

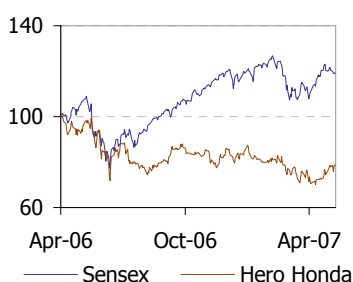
Hero Honda Motors

Relative to sector: **Underperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 200mn
Market cap : Rs.141bn
52 week high/low : Rs 898 / Rs 565
Avg. daily vol. (6mth) : 433,400 shares
Bloomberg code : HH IN
Reuters code : HROH.BO

Shareholding (%) Mar-07 QoQ chg

Shareholder	Mar-07 (%)	QoQ chg
Promoters	55.0	0.0
FII's	27.8	1.7
MFs / UTI	1.0	(2.0)
Banks / FIs	6.3	0.4
Others	10.0	(0.2)

DISAPPOINTMENT CONTINUES

Hero Honda Motors' (HHM) performance in Q4FY07 was disappointing. Although sales momentum remains healthy driven by higher than expected realization growth, margins continue to fall sequentially, due to higher ad spend and higher input costs.

HHM has declared revenues of Rs 26.4bn (↑ 17% YoY), EBIDTA of Rs 2.7bn (↓ 26% YoY and 11% QoQ) and adjusted PAT of Rs 1.9bn (↓ 27% YoY and 7% QoQ).

HH Q4FY07: Reported nos. vs. expectations

(Rs mn)	Reported	Forecast	Variance (%)	Comment
Sales	26,396	24,831		Above our expectation on account of
Realization	31,040	29,200	6.3	higher than expected realization growth (up 7% YoY v/s est 1%)
EBITDA	Rs 2.7bn	Rs 2.6bn	2.6	Below expectations on account of
Margin	10.2%	10.5%	40bps	higher than expected other expenditure to sales (13.3% v/s est. of 12%)

Source: Company, ENAM Research

Key highlights:

- Sales were up by 17% YoY at Rs 26.4bn. This was due to volume growth of 9.3% and realization growth of 7.1%.
- Higher advertising/marketing spend coupled with persistent pressure on input costs (raw material to sales at 73.1% v/s 68.2% in Q4FY06) continue to erode margins. ***It is important to note that EBITDA margin of 10.2% for Q4FY07 is the lowest in the last 28 quarters.***
- Net profit had negative growth of 27% YoY and 7% QoQ. Other income stood at Rs.445mn.

Margin pressure is likely to persist as product launches, stiff input costs and higher marketing/advertising spends are likely to continue.

At CMP of Rs 705, the stock trades at 17x FY08E revised core EPS of Rs 35.5 and 15x FY09E core EPS of Rs 39.5. We maintain our sector **Underperformer** rating on the stock with target price of Rs 608 (14x FY08E core EPS of Rs 35.5 + Rs 111/ share of cash equivalents).

Financial summary

Y/E Mar	Sales (Rs mn)	EBIDTA (Rs mn)	Core .PAT (Rs mn)	Core EPS (Rs.)	Change YoY (%)	Core P/E (x)	RoE (%)	RoCE (%)	EV/ EBIDTA (x)
2006	87,140	13,645	8,303	41.6	21	19	55	72	12
2007	99,000	11,730	6,870	34.4	(17)	17	38	50	10
2008E	109,282	12,433	7,088	35.5	3	17	33	45	9
2009E	122,124	13,992	7,897	39.5	11	15	30	41	7

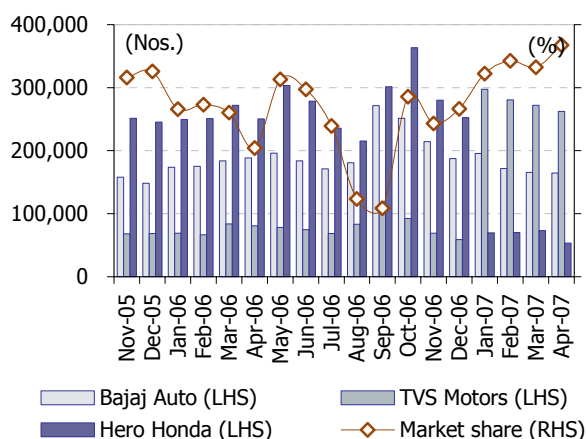
Source: Company, ENAM estimates, Core EPS pertains to Auto business

Results update

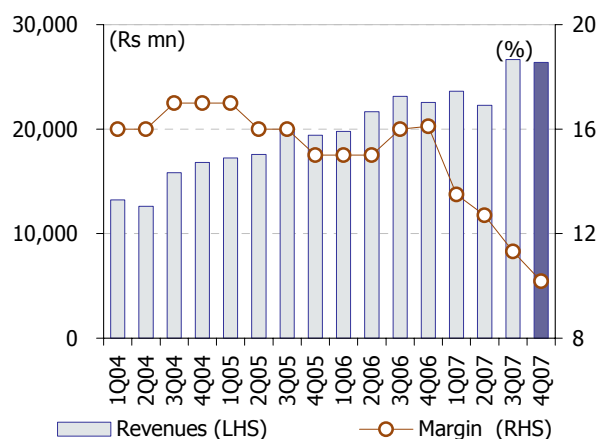
(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	FY08E	FY07	% Chg
Net Sales	26,396	22,559	17.0	26,661	(1.0)	109,282	99,000	10.4
EBIDTA	2,687	3,632	(26.0)	3,019	(11.0)	12,433	11,730	6.0
Other income	445	430	3.4	336	32.5	2,184	1,899	15.0
PBIDT	3,132	4,062	(22.9)	3,355	(6.7)	14,616	13,629	7.2
Depreciation	355	305	16.5	376	(5.5)	1,550	1,398	10.9
Interest	(77)	(39)	95.7	(55)	39.6	(150)	(230)	(34.8)
PBT	2,854	3,797	(24.8)	3,034	(6.0)	13,216	12,461	6.1
Tax	904	1,125	(19.7)	943	(4.1)	4,163	3,882	7.2
PAT	1,950	2,672	(27.0)	2,092	(6.8)	9,053	8,579	5.5
No. of shares (mn)	200	200	-	200	-	200	200	-
EBIDTA margins (%)	10.2	16.1	-	11.3	-	11.4	11.8	-
PBIDT margins (%)	11.9	18.0	-	12.6	-	13.4	13.8	-
EPS - annualized (Rs.)	39.1	53.5	(27.0)	41.9	(6.8)	45.3	43.0	5.5

Source: Company, ENAM Research

HH: Volume and Market share movement*



HH: Revenue & margin trend



Source: Company, Industry, ENAM Research, *indicated market share among the top 3 players (i.e. Bajaj, HH and TVS Motors)

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