

## Message from the Managing Director

The Indian passenger vehicle market grew by 29 per cent in 2010-11. Despite volume uncertainty, capacity challenges and competition, Maruti Suzuki was able to increase its market share marginally. Exports were challenged by a dull market in Europe and while we developed a lot of non-European markets, total export sales in 2010-11 were 6 per cent lower than the previous year. A number of new models and refreshed variants of existing models were launched. Cost of materials, technology, new model introduction and adverse foreign exchange rates, however impacted our profit margin and Net Profit declined 8.4 per cent.

We expanded our sales and service network, started work on two new plants for capacity expansion in Manesar and strengthened our R&D capability efforts with recruitments and commissioning of design and testing equipment.

The growth in the car market, we are seeing today is the result of efforts put in by the government, the industry, and the households of India over the past decade. For instance, rural economic empowerment in the past couple of years is, amongst other reasons, the result of the efforts of the government taken over the previous five years.

Though there are projections of good growth of the Indian car market in the medium to long term based on household income growth in India, there are challenges for the industry also. The market will be subject to economic cycles, and knowing its sensitivity to fuel prices and interest rates, can have huge fluctuations. Competition will intensify and predictability of volumes and product mix will be increasingly challenged. One unwanted offshoot of growth is inflation. We might see increase in prices of almost all inputs like commodities, land, manpower, technology and energy. These may not be easy to be offset by economies of scale, productivity and innovation. A significant value-add in the car comes from the component industry. A large section of the component industry, particularly the 2<sup>nd</sup> and 3<sup>rd</sup> tier suppliers, has to improve scalability, robustness in manufacturing and quality systems alongwith management bandwidth and R&D. This may require raising capital at reasonable cost. The biggest growth bottleneck may be in the area of human resources and good talent is critical for technology absorption, quality manufacturing, cost management and customer friendly practices.

We have to approach the future with a step by step effort to build and strengthen every element of the chain. Our customers see our cars as the best value over the life cycle of their cars. Hence we have to keep working on cost reduction, efficiencies, productivity and keep scanning for 'muda' or waste across all our operations. We have to ensure that in growing fast on volumes, we do not

compromise on processes, quality, rigour or attention to detail. This can be only achieved by training. We have to therefore keep a continuous effort on training our people, both inhouse and at our dealers and vendors in systems and processes, in quality and customer friendly practices. We have to help the component industry in developing a reliable and robust manufacturing foundation for growth. If we have to deliver global levels of technology and quality in our products, our suppliers have to be able to localize these systems or components. The balance will have to be imported and to that extent we will be exposed to foreign exchange movements and higher costs. We can feel the disadvantages of infrastructural constraints in logistics and we have to create adequate capacity for dispatch of new cars to dealers with the same level of care as they are produced in the factory.

There are costs associated with all the above and we will have to watch our profit margins very closely.

One capability that can help us differentiate from competition is developing a sharper understanding of the consumer. And providing technology solutions or features that serve the consumer's needs with precision. Maruti Suzuki models are quite popular with customers, partially, because they provide the right mix of fuel efficiency, engine performance, driveability, body styling, safety, security, comfort, entertainment features and cost. Awareness and regulation on fuel efficiency will become a big trend in India in the next few years as it helps both the economy and the environment. While working on latest technologies to enhance fuel efficiency, we are also working with the industry and policy makers to evolve mandatory fuel efficiency standards for the car industry. Globally, hybrid and electric vehicles are being explored as a solution to energy security and environment friendliness. While there are a lot of questions and challenges in this area, Maruti Suzuki is studying the feasibility of electric mobility in India alongwith the government and industry. In this context, use of CNG as an auto fuel is a brilliant solution that can help reduce India's oil import and also reduce CO<sub>2</sub> emissions drastically, while being affordable for the consumer.

The choice of technology is crucial and our parent Suzuki Motor Corporation is known for evolving optimal technology solutions globally. We are counting on our parent's vision, our Indian managers' market insights and their combined R&D prowess to keep us closest to the customer.

Global products from the Suzuki range like the Swift and the Ritz have been immensely successful with the Indian consumer. The growth of the Indian market however deserves additional and localized R&D capability that can serve India even more closely. Whether it is working



on next generation CNG technology or hybrid or electric cars, or launching new models or variants, we need to develop R&D capability in India alongwith our suppliers. This will serve as a strong pillar for the growth of the Indian automotive industry.

I do share the optimism of high growth opportunity in the Indian car market. However, I also see a lot of need of strengthening every element of the chain, without which the full benefit of growth may not be reaped. We have to put our shoulders to the wheel and build step by step, inch by inch.

**S. Nakanishi**  
Managing Director & CEO

Mr.S.Nakanishi, MD & CEO

In the background is a design sketch of Kizashi during the initial conceptualization phase.