

# **Mahindra & Mahindra Financial Services Limited**

**Quarter Result Update  
DECEMBER - 2012**

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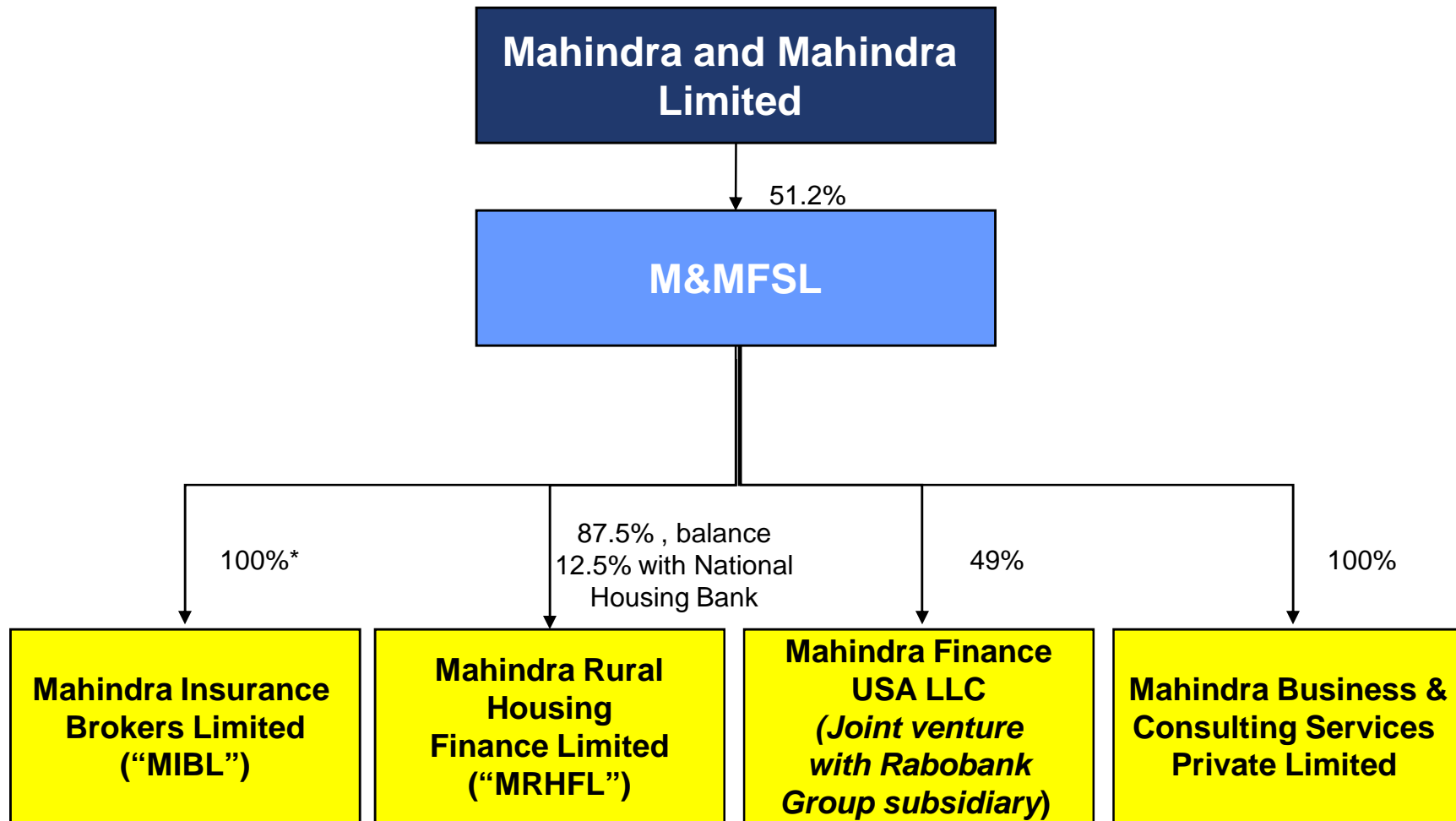
# Company overview

# Background

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- Mahindra & Mahindra Financial Services Limited (M&MFSL) is a subsidiary of Mahindra and Mahindra Limited (Mcap: Rs 553 billion)\*, one of India's leading tractor and utility vehicle manufacturers
- M&MFSL (Mcap: Rs 129 billion)\* is one of India's leading non-banking finance companies focused in the rural and semi-urban sector
- Primarily in the business of financing purchase of new and pre-owned auto and utility vehicles, tractors, cars, commercial vehicles and construction equipments
- M&MFSL's vision is to be a leading provider of financial services in the rural and semi-urban areas of India
- Has 639 offices covering 24 states and 4 union territories in India, with over 2.4 million vehicle finance customer contracts since inception, as of December 31, 2012
- CRISIL has assigned AA+/Stable, FITCH has assigned AA+(ind)/ Stable and Brickwork has assigned AA+/ Positive rating to the Company's long term and subordinated debt

# M&MFSL Group structure

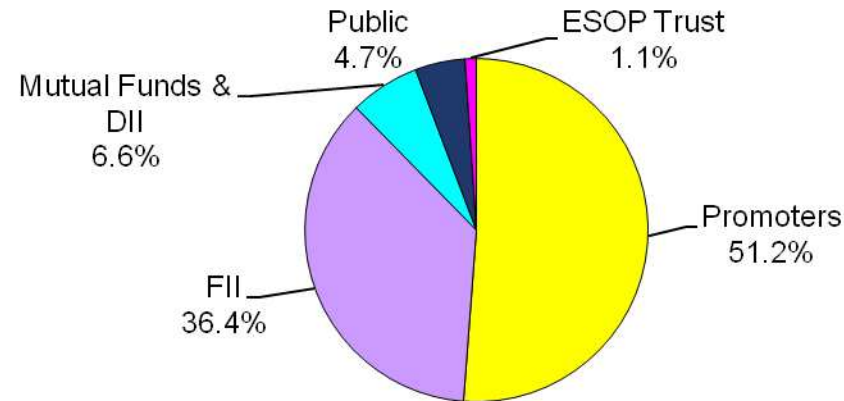


\* The company on Sep 20, 2012 has approved the proposal for sale of 12.37% stake in "MIBL" to Inclusion resources pvt. Ltd., a subsidiary of Leapfrog Financial Inclusion Fund, incorporated in Singapore, for an amount of Rs.643.3 millions, subject to receipt of regulatory approvals.

# Shareholding pattern

(as on December 31, 2012)

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- The Company came out with its IPO in February 2006
- The Company issued 6.13 million shares to Qualified Institutional Buyers (QIBs) under QIP in February 2011, all at a cash price of Rs. 695/Share
- The Company issued 9.75 million shares to Qualified Institutional Buyers (QIBs) under QIP in November 2012, all at a cash price of Rs. 889/Share
- Shareholders include Morgan Stanley Asia (Singapore) Pte., Eastspring Investments, JP Morgan Funds, Fidelity Investment Trust, Wasatch Emerging Markets and Cartica Capital Ltd.

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# Industry overview

# Vehicle finance industry continues to shine with rural sales

Growth in New Vehicle Finance Disbursements						
(Rs. billion)	FY09E	FY10E	FY11E	FY12P	FY16P	CAGR FY11-FY16P
Cars	260	349	502	523	1154	18%
Utility Vehicles	80	108	158	183	335	16%
Commercial Vehicles	194	272	402	496	996	20%
Two-Wheelers	72	84	99	117	180	13%
<b>Total</b>	<b>606</b>	<b>813</b>	<b>1161</b>	<b>1319</b>	<b>2,665</b>	<b>18%</b>

Source: CRISIL Research, Update Retail Finance - Auto, November 2011

Maruti Rural Sales have picked up pace	
Year	Contribution
2007-08	3.5%
2008-09	9%
2009-10	17%
2010-11	20%
<b>2011-12</b>	<b>26%</b>

Source: The Economic Times, dated 18 Apr 2012

- Currently, In India, 9 out of every 1000 people own a car as against 15 in China and 140 in Brazil
- By 2015-16, In India, 19 in every 1000 people are expected to own a car

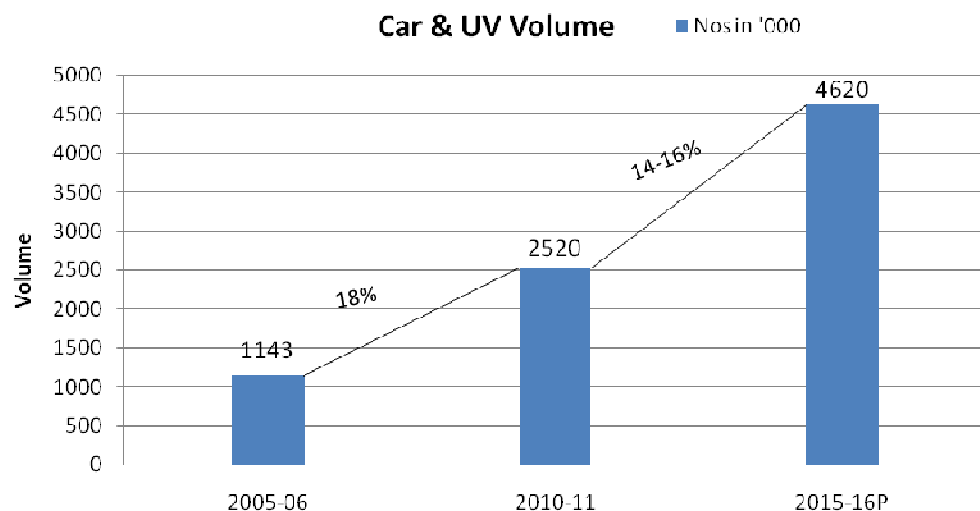
# Auto Industry Sales (YTD)

	<u>April - November</u>	
(Volume in '000)	FY13 (Nos.)	FY12 (Nos.)
<b>Passenger Vehicles (PVs)</b>		
Passenger Cars / Vans	1395	1377
UVs	358	221
<b>Commercial Vehicles (CVs)</b>		
M&HCVs	179	214
LCVs	335	286
<b>Three Wheelers</b>	357	341

Source: Auto Monitor



# Domestic Car and UV Industry to grow at a CAGR of 14-16%



- Long term growth to be driven by increase in income of households
- Addressable market is expected to grow at a CAGR of 14% to reach 122 Mn households in 2015-16 from 64 Mn in 2010-11
- Small Cars segment is expected to grow marginally faster than sedan at a CAGR of 15-17%

	<u>2005-06</u>		<u>2010-11</u>		<u>2015-16P</u>	
	Volumes	CAGR	Volumes	CAGR	Volume	CAGR
Small Cars	662	9.7%	1546	18.5%	3167	15-17%
Sedan Cars	220	17.7%	437	14.7%	840	13-15%
<b>Total Cars</b>	<b>882</b>	<b>17.6%</b>	<b>1983</b>	<b>17.6%</b>	<b>4007</b>	<b>14-16%</b>

Source: \*CRISIL Research, Car & UV Annual Review - February 2012

# Overall Demand Drivers

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- Increase in affordability
- Growth in Addressable Market
- New Launches
- Increase in dealerships and access to Finance
- Reduction in holding period, which increases the demand for second vehicles
- Growth in Economic Activity
- Infrastructure development, structural changes and government initiatives

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# Business Strategies

# Business Strategies

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**Grow in rural and semi urban markets for vehicle and automobile financing**

**Expand nationwide network of branches**

**Leverage existing customers base through Direct Marketing Initiatives**








**Diversify product portfolio**

**Broad base Liability Mix**

**Continue to attract, train and retain talented employees**

**Effective use of technology to improve productivity**

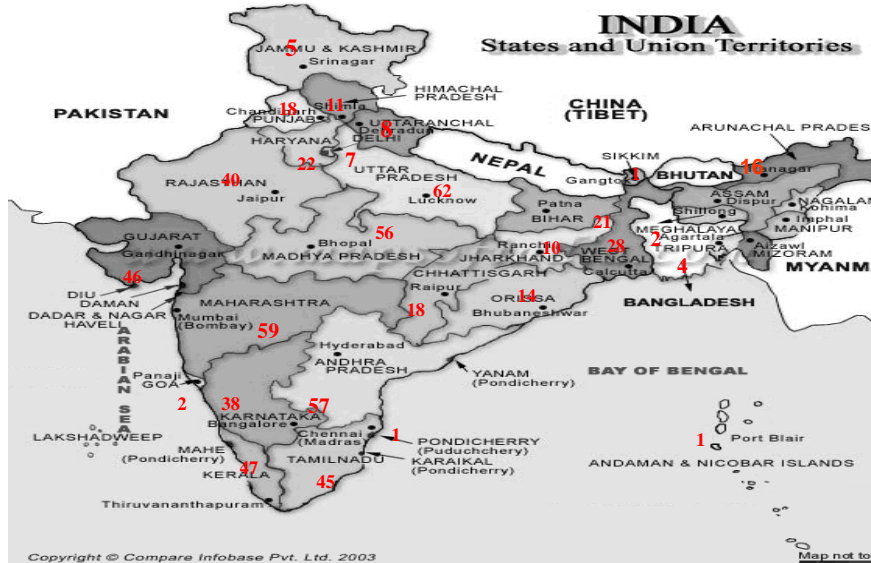
# Diversified Product Portfolio

<b>Vehicle Financing</b>	<ul style="list-style-type: none"><li>Loans for auto and utility vehicles, tractors, cars, commercial vehicles and construction equipments</li></ul>	
<b>Pre-Owned Vehicles</b>	<ul style="list-style-type: none"><li>Loans for pre-owned cars, multi-utility vehicles, tractors and commercial vehicles</li></ul>	
<b>SME Financing</b>	<ul style="list-style-type: none"><li>Loans for varied purposes like project finance, equipment finance and working capital finance</li></ul>	
<b>Personal Loans</b>	<ul style="list-style-type: none"><li>Offers personal loans typically for weddings, children's education, medical treatment and working capital</li></ul>	
<b>Mutual Fund Distribution</b>	<ul style="list-style-type: none"><li>Advises clients on investing money through AMFI certified professionals under the brand "MAHINDRA FINANCE FINSMART"</li></ul>	
<b>Insurance Broking</b>	<ul style="list-style-type: none"><li>Insurance solutions to retail customers as well as corporations through our subsidiary MIBL</li></ul>	
<b>Housing Finance</b>	<ul style="list-style-type: none"><li>Loans for buying, renovating, extending and improving homes in rural and semi-urban India through our subsidiary MRHFL</li></ul>	

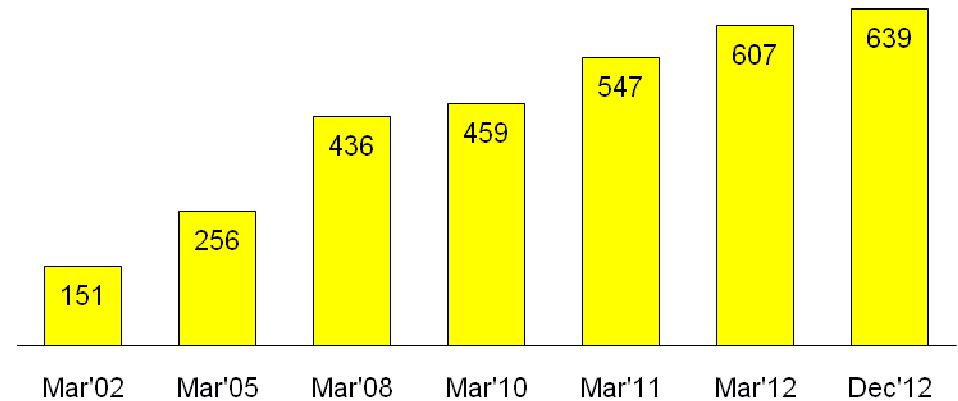
# Extensive branch network

- M&MFSL has an extensive branch network with presence in 24 states and 4 union territories in India through 639 offices as of December 31, 2012
  - Branches have authority to approve loans within prescribed guidelines

## Coverage



## Branch Network as of



# Funding

- M&MFSL believes that its credit rating and strong brand equity enable it to borrow funds at competitive rates
- Total consortium size of Rs. 10 billion comprising several banks

	CRISIL Rating	Outlook
Fixed Deposit programme	FAAA	Stable
Short term debt	A1+	Stable
Long term and Subordinated debt	AA+	Stable

	Brickwork Rating	Outlook
Long term and Subordinated debt	AA+	Positive

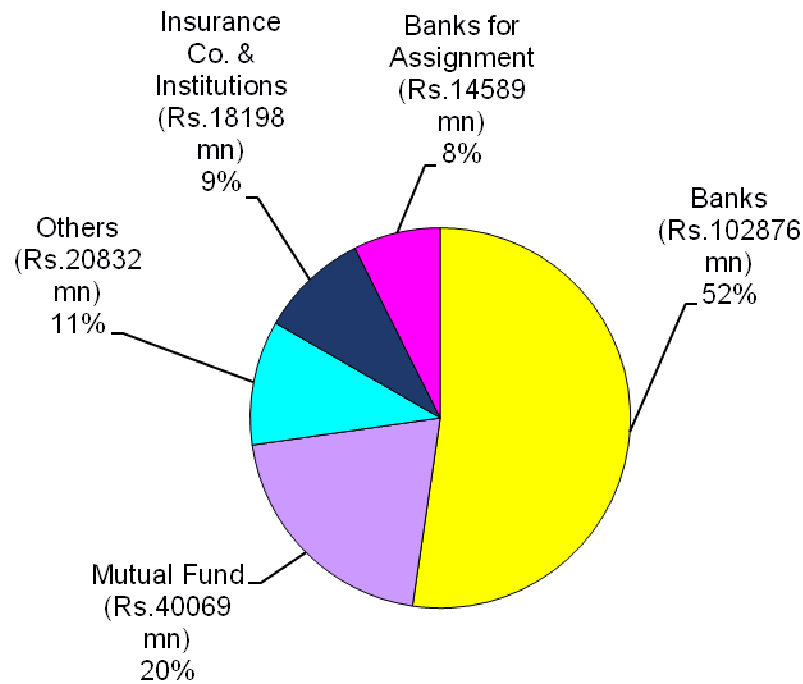
	FITCH Rating	Outlook
Long term and Subordinated debt	AA+(ind)	Stable

# Source of Borrowing

(as on December 31, 2012)

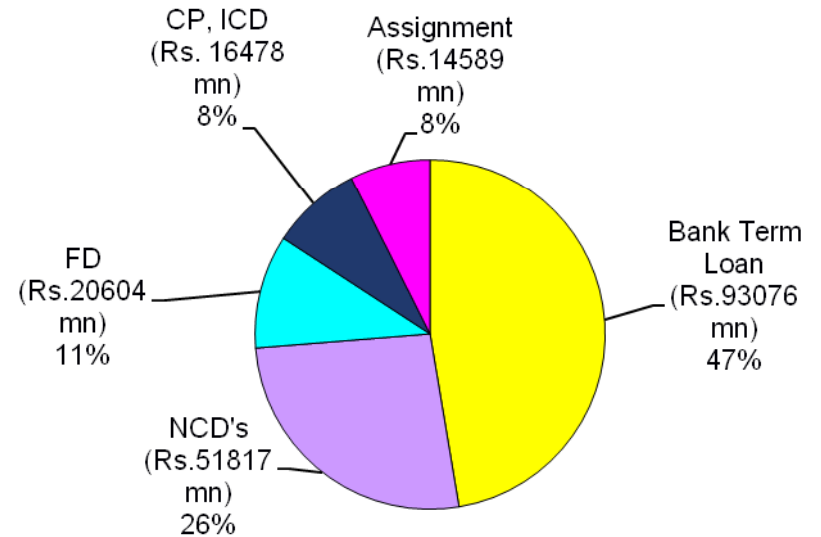
Figures on standalone basis

Fund Mix on the basis of Investor profile



Total : Rs.196564 million

Fund Mix on the basis of Instrument



Total : Rs.196564 million

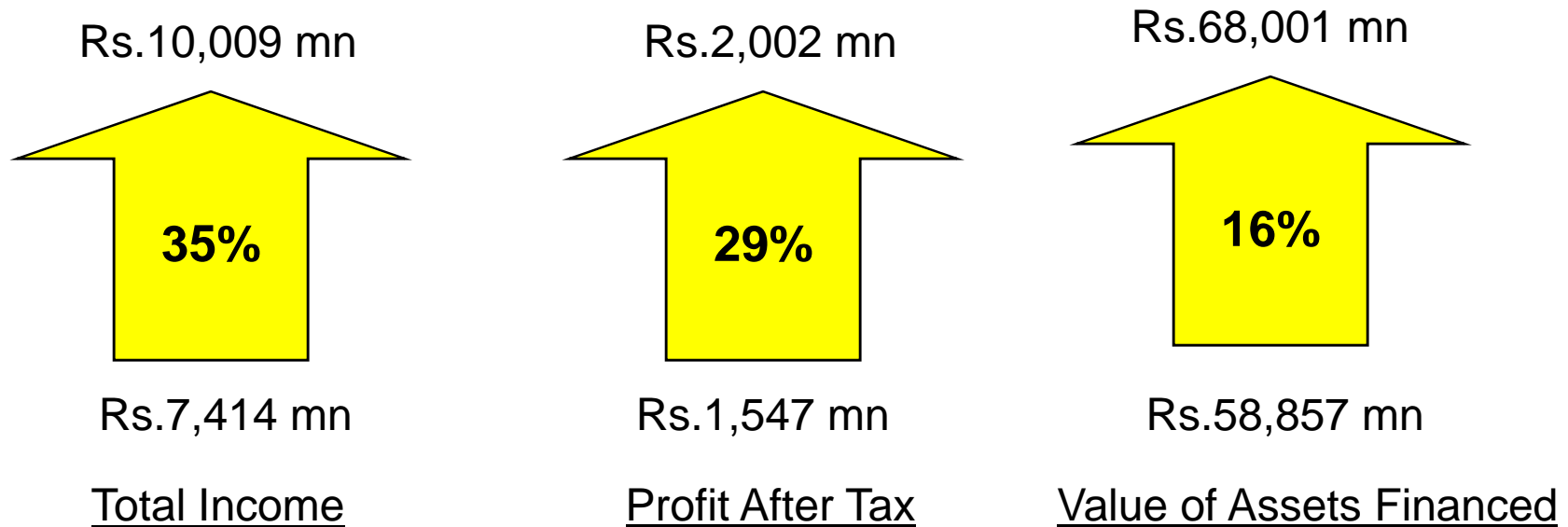


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# Financial Information

## Highlights for Q3- FY13 Vs Q3- FY12

Figures on standalone basis

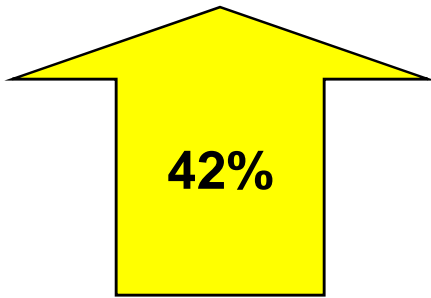


- Assets under Management have increased from Rs.194,581 Mn to Rs.256,451 Mn year-on-year basis.

# Highlights for 9M- FY13 Vs 9M- FY12

Figures on standalone basis

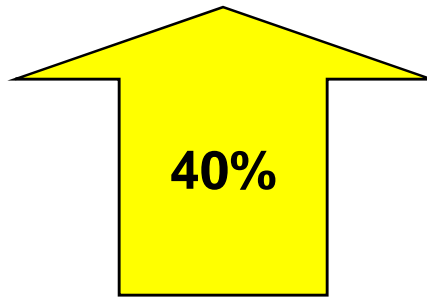
Rs.27,691 mn



Rs.19,476 mn

Total Income

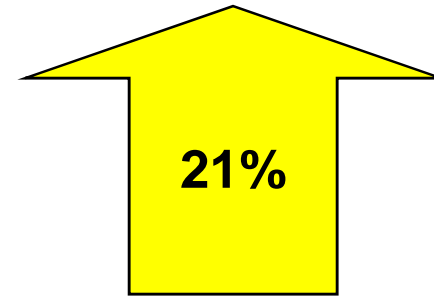
Rs.5,489 mn



Rs.3,924 mn

Profit After Tax

Rs.171,937 mn



Rs.141,721 mn

Value of Assets Financed

# Standalone Profit & Loss Statement

Particulars (Rs. million)	Nine Months ended December – 12	Nine Months ended December – 11	Year ended March – 12
Revenue from operations	27,464	19,288	27,681
Other income	227	188	265
<b>Total income</b>	<b>27,691</b>	<b>19,476</b>	<b>27,946</b>
Interest cost	11,716	7,899	11,203
Administrative cost	7,515	5,496	7,173
Provision on Standard Assets	134	102	121
Depreciation	164	148	196
<b>Total expenditure</b>	<b>19,529</b>	<b>13,645</b>	<b>18,693</b>
<b>PBT</b>	<b>8,162</b>	<b>5,831</b>	<b>9,253</b>
<b>PAT</b>	<b>5,489</b>	<b>3,924</b>	<b>6,201</b>

# Standalone Balance Sheet

<b>LIABILITIES (Rs. million)</b>	<b>As on December – 12</b>	<b>As on December – 11</b>	<b>As on March – 12</b>
Shareholder's funds	<b>43,582</b>	28,891	29,510
Secured loans	<b>134,753</b>	101,093	117,660
Unsecured loans	<b>47,222</b>	34,205	21,951
Current liabilities & provisions	<b>18,060</b>	15,906	16,495
<b>TOTAL</b>	<b>243,617</b>	180,095	185,616

<b>ASSETS (Rs. million)</b>	<b>As on December- 12</b>	<b>As on December- 11</b>	<b>As on March – 12</b>
Fixed Assets	<b>1,046</b>	971	989
Investments	<b>2,922</b>	1,899	5,025
Cash & Bank balance	<b>3,390</b>	2,299	2,452
Other Current assets	<b>210</b>	184	153
Loans & Advances	<b>233,983</b>	172,460	174,985
Deferred tax asset	<b>2,066</b>	2,282	2,012
<b>TOTAL</b>	<b>243,617</b>	180,095	185,616

# Mahindra Rural Housing Finance Limited

Particulars (Rs. million)	Nine Months ended December – 12	Nine Months ended December – 11	Year ended March – 12
Loans disbursed	2,812	1,808	2,668
No. of Customer Contracts (Nos)	37,913	19,762	33,172
Outstanding loan book	7,562	4,642	5,352
Total income	970	595	857
PBT	155	89	161
PAT	116	67	119

- Shareholding pattern: M&MFSL- 87.5%, NHB- 12.5%
- Currently operating in 9 States

# Mahindra Insurance Brokers Limited

Particulars (Rs. million)	Nine Months ended December – 12	Nine Months ended December – 11	Year ended March – 12
Total income	606	259	465
Net premium	3,727	2,786	4,138
PBT	351	69	201
PAT	237	46	135
No. of Policies for the Period (nos.)	588,745	502,841	703,730
No. of employees (nos.)	451	428	451

# Consolidated Profit & Loss Statement

Particulars (Rs. million)	Nine Months ended December – 12	Nine Months ended December – 11	Year ended March – 12
Income from operations	29,098	20,042	28,853
Other income	138	143	251
<b>Total Income</b>	<b>29,236</b>	<b>20,185</b>	<b>29,104</b>
Interest cost	12,066	8,008	11,399
Administrative cost	8,182	5,936	7,755
Provision on Standard Assets	142	112	134
Depreciation	175	152	203
<b>Total Expenditure</b>	<b>20,565</b>	<b>14,208</b>	<b>19,491</b>
<b>PBT</b>	<b>8,671</b>	<b>5,977</b>	<b>9,613</b>
<b>PAT</b>	<b>5,807</b>	<b>4,011</b>	<b>6,435</b>



# Consolidated Balance Sheet

<b>LIABILITIES (Rs. million)</b>	<b>As on December – 12</b>	<b>As on December – 11</b>	<b>As on March – 12</b>
Shareholder's funds	44,726	29,571	30,311
Minority Interest	92	75	77
Secured loans	146,475	105,691	124,650
Unsecured loans	46,995	34,012	21,814
Current liabilities & provisions	18,689	16,370	17,356
<b>TOTAL</b>	<b>256,977</b>	<b>185,719</b>	<b>194,208</b>
<b>ASSETS (Rs. million)</b>	<b>As on December – 12</b>	<b>As on December – 11</b>	<b>As on March – 12</b>
Fixed Assets	1,101	1,006	1,028
Investments	1,986	1,266	4,366
Cash & Bank balance	3,645	2,456	2,717
Other Current assets	282	189	186
Loans & Advances	247,856	178,501	183,878
Deferred tax asset	2,107	2,301	2,033
<b>TOTAL</b>	<b>256,977</b>	<b>185,719</b>	<b>194,208</b>

# Break up of estimated value of Assets Financed

Segments	Nine Months ended December-12	Nine Months ended December-11	Full year ended March-12
Auto/ Utility vehicles	34%	31%	31%
Tractors	19%	21%	20%
Cars	25%	26%	27%
Commercial vehicles and Construction equipments	10%	12%	12%
Pre-owned vehicles and others	12%	10%	10%

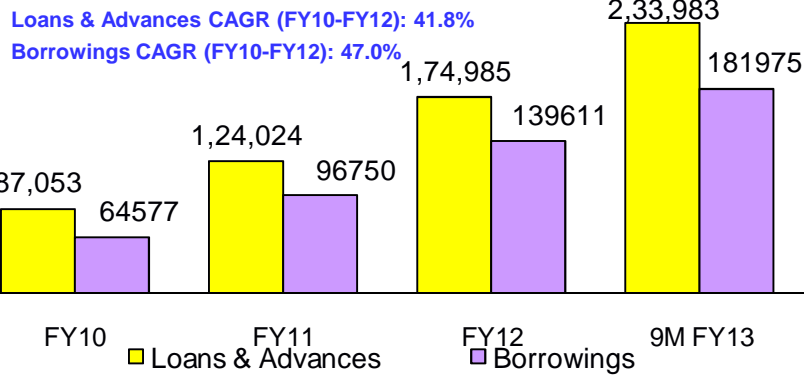
# Break up of AUM

Segments	As on December – 12	As on December – 11	As on March – 12
Auto/ Utility vehicles (M&M)	29%	30%	30%
Tractors (M&M)	19%	20%	20%
Cars and Non M&M UVs, Tractors & SCVs	32%	31%	31%
Commercial vehicles and Construction equipments	13%	12%	12%
Pre-owned vehicles and others	7%	7%	7%

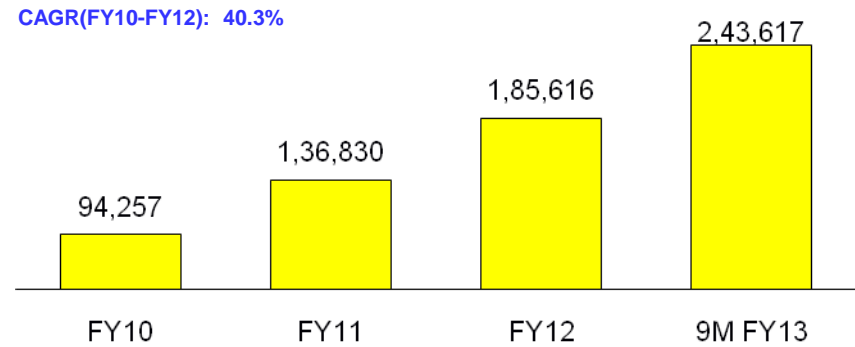
# Established track record

Figures on standalone basis

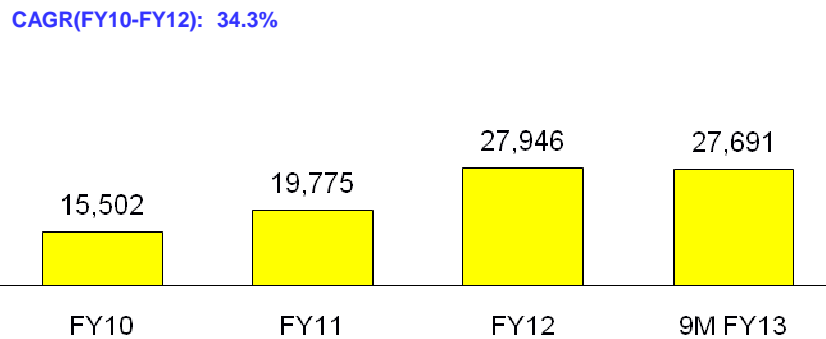
## Loans & Advances and Borrowings (Rs. million)



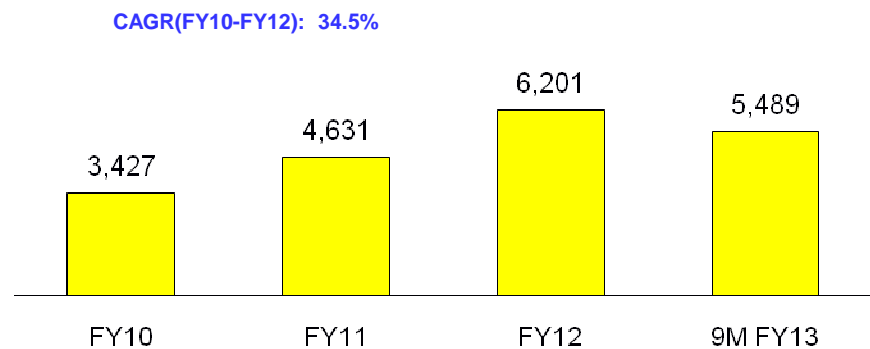
## Total Assets (Rs. million)



## Total Income (Rs. million)



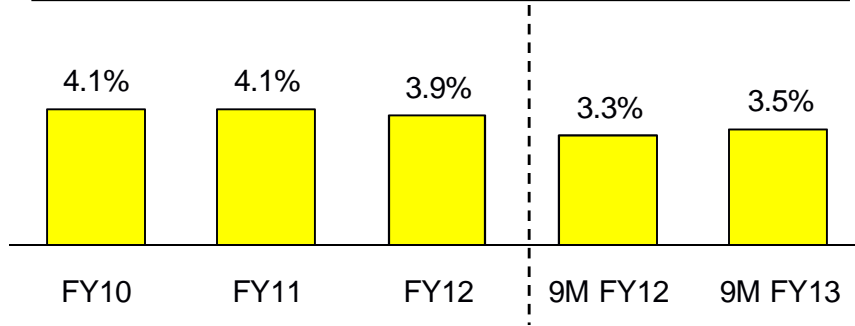
## Profit After Tax (Rs. million)



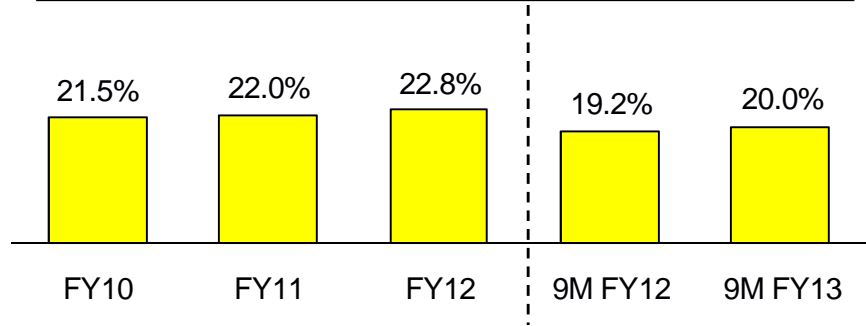
# Established track record

Figures on standalone basis

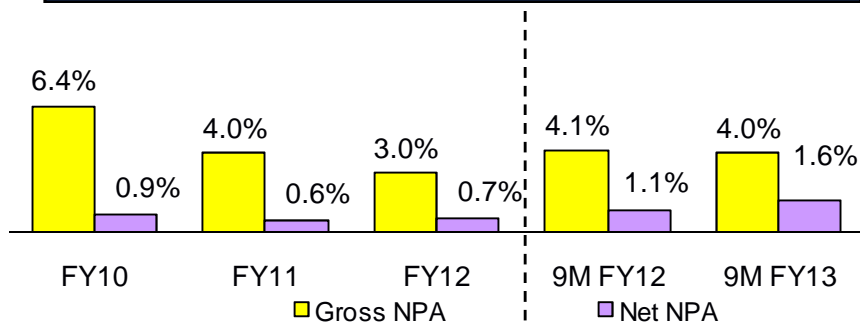
ROA (Avg. Assets) (%)



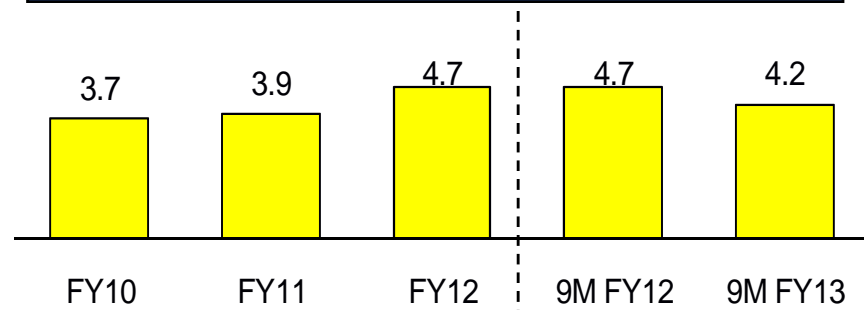
RONW (Avg. Net Worth) (%)



Gross NPA and Net NPA to Total Assets (%)



Leverage ratio



# Summary of Results

Figures on standalone basis

Particulars (Rs. million)	Nine Months ended December – 12	Nine Months ended December – 11	Year ended March – 12
Total Income	<b>27,691</b>	19,476	27,946
Profit before tax	<b>8,162</b>	5,831	9,253
Profit after tax	<b>5,489</b>	3,924	6,201
Dividend (%)	--	--	140
Net Worth	<b>43,486</b>	28,818	29,440
EPS (Basic)	<b>52.59</b>	38.28	60.46
Market Capitalisation	<b>116,039</b>	63,468	69,723
Value of Assets Financed	<b>171,937</b>	141,721	195,043
No. of Branches	<b>639</b>	592	607
New Contracts During the period (Nos)	<b>388,562</b>	346,337	466,416
No. of employees (on rolls)	<b>4,272</b>	4,275	4,258
No. of employees (outsourced from MBSCPL)	<b>6,492</b>	5,185	5,457

# Ratio Analysis

Figures on standalone basis

	Nine Months ended December – 12	Nine Months ended December – 11	Year ended March – 12
PBT/Total Income	<b>29.5%</b>	29.9%	33.1%
PBT/Total Assets	<b>4.5%</b>	4.4%	5.1%
RONW (Avg. Net Worth)	<b>20.0%</b>	19.2%	22.8%
Overheads/Total Assets	<b>2.9%</b>	3.2%	3.2%
Debt / Equity	<b>4.18:1</b>	4.69:1	4.74:1
Capital Adequacy	<b>19.8%</b>	17.5%	18.0%
Tier I	<b>17.3%</b>	14.6%	15.1%
Tier II	<b>2.5%</b>	2.9%	2.9%
Book Value (Rs.)	<b>386.4</b>	280.9	286.7

# Spread Analysis

Figures on standalone basis

	Nine Months ended December – 12	Nine Months ended December – 11	Year ended March – 12
Total Income / Average Assets	<b>17.5%</b>	16.9%	17.7%
Interest / Average Assets	<b>7.3%</b>	6.7%	7.0%
Gross Spread	<b>10.2%</b>	10.2%	10.7%
Overheads / Average Assets	<b>3.4%</b>	3.8%	3.8%
Write offs & NPA provisions / Average Assets	<b>1.5%</b>	1.2%	0.9%
Standard Asset Provisions / Average Assets	<b>0.1%</b>	0.1%	0.1%
Net Spread	<b>5.2%</b>	5.1%	5.9%



# NPA

Figures on standalone basis

Particulars (Rs. million)	December – 12	December – 11	March – 12
Gross Non - Performing Assets	9,893	7,382	5,543
Less: NPA Provisions	6,160*	5,494	4,324
Net Non – Performing Assets	3,742	1,888	1,219
Total Assets (Incl. NPA Provision)	245,049	181,368	186,633
Gross NPA to Total Assets(%)	4.0%	4.1%	3.0%
Net NPA to Total Assets(%)	1.6%	1.1%	0.7%
Coverage Ratio(%)	62.3%	74.4%	78.0%

\* NPA Provisions includes additional provisioning made on Two wheeler & Personal Loans

**Note:** Above workings are excluding securitised/assigned portfolio

# Provisioning Norms

Duration (months)	RBI Norms	Duration (months)	M&MFSL
> 5 and <= 18	10%	> 5 and <= 11	10%
> 18 and <= 30	20%	> 11 and <= 24	50%
> 30 and <= 54	30%	> 24 months	100%
> 54 months	50%		

**At M&MFSL NPA provisioning norms are more stringent than RBI norms**

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## Technology initiatives and Employee management

# Technology initiatives

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- Approximately 96% of our 639 offices are connected to the centralised data centre in Mumbai
- Through hand held devices connected by GPRS to the central server, we transfer data which provides
  - Prompt intimation by SMS to customers
  - Complete information to handle customer queries with transaction security
  - On-line collection of MIS on management's dashboard
  - Recording customer commitments
  - Enables better internal checks & controls



# Employee engagement & training

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- Training programs for employees on continuous basis.
- 5 days induction program on product knowledge, business processes and aptitude training.
- Mahindra Finance Academy for training prospective and present employees at 5 locations.
- Assessment & Development Centre for critical employees.
- Employee recognition programs such as – Dhruv Tara, Annual Convention Award and Achievement Box.
- Participation in Mahindra Group's Talent Management and Retention program.

# Key Risks & Management Strategies

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- |                                      |   |
|--------------------------------------|---|
| ■ Volatility in interest rates       | Matching of asset and liabilities                           |
| ■ Rising competition                 | Increasing branch network                                   |
| ■ Raising funds at competitive rates | Maintaining credit rating & improving asset quality         |
| ■ Dependence on M&M                  | Increasing non-M&M Portfolio                                |
| ■ Occurrence of natural disasters    | Increasing geographical spread                              |
| ■ Adhering to write-off standards    | Diversify the product portfolio                             |
| ■ Employee retention                 | Job rotation / ESOP/ Recovery based performance initiatives |
| ■ Physical cash management           | Insurance & effective internal control                      |

# Regulatory Changes

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- RBI finalized its much awaited guidelines on securitization & assignment transaction of standard assets and issued final guidelines on 07th May 2012

please visit <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=7184&Mode=0>

- RBI released revised guidelines on Priority Sector Lending-Targets and Classification, incorporating recommendations of MV Nair committee on 20<sup>th</sup> July 2012

Please visit [http://www.rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=26882](http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=26882)

- RBI placed draft guidelines based on Usha Thorat committee report on the Issues and Concerns in the NBFC Sector on 12<sup>th</sup> December 2012 (final guidelines awaited)

Please visit [http://www.rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=27757](http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=27757)

# New Securitisation/ Assignment Guidelines

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- As per new guidelines, securitisation route will be preferred over assignment route
- Base rate is not applicable to securitisation deals
- Final guidelines on Priority sector classification based on MV Nair committee recommendation released on 20<sup>th</sup> July 2012
  - Interest spread cap of 8% is higher than original recommendation of 6%
  - No cap on the amount which banks can buy through this route
  - Similarly there is no restriction on NBFCs on amount of securitisation/ assignment
- Pool buyout interest continues from investors as assets qualifies for PSL



# Disclaimer

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