



Hero Honda
Hold

CMP Rs.1595 (FV 2)
Date: 23 Oct 2009

(Rs. Crore)	Q2 FY09	Q2 FY10	% Y-o-Y	Q1 FY 10	% Q-o-Q	FY 09	FY 10E	% Change
Net Sales	3189	4059	27.28	3811	6.51	12357	15056	21.84
Other Income	66	69	4.55	53	30.19	181	231	27.68
Total Income	3255	4128	32	3864	6.83	12538	15287	21.93
Operating Expenses	2767	3315	19.80	3172	4.51	10607	12496	17.81
PBDIT	488	813	12	692	17.49	1930	2791	44.55
Interest	-8	-6	-26.11	-5	20.00	-32	-29	-8.46
PBDT	496	819	38	697	17.50	1962	2820	43.70
Depreciation	47	50	6.38	45	11.11	181	205	13.47
Tax	143	172	20.28	152	13.16	500	735	47.09
Net Profit	306	597	95.02	500	19.40	1282	1880	46.64
Equity (FV 2)	39.94	39.94		39.94		39.94	39.94	
EPS (Rs./Share)	15.33	29.89		25.04		64.18	94.12	
Div.(Rs./Share)						20	25	
PBDIT (%)	15.30	20.03		18.16	268.70	15.62	18.53	
NPM (%)	9.40	14.46		12.94	283.95	10.22	12.29	

Highlights

- Company has shown good growth Y-o-Y and also Q-o-Q basis.
- There is improvement in margins, as company is focusing on higher margin products like bikes in 150 C.C. and above segment.
- Company enjoys a monopolistic market share of about 80% in 100 C.C. segments, which is price sensitive. It faces challenge from competition time to time. Recently, Bajaj Auto has launched products that can result in stiff competition, putting pressure on margins.
- Company is launching new models/variants of existing models at regular interval.
- It sold about 23 Lakhs units in 1st Half of FY10, in 2nd half about 21 Lakhs units Sales is expected, as post Diwali the sales slacken in the industry.
- We expect total FY 10 sales to be about 44 Lakh units. We expect industrial peace will be restored soon in Gurgaon belt and production will not be significantly impacted.

Valuation & Recommendation

Hero Honda results are better than estimates. We revise EPS target for FY 10 from Rs.78/Share to about Rs.94/Share. At CMP Rs.1595, it trades at 17 PE on FY 10 estimates. Long term Investors may ACCUMULATE the scrip on declines.

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