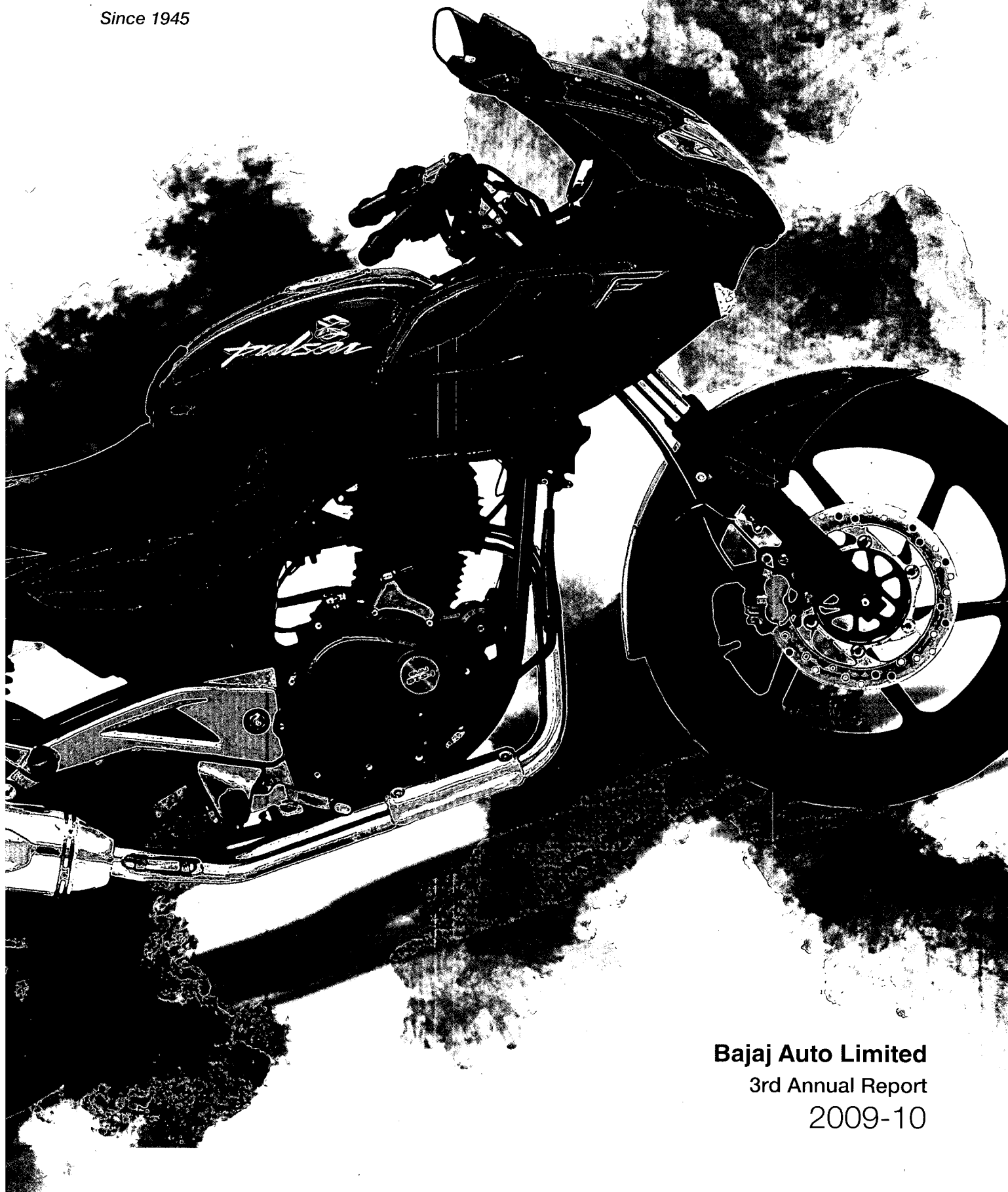




BAJAJ

Distinctly Ahead

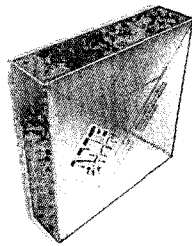
Since 1945



Bajaj Auto Limited

3rd Annual Report

2009-10



Pulsar- AME 2010
Most Efficient Use
of Branded Content



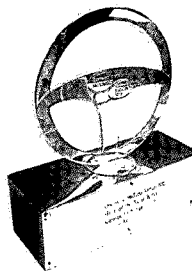
Kawasaki Ninja 250R
CNBC Overdrive 2010
Bike of the Year



Discover DTS
CNBC Overdrive
Storyboard/Auto
of the Year (Bike)



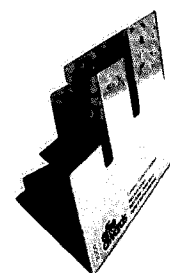
Kawasaki Ninja 250R
ET NOW Zigwheels
Award 2009
250cc Bike of the Year



Kawasaki Ninja 250R
Business Standard
Motoring 2010
Motoring Bike of the Year



Kawasaki Ninja 250R
IMOTY 2010
Indian Motorcycle of the Year



Consumer Variables

Recent awards for our products



Kawasaki Ninja 250R
NDTV Profit Car & Bike
Awards 2010
Two Wheeler of the Year



Bajaj Auto
NDTV Profit Car & Bike
Awards 2010
Best Integrated
Campaign 2 Wheeler



Kawasaki Ninja 250R
NDTV Profit Car & Bike
Awards 2010
Motorcycle of the
Year up to 250cc

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Board of Directors

Rahul Bajaj
Chairman

Madhur Bajaj
Vice Chairman

Rajiv Bajaj
Managing Director

Sanjiv Bajaj
Executive Director

Kantikumar R Podar

Shekhar Bajaj

D J Balaji Rao

D S Mehta

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
Chief Operating Officer

Abraham Joseph
President (Research & Development)

S Sridhar
President (Motorcycle Business)

R C Maheshwari
President (Commercial Vehicle Business)

Rakesh Sharma
President (International Business)

Eric Vas
President (New Projects)

K Srinivas
President (Retail Finance)

Kevin D'sa
President (Finance)

S Ravikumar
Senior Vice President (Business
Development & Assurance)

Amrut Rath
Vice President (Human Resources)

N H Hingorani
Vice President (Commercial)

C P Tripathi
Vice President (CSR)

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 NA
Standard Chartered Bank
Bank of America
ICICI Bank
HDFC Bank

**Registered under the
Companies Act, 1956**

Registered Office

Mumbai-Pune Road
Akurdi, Pune 411 035

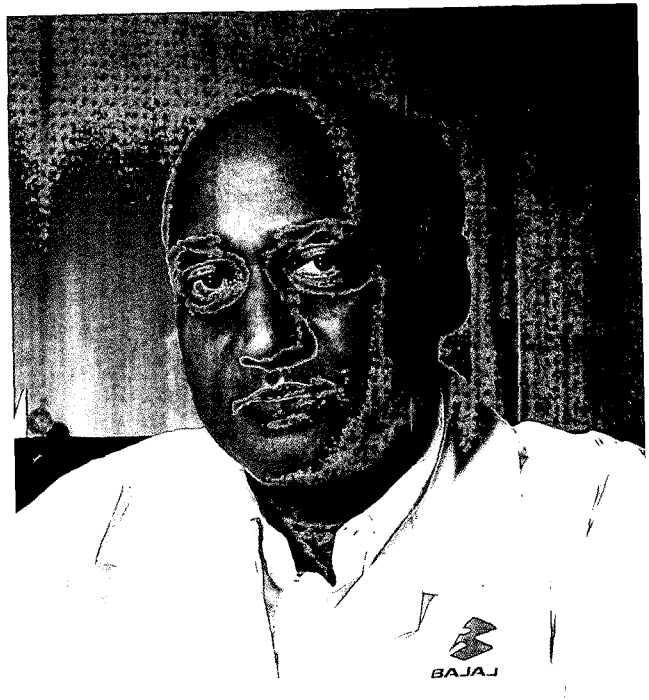
Works

- * 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

Management Team



Rahul Bajaj



Madhur Bajaj



Rakesh Sharma

Sanjiv Bajaj

R C Maheshwari

Rajiv Bajaj

Eric Vas

N H Hingorani

Kevin D'sa

S Ravikumar

Amrut Rath

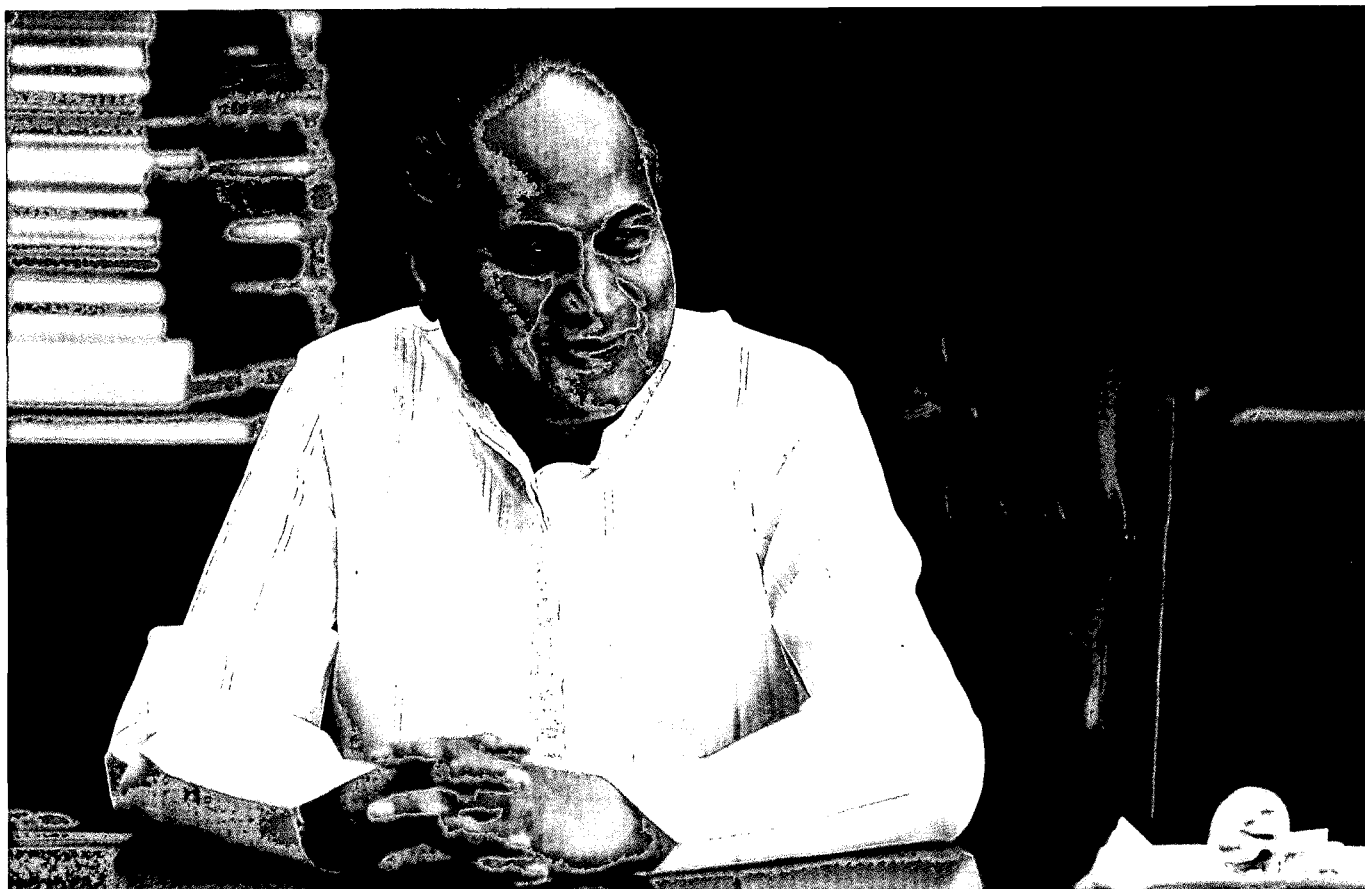
Abraham Joseph

K Srinivas

Pradeep Shrivastava

S Sridhar

C P Tripathi



Chairman's Letter

Dear Shareholder,

When I wrote to you last year, we were amidst the worst global economic and financial crisis since the Great Depression of the 1930s. India, too, was affected.

Quite frankly, at the time I wasn't sure when we might come out of the lower growth phase; and when we could expect better fortunes for the Country's automotive industry.

I have been surprised at the speed of the turnaround. It looks as if India will achieve somewhere between 7.2% and 7.5% GDP growth for 2009-10. It is, of course, lower than the 9% plus growth that we were getting accustomed to for three consecutive years up to 2007-08. Yet, it is the second highest growth rate among all major countries in the world. Even more impressive, is the significant uptick in demand for two-wheelers, three-wheelers as well as passenger vehicles.

We have witnessed excellent growth in the two-wheeler market, which increased in volume by 24% in 2009-10. Your Company did better. It sold over 2.5 million motorcycles, and grew by more than 31%.

Bajaj Auto's superior performance suggests that it has been more than just leveraging market growth. What was it?

For the last few years, your Company has been working at developing a brand-centred strategy especially of its two key brands, the Discover and the Pulsar. I believe that 2009-10 saw a near perfect alignment between the power of the brands – the front-end – and production efficiency, quality, costs and logistics, or the back-end. I agree with the managing director and his team that it is this alignment which has resulted in your Company growing faster than the market and earning the highest profit rate in the industry.

2009-10 has been a record year for Bajaj Auto in terms of highest ever sales, exports, profits and margins. Most of the financial details are in the chapter on Management Discussion and Analysis. Even so, here are a few key numbers:

- Net sales and other operating income grew by 35% to over Rs.119 billion.
- Your Company's operating EBITDA grew by 116% to almost Rs.26 billion. Operating earnings before interest, taxes, depreciation and amortisation (EBITDA) was 21.7% of net sales and other operating income.
- Operating profit before tax (PBT) grew by 170% to almost Rs.23 billion, and was over 19% of net sales and other operating income.
- Profit after tax (PAT) grew by 160% to Rs.17 billion.

I am delighted with the performance. And I would like you to join me and the rest of your Board of Directors to congratulate your Company's managing director, Rajiv Bajaj, and his team for delivering such excellent results.

What pleases me is that Bajaj Auto is leveraging its key brands to maximise profits. Your Company's performance has not been about 'buying' market share through various pricing deals. Instead, it is about gaining share through better quality and branding – thus having the customer willing to pay higher prices for better value.

Your managing director often says that while products may generate market share, brands provide pricing power and create higher profits. I am increasingly tending to agree with him.

While writing this letter, I went back to the one written in Bajaj Auto's annual report of 2005-06. It was also an

excellent year: sales were up by almost 31% to a high of Rs.85 billion; EBITDA had increased by 47% to Rs.13.7 billion; the operating EBITDA margin was at 17.9%; and PAT had grown by 44% to cross Rs.11 billion.

In that letter, I had exhorted your Company to 'mobilise India' – and sell 4 million motorcycles by 2010. We are clearly getting there. 2009-10 saw Bajaj Auto sell over 2.5 million motorcycles. Since I'm known for speaking my mind, I am asking the management to make the vision of selling 4 million motorcycles come good by 31 March 2011.

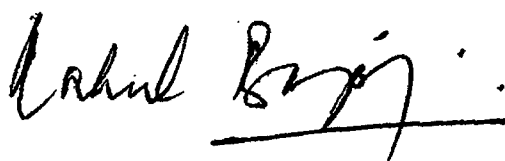
I had also asked your Company to 'globalise India' by rapidly enhancing Bajaj Auto's international footprint. It has. Exports has again done well this year, as it had in the last. 2009-10 saw Bajaj Auto export over 725,000 motorcycles and almost 165,000 three-wheelers. I expect 2010-11 will see us exporting over 1 million two- and three-wheelers.

As India regains its growth momentum in 2010-11 and generates something in the neighbourhood of 8.5% GDP growth, I believe that we should see yet another excellent year for Bajaj Auto: greater sales, pervasive brand loyalty and pull, more R&D successes, and higher profits and return on both capital employed and shareholder wealth.

My thanks to all employees of Bajaj Auto for their unstinting support, especially in hard times. And to you for being our support through thick as well as thin.

May India prosper. And with it, may Bajaj Auto.

With warm regards,



Rahul Bajaj
Chairman



Management Discussion and Analysis

As we know, 2008-09 was a very difficult year for the world economy. The stock, money and financial markets crashed, and with it the real sectors, in what was the worst global depression since the 1930s. Every developed country suffered negative GDP growth. And with it, economic and social pain.

Among the major emerging markets, China and India continued to grow — but at significantly lower rates. In India, for instance, after three consecutive years of growing at over 9%, GDP growth fell to 6.7% in 2008-09. Demand growth reduced sharply across all sectors; in many to the negative territory. Discretionary purchases were hit the hardest. It is not surprising, therefore, that automobile and two-wheeler sales tapered off.

The good news for China and India was that the two emerging market giants shrugged off the downturn remarkably quickly. After three quarters of declining growth, both nations stemmed the rot, and got back into their stride. To be sure, GDP growth was muted compared to the past. However, for China to achieve 8.7% in 2009 and India to record 7.2% to 7.5% GDP growth in 2009-10 says a great deal about the capabilities of these two nations in steering through the crisis.

In India, growth has been particularly robust in the two-wheeler market, which increased in volume by 24% in 2009-10.

Bajaj Auto Limited ('Bajaj Auto', 'BAL' or 'the Company') did very well. It sold over 2.5 million motorcycles and, in doing so, the Company earned 21.7% EBITDA margin, which was the highest in the industry. Bajaj Auto's performance highlights for 2009-10 are given below:

It needs to be emphasised that the Company's excellent operational and financial performance is not merely due to increasing overall growth in motorcycle demand in India. Over the last few years, Bajaj Auto has been developing a brand-centred strategy. The 'front end' is guided by the Company's strategy of differentiation, to continuously specialise its brand positioning in motorcycles. In the process, Bajaj Auto has positioned its motorcycle brands in the utility, price, value and sports categories. The basic proposition is that while products may generate market share, it is brands that provide pricing power and create higher profits.

The 'back end' - R&D, quality, production efficiency, logistics and throughput — is guided by TPM, which the Company calls 'The Prime Mover' towards excellence.

2009-10 saw the coming together of the front end and the back-end. It is this alignment which has resulted in Bajaj Auto growing faster than the market, gaining market share, and earning the highest profit rate in the industry.

Markets

Motorcycles: Overall

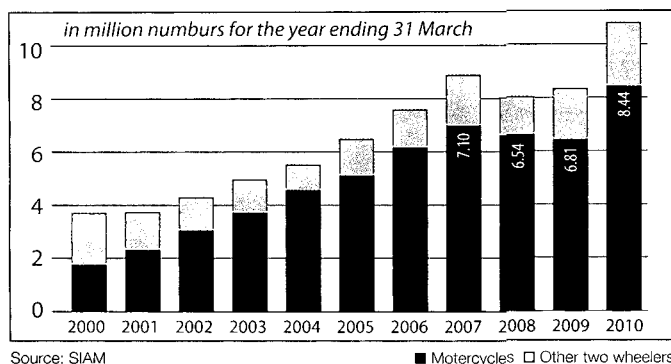
There are two tales of motorcycles in India. The first is well known: the steady growth of motorcycle sales throughout the country, and its overwhelming dominance in the two-wheeler market. Chart A plots the data.

As Chart A shows, from 7.10 million units in 2006-07, motorcycle sales fell to 6.54 million units in 2007-08, and then rose very

Highlights for 2009-10 versus 2008-09: Bajaj Auto standalone

- 2009-10 has been a record year for Bajaj Auto in terms of highest ever sales, exports, profits and margins.
- Net sales and other operating income grew by 35% to Rs.119.21 billion.
- The year saw record sales of 2.85 million units – over 2.5 million motorcycles and 340,937 three-wheelers.
- Exports rose by 15% to 891,002 units.
- The Company's operating EBITDA stood at Rs.25.93 billion – a growth of 116% over last year. The operating EBITDA margin was 21.7% of net sales and other operating income for 2009-10.
- Operating profit before tax (PBT) grew by 170% to Rs.22.89 billion.
- Profit after tax (PAT) grew by 160% to Rs.17.03 billion.
- Surplus cash and cash equivalents in the Company's balance sheet as on 31 March 2010 stood at Rs.32.6 billion, versus Rs.9.3 billion on 31 March 2009.

Chart A: Industry's sale of Two-Wheelers (Domestic + Exports)



marginally to 6.81 million units in 2008-09. The year under review has been outstanding. Sales has increased by 24.1% — the best ever growth since 2002-03, and over a much higher base. Indeed, sales in 2009-10 was 18.9% higher than even the previous peak during 2006-07. Motorcycles continue to account for over 80% of total two-wheeler sales. For the Company, therefore, it is the two-wheeler that matters.

How has Bajaj Auto fared? Table 1 gives the data for the last seven years.

Table 1: Bajaj Auto's Sales of Motorcycles (Domestic + Exports)

Year ended 31 March	Market * (In Million Numbers)	Market growth	BAL (In Million Numbers)	BAL's growth
2004	4.317	14.9%	1.024	17.9%
2005	5.218	20.9%	1.450	41.6%
2006	6.201	18.8%	1.912	31.9%
2007	7.100	14.5%	2.379	24.4%
2008	6.544	-7.8%	2.140	-10.1%
2009	6.806	4.0%	1.908	-10.8%
2010	8.444	24.1%	2.507	31.4%

* 'Market' refers to domestic sales plus exports of motorcycles of all manufacturers in India

The Company sold over 2.5 million motorcycles in India and the rest of the world. It increased its sales by 31.4% – or 7.3 percentage points higher than the market as a whole, i.e. domestic sales plus exports of motorcycle of all manufacturers in India.

Table 2 gives movement in market share for domestic motorcycles. Here, too, Bajaj Auto's motorcycle sales in 2009-10 grew faster than the market – 39.7% for the Company, versus 25.8% in the aggregate.

Table 2: Bajaj Auto's Growth in Domestic Market Share for Motorcycles

Year ended 31 March	Market (In Million numbers)	Market growth	BAL (In Million numbers)	BAL's growth	BAL's market share
2006	5.815	17.1%	1.747	31.7%	30.0%
2007	6.554	12.7%	2.079	19.0%	31.7%
2008	5.768	-12.0%	1.658	-20.3%	28.7%
2009	5.835	1.2%	1.276	-23.0%	21.9%
2010	7.341	25.8%	1.782	39.7%	24.3%

Motorcycles: Domestic Sales

Chart A does not, however, underscore the second tale of motorcycles. This is the story of the changing preference of Indian consumers. It needs some explanation.

Over the last five years, the Company's management has been communicating about the change in consumer preferences for motorcycles. The gist of it has been:

- Indian consumers - urban as well as a rural - have become better off. They have been enjoying greater purchasing power than before; and have begun to demand greater design inputs, better looks, feel, comfort and adventure for the products that they buy. And are willing to pay for these attributes.
- As a consequence, the consumers are upgrading. Across the board, a motorcycle is becoming a lifestyle statement. Boring and fuel efficient no longer works; exciting and fuel efficient does – rapidly so, in ever increasing strides.
- In addition, there is a growing body of motor-bike users who want to purchase powerful models for the pure thrill of biking.

The data prove this very clearly. Consider the following product segmentation:

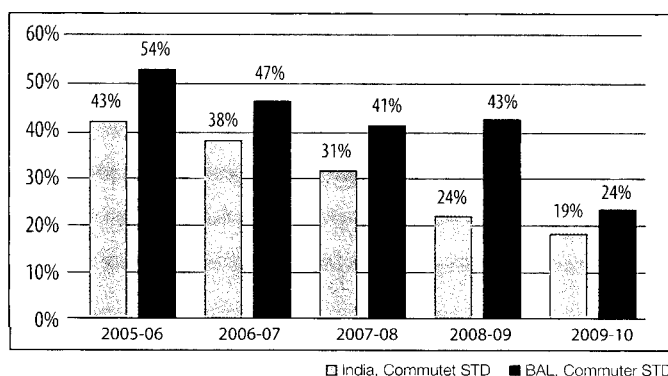
- Commuter Standard (STD):** Comprising Bajaj Auto's Platina; Hero Honda's CD series; and TVS' Star.
- Commuter Deluxe (DLX):** The key brands here are Bajaj Auto's Discover; Hero Honda's Splendor, Passion and Glamour; Honda Motorcycle & Scooters India's (HMSI's) Shine; and TVS' Fiero.
- Sports:** This includes Bajaj Auto's Pulsar; Hero Honda's CBZ, Hunk and Karizma; HMSI's Unicorn and Stunner; TVS' Apache; and Yamaha's R15 and FZ16.

How do the market shares of these categories stack up in India?

Commuter STD

The share of this 'bottom-of-the-pyramid' category has been falling steadily, as Chart B1 shows.

Chart B1: Segment share, Standard Commuter Bikes



For India as a whole, the share of Commuter STD motorcycles has fallen year after year, from 43% of the market (in terms of