

Mahindra & Mahindra Financial Services Limited

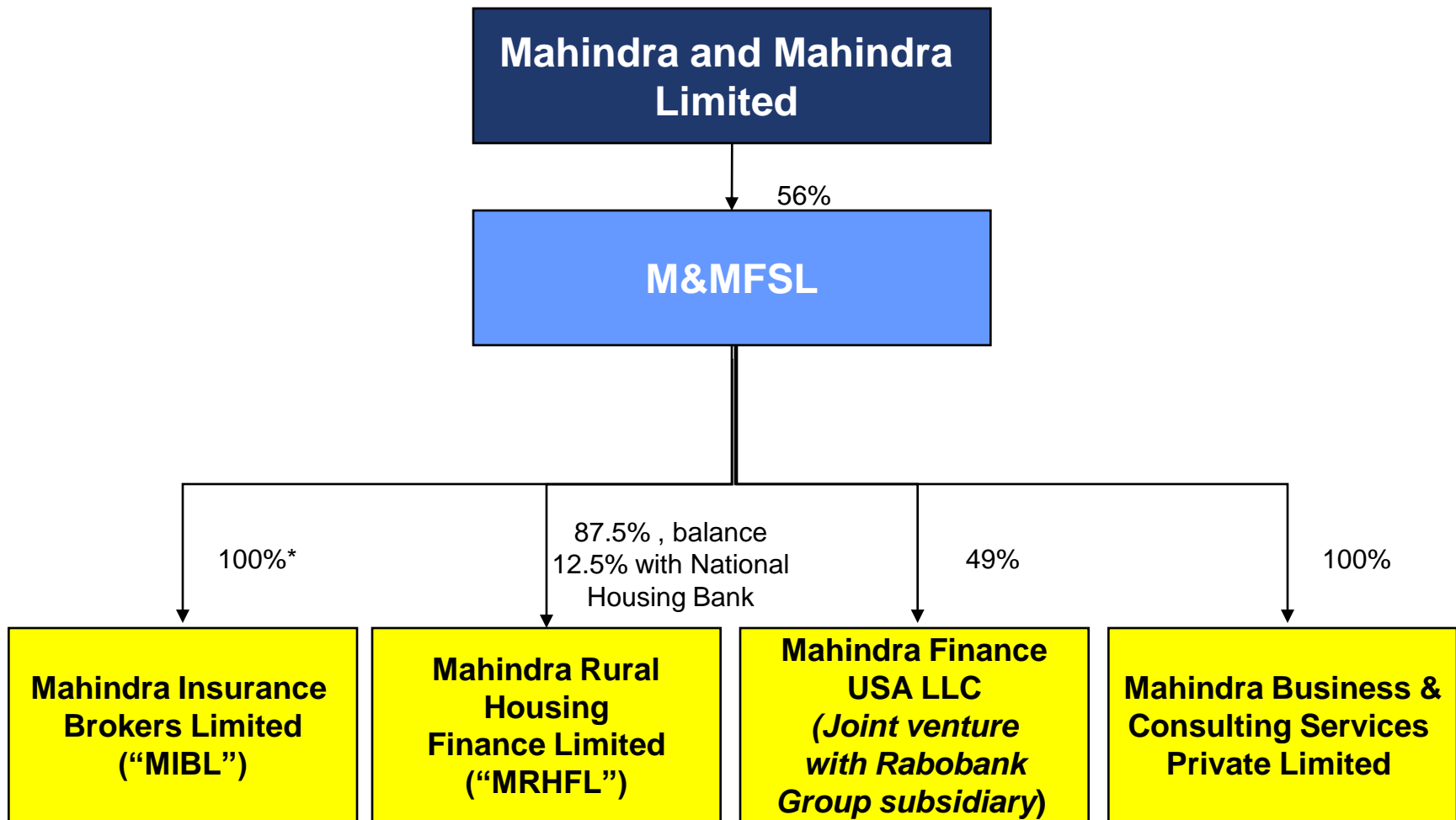
**Quarter Result Update
SEPTEMBER - 2012**

Company overview

Background

- Mahindra & Mahindra Financial Services Limited (M&MFSL) is a subsidiary of Mahindra and Mahindra Limited (Mcap: Rs 506 billion)*, one of India's leading tractor and utility vehicle manufacturers
- M&MFSL (Mcap: Rs 92 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 628 offices covering 24 states and 4 union territories in India, with over 2.2 million vehicle finance customer contracts since inception, as of September 30, 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

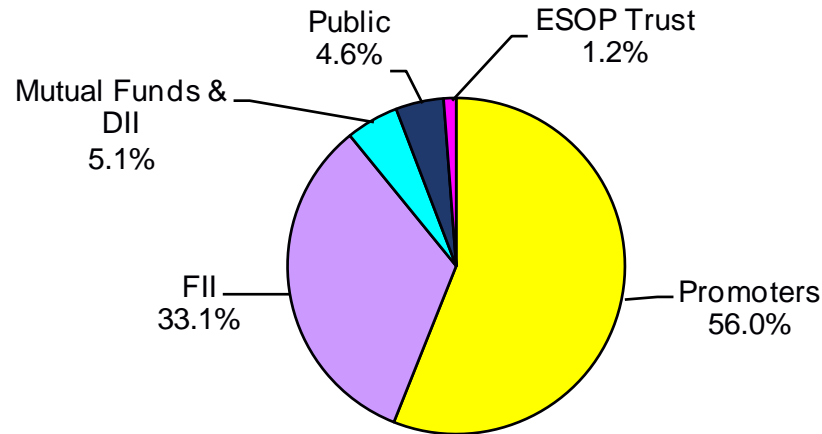
M&MFSL Group structure



* 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 September 30, 2012)



- Incorporated in 1991 and initially provided financing to dealers of Mahindra & Mahindra Limited
- 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 6.13 million shares to Qualified Institutional Buyers (QIBs) under QIP in February 2011, all at a cash price of Rs. 695/Share
- Shareholders include Eastspring Investments India Equity open Ltd, JP Morgan Funds, Fidelity Investment Trust, Valiant Mauritius Partners Ltd and Cartica Capital Ltd.

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%
Total	606	813	1161	1319	2,665	18%

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

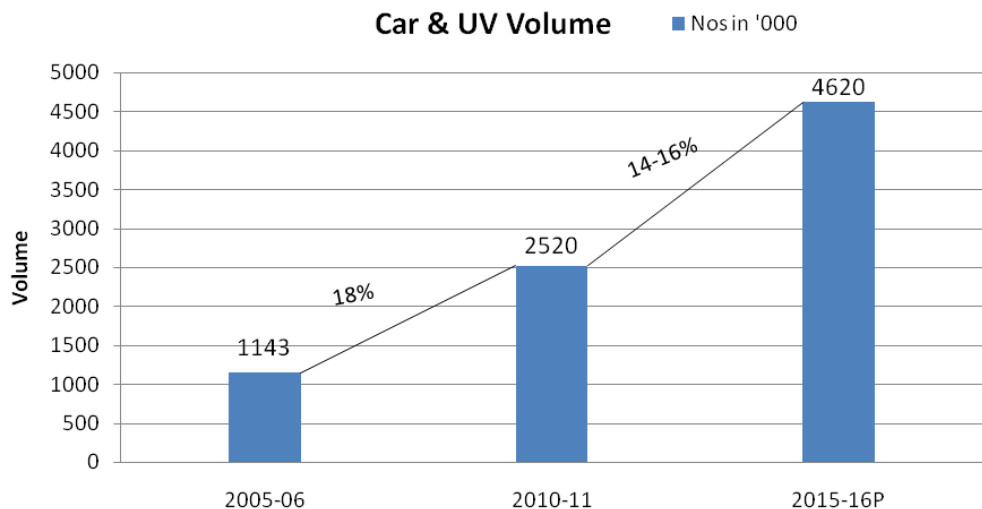
Maruti Rural Sales have picked up pace

Year	Contribution
2007-08	3.5%
2008-09	9%
2009-10	17%
2010-11	20%
2011-12	26%

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

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%

(Volume in '000)	<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%
Total Cars	882	17.6%	1983	17.6%	4007	14-16%

Overall Demand Drivers

- 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

Business Strategies

Business Strategies

Grow market share in rural and semi urban & vehicle and automobile financing market

Expand nationwide network of branches

Diversify product portfolio

Leveraging existing customers base through Direct Marketing Initiatives

Continue to attract and retain talented employees

Effective use of technology to improve productivity

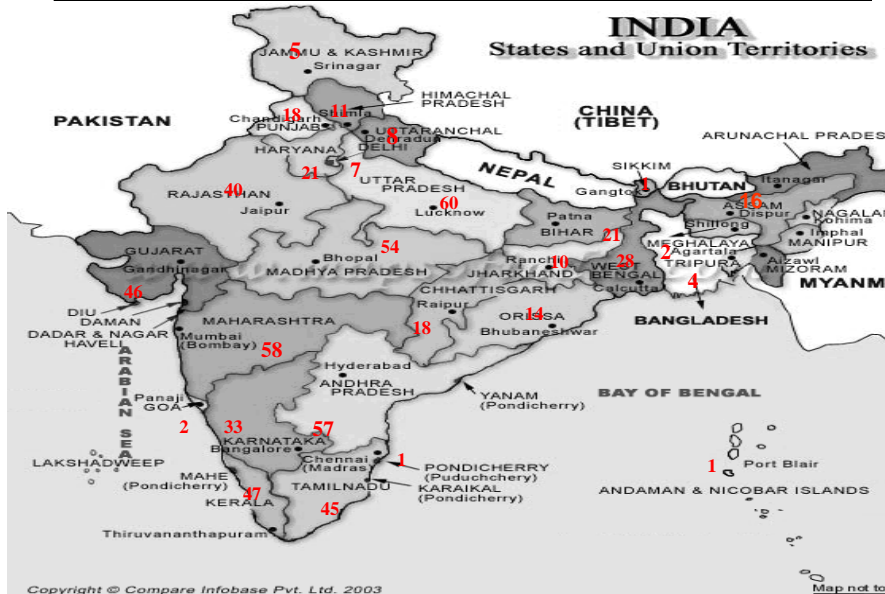
Product portfolio and knowledge catering to rural and semi-urban markets

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

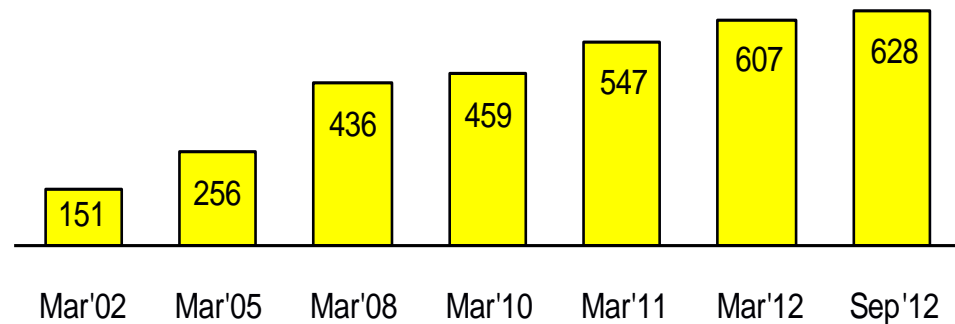
Extensive branch network

- M&MFSL has an extensive branch network with presence in 24 states and 4 union territories in India through 628 offices as of September 30, 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

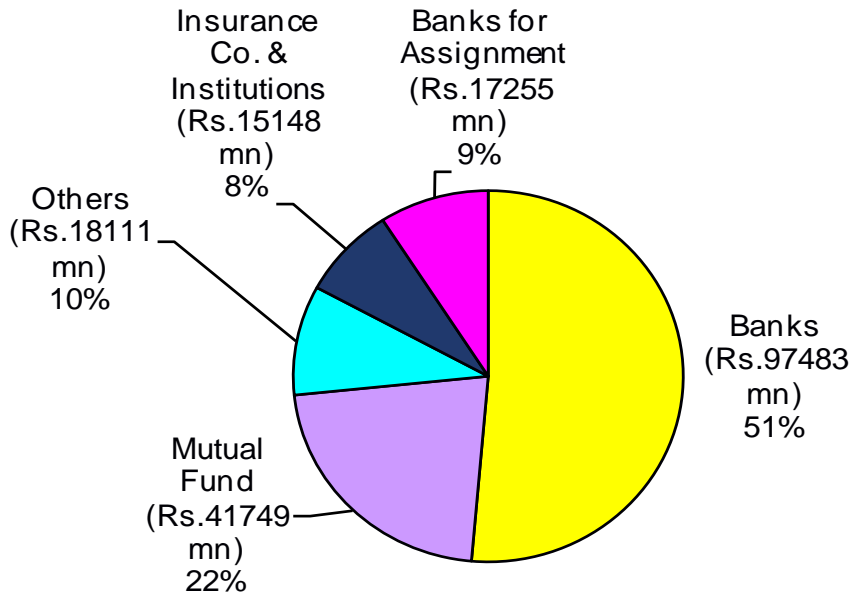
	FITCH Rating	Outlook
Long term and Subordinated debt	AA+(ind)	Stable

Source of Borrowing

(as on September 30, 2012)

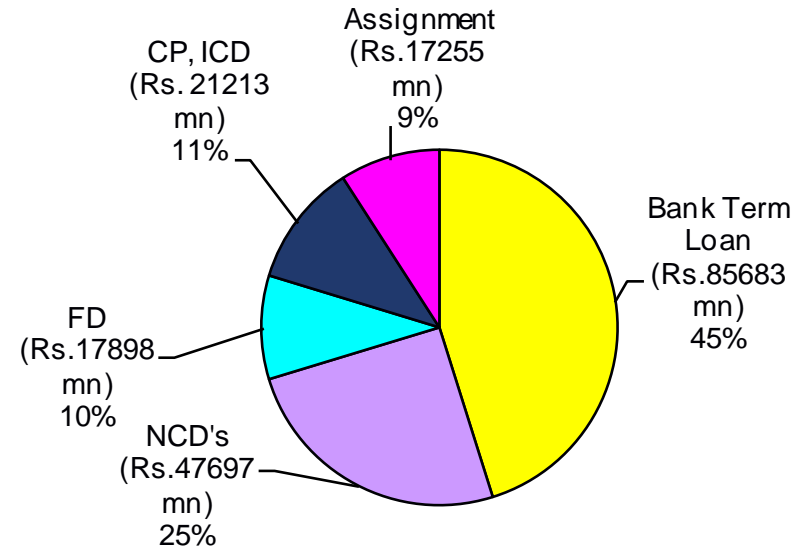
Figures on standalone basis

Fund Mix on the basis of Investor profile



Total : Rs.189746 million

Fund Mix on the basis of Instrument



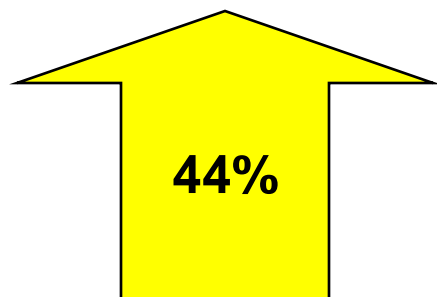
Total : Rs.189746 million

Financial Information

Highlights for Q2- FY13 Vs Q2- FY12

Figures on standalone basis

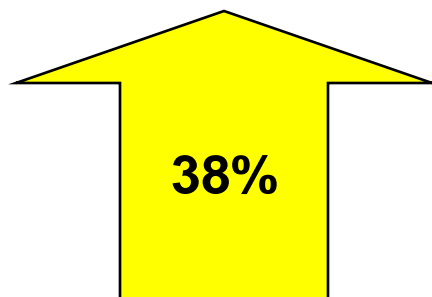
Rs.9,292 mn



Rs.6,459 mn

Total Income

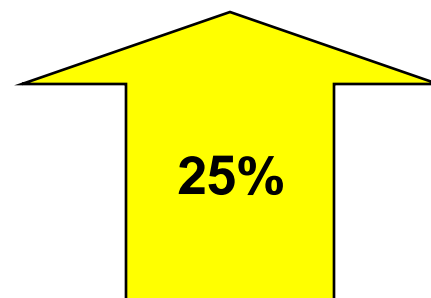
Rs.1,876 mn



Rs.1,355 mn

Profit After Tax

Rs.55,496 mn



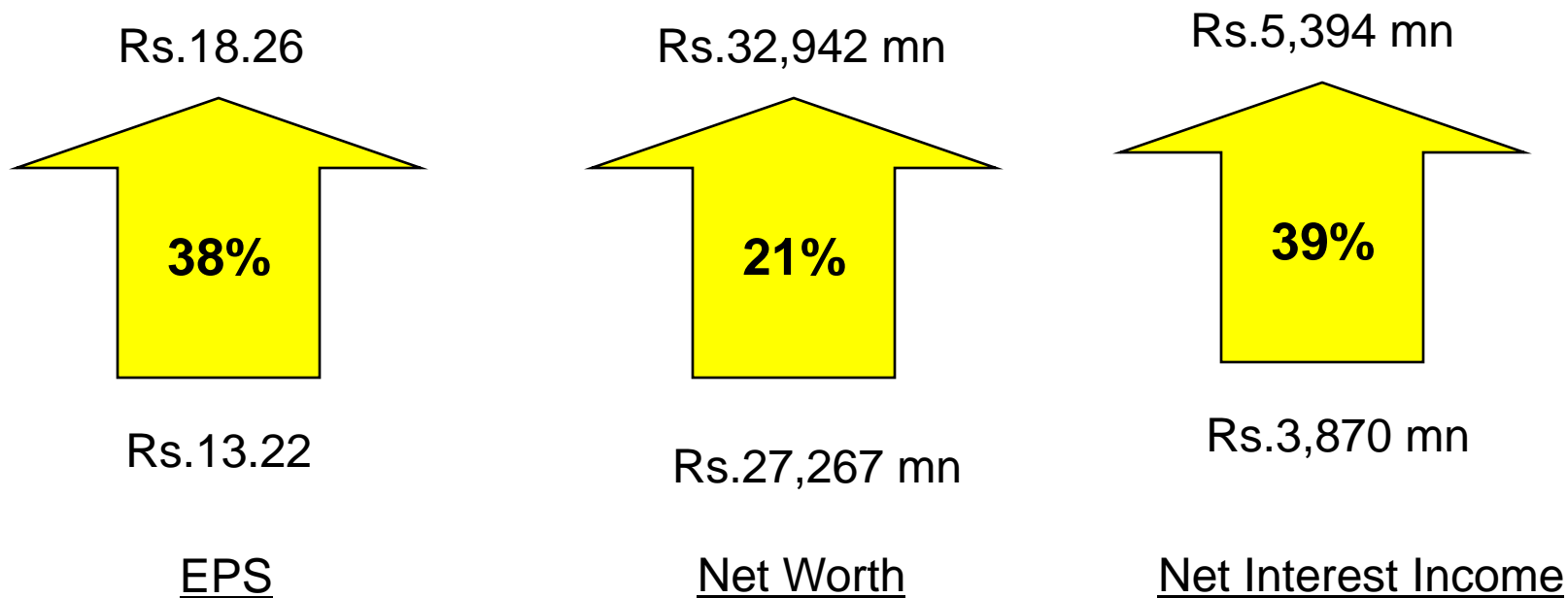
Rs.44,520 mn

Value of Assets Financed

- Assets under Management have increased from Rs.177,032 Mn to Rs.237,704 Mn year-on-year basis.

Highlights for Q2- FY13 Vs Q2- FY12

Figures on standalone basis



Standalone Profit & Loss Statement

Particulars (Rs. million)	Half year ended September – 12	Half year ended September – 11	Year ended March – 12
Income from operations	17,508	11,949	27,681
Other income	174	113	265
Total income	17,682	12,062	27,946
Interest cost	7,373	4,749	11,203
Administrative cost	4,932	3,619	7,173
Provision on Standard Assets	85	72	121
Depreciation	108	93	196
Total expenditure	12,498	8,533	18,693
PBT	5,184	3,529	9,253
PAT	3,487	2,377	6,201

Standalone Balance Sheet

LIABILITIES (Rs. million)	As on September – 12	As on September – 11	As on March – 12
Shareholder's funds	33,026	27,323	29,510
Secured loans	125,778	94,879	117,660
Unsecured loans	46,712	29,347	21,951
Current liabilities & provisions	16,643	15,530	16,495
TOTAL	222,159	167,079	185,616

ASSETS (Rs. million)	As on September- 12	As on September- 11	As on March – 12
Fixed Assets	1,020	876	989
Investments	2,700	2,576	5,025
Cash & Bank balance	3,102	2,540	2,452
Other Current assets	199	176	153
Loans & Advances	213,092	158,673	174,985
Deferred tax asset	2,046	2,238	2,012
TOTAL	222,159	167,079	185,616

Mahindra Rural Housing Finance Limited

Particulars (Rs. million)	Half year ended September – 12	Half year ended September – 11	Year ended March – 12
Loans disbursed	1,769	1,214	2,668
No. of Customer Contracts (Nos)	23,258	12,525	33,172
Outstanding loan book	6,767	4,183	5,352
Total income	596	364	857
PBT	83	50	161
PAT	62	38	119

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

Mahindra Insurance Brokers Limited

Particulars (Rs. million)	Half year ended September – 12	Half year ended September – 11	Year ended March – 12
Total income	377	162	465
Net premium	2,388	1,819	4,138
PBT	207	39	201
PAT	140	26	135
No. of Policies for the Period (nos.)	356,514	307,656	703,730
No. of employees (nos.)	442	408	451

Consolidated Profit & Loss Statement

Particulars (Rs. million)	Half year ended September – 12	Half year ended September – 11	Year ended March – 12
Income from operations	18,525	12,403	28,853
Other income	91	76	251
Total Income	18,616	12,479	29,104
Interest cost	7,603	4,812	11,399
Administrative cost	5,353	3,887	7,755
Provision on Standard Assets	90	80	134
Depreciation	114	96	203
Total Expenditure	13,160	8,875	19,491
PBT	5,456	3,604	9,613
PAT	3,652	2,423	6,445

Consolidated Balance Sheet

LIABILITIES (Rs. million)	As on September – 12	As on September – 11	As on March – 12
Shareholder's funds	33,987	27,952	30,311
Minority Interest	85	72	77
Secured loans	134,356	98,324	124,650
Unsecured loans	46,500	29,150	21,814
Current liabilities & provisions	17,302	16,090	17,356
TOTAL	232,230	171,588	194,208
ASSETS (Rs. million)	As on September – 12	As on September – 11	As on March – 12
Fixed Assets	1,070	905	1,028
Investments	1,829	1,942	4,366
Cash & Bank balance	3,373	2,693	2,717
Other Current assets	219	170	186
Loans & Advances	223,662	163,629	183,878
Deferred tax asset	2,077	2,249	2,033
TOTAL	232,230	171,588	194,208

Break up of estimated value of Assets Financed

Segments	Half year ended September-12	Half year ended September-11	Full year ended March-12
Auto/ Utility vehicles	33%	31%	31%
Tractors	18%	20%	20%
Cars	26%	27%	27%
Commercial vehicles and Construction equipments	11%	12%	12%
Pre-owned vehicles and others	12%	10%	10%

Break up of AUM

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

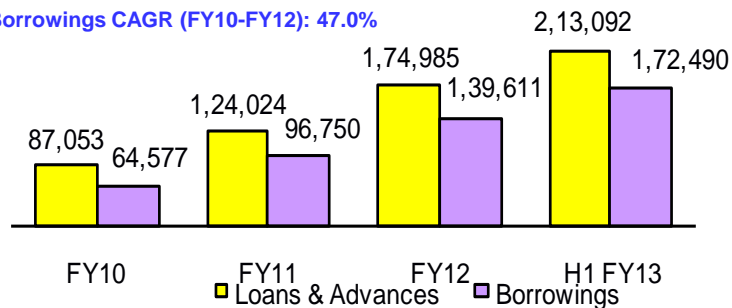
Established track record

Figures on standalone basis

Loans & Advances and Borrowings (Rs. million)

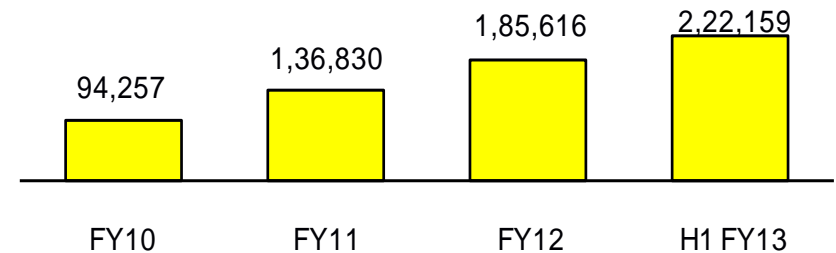
Loans & Advances CAGR (FY10-FY12): 41.8%

Borrowings CAGR (FY10-FY12): 47.0%



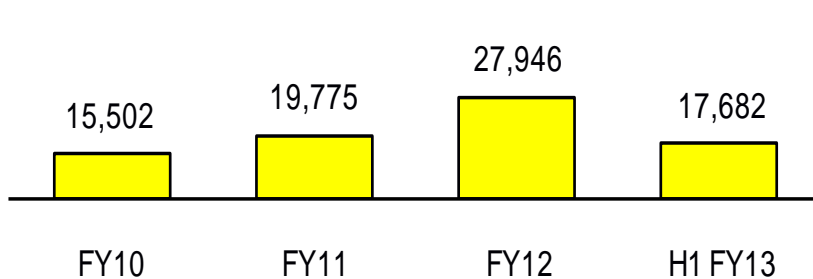
Total Assets (Rs. million)

CAGR(FY10-FY12): 40.3%



Total Income (Rs. million)

CAGR(FY10-FY12): 34.3%



Profit After Tax (Rs. million)

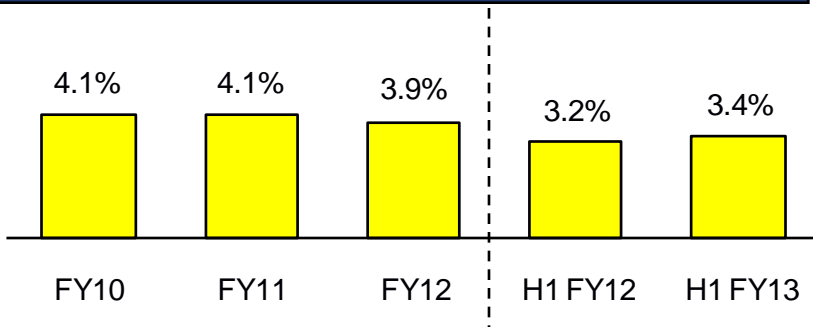
CAGR(FY10-FY12): 34.5%



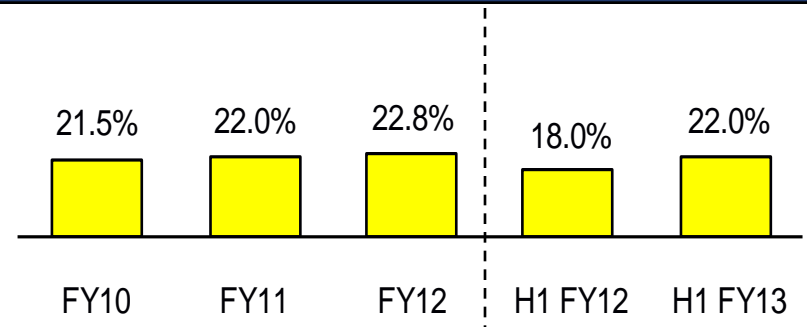
Established track record

Figures on standalone basis

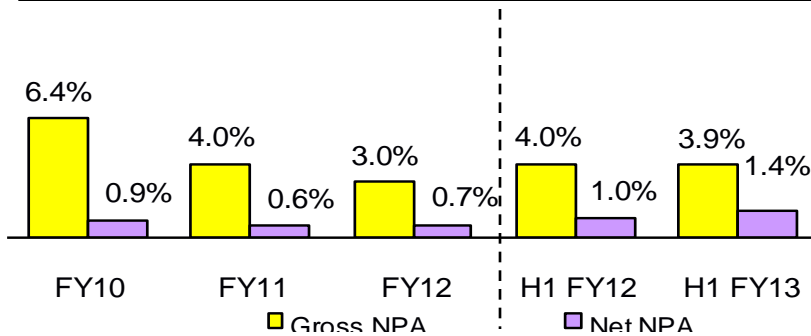
ROA (Avg. Assets) (%)



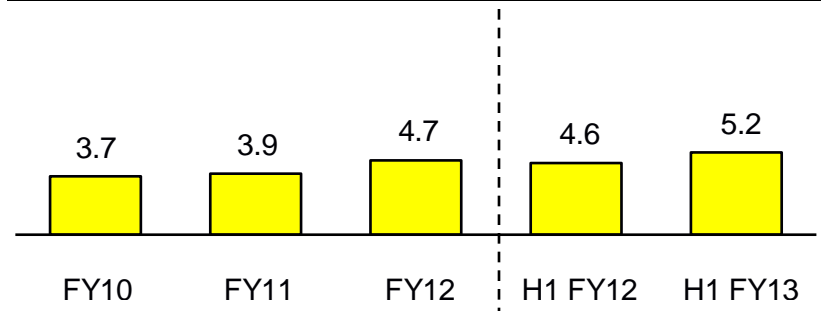
RONW (Avg. Net Worth) (%)



Gross NPA and Net NPA to Total Assets (%)



Leverage ratio



Summary of Results

Figures on standalone basis			
Particulars (Rs. million)	Half year ended September – 12	Half year ended September – 11	Year ended March – 12
Total Income	17,682	12,062	27,946
Profit before tax	5,184	3,529	9,253
Profit after tax	3,487	2,377	6,201
Dividend (%)	--	--	140
Net Worth	32,942	27,267	29,440
EPS (Basic)	33.94	23.19	60.46
Market Capitalisation	93,332	68,543	69,723
Value of Assets Financed	103,935	82,864	195,043
No. of Branches	628	570	607
New Contracts During the period (Nos)	238,032	204,565	466,416
No. of employees (on rolls)	4,296	4,281	4,258
No. of employees (outsourced from MBSCPL)	6,124	4,978	5,457

Ratio Analysis

Figures on standalone basis

	Half year ended September – 12	Half year ended September – 11	Year ended March – 12
PBT/Total Income	29.3%	29.3%	33.1%
PBT/Total Assets	4.7%	4.3%	5.1%
RONW (Avg. Net Worth)	22.0%	18.0%	22.8%
Overheads/Total Assets	3.1%	3.4%	3.2%
Debt / Equity	5.23:1	4.55:1	4.74:1
Capital Adequacy	16.5%	17.3%	18.0%
Tier I	14.0%	14.7%	15.1%
Tier II	2.5%	2.6%	2.9%
Book Value (Rs.)	320.6	266.0	286.7

Spread Analysis

Figures on standalone basis			
	Half year ended September – 12	Half year ended September – 11	Year ended March – 12
Total Income / Average Assets	17.6%	16.2%	17.7%
Interest / Average Assets	7.3%	6.3%	7.0%
Gross Spread	10.3%	9.9%	10.7%
Overheads / Average Assets	3.5%	3.8%	3.8%
Write offs & NPA provisions / Average Assets	1.6%	1.2%	0.9%
Standard Asset Provisions / Average Assets	0.1%	0.1%	0.1%
Net Spread	5.1%	4.8%	5.9%

NPA

Figures on standalone basis

Particulars (Rs. million)	September – 12	September – 11	March – 12
Gross Non - Performing Assets	8,609	6,688	5,543
Less: NPA Provisions	5,464*	5,034	4,324
Net Non – Performing Assets	3,145	1,654	1,219
Total Assets (Incl. NPA Provision)	223,423	168,262	186,633
Gross NPA to Total Assets(%)	3.9%	4.0%	3.0%
Net NPA to Total Assets(%)	1.4%	1.0%	0.7%
Coverage Ratio(%)	63.5%	75.3%	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

Technology initiatives and Employee management

Technology initiatives

- Approximately 96% of our 628 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

- 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

- | | |
|--------------------------------------|---|
| ■ 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

- 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

- Draft report of the working group on the Issues and Concerns in the NBFC Sector under chairmanship of Usha Thorat issued on 29th August 2011 (final guidelines awaited)

Please visit <http://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=647>

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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