

HERO HONDA MOTORS LIMITED + \$

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AUTOMOBILES/VEHICLES

MUNJAL

Chairman: Brijmohan Lall Munjal

SEC: Ilam C. Kamboj

AUD: A. F. Ferguson & Co.

| Yr of Inc | B. Code | BL. Code | F.V. | Price | % ch 1-m | % ch 12-m | P/E | P/CF | Yield | Mkt cap | Vol. | ISIN |
|-----------|---------|----------|------|-------|----------|-----------|------|------|-------|-----------|-------|--------------|
| 1985 | 500182 | HH.IN | 2 | 729.6 | -2.6 | -12.7 | 15.0 | 13.4 | 2.7 | 145,683.8 | 245.1 | INE158A01026 |

SHAREHOLDING

| | | FX Transaction (FY06) | |
|-----------------------|----------|-----------------------|-------------|
| Indian Promoters | : 26.0% | Exports (fob) | Rs m 2,520 |
| Foreign collaborators | : 26.0% | Imports (cif) | Rs m 2,802 |
| Indian inst/Mut Fund | : 8.1% | Fx inflow | Rs m 2,536 |
| FII's/GDR | : 26.9% | Fx outflow | Rs m 6,834 |
| Free float | : 13.0% | Net fx | Rs m -4,298 |
| Shareholders | : 47,834 | | |

| | No. of months | 12 | 12 | 12 |
|--|---------------|----------|----------|----------|
| | Year ending | 31/03/04 | 31/03/05 | 31/03/06 |

EQUITY SHARE DATA

| | | | | |
|--------------------------|-------|----------|----------|----------|
| High | Rs | 544 | 616 | 950 |
| Low | Rs | 180 | 320 | 480 |
| Sales per share | Rs | 292.1 | 371.7 | 436.4 |
| Earnings per share | Rs | 36.5 | 40.6 | 48.6 |
| Cash flow per share | Rs | 40.1 | 45.1 | 54.4 |
| Dividends per share | Rs | 20.00 | 20.00 | 20.00 |
| Dividend yield (eoy) | % | 5.5 | 4.3 | 2.8 |
| Book value per share | Rs | 57.0 | 74.8 | 100.6 |
| Shares outstanding (eoy) | m | 199.69 | 199.69 | 199.69 |
| Bonus/Rights/Conversions | - | - | - | - |
| Price / Sales ratio | x | 1.2 | 1.3 | 1.6 |
| Avg P/E ratio | x | 9.9 | 11.5 | 14.7 |
| P/CF ratio (eoy) | x | 9.0 | 10.4 | 13.1 |
| Price / Book Value ratio | x | 6.3 | 6.3 | 7.1 |
| Dividend payout | % | 54.8 | 49.3 | 41.1 |
| Avg Mkt Cap | Rs m | 72,268 | 93,455 | 142,778 |
| No. of employees | '000 | 4 | 4 | 4 |
| Total wages/salary | Rs m | 2,315 | 2,680 | 3,206 |
| Avg. sales/employee | Rs Th | 14,519.5 | 18,374.8 | 20,906.9 |
| Avg. wages/employee | Rs Th | 576.3 | 663.5 | 769.2 |
| Avg. net profit/employee | Rs Th | 1,813.3 | 2,006.7 | 2,330.4 |

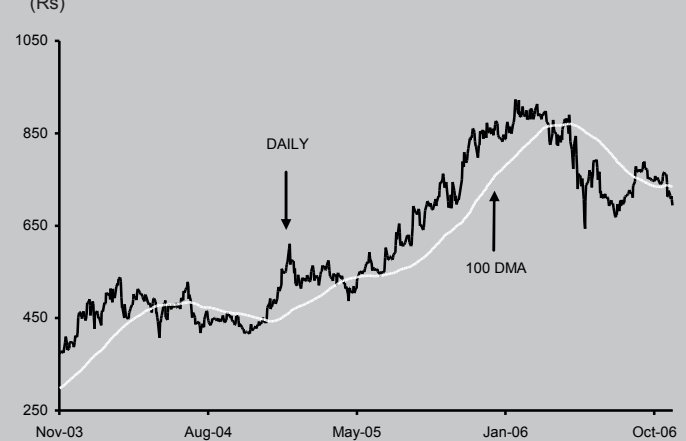
INCOME DATA

| | | | | |
|-------------------------|------|--------|--------|--------|
| Net Sales | Rs m | 58,325 | 74,216 | 87,140 |
| Other income | Rs m | 1,681 | 1,399 | 1,653 |
| Total revenues | Rs m | 60,006 | 75,615 | 88,793 |
| Gross profit | Rs m | 9,794 | 11,687 | 13,644 |
| Depreciation | Rs m | 733 | 894 | 1,146 |
| Interest | Rs m | 17 | 19 | 29 |
| Profit before tax | Rs m | 10,725 | 12,173 | 14,122 |
| Minority Interest | Rs m | 0 | 0 | 0 |
| Prior Period Items | Rs m | 0 | 0 | 0 |
| Extraordinary Inc (Exp) | Rs m | 0 | 0 | 0 |
| Tax | Rs m | 3,441 | 4,068 | 4,409 |
| Profit after tax | Rs m | 7,284 | 8,105 | 9,713 |
| Gross profit margin | % | 16.8 | 15.7 | 15.7 |
| Effective tax rate | % | 32.1 | 33.4 | 31.2 |
| Net profit margin | % | 12.5 | 10.9 | 11.1 |

BALANCE SHEET DATA

| | | | | |
|--------------------------|------|--------|--------|--------|
| Current assets | Rs m | 5,090 | 5,545 | 8,212 |
| Current liabilities | Rs m | 12,601 | 15,005 | 15,628 |
| Net working cap to sales | % | -12.9 | -12.7 | -8.5 |
| Current ratio | x | 0.4 | 0.4 | 0.5 |
| Inventory Turnover | Days | 12 | 10 | 9 |
| Debtors Turnover | Days | 3 | 4 | 7 |
| Net fixed assets | Rs m | 5,888 | 7,153 | 9,936 |
| Share capital | Rs m | 399 | 399 | 399 |
| "Free" reserves | Rs m | 10,989 | 14,534 | 19,694 |
| Net worth | Rs m | 11,388 | 14,934 | 20,093 |
| Long term debt | Rs m | 1,747 | 1,858 | 1,858 |
| Total assets | Rs m | 26,629 | 32,965 | 38,767 |
| Interest coverage | x | 631.9 | 641.7 | 488.0 |
| Debt to equity ratio | x | 0.2 | 0.1 | 0.1 |
| Sales to assets ratio | x | 2.2 | 2.3 | 2.2 |
| Return on assets | % | 27.4 | 24.6 | 25.1 |
| Return on equity | % | 64.0 | 54.3 | 48.3 |
| Return on capital | % | 55.6 | 48.4 | 44.4 |
| Exports to sales | % | 2.0 | 2.4 | 2.9 |
| Imports to sales | % | 6.5 | 4.6 | 3.2 |

ADJUSTED DAILY SHARE PRICE DATA



| | No. of months | 12 | 12 | 12 |
|--|---------------|----------|----------|----------|
| | Year ending | 31/03/04 | 31/03/05 | 31/03/06 |

CASH FLOW

| | | | | |
|-------------------------|------|--------|--------|--------|
| From Operations | Rs m | 9,729 | 7,468 | 9,361 |
| From Investments | Rs m | -3,764 | -5,629 | -3,235 |
| From Financial Activity | Rs m | -5,836 | -2,035 | -4,712 |
| Net Cashflow | Rs m | 129 | -195 | 1,414 |

INTERIM RESULTS

| | | 3QFY06 | 4QFY06 | 1QFY07 | 2QFY07 |
|---------------------|------|--------|--------|--------|--------|
| Net sales | Rs m | 23,148 | 22,559 | 23,644 | 22,300 |
| Gross profit | Rs m | 3,780 | 3,633 | 3,190 | 2,900 |
| Gross profit margin | % | 16.3 | 16.1 | 13.5 | 13.0 |
| Net profit | Rs m | 2,618 | 2,672 | 2,378 | 2,160 |
| Net profit margin | % | 11.3 | 11.8 | 10.1 | 9.7 |

KEY DATA

| Parameters | Unit | FY04 | FY05 | FY06 |
|-------------------|-------|-------|-------|-------|
| Capacity | THNOS | 2,250 | 2,550 | 3,150 |
| Units sold | THNOS | 2,070 | 2,621 | 3,001 |
| Capex/sales | % | 2.7 | 2.8 | 4.3 |
| EBIT/vehicle sold | Rs | 4,380 | 4,101 | 4,165 |

NOTES

Hero Honda Motors, the largest manufacturer of motorcycles in the world, is a joint venture promoted by Hero Cycles (P) Limited and Honda Motor Company of Japan. Each partner holds 26% stake in the company. The company has been solely engaged in manufacturing and sale of motorcycles. The technology agreement with Honda, which expired in 2004, has been extended for a further period of ten years.

Owing to some aggressive new launches by its competitors, the company faced market share pressures in the motorcycle segment in FY06 as volumes improved 15% as against the industry growth rate of 18%. Consequently, the market share dropped to 48% as opposed to 50% in FY05. The topline growth came in at a slightly higher rate of 17%. Operating margins were maintained at 16% levels, which was commendable given the pressure on input costs. The bottomline however grew by a meaningful 20%, also getting a small boost from lower tax outgo, in addition to the robust operating level performance. For 1HFY07, market share came under further pressure and was down 500 basis points over 1HFY06. Higher input costs also hurt margins and net profit growth stood at a mere 3%.

If the loss in motorcycles market share in 1HFY07 is any indication, the company is surely facing the competition heat. Further, inability to pass through the hike in input costs is putting further pressure on the margins. However, we believe, given the strong track record of the company, it is not likely to disappoint investors in the long run. Although market share may come under pressure and margins might not reach the levels of the past, the company is well positioned to take advantage of the enormous growth potential that still exists in the Indian motorcycles space. Furthermore, presence in the ungeared scooter segment, will add further to the volume growth.