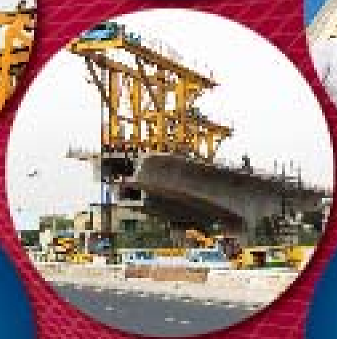
BAJAJ FINSERV | LENDING

Personal & Small Business Loans

Consumer Durable Financing

Mortgages



Construction Equipment Financing

Loan Against Securities

Two -Wheeler Financing

Infrastructure Financing

Bajaj Finance Limited

24th Annual Report 2010-11

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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

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
Bank of India

Debenture Trustee
GDA Trustee & Consultancy Ltd.

Registrar & Transfer Agent

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

Registered Office

Mumbai-Pune Road,
Akurdi, Pune 411 035

Corporate Office

4th Floor, Bajaj Finserv Corporate Office
Off Pune-Ahmednagar Road,
Viman Nagar, Pune – 411 014

24th Annual General Meeting
on Wednesday, 13 July 2011 at 12 noon
at the Registered Office of the Company

Directors' Report

The Directors present their Twenty Fourth Annual Report and the Audited Statement of Accounts for the year ended 31 March 2011.

Business Performance

The gross deployment of the Company for the year 2010-11 were ₹ 9,435 Crores as against ₹ 4,585 Crores for the year 2009-10.

₹ in Crores

Deployment	2010-11	2009-10	% change
Two & Three Wheelers	2,034	1,364	49%
Consumer Durables	2,262	1,037	118%
Mortgages	1,672	1,067	57%
Vendor Financing	1,346	149	803%
Other assets	389	165	136%
Construction Equipment	694	–	–
Small Business Loans and Personal Loan Cross sell	1,038	803	29%
Total	**9,435**	**4,585**	**106%**

Financial Results

₹ in Crores

Particulars	2010-11	2009-10
Income from Operations	1,392.33	910.06
Other Income	13.80	6.10
Total	1,406.13	916.16
Expenses	441.79	311.97
Loan losses and Provisions	204.61	260.58
Interest and Finance Charges	377.95	201.67
Depreciation	11.86	7.64
Total Expenditure	1,036.21	781.86
Profit before Taxation	369.92	134.30
Provision for Taxation	123.29	44.90
Profit for the year after Taxation	246.63	89.40
Prior period adjustments relating to earlier years	0.33	0.01
Profit for the year after Taxation and prior period adjustments	246.96	89.41
Balance brought forward from previous year	85.25	0.40
Transfer from Debenture Redemption Reserve	–	48.05
Profit available for appropriations	332.21	137.86
Appropriations:		
Transfer to Reserve Fund	(49.50)	(18.00)
Transfer to General Reserve	(25.00)	(9.00)
Provision for Proposed Dividend	(36.63)	(21.96)
Provision for Dividend Tax	(5.94)	(3.65)
Balance carried to Balance Sheet	**215.14**	**85.25**

Dividend

The Directors recommend for the consideration of the shareholders at the ensuing Annual General Meeting, payment of dividend of ₹ 10 per share (100 percent) for the year ended 31 March 2011. The amount of dividend and tax thereon aggregates to ₹ 42.57 Crores.

Dividend paid for the year ended 31 March 2010 was ₹ 6 per share (60 percent). The amount of dividend and tax thereon aggregated to ₹ 25.61 Crores.

Change in the name and status of the Company

Name of the Company has changed from 'Bajaj Auto Finance Limited' to 'Bajaj Finance Limited' consequent to the fresh Certificate of Incorporation issued by the Registrar of Companies, Maharashtra, Pune w.e.f. 6 September 2010.

The Company has become a subsidiary of Bajaj Finserv Limited w.e.f. 5 July 2010.

Working Results

The Company, during the year 2010-11, deployed a total amount of ₹ 9,435 Crores under various products. As against this, during the previous year 2009-10, the total amount deployed was ₹ 4,585 Crores.

The receivables under financing as on 31 March 2011 were ₹ 7,270 Crores as compared to ₹ 4,032 Crores as on 31 March 2010.

Total income during 2010-11 increased to ₹ 1,406 Crores from ₹ 916 Crores during 2009-10.

The profit before tax for the year was at ₹ 370 Crores, as against ₹ 134 Crores in the previous year. The profit after tax for the year was ₹ 247 Crores as compared to ₹ 89 Crores in 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 are more stringent than RBI prudential norms. In line with its conservative approach, the Company continues to strengthen its provisioning norms beyond the Reserve Bank of India regulation by accelerating the provisioning to an early stage of delinquencies based on the past experience and emerging trends. Consequently, the additional estimated provision aggregates ₹ 39 Crores for the year.

The Company had an excellent year aided by strong volume growth in Consumer and Small & Medium Enterprise business lines. During the year, the Company launched three new product lines viz. Construction equipment finance, Retail loans against securities and Home loans. Its investments over the last three years in people, processes and technology have begun to yield operating leverage benefits resulting in improvement in margins. Portfolio quality, aided by a good macro-economic environment is robust. Recent acquisitions across products are performing significantly better than earlier.

Operations

The operations of the Company are elaborated in the annexed Management Discussion and Analysis Report.

Conservation of Energy and Technology Absorption

The Company, being a Non-Banking Financial Company, does not have any manufacturing activity. The Directors, therefore, have nothing to report on "Conservation of Energy and Technology Absorption".

Foreign Currency

Foreign currency expenditure amounting to ₹ 1.27 Crores (previous year ₹ 0.45 Crore) was incurred during the year under review. The Company did not have any foreign exchange earnings.

Employee Stock Option Scheme

Details required to be provided under Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are set out in the Annexure to this report.

Fixed Deposits

During the year under review, the Company renewed fixed deposits of ₹ 0.30 Crore. Public Deposits outstanding at the year end were ₹ 1.75 Crores and the number of depositors were 616. At the end of the financial year under review, there were 71 deposits aggregating ₹ 0.13 Crores which matured but remained unclaimed as on that date. The Company had written to these depositors and as on date, a deposit of ₹ 5,000/- has been repaid.

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 Financial Companies (NBFCs) which enjoy 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 ₹ 400 Crores Lower Tier II Bond programme.

As regards the latest 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 ₹ 1,035 Crores and Long Term Bank facilities amounting to ₹ 2,515 Crores and "P1+" rating for the Short Term Bank facilities amounting to ₹ 950 Crores.

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%, the capital adequacy ratio of the Company is 20%.

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.

Upon change of name of the Company, Reserve Bank of India (RBI) has issued a fresh Certificate of Registration in the name of Bajaj Finance Limited w.e.f. 5 October 2010. The RBI has also changed classification of the Company from 'Asset Finance Company' to a 'Loan Company'.

Corporate Social Responsibility

During the year 2010-11, Bajaj Group continued its Corporate Social Responsibility initiative in various fields. Activities in this area are set out in greater detail in the Corporate Social Responsibility Report.

Directors

Rahul Bajaj, Madhur Bajaj and Sanjiv 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 re-appointment as required under Clause 49 of the Listing Agreement with the Stock Exchanges has been given in the notice of Annual General Meeting.

Appointment of Manager under the Companies Act,1956

Subject to the approval of the shareholders, the Board of Directors have re-appointed Rajeev Jain, as Manager under the Companies Act, 1956 with the designation Chief Executive Officer (CEO), for a further period of five years with effect from 1 April 2011, on the terms of remuneration set out in the resolution in the notice of the ensuing Annual General Meeting. The resolution is commended for approval of the shareholders at the Annual General Meeting.

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.

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.

Directors' Responsibility Statement as required by Section 217(2AA) of the Companies Act, 1956 appears in the preceding paragraph.

Certificate from auditors of the Company regarding compliance of conditions of Corporate Governance is annexed to this report.

Disclosures as prescribed by Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 and other NBFC regulations have been made in this Annual Report.

A Cash Flow Statement for the year 2010-11 is attached to the Balance Sheet.

Corporate Governance

Pursuant to clause 49 of the listing agreement with stock exchanges, a separate section titled 'Corporate Governance' has been included in this Annual Report, along with the reports on Management Discussion and Analysis and General Shareholder Information.

All Board members and senior management personnel have affirmed compliance with the Code of Conduct for the year 2010-11. A declaration to this effect signed by the Chief Executive Officer (CEO) of the Company is contained in this Annual Report.

The CEO and Chief Financial Officer (CFO) have certified to the Board with regard to the financial statements and other matters as specified in clause 49 of the listing agreement and the said certificate is contained in this Annual Report.

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 Act, ("MRTP") Act, 1969 are disclosed in the Annual Report for the purpose of Regulation 3(1)(e) of the SEBI(Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

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

The Directors recommend the appointment of Dalal & Shah, Chartered Accountants as 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.

The Company has obtained a certificate from Dalal & Shah, Chartered Accountants, Mumbai to the effect that their re-appointment as auditors of the Company if made would be within the limits prescribed under Section 224(1B) of the Companies Act, 1956.

Acknowledgement

The Board of Directors takes this opportunity to express their sincere appreciation for the support and the co- operation from the banks, financial Institutions and the debenture trustees.

The Board of Directors also put on record their sincere appreciation of the hard work and commitment put in by the management and employees of the Company and thank them for another good year for the Company.

On behalf of the Board of Directors

Rahul Bajaj
Chairman

Pune: 17 May 2011

Annexure to the Directors' Report

Disclosure pursuant to the provisions of SEBI (Employee Stock Option and Employee Stock Purchase Scheme) Guidelines, 1999, as on 31 March 2011

1. Options granted	458750		
2. Pricing formula	Closing market price one day prior to the date of Grant on the stock exchange with the highest trading volume subject to the condition that exercise price will not be less than the face value of the shares		
3. Options vested	33000		
4. Options exercised (as on 31 March 2011)	1250		
5. Total number of shares arising as a result of exercise of options	1250		
6. Options lapsed (as on 31 March 2011)	8750		
7. Variation of terms of options	N.A		
8. Money realized by exercise of options	₹ 4,48,375		
9. Total number of options in force (as on 31 March 2011)	448750		
10. Employee wise details of options granted			
(i) Senior Managerial Personnel			
Sr. No.	**Name**	**No. of options granted in Grant I**	**No. of options granted in Grant II**
1.	Rajeev Jain	39000	39000
(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		–	–
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 20 'Earnings Per Share':	₹ 67.47		
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 plan 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:		

Annexure to the Directors' Report (Contd.)

Particulars	31 March 2011
Net profit (as reported) (₹ in Crores)	246.96
Add: Stock based employee compensation expense included in net income	Nil
Less: Stock based compensation expense determined under fair value based method (proforma) (₹ in Crores)	2.61
Net Profit (proforma) (₹ in Crores)	244.35
Basic Earnings per share (as reported) (₹)	67.47
Basic Earnings per share (proforma) (₹)	66.76
Diluted Earnings per share (as reported) (₹)	67.47
Diluted Earnings per share (proforma) (₹)	66.76
14. Weighted average exercise price of options whose	
(i) Exercise price equals market price (₹)	542.00
(ii) Exercise price is greater than market price	Nil
(iii) Exercise price is less than market price	Nil
Weighted average fair value of options whose	
(i) Exercise price equals market price (₹)	274.76
(ii) Exercise price is greater than markert price	Nil
(iii) Exercise price is less than market price	Nil

15. A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted average information

The fair value has been calculated using the Black Scholes Option Pricing model. The assumptions used in the model are as follows:

Date of Grant	21 July 2010	12 January 2010
(i) Risk-free interest rate	7.42%	6.70%
(ii) Expected life	3.5-6.5 years	1-5 years
(iii) Expected volatility	55.38%	54.01%
(iv) Expected dividend yield	1.28%	0.62%
(v) The price of the underlying share in market at the time of option grant (₹)	542.00	358.70

Management Discussion and Analysis

The Indian economy performed very well in 2010-11 (FY2011). GDP grew by an estimated 8.6%. All three major sectors grew substantially. After years of lacklustre performance, agriculture did well, as did manufacturing and this played a major role in increasing disposable income throughout most parts of rural and up-country India. It is worth mentioning that among the major economies, India's growth in FY2011 is the second highest in the world, second only to China.

Despite such growth, there have been signs of disquiet. During the year, India also faced severe inflationary pressures coming across the entire spectrum of goods – foodstuff, hydrocarbons, commodities and manufacture. To combat this, the Reserve Bank of India (RBI) has raised interest rates. FY2011 saw seven such hikes of 25 basis points (bps) each. In May 2011, the rate hike was 50 bps, with the RBI clearly indicating that its hitherto 'soft' approach to inflation is coming to an end. If both supply-side inflation and interest rate hikes were to continue throughout FY2012, India may see a slowing down of GDP growth as well as the rate of growth of consumer demand. It is however, too early to hazard a forecast.

Having said this, there is little doubt that FY2011 was a good year for the retail finance industry. After three years of competing in a milieu of single-digit nominal growth that was not much higher than inflation, business for the industry is estimated to have grown by over 29% in FY2011. Moreover, with several retail finance players having to make major provisions in 2007-2009 on account of non-performing loan assets, the competitive environment was benign. Those who had been careful in the past and had relatively strong balance sheets could leverage up to lend more in FY2011. Going forward, while retail finance should grow at a healthy pace, so too would the forces of competition.

Non-Banking Financial Companies (NBFCs) are increasingly playing a critical role in making financial services accessible to wider set of India's population and, thus, emerging as significant players in the retail finance space. Going forward, one can expect NBFCs to strengthen their presence in retail finance and grow at a healthy pace.

With assets under management of over ₹ 7,571 Crores, Bajaj Finance Limited ('BFL' or 'the Company'), earlier Bajaj Auto Finance Limited, is a leading, diversified NBFC in the country. A listed entity, the Company delivered superior results in FY2011. Given below are the highlights of BFL's performance for the year under review.

BFL's Performance, FY2011

- Total income for FY2011 was up by 53% to ₹ 1,406 Crores
- Profit after tax rose by 178% to ₹ 247 Crores
- Loan deployment increased by 106% to ₹ 9,435 Crores
- Assets under management stood at ₹ 7,571 Crores as on 31 March 2011
- Receivables under financing activity rose by 80% to ₹ 7,270 Crores
- Loan losses and provisions for the year reduced by 21% to ₹ 205 Crores
- Capital adequacy as on 31 March 2011 stood at 20%, which was well above RBI norms

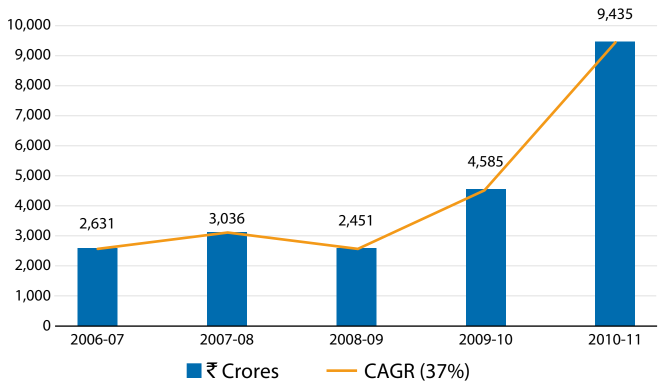
A Snapshot of BFL's Loan Deployment

Table 1 gives the mix of loan deployment for FY2011 (compared to FY2010), while Chart A plots BFL's loan deployment over the last five years.

Table 1: BFL's Mix of Loan Deployment (₹ in Crores)

Loan Deployment	2010-11	2009-10	Change
Two and Three Wheelers	2,034	1,364	49%
Consumer Durables	2,262	1,037	118%
Mortgages	1,672	1,067	57%
Vendor Financing	1,346	149	803%
Other assets	389	165	136%
Construction Equipment	694	–	–
Small Business Loans and Personal Loan Cross sell (PLCS)	1,038	803	29%
Total	**9,435**	**4,585**	**106%**

Chart A: Growth in BFL's Loan Deployment (₹ in Crores)



Receivables Under Finance

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

Table 2: BFL's Receivables under Finance (₹ in Crores)

Receivables under Finance	2010-11	2009-10	Change
Two and Three Wheelers	1,953	1,393	40%
Consumer Durables	893	427	109%
Mortgages	1,996	1,061	88%
Vendor Financing	324	139	133%
Other assets	321	170	89%
Construction Equipment	591	–	–
Small Business Loans and PLCS	1,192	842	42%
Total	**7,270**	**4,032**	**80%**

The quality of BFL's loan book continued to improve in the current fiscal. It further strengthened its provisioning standards, and now ranks among the most prudent in the NBFC space. Its net non-performing assets stood at 0.8% in FY2011, demonstrating strong credit quality.

Business Segment Update

Two and Three Wheeler Financing

Riding on the back of robust Two Wheeler sales growth, loan deployment in this segment grew by 49% to ₹ 2,034 Crores. The Company acquired over 5,22,000 customers during the year representing 38% growth over the previous year. BFL's Two Wheeler financing was made available across 351 Bajaj Auto dealer locations and 1,170 sub-dealers across the country.

BFL had launched a Direct Cash Collection model in FY2010 to attract financially responsible customers with no banking habits and history in the semi-urban and rural markets. In FY2011, the Company acquired over 1,57,000 such customers.

The competitive environment had remained benign for most part of the year. However, it began seeing the entry of competitors in the last quarter of FY2011.

Consumer Durables Financing

This business is present in 71 cities across India. Loans disbursed under this segment grew by 118% to ₹ 2,262 Crores in FY2011, which was higher than an estimated industry growth of 31%. Competition was benign due to the high up-front investments required in distribution, technology and processes to compete in this relatively low ticket size, high volume business. The Company acquired around 9,69,000 new customers, and is present at over 2,000 points of sale across the country.

BFL's strategy of focusing on relatively affluent customers and major dealerships has yielded significant benefits through lower operating costs and improved risk performance. At present, the Company is financing one out of every five LCD and plasma TVs in the country, and finances products of all leading consumer durable manufacturers. It continues to invest in technology to improve its operating leverage, risk performance and offer better customer experience.

Personal Loan Cross-Sell

Present across 81 cities of India, this business targets customers with good repayment history of their Two Wheeler and/or consumer durable loans to cross-sell a personal loan. BFL continued to grow this business in a cautious manner in FY2011, with an eye to optimising the risk-reward equation and hence profitability. During the year, loan deployment in this segment grew by 66% to ₹ 375 Crores. BFL financed around 67,000 new customers in the year under review.

Personal and Small Business Loans

This business operates in top 23 cities across India. Small Business Loan deployments grew by 51% to ₹ 663 Crores in FY2011. The Company's strategy of focusing on affluent small businessmen coupled with its cautious approach has helped it to grow this business in a steady manner. BFL's relationship model of lending, where knowing the client is paramount for relatively big ticket items, has significantly helped in improved risk performance.

Vendor Financing

The Company started to grow this new line of business in the year under review. It focuses on short and medium term lending needs of vendors of large auto manufacturers. BFL deployed short term loans of ₹ 1,255 Crores and medium term loans of ₹ 91 Crores during FY2011.

Mortgages

This business is present across 23 cities of India. It targets affluent and high net worth small business customers, and offers loans against the mortgage of retail, residential and commercial premises. Aided by a strong revival in the mortgage business in the second half of FY2011, the portfolio increased in line with the industry's growth. Loan against property deployments grew by 35% to ₹ 1,440 Crores. The Company also launched home loans for affluent and high net worth self-employed customers, and deployments stood at ₹ 232 Crores in its first half year of launch of this line of business. It hopes to grow this business in the coming years.

Construction Equipment Finance

The Company launched its construction equipment finance business in FY2011. It focuses on financing small, mid and strategic contractors for their construction equipment financing needs. This is asset backed lending, collateralised by construction equipment assets. During the first year of operation, BFL deployed ₹ 694 Crores and added some 2,900 customers.

Infrastructure Finance

The Company has started its foray in infrastructure finance business towards the end of the fiscal year. The results will be there to report in FY2012.