

Mahindra & Mahindra Financial Services Limited

Quarter Result December-08

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 442 branches covering 25 states and 2 union territories in India
- Since inception the Company has entered into over 942,000 customers contracts
- CRISIL & FITCH 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. 7810crs to Rs.8303crs year-on-year basis.
- MMFSL recorded total revenues of INR 9,870 million and profit after tax of INR 1065 million for the Nine months ended December 31, 2008 and had Total assets of INR 75,024 million as of December 31, 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

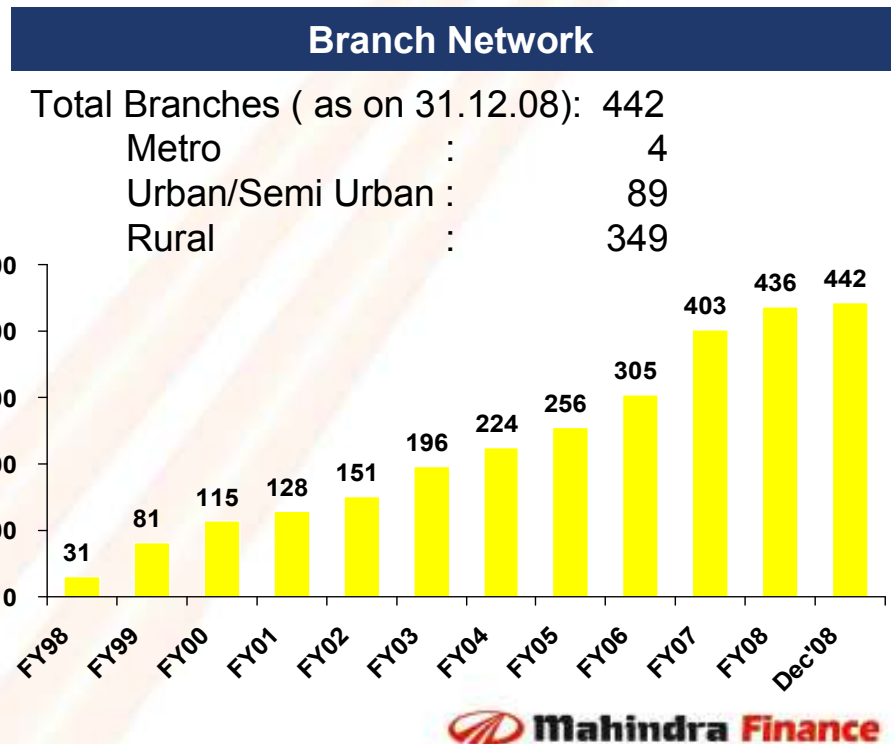
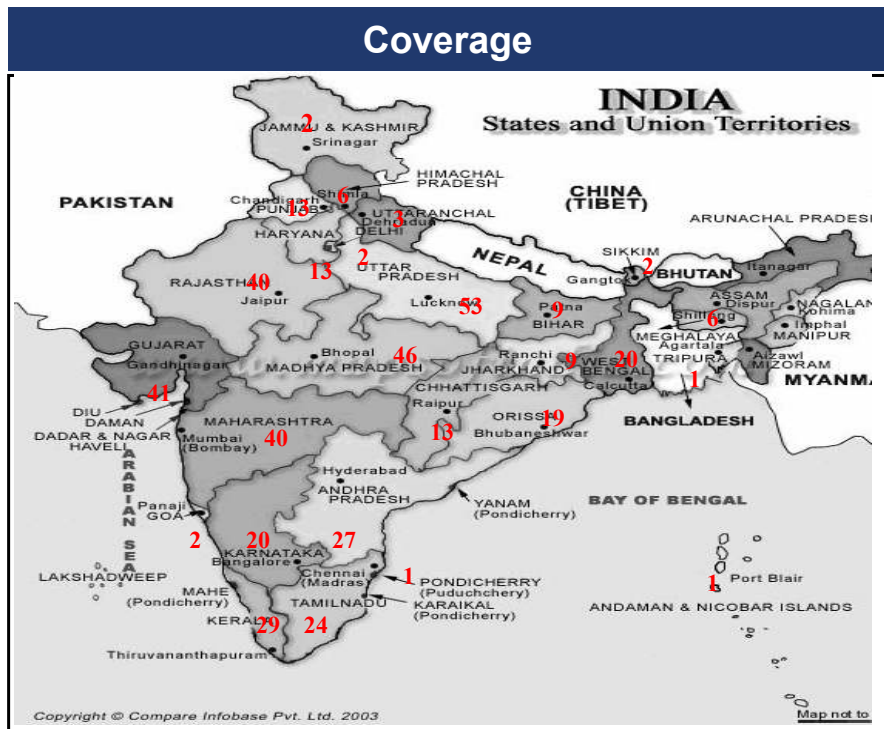
Commenced financing Commercial Vehicles in 2006

Commenced mutual fund distribution business

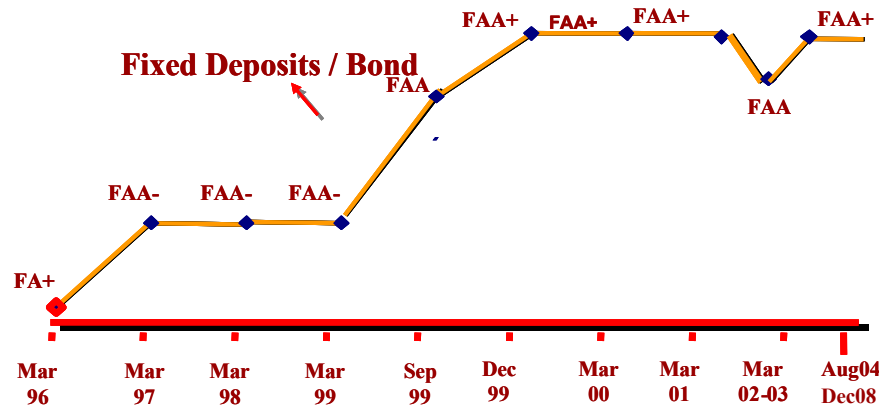
Commenced housing loans business in MRHFL in Oct 2007

Extensive Distribution Network

- MMFSL has an extensive distribution network with presence in 25 states and 2 union territories in India through 442 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



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 34 securitisation / Assignment transactions till date aggregating Rs. 34.48 bn

	Crisil Rating	Rs. in mn
Long Term	AA+	69,600
Short Term	P1+	12,500
Subordinated debt	AA+	4,000
Fixed Deposit Programme	FAA+	--

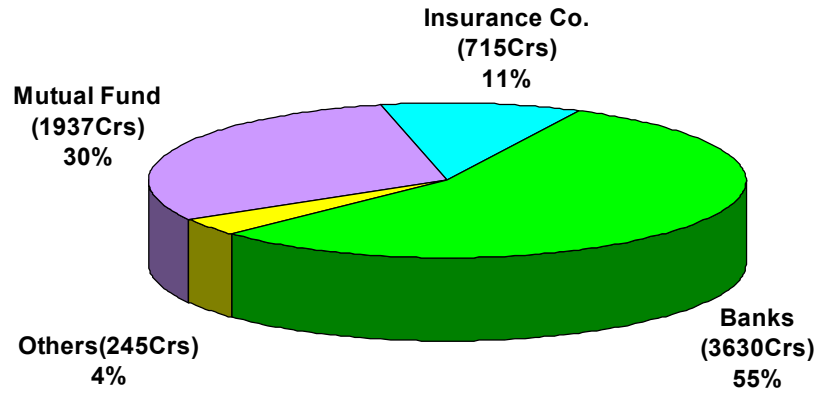
	FITCH Rating	Rs. in mn
Subordinated debt	AA+(ind)	2000

As on date

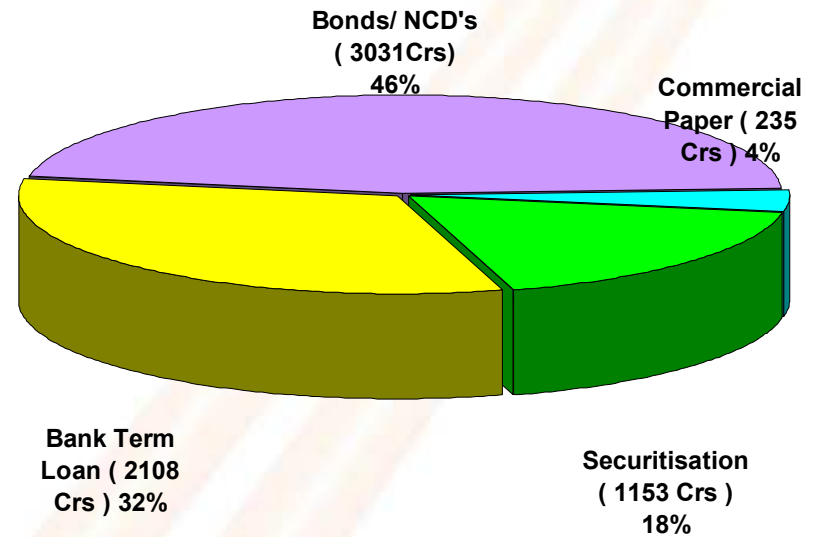
Source of Borrowing

(as on 31st December 2008)

Fund Mix on the basis of Investor profile



Fund Mix on the basis of Instrument.



Asset Securitisation/Assignment

- MMFSL securitises parts of its loan portfolio to improve its cash flows and reduce borrowings
- The company did its first securitisation transaction in FY02 and has done 34 securitisation / Assignment transactions till date aggregating Rs. 34.48 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

Profit & Loss Statement

(Rs.million)	Dec- 07	Dec- 08	March- 08
Income from Operations	8509	9755	12058
Other Income	146	115	210
Total Income	8655	9870	12268
Interest Cost	3380	3827	4560
Administrative Cost	3653	4329	4901
Depreciation	66	62	87
Total Expenditure	7099	8218	9548
PBT	1556	1652	2720
PAT	1016	1065	1770

Balance Sheet: Liabilities

(Rs.million)	Dec- 07	Dec- 08	March- 08
Net Worth	8789	14206	13129
Equity Share Capital	841	955	953
Reserves & Surplus	7948	13251	12176
Employee Stock Option O/S	17	14	14
Secured Loans	44719	45209	46135
Unsecured Loans	12212	8528	4547
Current Liabilities & Provs.	5285	7067	6393

Balance Sheet: Assets

(Rs.million)	Dec- 07	Dec- 08	March- 08
Fixed Assets	306	343	308
Investments	31	57	31
Intangible Assets	16	18	13
Sundry Debtors	20	8	9
Other Current Assets	106	109	15
Cash & Bank Balance	2258	1994	2153
Loans & Advances & others	67237	70857	66435
Deferred Tax Asset	1048	1560	1254
Miscellaneous Expenditure	0	78	0

Disbursements Mix

Segments	Dec-08	March-08	March-07
Auto/ Utility vehicles	41%	34%	36%
Tractors	22%	24%	23%
Cars	24%	23%	22%
Commercial Vehicles	7%	7%	4%
Refinance & Others	6%	12%	15%

* Tentative Percentages

Segment Wise: Break up of AUM

Segments	Dec-08	March-08	March-07
Auto/ Utility vehicles	39%	38%	43%
Tractors	24%	25%	19%
Cars	24%	23%	26%
Commercial Vehicles	8%	7%	3%
Refinance & Others	5%	7%	9%

* Tentative Percentages

Brief highlights of MIBL

(Rs.million)	Dec- 07	Dec- 08	March- 08
Total Income	122	172	180
Net Premium	990	1226	1398
PBT	47	68	77
PAT	30	43	50
No. of Customers for the Period (Nos.)	163,526	221,813	234,868
No. of Employees (Nos.)	393	390	400

Consolidated Profit & Loss Statement

(Rs.million)	Dec- 07	Dec- 08	March- 08
Income from Operations	8584	9878	12164
Other Income	142	111	203
Total Income	8726	9989	12367
Interest Cost	3378	3833	4558
Administrative Cost	3680	4383	4931
Depreciation	67	63	90
Total Expenditure	7125	8279	9579
PBT	1600	1710	2788
PAT	1042	1097	1811

Consolidated Balance Sheet: Liabilities

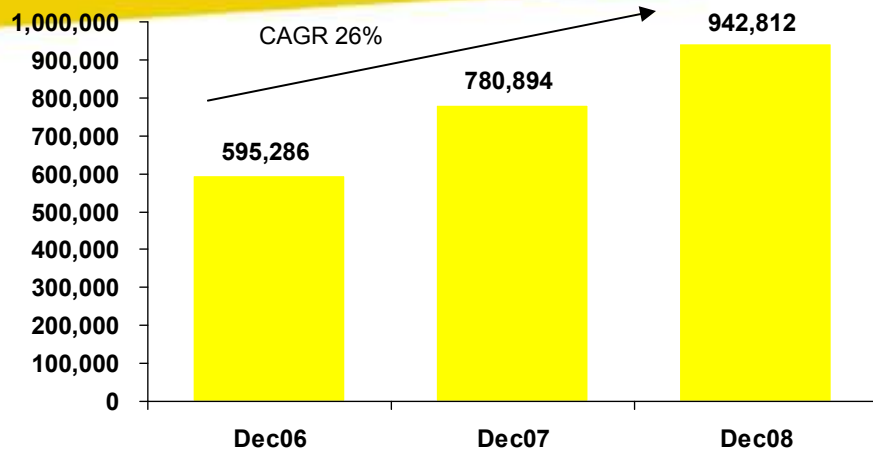
(Rs.million)	Dec- 07	Dec- 08	March- 08
Net Worth	8854	14320	13208
Equity Share Capital	841	955	953
Reserves & Surplus	8013	13365	12255
Employee Stock Option O/S	17	14	14
Minority Interest	--	5	--
Secured Loans	44720	45359	46135
Unsecured Loans	12162	8507	4599
Current Liabilities & Provs.	5299	7075	6412

Consolidated Balance Sheet: Assets

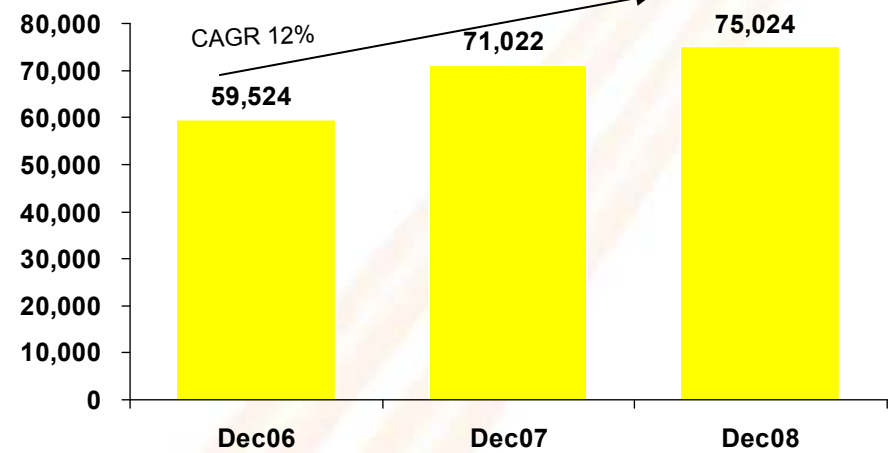
(Rs.million)	Dec- 07	Dec- 08	March- 08
Fixed Assets	312	348	314
Investments	5	1	95
Intangible Assets	17	19	14
Sundry Debtors	42	29	39
Other Current Assets	106	109	14
Cash & Bank Balance	2267	2006	2163
Loans & Advances & others	67253	71130	66475
Deferred Tax Asset	1048	1560	1254
Miscellaneous Expenditure	2	78	--

Robust Growth

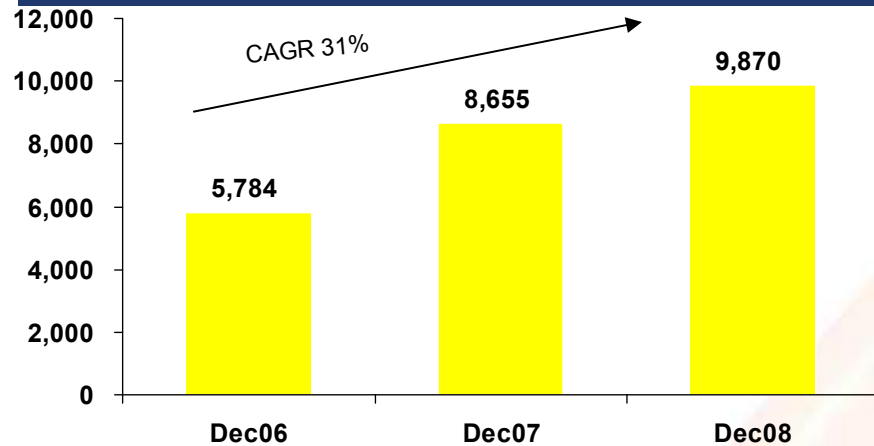
Cumulative no. of Customer Contracts (Nos.)



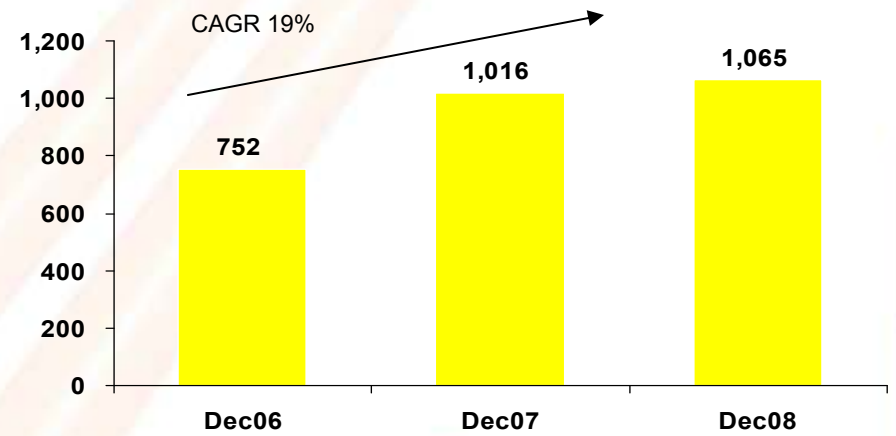
Total Assets (INR million)



Total Income (INR million)



Profit after Tax (INR million)



Summary of Results

(Rs.million)	Dec- 07	Dec- 08	March- 08
Total Income	8655	9870	12268
Profit before tax	1556	1652	2720
Profit after tax	1016	1065	1770
Dividend (%)	--	--	45
Equity Share Capital	841	955	953
Reserves & Surplus	7948	13251	12686
Net Worth	8789	14206	13129
EPS (Basic)	12.09	11.16	20.81
Market capitalisation	27787	24564	27156
No. of Branches	434	442	436
New Contracts During the period (Net) (Nos)	139807	127147	174,578
No. of employees	4551	4983	4597

Ratio Analysis

	Dec- 07	Dec- 08	March- 08
PBT/Total Income	17.9%	16.7%	22.2%
PBT/Total Assets	2.6%	2.6%	3.9%
RONW (Avg. Net Worth)	14.6%	9.3%	16.9%
Overheads/Total Assets	3.5%	3.7%	3.6%
Debt / Equity	6.41:1	3.76:1	3.84:1
Book value multiple	3.1	1.7	2.1
Capital Adequacy	14.9%	18.9%	20.7%
Tier I	11.0%	16.8%	16.8%
Tier II	3.9%	2.1%	3.9%
Book Value (Rs.)	104.5	148.8	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.)	Dec- 07	Dec- 08	March- 08
Gross Non - Performing Assets	6,487	8,082	5,572
Less: NPA Provisions	3,578	5,225	3,519
Net Non – Performing Assets	2,909	2,857	2,053
Total Assets (Incl. NPA Provision)	74,600	80,172	73,736
Gross NPA to Total Assets(%)	8.7%	10.1%	7.6%
Net NPA to Total Assets(%)	4.1%	3.8%	2.9%
Coverage Ratio(%)	55.2%	64.6%	63.1%

* Excluding Securitised portfolio

Spread Analysis

	Dec- 07	Dec- 08	March- 08
Total Income/Average Assets	17.0%	17.9%	18.4%
Interest / Average Assets	6.6%	6.9%	6.7%
Gross Spread	10.4%	11.0%	11.7%
Overheads/Average Assets	3.7%	3.8%	3.8%
Write offs & NPA provisions / Average Assets	3.8%	4.3%	3.7%
Net Spread	2.9%	2.9%	4.2%

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 December 31, 2008, Rs 1.50 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

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

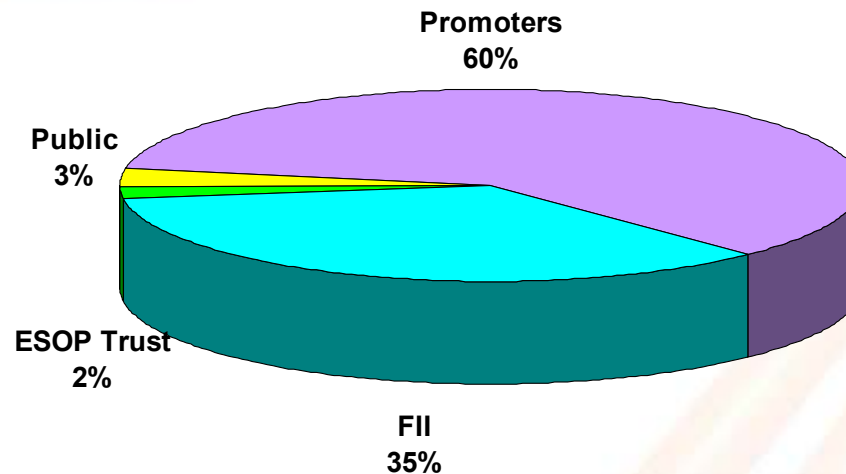
Prudent loan approval and administration procedures

Ability to borrow at competitive rates

Experienced Board and executive management team

Shareholding Pattern

(as on 31st December 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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