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annual report 2005-2006

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heading ahead

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We are in the business of looking ahead, or rather, beginning where even imagination surrenders. A perception that clearly justifies Hero Honda's thought process of not resting on past laurels and treating the consumer with virtually a new surprise every time. Since inception, our competitive knack of venturing into unexplored territories has helped us retain our leadership stance on a national and international level.

Needless to say, our this year's annual rendition simply focuses on how our organization is foreseeing tomorrow with today's perspective.

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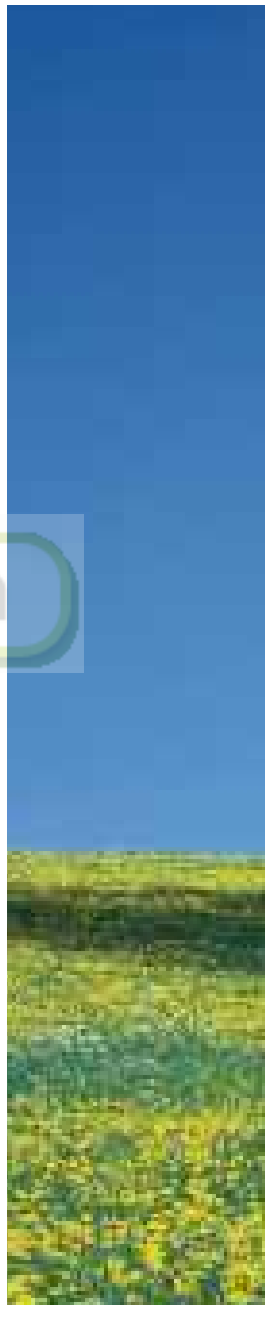
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corporate profile

When Hero Group of India and Honda Motor Company of Japan inked their joint venture in 1983, few could have imagined that the two would go on to create history and become the subject of case study at business schools, internationally. In a little over two decades, the world's largest manufacturer of bicycles and the global leader in automobiles have created not only the world's single largest two wheeler company but also the most endearing and successful joint venture for Honda Motor Company worldwide. The company has sold over 15 million motorcycles; has consistently grown at double digits since inception; and today, nearly every second motorcycle sold in the country is a Hero Honda.



Hero Honda has built two world-class manufacturing facilities in Haryana, at Dharuhera and Gurgaon, with a combined production capacity of 3.9 million two wheelers annually. These two

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wheelers are sold and serviced through a network of over 2400 customer touch points, comprising a mix of dealers, service centres and stockists across rural and urban India.

Synergy drives Hero Honda. The two partners have been able to consistently draw on each other's strengths. The Hero Group's deep domain knowledge of the Indian market and its supplier network has combined with Honda's mastery over four-stroke engine technology to create modern and fuel-efficient machines at affordable prices for India's middle class.

Hero Honda is an amalgam of winning relationships with internal and external stakeholders, including investors, dealers, vendors and employees. These relationships have helped the company maintain a leadership stance for the fifth year in a row.

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wealth, scale and value

Over the last two decades, HERO HONDA MOTORS LIMITED has consistently and systematically built scale, delivered value, increased market reach and maximized returns to its shareholders.

The charts shown alongside track the company's performance since its inception 22 years ago, on key financial and non financial parameters.

In December 2005, your company received the Motilal Oswal Wealth Creator Award for being the most consistent wealth creator for the period 1991-2005.

Your company's return on core-business, which is a true reflector of the returns on the company's two wheeler business, has remained consistently above 100 per cent.

Creating shareholder wealth continued to be our prime objective during the year, the Earning Per Share (EPS) grew 19.8% to Rs.48.64 at the end of March 2006. Return on Average Equity (ROAE), measured as ratio of PAT to average equity during the year, was 55.5% in 2005-06. Return on Average Capital Employed (ROACE), measured as a ratio of PBIT to average capital employed during the year, was at 72.3%.



The company's primary mission is to maximize value, and we continued to create value in the areas of productivity, competitiveness, revenue growth and profitability. This resulted in higher EVA realizations ((net profits + interest) - cost of capital) in absolute terms. EVA was Rs.641 crores in 2005-06 as compared to Rs.564 crores during 2004-05. However, EVA as a proportion of ROACE declined on account of investments in capital assets.

EVA & ROACE (POST-TAX)

	2004-05	2005-06
EVA (Rs. in crores)	564	641
EVA (% of capital employed)	37.5	32.9
ROACE (Post tax)(%)	54.0	50.0

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