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How Sumitomo's non-core SML Isuzu turned a strategic steal for Mahindra

Sumitomo's portfolio pruning turns into a strategic acceleration for Mahindra's CV ambitions.

By V. KESHAVDEV, April 28, 2025

Anish Shah, MD & CEO, Mahindra Group | Credits: Narendra Bisht

Mahindra & Mahindra's (M&M) acquisition of a majority stake in SML Isuzu tells a bigger story of strategic exits, valuation realities, and the passive-aggressive ambition of one of India's oldest conglomerates in the commercial vehicle market. M&M is acquiring a combined 58.96% stake — comprising 43.96% held by Sumitomo Corporation and 15% by Isuzu Motors — for ₹555 crore. In addition, Mahindra has earmarked another ₹585 crore for a mandatory open offer to acquire an additional 26% stake from public shareholders at ₹1,554.6 per share.

The numbers speak volumes.

SML Isuzu's market capitalisation stood at around ₹2,566 crore, with a share price of ₹1,773 before the announcement. However, Mahindra's negotiated price with promoters works out to an implied ₹650 per share — a steep discount. The open offer price of ₹1,554.6, although closer to market, was still below the peak of ₹1,900 hit on April 21. Unsurprisingly, SML Isuzu's stock fell nearly 10% the day after the deal was announced.

On how Mahindra managed to seal the deal for a steal, Anish Shah, Managing Director and CEO of Mahindra Group, said at an analyst meet, "The old saying is that the value is in the eye of the beholder, but for us, we wanted to ensure that it's fair overall and it's a valuation that makes sense for us to invest in as well. We feel that this is an appealing but a fair deal overall."

For existing shareholders, the open offer itself may not seem attractive given that the stock had traded remains higher, and investors may prefer to ride the potential upside given the confidence expressed by the new management with Shah stating: "It is up to the shareholders to decide. We obviously have a lot of confidence in this business going forward."

Interestingly, Sumitomo and Mahindra are not strangers to each other. The Japanese conglomerate has had a long-running business relationship with the Mahindras, including a joint venture with Mahindra Lifespace Developers since 2015 to develop industrial parks, and another partnership with Tech Mahindra in the form of SCTM Engineering, a JV focused on automotive engineering solutions.

Indeed, for Mahindra, the acquisition is a strategic coup. It is already the number one SUV player in India with a 23% revenue market share today, up from 12% five years ago. In tractors, it commands a 43% market share, up from 38%. In the sub-3.5 tonne LCV category, Mahindra dominates with 51.9% market share, up from 40%. Even in electric three-wheelers, Mahindra leads with a 43% market share.

However, in the heavier commercial vehicle (CV) space — the trucks and buses above 3.5 tonnes — Mahindra's presence was modest. In FY25, Mahindra ranked fifth with a 3.2% market share. "It was under the scanner of capital allocation five years ago," said Anish Shah, Managing Director and CEO of Mahindra Group. "We decided that we have a lot of strength here and can turn it around," Shah said at an analyst meet.

Rajesh Jejurikar, ED and CEO, auto and farm sector of M&M, elaborated that Mahindra's share had dipped during COVID-19 and the BS-VI transition, but the group has now set an aspiration of achieving a 10-12% market share in the next five years.

This imbalance between a strategic buyer and a disengaged seller shaped the final outcome. "In Michael Porter's framework, because the number of potential buyers was limited, it gives a greater bargaining power to the buyer," says Devina Mehra, Founder and Chairperson of First Global. "In this case, because the purchase was more significant for the buyer rather than the seller as it was part of their core business, presumably the former would put in more time and effort to get the best deal," she adds.

SML Isuzu, for its part, brings in critical strengths that plug Mahindra's portfolio gaps. SML has a stronghold in the LCV bus segment with a 16% market share, and when combined with Mahindra's, the share in LCV buses rises to 21%. Overall, the combined Mahindra–SML Isuzu entity would command a 6% share of the over-3.5-tonne CV market, with combined revenues exceeding ₹5,000 crore — making it the fourth-largest player in India's bus and truck market.

Beyond scale, the deal brings synergies in platforms, costs, network, and suppliers. "SML has strong bus-building capabilities. There's a clear fit on cost synergy and platform sharing," Jejurikar pointed out. Mahindra's deep dealer network and distribution muscle, combined with SML's specialised bus strengths, create a powerful combination in a market segment that is ripe for steady growth driven by infrastructure spending, replacement demand, and urbanization.

For Sumitomo, this wasn't a transaction driven by market pricing, but a part of a broader global reset. Sumitomo, which posted consolidated revenue of ¥5,319.7 billion ($33.88 billion) in 9M FY24, and profits of ¥485,616 million ($3.09 billion), has clearly stated its intention to exit non-core businesses under its Medium-Term Management Plan 2026. The focus is clear: exit non-core, sub-scale businesses and redeploy capital into sectors offering higher growth such as energy transition, digital innovation, real estate, and healthcare. SML Isuzu — a company with a net worth of just ₹286 crore— was an insignificant decimal in its balance sheet.

Rather than mandate a merchant banker, run an auction, and prolong the uncertainty, Sumitomo chose a fast, clean exit. "Given what the other businesses of the seller are, it may also make sense for them not to spend too much time and effort on getting, let us say, 10 or 20% extra," Mehra explains. "For them, getting a clean, cash deal done in a short time may be what they desired." Further, the underlying trust likely made Sumitomo more comfortable handing over a strategically non-core asset to a familiar, credible partner rather than hunting for the highest bidder in an open market.

Sumitomo's 'fire-sale' of SML Isuzu isn't a reflection on the company's financials, which had shown their best-ever profit in FY24 at over ₹100 crore, but a strategic priority to declutter its global portfolio. In contrast, Mahindra made an opportunistic, deeply strategic acquisition that not only plugs a key gap but positions it well to climb up the CV market ranks.