

Chairman's Speech

2002

Ladies & Gentlemen,

On my own behalf and on behalf of the Board of Directors, I welcome you all to the 19th Annual General Meeting of your company. The annual report of the company has already been provided to you and I hope you all have gone through it.

It is 12 years since the first Managing Director Shri Raman Munjal left us. It was his dream that Hero Honda emerged as leaders in two-wheeler industry. Your company did practice his vision – filled guidelines and the company achieved the distinction of being largest single manufacturer of motorcycles in the world in the calendar year 2001 and consolidated its position during FY 2001-02. This landmark is a tribute to him and his deeds and words continue to guide us in all our future endeavours.

MACRO ECONOMIC SCENARIO

The year gone by can be termed as the most disturbing year. The attack by terrorists in US, India and other parts of the world has played havoc with life and property of people at large. The heart rendering stories of communal riots in Gujarat and warlike situation that prevailed for quite some time in northwestern parts of India with her neighbours has hurt the growth prospects for India. The GDP growth rate was a moderate 5.4% in FY 01-02. The industrial slow-down also continued and services sector growth too declined in the same period. Only agricultural GDP performed better compared to the previous year and recorded 5.7% and 8.2% respectively for agricultural output and food grains. In all, the year was subdued in terms of sentiment and that is reflected in the rallies of the Indian stock market. As per available estimates, the economy is likely to grow at 5.5% for the coming year, i.e. 2002-03.

AUTO INDUSTRY

Automobile industry has a mixed rally in terms of production performance. The overall growth for the year 2001-02 over the previous year was 13%. Passenger cars and MUVs together recorded a production growth of 7%. The growth of heavy vehicles was low at 3.5%. The LCV's however registered a negative growth during the year.

The two and three wheeler industry braved the slow down and recorded a growth of 16% for the year 2001-02. Within the two-wheeler industry, motorcycle segment grew at a phenomenally high rate of 35% as against a deceleration of 3% for scooters and 27% for mopeds. In fact, motorcycle has been taking away the share of scooters and mopeds in a 4.3 million two-wheeler market and surging ahead with its market share of 68%. The increasing demand from semi-urban and rural segments may have caused this positive shift towards motorcycles. Also, easy credit coupled with low interest rate regime, constrained personal transport, increasing income levels in middle class and higher aspirations of young people all seem to be the factors responsible for such high growth in two-wheelers. The growth in two-wheelers has been robust enough to counter the slow down and other factors constraining the overall business activity in the country. Also, rationalization of excise duty in the Union Budget 2001-02 had a positive impact on the demand for motorcycles. We also expect the motorcycles to continue to lead the two-wheeler segment like in all other Asian

countries. Available forecasts suggest that this trend would continue for another couple of years and the industry would record nearly double-digit average annual growth up to 2006.

During the year, there have been important developments in two-wheeler industry. The competition has strengthened though there are hardly any new entrants into the industry. There is an increasing emphasis on price and this has led to cost cutting efforts all across the industry, thereby, making the customer an ultimate beneficiary. The trend also saw introduction of new motorcycles with capacity arranging from 100 to 180cc bikes. We anticipate that many more new models will be launched during the year and provide customers plenty of choice at competitive prices.

COMPANY PERFORMANCE

(a) Sales Performance

It is my privilege to share with you the fact that by the end of the calendar year 2001, Hero Honda became the largest single two-wheeler manufacturer in the country and also in the world. The leading edge got consolidated by the close of financial year 2001-02 with a record sale of 1.43 million units. This is equivalent to 35.2% growth on the previous year sale of 1.03 million units. In the same manner, the market share of the company increased to 48% and 33 % in motorcycles and two-wheelers, respectively.

Last year, two new models were launched, namely *Passion* and *Joy* to address super-style and economy segments. *Passion* has found its position firm amongst Indian models, only next to *Splendor*, the largest selling bike in the world in terms of sales performance. Joy was re-launched as *Dawn*, in April 2002, with changes and value additions to cater to specific needs of the customers. Reportedly *Dawn* is doing well in its segments and has sold over 10,000 units in the initial months itself.

Hero Honda has targeted a sale of over 1.8 million bikes for the year 2002-03. This effort is supplemented by two major launches this year, one in September and the other coinciding with World Cup Series in early 2003, which is being sponsored by Hero Honda Motors Ltd. These bikes will have some novel features and will be in the 100cc plus range. There is an ambitious programmed of launching a new range of bikes with technical support from Honda in the coming years.

With slew of such measures the capacity available at present locations can at best support two-million production target at the existing plants. The company, therefore, is looking at the possibility of setting up a third plant to meet the future demand and for which techno-economic study is in progress.

(b) Financial Performance

As mentioned in my last years' address the focus of the company has been on the cost efficiency and the creation of shareholder value. The financial performance during the year is a clear testimony of our resolve in achieving our objective.

The turnover increased to Rs. 4539.5 crore in 2001-02 as against Rs 3193 crore in 2000-01, which is an increase of 42%. Similarly net profits went up to Rs 463 crore as against Rs 247 crore in the same period thereby recording an impressive year on year growth of 88%. On the basis of good

sales performance and efficient management of resources all the parameters of performance such as economic value added (EVA), Return on Average Capital Employed (ROACE) and Free Cash Flows (FCFs) have shown remarkable improvements.

NEW INITIATIVES

Customer and customer satisfaction is the purpose our being an entity. To increasingly understand him and make him part of our ongoing business we have launched a unique CRM Program called Hero Honda Passport Program. The passport holders not only get concessions on parts and spares but also enjoy the benefit of company organized cultural and sports events. So far six lakh Hero Honda owners have been made members and we would like to soon get to a million figure. Some more initiatives on the aegis of Passport Program are planned for the year 2002-03.

Another customer related initiative has been the increase of warranty period to two years since July 2001. This has attracted a great deal of customer attention.

During the year the company has added nearly a hundred dealerships and SSPs. In terms of sheer numbers, the network has grown by 16% during the year 2001-02. We would endeavour to increase our reach to every corner of this country.

On the operation side after the successful launch of ERP (SAP) last year, the company has now taken up its extensions to cover, Human Resource division this year. Also, under consideration of extending the network to dealers, vendors and other associates. The idea is to increase the network capability to bring about efficiency in operations and also in our response to changes in the market.

ACKNOWLEDGEMENT

I would like to acknowledge the efforts, support and valuable guidance of my colleagues on the Board. I would also like to take this opportunity to inform you that Mr. Pawan Munjal, Executive Director of the Company has been elevated as the Managing Director and Mr. A Kazusa of Honda Motor Co. has been nominated as Joint Managing Director. We welcome them and wish them a very satisfying tenure.

I would like to express my sincere appreciation for Honda Motor Co., Ltd., Japan and Hero Cycles Limited, Ludhiana for their continued co-operation and efforts in making this venture a most successful one. I also take this opportunity to express my thanks to the officials of various institutions of State and Central Government Departments, banks and financial organizations for their on-going support and assistance.

Our dealers, customers, ancillaries and vendors have contributed to all our efforts. It would, therefore, be very pertinent to thank them for their continued co-operation.

I am greatly thankful to all our employees for their consistent high level of performance, commitment for Company goals and for their team effort. Without their full involvement this kind of performance would not have been possible.

Finally, I would like to thank you for the confidence you continue to repose in the company and look forward to your support in the years to come. Once again, thank you all for attending this Annual General Meeting of our Company.

Thank you all.

Speech of Mr. Brijmohan Lall Munjal, Chairman at the Nineteenth Annual General Meeting of Hero Honda Motors Limited held at New Delhi on Monday, August 12, 2002.