

May 30, 2019

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,784		2,784	
Sales (Rs. m)	361,842	378,272	361,842	378,272
% Chng.	-	-	-	-
EBITDA (Rs. m)	50,543	51,887	50,543	51,887
% Chng.	-	-	-	-
EPS (Rs.)	171.5	174.0	171.5	174.0
% Chng.	-	-	-	-

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	322	337	362	378
EBITDA (Rs. bn)	53	49	51	52
Margin (%)	16.4	14.7	14.0	13.7
PAT (Rs. bn)	37	34	34	35
EPS (Rs.)	185.1	169.5	171.5	174.0
Gr. (%)	9.5	(8.5)	1.2	1.4
DPS (Rs.)	85.0	105.0	115.0	115.0
Yield (%)	3.1	3.8	4.2	4.2
RoE (%)	33.8	27.5	25.5	23.8
RoCE (%)	29.9	25.1	23.8	22.4
EV/Sales (x)	1.5	1.5	1.4	1.3
EV/EBITDA (x)	9.3	10.4	10.1	9.7
PE (x)	14.8	16.1	15.9	15.7
P/BV (x)	4.6	4.2	3.9	3.6

Key Data

HROM.BO | HMCL IN

52-W High / Low	Rs.3,819 / Rs.2,475
Sensex / Nifty	39,832 / 11,946
Market Cap	Rs.546bn / \$ 7,814m
Shares Outstanding	200m
3M Avg. Daily Value	Rs.4052.38m

Shareholding Pattern (%)

Promoter's	34.63
Foreign	38.19
Domestic Institution	16.08
Public & Others	11.10
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.9	(10.5)	(24.1)
Relative	6.7	(18.7)	(33.5)

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Aspiring to be a broad based play in 2W's

Hero MotoCorp Analyst Meet shared medium to long-term vision for the Indian 2W market and HMCL's strategy. The management remains optimistic about long term 2W demand scenario and expects HMCL to be the key beneficiary of the same. The management has a 6 focus areas for HMCL to accelerate growth – 1) continuously growing in Entry/Deluxe segments 2) building on premium motorcycle portfolio 3) Increasing its scooter market share 4) scaling up international business 5) nurturing emerging segments like EVs and 6) leading sustainably. We expect near term growth challenges, however normal monsoons and pre buying ahead of BS VI is expected to boost demand from festival season. We maintain 'Accumulate' with a price target of Rs2,784 based on 16x Mar'21 EPS. Deterioration in demand post BS VI pre buying is a key risk to our call.

- Long-term growth outlook for 2W industry positive:** The company remains optimistic on medium to long term growth prospects for the Indian 2W market on the back of increasing consumption of middle class, increasing financial inclusion, expanding addressable market, favorable demography, rising no. of women in workforce, road & infra development and the urbanization trend.
- Entry and deluxe segment to remain core segment:** The entry & the deluxe segments together form ~76% of the Indian 2W market. ~75% of the first time buyers make purchase in the entry segment and then evolve to the deluxe segment. HMCL's currently commands ~66% & ~68% market share in the entry & deluxe segments respectively and the management plans to continue on the growth path in these segments.
- Aiming for 15-20% market share in Premium motorcycles:** HMCL is building on its premium (200cc) motorcycle product portfolio with new launches. It has launched 4 new products in premium space (*Xtreme 200r*, *Xtreme 200s*, *Xpulse 200* and *Zxpulse 200t*) in the last 1 year, all starting at a price point below Rs100K. The company aspires to reach a market share of 10-12% in the near term and 15-20% in the medium term for this segment.
- Enhancing scooter market share through the 125cc segment:** The 125cc segment in scooters has grown ~56% YoY in FY19 (where the overall scooter market remained flat over FY19) & now forms ~25% of the scooter market. HMCL has launched its Destini 125 & more recently, Maestro 125, in this segment. The company is looking at reaching 15-20% market share for scooters in the medium term.
- Scaling up international business:** The company has entered over 35 international markets in the last year. From currently ~3% of revenues, the company is strategizing to accentuate the contribution of exports to ~10% over the medium term.
- Dealer inventory under control:** HMCL's dealer inventory is lower than the industry and past 2-3 months, retails have been outgrowing wholesales.

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	322,305	336,505	361,842	378,272
YoY gr. (%)	13.1	4.4	7.5	4.5
Cost of Goods Sold	218,346	233,177	250,167	261,550
Gross Profit	103,959	103,328	111,676	116,722
Margin (%)	32.3	30.7	30.9	30.9
Employee Cost	15,401	17,302	18,498	20,261
Other Expenses	35,755	36,725	42,634	44,574
EBITDA	52,802	49,301	50,543	51,887
YoY gr. (%)	13.9	(6.6)	2.5	2.7
Margin (%)	16.4	14.7	14.0	13.7
Depreciation and Amortization	5,556	6,020	6,679	7,477
EBIT	47,246	43,281	43,864	44,410
Margin (%)	14.7	12.9	12.1	11.7
Net Interest	63	86	77	67
Other Income	5,258	6,913	6,952	7,133
Profit Before Tax	52,442	50,107	50,740	51,476
Margin (%)	16.3	14.9	14.0	13.6
Total Tax	15,468	16,259	16,490	16,730
Effective tax rate (%)	29.5	32.4	32.5	32.5
Profit after tax	36,974	33,849	34,249	34,746
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	36,974	33,849	34,249	34,746
YoY gr. (%)	9.5	(8.5)	1.2	1.4
Margin (%)	11.5	10.1	9.5	9.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	36,974	33,849	34,249	34,746
YoY gr. (%)	9.5	(8.5)	1.2	1.4
Margin (%)	11.5	10.1	9.5	9.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	36,974	33,849	34,249	34,746
Equity Shares O/s (m)	200	200	200	200
EPS (Rs)	185.1	169.5	171.5	174.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	111,344	117,005	137,423	147,423
Tangibles	74,051	79,988	98,595	108,595
Intangibles	37,293	37,017	38,829	38,829
Acc: Dep / Amortization	64,799	70,819	77,498	84,975
Tangibles	29,193	35,213	41,891	49,369
Intangibles	35,606	35,606	35,606	35,606
Net fixed assets	46,545	46,186	59,926	62,448
Tangibles	44,859	44,775	56,703	59,226
Intangibles	1,687	1,411	3,222	3,222
Capital Work In Progress	3,184	5,419	-	-
Goodwill	-	-	-	-
Non-Current Investments	19,798	28,615	28,615	28,615
Net Deferred tax assets	(5,117)	(5,365)	(5,365)	(5,365)
Other Non-Current Assets	9,379	15,036	15,036	15,036
Current Assets				
Investments	55,911	31,671	33,671	41,171
Inventories	8,236	10,724	12,549	13,120
Trade receivables	15,202	28,216	30,367	31,749
Cash & Bank Balance	1,413	1,365	1,009	2,557
Other Current Assets	2,050	2,392	2,392	2,392
Total Assets	168,048	177,072	191,114	204,738
Equity				
Equity Share Capital	399	399	399	399
Other Equity	117,289	128,172	139,456	151,236
Total Networkth	117,689	128,571	139,855	151,635
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	1,149	1,172	1,272	1,372
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	33,188	33,553	36,111	37,754
Other current liabilities	10,245	7,751	7,851	7,951
Total Equity & Liabilities	168,048	177,072	191,114	204,738

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	52,442	50,107	50,740	51,476
Add. Depreciation	5,556	6,020	6,679	7,477
Add. Interest	63	86	77	67
Less Financial Other Income	5,258	6,913	6,952	7,133
Add. Other	(3,423)	(1,998)	-	-
Op. profit before WC changes	54,637	54,216	57,496	59,020
Net Changes-WC	(27)	(24,871)	(1,319)	(210)
Direct tax	(14,495)	(16,010)	(16,490)	(16,730)
Net cash from Op. activities	40,116	13,335	39,686	42,081
Capital expenditures	(6,679)	(7,895)	(15,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	(16,354)	15,566	(2,000)	(7,500)
Net Cash from Inv. activities	(23,032)	7,671	(17,000)	(17,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(16,975)	(20,969)	(22,966)	(22,966)
Interest paid	(63)	(86)	(77)	(67)
Others	-	-	-	-
Net cash from Fin. activities	(17,038)	(21,055)	(23,042)	(23,033)
Net change in cash	46	(49)	(356)	1,548
Free Cash Flow	33,437	5,440	24,686	32,081

Source: Company Data, PL Research

Key Financial Metrics

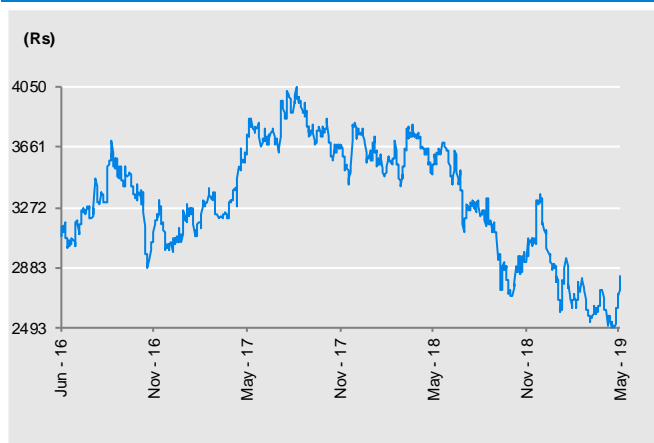
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	185.1	169.5	171.5	174.0
CEPS	213.0	199.6	204.9	211.4
BVPS	589.3	643.8	700.3	759.3
FCF	167.4	27.2	123.6	160.6
DPS	85.0	105.0	115.0	115.0
Return Ratio(%)				
RoCE	29.9	25.1	23.8	22.4
ROIC	33.2	21.0	19.8	19.4
RoE	33.8	27.5	25.5	23.8
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.3)	(0.2)	(0.3)
Net Working Capital (Days)	(11)	6	7	7
Valuation(x)				
PER	14.8	16.1	15.9	15.7
P/B	4.6	4.2	3.9	3.6
P/CEPS	12.8	13.7	13.3	12.9
EV/EBITDA	9.3	10.4	10.1	9.7
EV/Sales	1.5	1.5	1.4	1.3
Dividend Yield (%)	3.1	3.8	4.2	4.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	88,098	90,909	78,648	78,850
YoY gr. (%)	10.5	8.6	7.5	(7.9)
Raw Material Expenses	61,650	62,997	54,145	54,385
Gross Profit	26,448	27,913	24,503	24,464
Margin (%)	30.0	30.7	31.2	31.0
EBITDA	13,773	13,787	11,048	10,693
YoY gr. (%)	0.5	0.1	(19.9)	(3.2)
Margin (%)	15.6	15.2	14.0	13.6
Depreciation / Depletion	1,482	1,518	1,518	1,502
EBIT	12,291	12,269	9,529	9,191
Margin (%)	14.0	13.5	12.1	11.7
Net Interest	21	21	22	22
Other Income	1,157	2,237	1,876	1,642
Profit before Tax	13,427	14,485	11,384	10,811
Margin (%)	15.2	15.9	14.5	13.7
Total Tax	4,336	4,722	3,693	3,508
Effective tax rate (%)	32.3	32.6	32.4	32.4
Profit after Tax	9,092	9,763	7,691	7,303
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	9,092	9,763	7,691	7,303
YoY gr. (%)	(0.5)	(3.4)	(4.5)	(24.5)
Margin (%)	10.3	10.7	9.8	9.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	9,092	9,763	7,691	7,303
YoY gr. (%)	(0.5)	(3.4)	(4.5)	(24.5)
Margin (%)	10.3	10.7	9.8	9.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	9,092	9,763	7,691	7,303
Avg. Shares O/s (m)	200	200	200	200
EPS (Rs)	45.5	48.9	38.5	36.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jun-18	Accumulate	3,980	3,662
2	10-Jul-18	Accumulate	3,980	3,448
3	26-Jul-18	Accumulate	3,824	3,110
4	10-Sep-18	Accumulate	3,824	3,278
5	5-Oct-18	Accumulate	3,824	2,764
6	16-Oct-18	Accumulate	3,385	2,895
7	7-Jan-19	Accumulate	3,385	2,958
8	31-Jan-19	Accumulate	2,947	2,614
9	5-Apr-19	Accumulate	2,947	2,618
10	30-Apr-19	Accumulate	2,784	2,593

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	107	94
2	Bajaj Auto	Reduce	2,823	3,047
3	Bharat Forge	Hold	513	486
4	CEAT	HOLD	1,100	1,057
5	Eicher Motors	Hold	20,161	20,354
6	Exide Industries	Accumulate	231	214
7	Hero Motocorp	Accumulate	2,784	2,593
8	Mahindra & Mahindra	BUY	815	672
9	Maruti Suzuki	BUY	7,600	7,108
10	Motherson Sumi Systems	Accumulate	131	119
11	Tata Motors	Accumulate	192	181
12	TVS Motors	Hold	474	492
13	Wabco India	Accumulate	7,111	6,326

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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