

Hero Motocorp

November 2011 volume: Crosses the 4m mark

- Hero Motocorp Nov sales up 27% yoy to 536,772 units.
- Led by strong volume growth, HH crosses the 4m mark in Nov '11, YTD sales up 20% yoy.
- Volume outlook strong, but cost pressure (n re-branding, R&D investments, ad-spend, etc) to limit margin expansion.
- The stock is trading at a 12% premium to Bajaj Auto – unjustified in our view.
- Maintain Underperform on expensive valuations with a price target of Rs1,987 – based on 14x FY13E earnings.

Total sales up 27% yoy. Hero Motocorp's total sales in Nov 2011 were up 27% yoy to 536,772 units.

Strong momentum sustained. Led by sustained robust volume momentum, Hero Motocorp crossed the 4m sales mark in Nov '11. YTD Total sales were up 20% yoy to 4.12m.

Outlook. Our estimates factor in 525,000-unit monthly run rate in 2H (against 512,000 in 1H). However, we expect Honda's intention to enter the 100cc segment in CY12 to directly impact HMC's key executive segment from FY13 onwards. Further, increase in operating expenses (re-branding, R&D, ad spend, etc) is likely to limit margin expansion going forward – we factor in 50bps margin expansion in FY13 (our 2H margin estimate factors in a further 130bps expansion over 1H to 13.1%).

Valuation. The stock is currently trading at 14.8x FY13E earnings and 10.5x EV/EBITDA – almost 12% premium to Bajaj Auto – unjustified in our view. Maintain Underperform on expensive valuations with a price target of Rs1,987 – based on 14x FY13E earnings.

UNDERPERFORM (unchanged)

PRICE as at 30 November 2011 PRICE TARGET

Rs1,999.70

Rs1,987.00

Bloomberg code

HMCL IN

Reuters code

HROM.NS

Market cap

Rs399,340m (US\$7,649m)

12 month range

Rs1,390.55 - 2,222.50

EPS adj est change

2011E

-

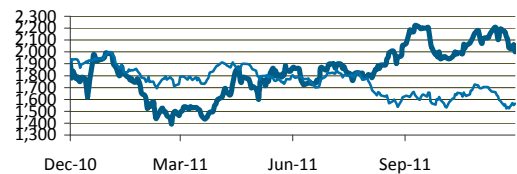
2012E

-

| Year end: March | 2011 | 2012E | 2013E | 2014E |
|-----------------------------|-------------|-------------|-------------|-------------|
| Sales (Rs m) | 192,450 | 232,677 | 265,566 | 305,852 |
| EBIT (Rs m) | 20,579 | 24,305 | 28,664 | 33,007 |
| EBITDA (Rs m) | 22,832 | 27,226 | 32,365 | 37,572 |
| Pretax profit (Rs m) | 24,048 | 29,295 | 33,963 | 38,663 |
| Earnings (Rs m) adjusted | 20,077 | 24,315 | 28,189 | 29,177 |
| Diluted EPS (Rs) adjusted | 100.54 | 121.76 | 141.16 | 146.11 |
| Diluted EPS growth (%) adj. | -10.04 | 21.11 | 15.93 | 3.50 |
| DPS (Rs) | 105.00 | 60.00 | 65.00 | 70.00 |
| DPS growth (%) | -4.5 | -42.9 | 8.3 | 7.7 |
| EBITDA margin (%) | 11.9 | 11.7 | 12.2 | 12.3 |
| EBIT margin (%) | 10.7 | 10.4 | 10.8 | 10.8 |
| Net margin (%) | 10.4 | 10.5 | 10.6 | 9.5 |
| Div payout (%) | 127.3 | 57.7 | 53.9 | 56.1 |
| Book value/share (Rs) | 148.03 | 209.78 | 285.94 | 362.05 |
| Net gearing (%) | -1.3 | -27.2 | -29.4 | -32.0 |
| ROE (%) | 67.9 | 58.0 | 49.4 | 40.4 |
| ROACE (%) | 52.8 | 49.1 | 45.4 | 42.9 |
| FCF (Rs m) | 18,357.2 | 25,825.1 | 24,238.7 | 26,195.8 |
| EV/Sales (x) | 1.9 | 1.5 | 1.3 | 1.1 |
| EV/EBITDA (x) | 15.8 | 12.7 | 10.4 | 8.6 |
| PBR (x) | 14.0 | 9.9 | 7.2 | 5.7 |
| PER (x) | 20.6 | 17.0 | 14.6 | 14.1 |
| Dividend yield (%) | 5.1 | 2.9 | 3.1 | 3.4 |

Source: Company, Standard Chartered Research estimates

Share price performance



— Hero Motocorp Ltd — BSE SENSEX 30 INDEX (rebased)

| Share price (%) | -1 mth | -3 mth | -12 mth |
|-------------------------|------------------|--------|---------|
| Ordinary shares | -8 | -3 | 1 |
| Relative to Index | 1 | 1 | 22 |
| Relative to Sector | - | - | - |
| Major shareholder | Promoter (52.0%) | | |
| Free float | 48% | | |
| Average turnover (US\$) | 21,526,731 | | |

Source: Company, FactSet

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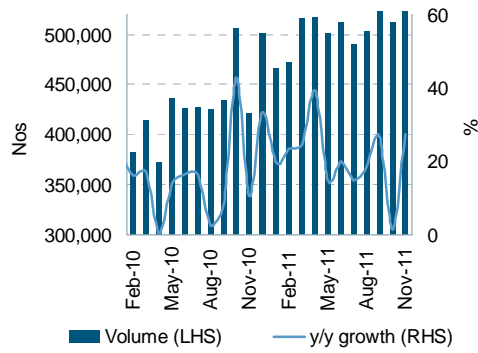


Fig 1 – November 2011 volume performance

| Company Sales | Nov-11 | Nov-10 | Oct-11 | YoY (%) chg | MoM (%) chg | YTD FY12 | YTD FY11 | YTD (%) chg |
|---------------|---------|---------|---------|----------------|----------------|-----------|-----------|----------------|
| Hero Honda | 536,772 | 421,366 | 512,238 | 27.4 | 4.8 | 4,122,902 | 3,446,902 | 19.6 |

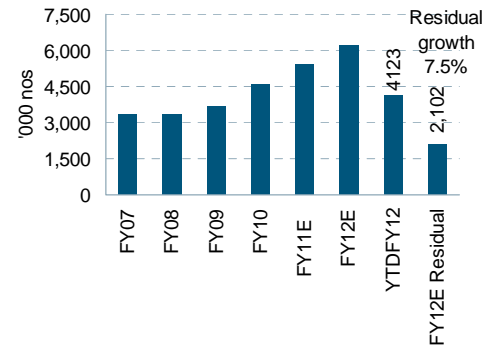
Source: Company, Standard Chartered Research

Fig 2 – Volumes up 27% yoy



Source: Company, Standard Chartered Research

Fig 3 – Residual growth at 7.5% over high base



Source: Company, Standard Chartered Research

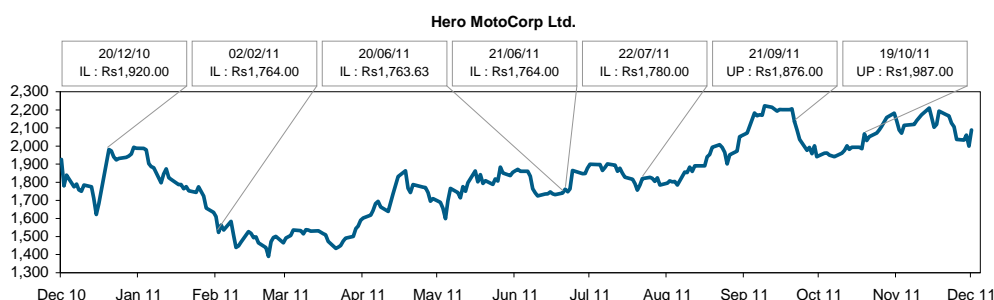


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Source: FactSet prices / SCB ratings and price targets

Recommendation Distribution and Investment Banking Relationships

| | % of covered companies currently assigned this rating | % of companies assigned this rating with which SCB has provided investment banking services over the past 12 months |
|--------------|---|---|
| OUTPERFORM | 61.4% | 13.8% |
| IN-LINE | 30.3% | 11.9% |
| UNDERPERFORM | 8.3% | 12.8% |

As of 30 September 2011

Research Recommendation

| Terminology | Definitions |
|-------------------|--|
| OUTPERFORM (OP) | The total return on the security is expected to outperform the relevant market index by 5% or more over the next 12 months |
| IN-LINE (IL) | The total return on the security is not expected to outperform or underperform the relevant market index by 5% or more over the next 12 months |
| UNDERPERFORM (UP) | The total return on the security is expected to underperform the relevant market index by 5% or more over the next 12 months |

SCB uses an investment horizon of 12 months for its price targets.



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