



Chairman's Speech

2017 - 18



Hero



Hero MotoCorp Ltd.

Dear Members,

On behalf of the Board of Directors, I heartily welcome you all to the 35th Annual General Meeting of your Company.

We are living in a world of rapid socio-economic change, driven by technology and innovation. The critical drivers of growth, such as manufacturing, communication and transportation etc., are undergoing phenomenal transformation, thanks to the advancement in modern science and technology.

Consequently, our world has virtually turned into a global village, driven by easy and convenient access to data and information, breaking down geographical barriers.

Over the past few years, all these have led to a growing awareness of air quality, sustainable environment, carbon emission, green house effects and similar concerns. With increasing need to reduce carbon footprint across the globe, electric transportation has, therefore, become an environment-friendly alternative.

Governments around the world are trying to bring down the pollution levels by enforcing stricter emission norms, levying heavier tax on the purchase of automobiles and providing special concessions or subsidies for the purchase of electric vehicles (EVs). Continuous research and development by manufacturers is also driving advancement in battery technologies with longer life.

Amidst all the path-breaking changes across the globe, our company scaled new heights, with 'customer satisfaction' at the core of our philosophy and practice.

Thanks to the teeming millions of our satisfied customers, Hero MotoCorp set a new global benchmark - 7.59 million unit sales of motorcycles and scooters in FY'18 thereby consolidating our strong market leadership.

It was a great year for us with positive developments across functions, which are aptly reflected in our profitability and topline growth during the year.

Future Ready

At Hero MotoCorp, we are cognizant of the latest trends and constantly equipping ourselves with new technologies to be able to stay ahead of the curve.

Deeply embedded in our culture is an intense desire to make a difference in the lives of our customers by staying sensitive towards their ever-changing needs. Our engineers at the Centre of Innovation and Technology (CIT) the R&D centre at Jaipur in the northern Indian state of Rajasthan are, accordingly, working on multiple projects of future mobility solutions, including a range of motorcycles with higher engine capacities, scooters and Electric Vehicles (EVs).

In FY'18, we continued to augment our product portfolio with the introduction of various new models across segments. We also showcased a range of new products including motorcycles with higher engine capacities and new 125cc scooters, at the Auto Expo the Motor Show in Greater Noida, near Delhi in the month of February. Some of these products have already been introduced in the market and the others will be launched in the coming months in FY'19.

As you may be aware, we have made a substantial investment in a Bangalore-based tech start-up called Ather Energy, an e-vehicle manufacturing company, which launched its first smart electric scooters and a public commercial charging infrastructure.

Simultaneously, our engineers at CIT are also working on electric two-wheelers and we would be ready to introduce these products at an appropriate time.

With Innovation and New-Technology as two pillars of our vision at Hero MotoCorp, we have recently created an incubation center within our eco-system which functions like a start-up with mentors from within and outside of Hero. Aptly named 'HeroHatch', the incubation centre aims to foster innovation from within the organization.

The objective of creating an eco-system of innovative and disruptive thinking has been promoted throughout the organization with the 'Idea Contest' - an open for all, multi-tiered in-house competition, allowing employees to think out of the box, beyond their routine tasks.

Our effort to drive a culture of innovation is not limited to our internal stakeholders. With an aim to stay ahead of the curve and advance our technology, we have adopted the concept of Open Innovation to tap into the global expertise network.

In addition to it, the Hero Campus Challenge - an annual college competition organized across the top engineering and management colleges of India - aims to crowd-source solutions to real-time challenges from the best brains of India following the approach of Open Innovation.

An Expanding Global Footprint

This year, Hero MotoCorp has expanded its global presence to 37 countries across Asia, Africa and South and Central America, and is now gearing up to ride the wave of ever-evolving global political dynamics, as it continues to expand its footprint.

Amidst all the global political and economic upheavals, we have chosen to stay the course and kept our commitment to all our global markets. Our sustained brand building across markets during the economic downturn has now begun to yield results, with double-digit growth in our Global Business in FY'18.

We initiated a series of programs in the global sales and marketing operations during FY'18, which included dealer sales processes, sales-person training and channel restructuring, in our global markets and we will continue to work on these.

I would like to acknowledge the efforts, commitment and loyalty of our global distributors who have stood by us and helped our Company wade through the challenging times.

Building Capacity With Fiscal Prudence

It was over 30 years ago when we set up our first manufacturing facility at Dharuhera in the northern Indian state of Haryana.

We have recently commenced work at our eighth, effectively averaging a new Hero plant every four years!! We recently commenced construction of our new manufacturing facility - at Chittoor in the southern Indian state of Andhra Pradesh that is our sixth plant in India, in addition to the two facilities in global locations in Colombia and Bangladesh.

Once operational, the Chitoor plant will take our overall installed capacity to about 11 million units in the next two years. The new plant - our first manufacturing facility in South India - will enable us to enhance our operational efficiencies in servicing the markets in the region.

This gives you a fair idea of the speed with which our organization has grown! It goes to demonstrate how Hero MotoCorp has consistently driven the growth of the two-wheeler industry for the past three decades.

We are also venturing into new verticals of business to expand the brand's operational and aspirational canvas. One such initiative in this direction is the setting-up of a new line of merchandise and accessories. The development of these began during the latter half of the year and we are working aggressively towards bringing them into the market soon.

We have also been constantly rationalizing our costs. Our innovative LEAP initiative completed five years of journey and over the years was able to achieve substantial savings. LEAP has enabled our company to improve the gross margin to partially mitigate the headwind effect of higher commodity costs.

Regulatory Changes

Even as we make our processes more robust, efficient and digital, the external environment continues to bring new challenges. The next two years will witness numerous changes being brought into effect by either regulations or technology up-gradation. As a responsible OEM, we have taken numerous steps to build capability in our entire ecosystem, including our vendors and supply chain partners, so that they are also ready to meet these changes.

We are also including more automation in our processes and encouraging our vendors and suppliers to move to automation wherever appropriate, to ensure world-class quality and productivity.

The implementation of the stricter exhaust emission norms in India - Bharat Stage (BS) VI - in 2020 is a major milestone ahead for the entire industry. I am quite sure everyone within the Industry is seized of this and putting in the best of efforts to deal with this challenge. At Hero MotoCorp, we have been proactively preparing for this major transition and will be ready with our BS VI vehicles before the due date of implementation - April 1, 2020.

The implementation of Goods and Services Tax (GST) in the year gone by was a landmark development indeed, one of the biggest transformations in the field of taxation ever undertaken anywhere in the world. It meant overhauling of the entire nation's bookkeeping. However, we coped with it very well and ensured that there was seamless transition to the new system without any hindrances to business. We also supported our entire value chain and partners for a smooth transition. This was truly an example of our sound financial preparedness, planning and on-ground execution.

An Inclusive & Diverse Family

During the year, we continued to focus on diversification and inclusion in our work force, which is rapidly transforming our Company into a truly global entity with employees drawn from around the world. The Hero MotoCorp family today comprises of people from various countries, including Germany, France, Italy, Austria, Japan, UK, US, Colombia and Bangladesh.

I am personally driving the agenda of gender diversity and empowerment at Hero MotoCorp and consequently, the number of women staff including on our shop floors has gone up considerably over the past few years.

A Responsible Citizen

We have always believed in giving back to the society, and our Corporate Social Responsibility (CSR) initiatives are built on this very principle. In FY'18, our CSR efforts continued to bring about noticeable improvements in the lives of hundreds of thousands of people across the country. We also launched many new initiatives and built on the existing platforms to further our goals in the field of women empowerment.

For example, we partnered with police departments of eight states in India and provided them with scooters for their women police officers, thereby enabling them to discharge their duties more efficiently. We also started several traffic training parks and centres, some of them in women ITIs, which are again empowering women by providing them mobility.

Protection of the environment and sustainability are the other focus areas of our CSR outreach. We also follow the same principles at our manufacturing facilities, where we maintain the highest ecological standards.

All of the Company's seven state-of-the-art manufacturing facilities, the CIT at Jaipur and the Global Parts Center (GPC) at Neemrana - in the state of Rajasthan - demonstrate Hero's environmental aspirations.

The Company's manufacturing facility at Neemrana has been aptly called the 'Garden Factory', for its various measures, which have redefined green manufacturing. Home to one of the largest roof-top solar projects in the country, the Garden Factory offsets 1600 tons of carbon dioxide per annum by producing 1460 KW green energy through solar panels spread across 60,000 sq. meters.

The Garden Factory and the GPC, the CIT, and the manufacturing facility at Halol in the western Indian state of Gujarat also produce their own organic fruits and vegetables using advanced 'hydroponic' technique, which are used for internal consumption at the canteens.

Other key measures spread across the facilities for Water and Energy Optimization are - 'Big Foot' air handlers, which provide an optimal energy efficient operation, Efficient Building envelope and orientation that ensures reduced load on cooling systems, rainwater harvesting, and above all, a 'Green wall' to generate oxygen equivalent to the daily requirement of 3700 people.

We have shared more details about our CSR initiatives in the relevant chapter of the Annual Report 2017-18.

A 'Sporting' Hero

In keeping with the larger objective of nation building, our Company remains committed to support and nurture multiple disciplines of sports around the world.

While our contribution to the growth of Football, Golf, Hockey and Cricket is well documented, our new association with Motor Sports is scripting a glorious chapter.

In only our second year of participation at the famed Dakar Rally, the Hero MotoSports Team Rally made the entire country proud with a top-7 finish in the 2018 edition. The Team has truly become the flag-bearer of Indian motor sports in the global arena.

We will continue to keep scaling new heights of excellence in the coming years.

The Year Ahead

As we move into FY'19, our clear focus will remain on growth, especially in segments such as scooters and premium motorcycles. A slew of new product launches in these segments will help us to meet that objective.

Simultaneously we will also focus on growing our market share in existing global markets, apart from further expanding our presence.

With our current installed capacity and expansion plans in place, the company will continue to remain on sure footing and continue to lead the industry.

As the Indian auto industry continues to grow and its contribution to the country's GDP expected to significantly go up to 12% by 2026, it finds itself at an inflection point. The industry will have to redefine itself with the next generations of automotive technologies. This will hold the key to being future ready!

India will need to identify the next set of reforms that would push the growth agenda and hopefully leapfrog its growth, especially beyond the auto and IT sectors. The environment is ripe for a constructive synergy between the existing industrial set-ups and new age technology start-ups, which can drive economic growth in the future.

However, there are several geo-political issues that can potentially throw the world economy into a tailspin - be it the deadlock over the Paris Climate treaty and the protectionist policies of global super economies or the ongoing upheavals in the Middle East & North Africa.

The protection of environment will also remain a crucial concern area, which will need a resolute stance from a united world. The industry will need to play a conscious and effective role in this process to ensure an equitable and hospitable future.

In these scenarios, as we embark on our onwards journey, we seek the blessings and support of our large and diverse Hero family. We will continue to work with fortitude towards our targets, with our core value system firmly in place and pursuing the larger agenda of a greener, peaceful and economically stable society.

I thank all our stakeholders, including all the channel partners, vendors and suppliers, tech partners, investors, all associates and above all, our customers for their unwavering support.

Thanking you all for attending the Company's 35th Annual General Meeting.

PAWAN MUNJAL
Chairman, Managing Director & CEO

**Speech of Mr. Pawan Munjal, Chairman, Managing Director & CEO
at the 35th Annual General Meeting of Hero MotoCorp Ltd.
held at New Delhi on Tuesday, July 24th, 2018**