

# Hero MotoCorp Ltd.

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

## Rural recovery may help gain lost market share

### 2QFY20 Result Update

- ❑ HEROMOTOCO reported decline in sales of Rs.7571 crores (vs our estimates of Rs.7370 crores) with a de-growth of 16.7% YoY in Q2FY20. Volume growth declined by 21% YoY due to weak rural sentiments while realization increased by 5.1% YoY.
- ❑ Gross margins improved by 120 bps QoQ to 32.3% due to softening of commodity prices. However, EBITDA margin was limited to 10bps QoQ to 14.5% due to higher advertising and promotion cost.
- ❑ PAT declined by 10%YoY at Rs.875 crores (vs our estimates of Rs.823 crores). PAT margin declined by 410 bps QoQ to 11.6% due to one-time exceptional gain during last quarter. The company has given VRS of Rs.60 crores in 2QFY20.
- ❑ The company has maintained 15% market share in 125cc segment.
- ❑ Scooters segment have remained muted at the level of 31-32%. At the industry level, there is a decline of 17% in this segment. 125cc has done better while 100-110cc has been degrading by 23%.
- ❑ Spares revenue for the quarter stood at Rs. 723 crs with 1.5% YoY growth.
- ❑ The company is the largest shareholder in Ather Energy which manufactures premium electric scooters.
- ❑ The company has tech center in Germany where it is working on premium segment motorcycles and electric vehicles.
- ❑ Tax rate will be in the range of 25-26% going ahead.
- ❑ Finance penetration for the quarter stands at 46% as against 37% in 1QFY20.

### View and Valuation

The management expects rural sentiment to improve from 3rd week of November with the start of rabi sowing. However, there has been some revival in demand because of festive season. The company has lost market share in the scooter and motorcycle segment due to increased discounts. Based on margin expansion due to softening commodity prices we increase our EPS estimate by 5%/2%. However slowdown in scooters and new launches by competitors will lead to pressure on volumes and market share going ahead. Hence we value HEROMOTOCO at 14x FY21e EPS to arrive at target price of Rs.2679 and maintain NEUTRAL rating.

### Key Risks to our rating and target

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

**RATING** **NEUTRAL**

**CMP** **2712**

**Price Target** **2679**

**Potential Upside** **-1%**

**Rating Change** 

**Estimate Change** 

**Target Change** 

### Stock Info

52wk Range H/L 3383/2228  
Mkt Capital (Rs Cr) 54171  
Free float (%) 65%  
Avg. Vol 1M (,000) 1014  
No. of Shares (Cr.) 20  
Promoters Pledged % 0%

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	28585	32458	33971	32628	34835
EBITDA	4576	5325	5018	4762	5183
EBIT	4074	4750	4394	3930	4342
PAT	3546	3722	3466	4224	3908
EPS (Rs)	178	186	174	212	196
EPS growth (%)	14	5	-7	22	-7
ROE (%)	34	31	26	29	24
ROCE (%)	39	39	33	26	26
BV	517	599	657	741	819
P/B (X)	6.4	6.0	4.0	3.7	3.3
P/E (x)	18.6	19.4	15.0	12.8	13.9

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## 2QFY20 Results

PAT above estimates

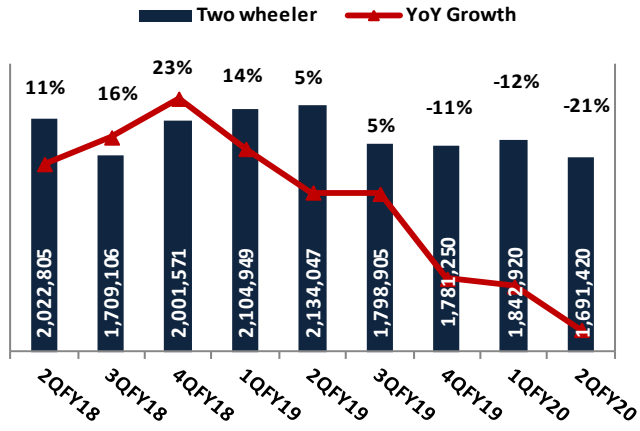
Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	Fig in Rs Cr		
								FY18	FY19	YoY %
Volumes (000)	2134	1799	1781	1843	1691	-21%	-8%	7583	7819	3.1%
Realization	42,600	43,720	44,266	43,574	44,759	5%	3%	42,805	43,446	1.5%
Net Sales	9,091	7,865	7,885	8,030	7,571	-17%	-6%	32,458	33,971	4.7%
Other Income	224	188	164	219	208	-7%	-5%	523	687	31.3%
Total Income	9,315	8,052	8,049	8,249	7,779	-16%	-6%	32,982	34,658	5.1%
COGS	6,300	5,415	5,439	5,592	5,126	-19%	-8%	21,886	23,444	7.1%
Staff Cost	434	436	447	468	469	8%	0%	1,584	1,778	12.3%
Other Exp.	978	910	930	813	875	-11%	8%	3,664	3,730	1.8%
Expenditure	7,712	6,760	6,816	6,872	6,470	-16%	-6%	27,133	28,952	6.7%
EBITDA	1,379	1,105	1,069	1,158	1,101	-20%	-5%	5,325	5,018	-5.8%
Depreciation	152	152	150	236	203	34%	-14%	575	624	8.6%
EBIT	1,227	953	919	922	898	-27%	-3%	4,750	4,394	-7.5%
Interest	2	2	2	4	8	258%	76%	31	37	20.7%
PBT	1,448	1,138	1,081	1,136	1,098	-24%	-3%	5,242	5,044	-3.8%
Excpt. Item	-	-	-	(737)	60	-	-108%	-	-	0.0%
Tax	472	369	351	616	163	-65%	-74%	1,570	1,638	4.3%
PAT	976	769	730	1,257	875	-10%	-30%	3,722	3,466	-6.9%

### Concall highlights

- The retail sales during the ongoing festive season have been steady led by newly launched premium motorcycles and scooters. The management expects the momentum to continue in upcoming Dhanteras and Diwali festivals.
- The management expects to see good growth from North, East and Central India during the festive season.
- The monsoon has will lead to increase in reservoir level and improve Rabi crop sowing which will further lead to improvement in rural sentiment going forward post November.
- The company will launch market launch of BS-VI range motorcycles soon after the festive season over the next few months.
- Scooters segment have remained muted at the level of 31-32%. At the industry level, there is a decline of 17% in this segment. 125cc has done better while 100-110cc has been degrading by 23%.
- The company has maintained 15% market share in 125cc segment.
- Gross margin improved led by softening of commodity prices, cost optimization, leap program benefit and product mix management.
- The company took a price hike of around Rs. 200 in July.
- Spares revenue for the quarter stood at Rs. 723 crs with 1.5% YoY growth.
- Tax rate will be in the range of 25-26% going ahead.
- Hero Fincorp share in overall financing stands at 46% in 2QFY20 vs 37% in 1QFY20. It stood at 44% in 2QFY19.
- Inventory level stands at 45 days. The management expects it to reduce to 30 days from October onwards during the festive season.

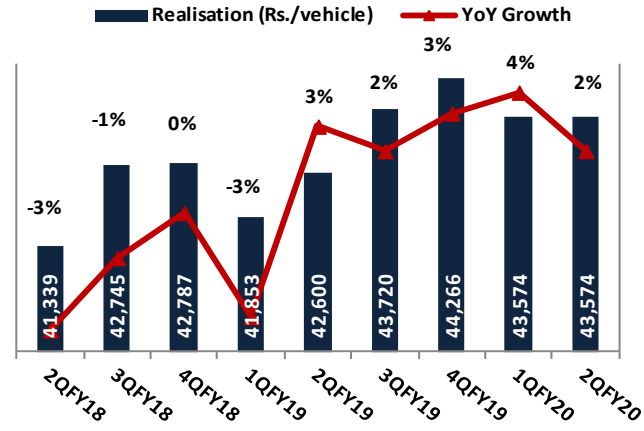
## Exhibit: Volume and Volume Growth Trend

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



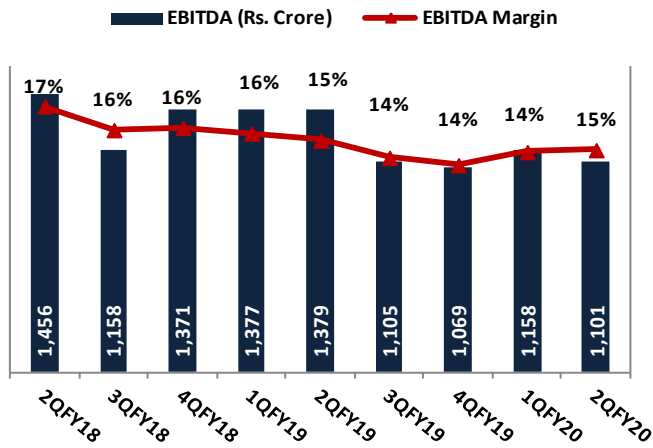
## Exhibit: Realisation and Realisation Growth Trend

Realisation growth was largely supported by price hikes and growth in spare part sales.



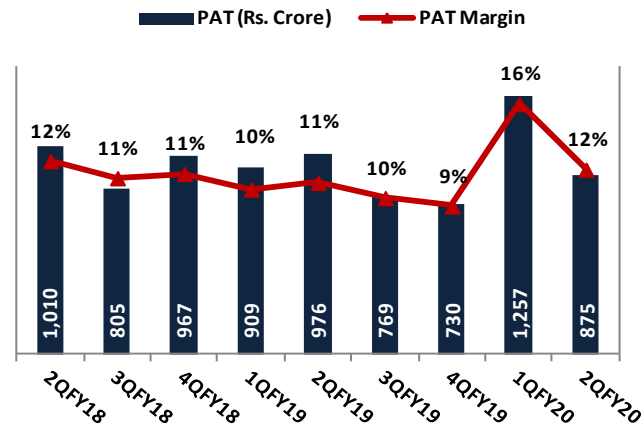
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Margin improved on account of cost optimization, LEAP program benefit and change in product mix



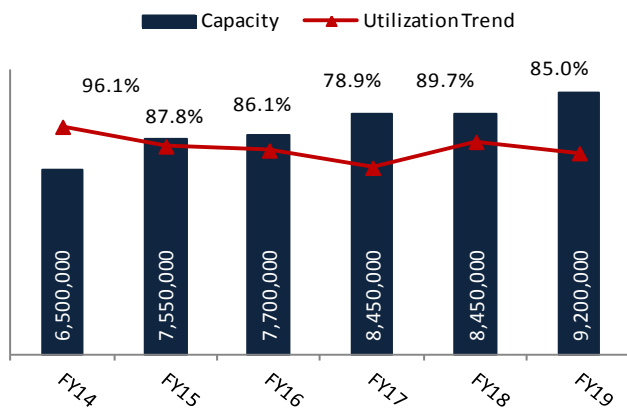
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margin declined due to higher finance cost and one time exceptional item expense of Rs.60 crs



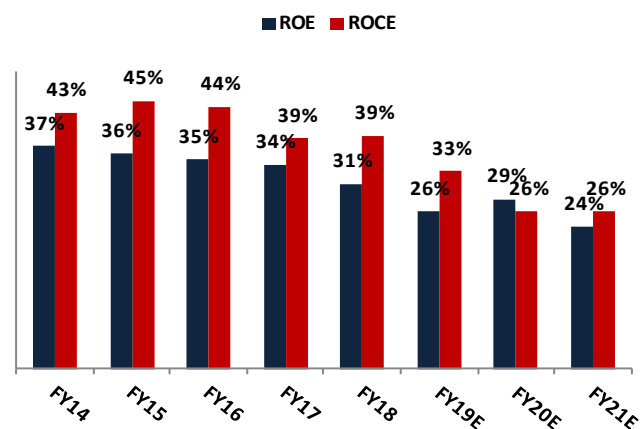
## Exhibit: Capacity Utilization Trend

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	14,758	16,311
Networth	5,623	6,540	8,834	10,316	11,971	13,120	14,798	16,351
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	15,030	16,524
Net Fixed Assets (incl CWIP)	3,102	3,671	4,437	5,180	5,316	5,525	5,934	6,133
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	10,723	11,464
Inventory	670	861	762	709	963	1,250	1,200	1,281
Debtors	921	1,372	1,282	1,552	1,427	2,745	2,637	2,386
Cash & Bank	120	216	75	74	131	208	208	397
Other Curr Assets	22	60	562	524	212	262	251	268
Curr Assets	5,558	5,380	6,303	7,571	9,002	8,413	9,220	10,240
Creditors	2,291	2,855	2,675	3,266	3,375	3,438	3,302	3,526
Provisons (both)	1,594	801	98	118	179	181	174	185
Other Curr Liab	588	309	506	457	765	501	481	514
Curr Liabilities	4,424	3,898	3,487	4,137	4,406	4,226	4,067	4,327
Net Curr Assets	1,135	1,481	2,816	3,434	4,596	4,188	5,153	5,913
Total Assets	10,122	10,654	12,896	15,312	17,397	18,504	19,943	21,705

### 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	32,628	34,835
Change (%)	6	9	3	0	14	5	(4)	7
Other Income	444	492	413	522	523	687	736	809
<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>4,762</b>	<b>5,183</b>
Change (%)	8	(1)	26	4	16	(6)	(5)	9
<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>14.6</b>	<b>14.9</b>
Depr & Amor.	1,107	540	443	502	575	624	832	841
EBIT	2,432	2,956	3,954	4,074	4,750	4,394	3,930	4,342
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>4,639</b>	<b>5,126</b>
Exp Item	-	145	-	(262)	-	-	(677)	-
Tax	758	943	1,275	1,339	1,570	1,638	1,159	1,292
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>4,224</b>	<b>3,908</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>4,224</b>	<b>3,908</b>
Change (%)	(1)	12	32	14	5	(7)	22	(7)
<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>12.9</b>	<b>11.2</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%	29%	24%
ROCE	43%	45%	44%	39%	39%	33%	26%	26%
Asset Turnover	2.50	2.58	2.21	1.87	1.87	1.84	1.64	1.60
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	141	179
P/E	22	22	19	19	19	15	13	14
Price / Book Value	8	8	7	6	6	4	4	3
EV/EBITDA	13	15	13	14	14	10	11	10
FCF per Share	2,022	1,094	2,084	2,769	3,193	53	3,021	4,127
Div Yield	2.9%	2.3%	2.4%	2.6%	2.6%	3.6%	3.9%	3.6%

### 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	4,639	5,126
(inc)/Dec in Working Capital	55	(336)	323	462	197	(1,946)	(145)	393
Non Cash Op Exp	1,107	540	443	502	575	624	832	841
Int Paid (+)	12	11	15	27	31	37	28	24
Tax Paid	(649)	(1,000)	(1,103)	(1,187)	(1,513)	(2,070)	(1,159)	(1,292)
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	4,261	5,167
(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	3,021	4,127
(Pur)/Sale of Inv	(9)	1,354	(645)	(714)	(1,172)	2,564	-	-
others	(668)	(186)	(16)	(20)	138	(287)	(1,048)	(1,500)
CF from Inv. Activities	(1,618)	12	(2,300)	(1,972)	(1,858)	1,298	(2,288)	(2,540)
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)	(2,546)	(2,356)
others	1	-	40	54	5	20	-	-
CF from Fin. Activities	(1,414)	(2,231)	(1,475)	(2,036)	(2,102)	(2,252)	(2,651)	(2,438)
Inc(Dec) in Cash	(69)	32	(53)	(1)	57	78	(678)	189
Add: Opening Balance	135	66	127	75	74	131	208	208
Closing Balance	69	98	75	74	131	208	(470)	397

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