WHY WILL SUZUKI NOT LEAVE INDIA?

CORPORATE TIMELINE

1981 Maruti Udyog Limited (MUL) was created a public sector enterprise through an act of Parliament taking over a private limited company owned by Mr. Sanjay Gandhi and others.

1983 MUL entered in a licence and joint-venture agreement with Suzuki Motor Co, Japan which acquired 26% equity and brought in technology and management practices.

1984 MUL went into production – at its plant in Gurgaon - making more cars in the first year of its production than ever made in any one year in India before and made profits from the very first year.

1987 Suzuki raised its equity in MUL to 40%.

1992 Suzuki was allowed through a shareholder agreement to raise its equity to 50% following which MUL ceased to be a public sector enterprise.

1996 Differences between the Government of India and Suzuki on majority control and indigenisation of technology.

2002 Privatisation of MUL with government selling the controlling interest to Suzuki.

2006 Manesar plant setup.

2007 Maruti Udyog Limited changes its name to Maruti Suzuki India Limited.

COMPANY OWNERSHIP AND MANAGEMENT: Suzuki has substantially higher control over management decision-making through their majority shareholding compared to other large auto companies.

Maruti Suzuki	Mahindra & Mahindra	Tata Motors
54.2% Suzuki	13.8% LIC	34.82% Tata
21.5% FIIs	8.4% M&M Trust	27.6% FIIs

The Tatas as a Group, while being the largest shareholder in Tata Motors, has a much smaller in equity holding in the company than Suzuki in Maruti. In the case of M&M, the promoter stake through the M&M Trust is actually smaller than the stake of LIC in the company. The degree of control that Suzuki therefore enjoys in Maruti is far greater than in the other major Indian auto companies

VALUE ADDED: The value added at Maruti Suzuki declined from 36% in 2001-02 to 27% in 2011-12. What this implies is that today the company is manufacturing less in-house. The reduction of value added as proportion can come from two factors – greater outsourcing of production and greater proportion of purchased components in the company's output. Both have critical impact on company finances, and on workers' interests.

Worker interest is ill served by decline in value added, as outsourcing is accompanied by decline of regulation of rights of the worker. An increase in proportion of purchased components can be of immense benefit to the promoter group, if it is the supplier of the components and can decide the transfer price, or if it has complete control over sourcing and vendor selection.

	Maruti Suzuki	M&M	Tata
	Rs. in millions		
Value of production	387453	349518	598447
Value added (VA)	105058	108548	195160
VA as proportion of value of production	27%	31%	33%

Using Maruti as the base, M&M had a 15% higher level of value added, while for Tata the level of value added was 20% higher for the year. In the case of Maruti, the declining value added also raises the question of whether Suzuki gets critical parts for the car from Japan, with substantial mark-up and profits to itself. We can see indications of this in the substantially high import content in production input costs in Maruti.

IMPORT CONTENT: The import content for Maruti is more than twice that for Tata and thrice that for M&M. This is a very substantial difference for competition in the industry.

	Maruti Suzuki	M&M	Tata
	(Rs. in millions)		
Imported raw material and components	28311	6560.9	16353
Indigenous raw material components	238759	181484.3	322594
Ratio imported to total raw material	**10.6%**	**3.5%**	**4.8%**

There are three aspects to high import content. First, for the economy this means adverse pressure on foreign exchange. Second, from a technological point this implies less self-reliance, and conversely less indigenous technology development. Third, imported components allow Suzuki to take out huge profits through transfer pricing, where the company's Indian operations have relatively little control on pricing and cost reduction. This represents hidden pre-tax repatriation of profits for the promoter.

EMPLOYMENT AT MARUTI SUZUKI: According to a May 2013 Business Standard Report, the number of contract workers is more than double the number of permanent workers. This has been one of the main issues of the dispute at Manesar.

	Gurgaon	Manesar	Total
Permanent	2032	986	3018
Contract	5000	1870	6870
Wage of Entry level Permanent worker	Rs.23500	Rs.23500	
Wage of Contract Worker	Rs.11500	Rs.11885	

Source: Business Standard 25May 2013

First, contract workers get paid only around half the salary of permanent workers at their entry level. This is despite the fact that many contract workers are employed in identical work as permanent workers.

Second, in 1999-2000 Maruti with 8800 workers (4700 permanent, 3000 contract and 1100 trainees) in one plant in Gurgaon made 5 lakh cars – this means 57 cars per worker per year. In 2010-11, Maruti with 9888 workers (3018 permanent, 6870 contract) produced 12.7 lakh cars – which means 129 cars per worker per year – an increase of 126%.

Analysis of a Wage slip of a Worker

Earning category	May 2008	Dec 2008	May 2009	Dec 2010	Aug 2011
Joined: Nov 2007 Designation	TT1	TT2	TT2	TT3	JA1
Total fixed wage	**6240.00**	**7169.00**	**6810.00**	**8060.00**	**9658.00**
Total variable wage	**1200.00**	**1750.00**	**2000.00**	**2250.00**	**6770.00**
Total wage	**7440.00**	**8919.00**	**8810.00**	**10310.00**	**16428.00**
Ratio of variable to total wage	***16%***	***20%***	***23%***	***22%***	***41%***

The analysis shows clearly how over the 4 years the variable component of wage linked to productivity has increased drastically implying that both the work intensity of workers increased manifold as also the variability of wages leading to increasing insecurity of the workers.

Conclusion

Maruti-Suzuki as a company has a much higher degree of concentration of ownership and promoter control at both operations and policy (Board) level than competing companies like M&M and Tata Motors.

The high concentration of ownership and Board control might enable Maruti to decide on issues of technology and profit appropriation that favour the promoter group, at the expense of other stakeholder groups. These decisions seem to contradict the basic objectives with which the company was promoted as a joint sector enterprise. The company's performance on scores on indigenous technology development and foreign exchange conservation appears worse than that of M&M and Tata Motors.

While the company is listed in the national stock exchanges, participation of Indian shareholders in the company ownership is limited. More than 75% of the stock was held by foreign promoter and with FFIs as on 31st March 2012.

The company's reported figures also indicate a very high emphasis on productivity increases. These appear to support workers' claim of extremely high productivity demands. The productivity demands seem to be sustained with high levels of contract employment, with contract workers paid wages around half of the entry wages of permanent workers.