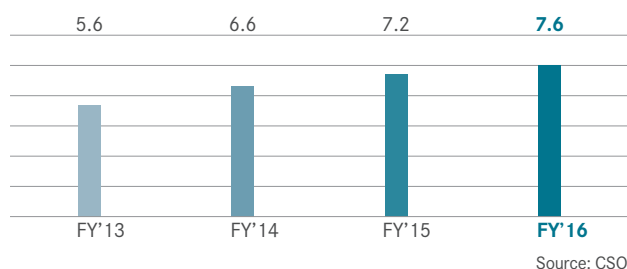


# Management Discussion & Analysis

## Overview

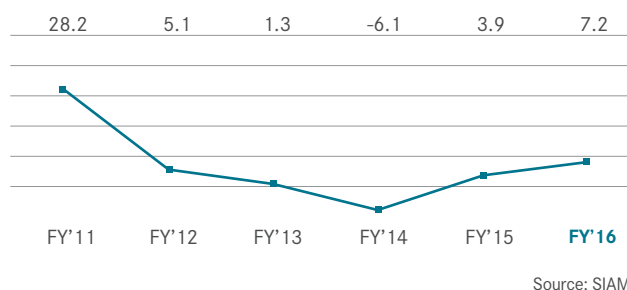
India's economy showed gradual recovery in 2015-16. Fiscal deficit and inflation were under control. Public investment was up. Interest rates were reduced. But rural demand and private investment remained weak. The fall in global prices of oil and commodities benefited the economy and the automobile sector. However, the slowdown in the global economy led to weak export demand.

### India's GDP Growth Rate (%)



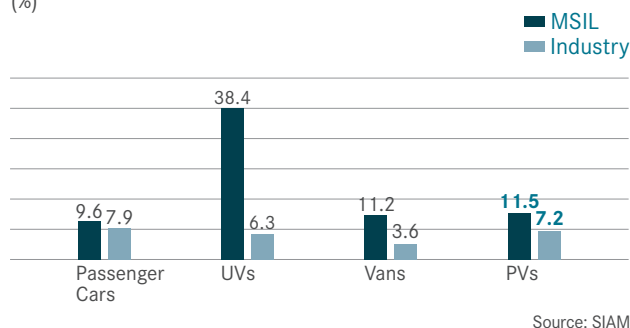
India's passenger vehicle market grew by 7.2%, compared to 3.9% in 2014-15. Growth was limited to a few manufacturers in the industry and this was achieved mainly with the help of new models. Sales promotion support remained high. Although Reserve Bank of India cut interest rates, this was not passed on fully to consumers. The benefit of lower interest rates is expected to be realised in 2016-17.

### Domestic Passenger Vehicle Industry Growth (%)

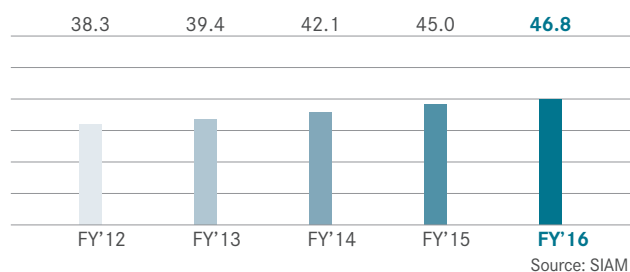


The Company was able to increase its domestic sales by 11.5%. This was the fourth year in a row when the Company's market share improved over the previous year. It stood at 46.8%, the highest in 14 years.

### MSIL Segment Wise Performance (Domestic) (%)



### MSIL Market Share (%)



The Company launched three new models. These were well received by customers for their design, performance and features. By introducing Smart Hybrid vehicles and offering the latest infotainment features, the Company enhanced sales and reinforced its position as a technology pioneer in the segments where it operates.

The Company launched a new retail channel, Nexa. This helped expand the Company's presence, especially in metros and tier II cities.

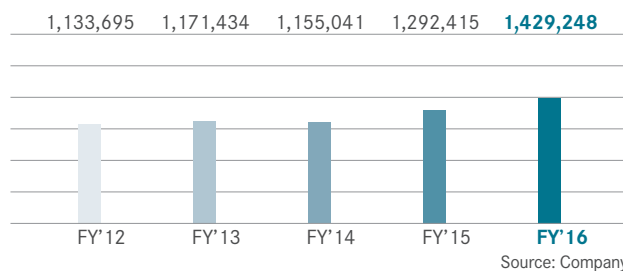
Nexa is designed considering the changing needs and expectations of urban customers, and will enable the Company to attract new categories of buyers into its fold.

The Company took important measures to enhance passenger safety. Features such as airbags and anti-lock braking systems (ABS) were offered as standard in certain models, and as an option in all variants of most other models.

The Company's exports grew by 1.8%. The fall in global commodity prices and a currency crisis in certain markets adversely impacted demand. But exports received a boost with the launch of Baleno, a premium hatchback model, in overseas markets in the fourth quarter. Baleno is the first model of the Company to be exported to Japan. Manufactured only in India, it is to be exported to nearly 100 countries. Baleno was duly recognised as an example of 'Make in India' by the Prime Minister, Shri Narendra Modi.

Total sales, at 1,429,248 units, were the highest ever for the Company, registering an overall volume growth of 10.6% over the previous year.

#### MSIL Sales (Domestic + Exports) (Units)



The Company was able to achieve growth in profits and improve profitability. Besides higher volumes, the Company was helped by favourable currency and low commodity prices. Marketing and sales expense remained high to support entry-level models and diesel variants in a highly competitive market. The Company's continued initiatives to improve efficiency and reduce wastage also contributed to margins.

In November 2015, the Company had sought approval of public shareholders for a related party transaction with Suzuki Motor Gujarat, for entering into a contract manufacturing agreement for production and sale of vehicles. The resolution was passed with nearly 90% votes in favor of the arrangement.

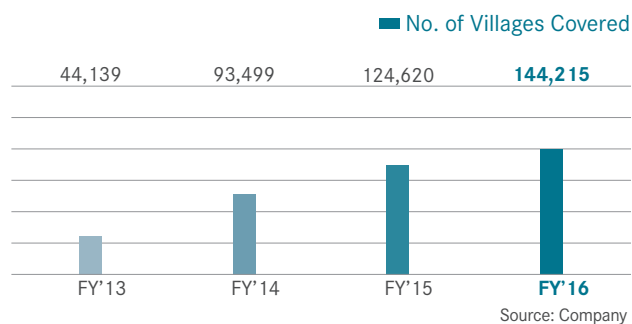
With this arrangement in place, the Company is able to provide more focus to strategic areas including Research and Development, new products and infrastructure for marketing and sales, while parent company Suzuki Motor Corporation, Japan, shares the responsibility of producing and supplying vehicles over the Company's existing capacity of 1.5 million units. The first car from SMC's Gujarat plant is expected to be rolled out in early 2017.

## Domestic Sales

The domestic automobile market remained challenging. Consumer sentiment continued to be subdued. Competition increased with the launch of several new models in the segments in which the Company operates.

The Company increased its share in the top 10 markets of the country. Rural demand moderated following second successive year of below normal monsoon, leading to a drought-like situation in certain parts of the country. The Company was able to grow sales in small towns and rural areas by 9%, largely by expanding reach to newer towns and villages.

#### MSIL Rural Coverage

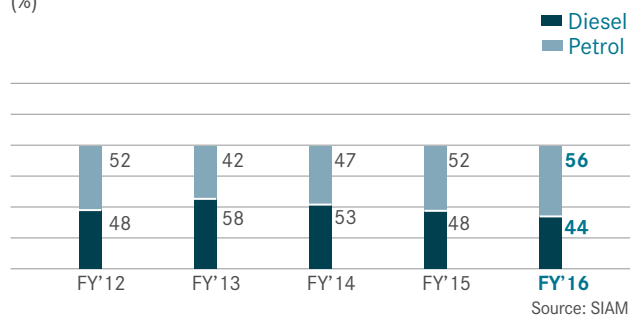


During the last few years, the industry has witnessed a downward trend in demand for diesel models, primarily due to reduction in the gap between the prices of petrol and diesel fuels. During the year, an order by the Supreme Court, prohibiting sales of diesel cars with an engine size of 2 litre and above in National Capital Region (NCR), caused concern among the potential buyers of diesel vehicles, especially in NCR. Although the Company does not offer vehicles in the 2 litre engine category, the adverse consumer sentiment impacted the share of diesel models.

The share of diesel vehicles in industry sales declined from 48% in 2014-15 to 44% in 2015-16. The Company was able to grow sales of its diesel vehicles through higher sales promotion, besides introduction of Smart Hybrid technology on few of its popular diesel vehicles.

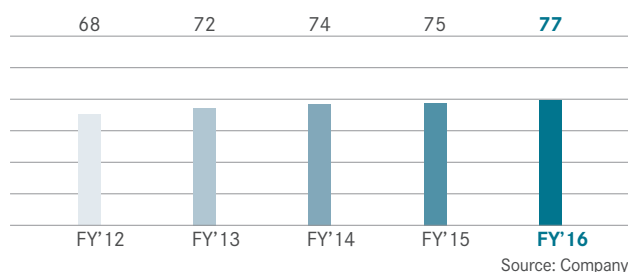
With 70% of the Company's sales being contributed by petrol vehicles, the Company is well positioned in this segment with 58.7% market share.

#### Industry Petrol Diesel Mix (%)



The Company's pre-owned car operation continued to support new car sales. Trade-ins grew by 9% and accounted for 30% of new car sales. Fleet sales surged 60%, although on a low base, mainly on account of demand from taxi aggregators. The share of vehicles financed reached 77.4%, the highest in nine years.

#### MSIL Finance Penetration (% of Domestic Sales)



#### New products

The Company's product-related initiatives contributed significantly to higher sales and market share. The Company launched S-Cross, India's first premium cross-over, Baleno, a premium hatchback, and Vitara Brezza, a compact SUV.

S-Cross offers customers power and performance in their vehicle without compromising on the comfort and refinement of a sedan. It is designed in a bold cross-over shape, with dynamic character lines and many sophisticated touches. The interiors are plush and spacious with high-quality fit and finish.

Baleno comes with a sophisticated design, rich interiors, host of premium features and advanced technology. It is built on a brand new Suzuki platform which is stronger and safer. It offers superior performance due to a higher power-to-weight ratio and offers best-in-class fuel efficiency in both, petrol and diesel options. Baleno has received a resounding response since its launch in October. Over 44,000 Balenos have been sold, and close to 50,000 customer orders remain to be served at the end of the year.

S-Cross and Baleno are sold exclusively through the new retail channel, Nexa.

Vitara Brezza, launched in early March, marks the Company's entry into the compact SUV segment. It delivers an outstanding fuel efficiency of 24.3 km per litre, the highest in the SUV category and 10-20% superior to existing models in the segment. With class leading features, personalisation options, future ready safety and an attractive price, Vitara Brezza has received a positive market response. Over 35,000 customer orders have been received in the first few weeks.

The introduction of Smart Hybrid technology by the Company in Ciaz and Ertiga, which enhances fuel efficiency by between 7 and 18%, boosted demand for these models. By offering the advantages of hybrid technology at a reasonable price, Smart Hybrids have benefited customers and the environment, besides supporting the Government's efforts to promote hybrid vehicles in the country.

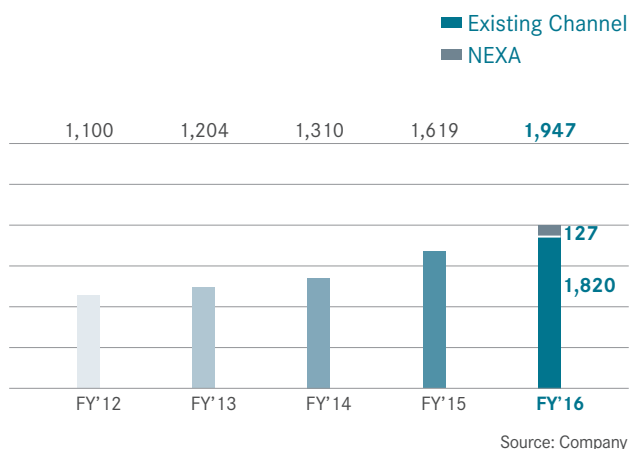
The popular Automatic Gear Shift technology, introduced in India by the Company in 2014, was extended to more models.

#### Launch of Nexa

The new retail channel was well accepted. Over 125 Nexa outlets were set up by dealers during the year. Nearly 70,000 cars were sold through this channel. The Company expects to double the number of Nexa outlets during 2016-17.

The Company also strengthened the existing network by adding over 200 outlets during the year taking the total number of outlets to 1,820 in the existing channel.

#### MSIL Sales Network (Existing + Nexa Outlets)



The Company was ranked first in customer satisfaction in after-sales service among mass market brands, as measured by J.D. Power. This was the 16th year in a row that the Company achieved the top position. Studies by J.D. Power, and by the Company, suggest that high satisfaction with after-sales service translate into high repurchase and advocacy.

During the year, 137 dealer workshops were added taking the total service workshops to 3,145 in 1,506 cities and towns. Besides expanding the network of service workshops, the Company also offered doorstep service to nearly 90,000 customers through 1,425 Maruti Mobile Support vehicles.

#### Flood Affected Cars in Chennai

Floods in Chennai caused loss of life and property. Several vehicles suffered extensive damage. To repair these vehicles and support customers, the Company mobilised technicians and mechanics from other parts of the country. Parts were rushed to ensure speedy repair. The Company partnered with insurance companies to facilitate claims. Nearly 9,000 damaged vehicles were repaired and handed back to customers within three months of the floods.

#### Parts and Accessories

The Parts & Accessories business registered an impressive growth of 19% during the year. Apart from robust growth in parts sales, the Company was able to grow the sales of Maruti Genuine Accessories through innovative marketing activities including

usage of tablets to showcase the accessories range to customers and introduction of lifestyle and theme based accessories.

## Exports

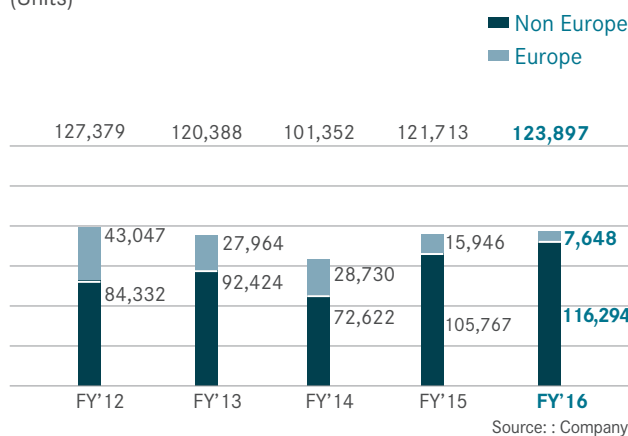
The fall in global prices of commodities impacted demand in certain export markets. Currency crisis in certain economies also affected demand adversely. In Sri Lanka, import duty was brought down for a few months. Sales surged during this period. The share of Sri Lanka in overall export sales increased to 32%, from 10% in the previous year.

Baleno, launched in overseas markets in the fourth quarter, will play an important role in export sales. The Company commenced exports of this car to Europe, besides Japan. The Company continued its efforts to expand the network of sales and service outlets and improve processes in export markets.

During the year, the Company exported 123,897 units, a growth of 1.8% over the previous year.

### Export Sales

(Units)



## Operations

During the year, the challenge was to manufacture a higher volume of vehicles and introduce multiple new models while maintaining high levels of quality and productivity. The Company further improved processes and systems to meet this challenge.

The combined output capacity of all plants in Gurgaon and Manesar stands at about 1.5 million units annually. The Company is focused on enhancing manufacturing capability through better utilisation of facilities, higher flexibility in plant-model combinations and flexible lines. This will enable the Company to meet market demand before SMC's Gujarat plant starts supply of cars in early 2017.

To enhance efforts in safety, the Company consolidated all related functions into a dedicated division to impart focus and cohesion.

The Company's Suggestion Scheme encourages employees at all levels to generate and execute new ideas for improvement and efficiency. During the year, over 698,000 suggestions were

generated, leading to a potential saving of over ₹ 2,800 million. The Company is screening these ideas for trials and subsequent implementation.

## Energy Conservation and Environment Sensitivity

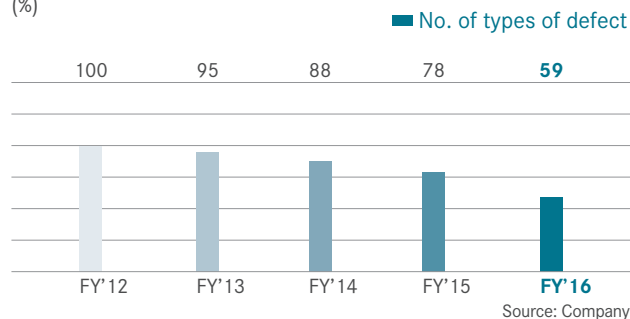
The Company continued its energy conservation initiatives. The focus was on reducing energy cost, conserving water and improving efficiency through new technology and optimisation in operations. A separate section in this Annual Report, 'Business Responsibility Report' discusses the environment-related and social performance of the Company in detail.

## Quality

Besides ensuring quality on the shop floor, the Company works closely with suppliers and helps them upgrade by sharing knowhow. The Company has set up special teams on quality to work with tier I and tier II suppliers. These teams studied all quality related aspects at suppliers and jointly created action plans. During the year, over 2,100 visits to supplier shop floors were carried out by these quality teams. This contributed to over 20% improvement in supplier parts quality compared to 2014-15.

### Supplier Defect Reduction (Indexed)

(%)



Operator skill plays an important role in ensuring quality. The Company is supporting suppliers in improving the skill sets of their employees. Over 1,200 supplier personnel have been trained at the Company's shop floor and training centre. Further, training centers that replicate shop floor situations (Dojo Centre) are being established at certain suppliers' locations with the Company's support, to strengthen operator skill sets regularly.

The Company has begun analysing data and patterns generated from operations to anticipate defects, and take preventive measures.

## Enhancing Value in the Supply Chain

The Company continued its partnership with suppliers in value analysis/value enhancement (VA/VE) projects. Joint efforts were also made in yield improvement. Along with this, the Company worked on localisation of parts imported by vendors to mitigate risk arising out of foreign exchange exposure and to bring down input cost.

During the year, the Company localised child parts and assembly operations of its popular Auto Gear Shift (AGS) technology. The Company is in touch with Indian steel makers to further enhance use of local steel. The scope of raw material yield improvement

activities was extended beyond the traditional sheet metal areas to plastics, electrical and castings to enhance savings.

The Company undertakes commodity hedging to prevent input cost inflation. The Commodities Risk Management Committee (CRMC) reviews the commodity hedging status periodically and takes hedging positions. During the year, favorable hedge rates helped in achieving gains in major base and precious metals.

Through the supplier risk management system, the Company monitors the health of suppliers' businesses in areas like operations and finance. Operational risks are assessed in the areas of industrial relations, quality, delivery performance and tier-II suppliers' management. Financial risk is assessed in the areas of profitability, liquidity and working capital and funding management.

The Company continued the safety assessment of plants of tier-I suppliers. The assessment is carried out by experts who comprehensively study suppliers' plant facilities and prepare time-based improvement plans along with the suppliers' management. A reassessment audit will be carried to check the improvement in safety preparedness.

## Research and Development

It is important to understand the stated and unstated needs of the consumer for every segment and evolve products and technologies accordingly. Based on this, the Company does a careful selection of technologies and features for each segment of cars.

The compact SUV, Vitara Brezza, launched during the year is the first model to be conceptualised, designed and developed in India using Suzuki core technology and platform/engine. Extensive research was carried out across India to finalise the concept of the model, to make it appealing for everyday use. During the course of development, various Suzuki platform/powertrain options were studied and after weighing all the options, Suzuki C-Platform with DDiS 200 engine with 5-speed manual powertrain was chosen. This combination of powertrain, along with new-age technologies like intelligent battery management

and low rolling resistance tyres contributed to its best-in-class fuel efficiency. Besides, Vitara Brezza is the first vehicle in the country to be certified by the homologation authority, for offset and side impact crash compliance.

Another new model, Baleno, combines harmoniously flowing curves, elegant styling, a superior power to weight ratio and smart packaging to offer a premium hatchback experience to mature car buyers. Numerous first-in-class features were introduced in the product including smartplay infotainment system with navigation, colour TFT multi-information speedometer display and UV cut glasses, to appeal to the target consumer segment.

The Company will continue to participate in more new vehicle development projects.

Scaling up product development demands a solid back-end of local R&D infrastructure, design capability and capacity and skill upgradation of engineers. In the last few years, the Company has consistently upped its focus on R&D to design and develop new products for local and export markets, using in-house capability and capacity. The R&D Centre at Rohtak, equipped with world class test and evaluation facilities, will play a pivotal role in achieving the Company's ambitions going forward. The local R&D facility will also serve as an advantage to meet the challenges posed by changes in regulations and towards conforming to new regulations thereby reducing the time to market. During the year, a number of facilities like test tracks, a passive safety lab, a vehicle dynamic lab, Noise, Vibration and Harshness (NVH), ride handling and a braking and structural durability lab were made operational.

## Financial Performance

The Company registered Net Sales of ₹ 563,504 million and Profit after Tax of ₹ 45,714 million, a growth of 23.2% over the previous year. This growth was driven by increase in volumes, besides favourable commodity prices and continued efforts on cost reduction initiatives. However, Marketing and Sales expense remained high to support entry level models and diesel variants in a tough market.

(₹ million)

### Abridged profit and loss account for 2015-16

Parameters	2015-16	2014-15	Change (%)
1 Volumes (Nos.)			
Domestic	1,305,351	1,170,702	
Export	123,897	121,713	
<b>Total</b>	<b>1,429,248</b>	1,292,415	10.6%
2 Gross Sale of Products	638,669	537,685	
Vehicles	582,950	490,806	
Spare parts/ dies & moulds/ components	55,719	46,879	
3 Excise duty	75,165	51,630	
4 Net sales (2-3)	563,504	486,055	
5 Other operating revenue	13,959	13,651	
6 Other income	4,619	8,316	
<b>7 Total revenue (4+5+6)</b>	<b>582,082</b>	508,022	14.6%
8 Consumption of raw materials, components & traded goods	387,800	350,080	
9 Employee benefit expenses	19,887	16,066	
10 Finance Costs	815	2,060	
11 Depreciation and amortisation	28,239	24,703	

(₹ million)

**Abridged profit and loss account for 2015-16**

Parameters	2015-16	2014-15	Change (%)
12 Other expenses	79,991	66,431	
13 <b>Total expenses</b>	<b>516,732</b>	459,340	12.5%
14 Profit before tax (7-13)	65,350	48,682	34.2%
15 Current tax (Net of MAT Credit availed)	20,414	12,322	
16 Deferred tax	(778)	(752)	
17 Profit after tax (14-15-16)	45,714	37,112	23.2%

**Treasury Operations**

The Company has efficiently managed its surplus funds through careful treasury operations. The guiding principle of the Company's treasury investments is safety and prudence. In view of this, the Company invested its surplus funds in debt schemes of mutual funds and bank fixed deposits. This has enabled the Company to earn reasonable and stable returns.

Table 3 lists the investment of surplus funds while Table 4 lists the return on these surplus funds.

**Foreign exchange risk management**

The Company is exposed to the risks associated with fluctuations in foreign exchange rates mainly on import of components, raw materials, royalty payments and export of vehicles. The Company has a well-structured exchange risk management policy. The Company manages its exchange risk by using appropriate hedge instruments depending on market conditions and the view on currency.

**Internal controls and adequacy**

The Company has a proper and adequate system of internal control to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition, and that all transactions are authorised, recorded and reported correctly. The internal control system is designed to ensure that financial and other records are reliable for preparing financial information and other data, and for maintaining accountability of assets. The internal control system is supplemented by an extensive program of internal audits, reviews by management, and documented policies, guidelines and procedures.

**Human Resources**

The Company acknowledges that the key to its sustained success is its employees and realises that the capability, motivation, sense of ownership and satisfaction of its people are the most important drivers for its continued success.

Employees' voice and feedback are extremely important and greatly impact the direction of the Company. There are various communication and feedback-seeking forums to capture employee feedback. Apart from these forums, as part of regular performance and career development reviews all regular employees undergo a KRA setting exercise in the beginning of the year followed by mid-year and annual appraisal.

The Company realises that the three factors which are important for an employee point-of-view are: Work Life Balance, Employee Engagement and Family Connect. Feedback from employees

**Table 2** (%)**Financial Performance – Ratios  
(As a Percentage of Net Sales)**

Parameters	2015-16	2014-15	Change
Material cost	68.8	72.0	3.2
Employee benefit expenses	3.5	3.3	(0.2)
Depreciation and amortisation	5.0	5.1	0.1
Other expenses	14.2	13.7	(0.5)
Profit before tax	11.6	10.0	1.6
Profit after tax	8.1	7.6	0.5

**Table 3** (₹ million)**Investment of surplus funds**

	31-03-16	31-03-15
Debt Mutual Fund	176,158	126,442

**Table 4** (₹ million)**Income from investment of surplus fund**

	2015-16	2014-15
Interest on fixed deposits	-	325
Dividend from debt mutual funds	-	473
Net Gain on sale of investments	3,002	6,690
<b>Total</b>	<b>3,002</b>	7,488

helped drive several new initiatives like implementation of a 5-day week, creation of recreational centres with sports facilities, awareness sessions on HR Policies, among others.

Various employee-related policies were revised to take care of business needs and employee requirements. Apart from a range of engagement initiatives, regular health checkups and health awareness sessions were conducted to promote healthy living and improve Health and Wellness Index of the organisation.

For enhancing people connect, the Company created several opportunities like Parivar Milan, Diwali Mela and Family Day.

The Company continued to have cordial relations with its unions and workforce. To take its communication with unions to a higher level, the Company invested significant time and resources to enhance awareness of union representatives in areas like



economic & business and Japanese systems & processes. Besides, orientation sessions were held with unions on employee grievance redressal, group dynamics, team skills and spiritual well-being.

A team led by the Managing Director regularly interacts with the union. During the year, a wage settlement agreement for the next three years was also concluded amicably with the Union.

With the recruitment of around 961 people this year, employee strength reached 13,259 people. The Company has been able to limit the attrition to 2.9%.

## Information Technology

The Company has robust systems, processes and technologies to manage the size and complexity of its business. The Company is perhaps the only one in the Indian manufacturing sector to be certified at Level Three of the Capability Maturity Model (CMMI) for software development in processes. The Company was also recently recertified as an ISO 27001:2013 compliant organisation ensuring the highest levels of information security.

The Company is using data generated in operations to improve the efficiency of various processes and identify opportunities for improvement.

Self-service mobile apps (Maruti Care) have enabled the Company to improve the connection with customers. Sales teams of dealers and the Company have been provided mobile apps that enable them to access real-time data and take quick decisions. Business Intelligence applications were revamped to enable the management to monitor performance indicators and quickly identify improvement areas.

During the year, a separate team was created (IT New Initiatives) to focus on identifying and implementing new technologies to help us stay ahead of the curve.

## Risk Management

The Company has a robust risk management framework which was implemented several years ago. The top management periodically reviews the library of key risks and their appropriate mitigation plans.

During the year, top management reviewed the status of progress of the risk mitigation plans. Key action points derived out of the

review were captured for further action by risk owners. The key risk areas were related to business continuity, supply disruptions, managing quality across the value chain, talent acquisition and retention, etc.

In line with the risk management policy, and following certain changes in the operating environment, the Committee has recommended a review of the key risks library during 2016-17.

## Outlook

The Company's goal is to achieve sales of 2 million cars annually in 2020. During the year, it put in place several building blocks towards this objective and beyond. The launch of three new models, start of a new retail channel, strengthening product design and development capabilities and enhancing vehicle safety in preparation for new regulations are some of the initiatives for the future.

The Company has consistently grown faster than industry in the context of an overall market slowdown. New products, design and technologies that meet the needs of the evolving Indian customer will continue to have an important role in the future. The Company will build further on its network strength to get closer to customers in urban areas as well as in small towns.

New regulations for safety and emission are likely to play an important role in the medium term. The Company is gearing up to meet regulations while trying to minimise the impact on the customer.

As the Indian economy attains a higher growth trajectory in the medium term, as is widely expected, the Company would be in a sound position to capitalise on the opportunity.

## Disclaimer

Statements in this management discussions and analysis describing the Company's objectives, projections, estimates and expectations are categorised as 'forward looking statements' within the meaning of applicable laws and regulations. Actual results may differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include trends in the domestic auto industry, competition, rise in input costs, exchange rate fluctuations, and significant changes in the political and economic environment in India, environmental standards, tax laws, litigation and labour relations.