Business Development from Start to Scale
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Week - 09
Business Development Structures
Lecture - 44
Subsidiaries

Hi friends, welcome to the NPTEL course Business Development from Start to Scale. We are in Week – 9 with the theme of Business Development Structures. In this lecture, the 44th in the series, we discussed the topic of Subsidiaries.

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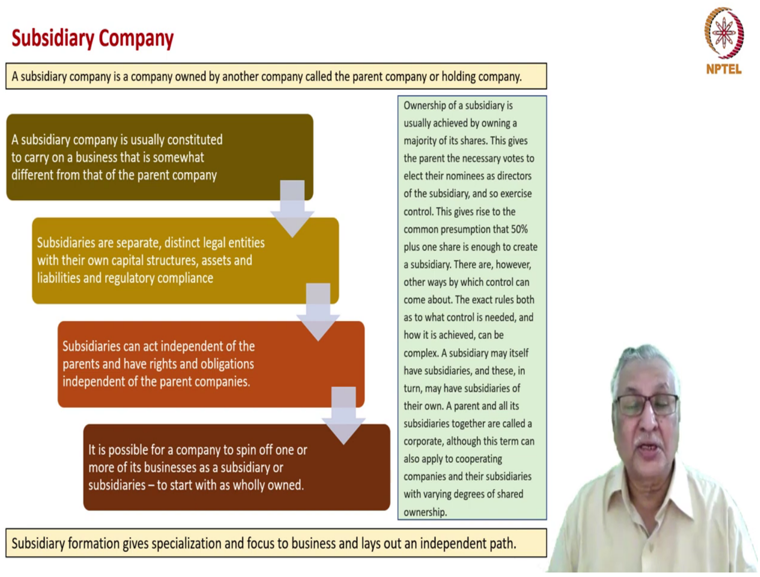

A subsidiary company is a company which is owned by another company called the parent company or holding company. A subsidiary company is usually constituted by a parent company to carry on a business that is somewhat different from that of the parent company.

Subsidiaries are separate distinct legal entities. They have their own capital structures, assets and liabilities and regulatory compliance. Needless to say, they have their own organizational structures as well. Subsidiaries can act independent of the parents and have the rights and responsibilities as well as obligations that are independent of the parent companies. It is possible for a company to spin off one or more of its businesses as a subsidiary or subsidiaries to start with as wholly owned subsidiaries.

Ownership of a subsidiary is usually achieved by owning a majority of it is shares. This gives the parent the necessary votes to elect their nominees as directors of the subsidiary and therefore, exercise control over the subsidiary surface. This gives rise to the common presumption that 50 percent plus one share is enough to create a subsidiary where there would be controlled by a parent company.

There are however, other ways by which control can come about. The exact rules both as to what control is needed and how it is achieved can be complex. A subsidiary may itself have further subsidiaries and these in turn may have subsidiaries of their own. A parent and all of its subsidiaries together are called a corporate, although this term can also apply to cooperating companies and their subsidiaries with varying degrees of shared ownership.

Subsidiary formation gives specialization and focus to business and lays out an independent path. Let us think of a specialty chemicals company which has got its operations in several types of chemicals. Let us also assume that one type of chemicals, for example, that helps the paint industry is going to have strong growth curve. The company may decide to create value in that line of business by constituting a subsidiary to exclusively deal with paint specific chemicals.

Similarly, a pharmaceutical company which is engaged in number of bulk drug as well as formulation activities could constitute a separate subsidiary to undertake drug discovery and novel drug development. These are the kinds of activities which are given to subsidiaries to take care of as they develop.

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One of the best ways to understand the subsidiary structure is to study the Tata Group. Founded by Jamsetji Tata in 1868, the Tata Group is a global enterprise headquartered in India, comprising 30 companies across 10 verticals. The logos which are shown here are indicative of not only the Tata Group, but also several other groups, such as Mahindra, Reliance Industries, Adani, Hinduja, Aditya Birla Group, RPG and JSW.

Amongst these Tata Sons is the most familiar to us and it makes appropriate context to study Tata sons in terms of its group characteristics as well as the subsidiary characteristics. Tata sons is the principal investment holding company and promoter of various Tata companies. 66 percent of the equity share capital of Tata sons is held by philanthropic trust which support education, health, livelihood generation as well as art and culture.

In 2021-22, the revenue of Tata companies taken together was 120 billion, US dollars that is approximately 10 trillion Indian rupees. These companies collectively employ over 935,000 people globally. Each Tata company or enterprise operates independently under the guidance and supervision of its own board of directors.

There are 29 publicly listed Tata enterprises with a combined market capitalization of 311 billion, US dollars that is 23.6 trillion Indian rupees as on March 31, 2022. Major companies in different businesses include Tata Consultancy Services, Tata Motors, Tata Steel, Tata Chemicals, Tata Consumer Products, Titan Tata Capital, Tata Power, Indian Hotels, Tata Communications, Tata Digital and Tata Electronics.

In modern conglomerate and corporate structures, interconnectivity of subsidiaries and associates has increased by leaps and bounds.

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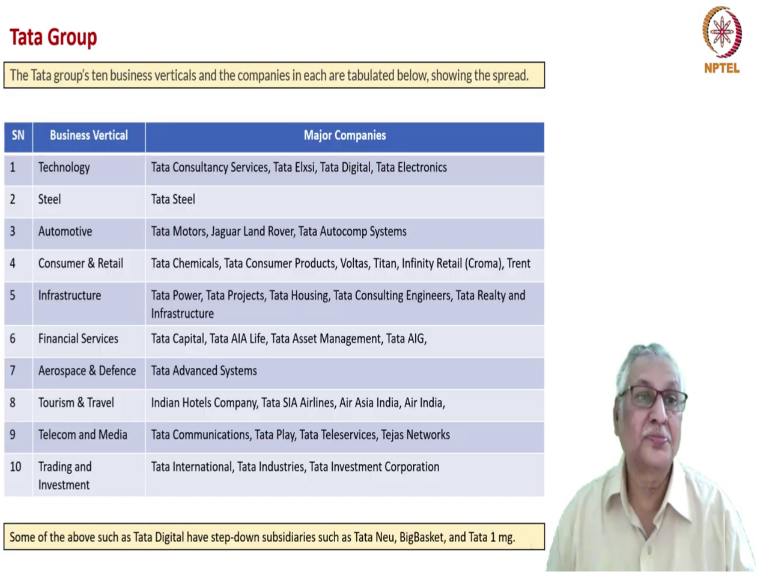

SN	Business Vertical	Major Companies
1	Technology	Tata Consultancy Services, Tata Elxsi, Tata Digital, Tata Electronics
2	Steel	Tata Steel
3	Automotive	Tata Motors, Jaguar Land Rover, Tata Autocomp Systems
4	Consumer & Retail	Tata Chemicals, Tata Consumer Products, Voltas, Titan, Infinity Retail (Croma), Trent
5	Infrastructure	Tata Power, Tata Projects, Tata Housing, Tata Consulting Engineers, Tata Realty and Infrastructure
6	Financial Services	Tata Capital, Tata AIA Life, Tata Asset Management, Tata AIG,
7	Aerospace & Defence	Tata Advanced Systems
8	Tourism & Travel	Indian Hotels Company, Tata SIA Airlines, Air Asia India, Air India,
9	Telecom and Media	Tata Communications, Tata Play, Tata Teleservices, Tejas Networks
10	Trading and Investment	Tata International, Tata Industries, Tata Investment Corporation

The Tata groups 10 business verticals and the companies in each are tabulated below showing the spread. I said that there are 10 business verticals under which various companies of Tata Group are organized. In the business vertical technology, we have Tata Consultancy Services, Tata Elxsi, Tata Digital and Tata Electronics. These are the major companies.

In the steel vertical, we have only Tata Steel as the major company. We will hear something about Tata Steel as we go forward. In the automotive business vertical, we have Tata Motors, Jaguar Land Rover, Tata Autocomp Systems. In the consumer and retail sector, we have Tata Chemicals, Tata Consumer Products, Voltas, Titan, Infinity Retail, that is Croma and Trent. In the infrastructure space, we have Tata Power, Tata Projects, Tata Housing, Tata Consulting Engineers, Tata reality and infrastructure.

The financial service vertical is made up of Tata Capital, Tata AIA Life, Tata Asset Management and Tata AIG. The aerospace and defence vertical has Tata Advanced Systems to take care of. In the tourism and travel vertical, we have Indian Hotels Company known for its famous Taj group of hotels, Tata SIA Airlines, Air Asia India and Air India.

Telecom and media comprises Tata Communications, Tata Play, Tata Teleservices, Tejas Networks. Trading and Investment vertical comprises – Tata International, Tata Industries, Tata Investment Corporation to quote a few. Some of the above such as Tata digital have step down subsidiaries such as Tata Neu, BigBasket and Tata 1 mg.

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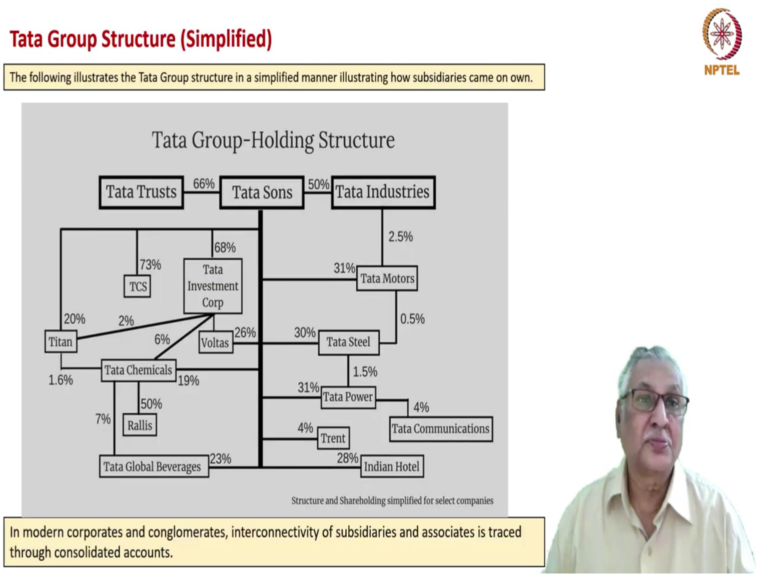

This is a simplified depiction of Tata Group Structure. We have Tata Sons as the holding company, but it has investments by Tata Trust to the extent of 66 percent. We also have Tata

Sons investing 50 percent in Tata Industries. Tata Industries in turn invest 2.5 percent in Tata Motors and Tata Sons undertakes investments in various other companies directly indirectly.

In modern corporates and conglomerates, as I said, the interconnectivity of subsidiaries and associates is traced through consolidated accounts only because each company is independent. But the overall corporate must have standalone accounts as well as the subsidiary accounts and together these are consolidated into consolidated accounts of the corporate.

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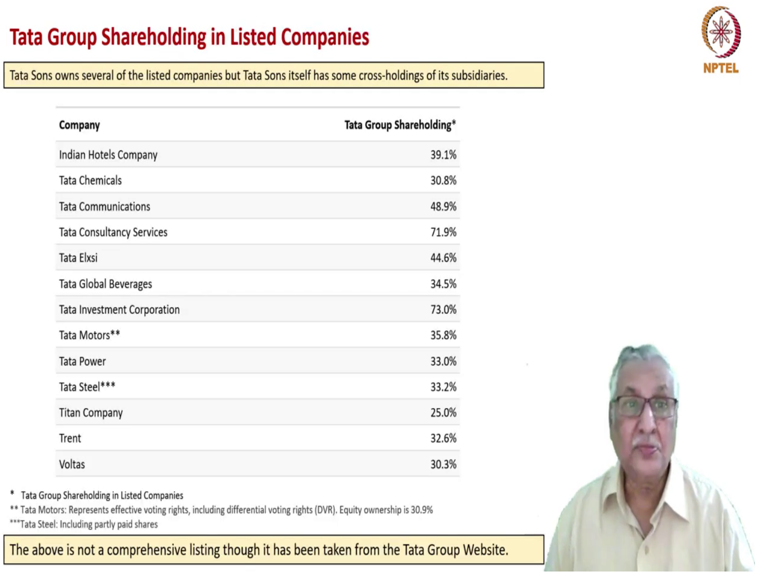

Tata Group Share Holding in listed companies is as follows. I depict here only the big companies. Tata Sons itself despite being the holding company has some cross holdings of its subsidiaries.

In the Indian Hotels Company, Tata Group shareholding is at 39.1 percent; in Tata Chemicals – 30.8 percent; Tata Communications – 48.9 percent; Tata Consultancy Services, the crown jewel – 71.9 percent; Tata Elxsi – 44.6 percent; Tata Global Beverages – 34.5 percent; Tata Investment Corporation – 73 percent; Tata Motors – 35.8 percent; Tata Power – 33 percent; Tata Steel – 33.2 percent; Tata Titan Company, the watch joint venture with TIDCO – 25 percent; Trent – 32.6 percent and Voltas, 30.3 percent.

You can see that Tata Group shareholding in some of the Tata companies are in fact, many of the Tata companies does not exceed 50 percent. In fact, couple of decades ago the Tata Group shareholding was even lower. Only after Ratan Tata took over at the help of the Tata Group that Tata began consolidating the shareholding, so that the companies could be defended against any hostile takeovers by multinational companies or large Indian corporates.

The above that has been discussed is not a comprehensive listing. We have taken this from the Tata Group Website.

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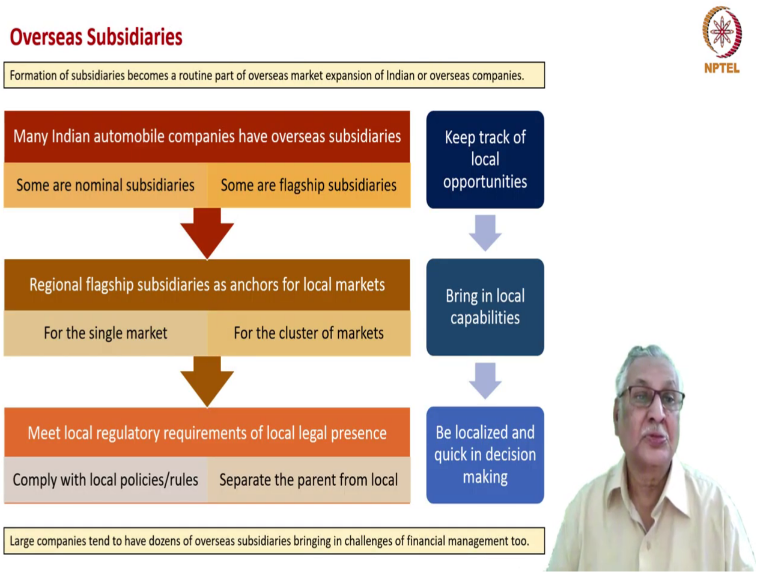

Formation of subsidiary becomes a routine part of Overseas Market Expansion of Indian or Overseas companies. As we are aware, India requires companies to operate in India to be local in their outlook. So, many foreign companies set up their companies as subsidiaries in India.

Similarly, when Indian companies operate abroad, they are required to set up their own subsidiaries to conform with the Indian laws and setting up the subsidiaries also helps the companies separate their liabilities with reference to whatever happens in the host country.

Many Indian automobile companies have overseas subsidiaries in this fashion. Some are just nominal subsidiaries that is some transactions pass through those subsidiaries and some are substantial subsidiaries or flagship subsidiaries. Regional flagship subsidiaries work as anchors for local markets. It could be for a single market or a for a cluster of markets.

They help the parent meet the local regulatory requirements through local legal presence. They comply with local policies rules and separate the parent from local requirements. The subsidiaries help the parent keep track of local opportunities, bring in local capabilities and they themselves operate in a localized way and support quick decision making.

Large companies tend to have dozens of overseas subsidiaries bringing in challenges of financial management too. Because when you have several subsidiaries and their accounts and transactions have to be consolidated, you encounter several challenges related to cross-border transactions, the foreign exchange risk and the tax policies of different jurisdictions.

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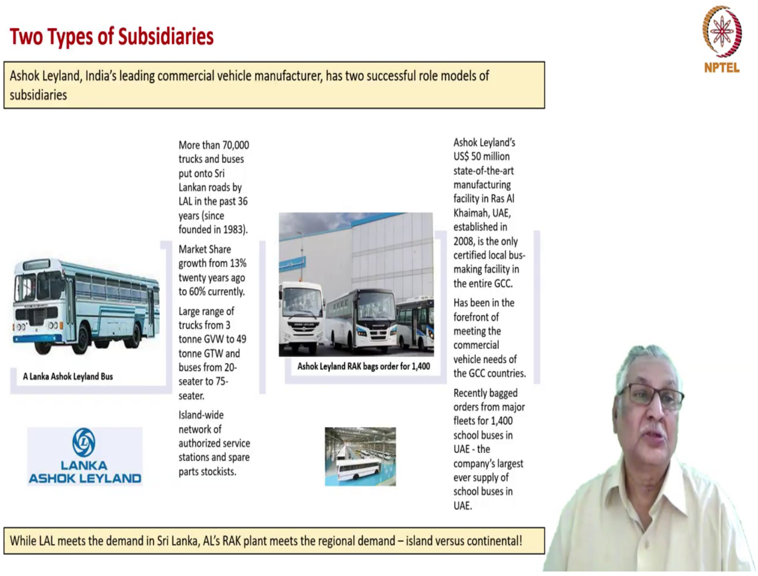

There are two types of subsidiaries which I illustrate here. Ashok Leyland, India's leading commercial vehicle manufacturer has two successful role models of subsidiaries. What I have depicted here is a Lanka Ashok Leyland bus that has been produced by Ashok Leyland subsidiary in Sri Lanka. It is called Lanka Ashok Leyland. More than 70,000 trucks and buses have been put on to Sri Lankan roads by Lanka Ashok Leyland in the past 36 years.

Since it was founded in 1983, it was a visionary step by the Ashok Leyland leadership at the point of time. Market share has grown from 13 percent 20 years ago to 60 percent currently. It offers a large range of trucks from 3 ton GVW to 40 ton 49 ton GTW and buses from 20 seater to 75 seater. The company has island wide network of authorized service stations and spare parts stockist.

Even if the Sri Lankan policy allowed the importation of buses, the presence of Ashok Leyland would not have been as strong as it is today through its joint venture Lanka Ashok Leyland. It has insulated the business in Sri Lanka by presence in the local market as a local legal entity, deploying local employees and also responding properly to the local stipulations.

Another example is Ashok Leyland's 50 million US dollar state-of-the-art manufacturing facility, Ras Al Khaimah, UAE. This was established in 2008 and it is the only certified local bus making facility in the entire GCC. It has been in the forefront of meeting the commercial vehicle leads of various GCC countries.

Recently, the company bagged orders from major fleets for 1,400 school buses in UAE. This has been the company's largest ever supply of school buses in UAE. What you see in the pictures are those buses. While LAL meets the demand in Sri Lanka, AL's RAK plant meets the regional demand – island versus continental and both fulfilling very good purposes for the parent company through subsidization.

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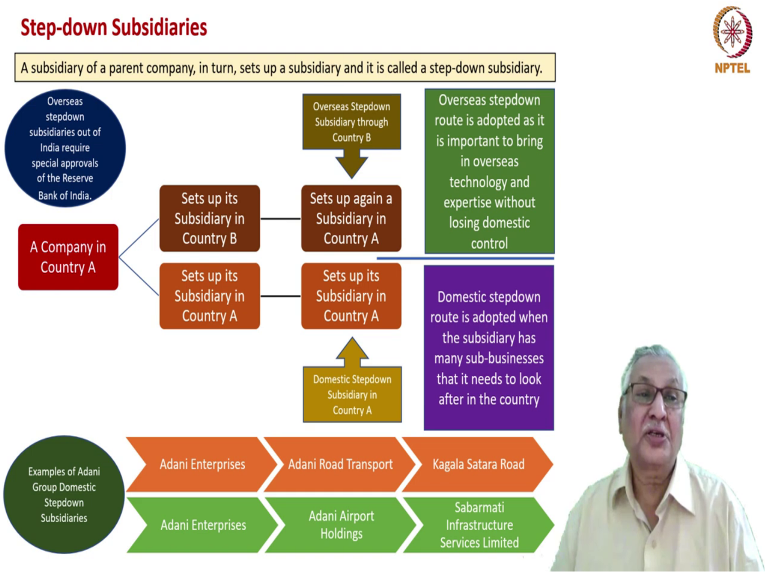

There is also the concept of sub step-down subsidiaries which I have talked about earlier. This happens when a subsidiary of a parent company intern sets up a subsidiary. Then such a subsidiary is called a step-down subsidiary. Overseas step-down subsidiaries happen. Similarly, local step-downs subsidiaries also happen.

Let's take this flow chart. A company in country A can set up a subsidiary in country B. It can also set up a subsidiary in country A. This subsidiary in country B can set up a subsidiary in country A which is a different country. Similarly, a subsidiary in country A can set up a subsidiary, but this time it chooses to set up a subsidiary in country A. A subsidiary in country B setting up a subsidiary in country A signifies overseas step down subsidiary through country B.

Overseas step down route is adopted as it is important to bring in Overseas technology and expertise without losing domestic control. When the subsidiary in country A sets up its subsidiary in country A it becomes a domestic step down subsidiary in country A. This route is adopted when the subsidiary has many sub-businesses that need to be looked after separately in the country.

I take the example of Adani Group's domestic step down subsidiaries. Adani Enterprises is the basic incubating parent in the Adani Group. It has established a company called Adani Road Transport as its subsidiary. And, Adani Road Transport in turn established a step down subsidiary for a specific road project and it is called Kagala Satara Road. Adani Enterprises again has set up a company to operate in the airport space. It is called Adani Airport Holdings.

And, that has in turn established a separate subsidiary called Sabarmati Infrastructure Services Limited to do some handling work for the airports. Now, you can see the advantage of the specialization that happens through the subsidiary as well as step down subsidiary route.

We have a subsidiary for overall road transport and the subsidiary can set up any number of subsidiaries to take care of the several of road transport projects that Adani Group undertakes. And, the same logic applies in the airport space also for Adani Enterprises. So, step down subsidiaries have a very important role to fulfil.

However, overseas step down subsidiaries out of India require special approvals of the Reserve Bank of India to avoid or to get endorsement what may be seen as non-tripping of investments. That is an Indian company establishes a subsidiary overseas and that overseas subsidiary again establishes a separate subsidiary in India. The flow of transactions and the reasons for the establishment of such step down subsidiaries must be very clear if the overseas context for the Reserve Bank of India to approve.

There is nothing non-legal or non-legitimate about such overseas step down subsidiaries. The logic business technical or financial must be clearly explained to the regulatory authorities.

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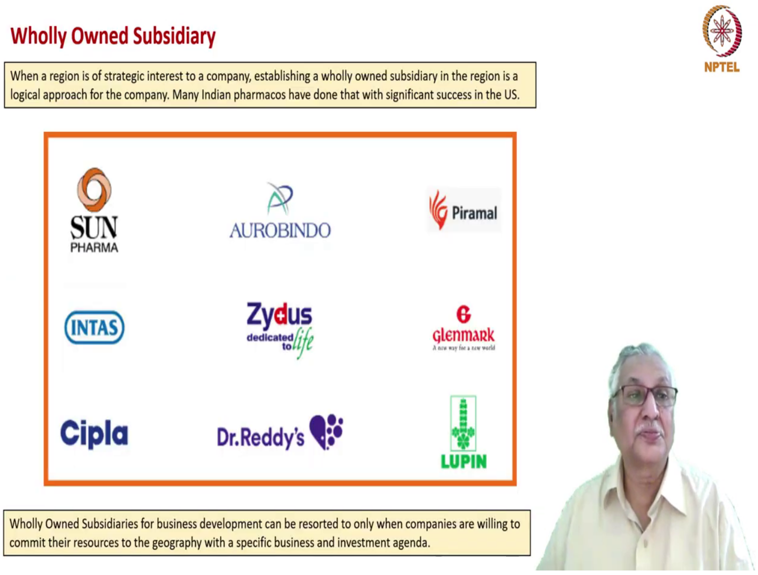

What is a wholly owned subsidiary? A wholly owned subsidiary is a subsidiary where the parent company holds 100 percent of the shareholding interest. When a region is of strategic interest to a company establishing a wholly owned subsidiary in the region is a logical approach for the company. The company does not want to operate as itself in that region.

However, it would like to have the same benefit of operating as though the company is operating in which case having the wholly owned subsidiary is a very good route. Many Indian pharma companies have done that with significant success in the United States. Sun pharma Aurobindo, Piramal, Intas, Zydus, Glenmark, Cipla, Dr. Reddy’s and Lupin are all leading pharmaceutical companies in India and they have established wholly owned subsidiaries for business development.

These kinds of subsidiaries can be resorted to only when companies are willing to commit their resources to the geography with a specific business and investment agenda.

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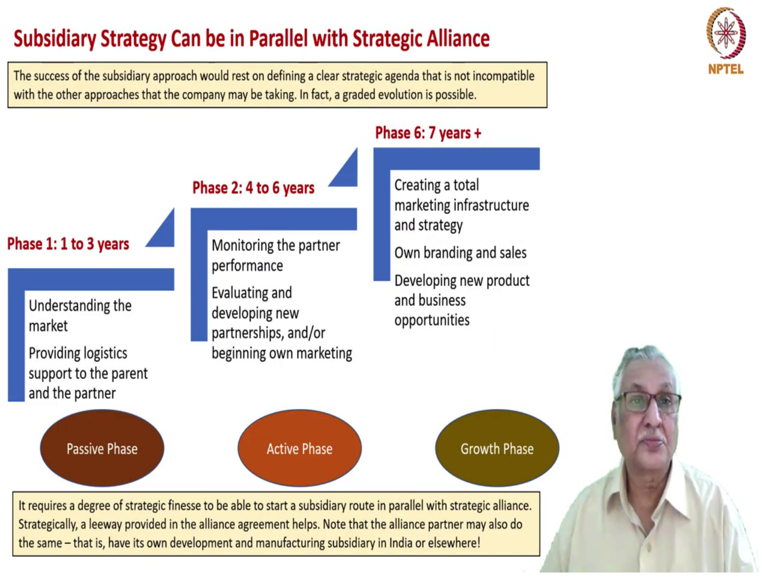

Subsidiary strategy can be in parallel with strategic alliance. I have discussed during the strategic alliance discussion as well that strategic alliance is an intermediate phase before a company establishes its own presence more directly. The success of the subsidiary approach would rest on defining a clear strategic agenda that is not incompatible with the other approaches that the company may be taking.

In fact, a graded evolution is possible. We can look at three phases – One, a passive phase, second, an active phase and third a growth phase. In the passive phase, which is the phase one of globalization for a company which could take 1 to 3 years, you can have an approach of understanding the market. The subsidiary can provide logistics support to the parent and the partner.

There are companies which are established only for regulatory purposes in the pharmaceutical industry. They do nothing except filing the dossier with USFDA and get approvals. And, if some expertise is sought to be brought to the Indian company, they act as knowledge agents or intermediaries to make that happen. And, they serve as the face of the company and nothing more than that. There could be an active phase in which the phase 2 occurs. It could be 4 to 6 years.

In this phase, the subsidiary which is available in the overseas country will monitor the partner performance under the alliance route. It will keep evaluating and developing new partnerships and also start making its own marketing arrangements. Then there would be a growth phase that could be 7 years plus – creating a total marketing infrastructure and strategy. Undertaking own branding and sales and finally, developing new product and business opportunities.

As we have seen in the earlier lectures, it is always appropriate to start the work in an overseas country through either collaboration or strategic alliance. That is because the resources of an Indian corporation or any corporation is on a limited scale and it makes sense to focus on where the company is good at. But, at the same time, we all understand that the value is captured when you do an activity end to end covering the overseas market in which the company is intending to operate.

So, a graded approach of subsidization through the passive active and growth phases is very much recommended in such a case and, it is not contrary to the strategic alliance strategy because strategic alliances are not perpetual arrangements. They are open to termination.

They are open to renewal and they are also open to modification based on the compelling other circumstances that happen.

It requires a degree of strategic finance to be able to start a subsidiary route in panel with strategic alliance. Because you got to assuage the partner that the subsidiary is set up for purposes other than being a competitor to the strategic alliances. The subsidiary is being set up to establish more viable functioning in the overseas market to the benefit of the strategic alliance as well as to the parent companies.

Strategically, a leeway provided in the alliance agreement for establishment of such a subsidiary would help very much in making this transparent open and helpful for all the parties. It is also possible that the alliance partner also could be doing the same thing in India, that is, have its own development and manufacturing subsidiary in India or elsewhere.

So, these are the kinds of normal moves that happen as part of strategic business development. And any business development executive must be open to understanding these things in an appropriate and objective context.

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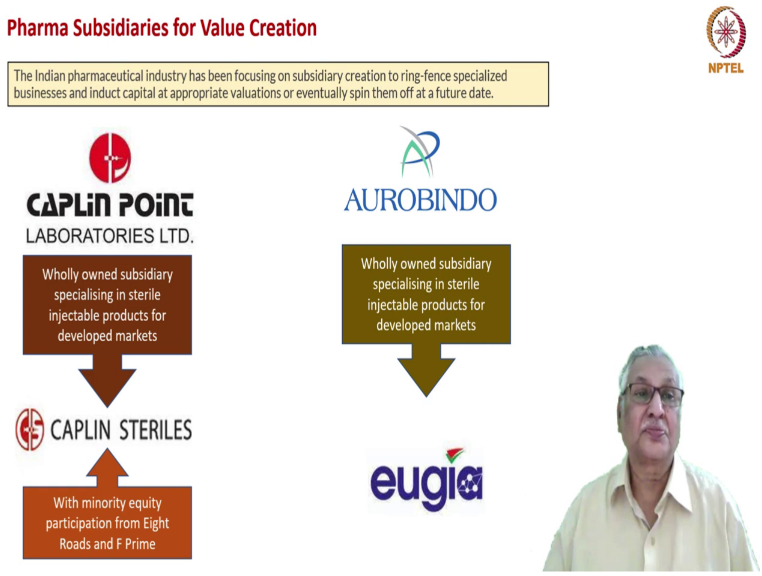

Companies have been establishing subsidiaries for value creation. The Indian pharmaceutical industry has been focusing on subsidiary creation to ring fence specialized businesses and induct capital at appropriate valuations or eventually spin them off at a future date.

Caplin Point Laboratories is a case in point. It is a company which has started its life with oral solid dosage forms. Very quickly it got into sterile injectables. However, those oral solid dosage forms as well as the sterile injectables were essentially meant for less regulated markets such as Guatemala, Colombia, Latin American countries and the like.

Therefore, Caplin Point Laboratories set that as part of its strategy, it should get into a road which is travelled more in terms of the United States and European regulated markets, but which are more challenging and which require a typical mindset of its own.

Therefore, Caplin Point Laboratories limited created a wholly owned subsidiary specializing in sterile injectable products for developed markets and that company's name is Caplin Steriles. It also has minority equity participation from Eight Roads and F Prime equity investors. You can see the advantage of setting up a subsidiary.

One – you have been able to take minority equity participation from equity investors who like that kind of business. They would not have invested in the parent because the parent's business is far too diversified and also is mostly towards less regulated markets which do not interest the equity investors. Secondly, the nature of the business of Caplin Steriles is quite different from the nature of Caplin Point Laboratories business.

Caplin Point Laboratories invest in a facility and gets returns very quickly because the regulatory framework is not so elongated and not so challenging as it is in the case of Caplin Steriles project aimed at the US, FDA and European MHRA requirements. And, constitution of a separate sterile subsidiary makes that subsidiary get aligned to the environmental requirements to the business practices related to that particular line of business.

Aurobindo is another company which has a wholly owned subsidiary specializing in sterile injectable products for developed markets. That is called Eugia. Now, Aurobindo has developed its sterile injectable business as part of it is overall pharmaceutical business for several years. There have been several plants within the Aurobindo orbit that have been specializing in sterile injectables business.

However, Aurobindo thought that there would be greater opportunity for either spin off or for private equity investments in the entire sterile injectables business for developed world is constituted in terms of a separate subsidiary and therefore, that subsidiary has been constituted and there were several reports that the company was also thinking of bringing in massive private equity investment in that subsidiary to be able to get funds into the parent company and deleverage itself.

Similarly, Caplin Steriles has also got the potential to get additional funds to the parent because of the route that has been adopted. So, former subsidiaries have been used as a route for value creation.

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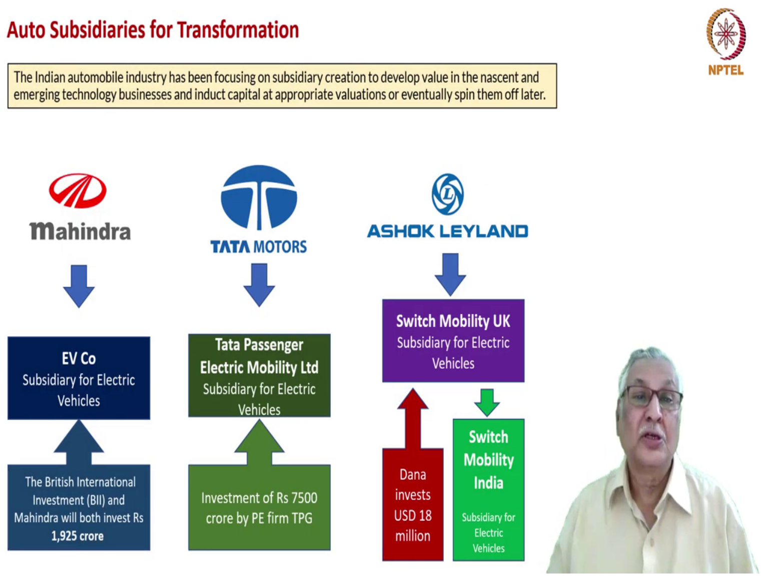

In the automobile industry also, we have subsidiaries which are being used for transformation. As we know the Indian automobile industry has been focusing on subsidiary creation to develop value in the nascent and emerging technology businesses, particularly electric technology businesses and induct capital of appropriate valuations only to spin them off later.

Mahindra Group is an example. It has set up EV Company as a subsidiary for electric vehicles and in that the British International investment BII and Mahindra will both invest 1925 crores. TATA Motors has set up a company called Tata Passenger Electric Mobility Limited as a subsidiary for electric vehicles. An investment of Rs. 7500 crore by PE firm TPG is envisaged.

Ashok Leyland has set up a company called Switch Mobility UK as a subsidiary for electric vehicles. And, in that company, Dana Corporation has invested 18 million US dollars which values the subsidiary at approximately 1 million dollars or more. And, Switch Mobility UK has in turn established a company called Switch Mobility India as a subsidiary for electric vehicles in India. The idea is that the best of European technology must be combined with the best of frugal engineering and cost competitiveness that India possess.

And, these steps subsidiary route of setting up a subsidiary in the United Kingdom for technology and higher order of valuations and a subsidiary in India as a step down subsidiary for cost competitiveness and frugal engineering is a very unique experiment in the Indian commercial vehicle industry.

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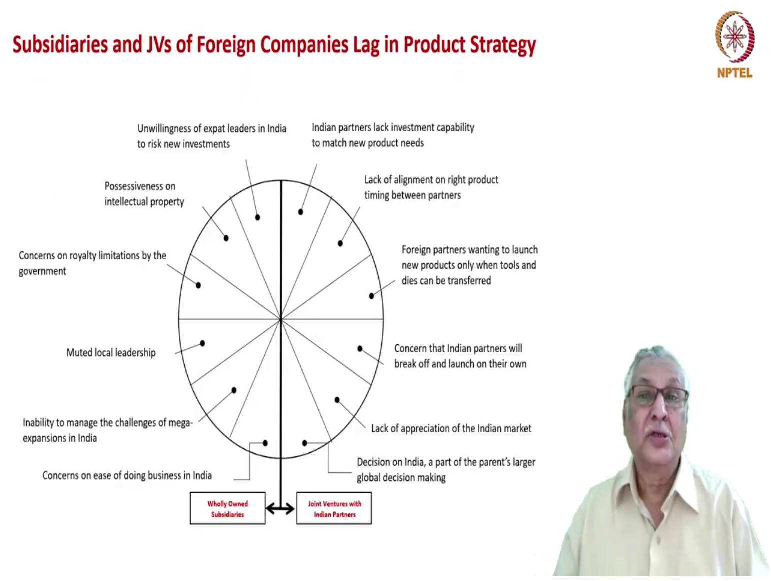

The issue with subsidiaries and joint ventures of foreign companies is that they lag in product strategy. Why does that happen? There are reasons why this happens. As I said in one of the earlier lectures, the principles that underlie across these different business development platforms be it a collaboration, an alliance, a joint venture or a subsidiary and as we see later, emergent and acquisition or somewhat similar to each other.

While they are distinctive and they are separate for each type of business development platform, there are also certain common principles. So, you will be encountering as I discuss these topics further, some kind of commonality with principles that have already been stated with the reference to the other business development platforms earlier.

So, why do JVs of foreign companies in India lag in product strategy? There are a few reasons. First, Indian partners lack the investment capability to match new product needs at global level. Second, there is also lack of alignment on right product timing between the Indian partner and the global partner.

Foreign partners would always want to launch new products only when the tools and dies can be transferred because that is a way to reduce cost of production in India and also make it beneficial for them to transfer them at written down value instead of discarding them.

Foreign partners always have a concern that Indian partners will break off and launch on their own sooner or later. As we have seen with the Hero Honda case, it is not always that only the Indian partner would like to separate itself from the alliance or joint venture. It is also possible that the foreign partner would think on the same lines.

Then the reason for lag in the product strategy is related to the lack of appreciation of the Indian market. How the Indian market differs in terms of the profile of the vehicles or the devices, in terms of the processing powers of devices or in terms of the tractive power and talk of the vehicles as the case may be. So, if there is lack of appreciation of the Indian market, it is not possible to have a product strategy that is aligned to the Indian requirements.

And decision on India, be it in terms of product strategy, manufacturing strategy or commercial strategy is always a part of the parents' larger global decision making. India has to compete for resources. India has to compete on the back of the market opportunity. India has to compete on the basis of ease of doing business in India. And over and above that, India needs in the joint venture leader who can articulate the India advantage within courts.

And, why do then wholly owned subsidiaries have similar problem of lagging in product strategy. Again, there are specific reasons. The expat leaders in India would not be willing to risk new investments because it is a matter of career for them. They got to keep the joint venture or subsidiary going, but they cannot also take risky bold decisions and endanger their career. So, they tend to operate in a fail safe mode.

Second, there is a possessiveness on the part of the parent companies on intellectual property. They believe that any intellectual property that is transferred to a local subsidiary is always at risk, which is again unfounded. Then there are concerns on royalty limitations by the government.

That becomes very important when the subsidiaries achieve high level of operation. A royalty rate of 2 percent which is allowed when the company is at a low scale of production will look stupendous when the company achieves a very high level of production.

And given that no further induction of technology has taken place, the rationale for such huge royalty outgo could be questionable from a political angle as well. Then we have local leadership which always plays second fiddle to the foreign leadership. That is a muted local leadership which does not advocate the India advantage and the advantage of doing things in the locally compatible way.

Then there is also the real problem of managing the challenges of mega expansion in India, even the infrastructure bottlenecks and various other constraints. These were much more daunting a few years ago. Poor shortages for rampant, then the roadways were not very well developed, ports and airports were congested. But today those scenarios have been changing positively.

Therefore, I would say that the challenges of mega expansions are not so daunting as they were a few years ago. Then, the concerns and ease of doing business in India. Yes, there are lots of liberalizations that have taken place. But the liberalization is also accompanied by a watchful regulatory regime.

That is every domain has a regulatory agents of sorts. It makes sure that the consumer interests are protected. And the moment a regulatory agency steps in, there would be some level of bureaucracy which is unavoidable. Similarly, companies have to be very alert in terms of the transfer pricing and other tax rules so that they are in compliance of the local laws.

And, these are the things if they are not adequately taken care of, could be seen as amplified problems in the foreign companies having subsidiaries in India. So, these are the reasons why either subsidiaries or JVs of foreign companies lag in product strategy and along with that in the manufacturing strategy or commercialization strategy.

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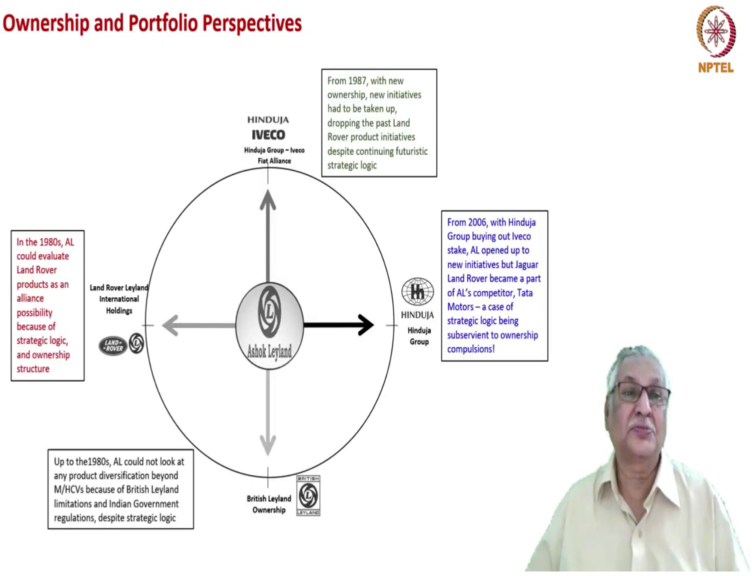

Another interesting aspect of subsidization is the nexus or lack of it between ownership and portfolio. Basically, any product portfolio has to meet the local customer requirements. But it is not always that the companies will take fair and objective decisions on that single consideration alone. Ownership has got a strong impact on the product portfolio decisions of different subsidiaries.

Let us take the example of British Leyland which had a subsidiary Ashok Leyland limited. Up to the 1980s Ashok Leyland could not look at any product diversification beyond medium and heavy commercial vehicles because of British Leyland's technology and financial limitations.

And, also Indian government's FEMA regulations despite the strategic logic that was available to induct more funds and expand capacity aggressively diversified product lines.

Then British Leyland itself underwent a ownership change. Land Rover Leyland International Holdings became the new owner of Ashok Leyland Limited. At that point of time Land Rover Leyland International Holdings had the famous Land Rover range of multi-utility vehicles. Therefore, in the 1980s Ashok Leyland could evaluate Land Rover products as an alliance possibility because of the strategic logic and ownership structure.

But, as luck and time would have it Land Rover Leyland International Holdings could not sustain itself financially and a joint venture of Hinduja group and Iveco Fiat took over the shareholding of LRLIH and they became the owner together of Ashok Leyland. And therefore, the Land Rover project was discontinued.

From 1987, when this ownership transformation occurred the company that is Ashok Leyland had to take up new initiatives because of the new ownership. And the previous initiatives such as the Land Rover product initiative had to be dropped despite those products having continuing futuristic strategic logic.

Then from 2006 Hinduja group began buying out the Iveco stake. And from that year Ashok Leyland opened up to new initiatives. But Jaguar Land Rover became a part of AL's competitor Tata Motors. And this is a case of strategic logic being subservient to ownership compulsions. See the kind of turn of events in how the portfolio perspectives change along with the ownership realities.

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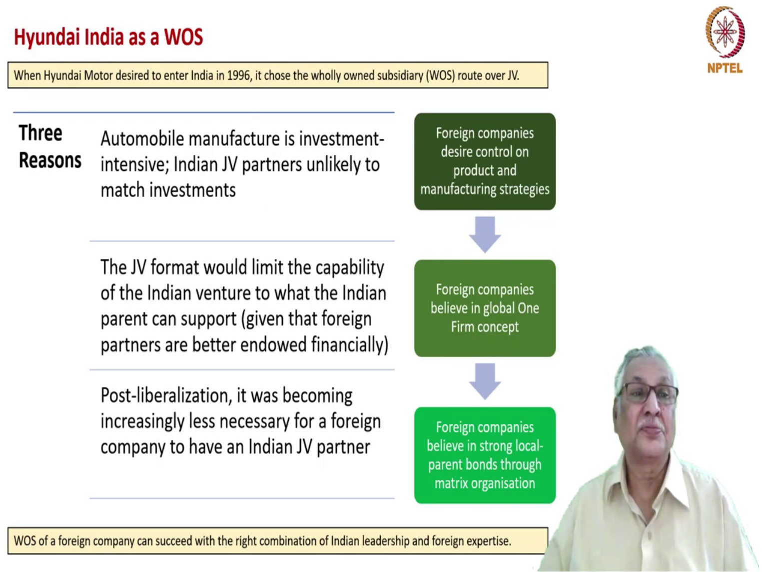

Many companies after the 1990s began understanding India much better. So, foreign companies began operating in India through wholly owned subsidiaries. In an automobile industry environment where joint ventures and collaborations were the main ways, Hyundai Motor chose to enter India in 1996 through the wholly owned subsidiary route to our joint venture.

There have been three reasons for that. One, automobile manufacturer is investment intensive. Indian JV partners are unlikely to match the investments that are required and that could be made by the foreign partner. The JV format would limit the capability of the Indian venture toward the Indian parent can support. Given that foreign partners are better endowed financially and technologically and probably with their own control they could take the company to much higher heights.

Post-liberalization, it will it was becoming increasingly less necessary for a foreign company to have an Indian joint venture partner because the transparency in registering the company improved and there has been improvement in the ease of doing business. Foreign companies by and large desire control on product and manufacturing strategies.

They believe in a one form concept globally. They also believe in strong local parent company bonds through a matrix organisation that is if you have a HR leader in India he will report not only to the local CEO, but also should report to the global HR head. And so, does the operations head of an Indian subsidiary do. He needs to report to the local CEO and also to the global operations head.

This is a typical matrix organization of a global MNC having subsidiaries in various countries to have a standardized homogenized one global firm concept. The wholly owned subsidiary of a foreign company can succeed however, with the right combination of Indian leadership and foreign expertise. There is no doubt about that.

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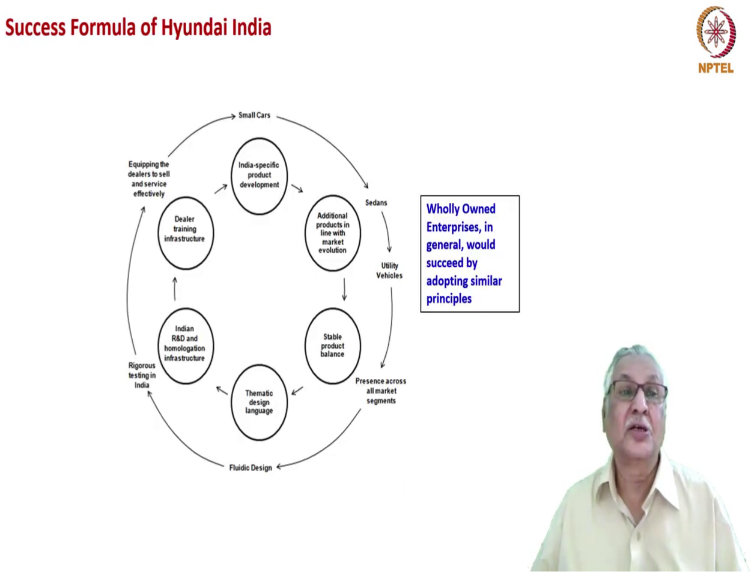

If you see the success formula of Hyundai in India, it started with small cars. The company decided that it has to redo its product strategy to be India specific in its product development. In fact, as part of my days in Ashok Leyland strategic planning I had the opportunity to negotiate to discuss and deliberate with Hyundai Motor as it was structuring its market entry strategy.

And, one of the principles I talked about with Hyundai Motor was that India is going to be a small car company. One of the principles I discussed with Hyundai Motor was that India would be a small car country for a long time. Whereas Hyundai believed that having small cars is an aberration and India would eventually gravitated towards 1300 CCR above cars and there would not be any small car.

But, as I explained the Indian situation Indian income diversification from the bottom of pyramid to the lower middle class, upper middle class and luxury class they started understanding that the market segmentation in India is going to be much finer than it is in their own country or other global markets. Those they started making India specific product development that is how Santro came into being. Then they added additional products in line with market evolution.

Then they achieved a stable product balance with presence across all market segments through small cars, Sedars and UTT vehicles. Then they also understood that Indian market requirements are as rigorous and as tough as the overseas market requirements. Indian customers want an affordable car, but they also want modern design. They started bringing in thematic design language what they call the fluidic design in the cars.

It was also appreciated by Hyundai that the company needed to have a very strong R and D and homologation infrastructure in India which can serve the Indian product aspirations as well as even support the Korean aspirations. And, looking at the Maruti Suzuki success the company took a page out of its success history. The company invested substantially in dealer training infrastructure, equipping the dealers to sell and service effectively the Hyundai range of modern cars.

Wholly owned enterprises in general would succeed by adopting similar principles in whatever field they are in.

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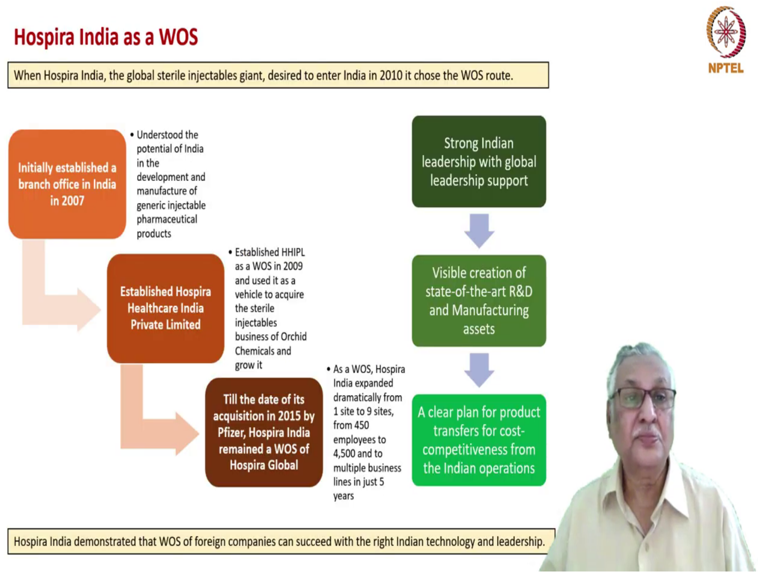

Similarly, in the pharmaceutical industry, Hospira India as a wholly owned subsidiary set its own record. As I probably disclosed to you earlier, I was the Managing Director and Executive Chairman of Hospira Healthcare India Private Limited which was a subsidiary of the global sterile injectables giant Hospira inc. When Hospira Inc. decided to enter India in 2010 it shows the wholly owned subsidiary road. Initially it established a branch office in India in 2007.

It understood the potential of India in the development and manufacture of generic injectable pharmaceutical products. The company thought to itself if many Indian manufacturers could operate in the United States in alliance why not I do the reverse of it. I have a strong marketing process in the United States and Europe – why not I set up a development and manufacturing infrastructure in India and have similar competitiveness advantage.

So, it established Hospira Healthcare India Private Limited in 2009 as a wholly owned subsidiary and used it as a vehicle to acquire the sterile injectables business of Orchid Chemicals and Pharmaceuticals Limited and eventually grew the drug pipeline the manufacturing facilities for various types of antibiotics and also added several other additional product development and manufacturing lines.

One of the biggest feathers in Hospira's camp in India was the establishment of one of the largest non antibiotic generate injectables facility at Visakapatnam. So, till the date of its acquisition in 2015 by Pfizer, I remained as the managing director of Hospira India and Hospira India also remained as a wholly owned subsidiary of Hospira global.

As a wholly owned subsidiary Hospira India expanded from 1 site to 9 sites, from 450 employees to 4500 employees and to multiple business lines in just 5 years. We would have an occasion to discuss this strategy in greater detail in a subsequent lecture series. What does this signify as a wholly owned subsidiary's track record? Strong Indian leadership with global leadership support when I took out the company in 2010 March the company had 14 top leaders acquired from orchid's injectables business.

And, over a period of time we could expand that key leadership team to as many as 80 key leaders across various technology and business lines and across various manufacturing lines including active pharmaceutical ingredients. Second, visible creation of state-of-the-art R and D and manufacturing assets, which India was capable of having and demonstrating in terms of competitive operation.

Then a clear plan for product transfer for cost competitiveness from the Indian operations. It was envisaged that the center of gravity of the global operation would shift to India with a substantial portion of the production coming in from the Indian operation and that too in an updated product technology platform.

Hospira India demonstrated that wholly owned subsidiary of foreign company can succeed with the right Indian technology and leadership.

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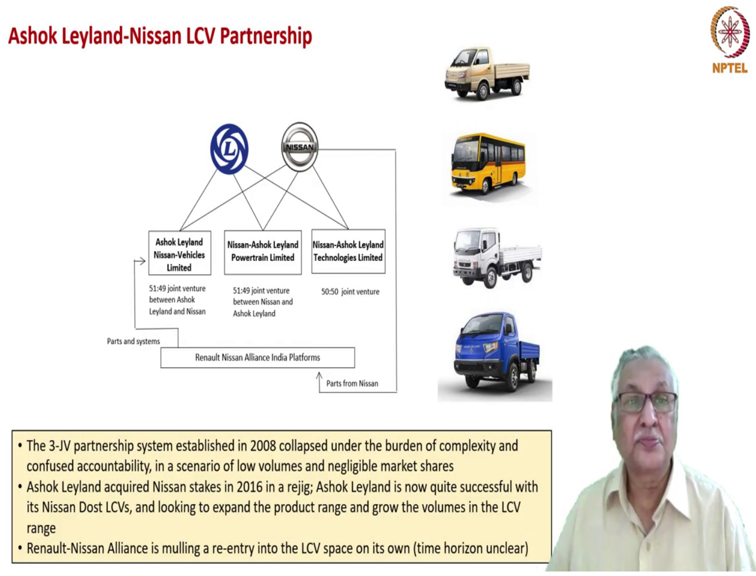

Another important and interesting case is of Ashok Leyland – Nissan Light commercial vehicle partnership. Ashok Leyland and Nissan decided that they would have great partnership if they were equitable in how they structure their collaboration as subsidies. So, they did three subsidiaries. One was Ashok Leyland – Nissan Vehicles limited which was at 51 – 49 equity joint venture between Ashok Leyland and Nissan.

Then there was a Nissan Ashok Leyland Powertrain Limited. It was a 51 – 49 joint venture between Nissan and Ashok Leyland respectively. Then there was a Nissan – Ashok Leyland technologies limited which is 50 – 50 joint venture. So, technological development was to be done by Nissan – Ashok Leyland Technologies Limited. The engine and gearbox required for the light commercial vehicles was to be produced by Nissan Ashok Leyland Powertrain Limited.

And, Ashok Leyland – Nissan Vehicles Limited would manufacture the light commercial vehicles as original equipment manufactured products. And, these were also supported by overall Renault Nissan Alliance India platforms having part support from Nissan and providing parts and systems support to Ashok Leyland Nissan vehicles limited.

So, conceptually it was a very elegant way of having multiple partnerships with an integrated framework, but with specialization in respective capabilities. You can see the vehicles that have been produced the top 3 from that collaboration in terms of subsidiaries.

The 3-JV partnership system that was established in 2008 however, collapsed under the burden of complexity and confused accountability in a scenario of low volumes and negligible market shares. Ashok Leyland acquired Nissan's stakes in 2016 in a rejig. Ashok Leyland is now quite successful with it is Nissan Dost LCVs and looking to expand the product range and grow the volumes in the LCV range.

But, are those introduced by Ashok Leyland with its own efforts has been a runaway success that is the one which is shown at the bottom. Renault – Nissan alliance is mulling a re-entry to the LCV space on its own although the time horizon is unclear the second points to the fact that product strategy is influenced a lot by the ownership approach of various partners and the linkage between product strategy and ownership structure cannot be easily visioned away.

In one of the previous lectures, we discussed how the Renault Nissan partnership began undergoing some change. The moment Nissan became very strong technologically and reasonably strong financially. Then the Japanese partners began wanting equity in the overall partnership.

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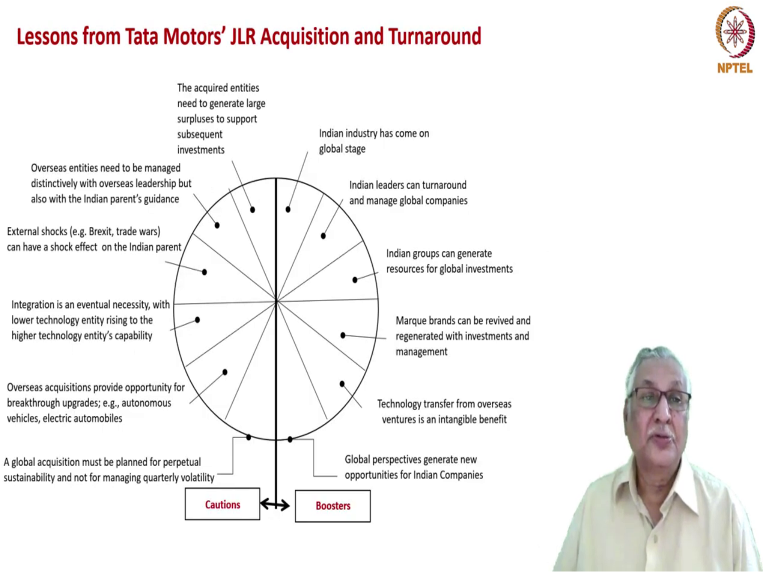

One of the flagship examples of India's globalization has been Tata Motors acquisition of JLR. And JLR was a not so great operating company at the time of acquisition. So, we can call this acquisition a turn round story. What boosted the advantages of Tata Motors turning around JLR and what were the drivers? The boosters are Indian industry has come on the global stage that has been clearly and reliably demonstrated.

The Indian leaders demonstrated that they can turn around and manage global companies. It also demonstrated that Indian groups can generate resources for global investments. Market brands can be revived and regenerated with investments and management. Technology transfer from overseas ventures is an intangible benefit whenever an Indian company invest in technologically developed overseas companies even though they are not financially strong.

And, global perspectives generate new opportunities for Indian companies. The new Harrier platform design has been due to the collaboration between Tata Motors and JLR. And, I am sure JLR's capabilities have rubbed off in terms of the successful Tata electric vehicle developments. But there are also cautions that come with such aggressive globalization for Indian companies.

The acquired entities which remain as subsidiaries need to generate large surpluses to support subsequent investments. Tata Motors performance in the overall financially and the market reception is entirely linked to the JLR's performance. If it performs well in the United States and China, then Tata Motors performance is boosted and so, does its market valuation.

Overseas entities need to be managed distinctively with the worship leadership, but also within the parents' guidance. External shocks from time to time such as Brexit and trade wars can have a shock effect on the Indian parent. Although the Indian parent has nothing to do with those developments and its own market is reasonably insulated. Integration is an eventual necessity with lower technology entity rising to the higher technology entity's capability.

Any movement the other way would be detrimental to the overseas subsidiary as well as to the Indian partner and the parent. Overseas acquisitions do provide the opportunity for breakthrough upgrades, for example, autonomous vehicles, electric automobiles and a global acquisition must be planned for perpetuity or sustainability and not for managing quarterly volatility.

And, these are the cautions required for an Indian company which is attempting to achieve globalization through overseas subsidiaries. But those cautionary requirements are well worth the advantages that arise from globalization in terms of technological development and overall stage in the global industry.

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Japan-China Automobile Industry Tie-ups

Japanese Company	Equity Stake in Chinese Company	Name of Japan-China JV	Japanese Partner's Products Manufactured
Toyota	40%	Tianjin FAW Toyota Motor Co. Ltd	Vicos, Corolla, Crown, Reiz
	50%	Sichuan FAW Toyota Motor Co. Ltd	Coaster, Prado, RAV4
	30.50%	GAC Toyota Motor Co Ltd	Camry, Highlander, Levin, Yaris
Mazda	50%	Changan Mazda Automobile Co. Ltd	Mazda 3, CX-5
	25%	Changan Ford Mazda Engine Co Ltd	Engines for Mazda cars
Suzuki	50%	Chongquin Changan Suzuki Automobile Co Ltd	Alto, Swift, Vitara, SX-4, S- Cross, Alivio
	46%	Jiangxi Changhe Suzuki Automobile Co Ltd	Wagon-R Wide, Liana
Isuzu	20%	Quingling Motors Co Ltd	Elf, Forward
	50%	Jiangxi-Isuzu Motors Co Ltd	
Mitsubishi	30%	GAC Mitsubishi Motors Co Ltd	Mitsubishi Cars
	25%	Southeast(Fujian) Motors Co Ltd	Mitsubishi Cars
Nissan	50%	Dongfeng Motor Co Ltd	
	50%	Zhengzhou Nissan Automobile Co Ltd	NV 200, Paladin
Honda	65%	Honda Automobile(China) Co Ltd	
	50%	Dongfeng Honda Automobile Co Ltd	CR-V, Civic
	50%	Guangqi Honda Automobile Co Ltd	Accord, Odyssey, Vezel, Fit
Hino	50%	Shanghai Hino Engine Co Ltd	Engines
	50%	Guangqi Hino Motors Co Ltd	

Source: Japan Automobile Manufacturers Association, Inc; "The Motor Industry of Japan 2018"

Unlike India, China encouraged multiple partnerships for domestic joint ventures, leading to better absorption of technology and best practices both at firm level and industry level.

In contrast with the Indian approach of having one collaborator or one subsidiary parent and one Indian partner or one Indian subsidiary, Japan – China automobile industry types have been very much diversified. China explicitly encourages the Japanese subsidiaries in China to have multiple partnerships.

And, Japan also has been willing to do that although in India it has been quite strict about it. For 2-wheelers it went into one partnership and within that for scooters it went into one partnership, for motorcycles which it went into another partnership and for passenger cars it went into another partnership and so on. But that was not to be the case in China for Japan. Toyota as a Japanese company has equity stake in three Chinese companies.

Tianjin FAW Toyota Motor Company, Sichuan FAW Toyota Motor Company and GAC Toyota Motor Company limited and manufacturing different types of automobile products.

One manufactured the Corolla and Crown the popular sedan. The other manufactured the RAV4 kind of sports utility vehicle and another manufactured a combination of all these products.

Mazda has a 50 percent equity stake in Changan Mazda Automobile Company and 25 percent in Changan Ford Mazda Engine Company Limited manufacturing vehicles and engines respectively. Suzuki, similarly has a 50 percent and 40 percent stake into companies manufacturing products which are of mixed variety like Wagon-R is made in one company. But SX-4 and S-cross cross overs are also made in another company.

Isuzu had 20 percent and 50 percent equity share companies subsidiaries; Mitsubishi 30 percent and 25 percent share; Nissan had 50 percent joint ventures manufacturing products; Honda again is a company which has manufactured different types of automobiles in three different companies including one which is completely owned by Honda as Honda automobile China company limited. Hino motors, manufacturers, engines and vehicles through two of its subsidiaries.

As you can see from this unlike India, China encouraged multiple partnerships for domestic joint ventures leading to better absorption of technology and best practices both at firm level and industry level. From whatever we have discussed in terms of subsidization as a route to globalization. We can say that globalization has reached such a state and countries such as India and China have reached such a stage that they are well equipped to enter the global arena on their own and set up their own ventures.

Similarly, the pace of doing business and the ease of doing business in India have changed so much that several multinational companies can have their own make in India programs actively encouraged by the Government of India and they can set up their own manufacturing facilities, their own development labs in India and contribute to generation of wealth in India and also for themselves through the global issues which are supported by cost effective and frugally engineered products that come out of the Indian infrastructure.

Therefore, subsidization is a route which strongly supports various other business development platforms which we have considered earlier collaborations, alliances and joint ventures. So, with this we come to the end of this lecture.

Thank you for your attention and I look forward to meeting with you again in the next lecture.