Bajaj Finance Limited

25th **Annual Report** 2011-12

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

Omkar Goswami
(w.e.f. 16 May 2012)

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

Registrar & Share Transfer Agent

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

Debenture Trustee

GDA Trusteeship Limited
S.No. 94/95, Plot No. 85,
Opp. Kothrud Bus Depot,
Off Paud Road, Kothrud,
Pune - 411 038.

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.

Directors' Report

The directors present their twenty fifth annual report and the audited statement of accounts for the year ended 31 March 2012.

Business performance

The gross deployments of the company for the FY2012 were ₹ 15,797 crore as against ₹ 9,435 crore for the FY2011.

Financial results

(₹ in Crore)

Particulars	**2011-12**	**2010-11**
Income from Operations	2,163.02	1,392.33
Other Income	8.89	13.80
Total	2,171.91	1,406.13
Expenses	657.36	451.00
Loan Losses and Provisions	154.38	204.61
Finance Costs	746.18	371.01
Depreciation	11.77	9.64
Total Expenditure	1,569.69	1,036.26
Profit Before Taxation	602.22	369.87
Tax Expenses	195.78	122.91
Profit for the year after Taxation	406.44	246.96
Balance brought forward from the previous year	215.14	85.25
Profit available for appropriations	621.58	332.21
Appropriations :		
Transfer to Reserve Fund	(81.50)	(49.50)
Transfer to General Reserve	(41.00)	(25.00)
Transfer to Infrastructure Reserve	(0.15)	–
Provision for Proposed Dividend	(49.58)	(36.63)
Provision for Dividend Tax	(8.04)	(5.94)
Balance carried to Balance Sheet	**441.31**	**215.14**

Dividend

The directors recommend for the consideration of the shareholders at the ensuing annual general meeting, payment of dividend of ₹ 12 per share of face value of ₹ 10 each (120%) for the year ended 31 March 2012. The amount of dividend and tax thereon aggregates to ₹ 57.62 crore.

Dividend paid for the year ended 31 March 2011 was ₹ 10 per share (100%). The amount of dividend and tax thereon aggregated to ₹ 42.57 crore.

Increase in authorised share capital

During the year, the company increased its authorised capital from ₹ 50 crore divided into 50,000,000 equity shares of ₹ 10 each to ₹ 75 crore divided into 75,000,000 equity shares of ₹ 10 each.

Issue of warrants on preferential basis to promoter, Bajaj Finserv Limited

During the year, pursuant to the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, the company issued 6,000,000 warrants at a price of ₹ 651 per warrant with a right to convert the same into equal number of equity shares to the promoter, Bajaj Finserv Limited.

On 29 March 2012, Bajaj Finserv Ltd. exercised its right of conversion of 4,690,000 warrants out of the said 6,000,000 warrants. Accordingly, 4,690,000 equity shares of face value of ₹ 10 have been allotted to Bajaj Finserv Ltd., taking its shareholding in the company to 60.98% as on 31 March 2012.

Qualified institutions placement (QIP)

At the annual general meeting of shareholders held on 13 July 2011, the shareholders had approved a QIP of upto 7,500,000 equity shares of ₹ 10 each at a price as per the pricing formula prescribed in the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009. However, in view of the unfavourable market conditions, the company did not proceed with the same.

Increase in borrowing powers from ₹ 10,000 crore to ₹ 20,000 crore

Increase in borrowing powers

During the year, pursuant to section 293(1)(d) of the Companies Act, 1956 and the Companies (Passing of the Resolution by Postal Ballot) Rules, 2011, the company increased the limit of the borrowing powers of the board of directors from ₹ 10,000 crore to ₹ 20,000 crore, to meet the increasing business requirements.

Working results

The company, during FY2012, deployed a total amount of ₹ 15,797 crore under various products. As against this, during FY2011, the total amount deployed was ₹ 9,435 crore, an increase of 67% over the previous year.

The receivables under financing activity as on 31 March 2012 were ₹ 12,283 crore as compared to ₹ 7,272 crore as on 31 March 2011, an increase of 69% over the previous year.

Total income during FY2012 increased to ₹ 2,172 crore from ₹ 1,406 crore during FY2011, an increase of 54 % over the previous year.

The profit before tax for the year was ₹ 602 crore, as against ₹ 370 crore for the previous year, an increase of 63 % over the previous year. The profit after tax for the year was ₹ 406 crore as compared to ₹ 247 crore for the previous year an increase of 64% 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 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 provisioning to an early stage of delinquencies based on the past experience and emerging trends. Consequently, the additional provision over RBI norms and existing provisioning policies aggregates ₹ 19.97 crore for the year under review.

The company had an excellent year aided by strong volume growth in consumer finance, SME finance and commercial lending business lines. During the year, the company launched new products and product variants to enhance product proposition for its customers. The new initiatives included launch of an Existing Member Identification Card (EMI Card) for its consumer durable customers, expansion of unsecured loans to salaried customers, launch of a co-branded credit card with Standard Chartered Bank and a flexible loan proposition for its SME finance and commercial lending business lines. The company also launched an extension of its "0%" interest offering for customers desirous of acquiring lifestyle products such as furniture, home furnishings, fitness equipments, luxury watches etc.

The company also had an excellent year with regard to the quality of its loan book. Its credit loss line dropped by 25% from ₹ 205 crore in FY2011 to ₹ 154 crore in FY2012 despite a significant growth in its receivables. The company exited FY2012 with a net NPA of 0.12%.

Total income up by 54% to ₹ 2,172 crore and PAT up by 64% to ₹ 406 crore

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 finance 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 ₹ 2.51 crore (previous year ₹ 1.27 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 ₹ 0.16 crore. Public deposits outstanding at the year-end were ₹ 1.47 crore and the number of depositors were 476. At the end of the financial year under review, there were 50 deposits aggregating ₹ 0.08 crore which matured but remained unclaimed as on that date. The company had written to these depositors and as on date, none of the said depositors have claimed their deposits.

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 highest 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 enjoy the highest rating.

The company also enjoys the highest rating of "CRISIL A1+" from CRISIL and "(ICRA) A1+" from ICRA for short term debt programme for ₹ 2,000 crore and ₹ 1,500 crore respectively.

Highest rating for fixed deposit & short term debt programmes by CRISIL

The long term non-convertible debentures have been assigned "CRISIL AA+/Stable" rating by CRISIL and "[ICRA] AA+(Stable)" rating by ICRA indicating high degree of safety with regard to timely payment of interest and principal for an amount of ₹ 3,350 crore and ₹ 3,000 crore respectively.

The company has also been assigned "CRISIL AA+/ Stable" rating by CRISIL and "[ICRA] AA+(Stable)" rating by ICRA for ₹ 700 crore 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 "CRISIL AA+/Stable" rating for the company's cash credit/ working capital demand loan amounting to ₹ 1,400 crore and long term bank facilities amounting to ₹ 6,275 crore and "CRISIL A1+" rating for the short term bank facilities amounting to ₹ 325 crore.

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 15%, the capital adequacy ratio of the company was 17.5% as on 31 March 2012.

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

Corporate social responsibility

During the FY2012, 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

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

The board of directors has, at its meeting held on 16 May 2012, appointed Omkar Goswami as an additional director of the company. Omkar Goswami will hold the office upto the ensuing annual general meeting. The company has received a notice from a shareholder of the company, under section 257 of the Companies Act, 1956, proposing his candidature as a director at the ensuing annual general meeting. Necessary resolution for this purpose is being proposed in the notice of the ensuing annual general meeting for approval of the shareholders.

As required under clause 49 of the listing agreement with the stock exchanges, the information on the particulars of directors proposed for appointment/re-appointment has been given in the notice of annual general meeting.

In terms of section 255 of the Companies Act 1956, it is proposed to change the status of Rahul Bajaj, Rajiv Bajaj and Sanjiv Bajaj, from retiring directors to non-retiring directors in view of their being part of the promoter group and their long association and involvement in the functioning of the company. Notice of the annual general meeting, accordingly, contains the said items as special business.

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.

Presentation of financial statements

Pursuant to notification dated 28 February 2011 issued by the Ministry of Corporate Affairs, the format for disclosure of financial statements prescribed under schedule VI to the Companies Act, 1956 has been substantially revised. The financial statements of the company for the year ended 31 March 2012 have, therefore, been disclosed as per the revised schedule VI. Previous year's figures have also been restated to conform with the current year's presentation.

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, this report is being sent to all the shareholders excluding the employee particulars. 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 foregoing 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 FY2012 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 FY2012. 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 Finance 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 included in this annual report.

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, 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 shareholders, banks, financial institutions and the debenture trustees.

The board of directors also put on record their sincere appreciation of the commitment and hard work 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
16 May 2012