

Report Junction ^{25 YEARS OF} SUCCESS

A N N U A L R E P O R T 0 8 - 0 9



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HOW DO WE

MEASURE SUCCESS?



Every business strives for success. Success however has many benchmarks and many interpretations. Some view success on a purely financial plane, others view it in terms of their market reach while some argue it as their ability to survive in difficult terrain.

25 years of operation have taught us that there are many yardsticks and measures to qualify success. What however remains sacrosanct is the inexorable link between faith and success. If you have faith, success is bound to follow.

This year's annual report showcases our performance against some established benchmarks and more importantly, those that make us truly successful.

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IS IT ABOUT THE

STATUERE IN THE INDUSTRY?

HERO HONDA IS
THE LARGEST MANUFACTURER OF
TWO WHEELERS IN THE WORLD....
AND HAS BEEN SO OVER THE
LAST EIGHT YEARS.

CORPORATE PROFILE

A GLORIOUS HISTORY AND AN EVEN MORE GLORIOUS FUTURE

It all began with a dream...

The Hero Honda story began with a simple vision – the vision of a mobile and an empowered India, powered by Hero Honda. This vision was driven by Hero Honda's commitment to customer, quality and excellence, and while doing so, maintain the highest standards of ethics and societal responsibilities. Twenty five years and 25 million two wheelers later, Hero Honda is closer to fulfilling this dream. This vision is the driving force behind everything that we do at Hero Honda.

We understood that the fastest way to turn that dream into a reality is by remaining focused on that vision. There were many unknowns but we kept faith, and today, Hero Honda has been the largest two wheeler company in the world for eight consecutive years.

Our growth has kept compounding. The company crossed the ten million unit milestone over a 19-year span. In the new millennium, Hero Honda has scaled this to 15 million units in just five years!

In fact, during the year in review, Hero Honda sold more two wheelers than the second, third and fourth placed two-wheeler company put together. With Hero Honda, the domestic two wheeler market was able to show positive growth during the year in review. Without Hero Honda, the domestic market would have actually shrunk.

Over the course of two and a half decades, and three successive joint venture agreements later, both partners have fine-tuned and perfected their roles as joint venture partners.

What the two partners did was something quite basic. They simply stuck to their respective strengths. As one of the world's technology leaders in the automotive sector, Honda has been able to consistently provide technical know-how, design specifications and R&D innovations.

This has led to the development of world class, value-for-money motorcycles and scooters for the Indian market.

On its part, the Hero Group has taken on the singular and onerous responsibility of creating world-class manufacturing facilities with robust processes, building the supply chain, setting up an extensive distribution networks and providing insights into the mind of the Indian customer.

Since both partners continue to focus on their respective strengths, they have been able to complement each other. In the process, Hero Honda is recognized today as one of the most successful joint ventures in the world. It is therefore no surprise that there are more Hero Honda bikes on this country's roads than the total population of some European countries put together!

The company's meteoric growth in the two-wheeler market in India stems from an intrinsic ability to reach out and come closer to its customers, with every passing year. Hero Honda's bikes are sold and serviced through a network of over 3500 customer touch points, comprising a mix of dealers, service centres and stockists located across rural and urban India.

Hero Honda has built two world-class manufacturing facilities at Dharuhera and Gurgaon in Haryana, and its third and most sophisticated plant at Haridwar has just completed a full year of operations.

It is difficult to imagine that all this has happened in the span of just two and a half decades!

The best is yet to come. During the year in review, Hero Honda powered its way in a market that, for all practical purposes, was feeling the full effects of the economic slowdown in India. With an economic recovery now clearly on the cards, Hero Honda is all set to ride into another summit.

As Brijmohan Lall Munjal, the Chairman, Hero Honda Motors succinctly puts it, "We pioneered India's two wheeler industry, we've steered it through difficult times; now it is our responsibility to set the pace again."

Report



Junction



A JOURNEY OF TWENTY FIVE YEARS



Hero and Honda sign joint
collaboration agreement

1983

Hero Honda commences
commercial production at Dharuhera
Plant, rolls out 1st motorcycle (CD 100)

1985



Hero Honda Passport Program
launched – A first of its kind CRM initiative
in the Indian two wheeler industry.
Hero Honda Splendor becomes the single
largest selling motorcycle in the world

2000



Hero Honda CBZ launched – First
150 cc motorcycle in the Indian two
wheeler industry

1999



Hero Honda Karizma launched
–industry's first 223 cc motorcycle

2003



Hero Honda becomes the world no. 1
two wheeler manufacturer

2002



Cumulative production volume
reached 5 lac mark

1991



Hero Honda forays into sports
promotion with the Hero Cup – a five
nation cricket series, more popular as
mini world cup

1993



Birth of a legend - Hero Honda
Splendor motorcycle launched

1994



Hero Honda new manufacturing plant
at Gurgaon goes on stream

1997



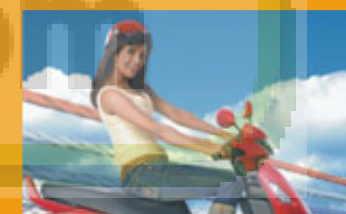
Cumulative production volumes
reached 10 million mark

2004



Dr. Brijmohan Lall Munjal,
Chairman, Hero Honda Motors
Limited, received the Padma Bhushan
award from the President of India

2005



Hero Honda forays into scooter
segment, launched 100 cc gearless
scooter, Pleasure.
Cumulative production volumes
reached 15 million mark

2006



Hero Honda celebrated the 20
million cumulative production
volumes mark by conducting Bike –
A - Thon - a national level bike rally

2007



Hero Honda's new manufacturing
plant at Haridwar goes on stream

2008



Pawan Munjal, Managing Director &
CEO, Hero Honda Motors Limited,
received the coveted Man of the Year
Hall of Fame awards by CNBC TV 18
Overdrive Awards 2009.

2009

DEAR SHAREHOLDERS,



"Two roads diverged in a wood...and I took the one less travelled by, and that has made all the difference".

These memorable lines by Robert Frost summarise Hero Honda's odyssey over these last 25 years. They also capture the spirit of the Indian people, who proved all pre-poll forecasts and predictions wrong to vote in the country's most stable and durable government in two decades.

The prospect of stability couldn't have come at a better time for India.

As the country's GDP growth plunged from a very impressive 9 per cent to 6 per cent during the year in review, the culture of consumerism that propelled India in the preceding four years, took a backstage. Family budgets shrank, and in many companies, pay packets became slimmer.

Expectedly, defaults also rose. As a result, banks became even more cautious in offering loans, particularly in towns where very little information was available to measure the creditworthiness of a customer.

The trend among consumers to postpone purchase decisions and the banks decision to withdraw from certain areas had an impact. The share of financing, which had increased rapidly to 50-60 per cent of the total retail sales by early 2007, has now come down to below 30 per cent.

This was a major setback for the two-wheeler industry, although just like the preceding year, your company bucked the trend. In value terms, both top line and bottom line was up in double digits. Hero Honda retailed more two wheelers in the domestic market than the second, third and fourth placed manufacturer put

together. Effectively, this helped your company boost its domestic motorcycle market share by more than four percentage points and scooter market share by three percentage points.

The healthy growth in sales also improved your company's bottom line. EBITDA margins for the entire year increased by 120 basis points compared to the previous year.

Some of these financial numbers are the highest in our 25-year history. We are fortunate that these numbers are coinciding with our silver jubilee year. At the same time, I know they do not represent a peak, but just the beginning of a climb to another higher summit.

As I mentioned in the opening, we took the road less travelled. When the two-wheeler industry started going into a tailspin, our first strategic option was to remain rock-solid as the winds of the global crisis swept across companies, businesses and consumers based in urban India.

We certainly spent some time consolidating our business. We controlled costs on a war footing. Of course, plunging commodity prices helped bring down prices of key inputs such as steel, nickel and aluminum; this in turn helped us prune manufacturing costs.

Yet your company did not just get lucky; it took a number of sound business decisions through the year.

To give you an example, your company took a policy decision and resisted the temptation of offering discounts to stir up sales in a tepid market. However, we did not compromise on market development and customer focus; we upgraded our products, added features, introduced new products and increased our advertising spends.

Hero Honda also made its supply chain more robust with strong online connections both at the front end as well as at the back-end.

Your company didn't stop at consolidation; it sought to grow as well. As I mentioned last year, our objective as a company has been to develop across both India and Bharat.

We are strongly convinced that the new government's plan to strengthen inclusive programs in rural India will create job opportunities and aspiration demand. I have always believed that rural and small town India represents our future. Now, after last year's performance, I am convinced that we have to make rural India also an integral part of our present.

We have here a market that has incredible depth. This makes it less susceptible to global economic cycles and a market where every government which comes to power is guaranteed to invest heavily.

Although your company has always concentrated on

both urban and rural areas, we have now started adding more muscle to our rural initiatives; some of our efforts have started paying off.

It gives me great personal pleasure to see that over the course of my lifetime, I am being able to see the gradual evolution of India's villages and small towns: from being survivors to aspirants and consumers.

I remain confident about the near-term future. Of course, there will be challenges ahead. But I would rather see them as opportunities.

Over the next 12 months, the two-wheeler environment will become much more competitive as more players try to enter our higher volume executive segment. We welcome this emerging competition, since it will provide us with an opportunity to prove our mettle once again.

There is also some buzz and anticipation surrounding the low-cost cars. Without doubt, these will be good for India's consumers. Nevertheless, from the perspective of our industry and our company, I am convinced that the two-wheeler segment will continue to remain the vehicle of choice by the masses in India.

Fuel efficiency and maintenance costs continue to be the most important considerations for the Indian customer today. They will be the most important considerations in the medium term as well.

There are more than seven million new bicycle users every year in India, and most of them aspire to upgrade to two-wheelers. The growing aspirations, expanding road networks and growth of satellite townships across India are some of the factors that will spur demand for two-wheelers in the near and medium term.

These factors will operate as the two-wheeler industry's biggest insurance in the coming decades.

In my preceding year's message, I talked about how strong companies are ones that are able to grow roots among the rocks. They have the capacity to hold the fort, while other bastions around them crumble. Champion companies don't just grow roots, they develop far-reaching branches.

Yours sincerely,

Brijmohan Lall
Chairman

BOARD OF
DIRECTORS



TOP ROW LEFT TO RIGHT

Toshiaki Nakagawa
Joint Managing Director

Om Prakash Munjal
Non-Executive Director

Masahiro Takedagawa
Non-Executive Director

Brijmohan Lall Munjal
Chairman

Pawan Munjal
Managing Director & CEO

Ms. Shobhana Bhartia
Non-Executive and
Independent Director

Takashi Nagai
Non-Executive Director

BOTTOM ROW LEFT TO RIGHT

Sumihisa Fukuda
Technical Director
(w.e.f. June 01, 2008)

Pradeep Dinodia
Non-Executive and Independent Director

Gen. (Retd.) V.P. Malik
Non-Executive and Independent Director

Dr. Pritam Singh
Non-Executive and
Independent Director

Sunil Kant Munjal
Non-Executive Director

Analjit Singh
Non-Executive and
Independent Director

Meleveetil Damodaran
Non-Executive and
Independent Director
(w.e.f. June 16, 2008)

ALTERNATE DIRECTOR

Satoshi Matsuzawa
(Alternate Director to Mr. Takashi
Nagai)

OUTGOING DIRECTORS

Yutaka Kudo
Whole-time Director
(upto May 31, 2008)

Narinder Nath Vohra
Non-Executive and Independent
Director
(upto June 24, 2008)

Sunil Bharti Mittal
Non-Executive and Independent
Director
(upto April 21, 2009)

Arun Nath Maira
Non-Executive and Independent
Director
(upto July 23, 2009)

COMMITTEE OF DIRECTORS

AUDIT COMMITTEE

Pradeep Dinodia
Chairman

Gen. (Retd.) V. P. Malik
Member

Dr. Pritam Singh
Member

SHAREHOLDERS'
GRIEVANCE COMMITTEE

Dr. Pritam Singh
Chairman

Pradeep Dinodia
Member

Meleveetil Damodaran
Member

SENIOR MANAGEMENT TEAM

Ravi Sud
Sr. Vice President & CFO

Anil Dua
Sr. Vice President-Sales,
Marketing and Customer Care

Vikram S. Kasbekar
Plants Head-Operations
and Supply Chain

Dr. Anadi S. Pande
Vice President-HRM, Corporate
Planning and Strategy

Vijay Sethi
Vice President-Information Systems

REMUNERATION COMMITTEE

Gen. (Retd.) V. P. Malik
Chairman

Pradeep Dinodia
Member

COMPLIANCE OFFICER

Ilam C. Kamboj
Sr. G.M. Legal & Company Secretary

For more information please visit www.herohonda.com



NEW PLANT AT HARIDWAR THE GATEWAY TO ANOTHER SUCCESS STORY

Literally translated, Haridwar means Gateway to God. In Hindu mythology, Haridwar is considered one of the seven holiest places in India, since the devas are said to have left their footprints here.

Not without reason, therefore, Haridwar was chosen as the venue for the third Hero Honda plant.

The temples of modern India, borrowing Pt. Nehru's phrase, are the factories that provide economic liberation to masses.

Hero Honda's journey to this modern temple, in Haridwar, has been nothing short of a holy pilgrimage. It began in October 2006, when the foundation stone was laid; it continued when the plant went onstream in April 2008, and gained momentum in March 2009, when the plant produced 4,000 two wheelers per day.

The journey continues at the time of writing.

The third plant is Hero Honda's finest manufacturing experience yet, with the essence of Honda and Hero's learnings and contemporary practices enshrined here.

The plant has lean manufacturing and practices that ensure efficiency. The main plant is connected with vendors units through conveyors so that material avoids multiple handling and is delivered on time.

In keeping with Hero Honda's green philosophy, production processes have been conceived in a way that effluents are minimized and there is zero discharge on liquid effluents. All waste are treated and consumed within the four walls of the factory.

An integral part of the long term vision at the Haridwar plant is an ambitious green roof project. The idea is not just to insulate the shopfloor but also to reduce the run offs, and promote greenery.

But then, the Hero Honda story at Haridwar is not just about this plant.

Wherever it sets up a factory, Hero Honda seeks to be a model corporate citizen, and co-opts local communities to participate in its progress.

Hero Honda has made a substantial difference in the socio-economic landscape of the Gurgaon-Dharuhera belt, and it seeks to make the same qualitative difference in Dev Bhoomi.

The Hero Group is committed to invest in social and tangible infrastructure to promote quality of life of people of Uttarakhand, and is in the process of building, schools, hospitals, theaters, houses and retail infrastructure in the region.

These projects will provide jobs, sustenance and prosperity over the years, and contribute to the all-round development of this region.

Hero Honda is also adopting a local ITI in the region.

This will not only to enhance the skill level of local people, it will also go a long way in ensuring a captive supply of skilled manpower for Hero Honda and its suppliers.

The Haridwar project is a backward integrated manufacturing plant which on realization of full capacity will engage around 5,000 persons.

Currently there are 10 suppliers up and running operations in the Hero-promoted industrial park next to the Haridwar factory. In the coming months an additional 23 no. of suppliers will start supplying to the factory hub.

In a vast country like India, what Hero Honda is attempting through this integrated approach is a drop in the ocean, but it is an important drop. As Mahatma Gandhi once said: "Whatever you do may be insignificant, but it is very important that you do it".

It is said that as the Ganga flows from the Himalayas to the Bay of Bengal, it nourishes the soul and sustains many lives along the way. Hero Honda is convinced that this plant, this shrine of technology, will do the same.



RURAL MARKETING FOCUS

REACHING THE LENGTH AND BREADTH OF INDIA

The company has made significant progress in its rural marketing initiative called Har Gaon, Har Aangan. This national level program has made strides into thousands of Indian villages with a population of 5,000 and above. In all, more than 125,000 opinion leaders in these villages were met by specially trained 523 rural sales executives. The program itself has added sales of 25,000 vehicles from these villages in just one year.

The program focuses on many activities to align with the objectives that go beyond commercial transactions, in order to build enduring relationship with the customers

the events organized by the local administration on regular basis.

The company believes that the rural mobility is a major contributor to GDP growth in an agrarian economy like ours. 'Sikhao Baliye' is company's unique initiative in the rural market that aims at driving the mobility of rural women. The program aims at promoting company's light and zippy gearless scooter Pleasure by creating awareness amongst its TG which primarily are all rural men, particularly opinion leaders and those who wish to impart riding training to their wives, daughters,



in these villages. The program generally covers sales promotions, loan and exchange offers, free service and check up camps, along with host value adds like consultation for obtaining driving license, safe riding educational programs and other services like health check up and awareness camps. These services are offered free of charges in the interest of society at large.

Under the HGHA program the company makes all the efforts to be a part of the villages by conducting such programs either directly or by partnering or sponsoring

daughter-in-laws, sisters etc., and prospects in general. The program covered 40 villages, 266 female riders received basic riding training, and 35 of them could ride the scooter immediately after the training.