

# **Mahindra & Mahindra Financial Services Limited**

**Analyst Meet September-07**

# Agenda

## **1 Industry Overview / MMFSL Overview**

2 *Operations*

3 *Performance Highlights*

4 *Key Risks*

5 *Principal Investment Themes*

# Automobile Industry

- Over 1.3 million passenger cars and utility vehicles were sold in India in 2007
- The total demand for cars and utility vehicles is expected to grow at a CAGR of 14.8% for the period 2006-07 to 2010-11

(units)	2006-07	2010-11E	CAGR%
Passenger cars	1,076,408	1,948,986	16.0%*
Utility Vehicles (domestic)	303,290	444,047	10.0%*
<b>Total Domestic Demand</b>	<b>1,379,698</b>	<b>2,393,033</b>	<b>14.8%*</b>

Source : SIAM and M&M

\*CRIS INFAC

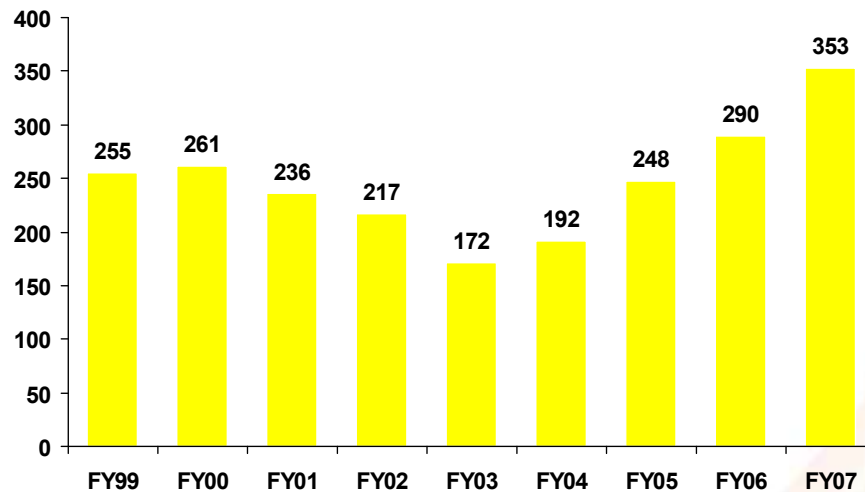
- The key drivers for growth in demand for automobiles are:
  - Growing incomes have resulted in the increased affordability of vehicles
  - Broader distribution network (both of manufacturers and financiers) has enabled a larger population to be targeted resulting in greater demand for vehicles
  -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

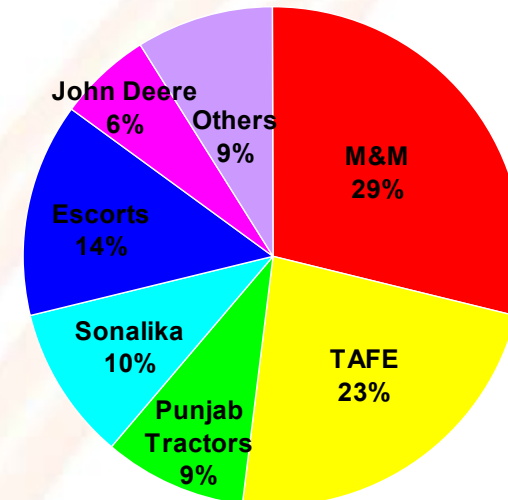
- With net sales of 3.53lac Tractors, the Indian tractor industry grew by 20.4% during FY07 on the back of higher demand growth, improvement in realisations and easy and cheaper availability of finance
- Almost all tractors are sold on finance due to structured financing, easy repayment norms and longer tenure of finance.
- M&M-Punjab Tractors, Escorts, TAFE and Sonalika are the leading players

### All India Tractor Sales



Source : M&M

### Market share (FY 07 volumes)



**Tractor financing to grow on the back of growing tractor sales**

# The Auto Finance Industry

## Disbursements: Organised auto finance \*

(Rs. billion)	2004-05	2005-06	2006-07P	2010-11	2002-2006 (CAGR %)	2007-2011 (CAGR%)
New car finance	211	240	295	516	18.98	15.02
New UV finance	69	79	92	147	20.73	12.47
<b>Total new auto finance market</b>	<b>273</b>	<b>293</b>	<b>387</b>	<b>663</b>	<b>19.42</b>	<b>14.41</b>
Used vehicle finance	57	81	115	233		19.31
<b>Total auto finance market</b>	<b>330</b>	<b>374</b>	<b>502</b>	<b>896</b>		<b>15.59</b>

\* Does not include Farm Equipment/Tractors

N.A.: Not available

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 15.59% over the period 2007-2011

# 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 has started financing of two-wheeler and personal loans on pilot basis
- 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 424 branches covering 25 states and 2 union territories in India
- Since inception the Company has entered into over 741,000 customers contracts
- 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. 2347crs to Rs.3168crs year-on-year basis.
- MMFSL recorded total revenues of INR 5,436 million and profit after tax of INR 592 million for the half year ended September 30, 2007 and had Total assets of INR 70,548 million as of September 30, 2007

# 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 14.8% and 15.59% respectively over a five year period ending 2010-11

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 11 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 financing Two-wheeler & Personal loan on pilot basis**

**Commenced housing loans business in MRHFL in Oct 2007**

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1 *Industry Overview / MMFSL Overview*

**2 Operations**

3 *Performance Highlights*

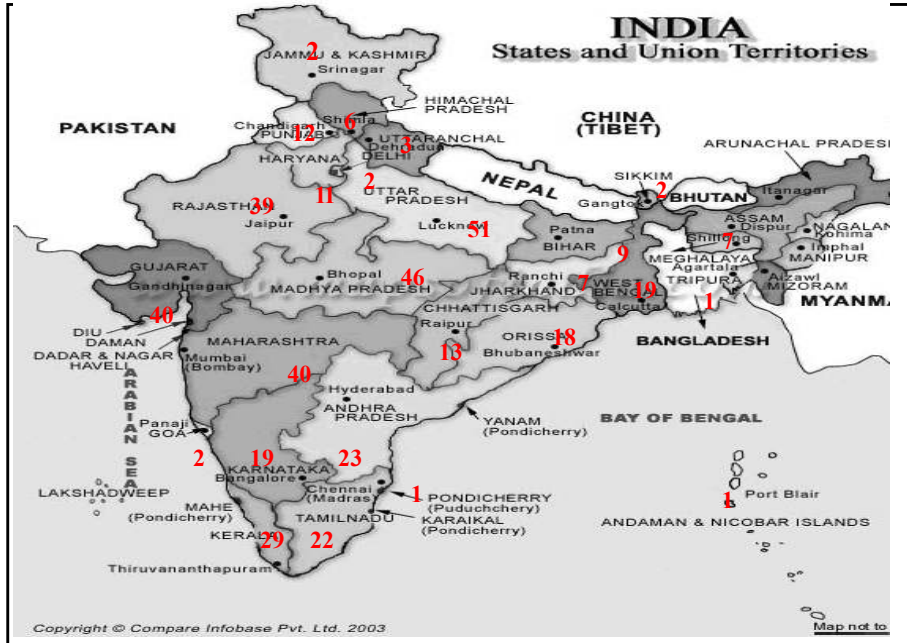
4 *Key Risks*

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# Extensive Distribution Network

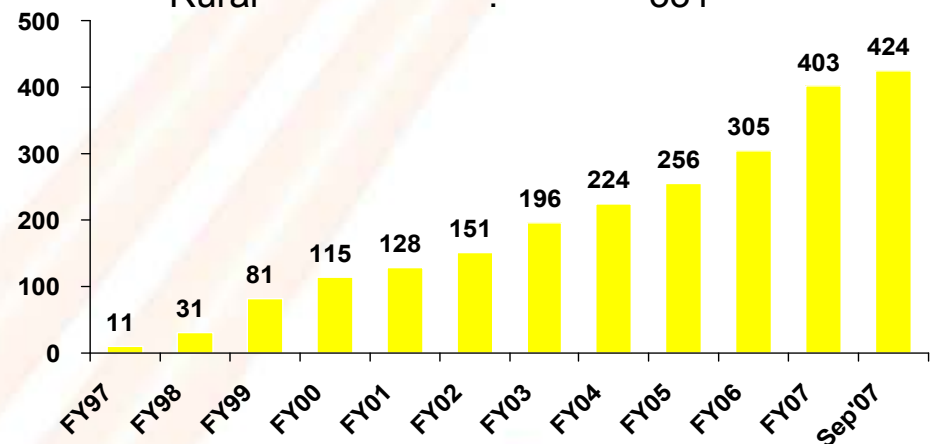
- MMFSL has an extensive distribution network with presence in 25 states and 2 union territories in India through 424 branches
  - Our market categorised into five zones and 16 regions with branches reporting into their respective regional office
  - Branches provided authority to approve loans within prescribed guidelines

## Coverage

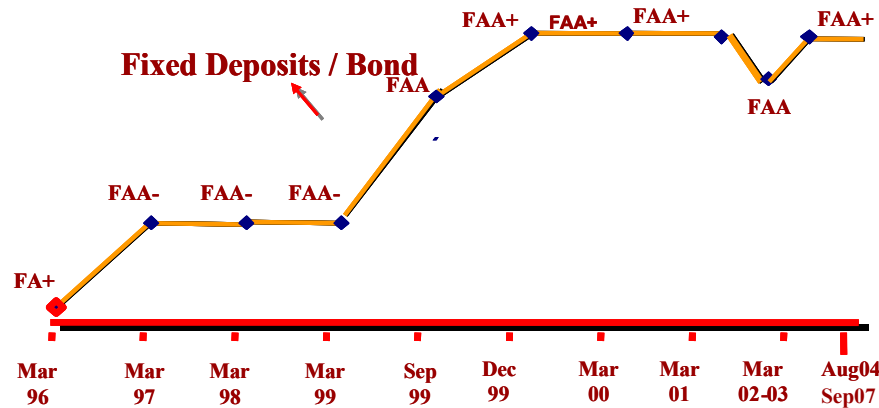


## Branch Network

Total Branches ( as on 30.09.07):	424
Metro :	4
Urban/Semi Urban :	89
Rural :	331



# Funding



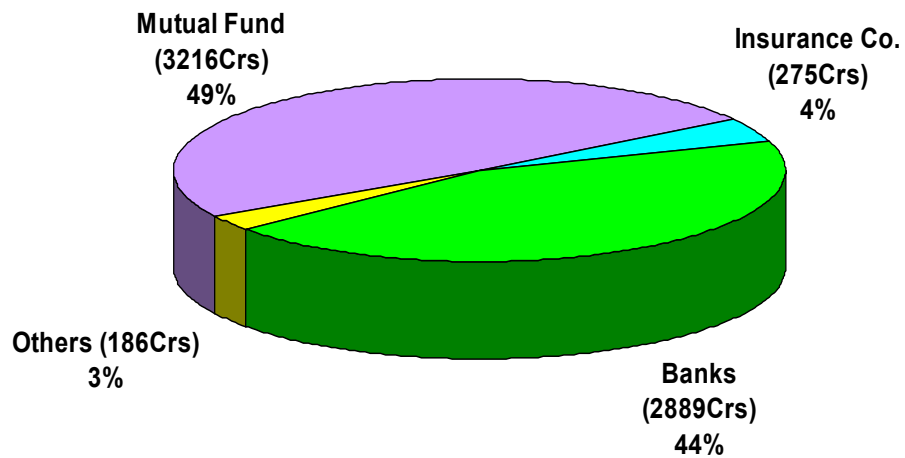
	Crisil Rating	Rs. in mn
Long Term	AA+	59,600
Short Term	P1+	12,500
Subordinated debt	AA+	4,000
Preference Shares	Pf AA+	500

As on date

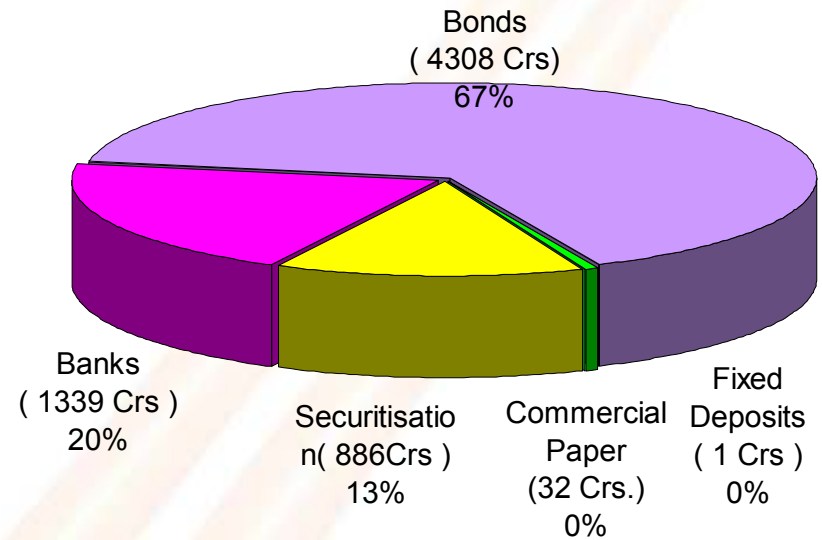
- MMFSL has consistently enjoyed a good credit rating enabling it to borrow funds at competitive rates
- Rating linked to credit rating of M&M, decline in rating in FY03 due to rating downgrade of M&M
- Total Consortium Size of Rs. 7,500 Million
- MMFSL has also securitised / Assigned part of its loan portfolio to raise funds.
  - The first securitisation transaction was done in FY02 and since has done 28 securitisation / Assignment transactions till date aggregating Rs. 24.65 bn

# 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 28 securitisation transactions till date aggregating Rs. 24.65 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

	FY03	FY04	FY05	FY06	FY07
Receivables Securitised / Assigned (Rs. Mn.)	1,754	3,190	4,528	5,563	6,100
Discount Rate (%)	6.82-6.85	5.48-6.15	5.10-6.67	5.20-6.48	6.25-7.50
Consideration Received (Rs. Mn)	1562	2,978	4,243	5,147	5,608
Net Income from Securitisation (Rs. Mn.)	104	146	193	489	538

# Challenges

- Ave. cash collection/day-Rs. 80 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)	Sep- 06	Sep- 07	March- 07
Income from Operations	3532	5322	8291
Other Income	83	114	155
Total Income	3615	5436	8446
Interest Cost	1427	2117	3241
Administrative Cost	1404	2373	3103
Depreciation	30	43	74
Total Expenditure	2861	4533	6418
PBT	754	903	2028
PAT	496	592	1329

# Balance Sheet: Liabilities

(Rs.million)	Sep- 06	Sep- 07	March- 07
Net Worth	7285	8364	7769
Equity Share Capital	833	841	840
Reserves & Surplus	6452	7523	6929
Employee Stock Option O/S	17	15	13
Preference Share Capital	--	--	--
Secured Loans	37877	44899	45803
Unsecured Loans	5134	11904	3310
Current Liabilities & Provs.	4753	5366	5914

# Balance Sheet: Assets

(Rs.million)	Sep- 06	Sep- 07	March- 07
Fixed Assets	246	304	273
Investments	525	38	269
Intangible Assets	9	19	7
Stock on Hire	--	--	--
Sundry Debtors	14	18	10
Other Current Assets	17	65	19
Cash & Bank Balance	1703	2484	2831
Loans & Advances & others	52035	66709	58655
Deferred Tax Asset	517	911	745

# Brief highlights of MIBL

(Rs.million)	Sep- 06	Sep- 07	March- 07
Total Income	56	78	119
Net Premium	369	626	844
PBT	30	30	60
PAT	19	19	38

# Consolidated Profit & Loss Statement

(Rs.million)	Sep- 06	Sep- 07	March- 07
Income from Operations	3570	5368	8368
Other Income	81	111	132
Total Income	3651	5479	8500
Interest Cost	1426	2116	3240
Administrative Cost	1411	2387	3118
Depreciation	30	43	74
Total Expenditure	2867	4546	6432
PBT	784	933	2068
PAT	515	611	1347

# Consolidated Balance Sheet: Liabilities

(Rs.million)	Sep- 06	Sep- 07	March- 07
Net Worth	7326	8422	7808
Equity Share Capital	833	841	840
Reserves & Surplus	6493	7581	6968
Employee Stock Option O/S	17	15	13
Preference Share Capital	-	--	--
Secured Loans	37877	44899	45803
Unsecured Loans	5110	11867	3291
Current Liabilities & Provs.	4757	5374	5923

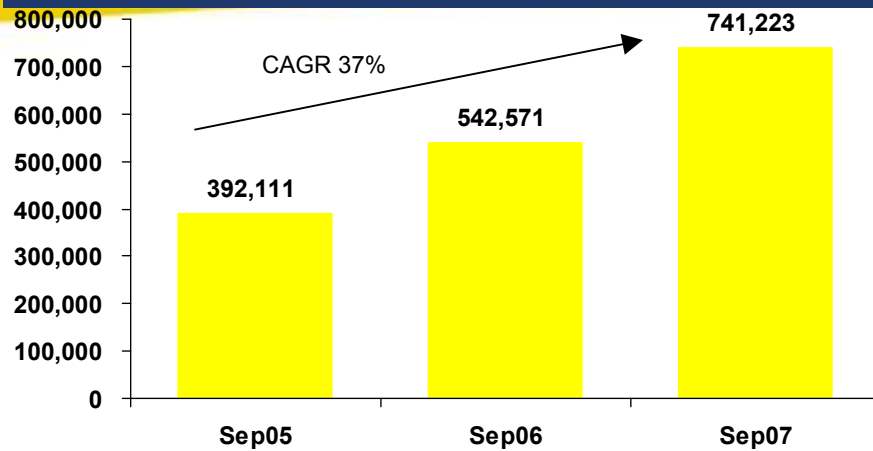
# Consolidated Balance Sheet: Assets

(Rs.million)	Sep- 06	Sep- 07	March- 07
Fixed Assets	247	309	276
Investments	519	12	264
Intangible Assets	10	20	8
Stock on Hire	--	--	--
Sundry Debtors	29	38	23
Other Current Assets	17	65	20
Cash & Bank Balance	1708	2499	2840
Loans & Advances & others	52040	66721	58663
Deferred Tax Asset	517	911	744
Miscellaneous Exp.	--	2	--

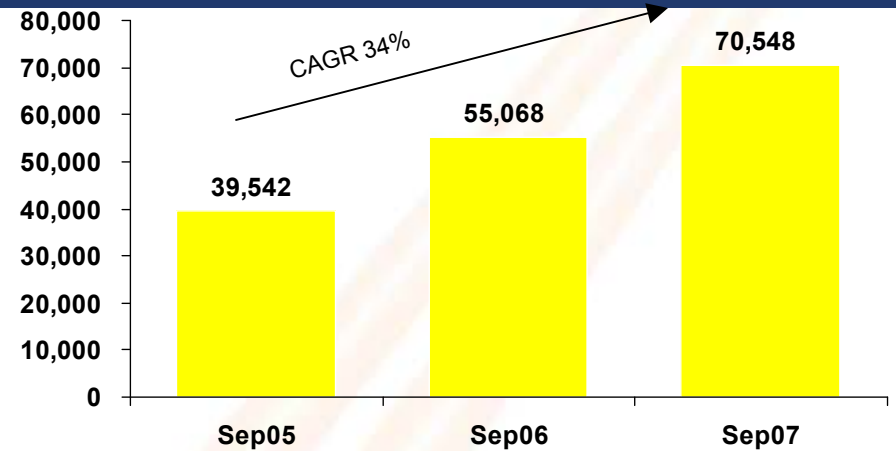


# Robust Growth

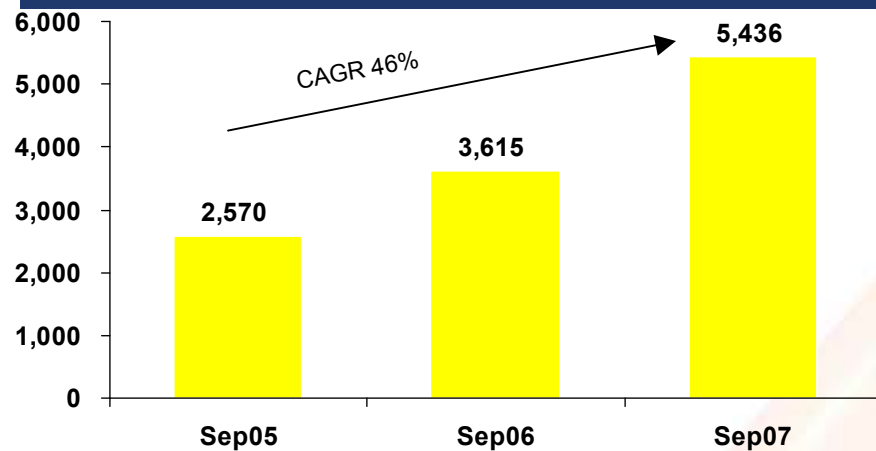
### Cumulative no. of Customer Contracts (Nos.)



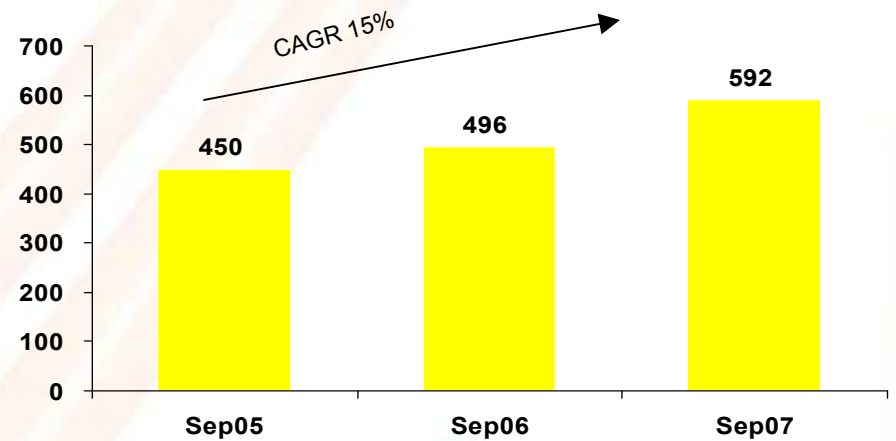
### Total Assets (INR million)



### Total Income (INR million)



### Profit after Tax (INR million)



# Summary of Results

(Rs.million)	Sep- 06	Sep- 07	March- 07
Total Income	3615	5436	8446
Profit before tax	754	903	2028
Profit after tax	496	592	1329
Dividend (%)	--	--	40
Equity Share Capital	833	841	840
Reserves & Surplus	6451	7523	6929
Net Worth	7285	8364	7769
EPS (Basic)	5.84	7.04*	15.8
Market capitalisation	20210	20915	20124
No. of Branches	380	424	403
New Contracts During the period (Net) (Nos)	74594	100136	173,110
No. of employees	2392	4431	2791

\* EPS for interim period is not Annualised

# Ratio Analysis

	Sep- 06	Sep- 07	March- 07
PBT/Total Income	20.9%	16.6%	24.0%
PBT/Total Assets	2.5%	2.1%	3.2%
RONW (Avg. Net Worth)	12.7%	11.8%	18.1%
Overheads/Total Assets	3.1%*	3.6%	3.1%
Debt / Equity	5.80:1	6.71:1	6.24:1
Book value multiple	2.7	2.5	2.6
Capital Adequacy	15.4%	14.4%	14.7%
Tier I	12.4%	10.7%	11.3%
Tier II	3.0%	3.7%	3.4%
Book Value (Rs.)	87.4	99.5	92.5

# Provisioning Norms

Duration (months)	RBI Norms	Duration (months)	MMFSL
> 5 and <= 18	10%	> 5 and <= 12	10%
> 18 and <= 30	20%	> 12 and <= 24	50%
> 30 and <= 48	30%	> 24 months	100%
> 48 months	50%		
<b>At MMFSL NPA provisioning norms are more stringent than RBI norms for loan.</b>			

# NPA\*

(Rs.million.)	Sep- 06	Sep- 07	March- 07
Gross Non - Performing Assets	3519	5,829	3,582
Less: NPA Provisions	1756	2,994	2,034
Net Non – Performing Assets	1763	2,835	1,548
Total Assets (Incl. NPA Provision)	56,822	73,542	64,843
Gross NPA to Total Assets(%)	6.2%	7.9%	5.5%
Net NPA to Total Assets(%)	3.2%	4.0%	2.5%

\* Excluding Securitised portfolio

# Spread Analysis

	Sep- 06	Sep- 07	March- 07
Total Income/Average Assets	13.4%	15.8%	14.9%
Interest / Average Assets	5.3%	6.2%	5.6%
Gross Spread	8.1%	9.6%	9.3%
Overheads/Average Assets	3.2%	3.8%	3.4%
Write offs & NPA provisions / Average Assets	2.1%	3.5%	2.2%
Net Spread	2.8%	2.3%	3.7%

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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 September 30, 2007, Rs. 12 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**

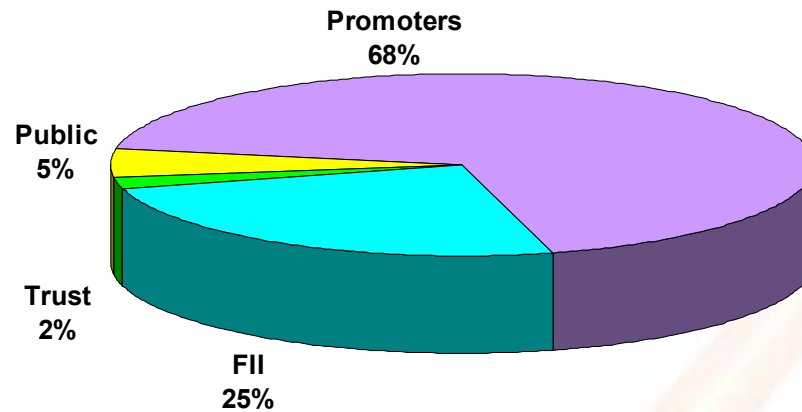
**Client Base**

**Prudent loan approval and administration procedures**

**Ability to borrow at competitive rates**

**Experienced Board and executive management team**

# Shareholding Pattern (as on 30<sup>th</sup> September 07)



- 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

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