

INTERVIEW WITH MR. S. NAKANISHI,
MANAGING DIRECTOR AND CEO

FLEXIBILITY AND CAPABILITY FOR A VOLATILE ECONOMY

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Last year was a year of challenges for the auto industry. In the past few months there has been good growth. What do you see as the way forward?

Last year, we had issues like limited retail finance availability and a low consumer sentiment. The scope for reviving the domestic market through discounts was limited by commodity inflation and the adverse foreign exchange movement. The market picked up in the fourth quarter with manufacturers' efforts and positive government intervention. For the first five months of the calendar year 2009, the domestic passenger vehicle market has grown by 1.6% and Maruti Suzuki has grown by 11.6%.

We are optimistic, but given the dynamic market situation, both in India and all over the world, we think we have to accept uncertainty and consciously plan for it. Planning for uncertainty for us would mean building flexibility and agility throughout our value chain. It means speed. Lower response times. Faster decision making. A positive approach to change. We are realigning our thinking and our dealers and vendors' thinking on these lines. We have about 15,000 sales people to feel the pulse of the customer. We are relying on them and will watch the market quarter to quarter, month to month.

How do you see the growth potential of the Indian car market in the medium to long term?

Our parent Company, Suzuki Motor Corporation (Suzuki), has been optimistic on the potential of this country much before the high economic growth witnessed in this decade. And today, India occupies a much larger role in the Suzuki frame of things than ever before. It has a big and growing middle class. It has a huge young population. The people are intelligent,

progressive and have high aspirations. The governments are sensitive and balanced and the economy is resilient and stable. All this will help it to grow steadily for a long time. However, there are infrastructure and talent availability issues. If these are overcome, perhaps the Indian market will grow at quite a fast pace. In our case, thanks to our engineers, capacity expansion lead times are generally short, between one to two years, and this gives us room to calibrate our expansion and at the same time stretch our existing capacities.

India is gradually becoming a small car hub for exports with Maruti and Hyundai new export-dedicated models. What are your long term plans in this regard?

India is gradually achieving global economies of scale in compact car manufacturing both with auto manufacturers and auto component manufacturers. Over the years, we have worked with our component manufacturers in technology, quality and reliability. This has enabled the industry to reach a level of quality in manufacturing that we can hope to export respectable volumes. The infrastructure in the country is also improving and while we have commissioned a Roll-on Roll-off terminal at Mundra port, we are also working on a direct railway link from our Manesar assembly line to this terminal. Our world strategic model, A-star has been launched in many countries and customer feedback is positive. Nissan is buying the same product from us and retailing it under the "Pixo" badge. In a stable year in the future, our total exports should reach significant levels. If there is further opportunity beyond that also we can consider scaling up further but at the same time, we should strengthen our back end. Which means build quality and reliability in India's second tier and third tier vendors. It also means strengthening the logistics link from our factory to the port.



What roles are you planning for Maruti and Suzuki, Japan in technology and R&D for future models of Maruti Suzuki?

The rapid growth of the Indian market and the promise of Indian talent have given a lot of confidence to Suzuki. The view is that though Suzuki models have been embraced very well by the Indian customer, the growth in the Indian market deserves and needs an additional local R&D capability to help keep refreshing our model portfolio. At the same time, the success of Indian engineers and managers encourages us to think of larger global roles for them.

Suzuki will continue providing technology to Maruti for global platforms. Indian engineers will focus on the Indian market and come out with India specific models apart from bringing customized versions of global models to India. In addition, they will try to develop new models on existing platforms and powertrains with alternate fuel technologies.

How is Maruti Suzuki preparing for intensified competition in the next few years?

I would like to think in terms of what Maruti Suzuki is doing to prepare for the evolving customer in the next few years. That for us, takes care of competition also.

Our biggest area of focus is the Product. We would continue to offer models with newer technologies, with more fuel efficiency and economy, models which are cleaner and safer and more exciting, models that meet more and more mobility needs. For this, we are scaling up our R&D capability. We have to strengthen our back end, which means institutionalizing quality and manufacturing excellence at the 2nd tier and 3rd tier vendors. We have to ensure regular training of our dealer sales people and service technicians, so that their actions and interactions are in step with the changes in customer profile and expectations. We are also complementing their efforts by opening cars and spare





parts stockyards in the country for serving the customers faster and better. We are opening brand centers in a number of cities in India to engage with the customer.

All such efforts are actually driven by the zeal, the ingenuity and the capability of people. So, it all starts with people development. My effort is to empower them and they will take care of the rest.

How do you think will profit margins move in the future for Maruti Suzuki? Is it possible to go to March '07 levels (Net Profit margins above 10%)?

Barring last year, Maruti Suzuki has been able to generate good margins till now. In the short term, some reversal of commodity price increases and better forex management may help improve margins. In the long term, a more competitive environment will ask for faster product refreshment, more investment in quality, technology and brand, which may put a downward pressure on margins. While we will try to generate more profits through exciting products, work on more productivity, cost reduction and economies of scale, the levels you have mentioned were unusual and we are not targeting those at present.

What are your plans on alternate powertrains like Diesel, LPG, CNG and Hybrids?

Maruti Suzuki is conscious that it has to work on all technologies that help reduce the fuel cost for customers. So, the foremost is bringing to India, high performance, high fuel efficiency gasoline engine technology, like the K-series engines. Next, our diesel engine performance has been received well by the market and though we do not have more options currently than the 1.3 litre diesel engine, we have expanded our manufacturing capacity to 200,000 units per year. We were the first Company to launch cars with inhouse LPG assembly. CNG availability is expected to see a major boost in the country in the next few years and if the city gas distribution expands can help see more CNG proliferation in cars. We are working on next generation technologies in this area.

Though hybrids in compact cars are yet to prove their commercial attractiveness to the customer, Maruti Suzuki is working on a project "National Hybrid Propulsion Platform" in partnership with the government and other industry players. At an appropriate time in the future, we may also ask Suzuki for support.

Maruti Suzuki has a very healthy cash position and is also generating net cash every year even after investment. What is your plan for this cash?

We cannot afford to be complacent looking at our cash position. Organisations that start with their available cash or their potential of leveraging may tend to make investments that are not in the best interest of their business. In fact our starting point should not be our cash position; it should be the market and technology dynamics and the investment needs that they may call for. This may be tomorrow; this may be five years hence.

We do not know what future has in store for us. For instance, five years ago we thought investment is all about plant capacity expansion; we did not know that we would need to invest in a big way in non-production areas like brand centers and stockyards for our marketing and a test track and crash test facility for our R&D. We need to stay prepared for any such requirement. There are many such companies who faced major problems, because they did not have cash when they needed it most. Though we will not shy away from making whatever investments the market and technology environment would need, we will largely try to stay within our area of core competence. In our operations, we try to work within minimum budgets. With our shareholders, we try to maintain a dividend pay-out ratio and keep striving to generate long term capital appreciation to honour the trust they have put in us.

What are your biggest concerns about the business? What kind of issues takes most of your time?

Interesting. Maruti Suzuki is a big family now with four plants, nineteen related companies, several hundred vendors, dealers, authorized service stations and other business associates. I am concerned that the dealer salesman should treat our customer well; I am concerned that our vendors should have a good relationship with their workforce; I am concerned that our Tier 2 and 3 vendor technicians should be trained on the station they work on; I am concerned that the person who drives our export cars into the ship at Mundra, should learn safe professional driving. Similarly I am cautious of the stock levels in the value chain; I am cautious that we always maintain the balance between profitability and growth; I am cautious that we should not be missing any opportunity in the Indian and export markets.

The only way this is possible in such a large family is by training, developing and empowering people. By motivating people. How do we do that? I think it starts from the top. I want to consciously give a lot of operating freedom to our managing executive officers in the hope that they will feel like treating their team in the same way and vendors and dealers also copy the example.

Suzuki is pursuing Sustainability as a way of doing business in Japan. What is your approach to Sustainability for Maruti Suzuki?

Sustainability is a concept that describes our core philosophy of growth very well. Suzuki wants to be a Company loved and trusted in the world for spearheading environment friendly technology and processes. Similarly Maruti's genesis had been for a larger purpose; to raise the level of manufacturing industry in India. While we are conscious of this starting aspiration, we are sensitive everyday that in the conduct of our business, we take care of all our stakeholders' interests and well being. In their sustained well-being lies our longevity. This year we want to take it to a different level. We are adopting a professional methodology to map our engagement with our stakeholders and share information of the economic, environmental and social impact of our business in a transparent manner.