Competition and Corporate Strategy in the Indian Automobile Industry with special reference to Maruti Udyog Limited and Suzuki Motor Corporation[1)]

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Introduction

The Indian automobile industry has been continuously growing last two decades to reach 'a member of one million units of passenger car club' (including Utility Vehicles, UVs) in 2004-2005. Maruti Udyog Ltd. (henceforth, MUL) has been the leader of the market. After the lifting of licensing in 1993, 16 new ventures of car manufacturing have come up, which has put the market and car manufacturers in the country under the unprecedented severe competition.

This paper discusses following topics in each section. 1) MUL introduced

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quite a new production and management system first in India, which were basically common to Japanese car manufacturers. Some referred the change in the automobile industry triggered by MUL's to *Maruti Revolution*. We will point to MUL's achievement and the remaining issues up to the mid-1990s. 2) The latter half of the 1990s saw massive entries and set-ups of the new ventures both from car manufacturing and automotive component manufacturing. With the commencement of production by new entrants, particularly Hyundai Motor's compact car production, MUL faced real challenge in the industry first time since its inception. Suzuki Motor Corporation (SMC) left the fifty-fifty equity holding and assumed the management control in 2002, which helped MUL metamorphose into more competitive manufacturer. 3) We analyzes some financial parameters of MUL in terms of the transaction relationship between the parent company, SMC, and its subsidiary, MUL, showing the latter's financial contribution to the former.

Indian Automobile and Automotive Component Industry : *Maruti Revolution* and Some Issues up to the mid-1990s[2)]

Historical Background[3)]

The seed for local manufactures in India was sown by the establishment of the two vehicle manufacturing plants, Hindustan Motors (HML) and Premier Automobiles (PAL) in 1944. In 1953, the Government of India prohibited the import of cars and assembly activities by foreign car manufacturers to encourage local production of vehicles by the establishment of a component manufacturing base. Since then both HML and PAL continued to monopolize passenger car production for thirty years until 1983 when the joint venture between Suzuki

2) This section is based on author's earlier research note, Ishigami [2001].
3) Cf. ACMA [1996], p.1.

Motor and Maruti Udyog Ltd. (MUL), a central government public enterprise, initiated its first production. MUL was the only new entrant into the passenger car manufacturing. Until MUL was born, the industry was reconciled to around 40,000 cars in early 1980s. The number of the car production increased remarkably since 1984 with MUL's entry.

However, joint ventures for passenger car production between Isuzu and HML, Nissan and PAL, Honda and Tata Engineering and Locomotives Company (TELCO), and Citroen and Escorts were all rejected by the Government. MUL achieved a remarkable success in a very short period since the commencement of manufacturing Maruti 800, which was often called "Maruti Revolution." In the area of commercial vehicles, Bajaj Tempo, TELCO and Mahindra & Mahindra entered and started their manufacturing. In early 1980s, a number of other Indo-Japanese joint ventures were set up in the private sector two-wheeler and light commercial vehicle manufacturing. Japanese joint ventures in the commercial vehicle manufacturing were not successful.

1990s saw further liberalization of the economy. With the broad ranging liberalization policy of 1991, the industrial licensing procedure was got rid of. In 1993, the Government completely liberalized the entry of foreign automobile manufacturers. The latter half of the 1990s saw many (too much) entries and set-ups of the new joint ventures both from car manufacturing and automotive component manufacturing. With the commencement of production by new entrants, as we discuss it later, the competition seeking for the larger market shares has been intensified, coupled with the due erosion of MUL's share.

Maruti Revolution

Before MUL came into existence, the production of passenger car in India,

manufactured by HML and PAL, was low and remained around only 40,000 vehicles for almost two decades. However, within three years of starting production, MUL expanded its capacity to 100,000 units per annum. "MUL marked a radical departure for the Indian auto industry", with the following distinctive features summarized by Humphery, Mukherjee, Zilbovicius and Arbix [1999][4] :

1) Production of a relatively modern small car design : It was fuel-efficient and cheap, and its overall quality was much superior to its competitors.
2) Location away from established industries areas : The MUL plant was set up on a greenfield site at Gurgaon in Haryana State. Although close to New Delhi, the plant drew its labour force predominantly from surrounding agricultural areas. PAL was situated in Bombay and HML in Calcutta-both hot spots of labour militancy in the 1970s and 1980s.
3) Achievement of scale economics : Within three years of starting production, MUL expanded its capacity to 100,000 units per annum.
4) Suppliers network : MUL developed a suppliers network which imitated some of features of the Japanese suppliers system as it existed in early 1980s.

Further, Suzuki introduced its own management style in various ways, mostly known as Japanese way of management, from plant design to work organization. With much positive evaluation to MUL's management from SMC side, Mohanty, Sahu and Pati [1994] summarized it as follows :

1) The layout of the factory of MUL is on similar pattern of Suzuki.
2) Machinery and equipment are identical.
3) The organisation structure and the staffing of people follow Suzuki's style in entirety.

4) Humphery, Mukherjee, Zilbovicius and Arbix [1999], p.132.

4) Quality circles have been introduced.
5) The entire work forces are well-informed about the organisation's emphasis on high quality and productivity as in Suzuki.
6) Efforts are initiated to develop the sense of commitment of the employees to work and company goals through posters, literature, speeches, meetings, etc. just as in Suzuki.
7) The feeling of oneness i.e. all are equal and equally important to the company, is instilled through common uniform, common canteen, common transport, common official work place with no hierarchy anywhere as in Suzuki.
8) People are sent to Japan to know Japanese way of working much more than the technology or details of actual job.
9) Japanese experts are called to do actual work for long durations (up to two years) in all areas of work in MUL. Indian counterparts are also identified for each expert. This ensures learnings of not only technology, but also their approach to a particular problem and its solution[5].

When MUL entered car production, many automotive component manufactures of the country were operating at rather low levels of technology and production base. Suprious parts are quite common in the aftermarket, which is another indication of the industry's low level. In fact, in 1995, Automotive Component Manufacturers Association of India (ACMA) described main characteristics of the industry as follows :

1) Small scale. Small scale industries (SSI) firms, 6000 firms, in the 'un-organised sector' account for 94 per cent in terms of number of firms and 40 per cent of output. 'Organised sector' firms', 350 firms, average sales is

5) Mohanty, Sahu & Pati [1994], p.135.

only about $4 million. The Indian auto parts industry's small size and relative fragmentation limit its ability to capture the economies of scale necessary for success in the global industry.

2) While generally quite fragmented, the industry is highly consolidated within certain component groups. These are engine valves, fuel injection pump, pistons, wheels, spark plugs, gaskets, steering gears and transmission gears.
3) The relative isolation of the industry from the world market—inbound and outbound—offers protection, but also limits the competitive pressure that drive improvement.
4) A wage-based low-cost position as the source of competitiveness. The industry's cost advantage is labour-based and significant in the global market—assuming equivalent quality and functionality.
5) The industry appears profitable, and in fact more profitable than its American and European counterparts—understandable given isolation and other factors such as lack of OEM vertical integration, demand is higher than supply and government protection[6].

ACMA also indicated that a critical obstacle to better performance was the low quality of sub-suppliers to the industry. This was the same situation in ASEAN Four at that time.

Confronting the situation, MUL stepped up its own efforts to accelerate the indigenisation process by setting up joint venture projects with the vendors.

6) ACMA [1995], pp.3～8. Tomozawa [1999] vividly illustrates variety of suppliers with various origin in the Delhi Metropolitan Area (NOIDA and Greater NOIDA), classifying the automotive component firms into six categories : a) OEM suppliers, b) Second-tier supplier, c) Job work, d) Exporter, e) Replacement parts supplier and f) Manufacturer of production facility.

MUL continued to enhance the production capacity and the upgradation of manufacturing facilities of potential vendors with the help of some investment opportunities being tied up through the financial agencies. As a result MUL has been able to attain 90.58 per cent indigenisation for Muruti 800, nearly 87 per cent for Omni and about 66 per cent for its Gypsy jeep by the end of the period 1989-90[7]. The indigenisation ratio of Maruti 800 is more than 95 per cent for domestic sales in late 1990s. One should note that this was achieved by the positive cooperation from Japanese suppliers side as well, sometimes their cross-*keiretsu* operation found.

Also MUL brought about a profound effect on the automotive component industry. That is one of the reason why the entry of MUL is called 'Revolution'. Humphery, Mukherjee, Zilbovicius and Arbix describe the effect and MUL's way and characteristics of inter-corporate relationship :

> Firstly, it increased the scale of the whole industry. Secondly, it raised quality standards among existing component manufacturers. Thirdly, it introduced the ideas of partnerships and tie-ups between assemblers and suppliers. In its public discourses on suppliers, the company has consistently emphasized trust, partnership and continuous improvement.
>
> Located on a greenfield site away from the traditional auto producing areas, MUL set about creating a suppliers network which would be capable of sustaining an operation which bought a high proportion of the value of its cars from its suppliers. In order to do this, it brokered the formation of joint ventures between Indian and foreign firms (many of them suppliers to the minority partner in MUL, Suzuki) and established an industrial park for its suppliers close to the plant. By the mid-1990s, it had brokered 45

7) Mohanty, Sahu & Pati [1994], pp.135～137. Also, see Shimane [1999].

technology tie-ups (26 with Japanese companies, 19 from other countries) and set up 12 joint ventures producing 23 per cent of the values of MUL's bought in parts. These were for critical, high-value parts with large investment requirements. It held small equity stakes in a number of these suppliers, in the manner of the Japanese Keiretsu.

The supplier network created by MUL shows many of the characteristics of obligational (as opposed to arm's-length) contracting. Relationships are long-term, and contract allocation procedures are not open. The supplier's quality record and its understanding of the customer's requirements are critical. Suppliers and customer are mutually dependent, and there is intense and multi-channeled communication between them[8].

Some Issues

MUL's success which has been achieved in the highly protected and price consciousness domestic market put forward some issues at the same time. First one relates to the quality and product development. The characteristics such as highly protected and price consciousness put the company less incentives to match the quality consciousness and develop new product for long time. Oba[9] shows very interesting surveys concerning the quality of the passenger cars. Maruti cars were ranked low, particularly for low price ranging and vintage products, Maruti 800 and Maruti Omni, while Honda City, Ford Escort and Daewoo Cielo were ranked high. Under the recent very competitive circumstances, even in the small car segment, high quality products are requested by users who have lots of

8) Humphery, Mukherjee, Zilbovicius and Arbix [1999], pp.132～133. As for MUL's improving vendor relationship, see also Shimane [1999].
9) Oba [1999], pp.99～102.

information on cars and related products.

In this sense, the crucial point to improve the industry's competitiveness is to upgrade the technology level of the automotive component to meet the more sophisticated/wide range of auto parts for new cars to come. Indian 'big' automotive component firms are not big but rather smaller to the Japanese and international standards. All the assembler are, at present, very active to meet the demand for the higher level products with less cost on the one hand and invite their group and long-trading automotive components firms from home country on the other hand. These efforts are made by company or group basis. Therefore, as we referred to an ACMA's report in this section, it will need other agenda to bottom up the whole industry.

MUL faced these issues, however, the company was not to consider it as a serious problem or a threat to it until the real competitors, Hyundai Motor India[10] and TELCO (the largest commercial vehicles manufacturer in India), entered aggressively into the industry with the popular compact cars.

The competition and the corporate strategy of MUL since the late 1990s onwards

MUL has never encountered the real, serious competition in the business area of the compact car segment until Hyundai Motor and Tata Motors (former TELCO) made each sensational debut in the industry (see Table 1 and Figure 1). The issues above mentioned, and more issues turned out to be urgent subject matters to MUL which were to be solved in a short time : the slow decision making due to 50-50 equity holding ('the deemed Public Sector Undertaking')

10) With regard to Hyundai Motor's entry and its clustering automotive component firms in India, see Park [2004].

Table 1 Manufacturer wise Production Trend of Cars in India 1998～2003 (Passenger and Commercial Vehicles, calendar year, units)

Manufacturer	1998	1999	2000	2001	2002	2003	Change over 2002	Market Share
Maruti Udyog	343,348	393,837	348,665	356,633	355,198	437,347	(23.1%)	37.3%
Tata Motors*	118,565	181,965	181,093	173,614	210,429	288,998	(37.3%)	24.6%
Hyundai Motor India	8,676	58,660	88,350	88,860	108,250	153,747	(42.0%)	13.1%
Mahindra & Mahindra (M & M)	72,150	75,269	67,006	61,964	72,320	94,782	(31.1%)	8.1%
Ashok Leyland	26,588	36,679	34,661	32,036	32,643	45,122	(38.2%)	3.8%
Toyota Kirloskar Motor	—	—	21,514	28,418	25,985	37,481	(44.2%)	3.2%
Ford India	—	—	—	9,347	15,429	18,790	(21.8%)	1.6%
Honda Siel Cars	—	—	—	7,276	13,183	15,737	(19.4%)	1.3%
Hindustan Motors	23,886	25,933	29,568	24,063	23,415	15,654	(▲33.1%)	1.3%
Eicher Motors	5,379	6,399	8,036	9,197	12,442	13,965	(12.2%)	1.2%
Bajaj Tempo	9,216	10,137	9,359	6,860	8,737	13,610	(55.8%)	1.2%
GM India	3,279	2,388	7,311	7,783	8,401	12,238	(45.7%)	1.0%
Fiat India Automobiles	12,197	20,096	n.a.	n.a.	32,111	11,924	(▲62.9%)	1.0%
Swaraj Mazda	3,040	3,374	5,045	6,101	7,579	9,635	(27.1%)	0.8%
Skoda Auto India	—	—	—	—	—	1,916	(—)	0.2%
DaimlerChrysler India	1,355	414	752	1,217	1,158	1,396	(20.6%)	0.1%
Volvo India	—	—	—	—	353	203	(▲42.5%)	0.0%
Tatra Trucks India	—	—	—	72	173	123	(▲28.9%)	0.0%
Total of the Industry	627,679	815,151	801,360	813,441	927,806	1,172,668	(26.4%)	100.0%

Note : Tata Engineering and Locomotive Co. Ltd. (TELCO) changed its name to Tata Motors in July 2003.
(Data) ACMA & Society of Indian Automobile Manufacturers (SIAM)
(Source) FOURIN, *Sekai Jidousha Geppou*, No.227, July 2004, p.6.

and the 'dispute-prone partnership' for the initiative of the top management between both sides, the need for introduction of the new models, the need for the quality and efficiency improvement to the close level of the mother plant in Japan, the need for building-up of quality and cost conscious suppliers/vendors net work and the need for the better industrial relation, particularly wage agreement based on not the production volume but on the cost, etc.

Also, at the same time in the course of its seeking for corporate strategy in the midst of Mega-competition, MUL made a decisive option to take in a strategic

alliance with and under the umbrella of General Motors (GM) so as to survive in the industry, particularly seeking for the technological and brand strength of GMs' in the category of the medium and the higher-end cars[11]. GM's aim was to put SMC=MUL as a pivotal firm manufacturing compact cars in Asia and an export platform of the cars to all the areas but North America and Japan.

Soon after its introducing new models such as Wagon R, Alto LX and Alto VX in Indian market since 1999, MUL was to face a hard-hit industrial relations issue. In Gurgaon factory, there was a labour dispute which began with tool down agitation in September 2000 initiated by the union concerning the revision of production target and improvement in pension package, following the then decreasing trend of the MUL's share of the passenger cars market. The dispute, 'strike', lasted for a little more than two months with the loss of a half of the production target during that time and ended with basically MUL's control, introducing the new incentive scheme effective from November 1, 2000 which gave incentives based on increased productivity and quality of production.

The topic showed MUL's wage, work incentives and management style introduced by the Japanese firm, SMC, had not necessarily been accepted by the Indian employees and also by MUL's 50 : 50 shared control with the Government shadowed down in the area of industrial relations[12]. The incidence, indeed, was

11) GM has been in 'business partnership' with SMC since August 1981 and took 20.3 per cent equity participation in SMC in September 2000.

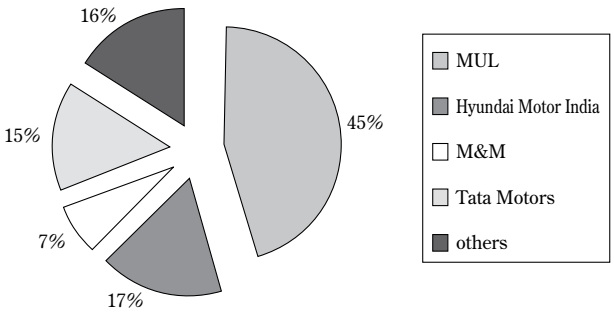
12) Venkata Ratnam [2000]. "With both managers and workers of Maruti still wear (ing) the same uniform and eat (ing) lunch at the same canteen even during the period of agitation, after two decades partnership, Japanese way of dealing with labour did not take roots in the company. Some managers in the company argue that the present dispute is the result of a past legacy. During mid-1990s, in the midst of a tussle between Government of India and Suzuki Motor Company over the succession of the then Managing Director, R. C. Bhargava, the workers got a soft deal in the revision on incentive scheme because they supported the Government. "

Table 2 Segmentation of MUL's Models

Model	Segment	
	Length Classification	Price Classification
M 800	A1 Mini	A
Alto	A2 Compact	B
Baleno	A3 Mid-size	C
Esteem	A3 Mid-size	C
Wagon R	A2 Compact	B
Zen	A2 Compact	B
Versa	UV	C
Omni	UV	A

Note : Length based classification introduced by SIAM in April 2002 is as follows : Segment A1 (Mini) —cars having a length of up to 3,400mm ; A2 (Compact) —of 3,401～4,000mm ; A3 (Mid-size) —of 4,001～4,500 mm ; A4 (Executive) —of 4,501～4,700mm ; A5 (Premium) —of 4,701 ～5,000mm ; A6 (Luxury) —of more than 5,000mm.
(Source) India Infoline [2004] p.2.

Figure 1 Manufacturer wise Market Shares of Passenger Vehicles (including UV's) 2003-04



(Date) SIAM.
(Source) India Infoline [2004]p.3.

so much shocking to the SMC management that they were prompted to incline progressively to leave the 50 : 50 shared position and grasp the majority share to execute its own way of the management to SMC's corporate strategy. SMC got

the majority share of MUL, 54.2 per cent in May 2002 and assumed the management control[13].

The competition in the market has witnessed some salient features :

1. India is still an extremely price sensitive market and that can be seen from the phenomenal performance of Maruti 800. Table 2 shows the segmentation of MUL's models. M 800 is the only model in A1 (mini) segment, 'an entry model' for the upper-middle class, has monopolized the segment. The price of the lowest model starts with around Rs. 200,000. MUL has 47.7 per cent market share in A2 (its competitors are mainly Hyundai Santro and Tata Indica), and only 10 per cent share in A3 segment which has been the fastest grown segment recently. In A3 and A4 segment, such models as Hyundai Accent, Ford Ikon, Honda City and Opel Corsa etc. have progressively attracted consumers in the market albeit on a smaller in terms of absolute numbers. In the UV segment where diesel engine vehicles dominate this segment with a share of 95 percent, MUL enjoyed a meager share of 2.5 per cent[14].
2. When we see the company-wise performance in the market, we can point the followings with distinction. MUL holds the dominant position particularly in A and B segment. Hyundai Motor India Ltd (HMIL) came up as the second producer of 100,0000 units per year in a short period after incorporation. Also, Tata Mortor has emerged as the first indigenously developed small car producer.

   In the meantime, the Government of India announced a new 'Auto Policy :

13) The Government of India, a promoter of the company, holds 18 percent. Other main shareholders are as follows : Foreign Institutional Investors 15.2 percent ; Mutual Funds and Unit Trust of India 5.6 per cent and Indian Public 5.3 per cent (MUL [2004]).

14) MUL [2004] and India Infoline [2004].

Vision To Establish A Globally Competitive Automotive Industry In India And To Double Its Contribution To The Economy By 2010[15]' in March 2002, saying to emerge as a global source for auto components ; to establish an international hub for manufacturing small, affordable passenger car. Lowering of the excise duty for cars and the 150 per cent tax deduction on in-house research and development[16] (R&D) scheme followed it to be conductive the Vision.

We can argue a few points about the significance of the corporate strategy in the Indian car market. First. Suzuki=MUL and Hyundai share a similarity that both firms achieved the production of 100,000 units per year in a shorter period and had export strategy from India to the Europe, the Middle East and the Latin America[17]. As the world second/third-tier major car manufacturers, they had a view that India was neither 'niche' nor 'test for some time' market but the market for their future and global penetration. India is rich in well educated/cheap human resources and the industrial base for engineering and machining. The Japanese car majors worked out their Asian business strategy ASEAN first, then China and the South Asia lastly.

Second. As is well known, there are so many global Indians, who know cars in the developed countries well and have close ties with people in India, also well educated on the latest car information. A car maker to introduce an old model in India will be kicked off. HMIL is of late struggling for assure its position in the C segment (Sonata) and D segment (Elantra) whose consumers are

15) GOI [2004]

16) In general, R & D expenditure of auto makers in India has been very poor. For instance, the figure of MUL, the industry leader was just 0.42 per cent to the net sales. (MUL [2004])

17) In 2003-04, MUL exported 51,175 units, Alto being the main item accounting 34,399 units for Europe. Hyundai and Tata are also major exporters and total export of of the passenger cars by the country is 129,316 units. (SIAM and MUL [2004])

so much sensitive to quality, technology and brand image. These issues should be tackled by the company on the basis of the global solution.

Third. The entry of Hyundai Santro and Tata Indica implies a real threat to MUL, the small car giant, for the first time. They say MUL introduced the Japanese management system, more or less, successfully. The experience of the recent rationalization shows MUL had still lots to do in terms of productivity, quality management, industrial relations and vendor/delivery system. We show just a couple of cases : the percentage of direct pass vehicles improved from 19.5 per cent in 2000-01 to 80.3 per cent in March 2002. ; The attendance rate went up from around 91 per cent in 2000-01 to 97 per cent in 2001-02 with introduction of new worker incentives scheme linked to attendance[18]. MUL's Annual Report presents remarkable improvement in the other area of its operation. The company started "Challenge 50" campaign (2001-02 to 2004-05) with the target of 50 per cent increase of productivity. It was achieved by 2003-04 : 20 hours per vehicle to complete at MUL plant while 11 hours at Kosai I plant, SMC. Also, Inventory holding period reduced from 30 days in 2002-03 to 19 days in 2003-04. In the area of suppliers management, MUL has reduced its vendor base from over 350 in 2001-02 to around 220 at the end of 2003-04. It helped MUL enhance supply chain efficiencies by lowering the time and costs involved in dealing with more vendors[19]. All the measures taken for the higher efficiency helped MUL improve the financial and operational indicators of 2003-04 (see Appendix 1 and 2), some of which are discussed in the following section.

18) The Managing Director of MUL, Jagdish Khatter's article "How Maruti Innovated Work Practices to Advantage", *Business Standard, online ed*. August 15, 2004, accessed on the day.

19) MUL [2004]. Furthermore, The company raised its rating in the area of customer orientation by J D Power Survey 2000 and 2003, particularly concerning the items such as 'good reputation of make' and 'good technology'

Is MUL the goose laying the golden eggs to Suzuki? **Some financial parameters**

We can get some knowledge about 'Transfer Pricing' through a text book on 'International Business', but, rarely encounter actual facts showing the matter by any existing company. In April to May 2003 newspapers in India reported Suzuki's concession to the Government of India and MUL during a talk on disinvestment process with the headline "Royalty Waiver on 5 Maruti models ; 10 per cent cut in transfer price" saying[20] :

> The Japanese company (Suzuki Motor Corporation, SMC) would not charge royalty on Maruti 800, Zen, Omni, Gypsy and Esteem models. SMC would get royalty on the Euro-Ⅲ models of these cars to be launched later. -----Another concession that SMC agreed on pertained to 10 per cent reduction in the transfer price. This would apply to all spares and components that SMC would supply to its Indian subsidiary, MUL. The impact of these concessions on the MUL balance sheet has been estimated to be quite substantial, sources said. It would be in the range of Rs 40 crore on profit after tax for 2002-03. MUL paid a royalty of Rs 117 crore in 2001-02, up from Rs 62 crore in the previous fiscal.

According to Annual report 2003-04, MUL's expenditure with related parties are as follows (figures in million Rupees)[21] :

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20) *The Financial Express, online ed*., April 2, 2003 accessed on October 18, 2004, also *The Hindu Business Line, online ed*., May 26, 2003. (A crore equals to ten million)

21) MUL [2004] p.74. The detail of the transactions with related parties are clarified in Appendix 3.

	Joint Ventures	Associates	SMC	Fellow Subsidiaries	Total
Purchases of good	662	12,118	9,707	385	22,872
Royalty	—	—	1,134	—	1,134

The amount of the royalty payment to SMC was Rs 2 crore to Rs 7 crore in 1980s and then increased in tune with the uptrend of MUL's car production to the recent level of around Rs 110 crore. This is the substantial contribution of SMC's operation in India, MUL, to the parent company in Japan because SMC's net profit (not consolidated) has been in the range from Rs 500 crore to Rs 1000 crore and the share of car segment in terms of profit earning is at best half of the amount, the rest from two wheeler sector[22].

With regard to the transaction of components and parts, it will be plausible to estimate that SMC has so far retained somewhat level of margins and will keep certain level of margins even after the 10 per cent reduction of the transfer price. This kind of business practice, transfer price, should be found all the firms operating as MNC, not quite unique to MUL-SMC case. Taken account from the royalty payment and the transaction of goods, therefore, MUL has made financially substantial contribution to SMC. In other words, SMC has operated its joint venture, then its subsidiary, MUL very successfully.

We can point to some more characteristics of MUL's financial structure. Firstly, the continuous growth of the company has helped her accumulate ample internal financial resources, become borrowing free company/harvest financial

22) SMC [2004] pp.3～49. SMC produced more than 570,000 units in Asia (excluding China), in which MUL contributed 437,000 units, 75 per cent of the region's production. Asian operation as a financial segment contributed a turnover of Yen 464.8 billion and Profit before tax Yen 24.9 billion in 2003-04, which surpassed the figures of both North America and Europe, next to Japan. (Nippon Jidousha Chousa Geppou, No.69, December 2004, pp.34-35)

earnings and invest large amount money to foster the group suppliers and the insurance company as well. In 2003-04, MUL's debt equity ratio was just 0.1 and its earnings of the financial assets (interest and dividend) more than Rs 200 crore.

Secondly, MUL's efforts to transplant its parents company's way of production management and the suppliers relationship in Gurgaon factory has achieved high level of efficient production and product quality. Owing to these achievements, it has lowered the production cost to sales ratio around 94～95 per cent in late 1980s to 75 per cent in 2003-04, which enables the company to afford increasing sales promotion and advertisement spending[23] under the progressively competitive automobile market.

Thirdly, MUL enjoys the advantage of the relatively much lower employees' cost based upon its higher productivity. In 2003-04, the employee cost was Rs 295.5 crore (of which Voluntary Retirement Scheme accounted for Rs 119.6 crore), and its ratio to sales was only 3.2 per cent which was almost as half as Tata Motors, 6.7 percent[24], while the figure reflected the company's effort such as 'Challenge 50'. It is quite interesting to collect corresponding figures of Japanese car manufactures in Japan (not consolidated, in 2002-03) : SMC, 5.7 per cent ; Honda, 10.8 per cent ; Toyota, 8.6 per cent ; Nissan, 9.3 per cent[25]. Thus we may say MUL has created the labour cost minimizing auto factory in India, following the parent company's reputation 'never ending effort to the lowest cost manufacturer in Japan.' The cost competitiveness of MUL deriving from the above

23) The outlay on advertisement and promotion has on average been 7 per cent (*The Hindu Business Line, online ed*., July 22, 2003, accessed 18 October, 2004).

24) MUL [2004] p.57, 65 ; Tata Motors Limited, Audited Financial Results for the year ended March 31, 2004.

25) These figures are sourced from Nihon Keizai Shimbun [2002].

mentioned factors are to be the basis for its export strategy for the time being.

In 2004, SMC announced the major expansion and diversification plan in Indian operation such as 1) to set up a joint venture with MUL to build a manufacturing facility with an annual production capacity of 250,000 units in Haryana state, first car to come up by early 2007, 2) to set up a new two-wheeler manufacturing facility also in Haryana, 3) MUL to become SMC's R&D Center in Asia by 2007, also to work out a new model for Zen for export and 4) to invest Rs. 3500 million to set up a new diesel engine manufacturing facility with an annual production capacity of 100,000 by a licensing agreement with Fiat Auto and Adam Opel, both GM group companies, for 1.3 liter diesel engine[26].

These announcement of new corporate plans immediately faced arguments from the Government, a co-promoter and former partner with 18 per cent equity holding of the company, referring to such topics as the process of the decision making, the future position of the Government in the company and the viability of the new ventures and business etc. The real challenge to SMC=MUL, obviously, will not be to argue with the Government, but, to take in rather new area of the compact and mid-sized car production with more value addition, also the company's first experiment of diesel engine manufacturing, in getting progressively competitive market. We will discuss the matter in another paper from the standpoint of global restructuring of the industry and the position of those in India and Asia in the process.

26) *Nippon Jidousha Chousa Geppou*, No.69, December 2004, pp.34-35.

Appendix One : Balance Sheet of Maruti Udyog Ltd. 2003-04 (Non-Consolidated)

(Rs.in Million)

	As at 31.03.04		As at 31.03.03	
SOURCES OF FUNDS				
SHAREHOLDERS' FUNDS				
Share Capital	**1,445**		1,445	
Reserves and Surplus	**34,467**	**35,912**	29,535	30,980
LOAN FUNDS				
Secured Loans	**3,119**		3,000	
Unsecured Loans	—	**3,119**	1,560	4,560
DEFERRED TAX				
Deferred Tax Liabilities	**3,088**		4,388	
Deferred Tax Assets	**(1,255)**	**1,833**	(2,317)	2,071
Total		**40,864**		37,611
APPLICATION OF FUNDS				
FIXED ASSETS				
Gross Block	**45,667**		45,138	
Less : Accumulated Depreciation	**27,359**		22,581	
	18,308		22,557	
Capital Work-In-Progress	**749**	**19,057**	93	22,650
INVESTMENTS		**16,773**		1,032
CURRENT ASSETS, LOANS AND ADVANCES				
Inventories	**4,398**		4,870	
Sundry Debtors	**6,894**		6,711	
Cash and Bank Balances	**2,402**		9,894	
Other Current Assets	**751**		598	
Loans and Advances	**5,744**		5,755	
	20,189		27,828	
LESS : CURRENT LIABILITIES ANO PROVISIONS				
Current Liabilities	**12,144**		11,359	
Provisions	**3,174**		3,427	
	15,318		14,786	
Net Current Assets		**4,871**		13,042
MISCELLANEOUS EXPENDITURE				
(to the extent not written off or adjusted)		**163**		887
Total		**40,864**		37,611

(Source) MUL [2004] p.56.

Appendix Two : Profit and Loss Account of Muruti Udyog Ltd. 2003-04 (Non-Consolidated)

(Rs. in Million)

	For the Year ended 31.03.04	For the year ended 31.03.03
INCOME		
Gross Sales	**112,840**	89,679
Less : Excise Duty	**19,384**	18,414
Net Sale	**93,456**	71,265
Income from Services	**278**	136
Other Income	**3,776**	2,765
Total	**97,510**	74,166
EXPENDITURE		
Consumption of Raw Materials and Components	**66,349**	52,590
Purchase of Traded Goods	**3,512**	3,085
Consumption of Stores	**516**	415
Employees Remuneration and Benefits	**2,975**	2,212
Manufacturing, Administrative and Other Expenses	**3,735**	2,843
Selling and Distribution Expenses	**6,662**	4,796
Financial Expenses	**457**	518
Provision for Contingencies	**93**	371
Depreciation	**4,949**	3,221
Deferred Revenue Expenditure Charged Off	**724**	386
	89,972	70,437
Less : Vehicles/Dies for Own Use	**128**	41
	89,844	70,396
(Accretion) /Decretion to Work-in-progress and Finished Goods	**(32)**	949
	89,812	71,345
Profit for the year	**7,698**	2,821
Total	**97,510**	74,166
Profit before Tax	**7,698**	2,821
Less : Tax Expense -Current Tax	**2,515**	225
-Deferred Tax	**(238)**	1,006
-Previous Years	—	126
Profit after Tax	**5,421**	1,464
Add : Brought forward from previous year's account	**23,359**	22,699
Profit after tax available for appropriation	**28,780**	24,163
Less : Appropriation :		
Debenture Redemption Reserve	**175**	176
General Reserve	**542**	146
Proposed Dividend	**433**	427
Corporate Dividend Tax	**56**	55
Balance carried forward to Balance Sheet	**27,574**	23,359
Basic/Diluted Earning Per Share (in Rupees)	**18.77**	5.14

(Source) MUL [2004] p.57.

Appendix Three : Statement of Transactions with Related Parties 2003-04

(Rs. in Million)

	Joint Ventures[1]	Subsidiaries[2]	Associates[3]	Holding Company[4]	Fellow Subsidiaries[5]	Total
Outstanding at year end						
Loans and advances recoverable	**23**	**5**	**104**	—	**652**	**784**
Amounts payable	**44**	—	**784**	**524**	**37**	**1,389**
Guarantees given to third parties by the Company	**162**	—	**794**	—	—	**956**
Proposed Dividend	—	—	—	**235**	—	**235**
Amount recoverable	**38**	—	**288**	**1**	**586**	**913**
Interest recoverable	**8**	**1**	**4**	—	**25**	**38**
Transaction during the year						
Purchases of Capital items	—	—	—	**76**	**1**	**77**
Sale of goods	**58**	—	**2**	—	**5,059**	**5,119**
Other Income						
Rendering of services	—	—	**2**	—	**8**	**10**
Finance Income	**11**	—	**113**	—	**93**	**217**
Recovery of Power & Fuel Cost	—	—	**73**	—	—	**73**
Dividend	—	—	**39**	—	—	**39**
Royalty	—	—	**29**	—	—	**29**
Commission	**2**	—	**120**	—	—	**122**
Others	**2**	—	**499**	—	**7**	**508**
Expenditure						
Purchases of goods	**662**	—	**12,118**	**9,707**	**385**	**22,872**
Royalty	—	—	—	**1,134**	—	**1,134**
Interest	—	—	—	—	—	—
Receiving of services	—	**16**	—	**13**	—	**29**

Note : -The remuneration of Key Management Personnel is included in Managerial remuneration above.
-Suzuki Metal India Limited is also an associate to Maruti Udyog Limited

1) Joint Ventures
J.J. Impex (Delhi) Private Limited
Mark Exhaust Systems Limited

2) Subsidiaries
Maruti Insurance Brokers Limited
Maruti Insurance Distribution Services Limited
True Value Solutions Limited

3) Associates
Asahi India Glass Limited
Bharat Seats Limited
Caparo Maruti Limited
Climate Systems India Limited
Denso India Limited
Jay Bharat Maruti Limited
Krishna Maruti Limited
Machino Plastics Limited
Mark Auto Industries Limited
Nippon Thermostat (India) Limited
Sona Koyo Steering Systems Limited
Citicorp Maruti Finance Limited
Maruti Countrywide Auto Financial Services Limited

4) Holding Company
Suzuki Motor Corporation

5) Fellow subsidiaries
Suzuki Europe S A
Suzuki France S A
Suzuki Italia S P A
Suruki Australia Pty. Ltd.
Suzuki Austria Automobil Handels GmBH
Suzuki GB PLC
Magyar Suzuki Corp.
Suzuki Motor Poland Ltd.
Suzuki Manufacturing Spain S.A.
Suzuki Metal India Limited
Suzuki International Europe Gmbh
S. Iberica (including Suzuki Madrid)

(Source) MUL [2004] p.74.

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