

# Chairman's Speech

2004

On my own behalf and on behalf of the Board of Directors, I welcome you all to the 21<sup>st</sup> Annual General Meeting of your Company. The annual report of the Company has already been provided to you and I hope you all have gone through it.

## THE ECONOMY

The social and business conditions in India between January and July this year look significantly different on account of change in the political scenario. The much-publicized "India Shining" campaign raised the hopes all around but the delayed monsoon in June-July months seem to have dampened the mood for a while.

The economic performance in the fiscal year 2003-04 was an unprecedented one compared to any other year during the last decade. The economy showed stupendous growth of 8.2%, which is a huge recovery over 4.3% of 2002-03. This re-bounce was possible due to an impressive performance of 9.2% in agriculture and over 6% in industry in 2003-04. Service sector, which accounts for more than half of the GDP recorded a close to 8% growth rate. As a result, the individual sectors have shown great recovery and performance.

Though Monsoon has become key in defining the fluctuations in the economy, a bad monsoon does not hit food security immediately due to the food grain policies of the Government. However, it seems to make a lot of difference to the expectations of the people that are crucial for investment and consumption decisions. In 2003-04, due to good rains the demand picked up in the second half of the year leading to overall recovery in most sectors. Based on this strong performance, we feel that the confidence in industry and overall economy is positive and hence would continue to support demand growth in 2004-05 as well. The economy is likely to grow at 6.5% after discounting for delayed monsoon, which reported may affect 38% of the gross cropped area in the country.

During the entire period of 2003-04, interest rates were quite moderate and boosted demand and investments. Along side, the inflation rate also, continues to be around 5% although in the last quarter it showed some appreciation. The other parameters of the economy such as foreign exchange reserves, credit to non-food activity etc., have all provided a healthy foundation for the growth of the economy.

## INFLUENCE OF CHANGED POLITICS ON THE ECONOMY

Being an election year, the concentration was on performance of the economy and revival of the industry before political parties actually went to people for votes. The year saw two budgets being presented: the mini-budget in January 2004 and the main budget in July 2004, both by different governments. In the first one, duties were reduced to facilitate the expansion of the economy. But in the July Budget, overall tax incidence went up. The policies now tend to prefer agriculture and social sector in

deference with Common Minimum Program of United Progressive Alliance led by Indian National Congress.

## **INDUSTRY PROFILE**

Industry was able to show good recovery across all segments in 2003-04. The fact that capital good industry exhibited a growth of over 10 per cent for the last two years (12.7% in 2003-04) has lent a good support to industrial growth. Consumer durables recorded 11.6% and intermediate goods 6.2% respectively for the previous fiscal year. For the ensuing period that is 2004-05, industry is expected to grow over 9%.

## **AUTOMOBILE INDUSTRY PERFORMANCE**

Reduction in excise duty on cars, lower interest rates and recovery in modal shift to road transport have all resulted in boosting the performance of auto sector in 2003-04. The car segment grew by an impressive 28% and commercial vehicle at 38% last year while the two-wheeler industry continued to grow at about 12%.

Within two-wheeler industry motorcycles grew at 14% and accounted for 77% share. For the last few years the growth in motorcycle share has been at the cost of mopeds and scooters. However during the financial year 2003-04 scooter showed recovery. In all, motorcycle growth may stabilize around this level and there could be some gain of market share by scooters in the coming months as per the trend available in the first quarter of 2004-05. In anticipation of good market growth during the fiscal 2003-04 the automobile companies introduced a slew of new models. This year also, companies will introduce new models to provide better feature and choice to the customers. We expect aggressive pricing as a strategy that would be adopted by the competition, in addition to new launches.

The outlook is that the cars, two-wheeler and other vehicles in auto industry are expected to grow at double digit for the year 2004-05. Growth in tourism and increased road facility will help automobile sector with better growth prospect in the medium term.

## **COMPANY PERFORMANCE**

### **(a) Sales Performance**

It is my privilege to share with you that Hero Honda sold over 2 million motorcycles and recorded a 23% growth over last year's 1.68 million sales. Not only that, your Company's sales growth was higher than the industry average of 14%. Your company also improved its market share to 48% and 37% in motorcycles and two-wheelers respectively.

Your Company has emerged as one of the best performing companies in the country. The Company has retained its number one position as the single largest two-wheeler manufacturer of the world for the third year in a row. Splendor, the world's largest selling brand, for the fourth consecutive year not only retained its position but also achieve the 1 million sales mark.

With 5 new launches, namely CD Dawn, Karizma, Splendor+, Passion Plus and Ambition 135 during the year, the entire product range gave a fresh and contemporary image to the customers.

### **(b) Financial Performance**

The turnover of your Company increased to Rs. 5832 crore in 2003-04 as against Rs. 5102 crore in 2002-03, which is an increase of 14.3%. Similarly ratio of operating profit before depreciation, interest and tax (OPBDIT) to net sales increased from 16.7% in 2002-03 to 16.8% in 2003-04. PAT grew by 25.4% from Rs. 581 crore in 2002-03 to Rs. 728 crore in 2003-04.

### **SOCIETY**

There is slow but perceptible change in the social fabric of Indian society. The higher accent to urban life and lifestyles has led to smaller unitary families, multiple earning members, and more disposable incomes. There are voices in support of increased women participation in all walks of life including legislature and Parliament. Intelligentsia in this country have been strongly urging for relevant reforms to remove gender bias. Women and young in the family rather than the head of the household (principle earning member) are tending to make purchase decisions. Education and health, the two main responsibilities of the government are increasingly being commercialised. The commercial process is accentuated by liberal support from financial sectors, particularly banks and insurance companies. Government also seems to be in favour of this process as it finds it difficult to aid the expanding demand for education and health from its own sources.

Society is becoming more liberal but religion in India provides a distinct cultural identity than in most liberal and democratic societies. However, the feeling of communal tendencies, which otherwise are fading do impact the normal life sporadically. Children are more stressed because of high rate of unemployment and pressure to do well for their studies and career. In all the society is more stressed for livelihood than before although the levels of poverty and quality of life have increased by all standards.

### **OUTLOOK FOR NEXT 3 YEARS**

India will be in the forefront of Asia's development and growth. Whether it will surpass China in terms of growth performance or not is a matter of circumstances and policies pursued in both the countries and thus no projections are forwarded here. It may however be said that overseas relations of India have greatly improved and the economy is strong in fundamentals. Besides the policies, notwithstanding change in the stance, have been towards increased competitiveness.

India's current strengths are in services and to a lesser extent in manufacturing while reverse is the case for China. Both the economies will be trying to correct the skew and India will invest in making its industry efficient and trade oriented. This process is strengthened by many manufacturing technologies flowing into India to be a player in one of the Asia's largest markets. At present value addition and consumption is

happening here, which definitely will push the GDP and per capita incomes but may not be resulting in significant trade surplus.

This vibrant economy will be in the medium term poised for its role in Asian economies and world trade.

## **ACKNOWLEDGEMENT**

I would like to acknowledge the efforts, support and valuable guidance of my colleagues on the Board. Also, 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. You will be pleased to know that the technical collaboration between Hero Honda and Honda Motor Co. has been extended for another 10 years which will ensure continuous flow of world class technology and technical assistance for our products and processes.

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 company goals and for their team effort. Without their full involvement this kind of performance would not have been possible.

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.

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**Speech of Mr. Brijmohan Lall Munjal, Chairman at the 21<sup>st</sup> Annual General Meeting of Hero Honda Motors Limited held at New Delhi on Tuesday, August 17, 2004.**