

Hero Honda Motors LimitedCMP Rs. 810.0
HoldQ2 FY2009
Result Update**Robust volume fuels topline !!**

Hero Honda Motors Ltd. (HHML) turned in a spectacular performance for the September 2008 quarter. Net sales grew by 36% to Rs. 32Bn for Q2FY09 as compared to Rs. 23.5Bn for Q2FY08 on account of strong volumes growth by 28.5%. Total volumes for the current quarter were at 9.72 lakh units v/s 7.56 lakh units for the corresponding quarter last year.

On the expense front, raw material cost has risen by 36% to Rs. 23.1Bn for Q2FY09 v/s Rs. 17Bn for Q2FY08. Raw Material and Staff Cost as a percentage of sales has more or less remained constant at 72.4% and 3.4% for Sept'08 as against 72.3% and 3.7% for Sept'07.

Operating Profit for HHML has increased substantially by 49% to Rs. 4.3Bn for Q2FY09 as compared to Rs. 2.9Bn for Q2FY08. OPM has increased by 119 basis points to 13.6% for Sept'08 as compared to 12.4% for Sept'07 on account of low base effect for the corresponding period last year.

Provision for taxation for the quarter ended Sept'08 was at Rs. 1,441.7Mn v/s Rs. 980.3Mn for the quarter ended Sept'07, a rise of 47%. This provision is made at the annual effective income-tax rate after considering the revised target production plan from 7.5 lakh units to 6 lakh units at the new Haridwar plant.

HHML's net profit for Q2FY09 is up by a robust 50% at Rs. 3.06Bn as compared to Rs. 2.04Bn for Q2FY08. EPS for the current quarter is Rs. 15.3 v/s Rs. 10.2 for the corresponding period last year.

Other Highlights

Volume growth is strongest among all two-wheeler companies and is also driven by channel-stuffing for the festive season. Splendor and other high margin products in executive & premium segment would bolster margin picture.

Realizations for the company are expected to improve by 4% on account of price increase taken in mid-August and higher sales from the new Haridwar plant.

HHML has targeted to produce about 6 lakh units in October 2008 on account of festive season, which might slacken in the following months due the uncertain market conditions, global credit crunch and lack of financing for purchase of two-wheelers.

Outlook & Valuation

The Indian two-wheeler industry has shown a strong performance in the first half of FY09 and has actually bounced back in line with the global trend, despite the aforesaid concerns of high interest rates, low availability of finance and rising fuel costs. Going ahead with bike upgrades and new model launches we expect the Indian two-wheeler industry to keep up the thw current momentum.

At CMP of Rs. 810/- the scrip is trading at 16.7x FY08 earnings of Rs. 48.5. We maintain a HOLD on the stock.

Sales Figures

Particulars (Units)	Apr 08	May 08	Jun 08	Q1FY09	Jul 08	Aug 08	Sept 08	Q2FY09
Scooter/Scooterettee	5,832	9,422	10,214	25,468	12,737	12,432	12,399	37,568
- Domestic	5,832	9,422	10,214	25,468	12,340	12,052	11,503	35,895
- Exports	0	0	0	0	397	380	896	1,673
- Growth M-M (%)	-11.2%	61.6%	8.4%	N.A.	24.7%	-2.4%	-0.3%	N.A.
- Growth Y-Y (%)	315.7%	15.0%	14.1%	37.3%	57.5%	7.8%	13.4%	23.0%
Motorcycles	280,420	302,895	285,461	868,776	268,580	293,084	372,863	934,527
- Domestic	276,580	297,387	277,654	851,621	260,324	284,752	365,630	910,706
- Exports	3,840	5,508	7,807	17,155	8,256	8,332	7,233	23,821
- Growth M-M (%)	-10.7%	8.0%	-5.8%	N.A.	-5.9%	9.1%	27.2%	N.A.
- Growth Y-Y (%)	7.4%	9.4%	15.9%	10.8%	39.1%	27.8%	22.8%	28.7%
Total Domestic	282,412	306,809	287,868	877,089	272,664	296,804	377,133	946,601
Total Exports	3,840	5,508	7,807	17,155	8,653	8,712	8,129	25,494
Grand Total	286,252	312,317	295,675	894,244	281,317	305,516	385,262	972,095
- Growth M-M (%)		9.1%	-5.3%	N.A.	-4.9%	8.6%	26.1%	N.A.
- Growth Y-Y (%)	9.0%	9.5%	15.9%	11.4%	39.8%	26.8%	22.5%	28.5%

Quarterly Financials

Earnings Statement								
YE March (Rs. Mn)	Q209	Q109	Q-Q(%)	Q208	Y-Y(%)	H109	H108	Y-Y(%)
Two Wheelers Sold (Nos)	972,095	894,244	8.7%	756,633	28.5%	1,866,339	1,559,486	19.68%
Net Revenues	32,020.5	28,435.3	12.6%	23,520.9	36.1%	60,455.8	48,000.8	25.9%
Raw Material Cost	23,183.0	20,453.7	13.3%	17,012.6	36.3%	43,636.7	34,859.8	25.2%
Gross Profit	8,837.5	7,981.6	10.7%	6,508.3	35.8%	16,819.1	13,141.0	28.0%
Staff Costs	1,102.7	1,038.9	6.1%	870.3	26.7%	2,141.6	1,836.6	16.6%
Other Expenditure	3,385.9	3,532.3	-4.1%	2,723.5	0.0%	6,918.2	5,755.1	20.2%
Total Expenditure	4,488.6	4,571.2	-1.8%	3,593.8	24.9%	9,059.8	7,591.7	19.3%
Operating Profit	4,348.9	3,410.4	27.5%	2,914.5	49.2%	7,759.3	5,549.3	39.8%
Other Income	538.8	467.2	15.3%	392.7	37.2%	1,006.0	781.8	28.7%
EBITDA	4,887.7	3,877.6	26.0%	3,307.2	47.8%	8,765.3	6,331.1	38.4%
Depreciation	466.4	422.0	10.5%	384.4	21.3%	888.4	760.4	16.8%
EBIT	4,421.3	3,455.6	27.9%	2,922.8	51.3%	7,876.9	5,570.7	41.4%
Interest	(83.4)	(49.7)	67.8%	(100.8)	-17.3%	(133.1)	(190.3)	-30.1%
PBT	4,504.7	3,505.3	28.5%	3,023.6	49.0%	8,010.0	5,761.0	39.0%
Tax	1,441.7	776.6	85.6%	980.3	47.1%	2,218.3	1,819.3	21.9%
PAT	3,063.0	2,728.7	12.3%	2,043.3	49.9%	5,791.7	3,941.7	46.9%
Equity Capital	399.4	399.4	0.0%	399.4	0.0%	399.4	399.4	0.0%
EPS	15.3	13.7	12.3%	10.2	49.9%	29.0	19.7	46.9%

Hero Honda : Financials

Earnings Statement					Balance Sheet				
Particulars (Rs. Mn)	FY05	FY06	FY07	FY08	Particulars (Rs. Mn)	FY05	FY06	FY07	FY08
Two-Wheeler Sales (Nos)	2,621,400	3,000,751	3,336,756	3,337,142	Equity Capital	399.4	399.4	399.4	399.4
- Growth (%)	26.6%	14.5%	11.2%	0.01%	Reserves	14,534.4	19,693.9	24,301.2	29,463.0
Total Revenues	74,216.5	87,139.8	98,999.6	103,318.0	Shareholders Funds	14,933.8	20,093.3	24,700.6	29,862.4
- Growth (%)	27.2%	17.4%	13.6%	4.4%	Borrowed Funds	2,017.6	1,857.8	1,651.7	1,320.0
Total Expenditure	62,530.1	73,495.3	87,269.2	89,824.3	Deferred Tax Liability	1,015.3	1,201.0	1,295.8	1,305.9
Operating Profit	11,686.4	13,644.5	11,730.4	13,493.7	Total Liabilities	17,966.7	23,152.1	27,648.1	32,488.3
Other Income	1,369.0	1,562.8	1,898.5	1,854.2	Fixed Assets	7,153.3	9,935.6	13,554.5	15,487.0
EBITDA	13,055.4	15,207.3	13,628.9	15,347.9	Investments	20,266.5	20,618.9	19,738.7	25,668.2
- Growth (%)	14.1%	16.5%	-10.4%	12.6%	Pre-operative Expenses	0.0	0.0	0.0	160.5
Depreciation	893.8	1,146.2	1,397.8	1,603.2	Deferred Tax Asset	6.3	13.2	13.8	52.2
EBIT	12,161.6	14,061.1	12,231.1	13,744.7	Current Assets				
Interest	(10.9)	(61.3)	(229.9)	(358.1)	Inventory	2,042.6	2,265.5	2,755.8	3,171.0
PBT	12,172.5	14,122.4	12,461.0	14,102.8	Sundry Debtors	895.5	1,586.6	3,352.5	2,974.4
Tax	4,067.8	4,409.0	3,882.1	4,424.0	Loans & Advances	2,396.1	2,737.8	2,630.6	1,854.6
PAT	8,104.7	9,713.4	8,578.9	9,678.8	Cash & Bank Balance	176.0	1,587.2	357.8	1,310.9
- Growth (%)	11.3%	19.8%	-11.7%	12.8%	Other Current Assets	35.1	35.3	36.0	56.9
					Current Liabilities				
					Sundry Creditors	10,157.6	10,728.8	10,419.2	13,249.8
					Provisions	4,847.1	4,899.2	4,372.4	4,997.6
					Net Current Assets	(9,459.4)	(7,415.6)	(5,658.9)	(8,879.6)
					Total Assets	17,966.7	23,152.1	27,648.1	32,488.3
Ratio Analysis					Cash Flow				
Particulars	FY05	FY06	FY07	FY08	Particulars	FY05	FY06	FY07	FY08
OPM (%)	15.7%	15.7%	11.8%	13.1%	Opening Cash & Bank	371.2	4,720.4	1,587.2	357.8
EBITDA (%)	17.6%	17.5%	13.8%	14.9%	Profit after Tax	8,104.7	9,713.4	8,578.9	9,678.8
PBIT (%)	16.4%	16.1%	12.4%	13.3%	Less: Investment Income	(1,369.0)	(1,562.8)	(1,898.5)	(1,854.2)
PAT (%)	10.9%	11.1%	8.7%	9.4%	Interest Paid	(10.9)	(61.3)	(229.9)	(358.1)
Interest Cover (x)	(1,115.7)	(229.4)	(53.2)	(38.4)	Depreciation	893.8	1,146.2	1,397.8	1,603.2
EBITDA per share (Rs.)	65.4	76.2	68.2	76.9	Deferred Taxation	115.6	178.8	94.2	12.0
EPS (Rs.)	40.6	48.6	43.0	48.5	Others	(55.1)	(4,754.8)	(272.2)	(130.9)
P/E (x)	20.0	16.7	18.9	16.7	Change in Working Cap	1,753.6	(632.6)	(2,986.1)	4,173.8
P/BV (x)	10.8	8.1	6.5	5.4	CF - Operating Activities	9,432.7	4,026.9	4,684.2	13,124.6
BVPS (Rs.)	74.8	100.6	123.7	149.5	Change in Fixed Assets	(2,104.4)	(3,711.2)	(4,743.9)	(3,406.7)
Market Cap (Rs. Mn.)	32,351.4	32,351.4	32,351.4	32,351.4	Change in Investments	(4,615.5)	(352.4)	880.2	(5,929.5)
M Cap/Sales (x)	0.4	0.4	0.3	0.3	Change in Pre-operative Exp	0.0	0.0	0.0	(160.5)
EV (Rs. Mn.)	13,926.5	12,003.1	13,906.6	6,692.3	Change in Deferred Tax Asset	0.5	(6.9)	(0.6)	(38.4)
EV/EBITDA (x)	1.1	0.8	1.0	0.4	Investment Income	1,369.0	1,562.8	1,898.5	1,854.2
EV/Sales (x)	0.2	0.1	0.1	0.1	CF - Investing Activities	(5,350.4)	(2,507.7)	(1,965.8)	(7,680.9)
ROCE (%)	71.7%	64.1%	46.4%	44.1%	Increase in Equity	(0.0)	0.0	(0.0)	(78.1)
RONW (%)	54.3%	48.3%	34.7%	32.4%	Changes in Borrowings	270.6	(159.8)	(206.1)	(331.7)
Debt/Equity Ratio (x)	0.1	0.1	0.1	0.0	Interest Paid	10.9	61.3	229.9	358.1
Inventory T/o Days	10.0	9.5	10.2	11.2	Dividend Paid	(4,559.0)	(4,553.9)	(3,971.6)	(4,438.9)
Debtors T/o Days	4.4	6.6	12.4	10.5	CF - Financing Activities	(4,277.5)	(4,652.4)	(3,947.8)	(4,490.6)
Advances T/o Days	11.8	11.5	9.7	6.6	Net Change in Cash	(195.2)	(3,133.2)	(1,229.4)	953.1
Creditors T/o Days	50.0	44.9	38.4	46.8	Closing Cash & Bank Bal	176.0	1,587.2	357.8	1,310.9
Working Cap T/o Days	(46.5)	(31.1)	(20.9)	(31.4)					
Fixed Assets T/o (Gross)	6.721	5.920	5.498	5.329					
DPS (Rs.)	20.0	20.0	17.0	19.0					
Dividend Payout (%)	49.3%	41.1%	39.6%	39.2%					
Dividend Yield (%)	2.5%	2.5%	2.1%	2.3%					

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