

*Fifty Sixth Annual Report
2000-01*



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Chairman's Letter

Dear Shareholder

It has been an article of faith for us at Bajaj Auto to say things as they are — be these good or bad, without exaggeration or sugar-coating. As your chief fiduciary, I have no intention to depart from this practice.

The hard fact is that 2000-01 has been a bad year for your company — financially the worst year in its recent history.

Sales have fallen by 3.2 per cent — from Rs.37.05 billion in 1999-00 to Rs.35.88 billion in 2000-01. That, in itself, is a cause for concern. However, an even greater concern is profits — which have fallen far more than the decline in sales. Operating profits before interest, taxation and depreciation have fallen from Rs.5.85 billion in 1999-00 to Rs.3.05 billion in 2000-01. Consequently, your company's operating margin has almost halved — down from 18.2 per cent of total operating income in 1999-00 to 9.8 per cent in 2000-01.

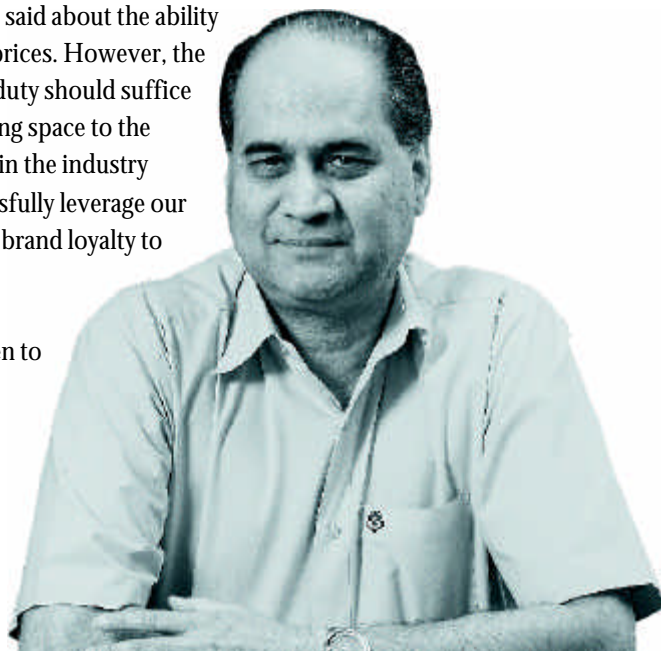
Between 1995-96 and 1999-00, your company had witnessed a 10.1 per cent compound annual growth in net profits — from Rs.4.18 billion to Rs.6.13 billion. After such a satisfactory track record, your company cannot afford to ignore this year's fall; the

reasons have been discussed in detail in the Management Discussion and Analysis.

I would like to share with you my views about competition and margins and the broad strategy of your company to address its sales and profits.

First, how do I see competition in the future? For the next year or so, the action will be among the three major domestic players, with a fourth coming into its own two years from now. Although the industry will be very competitive, I don't visualise cut-throat, incessant price slashing competition. The joker of the pack will be Chinese imports. Much has been said about the ability of the Chinese to slash prices. However, the present level of import duty should suffice to give adequate breathing space to the Indian majors. And, we in the industry should be able to successfully leverage our distributor network and brand loyalty to counter this threat of competition.

Second, what will happen to margins? In last year's Chairman's letter, I had written, "the days of resting easy on high



Achieving better quality, higher productivity and cost reduction. These will not only deliver us higher per unit margins, but also allow us to aggressively compete at various price points.

margins... [are] coming to an end.” Simply put, no player in the industry can expect to consistently earn 20-25 per cent operating margins. However, I believe that your company’s operating margin of 9.8 per cent for 2000-01 is an aberration. Concerted cost cutting, value engineering, the gains from Total Productive Maintenance (TPM) and VRS, as well as volume growth in motor-cycles and scooters should raise the operating margin to comfortable double-digits.

Third, what is the overall strategy of Bajaj Auto? It involves five broad components:

1 Increasing volumes and market share of motorcycles. Today, your company’s motorcycle manufacturing capacity has expanded to 50,000 per month. We can, therefore, easily produce 600,000 motorcycles per year, and more if need be. Depending upon market conditions, we shall increase this capacity.

2 Growing the market for geared scooters and getting back most, if not all, of the lost volume. We shall attempt this through the utilitarian models of Chetak and Super, as well as introducing four-stroke versions.

3 Building our presence in the market for ungeared scooters, which has considerable growth potential. Your company already has three models in this segment – Spice, Spirit and Saffire – and we shall push these in 2001-02.

4 Expanding the market for three-wheelers and maintaining our dominant position in no uncertain terms. Bajaj Auto is the only producer of an environmentally friendly CNG model. This has helped us fully capture the Delhi market — the only city to implement strict emission norms for public commercial vehicles. We will leverage the trend towards more stringent pollution

regulations by supplying more of our CNG and, when permitted, our LPG models.

5 Achieving better quality, higher productivity and cost reduction. These will not only deliver us higher per unit margins, but also allow us to aggressively compete at various price points.

I also need to share with you facts about Bajaj Auto’s buyback programme and your company’s recent foray into insurance.

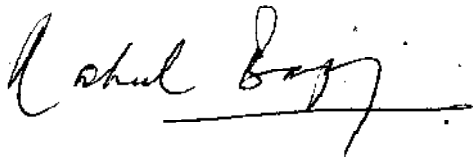
As I had mentioned last year, the Board of Directors of your company approved the buyback on 28 March 2000 primarily to give a fair opportunity to those shareholders who wished to exit. The idea of the buyback was not to artificially raise share prices.

Your company has successfully concluded the buyback programme. In response to the offer for buyback of about 18 million shares at Rs.400 per share, your company received valid applications for a little over 28 million shares. We consulted with the Securities and Exchange Board of India (SEBI) and keeping the interest of small investors in mind, decided on a process that equitably dealt with the over-subscription. Details of the process are given in the chapter on ‘Shareholder Information’. After the buyback, the paid-up share capital of your company stands reduced from Rs.1.2 billion to Rs.1 billion as at 31 March 2001.

With the opening of the insurance sector, Bajaj Auto has ventured into life as well as non-life insurance through a joint venture with Allianz AG, Germany — one of the largest insurance companies in the world. Two companies have been set up. Bajaj Allianz General Insurance Company Limited and Allianz Bajaj Life Insurance Company Limited. In the general insurance company,

the agreement envisages Bajaj Auto investing 74 per cent of the initial share capital of Rs.1.1 billion (Rs.110 crore). In life insurance, your company will invest 74 per cent of an initial share capital of Rs.1.5 billion (Rs.150 crore). The general insurance company has received its registration certificate from the Insurance Regulation and Development Authority (IRDA); clearance for life insurance is expected soon. Given the outlay of your company in insurance, we believe that it will be a profitable investment in the medium to long term.

Last year, I had written, "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." A year's adversity does nothing to change my belief in this vision. If anything, it strengthens our resolve.



Rahul Bajaj

Chairman and Managing Director

"Times are changing. Let me assure you that Bajaj Auto will lead this change...." A year's adversity does nothing to change my belief in this vision. If anything, it strengthens our resolve.



Board of Directors

Rahul Bajaj
Chairman and Managing Director

D. S. Mulla

Kantikumar R. Podar

Atul C. Kirloskar

Shekhar Bajaj

Madhur Bajaj
Executive Director

D. J. Balaji Rao

D. S. Mehta
Whole time Director

J. N. Godrej

S. H. Khan

Secretary

N. J. Joshi

Management

Rahul Bajaj
Managing Director

R. A. Jain
Executive Director

Madhur Bajaj
Executive Director

D. S. Mehta
Whole time Director

Rajiv Bajaj
President

Ranjit Gupta
Vice President (Insurance)

C. P. Tripathi
Vice President (Operations)

R. L. Ravichandran
Vice President (Business
Development and Marketing)

N. H. Hingorani
Vice President (Materials)

P. B. Menon
Vice President (Projects)

Sanjiv Bajaj
General Manager (Corporate Finance)

Auditors

Dalal and Shah
Chartered Accountants

International Accountants
KPMG

Cost Auditors
A. P. Raman
Cost Accountant

Bankers

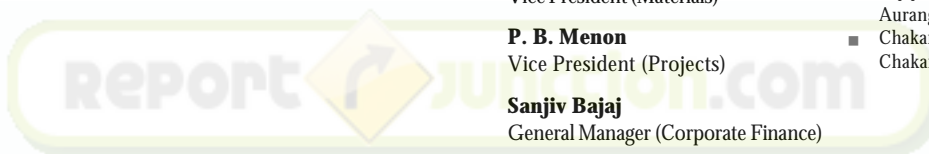
Central Bank of India
State Bank of India
Citibank N.A.
Standard Chartered Grindlays Bank
Bank of America

Registered under the Indian
Companies Act, VII of 1913

Registered Office
Akurdi, Pune 411 035

Works

- Akurdi, Pune 411 035
- Bajaj Nagar, Waluj,
Aurangabad 431 136
- Chakan Industrial Area,
Chakan, Pune 410 501

**From left to right :**

P.B.Menon, R.A.Jain, R.L.Ravichandran,
Rajiv Bajaj, Rahul Bajaj, C.P.Tripathi,
Ranjit Gupta, Madhur Bajaj,
Sanjiv Bajaj, N.H.Hingorani



Management Discussion and Analysis

The Management Discussion and Analysis presented in last year's Annual Report emphasised the theme of 'Change'. It discussed Bajaj Auto's strategy of changing from being India's mega-producer of workhorse scooters and three-wheelers to becoming a flexible and market-driven supplier of various models of two- and three-wheelers — where each model will

address a specific price-point, and focus on capturing a substantial share of a complex, heterogeneous and highly differentiated product market. We had said that such a transition takes time, and carries its own organisational costs. Nevertheless, the change is vital, and has to be implemented quickly for Bajaj Auto to recapture the imagination of India.



