

Mahindra & Mahindra Financial Services Limited

Quarter Result June-08

Agenda

1 Industry Overview / MMFSL Overview

2 *Operations*

3 *Performance Highlights*

4 *Key Risks*

5 *Principal Investment Themes*

Automobile Industry

- Over 1.50 million passenger cars and utility vehicles were sold in India in 2008
- The total demand for cars and utility vehicles is expected to grow at a CAGR of 14.9% for the period 2007-08 to 2011-12

(units)	2007-08	2011-12E	CAGR%
Passenger cars	1,201,321	2,137,898	15.5%*
Utility Vehicles (domestic)	344,340	561,437	13.0%*
Total Domestic Demand	1,545,661	2,699,335	14.9%*

Source : SIAM

*CRIS INFAC

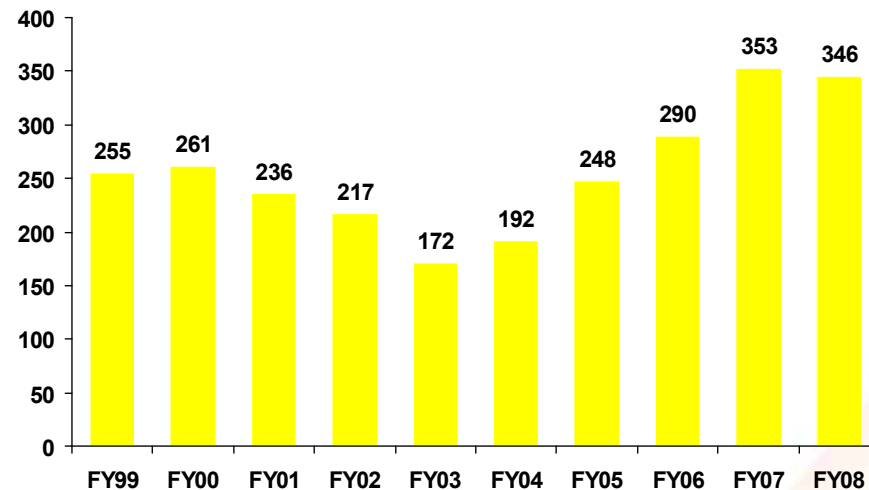
- The key drivers for growth in demand for automobiles are:
 - Growing incomes have resulted in the increased affordability of vehicles
 - Broader distribution network (both of manufacturers and financiers) has enabled a larger population to be targeted resulting in greater demand for vehicles
 - Drop in holding period from 10 -12 years to 4 - 5 years also further increased demand for new vehicles

The ready availability of finance has enabled the growth in auto sales

Tractor Industry

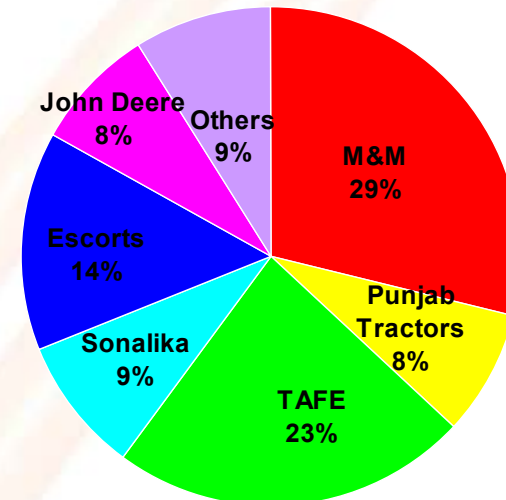
- Over 3.46lac tractors were sold by Indian tractor industry during FY08 on the back of improvement in realisations and easy availability of finance
- Almost all tractors are sold on finance due to structured financing, easy repayment norms and longer tenure of finance.
- M&M-Punjab Tractors, Escorts, TAFE and Sonalika are the leading players

All India Tractor Sales



Source : M&M

Market share (FY 08 volumes)



The Auto Finance Industry

Disbursements: Organised auto finance *

(Rs. billion)	2005-06	2006-07E	2007-08P	2011-12	2008-2012 (CAGR%)
New car finance	240	270	293	447	11.00
New UV finance	79	94	106	164	12.00
New CV finance	197	268	280	405	10.00
Total New auto finance market	516	632	679	1016	11.00
Used car finance	81	112	137	351	26.00
Used CV finance	--	138	178	353	21.00
Total auto finance market	597	882	994	1720	15.00

* Does not include Farm Equipment/Tractors

Source : CRIS INFAC & Industry

- The organized sector accounts for 71% of the entire auto finance market with the balance being serviced by the local money lenders
- The total organized auto finance market is expected to grow at a CAGR of 15.00% over the period 2008-2012

Overview

- MMFSL is a Mahindra and Mahindra subsidiary, 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 and commercial 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 437 branches covering 25 states and 2 union territories in India
- Since inception the Company has entered into over 856,000 customers contracts
- CRISIL has assigned a AA+ rating to the Company's long term debt reflecting a high degree of safety
- Assets under Management have increased from Rs. 7269crs to Rs.8102crs year-on-year basis.
- MMFSL recorded total revenues of INR 2,994 million and profit after tax of INR 268 million for the quarter ended June 30, 2008 and had Total assets of INR 72,136 million as of June 30, 2008

Excellent Competitive Positioning

Our competitive edge is our immense domain experience in a challenging industry

Industry Characteristics

Government thrust to give a boost to the rural economy

The domestic Auto and Auto finance markets are expected to grow at CAGR of 14.9% and 15.0% respectively over a five year period ending 2011-12

Cross selling is becoming a key revenue driver in financial services sector

Limited private sector participants with experience and rural domain knowledge

MMFSL

An early entrant with a large existing client base, MMFSL is well poised to take advantage of the rural boom

MMFSL in a position to take advantage of this growth due to its close association with M&M and over 1300 auto dealers

With commencement of related services, MMFSL will be able to leverage its large client base for cross selling opportunities

Established 12 year track record of lending in the rural markets while keeping NPAs low

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

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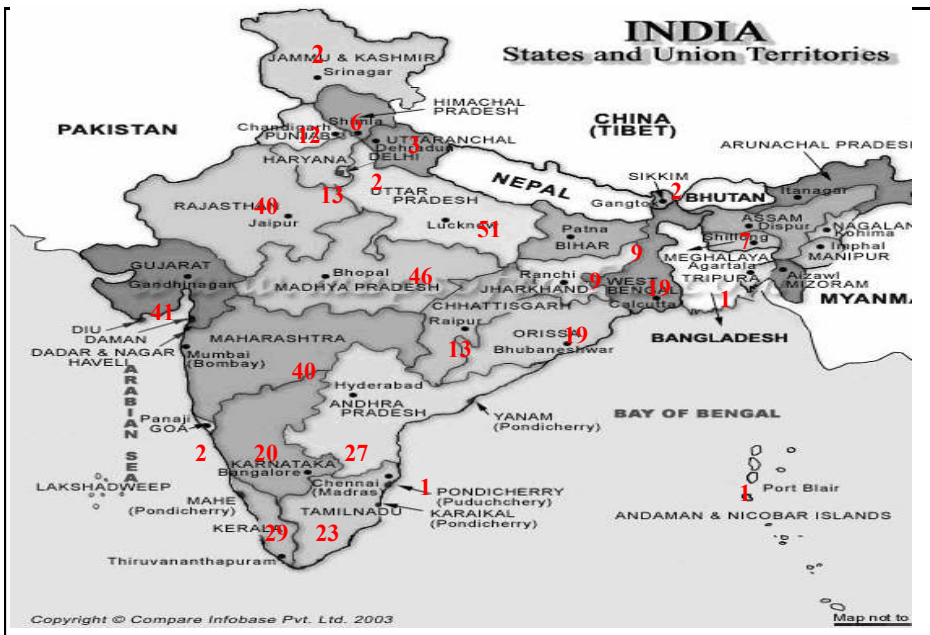
4 *Key Risks*

5 *Principal Investment Themes*

Extensive Distribution Network

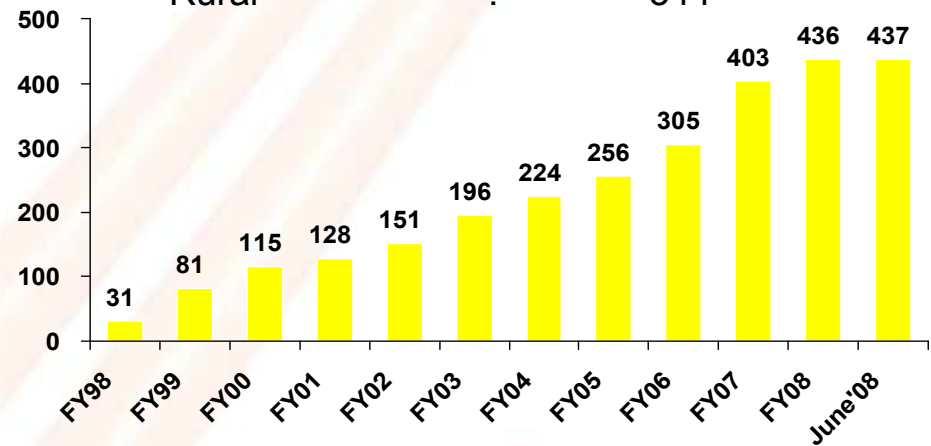
- MMFSL has an extensive distribution network with presence in 25 states and 2 union territories in India through 437 branches
 - Our market categorised into five zones and 16 regions with branches reporting into their respective regional office
 - Branches provided authority to approve loans within prescribed guidelines

Coverage

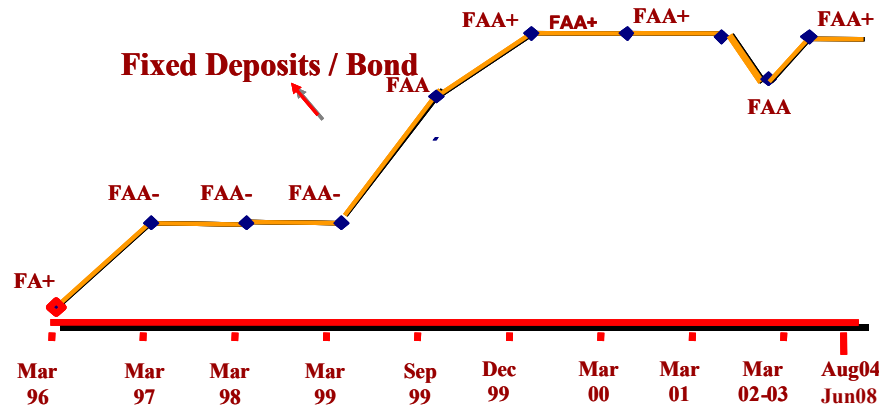


Branch Network

Total Branches (as on 30.06.08): 437
 Metro : 4
 Urban/Semi Urban : 89
 Rural : 344



Funding



- MMFSL has consistently enjoyed a good credit rating enabling it to borrow funds at competitive rates
- Rating linked to credit rating of M&M, decline in rating in FY03 due to rating downgrade of M&M
- Total Consortium Size of Rs. 7,500 Million
- MMFSL has also securitised / Assigned part of its loan portfolio to raise funds.
 - The first securitisation transaction was done in FY02 and since has done 32 securitisation / Assignment transactions till date aggregating Rs. 31.02 bn

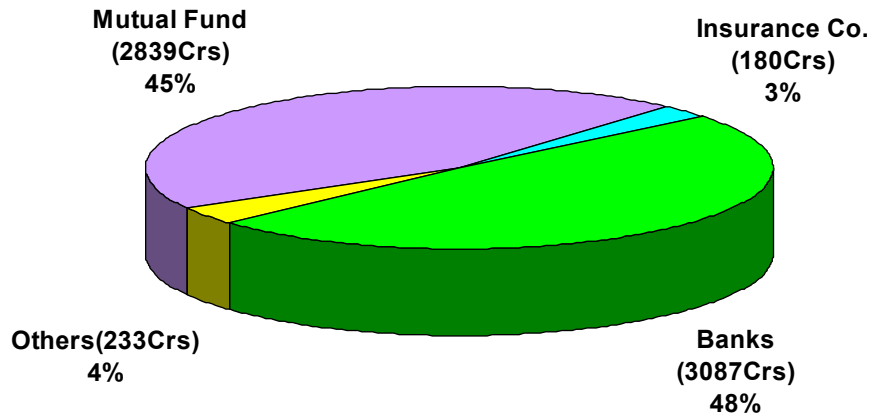
	Crisil Rating	Rs. in mn
Long Term	AA+	64,600
Short Term	P1+	12,500
Subordinated debt	AA+	4,000
Preference Shares	Pf AA+	500

	FITCH Rating	Rs. in mn
Subordinated debt	AA+(ind)	2000

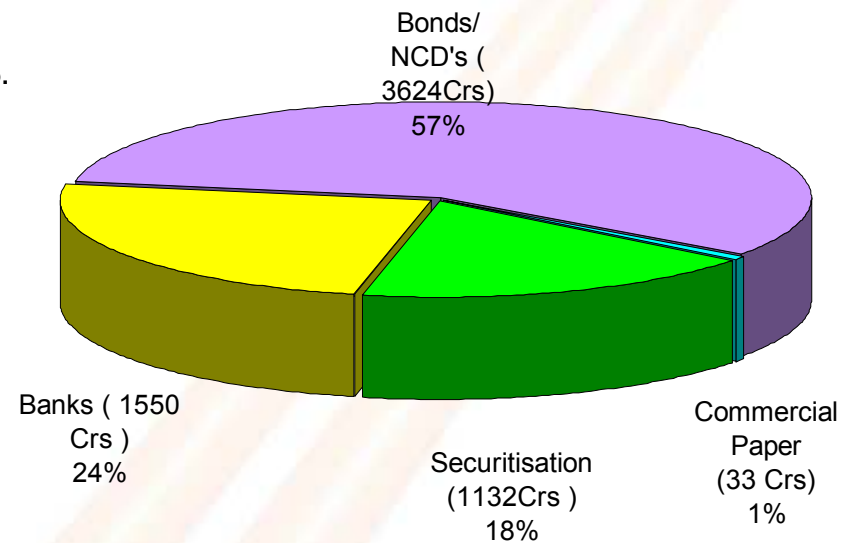
As on date

Source of Borrowing

Fund Mix on the basis of Investor profile



Fund Mix on the basis of Instrument.



Asset Securitisation

- MMFSL securitises 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 32 securitisation transactions till date aggregating Rs. 31.02 bn
- All securitisation programs (except bilateral deals) have been rated AAA (so) by Crisil
 - Credit enhancements in form of cash collateral, Subordinate Class B PTCs etc

	FY04	FY05	FY06	FY07	FY08
Receivables Securitised / Assigned (Rs. Mn.)	3,190	4,528	5,563	6,100	8,099
Consideration Received (Rs. Mn)	2,978	4,243	5,147	5,608	7,303
Net Income from Securitisation (Rs. Mn.)	146	193	489	538	1,074

Challenges

- Ave. cash collection/day-Rs. 109 mn
- More than one Bank A/c per location
- Small denomination notes/ mutilated notes
- Non-acceptance of cash
- Huge cash collection charges
- High revenue leakage

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Profit & Loss Statement

(Rs.million)	June- 07	June- 08	March- 08
Income from Operations	2446	2946	12058
Other Income	50	48	210
Total Income	2496	2994	12268
Interest Cost	1032	1103	4560
Administrative Cost	1120	1451	4901
Depreciation	21	21	87
Total Expenditure	2173	2575	9548
PBT	323	419	2720
PAT	214	268	1770

Balance Sheet: Liabilities

(Rs.million)	June- 07	June- 08	March- 08
Net Worth	7987	13406	13129
Equity Share Capital	841	954	953
Reserves & Surplus	7146	12452	12176
Employee Stock Option O/S	14	12	14
Secured Loans	41090	39333	46135
Unsecured Loans	10897	12740	4547
Current Liabilities & Provs.	6080	6645	6393

Balance Sheet: Assets

(Rs.million)	June- 07	June- 08	March- 08
Fixed Assets	291	305	308
Investments	38	58	31
Intangible Assets	22	12	13
Sundry Debtors	30	10	9
Other Current Assets	48	36	15
Cash & Bank Balance	2142	2132	2153
Loans & Advances & others	62689	68267	66435
Deferred Tax Asset	808	1316	1254

Brief highlights of MIBL

(Rs.million)	June- 07	June- 08	March- 08
Total Income	34	62	180
Net Premium	298	460	1398
PBT	11	30	77
PAT	7	19	50

Consolidated Profit & Loss Statement

(Rs.million)	June- 07	June- 08	March- 08
Income from Operations	2468	2990	12164
Other Income	48	48	203
Total Income	2516	3038	12367
Interest Cost	1031	1105	4558
Administrative Cost	1130	1466	4931
Depreciation	21	22	90
Total Expenditure	2182	2593	9579
PBT	334	445	2788
PAT	221	283	1811

Consolidated Balance Sheet: Liabilities

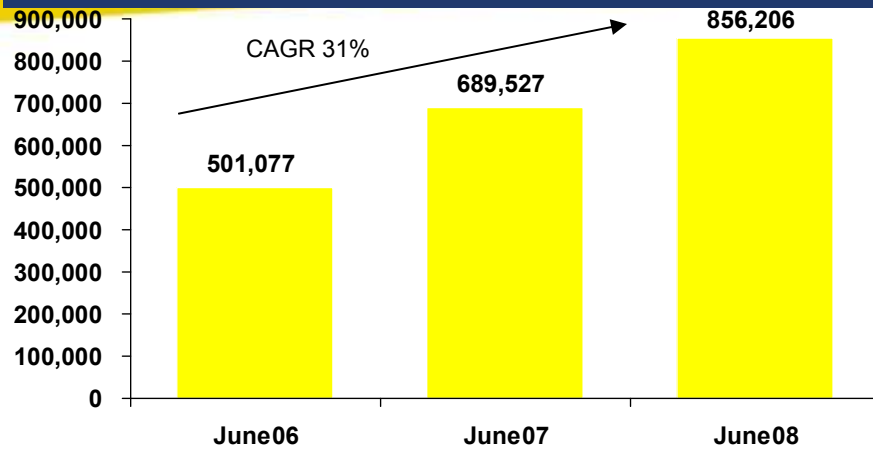
(Rs.million)	June- 07	June- 08	March- 08
Net Worth	8032	13511	13208
Equity Share Capital	841	954	953
Reserves & Surplus	7191	12557	12255
Employee Stock Option O/S	14	12	14
Secured Loans	41090	39333	46135
Unsecured Loans	10858	12782	4599
Current Liabilities & Provs.	6094	6654	6412

Consolidated Balance Sheet: Assets

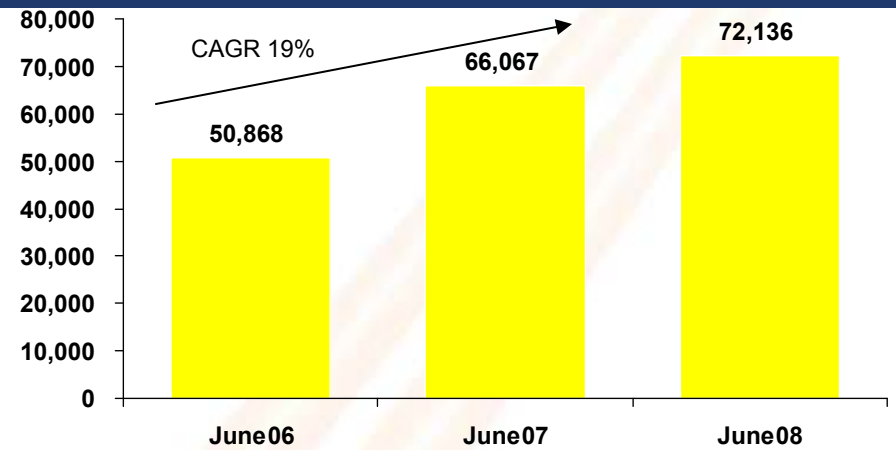
	June- 07	June- 08	March- 08
Fixed Assets	295	310	314
Investments	12	3	95
Intangible Assets	22	12	14
Sundry Debtors	46	45	39
Other Current Assets	48	36	14
Cash & Bank Balance	2157	2209	2163
Loans & Advances & others	62701	68350	66475
Deferred Tax Asset	807	1317	1254
Miscellaneous Expenditure	--	10	--

Robust Growth

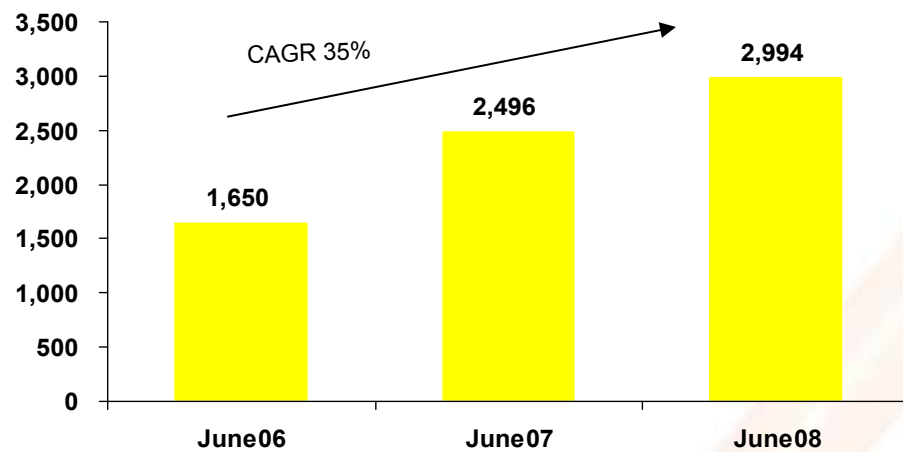
Cumulative no. of Customer Contracts (Nos.)



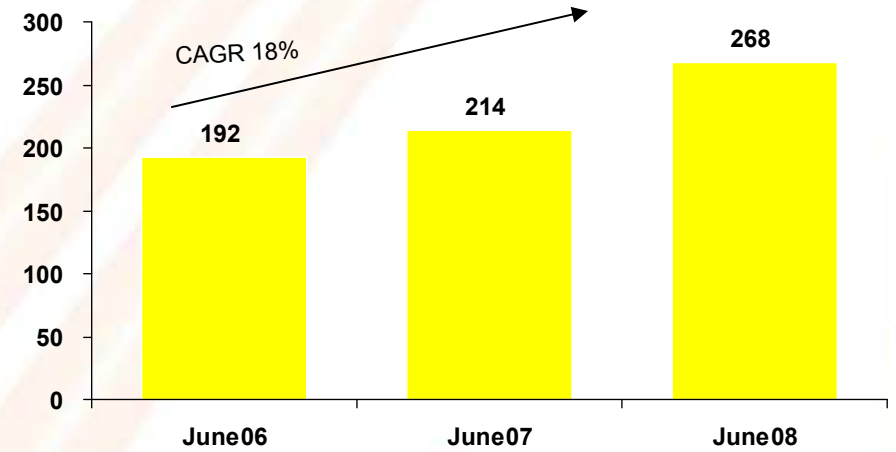
Total Assets (INR million)



Total Income (INR million)



Profit after Tax (INR million)



Summary of Results

(Rs.million)	June- 07	June- 08	March- 08
Total Income	2496	2994	12268
Profit before tax	323	419	2720
Profit after tax	214	268	1770
Dividend (%)	--	--	45
Equity Share Capital	841	954	953
Reserves & Surplus	7146	12452	12686
Net Worth	7987	13406	13129
EPS (Basic)	2.55	2.80	20.81
Market capitalisation	21255	26352	27156
No. of Branches	415	437	436
New Contracts During the period (Net) (Nos)	48440	40541	174,578
No. of employees	3657	4632	4597

Ratio Analysis

	June- 07	June- 08	March- 08
PBT/Total Income	12.9%	14.0%	22.2%
PBT/Total Assets	1.2%	1.3%	3.9%
RONW (Avg. Net Worth)	6.5%	4.2%	16.9%
Overheads/Total Assets	3.4%	3.6%	3.6%
Debt / Equity	6.39:1	3.86:1	3.84:1
Book value multiple	2.6	2.0	2.1
Capital Adequacy	14.4%	19.9%	20.7%
Tier I	8.7%	16.6%	16.8%
Tier II	5.7%	3.3%	3.9%
Book Value (Rs.)	95.0	140.5	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%		
At MMFSL NPA provisioning norms are more stringent than RBI norms for loan.			

NPA*

(Rs.million.)	June- 07	June- 08	March- 08
Gross Non - Performing Assets	5,207	7,501	5,572
Less: NPA Provisions	2,689	4,417	3,519
Net Non – Performing Assets	2,518	3,084	2,053
Total Assets (Incl. NPA Provision)	68,756	76,554	73,736
Gross NPA to Total Assets(%)	7.6%	9.8%	7.6%
Net NPA to Total Assets(%)	3.8%	4.3%	2.9%

* Excluding Securitised portfolio

Spread Analysis

	June- 07	June- 08	March- 08
Total Income/Average Assets	14.9%	16.1%	18.4%
Interest / Average Assets	6.3%	6.1%	6.7%
Gross Spread	8.6%	10.0%	11.7%
Overheads/Average Assets	3.5%	3.7%	3.8%
Write offs & NPA provisions / Average Assets	3.8%	4.9%	3.7%
Net Spread	1.3%	1.4%	4.2%

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Key Risks & Management Strategies

- | | |
|--------------------------------|---|
| ■ Volatility in interest rates | Matching of Asset Liabilities |
| ■ Rising competition | Increasing Branch Network |
| ■ Funds at competitive rates | Maintaining 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 June 30, 2008, Rs 3.00 million was invested in Government securities

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 overseas 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

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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

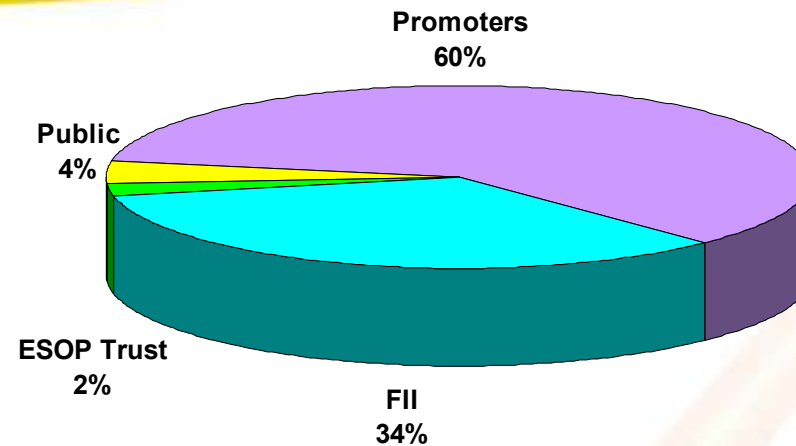
Client Base

Prudent loan approval and administration procedures

Ability to borrow at competitive rates

Experienced Board and executive management team

Shareholding Pattern (as on 30th June 2008)



- 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.

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