

# **Mahindra & Mahindra Financial Services Limited**

**Analyst Meet March-2009**

# 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 436 branches covering 25 states and 2 union territories in India
- Since inception the Company has entered into over 973,000 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
- Estimated Value of Assets Financed have increased from Rs.5850 crs to Rs.6281 crs year-on-year basis.
- Assets under Management have increased from Rs. 7847crs to Rs.8543crs year-on-year basis.
- MMFSL recorded total revenues of INR 13,846 million and profit after tax of INR 2145 million for the year ended March 31, 2009 and had Total assets of INR 74,439 million as of March 31, 2009

# 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 436 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

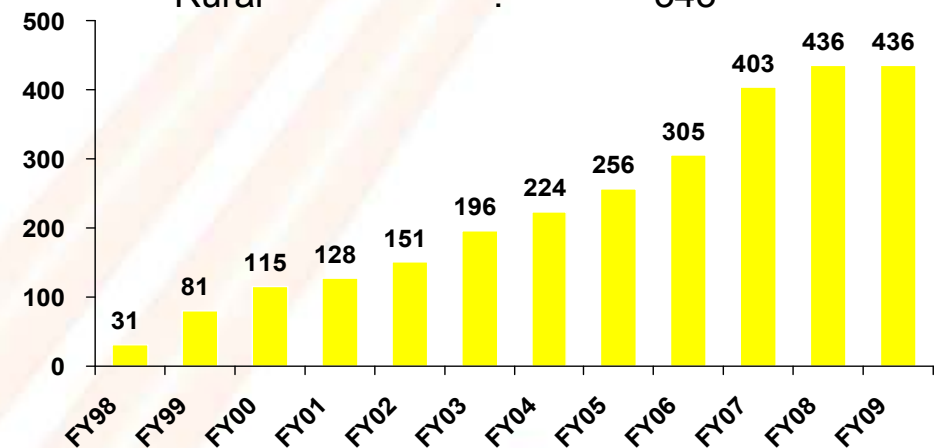
## Coverage



## Branch Network

Total Branches ( as on 31.03.09): 436

Metro	:	4
Urban/Semi Urban	:	89
Rural	:	343



# 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 increased from Rs. 7,500 Million to Rs. 10,000 Million

	FITCH Rating
Long Term / Subordinated debt	AA(ind)

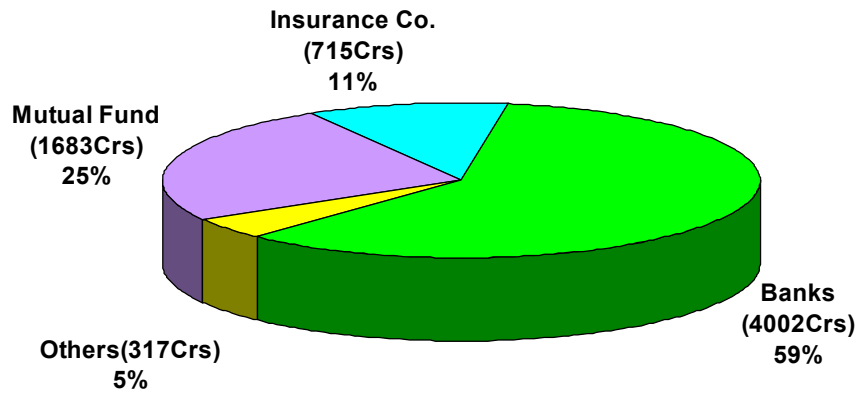
	CRISIL Rating
Fixed Deposit Programme	FAA
Short Term	P1+
Long Term / Subordinated debt	AA-

As on date

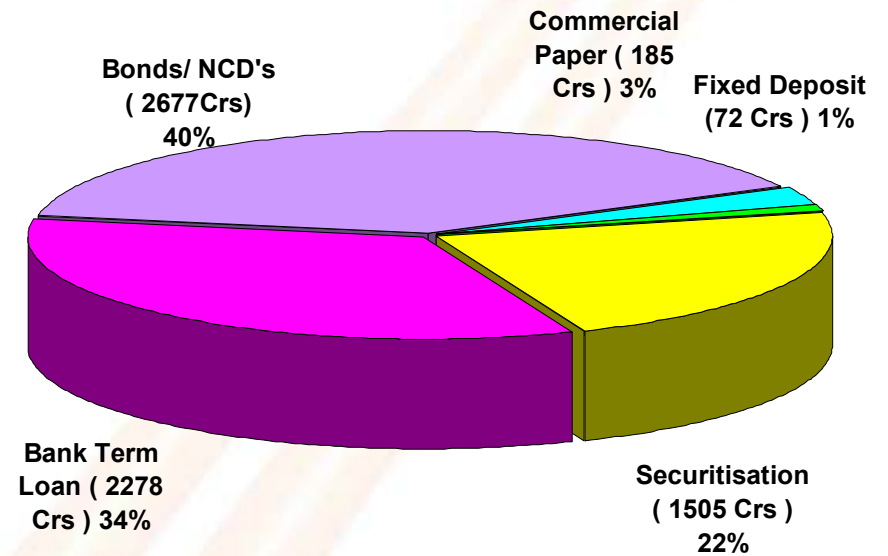
# Source of Borrowing

(as on 31<sup>st</sup> March 2009)

*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 / Assignment transaction in FY02 and has done 37 securitisation / Assignment transactions till date aggregating Rs. 40.10 bn

Rs. Million	FY05	FY06	FY07	FY08	FY09
Receivables Securitised / Assigned	4,528	5,563	6,100	8,099	10,362
Consideration Received	4,243	5,147	5,608	7,303	9,151
Net Income from Securitisation	193	489	538	1,074	1,043

# Challenges

- Ave. cash collection/day-Rs. 113 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)	March- 07	March- 08	March- 09
Income from Operations	8291	12058	13648
Other Income	155	210	198
Total Income	8446	12268	13846
Interest Cost	3241	4560	5099
Administrative Cost	3103	4901	5404
Depreciation	74	87	87
Total Expenditure	6418	9548	10590
PBT	2028	2720	3256
PAT	1329	1770	2145

# Balance Sheet: Liabilities

(Rs.million)	March- 07	March- 08	March- 09
Net Worth	7769	13129	14679
Equity Share Capital	840	953	957
Reserves & Surplus	6929	12176	13722
Employee Stock Option O/S	13	14	13
Secured Loans	45803	46135	44668
Unsecured Loans	3597	4547	7462
Current Liabilities & Provs.	5628	6393	7617

# Balance Sheet: Assets

(Rs.million)	March- 07	March- 08	March- 09
Fixed Assets	273	308	357
Investments	269	31	1097
Intangible Assets	7	13	18
Sundry Debtors	11	9	8
Other Current Assets	19	15	25
Cash & Bank Balance	2831	2153	2763
Loans & Advances & others	58655	66435	68384
Deferred Tax Asset	745	1254	1787

# Disbursements Mix

Segments	March-07	March-08	March-09
<b>Auto/ Utility vehicles</b>	36%	34%	40%
<b>Tractors</b>	23%	24%	22%
<b>Cars</b>	22%	23%	25%
<b>Commercial Vehicles</b>	4%	7%	6%
<b>Refinance &amp; Others</b>	15%	12%	7%

\* Tentative Percentages

# Segment Wise: Break up of AUM

Segments	March-07	March-08	March-09
<b>Auto/ Utility vehicles</b>	43%	38%	38%
<b>Tractors</b>	19%	25%	25%
<b>Cars</b>	26%	23%	24%
<b>Commercial Vehicles</b>	3%	7%	7%
<b>Refinance &amp; Others</b>	9%	7%	6%

\* Tentative Percentages

# Brief highlights of MIBL

(Rs.million)	March- 07	March- 08	March- 09
Total Income	119	180	231
Net Premium	844	1398	1598
PBT	60	77	101
PAT	38	50	65
No. of Customers for the Period (Nos.)	134,741	234,868	288,453
No. of Employees (Nos.)	259	400	329



# Consolidated Profit & Loss Statement

(Rs.million)	March- 07	March- 08	March- 09
Income from Operations	8368	12164	13817
Other Income	132	203	187
Total Income	8500	12367	14004
Interest Cost	3240	4558	5109
Administrative Cost	3118	4933	5463
Depreciation	74	88	88
Total Expenditure	6432	9579	10660
PBT	2068	2788	3344
PAT	1347	1811	2197

# Consolidated Balance Sheet: Liabilities

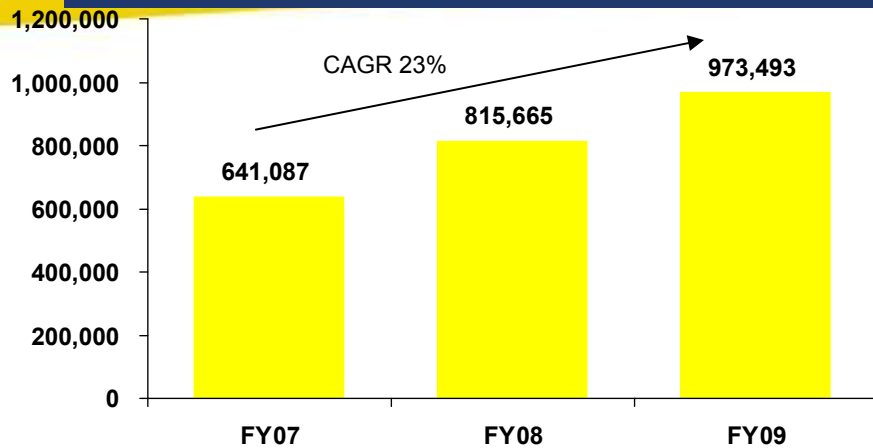
(Rs.million)	March- 07	March- 08	March- 09
Net Worth	7808	13208	14810
Equity Share Capital	840	953	957
Reserves & Surplus	6968	12255	13853
Employee Stock Option O/S	13	14	13
Minority Interest	--	--	15
Secured Loans	45803	46135	44819
Unsecured Loans	3577	4599	7384
Current Liabilities & Provs.	5637	6412	7638

# Consolidated Balance Sheet: Assets

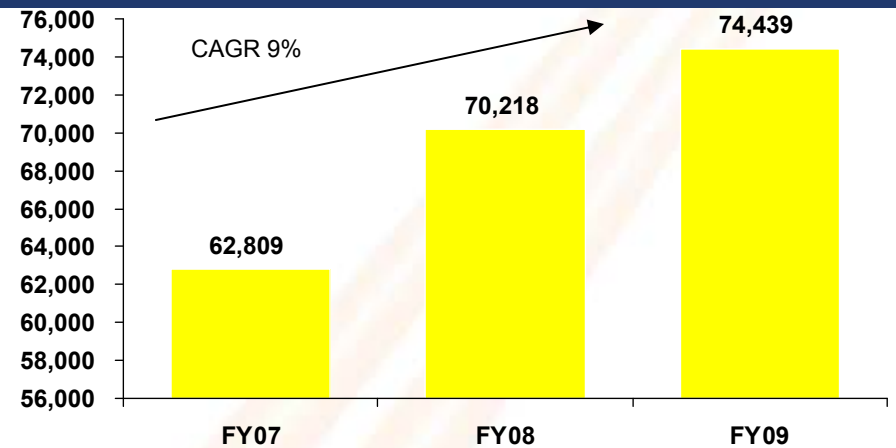
(Rs.million)	March- 07	March- 08	March- 09
Fixed Assets	276	314	363
Investments	264	95	972
Intangible Assets	8	14	18
Sundry Debtors	23	39	16
Other Current Assets	20	14	24
Cash & Bank Balance	2840	2163	2792
Loans & Advances & others	58663	66475	68706
Deferred Tax Asset	744	1254	1788

# Robust Growth

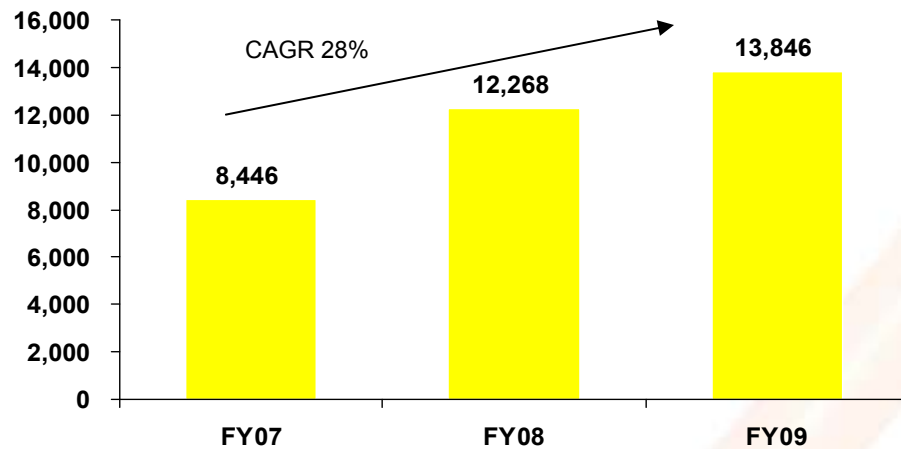
## Cumulative no. of Customer Contracts (Nos.)



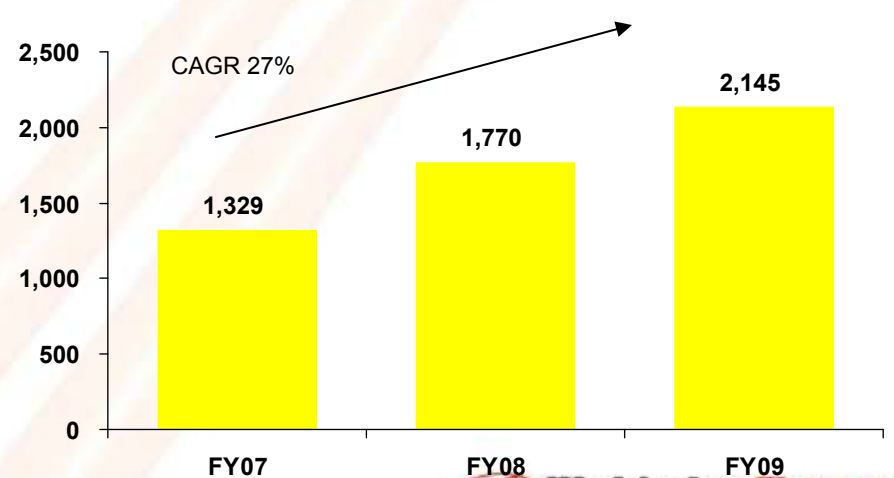
## Total Assets (INR million)



## Total Income (INR million)



## Profit after Tax (INR million)



# Summary of Results

(Rs.million)	March- 07	March- 08	March- 09
Total Income	8446	12268	13846
Profit before tax	2028	2720	3256
Profit after tax	1329	1770	2145
Dividend (%)	40	45	55
Equity Share Capital	840	953	957
Reserves & Surplus	6929	12686	13722
Net Worth	7769	13129	14679
EPS (Basic)	15.81	20.81	22.46
Market Capitalisation	20124	27156	20252
No. of Branches	403	436	436
New Contracts During the period (Net) (Nos)	173,110	174,578	157,828
No. of employees	2791	4597	4959

# Ratio Analysis

	March- 07	March- 08	March- 09
PBT/Total Income	24.0%	22.2%	23.5%
PBT/Total Assets	3.2%	3.9%	4.4%
RONW (Avg. Net Worth)	18.1%	16.9%	15.4%
Overheads/Total Assets	3.1%	3.6%	3.6%
Debt / Equity	6.24:1	3.84:1	3.54:1
Book value multiple	2.6	2.1	1.4
Capital Adequacy	14.7%	20.7%	19.5%
Tier I	11.3%	16.8%	17.4%
Tier II	3.4%	3.9%	2.1%
Book Value (Rs.)	92.5	137.8	153.4

# 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- 07	March- 08	March- 09
Gross Non - Performing Assets	3,582	5,572	6,909
Less: NPA Provisions	2,034	3,519	4,966
Net Non – Performing Assets	1,548	2,053	1,943
Total Assets (Incl. NPA Provision)	64,843	73,736	79,404
Gross NPA to Total Assets(%)	5.5%	7.6%	8.7%
Net NPA to Total Assets(%)	2.5%	2.9%	2.6%
Coverage Ratio(%)	56.8%	63.1%	71.9%

\* Excluding Securitised portfolio



# Spread Analysis

	March- 07	March- 08	March- 09
Total Income/Average Assets	14.9%	18.4%	19.1%
Interest / Average Assets	5.6%	6.7%	6.9%
Gross Spread	9.3%	11.7%	12.2%
Overheads/Average Assets	3.4%	3.8%	3.7%
Write offs & NPA provisions / Average Assets	2.2%	3.7%	3.9%
Net Spread	3.7%	4.2%	4.6%

# 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, 2009, Rs 19.00 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

# 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**

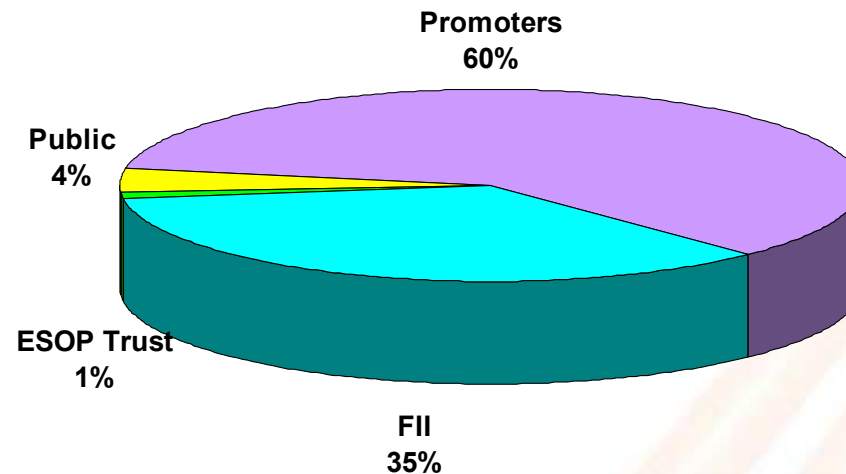
**Prudent loan approval and administration procedures**

**Ability to borrow at competitive rates**

**Experienced Board and executive management team**

# Shareholding Pattern

(as on 31<sup>st</sup> March 2009)



- 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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