



## Q4FY10 Result Update

April 21, 2010

HHML came out with its FY10 results. It reported robust revenues of Rs.15,758.2 cr, up by 27.9%. Its operating profit for year stood at Rs.2,664.6 cr (up 58%). PAT rose sharply by 74% y-o-y to Rs.2,231.8 cr.

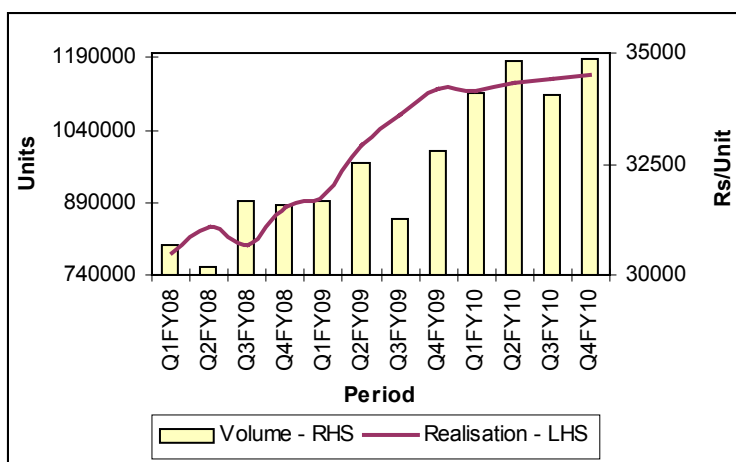
### Quarterly Financials

Particulars	Q4FY10	Q4FY09	% Chg	Q3FY10	% Chg	FY10	FY09	% Chg
Net Sales	4092.6	3411.8	20.0%	3827.0	6.9%	15758.2	12319.1	27.9%
Expenditure								
- Raw Materials	2768.4	2356.5	17.5%	2614.6	5.9%	10736.4	8742.0	22.8%
- Employee Cost	146.0	119.0	22.7%	137.1	6.4%	560.3	448.7	24.9%
- Other Exp	496.2	405.9	22.3%	414.0	19.9%	1796.9	1442.1	24.6%
Total Exp	3410.6	2881.3	18.4%	3165.7	7.7%	13093.6	10632.7	23.1%
<b>Operating Profit</b>	<b>682.0</b>	<b>530.5</b>	<b>28.6%</b>	<b>661.3</b>	<b>3.1%</b>	<b>2664.6</b>	<b>1686.4</b>	<b>58.0%</b>
OPM %	16.7%	15.5%		17.3%		16.9%	13.7%	
Other Income	99.2	62.8	57.9%	55.0	80.5%	338.0	244.1	38.5%
Interest	-4.5	-9.6	-53.6%	-4.6	-2.6%	-20.6	-31.7	-34.9%
Depreciation	48.7	44.4	9.7%	46.9	3.8%	191.5	180.7	6.0%
PBT	737.0	558.6	31.9%	673.9	9.4%	2831.7	1781.5	59.0%
PBTM %	18.0%	16.4%		17.6%		18.0%	14.5%	
Tax	138.2	156.4	-11.6%	137.8	0.3%	599.9	499.7	20.1%
Effective Tax Rate %	18.8%	28.0%		20.4%		21.2%	28.1%	
PAT	598.8	402.2	48.9%	536.1	11.7%	2231.8	1281.8	74.1%
PATM %	14.6%	11.8%		14.0%		14.2%	10.4%	
Equity	39.9	39.9	0.0%	39.9	0.0%	39.9	39.9	0.0%
<b>EPS Rs.</b>	<b>30.0</b>	<b>20.1</b>	<b>48.9%</b>	<b>26.8</b>	<b>11.7%</b>	<b>111.8</b>	<b>64.2</b>	<b>74.1%</b>
Motorcycles Volumes	1,186,536	997,855	18.9%	1,111,372	6.8%	4,600,130	3,722,000	23.6%
Realisations (Rs./ unit)	34,492	34,192	0.9%	34,435	0.2%	34,256	33,098	3.5%

(Source: Company Press Release)

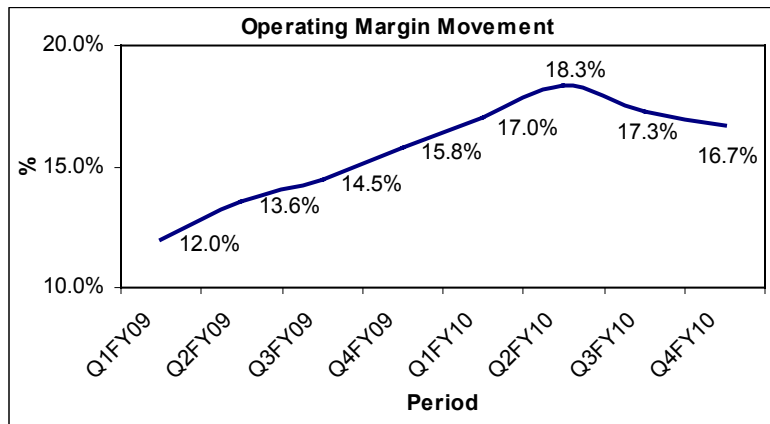
### Some of the key highlights of the Q4FY10 results are as follows:

- HHML's revenues grew 20% y-o-y to Rs.4,092.6 cr on the back of 18.9% y-o-y volume growth. However, realisations remained flat during the quarter on a q-o-q basis. Realisations y-o-y improved by ~1% due to a richer product mix and higher growth in the premium motorbikes segment. HHML's market share of 53.9% at the end of FY10 has come down from about 63.1% at the end of FY09.



(Source: Company)

- HHML's operating margins expanded by 90 bps y-o-y on the back of higher sales. Raw material cost was lower by 150 bps as a percentage of sales in Q4FY10 at 67.3%. However, on a q-o-q basis, the OPMs have seen a dip of 60 bps. Going forward, with commodity prices expected to increase, margins could come under further pressure. While raw material costs were down q-o-q, other expenses increased 120bps, partially on account of higher advertisement expenses. Higher advertising expenses during Q4FY10 towards sports sponsorships (~ Rs 260 mn) led to 25% y-o-y increase in other expenses. Model upgrades for BS III emission norms would take place over the next six months as the emission norms change have been postponed to October 2010. BS III compliant models would bear an incremental cost of Rs.500-600 per vehicle, which the company is likely to pass on to the customers.



(Source: Company)

- Other Income jumped by 80.6% y-o-y and 80.5% q-o-q to Rs.99.2 cr during the quarter. It mainly comprises of treasury gains.
- Depreciation cost rose by 3.8% q-o-q and 9.7% y-o-y to Rs.48.7 cr. Tax rate was lower at 18.8% in Q4FY10 (as against 28% in Q4FY09) due to increased production at the tax free Haridwar plant. HHML has ramped up its capacity there from 6,22,000 units p.a. to 1.2 mn units p.a. A lower tax rate, higher other income and lower depreciation cost expanded PAT margins by 60 bps q-o-q to 14.6%. The bottomline was also hit by a sharp 20% q-o-q increase in other expenses, including advertising expenses and royalty payments to Honda Motor Co, Japan. This was much higher than the 6.8% increase in sales volumes during the period.
- HHML plans to increase its total capacity from 5.4 mn units to 5.7 mn by August 2010. This will be done through an incremental investment of Rs.130 cr at its plant at Haridwar. This plant also avails of tax benefits, including a 100% Excise exemption for 10 years, and a 100% Income Tax exemption for the first five years and 30% for the next five years.
- FY10 witnessed HHML launch nine new models across segments. All the new launches are doing well and have been driving volumes for the company. Sales of Pleasure have crossed 20,000 units per month and continue to grow further.
- The management aims to sell more than 5 million motorcycles and scooters in FY11. It has been launching about 8 to 9 new products (variants, refreshers and models) every year and would do so in FY11 too. It plans to spend Rs.3.5 bn to upgrade and expand factories to meet the growing demand for two-wheelers. It is also conducting feasibility study to set up a fourth plant, which should become operational in FY12.
- The management expects commodity prices to rise and this could put pressure its operating profit margins in FY11 this year after surging demand lifted Q4FY10 earnings to a record. However, the increased raw material prices could be passed over to the consumers depending on market conditions.
- HHML announced final dividend @ 1500% i.e. Rs.30 per share for FY10. This is in addition to the special silver jubilee dividend @ 4000% i.e. Rs.80 per share announced in March 2010 and distributed in April 2010.

### Concerns

- With commodities prices on a rise, there could be pressure on operating margins going ahead.
- The motorcycle market is increasingly becoming more competitive with peer Bajaj Auto rolling out several models and Honda Motorcycles and Scooters India (HMSI) planning to enter the 100cc space in FY11. This could impact HHML's market share.
- Weaker-than-expected farm income on the back of poor monsoon could impact earnings of HHML in FY11 as ~60% of its income comes from rural sales.

### Conclusion:

HHML reported record revenues and net profit in Q4FY10 on the back of strong volumes. Various measures were adopted by the Government to improve the situation of the auto sector alongwith improved macro economic environment led to the auto sector witnessing robust performance in FY10. With increasing demand from the rural areas and infrastructure improving in the area, sales from rural India is set to increase, thereby boosting HHML's revenues. Its rural revenues account for ~60%.

The management indicated that its sales would cross 5 mn units by March 2011 and plans to launch 8-9 products this year like has been its practice for the past few years.

However, going forward, it could be tough for HHML to maintain its operating margins at the current levels given the rise in commodity prices. The two-wheeler industry is witnessing stiff competition. Any negative impact on volume growth going forward could affect its profitability.

The performance of HHML in FY10 was better than our expectations. It reported EPS of Rs.111.8 vis-à-vis our estimation of Rs.103.5 mainly due to higher other income and lower tax provision. We are revising our FY11 estimates on the back of higher volumes and better thrust on infrastructure development, which could boost demand especially from rural areas. However, margins in the next year could come under pressure. We expect the margins at the operating level to be at around 16.6% and the PAT margins at 13.7% in FY11 as against 16.9% and 14.2% respectively in FY10. At the CMP of Rs.1,851.65, the stock is trading at 14.8x its FY11RE earnings of Rs.124.7.

In our earlier Q3FY10 result update report dated February 1, 2010 we had recommended a buy on the stock in the price range of Rs.1,386 to Rs.1,442 with a target of Rs.1,608 to Rs.1,663. The stock made a low of Rs.1,541.2 on February 5, 2010 and made a high of Rs.2,074.05 on April 7, 2010.

We expect the stock price to remain in the Rs.1,736 (13x FY11E EPS) to Rs.1,998 (16x FY11E EPS) over the next quarter.

Particulars (Rs in Crs)	FY08	FY09	FY10 (E)*	FY10 (A)*	FY11 (OE)*	FY11 (RE)*
Operating income	10331.8	12319.1	15441.8	15758.2	16859.4	18184.2
PBIDT	1349.4	1711.8	2593.3	2664.6	2758.3	3024.4
PBIDTM (%)	13.1%	13.9%	16.8%	16.9%	16.4%	16.6%
Profit after Tax	967.9	1305.9	2067.7	2231.8	2214.4	2491.0
PATM (%)	9.4%	10.6%	13.4%	14.2%	13.1%	13.7%
EPS	48.5	65.4	103.5	111.8	110.9	124.7
P/E (x)	38.2	28.3	17.9	16.6	16.7	14.8

\* - Quick Estimates, A = Actuals, OE = Original Estimates, RE = Revised Estimates

(Source: Annual Report, HDFC Sec Estimates)

**Analyst:** Sneha Venkatraman ([sneha.venkatraman@hdfcsec.com](mailto:sneha.venkatraman@hdfcsec.com))

**RETAIL RESEARCH Fax: (022) 30753435 Corporate Office**

HDFC Securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Fax: (022) 30753435 Website: [www.hdfcsec.com](http://www.hdfcsec.com)  
Email: [hdfcsecetailresearch@hdfcsec.com](mailto:hdfcsecetailresearch@hdfcsec.com)

**Disclaimer:** This document has been prepared by HDFC Securities Limited and is meant for sole use by the recipient and not for circulation. This document is not to be reported or copied or made available to others. It should not be considered to be taken as an offer to sell or a solicitation to buy any security. The information contained herein is from sources believed reliable. We do not represent that it is accurate or complete and it should not be relied upon as such. We may have from time to time positions or options on, and buy and sell securities referred to herein. We may from time to time solicit from, or perform investment banking, or other services for, any company mentioned in this document. **This report is intended for Retail Clients only and not for any other category of clients, including, but not limited to, Institutional Clients**