

## HEROMOTOCO - False Start

Hero Moto Corp Ltd missed street's estimates for the fourth straight quarter in a row. Company announced its 3QFY13 results with net sales inline with street's expectation up 2 % YoY but the profit after tax is far below than what street has expected. The PAT for the company has fallen by 20 % YoY.

Company's net sales for 3QFY13 came at Rs 6151 Cr which is almost flat due to lower to muted 2W sales over a period of time. The lower volumes can be attributed to weak sentiments coupled by increased competition from erstwhile partner Honda and Bajaj Auto. The 2W volumes for 3QFY13 came at 1.57 million which is down by 1 % YoY though has increased by 18 % QoQ due to lower base effect in preceding quarter. In 125 CC segment where company has its presence with Passion brand was challenged by Honda's Dream Yuga and Bajaj's Discover 125.

The operating EBITDA of the company stands at Rs 779 Cr verses was Rs 943 Cr in 3QFY12. The EBITDA margin of the company came at 12.6%. The company has a big drop on EBITDA margin front. It has lost 128 bps sequentially on QoQ and 305bps YoY. The management in its conference call has attributed rise in other expenses for such a drastic fall in OPM. Further management has said rise in advertisement and marketing cost led to higher other expenses which ate operating EBITDA. Management has also have quoted change in product mix for fall of EBITDA margins.

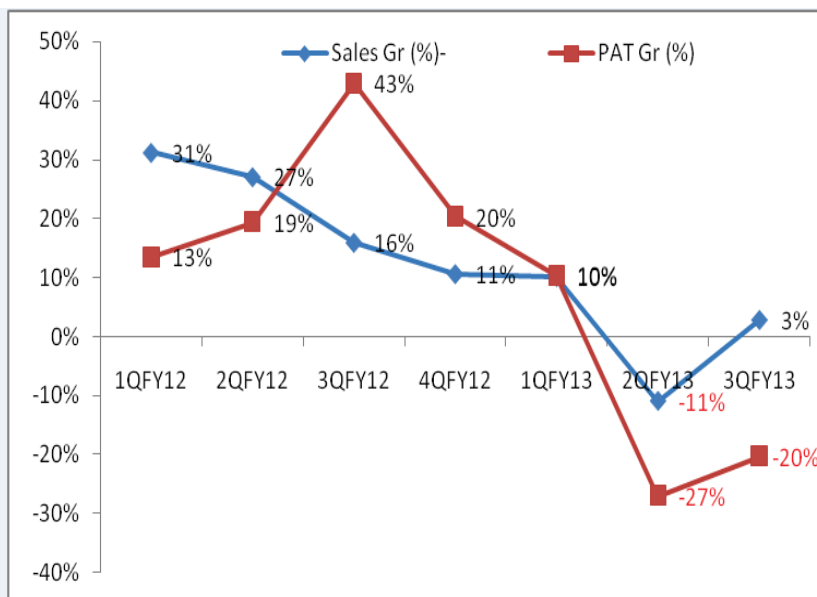
The PAT of the company for 3QFY13 declines by 20 % YoY at Rs 488 Cr much lower than street expectation. The EBIT figures for the quarter are much lower hence the PAT.

The average realization per vehicles for the quarter stands at Rs 39333 while it was Rs 37951 for 3QFY12. The average realization per vehicle is up both on YoY and QoQ basis. Company's domestic two-wheeler sales fell 2% in the first nine months of the fiscal year that began in April, against a 4.1% rise in overall industry sales, as per data released from the Society of Indian Automobile Manufacturers (SIAM).

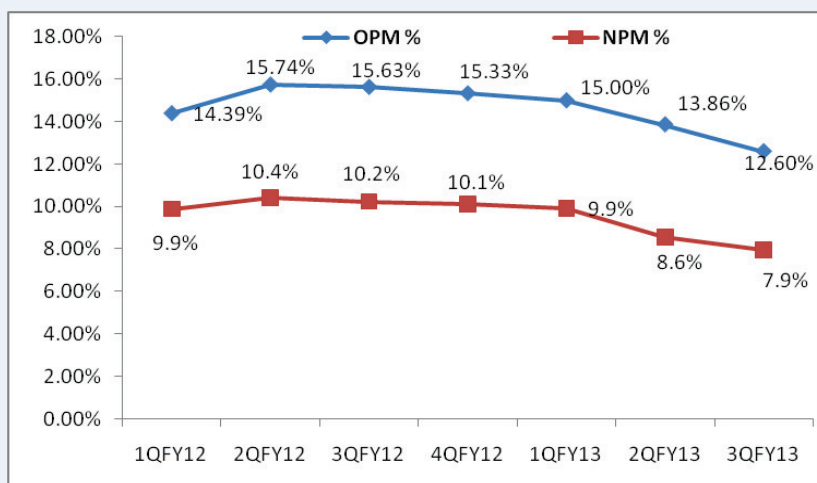
Management is quite optimistic for 4QFY13 and onwards. Company is expecting some improvements in margins on the back of lower other expenses and with improvements in Yen regime. Company hopes the brand building will further push the volumes up going forward.

According to news in media Company has recently started its construction work at Neemrana facility, Rajasthan. This facility would also accommodate its global parts centre. The company will be investing Rs 550 crore into this project and the facility will be operational by the end of financial year 2013-14. The Neemrana facility suppose to having an annual capacity of 750,000 units per annum.

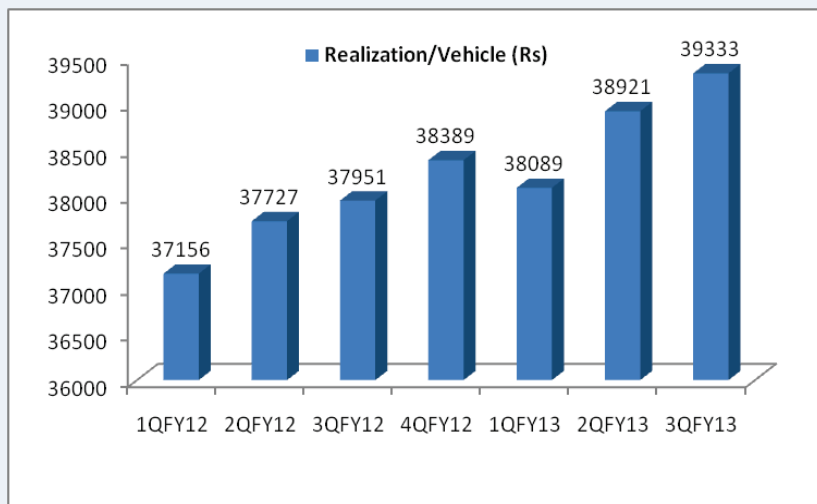
At current market price of Rs 1823 the stock is trading at 16x of FY14E PE and with post management commentary we donot see much upside to stock. Remain Underperform with a target price of Rs 1700.



(Source: Company/Eastwind)



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