



**BAJAJ**

Report



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Bajaj Finserv Limited

Second Annual Report  
2008-09

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## Board of Directors

### **Rahul Bajaj**

Chairman

### **Nanoo Pamnani**

Vice Chairman

### **Sanjiv Bajaj**

Managing Director

### **Madhur Bajaj**

### **Rajiv Bajaj**

### **D J Balaji Rao**

### **S H Khan**

### **Naresh Chandra**

(w.e.f. 11 September 2008)

## Management

### **Sanjiv Bajaj**

Managing Director

### **Ranjit Gupta**

President (Insurance)

### **Kevin D'sa**

CFO & President  
(Business Dev.)

### **Kamesh Goyal**

CEO (Bajaj Allianz Life Insurance  
Company Limited)

### **Swaraj Krishnan**

CEO (Bajaj Allianz General  
Insurance Company Limited)

### **Rajeev Jain**

CEO (Bajaj Auto Finance Limited)

## Company Secretary

### **Sonal R Tiwari**

## Auditors

### **Dalal & Shah**

Chartered Accountants

## Registered under the Companies Act, 1956

## Bankers

Citibank N A

## Registered Office

Bajaj Auto Limited Complex,  
Mumbai-Pune Road, Akurdi,  
Pune 411 035.



# Management Team



Swaraj Krishnan

Ranjit Gupta

Nanoo Pamnani

Sanjiv Bajaj

Rajeev Jain

Kevin D'sa

Kamesh Goyal



# Chairman's Letter



## Dear Shareholder,

2008-09 has been one of the most turbulent years for the world economy. It began with global inflation which was all pervasive and driven by synchronous price rises across all commodity classes — crude oil, gas, coal, metals, minerals and food products. Then came the worst global financial meltdown since the 1930s, triggered by the fall of Lehman Brothers on 14 September 2008. Financial giants fell like nine pins throughout the developed world: Lehman, Fannie Mae, Freddie Mac, AIG, Merrill Lynch, Washington Mutual to name

but a few. Blue chip universal banks like the Citigroup, UBS, Deutsche Bank and Royal Bank of Scotland had to take hitherto unimaginable hits on their balance sheet. Proud bastions of western capitalism had to beg for government largesse as the world of global finance went into its worst shock since the Great Depression.

The decade of irrational exuberance came to an abrupt end. And the shock waves of the financial section implosion spread to the real economy. The US GDP is expected to shrink by 2.7% in 2009. The Euro Zone's GDP will probably contract by 3.4% this calendar year. GDP of the



UK is forecasted to reduce by 3.5%. Japan's will most likely contract by as much as 6.5% in 2009. China's growth rate has crashed from heady double-digit rates — and is expected to achieve not much more than 6% this year. Worse still, the World Trade Organisation estimates a shrinking of global trade by as much as 9% in 2009.

Despite being shielded by a large domestic economy, India, too, has been affected by the global economic collapse. After enjoying a compound annual GDP growth of over 8.7% in the last four years — of which, the last three saw growth of 9% or more — India's growth rate for 2008-09 is likely to be between 6.5% and 7%.

There has been a particularly acute credit crunch and a severe slowdown in consumer demand across most categories of goods and services. While the credit situation is looking marginally better today than in the third quarter of 2008-09 thanks to a series of interventions by the Reserve Bank of India, it is still far removed from the environment of 2007-08. Money remains tight; and consumers are extremely


wary of making any significant discretionary spends, especially based on credit.

In such an environment, safety is of paramount importance. The various customer-focused businesses of your company — such as Bajaj Auto Finance, Bajaj Allianz Life Insurance and Bajaj Allianz General Insurance — have concentrated on prudence as well as quality of revenues and loans, on conserving capital, on even tighter control on costs and on maintaining a strong bottom line. Let me briefly share with you the performance of these three key businesses.

### Bajaj Allianz Life Insurance Company (BALIC):

Gross premium (new business and renewals) written for 2008-09 was up by 9% to Rs.106.2 billion. However, new business premium written for 2008-09 fell by almost a third to Rs.44.9 billion — leading to a drop in market share from 7.0% in 2007-08 to 5.2% in 2008-09. This erosion in market share is due to





the company's conscious strategy to improve profitability by changing the product mix and reducing operating and acquisition cost. 2.59 million policies were issued in 2008-09, versus 3.74 million in 2007-08.

The company earned a profit of Rs.448 million during 2008-09, as compared to a loss of Rs.159 million in the previous year. The policyholders' surplus is Rs.1,155 million (previous year Rs.1,980 million) and shareholders' loss stands at Rs.707 million (previous year Rs.2,139 million).

BALIC's assets under management as on 31 March 2009 include shareholder funds of Rs.7.7 billion; traditional policyholder funds of Rs.23.2 billion and unit-linked funds of Rs.140.6 billion. The company's solvency ratio was 261% as on 31 March 2009 versus the minimum requirement of 150%. BALIC's better capital efficiency is reflected in its Gross Written Premium (GWP) to capital ratio, which is significantly superior to other major private insurers.

### Bajaj Allianz General Insurance Company (BAGIC):

It is the second largest private general insurance company in India, with an 8.6% market share. The company has always been prudent in

its selection of risks and businesses, which reflects in its consistent track record of profits since inception. It also follows a disciplined investment strategy. Despite the challenging environment, BAGIC managed to maintain growth. Gross written premium (excluding share of premium from the Indian Motor Third Party Insurance Pool) grew by 10% during 2008-09. It maintained its second position among the private sector companies in terms of gross written premium — which clocked Rs.26.5 billion excluding share of business from the Indian Motor Third Party Insurance Pool (IMTPIP), compared to Rs.24 billion in 2007-08. Net earned premium for the year (excluding net premium from inward business of the IMTPIP) rose to Rs.16.9 billion — an increase of 27.1% over the previous year. The number of policies sold grew to 7.6 million as against 6.6 million in 2007-08. Post-tax profits for 2008-09 was Rs.952 million in 2008-09 compared Rs.1,056 million in 2007-08.

Despite economic slowdown, both the insurance companies continue to be among the largest in their field, with healthy bottom lines.

### Bajaj Auto Finance Limited (BAFL):

A listed company, BAFL is a leading financier of two wheelers, consumer durables,



personal loans and loans against property with assets under finance and receivable of Rs.35.4 billion. Economic slowdown and an unprecedented liquidity crunch adversely affected the auto and consumer finance industry. These have also hurt the profitability of BAFL. Even so, the company has continued to expand business lines, and has started three new segments: small business loans, loan against property and securitisation. During 2008-09, BAFL created two separate verticals — auto finance and consumer finance — to have better focus and more effective monitoring. Today, the auto finance vertical operates from 320 locations across 261 cities. Consumer finance operates from 50 cities. During the year, gross deployment stood at Rs.24.5 billion. Assets under finance and receivables as at 31 March 2009 were Rs.35.4 billion. Profit after tax for 2008-09 was Rs.339 million compared to Rs.201 million in 2007-08. Capital adequacy ratio for the company stood at 39.7% (pre-dividend), which is well above the Reserve Bank of India norm of 12%.

In line with the management's objectives to grow Bajaj Finserv into a full-fledged financial services company, I am happy to inform you

that it has signed a Joint Venture agreement with Allianz Global Investor (Allianz GI), one of the world's largest global asset managers, to set up an asset management company (AMC). Allianz GI and Bajaj Finserv will hold a 51% and 49% stake, respectively, in the equally managed venture. I see considerable opportunities in this business, once it achieves a certain scale of operations.

Like the good, all bad things, too, come to an end. The economic downturn will pass — hopefully some time towards the second half of 2009-10. Yes, we won't get back to 9% growth immediately. But we should start seeing an uptick before the current year comes to an end. Your company's strategy is to prepare for that by focusing on profitable growth. It is committed to building a cost-effective competitive business that will grow the bottom line and deliver superior — and lasting — value to its shareholders.

Thank you for your support.

**Rahul Bajaj**  
Chairman



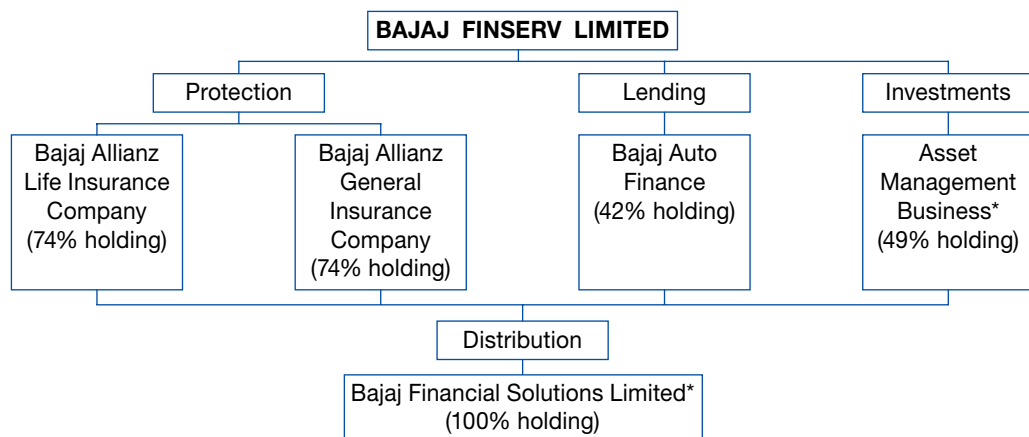
# Management Discussion and Analysis

Bajaj Finserv Limited ('Bajaj Finserv' or 'the Company') came into existence on 30 April 2007, pursuant to scheme of demerger from erstwhile Bajaj Auto Limited, with a clear objective to build the financial services business of Bajaj group.

Currently, Bajaj Finserv has interest in areas of Protection, Lending and Investments as shown in Chart A.

Bajaj Finserv operates through its subsidiaries and associates across these various segments of financial services. On a stand-alone basis, the company invested approximately Rs.3 billion in a wind energy undertaking and has cash and cash equivalents of Rs.8 billion for growing future businesses.

Chart A: Where Bajaj Finserv Is, And Wants to Be



\*Planned businesses



This is the second year of operation of the company. It happens to have coincided with the worst global economic slump since the Great Depression of the 1930s. Given that we are a company committed to the safety of our investors' funds, we have been very cautious in entering headlong into new businesses, especially in the current environment. During the year, the company has started building up its team of fund managers and research analysts.

It needs stating that the management of Bajaj Finserv believes in profitable growth, operational efficiency and the highest standards of customer service. In the present environment, our various businesses have focused on sustainable & profitable business lines, adding quality customers, keeping costs under tight control and above all improving customer service.

As Chart A shows, in line with our objective to position Bajaj Finserv as a full-fledged financial services company, we have entered into a joint venture agreement with Allianz Global Investor (Allianz GI), one of the largest global asset managers, to set up an Asset Management Company (AMC). Allianz GI and Bajaj Finserv will hold a 51% and 49% stake, respectively, in the proposed equally managed venture. Considering our successful joint ventures with

Allianz, the company is confident that the AMC will also prove itself in the mutual fund industry in the coming years.

## Standalone Results of Bajaj Finserv

Considering the general slowdown in the domestic economy, Bajaj Finserv's surplus funds have been currently parked in fixed income securities. Accordingly, during 2008-09, the two main sources of income for the company have been income from investments and from wind energy.

The standalone results of Bajaj Finserv Limited are given in Table 1 below.

Table 1: Standalone Results of Bajaj Finserv Ltd.

	Rs. In Million	
	2008-09	2007-08
A. Income from Wind farm Activity	416	348
Administrative Expenses	113	83
Depreciation	298	297
Profit from Wind farm activity	5	(32)
B. Income from Investment & Other	721	716
Other Expenses	93	34
Profit before taxation	633	650
Provision for tax	219	210
Profit after taxation	414	440