



Chairman's Speech

2016 - 17



Hero



Hero MotoCorp Ltd.

Dear Members,

On behalf of the Board of Directors, I heartily welcome you all to the 34th Annual General Meeting of your Company.

Hero commenced its journey over three decades ago, with a bold vision of bringing world-class mobility solutions and technologies into India and in the process making the country more self-reliant. Brand Hero has had an undeniable role in India's industrial transformation.

Since then, through dedicated and sincere hard work, your Company has cemented its distinct place in history and has become a beacon of excellence for the entire industry. Today, Hero MotoCorp is a globally recognized, responsible, ethical organization, which continues to play a significant role in nation building. Going forward, we stand committed to unceasing enhancement of our products, processes, quality and customer orientation.

As is customary, this year's Annual Report attempts to give you a detailed analysis of your Company's working, objectives, challenges and opportunities.

Let me begin by congratulating everyone in the Hero family, for once again putting up a stellar performance in the year gone by.

Complementing the rich legacy of Dr. Brijmohan Lall, Hero MotoCorp has evolved to become a reputable institution. In an environment marked by volatilities and intense competition, your Company completed yet another financial year (FY 2016-17), retaining its dominant market leadership of the two-wheeler industry. Your Company has now been the World's largest two-wheeler manufacturer for an incredible 16 consecutive years!

Management updates

I would like to share with you a significant update on the leadership transitions of the Company.

Mr. Ravi Sud superannuated from the position of Chief Financial Officer with effect from March 31st, 2017 and is now an Advisor to the Company. I take this opportunity to thank Ravi for his valuable contribution over the years. Mr. Niranjana Kumar Gupta has joined us and taken over the charge from Ravi.

The India Story

India is passing through one of its most economically and politically stable phases in the recent history. The strong decisive government at the Centre, supported by stable governments in the states, has ushered in a period of good governance in most parts of the country.

The gross domestic product (GDP) growth has held steady at 6.5-7%, while reduced inflation and fiscal deficit have led to positivity in the sentiments. However, for growth in the global economy to revive and the currency situation to improve, a lot depends on how the socio and geo-political landscape unfolds in the backdrop of developments in different parts of the world. It is in this backdrop that I view the political resolve of leaders back at home with a sense of pride. We have been able to clear multiple, longstanding differences on policy decisions, including the passing of the bankruptcy code, and stringent regulations to govern real estate. I am happy to inform you all that we have upgraded our systems and have adopted the 'one country one tax' in the shape of GST. These are all indeed commendable achievements.

The state governments competing with each other to attract investments into their respective states, has resulted in a healthy even-spread of investments across different parts of the country. Thus industrial growth and the consequent socio-economic development is expected to spread across country, rather than being concentrated in and around certain traditional pockets.

The banning of Rs. 500 and Rs 1000 currency notes – 'Demonetisation' as it has come to be called – in November 2016 was an enormously bold move by the government, one which only a visionary and a strong leader could have taken. It was indeed a game-changing move.

At Hero MotoCorp, we too faced some discomfort in the initial few months of the demonetisation initiative, but we were willing to go through that phase for the larger good of the country. We took speedy steps to further encourage sales through the banking channels, installed point of sale (POS) machines and other devices of cashless transactions at our dealerships. By February 2017, a clear bounce-back in terms of consumer sentiments was visible in the sector.

Towards the end of FY'17, the auto-industry had to pass through uncertain times on account of the transition of emission regulations from Bharat Stage III (BS III) to BS IV. At Hero MotoCorp, safeguarding of environment has always taken precedence over short-term financial benefits. Personally, I have always been a strong votary of cleaner environment and use of green technologies. For instance, one of the company's manufacturing facilities is baptized 'Garden Factory' for using advanced, state-of-the-art technologies and environment-friendly manufacturing practices. We have expanded the implementation of our in-house developed and patented i3S (idle Stop-Start System) technology on the majority of our products. The i3S

system is an environmentally friendly technology that reduces emissions by automatically shutting-off the engine at traffic stops; while also providing savings and convenience to the customers.

As a responsible and law-abiding corporate citizen and in keeping with our commitment to protect public health, Hero MotoCorp had proactively switched to manufacturing only BS IV compliant vehicles well before the date stipulated by the authorities. Also keeping in mind the ordeals of our dealer partners, we implemented some tactical steps and also incentivized the customers, to liquidate the balance BS III stocks before the end of the financial year. As a public limited company, we thereby minimized the losses of all our stakeholders. I am happy to inform you that since then, customers have given a positive endorsement to our BS IV vehicles!

In keeping with this spirit, we have already started our preparations for the launch of BS VI models and are aiming to launch BS VI compliant products well before the proposed timeline in 2020.

The Hero – Homegrown, for the World

Symbolizing the true empowerment of millions of Indians, your Company surpassed the landmark of 70 million units in cumulative sales since its inception, during the financial year 2017. The year was even more significant as we introduced the Splendor iSmart 110, Achiever 150 and the Glamour 125 – three new models completely designed and developed by our in-house engineers at the Centre of Innovation and Technology (CIT), firmly establishing Hero's capabilities in independently developing new products.

Even as the consolidation of leadership in the domestic market continues, your Company also keeps expanding on the global front. With the addition of Nigeria and Argentina – the largest two-wheeler market in Africa and the second largest two-wheeler market in Latin America respectively - the global footprint of your Company has now reached 35 countries spread across Asia, Africa and South and Central America. With this, we have taken a giant leap towards our stated vision of making 'Hero' a truly global brand, and befittingly received the prestigious '**Indian MNC of Year**' award from the All India Management Association (AIMA).

FY 2016-17 also had the distinction of witnessing the unveiling of two new Hero products on foreign soil. In January 2017, the new Glamour 125 (named Ignitor in international markets) became the first Hero product to be launched globally, at a glittering ceremony in Buenos Aires, Argentina, and in November, 2016, HF Dawn – specially designed for the African market - was showcased at the EICMA in Milan, Italy.

There have been strong headwinds in the global economies with an extremely volatile currency situation. I however believe that these are cyclical situations and can be worked through in the long-term. Hero would, therefore, stay invested in its global markets and continue to engage in brand building so that when the market situation improves, we are well prepared to leverage the conditions.

In keeping with our aspiration to become a truly global brand, your Company forayed into motorsports with a rally racing team 'Hero MotoSports Team Rally' through a strategic partnership with Speedbrain GmbH. In its debut year itself, the Team delivered a remarkable performance at the prestigious and arduous Dakar Rally 2017 – putting the India and Hero flags on a prestigious global platform. The game of football is a passion in Latin America and it is through this platform that we are reaching out to the youth in that region. We have brought on board Argentinian football legend and the coach of Atletico Madrid team – Diegeo Simione – as our brand ambassador in Argentina.

Similarly, we are building our brand in the Caribbean even before our commercial launch in that market. Your Company is the Title Sponsor of the Hero Caribbean Premier League – a highly popular T20 cricket tournament. Our association with Tiger Woods and the Tiger Woods Foundation has already helped us build awareness about Brand Hero globally.

The Road Ahead

In the new fiscal (FY 2017-18), we are looking at aggressive market share gains to further consolidate our leadership, without compromising on the bottom line and our margins.

We have planned a capital expenditure of around Rs. 2,500 Cr for the next two fiscals up to FY2018-19 towards new product development, digitization, phase-wise capacity installation and expansion of our existing facility at Gujarat and our upcoming plants in Andhra Pradesh & Bangladesh. This CAPEX also includes investments towards up-gradation and modernization of our existing plant machinery. We are looking forward to commencing production at our upcoming manufacturing facility in Bangladesh in FY 2017-18, our second manufacturing facility at a global location, following the facility in Cali, Colombia.

The four new products that we introduced in the month of March '16 – all new Glamour 125, the revamped new Maestro Edge, Duet, and the Pleasure 10th Anniversary edition – are expected to add to our sales performance in fiscal 2017-18.

Furthermore, we have lined up half a dozen new products - across segments, including the premium and scooter categories - for launch in the next fiscal to drive our growth. Clearly, we are going to have enhanced focus on these two growing segments to make rapid inroads with new products and innovative customer engagement and communication.

While the company continues to expand its product portfolio, we are simultaneously looking at mobility solutions for the future also. One such area that is fast developing is the 'electric' vehicle category. Even as we build our own internal capacities, one of our strategic priorities is to also engage with the external ecosystem, including start-ups in a meaningful way. It is with this objective that we have made an investment in Ather Energy—one of the best start-ups in the two-wheeler EV space.

Even as we go for market share gains, Hero will preserve its unwavering focus on sustaining a healthy bottom line and margins through judicious utilization of resources and rationalization of costs. At Hero, quality is not important just for the external customers, it is equally important for internal customers also! Thus we will put added focus on quality.

Finally, I would like to thank all our customers, my colleagues across the Hero family, dealers, suppliers, professionals, associates, global partners and you, our shareholders, for your unwavering support. We would not be here but for your trust in us. Thank you to all the government officials as well for their support and understanding. I appreciate and cherish the faith we have been bestowed with from everyone.

Thanking you all for attending the Company's 34th Annual General Meeting.

PAWAN MUNJAL

Chairman, Managing Director & Chief Executive Officer

**Speech of Mr. Pawan Munjal, Chairman, Managing Director & CEO
at the 34th Annual General Meeting of Hero MotoCorp Ltd.
held at New Delhi on Friday, July 14th, 2017**