

Hero Honda Motors

Rs1,795

Revise EPS estimates upwards

- We met the management of Hero Honda and came back more confident on growth sustainability. Higher production at Haridwar (full capacity by end of March 2010) and volume boost expected due to tax relief will drive earnings growth
- Revise volume estimates upwards 3% at 4.5mn units for FY10 and 4% at 5.1mn units for FY11
- FY11E EPS revised upwards by 8% to Rs123. Maintain Outperform

40-45% of FY11 production from Haridwar

Haridwar plant will attain full capacity (2mn units) by end of March 2010, which will contribute 40-45% of FY11 production (30-35% in FY10). Effective tax rate would decline to 21% in FY10E and 20% in FY11E. The company has achieved 65% vendor localisation.

Volume outlook positive; margin outlook stable

Volume growth of 25% YTD FY10 at 3.8mn units is higher than our expectation, which indicates strong demand. We expect motorcycle sales to get a further boost from higher disposable income on account of tax benefits for individuals in Budget 2010. We revise volume estimates upwards by 3% at 4.5mn units for FY10 and by 4% at 5.1mn units for FY11. We expect margin to stabilise at 17.5% in FY10 and 16.6% in FY11. Decline in FY11E margin would be mainly increase in costs due to change in emission norms and rising raw material prices.

Revise EPS estimates upwards

We have revised EPS estimate to Rs110 (up 8%) for FY10 and Rs123 (up 8%) for FY11. RoCE of 46% and cash per share of Rs386 in FY11E are comforting. Management has indicated it may increase payout ratio in FY10 and FY11. The stock trades at 15x FY10E and 13x FY11E. Maintain Outperform.

Key takeaways:

- Capex plans of Rs1-1.5bn over FY10-11
- Rs50bn cash on books in FY10
- Financing as a percentage of total rises to 13-14%
- Talks with Honda for exports yet to be concluded
- Two-wheeler prices to come down after introduction of GST

KEY FINANCIALS

Y/E 31 March	2007	2008	2009	2010E	2011E
Revenue	98,945	103,318	123,569	156,546	180,783
EBITDA	11,521	13,499	17,474	27,411	29,912
EBITDA margin (%)	11.6	13.1	14.1	17.5	16.5
PAT	8,579	9,689	12,815	21,890	24,598
FDEPS (Rs)	43.0	48.5	64.2	109.6	123.2
% growth	(11.7)	12.9	32.3	70.8	12.4
P/E (x)	41.8	37.0	28.0	16.4	14.6
ROCE (%)	38.4	38.1	40.4	45.0	36.0

Source: BRICS Research, Company Data

Outperform

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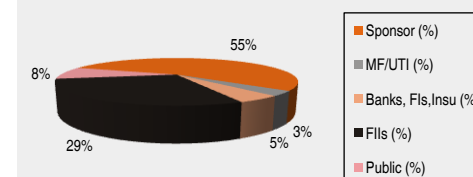
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KEY DATA

Bloomberg	HH@IN
Reuters	HROH.BO
52-wk H/L(Rs)	1818.8/889
6-m avg trd value	US\$17.4mn
Market cap	Rs358.4bn/US\$7.8bn
Shares o/s	199.7mn
Face value	Rs2

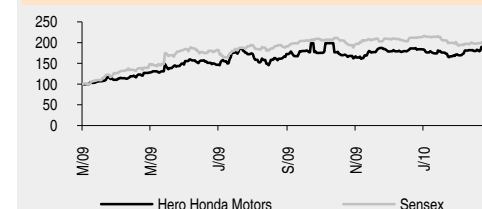
Source: Bloomberg

SHAREHOLDING (%)



Source: CMIE

PRICE PERFORMANCE



Source: Bloomberg

INCOME STATEMENT

	(Rs mn)				
Y/E 31 March	2007	2008	2009	2010E	2011E
Revenue	98,945	103,318	123,569	156,546	180,783
Operating exp	87,425	89,819	106,096	129,135	150,872
EBITDA	11,521	13,499	17,474	27,411	29,912
Depreciation	1,398	1,603	1,807	2,170	2,485
EBIT	10,123	11,896	15,667	25,241	27,427
Other income	2,341	1,854	1,809	2,142	2,980
Interest paid	16	(358)	(317)	(300)	(325)
PBT	12,447	14,108	17,793	27,683	30,732
Tax	3,882	4,424	4,997	5,819	6,150
APAT	7,771	9,689	12,815	21,890	24,598
Minority interest	—	—	—	—	—
EO inc / (exp)	808	—	—	—	—
PAT	8,579	9,689	12,815	21,890	24,598
Shares o/s (mn nos)	200	200	200	200	200
Revenue growth (%)	13.6	4.4	19.6	26.7	15.5
PAT growth (%)	(11.7)	12.9	32.3	70.8	12.4
EBITDA margin (%)	11.6	13.1	14.1	17.5	16.5
FDEPS (Rs) recurring	43.0	48.5	64.2	109.6	123.2
FDEPS (Rs) reported	43.0	48.5	64.2	109.6	123.2

BALANCE SHEET

	(Rs mn)				
Y/E 31 March	2007	2008	2009	2010E	2011E
Net fixed assets	13,555	15,648	16,943	16,072	15,088
Investments	19,739	25,668	33,688	44,188	64,188
Current assets	9,133	9,368	10,135	21,906	26,546
Inventories	2,756	3,171	3,268	4,108	4,518
Sundry debtors	3,353	2,974	1,499	3,696	4,520
Cash & bank balance	358	1,311	2,196	10,085	12,868
Loans & advances	2,667	1,912	3,172	4,018	4,640
Total assets	42,426	50,683	60,765	82,166	105,821
Networth	24,701	29,862	38,008	55,305	75,310
Share capital	399	399	399	399	399
Reserves & surplus	24,301	29,463	37,608	54,905	74,911
Minority interest	—	—	—	—	—
Total debt	1,652	1,320	785	785	785
Secured loans	1,652	1,320	785	785	785
Unsecured loans	—	—	—	—	—
Current liabilities & prov	14,792	18,247	20,528	24,632	28,282
Current liabilities	10,419	13,250	15,259	17,214	20,533
Provisions	4,372	4,998	5,270	7,418	7,749
Net deferred tax liab	1,282	1,254	1,444	1,444	1,444
Total liabilities	42,426	50,684	60,765	82,166	105,821

CASH FLOW STATEMENT

	(Rs mn)				
Y/E 31 March	2007	2008	2009	2010E	2011E
Net Profit	8,579	9,689	12,815	21,890	24,598
Depreciation	1,398	1,603	1,807	2,170	2,485
Amortisation	—	—	—	—	—
Interest paid	16	(358)	(317)	(300)	(325)
Chg in working capital	(2,986)	4,174	2,657	222	1,794
Other op activities	—	—	—	—	—
Cash flow from op (a)	7,007	15,108	16,962	23,982	28,551
Capital expenditure	(4,744)	(3,407)	(3,056)	(1,300)	(1,500)
Chg in investments	880	(5,930)	(8,019)	(10,500)	(20,000)
Other investing act	—	—	—	—	—
Cash flow from inv. (b)	(3,864)	(9,336)	(11,075)	(11,800)	(21,500)
Free cash flow (a+b)	11,751	18,514	20,018	25,282	30,051
Equity raised/(repaid)	—	—	—	—	—
Debt raised/(repaid)	(206)	(332)	(535)	—	—
Interest paid	(16)	358	317	300	325
Dividend (incl. tax)	(3,972)	(4,363)	(4,593)	(4,593)	(4,593)
Other fin. activities	(178)	(469)	—	—	—
Cash flow from fin. (c)	(4,372)	(4,806)	(4,811)	(4,293)	(4,268)
Net chg in cash (a+b+c)	(1,229)	965	1,075	7,889	2,783

KEY RATIOS

Y/E 31 March	2007	2008	2009	2010E	2011E
Raw material to sales	0.7	0.7	0.7	0.7	0.7
SGA to sales	—	—	—	—	—
Effective tax rate	31.2	31.4	28.1	21.0	20.0
Dividend yield (%)	0.9	1.1	1.1	1.1	1.1
ROE (%)	31.5	32.4	33.7	39.6	32.7
ROCE (%)	38.4	38.1	40.4	45.0	36.0
Net debt/Equity (%)	0.1	—	—	(0.2)	(0.2)
PAT margin (%)	8.7	9.4	10.4	14.0	13.6
Inventory (days)	10.2	11.2	9.7	9.6	9.1
Payable (days)	52.6	64.9	64.3	59.0	60.3
Receivable (days)	12	11	4	9	9

VALUATIONS

Y/E 31 March	2007	2008	2009	2010E	2011E
EV/op. cash flow (x)	47.8	22.1	19.6	13.5	11.3
PER (x)	41.8	37.0	28.0	16.4	14.6
PCE (x)	39.1	31.7	24.5	14.9	13.2
Price/Book (x)	14.5	12.0	9.4	6.5	4.8
EV/EBITDA (x)	31.2	26.6	20.4	12.7	11.6

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