

Mahindra & Mahindra Financial Services Limited

Quarter Result Update
SEPTEMBER - 2014

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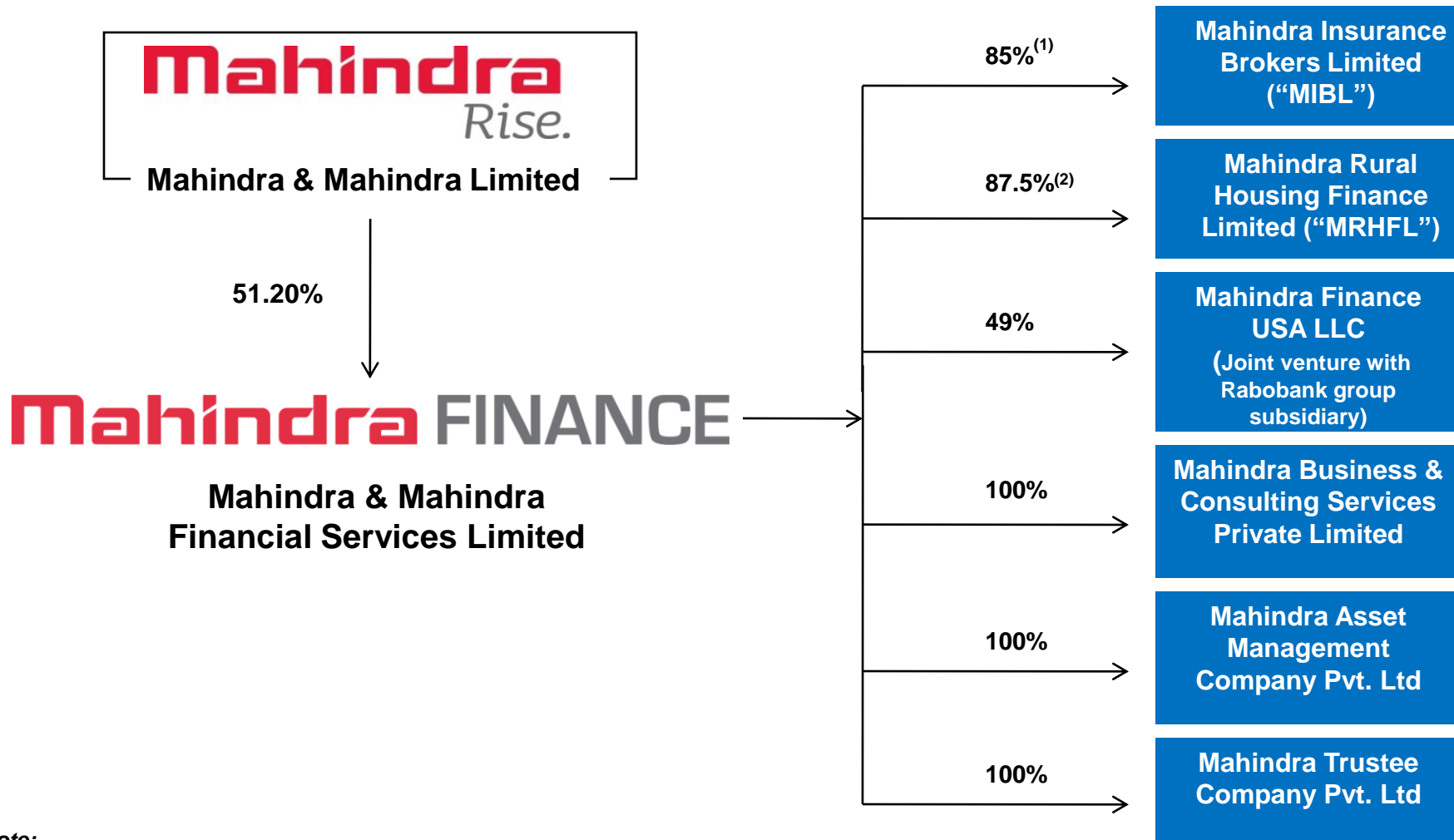
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Background

- Mahindra & Mahindra Financial Services Limited (“MMFSL”) is a subsidiary of Mahindra and Mahindra Limited (*Mcap: Rs 763 billion*)*, one of India’s leading tractor and utility vehicle manufacturers
- MMFSL (*Mcap: Rs 160 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 1055 offices covering 25 states and 5 union territories in India, with over 3.3 million vehicle finance customer contracts since inception, as of September 30, 2014
- India Ratings has assigned AAA(ind)/Stable, CARE Ratings has assigned AAA, Brickwork has assigned AAA/Stable and CRISIL has assigned AA+/Stable rating to the Company’s long term and subordinated debt

**Source: Market capitalisation as of October 21, 2014 from BSE website*

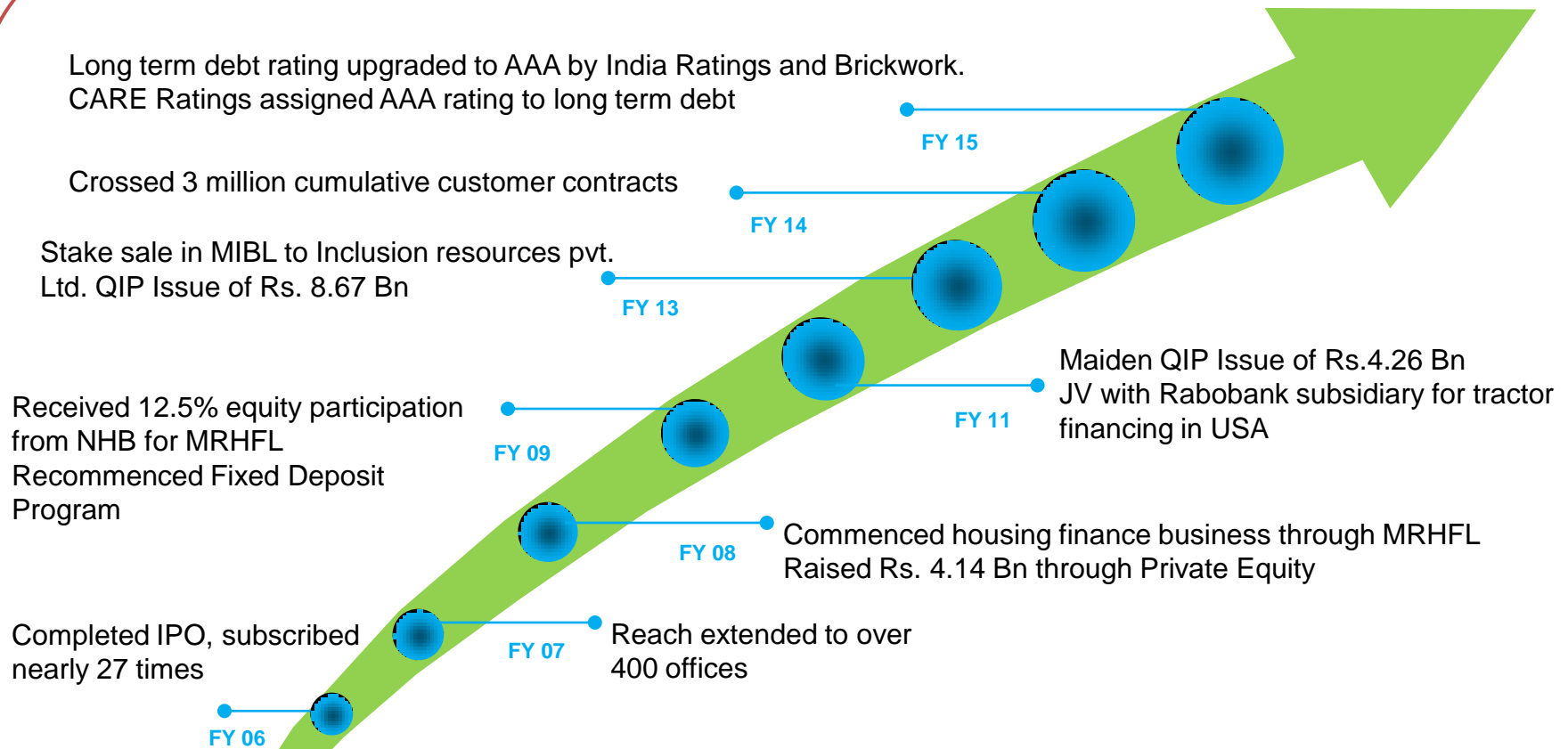
MMFSL Group structure



Note:

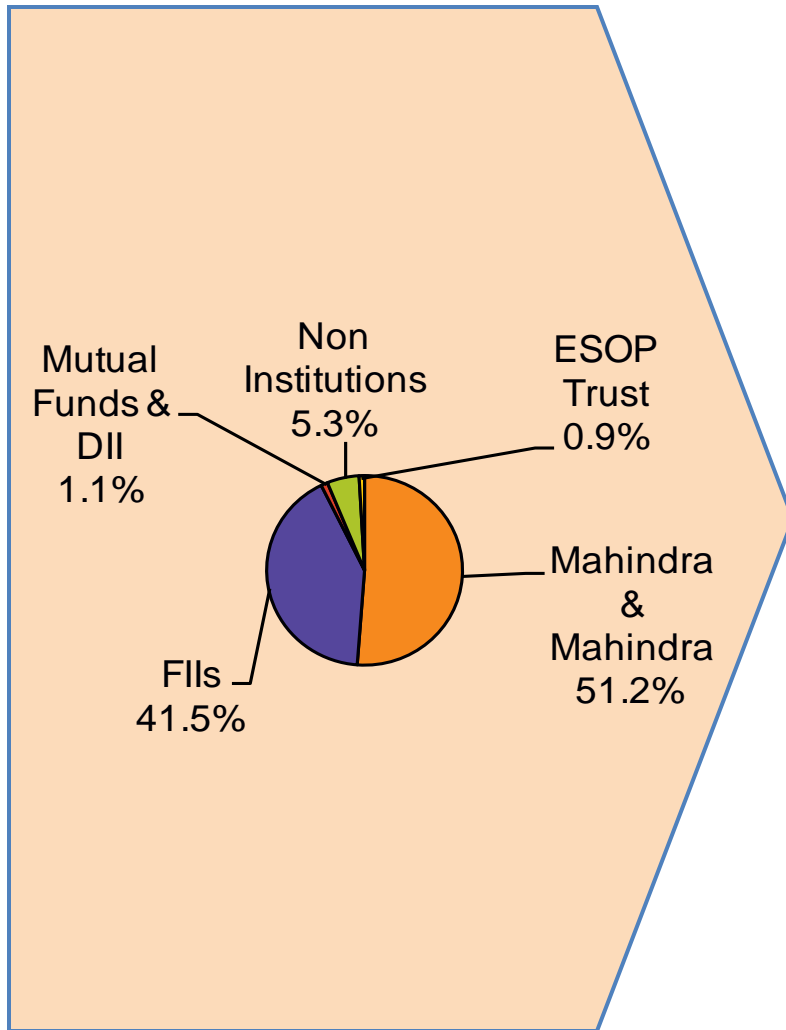
1. Balance 15% with Inclusion resources pvt. Ltd., a subsidiary of Leapfrog Financial Inclusion Fund, incorporated in Singapore.
2. Balance 12.5% with National Housing Bank (NHB)

Our Journey Thus Far



Shareholding pattern

(as on September 30, 2014)



Key Shareholders

- Cartica Capital Ltd
- Aranda Investments (Mauritius) Ltd
- Government of Singapore
- JP Morgan SICAV Investment Company
- JP Morgan Funds – Emerging Markets Equity Fund
- Franklin Templeton Investment Funds
- Fidelity Funds Emerging Markets Fund
- Abu Dhabi Investment Authority
- Eastspring Investments (Singapore) Limited
- Vanguard Emerging Markets Stock Index Fund
- Wasatch Emerging Markets Small Cap Fund

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

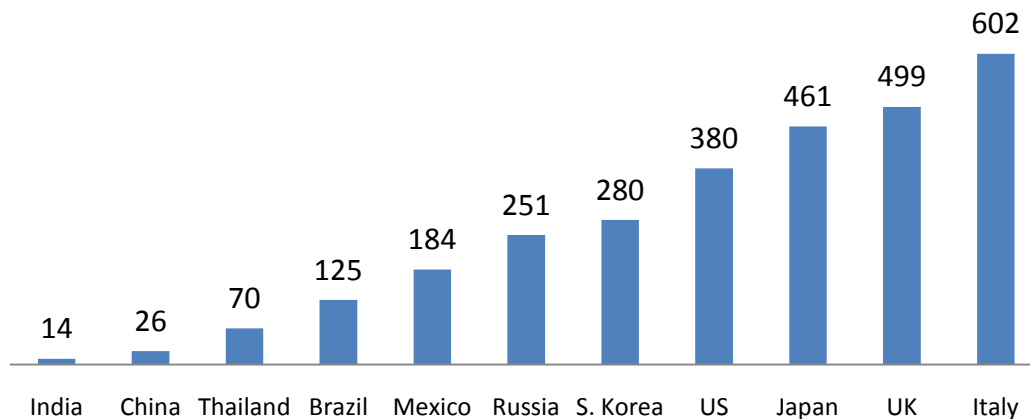
- By the fiscal year 2018, penetration levels are expected to increase to 76% for cars and 70% for utility vehicles from 75% and 66% respectively as a result of a moderation in interest rates and alleviation of credit risk
- Loan-to-value (LTVs) expected to increase marginally to 75% for cars and 71%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

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

Auto Industry Volume

Domestic Sales (Volume in '000)	H1FY15 (Nos.)	H1FY14 (Nos.)	Y-o-Y Growth (%)	FY14 (Nos.)
Passenger Vehicles (PVs)				
Passenger Cars / Vans	891	856	4.1%	1,785
UVs	361	345	4.6%	716
Commercial Vehicles (CVs)				
M&HCVs	104	105	-1.2%	201
LCVs	189	221	-14.4%	432
Three Wheelers	282	240	17.8%	480

Source: Crisil

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

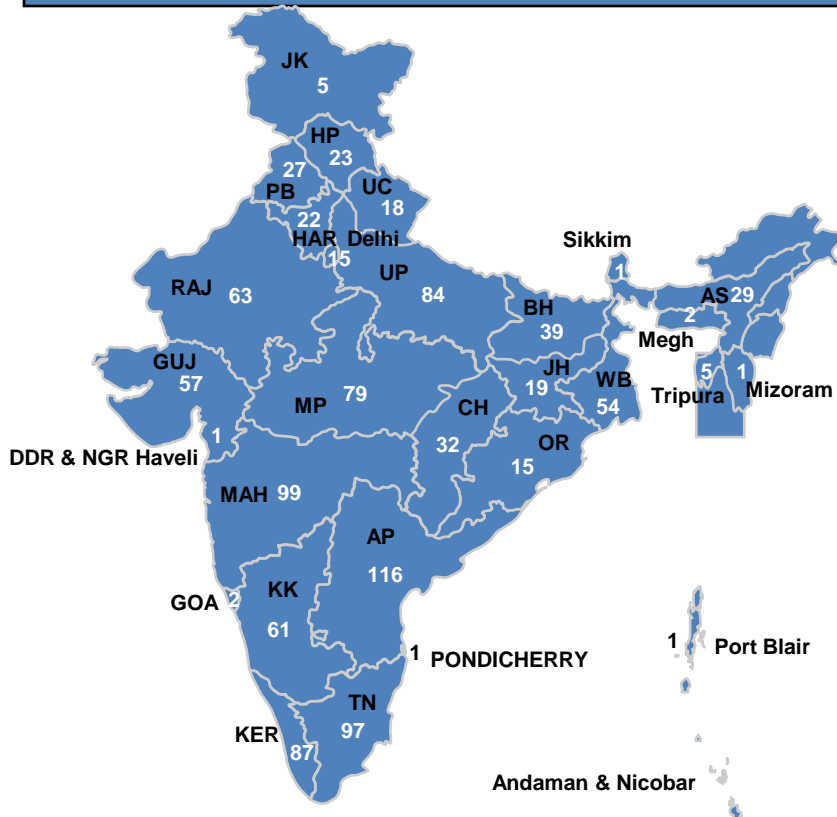
Effective use of technology to improve productivity

Leverage the “Mahindra” Ecosystem

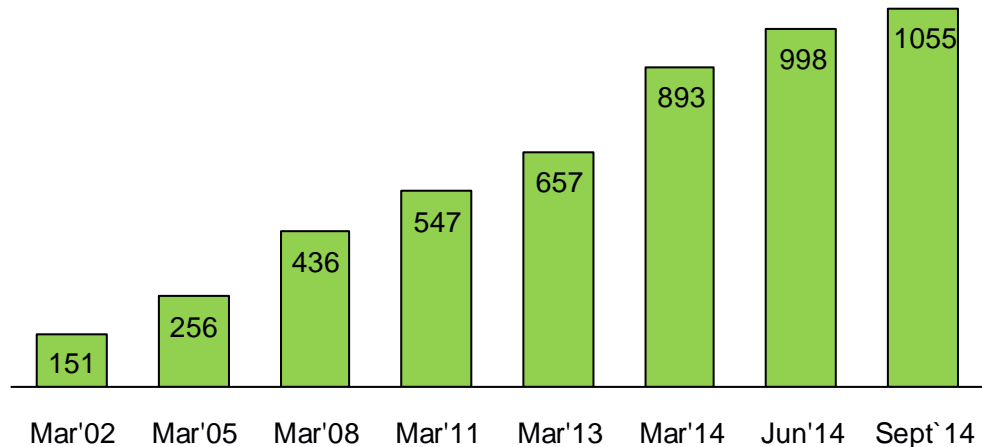
Extensive branch network

- MMFSL has an extensive branch network with presence in 25 states and 5 union territories in India through 1055 offices as of September 30, 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	Half year ended September – 14	Half year ended September – 13	Year ended March – 14
Auto/ Utility vehicles	32%	30%	32%
Tractors	18%	20%	20%
Cars	22%	23%	22%
Commercial vehicles and Construction equipments	10%	13%	11%
Pre-owned vehicles and others	18%	14%	15%

Break up of AUM

Asset Class	As on September – 14	As on September – 13	As on March – 14
Auto/ Utility vehicles	29%	27%	29%
Tractors	18%	19%	19%
Cars	23%	24%	24%
Commercial vehicles and Construction equipments	14%	16%	15%
Pre-owned vehicles and others	16%	14%	13%

1. Approximate percentages

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

3. As on 30th September 14, ~49% of the AUM was from M&M assets

Credit Rating

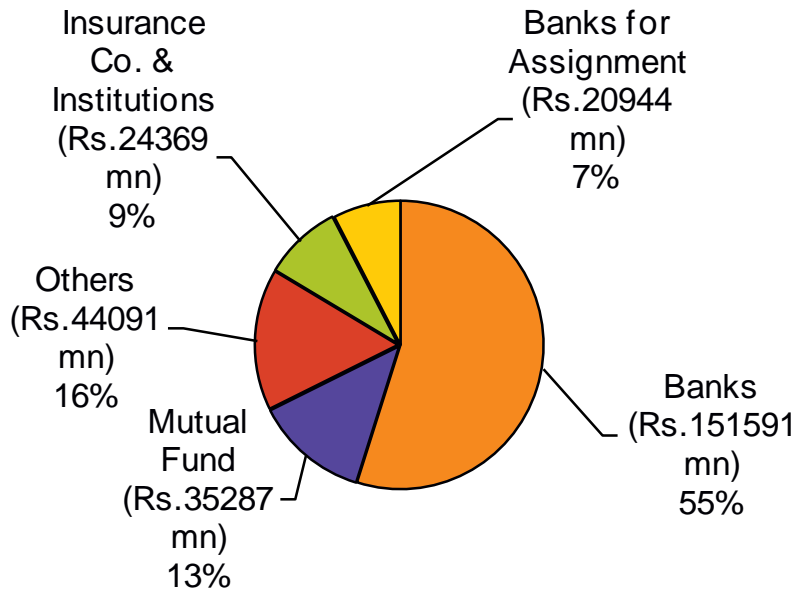
- MMFSL believes that its credit rating and strong brand equity enables it to borrow funds at competitive rates

Credit Rating	India Ratings	Outlook
Long term and Subordinated debt	AAA (ind)	Stable
Long term and Subordinated debt	CARE Ratings	Outlook
Long term and Subordinated debt	AAA	--
Long term and Subordinated debt	Brickwork	Outlook
Fixed Deposit Programme	AAA	Stable
Short term debt	CRISIL	Outlook
Long term and Subordinated debt	FAAA	Stable
	A1+	--
	AA+	Stable

Broad based Liability Mix

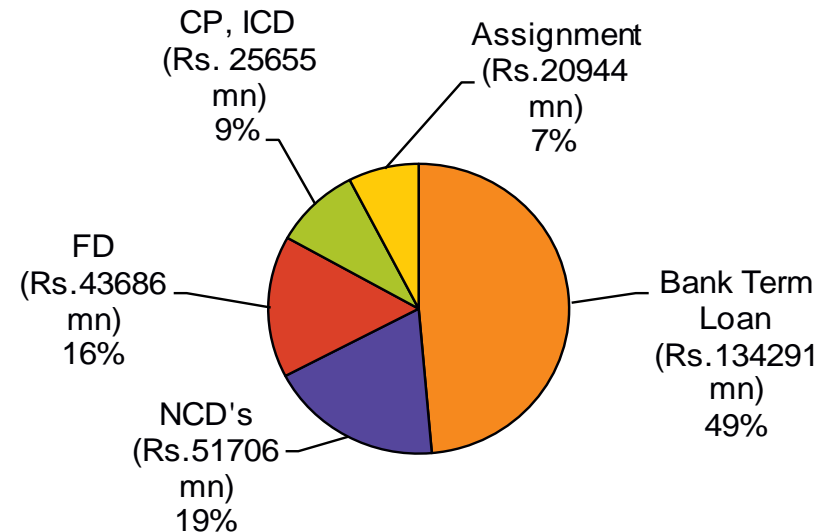
- Total consortium size of Rs.15.3 Bn comprising several banks

Funding Mix by Investor profile (Sep' 14)



Total : Rs.276.282 bn

Funding Mix by type of Instrument (Sep' 14)



Total : Rs.276.282 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

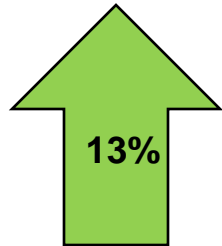


Key Financials

Q2FY15 Vs Q2FY14 (Figures on standalone basis)

Total Income

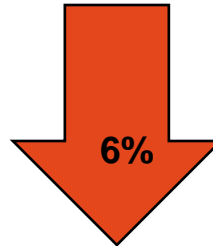
Rs 13,689 mn



Rs 12,127 mn

Profit after Tax

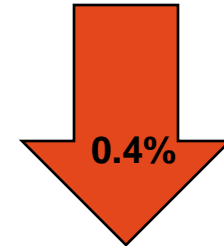
Rs 2,071 mn



Rs 2,212 mn

Value of Asset Financed

Rs 57,804 mn

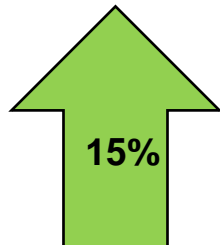


Rs 58,036 mn

H1FY15 Vs H1FY14 (Figures on standalone basis)

Total Income

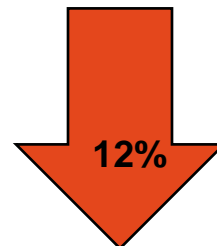
Rs 26,519 mn



Rs 23,112 mn

Profit after Tax

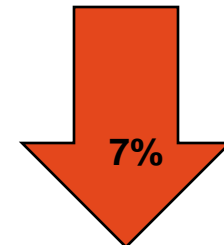
Rs 3,620 mn



Rs 4,124 mn

Value of Asset Financed

Rs 113,185 mn

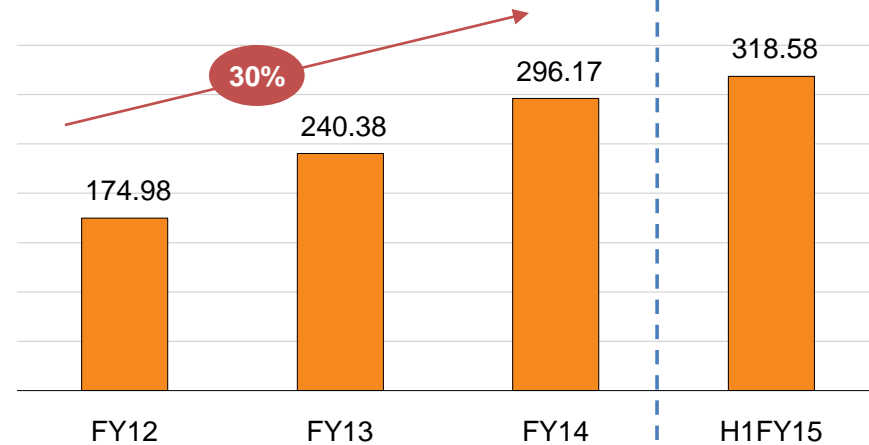


Rs 121,897 mn

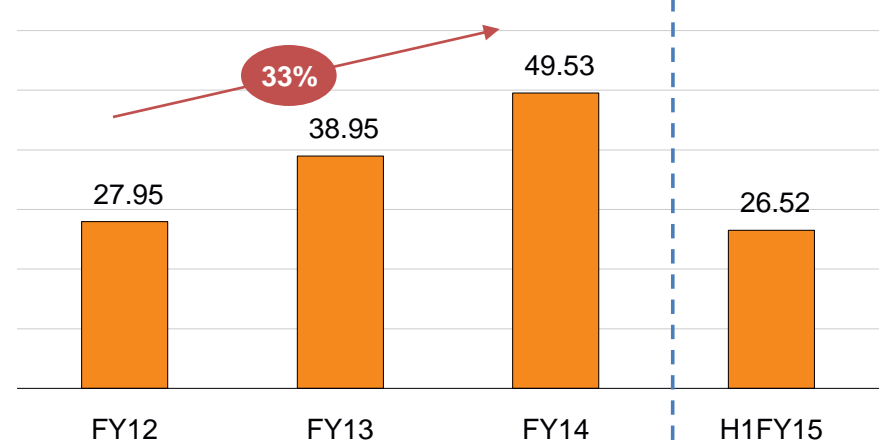
Growth Trajectory

Figures on standalone basis

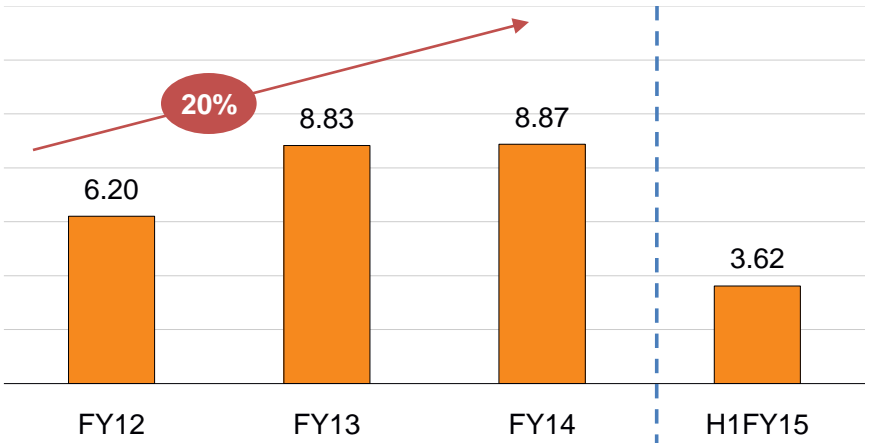
Loan Book (Rs. Bn)



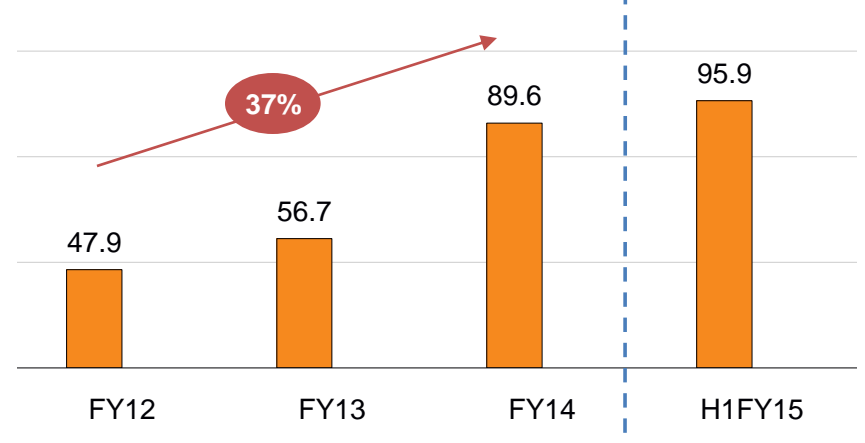
Revenues (Rs. Bn)



Profit after Tax ⁽¹⁾ (Rs. Bn)



Book Value Per Share ⁽²⁾ (Rs.)

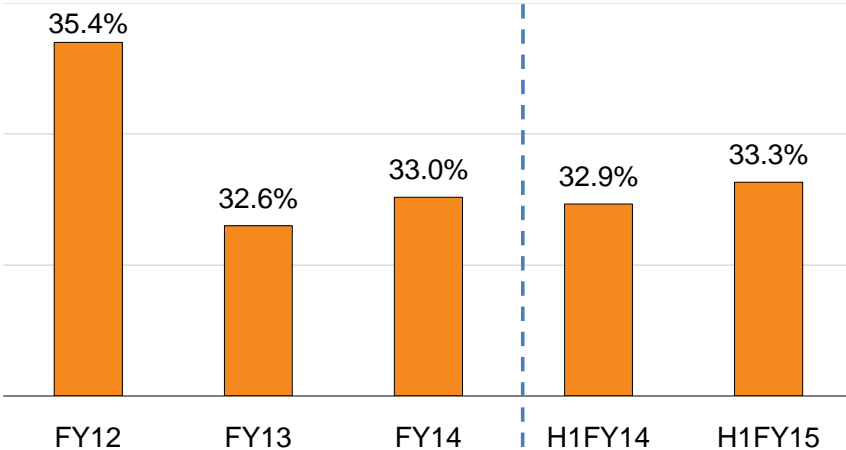


Note : 1 PAT post exceptional items 2. Calculated as Shareholders funds/ Number of shares

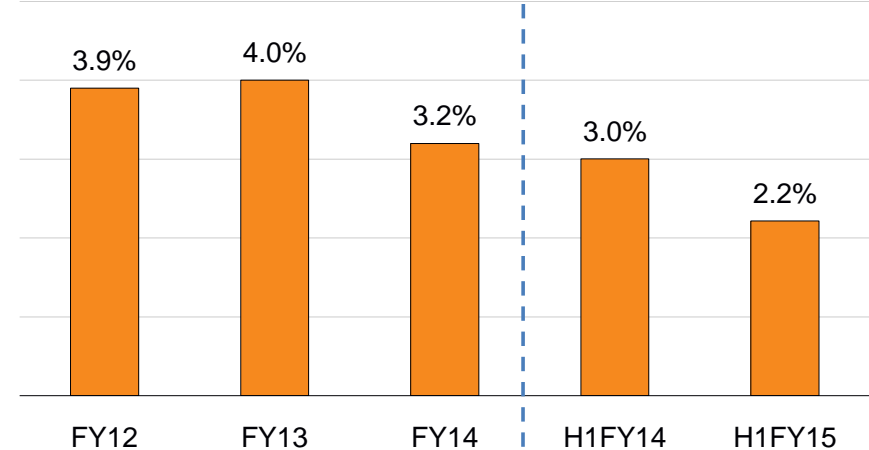
Financial Performance

Figures on standalone basis

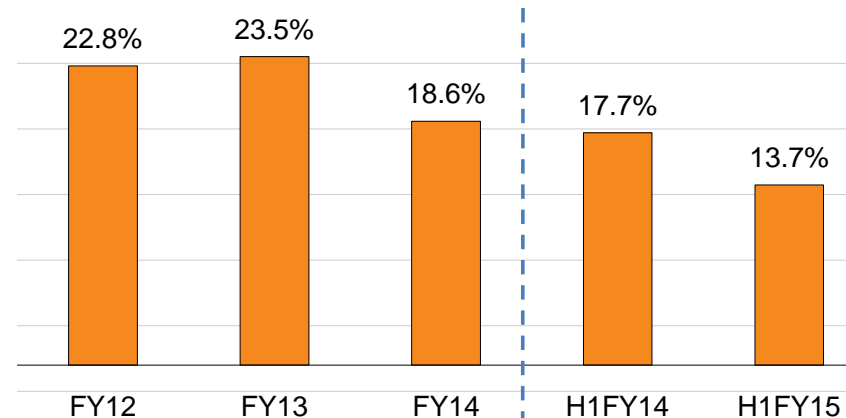
Cost to income ratio ⁽¹⁾ (%)



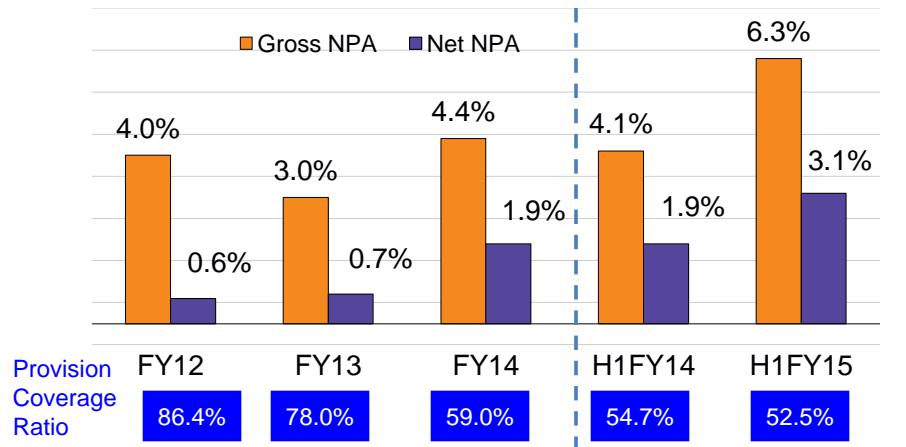
Return on Assets (ROA) ⁽²⁾ (%)



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)	Half year ended September – 14	Half year ended September – 13	Year ended March - 14
Revenue from operations	26,288	22,956	49,216
Other income	231	156	314
Total Revenue	26,519	23,112	49,530
Expenses:			
Employee benefits expense*	2,259	1,294	2,973
Finance costs	12,117	10,014	21,880
Depreciation and amortization expense	212	121	243
Provisions and write Offs	4,091	2,514	5,058
Other expenses*	2,320	2,899	5,918
Total Expenses	20,999	16,842	36,072
Profit before tax	5,520	6,270	13,458
Tax expense	1,900	2,146	4,586
Net Profit after Taxes for the year	3,620	4,124	8,872

Note : * Other expenses for the half year ended 30 Sept14 includes Rs.25 mn (half year ended 30 Sept13 : Rs.869 mn and year ended 31 Mar14: Rs.1501 mn) incurred towards professional fees for manpower services provided by MBCSPL.

Standalone Balance Sheet

Particulars (Rs. in Million)	As on Sep 30 2014	As on Sep 30 2013	As on Mar 31 2014
EQUITY AND LIABILITIES			
Shareholders' funds			
a) Share Capital	1,128	1,127	1,127
b) Reserves and Surplus	53,418	47,559	49,815
Shareholders' funds	54,546	48,686	50,942
Non-current liabilities			
a) Long-term borrowings	1,54,399	140,954	169,032
b) Other Long-term liabilities	2,786	2,153	2,764
c) Long term provisions	3,188	3,484	3,180
Non-current liabilities	1,60,373	146,591	174,976
Current liabilities			
a) Short Term Borrowings	39,323	35,813	12,443
b) Trade payables	4,779	4,312	4,379
c) Other current liabilities	69,802	54,487	64,911
d) Short term provisions	8,199	4,782	9,006
Current liabilities	1,22,103	99,394	90,739
Total Equities and Liabilities	3,37,022	294,671	316,657

Standalone Balance Sheet (Cont'd)

Particulars (Rs. in Million)	As on Sep 30 2014	As on Sep 30 2013	As on Mar 31 2014
ASSETS			
Non-current assets			
a) Fixed Assets	1,057	1,126	1,195
b) Non-current investments	6,292	4,552	5,263
c) Deferred tax assets (Net)	3,517	2,446	3,151
d) Long-term loans and advances	1,60,813	145,750	157,795
e) Other non-current assets	322	1,441	1,359
Non-current assets	1,72,001	155,315	168,763
Current assets			
a) Current investments	460	200	3,429
b) Trade receivables	54	97	143
c) Cash and cash equivalents	6,042	3,187	5,533
d) Short-term loans and advances	1,57,772	135,111	138,375
e) Other current assets	693	761	414
Current assets	1,65,021	139,356	147,894
Total Assets	3,37,022	294,671	316,657

Mahindra Rural Housing Finance

Particulars (Rs. million)	Half year ended September – 14	Half year ended September – 13	Year ended March – 14
Loans disbursed	4,271	2,509	6,306
No. of Customer Contracts (Nos)	30,903	20,673	56,868
Outstanding loan book	16,815	10,712	13,550
Total income	1,442	920	2,125
PBT	228	124	368
PAT	150	91	271

- 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)	Half year ended September – 14	Half year ended September – 13	Year ended March – 14
Total income	561	490	1,112
Net premium	3,606	3,199	7,384
PBT	265	254	638
PAT	175	168	420
No. of Policies for the Period (nos.)	525,614	462,421	1,068,577
No. of employees (nos.)	711	504	613

- 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)	Half year ended September – 14	Half year ended September – 13	Year ended March - 14
Revenue from operations	28,444	24,505	52,753
Other income	149	108	253
Total Revenue	28,593	24,613	53,006
Expenses:			
Employee benefits expense	2,755	2,337	4,945
Finance costs	12,774	10,425	22,810
Depreciation and amortization expense	233	129	261
Provisions and write Offs	4,222	2,587	5,190
Other expenses	2,571	2,441	5,185
Total Expenses	22,555	17,919	38,391
Profit before tax	6,038	6,694	14,615
Tax expense	2,104	2,295	4,967
Profit for the year	3,934	4,399	9,648
Minority Interest	45	43	104
Net Profit after Taxes and Minority Interest	3,889	4,356	9,544

Consolidated Balance Sheet

Particulars (Rs. in Million)	As on Sep 30 2014	As on Sep 30 2013	As on Mar 31 2014
EQUITY AND LIABILITIES			
Shareholders' funds			
a) Share Capital	1,128	1,127	1,127
b) Reserves and Surplus	55,636	49,160	51,810
Shareholders' funds	56,764	50,287	52,937
Minority Interest	418	304	365
Non-current liabilities			
a) Long-term borrowings	1,70,944	151,412	182,538
b) Other Long-term liabilities	2,792	2,155	2,770
c) Long term provisions	3,406	3,630	3,331
Non-current liabilities	1,77,142	157,197	188,639
Current liabilities			
a) Short Term Borrowings	43,240	39,599	15,103
b) Trade payables	4,912	4,393	4,507
c) Other current liabilities	75,296	58,165	69,812
d) Short term provisions	8,457	4,938	9,212
Current liabilities	1,31,905	107,095	98,634
Total Equities and Liabilities	3,66,229	314,883	340,575

Consolidated Balance Sheet (Cont'd)

Particulars (Rs. in Million)	As on Sep 30 2014	As on Sep 30 2013	As on Mar 31 2014
ASSETS			
Non-current assets			
a) Fixed Assets	1,143	1,206	1,287
b) Non-current investments	4,441	3,135	3,790
c) Deferred tax assets (Net)	3,561	2,500	3,254
d) Long-term loans and advances	1,84,045	160,635	177,299
e) Other non current assets	328	1,447	1,364
Non-current assets	1,93,518	168,923	186,994
Current assets			
a) Current investments	460	200	3,429
b) Trade receivables	107	154	229
c) Cash and cash equivalents	6,184	3,362	5,704
d) Short-term loans and advances	1,65,275	141,489	143,806
e) Other current assets	685	755	413
Current assets	1,72,711	145,960	153,581
Total Assets	3,66,229	314,883	340,575

Summary & Key Ratios

Figures on standalone basis

Particulars	Half year ended September – 14	Half year ended September – 13	Year ended March – 14
RONW (Avg. Net Worth)	13.7%	17.7%	18.6%
Debt / Equity	4.69:1	4.63:1	4.70:1
Capital Adequacy	17.9%	19.1%	18.0%
Tier I	15.5%	16.1%	15.5%
Tier II	2.4%	3.0%	2.5%
EPS (Basic) (Rs.)	6.42	7.32	15.75
Book Value (Rs.)	95.9	85.6	89.6
Dividend	--	--	190%
Assets Under Management (Rs. Mn)	356,942	311,465	341,331
New Contracts During the period (Nos)	247,326	272,382	561,862
No. of employees (on rolls)	13,648	4,464	9,349
No. of employees (outsourced from MBSCPL)	0	7,913	3,467

Spread Analysis

Figures on standalone basis

	Half year ended September – 14	Half year ended September – 13	Year ended March – 14
Total Income / Average Assets	16.5%	17.1%	17.7%
Interest / Average Assets	7.6%	7.4%	7.8%
Gross Spread	8.9%	9.7%	9.9%
Overheads / Average Assets	3.0%	3.2%	3.3%
Write offs & NPA provisions / Average Assets	2.5%	1.9%	1.8%
Net Spread	3.4%	4.6%	4.8%
Net Spread after Tax	2.2%	3.0%	3.2%

NPA Analysis

Figures on standalone basis

Particulars (Rs. million)	September – 14	September – 13	March – 14
Gross Non - Performing Assets	21,314	12,223	14,057
Less: NPA Provisions	11,188	6,682	8,301
Net Non – Performing Assets	10,126	5,541	5,756
Total Assets (Incl. NPA Provision)	339,884	296,104	318,622
Gross NPA to Total Assets(%)	6.3%	4.1%	4.4%
Net NPA to Total Assets(%)	3.1%	1.9%	1.9%
Coverage Ratio(%)	52.5%	54.7%	59.0%

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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