

Press Release

Bajaj Auto Limited Board approves demerger scheme

The Board of Directors of Bajaj Auto Limited (BAL) today approved the Scheme for Demerger (“Scheme”) of the businesses of the Company.

The Scheme as cleared by the Board is subject to approvals as may be required including that of the Stock Exchanges, Bombay High Court, and shareholders of the Company.

Background:

1. BAL is a leading two and three-wheeler manufacturer with a global vision. It is well known for its R&D, product development, process engineering and low-cost manufacturing skills which have enabled it to grow its market share in the motorcycle segment from 22.9% in 2001-02 to 33.5% in 2006-07. With such comparative advantages, the Company is uniquely poised in its pursuit of being among the three largest global producers in two-wheelers by 2010. Currently, it is the largest exporter of two and three-wheelers in the country with exports forming 18% of its total sales. It has recently started operations in Indonesia through its subsidiary PT Bajaj Auto Indonesia.
2. BAL is also engaged in the generation of wind-energy through its wind power project. The company has set up a total of 138 windmills at a capital expenditure of Rs. 2.94 billion. The total installed capacity of the wind-power project is 65.2 MW.
3. BAL is engaged in the insurance business through its joint ventures Bajaj Allianz Life Insurance Company Limited (BALICL) and Bajaj Allianz General Insurance Company Limited (BAGICL). Both these companies are growing rapidly and are already ranked second in their respective fields among private insurers in India. With favorable demographics and a low insurance penetration compared to other countries, India represents a huge growth opportunity for the insurance businesses. Both these joint ventures are well placed to exploit this opportunity.
4. BAL is engaged in the consumer finance business through its associate company Bajaj Auto Finance Limited (BAFL). BAFL is a leading NBFC in auto finance & consumer durables finance and is now expanding into other areas of consumer financing including personal loans, etc., with plans to become a full-fledged consumer finance company offering a complete range of finance products.

Objective of the demerger:

1. Considering the growth opportunities in the auto, wind-energy, insurance and finance sectors, the Board has considered it timely and appropriate to de-merge these activities into separate entities, each of which can focus on these core businesses and strengthen competencies.
2. The demerger will create three separate entities with management focus on clearly laid out objectives, pursuant to which: -
 - a. the auto company would focus on auto business;
 - b. the wind power and financial services company will focus on wind-energy generation, insurance, consumer finance and new initiatives in financial services space; and
 - c. the primary investment company will focus on new business opportunities.
3. The two new companies will be able to tap (on an arm's length basis) into the cash pool of the investment company to support future growth initiatives, if required.
4. The demerger will enable the investors to hold separate focused stocks.
5. The demerger will facilitate more transparent benchmarking of the companies with its peers in their respective industries.

Key elements of the Scheme:

The Scheme would operate as under.

1. BAL has formed two subsidiaries viz.
 - i. **Bajaj Holdings and Investment Limited (BHIL) and**
 - ii. **Bajaj Finserv Limited (BFL).**
2. BAL has subscribed to the shares of the two companies as under.

BHIL – 43.5 million shares of Rs. 10 each i.e. Rs. 435.0 million.
BFL – 43.5 million shares of Rs. 5 each i.e. Rs. 217.5 million.
3. The auto business of the company along with all assets and liabilities pertaining thereto, including investments in PT Bajaj Auto Indonesia and in a few vendor companies, would be transferred to BHIL. In addition a total of Rs. 15,000 million in cash and cash equivalents would be transferred to BHIL.
4. The wind power project, investments in the insurance companies viz. BALICL, BAGICL and investment in the consumer finance company BAFL along with relevant assets and liabilities would be transferred to BFL. In addition a total of Rs. 8,000 million in cash and cash equivalents would be transferred to BFL.

5. The remaining assets and liabilities including investments in group companies and balance cash and cash equivalents would be retained in the existing BAL.
6. As part of the Scheme, Bajaj Holdings and Investment Limited (which would be the new auto company) would be renamed as Bajaj Auto Limited and the existing Bajaj Auto Limited would be renamed as Bajaj Holdings and Investment Limited. (which would act as the primary investment company). Requisite changes would be made in the respective charter documents of these companies.
7. All shareholders in existing BAL on the record date would become shareholders in each of the new companies and would be issued shares of the two new companies in the ratio 1:1.

After such issuance, each shareholder would, for every share held in existing Bajaj Auto Limited,

- a. continue to hold one share of BHIL (existing BAL) of face value of Rs. 10 each fully paid up,
 - b. be allotted one share of the new BAL (existing BHIL) of face value of Rs. 10 each fully paid up and
 - c. be allotted one share of BFL of face value of Rs. 5 each fully paid up.
8. After the above issue of shares by the new companies the share capital position in each of the companies would be as under.

Bajaj Holdings and Investment Limited (existing BAL)

	No. of shares (Mn.)	Face Value Rs.	Amount (Rs. Mn.)
Authorized	150.00	10	1500.0
Issued	101.18	10	1011.8

Bajaj Auto Limited (New)

	No. of shares (Mn.)	Face Value Rs.	Amount (Rs. Mn.)
Authorized	150.00	10	1500.0
Issued	144.68	10	1446.8

Bajaj Finserv Limited

	No. of shares (Mn.)	Face Value Rs.	Amount (Rs. Mn.)
Authorized	150.00	5	750.0
Issued	144.68	5	723.4

5. After the issue of new shares, the existing shareholders of BAL would hold about 70% shares in the new companies in the same ratio as their current holding, with the remaining about 30% being held by Bajaj Holdings and Investment Limited.

The proposed transaction reinforces the commitment of the Bajaj Auto Limited Group to the businesses of the new companies BAL and BFL. The transaction structure will also enable the new companies to tap into the cash pool of BHIL to support their future growth initiatives even while enabling BHIL to participate in the growth of the auto business and the financial services business.

6. The provisions of the Scheme would be applicable and come into operation from closing hours of 31 March 2007. The demerger process, which is subject to statutory and regulatory procedures, is expected to be completed by end of calendar year 2007.
7. JM Morgan Stanley Pvt Ltd and J Sagar & Associates are acting as Advisors for the restructuring.

Rahul Bajaj
Chairman

17 May 2007