



Distinctly Ahead

Since 1945

Bajaj Auto Limited

4th Annual Report 2010-11

4th Annual Report
2010-11

Bajaj Auto Limited

A close-up photograph of a red Bajaj motorcycle. The image shows the handlebars, a digital display screen, and various control switches. The background is a blurred green, suggesting an outdoor setting. The motorcycle's body is a vibrant red color.

CONTENTS

Board of Directors	2
Management Team	3
Chairman's Letter	5
Management Discussion and Analysis	7
Corporate Governance	13
General Shareholder Information	19
Directors' Report	23
Report on Corporate Social Responsibility	29
Auditor's Report	35
Balance Sheet and Profit & Loss Account	38
Bajaj Auto Limited and its Subsidiaries and Associate Consolidated Balance Sheet and Profit & Loss Account	90

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
Chief Technology Officer

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)

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 Panthnagar
Udhamsinghnagar
Uttarakhand 263 531

Management Team



Rahul Bajaj



Madhur Bajaj



(From left to right) Rakesh Sharma, Amrut Rath, Sanjiv Bajaj, Abraham Joseph, R C Maheshwari, K Srinivas, Rajiv Bajaj, Eric Vas, Pradeep Shrivastava, S Sridhar, Kevin D'sa, C P Tripathi, S Ravikumar



Chairman's Letter

Dear Shareholder,

Let me start with joy. 2010-11, or FY2011, has been the best year of your Company – much better than even the previous year, which was till then the best in the history of Bajaj Auto. Here are some facts.

- In a record year, net sales and other operating income grew by over 39% to ₹ 16,609 crore.
- Your Company sold a record 3.82 million units – consisting of 3,387,043 motorcycles and 436,884 three-wheelers.
- Exports were at an all-time high – and comfortably crossed the 1 million mark, and rose by 35% to 1,203,718 units.
- The Company's operating EBITDA for FY2011 grew by 30.6% over the previous year to ₹ 3,385 crore. The operating EBITDA margin was 20.4% of net sales and other operating income.
- Operating profit before tax (PBT) and exceptional items increased by 33% to ₹ 3,260 crore.
- Profit after tax and exceptional items increased from ₹ 1,704 crore to ₹ 3,340 crore.

No doubt, some of this excellent performance was on account of a smart rebound of the Indian economy, which has grown by 8.6% in FY2011 — second only to China. After all, the year saw total motorcycle sales by the industry increasing by 24% to 10.5 million units.

However, your Company's sales grew significantly faster than the market. For instance, Bajaj Auto's total motorcycle sales increased to almost 3.39 million units. Similarly, while domestic motorcycle sales in the aggregate grew by 23% to a bit over 9 million units, your Company's domestic sales rose by more than 35% to over 2.4 million.

In other words, there was more to Bajaj Auto's performance than riding with the tide. It was about combining a highly focused brand-centred strategy with production efficiency, quality, costs and logistics. The task had started last year, and had played a significant role in delivering superior results. It has now come to fruition — where, like in a symphony, each player has a role, and all of these are brought together to create great music.

Your Company's export performance bears special mention. Bajaj Auto has sold over 1.2 million two- and three-wheelers in FY2011, and clocked revenues close to a billion US dollars.

I am absolutely delighted with the performance. Along with the rest of the Board, I congratulate your managing director, Rajiv Bajaj, and his team for delivering such an outstanding performance in FY2011, riding on the back of excellent results in the previous year.

Your managing director often coins pithy phrases. One of them is "Less is more". By that he means it is better to offer consumer a

few high class, choice brands at strategic and tactical price points, instead of carpet bombing the market with all manner of products. Bajaj Auto is now focused on continuously leveraging its two dominant brands, Discover and Pulsar, creating attractive offerings within these two categories, and driving home its competitive advantages. Discover and Pulsar do not 'buy' market share through eventually debilitating price competition. They gain share by their brand, quality and performance – so that customers are pleased to pay more for obviously better value.

I am also glad that your Company is reaching, and occasionally surpassing, the targets that I had set earlier.

You may remember my exhorting Bajaj Auto to 'mobilise India' by selling 4 million motorcycles by FY2011. At almost 3.39 million units, it has not yet hit the mark. But it is close. I am confident that your Company will cross the 4 million mark in FY2012.

The other target has been surpassed. I had asked your Company to 'globalise India' by exporting over 1 million two- and three-wheelers. As mentioned earlier, Bajaj Auto has exported more than 1.2 million units. I look forward to breaching the 2 million mark in the next three to four years.

On a different matter, in support of an initiative taken by the World Economic Forum (WEF), your Company has become a signatory to WEF's 'Commitment Against Corruption', and is supporting an initiative called 'Partnering Against Corruption – Principles for Countering Bribery', derived from Transparency International's Business Principles. Bajaj Auto is the third such company in India.

Let me end this upbeat letter with some words of caution. Interest rates are moving up quite rapidly as the Reserve Bank of India attempts to combat serious inflationary pressures. Commodity prices, too, are firming up throughout the world. FY2012 may be a difficult year, and automotive companies may get caught in a pincer of slackening demand and higher input costs. The management of Bajaj Auto will need to battle these forces with the same, if not more, determination as it has demonstrated in the last two years. I am sure that it will.

My thanks to all employees of Bajaj Auto for their support. To the managing director and his team for demonstrating excellence. And thank you for being by our side in good times and in bad.

With warm regards,



Rahul Bajaj
Chairman



Management Discussion and Analysis

2010-11 (or FY2011) has been an excellent year for the company, witnessing new highs in sales (numbers), exports, operating income and profits - surpassing all earlier set records.

Chart A: Sales (In units)

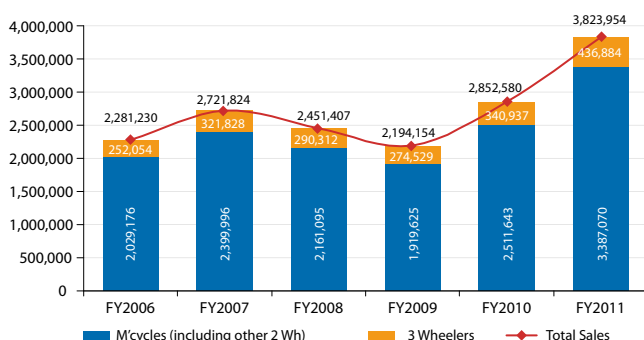


Chart B: Net Sales and Operating Income, Net Operating Profit and Profit after tax

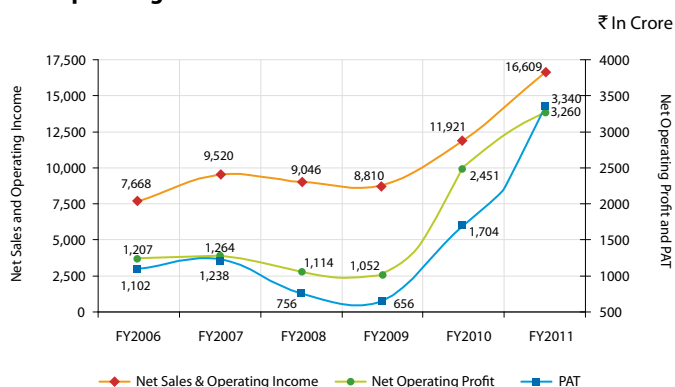
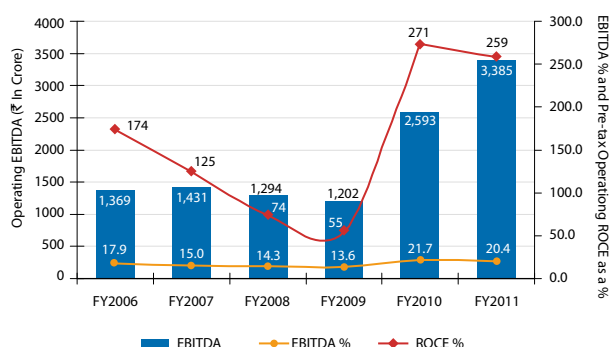


Chart C: Operating EBITDA and EBITDA % and Pre Tax Operating ROCE



In FY2011, India continued to witness robust demand for motorcycles. During FY2010, motorcycle sales, by volume, had increased by 24%. This high growth rate was maintained yet again in FY2011.

As in the previous year, Bajaj Auto Limited ('Bajaj Auto', 'BAL' or 'the Company') did much better than the industry as a whole. In FY2011, it sold over 3.38 million motorcycles; grew volumes by more than 35%; increased market shares; and earned the highest EBITDA margin in the industry.

As stated in the previous year's Management Discussion and Analysis, the Company's excellent operational and financial performance is not just due to the robust growth in motorcycle demand in India. There is more to the Company's performance than the rising tide. It has to do with Bajaj Auto's execution of a brand-centred strategy, which was outlined in last year's annual report. It bears repetition.

The strategy consists of a proper alignment of the 'front end' and the 'back end'. The 'front end' is driven by a proposition that while products may generate market share, it is brands that provide pricing power and create higher profits. Over the last two years, Bajaj Auto has focused on positioning its motorcycle brands in what it calls the Commuter Standard, the Commuter Deluxe and the Sports categories – and has driven marketing as well as sales through this positioning.

This is supported by a strong 'back end'. Consisting of R&D, quality, production efficiency, logistics and throughput, these efforts are guided by The Prime Mover of Excellence, or TPM in Bajaj Auto's vocabulary.

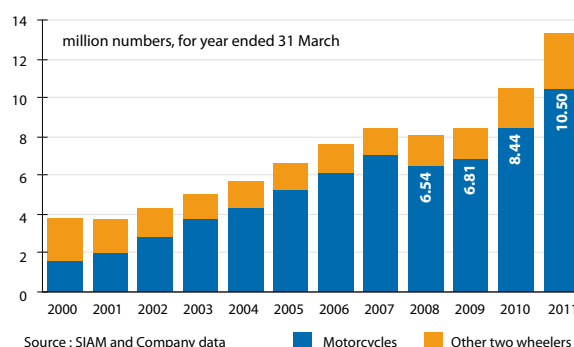
FY2010 saw the coming together of the front end and the back end, which delivered even better results in FY2011. This alignment has led to Bajaj Auto growing faster than the market, gaining market share and, more importantly, earning the highest operating profit rate in the industry.

Markets

Motorcycles

There has been a steady growth of motorcycle sales, as Chart D clearly shows.

Chart D: Industry's Sales of Two-wheelers (domestic + exports)



Source : SIAM and Company data

As Chart D shows, from 6.54 million units in FY2008, motorcycle sales rose marginally by 4% in FY2009, and then grew at a much faster rate of 24%, becoming a 10.5 million market size in FY2011. Motorcycles now account for nearly 79% of two-wheeler sales. Given this milieu of growth, how has Bajaj Auto performed? Table 1 gives the data for the last six years.

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

Year ended 31 March	Market (nos.)	Market growth	BAL (nos.)	BAL's growth	BAL's market share
2006	6,200,749	18.8%	1,912,306	31.9%	30.8%
2007	7,099,551	14.5%	2,379,499	24.4%	33.5%
2008	6,544,482	-7.8%	2,139,783	-10.1%	32.7%
2009	6,806,114	4.0%	1,907,853	-10.8%	28.0%
2010	8,444,243	24.1%	2,506,791	31.4%	29.7%
2011	10,500,073	24.3%	3,387,043	35.1%	32.3%

Note: 'Market' refers to domestic plus export sale of motorcycles of all manufacturers in India. **Source:** SIAM & Company data

The Company sold almost 3.39 million motorcycles in India and elsewhere. In the process, Bajaj Auto grew its sales by 35.1% – or 10.8 percentage points above the market as a whole.

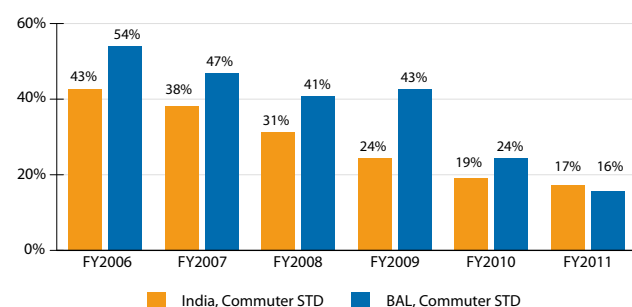
The reason why Bajaj Auto has grown faster than the market has much to do with its brands and products getting in close synch with the preference of consumers, both in India and the global markets where it operates.

The last few years have seen distinctive changes in what the domestic consumers want out of motorcycles. This can be understood by examining the data according to the three product segments:

Commuter STD

Chart E shows that for the industry as a whole, the share of Commuter STD motorcycles has fallen from 43% of the market in FY2006 to 17% in FY2011.

Chart E: Segment Share: Commuter STD Bikes

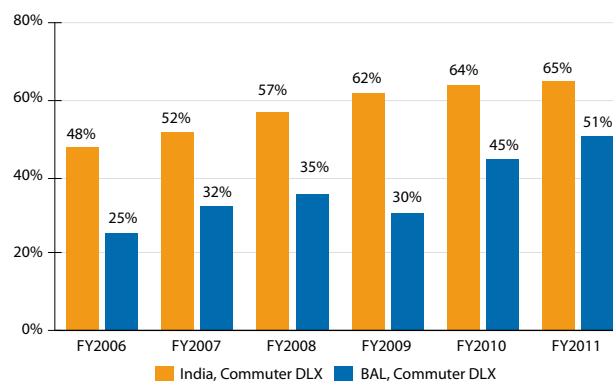


The category comprises low pricing power, low margins and low profit products. While Bajaj Auto will continue to play in this market with appropriate products, it is also true that there is more brand premium to be harvested through higher profits by being a significant player or leader in the other two categories.

Commuter DLX

This category constitutes the major chunk of India's motorcycle market and is steadily growing every year. Chart F plots the data. From a relatively high base of 48% in FY2006, the segment has grown to 65% in FY2011.

Chart F: Segment Share: Deluxe Commuter Bikes



In FY2006, the Consumer DLX segment accounted for 25% of the total number of motorcycles sold by the Company. By FY2011, it had risen to 51% on a sharply increasing base. This has been due to the success of Discover DTS-Si.

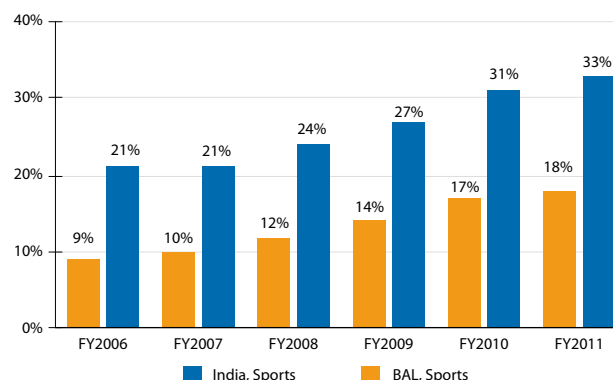
During FY2011, Bajaj Auto domestically sold over 1.2 million motorcycles belonging to the Discover range — Discover 100 and the Discover 150 — which represented a growth of 73% over 713,000 units sold in FY2010. Discover is now India's fastest growing motorbike. With the launch of the new Discover 125 in March 2011, the Company expects to further strengthen its growing presence in this profitable segment.

Sports

This segment is growing rapidly. In FY2006, it's share of total domestic motorcycle sales was 9%. Within five years, this category's market share has risen to 18% in FY2011.

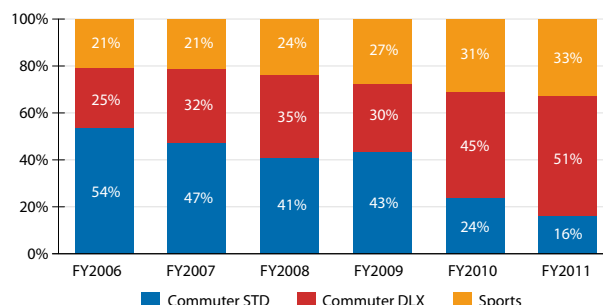
With its immensely popular Pulsars, Bajaj Auto has not only grown faster than the market, but also is the clear market leader in this category. Chart G plots the data. It shows that while the share of Sports bikes for the industry as a whole has increased from 9% in FY2006 to 18% in FY2011, that of Bajaj Auto's has risen from 21% of total domestic sales to 33% over the same period.

Chart G: Segment Share: Sports Bikes



In FY2010, the Company domestically sold over 559,000 motorcycles in the Sports category. This has grown by 42% to almost 796,000 units in FY2011 — of which Pulsars alone accounted for over 771,000 units.

Chart H: Bajaj's Auto's Changing Mix, Motorcycles



As Chart H shows, through Discover and Pulsar, Bajaj Auto has successfully transitioned from the low profit Commuter STD segment in favour of the two better brand positioned and higher profit segments – the Commuter DLX and Sports.

In addition to products, branding and the 'back-end', the Company has significantly strengthened its dealer network. In FY2011, Bajaj Auto increased its dealerships by 159 to raise the total number of dealers to 589.

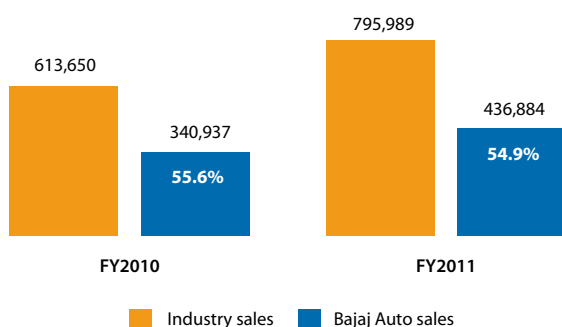
Three-Wheelers

In FY2010, Bajaj Auto witnessed a revival in domestic sales. This has continued in FY2011.

The year saw 28% growth in the number of Bajaj Auto three-wheelers sold – from 340,937 in FY2010 to 436,884 units in FY2011. Domestic sales grew by almost 17%, from 176,050 units in FY2010 to 205,603 units in FY2011.

The Company remains the leading three-wheeler player from India, accounting for 55% of total sales among all Indian manufacturers of three-wheelers. For the first time in its history, Bajaj Auto sold over 200,000 vehicles in the domestic market. It continues to dominate the petrol and alternate fuel passenger vehicles segment in India with a market share of 85%. Chart I gives the data.

Chart I: Three-Wheeler Sales (in numbers)



Exports

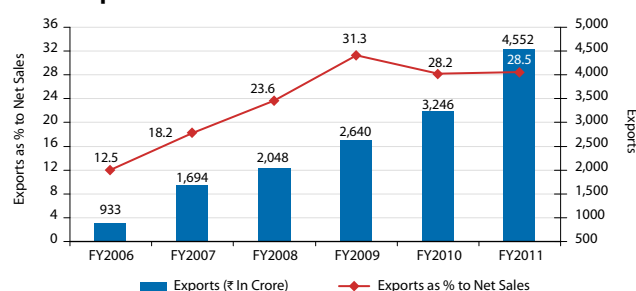
Bajaj Auto maintained its excellent growth in exports, and continued to be India's largest exporter of two and three-wheelers. During FY2011, the Company exported 1,203,718 vehicles – representing a growth of 35% over the previous year. Exports accounted for ₹ 4,552 crore (US\$ 974.6 million), which accounted for 28.5% of the Company's total net sales, as shown in Chart J. Table 2 gives the data.

Table 2: Product –Wise Exports of Bajaj Auto

Product	2010	2011	Growth
Motorcycles	725,023	972,437	34%
Other two-wheelers	1,092	—	—
Three- Wheelers	164,887	231,281	40%
Total Vehicles	891,002	1,203,718	35%

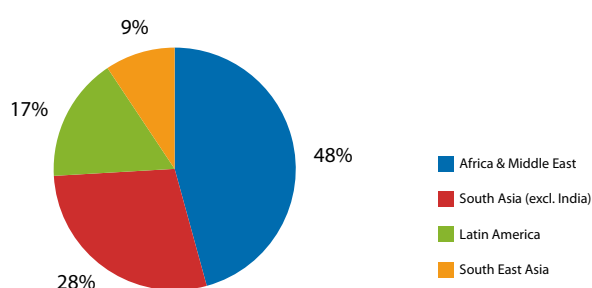
Chart J reflects Bajaj Auto's success in the export market also. Sales from exports have increased from ₹ 933 crore, contributing 12.5% of total net sales in FY2006 to currently ₹ 4,552 crore, now contributing 28.5% of total net sales.

Chart J: Exports



Bajaj Auto's expanding export markets exhibit a healthy geographical spread, as shown in Chart K.

Chart K: Geographical Spread of Exports



- Africa remains a key focus area, with increased presence in Nigeria, Uganda, Kenya and Angola.
- Sales in South Asia touched a new high. Peace-time Sri Lanka clocked growth of 76% while Bangladesh grew at 34%.
- South East Asia was another bright spot. The Company's subsidiary in Indonesia, PT BAI, grew volumes by 81% with sales of 21,586 units, largely the Pulsar range.