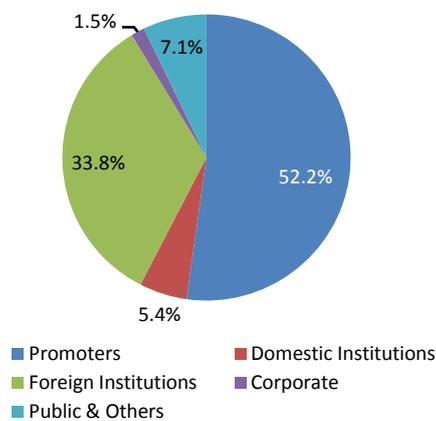


CMP: Rs 1946  
Target Price: Rs 2005  
**Recommendation: Hold**

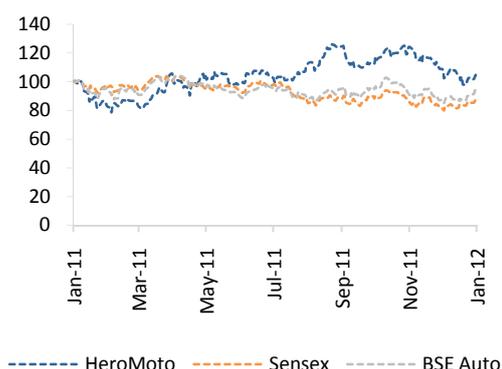
| Stock Info |            |
|------------|------------|
| BSE Group  | A          |
| BSE Code   | 500182     |
| NSE Symbol | HEROMOTOCO |
| Bloomberg  | HMCL IN    |
| Reuters    | HROM.BO    |
| BSE Sensex | 16739      |
| NSE Nifty  | 5049       |

| Market Info        |               |
|--------------------|---------------|
| Market Capital     | Rs 38874 cr   |
| Equity Capital     | Rs 39.94 cr   |
| Avg Trading Volume | 561134        |
| 52 Wk High / low   | Rs 2250/ 1376 |
| Face Value         | Rs 2          |

Latest Shareholding Pattern (Dec' 11)



Price chart: HMC vs Sensex vs BSE Auto



### STRONG RESULTS, BUT SLOWDOWN & COMPETITION CONCERNS LINGER

Hero Moto reported a strong quarter amidst a challenging environment for the domestic auto industry. Reported operating EBITDA at 15.63% was aided by a marginal correction in Raw Mat prices and lower SG&A expenses on a yoy basis.

> **Q3 Net Revenue** at Rs 5984 crores was up by 17% on a yoy basis (3.4% qoq), aided by a 11.3% yoy increase in unit sales and 5% yoy improvement in Net Realizations. Net Realizations per unit for the quarter came at Rs 37650, a 5% increase yoy, (0.5% qoq). In term of product breakup, (domestic and exports) overall Scooter sales continued to robust, growing in Q3 by 20.4% on a yoy basis, but motorcycles sales volume growth was more tepid at 10.6% yoy for the quarter. In terms of geographical breakup, HMC's overall domestic portfolio grew by 11% for the quarter on a yoy basis, much slower than 20% + growth recorded in previous quarters, mainly on account of the huge base effect of Q3 FY11 and overall slowdown in the industry. Exports growth (highly erratic due to small base), grew in Q3 by 6.73% on a yoy basis.

> **Q3 Operating EBITDA** (adjusted for the effect of amortization of intangibles, at a constant rate) came at Rs 761 crores, a growth of 31.9% yoy (2.9% qoq), with the adjusted Operating EBITDA margin at 12.6% (increase of 150 bps yoy, but flat qoq). The company however **reported** Operating EBITDA (unadjusted for amortization) at Rs 943 crores, at a margin of 15.6%. Margins were aided by higher net realizations, marginal correction in Raw Mat costs on a yoy basis, and slightly lower Other Expenses due to increased operating leverage.

> **Q3 Reported PAT** at Rs 613 crores (the highest ever for the company in value terms), a growth of 43% yoy (1.1% qoq), PAT margins at 10.16%, up by almost 200 bps yoy (-0.23% qoq). However, the PAT figures are not comparable on a yoy basis because Q3 FY11 had as exceptional item loss of 79.84 crores, which was a provision made on account of NCCD tax dispute.

> **Change in Estimates:** We have downgraded our FY12&13 estimates from our previous calculations in November 2011. The downgrade comes in the light of the overall domestic industry slowdown (which we expect to persist in the near term), and a higher possibility of increased competition from the Japanese OEM's Honda and Yamaha. We feel that increased competition will keep a check on market share as well as on margins (due to pressure on realizations and higher variable expenditure)

| Particulars<br>(in Rs crore) | Old Estimates |           | New Estimates |           | % Ch<br>FY12 | % Ch<br>FY13 |
|------------------------------|---------------|-----------|---------------|-----------|--------------|--------------|
|                              | FY12          | FY13      | FY12          | FY13      |              |              |
| Unit Sales (in no's)         | 6,366,208     | 7,302,839 | 6,230,051     | 7,007,527 | -2.1%        | -4.0%        |
| Net Revenue                  | 23,267        | 26,957    | 22,838        | 25,962    | -1.8%        | -3.7%        |
| Operating EBITDA *           | 2,631         | 3,244     | 2,564         | 3,092     | -2.6%        | -4.7%        |
| Op EB Margin *               | 11.22%        | 11.94%    | 11.14%        | 11.82%    | 8 bps        | 12 bps       |
| Treasury Income              | 330           | 312       | 327           | 302       | -0.9%        | -3.4%        |
| PBT                          | 2727          | 3269      | 2656          | 3107      | -2.6%        | -5.0%        |
| PAT                          | 2263          | 2714      | 2205          | 2579      | -2.6%        | -5.0%        |
| EPS                          | 113.34        | 135.89    | 110.41        | 129.16    | -2.6%        | -5.0%        |

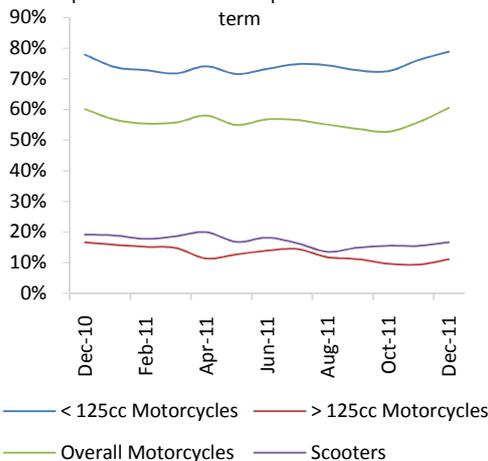
\* Operating EBITDA adjusted for capitalization of intangibles / royalty



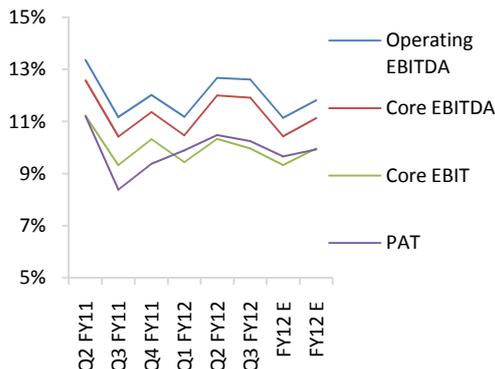
**EBITDA adjusted for capitalization of royalty as intangibles: "Adjusted" EBITDA versus "Reported" EBITDA**

Prior to the split with the Honda group, the royalty expenditure was accounted for as a part of other expenses, and was deducted to arrive at EBITDA. Post split, royalty costs of 45 Billion Yen (Rs 2479.33 crores) were capitalized as intangibles (excluding effect of currency movements), to be charged off to the P&L as amortization expenditure (below EBITDA). The approximate charge off per quarter is Rs 180 crore (variable due to Yen currency movement), and we add this amount on a quarterly / annual basis to our estimates of Other Expenses, and report the margin as "Adjusted" EBITDA. We feel that this imparts continuity in comparison. The company however reports EBITDA margins as per the new accounting change, which comes almost 3% higher than our "adjusted" EBITDA margin.

**Domestic Market Share** has remained strong throughout the year, and witnessed an uptick from October 2011, but we expect the slowdown to persist in the near term



**Profitability** has been constrained over the past few quarters, and we rule out any significant margin expansion over FY12 and 13



| Quarterly P&L (in Rs crore)       | Q3 FY12         | Q3 FY11         | yoy          | Q2 FY12         | qoq         |
|-----------------------------------|-----------------|-----------------|--------------|-----------------|-------------|
| <b>Sales (in numbers)</b>         |                 |                 |              |                 |             |
| Motorcycle Sales                  | 1,474,815       | 1,332,941       | 10.6%        | 1,436,759       | 2.6%        |
| Scooter Sales                     | 114,461         | 95,089          | 20.4%        | 107,556         | 6.4%        |
| Total Two Wheeler Sales           | 1,589,276       | 1,428,030       | 11.3%        | 1,544,315       | 2.9%        |
| <b>Net sales</b>                  | <b>5,983.55</b> | <b>5,118.19</b> | <b>16.9%</b> | <b>5,784.32</b> | <b>3.4%</b> |
| Other Operating Income            | 47.90           | 43.47           | 10.2%        | 45.00           | 6.4%        |
| Total Income from Operations      | 6,031.45        | 5,161.66        | 16.9%        | 5,829.32        | 3.5%        |
| Net Consumption of Raw Materials  | 4,394.80        | 3,814.86        | 15.2%        | 4,223.74        | 4.0%        |
| Staff Costs                       | 199.32          | 156.08          | 27.7%        | 179.37          | 11.1%       |
| Other Expenditure (unadjusted)    | 494.34          | 614.14          | 19.5%        | 504.99          | -2.1%       |
| Other Expenditure (adjusted)      | 676.61          | 614.14          | 10.2%        | 687.26          | -1.5%       |
| Total Expenditure (unadjusted)    | 5,088.46        | 4,585.08        | 11.0%        | 4,908.10        | 3.7%        |
| Total Expenditure (adjusted)      | 5,270.73        | 4,585.08        | 15.0%        | 5,090.37        | 3.5%        |
| Operating EBIDTA Unadjusted *     | 942.99          | 576.58          | 63.5%        | 921.22          | 2.4%        |
| Operating EBIDTA Adjusted         | 760.72          | 576.58          | 31.9%        | 738.95          | 2.9%        |
| Core EBITDA Unadjusted            | 895.09          | 533.11          | 67.9%        | 876.22          | 2.2%        |
| Core EBITDA Adjusted              | 712.82          | 533.11          | 33.7%        | 693.95          | 2.7%        |
| Depreciation & Amort (unadjusted) | 298.65          | 55.96           | 434%         | 278.49          | 7.2%        |
| Depreciation & Amort (Adjusted)   | 116.38          | 55.96           | 108%         | 96.22           | 21.0%       |
| Operating EBIT                    | 644.34          | 520.62          | 23.8%        | 642.73          | 0.3%        |
| Core EBIT                         | 596.44          | 477.15          | 25.0%        | 597.73          | -0.2%       |
| Other income                      | 76.28           | 62.03           | 23.0%        | 79.75           | -4.4%       |
| Interest / (net)                  | (3.18)          | (5.22)          |              | (4.49)          |             |
| PBT before Exceptional Items      | 723.80          | 587.87          | 23.1%        | 726.97          | -0.4%       |
| Exceptional Items                 | 0.00            | (79.84)         |              | 0.00            |             |
| PBT                               | 723.80          | 508.03          | 42.5%        | 726.97          | -0.4%       |
| Tax Provision                     | 110.77          | 79.03           | 40.2%        | 120.84          | -8.3%       |
| <b>PAT</b>                        | <b>613.03</b>   | <b>429.00</b>   | <b>42.9%</b> | <b>606.13</b>   | <b>1.1%</b> |
| Effective Tax Rate                | 15.3%           | 15.6%           |              | 16.6%           |             |
| <b>EPS</b>                        | <b>30.70</b>    | <b>21.48</b>    | <b>42.9%</b> | <b>30.35</b>    | <b>1.1%</b> |

\* Operating EBIDTA reported by company

| Operating Ratios **             | Q3 FY12        | Q3 FY11        | abs ch     | Q2 FY12        | abs ch     |
|---------------------------------|----------------|----------------|------------|----------------|------------|
| Raw Materials                   | 72.86%         | 73.91%         | -1.04%     | 72.46%         | 0.41%      |
| Staff Costs                     | 3.30%          | 3.02%          | 0.28%      | 3.08%          | 0.23%      |
| Other Expenditure (unadjusted)  | 8.20%          | 11.90%         | -3.70%     | 8.66%          | -0.47%     |
| Other Expenditure (adjusted)    | 11.22%         | 11.90%         | -0.68%     | 11.79%         | -0.57%     |
| Total Expenditure (unadjusted)  | 84.37%         | 88.83%         | -4.46%     | 84.20%         | 0.17%      |
| Total Expenditure (adjusted)    | 87.39%         | 88.83%         | -1.44%     | 87.32%         | 0.06%      |
| Operating EBIDTA (unadjusted) * | 15.63%         | 11.17%         | 4.46%      | 15.80%         | -0.17%     |
| Operating EBIDTA (adjusted)     | 12.61%         | 11.17%         | 1.44%      | 12.68%         | -0.06%     |
| Dep and Amor (unadjusted)       | 4.95%          | 1.08%          | 3.87%      | 4.78%          | 0.17%      |
| Dep and Amor (adjusted)         | 1.93%          | 1.08%          | 0.85%      | 1.65%          | 0.28%      |
| Operating EBIT                  | 10.68%         | 10.09%         | 0.60%      | 11.03%         | -0.34%     |
| Other Income                    | 1.26%          | 1.20%          | 0.06%      | 1.37%          | -0.10%     |
| Interest                        | -0.05%         | -0.10%         | 0.05%      | -0.08%         | 0.02%      |
| Excp Items                      | 0.00%          | -1.55%         | 1.55%      | 0.00%          | 0.00%      |
| PBT                             | 12.00%         | 9.84%          | 2.16%      | 12.47%         | -0.47%     |
| Tax                             | 1.84%          | 1.53%          | 0.31%      | 2.07%          | -0.24%     |
| PAT                             | 10.16%         | 8.31%          | 1.85%      | 10.40%         | -0.23%     |
| <b>Other Ratios per unit</b>    | <b>Q3 FY12</b> | <b>Q3 FY11</b> | <b>yoy</b> | <b>Q2 FY12</b> | <b>qoq</b> |
| Net Realization per unit        | 37,650         | 35,841         | 5.0%       | 37,456         | 0.5%       |
| Raw Material Cost per unit      | 27,653         | 26,714         | 3.5%       | 27,350         | 1.1%       |
| Differential per unit           | 9,997          | 9,127          | 9.5%       | 10,105         | -1.1%      |
| Operating EBITDA per unit       | 4,787          | 4,083          | 17.2%      | 4,785          | 0.0%       |

\*\* Base for ratio analysis is Total Income from Operations (Net Sales + Other Operating. Income)  
Abs ch implies absolute change in percentage terms over the period.



**NEAR TERM DRIVERS AND OUTLOOK**

- > New product launches over FY13 include the Maestro scooter, the new Passion Xpro and Ignitor motorcycle should provide some momentum over H1FY13.
- > We feel that the two wheeler market will continue to stay sluggish in the near term, with interest rates and petrol prices weighing down sentiment, but we see food inflation correcting as a big positive.
- > We feel that Hero will continue to be an outperformer in the < 125 cc motorcycle segment, backed its huge dealership and service network of 5000 + touch points and high ad spends. We are a bit bearish on HMC's prospects in the > 125 cc category, and have modelled incremental market share to Honda and Yamaha in this segment, gradually over FY13.
- > We remain cautious about the domestic scooter segment overheating, and with Honda's capacity in Rajasthan going full scale, we expect them to recover the 7% market share they lost in FY11 due to capacity constraints. (They have already sold 1 lakh + scooters in each of the previous four months). Yamaha has also displaced a host of launches over FY13.
- > We feel that overall net realizations will stay under pressure over the next few quarters due to a weaker product mix (possible loss of market share in scooters and due to Japanese OEM's attacking the > 125 cc motorcycle segment), and due to the inflationary environment.
- > We expect commodity costs to remain stable in the near term, but note that the three main materials which Hero Moto has exposure to (steel, aluminium and rubber) might move up in FY13 with the recovery in the US and possible monetary easing in China. We add that passing on such price increases over FY13 will be challenging, given the slowdown in the industry and the threat of increased competition.
- > We expect Operating EBITDA to stay under check owing to possible lower net realizations, higher ad spends and R&D costs, continued royalty amortization, and as an overall result of inflationary factors pushing up variable costs.
- > The management has verified that it is pushing up capacity to 7 million by end of FY12, which allays our concerns that a capacity shortfall might occur over FY13.

**CONFERENCE CALL UPDATE**

- > HMC plans to expand Haridwar plant capacity to 9500 units / day from the current 8000 / day by debottlenecking / higher shifts, total expansion to take place over the next few months. Capacity expected to be at 7 million units by the end FY12. Details of the new plant to be announced shortly (as per media reports, it is expected to be commissioned by Q4 FY13)
- > Commodity cost correction in the global markets have been offset by rupee depreciation, keeping a check on margin expansion. Aluminium prices have been stable, steel has corrected marginally while rubber has inched up. Direct imports from China (in Dollars) account for between 1.5% to 2% of component cost, while Vendor exposure (indirect) is about 14 to 15%, both in \$ and Yen. Total imports would constitute about 16% of component cost.
- > Inventory level in the system for December was close to the average of 2.5 / 3 weeks. Q4 growth expectations in volumes centre around 10 / 12%.
- > Depreciation as a % of Revenue (apart from the intangible amount capitalized as royalty) has also increased on account of new capacity being added on a continued basis.
- > Management feel that the R&D development is a long term process till the first quarter of FY15, and the company is considering various options. Currently only 2 bikes, Glamour and Karizma have the Fuel Injection (FI) technology.
- > Rural Sales are at about 45% of overall products. About 25% of total domestic products are financed, rest on cash. HMC expect to increase coverage network by about 500 touch points every year.
- > Plans are underway to consider exports to LATAM, Africa and South East Asia.

**VALUATION**

Our revised Net Sales and PAT forecasts for Hero Moto represent a 2 year CAGR growth of 16% and 15.7% respectively over FY12 & 13.

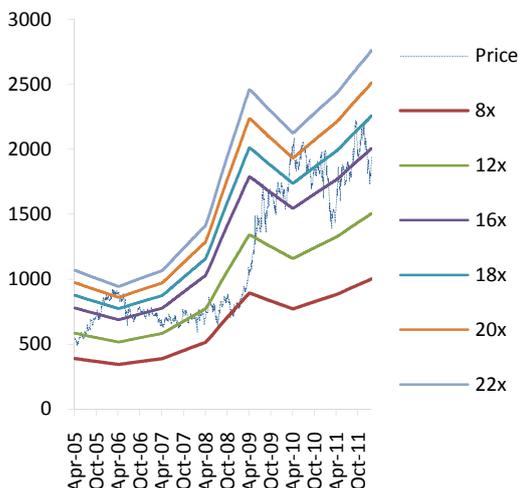
HMC at Rs 1947 trades at 17.6x and 15.1x estimated FY12 & FY13 EPS respectively. Its Enterprise Value trades at 15.5x and 12.8x estimated FY12 & FY13 **Core** EBITDA.

**What constitutes an efficient multiple in this automotive cycle?** – During the boom phase of FY10 & 11, HMC's average 1 year forward P/E multiple was at 15.0 and 17.7 respectively. The TTM average for the 1 year forward P/E multiple is at 15.8, while the FY12 YTD average is at 16.2. As per our last valuation in November, we had assigned a forward P/E of 16, but we bring that down to 15.5 in the light of the current depressed domestic environment (Note: Currently the stock is trading at exactly 15.5 based on our 1 year forward earning forecasts)

We value the stock at 15.5x our FY13 EPS estimate of Rs 129.2 per share, and assign a price target of Rs 2005.

We have not used a blended average of P/E and EV / Core EBITDA for HMC as in the case of Bajaj Auto, as we feel that HMC's bottomline EPS is not subject to as much variability as Bajaj Auto, hence negating the need to bring Core EBITDA into the valuation.

One year forward P/E Chart





**Profit and Loss Account, Year Ending March**

| Particulars, in Rs crore     | FY10     | FY11     | FY12E    | FY13E    |
|------------------------------|----------|----------|----------|----------|
| Net Sales                    | 15,758.2 | 19,245.0 | 22,837.6 | 25,961.6 |
| YoY%                         | 27.9%    | 22.1%    | 18.7%    | 13.7%    |
| Other Operating Income       | 102.3    | 156.1    | 182.2    | 203.7    |
| Income from Operations       | 15860.5  | 19401.2  | 23019.9  | 26165.3  |
| Materials Consumed           | 10736.4  | 14111.1  | 16815.5  | 19018.0  |
| Total Expenditure *          | 13093.6  | 16966.4  | 20456.2  | 23073.1  |
| Operating EBITDA *           | 2767.0   | 2434.7   | 2563.7   | 3092.2   |
| Operating EBITDA margin %    | 17.4%    | 12.5%    | 11.1%    | 11.8%    |
| Core EBITDA *                | 2664.6   | 2278.6   | 2381.4   | 2888.5   |
| Core EBITDA margin %         | 16.9%    | 11.8%    | 10.4%    | 11.1%    |
| Depreciation *               | 191.5    | 220.1    | 250.1    | 302.0    |
| Operating EBIT               | 2575.5   | 2214.6   | 2313.6   | 2790.2   |
| Operating EBIT margin%       | 16.2%    | 11.4%    | 10.1%    | 10.7%    |
| Other Income                 | 235.6    | 268.1    | 327.0    | 301.5    |
| Interest (Net)               | (20.6)   | (1.9)    | (15.7)   | (15.7)   |
| PBT before Exceptional Items | 2831.7   | 2484.6   | 2656.3   | 3107.4   |
| Exceptional Items            | 0.0      | 79.8     | 0.0      | 0.0      |
| PBT                          | 2831.7   | 2404.8   | 2656.3   | 3107.4   |
| Tax Expense                  | 599.9    | 476.9    | 451.6    | 528.3    |
| Reported Net Profit          | 2231.8   | 1927.9   | 2204.7   | 2579.1   |
| YoY%                         | 74.1%    | -13.6%   | 14.4%    | 17.0%    |
| Reported EPS                 | 111.8    | 96.5     | 110.4    | 129.2    |

\* EBITDA adjusted for effect of capitalization of royalty, see note on Page 2

**Cash Flow Statement (Restated), Year Ending March**

| Particulars, in Rs crore       | FY10      | FY11      | FY12E     | FY13E     |
|--------------------------------|-----------|-----------|-----------|-----------|
| <b>Operating Activities</b>    |           |           |           |           |
| PBT                            | 2,831.7   | 2,404.8   | 2,656.3   | 3,107.4   |
| Add Depreciation & Amort       | 191.5     | 402.4     | 979.1     | 1,031.1   |
| Add Non Op Exps & Losses       | 10.2      | 14.1      | 0.0       | 0.0       |
| Less Non Op Inc & Gains        | (256.3)   | (270.0)   | (328.9)   | (303.4)   |
| Oper Profit before W/C adj     | 2,777.1   | 2,551.2   | 3,306.6   | 3,835.1   |
| Working Capital changes        | 484.6     | 218.1     | (1,048.7) | (687.9)   |
| Cash from operations           | 3,261.7   | 2,769.3   | 2,257.8   | 3,147.2   |
| Less Cash Taxes                | (575.1)   | (481.2)   | (451.6)   | (528.3)   |
| Cash Flow From Operations      | 2,686.6   | 2,288.1   | 1,806.2   | 2,618.9   |
| <b>Investing Activities</b>    |           |           |           |           |
| Purchase of Fixed Assets       | (211.6)   | (364.1)   | (750.0)   | (750.0)   |
| Sale of Fixed Assets           | 1.5       | 3.1       | 15.0      | 20.0      |
| Interest received              | 22.7      | 17.7      | 17.7      | 17.7      |
| Other Income                   | 235.6     | 268.1     | 327.0     | 301.5     |
| Investments Sale / (Purchase)  | (575.9)   | (1,227.1) | 1,870.4   | (233.6)   |
| Inter Corp Deposits (Net)      | 0.0       | (20.0)    | 0.0       | 0.0       |
| Cash Flow From Investing       | (527.6)   | (1,322.3) | 1,480.1   | (644.4)   |
| <b>Financing Activities</b>    |           |           |           |           |
| Interest Paid                  | (2.1)     | (15.8)    | (2.0)     | (2.0)     |
| Dividend Paid                  | (1,996.9) | (599.1)   | (2,895.5) | (1,697.3) |
| Dividend Distribution Tax paid | (97.9)    | (341.0)   | (340.1)   | (259.1)   |
| Loan Repayment                 | (12.5)    | (33.3)    | (32.7)    | 0.0       |
| Loan Raised                    | 0.0       | 0.0       | 0.0       | 0.0       |
| Cash Flow From Financing       | (2,109.3) | (989.2)   | (3,270.3) | (1,958.5) |
| <b>Net Change in Cash</b>      | 49.7      | (23.4)    | 16.0      | 16.0      |
| Opening Cash                   | 13.5      | 62.6      | 39.3      | 55.3      |
| Closing Cash                   | 62.6      | 39.3      | 55.3      | 71.3      |
| Cash on Dividend Current A/C   | 1,844.6   | 32.2      | 32.2      | 32.2      |
| Closing Cash in Balance Sheet  | 1,907.2   | 71.5      | 87.5      | 103.5     |
| Closing Cash & Equivalents     | 4,235.4   | 5,200.3   | 3,345.9   | 3,595.5   |

**Balance Sheet, Year Ending March**

| Particulars, in Rs crore  | FY10      | FY11      | FY12E     | FY13E     |
|---------------------------|-----------|-----------|-----------|-----------|
| <b>SOURCES OF FUNDS</b>   |           |           |           |           |
| Share Capital             | 39.9      | 39.9      | 39.9      | 39.9      |
| Reserves & Surplus        | 3425.1    | 2916.1    | 3264.2    | 3754.7    |
| Shareholders' Funds       | 3465.0    | 2956.1    | 3304.2    | 3794.6    |
| Loan Funds                | 66.0      | 32.7      | 0.0       | 0.0       |
| Deferred Tax Liability    | 160.6     | 252.7     | 252.7     | 252.7     |
| Deferred Payment Credits  | 0.0       | 1458.5    | 729.4     | 0.0       |
| Capital Employed          | 3691.7    | 4699.9    | 4286.3    | 4047.3    |
| <b>USE OF FUNDS</b>       |           |           |           |           |
| Gross Block               | 2751.0    | 5538.5    | 6233.5    | 6923.5    |
| Accumulated Depreciation  | 1092.2    | 1458.2    | 2397.3    | 3388.4    |
| Net Block                 | 1658.8    | 4080.3    | 3836.1    | 3535.1    |
| CWIP                      | 48.1      | 125.1     | 125.1     | 125.1     |
| Fixed Assets Total        | 1706.9    | 4205.4    | 3961.3    | 3660.2    |
| Investments               | 3925.7    | 5128.8    | 3258.4    | 3492.0    |
| CurrAssets, Loans and Adv |           |           |           |           |
| Inventory                 | 436.4     | 524.9     | 601.3     | 679.0     |
| Debtors                   | 108.4     | 130.6     | 153.0     | 169.4     |
| Cash and Bank             | 1907.2    | 71.5      | 73.7      | 75.9      |
| Other Current Assets      | 24.8      | 48.9      | 48.9      | 48.9      |
| Loans and Advances        | 405.8     | 728.7     | 797.6     | 883.5     |
| Total                     | 2882.6    | 1504.6    | 1674.4    | 1856.7    |
| Current Liabilities       | 3805.1    | 5063.7    | 3513.9    | 3735.3    |
| Provisions                | 1026.4    | 1081.1    | 1099.9    | 1232.1    |
| Net Current Assets        | (1,948.8) | (4,640.2) | (2,939.3) | (3,110.8) |
| Capital Deployed          | 3691.7    | 4699.9    | 4286.3    | 4047.3    |

**Ratio Analysis**

|                                      | FY10   | FY11   | FY12E  | FY13E  |
|--------------------------------------|--------|--------|--------|--------|
| <b>Profitability</b>                 |        |        |        |        |
| Operating EBITDA% *                  | 17.4%  | 12.5%  | 11.1%  | 11.8%  |
| Operating EBIT%                      | 16.2%  | 11.4%  | 10.1%  | 10.7%  |
| Operating PAT%                       | 14.1%  | 9.9%   | 9.6%   | 9.9%   |
| Core EBITDA% *                       | 16.9%  | 11.8%  | 10.4%  | 11.1%  |
| Core EBIT%                           | 15.7%  | 10.7%  | 9.3%   | 10.0%  |
| PAT%                                 | 14.2%  | 10.0%  | 9.7%   | 9.9%   |
| ROAE%                                | 61.4%  | 60.0%  | 70.4%  | 72.7%  |
| ROACE%                               | 66.7%  | 52.8%  | 51%    | 67.0%  |
| <b>Du Pont ROAE breakup</b>          |        |        |        |        |
| PAT / Sales                          | 14.2%  | 10.0%  | 9.7%   | 9.9%   |
| Sales / Avg Total Assets             | 2.16   | 1.99   | 2.31   | 2.90   |
| Avg Total Assets / Avg Equity        | 2.01   | 3.02   | 3.15   | 2.52   |
| ROAE                                 | 61.4%  | 60.0%  | 70.4%  | 72.7%  |
| <b>Other Ratios and Calculations</b> |        |        |        |        |
| Current Ratio                        | 0.60   | 0.24   | 0.36   | 0.37   |
| Long Term Debt / Equity              | 0.02   | 0.50   | 0.22   | 0.00   |
| EPS                                  | 111.8  | 96.5   | 110.4  | 129.2  |
| CEPS *                               | 121.4  | 107.6  | 122.9  | 144.3  |
| DPS                                  | 110.0  | 105.0  | 80.0   | 90.0   |
| Dividend %                           | 5500%  | 5250%  | 4000%  | 4500%  |
| Dividend Payout ratio                | 98%    | 109%   | 72%    | 70%    |
| P/E                                  | 17.4   | 20.2   | 17.6   | 15.1   |
| BVPS                                 | 173.5  | 148.0  | 165.5  | 190.0  |
| P/BV                                 | 11.2   | 13.1   | 11.8   | 10.2   |
| Core EBITDA *                        | 2664.6 | 2278.6 | 2381.4 | 2888.5 |
| EV / Core EBITDA                     | 13.6   | 15.9   | 15.2   | 12.5   |
| Cash & Equivalents per share         | 212.1  | 260.4  | 167.6  | 180.1  |

\* EBITDA adjusted for capitalization of royalty



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#### Stock Rating

|            | Absolute Return |
|------------|-----------------|
| Buy        | > 20%           |
| Accumulate | 12-20%          |
| Hold       | 5-12%           |
| Reduce     | < 5%            |

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