

MANAGEMENT DISCUSSION AND ANALYSIS

"This is the time to speak the truth, the whole truth, frankly and boldly... This great Nation will endure as it has endured, will revive and will prosper. So, let me assert my firm belief that the only thing we have to fear is fear itself... which paralyzes efforts to convert retreat into advance."

Franklin Delano Roosevelt

32nd President of the United States of America
Inaugural Address, 4 March 1933

President Roosevelt was speaking when the Great Depression had wreaked havoc on the world economy. Between 1929 and 1932, real GDP of the USA crashed by 25%. Private investment plummeted by 84%. Exports fell by 46%. And unemployment ballooned by 607%.

It is important to put things in perspective.

Compared to the Great Depression which ravaged the USA, the United Kingdom, France, Germany, Latin America, Japan, India and most colonial possessions of the time for at least four long years — when global GDP fell by 15% between 1929 and 1932 — the worst-case economic impact of the COVID-19 pandemic pales to insignificance. Though terrible in the number of worldwide infections and deaths, the global economy is projected to contract by 3% in 2020 [International Monetary Fund, *World Economic Outlook*, April 2020].

It also needs stating that much of the world should come out of the slump by the last quarter of CY2020, and that the global economy is projected to return to growth by CY2021.

We at Bajaj Auto are confident about our products, our customers and every one of our employees. A large and profitable company like ours has the financial strength to deal with the economic impact of this pandemic. We have people who have earned us the distinction of becoming **The World's Favourite Indian** with industry-leading metrics.

Today, we are again open for business. Not fully, but in good measure. Soon enough, the effects of the lockdown will be things of the past. And then, unified in our resolve and commitment, Bajaj Auto will roar back at full throttle!

We don't fear fear. We know how to convert a challenge into opportunities. And we will.

Even before the onset of COVID-19 in India, two things had become obvious. The first was that throughout FY2020, the country's economic growth was slowing down. And the second was that the automotive sector was facing declining demand across the board.

Let us start with India's economic growth. The growth of real GDP was 5.9% in January-March 2019; then fell to 5.6% in April-June 2019; then yet again to 5.1% in July-September 2019; followed by 4.7% growth in October-December 2019. At the time of drafting this *Management Discussion and Analysis*, we do not have the official data for the fourth quarter of FY2020 (i.e. January-March 2020). However, given that the last eight days of March 2020 were under a full national lockdown, it would be hardly likely to see a bump up in the growth rate in Q4 FY2020.

Before the COVID-19 lockdown, both the Reserve Bank of India (RBI) and the Central Statistical Office (CSO) of the Government of India had revised the GDP growth rate downwards. The RBI changed its full year GDP growth estimate from 7.2% to 5.0% in February 2020. In a similar vein, the second advance estimates of national income for FY2020 released by the CSO on 28 February 2020 pegged GDP growth for FY2020 at 5.0% compared to 6.1% in FY2019; and growth in gross value added (GVA) at 4.9% in FY2020 versus 6.0% in FY2019.

The CSO officially released the data on GDP growth for FY2020 and Q4 on 29 May 2020. The numbers were worse than projected above. GDP growth for FY2020 was 4.2%, an 11-year low. And for Q4 FY2020 it was 3.1%, thanks to the COVID-19 lockdown effect.

India was not alone in this growth slowdown. The engine sputtered in China as well. Table 1 gives the data on real GDP and gross value added (GVA) growth over the last five financial years.

Table 1: Growth in real GDP and GVA, India

	FY2016	FY2017	FY2018	FY2019	FY2020
Real GDP growth	8.2%	7.1%	7.2%	6.1%	4.2%
Real GVA growth	8.1%	7.1%	6.9%	6.0%	3.9%

Source: Government of India, Central Statistical Office (CSO).

Regarding the automotive sector, as an example consider the industry's domestic sale of motorcycles. After two consecutive years of impressive growth in FY2018 and FY2019 — when the number of motorcycles sold within India increased by 13.7% followed by 7.8% — FY2020 saw a huge de-growth of 17.5%. In terms of the number of units billed by the industry, April-June 2019 was 25% of the number of motorcycles billed for FY2019, which suggested that the industry as a whole seemed to be on track. Then the slowdown began in earnest. Total billing for Q2 FY2020 was at 21% of the previous year's total. For Q3 FY2020, this share had reduced to 20%. And thanks to the lockdown that effectively eliminated the last eight days of March 2020, the share dropped even further in Q4 FY2020 to a mere 17% of the previous year's total.

Consequently, domestic sale of motorcycles in FY2020 fell to 11.2 million units, or a decline of 17.5% over the previous year. It was worst ever percentage fall since FY2011.

Industry-wide domestic sales of three-wheelers fell as well. After enjoying a growth of over 10% in FY2019, when sales increased to some 701,000 units, it fell by 9.2% to a little over 636,500 units in FY2020.

How did Bajaj Auto perform in this extremely difficult period? For this, it is best to start with the Company's financial performance for FY2020, compared to the previous year.

Charts A and B illustrate Bajaj Auto's financial performance.
Chart C shows the overall industry's sale of two-wheelers.

Chart A: EBITDA and EBITDA %

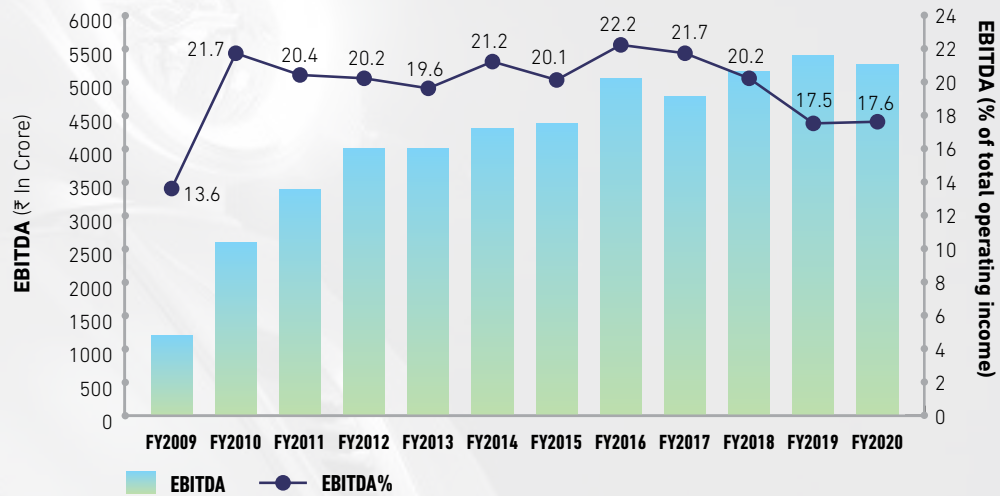


Chart B: Total Operating Income, Operating Profit and PAT

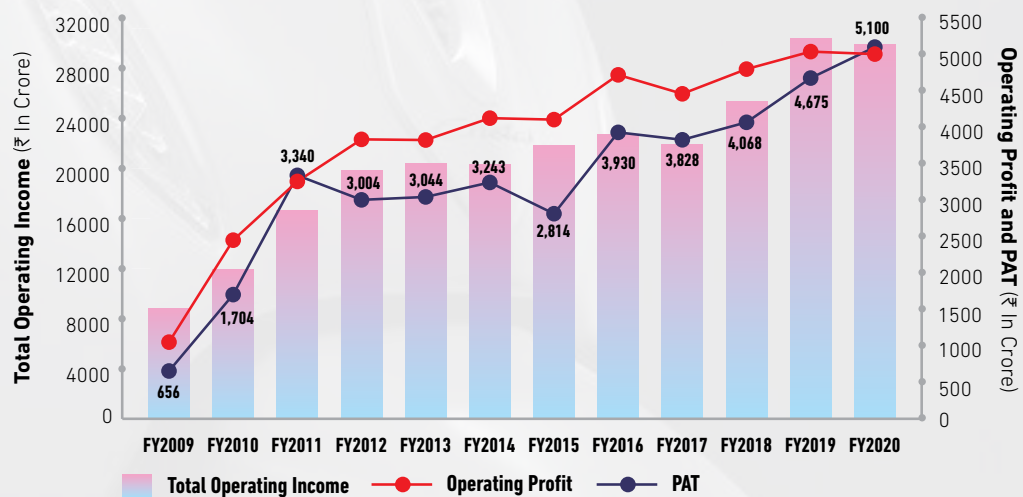


Chart C: Industry's Sale of Two-Wheelers, Domestic + Exports (million units)

