

Hero Motocorp Ltd

₹ 1900

*The Real Hero***Accumulate**

Aug 23, 2013

Company Background

Hero MotoCorp Ltd. (HMCL) is the world's largest manufacturer of two - wheelers, based in India. In 2001, the company achieved the coveted position of being the largest two-wheeler manufacturing company in India and also, the 'World No. 1' two-wheeler company in terms of unit volume sales in a calendar year. HMCL continues to maintain this position till date. HMCL two wheelers are manufactured across 3 globally benchmarked manufacturing facilities. Two of these are based at Gurgaon and Dharuhera which are located in the state of Haryana in northern India. The third and the latest manufacturing plant is based at Haridwar, in the hill state of Uttarakhand.

Key Highlights

- ➔ HMCL has largely regained its market share in the domestic motorcycle segment over last two quarters. Its current share is 54% in 1HCY13 driven by some regain of market share in the executive segment (includes Splendor, Passion models) and strong gains seen in the economy segment (Dawn).
- ➔ In the scooters segment, HMCL has been able to steadily increase its market share to ~21% in 1QFY14 from 19% in FY13 and ~16% in FY12. This is driven by the strong success of Hero Maestro. Overall, in the domestic 2-wheeler segment, HMCL's 1QFY14 market share is 43.8%.
- ➔ HMCL will merge Hero Investments Private Limited (HIPL) with effect from May 16, 2013. It will allot shares in this entity to Individual shareholders after ruling on applicability of stamp duty comes. Post this promoter holding will be 39.92% compared to 52.21% currently. This will lead to an increase in free float of the company from 47.79% to 60.08%.
- ➔ The company is scheduled to launch more than 7-8 models in FY14F; of which 1-2 models will be completely new on which HMCL will not have to pay any royalties to Honda.
- ➔ Export momentum remains weak but HMCL is still maintaining its target of 1mn exports by FY17. HMCL has entered a few markets in Latin America and Africa in Jun-13, which should lead to improvement in volume run-rates moving forward.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	167,430.2	200,674.0	243,115.2
Rev. growth (%)	26.42	19.86	21.15
EBITDA (INR mn)	30,419.1	28,309.4	39,897.8
Net profit (INR mn)	22,318.3	19,279.0	23,781.3
Shares outstanding (mn)	199.7	199.7	199.7
EPS (INR)	111.8	96.5	119.1
EPS growth (%)	74.12	(13.62)	23.35
P/E (x)	17.4	16.4	17.3
RONW (%)	61.6	62.9	66.0
ROCE (%)	60.4	46.8	43.0

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Info Codes

Reuters	: HROH.BO
Bloomberg	: HH@IN
NSE	: HEROMOTOCO
BSE	: 500182

Market Data

52 Wk Range (₹)	: 2004 / 1434
Shares in Issue (mn)	: 199.7
Mkt. Cap (₹ bn)	: 379.61
BSE 2 Wk Avg Vol	: 40000

Share Holding Pattern (%)

Promoters	: 52.21
DII's	: 09.26
FII's	: 29.85
Others	: 08.68

Investment Theme

HMCL expects that scooter segment will again outperform motorcycle segment in FY14. Motorcycle sales are expected to stay subdued and any improvement would be largely dependent on economic recovery. HMCL's strong rural presence should limit the market share loss to a certain extent. Good monsoon could improve rural demand in the near to medium term. FY14 volumes for HMCL could receive boost from export initiatives taken by it. HMCL has made foray into new global geographies and will continue that going forward. HMCL aims to export ~0.35mn units in FY14 double of FY13. Royalty payments to Honda will end in June 2014 & that will be positive for FY15 earnings. With the arrival of the festive season, HMCL is expected to start building up inventory again. While FY14 growth may be muted, growth in FY15 is expected in double digits.

Fill it.... Shut It.... Forget it....

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	174103.7	211489.7	21.47	255441.4	20.78
Other Income	3433.2	2464.6	(28.21)	4199.9	70.41
Change in Stocks	(115.4)	270.0	(333.97)	940.3	248.26
Raw Material Con.	114157.3	145992.7	27.89	178432.0	22.22
Employee Exp.	5603.2	6189.5	10.46	7355.2	18.83
Indirect Taxes	10547.8	15300.3	45.06	18044.4	17.93
Other Exp.	16971.9	18715.0	10.27	17325.2	(7.43)
Operating Exp.	147395.6	185927.5	26.14	220216.5	18.44
Operating Profit	26708.1	25562.2	(4.29)	35224.9	37.80
Total Interest	139.0	216.3	55.61	267.9	23.86
Gross Profit	30002.3	27810.5	(7.31)	39156.9	40.80
Net Dep.	1685.0	3762.9	123.32	10509.8	179.30
Total Taxation	5999.0	4768.6	(20.51)	4865.8	2.04
Net Profit/Loss	22318.3	19279.0	(13.62)	23781.3	23.35

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	38,792.4	35,310.5	51,078.6	60,041.2
Equity Share capital	399.4	399.4	399.4	399.4
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	37,608.1	34,250.8	29,161.2	42,498.9
Long Term Loans	784.9	660.3	21,518.0	17,142.9
Short Term Loans	0.0	0.0	0.0	0.0
USES OF FUNDS	38,792.4	35,310.5	51,078.6	60,041.2
Gross Block	25,162.7	27,509.8	55,384.6	63,082.6
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	9,425.6	10,922.0	14,581.8	25,227.5
Net Block	15,737.1	16,587.8	40,802.8	37,855.1
Capital Work in Progress	1,205.4	481.4	499.6	388.4
Investments	33,687.5	39,257.1	51,287.5	39,642.6
Current Assets	10,274.0	28,978.7	14,821.9	21,160.6
Less : Current Liabilities	22,111.6	49,994.5	56,333.2	39,005.5
Total Net Current Assets	(11,837.6)	(21,015.8)	(41,511.3)	(17,844.9)
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	4,485.7	5,473.4	5,687.1	3,083.9
Mkt Val. Quoted Investments	29,462.2	34,740.5	47,133.5	38,519.8
Contingent Liabilities	1,786.1	730.4	1,319.0	2,526.2
Dividend (%)	1000	5500	5250	2250

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 12	Dec 12	Mar 13	Jun 13
Net Sales	48,636.40	45,363.70	49,599.40	11,862.00
Cost Of Sales	46,180.20	44,990.30	46,577.90	14,831.40
Operating Profit	2,456.20	373.40	3,021.50	(2,969.40)
Recurring Income	7,728.90	7,875.90	4,073.10	8,566.80
Adjusted PBDIT	10,185.10	8,249.30	7,094.60	5,597.40
Financial Expenses	1,150.40	1,448.10	2,049.40	2,667.30
Depreciation	366.80	435.20	465.00	443.00
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	8,667.90	6,366.00	4,580.20	2,487.10
Tax Charges	1,620.20	947.60	727.00	251.10
Adjusted PAT	7,047.70	5,418.40	3,853.20	2,236.00
Non Recurring Items	0.00	0.00	(1,000.00)	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	7,047.70	5,418.40	2,853.20	2,236.00

52 Week Index Relative Percentage Appreciation



Hero vs SENSEX vs Auto

Points to Ponder

- ➔ HMCL entered into a partnership with the reputed business house NGM to foray into Nepal. NGM has been appointed as the distributor of Hero MotoCorp range of two-wheelers in Nepal.
- ➔ HMCL entered into a partnership with the reputed ABANS Group of Sri Lanka. Under the alliance, ABANS has been appointed as the sole distributor of Hero MotoCorp range of two-wheelers in Sri Lanka.
- ➔ HMCL launched range of two-wheelers in Guatemala City, El Salvador and Honduras, marking the iconic Indian brand's first foray into new international markets.
- ➔ Partnership with well known Italian two-wheeler design firm 'Engines Engineering' for next-generation product line-up. 'Engines Engineering' will impart technological know-how in terms of superior design for company's future products.
- ➔ Strategic alliances with the US-based Erik Buell Racing (EBR) for high-cc bikes and Austria-based A v L for engine technologies. HMCL have also been scaling up their own in-house R&D capabilities. Forged an alliance with A v L, Austria, a global leader in engine design and development to develop different categories of engines.
- ➔ HMCL has been known for its exceptional mileage delivery across its product range over the last 28 years. Who can forget the legendary 'Fill it, Shut it, Forget it' campaign that captured the imagination of India and catalysed the biking revolution.
- ➔ The company was awarded the Business Leader in Automobiles (two-wheelers) at the NDTV Profit Business Leadership Awards 2012. HMCL was also conferred with the Best value for Money Bike Maker and Best Advertising in Two-Wheelers Category at the Auto India Best Brand Awards 2012.



In a Nutshell

The story of Hero Honda began with a simple vision - the vision of a mobile and an empowered India, powered by its two wheelers. Hero MotoCorp Ltd., company's new identity, reflects its commitment towards providing world class mobility solutions with renewed focus on expanding company's footprint in the global arena. Hero MotoCorp's key strategies are to build a robust product portfolio across categories, explore growth opportunities globally, continuously improve its operational efficiency, aggressively expand its reach to customers, continue to invest in brand building activities and ensure customer and shareholder delight. The Company's growth in the two wheeler market in India is the result of an intrinsic ability to increase reach in new geographies and growth markets. Hero MotoCorp's extensive sales and service network now spans over to 5000 customer touch points. These comprise a mix of authorized dealerships, service & spare parts outlets, and dealer-appointed outlets across the country. HMCL is setting up a state-of-the-art Global Parts Centre (GPC) spread over 35 acres at Neemrana with an initial 160-crores investment. This technologically advanced GPC will be a new industry benchmark once it becomes fully-operational. The GPC will have an automated storage and retrieval system, automated packaging and sorting system, on-line tracking of parts through warehouse management system (WMS), lean manufacturing systems, etc. During 2012-13, the company commenced construction of their fourth manufacturing plant and a new Global Parts Centre (GPC) at Neemrana in Rajasthan. With a pipeline of investment and a robust plan for market the Company has planned out for a robust future.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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