

Chairman's Speech, Hero Honda Motors Ltd., 2009

Ladies and Gentlemen,

On behalf of the Board of Directors, I welcome you all to the 26th 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 ENVIRONMENT

The world is travelling through its most barren road in seven decades, but the worst seems to be over. According to the IMF, while the global economy is projected to contract by 1.4 per cent in 2009, it is expected to rebound gradually thereafter, and expand by 2.5 per cent in 2010.

There is now greater resolve among world leaders to ride this crisis as a team—which is quite unprecedented. At the recent G-20 conference in London, heads of financial ministers and heads of federal banks were close to completing the delivery of \$850 billion of additional resources agreed in April, including a plan to support social protection and safety nets, boost trade and safeguard development in low income countries. This should boost the process of recovery across the globe, not only in the West, but also in under developed countries especially in Africa.

IMPACT ON INDIA

A rapid integration with the global economy ensured that India experienced the knock-on effects of the global crisis. During the year in review, India's financial markets – equity market, money market, foreign exchange market and credit market –all came under pressure mainly because of drying up of global finance, drying up of domestic capital finance and lower corporate earnings.

There were two dimensions to the economic slowdown. In the first half of the year in review, inflation ran into double digits as a result of the global crude shock and the global food grain shortage. To control inflation, the RBI clamped down on money supply, and reduced liquidity in the economy. By the time inflation started coming under control, domestic interest rates started shooting up. Meanwhile, the global crisis erupted, putting further pressure on liquidity levels.

By the second half of the year, slowdown was clearly apparent in export-intensive sectors, both in the manufacturing and service side. By December, the slowdown turned into de-growth. The cutback in demand from Europe and the US was so sharp that even a competitive rupee, which devalued by around 12 per cent during the year, couldn't act as a buffer.

India ended 2008-09 with GDP falling from over 9 per cent in the previous year to a little over six and a half per cent.

STAGING A RECOVERY

Today, however, India has been one of the first countries to stage a recovery. In the first quarter of 2009-10, Indian GDP grew in excess of 6 per cent—compared to 5.8 per cent in the previous quarter. This compares with 0.3 per cent growths posted by Germany and France, two countries in Europe where the recession is believed to have ended.

India's growth resilience today is being equated with China's. This is an important development. Even eighteen months ago, India's ability to catch up with China was questioned. With China easily clocking double digit growth rates, it was assumed that India would take a few more years to come close. Now, as China's export-centric economy struggles on the

one hand to cope with dwindling global trade, and on the other, tries to grapple with a potential bubble in its real estate and stock market, the baton of providing the world sustainable growth in the short term has passed to India.

GREEN SHOOTS

- Purely from an investment and growth perspective, few countries in the world today are as business-ready as India is. Green shoots are clearly visible in different productive sectors in the Indian economy. For example, in the first quarter of 2009-10:
- The service sector grew in excess of 9 per cent—in line with the trend of the previous five years. This growth is important, since, according to the Reserve Bank of India, the service sector's share of aggregate GDP now makes up more than 64 per cent of GDP.
- Crucial infrastructure sectors also turned in steady performance. The mining sector grew at nearly eight per cent, electricity production grew at over six per cent, and the construction sector grew in excess of seven per cent. These are important numbers, since these industries create ballast for other sectors of the economy.
- The government has created conditions to ensure that India's overall savings rate (close to 38 per cent of GDP) remains high, and continues to grow. High savings in India are creating a vital corpus for mobilising investments in critical areas such as infrastructure, and for fuelling domestic growth.
- Global capital flows are strong. NRI deposits, FII portfolio inflows and inward FDI flows have generally been strong in the first quarter, as against the net capital outflows witnessed in the last two quarters of 2008-09. With a resilient domestic economy and the prospects of a stable five-year government, India is better positioned than most other Asian markets to attract global capital from different sources, which include not just FDI and FII flows, but also sovereign wealth funds and also from long-term insurance and pension assets and infrastructure funds.

GOVERNMENT PROJECTS ADD TO GROWTH MOMENTUM

Ongoing government investments very clearly emphasise inclusive growth through improved connectivity, job-creation and improving quality of life. The rural road outlay has been upped by close to 60 per cent, the budget for the Urban Renewal Mission has been hiked by 87 per cent, and fund allocation to the ongoing National Highways program has been upped by 23 per cent.

Importantly, India has added fresh impetus to its flagship job creation program for rural India: the National Rural Employment Guarantee Scheme. During 2008-09, this scheme, which provides 100 guaranteed days of work a day for the country's rural poor, provided employment opportunities to more than 44 million households last year; a year ago, 33 million households were covered.

These measures are significant. In the coming years, they will help India's poor to graduate from the economics of necessity to the economics of gratification, and hugely benefit companies like Hero Honda, which are in the business of providing affordable transport.

INDUSTRY ENVIRONMENT

It wasn't an easy year for the two wheeler industry. Rising interest rates and the economic slowdown resulted in delayed

consumer decision making and a rise in loan defaults. Over the course of the year, banks withdrew financing facilities from satellite towns. The share of financing, which had increased rapidly to 50-60 per cent of the total retail sales by early 2007, has now come down to below 30 per cent.

This came as a major setback for the two-wheeler industry.

COMPANY PERFORMANCE

Hero Honda went against the grain and created a growth trajectory all of its own. Sales of the company grew by over 11 per cent in volume terms and in value terms, they grew by over 19 per cent.

Effectively, this helped your company end the year with a market share of around 60 per cent. This robust performance helped your company increase earnings margin 120 basis points—a remarkable feat, considering that elsewhere in the world, the automobile industry went through its worst year in recent history.

Hero Honda's performance in its silver jubilee year helped it retain its position as the world's largest two wheeler company for the eighth year in a row. It also helped your company cross the 25 million unit mark—becoming the first company in India to reach this milestone.

Your company has been able to reach these summits because it acted on several fronts together. While plunging commodity prices certainly helped your company prune manufacturing costs, costs were controlled on a war footing elsewhere along the front end and the back end of the supply chain. At the same time, your company continued supporting and strengthening all key flagship brands.

Throughout the year, we continued a strong emphasis on market development and customer focus: your company upgraded, added features and introduced new product lines to continually create excitement in the two wheeler market.

As I mentioned last year, our objective as a company has been to develop across both India and Bharat. The results have paying rich dividends. It gives me great personal satisfaction to see that over the course of my lifetime, I am witnessing the gradual but sure evolution of people living in India's villages and small towns: till even a decade ago, they were strugglers and survivors. Today they are aspirants and consumers. Hope is the most powerful engine that is driving India today.

Because of this, I remain confident about the near term future. Of course, there will be challenges ahead. But as I have always done so in the past, I'd rather see the hurdles as opportunities to learn, create and grow.

Over the next 12 months, the two-wheeler environment will become much more competitive. There will be more competition on price, on technology, on models, on styling and on design, and a lot of it may happen in our mainstay segment. We welcome this emerging competition, since it will provide us with an opportunity to excel and exceed ourselves.

Your company is also well aware about the anticipation over low- cost cars. These will be good for India. Nevertheless, there is little doubt that the two-wheeler which will continue to remain the vehicle of choice in India. Low running costs,

easy navigability and low maintenance costs ensure that two wheelers outsell cars in a 10:1 ratio today; these factors will continue to drive sell in the coming decades as well, given India's high population and rising, but still modest levels of household income.

Besides, there are more than seven million new bicycle users every year in India, and most of them aspire to upgrade to two-wheelers. The growing aspirations, expanding road networks and growth of satellite townships across India are some of the factors that will spur demand for two-wheelers in the near and medium term.

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 Mr. Brijmohan Lall Munjal, Chairman at the 26th Annual General Meeting of Hero Honda Motors Limited held at New Delhi on Tuesday, September 22, 2009.