



Between the Lines

Daily Corporate News Analysis

August 13th 2009

Hero Honda Motors Ltd

Market Out Performer ; Hold

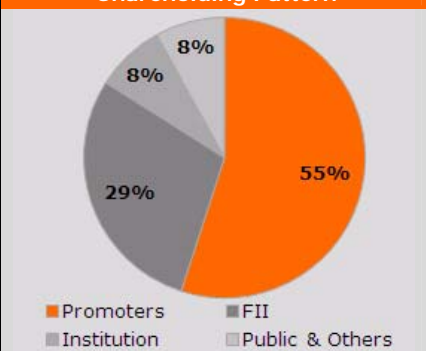
Company Info

| | |
|--------------------|--------------|
| CMP (Rs) | 1,468.6 |
| Target Price (Rs) | 1,540 |
| Sector | AUTO |
| 52 week H/L (Rs) | 1765 / 661.1 |
| BSE Code | 500182 |
| NSE Code | HEROHONDA |
| Face Value (Rs) | 2 |
| Market Cap (Rs Cr) | 28,685 |

Price Performance

| % | 1m | 3m | 1yr |
|--------------------|-------|-------|-------|
| Absolute | 1.0% | 20.2% | 75.7% |
| Relative to Sensex | -8.5% | -3.8% | 76.6% |

Shareholding Pattern



INVESTMENT RATIONALE

Higher than expected volumes enhanced the topline: Topline improved by 34% y-o-y to Rs3,822 crore in Q1FY10 on the back of 25% y-o-y growth in volumes and 7% growth in realisation. Robust volume growth was driven by strong rural demand and easing of interest rates willingness of banks to finance two-wheelers. The volume growth indicates the highest ever volumes recorded by HH in any quarter and have crossed the 1 million mark for the first time ever. Realisation improved due to better product mix and price hike taken last year. HH outperformed the two-wheeler industry with a domestic market share of over 59%. Robust operating performance: HH OPM stood at 17%, an improvement of 501 bps y-o-y. The expansion in margin was mainly on account of benefits from the decline in raw material cost and better product mix towards higher profitable bikes. Raw material cost as a percentage of sales declined from 72% in Q1FY09 to 68% in Q1FY10. The decline in raw material prices led to a robust growth of 85% y-o-y in the operating profit to Rs650 crore.

Net Income improved due to tax benefit from the Haridwar plant: Net profit stood at Rs500 crore, a growth of 83% y-o-y. The effective tax rate for the quarter was 28% due to tax benefits enjoyed in the Haridwar plant. Thus sharp growth on the Operating performance and lower effective tax rate led to the expansion in the NPM by 349 bps y-o-y to 13%. HH management is confident of achieving the volume mark of 4 million by FY10 and expects the growth momentum to be good till Q2FY10. The company is planning nine new launches in FY10 which also includes variants.

Key Developments

- The company has crossed the 1 million mark for the first time in any quarter and aims to reach 4 million mark in FY10.
- To maximize tax benefit at Haridwar plant HH plans to produce 1.2 million units by FY10
- HH has chalked out Rs.350 crore capacity expansion and modernization plan in FY10 to upgrade plants and to develop two-wheelers engines conforming the emission norms of 2010
- HH is planning to launch ~9 new products which include variants by FY10. These products will be a healthy mix of economy, executive and premium segment

Financial Performance

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Valuations

At the CMP of Rs 1468.6, HH is trading at 22.4x its FY09 EPS of Rs.64.2 HH's with its focus on rural market and tie-ups with regional NBFC's for financing will help the company to maintain growth momentum till medium term.

We recommend a Hold on the stock with target price of Rs 1540, giving an upside of 5%



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