

## Hero Motocorp Limited

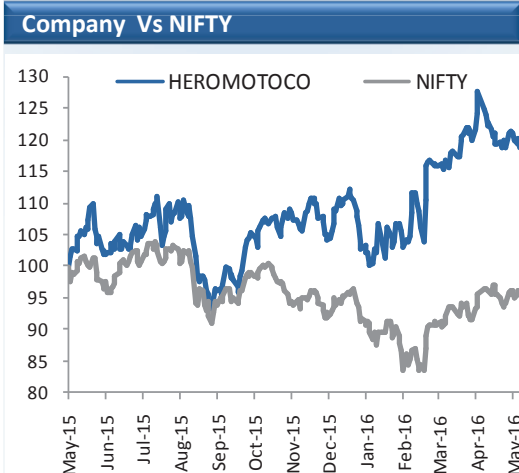
20-May-16

Result Update	
CMP	2890
Target Price	3179
Previous Target Price	
Upside	10%
Change from Previous	-

Market Data	
BSE Code	500182
NSE Symbol	HEROMOTOCO
52wk Range H/L	
Mkt Capital (Rs Cr)	57,716
Av. Volume	32325
Nifty	7783

Stock Performance			
	1Month	1Year	YTD
Absolute	-3.5	14.5	17.3
Rel.to Nifty	-2.9	19.2	22.7

Share Holding Pattern-%			
	Q4FY16	Q3FY16	Q2FY16
Promoter	34.6	34.6	34.6
Public	65.4	65.4	65.4
Others			
Total	100.0	100.0	100.0



The company has reported better set of numbers for 4QFY16 led by high single digit volume growth. The important factors which led to volume growth were- high demand from urban areas, marriage season shifted to March and festivals during the quarter. Going forward the management is expecting middle single digit growth for first half. But as IMD has indicated better monsoon for FY17 so we are expecting better second half for Hero motocorp. Secondly as hero is working on strengthening its international business which will expected to led better exports going forward.

### 4QFY16 & FY16 Results Update

>>Revenue grew 10.6% YoY to INR7512 crore in 4QFY16 , which is led by volume growth of 9.3%YoY. Scooter demand grew by 34% YoY.

>>Realisation grew by 1.2% YoY due to higher sales of spare parts and it grew by 16% in FY16. Management expects 14-17 percent growth in spare parts in next 2 to 3 years.

>>Gross margin improved by 425 bps YoY to 34% driven by cost cutting initiative LEAP and lower commodity price benefit.

>>EBITDA margin restricted to 15.7%, by higher other expenses which was higher due to start of R&D center in Rajasthan.

>>Tax rate was 30% higher in the quarter because the dependence on Haridwar plant is reducing, which is under excise benefit. It has reduced to 38%. HMCL's PAT grew by 70.9% YoY to INR 814 crore in 4QFY16..

>>HMCL reported annual sales of INR 28,614 crore and INR 3,094 crore PAT in FY16.

### Outlook and Valuation

Hence considering better expected monsoon, better reported volume growth and focus towards strengthening presence in international market we have 'BUY' rating on this stock with the price of Rs. 3179.

	Rs. In crore				
Financials	Q4FY16	Q3FY16	Q4FY15	QoQ	YoY
Sales	7512	7295	6794	3.0%	10.6%
EBITDA	1176	1140	838	3.1%	40.2%
Net Profit	814	796	477	2.3%	70.9%
EBIDTA%	15.7%	15.6%	12.3%		
PAT %	10.8%	10.9%	7.0%		

(Source: Company/Eastwind)

## Investment Argument

>>IMD's forecast on better than average monsoon in 2016 is a good news for two wheeler companies specially Hero motocorp. Hero motocorp gets 60% of its revenue from rural market. We expect that better monsoon will boost company's sales in second half of the year.

>>The company has strong balance sheet with approximately negligible debt. It has approx. Rs.3400 crore cash in its book which gives scope of further growth in terms of inorganic or capacity expansion.

>>HMCL has increased its R&D expenditure to develop technologically advanced in house products. R&D team will focus on premium products where Hero has minimal presence and this segment has huge growth potential. Hero has only 6% market share in this segment.

## Management Highlight

### Chittoor Plant

>>The two-wheeler giant will commence production of 5 lakh units (per annum) in the first phase by December 2018 with an investment of Rs 800 crore.(Chittoor Plant, Andhra Pradesh). It will add another 5 lakh units to its production capacity in the second phase by December 2020, and an additional 8 lakh units in the third phase by December 2023 with an investment of Rs 800 crore for both the phases. HMCL will provide employment to 1,500 people in the first phase and another 3,500 in the subsequent phases.

>>Company is also setting up Ancillary units, which are expected to commence production in the first phase by December 2019 with an investment of Rs 400 crore. Another Rs 600 crore each would be invested for the next two phases by December 2021 and 2024, respectively.

>> Capex guidance for FY17: Rs 1100 to 1300 crore

>> 15% EBITDA margin guidance in FY17

>> Other income for FY17 would be higher by 8-9 percent on an average.

>> The tax benefit for plants in Rajasthan and Gujarat will last for 7 years; and the benefit is restricted to the extent of investment

>> Scooters to continue outpace motorcycle growth going forward in FY17.

>> Low to middle single digit volume growth in H1FY17 and second half is expected to be better depending on the monsoon

>> Other expenses: Revenue expenditure in the range of 1 to 1.5 percent and ad expenses to remain normal in Q1&Q2FY17

>> Inventory level: 5 to 5.5 weeks

>> Scooter capacity will be 125000 units per month from May 2016 onwards

>> Effective tax rate for FY17 will be slightly higher than FY16

## Plant Details

Plant Location	Capacity
Haridwar	3060000
Gurgaon	2340000
Dharuhera	2340000
Neemrana	450000
Halol	1800000

>>Gujarat Plant- capacity expansion will include an initial capacity of 1.2 million (mn) units (phase 1: 0.75 mn units by Q1FY17; phase 2: 0.45 mn units by FY17 end) & a final addition of 0.6 mn (phase 3) by FY18 beginning.

>>The Haridwar operations currently contribute towards 38% of HMCL's volumes. Once the excise benefits expire in FY18 end, there will be a 100 bps impact on the EBITDA margins.

## Financials Snap Shot

### INCOME STATEMENT

	FY13	FY14	FY15	FY16
Revenue (Net of Excise D	23,768	25,275	27,538	28,614
Other Income	398	444	492	389
Total Revenue	24,166	25,720	28,030	29,003
COGS	17,398	18,230	19,715	19,313
GPM	73%	72%	72%	67%
Other Expenses	2,265	2,576	3,147	3,575
EBITDA	3,284	3,539	3,497	4,382
EBITDA Margin (%)	14%	14%	13%	15%
Depreciation	1,142	1,107	540	447
EBIT	2,143	2,432	2,956	3,935
Interest	12	12	12	12
PBT	2,529	2,864	3,437	4,312
Tax	411	758	943	1,262
Tax Rate (%)	16%	26%	27%	29%
Reported PAT	2,118	2,103	2,365	3,094
Dividend Paid	1,402	1,519	1,402	1,682
No. of Shares	20	20	20	20

Source: Eastwind/Company

### RATIOS

	FY13	FY14	FY15	FY16
EPS	106	105	118	155
Book Value	251	282	328	390
DPS	70	76	70	84
Payout (incl. Div. Tax.)	66%	72%	59%	54%
<b>Valuation(x)</b>				
P/E	15	22	22	19
Price / Book Value	6	8	8	8
Dividend Yield (%)	5%	3%	3%	3%
<b>Profitability Ratios</b>				
RoE	42%	37%	36%	39%
RoCE	40%	43%	45%	50%
<b>Turnover Ratios</b>				
Asset Turnover (x)	2	2	3	2
Debtors (No. of Days)	10	13	18	18
Inventory (No. of Days)	13	13	16	16
Creditors (No. of Days)	29	33	38	38
Net Debt/Equity (x)	0.1	0.0	0.0	0.0

Source: Eastwind/Company

### BALANCE SHEET

	FY13	FY14	FY15	FY16
Share Capital	40	40	40	40
Reserves	4,966	5,583	6,500	7,913
Net Worth	5,006	5,623	6,540	7,953
Long term Debt	302	24	12	146
Short term Debt	-	-	88	84
Deferred Tax	132	-	-	228
Total Capital Employed	5,308	5,647	6,552	8,099
Net Fixed Assets	3,133	3,102	3,671	4,689
Capital WIP	62	855	719	-
Debtors	665	921	1,372	1,282
Cash & Bank Balances	181	120	216	179
Trade payables	1,873	2,291	2,855	2,792
Total Provisions	1,440	1,594	801	884
Net Current Assets	907	1,135	1,481	1,999
Total Assets	9,642	10,122	10,654	12,672

Source: Eastwind/Company

	FY12	FY13	FY14	FY15
OP/(Loss) before Tax	2865	2529	2864	3329
Depreciation	1097	1142	1107	540
Direct Taxes Paid	(583)	(613)	(649)	(1000)
Operating profit before w	3633	3291	3557	3586
CF from Op. Activity	2360	1890	2963	2250
	1443	628	(9)	1354
Capital expenditure on fix	(565)	(608)	(941)	(1156)
CF from Inv. Activity	93	(733)	(1618)	12
Repayment of Long Term Borrowings				
Interest Paid	(21)	(12)	(12)	(11)
Divd Paid (incl Tax)	(2437)	(1044)	(1403)	(2219)
CF from Fin. Activity	(2458)	(1056)	(1414)	(2231)
Inc/(Dec) in Cash	(6)	101	(69)	32
Add: Opening Balance	39	34	135	66
Closing Balance	34	135	69	98

Source: Eastwind/Company