

Hero Honda

NEUTRAL

Rating: ◀▶

Target price: ◀▶

EPS: ◀▶

4QFY10 Update **CMP**

Rs. 1,853

Target

Rs. 1,905

PAT in-line with estimate; maintain Neutral

Hero Honda reported 7.7% qoq growth in net sales to Rs41.2 bn against our estimate of 40.96 bn. EBITDA margin sustained at 17.3% on qoq basis, primarily driven by 80 bps savings in raw materials/vehicle on a qoq basis and 50 bps increase in net average realisation per vehicle which was offset by 130 bps increase in other cost /sales.

The net average realization increased only by 0.5% qoq against 1.2% increase in gross realization as the rise in excise duty was not passed during the quarter.

We continue to expect EBITDA margins to decline to 16.3% by FY11E due to higher raw material cost and inability of the company to pass on completely.

Valuation: The stock trades at 13.6x FY12 EPS. With expected rise in raw material cost, we believe margins would decline from the current 17.4% to about 16.3% in FY11E. We believe the stock is fairly valued currently and reiterate our Neutral rating on the stock with a target price of Rs. 1,905.

Highlights of the quarter's performance

- Topline growth : The company posted a volume growth of 6.8% on qoq basis to 1.18mn. The net realisation increased by 0.5% on qoq basis
- Capex of Rs3.5 bn for FY11E to increase capacity in Haridwar facility and refurbishment in Gurgaon and Manesar. The new capacity is expected to be at 5.7mn units by September 2010 from the current 5.4 mn
- Expect a new facility with an initial capacity of 0.5mn units to meet the demand for FY12E. Expect FY11E volume sales at 5.15mn units and 5.77mn units by FY12E

Date	20.04.2010
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Market data	
Bloomberg	HH IN
Reuters	HROH BO
CMP	Rs. 1,853
Shares o/s	200 mn
Market Cap	Rs. 370 bn
52-wk High-Low	Rs. 2,079-1,040
3m Avg. Daily Vol	Rs. 968 mn

Latest shareholding (%)	
Promoters	55.0
Institutions	36.6
Public	8.4

Stock performance (%)			
	1m	3m	12m
Hero Honda	-0.4	15.8	78.2
Sensex	-0.3	-0.1	61.4
BSE Auto	0.0	1.1	130.9

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Financial summary						
Year	Revenue	EBITDA	PAT	EPS	P/E	EV/EBITDA
FY10E	158,404	27,792	22,162	111.0	16.7x	13.2x
FY11E	179,980	29,326	23,742	118.9	15.6x	12.3x
FY12E	205,628	33,546	27,245	136.4	13.6x	10.4x



Find Spark research on Bloomberg (SPAK <go>), Thomson First Call, Reuters Knowledge and Factset

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Quarterly Financial Results

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Standalone financial results								
Rs. mn\Period	31-Mar-10	31-Mar-09	yoy Growth	31-Dec-09	qoq Growth	FY10	FY11E	yoy Growth
Revenue	41,223	34,225	20.4%	38,270	7.7%	158,404	179,980	-12.0%
Raw Material	27,684	23,565	17.5%	26,146	5.9%	107,364	121,261	-11.5%
Employee cost	1,460	1,190	22.7%	1,371	6.4%	5,566	7,434	-25.1%
Other cost	4,962	3,980	24.7%	4,144	19.7%	17,682	21,960	-19.5%
Total Expenditure	34,106	28,734	18.7%	31,661	7.7%	130,612	150,654	-13.3%
EBITDA	7,117	5,491	29.6%	6,609	7.7%	27,792	29,326	-5.2%
Margin %	17.3%	16.0%	122 bps	17.3%	0 bps	17.5%	16.3%	125 bps
Depreciation	487	444	9.7%	469	3.8%	2,001	2,334	-14.3%
EBIT	6,631	5,047	31.4%	6,140	8.0%	25,791	26,992	-4.4%
Other income	695	442	57.1%	550	26.5%	2,257	2,164	4.3%
Net Interest exp (inc)	-45	-96	-53.6%	-46	-2.6%	-255	-410	-37.7%
PBT	7,370	5,586	31.9%	6,736	9.4%	28,303	29,566	-4.3%
Tax provision	1,382	1,564	-11.6%	1,378	0.3%	6141	5825	5.4%
Tax rate %	18.8%	28.0%	-925 bps	20.5%	-170 bps	21.7%	19.7%	200 bps
PAT (Reported)	5,988	4,022	48.9%	5,358	11.8%	22,162	23,742	-6.7%
PAT (Adjusted)	5,988	4,022	48.9%	5,358	11.8%	22,162	23,742	-6.7%
Adjusted PAT Margin %	14.5%	11.8%	278 bps	14.0%	53 bps	14.0%	13.2%	80 bps
Shares Outstanding	199.7	199.7		199.7		199.7	199.7	
EPS (Reported)	29.99	20.14	48.9%	26.83	11.8%	110.98	118.89	-6.7%
EPS (Adjusted)	29.99	20.14	48.9%	26.83	11.8%	110.98	118.89	-6.7%

Hero Honda

Business Overview

NEUTRAL

4QFY10 Update

CMP

Rs. 1,853

Target

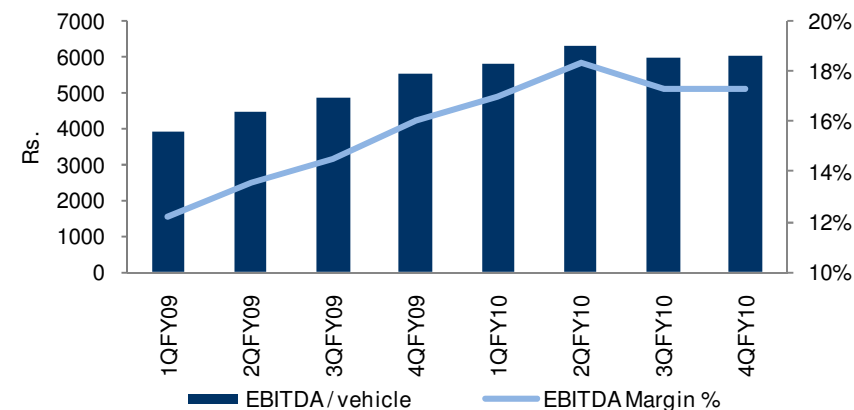
Rs. 1,905

Key estimate revision

	FY11E			FY12E		
	Old	New	Change	Old	New	Change
Revenue	179,737	179,980	0.1%	205,333	205,628	0.1%
EBITDA	29,411	29,326	-0.3%	33,621	33,546	-0.2%
Margin (%)	16.4%	16.3%	-	16.4%	16.3%	-
PAT	23,618	23,742	0.5%	27,184	27,245	0.2%
PAT Margin	13.1%	13.2%	-	13.2%	13.2%	-
EPS	118.3	118.9	0.5%	136.1	136.4	0.2%

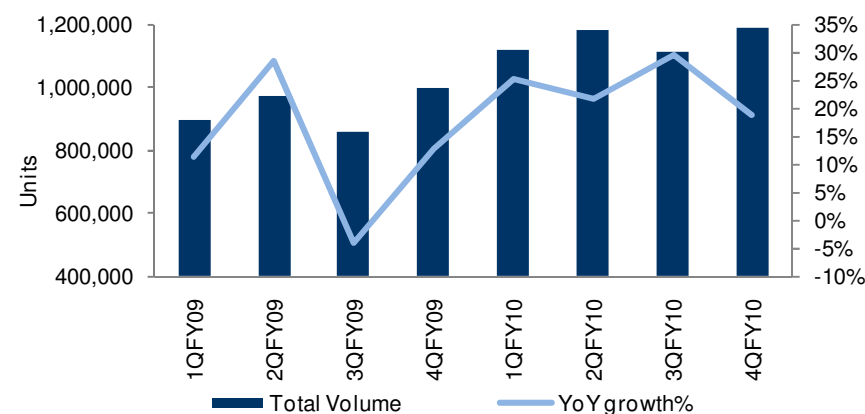
All figures in Rs. mn, except EPS, which is in Rs.

EBITDA / vehicle and EBITDA margin



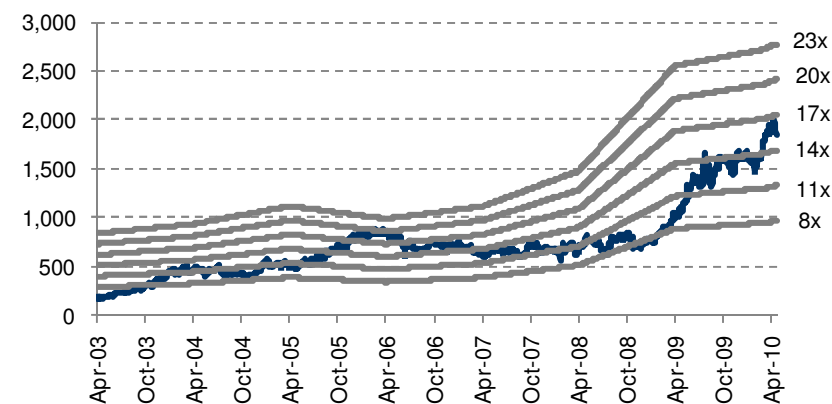
Source: Company, Spark Capital

Total Volumes



Source: Company, Spark Capital

Hero Honda P/E band



Source: Spark Capital, Bloomberg

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Financial Summary

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Abridged Financial Statements				
Rs. mn	FY09	FY10E	FY11E	FY12E
Profit & Loss				
Revenues	123,191	158,404	179,980	205,628
Manufacturing & Other Expenses	106,094	130,612	150,654	172,082
EBITDA	17,097	27,792	29,326	33,546
Depreciation	1,807	2,001	2,334	2,794
EBIT	15,291	25,791	26,992	30,752
Net Interest Exp / (inc)	(317)	(255)	(410)	(510)
Profit Before Tax	17,815	28,303	29,566	34,185
Tax	4,997	6,141	5,825	6,939
Adj. Net Profit	12,818	22,162	23,742	27,245
Balance Sheet (Rs. mn)				
Shareholders Equity	38,008	53,228	71,378	93,032
Loan funds	785	785	785	785
SOURCES OF FUNDS	38,792	54,013	72,163	93,817
Net block	15,737	16,942	19,108	18,814
Investments	33,688	31,688	39,688	49,688
Capital WIP	1,205	1,000	1,000	1,000
Current assets, loans & advances	10,135	15,109	24,089	38,518
Current liabilities & provisions	20,528	25,257	26,253	28,734
Net Current Assets	(10,393)	(10,148)	(2,164)	9,783
APPLICATION OF FUNDS	38,792	54,013	72,163	93,817
Cash Flows (Rs. mn)				
Cash flow s from operations	17,140	22,398	25,600	30,482
Capex	3,262	3,000	4,500	2,500
Cash flow s from investments	-11,281	-1,000	-12,500	-12,500
Cash flow s from financing	-4,974	-20,649	-7,009	-5,592
Free cashflow	13,878	19,398	21,100	27,982
Cash generated during the year	885	750	6,091	12,391

Key metrics				
	FY09	FY10E	FY11E	FY12E
Growth ratios				
Revenues	19.2%	28.6%	13.6%	14.3%
EBITDA	26.7%	62.6%	5.5%	14.4%
PAT	32.4%	72.9%	7.1%	14.8%
Margins				
EBITDA	13.9%	17.5%	16.3%	16.3%
EBIT	12.4%	16.3%	15.0%	15.0%
PAT	10.4%	14.0%	13.2%	13.2%
Leverage & WC ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Current ratio (x)	0.5	0.6	0.9	1.3
Debtor days (Sales)	4	11	13	13
Inventory days (COGS)	14	14	15	15
Creditor Days (COGS)	29	34	34	34
Performance & turnover ratios				
RoACE	31.4%	43.5%	34.4%	29.5%
RoAE	37.8%	48.6%	38.1%	33.1%
Total asset turnover (x)	2.2	2.5	2.4	2.1
Fixed asset turnover (x)	9.0	9.7	10.0	10.8
Valuation metrics				
Current price (Rs.)	1853			
Shares outstanding (mn)	199.7	199.7	199.7	199.7
Market capitalisation (Rs. mn)	370,044	370,044	370,044	370,044
Enterprise value (Rs. mn)	369,168	367,883	361,792	349,401
EV/EBITDA (x)	22	13	12	10
Per-share earnings (Rs.)	64.2	111.0	118.9	136.4
Price-earnings multiple (x)	28.9	16.7	15.6	13.6
Dividend yield (%)	1.1%	1.6%	1.5%	1.5%

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Rating Interpretation

OUTPERFORM

Greater than 15% upside from current price

NEUTRAL

Upside or downside from the current price is within 15%

UNDERPERFORM

Greater than 15% downside from the current price

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