

PGCHRM_15
FINANCIAL MANAGEMENT

COMPANY – BAJAJ AUTO LIMITED

TITLE: ANALYSIS OF THE BOOKS OF BAJAJ AUTO
LTD FOR THE YEAR 2011-2012

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Chennai-Besant Nagar Branch

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1 Company Profile

1.1 Brief Introduction

The Bajaj Group is amongst the top 10 business houses in India. Its footprint stretches over a wide range of industries, spanning automobiles (two-wheelers and three-wheelers), home appliances, lighting, iron and steel, insurance, travel and finance. The group's flagship company, Bajaj Auto, is ranked as the world's fourth largest two- and three- wheeler manufacturer and the Bajaj brand is well-known across several countries in Latin America, Africa, Middle East, South and South East Asia.

1.2 BAL Top Management

Mr. Jamnalal Bajaj was the founder. In 1942, his son Kamamnayan took over the reins of the company. He consolidated the group and also diversified the business, thereby elevating the Bajaj group to its current position in the industry. The present Chairman of the group, Rahul Bajaj, took charge of the business in 1965. Under his leadership, the turnover of the Bajaj Auto the flagship company has gone up from INR.72 million to INR. 120 billion, its product portfolio has expanded and the brand has found a global market. He is one of India's most distinguished business leaders and internationally respected for his business acumen and entrepreneurial spirit. Madhur Bajaj is the Vice Chairman and Rajiv Bajaj is the President. Sanjiv Bajaj is the Vice President (Finance).

It is based in Pune, Mumbai, with plants in Chakan (Pune), Waluj (near Aurangabad) and Pantnagar in Uttarakhand. The oldest plant at Akurdi (Pune) now houses the R&D centre Ahead.

1.3 Time line of BAL product releases

The Product release in BAL according to the year is given in the below table.

Year	Products
1990	Bajaj Sunny
1997	Kawasaki Bajaj Boxer
1998	Kawasaki Bajaj Caliber, legend, Bajaj Spirit
2000	Bajaj Saffire
2001	Eliminator, Pulsar
2003	Caliber115, Bajaj Wind 125, Bajaj Pulsar
2004	Bajaj CT 100, New Bajaj Chetak 4-stroke
2006	Bajaj Platina
2007	Bajaj Pulsar-200(Oil Cooled), Bajaj Kristal, Bajaj Pulsar 220 DTS-Fi, XCD 125 DTS-Si
2008	Bajaj Discover 135 DTS-i – sport (upgrade of existing 135 cc model)
2009	Bajaj Pulsar 135, Bajaj XCD135 cc, Bajaj Pulsar 150 DTS-i UG IV, Bajaj Pulsar 180 DTS-i UG IV, Bajaj Pulsar 220 DTS-i, Bajaj Discover 100 DTS-Si, Kawasaki Ninja 250R
2010	Bajaj Discover 150

2011	Bajaj Discover 125
2012	Bajaj RE 60, mini car for intra-city urban transportation, KTM Duke 200, launch of 200 cc bike from the KTM stable. Bajaj Pulsar 200 NS, launch of 200 cc bike, Discover 125ST, launch of 125 cc bike

1.4 BAL's financial performance over the years

Bajaj Auto Limited started off by selling imported two- and three-wheelers in India. In 1959, it obtained a license from the government of India to manufacture two- and three-wheelers and it went public in 1960. In 1970, it rolled out its 100,000th vehicle. In 1977, it sold 100,000 vehicles in a financial year. In 1985, it started producing at Waluj near Aurangabad. In 1986, it sold 500,000 vehicles in a financial year. In 1995, it rolled out its ten millionth vehicles and produced and sold one million vehicles in a year. Production figures for January 2012 in comparison with previous year are given below:

Production	Current year		Previous Year	
	For Dec 2012	Up to Dec 2012	For Dec 2011	Up to Dec 2011
Motorcycles	298,350	2,287,410	263,699	2,937,157
Three-Wheelers	45,596	358,510	41,991	395,236
Grand Total	343,946	3,255,920	305,690	3,332,393

Bajaj Auto recorded its highest ever sales, exports and profits from operations. Its turnover crossed the Rs 20,000 crore marks. Net sales and other operating income grew by 19% to Rs 19,804 crore. Its records a sale of 4.35 million units with over a million units being sold in each of the four quarters.

2 Bajaj Auto Ltd Financial statement Analysis

The financial statement is a written report which quantitatively describes the financial health of a company. For a business enterprise, all the relevant financial information, presented in a structured manner and in a form easy to understand, are called the financial statements. They typically include four basic financial statements, accompanied by a management discussion and analysis.

- Statement of financial position
- Statement of comprehensive income
- Statement of changes in equity
- Statement of cash flows

2.1 Statement of financial position

The statement of financial position is also referred to as a balance sheet. The balance sheet is an accountant's snapshot of a firm's accounting value on a particular date as though the firm stood momentarily still. The balance sheet states what the firm owns and how it is financed. The accounting definition that underlies the balance sheet and describes the balance is

$$\text{Assets} = \text{Liabilities} + \text{Stockholder's Equity}$$

Assets represent the use of funds. A business uses cash or other funds provided by the creditor/investor to acquire assets. Assets include things of value that are owned or due to a business.

Liabilities and net worth on the balance sheet represent sources of funds. Liabilities and net worth are composed of creditors and investors who have provided cash or its equivalent to your business. As a source of funds, they enable your business to continue or expand operations.

Liabilities represent obligations to creditors while net worth represents the owner's investment in the business. Both creditors and owners are "investors" in the business with the only difference being the timeframe in which they expect repayment.

ASSETS of Bajaj Auto Ltd			Liabilities of Bajaj Auto Ltd		
Y/E March (Rs in Crore)	2012	2011	Y/E March (Rs in Crore)	2012	2011
Current Assets, Loans & Advances			Current Liabilities		
Current Investments	1,096.60	686.83	Short-term borrowings	25.44	180.14
Inventories	703.61	576.25	Trade Payables	2,013.73	1,797.66
Trade Receivables	401.93	338.74	Other Current Liabilities	562.16	479.34
Cash and bank Balances	1,659.84	247.54			
Short term loans and advances	1,046.62	997.57	Short-term provisions	2063.04	1431.26
Other current Assets	295.59	216.28			
Total Current Assets, Loan & Advances	5,204.19	3,063.21	Total current Liabilities	4,664.37	3,888.40
Fixed Assets			Long term Liabilities		
Tangible Assets	1,483.29	1,482.37	Long-term borrowings	97.48	133.88
Intangible Assets	2.14	4.28	Deferred tax liabilities	48.44	29.71
Capital Work in Progress	11.77	69.86	Other long-term liabilities	157.07	193.71
Intangible Assets under development	29.88	-	Long term Provisions	113.16	125.54
Total Fixed Assets	1,527.08	1,556.51	Total Long term liabilities	416.15	482.84
Long term Assets			Share Holders funds		
Good will on investments in associate of subsidiary	434.60	368.56	Share Capital	289.37	289.37
Non-Current investments	3,376.18	3,524.09	Reserves and surplus	5792.35	4517.85
Deferred Tax assets	39.03	36.90			
Long term Loans and advances	579.9	227.71	Minority Interest	0.17	0.29

Other Noncurrent assets	1.43	401.77			
Total Noncurrent Assets	5,958.22	6,115.54	Total share holders' funds	6,081.89	4,807.51
Total Assets	11,162.41	9,178.75	Total Liabilities	11,162.41	9,178.75

2.1.1 Observations

- *Current Assets:* There is an increase in the current assets by 69.8% when compared to the previous year as seen in the balance sheet. It can be seen that the cash and bank balances have increased
- *Fixed Assets:* The total fixed assets of the company have gone down by 1.89% compared to the previous year. This is due to the value of the intangible assets and the capital work in progress has gone down. The Intangible assets are under development.
- *Long Term Assets:* The total long term assets have gone down by 2.5% compared to the previous year. Even though there is an increase in goodwill of investments, noncurrent investments, Deferred tax assets, long term loans and advances, there is a major drop down in other noncurrent assets which includes interest receivables on long terms investments, loans deposits and etc.
- *Current Liabilities:* There is an increase of total current liabilities by 19% where the short term provisions and the trade payables play a major part.
- *Long term Liabilities:* The long term liabilities have come down by 13.8% as the company has paid back the long term liabilities and the long term borrowings by a major portion.
- *Shareholders' Funds:* The shareholders' funds have increased by 26.5% as the reserves and the surplus of the company has increased majorly by 28%.

2.2 Statement of Comprehensive Income

It is also referred to as a profit and loss statement, reports on a company's income, expenses, and profits over a period of time. A profit and loss statement provides information on the operation of the enterprise. These include sales and the various expenses incurred during the processing state. The total Revenue and the expenses of the company are given below:

Profit and Loss Statement		
Y/E March (Rs in Crore)	2012	2011
Revenues		
Gross sales	19,892.28	16,860.81
Less: Excise duty	946.76	933.41
Net Sales	18,945.52	15,927.40
Other Operating Revenues	649.13	501.69
Revenue from operations (net)	19,594.65	16,429.09
Other Income	606.61	578.96
Total Revenue (i)	20,201.26	17,008.05
Expenses		
Cost of Raw materials and components	13,454.66	11,327.35

consumed		
Purchase of traded goods	757.01	574.00
Increase in inventories of finished goods, work in progress and traded goods	-85.65	-98.19
Employee benefits expense	550.18	501.53
Other expenses	1,257.91	982.59
Expenses included in above items, capitalized	-49.43	-16.66
Total Expense (ii)	15,884.68	13,270.62

2.2.1 Observations

- Sales growth has reached 21% which is the highest in the BAL's sales record and this is mainly due the R&D investments of the BAL.
- Hence the there is a total increase in the revenue of BAL by 18%
- The expenses also there is an increase compared to the previous year by 19.69% as there is an increase in the purchase of the raw material consumption and the purchase of the traded goods and employee benefits expenses.

The income statement that is derived from the Revenue and the expenses of BAL is given below:

Operating Profit	3,709.97	3,158.47
EBIDTA	4,316.58	3,737.43
Finance costs (Interest Expense)	22.79	2.39
EBDTA	4,293.79	3,735.04
Depreciation	146.73	123.89
Profit before exceptional items and tax (i-ii)	4,147.06	3,611.15
Exceptional items	-134	826.82
Profit Before Tax	4,013.06	4,437.97
Tax Expense		
Current tax	1003.39	980.00
Deferred tax	16.27	26.29
Total tax expense	1019.66	1006.29
Profit after Tax	2,993.40	3,431.68
Income from associate after tax	55.08	23.11
Minority interest	-0.14	-0.10
Profit before deferred tax adjustments	3,048.62	3,454.89
Deferred Tax assets write off	3.22	-
Net Profit for the year	3,045.40	3,454.89
Number of shares	28.9367	28.9367
Earnings per share (in Rs)	105.24	119.39

2.2.2 Observations

- There is an increase in the EBIDTA margin compared to the previous year
- The depreciation of the machinery has increased.
- The net profit of the year has decreased 11% compared to the previous year as there is an increase in the exceptional items in the current year which includes valuation losses on derivative hedging instruments as per the 5th Annual report 2011-2012 of the company.

2.3 Statement of changes in equity

The statement of changes in equity explains the changes of the company's equity throughout the reporting period. Since there is no major change in the BAL shareholders this is covered in detail as part of this assignment.

2.4 Statement of cash flows

The statement of the cash flows reports on a company's cash flow activities, particularly its operating, investing and financing activities. The cash flow statement of BAL on these three periods is below.

2.4.1 Cash flow from Operating Activities for BAL

To calculate the cash flow from the operating activities we start with the net income. Net income is derived from the income statement. We need to add back the non-cash expenses and adjust for the change in current assets and liabilities. The result is cash flow from operating activities. The cash flow from operating activities calculated for BAL is below:

Cash flow from Operating Activities for BAL		
Y/E March (Rs in Crore)	2012	2011
Profit Before Tax	4,013.06	4,437.97
Add: Income from associate after tax	55.08	23.11
Total (I)	4,068.14	4,461.08
Adjustments:		
Add:		
i) Depreciation	146.73	123.89
ii) valuation losses of derivative hedging instruments	134	-
iii) Amount written off against technical know-how	2.14	2.14
iv) Amount written off against leasehold land	0.65	0.65
v) Loss on assets sold, demolished, discarded and scrapped	7.49	20.12
vi) Provision for doubtful debts and advances	9.95	0.34
vii) Amortization of premium/discount on acquisition of fixed income securities	18.64	15.91
viii) Interest expense	22.79	2.39
Total (II)	342.39	165.44
Less:		
i) investment income included in above:		

interest on long-term investments	275.56	320.88
interest on fixed deposits and others	42.76	6.16
Profit on sale of investments, net	33.09	52.82
Surplus/(Loss) on redemption of securities, net	-6.03	1.39
Dividend on long-term investments	0.14	0.47
Amortization of premium/discount on acquisition of fixed income securities	-18.64	-15.91
Total	326.88	365.81
ii) Provision for doubtful debts and advances written back	1.86	2.22
III) Surplus on sale of assets	9.65	9.37
iv) Surplus on prepayment of sales tax deferral liability/loan	-	826.82
Total(III)	-338.39	1,204.22
Toal(I+II+III)	4,072.14	3,422.30
Change in assets and liabilities		
i) Inventories	-127.36	-117.86
ii) Trade Receivable	-62.39	-70.72
iii) Loans and advances and other assets	-4.16	-1066.71
iv) Liabilities and provisions	301.26	462.84
Total	107.35	-792.45
Annuity payments(net) to VRS optees	-19.20	-18.58
Net cash from operating activities before income tax	4,160.29	2,611.27
Income tax paid	-1,147.28	-971.9
Net cash from operating activities	3,013.01	1,639.37
Carried Forward	3,013.01	1,639.37

2.4.2 Cash flow from Investing Activities forBAL

Cash flow in investing activities involves changes in capital assets: acquisition of fixed assets and sales of fixed assets(i.e. net capital expenditures). The cash flow from investing activities is given below:

Cash flow from Investment Activities for BAL		
Y/E March (Rs in Crore)	2012	2011
Brought Forward	3,013.01	1,639.37
i) (Increase)/ Decrease in other investments, net	-347.71	-821.17
ii) (Increase)/decrease in other bank balances	-474.96	0.16
iii) Capital expenditures	-109.53	-201.71
iv) Sales Proceeds of assets/adjustment to gross block	22.65	39.05
v) Capital expenditure on development of technical know-how	-29.88	-6.42
Total(IV)	-939.43	-990.09

vi) Investment income		
Interest on long term investments	275.56	320.88
Interest on fixed deposits and others	42.76	6.16
Profit on sale of investments, net	33.09	52.82
Surplus/(Loss) on redemption of securities, net	-6.03	1.39
Dividend on long-term investments	0.14	0.47
Amortization of premium/discount on acquisition of fixed income securities	-18.64	-15.91
Total	326.88	365.81
(increase)/decrease in investment income receivable	-0.76	-2.75
Total(V)	326.12	363.06
Net cash from Investment activities (IV+V)	-613.31	-627.03
Carried Forward	2,399.70	1,012.34
	0	4

2.4.3 Cash flow from financing Activities forBAL

Cash flow to and from creditors and owners include changes in equity and debt. The cash flow from financing activities for BAL is given below:

Cash flow from Financial Activities for BAL		
Y/E March (Rs in Crore)	2012	2011
Brought Forward	2,399.70	1,012.34
i) Short term bank loan taken/(repaid)	-131.17	134.16
ii) Cash Credit from banks	-23.53	10.55
iii) Interest expense	-22.79	-2.39
iv) Deferral/(Repayment) of sales tax deferral liability/loan	-31.88	36.68
v) Pre-payment of sales tax deferral liability/loan	-10.39	-368.14
vi) Dividend paid	-1,154.26	-577.58
vii) Corporate dividend tax paid	-187.77	-96.12
Total (VI)	-	-862.84
Adjustment to net worth on consolidation:		
i) Foreign currency translation reserve	59.38	38.21
ii) Foreign exchanged difference on paid up capital of subsidiary	0.26	0.12
iii) Adjustment to minority interest	-	-
iv) On account of change in share of net assets of associate of subsidiary	39.79	-46.42
Total(VII)	99.43	-8.09
Net cash from Financing activities (VI+VII)	-	-870.93

	1,462.36	
Net change in cash and cash equivalents	937.34	141.41
Cash and Cash Equivalents as at 1st April 2011 (Opening Balance)	247.5	106.09
Cash and Cash Equivalents as at 31st March 2012 (Closing Balance)	1,184.84	247.5

3 Bajaj Auto Ltd Ratio Analysis

Financial ratios are traditionally grouped into the following categories:

1. Short Term Solvency or Liquidity ratios
2. Long term solvency or financial leverages ratios
3. Asset management or turn over ratios
4. Profitability ratios
5. Market Value Ratios

3.1 Short Term Solvency or Liquidity Ratios

Short term solvency ratios as a group are intended to provide information about a firm's liquidity, and these are sometimes called liquidity measures. The Primary concern is the firm's ability to pay its bills over the short run without undue stress.

The short term solvency or the liquidity ratios for BAL is given below:

Short Term Solvency or liquidity Ratios					
SI NO	Ratios	Formula	Mar-12	Mar-11	Observations
1	Current Ratio	Current Assets/ Current Liabilities	1.115733	0.787782	The current Ratio is increased when compared to the previous year and it is seen that it is greater than 1.
2	Quick Ratio	(Current Assets - Inventory) / Current Liabilities	0.964885	0.639584	The Quick Ratio is slightly less than one. Since the inventories are not high in BAL, it is almost same as the current ratio
3	Cash Ratio	Cash/ Current Liabilities	0.355855	0.063661	The Cash and bank balances have increased.

The Short term solvency ratio or the liquidity ratio as it can be seen from the above table, it is increasing when compared to the previous year. And the cash Ratio shows that there is a increase in the cash and bank balances in this year and it can be used for investments in the firm.

3.2 Long Term Solvency Measures

Long terms solvency ratios are intended to address the firms long run ability to meets its obligations or more generally, its financial leverages. The long term solvency ratios of BAL are given below:

Long Term Solvency or liquidity Ratios					
SI NO	Ratios	Formula	Mar-12	Mar-11	Observations
1	Debt-Equity Ratio	Total Debt//Total Equity	0.83535217	0.909252	This Ratio takes into account all debts of all maturities to all creditors.
2	Times Interest Earned	EBIT/Interest	182.968407	1511.941	This Ratio measures how well a company has its interest obligations covered, and it is often called the interest coverage ratio.
3	Cash Coverage Ratio	EBDIT/Interest	189.406757	1563.778	This Ratio measures the firm's ability to generate cash flows from operations and it is frequently used as a measure of cash flow available to meet financial obligations.

3.3 Asset Management or Turnover Measures

The Asset management or utilization ratios are intended to describe how efficiently, or intensively, a firm uses its assets to generate sales.

Asset Management or Turnover Ratios					
SI NO	Ratios	Formula	Mar-12	Mar-11	Observations
1	Inventory Turnover Ratio	Cost of goods sold/Inventory	26.9261665	27.6397	Since this Ratio is high, it denotes the BAL inventories are highly managed.
2	Days' Sales in Inventory	365 Days/ Inventory Turn over	13.5555873	13.2056	Here it can be seen that the inventory is rotated for every 14 days
3	Receivables Turnover	Sales/Accounts Receivables	47.136367	47.0195	This measure gives an idea of how fast we collect on the sales and this measure is also high.
4	Days' sales in Receivables	365 Days/ Receivables Turnover	7.74349028	7.76273	Therefore BAL collects the credit sales in 8 days. This ratio is also called as average collection period.
5	Total Asset Turnover	Sales/Total Assets	1.69726072	1.73525	Hence for every rupee for asset BAL generated 1.7 times in sales.

Hence from the above table it can be seen tat for both the years the ratios are almost equal and hence the inventory system, the accounts receivables are more stabilized in BAL.

3.4 Profitability Measures

The profitability Margin intends to measure how efficiently the firm uses its assets and how efficiently the firm manages its operations. The profitability measure of BAL are given below:

Profitability Ratios					
SI NO	Ratios	Formula	Mar-12	Mar-11	Observations
1	Net Profit Margin (%)	Net Profit/ Net Sales	16.0745126	21.6915	Net Profit margin has gone down compared to the previous year as the sales have gone up and it is the highest in the years.
2	Return on Assets (ROA)	Net income/ Total Assets	27.2826388	37.6401	It is defined as the profit per rupees of assets.
3	Return on Equity (ROE)	Net income/ Total Equity	50.0732503	71.8644	It is the measure of performance of the year.

BAL's Profitability margins have gone down when compared to the previous here. It has reached the highest sales in the current year but the profit has remained the same as it can be seen in the profit and loss statement. The Return on Assets (ROA) and the Return on Equity (ROE) has also come down as the Asset of the company and the total assets and the Total shareholders' equity has increased.

3.5 Market Value Measures

The market value measures are based on the information not necessarily in the financial statements- the market price per share of the stock. The BAL's market value measures of the stock are given below:

Market Value Ratios					
SI NO	Ratios	Formula	Mar-12	Mar-11	Observations
1	Earnings per share	Net income/ Shares outstanding	105.24	119.39	Share Price is Rs 1686.00, Market Capital Rs 48,762 as on 8th april 2013
2	Price-Earnings Ratio	Price per share/ Earnings per share	16.02	14.12	
3	Market-Book Ratio	Market Value per share/ Book value per share	8.02	10.15	

4 Shareholder value maximization framework

The four key elements that affect the shareholder value of a company are

- Profitability
- Growth
- Risk
- Capital Market Conditions

Applying the shareholder value maximization framework to Bajaj Auto Ltd. for year 2012 and 2011, we get the following table:

Parameters	Year 2012 compared to Year 2011
Profitability	0 (Profitability indicators like Operating Profit Margin, Profit Margin, have decreased when compared to the previous year)
Growth	+ (Growth in sales and profitability, growth in assets was very minimal)
Risk	0 (Not a very risky business)
Capital Market Conditions	+ (The market is seeming to be favorable as the sales of BAL is high for the year 2012)
Σ	2+

Let us apply the shareholder value maximization framework to Bajaj Auto Ltd. and to its close competitors, Hero Honda Motors Ltd. and TVS Motor Company Ltd. The information that we have is presented below:

Performance comparison with the competitors			
Parameters for Comparison	Bajaj Auto	Hero Motor corp	TVS Motor
Net Sales	18,945.52	23,586.80	7,126.20
Sales Growth (%)	18.95	21.79	15.32
Net Profit Margin	16.07	10.08	3.50
EBDITA Margin	21.37	16.63	6.86
P/E Ratio	16.02	12.43	7.60
P/BV Ratio	8.02	6.89	1.62

As it can be seen even though the sales growth of the Hero Motor Corp. is high compared to the BAL, the market performance of BAL seems to be high. Hence from this we can derive the shareholder maximization framework for the companies as below:

Parameter	BAL	Hero Honda	TVS
Profitability	0	+	+
Growth	+	+	0
Risk	0	0	0
Capital Market Conditions	+	0	-
Σ	2+	2+	0+

5 Conclusion

- Bajaj Auto recorded its highest sales, exports and profits from operations.
- Net sales and other operating income grew by over 19% to Rs 19,804 crore.
- BAL sold 4.35 million units – consisting of over 3.83 million motorcycles and more than 515,000 three-wheelers.
- Exports rose by 31% over last year to 1.58 million units. It grew even faster in revenue terms – by 45% to Rs6,604crore and accounted for 35%of Company’snet sales.
- Bajaj Auto’s operating EBITDA crossed the Rs 4,000 croremark increasing by over 18% to Rs 4,001crore. The operating EBITDAmargin was 20.2% ofnet sales and otheroperating income
- Profit before taxes (PBT)grew by 15% to Rs4,160 crore
- Profit after tax (PAT) but before exceptional items grewby 18% to Rs 3,095 crore.

6 End Notes

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