



Chairman's Speech

2018 - 19



Hero



Hero MotoCorp Ltd.

Dear Members,

On behalf of the Board of Directors, I heartily welcome you all to the 36th Annual General Meeting of your Company.

The history of the world has always been marked by defining moments that bring about tectonic shifts in the industrial, geo-political and socio-economic landscape. We are currently operating in one such epoch that will define the legacy that we will leave behind for our future generations.

The future is filled with promise and, as always, your Company is at the forefront of this evolution. Brand Hero today has a global presence spread across a large and diverse geographical expanse with manufacturing facilities in India, Colombia and Bangladesh. It is, therefore, important for us to recognize the various events around the world that could impact us.

The global economy has started to stare down at a period of a synchronized slowdown. This is happening due to several factors such as the US-China trade war, the lingering uncertainty over Brexit, consistently slow economic growth in the European Union, a sputtering Chinese growth engine and the rise of protectionist governments in many key economies.

Adverse conditions, however, generally lead to a brighter and advanced future for society. We, therefore, expect the global economy to come out stronger from this phase. On that positive note, let me now take you through performance of Hero MotoCorp in one of the toughest fiscal years for the two-wheeler industry in the recent past.

Fear Nothing in Pursuing Excellence

This is the philosophy that defines Brand Hero, as the Company continuously strived to innovate and excel in everything that it did across all its functions in FY'19.

It was also another year of several 'firsts' for us. We achieved higher sales milestones, launched multiple new products, expanded our manufacturing and R&D facilities and set the benchmark in being a socially responsible corporate. All our seven state-of-the-art manufacturing facilities – including five in India and one each in Colombia and Bangladesh – continued to set the benchmark in manufacturing excellence, enabling the Company to maintain its market leadership.

A Premium Journey

During the year, we forayed into two new product segments – the premium motorcycle space with our new Xtreme 200R motorcycle; and the 125cc scooter category with the Destini 125. Destini is also the first scooter in India to have our revolutionary i3S (Idle Start-Stop-System) technology.

Proving to be a blockbuster, our new 125cc scooter Destini has become the fastest scooter brand in India to surpass the 100,000 unit sales mark.

These new products will soon be launched across key markets in Asia and South America with the aim of growing our presence in these product categories.

Cruising past Sales Milestones

In the Indian market, the second half of the fiscal was hampered by a host of impeding factors such as increased insurance premium costs, lack of liquidity in the markets, poor consumer sentiment and increasing fuel prices. Yet your Company managed to ride through the storm and continued to remain the numero-uno player in the country by a fair margin!

We registered a record sales of 7.8 million units during the fiscal, a testimony to our grit, resilience and product excellence. In this process, we also crossed the landmark customer base of 90 million units sold. We also became the first two-wheeler company to surpass 750,000 units in monthly sales in September 2018, besides achieving 700,000-plus monthly sales on four separate occasions during the year.

Our evergreen brand Splendor also reclaimed its coveted position to become the largest two-wheeler brand made in India.

Most of our global markets also continued to operate in a complex and dynamic macro-economic environment, leading to a weaker global expansion, especially in the second half of 2018. Despite these challenges we managed to improve our sales performance in many markets, including Latin America where our dispatches grew by 38% and the Asian region where we grew by 12% in terms of retail sales. In Bangladesh we crossed the landmark 100,000 unit retail sales.

Expanding the R&D EcoSystem

Our new, advanced and appealing product range is a testimony to the robust Research and Development (R&D) capabilities that we now possess at our global R&D hub - the Hero Centre of Innovation and Technology (CIT) - in the northern Indian city of Jaipur, Rajasthan.

In FY'19, we also gave shape to our vision of creating a global R&D ecosystem by setting up our first international technology centre, the Hero Tech Center Germany GmbH, (HTCG). This new centre will operate in tandem with the CIT to develop new vehicle concepts, modern designs and create mobility solutions of the future.

The HTCG has been envisaged as a source of latest technologies, with a focus on the global customer base. It will also enable us to tap into the huge pool of resources readily available across Europe and merge them with our ongoing operations at the CIT. In addition, it will be the epicentre of our motorsport team venture – the Hero MotoSports Team Rally - which has become the flag bearer of Indian motorsports on the global platform.

Engineers, designers and product experts from over 10 countries are now engaged at the CIT and HTCG to develop products that suit the sensibilities of our diverse global customer base and are future-ready.

Creating a Sustainable Future

As a global automotive player and industry leader in India, we are well cognizant of our role and responsibility in ensuring Sustainable Development of the industry, India and the world. Our manufacturing facilities, spread across two continents, maintain the highest ecological standards while meeting business objectives, helping create a sustainable tomorrow.

In tandem, we continue to work with our Supply Chain Partners to strengthen the overall Sustainability Footprint. Our comprehensive Sustainability Report for FY'19 encapsulates the Company's framework, approach and efforts on sustainability.

Our upcoming manufacturing facility- the Garden Factory at Chittoor in the southern Indian state of Andhra Pradesh - reaffirms our commitment to green and sustainable manufacturing. Once completed, it will take our total installed capacity to around 11 million units and generate around 15,000 jobs in direct and indirect opportunities with the creation of a sustainable ecosystem of vendors and suppliers in the region.

In FY'19, we reduced our energy intensity by 4%, thereby positively impacting Carbon emissions. Our specific water consumption has been reduced by 7% and we achieved waste neutrality of 82% through recycling and co-processing initiatives. We also improved our solar footprint by 24%. Going forward, our long term vision is to be carbon neutral by 2030.

As you are aware, the automotive industry in India will go through a massive transition by April 1, 2020, with the implementation of the Bharat Stage (BS)-VI emission norms. These standards will put India at the forefront of environment-friendly regulations. You will be happy to know that we are completely geared up to embrace this transition well within the set timeline.

In safe hands

As a responsible organization, we have always contributed to the betterment of the society and our Corporate Social Responsibility (CSR) programmes are designed to have a positive impact on as many lives as possible.

Our key CSR initiatives focus on the well-being of children and women from marginalized and less privileged backgrounds and also on the conservation and protection of the environment. Our spends on CSR have been far more than the mandatory 2% of our net profits since 2015 and the scale and the impact of all our programmes has also been growing year-on-year.

Our education focused projects have enabled over 300,000 children from rural areas in India to compete with their privileged counterparts in urban India. Likewise, close to 20,000 young girls and women have been trained in various trades at our skill centres and are now gainfully employed.

A large part of our CSR allocation also goes towards meeting our environmental aspirations through the 'Happy Earth' programme, as a part of which, your Company planted more than 2,000 trees per day, totaling to 760,000 trees during the year.

Sports is one of the essential elements of our CSR platform. We encourage sports at grassroots level and have made considerable investments to build necessary sports infrastructure in rural areas. Supporting professional Paralympic athletes to prepare for and participate in international events has also been a priority for the Company.

Road safety continues to be another top priority of Hero MotoCorp. We continue to invest significantly in road safety awareness and safe riding trainings through our 'Ride Safe India' programme, which has seen participation from over 500,000 people so far.

Ready for Tomorrow

The current global technology landscape is ever-evolving and we continue to keep ourselves aligned with the changing world trends. During FY'19, enterprise systems in production technology got further streamlined across the globe. In an endeavour to stay ahead of the curve, we also adopted technologies such as Robotic Process Automation, Artificial Intelligence (AI), IOT, Block Chain and Machine Learning, to name a few.

In our key international markets, like in Colombia, we used new age technology to develop a system where we are able to approve loans in 10 minutes - a first-of-its-kind initiative in that market. Similarly in Argentina, we have developed a single-webpage user interface, where the customer gets all the relevant information regarding – sale, insurance, finance and accessories – on a single window.

Such innovative new initiatives enable us to differentiate ourselves from competition. At the same time providing a value-added and convenient purchase experience to the customer.

People Strong

In keeping with our commitment, we have significantly increased our focus on diversity and inclusiveness. As Hero increasingly continues to become a more global brand, I can assure you that we remain committed to the tenets of diversity, equal opportunity, and inclusion.

Global Headwinds

The global footprint of your Company is now spread across 37 countries in Asia, Africa, South and Central America and the Middle East. Many of the international markets that we entered into during the past few years, however, are grappling with their own economic issues.

FY'19 turned out to be an engaging and challenging year and brought with it a new wave of opportunities and successes, even as it tested us with a unique set of problems.

While the world braced for 'slowbalization', your Company did the opposite and continued its globalization journey by investing in new markets, introducing new products across segments and expanding its distribution networks. Our business in most of our global markets – including in Colombia and Bangladesh where we have manufacturing operations - is steadily gaining traction. We will continue to scale up our operations in sync with the market sentiment. We will also continue building the brand through various initiatives such as participating in marquee global and regional Auto Shows and sports partnerships.

Regulatory Environment

The two-wheeler industry in India continued to grapple with the effects of regulatory changes during FY'19. The Insurance Regulatory and Development Authority of India (IRDA) made it mandatory for all new two-wheelers to have five-year third-party insurance cover.

From April 2019, it also became mandatory for all new two-wheelers with an engine displacement of over 125cc to be equipped with anti-lock braking systems (ABS) while all lower displacement two-wheelers were required to have a combi-braking system (CBS).

The cost implications of the five-year insurance adversely affected the common man who uses a two-wheeler to commute, and in the process slowed down the entire two-wheeler industry in India. We believe that the government needs to urgently mitigate this by providing cost relief to customers.

One significant step in this direction can be if the Government removes two-wheelers from the highest GST slab of 28% meant for luxury goods, to the 18% slab. This will help revive the industry, which in turn, will help in bringing the economy back on track.

Sporting Moves

Looking beyond business, Hero MotoCorp firmly believes in the transformational power of sports on society and remains committed to supporting and nurturing diverse disciplines of sports such as Football, Hockey, Motorsports, Cricket and Golf around the world.

Having begun our association with Sporting icon Tiger Woods in 2014, we further strengthened our journey with him in FY'19 by retaining him as our 'Global Corporate Partner'.

Tiger's persona transcends geographical, cultural and generational boundaries. He has scripted the most extraordinary return to the highest echelons of the game through sheer persistence, true grit and determination to win. As Brand Hero keeps expanding its global footprint across continents, Tiger will continue to play a valuable role in taking our core messages to the world, thereby, creating higher awareness for our brand across geographies.

Our motorsports team, Hero MotoSports Team Rally, did us proud once again this year. The team achieved its first podium finish of 2019 at the Merzouga Rally in Morocco, close on the heels of an impressive run at Dakar Rally 2019. We have since strengthened the team's profile further by signing on the Portuguese champion, Paulo Goncalves, as our fourth rider, in addition to India's CS Santosh, Joaquim Rodrigues from Portugal and Oriol Mena from Spain.

Especially in Latin America, we have been using Football to create and sustain awareness for the brand. A very successful TV campaign featuring Cholo, Diego Simeone was run during the World Cup that created a massive awareness for the brand.

Looking ahead

The entire world is adopting the global mobility trends of electrification (EVs), shared mobility and connected two-wheelers. The Company is working on several EV projects and is fully geared up for this challenge.

Hero MotoCorp has also made a sizeable strategic investment in the electric two-wheeler manufacturer, Ather Energy, based out of Bengaluru, India. Ather has already launched a range of path-breaking and innovative electric scooters.

We highly appreciate and whole-heartedly support the Indian government's vision of a more sustainable and environment-friendly future. We, therefore, propose a more cautious, clear and realistic roadmap towards the adoption of EVs. The scale and timing of the adoption need prudent deliberations and we will gladly support all stakeholders in this process.

While the world economy is still facing some headwinds and uncertainty continues to loom over global geopolitical climate, we aspire to firmly stride on our growth path.

Global growth expectation has softened to 3.3% for 2019 with short term socio-political and trade uncertainties across countries. In Latin America, growth is projected to recover to 1.4% in 2019 and 2.4% in 2020. While Brazil, Colombia and Mexico are expected to grow, Argentina and Venezuela are likely to decline in 2019. Growth in the Middle East & North Africa (MENA) region is expected to weaken to 1.5% in 2019, before recovering to about 3.2% in 2020.

India's economic growth rate has reportedly slowed to a five-year low of 5.8% during the January-March 2019 quarter, while joblessness in the country rose to a record 6.1% of the total labour force during 2017-18 - the highest in the past 45 years.

India's Automotive Mission Plan 2016-26 has envisioned an increase in the automotive sector's share of the country's GDP from the current level of 7% to 12% by the year 2026. With the ongoing urbanization, rising income levels and supportive regulations, we are confident that the industry will meet this target and your Company intends to continue playing a critical role in this upward shift.

At Hero, every member of the family has a key role to play, as we progress towards becoming a global entity and achieving greater success. I can assure you all that we will continue to create value for each one of you, while continuing with our efforts to create a greener, safer and equitable society.

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

Thanking you all for attending the Company's 36th Annual General Meeting.

Pawan Munjal
Chairman, Managing Director & CEO

**Speech of Dr. Pawan Munjal, Chairman, Managing Director & CEO
at the 36th Annual General Meeting of Hero MotoCorp Ltd.
held at New Delhi on Monday, July 29, 2019**