

**BAJAJ**

*Distinctly Ahead*

**Bajaj Auto Limited**

First Annual Report

2007-08



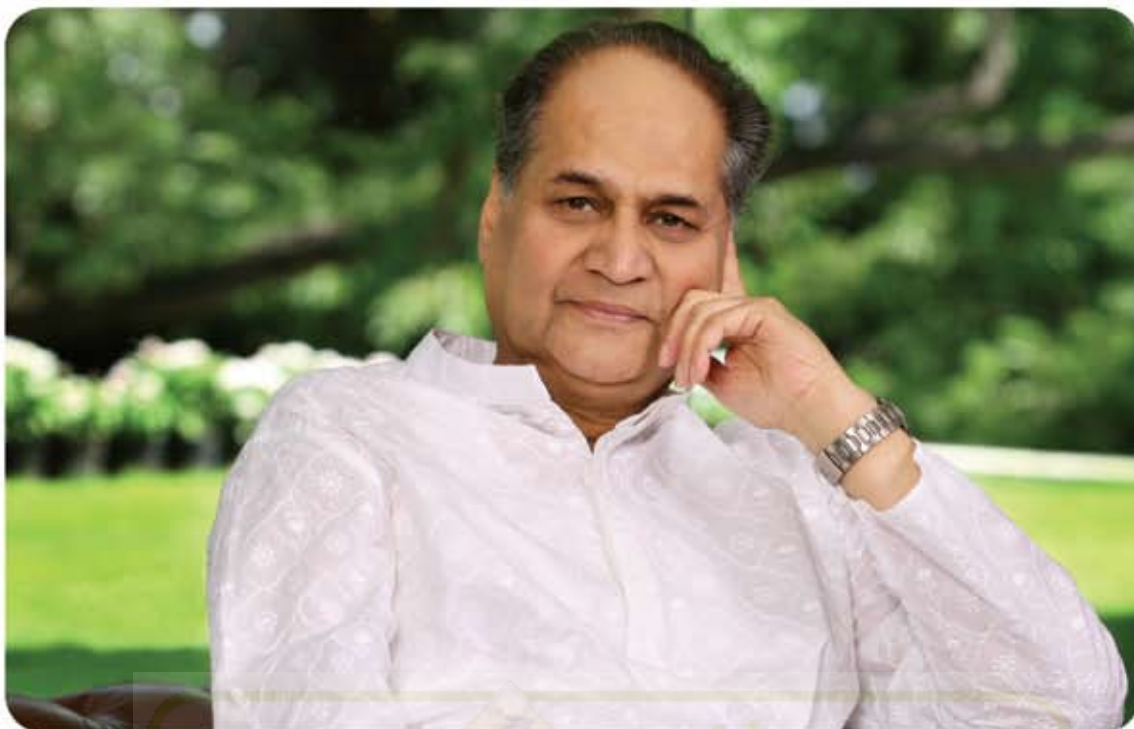
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## Management Team



Rahul Bajaj  
Madhur Bajaj



Rajiv Bajaj  
Sanjiv Bajaj





Rakesh Sharma  
Pradeep Shrivastava  
R C Maheshwari  
S. Sridhar  
Kevin D'sa

N.H. Hingorani  
C P Tripathi  
S. Ravikumar  
K. Srinivas  
Abraham Joseph

## Board of Directors

**Rahul Bajaj**  
Chairman

**Madhur Bajaj**  
Vice Chairman

**Rajiv Bajaj**  
Managing Director

**Sanjiv Bajaj**  
Executive Director

**D S Mehta**

**Kantikumar R Podar**

**Shekhar Bajaj**

**D J Balaji Rao**

**J N Godrej**

**S H Khan**

**Ms Suman Kirloskar**

**Naresh Chandra**

**Nanoo Pamnani**

**Manish Kejriwal**

**P Murari**

**Niraj Bajaj**

## Management

**Rahul Bajaj**  
Chairman

**Madhur Bajaj**  
Vice Chairman

**Rajiv Bajaj**  
Managing Director

**Sanjiv Bajaj**  
Executive Director

**Pradeep Shrivastava**  
President (Engineering)

**Rakesh Sharma**  
CEO (International Business)

**R C Maheshwari**  
CEO (Commercial Vehicles)

**S Sridhar**  
CEO (Two Wheelers)

**Abraham Joseph**  
Vice President  
(Research & Development)

**C P Tripathi**  
Vice President (Corporate)

**Kevin D'sa**  
Vice President (Finance)

**K Srinivas**  
Vice President  
(Human Resources)

**N H Hingorani**  
Vice President (Commercial)

**S Ravikumar**  
Vice President  
(Business Development)

## Company Secretary

**J Sridhar**

## Auditors

**Dalal & Shah**  
Chartered Accountants

## 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, 1956**

## 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
- Plot No.2, Sector 10  
IIE Pantnagar  
Udhamsinghnagar  
Uttarakhand 263 531





# Chairman's Letter

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Dear Shareholder,

Last year, I had correctly observed that January to March 2007 had witnessed the beginnings of slackening domestic demand for two-wheelers "because of the sharp tightening of non-food credit by the Reserve Bank of India and all commercial banks and non-banking financing companies". But I had wrongly hoped that "this slowdown is a temporary aberration." My argument was the RBI was reacting to inflationary pressures and asset price bubbles; and as these eased off, "non-food credit growth will perforce bounce back to its 30 per cent annual growth rates" allowing your Company to regain its high rates of growth of sales, top-line and profits.

This was not the case. Throughout 2007-08, the RBI maintained a very tight monetary and

credit policy which raised interest rates on consumer loans to exceptionally high levels. Moreover, banks and finance companies significantly reduced their exposure to auto loans, and severely curtailed the supply of credit. The twin effects of higher interests and lower credit availability hit the two-wheeler industry very badly. Thus, after a decade of spectacular double-digit growth, two-wheelers suddenly faced a slump. For the first time in over 10 years, the industry as a whole witnessed negative growth. From 8.47 million in 2006-07, overall two-wheelers sales fell by 4.8% to 8.07 million in 2007-08. The decline in motorcycle sales was sharper still: by 7.8%, from 7.1 million vehicles sold in 2006-07 to 6.54 million in 2007-08.

Your Company has been affected by this downturn. Falling demand coupled with sharply rising cost of critical raw material such as steel,

especially in the second half of 2007-08, has affected both sales and profits. Given below are the key results:

- Despite an impressive growth in exports, Bajaj Auto's motorcycle sales by volume fell by 10% over the previous year, to 2.14 million vehicles in 2007-08. Three-wheeler sales, too, declined by 9.8% to 290,312 vehicles, notwithstanding strong exports. Thus, your Company's net sales fell by 6.8% to Rs.86.63 billion.
- Operating EBITDA (earnings before interest, taxes, depreciation and amortisation) fell by 9.6% to Rs.12.94 billion in 2007-08. This translated to an operating EBITDA margin of 14.3% of operating income, compared to 15% in the previous year.
- Operating profit before tax (PBT) fell by 16.7% to Rs.10.12 billion in 2007-08.

These are not the best results, especially for a company that has been on a consistently profitable growth path since 2001-02.

Yet, I am not despondent. All industries have their cycles. It is in the nature of businesses to have feasts as well as famines. We have had a great run for the last five years. Moreover, I think that the downturn of 2007-08 will not be a long term phenomenon. Soon enough, we will see an upward movement. Bajaj Auto will be well positioned to make the best of that growth.

Why do I have this confidence? In part, because of my age which has allowed me to witness the rough and the smooth. I have been at the helm of your Company when it was by far the largest two-wheeler manufacturer in India. I have seen Bajaj Auto struggle with rapidly declining sales of scooters, even as it was trying to make its mark in motorcycles. And I have seen us rising from the ashes of 2000-01, and enjoying several years of superb growth. A year's adversity is nothing in the life cycle of business.

My confidence, however, is based on more than just my longevity. Your Company has an excellent suite of products. With its range — and new offerings slated over the next two years, including a four-wheeler cargo vehicle slated for 2009-10, I believe that Bajaj Auto has the ability to consistently offer customer satisfaction across all segments and, thus, recapture the growth momentum.

I continue to be encouraged by Bajaj Auto's export performance. The Company remains India's largest exporter of two- and three-wheelers. The total value of exports for 2007-08 was Rs.20.48 billion (Rs.2,048 crore) — a 20.8% increase over Rs.16.94 billion (Rs.1,694 crore) in 2006-07, at a time when the rupee appreciated substantially against the US dollar. In terms of volumes, too, Bajaj Auto's international sales achieved an all-time high of 618,341 units of two- and three-wheelers sold during 2007-08, or a growth of 40% over the previous year. Export of two-wheelers increased

by 60% to 482,026 units. I expect exports to continue growing in the years to come.

Having expressed my confidence in your Company's longer term growth prospects, let me also share a few words of caution. 2008-09 may see continued inflationary pressures which can prompt the RBI to maintain, if not harden, the interest rates and keep a tight lid on monetary and credit growth. Moreover, input prices are expected to remain firm, especially those of steel and aluminium. These can impact two-wheeler sales as well as profitability. I am, of course, hoping that monetary constraints and input prices ease off. But if they don't, Bajaj Auto will have to find innovative ways of growing without hurting margins. That will require even greater managerial effort.

To recapitulate: although things have been difficult in 2007-08, I see long term growth prospects for your Company, driven by a good portfolio of products, growth in domestic demand over the longer horizon and rising exports. Equally, we need to be prepared for the slowdown of 2007-08 to spill-over to some part of 2008-09; and to figure out new ways of combating this through greater manufacturing productivity and novel marketing strategies.

Let me now touch upon the 2010 vision that I wrote of last year. It involved:

- **Mobilising India** — by supplying 4 million motorcycles out of a projected market of 10 million.

- **Globalising India** — by rapidly enhancing exports and international facilities to become among the three largest global player in two-wheelers.
- **Financing India** — by ramping up the group's financial operations.
- **De-Risking India** — by expanding the group's life and general insurance business across the land.

As far as 'Mobilising India' is concerned, your Company slipped in 2007-08 with a fall in the number of motorcycles sold in India. Thus, more than ever before, we have to ramp up profitable sales to achieve the 4 million target in the next three years. It is a hard task, but one worthy of your Company's management. Having seen the way the team set up the state-of-the-art Pantnagar plant in record time, I believe that Bajaj Auto's managers can rise to the challenge. As they must.

'Globalising India' is on target, thanks to your Company's excellent export achievements. Exports now account for 23.6% of Bajaj Auto's total net sales. Exports will grow, and I am sure that the Company will be a significant player in global markets over the next few years.

Regarding 'Financing India' and 'De-Risking India', the de-merger that occurred in the course of 2007-08, and the consequent formation of Bajaj Finserv Limited, should enable the group to unlock greater value by widening its financial reach and portfolio.



I now turn to the de-merger which I touched upon last year, and which became effective on 20 February 2008, after approval of the shareholders and the High Court, Mumbai. The key features are:

- The auto business with all its assets has been de-merged as a separate listed entity. It is now a pure auto company, and retains the name Bajaj Auto Limited. This is my letter to you as the Chairman of that company.
- A new company, Bajaj Finserv Limited, which has in its portfolio erstwhile Bajaj Auto's holdings of the two insurance companies, Bajaj Auto Finance and the wind-power undertaking. I expect this company to play a much greater role in exploiting opportunities in the growing financial services space.

- The existing company, without the auto and finance business, is called Bajaj Holdings and Investment Limited. It retains 30% equity of Bajaj Auto and Bajaj Finserv, and most of your Company's surplus cash and investments to either financially support the auto and / or finance businesses, or to fund newer business opportunities as and when these arise.

I am convinced that this de-merger will unlock greater shareholder value. Just as I believe that Bajaj Auto will overcome the setback of 2007-08, and return to the next phase of profitable growth.



**Rahul Bajaj**  
Chairman

