# CHAIRMAN'S LETTER

#### Dear Shareholder

Last year I had written to you expressing my concerns about your company's relatively poor financial performance in 2000-01. However, even at that difficult moment of time, I had written that Bajaj Auto has a clear vision of the future; that it is going through a well-planned process of transformation; and that "A year's adversity does nothing to change my belief in this vision."

I am happy to inform you that your company has bounced back.
Bajaj Auto's sales has increased from Rs.35.88 billion in 2000-01 to Rs.41.26 billion in 2001-02 — a growth of 15 per cent under difficult market conditions.

Far more satisfying is your company's growth in operating profits (EBITDA). Last year it had hit a rock bottom of Rs.3.05 billion. This year has seen operating profit increase by 103 per cent to Rs.6.2 billion — the second highest in the history of your company. As a result, your company's operating profit margin has increased from a trough of 9.8 per cent in 2000-01 to 16.8 per cent in 2001-02. Profit after tax has virtually doubled — from Rs.2.63 billion in 2000-01 to Rs.5.21 billion in 2001-02.

How did your company achieve this turnaround in a difficult year, where overall GDP growth is not expected to cross 5.2 per cent, and which began with the economic aftershocks of a terrible earthquake, was punctuated by 11 September and the terrorist attack on Parliament, and ended with the appalling riots in Gujarat?

It has everything to do with corporate pride, leadership, determination, self-belief and a culture where, stung by the reversals of 2000-01, every employee of Bajaj Auto was determined to prove what your company was capable of. In essence, we did four things, and we did them well.

First, we went flat out to increase our volume and market share in motorcycles. Bajaj Auto has clearly out-performed the industry in this segment. Your company sold 656,000 motorcycles in 2001-02 — an increase of 55 per cent over 2000-01, compared to the overall market growth rate of 41 per cent. Today, motorcycles account for 55 per cent of Bajaj Auto's two-wheeler sales volume and, with market share increasing to 23 per cent, your company is the clear number two in the motorcycle segment. The growth in motorcycles has been driven by our Boxers — the second largest brand in the country and the market leader in the entry level, utility category. I am also delighted that we have achieved considerable success with the introduction of the 150 cc and 180 cc Pulsars — motorcycles meant for the premium segment. Introduced in November 2001, the Pulsar has been voted as the best motorcycle of the year by more than one magazine, and has already notched sales in excess of 12,000. We will continue our thrust in motorcycles and keep on increasing

Second, we have probably succeeded in arresting the decline in the sales of geared scooters. To be sure, our sales of

market share.



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geared scooters fell by 6.4 percent from 435,700 in 2000-01 to 407,600 in 2001-02. But that was significantly less than the overall industry decline of 12 per cent. As you know, Bajaj Auto was built upon the success of the Chetaks and the Supers and, much as I like what motorcycles are doing to your company's revenues and profits, I should be pardoned for being sentimental about scooters. Unlike most others, I don't believe that the days of geared scooters are numbered. Scooters have their plus points, as do motorcycles. As the market leader in this segment, your company will use its strong in-house R&D capabilities to engineer the positives of a scooter with the virtues of a motorbike. When we do, I visualise Bajaj Auto roaring back into a creatively new scooter space.

"We are reaping the benefits of producing environmentally friendly three-wheelers — from the four-stroke petrol and diesel varieties to the low-emission CNG models."

Third, we had said in the last two annual reports that because the material cost in motorcycles is greater than that of scooters, a major switch from the latter to the former would reduce Bajaj Auto's operating margins. You may, therefore, rightly ask how then has your company increased operating margins so successfully? The answer lies in our drastically cutting costs. Effective implementation of Total Productive Maintenance (TPM), optimising the supply chain through vendor rationalisation, indigenisation and value engineering have achieved results. In 1996-97, your company's output per employee per year was under 68 vehicles. Today, it exceeds 100. We will continue reducing costs and increasing productivity in the years to come.

Fourth, we are reaping the benefits of producing environmentally friendly three-

wheelers — from the four-stroke petrol and diesel varieties to the low-emission CNG models. With every passing year, more and more cities are banning old three-wheelers and mandating their replacement with non-polluting ones. What started with Delhi has now spread to Mumbai, Bangalore and Hyderabad. Other cities are bound to follow. Being the unchallenged leader in this category, your company is reaping the benefits of cleaning the air — and the market to boot.

In the coming year, I look forward to your company more aggressively leveraging its new Spirit and Saffire models to create a stronger presence in the market for ungeared scooters. And, while step-thrus may be considered passé by some, I still believe that they offer value-for-money to certain sections of consumers. Therefore, Bajaj Auto will try to grow this market with its new M-80 model.

Last year, I had informed you of Bajaj Auto's foray into non-life and life insurance with Allianz AG of Germany one of the largest insurance companies in the world. Two companies were set up: Bajaj Allianz General Insurance Company Limited and Allianz Bajaj Life Insurance Company Limited. Both companies commenced operations during the year. I am happy to inform you that your company received Rs.1.17 billion from Allianz AG as goodwill. Even more heartening is the fact that, in 2001-02, Bajaj Allianz General Insurance issued the largest number of policies among all private players in the non-life segment, and became number one in this line of business. Allianz Bajaj Life Insurance commenced operations in October 2001, and I hope it will do as well as its non-life brethren.

In the difficult milieu of last year, I had ended on an optimistic note. Given the significantly better performance in 2001-02, let me end with a note of caution. It is all too easy to think that we have won the battle. We have not. After all, let us never forget that this was the year when Bajaj Auto was unseated from being the number one two-wheeler manufacturer in India. On behalf of all of you — the loyal shareholders of a company that is a mosaic of India — I urge everyone in Bajaj Auto to put in even greater effort in the years to come to take the company right up to where it truly belongs. Right at the top. And then some more.

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With your support and the dedication of every person working in and associated with Bajaj Auto, we can do it.

lahul baj

Rahul Bajaj

Chairman and Managing Director

### **Board of Directors**

Rahul Bajaj

Chairman and Managing Director

Madhur Bajaj

Vice Chairman and Whole-time Director

D S Mulla

Kantikumar R Podar

Atul C Kirloskar

Shekhar Bajaj

D J Balaji Rao

D S Mehta

Whole-time Director

J N Godrej

S H Khan

Rajiv Bajaj

President and Whole-time Director (w.e.f. 5.3.2002)

### **Secretary**

J Sridhar

### Management

Rahul Bajaj

Chairman and Managing Director

Madhur Bajaj

Vice Chairman

R A Jain

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

Vice President (Finance)

#### **Auditors**

Dalal & Shah

**Chartered Accountants** 

**International Accountants** 

**KPMG** 

**Cost Auditors** 

A P Raman

Cost Accountants

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

## MANAGEMENT DISCUSSION AND ANALYSIS

For the last couple of years, this chapter of our Annual Report has focused on a single theme — 'Change'. It is about the processes of transforming Bajaj Auto from being a producer of traditional scooters and three-wheelers to becoming a highly modern, flexible, quality, design, cost and market-driven supplier of various models of attractive two- and three-wheelers — with each model addressing specific needs and preferences of heterogeneous customers.

Change is rarely painless. It is not just a matter of new products and offerings. It is about fundamentally re-orienting the mindset of a large company. What makes corporate change even more difficult is that it has to be brought about without disrupting the business. It is something like re-engineering a huge super-tanker on high seas. Nobody really knows at what point of the change process will the

super-tanker hit a serious tropical storm, when everyone has to concentrate on navigating the ship to safe waters. And, once the storm passes, will it shake one's resolve in continuing with the process of change? Will the crew abandon transformation, decide that enough-is-enough, and revert to doing what it knew best?

Bajaj Auto's tropical storm occurred in 2000-01. Right in the middle of a transformation process that was initiated in the late 1990s, the company was hit by an unprecedented fall in profits. Sales dipped by 3.2 per cent. Worse still, the company's operating profit margin (EBITDA as a share of operating income) fell from 18.2 per cent of net sales in 1999-00 to 9.8 per cent in 2000-01. Although we at Bajaj Auto were sure that 2000-01 was an aberration, many shareholders and analysts began to

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discount the company, and some wondered whether this was the beginning of the end.

The facts of 2001-02 prove that Bajaj Auto's performance in the previous year was indeed an aberration. Sales have increased by 15 per cent, from Rs.35.88 billion in 2000-01 to Rs.41.26 billion in 2001-02. Operating profit has risen by 103 per cent, from Rs.3.05 billion in 2000-01 to Rs.6.2 billion in 2001-02 — the second highest ever.

Consequently, the company's operating profit margin has increased from 9.8 per cent in 2000-01 to 16.8 per cent in 2001-02. Profit after tax has almost doubled — from Rs.2.63 billion in 2000-01 to Rs.5.21 billion in 2001-02.

Bajaj Auto has weathered the storm without diluting the process of change.

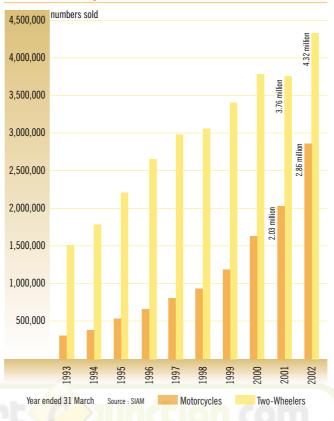
And, as we shall show in this chapter, the transformation has started yielding results.

As we have done in past years, the chapter is divided into three broad segments. The first looks at market conditions in 2001-02, and details how Bajaj Auto's products have fared in the various product segments. This is followed by a discussion on the company's operations. The chapter finally examines various aspects of Bajaj Auto's financials.

### **Markets**

We start discussions with the twowheeler market. Chart A gives the domestic sale of two-wheelers for the industry as a whole. After a year of stagnation, the industry witnessed a 15 per cent growth in the sale of twowheelers. Consequently, for the decade 1993-2002, the domestic two-wheeler market has grown at a compounded annual rate of 11.7 per cent.

CHART A: Industry's sale of two wheelers



As Chart A suggests, underpinning this growth in two-wheelers' sales is a fundamental shift in consumer preference from traditional geared scooters to motorcycles. Thanks to a compound annual growth rate of 25 per cent during the decade 1993-2002, motorcycles now account for 66 per cent of the sales volume of all two-wheelers — up from 20 per cent a decade ago. Chart B and Table 1 illustrate the distinct change in taste over the last ten years. The motorcycles segment seems like a clear winner; though relatively small, modern ungeared scooters are doing well; and the traditional geared scooter seems like a clear loser.

While there is no doubt that Bajaj Auto will continue focusing more and more on motorcycles and ungeared scooters, the company interprets the trend in more

TABLE 1: How the two-wheeler market has changed in a decade (number of vehicles sold)

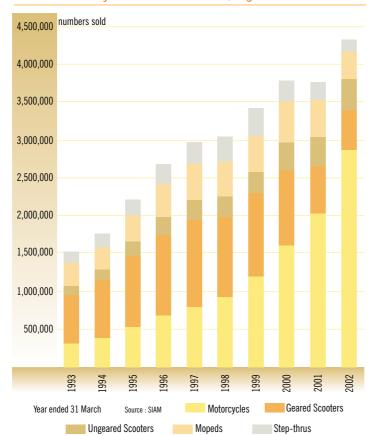
Year	Two-wheelers	Geared scooters	Ungeared scooters	Motorcycles	Mopeds	Step-thrus	Total two-wheelers
1993	1,503,172	41.8%	9.4%	20.2%	20.0%	8.6%	100.0%
1994	1,763,210	43.3%	7.9%	21.6%	17.6%	9.6%	100.0%
1995	2,208,231	42.6%	8.6%	23.9%	15.1%	9.8%	100.0%
1996	2,660,005	40.6%	9.1%	24.8%	16.8%	8.7%	100.0%
1997	2,965,474	38.4%	8.9%	27.1%	16.5%	9.1%	100.0%
1998	3,042,347	35.4%	8.8%	30.0%	15.5%	10.3%	100.0%
1999	3,403,471	32.7%	8.3%	34.6%	14.6%	9.8%	100.0%
2000	3,776,719	25.9%	10.0%	42.7%	14.1%	7.3%	100.0%
2001	3,745,516	16.0%	10.9%	54.1%	12.9%	6.1%	100.0%
2002	4,318,531	12.3%	9.5%	66.2%	8.7%	3.3%	100.0%

disaggregate terms. We think of the twowheeler market in four categories:

# 1. Models whose on-road price is under Rs.20.000.

We have concluded that, despite our cost advantages, this is an unviable category for Bajaj Auto. At most, 10 per cent of the market will be in this group.

CHART B: Industry's sale of two wheelers, segment-wise



# 2. Models that are priced between Rs.20,000 and Rs.40,000.

We call this the 'entry level, utility' category. We are, and will continue to be, very firmly ensconced in this zone. Today, our two-wheelers in this category are Boxer, Boxer AT, Boxer CT, two-stroke and four-stroke geared scooters, Spirit and the M-80 two- and four-stroke. We believe that approximately 55 to 60 per cent of the Indian market will be in this zone in the near future.

# 3. Models that are priced between Rs.40,000 and Rs.60,000.

For the want of any better word, we call this the 'executive' segment. These are models that are up to Japanese and European standards of engineering, styling and manufacturing, and anyone who produces such models should be able to compete with multinational players of tomorrow. We also want to be strongly present in this segment, which we think will account for something like 30 per cent of the market. Today, Bajaj Auto's Saffire, Caliber, Caliber Croma and the Pulsar 150 fall into this category.

### 4. Models priced above Rs.60,000.

This is the 'premium' segment, which will have considerable 'eyeball prominence', but probably account for a relatively small, but important share of

the market. Our Eliminator and Pulsar 180 fall in this category.

Bajaj Auto is very strong in the second segment, and will continue growing this market — which should increase at a faster rate than the 'executive' category. We were relatively weak in the third segment, but have now the relevant products developed for this segment and have seeded it with three motorcycle models. Despite competition from multinationals and today's motorcycle majors, we will grow in this segment in no uncertain terms. And we will be in the premium segment for its technology statement and brand prominence.

Our strategy is simple. We will be aggressive in the 'utility' segment for volumes; we will expand our presence in the 'executive' segment for brand; and we will populate the 'premium' segment for brand as well as for learning.

### **Motorcycles**

Traditionally, Bajaj Auto was seen as a scooter manufacturer that also produced some models of motorcycles. To survive and grow in a market which was rapidly switching to motorcycles, the company had to change its strategy. It had to show that it could consistently introduce motorcycles that combined the traditional Bajaj Auto qualities of ruggedness, fuel economy and price competitiveness with style, high end features and riding comfort.

The transition began in the mid-1990s, and it was not easy. Early models didn't make the grade, especially compared to the competition. Over time, however, we started learning from our initial failures and, by getting closer to customers, began to produce and deliver models that started capturing market share.

TABLE 2: Steady growth in Bajaj Auto's market share for motorcycles (numbers)

Year ended 31 March	Market	BAL	Growth of the market	Growth of BAL's sales	BAL's market share
1993	303,839	34,672	-11.5%	15.2%	11.4%
1994	380,558	42,080	25.2%	21.4%	11.1%
1995	528,043	75,087	38.8%	78.4%	14.2%
1996	660,672	89,675	25.1%	19.4%	13.6%
1997	802,266	129,263	21.4%	44.1%	16.1%
1998	913,956	136,017	13.9%	5.2%	14.9%
1999	1,176,779	200,183	28.8%	47.2%	17.0%
2000	1,612,895	255,176	37.1%	27.5%	15.8%
2001	2,033,196	422,016	26.1%	65.4%	20.8%
2002	2,861,375	656,018	40.7%	55.4%	22.9%

Today, Bajaj Auto is not only the clear number two in motorcycles, but is also showing growth rates that are faster than that of the overall motorcycle market. Table 2 shows the differential growth rate in motorcycle sales, and the company's rise in market share.

As Table 2 shows, Bajaj Auto has been a clear out-performer in motorcycles. The company sold over 656,000 motorcycles in 2001-02 compared to 422,000 in 2000-01 — an increase of 55 per cent versus the overall market growth rate of 41 per cent. In 2001-02, motorcycles accounted for almost 55 per cent of the company's two-wheeler sales volume.

As in last year, the driver of Bajaj Auto's motorcycle sales has been the Boxer. During 2001-02, 497,137 Boxers were sold — a growth of 93 per cent over the sales in 2000-01. In the process the Boxer brand, with its three variants, became the largest selling motorcycles in the 'utility' segment, and the secondlargest motorcycle brand in the country. Boxer accounts for a little over three-quarters of the motorcycle sales of the company, and we expect the market to continue growing over the next few years. We are planning to launch a new 100 cc bike in the third quarter of

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2002-03 to further strengthen our presence in this segment, by targetting our college-going youth.

Even before 2001-02, Bajaj Auto had established its presence in the executive and premium segments through the 111 cc Caliber, the Caliber Croma and the 175 cc Eliminator. During 2001-02, we sold almost 131,000 units on account of these three brands. In November 2001, in order to establish an even stronger presence in these two segments, the company introduced its Pulsar in two variants - 150 cc and 180 cc. With its masculine looks and high performance, the Pulsar has received excellent reviews and has been selected as the best new motorbike of the year by a number of magazines and newspapers. It is a matter of pride for the company that this motorcycle has been conceptualised, designed, developed and commercially produced by Bajaj Auto's engineers within a span of 30 months.

Launched in select cities, the Pulsar has already achieved sales of 12,190 units by 31 March 2002. The brand is shortly going national, and Bajaj Auto hopes to achieve average sales in excess of 10,000 per month in 2002-03.

The coming year, 2002-03, will see the introduction of a 125 cc motorcycle, jointly developed with Kawasaki to be produced at Bajaj Auto's Waluj plant and slated for launch in the fourth quarter. This model will be marketed by Kawasaki for the world market.

With the current motorcycle portfolio,
Bajaj Auto now has models spanning
the entire price spectrum of the market
— from the entry-level Boxer AT priced
at Rs.29,990 ex-showroom to the
Eliminator priced at Rs.85,000. Each
model caters to different needs of our
heterogeneous customer base and, in the

process, offers consumer value across the entire motorcycle spectrum.

### **Geared Scooters**

As Chart C shows, the decline in the geared scooter market continued in 2001-02. Overall industry sales fell from from 0.60 million in 2000-01 to 0.53 million in 2001-02 — a reduction of almost 12 per cent. The faint silver lining was that Bajaj Auto's sales fell by a smaller percentage — 6.4 percent, from 0.44 million in 2000-01 to 0.41 million units in 2001-02. So, in a declining market, the company could marginally increase its market share from 73 per cent to 76 per cent.

The reasons for the decrease in the overall market size of this segment have been detailed in the last year's management discussion and analysis.

Nothing has substantively changed since then. To an extent, the steep decline in 1999-2000 and 2000-01 has been arrested by Bajaj Auto introducing utility

CHART C: Geared scooter sales continue to fall



versions of the Chetak and Super in January 2000. We have also launched a four-stroke version of Chetak in January 2002. This vehicle gives a fuel efficiency of 75 kilometres per litre under standard test conditions — an increase of 25 per cent compared to the existing geared scooters. We have also launched the Legend NXT-2, a two-stroke futuristically styled scooter to appeal to aesthetically conscious customers. A four-stroke variant — the Legend NXT-4 — will be launched in 2002-03.

We believe that the above new products will help to effect a bottoming-out of the geared scooter market. To err on the side of caution, Bajaj Auto is projecting a sale of no more than 31,000 units per month for 2002-03. We hope the market will do better than that.

Ungeared Scooters

new versions of Spirit and Saffire will help the company boost its sales in this segment in 2002-03.

### Step thrus

Bajaj Auto continues to lead in this segment with a market share of 48 per cent. However, the segment as a whole has seen a decline in numbers, with industry-wide sales dropping by 38 per cent — from 0.23 million in 2000-01 to 0.14 million in 2001-02. This was because of the rationalisation of the excise duty structure announced in February 2001, which reduced the price differential vis-à-vis motorcycles. As the market leader, Bajaj Auto, too, saw its sales shrink from over 120,500 units in 2000-01 to just a little over 68,000 units in 2001-02.

While the excise duty rationalisation has been a blow to the fortunes of the step-thru segment, it is still viewed by a section of consumers as a low cost, fuel efficient workhorse. Our strategy in this segment is to deliver value at relatively low prices, enhance product differentiation, and try to slowly grow the market. During the year, Bajaj Auto has launched a four-stroke version of the M80 which, we hope, will play an important role in achieving our objective.

allows for easy manoeuvrability. With a total industry sales of 0.41 million units, the segment accounts for around 10 per cent of the two-wheeler market. After a sharp 34 per cent growth in 1999-2000, and a further 8 per cent increase in 2000-01, the market increased a mere 0.9 per cent in 2001-02.

These vehicles are primarily used by

urban women and college students who prefer an automatic transmission, self-

start, less body weight and a size that

Bajaj Auto has three models in this segment — the 60 cc Spice and the Spirit, and the 92 cc Saffire — and has a market share of 16 per cent. During the year, the upgrades of Spirit and Saffire were launched. The company's performance in this segment has not been up to expectations, and sales have dropped by 12 per cent to a little over 66,500 units. We are hoping that with a general increase in urban affluence, the

### Bajaj Auto's two-wheeler product portfolio

Four years ago, when Bajaj Auto commenced the process of transformation, the company had a product mix that was well out of line with that of the two-wheeler market. Thanks to the process of change delivered through new models and flexible manufacturing capabilities within all its three plants — the company's