



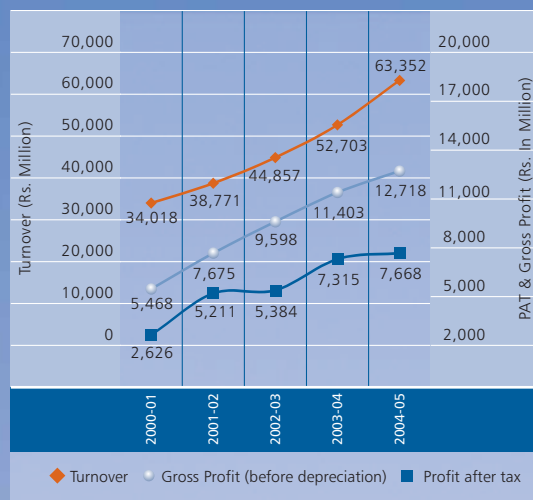
**BAJAJ**

SIXTIETH ANNUAL REPORT 2004 - 05

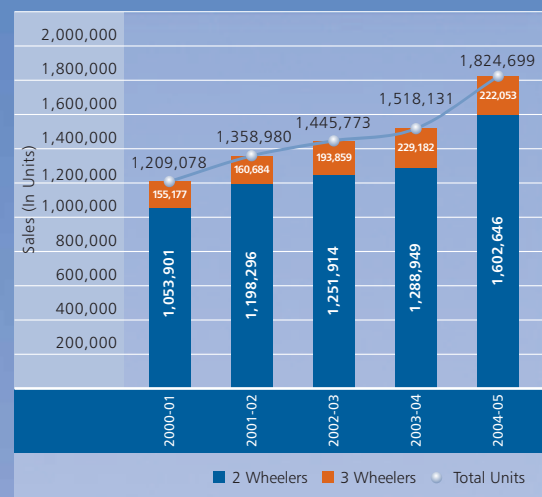
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## Turnover, Gross Profit (before depreciation) & Profit after tax



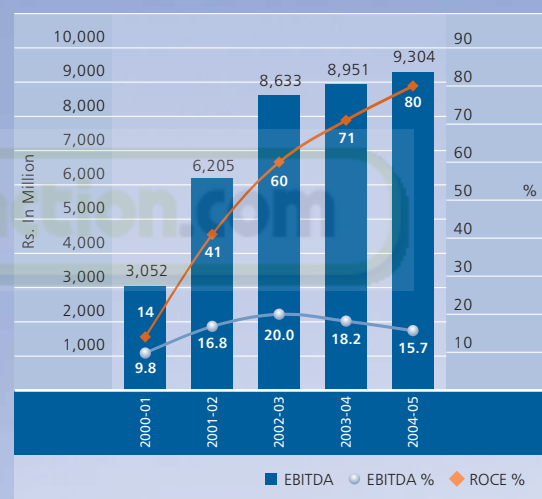
## Sales (In units)



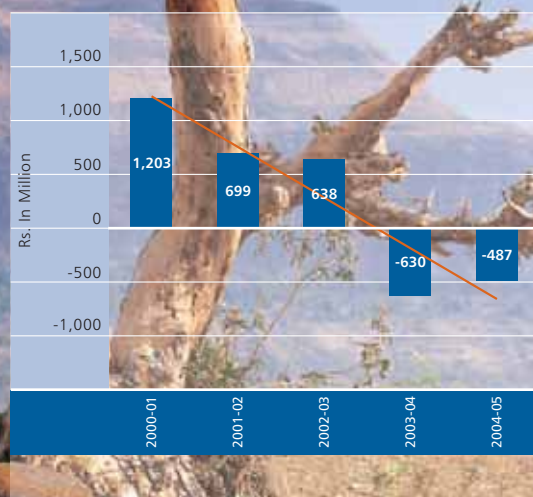
## Exports



## Operating EBITDA & Pre Tax Operating ROCE



## Operating Working Capital

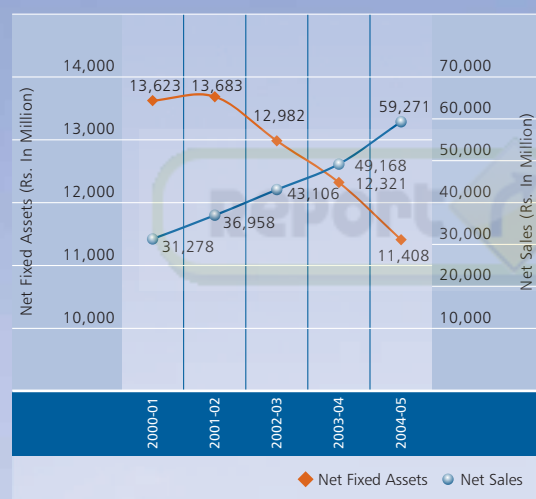




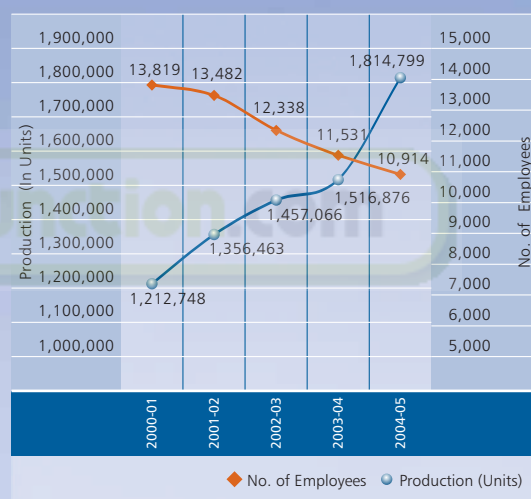
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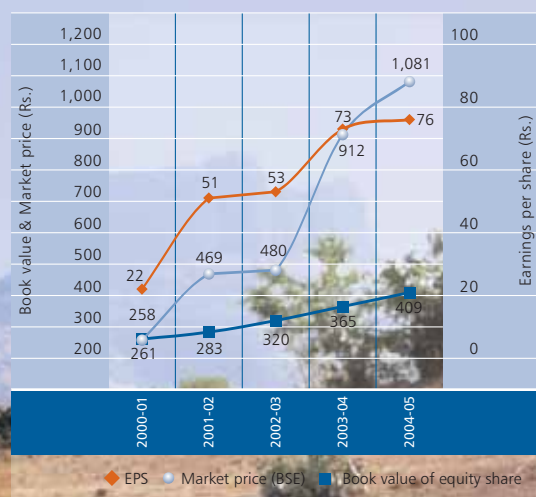
### Net Fixed Assets vis-a-vis Net Sales



### Production vis-a-vis Employee Strength

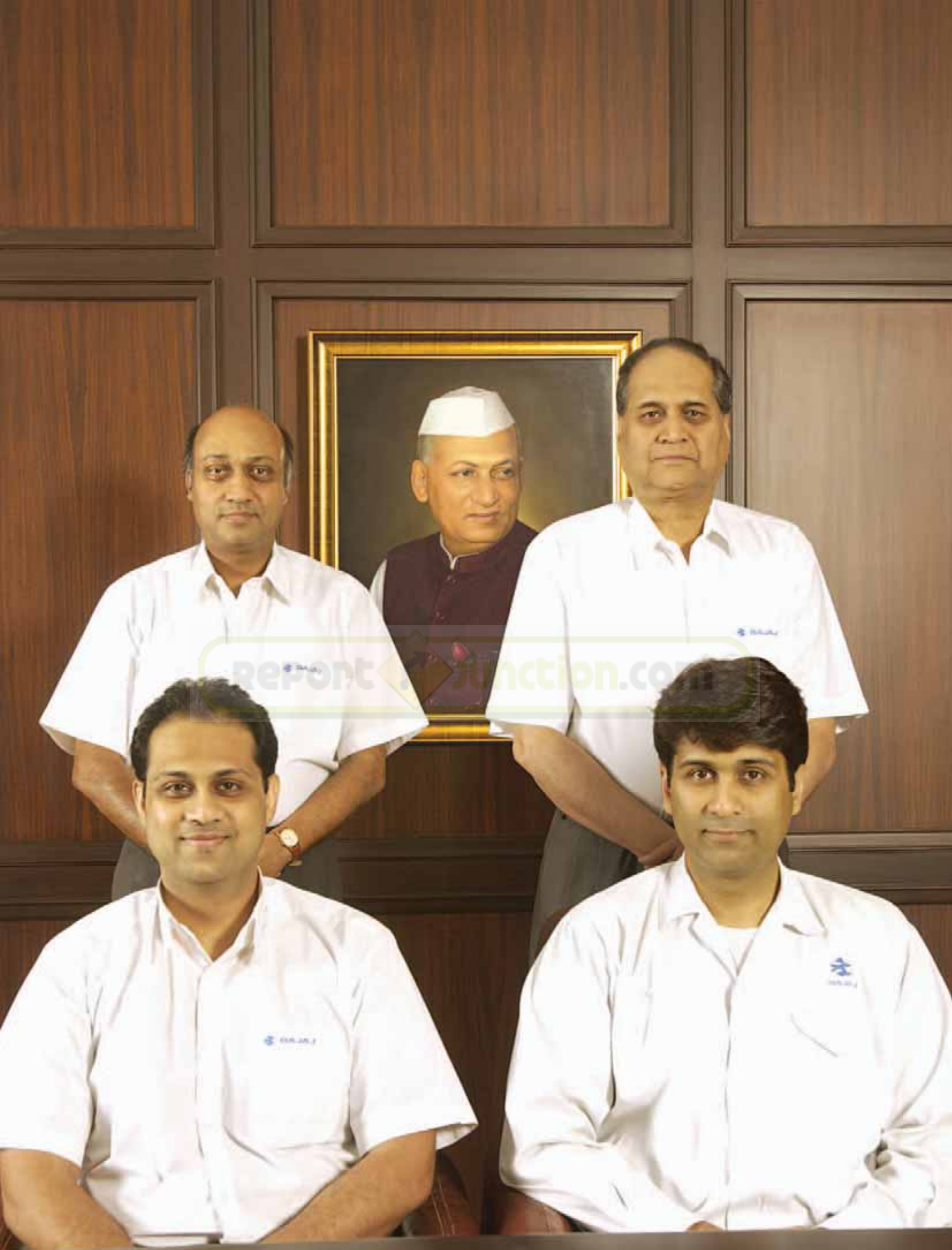


### Book value, Market price & Earnings per share



### Dividend Payout





# CHAIRMAN'S LETTER



## Dear Shareholder,

2004-05 has been a good year for your company in more ways than one. Last year, I had shared with you my desire to hand over the day-to-day running of Bajaj Auto to a younger team who have been groomed for leadership of your company. This transition has been completed. As of 1st April 2005, I have stepped down from being the Managing Director of your company—a post that I held for 35 years. That mantle has been handed over to Rajiv Bajaj, who now leads a younger and energised team of persons, along with the newly appointed Board member and Executive Director, Sanjiv Bajaj.

I am confident that this change of guard will further invigorate your company's employees, vendors and dealers and motivate them to continuously redefine standards of excellence.

The Vice Chairman of your company, Madhur Bajaj, who has been by my side in serving your company for almost 20 years,

and I, will now be involved in wider strategic issues and together we will play the role of mentoring and offering guidance whenever it is necessary.

I am also happy to share with you the company's operational performance. Sales have increased by almost 21 per cent to exceed Rs 65.4 billion—which is yet another record for Bajaj Auto. Gross operating profits now stand at Rs 9.3 billion, and happen to be the highest in the history of the company. Profits after tax are close to Rs 7.7 billion, and pre-tax return on operating capital is now at an impressive 80 per cent. These are creditable figures, and show that Bajaj Auto is now confidently on the move.

The strength of a company such as ours depends on the quality of its products, excellence in engineering and design, and the ability to delight customers. Here, too, I am more than satisfied by Bajaj Auto's performance. The Pulsar continues to dominate the premium segment of the motorcycle market and I believe that its new variant introduced in November 2004 will help in maintaining market superiority. The new 125 cc

Discover DTSi—which in my previous letter I had referred to as model K 60—was introduced in the ‘value’ segment of the motorcycle market. It is truly a best-in-class bike, which incorporates a high degree of power combined with riding comfort, and yet offers the fuel efficiency of a 100 cc motorcycle. Discover has sold over 150,000 units between September 2004 and March 2005. It has been well appreciated by consumers, and I hope that this motorcycle and its future variants will substantially redefine our position in this market segment.

I am, similarly, extremely happy with the performance of the CT 100 in the ‘price’ segment of the motorcycle market. Your company was traditionally the market leader in this category until it lost that position in 2003-04. I am delighted that we have not only bounced back with an excellently engineered model that has captured the hearts of the customers, but also, in the process, regained our top position in this segment. With this, Bajaj Auto is again the market leader at the top as well as at the bottom.

Your company’s export performance has also been good. 2004-05 saw a 45 per cent growth in two-wheeler exports, which now touch 131,000 units or 8 per cent of the total sale of two-wheelers. Three-wheeler exports volumes are over 65,000 units and constitute 30 per cent of the total sale of three-wheelers. We are the largest exporters in the industry. However, we still have a long way to go.

I believe that sustained growth for your company in the next decade—if not in the next five years—will have to come from

abroad. It is estimated that the global market for motorcycles of less than 250 cc is around 30 million and growing. Of this, India accounts for about 6 million.

Today, Bajaj Auto has proven expertise in motorcycles; and it is rapidly building its R&D, production processes, supply chain and distribution channels to further enhance its competitive advantage. Clearly, exports have to be the engine of future growth. I am sure that we will leverage this opportunity through direct exports as well as by building and acquiring capacities and brands abroad.

These are some of the good news that I want to share with you. But, as in the past, I also want to discuss a couple of concerns. The first has to do with the unabated rise in raw material prices, especially steel and aluminium. No doubt, it has affected all players in the industry; and I dare say, with our obsession for efficiency and cost control, we have dealt with it suitably. My concern is how long these high prices will continue. As I write, there seems to be little or no respite. The challenge for your company and its vendors will be to further improve efficiencies, take out every inch of slack and deal with this on a war footing.

My second concern is the decline, though marginal, in the domestic three-wheeler market. This has entirely to do with state and municipal laws and regulations that are preventing the growth of autorikshaws as a mode of urban transport. I have a problem with these laws. Your company has the most technologically advanced, environmentally friendly three-wheelers in India and perhaps even the world. Prevent pollution

by all means. But do not prevent the introduction of clean autorikshaws by painting everyone with the same brush.

Let me also take this opportunity to share with you the performance of our two insurance companies—Bajaj Allianz General Insurance Company Ltd and Bajaj Allianz Life Insurance Company Ltd. Both now rank second among the private players in their segments and both are poised for further growth. In other words, your company's foray in this sector has paid dividends. I would like to convey my congratulations to the insurance teams with the hope that, in the years ahead, they would deliver even better performance.

Talking of finance invariably leads to the topic of the free cash in your company. In the next five years Bajaj Auto will have to launch multiple initiatives: to deal with greater competition in all segments of the domestic market; spend more on R&D and product development; make larger investments in plant and equipment; and, most significantly, execute a series of global forays that will require setting up of plants, acquisition of companies, vendor and distribution networks, and brand building to compete with renowned global players.

None of this comes for free. So, I maintain my earlier position that we should all think of this free cash as the fuel for growth. Many companies come to mind who are universally recognised as great companies. Each of them has substantial cash reserves—and for the same reasons.

The Indian economy has gained resilience. Despite poor agricultural growth last year, economic growth in 2004-05 is expected to be almost 7 per cent. Consequently the growth in demand for two-wheelers during 2004-05 has been almost 17 per cent. I believe similar levels of both economic and sectoral growth are likely to continue. However, sharp increases in international oil prices over the last two years and the possibility of their continuing over USD 40 per barrel can act as a damper, especially if the resultant higher inflation feeds through to interest rates.

Your company has deep-rooted tradition of philanthropy. Through the Jamnalal Bajaj foundation, Jankidevi Bajaj Gram Vikas Sanstha and other charitable trusts, we have been supporting constructive work, largely in rural areas. We have also been supporting a number of other initiatives, including the Kamalnayan Bajaj Hospital at Aurangabad. Bajaj is not just about making and delivering products, nor just about profits and turnovers. Bajaj is about touching every Indian, one way or the other, every day of his/her life.

Please join me in offering our best wishes to the new team that is going to lead your company in the future. I am confident that these young people will propel Bajaj Auto on to a new growth trajectory. With your good wishes, support and blessings, they most certainly will.



**Rahul Bajaj**  
Chairman



## Board of Directors

Rahul Bajaj  
Chairman

Madhur Bajaj  
Vice Chairman

Rajiv Bajaj  
Managing Director

Sanjiv Bajaj  
Executive Director

D S Mehta  
Whole-time Director

Kantikumar R Podar

Shekhar Bajaj

D J Balaji Rao

J N Godrej

S H Khan

Suman Kirloskar

Naresh Chandra

Nanoo Pamnani

Tarun Das

Manish Kejriwal

## Management

Rahul Bajaj  
Chairman

Madhur Bajaj  
Vice Chairman

Rajiv Bajaj  
Managing Director

Sanjiv Bajaj  
Executive Director

Ranjit Gupta  
Vice President (Insurance)

C P Tripathi  
Vice President (Operations)

N H Hingorani  
Vice President (Materials)

Kevin D'sa  
Vice President (Finance)

Pradeep Shrivastava  
Vice President (Engineering)

S Sridhar  
Vice President (Mktg & Sales - 2Wh.)

V S Raghavan  
Vice President (Corporate Finance)

## 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 Office

Mumbai-Pune Road  
Akurdi, Pune 411 035

Registered under the Indian  
Companies Act, 1913

## Works

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





From right to left: Rahul Bajaj, Madhur Bajaj, Rajiv Bajaj, Sanjiv Bajaj, N H Hingorani, C P Tripathi, Pradeep Srivastava, Ranjit Gupta, S Sridhar, Kevin D'sa, V S Raghavan

# MANAGEMENT DISCUSSION AND ANALYSIS

The process of “change” that Bajaj Auto initiated few years ago spans many dimensions—all of which have involved re-examining and changing the ways of doing business. This has led to:

- continuously focusing on the evolving needs of markets;
- creating leaner and more efficient production systems;
- optimising the manner in which the company sources components;
- giving primacy to quality;
- making R&D and product design central to every model that it launches;
- creating a corporate brand that inspires confidence due to its values and transparency;
- consistently delivering products that delight its buyers and generates greater customer excitement because of their style and engineering excellence.

Customer excitement through engineering, product and service excellence is what the company is striving to attain in everything it does; and excellence is the ever increasing standard that will define its space in the industry—both in India and elsewhere in the world.

When excellence starts to deliver results, it translates to better financial performance. It is useful to highlight some of Bajaj Auto’s results for 2004-05 to underscore this point.

- Sales increased from Rs.54.18 billion in 2003-04 to Rs.65.42 billion in 2004-05. This is the company’s highest ever sales—almost 21 per cent higher than its previous high in 2003-04.
- Total turnover also grew by 20 per cent, from Rs.52.7 billion in 2003-04 to Rs.63.4 billion in 2004-05—also the highest ever for the company.
- Operating EBITDA (earnings before interest, taxes, depreciation and amortisation), prior to extraordinary items, increased from Rs. 8.95 billion in 2003-04 to Rs.9.30 billion in 2004-05, which is also the highest operating profit. This translates to an operating EBITDA margin of 15.7 per cent of operating income.
- Profit before tax (PBT) rose from Rs.9.60 billion in 2003-04 to Rs.10.86 billion in 2004-05—a growth of 13 per cent.
- Despite higher incidence of taxes, profit after tax (PAT) increased from Rs.7.32 billion in 2003-04 to Rs.7.67 billion in 2004-05.