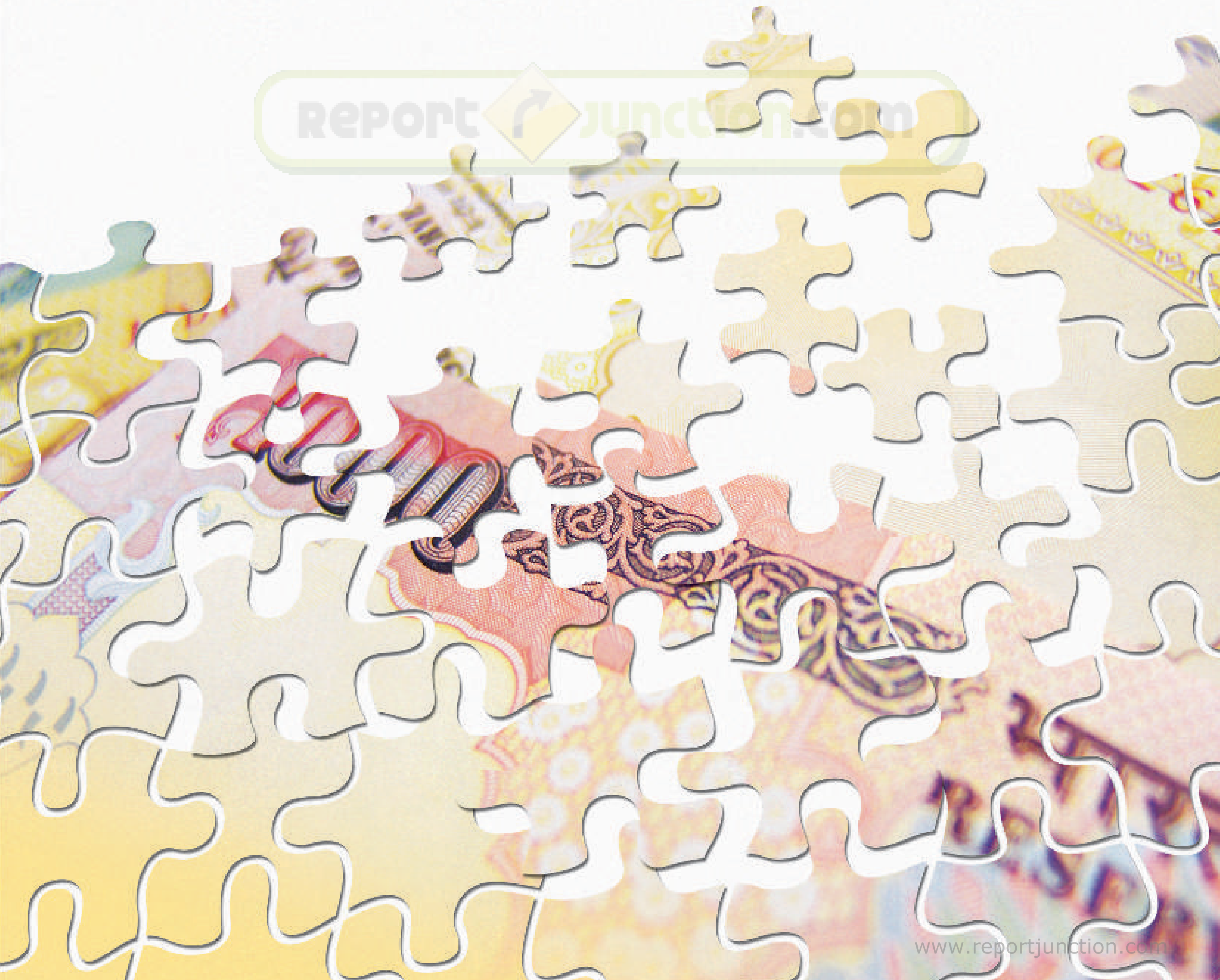
BAJAJ FINANCE

Bajaj Auto Finance Limited

Twenty Second
Annual Report
2008-09



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Corporate Information

Board of Directors

Rahul Bajaj
Chairman

Nanoo Pamnani
Vice Chairman

Madhur Bajaj

Rajiv Bajaj

Sanjiv Bajaj

D S Mehta

D J Balaji Rao (from 22nd October, 2008)

Dipak Poddar

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
IDBI Bank Limited

Registrar & Transfer Agent

Karvy Computershare Private Limited
Plot No.17 to 24, Vittalrao Nagar,
Madhapur,
Hyderabad – 500 081

Registered Office

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

22nd Annual General Meeting
on Wednesday, 15th July, 2009 at 11.30 a.m.
at the Registered Office of the company

Directors' Report

1. The Directors present their Twenty-second Annual Report and the Audited Statement of Accounts for the year ended 31st March, 2009.

2. Financial Results :

	2008-09 Rs. million	2007-08 Rs. million
Income from Operations	5,974.9	4,977.3
Other Income	19.0	50.2
Total	5,993.9	5,027.5
Expenses	2,148.6	1,883.6
Provision for Doubtful Debts and Bad Debts written off, net	1,635.8	1,091.8
Interest and Finance charges	1,643.5	1,703.8
Depreciation	55.7	48.5
Total Expenditure	5,483.6	4,727.7
Profit before Taxation	510.3	299.8
Provision for Taxation [Including Deferred Tax Credit and FBT]	171.2	98.6
Profit for the year after Taxation	339.1	201.2
Profit for the year after Taxation and earlier years adjustments	339.1	205.8
Balance brought forward from previous year	31.5	-
Profit available for appropriations	370.6	205.8
Appropriations :		
Transfer to Reserve Fund	68.0	41.5
Transfer to Debenture Redemption Reserve	183.0	90.0
Transfer to General Reserve	30.0	-
Provision for Proposed Dividend	73.2	36.6
Provision for Dividend Tax	12.4	6.2
Balance carried to Balance Sheet	4.0	31.5

3. Dividend :

The Directors recommend for the consideration of the Members at the Annual General Meeting, payment of Dividend of Rs.2/- per Share (20 per cent) for the year ended 31st March, 2009. The total Dividend outgo including tax thereon will be Rs.85.6 million.

Dividend paid for the year ended 31st March, 2008 was Re.1/- per share (10 per cent) and the total Dividend outgo including tax thereon was Rs.42.8 million.

4. Working Results :

Given a sluggish business environment, your company, during the year 2008-09, deployed a total amount of Rs.24,509 million under various products. As against this, during the previous year 2007-08, the total amount deployed was Rs.30,363 million.

The Assets under Finance, Loan and Securitized Retail Asset Pool receivables as on 31st March, 2009 were Rs.35,437 million as compared to Rs.33,319 million as on 31st March, 2008.

The profit before tax for the year was at Rs.510.3 million, as against Rs.299.8 million in the previous year and the profit after tax for the year was Rs.339.1 million as compared to Rs.201.2 million in the previous year. This has been on account of increased subventions from the Two Wheeler manufacturer, shift in product mix with increased contribution from Personal Loan cross sell, launch of new businesses like Small Business Loans, Loans against property, Loan against shares, acquisition of securitized retails asset pools, insurance distribution and cost rationalization initiatives.

The write offs and provision for bad and doubtful debts (net) continued to increase (Rs.1,635.8 million as against Rs.1,091.8 million in 2007-08) due to deteriorating external environment and company's past focus on certain customer segments which have demonstrated weak credit performance. We expect this trend to continue in 2009-10 as well.

5. Prospects :

After a strong GDP growth witnessed by the Indian economy in the past few years, 2008-09 was marked by economic slowdown. This slow down accelerated in the second half of the year leading to substantial reduction in industrial growth in the last two quarters.

While we have seen a marginal improvement in the overall external environment in the fourth quarter due to various monetary and fiscal stimuli offered by the Indian government, we need to wait for another quarter of the current fiscal to arrive at a more definitive conclusion on the direction of the economy for 2009-10. If this slow down persists, it would adversely affect demand for financial products and could also lead to deterioration in the asset quality of existing loans.

Given this uncertain environment, your company's approach in 2009-10 would be to tread cautiously by moderating the growth, continue restructuring the cost base and further strengthening its risk management practices. However, we will continue to launch new product lines and maintain investments in technology up-gradations to stay focused on our long term objective of becoming a leading non-banking finance company in India.

Overall, the company expects to maintain satisfactory growth during the current year despite a tough economic environment.

6. Business Initiatives :

During the year under review, the company launched new product lines like Small Business Loans, Loans against Property, Loan Against Shares to high net worth customers and insurance distribution.

Your company launched Small Business Loans product line in the first quarter of the previous year. The program offers small business loans from Rs.0.3 million to Rs.3 million to self employed segments. The company expects this business to be a key growth driver in future.

Your company also launched Loans Against Property business in the third quarter of the previous year. The product offers loans against residential and commercial properties for amounts over Rs.2.5 million for tenors up to 15 years and offers various unique features like personal accident coverage and attractive term life insurance options.

Your company now offers a free extended warranty on all Bajaj Two Wheelers that it finances. This benefit is available only to those customers who take a loan from BAFL, thereby creating a strong value proposition for its customers.

7. New Technology Platform :

Your company implemented a fully integrated state of the art lending platform in the fourth quarter of the year under review. The new technology platform offers end to end business process integration and web based interface options. This implementation will streamline processing, deliver lower unit cost and also minimize operational risks.

8. Re-structuring of Branch network :

Auto finance business has now moved closer to the customer with company employed sales managers deployed in 320 Bajaj dealerships across 261 cities and towns. Each of the dealerships supported by the new technology implementation operates as a virtual branch leading to improved credit acceptance and higher service standards.

Consumer finance business rationalized its number of branches. This business now operates in 54 branches and 8 attached locations across India.

9. Repurchase of Debentures:

Your 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, in the first tranche, had repurchased 2,186,380 fully paid NCDs from the open market during the year 2007-08, in terms of the Letter of Offer. During the year under review, the company in the second tranche, repurchased 401,500 fully paid NCDs from the open market.

10. Fixed Deposits :

Your company renewed fixed deposits of Rs.3.9 million. Public Deposits outstanding at the year-end were Rs.38.2 million and the number of depositors was 1,546. At the end of the financial year under review, there were 161 deposits aggregating Rs.2.8 million which matured but remained unclaimed as on that date. The company had written to these depositors and as on date, deposits aggregating Rs.0.6 million have been repaid / renewed.

11. Credit Rating :

Despite a tough economic environment and regular reviews by rating agencies, your company managed to retain all its credit ratings owing to high capital adequacy, strong promoter support, tightened credit acceptance criteria and robust asset-liability management.

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.

Your company also enjoys the highest rating of "P1+" from CRISIL and "A1+" from ICRA for Short Term Debt programme.

The Long Term Non-Convertible Debentures have been assigned "AA+/Stable" rating by CRISIL indicating high degree of safety with regard to timely payment of interest and principal and high credit quality rating of "LAA+" 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.9,850 million and Long Term Bank facilities amounting to Rs.4,010 million and "P1+" rating for the Short Term Bank facilities amounting to Rs.8,050 million.

12. 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 39.37 per cent.

In line with the RBI guidelines for Asset-Liability Management (ALM) system for NBFCs, your company has an Asset-Liability committee which meets periodically to review its ALM risks and opportunities.

13. 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 activity, the Directors have nothing to report on Conservation of Energy or Technology Absorption. Foreign currency expenditure amounting to Rs.0.6 million was incurred during the year under review. The company did not have any Foreign Exchange earnings.

14. 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.

15. Directors :

Shri Ranjan Sanghi, Shri Rajendra Lakhotia and Shri D.S. Mehta, Directors, retire from the Board by rotation this year and being eligible, offer themselves for re-appointment.

Shri D J Balaji Rao who was appointed by the Board as an Additional Director of the company holds office up to the ensuing Annual General Meeting. The company has received notice from a member under the provisions of Section 257 of the Companies Act, 1956 proposing the appointment of Shri D J Balaji Rao as a Director of the company. Appropriate resolution for this purpose is being proposed in the Notice of the Annual General Meeting for Members' approval.

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.

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 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

Pune
20th May, 2009

Rahul Bajaj
Chairman

Management Discussion and Analysis

After the impressive economic growth of the last few years, 2008-09 saw a reversal of trend characterized by slowing down of domestic industrial growth, rising inflation, bearish stock markets, collapse of financial institutions in western countries and recession in leading economies of the world. Through this un-precedented crisis, India's banking and financial services sector continued as a vital support system for sustaining India's economic momentum.

Strong consumer confidence coupled with a hyper competitive retail financial services environment has increased customer leverage over the past few years. As the overall economic environment worsened, some segments of these consumers, both salaried and self employed, faced difficulty in servicing their existing obligations leading to higher delinquencies across banks / finance companies. Given this scenario, banks / finance companies became averse to lending in the short term, leading to demand slowdown and liquidity constraints with the customers. Interest rates continued to rise through the first three quarters of the year, owing to increased inflationary pressures. However, monetary measures by the Reserve Bank of India (RBI) in later part of the year saw improved liquidity in financial markets leading to some easing of interest rates by the end of the financial year.

The outlook for 2009-10 is of cautious optimism due to slow down of domestic industrial growth and recession in the leading economies of the world.

Bajaj Auto Finance Limited (BAFL) with assets under finance of Rs.35,437 million is one of the premier non-banking finance company (NBFC) in the country. 2008-09 was a year of consolidation for BAFL. The company implemented a series of measures to proactively manage the economic slowdown and minimize the potential losses arising from delinquencies, while laying the groundwork for a broader franchise. BAFL implemented several initiatives to restructure cost base, tightened risk policies, increased usage of credit bureau and undertook branch rationalization. The company also implemented a new technology platform, refined product features for existing offerings and also launched new product lines viz., Small Business Loans, Loans Against Shares to high net worth customers and Loans Against Property. The company also started Insurance Distribution and Extended Warranty offering to its customers.

There was an increase in write offs and provision for bad and doubtful debts due to deteriorating external environment and the company's past focus on certain customer segments which have demonstrated weak credit performance. Given the market environment in the retail finance industry, the company expects the current provisioning trend to prevail in the near term.

In 2009-10, the approach is to tread cautiously by moderating overall growth, continue cost restructuring and further strengthen risk management practices. However, the company will continue to launch new product lines and maintain investments in technology to stay focused on its long term objective of becoming a leading non-banking finance company in India.

Analysis of Performance for the year

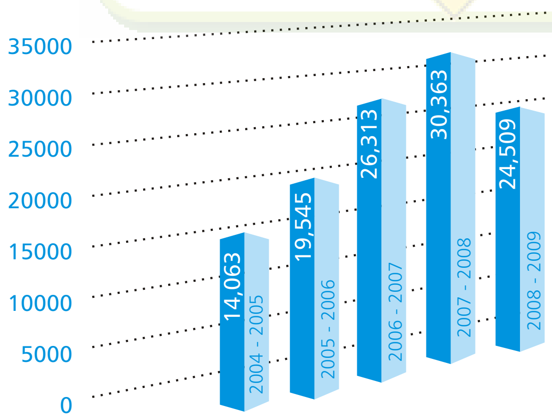
(a) Business performance :

The gross deployments of the company for the year 2008-09 were Rs.24,509 million as against Rs.30,363 million for the year 2007-08 :

Rs. Million

Deployment	2008-2009	2007-2008	% change
Two & Three Wheelers	7,827.6	14,843.7	(47.3)
Durables & Personal Computers	6,548.2	10,935.2	(40.1)
Personal Loans & Small Business Loans	5,563.1	1,626.7	242.0
Other Secured Assets	3,210.8	--	N.A.
Securitized Retail Asset Pools	1,359.6	2,957.4	(54.0)
Total Deployment	**24,509.3**	**30,363.0**	**(19.3)**

Deployment (Rs. Million)



Assets under Finance, Loan and Securitized Retail Asset Pool receivables as on 31 March 2009 was Rs.35,437 million as against Rs.33,319 million as on 31 March 2008.

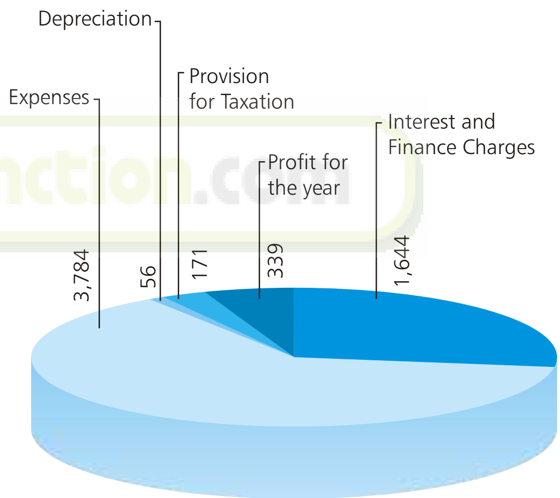
(b) Financial performance :

Operational results, 2008-09:

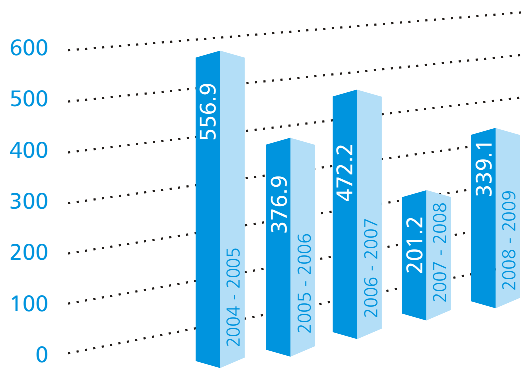
Rs. Million

Particulars	2008-2009	2007-2008
Total Income	5,994	5,027
Interest and Finance Charges	1,644	1,704
Expenses	3,784	2,975
Depreciation	56	48
Provision for Taxation	171	99
Profit for the year	339	201

Income Distribution 2008-2009 Rs. Million



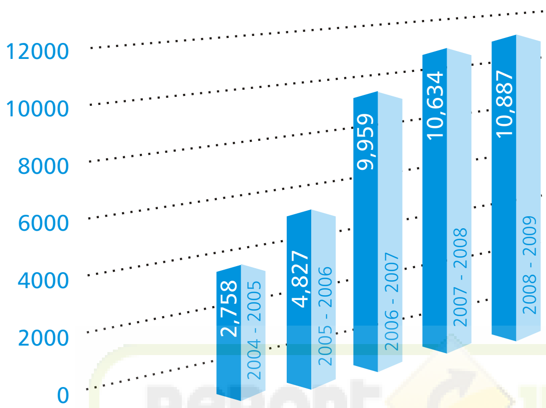
Profit after Tax (Rs. Million)



Select Performance Indicators:

Particulars	2008-09	2007-08
Earning Per Share (Basic) (Rs.)	9.27	5.68
Earning Per Share (Diluted) (Rs.)	9.27	5.68
Book Value Per Share (Rs.)	297.50	290.57
Dividend	20%	10%

Net Owned Funds



Income from Operations increased from Rs.4,977.3 million during 2007-08 to Rs.5,974.9 million during 2008-09, an increase of 20 per cent over the previous year.

The Board of Directors have recommended a Dividend of Rs.2/- Share (20 per cent) for the year 2008-09 (last year : 10 per cent). The said Dividend is subject to the approval of the shareholders.

Management of Risks

As an NBFC, BAFL is exposed to credit risk, liquidity risk and interest rate risk. BAFL recognizes the importance of risk management. The company has invested in people, processes and technologies to effectively mitigate risks posed by external environment and by its borrowers. BAFL has put in place a strong risk management team, an effective credit operations structure, invested in credit analytics, increased credit bureau usage and invested in technology up-gradations to manage its risks.

The Asset-Liability Committee (ALCO) 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.

During the year the company has constituted a Risk Management Committee, in accordance with the Guidelines on Corporate Governance issued by RBI.

Internal Control Systems and their Adequacy

BAFL has adequate internal control systems to ensure operational efficiency, 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

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 39.37 per cent, which is above the RBI norm of 12 per cent.

Human Resources

Your company continues to lay emphasis on its most valuable resource - people. 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.

During the year, the company took a number of initiatives to strengthen human resources such as strengthening the management structure, streamlining the functional organization, realignment of compensation packages in line with the industry standards etc. so as to prepare the organization for growth.