MAHINDRA FIRST CHOICE: MOVING FORWARD

NANYANG CONSULTING
Presented to: Mahindra First Choice Board
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AGENDA

MAHINDRA

MFC wants to address a list of questions to grow profitability in the two divisions

- How can MFC make better profits?
- Should MFC continue to own its sale and purchase multi-brand vehicles and car services?
- Should the businesses be combined?
- What other ownership modes are available?
- Should private equity ownership be used?
- How to achieve better profitability with high revenue growth?

How to expand and make most out of the car resale and car service businesses?

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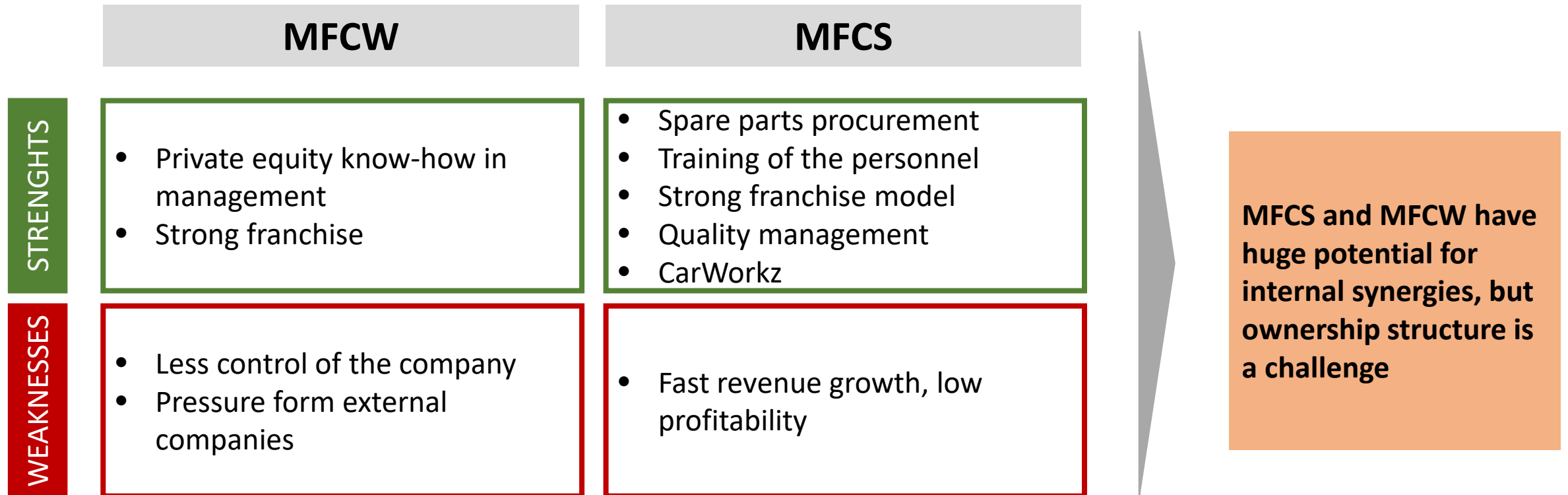# M&M should follow a comprehensive strategy when managing MFCW and MFCS

Aggressive growth within domestic market

Build synergies between different businesses

Capitalize on data to provide smart traffic services

INTERNAL AND EXTERNAL ANALYSIS

MFCW and MFCS are two complimentary businesses

	MFCW	**MFCS**
STRENGHTS	• Private equity know-how in management • Strong franchise	• Spare parts procurement • Training of the personnel • Strong franchise model • Quality management • CarWorkz
WEAKNESSES	• Less control of the company • Pressure form external companies	• Fast revenue growth, low profitability

MFCS and MFCW have huge potential for internal synergies, but ownership structure is a challenge

Environment for car resale and servicing business is very aggressive, but has high potential

| Many independent competitors | Need for fast growth to achieve profitability | Disrupting technologies and IoT | Trust is the key issue | Massive potential on the market |

With the new trends on market, the one who is fast and has the technology is able to grasp the market!

OPTIONS AND RECOMMENDATIONS

There are several options to analyse on how to address the challenges

OPTION	STRATEGIC FIT	FINANCIAL BENEFIT	IMPLEMENTATION	COMPETETIVENESS	TOTAL
Which expansion model to choose?					
Franchise	🟢	🟢	🟢	🟡	🟢
Hybrid	🟡	🟡	🔴	🟢	🟡
Fully owned	🟢	🟡	🟡	🔴	🟡
Co-operative	🟡	🟡	🔴	🔴	🟡

IMPORTANCE

There are several options to analyse on how to address the challenges

OPTION	STRATEGIC FIT	FINANCIAL BENEFIT	IMPLEMENTATION	COMPETETIVENESS	TOTAL
Which ownership structure to use?					
Company owned (majority)	🟢	🟢	🟢	🟡	🟢
PE	🔴	🟢	🔴	🟢	🟡
IPO	🔴	🟢	🟡	🔴	🟡
Other investors / partnerships	🟡	🟡	🔴	🟢	🟡

IMPORTANCE →

There are several options to analyse on how to address the challenges

OPTION	STRATEGIC FIT	FINANCIAL BENEFIT	IMPLEMENTATION	COMPETETIVENESS	TOTAL
Which company to focus on – MFCS or MFCW?					
Grow them individually	🟡	🟡	🟢	🟡	🟡
Exit one and grow another	🟡	🟡	🔴	🟢	🟡
Exit both	🔴	🟡	🟡	🔴	🟡
Build synergies	🟢	🟢	🟡	🟢	🟢

IMPORTANCE →

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IMPLEMENTATION

Implementation (1/3): Aggressive growth

WHAT?

Pursue aggressive domestic growth with asset light franchise model

WHY?

- Capitalize on market potential
- Capitalize on local knowledge and expertise

Implementation (1/3): Aggressive growth

HOW?

- Hire franchise partners
- Convert company owned stores into franchises
- Identify potential franchisee
- Train franchisee
- Support franchisee
- Set up franchisee

But what about lost touch with customer?

Implementation (1/3): Aggressive growth

HOW?

- Build a digital ecosystem for customers
- Launch a mobile tool for MFCW and MFCS clients
- Track customer satisfaction & provide recommendation

MFCS	MFCW
• Capture service history • Offer IoT device to capture real time performance and location • Book substitute car • Choose services including car modification	• Stock availability with description • Match cars with purchase criteria • Info on updated stock

Implementation (2/3): Build synergies

WHAT?	Build synergies between MFCS and MFCW at both back and front end

WHY?	• To achieve scale • To provide enhanced customer experience • To lower supply chain costs

MFCW ⟶ **MFCS**

Implementation (2/3): Build synergies

HOW?

- MFCW provides 3-5yr maintenance and service contracts
- Integrate back end supply chain for common products to achieve scale (spare parts)
- Capitalize on data captured for service history and create unique selling point for old cars at MFCW
- Provide common account portal for all Mahindra customers
- Install IoT devices on MFCW and MFCS cars
- Track real time data

MFC creates unique value proposition while cutting costs and getting valuable data

Implementation (3/3): Smart traffic

| WHAT? | Valuable insights with government on smart traffic planning |

| WHY? | • Value addition to society
• Smart city planning initiatives
• Brand recognition
• Enhanced government relations |

Implementation (3/3): Smart traffic

HOW?

- Develop a center of excellence in collaboration with Mahindra Satyem
- Analyse data gathered via IoT
  - Number of cars
  - Congestion areas
  - Speed
- Use data for smart city planning together with government (underpasses, traffic lights, avoid accidents)

Provide expertise on other markets

MFC faces several risks while implementing the strategy

RISK	CONTINGENCY PLAN
• Customer prefers competitors	• Provide enhanced hi tech and hi touch service with real time data tracking
• Convincing other owners for back end integration	• Communicate enhanced value proposition
• Other players also participate in smart city planning	• Leverage parent company's brand value and resources

MFC faces several risks while implementing the strategy

IMPACT

PROBABILITY

1. Customers prefers competitors

2. Approval from owners

3. Competition on smart city planning
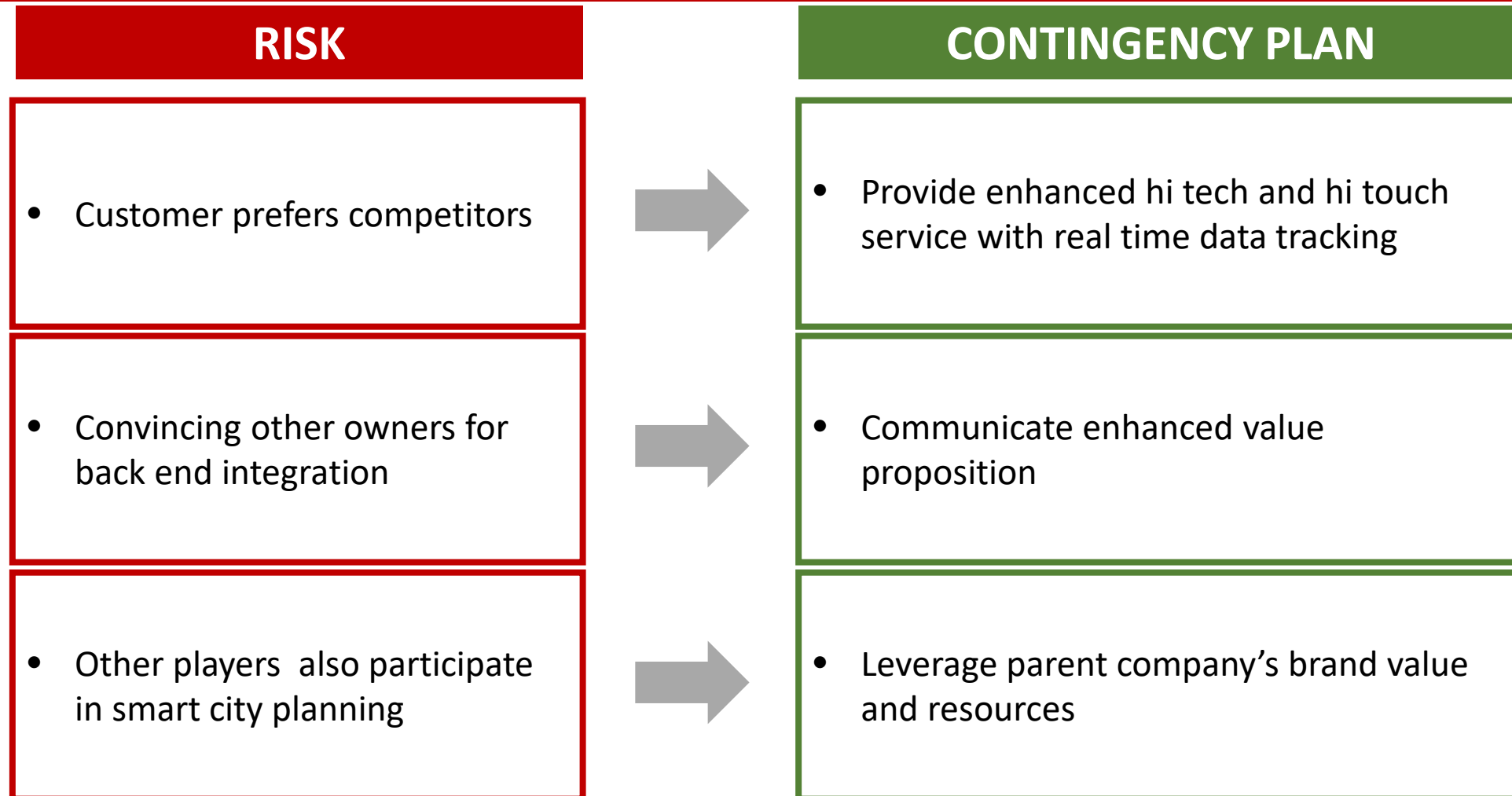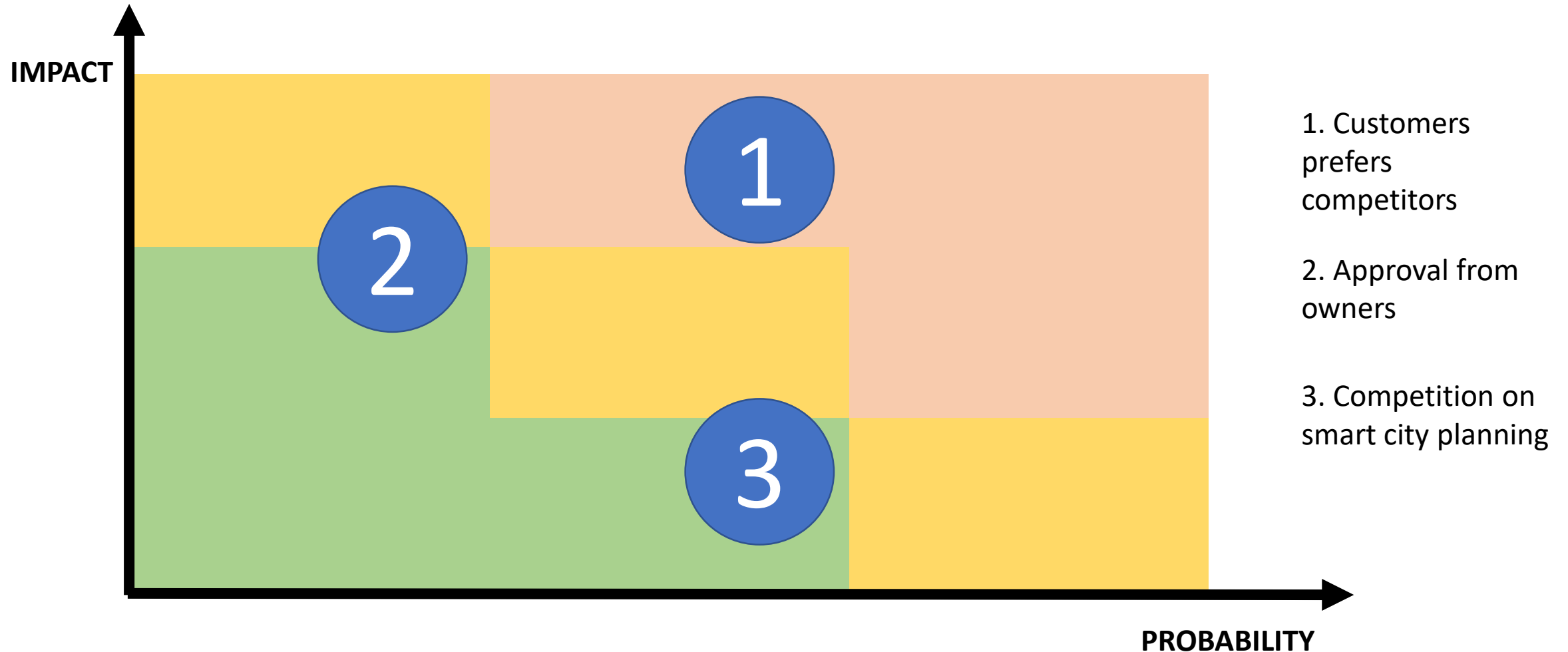
MFC can use several KPIs to assess the success of the strategy

Expansion plan	Number of franchises Increase in sales
Backend Integration	Reduction in costs Number of spillover customers
Smart traffic system	Insights generated Partnerships with state governments

FINANCIAL ANALYSIS

Financial Projections for MFCS

Key Assumptions made for calculation of financial projections:

1) 10% CAGR for GP from 2017 to 2021
2) 25% CAGR in costs that deduct from gross turnover
3) Salaries (human resources) to increase 10% pa

Key goals to reach:

1) 1000 outlets by 2021
2) INR 10 billion revenue by 2021

Financial Projections for MFCS

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
GP (million INR)	148.3	17.4	128.9	294.2	502.5	606	791	870.1	957.1	1052.8	1158.1	1273.9
Profit/Loss (after tax)	-105.8	-150.5	-240.8	-426.5	-540.5	-671.5	-454.5	-692.9	-1004.4	-1408.7	-1930.9	-2602.6
Additional Revenue												
GP								2000	3000	4500	6750	10125
Growth									150.00%	150.00%	150.00%	150.00%
Total GP								1307.1	1995.6	3091.3	4819.1	7522.4
Cost												
Sales and Marketing								500	500	500	500	500
IOT servers								1000	1000	500	500	500
Human Resources								1000	1100	1210	1331	1464.1
Installation of IUTs								500	100	100	100	100
Centre of Excellence								500	500	500	500	500
Total Cost								3500	3200	2810	2931	3064.1
Net Profit								-2192.9	-1204.4	281.3	1888.1	4458.3

NPV =	**$1,280.26**	**IRR =**	**23%**
WACC =	**10%**	**1USD =**	**64 INR**

Projected Increase in the number of outlets

Key Assumptions:

1) No. of stores to grow at a CAGR of 150% per annum

Number of Outlets
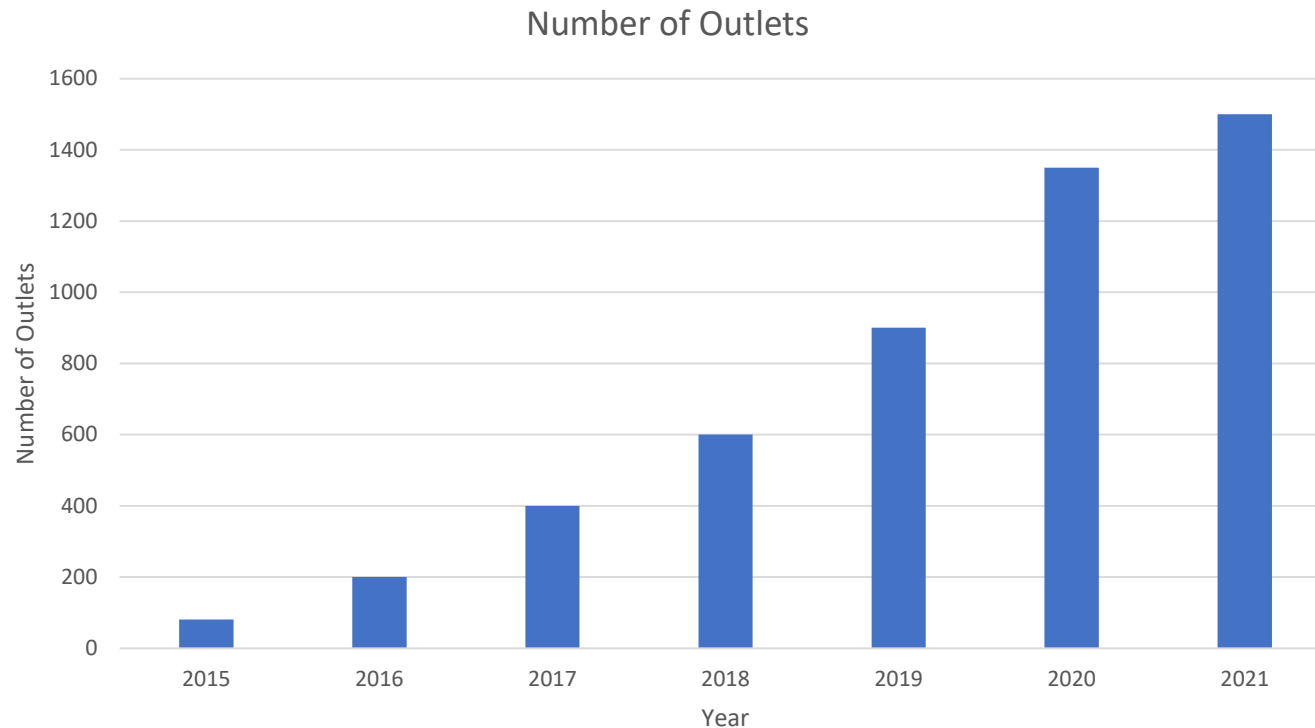
With an aggressive expansion plan, **total number of stores will reach 1,500 by 2021.**

IMPLEMENTATION TIMELINE

Timeline

	2017		2018		2019		2020		2021	
	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2
Pursue domestic growth										
Shift to all franchise model	■	■	■	■	■	■	■	■	■	■
Identify new franchisees	■	■	■	■	■	■	■	■	■	■
Trian, support and establish new franchisees			■	■	■	■	■	■	■	■
Build Digital Ecosystem										
Develop and launch integrated mobile app & website		■								
Track customer satisfaction			■	■	■	■	■	■	■	■
Build service history data	■	■	■	■	■	■	■	■	■	■
Offer and install IOT devices										
Build synergies										
Back end supply chain integration	■	■	■	■						
Cross market product and services	■	■	■	■	■	■	■	■	■	■
Launch common digital platform			■	■						
Smart city planning services										
Develop COE	■	■								
Analyse data			■	■	■	■	■	■	■	■
Provide insights					■	■	■	■	■	■

With the new strategy MFC will be able to move fast and open new opportunities

| FAST GROWTH | NEW VALUE FOR CUSTOMERS | EFFECTIVE COST REDUCTION | FUTURE PARTNERSHIPS & GOVERNMENT TIES |

Mahindra First choice will optimise its businesses while creating a solid ground for future development

THANK YOU!

Appendix

Financial Projections for MFCW

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Gross turnover	1217.9	1184.5	744.9	556.7	440.3	624.4	953.3	3413.159	6036.156	8256.032	11292.3	15445.19
Profit/Loss (after tax)	-61.3	-114.9	-95.2	4.3	19.2	-105.7	-160.5	-151.37	-46.507	-231.158	-104.273	35.29918
Number of outlets	134	161	223	370	520	720	1200	1641	2245	3071	4200	5744

Key Assumptions:

1) 10% per annum CAGR for gross turnover
2) 36% CAGR for number of outlets

Result:

1) 5744 stores for MFCW by 2021
2) Total GP by 2021 = INR 1.548 billion

Total GP and number of stores for MFCW