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Result Update-Q3FY15
Hero Motocorp Ltd (HMCL)

Global foray

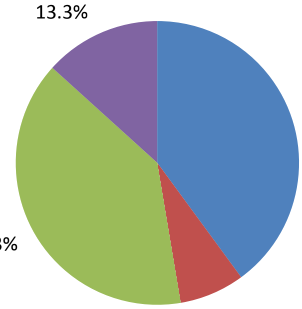
5th Feb, 2015

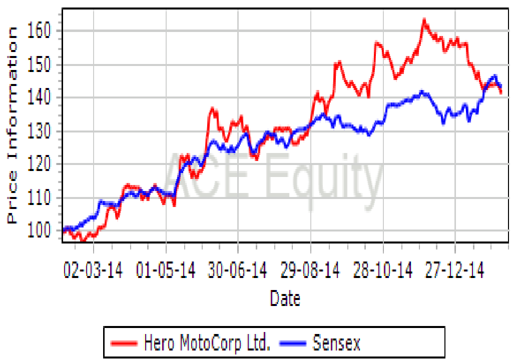
CMP: Rs 2,830
Target Price: Rs 3,140
Recommendation: Hold

Stock Info	
BSE Group	A
BSE Code	500182
NSE Symbol	HEROMOTOCO
Bloomberg	HMCL IN
Reuters	HROM.BO
BSE Sensex	28,883
NSE Nifty	8,724

Market Info	
Market Capital	Rs 56,513 cr
Equity Capital	Rs 39.9 cr
Avg Trading Volume	5,01,850
52 Wk High / low	Rs 3,272/1,907
Face Value	Rs 2

Latest Shareholding Pattern (Dec'14)





Hero Motocorp net sales were down marginally by 0.5% YoY to Rs 6,839 cr, while its volume de-grew by 1.9%. However, realizations grew marginally by 1.2% to Rs 41,203. Volume de-growth was largely driven by 6 % de-growth in motorcycle segment, while scooter segment growth was still robust at 31%.

EBITDA margins declined by 104 bps to 12.0% on YoY basis and stood at Rs 822 cr, margins were impacted by bunching up of publicity expenses during the quarter. However, PAT grew by 11.1% YoY to Rs 583 crs. PAT growth was due to expiry of fixed royalty payment to Honda motors.

Other highlights

- HMCL market share stood at 40.7% in Q3FY15 which is a gain of 290 bps sequentially, largely due to increased share in scooter segment.
- Will launch 2 new scooters Dash (110cc) and Dare (125cc) in Q1FY16 and Q2FY16 respectively.
- Entered Colombian market with 6 best selling models through 120 outlets.
- Have roped in Tiger Woods for brand building in international markets.
- Expects double digit growth during the festive season.
- Increased product prices by modest Rs 150 per unit in October 2014.
- Launched 2 variants of motorcycles Passion Pro TR and Spender Pro Classic.

> OUTLOOK FOR NEXT 2 YEARS: We remain optimistic on HMCL's domestic business outlook over FY15 & FY16, due to expected revival of domestic economy. With its foray in Columbia we expect Hero to expand its global footprint. We have modelled for 12% CAGR volume growth and 3% CAGR price realisation growth over next 2 years.

> FINANCIALS, ESTIMATES & VALUATION: We estimate Hero Moto's Revenue growth at a 2 year CAGR of 16%, expect EBITDA margins close to 13.5% and expect PAT growth at a 2 year CAGR of 25%.

> Valuation: The stock at Rs 2,830 trades at 16.2x our estimated FY16 EPS of Rs 175 per share. We assign a price target of Rs 3,140 at 18x FY16 EPS, and have "**Hold**" rating on the stock.

Y/E March, (in Rs crore)	FY13	FY14	FY15E	FY16E
Net Sales	23,583	25,125	28,882	33,813
yoy%	0.9%	6.5%	15.0%	17.1%
Operating EBIDTA	3,284	3,540	3,863	4,632
Operating EBITDA %	13.8%	14.0%	13.3%	13.6%
PAT	2,118	2,109	2,782	3,484
yoy%	-10.9%	-0.4%	31.9%	25.2%
EPS	106.1	105.6	139.3	174.5
P/E (x)	26.7	26.8	20.3	16.2

Source: Company data, Arihant Research

Quarterly P&L in Rs cr	Q3FY15	Q3FY14	yoy%	Q2FY15	qoq%
Volumes (in numbers)	16,48,548	16,80,940	-1.9%	16,92,523	-2.6%
Net Realization per unit	41,203	40,727	1.2%	40,552	1.6%
Net Sales	6,793	6,846	-0.8%	6,864	-1.0%
Other Operating Income	47	31		52	
Income from Operations	6,839	6,877	-0.5%	6,915	-1.1%
Materials Consumed	4,902	4,999	-1.9%	4,971	-1.4%
Employees Cost	316	244		285	
Other Expenditure	799	736		725	
Total Expenditure	6,017	5,979	0.6%	5,981	0.6%
Operating EBITDA	822	898	-8.5%	935	-12.1%
margin	12.0%	13.1%		13.5%	
Core EBITDA	775	867	-10.6%	883	-12.2%
margin	11.4%	12.7%		12.9%	
Depreciation and Amortization	84	273	-69.3%	75	11.7%
Operating EBIT before Other Income & Excp Items	738	625	18.1%	860	-14.2%
Other Income	94	96		194	
Interest	2.42	2.98		5	
PBT before Exceptional Items	829	717	15.6%	1,048	-20.9%
Exceptional item	0	0		0	
PBT	829	717	15.6%	1,048	-20.9%
Tax Expense	246	193		285	
Effective Tax Rate	29.7%	26.9%		27.2%	
Net Profit after Tax	583	525	11.1%	763	-23.6%
EPS	29.2	26.3		38.2	

Source: Company data, Arihant Research

Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Net Sales	23,583	25,125	28,882	33,813
YoY%	0.9	6.5	15.0	17.1
Other Operating Income	185	151	144	169
Income from Operations	23,768	25,275	29,027	33,982
Materials Consumed	17,398	18,230	21,135	24,514
Total Expenditure	20,484	21,735	25,164	29,350
Operating EBITDA	3,284	3,540	3,863	4,632
Operating EBITDA margin %	13.9	14.1	13.4	13.7
Depreciation	1,142	1,107	530	456
Operating EBIT	2,143	2,433	3,333	4,175.9
Other Income	398	446	465	578
Interest	12	12	13	14
PBT	2,529	2,867	3,785	4,740
Tax Expense	411	758	1,003	1,256
Reported Net Profit	2,118	2,109	2,782	3,484
YoY%	(10.9)	(0.4)	31.9	25.2
Effective Tax Rate	16.3	26.4	26.5	26.5
Reported EPS	106	106	139	174

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Liabilities + Equity				
(a) Share capital	40	40	40	40
(b) Reserves and surplus	4,966	5,560	6,545	7,872
Shareholders' funds	5,006	5,600	6,585	7,912
Non-current liab & Prov	465	74	74	74
Current liabilities	4,171	4,423	4,865	5,352
Total - Equity and liabilities	9,642	10,097	11,524	13,338
Assets				
Non-current assets				
Fixed assets	3,133	3,097	3,252	3,415
Long Term Inv	651	861	861	861
Loans + Adv + Others	780	583	679	793
Non-current assets	4,564	4,541	4,792	5,069
Current assets				
Cash	181	118	206	438
Other Current Assets	4,897	5,438	6,526	7,831
Sub-total - Current assets	5,078	5,556	6,732	8,269
Total - Assets	9,642	10,097	11,524	13,338

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Operating Activities				
PBT	2,529	2,867	3,785	4,740
Add Depr + non op exp	1,142	1,107	530	456
Others	(837)	79	-	-
Total	2,834	4,054	4,315	5,196
Cash Taxes	(613)	(649)	(1,003)	(1,256)
Changes in Working Cap	(331)	(441)	(645)	(819)
Cash Flow from Operations	1,890	2,963	2,666	3,122
Investing Activities				
Change in investments	(133)	(687)	(126)	(71)
Capex	(600)	(933)	(655)	(663)
Cash Flow from Investing	(733)	(1,619)	(780)	(734)
Financing Activities				
Dividends + Taxes paid	(1,044)	(1,403)	(1,797)	(2,157)
Change in Non Curr Liab	(11.9)	(11.8)	-	-
Cash Flow from Financing	(1,056)	(1,415)	(1,797)	(2,157)
Opening Cash	79.8	181.0	117.5	206.4
Changes during year	101.2	(70.8)	88.9	231.3
Adj due to amalgamation/unpaid div	-	7.3	-	-
Closing Cash	181	118	206	438

Ratio Analysis				
	FY13	FY14	FY15 E	FY16 E
Profitability				
Operating EBITDA%	13.8	14.0	13.3	13.6
Core EBITDA%	13.1	13.5	12.9	13.2
PAT%	9.0	8.4	9.6	10.3
ROAE%	45.6	39.8	45.7	48.1
Du Pont ROAE breakup				
PAT / Sales	8.9	8.3	9.6	10.3
Sales / Avg Total Assets	2.4	2.6	2.7	2.7
Avg Total Assets / Avg Eqty	2.1	1.9	1.8	1.7
ROE	45.6	39.8	45.7	48.1
Other Ratios				
Current Ratio	1.2	1.3	1.4	1.5
Long Term Debt / Equity	0.09	0.01	0.01	0.01
EPS	106.1	105.6	139.3	174.5
DPS	60.0	65.0	75.0	90.0
Dividend Payout ratio	56.6	61.5	53.8	51.6
P/E	26.7	26.8	20.3	16.2
BVPS	250.7	280.4	329.7	396.2
P/BV	11.3	10.1	8.6	7.1

Source: Company data, Arihant Research

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Stock Rating

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%