

BAJAJ FINANCE

Bajaj Auto Finance Limited

Report Junction

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Corporate Information

Board of Directors

Rahul Bajaj
Chairman

Madhur Bajaj

Rajiv Bajaj

Sanjiv Bajaj

D S Mehta

Ranjan Sanghi

Rajendra Lakhotia

Naresh Patni

Dipak Poddar
Managing Director

Company Secretary
Suhas Patwardhan

Auditors

Dalal & Shah
Chartered Accountants

Bankers

Central Bank of India
State Bank of India

Registered Office

C/o. Bajaj Auto Limited
Mumbai - Pune Road,
Akurdi, Pune - 411 035

Nineteenth Annual General Meeting
on Friday, 14th July, 2006 at 3.30 p.m.
at the Registered Office of the company

Directors' Report

1. The Directors present their Nineteenth Annual Report and the Audited Statement of Accounts for the year ended 31st March, 2006.

2. Working Results :

Your company disbursed under its various financing schemes, a total amount of Rs.19,545 million during the year 2005-2006 as against Rs.14,063 million during the previous year 2004-2005.

The Stock on Hire Purchase Finance and receivables as on 31st March, 2006 was Rs.19,811 million as compared to Rs.12,487 million as on 31st March, 2005.

3. Financial Results :

	2005-2006 Rupees	2004-2005 Rupees
Income from Operations	2,101,118,058	1,453,261,768
Other Income	326,239,971	237,732,666
Total	2,427,358,029	1,690,994,434
Profit before Depreciation	566,803,382	675,027,165
Depreciation	17,340,899	20,050,940
Profit before Taxation	549,462,483	654,976,225
Provision for Taxation (net of Deferred Tax Credit and FBT)	172,607,804	98,094,773
Profit for the year	376,854,679	556,881,452
Disposable surplus after earlier years adjustments	210,755,392	559,572,951
Appropriations :		
Transfer to Reserve Fund	42,500,000	112,000,000
Provision for Proposed Dividend	83,973,840	123,676,500
Provision for Dividend Tax	11,777,331	17,345,629
Balance carried to General Reserve	72,504,221	306,550,822

During the year under review, the company on the basis of expert opinion, has reviewed the applicable tax laws for determination of income from its financial lease transactions. Accordingly, the company has made an additional provision for taxation (including deferred tax) on account of the said re-determination of income amounting to Rs.164.90 million for the current year and Rs.166.10 million for the previous two years and consequently the profit after taxation for the year under review is less to the extent of the said additional provision of Rs.331 million.

4. Dividend :

The Directors have pleasure in recommending for the consideration of the Members at the Annual General Meeting, payment of Dividend of Rs.4/- per Share (40 per cent) for the year ended 31st March, 2006 on the enhanced capital of Rs.209.94 million after the preferential allotment of shares made during the year. The total Dividend outgo including tax thereon will be Rs.95.75 million. Dividend paid for the year ended 31st March, 2005 was Rs.7.50 per Share (75 per cent). The total Dividend outgo including tax thereon was Rs.141.02 million.

5. Prospects :

During the year under review, your company introduced new attractive financing schemes for financing of two wheelers and consumer durables. The schemes were well received by the customers

and the company was able to achieve its highest ever disbursements of Rs.19,545 million.

The growth in retail finance business is expected to continue, strongly aided by the robust growth of the economy and expanding base of potential consumers due to change in demographic profiles, higher disposable incomes and increased product / brand choices available to the customer. In spite of the increased level of competition from Banks and other multi-national players, your company expects to maintain satisfactory growth during the current year and aims to remain a leading player in the retail financial services business in the country through appropriate product market strategy and geographical expansion. The company is investing in enhancing its Information Technology systems, so as to improve the overall productivity and efficiency of the organisation. The company during the year also added about 300 permanent employees including some employees at a senior level in marketing and Information Technology.

6. Branch Network :

During the year under review, your company has opened 14 new branch offices. With the opening of these branches, the total number of branches has gone up to 102. The company now covers more than 200 towns through its branch network. Your company has offered finance schemes through these branches spread over various strategic locations throughout the country. In the current year, your company proposes to expand the branch network further by opening additional 20 branches at various other locations across the country.

The company during the year has opened Loan Shoppes with a view to enhance its direct marketing activity and its brand awareness. The idea of such Loan Shoppe concept is to provide customer delight and easy availability of finance. As a pilot project 22 shoppes were opened during the financial year 2005-2006. The Shoppe concept is proposed to be extended to other towns across the country and the number of such shoppes is expected to be around 100 by the year 2006-2007.

7. Resource Mobilisation :

Your company was able to optimise the cost of borrowed funds by mobilising funds from diverse sources at competitive rates.

- 1) During the year under review, the working capital limit from the consortium bankers was enhanced from Rs.3,850 million to Rs.5,850 million.
- 2) Your company issued Commercial Papers aggregating Rs.2,800 million during the year. The maximum amount outstanding at any time was Rs.2,500 million and the amount outstanding at the end of the year was Rs.1,250 million.
- 3) During the year under review, your company also raised funds by way of Working Capital Demand Loan / Short Term Loan and Term Loan from the Banks. The amount outstanding at the end of the year against the Working Capital Demand Loan / Short Term Loan and Term Loan was Rs.4,935 million and Rs.2,510 million respectively.
- 4) The company raised Rs.1,000 million through the issue of Secured Redeemable Non-Convertible Debentures on private placement basis at a floating rate of interest, which are repayable at the end of three years. The rate of interest is reset semi-annually based on Average one year Government Securities Benchmark yield (INBMK) plus spread of 50 basis points.
- 5) Your company received fresh deposits of Rs.3.72 million and with renewals of Rs.22.16 million, the total deposits mobilised during the year under review, stood at Rs.25.88 million. Public Deposits outstanding at the year-end were Rs.136.32 million and the number of depositors was 6219. At the end of the financial year under review, there were 211 deposits aggregating Rs.3.50 million which

matured but remained unclaimed as on that date. The company had written to these depositors and as on date, deposits aggregating Rs.0.63 million have been repaid / renewed.

- 6) The authorised share capital of the company has been increased from Rs.200 million to Rs.500 million in view of the preferential and the proposed rights issue of securities.

The company on 18th January, 2006, allotted on preferential basis, 1,003,260 fully paid Equity Shares to Bajaj Auto Limited at a price of Rs.410/- per share and 3,500,000 Equity Shares to other financial investors at a price of Rs.450/- per share. On the said allotment, the paid-up share capital of the company as on 31st March, 2006 stood at Rs.210 million.

The company also allotted on 18th January, 2006, 3,006,540 Warrants to Bajaj Auto Limited, each Warrant being convertible at the option of Bajaj Auto Limited within 18 months from the date of allotment, into one fully paid Equity Share of Rs.10/- each on payment of an aggregate price of Rs.410/- per share. Bajaj Auto Limited has paid an amount equal to 10% of the issue price in terms of SEBI Guidelines for preferential issues.

The Company proposes to offer to the shareholders on Rights basis the following securities, on the terms to be decided by the Board/Committee thereof in due course:

- a. 12,596,076 Equity Shares of Rs.10/- each in the ratio of 6:10.
- b. 5,248,365 Non Convertible Debentures in the ratio of 1:4, with detachable warrants optionally convertible into Equity Shares.

8. Credit Rating :

CRISIL has re-affirmed the highest rating of

"FAAA/Stable" for the Fixed Deposit programme of your company. This rating indicates very strong degree of safety with regard to timely payment of interest and principal. Your company is one of the very few Non-Banking Finance Companies (NBFCs) which enjoys the highest rating.

The company also enjoys the highest rating of "P1+" from CRISIL for Rs.3,000 million Commercial Paper programme.

CRISIL has assigned "AA+/(Stable)" rating to the Secured Redeemable Non-Convertible Debentures amounting to Rs.1,000 million issued by the Company on private placement basis. The said rating indicates high degree of safety with regard to timely payment of interest and principal on the Debentures.

The Non-Convertible Debentures proposed to be issued on Rights basis to the shareholders have been assigned "AA+/(Stable)" rating by CRISIL and "LAA+" rating by ICRA.

9. RBI Guidelines :

Your company continues to fulfil all the norms and standards laid down by the Reserve Bank of India (RBI) pertaining to non-performing assets, capital adequacy, statutory liquidity ratio etc. As against the RBI norm of 12 per cent, the capital adequacy ratio of your company is 28.12 per cent.

In line with the RBI guidelines for Asset-Liability Management (ALM) system for NBFCs, the company has in place an Asset-Liability Committee.

10. Statutory Disclosures :

Particulars of employees required under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, are given in Annexure forming part of this Report.

The company, being a Non-Banking Finance Company, not having any manufacturing or foreign exchange activity, the Directors have nothing to report on "Conservation of Energy, Technology Absorption, Foreign Exchange earnings and outgo".

11. Directors' Responsibility Statement :

In compliance of Section 217(2AA) of the Companies Act, 1956, your Directors state that :

- (i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for that period;
- (iii) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) that the Directors had prepared the annual accounts on a going concern basis.

12. Directors :

Shri Madhur Bajaj, Shri Ranjan Sanghi and Shri Rajendra Lakhotia, Directors, retire from the Board by rotation and being eligible, offer themselves for

re-appointment. The information on the particulars of Directors seeking re-appointment as required under Clause 49 of the Listing Agreement with the Stock Exchanges has been given under the report on Corporate Governance.

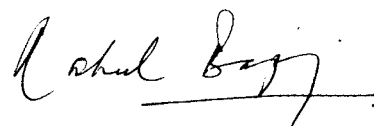
13. Auditors :

You are requested to appoint auditors for the period from the conclusion of the ensuing Annual General Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

14. Corporate Governance :

Your company complies with all the mandatory requirements pertaining to Corporate Governance, in terms of revised Clause 49 of the Listing Agreement with the Stock Exchanges. A detailed report on Corporate Governance has been included in this report along with a certificate from the auditors of the company regarding compliance of conditions of Corporate Governance. Further, a separate Management Discussion and Analysis report is also given in this report.

On behalf of the Board of Directors



Rahul Bajaj
Chairman

Pune
18th May, 2006

Annexure to Directors' Report

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2006.

Name	Age (years)	Designation/ Nature of duties	Gross Remuneration (Rupees)	Qualifications	Total experience (years)	Date of commencement of employment	Last employment and designation
Dipak Poddar	62	Managing Director	3,835,556	B. Sc.(Hons.) SB&SM (MIT)	32	31/03/1987	Golden Tobacco Co. Ltd. President & Director General
C.S. Ravindran	53	President	5,736,420	B. Sc., A.C.A	30	17/04/1989	Goldstar Holding & Industries Ltd., President
V. Karunakaran *	45	Vice President Marketing (Bajaj Products)	2,080,905	M.A.	23	11/07/2005	ICICI Bank Ltd., National Sales Manager
Adarsh Kumar *	36	Vice President Marketing (Consumer Finance)	200,086	B.A., PGDBM	12	06/03/2006	Citi Financial Consumer Finance Ltd. Asst. Vice President Consumer Business

Notes :

- 1) Gross remuneration includes Salary, Allowances, Cost of other perquisites calculated on the basis of rules prescribed in this behalf by the Department of Company Affairs and company's contribution to Provident Fund, Superannuation Fund and other funds.
- 2) None of the above employee is a relative of any Director of the company. Nature of their employment is contractual.
- 3) * Employed for part of the year.

Corporate Governance

1. Brief statement on the company's philosophy on code of governance :

The company strongly believes in fair, efficient and transparent business operations, fairness to all stakeholders in the company, proper disclosure of relevant financial and non-financial information and enhancing shareholder value on a continuing basis.

2. Board of Directors :

Composition and category of Directors :

The Board consists of 9 Directors, of whom 8 are non-executive and one is Managing Director. Three out of the 8 non-executive Directors are independent. According to Clause 49 of the Listing Agreement, if the Chairman of the Board is a non-executive Director, at least one third of the Board should comprise of independent directors. This provision is thus met by the Company.

Name of Director	Executive / Non-executive / Independent	No. of other Directorships held (in public ltd. companies)	No. of other Board Committee positions held	
			As Chairman	As Member
Shri Rahul Bajaj	Chairman, Non-executive	5	—	—
Shri Madhur Bajaj	Non-executive	8	2	3
Shri Rajiv Bajaj	Non-executive	2	—	—
Shri Sanjiv Bajaj	Non-executive	4	—	—
Shri D.S. Mehta	Non-executive	7	1	5
Shri Ranjan Sanghi	Non-executive, Independent	7	—	3
Shri Rajendra Lakhotia	Non-executive, Independent	3	—	—
Shri Naresh Patni	Non-executive, Independent	2	—	—
Shri Dipak Poddar	Managing Director, Executive	8	—	5

Attendance of each Director at the Board Meetings and at the last AGM :

Name of Director	No. of Board Meetings attended during 2005-2006	Whether present at the last AGM ?
Shri Rahul Bajaj	6	Yes
Shri Madhur Bajaj	4	Yes
Shri Rajiv Bajaj	4	Yes
Shri Sanjiv Bajaj	5	Yes
Shri D.S. Mehta	4	Yes
Shri Ranjan Sanghi	6	Yes
Shri Rajendra Lakhota	3	Yes
Shri Naresh Patni	6	Yes
Shri Dipak Poddar	6	Yes

Number of Board meetings held during 2005-2006 and the dates on which held :

Six Board Meetings were held during the year 2005-2006.

The dates on which the meetings were held are as follows:

10th May, 2005, 15th July, 2005, 13th October, 2005, 10th December, 2005, 12th January, 2006 and 14th February, 2006.

The gap between two meetings is less than four months, thus complying with the Clause 49 requirement.

Code of Conduct :

The Board has laid down a Code of Conduct for all Board Members and senior management of the company, which has been posted on the website of the company. All the Board members and senior management personnel have affirmed compliance with the Code for the year ended 31st March 2006. A declaration to this effect signed by the Managing Director is given elsewhere in this Annual Report.

Brief Resume of Directors offering for appointment /re-appointment :

Shri Madhur Bajaj, Shri Ranjan Sanghi and Shri Rajendra Lakhota, Directors are retiring by rotation, and are

eligible for re-appointment. Their brief particulars are as follows :

- a) Shri Madhur Bajaj, 53, is an alumni of Doon School, Dehradun. After obtaining his B.Com Degree from Sydenham College, Mumbai, in 1973, he did his MBA at International Institute of Management Development (IMD), Lausanne, Switzerland, in 1979.

He is the Past-Chairman of the Confederation of Indian Industry (Western Region) and its present National Council Member. He is the Chairman of CII's National Committee on Latin America. He is the President of SIAM (Society of Indian Automobile Manufacturers), an apex association of Indian automobile manufacturers. He is also the Vice President of Maharashtra Chamber of Commerce, Industries and Agriculture (MCCIA), the apex Industries Association of Pune. He is a member of the 'Advisory Council' of Department of Management Studies of the University of Pune.

He is currently the Vice Chairman of Bajaj Auto Limited - a leader in the motorised 2 and 3 wheeler sector.

He holds directorships in the following public limited companies apart from Bajaj Auto Finance Ltd. :

- Bajaj Auto Ltd.
- Bajaj Auto Holdings Ltd.
- Bajaj Electricals Ltd.
- Catalyst Finance Ltd.
- Econium Investments & Finance Ltd.
- Fusion Investments & Financial Services Ltd.
- Lineage Investments Ltd.
- Maharashtra Scooters Ltd.

Committee Positions :

He is the Chairman of the Audit Committees in Econium Investments & Finance Ltd. and Lineage Investments Ltd. He is a Member of the Audit Committees in Catalyst Finance Ltd. and Fusion