bajaj auto ltd

FIFTY FIFTH ANNUAL REPORT 1999|2000

contents


riding change

highlights

Turnover at Rs.42,155 million — 7.9 per cent higher than 1998-99

Profit before tax at Rs.8,252 million — 8.8 per cent higher than 1998-99

Profit after tax at Rs.6,137 million — 13.5 per cent more than 1998-99

Earnings per share at Rs.53.17 — up from Rs.46.31 in 1998-99

Dividend for the year at Rs.10 per share, or 100 per cent of the face value

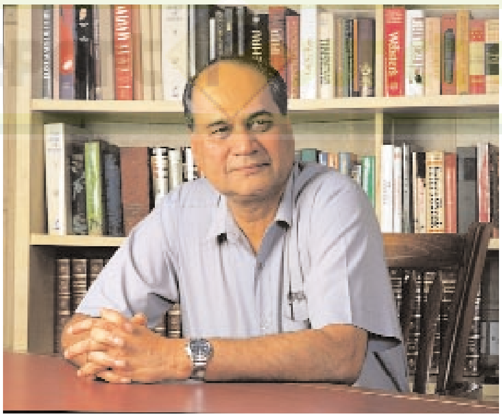
Reserves at Rs.30,847 million

State-of-the-art plant commissioned at Chakan

New products launched — a new Boxer, the Saffire, M80 Major and a range of four-stroke three wheelers using petrol and CNG

chairman's letter

Dear Shareholders



It was in last year's annual report of your company that I had first used a 'Chairman's Letter' to communicate with you the performance, prospects and business focus of Bajaj Auto. Several of you liked this innovation. As your chief fiduciary, I, too, felt that this was a useful way of discussing various aspects of the company. Therefore, we have decided to continue with the trend. In fact, the 'Chairman's Letter' and a detailed chapter on 'Management Discussion and Analysis' will be a permanent feature of Bajaj Auto Annual Reports.

The financial performance of your company for 1999-2000 is not as good as I would have liked it to be. On the plus side, your company witnessed a 5 per cent increase in sales revenue in 1999-2000 — Rs.37,051 million compared to Rs.35,269 million in the previous year. This occurred despite a marginal decline in the number of vehicles sold, and was caused by growth of motorcycle sales, which is relatively higher priced compared to traditional scooters and other two-wheelers.

Your company's profit after tax increased by 13.6 per cent from Rs.5,405 million in 1998-99 to Rs.6,137 million in 1999-2000. However, this does not tell the story of operating profit. In 1999-2000, operating profit was Rs.5,827

million — less by Rs.610 million compared to the previous year. This 9 per cent drop requires explanation. Much of it is given in the Management Discussion and Analysis that follows. However, it is also my duty to give you my views on this matter.

Before going any further, let me make one thing very clear. Even today, your company's operating profit as a percentage of operating income is higher than that of any two wheeler company in India and, indeed, any company in the automotive industry. Nevertheless, as the chairman of your company, I am disappointed with the fall in operating profits from 20.9 per cent of operating income in 1998-99 to 18.2 per cent in 1999-2000. And it is important for me to explain why this has happened.

It has everything to do with 'change'. As many of you may be aware, the structure of the two-wheeler market is changing at a rapid pace. Some clear trends have emerged. The most important of these is the marked change in the customer profile. Younger people and those with significantly greater purchasing power now constitute an important segment of the market.

In turn, this has led to two significant developments:

- First, there has been a major shift away from scooters to motorcycles. Over the last five years, the market for basic scooters has declined marginally, while that of motorcycles has increased at a compound annual rate of 25 per cent. In 1995-96, almost 1.2 million scooters were being sold, versus 661,000 motorcycles. In 1999-2000, scooter sales clocked 1.1 million, while motorcycles had taken off to cross 1.6 million.
- Second, even within the scooter segment, there has been a shift away from traditional metal bodied models to the sleeker scooterettes. In 1994-95, a little over 96,000 scooterettes were sold. Five years later in 1999-2000, sales had more than doubled to over 258,000.

It is no secret that Bajaj Auto's mainstay was the traditional, metal bodied, side-engine mounted, kick-start scooters. Over the last five years, the company has had to face a stagnant — even declining — market for these models.

The writing was on the wall. We realised five years ago that the days of resting easy on the high margins from Chetaks and Supers were coming to an end. Expanding the market for our basic scooters would be necessary, but not sufficient in

the long term. We refused to be a great but slowly shrinking scooter company. We had to make major inroads into the motorcycle and scooterette markets — and that required new products, new branding, new marketing and new investments.

In last year's annual report, I had written that over the last few years we had quietly started re-engineering the company. What are these changes?

It is useful to begin with changes that have taken place in Bajaj Auto's manufacturing capacity and production processes. The Chakan plant was commissioned in 1999-2000. Your company's desire to manufacture world class products is exemplified by this new, state-of-the-art facility, located approximately 20 kilometres away from Akurdi. Chakan has already started producing two sleek, new generation, plastic bodied scooters — the 60 cc. Sunny Spice and the 92 cc. Saffire. During 2000-01, the plant will begin to produce a brand new motorcycle called the Pulsar. In addition, capacity of the Waluj plant is being substantially increased so that your company can capitalise on the growing market for quality motorcycles.

During 1999-2000, your company launched several new products: the Saffire, the new 100 cc. four-stroke Boxer, the new M80 Major and four-stroke three wheelers. Launched in the first half of the year, the Boxer and the M80 Major are already major success stories. An aggressively priced, rugged product, the Boxer is primarily targeted at the rapidly growing rural and semi-urban markets, and has notched very impressive sales within the first eight months of its launch. The M80 Major has helped us to increase our market share in the step-thru segment.

The year 2000-01 will see four new two-wheelers: two motorcycles (the Pulsar and the 175 cc. Eliminator), a four-stroke version of the M80, and an entirely new look 150 cc, four-stroke scooter called the Fusion. Many more models are in the pipeline.

How have these changes affected your company's operating profits for 1999-2000? The answer lies in the change in product mix. As explained earlier, motorcycles and scooterette markets are expanding, and Bajaj Auto must aggressively go after these markets. However, the fact is that motorcycles and scooterettes enjoy lower margins compared to traditional scooters. Reading the Management Discussion and Analysis will substantiate that this is one of the major factors behind the fall in operating margins.

Increasing competition invariably leads to a decline in margins per unit of sale. But that does not necessarily translate to a fall in overall operating profits. Bajaj Auto has a definite strategy in place to increase the top line, market share, operating profits and the bottom line. It consists of four major components:

- Aggressively expanding the traditional scooter market. It is a very profitable segment and cannot be ignored. We will pursue market expansion by introducing new four-stroke models and offering attractive finance schemes. I do not believe that this market will die the way some pundits have predicted. A country of a billion people shall always have enough families who will begin their motoring lives with traditional, low cost scooters. The trick is to target these people.
- Rapidly ramping up capacities and production of motorcycles and new generation scooters and scooterettes. This is a major area where we will target higher top line growth and greater market share.
- Actively optimise on input costs, especially of bought out items. In 1998-99, Bajaj Auto launched an ambitious vendor development

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programme called Scorpio, aimed at improving quality of supplies, enhancing product development capability of vendors, and reducing costs by restructuring the vendor base. I believe that Scorpio will play a role in enhancing quality at lower unit costs. Moreover, Bajaj Auto's Cell-level Cost Management (CCM) activity has yielded cost savings in power consumption, cutting tools and consumables. It will be extended across-the-board to all elements of the manufacturing process.

- More global technology tie-ups. These will play a major role in developing and commercially launching new models in successively shorter time cycles.

It is important for us to realise that the process of change which I have described takes some time. In the interregnum, there can be occasional blips in financial performance. Moreover, while the operating margin per unit of two-wheeler sold is unlikely to be as high as in the good old days, the strategy outlined above should eventually deliver higher overall profits.

Now it is time for me to discuss the issue of share buyback. Last year, I had written that buyback is not a closed chapter at Bajaj Auto. Accordingly, at a meeting held on 28 March 2000, the board of directors of your company approved a buyback of around 18 million shares at a price not exceeding Rs.450 per share, or a budget of Rs.8,100 million. The company's philosophy behind the buyback is straightforward. It gives those shareholders who wish to exit a fair price, without hurting the interest of the very many who wish to continue with the company.

Even so, you might ask what your company proposes to do with its additional surplus funds. The coming years will see much more intense competition in the two-wheeler market. Two international players are entering the arena: Piaggio and Honda. Your company is determined to do everything that is needed to fight for greater market share in a far more competitive milieu. This requires funds — for capacity creation, brand building, market expansion, new dealer and distribution services, maintaining prices, export efforts, collaborating with partners for new products and technologies, and for financing mergers and acquisitions that are sure to become a reality. Bajaj Auto's surplus is one of its weapons to fight competition. We will use this weapon judiciously to ensure that you — the shareholder — are a long term gainer.

Your company's commitment to corporate governance is as strong as always. Last year, we had benchmarked ourselves vis-à-vis the code published by the Confederation of Indian Industry. This year, we have measured ourselves against the new SEBI code as well, which will come into effect from 2000-01.

Times are changing. Let me assure you that Bajaj Auto will lead this change. We are here to stay, to grow, and to remain a household name in India.

RAHUL BAJAJ
Chairman and Managing Director