

Mahindra & Mahindra Financial Services Limited

Quarter Result December-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%*
Total Domestic Demand	1,379,698	2,393,033	14.8%*

Source : SIAM and M&M

*CRIS INFAC

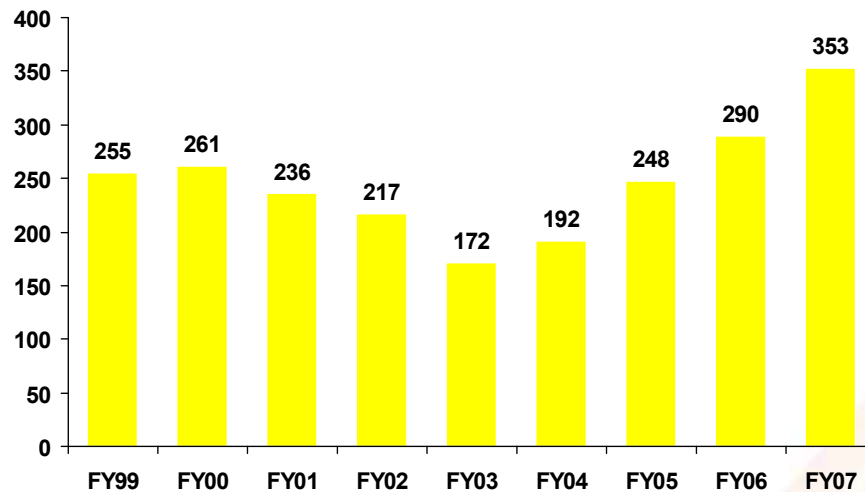
- The key drivers for growth in demand for automobiles are:
 - Growing incomes have resulted in the increased affordability of vehicles
 - Broader distribution network (both of manufacturers and financiers) has enabled a larger population to be targeted resulting in greater demand for vehicles
 - Drop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

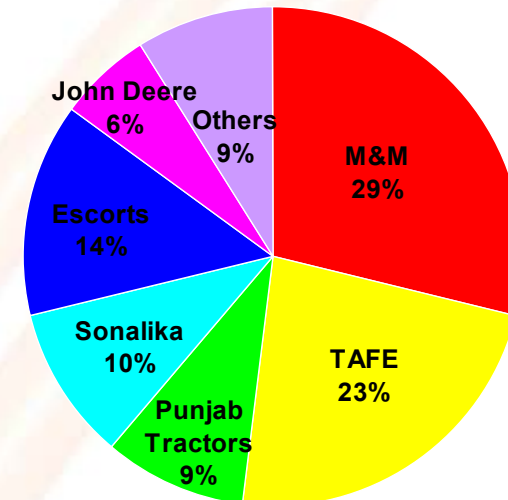
- With net sales of 3.53lac Tractors, the Indian tractor industry grew by 20.4% during FY07 on the back of higher demand growth, improvement in realisations and easy and cheaper availability of finance
- Almost all tractors are sold on finance due to structured financing, easy repayment norms and longer 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
Total new auto finance market	273	293	387	663	19.42	14.41
Used vehicle finance	57	81	115	233		19.31
Total auto finance market	330	374	502	896		15.59

* 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 434 branches covering 25 states and 2 union territories in India
- Since inception the Company has entered into over 780,000 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. 3966crs to Rs.4546crs year-on-year basis.
- MMFSL recorded total revenues of INR 8,673 million and profit after tax of INR 1016 million for the Nine Months ended December 31, 2007 and had Total assets of INR 71,022 million as of December 31, 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*

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3 *Performance Highlights*

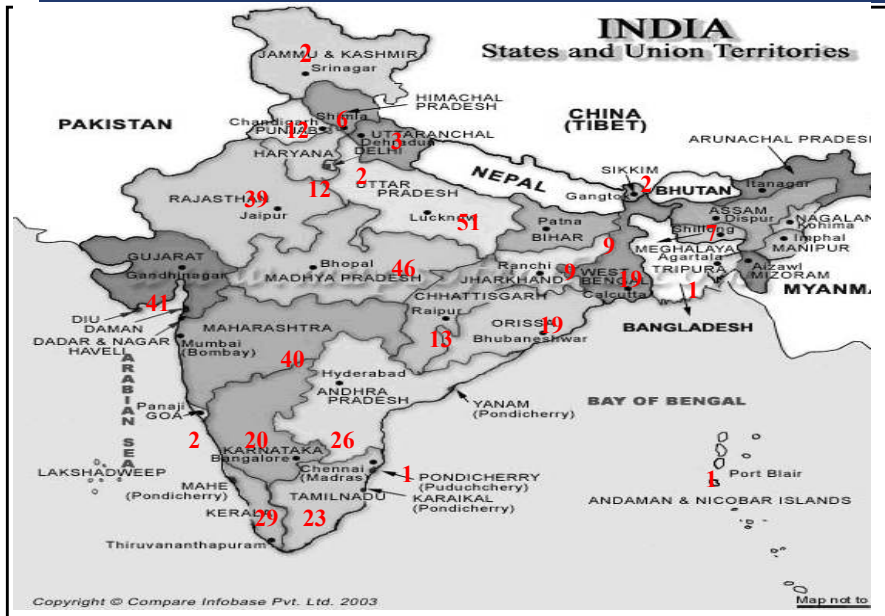
4 *Key Risks*

5 *Principal Investment Themes*

Extensive Distribution Network

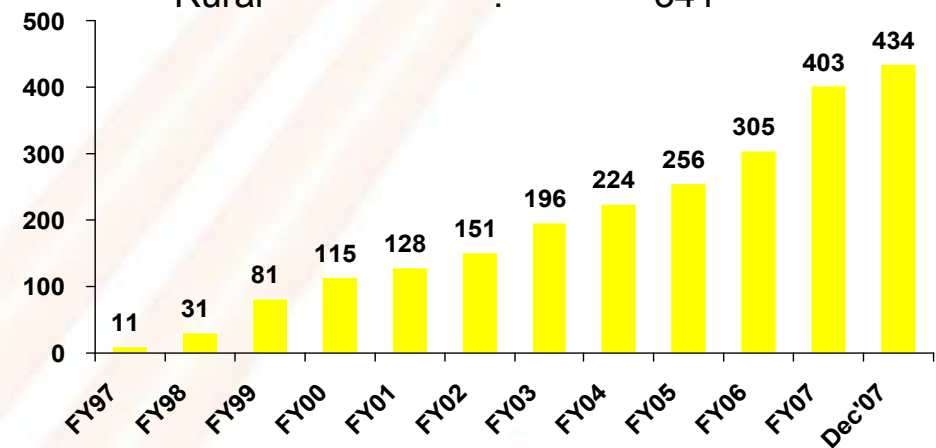
- MMFSL has an extensive distribution network with presence in 25 states and 2 union territories in India through 434 branches
 - Our market categorised into five zones and 16 regions with branches reporting into their respective regional office
 - Branches provided authority to approve loans within prescribed guidelines

Coverage

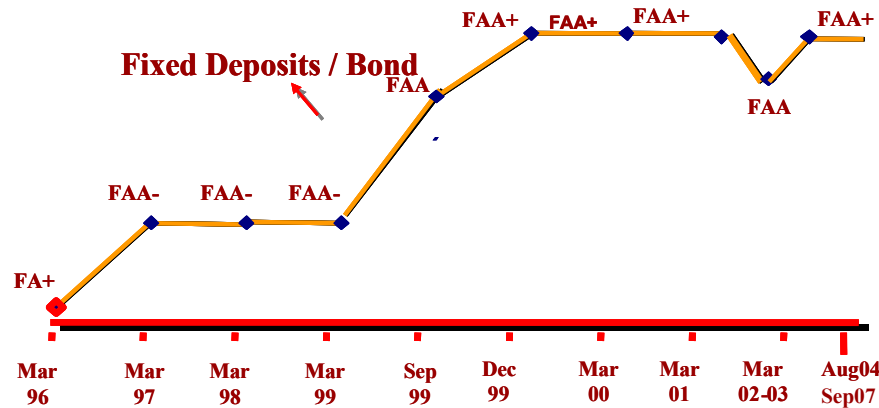


Branch Network

Total Branches (as on 31.12.07): 434
 Metro : 4
 Urban/Semi Urban : 89
 Rural : 341



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 30 securitisation / Assignment transactions till date aggregating Rs. 26.73 bn

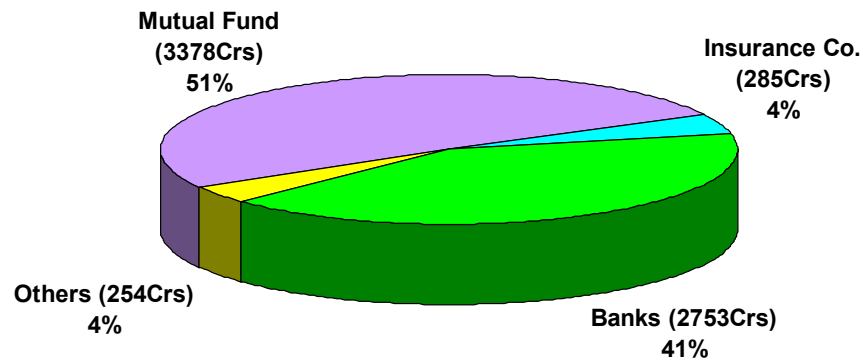
	Crisil Rating	Rs. in mn
Long Term	AA+	64,600
Short Term	P1+	12,500
Subordinated debt	AA+	4,000
Preference Shares	Pf AA+	500

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

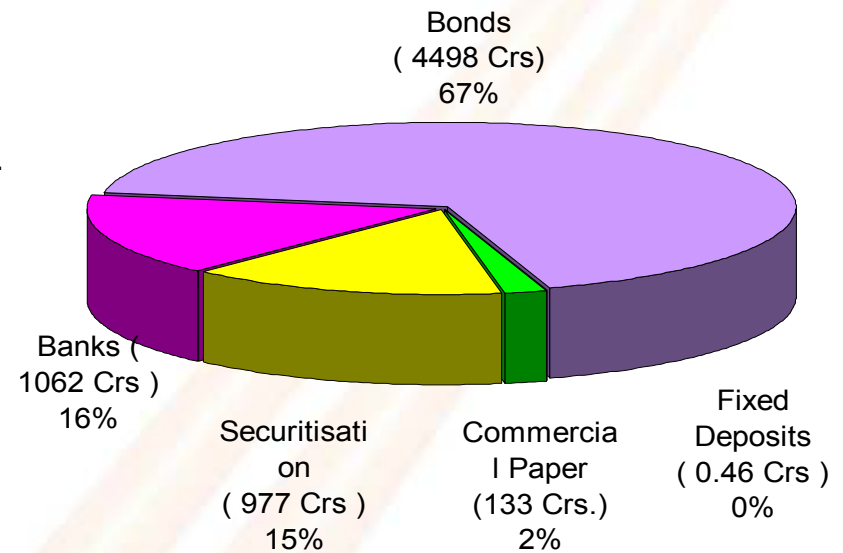
As on date

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 30 securitisation transactions till date aggregating Rs. 26.73 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. 86 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)	Dec- 06	Dec- 07	March- 07
Income from Operations	5669	8509	8291
Other Income	115	163	155
Total Income	5784	8672	8446
Interest Cost	2283	3380	3241
Administrative Cost	2315	3670	3103
Depreciation	45	66	74
Total Expenditure	4643	7116	6418
PBT	1141	1556	2028
PAT	752	1016	1329

Balance Sheet: Liabilities

(Rs.million)	Dec- 06	Dec- 07	March- 07
Net Worth	7541	8789	7769
Equity Share Capital	833	841	840
Reserves & Surplus	6708	7948	6929
Employee Stock Option O/S	22	17	13
Preference Share Capital	--	--	--
Secured Loans	41435	44719	45803
Unsecured Loans	5228	12212	3310
Current Liabilities & Provs.	5300	5285	5914

Balance Sheet: Assets

(Rs.million)	Dec- 06	Dec- 07	March- 07
Fixed Assets	261	306	273
Investments	519	31	269
Intangible Assets	8	16	7
Stock on Hire	--	--	--
Sundry Debtors	11	20	10
Other Current Assets	11	106	19
Cash & Bank Balance	1270	2258	2831
Loans & Advances & others	56885	67237	58655
Deferred Tax Asset	561	1048	745

Brief highlights of MIBL

(Rs.million)	Dec- 06	Dec- 07	March- 07
Total Income	94	122	119
Net Premium	635	990	844
PBT	52	47	60
PAT	34	30	38

Consolidated Profit & Loss Statement

(Rs.million)	Dec- 06	Dec- 07	March- 07
Income from Operations	5732	8584	8368
Other Income	103	159	132
Total Income	5835	8743	8500
Interest Cost	2282	3378	3240
Administrative Cost	2323	3698	3118
Depreciation	46	67	74
Total Expenditure	4651	7143	6432
PBT	1184	1600	2068
PAT	776	1042	1347

Consolidated Balance Sheet: Liabilities

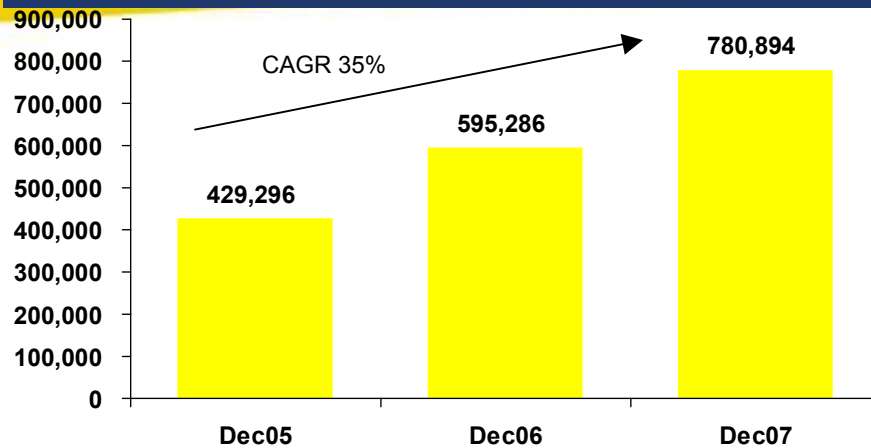
(Rs.million)	Dec- 06	Dec- 07	March- 07
Net Worth	7586	8854	7808
Equity Share Capital	833	841	840
Reserves & Surplus	6753	8013	6968
Employee Stock Option O/S	22	17	13
Preference Share Capital	--	--	--
Secured Loans	41435	44720	45803
Unsecured Loans	5209	12162	3291
Current Liabilities & Provs.	5308	5299	5923

Consolidated Balance Sheet: Assets

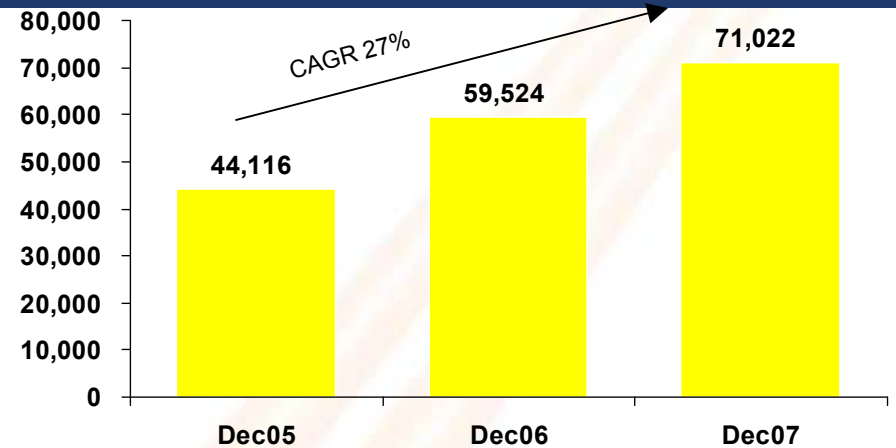
(Rs.million)	Dec- 06	Dec- 07	March- 07
Fixed Assets	264	312	276
Investments	513	5	264
Intangible Assets	8	17	8
Stock on Hire	--	--	--
Sundry Debtors	35	42	23
Other Current Assets	11	106	20
Cash & Bank Balance	1277	2267	2840
Loans & Advances & others	56891	67253	58663
Deferred Tax Asset	561	1048	744
Miscellaneous Exp.	--	2	--

Robust Growth

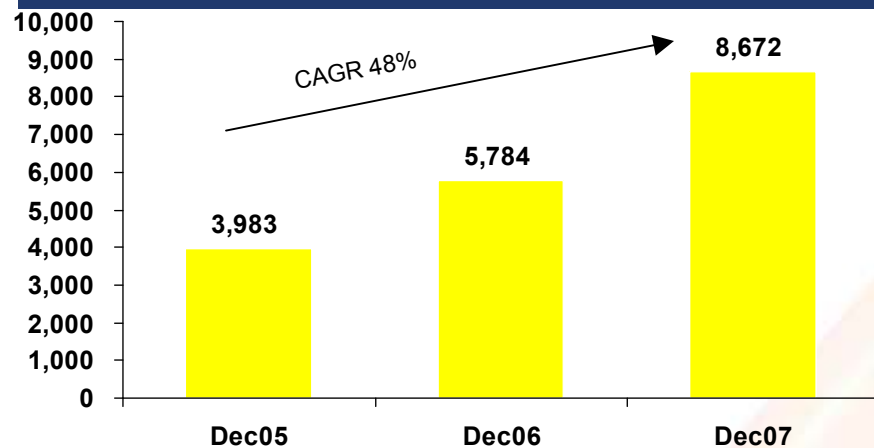
Cumulative no. of Customer Contracts (Nos.)



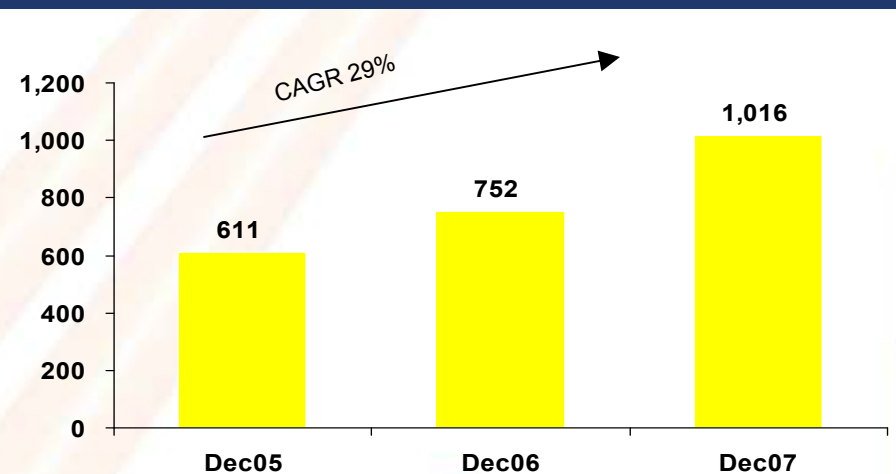
Total Assets (INR million)



Total Income (INR million)



Profit after Tax (INR million)



Summary of Results

(Rs.million)	Dec- 06	Dec- 07	March- 07
Total Income	5784	8672	8446
Profit before tax	1141	1556	2028
Profit after tax	752	1016	1329
Dividend (%)	--	--	40
Equity Share Capital	833	841	840
Reserves & Surplus	6708	7948	6929
Net Worth	7541	8789	7769
EPS (Basic)	8.91*	12.09*	15.8
Market capitalisation	24110	27787	20124
No. of Branches	400	434	403
New Contracts During the period (Net) (Nos)	127289	139807	173,110
No. of employees	2575	4551	2791

* EPS for interim period is not Annualised

Ratio Analysis

	Dec- 06	Dec- 07	March- 07
PBT/Total Income	19.7%	17.9%	24.0%
PBT/Total Assets	2.4%	2.6%	3.2%
RONW (Avg. Net Worth)	13.2%	14.6%	18.1%
Overheads/Total Assets	3.0%	3.5%	3.1%
Debt / Equity	6.08:1	6.41:1	6.24:1
Book value multiple	3.1	3.1	2.6
Capital Adequacy	15.2%	14.9%	14.7%
Tier I	11.8%	11.0%	11.3%
Tier II	3.4%	3.9%	3.4%
Book Value (Rs.)	90.5	104.5	92.5

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- 06	Dec- 07	March- 07
Gross Non - Performing Assets	4,245	6,487	3,582
Less: NPA Provisions	2,140	3,578	2,034
Net Non – Performing Assets	2,105	2,909	1,548
Total Assets (Incl. NPA Provision)	61,666	74,600	64,843
Gross NPA to Total Assets(%)	6.9%	8.7%	5.5%
Net NPA to Total Assets(%)	3.5%	4.1%	2.5%

* Excluding Securitised portfolio

Spread Analysis

	Dec- 06	Dec- 07	March- 07
Total Income/Average Assets	14.0%	17.0%	14.9%
Interest / Average Assets	5.5%	6.6%	5.6%
Gross Spread	8.5%	10.4%	9.3%
Overheads/Average Assets	3.3%	3.7%	3.4%
Write offs & NPA provisions / Average Assets	2.4%	3.8%	2.2%
Net Spread	2.8%	2.9%	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 December 31, 2007, Rs. 5 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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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

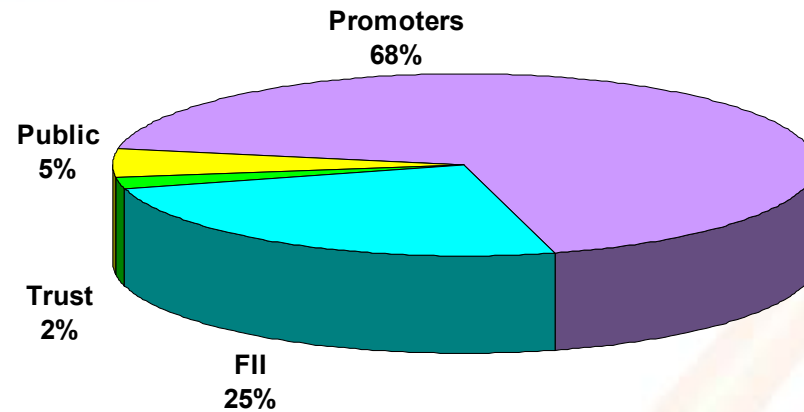
Client Base

Prudent loan approval and administration procedures

Ability to borrow at competitive rates

Experienced Board and executive management team

Shareholding Pattern (as on 31st December 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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