

# Mahindra & Mahindra Financial Services Limited

**Quarter Result Update  
JUNE - 2010**

# Overview

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- MMFSL is a subsidiary of Mahindra and Mahindra Ltd., one of India's leading tractor and utility vehicle manufacturer
- The Company is one of India's leading non-bank finance companies focused on the rural and semi-urban sector
- MMFSL finances purchase of utility vehicles, tractors, cars, commercial vehicles and used vehicles
- The Company's goal is to be the preferred provider of financing services in the rural and semi-urban areas of India
- The Company has 487 branches covering 25 states and 2 union territories in India
- Since inception the Company has entered into over 1,262,000 customers contracts
- FITCH has assigned AA(ind) rating and CRISIL has assigned a AA- rating to the Company's long term debt reflecting a high degree of safety

# Business Strengths

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**Knowledge of the rural and semi-urban markets**

**Extensive branch network**

**Relationship with M&M**

**Quick approval and simple administration procedures**

**Client Relationship**

**Dealer relationships**

# Business Strategy

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**Continue to maintain market position in rural and semi urban automobile financing**

**Significant experience of the local characteristics of the rural and semi-urban markets across India**

**Simple documentation and prompt loan approval procedures**

**Nationwide network of branches and locally recruited employees help develop and maintain customer relationships**

**A recognisable brand in the rural and semi-urban markets of India**

# Business Strategy

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## Diversify Product Portfolio

Started financing non-M&M vehicles in 2002

Commenced insurance broking business in MIBL in Fiscal 2005

Commenced financing Commercial Vehicles in 2006

Commenced mutual fund distribution business

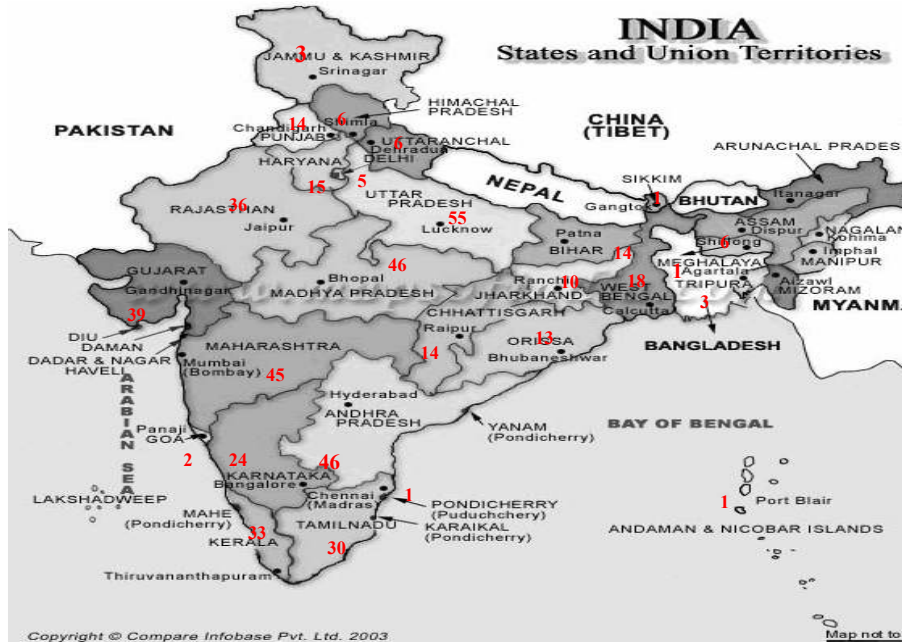
Commenced housing loans business in MRHFL in Oct 2007

Commenced Invoice discounting for M&M and other auto Suppliers

# Extensive Distribution Network

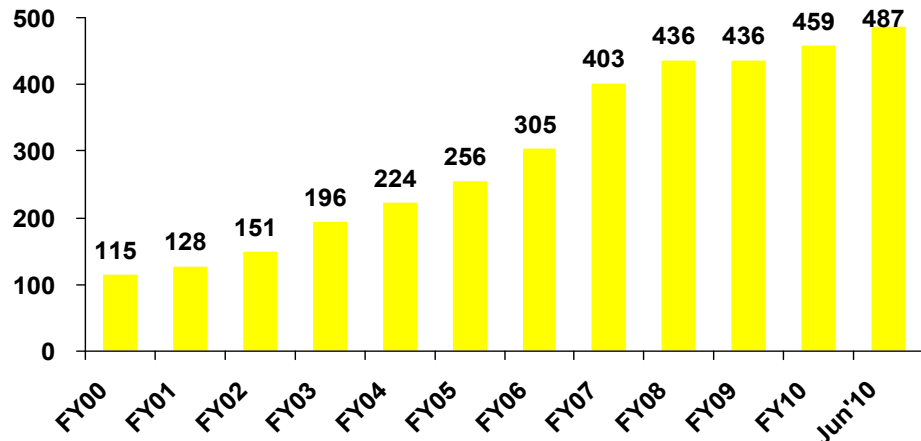
- MMFSL has an extensive distribution network with presence in 25 states and 2 union territories in India through 487 branches
  - Our market categorised into five zones and 16 regions with branches reporting into their respective regional office
  - Branches provided authority to approve loans within prescribed guidelines

## Coverage



## Branch Network

Total Branches ( as on 30.06.10):	487
Metro :	7
Urban/Semi Urban :	93
Rural :	387



# Funding

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- MMFSL has consistently enjoyed a good credit rating enabling it to borrow funds at competitive rates
- FITCH has assigned AA(ind) rating and CRISIL has assigned a AA- rating to the Company's long term debt, which is also linked to credit rating of M&M
- Total Consortium Size of Rs. 10,000 Million comprising of 19 Bankers

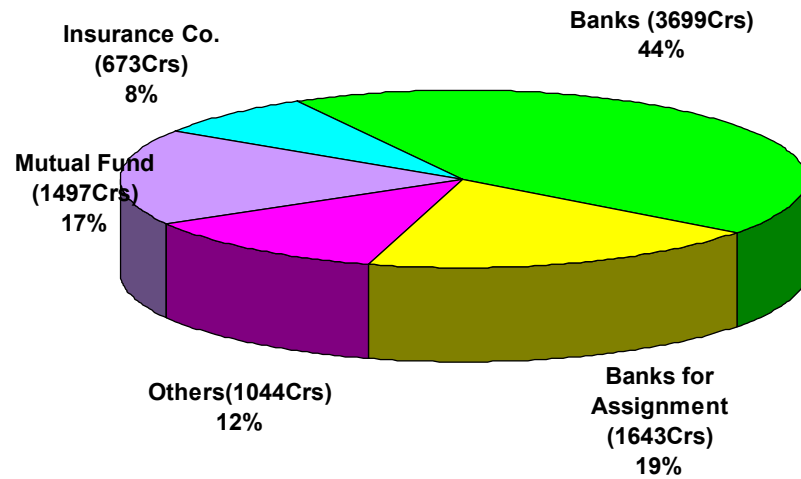
	FITCH Rating
Long Term / Subordinated debt	AA(ind)

	CRISIL Rating
Fixed Deposit Programme	FAA
Short Term	P1+
Long Term / Subordinated debt	AA-

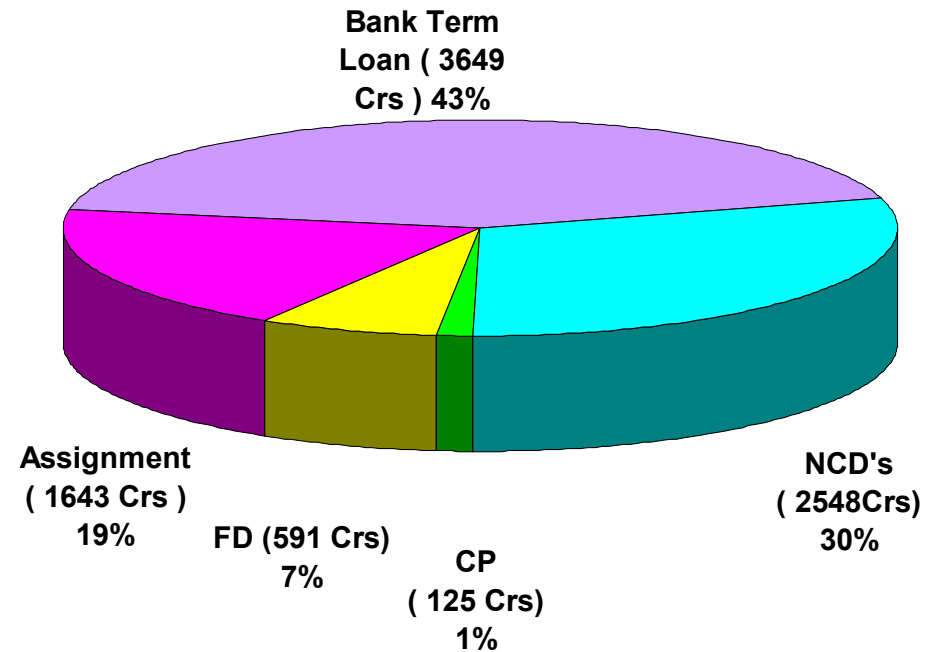
# Source of Borrowing

(as on 30<sup>th</sup> June 2010)

*Fund Mix on the basis of Investor profile*



*Fund Mix on the basis of Instrument.*





# Asset Assignment

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- MMFSL Assigns parts of its loan portfolio to improve its cash flows and reduce borrowings
- The company did its first securitisation / Assignment transaction in FY02 and has done 43 securitisation / Assignment transactions till date aggregating Rs. 52134 Mn

Rs. Million	FY06	FY07	FY08	FY09	FY10
Receivables Securitised / Assigned	5,563	6,100	8,099	10,362	10,446
Consideration Received	5,147	5,608	7,303	9,151	9,713
Net Income from Securitisation	489	538	1,074	1,043	1,254

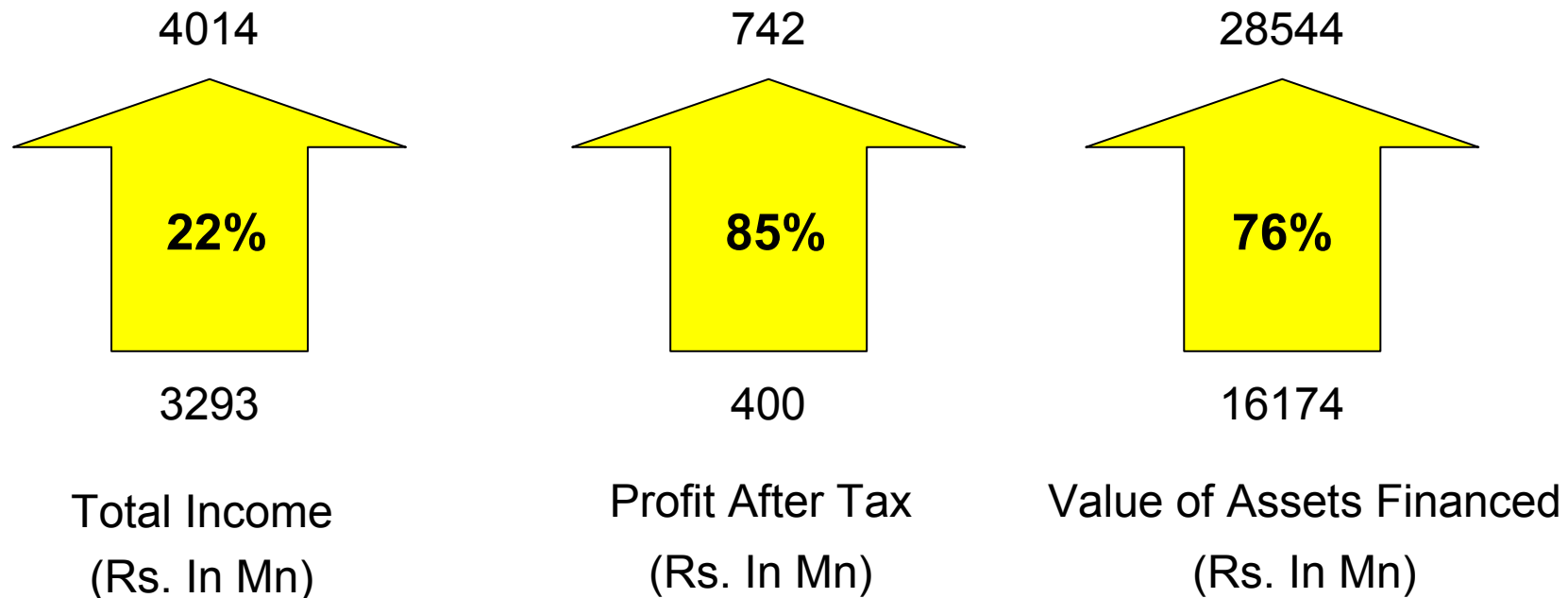
# Challenges

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- Average cash collection/day - Rs. 175 mn
- Banks unwilling to accept cash
- More than one Bank A/c per location
- Small denomination notes/ mutilated notes
- Employee acquisition & retention

# Highlights for Q1 - FY11 Vs Q1- FY10

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- Assets under Management have increased from Rs.85863 Mn to Rs.108890 Mn year-on-year basis.

# Profit & Loss Statement

(Rs.million)	June- 10	June- 09	March- 10
Income from Operations	<b>3924</b>	3202	15308
Other Income	<b>90</b>	91	380
Total Income	<b>4014</b>	3293	15688
Interest Cost	<b>1315</b>	1210	5017
Administrative Cost	<b>1561</b>	1457	5366
Depreciation	<b>28</b>	24	99
Total Expenditure	<b>2904</b>	2691	10482
PBT	<b>1110</b>	602	5206
PAT	<b>742</b>	400	3427

# Balance Sheet: Liabilities

(Rs.million)	June- 10	June- 09	March- 10
Net Worth (A+B)	<b>18020</b>	15082	17274
Equity Share Capital (A)	<b>960</b>	958	960
Reserves & Surplus (B)	<b>17060</b>	14124	16314
Employee Stock Option O/S	<b>11</b>	13	12
Secured Loans	<b>53571</b>	41669	53259
Unsecured Loans	<b>15560</b>	9832	11318
Current Liabilities & Provs.	<b>10240</b>	8871	9087
<b>TOTAL</b>	<b>97402</b>	75467	90950

# Balance Sheet: Assets

(Rs.million)	June- 10	June- 09	March- 10
Fixed Assets	504	365	476
Investments	831	1248	2159
Sundry Debtors	--	--	--
Other Current Assets	61	46	38
Cash & Bank Balance	2388	2261	2420
Loans & Advances & others	91488	69631	83788
Deferred Tax Asset	2130	1916	2069
<b>TOTAL</b>	<b>97402</b>	<b>75467</b>	<b>90950</b>

# Disbursements Mix

Segments	June- 10	June- 09	March- 10
<b>Auto/ Utility vehicles</b>	<b>34%</b>	39%	35%
<b>Tractors</b>	<b>22%</b>	22%	21%
<b>Cars</b>	<b>29%</b>	25%	29%
<b>Commercial Vehicles</b>	<b>7%</b>	6%	7%
<b>Used vehicles &amp; Others</b>	<b>8%</b>	8%	8%

\* Tentative Percentages

# Segment Wise: Break up of AUM

Segments	June- 10	June- 09	March- 10
<b>Auto/ Utility vehicles</b>	<b>33%</b>	38%	33%
<b>Tractors</b>	<b>23%</b>	24%	23%
<b>Cars</b>	<b>30%</b>	24%	30%
<b>Commercial Vehicles</b>	<b>8%</b>	8%	8%
<b>Used Vehicles &amp; Others</b>	<b>6%</b>	6%	6%

\* Tentative Percentages



# Highlights of Mahindra Insurance Brokers Ltd

(Rs.million)	June- 10	June- 09	March- 10
Total Income	111	77	314
Net Premium	697	545	1863
PBT	68	45	168
PAT	44	30	111
No. of Customers for the Period (Nos.)	90,421	67,700	316,892
No. of Employees (Nos.)	366	314	386

# Highlights of Mahindra Rural Housing Finance Ltd.

(Rs.million)	June- 10	June- 09	March- 10
Loans Sanctioned	537	125	1072
Outstanding Loan Book	1664	560	1298
Profit After Tax	11	2	22

- Shareholding Pattern: MMFSL- 87.5%, NHB- 12.5%
- Sanction from NHB for Refinancing Rs. 750 Mn for 7 years
- Currently Operating from 8 States

# Consolidated Profit & Loss Statement

(Rs.million)	June- 10	June- 09	March- 10
Income from Operations	<b>4045</b>	3275	15612
Other Income	<b>82</b>	85	344
Total Income	<b>4127</b>	3360	15956
Interest Cost	<b>1328</b>	1212	5028
Administrative Cost	<b>1574</b>	1475	5426
Depreciation	<b>29</b>	24	101
Total Expenditure	<b>2931</b>	2711	10555
PBT	<b>1196</b>	649	5401
PAT	<b>799</b>	432	3561

# Consolidated Balance Sheet: Liabilities

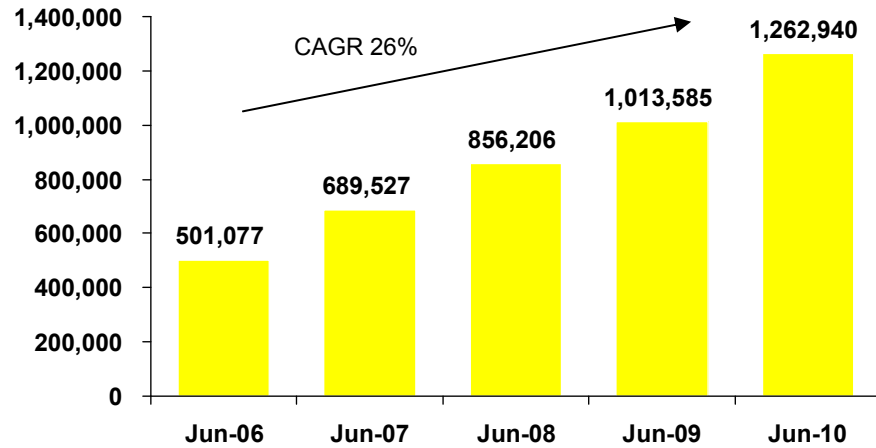
(Rs.million)	June- 10	June- 09	March- 10
Net Worth (A+B)	18337	15245	17536
Equity Share Capital (A)	960	958	960
Reserves & Surplus (B)	17377	14287	16576
Employee Stock Option O/S	11	13	12
Minority Interest	19	16	18
Secured Loans	54524	41810	54097
Unsecured Loans	15361	9740	11153
Current Liabilities & Provs.	10315	8885	9136
<b>TOTAL</b>	<b>98567</b>	<b>75709</b>	<b>91952</b>

# Consolidated Balance Sheet: Assets

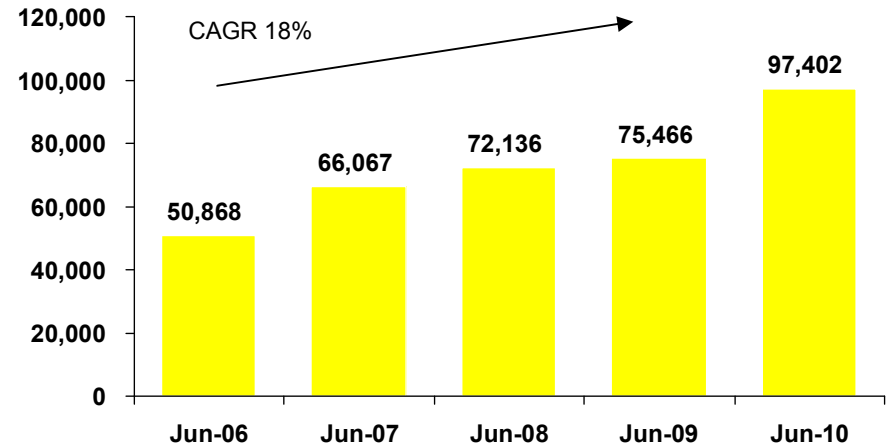
(Rs.million)	June- 10	June- 09	March- 10
Fixed Assets	518	373	486
Investments	705	1123	2034
Sundry Debtors	15	15	13
Other Current Assets	60	47	39
Cash & Bank Balance	2427	2281	2443
Loans & Advances & others	92709	69954	84865
Deferred Tax Asset	2133	1916	2072
<b>TOTAL</b>	<b>98567</b>	<b>75709</b>	<b>91952</b>

# Robust Growth

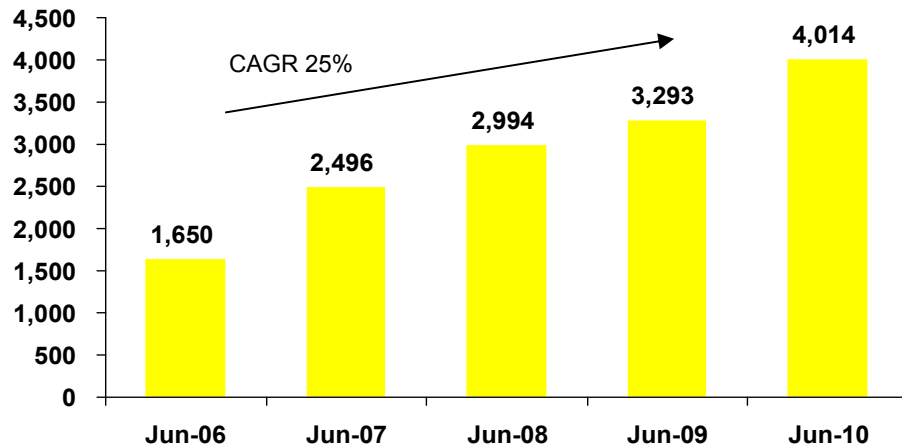
**Cumulative no. of Customer Contracts (Nos.)**



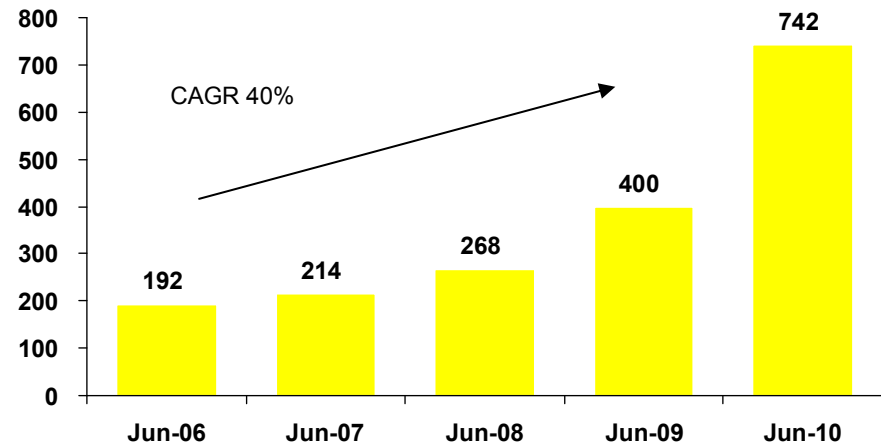
**Total Assets (INR million)**



**Total Income (INR million)**



**Profit after Tax (INR million)**



# Summary of Results

(Rs.million)	June- 10	June- 09	March- 10
Total Income	<b>4014</b>	3293	15688
Profit before tax	<b>1110</b>	602	5206
Profit after tax	<b>742</b>	400	3427
Dividend (%)	--	--	75
Net Worth	<b>18020</b>	15082	17274
EPS (Basic)	<b>7.73</b>	4.18	35.78
Market Capitalisation	<b>43523</b>	26246	36125
No. of Branches	<b>487</b>	436	459
New Contracts During the period (Net) (Nos)	<b>73,092</b>	40,092	216,355
No. of employees	<b>4447</b>	4806	4399

# Ratio Analysis

	June- 10	June- 09	March- 10
PBT/Total Income	<b>27.7%</b>	18.3%	33.2%
PBT/Total Assets	<b>4.1%</b>	2.5%	5.7%
RONW (Avg. Net Worth)	<b>15.1%</b>	8.6%	21.6%
Overheads/Total Assets	<b>4.3%</b>	3.6%	3.6%
Debt / Equity	<b>3.83:1</b>	3.40:1	3.73:1
Book value multiple	<b>2.4</b>	1.7	2.1
Capital Adequacy	<b>17.37%</b>	18.8%	18.5%
Tier I	<b>15.37%</b>	17.2%	16.1%
Tier II	<b>2.0%</b>	1.6%	2.4%
Book Value (Rs.)	<b>187.6</b>	157.5	180.0



# Provisioning Norms

<b>Duration (months)</b>	<b>RBI Norms</b>	<b>Duration (months)</b>	<b>MMFSL</b>
> 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%		
<b>At MMFSL NPA provisioning norms are more stringent than RBI norms for loan.</b>			

# NPA\*

(Rs.million.)	June- 10	June- 09	March- 10
Gross Non - Performing Assets	<b>7,105</b>	7,934	6,112
Less: NPA Provisions	<b>5,858</b>	5,591	5,283
Net Non – Performing Assets	<b>1,247</b>	2,343	829
Total Assets (Incl. NPA Provision)	<b>103,261</b>	81,057	96,233
Gross NPA to Total Assets(%)	<b>6.9%</b>	9.8%	6.4%
Net NPA to Total Assets(%)	<b>1.3%</b>	3.1%	0.9%
Coverage Ratio(%)	<b>82.4%</b>	70.5%	86.4%

\* Excluding Securitised portfolio

# Spread Analysis

	June- 10	June- 09	March- 10
Total Income/Average Assets	<b>16.6%</b>	16.9%	19.0%
Interest / Average Assets	<b>5.5%</b>	6.3%	6.0%
Gross Spread	<b>11.1%</b>	10.6%	13.0%
Overheads/Average Assets	<b>4.4%</b>	3.7%	3.9%
Write offs & NPA provisions / Average Assets	<b>2.3%</b>	4.2%	2.7%
Net Spread	<b>4.4%</b>	2.7%	6.4%

# Technology Initiatives

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- 94% of total 487 branches are online realtime connected
- All collection executive uses Hand Held Device, connected by GPRS to central server, resulting in
  - Prompt intimation by SMS to customer
  - Complete information in hand to handle customer queries with transaction security
  - On-line Collection MIS on Management dashboard
  - Recording customer commitments
  - Enables better internal checks & controls



# Employee engagement & training

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- Tied up with 130 local graduate colleges for continuous recruitment.
- 5 days Induction program on product knowledge, business processes and aptitude training.
- On Job training by superiors followed by an assessment test.
- Tied up with various distance learning institutions for up gradation of employee skills.
- Education assistance programmes.
- Assessment & Development Centre for critical employees.
- Every quarterly employees can voice their opinion and suggestions to senior management.
- Employee recognition Programs such as – Dhruv Tara, Annual Convention Award, Achievement Box.

# Key Risks & Management Strategies

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|--------------------------------|---|
| ■ Volatility in interest rates | Matching of Asset Liabilities           |
| ■ Rising competition           | Increasing Branch Network               |
| ■ Funds at competitive rates   | Improving Credit Rating & Asset Quality |
| ■ Dependence on M&M            | Increasing Non-M&M Portfolio            |
| ■ Vagaries of nature           | Increasing Geographical Spread          |
| ■ Controlling write-offs       | Improving the Portfolio Mix             |
| ■ Employee retention           | Job Rotation / ESOP / Group Opportunity |
| ■ Handling cash                | Insurance & Effective Internal Control  |

# Treasury & Risk Management

## Treasury Management

- The treasury department undertakes liquidity management by maintaining optimum level of liquidity and complying with RBI requirement of asset liability management.
- The surplus funds are invested in accordance with the investment policy of the board
  - Surplus funds are invested in Government securities, liquid debt based mutual funds and bank fixed deposits
- As of June 30, 2010, Rs. 705 million was invested in Government securities.

## Risk Management

- The Risk management team is a eight member team which identifies, assesses and monitors the principal risks of the Company, in accordance with the defined policies and procedures
- The Audit Committee oversees the risk management policies and procedures and also reviews the credit risk of the Company
- The Asset Liability Management Committee reviews risk management policies in relation to various risks including liquidity, interest rate, investment policies and strategy
- We have also appointed a number of audit firms across the country to review and audit our branch operations and their audit reports are reviewed by the Audit Committee

# Key Investment Themes

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**Immense potential in the rural and semi urban markets**

**Early entry and knowledge of the rural and semi urban market**

**M&M Parentage**

**Strong Capital Base**

**Extensive Branch Network / Dealer Relationships**

**Consistent financial performance**

**Client Base**

**Prudent loan approval and administration procedures**

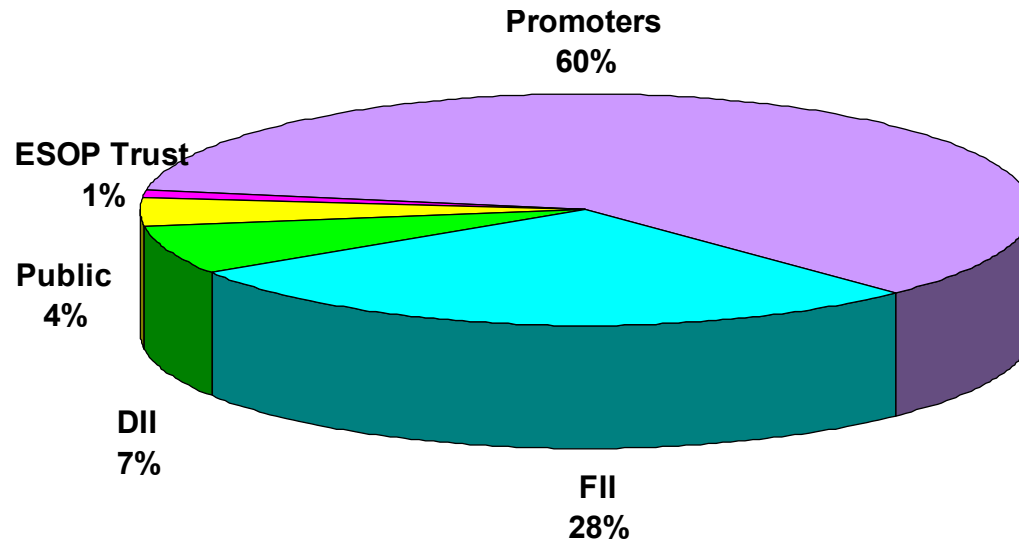
**Ability to borrow at competitive rates**

**Experienced Board and executive management team**



# Shareholding Pattern

(as on 30<sup>th</sup> June 2010)



- Incorporated in 1991 mainly to finance Mahindra vehicles by Mahindra & Mahindra Ltd.
- The Company inducted a financial investor, Copa Cabana in January 2006. Copa Cabana, a 100% subsidiary of Chrys Capital III, LLC paid INR 600 mn for purchasing a 4.16% stake in MMFSL
- The Company also issued shares to the ESOS trust in December 2005
- The Company came out with its IPO in February 2006
- The Company issued 10.9 million shares to two private equity funds TPG Axon Capital and Standard Chartered Private Equity in February 2008, all at a price of Rs. 380/Share.

Thank you