

Chairman's Speech

2013 - 2014



Hero

Hero MotoCorp Ltd.

Dear Shareholders,

On behalf of the Board of Directors, I heartily welcome you all to the 31st Annual General Meeting of your Company.

Global & Indian Economy

The global economy grew by 3% in CY2013, supported by an encouraging performance from the US economy. However, modest growth in the Euro Zone, Japan and Emerging Market and Developing Economies weighed down economic recovery.

In June 2014, the World Bank cut its global growth forecast to 2.8 per cent from 3.2 per cent in January. This follows weaker outlooks for the U.S., Russia as well as Brazil and China.

A sharp increase of tensions in Ukraine, the Middle East and Iraq clearly poses acute risks to the recovery process. The World Bank has warned emerging markets that the next bout of financial unrest may catch them off guard, recommending smaller budget deficits, higher interest rates and measures to boost productivity.

India went through a difficult period during the year in review. Lean global growth and a sustained period of policy paralysis at the Centre hurt the economy badly. Manufacturing output remained flat or contracted through most of the year. Service sector growth also halved as a result of uncertainty and lower economic activity. The tepid performance of both these sectors offset to a very large extent two excellent agricultural seasons during 2013-14.

Nevertheless, green shoots started emerging during the latter part of the year. Both current account deficit and foreign trade deficit narrowed significantly in the second half of 2013-14. Plus, policy measures to strengthen capital flows in September and October 2013 helped reduce external vulnerabilities.

At the time of writing, there are good reasons to be hopeful and positive about the future. A strong central government with a decisive mandate is in charge, and has already spelt out a pro-growth agenda for the next five years. The business cycle is also showing signs of uptick. As recovery picks up in the next couple of years, I expect India to reclaim its position as one of the most exciting growth markets and investment destinations in the world.

Industry performance

Sluggish conditions ensured a difficult year for the auto industry, and most product categories registered either flat or negative growth. However, the two-wheeler bucked the trend, and grew by 7.1%, from 16.9 million units sold compared to 15.8 million units in FY 2012-13. Along similar lines, motorcycle volumes which account for a major industry proportion grew by 4.3% from 11.95 million units in FY 2012-13 to 12.5 million units in FY 2013-14.

The star performer was scooters, with another year of double-digit growth. Volume growth was pegged at 22.1%, from 3.07 million units in FY 2012-13 to 3.75 million units in FY 2013-14. As in the previous years, sales of moped de-grew by 7.8% from 0.79 million units in 2012-13 to 0.73 million units in 2013-14.

Reversing the downtrend of the previous fiscal, two-wheeler export sales grew by 6.5% to 1.9 million units.

On the downside, the sub-normal monsoons might result in slowing demand in semi rural and farming belts. However, the company is bullish on overall prospects.



With the new government extending the current excise duty rate till December 2014, your company is hopeful that it will provide the necessary impetus to fuel growth in the coming months.

Company Performance

During the Financial year (FY) your Company clocked the sales of 6,245,960 units depicting an increase of 2.8% over the previous FY 6,075,583 units. The total sales of products (net of excise duty) was increased by 6.5% to Rs. 25,125 crores in the FY under review from Rs.23,583 crores in previous FY.

Net Revenue from Operations of the Company increased by 6.3%, from Rs. 23,768 crores in FY 2012-13 to Rs. 25,275 crores in FY 2013-14.

Profit Before Tax (PBT) has shown an increase of 13.37% from Rs. 2,529 crores in 2012-13 to 2,867 crores in 2013-14. The Company's Profit After Tax (PAT) decreased by 0.4% from Rs. 2,118 crores in 2012-13 to 2,109 crores in 2013-14. Earnings before Interest, Depreciation and Taxes (EBIDTA) margins stood at 14.01% in FY 2013-14 as compared to 13.82% in FY 2012-13. Similarly the operating margins stood at 9.62% in FY 2013-14 as compared to 9.02% in FY 2012-13.

During the year under review your Company successfully launched the upgraded models of HF Dawn, HF Deluxe, HF Dlx Eco, Passion Pro, Splendor Pro, Splendor Pro Long Seat, Super Splendor, Glamour, Glamour FI, I smart, Pleasure IBS and Pleasure Upgrade. You will be delighted to note that "Splendor" continues to be the largest selling brand in FY 2013-14 as well with 19.6% market share coming from sales of 1,967,006 units.

Though the market share declined from 38.4% in the previous year to 36.4% in the financial year under review, the Company has retained its position as the World's largest two-wheeler manufacturer Company for the 13th year in a row.

At the time of writing, Hero's performance in the new financial year remains strong, with your company selling over 1.7 million units, compared to 1.5 million in the previous year.

International Focus

In 2013-14, the Company despatched its first ever consignment of 'Hero' brand two-wheelers in the International arena to Central America (El Salvador, Guatemala and Honduras), South America (Peru), East Africa (Kenya) and West Africa (Burkina Faso and Ivory Coast) which were well received by the customers.

The Company forayed into Central America in May 2013 through a partnership with IndyMotos Group of Guatemala. This relationship is also responsible for the forays in El Salvador and Honduras. The Company inked another relationship in August 2013 with the EFE Group in Peru to sell a range of products in this country. In February 2014, the Company made its debut in Turkey through a partnership with AsyaMakina (Asya Dis ticaretvemarkina san ltdsti) – a subsidiary of the Soysal Group.

The Company also set up an International Assembly unit in Nairobi (Kenya) in July, 2013. It is collaborating with RYCE EAST AFRICA, to bring its two-wheelers to this country. Under the alliance, Sameer Group, which is a part of RYCE EAST AFRICA, is distributing Hero MotoCorp products in Kenya.

During the new financial year, your company entered two crucial markets, Bangladesh and Columbia. In April 2014, Hero MotoCorp entered into a joint venture with Bangladesh's Nitol Niloy Group to assemble and market a range of bikes. In July 2014, Hero MotoCorp strengthened its presence in Central America by commencing construction of its fully-owned manufacturing facility in Columbia.

Technology Vision

Hero began developing an R&D ecosystem from ground up eighteen months ago. This has flowered remarkably. Our relationships transcend the two-wheeler chain, from designs and engines to fuel injection systems. To add more muscle and meaningful traction, Hero entered into equity partnerships with two technology providers during the year: Eric Buell Racing of the US and Magneti Marelli of Italy. Working across locations in India, US and Europe, these global partners have joined hands with Hero's Team R&D to breathe new life into our existing portfolio, besides proto-typing a line of next generation products.

Acknowledgments

All our stakeholders, including our customers, employees, investors, vendors and dealers strongly supported and endorsed the Brand, as we bravely course through a period of transition, which has been extremely successful.

I also take this opportunity to express my thanks to the new technology partners who have come on board and are helping Hero fulfil its vision of becoming a global leader in two-wheeler technology.

I would also like to thank officials of State and Central Government departments, banks and financial institutions for their on-going support and assistance.

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

I am immensely 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 MotoCorp Ltd. would not have reached where it is today.

Finally, let me thank you, dear shareholders, for your wholehearted and unflinching support over the past years. You have bestowed us with the conviction, strength and courage to prepare for, and face, the future. As we march ahead, I know I can continue to rely on your support to strengthen the Brand "Hero" in India and across the world.

I once again thank you all for attending the 31st Annual General Meeting of the Company.

Thank you all.

**Speech of Mr. Brijmohan Lall Munjal, Chairman (DIN No. : 00004134)
As the 31st Annual General Meeting of Hero MotoCorp Ltd.
held at New Delhi on Tuesday, August 5, 2014**