
EBITDA (Rs. m)	57,727	64,567	57,727	64,567
% Chng.	-	-	-	-
EPS (Rs.)	191.2	212.5	191.2	212.5
% Chng.	-	-	-	-

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	285	322	369	409
EBITDA (Rs. bn)	46	53	58	65
Margin (%)	16.3	16.4	15.6	15.8
PAT (Rs. bn)	34	37	38	42
EPS (Rs.)	169.1	185.1	191.2	212.5
Gr. (%)	6.8	9.5	3.3	11.1
DPS (Rs.)	87.0	85.0	105.0	115.0
Yield (%)	2.7	2.6	3.2	3.5
RoE (%)	35.7	33.8	30.2	29.3
RoCE (%)	30.2	29.9	28.4	28.1
EV/Sales (x)	2.1	1.9	1.6	1.4
EV/EBITDA (x)	13.1	11.3	10.1	8.8
PE (x)	19.4	17.7	17.1	15.4
P/BV (x)	6.5	5.6	4.9	4.2

Key Data

HROM.BO | HMCL IN

52-W High / Low	Rs.4,025 / Rs.3,034
Sensex / Nifty	37,922 / 11,438
Market Cap	Rs.655bn / \$ 9,035m
Shares Outstanding	200m
3M Avg. Daily Value	Rs.2864.21m

Shareholding Pattern (%)

Promoter's	34.63
Foreign	39.61
Domestic Institution	14.38
Public & Others	11.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.2)	(8.6)	(17.1)
Relative	(1.4)	(19.7)	(30.8)

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New model launches to hold key

In our recent interaction with the Hero MotoCorp management, management indicated their confidence of achieving a double digit volume growth for FY19 mainly on account of favorable macros, new launches and strong brand presence in core segments. Although company's core commuter segment is holding up despite aggressive pricing from competitors, further market share gains will largely depend on the success of new model launches in the white spaces (125cc Scooter and 200cc premium motorcycle) of its product portfolio. We are impressed by Hero's market share resiliency in the 75-110cc motorcycle segment and are confident that the company will be able to maintain its dominant position in the medium-to-long-term, as we have seen in the past that pricing game alone is not enough and consumers stick to brands with a better re-sale value in this segment. However, the success of launches in the 125cc scooter and the premium motorcycle (200cc) segment would be key and provide much needed market share gains to the company and change 7its perception of largely being a commuter segment player. We estimate 9% volume and EPS CAGR of 7% over FY18-20. We maintain 'Accumulate' with a price target of Rs3,824 based on 18x Mar'20 EPS.

- New scooter launches to aid volumes:** Hero MotoCorp plans to launch two scooters in the 125cc segment before the festive season (Maestro Edge and Duet 125cc) to address the fastest growing 125cc scooter segment (~20% of scooter market growing at ~60% YoY in Q1FY19). With no presence in the 125cc, Hero's overall scooter market share has declined by ~300bp to 10%, while in the 110cc scooter segment the market share has dipped by ~100bp YoY to 13%.
- Premium motorcycle to create its own space:** The company aims to launch a premium segment motorcycle in FY19 (200cc) with an aim of capturing customers who are looking at more than 160cc motorcycle offering for a price lesser than 200cc bike offerings. It aims to position Xtreme 200R by providing customers with higher cc with ABS technology, comfortable riding position at a slightly premium price to 160cc. The premium segment motorcycles would also be launched before the festival season.
- Pricing action alone does not help:** In response to the recent strategy of Bajaj Auto in the entry segment, management reiterated its focus on brands to drive volumes as that is the key driver for sustainable market share gains and despite heavy discounting by competition retails for both July and August have been in double digits. In its exhaustive inhouse user survey it has found that the top 5 two-wheeler buying factors are a) mileage; b) strength and durability; c) popular brand; d) styling/ design; e) total cost of ownership.

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	2,85,005	3,22,305	3,69,469	4,08,892
YoY gr. (%)	0.2	13.1	14.6	10.7
Cost of Goods Sold	1,90,373	2,18,346	2,52,244	2,79,578
Gross Profit	94,632	1,03,959	1,17,225	1,29,314
Margin (%)	33.2	32.3	31.7	31.6
Employee Cost	13,960	15,401	17,698	19,615
Other Expenses	34,324	35,755	41,800	45,132
EBITDA	46,348	52,802	57,727	64,567
YoY gr. (%)	3.7	13.9	9.3	11.8
Margin (%)	16.3	16.4	15.6	15.8
Depreciation and Amortization	4,927	5,556	6,913	7,730
EBIT	41,421	47,246	50,814	56,836
Margin (%)	14.5	14.7	13.8	13.9
Net Interest	61	63	54	45
Other Income	5,224	5,258	5,395	5,602
Profit Before Tax	46,585	52,442	56,155	62,394
Margin (%)	16.3	16.3	15.2	15.3
Total Tax	12,813	15,468	17,970	19,966
Effective tax rate (%)	27.5	29.5	32.0	32.0
Profit after tax	33,771	36,974	38,186	42,428
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	33,771	36,974	38,186	42,428
YoY gr. (%)	6.8	9.5	3.3	11.1
Margin (%)	11.8	11.5	10.3	10.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	33,771	36,974	38,186	42,428
YoY gr. (%)	6.8	9.5	3.3	11.1
Margin (%)	11.8	11.5	10.3	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	33,771	36,974	38,186	42,428
Equity Shares O/s (m)	200	200	200	200
EPS (Rs)	169.1	185.1	191.2	212.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	1,03,772	1,11,344	1,27,028	1,39,528
Tangibles	67,731	74,051	88,589	1,01,089
Intangibles	36,041	37,293	38,439	38,439
Acc: Dep / Amortization	59,816	64,799	71,711	79,442
Tangibles	24,624	29,193	36,105	43,835
Intangibles	35,192	35,606	35,606	35,606
Net fixed assets	43,956	46,545	55,317	60,086
Tangibles	43,107	44,859	52,484	57,254
Intangibles	849	1,687	2,833	2,833
Capital Work In Progress	4,651	3,184	-	-
Goodwill	-	-	-	-
Non-Current Investments	13,974	19,798	19,798	19,798
Net Deferred tax assets	(4,143)	(5,117)	(5,117)	(5,117)
Other Non-Current Assets	9,831	9,379	9,379	9,379
Current Assets				
Investments	45,409	55,911	65,911	75,911
Inventories	6,563	8,236	9,464	10,489
Trade receivables	15,619	15,202	17,468	19,361
Cash & Bank Balance	1,367	1,413	4,551	10,558
Other Current Assets	3,883	2,050	2,050	2,050
Total Assets	1,47,567	1,68,048	1,90,367	2,14,162
Equity				
Equity Share Capital	399	399	399	399
Other Equity	1,00,714	1,17,289	1,34,460	1,53,923
Total Network	1,01,113	1,17,689	1,34,860	1,54,322
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	753	1,149	1,249	1,349
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	32,473	33,188	38,136	42,269
Other current liabilities	8,461	10,245	10,345	10,445
Total Equity & Liabilities	1,47,567	1,68,048	1,90,367	2,14,162

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	46,585	52,442	56,155	62,394
Add. Depreciation	4,927	5,556	6,913	7,730
Add. Interest	61	63	54	45
Less Financial Other Income	5,224	5,258	5,395	5,602
Add. Other	(3,629)	(3,423)	(46)	-
Op. profit before WC changes	47,943	54,637	63,076	70,169
Net Changes-WC	5,164	(27)	1,554	1,314
Direct tax	(10,895)	(14,495)	(17,970)	(19,966)
Net cash from Op. activities	42,212	40,116	46,660	51,517
Capital expenditures	(11,636)	(6,679)	(12,500)	(12,500)
Interest / Dividend Income	-	-	-	-
Others	(13,088)	(16,354)	(10,000)	(10,000)
Net Cash from Inv. activities	(24,725)	(23,032)	(22,500)	(22,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(17,373)	(16,975)	(20,969)	(22,966)
Interest paid	(61)	(63)	(54)	(45)
Others	-	-	-	-
Net cash from Fin. activities	(17,434)	(17,038)	(21,022)	(23,010)
Net change in cash	54	46	3,137	6,007
Free Cash Flow	30,576	33,437	34,160	39,017

Source: Company Data, PL Research

Quarterly Financials (Rs m)

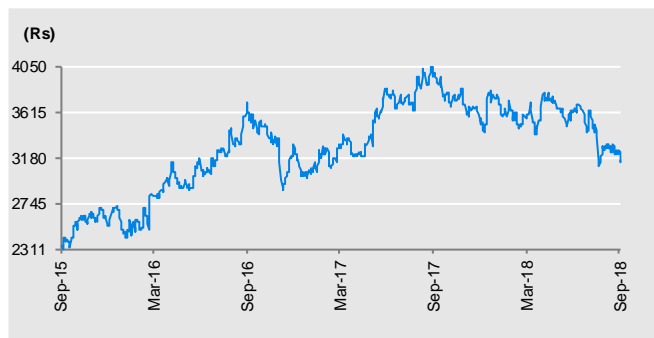
Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net Revenue	83,620	73,142	85,640	88,098
YoY gr. (%)	7.3	14.9	23.8	10.5
Raw Material Expenses	56,981	49,307	57,931	61,650
Gross Profit	26,639	23,835	27,710	26,448
Margin (%)	31.9	32.6	32.4	30.0
EBITDA	14,557	11,580	13,706	13,773
YoY gr. (%)	12.3	(20.5)	18.4	0.5
Margin (%)	17.4	15.8	16.0	15.6
Depreciation / Depletion	1,360	1,383	1,483	1,482
EBIT	13,197	10,197	12,223	12,291
Margin (%)	15.8	13.9	14.3	14.0
Net Interest	16	16	15	21
Other Income	1,176	1,100	1,665	1,157
Profit before Tax	14,357	11,282	13,872	13,427
Margin (%)	17.2	15.4	16.2	15.2
Total Tax	4,252	3,227	4,198	4,336
Effective tax rate (%)	29.6	28.6	30.3	32.3
Profit after Tax	10,105	8,054	9,674	9,092
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	10,105	8,054	9,674	9,092
YoY gr. (%)	0.6	4.3	34.8	(0.5)
Margin (%)	12.1	11.0	11.3	10.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,105	8,054	9,674	9,092
YoY gr. (%)	0.6	4.3	34.8	(0.5)
Margin (%)	12.1	11.0	11.3	10.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,105	8,054	9,674	9,092
Avg. Shares O/s (m)	200	200	200	200
EPS (Rs)	50.6	40.3	48.4	45.5

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	169.1	185.1	191.2	212.5
CEPS	193.8	213.0	225.8	251.2
BVPS	506.3	589.3	675.3	772.8
FCF	153.1	167.4	171.1	195.4
DPS	87.0	85.0	105.0	115.0
Return Ratio(%)				
RoCE	30.2	29.9	28.4	28.1
ROIC	33.3	33.2	31.8	33.4
RoE	35.7	33.8	30.2	29.3
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.5)	(0.6)
Net Working Capital (Days)	(13)	(11)	(11)	(11)
Valuation(x)				
PER	19.4	17.7	17.1	15.4
P/B	6.5	5.6	4.9	4.2
P/CEPS	184.3	202.5	214.7	238.8
EV/EBITDA	13.1	11.3	10.1	8.8
EV/Sales	2.1	1.9	1.6	1.4
Dividend Yield (%)	2.7	2.6	3.2	3.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-17	Accumulate	4,160	3,704
2	01-Nov-17	Accumulate	4,302	3,816
3	10-Jan-18	Accumulate	4,302	3,752
4	06-Feb-18	Accumulate	4,104	3,543
5	13-Apr-18	Accumulate	4,104	3,730
6	02-May-18	Accumulate	3,980	3,662
7	11-Jun-18	Accumulate	3,980	3,662
8	10-Jul-18	Accumulate	3,980	3,448
9	26-Jul-18	Accumulate	3,824	3,110

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	146	111
2	Atul Auto	Accumulate	397	394
3	Bajaj Auto	Reduce	2,573	2,684
4	Bharat Forge	Accumulate	760	620
5	CEAT	Accumulate	1,451	1,324
6	Eicher Motors	Accumulate	30,296	27,439
7	Exide Industries	Accumulate	282	271
8	Hero Motocorp	Accumulate	3,824	3,110
9	Mahindra & Mahindra	BUY	1,156	932
10	Maruti Suzuki	BUY	10,705	9,396
11	Motherson Sumi Systems	Accumulate	373	293
12	Tata Motors	BUY	352	264
13	TVS Motors	Accumulate	605	549
14	Wabco India	Accumulate	7,111	6,698

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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