

Mahindra First Choice Explosive Growth

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Issue

How to achieve explosive growth in the used vehicle and out of warranty service industry?

Recommendation

Partner MFCS with an American Service Center to generate the funds needed for rapid expansion in India.

Use funds and experience from Cox Automotive to expand to MFCW within India.

Key Success Factors

Growth

Economies of Scale

Technological Advancements

Customer Service

Plan

MFCS

- Sell 20% of MFCS to an American Service Center to raise \$25 million
- Use US supply chain knowledge to open parts distribution centers to generate economies of scale
- Continue with the franchise model
- Provide 3 months additional warranty to service of parts to make customer service the distinguishing competitive advantage
- Sell 1500 new franchise agreements using American backing by 2023
- Provide a temporary replacement for car that is being serviced

Plan

MFCW

- Expand to 3000-4000 outlets in 1000 cities by 2021
- Collaborate with standalone dealers to integrate unsold cars on on-line platform
- Provide certification for cars sold with vehicle evaluation reports
- Market on-line platform to young buyers through digital marketing
- Provide a temporary replacement for car that is being serviced

Situation Analysis

Current Situation

MFCS

- Moving from 2% share of the car servicing market share in 2016 to 8% in 2020
- Brand recognition and trust
- Organized multi-brand service chain
- Poor supply chain
- High Parts cost
- Weak marketing

MFCW

- Expected to grow from 3.3 million cars sold to 6.6 million by 2021
- Decreasing profits in India
- 50% of revenues in cloud
- Weak marketing

Core Competencies

- Experience in Car manufacturing and aftersales market
- Relationship building experience with franchises
- Trust from customers
- Ability to attract customers from technological presence on online platforms
- Pan India Presence

SWOT

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- Leading in auto mobile industry
- Expertise to handle situations
- Growing in used cars industry

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- **Lack of Competitive advantage over standalone dealers**
- Lack of strong supply chain
- Low level of control

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- Growing economy in India – More used car buyers
- More cars on the road
- **Using unsold cars and network of individual players**

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- Increasing internal competitors
- Big foreign competitors can enter

Need to gain supply chain knowledge and capital resources.

Expand the service centers as more cars on the road will need more servicing

Growth

How does the current situation warrant growth?

- Provide competitive advantage over individual dealers
- Provide additional benefits to customers
- Relying on the trust customer put on M&M brand

Scalability

How does the current situation warrant economies of scale?

- Ability to purchase parts in bulk from OEM if larger quantities purchased
- Improved distribution networks and logistics

Alternative Strategies

Alternative Strategy

- Issuing an IPO in near future
- Go to other international markets
- Merge MGCS and MFCW
- Going with franchise model and penetrating MFCW wider and develop competitive advantages
 - Collaborate with Individual standalone dealers
 - Sell 20% equity of MFCS
 - Increased value proposition for MFCS customer

Rejected Alternative 1

Issuing an IPO in near future:

- To raise money through IPO, MFCS and MFCW needs a stronger balance sheets
- The business model and future can be understood by Investors from automotive industries (eg Cox Automotives) but not by a layperson
- To be profitable, It will take at least 3 more years

Rejected Alternative 2

Go to other international markets

- + Growth potential huge
- + Similar clientele from culturally proximate countries like Bangladesh, Shrilanaka and Nepal
- - No proven profit in home country
- - Risk component high

Rejected Alternative 3

Merge MFCW and MFCS

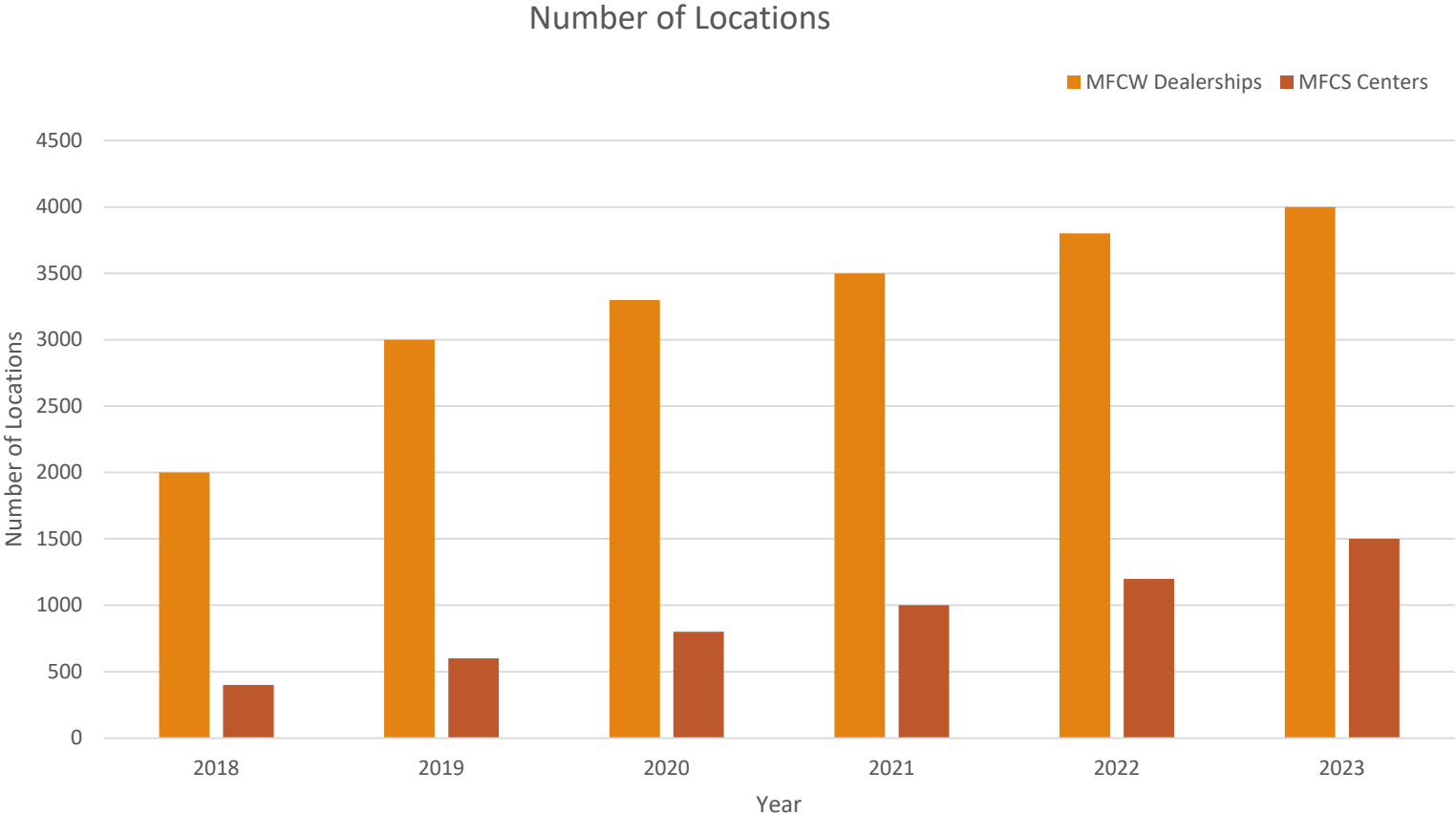
- MFCS can achieve more broader presence as it is capital light as compared to MFCW
- For additional funding in future, Separate entity provides stronger past performance records

Decision Matrix

	Additional funds	Growth Potential	Scalability	Risk factor
Issuing an IPO in near future	Green	Green	Red	Yellow
Go to other international markets	Red	Green	Green	Red
Merge MFCW and MFCS	Red	Green	Yellow	Red
Franchise model and selling stake of MFCS	Green	Green	Green	Yellow

Financials

Expansion



Fund Generation

- Based on the valuation of MFCW given in 2015/16 and the revenue generated
 - Valuation of 125 million USD or 7500 million INR
 - Sell 20% stake for 25 million USD or 1500 million INR
- Approximately 700 million INR remains from Cox Automotive to fund expansion in MFCW

MFCS

Million INR	2018	2019	2020	2021	2022	2023
Gross Turnover	1187.1	1543.23	2314.85	3472.27	5555.63	8889
Profit after Tax	-100	154.32	347.22	694.45	1111.1	1777.8
Workshops	400	600	800	1000	1200	1500

NPV of 180 million INR and a 5.4 year payback

MFCS Costs

Million INR	2018	2019	2020	2021	2022
Technology	400	100	100	100	100
Expansion	300	350	350	350	350
Distribution	9.6	12	12	12	12
Marketing	25	25	25	25	25

MFCW

Million INR	2018	2019	2020	2021	2022	2023
Gross Turnover	1585.94	2378.917	2616.80	2775.40	3013.29	3171.89
Profit after Tax	-220	-80	261.68	277.54	451.92	539.22
Cars Sold	366000	549000	603900	640500	695400	732000
Outlets	2000	3000	3300	3500	3800	4000

NPV of 79 million INR and a 5.8 year payback

MFCW Costs

Million INR	2018	2019	2020	2021	2022
Cloud increase	120	120	120	120	120
Marketing	25	25	25	25	25
Expansion	200	200	50	50	50

Implementation

Implementation MFCS

0-6mo

- Approach US firms for potential sale
- Utilize new contacts to expand technology
- Provide additional guarantee on service

1 year

- Launch advertisement campaign focussed on new technology
- Use American partner to help improve logistics
- Provide temporary cars while vehicles are serviced

1-2

- Open 10 warehouse clusters to support new franchises
- Open 400 franchises

Implementation MFCW

0-6mo

- Increase presence in cloud technology – data collection
- Create a virtual marketplace for individual dealers

1 year

- Launch advertisement campaign focussed on brand image
- Invest in infrastructure to build new workshops

1-2

- Open 2-4 outlets per city
- Reach to 1000 cities

Risks and Mitigations

Risk 1

Imitation From Competitors

- Utilize US backing to provide a selling advantage
- Focus on established infrastructure and network

Risk 2

Failure to secure deal from US partner for MFCS

- Look to other investors with car service and supply chain knowledge – Smaller international players.
- Lower the valuation

Key Takeaways



Growth: 1500 MFCS locations; 3000-4000 MFCW locations

Customer Service: labour warranty on all service performed; CSI to 90%

Economies of Scale: Distribution centers able to purchase parts at volume discounts

Technological advancement: Improving supply chain management