

Top Research Picks

- ➔ Hero Motocorp (HMCL IN, BUY): Honing R&D prowess – maintain BUY
- ➔ Greenply Industries (MTLM IN, BUY): MDF continues to lead growth

Other Research

- ➔ India Economics: Weakness in mfg. hurts Jan IIP - Rate cut hinges on Feb'16 CPI due next week

14 March 2016



BUY

TP: INR 3,300.00

▲ 17.3%

Hero Motocorp

HMCL IN

Honing R&D prowess – maintain BUY

We attended the inauguration of HMCL's mega R&D centre in Jaipur, Rajasthan, christened 'Centre for Innovation and Technology (CIT)'. Set up at a cost of Rs 8.5bn, CIT is spread over 247 acres, has 14 test tracks and over 500 employees from across the world. Management indicated that this facility could considerably shorten the product development cycle from the current 2-4 years. We maintain our positive outlook on the 2W sector and reiterate BUY on HMCL with a Mar'17 TP of Rs 3,300 set at 16x one-year fwd earnings.

- ➔ **Best-in-class launchpad for new models:** In CIT, HMCL now boasts a best-in-class R&D centre for 2Ws in India, headed by BMW veteran Markus Braunsperger – former R&D Head of BMW motorcycles. Spread over 247 acres of land and equipped with 14 test tracks, HMCL's Rs 8.5bn facility will spearhead new launches in three major focus areas: (1) 100-125cc motorcycles – HMCL already has a significant presence and is the market leader here; (2) scooter segment – expand market share (FY16YTD is 16%); (3) premium motorcycles – plans to capture market share. The company aims to launch models in the 200cc+ segment where it has recently showcased the *Xtreme 200S* and a new 250cc+ model.
- ➔ **FY17 the year of the two-wheeler:** We expect the 2W industry to grow at a healthy clip of 11% in the next two years due to (1) higher disposable incomes as the 7th Pay Commission recommendations come through, (2) the possibility of a better monsoon this year after two years of deficient rainfall, as El Nino abates, (3) a low base effect, (4) absence of good public transport in the country as well as limited options for last mile connectivity, and (4) falling vehicle ownership cost due to fuel price reduction and also lower interest costs.
- ➔ **Maintain BUY:** HMCL is likely to generate a revenue/PAT CAGR of 8%/18% over FY15-FY18. With ROE in the range of 38-43% and strong free cash flow generation, we maintain our BUY recommendation on the stock with a Mar'17 TP of Rs 3,300.

Financial Highlights

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (INR mln)	252,755	275,853	281,321	311,259	352,194
EBITDA (INR mln)	35,401	35,422	43,371	46,862	54,122
Adjusted net profit (INR mln)	21,091	25,407	31,357	35,306	41,589
Adjusted EPS (INR)	105.6	127.2	157.0	176.8	208.3
Adjusted EPS growth (%)	(0.4)	20.5	23.4	12.6	17.8
DPS (INR)	65.0	60.0	70.0	80.0	90.0
ROIC (%)	122.5	92.0	85.9	78.8	76.5
Adjusted ROAE (%)	39.8	41.9	42.9	39.6	38.5
Adjusted P/E (x)	26.6	22.1	17.9	15.9	13.5
EV/EBITDA (x)	14.8	14.7	12.2	11.0	9.4
P/BV (x)	10.0	8.6	7.0	5.8	4.7

Source: Company, Bloomberg, RCML Research

11 March 2016



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PRICE CLOSE (10 Mar 16)

INR 2,812.40

MARKET CAP

INR 561.6 bln

USD 8.4 bln

SHARES O/S

199.7 mln

FREE FLOAT

47.8%

3M AVG DAILY VOLUME/VALUE

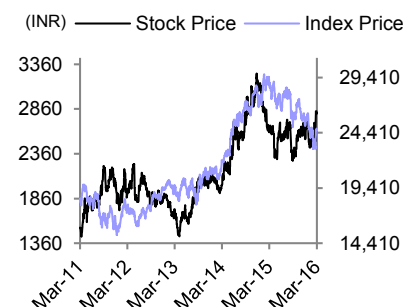
0.4 mln / USD 14.4 mln

52 WK HIGH

INR 2,859.00

52 WK LOW

INR 2,251.30



BUY

TP: INR 3,300.00

▲ 17.3%

Hero Motocorp

HMCL IN



Company Update

INDIA

AUTOMOBILES

Per Share Data

Y/E 31 Mar (INR)	FY14A	FY15A	FY16E	FY17E	FY18E
Reported EPS	105.6	119.5	157.0	176.8	208.3
Adjusted EPS	105.6	127.2	157.0	176.8	208.3
DPS	65.0	60.0	70.0	80.0	90.0
BVPS	280.4	327.6	403.7	488.1	592.4

Valuation Ratios

Y/E 31 Mar (x)	FY14A	FY15A	FY16E	FY17E	FY18E
EV/Sales	2.1	1.9	1.9	1.7	1.5
EV/EBITDA	14.8	14.7	12.2	11.0	9.4
Adjusted P/E	26.6	22.1	17.9	15.9	13.5
P/BV	10.0	8.6	7.0	5.8	4.7

Financial Ratios

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Profitability & Return Ratios (%)					
EBITDA margin	14.0	12.8	15.4	15.1	15.4
EBIT margin	9.6	10.9	14.0	13.5	13.9
Adjusted profit margin	8.3	9.2	11.1	11.3	11.8
Adjusted ROAE	39.8	41.9	42.9	39.6	38.5
ROCE	33.6	35.3	38.8	35.4	34.0
YoY Growth (%)					
Revenue	6.3	9.1	2.0	10.6	13.2
EBITDA	7.8	0.1	22.4	8.1	15.5
Adjusted EPS	(0.4)	20.5	23.4	12.6	17.8
Invested capital	(5.7)	129.8	3.0	39.0	6.2
Working Capital & Liquidity Ratios					
Receivables (days)	13	18	19	18	17
Inventory (days)	13	14	15	14	14
Payables (days)	35	39	41	33	30
Current ratio (x)	0.6	0.9	1.1	1.1	1.3
Quick ratio (x)	0.0	0.0	0.3	0.3	0.5
Turnover & Leverage Ratios (x)					
Gross asset turnover	7.6	6.9	5.6	5.0	4.7
Total asset turnover	2.6	2.7	2.4	2.3	2.2
Net interest coverage ratio	205.8	270.7	355.9	380.2	442.1
Adjusted debt/equity	0.0	0.0	(0.2)	(0.1)	(0.2)

DuPont Analysis

Y/E 31 Mar (%)	FY14A	FY15A	FY16E	FY17E	FY18E
Tax burden (Net income/PBT)	73.6	76.3	72.0	75.0	75.0
Interest burden (PBT/EBIT)	117.9	110.9	110.3	111.7	113.1
EBIT margin (EBIT/Revenue)	9.6	10.9	14.0	13.5	13.9
Asset turnover (Revenue/Avg TA)	257.8	267.6	243.6	230.7	223.6
Leverage (Avg TA/Avg equities)	184.9	169.8	158.1	151.5	146.0
Adjusted ROAE	39.8	41.9	42.9	39.6	38.5

BUY

TP: INR 3,300.00

▲ 17.3%

Hero Motocorp

HMCL IN



Company Update

INDIA

AUTOMOBILES

Income Statement

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Total revenue	252,755	275,853	281,321	311,259	352,194
EBITDA	35,401	35,422	43,371	46,862	54,122
EBIT	24,327	30,022	39,475	42,160	49,029
Net interest income/(expenses)	(118)	(111)	(111)	(111)	(111)
Other income/(expenses)	4,464	4,927	4,188	5,026	6,534
Exceptional items	0	(1,550)	0	0	0
EBT	28,673	34,839	43,552	47,075	55,452
Income taxes	(7,582)	(9,432)	(12,195)	(11,769)	(13,863)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	21,091	23,856	31,357	35,306	41,589
Adjustments	0	1,550	0	0	0
Adjusted net profit	21,091	25,407	31,357	35,306	41,589

Balance Sheet

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Accounts payables	22,906	28,419	24,417	23,137	26,253
Other current liabilities	5,881	3,075	3,376	3,735	4,226
Provisions	15,943	7,997	17,011	19,405	21,806
Debt funds	245	313	313	313	313
Other liabilities	0	0	0	0	0
Equity capital	399	399	399	399	399
Reserves & surplus	55,599	65,014	80,226	97,080	117,910
Shareholders' fund	55,999	65,413	80,625	97,479	118,309
Total liabilities and equities	100,973	105,217	125,743	144,069	170,909
Cash and cash eq.	1,175	1,593	12,683	12,974	27,100
Accounts receivables	9,206	13,896	14,644	15,350	16,404
Inventories	6,696	8,155	8,139	9,133	10,363
Other current assets	10,498	12,443	13,687	15,056	16,561
Investments	40,888	31,541	34,695	38,165	41,981
Net fixed assets	18,973	28,183	32,337	43,684	48,642
CWIP	8,541	7,126	7,126	7,126	7,126
Intangible assets	3,460	944	894	844	794
Deferred tax assets, net	1,060	735	935	1,135	1,335
Other assets	478	602	602	602	602
Total assets	100,973	105,217	125,743	144,069	170,909

Cash Flow Statement

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Net income + Depreciation	32,165	29,256	35,254	40,009	46,681
Interest expenses	(118)	(111)	(111)	(111)	(111)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	545	(3,359)	(5,599)	(3,903)	(87)
Other operating cash flows	(2,957)	(3,286)	22	22	22
Cash flow from operations	29,634	22,500	29,566	36,017	46,505
Capital expenditures	(9,368)	(11,557)	(8,000)	(16,000)	(10,000)
Change in investments	(1,620)	11,015	(3,154)	(3,470)	(3,816)
Other investing cash flows	(5,206)	663	0	0	0
Cash flow from investing	(16,193)	121	(11,154)	(19,470)	(13,816)
Equities issued	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(118)	(9)	(111)	(111)	(111)
Dividends paid	(13,958)	(22,194)	(7,210)	(16,146)	(18,452)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(14,076)	(22,203)	(7,321)	(16,257)	(18,563)
Changes in cash and cash eq	(635)	418	11,091	291	14,126
Closing cash and cash eq	1,175	1,593	12,683	12,974	27,100

11 March 2016

BUY

TP: INR 250.00

▲ 33.2%

Greenply Industries

MTLM IN

MDF continues to lead growth

We recently met the management of Greenply Industries (GIL). Key takeaways: (1) Overall demand scenario remains tepid even as demand for plywood has improved slightly in Jan-Feb'16. (2) Plywood/MDF margins to remain stable in the near term. (3) Excise exemption for the Nagaland unit to help generate Rs 50mn-60mn (pre-tax) as additional income every year for the next 10 years. (4) New MDF plant on track for completion by H1FY19. Maintain BUY; Mar'17 TP Rs 250 (Rs 246 earlier).

- ➔ **Demand conditions remain tepid:** While plywood demand has seen some pick-up in Jan-Feb'16, it continues to be sluggish. In contrast, MDF demand remains strong as the segment is gradually replacing the cheaper plywood market (Rs 45bn-50bn). Management expects margin trends in both segments to remain stable in the near term till demand conditions improve further.
- ➔ **MDF expansion on track:** The new MDF plant at Andhra Pradesh would be commissioned in H2FY19 at a capex of Rs 7bn, to be funded via a mix of debt (Rs 4.5bn) and internal accruals. The peak debt: equity post expansion would be 0.75-0.8x.
- ➔ **Nagaland excise benefit:** In Mar'16, GIL received permission to avail excise exemption and a consequential refund (of ~Rs 50mn-60mn every year) for a period of 10 years (from July'15) for its plywood unit at Tizit, Nagaland. On factoring in this benefit, our FY16-FY18 PAT estimates stand revised upwards by 1-2.5%.
- ➔ **Maintain BUY:** We remain positive on GIL due to its market leadership in the organised plywood/MDF segments and expectations of a 17.8% earnings CAGR over FY16-FY18 with strong return ratios. BUY; Mar'17 TP Rs 250 (Rs 246 earlier).

Financial Highlights

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (INR mln)	13,900	15,606	16,499	18,181	20,850
EBITDA (INR mln)	1,869	2,054	2,445	2,732	3,211
Adjusted net profit (INR mln)	910	1,089	1,268	1,468	1,779
Adjusted EPS (INR)	7.5	9.0	10.5	12.2	14.7
Adjusted EPS growth (%)	6.1	19.7	16.5	15.8	21.2
DPS (INR)	0.6	0.6	0.7	0.8	1.0
ROIC (%)	14.9	17.3	17.8	18.1	16.9
Adjusted ROAE (%)	26.3	25.1	23.3	21.9	21.7
Adjusted P/E (x)	24.9	20.8	17.9	15.4	12.7
EV/EBITDA (x)	14.2	12.8	10.6	9.1	7.7
P/BV (x)	6.0	4.7	3.8	3.1	2.5

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (11 Mar 16)

INR 187.70

MARKET CAP

INR 22.7 bln

USD 337.7 mln

SHARES O/S

120.7 mln

FREE FLOAT

45.0%

3M AVG DAILY VOLUME/VALUE

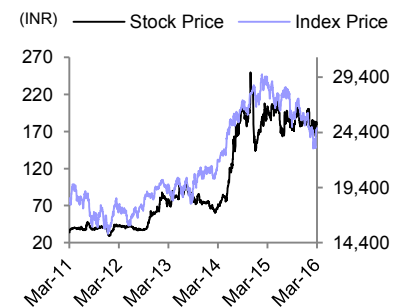
0.1 mln / USD 0.2 mln

52 WK HIGH

INR 227.00

52 WK LOW

INR 151.05



BUY

TP: INR 250.00

▲ 33.2%

Greenply Industries

MTLM IN



Company Update

INDIA

INDUSTRIALS

Per Share Data

Y/E 31 Mar (INR)	FY14A	FY15A	FY16E	FY17E	FY18E
Reported EPS	6.4	10.3	10.5	12.2	14.7
Adjusted EPS	7.5	9.0	10.5	12.2	14.7
DPS	0.6	0.6	0.7	0.8	1.0
BVPS	31.5	40.3	50.0	61.2	74.8

Valuation Ratios

Y/E 31 Mar (x)	FY14A	FY15A	FY16E	FY17E	FY18E
EV/Sales	1.9	1.7	1.6	1.4	1.2
EV/EBITDA	14.2	12.8	10.6	9.1	7.7
Adjusted P/E	24.9	20.8	17.9	15.4	12.7
P/BV	6.0	4.7	3.8	3.1	2.5

Financial Ratios

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Profitability & Return Ratios (%)					
EBITDA margin	13.4	13.2	14.8	15.0	15.4
EBIT margin	10.9	10.1	11.8	12.3	13.0
Adjusted profit margin	6.5	7.0	7.7	8.1	8.5
Adjusted ROAE	26.3	25.1	23.3	21.9	21.7
ROCE	15.4	17.7	17.4	17.6	16.8
YoY Growth (%)					
Revenue	5.8	12.3	5.7	10.2	14.7
EBITDA	2.9	9.9	19.1	11.7	17.6
Adjusted EPS	6.1	19.7	16.5	15.8	21.2
Invested capital	8.5	3.1	1.7	14.6	36.1
Working Capital & Liquidity Ratios					
Receivables (days)	57	56	57	55	54
Inventory (days)	80	78	80	80	78
Payables (days)	60	60	61	61	61
Current ratio (x)	1.0	1.1	1.2	1.4	1.5
Quick ratio (x)	0.0	0.0	0.1	0.0	0.0
Turnover & Leverage Ratios (x)					
Gross asset turnover	2.3	2.3	2.3	2.5	2.9
Total asset turnover	1.4	1.4	1.4	1.4	1.3
Net interest coverage ratio	4.0	4.4	6.6	9.5	12.9
Adjusted debt/equity	1.0	0.7	0.4	0.3	0.4

DuPont Analysis

Y/E 31 Mar (%)	FY14A	FY15A	FY16E	FY17E	FY18E
Tax burden (Net income/PBT)	88.4	77.1	75.0	72.0	70.0
Interest burden (PBT/EBIT)	68.2	89.2	86.7	91.3	93.8
EBIT margin (EBIT/Revenue)	10.9	10.1	11.8	12.3	13.0
Asset turnover (Revenue/Avg TA)	135.1	140.2	139.2	140.9	133.7
Leverage (Avg TA/Avg equities)	297.3	256.8	217.6	192.3	190.0
Adjusted ROAE	26.3	25.1	23.3	21.9	21.7

BUY

TP: INR 250.00

▲ 33.2%

Greenply Industries

MTLM IN



Company Update

INDIA

INDUSTRIALS

Income Statement

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Total revenue	13,900	15,606	16,499	18,181	20,850
EBITDA	1,869	2,054	2,445	2,732	3,211
EBIT	1,510	1,583	1,950	2,233	2,709
Net interest income/(expenses)	(377)	(359)	(297)	(234)	(210)
Other income/(expenses)	34	35	38	41	43
Exceptional items	(138)	153	0	0	0
EBT	1,168	1,259	1,691	2,039	2,542
Income taxes	(257)	(170)	(423)	(571)	(762)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	772	1,242	1,268	1,468	1,779
Adjustments	138	(153)	0	0	0
Adjusted net profit	910	1,089	1,268	1,468	1,779

Balance Sheet

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Accounts payables	2,176	2,249	2,452	2,729	3,212
Other current liabilities	366	367	401	496	533
Provisions	235	290	313	364	417
Debt funds	3,758	3,315	2,615	2,215	3,995
Other liabilities	431	403	403	403	403
Equity capital	121	121	121	121	121
Reserves & surplus	3,685	4,743	5,912	7,265	8,905
Shareholders' fund	3,805	4,863	6,032	7,386	9,026
Total liabilities and equities	10,771	11,489	12,217	13,592	17,585
Cash and cash eq.	83	78	407	149	135
Accounts receivables	2,200	2,572	2,581	2,899	3,271
Inventories	1,960	1,903	2,165	2,318	2,709
Other current assets	1,033	1,116	1,189	1,301	1,498
Investments	0	350	350	350	350
Net fixed assets	4,868	5,231	4,786	4,337	3,884
CWIP	487	139	639	2,139	5,639
Intangible assets	139	99	99	99	99
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	10,771	11,489	12,217	13,592	17,585

Cash Flow Statement

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Net income + Depreciation	1,131	1,713	1,764	1,967	2,281
Interest expenses	377	359	297	234	210
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(89)	(268)	(85)	(160)	(386)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,418	1,804	1,975	2,041	2,106
Capital expenditures	(889)	(445)	(550)	(1,550)	(3,550)
Change in investments	0	(350)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(889)	(796)	(550)	(1,550)	(3,550)
Equities issued	0	0	0	0	0
Debt raised/repaid	(228)	(443)	(700)	(400)	1,780
Interest expenses	(377)	(359)	(297)	(234)	(210)
Dividends paid	(85)	(87)	(99)	(115)	(139)
Other financing cash flows	91	(125)	0	0	0
Cash flow from financing	(599)	(1,014)	(1,096)	(749)	1,430
Changes in cash and cash eq	(70)	(6)	330	(258)	(14)
Closing cash and cash eq	82	77	406	148	134

11 March 2016

Weakness in mfg. hurts Jan IIP

Rate cut hinges on Feb'16 CPI due next week

IIP fell by 1.5% YoY in Jan'16 (RCMLe/consensus: +0.3%/0.5%) – its third straight month of decline – on the back of a 2.8% decline in manufacturing output. The persistent weakness in manufacturing output and the govt.'s decision to stick to fiscal targets increase the expectations of a rate cut, which will depend on the Feb'16 CPI number that is due on Monday.

- ➔ **IIP declines for third straight month:** India's industrial production declined by 1.5% in Jan'16 (our/consensus estimate: +0.3%/-0.5%) after falling by 2.3% during Nov-Dec'15. After remaining healthy during H1FY16, IIP growth has weakened during the last four months primarily due to a decline in manufacturing output.
- ➔ **Weakness in manufacturing persists:** The weakness in manufacturing activity that was seen in the Dec'15 quarter, lingered on in Jan'16. Manufacturing output declined by 2.8% YoY in the month after rising by 1%/4.2% during Oct-Dec'15/H1FY16. However, like the preceding month, the decline in Jan'16 was also not broad-based; output of only 10 of the 22 manufacturing industries contracted on a YoY basis.
- ➔ **Capital goods the main culprit:** Output of capital goods tanked by 20.4% YoY in Jan'16 (-9.8%/+7.8% during Oct-Dec'15/H1FY16) despite a 16.6% rise in the production of CVs (one-fifth of the capital goods index). Among capital goods, the output of 'cable, rubber insulated', 'grinding wheels' and 'boilers' fell by a sharp 20-90% YoY. Ex capital goods, manufacturing output/IIP rose by 0.4%/1.2% in Jan'16 (Apr-Dec'15: 3.5%/3.4%). Output of consumer durables increased by a healthy 5.8% YoY in Jan'16 (off a low base), but was much lower than the 12.4% growth seen in Apr-Dec'15.
- ➔ **Electricity generation improves:** Growth in electricity generation picked up to 6.6% in Jan'16 from just 1.9% in the last two months, led by healthy growth in thermal power output. In contrast, hydro power generation posted a double-digit decline for the fifth consecutive month on the back of a poor monsoon. PLFs for thermal plants ruled lower at 63.2% in Jan'16 vs. 64.8% in the year-ago month. While PLFs have consistently declined over the last 7-8 years, capacity addition has aided generation.
- ➔ **Mining growth slows down:** Mining output rose by just 1.2% in Jan'16 (Apr-Dec'16: 2.1%) on account of a sharp 4.6%/15.2% drop in crude oil/natural gas production (together 49% of total mining output). Coal production, which accounts for a third of the mining output, increased by a sharp 9.1% in Jan'16.
- ➔ **Implication for rate cut:** The weakness in mfg. output adds on to the rate cut expectations from the industry, especially after the govt. stuck to the fiscal targets in the FY17 Union Budget. However, given the steady rise in CPI inflation over the last 6 months, the RBI's decision will be contingent upon the Feb'16 CPI number that is due on Monday.

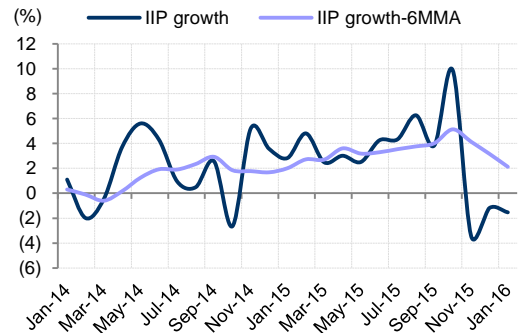


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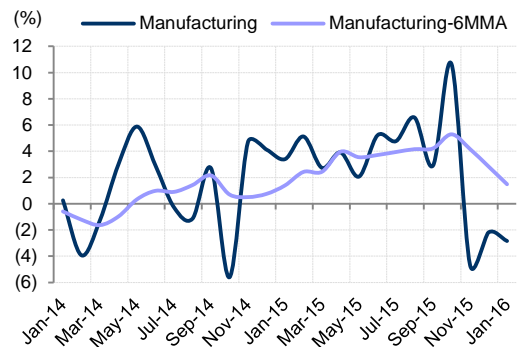
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IIP declines by 1.5% in Jan'16



Source: MOSPI, RCML Research

Manufacturing output falls by 2.8% in Jan'16



Source: MOSPI, RCML Research

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