MSIL RESPONSE TO THE IIAS REPORT ON THE VOTE

FOR RELATED PARTY TRANSACTION WITH SUZUKI MOTOR GUJARAT PVT. LTD.

Following is the response of the company to the Report of IIAS on the Company's Postal Ballot seeking approval to the Related Party Transaction with Suzuki Motor Gujarat (P) Ltd. This report is purported to have been circulated to certain investors on 20th November 2015.

Maruti has carefully read the report of IIAS recommending a negative vote on the arrangements proposed for enhancing production in Gujarat. We are forced to issue this response as we believe the report has several errors, misunderstandings of the automobile business and conclusions that are not based on any facts or logic. It is our duty to place the facts before our shareholders so that they can make their decisions in a better and fuller informed manner.

It has been stated in the IIAS report that Suzuki Japan owning the Gujarat facilities would shift the balance of power in favour of Suzuki. That Maruti will lose control over its 'destiny'. That Maruti shareholders will always remain subservient to the interests of Suzuki shareholders. That this arrangement will lead to SMC Japan capturing a greater portion of Indian valuation in its share price. That control over a large part of operations and cash flows of Maruti would move significantly to Suzuki Japan.

Unfortunately the IIAS has not explained what shifting of balance of power to Japan means. Or what is meant by Maruti's destiny, and how we lose control over it. Or how any of the other events above would happen, including control over operations and cash flows moving to Japan. These seem to be conclusions of the IIAS based on emotions, suspicions or even perhaps some sort of aversion to foreign companies. The fact is that Maruti has been a Suzuki subsidiary since 2002 when Government decided to transfer control. A very large part of the growth of Maruti, and the consequent benefits to its shareholders has come in the period after 2002 when Suzuki has been in control. Since 2007 the Managing Director and CEO of Maruti has been a Japanese person. The full time Directors have also been Japanese. Maruti is governed by its Board of Directors, and the provisions of the Companies Act. The Board includes 4 Independent Directors, who are eminent persons and fully Independent. The Chairman, Mr. R.C. Bhargava has been credited in the report for building Maruti. He is one of the most respected figures in Indian Industry. For the IIAS to say that the Board has 'cowered' to Suzuki is not only totally incorrect but is directly accusing such eminent persons.

The Board, under law, has full power to take all decisions. The Directors are appointed by the shareholders. This position will continue unchanged irrespective of who owns the Gujarat plant. The position of the Board, or the Maruti shareholders does not, and cannot, change at all because of the funding arrangements for Gujarat. Thus it is incredible that a proxy company, aware of the Company law, should make such assertions.

The report states that in Gujarat a capacity of 750,000 units would be created. This is not correct. The Project will have a final capacity of 1,500,000 units, at a total investment of about Rs.18,500 crores and this is public knowledge.

The report states that Maruti plans to invest especially in premium car segment dealerships and that 30 Nexa dealerships are planned by March 2016. The correct fact is that Maruti is planning to double its capacity of sales outlets to match the production increase from Gujarat. The bulk of additional production would not be premium cars and would not be sold through premium channel. The Gujarat production cannot be sold unless there is higher sales capacity. The dealer workshops would increase from the present 1700 to about 5000. The distribution of spare parts, transportation infrastructure, stockyards, etc. will all have to match the additional volume of sales in the future. IIAS believes that shareholders will benefit more if Maruti invests its money in manufacturing, rather than in these activities. This belief exhibits an inadequate understanding of the car business. Actually, the shareholders of Maruti will lose heavily if the cars produced in Gujarat cannot be sold and if “after sales service” becomes inadequate. Incidentally the number of Nexa outlets by the end of the FY will be 150 and not 30.

IIAS has praised the Indian management for building Maruti to its iconic position. They have referred to the book of our Chairman. In the same book the Chairman has written that everyone in Maruti learnt enormously from Suzuki. Training in Japan was a major cause for success. The management and labour relation systems from Japan are responsible for our high productivity and quality, and the culture of continuous improvements. Mr. O. Suzuki during his numerous visits gave many valuable inputs for improvement. So it is totally incorrect to attribute the success of Maruti to the Indian Management alone. It was a joint effort by all the parties and stakeholders concerned and continues to be so even now. It will not change because of the Gujarat project.

The IIAS report says that Maruti's dependence on Suzuki for technology has lessened and will become even less in the future. That is totally incorrect. The product development capabilities of Maruti are being substantially enhanced to cater to the needs of the much large number of models in production, and the shortening of model life as a result of competition. The work that will be done in India for product development will lead to a reduction in royalty rates. However, Maruti will be dependent on Suzuki for the platforms and powertrains for the cars as well as for new technologies like the AMT, hybridisation for small cars, meeting new emission and safety standards, and so on. Maruti is a Suzuki subsidiary and we work in cooperation with them so as to reduce total costs for Maruti.

The report states that Gujarat mirrors the Manesar project when it was proposed as a separate subsidiary. This is also factually wrong. Manesar would have been profit making, and its products would have been competing with those made in Gurgaon. The Gujarat project has neither of these conditions. This fact was explained to IIAS during the three meetings that the Maruti top management had with the top management of IIAS.

What is correctly stated in the report is that Suzuki believes its future will be increasingly dependent on its Indian operations. This has been publicly stated by the Suzuki top management and is not a secret. It is for this reason that Suzuki wants to infuse its money into India, via the Gujarat plant. This arrangement will bring Rs. 8,000 to 10,000 crores of FDI into India at zero cost to Maruti. Maruti will have full control over what happens in Gujarat, and all the profits from the Gujarat production will come to Maruti. In addition, Maruti will earn treasury income from the money not invested in Gujarat. The competitive position of Maruti in India will be hugely strengthened because of the additional Rs. 8,000 to 10,000 crores available to us, free of cost, being invested in product development and infrastructure building. All of this will certainly strengthen Suzuki's competitive position in India and help Maruti to retain its market share and profitability. But the IIAS seems to overlook the fact that anything that helps Maruti become stronger, helps both the minority shareholders of Maruti as well as Suzuki. There is no way in which this position can change, because Suzuki can only earn profits in India if Maruti earns profits. And 44% of these profits go to the minority shareholders. As shareholders the interests of minority shareholders and of Suzuki are aligned. The desire of Suzuki to strengthen its position in the Indian market is actually in the interests of minority shareholders also, since sale and service of cars made in Gujarat can only be done through Maruti. It would not be possible for Suzuki to establish a sales and service channel similar to that of Maruti. No foreign car company has managed to do that.

Just for the record, the Gujarat project, when completed, would result in Maruti realising all the profits from the sale of that production without any additional capital employed. The amount of that profit would not have been larger if Maruti were to invest in Gujarat. In addition, there would be treasury income. The ROCE would be far higher as no Maruti capital would have been deployed in the Gujarat production. This too has been overlooked in the report.