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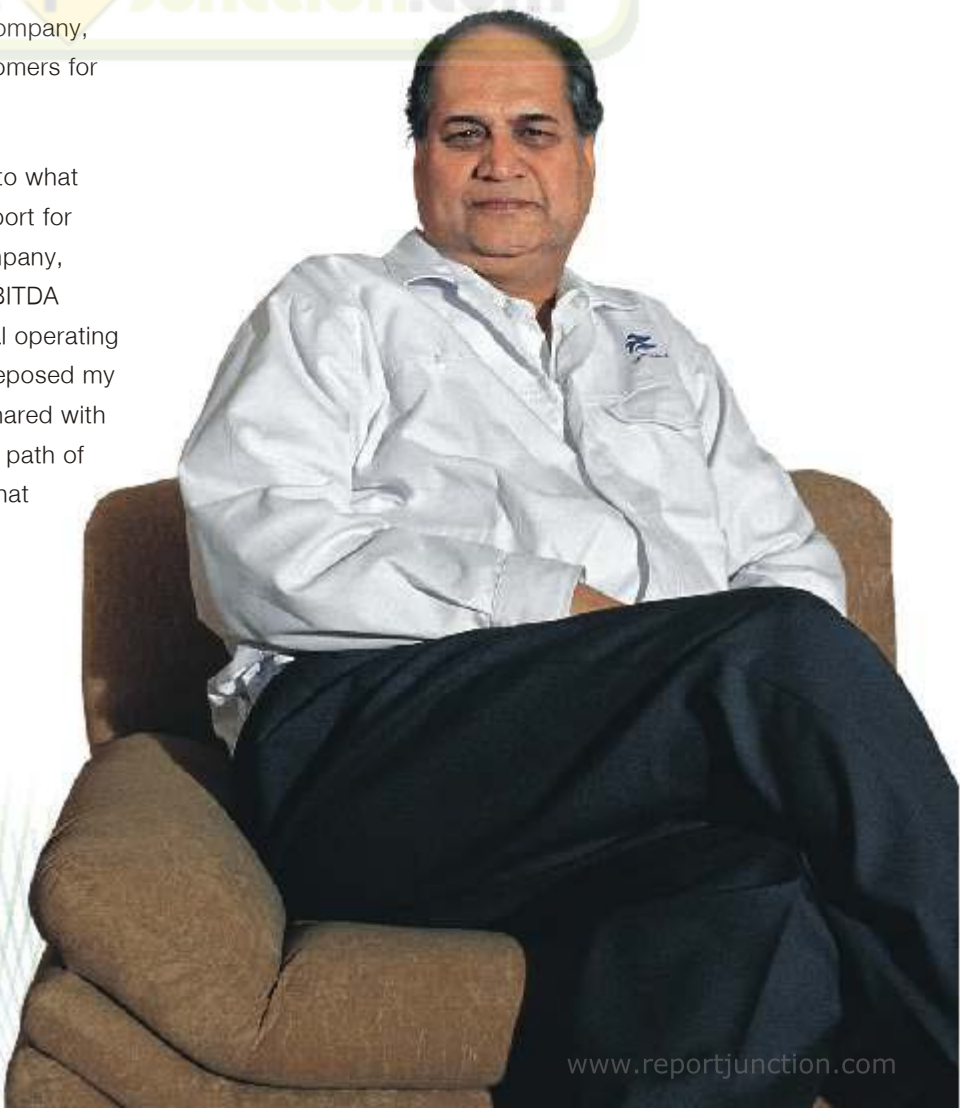


CHAIRMAN'S LETTER

Dear Shareholder,

2003-04 has been another good year for your company. Bajaj Auto has posted its highest ever gross turnover of Rs.59.34 billion; its highest ever profit before tax of Rs.9.60 billion; and its highest ever profit after tax of Rs.7.32 billion. As your Chairman, I am proud of these achievements, and would like to begin by thanking every employee of the company, its vendors, its dealers and its myriad customers for making this performance happen.

As I write this letter, my mind goes back to what I wrote three years ago — in the annual report for 2000-01. It was a difficult year for the company, when sales had taken a beating and the EBITDA margin had dropped to 9.8 per cent of total operating income. Even in those tough times, I had reposed my unwavering faith in the company, when I shared with you Bajaj Auto's vision of the future and its path of transformation. I still recollect a sentence that I wrote: "A year's adversity does nothing to change my belief in this vision."





Three years later, the management team and I feel vindicated. Your company has resolutely engaged in a process of fundamental change. This has involved changes in the organisational structure; in products and models; in the approach to markets and consumer preferences; in R&D, engineering, product design and speed to market; in rationalising of costs; and in a complete overhaul of the way in which we do business.

This change process is now epitomised by Bajaj Auto's new corporate identity — which was unveiled at the Auto Expo in Delhi in January 2004.

To my mind, this new identity symbolises the changing time — a new and rejuvenated Bajaj Auto that is closely in touch with its customers; that believes in speed and innovation; that wants to create excitement through its products; that focuses on transparency. It is an identity that speaks of **inspiring confidence**. It represents the new company in a new India.

Having begun this letter with so many kudos, let me now highlight some achievements and challenges.

First, I am delighted with your company's progress in exports. Bajaj Auto achieved 69 per cent growth in the export of two-wheelers, and 66 per cent increase in the export of all vehicles. In 2003-04, exports accounted

for over 156,000 vehicles. I believe that international markets will be a key driver of our sales in the future. We will leverage this opportunity by significantly growing exports.

Second, I am delighted by the way the diesel powered GC 1000 — a higher payload three-wheeler goods carrier — has performed in 2003-04. Launched in April 2003, the GC 1000 pushed our sales of goods carriers by 154 per cent to around 25,000 vehicles during 2003-04. I expect your company to do even better in this segment in the coming year.

Third, I am happy that the Pulsar — with the new Digital Twin Spark ignition (DTSi) technology — has continued to maintain its unchallenged market leadership in the premium segment of the motorcycle market.

The challenge, however, remains about the state of competition in the other two segments. At the entry level, the supremacy of the Boxer brand has been challenged by a worthy competitor; and, notwithstanding the Caliber and the Wind, we as a company have a long way to go before becoming a truly significant player in the large, mid-level executive segment of the motorcycle market.

Your company is alive to these challenges. It proposes to launch a new CT 100 this year, which should help Bajaj Auto reoccupy the position of primacy in the entry-level segment. In the executive category, it will be launching what I think will be a remarkable motorcycle, which is known within the company by its code name K 60. I am hoping that with these two launches, Bajaj Auto will capture a larger share of the motorcycle market — not only in numbers, but also in the minds and hearts of consumers.

Fourth, in the last three years, R&D has become a major driver of the company. We have set aside Rs.680 million towards this end. Of this, Rs.269 million has already been spent in 2003-04, and Rs.411 million are committed for 2004-05. In the years ahead, you will see this company being even more focused on R&D so as to introduce state-of-the-art vehicles for consumers both in India and abroad. Larger and more targeted marketing and advertisement spends will support this increased R&D effort.

The old order changeth...

Quietly, and without much fanfare, the management of your company has effectively moved to the hands of younger people. I like this process very much,

and have endorsed it to the hilt. After all I was given charge of your company when I was 30. Therefore, I see every reason why younger people should take over the mantle.

That doesn't mean that your Chairman is ready to take *vanavas*. Far from it, I will continue to be involved in wider strategic issues and be a sounding board for ideas. However, the day-to-day working and the quarter-on-quarter planning of Bajaj Auto will be left to younger heads and hands.

2003-04 has been a good year, but the future looks even better. I expect the company to overcome challenges and achieve still better performance across all product categories. The new corporate identity promises to **inspire confidence**. We at Bajaj Auto must leverage this confidence by delivering superior performance year on year, without fail.

Thank you for your support and faith in Bajaj Auto.



Rahul Bajaj

Chairman and Managing Director

Board of Directors

Rahul Bajaj
Chairman and Managing Director

Madhur Bajaj
Vice Chairman and Whole-time Director

Rajiv Bajaj
Joint Managing Director

Kantikumar R Podar

Shekhar Bajaj

D J Balaji Rao

D S Mehta
Whole-time Director

J N Godrej

S H Khan

Suman Kirloskar

Naresh Chandra

Nanoo Pamnani

Management

Rahul Bajaj
Chairman and Managing Director

Madhur Bajaj
Vice Chairman

Rajiv Bajaj
Joint Managing Director

D S Mehta
Whole-time Director

R A Jain
Executive Director

Sanjiv Bajaj
Executive Director

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)

Company Secretary

J Sridhar

Auditors

Dalal & Shah
Chartered Accountants

International Accountants

KPMG

Cost Auditor

A P Raman
Cost Accountant

Bankers

Central Bank of India
State Bank of India
Citibank N A
Standard Chartered Bank
Bank of America
ICICI Bank
HDFC Bank

Registered under the
Indian Companies Act, 1913

Registered Office

Mumbai-Pune road
Akurdi, Pune 411 035

Works

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



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

MANAGEMENT DISCUSSION & ANALYSIS

In the last four years, the theme of this chapter has been the process of “change” — of the ways in which Bajaj Auto has been transforming itself to successfully meet the greater competitive challenges of the future. While this year’s Management Discussion and Analysis continues to retain this topic, it is enhanced by a complementary theme — of how the company has leveraged a successful change-process to create products and a brand that inspires confidence.

Like “change”, “inspiring confidence” has many elements and is a continuous process. For Bajaj Auto, “inspiring confidence” means many things: unveiling the new “flying B” Bajaj brand in January 2004 and the way we now write BAJAJ - the new logo; reinforcing the distinctiveness of the brand and what it stands for; using new technologies and design to produce better vehicles that inspire confidence in the hearts and minds of customers; creating excitement in products, in engineering, in people and in customers; inspiring through learning, innovation, perfection, speed and transparency.

For shareholders, “inspiring confidence” has much to do with the results of a company. Therefore, it is useful to highlight some of Bajaj Auto’s results for 2003-04.

- Sales increased by 14 per cent, from Rs.47.44 billion in 2002-03 to Rs.54.18 billion in 2003-04.

This is the company’s highest ever sales. Net sales (net of excise duty) increased by the same percentage, from Rs.41.59 billion in 2002-03 to Rs.47.55 billion in 2003-04.

- Total turnover (net of excise duty) increased by 17 per cent, from Rs.44.86 billion in 2002-03 to Rs.52.70 billion in 2003-04 — another highest ever for the company.
- Operating EBITDA (earnings before interest, taxes, depreciation and amortisation,) increased from Rs.8.17 billion to Rs.8.30 billion in 2003-04. This is also the company’s highest-ever operating profits from manufacturing.
- Profit before tax (PBT) rose by 22 per cent — from Rs.7.89 billion in 2002-03 to Rs.9.60 billion in 2003-04. This is after taking into account an extraordinary expense incurred during the year, namely Rs.415.48 million on account of the settlement of a long-standing labour dispute. If that were added back, the company’s PBT would have exceeded Rs.10 billion.
- Profit after tax (PAT) increased by 36 per cent — from Rs.5.38 billion in 2002-03 to Rs.7.32 billion in 2003-04.



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These numbers show how the changes carried out over the last four years are yielding consistently stronger financial results — which is now inspiring confidence in the company's stakeholders.

As has been the practice, this chapter is in three parts. The first analyses markets and sales across the various product segments; the second part focuses on operations; and the third on the financials.

Markets

Two wheelers

Between 2002-03 and 2003-04, the industry's overall sales of two-wheelers grew by 11.6 per cent, from 5.05 million to 5.64 million. The sale of motorcycles, which constitutes by far the most dominant category in this segment, increased by 14.9 per cent — from 3.76 million to around 4.32 million. Consequently, the share of motorcycles to two-wheeler sales rose from 74.4 per cent in 2002-03 to 76.6 per cent in 2003-04.

Chart A depicts the trend over the last ten years, while Table 1 gives more detailed, segment-wise data.

CHART A: Industry's sales of two-wheelers

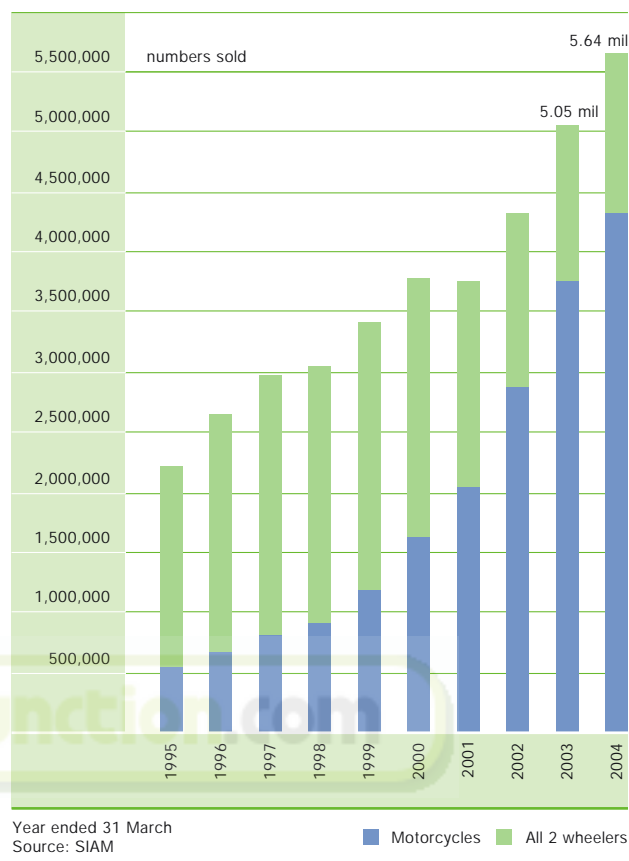


TABLE 1: Industry's sales of two-wheelers, segment wise (in numbers)

Year ended 31 March	Motorcycles	Geared Scooters	Ungeared Scooters	Mopeds	Step-thrus	All two-wheelers
1995	528,043	940,684	189,564	334,135	215,805	2,208,231
1996	660,672	1,079,116	242,101	446,666	231,450	2,660,005
1997	802,266	1,137,579	263,179	492,675	269,775	2,965,474
1998	913,956	1,076,385	267,801	470,512	313,693	3,042,347
1999	1,176,779	1,114,346	282,413	497,677	332,256	3,403,471
2000	1,612,895	978,668	378,815	530,497	275,844	3,776,719
2001	2,033,196	592,411	408,261	483,172	228,476	3,745,516
2002	2,861,375	531,179	410,260	375,712	140,005	4,318,531
2003	3,757,125	335,917	532,410	315,554	112,556	5,053,562
2004	4,316,777	288,127	660,428	337,109	32,990	5,635,431

Source : SIAM