

MCFW & MCFS: THE FUTURE FUTURE CONSULTANCY

Asper School of Business

Haneen Shouman
Nicole Peloquin
Aditya Kedia
Adam Ells

PRESENTING TO: VIJAY KUMAR AND THE M&M BOARD MEMBERS

KEY ISSUE

Which ownership models should M&M use for sustained growth and profitability through MCFS and MFCWÉ

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

CRITICAL CHALLENGES

Profitability

- Operations
- Supply Chain Management

Financial Struggle

- Profitability
- Funding

Ownership Structure

- Company-based
- Franchise Business

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

RECOMMENDATION

M&M should combine MFCW & MFCS to leverage synergies and rapidly scale

Combine

Expand

Grow
Internationally

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

STRATEGIC GOALS FOR MFSC AND MFCW

MFCW
Mahendra
First Choice
Wheels

Scale Up

- 1,290 to 2,000 outlets by 2018
- Double Annual Sales to 550,000 units

Internationalize

- Enter new markets

MFCS
Mahendra
First Choice
Service

Expand Service Network

- 280 to 400 by 2018

Grow Turnover

- Tenfold to INR 10 billion by 2021

M&M
Mahendra &
Mahendra
Limited

Profitability

Growth

Synergy

Define

Analyze

Evaluate

Recommend

Implement

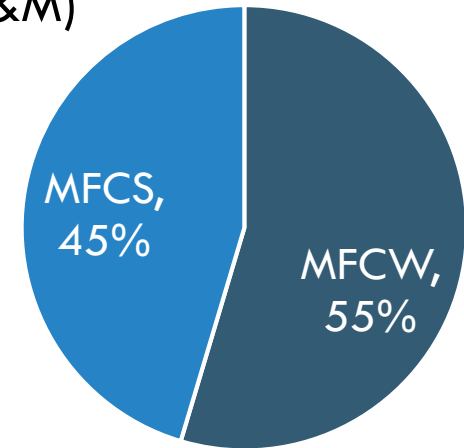
Risks & Mitigate

M&M STRUCTURE

- Multifaceted sister companies (Finance, IT)
- International Presence (South Africa, China)



- Sale & purchase of multi-brand preowned vehicles
- Franchise Model
- Private Equity (46.76% for M&M)



- Leading service chain for automobiles of all makes
- Converting to Franchise Model
- 100% subsidiary

M&M's two subsidiaries are facing elusive profits.

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

FUNDING NEEDS

MFCW



- Looking at raising equity
- International partners
- Growth opportunity

MFCs



- Need to raise \$40 to \$50 million
- Invest in branding & marketing
- Needs a robust ecosystem for competitive advantage

Define

Analyze

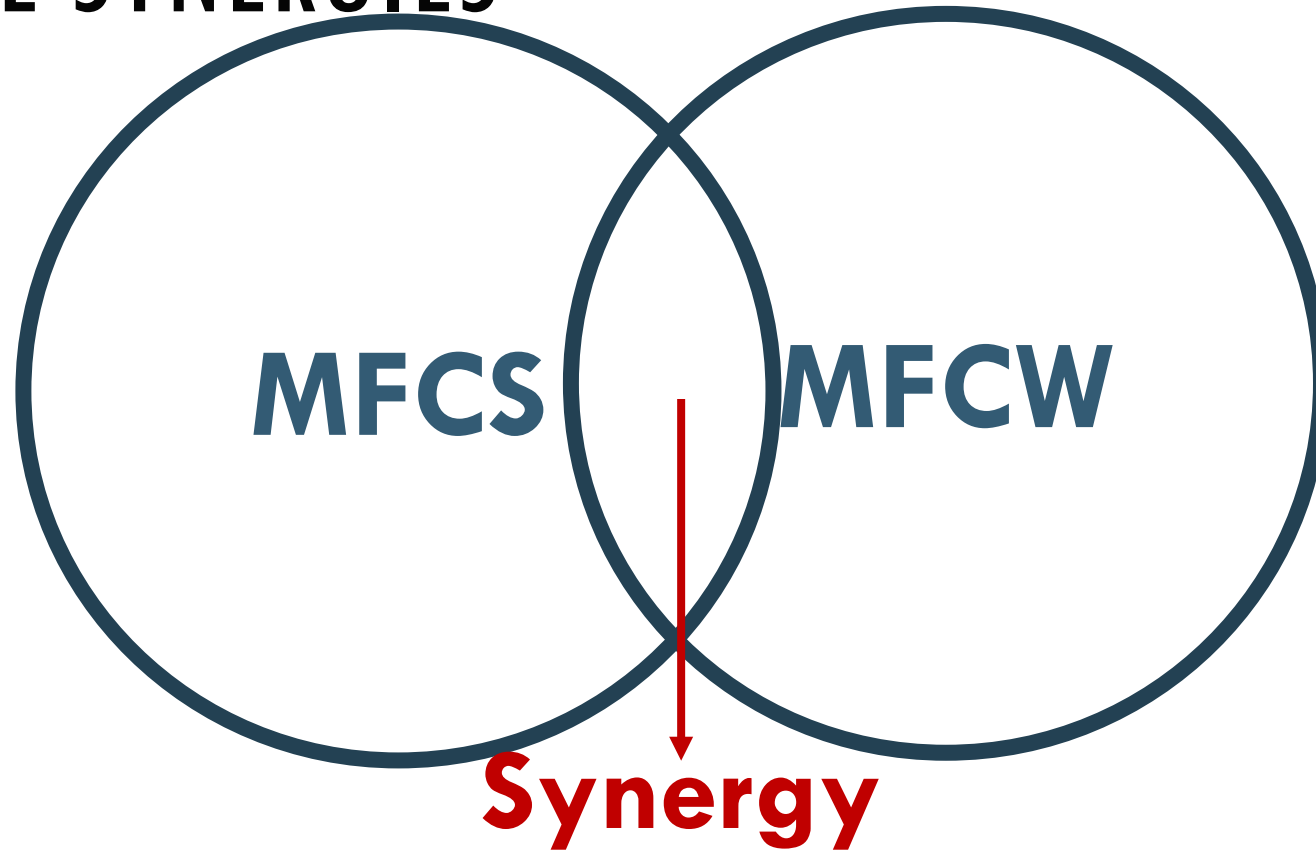
Evaluate

Recommend

Implement

Risks & Mitigate

POSSIBLE SYNERGIES



Any strategy put forward must capitalize on the synergies.

Define

Analyze

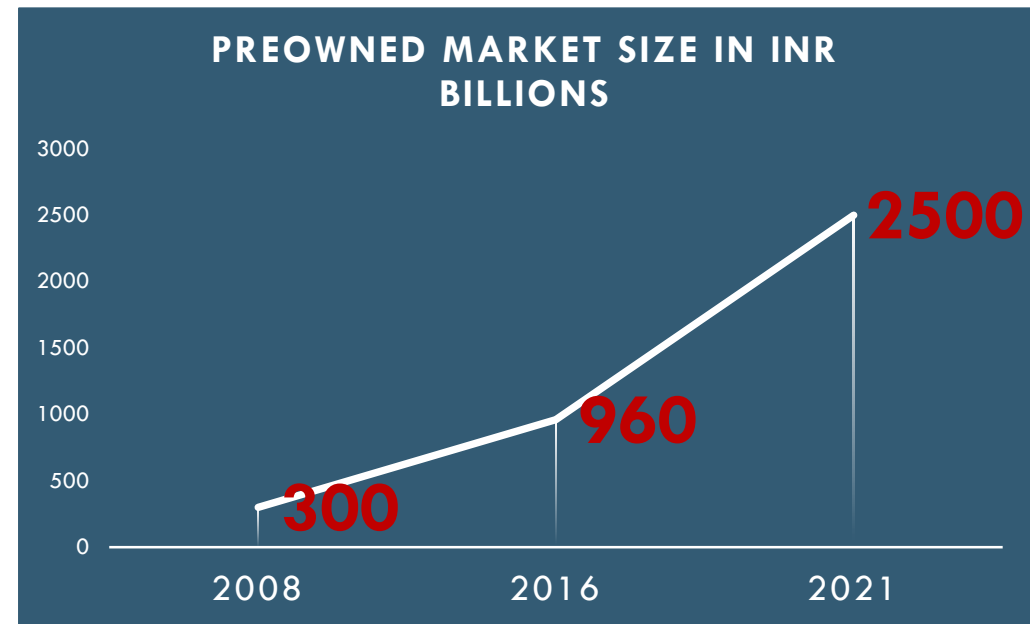
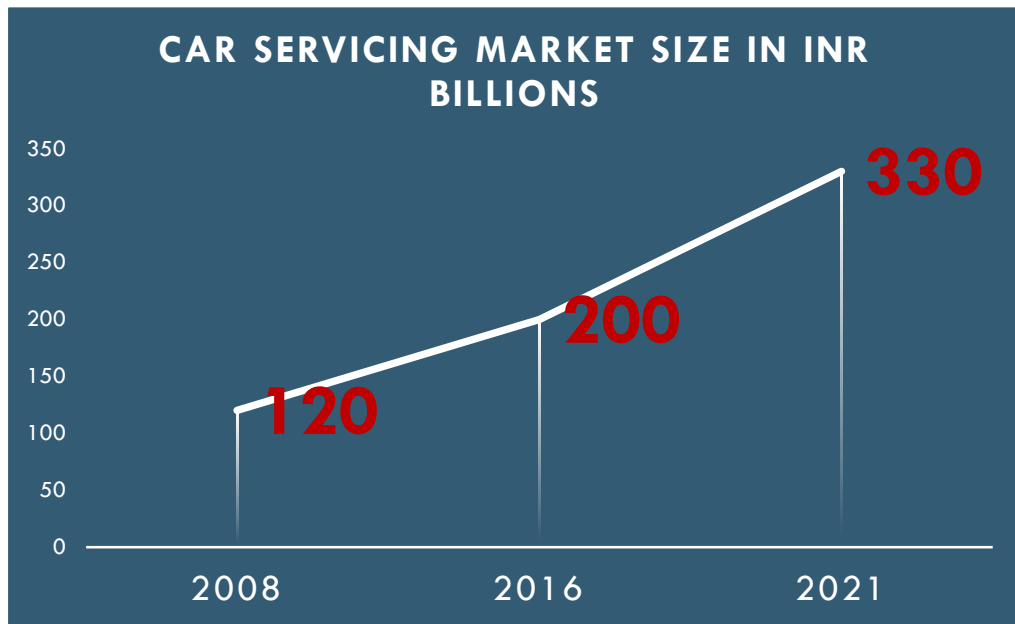
Evaluate

Recommend

Implement

Risks & Mitigate

GROWING MARKETS



Both markets are showing excellent potential in India.

Define

Analyze

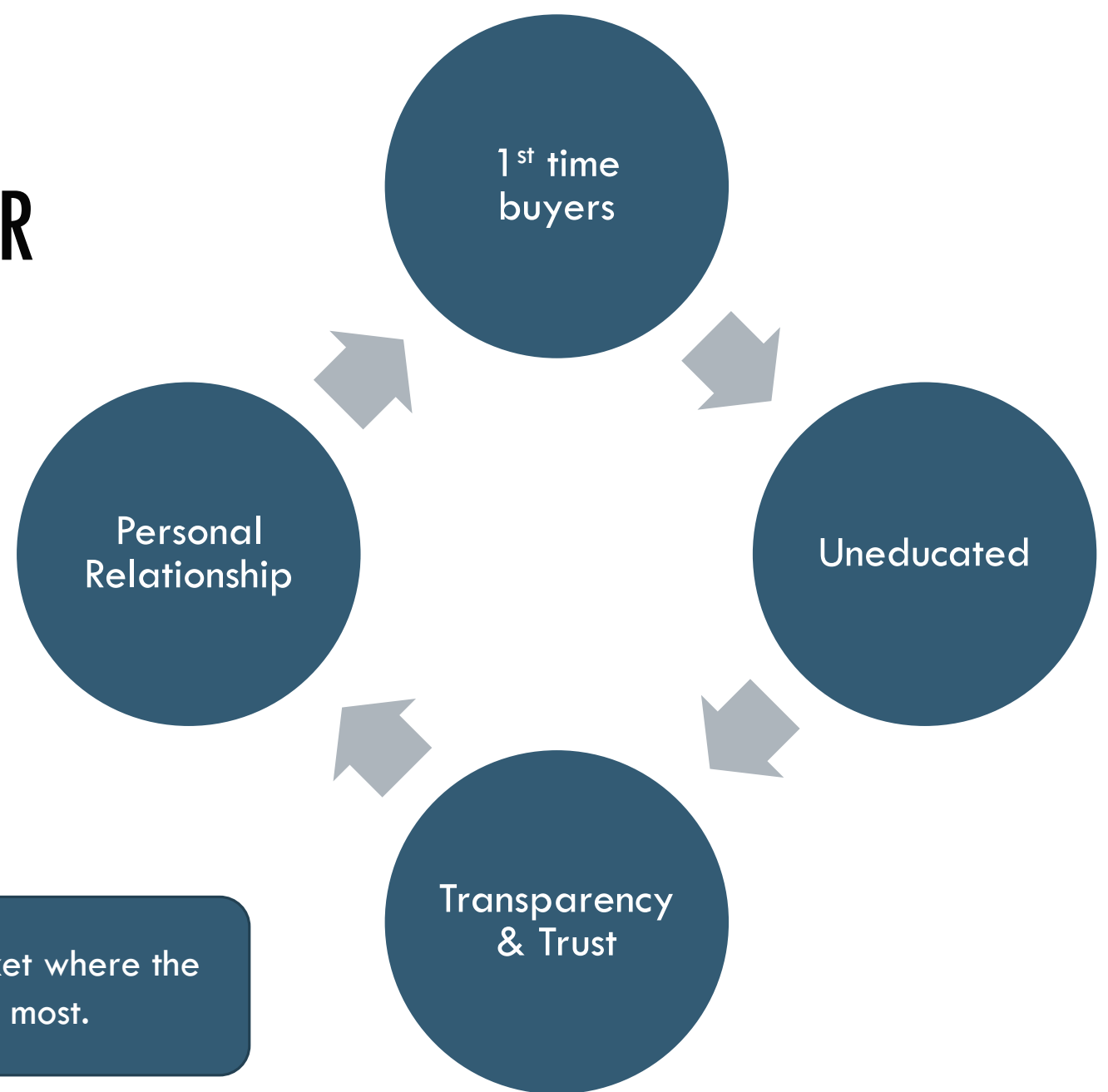
Evaluate

Recommend

Implement

Risks & Mitigate

THE INDIAN CONSUMER



Mahindra`s name is a trusted name in a market where the consumer values trust and relations the most.



COMPETITIVE LANDSCAPE



Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

ANALYSIS SUMMARY

- Franchise Model
- Industry Knowledge
- Relationships

- Market Potential
- Available funding
- The GAP in Offering

Strengths

Challenges

Opportunities

Threats

- Not profitable
- Funding required
- New endeavor

- Competition
- OEM and independent players
- Global entrants

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

GROWTH STRATEGIES

Divest

Prepare for Public Sale

Combine into Single Entity

Define

Analyze

Evaluate

Recommend

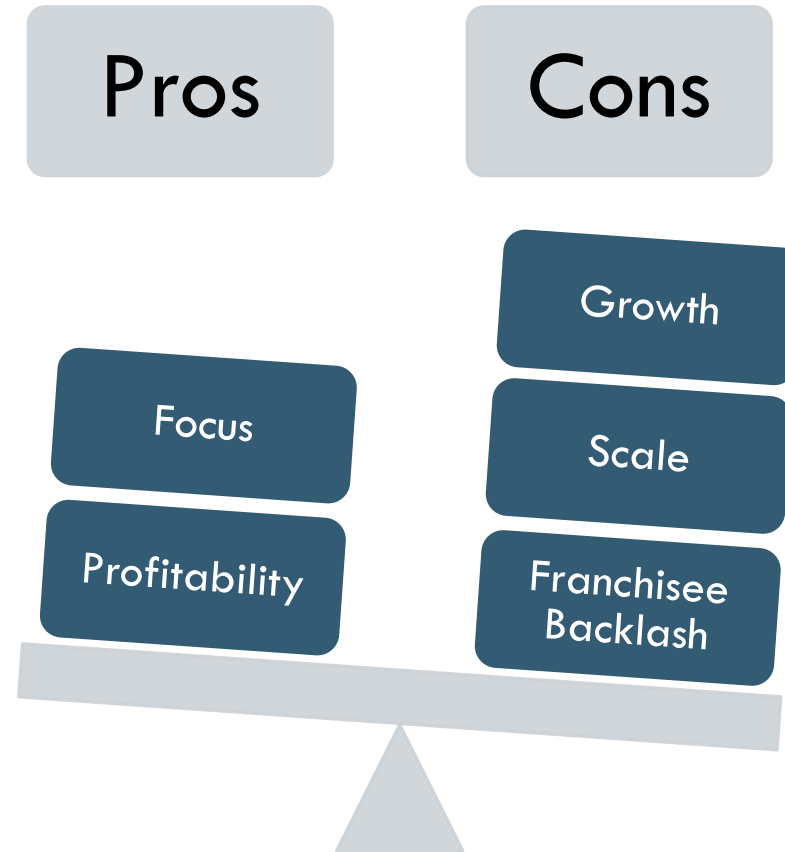
Implement

Risks & Mitigate

ALTERNATIVE 1: DIVEST

MFCW and MFCS are not profitable, M&M should divest of one entity to infuse funds into the second entity.

Example: Sell MCFW and invest funds into MFCS.



Define

Analyze

Evaluate

Recommend

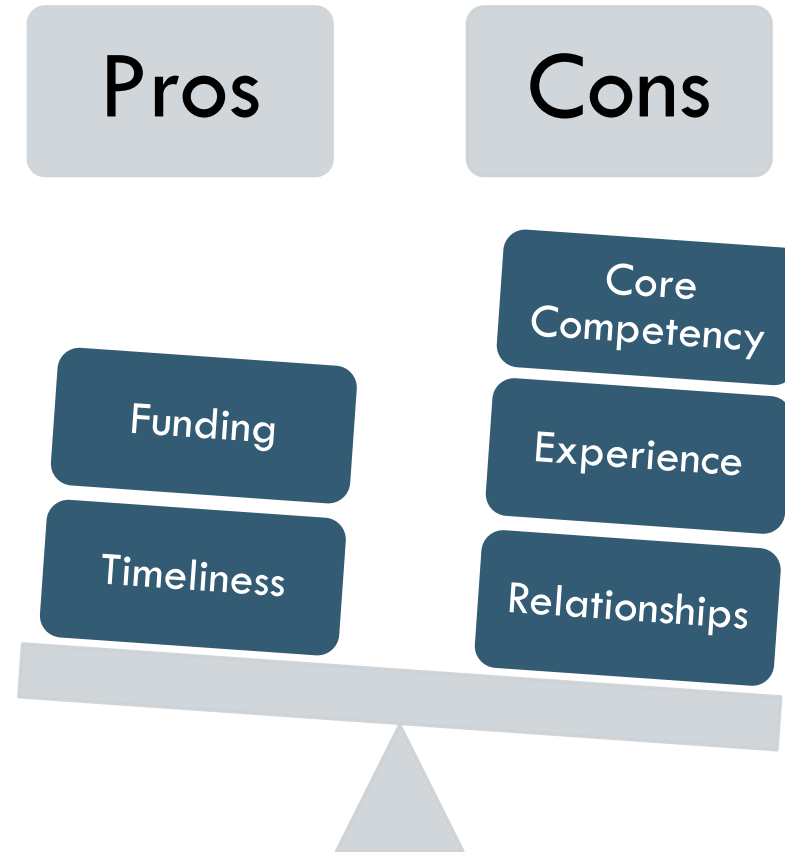
Implement

Risks & Mitigate

ALTERNATIVE 2: PREPARE FOR A PUBLIC SALE

MFCS and MFCW should each prepare for a public sale.

Example: Initial Public Offering



Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

ALTERNATIVE 3: COMBINE INTO SINGLE ENTITY

Combine MFCS and MFCW under one brand to leverage synergies and rapidly scale.

Example: Mahindra First Choice

Pros

Cons

Growth Potential

Synergies

Customer Behavior

Franchisee Backlash

Timeliness

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

DECISION CRITERIA

Profitability

High annual revenue and profitable by 2020



Positioning for growth within India and international markets

Growth



Funding

Availability of financing to invest back into the business

Define

Analyze










Evaluate

Recommend

Implement

Risks & Mitigate

DECISION MATRIX

	ALTERNATIVE 1: Divest <i>Sell MCFW</i>	ALTERNATIVE 2: Prepare for a Public Sale <i>Initial Public Offering</i>	ALTERNATIVE 3: Combine into Single Entity <i>Mahindra First Choice</i>
Profitability High annual revenue and profitable by 2020			
Funding Availability of financing back into the business			
Growth Domestic & international markets			

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

RECOMMENDATION

M&M should combine MFCW & MFCS to leverage synergies and rapidly scale

Combine

Expand

Grow
Internationally

Define

Analyze

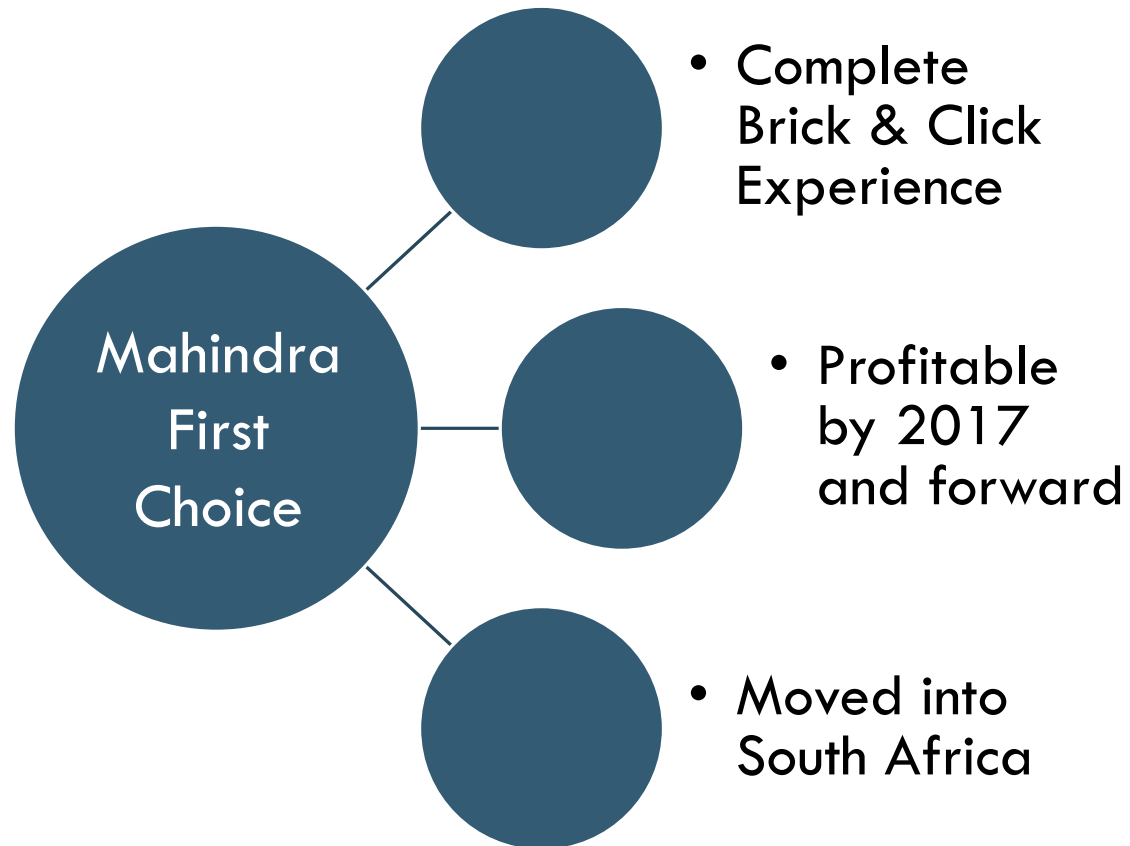
Evaluate

Recommend

Implement

Risks & Mitigate

FUTURE FORWARD



Define

Analyze

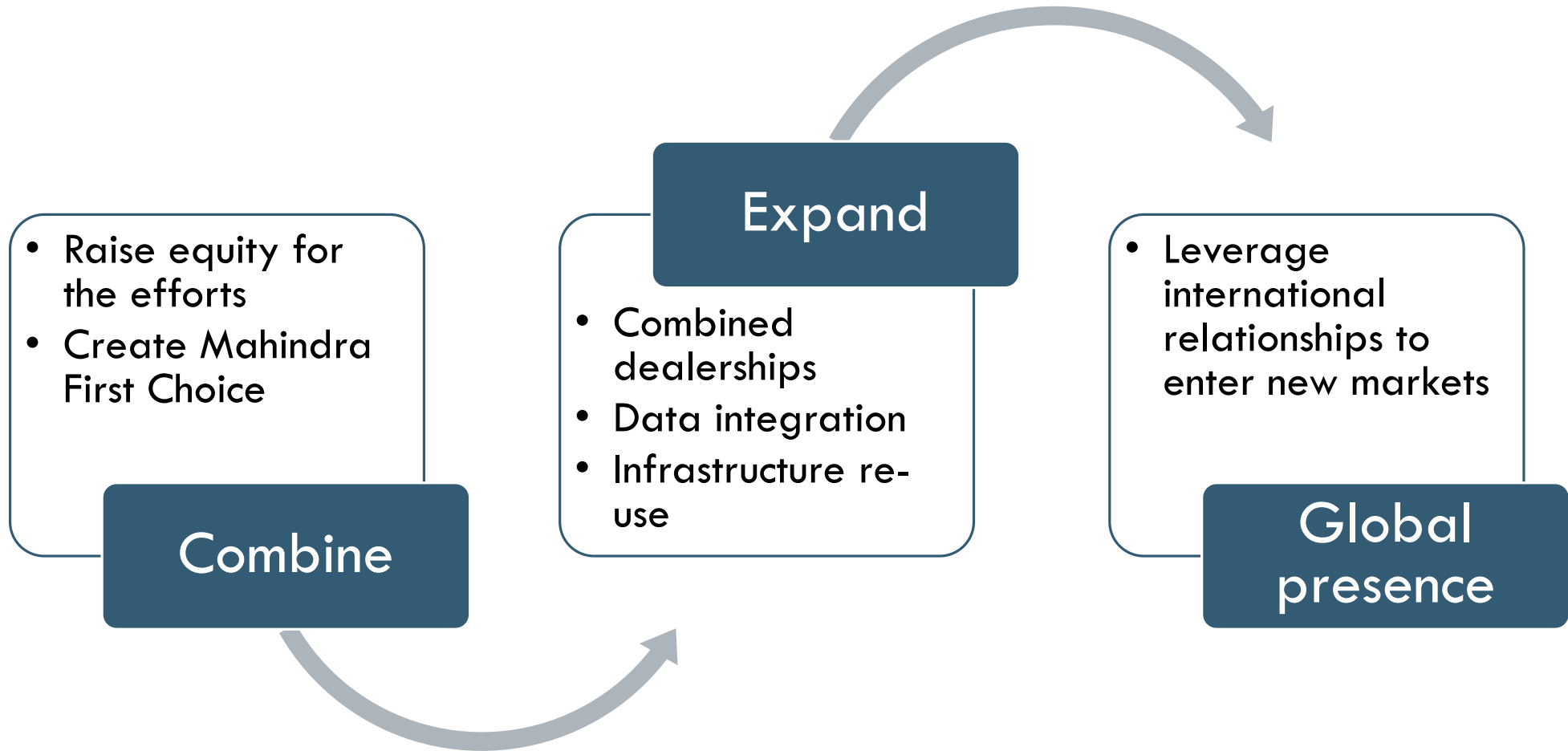
Evaluate

Recommend

Implement

Risks & Mitigate

STRATEGIC IMPLEMENTATION



Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

RAISING FUNDS

Valuation of MCFS

Propose creation of Mahindra First Choice to partners in MFCW

Sell stakes of MFCS to private equity partners of MFCW

Register new entity: Mahindra First Choice

Allows raising capital for both entities without further diluting your equity in the profitable

Define

Analyze

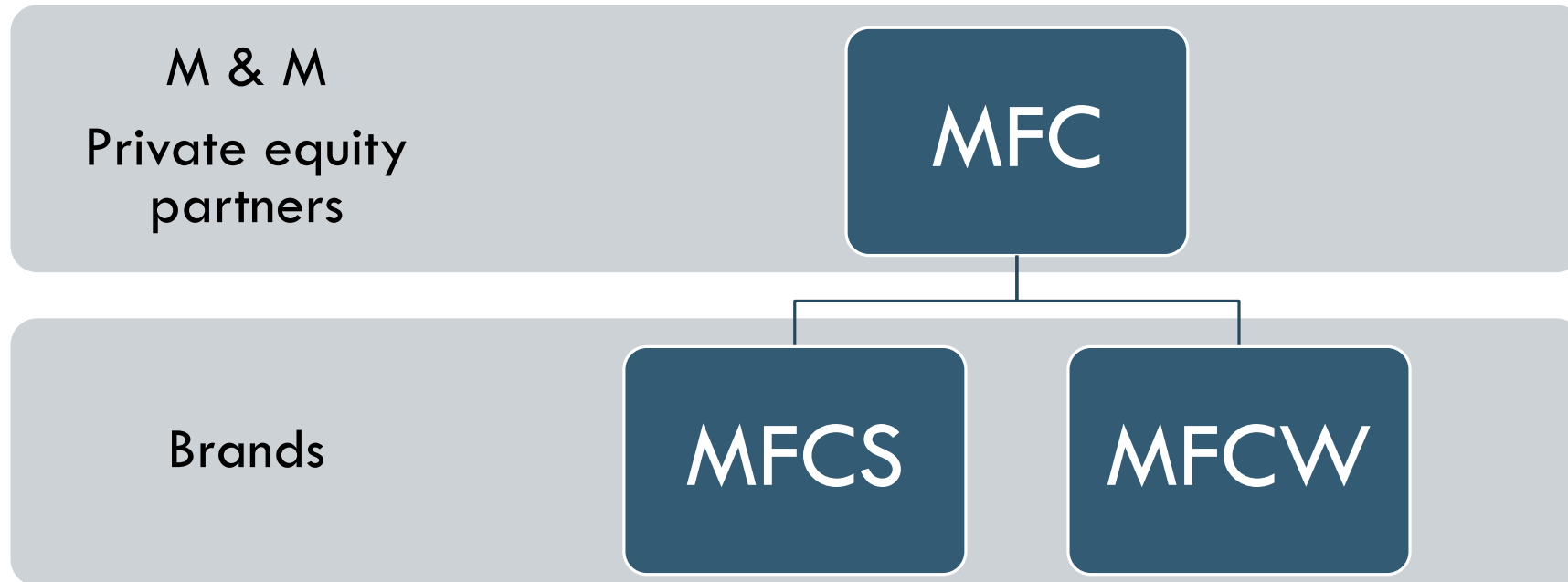
Evaluate

Recommend

Implement

Risks & Mitigate

MAHINDRA FIRST CHOICE



Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

HOW WOULD THE OWNERSHIP MODEL WORK

MFCS

- Offload corporate store and continue franchising
- Preference to MFCW

MFCW

- Continue expanding
- Promotional channel for MFCS

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

VALUE PROPOSITION FOR FRANCHISEE OWNERS

One brand owners

- Referral program incentive
- B2B contract and agreement opportunities

Both brands

- Reduced royalty fees
- Enhances relationship with the customer

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

WHAT DOES M & M NEED

Customer referral incentives

Invest in developing the ecosystem for MFCS

Cross access on both IT platforms

Define

Analyze

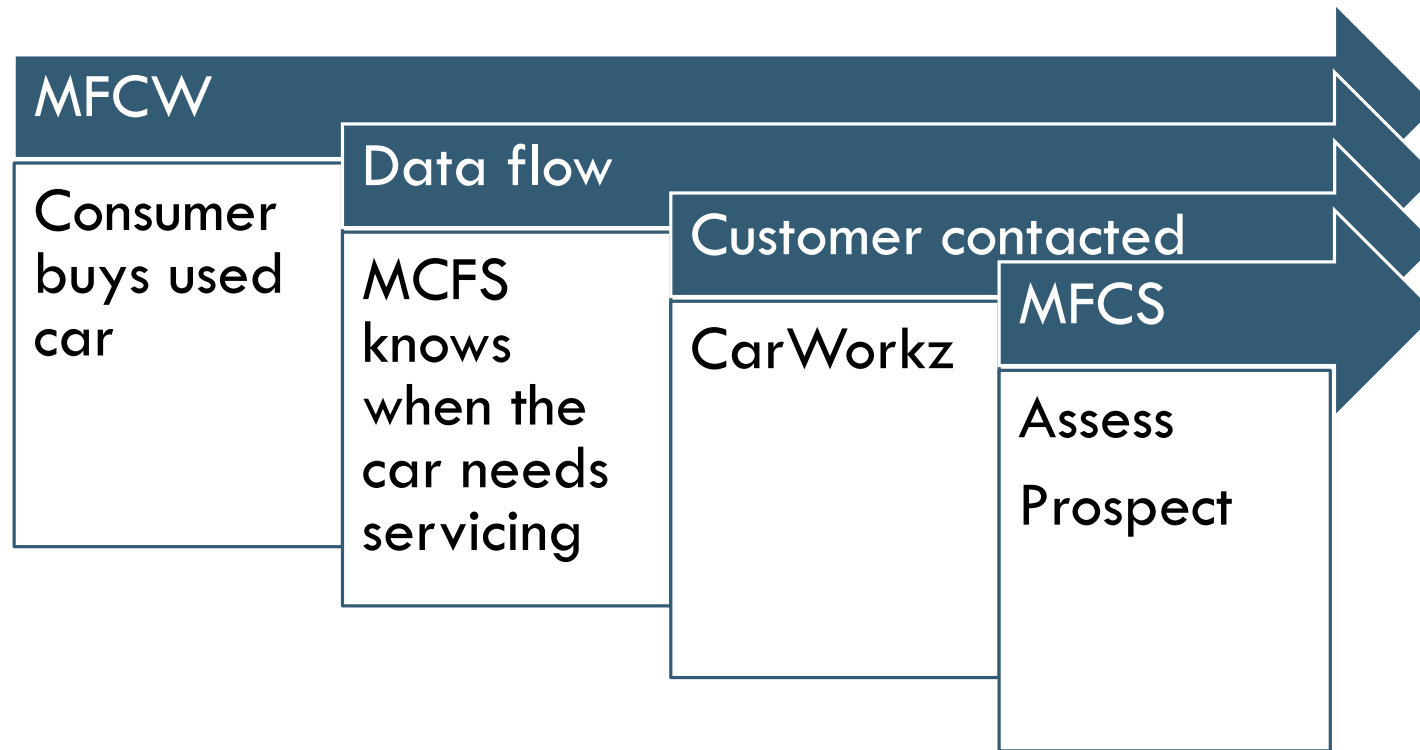
Evaluate

Recommend

Implement

Risks & Mitigate

CUSTOMER JOURNEY



Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

GROW INTERNATIONALLY

Rising middle class in South Africa

Uber and other transport services

MFC as the sell and service point

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

FINANCING

	Total	PE	Mahindra	Ownership
MFCW	2355.0	913	1,442	47%
MFCS	1,955		2,355	
New Combined	4,310	1,724	2,586	60%

- Based on the Valuation of MFCW (INR 1.5Billion), a 2.47x revenue multiplier values the combined company at INR 4.4 Billion
- We propose a sale of INR 811 million rupees to fund the expansion
- Mahindra will have a 60% stake in the new organization

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

PROJECT SCHEDULE AND COSTS (MILLION INR)

Year	FY 17/18			FY 18/19				FY 19/20				FY 19/20				Cash Flow
Quarter	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Expenditures																
Raise Capital for MFC	■	■	■													-10
Create Combined Entity		■	■	■												-10
Offload Corporate MFC Stores & Expand					■	■	■									-500
Tech Advancement and Integration			■	■	■	■	■	■	■	■						-500
Prospect SA										■	■	■				-300
Expand													■	■	■	
Total Cost	-	264.0	-		330.0	-		528.0	-				198	-		1,320
Capital Raising																
PE Funding	■	■	■													
MFCs Corporate Owned Store Sales				■	■	■	■									
Total Revenue		811			150											961
NET Cash Flow		547			-180			-528								359

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

MFCW (MILLION INR)

MFCW	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
Revenue	953	2,518	2,895	3,399	3,650
P&L	- 161	125.88	144.76	169.94	182.52
Cars Sold	220,000	550,000			
Outlets	1,200	2,000	2300	2,700	2,900
Cities	650	1,083	1,246	1,463	1,571

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

MFCS (MILLION INR)

MFCS	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
Revenue	791	5,500	7,500	8,500	10,000
P&L	- 455	275.00	375.00	425.00	500.00
Total Workshops	250	550	750	850	1,000
Company Owned	15	0	0	0	0
Clusters	20	40	30	34	40

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

COMBINED (MILLION INR)

Combined	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
Revenue	1,745	8,018	10,395	11,899	13,650
P&L	- 615	400.88	519.76	594.94	682.52
Project costs		- 264.0	- 330.0	- 528.0	- 198
Financing		547	-180	-528	
Net Cash Flow		683.88	9.76	- 461.06	484.52

At a 7% Inflation Rate, NPV is INR 640 Million

Define

Analyze

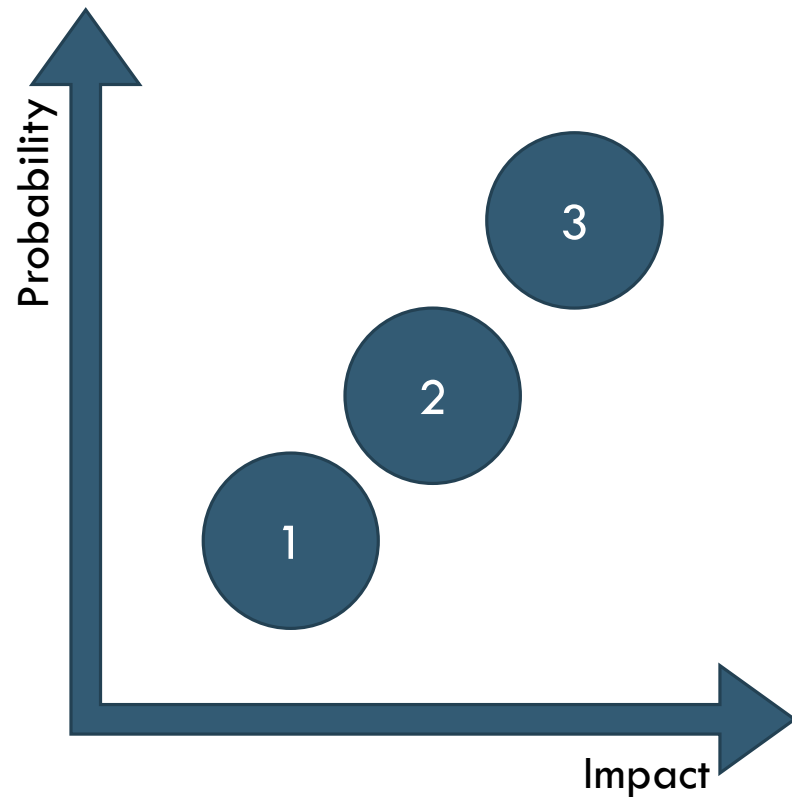
Evaluate

Recommend

Implement

Risks & Mitigate

RISKS AND MITIGATIONS



1 Franchisee Backlash

- Royalties invested back in their business

2 Time to Profit or Cash Flow

- Seek External Debt Financing

3 Customer Adoption

- Cross promoting coupon on the app and IT platform

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

KPIS AND CONTROLS

Concern	KPI	FY 20/21	FY 25/26
Profitability <i>Mahindra First Choice</i>	Net Income	INR 182.52 Million	INR 182.52 Million
Profitability <i>Franchisee</i>	Net Income	5%	10%
Growth	Revenue - Markets	INR 13.6 Billion +1 International Market	INR 20 Billion +2 International Market

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

RECOMMENDATION

M&M should combine MFCW & MFCS to leverage synergies and rapidly scale

Combine

Expand

Grow
Internationally

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate