

Mahindra & Mahindra Financial Services Limited

Quarter Result Update
JUNE - 2013

Company overview



*Transforming rural lives
across the country*

Background

- Mahindra & Mahindra Financial Services Limited (“MMFSL”) is a subsidiary of Mahindra and Mahindra Limited (*Mcap: Rs 550 billion*)*, one of India’s leading tractor and utility vehicle manufacturers
- MMFSL (*Mcap: Rs 142 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, construction equipments and SME Financing
- MMFSL’s vision is to be a leading provider of financial services in the rural and semi-urban areas of India
- Has 675 offices covering 25 states and 4 union territories in India, with over 2.6 million vehicle finance customer contracts since inception, as of June 30, 2013
- CRISIL has assigned AA+/Stable, India Ratings has assigned AA+(ind)/Stable and Brickwork has assigned AA+/ Positive rating to the Company’s long term and subordinated debt

**Source: Market capitalisation as of July 24, 2013 from BSE website*

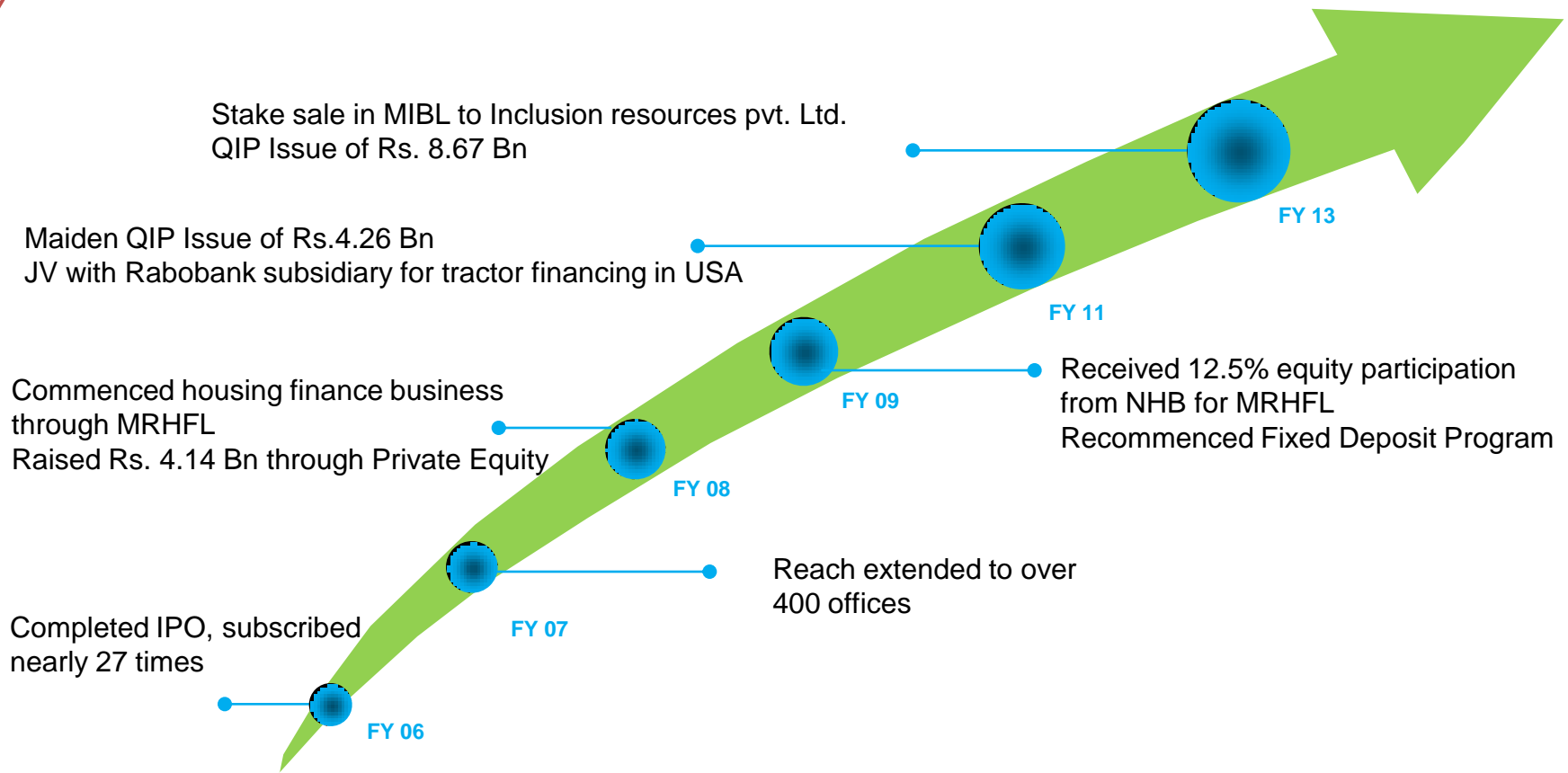
MMFSL Group structure



Note:

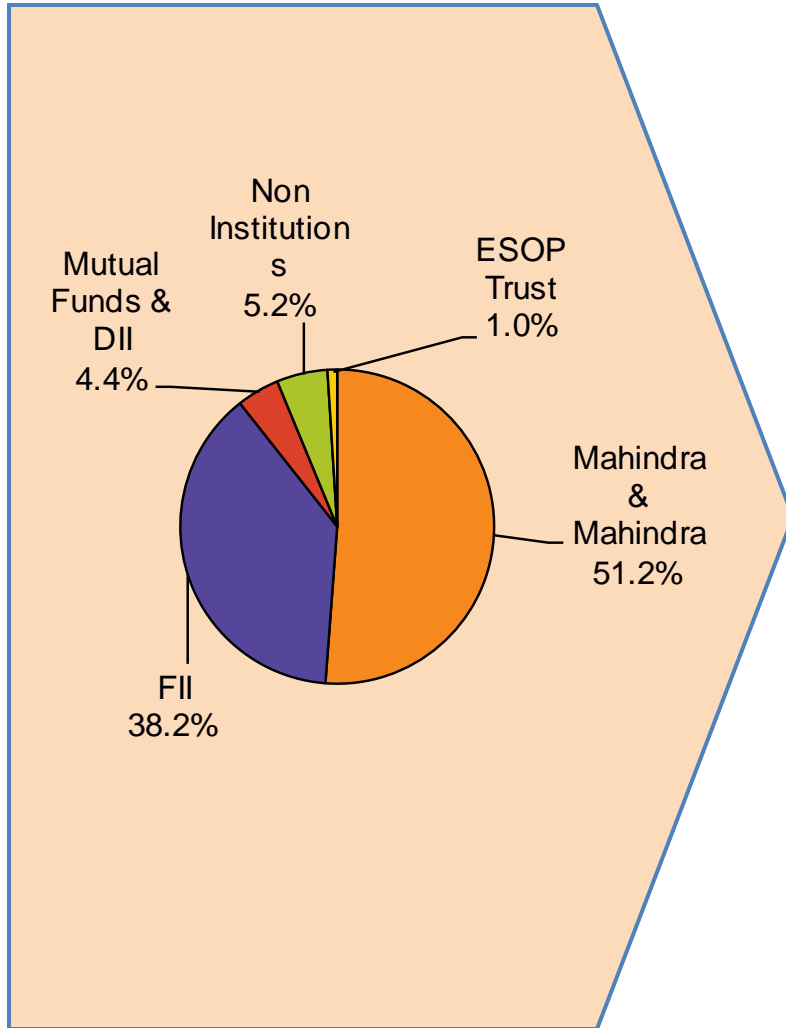
1. Balance 15% with Inclusion resources pvt. Ltd., a subsidiary of Leapfrog Financial Inclusion Fund, incorporated in Singapore.
2. Balance 12.5% with National Housing Bank (NHB)

Our Journey Thus Far



Shareholding pattern

(as on June 30, 2013)



Key Shareholders

- Cartica Capital Ltd
- Fidelity Investment Trust
- Wasatch Emerging Markets Small Cap Fund
- Morgan Stanley Asia (Singapore) Pte
- Eastspring Investments India Equity Open Ltd
- TIAA-CREF Institutional mutual funds
- JP Morgan SICAV Investment Company
- JP Morgan Funds – Emerging Markets Equity Fund
- JF India Fund
- Credit Suisse (Singapore) Ltd

Industry overview



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Automobile Finance Market to Grow by 19-21% over the next 5 years

Growth in New Vehicle Finance Disbursements						
(Rs. billion)	FY10E	FY11E	FY12P	FY13P	FY17P	CAGR FY12-FY17P
Cars	349	476	456	506	1165	19-21%
Utility Vehicles	108	155	172	217	409	18-20%
Commercial Vehicles	272	402	478	457	1150	18-20%
Two-Wheelers	60	77	93	108	199	15-17%
Total	789	1,110	1,119	1,288	2,923	19-21%

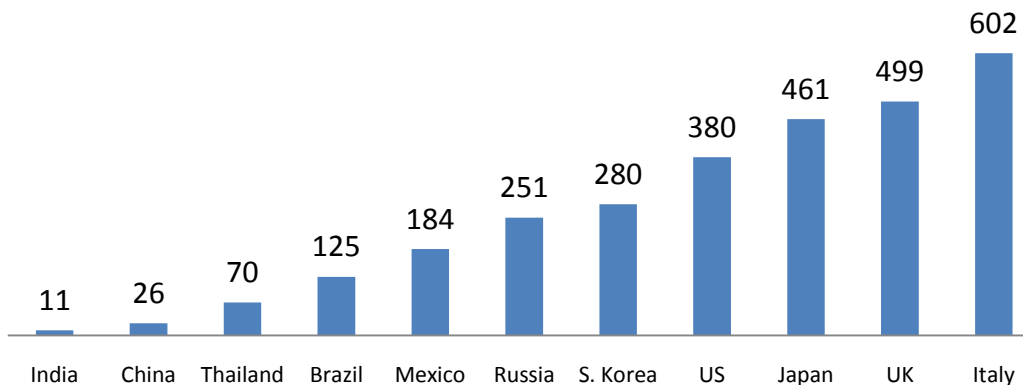
Source: CRISIL Research, Retail Finance - Auto, December 2012

- By the fiscal year 2017, penetration levels are expected to increase to 74% for cars and 66% for utility vehicles from 68% and 62% respectively as a result of a moderation in interest rates and alleviation of credit risk
- Loan-to-value (LTVs) expected to increase marginally to 75% for cars and 71% for UVs from 74% and 70% respectively over the next 5 years

Domestic Car and UV Industry to grow at a CAGR of 12-14% over the next 5 years

	<u>FY12</u>	<u>FY13E</u>	<u>FY14P</u>	<u>FY13-18P</u>
	CAGR (%)	CAGR (%)	CAGR (%)	CAGR (%)
Small Cars	(1.5)	(9)-(7)	8-10	11-13
Sedan Cars	19.1	5-7	8-10	12-14
Total Cars	2.4	(4)-(6)	8-10	12-14
UVs	17.9	32-35	18-20	---
Vans	9	4-6	9-11	---
Uvs + Vans	14.3	22-24	15-17	13-15
Total PVs	4.9	1-3	9-11	12-14

Global Comparison in terms of PV per thousand people ⁽¹⁾



- Strong prospects in the long-term. Growth to be driven by increase in income of households and higher passenger vehicle penetration
- Addressable market is expected to grow at a CAGR of 16% to reach 139 Mn households in 2017-18 from 67 Mn in 2012-13
- UV sales expected to grow at 15-17%. Moderation in growth due to expected diesel price hikes
- Small Cars segment is expected to grow marginally lower than sedan with sedan sales growing at 12-14% as a result of high petrol prices
- With 11 cars per 1000 people, India's potential is greater

Auto Industry Volume

Domestic Sales (Volume in '000)	1QFY14 (Nos.)	1QFY13 (Nos.)	Y-o-Y Growth (%)
Passenger Vehicles (PVs)			
Passenger Cars / Vans	434	485	(11%)
UVs	173	170	2%
Commercial Vehicles (CVs)			
M&HCVs	56	66	(15%)
LCVs	112	117	(4%)
Three Wheelers	109	111	(2%)

Source: Crisil

Overall Demand Drivers

- Increase in affordability
- Growth in Addressable Market
- Entry of New Players and New Model 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

Business Strategy

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

Expand Branch Network

Leverage existing customers base through Direct Marketing Initiatives

Diversify Product Portfolio

Broad base Liability Mix

Continuing to attract, train and retain talented employees

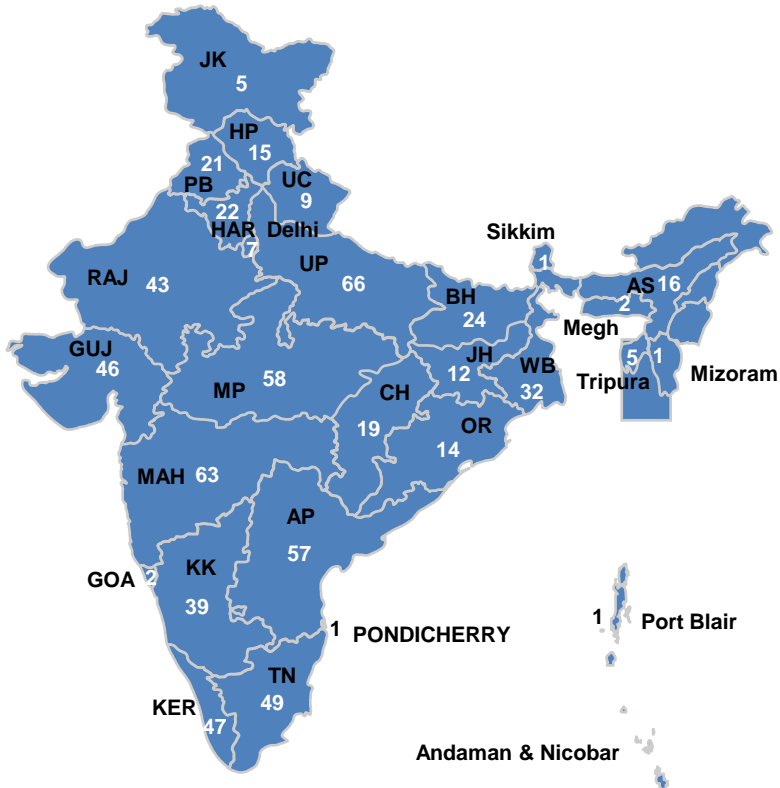
Effective use of technology to improve productivity

Leverage the “Mahindra” Ecosystem

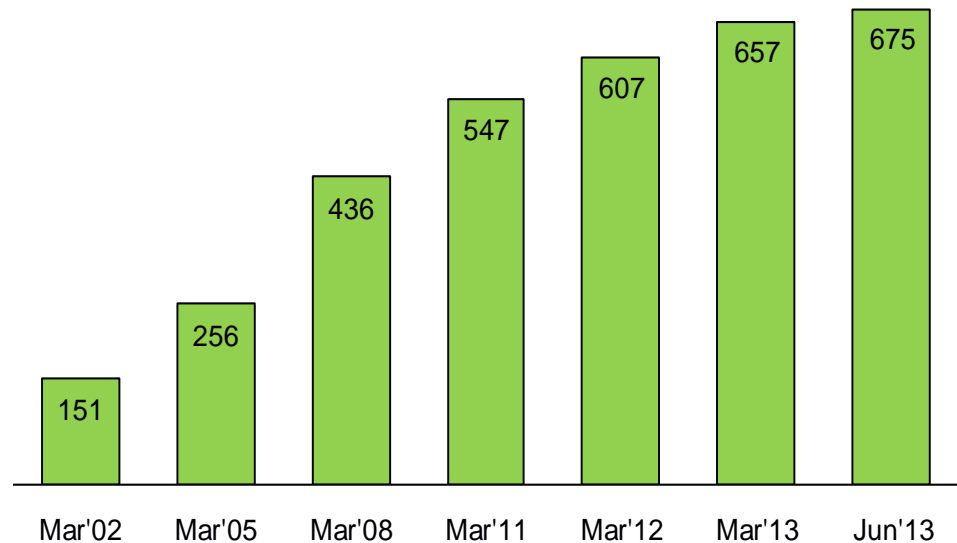
Extensive branch network

- MMFSL has an extensive branch network with presence in 25 states and 4 union territories in India through 675 offices as of June 30, 2013
 - Branches have authority to approve loans within prescribed guidelines

Coverage



Branch Network as of



Diversified Product Portfolio

Vehicle Financing

- Loans for auto and utility vehicles, tractors, cars, commercial vehicles and construction equipments



Pre-Owned Vehicles

- Loans for pre-owned cars, multi-utility vehicles, tractors and commercial vehicles



SME Financing

- Loans for varied purposes like project finance, equipment finance and working capital finance



Personal Loans

- Offers personal loans typically for weddings, children's education, medical treatment and working capital



Mutual Fund Distribution

- Advises clients on investing money through AMFI certified professionals under the brand "MAHINDRA FINANCE FINSMART"



Insurance Broking

- Insurance solutions to retail customers as well as corporations through our subsidiary MIBL



Housing Finance

- Loans for buying, renovating, extending and improving homes in rural and semi-urban India through our subsidiary MRHFL



Break up of estimated value of Assets Financed

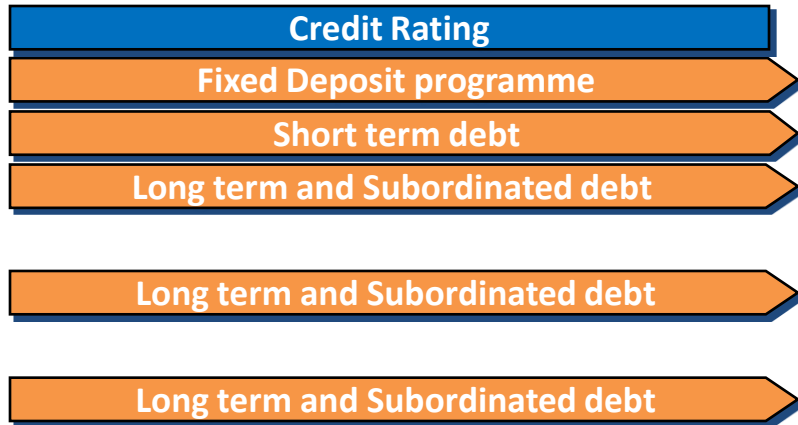
Segments	Quarter ended June – 13	Quarter ended June – 12	Year ended March–13
Auto/ Utility vehicles	30%	27%	31%
Tractors	21%	19%	19%
Cars	23%	27%	24%
Commercial vehicles and Construction equipments	13%	15%	14%
Pre-owned vehicles and others	13%	12%	12%

Break up of AUM

Segments	As on June – 13	As on June – 12	As on March – 13
Auto/ Utility vehicles (M&M)	28%	28%	29%
Tractors (M&M)	19%	20%	19%
Cars and Non M&M UVs, Tractors & SCVs	33%	32%	32%
Commercial vehicles and Construction equipments	12%	13%	13%
Pre-owned vehicles and others	8%	7%	7%

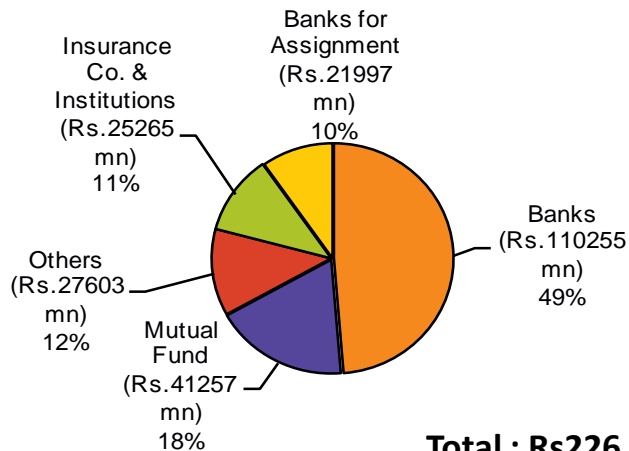
Broad based Liability Mix

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



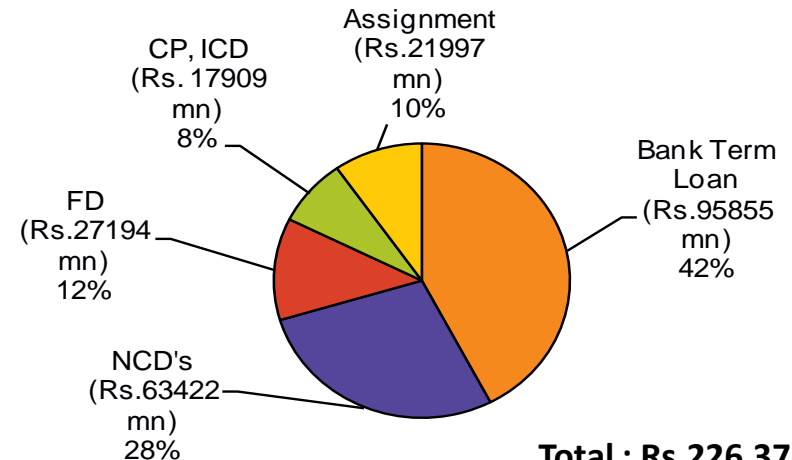
CRISIL	Outlook
FAAA	Stable
A1+	Stable
AA+	Stable
Brickwork	Outlook
AA+	Positive
India Ratings	Outlook
AA+ (ind)	Stable

Funding Mix by Investor profile (Jun' 13)



Total : Rs226.377 Bn

Funding Mix by type of Instrument (Jun' 13)



Total : Rs.226.377 Bn

Employee Management and Technology Initiatives

Employee engagement & training

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

Technology initiatives

- Approximately 98% of our 675 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

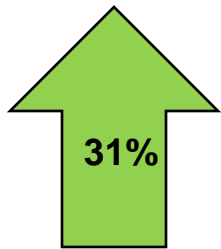


Key Financials

Q1- FY14 Vs Q1- FY13 (Figures on standalone basis)

Growth in Total income

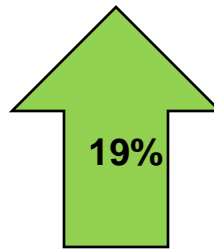
Rs 10,985 mn



Rs 8,387 mn

Growth in PAT

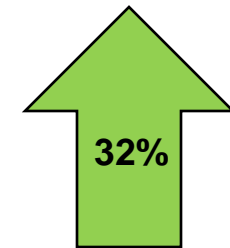
Rs 1,912 mn



Rs 1,610 mn

Growth in Value of Asset Financed

Rs 63,861 mn

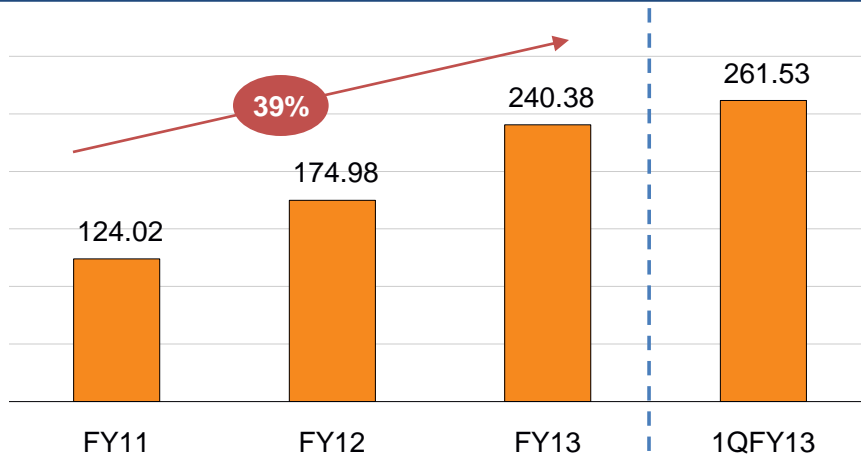


Rs 48,439 mn

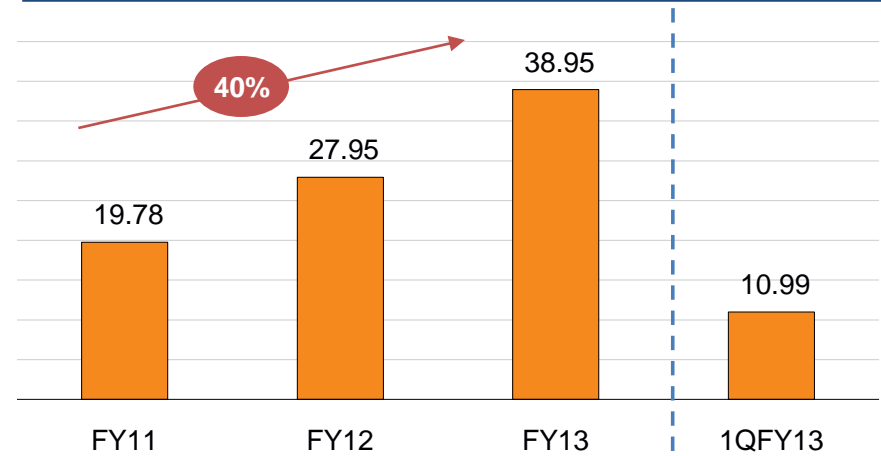
Strong Growth Trajectory

Figures on standalone basis

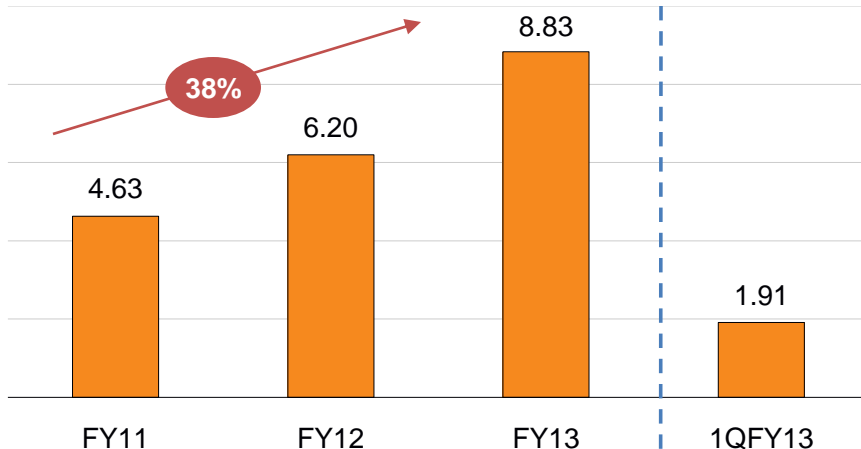
Increasing Loan Book (Rs. Bn)



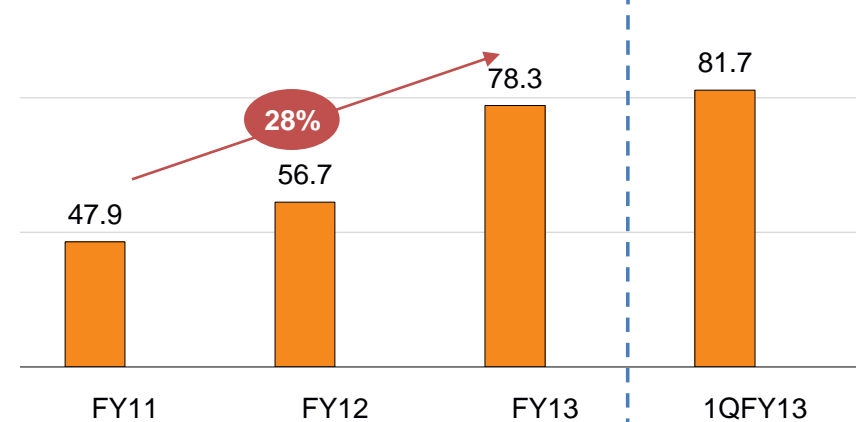
Growing Revenues (Rs. Bn)



Improving Profitability ⁽¹⁾ (Rs. Bn)



Increasing Book Value Per Share ⁽²⁾ (Rs.)

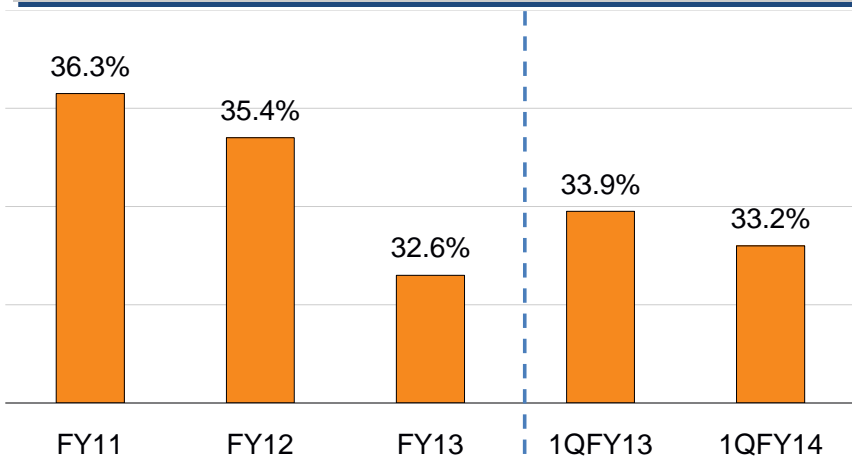


Note : 1 PAT post exceptional items 2. Calculated as Shareholders funds/
Number of shares

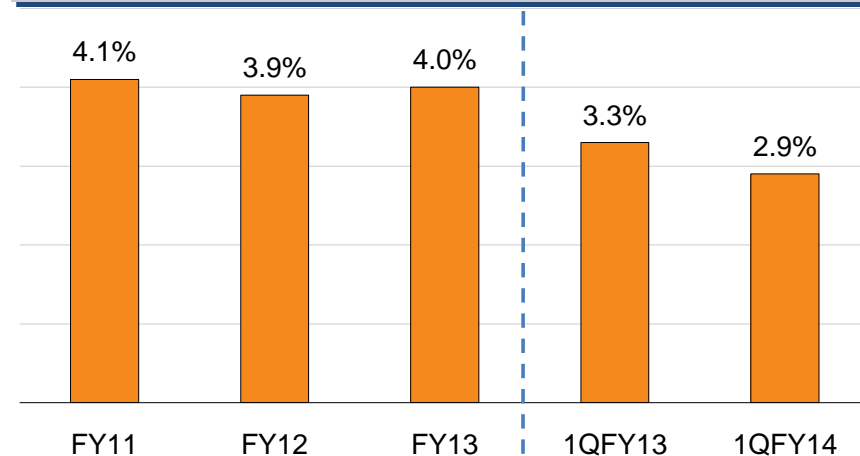
Consistent Financial Performance

Figures on standalone basis

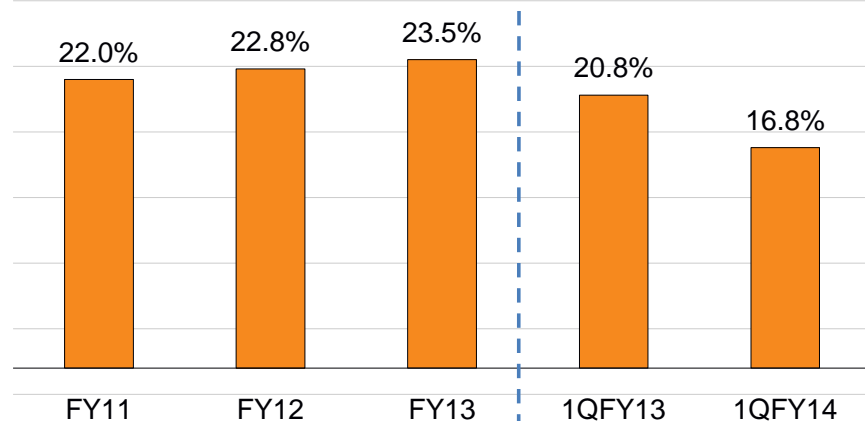
Declining cost to income ratio ⁽¹⁾ (%)



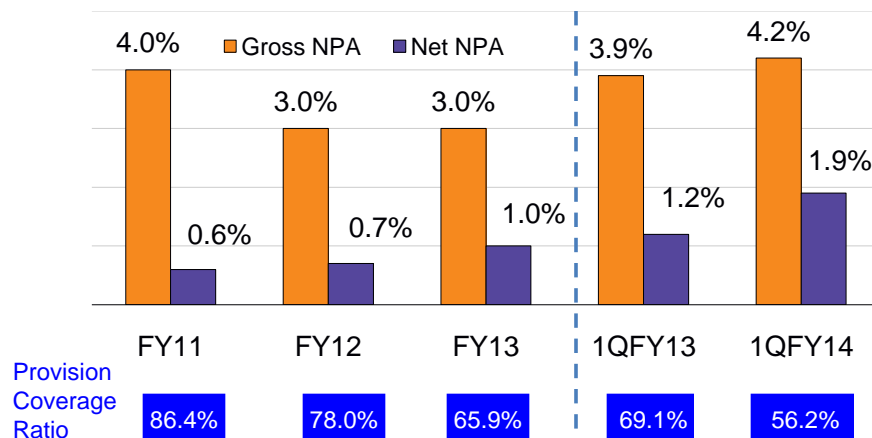
Steady ROA ⁽²⁾ (%)



Increasing RONW ⁽³⁾ (%)



Robust Asset Quality



Note

1 Cost to Income calculated as Operating Expenses (including depreciation)/(Net Interest Income + Other Income). 2 Calculated based on average total assets. 3 Calculated based on average network

Standalone Profit & Loss Statement

Particulars (Rs. in Million)	Quarter ended June - 13	Quarter ended June - 12	Year ended March - 13
Revenue from operations	10,925	8,348	38,567
Other income	60	39	380
Total Revenue	10,985	8,387	38,947
Expenses:			
Employee benefits expense	593	584	2,234
Finance costs	4,761	3,475	16,188
Depreciation and amortization expense	63	52	222
Provisions and write Offs	1,252	8,53	2,834
Other expenses	1,409	1,028	4,963
Total Expenses	8,078	5,992	26,441
Profit before tax & exceptional items	2,907	2,395	12,506
Exceptional Items	0	0	286
Profit before tax	2,907	2,395	12,792
Tax expense	995	785	3,965
Net Profit after Taxes for the year	1,912	1,610	8,827

Standalone Balance Sheet

Particulars (Rs. in Million)	As on Jun 30 2013	As on Jun 30 2012	As on Mar 31 2013
EQUITY AND LIABILITIES			
Shareholders' funds			
a) Share Capital	1,126	1,027	1,126
b) Reserves and Surplus	45,340	30,108	43,420
Shareholders' funds	46,466	31,135	44,546
Non-current liabilities			
a) Long-term borrowings	137,162	88,402	130,153
b) Other Long-term liabilities	3,188	845	2,430
c) Long term provisions	3,500	3,056	3,104
Non-current liabilities	143,850	92,303	135,687
Current liabilities			
a) Short Term Borrowings	25,302	26,206	13,012
b) Trade payables	4,471	4,422	4,789
c) Other current liabilities	47,954	39,694	50,372
d) Short term provisions	7,215	6,018	6,518
Current liabilities	84,942	76,340	74,691
Total Equities and Liabilities	275,258	199,778	254,924

Standalone Balance Sheet (Cont'd)

Particulars (Rs. in Million)	As on Jun 30 2013	As on Jun 30 2012	As on Mar 31 2013
ASSETS			
Non-current assets			
a) Fixed Assets	1,081	1,002	1,068
b) Non-current investments	4,117	2,319	3,451
c) Deferred tax assets (Net)	2,411	2,028	2,382
d) Long-term loans and advances	139,129	100,101	129,198
e) Other non-current assets	1,271	200	1,706
Non-current assets	148,009	105,650	137,805
Current assets			
a) Current investments	691	453	2,159
b) Trade receivables	58	86	98
c) Cash and cash equivalents	3,541	2,258	3,454
d) Short-term loans and advances	122,397	91,211	111,186
e) Other current assets	562	120	222
Current assets	127,249	94,128	117,119
Total Assets	275,258	199,778	254,924

Key Subsidiaries

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across the country*



Mahindra Rural Housing Finance

Particulars (Rs. million)	Quarter ended June – 13	Quarter ended June – 12	Year ended March – 13
Loans disbursed	1,131	707	4,329
No. of Customer Contracts (Nos)	9,478	8,480	61,332
Outstanding loan book	9,645	5,896	8,795
Total income	422	275	1,404
PBT	35	33	274
PAT	26	25	203

- Provide loans for home construction, extension, purchase and improvement to a wide base of customers in rural and semi-urban India
- Shareholding pattern: MMFSL- 87.5%, NHB- 12.5%
- Currently operating in 9 States

Mahindra Insurance Brokers Limited

Particulars (Rs. million)	Quarter ended June – 13	Quarter ended June – 12	Year ended March – 13
Total income	247	180	863
Net premium	1,626	1,209	5,538
PBT	120	104	512
PAT	79	70	344
No. of Policies for the Period (nos.)	223,204	158,969	802,829
No. of employees (nos.)	493	430	463

- Licensed by IRDA for undertaking insurance broking in Life, Non-Life and reinsurance businesses
- Shareholding pattern: MMFSL- 85%, Inclusion Resources Pvt. Ltd.- 15%

Consolidated Profit & Loss Statement

Particulars (Rs. in Million)	Quarter ended Jun - 13	Quarter ended Jun - 12	Year ended Mar - 13
Revenue from operations	11,647	8,826	40,950
Other income	60	30	179
Total Revenue	11,707	8,856	41,129
Expenses:			
Employee benefits expense	1,129	908	3,793
Finance costs	4,948	3,587	16,706
Depreciation and amortization expense	66	55	237
Provisions and write Offs	1,302	873	2,881
Other expenses	1,156	874	4,291
Total Expenses	8,601	6,297	27,908
Profit before tax & exceptional items	3,106	2,559	13,221
Exceptional Items	0	0	305
Profit before tax	3,106	2,559	13,526
Tax expense	1,060	836	4,237
Profit for the year	2,046	1,723	9,289
Minority Interest	15	3	19
Net Profit after Taxes and Minority Interest	2,031	1,720	9,270

Consolidated Balance Sheet

Particulars (Rs. in Million)	As on Jun 30 2013	As on Jun 30 2012	As on Mar 31 2013
EQUITY AND LIABILITIES			
Shareholders' funds			
a) Share Capital	1,126	1,027	1,126
b) Reserves and Surplus	46,787	31,057	44,670
Shareholders' funds	47,913	32,084	45,796
Minority Interest	283	80	237
Non-current liabilities			
a) Long-term borrowings	146,432	94,203	138,154
b) Other Long-term liabilities	3,188	845	2,430
c) Long term provisions	3,624	3,114	3,184
Non-current liabilities	153,244	98,162	143,768
Current liabilities			
a) Short Term Borrowings	28,373	28,109	15,819
b) Trade payables	4,551	4,485	4,893
c) Other current liabilities	51,443	40,835	53,533
d) Short term provisions	7,364	6,157	6,662
Current liabilities	91,731	79,586	80,907
Total Equities and Liabilities	293,171	209,912	270,708

Consolidated Balance Sheet (Cont'd)

Particulars (Rs. in Million)	As on Jun 30 2013	As on Jun 30 2012	As on Mar 31 2013
ASSETS			
Non-current assets			
a) Fixed Assets	1,152	1,047	1,137
b) Non-current investments	2,752	1,571	2,417
c) Deferred tax assets (Net)	2,455	2,053	2,421
d) Long-term loans and advances	153,369	108,150	141,662
e) Other non current assets	1,277	756	1,710
Non-current assets	161,005	113,577	149,347
Current assets			
a) Current investments	692	453	2,159
b) Trade receivables	117	123	157
c) Cash and cash equivalents	3,772	2,018	3,680
d) Short-term loans and advances	127,022	93,622	115,138
e) Other current assets	563	119	227
Current assets	132,166	96,335	121,361
Total Assets	293,171	209,912	270,708

Summary & Key Ratios

Figures on standalone basis

Particulars	Quarter ended June – 13	Quarter ended June – 12	Year ended March – 13
RONW (Avg. Net Worth)	16.8%	20.8%	23.5%
Debt / Equity	4.42:1	4.81:1	4.24:1
Capital Adequacy	19.6%	17.4%	19.7%
Tier I	16.4%	14.7%	17.0%
Tier II	3.2%	2.7%	2.7%
EPS (Basic) (Rs.)	3.40	3.14	16.59
Book Value (Rs.)	81.7	59.9	78.3
Dividend (%)	--	--	180
Assets Under Management (Rs. Mn)	295,394	217,441	279,131
New Contracts During the period (Nos)	138,477	107,115	533,134
No. of employees (on rolls)	4,229	4,255	4,214
No. of employees (outsourced from MBSCPL)	7,498	5,587	7,056

Spread Analysis

Figures on standalone basis

	Quarter ended June – 13	Quarter ended June – 12	Year ended March – 13
Total Income / Average Assets	16.9%	17.6%	18.0%
Interest / Average Assets	7.2%	7.3%	7.4%
Gross Spread	9.7%	10.3%	10.6%
Overheads / Average Assets	3.3%	3.6%	3.5%
Write offs & NPA provisions / Average Assets	1.8%	1.7%	1.2%
Standard Asset Provisions / Average Assets	0.1%	0.1%	0.1%
Net Spread	4.5%	4.9%	5.8%
Net Spread after Tax	2.9%	3.3%	4.0%

NPA Analysis

Figures on standalone basis

Particulars (Rs. million)	June – 13	June – 12	March – 13
Gross Non - Performing Assets	11,555	7,760	7,630
Less: NPA Provisions	6,493	5,364	5,030
Net Non – Performing Assets	5,062	2,396	2,600
Total Assets (Incl. NPA Provision)	276,810	201,034	256,067
Gross NPA to Total Assets(%)	4.2%	3.9%	3.0%
Net NPA to Total Assets(%)	1.9%	1.2%	1.0%
Coverage Ratio(%)	56.2%	69.1%	65.9%

Note: Above workings are excluding securitised/assigned portfolio

Key Risk Management Practices & Regulatory changes

Transforming rural lives across the country



Conservative Risk Management Policies

Provisioning Norms

Duration (months)	RBI Norms	Duration (months)	MMFSL
6 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%		

Key Risks & Management Strategies

Key Risks

- Volatility in interest rates
- Rising competition
- Raising funds at competitive rates
- Dependence on M&M
- Occurrence of natural disasters
- Adhering to write-off standards
- Employee retention
- Physical cash management

Management Strategies

- Matching of asset and liabilities
- Increasing branch network
- Maintaining credit rating & improving asset quality
- Increasing non-M&M Portfolio
- Increasing geographical spread
- Diversify the product portfolio
- Job rotation / ESOP/ Recovery based performance initiatives
- Insurance & effective internal control

At MMFSL, NPA provisioning norms are more stringent than RBI norms

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