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BOARD OF DIRECTORS

BRIJMOHAN LALL MUNJAL CHAIRMAN

PAWAN MUNJAL MANAGING DIRECTOR

AKIO KAZUSA JOINT MANAGING DIRECTOR

SHINICHI NAKAYAMA WHOLE–TIME DIRECTOR With effect from May 9, 2003

SATYANAND MUNJAL NON EXECUTIVE DIRECTOR

OM PRAKASH MUNJAL NON EXECUTIVE DIRECTOR

SATYA PAUL VIRMANI NON EXECUTIVE & INDEPENDENT DIRECTOR

MAHENDRA PAL WADHAWAN NON EXECUTIVE & INDEPENDENT DIRECTOR

OM PRAKASH GUPTA NON EXECUTIVE & INDEPENDENT DIRECTOR

SATOSHI TOSHIDA NON EXECUTIVE & INDEPENDENT DIRECTOR

KOJI NAKAZONO NON EXECUTIVE & INDEPENDENT DIRECTOR with effect from April 1, 2004

NARENDRA NATH VOHRA NON EXECUTIVE & INDEPENDENT DIRECTOR

PRADEEP DINODIA NON EXECUTIVE & INDEPENDENT DIRECTOR

GEN. (RETD.) VED PRAKASH MALIK NON EXECUTIVE & INDEPENDENT DIRECTOR

YUKIHIRO AOSHIMA NON EXECUTIVE & INDEPENDENT DIRECTOR upto April 1, 2004

KAZUMI YANAGIDA EXECUTIVE DIRECTOR upto April 24, 2003

SR. VICE PRESIDENTS

ATUL SOBTI MARKETING & SALES

K. K. AGRAWAL OPERATIONS

VICE PRESIDENTS

K. K. MALHOTRA MATERIALS

N. N. AKHOURI HRM

RAVI SUD FINANCE

S. R. BALASUBRAMANIAN INFORMATION SYSTEMS

COMPANY SECRETARY

ILAM C. KAMBOJ

AUDITORS

A.F.FERGUSON & CO.

CHARTERED ACCOUNTANTS

9, SCINDIA HOUSE, KASTURBA GANDHI MARG

NEW DELHI-110 001

PRINCIPAL BANKERS

PUNJAB NATIONAL BANK

CITIBANK N.A.

THE BANK OF TOKYO—MITSUBISHI LIMITED

ABN AMRO BANK N.V.

HDFC BANK LIMITED

STANDARD CHARTERED BANK

ICICI BANK LIMITED

HSBC LIMITED

COMMITTEE OF DIRECTORS**AUDIT COMMITTEE**

M. P. WADHAWAN CHAIRMAN

O. P. GUPTA

PRADEEP DINODIA

SHAREHOLDER'S GRIEVANCE COMMITTEE

O. P. GUPTA CHAIRMAN

PRADEEP DINODIA

KAZUMI YANAGIDA upto April 24, 2003

M. P. WADHAWAN with effect from September 30, 2003

REMUNERATION COMMITTEE

S. P. VIRMANI CHAIRMAN

N. N. VOHRA

GEN. (RETD.) VED PRAKASH MALIK

TECHNICAL AND FINANCIAL**COLLABORATORS**

HONDA MOTOR CO., LTD.

1-1 MINAMI AOYAMA

2-CHOME, MINOTO-KU

TOKYO 101-8556, JAPAN

REGISTERED AND CORPORATE OFFICE

34, COMMUNITY CENTRE,

BASANT LOK, VASANT VIHAR,

NEW DELHI 110 057

TEL: 011-2614 2451, 2614 4121

FAX: 011-2615 3913

www.herohonda.com**DHARUHERA PLANT**

69 K.M. STONE

DELHI-JAIPUR HIGHWAY

DHARUHERA, DISTT. REWARI

HARYANA 121 006

TEL: 01274-242 131-135

FAX: 01274-242 399

GURGAON PLANT

37 K.M. STONE

DELHI-JAIPUR HIGHWAY

SECTOR 33-34, INDUSTRIAL AREA

GURGAON

HARYANA 122 001

TEL: 0124-2372 123-130

FAX: 0124-2373 141-142

HIGHLIGHTS OF THE YEAR

2003-2004

4 COMPLETION OF 20 GLORIOUS YEARS of Growth, Leadership and Value Creation.

THE NO.1 two wheeler company in the world for the third year in a row.

2.07 MILLION Hero Honda motorcycles sold during the year.

HERO HONDA SPLENDOR continues to be the largest selling two-wheeler model in the world for the fourth year in a row.

OPBT GREW by **14.6%** from Rs.792 Crore to Rs.907 Crore. Operating margin (OPBT as a percentage of net sales) increased from 15.5% in 2002-03 to 15.6% in 2003-04.

MARKET SHARE INCREASED TO 48% in motorcycles, **4%** gain over the previous year.

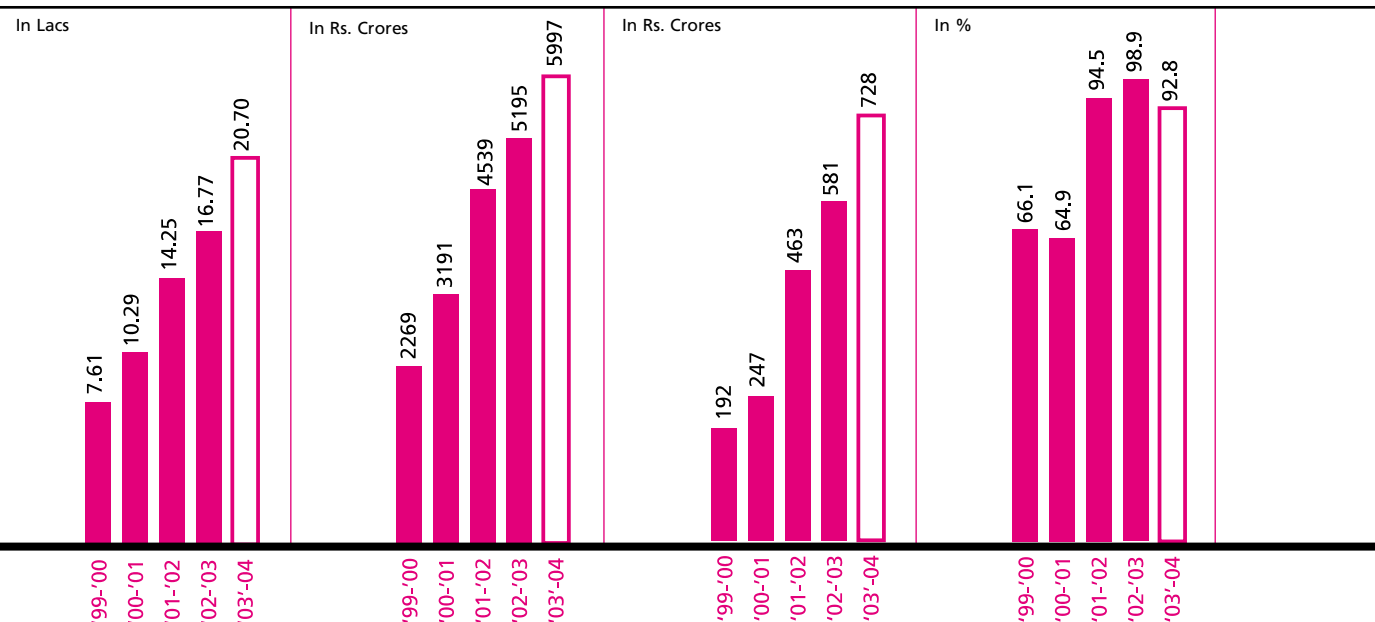
OVER 1 MILLION UNITS OF SPLENDOR sold during FY 2003 - 04

SALES VOLUME

TOTAL INCOME

PROFIT AFTER TAX

ROACE



5 MILLIONTH MOTORCYCLE rolled out at Dharuhera plant

POST TAX PROFIT (PAT) GREW by 25.4% from Rs. 581 Crore to Rs. 728 Crore in 2003-04.

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OPBDIT GREW by 14.7% from Rs. 854 Crore in 2002-03 to Rs. 979 Crore in 2003-04. OPBDIT as a percentage of net sales increased from 16.7 per cent to 16.8 per cent during the same period.

RETURN ON AVERAGE CAPITAL EMPLOYED (ROACE) was at 92.8% in 2003-04.

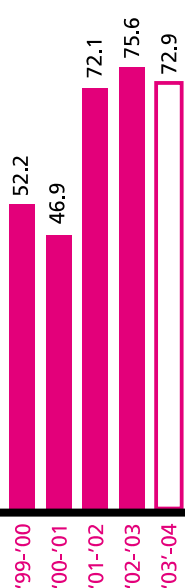
RETURN ON AVERAGE EQUITY (ROAE) was at 72.9% in 2003-04.

NFO 2003 TOTAL CUSTOMER SATISFACTION (TCS) Awards for Splendor and CD100SS

RANKED NO. 3 among Indian Companies by Review 200 for the third consecutive time by Far Eastern Economic Review; **only Indian automobile company** to ever make it to the list.

ROAE

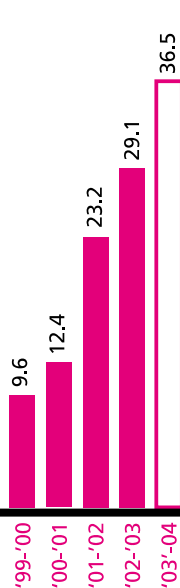
In %



EARNINGS PER SHARE

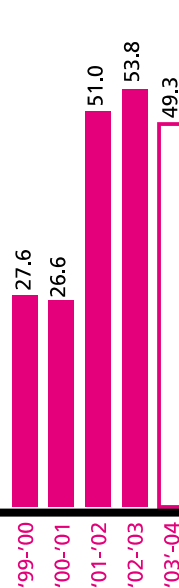
(on face value of Rs. 2.00 per share)

In Rs.



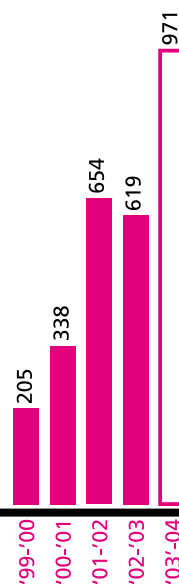
EVA/CAPITAL EMPLOYED

In %



NET CASH FLOW FROM OPERATIONS

In Rs. Crores



HERO HONDA
Annual Report 2003–2004

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CHAIRMAN'S LETTER

Dear Members,

I HAVE BEEN USING the annual report as an appropriate medium to communicate the performance and progress of your Company and also unveil the future plans of the Company.

Making sustained progress through investments and improvements in its functioning is the hallmark of a company, which is well managed and is committed to its vision and purpose. In this regard, I am pleased to inform you that Hero Honda in the year 2003–2004 completed 20 years of its existence and during the year added new milestones to its already existing long list of achievements so far.

In the year under review, Hero Honda sold over 2 million motorcycles and recorded a 23% growth over last years' 1.68 million sales. Not only that, your Company's sales growth was higher than the industry average of 14%. Your company also improved its market share to 48% and 37% in

motorcycles and two-wheelers respectively. What is more important to note is that for the third year in a row, the Company retained its number one position as the single largest two-wheeler manufacturer in the world. Splendor, the world's largest selling brand, for the fourth consecutive year not only retained its position but also achieved the 1 million sales mark. With 5 new launches during the year, the entire product range gave a fresh and contemporary image to the customers.

It is equally satisfying to note that the financial results, which are considered to be the best in the industry for the year, reflect both the sides of the Company's performance. That is, they reflect the revenue earned through sales and also the efficiency with which resources were managed in the process of creating wealth for shareholders.

Hero Honda's sales increased by



BRIJMOHAN LALL
CHAIRMAN

20
YEARS

We are proud of the fact that Hero Honda is one of the most successful two-wheeler joint ventures of Honda world wide. Not only will the 20 years of relationship be cemented further, Honda is committed to providing full support to Hero Honda. Be it advance engine technology, new product introductions or any other related area of the partnership.

S. TOSHIDA

MANAGING DIRECTOR, CEO REGIONAL OPERATIONS (ASIA OCEANIA)
HONDA MOTORS CO. LTD, JAPAN
June 2, 2004

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FOR THE THIRD YEAR IN A ROW, THE
COMPANY RETAINED ITS NUMBER
ONE POSITION AS THE SINGLE
LARGEST TWO-WHEELER
MANUFACTURER IN THE WORLD.
SPLENDOR, THE WORLD'S LARGEST
SELLING BRAND, FOR THE FOURTH
CONSECUTIVE YEAR NOT ONLY
RETAINED ITS POSITION BUT
ACHIEVED THE 1 MILLION SALES
MARK

14.3 per cent from Rs.5,102 Crore in 2002-03 to Rs.5,832 Crore in 2003-04. Cost of raw materials as a percentage of total sales increased from 68.0 per cent in 2002-03 to 69.1 percent in 2003-04, owing to a change in sales mix and higher steel prices (during the latter part of the fiscal year).

A continuous focus on cost management and operating efficiency has enabled the company to marginally improve its OPBDIT margin from 16.7 per cent in 2002-03 to 16.8 per cent in 2003-04. Operating profit (PBT before other income) grew by 14.6 per cent from Rs.792 Crore in 2002-03 to Rs.907 Crore in 2003-04. Operating profit margin improved marginally from 15.5 per cent in 2002-03 to 15.6 percent in 2003-04. Profit after tax (PAT) went up by 25.4 per cent from Rs.581 Crore in 2002-03 to Rs.728 Crore in

2003-04. Other Income rose from Rs.92.9 Crore in 2002-03 to Rs.165.0 Crore in 2003-04.

Return on average capital employed (ROACE) of the Company was 92.8 percent in 2003-04, while return on average equity (ROAE) was 72.9 per cent in 2003-04. Above all, your Company continues to be a debt free company.

We feel quite happy at these results. At the same time we are making continuous efforts to reduce costs further through efficiency and productivity, so that we are able to offer products at a reasonable price and realize better profits. We are not alone in this endeavour. All the vendors, suppliers and dealers and other associates have been contributing their bit to achieve the goals of the Company and we acknowledge their continuous co-operation in sustaining our leadership position.

Most important of all is the support

Chairman's Letter

HERO HONDA
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THE COMBINATION OF BUSINESS UNDERSTANDING OF HERO HONDA AND TECHNOLOGY OF HONDA MOTOR COMPANY WILL CERTAINLY PROVIDE US A COMPETITIVE ADVANTAGE

PASSPORT HOLDERS ARE IN A WAY SPECIAL MEMBERS OF THE HERO HONDA EXTENDED FAMILY; THEY WILL HAVE AN OPPORTUNITY TO PROMOTE HERO HONDA PRODUCTS AND IN TURN REAP THE BENEFITS OF THEIR RELATIONSHIP WITH THE COMPANY

and co-operation we have been receiving from our JV Partner, Honda Motor Co., Japan and Hero Cycles, Ludhiana, from time to time. You will be pleased to know that the technical collaboration between Honda and Hero Honda has been extended for another 10 years, that is, up to 2014, which will ensure continuous flow of world class technology and technical assistance for our products and processes. As in the past, the combination of business understanding of Hero Honda and technology of Honda Motor Company will certainly provide us a competitive advantage.

Customer is the purpose of our enterprise. In order to build a lasting relationship with customers, Hero Honda started what is now popularly known as the "Hero Honda Passport Program". Under this scheme, every customer of Hero Honda, past or present is eligible to enroll as a member. Passport holders are in a way special members of the Hero Honda extended family; they will have an opportunity to promote Hero Honda products and in turn reap the benefits of their relationship with the company under the scheme. They can send referrals to purchase our products, buy components at authorized dealers and accumulate points.

Every transaction makes them eligible for incentives and gifts depending on aggregate scores. As of date, there are about 1.5 million passport holders, which is 50% higher than last year's enrolment.

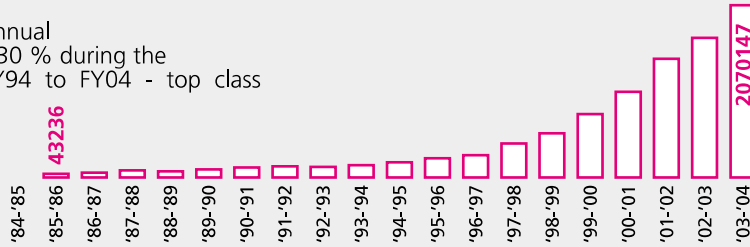
In order to serve the customer in every nook and corner of the country, the Company has been expanding its network of dealerships and service points. Today a customer has over 1700 contact points for enquiry, purchase, and service of Hero Honda products that include 545 dealers and 385 SSPs. In the coming years, we would like to extend this facility at Taluq levels also. For the last few years, spare parts business has been developed as a profit center, which for the year under review contributed a turnover of Rs.275 Crores. In order to establish on line connection with the dealers and communicate with them on real time basis, network infrastructure is being put in place.

Similarly your Company has 256 suppliers that include 36 ancillaries. They work with us in tandem and have been delivering supplies without hiccups for our expanding capacities, which is today rated at 2.8 million vehicles per annum. The continuous expansion in quick succession

20
YEARS

Sales In Numbers

Strong compounded annual growth rate (CAGR) of 30 % during the last ten years from FY94 to FY04 - top class performance for any manufacturing concern



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would not have been possible for us without their solid support. Hero Honda has been able to achieve direct on line facility with 15 vendors to begin with and we have plans to achieve 50% coverage in the current fiscal itself.

In order to increase efficiency, supply chain management, supplier relationship management modules of SAP ERP are extended to our suppliers. Initially a few suppliers (ten) have been chosen for this purpose, and the scheme will be extended to others in a phased manner. We have also been continuously extending technical assistance to our suppliers to enable better quality compliance and for effecting cost reduction.

We are very much aware of your unstinted support all along for this organization and its efforts, which are directed at creating wealth and profit. We do not believe in holding the surplus beyond requirement and thus have been distributing them in the form of dividend. We are happy that we have been able to declare every year an increasing rate of dividend for our shareholders. For the fiscal year 2003-04, your Board of Directors has recommended a total of 1000% dividend, including the 500% Special Interim Dividend

already paid to the Share holders.

It gives me great satisfaction to share with you the fact that our employees are quite committed to organizational growth and the organization treats them and their families as stakeholders. Our productivity has been showing steady improvement from our 4000 plus member strong team. It has been our endeavour to train them for better productivity and skill improvements.

Hero Honda as a corporate citizen is engaged in community and social development activities around its plants. It has been a satisfying experience to see the marked changes in the quality of people of the region due to these programs.

Coming to the perspective, we feel that Hero Honda has a great role to play in the Indian two-wheeler industry, the second largest in the world. Current macro economic trends and demographic factors promise sustained growth in demand. No doubt there are challenges of increased competition, rising prices of raw materials and services and discerning choice of customers, which need continuous attention. There is a need to think and act in an innovative manner to discover

new avenues of growth and efficiency. With our capabilities built over the years and with the assistance of Honda Motor Company, we will be able to face these challenges and create new milestones as we march ahead.

Once again, thank you for your continuous support, for which we all at Hero Honda are truly grateful.

Yours Sincerely

Brijmohan Lall
CHAIRMAN HERO HONDA MOTORS LTD.

Managing Director's Message

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THE POWER OF PARTNERSHIP

Dear Members,

IT HAS BEEN AN EVENTFUL TWENTY YEARS since the day Honda Motor Co. of Japan and Hero Group of India entered into a Joint Venture agreement. Hero Honda has traversed many milestones to become the World's No.1 Two-Wheeler Company. Powered by partnerships - between Honda and Hero Group to begin with, the Company has extended the collaborative spirit to its ancillaries, vendors, suppliers, distributors, shareholders, employees and other stakeholders.

Management of partnerships has been our strength. This is borne out by the fact that Hero Honda has emerged as one of the best performing companies in the country. Honda considers Hero Honda amongst its most thriving ventures across the world. Our relationship with our collaborator has been excellent throughout. It is appropriate to recount that this partnership has been responsible for the introduction of India's first

four-stroke motorcycle CD-100, which even today is a legend. It is a matter of great pleasure to inform you that Honda has renewed its technical collaboration with Hero Honda for another 10 years, that is, up to 2014.

From the very beginning, Hero Honda created ancillaries to manufacture critical components for motorcycles to ensure overall efficiency. In today's modern manufacturing system, companies are increasingly dependent on outsourcing and thus partnerships have become all the more important. As a result of our good supply chain policies, ancillaries are now able to supply components directly on-line for assembly.

Our customer interface highlights another dimension of successful partnership. Dealers as our partners carry on the spirit of Hero Honda to the customers. With many of them, we enjoy a special relationship because they have been associated



PAWAN MUNJAL
MANAGING DIRECTOR