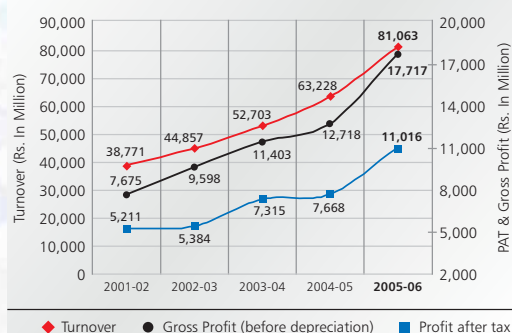


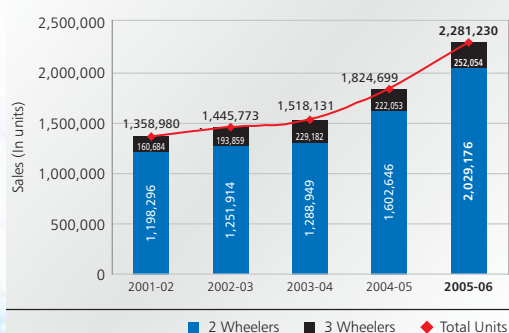
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2005 - 06

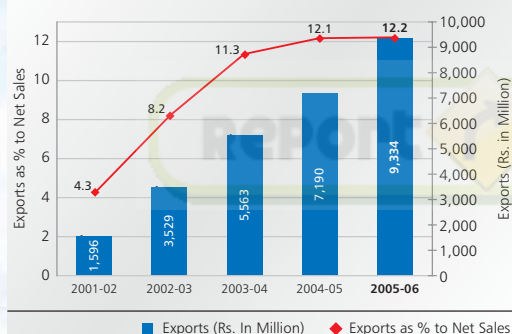
Turnover, Gross Profit (before depreciation) & Profit after tax



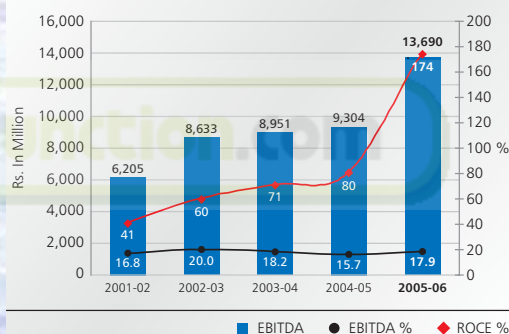
Sales (in units)



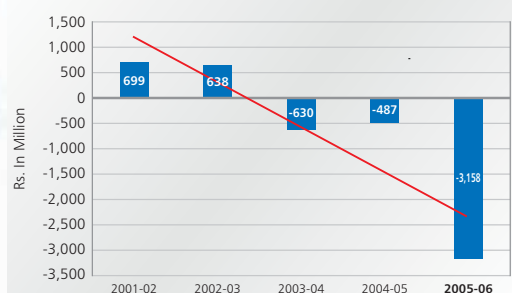
Exports



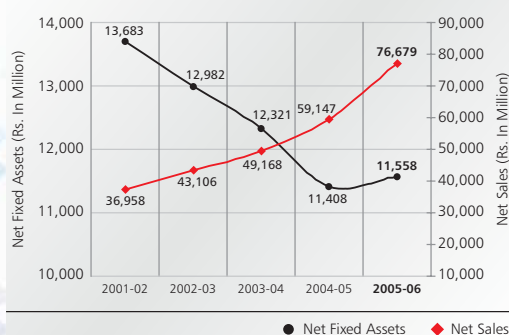
Operating EBITDA & Pre Tax Operating ROCE



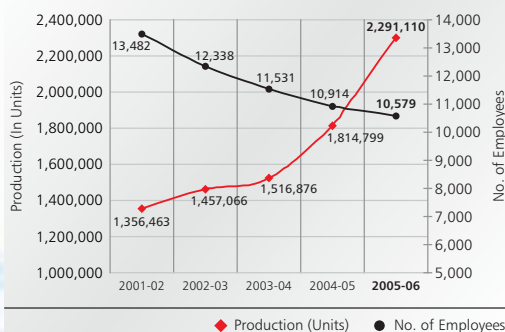
Operating Working Capital



Net Fixed Assets vis-a-vis Net Sales & Operating Income



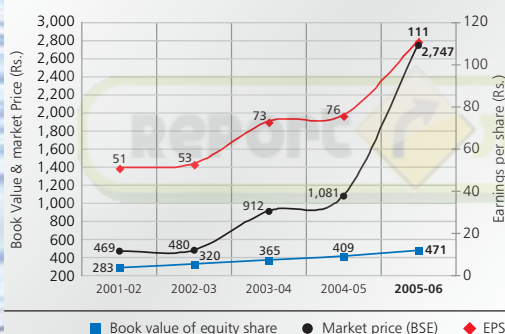
Production vis-a-vis Employee Strength



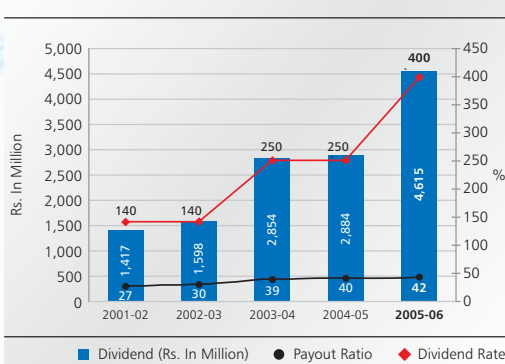
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Book Value, Market Price & Earnings per share



Dividend Payout





We live our brand by its values of

Learning

is how we ensure proactivity.

Innovation

is how we create the future.

Perfection

is how we set new standards.

Speed

is how we convey clear conviction.

Transparency

is how we characterise ourselves.

The header image features a portrait of a man in a white shirt, likely the Chairman, on the right. On the left, there is a shelf with several framed photographs and certificates. One prominent photo shows two men in white shirts, one of whom is pinning a badge or medal on the other. Another photo shows a group of people. There are also framed certificates or awards on the shelf.

Chairman's Letter

Dear Shareholder,

I write to you more than a year after I left all aspects of the functioning of your Company to its Managing Director Rajiv Bajaj, its Executive Director Sanjiv Bajaj, and their highly motivated team. In my letter last year, I had expressed confidence that "this change of guard will further invigorate your Company's employees, vendors and dealers and motivate them to continuously redefine standards of excellence".

I am happy to inform you that the new team has performed very well.

Your Company sold close to 2.3 million vehicles in 2005-06, which in itself is a record performance in its history. But that is not all. Bajaj Auto's motorcycles sales grew by 32 per cent in 2005-06 compared to a market growth of under 19 per cent. Thus, for the fifth successive year, your Company raised its market share in the motorcycle segment. Today it stands at almost 31 per cent. And, if all goes according to plan, I expect this share to steadily increase in the coming years.

Let me share with you some of the key results of your Company for 2005-06.

- Sales increased by almost 31 per cent to an all-time high of Rs.85 billion in 2005-06.
- Even more impressive has been the growth of your Company's operating EBITDA, which increased by 47 per cent to touch Rs.13.7 billion this year. Consequently the operating EBITDA margin grew by 220 basis points to 17.9 per cent of sales and operating income.
- Post-tax profits have increased by 44 per cent to cross Rs.11 billion in 2005-06.
- Earnings per share have risen from Rs.75.6 to Rs.111 in the current year.

Even in a strong equity market, I dare say that the growth of your Company's stock price from under Rs.300 in the middle of 2000 to around Rs.3,000 today reflects your confidence in our sustained excellent performance. It also makes it incumbent upon the management to perform equally well in the future.

Your Company has been on a consistent upward path in sales, profits and margins since 2000-01. That is laudable in itself. However, I am particularly impressed by the manner in which Bajaj Auto has meticulously executed each element of its strategic plan for growth - and has done so year on year.

Consider your Company's positioning in the motorcycles market. With the launch of the Boxer - which later transformed into CT 100 - Bajaj Auto created an 'entry' or 'price' segment to encourage first-time buying of a motorcycle. This segment now accounts for over 40 per cent of the Indian market, and Bajaj Auto is the leader with a share of over 40 per cent.

Then, with the introduction of the Pulsar, your Company successfully introduced a product that catered to the top end of the market. The new 180cc Avenger is yet another model in this segment. Today, Bajaj Auto commands a 62 per cent market share in this premium segment.

Now we have established a strong presence in the value segment as well, which accounts for around 50 per cent of all motorcycles sold in India. The Discover twins have done the "jadoo". In 2005-06, Discover sold over 450,000 vehicles. And, thanks to the excellent response to Discover 110cc, Bajaj Auto currently accounts for more than 25 per cent of this segment.

I share this with you to illustrate how your Company's strategy of segmenting markets and developing appropriate and well-differentiated products for each segment has resulted in its commanding significant market shares.

I must also place on record the creditable performance of Bajaj Auto's export team, which sold over 250,000 vehicles, and increased global

sales by 27 per cent to touch the Rs.9 billion mark. Today, exports account for 12 per cent of our net sales, and I expect this share to grow in the coming years.

In large measure, these successes, both in domestic and export sales have been made possible by your Company's young, world-class R&D team to whom nothing is impossible, and every challenge is an opportunity.

Given the results for 2005-06 and clear prospects of growth in the future, it could have been all too easy for me to be contented. I am certainly happy with the performance. But I am not content. The potential is far greater.

To explain why, let me share with you my dreams for 2010.

First, annual sales of motorcycles in India are expected to cross the 10 million mark by 2010. Given the vigour of Bajaj Auto's team, its current rates of growth and the strength of its balance sheet, we should clearly establish our leadership in the market.

Second, it should be possible for Bajaj Auto to use its strategic ingenuity, entrepreneurial drive, R&D capability and excellence in execution to become a significant player in the global market.

Third, given the enormous opportunities for financing across the wide range of products and services and the goodwill of the Bajaj brand, Bajaj Auto Finance Limited should be looking at significantly increasing its business and reach throughout India.

Fourth, we have huge opportunities in insurance. Today, Bajaj Allianz Life Insurance Company Limited

is the largest private sector player in the industry. And Bajaj Allianz General Insurance Company Limited is the second largest private player. Full credit for such excellent performance goes to their young and energetic management. But there are many more peaks to be conquered. Both life and general insurance are severely under-penetrated in India, and provide considerable headroom for future growth.

So, here is my vision of your Company. By 2010, Bajaj should:

- **Mobilise India** - by supplying 4 million motorcycles per year in a market of 10 million customers.
- **Globalise India** - by rapidly enhancing exports and international facilities to become among the three largest global producers in two-wheelers.

- **Finance India** - by ramping up Bajaj Auto Finance's operations to fund the growth aspirations of the country.
- **Derisk India** - by expanding the life and general insurance business across the length and breadth of the land.

Your Company, its subsidiaries and associates have the capability to make it happen.

Therefore, while congratulating all members of the Bajaj team for their excellent achievements this year, let us also exhort them to make the 2010 vision a reality.



Rahul Bajaj

Chairman

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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
(Upto 9th April 2006)

Manish Kejriwal

Management

Rahul Bajaj
Chairman

Madhur Bajaj
Vice Chairman

Rajiv Bajaj
Managing Director

Sanjiv Bajaj
Executive Director

Klaus Biskup
President (South East Asia)

Ranjit Gupta
Vice President (Insurance)

C P Tripathi
Vice President (Operations)

N H Hingorani
Vice President (Commercial)

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)

S Ravikumar
Vice President
(Business Development)

K Srinivas
Vice President
(Human Resources)

Abraham Joseph
General Manager
(Research & Development)

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



Rahul Bajaj
 Rajiv Bajaj
 S Sridhar
 N H Hingorani
 V S Raghavan
 Madhur Bajaj
 Sanjiv Bajaj
 Kevin D'sa
 Ranjit Gupta
 S Ravikumar
 Klaus Biskup
 C P Tripathi
 Pradeep Shrivastava
 K Srinivas
 Abraham Joseph

Management Discussion and Analysis

Over the past few years, Bajaj Auto Limited ('Bajaj Auto', 'BAL' or 'the Company') has focussed on technology development, product development in anticipation of market needs, scaling up its manufacturing facilities, implementing best-in-class production systems, rationalising vendors, slashing costs while upgrading quality, restructuring dealerships and distribution channels.

These capabilities enabled the company to create exciting new products, which have set benchmarks – in style, in design, in technology. The company's products are creating a customer pull at all price points and the company has now transformed from being a price warrior to a price leader.

The results of the above are there for its customers and shareholders to see. In 2005-06, Bajaj Auto's sales of motorcycles grew by almost 32 per cent versus a market growth of under 19 per cent. And market share has risen from 24 per cent in 2003-04 to almost 31 per cent in 2005-06. Given below are the highlights of the company's financial results for 2005-06

- Sales increased by 30 per cent - from Rs.65.42 billion in 2004-05 to an all-time corporate high of Rs.85.50 billion in 2005-06.

- Net sales (net of excise duty) increased by 30 per cent - from Rs.57.24 billion in 2004-05 to Rs.74.69 billion in 2005-06.
- Total turnover grew by 28 per cent - from Rs.63.23 billion in 2004-05 to Rs.81.06 billion in 2005-06.
- Operating EBITDA (earnings before interest, taxes, depreciation and amortisation) increased by 47 per cent - from Rs.9.30 billion in 2004-05 to Rs.13.69 billion in 2005-06. This translates to an operating EBITDA margin of 17.9 per cent of operating income, which is 220 basis points higher than the previous year. This is the highest operating margin in the industry.
- Profit before tax (PBT) rose by 46 per cent - from Rs.10.86 billion in 2004-05 to Rs.15.81 billion in 2005-06.
- Profit after tax (PAT) increased by 44 per cent - from Rs.7.67 billion in 2004-05 to Rs.11.02 billion in 2005-06.
- Earnings per share (EPS) grew from Rs.75.60 in 2004-05 to Rs.111 in 2005-06.

This year's Management Discussion and Analysis begins with markets, the company's sales across segments, operations and finally to the financials and margins.