

January 20, 2012

Reco	Previous Reco
Hold	Accumulate
CMP	Target Price
Rs1,951	Rs 2,170
EPS change FY12E/13E (%)	(2.2)/(3.6)
Target Price change (%)	(3.5)
Nifty	5,049
Sensex	16,739

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	(4)	7	10
Rel. to Nifty	(2)	(3)	20	25

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	HMCL@IN
Equity Capital (Rs mn)	399
Face Value(Rs)	2
No of shares o/s (mn)	200
52 Week H/L	2,248/1,378
Market Cap (Rs bn/USD mn)	390/7,729
Daily Avg Volume (No of sh)	636054
Daily Avg Turnover (US\$m)	25.1

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	52.2	52.2	52.2
FII/NRI	33.9	34.9	33.8
Institutions	5.4	4.2	4.6
Private Corp	1.5	1.6	1.7
Public	7.0	7.1	7.8

Source: Capitaline

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- Results below est. with EBIDTA at Rs 9.4bn (est of Rs 9.8bn) and APAT of Rs 6.1bn (est. of Rs 6.3bn). Tax rate at 15.3% was lower than our est. of 16.7%
- Expects >10% volume growth in FY13 for industry with rural demand outpacing urban demand. Retail sales in January 2012 have been encouraging
- Fine tune our estimates for FY12, lower FY13 EPS by ~3.5% to Rs 140.1. Key upside arise from favorable currency as imports accounts for ~15% of RM (direct +indirect)
- Downgrade rating to HOLD, revise TP to Rs 2,170 (FY13 PER 15.5x). Continue to have concerns with concentrated product portfolio and lack of clarity on R&D

Net Sales – Marginally above est.

Net sales at Rs 60.3bn was marginally ahead of our est. of Rs 59.7bn. Average selling price at Rs 37,951 (~1% above our est.) was up 5% YoY and flat QoQ.

Product Mix %	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Motorcycle (Dom)	93.5	92.8	93.4	93.5	93.2
Scooters (Dom)	6.5	7.2	6.6	6.5	6.8
Total (Dom)	100.0	100.0	100.0	100.0	100.0
Exports	2.7	2.0	2.6	2.6	2.9
Domestic	97.3	98.0	97.4	97.4	97.1
Units Sold	1,428,030	1,454,431	1,529,577	1,544,315	1,589,276

Product Mix %	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Motorcycle (Domestic)					
Economy	14.1	14.3	13.7	14.3	14.6
Executive	79.1	77.9	80.4	79.1	80.3
Premium	6.8	7.8	5.9	6.6	5.1

Source: CRISIL, SIAM, Industry, Emkay research

EBIDTA ~4% below est.

EBIDTA (including royalty amortization) disappointed at Rs 9.4bn vs our est. of Rs 9.8bn. EBIDTA margins stood at 15.6% vs our est. of 16.4%. Higher than expected raw material and staff costs impacted margins. RM to sales came at 72.9% vs our est of 72.1%. Staff cost at Rs 2bn was also higher than our est. of Rs 1.8bn. Other expenses at Rs 4.9bn was in line with our est. Amortisation of royalty at Rs 2.3bn was inline with our expectation.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	157,702	26,620	16.9	22,318	111.8	74.0	61.4	17.4	12.4	11.2
FY11	192,585	22,832	11.9	20,077	100.5	(10.0)	62.5	19.4	14.8	13.1
FY12E	234,689	26,328	11.2	23,996	120.2	19.5	75.5	16.2	12.8	11.4
FY13E	266,086	32,178	12.1	27,979	140.1	16.6	78.1	13.9	10.4	10.4

Source: Company, Emkay Research

Quarterly Summary

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	51,617	53,909	56,833	58,293	60,315	16.9	3.5	175,441	140,102	25.2
Expenditure	45,850	45,610	48,656	49,106	50,885	11.0	3.6	152,458	122,231	24.7
<i>as % of sales</i>	88.8	84.6	85.6	84.2	84.4			86.9	87.2	
Consumption of RM	38,149	39,269	42,448	42,237	43,948	15.2	4.0	128,633	101,842	26.3
<i>as % of sales</i>	73.9	72.8	74.7	72.5	72.9			73.3	72.7	
Employee Cost	1,560	1,680	1,645	1,794	1,993	27.8	11.1	5,432	4,508	20.5
<i>as % of sales</i>	3.0	3.1	2.9	3.1	3.3			3.1	3.2	
Other expenditure	6,141	4,661	4,563	5,075	4,943	(19.5)	(2.6)	18,393	15,880	15.8
<i>as % of sales</i>	11.9	8.6	8.0	8.7	8.2			10.5	11.3	
EBITDA	5,767	8,299	8,178	9,187	9,430	63.5	2.6	22,983	17,871	28.6
Depreciation	560	2,374	2,398	2,785	2,987	433.7	7.2	4,357	1,650	164.1
EBIT	5,207	5,925	5,780	6,402	6,443	23.7	0.6	18,625	16,222	14.8
Other Income	620	743	884	798	763	23.0	(4.4)	2,444	1,938	26.1
Interest	(52)	81	(32)	(45)	(32)	(39.1)	(29)	(109)	(100)	9.1
PBT	5,880	6,588	6,696	7,245	7,238	23.1	(0.1)	21,178	18,259	16.0
Total Tax	790	1,572	1,117	1,208	1,108	40.2	(8.3)	3,433	3,197	7.4
Adjusted PAT	5,089	5,016	5,579	6,036	6,130	20.5	1.6	17,745	15,062	17.8
(Profit)/loss from JV's/Ass/MI								-	-	
Adj. PAT after MI	5,089	5,016	5,579	6,036	6,130	20.5	1.6	17,745	15,062	17.8
Extra ordinary items	(798)	-	-	-	-	-	-	-	(798)	-
Reported PAT	4,291	5,016	5,579	6,036	6,130	42.9	1.6	17,745	14,264	24.4
Reported EPS	21.5	25.1	27.9	30.2	30.7	42.9	1.6	88.9	71.4	24.4

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	11.2	15.4	14.4	15.8	15.6	446	(13)	13.1	12.8	34
EBIT	10.1	11.0	10.2	11.0	10.7	60	(30)	10.6	11.6	(96)
EBT	11.4	12.2	11.8	12.4	12.0	61	(43)	12.1	13.0	(96)
PAT	9.9	9.3	9.8	10.4	10.2	30	(19)	10.1	10.8	(64)
Effective Tax rate	13.4	23.9	16.7	16.7	15.3	186	(138)	16.2	17.5	(130)

Per Vehicle Analysis						YoY(%)	QoQ(%)			YoY(%)
Revenue	36,145	37,066	37,156	37,747	37,951	5.0	0.5	31,684	28,937	9.5
RM	26,714	26,999	27,751	27,350	27,653	3.5	1.1	23,230	21,035	10.4
Staff Cost	1,092	1,155	1,076	1,161	1,254	14.8	8.0	981	931	5.4
Other exp.	4,301	3,205	2,983	3,286	3,110	(27.7)	(5.3)	3,322	3,280	1.3
EBITDA	4,038	5,706	5,346	5,949	5,933	46.9	(0.3)	4,151	3,691	12.4
PAT	3,564	3,449	3,647	3,909	3,857	8.2	(1.3)	3,205	3,111	3.0

Source: Company, Emkay Research

APAT at Rs 6.1bn, ~3% below est.

APAT at Rs 6.1bn (our est. of Rs 6.3bn) benefited from lower effective tax rates. Tax rate at 15.3% was lower than our est. of 16.7%. Other income, depreciation and interest costs at Rs 763mn, Rs 716mn and Rs -32mn were inline with our est.

Revision in estimates

We fine tune our volume estimates for FY12 to 6.3mn units. We lower our FY13 vols by ~3% to 6.9mn units as we factor in moderation in industry volumes. We expect Hero Motocorp to grow by ~10% in domestic market and ~23% in export market in FY13. We lower our FY12/FY13 EPS estimate by 2.2%/3.6% to Rs 120.2/Rs 140.1.

Rs mn	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	6,354,303	6,263,318	(1.4)	7,142,510	6,926,744	(3.0)
Sales	236,229	234,689	(0.7)	270,842	266,086	(1.8)
EBIDTA	27,583	26,328	(4.6)	33,455	32,178	(3.8)
EBIDTA margins (%)	11.7	11.2		12.4	12.1	
Net Profits	24,537	23,996	(2.2)	29,028	27,979	(3.6)
EPS	122.9	120.2	(2.2)	145.4	140.1	(3.6)

Source: Emkay Research

Valuations and View

At CMP of Rs 1,951, the stock trades at PER of 16.2x/13.9x and EV/EBIDTA of 14.6x/12.6x our FY12/FY13 estimates. We lower our target price to Rs 2,170 implying PER of 18.1x/15.5x PER and EV/EBITDA of 14.5x/11.8x our FY12/FY13 estimates. We downgrade our rating to HOLD due to limited upside from current levels.

Key extracts from conference call

- Expect volume momentum to moderate to ~10-12% in Q4FY12. Though deceleration is seen across both rural/urban markets, rural demand is still more resilient. Expect FY13 volume growth at 10%+ levels.
- Inventory levels were around 1 to 1.5 weeks at dealers end. December inventory has moved up slightly to 2 to 2.5 weeks. Initial 3-4 days of sales post 15 Jan have been very encouraging. However, sustainability of sales needs to be monitored during the quarter.
- Management does not expect any meaningful saving in commodity costs going ahead. Company has direct imports (largely cast wheel) of 1.5-2% (USD denominated) and 14%-15% indirect imports (in both USD/Yen). Expect some pressure as vendors are normally compensated with a lag.
- R&D ramp up in terms of talent, international tie ups for technology etc is on track. Management maintained a time frame of 3-3.5 years (from time of separation) for full capability to be able to launch its own products.
- Capacity is expected to reach 7 mn units by FY12 end. Scope exists for ~15% increase in capacity next year by further de-bottlenecking. Haridwar capacity ramp up is on track and is expected to touch 9,500 per day by mid FY13 (from 8,000 currently).
- Strong exports momentum should continue going ahead. Strategy of strengthening market share in existing markets (South Asia, Latin America) and penetrating new markets in the next 2-3 quarter is on track. Management maintained its vision of 1 mn units of exports in the next 5-6 years.
- Maintain target of ~5,000 active touch points by FY12 end from ~4,500 in FY11. All touch points have servicing capability while some of them have dealerships.
- Royalty would not exceed ~5% of sales on new models (beginning with Impulse). Current arrangement of technological tie ups for new products till 2017. Company has the freedom to modify existing models.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	157,702	192,585	234,689	266,086
Growth (%)	27.9	22.1	21.9	13.4
Expenditure	131,082	169,754	208,361	233,908
Materials Consumed	107,484	141,246	172,365	194,163
Employee Cost	5,603	6,190	7,443	8,570
Other Exp	17,995	22,318	28,553	31,175
EBITDA	26,620	22,832	26,328	32,178
Growth (%)	55.7	(14.2)	15.3	22.2
EBITDA margin (%)	16.9	11.9	11.2	12.1
Depreciation	1,915	2,253	2,745	2,897
EBIT	24,705	20,579	23,583	29,281
EBIT margin (%)	15.7	10.7	10.0	11.0
Other Income	3,406	4,249	4,809	4,641
Interest expenses	(206)	(19)	(174)	(198)
PBT	28,317	24,846	28,566	34,120
Tax	5,999	4,769	4,571	6,142
Effective tax rate (%)	21.2	19.2	16.0	18.0
Adjusted PAT	22,318	20,077	23,996	27,979
Growth (%)	74.1	(10.0)	19.5	16.6
Net Margin (%)	14.2	10.4	10.2	10.5
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JV's/Ass/MI	22,318	20,077	23,996	27,979
E/O items	-	(798)	-	-
Reported PAT	22,318	19,279	23,996	27,979
Growth (%)	74.1	(10.0)	19.5	16.6

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	24,911	20,597	23,757	29,479
Depreciation	1,915	2,253	2,745	2,897
Interest Provided	(206)	(19)	(174)	(198)
Other Non-Cash items	(19,726)	(3,739)	-	-
Chg in working cap	25,971	8,557	433	(1,345)
Tax paid	(5,999)	(4,769)	(4,571)	(6,142)
Operating Cashflow	26,866	22,881	22,191	24,691
Capital expenditure	(1,623)	(28,645)	(8,799)	(2,000)
Free Cash Flow	25,243	(5,764)	13,392	22,691
Other income	3,406	4,249	4,809	4,641
Investments	(5,570)	(12,030)	3,000	(1,000)
Investing Cashflow	(3,653)	15,422	7,809	3,641
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	(125)	(333)	(200)	-
Interest Paid	206	19	174	198
Dividend paid (incl tax)	(25,676)	(24,369)	(19,522)	(24,388)
Income from investments	-	-	-	-
Others	4,501	14,792	-	-
Financing Cashflow	(21,093)	(9,892)	(19,547)	(24,190)
Net chg in cash	497	(234)	1,653	2,142
Opening cash position	2,196	19,072	715	2,369
Closing cash position	2,693	18,838	2,369	4,511

The difference between the closing cash as per balance sheet and as per cash flow is due to cash credit balances

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	399	399	399	399
Reserves & surplus	34,251	29,161	33,635	37,226
Net worth	34,650	29,561	34,034	37,625
Minority Interest	-	-	-	-
Secured Loans	-	-	-	-
Unsecured Loans	660	327	127	127
Loan Funds	660	327	127	127
Net deferred tax liability	1,528	17,052	13,182	4,917
Total Liabilities	36,838	46,940	47,344	42,669
Gross Block	27,510	55,385	62,385	64,385
Less: Depreciation	10,922	14,582	21,197	32,359
Net block	16,588	40,803	41,188	32,025
Capital work in progress	481	1,251	3,050	3,050
Investment	39,257	51,288	48,288	49,288
Current Assets	28,826	15,046	26,484	31,837
Inventories	4,364	5,249	6,899	7,819
Sundry debtors	1,084	1,306	8,278	9,383
Cash & bank balance	19,072	715	2,369	4,511
Loans & advances	4,058	7,287	8,880	10,065
Other current assets	248	489	59	59
Current lia & Prov	48,314	61,448	71,666	73,530
Current liabilities	38,051	50,637	59,939	60,239
Provisions	10,264	10,811	11,726	13,291
Net current assets	(19,488)	(46,402)	(45,182)	(41,694)
Misc. exp	-	-	-	-
Total Assets	36,838	46,940	47,344	42,669

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	16.9	11.9	11.2	12.1
Net Margin	14.2	10.4	10.2	10.5
ROCE	72.9	59.3	60.2	75.4
ROE	61.4	62.5	75.5	78.1
RoIC	(262.5)	(145.5)	(372.1)	(285.1)
Per Share Data (Rs)				
EPS	111.8	100.5	120.2	140.1
CEPS	121.3	111.8	133.9	154.6
BVPS	173.5	148.0	170.4	188.4
DPS	110.0	105.0	84.1	105.1
Valuations (x)				
PER	17.4	19.4	16.2	13.9
P/CEPS	16.0	17.4	14.5	12.6
P/BV	11.2	13.1	11.4	10.3
EV / Sales	2.1	1.7	1.4	1.3
EV / EBITDA	12.4	14.8	12.8	10.4
Dividend Yield (%)	5.7	5.4	4.3	5.4
Gearing Ratio (x)				
Net Debt/ Equity	(1.7)	(1.7)	(1.5)	(1.4)
Net Debt/EBIDTA	(2.2)	(2.3)	(1.9)	(1.7)
Working Cap Cycle (days)	(75.5)	(83.5)	(69.6)	(59.0)

Recommendation History: Hero MotoCorp – HMCL IN

Date	Reports	Reco	CMP	Target
19/10/2011	Hero MotoCorp Q2FY12 Result Update	Accumulate	1,985	2,250
07/09/2011	Auto Sector Report Cruising through barriers			
21/07/2011	Hero Honda Q1FY12 Result Update	Hold	1,789	1,840
04/05/2011	Hero Honda Q4FY11 Result Update	Hold	1,600	1,775

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/12/2011	Balkrishna Management Meet Update	Not Rated	160	NA
12/12/2011	Auto Sector Tractors Eying new highs			
23/11/2011	Bajaj Auto Company Update	Buy	1,600	2,200
18/11/2011	Maruti Suzuki Company Update	Reduce	948	900

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