

Retail Equity Research

Hero MotoCorp Limited

Automobiles

BSE CODE: 500182 NSE CODE: HEROMOTOCO
Bloomberg CODE: HMCL:IN SENSEX: 40,052

HOLD

12M Investment Period Rating as per Large Cap
CMP Rs 2,683 TARGET Rs 2,879 RETURN 7% ↑
(Closing: 30-10-19)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↓

Declining volumes impact revenue

Hero MotoCorp is India's leading two-wheeler manufacturer in terms of unit volume sales in a calendar year. It holds nearly 50% market share in the Indian motorcycle market. The company has seven manufacturing facilities, five in India and one each in Colombia and Bangladesh.

- Revenue declined 16.7%, due to sharp fall of 20.7% YoY in volumes.
- EBITDA margin declined 62bps YoY to 14.5%, owing to higher advertising and employee expenses
- PAT declined 10.4% YoY to Rs. 875cr on account of provision for employees who have taken voluntary retirement scheme (VRS).
- Given the weakened consumer sentiment and highly competitive environment, we downgrade our rating to HOLD with a target price of Rs 2,879 based on 16x FY21E adj. EPS.

Weak consumer sentiment affects revenue

Topline fell 16.7% YoY to Rs 7,571cr in Q2FY20, marginally beating street estimates by 2.0%. Weak consumer demand resulted in a volume decline of 20.7%. Spare parts revenue grew 1.5% YoY to Rs 723cr. Realization improved 5.1% over the year, helped by a combination of a 1% price rise in July '19 and marginal growth in the spare parts business. The company has highlighted that sales have been steady during the ongoing festive season. Additionally, the management expects the 125cc segment to fuel the growth as the 110cc segment is showing de-growth of 23%.

Margins face pressure

Gross margin improved by 150bps YoY to 32.3% due to lower raw material expenses. However, EBITDA margin declined 62bps YoY to 14.5% on account of higher advertising and employee expenses. On a sequential basis, the EBITDA margins improved 12bps. The company benefitted from a lower tax rate as per the new corporate tax regime. However, PAT declined 10.4% YoY due to VRS provision of Rs. 60cr given to retiring employees. The company's improved focus on financing has increased the penetration levels to 46% in Q2FY20 (v/s 37% in Q1FY20).

Key concall highlights

- The company expects to launch the BS-VI compliant range of motorcycles in the market post the festival season.
- The management has guided for the tax rate to be 25-26% going forward.
- The company has invested in an electric vehicle start-up Ather Energy, which has launched in Bangalore and is now expanding their business to Chennai.
- HMCL has opened up a technology centre in Germany, which will focus primarily on premium segment motorcycles and electric vehicles.
- Management expects good monsoon this year and the upcoming festive season to improve its H2FY20 numbers.

Valuation

In view of the ongoing slowdown in the auto industry, we expect the competitive environment, weakening consumer sentiment and higher inventory volumes are likely to impact volumes. Factoring these dynamics, we revise our PAT estimates by -21%/-4% for FY20E/FY21E. However we remain optimistic on the company's long-term outlook given its strong brand image, healthy balance sheet and extensive distribution network. We value HMCL at 16x FY21 EPS with a revised target price of Rs 2,879 and assign HOLD rating on the stock.

Company Data

Market Cap (cr)	Rs.53,042
Enterprise Value (cr)	Rs.54,150
Outstanding Shares (cr)	20.0
Free Float	65.0%
Dividend Yield	3.2%
52 week high	Rs.3,383
52 week low	Rs.2,228
6m average volume	0.1
Beta	1.2
Face value	Rs.2

Shareholding %	Q4FY19	Q1FY19	Q2FY20
Promoters	34.6	34.6	34.6
FII's	38.2	35.2	36.5
MFs/Insti	16.1	18.6	19.2
Public	6.5	6.5	6.2
Others	4.6	5.0	3.5
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	11.3%	1.5%	-1.4%
Absolute Sensex	3.2%	0.8%	15.9%
Relative Return*	8.1%	0.6%	-17.4%

*over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	33,651	32,264	36,021
Growth (%)	2.4	-4.1	11.6
EBITDA	4,930	4,510	5,033
EBITDA Margin (%)	14.7	14.0	14.0
Adj. PAT	3,385	2,778	3,594
Growth (%)	-8.5	-17.9	29.4
Adj. EPS	169.5	139.1	180.0
Growth (%)	-8.5	-17.9	29.4
P/E	15.1	19.4	15.0
P/B	4.0	3.7	3.3
EV/EBITDA	10.4	12.0	10.8
ROE (%)	26.3	23.7	22.0
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	7,571	9,091	(16.7)	8,030	(5.7)	15,601	17,901	(12.8)
EBITDA	1,101	1,379	(20.1)	1,158	(4.9)	2,259	2,756	(18.0)
EBITDA margins	14.5	15.2	(62bps)	14.4	12bps	14.5	15.4	(92bps)
Depreciation	203	152	34.0	236	(13.8)	440	300	46.5
EBIT	898	1,227	(26.8)	922	(2.6)	1,820	2,456	(25.9)
Interest	8	2	258.4	4	75.5	12	4	183.3
Other Income	208	224	(7.1)	219	(5.0)	427	339	25.7
Exceptional Items	(60)	-	n.m.	737	(108.2)	677	-	n.m.
PBT	1,038	1,448	(28.4)	1,874	(44.6)	2,912	2,791	4.3
Tax	163	472	(65.5)	616	(73.6)	779	906	(13.9)
Share of profit from Associate	-	-	n.m.	-	n.m.	-	-	n.m.
Minority Interest	-	-	n.m.	-	n.m.	-	-	n.m.
Reported PAT	875	976	(10.4)	1,257	(30.4)	2,132	1,885	13.1
Adjustments	60	-	n.m.	(737)	(108.2)	(677)	-	n.m.
Adjusted PAT	935	976	(4.2)	520	79.8	1,455	1,885	(22.8)
No. of shares	20.0	20.0	-	20.0	-	20.0	20.0	-
EPS (Rs)	46.8	48.9	(4.2)	26.0	79.8	72.9	94.4	(22.8)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	36,162	39,292	32,264	36,021	(10.8)	(8.3)
EBITDA	5,135	5,492	4,510	5,033	(12.2)	(8.4)
Margins (%)	14.2	14.0	14.0	14.0	(22bps)	(1bps)
Adj. PAT	3,495	3,760	2,778	3,594	(20.5)	(4.4)
EPS	178.0	188.0	139.1	180.0	(21.9)	(4.3)



PROFIT & LOSS

Y.E December (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	30,846	32,872	33,651	32,264	36,021
% change	9.5	6.6	2.4	(4.1)	11.6
EBITDA	4,635	5,280	4,930	4,510	5,033
% change	4.2	13.9	(6.6)	(8.5)	11.6
Depreciation	493	556	602	800	872
EBIT	4,142	4,725	4,328	3,710	4,160
Interest	6	6	9	15	15
Other Income	522	526	691	1,161	677
PBT	4,658	5,244	5,011	4,856	4,823
% change	6.0	12.6	(4.5)	(3.1)	(0.7)
Tax	1,281	1,547	1,626	1,401	1,229
Tax Rate (%)	27.5	29.5	32.4	28.9	25.5
Reported PAT	3,377	3,697	3,385	3,455	3,594
Adj*	-	-	-	(677)	-
Adj PAT	3,377	3,697	3,385	2,778	3,594
% change	7.8	9.5	(8.5)	(17.9)	29.4
No. of shares (cr)	20.0	20.0	20.0	20.0	20.0
Adj EPS (Rs)	169.1	185.1	169.5	139.1	180.0
% change	7.8	9.5	(8.5)	(17.9)	29.4
DPS (Rs)	85.0	95.0	87.0	92.0	95.0
CEPS (Rs)	193.8	213.0	199.6	179.1	223.6

CASH FLOW

Y.E December (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	3,870	4,253	3,987	4,255	4,467
Non-cash adj.	(176)	(218)	(1,494)	(134)	(7)
Changes in W.C	334	(54)	(1,514)	143	(175)
C.F. Operation	4,028	3,981	979	4,265	4,284
Capital exp.	(1,149)	(799)	(918)	(884)	(987)
Change in inv.	(992)	(1,345)	1,876	(1,649)	(1,389)
Other invest.CF	197	229	363	0	-
C.F - Investment	(1,944)	(1,915)	1,321	(2,533)	(2,376)
Issue of equity	1	3	2	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(1,737)	(1,698)	(1,897)	(1,738)	(1,838)
Other finance.CF	(360)	(352)	(399)	78	(57)
C.F - Finance	(2,096)	(2,047)	(2,294)	(1,660)	(1,894)
Chg. in cash	(12)	19	6	72	14
Closing cash	137	141	136	208	222

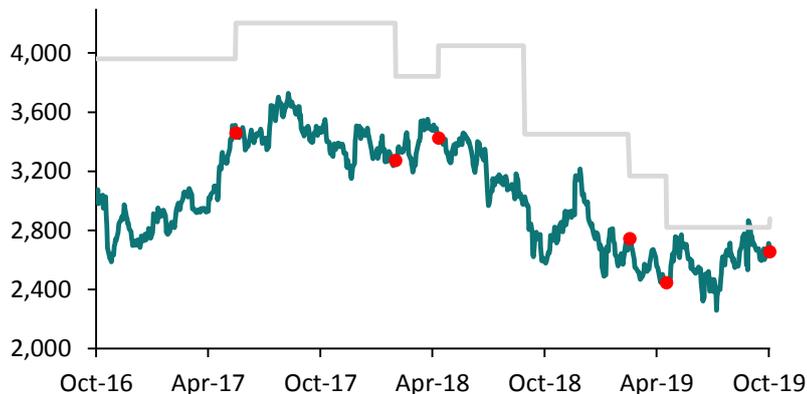
BALANCE SHEET

Y.E December (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	137	141	136	208	222
Accounts Receivable	1,562	1,520	2,822	2,867	3,164
Inventories	656	824	1,072	1,259	1,567
Other Cur. Assets	5,098	6,363	4,085	4,876	4,952
Investments	1,349	1,934	2,802	4,451	5,840
Gross Fixed Assets	6,773	7,405	7,854	8,738	9,725
Net Fixed Assets	4,311	4,486	4,478	4,562	4,676
CWIP	271	204	361	727	727
Intangible Assets	279	283	322	339	339
Def. Tax (Net)	-	-	-	-	-
Other Assets	1,031	984	1,564	966	991
Total Assets	14,694	16,739	17,641	20,254	22,478
Current Liabilities	3,741	4,141	3,909	4,597	5,122
Provisions	75	115	117	120	120
Debt Funds	353	202	221	499	499
Other Liabilities	414	512	537	462	406
Equity Capital	40	40	40	40	40
Reserves & Surplus	10,071	11,729	12,817	14,535	16,292
Shareholder's Fund	10,111	11,769	12,857	14,575	16,332
Minority Interest	-	-	-	-	-
Total Liabilities	14,694	16,739	17,641	20,254	22,478
BVPS (Rs)	506	589	644	730	818

RATIOS

Y.E December	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	15.0	16.1	14.7	14.0	14.0
EBIT margin (%)	13.4	14.4	12.9	11.5	11.6
Net profit mgn.(%)	10.9	11.2	10.1	10.7	10.0
ROE (%)	33.4	31.4	26.3	23.7	22.0
ROCE (%)	39.6	39.5	33.1	24.6	24.7
W.C & Liquidity					
Receivables (days)	18.5	16.9	30.6	32.4	32.1
Inventory (days)	11.2	13.4	16.8	20.4	23.4
Payables (days)	55.4	53.9	52.5	60.6	62.0
Current ratio (x)	1.8	2.0	2.0	1.9	1.8
Quick ratio (x)	1.5	1.7	1.5	1.4	1.4
Turnover & Leverage					
Gross asset T.O (x)	5.0	4.6	4.4	3.9	3.9
Total asset T.O (x)	2.3	2.1	2.0	1.7	1.7
Int. covge. ratio (x)	684.6	755.9	503.3	244.2	286.0
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	2.1	2.2	1.5	1.7	1.5
EV/EBITDA (x)	13.9	13.4	10.4	12.0	10.8
P/E (x)	19.1	19.2	15.1	19.4	15.0
P/BV (x)	6.4	6.0	4.0	3.7	3.3

Recommendation Summary



Dates	Rating	Target
28-Sep-16	BUY	3,960
8-Jun-17	BUY	4,204
23-Feb-18	BUY	3,842
4-May-18	BUY	4,050
20-Sep-18	BUY	3,451
11-Mar-19	BUY	3,168
10-May-19	BUY	2,820
31-Oct-19	HOLD	2,879

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as 'Buy' and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

General Disclosures and Disclaimers

CERTIFICATION

I, Saji John, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an



independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Saji John, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

