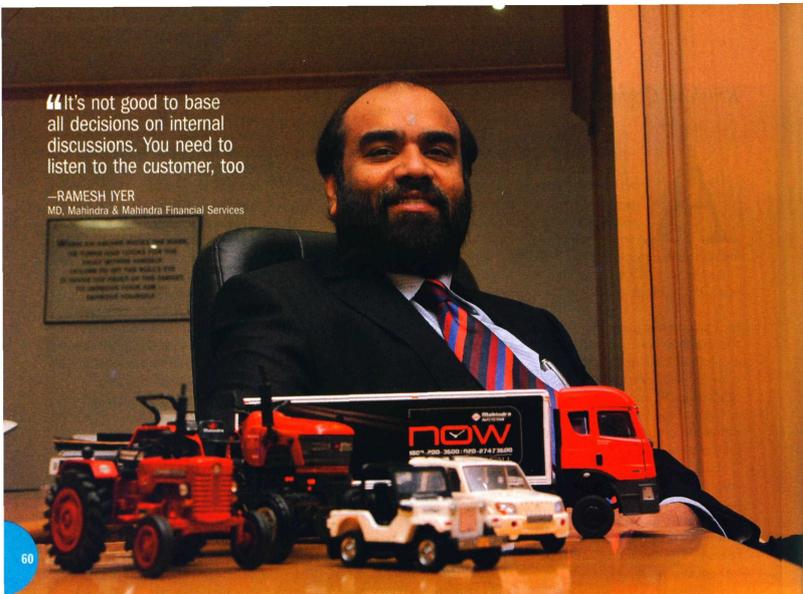


PLOUGHING AHEAD

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“It’s not good to base all decisions on internal discussions. You need to listen to the customer, too

—RAMESH IYER
MD, Mahindra & Mahindra Financial Services



PLOUGHING AHEAD

CUSTOMISING SOLUTIONS HAS GIVEN MAHINDRA FINANCE THE EDGE IN THE RURAL NON-

AHEAD

BANKING SPACE

Krishna Gopalan

When Mahindra & Mahindra Financial Services (MMFSL) was launched in 1995, it was planned as a captive finance arm for the group’s tractor and utility vehicles business, along the lines of what other auto majors such as Bajaj Auto, Ashok Ley-land and Tata Motors had. Then came the stunning order from the top: no more than 40% of business could come from within the group. The rationale: if finance were driving sales, it would compromise the company’s credit judgement. But this was a time when M&M jeeps and tractors were a rage in rural India and supply couldn’t keep up with demand, so, “there was no real need to get into the group business,” says Ramesh Iyer, managing director, MMFSL. “The good news is, we are yet to reach 40%.”

Instead, the company focused its attention on becoming rural India’s financier of choice across categories — utility vehicles, farm equipment, home loans and insurance broking, among others. It worked: Mahindra Finance is now India’s largest rural non-bank finance company, managing assets of nearly \$4 million and servicing 2 million customers. In FY12 was Rs.2,910.36 crore with a net profit of Rs.643.49 crore, up 42.76% and 30.59%, respectively, from the previous year. Along the way, the

company adopted some interesting ways of doing business, tailored to suit the market it services. That impressed the Porter Prize jury, which awarded the company for “Creating distinctive value”. Here’s what Mahindra Finance did.

TAILOR-MADE STRATEGY
For starters, the company tied up with other auto companies to reduce its dependence on a single manufacturer; even today, it sells many competitors’ vehicles, including the Nano. It also worked around rural market quirks by employing locals who understood payment cycles and were available on-ground to ensure repayment. Then, Mahindra Finance had to make allowances for the cash-based rural economy. So, it helped customers open bank accounts and deposit their earnings. But repayments weren’t automatically transferred to the company; given the seasonal income streams, it would wait for the customer to inform the bank when he had sufficient

needs. For instance, a loan for a three-wheeler may be repaid on a weekly basis, while repayments for a tractor would be more staggered. “It is not good to base all decisions on internal discussions. You need to listen to the customer and bring back that insight as well,” he adds.

It’s been a long journey to Mahindra Finance’s present success: it was a decade before it hit its first million customers. The next million, though, came in half the time. “We can afford to be more ambitious now,” thinks Iyer. “We would like to hit the next million in two and a half years.” Mahindra Finance is counting on its existing customer base to help it reach that milestone. For the past year, the company has been consciously acquiring new customers through referrals — 20% of the 45,000 vehicles it finances every month are through the reference route. It’s a good strategy for rural markets. “This is a market that is strongly opinion led. A word from a moneylender or temple priest can go

MAHINDRA FINANCE | Porter prize

CLAP BOARD

THE CATEGORY

Creating distinctive value
An organisation offering unique solutions to the problems or needs of the customer. It effectively creates new market spaces and provides solutions that redefine the market

THE CONTENDERS

Mahindra Finance
Sealed Air Diversey
G Trade

immediately, the plan is to double the balance sheet (currently at Rs.19,500 crore) every two years and increase the 650-strong branch network by 10% each year. For that, Iyer is banking on a combination of increasing customer base, new businesses and overseas forays.

Early last year, MMFSL announced that its US arm, Mahindra Finance USA was entering into a 49:51 joint venture, Mahindra Finance USA LLC, with the US-based De Lage Landen Financial Services (DLLFS), a wholly-owned subsidiary of Rabobank Group. The idea was to provide inventory financing services to US-based dealers who would purchase M&M products. Iyer says Mahindra Finance USA already has a balance sheet of \$120 million. “Our plan is to get into newer geographies such as South Korea, South Africa and China where M&M is already present. We hope to have a clear roadmap for this in a year,” he adds. Mahindra Finance became a success in rural India because of the distinctive solutions it was able to provide for customers in that space. It remains to be seen if it will be able to replicate that strategy overseas.

THE WAY FORWARD

Where does the company go from here? The five-year agenda is to become a full-fledged financial services company — in-principle approval has come from Sebi for an asset management company. More