

## GREEN SIGNAL

# HM gets Mitsubishi Corp's nod to manufacture cars for other firms

**Hindustan Motors is in discussions with other car makers; not to sever ties with Mitsubishi for now**

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KOLKATA

After assembling cars exclusively for Mitsubishi Motor Corp. for 12 years, Hindustan Motors Ltd (HM) has received the go-ahead from the Japanese company to build vehicles for other car makers.

The restriction on HM manufacturing cars for others was directly withdrawn, managing director Manoj Jha said. HM has initiated discussion with other companies for manufacturing cars for them at its Chennai factory, he said.

HM, India's oldest car company, has been making cars exclusively for Mitsubishi since 1998 under a contract manufacturing agreement signed in 1996.

HM's key concern is the poor capacity utilization of its Chennai factory, which can produce up to 25,000 cars a year. It imports so-called knocked down kits from Mitsubishi, and assembles cars with very little local content.

"We produced only 4,000 cars last year," Jha said. This year, HM would be utilizing "only one-fourth of the capacity" manufacturing cars exclusively for Mitsubishi, he added. Asked why HM wasn't scaling up production at its Chennai factory, Jha said Mitsubishi had "capacity constraints and it wouldn't be able support production (at Chennai) beyond a certain level".

Mitsubishi officials weren't immediately available to comment for this story.

HM, however, doesn't have



Excess capacity: Manoj Jha, MD, Hindustan Motors.

any immediate plan to sever ties with Mitsubishi. It has given Mitsubishi time until March to decide how many cars it wants to produce in India, based on which HM will decide on arrangements with other car makers, Jha said.

The Chennai factory's capacity was raised to 25,000 cars per year in expectation that it would be fully utilized by Mitsubishi. In the early 2000s, HM produced up to 10,000 Mitsubishi cars a year at its Chennai factory, but volumes have since declined.

Jha refused to comment on whether building cars for Mitsubishi was profitable for HM.

He said "exchange rate fluctuations" were putting pressure on profitability. "The yen has appreciated so much that all Japanese exporters are suffering."

HM shares closed almost unchanged at ₹24.30 on the Bombay Stock Exchange, while the bourse's benchmark Sensex ended 112.78 points higher at 20,069.12 points.

Mitsubishi has had similar problems in other markets as well, according to Rakesh Patra, partner and industry leader

for the auto practice at consulting and audit firm Ernst and Young.

"Problems arise because Mitsubishi insists on little or no localization, and with the Yen appreciating, profit margins are under pressure."

Companies get into such contract manufacturing arrangements to "test a market before launching their own manufacturing facilities", or if the market is too small to set up their own factories. But in India, the arrangement between HM and Mitsubishi has gone far beyond "the testing phase", Patra said, noting that other key carmakers had already set up their own facilities in India.

The exclusivity arrangement with Mitsubishi has been terminated at a time when HM is facing serious financial difficulties and could have to seek creditor protection under the Board for Industrial and Financial Reconstruction to stay afloat.

Jha said the company was hopeful that "all key verticals would become cash positive" by the end of the current fiscal, and unless they were able to

"support themselves going forward", HM could sell shares to or borrow from its promoters—the CK Birla group.

HM recently sold a property in Chennai and "some shares" in component maker Avtec Ltd to the investment arms of the CK Birla group to raise ₹40 crore. HM held 49% stake in Avtec until the recent share sale.

Jha refused to reveal how many shares HM had sold, but said it received around ₹20 crore from the sale. HM and the CK Birla group together hold 70% of Avtec, and the rest is held by private equity firm Actis.

Poor capacity utilization is HM's main problem, according to Jha.

To address the problem, the company is even looking to launch a new passenger car—its first since the Contessa, which was launched in the early 1980s and officially withdrawn in 2003, Jha said. The new car would be ready by August next year.

The only indigenous passenger car that HM manufactures is the Ambassador, which is mostly used as taxis and by government offices.

The Ambassador is manufactured at its Uttarpara factory in the suburbs of Kolkata. HM currently sells around 800 Ambassadors a month.