

# **Mahindra & Mahindra Financial Services Limited**

**Analyst Meet March-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%*
<b>Total Domestic Demand</b>	<b>1,545,661</b>	<b>2,699,335</b>	<b>14.9%*</b>

Source : SIAM

\*CRIS INFAC

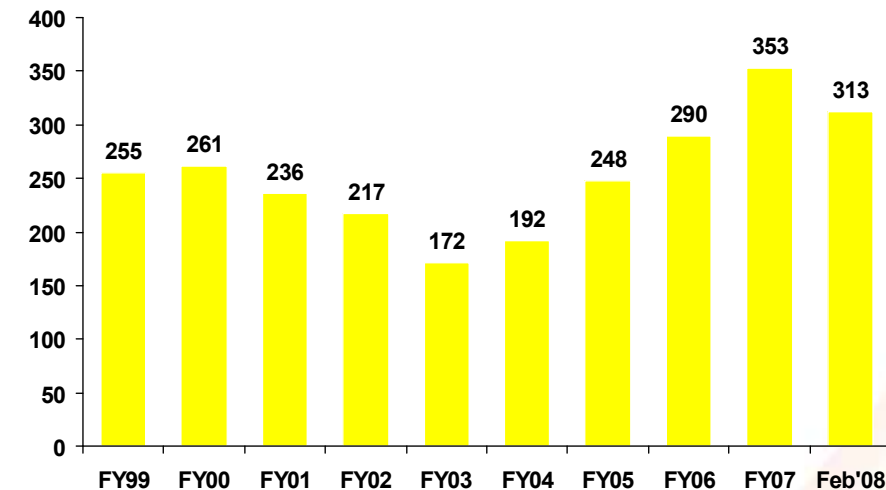
- The key drivers for growth in demand for automobiles are:
  - Growing incomes have resulted in the increased affordability of vehicles
  - Broader distribution network (both of manufacturers and financiers) has enabled a larger population to be targeted resulting in greater demand for vehicles
  - 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

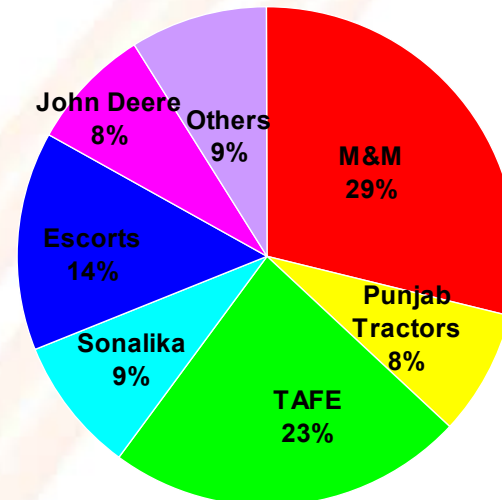
- Over 3.13lac tractors were sold by Indian tractor industry, till Feb 2008 on the back of improvement in realisations and easy and cheaper availability of finance
- Almost all tractors are sold on finance due to structured financing, easy repayment norms and longer tenure of finance.
- M&M-Punjab Tractors, Escorts, TAFE and Sonalika are the leading players

### All India Tractor Sales



Source : M&M

### Market share (YTD-Feb 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
<b>Total New auto finance market</b>	<b>516</b>	<b>632</b>	<b>679</b>	<b>1016</b>	<b>11.00</b>
Used car finance	81	112	137	351	26.00
Used CV finance	--	138	178	353	21.00
<b>Total auto finance market</b>	<b>597</b>	<b>882</b>	<b>994</b>	<b>1720</b>	<b>15.00</b>

\* 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 436 branches covering 25 states and 2 union territories in India
- Since inception the Company has entered into over 815,000 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. 6951crs to Rs.7919crs year-on-year basis.
- MMFSL recorded total revenues of INR 12,268 million and profit after tax of INR 1770 million for the year ended March 31, 2008 and had Total assets of INR 70,218 million as of March 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**

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**2 Operations**

3 *Performance Highlights*

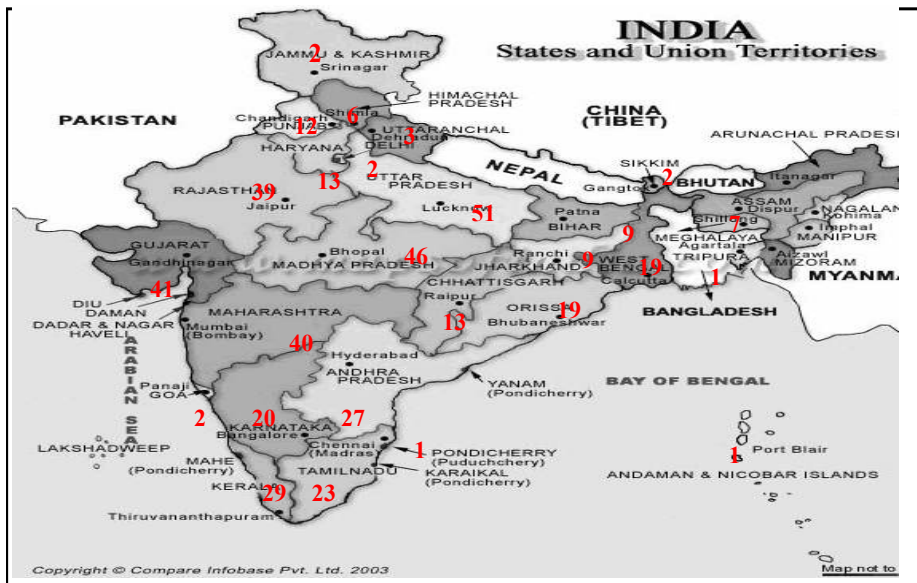
4 *Key Risks*

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# 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

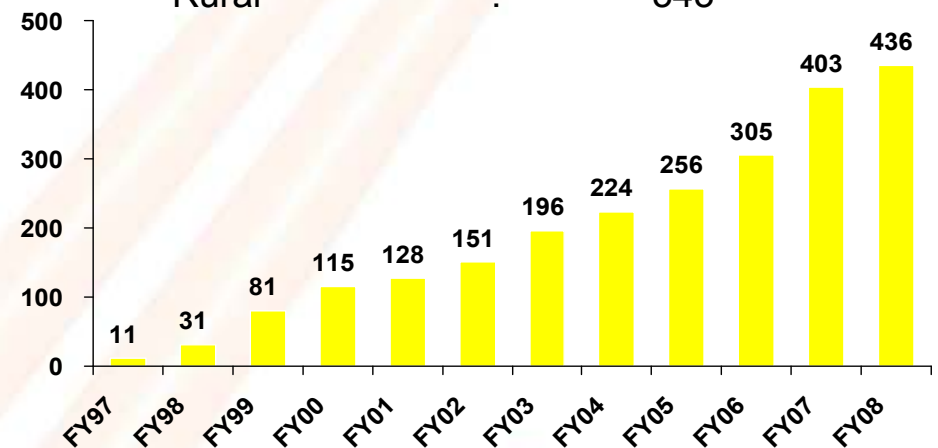
## Coverage



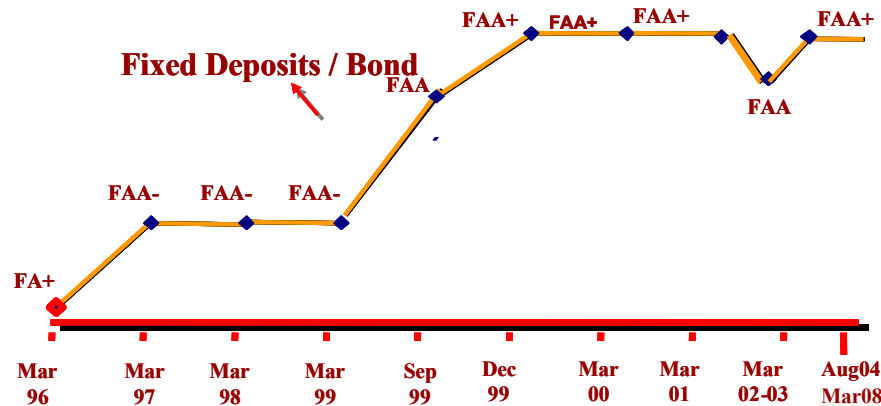
## Branch Network

Total Branches ( as on 31.03.08): 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
- 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 31 securitisation / Assignment transactions till date aggregating Rs. 29.74 bn

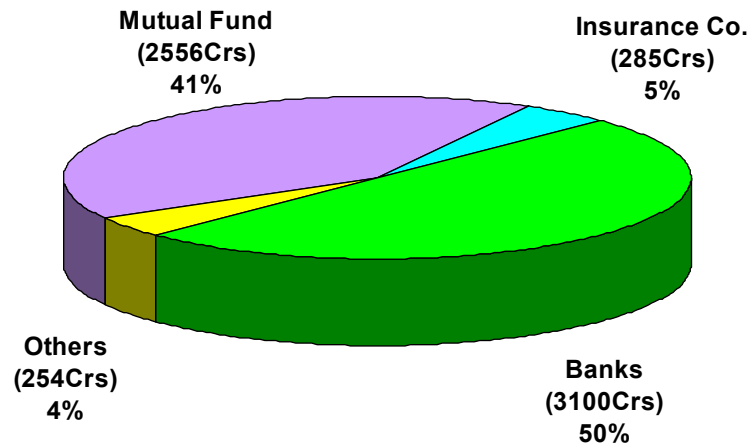
	Crisil Rating	Rs. in mn
Long Term	AA+	64,600
Short Term	P1+	12,500
Subordinated debt	AA+	4,000
Preference Shares	Pf AA+	500

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

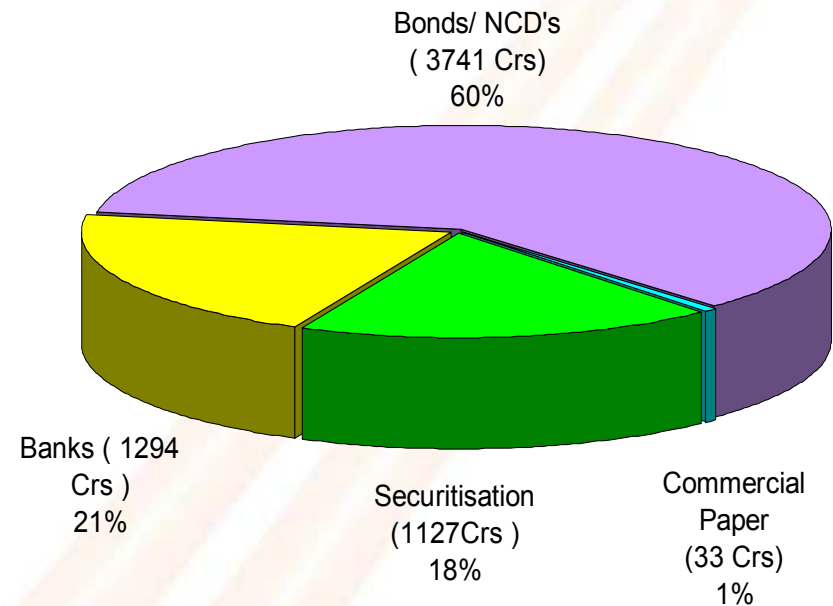
As on date

# 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 31 securitisation transactions till date aggregating Rs. 29.74 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. 90 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)	March- 06	March- 07	March- 08
Income from Operations	5823	8291	12058
Other Income	141	155	210
Total Income	5964	8446	12268
Interest Cost	2194	3241	4560
Administrative Cost	2096	3103	4901
Depreciation	52	74	87
Total Expenditure	4342	6418	9548
PBT	1622	2028	2720
PAT	1083	1329	1770

# Balance Sheet: Liabilities

(Rs.million)	March- 06	March- 07	March- 08
Net Worth	6819	7769	13129
Equity Share Capital	833	840	953
Reserves & Surplus	5986	6929	12176
Employee Stock Option O/S	8	13	14
Preference Share Capital	500	--	--
Secured Loans	34837	45803	46135
Unsecured Loans	3993	3597	4547
Current Liabilities & Provs.	4044	5628	6393

# Balance Sheet: Assets

(Rs.million)	March- 06	March- 07	March- 08
Fixed Assets	230	273	308
Investments	2982	269	31
Intangible Assets	12	7	13
Stock on Hire	5	--	--
Sundry Debtors	21	11	9
Other Current Assets	3	19	15
Cash & Bank Balance	1489	2831	2153
Loans & Advances & others	44991	58655	66435
Deferred Tax Asset	467	745	1254

# Brief highlights of MIBL

(Rs.million)	March- 06	March- 07	March- 08
Total Income	64	119	180
Net Premium	423	844	1398
PBT	45	60	77
PAT	29	38	50

# Consolidated Profit & Loss Statement

(Rs.million)	March- 06	March- 07	March- 08
Income from Operations	5861	8368	12164
Other Income	119	132	203
Total Income	5980	8500	12367
Interest Cost	2194	3240	4558
Administrative Cost	2088	3118	4931
Depreciation	52	74	90
Total Expenditure	4334	6432	9579
PBT	1646	2068	2788
PAT	1091	1347	1811

# Consolidated Balance Sheet: Liabilities

(Rs.million)	March- 06	March- 07	March- 08
Net Worth	6843	7808	13208
Equity Share Capital	833	840	953
Reserves & Surplus	6010	6968	12255
Employee Stock Option O/S	8	13	14
Preference Share Capital	500	--	--
Secured Loans	34837	45803	46135
Unsecured Loans	3978	3577	4599
Current Liabilities & Provs.	4046	5637	6412

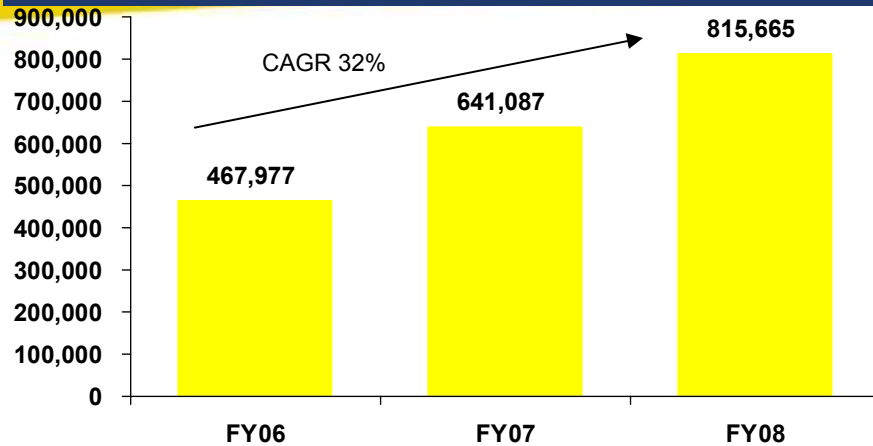
# Consolidated Balance Sheet: Assets

(Rs.million)	March- 06	March- 07	March- 08
Fixed Assets	230	276	314
Investments	2977	264	95
Intangible Assets	12	8	14
Stock on Hire	5	--	--
Sundry Debtors	28	23	39
Other Current Assets	3	20	14
Cash & Bank Balance	1495	2840	2163
Loans & Advances & others	44994	58663	66475
Deferred Tax Asset	467	744	1254

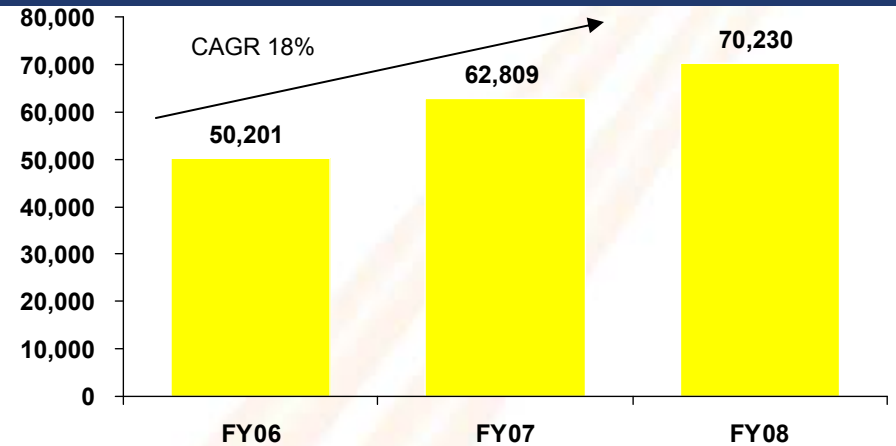


# Robust Growth

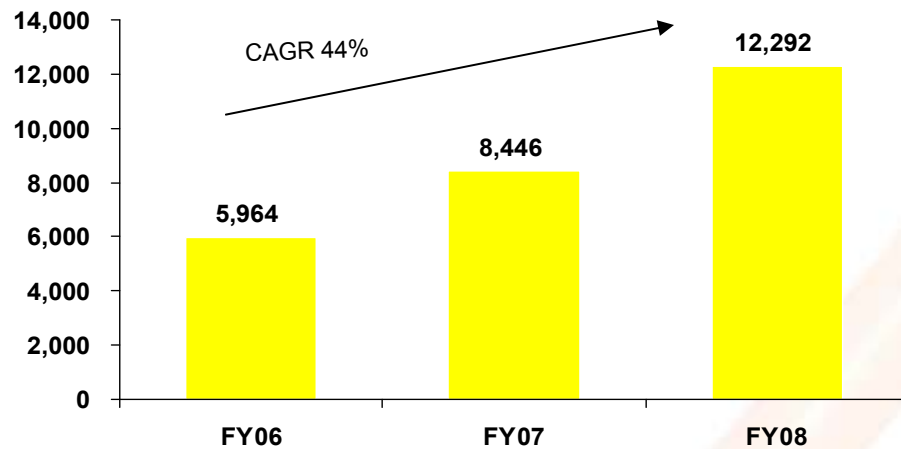
### Cumulative no. of Customer Contracts (Nos.)



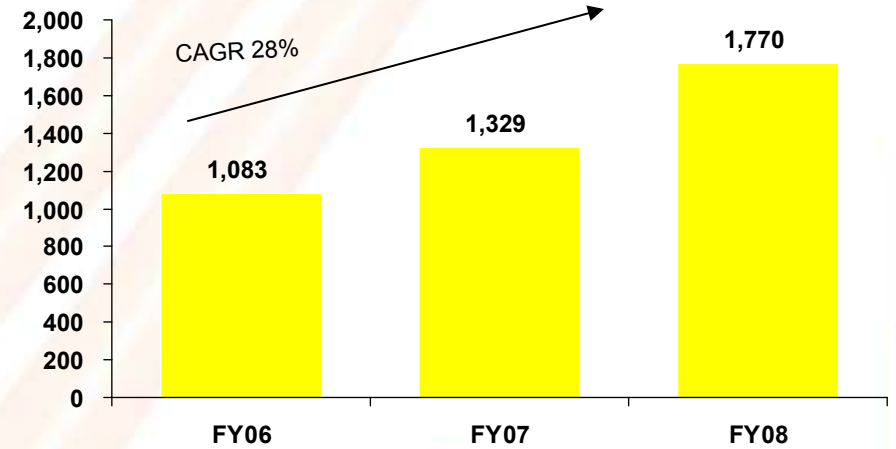
### Total Assets (INR million)



### Total Income (INR million)



### Profit after Tax (INR million)



# Summary of Results

(Rs.million)	March- 06	March- 07	March- 08
Total Income	5964	8446	12268
Profit before tax	1622	2028	2720
Profit after tax	1083	1329	1770
Dividend (%)	35	40	45
Equity Share Capital	833	840	953
Reserves & Surplus	5986	6929	12686
Net Worth	6819	7769	13129
EPS (Basic)	14.59	15.81	20.81
Market capitalisation	20830	20124	27156
No. of Branches	305	403	436
New Contracts During the period (Net) (Nos)	131,158	173,110	174,578
No. of employees	2296	2791	4597

# Ratio Analysis

	March- 06	March- 07	March- 08
PBT/Total Income	27.2%	24.0%	22.2%
PBT/Total Assets	3.2%	3.2%	3.9%
RONW (Avg. Net Worth)	20.1%	18.1%	16.9%
Overheads/Total Assets	2.7%	3.1%	3.6%
Debt / Equity	5.65:1	6.24:1	3.84:1
Book value multiple	3.0	2.6	2.1
Capital Adequacy	18.2%	14.7%	20.7%
Tier I	13.2%	11.3%	16.8%
Tier II	5.0%	3.4%	3.9%
Book Value (Rs.)	81.9	92.5	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%		
<b>At MMFSL NPA provisioning norms are more stringent than RBI norms for loan.</b>			

# NPA\*

(Rs.million.)	March- 06	March- 07	March- 08
Gross Non - Performing Assets	2,472	3,582	5,572
Less: NPA Provisions	1,339	2,034	3,519
Net Non – Performing Assets	1,133	1,548	2,053
Total Assets (Incl. NPA Provision)	51,541	64,843	73,736
Gross NPA to Total Assets(%)	4.8%	5.5%	7.6%
Net NPA to Total Assets(%)	2.3%	2.5%	2.9%

\* Excluding Securitised portfolio

# Spread Analysis

	March- 06	March- 07	March- 08
Total Income/Average Assets	14.7%	14.9%	18.4%
Interest / Average Assets	5.3%	5.6%	6.7%
Gross Spread	9.4%	9.3%	11.7%
Overheads/Average Assets	3.3%	3.4%	3.8%
Write offs & NPA provisions / Average Assets	2.0%	2.2%	3.7%
Net Spread	4.1%	3.7%	4.2%

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5 *Principal Investment Themes*

# 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 March 31, 2008, Rs 5.00 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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## **5 Principal Investment Themes**

# 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**

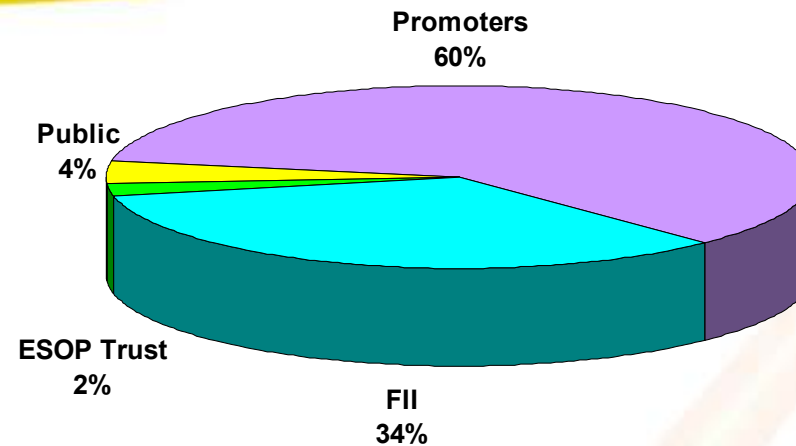
**Client Base**

**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 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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