BAJAJ FINSERV | LENDING

Bajaj Auto Finance Limited

23rd Annual Report 2009-10

Contents

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

Dipak Poddar

Ranjan Sanghi

Rajendra Lakhotia

Chief Executive Officer
Rajeev Jain

Company Secretary
Anant Damle

Auditors

Dalal & Shah
Chartered Accountants

Bankers

Central Bank of India
State Bank of India
IDBI Bank Limited
Syndicate Bank

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.

Corporate Office

'Bajaj Finserv' 4th Floor,
Survey # 208/1-B,
Viman Nagar, Pune – 411 014

23rd Annual General Meeting
on Wednesday, 21 July 2010 at 12 noon
at the Registered Office of the Company

Directors' Report

The directors present their Twenty Third Annual Report and the Audited Statement of Accounts for the year ended 31 March 2010.

Business Performance

The gross deployment of the company for the year 2009-10 were Rs.45,851 million as against Rs. 24,509 million for the year 2008-09:

Rs. Million

Deployment	2009-10	2008-09	% change
Two & Three Wheelers	13,643.6	7,827.6	74.3
Consumer Durables	10,374.7	6,548.2	58.4
Small Business Loans & Personal Loans Cross sell	9,512.9	5,563.1	71.0
Mortgages & Other Secured Assets	11,772.6	3,210.8	266.7
Securitized Retail Asset Pools	547.2	1,359.6	-59.8
Total Deployment	**45,851.0**	**24,509.3**	**87.1**

Financial Results

Rs. Million

	2009-10	2008-09
Income from Operations	9,100.6	5,948.1
Other Income	61.0	45.8
Total	9,161.6	5,993.9
Expenses	3,119.8	2,148.5
Provision for Doubtful Debts and Bad Debts written off, net	2,605.8	1,635.8
Interest and finance charges	2,016.6	1,643.5
Depreciation	76.4	55.7
Total Expenditure	7,818.6	5,483.5
Profit before Taxation	1,343.0	510.4
Provision for Taxation	449.0	171.2
Profit for the year after Taxation	894.0	339.2
Prior period adjustments relating to earlier years	0.1	—
Profit for the year after Taxation and prior period adjustments	**894.1**	**339.2**
Balance brought forward from previous year	4.0	31.4
Transfer from Debenture Redemption Reserve	480.5	—
Profit available for appropriations	1378.6	370.6
Appropriations :		
Transfer to Reserve Fund	(180.0)	(68.0)
Transfer to Debenture Redemption Reserve	**—**	**(183.0)**
Transfer to General Reserve	(90.0)	(30.0)
Provision for Proposed Dividend	(219.6)	(73.2)
Provision for Dividend Tax	(36.5)	(12.4)
Balance carried to Balance Sheet	852.5	4.0

Dividend

The directors recommend for the consideration of the Members at the Annual General Meeting, payment of dividend of Rs. 6/- per share (60 per cent) for the year ended 31 March 2010. The total dividend outgo including tax thereon will be Rs. 256 million.

Dividend paid for the year ended 31 March 2009 was Rs.2/- per share (20 per cent) and the total dividend outgo including tax thereon was Rs.85.6 million.

Working Results

The company, during the year 2009-10, deployed a total amount of Rs. 45,851 million under various products. As against this, during the previous year 2008-09, the total amount deployed was Rs. 24,509 million.

The receivables under financing as on 31 March 2010 were Rs.40,258 million as compared to Rs. 25,389 million as on 31 March 2009, an increase of 59 per cent over the previous year.

Total income during 2009-10 increased to Rs. 9,162 million from Rs. 5,994 million during 2008-09, an increase of 53 per cent over the previous year.

The profit before tax for the year was at Rs 1,343 million, as against Rs. 510 million in the previous year, an increase of 163 per cent over the previous year. The profit after tax for the year was Rs. 894 million as compared to Rs.339 million in the previous year, an increase of 164 per cent over the previous year. This has been due to improvement in net interest margins across businesses, contribution from new lines of businesses, third party fee products distribution and various re-engineering initiatives.

The company's current provisioning standards meet RBI prudential norms. In line with its conservative approach, the company continues to review its provisioning policy over and above RBI prudential norms. In the current year, the company proactively took the decision to provide for a closed business line resulting in increased provisioning to the tune of Rs. 210 million. Additionally, the company also enhanced loan loss provisioning for its consumer durable financing business and increased provisioning by Rs. 46.7 million.

Operations

The Operations of the company are elaborated in the annexed Management Discussions and Analysis Report.

Redemption of Debentures

The 6% Non Convertible Debentures of the face value of Rs.500/- each aggregating to Rs. 2,624.2 million issued by the company on 9 February 2007 for a tenor of three years became due for redemption on 9 February 2010. The company has redeemed these debentures on the due date.

Employee Stock Option Scheme

Pursuant to the authority given by the members of the company vide special resolution passed through postal ballot on 15 December 2009, and subject to the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999, the Remuneration & Nomination Committee of the Board of Directors made on 12 January 2010 a first grant of 132,000 options under the company's Employee Stock Option Scheme, 2009 (ESOP 2009), as per the terms and conditions of the ESOP Scheme. As required under the SEBI Guidelines, the details of the options granted are given in the annexure to this report.

Fixed Deposits

The company renewed fixed deposits of Rs.10.1 million. Public Deposits outstanding at the year end were Rs.24.5 million and the number of depositors was 794. At the end of the financial year under review, there were 128 deposits aggregating Rs. 2.2 million which matured but remained unclaimed as on that date. The company had written to these depositors and as on date, deposits aggregating Rs. 0.1 million have been repaid / renewed.

Credit Rating

Despite a tough economic environment, the 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 the company. This rating indicates very strong degree of safety with regard to timely payment of interest and principal. The 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 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+" with stable outlook by ICRA.

The company has also been assigned " AA+/ Stable " rating by CRISIL and "LAA+" with stable outlook by ICRA for Rs. 200 Crores Lower Tier II Bond programme.

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.

RBI Guidelines

The 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 the company is 26 per cent.

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

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.4.5 million was incurred during the year under review. The company did not have any foreign exchange earnings.

Directors' Responsibility Statement

In compliance of Section 217(2AA) of the Companies Act, 1956, the 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.

Directors

Shri Nanoo Pamnani, Shri Rajiv Bajaj and Shri Dipak Poddar, 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 re-appointment as required under Clause 49 of the Listing Agreement with the Stock Exchanges has been given under the report on Corporate Governance.

Auditors' Report

The observations made in the Auditors' Report read with the relevant notes thereon are self-explanatory and hence do not call for any further comments under Section 217 of the Companies Act, 1956.

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.

Group

Pursuant to an intimation from the Promoters, the names of the Promoters and entities comprising "group" as defined under the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 are disclosed in the Annual Report for the purpose of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

Corporate Governance

The company complies with all the mandatory requirements pertaining to Corporate Governance, in terms of the 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: 11 May 2010

Annexure to the Directors' Report

Information regarding the Employee Stock Option Plan 2009, as on 31 March 2010, in terms of Regulation 12 and 19 of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999

1. Options granted during the year	132,000
2. Pricing formula	Options are convertible into 132,000 equity shares of Rs.10/-each at an exercise price of Rs.358.70 per Share
3. Options vested	Nil. Options would vest not earlier than one year and not later than five years from the date of grant.
4. Options exercised	Nil
5. Total number of shares arising as a result of exercise of option	N.A.
6. Options lapsed	Nil
7. Variation of terms of options	Nil
8. Money realized by exercise of options	N.A.
9. Total number of options in force	Nil
10. Employee wise details of options granted :	

(i) Senior Managerial Personnel

Sr. No.	Name of the employee	No. of Options granted
1.	Rajeev Jain	39,000
2.	Pankaj Thadani	14,250
3.	Vivek Likhite	14,250
4.	Deepak Reddy	14,250
5.	Devang Mody	12,000
6.	Amit Gainda	14,250

(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of options granted during the year	Nil
11. Identified employees who were granted options during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions)of the company at the time of grant	Nil
12. Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with Accounting Standard (AS) 20 'Earning Per Share'	—
13. Where the company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed.The impact of this difference on profits & on EPS of the company shall also be disclosed	Had compensation cost for the stock option plans outstanding been determined based on fair value approach, the net profit and earnings per share would have been as per the proforma amounts indicated below:

Particulars	31 March 2010 (Amount in Rs.)
Net profit (as reported)	894,076,602
Add: Stock – based employee compensation expense included in net income	—
Less: Stock based compensation expense determined under fair value based method (pro forma)	13,364,340
Net Profit (pro forma)	880,712,262
Basic Earnings per share (as reported)	24.43
Basic Earnings per share (pro forma)	24.07
Diluted earnings per share (as reported)	24.43
Diluted earnings per share (pro forma)	24.07

Annexure to the Directors' Report (Contd.)

14. Weighted average exercise prices and weighted-average fair value of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock	—
15. A description of the method and significant assumptions used during the year to estimate the fair value of options , including the following weighted average information :	The company has elected to use intrinsic value method to account for the compensation cost of stock options to employees of the company. Intrinsic value is the amount by which the quoted market price of the underlying share exceeds the exercise price of the option. The company issued grants on 12 January 2010 at Rs. 358.70 which was the closing price of the previous date on the stock exchange with the highest trading volume for the day. The fair value of options used to compute proforma net profit and earnings per share have been estimated on the date of grant using the Black – Scholes Model.
i) Risk-free interest rate	6.70%
ii) Expected life	1 -5 years
iii) Expected volatility	54.01%
iv) Expected dividend yield	0.62%
v) The price of the underlying share in market at the time of option grant	Rs. 358.70

Management Discussion and Analysis

2009-10 started off amidst an uncertain economic environment driven by fears of a global double-dip recession, low domestic industrial growth, the failure of monsoons affecting the kharif crop and weak consumer demand.

Things changed for the better in the second half. Stabilisation of the global financial system, three substantive government stimulus packages, an accommodative monetary stance by the Reserve Bank of India (RBI) and the emphasis on public sector expenditure in the first (mid-term) budget of the new government saw a resurgence of growth in H2 2009-10, especially in January-March 2010.

These measures resulted in improved business confidence and revival of consumer demand. A relatively benign interest rate environment throughout the second half of 2009-10 also helped. Even so, it needs stating that retail lending in 2009-10 was weak compared to a couple of years ago. Having faced rising delinquencies and higher credit risks in 2008-09 and most of 2009-10, lending institutions remained cautious across all retail lending businesses.

Despite a muted market for all of 2008-09 and half of 2009-10, Bajaj Auto Finance Limited ('BAFL' or 'the Company') sees significant growth opportunities in the future. Given low penetration of retail lending to GDP, demographic shifts in favour of a younger working population, higher incomes of a rapidly growing middle class, and a preference for younger households to live with greater gearing, BAFL sees major retail lending opportunities in India.

With receivables under financing of Rs.40.3 billion, BAFL is one of the leading, diversified non-banking finance companies (NBFC) in the country. The company's restructuring over the last two years has started to bear results in 2009-10. Additionally the company continued to invest in launching new product lines, expanding its technology platform and strengthening its human resources pool for higher growth in the coming years.

The loan book has improved qualitatively. The company increased its write offs and provision for bad and doubtful debts arising out of weak loan servicing performance in the past of certain customer segments . Instead of going purely by RBI prudential norms, BAFL proactively took the decision to increase provisioning by Rs. 210 million for a business line closed in early 2009. With this additional provisioning, the loan book looks healthier and positions the company for faster and more focused growth in the future.

Highlights for 2009-10

Given below are BAFL's performance highlights for 2009-10.

- Total income for 2009-10 was up by 53% to Rs.9.16 billion
- Profit after tax was up 164% to 894 million.
- Deployment during the year rose by 87% to Rs.45.85 billion.
- Receivables under financing as on 31 March 2010 were up by 59% to Rs.40.3 billion.
- Loan losses and provisions for the year increased by 59% to Rs.2.61 billion.
- Capital adequacy ratio as on 31 March 2010 stood at 26% well above the RBI norm.

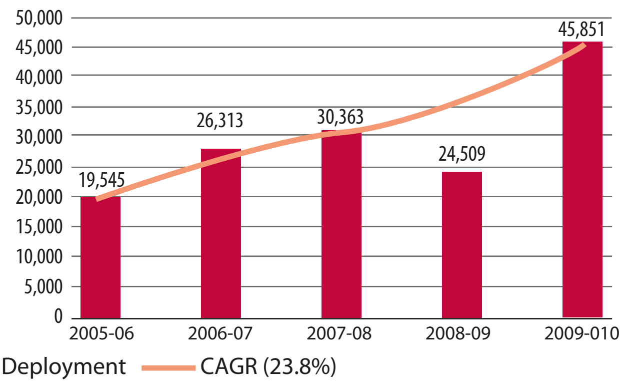
Deployment Snapshot

Table 1 gives the deployment mix for 2009-10 (compared to 2008-09), while Chart A plots BAFL's loan deployment over the last five years.

Table 1: BAFL's Deployment Mix (Rs. millions)

Deployment	2009-10	2008-09	Change
Two and Three-Wheelers	13,643.6	7,827.6	74%
Consumer Durables	10,374.7	6,548.2	58%
Small Business Loans and Personal Loan Cross-Sell	9,512.9	5,563.1	71%
Mortgage and Other Secured Assets	11,772.6	3,210.8	267%
Securitized retail asset pools	547.2	1,359.6	(60%)
Total Deployment	45,851.0	24,509.3	87%

Chart A: Growth in BAFL's Loan Deployment (Rs. millions)



Receivables under Finance

Table 2 gives the data of BAFL's receivables under finance.

Table 2: BAFL's Receivables under Finance

Rs. Million

Receivables Under Finance	2009-10	2008-09	%change
Two & Three Wheelers	13,880	11,748	18%
Consumer durables	4,259	3,203	33%
Small business loans & Personal loan cross sell	9,946	5,431	83%
Mortgage & other secured assets	11,613	2,674	334%
Securitized retail asset pools	560	2,332	(76%)
Total Receivables under finance	40,258	25,389	59%

Business Segment Update

Two- Wheeler Financing

Two wheeler deployments grew by 74% in 2009-10, thanks to strong growth in two-wheeler demand throughout the country. The competitive environment was benign with most competitors having exited the business in the last two years.

BAFL has leveraged this opportunity to consolidate its position in the Bajaj two- wheeler financing business. Its penetration as a percentage of sales of Bajaj two-wheelers was at 23% in 2009-10, versus 20% in the previous year. The company acquired more than 378,000 new customers during the year. Today, it is present in 375 dealerships, and accesses over 900 sub-dealers across India. Moreover, the company's new underwriting process of deploying credit sales managers in dealerships has begun to improve credit performance and deliver better customer experience.

During 2009-10, the two-wheeler financing business launched a new programme called the Direct Cash Collection Model to focus on semi-urban and rural customers with no banking habits. The programme will integrate mobile technology and Bajaj Auto Limited's sub-dealer network to create a unique business model.

Consumer Durables Financing

Consumer durable financing deployments grew by 58% in 2009-10, versus an estimated industry growth of 30%. Competition remained limited, because few are willing to invest in technology and processes to compete in this relatively low ticket size, high volume business. The company acquired more than 470,000 new customers and is currently present in over 2,000 dealerships across the country.

BAFL's strategy of focusing on 'mass affluent' customers and major dealerships has begun to yield significant benefits through lower operating costs and improved risk performance. During the year, the company added a new tool to its current technology platform to improve customer experience and target mass affluent customers. It also invested in automation of the loan approval process at 100 top dealerships throughout the country. This programme to provide a seamless financing experience has set a new benchmark in the consumer durable financing business.

Small Business Loans

This business is present in the top 15 cities across India. Small business loan deployments grew by 175%. This was partly due to a low base effect, a more focused small business initiative and a portfolio acquisition in 2009-10. Its core small business loan grew by 66%.

The company's strategy of focusing on affluent small business customers and its cautious approach has helped it to grow this business in a steady manner. BAFL's relationship model of lending has also helped in significantly improved risk performance. Recently, as an extension to its small business loan programme it has launched financing of vendors to large manufacturers.

Personal Loan Cross-Sell

This business targets customers with good repayment history for their two-wheeler and/or consumer durables loans to cross-sell a personal loan. BAFL continued to grow this business in a cautious manner. Given the economic circumstances, it is not surprising that the personal loan cross sell deployments contracted by 23% in 2009-10. Even so, BAFL financed some 46,000 new customers in the current year.

In 2009-10, the company implemented a new customer relationship management (CRM) platform to improve its data mining, and thus offer better business generation capabilities. This should stand BAFL in good stead for 2010-11 and the future.

Mortgage Business

This was the first full year of mortgage business. It targets affluent and high net worth small business customers and offers loans against the mortgage of retail, residential and commercial premises. Aided by strong revival in the mortgage business in the second half 2009-10, the portfolio increased in line with the industry's growth. This business is present in the top 15 cities of India.

Financial Performance

Table 3 gives BAFL's financial performance for 2009-10 compared with 2008-09, while Chart B plots the company's profits after tax over the last five years.

Table 3: BAFL's Financial Performance, 2008-09 and 2009-10

Rs. Million

Particulars	2009-10	2008-09	Change
Total income	9,162	5,994	53%
Interest and finance charges	2,017	1,644	23%
Net interest income	7,145	4,350	64%
Salary cost	994	729	36%
Marketing and other commissions	252	261	-3%
Dealer incentives	260	111	134%
Recovery commission	561	463	21%
Loan loss and provisions	2,606	1,636	59%
Depreciation	76	56	36%
Other expenses	1,053	584	80%
Profit before tax (PBT)	1,343	510	163%
Profit after tax (PAT)	894	339	164%
Earnings per share (EPS), basic and diluted, Rs.	24.43	9.27	164%
Book value per share (Rs.)	314.93	297.5	6%