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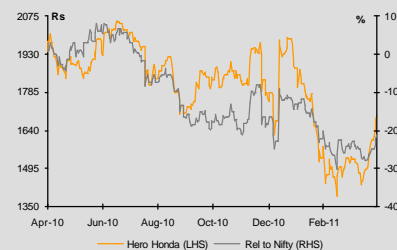
Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs1,695	Rs 1,590
EPS change FY11E/12E (%)	0 / 4
Target Price change (%)	3.0
Nifty	5,432
Sensex	18,091

Price Performance

(%)	1M	3M	6M	12M
Absolute	12	(11)	(8)	(14)
Rel. to Nifty	5	(8)	(4)	(21)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	HH@IN
Equity Capital (Rs mn)	399
Face Value(Rs)	2
No of shares o/s (mn)	200
52 Week H/L	2,075/1,378
Market Cap (Rs bn/USD mn)	338/7,646
Daily Avg Volume (No of sh)	632646
Daily Avg Turnover (US\$mn)	22.4

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	52.2	52.2	52.2
FII/NRI	32.9	33.6	31.9
Institutions	5.2	4.6	5.8
Private Corp	1.9	1.7	1.8
Public	7.8	7.9	8.3

Source: Capitaline

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- **Capacity increased by debottlenecking, revised capacity stands at ~6.2mn units. There is further scope of increasing capacity**
- **Royalty is a fixed expense to be paid by 2014. Our est. indicates a royalty outgo of Rs 1.9bn to Rs 2.1bn in FY12-FY14. Cost pressures are significant due to metal prices**
- **4QFY11/1QFY12 to have higher adv. spends due to World cup/IPL. Raise FY12 vol. est. to 6.1mn units (+3.6%) and EPS to Rs 113.8 (+3.7%). Expect FY12 DPS of Rs 68 (earlier Rs 30)**
- **Expect negative surprises on the earnings. Current valuations (FY12e PER/EV-EBIDTA of 14.9x/10.5x) do not factor in such risks. Raise TP to Rs.1,590 (+3%), retain REDUCE**

Key meeting highlights

Demand outlook

Demand outlook remains strong. Expect positive surprise for two wheeler demand given the strong agri output and employment generation in the economy.

Production capacity increased to ~6.2mn units per annum

Production capacity increased through debottlenecking. Current capacity stands at ~6.2mn. There is further scope of debottlenecking. The company is aiming for 10% volume growth in FY12. It has the ability to meet the higher demand that the targeted 10% growth

New vendor base

As long as the name of 'Honda' exists on the product, component sourcing can be done from approved vendor list. Once the re-branding under 'Hero' name happens, HHML will be free to scout for alternative vendors, if there is need. However, HHML will not compromise on quality in order to reduce costs. Even currently HHML spare parts are slightly expensive that the competition due to quality and endurance aspect.

Outlook on margins

There are significant cost pressures on the raw material front. There has been surge of ~18% in the spot prices of key metal inputs in last few months. Also 4QFY11 and 1QFY12 will have higher advertising cost due to World cup and IPL.

Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	123,293	17,097	13.9	12,818	64.2	32.5	37.9	26.4	17.7	8.9
FY10	157,702	26,620	16.9	22,318	111.8	74.1	61.4	15.2	10.6	9.8
FY11E	189,807	23,534	12.4	20,270	101.5	(9.2)	55.7	16.7	12.3	8.9
FY12E	219,184	26,552	12.1	22,730	113.8	12.1	49.9	14.9	10.5	6.4

Source: Company, Emkay Research

R&D team

It has an established team of 300 people on the R&D side. Company is confident of managing the R&D requirement by 2014 through a combination of internal R&D effort and technology sourcing/tie up. However, till 2014, R&D is not a cause of concerns as all the product platforms are updated.

Valuations and View

At Rs 1,695, the stock trades at PER of 14.9 and EV/EBIDTA of 10.5 our FY12 estimates respectively. We have upgraded our FY12 volumes and EPS by 3.6% and 3.7% respectively. We believe that there are no major concerns for the company on the volumes front given the superior franchise and brand equity. However, we continue to have concerns with respect to cost pressures and clarity with respect to R&D efforts. Hence we value the company at 10% discount to Bajaj Auto. We have valued the company at 14 PER and 9.7x EV/EBIDTA with a TP of Rs 1,590 (up 3%). We retain our REDUCE rating on the stock as current valuations are not factoring in the risk of negative surprises on the margins front.

Revision in Estimates

Rs mn	FY11E			FY12E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Volumes	5,349,564	5,393,336	0.8	5,898,255	6,113,065	3.6
Sales	188,452	189,807	0.7	211,737	219,184	3.5
EBIDTA	23,462	23,534	0.3	25,547	26,552	3.9
EBIDTA margins (%)	12.4	12.4		12.1	12.1	
Net Profits	20,211	20,270	0.3	21,922	22,730	3.7
EPS	101.2	101.5	0.3	109.8	113.8	3.7

Source: Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	123,293	157,702	189,807	219,184
Growth (%)	19.2	27.9	20.4	15.5
Expenditure	106,195	131,082	166,273	192,631
Materials Consumed	87,522	107,484	138,783	161,301
Employee Cost	4,487	5,603	6,051	6,717
Other Exp	14,187	17,995	21,439	24,613
EBITDA	17,097	26,620	23,534	26,552
Growth (%)	26.7	55.7	(11.6)	12.8
EBITDA margin (%)	13.9	16.9	12.4	12.1
Depreciation	1,807	1,915	2,118	2,373
EBIT	15,291	24,705	21,416	24,179
EBIT margin (%)	12.4	15.7	11.3	11.0
Other Income	2,207	3,406	3,660	4,071
Interest expenses	(317)	(206)	(214)	(341)
PBT	17,815	28,317	25,290	28,591
Tax	4,997	5,999	5,021	5,861
Effective tax rate (%)	28.1	21.2	19.9	20.5
Adjusted PAT	12,818	22,318	20,270	22,730
Growth (%)	32.5	74.1	(9.2)	12.1
Net Margin (%)	10.4	14.2	10.7	10.4
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT after MI	12,818	22,318	20,270	22,730
E/O items	-	-	(798)	-
Reported PAT	12,818	22,318	19,471	22,730
Growth (%)	32.5	74.1	(9.2)	12.1

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	15,607	24,911	21,630	24,520
Depreciation	1,807	1,915	2,118	2,373
Interest Provided	(317)	(206)	(214)	(341)
Other Non-Cash items	(906)	-	(798)	-
Chg in working cap	2,399	25,971	(10,778)	(5,438)
Tax paid	(4,997)	(5,999)	(5,021)	(5,861)
Operating Cashflow	13,593	46,592	6,937	15,253
Capital expenditure	(3,056)	(1,623)	(2,519)	(2,500)
Free Cash Flow	10,537	44,969	4,418	12,753
Other income	2,207	3,406	3,660	4,071
Investments	(7,762)	(5,570)	(2,000)	(8,000)
Investing Cashflow	(5,555)	(2,164)	1,660	(3,929)
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	(535)	(125)	(200)	(200)
Interest Paid	317	206	214	341
Dividend paid (incl tax)	(4,672)	(25,676)	(15,932)	(7,971)
Income from investments	-	-	-	-
Others	(109)	-	-	-
Financing Cashflow	(4,999)	(25,594)	(15,918)	(7,830)
Net chg in cash	(17)	17,212	(9,840)	994
Opening cash position	1,311	2,196	19,072	9,233
Closing cash position	1,294	19,407	9,233	10,227

Source: Company, Emkay Research

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	399	399	399	399
Reserves & surplus	37,608	34,251	37,790	52,549
Net worth	38,008	34,650	38,189	52,949
Minority Interest	-	-	-	-
Secured Loans	-	-	-	-
Unsecured Loans	785	660	460	260
Loan Funds	785	660	460	260
Net deferred tax liability	1,444	1,528	1,528	1,528
Total Liabilities	40,237	36,838	40,177	54,736
Gross Block	25,163	27,510	29,010	32,510
Less: Depreciation	9,426	10,922	13,040	15,413
Net block	15,737	16,588	15,970	17,097
Capital work in progress	1,205	481	1,500	500
Investment	33,688	39,257	41,257	49,257
Current Assets	10,135	28,826	22,819	30,496
Inventories	3,268	4,364	5,678	6,556
Sundry debtors	1,499	1,084	2,839	7,868
Cash & bank balance	2,196	19,072	9,233	10,227
Loans & advances	3,113	4,058	5,011	5,786
Other current assets	59	248	59	59
Current lia & Prov	20,528	48,314	41,369	42,614
Current liabilities	15,259	38,051	31,888	31,665
Provisions	5,270	10,264	9,481	10,948
Net current assets	(10,393)	(19,488)	(18,550)	(12,118)
Misc. exp	-	-	-	-
Total Assets	40,237	36,838	40,177	54,736

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	13.9	16.9	12.4	12.1
Net Margin	10.4	14.2	10.7	10.4
ROCE	48.3	72.9	65.1	59.5
ROE	37.9	61.4	55.7	49.9
RoIC	676.5	(262.5)	(126.8)	(283.5)
Per Share Data (Rs)				
EPS	64.2	111.8	101.5	113.8
CEPS	73.2	121.3	112.1	125.7
BVPS	190.3	173.5	191.2	265.1
DPS	20.0	110.0	68.3	34.1
Valuations (x)				
PER	27.2	15.6	16.7	14.9
P/CEPS	23.9	14.4	15.1	13.5
P/BV	9.2	10.1	8.9	6.4
EV / Sales	2.5	1.8	1.5	1.3
EV / EBITDA	18.4	11.0	12.3	10.5
Dividend Yield (%)	1.1	6.3	4.0	2.0
Gearing Ratio (x)				
Net Debt/ Equity	(0.9)	(1.7)	(1.3)	(1.1)
Net Debt/EBIDTA	(2.1)	(2.2)	(2.1)	(2.2)
Working Cap Cycle (days)	(31.1)	(75.5)	(44.9)	(28.7)

Recommendation History: Hero Honda Motors – HH IN

Date	Reports	Reco	CMP	Target
02/02/2011	Hero Honda Q3FY11 Result Update	Reduce	1,523	1,540
29/10/2010	Hero Honda Q2FY11 Result Update	Reduce	1,866	1,720
29/07/2010	Hero Honda 1QFY11 Result Update	Hold	1,871	1,930
20/04/2010	Hero Honda 4QFY10 Result Update	Accumulate	1,897	2,280

Recent Research Reports

Date	Reports	Reco	CMP	Target
16/03/2011	Tata Motors Management Meet Update	Buy	1,144	1,520
03/03/2011	Eicher Motors Initiating Coverage	Accumulate	1,101	1,505
14/02/2011	Apollo Tyres Q3FY11 Result Update	Accumulate	51	58
09/02/2011	Mahindra and Mahindra Q3FY11 Result Update	Buy	654	830

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