

Bajaj case study

Education



Financial Management at Bajaj Auto Bajaj Auto Limited is one of India's largest two-wheeler manufacturers. As the dominant player until the early 1990s, Bajaj's market share declined from 49.3% in 1994, to 38.9% in 1999 with the entry of major competitors like Hero Honda. Bajaj has initiated several measures to regain its market share and strengthen its competitive position. The case discusses the financial strategy pursued by Bajaj.

Financial Management at Bajaj Auto We want to get back the leadership position in the two-wheeler segment and will use the cash if required to do so.

However, in current volatile market conditions (not to forget the Japanese and their huge cash reserves), we would rather have the security of cash any day. We are competing not only with Indian companies, but also with large foreign two-wheeler companies, many of whom have much deeper pockets than ours. While our surplus cash will assist us in future growth, it also acts as a deterrent to others from indulging in predatory pricing tactics - Sanjiv Bajaj, Vice-President Finance, Bajaj Auto Limited.

1 Introduction

In 2003, Bajaj Auto Limited (Bajaj) was one of India's largest manufacturers of both two and three-wheelers. The three-wheelers, also known as autorickshaws, were unique to the South Asian region. The company recorded revenue of Rs. 5125.73 crores representing a 13% increase over the previous year.

2. Once the unchallenged market leader, Bajaj trailed Hero Honda in the late 1990s. Bajaj's market share declined from 49.3% in 1994, to 38.9% in 1999.

3 Thereafter, Bajaj had initiated several measures to regain its market share and strengthened its competitive position.

In 2003, Bajaj had a workforce of 12, 000 employees and a network of 422 dealers and over 1, 300 authorised service centers. 4 The Indian Two-Wheeler Industry Two-wheelers had become the standard mode of transportation in many of India's large urban centers. Use of two-wheelers in the rural areas had also increased significantly in the 1990s. The birth of the Indian two-wheeler industry could be traced to the early 1950s, when Automobile Products of India (API) started manufacturing scooters in the country.

While API initially dominated the scooter market with its Lambrettas, it was Bajaj which rapidly emerged as the unchallenged leader in the scooter industry. A number of government and private enterprises who entered the scooter segment, had disappeared from the market by the turn of the century. The License Raj that existed prior to economic liberalization (1940s-1980s) in India, did not allow foreign players to enter the market, making it an ideal breeding ground for local players. But the Raj also hurt the growth of the industry by imposing various restrictions.

In the mid-80s, the government started permitting foreign companies to enter the Indian market, through minority joint ventures. During this period, the two-wheeler market witnessed a boom with Japanese players like Honda, Suzuki, Yamaha and Kawasaki, entering the market through joint ventures. 1 2 3 4 M. Anand, ? Is Munjal Being Too Generous?? Businessworld, 19th May 2003. B1 Source: Prowess Database. Gita Piramal, Sumantra Goshal and Sudeep Budhiraja, ? Transformation of Bajaj Auto Ltd,? Lessons in Excellence Case Contest, www. thesmartmanager. om, February-March, 2003. Source: Bajaj Auto Limited Annual Report 2003. 109 Financial Insights Figure (i)

Indian Motorcycle Market Source: Honda Annual Report 2003. Foreign players quickly changed the rules of the game. From a supplier's market, it became a buyer's market. Companies tried to outdo each other in terms of style, price and fuel efficiency. The technological expertise that the foreign collaborators brought to the market place helped increase the overall quality of the products quite significantly. In the early 2000s, the competition intensified further.

In 2000, Honda announced its intentions to set up a 100% subsidiary to manufacture scooters and motorcycles. Exhibit I Comparative Valuation of the Leading Companies Source: Motilal Oswal, Equity Research, February 2003. The Indian two-wheeler industry witnessed remarkable growth rates since 2000, due to a host of factors like fall in interest rates, availability of finance and affordable prices relative to the growing purchasing power. Despite the impressive growth rate of the last few years, two-wheeler penetration still remained low in the country.

Analysts believed, increasing urbanization, expanding cities, lack of other modes of transportation and favourable demographics would support double-digit growth in the coming decade. The Indian two-wheeler industry could be broadly classified into three major segments— scooters, motorcycles and mopeds⁵. Until the early 1990s, locally manufactured scooters with gears dominated the markets. But in recent times, demand for mopeds were small motorcycles, with less engine power which were priced low and were aimed at the low-income market. ¹¹⁰ Financial Management at Bajaj Auto or scooters had tapered off, while that for motorcycles looked buoyant. The motorcycle market in India had about tripled in size over the past 10 years ⁶.

In 2002, the two-wheeler industry demand totaled 5 million units, making India the second largest market in the world after China 7. Exhibit II Two Wheelers Industry: Changing Dynamics Year 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 Total Two wheelers (unit sold) 1, 503, 172 1, 763, 210 2, 208, 231 2, 660, 005 2, 965, 474 3, 042, 347 3, 403, 471 3, 776, 719 3, 745, 516 4, 318, 531 5, 053, 562 Geared scooters 41. 8% 43. 3% 42. 6% 40. 6% 38. 4% 35. 4% 32. % 25. 9% 16. 0% 12. 3% 6. 7% Ungeared scooters 9. 4% 7. 9% 8. 6% 9. 1% 8. 9% 8. 8% 8. 3% 10. 0% 10. 9% 9. 5% 10. 5% Motorcycles 20. 2% 21. 6% 23. 9% 24. 8% 27. 1% 30. 0% 34. 6% 42. 7% 54. 1% 66. 2% 74. 4% Mopeds 20. 0% 17. 6% 15. 1% 16. 8% 16. 5% 15. 5% 14. 6% 14. 1% 12. 9% 8. 7% 6. 2% Stepthrus 8. 6% 9. 6% 9. 8% 8. 7% 9. 1% 10. 3% 9. 8% 7. 3% 6. 1% 3. 3% 2. 2% Source: Bajaj Auto Annual Report 2002-03. Background Note The Bajaj group was founded by Jamnalal Bajaj in the 1930s. His eldest son Kamalnayan established Bajaj Auto, the flagship of the Bajaj group, in 1945, as a private limited company.

From 1948 to 1959, Bajaj imported scooters and three wheelers from Italy and sold them in India. In 1959, the company obtained a license to manufacture scooters and motorized three wheeler vehicles. In 1960, it entered into a technical collaboration with Piaggio of Italy and got the right to manufacture and market Piaggio's Vespa brand scooters and three wheelers in India. The same year, it went public. Bajaj's first full-fledged manufacturing facility at Akurdi (Bombay-Pune Road) was inaugurated in 1960. Scooter production commenced in 1961, followed by three wheeler production in 1962.

Bajaj's scooters and three wheelers started selling under the Bajaj brand name only in 1971, when the agreement with Piaggio expired. Till the 1980s, Bajaj scooters were so popular that the basic strategy was long production runs along with a constant focus on costs. In 1984, Bajaj established its second plant (1000-acre plant) at Waluj, Aurangabad. Scooter production at this plant started in 1986, followed by three wheeler production in 1987 and scooterettes and motorcycle production in 1990 & 1991, respectively. 6 7

Source: Honda Annual Report 2003.

China was number one with an annual production and sales of over 10 million. 111 Financial Insights As Bajaj's products were in great demand, the company did not feel the need to introduce new products or upgrade its old models. The Chetak, which accounted for 60% of Bajaj's scooter sales, did not even have an electronic ignition. The model's 2stroke engine also had an emission problem that was quite serious by international standards. As competition became intense and the market was flooded with increasing numbers of models, Bajaj's market share declined.

During this period, Bajaj also followed a highly centralized, paternalistic management style. In the early 1990s, as the motorcycle market began to expand and became an attractive proposition, Bajaj lost ground. Though Bajaj had a presence in the motorcycle segment with its KB100 and 4S Champion, it did not take the segment seriously enough. Bajaj believed, motorcycles were a temporary aberration and people would return to scooters. But the scooter market kept shrinking and Bajaj was relegated to fourth place in the motorcycle market. Exhibit III Comparative Analysis: Motorcycle Sales (Number)

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Bajaj
Auto	32,028	34,672	42,080	75,067	89,675	129,263	137,717	200,132	255,129	421,966	670,117	% Share
Hero	10	14	14	17	16	18	17	19	17	22	23	
Honda	134,801	127,803	150,456	183,131	230,194	168,936	407,563	530,607	761,700	1,029,391	1,425,302	% Share
TVS Motors	33,744	30,085	42,080	53,120	125,286	164,083	211,667	268,099	326,357	354,497	450,113	% Share
Others	108,601	59,066	56,894	89,643	132,922	146,625	60,674	64,529	177,704	123,472	312,547	Total
	309,174	251,626	302,550	435,053	578,077	708,907	817,621	1,063,367	1,520,890	1,929,326	2,858,079	

Source: Society of Indian Automobile Manufacturers. In the late 1990s, Bajaj with the support of Kawasaki, started producing motorcycles. The result was an aggressively priced Boxer 100cc motorcycle in 1997, about Rs. 8000 cheaper than Hero Honda. As Bajaj's volumes increased, it started pushing prices down by value engineering, localization and better capacity utilization that cut its costs by Rs. 4000 per vehicle. Exhibit IV Bajaj: Major Models

Category	Motorcycle	Wind	BYK	Pulsar	Eliminator	112	Products	Year of Introduction
Category	Caliber	Products	Boxer	CT	Boxer	AT	4S	Champion
Category	KB	100	Legend					
Year of Introduction	1998	1997	1997	1991	1987	1998	1976	1972
	2000	1998						
	1990	1986	1987	Geared	Scooters	Super	Chetak	Saffire
				Ungeared	Scooters			
	Spirit	Sunny	M80	Major	M80	Major	4S	Step-Thrus

Source: www. bajajauto. com In early 1998, Bajaj established a new plant (Rs. 3. 15 billion investment in 200-acre plot) at Chakan near Pune for its future generation vehicles. The

new plant specialized in plastic bodied and tubular structure scooters. Bajaj's relatively high level of backward integration helped it to keep raw material costs well below the industry average. For example, the company bought raw materials in bulk for itself as well as for its suppliers.

For most of the two-wheeler companies, material costs accounted for about 70% of operating income, but for Bajaj it was only 57% in 1998, the lowest in the industry. In 1998, Bajaj was ranked India's fifth most valuable company. Internationally, it was the world's largest scooter producer and the fourth largest two-wheeler manufacturer after Hero Honda, Yamaha and Suzuki. But the delay in realizing the potential of motorcycle segment by Bajaj, allowed Hero Honda to race ahead to become the market leader in 2001. During 2000-01, Bajaj entered into non-life and life insurance business along with Allianz AG of Germany, one of the largest insurance companies in the world. Two companies were set up: Bajaj Allianz General Insurance Company Ltd and Allianz Bajaj Life Insurance Company Limited.

Bajaj and Allianz signed two separate joint venture agreements for these two businesses and respectively committed 74% and 26% of the initial share capital of Rs110 crore in case of the general insurance venture and Rs150 crore in case of the life insurance venture. Bajaj received Rs. 1.17 billion from Allianz as goodwill. In 2001-02, Bajaj Allianz General Insurance issued the largest number of policies among all private players in the non-life segment, and became the leader in this line of business. Allianz Bajaj Life Insurance commenced operations in October 2001. The BT 500, Business Today, 7th September 1998. Financial Insights Exhibit V Bajaj vs. Competitors: Major Models in Different Segments in 2003 Segments BYK

Economy (Priced Rs. 27, 000 – Rs. 37, 000) Executive (Priced Rs. 38, 000 – Rs. 5, 000) Premium (Priced Rs. 45, 000 – Rs. 75, 000) Style (Priced above Rs. 75, 000) Boxer AT Boxer AR (K-Tec) Boxer CT Delux (KTec) Caliber (K-Tec) Caliber Croma Caliber 115 Pulsar 150 Pulsar 150 (self-start) Pulsar 180 CD100 SS Dawn Splendor Passion Ambition Disc CBZ Disc CBZ (selfstart) Bajaj Auto Hero Honda TVS Motors No Competition Samurai Max 100R Max DLX Victor Fiero Fiero DLX Fiero ES Crux Crux R Libero Enticer Yamaha Eliminator No Competition Note: List is not exhaustive. Source: Compiled from various sources by ICFAI Knowledge Center. The shift in preference from geared to nongearred scooters continued in 2002, resulting in a 35% decline in yearly sales.

The company's market share in the ungeared scooter market declined due to lack of models. Both LML and Honda Motorcycles strengthened their foothold in 2002 after the launch of 'Nova' and 'Dio' respectively. Bajaj Auto's 'Spirit', the ungeared scooter, commanded around 25% market share in the below 100 cc category. Bajaj was one of the very few companies manufacturing three-wheelers in the world. It commanded a monopoly in the domestic market with a market share of above 80%. The rest was shared by Bajaj Tempo, Greaves Ltd and Scooters India. The company saw a sharp rise in three-wheeler demand. In early 2002, the market grew by 23%. Bajaj had also commenced the commercial production of goods carriers.

In 2002, this segment generated 22% of the company's profits. The profit per three-wheeler was estimated to be 2.5-3 times that of a motorcycle. Bajaj gained market share in the motorcycle segment through its models like 'Pulsar' and 'Boxer AR'. Boxer virtually created the four-stroke economy

segment and Pulsar expanded the lifestyle segment. Pulsar's volumes surpassed the most optimistic expectations in terms of volumes. In February 2003, Bajaj launched 'Caliber 115' and steadied its presence in the executive motorcycle segment. The new model registered sales of 25,706 units in March 2003. 114 Financial Management at Bajaj Auto Financial Management Bajaj earned bulk of its revenue from the automotive business. In 2003, motorcycles dominated the automotive segment, accounting for 55 % of its revenues. In 2002-03, Bajaj achieved a turnover of Rs. 5071 crore and earning before interest, taxation, depreciation and amortization (EBITDA) of Rs. 817 crore. EBITDA as a percentage of net sales and other operating income increased from 16.8 % in 2001-02 to 19 % in 2002-03. Return on operating capital, which had dipped to a low of 14% in 2000-01, increased to 60% in 2002-03. Bajaj continued its efforts to drive top-line growth, improve operational efficiency, cut costs and improve economies of scale.

Working Capital Bajaj continued to minimize its overall working capital. Debtors declined from Rs. 198 crores on 31st March 2002, to Rs. 167 crore on 31st March 2003 - a reduction of 16%. Bajaj succeeded in reducing inventory levels by using the direct on-line delivery of materials from vendors. Inventory of raw materials and components declined from seven days as on 31st March 2002, to six days as on 31st March 2003, and spare parts for replacement market from 42 days to 31 days. The inventory of finished goods however increased from six days to nine days because of the sluggish market. 9 Exhibit VI Bajaj: Operating Working Capital (Rs Million)

Source: Bajaj Auto Annual Report 2002-03. Cost Structure Raw materials, advertising and marketing, and indirect taxes (excise, etc) were the major

cost heads for Bajaj. During 2002-03, through its continuous efforts in value engineering and improving relations with the vendors, Bajaj was able to reduce its 9 Bajaj Auto Annual Report 2002-03. 115 Financial Insights material costs. The share of materials to net sales and other operating income reduced from 63.3 % in 2001-02 to 62 % in 2002-03, while the share of stores and tools was contained at 1.5 % of net sales and other operating income. 10 Labor costs for 2002-03 included a sum of Rs. 461 million (Rs. 3 million in 2001-02) towards compensation paid to employees under the voluntary retirement scheme. A total of 1,106 employees opted for the scheme, which had a payback period of two years. Bajaj's labor costs made up 4.66% of its total revenue in 2002-03. 11 Despite a 16.5% increase in net sales and other operating income - from Rs. 36.96 billion in 2001-02 to Rs. 43.06 billion in 2002-03, factory and administration costs had come down from 5.3% of net sales and operating income to 4.3%. This was the result of a thorough review of fixed costs with each plant head. Sales and after sales expenses were around 6.7 % of net sales and other operating income. In 2003, Bajaj's advertising and marketing expenditures were Rs 233.9 crore (8.61% of its total revenue), whereas Hero Honda's expenditures were Rs. 147.01 crore (4.16% of total revenue) and TVS' were Rs. 212.49 crore (11.06% of total revenue). Bajaj's total indirect tax expenses were Rs. 601.22 crore in comparison to Hero Honda's Rs. 9.75 crore and TVS' Rs. 435.77 crore in 2003. 12 Investments Bajaj invested its surplus funds in secured and fixed investment securities like G-Secs, T-Bills, etc. The return earned by Bajaj on its treasury portfolio was comparable with the return earned by the top mutual funds. During 2002-03, Bajaj reduced its equity investments and concentrated more on the G-Sec and bond market.

Thus, the market value of the portfolio changed from a diminution in value to cost in 2002, to an appreciation in value to cost of Rs. 343 million in March 2003. During 2002-03, Bajaj provided Rs. 26.7 million towards impairment in the carrying costs of its investment portfolio. In addition, continuing its efforts to liquidate non-performing assets, Bajaj booked a total loss of Rs. 853 million. This loss was set off against gains on sale of assets of Rs. 1,067 million that resulted in a net gain of Rs. 214 million. 13 Figure (ii) Bajaj: Liability Structure, 2003 Source: Prowess Database. 10 11 12 13 Bajaj Auto Annual Report, 2002-03. Source: Prowess Database.

Source: Prowess Database. Bajaj Auto Annual Report, 2002-03. 116 Financial Management at Bajaj Auto Exhibit VII Bajaj: Investment of Surplus Funds (Rs. million) Source: Bajaj Auto Annual Report, 2002-03. Exhibit: VIII Income from Investments (Rs Million) 2002-2003 Dividends Interest on debentures and bonds Interest on government securities Interest on inter-corporate deposits and other loans Income from mutual fund units Lease rent and equalization Profit on sale of investments Interest on fixed deposits Others Total Interest on tax refunds Total non-operating income Non-operating expenses Net non-operating income Source: Bajaj Auto Annual Report, 2002-03. 17 127 408 405 239 44 214 2 11 1, 450 1, 450 274 1, 176 2001-2002 592 291 18 364 79 234 6 1, 584 18 1, 602 436 1, 166 Financial Insights Return on Capital In early 2003, Bajaj maintained a free cash reserve of Rs 2,700 crore. The management had no intention of reducing that cash pile in the near future. Meanwhile, analysts argued¹⁴ that retaining surplus cash would only dilute a company's Return on Capital Employed (ROCE) and, over a period of time, destroy shareholder value. Bajaj had a capital employed of Rs 4,000 crore,

of which only Rs 1, 300 crore was deployed in its two-wheeler operations. This generated an excellent ROCE of 60%. But the remaining Rs 2, 700 crore of idle cash, earned a return of only 17%.

As a result, Bajaj Auto's overall ROCE was 31%, far lower than Hero Honda's 95%. Exhibit IX Return on Operating Capital (Rs. Million) As at 31, March 2003

Fixed assets	Technical know-how	Working capital	Total Operating profit after interest and depreciation	Pre-tax return on operating capital employed
10, 910	128 699	11, 737	4, 834	41%
10, 502	107 638	11, 247	6, 744	60%

Source: Bajaj Auto Annual Report, 2002-03. As at 31, March 2002

10, 910 128 699 11, 737 4, 834 41% 10, 502 107 638 11, 247 6, 744 60% Exhibit X

Dividend Payouts (%) Company Bajaj Hero Honda TVS 1999 19. 18 22. 89 21.

96 2000 20. 88 23. 08 23. 92 2001 35. 69 26. 74 32. 54 2002 27. 34 75. 53

42. 47 Source: Businessworld, 19th May 2003. Capital Structure Bajaj's debt-

equity ratio was 0. 6 and interest coverage was 717. 76 times in 2003. Bajaj

mostly relied on internal generation rather than external funding. In 2003,

Bajaj had Rs. 3139. 42 crore of reserve & surplus (49% of it total assets),

where as Hero Honda and TVS had only Rs. 821. 09 crore and Rs. 399. 85

crore respectively. Bajaj deployed bulk of its funds in investments (44. 02%

of total assets) and fixed assets (20. 57% of total assets). 14 M. Anand, ? Is

Munjal Being Too Generous?? Businessworld, 19th May 2003. 118 Financial

Management at Bajaj Auto Exhibit XI Bajaj: Equity Holding, December 2003

Equity Holding Indian promoters Mutual funds and UTI Banks, FI's, Insurance

Cos.

FII's Private corporate bodies Indian public NRIs/OCBs Any other Total equity

holding Source: Prowess Database. No of Shares 29516461 1612731

3829868 19318255 13264490 29054237 401776 4185692 101183510 % of

Total Shares 29. 17 1. 59 3. 79 19. 09 13. 11 28. 71 0. 40 4. 14 100 In September 2000, Bajaj had spent about Rs 720 crore to buy back 15% of its equity. The offer was announced at a price of Rs 400 per share when the prevailing price was around Rs 320. Though prices fell to Rs 200 immediately after the buyback, it had later recovered to about Rs 500. Bajaj believed buy back was a better way to distribute profits to shareholders than dividends.

Bajaj had a cash reserve of \$ 575 million and paid a final dividend of 120% and a special dividend of 20% in 2002 (paid on account of the one-time premia received from Allianz AG, Germany, the company's partner in the two insurance joint ventures)¹⁵ and a final dividend of 140% in 2003. The amount of dividend and the tax aggregated to Rs. 1, 598 million. The company's dividend yield i. e. , (dividend per share by the market price) showed that Bajaj had a yield of 2. 7%. ¹⁶ Looking Ahead In the motorcycles segment, 'Boxer' had performed well and had increased its market share to 45% in the entry-level market, which was estimated at 102, 000 units (35% of total motorcycle sales). But growth was primarily led by 'Pulsar', the premium-end motorcycle. Against the company's estimate of 10, 000 units per month at the beginning of 2002, the model notched sales of around 17, 000 units per month in late 2002.

Encouraged by the success, Bajaj planned to ramp up sales to 25, 000 units per month by early 2004 and expected to achieve total leadership in the motorcycle segment, aiming at a growth rate of 15%. Bajaj expected to improve its relationships with customers by expanding its product range and widening its dealer network. It planned to launch a 125 cc motorcycle with Kawasaki Heavy Industries Ltd, which was in the final stage of development.

A rear engine diesel goods carrier was in the testing stage 15 16 Source: Prowess Database. Chetan Soni & Nandini Sen Gupta, ? Rolling stock: Payouts put auto investors in top gear,? Times News Network, 4th June 2003. 119 Financial Insights and would be launched in 2004. Bajaj also planned to broaden its vision and work towards being a truly global player.

Effective management of the company's finances would play an important role in this regard. Figure (iii) Bajaj: Closing Share Price & Traded Quantity Source: Prowess Database. Figure (iv) Bajaj: Traded Quantity Source: Prowess Database. Figure (v) Bajaj: Dividend Yield & Earning Per Share

Dividend Yield	6	5	4	3	2	1	0	Dec-97	Dec-98	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Earning Per Share	80	60	40	20	0	Dec-97	Jun-98	Dec-98	Jun-99	Dec-99	Jun-00	Dec-00	Jun-01	Dec-01	Jun-02	Dec-02	Jun-03	Dec-03
Source: Prowess Database.																																							

120 Financial Management at Bajaj Auto Figure (vi) Bajaj: Assets Structure Source: Prowess Database. Exhibit: XII

Bajaj: Capital History Issue Month Issue Type Face Value (Rs.) 10 10 Security Amount (Rs. Crore) 0 0 Additional Increased Paid up Paid up Capital Capital (Rs. Crore) (Rs. Crore) 18. 81 37. 63 37. 63 75. 25 Security Type Sep-91 Bonus Jun-94 Bonus Euro Oct-94 Issue Sep-97 Bonus Equity Equity Global Depository Receipts Equity 10 10 10 345. 07 0 0 4. 34 39. 8 0 79. 59 119. 39 101. 18 Buybac Sep-00 k Equity Source: Prowess Database. Exhibit XIII Bajaj: Ratios Bajaj Auto Ratios Liquidity Ratios Current ratio Quick ratio Solvency Ratios Debt-equity ratio Interest coverage 0. 26 0. 22 0. 20 45. 04 0. 16 33. 85 0. 17 21. 23 0. 11 11. 83 0. 29 18. 43 0. 52 5. 63 0. 6 4. 58 2. 07 1. 20 1. 88 1. 01 1. 69 0. 69 1. 11 0. 16 1. 20 0. 25 1. 44 0. 81 1. 01 0. 34 1. 12 0. 47

1. 16 0. 36 2003 2002 2001 Hero Honda 2003 2002 2001 T V S Motor 2003
 2002 2001 717. 76 161. 91 121 Financial Insights Bajaj Auto Ratios 2003
 2002 2001 Hero Honda 2003 2002 2001 T V S Motor 2003 2002 2001
 Efficiency Ratios (in Days) Average days of finished goods stock Average
 days of debtors Average days of creditors Net working capital cycle
 Profitability Ratios PBDIT (NNRT) as % of sales PBIT (NNRT) as % of sales PAT
 (NNRT) as % of sales Return on net worth Return on capital employed 20. 19
 16. 65 11. 07 17. 50 21. 47 16. 87 13. 12 8. 63 13. 3 16. 74 13. 07 9. 18 8.
 24 10. 26 9. 98 17. 59 16. 45 10. 02 67. 10 94. 64 16. 77 15. 63 9. 72 67. 67
 95. 27 14. 46 13. 07 7. 87 47. 52 70. 98 9. 23 6. 66 3. 94 32. 89 42. 10 6. 79
 4. 57 2. 47 8. 18 5. 78 3. 47 9. 90 13. 80 42. 40 -5. 68 10. 27 13. 95 43. 47 0.
 69 11. 38 15. 42 49. 54 6. 61 3. 91 8. 62 35. 57 -7. 47 3. 53 5. 80 32. 71 -4.
 79 3. 93 4. 28 31. 10 14. 09 8. 14 52. 96 14. 97 13. 13 15. 95 19. 82 52. 05
 44. 89 -1. 24 7. 54 2. 05 -14. 15 16. 05 18. 80 20. 86 20. 74 90. 00 80. 00
 Dividend rate (sum of interim and final) 140. 00 140. 00 Market Ratios P/E
 P/B 16. 61 3. 19 9. 54 1. 63 80. 00 900. 00 850. 00 150. 00 120. 00 9. 25 1.
 32 3. 46 7. 63 9. 27 5. 62 13. 66 6. 21 18. 41 5. 02 10. 35 10. 39 3. 08 0. 99
 Source: Prowess Database. Exhibit XIV Common size Income statement
 Commonsized Income Statement 2003 Total Revenue Sales Other income
 Change in stocks Non-recurring income Bajaj Auto 2002 2001 Hero Honda
 2003 2002 2001 2003 TVS 2002 2001 100. 00 100. 00 100. 00 100. 00 100.
 00 100. 00 100. 00 100. 00 100. 00 94. 22 3. 51 0. 64 1. 64 92. 27 4. 22 -0.
 67 4. 18 91. 85 6. 18 0. 36 1. 61 97. 76 0. 44 0. 40 1. 40 98. 24 1. 04 -0. 13
 0. 85 98. 75 0. 33 0. 56 0. 35 97. 76 0. 67 1. 25 0. 31 98. 96 0. 89 0. 15 0. 01
 98. 04 1. 05 0. 90 0. 01 122 Financial Management at Bajaj Auto

Commonsize Income Statement 2003 Expenditure Raw materials, stores, etc.
 Wages & salaries Energy (power & fuel) Indirect taxes (excise, etc.)
 Advertising & marketing expenses Distribution expenses Others Non-
 recurring expenses Profits / losses PBDIT Financial charges (incl. lease rent)
 PBDT Depreciation PBT Tax provision PAT Bajaj Auto 2002 2001 Hero Honda
 2003 2002 2001 2003 TVS 2002 2001 52. 84 4. 66 1. 19 11. 73 51. 39 5. 12
 1. 41 11. 80 52. 79 6. 20 1. 80 14. 57 67. 59 3. 86 0. 49 0. 19 68. 80 3. 71 0.
 56 0. 12 72. 87 3. 67 0. 73 0. 19 60. 37 3. 27 0. 66 13. 69 63. 29 3. 37 0. 69
 13. 86 73. 20 3. 46 0. 90 1. 72 8. 61 0. 86 3. 50 1. 63 19. 3 8. 62 0. 82 5. 28
 0. 69 19. 06 9. 83 0. 90 4. 93 2. 85 10. 77 4. 16 1. 89 4. 57 0. 07 18. 51 2. 99
 1. 88 5. 55 0. 22 17. 10 2. 74 1. 81 4. 12 0. 46 14. 18 11. 06 2. 08 3. 92 0. 10
 9. 23 8. 37 2. 12 4. 65 0. 04 6. 69 8. 76 1. 60 4. 69 0. 04 7. 99 0. 02 19. 01 3.
 34 15. 67 5. 24 10. 43 0. 07 18. 99 3. 47 15. 52 4. 06 11. 46 0. 19 10. 58 3.
 57 7. 01 0. 68 6. 33 0. 48 18. 04 1. 11 16. 93 5. 81 11. 12 0. 72 16. 38 1. 12
 15. 26 5. 08 10. 17 1. 09 13. 09 1. 38 11. 72 4. 04 7. 67 0. 35 8. 88 2. 51 6.
 36 2. 30 4. 06 0. 80 5. 89 2. 20 3. 69 1. 28 2. 41 1. 24 6. 75 2. 35 4. 40 1. 03
 3. 37 Source: Prowess Database. Exhibit XV Common size Balance Sheet

Common size Balance Sheet 2003 Total assets Gross fixed assets Land &
 building Plant & machinery Other fixed assets Capital WIP Bajaj Auto 2002
 2001 Hero Honda 2003 2002 2001 2003 TVS 2002 2001 100. 00 100. 00
 100. 00 100. 00 100. 00 100. 00 100. 00 100. 00 100. 00 100. 00 41. 62 4. 02 35. 09
 2. 45 0. 06 46. 97 4. 65 39. 56 2. 69 0. 07 53. 65 5. 30 44. 99 2. 88 0. 48 35.
 60 5. 77 28. 21 1. 20 0. 42 40. 72 6. 96 31. 96 1. 25 0. 55 54. 82 7. 93 43. 57
 1. 68 1. 64 77. 80 12. 72 58. 45 4. 01 2. 63 78. 81 10. 14 63. 09 4. 22 1. 35
 77. 23 10. 39 59. 41 4. 40 3. 04 123 Financial Insights Common size Balance

Sheet 2003 Less: cumulative depreciation Net fixed assets Investments In group / associate cos.

In mutual funds Other investments Inventory Raw materials Stores and spares Finished goods Semi-finished goods Sundry debtors Accrued income Advances / loans to Group / associate cos. Advances / loans to Other cos.

Deposits with govt. / agencies Advance payment of tax Other receivables

Cash & bank balance Deferred tax assets Intangible assets & deferred revenue expenditure not written off Bajaj Auto 2002 2001 Hero Honda 2003

2002 2001 2003 TVS 2002 2001 21. 05 20. 57 44. 02 4. 13 3. 50 36. 39 3. 30

0. 89 0. 34 1. 82 0. 25 2. 65 0. 32 21. 67 25. 30 36. 82 4. 75 2. 29 29. 78 3.

31 1. 00 0. 57 1. 44 0. 30 3. 66 0. 47 24. 30 29. 35 25. 89 1. 46 2. 64 21. 79

5. 46 1. 96 0. 91 2. 23 0. 36 2. 60 0. 71 12. 47 23. 13 54. 3 0. 16 54. 37 0. 00

9. 18 5. 10 1. 14 2. 51 0. 43 6. 46 0. 00 12. 74 27. 98 41. 41 0. 20 41. 21 0.

00 10. 17 6. 17 1. 54 1. 94 0. 52 5. 69 0. 00 15. 55 39. 27 26. 18 0. 30 25. 88

0. 00 17. 18 10. 62 2. 32 3. 16 1. 08 3. 66 0. 00 28. 15 49. 65 8. 19 5. 60 2.

57 0. 02 19. 95 3. 89 4. 13 10. 36 1. 58 4. 87 0. 00 28. 18 50. 63 1. 66 1. 60

0. 00 0. 05 17. 15 4. 24 2. 50 8. 44 1. 97 9. 97 0. 00 24. 69 52. 54 1. 79 1. 68

0. 00 0. 12 18. 32 5. 49 2. 13 8. 46 2. 25 12. 89 0. 00 1. 68 3. 56 0. 11 0. 00

0. 00 0. 00 0. 00 0. 00 0. 00 0. 00 1. 16 1. 60 8. 21 0. 00 0. 00 0. 00 1. 43 4. 49 1.

86 0. 06 0. 40 0. 41 0. 01 0. 01 0. 11 0. 08 0. 02 3. 93 21. 99 2. 52 0. 8 1. 08

21. 04 2. 28 0. 47 0. 84 21. 71 4. 74 0. 46 0. 00 0. 52 4. 48 1. 11 0. 04 0. 59

7. 31 6. 21 0. 05 0. 88 7. 08 3. 90 0. 00 0. 00 7. 59 7. 69 0. 55 0. 59 6. 48 8.

56 0. 41 0. 77 5. 93 1. 92 0. 00 0. 17 0. 24 0. 35 0. 53 0. 58 1. 75 0. 00 0. 03

0. 05 124 Financial Management at Bajaj Auto Common size Balance Sheet

2003 Total liabilities Net worth Paid-up equity capital Reserves & surplus

Secured borrowings Unsecured borrowings Deferred tax liabilities Current liabilities Sundry creditors Interest accrued / due Other current liabilities Provisions Tax provision Dividend provision Dividend tax provision Other provisions Bajaj Auto 2002 2001

Hero Honda 2003 2002 2001 2003 TVS 2002 2001 100. 00 100. 00 100. 00 100. 00 100. 00 100. 00 51. 36 1. 60 49. 75 0. 85 12. 46 3. 81 7. 21 6. 56 0. 00 0. 65 24. 30 21. 01 2. 25 0. 29 0. 76 52. 99 1. 87 51. 12 0. 59 10. 99 4. 36 8. 41 7. 60 0. 00 0. 81 22. 65 19. 56 2. 62 0. 00 0. 47 56. 80 2. 18 54. 62 1. 21 9. 86 0. 00 10. 07 7. 70 0. 00 2. 37 22. 06 19. 77 1. 74 0. 18 0. 37 39. 34 1. 82 37. 52 0. 00 6. 14 3. 53 31. 14 18. 73 0. 00 12. 41 19. 86 0. 50 16. 42 2. 10 0. 84 39. 10 2. 28 36. 82 0. 00 6. 64 4. 07 34. 97 22. 73 0. 00 12. 24 15. 22 0. 48 13. 66 0. 00 1. 08 54. 44 3. 46 50. 98 0. 00 5. 75 0. 00 31. 63 22. 03 0. 00 9. 60 8. 18 0. 82 5. 18 0. 3 1. 64 39. 42 2. 15 37. 27 3. 82 7. 54 8. 27 37. 87 37. 81 0. 00 0. 06 3. 08 0. 00 1. 51 0. 19 1. 38 37. 27 2. 66 34. 61 10. 50 8. 74 9. 14 33. 31 33. 08 0. 00 0. 24 1. 04 0. 00 0. 00 0. 00 1. 04 43. 06 2. 78 40. 28 19. 09 9. 09 0. 00 25. 55 25. 51 0. 00 0. 05 3. 20 0. 00 2. 23 0. 23 0. 75 Source: Prowess Database. Exhibit XVI

Comparative Income Statement Comparative Income Statement 2001 Total Revenue Sales Other income Change in stocks Non-recurring income 3628. 74 4172. 1 4829. 37 3177. 2 4471. 87 5107. 7 1820. 98 2213. 59 3111. 28 244. 19 190. 61 179. 85 14. 13 -30. 4 32. 58 83. 93 10. 63 18. 17 11. 42 47. 21 -5. 81 38. 54 23. 24 21. 08 72. 8 19. 57 16. 65 0. 27 19. 8 3. 27 0. 23 21. 4 39. 82 9. 94 Bajaj Auto 2002 2003 Hero Honda 2001 2002 2003 2001 TVS 2002 2003 63. 66 189. 21 125 Financial Insights Comparative Income Statement 2001 Expenditure Raw materials, stores, etc. Wages & salaries

Energy (power & fuel) Indirect taxes (excise, etc.) Bajaj Auto 2002 2003
 Hero Honda 2001 2002 2003 2001 TVS 2002 2003 2085. 47 2323. 71 2708.
 23 2344. 39 3131. 72 3531. 81 1359. 65 1415. 78 1921. 32 245. 14 231. 48
 239. 05 117. 96 168. 94 201. 63 64. 26 75. 37 104. 05 71. 03 63. 64 61. 12
 23. 4 5. 98 25. 61 5. 39 25. 82 9. 75 16. 63 15. 44 20. 85 575. 8 533. 48 601.
 22 31. 88 309. 94 435. 77

Advertising & marketing expenses 204. 94 200. 41 233. 29 Distribution
 expenses Others 35. 46 37. 02 44. 23 64. 17 58. 1 93. 73 147. 01 119. 04
 118. 49 212. 49 85. 39 98. 92 29. 64 47. 36 66. 27 194. 82 238. 63 179. 61
 132. 45 252. 48 238. 84 31. 25 83. 7 14. 65 10. 24 3. 86 87. 15 103. 91 124.
 72 0. 83 0. 86 3. 28 Non-recurring expenses 112. 59 Profits / losses PBDIT
 Financial charges (incl. lease rent) PBDDT Depreciation PBT Tax provision PAT
 appropriation of profits Dividends Retained earnings 425. 47 861. 9 975. 28
 456. 32 778. 31 967. 36 148. 39 149. 74 293. 69 7. 4 3. 38 1. 12 35. 1 44. 27
 32. 92 51. 01 24. 82 57. 98 303. 8 22. 97 43. 73 81. 69 19. 12 62. 7 17. 96
 49. 22 28. 61 11. 24 79. 91 73. 19 418. 07 858. 52 974. 16 421. 22 745. 39
 942. 54 125. 42 131. 78 282. 45 141. 12 156. 68 171. 16 276. 95 701. 84
 803 376. 95 694. 38 884. 56 82. 56 202. 54 53. 95 129. 35 27 183. 68 268.
 36 130. 08 231. 45 249. 95 518. 16 534. 64 246. 87 462. 93 580. 76 89. 21
 141. 66 159. 81 160. 74 66. 01 349. 67 405. 49 20. 36 42. 21 22. 91 31. 04
 29. 79 99. 56 376. 5 374. 83 180. 86 113. 26 175. 27 Source: Prowess
 Database. Exhibit XVII Comparative Balance Sheet Comparative Balance
 Sheet (Rs Crore) Assets Gross fixed assets 2001 Bajaj 2002 2003 Hero Honda
 2001 633. 61 2002 714. 21 2003 779. 25 TVS Motor 2001 641. 3 2002 683.
 85 2003 834. 7 2490. 26 2540. 08 2626. 18 126 Financial Management at

Bajaj Auto Comparative Balance Sheet (Rs Crore) Land & building Plant & machinery Other fixed assets Capital WIP Less: cumulative depreciation Net fixed assets Investments In group / associate cos. In mutual funds Other investments Inventories Raw materials Stores and spares Finished goods Semi-finished goods Receivables Sundry debtors Accrued income Advances / loans to Group / associate cos. Advances / loans to Other cos. Deposits with govt. / agencies Advance payment of tax Other receivables Cash & bank balance Deferred tax assets Intangible assets (goodwill, etc. Deferred revenue expenditure not written off 245. 85 Bajaj 251. 53 Hero Honda 253. 42 Mar-00 May-00 May-00 503. 59 19. 45 18. 95 179. 76 453. 85 302. 59 3. 46 299. 13 0 198. 54 122. 79 26. 81 36. 47 12. 47 135. 54 42. 29 0 560. 54 21. 89 9. 69 223. 47 490. 74 617. 32 26. 37 9. 19 273. 01 506. 24 TVS Motor 86. 24 493. 09 36. 49 25. 21 204. 92 436. 11 14. 89 13. 92 0 0. 97 152. 03 45. 53 17. 65 70. 2 18. 65 210. 64 106. 95 0. 04 88. 03 547. 47 36. 66 11. 69 244. 54 439. 31 14. 39 13. 92 0 0. 47 148. 79 36. 76 21. 73 73. 23 17. 07 187. 09 86. 52 0 136. 47 627. 07 42. 97 28. 19 302. 03 532. 67 87. 92 60. 08 27. 58 0. 26 214. 07 41. 71 44. 32 111. 1 16. 94 149. 87 52. 21 0 088. 17 2139. 11 2214. 16 133. 81 22. 43 1127. 91 145. 48 3. 96 154. 59 4. 01 1171. 8 1327. 95 1362. 35 1368. 28 1298. 23 1201. 65 1991. 42 2777. 68 67. 62 122. 77 257. 02 123. 99 260. 88 220. 77 726. 29 1193. 52 3. 46 3. 46 722. 83 1190. 06 0 178. 36 108. 27 26. 96 34. 02 9. 11 238. 52 99. 72 0 0 200. 92 111. 67 25. 04 54. 84 9. 37 251. 26 141. 49 0 1011. 26 1610. 41 2296. 03 253. 43 91 42. 17 103. 49 16. 77 179. 1 54. 32 30. 57 77. 95 16. 26 207. 98 56. 16 21. 15 114. 63 16. 04 1786. 88 1785. 53 1917. 13 120. 72 33. 01 198. 17 25. 34 167. 04 20. 24 5. 3 380. 88 19. 24 192. 75 86. 6 21. 73 106 73. 11 3. 87 1387. 8 159. 07 30. 03 68. 06 10. 68 0 1. 26 10. 14 81. 85 45. 09 0 0 0

0 0. 21 10. 34 128. 25 108. 96 0. 81 0 0 0 0. 32 11. 31 98. 14 24. 33 0. 89 0
0 15. 43 32. 66 6. 38 49. 18 15. 91 0 0 0 39 0. 14 5. 16 56. 27 74. 27 3. 57 0
0 15. 3 0. 86 0. 03 81. 47 82. 46 5. 9 0 1007. 75 1137. 62 219. 98 21. 32 0 0
123. 32 25. 2 45. 48 12. 8 16. 03 0 0 20. 2 10. 22 11. 52 0. 44 0. 3 0 127
Financial Insights Comparative Balance Sheet (Rs Crore) Share issue
expenses not written off VRS expenses not written off Other misc. expenses
not written off Total assets Net worth Authorized capital Issued equity capital
Paid-up equity capital Bonus equity capital Buy back amount Buy back
shares (nos. Reserves & surplus Free reserves Specific reserves Borrowings
Bank borrowings Short term bank borrowings Long term bank borrowings
Govt. / sales tax deferral borrowings Debentures / bonds Fixed deposits
Other borrowings Secured borrowings Unsecured borrowings Bajaj Hero
Honda TVS Motor 0 0 0 0 0 0 0 0 0 0 0 0 0. 44 0 0. 3 0 0 0 16. 03 0 0 20. 2
10. 22 11. 52 0 830. 02 357. 41 25 23. 1 23. 1 0 0 0 334. 31 291. 81 42. 5
233. 95 107. 37 76. 12 31. 25 0 0 4641. 66 5407. 81 6309. 79 1155. 81
2636. 53 2865. 79 3240. 61 150 101. 18 101. 18 114. 17 18. 21 1820730 4
2535. 35 150 101. 19 101. 19 114. 17 0 0 150 101. 19 101. 19 114. 17 0 0
629. 19 50 39. 94 39. 94 23. 96 0 0 589. 25 589. 25 0 66. 48 0 0 0 1753. 9
2188. 68 685. 76 50 39. 94 39. 94 23. 96 0 0 645. 82 645. 2 0 116. 44 0 0 0
861. 03 50 39. 94 39. 94 23. 96 0 0 821. 09 821. 09 0 134. 28 0 0 0 867. 72
1072. 89 323. 39 25 23. 1 23. 1 0 0 0 300. 29 270. 59 29. 7 166. 94 53. 64
34. 89 18. 75 422. 95 25 23. 1 23. 1 0 0 0 399. 85 380. 05 19. 8 121. 89 16.
13 16. 13 0 2764. 6 3139. 42 2515. 39 2744. 64 3121. 21 19. 96 513. 71 55.
97 55. 97 0 19. 96 626. 09 31. 83 31. 83 0 18. 21 840. 23 53. 91 53. 91 0
451. 64 0 6. 1 0 55. 97 457. 74 588. 96 0 5. 3 0 31. 83 594. 26 781. 9 0 4. 42
0 53. 91 786. 32 66. 48 0 0 0 0 66. 48 116. 44 0 0 0 0 116. 44 134. 28 0 0 0

0 134. 28 0 85 0 41. 58 158. 49 75. 46 0 59. 4 0 53. 9 91. 11 75. 83 0 39. 6 0
66. 16 41. 03 80. 86 128

Financial Management at Bajaj Auto Comparative Balance Sheet (Rs Crore)

	Bajaj	Hero	Honda	TVS	Motor
Current portion of long term debt	0	0	0	0	0
Total foreign currency borrowings	0	0	0	0	0
Deferred tax liabilities	65.38	36.11	48.00	0.00	236.05
Current liabilities & provisions	240.47	0.00	0.00	0.00	71.47
Current liabilities	77.16	0.00	0.00	0.00	79.35
Sundry creditors	88.72	1491.42	1679.88	1988.48	467.55
Interest accrued / due	357.29	0.11	110.15	454.93	411.13
Other current liabilities	0.14	43.74	454.94	413.86	0.08
Share application money	40.96	460.14	365.62	254.61	0.11
Provisions	254.61	0.11	116.21	613.32	398.61
Tax provision	0.21	4.71	681.52	409.94	0.27
Dividend provision	271.58	238.66	212.12	211.71	0.39
Dividend tax provision	298.04	289.05	287.02	0.05	439.33
Other provisions	406.26	405.65	0.00	0.00	0.02
Total liabilities	94.52	9.51	59.96	6.11	19.02
	266.91	8.34	239.64	0.18	93.04
	434.69	10.9	359.44	46.05	18.30
	26.56	0.48	1.88	6.2	830.02
	0.08	99.00	0.08	99.03	0.07
	0.16	17.2	0.07	14.83	1023.87
	1224.95	1533.58	917.58	1057.94	1325.98
	80.95	8.26	17.08	141.66	0.25
	35.141	66.18	15.47	79.46	41.66
	5407.81	6309.79	1155.81	1753.9	2188.68
	867.72	1072.89			

Source: Prowess Database. 129 Financial Insights Bibliography 1. 2. ? The BT 500,? Business Today, 7th September 1998.

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