

Hero Motocorp

Jan volume – Growth slows, base effect catching up

- Hero Motocorp (HMC)'s Jan sales rose 12% yoy to 520,272 units.
- YTD sales grew 17% yoy to 5.2m units led by new launches.
- Volume growth is decelerating over a high base over the last couple of months.
- Heightened competition with Honda's entry in the executive category in CY12 and cost pressure (re-branding, R&D investments, ad-spend, etc) to limit margin expansion.
- Maintain Underperform on expensive valuations with a price target of Rs1,987- based on 14x FY13E earnings.

Total sales up 12% yoy. HMC's total sales in Jan 2012 grew 12% yoy to 520,272 units.

YTD sales up 17% yoy. Total sales grew 17% yoy YTD FY12 to 5.2m units led by new launches (Impulse as well as refreshed variants of Glamour, Glamour FI and Karizma ZMR). However, HMC's sales growth has started coming off over a high base (growth of 22% in 1H) in line with our expectation.

Valuation. We expect Honda's intention to enter the 100cc segment in CY12 to directly impact HMC's key executive segment from FY13 onwards. Further, increase in operating expenses (re-branding, R&D, export ramp-up, etc.) is likely to limit margin expansion ahead – we factor in 80bps margin expansion in FY13. The stock appears expensive at current valuations of 13.7x FY13E earnings and 12x EV/EBITDA. Maintain Underperform with a price target of Rs1,987.

UNDERPERFORM (unchanged)

PRICE as at 01 February 2012 **Rs1,932.15** PRICE TARGET **Rs1,987.00**

Bloomberg code
HMCL IN

Reuters code
HROM.NS

Market cap
Rs385,850m (US\$7,804m)

12 month range
Rs1,390.55 - 2,222.50

EPS adj est change 2011E - 2012E -

Year end: March	2011E	2012E	2013E	2014E
Sales (Rsm)	192,450	235,550	268,841	309,630
EBITDA (Rsm)	22,832	25,911	31,839	37,668
EBIT (Rsm)	20,579	22,929	28,061	33,008
Pretax profit (Rsm)	24,048	27,919	33,360	38,664
Net profit adjusted (Rsm)	20,317	23,313	28,190	29,178
FCF (Rsm)	18,357	24,928	24,322	26,300
EPS adjusted (Rs)	101.74	116.74	141.16	146.11
DPS (Rs)	105.00	60.00	65.00	70.00
Book value/share (Rs)	148.03	204.76	280.92	357.03
EPS growth adj (%)	-9.0	14.7	20.9	3.5
DPS growth (%)	-4.5	-42.9	8.3	7.7
EBITDA margin (%)	11.9	11.0	11.8	12.2
EBIT margin (%)	10.7	9.7	10.4	10.7
Net margin adj (%)	10.6	9.9	10.5	9.4
Div payout (%)	108.8	51.4	46.0	47.9
Net gearing (%)	35.3	4.7	-4.6	-11.3
ROE (%)	60.1	66.2	58.1	45.8
ROCE (%)	39.2	35.7	35.6	34.7
EV/Sales (x)	2.1	1.6	1.4	1.2
EV/EBITDA (x)	17.4	15.0	12.0	10.0
PBR (x)	13.1	9.4	6.9	5.4
PER adj (x)	19.0	16.6	13.7	13.2
Dividend yield (%)	5.4	3.1	3.4	3.6

Source: Company, Standard Chartered Research estimates

Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	1	-10	20
Relative to Index	-9	-9	25
Relative to Sector	-	-	-
Major shareholder	Promoters (52.2%)		
Free float	48%		
Average turnover (US\$)	25,167,226		

Source: Company, FactSet

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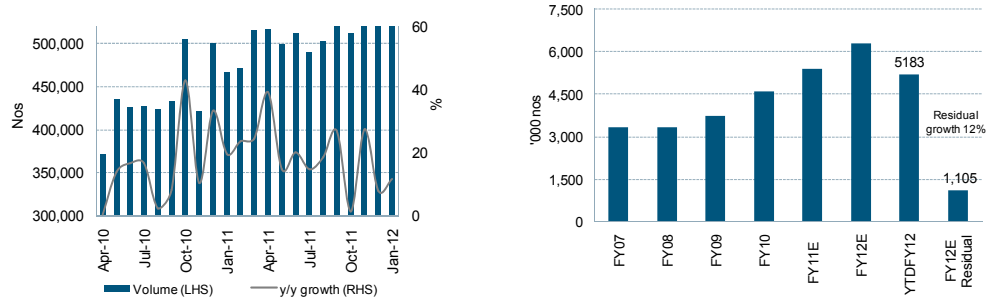


Fig 1 – Hero MotoCorp: Jan 2011 volume performance

Sales	Jan-12	Jan-11	Dec-11	YoY (%) chg	MoM (%) chg	YTD FY12	YTD FY11	YTD (%) chg
Hero Motocorp	520,272	466,524	540,276	11.5	(3.7)	5,183,450	4,414,537	17.4

Source: Company, Standard Chartered Research

Fig 2 – Hero MotoCorp: Jan12 sales up 12% yoy; Residual growth at 11.8% over high base



Source: Company, Standard Chartered Research estimates

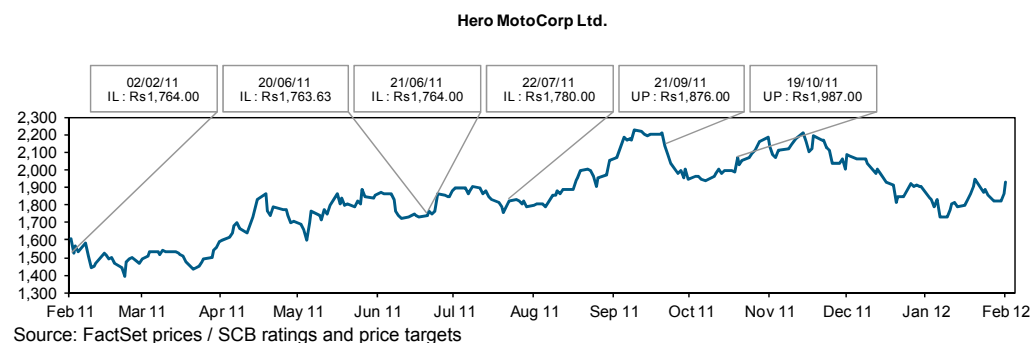


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UNDERPERFORM	11.9%	12.7%

As of 31 December 2011

Research Recommendation

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