

# Hero MotoCorp Ltd.

Industry **Automobiles**  
Bloomberg **HMCL IN**  
BSE CODE **500182**

## Demand headwinds to restrict growth ahead

**RATING** **NEUTRAL**

**CMP** **2259**  
**Price Target** **2491**  
**Potential Upside** **10%**

**Rating Change** 

**Estimate Change** 

**Target Change** 

### 1QFY20 Result Update

- ❑ HEROMOTOCO reported net sales of Rs.8030 crores (vs our estimates of Rs.8240 crores) with a de-growth of 8.8% YoY in Q1FY20. Volume growth declined by 12.4% YoY due to softness in customer sentiments while realization increased by 4.1% YoY.
- ❑ Gross margins declined by 66 bps QoQ to 30.4% despite softening of commodity prices. However, EBITDA margin has improved by 85 bps QoQ to 14.4% due to lower advertising and promotional expenses along with lower logistics cost in other expenses.
- ❑ PAT improved by 38.3%YoY at Rs.1257crores (vs our estimates of Rs.751 crores). There was an exceptional item of Rs.737 crores which includes the provision made by the company for NCCD including applicable cess in its Haridwar plant.
- ❑ The company has launched Maestro Edge and Pleasure + models during the quarter. It has also launched three new motorcycles – XPulse 200, XPulse 200T and Xtreme 200S in global markets in 1QFY20.
- ❑ During the quarter, the Company has invested Rs. 12 crores as part of capital contribution in subsidiary company i.e. HMC MM Auto Ltd taking cumulative investment to Rs. 48.00 crores.

### View and Valuation

HEROMOTOCO reported 80bps QoQ improvement in margins led by lower advertising spend and reduction in variable expenses. The demand scenario will continue to be tepid in 1HFY20 with higher inventory levels, while 2HFY20 will be dependent on multiple factors, including the progress of monsoon and festive season off-take and liquidity situation. Going ahead the commodity prices are expected to be soft for rest of the year which may ease some of the margin pressure. However depreciation cost to remain higher due to phasing out of some machinery because of BS-VI on March 2020. We largely maintain our FY21e EPS estimate. Based on the uncertain demand scenario and limited scope of margin improvement, we value HEROMOTOCO at 14x (earlier 15x) FY21e EPS to arrive at target price of Rs.2491 and maintain NEUTRAL rating.

### Key Risks to our rating and target

- ❑ Sluggishness in rural demand
- ❑ Further increase in commodity prices

### Stock Info

52wk Range H/L 3,400/2,246  
Mkt Capital (Rs Cr) 45125  
Free float (%) 65%  
Avg. Vol 1M (,000) 756  
No. of Shares (Cr.) 20  
Promoters Pledged % 0%

### Research Analyst

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	28585	32458	33971	33276	35391
EBITDA	4576	5325	5018	4944	5293
EBIT	4074	4750	4394	4184	4631
PAT	3546	3722	3466	3728	3554
EPS (Rs)	178	186	174	187	178
EPS growth (%)	14	5	-7	8	-5
ROE (%)	34	31	26	26	22
ROCE (%)	39	39	33	28	29
BV	517	599	657	731	802
P/B (X)	6.4	6.0	4.0	3.1	2.8
P/E (x)	18.6	19.4	15.0	12.1	12.7

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## 1QFY20 Results

Margin meets estimates

Fig in Rs Cr								Fig in Rs Cr		
Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes (000)	2105	2134	1799	1781	1843	-12%	3%	7583	7819	3.1%
Realization	41,853	42,600	43,720	44,266	43,574	4%	-2%	42,805	43,446	1.5%
Net Sales	8,810	9,091	7,865	7,885	8,030	-9%	2%	32,458	33,971	4.7%
Other Income	116	224	188	164	219	89%	33%	523	687	31.3%
Total Income	8,926	9,315	8,052	8,049	8,249	-8%	2%	32,982	34,658	5.1%
COGS	6,165	6,300	5,415	5,439	5,592	-9%	3%	21,886	23,444	7.1%
Staff Cost	413	434	436	447	468	13%	5%	1,584	1,778	12.3%
Other Exp.	854	978	910	930	813	-5%	-13%	3,664	3,730	1.8%
Expenditure	7,433	7,712	6,760	6,816	6,872	-8%	1%	27,133	28,952	6.7%
EBITDA	1,377	1,379	1,105	1,069	1,158	-16%	8%	5,325	5,018	-5.8%
Depreciation	148	152	152	150	236	59%	57%	575	624	8.6%
EBIT	1,229	1,227	953	919	922	-25%	0%	4,750	4,394	-7.5%
Interest	2	2	2	2	4	107%	100%	31	37	20.7%
PBT	1,343	1,448	1,138	1,081	1,136	-15%	5%	5,242	5,044	-3.8%
Excpt. Item	-	-	-	-	(737)	0%	0%	-	-	0.0%
Tax	434	472	369	351	616	42%	76%	1,570	1,638	4.3%
PAT	909	976	769	730	1,257	38%	72%	3,722	3,466	-6.9%

### Revenue declined by 8.8% YoY due to lower volumes

HEROMOTOCO reported net sales of Rs.8030 crores with a de-growth of 8.8% YoY in Q1FY20. Volume growth has declined by 12.4% YoY due to softness in customer sentiments and slowdown in rural areas. The company has launched Maestro Edge and Pleasure + models during the quarter. Going forward, the 110cc and 125cc segment is expected to improve with Maestro edge and Pleasure110 models respectively. Realization increased by 4.1% YoY supported by price hikes, higher sales in 125 cc scooter segment and spare part sales. Spares revenue for the quarter was Rs.621 crores (+8%YoY).

### Lower advertisement and promotion expenses along with lower logistics cost led to margin expansion

Gross margins declined by 66 bps QoQ to 30.4% despite softening of commodity prices. However, EBITDA margin has improved by 85 bps QoQ to 14.4% due to lower advertising and promotional expenses along with lower logistics cost and other variable expenses. The company has taken a price hike of 0.8-1% in July month and going forward it will take pricing action based on commodity cost increases.

### PAT improved by 38.5% YoY

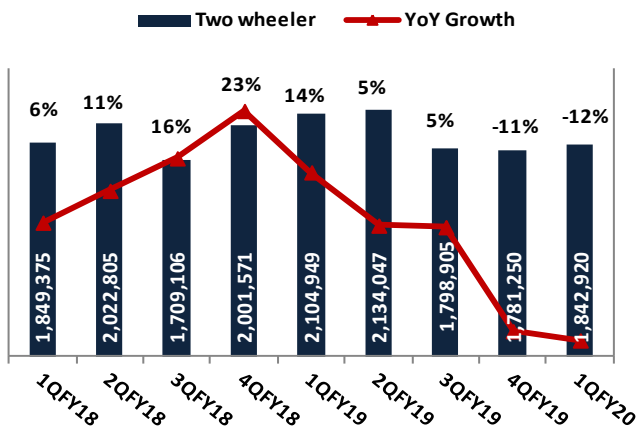
PAT improved by 38.3%YoY at Rs.1257 crores. There was an exceptional item of Rs. 737 crores which includes the provision made by the company for NCCD including applicable cess in its Haridwar plant. However, depreciation cost was higher by Rs.65 crores during the quarter which restricted further margin improvement. It is expected to remain higher till March 2020 due to phasing out of some machinery because of BS-VI.

## Concall Highlights

- The two wheeler industry has declined by 10% while the company sales have declined by 12.5%.
- 2HFY20 is expected to grow led by improving liquidity issues, good monsoon, Kharif output, festive seasons by the end of September month and pre-buying ahead of BS-VI implementation.
- There can be postponement of purchase more significantly on the rural side than urban side. However, recovery in rural demand is expected from 2HFY20 on the back of good monsoon expectation.
- 1QFY20 has been soft for retails. May has been a good month for retail while April and June had been soft. The management expects the retails to improve going forward.
- There has been an reduction of inventory of around 80000 units in 1QFY20.
- The company has launched Maestro Edge and Pleasure + models during the quarter. Going forward, the 110cc and 125cc segment is expected to improve with the launch of Maestro edge and Pleasure110 respectively.
- The company has also launched three new motorcycles – XPulse 200, XPulse 200T and Xtreme 200S in global markets in 1QFY20.
- The company has lost market share in the deluxe segment as most of the inventory correction has been made in this segment.
- The overall scooters segment in 100-110cc has been declining by 23% while the 125cc segment which has a market share of 35% has been growing by 12%.
- The Destini model has been growing by 15% in retails.
- The Andhra plant is expected to get commissioned in FY20. The production capacity in Phase-1 is expected to be at a level of 600000 units.
- Capex guidance for FY20 which was Rs.1500 crs is expected to be reiterated down by the management in 2HFY20.
- There have been higher receivables days as the company has extended the credit period from dealers.
- There was an accelerated depreciation of Rs.65 crores during the quarter. Going ahead, it is expected to be in the range of Rs. 30 crores in the rest of the quarters till 30th March 2020. Thereafter it is also expected to normalize subsequent to capitalization of Andhra plant.
- Other income includes one off of Rs 50 crs which is interest provision made with NCCD.
- Spares revenue for the quarter was Rs.621 crs.
- The company has taken a price hike of 0.8-1% in July month.
- Inventory level stands at 45-50 days.
- Hero Fincorp share in overall financing was 47% in 1QFY20.

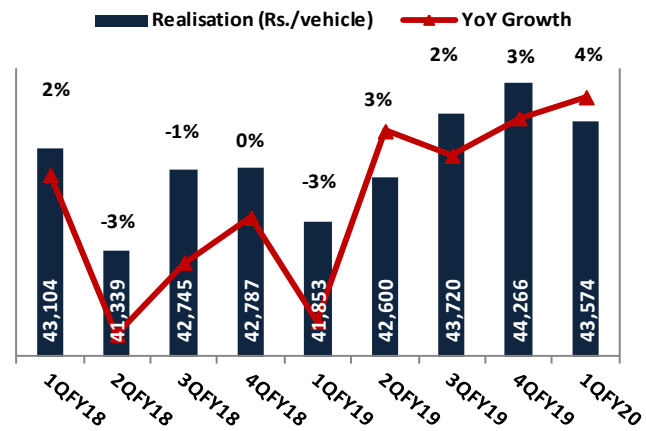
## Exhibit: Volume and Volume Growth Trend

Volume growth declined due to softness in consumer sentiments in urban as well as rural areas



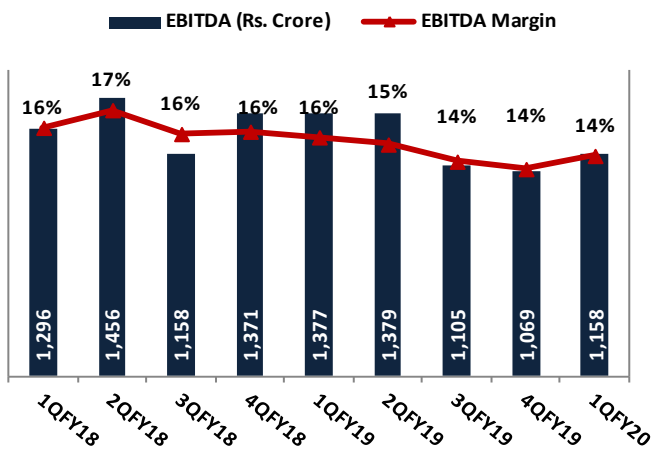
## Exhibit: Realisation and Realisation Growth Trend

Realization growth was largely supported by price hikes and higher spare part sales.



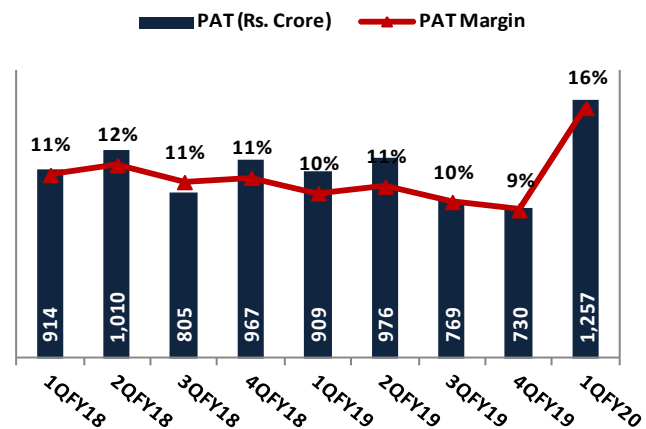
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Margin improved on account of lower advertisement and promotion expense along with lower logistics cost



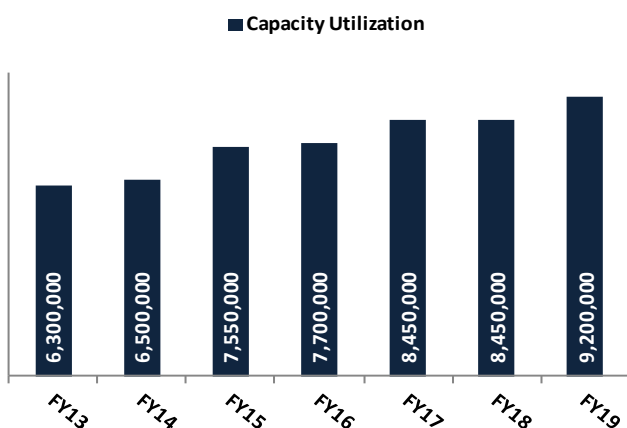
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margin improved due to improvement in EBITDA margin



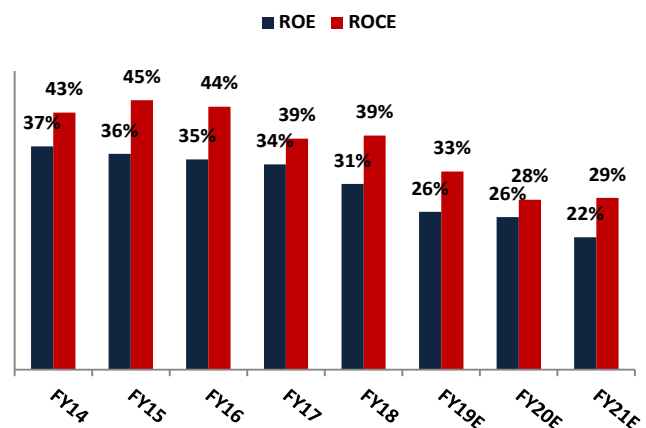
## Exhibit: Capacity Utilization

The company has enough capacity to cater future demand



## Exhibit: Return Ratios

Declining profitability will lead to reduction in return ratios going ahead



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	40	40	40	40	40	40	40	40
Reserves	5,583	6,500	8,794	10,276	11,932	13,080	14,561	15,973
Networth	5,623	6,540	8,834	10,316	11,971	13,120	14,601	16,013
Debt	24	100	230	248	225	309	231	174
Other Non Cur Liab	-	31	-	-	-	-	-	-
Total Capital Employed	5,647	6,640	9,064	10,563	12,196	13,429	14,833	16,187
Net Fixed Assets (incl CWIP)	3,102	3,671	4,437	5,180	5,316	5,525	6,006	6,384
Non Cur Investments	830	821	1,030	1,522	918	1,234	1,457	2,000
Other Non Cur Asst	48	60	848	658	560	676	676	676
Non Curr Assets	4,563	5,275	6,592	7,741	8,395	10,091	10,794	11,716
Inventory	670	861	762	709	963	1,250	1,224	1,302
Debtors	921	1,372	1,282	1,552	1,427	2,745	2,689	2,424
Cash & Bank	120	216	75	74	131	208	208	397
Other Curr Assets	22	60	562	524	212	262	256	272
Curr Assets	5,558	5,380	6,303	7,571	9,002	8,413	9,030	9,719
Creditors	2,291	2,855	2,675	3,266	3,375	3,438	3,368	3,582
Provisons (both)	1,594	801	98	118	179	181	177	188
Other Curr Liab	588	309	506	457	765	501	491	522
Curr Liabilities	4,424	3,898	3,487	4,137	4,406	4,226	4,144	4,393
Net Curr Assets	1,135	1,481	2,816	3,434	4,596	4,188	4,886	5,326
Total Assets	10,122	10,654	12,896	15,312	17,397	18,504	19,824	21,434

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	25,275	27,538	28,457	28,585	32,458	33,971	33,276	35,391
Change (%)	6	9	3	0	14	5	(2)	6
Other Income	444	492	413	522	523	687	539	541
<b>EBITDA</b>	<b>3,539</b>	<b>3,497</b>	<b>4,398</b>	<b>4,576</b>	<b>5,325</b>	<b>5,018</b>	<b>4,944</b>	<b>5,293</b>
Change (%)	8	(1)	26	4	16	(6)	(1)	7
<b>Margin (%)</b>	<b>14.0</b>	<b>12.7</b>	<b>15.5</b>	<b>16.0</b>	<b>16.4</b>	<b>14.8</b>	<b>14.9</b>	<b>15.0</b>
Depr & Amor.	1,107	540	443	502	575	624	760	662
EBIT	2,432	2,956	3,954	4,074	4,750	4,394	4,184	4,631
Int. & other fin. Cost	12	12	15	27	31	37	28	24
<b>EBT</b>	<b>2,864</b>	<b>3,437</b>	<b>4,353</b>	<b>4,568</b>	<b>5,242</b>	<b>5,044</b>	<b>4,695</b>	<b>5,148</b>
Exp Item	-	145	-	(262)	-	-	(737)	-
Tax	758	943	1,275	1,339	1,570	1,638	1,771	1,668
Minority Int & P/L share of Ass.	(3)	16	34	55	50	61	67	74
<b>Reported PAT</b>	<b>2,103</b>	<b>2,365</b>	<b>3,112</b>	<b>3,546</b>	<b>3,722</b>	<b>3,466</b>	<b>3,728</b>	<b>3,554</b>
<b>Adjusted PAT</b>	<b>2,103</b>	<b>2,365</b>	<b>3,112</b>	<b>3,546</b>	<b>3,722</b>	<b>3,466</b>	<b>3,728</b>	<b>3,554</b>
Change (%)	(1)	12	32	14	5	(7)	8	(5)
<b>Margin(%)</b>	<b>8.3</b>	<b>8.6</b>	<b>10.9</b>	<b>12.4</b>	<b>11.5</b>	<b>10.2</b>	<b>11.2</b>	<b>10.0</b>

## Financial Details

### Key Ratios

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	37%	36%	35%	34%	31%	26%	26%	22%
ROCE	43%	45%	44%	39%	39%	33%	28%	29%
Asset Turnover	2.50	2.58	2.21	1.87	1.87	1.84	1.68	1.65
Debtor Days	13	18	16	20	16	29	29	25
Inv Days	10	11	10	9	11	13	13	13
Payable Days	33	38	34	42	38	37	37	37
Int Coverage	206	253	271	149	154	118	150	191
P/E	22	22	19	19	19	15	12	13
Price / Book Value	8	8	7	6	6	4	3	3
EV/EBITDA	13	15	13	14	14	10	9	8
FCF per Share	2,022	1,094	2,084	2,769	3,193	53	2,391	3,600
Div Yield	2.9%	2.3%	2.4%	2.6%	2.6%	3.6%	4.1%	3.9%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	2,864	3,329	3,112	3,546	3,722	3,466	4,695	5,148
(inc)/Dec in Working Capital	55	(336)	323	462	197	(1,946)	(148)	401
Non Cash Op Exp	1,107	540	443	502	575	624	760	662
Int Paid (+)	12	11	15	27	31	37	28	24
Tax Paid	(649)	(1,000)	(1,103)	(1,187)	(1,513)	(2,070)	(1,771)	(1,668)
others	(426)	(294)	933	657	1,005	921	67	74
CF from Op. Activities	2,963	2,250	3,722	4,007	4,017	1,032	3,631	4,640
(inc)/Dec in FA & CWIP	(941)	(1,156)	(1,638)	(1,238)	(824)	(980)	(1,240)	(1,040)
Free Cashflow	2,022	1,094	2,084	2,769	3,193	53	2,391	3,600
(Pur)/Sale of Inv	(9)	1,354	(645)	(714)	(1,172)	2,564	-	-
others	(668)	(186)	(16)	(20)	138	(287)	(776)	(1,187)
CF from Inv. Activities	(1,618)	12	(2,300)	(1,972)	(1,858)	1,298	(2,016)	(2,227)
inc/(dec) in NW								
inc/(dec) in Debt	-	-	181	28	(33)	84	(77)	(58)
Int. Paid	(12)	(11)	(14)	(27)	(31)	(37)	(28)	(24)
Div Paid (inc tax)	(1,403)	(2,219)	(1,682)	(2,091)	(2,043)	(2,319)	(2,247)	(2,142)
others	1	-	40	54	5	20	-	-
CF from Fin. Activities	(1,414)	(2,231)	(1,475)	(2,036)	(2,102)	(2,252)	(2,352)	(2,224)
Inc(Dec) in Cash	(69)	32	(53)	(1)	57	78	(738)	189
Add: Opening Balance	135	66	127	75	74	131	208	208
Closing Balance	69	98	75	74	131	208	(530)	397

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