

Mahindra & Mahindra Financial Services Limited

Analyst Meet
MARCH - 2014

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Background

- Mahindra & Mahindra Financial Services Limited (“MMFSL”) is a subsidiary of Mahindra and Mahindra Limited (*Mcap: Rs 631 billion*)*, one of India’s leading tractor and utility vehicle manufacturers
- MMFSL (*Mcap: Rs 139 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 893 offices covering 25 states and 4 union territories in India, with over 3.1 million vehicle finance customer contracts since inception, as of March 31, 2014
- 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 April 22, 2014 from BSE website*

MMFSL Group structure



51.20%

Mahindra FINANCE

Mahindra & Mahindra Financial Services Limited

85%⁽¹⁾

87.5%⁽²⁾

49%

100%

100%⁽³⁾

Mahindra Insurance Brokers Limited ("MIBL")

Mahindra Rural Housing Finance Limited ("MRHFL")

Mahindra Finance USA LLC (Joint venture with Rabobank group subsidiary)

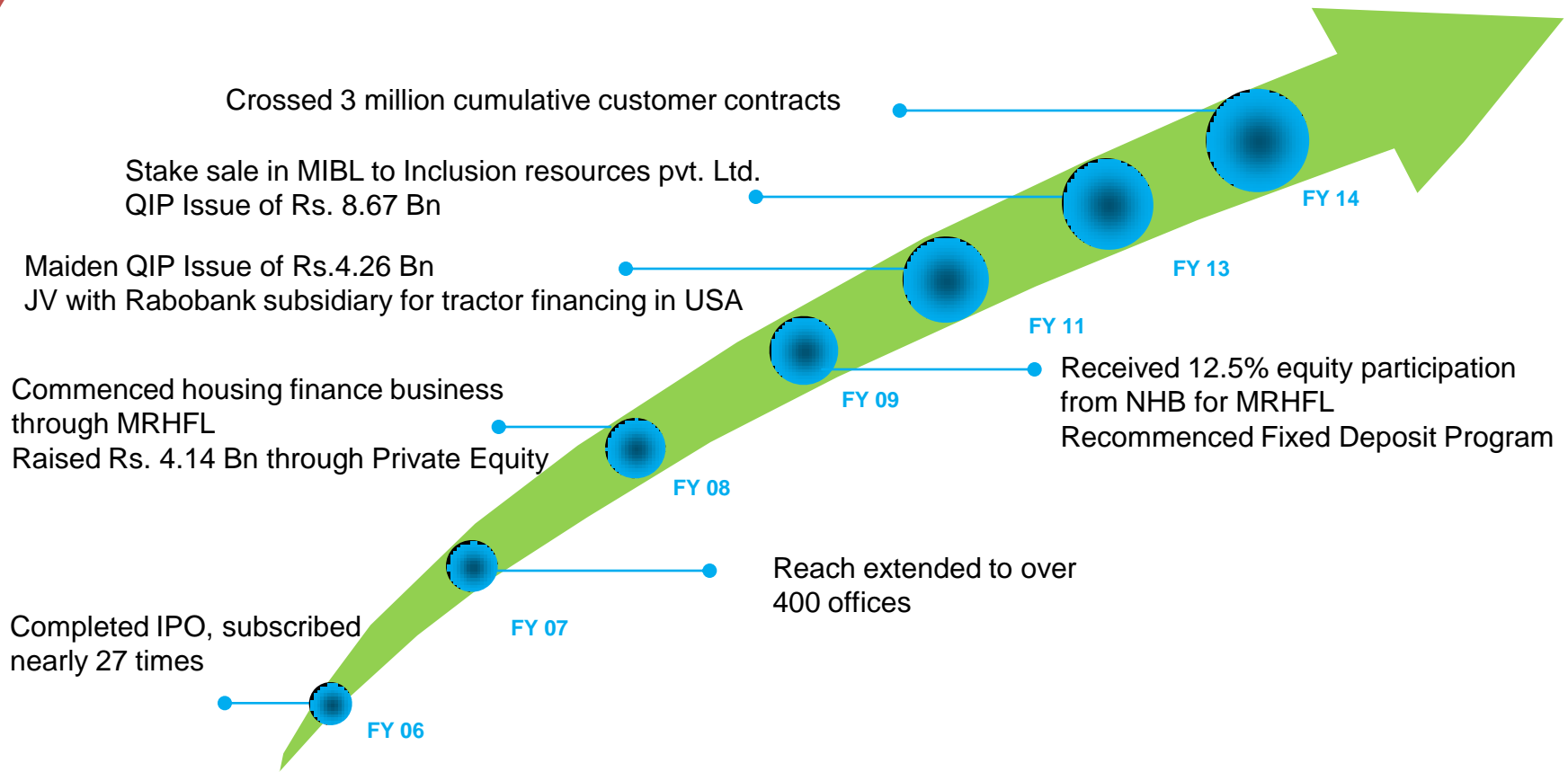
Mahindra Business & Consulting Services Private Limited

Mahindra Asset Management Company Pvt. Ltd

Note:

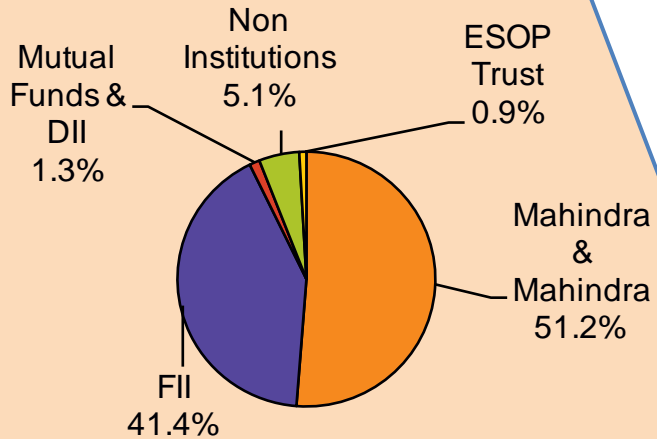
1. Balance 15% with Inclusion resources pvt. Ltd., a subsidiary of Leapfrog Financial Inclusion Fund, incorporated in Singapore.
2. Balance 12.5% with National Housing Bank (NHB)
3. As on 22nd April 2014

Our Journey Thus Far



Shareholding pattern

(as on March 31, 2014)



Key Shareholders

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

Automobile Finance Market to Grow by 16-18% over the next 5 years

Growth in New Vehicle Finance Disbursements						
(Rs. billion)	FY11E	FY12E	FY13E	FY14P	FY18P	CAGR FY13-FY18P
Cars	466	503	508	471	1007	14-16%
Utility Vehicles	155	180	251	239	605	18-20%
Commercial Vehicles	402	471	414	309	900	16-18%
Two-Wheelers	77	97	106	123	243	17-19%
Total	1,100	1,251	1,279	1,142	2,755	16-18%

Source: CRISIL Research, Retail Finance - Auto, December 2013

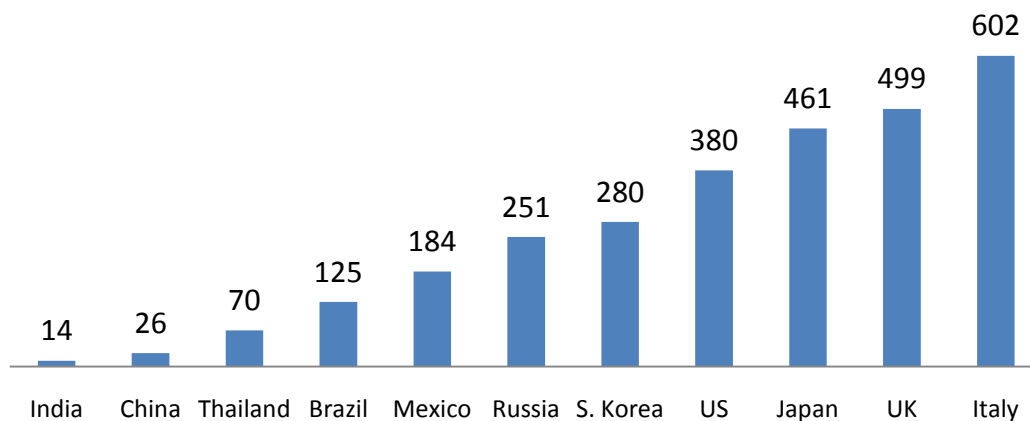
- By the fiscal year 2018, penetration levels are expected to increase to 76% for cars and 70% for utility vehicles from 75% and 66% respectively as a result of a moderation in interest rates and alleviation of credit risk
- Loan-to-value (LTVs) expected to increase marginally to 75% for cars and 71% for UVs from 74% and 70% respectively over the next 5 years

Auto Industry

Long term growth potential

	<u>FY03-08</u>	<u>FY08-13</u>	<u>FY14P</u>	<u>FY13-18P</u>
	CAGR (%)	CAGR (%)	(%)	CAGR (%)
Cars and Uvs	17	12	(6-8)	12-14
Tractors	12	12	16-18	7-9
CVs	21	10	(19-21)	12-14
2 wheelers	5	14	5-7	9-11

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
- Small Cars are expected to recover in 2014-15, led by economy recovery and lower petrol prices
- With 14 cars per 1000 people, India's potential is greater
- MHCV goods vehicle sales in the long term to be supported by growth in economic activity, export-import and freight traffic, construction activities etc.
- Demand for LCVs in the long term to be fuelled by increase of hub-and-spoke model, growth of organised retail, rising consumption expenditure and improvement in rural road infrastructure

Source: *CRISIL Research, Auto presentation - Dec 2013

Note : (1) Data is for CY2011 for all countries except India. India estimates are for FY13.

Auto Industry Volume

Domestic Sales (Volume in '000)	FY14 (Nos.)	FY13 (Nos.)	FY12 (Nos.)
Passenger Vehicles (PVs)			
Passenger Cars / Vans	1,785	1,874	2,030
UVs	716	791	600
Commercial Vehicles (CVs)			
M&HCVs	201	269	349
LCVs	432	524	460
Three Wheelers	480	538	513

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

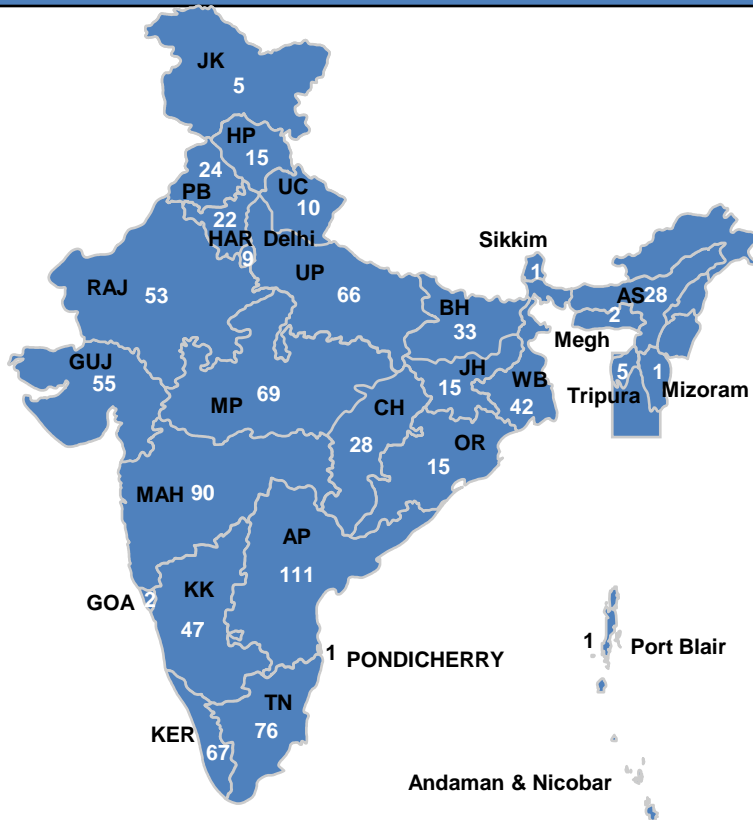
Effective use of technology to improve productivity

Leverage the “Mahindra” Ecosystem

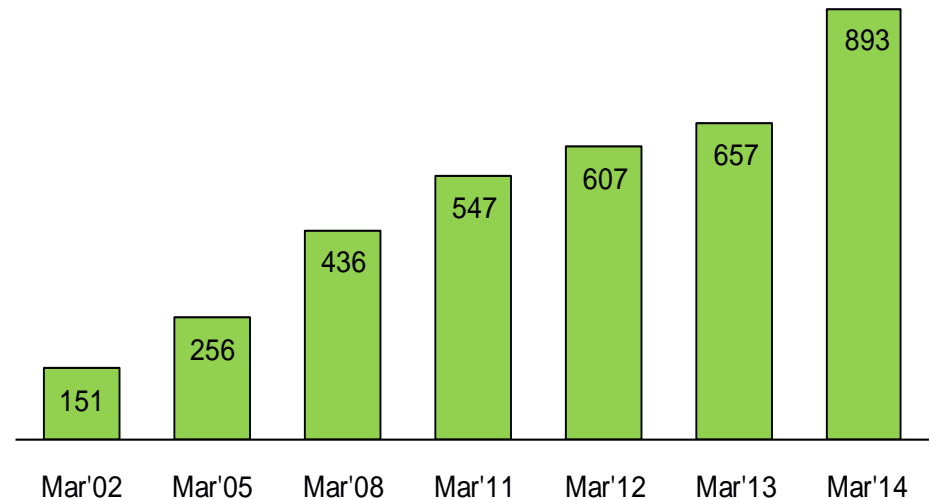
Extensive branch network

- MMFSL has an extensive branch network with presence in 25 states and 4 union territories in India through 893 offices as of March 31, 2014
 - 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

Asset Class	Year ended March-14	Year ended March-13	Year ended March-12
Auto/ Utility vehicles	32%	31%	26%
Tractors	20%	19%	20%
Cars	22%	24%	26%
Commercial vehicles and Construction equipments	11%	14%	17%
Pre-owned vehicles and others	15%	12%	11%

Break up of AUM

Asset Class	As on March – 14	As on March – 13
Auto/ Utility vehicles	29%	28%
Tractors	19%	19%
Cars	24%	24%
Commercial vehicles and Construction equipments	15%	17%
Pre-owned vehicles and others	13%	12%

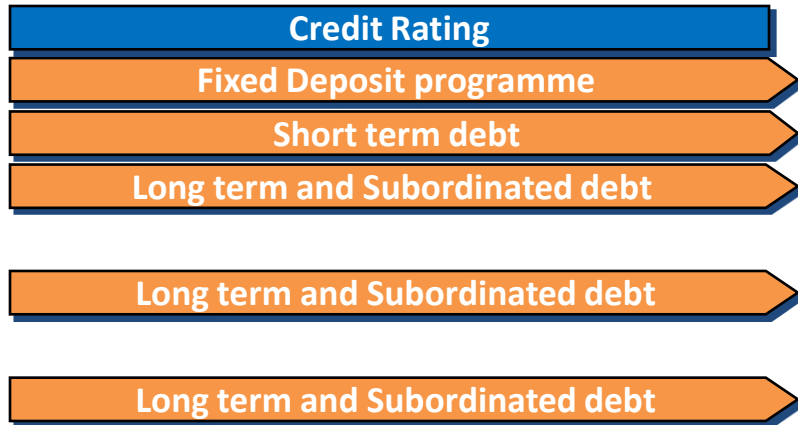
1. Approximate percentages

2. Dealer Advance/Trade Advance regrouped in Preowned vehicles and others, earlier included in respective Asset Class

3. As on 31st March 14, ~49% of the AUM was from M&M assets

Broad based Liability Mix

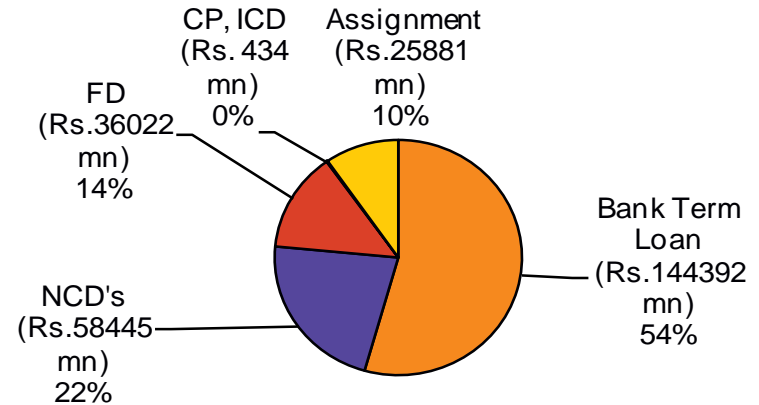
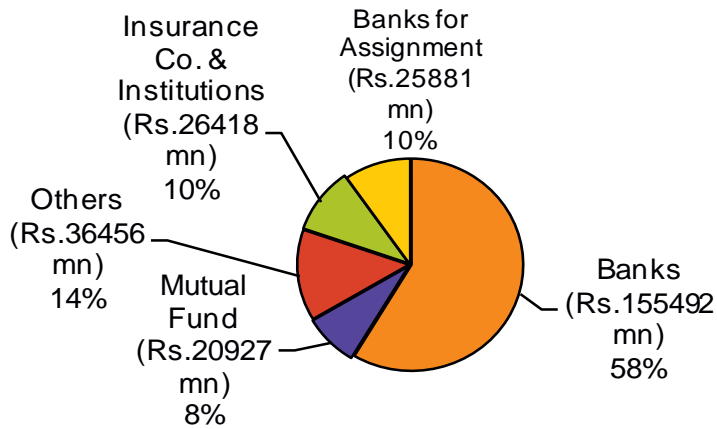
- MMFSL believes that its credit rating and strong brand equity enable it to borrow funds at competitive rates
- Total consortium size of Rs.15.3 Bn comprising several banks



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

Funding Mix by Investor profile (Mar' 14)

Funding Mix by type of Instrument (Mar' 14)



Total : Rs265.174 Bn

Total : Rs.265.174 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

- All our offices are connected to the centralised data centre in Mumbai through Lease line/HHD
- 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

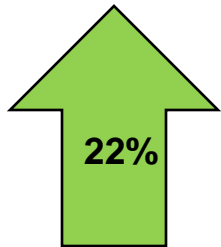


Key Financials

Q4FY14 Vs Q4FY13 (Figures on standalone basis)

Total income

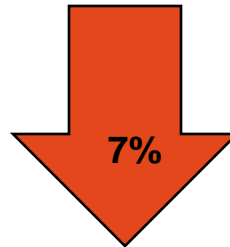
Rs 13,706 mn



Rs 11,256 mn

Profit after Tax

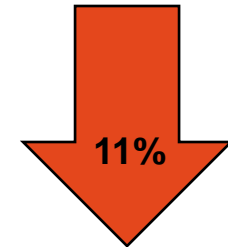
Rs 3,107 mn



Rs 3,338 mn

Value of Asset Financed

Rs 58,821 mn

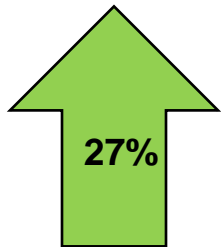


Rs 66,449 mn

FY14 Vs FY13 (Figures on standalone basis)

Total income

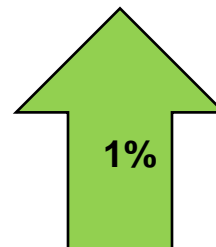
Rs 49,530 mn



Rs 38,947 mn

Profit after Tax

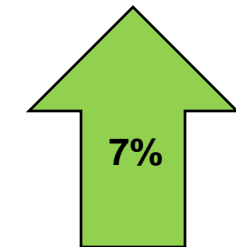
Rs 8,872 mn



Rs 8,827 mn

Value of Asset Financed

Rs 254,000 mn

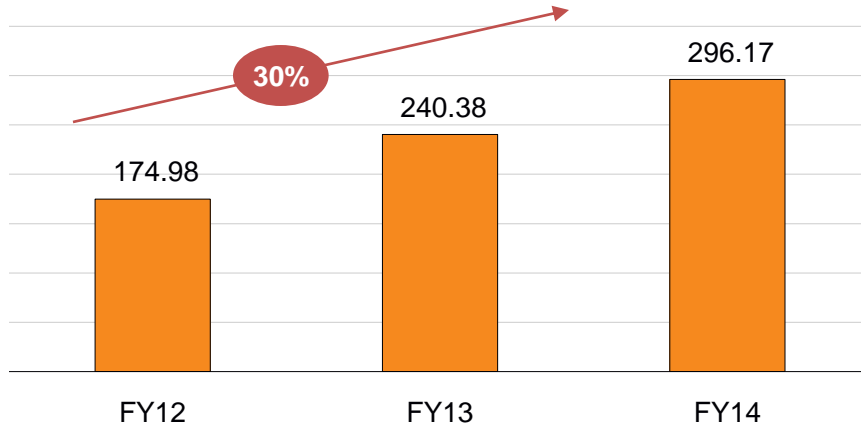


Rs 238,386 mn

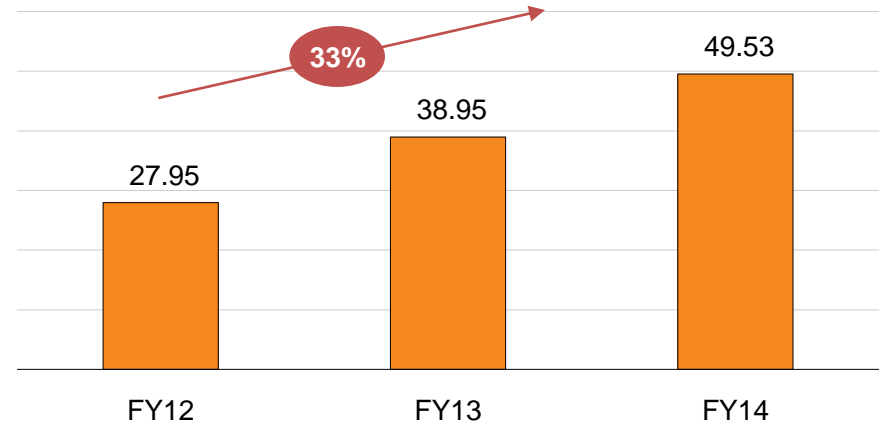
Growth Trajectory

Figures on standalone basis

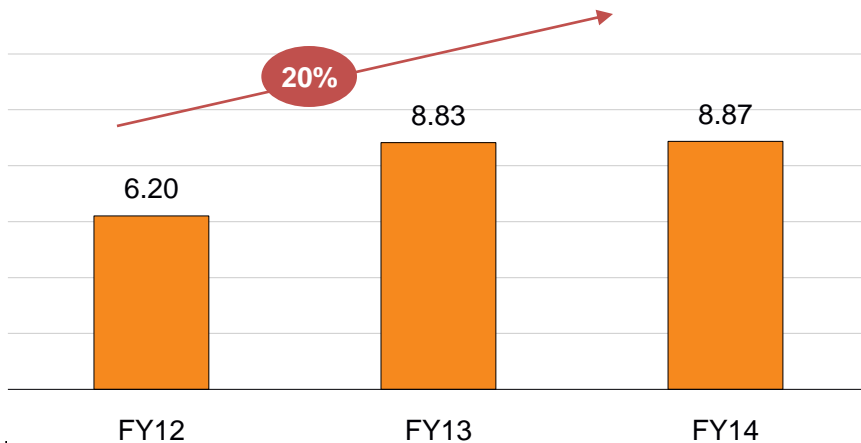
Loan Book (Rs. Bn)



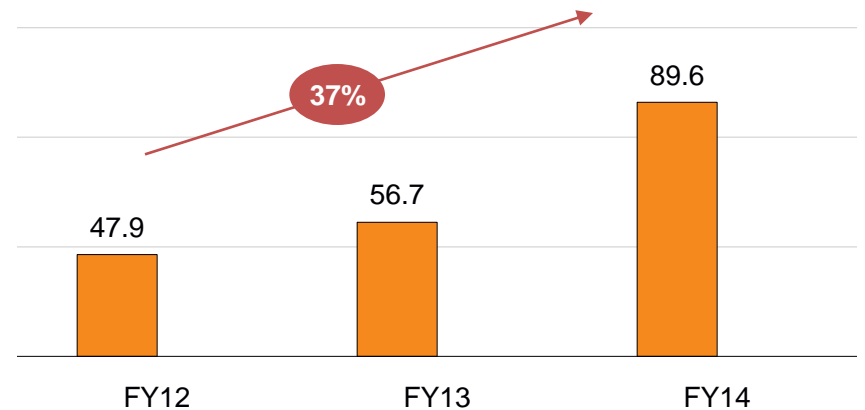
Revenues (Rs. Bn)



Profit after Tax ⁽¹⁾ (Rs. Bn)



Book Value Per Share ⁽²⁾ (Rs.)

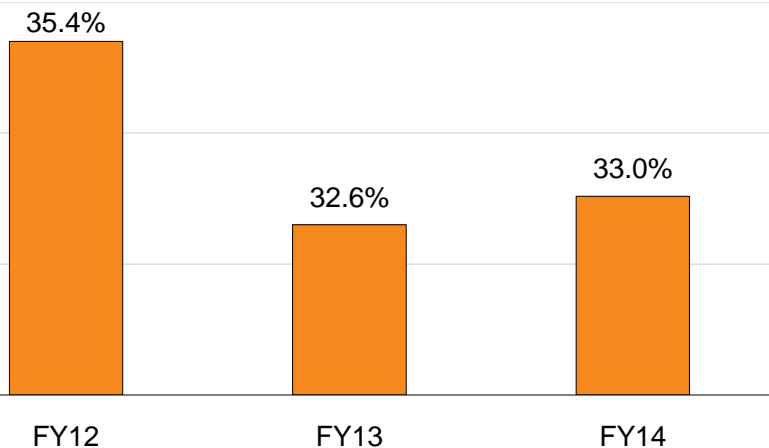


Note : 1 PAT post exceptional items 2. Calculated as Shareholders funds/
Number of shares

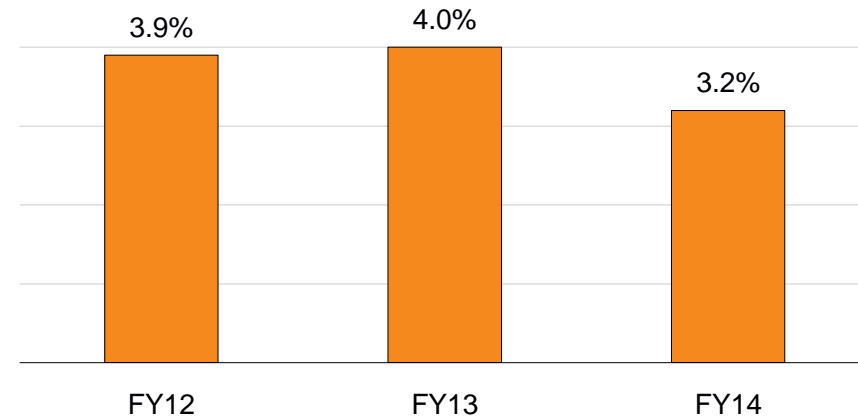
Financial Performance

Figures on standalone basis

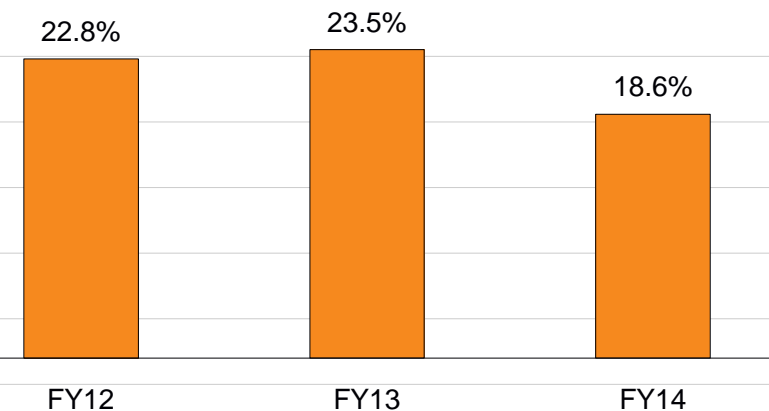
Cost to income ratio ⁽¹⁾ (%)



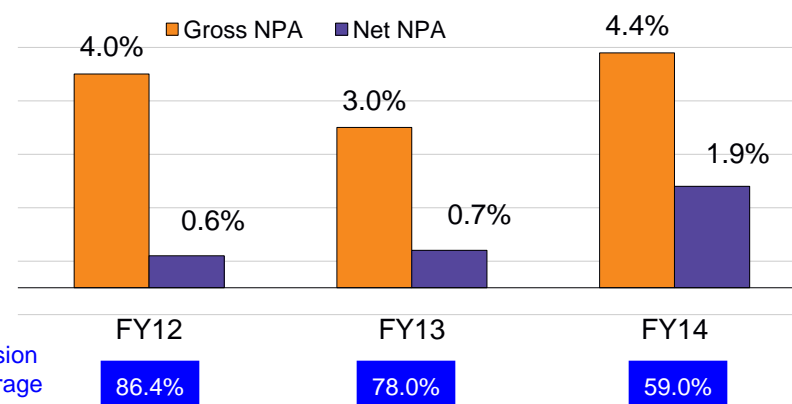
Return on Assets (ROA) ⁽²⁾ (%)



Return on Net Worth (RONW) ⁽³⁾ (%)



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 networth

Standalone Profit & Loss Statement

Particulars (Rs. in Million)	Year ended March – 14	Year ended March – 13	Year ended March - 12
Revenue from operations	49,216	38,567	27,681
Other income	314	380	265
Total Revenue	49,530	38,947	27,946
Expenses:			
Employee benefits expense	2,973	2,234	1,998
Finance costs	21,880	16,188	11,203
Depreciation and amortization expense	243	222	196
Provisions and write Offs	5,058	2,834	1,570
Other expenses	5,918	4,963	3,726
Total Expenses	36,072	26,441	18,693
Profit before tax & exceptional items	13,458	12,506	9,253
Exceptional Items	0	286	0
Profit before tax	13,458	12,792	9,253
Tax expense	4,586	3,965	3,052
Net Profit after Taxes for the year	8,872	8,827	6,201

Standalone Balance Sheet

Particulars (Rs. in Million)	As on Mar 31 2014	As on Mar 31 2013	As on Mar 31 2012
EQUITY AND LIABILITIES			
Shareholders' funds			
a) Share Capital	1,127	1,126	1,027
b) Reserves and Surplus	49,815	43,420	28,483
Shareholders' funds	50,942	44,546	29,510
Non-current liabilities			
a) Long-term borrowings	169,032	130,153	92,907
b) Other Long-term liabilities	2,764	2,430	781
c) Long term provisions	3,180	3,104	3,537
Non-current liabilities	174,976	135,687	97,225
Current liabilities			
a) Short Term Borrowings	12,443	13,012	14,491
b) Trade payables	4,379	4,789	3,765
c) Other current liabilities	64,911	50,372	36,006
d) Short term provisions	9,006	6,518	4,618
Current liabilities	90,739	74,691	58,880
Total Equities and Liabilities	316,657	254,924	185,615

Standalone Balance Sheet (Cont'd)

Particulars (Rs. in Million)	As on Mar 31 2014	As on Mar 31 2013	As on Mar 31 2012
ASSETS			
Non-current assets			
a) Fixed Assets	1,195	1,068	989
b) Non-current investments	5,263	3,451	2,131
c) Deferred tax assets (Net)	3,151	2,382	2,012
d) Long-term loans and advances	157,795	129,198	92,577
e) Other non-current assets	1,359	1,706	152
Non-current assets	168,763	137,805	97,861
Current assets			
a) Current investments	3,429	2,159	2,894
b) Trade receivables	143	98	77
c) Cash and cash equivalents	5,533	3,454	2,300
d) Short-term loans and advances	138,375	111,186	82,408
e) Other current assets	414	222	75
Current assets	147,894	117,119	87,754
Total Assets	316,657	254,924	185,615

Key Subsidiaries

*Transforming rural lives
across the country*



Mahindra Rural Housing Finance

Particulars (Rs. million)	Year ended March – 14	Year ended March – 13	Year ended March – 12
Loans disbursed	6,306	4,329	2,668
No. of Customer Contracts (Nos)	56,868	61,332	33,172
Outstanding loan book	13,550	8,795	5,352
Total income	2,125	1,404	857
PBT	368	274	161
PAT	271	203	119

- 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 – 14	Year ended March – 13	Year ended March – 12
Total income	1,112	863	465
Net premium	7,384	5,538	4,138
PBT	638	512	201
PAT	420	344	135
No. of Policies for the Period (nos.)	1,068,577	802,829	703,730
No. of employees (nos.)	613	463	451

- 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)	Year ended March – 14	Year ended March - 13	Year ended March - 12
Revenue from operations	52,753	40,950	28,894
Other income	253	179	209
Total Revenue	53,006	41,129	29,103
Expenses:			
Employee benefits expense	4,945	3,793	3,127
Finance costs	22,810	16,706	11,399
Depreciation and amortization expense	261	237	203
Provisions and write Offs	5,190	2,881	1,600
Other expenses	5,185	4,291	3,161
Total Expenses	38,391	27,908	19,490
Profit before tax & exceptional items	14,615	13,221	9,613
Exceptional Items	0	305	0
Profit before tax	14,615	13,526	9,613
Tax expense	4,967	4,237	3,168
Profit for the year	9,648	9,289	6,445
Minority Interest	104	19	10
Net Profit after Taxes and Minority Interest	9,544	9,270	6,435

Consolidated Balance Sheet

Particulars (Rs. in Million)	As on Mar 31 2014	As on Mar 31 2013	As on Mar 31 2012
EQUITY AND LIABILITIES			
Shareholders' funds			
a) Share Capital	1,127	1,126	1,027
b) Reserves and Surplus	51,810	44,670	29,284
Shareholders' funds	52,937	45,796	30,311
Minority Interest	365	237	77
Non-current liabilities			
a) Long-term borrowings	182,538	138,154	99,110
b) Other Long-term liabilities	2,770	2,430	780
c) Long term provisions	3,331	3,184	3,579
Non-current liabilities	188,639	143,768	103,469
Current liabilities			
a) Short Term Borrowings	15,103	15,819	14,390
b) Trade payables	4,507	4,893	3,817
c) Other current liabilities	69,812	53,533	37,409
d) Short term provisions	9,212	6,662	4,729
Current liabilities	98,634	80,907	60,345
Total Equities and Liabilities	340,575	270,708	194,202

Consolidated Balance Sheet (Cont'd)

Particulars (Rs. in Million)	As on Mar 31 2014	As on Mar 31 2013	As on Mar 31 2012
ASSETS			
Non-current assets			
a) Fixed Assets	1,287	1,137	1,028
b) Non-current investments	3,790	2,417	1,472
c) Deferred tax assets (Net)	3,254	2,421	2,033
d) Long-term loans and advances	177,299	141,663	96,384
e) Other non current assets	1,364	1,710	158
Non-current assets	186,994	149,348	101,075
Current assets			
a) Current investments	3,429	2,158	2,894
b) Trade receivables	229	157	111
c) Cash and cash equivalents	5,704	3,680	2,560
d) Short-term loans and advances	143,806	115,138	87,487
e) Other current assets	413	227	75
Current assets	153,581	121,360	93,127
Total Assets	340,575	270,708	194,202

Summary & Key Ratios

Figures on standalone basis

Particulars	Year ended March – 14	Year ended March – 13	Year ended March – 12
RONW (Avg. Net Worth)	18.6%	23.5%	22.8%
Debt / Equity	4.70:1	4.24:1	4.74:1
Capital Adequacy	18.0%	19.7%	18.0%
Tier I	15.5%	17.0%	15.1%
Tier II	2.5%	2.7%	2.9%
EPS (Basic) (Rs.)	15.75	16.59	12.09
Book Value (Rs.)	89.6	78.3	56.7
Dividend	190%	180%	140%
Assets Under Management (Rs. Mn)	341,331	279,131	206,429
New Contracts During the period (Nos)	561,862	533,134	466,416
No. of employees (on rolls)	9,349	4,214	4,258
No. of employees (outsourced from MBSCPL)	3,467	7,056	5,457

Spread Analysis

Figures on standalone basis

	Year ended March – 14	Year ended March – 13	Year ended March – 12
Total Income / Average Assets	17.7%	18.0%	17.7%
Interest / Average Assets	7.8%	7.4%	7.0%
Gross Spread	9.9%	10.6%	10.7%
Overheads / Average Assets	3.3%	3.5%	3.8%
Write offs & NPA provisions / Average Assets	1.7%	1.2%	0.9%
Standard Asset Provisions / Average Assets	0.1%	0.1%	0.1%
Net Spread	4.8%	5.8%	5.9%
Net Spread after Tax	3.2%	4.0%	3.9%

NPA Analysis

Figures on standalone basis

Particulars (Rs. million)	March – 14	March – 13	March – 12
Gross Non - Performing Assets	14,057	7,630	5,543
Less: NPA Provisions	8,301	5,030	4,324
Net Non – Performing Assets	5,756	2,600	1,219
Total Assets (Incl. NPA Provision)	318,622	256,067	186,634
Gross NPA to Total Assets(%)	4.4%	3.0%	3.0%
Net NPA to Total Assets(%)	1.9%	1.0%	0.7%
Coverage Ratio(%)	59.0%	65.9%	78.0%

Note: Above workings are excluding securitised/assigned portfolio

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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