

May 19, 2017

## Hero MotoCorp (HERHON)

₹ 3560

### Rural growth to drive performance...

- Hero MotoCorp (HMCL) reported its Q4FY17 numbers, with topline & EBITDA below our estimates but PAT above estimates. Revenues came in at ₹ 6915 crore, down 7.9% YoY, up 8.7% QoQ, against our estimate of ₹ 7130 crore with the miss attributable to lower than estimated realisations. Net blended ASPs were at ₹ 42644 vs. our estimate of ₹ 43970. Revenues were also lower due to ₹ 193 crore discount allowed in March 2017 for sale of BSIII compliant 2Ws
- Total volumes for the quarter were at 1621611 units, down 5.8% YoY, up 10.1% QoQ. Motorcycle volumes (1444283 units) were up 0.3% YoY, 11.9% QoQ while scooter volumes (177328 units) declined 36.8% YoY, 3% QoQ
- EBITDA margins came in at 13.8% (down 200 bps YoY, 318 bps QoQ) vs. expectation of 14%. The beat on margins was on account of lower than estimated gross margins. This was mainly due to heavy discounts offered by the company to liquidate inventory post SC verdict on BSIII vehicles
- Reported PAT came in at ₹ 718 crore (down 13.9% YoY, 7% QoQ) vs. our expectation of ₹ 691.1 crore. PAT was higher than our estimate on account of higher other income & lower than estimated tax

### Recovery post demonetisation

The two-wheeler (2-W) industry witnessed fastest growth among all sub-segments (PV, CV, 3-W) in H1FY17E, with domestic volumes growing 17% in H1FY17 (HMCL domestic volume growth~17%). The management was expecting a better performance in H2FY17 vs. H1FY17. However, post demonetisation, growth momentum in Q3FY17 was disrupted and 2-W as a segment was impacted the most as ~45% of 2-W demand comes from rural area & the high cash component nature in 2-W purchases. Given the higher rural exposure, HMCL's domestic volumes declined ~9.3% YoY in H2FY17. However, going ahead, the management expects double digit volume growth on the back of 1) Good monsoon 2) infrastructure spending, 3) full recovery post demonetisation, 4) six new launches & 5) recovery in rural growth. The company witnessed double digit growth in retail sales in April and May till date. We expect HMCL's 2-W volumes to grow 11%, 10% in FY18E, FY19E, respectively.

### Product in place to capture up-trading trend

Despite increasing competitive intensity in the executive segment, HMCL has maintained its dominant share in the sub-segment. Success in the executive category is critical for any player to sustain or increase market share, given that it accounts for ~60% of motorcycle market. HMCL's market share in the executive segment increased from 66% in FY15 to 72% in FY16. With *Glamour* (fastest growing in the 125 cc category) in its armour, the company is well positioned to capture the general trend of transition from lower 100-110 cc motorcycles to 125 cc variants.

### Macro factors favourable

Long term structural drivers exist in the form of the government's focus on doubling farm income, reducing replacement cycles & low finance penetration. Hence, we change our recommendation from HOLD to **BUY**. We value HMCL at 17x FY19E EPS to arrive at a target price of ₹ 3975.

Rating matrix		
Rating	:	Buy
Target	:	₹ 3975
Target Period	:	12 months
Potential Upside	:	12%

What's changed?	
Target	Changed from ₹ 3330 to ₹ 3975
EPS FY18E	Changed from ₹ 181.6 to ₹ 199.6
EPS FY19E	Changed from ₹ 208 to ₹ 232.8
Rating	Changed from Hold to Buy

Quarterly performance					
(₹Crore)	Q4FY17	Q4FY16	YoY	Q3FY17	QoQ
Revenues	6,915.2	7,505.2	-7.9	6,364.6	8.7
EBITDA	957.6	1,189.2	-19.5	1,079.7	-11.3
EBITDA (%)	13.8	15.8	131 bps	17.0	-59 bps
Reported PAT	717.8	833.3	-13.9	772.1	-7.0

Key financials				
₹ Crore	FY16	FY17E	FY18E	FY19E
Net Sales	28,599	28,475	33,486	38,789
EBITDA	4,447.0	4,634.8	5,526.7	6,413.9
Net Profit	3,132.4	3,377.1	3,985.1	4,648.4
EPS (₹)	156.9	169.1	199.6	232.8

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E (x)	22.7	21.1	17.8	15.3
Target P/E (x)	25.3	23.5	19.9	17.1
EV/EBITDA (x)	15.2	14.3	11.9	10.1
P/BV (x)	8.9	7.0	6.5	5.4
RoNW (%)	39.4	33.0	36.3	35.3
RoCE (%)	53.6	43.5	49.0	47.9

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	₹71093.2 Crore
Total Debt (FY16) (₹ Crore)	₹0crore
Cash & Investments (FY16) (₹ Crore)	₹3378.4Crore
EV (₹ Crore)	0.0
52 week H/L (₹)	3740 / 2849
Equity capital (₹ crore)	39.9
Face value (₹)	₹ 2

Price performance				
	1M	3M	6M	12M
Hero MotoCorp Ltd	6.9	3.9	-1.5	27.9
Bajaj Auto Ltd	2.2	2.7	-1.9	18.3
TVS Motor Company Ltd	7.3	8.5	38.6	43.4

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## Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
Total Operating Income	6,915	7,130	7,505	-7.9	6,365	8.7	The miss on revenue is attributable to lower than estimated net realisations
Raw Material Expenses	4,736	4,679	4,964	-4.6	4,128	14.7	
Employee Expenses	328	421	351	-6.7	374	-12.3	The employee expenses are lower as actuarial valuation changed for gratuity
Other expenses	893	1,031	1,001	-10.7	783	14.2	
Operating Profit (EBITDA)	958	1,000	1,189	-19.5	1,080	-11.3	
EBITDA Margins (%)	13.8	14.0	15.8	131 bps	17.0	-59 bps	EBITDA margins was lower due to heavy discounts offered by company to liquidate inventory post SC verdict on BSIII vehicles
Other Income	118	96	117	1.3	132	-10.4	
Interest	1.5	1.5	1.2	21.3	1.5	-2.6	
Depreciation	135.3	121.2	114.7	17.9	124.9	8.4	
PBT after Exceptional Items	939.0	973.3	1,190.0	-21.1	1,085.3	-13.5	
Total Tax	221.3	282.3	356.7	-38.0	313.3	-29.4	
PAT	717.8	691.1	833.3	-13.9	772.1	-7.0	PAT came in higher other income & lower than estimated tax outgo
EPS (Adjusted)	35.9	34.6	41.7	-13.9	38.7	-7.0	
<b>Key Metrics</b>							
Motorcycle volumes ('000s)	1,444.3	1,457.6	1,440.6	0.3	1,290.8	11.9	
Scooter volumes ('000s)	177.3	164.1	280.6	-36.8	182.7	-3.0	
Export volumes('000s)	51.4	55.7	54.4	-5.6	43.0	19.5	
Net Blended ASP (₹/unit)	42,644	43,970	43,603	-2.2	43,192	-1.3	ASPs came in lower due to higher discounts
RM/Vehicle (₹/unit)	29,206	28,854	28,787	1.5	28,014	4.3	
EBITDA/Vehicle (₹/unit)	6,448	6,166	7,756	-16.9	6,959	-7.3	Drop in EBITDA on account of higher discounts offered by company

Source: Company, ICICIdirect.com Research

## Change in estimates

(₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	31,850	33,486	5.1	36,146	38,789	7.3	The revenue estimates are revised upwards after the double digit volume guidance by the company
EBITDA	5,083	5,527	8.7	5,772	6,414	11.1	
EBITDA Margin (%)	16.0	16.5	55 bps	16.0	16.5	57 bps	Margins will be higher due to operating leverage benefit
PAT	3,626	3,985	9.9	4,154	4,648	11.9	Higher revenue growth & margin expansion will result in higher PAT growth
EPS (₹)	181.6	199.6	9.9	208.0	232.8	11.9	

Source: Company, ICICIdirect.com Research

## Assumptions

	FY16		Current		Earlier		Comments
	FY16	FY17E	FY18E	FY19E	FY18E	FY19E	
Motorcycle volumes ('000s)	5,736	5,834	6,443	7,040	6,234	6,741	Increased estimates post management's guidance of double digit growth on the back of new launches, good monsoon & rural demand
Scooter volumes ('000s)	896	830	954	1,097	982	1,129	
Export volumes('000s)	210	180	203	230	216	246	
Gross Blended ASP (₹/unit)	47,178	45,926	48,344	50,906	47,180	48,456	Likely to be better-than-anticipated earlier on the back of product mix enrichment
RM/Vehicle (₹/unit)	29,123	28,530	30,219	31,828	29,600	30,793	
EBITDA/Vehicle (₹/unit)	7,102	7,058	7,471	7,882	7,044	7,334	

Source: Company, ICICIdirect.com Research

### Key conference call takeaways

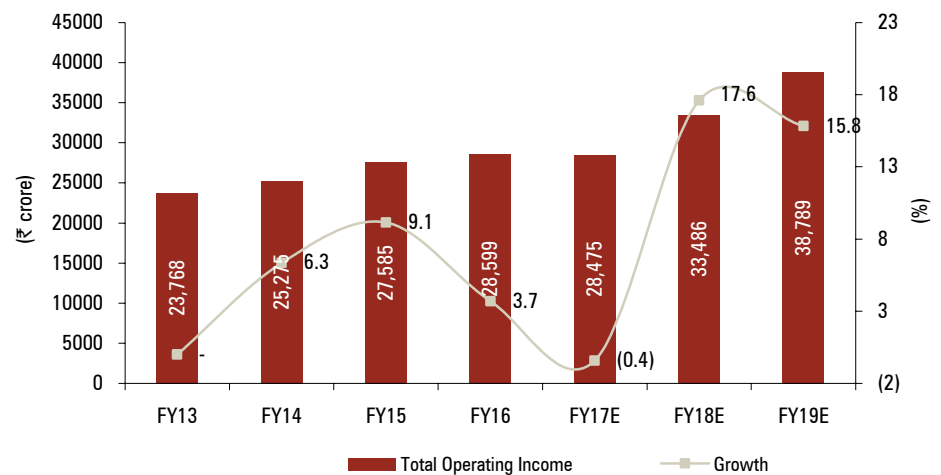
- The management expects the industry to grow at higher single digits with the company itself growing at double digit growth rates. This growth is expected to be on the back of 1) Good monsoon, 2) infrastructure spending, 3) Full recovery post demonetisation and 4) recovery in rural growth
- In the export market, the company has a presence in 35 countries. While there are headwinds in Colombia, HMCL is consolidating its market in Sri Lanka and Bangladesh. The company has launched products in Argentina and Nigeria
- The management has maintained a margin guidance of 14-15% for the medium to long term
- The company is expected to launch a new product in the scooter segment in H2FY18. HMCL expects its scooter segment to outpace industry growth
- The company has six new launches/refreshes in FY18
- Hero Fincorp had financed ~10% of HMCL's sales in FY17 vs. ~7% in FY16
- The management has guided for a capex of ₹ 2500 crore in FY18, which will be towards new plant in Halol ( Gujarat), Andhra Pradesh & Bangladesh, digitisation & upgradation of existing plants
- R&D to sales in FY17 were at 1.3%
- The current inventory is at four to five weeks
- For FY17, the spare sales growth was at 4% YoY while growth for Q4FY17 was at 7-8% YoY
- Introduction of CBS will increase cost by ~₹ 2500-3500 per vehicle while that of ABS will increase cost by ~₹ 5000-6000 per vehicle

## Company Analysis

### Recovery post demonetisation

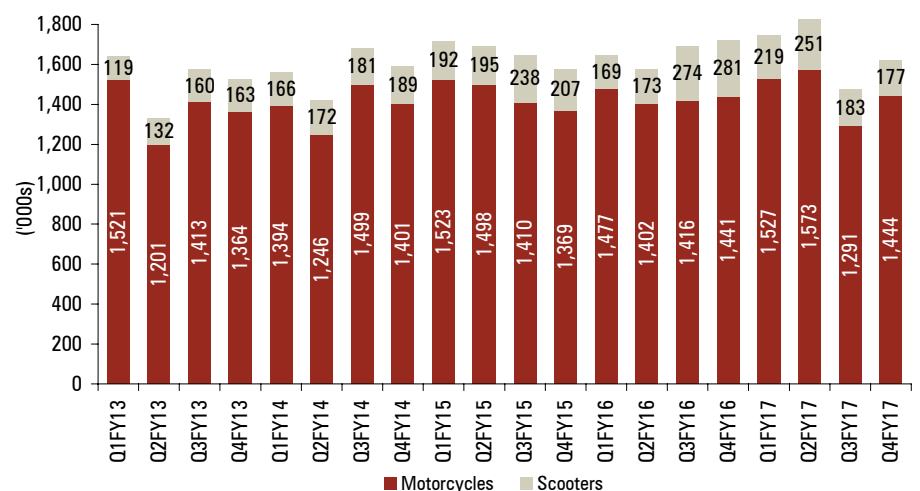
The 2-W industry witnessed fastest growth among all sub-segments (PV, CV, 3-W) in H1FY17E, with domestic volumes growing 17% in H1FY17 (HMCL domestic volume growth~17%). The management was expecting a better performance in H2FY17 vs. H1FY17. However, post demonetisation, growth momentum in Q3FY17 was disrupted and 2-W as a segment was impacted the most as ~45% of 2-W demand comes from rural area & the high cash component nature in 2-W purchases. Given the higher rural exposure, HMCL's domestic volumes declined ~9.3% YoY in H2FY17. However, going ahead, the management expects double digit volume growth on the back of 1) good monsoons 2) infrastructure spending, 3) full recovery post demonetisation, 4) six new launches & 5) recovery in rural growth. The company has witnessed double digit growth in retail sales in April and May till date. We expect HMCL's 2-W volumes to grow 11%, 10% in FY18E, FY19E, respectively.

**Exhibit 1: Growth in revenues**



Source: Company, ICICIdirect.com Research

**Exhibit 2: Product mix**

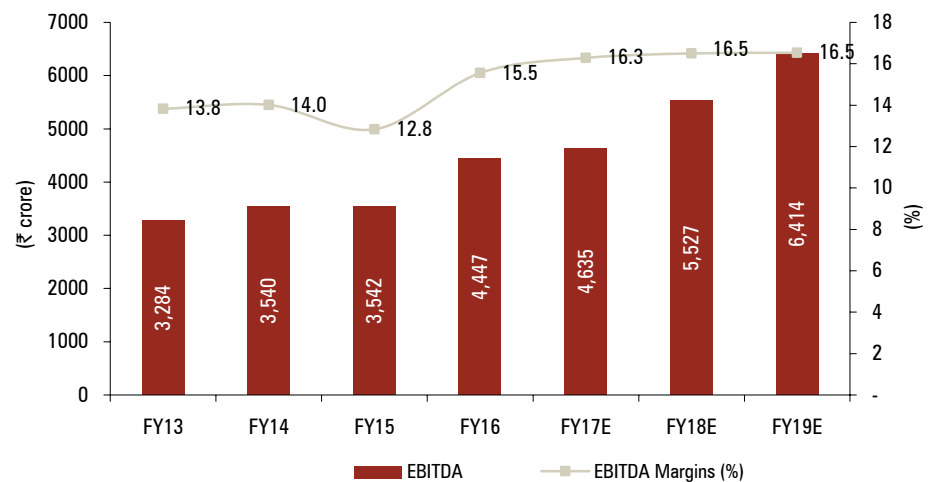


Source: Company, ICICIdirect.com Research

### LEAP gains to support margins

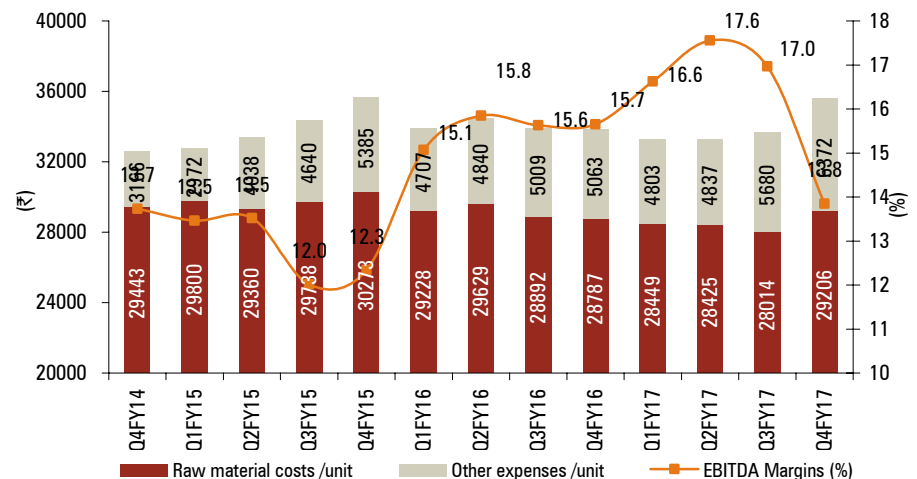
HMCL's margins remained under pressure in FY13 & FY14 as the product mix deteriorated. However, with the launch of the LEAP programme, HMCL has managed to show a significant cost reduction. Annual savings through LEAP have been ₹ 169 crore in FY14, ₹ 329 crore in FY15 & ₹ 283 crore in FY16. However, the company continues to focus on export markets and is likely to invest heavily in advertising & sales promotion. The management has continued its plans to enter 50 markets by 2020 and is targeting volumes sales of ~1.2 million units from exports. HMCL plans to enter some larger markets like Nigeria, Argentina and Mexico. The management expects 50-60 bps addition in margins in FY18E.

**Exhibit 3: Margins trend**



Source: Company, ICICIdirect.com Research

**Exhibit 4: Raw material costs, other expenses hit margins**

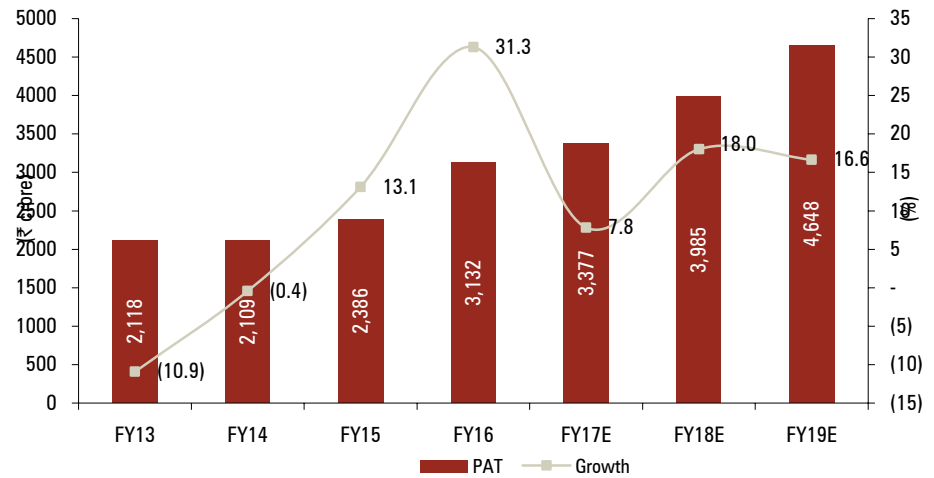


Source: Company, ICICIdirect.com Research

### Profitability to remain at elevated levels

With expected revenue CAGR of ~16.7% in FY17-19E, and operating margins at elevated levels of ~16.5%, we expect profit to increase at ~17.3% CAGR in FY17-19E to ~₹ 4,648 crore.

**Exhibit 5: Trend in profitability**

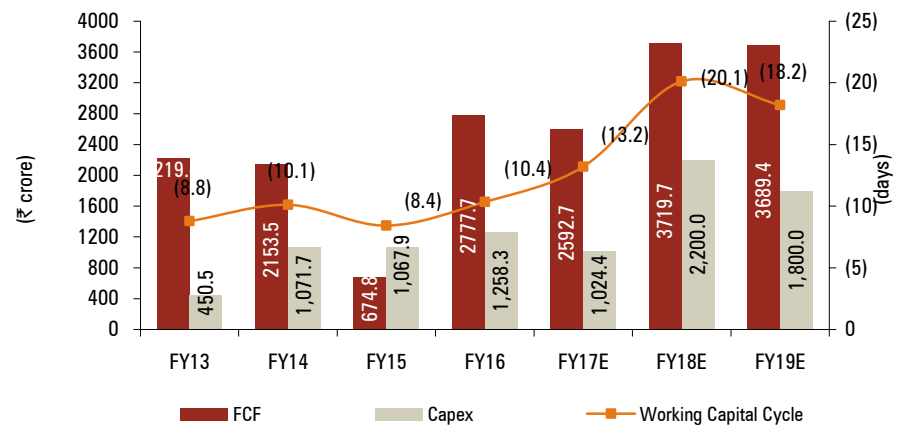


Source: Company, ICICIdirect.com Research

### Strong FCFs as working capital cycle continues to remain impressive

HMCL continues to boast of a negative working capital cycle even as the industry faces a slowdown. Even with fairly aggressive capex of ₹ 2500 crore being planned in FY18E, FCF generation is likely to be strong as the working capital management remains strong. We believe FY18E will witness an FCF of ~₹ 3720 crore.

**Exhibit 6: Negative working capital cycle fuels strong FCFs; capex withstanding**

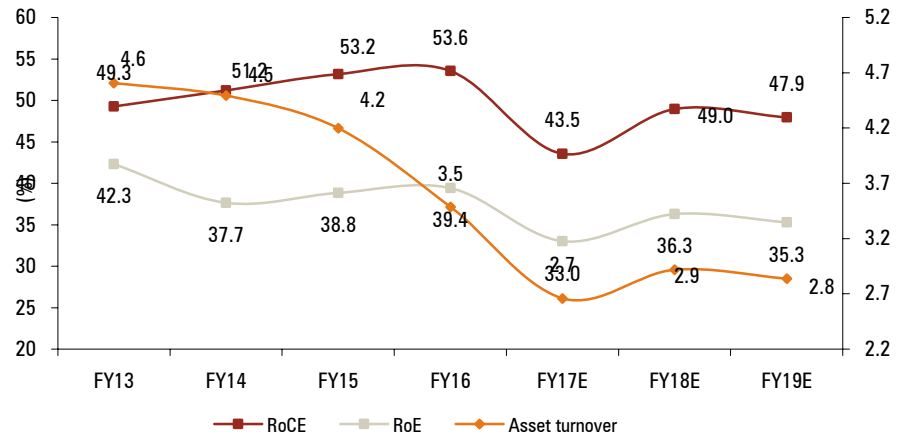


Source: Company, ICICIdirect.com Research

### Return ratios to remain at elevated levels

With a strong asset turnover and high dividend payout, return ratios will remain strong, which is one of the major reasons why we are comfortable with HMCL even in the wake of other issues. However, in the past two years, owing to a slowdown in profitability growth, return ratios have declined slightly.

**Exhibit 7: Return ratios to remain high**

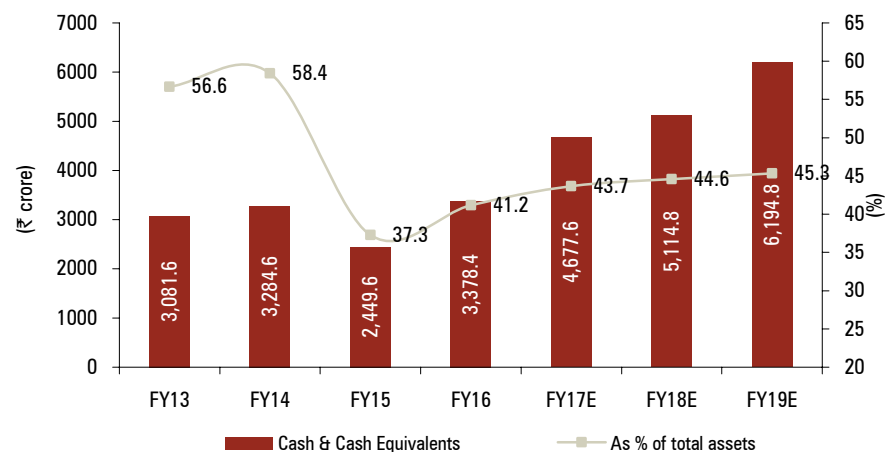


Source: Company, ICICIdirect.com Research

### Decent dividend payout policy, net debt negative profile

With strong CFO generation meeting most capex needs, HMCL has maintained a healthy balance sheet. This has led to a strong dividend payout policy as investment requirements in two-wheelers remain low vis-à-vis other automotive segments. Accumulated profits (ex-appropriations) have largely added to the huge liquid investment portfolio. Thus, the company has a strong balance sheet with negative net debt while the cash and cash equivalents including investment comprise ~40% of the asset side. Going ahead, we expect strong cash flow generation to further lead to an increase in cash & cash equivalents to ~₹ 6195 crore by FY19E.

**Exhibit 8: Net debt negative as strong cash, equivalents form ~40% of total assets**

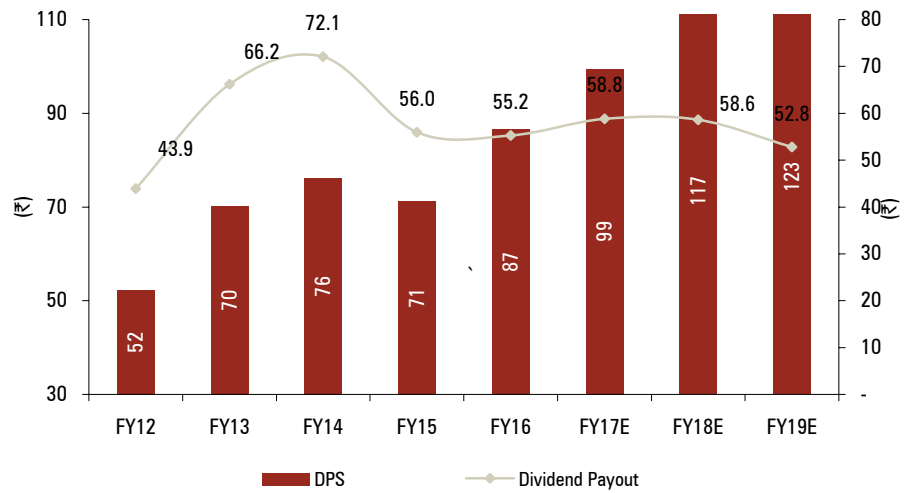


Source: Company, ICICIdirect.com Research

HMCL has also been a decent dividend payer with payouts at ~45% on an average (FY07-15, excluding FY10, FY11 that saw special dividends taking payouts ~100%). Going ahead, we expect dividend payouts to stay at decent levels despite planned capex of ~₹ 2500 crore in FY18E.



**Exhibit 9: Decent dividend payout despite continuing capex plan....**



Source: Company, ICICIdirect.com Research



## Annual report key takeaways

- At the end of FY16, the company had an installed capacity of 8.1 million units with a market share of 39% in domestic 2-W market & 52.4% market in domestic motorcycle market
- In FY16, the company started its first overseas manufacturing facility in Colombia with a production capacity of 80,000 per annum, which will be expanded to produce 150,000 units annually in the next phase. The construction of the second overseas plant at Jessore in Bangladesh, with an annual installed capacity of 1.5 lakh units, is expected to start in the second half of FY17. The company is committed to increase its presence overseas from 29 to 50 countries in 2020
- During FY16, the free cash flow from operations was at 3,914 crore (previous year ₹ 2,250 crore). These cash flows were deployed in capital assets including the setting up of the Centre for Innovation & Technology (CIT), investments and also paid out as dividend during the year
- Raw material costs as a proportion of sales declined from 72.2% to 68.6% as a consequence of lower commodity prices and internal cost control measures (LEAP)
- R&D as percentage of sales rose from 0.5% in FY15 to 1% in FY16
- The company's marketing & publicity spend was 0.1% higher than previous year
- The fifth plant of the company at Halol, Gujarat is nearing completion and is slated to be operational for its Phase I capacities in H2FY17. The company is also working with the Andhra Pradesh government for setting up a manufacturing unit at Sricity in Chittoor District in Andhra Pradesh
- Cash conversion cycle was negative 10 days (FY15 negative nine days)

## Outlook & valuation

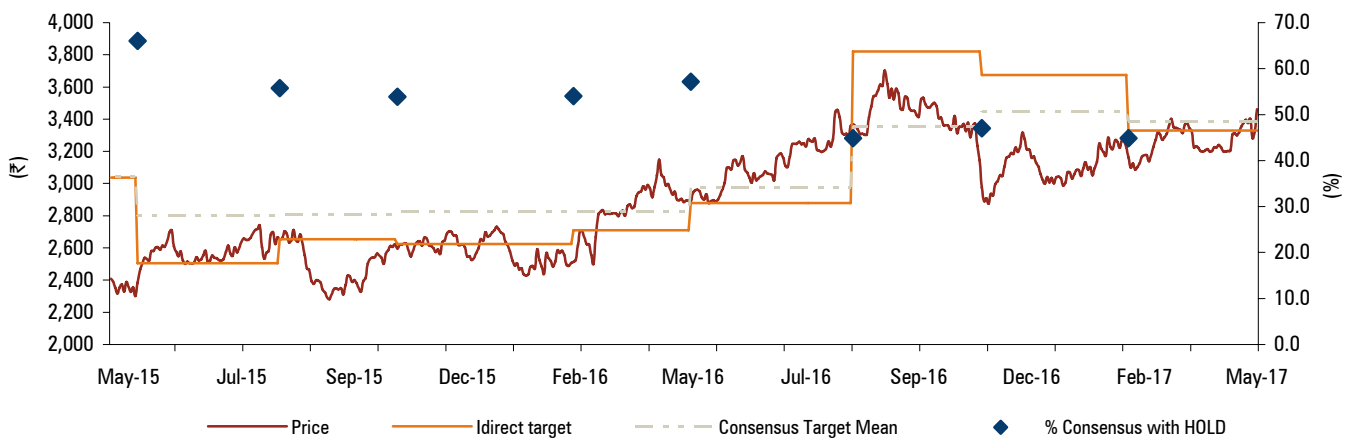
Long term structural drivers exist in the form of the government's focus on doubling farm income, reducing replacement cycles and low finance penetration. Therefore, we change our recommendation on the stock from HOLD to **BUY**. We value HMCL at 17x FY19E EPS to arrive at a target price of ₹ 3975.

**Exhibit 10: Valuations**

	Sales (₹ cr)	Growth (%)	EPS (₹ cr)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	28,599.3	3.0	156.9	31.3	22.9	15.4	39.4	53.6
FY17E	28,475.0	-0.4	169.1	7.8	21.2	14.5	33.0	43.5
FY18E	33,486.3	17.6	199.6	18.0	18.0	12.1	36.3	49.0
FY19E	38,788.6	15.8	232.8	16.6	15.4	10.2	35.3	47.9

Source: Company, ICICIdirect.com Research

### Recommended history vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research

### Key events

Date	Event
Mar-10	Hero MotoCorp looking to add fourth plant on rural demand growth; capacity of 0.85 mn units
Dec-10	Hero Honda and Honda announce break-up of JV after more than two decades. The solo journey of Hero MotoCorp begins
Feb-11	Honda Motor Co. plans to enter into 100 cc segment intensifying competition against Hero MotoCorp
Apr-11	Hero MotoCorp announces dividend payout, which disappoints investors
Nov-11	Hero MotoCorp announces big long term plans of sales for 10 mn units and revenue \$10 billion by 2018
Mar-12	Hero looks at various options to gain technology including Ducati. Investors give a thumbs down
May-12	Hero MotoCorp announces plans to spend ₹ 2,500 crore towards plants in Rajasthan, Gujarat along with R&D centre by 2014
Sep-12	Hero MotoCorp reports weakest monthly volumes since April 2010 as rural demand slows down on weak monsoon
Feb-13	Company continues to report YoY volume declines as 2-W industry faces demand slump, competition intensifies
Apr-13	The management pushes a new five-year warranty strategy. The market response is very favourable
May-14	Hero MotoCorp's new strategy of LEAP starts to show marginal benefits
Jun-14	US based PE firm, Bain Capital sells 2.81% stake in the company for ~₹1481 crore
Jul-14	HMCL forms subsidiary in Columbia as part of its vision of expanding global footprint
Sep-14	Company plans to set up manufacturing plant in Chittoor, Andhra Pradesh with investment of ~₹ 1600 crore and capacity of 1.8 million units
Oct-14	HMCL Neemrana plant in Rajasthan goes on stream, taking the combined installed capacity of four plants at 7.65 million per annum
Dec-14	Tiger Woods becomes brand endorser for HMCL
Mar-15	HMCL JV with Magnetti Marelli, HMC-MM inaugurates its first production and development centre at Manesar, Haryana

Source: Company, ICICIdirect.com Research

### Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Hero Group	31-Mar-17	0.20	39.9	17.76
2	Brijmohan Lall Om Prakash Partnership Firm	31-Mar-17	0.14	27.9	-17.76
3	Life Insurance Corporation of India	31-Mar-17	0.04	8.5	0.00
4	OppenheimerFunds, Inc.	31-Mar-16	0.03	6.0	0.04
5	Aberdeen Asset Management (Asia) Ltd.	30-Jun-16	0.02	4.9	-2.56
6	Aberdeen Asset Managers Ltd.	31-Mar-17	0.02	4.1	0.24
7	Templeton Investment Counsel, L.L.C.	31-Mar-17	0.02	4.0	0.00
8	Lazard Asset Management, L.L.C.	31-Mar-16	0.02	3.4	-1.17
9	The Vanguard Group, Inc.	31-Mar-17	0.02	3.1	0.02
10	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Mar-17	0.01	2.8	0.68

Source: Reuters, ICICIdirect.com Research

### Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	34.6	34.6	34.6	34.6	34.6
FII	39.9	41.3	42.8	43.0	42.9
DII	18.2	17.0	15.4	15.0	15.2
Others	7.3	7.1	7.2	7.3	7.3

### Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Hero Group	+882.2M	+17.8M	Brijmohan Lall Om Prakash Partnership Firm	-882.2M	-17.8M
Genesis Investment Management, LLP	+70.8M	+1.4M	Robeco Institutional Asset Management B.V.	-9.9M	-0.2M
Franklin Templeton Asset Management (India) Pvt. Ltd.	+33.8M	+0.7M	Lyxor Asset Management	-9.4M	-0.2M
Aberdeen Asset Management Company Ltd. (Thailand)	+21.1M	+0.4M	Grantham Mayo Van Otterloo & Co LLC	-4.4M	-0.1M
Aberdeen Asset Managers Ltd.	+11.9M	+0.2M	TOBAM	-4.1M	-0.1M

Source: Reuters, ICICIdirect.com Research

## Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Total operating Income	28,599.3	28,475.0	33,486.3	38,788.6	
Growth (%)	3.7	-0.4	17.6	15.8	
Raw Material Expenses	19,314.9	19,011.8	22,354.3	25,900.0	
Employee Expenses	1,319.6	1,396.0	1,573.1	1,812.4	
Other expenses	3,517.8	3,432.4	4,032.3	4,662.3	
Total Operating Expenditure	24,152.3	23,840.2	27,959.6	32,374.7	
EBITDA	4,447.0	4,634.8	5,526.7	6,413.9	
Growth (%)	27.6	4.2	19.2	16.1	
Depreciation	441.4	492.7	521.5	604.1	
Interest	2.2	6.1	6.1	6.1	
Other Income	391.1	522.4	613.8	743.4	
PBT	4,394.6	4,658.5	5,612.8	6,547.1	
Total Tax	1,262.2	1,281.3	1,627.7	1,898.7	
PAT	3,132.4	3,377.1	3,985.1	4,648.4	
Growth (%)	31.3	7.8	18.0	16.6	
EPS (₹)	156.9	169.1	199.6	232.8	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Profit after Tax	3,132.4	3,377.1	3,985.1	4,648.4	
Add: Depreciation	441.4	492.7	521.5	604.1	
(Inc)/dec in Current Assets	275.8	-218.9	500.9	-453.3	
Inc/(dec) in CL and Provisions	184.2	-39.9	906.1	684.1	
CF from operating activities	4,033.8	3,611.1	5,913.6	5,483.3	
(Inc)/dec in Investments	-956.7	-1,293.9	-100.0	-600.0	
(Inc)/dec in Fixed Assets	-1,258.3	-1,024.4	-2,200.0	-1,800.0	
Others	-117.8	-190.0	-50.0	-150.0	
CF from investing activities	-2,332.8	-2,508.3	-2,350.0	-2,550.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & dividend tax	-1,730.5	-1,986.0	-2,336.5	-2,453.3	
Inc/(dec) in Sec. premium	-	-	-	-	
CF from financing activities	-1,731.1	-1,103.5	-3,232.5	-2,459.4	
Net Cash flow	-27.9	5.4	337.2	480.0	
Opening Cash	159.3	131.3	136.7	473.9	
Closing Cash	131.3	136.7	473.9	953.9	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Liabilities					
Equity Capital	39.9	39.9	39.9	39.9	
Reserve and Surplus	7,904.8	10,184.4	10,943.2	13,138.3	
Total Shareholders funds	7,944.7	10,224.4	10,983.1	13,178.2	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	227.8	414.3	414.3	414.3	
Others	34.9	75.3	75.3	75.3	
Total Liabilities	8,207.4	10,714.0	11,472.7	13,668.0	
Assets					
Gross Block	5,904.4	6,946.5	9,146.5	10,946.5	
Less: Acc Depreciation	2,143.0	2,635.8	3,157.3	3,761.4	
Net Block	3,761.4	4,310.7	5,989.2	7,185.1	
Capital WIP	288.3	270.7	270.7	270.7	
Total Fixed Assets	4,049.7	4,581.5	6,259.9	7,455.8	
Investments	4,266.4	5,889.8	6,039.8	6,789.8	
Inventory	673.0	656.3	688.1	894.0	
Debtors	1,282.8	1,561.9	1,469.8	1,702.5	
Loans and Advances	521.5	21.7	25.6	29.6	
Cash	131.3	136.7	473.9	953.9	
Total Current Assets	2,991.8	2,688.1	2,912.3	2,748.7	
Creditors	2,766.9	3,247.3	4,002.2	4,529.7	
Provisions	883.2	39.0	48.1	54.4	
Total Current Liabilities	3,949.0	4,133.3	4,093.4	4,999.5	
Net Current Assets	-957.2	-1,445.2	-1,181.1	-2,250.8	
Application of Funds	8,207.4	10,714.0	11,472.8	13,668.0	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Per share data (₹)					
EPS	156.9	169.1	199.6	232.8	
Cash EPS	179.0	193.8	225.7	263.0	
BV	397.8	512.0	550.0	659.9	
DPS	86.7	99.5	117.0	122.9	
Cash Per Share	6.6	6.8	23.7	47.8	
Operating Ratios (%)					
EBITDA Margin	15.5	16.3	16.5	16.5	
PBT / Net sales	14.0	14.5	14.9	15.0	
PAT Margin	8.3	8.6	11.0	11.9	
Inventory days	8.6	8.4	7.5	8.4	
Debtor days	16.4	20.0	16.0	16.0	
Creditor days	35.3	41.6	43.6	42.6	
Return Ratios (%)					
RoE	39.4	33.0	36.3	35.3	
RoCE	53.6	43.5	49.0	47.9	
RoIC	108.6	86.8	96.7	91.2	
Valuation Ratios (x)					
P/E	22.9	21.2	18.0	15.4	
EV / EBITDA	15.4	14.5	12.1	10.2	
Market Cap / Sales	2.5	2.5	2.1	1.8	
Price to Book Value	9.0	7.0	6.5	5.4	
Solvency Ratios					
Current Ratio	0.7	0.8	0.5	0.5	
Quick Ratio	0.5	0.6	0.3	0.4	

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Amara Raja (AMARAJ)	923	930	Hold	15770	28.5	29.4	37.3	32.3	31.4	24.8	18.1	17.1	13.7	31.2	26.2	27.9	23.2	20.1	21.2
Apollo Tyre (APOTYR)	235	280	Buy	11856	21.7	21.8	19.7	10.8	10.8	11.9	6.5	7.9	8.6	19.9	13.6	11.0	17.1	15.0	12.2
Ashok Leyland (ASHLEY)	88	100	Buy	24719	2.5	4.0	4.8	34.5	21.9	18.2	11.8	11.6	9.6	22.8	20.8	22.6	17.4	17.4	18.8
Bajaj Auto (BAAUTO)	2990	3000	Hold	86529	126.8	142.2	156.3	22.2	19.8	18.0	16.6	16.8	14.7	42.2	38.9	38.1	29.9	28.9	27.9
Balkrishna Ind. (BALIND)	1538	1400	Buy	14866	58.7	77.0	83.8	20.1	15.3	14.1	11.2	9.6	7.6	20.4	22.5	24.7	20.3	22.5	24.7
Bharat Forge (BHAFOR)	1085	1150	Buy	25272	28.0	30.5	44.6	38.7	35.6	24.3	17.6	17.9	13.4	16.5	14.8	19.5	18.3	17.4	21.5
Bosch (MICO)	23844	25250	Buy	74869	410.2	567.0	566.2	55.2	40.0	40.0	36.0	37.5	26.1	15.1	15.8	15.8	22.5	21.4	25.3
Eicher Motors (EICMOT)	28561	30500	Buy	77144	655.9	833.2	1019.4	43.5	34.3	28.0	24.8	18.4	14.7	39.2	41.1	39.1	36.0	33.6	30.9
Exide Industries (EXIIND)	240	270	Buy	20392	7.3	8.2	9.4	32.7	29.4	25.4	19.0	17.7	14.4	19.4	18.7	20.4	14.0	14.1	14.8
Hero Mototcorp (HERHON)	3560	3975	Hold	71093	156.9	169.1	199.6	22.7	21.1	17.8	15.2	14.3	11.9	53.6	43.5	49.0	39.4	33.0	36.3
JK Tyre & Ind (JKIND)	177	215	Buy	4010	21.0	16.6	18.1	8.4	10.7	9.7	5.8	8.1	6.5	20.1	11.2	11.8	29.1	15.8	18.2
Mahindra CIE (MAHAUT)	245	280	Buy	7914	4.5	10.3	13.5	54.8	23.7	18.1	16.8	11.5	9.1	5.4	10.8	12.6	6.9	11.1	13.2
Maruti Suzuki (MARUTI)	6877	7200	Buy	207829	151.3	242.9	280.1	45.4	28.3	24.5	21.4	18.6	15.8	23.9	26.3	26.5	16.9	20.3	20.4
Motherson (MOTSUM)	409	370	Hold	57334	9.1	10.4	14.0	45.0	39.2	29.1	15.4	12.0	9.7	19.9	17.8	19.6	30.0	18.8	21.7
Tata Motors (TELCO)	443	535	Buy	133988	37.2	19.2	41.1	12.3	23.9	11.1	3.8	5.1	3.8	17.0	8.7	14.2	15.3	6.7	12.5
Wabco India (WABTVS)	5883	7000	Buy	11178	107.7	118.6	158.4	54.6	49.6	37.1	37.9	32.4	24.8	19.4	17.8	19.4	25.5	24.5	26.8

Source: Company, ICICIdirect.com Research

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