



Report Date	January 22, 2008.
Company Name	Honda Siel Power Products Ltd.
Recommendation	BUY

CMP – Rs. 220/-	Target Price – Rs.350.	Mkt. Cap. Rs. 223 crore
------------------------	-------------------------------	--------------------------------

Investment Rationale

- A 68% subsidiary of Honda Motor Company (HMC), Japan, Company has put up an encouraging performance for Q3 FY08. Net Sales were up by 4.2% to Rs.64.37 crore. OPM% improved smartly to 15.3% (13.5%) as decline in raw material costs to 54.1% of Net Sales (61.5%) more than offset rise in other heads of expenses. Consequently, PBT (before extraordinary items) was up by 35.7% to Rs.11.46 crore. A lower extraordinary expense of Rs.9 lakh on account of restructuring costs (Rs.1.75 crore) led to 70% spurt in PBT (after extraordinary items) to Rs.11.37 crore and 65.6% increase in PAT to Rs.7.22 crore.
- For 9 months ended December 2007, Net Sales were up by 9.4% to Rs.168.62 crore (Rs.154.10 crore). OPM% improved to 12.7% (11.6%). Higher sales coupled with improved margins and higher other income of Rs.9.01 crore (Rs.5.78 crore) led to 39.1% growth in PBT (before extraordinary items) to Rs.26.38 crore. A lower extraordinary expenses of Rs.41 lakh (Rs.1.75 crore) spurred up PAT by 51.6% to Rs.16.59 crore.
- HSPP manufactures portable generators, water pumping sets and general purpose engines. Continuing Power deficit in various parts of the country, coupled with increased infrastructure spending and computerization will lead to significant growth in power back-up solutions such as gensets. With more mechanization in agriculture and horticulture/floriculture, demand for engines and water pumping sets is poised to escalate. Significant investments in infrastructure development projects, will perk up demand for engine-based construction equipments.
- With a view to improve its profitability, HSPP has been continuously undertaking indigenization program. It has started relocating its manufacturing facilities from Rudrapur to Greater Noida in order to consolidate its operations under one roof and thus save cost. Once, this restructuring is over, there will be considerable reduction in cost of production which will in turn improve margins.
- HSPP will introduce 5 KVA genset for home and commercial use in last quarter of FY 08. It also plans launch GX type latest pumps. Initially, it will import and sell and only once volume picks up, company will commence manufacturing in India. Honda, Japan is a long term player, and will introduce new products from their product range as and when proper demand is available in India. Thus company's strong parentage ensures access to latest technology & products.
- With a view to take advantage of emerging opportunities, HSPP is planning to expand its existing capacity of 175,000 to ~ 300,000 units once the restructuring is over.

Valuation

- HSPP is a cash rich company. At CMP of Rs.220 share is trading at 8.8 times FY 2008 expected EPS of Rs.25 and 6.9 times FY 2009 expected EPS of Rs.32. Company is poised for excellent growth. We recommend to "BUY" the share at CMP.

Financial Summary

Rs. Crore

	FY 2008	FY 2007	%	FY 2008	FY 2007	%	2007 A
Rs. Crore		Q3	Change		9 months	Change	12 mths
Net Sales	64.37	61.75	4.2%	168.62	154.10	9.4%	229.22
Total Expenses	54.51	53.40	2.1%	147.14	136.27	8.0%	203.75
EBITDA	9.86	8.35	18.1%	21.48	17.83	20.5%	25.47
EBITDA (%)	15.3%	13.5%		12.7%	11.6%		11.1%
Interest Expenses / (Income)	0.06	0.04	50.0%	0.14	0.12	16.7%	0.16
Depreciation	1.33	1.92	-30.6%	3.97	4.53	-12.3%	6.12
Other Income	2.99	2.05	45.9%	9.01	5.78	55.9%	9.58
P.B.T. before Extra Ordinary Items	11.46	8.44	35.7%	26.38	18.96	39.1%	28.77
Extra Ordinary Items	(0.09)	(1.75)	-94.9%	(0.41)	(1.75)	-76.6%	(1.75)
P.B.T. after Extra Ordinary Items	11.37	6.69	70.0%	25.97	17.21	50.9%	27.02
Net Profit	7.22	4.36	65.6%	16.59	10.94	51.6%	17.38
Equity Capital (Rs 10/-)	10.14	10.14		10.14	10.14		10.14
EPS for the period (Rs)	7.18	5.43	32.3%	16.62	11.89	39.8%	18.25

Disclosures

The author may have held / hold the above-mentioned securities in their personal accounts or on behalf of the clients. The information contained has been obtained from sources believed to be reliable. While taking utmost care in making the report, the authors or the company does not take responsibility for the consequences of the report. All investment and information and opinion are subject to change without notice. The investment recommendations may not be suitable to all the investors.

January 23, 2008