

NEUTRAL

Price	Rs807
Target Price	-
Investment Period	-

Stock Info

Sector	Automobile
Market Cap (Rs cr)	16,122
Beta	0.47
52 WK High / Low	815/561
Avg Daily Volume	58492
Face Value (Rs)	2
BSE Sensex	17,126
Nifty	5,112

BSE Code	500182
NSE Code	HEROHONDA
Reuters Code	HROH.BO
Bloomberg Code	HH IN

Shareholding Pattern (%)

Promoters	55.0
MF/Banks/Indian FIs	12.2
FII/ NRIs/ OCBs	24.7
Indian Public	8.1

Abs.	3m	1yr	3yr
Sensex (%)	(6.7)	20.5	170.1
Hero Honda (%)	16.8	17.5	59.7

Vaishali Jajoo

Tel: 022 – 4040 3800 Ext: 344
 e-mail: vaishali.jajoo@angeltrade.com

Performance Highlights

- Sales in line, Net Profit above expectations:** For 4QFY2008, Hero Honda (HH) clocked 5.6% growth in Net Sales to Rs2,788cr, which was largely in line with our expectation of Rs2,741cr. Sales came in on the back of volumes, which grew 3.3% and average realisation per vehicle moved up 2.3% yoy primarily due to the change in Sales mix and better performance by high-realisation Segments. The company's Bottom-line, which increased by 53.2% yoy to Rs298.7cr, came in much above our expectation. We had estimated Net Profit of Rs231cr for the quarter. The company's Margins were above our expectations primarily due to the improved product mix and tighter control over marketing and advertising spends, which saved Other Expenditure.
- Margin improves - Raw Material cost, Other Expenditure decline 240bp:** During 4QFY2008, HH witnessed a 460bp yoy increase in EBITDA Margins owing to lower Raw Material cost and Other Expenditure, which declined almost 240bp each yoy. Raw Material cost accounted for over 70.7% of Sales (73.1% in 4QFY2007). Better Product mix resulted in raw material cost declining yoy as well as qoq basis. HH reported 53.3% yoy increase in Operating Profits. Other Expenditure decreased mainly on account of better control on advertising and marketing expenditure.
- Net Profit above expectations:** HH reported 53.2% jump in Net Profit mainly on account of higher Other Income of Rs55.1cr (Rs44.5cr), up 23.9% yoy and better Operating Margins of 14.8% for 4QFY2008.
- Gaining Marketshare:** HH's overall marketshare increased by around 360bp during the year to 45% on the back of new launches. HH launched its new model, *Splendor - NXG* and *Hunk*, and *CBZ X-treme*, in the Premium Segment during FY2008, which has met with encouraging response. The two launches, in particular, have helped the company consolidate and gain marketshare in the Premium Segment.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	9,894.5	10,331.8	11,751.3	13,184.9
% chg	13.6	4.4	13.7	12.2
Net Profit	857.9	967.9	1,033.6	1,167.5
% chg	(11.7)	12.8	6.8	12.9
OPM (%)	11.7	13.1	12.4	12.4
EPS (Rs)	43.0	48.5	51.8	58.5
P/E (x)	18.8	16.7	15.6	13.8
P/CEPS(x)	16.2	14.3	13.4	12.0
P/BV (x)	6.5	6.0	5.0	4.1
RoE (%)	34.7	36.2	31.9	30.0
RoCE (%)	36.7	40.0	36.2	34.4
EV/Sales (x)	1.4	1.3	1.2	1.1
EV/EBITDA (x)	14.0	12.0	11.1	9.9

Source: Company, Angel Research

FY2008 Result

For FY2008, Hero Honda clocked 4.4% growth in Net Sales to Rs10,332cr driven by around 5.3% yoy growth in realisation and 0.9% yoy decline in net volume. Realisation improved mainly on account of a change in Sales mix and better performance by higher realisation segments. The company's Bottom-line, which grew 12.8% yoy to Rs968cr, came in above our expectation of Rs900cr. Operating Profit Margin for FY2008 improved by 120bp yoy to 13.1% (11.6%) on account of better production efficiency and saving in marketing and advertising costs.

The HH Board has recommended a final dividend of Rs5 per share (950%) (previous year 850%).

New Plant at Haridwar commences production

HH has set up a manufacturing facility at Haridwar, Uttaranchal, with an initial capacity of 0.5m units. The plant commenced production in April 2008, and the company would avail excise duty and income -tax benefits. HH plans to maximise its volumes and expects to manufacture 5,00,000 units in FY2009 and 8,00,000 units in FY2010 at this plant. It would be a flexible facility capable of manufacturing any models (bikes). Further, HH expects to ramp up capacity of the plant up to 1.5m units by 2010, at a combined investment of Rs1,900cr by HH and its ancillaries. HH will benefit from tax sops including 100% Excise exemption for 10 years, 100% Income Tax exemption during the first five years and 30% in the consequent five years.

Outlook and Valuation

We believe that performance of the Two-wheeler Segment would remain under pressure during 1HFY2009. The recent surge in general and food inflation has also cast a shadow over the Two-wheeler industry growth in FY2009 despite the cut in personal tax rates in the Budget. The industry has been witnessing a slowdown since the beginning of FY2008 and even the growth momentum remains a concern. We believe that tighter norms on interest rates would also restrict volume growth and hence poses a downside risk to our estimates. For FY2009, we expect HH to deliver 8-10% volume growth.

We expect Margins to improve marginally on account of better realisations from the Premium Segment bikes and on account of the Tax benefits availed by HH at its new plant at Uttaranchal. However, uncertainty about the revival of the Two-wheeler industry growth could exert pressure on Margins as slowdown in Sales restricts companies from passing on the input costs to customers.

At the CMP, the stock is trading at 15.6x FY2009E and 13.8x FY2010E Earnings. We have marginally revised our EPS estimates upwards for FY2009 and FY2010 to Rs51.8 and Rs58.5, respectively. The difficult Operating environment remains a key concern for the company. However, we will be closely watching the volume growth over the next couple of months to revise our rating on the stock. **Hence, currently we maintain our Neutral view on the stock.**

Exhibit 1: 4QFY2008 Performance

Y/E Mar (Rs cr)	4QFY2008	4QFY2007	% Chg	FY2008	FY2007	% Chg
Net Sales	2,788.7	2,639.6	5.6	10,331.8	9,900.0	4.4
Other Income	55.1	44.5	23.9	185.4	189.9	(2.3)
Total Income	2,843.8	2,684.1	5.9	10,517.2	10,089.8	4.2
EBITDA	411.8	268.7	53.3	1,349.4	1,173.0	15.0
OPM (%)	14.8	10.2	45.1	13.1	11.8	10.2
Interest	(8.1)	(7.7)	5.6	(35.8)	(23.0)	0.1
Depreciation	43.5	35.5	22.4	160.3	139.8	95.2
Profit before Tax	431.6	285.4	51.3	1,410.3	1,246.1	13.2
Tax	132.9	90.4	47.1	442.4	388.2	14.0
Profit after Tax	298.7	195.0	53.2	967.9	857.9	12.8
EPS (Rs)	15.0	9.8	53.2	48.5	43.0	12.8

Source: Company, Angel Research



Angel Broking Limited

Research Team Tel: 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Broking, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Broking and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Sebi Registration No : INB 010996539

Ratings (Returns) Buy (> 15%) Accumulate (5 to 15%) Neutral (5 to -5%) Reduce (> -5%) Sell (> -15%)