

Hero Honda

Munjals buy stake from Honda at Rs740 per share - ALERT

- Munjals acquire stake from Honda at Rs740 per share:** The inter se promoter transfer between Honda and the local Munjal family is now complete with Honda selling its 26% stake i.e. 51.9m shares at a price of Rs739.97 per share. The transaction will involve an outlay of Rs38.4B (\$850m).
- The price at which the sale has transacted appears to be based on a Right of First Refusal agreement that these JV partners had entered into earlier. This is similar to the transaction between TVS and Suzuki when the JV partners split up. TVS Motors and Suzuki parted in Sep 2001, with the Indian promoters buying the latter's stake at Rs15 per share, which was significantly below the prevailing market price of c.Rs70.
- The Munjal family has bought the stake of Honda via its company – Hero Investments Private Ltd. The promoter shareholding now stands as follows:

Table 1: Hero Honda Promoter Holding

	Prior	% Stake	Post	% Stake
Hero Investments Private Ltd	34,612,460	17.33%	86,531,210	43.33%
Bahadur Chand Investments Pvt Ltd	17,306,250	8.67%	17,306,250	8.67%
Family Members	422,030	0.2%	422,030	0.2%
Honda Motor Co Ltd (Japan)	51,918,750	26.0%		
PROMOTER HOLDING	104,259,490	52.2%	104,259,490	52.2%

Source: BSE, Company

- Media (Economic Times) reports that the Munjal Group will likely offload a part of the acquired stake to private equity firms. We await further clarity on the same.
- Our View:** We believe that while the transition for Hero Honda will be gradual; the local group will face challenges relating to a) R&D scale up & incremental costs therein, b) branding challenges in new export markets, and c) rising competition in the local markets, which could entail higher brand spends. We re-iterate our UW rating on the stock.

Underweight

HROH.BO, HH IN

Price: Rs1,532.80

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Automobile Manufacture

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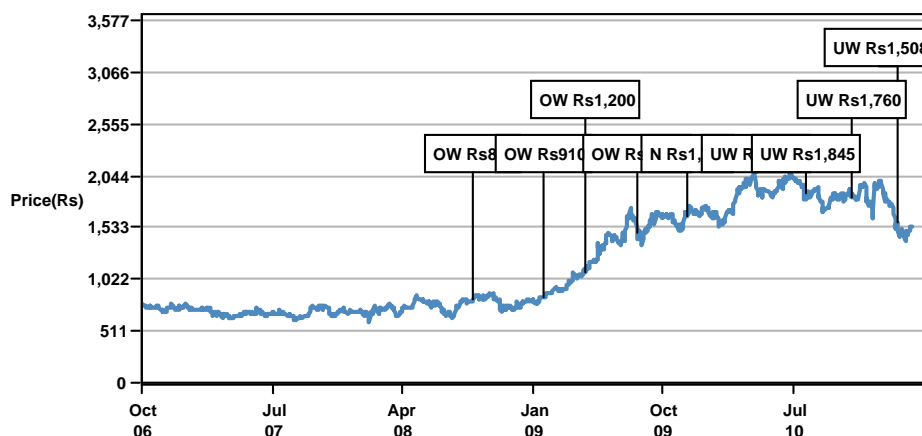
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Hero Honda (HROH.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
28-Aug-08	OW	821.75	880.00
21-Jan-09	OW	839.40	910.00
22-Apr-09	OW	1081.90	1200.00
07-Aug-09	OW	1481.25	1680.00
22-Nov-09	N	1653.50	1710.00
13-Apr-10	UW	2085.95	1915.00
30-Jul-10	UW	1874.30	1845.00
31-Oct-10	UW	1838.35	1760.00
06-Feb-11	UW	1583.20	1508.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage May 18, 2004 - Jun 29, 2004. This chart shows J.P. Morgan’s continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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