

# Chairman's Speech

## 2001

### **Ladies and Gentlemen,**

On my own behalf and on behalf of the Board of Directors, I welcome you all to the 18<sup>th</sup> Annual General Meeting of your Company. The Annual Report of the Company has already been provided to you and I hope that all of you would have gone through the same.

Firstly, I would like to condole the death of people in the Gujarat earthquake. It was a great loss to the country and to all the affected families. Our own dealer friend from Gandhidham died in the disaster. It is the solemn duty of all of us to contribute in our own way towards rebuilding and resettlement activities in that area.

### **IN PURSUIT OF EXCELLENCE**

At Hero Honda, the pursuit of excellence is a continuous journey. The Company recognises technology, systems, quality and human resource as the key drivers to achieve that goal. Besides it endeavours to maintain high standards of ethics and be responsive to its social responsibilities. Late Raman Kant, who led the company to a credible standing, laid foundations of good governance. His leadership and deeds continue to inspire us in our sustained efforts to achieve our goals.

### **INTERNATIONAL CONCERNS**

The world political and economic scenario remained stable but depressed during the year 2000-01. The emergence of the new economy had changed the pace of the activity in the past few years but a sudden slowdown, has caused compression in world trade with a telling effect on export oriented economies- particularly the Asian economies. Their modest recovery in the last two years has again been followed by a slump this year. Two of the World's major economies namely US and EU have slowed down considerably and this is a serious cause of worry.

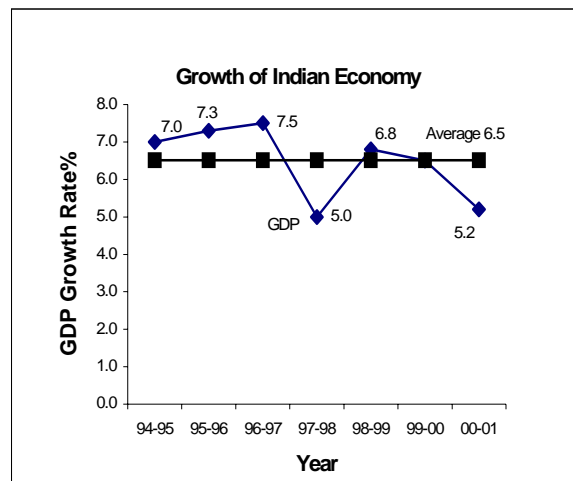
While preparing for recovery, economies all over the world are raising issues and charting arrangements for a new round of multilateral trade negotiations. China is clearing its way to the WTO and with its record of fast growth, it has emerged as a new economic leader in the

subcontinent. At the same time, India has engaged its energies to cope up with the pace of globalisation on one hand and ensuing economic slowdown on the other.

## NATIONAL CONCERN

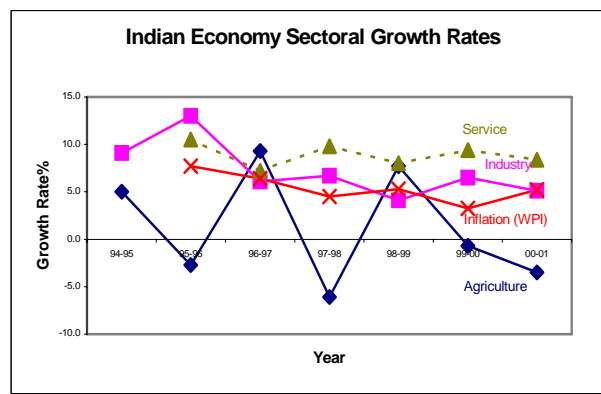
The whole of 90s has been an eventful decade for India; its GDP growth was exceptional. GDP growth went up to an annual average of over 6% during 1992-00 from the Hindu Rate of Growth of 3.5%. A 13 year golden phase of normal Monsoon aided this growth followed by a very healthy growth of service sector, which today contributes nearly half to India's national income.

The period 1998-2001 has been a decelerating one, since the annual GDP growth declined from 6.8% in the 1998-99 to an estimate of 5.8% in 1999-2000 and further down to 5.2% in 2000-2001.



This decline has been due to the combined effect of deceleration in all segments of the economy including services. This performance is also low compared to the target of the government (Planning Commission) to achieve 8-9% annual growth in GDP to enable faster growth in per capita incomes.

What is required in such a situation is a stimulus to the economy through investments to revive the demand and growth. This is because investments and growth have a strong relationship. The other ingredients for growth namely, interest rates and inflation at present are favourable. The experience however has been that the investments have been coming down since 1996. Increase in the expenditure of the government and reduced tax-GDP ratio, are responsible for low growth in the gross capital formation in public sector.



As far as agriculture is concerned, there is “problem of poverty amidst plenty”. While stocks of food grains mount, there are areas where people still lack sufficient nutrients to support their livelihood. Also, Indian agriculture is too much biased towards food grains rather than diversifying into horticulture and other allied activities. Perhaps, there is a need for sectoral policy review, so that, such biases are eliminated.

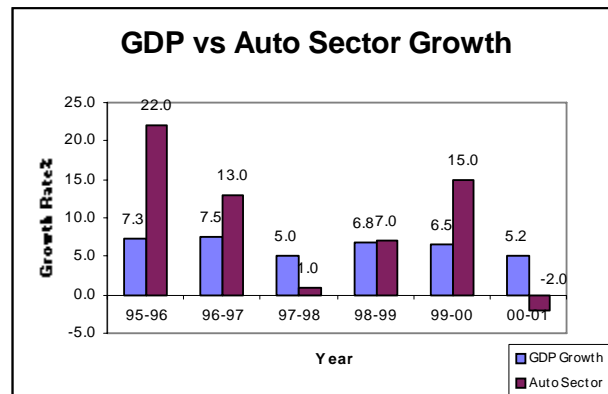
Industry, aided by liberalisation policies, expanded capacities and registered a healthy growth during the first half of the 90s. In the process, the capacity creation has been much in excess of the market requirement. Concurrently the industry has been undergoing structural changes. This adjustment phase has now coincided with increased competition from within and overseas plus the downturn in the business. This has manifested in lower growth in industrial output. At present more than half of the industrial segment is showing continued signs of deceleration.

An investment boost in infrastructure will revive the industry. Proactive measures of the government on infrastructure are slow although some investment provisions and tax concessions have been announced in the Budgets of 2000 and 2001 in this sector. The remedy however calls for strong government intervention.

Banking and insurance sectors in India are undergoing considerable change. Banking industry, in particular, is trying to grapple with difficult situations arising out of rising NPAs and rising cost of administration. Being overstaffed and with reduced returns from its portfolio of investments, banks are under pressure to perform. Insurance sector, on the other hand, is preparing to make its mark, as this market is now open for new entrants. With low penetration India has a large scope for insurance sector growth. Banks too are trying to enter the insurance foray. It will be interesting to see how as a result of competition the consumer gets the benefit in terms of coverage and range of products.

## **AUTOMOBILE SECTOR**

Automobile industry, like the other industries, is affected by slow down in the economy. The industry registered a negative sales growth of 2% in terms of volume and 6% by value in 2000-01. All segments except motorcycles and multi-utility vehicles registered negative growth. Cars and commercial vehicles segment, which made remarkable recovery last year, registered a negative sales growth of 8% and 15% respectively this year. Strong currents of slowdown continue to affect the industry and it is too early to predict the turnaround time.

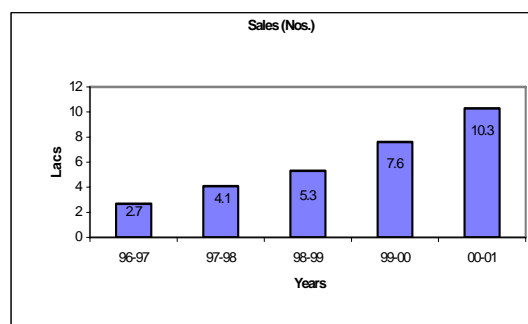


As far as two-wheeler segment is concerned, as against the previous year's growth of 11%, a moderate 3% growth was registered in the financial year 2000-01. This was possible basically on the strength of high growth in motorcycle segment, which grew by an impressive 20%. In contrast mopeds recorded a negative 5% growth. Scooter sales also, declined by a whopping 28% during the year. With market share changing across the segments and the individual players, competition has heightened in two-wheeler segment. Most activity is happening around motorcycles. Ten new motorcycle models have been introduced in the last 15 months.

## COMPANY PERFORMANCE

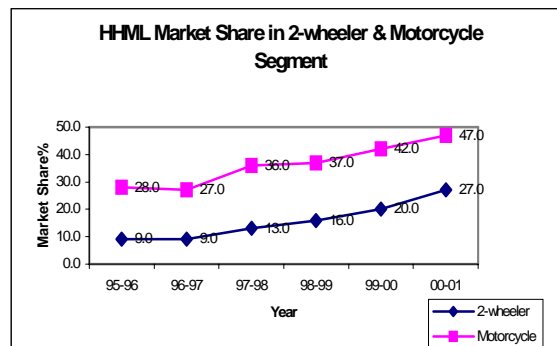
### (a) Sales Performance

Your company continues its leadership stance by recording another impressive performance during the year. The Company achieved the distinction of accomplishing "project OM" and sold over one million motorcycles that is 1,029,510 during the year. This is 35% higher than the sale of 761,623 vehicles last year.



Hero Honda also launched two new models namely “*Passion*” and “*Joy*” to widen the range of products available to the customers. These have been received well in the market. At the same time company’s most sought after and World’s largest selling model Splendor achieved a record sale of 692,757. The recently introduced CBZ(ee) (being a popular bike in its range). As per the reports, *Passion* and *Joy* have been well received in the market.

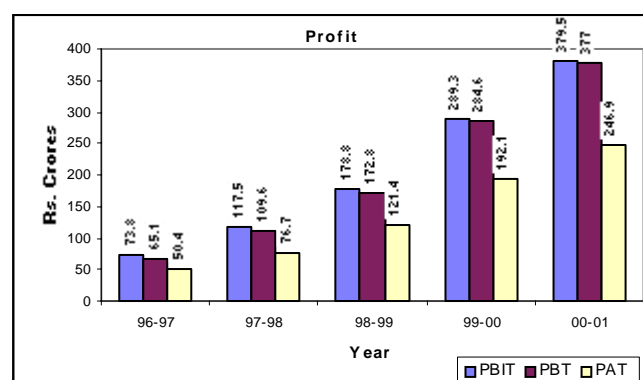
In the first quarter of 2001-02, your company has achieved a sale of 306930 motorcycles, which is 28% higher than the sales achieved in the same period previous year. With the rise in the share of motorcycles in two-wheelers Hero Honda market share in two wheelers and motorcycles has gone up to 32% and 50% respectively from 26% and 48% in the quarter ended June 2000. Your



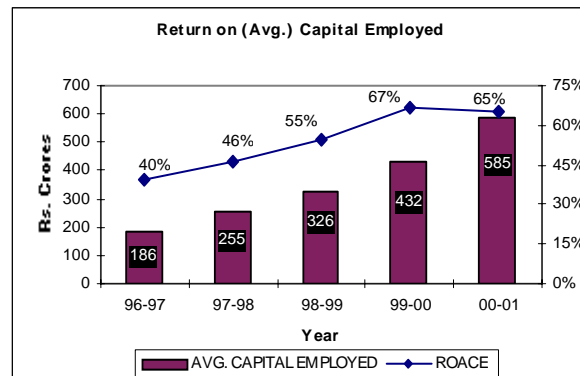
company would like to sustain and consolidate this leadership position in two wheeler market further, by introducing more new models and enhancing marketing efforts in the coming years.

## (b) Financial Performance

It is a privilege for me to inform you that in line with sales performance, the turnover and profits of the company have gone up by 41% and 28% respectively, over the last year while sustaining the operating profit margins at 11.7%. There has also been sustained high growth achieved in respect of return on capital employed and economic value addition thereby indicating the efficiency of the enterprise. Hero Honda has now the distinction of being a “debt free company”.



We endeavour to continue our improved performance in terms of efficiency and income growth in coming years.



## NEW INITIATIVES

Your company has successfully implemented and stabilized the ERP programme in a record period of 10 months. With the systems in place, the planning and efficiency in the operations and processes would improve. The programme is now being extended to softer areas like human resource development and supply chain. Eventually, at the front end it would cover the entire dealership network.

Another area where your company is concentrating is the cost efficiency. This is essential if the company is to maintain its leadership as well as competitive edge. The competition today is different, that it not only covers technology but also price and product advantages. To generate a comfortable margin under such conditions warrants constant efforts, in achieving cost advantage and introduction of new models at desired intervals.

In this respect, it may be pertinent to mention here that President of Honda Motor Co., Ltd., Japan, Mr H Yoshino while unveiling “Joy” pledged the continued support of his company to Hero Honda in all aspects, including delivery of technology/models as per the market requirement and in furtherance of business.

## CORPORATE CITIZENSHIP

As a responsible corporate entity, Hero Honda has taken up socially beneficial projects in the areas of educational, health and other social services. I am happy to inform you that over the last two years nearly 10,000 families had been benefited from our development activities. Your company

has also participated in its own humble way in the relief programmes in Gujarat. Its medical team and the task force for relief measures toured the affected areas of the state identified and helped needy families. I thank all the stakeholders who helped us in the execution of relief work with men and material.

## **ACKNOWLEDGEMENT**

I would like to acknowledge the efforts, support and valuable guidance of my colleagues on the Board. Also, 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 various 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 also contributed to our growth efforts and on this occasion it would be very pertinent to thank them for their continued co-operation as well.

I am greatly thankful to all our employees for their consistent high level 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 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, ladies and gentlemen.

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**Speech of Mr. Brijmohan Lall Munjal, Chairman at the Eighteenth Annual General Meeting of Hero Honda Motors Limited held at New Delhi on August 10, 2001.**