

CHAIRMAN'S SPEECH

2010

Ladies and Gentlemen,

On behalf of the Board of Directors, I welcome you all to the 27th Annual General Meeting of your Company. I trust that, by now, you would have received a copy of the Annual Report and gone through it.

Global Conditions

With better-than-expected economy numbers coming in from US and China, it now seems likely that the world will not slip into a double dip recession. However, global growth path in the short to medium term is likely to be anemic.

There is no doubt today that even two years after it erupted, the world is still grappling with the aftershocks of the global financial earthquake that hit in 2008. The crisis that unfolded around the world since then has challenged many of our ideas; it has also reopened questions that we thought have been settled.

For example, before the crisis erupted in 2007, many of us believed that emerging countries had de-coupled from advanced countries. That hasn't quite happen. All emerging market economies, including India, have been affected by the crisis in different ways.

But having said that, it also appears to be that in a developing market economy like India it is possible to plan a slightly different path for two reasons. First, the pulse of the economy is essentially domestic. This makes it possible to create virtuous circles of demand and supply continuously. Second, as growth spreads into the hinterland, completely new pockets of demand - young workers, workers in rural India, women workers--are emerging, and they supplement and strengthen the existing virtuous circles.

So what we are seeing is some “**soft or gradual decoupling**” at work. In fact, this phenomenon appears to be gaining momentum as we move forward.

Growth Momentum Builds

The Indian economy grew at over 7 per cent during 2009-10. For two successive quarters from January 2010 to June 2010, GDP growth has been in excess of 8.5 per cent. The performance of the Indian economy has been especially remarkable, considering that the country suffered from its worst agricultural drought in several decades.

India’s Industrial sector, where growth bottomed out during the early part of the year in review, began staging a recovery after June 2009. This process gained momentum from October 2009—

and at the time of writing, the industry continues to grow robustly in double digits.

Restocking by manufacturers, following the earlier cutbacks in factory output & drawdown of inventories have clearly had a positive impact on growth. More important, industrial recovery is becoming broad-based, with as many as 14 out of 17 major manufacturing sectors clocking positive growth during Jan-Dec 2009. This holds out prospects of even faster recovery in the months to come.

Besides, the industrial sector continues to get strong support from the services sector, which makes up close to 57 per cent of the country's GDP.

Prospects for the current year are promising. With a normal monsoon playing out in 2010, agricultural growth is likely to rebound strongly from last year's decline; in turn, this will enhance rural consumption and tame inflation. As demand picks up, companies will be forced to create fresh capacities. Evidence of this is already at hand, with capital goods production in July notching a whopping growth of 63 per cent.

The growth projections are robust for the long term as well, and CII estimates that at current rates of growth, India will become a 2 trillion dollar economy by 2016.

Infrastructure Impetus

There are good tidings emerging from the infrastructure sector—long considered the stump of the economy. Gross Capital Formation in Infrastructure as a percentage of GDP has almost doubled since 2002. It is expected to be 9% of GDP till 2012.

Equally significant, it now seems that the public private partnership (PPP) model is gaining traction. During the Tenth Plan (2002-2007), about 25 per cent of the total investment in infrastructure in India came from the private sector. Private investment in infrastructure is expected to be around 36% during the Eleventh Plan (2007-12).

Challenges remain

Of course, despite the strong underpinnings of growth, there are challenges that have to be met. There were some concerns, particularly on the inflation front. Food inflation remains a major source of concern, and with stronger recovery, it is spreading to the manufacturing sector.

At another level, India's physical and social infrastructure is still grossly inadequate. Inadequate progress in these areas will quite clearly affect the sustainability of the country's growth story in the coming months and years.

India: An Attractive Destination

Still, in terms of potential, few countries can match India today.

The growth of India's **middle class purchasing power** – World Bank data shows that India's per capita GDP adjusted in PPP terms doubled in the ten year period between 1998 to 2008—is creating consumptive capacities never seen in the country before.

Urbanisation of India: As per the 2001 census, there were 23 million plus cities in India. McKinsey studies estimate that in another 20 years from now, there will be 68 cities with at least this sized population. There will be 13 cities with a population of more than 4 million, compared to 5 in 2001. There will be six megacities with populations of more than 10 million. In the 2001 census, Mumbai was the only city with a 10 million plus population. Should these numbers be achieved, there would be no precedent in modern history, except for China. The spinoffs of urbanization are obvious: more job opportunities and greater incomes.

Mainframing of hinterland: India's spatial modernisation is creating an enormous explosion of market towns and overgrown villages. In the coming years, this is going to provide, according to a study by NCAER, a much greater array of employment opportunities to rural Indians—through a combination of factors, not least the outlying effects of urbanisation, as well as the

improved impact of government intervention initiatives such as NREGA and Bharat Nirman.

In fact, according to a 2010 report released by FICCI and AC Nielsen, Rural India already generates 56 per cent of India's income, 64 per cent of consumption expenditure, and 33 per cent of national savings.

These trends are likely to get reinforced with rapidly increasing government spending in infrastructure, and the social sector — where budgetary allocations have doubled and trebled in recent years.

Against the backdrop of these trends and initiatives, there is a widespread perception that sooner rather than later, India's poor to graduate from the economics of necessity to the economics of gratification. This should hugely benefit companies like Hero Honda, which are in the business of providing affordable transport.

Industry Environment

It was a year of strong recovery for the two wheeler industry. After growing tepidly at 5 percent, in 2008-09 the two wheeler industry was back on track in 2009-10. Sales grew by 24 per cent and crossed 10 million units for the first time ever. Today, it is

heartening to see that two wheelers make up around three fourth of the total vehicle production in the country.

Some of the strong growth during the year in review, has perhaps come due to the government's fiscal stimulus package -especially excise cuts that were in force through most of 2009-10. However, as the financial year ended, it became apparent that the growth momentum could be sustained even after excise duties were re-balanced during the Union Budget in February 2010.

Lower interest rates also contributed to higher two wheeler sales during the year in review. Yet at the time of writing, even with rates hardening slightly, the two wheeler industry continues to grow comfortably in double digits.

This is a clear indication of the kind of growth impulses that exist. Consider, for example, the level of consumer confidence. As per the AC Nielsen Consumer Confidence Survey released in July 2010, consumer confidence was highest in India, ahead of other promising emerging economies like Vietnam and Indonesia. Indians emerged the most optimistic globally on all parameters, whether it was with regard to their job prospects, personal finances or attitude towards spending.

Meanwhile, inside India's vast hinterland, there is growing evidence of potential getting converted to demand, thanks to better distribution.

Rising two wheeler demand is also an indication that government schemes at the lower end of the socio-economic pyramid have started having some impact.

Company Performance

During 2009-10, as the economic environment in India improved, your company strengthened and consolidated its hold over the two wheeler market.

Strong support for flagship brands, and strategically timed new launches and variant launches ensured continued dominance in the crucial commuter segment of the two wheeler market.

A series of cost rationalization measures helped your company maintain strong growth in profitability, despite the fact that material costs rose sharply.

Despite the extremely competitive business environment, Hero Honda was able to turn in its best-ever performance during the year in review.

Even with a high base of 3.72 million units in the previous year, your company notched a remarkable growth of 23.6 per cent and ended the year with sales of 4.6 million. Today, your company continues to be the overwhelming leader both in the domestic two wheeler industry and motorcycle segment.

In value terms, total sales increased by 27.9 per cent to Rs.15,758 crores. The Company's earnings before interest depreciation and taxes (EBITDA) margins increased to a record 17.45 per cent. Operating profit (PBT before other income) increased by 64.16 per cent.

The surge in profitability came from better sales realisations, cost rationalisation and optimisation measures. These included better control over material cost, marketing cost and overheads, besides a sharp focus on operational efficiencies.

The robust performance of the two wheeler industry has increased both the stakes and the competitive pitch in the market. Two wheeler manufacturers have increased capacities. They have become more aggressive and are rolling out products faster.

But this has not unfazed your company. I remain confident about your company's future. As I have always done so in the past, I'd rather see the challenges as opportunities to learn, create and grow.

Acknowledgement

I would like to take this opportunity to express my sincere appreciation to our JV partners, Honda Motor Co., Ltd., Japan and

Hero Cycles Limited, Ludhiana for their continued cooperation and efforts in making this venture a most successful one.

I also take this opportunity to express my thanks to the officials of State and Central Government departments, banks and financial institutions for their on-going support and assistance.

Our dealers, customers, ancillaries and vendors have contributed immensely to our growth and we continue to bank on them as we drive into the future.

I am greatly thankful to all our employees for their consistent high-level performance; their commitment to Company goals and for their team effort. Without their complete involvement, Hero Honda would not have reached where it has today.

Finally, I would like to thank you for the confidence you have reposed in the Company as in the past and look forward to your support in the years to come. I once again thank you all for attending this Annual General Meeting of our Company.

Thank you all.

Speech of Dr. Brijmohan Lall Munjal, Chairman at the 27th Annual General Meeting of Hero Honda Motors Limited held at New Delhi on Monday, September 20, 2010.