

Mahindra & Mahindra Financial Services Limited

Analyst Meet September-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 438 branches covering 25 states and 2 union territories in India
- Since inception the Company has entered into over 910,000 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. 7788crs to Rs.8791crs year-on-year basis.
- MMFSL recorded total revenues of INR 6,303 million and profit after tax of INR 620 million for the half year ended September 30, 2008 and had Total assets of INR 79,046 million as of September 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

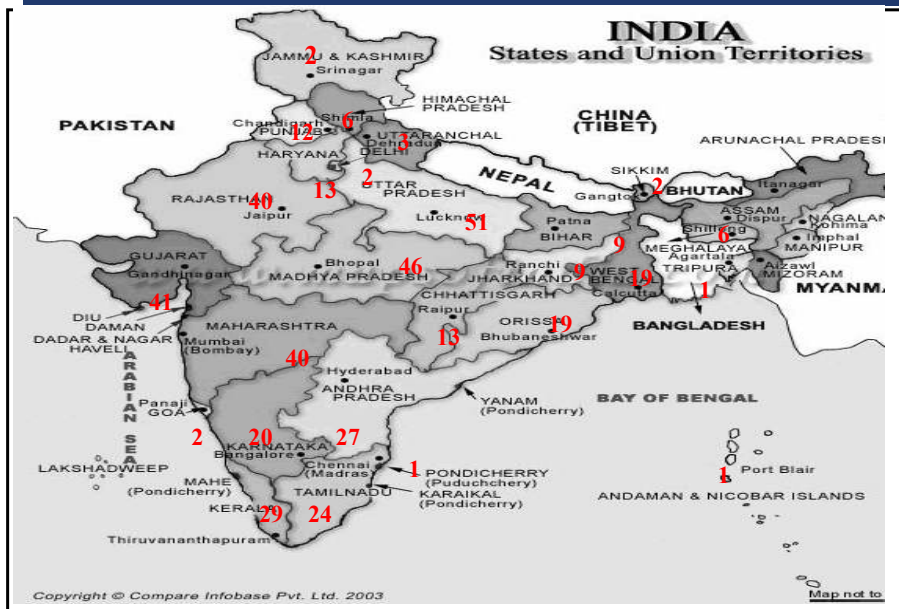
Commenced mutual fund distribution business

Commenced housing loans business in MRHFL in Oct 2007

Extensive Distribution Network

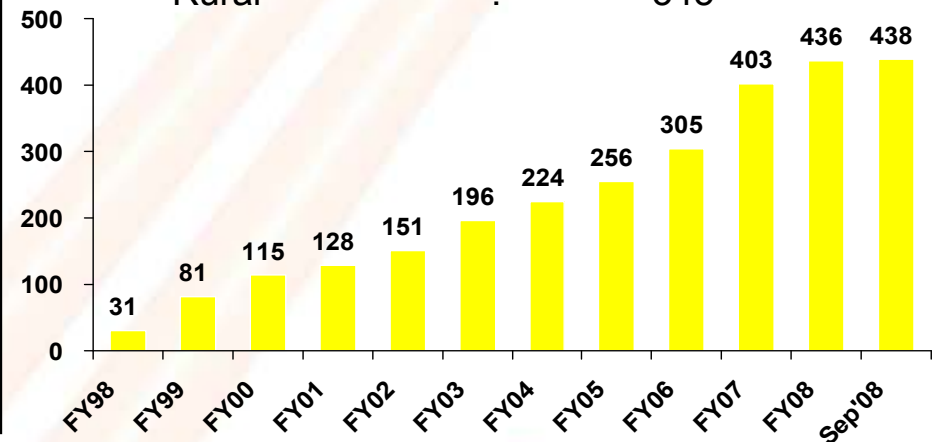
- MMFSL has an extensive distribution network with presence in 25 states and 2 union territories in India through 438 branches
 - Our market categorised into five zones and 16 regions with branches reporting into their respective regional office
 - Branches provided authority to approve loans within prescribed guidelines

Coverage

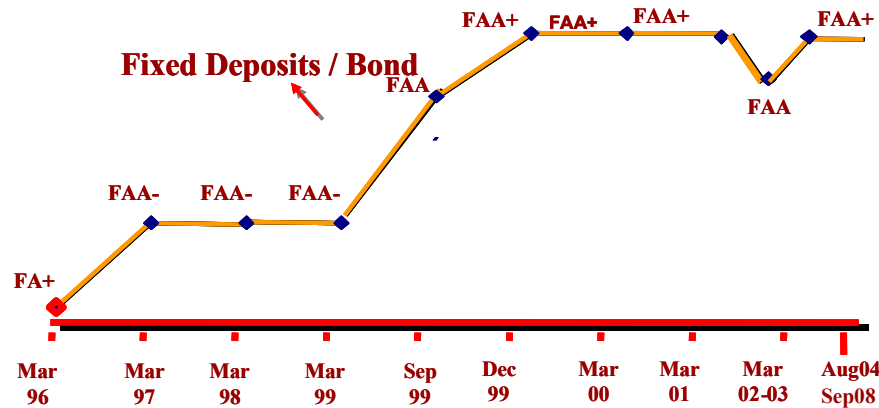


Branch Network

Total Branches (as on 30.09.08): 438
 Metro : 4
 Urban/Semi Urban : 89
 Rural : 345



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 33 securitisation / Assignment transactions till date aggregating Rs. 32.47 bn

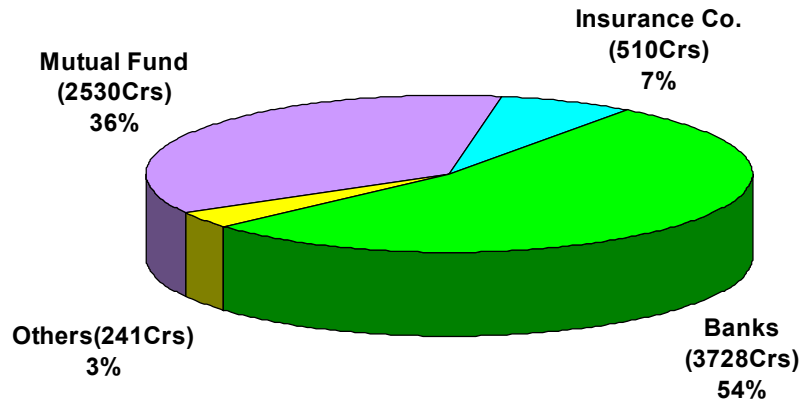
	Crisil Rating	Rs. in mn
Long Term	AA+	64,600
Short Term	P1+	12,500
Subordinated debt	AA+	4,000
Preference Shares	Pf AA+	500

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

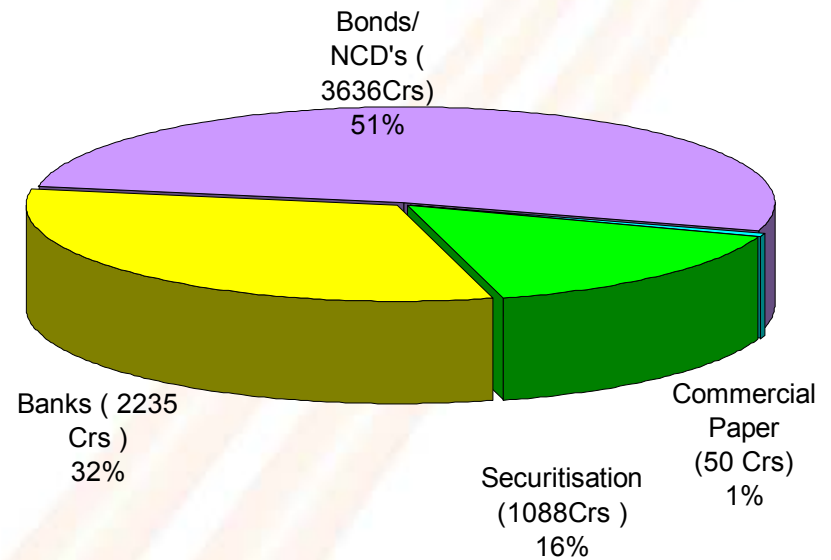
As on date

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 33 securitisation transactions till date aggregating Rs. 32.47 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)	Sep- 07	Sep- 08	March- 08
Income from Operations	5322	6222	12058
Other Income	101	81	210
Total Income	5423	6303	12268
Interest Cost	2117	2414	4560
Administrative Cost	2360	2884	4901
Depreciation	43	40	87
Total Expenditure	4520	5338	9548
PBT	903	965	2720
PAT	592	620	1770

Balance Sheet: Liabilities

(Rs.million)	Sep- 07	Sep- 08	March- 08
Net Worth	8364	13760	13129
Equity Share Capital	841	955	953
Reserves & Surplus	7523	12805	12176
Employee Stock Option O/S	15	13	14
Secured Loans	44899	44561	46135
Unsecured Loans	12264	14651	4547
Current Liabilities & Provs.	5011	6061	6393

Balance Sheet: Assets

(Rs.million)	Sep- 07	Sep- 08	March- 08
Fixed Assets	304	354	308
Investments	38	58	31
Intangible Assets	19	10	13
Sundry Debtors	23	6	9
Other Current Assets	68	53	15
Cash & Bank Balance	2484	2375	2153
Loans & Advances & others	66706	74772	66435
Deferred Tax Asset	911	1418	1254

Disbursements Mix

Segments	Sep-08	March-08	March-07
Auto/ Utility vehicles	36%	34%	36%
Tractors	20%	24%	23%
Cars	29%	23%	22%
Commercial Vehicles	8%	7%	4%
Refinance & Others	7%	12%	15%

* Tentative Percentages

Segment Wise: Break up of AUM

Segments	Sep-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)	Sep- 07	Sep- 08	March- 08
Total Income	78	114	180
Net Premium	626	829	1398
PBT	30	45	77
PAT	19	29	50
No. of Customers for the Period (Nos.)	104,332	149,932	234,868
No. of Employees (Nos.)	374	435	400

Consolidated Profit & Loss Statement

(Rs.million)	Sep- 07	Sep- 08	March- 08
Income from Operations	5368	6300	12164
Other Income	98	80	203
Total Income	5466	6380	12367
Interest Cost	2116	2418	4558
Administrative Cost	2374	2918	4931
Depreciation	43	41	90
Total Expenditure	4533	5377	9579
PBT	933	1003	2788
PAT	611	641	1811

Consolidated Balance Sheet: Liabilities

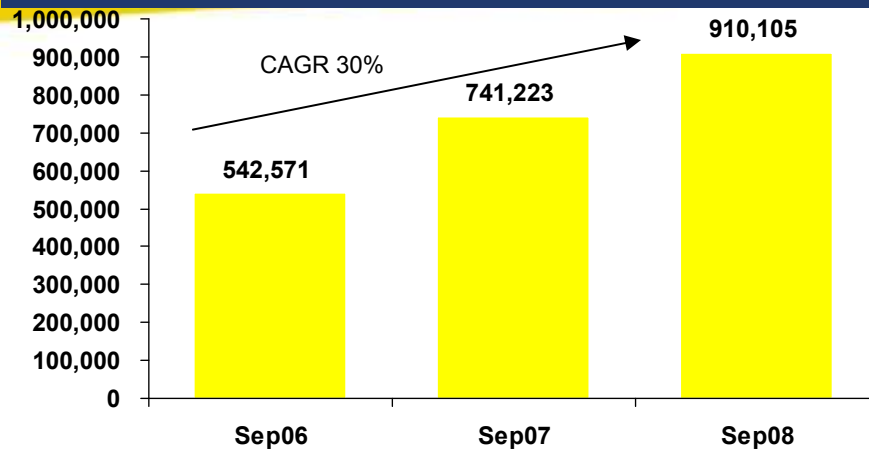
(Rs.million)	Sep- 07	Sep- 08	March- 08
Net Worth	8422	13861	13208
Equity Share Capital	841	955	953
Reserves & Surplus	7581	12906	12255
Employee Stock Option O/S	15	13	14
Secured Loans	44899	44710	46135
Unsecured Loans	12227	14611	4599
Current Liabilities & Provs.	5019	6077	6412

Consolidated Balance Sheet: Assets

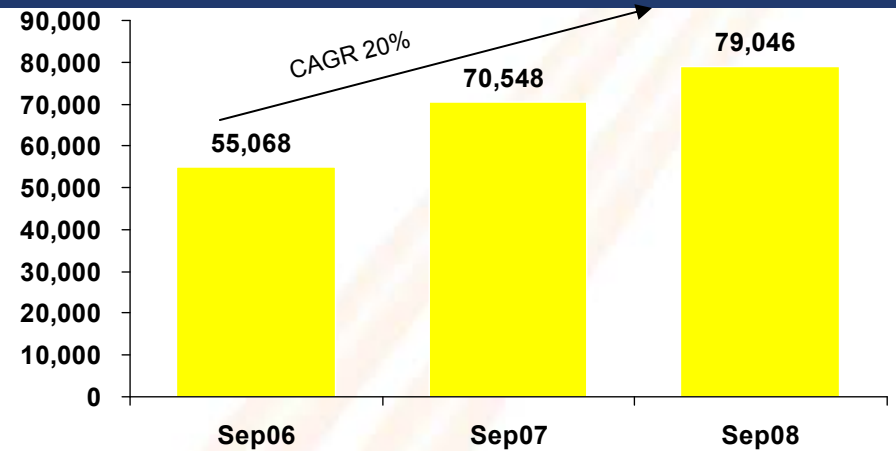
(Rs.million)	Sep- 07	Sep- 08	March- 08
Fixed Assets	309	359	314
Investments	12	3	95
Intangible Assets	20	10	14
Sundry Debtors	43	25	39
Other Current Assets	68	52	14
Cash & Bank Balance	2499	2426	2163
Loans & Advances & others	66718	74979	66475
Deferred Tax Asset	911	1418	1254
Miscellaneous Expenditure	2	--	--

Robust Growth

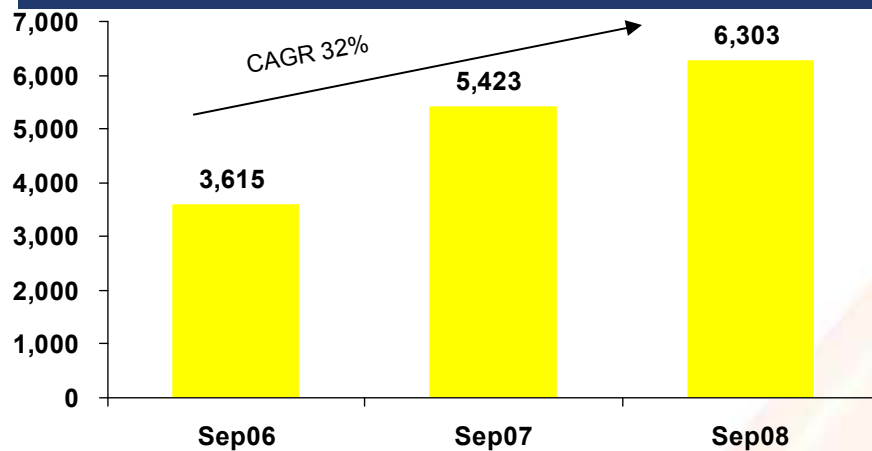
Cumulative no. of Customer Contracts (Nos.)



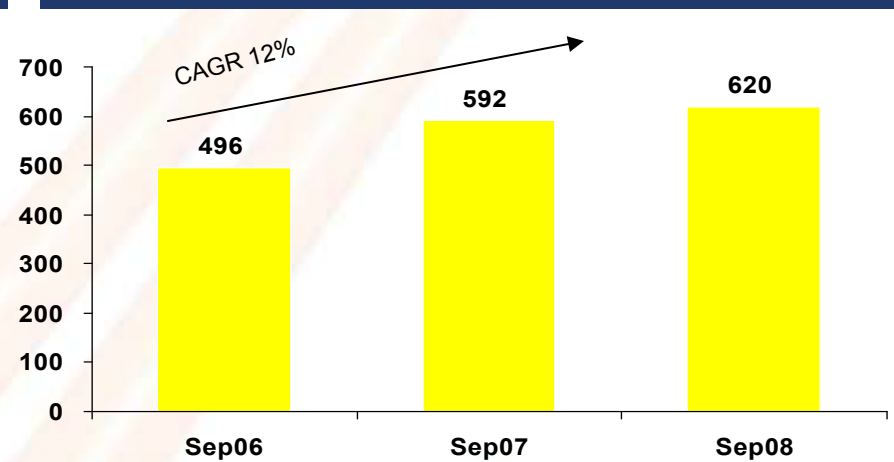
Total Assets (INR million)



Total Income (INR million)



Profit after Tax (INR million)



Summary of Results

(Rs.million)	Sep- 07	Sep- 08	March- 08
Total Income	5423	6303	12268
Profit before tax	903	965	2720
Profit after tax	592	620	1770
Dividend (%)	--	--	45
Equity Share Capital	841	955	953
Reserves & Surplus	7523	12805	12686
Net Worth	8364	13760	13129
EPS (Basic)	7.04	6.49	20.81
Market capitalisation	20915	25175	27156
No. of Branches	424	438	436
New Contracts During the period (Net) (Nos)	100136	94440	174,578
No. of employees	4431	5177	4597

Ratio Analysis

	Sep- 07	Sep- 08	March- 08
PBT/Total Income	16.6%	15.3%	22.2%
PBT/Total Assets	2.1%	1.9%	3.9%
RONW (Avg. Net Worth)	11.8%	7.1%	16.9%
Overheads/Total Assets	3.6%	3.5%	3.6%
Debt / Equity	6.71:1	4.28:1	3.84:1
Book value multiple	2.5	1.8	2.1
Capital Adequacy	14.4%	17.8%	20.7%
Tier I	10.7%	15.8%	16.8%
Tier II	3.7%	2.0%	3.9%
Book Value (Rs.)	99.5	144.1	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.)	Sep- 07	Sep- 08	March- 08
Gross Non - Performing Assets	5,829	7,866	5,572
Less: NPA Provisions	2,994	4,729	3,519
Net Non – Performing Assets	2,835	3,137	2,053
Total Assets (Incl. NPA Provision)	73,542	83,775	73,736
Gross NPA to Total Assets(%)	7.9%	9.4%	7.6%
Net NPA to Total Assets(%)	4.0%	4.0%	2.9%
Coverage Ratio(%)	51.3%	60.1%	63.1%

* Excluding Securitised portfolio

Spread Analysis

	Sep- 07	Sep- 08	March- 08
Total Income/Average Assets	15.8%	16.4%	18.4%
Interest / Average Assets	6.2%	6.3%	6.7%
Gross Spread	9.6%	10.1%	11.7%
Overheads/Average Assets	3.8%	3.7%	3.8%
Write offs & NPA provisions / Average Assets	3.5%	4.2%	3.7%
Net Spread	2.3%	2.2%	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 September 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

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

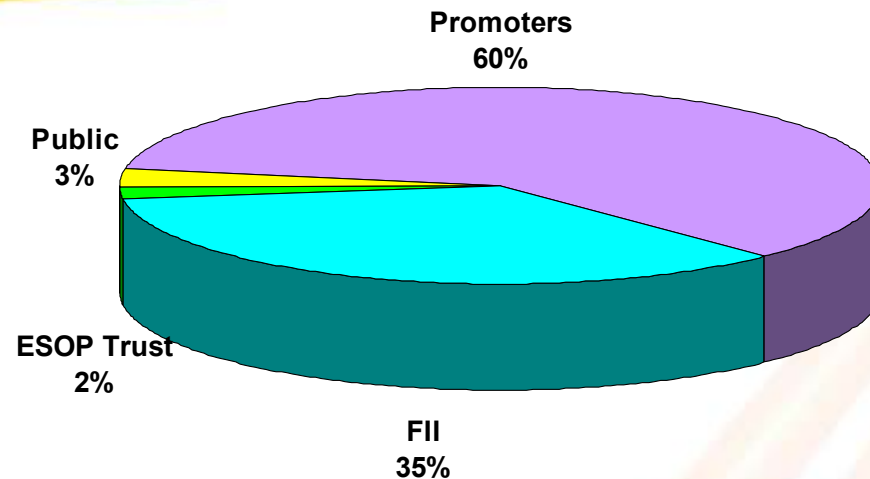
Client Base

Prudent loan approval and administration procedures

Ability to borrow at competitive rates

Experienced Board and executive management team

Shareholding Pattern (as on 30th September 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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