Corporate Information

Board of Directors

Rahul Bajaj
Chairman

Nanoo Pamnani
Vice Chairman

Madhur Bajaj

Rajiv Bajaj

Sanjiv Bajaj

D S Mehta

Dipak Poddar (Managing Director upto 31st March, 2008)

Ranjan Sanghi

Rajendra Lakhotia

Chief Executive Officer

Rajeev Jain

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

21st Annual General Meeting
on Wednesday, 9th July, 2008 at 11.30 a.m.
at the Registered Office of the company

Directors' Report

1. The Directors present their Twenty-first Annual Report and the Audited Statement of Accounts for the year ended 31st March, 2008.

2. Financial Results :

	2007-08 Rs. million	2006-07 Rs. million
Income from Operations	4,096.7	3,527.6
Other Income	930.8	490.3
Total	5,027.5	4,017.9
Provision for Doubtful Debts and Bad Debts written off, net	1,091.8	808.8
Depreciation	48.5	30.3
Profit before Taxation	299.8	712.5
Provision for Taxation [Including Deferred Tax Credit and FBT]	98.6	240.3
Profit for the year after Taxation	201.2	472.2
Disposable surplus after earlier years adjustments	205.8	476.4
Appropriations :		
Transfer to Reserve Fund	41.5	96.0
Transfer to Debenture Redemption Reserve	90.0	207.5
Provision for Proposed Dividend	36.6	106.0
Provision for Dividend Tax	6.2	18.0
Balance carried to General Reserve / Balance Sheet	31.5	48.9

3. Dividend :

The Directors recommend for the consideration of the Members at the Annual General Meeting, payment of Dividend of Re.1/- per Share (10 per cent) for the year ended 31st March, 2008 on the enhanced capital of Rs.366 million, after the conversion of balance warrants issued to the Promoters on preferential basis into equity shares during the year. The total Dividend outgo including tax thereon will be Rs.42.82 million.

Dividend paid for the year ended 31st March, 2007 was Rs.3/- per share (30 per cent) and the total Dividend outgo including tax thereon was Rs.124.1 million.

The Dividend recommended by the Board for the year 2007-08, apart from decline in profits, is also lower due to the legal requirements relating to creation of Debenture Redemption Reserve and rules pertaining to transfer of profits to reserves.

4. Working Results :

During the year 2007-08, your company deployed a total amount of Rs.30,363 million, of which Rs.27,406 million were under various financing schemes and Rs.2,957 million in AAA rated securitized retail asset pools which is a new business initiative by the company. As against this, during the previous year 2006-07, the total amount deployed was Rs.26,313 million, thus recording an increase of 15% over the previous year.

The Assets under Finance, Loan and Securitized Retail Asset Pool receivables as on 31st March, 2008 were Rs.33,319 million as compared to Rs.27,610 million as on 31st March, 2007.

The profit before tax for the year was at Rs.299.8 million, as against Rs.712.5 million in the previous year and the profit after tax for the year was Rs.201.2 million as compared to Rs.472.2 million in the previous year. This has been primarily because of reduced subvention offers from the two wheeler manufacturer (Rs.59 million in 2007-08 against Rs.337 million in 2006-07), increased provision for doubtful debts and bad debts written off, net (Rs.1,092 million in 2007-08 against Rs.809 million in 2006-07) due to the company's increased focus on semi-urban and rural markets in the last 2-3 years.

5. Prospects :

In the backdrop of strong GDP growth witnessed in the last few years, the retail finance business is continuously growing at a rapid pace. This strong growth is also aided by changes in demographic profiles, expanding base of potential consumers, higher disposable incomes and increased product / brand choices available to the customer. This high growth level has attracted banks and other multi-national players into retail finance business, thereby resulting in increased competition.

However, there are some concerns at the end of the year with regard to increasing inflationary pressures and slowdown of economy, which could have an adverse impact on the demand for two wheelers, consumer durables and other retail lending products. It could result in a slow down in retail finance services and if prolonged, it could adversely affect the future financial performance of financial services companies in general.

After a fast paced growth over the last few years, the retail finance industry in general is currently witnessing stress in its portfolio quality. This current trend in provisioning and bad debts is expected to prevail in the near term.

The company during the year added about 500 permanent employees including some employees at a senior level in various specialised business / operational areas, the benefits of which will be realised in next few quarters.

The 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 strategy, leveraging on its expertise, enhancing its risk management capabilities in order to control delinquencies and launching new business initiatives.

6. New Initiatives :

Since the third quarter of the year 2007-08, the company has launched various new business initiatives like acquisition of AAA rated securitized retail asset pools of reputed banks / NBFCs, IPO financing, insurance distribution to its customers, cross sell of personal loans to existing customers with clean repayment history, financing to SMEs / reputed educational institutions and universities for personal computers etc. The company is repositioning itself as a full-service NBFC offering wide range of products.

7. Share Capital :

The company on 18th January, 2006, had allotted 3,006,540 Warrants to promoters - Bajaj Auto Ltd., on preferential basis, each Warrant being convertible at the option of Bajaj Auto Ltd., 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.

During the year under review, 1,247,940 Equity Shares were allotted to Bajaj Auto Ltd., on 17th July, 2007, on conversion of the balance Warrants on receipt of full consideration. With this allotment, the entire 3,006,540 Warrants allotted to them on preferential basis, now stand converted into Equity Shares. Earlier, 1,758,600 Warrants were converted into equity shares in March, 2007.

After this allotment, the company's Paid-up Equity Share Capital is now Rs.366 million.

8. Repurchase of Debentures :

The company under its Rights Issue, had allotted 5,248,365 - 6% Non Convertible Debentures (NCDs) of the face value of Rs.500/- each aggregating Rs.2,624.2 million on 9th February, 2007. Of these, the company, as a treasury operation, repurchased 2,186,380 fully paid NCDs from the open market, at an average price of Rs.469.60 per NCD, in terms of the Letter of Offer dated 1st December, 2006.

9. Fixed Deposits :

Your company received fresh deposits of Rs.1.2 million and with renewals of Rs.6.8 million, the total deposits mobilised during the year under review, stood at Rs.8 million. Public Deposits outstanding at the year-end were Rs.61.1 million and the number of depositors was 2,539. At the end of the financial year under review, there were 191 deposits aggregating Rs.3.00 million which matured but remained unclaimed as on that date. The company had written to these depositors and as on date, deposits aggregating Rs.0.7 million have been repaid/renewed.

10. 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.7,000 million Commercial Paper programme.

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

As regards the Bank Loan Ratings for the bank facilities stipulated by RBI, as a part of BASEL II guidelines, CRISIL has assigned "AA+/Stable" rating for the company's Cash Credit / Working Capital Demand Loan amounting to Rs.5,850 million and Long Term Loan facilities amounting to Rs.2,510 million and "P1+" rating for the Short Term Loan facilities amounting to Rs.4,000 million.

11. RBI Guidelines :

Your company continues to fulfill 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 40.69 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.

12. Statutory Disclosures :

As required under the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, particulars of employees are set out in the Annexure to the Directors' Report. As per the provisions of Section 219(1)(b)(iv) of the said Act, these particulars will be made available to any shareholder on request.

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".

13. 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 have been followed along with proper explanation relating to material departures;

(ii) The Directors have 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 have 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) The Directors have prepared the annual accounts on a going concern basis.

14. Directors :

Shri Dipak Poddar, in view of his pre-occupation, resigned as the Managing Director of the company with effect from 1st April, 2008. Mr. Poddar has been the Managing Director of the company since its inception in 1987 and has been a key force in bringing the company to the present status of one of the leading retail finance company in India from a very small beginning. Although Mr. Poddar has ceased to be the Managing Director, he continues as a Director on the Board of the company and hence his valuable advice would always be available. The Board places on record its sincere appreciation for the valuable contribution made by Shri Dipak Poddar during his tenure as Managing Director of the company.

Shri Rahul Bajaj, Shri Sanjiv Bajaj and Shri Madhur Bajaj, Directors, retire from the Board by rotation this year and being eligible, offer themselves for re-appointment.

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

15. Appointment of Manager under the Companies Act, 1956 :

Subject to the approval of the shareholders, the Board of Directors have appointed Shri Rajeev Jain, Chief Executive Officer (CEO) of the company as the Manager under the Companies Act, 1956 for a period of three years with effect from 1st April, 2008, on the terms of remuneration set out in the resolution in the Notice for the ensuing Annual General Meeting. The resolution is recommended for approval of the shareholders at the Annual General Meeting.

16. 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.

17. Corporate Governance :

Your company complies with all the mandatory requirements pertaining to Corporate Governance, in terms of 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

Pune
21st May, 2008

Rahul Bajaj
Chairman

Management Discussion and Analysis

During the last few years, the Indian economy has shown an impressive growth trend. India has emerged as one of the largest and fastest growing economies in the world during the last decade. Sustained growth in the industry (except in the last few months) and service sectors have contributed significantly to the growth of the Indian economy.

India's banking and financial services sector has emerged as the vital support system for sustaining our economic growth. There has been a paradigm shift in the financial sector primarily due to the financial sector reforms, evolving macroeconomic environment and several micro-level factors. In the recent years, a strong GDP growth accompanied by increased purchasing power of consumers has resulted in high growth of the retail finance industry. This high growth also led to intense competition with the entry of public sector banks, private banks and multi-national players in retail financing. While this created greater choice for the consumers, it also resulted in irrational behaviour by competitors to garner market share leading to mis-pricing of risks and pressure on margins. The industry has seen a considerable amount of customer over-leverage in certain segments, resulting in higher retail consumer loan losses.

The outlook for 2008-09 is of cautious optimism due to rise in inflation, slowing down of domestic industrial growth and recessionary trends in leading economies of the world. An economic slow down would have a cascading impact on purchasing power resulting in lower demand for consumer goods.

In India, Non-Banking Finance Companies (NBFCs) act as a critical link in the overall financial system by offering a wide variety of financial services. NBFCs enjoy numerous advantages vis-à-vis banks viz., no requirement of branch licensing, no priority sector lending targets, no CRR and SLR requirements etc. However, it also has limitations of restricted borrowing options. In final analysis, weighing the pros and cons, increasingly, NBFCs are perceived to be an appropriate regulatory vehicle to build lending businesses.

Bajaj Auto Finance Limited (BAFL) is a leading financier of two wheelers, consumer durables, personal computers and personal loans. BAFL with an asset base of Rs.38,458 million, is one of India's leading NBFCs focused on retail financing. The Company has been classified as an "Asset Finance Company" by the Reserve Bank of India.

In the last few years, BAFL has built strong market presence through its unique business model and deep understanding of its customers. The company continues to serve it customers through its pan-India network of branches. The year 2007-08 was a tough year for the industry in general and BAFL in particular. In 2007-08, owing to changes in external environment, the two-wheeler industry reduced its subvention offers to finance companies. BAFL suffered significantly, in its revenue and income growth due to this changed external scenario. Coupled with that, there was also a large increase in provision for doubtful debts and bad debts written off due to company's increased focus in semi-urban and rural markets in the last 2-3 years. Given the market environment in the retail finance industry, the company expects the current provisioning and bad debts trend to prevail in the near term.

The company continues to invest in building capabilities to grow stronger in the medium term. The company is strengthening its management structure by staffing domain specialist talent. The company is also strengthening its operations and risk strategies by restructuring its credit operations model, enlisting with credit bureau and creating a dedicated risk analytics unit. These measures are expected to help BAFL in building current businesses and launching new product lines across the consumer finance spectrum.

Going forward, BAFL has decided to diversify its product offerings and grow other retail finance product lines. The company launched new product lines / extensions in the current year. It launched IPO financing for high networth customers, acquisition of AAA rated securitization transactions, personal loan cross sell programme to its existing customers and financing for personal computers to SMEs.

BAFL with its nationwide network of branches, strong capital adequacy ratio, recent infusion of capital, best in class strengthening of management team and planned launch of new product lines will continue to strengthen its position as a leading retail finance player.

Analysis of Performance for the year

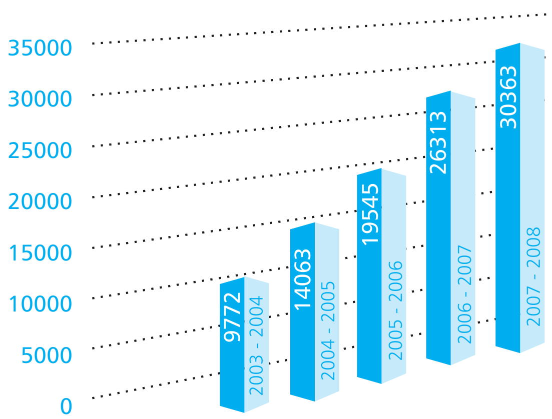
(a) Business performance :

The gross deployments of the company for the year 2007-08 were Rs.30,363 million as against Rs.26,313 million for the year 2006-07, a growth of 15 per cent over the last year.

Rs. million

Deployment	2007-2008	2006-2007	% change
Automobiles	14,843.7	15,651.5	(5.2%)
Consumer Durables	6,307.1	5,916.0	6.6%
Personal Computers	4,628.1	4,349.5	6.4%
Personal Loans	1,626.7	396.3	310.4%
Securitized retail asset pools	2,957.4	-	100.0%
Total Deployment	**30,363.0**	**26,313.3**	**15.4%**

Deployment (Rs. Million)



Assets under Finance, Loan and Securitized Retail Asset Pool receivables as on 31 March 2008 was Rs.33,319 million as against Rs.27,610 million as on 31 March 2007.

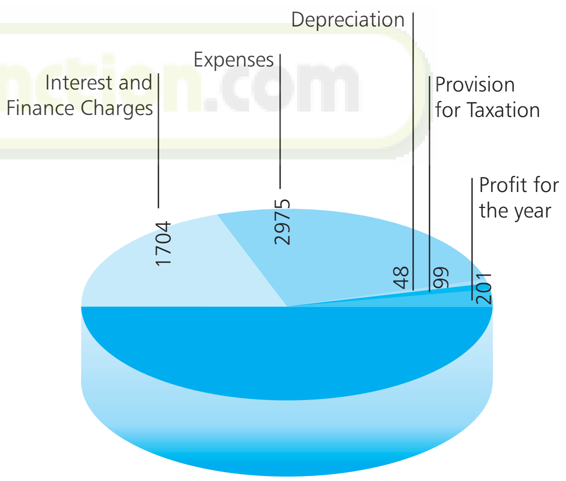
(b) Financial performance :

Operational results :

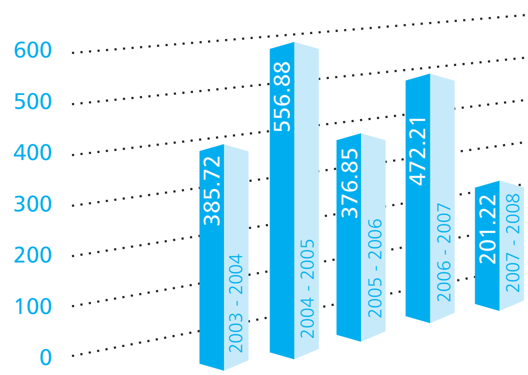
Rs. Million

Particulars	2007-2008	2006-2007
Total Income	5,027	4,018
Interest and Finance Charges	1,704	1,181
Expenses	2,975	2,094
Depreciation	48	31
Provision for Taxation	99	240
Profit for the year	201	472

Income Distribution 2007-2008 Rs. Million



Profit after Tax (Rs. Million)



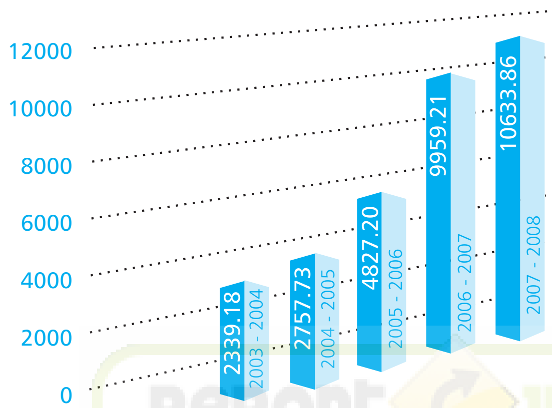
Select Performance Indicators:

Rs. Million

Particulars	2007-08	2006-07
Earning Per Share (Basic) (Rs.)	5.68	19.76
Earning Per Share (Diluted) (Rs.)	5.68	18.79
Book value per share (Rs.)	290.58	281.75
Dividend	10%	30%

Net Owned Funds

Rs. Million



Income from Operations increased from Rs.3,527.62 million during 2006-07 to Rs.4,096.65 million during 2007-08, an increase of 16% per cent over the previous year.

The Board of Directors have recommended a Dividend of Re.1/- per Share (10 per cent) for the year 2007-08 (last year : 30 per cent), on the enhanced capital of Rs.366 million after the allotment of Equity Shares on conversion of balance Warrants allotted to Promoters into Equity Shares made during the year. The said Dividend is subject to the approval of the shareholders.

Management of Risks

It is critical to have strong risk management capabilities that include effective monitoring, reporting, controlling and mitigation process. BAFL faces risks from factors like increased competition, economic slowdown, challenge of retaining manpower, likely decline in asset quality, increase in operating costs, RBI provisioning policies etc. As an NBFC, BAFL is also exposed to credit risk, liquidity risk and interest rate risk.

BAFL recognises the importance of risk management on account of increased competition and market volatility in financial services business. BAFL has in place suitable mechanisms to effectively mitigate such risks. All these risks are continuously analysed and reviewed at various levels of management through an effective management information system. BAFL has put in place a stronger risk management team, an effective credit operations structure, credit analytics and increased credit bureau usage.

The Asset-Liability Committee set up in terms of the guidelines issued by the RBI, monitors the asset-liability mismatches, to ensure that there are no imbalances or excessive concentrations on either side of the Balance Sheet.

Internal Control Systems and their Adequacy

BAFL has adequate internal control systems to ensure operational efficiency, protection and conservation of resources, accuracy and promptness in financial reporting and compliance of laws and regulations. The internal control system is supported by the internal audit process. The Internal Audit Department reviews and ensures that the audit observations are acted upon. The Audit Committee of the Board reviews the Internal Audit reports and the adequacy and effectiveness of internal controls.

Fulfilment of RBI Norms and Standards

On the regulatory front, the Reserve Bank of India (RBI), which is the regulatory body for NBFCs, has been continuously strengthening the supervisory framework for NBFCs in order to ensure sound and healthy functioning and avoid excessive risk taking. The degree of supervision is based on the size, type of activity and acceptance or non-acceptance of deposits. Various prudential norms for capital adequacy, asset classification, income recognition, provisioning etc., are applicable to NBFCs.

BAFL continues to fulfill all the norms and standards laid down by RBI pertaining to non-performing assets, capital adequacy, statutory liquidity ratio etc. The capital adequacy ratio of the company is 40.69 per cent, which is above the RBI norm of 12 per cent.

Human Resources

The relationship with employees continues to be cordial. The company during the year added about 500 permanent employees including some employees at a senior level to head key functional areas, taking the total permanent employee strength to 1713.

During the year, the company took a number of initiatives to strengthen human resources such as strengthening the management structure by bringing domain experts, realignment of compensation packages in line with the industry standards with the assistance from external consultants and streamlining the functional organisation model. In an increasingly competitive market for human resources in this industry, the company is putting strong emphasis on attracting and retaining the right talent. The company's culture promotes high performance and professional standards.

Cautionary Statement :

Statements in this Management Discussion and Analysis describing the company's objectives, projections, estimates and expectations may be a 'forward looking statement' within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.

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 of consists of 9 Directors, all of whom are non-executive and 4 of them are independent. According to Clause 49, 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	6	--	–
Shri Nanoo Pamnani	Vice-Chairman, Non-executive, Independent	3	3	2
Shri Madhur Bajaj	Non-executive	11	--	--
Shri Rajiv Bajaj	Non-executive	4	--	--
Shri Sanjiv Bajaj	Non-executive	7	--	4
Shri D.S. Mehta	Non-executive, Independent	6	1	5
Shri Dipak Poddar*	Non-executive	8	--	4
Shri Ranjan Sanghi	Non-executive, Independent	7	--	4
Shri Rajendra Lakhotia	Non-executive, Independent	3	--	–

* Shri Dipak Poddar was Managing Director of the Company upto 31st March, 2008 and resigned as Managing Director w.e.f., 1st April, 2008. Mr. Poddar continues as a Director on the Board of the Company.

Notes :

1. Private limited companies, foreign companies and companies under Section 25 of the Companies Act, 1956 are excluded for the above purposes.
2. Only audit committee and shareholders' grievance committee are considered for the purpose of committee positions as per listing agreement.