



Economy News

- ▶ The Competition Commission of India (CCI) may soon carry out a detailed investigation into the alleged cartel-like behaviour of oil marketing companies increasing and decreasing prices of petrol in unison. (BL)
- ▶ Corporate Affairs Ministry has strengthened its surveillance mechanism over companies raising funds from the public as also on their end-use in the wake of the Supreme Court verdict on the Sahara group. (BL)
- ▶ The government is set to take more decisions to accelerate capital markets reforms and attract overseas capital, in a bid to maintain the momentum generated by the move to open sectors such as multi-brand retail and aviation to FDI. (ET)
- ▶ The central government has banned states from allowing sale or export of iron ore by companies granted mining leases for own steel production. (ET)
- ▶ The government is poised to unveil a slew of measures aimed at reviving the insurance sector and is leaning hard on regulator Irda to ease rules that it believes are hobbling the growth of the industry. (ET)

Corporate News

- ▶ **Bharat Petroleum Corporation (BPCL)**, which is setting up its first propylene unit in Kochi, is ready to offer 51 per cent stake in the Rs 60 bn project to its Korean joint venture partner LG Chemicals. (BL)
- ▶ **Maruti Suzuki India** is looking to regain lost ground in the small car segment with the launch of a completely new version of its erstwhile best selling model Alto. (BL)
- ▶ **Reliance Industries** and its partner BP plan to surrender two more exploration blocks, reducing their tally to 14 from 21 a year ago, when the government approved the British oil major's \$7.2-billion deal to pick up stakes in Reliance's blocks. (ET)
- ▶ **SKS Ispat & Power**, linked to tourism minister Subodh Kant Sahai, and Bhushan Steel have challenged the de-allocation of their coal blocks in the Delhi High Court, even before they received any formal communication about cancellation. (ET)
- ▶ The **GVK Infrastructure and Power Ltd**-controlled Mumbai International Airport Pvt. Ltd has sought a more than sevenfold increase in aeronautical tariffs, which will make it more expensive for users if the proposal is accepted by the regulator. (Mint)
- ▶ **IDBI Bank** has plans to raise another \$500 million (about Rs 27 bn) through bonds to fund its overseas business growth. (BS)
- ▶ **Suzlon Group** subsidiary REpower Systems SE and WSB Neue Energien GmbH have signed a contract for the delivery and construction of 22 REpower MM92 wind turbines. (BS)
- ▶ In view of the growing supply deficit of coal, Planning Commission has suggested spinning off **Coal India's** subsidiaries into separate entities so that each one of them can pursue its own goals. (BS)
- ▶ **Hero MotoCorp Ltd (HMCL)**, world's largest two-wheeler company, will foray into the retail finance business to enable potential customers with dedicated easy loan options. (ET)

Equity

	21 Sep 12	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	18,753	2.2	5.5	10.5
NIFTY Index	5,691	2.5	5.7	10.6
BANKEX Index	13,037	4.0	9.8	12.8
BSET Index	5,983	(0.7)	3.2	5.6
BSETCG INDEX	10,733	4.1	8.1	10.2
BSEOIL INDEX	8,854	2.2	5.4	12.1
CNXMcap Index	7,650	1.9	6.1	7.2
BSESMCAP INDEX	6,809	1.5	3.6	6.3
World Indices				
Dow Jones	13,579	(0.1)	3.2	7.4
Nasdaq	3,180	0.1	3.6	9.9
FTSE	5,853	(0.0)	1.3	6.1
NIKKEI	9,110	0.3	(0.3)	2.8
HANGSENG	20,735	0.7	3.8	8.6

Value traded (Rs cr)

	21 Sep 12	% Chg - Day
Cash BSE	2,950	46.7
Cash NSE	19,084	53.8
Derivatives	244,412	93.58

Net inflows (Rs cr)

	20 Sep 12	% Chg	MTD	YTD
FII	(2)	(100.2)	19,021	72,302
Mutual Fund	(204)	(56.7)	(803)	(8,851)

FII open interest (Rs cr)

	20 Sep 12	% Chg
FII Index Futures	14,690	7.5
FII Index Options	57,878	9.1
FII Stock Futures	29,846	5.3
FII Stock Options	2,679	16.6

Advances / Declines (BSE)

	21 Sep 12	A	B	T	Total	% total
Advances	166	1,396	250	1,812	60	
Declines	38	810	240	1,088	36	
Unchanged	0	90	32	122	4	

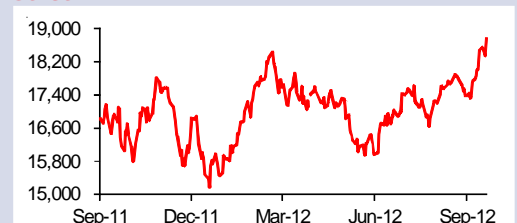
Commodity

	21 Sep 12	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	92.0	(1.0)	(4.3)	15.3
Gold (US\$/OZ)	1,777.0	0.5	5.4	12.4
Silver (US\$/OZ)	34.7	0.1	10.6	26.9

Debt / forex market

	21 Sep 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.3	N/A	N/A	N/A
Re/US\$	53.4	54.4	55.6	56.3

Sensex



COMPANY UPDATE

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HERO MOTOCORP (HMC)

PRICE: Rs.1923
 TARGET PRICE: Rs.1803

RECOMMENDATION: REDUCE
 FY13E P/E: 16x

- ❑ Domestic 2W demand has slowed down considerably over the past few months. Over April-August 2012, volumes in the domestic 2W industry have grown by 7% YoY as against 14% volume growth registered in FY12. Motorcycle demand is even more impacted with April-August 2012 growth at mere 3%.
- ❑ In FY13 (YTD) HMC has lost market share as compared to similar period last year. Disposable income in rural areas have been impacted on account of sustained high level of inflation coupled with poor monsoons (mainly in the initial stages), impacting HMC's volumes.
- ❑ We expect export volumes for the company to grow in coming years (on lower base). However meaningful contribution to the overall volumes will happen over the longer run.
- ❑ HMC's EBITDA margin has been under pressure over the past few quarters and we expect the trend to continue over the near to medium term as we do not see any positive trigger.
- ❑ In view of slowdown in domestic volumes, we are lowering our FY13 estimates. We lower our price target to Rs1,803 (earlier Rs1,900) and retain our REDUCE rating on the stock.

Summary table

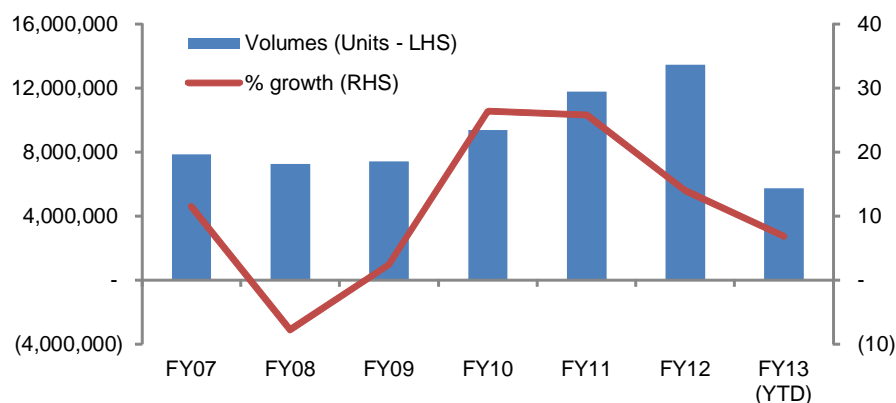
(Rs mn)	FY11	FY12	FY13E
Sales	194,012	235,790	243,418
Growth (%)	22.5	21.5	3.2
EBITDA	26,164	36,188	36,916
EBITDA margin (%)	13.5	15.3	15.2
PBT	24,846	28,647	28,660
Net profit	20,077	23,781	24,000
EPS (Rs)	96.5	119.1	120.2
Growth (%)	(13.6)	23.4	0.9
CEPS (Rs)	116.7	132.7	138.1
BV (Rs/share)	148.0	214.8	255.3
Dividend per share (Rs)	105.0	45.0	50.0
ROE (%)	60.0	65.6	51.1
ROCE (%)	76.2	69.5	54.9
Net cash (debt)	47,903	23,557	44,474
NW Capital (Days)	(8)	(7)	(7)
P/E (x)	19.9	16.1	16.0
P/BV (x)	13.0	9.0	7.5
EV/Sales (x)	1.7	1.5	1.4
EV/EBITDA (x)	12.8	10.0	9.2

Source: Company, Kotak Securities - Private Client Research

Slowdown in domestic demand

- Domestic 2W demand has slowed down considerably over the past few months. Over April-August 2012, volumes in the domestic 2W industry have grown by 7% YoY as against 14% volume growth registered in FY12.
- Motorcycle demand is even more impacted with April-August 2012 growth at mere 3%. Poor demand in the backdrop of slowdown in economy is playing out on 2W sales.
- However, scooter demand has held up well, with YTD growth rate of 23%. Accordingly the share of scooter segment in the overall domestic 2W segment has increased from 19% in FY12 to 20% now.
- Given the current macro factors, 2W demand is expected to remain subdued in the near term. We expect the demand during the upcoming festive season to be on the weaker side. Overall we expect the demand for 2W's to largely remain subdued in the remaining part of FY13.

Domestic industry 2W sales volumes

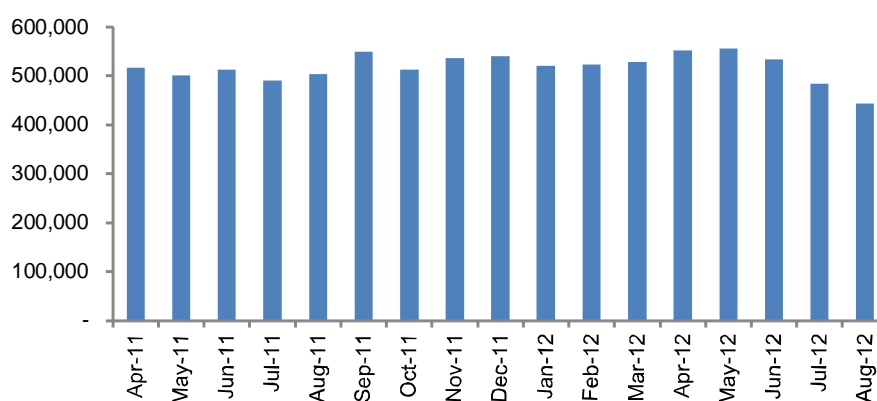


Source: SIAM

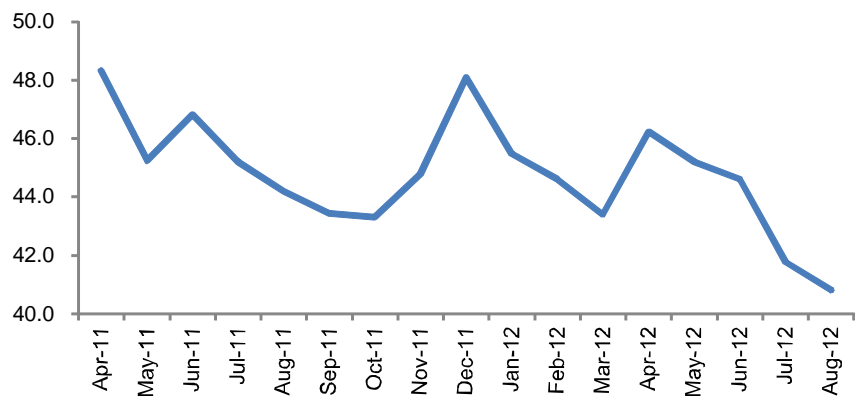
HMC losing market share

- HMC's domestic volumes in FY13 YTD have grown by 2.1% as against domestic industry volume growth of 6.8%. Accordingly the company's market share has dropped by 200bps from 45.8% (April-Aug 2011) to 43.8% (April - August 2012).
- In the domestic scooter segment too, the company has lost 60bps market share. HMC's scooter volumes in domestic market grew by 18% FY13 (YTD) as against segment volume growth of 23% during similar period. However with the launch of Maestro, we expect the company to steadily gain market share in the domestic scooter segment.
- Scooter segment continues to grow at a healthy pace but HMC derives only 7% of sales from the scooter segment and thereby the positive impact of strong scooter demand will be limited.
- In the current weak demand scenario, HMC is also facing slowdown in its domestic motorcycle sales. HMC's motorcycle volumes in the domestic market in FY13 (YTD) grew by mere 1% as against 3.3% growth for the industry.
- Strong demand from rural markets has been the key for HMC's success in the past. However, the disposable income in rural areas have been impacted on account of sustained high level of inflation coupled with poor monsoons (mainly in the initial stages), seriously impacting demand.
- HMC's market share in the domestic motorcycle segment has slipped from 56.1% in April-August 2011 to 54.8% in April-August 2012.
- We note that the motorcycle demand growth is largely coming from >110cc to 125cc segment which is not favorable for HMC, in our view.
- Demand in the 125cc-150cc is witnessing de-growth, but we do not see this as a concern given HMC's relatively small share of overall sales coming from this segment. The concern remains the slowing growth in the 75cc to 110cc segment, which accounts for major proportion of HMC's sales.
- Competition in the 100-125cc segment is on the rise for HMC and we expect that will put pressure on the market share, going ahead.

HMC - Sales volume (Units)



Source: Company

HMC - Domestic market share movement

Source: SIAM

Export ramp-up will take some time

- HMC is looking at export opportunities in a big way and has accordingly set a target of selling 1mn units (10% of turnover) in the next 5 years.
- Company plans to enter Asian, African and Latin American markets over the near to medium term and the focus will largely be on 100-125cc segment.
- HMC recently announced its foray in Sri Lanka with the appointment of ABANS group as the sole distributor. HMC is expected to launch 14 models in Sri Lanka and sell its product through a channel of 50 outlets. In due course, the company plans to venture in other new markets.
- We expect export volumes for the company to grow in coming years (on lower base). However meaningful contribution to the overall volumes will happen over the longer run as volume ramp-up in different geographies will take some time. So in the near to medium term, we do not expect any major contribution from exports flowing to HMC.

HMC looking to boost R&D through technical tie-up

- Recently HMC announced its latest tie-up with Engines Engineering of Italy. Engines Engineering has an expertise in end to end motorcycle designing. This is HMC's third technical tie post its split from Honda.
- Earlier HMC had tied-up with US based super bike company Erik Buell Racing in February 2012 and with Austrian engine manufacturer AVL in March 2012.
- Apart from the technical tie-ups, the company is also continuously hiring engineers. Further the company is also getting experts in this field as full time employees.

No major trigger visible to boost EBITDA margin

- HMC's EBITDA margin has been under pressure over the past few quarters and we expect the trend to continue over the near to medium term as we do not see any positive trigger.
- Further slowdown in domestic volumes, rise in competition and cost related to scaling of exports will only add to pressure.

Change in estimates and Valuations

- In view of slowdown in domestic volumes, we are lowering our FY13 estimates. We have revised our FY13 volume growth outlook for HMC from 12% earlier to 1% now.
- We have marginally lowered our FY13 EBITDA margin estimate from 15.3% to 15.2%. Accordingly our revised FY13 net profit estimates stands at Rs24,000mn (earlier Rs27,101mn).

Change in FY13 estimates

	Old	New	% change
Volumes (mn units)	7.0	6.3	(10.4)
Revenues (Rs mn)	268,418	243,418	(9.3)
EBITDA margin (%)	15.3	15.2	
PAT (Rs mn)	27,101	24,000	(11.4)

Source: Kotak Securities - Private Client Research

We recommend REDUCE on Hero MotoCorp with a revised price target of Rs.1803

- Tax rate in FY14 is expected to increase to 23-25% in FY14 from 16.5% in FY13 post completion of 5 year 100% tax holiday at the Haridwar facility. This will to a certain extent restrict earnings growth in FY14.
- At the CMP of Rs1,923, the stock is trading at 16x its revised FY13 estimates. Given various concerns highlighted in the report, we find the current valuation high and hence retain our **REDUCE** rating on the stock with a revised price target of Rs1,803 (earlier Rs1,900).

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
21-Sep	Anuvin Inds	Mahasuklal Shah HUF	S	30,200	8.25
21-Sep	Arcuttipore Tea	Deepak Popatlal Vora	B	36,000	27.32
21-Sep	Associated Fin	Badal Maheshwari	S	30,000	35.50
21-Sep	Associated Fin	Shantharam M J	B	50,000	35.56
21-Sep	Bilpower	Vijaymohan Ragavan Nair	S	80,000	44.00
21-Sep	BMB Music	Vinay Jain	S	46,070	5.33
21-Sep	Chisel	Comfort Intech Ltd	S	23,770	4.73
21-Sep	Choice Intl	Kanodia Stock Broking Pvt Ltd	B	45,000	37.30
21-Sep	Choice Intl	Emma Auto Ancillary Pvt Ltd .	S	44,337	37.30
21-Sep	Coral Lab	Navin Bachubhai Doshi	B	27,440	68.00
21-Sep	Cubical Fin	Ashwani Kumar Gupta	S	74,030	52.93
21-Sep	Ess Dee Alum	Ironwood Investment Holdings	S	434,000	135.00
21-Sep	Finalysis Cred	Pankaj Jayantilal Dave	B	41,174	44.28
21-Sep	Fulford India-\$	Rajasthan Global Securities Ltd	B	28,000	950.00
21-Sep	Galaxy Entert-\$	Banco Business Pvt Ltd	S	249,500	8.65
21-Sep	Galaxy Entert-\$	Sudha Commercial Co Ltd	B	249,500	8.65
21-Sep	GCV Serv	Kaushik Shah Shares & Sec. Ltd	S	518,000	1.31
21-Sep	GCV Serv	Arcadia Share & Stock Brokers	B	518,000	1.31
21-Sep	Kilitch Drugs	Pareesh Prataprai Mehta	S	308,300	78.95
21-Sep	Kilitch Drugs	Kilitch Company Pharma Ltd	B	616,600	78.95
21-Sep	Kilitch Drugs	Mukund Mehta	S	308,300	78.95
21-Sep	Lambodhara	Santossh R	S	35,000	100.00
21-Sep	Menon Pistons	Savita Satish Gopi	S	150,000	98.15
21-Sep	Menon Pistons	Sachin Ram Menon	B	150,000	98.15
21-Sep	Pacheli Ent	Padamchand Bhanwarlal Dhut	S	36,500	13.43
21-Sep	Panchsheel Org	Vishal C Shah	B	43,000	17.00
21-Sep	Panchsheel Org	Hiral Chandrakant Shah	B	30,000	17.00
21-Sep	Panchsheel Org	Niyati Industries Limited	S	70,000	17.00
21-Sep	Pankaj Poly	Rajendra Modi	B	45,000	8.35
21-Sep	Pankaj Poly	Saryu Pandey HUF	S	39,949	8.36
21-Sep	PFL Infotech	Savitri Tripathi	B	50,000	21.00
21-Sep	PFL Infotech	Manish Rameshbhai Vyas	S	173,000	21.00
21-Sep	Sawaca Bsns	Shaan Leisure Limited	B	81,350	220.90
21-Sep	Shreychem	Vishal Bharatbhai Solanki	S	50,000	74.05
21-Sep	Zandurealty	Pabari Limesh M	B	5,040	1,568.14

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ICICI Bank	1,066	4.2	15.8	5.9
L&T	1,585	4.2	11.0	2.8
HDFC Bank	625	3.0	10.6	5.9
Losers				
Infosys Ltd	2,593	(0.9)	(3.7)	1.5
TCS	1,304	(1.4)	(2.9)	2.1
Dr Reddy's Lab	1,644	(1.3)	(0.9)	0.8

Source: Bloomberg

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