

# **Mahindra & Mahindra Financial Services Limited**

**Analyst Meet  
March - 2010**

# Overview

- MMFSL is a subsidiary of Mahindra and Mahindra Ltd., one of India's leading tractor and utility vehicle manufacturer
- The Company is one of India's leading non-bank finance companies focused on the rural and semi-urban sector
- MMFSL finances purchase of utility vehicles, tractors, cars, commercial vehicles and used vehicles
- The Company's goal is to be the preferred provider of financing services in the rural and semi-urban areas of India
- The Company has 459 branches covering 25 states and 2 union territories in India
- Since inception the Company has entered into over 1,189,000 customers contracts
- FITCH has assigned AA(ind) rating and CRISIL has assigned a AA- rating to the Company's long term debt reflecting a high degree of safety

# Business Strengths

**Knowledge of the rural and semi-urban markets**

**Extensive branch network**

**Relationship with M&M**

**Quick approval and simple administration procedures**

**Client Relationship**

**Dealer relationships**

# Business Strategy

**Continue to maintain market position in rural and semi urban automobile financing**

**Significant experience of the local characteristics of the rural and semi-urban markets across India**

**Simple documentation and prompt loan approval procedures**

**Nationwide network of branches and locally recruited employees help develop and maintain customer relationships**

**A recognisable brand in the rural and semi-urban markets of India**

# Business Strategy

## Diversify Product Portfolio

Started financing non-M&M vehicles in 2002

Commenced insurance broking business in MIBL in Fiscal 2005

Commenced financing Commercial Vehicles in 2006

Commenced mutual fund distribution business

Commenced housing loans business in MRHFL in Oct 2007

Commenced Invoice discounting for M&M and other auto Suppliers

# Extensive Distribution Network

- MMFSL has an extensive distribution network with presence in 25 states and 2 union territories in India through 459 branches
  - Our market categorised into five zones and 16 regions with branches reporting into their respective regional office
  - Branches provided authority to approve loans within prescribed guidelines

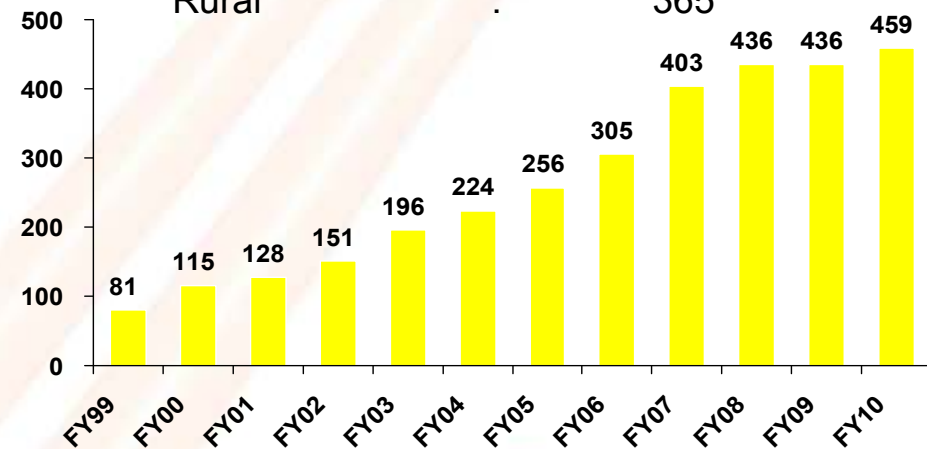
## Coverage



## Branch Network

Total Branches ( as on 31.03.10): 459

Metro : 4  
Urban/Semi Urban : 90  
Rural : 365



# Funding

- MMFSL has consistently enjoyed a good credit rating enabling it to borrow funds at competitive rates
- FITCH has assigned AA(ind) rating and CRISIL has assigned a AA- rating to the Company's long term debt, which is also linked to credit rating of M&M
- Total Consortium Size of Rs. 10,000 Million comprising of 19 Bankers

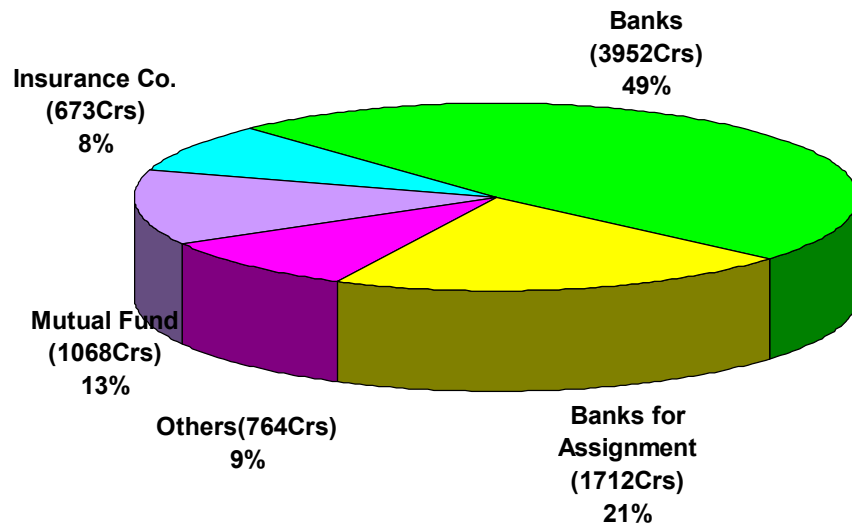
	FITCH Rating
Long Term / Subordinated debt	AA(ind)

	CRISIL Rating
Fixed Deposit Programme	FAA
Short Term	P1+
Long Term / Subordinated debt	AA-

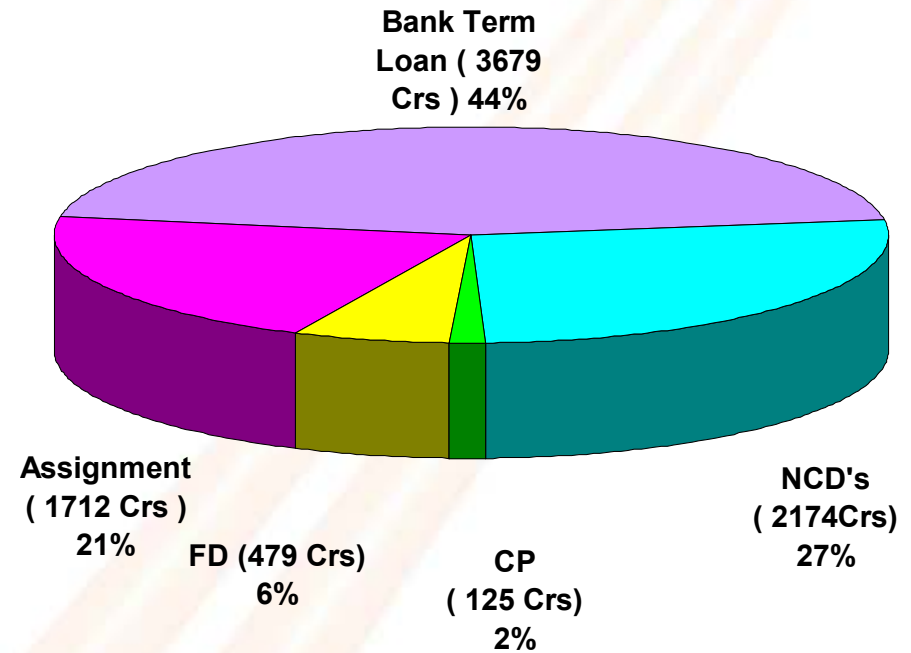
# Source of Borrowing

(as on 31<sup>st</sup> March 2010)

*Fund Mix on the basis of Investor profile*



*Fund Mix on the basis of Instrument.*





# Asset Assignment

- MMFSL Assigns parts of its loan portfolio to improve its cash flows and reduce borrowings
- The company did its first securitisation / Assignment transaction in FY02 and has done 42 securitisation / Assignment transactions till date aggregating Rs. 50.55 bn

Rs. Million	FY06	FY07	FY08	FY09	FY10
Receivables Securitised / Assigned	5,563	6,100	8,099	10,362	10,446
Consideration Received	5,147	5,608	7,303	9,151	9,713
Net Income from Securitisation	489	538	1,074	1,043	1,254

# Challenges

- Average cash collection/day - Rs. 152 mn
- Banks unwilling to accept cash
- More than one Bank A/c per location
- Small denomination notes/ mutilated notes
- Employee Acquisition & retention

# Highlights for Q4 & FY10

## Q4 Highlights

- Total Income up by 19% at Rs. 475 Crs Vs 398 Crs
- PAT up by 30% at Rs. 140 Crs Vs 108 Crs
- Value of Assets Financed up by 90% at Rs. 2738 Crs Vs 1439 Crs

## FY 10 Highlights

- Total Income up by 13% at Rs. 1569 Crs
- PAT up by 60% at Rs. 343 Crs
- Estimated Value of Assets Financed for the year up by 42% from Rs.6281 Crs to Rs.8915 Crs year-on-year basis.
- Assets under Management have increased from Rs.8543 Crs to Rs.10329 Crs year-on-year basis.

# Profit & Loss Statement

(Rs.million)	March- 10	March- 09	March- 08
Income from Operations	<b>15308</b>	13648	12058
Other Income	<b>380</b>	198	210
Total Income	<b>15688</b>	13846	12268
Interest Cost	<b>5017</b>	5099	4560
Administrative Cost	<b>5366</b>	5404	4901
Depreciation	<b>99</b>	87	87
Total Expenditure	<b>10482</b>	10590	9548
PBT	<b>5206</b>	3256	2720
PAT	<b>3427</b>	2145	1770

# Balance Sheet: Liabilities

(Rs.million)	March- 10	March- 09	March- 08
Net Worth	<b>17274</b>	14679	13129
Equity Share Capital	<b>960</b>	957	953
Reserves & Surplus	<b>16314</b>	13722	12176
Employee Stock Option O/S	<b>12</b>	13	14
Secured Loans	<b>53259</b>	44668	46135
Unsecured Loans	<b>11318</b>	7462	4290
Current Liabilities & Provs.	<b>9087</b>	7617	6650

# Balance Sheet: Assets

(Rs.million)	March- 10	March- 09	March- 08
Fixed Assets	476	375	321
Investments	2159	1097	31
Sundry Debtors	--	8	9
Other Current Assets	38	25	15
Cash & Bank Balance	2420	2763	2153
Loans & Advances & others	83788	68384	66435
Deferred Tax Asset	2069	1787	1254

# Disbursements Mix

Segments	March- 10	March- 09	March-08
<b>Auto/ Utility vehicles</b>	<b>35%</b>	40%	34%
<b>Tractors</b>	<b>21%</b>	22%	24%
<b>Cars</b>	<b>29%</b>	25%	23%
<b>Commercial Vehicles</b>	<b>7%</b>	6%	7%
<b>Used vehicles &amp; Others</b>	<b>8%</b>	7%	12%

\* Tentative Percentages

# Segment Wise: Break up of AUM

Segments	March- 10	March- 09	March-08
<b>Auto/ Utility vehicles</b>	<b>33%</b>	38%	38%
<b>Tractors</b>	<b>23%</b>	25%	25%
<b>Cars</b>	<b>30%</b>	24%	23%
<b>Commercial Vehicles</b>	<b>8%</b>	7%	7%
<b>Used Vehicles &amp; Others</b>	<b>6%</b>	6%	7%

\* Tentative Percentages



# Highlights of Mahindra Insurance Brokers Ltd

(Rs.million)	March- 10	March- 09	March- 08
Total Income	<b>314</b>	231	180
Net Premium	<b>1863</b>	1598	1398
PBT	<b>168</b>	101	77
PAT	<b>111</b>	65	50
No. of Customers for the Period (Nos.)	<b>316,892</b>	288,453	234,868
No. of Employees (Nos.)	<b>386</b>	329	400

# Highlights of Mahindra Rural Housing Finance Ltd.

- Shareholding Pattern: MMFSL- 87.5%, NHB- 12.5%
- Loans sanctioned for FY10 : Rs.1072 Mn
- Outstanding Loan Book as on 31<sup>st</sup> Mar 10 : Rs.1298 Mn
- Net Profit for FY10 : Rs.21.8 Mn
- Sanction from NHB for Refinancing Rs. 750 Mn for 7 years
- Currently Operating from 6 States

# Consolidated Profit & Loss Statement

(Rs.million)	March- 10	March- 09	March- 08
Income from Operations	<b>15612</b>	13817	12164
Other Income	<b>344</b>	187	203
Total Income	<b>15956</b>	14004	12367
Interest Cost	<b>5028</b>	5109	4558
Administrative Cost	<b>5426</b>	5463	4933
Depreciation	<b>101</b>	88	88
Total Expenditure	<b>10555</b>	10660	9579
PBT	<b>5401</b>	3344	2788
PAT	<b>3561</b>	2197	1811

# Consolidated Balance Sheet: Liabilities

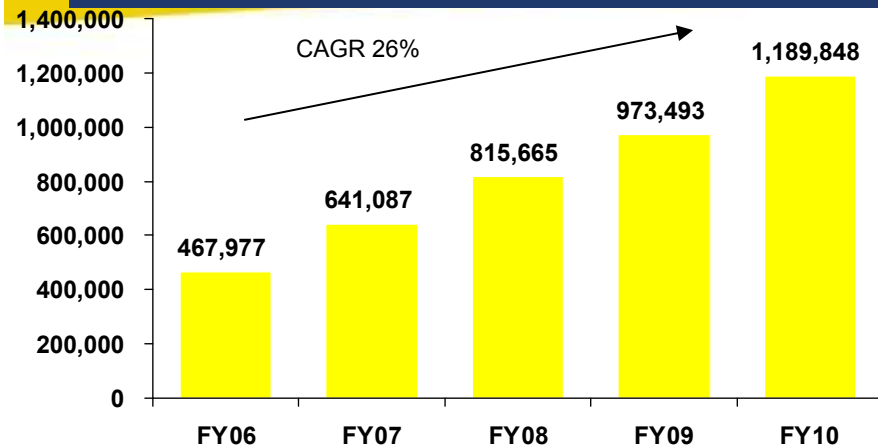
(Rs.million)	March- 10	March- 09	March- 08
Net Worth	<b>17536</b>	14810	13208
Equity Share Capital	<b>960</b>	957	953
Reserves & Surplus	<b>16576</b>	13853	12255
Employee Stock Option O/S	<b>12</b>	13	14
Minority Interest	<b>18</b>	15	--
Secured Loans	<b>54097</b>	44819	46135
Unsecured Loans	<b>11153</b>	7384	4599
Current Liabilities & Provs.	<b>9136</b>	7638	6412

# Consolidated Balance Sheet: Assets

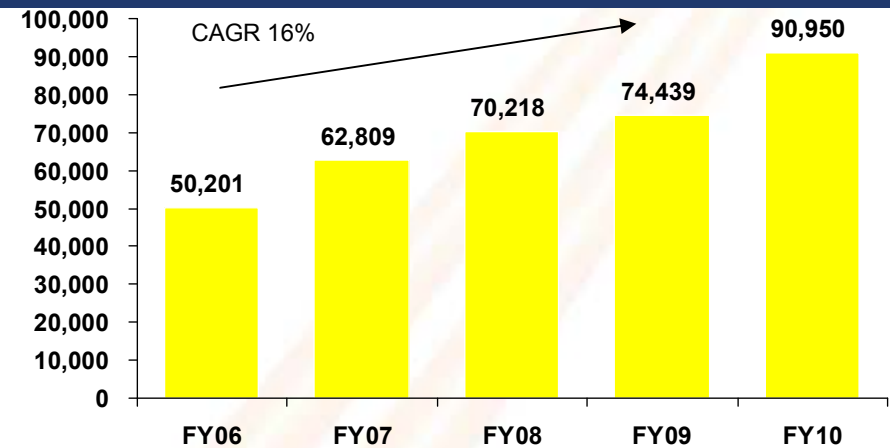
(Rs.million)	March- 10	March- 09	March- 08
Fixed Assets	486	381	328
Investments	2034	972	95
Sundry Debtors	13	16	39
Other Current Assets	39	24	14
Cash & Bank Balance	2443	2792	2163
Loans & Advances & others	84865	68706	66475
Deferred Tax Asset	2072	1788	1254

# Robust Growth

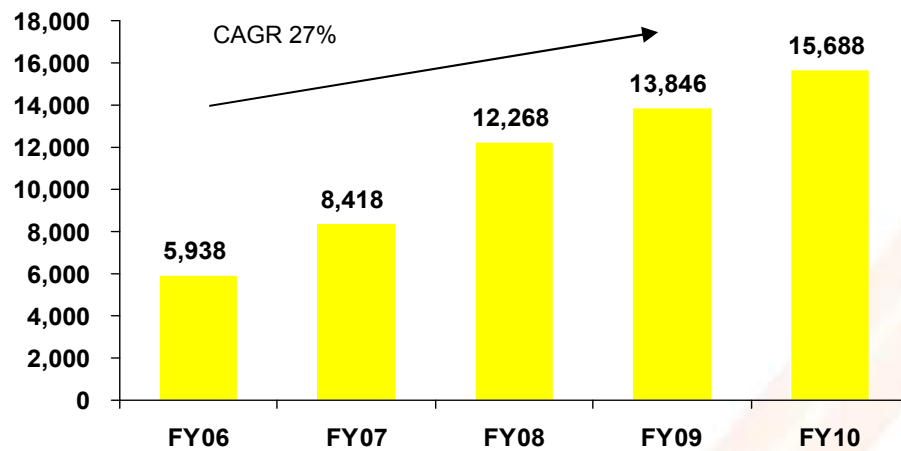
**Cumulative no. of Customer Contracts (Nos.)**



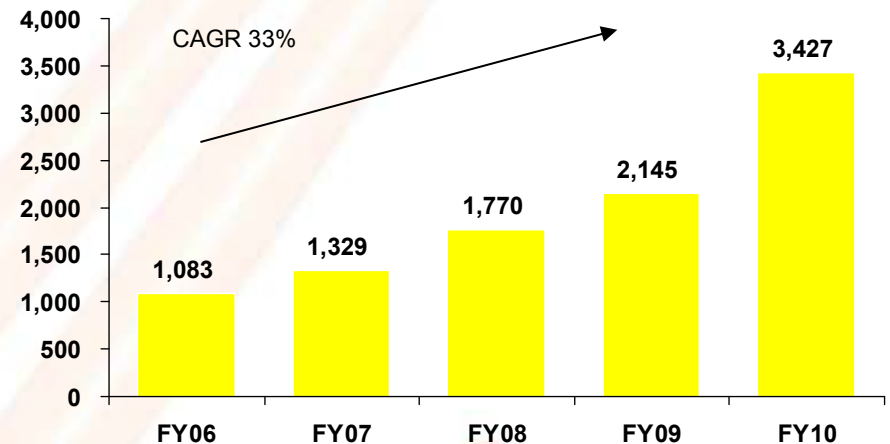
**Total Assets (INR million)**



**Total Income (INR million)**



**Profit after Tax (INR million)**



# Summary of Results

(Rs.million)	March- 10	March- 09	March- 08
Total Income	<b>15688</b>	13846	12268
Profit before tax	<b>5206</b>	3256	2720
Profit after tax	<b>3427</b>	2145	1770
Dividend (%)	<b>75</b>	55	45
Equity Share Capital	<b>960</b>	957	953
Reserves & Surplus	<b>16314</b>	13722	12686
Net Worth	<b>17274</b>	14679	13129
EPS (Basic)	<b>35.78</b>	22.46	20.81
Market Capitalisation	<b>36125</b>	20252	27156
No. of Branches	<b>459</b>	436	436
New Contracts During the period (Net) (Nos)	<b>216,355</b>	157,828	174,578
No. of employees	<b>4399</b>	4959	4597

# Ratio Analysis

	March- 10	March- 09	March- 08
PBT/Total Income	<b>33.2%</b>	23.5%	22.2%
PBT/Total Assets	<b>5.7%</b>	4.4%	3.9%
RONW (Opening Net Worth)	<b>23.4%</b>	16.3%	22.5%
RONW (Avg. Net Worth)	<b>21.6%</b>	15.4%	16.9%
Overheads/Total Assets	<b>3.6%</b>	3.6%	3.6%
Debt / Equity	<b>3.73:1</b>	3.54:1	3.84:1
Book value multiple	<b>2.1</b>	1.4	2.1
Capital Adequacy	<b>18.5%</b>	19.5%	20.7%
Tier I	<b>16.1%</b>	17.4%	16.8%
Tier II	<b>2.4%</b>	2.1%	3.9%
Book Value (Rs.)	<b>180.0</b>	153.4	137.8



# Provisioning Norms

Duration (months)	RBI Norms	Duration (months)	MMFSL
> 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%		
<b>At MMFSL NPA provisioning norms are more stringent than RBI norms for loan.</b>			

# NPA\*

(Rs.million.)	March- 10	March- 09	March- 08
Gross Non - Performing Assets	<b>6,112</b>	6,909	5,572
Less: NPA Provisions	<b>5,283</b>	4,966	3,519
Net Non – Performing Assets	<b>829</b>	1,943	2,053
Total Assets (Incl. NPA Provision)	<b>96,233</b>	79,404	73,736
Gross NPA to Total Assets(%)	<b>6.4%</b>	8.7%	7.6%
Net NPA to Total Assets(%)	<b>0.9%</b>	2.6%	2.9%
Coverage Ratio(%)	<b>86.4%</b>	71.9%	63.1%

\* Excluding Securitised portfolio

# Spread Analysis

	March- 10	March- 09	March- 08
Total Income/Average Assets	<b>19.0%</b>	19.1%	18.4%
Interest / Average Assets	<b>6.0%</b>	6.9%	6.7%
Gross Spread	<b>13.0%</b>	12.2%	11.7%
Overheads/Average Assets	<b>3.9%</b>	3.7%	3.8%
Write offs & NPA provisions / Average Assets	<b>2.7%</b>	3.9%	3.7%
Net Spread	<b>6.4%</b>	4.6%	4.2%

# Technology Initiatives

- 91% of total 459 branches are online realtime connected
- All collection executive uses Hand Held Device, connected by GPRS to central server, resulting in
  - Prompt intimation by SMS to customer
  - Complete information in hand to handle customer queries with transaction security
  - On-line Collection MIS on Management dashboard
  - Recording customer commitments
  - Enables better internal checks & controls



# Employee engagement & training

- Tied up with 130 local graduate colleges for continuous recruitment.
- 5 days Induction program on product knowledge, business processes and aptitude training.
- On Job training by superiors followed by an assessment test.
- Tied up with various distance learning institutions for up gradation of employee skills.
- Education assistance programmes.
- Assessment & Development Centre for critical employees.
- Every quarterly employees can voice their opinion and suggestions to senior management.
- Employee recognition Programs such as – Dhruv Tara, Annual Convention Award, Achievement Box.

# Key Risks & Management Strategies

- |                                |   |
|--------------------------------|---|
| ■ Volatility in interest rates | Matching of Asset Liabilities           |
| ■ Rising competition           | Increasing Branch Network               |
| ■ Funds at competitive rates   | Improving Credit Rating & Asset Quality |
| ■ Dependence on M&M            | Increasing Non-M&M Portfolio            |
| ■ Vagaries of nature           | Increasing Geographical Spread          |
| ■ Controlling write-offs       | Improving the Portfolio Mix             |
| ■ Employee retention           | Job Rotation / ESOP / Group Opportunity |
| ■ Handling cash                | Insurance & Effective Internal Control  |

# Treasury & Risk Management

## Treasury Management

- The treasury department undertakes liquidity management by maintaining optimum level of liquidity and complying with RBI requirement of asset liability management.
- The surplus funds are invested in accordance with the investment policy of the board
  - Surplus funds are invested in Government securities, liquid debt based mutual funds and bank fixed deposits
- As of March 31, 2010, Rs. 562 million was invested in Government securities and Rs. 1472 million was invested in Certificate of Deposits.

## Risk Management

- The Risk management team is a eight member team which identifies, assesses and monitors the principal risks of the Company, in accordance with the defined policies and procedures
- The Audit Committee oversees the risk management policies and procedures and also reviews the credit risk of the Company
- The Asset Liability Management Committee reviews risk management policies in relation to various risks including liquidity, interest rate, investment policies and strategy
- We have also appointed a number of audit firms across the country to review and audit our branch operations and their audit reports are reviewed by the Audit Committee

# Key Investment Themes

**Immense potential in the rural and semi urban markets**

**Early entry and knowledge of the rural and semi urban market**

**M&M Parentage**

**Strong Capital Base**

**Extensive Branch Network / Dealer Relationships**

**Consistent financial performance**

**Client Base**

**Prudent loan approval and administration procedures**

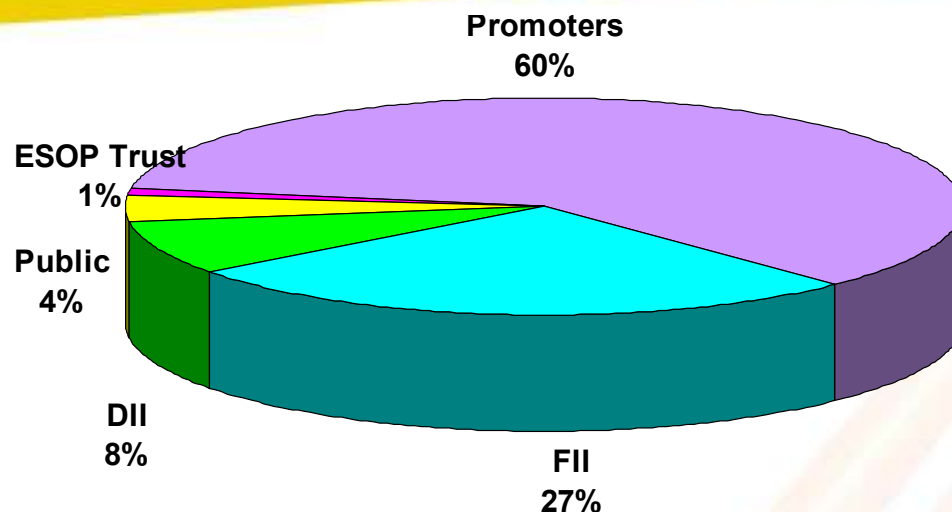
**Ability to borrow at competitive rates**

**Experienced Board and executive management team**



# Shareholding Pattern

(as on 31<sup>st</sup> March 2010)



- Incorporated in 1991 mainly to finance Mahindra vehicles by Mahindra & Mahindra Ltd.
- The Company inducted a financial investor, Copa Cabana in January 2006. Copa Cabana, a 100% subsidiary of Chrys Capital III, LLC paid INR 600 mn for purchasing a 4.16% stake in MMFSL
- 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 10.9 million shares to two private equity funds TPG Axon Capital and Standard Chartered Private Equity in February 2008, all at a price of Rs. 380/Share.

**Thank you**