CHAPTER SIX

PREMIER AUTOMOBILES LIMITED

6.1 Evolution of the Company
6.2 Corporate Objectives
6.3 Organisation Structure and Management
6.4 Strategic Shifts
6.5 Capital Acquisition and Finance
6.6 Marketing Policies
6.7 Production and Operations Policies
6.8 Management of Human Resources
6.9 Strategic Plans and Future Outlook
PREMIER AUTOMOBILES LIMITED

6.1 EVOLUTION OF THE COMPANY

Premier Automobiles Ltd (PAL) was incorporated in 1944\(^1\). The company commenced production in 1947 with the assembly of Desoto, Dodge and Plymouth cars, and Dodge and Fargo trucks in agreement with Chrysler Corporation of USA\(^2\). The assembly of cars was suspended in 1956\(^3\) after the Government announced that firms which merely imported vehicles in completely knocked down (CKD) conditions and assembled them in India will not be given permission to do so. In 1959, the company entered into a technical collaboration agreement with Fiat SpA of Italy for the manufacture of 500 cc cars\(^4\). This small car was later replaced by Fiat 1100 model in 1960. The production of Fiat 1100 continued after the collaboration agreement expired on June 30, 1970\(^5\). Later, on December 31, 1972, the company's collaboration agreement with Chrysler Corporation for the manufacture of commercial vehicles came to an end\(^6\). The manufacture of commercial vehicles gradually declined and finally stopped in 1985-86\(^7\). Premier Auto Electric Co. Ltd and PAL Hire Purchase Ltd are wholly owned subsidiaries of the company.

6.1.1 Business Operations

PAL manufactures and markets passenger cars under the brand name 'Premier'. The company also manufactures industrial and marine engines, automotive diesel engines, sophisticated
machine tools and air conditioners, and automotive spare parts. Earlier, the brand name of vehicles manufactured by the company was 'Fiat' as it had collaboration agreement with the Italian car manufacturer Fiat. After the expiry of the collaboration agreement, the brand name 'Premier' was adopted on July 1, 1970.

6.2 CORPORATE OBJECTIVES

Even since the company started manufacture of passenger cars, the objective of PAL is to produce a reasonably priced, comfortable car in the family segment of the market. However, with the change in business environment, the company's objective has changed and it now plans to enter the other segments of the Indian car market also. PAL's recent objectives also include making its existing brand of cars -- especially the vintage brand, Premier Padmini -- more cheaper.

The intensified competition in the passenger car segment has led to the reorientation of objectives at PAL. The company now aims at producing fuel-efficient cars and upgrade its manufacturing facilities.

6.3 ORGANISATION STRUCTURE AND MANAGEMENT

The Board of Directors of the company consists of fifteen members and is headed by its Chairman and Managing Director (CMD) Mr Vinod L. Doshi. Mr J.M. Vakil is the Company's
President & Managing Director. Mr Lalchand Hirachand is the Chairman Emeritus of PAL.

The company has a divisionalised management structure. The head of the various divisions primarily report to the President and Managing Director of the company, who in turn reports to the CMD. Management style at PAL has primarily been traditional and bureaucratic. However, there has been a paradigm shift in the style of management in the past two years.

After a nine-day long brainstorming session in August 1991, the top executives of PAL decided to bring a change in the management culture of the company as part of its future strategy. Says Maitreya Doshi, Vice President (Corporate Planning) and heir apparent of the company, "It is almost as if we have loosened the shackles on the true potential of the people. We have moved towards a totally decentralised system of operation, where decisions are taken faster and people are given more responsibilities." Adds J.M. Vakil, President of the company, "Premier [Automobiles Ltd] is a different kind of company now, with a different kind of management and with very little bureaucracy.

Faced with an ominous mix of high duty structure, tight money position, severe competition and declining market, PAL has reoriented its management style. Says Vinod Doshi,
Chairman of the company, "We have moved from a pyramidal management structure to a more flattened one. People are taking more responsibilities now". He further adds, "The present crisis provided us the opportunity to change. I think we are entering a new phase. In the next two years [by mid-1994], Premier will be a completely different company than what people have seen or remembered."

At present, PAL is taking various steps at restructuring the company and is striving to become a lean organisation.

6.4 STRATEGIC SHIFTS

For nearly four decades, the passenger car segment of the automobile industry remained in isolation devoid of any competition. The protection offered to the two major car manufacturers -- Premier Automobiles Ltd and Hindustan Motors Ltd -- led to uneconomic size, slow growth, and outdated design and manufacturing capabilities. However, the entry of the public sector Maruti Udyog limited transformed the passenger car industry. As a result, existing players like PAL were forced to take various steps to remain in the business. PAL has, therefore, undertaken crisis-combating strategies to meet the challenges of the marketplace and ensure its survival.

6.4.1 Size of the Company

The company increased its licensed capacity of passenger cars from 18,000 to 28,600 per annum in 1983-84. Later,
in 1985-86, the company received an endorsement on its licence from the Government increasing its licensed capacity to 35,000 vehicles per annum\textsuperscript{18}. The licensed capacity was further increased to 50,000 vehicles per annum in 1988-89. Exhibit 6.1 shows the total capacity of the company as on June 30, 1990.

Exhibit 6.1: Capacity Statistics of PAL (in nos.)

<table>
<thead>
<tr>
<th>Class of Goods</th>
<th>Licensed</th>
<th>Installed</th>
</tr>
</thead>
<tbody>
<tr>
<td>* On road automobiles with 4 or more wheels</td>
<td>50,000</td>
<td>54,500</td>
</tr>
</tbody>
</table>


The company has a composite licence for any four wheelers as per the scheme of broad banding permitted by the Government\textsuperscript{19}. PAL, however, has licence for 62,500 cars per year including 25 per cent automatic enhancement of capacity\textsuperscript{20}. As of present, PAL’s capacity utilisation is about 60 per cent. During 1990-91, the capacity utilisation of the company stood at 78.9 per cent\textsuperscript{21}.

6.4.2 Growth of the Company

The growth of the company can be distinctively divided into two broad phases. During the decade of 1970-80, that is, after the expiry of PAL’s collaboration agreement with Fiat,
growth of the company was rather slow. PAL produced merely 9,301 cars in 1980-81. However, growth picked up in the second phase -- between 1980 and 1990 -- especially after 1986-87.

According to a study conducted by the leading business magazine of the country, Business World, PAL secured third position in the list of companies which recorded phenomenal rates of growth in the eighties. The company recorded a sales growth of 836 per cent between 1980 and 1990. The production of passenger cars, which was 19,764 in 1981-82, doubled in 1988-89 to reach the figure of 38,743 and further to 42,313 in 1990-91. Earlier, in 1960, PAL produced just 6,516 cars which increased to 12,054 in 1970, and to 13,630 in 1975. Exhibit 6.2 shows the growth of the company since 1980-81.

Exhibit 6.2 : Growth in Production (in nos.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cars</th>
<th>Year</th>
<th>Cars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>9,301</td>
<td>1986-87</td>
<td>27,457</td>
</tr>
<tr>
<td>1981-82</td>
<td>19,764</td>
<td>1987-88</td>
<td>33,556</td>
</tr>
<tr>
<td>1982-83</td>
<td>20,778</td>
<td>1988-89</td>
<td>38,743</td>
</tr>
<tr>
<td>1983-84</td>
<td>21,456</td>
<td>1989-90</td>
<td>42,313</td>
</tr>
<tr>
<td>1984-85</td>
<td>28,014</td>
<td>1990-91</td>
<td>42,925</td>
</tr>
<tr>
<td>1985-86</td>
<td>29,256</td>
<td>1991-92</td>
<td>32,564</td>
</tr>
</tbody>
</table>

Although PAL has improved its production of passenger cars, especially after 1986-87, its share in the passenger car segment has been constantly declining since 1985-86, except for a brief recovery between 1988-90. However, between 1981 and 1991, PAL recorded an increase in production by 100 per cent.

The present recession in the automobile industry has hit the company adversely. PAL was forced to cut production by 50 per cent in December 1991. As car sales decelerated, the company's finished goods inventory went up to 8,000 vehicles, or almost 20 per cent of the production. Production of Premier Padmini cars at the company's Kurla plant was stopped in the first week of December 1991 following huge pile of stocks. Since then only the Kalyan plant of PAL was operational which manufactures 118 NE cars.

Otherwise also, the growth of the company has been hampered in the past too. Says Vinod Doshi, "From the mid-1960s to the mid-1970s, Premier made constant losses due to controls on prices, distribution and capacity." In the early 1980s, PAL piled up a huge inventory for manufacturing 15,000 light commercial vehicles that never took off. Says Maitreyaa Doshi, Vice President (Corporate Planning), "It caused us an average loss of Rs 2 crore per year." To regain its position in the market, the company is implementing several strategies. Says Vinod Doshi, the company's chairman, "We
are aware that the situation calls for new responses, and we are doing all that is possible within the existing policy framework. Our strategy in this respect includes several approaches.

6.4.3 **Distinctive Competencies**

Despite several drawbacks, PAL's passenger cars made their presence felt in the market due to the relatively low price of the vehicles and long life. Of late, the company's products have gained respectability for their fuel-efficient engines. A major competitive edge that PAL's products have over others is their looks and comfort as a family car. However, the competitive market of passenger cars and changed consumer preferences have diluted the distinctive competencies of the company's products.

6.4.4 **Key Strategic Actions and Events**

PAL started assembly of cars in 1947 in agreement with Chrysler Corporation of USA. Later, it entered into a technical collaboration agreement with Chrysler in 1968 to manufacture commercial vehicles. The agreement expired in 1972. The company also entered into technical collaboration agreement with Fiat SpA of Italy for the manufacture of 500 cc Milecento cars which was later replaced by a four-door 1100 cc car. This agreement came to an end in 1970. For the production of diesel engines, the company had entered into collaboration agreement with Henry Meadows of UK in 1967.
For the supply of technical know-how for the manufacture of axles, assemblies and related components of commercial vehicles, PAL entered into a technical collaboration agreement with North American Rockwell Corporation (USA) in 1963. The company again entered into a technical collaboration agreement with Fiat SpA in 1981 for adoption of Fiat 124 car body. In 1984, the company signed a collaboration agreement with Nissan Motor Co. of Japan for technical know-how for adoption of Nissan A-12 Engine transmission in its existing models of cars.

In 1987, PAL entered into a technical collaboration agreement with the UK-based Techno-Licence Ltd for the manufacture of Fratelli Negri Machine (FNM) automotive diesel engines for its existing cars. The company also signed a technical agreement with AVL GmbH of Austria for improvement in engine performance by way of fuel-efficiency, improved rated output of horsepower and torque, improved emission control, etc. During the same year the company tied up with Powers Design Intra (PDI) of USA for improving the aerodynamics, reducing weight, restyling and enhancement of aesthetics of PAL's existing cars.

Earlier, in August 1987, PAL acquired the machine tool division of Walchand Industries Ltd at Chinchwad, Pune. The unit is well equipped to manufacture a range of CNC (computerised numerically controlled) machines and special purpose machines.
PAL started manufacturing diesel engines for its cars in 1989. The company achieved a strategic success by dieselising its Premier Padmini engine. Says Maitreya Doshi, "With petrol prices shooting up every year, there will always be a good market for diesel cars".38

As a part of its strategy, the company closed its loss-making foundry unit at Wadala in 1991 and sold real estate to save around Rs 28 crore.39 PAL also introduced a Voluntary Retirement Scheme (VRS) to reduce its workforce.

In March 1993, PAL signed a memorandum of understanding (MoU) with Peugeot of France for setting up a joint venture in India to manufacture and distribute Peugeot vehicles suited for Indian and designated foreign markets.40

6.5 CAPITAL ACQUISITION AND FINANCE

PAL has a paid-up capital of Rs 22.52 crore.41 Financial institutions have a 22.2 per cent stake in the company while public hold 53.2 per cent of the shares.42

In 1978-79, financial institutions viz. ICICI, IDBI and IFCI sanctioned soft loans aggregating Rs 6.5 crore for the company's extensive programme of modernisation and renovation of its plants. In 1981-82, a consortium of financial institutions sanctioned further soft loans
aggregating Rs 13.5 crore for the programme of upgrading of Premier Padmini car and second phase of modernisation.

During 1983-84, the project outlay of Rs 28.5 crore for the new model car project increased to Rs 36.6 crore. Financial institutions and banks sanctioned an additional soft loan of Rs 6.25 crore which, however, are not availed as the company’s cash flow position improved.

In the same period, 3 lakh non-convertible debentures of Rs 100 each were privately placed with the Army Group Insurance Directorate. A further 7 lakh non-convertible debentures of Rs 100 each were offered as rights to equity shareholders. The funds raised were used to finance working capital expenditure and normal capital expenditure. During August/September 1988, the company offered 20 lakh redeemable non-convertible debentures of Rs 100 each on rights basis.

From a turnover of Rs 58.2 crore in 1980-81, PAL reached a turnover of Rs 230.78 crore in 1985-86 and to Rs 551.01 crore in 1989-90. The turnover of the company increased to Rs 639.81 in 1990-91. The growth in total assets was 779 per cent -- from Rs 43.38 crore in 1980 to Rs 381.34 crore in 1990. However, despite the sizeable turnover, profits have stagnated due to cut throat competition from Maruti Udyog Ltd.
<table>
<thead>
<tr>
<th>Date</th>
<th>000 Rs</th>
<th>000 Rs</th>
<th>000 Rs</th>
<th>000 Rs</th>
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<th>000 Rs</th>
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<td>9239.36</td>
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<td>20729.46</td>
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<td><strong>TOTAL ASSETS</strong></td>
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<td>5047.27</td>
<td>4799.29</td>
<td>17201.05</td>
<td>16840.26</td>
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<td>5080.76</td>
<td>5867.22</td>
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<td>7777.01</td>
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<td><strong>3. Inventory</strong></td>
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<td>2649.90</td>
<td>9454.46</td>
<td>6129.21</td>
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<td>12592.15</td>
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<td>20349.42</td>
<td>20560.61</td>
<td>22637.15</td>
<td>22692.72</td>
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<td><strong>6. Gross Block</strong></td>
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<td>12404.91</td>
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<td>12833.13</td>
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<td><strong>Plant &amp; Machinery</strong></td>
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<td>7722.45</td>
<td>8494.48</td>
<td>8540.56</td>
<td>8651.67</td>
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<td>2594.01</td>
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<td>9369.92</td>
<td>9708.22</td>
<td>10601.46</td>
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<td><strong>Less: Depreciation</strong></td>
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<tr>
<td>30.10.02</td>
<td>15.04</td>
<td>15.04</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100%</td>
<td><strong>6. D. MISC. ASSETS</strong></td>
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<td>-</td>
<td>15.04</td>
<td>-</td>
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<td>-</td>
<td>-</td>
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<td>100%</td>
<td><strong>7. INJ. IN SUB. - SIDIARIES</strong></td>
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<tr>
<td>30.06.04</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>30.00</td>
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<td>-</td>
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<td>30.06.06</td>
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<td>-</td>
<td>-</td>
<td>100%</td>
<td><strong>0. INJ. IN SUB.</strong></td>
</tr>
</tbody>
</table>

Continued on next page
Exhibit 6.4 : Profit and Loss Statement of Premier Automobiles Ltd

<table>
<thead>
<tr>
<th>Period</th>
<th>Sales</th>
<th>Cost of Goods Sold</th>
<th>Gross Profit</th>
<th>Operating Expenses</th>
<th>Profit Before Tax</th>
<th>Tax</th>
<th>Profit After Tax</th>
<th>Dividend</th>
<th>Profit Distributed</th>
<th>Re-</th>
<th>Re-</th>
</tr>
</thead>
<tbody>
<tr>
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<td>450.00</td>
<td>590.00</td>
<td>540.00</td>
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<td>40.00</td>
<td>20.00</td>
<td>20.00</td>
<td>20.00</td>
<td>20.00</td>
</tr>
<tr>
<td>20.06.86</td>
<td>1350.00</td>
<td>600.00</td>
<td>750.00</td>
<td>650.00</td>
<td>100.00</td>
<td>20.00</td>
<td>80.00</td>
<td>40.00</td>
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<td>850.00</td>
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<td>60.00</td>
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<td>80.00</td>
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</tr>
</tbody>
</table>

The changed market scenario, combined with recession in the industry, has adversely affected the financial health of the company. PAL’s turnover in 1991-92 stood at Rs 397.09 crore as against Rs 639.81 crore in the previous year. Similarly, operating profit came down to Rs 13.38 crore compared to Rs 37.47 crore in the previous year. The company made a loss of Rs 16.96 crore in 1991-92. However, despite poor financial results, the company maintained its record of uninterrupted dividend payment. It was also last year that the company changed its accounting year from June to March. Exhibit 6.3 and 6.4 show the consolidated balance sheet, and profit and loss account of the company respectively for the period 1981-90.

6.6 MARKETING POLICIES

PAL is the second largest car manufacturer in the country. The entry of a major player in the car segment and Government’s changing excise and customs duties structure has led to some reflexive response from the company. In the past two years, it has introduced new models and restructured prices of vehicles in order to face the challenges of market place. PAL’s declining market share and changing consumer preferences in the post-liberalisation period has brought a perceptible change in the company’s marketing policies.
6.6.1 Product

The company has been producing indigenous passenger cars since early 1970s and markets its products under the brand name ‘Premier’. Until few years back, PAL had just one product -- the Premier Padmini car -- which accounted for over 92 per cent of aggregate sales in 1985-86. However, in the wake of introduction of new model of car by Maruti Udyog Ltd in May 1986, and the announcement of a higher excise duty of 35 per cent on passenger cars of 1000 cc, demand for PAL's cars went down. Consequently, the company introduced a variant of Premier Padmini as economy model in August 1986. This introduction proved successful and demand for the modified car was much higher than expected.


The company applied to the Government for manufacturing 'Sunny' model cars of Nissan Motor Co. (Japan) but the Government rejected its application in 1988-89 despite the announcement of scheme of broad banding in 1985 for the automobile industry.
Despite introducing various versions and a new model of car, PAL has not been able to maintain its position in the highly competitive market. The company has been producing outdated and less fuel-efficient cars since it always operated in a duopolistic car market. The changing business environment in the later half of 1980s changed consumer preferences with which the company probably could not keep pace. Admits Maitreya Doshi, "We have an image of having never changed over the years, of making only the Premier Padmini year after year. That will have to change if we are to grow." \(^{50}\)

PAL will soon introduce a restyled car with better aesthetics. It has recently signed a MoU with Peugeot of France to manufacture latest vehicles for the Indian car market in order to restructure its product-mix.

6.6.2 Pricing

Although the objective of PAL is to meet customer requirements by producing reasonably priced cars, it seems that the prices itself have been a major cause for the company's retarded growth and stagnant profitability in recent years. The heavy incidence of customs duty, excise duty, Central sales tax and other levies on passenger cars is a major factor restricting demand for vehicles \(^{51}\). The high ad valorem duties levied on ex-factory prices led to an increase of 55.3 per cent in three years on the end price of PAL's Premier cars. Until the recent Union Budget (1993-94),
in which excise duty on passenger cars was reduced from 55 per cent to 40 per cent, the total impact of all levies in respect of Premier Padmini was 76 per cent compared to 47 per cent in 1989. The incidence of excise duty alone had risen to 55 per cent from 35 per cent. Fierce competition within the passenger car segment has virtually forced the company in not increasing the price of the finished products on its own.

In order to boost demand for its vehicles, the company introduced a cheaper variant of the Premier Padmini car. Says S. Hashmatullah, DGM (Marketing), "The decision to introduce the economy model of Premier Padmini cars was based on the hunch that the market for cars has become very price-conscious. The response to our economy model has proved that the right direction to move is to lower prices as much as possible. However, apart from cutting out the frills, there is no further scope to cut costs and prices." Says Vinod Doshi, "The demand for cars is price sensitive, especially at the lower end of the market. This is apparent from our experience of the economy model."

In the recent past, PAL has followed the strategy of reducing manufacturing costs in order to lower the prices of its vehicles. As rising labour costs have been the company’s bane for a long time, the strategy adopted was to reduce workforce. Other steps taken by the company include reduction of inventory and increase production to achieve
economies of scale so as to price the vehicle on the basis of production efficiency. Earlier, in 1981, the company had to file a petition in Supreme Court -- on behalf of passenger car manufacturers -- to allow producers to raise the price of cars.\textsuperscript{55}

6.6.3 Promotion

Long accustomed to operating in a seller's market in which demand for PAL's cars by far exceeded supply, the company did not put any effort in marketing its product. Its advertising budget in 1980-81 was merely Rs 18 lakh. However, increase in competition in the car segment, and PAL's declining market share, prompted the company to increase product promotion expenditure. Product advertising, for instance, for the Premier Padmini cars was stepped up for the first time in 1986. Consequently, the aggregate advertising budget of the company went up to Rs 1 crore in 1986-87.\textsuperscript{56} PAL also launched an aggressive marketing campaign for its hire-purchase scheme for Premier Padmini in November 1986.

Another strategy that PAL adopted was to introduce a sales campaign, to encourage the purchase of Premier Padmini, in states where the incidence of sales tax was substantially lower. Besides, the company also introduced innovative schemes for consumers.
When the company accumulated unsold stocks of cars last years due to recession in the automobile industry, it relaunched its economy model at the Gwalior car 'mela' (fair). These cars costed Rs 28,000 less than the standard price at which it is sold. During the period of 'auto fair', the state Government reduces sales tax by 10 per cent to ease purchase of vehicles.

Earlier, the company did not give attention to product positioning as there hardly existed any need to do so. However, the introduction of different cars with varying engine capacities and sizes suggest that the car market is now divided into distinct segments. A perceptible decline in PAL's market share along with increase in market share of Maruti Udyog Ltd (MUL) convinced the executives of PAL that the company's market overlaps with that of the Maruti. Consequently, the company positioned its 118 NE car at the bottom of the top end. PAL, later positioned its diesel cars for tourist cars and taxis. By planning to introduce much cheaper cars, PAL is now targeting the low price high volume end of the market.

The company increased its advertising expenditure from Rs 1 crore in 1988-89 to Rs 1.2 crore in 1989-90. This was subsequently increased to Rs 2 crore in 1990-91. PAL also introduced a hire-purchase scheme for its products by establishing a wholly owned subsidiary, PAL Hire Purchase Ltd in 1985.
6.6.4 Distribution

The presence of PAL in the passenger car business for more than four decades has strengthened its distribution network. The company has an estimated 200 dealers across the country. With increasing competition in the market, the company is placing more emphasis on reorienting dealership practices.

The company attaches importance to after sales service of its vehicles and easy availability of spare parts. The spare parts of its cars are virtually available in every part of the country at a reasonable price. The number of spare parts dealers of PAL has increased in the post-liberalisation period.

PAL also offers training to technical staff of its dealers and periodically deputes its service engineers to dealerships. Concessions and discounts provided to dealers have increased in the recent past.

6.6.5 The State of Competition

Although five companies have been granted licence to manufacture passenger cars, primarily there are three active car manufacturers in the country (excluding TELCO which produced just three vehicles in 1990-91 and 1,080 vehicles in 1991-92). Earlier, PAL used to be in a duopolistic market, along with Hindustan Motors Ltd (HML), after the exit
of Standard Motors by late 1960s. The entry of the public sector Maruti Udyog Ltd, which has a technical and financial collaboration with Suzuki Motor Co. of Japan, in 1983 intensified competition in the passenger car segment.

PAL used to command a major share of the Indian car market upto 1984. However, since then, its market share has constantly been declining. In 1982, the company had a market share of 48 per cent which came down to 45 per cent in 1983. Its market share further went down to 42 per cent in 1984. For PAL, the banner year was 1975 when it had a market share of 58 per cent. Exhibit 6.5 shows the major players and their market shares since 1985-86.

Exhibit 6.5: Major Players & their Market Shares (%)
1985-92

<table>
<thead>
<tr>
<th>Year</th>
<th>PAL</th>
<th>HML</th>
<th>MUL</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>28</td>
<td>23</td>
<td>48</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>1986-87</td>
<td>22</td>
<td>18</td>
<td>59</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>1987-88</td>
<td>22</td>
<td>17</td>
<td>60</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>1988-89</td>
<td>23</td>
<td>17</td>
<td>59</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>1989-90</td>
<td>24</td>
<td>16</td>
<td>60</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>1990-91</td>
<td>24</td>
<td>14</td>
<td>62</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>1991-92</td>
<td>20</td>
<td>10</td>
<td>70</td>
<td>-</td>
<td>100</td>
</tr>
</tbody>
</table>

With the advent of Maruti Udyog Ltd, market share of PAL has come down considerably. Quite recently, TELCO has also entered the passenger car market and has introduced two models of indigenously developed cars. Says Vinod Doshi, "With their sound R & D, deep pocket and long experience, TELCO is the juggernaut of the Indian auto industry. I think they will eventually have a full range of cars and nobody will be able to stop them".62

PAL depends on the vendors for the supply of components. The company purchases about 60 per cent of its component requirements from outside suppliers.63 This has helped many small units in adopting modern technology and supplying components at competitive prices. However, vendors exert considerable pressure on the company's operations. For instance, production of 118 NE cars could not be stepped up in the initial years due to irregular supply of essential components by Indian suppliers. Says Vinod Doshi, "Regarding 118 NE, production and not demand is the constraint. Our main problem to increase production volume relates predominantly to erratic supplies of components from ancillary units".64

Exports of vehicles by the company are almost negligible. Probably because of the outdated design and technology of its cars, PAL could not tap the overseas market in a significant way. On an average, the company exported about 30 cars every year between 1986-87 and 1989-90.65
6.7 PRODUCTION AND OPERATIONS POLICIES

PAL is one of the two earliest companies which was established with Indian capital and with programmes of indigenisation approved under the Industrial Regulation Act. Although for many years, the company manufactured cars and commercial vehicles, it gave up production of commercial vehicles in 1980s and since then has concentrated on production of cars.

The manufacturing of cars was undertaken with technical collaboration agreement with Fiat Motors of Italy. For years, technical agreement was limited to occasional purchases of technology and components. Although model changes were taking place frequently in the overseas company, the changes in Indian models were less frequent and superficial, and PAL came in for adverse criticism for not keeping pace with developments abroad. Even quality standards were considered low. A secure market with a duopoly situation, in which customers had to wait for several years to purchase a car after advance payments, appeared to have made the company complacent in its attitude towards market requirements.

With demand for cars increasing in later years and the felt need to meet market requirements, PAL gradually equipped its manufacturing plant and established new facilities for production. At present, the company has various
manufacturing facilities such as a forge shop, tool room, assembly line, paint shop and facilities for manufacturing engines, axles, camshafts, crankshafts, etc.

The company also has indigenous SPHs (Special Purpose Machines), dedicated and CNC machines such as CNC gear hobbing and cam grinding machines. PAL has a number of non-CNC imported machines too for the manufacture of gear besides a crankshaft processing line.

Over the years, the company has acquired the capacity to improve technology in specific areas but do not have the capability to design a fully integrated modern car. However, PAL developed and introduced improved versions of its existing products after 1986-87. Frequent collaborations with overseas automobile companies have helped the company in technology absorption, adaptation and upgradation. During implementation of the technology transfer projects, a number of problems were encountered by PAL which, at times, necessitated provision for special tooling, training of personnel, upgradation of plant facilities and technology transfer to ancillary suppliers. Nevertheless, all projects were implemented by PAL's own engineering personnel.

The intensification of competition in the car market and Government's erratic policies towards passenger car segment of the automobile industry led to a change in production
strategy of the company. PAL drew a comprehensive plan to modernise plant and equipment, cut costs and overheads, maximise usage of underutilised manpower and plant to manufacture ancillary components, and improve fuel-efficiency of Premier Padmini cars. Raising worker and capital productivity was the strategic concern of the plan which reflected the obsolescence of the company's plant and equipment -- despite modernisation -- and its relatively low worker productivity.

The company's top management was aware of the need to modernise its manufacturing base. Says C.P. Shah, Vice President (Finance), "We have drawn up a plan to invest Rs 100 crores in the next few years on modernising plant and equipment, and on expanding the capacity to manufacture the 118 NE cars. This investment is needed because a substantial part of the existing stock of machines is obsolete, which in turn does not permit the flexibility and quality that is required in a rapidly changing market." Consequently, the company's plants were modernised and capacity expanded in 1988-89.

In order to remain competitive in the market, the company adopted various strategies to reduce the cost of production which had risen due to high costs of inputs. As a result, PAL installed an online multi-user multi-terminal computer system to reduce the average volume of component
inventories. The company also reduced the wastage of consumables such as the engine oil, grease, paint, solder and connecting wires, etc. Says Vinod Doshi, "Our approach in the overall strategy has been to reduce the price of Premier Padmini [cars] through a reduction in manufacturing costs". Besides, the company also planned to install a high performance fuel-efficient diesel engine in Premier Padmini cars, and restyle and improve its aesthetics. Consequently, PAL introduced a dieselised version of the car, improved its fuel-efficiency and introduced an economy model of the car.

In 1991, a severe recession hit the automobile industry, and passenger car segment was hit the hardest. Slowdown in demand for cars was aggravated as a result of a combination of extraneous factors. The foreign exchange crisis led to problems in component imports and to an increase in costs. Besides, the overall slowdown in the economy led to sagging demand and high interest rates pushed the 'instalment car' purchase out of the budget of the middle class. Moreover, with depreciation method changing, institutional year and sales also fell. As a result, PAL was adversely affected and it had to cut down its production by 50 per cent.

In face of the difficult situation that the company was in, the top executives of PAL decided to restructure the product-mix and emphasised on shutting down loss-making units. As a corollary to this strategy, the company embarked on an extensive cost-reduction programme. PAL shut
down its large foundry at Wadala which resulted in a saving of Rs 5 crore. According to President of the company, J.H. Vakil, "The company has reduced its inventory of imported steel stocks from a year to six months which has meant a saving of Rs 10 crore in interest costs".73

As part of the long-term cost reduction programme, the company plans to drastically reduce the number of in-house made car parts. Through this and other cost reduction programmes, the company will save as much as Rs 103 crore by March 1994.74 PAL is also implementing its strategy of closing down the inefficient plants and using the subsidiary company, Premier Auto Electric, for supply of some components. Says Vinod Doshi, "The machine tools division at Pune [acquired in 1987] will supply a number of critical parts for the auto division in near future".75

Moreover, PAL intends to cut costs by indigenisation, lower inventory, labour force reduction, single point manufacturing, value engineering, farming out components, single shift operations and by lowering maintenance costs of machines.

6.7.1 Research and Development (R & D)

PAL has a separate R & D set up for automobiles at its Kurla plant. The R & D division was first given recognition by DSIR (Department of Scientific and Industrial Research) in 1977, and the recognition is renewed from time to time.
There are a total of 252 employees in the Division which includes 15 scientists, 74 engineers, 27 technicians and 136 supporting staff.

For the initial thirty years, there was negligible R & D by the company. However, over the past few years, PAL's R & D capability has matured to a level where it can absorb imported technology and make improvements in vehicles. Says Vinod Doshi, "The R & D division is the company's strength. It can develop new products to meet specific market demand."

PAL has achieved some major R & D breakthroughs in the past seven years. The fuel consumption of Premier Padmini cars has been considerably lowered and merits comparison with the fuel-efficient cars of MUL. The R & D division also developed a diesel engine version of the car and introduced the same in market. Besides, the company also introduced a new model, Premier 118 NE, with a new Fiat body and a Nissan engine. Although the technology was purchased from abroad for this purpose, the new model was developed by PAL's R & D engineers to suit the Indian conditions. The design of the car was later stabilised. The R & D division of the company made improvements in 118 NE in the areas of fuel system, suspension and cooling system. PAL also developed nickel free steel for use in manufacturing of the car, and flexible manufacturing system for transmission and engine components.
Although the company has made development in the areas of exhaust gas emission control, skin panels, metal replacement, use of engineering plastics and dieselisation of cars, considerable technological gaps exists in critical areas such as exhaust emission control system, noise control, automatic transmission and body styling. Few years back, the company has sought technical help from AVL of Austria, a world famous engine design specialist firm, to review the design of 1100 cc engine and suggest improvements. Some success has been achieved and redesigned engines are now under tests.

PAL, in collaboration with PDI of USA, is also working on improving the body of existing products. Says C.V. Gopal Rao, Senior Vice President (Operations) and chief of the R & D division, "We are also trying to modify the body of the Premier Padmini cars to make it slightly more roomy and aerodymanic, and lighter as well." The company is confident that these developments will enable it to make inroads into both the lower and upper ends of the passenger car market and thereby guarantee its survival against the Maruti at lower end, and competition from HML and other manufacturers at the upper end.

PAL's expenditure on R & D in 1986-87 was Rs 2.15 crore which went up to Rs 3.24 crore in 1988-89. The R & D expenditure as a percentage of turnover in 1988-89 was 0.71
per cent. In establishing R & D facilities such as a design section, and metallurgical and other laboratories, the company has made an investment of Rs 3.06 crore. Although the expenditure on R & D in 1989-90 was only Rs 2.27 crore, the company plans to increase expenditure on R & D in near future. Even otherwise, PAL’s R & D expenditure to turnover ratio is the highest among the three car manufacturers.

6.8 MANAGEMENT OF HUMAN RESOURCES

The growth of PAL, especially in the 1970s and 1980s, increased its base of professionals and employee strength. Most of its top executives have been trained in-house in their specialised areas. In the post-liberalisation period, occasionally the company has been conducting training programmes for its executives in order to broaden their horizons and prepare them to function in the emerging competitive business environment.

In recent years, professionalism within the company has been encouraged and the company no longer functions as a traditional family-run business. Says Maitreyya Doshi, Vice President (Corporate Planning) and heir apparent of the company, "I opted to give an international flavour [sic] to my education which is essential to become a business leader in the future." The company is also laying emphasis on a well-defined succession planning.
With the advent of competition in the passenger car segment, PAL has stopped recruiting fresh graduates. Instead, it is relying on its existing group of professionals. The company considers its workforce as one of its major strengths. Says Vinod Doshi, "One strength is that we have a strong manpower base which is innovative and dedicated".85.

Workers and labour costs, however, have been the bane of PAL from the very beginning. The company has suffered setbacks in growth due to low worker productivity. In 1985-86, about 10,000 of PAL employees produced a mere 29,000 four-wheelers. Industrial relations, too, have not always been cordial within the company.

Production declined to 9,301 vehicles in 1980-81 from 15,469 vehicles in 1979-80 due to prolonged labour unrest and strike in 1979-80. Although the strike came to an end in September 1980, and the company resumed production, normalcy in operations could not be restored as certain issues arising out of the wage settlement remained to be resolved. Later, in 1984, the company signed another wage settlement agreement with employees to improve its production.86 It is worth-mentioning here that the first "bandh" organised in the country was in support of workers of PAL in 1954.87

The recession in the automobile industry and the changing market environment has adversely affected PAL. As part of
its future strategy, the company decided to urgently cut down the bloated employee strength through a good Voluntary Retirement Scheme (VRS) as the company's average wage per employee is higher than MUL and Bajaj Auto Ltd. In 1991, wage costs constituted nearly 18 per cent of PAL's net sales. Says Maitreya Doshi, "There was no way we could have continued like that.\(^8\) Earlier, the company had reduced the wages of over 1,000 workers as a result of production cuts in 1986-87.\(^9\)"

Implementing its formulated strategy, PAL introduced a VRS in late 1991 for its workers to bring down the total staff strength from the existing 9,000 to 5,400. The VRS gave the workers the option of a 'golden handshake' or a monthly pension of over 50 per cent of the average salary drawn between January and October 1991. As many as 2,200 workers opted for the VRS in the initial phase. Says C.K. Birla, Vice Chairman of Hindustan Motors Ltd, "I think it is a good success they have achieved; especially considering that the [trade] unions in Bombay are very strong.\(^8\) Admits Maitreya Doshi, "More than the generous amount that we offered, the Scheme succeeded because of our marketing efforts [for the same].\(^9\)"

The company also conducted seminars for the workers to help them plan their retirement and investment. In addition, every worker was provided with a group medical insurance, a promise of Rs 5,000 as marriage expenses for one child; and
that their children would continue to be eligible for the company's education scholarship programme. Says R.P. Medhekar, General Manager (Industrial Relations) of the company, "PAL's workers have learnt to accept the idea that their welfare is linked to the company's well-being". The VRS will save almost Rs 10 crore on an annual wage bill of about Rs 80 crore.

As part of its cost cutting exercise, the company also stopped overtime payments and productivity-linked incentives for workers. PAL plans to extend its VRS further in order to drastically restructure its manpower and establish a lean organisation in the near future.

6.9 STRATEGIC PLANS AND FUTURE OUTLOOK

PAL is currently going through one of its worst crisis and, by its own admission, there is a question mark over its survival. In 1987, the eventual shape of the Government's liberalisation policy was the single most important determinant of the survival prospects of the company. PAL adopted certain strategies to counter the threat of the marketplace but subsequent external as well as internal developments did not lent any advantage to the company. As a result, PAL now plans to diversify. Says Vinod Doshi, "We are exploring various avenues of diversification."
For PAL, the short-time plans includes cutting down inventory and labour costs and thus save on interest, increasing production of 118 NE cars to almost 100 vehicles per day and bring its price down by almost Rs 25,000. In the long-term, the company plans to phase out Premier Padmini cars, centralise all operations at the Kalyan factory near Bombay to achieve higher output, sell land and assets of its foundry division, diversify into real estate and financial services, and export key automobile components. PAL also plans to collaborate with a well-known foreign company to manufacture cars with a 1.3 litre engine and diesel option.

The company, adhering to its defined plans, has recently signed a MoU with Peugeot of France to manufacture cars. PAL proposes to float a new joint venture for the purpose at an estimated cost of Rs 450 to 500 crore. It also proposes to transfer the plant, dies, tool, lands and building in Kalyan, the engine and gear box facilities at Pune and a new paint shop to the new joint venture. The company has plans to transfer the firm’s existing upper-end product -- the 118 NE -- and the licence for 62,500 cars per year (including 25 per cent automatic enhancement of capacity) to the proposed joint venture.

Another strategy that the company has formulated for future is that the old reliable car of the company -- Premier Padmini -- will remain with PAL proper, as the second company in a three-tier new structure. PAL intends to
establish a third company by launching the existing machine tools division as a joint venture with a foreign company. Negotiations are already on with Num of France for this purpose. The central focus of PAL's future strategy is the emphasis on complementarity. Says Maitreyya Doshi, "There is ample scope for marketing synergy between PAL and the [proposed] new firm. This is possible as both the firms will be in non-conflicting segments and would use the same dealer network."

PAL's new gameplan tries to address the other segments of Indian car market too. The basic idea is to launch a two-pronged attack on the domestic car market -- where MUL currently leads -- with the old Premier Padmini tackling the bottom end and the new joint venture the middle and upper segments. Therefore, the focus is on producing 1300 cc car since Premier Padmini already has 1100 cc engine and 118 NE is a 1200 cc car.

The company also plans to make the Premier Padmini car cheaper in near future. Says Maitreyya Doshi, "Premier Padmini is a cheap car and the plan is to make it the cheapest. The advantage is that, in the coming years, Premier Padmini will be much cheaper than Maruti mainly because of the restructuring plans."
The top management of the company is acutely aware that cost cutting is equally vital for the survival of PAL. As a result, a full-fledged cost-cutting scheme is being implemented. Plans are also on to improve the production efficiency of the company and quality of its products. Moreover, after its joint venture with Peugeot comes into operation, the company plans to sell its cars in the overseas market.

The immediate objective of the restructuring plan is to make the joint venture operational in the shortest possible time after all the clearances are obtained from the Government as the company's collaborator will subscribe equally to the equity capital of the new company. Government's approval to the new project, and its subsequent policies towards passenger cars will, therefore, determine the future of PAL. Says Maitreya Doshi, "If the Government allows free imports of foreign cars in a few years' time, we may have to shut shop. And if nothing works out, may be I will dump the car business and go into something else".

All these changes, both those underway and in the pipeline, point towards a radically different future from Premier Automobiles' past.

* * * * *
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