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maruti SuzukI: good company or good stock (b)[[1]](#footnote-1)

Pitabas Mohanty and Supriti Mishra wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Though the board of Maruti Suzuki India Limited (MSIL) decided in January 2014 to allow Suzuki Motors Corp (SMC), its parent company, to operate the Gujarat factory, it did not write to the shareholders of MSIL asking for their permission until October 26, 2015. Meanwhile, the stock price of MSIL kept increasing amidst robust financial performance from the company (see Exhibits 1 and 2).

In the annual general meeting of MSIL held on September 4, 2015, R. C. Bhargava, the chairman of MSIL, attributed the delay to amendments in the *Companies Act, 2013* and the Securities and Exchange Board of India requirements.[[2]](#footnote-2) On October 27, 2015, MSIL finally sent a letter to all shareholders asking them to vote on the proposal announced by the board in 2014. The shareholders were given the option to either cast their vote electronically or send a postal ballot form by December 15, 2015, at the latest.[[3]](#footnote-3)

According to the letter sent to shareholders, MSIL would enter into two related-party transactions with Suzuki Motor Gujarat (SMG). First, SMG would manufacture cars and supply them to MSIL on a no-profit-no-loss basis for an initial period of 15 years. Second, SMG would pay yearly lease rental of ₹49.9 million[[4]](#footnote-4) to MSIL for using the land owned by MSIL.

MSIL management tried reaching out to institutional investors prior to the shareholders’ voting.[[5]](#footnote-5) In August 2014, MSIL hired Kotak Mahindra Capital Company Limited and Axis Capital Holdings Limited, two investment banking firms, to persuade the minority shareholders to vote for the proposal.[[6]](#footnote-6) Management also planned roadshows in Gujarat to explain the details of the plan and its benefits to MSIL to institutional shareholders.[[7]](#footnote-7)

The proxy firm advisers were still not convinced of the benefits of the proposed structure. Hetal Dalal of Institutional Investor Advisory Services (IIAS), in a letter dated November 24, 2015, urged the minority shareholders to vote against the proposal.[[8]](#footnote-8) Dalal argued that SMC’s earnings before interest, tax, depreciation, and amortization (EBITDA) margin was lower than that of MSIL and that it had never made any business sense for SMC to operate the Gujarat plant. MSIL also had a large surplus of funds, and the company would find it difficult to achieve the same return on equity that it had achieved earlier. According to Dalal’s letter, MSIL would lose control of the company to SMC, and the proposal was against the interests of the minority shareholders of MSIL.

The minority shareholders needed to decide on their course of action before December 15, 2015. They could either vote in favour of the proposal—in which case SMC would operate SMG as a 100 per cent subsidiary—or they could vote against the proposal. If the majority voted against the proposal, MSIL would operate the Gujarat plant as its own division. This was what the market had expected prior to January 2014. The minority shareholders could also simply vote with their feet by selling their shares.

According to the amended versions of Section 188 of the *Companies Act, 2013* and Clause 49 of the Securities and Exchange Board of India listing agreement, MSIL needed the permission of only a majority (more than 50 per cent) of the minority shareholders. While Section 188 was amended in May 2015, Clause 49 was amended in September 2015 (see Exhibit 3).[[9]](#footnote-9)

MSIL stock closed at ₹4,449 on October 31, 2015. The analysts were expecting a long-term growth rate of 21.25 per cent from MSIL[[10]](#footnote-10) around this time (see Exhibit 4).

Exhibit 1: Stock Price Movement of MSIL after the announcement by the Board (₹ Millions)

|  |  |  |
| --- | --- | --- |
| **Month** | **MSIL** | **Nifty** |
| Jan-14 | 1,636.25 | 6,089.50 |
| Feb-14 | 1,589.00 | 6,276.95 |
| Mar-14 | 1,971.75 | 6,704.20 |
| Apr-14 | 1,923.00 | 6,696.40 |
| May-14 | 2,271.80 | 7,229.95 |
| Jun-14 | 2,439.35 | 7,611.35 |
| Jul-14 | 2,524.05 | 7,721.30 |
| Aug-14 | 2,784.50 | 7,954.35 |
| Sep-14 | 3,062.85 | 7,964.80 |
| Oct-14 | 3,337.25 | 8,322.20 |
| Nov-14 | 3,346.20 | 8,588.25 |
| Dec-14 | 3,329.80 | 8,282.70 |
| Jan-15 | 3,647.35 | 8,808.90 |
| Feb-15 | 3,620.85 | 8,901.85 |
| Mar-15 | 3,697.35 | 8,491.00 |
| Apr-15 | 3,725.85 | 8,181.50 |
| May-15 | 3,785.70 | 8,433.65 |
| Jun-15 | 4,023.35 | 8,368.50 |
| Jul-15 | 4,331.45 | 8,532.85 |
| Aug-15 | 4,167.20 | 7,971.30 |
| Sep-15 | 4,685.60 | 7,948.90 |
| Oct-15 | 4,449.00 | 8,065.80 |

Source: “Stock Price Data,” Centre for Monitoring Indian Economy, Prowess Database, accessed January 13, 2016.

Exhibit 2: MSIL Financial Statements

|  |  |  |
| --- | --- | --- |
| **Year Ending March 31** | **2015** | **2014** |
| **Volume (no.)** | 1,292,415 | 1,105,541 |
| **Net Sales (**₹ **Millions)** | **486,055** | **426,448** |
| Other Operating Income | 13,651 | 11,470 |
| Other Income | 8,316 | 7,317 |
| **Total Revenue** | **508,022** | **445,235** |
| Raw Material Expenses | 350,080 | 313,145 |
| Employee Benefits | 16,066 | 13,681 |
| Interest Expenses | 2,060 | 1,759 |
| Depreciation & Amortization | 24,703 | 20,844 |
| Other Expenses | 66,431 | 59,221 |
| **Total Expenses** | 459,340 | 408,650 |
| **Profit Before Tax** | **48,682** | **36,585** |
| Current Tax | 13,026 | 7,479 |
| Deferred Tax | −1,456 | 1,276 |
| **Net Income** | **37,112** | **27,830** |
|  |  | |
| **As of March 31** | **2015** | **2014** |
| **Shareholders’ Equity (**₹ **Millions)** | 237,042 | 209,780 |
| Long-Term Borrowings | 1,448 | 4,604 |
| Other Liabilities & Provisions | 8,790 | 10,232 |
| Total | 247,280 | 224,616 |
| **Current Liabilities** |  |  |
| Short-Term Borrowings | 354 | 12,247 |
| Payables | 55,614 | 48,975 |
| Other Current Liability & Provisions | 32,262 | 20,159 |
| Total | 88,230 | 81,381 |
| **Total Equity and Liabilities** | **335,510** | **305,997** |
| **Assets** |  |  |
| Tangible Assets | 138,498 | 132,291 |
| Intangible Assets | 2,923 | 1,827 |
| Total | 141,421 | 134,118 |
| Non-Current Investments | 98,176 | 13,048 |
| Other Long-Term Assets | 13,934 | 16,917 |
| Total | 253,531 | 164,083 |
| **Current Assets** |  |  |
| Current Investments | 29,964 | 88,131 |
| Inventories | 26,150 | 17,059 |
| Receivables | 10,698 | 14,137 |
| Cash and Bank Balances | 183 | 6,297 |
| Other Current Assets | 14,984 | 16,290 |
| Total | 81,979 | 141,914 |
| **Total Assets** | **335,510** | **305,997** |

Source: Created by the authors based on “Annual Report 2012,” Maruti Suzuki India Limited, accessed July 13, 2014, https://marutistorage.blob.core.windows.net/marutisuzukipdf/MARUTI\_AR\_2012\_Deluxe\_27-07-12.pdf; “Annual Report 2013,” Maruti Suzuki India Limited, accessed July 13, 2014, https://marutistorage.blob.core.windows.net/marutisuzukipdf

/MarutiSuzukiAnnualReport2012\_13.pdf.

Exhibit 3: Shareholding Pattern at MSIL at the end of September 2015

|  |  |  |
| --- | --- | --- |
| **Investors** | **No. of Shares** | **Stake** |
| Promoter | 169,788,440 | 56.21% |
| Domestic Financial Institutions | 43,606,896 | 14.44% |
| Foreign Institutional Investors | 66,706,047 | 22.08% |
| Others | 21,978,677 | 7.28% |
| Total | 302,080,060 | 100.00% |

Source: Created by the case authors based on Maruti Suzuki India Limited, *Shareholding Pattern,* accessed June 5, 2016, <https://marutistoragenew.blob.core.windows.net/msilintiwebpdf/shareholding_pattern_Q2.pdf>.

Exhibit 4: Valuation Parameters Used by the Market

|  |  |
| --- | --- |
| **Variables** | **Value** |
| Yield on 91-day T-Bill | 6.98% |
| Yield on 1-Year Government Securities | 7.21% |
| Yield on 10-Year Government Securities | 7.68% |
| Yield on 20-Year Government Securities | 7.71% |
| Market Risk Premium in India | 7.13% |
| Beta of MSIL | 0.93 |
| Long-Term Growth Rate for MSIL | 21.25% |
| Credit Rating | AAA |
| Credit Spread for AAA Bond | 0.77% |
| **Volume Growth Rates for MSIL** |  |
| 2015 | 1% |
| 2016 | 6% |
| Afterward | 12% |

Source: “CCIL Rupee Yield Curve,” The Clearing Corporation of India Limited, accessed June 4, 2016, <https://www.ccilindia.com/RiskManagement/SecuritiesSegment/Pages/CCILRupeeYieldCurveDaily.aspx>; “Maruti Suzuki Limited,” Capitaline Database, accessed July 14, 2014, [www.capitaline.com](http://www.capitaline.com); “Maruti Suzuki India Limited, Consensus Earnings Analysis,” Reuters, accessed December 1, 2015, <http://in.reuters.com/finance/stocks/analyst?symbol=MRTI.NS>.

1. This case is the first prize winner in the overall category of the ISB-Ivey Global Case Competition 2016. The prize has been sponsored by Indian School of Business [↑](#footnote-ref-1)
2. ET Bureau, “Maruti Suzuki Plans to Take Approval from Minority Shareholders’ on Gujarat Plan,” *Economic Times,* September 5, 2005, accessed January 13, 2016, <http://economictimes.indiatimes.com/industry/auto/news/industry/maruti-suzuki-plans-to-take-approval-from-minority-shareholders-on-gujarat-plant/articleshow/48799147.cms>. [↑](#footnote-ref-2)
3. Ravi Nair, *Maruti Suzuki: Postal Ballot Notice,* accessed January 13, 2016, <https://marutistoragenew.blob.core.windows.net/msilintiwebpdf/MARUTI_Postal_Ballot_Notice.pdf>. [↑](#footnote-ref-3)
4. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; ₹1 = US$0.02 on October 27, 2015. [↑](#footnote-ref-4)
5. “Maruti Suzuki to Hold Global Roadshow on Gujarat Plant,” *Indian Express,* June 6, 2014, accessed June 6, 2017, http://indianexpress.com/article/business/companies/maruti-suzuki-to-hold-global-roadshow-on-gujarat-plant/. [↑](#footnote-ref-5)
6. “Maruti Hires Investment Bankers to Help It Win Investors Nod for Suzuki Plant,” *Business Insider,* August 8, 2014, accessed January 13, 2016, [www.businessinsider.in/Maruti-Hires-Investment-Bankers-To-Help-It-Win-Investors-Nod-For-Suzuki-Plan/articleshow/39876111.cms](http://www.businessinsider.in/Maruti-Hires-Investment-Bankers-To-Help-It-Win-Investors-Nod-For-Suzuki-Plan/articleshow/39876111.cms). [↑](#footnote-ref-6)
7. “Maruti Suzuki Plans Investor Roadshow in Gujarat Plant Next Month,” DNA, September 17, 2015, accessed January 13, 2016, [www.dnaindia.com/money/report-maruti-suzuki-plans-investor-roadshow-in-gujarat-plant-next-month-2126121](http://www.dnaindia.com/money/report-maruti-suzuki-plans-investor-roadshow-in-gujarat-plant-next-month-2126121). [↑](#footnote-ref-7)
8. Institutional Investor Advisory Services, *An Open Letter to the Shareholders of Maruti Suzuki India Limited,* November 24, 2015, accessed January 13, 2016, <http://iias.in/downloads/institutional/Maruti-Shareholders-Open-Letter-IIAS-24Nov2015.pdf>. [↑](#footnote-ref-8)
9. Government of India, *The Companies Act, 2013*, accessed July 31, 2017, www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf. [↑](#footnote-ref-9)
10. “Maruti Suzuki India Limited: Consensus Estimate Analysis,” Reuters, accessed December 1, 2015, <http://in.reuters.com/finance/stocks/analyst?symbol=MRTI.NS>. [↑](#footnote-ref-10)