Proxy Advisory Report

Maruti Suzuki India Ltd

BSE Code: 532500 | NSE Code: MARUTI | ISIN: INE585B01010

Sector: Automobile | Meeting Type: Postal ballot

e-Voting Platform: Karvy

e-Voting Period: From 16th November, 2015 to 15th December, 2015

Voting Deadline: 15th December, 2015

Notice: Click Here | Annual Report: Click Here

Company Email: investor@maruti.co.in

Company Phone: +91 11 4678 1000 | Company Fax: +91 11 4615 0275

Company Registered Office: Plot No 1 Nelson Mandela Road Vasant Kunj, New Delhi, New Delhi – 110070

Proxy Advisory
Corporate Governance Research
Corporate Governance Scores
Stakeholders' Education

SES
Stakeholders Empowerment Services

SES RECOMMENDATIONS

TABLE 1 - AGENDA ITEMS AND RECOMMENDATIONS

S. No.	Resolution	Type	Recommendation	Focus
1	Related Party transaction with Suzuki Motor Gujarat Private Limited	O	FOR	

O - Ordinary Resolution; S - Special Resolution

RESEARCH ANALYST: ANUBHAV GOYAL

#Focus Terminology

C - Compliance: *The Company has not met statutory compliance requirements*
F - Fairness: *The Company has proposed steps which may lead to undue advantage of a particular class of shareholders and can have adverse impact on non-controlling shareholders including minority shareholders*
G - Governance: *SES questions the governance practices of the Company. The Company may have complied with the statutory requirements in letter. However, SES finds governance issues as per its standards.*
T - Disclosures & Transparency: *The Company has not made adequate disclosures necessary for shareholders to make an informed decision. The Company has intentionally or unintentionally kept the shareholders in dark.*

KEY ISSUE

Are Related Party Transactions *per se* bad?

A practitioner of good governance cannot be judgemental and cannot base his opinion on set prejudices. It is vital that before pronouncing one's judgement on an issue, the matter must be examined thoroughly and evaluated against benchmarks set for the subject matter and only after such analysis opinion be expressed on the matter/or issue under debate as good or bad governance practice.

In general, Related Party Transactions (RPTs) are frowned at and treated as a not a good governance practice. Experience of SES, while evaluating the transactions for the purpose of issuing its advisory, has not been too encouraging. Given the scanty and sketchy information available it becomes very difficult to objectively evaluate a RPT and differentiate between abusive RPT and an acceptable RPT. However to avoid any bias against RPTs and terming all RPTs as abusive, SES as a matter of principle examines all the RPTs against following criteria:

- Disclosures & Transparency
- Fairness to Minority / non-controlling shareholders
- Benefits to the Company
- Need for the Transaction
- Why only RPT; why not transact with other party (ies)

It is only when any proposed transaction meets all the above criteria, SES is comfortable giving its favourable opinion on any proposal and therefore SES is of the view that all RPTs are not *per se* bad and only abusive RPTs are to be discouraged. However, many a times SES finds that the information contained is not sufficient. And in few of these cases SES still gives a favourable opinion as SES believes that the transaction is in the interest of the Company.
In the present case, before SES presents its opinion, it is important to recapitulate the history of the transaction under consideration. The transaction was first announced by Maruti Suzuki India Ltd. (MSIL) in January 2014 and had raised lots of debate in the media and investment Community. While many gave the transaction a thumbs down, SES was of the opinion that transaction was a win-win situation for MSIL's shareholders. However facing lots of criticism in media, there

was an interview of Management of MSIL in media, SES found the same to be a bit offensive and against shareholder democracy and found few points which contradicted the original announcement. Post this interview, SES released its second Report highlighting the issue and opposed the transaction purely on account of attempt to muzzle shareholder dissent and contradictions with earlier release. Followed by the interview, there was an official announcement by MSIL, clarifying doubts of shareholders in which SES found that majority of the issues raised by SES were addressed. This showed responsiveness of MSIL to criticism as also concern for shareholders voice. SES thereafter released its third Report favouring the transaction. MSIL later on released an analyst presentation and drafts of Contract Manufacturing Agreement (CMA) and Lease Deed (LD) with Suzuki Motors Gujrat Ltd. (SMG) a subsidiary of Suzuki Motors Company (SMC). SES analysed the agreements and presentation in detail and found level of disclosures of high order and did not find anything that was against Minority Shareholders. SES released its fourth report in series in June 2014 favouring the transaction.

As it is a public knowledge, opinion of SES was at variance with other analysts/ Advisory opinion, at this juncture a greater responsibility is cast upon SES to examine the issue afresh and ensure that opinion of SES is issued after taking into consideration all possible issues regardless of its previous opinion. SES examined the proposed transaction once again in great detail, compared Contract Manufacturing Agreement and Lease Deed with drafts circulated earlier and could not find any adverse issue with the exception of lack of clarity related to Royalty. In order not to be on the wrong side, SES communicated with the Company as SES felt that existing CMA had a scope that Royalty could be paid on the same product both by the Suzuki Motors Gujarat (SMG) and MSIL.

The Company has clarified to SES that SMG may pay royalty to SMC but the same will not be more than what MSIL would have paid on the same product.
While, whether Royalty being paid by MSIL is justified or not? Is it high? Or how long it shall continue? Are debatable issues, it is not at all a subject matter of discussion for this Postal Ballot and it is agnostic to structure/ route for expansion of MSIL, therefore the issue has not been examined from that perspective.

SES after examining the issue once again reiterates its earlier stand that the shareholders support the transaction. Our recommendation is based on our detailed analysis which follows. In nut-shell:

"SES does not find that by the proposed structure SMC is placed in any better situation than what it is in Maruti at present or what it would have had, had the expansion been implemented through a division or Subsidiary of MSIL. It is in driver's seat at present in MSIL due to majority ownership and exercises the powers through the Board it controls. On the contrary, although SMC will own 100% equity in SMG, still it has practically given up all the rights that an owner has, be it financial rights or operation rights. Though the fact remains that those political rights given up are indirectly available through MSIL, yet economic rights are surrendered to the extent of public holding in MSIL as benefits of equity investment in SMG by SMC will be reaped by all shareholders of MSIL including public shareholders. Further as far as risks are concerned, MSIL is exposed to same risks as it would have, had the expansion was done in house. SES cannot question whether expansion is desirable or not as it is management decision and it is also not a subject matter at present."
Ownership vests two rights - Economic Rights and Political Rights. In the proposed structure, SMC has surrendered in case of SMG, both these rights. Economic rights fully and Political rights shared with MSIL.

Meeting Type : Postal Ballot

Voting Deadline: 15th December, 2015

COMPANY BACKGROUND

TABLE 2 - MARKET DATA (*As on 17th November, 2015*)

Price (₹)	4,649.80	M Cap (₹ Cr.)	1,40,461.00	Shares*	30,20,80,060	PE Ratio"	36.61

Standalone Data ; Source: Capitaline ** As on 30th Sep, 2015* *"Based on EPS for FY 2014-15*

TABLE 3: FINANCIAL INDICATORS (STANDALONE)

(In ₹ Crores)	2015	2014	2013
Revenue	49,970.64	43,700.63	43,587.93
Other Income	831.58	822.90	812.37
Total Income	50,802.22	44,523.53	44,400.30
PBDT	7,338.53	5,742.96	4,852.23
Net Profit	3,711.22	2,783.05	2,392.13
EPS (₹)	122.85	92.13	79.19
Dividend per share (₹)	25.00	12.00	8.00
Dividend Pay-Out (%)	23.65	15.14	11.74
OPM (%)	15.10	13.52	11.57
NPM (%)	7.43	6.36	5.49

Dividend pay-out includes Dividend Distribution Tax. Source: Capitaline

TABLE 4: PEER COMPARISON (2015)

Mahindra & Mahindra Ltd
38,945.42
848.94
39,794.36
5,143.79
3,321.11
56.23
12.00
24.80
13.76
8.53

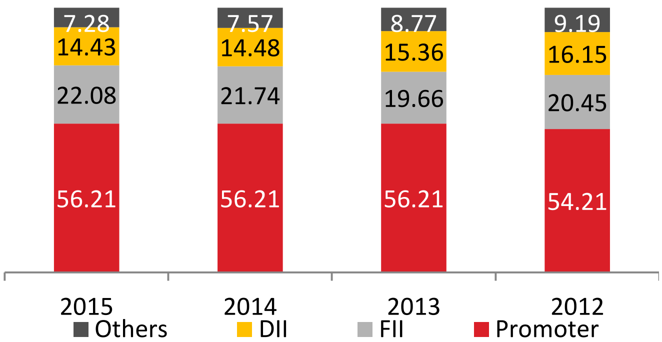
TABLE 5: MAJOR PUBLIC SHAREHOLDERS (SEP' 15)

Life Insurance Corporation of India	5.37%
Europacific Growth Fund	1.13%
ICICI Prudential Life Insurance Company Ltd	1.03%

TABLE 6: MAJOR PROMOTERS (SEP' 15)

Suzuki Motor Corporation	56.21%

SHAREHOLDING PATTERN (%) (As on 30th Sep)



Graph 1: Yearly Shareholding Pattern

DISCUSSION

No new equity shares were issued during the period from 1st September, 2014 to 30th September, 2015. No major change was observed in the shareholding pattern during the said period.

Report Release Date: 23rd November, 2015

RESOLUTION ANALYSIS

RESOLUTION 1: RELATED PARTY TRANSACTION

Approval of Related party transaction between the Company and Suzuki Motor Gujarat Private Limited (SMG) and for the execution of the following transaction documents:

a) Contract Manufacturing Agreement to set-up the requisite manufacturing facilities at Gujarat

b) Lease Deed in relation to the land

c) Deed of Assignment

d) Any other agreement or documentation required to give effect to the above

SES RATIONALE

Adequate rationale and disclosures by the Company. No major governance issue identified.

SES RECOMMENDATION

The Company has provided adequate rationale and has disclosed the expected benefits from the proposed transaction. Further, SES is of the opinion that the proposed related party transaction does not entitle SMC with any additional powers as compared to the powers which SMC already has. Therefore, SES recommends that shareholders vote **FOR** the resolution.

SES ANALYSIS

BACKGROUND

On 28th January 2014, Board of Maruti Suzuki India Ltd. (MSIL) issued a Press Release to announce the decision of Suzuki Motor Corporation (SMC) to set up a Greenfield project to manufacture cars in Mehsana District of Gujarat on the land that was bought by MSIL for setting up a plant for its' expansion.

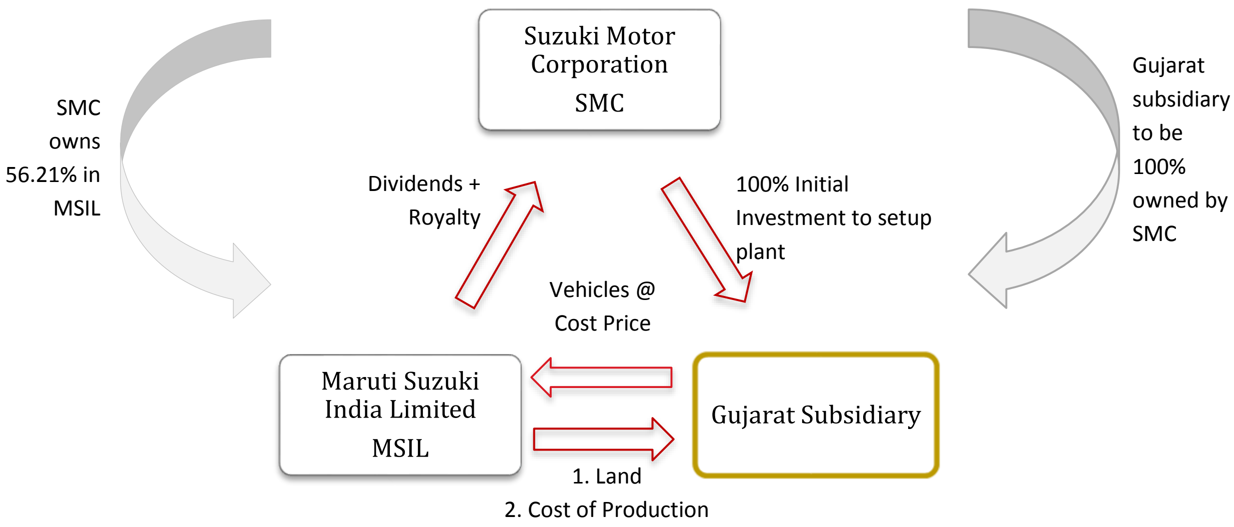
The issue of proposed contract/ arrangement between MSIL and 100% subsidiary of Suzuki Motor Company (SMC) drew attention of analysts, media, regulators and proxy advisory firms like SES. Many governance issues were raised and analysts were generally of the opinion that the agreement be scrapped. SES in its previous reports dated 11th February, 2014, 12th March 2014 and 13th June 2014, highlighted certain issues and maintained that if concerns are attended to and resolved in favour of shareholders of MSIL, the deal should be approved.

SUMMARY

a) MSIL has entered into a Contract Manufacturing Arrangement (CMA) with Suzuki Motor Gujarat Private Limited ("SMG")
b) The deal is approved by the Audit Committee and the Board of the Directors of MSIL, Board of Directors of SMG.
c) MSIL's installed capacity (1.5 million vehicles) at existing plants in Haryana cannot be expanded due to various constraints, including infrastructure.
d) Expansion of capacity can be done at Gujarat, because of the proximity to port for exports, ease of doing business in the State and logistical advantage for sale in West and South India
e) MSIL had studied various alternative structures for Gujarat expansion including as a division of MSIL, Options ranging from a 100% MSIL subsidiary to a 100% SMC subsidiary.

f) 100% SMC subsidiary on a "no-profit no-loss" with an exclusive long term contract manufacturing agreement with MSIL was found to be most beneficial for MSIL.
g) SMC will finance the capital expenditure of SMG through initial equity capital and further equity to the extent necessary after using the accrued depreciation funds
h) SMG would not make any profits or losses
i) SMG would not sell the products to anyone other than MSIL
j) SMG production volume and products would be decided by MSIL, keeping all techno-economic factors in mind
k) Pricing agreed annually between SMG and MSIL, based on "no-profit no-loss" concept supported by audited accounts.

THE PROPOSAL



BENEFITS TO MSIL (AS STATED BY THE COMPANY)

a) MSIL would save investment equal to equity investments made by SMC in SMG, total estimated to be about ₹ 185 billion. This would be financed by equity from SMC and accumulated depreciation. MSIL will earn treasury income from the money not invested in Gujarat.

b) MSIL will have full control over what happens in Gujarat, and all the profits from the Gujarat production will come to MSIL. The competitive position of MSIL in India will be hugely strengthened because of the additional ₹ 8,000 to ₹ 10,000 crores available to the Company, free of cost, being invested in product development and infrastructure building.

c) The Gujarat project, when completed, would result in MSIL 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 MSIL were to invest in Gujarat. The ROCE would be far higher as no MSIL capital would have been deployed in the Gujarat production.

d) The skill and capacity to manufacture cars is by no means enough to differentiate between car companies. Market research, product design and development, sales and service, spare parts distribution, brand building are perhaps even more important. All these functions would be with MSIL and adequate resources would be available to strengthen these activities.

BENEFITS TO SMC (AS STATED BY THE COMPANY)

a) Growing importance of MSIL operations for SMC likely to become even more important in the future.

b) SMC wants to further strengthen MSIL for this reason in the best interests of both companies.

c) SMC by virtue of its ~56% shareholding in MSIL, would proportionately benefit due to :

   - Generation of additional profits at MSIL from the incremental sales achieved by sale of the products manufactured by SMG.
   - Additional other income generated by MSIL on investment expenditure at Gujarat saved by MSIL.

d) These financial benefits would be much higher than the return which SMC would have got on the equity invested in Gujarat as compared to other options.

WHAT IS THERE IN IT FOR SMC?

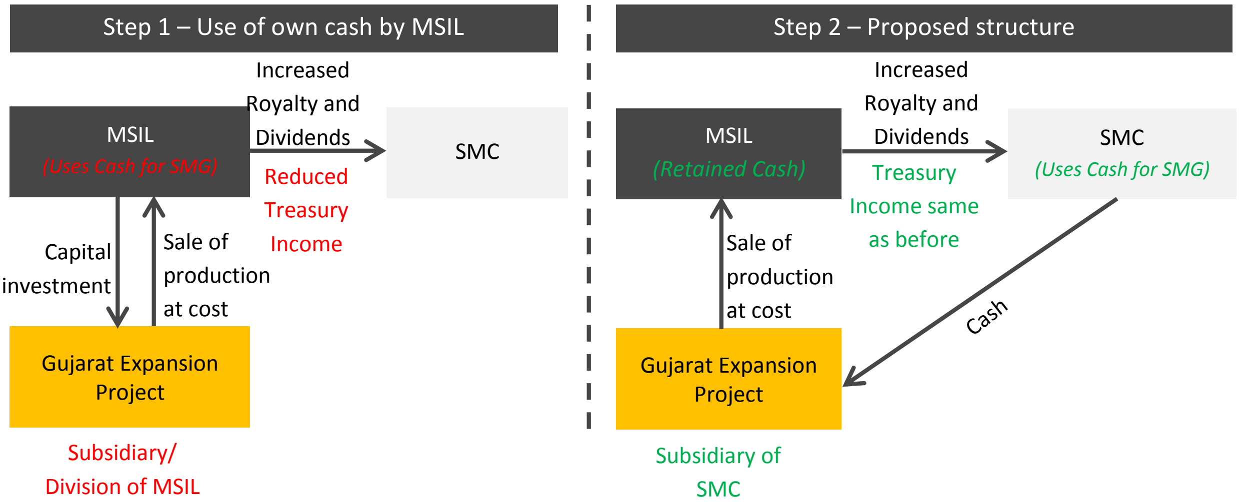
The questions that come to mind are that what's in it for SMC? Why should SMC shareholders consent to investing money on such terms?

This analysis can be done with principally two approaches:

1. Indirect gains to SMC from Interest earning of MSIL that would be protected.
2. To calculate extra profit that will be generated for SMC along with extra royalty.

Analysis 1

Benefit to SMC on account of interest earning of MSIL is explained in following diagrams, broken into two steps for clarity. Step 1 depicts use of own cash by MSIL and the Step 2 creates proposed structure.



It is indicated that about ₹ 18,500 crore will be capital expenditure by SMC in SMG. If MSIL was to invest this out of their own cash they will lose treasury income on ₹ 18,500 Crore. When SMC pays entire cost of funding SMG, they do not earn any interest on this amount, however they continue to share treasury income of MSIL. Cost for retaining this treasury income is sharing and foregoing 44% of interest earnings to minority shareholders of MSIL. Therefore, both minority shareholders and SMC retain treasury income. If Tax Free Rate of 7.2% available on PSU bonds is taken, then tax free earnings of SMC will be 4.03% per annum (56% of 7.2%) less dividend tax. However, SMC is still better off as the return earned by SMC in this case may still be more than the Interest earned on its Yen balances.

In nutshell SMC is effectively deploying its surplus cash at 4.03% interest rate per annum against ~0% available in Japan and probably taking ¥ - ₹ exposure risk.

Analysis 2

For working out extra profit, few assumptions need to be made.

Assumptions:

- Investment made is ₹ 18,500 Crore & Net profit Margin remains the same as at MSIL, Royalty remains same.
- Returns have been calculated at an Assets turnover ratio of 2. SES expects Assets Turnover Ratio to be less than MSIL in subsidiary as it will be a new plant.

	(In ₹ Crore unless otherwise mentioned)	
A	Investment Made	18,500
B	**Fixed Assets Turnover Ratio** (assumed)	2
C	Net Profit Margin	3%
D	Sales (A x B)	37,000
E	PAT (C x D)	1,110
F	Royalty %	5%
G	Royalty Amount (D x F)	1,850**
H	Total to MSIL's minority shareholders (44% x E)	448.4*
I	Total to SMC (G + 56% x E)	2,471.6
J	Return to SMC as % of Investment Made (I / A)	13.36%

**This is additional return to MSIL shareholders on investment funded by SMC/ ** this would have been available even if any other mode of expansion was used.*

The above calculations show that SMC is going to earn a moderate to high return on its investments. However, this return would have been there for SMC even if the expansion was done by MSIL at its cost.

EVALUATING ALTERNATIVE STRUCTURE

If MSIL intended to go for expansion, it could have gone for two alternative ways to implement it i.e. 1) Within MSIL as a separate division or 2) as a 100% subsidiary of MSIL. However, the Company has gone for 100% subsidiary of SMC, its promoter. SES has evaluated the three options in table below on various parameters of evaluation.

	MSIL - division	MSIL subsidiary	SMC subsidiary
Ownership of by SMC / Public shareholders	56% /44%	56% /44%	100%
Business Risk for MSIL	Yes	Yes	Yes
Profit for SMC	56% Directly	56% Directly	56% Indirectly
Marketing Rights for MSIL	Neutral	Neutral	Neutral
Interest Income of MSIL	Reduction	Reduction	Unchanged
Benefit of Increased Exports/ Domestic Growth	Neutral	Neutral	Neutral
Royalty for SMC	Neutral	Neutral	Neutral
Related Party Issue	Strong	Strong	Strongest
Currency Exposure Risk of SMC	Same as at present	Same as at present	Increased

From the table above, we can see that there are minor differences between all three options and other than loss of interest income to MSIL, in case expansion is by using its own cash, the only significant concern is the related-party issue.

What's SMC gaining?

As discussed above, by undertaking this project, SMC would be able to redeploy its cash which may have been earning low interest rate and bears the Yen-Rupee currency risk. Additionally, the holding company would gain from the increased sales and royalty payments by MSIL.

PROPOSED RELATED PARTY TRANSACTION

Disclosures	Details of disclosure
Name of the Related Party	Suzuki Motor Gujarat Private Limited, a company organized and existing under the laws of India
Relationship with the Company	SMC is the holding Company of the Company and SMG is the Wholly owned subsidiary of SMC
Contract Duration	Agreement shall continue for a period of 15 years, to be automatically extended for a further period of 15 years
Arm's length	Yes
Nature of Transaction	No-profit and No-Loss Principle
Audit Committee Approval	Yes (on 1st October, 2015)

SES ANALYSIS OF CONTRACT MANUFACTURING AGREEMENT ("CMA")

1. NATURE OF TRANSACTION

Proposed Arrangement	SES View
No-profit and no-loss principle	CMA effectively closes information gap and CMA read with Lease Deed removes any doubt or potential for leakages

2. COORDINATION COMMITTEE

Proposed Arrangement	SES View
Implementation / achieving the purpose of the CMA / determining the operational matters; Members appointed by MSIL and SMG with mutual agreement.	Coordination Committee will ensure that interests of MSIL are taken into account.

3. DURATION

Proposed Arrangement- CMA	SES View
(15) years + (15) years, Termination with Mutual agreement; After thirty (30) years, Extension with Mutual agreement; CMA co-terminus with the Lease Deed.	This read with termination clause and consequences of termination effectively makes SMG almost as 100% subsidiary with only one difference that consideration for ownership is payable in future post termination of the deal. MSIL is having ownership rights without investing its funds and earning interest income of the funds so saved

4. EXCLUSIVE SALE AND PURCHASE OF PRODUCTS

Proposed Arrangement- CMA	SES View
SMG shall not sell or assign the Products directly to any other third party.	This ensures that SMG will not compete with MSIL

5. PRODUCTION SCHEDULE AND MANUFACTURE OF THE PRODUCTS

Proposed Arrangement- CMA	SES View
Products and their volumes to be decided by MSIL; MSIL and SMG to agree production schedule; Firm purchase orders by MSIL to SMG	This ensures that SMG cannot dump its production on MSIL

6. SALE AND PURCHASE OF THE PRODUCT

Proposed Arrangement- CMA	SES View
As per CMA, Spares of discontinued models to be supplied by SMG as per MSIL decision	Ensures continuity and protects MSIL from customer dissatisfaction

7. DETERMINATION OF PURCHASE PRICE OF PRODUCTS

Proposed Arrangement- CMA	SES View
Price decided on no profit or loss at the end of the financial year; Profit or loss of previous year if any as well as any interest earned thereon to be adjusted in current years prices so that no-profit and no-loss principle is complied with; MSIL has right to inspect audited financial statements of SMG for the purpose of determining the prices of the Products; SMG shall appoint an Identified Accountancy Firm as its statutory Auditor.	Ensures transparency and protects MSIL shareholders. SES would ideally like MSIL to have a right to appoint its own Auditor in case it so desires. Although by allowing access to books of accounts to MSIL this is partly taken care.

8. MANUFACTURE, PURCHASE AND IMPORT OF PARTS, ETC.

Proposed Arrangement- CMA	SES View
MSIL and SMG shall discuss SMG's Parts and procurement of the Purchase/Import Parts so that the costs to manufacture and assemble the Products can be minimized; Purchase/Import Parts by SMG from SMC and/or other; related parties shall require the prior approval of MSIL.	Ensures that SMC and SMG cannot milk MSIL shareholders through import or purchase route.

9. CAPITAL EXPENDITURE REQUIREMENTS

Proposed Arrangement- CMA	SES View
1. The entire capital expenditure for SMG shall be funded by depreciation and equity brought in by SMC. SMG shall change its manufacturing capacity in accordance with prior written requirement as received from MSIL and in consideration of the market conditions at the time of change. 2. MSIL and SMG shall discuss the procurement of the capital assets, machinery and plants ("Capital Assets") required to manufacture and assemble the Products so that the costs to manufacture and assemble the Products can be minimized. It is agreed between the Parties that any arrangements in relation to procurement of the Capital Assets by SMG from SMC and/or other related parties of SMG (other than MSIL) shall require the prior approval of MSIL.	Protects MSIL from capital cost manipulation and consequent high depreciation

10. ROYALTY

Proposed Arrangement- CMA	SES View
1. It is acknowledged and agreed by the Parties that the use, which shall include but not be limited to the sub-licensing, of any Intellectual Property, that may be required in manufacturing, assembling and packaging the Products, and all decisions relating to quantum of such royalty for the use of such Intellectual Property (hereinafter referred to as the "Royalty") shall be done in accordance with the terms of the contractual agreements between SMC and MSIL. It is further agreed that the Parties and SMC shall enter into suitable documentation and arrangements for effectuating such Royalty payments. 2. The Parties shall further endeavour that the aforesaid arrangement for payments toward Royalty shall, to the extent reasonably practicable, be commercially beneficial and efficient for the Parties while complying with the relevant taxation requirements and other regulations.	This is still not crystal clear in CMA. It is not clear that that the royalty will not be doubly paid i.e. included in the cost of the subsidiary and again in sales of vehicles to MSIL. SES communicated with the Company regarding the same and the Company clarified on Royalty payments. (Click here to view)

11. TERMINATION

Proposed Arrangement- CMA	SES View
Each Party shall have the right to terminate this CMA	Fair and loaded in favour of MSIL in view of consequences of termination clause

12. CONSEQUENCES OF TERMINATION

Proposed Arrangement- CMA	SES View
MSIL shall at its option purchase all, but not part of, outstanding shares of SMG as a going concern entity; At a consideration that is equal to the book value of the shares of SMG based on the last available audited financial statements of SMG as on the date of termination of this Agreement; Notwithstanding the foregoing, if the no-profit and no-loss principle provided in Clause 8 above is not complied with on the date of the termination of the CMA, the book value mentioned above shall be adjusted and confirmed by the auditors of SMG so that the no-profit and no-loss principle is properly and accurately reflected in the book value.	Transfer at book value with provision for adjustment in case no profit no loss clause violation ensures that transfer price is fair.

ANALYSIS OF LEASE DEED

The Lease Deed would be entered into between MSIL and SMG for the purposes of effectuating the arrangements as set out in the Contract Manufacturing Agreement wherein MSIL would provide the land admeasuring 5,15,804 Sq. Mtr. at Hansalpur at ₹ 4,67,31,842 per annum and 26,204 Sq. Mtr. at Sitapur at ₹ 31,86,406 per annum in the state of Gujarat, to SMG on lease. The Lease Deed would be co-terminus with the Contract Manufacturing Agreement and would be for an initial period of 15 years which may be automatically extended for another 15 years. Under this Lease Deed, SMG would set up the manufacturing unit along with all ancillary facilities for manufacturing the vehicles and parts. The lease rental has been determined based on the opportunity cost of funds to MSIL which is at present 10% per annum.

SES is of the opinion that the financial terms of Lease-Deed i.e. lease rent, payment terms etc. have no impact as it only amounts to a book entry and a cost that is fully recoverable. The important issue is that the lease gets terminated as soon as CMA is terminated and vice versa. MSIL is not going to lose ownership of land in any case.

SES VIEW

SES has analysed the notice of the Postal Ballot along with its (SES) previous Reports and issues raised earlier. The Company in the notice, CMA and Lease Deed has effectively clarified on most of the issues raised by SES in its previous reports.

The arrangement in its present form as presented effectively amounts the arrangement akin to an option contract for purchase of 100% shares of SMG – a wholly owned subsidiary of SMC- by MSIL at its book value. The arrangement proposed to be made through CMA does not allow any ownership benefit to SMC. SMC is neither entitled to profit or return on its investment, nor has any freedom to buy or sell and not even has a freedom to produce cars as per its wish. SMG is open to inspection of its accounts by MSIL. Factually, CMA ties hands of SMC in managing SMG and MSIL in fact is de-facto owner.

It is evident that SMC is getting the best return from this arrangement as compared to other options available to it. The financial savings envisaged or calculated by MSIL on retaining the funds in its balance sheet and letting SMC do investment without any direct return are substantial. And this benefit is accruing to minority shareholders as well.In the past, analysts were critical of MSIL decision to retain cash and let SMC invest. Various arguments were made both for and against this proposition.

SES believes that as long as there is free cash-flow/ investment in MSIL without any string attached to it, there is no harm in accepting that cash. One cannot just oppose the deal on the ground that SMC has ulterior motive unless one is able to pin-point the concerns. SES in the past had felt that there were gaps in the disclosures by the Company and the same have been plugged and managed deftly through various communications. In SES opinion, SMC is allowing minority investors of MSIL to share returns on its investment. This is a win-win situation for both SMC and minority-shareholders of MSIL.

However, SES would also like to highlight certain areas of concerns that still need to be addressed effectively by MSIL and SMC -

1. There should be an agreement between MSIL and SMC spelling out duration for which export territories are exclusively assigned to MSIL. This agreement shall specify role of MSIL and SMC including support to be provided by SMC.
2. In the interests of MSIL shareholders, Subsidiary (SMG) should voluntarily adopt disclosure norms as applicable to public listed company in India.
3. MSIL should have authority to get cost-audit of subsidiary done at any point of time and board of MSIL shall certify to shareholders of MSIL that cost audit was done and Board is satisfied.
4. MSIL should be able to nominate Independent members on the board of SMG.

COMMUNICATION BETWEEN SES AND MSIL

From: XXXXXX@maruti.co.in

Sent: 22 November 2015 17:08
To: jng@sesgovernance.com
Cc: A@maruti.co.in; B@maruti.co.in; C@maruti.co.in; D@maruti.co.in
Subject: Response to SES on royalty query

Dear Sir,

This is to clarify on your query whether there could be a double incidence of royalty on cars produced in Gujarat.

The contract manufacturing arrangement has no possibility of double incidence of royalty on cars produced in SMG Gujarat. The total amount of royalty paid to SMC Japan on cars produced at SMG Gujarat and sold by MSIL in the market will exactly be the same as if the cars were produced by MSIL itself.

Hope this clarifies. Kindly feel free to refer any other doubt/ query you might have.

Thanks and Best Regards

Maruti Suzuki India Ltd.

SES VIEW

While the communication clarifies the issue, however it is still not part of public / statutory document, although a public communication. SES would advise the Company to make a public announcement through stock exchanges in accordance with existing rules.

DISCLAIMERS

Sources

Only publicly available data has been used while making the report. Our data sources include: BSE, NSE, SEBI, Capitaline, Moneycontrol, Businessweek, Reuters, Annual Reports, IPO Documents and Company Website.

Analyst Certification

The analysts involved in development of this report certify that no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

CAUTIONARY STATEMENT

The recommendations made by SES are based on publicly available information and conform to SES's stated Proxy-Advisory Guidelines. Further, SES analysis is recommendatory in nature. SES understands the different investment needs of our clients. Therefore, SES expects that the clients will evaluate the effect of their vote on their investments independently and diligently and will vote accordingly. Subscribers may also carry out an impact analysis of their votes and keep the same as an addendum for their records. In our opinion, Institutional investors are positioned significantly differently from other shareholders due to their ability to engage the board and the management to bring out desired result. As a firm, it is our endeavour to improve the level of corporate governance while not causing any disruption in company's proceedings and therefore we respect the independence of investors to choose alternate methods to achieve similar results.

Disclaimer

While SES has made every effort and has exercised due skill, care and diligence in compiling this report based on publicly available information, it neither guarantees its accuracy, completeness or usefulness, nor assumes any liability whatsoever for any consequence from its use. This report does not have any approval, express or implied, from any authority, nor is it required to have such approval. The users are strongly advised to exercise due diligence while using this report.

This report in no manner constitutes an offer, solicitation or advice to buy or sell securities, nor solicits votes or proxies on behalf of any party. SES, which is a not-for-profit Initiative or its staff, has no financial interest in the companies covered in this report except what is disclosed on its website. The report is released in India and SES has ensured that it is in accordance with Indian laws. Person resident outside India shall ensure that laws in their country are not violated while using this report; SES shall not be responsible for any such violation.

All disputes subject to jurisdiction of High Court of Bombay, Mumbai.

Company Information

S E S
Stakeholders Empowerment Services

SEBI Reg. No. INH000000016

Contact Information

Stakeholders Empowerment Services

A 202, Muktangan,
Upper Govind Nagar,
Malad East,
Mumbai – 400 097
Tel +91 22 4022 0322

research@sesgovernance.com

info@sesgovernance.com

www.sesgovernance.com.