

Mahindra & Mahindra Financial Services Limited

Analyst Meet
MARCH - 2013

Company overview



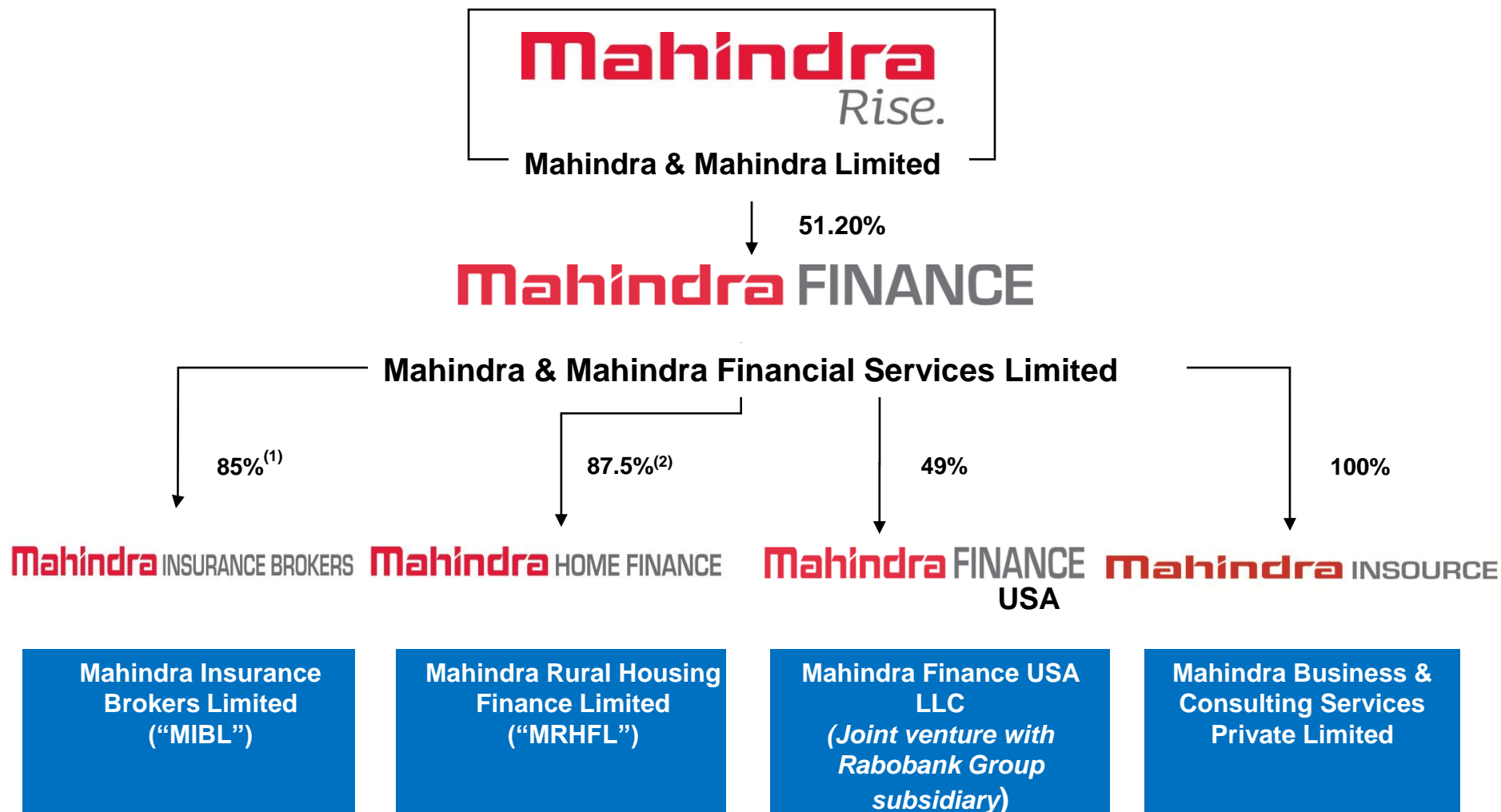
***Transforming rural lives
across the country***

Background

- Mahindra & Mahindra Financial Services Limited (“MMFSL”) is a subsidiary of Mahindra and Mahindra Limited (*Mcap: Rs 547 billion*)*, one of India’s leading tractor and utility vehicle manufacturers
- MMFSL (*Mcap: Rs 121 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 657 offices covering 25 states and 4 union territories in India, with over 2.5 million vehicle finance customer contracts since inception, as of March 31, 2013
- 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

**Source: Market capitalisation as of Apr 22, 2013 from BSE website*

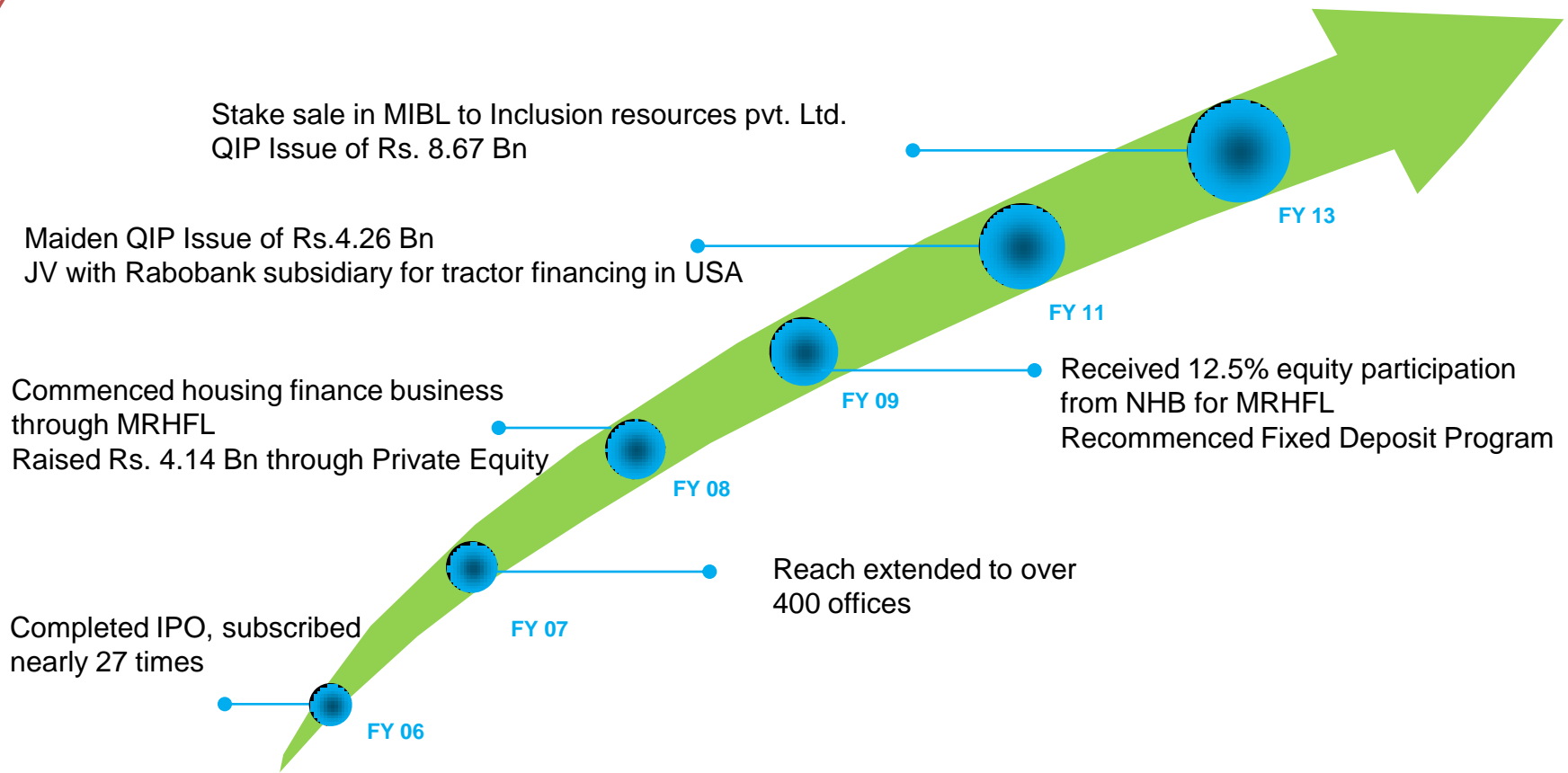
MMFSL Group structure



Note:

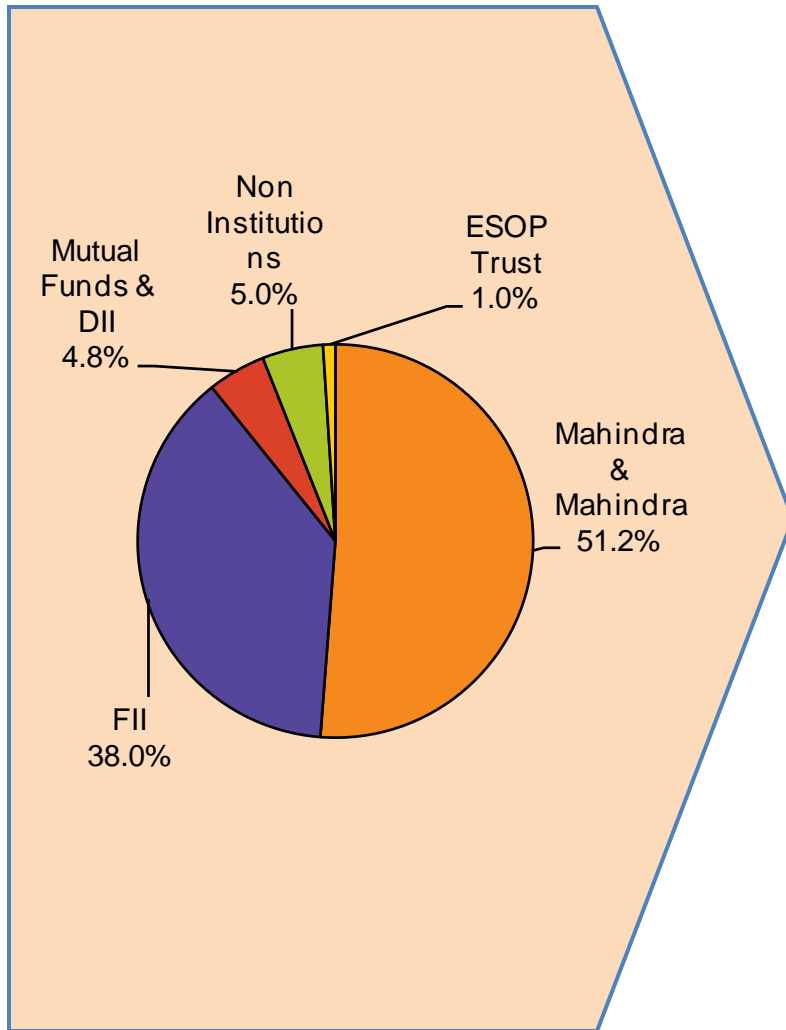
1. Balance 15% with Inclusion resources pvt. Ltd., a subsidiary of Leapfrog Financial Inclusion Fund, incorporated in Singapore.
2. Balance 12.5% with National Housing Bank (NHB)

Our Journey Thus Far



Shareholding pattern

(as on March 31, 2013)



Key Shareholders

- Morgan Stanley Asia (Singapore) Pte
- Cartica Capital Ltd
- Eastspring Investments India Equity Open Ltd
- Fidelity Investment Trust
- Wasatch Emerging Markets Small Cap Fund
- Flagship Indian Investment Company (Mauritius) Ltd
- JP Morgan Funds – Emerging Markets Equity Fund
- Dragaon Peacock Investments Ltd
- JF India Fund
- Credit Suisse (Singapore) Ltd

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%

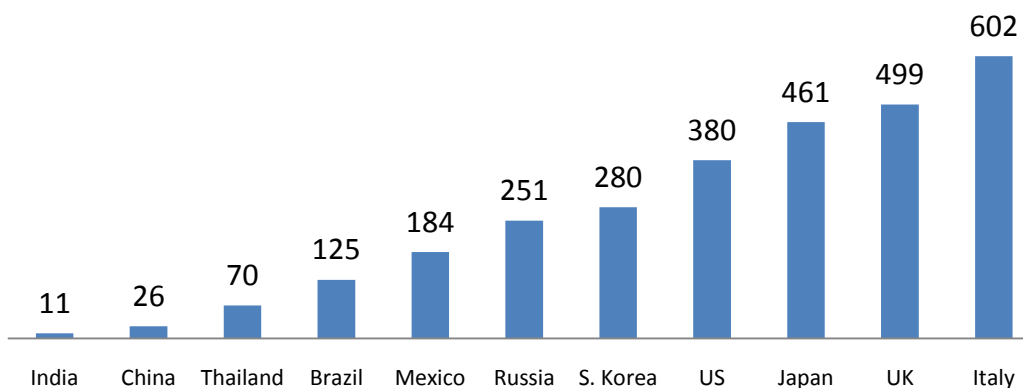
Source: CRISIL Research, Retail Finance - Auto, December 2012

- 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

(Volume in '000)	FY13 (Nos.)	FY12 (Nos.)	CAGR (%)
Passenger Vehicles (PVs)			
Passenger Cars / Vans	1715	1798	(5%)
UVs	500	324	54%
Commercial Vehicles (CVs)			
M&HCVs	239	309	(23%)
LCVs	470	410	15%
Three Wheelers	495	471	5%

Source: Auto Monitor

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

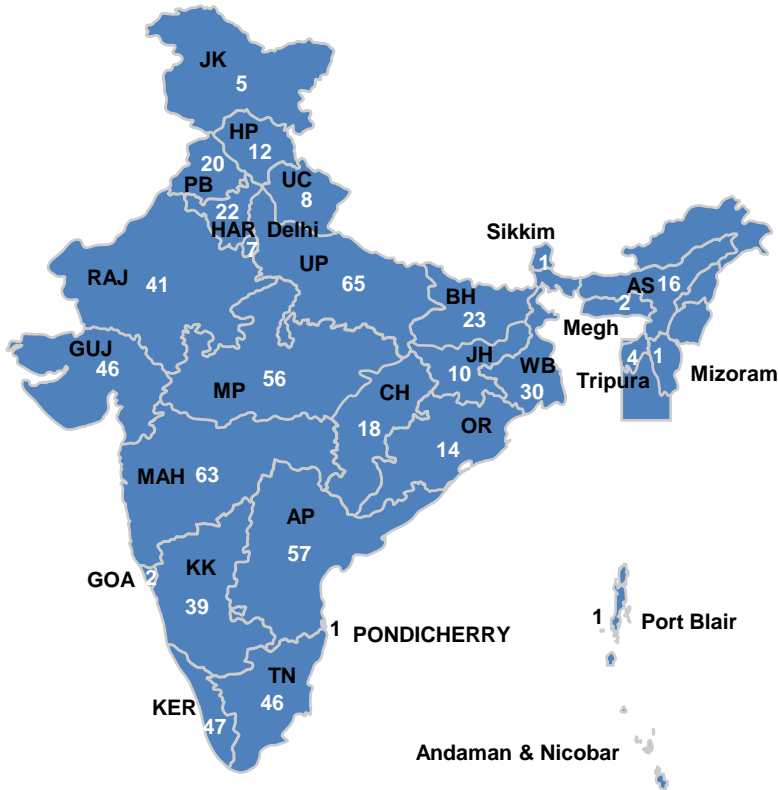
Effective use of technology to improve productivity

Leverage the “Mahindra” Ecosystem

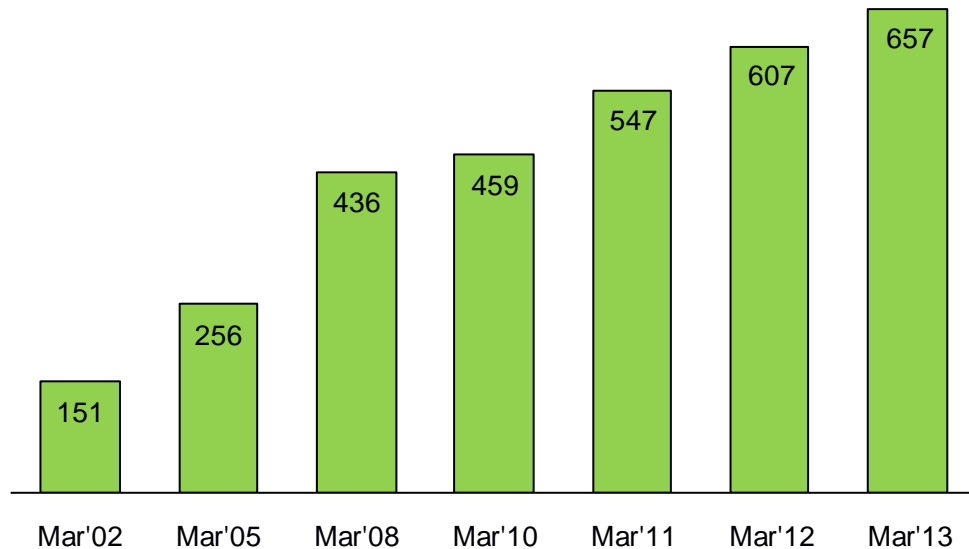
Extensive branch network

- MMFSL has an extensive branch network with presence in 25 states and 4 union territories in India through 657 offices as of March 31, 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

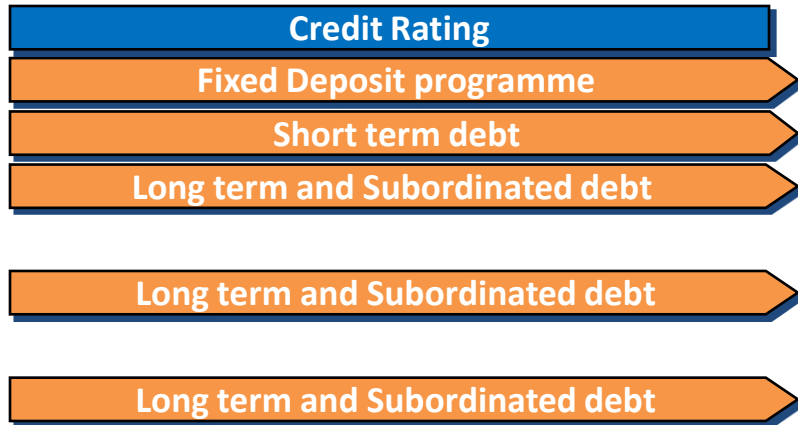
Segments	Year ended March-13	Year ended March-12	Year ended March-11
Auto/ Utility vehicles	31%	26%	30%
Tractors	19%	20%	22%
Cars	24%	26%	28%
Commercial vehicles and Construction equipments	14%	17%	11%
Pre-owned vehicles and others	12%	11%	9%

Break up of AUM

Segments	As on March – 13	As on March – 12	As on March – 11
Auto/ Utility vehicles (M&M)	29%	30%	31%
Tractors (M&M)	19%	20%	23%
Cars and Non M&M UVs, Tractors & SCVs	32%	31%	31%
Commercial vehicles and Construction equipments	13%	12%	9%
Pre-owned vehicles and others	7%	7%	6%

Broad based Liability Mix

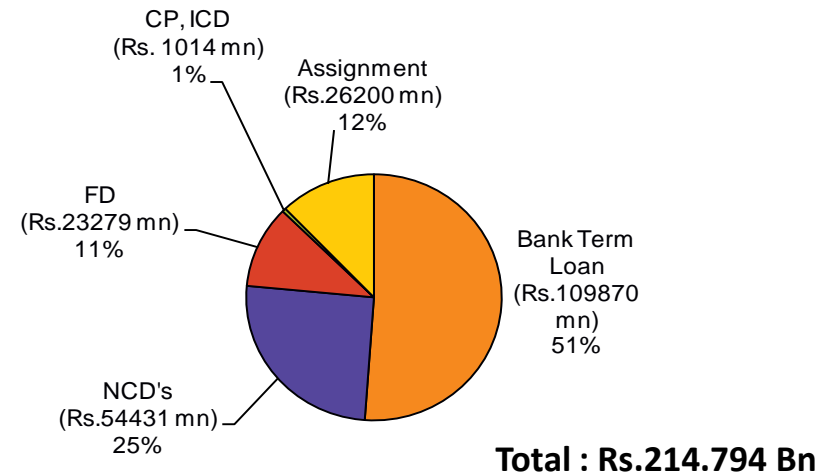
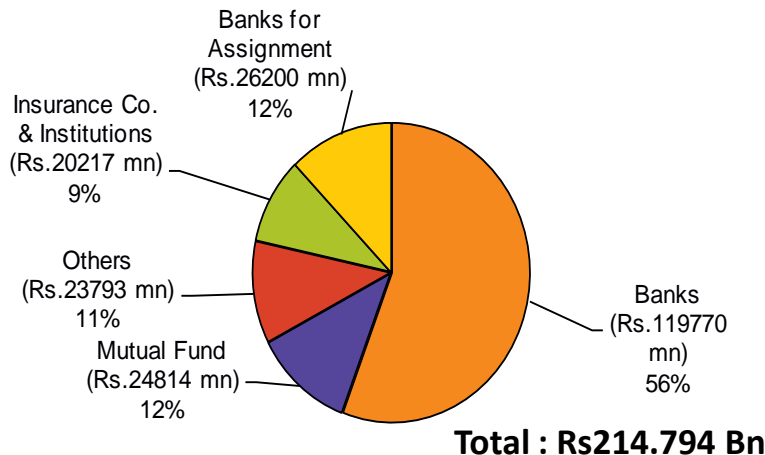
- MMFSL believes that its credit rating and strong brand equity enable it to borrow funds at competitive rates
- Total consortium size of Rs.10 Bn comprising several banks



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

Funding Mix by Investor profile (Mar' 13)

Funding Mix by type of Instrument (Mar' 13)



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 657 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



Financial Information



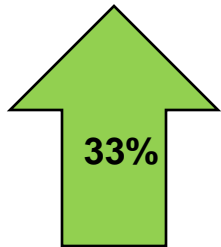
*Transforming rural lives
across the country*

Key Financials

Q4- FY13 Vs Q4- FY12 (Figures on standalone basis)

Growth in Total income

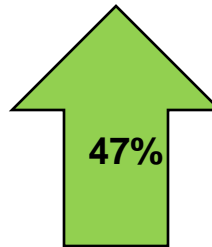
Rs 11,256 mn



Rs 8,470 mn

Growth in PAT

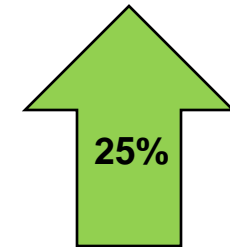
Rs 3,338 mn



Rs 2,277 mn

Growth in Value of Asset Financed

Rs 66,449 mn

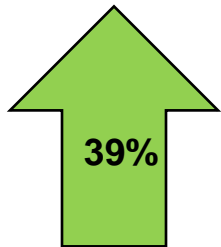


Rs 53,323 mn

FY13 Vs FY12 (Figures on standalone basis)

Growth in Total income

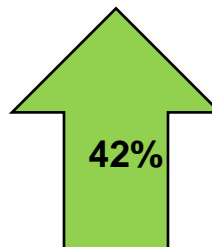
Rs 38,947 mn



Rs 27,946 mn

Growth in PAT

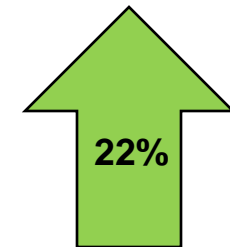
Rs 8,827 mn



Rs 6,201 mn

Growth in Value of Asset Financed

Rs 238,386 mn

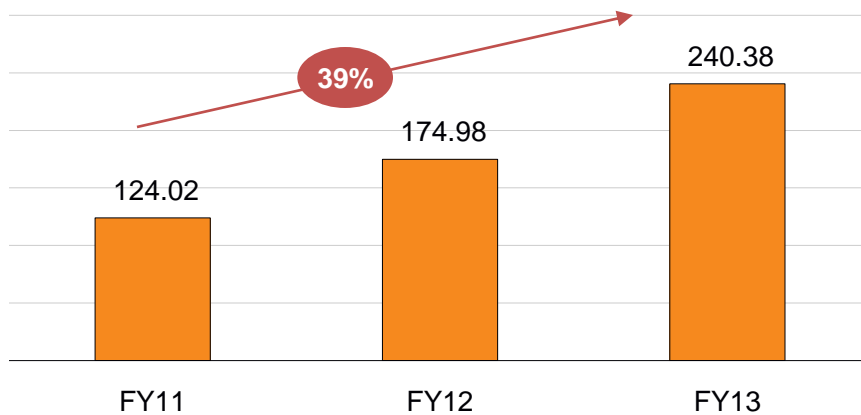


Rs 195,043 mn

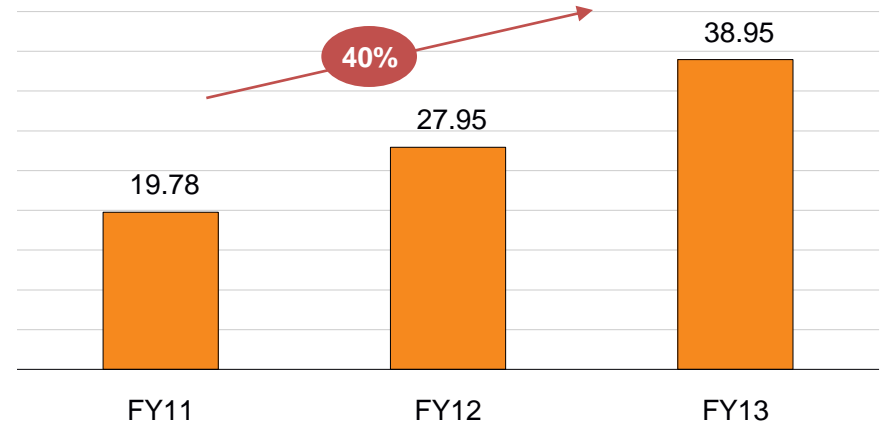
Strong Growth Trajectory

Figures on standalone basis

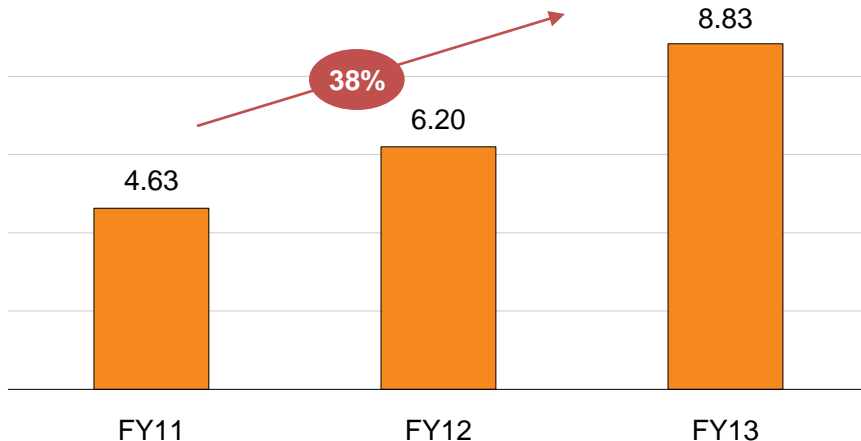
Increasing Loan Book (Rs. Bn)



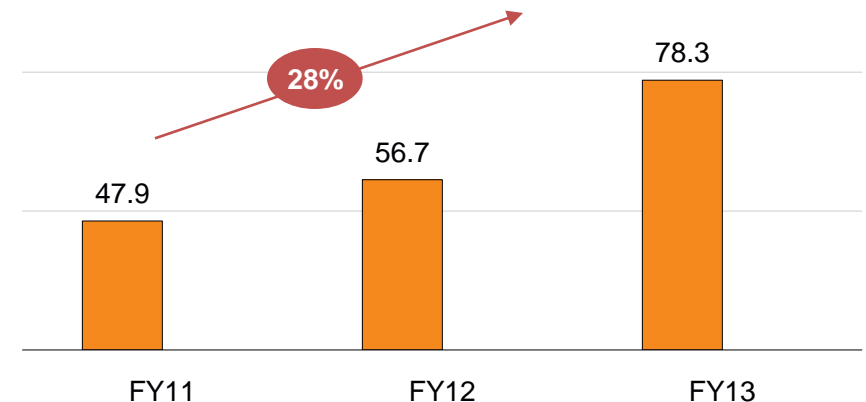
Growing Revenues (Rs. Bn)



Improving Profitability ⁽¹⁾ (Rs. Bn)



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

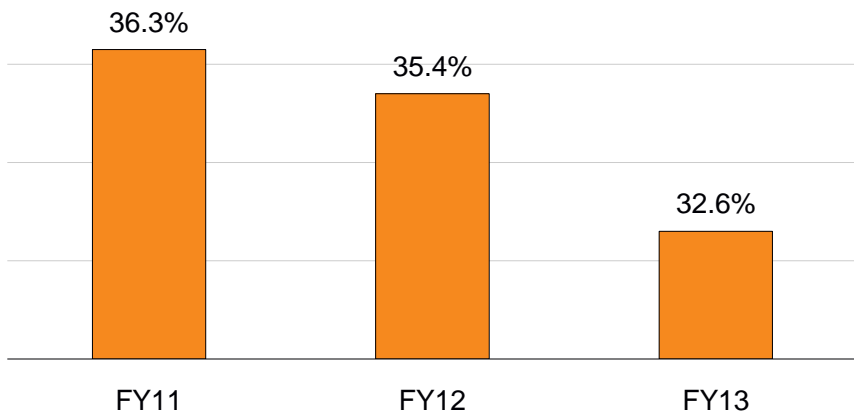


Note : 1 PAT post exceptional items 2. Calculated as Shareholders funds/
Number of shares

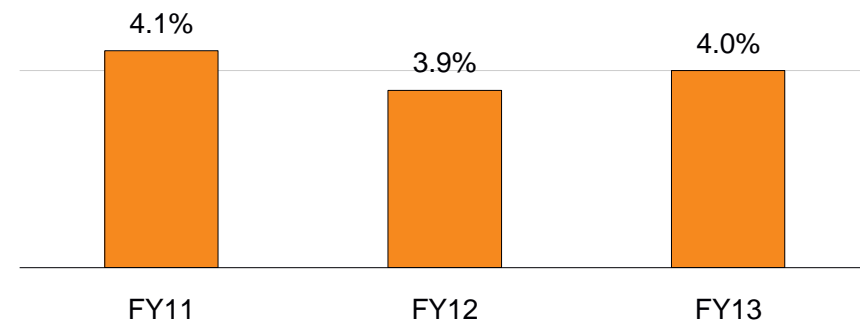
Consistent Financial Performance

Figures on standalone basis

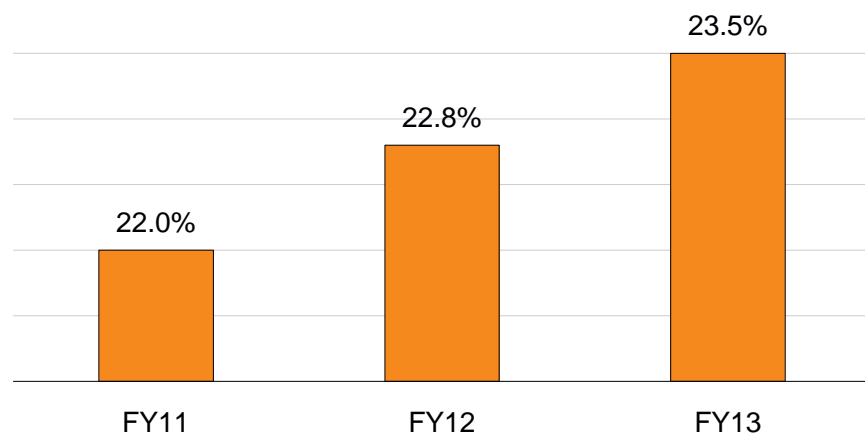
Declining cost to income ratio ⁽¹⁾ (%)



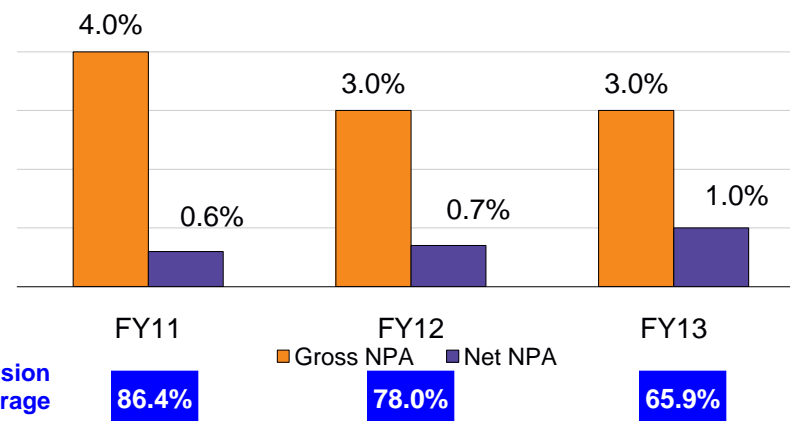
Steady ROA ⁽²⁾ (%)



Increasing RONW ⁽³⁾ (%)



Robust Asset Quality



Provision Coverage Ratio

86.4%

78.0%

65.9%

Note
 1 Cost to Income calculated as Operating Expenses (including depreciation)/(Net23 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)	FY13	FY12	FY11
Revenue from operations	38,567	27,681	19,653
Other income	380	265	122
Total Revenue	38,947	27,946	19,775
Expenses:			
Employee benefits expense	2,234	1,998	1,515
Finance costs	16,188	11,203	6,602
Depreciation and amortization expense	222	196	158
Provisions and write Offs	2,834	1,570	1,365
Other expenses	4,963	3,726	3,111
Total Expenses	26,441	18,693	12,751
Profit before tax & exceptional items	12,506	9,253	7,024
Exceptional Items	286	0	0
Profit before tax	12,792	9,253	7,024
Tax expense	3,965	3,052	2,393
Net Profit after Taxes for the year	8,827	6,201	4,631

Details of Exceptional Items

Particulars (Rs. in Million)	FY13
Profit on sale of shares of MIBL	643
Additional general provision on standard assets	(357)
Exceptional items impact on profit before tax	286
Tax impact of above	132
Exceptional item net of tax impact	154

Standalone Balance Sheet

Particulars (Rs. in Million)	As on Mar 31 2013	As on Mar 31 2012	As on Mar 31 2011
EQUITY AND LIABILITIES			
Shareholders' funds			
a) Share Capital	1,126	1,027	1,025
b) Reserves and Surplus	43,420	28,483	23,876
Shareholders' funds	44,546	29,510	24,901
Non-current liabilities			
a) Long-term borrowings	130,153	92,907	64,940
b) Other Long-term liabilities	2,430	781	372
c) Long term provisions	3,104	3,537	4,444
Non-current liabilities	135,687	97,225	69,756
Current liabilities			
a) Short Term Borrowings	13,012	14,491	6,766
b) Trade payables	4,789	3,765	2,855
c) Other current liabilities	50,372	36,006	28,908
d) Short term provisions	6,518	4,618	3,644
Current liabilities	74,691	58,880	42,173
Total Equities and Liabilities	254,924	185,615	136,830

Standalone Balance Sheet (Cont'd)

Particulars (Rs. in Million)	As on Mar 31 2013	As on Mar 31 2012	As on Mar 31 2011
ASSETS			
Non-current assets			
a) Fixed Assets	1,068	989	790
b) Non-current investments	3,451	2,131	1,430
c) Deferred tax assets (Net)	2,382	2,012	2,167
d) Long-term loans and advances	129,198	92,577	63,121
e) Other non-current assets	1,706	152	382
Non-current assets	137,805	97,861	67,890
Current assets			
a) Current investments	2,159	2,894	5,316
b) Trade receivables	98	77	70
c) Cash and cash equivalents	3,454	2,300	2,594
d) Short-term loans and advances	111,186	82,408	60,902
e) Other current assets	222	75	58
Current assets	117,119	87,754	68,940
Total Assets	254,924	185,615	136,830

Key Subsidiaries

*Transforming rural lives
across the country*



Mahindra Rural Housing Finance

Particulars (Rs. million)	Year ended March – 13	Year ended March – 12	Year ended March – 11
Loans disbursed	4,329	2,668	2,029
No. of Customer Contracts (Nos)	61,332	33,172	21,981
Outstanding loan book	8,795	5,352	3,152
Total income	1,404	857	486
PBT	274	161	122
PAT	203	119	89

- 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)	Year ended March – 13	Year ended March – 12	Year ended March – 11
Total income	863	465	517
Net premium	5,538	4,138	2,891
PBT	512	201	329
PAT	344	135	218
No. of Policies for the Period (nos.)	802,829	703,730	508,877
No. of employees (nos.)	463	451	379

- 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)	FY13	FY12
Revenue from operations	40,950	28,894
Other income	180	209
Total Revenue	41,130	29,103
Expenses:		
Employee benefits expense	3,793	3,127
Finance costs	16,706	11,399
Depreciation and amortization expense	237	203
Provisions and write Offs	2,881	1,600
Other expenses	4,291	3,161
Total Expenses	27,908	19,490
Profit before tax & exceptional items	13,221	9,613
Exceptional Items	305	0
Profit before tax	13,526	9,613
Tax expense	4,237	3,168
Profit for the year	9,289	6,445
Minority Interest	19	10
Net Profit after Taxes and Minority Interest	9,270	6,435

Consolidated Balance Sheet

Particulars (Rs. in Million)	As on Mar 31 2013	As on Mar 31 2012
EQUITY AND LIABILITIES		
Shareholders' funds		
a) Share Capital	1,126	1,027
b) Reserves and Surplus	44,670	29,284
Shareholders' funds	45,796	30,311
Minority Interest	237	77
Non-current liabilities		
a) Long-term borrowings	138,154	99,110
b) Other Long-term liabilities	2,430	780
c) Long term provisions	3,121	3,579
Non-current liabilities	143,705	103,469
Current liabilities		
a) Short Term Borrowings	15,819	14,390
b) Trade payables	4,893	3,817
c) Other current liabilities	53,533	37,409
d) Short term provisions	6,725	4,729
Current liabilities	80,970	60,345
Total Equities and Liabilities	270,708	194,202

Consolidated Balance Sheet (Cont'd)

Particulars (Rs. in Million)	As on Mar 31 2013	As on Mar 31 2012
ASSETS		
Non-current assets		
a) Fixed Assets	1,137	1,028
b) Non-current investments	2,417	1,472
c) Deferred tax assets (Net)	2,421	2,033
d) Long-term loans and advances	141,662	96,384
e) Other non current assets	1,710	158
Non-current assets	149,347	101,075
Current assets		
a) Current investments	2,159	2,894
b) Trade receivables	157	111
c) Cash and cash equivalents	3,680	2,560
d) Short-term loans and advances	115,138	87,487
e) Other current assets	227	75
Current assets	121,361	93,127
Total Assets	270,708	194,202

Summary & Key Ratios

Figures on standalone basis

Particulars	Year ended March – 13	Year ended March – 12	Year ended March – 11
RONW (Avg. Net Worth)	23.5%	22.8%	22.0%
Debt / Equity	4.24:1	4.74:1	3.88:1
Capital Adequacy	19.7%	18.0%	20.3%
Tier I	17.0%	15.1%	17.0%
Tier II	2.7%	2.9%	3.3%
EPS (Basic) (Rs.)	16.59	12.09	9.57
Book Value (Rs.)	78.3	56.7	47.9
Dividend (%)	180	140	100
Assets Under Management (Rs. Mn)	279,131	206,429	150,899
New Contracts During the period (Nos)	533,134	466,416	367,774
No. of employees (on rolls)	4,214	4,258	4,303
No. of employees (outsourced from MBSCPL)	7,056	5,457	4,420

Spread Analysis

Figures on standalone basis

	Year ended March – 13	Year ended March – 12	Year ended March – 11
Total Income / Average Assets	18.0%	17.7%	17.7%
Interest / Average Assets	7.4%	7.0%	5.8%
Gross Spread	10.6%	10.7%	11.9%
Overheads / Average Assets	3.5%	3.8%	4.4%
Write offs & NPA provisions / Average Assets	1.2%	0.9%	0.9%
Standard Asset Provisions / Average Assets	0.1%	0.1%	0.3%
Net Spread	5.8%	5.9%	6.3%
Net Spread after Tax	4.0%	3.9%	4.1%

NPA Analysis

Figures on standalone basis

Particulars (Rs. million)	March – 13	March – 12	March – 11
Gross Non - Performing Assets	7,630	5,543	5,488
Less: NPA Provisions	5,030	4,324	4,744
Net Non – Performing Assets	2,600	1,219	744
Total Assets (Incl. NPA Provision)	256,067	186,634	137,895
Gross NPA to Total Assets(%)	3.0%	3.0%	4.0%
Net NPA to Total Assets(%)	1.0%	0.7%	0.6%
Coverage Ratio(%)	65.9%	78.0%	86.4%

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

Regulatory Changes

- 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 20th July 2012

Please visit 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 12th December 2012 (final guidelines awaited)

Please visit http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=27757

New Securitisation / Assignment Guidelines

- 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 20th 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

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