

Asia India

Automobiles & Components

22 April 2009

Hero Honda Ltd

Reuters: **HROH.BO** Bloomberg: **HH IN** Exchange: **BSE** Ticker: **HROH**

Current price discounts most of the positive factors

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Hero Honda – strong performance and healthy outlook, but likely priced in

Hero Honda's strong performance in FY09 has been a result of 1) its strong distribution network, 2) rising production from its tax-advantaged plant in Haridwar, and 3) a dramatic fall in competitive intensity in its core market of entry/mid-segment motorcycles. These same factors are likely to underpin its performance in the medium term. Our estimates factor in further improvement in market share and rising pricing power for Hero Honda. However, we see minimal upside from the current price level and hence maintain our Hold recommendation.

Hero Honda's dominance akin to a monopoly

Hero Honda's leadership position in the Indian two wheeler market is reflected by its 49% market share in a 5-6 player market. This dominance is underpinned by its 80% market share in the 100cc motorcycle segment (55% of the 2W market). We believe that this segment will remain the mainstay of the industry over the next two years and forecast Hero Honda's volumes to grow by 8% p.a. over FY09-11E (compared to industry growth of 5.5% p.a.).

Franchisee business model has its pros and cons

Access to technology from Honda has helped Hero Honda to focus its energies on manufacturing and distribution, thus helping it power ahead of competition. However, this also limits Hero Honda's growth to the Indian market, as it can export only to a handful of countries with a small addressable market.

Trading at 12.5x FY10E core EPS – fairly valued

Our DCF-based target price is Rs 1050 (Rf 8.1%, Rm 5.4%, beta 0.7, cost of debt 9%, WACC 11.9% and 4% terminal growth rate). Our target price implies 12x FY10E core EPS (Rs 75) plus Rs 150/share of excess cash. We define core profit as net profit less after-tax financial income. Upside risks are higher growth in domestic two wheelers and better-than-expected improvement in margins. Downside risks include increasing competition from Bajaj and the impending entry of HMSI in the 100cc motorcycle segment. See pages 8-10 for details.

Forecasts and ratios

Year End Mar 31	2007A	2008A	2009E	2010E	2011E
Sales (INRm)	98,999.6	103,318.0	123,500.3	138,611.1	151,369.4
EBITDA (INRm)	11,730.4	13,493.7	17,413.5	23,009.4	25,430.1
Reported NPAT (INRm)	8,578.9	9,678.8	12,826.5	17,052.4	18,951.3
DB EPS FD (INR)	42.96	48.47	64.23	85.39	94.90
OLD DB EPS FD (INR)	42.88	48.47	54.98	63.45	71.55
% Change	0.2%	0.0%	16.8%	34.6%	32.6%
DB EPS growth (%)	-11.4	12.8	32.5	32.9	11.1
PER (x)	17.4	14.3	16.8	12.7	11.4
Yield (net) (%)	2.3	2.7	1.8	2.2	2.8

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items, ² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Deutsche Bank AG/Hong Kong

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Deutsche Bank



Forecast Change

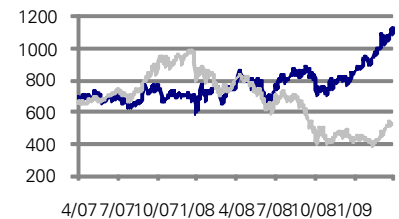
Hold

Price at 22 Apr 2009 (INR)	1,081.90
Price target - 12mth (INR)	1,050.00
52-week range (INR)	1,124.60 - 638.75
BSE 30	10,898

Key changes

Price target	760.00 to 1,050.00	↑	38.2%
Sales (FYE)	115,003 to 123,500	↑	7.4%
Op prof margin (FYE)	10.6 to 12.6	↑	19.1%
Net profit (FYE)	10,979.1 to 12,826.5	↑	16.8%

Price/price relative



Performance (%)	1m	3m	12m
Absolute	8.6	27.7	45.5
BSE 30	21.5	23.6	-35.1

Stock data

Market cap (INRm)	216,055
Market cap (USDm)	4,293
Shares outstanding (m)	199.7
Major shareholders	Munjals (29%)
Free float (%)	45
Avg daily value traded (USDm)	13.1

Key indicators (FY1)

ROE (%)	38.0
Net debt/equity (%)	-79.8
Book value/share (INR)	189.56
Price/book (x)	5.7
Net interest cover (x)	624.5
Operating profit margin (%)	12.6

Model updated:22 April 2009

Running the numbers**Asia****India****Automobiles & Components****Hero Honda Ltd**

Reuters: HROH.BO

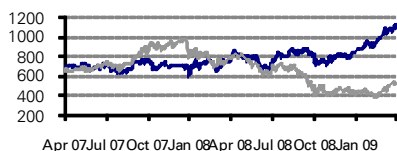
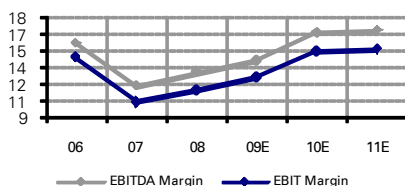
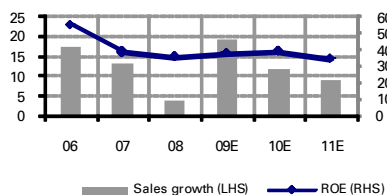
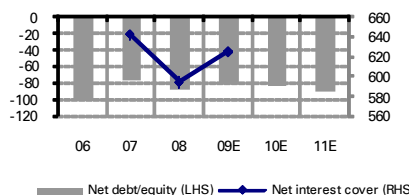
Bloomberg: HH IN

Hold

Price (22 Apr 09)	INR 1,081.90
Target price	INR 1,050.00
52-week Range	INR 638.75 - 1,124.60
Market Cap (m)	INRm 216,055 USDm 4,293

Company Profile

Hero Honda is the largest manufacturer of motorcycles in India. Splendour, the flagship brand, is the largest selling motorcycle in the world. It is one of Honda's most profitable two wheeler subsidiary.

Price Performance**Margin Trends****Growth & Profitability****Solvency****Srinivas Rao**

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Fiscal year end 31-Mar	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (INR)	48.46	42.96	48.47	64.23	85.39	94.90
Reported EPS (INR)	48.46	42.96	48.47	64.23	85.39	94.90
DPS (INR)	20.00	17.00	19.00	20.00	24.00	30.00
BVPS (INR)	100.6	123.7	148.7	189.6	246.9	306.7
Weighted average shares (m)	200	200	200	200	200	200
Average market cap (INRm)	142,462	149,287	138,200	216,055	216,055	216,055
Enterprise value (INRm)	122,113	130,842	112,541	185,806	175,152	161,498
Valuation Metrics						
P/E (DB) (x)	14.7	17.4	14.3	16.8	12.7	11.4
P/E (Reported) (x)	14.7	17.4	14.3	16.8	12.7	11.4
P/BV (x)	8.83	5.54	4.64	5.71	4.38	3.53
FCF Yield (%)	4.5	1.4	8.6	4.3	7.5	9.6
Dividend Yield (%)	2.8	2.3	2.7	1.8	2.2	2.8
EV/Sales (x)	1.4	1.3	1.1	1.5	1.3	1.1
EV/EBITDA (x)	8.9	11.2	8.3	10.7	7.6	6.4
EV/EBIT (x)	9.8	12.7	9.5	11.9	8.5	7.1

Income Statement (INRm)

Sales revenue	87,140	99,000	103,318	123,500	138,611	151,369
Gross profit	15,563	14,145	15,712	17,414	23,009	25,430
EBITDA	13,645	11,730	13,494	17,414	23,009	25,430
Depreciation	1,146	1,398	1,603	1,800	2,326	2,560
Amortisation	0	0	0	0	0	0
EBIT	12,498	10,333	11,891	15,614	20,684	22,871
Net interest income/(expense)	61	-16	-20	-25	-20	-20
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	1,527	2,145	2,232	2,226	2,380	2,587
Profit before tax	14,087	12,461	14,103	17,815	23,044	25,438
Income tax expense	4,409	3,882	4,424	4,988	5,991	6,487
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	9,678	8,579	9,679	12,826	17,052	18,951
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	9,678	8,579	9,679	12,826	17,052	18,951

Cash Flow (INRm)

Cash flow from operations	10,370	7,085	15,428	11,763	19,761	22,664
Net Capex	-3,929	-5,017	-3,536	-2,500	-3,500	-2,000
Free cash flow	6,442	2,068	11,892	9,263	16,261	20,664
Equity raised/(bought back)	0	0	161	0	0	0
Dividends paid	-4,553	-3,972	-4,439	-4,673	-5,608	-7,009
Net inc/(dec) in borrowings	-160	-206	-332	0	0	0
Other investing/financing cash flows	85	880	-5,930	-1,000	-1,500	-1,500
Net cash flow	1,813	-1,230	1,352	3,590	9,154	12,155
Change in working capital	-633	-2,986	4,174	-2,863	383	1,153

Balance Sheet (INRm)

Cash and other liquid assets	22,172	20,062	26,945	31,535	42,188	55,843
Tangible fixed assets	9,936	13,555	15,487	16,187	17,361	16,802
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	35	35	35	35	35	35
Other assets	6,625	8,775	8,057	10,996	12,312	13,002
Total assets	38,767	42,426	50,523	58,752	71,896	85,681
Interest bearing debt	1,858	1,652	1,320	1,320	1,320	1,320
Other liabilities	16,816	16,074	19,501	19,577	21,276	23,119
Total liabilities	18,674	17,725	20,821	20,897	22,596	24,439
Shareholders' equity	20,093	24,701	29,702	37,855	49,300	61,242
Minorities	0	0	0	0	0	0
Total shareholders' equity	20,093	24,701	29,702	37,855	49,300	61,242
Net debt	-20,314	-18,410	-25,625	-30,215	-40,868	-54,523

Key Company Metrics

Sales growth (%)	17.4	13.6	4.4	19.5	12.2	9.2
DB EPS growth (%)	19.4	-11.4	12.8	32.5	32.9	11.1
EBITDA Margin (%)	15.7	11.8	13.1	14.1	16.6	16.8
EBIT Margin (%)	14.3	10.4	11.5	12.6	14.9	15.1
Payout ratio (%)	41.3	39.6	39.2	31.1	28.1	31.6
ROE (%)	55.3	38.3	35.6	38.0	39.1	34.3
Capex/sales (%)	4.5	5.1	3.4	2.0	2.5	1.3
Capex/depreciation (x)	3.4	3.6	2.2	1.4	1.5	0.8
Net debt/equity (%)	-101.1	-74.5	-86.3	-79.8	-82.9	-89.0
Net interest cover (x)	nm	641.8	594.5	624.5	nm	nm

Source: Company data, Deutsche Bank estimates

Hero Honda – key issues

4Q09 results: robust but in line with expectations

Hero Honda's 4Q09 results were in line with our expectations. EBITDA margins expanded by 150bps QoQ to 16% (Deutsche Bank estimate 16.2%) mainly on account of a decrease in raw material costs by 120bps QoQ. However, RM cost/bike was flat QoQ, which implies that the softening in commodity prices is not yet entirely reflected in the financials. Realisations improved 2% QoQ to Rs 34,192 which we believe is due to an increase in the share of premium bikes to 6% from 5% in Q3. At Rs 5,503, EBITDA/motorcycle is at its highest level in the last nine years.

Figure 1: Hero Honda – quarterly trends

Rs mn	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Motorcycles(nos)	884,025	894,244	972,095	857,856	997,855
% growth (YoY)	3.3%	11.4%	28.6%	-4.0%	12.9%
Net Sales	27,887	28,435	31,897	28,740	34,118
% growth (YoY)	5.6%	16.2%	35.6%	4.8%	22.3%
Net realisation/motorcycle (Rs)	31,545	31,798	32,813	33,503	34,192
EBITDA	4,231	3,410	4,349	4,170	5,491
EBITDA margin (%)	15.1%	12.0%	13.6%	14.5%	16.0%
EBITDA/motorcycle (Rs)	4,786	3,814	4,474	4,861	5,503
Adjusted PAT	2,987	2,729	3,063	3,004	4,022
% growth (YoY)	53.2%	43.7%	49.9%	9.2%	34.7%

Source: Company, Deutsche Bank

2W market growth forecast at 5.5% over next two years

We expect the two-wheeler market to grow at a CAGR (FY09-11E) of 5.5%. As in the past, we expect higher end (B3) motorcycles and scooters to continue to increase their segment shares at the expense of entry/mid segment motorcycles. Credit availability is less of an issue for the buyers in this segment, as they are generally more affluent.

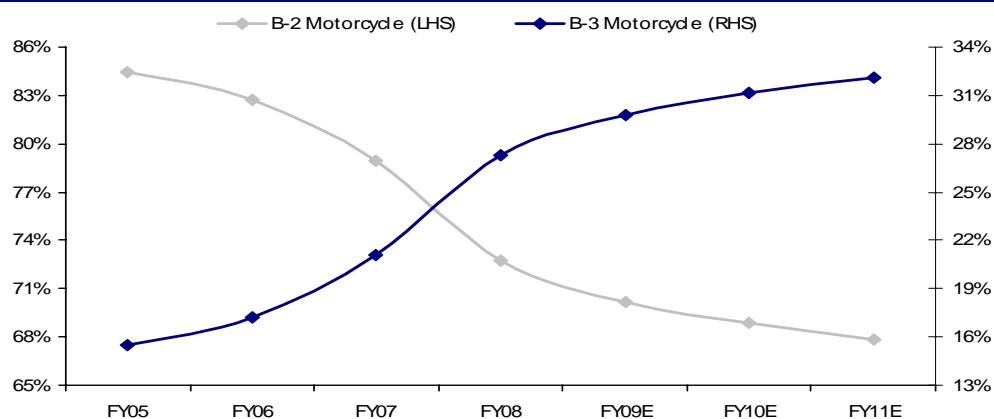
Motorcycles remain the mainstay of the 2W market, but uptrading is likely to continue

We forecast motorcycle volumes to grow in line with the overall market, driven largely by 9.5% p.a. growth in the premium segment over the same period. The share of motorcycles in the overall two-wheeler sales should remain flat at c.79% over this period. Within motorcycles, we expect a continued shift in demand away from the B2 segment to the B3 (125cc+) segment. The B3 segment's share is 30% in FY09 (27% in FY08), and we expect the shift to continue.

Figure 2: Indian two wheeler industry – segment market shares

	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E
Scooter	14.9%	12.7%	11.9%	14.5%	15.4%	15.4%	15.4%
Motorcycle	80.0%	82.6%	83.5%	79.6%	78.5%	78.6%	78.5%
Moped	5.2%	4.7%	4.5%	5.7%	5.8%	5.7%	5.7%
Electric	0.0%	0.0%	0.0%	0.3%	0.3%	0.4%	0.4%

Source: Society of Indian Automobile Manufacturers (SIAM), Deutsche Bank

Figure 3: Structural shift in motorcycle demand

Source: Society of Indian Automobile Manufacturers (SIAM), Deutsche Bank

A big fish growing faster than the pond

Hero Honda has increased its dominance in the B2 (75-124cc) motorcycle segment and currently has 80% market share (71% in FY08) in this segment, which comprises c.55% of the overall two-wheeler market in India. Hero Honda is effectively now a monopoly in the 100cc motorcycle segment, which has resulted in the company controlling almost half (49% market share) of the overall Indian two-wheeler market. This is a reflection of its distribution reach (3500 touch points), the strength of the Splendor and Passion brands and the concurrent weakening of competition. Hence, Hero Honda was able to increase its 100cc motorcycle volumes by 11% in FY09 compared to other manufacturers' 34% decline. This enabled the company to maintain its pricing power and retain the excise duty benefits that have accrued in the tax-exempt plant at Haridwar.

Hero Honda likely to consolidate its dominant position

We believe that Hero Honda's market share in the B2 segment will further increase over the next two years to 87%, as we expect its B2 volumes to grow at a CAGR (FY09-11E) of 8% (compared to 4% for the industry). However, we note that it is relatively weak in the premium (B3) segment; it only has a market share of 12%, and this will likely affect its competitive position in the medium to long term. It does have a cushion in the short term, as both Splendor and Passion (100cc bikes) continue to retail at upwards of Rs 40000, which compares with Bajaj's XCD 125 (B3 segment bike). Overall, we expect Hero Honda to control c.51% of the overall two-wheeler market by the end of FY11E.

Figure 4: Domestic motorcycle market shares

		FY05	FY06	FY07	FY08	FY09	FY10E	FY11E
B2 Motorcycle (entry & mid segment)	Bajaj	22.7%	21.8%	24.4%	17.5%	10.6%	9.2%	8.0%
	Hero Honda	58.1%	58.5%	59.0%	70.7%	80.2%	83.7%	86.5%
	TVS	12.8%	14.0%	13.4%	9.8%	7.9%	6.1%	4.7%
	Others	6.4%	5.7%	3.2%	2.0%	1.4%	1.0%	0.8%
B3+B4 Motorcycles (premium segment)	Bajaj	50.7%	69.6%	59.0%	58.6%	48.5%	46.1%	44.8%
	Hero Honda	15.6%	7.7%	7.7%	11.3%	11.7%	11.8%	12.0%
	HMSI	8.4%	9.8%	11.9%	16.1%	20.8%	21.6%	22.0%
	TVS	13.7%	8.0%	10.8%	5.9%	7.7%	7.7%	7.6%
	Yamaha	6.7%	2.0%	3.8%	1.9%	6.1%	7.5%	8.3%
	Others	4.9%	2.9%	6.8%	6.1%	5.1%	5.3%	5.4%
Overall	Bajaj	27.1%	30.1%	31.7%	28.7%	21.9%	20.7%	19.8%
	Hero Honda	51.5%	49.8%	48.2%	54.5%	59.8%	61.3%	62.6%
	TVS	12.9%	12.9%	12.9%	8.7%	7.8%	6.6%	5.6%
	HMSI	1.3%	1.7%	2.5%	4.4%	6.2%	6.7%	7.1%
	Others	7.2%	5.5%	4.7%	3.6%	4.3%	4.7%	5.0%

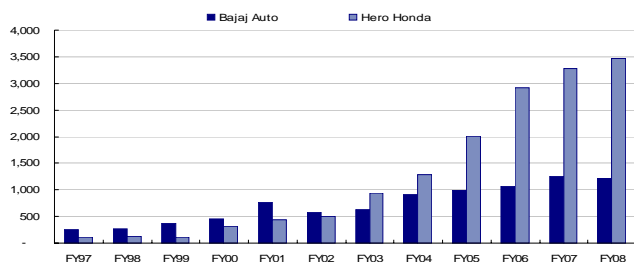
Source: Society of Indian Automobile Manufacturers (SIAM), Deutsche Bank

Franchisee model has been extremely successful until now...

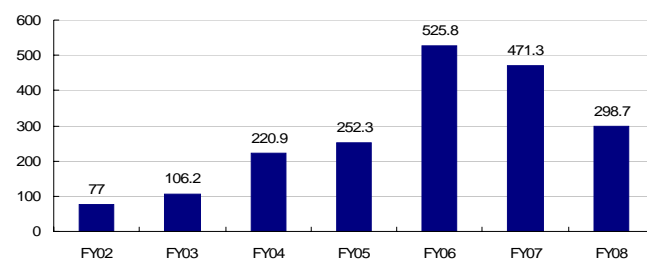
Hero Honda's business is essentially a franchisee business that uses the technology and R&D of its JV partner Honda and leverages on its own manufacturing quality, deep distribution and strong vendor base. Vendors play a major role in the auto industry and shoulder a larger proportion of "system capex", whereas OEMs increasingly concentrate on assembly and distribution. As a result, the company's capital employed has been relatively lower, which in turn has led to high asset turn and ROCE over the years.

...however, it may pose restrictions on long-term growth

Every franchisee model entails an additional cost burden of royalty and model fees to be paid to the provider of technology and/or products. Royalty payments account for c.3% of Hero Honda's revenues; it also pays model fees (around Rs 400m/model) to Honda for every new model launched in the Indian market. This contrasts with its competitor Bajaj, which has invested in its own R&D to build in-house capabilities. Changing consumer preferences have meant that companies need to come up with new models at a faster pace than in the past. This trend will likely put a higher financial burden on Hero Honda.

Figure 5: Annual royalty and R&D spend (Rs m)

Source: Deutsche Bank, Company

Figure 6: Hero Honda – model fees paid to Honda (Rs m)

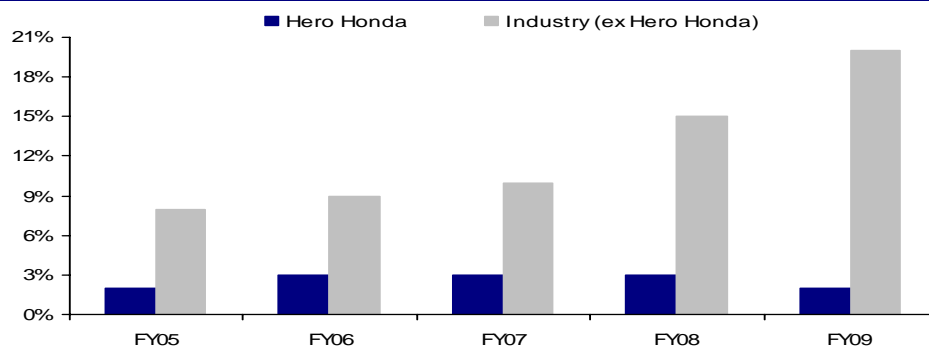
Source: Deutsche Bank, Company

Dependence on domestic demand limits opportunities for growth

We estimate that two-wheeler penetration on a household basis will be at 39% by FY11E end. We believe this will be close to the medium-term cap for India, which implies that two-wheeler manufacturers have to incrementally shift their focus to export markets to drive growth; however, HH's JV agreement with Honda curbs its export growth. HH exports only 2% of its total volumes, compared to the industry's 20%. Bajaj, in particular, benefited from

robust growth in export volumes (+31% in FY09) partially offsetting a 23% fall in domestic volumes.

Figure 7: 2W export as % of total volumes – Hero Honda limited to domestic market



Source: Society of Indian Automobile Manufacturers (SIAM), Deutsche Bank

Financial analysis

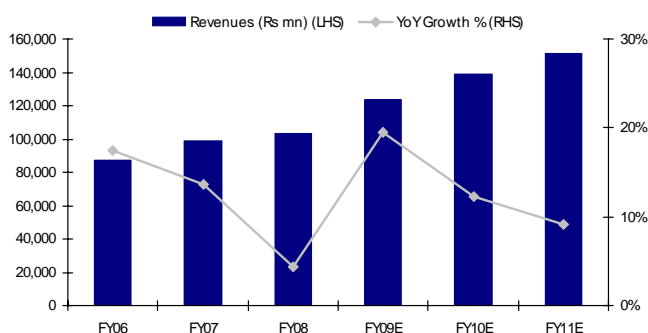
Revenue – 2-year CAGR (FY09-11E) of 11%

We forecast Hero Honda's volume to grow at a CAGR (FY09E-11E) of 8%, compared to industry growth of 5.5%. The company's volumes grew 12% in FY09, which compares with overall industry volume growth of just 2.5%. We believe that Hero Honda will continue to outperform the industry and increase its market share; we also expect net realisations to grow at 3% p.a., resulting in overall revenue growth of 11% p.a.

EBITDA – margin and EBITDA/bike to improve

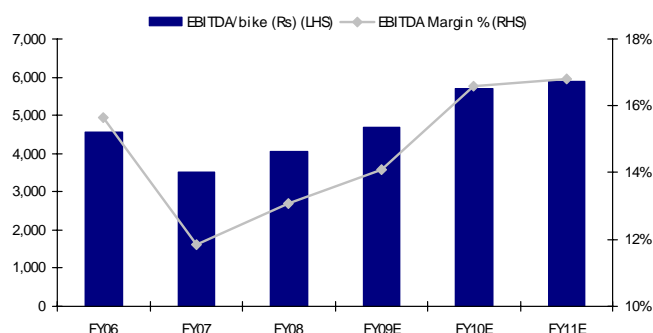
We expect EBITDA margins to improve by 270bps by FY11E to 16.8% from the FY09 level of 14.1%. We believe that the impact of the fall in commodity prices has yet to be reflected in raw material costs and we thus expect raw material/bike to fall by 1.5% in FY10E. We expect EBITDA/bike to improve from Rs 4678/bike in FY09 to Rs 5886/bike in FY11E. Overall, we expect EBITDA to grow at a CAGR (FY09-11E) of 21%.

Figure 8: Hero Honda – Revenues and growth



Source: Company, Deutsche Bank

Figure 9: Hero Honda – EBITDA/bike at all-time high



Source: Company, Deutsche Bank

Core profit – 2-year CAGR (FY09-11E) of 24% assumes impact of tax exemption

We expect core profit to grow faster on account of a lower tax incidence. We have assumed that by FY10E the company will be producing c.20% of its motorcycles at its Haridwar plant. This plant is 100% income tax exempt for five years, and the company has announced that its capacity will be scaled up to 1m units by end of FY10. We calculate core profit as net profit adjusted for after-tax financial income. Since financial income accounts for c.13% of PBT in FY09, we believe that core profit gives a better picture than headline profit growth for Hero Honda. We believe looking at profitability on a per-bike basis also provides an alternative perspective on Hero Honda. Over FY09-11E, we expect core profit/bike to grow by 15% p.a.

Figure 10: Hero Honda – Calculation of core earnings

	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E
Recurring PAT (A)	8,104	9,678	8,579	9,679	12,826	17,052	18,951
Other income (B)	1,410	1,527	2,145	2,232	2,226	2,380	2,587
Assumed tax rate on other income (C)	10%	10%	10%	10%	10%	10%	10%
Post tax other income (D)	1,269	1,375	1,930	2,009	2,003	2,142	2,329
Core PAT (A-D)	6,835	8,303	6,649	7,670	10,823	14,910	16,623
Core EPS	34.2	41.6	33.3	38.4	54.2	74.7	83.2

Source: Company, Deutsche Bank

Valuation

Valuation methodology

We continue to value Hero Honda using DCF, our primary methodology for Indian automotive stocks. We believe that the maturity of the sector provides a fair degree of predictability on cash flows and avoids the pitfalls of relative multiples during inflection points.

DCF – assumptions and valuation

Our DCF-based target price for Hero Honda is Rs 1050/share. We have used a 12-year time frame for our DCF forecasts, and we assume revenue growth will trend down over our forecast period from 9% in FY11E to 4%. We expect capex/sales to stabilise at around 2.5% and the EBIT margin to trend down to 11% from 15% in FY11E. Our DCF assumptions are as follows: a risk-free rate of 8.1%, a risk premium of 5.4%, a beta at 0.7 and a terminal growth rate of cash flows at 4%. Our terminal growth rate is in line with our expectation of the long-term growth rate of number of households in India. Our resultant WACC is 11.9%.

Figure 11: DCF assumptions and sensitivity (abridged table)

Assumptions							
WACC	11.9%						
Terminal growth rate of cash flow	4%						
Terminal value (Rs mn)	251,130		Terminal growth rate				
PV of terminal value (Rs mn)	65,436		2.0%	4.0%	6.0%	8.0%	
Enterprise value (Rs mn)	179,914		10.9%	1,070	1,171	1,354	1,794
TV as % of Total	36%		11.4%	1,023	1,108	1,255	1,578
Net debt (Rs mn)	(30,215)		11.9%	981	1,052	1,173	1,417
Equity value (Rs mn)	210,128		12.4%	942	1,003	1,102	1,293
Equity Value per share (Rs)	1,052		12.9%	907	960	1,042	1,193

Source: Deutsche Bank

Current valuations imply unrealistic growth expectations

If we assume Hero Honda's current level of free cash flow is sustainable, we can derive the terminal growth rate of cash flows being implied by the market. The current share price implies a terminal cash flow growth at 7%, assuming a WACC of 11.9%.

In FY09E, Hero Honda should generate operating cash flow of Rs 11.8bn. We estimate that capex for FY09E will be Rs 2.5bn, resulting in a FCFF of Rs 9.2bn. This capex is relatively higher than the normalised maintenance capex, as the Haridwar plant is still being scaled up. If we assume a lower capex of Rs 1.5bn, which we believe will be the sustainable level as the industry matures, the FCFF is Rs 10bn. Assuming a stable growth scenario, the terminal value of the company's business would be defined as:

$$V = C * (1+Kc)/(Kc-g)$$

Where V is the terminal value, C is the cash flow in the terminal year, Kc is the WACC and g is the terminal growth rate of cash flows.

Risks

Upside risks

Better-than-expected growth in two-wheeler demand

We have assumed that Hero Honda's volume growth will be at a CAGR (FY09E-11E) of 8%, despite the 12% growth exhibited in YTD volumes in FY09E. We do so because the growth has come from market share gains rather than market growth. However, if Hero Honda is able to grow at volumes greater than our estimated rate of 8% or improve realisations by more than anticipated (2% p.a.), then our volume and revenue assumptions could face upside risk.

Softer-than-expected raw material prices

We have assumed a 190bps fall in raw material prices as a percentage of net sales on account of lower steel and aluminium prices. However, if this fall is sharper than anticipated, then it will have a further favourable impact on Hero Honda's profitability.

Successful launches in the premium segment

Hero Honda has traditionally been weak in the premium motorcycle segment. It has a market share of only 12% in the premium segment, compared to its 80% market share in the 100cc segment. We have assumed that Hero Honda's market share will not change materially in the premium segment over the next two years. Any successful launches in this segment could help the company expand market share in the premium segment and would have a favourable impact on realizations and margins.

Downside risks

Competition from Bajaj could affect margins negatively

Bajaj has been rapidly losing market share in the domestic market since last year and has been expanding its volumes in the export market. However, Bajaj has a few model launches lined up in the near future and could try to wrest back its domestic market share from Hero Honda through aggressive marketing tactics. This could affect Hero Honda's market share and margins.

Aggressive entry of HMSI in 100cc segment

HMSI has recently announced plans to enter the 100cc segment, which is Hero Honda's stronghold. Hero Honda dominates this segment with c.80% market share and HMSI's aggressive entry could take away some of this market share, putting pressure on its pricing power. This would have a significantly negative impact on Hero Honda's volume growth and profitability.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Hero Honda Ltd	HROH.BO	1081.90 (INR) 22 Apr 09	6

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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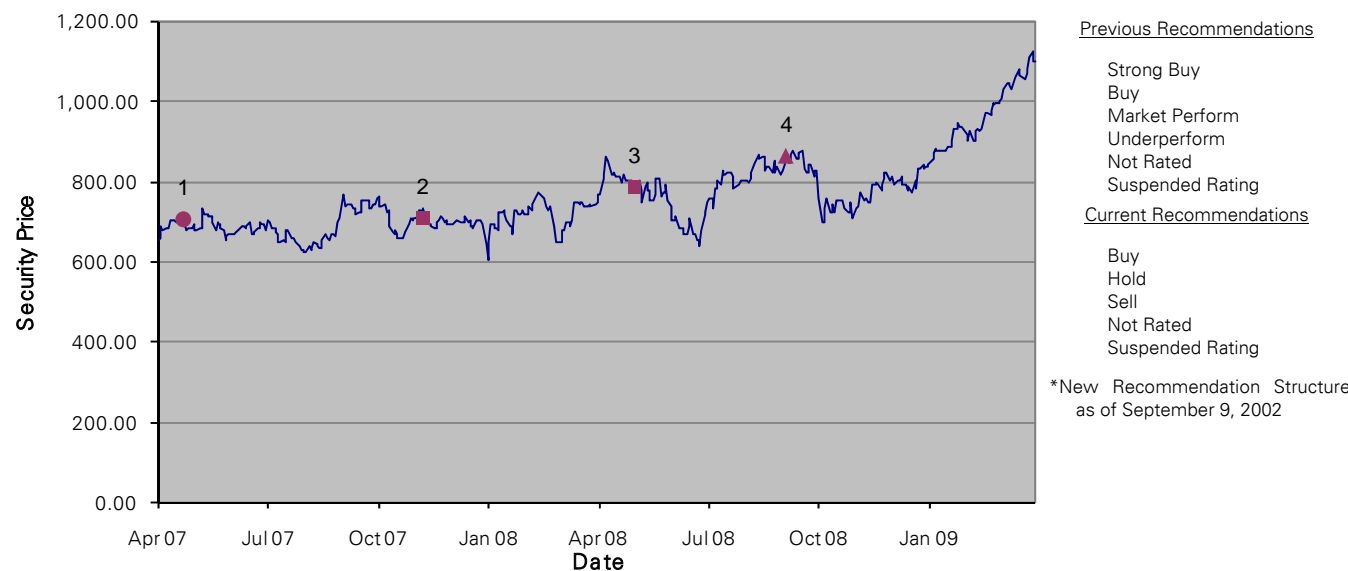
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Historical recommendations and target price: Hero Honda Ltd (HROH.BO)

(as of 4/22/2009)



1.	14/5/2007:	Downgrade to Sell, INR594.00	3.	23/5/2008:	Sell, Target Price Change INR710.00
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Equity rating key **Equity rating dispersion and banking relationships**

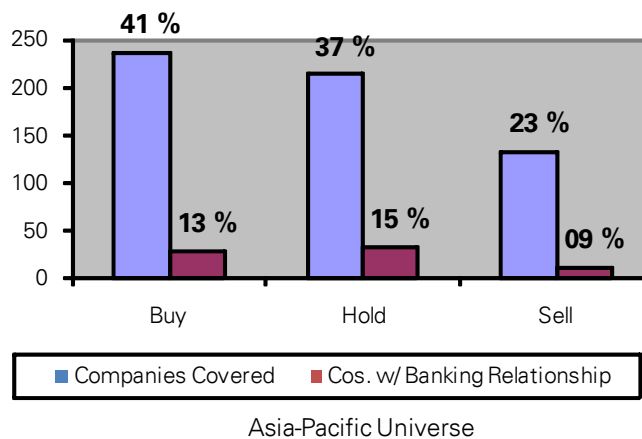
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