

# Turbo-Charging The Mahindra Group



TRANSFORMING A TRACTOR MAJOR INTO AN AUTOMOBILE AND FINANCIAL SERVICES GROUP: Anand Mahindra beside the Scorpio

Since he joined the group 14 years ago, Anand Mahindra has recast the tractor and jeep maker and taken it into new directions. Now, the restructuring effort is paying off handsomely. What is the Mahindra formula? Darrel Philip finds out.

**A**nand Mahindra, vice-chairman and MD, Mahindra & Mahindra, could not have asked for a more action-packed year than the one he and his \$2.6 billion (Rs 113 billion) Mahindra group lived through last fiscal. By his own admission, it was one of 'steroidal growth'. Global initiatives in auto and farm equipment, a ready war-chest and a market that's on turbo-charge — what more could one ask for? The group's core businesses — auto and tractors — are now in harvest mode and Mahindra's next big push is in acquiring a global footprint across his businesses. In his quest for global size, the group's flagship, Mahindra & Mahindra Ltd, has already become the fourth largest tractor maker in the world. And it is gearing up to produce a sedan for the domestic market: the Logan in collaboration with Renault.

The reason for the steroidal rush is reflected in the statistics. Group profits after tax increased by 61 per cent in the last financial year ending March 2005, crossing \$165 million (Rs 7.2 billion); which was twice as fast as the 32 per cent revenue growth. The increase in PAT of flagship Mahindra & Mahindra is even more impressive; it has more than quintupled in three years — from \$21.5 million in 2002 to \$114 million for Financial Year 2005. The performance has been so stunning, that it has brought his group within striking distance of the three-year target that Anand Mahindra had laid down barely six months ago: turnover of \$3 billion in three years. Now Mahindra has the task of setting a new target for his group comprising M & M, 26 subsidiaries, four joint ventures and 11 associates as it cruises past the \$3 billion mark.

Mahindra meets his plant managers late in the evenings for brainstorming sessions and this continues till midnight. Ask him why this unearthly hour and he says: "So that they will understand the gravity of such thinking in bad times." At these meetings, Team Mahindra debates over measures that can be adopted to manage costs better, and manufacture cutting-edge products that can beat the cyclical nature of their business.

If anyone should know what to do in a recession, it should be Anand Mahindra for he's seen a couple of them in the decade and a half that he has been at the helm of the family company. When he took over

the reins of the business in 1991, the group was essentially in the manufacture of jeeps and tractors and the automotive industry was in the midst of a recession. That was baptism by fire, he recalls. The turn of the century was again testing times as the group's core businesses experienced a downturn. Tough times stretched on till 2002. It was a time when net profits of M & M fell by more than half; from \$54 million in 2000 to \$26 million in 2001. It plummeted further to \$23 million the following year. Then business revived and profits moved up to \$32 million in 2003 and it has since more than doubled, crossing \$77 million in 2004.

Explaining the reason behind M & M's negative performance during those years, Bharat Doshi, executive director, finance, says: "We suffered because our products are intrinsically linked to the health of the rural economy, which was slowing down. The other reason which affected M & M's results were the investments we made in auto and farm equipment."

The company employed turnaround measures to combat a slowdown and to prevent a slide into a morass. According to an analyst Kalpesh Parekh of ASK Raymond, the Indian associate of Raymond James, M & M effectively managed costs and moved up the value chain by finetuning its products and marketing strategy to cater to consumer demand. For instance, material cost was reduced by value-engineering and personnel costs were pared by over 30 per cent. The company reduced the number of suppliers, gave higher volumes to the retained ones and began commonalising auto and tractor components across its range.

M & M's big attempt to transform itself from a jeep and tractor maker to a carmaker came in 2002 when it produced the Scorpio, a luxury SUV which was designed in-house. Its earlier offering, the Bolero, was positioned as a low-cost utility vehicle predominantly marketed in rural India. However, despite the success of these vehicles, Mahindra admits that fighting the perception in the consumer's mind about M & M's rural image is a different story.

**M**& M has used the slowdown at the beginning of the millennium as an opportunity to offer a better value proposition to customers and has expanded revenue streams by tapping new segments



## ANAND MAHINDRA'S GLOBAL ASPIRATIONS

Hero No.1 but interestingly, the stellar performance of all the other products in the line-up has been sort of overshadowed by the Scorpio. In fact, by the end of the year we were in a stock-out situation and my disappointment was that we had underestimated the strength of the market and so did not have enough products to meet the demand. Tractors certainly did better than we had budgeted; but in general, the entire last year was a weak one and the performance of the farm equipment sector was related more to cost cutting than to volume growth. We did a good job of reining in and re-engineering costs and looking at value engineering, etc.

### What will your medium-term focus be for the farm equipment and auto businesses?

The real aspirational thrust would be globalisation in both these businesses. We are going to look at new product launches. We will probably be the first Indian company to be launching a major new product in an overseas market before doing so in India. And that's our Horizon III tractor which has been designed by IDEA of Italy.

**MAHINDRA & MAHINDRA has turned in an excellent performance in fiscal 2004-05. To what extent would you attribute this to the recovery in the farm equipment sector?**

The recovery is largely due to volumes, particularly in the automotive sector. Of course, Scorpio was

### What about automotives...?

Even that will see globalisation. We've done a lot of planning. Our exports grew nicely last year, though from a very low base. We will be launching in South Africa next month and in Russia, everything is proceeding according to plan. We are working on Indonesia. Right now our focus would be South Africa, Russia and Europe where we continue to, surprisingly enough, do well. Our alliance partners have already launched the product and we expect to see ramp-ups.

### M&M has 26 subsidiaries. In the coming months, would the group see greater restructuring?

The group is focused on trying to make our subsidiary structure less unwieldy. One of the problems we have is that when you are in the IT business, for example, you have to list subsidiaries and subsidiaries of subsidiaries. So, Mahindra British Telecom has just spawned two subsidiaries. We continue the process of getting out of some businesses, but by and large that process is complete. All the completely unrelated businesses have been more or less disposed of.

and markets. In the farm segment, though the company is the market leader, the domestic market has been steadily shrinking. Sensing the trend before it happened, in 1994 M & M set up a subsidiary in the US, Mahindra USA, to tap into the huge market for agri-vehicles on the American continent.

M & M has now emerged as the fourth-largest tractor brand in the US, with a 5 per cent share of the 15-90 horse power segment, which is also known as the hobby or consumer segment. The company plans to double its market share by the end of 2008. In 2004, it sold close to 8,500 tractors in the US market, which now accounts for 12-13 per cent of M & M's tractor sales and one-fourth of its farm-equipment division revenue. "The US is the world's second-largest tractor market and our growth there is crucial to our plan of emerging as the largest manufacturer of tractors in the next three years," says

Derek Johannes, president, Mahindra USA.

M & M will be looking at strategic alliances with some overseas tractor manufacturers for broadening its product portfolio. An ambitious bid to buy out the \$900 million Finnish tractor major Valtra came unstuck, but M & M already has got into arrangements with Tong Yang Moolsan of South Korea and Mitsubishi of Japan. It recently tied up with Chinese tractor major, Jiangling Corporation to get a foothold in the southeast Asian markets.

Simultaneously, M & M has also undertaken an organisational transformation for this product line. The business process re-engineering of the manufacturing facilities — code-named Vishwajeet — will consolidate and enhance its basic competitive strength. By the end of 2005, the company aims to be the global leader in tractors

### On the Web

The Mahindra Group: [www.mahindra.com](http://www.mahindra.com)

and in a few years, Mahindra aims that global sales will constitute a fifth of total volumes, up from 5 per cent currently.

That does not mean that Mahindra is shifting attention from the domestic market. He has already launched next generation tractor variants such as the Arjun and Bhumi Putra, which are expected to shore up sales. Mahindra believes that his company will soon outperform the industry and hit an annual growth rate of 2.5 per cent against the norm of 1 per cent.

There are other things that M & M has been doing right. Unlike the general tendency of cutting costs in a downturn, M & M chose to become a 'cost-leader.' Says Doshi: "Cost-cutting is not about switching off or reducing light bulbs and tubes. That makes no sense. We chose to build a culture of cost leadership by doing everything better at a lower cost." He cites initiatives like rightsizing and achieving

economies of scale by having single-point suppliers for all brands worked wonders for the company's bottomline.

There have been other strategic financial initiatives taken by Mahindra and his team which have got reflected in the balance sheet. Working capital requirements have come down with better supply chain management and a reduction of inventory levels. Dealer credit got transferred to banks through a tripartite agreement with bankers. Long-term contracts with steel suppliers have cushioned the company against input cost fluctuations. And the crucial timing of M & M's \$100 million foreign currency convertible bond, just 20 days before the Indian general elections last May, enabled it to be sold at a finer yield-to-maturity rate.

To be sure, much of the strategy that Mahindra and his team had initiated — and which is now paying dividends — had its source in the business-process re-engineering exercise that began in 1994. The company, which was working on functional lines, was given a strategic business unit structure. There was also the realisation that the group must get out of the multiple businesses that existed and keep focus on a few.

Consequently, the group has divested itself from instrumentation, oil drilling and sintering but the major divestments have been made from Otis and the JV with Ford Motors entered into in 1996 when M & M wanted to make Ford cars. The



**TRACTOR POWER:** Mahindra & Mahindra is the world's fourth largest tractor manufacturer

monies that these divestments fetched — the sale of the Otis stake brought in \$22 million — came in handy to produce the Scorpio.

The performance mantra at the flagship M & M has had its ripple effects across the group companies. Mahindra & Mahindra Financial Services Ltd has grown from 30 branches to 250 in the past 5 years and it has become the largest rural non-banking finance company with disbursements exceeding \$510 million. The other major strategic business unit in the Mahindra group is the auto components business. Currently, auto components,

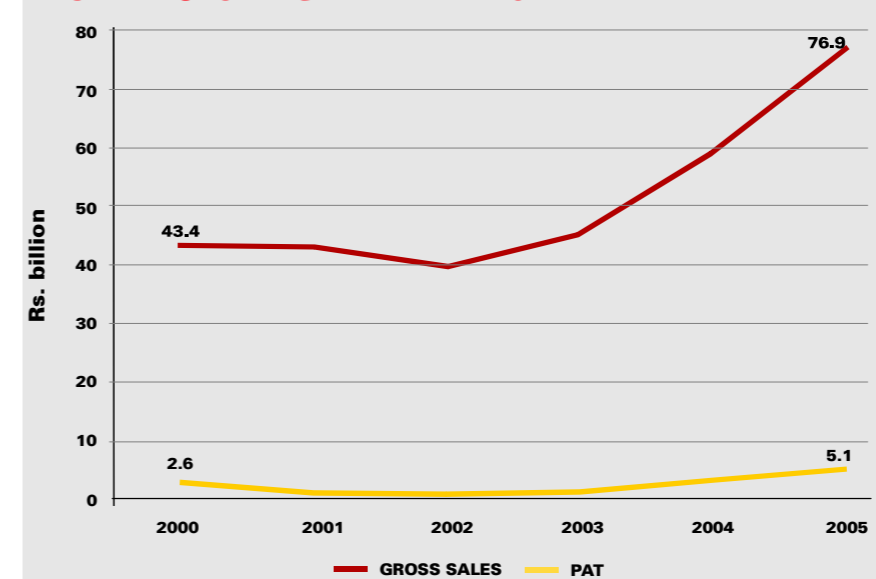
made by several group companies, account for a turnover of \$200 million in the group. But with the global interest in sourcing auto components from India, Hemant Luthra, executive vice-president, corporate strategy, sees it doubling in three years. "There are several small companies in the auto component sector. We will set up a confederation of component companies, in which we'll have a majority stake," he says.

There are other group companies which could do better. Mahindra British Telecom, the network solutions provider in which M & M has a 57 per cent stake, was all set to go for an IPO in 2000 when the dotcom bubble burst. And there is Mahindra Holidays & Resorts India, essentially a timeshare venture. Despite rough weather, the timeshare company has been witnessing a 25 per cent growth in its member base.

Mahindra has laid down the matrix for his future organisation: If a sector is the market leader, it will have to widen the gap. By the end of this year each company or SBU must be in the top three in its field. For manufacturing companies, 20 per cent of the annual revenues each year must come from products that did not exist four years ago. For service companies, 20 per cent of the offerings must be new. Finally, 20 per cent of the annual revenues must come from exports.

Says Anand Mahindra: "What hits the sweet spot in the consumer's mind is a great product. And a great product need not be a Rolls-Royce."

## ON AN UPSWING: MAHINDRA & MAHINDRA LTD



Source: M&M