



# TWO WHEELS OF GROWTH

ANNUAL REPORT 2009-10



ANNUAL REPORT 2009-10

## CONTENTS

|   |     |
|---|-----|
| Chairman's Message                          | 02  |
| Board of Directors                          | 04  |
| Company at a Glance                         | 06  |
| Financial & Business Highlights             | 08  |
| Awards                                      | 10  |
| <b>Management Discussion &amp; Analysis</b> |     |
| Economic Environment                        | 14  |
| Industry and Segment Analysis               | 16  |
| Company Performance                         | 18  |
| Financial Performance                       | 20  |
| Risks and Outlook                           | 21  |
| Manufacturing                               | 22  |
| Rural Marketing                             | 24  |
| Customer Relationship                       | 26  |
| Connecting Through Sports                   | 28  |
| Information Systems                         | 30  |
| Human Relations                             | 32  |
| Environment Management                      | 34  |
| Outreach Program                            | 36  |
| Corporate Information                       | 40  |
| Directors' Report                           | 43  |
| Corporate Governance Report                 | 48  |
| Auditors' Report                            | 74  |
| Balance Sheet                               | 78  |
| Profit & Loss Account                       | 79  |
| Cash Flow Statement                         | 80  |
| US GAAP                                     | 114 |



# TWO WHEELS OF GROWTH

In the year gone by, Hero Honda sold more than a record million units of two-wheelers in each quarter and notched its highest-ever annual revenues, operating income and earnings per share. All figures indicate that the Company achieved a pole position in the industry and continues to maintain its lead. Still, we at Hero Honda consider these achievements as one amongst many milestones in our long journey ahead, full of promises and further prosperity for everyone associated with the Company. Today, we pause to ponder what sets us apart from the rest. Where can a Company that has already been-there-and-done-that go from here?

## **Two Wheels of Growth**

For us the answer is simple. We believe in the 'two wheels of growth' that will enable us to grow from strength to strength. Going forward, we are convinced that the two wheels-'creating value' and 'delivering value,' are the primary requisites for distinguishing ourselves in the marketplace. With superior technology, efficient manufacturing processes, robust supply chain and highest quality standards, we are pushing harder than ever in creating value through our manufacturing prowess. Concurrently, with intensified efforts to widen customer reach and deepen customer relationships, we have renewed our focus on delivering value through continuous improvement and value-addition in the service processes of our sales and service networks. We believe that by riding on these 'two wheels of growth', Hero Honda is well-positioned to chart sustainable growth year-after-year.

# CHAIRMAN'S MESSAGE

In India's auto industry today, Hero Honda represents the **TWO WHEELS OF GROWTH**, and in our 26th year, this riveted focus on motorcycles and scooters has borne rich dividends.



**Brijmohan Lall**  
Chairman

## Dear Shareholders,

Le Corbusier, the famous Swiss architect, once remarked: "Less is more. Less is truly more, when you are committed to the right less."

Over the two and a half decades since Hero Honda came into being, automobile businesses around India have diversified and expanded at breakneck speed: four wheelers, tractors, commercial vehicles, financing and what have you...

Through these years, Hero Honda has resolutely stuck to its knitting, because of a deep down belief within both JV partners that in emerging countries such as India, less, could actually be more.

So we focused on our core business - the two wheeler business. We channelised our funds, energies and resources into this business, with a single minded objective: to provide world class, low-maintenance and affordable transport to people who needed mobility but had limited budgets.

Of course, during our evolution, we looked for new opportunities. We created new paradigms and benchmarks. These endeavours, however, have always been part of our search for excellence in the two wheeler business.

In India's auto industry today, Hero Honda represents the **TWO WHEELS OF GROWTH** and in our 26th year, this riveted focus on motorcycles and scooters has borne rich dividends.

By any yardstick and through any stretch of imagination, Hero Honda has seen its best year yet. Annual sales of over 4.6 million, Economic Times 'Company of the Year', record profits, record market capitalisation, record EBIDTA margins, highest ever EVA...the list is endless. Your management has contributed only partly to these outcomes.

These numbers are the result of critical contributions from millions of real people - the customer managing his household budget and making his first vehicle purchase in a far-flung village in India, the retail shareholder buying his first lot of Hero Honda shares, or the young worker on an assembly line making his first contribution towards process improvement during a TPM program, our efficient supply chain partners - the list could go on and on.

In various different ways, - these people have contributed towards making the year in review extra special. There is no better forum than this report, to express my gratitude to them. No matter where Hero Honda is today or dreams to be tomorrow, their wishes and aspirations will always be instrumental to our future.

The future excites me for two reasons. First, India will be a better place to live in. As infrastructure services expand across larger swathes of India and as rural development programs create more impact in the new decade, the quality of life will improve for the common man.

Second, we will see a different facet of India unfold before us: I am convinced that this will be the decade where lower middle class households (earning between Rs 2 lakh to Rs 5 lakh a year) will become India's largest and most influential consuming class, more powerful than the middle-middle class, the upper middle class and the upper class. In fact, if the last decade belonged to the Great Indian Middle Class, this decade will belong to the Great Lower Middle Class Indian.

Consumer companies that wish to succeed in this environment will have to make the lower middle Indian central to their design of products, processes and strategies.

The two wheeler industry in general and companies such as Hero Honda in particular, already have a head start in this area with appropriate products and distribution networks.

In my message last year, I mentioned how champion companies grow by developing far-reaching branches. I am happy to report that our rural vertical, which seeks to access Bharat, has now rolled out nation-wide and in the coming years, will emerge as the primary growth engine of this Company.

For these very reasons, I won't be surprised at all if the two wheeler industry is able to easily sustain a growth of 10 percent and more over the next 10 years.

To be sure, there will be greater competition and there will be greater pressure on market share. Yet this is only natural, since the exciting market will definitely attract fresh investments, better products and better networks. But this should be a cause for great joy and celebration because it will surely benefit the customer.

It is not that I don't see challenges ahead. The global macro environment is uncertain. Despite the strong performance of the Indian economy, there are fears of a double dip recession, especially in Europe. Should this happen, some of growth momentum in India could dissipate. On the other hand, if the crisis passes and we see a strong recovery, it would impact commodity prices and interest rates.

At a Company level, fresh capacity creation in a growth market is a challenge. Pressures on our supply chain to make quick ramp ups without compromising on quality is a second major challenge. Optimising manpower productivity against a backdrop of antiquated labour laws is a third challenge.

Nevertheless, I am confident that we at Hero Honda have the versatility to refine and redefine ourselves. I know we have the skills to sail through these uncertain waters.

I believe we have the vision to navigate through the new decade into a new India.

Yours Sincerely



**Brijmohan Lall,**  
Chairman

**TWO WHEELS OF  
GROWTH**





**Yuji Shiga**  
Non-Executive Director



**Takashi Nagai**  
Non-Executive  
Director



**Suman Kant Munjal**  
Non-Executive Director



**Sunil Kant Munjal**  
Non-Executive Director



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



**Pradeep Dinodia**  
Non-Executive &  
Independent Director



**Meleveeti Damodaran**  
Non-Executive &  
Independent Director



**Ravi Nath**  
Non-Executive &  
Independent Director

#### **OUTGOING DIRECTORS**

**Mr. Masahiro Takedagawa**  
Non-Executive Director  
(upto April 1, 2010)

**Mr. Satoshi Matsuzawa**  
Non-Executive Director  
(upto April 1, 2010)

**Mr. O. P. Munjal**  
Non-Executive Director  
(upto July 29, 2010)

#### **COMMITTEE OF DIRECTORS**

##### **AUDIT COMMITTEE**

**Mr. Pradeep Dinodia** Chairman

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

**Dr. Pritam Singh**

Member

**Mr. M. Damodaran**  
(W.e.f. July 29, 2009)

Member

#### **SHAREHOLDERS' GRIEVANCE COMMITTEE**

**Dr. Pritam Singh**

Chairman

**Mr. Pradeep Dinodia**

Member

**Mr. M. Damodaran**

Member

#### **REMUNERATION COMMITTEE**

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

Chairman

**Mr. Pradeep Dinodia**

Member

**Mr. Ravi Nath**

Member

(W.e.f. January 25, 2010)

# BOARD OF DIRECTORS



**Pawan Munjal**  
Managing Director & CEO



**Dr. Brijmohan  
Lall Munjal**  
Chairman



**Sumihisa Fukuda**  
Technical Director



**Toshiaki Nakagawa**  
Joint Managing Director



**Dr. Anand C Burman**  
Non-Executive &  
Independent Director



**Shobhana Bhartia**  
Non-Executive &  
Independent Director



**Dr. Pritam Singh**  
Non-Executive &  
Independent Director



**Analjit Singh**  
Non-Executive &  
Independent Director

## SENIOR MANAGEMENT TEAM

|                           |  |
|---------------------------|--|
| <b>Ravi Sud</b>           | Sr. Vice President & CFO                                   |
| <b>Anil Dua</b>           | Sr. Vice President - Sales,<br>Marketing and Customer Care |
| <b>Vikram Kasbekar</b>    | Head-Operations and Supply Chain                           |
| <b>Dr. Anadi S. Pande</b> | Vice President - HRM, Corporate<br>Planning and Strategy   |
| <b>Neeraj Mathur</b>      | Vice President - Strategic Sourcing<br>and Supply Chain    |
| <b>Vijay Sethi</b>        | Vice President - Information Systems                       |

## COMPLIANCE OFFICER

|                       |                                      |
|-----------------------|--------------------------------------|
| <b>Ilam C. Kamboj</b> | Sr. G.M. - Legal & Company Secretary |
|-----------------------|--------------------------------------|

**TWO WHEELS OF  
GROWTH**

# COMPANY AT A GLANCE

Hero Honda is a joint venture, set up in 1984 between India's Hero Group and Japan's Honda Motor Co. It has been the **world's largest** two wheeler Company for nine years in succession with a customer base of more than 30 million. It has **48% share** of the domestic two wheeler market; in fact, **Every second motorcycle** sold in the country rolls out from one of Hero Honda's factories.



**WE  
BELIEVE IN**

## OUR VISION



To provide world class, affordable and durable personal transport for masses.

- Creating relationship and ethics based enterprise
- Deriving value through seamless and efficient supply chain
- Delivering excellence through resource optimised manufacturing
- Creating and sustaining powerful brands
- Keeping our promises and ensuring customer and shareholder delight



## OUR PERVASIVE STRENGTHS

- Three, globally benchmarked, state of the art manufacturing facilities.
- An extensive sales and service network of over 4500 customer touch points These include authorized dealerships, Service & Spare Parts outlets, and dealer-appointed outlets.
- A widespread reach in rural India, panning over 100,000 villages



## OUR PRODUCT PORTFOLIO



Hero Honda offers best - in - class motorcycles that set performance and fuel economy standards across various market segments. In the 100 cc segment the Company offers a wide spectrum of bikes starting from CD Dawn, CD

Deluxe, Splendor Plus, Splendor NXG, Passion and Passion Pro. The 125cc segment offers Glamour, Super Splendor and Glamour FI. The Company also has single offering called Achiever in 135cc segment In the

150cc and above the Company offers premium brands like Hunk, CBZ Xtreme, Karizma and the newly-launched fuel-injection Karizma ZMR. Besides, Hero Honda offers a 100 cc scooter Pleasure. Besides the

regular sales channels, the scooter is sold through special women only showrooms called "Just4her"

## OUR BRAND

The Company connects and engages with its customers through various initiatives and campaigns based on sports, music and entertainment platform.

MTV Roadies and Sa re ga ma pa are some of the popular ones amongst the youth segment. Hero Honda FIH Hockey World Cup 2010, DLF Indian Premier League (IPL) Twenty20 and team sponsorship of Delhi Daredevils have been the recent associations with the most sought after

disciplines of sports in the country. In addition to this, Hero Honda had been one of the main Global Partners of the International Cricket Council (ICC) for flagship ODI championships including the World Cup cricket and the Champions Trophy, and more recently the T20 World Cup in England.

Hero Honda Indian Open Golf tournament is an annual event with participation from international marquee



players. Besides, Hero Honda has signed up many Indian sports stars, across multiple disciplines of sports, to promote the brand. Other than promoting sports and sportspersons

at the highest level, the Company has also been committed to the promotion of various sports at the grass root level.

# FINANCIAL & BUSINESS HIGHLIGHTS

Hero Honda notched a record financial performance in FY'10 with the highest ever annual revenues, operating income and earning per share. Key financial highlights include:

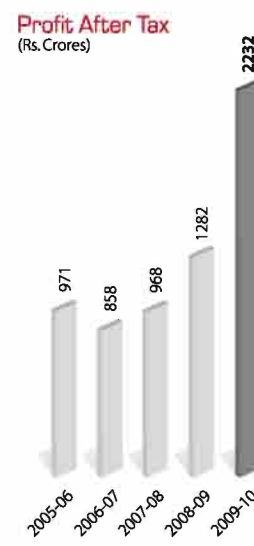
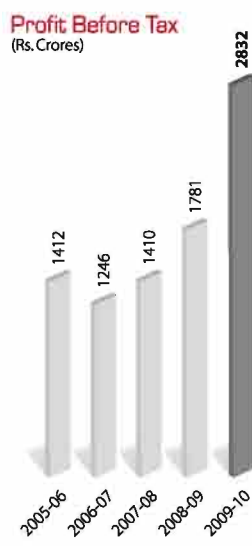
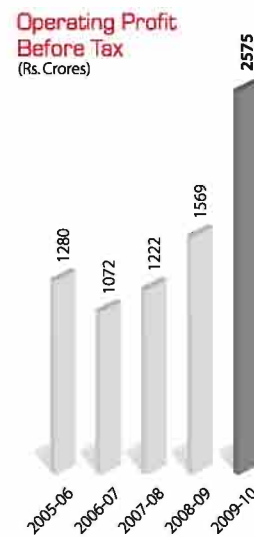
**23.6% growth in sales** to 4,600,130 two-wheelers in 2009-10 from 3,722,000 two wheelers in 2008-09

**28.1% increase in total turnover** to Rs. 16,099 crores over Rs. 12,565 crores in last fiscal

**74.1% growth in net profit after tax** to Rs. 2231.83 crores, **EPS of Rs. 111.77**

**17.4% EBIDTA margin** vs 14.1% in last year

**5500% dividend** (1500% final dividend and 4000% special Silver Jubilee dividend) amounting to **Rs. 110 per share** on face value of each share of Rs. 2.



**TWO WHEELS OF GROWTH**