

# Chairman's Speech

2003

Dear Shareholders,

On my own behalf and on behalf of the Board of Directors of your Company, I welcome you all to the 20<sup>th</sup> Annual General Meeting of your Company. I hope you have already gone through the Annual Report for the year 2002-03.

The Company, during the last two decades, has performed well and sustained the confidence of all the stakeholders. It is a real tribute to Shri Raman Munjal, the first Managing Director of your Company, who led the Company from the front and created a place for it in the Indian two-wheeler market.

This performance would not have been possible without the active support of the management and employees of Hero Honda Motors Limited and on behalf of every one present here, I would like to express our heartfelt appreciation and thanks for their unstinted support and cooperation.

## **Performance of the Economy**

Our nation's economic performance during the financial year 2002-03 was mainly influenced by the performance of agriculture and industry. While the industrial performance showed some recovery during the year, with an annual growth of 5.7 percent, the agriculture growth was quite disappointing with failed Monsoons at 3.4%. As a result, the GDP growth fell to 4.4 percent in the last fiscal as against 5.6 percent in 2001-02. The manufacturing segment, however, performed better (5.8 percent) and there was a good activity seen in the area of capital goods and automobiles. Service sector, as usual, continued its growth of 7 to 8 percent per annum on a y-o-y basis. The redeeming factor during the year was low inflation rate of about 5 percent and a regime of low interest rate, which together have helped investment growth in the economy.

With Monsoons heading a normal course in the current year, the outlook for the economy seems to be much better and is expected to grow at 6 percent and above during the year 2003-04. As a result, the consumption may also show a spurt as banks are trying to increase the consumer loan penetration to the customers. There is a major change in the banking sector's focus towards consumer finance and market demand is definitely going to benefit from this new trend.

## **Two wheeler Industry trends**

Automobile industry for the FY 02-03 showed an improved growth rate, particularly for the car segment. While for the two-wheeler segment, it was more subdued than the last year, it nevertheless recorded a growth of 17%. The announcement of lower excise duty on cars has pushed the sale significantly. In the two-wheeler segment, the motorcycle share went up to 76 percent in 2002-03 from 42 percent in 1998-99. The recent trend shows that motorcycle share may go even up to 80 percent.

The emphasis in two-wheeler industry is on cost saving. This is because the market is becoming very competitive and companies are trying to capture more market share by providing the customers a price advantage. Another strategy adopted by the market is that new products are

launched in quick sequence to attract new customers. In the same trend, the coming year is also likely to witness the launch of at least 7-8 new models.

The outlook for two-wheeler industry grossly depends on Monsoon in the next season. This is so because a large chunk of new demand is coming from small towns, which have a greater linkage to agricultural incomes and services. If Monsoon spread turns out to be normal, a 14 to 15% growth in motorcycles and a 10% growth in two-wheelers may be expected. The two-wheeler output for 2002-03 may be placed at 5.56 million units and motorcycle share could touch up to 80%, i.e. 4.5 million units.

### **Company's Performance**

As you are aware, by the end of the calendar year 2002, Hero Honda became the single largest two-wheeler manufacturer in the country and also in the world in terms of volume. The leading edge position got further consolidated by the close of financial year 2002-03 with a record sale of 1.68 million units. This is equivalent to 17.7% growth on the previous year sale of 1.43 million units. The market share of the Company however declined marginally to 44% in motorcycles while maintaining its 33% share in two-wheelers. Our major brand `Splendor' continues to be the largest selling brand in the world for the third consecutive year.

The company has an extensive dealer and service network of 1500 points spread across the country. The Company had also launched a customer relationship program three years ago, popularly known as the "Hero Honda Passport Program". During the year, the Passport Program achieved a cumulative membership of one million customers, making it a one of the largest customer relationship programs in the country.

### **Financial Performance**

As mentioned in my last year's address, the focus of the Company has been on cost efficiency and the creation of shareholders' value. The financial performance during the year is a clear testimony of our resolve in achieving our objective.

The turnover increased to Rs.5102 crore in 2002-03 as against Rs.4539 crore in 2001-02, which is an increase of 14%. Similarly net profit went up to Rs.581 crore as against Rs.463 crore in the same period thereby recording an impressive year on year growth of 2.5%. On the basis of good sales performance and efficient management of resources, all the parameters of performance such as Economic Value Added (EVA), Return on Average Capital Employed (ROACE) and Free Cash Flows (FCFs) have all shown significant improvements. The Board thus proposes to pass on the increased profits to the shareholders through its investor friendly dividend policy, by recommending a dividend of 900% (including a special dividend of 400%) for the financial year 2002-03.

### **New Initiatives**

Your company has stabilized ERP programs in the areas of Human Resources, Plant maintenance and operations. The usage of Information Technology and ERP initiatives are now being extended to our Suppliers and Dealers thereby enabling the supply chain to become more efficient.

The current capacity of both the plants put together is 2.2 million vehicles. The Company is also looking at expanding its capacity further. Study has been carried out to identify potential location

for the third plant. A decision regarding the same will be taken after due consideration arising out of the recommendations of the study.

### **Acknowledgement**

I would like to acknowledge the efforts, support and valuable guidance of my colleagues on the Board. I would like to express my sincere appreciation to Honda Motor Co., Ltd., Japan and Hero Cycles Limited, Ludhiana for their continued co-operation and efforts in making this venture a most successful one.

I also take this opportunity to express my thanks to the various officials of State and Central Government departments, banks and financial institutions for their on-going support and assistance.

Our dealers, customers, ancillaries and vendors have also contributed to our growth efforts and on this occasion it would be very pertinent to thank them for their continued co-operation as well.

I am greatly thankful to all our employees for their consistent high level performance, commitment for the Company's goals and for their team effort. Without their support and devotion this kind of performance would not have been possible.

Finally, I would like to thank you all for the confidence you have reposed in the Company as in the past and look forward to your support in the years to come. I once again thank you all for attending this Annual General Meeting of our Company.

Thank you, ladies and gentlemen.

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**Speech of Mr. Brijmohan Lall Munjal, Chairman at the Twentieth Annual General Meeting of Hero Honda Motors Limited held at New Delhi on Friday, August 1, 2003.**