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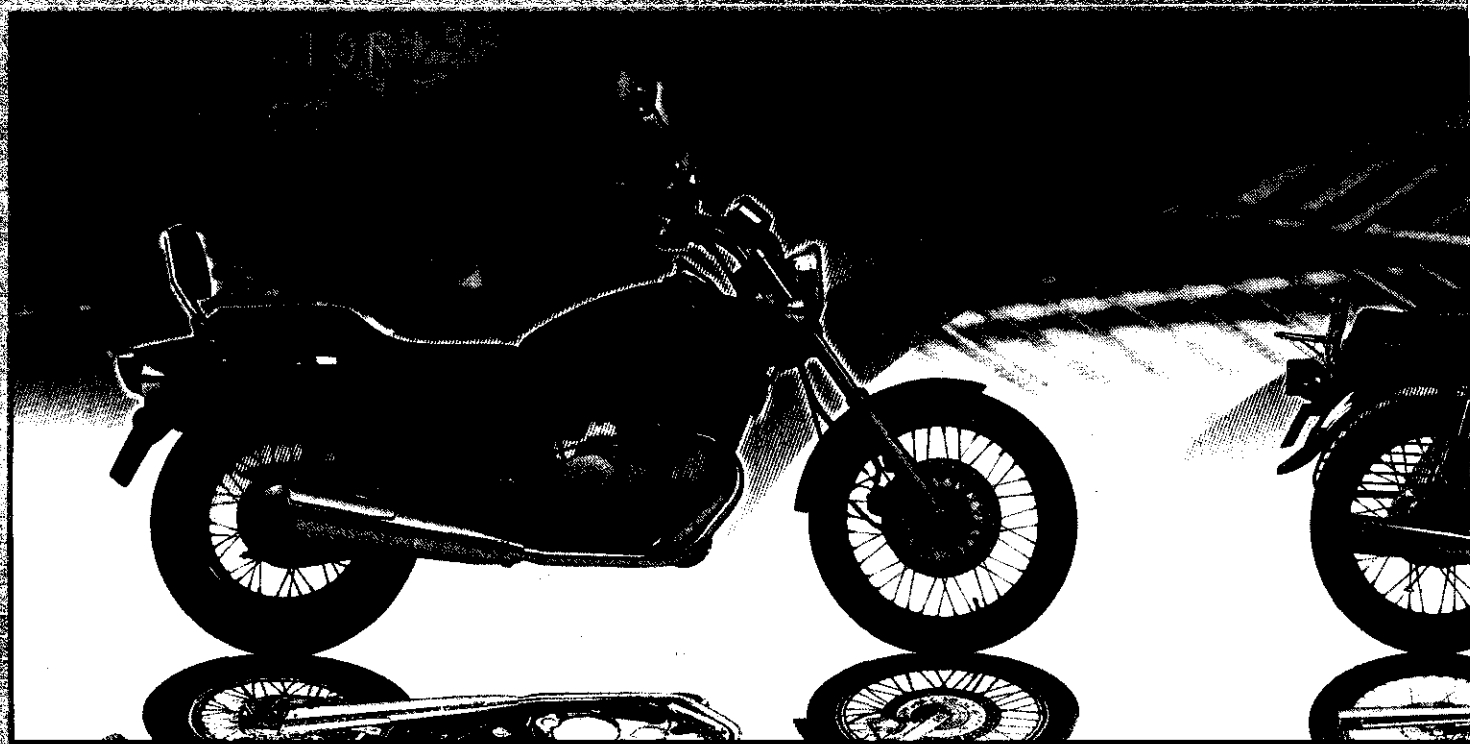


FIFTY FOURTH ANNUAL REPORT 1998 - 99

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Highlights

Highest ever turnover in the history of the company—Rs.39,072 million ,1.42 million vehicles

Highest ever gross and net profits—Rs.8,912 million and Rs.5,528 million

Net worth at Rs.27,017 million

Market capitalisation at Rs.75,933 million on 31 March 1999

Introduction and successful launch of Legend—the world's first four-stroke geared scooter

Runaway success of Caliber—our new 111 cc, four-stroke motorcycle

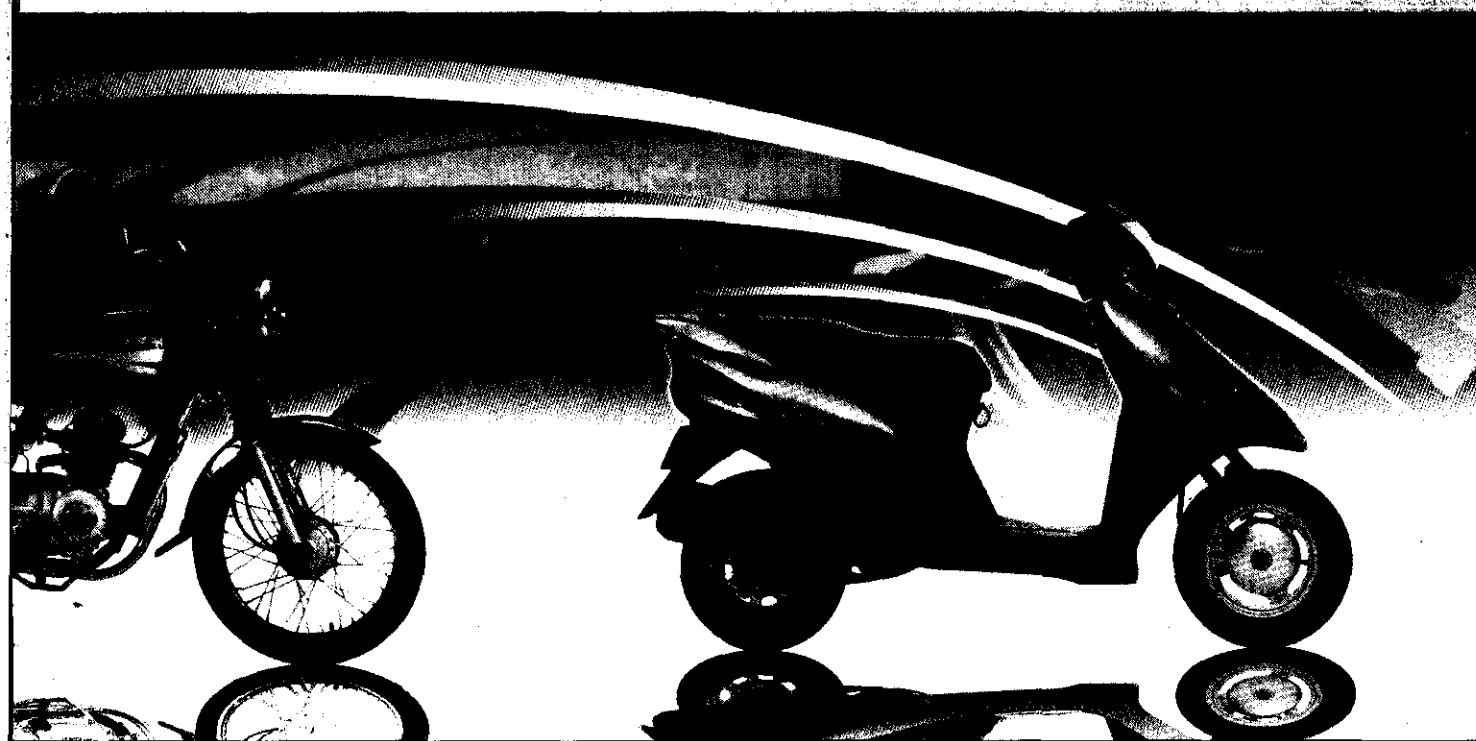
Introduction of Spirit—India's first two-wheeler with a two-speed automatic transmission

Report



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INNOVATING
BEYOND
CUSTOMER
EXPECTATIONS



Chairman's Letter

DEAR SHAREHOLDERS

On balance, 1998-99 has been a good year for your company. Bajaj Auto recorded its highest ever sales, both in the number of vehicles and revenue. Your company sold 1,423,501 units, which represents a 6.7% volume growth over 1997-98. It surpasses the previous high of 1,422,849 units sold in 1996-97. Turnover touched Rs.39,072 million in 1998-99—or a growth of 11.5% over the previous year. Net profit, too, is at its highest. In 1998-99, your company earned a net profit of Rs.5,528 million, registering a growth of 19.5% over the previous year.

This growth is satisfying inasmuch as your company has bounced back after suffering a setback in 1997-98 along with the rest of the industry. Following the industry trend line will not be good enough for the future. To succeed, Bajaj Auto will have to set the trend.

Let me share what I believe should be your company's focus for the future. Bajaj Auto is in the business of providing convenient, desirable, environmentally friendly and economical modes of transport. We shall continue to concentrate in this area. Success will require many things—from newer technology and enhanced customer focus to stronger brands and distribution networks.

Until recently, some industry experts and analysts had written off the future prospects of your company. According to them, Bajaj Auto had hit a plateau; its products were unattractive to the new breed of consumers; and the company had lost direction and the fire in its belly. I was grateful for these criticisms. What most people did not know was that we had quietly started re-engineering the company. Today, you are beginning to see some of the results, which I shall share with you.

PRODUCTS

New products are the lifeblood of this industry. In the last few years, we have taken big strides in introducing world class technology in both products and processes. During 1998-99, your company introduced four entirely new products and eight upgrades. Here are some facts.

LEGEND—the first four-stroke scooter in the Indian market, the most powerful of its kind in the country, and the first four-stroke geared scooter in the world. It was developed in 36 months from concept to production. In the process, Bajaj Auto has claimed eight patents.

In the last decade, the wealth of shareholders of Bajaj Auto grew at a compound annual rate of 24%. Over the same period, the BSE Sensex increased by 14% per year.

CALIBER—our new 111 cc, four-stroke motorcycle developed with Kawasaki. Introduced in June 1998, the Caliber took the market by storm. It is the first bike in the history of Indian industry to have crossed the 20,000 sales per month mark in just nine months after its launch. The Caliber was developed and produced in 30 months.

SPIRIT—designed in-house, it is India's first two-wheeler with an innovative two-speed automatic transmission and a truly contemporary styling. It was developed in 30 months and introduced in October 1998.

1999-2000 will see Bajaj Auto introduce at least four new products and upgrade many of its existing models.

Recent trends point to a perceptible shift in the domestic two-wheeler market from scooters to motorcycles, and a stagnancy in the overall demand for scooters. Given that Bajaj Auto's product-mix is heavily weighted in favour of scooters, this shift has led to a decline in its two-wheeler market share. This is despite the growth of market share in many of its individual product segments. Our launch of new motorcycles aims to increase our dominance in this growing segment; and that of new scooters aims to grow the scooter market by creating new niches.

OPERATIONS

The spirit of change in your company is best exemplified by the exacting standards that have been set for our new plant at Chakan, which goes on stream in the first half of 1999-2000. The plant showcases our resolve to establish a world-class engineering company as reflected in its people, productivity and quality. Simultaneously, we are upgrading standards for our Akurdi and Waluj plants.

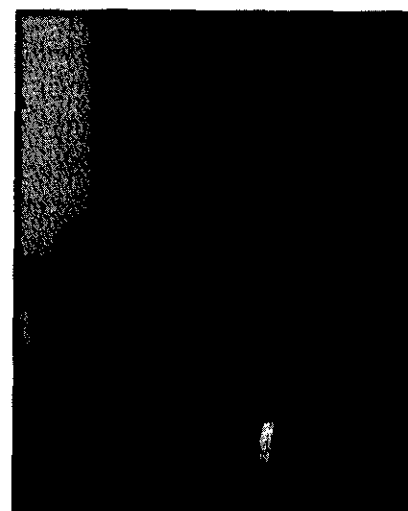
EMISSIONS

By reducing emissions through better two- and four-stroke engine technology, Bajaj Auto reinforces its commitment to creating a cleaner environment. For instance, the Legend's emission of carbon monoxide, hydrocarbon and oxides of nitrogen is 50% lower than the most exacting global standard—one that will come into force in India in April 2000. By 1999-2000, our product range of 28 vehicles will include 13 four-strokes. Our two-stroke vehicles will also meet the April 2000 norms through the use of catalytic converters, which will have an effective life of over 30,000 kilometres.

Your company has welcomed the order of the Supreme Court of 28 July 1998, which has banned three-wheelers over 15 years old from the roads of Delhi from 2 October 1998. This has made for cleaner air in Delhi. It so happens that the order has also increased the demand for our environmentally re-engineered Bajaj RE auto-rickshaws. In 1999-2000, your company will introduce four-stroke versions of its front and rear engine three-wheelers. What is good for the air is also good for Bajaj Auto.

SHAREHOLDER VALUE

New technologies that create better processes and products and support a cleaner environment are our key ingredients for generating even greater shareholder value. Since its inception, your company has collected only Rs.9 million from the Indian public in the 1960s and Rs.3,451 million in 1994 through a GDR issue—or a total of Rs.3,460 million. Against that, the net worth of your company as at 31 March 1999 stood at Rs.27,017 million; and market cap was Rs.75,933 million. In the last decade, wealth of shareholders of Bajaj Auto grew at a compound annual rate of 24%. Over the same period, the BSE Sensex appreciated by 14% per year. These are evidence of sizeable appreciation of shareholders' wealth.



Bajaj Auto is in the business of providing convenient, desirable, environmentally friendly and economical modes of transport. We shall continue to concentrate in this area.

Bajaj Auto's vision is to become a truly Indian multinational. Confident of the quality of our people and the faith of our shareholders, we are all set to take on tomorrow.

In the process of building shareholder wealth, your company has also built a large surplus out of its internal accruals. On 31 March 1999, Bajaj Auto's surplus stood at Rs.20,897 million. We view this as a war chest to fight future competition and expand markets.

Although the two- and three-wheeler sector has witnessed significant competition since the mid-1980s, far greater competition is yet to come. Fighting this competition will require sizeable investments—for technology, new capacity, making of new products, strengthening brands, expanding marketing and distribution in India and abroad, and in consumer finance and pricing. In fact, your company's investment at the new Chakan plant addresses precisely this issue of preparing for global competition.

Your company has also evaluated share buyback as a way of utilising some of the surplus. At current market prices, dividend yield and the rate of return on the surplus, the buyback option does not enhance shareholder value. However, buyback is not a closed chapter at Bajaj Auto. We regularly examine this option, and will seek your permission at the opportune time.

We have always given a great deal of importance to corporate governance—to running your company in a transparent manner so as to maximise long term shareholder value. We have voluntarily chosen to make corporate governance disclosures that not only conform to the code prepared by the Confederation of Indian Industry, but also go beyond it.

Bajaj Auto's vision is to become a truly Indian multinational. Confident of the quality of our people and the faith of our shareholders, we are all set to take on tomorrow. The action has just begun.



Rahul Bajaj
Chairman and Managing Director

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BOARD OF DIRECTORS

Rahul Bajaj
Chairman & Managing Director

D. S. Mulla
J. P. Poddar (upto 02-09-1998)
Viren J. Shah
Kantikumar R. Podar
Atul C. Kirloskar
Shekhar Bajaj
Madhur Bajaj
President and Wholetime Director
D. J. Balaji Rao
D. S. Mehta
Wholetime Director
J. N. Godrej (w.e.f. 27-10-1998)
S. H. Khan (w.e.f. 22-03-1999)

SECRETARY

N. J. Joshi

AUDITORS

Dalal & Shah
Chartered Accountants

International Accountants
KPMG Peat Marwick

COST AUDITORS

A. P. Raman
Cost Accountant

BANKERS

Central Bank Of India
State Bank Of India
Citibank N. A.
ANZ Grindlays Bank
Bank Of America

Registered under The Indian
Companies Act, VII of 1913

REGISTERED OFFICE

Akurdi, Pune 411 035.

WORKS

Akurdi, Pune 411 035.

Bajaj Nagar, Waluj,
Aurangabad 431 133.

Chakan Industrial Area,
Chakan,
Dist. Pune.

MANAGEMENT

Rahul Bajaj
Managing Director
R. A. Jain
Executive Director
Madhur Bajaj
President
D. S. Mehta
Wholetime Director
Rajiv Bajaj
Vice President (Products)
Ranjit Gupta
Vice President (Materials)
C. P. Tripathi
Vice President (Waluj)
R. L. Ravichandran
Vice President
(Business & Product Development)
N. H. Hingorani
Vice President (Purchase)
G. B. Laddha
General Manager (Finance)
V. M. Rao
General Manager (Works), Akurdi
Ramesh Bhargava
General Manager
(International Marketing)
Sanjiv Bajaj
General Manager
(Corporate Finance)
K. K. Upadhyaya
General Manager
(Machine Tool Division)
Arvind Gupta
General Manager
(Manufacturing Engineering)
K. N. Malshe
General Manager (Marketing)
Shrikant Marathe
General Manager
(Product Engineering)
N. V. Iyer
General Manager
(Engineering Support)
P. K. Rath
General Manager (Chakan)
B. P. Rao
General Manager
(Human Resource Development)
K. P. Nair
General Manager (Quality Assurance)
Niladri Banerjee
General Manager
(Corporate Affairs), Delhi

Management Review

ANALYSIS OF THE MARKETS

The last five years have witnessed significant shifts in consumer preferences for two-wheelers. On the one hand, the market for scooters seems to have hit a plateau. On the other, India is seeing a dramatic growth in the market for motorcycles—which is visible among urban youth and across the rural population.

As Charts A and B show, the sale of scooters has been growing at a compound rate of only 4.3% per year over the last five years; while that of motorcycles has been rising at 19.5% per year. This shift in preference presents a threat as well as an opportunity to Bajaj Auto. Chart C gives the company's break-up of sales in 1998-99. It clearly shows that even today the majority of Bajaj Auto's sales is from scooters—the segment that is showing signs of stagnation.

SCOOTERS

According to the Association of Indian Automobile Manufacturers (AIAM), the total sale of scooters in India increased from 1,190,698 in 1997-98 to 1,229,863 in 1998-99—a growth of only 3.3%. Bajaj Auto accounted for 64.5% of this market in 1997-98, which went up marginally to 64.8% in 1998-99 (see Chart D). No doubt, at 3.8% our growth of scooter sales was faster than that of the market as whole. Nevertheless, it occurred in a fairly stagnant market.

Chart A: The scooter market has flattened

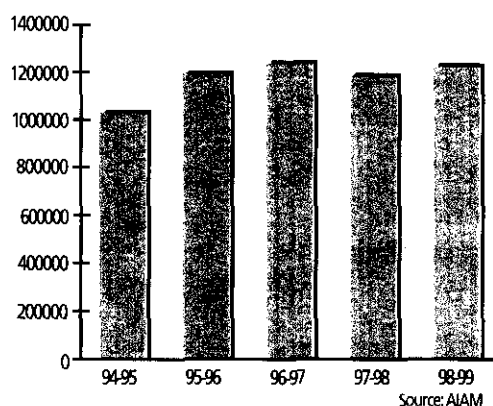


Chart B: While that of motorcycles rises

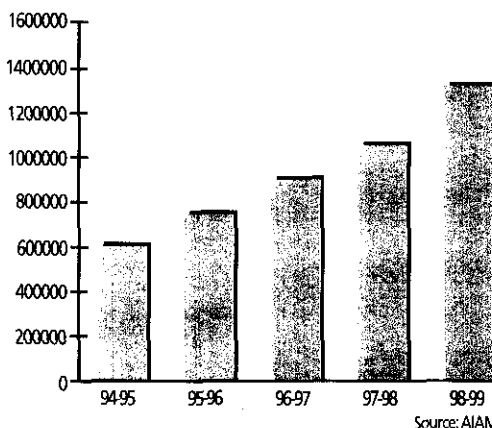
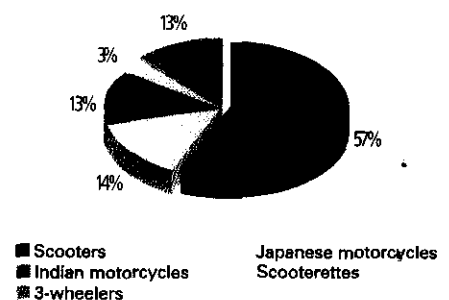


Chart C: Segment-wise sales of Bajaj Auto, in numbers



Given the current weightage of Bajaj Auto in favour of scooters, the company must do all that it can to drive overall sales growth. The base volume is from its two long-standing models, Chetak and Super, which contributed nearly 84% of the volume of scooter sales in 1998-99. The company is re-positioning its scooters to appeal to a more youthful aspiration of the market. The Chetak and Super have been upgraded in the past year, improving styling as well as engine performance. We are also strengthening our position in premium niches by introducing attractively styled models with improved features and conveniences.

Last year, Bajaj Auto launched the Classic SL—a stylish scooter with a road-sensitive suspension system and an anti-dive braking. Positioned as a vehicle which 'rides like a dream', 100,744 Classic SLs were sold in 1998-99. This year, the company has introduced the Legend and the Bravo. Judging by the results of the last quarter of 1998-99, the strategy of introducing of premium models seems to be working. AIAM data shows that we are recapturing our market share at the expense of at least one of our competitors in the scooter market. 1999-2000 will see the launch of the Saffire, which should further strengthen the company's presence in the premium segment.

JAPANESE MOTORCYCLES

Bajaj Auto has performed much better in the Japanese motorcycle segment. Here, while the market grew at 30%, Bajaj Auto's sales grew at 45.6%. Consequently, the company's market share increased from 15.8% to 17.7%, as shown in Chart E.

Two new models have helped Bajaj Auto to grow faster than the industry. The 111 cc four-stroke Caliber was launched in June 1998. It has been a runaway success. It crossed the 20,000 per month mark within nine months. Today, Caliber accounts for over 70% of Bajaj Auto's sales of Japanese motorcycles. In addition, the company launched the Boxer at the very end of 1997-98 to tap the lower end of the market. In 1998-99 it contributed to 11% of sales. This year will see the introduction of the Boxer AT and Boxer CT.

INDIAN MOTORCYCLES

Bajaj Auto is represented in this segment with the 74 cc, two-stroke M80. Although we enjoy a dominant position in this growing market and have increased our sales by 3% over last year, our market share has fallen from 64.8% to 61.8% over the year. In 1999-2000, the company will introduce a competitively priced four-stroke M80, which should help in further increasing sales and regaining market share.

SCOOTERETTES

During 1998-99, Bajaj Auto registered a negative sales growth of 7.4% in a market that grew at 5.4%. This was due to a delay in introducing products. In response, the company introduced the Spirit in the last quarter of 1998-99. It is a sleek 60 cc, two-stroke scooterette with contemporary styling and two-speed automatic transmission system—an industry first. In addition, a completely re-designed and re-styled Sunny Zip will be launched in 1999-2000. Together, these two models should strengthen the company's presence in this growing area of the two-wheeler industry.

THREE-WHEELERS

While Bajaj Auto continues to enjoy by far the lion's chunk of the market (83.6% in 1998-99), the fact is that the market as a whole is shrinking. It declined by 7.2% between 1997-98 and 1998-99. This market is driven as much by demand as by state government permits and restrictions.

However, we believe that the fuel efficient, cleaner version of our auto-rickshaws will help us in growing the market. As an example, the Supreme Court

Chart D: Market share, Scooters

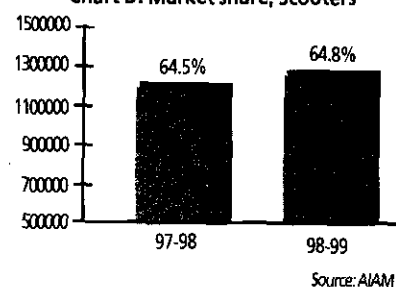


Chart E: Market share, Japanese motorcycles

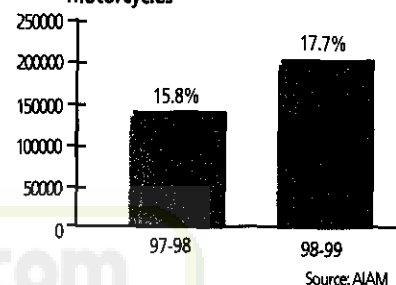
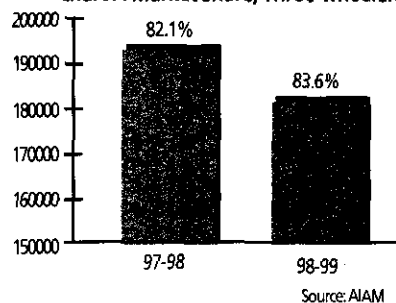


Chart F: Market Share, Three-wheelers



order of 28 July 1998—which banned three-wheelers over 15 years old from the roads of Delhi—led to an immediate increase in the demand for Bajaj Auto's environmentally re-engineered auto-rickshaws. The company has already introduced a diesel version of the auto-rickshaw. In the coming year, it intends to launch the country's first four-stroke auto-rickshaws and goods carriers, which will comfortably meet the year 2000 emission requirements.

TECHNOLOGY AND NEW PRODUCT DEVELOPMENT

Bajaj Auto has dramatically strengthened its R&D in the past few years. Four principles guided this effort.

First, every R&D activity was focused to deliver quantum improvements in design, and product performance through re-organised product platforms.

Second, R&D could not be limited to buying packaged technology for implanting into its vehicles. Instead it would involve joint development through interaction between Bajaj Auto's resident R&D platforms and internationally reputed manufacturers and research houses like Cagiva, Kawasaki, Kubota and Tokyo R&D.

Third, the hiatus between R&D and commercial production had to be minimised.

Fourth, and most important, the R&D had to be market driven. Products had to be designed keeping in mind the changing needs of increasingly demanding customers.

Today, our customers work as active catalysts to the design, development and launching of our new products. The relationship between Bajaj Auto and the customer starts through surveys and other market research tools that try to capture changing life styles and aspirations, as well as expectations of their two- and three-wheelers. This information supports product design.

Once the design is developed, the R&D platform is set for a closer interaction of ideas between the engineering and marketing teams. Prototypes are then developed which are critically evaluated by focus groups of prospective customers. For instance, a test conducted with prospective customers before the Spirit was launched led to a change in the gear ratio, seat ergonomics and improved rideability.

The R&D initiatives have begun to show results. In 1998-99, Bajaj Auto introduced four new products and eight upgrades—many of which showcased in-house and collaborative technology that had not been seen thus far, in India.

REPORT

The four-stroke scooter is Bajaj's latest move as it embarks on redefining not just its complete product line but also in presenting the new found image as a technology driven company.

The drive needs to be ridden to appreciate the changes that have brought a quantum change in the way the company now performs.

