

Chairman's Speech

2011-12



Hero

Dear Members,

On behalf of the Board of Directors, I heartily welcome you all to the 29th Annual General Meeting of your Company since embarking its most exciting and crucial phase of its journey.

Macro Realities and Perspectives

Domestic and global factors ensured that economic growth slowed down significantly during 2011-12 after two strong years. Global macroeconomic and financial uncertainty, weak external demand, elevated level of prices, widening twin deficits and falling investment combined to adversely affect the growth. Structural weaknesses, in the form of policy uncertainty, inflation and rising interest rates weakened the growth environment further.

Though India outperformed most of its peers in terms of growth, its potential and actual growth slowed.

After tightening monetary policy till October 2011, the Reserve Bank paused hiking policy rates, and effected a cut in March 2012. However, the growth rates remained weak at the time of writing.

Industry performance

Despite the short term uncertainty in the economy, the increased consumer appetite for two-wheelers is especially promising. According to the data received from Census 2011, the share of Indian households owning two-wheelers spurted to 21%, having risen from 12% indicated in Census 2001. Not surprisingly, the two-wheeler industry continued to defy gravity and the base effect. During the year, more than 15.4 million two-wheelers were sold, recording a growth of 15% compared with 13.4 million units sold a year earlier. Each of the three industry segments posted double-digit growth.

Continuing the trend witnessed in the last few years, scooters emerged as the fastest growing segment in the two-wheeler



industry. The segment grew 24% with annual sales of 2.7 million, inching close to the 3-million mark, compared with 2.2 million scooters sold in the previous year. Motorcycle sales grew 14% to 11.9 million units. Domestic motorcycle sales crossed the 10 million mark during the year, compared with 9 million units sold earlier. Moped sales jumped 12% from over 0.70 million units to over 0.78 million units.

Brand is Reborn

We launched our first bike under the Hero brand name; till date, three new models have been launched. The Company's entire portfolio of products will get re-branded by September 2012, well before the June 2014 deadline set for ourselves.

In its solo flight, Hero has overcome the high-base effect of the previous year and weathered the country's ongoing challenging business environment. It was a year in which interest rates peaked, inflation remained stubbornly high, the rupee weakened and consumer demand petered out. Even so, nearly six-and-a-quarter million customers remained undeterred and reposed their faith in Brand Hero.

It was purely this faith of our customers, which enabled us to increase our market share and outperform the industry. Well, it wasn't just our customers who demonstrated their unrelenting faith in us. Our eyes and ears in the market – our extensive dealer network – also showcased their unflinching support. In fact, we began the year with over 4,700 touch-points and gradually spread across the country to end the year with over 5,100 touch-points.

This strong endorsement from our customers and channel partners is what encouraged us to try and replicate the Hero success story overseas, especially in markets similar to ours. Brand Hero is set to capture the nation's heart in the same manner as Hero Honda did for as long as two-and-a-half decades.

We are now going through a very exciting and dynamic period, where skills, technologies and scales are getting built and developed for this decade, and the next.

Company performance

In its new Avatar, the Company notched 15.41% growth in sales of over 6.23 million units in this financial year compared to 5.40 million units for the last financial. During the year, the Company not only retained its position as the World's largest Two-Wheeler manufacturer Company but continued to lead with the domestic market share of around 45% vis-a-vis 44% last year.

In the domestic scooter market, the Company sold over 0.41 million units of its popular brand Pleasure — a 22% year-on-year growth, with a market share of 16%. It successfully launched a new 110cc scooter 'Maestro', strengthening a steadily growing presence in the gearless scooter segment.

To summarise the monetary performance of the Company, the total sales (net of excise duty) increased by 21.42% from Rs. 19,245 crores in 2010-11 to Rs. 23,368 crores and similarly Net Income from Operations grew by 21.55% to Rs. 23,579 crores from Rs. 19,398 crores in 2010-11.

The Company's Earnings before Interest Depreciation and Taxes (EBITDA) margins stood at 15.35% in 2011-12. Profit before Tax increased by 19.13% from Rs 2,405 crores in 2010-11 to Rs. 2,865 crores in 2011-12. The operating margin stood at 10.69% in 2011-12 as compared to 11.39% in 2010-11. The Company's Profit after Tax (PAT) increased by 23.35% in 2011-12.

Global ambitions

As promised on earlier occasion, we have taken significant first steps to establish Brand Hero globally as we are not satisfied at just being India's market leaders.

We endeavour to build the brand equity globally by sponsoring international motor sports. Steps have already been initiated to foray into select Central & Latin America and Africa. Initially, the focus is on the markets where the volumes are large and where the existing products of the Company can be exported without major changes. To reiterate, the Company anticipates a growth of at least 25% in the export market.

Technology blueprint

To sustain our efforts to emerge as a global player, we are in the process of setting up a new International Business organisation. As we had promised in our message last year, we have taken rapid strides to create a technology platform and an R&D ecosystem. Necessary blueprint has been finalised to bring into reality one of the India's largest Auto Industry Technology & Integrated R&D Centre near Jaipur.

This facility once established would have labs for components, engine and complete vehicle testing more specifically variety of test tracks, emulating the actual road conditions prevailing in India and other parts of the world, apart from the requisite infrastructure facilities. Moreover an advanced design studio with the most up-to-date software for design and simulation would also be created.

The Company has tied up with AVL, Austria, a global leader in engine design and development, to develop different categories of engines and US motor biking firm, EBR.

As stated in my earlier speech, the Company proposes to raise the bar by bringing in technologically-advanced two-wheelers with value-added features in the financial year 2013. In this direction and to be able to meet growing demand for the products, the Company has initiated to enhance the capacity at its three existing plants. A state-of-the-art Parts Centre would soon be established to cater to the rising volumes. The existing distribution network would be strengthened with these initiatives in pipeline.

True to Charles Darwin's Theory of Evolution, that it's not always the strongest species that survive, nor the most intelligent, but the ones who are the most receptive to change. Having tasted success in our first full year as Hero, I would like to take inspiration from the power of these words as we soar into the future.

Acknowledgments

The renewed journey of Brand Hero embarked has been extremely successful. 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.

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, investors 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 MotoCorp Ltd. would not have reached where it is today.

Finally let me thank you, dear members, for your whole-hearted 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 29th Annual General Meeting of our Company.

Thank you all.

Speech of Mr. Brijmohan Lall Munjal, Chairman
at the 29th Annual General Meeting of Hero MotoCorp Ltd.
held at New Delhi on Monday, September 10, 2012.