Management Discussion and Analysis

As the world's largest manufacturer of two-wheelers, our strategy is to continue to lead the way, on the strength of our iconic brands, industry-leading innovation, global market presence and strong engagement with all our stakeholders.

Global economies have been severely impacted by the recent pandemic, leading to uncertainties in the operating environment. At Hero, we have designed a comprehensive contingency plan with frequent review mechanisms in place. Agility and the ability to respond to potential and emerging risks with speed in a concerted and coordinated manner will be the key to success. Further, our debt-free balance sheet puts us in a strong position to navigate through any possible liquidity impact caused by the crisis.

Our continued focus on corporate governance and on enhancing the efficiency curve with the use of talent, teamwork and technology will enable us to lead the way for the industry.

Hero Haridwar Plant

Economic insight

Global: Demand recovery impacted by the great lockdown

FY20 commenced with a consumption slowdown and rising protectionism in the major economies of the world. Even as the world began the slow journey towards economic recovery, the COVID-19 pandemic struck, causing an unprecedented health crisis and impacting large sections of the population.

The virus outbreak weighed down growth in several of the emerging economies, which already had their own issues to contend with. India was caught amidst declining credit growth and stress in the non-banking finance sector, countries in the Middle East and North Africa (MENA) were witnessing weak oil output and civil unrest, and Latin America was in the grip of a weak investment climate. Consumption slowdown and a potential tightening of financial conditions in the advanced economies put further pressure on global GDP growth.

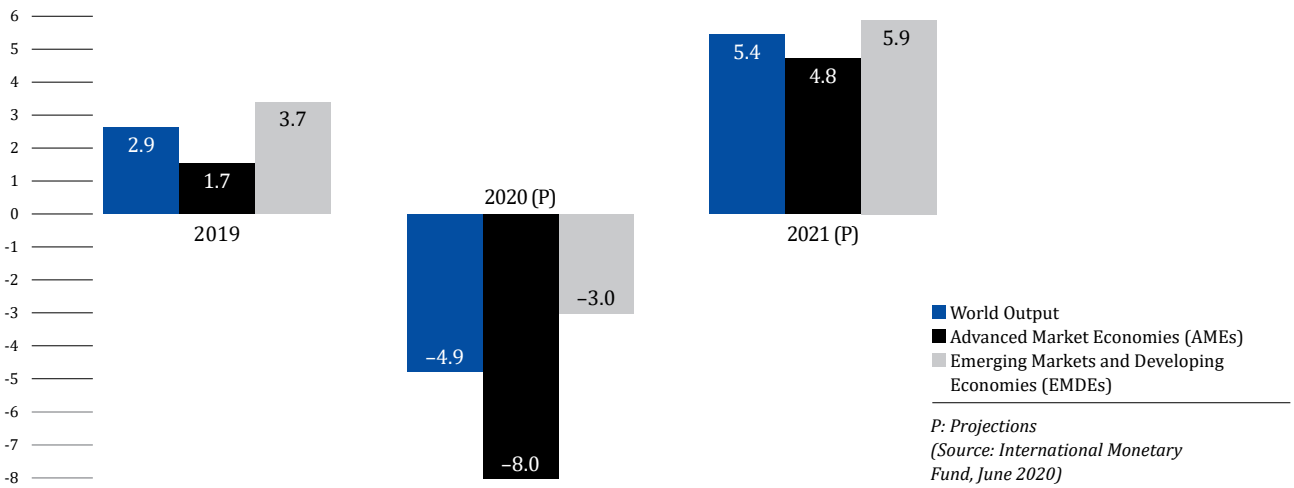
Hero WORLD'S NO. ONE* TWO-WHEELER COMPANY

**Largest two-wheeler selling company in the world for any particular country for the year 2019*

The June forecasts of the International Monetary Fund project global economic growth to contract by 4.9% in 2020, with the pandemic effecting the worst economic downturn since the Great Depression of 1929. Both advanced and emerging economies are bracing up for a continued slowdown. However, projections for 2021 are better and growth is expected to return as economies normalise, helped by policy support and pent-up consumption demand.

Hero World 2020 rally kit bike activity

GLOBAL GROWTH TREND (%)



P: Projections
(Source: International Monetary Fund, June 2020)

CIT Jaipur

All major countries are expected to witness a decline in the gross domestic product (GDP) in 2020, followed by a recovery in 2021. The extent and shape of recovery will, however, depend on multiple factors like the duration of the pandemic (there are already fears of a possible second wave of infection sweeping across nations), stimulus or financial easing by governments across the globe, liquidity and viability of business enterprises, return of consumer confidence and easing of geo-political issues.

This period requires coordinated efforts, not only within the medical fraternity, but also between various governments, between the government and the industry, within industries, between citizens and the government, between strategy and execution. These are times when real life heroes rise to the occasion and we begin to appreciate the small wonders of life that we had taken for granted.

The world will undoubtedly recover faster with collaboration, which is the mantra of the times. The pandemic, in a way, is also uniting the world.

TRADE VOLUMES

According to WTO, the merchandise trade volume declined by 0.1% in CY 2019, due to trade policies inclined towards protecting domestic industries and overall sluggish economic growth. The COVID-19 outbreak will result in double digit declines in trade volumes, with merchandise trade expected to decline sharply between 13% and 32% in CY 2020.


Hero Colombia Plant

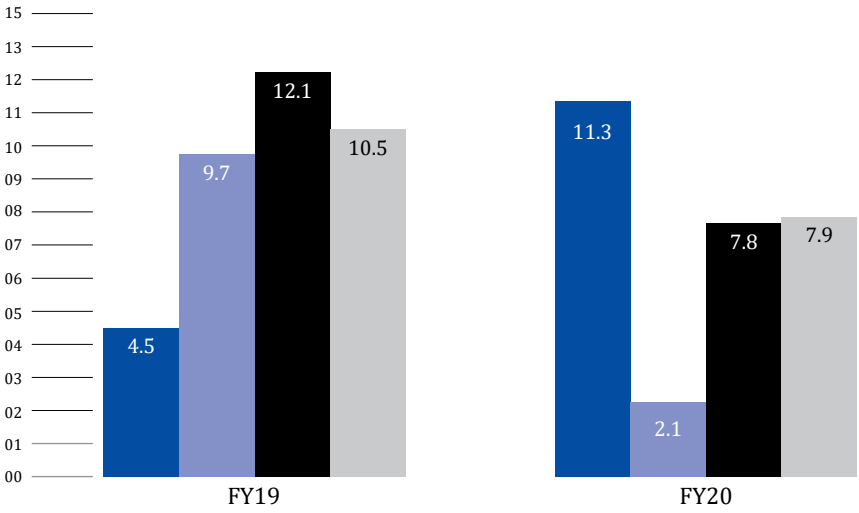
India: Upholding self-reliance

Growth in India was muted in FY20, given the corporate uncertainty and concerns about the health of non-banking financial companies (NBFCs) that had triggered a crisis. In purview of the economic downturn and health crisis caused by the pandemic, economic growth in India is expected to decline by 4.5% in 2020 before bouncing back to 6.0% in 2021. *(Source: IMF June 2020)*

The easing of policies and the gradually improving business confidence in response to government reforms, particularly for small and medium enterprises (SMEs) and micro, small and medium-sized enterprises (MSMEs), which now have greater access to finance, are likely to enhance growth.

Growth in FY21 is expected to pick up, supported by policy easing and gradually improving business confidence in response to the reforms. Promoting access to finance for SMEs and MSMEs can also enhance growth.

NATIONAL GROSS VALUE ADDED (GVA) GROWTH (CURRENT PRICES) (%)



(Source: Advance CSO Estimates)
* Includes Manufacturing, Mining & Quarrying, Construction
^ Includes Electricity, Gas, Water Supply & other Utility Services; Trade, Hotels, Transport, Communication and Broadcasting Services; Financial, Real Estate & Professional Services.

OUTLOOK

Although the projections for 2021 are encouraging, in the short term, the economic cost of the lockdown could prolong economic recovery in India even as the country unlocks and reopens for business. The market stimulus and reforms introduced by the government included corporate tax rate cuts, cash transfers to farmers, rural developmental spends, payments of all pending goods and services tax (GST), income tax refunds, and further liberalisation of foreign direct investment (FDI). These measures were supported by the Reserve Bank of India (RBI) with a series of rate cuts, reduction in the cash reserve ratio (CRR), moratorium on term loans and working capital loans, the injection of liquidity through various modes to help the industry get back on its feet. The measures should begin to facilitate growth.

Lower oil prices could aid the economy as consumption picks up again. Additionally, the focus on urbanisation, the revamp of the banking and financial services sector and bridging the rural-urban opportunity deficit continue to be priority areas that should support economic growth.

India may be less integrated with the global value chain than the Association of Southeast Asian Nations (ASEAN) countries, but it is not immune to the impact of global trade uncertainties. The country's exports have slowed down, even as imports of Indian goods have faced also faced a moderate slump.

Irrespective of the current challenges, including the pandemic, the long-term growth story of India remains intact. The demographic factor in the shape of a younger population, increasing urbanisation, the rising aspiration of the youth, women's increasing access to education and employment, and potential of consumer credit remain the drivers of growth. It is important for India to navigate the next few quarters carefully before embarking again on the road to stronger growth.

Indian two-wheeler industry: Short-term slowdown

Economic volatility in India, especially in the developing world, adversely impacted the two-wheeler industry in FY20. After a double-digit decline in the first half of FY20, the second half was even more difficult for the industry on account of the lack of income growth, liquidity crunch and the overall consumption slowdown. The two-wheeler industry declined by 18% compared to the previous year to a volume of 17.44 million for FY20. Significant changes in the emission norms for BSVI compliance were implemented with effect from April 1, 2020.

MAJOR INDUSTRY HEADWINDS

- Delayed monsoons impacted the rural economy. Recovery in the latter part of the monsoon season made up for the delay.
- Consumers had to adapt to a higher cost of ownership due to insurance price increase from September 2019
- Increase in overall cost of ownership (BSVI related price hikes other safety and insurance costs) impacted demand for automobiles
- Liquidity crunch due to the stress in the banking/NBFC sector impacted customers' affordability
- Transition management to BSVI also impacted demand

The motorcycles segment, which make up 64% of the industry, declined by 17% to 11.23 million. Within the overall segment, the Entry segment declined by 20%, Deluxe 100cc segment by 15%, Deluxe 125cc segment by 11% and the Premium segment by 21%.

Scooters contribute 32% of the industry and the segment declined due to increase in the overall cost of ownership and higher penetration levels. The 100-110cc segment declined by 21% in FY20, while for 125cc scooters, sales plateaued within the segment. The scooter industry volume stood at 5.57 million.

Mopeds make up 4% of the two-wheeler industry. Moped industry volume was 0.64 million, registering a significant decline of 28% over the previous year. Contrary to popular perception, the Entry and Executive segments outperformed Scooters and Premium bikes.

INDUSTRY OUTLOOK

Short term

FY20 has witnessed unprecedented volatility on account of the pandemic. The roll out of BSVI during the health crisis is likely to complicate the already challenging recovery of the two-wheeler segment:

- The overall contraction of the economy and fall in GDP growth. For India too, GDP is estimated to contract by 4.5% for 2020, following an extended lockdown and slow recovery
- A robust Rabi harvest and a normal monsoon season, expected to be well distributed as per the forecast of the India Meteorological Department (IMD). Bountiful rains coupled with good reservoir levels augur well for the upcoming Kharif season, positively impacting rural sentiment
- Cash transfers for the poor, rate cuts by the RBI to inject liquidity into the system and the government's spending on infrastructure and the rural sector are expected to aid the economy
- There could be a shift away from "shared mobility" to own(ed) mobility. This is likely to benefit two-wheeler demand in the short and medium term

FY22 is expected to be a crucial year for the industry, with recovery projected to pick up from the second half of FY21 around the festive season. The potential pent-up demand and economic revival are also expected to support recovery in the sector.

Long term

The long-term growth story of two-wheeler industry remains intact. The industry has significant potential, considering that overall penetration levels are only 1/2 to 1/3 of the level in other ASEAN countries. Two-wheelers are not just a consumption good but they are also income enablers. The vehicle creates its own demand and feeds a virtuous cycle. Growing urbanisation, increasing numbers of women in the work force and an affordable product that supports last mile connectivity — these factors are likely to keep the demand for two-wheelers buoyant. In other words, the two-wheeler industry has a long drive ahead of it. As the GDP grows, it will further fuel two-wheeler demand not just in the Entry and Executive segment, but also support demand for Scooters and Premium segment.

Operational performance: Our strategy in action

Our operational strategies are based on robust manufacturing and business excellence platforms, which follow global best practices. Moreover, sustainability remains our overarching principle. As the world's largest two-wheeler company, our strategies are fine-tuned to create industry-leading business value through sustainable manufacturing, economies of scale, cost leadership and innovation that is best-in-class.

We recorded domestic sales of 6.22 million, far higher than our nearest competitor, weathering the challenges of consumption slowdown and liquidity crunch by following a focused market strategy, including targeted promotions.

6.22 million
Domestic two-wheeler sales in FY20

Other drivers for sales included continuous focus on lead management, digitalisation, Hero Sure and customer engaging activations. Our market share in the motorcycles segment was up by 1.2% in FY20, a testament to our relentless focus.

Motorcycles market share growth

Up by 1.2% in FY20

Despite the challenging macro-economic scenario and liquidity crisis, we continued to be the world's largest two-wheeler company in FY20, with a market share of 35.7% of which motorcycles was 51.9%, which was up by 1.2% as compared to FY19, while scooters were lower at 7.2%, down by 44% vs. FY19.

Segment-wise performance

Entry

The industry declined by 20.4%, led by a consumption slowdown in the first half of the year and the impact of the lockdown in the second half. While our volumes declined by 6% over the preceding year, the consumption slowdown accentuated by stress in the financial sector impacted underlying demand. We gained significant market share up from 58.1% to 68.9% in FY20.

68.9%

Entry segment Market share

Deluxe

The deluxe 100cc industry volumes contracted by 15.4%. Our volumes in this category declined 19.5%. Our market share in this segment stands at 74.8%, a decline of 3.8% over the previous year. The all new Passion Pro 110 should help us strengthen our play. The Deluxe 125cc category declined by 11.3%, while our volumes declined by 21.5% over last year due to our inventory correction in this segment. Our market share in this segment stands at 49.8%, down 6.5% over FY19 as other players entered the segment, expanding the size of the pie. With volume build up and launch of the new BSVI Glamour, we look forward to strengthening our segment share again.

74.8%

Deluxe 100cc Market share

49.8%

Deluxe 125cc Market share

Premium (150cc+)

The Premium segment declined 21.3% over the previous year. Our market share in this segment is 1.6%, a slight gain over last year. The launch of Xtreme and Xpulse facilitated market share improvement in FY20. With the launch of Xtreme 160, volumes and market share are expected to strengthen in FY21.

Scooter Segment

This segment declined by 17% over last year, while our volumes contracted by 44% over that of last year. Our market share in this segment stood at 7.2%, a decline of 3.5% over FY19. With the BSVI portfolio of products, we will continue to work on this segment. In the relatively more profitable 125cc sub-segment, our market share gain has been credible.

Greater demand for personal mobility

For FY21, we expect that the industry will witness greater two-wheeler demand due to the customer's need for personal mobility to maintain safety standards. The industry would stabilise by the festive season and the pent-up demand will provide the much-anticipated boost to the industry. Being a market leader, we should be well placed to capitalise on market shifts.

Whenever business picks up, we will be ready and have the right products to meet demand. The market response to our entire range of new BSVI products has been very encouraging.

BRAND MILESTONES

Splendor continues to be the Number 1 Motorcycle brand with almost 3 mn units sold

HF Deluxe crosses the 2 mn milestone this year, yet again

Passion new brand proposition identified as *Dare to be different*

Glamour new brand proposition epitomised as *The Next Level*

Pleasure+ modern brand narrative 'Hamare naye bold andaaz ki aadat daal lo' voiced by the brand ambassador, Alia Bhatt

Maestro Edge 125 new narrative of 'Kal ke saath chal' introduced by Ranbir Kapoor to target the young male audience

NETWORK EXPANSION

With new regulations, we proactively prepared and strengthened our networks for best-in-class customer outreach. Following are relevant initiatives in this area:

Total Domestic Channel Touchpoints

7,267

y-o-y Growth of 8%

Fortifying secondary network development

We initiated Secondary Network (SN) business excellence project across key markets to enhance sales productivity.

Dealer initiatives

As the financial year approached closure, the two-wheeler industry had to grapple with COVID-19 lockdown and BSVI transition, causing immense industry stress. We supported our dealer network by providing financial assistance and need-based advice. Following are some key highlights:

We provided psychological COVID-19-related stress in addition to support during BSIV inventory liquidation for dealerships and field team along with real time stock visibility (SKU and inventory-wise). Dealer support package in two tranches to help dealerships manage crisis better and finance support.

Rolled out 'Digital Display Network' in all dealership showrooms, enabling us to engage with our customers through customer education programmes (such as safe riding tips, BSVI awareness), brands (new product launches) and our social media properties.

Going forward, we are also upgrading our digital channels to enable online sales process, as a part of social-distancing measures. We have also digitalised our retail finance channel with contact-less financing and introducing the simple credit card and debit card EMI schemes for the benefit of our customers.

Launched multiple schemes to support the network, including retail finance scheme, an enabler for two-wheeler purchase by a customer willing to buy, but unable to spend the full amount at the time of purchase, and **launched flexi cash scheme and disbursed loans in over 50,000 cases in FY20**. This is a direct cash collection model for two-wheeler loans, making the loan available to customers who have the ability to take and repay the loan, but do not have a formal bank account.

About **70,000 opinion leaders by our rural sales executives** through our rural contact programme - "Khushiyan Har Aangan" during the festive season. For the engagement of rural audience, **Hero Hindustan Kabaddi League was organised, under which 81 matches were played across villages.**

Launched Hero XConnect, a new mobile app based exchange bidding platform, where exchangers bid for vehicles of customers interested in resale of the old vehicle while buying a new vehicle. Also, we developed an online assessment module to assess improvement areas of DNM which is the first online module for assessing skill, knowledge, and overall competence of its employees.

Dealership trainings

Total dealer executives trained

25,819

Dealer owners trained*

64

Total dealer owners trained in HR programme

158

*Through IIM(B)

Hero Halol plant

Parts business

We make available best-in-class genuine parts through our extensive network of dealers. After all, easy availability and reasonable pricing of parts is one of the enablers for our continued market leadership.

During FY20, we piloted the direct sale of Hero Genuine Oil through our parts distributors in Rajasthan and Orissa and are ready for a national rollout in FY21.

PROGRESSING WORLDWIDE

Hero MotoCorp continues to strengthen its presence in global markets. During FY20, with footprints in more than 40 markets outside India, the focus was on scaling up our innovation efforts especially in the retail financing front. We have been **very successful in scaling up retail finance in Bangladesh, Nepal, and Colombia,** wherein we have now gained substantial percentage of our monthly volumes on financing.

With the launch of new motorcycles and scooters, we have now expanded our presence in newer segments like On-Off road segment and premium scooters. The market response to our launches has been encouraging. Despite the tough turf, we gained market share in select markets.

Leadership across continents

We regained leadership in Bangladesh during the most prominent Eid season, and have been a close number two for the rest of the year. In the Africa region, we gained numbers over last year and our aggressive marketing strategy is helping us gain market share in difficult markets like Uganda and Tanzania.

Widening our Hero Genuine Parts touchpoints

199

Total HGPDs (Hero Genuine Parts distributor)

25,500

Total retailers

Working closely with strong allied business partners has been the key for us to grow in the global markets. We also displayed strength in various Auto Shows across the globe including EICMA in Italy, Colombia, Turkey, Nepal, Sri Lanka, Bolivia, UAE, Ethiopia, Kenya, and Ecuador.

Following the pandemic outbreak, we have enhanced our focus on digitalisation (virtual showrooms, online bookings, test rides at doorstep, among others). We also have important launches this year and will be foraying into emerging segments.

Our operating culture is to move beyond traditional ways of doing business. For example, service as an avenue to generate vehicle sales has proven to be a successful step for the long term in Bangladesh; and will soon be replicated across markets.

Advancements such as use of Augmented Reality solutions for training of overseas teams have been successfully proven in certain markets and will take off in FY21. The virus outbreak has given us an opportunity to reset and realign our global business with focus on innovation across sales, marketing, and customer service.

World's first to receive the TPM Excellence Award

Our Global Parts Centre (GPC) in Neemrana, Rajasthan became the first parts facility in the world to win the prestigious TPM Excellence Award for 2019 from Japan Institute of Plant Maintenance (JIPM).

REINFORCING MANUFACTURING EXCELLENCE

Manufacturing is one of our core strengths and we leverage it to build better competencies. We innovate and optimise unconventional methodologies to operate sustainably, aided by the latest in digitalisation practices. Our world-class manufacturing facilities act as enablers to optimise market opportunities.

Quality is imbibed in our DNA and our integrated operations and robust controls ensure that quality is incorporated across our products, processes, and services. Through years of practice, we have been able to come up with zero-defect strategy, focusing on industry-best productivity levels and leaner manufacturing processes. Upskilling our talent pool with regular learning and development activities, enables us to have a future-ready workforce.

Key highlights for FY20

- Mass produced 40 new products across 8 new platforms
- Conducted 100 trial events for new models across different plants
- Launched BSVI as per schedule and developed new infrastructure across plants
- Strengthened capacities so that it can meet the dynamic model mix demand across various countries with agility
- Expanded capacity of frame body line to meet local manufacturing regulations at our Bangladesh plant
- Employed 469 female team members in various plants across various categories (staff/workmen) to enhance gender diversity
- Total Productive Maintenance (TPM) enabled reduction of 16 losses to enhance productivity multi-fold
- Eliminate, Combine Re-arrange, Simplify (ECRS), Automation, Cycle time optimisation/benchmarking and new technology introduction among others are facilitating productivity enhancements
- First vehicle manufacturer in India to receive BSVI certification for a two-wheeler (Splendor iSmart 110)
- **New launches:** HF Deluxe, Splendor+, Glamour, Passion Pro, Maestro Edge 125+, Destini 125, Pleasure+.
- Introduced Rally Kit for young racing enthusiasts

Capacity utilisation

The average capacity utilisation across plants was 72.5% and 88% during peak levels. With the move to BSVI models and uptick in premium and scooter demand, we expect this to improvement on this front.

We are constantly building on our DNA of flexibility and agility in manufacturing to build better asset utilisation on multi-models. This will help introduce new models (motorcycles/scooters) smoothly in the existing framework to avoid investments and thereby enhance utilisation levels. With new product portfolio of scooters, new avatars of 160/200cc (conforming to multi-emission regulations), we are suitably placed to enhance our capacity utilisation with a dynamic model mix.

New Chittoor facility

During FY20, our eighth manufacturing facility in Chittoor district in Andhra Pradesh was commissioned with Phase I installed capacity of 0.4 million units. The total Phase I investment for setting up the manufacturing facility is around ₹ 622 crore for a projected 1.8 million units annual capacity.

Overseas facilities

Overseas plants in Bangladesh and Colombia have consolidated their capacities to meet the market demand.

Capitalising on existing scale

The most important key would be to have a robust mid-term planning process in place for better planning of capacities and model-mix mapping across geographies.

BSVI transition – Challenges and solutions

Vertical ramp up and ramp down between BSIV and BSVI was crucial considering the numbers to be managed across the entire plant setup. However, considering that the manufacturing set-ups are developed as part of a long-term strategy, the challenge could be addressed with well thought comprehensive planning and cohesive team work. We are now geared up to ramp up production rapidly.

Defect-free product was the key objective during this transition which was well thought out by the interfacing teams across the value chain in terms of planning, compliances, execution etc. In addition, statutory approvals for newly added processes for our industry (gasoline tank safety check, fuel management system) were successfully executed. The engineering solution, supply chain capacity blocking, statutory approvals on processes and buildings could be consolidated well to deliver the product with the best-in-class quality.

Comprehensive efforts were demonstrated across the Company to optimise capacities, investments, and obsolescence across the value chain.

Cost savings

LEAP was launched for fixed cost optimisation and has focused on material cost reduction with a target of ~50 bps of annual savings. We have now launched LEAP-II with double the target of LEAP to ~100 bps targeting substantial savings.

Other cost-cutting initiatives include fixed cost optimisation across plants, alternative sources for dies/moulds, cost avoidance on duplication of tooling and product design changes/refurbishment of old tooling to name a few.

Robotic Machine Shop, Hero Neemrana Plant

Assembly Line, Gurgaon Plant

Good operational practices

Our primary aim is to manage our compliances effectively, adopting Total Productive Maintenance (TPM)/Quality Function Deployment (QFD) strategies with zero-tolerance on quality. Being adaptive, flexible and agile are the other key drivers which have consistently made our manufacturing operations resilient in an uncertain business landscape.

We have rationalised our cost structure to invest our surplus in attractive growth opportunities, emerging technologies and futuristic initiatives that have the potential to make our operations more economical.

Safety first

Our commitment to Environment, Health and Safety (EHS) is integral to our operations. We are focused on creating a safe and enabling working environment at all our manufacturing plants. We have also put in place safety management systems to help prevent workplace accidents.

Financial performance: Measuring our progress

FINANCIAL HIGHLIGHTS – EXTRACTS (STANDALONE)

Particulars (Amount in ₹ crore)	Year-ended	
	FY20	FY19
Number of Two-wheelers sold (in lakh)[1]	**63.98**	**78.21**
Income		
(a) Revenue from operations[2]	28,836	33,651
(b) Other income	778	691
Total income	**29,614**	**34,342**
Expenses		
[a] Cost of materials consumed & changes in inventories[3]	19,697	23,318
[b] Employee benefits expense[4]	1,842	1,730
[c] Other expenses[5]	4,179	4,283
Total expenses	**25,718**	**29,331**
Profit before exceptional item and tax	3,896	5,011
Exceptional item[6]	677	0
Tax expense[7]	940	1,626
Profit after exceptional item and tax	**3,633**	**3,385**
Other comprehensive income/(expense) [net of tax]	-32	-18
Total comprehensive income	3,601	3,367
Earning per equity share on profit after tax (face value ₹ 2/- each) [In ₹] – Basic	**182**	**169**

[1] **Sales Volume** declined by 18.2% annually. This is largely reflective of the overall slowdown in economic activity, which was further compounded by price increases due to regulatory changes in insurance in the first half of the year. The second half of the year witnessed migration from BSIV to BSVI, calling for recalibration of dispatches and inventory to ensure smooth transition. Towards the end of the year, spread of the pandemic and consequential lockdown of business operation also impacted the volumes adversely.

[2] Against the volume drop of 18.2%, **Revenue from Operations** declined by 14.3% — the various price increases taken during the year, favourable product mix and BSVI vehicles dispatched in fourth quarter of the year, have all helped in partially offsetting the volume drop y-o-y.

[3] The **Material Cost** as a percentage of Revenue fell to 68.3% (vs 69.3% FY19), largely attributable to softening in material prices and value engineering initiatives also supported by periodical price increases in the two wheelers over the year. The softening in prices of base metal was partially offset against the depreciating Rupee and increase in the prices of precious metals.

[4] The **Employee Cost** has grown by 6.4%, largely reflective of fresh hiring and annual increment.

FY20 EPS

₹ 182

Vs. ₹ 169 in FY19

[5] There is an increase in **Depreciation and Amortisation** cost by ₹ 216 crore largely on account of capitalisation of the new plant in Chittoor in the last quarter of the year, and accelerated depreciation charged on certain assets pursuant to phasing out of BSIV.

Finance Cost has increased by ₹ 13.4 crore, which is on account of interest charged against lease liability booked during the year pursuant to Ind AS 116 implementation.

Other expenses apart from Depreciation and Finance cost have decreased by ₹ 333 crore during the year (₹ 3,339 crore in FY20 vs ₹ 3,672 crore in FY19); major part of this is attributable to decrease in variable spends such as stores and consumables, power and fuel, packing & forwarding cost, etc. due to lower underlying volumes when compared to previous year. Also, fall in spends such as advertising and publicity, administrative expenses and regrouping of lease rent and part of office rent to balance sheet pursuant to Ind AS 116 have contributed to the decrease.

[6] The Company had deposited and created provision for "National Calamity Contingent Duty" ('NCCD') including applicable cess in its Haridwar plant during prior years, while contesting the applicability of the same. Pursuant to favourable order from the Hon'ble Supreme Court , the provision has been reversed as **Exceptional income of ₹ 737.48 crore** in the quarter ended June 30, 2019. The refund of the deposits made has also been received during the year.

During the quarter ended September 30, 2019, the Company had introduced a voluntary retirement scheme (VRS) and had considered a provision of ₹ **60.11 crore Extraordinary expense** for employees who have accepted to be part of VRS as exceptional item in the standalone financial results.

[7] **Tax expense** for the year was lower on account of decrease in taxable profit as well as decrease in Corporate tax rate (from 34.94% to 25.17%) and remeasurement of deferred tax assets/liabilities basis during the year pursuant to the Company electing to exercise option permitted under section 115BAA of Income Tax Act,1961 as introduced by the Taxation Laws (Amendment) Act, 2019.

MAJOR MOVEMENTS IN BALANCE SHEET FIGURES

During the year,
Net fixed assets increased to ₹ 6,458 crore (from ₹ 5,160 crore in FY19), major increase was on account of new plant capitalisation at Chittoor-Andhra Pradesh, additional capex for BSVI infrastructure booking of Right of Use of Assets (ROU) as required by Ind AS 116 (Leases) and continued investment in innovation and technology.

Income tax assets have decreased to ₹ 310 crore (from ₹ 839 crore in FY19), on account of Income tax refund received related to previous years and lower taxable base and rates in the current year pursuant to exercising option permitted under section 115BAA of Income Tax Act,1961 as introduced by the Taxation Laws (Amendment) Act, 2019.

Other non-current assets have gone down to ₹ 97 crore (from ₹ 664 crore in FY19). This is because of capitalisation of Capital advances which were lying in previous years into Fixed assets and recognition of pre-paid leasehold land of previous year under Fixed Assets during the year pursuant to Ind AS 116.

Trade receivables, which were elevated in the previous| year consequent to overall slowdown in the economy and consequential higher inventory, have come down to ₹ 1,603 crore (vs ₹ 2,822 crore in FY19). Lower dispatches in last week of March 2020 on account of lockdown has also resulted in lower receivables.

The incentives accrued from various state governments in the previous years have been received in the current year and hence the **Other Current Financial Assets** have gone down to ₹ 355 crore (vs ₹ 654 crore in FY19).

Provisions under Current Liabilities have gone up to ₹ 147 crore (vs ₹ 59 crore in FY19) mainly on account of increase in provision relating to employee benefits.

KEY FINANCIAL RATIOS

Change in Key Financial Ratios	FY20	FY19	Change
Debtors turnover ratio (times)[1]	12.73	15.15	-15.9%
Inventory turnover ratio (times)[2]	22.52	30.13	-25.3%
Current ratio (times)[3]	0.90	1.20	-24.6%
Operating Profit margin (%)[4]	10.89	12.86	-15.3%
Net Profit margin (%)[5]	12.27%	9.86%	24.5%
Return on net worth (%)[6]	26.92%	27.49%	-2.1%

FY20 Net Profit Margin

12.27%

Vs. 9.86% in FY19

[1] **Debtors turnover** ratio has decreased from 15.15 times in FY19 to 12.73 times in FY20 mainly on account of decrease in the underlying sales volumes.

[2] **Inventory turnover ratio** has lowered from 30.13 times in FY19 to 22.52 times in FY20 because of lower cost of goods consequent to lower volume.

[3] The decrease in Trade receivables due to lower dispatch towards the end of March 2020 on account of national lockdown and lower Financial assets owing to cash inflow of State incentives during the year have exceeded the fall in trade payables and other liabilities and hence has brought down the **Current ratio** from 1.2 times in FY19 to 0.9 times in FY20.

[4] Decrease in **Operating profit margin** by 15.3% is on account of negative operating leverage and accelerated depreciation charged during the year.

[5] The **Net profit margins** have however increased by 24.5% supported by net exceptional income during the year and reduction of corporate tax rate.

[6] There has been no major change in the **Return on Networth** – slightly lower (by 2.1% y-o-y) on account to lower profits.

Interest coverage and Debt equity ratios are not applicable to the Company since it has no interest-bearing loan or any other debt/borrowing.

Customer experience: Delighting our patrons

We ride on aspirations and fulfil the desires of millions of people across cultures and geographies. The relationships that we seek to build are emotive and evergreen. We gift our patrons extraordinary experiences of youthful zest and energy that are deeply cherished for life. Our brands, engagement initiatives and wide innovation spectrum are geared to bring more global citizens into the Hero universe.

Nurturing Relationships@GoodLife

GoodLife as a Relationship Programme aims to nurture customers meaningfully. In FY20, our membership base added ~24 lakh members, with enrolments over 20 lakh+ and renewals at 3 lakh+. The referral pool of customers contributed nearly 4 lakh referral sales.

Engagement initiatives have increased radically last year with myriad campaigns. These include Vote for Nation Campaign, World Environment Day, World Cup Bonanza, World Cup Predicta, Monsoon offer, Karodon Ka Tyohar, Young Artists, Top Gun, New Year Bonanza, Vijeta, Nakshatra, Mega Service Carnival, Women's Day, and GoodLife Carnival to name some relevant ones. These Customer Engagement Programmes touched the lives of 3 lakh+ unique customers.

Consumer Experience for showroom sales through Hero Happiness

A great customer experience is a hallmark of a leading brand. Measurement and tracking of consumer experience plays an important role in ensuring long-term business sustainability. It is not only important to measure customer loyalty, identify unhappy customers, reduce churn and increase revenue; but brand differentiation also helps a Company to attract new customers in a competitive business environment.

Some of the key achievements of our ongoing consumer experience management programme are:

1. The Net Promoter Score (NPS) increased from 52 in March 2019 to 55.7 in March 2020
2. Under the Hero Happiness Score Programme (HHS), there were 169 dealerships scoring above 9 (on a scale of 1 to 10), in March 2019 and there are 374 dealerships scoring above 9 in March 2020.
3. Complaints per hundred vehicles (CPHV): CPHV has improved from 0.40% in March 2019 to 0.20% in March 2020. This signifies reduction in consumer complaints.

STRENGTHENING SERVICE SCALE

Mega Service Carnival: Our 3-day Mega Service Carnival organised in March 2020 at 2,225 service points across India witnessed over 3,67,000 customers benefiting with special discounts and other value-added offers. We also set up 19 external touch points to widen our reach across more customers in major towns. New customers purchasing Hero two-wheelers during this carnival received special offers.

Road-Side Assistance: Our 90,000+ customers enrolled for this programme, providing peace of mind and making sure customers get required support anywhere, anytime.

Hero JoyRide Programme: This programme entitles the members to enjoy vast savings, while maintaining their Hero two-wheelers at authorised service centres. Over 36,00,000 customers have benefitted from this programme. 18,68,000+ customers are actively availing the benefits of this programme.

Authorised Express Service Centre: Authorised Express Service Centre (AESC) is the new wave in network expansion for critical and important markets, especially in terms of providing service reach for our customers. Currently set up at Mumbai and Chennai, we plan to scale this concept across all major towns.

hgpmart.com

Strengthened our eCommerce channel through hgpmart.com:

Introduced home delivery of two-wheelers in Mumbai, Bengaluru and Noida.

Supply Chain (SC) is the critical bridge between supplier partners and the Original Equipment Manufacturers (OEM). It is important to recognise that a nimble supply chain delivers a best-in-class product to the end customer while retaining the flexibility to accommodate market fluctuations.

Over the years, we have worked diligently to create a robust supply chain to cater to six manufacturing plants, two overseas plants and one global parts centre. We also manage inter-regional procurement worldwide. Robust processes, in-depth planning, open communication and mutual respect and trust strengthen our engagement with internal and external stakeholders.

MORE DIGITALISATION

Cloud-based platform provides real-time information on production and external demand to its supply chain. We implement digital and automated manufacturing processes paired with strong manufacturing excellence. We implemented digital invoices, easing the material inward and invoice verification by finance, thus eliminating redundancy. The implementation of an online central packaging data repository enabled centralised monitoring of packaging on a single screen. The successful execution of GST and E-way bill regime at all our locations within government specified timelines has facilitated hassle-free operations.

We have been able to successfully migrate our entire line-up from BSIV to BSVI regulatory norms within time frames stipulated by the authorities due to our strong engineering capabilities. Our 600+ engineers at the Centre for Innovation & Technology (CIT) at Jaipur have successfully designed and developed over 15 products in a record time. Collaborative approach and early engagement of supply chain partners has resulted in the manufacture of better products and value propositions.

While collaborations with supply chain partners is the backbone of our supplier management strategy, suppliers by themselves also endeavour to enhance their offerings with improvements in quality, cost, delivery, and operational excellence.

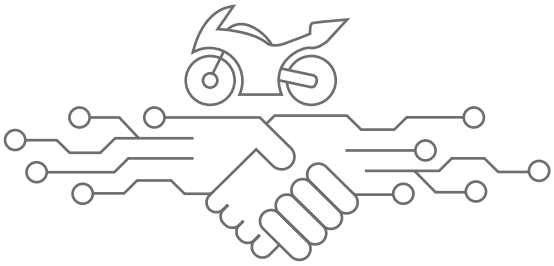
Supply chain strategy during COVID-19

COVID-19 was an unprecedented setback for global economies, and it has exposed the vulnerability of supply chains across geographies. However, it is our ability to reach out to the last mile that has helped us combat the challenge with greater resolve.

While majority of our partners have recovered, it will still take some time before we put the worst behind us. We are all susceptible as these are unprecedented times and the robustness of our networks will be paramount to ensure an undisturbed supply chain.

We enhanced our preparedness by:

- Conducting end-to-end risk assessments and prioritising critical areas
- Multi-sourcing from various geographies is necessary to avoid disruption
- Automation is the key to the future
- Robust completely knocked down (CKD) order planning process is critical
- Enhancing visibility beyond T2 suppliers
- Focus on digitalisation



ENSURING QUALITY

We have always believed in providing top-notch quality products to our customers and have already rolled-out BSVI compliant vehicles in the market. We are confident that with the introduction of low emission standards, we will be able to achieve a significant progress towards a pollution-free India.

Hero Supplier – Total Productive Maintenance (S-TPM)

We are consistently working with our supplier partners to overcome various challenges. Our core team assists the partners in a structured manner. Through the 'Supplier Excellence Programme', we focus on sustainable improvements at the supplier's end. This improves reliability, efficiency, and costs in the value chain.

We always work with our suppliers to create a culture of continuous improvement in a sustainable manner. Improvements are likely in these areas:

- **Customer quality**
- **Engineering excellence**
- **Lean layout**
- **Lead time reduction**
- **Safe workplace**
- **Inventory reduction and many more reaping benefits**

Other initiatives

E-material Flow (EMF)

This year, we have expanded the scope of E-material Flow (EMF) to all our locations. We aspire to start the EMF services at Chittoor with the commencement of mass production to achieve time-window adherence of 100%-benchmark in delivery performance.

Carbon Footprint Reduction

Packaging improvements have led to the reduction in trips, diminishing the carbon footprint by 22.3 MT annually.

Pulp Saving

Implemented reusable packaging i.e. FLC thus saving pulp equalling ~3800 trees annually.

Packaging Size Optimisation

Savings to the tune of ₹ 0.63 crore (₹ 32/vehicle) by increase in part quantity/bin

ASRS (Automatic Storage & Retrieval System) for two wheeler, Hero Neemrana Plant

Information technology: Digitalisation shows the way

FY20 will be remembered for a key positive trend. To bring to the forefront of our economy and society the huge role of technology and digitalisation. We are leveraging technology to drive efficiency, building digital interfaces, facilitating remote working, and enabling the business to operate seamlessly.

Some of the major initiatives that we took during the year comprise:

New technologies implemented

- Implemented Robotic Process Automation (RPA) platform for automating processes like invoice processing, gate entry and others thereby building greater efficiency.
- Rolled out Hero Connect, our customer relationship management (CRM) system for authorised representatives of dealers (ARDs) covering 99% of the business, ensuring consistency. This helps the Company with stronger analytics and greater understating of our sales.
- Implemented Plant Utility Cockpit at Chittoor plant that provides a 'bird's eye view' of all utility operations; the Cockpit enables the management of the entire utility operations efficiently with minimum manpower.
- Creative digital business listings extended to the authorised service centres (ASCs) to increase the digital presence of our channel partners; the listings have helped them reach more people digitally and improved visibility to our customers on search engines.
- Leveraging Additive Manufacturing (3D Printing) beyond the R&D function to optimise requirements of plant operations by manufacturing functional parts (jigs, fixtures, hand tools, gauges, maintenance spares, among others).
- Remote assistance using wearable devices to improve productivity and minimising travel and its associated costs enabling remote warranty support, providing remote support for issue resolution by skilled manpower or technical helpdesk team.
- Multiple analytical and real-time dashboards were released, which helped improve business outcomes and better forecasting.
- Dedicated teamwork on Industry 4.0 to be faster, more efficient and customer-centric, pushing beyond automation and optimisation to discover new business opportunities and models.
- Implemented Manufacturing Execution System (MES) for traceability of safety and emission parts to meet product recall norms and improving overall operational efficiency.
- Digitalisation and traceability provide real-time quality parameter interlocking and capturing of the process parameters for the critical components. They are used for ensuring defect-free components in our engines. Traceability of components is another added advantage of this system.
- Grow the competence of our people through the release of a learning platform for internal staff members, workers, contractual personnel and channel partner's staff.
- Contactless enablers through technology including online attendance, recruitment and on-boarding etc. to name a few.

Technology upgrades

To stay in sync with the changing technology landscape, we upgraded multiple components of the tech ecosystem of the Company. Major upgrades include the move from SAP to **SOH (Suite On HANA)**: for improvement in the response time of business transactions (agility) and reduction of the data footprint. Also strengthened availability of our enterprise application for Disaster Recovery.

Other upgrades include upgrades across the value chain, from R&D to final sales tracking and its analysis. Some of these include, Product life cycle management system, Dealer Management System – on Hero Connect to better capture sales data, an analytics platform, cloud migration to help in remote working during the lockdown, enhanced visibility of unknown threats and traffic flow by AI/ML based network anomaly tool and security by scaling up the existing network access control (NAC) system.

Human assets: Our critical growth enabler

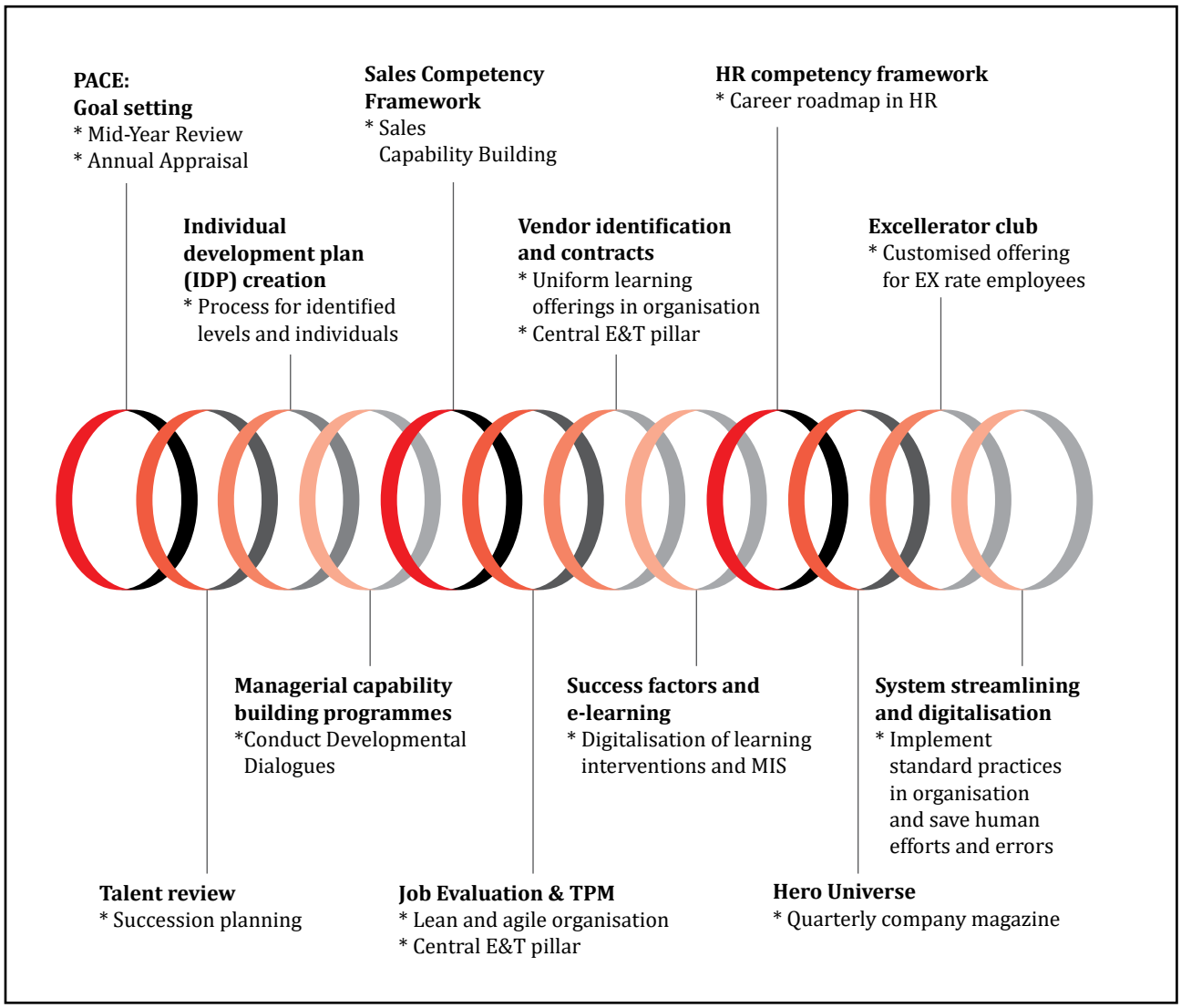
Numerous HR initiatives were implemented in addition to our ongoing activities to drive the potential of our talent pool in FY20:

TALENT MANAGEMENT & DEVELOPMENT (TM/TD)

We use talent management and development as a strategic tool to achieve our long-term objectives. Following are the critical initiatives undertaken during the year:

At Hero MotoCorp, we cherish the contribution of our people who help us achieve our organisational goals; they are our true brand ambassadors. We invest in attracting the right talent and upskilling them, so that they can contribute more effectively towards our holistic value creation.

INTERVENTIONS IN FY20



Virtual and Automotive Skill Development Centre (ASDC) was initiated at the Gurukul, Haridwar and Gurgaon plants to train unemployed youth, skill them, make them employable and encourage them to pursue self-employment. Employees are trained on vocational skills, technical knowhow, productivity management as well as soft skills.

To capitalise on business opportunities and broaden the understanding of our people, further trainings were conducted, which included training on the emerging trends in mobility and electric vehicles to prepare our people for future economic, policy matters and technical scenarios.

We intend to increase competence of our people through a learning platform set up for internal staff members, workers, contractual personnel and channel partner's staff.

DIVERSITY AND INCLUSION (D&I)

We adopted recruitment initiatives, education and training, career development, and mentoring programmes to increase and retain workforce heterogeneity within the organisation. In all our initiatives the emphasis was on 'inclusion'.

Following are the overarching guidelines for various initiatives:

Leadership and advisory support

- Women in Leadership Programme (WIL)
- POSH Policy
- Maternity Benefits
- Night Shift Approval for Deployment of Women (B&C Shift)
- Restricted Holidays

Culture and Mindset

- Gender Sensitisation Workshop
- D&I Talks
- Gamification/Online Quizzes
- Sign Language Training

Recruitment and selection

- Acquiring diversity talent
- Supportive infrastructure
- Sensitisation workshops for interviewers
- Campus outreach

Hero Assembly line, Gurgaon Plant

Our inclusive policy has started to bear fruit with the overall representation of women in the workforce crossing an important milestone of 1,000 employees this year. As a manufacturing organisation, we are committed to improving the ratios sustainably over the long run.

1,000+

Women employees

TALENT RECRUITMENT

We made rapid progress on achieving several organisational goals, including diversity and digitalisation by striking the right chords with correct recruitment. Contactless enablers through technology, including online attendance, recruitment and on-boarding etc. were some of the measures undertaken this year. **Some of the key highlights of our talent recruitment process included winning the female talent**, enhancing people experience with our revised policies and processes, and digital recruitment and induction processes together with a hassle-free on-boarding.

EMPLOYER BRANDING

Digital engagement is considered the key to brand success in the developing world order. We initiated technological armamentarium to achieve success with our employer branding. In line with our talent acquisition strategy, we organised Hero Campus Challenge Season-5. Bigger than its earlier versions, it received record registrations from 32,152 students (10,717 teams) from both B-Schools and Engineering colleges when it was launched in October 2019. The programme was also showcased on national news channels that telecast some of the key highlights and ideas presented by the contestants as well.

HR BENEFITS AND POLICIES

We ensure that our employees receive the best-in-class monetary and non-monetary benefits through our employee-friendly policies, put in place after thorough benchmarking of global best practices. The employee-centric HR policies, practices and procedures **focused on inclusivity, work-life balance, career development, flexi-benefits and hence, we introduced and revised related policies like working hours, part-time employment and company car scheme to name a few**. Our superior work-force analytics, employee communication/engagement tools, and other digital platforms are enabling the management in faster decision-making and gauging the impact instantly.

Hero Campus Challenge Season-5

- **Total Registrations 32,152 students (10,717 teams)**
- **Qualification for Grand Finale – 10 teams**
- **Selection of 1,092 teams**
- **Telecast on National News Channels**

EMPLOYEE RELATION AND ENGAGEMENT

People-connect is at the core of our HR function.
We witnessed huge participation of employees and their families in various engagement initiatives organised at all units. Sports bonds people through shared goals in competitive environments such as in Badminton, Foosball, Table Tennis, Football, and Kabaddi which were hosted round the year and witnessed great energy and zeal among the employees. Hero MotoCorp Football League Season 4, Hero Premier League Season 5, Contractual Sports Meet, and Industrial Sports Meet brought competitiveness, togetherness, and teamwork through amazing performances by employees, the leadership team and women colleagues.

Caring for our little Heroes

All our plant locations are enabled with quality day care facilities, providing personal growth and development programmes on a regular basis. A 100% compliance through regular audits and parents' satisfaction is ensured. Summer/Winter camps were organised with a structured series of development workshops, especially for children, keeping in mind their day-to-day challenges and the need to become future-ready..

Our specially-abled employees in external forums
Our specially abled employees have made us proud in many ways. Technicians represented us at the national and international level in events like the Cricket match series organised by the Deaf Cricket Society (affiliated to Deaf International Cricket Council), Deaf International Cricket series in South Africa and Deaf International Cricket Series in Sri Lanka.

HEALTH AND WELLNESS

Our occupational health and safety (OHS) policy ensures that health and wellness are incorporated into our business strategy. The cross-functional Total Productive Maintenance Committee safeguards the pillars of safe work, a healthy workforce and increased productivity. We provided our employees on demand access to knowledge about their health condition though a wellness portal (web, mobile app) which includes multiple tools for health risk assessment, personalised health tips based on risk assessment or current health issues, medication reminders, lab tests etc. designed for different age groups and risk profiles.

The Company also initiated psychological health support for our employees through an Employee Assistance Programme (EAP) for improving mental wellness, as a confidential individual assistance/counselling and support service to help employees cope with personal issues.

Saksham Sathi Award 2019

Gurgaon Plant won the Saksham Sathi Award 2019, conferred by the Government of Haryana for engaging highest number of apprentices in Gurgaon.