

Market statistics as on May 31, 2019

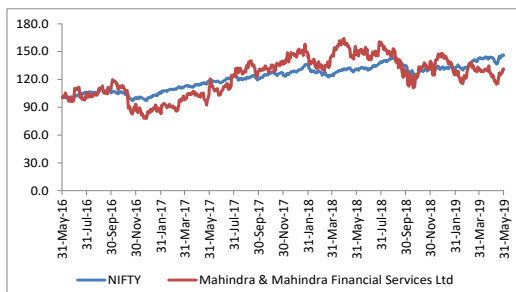
| | |
|---------------------------|--------|
| Current stock price (Rs.) | 422 |
| Shares O/S (bn.) | 0.62 |
| Market Cap (Rs. bn) | 260.5 |
| P/E (x) | 23.95 |
| 52W H (Rs.) | 527.5 |
| 52W L (Rs.) | 342.65 |
| Price/Book | 2.63 |

Shareholding pattern as on March 31, 2019

| | |
|----------------------|--------|
| Promoters* | 51.19% |
| Domestic Institution | 13.64% |
| Foreign Institution | 26.77% |
| Non-institution | 7.39% |
| ESOP Trust | 047% |

*0.24% promoter shares pledged

Mahindra Finance vs Nifty



Credit Rating History



Financial Performance (Rs. Bn)

| Particulars | FY19 | FY18 | % chg |
|--------------------|-------|-------|--------|
| NII | 59.3 | 44.5 | 33.2% |
| Total Income | 60.0 | 44.8 | 34.0 |
| PAT | 18.7 | 12.2 | 53.5 |
| Networth | 113.5 | 100.0 | 13.5 |
| Total Debt | 399.9 | 548.9 | (27.1) |
| Debt/Equity (x) | 4.84 | 4.17 | - |
| Cost to income (%) | 39.80 | 38.00 | - |
| ROA (%) | 2.20 | 2.60 | - |
| RONW (%) | 13.30 | 15.20 | - |
| CAR (%) | 20.30 | 22.70 | - |
| Tier I (%) | 15.50 | 17.00 | - |
| GNPA (%) | 9.00 | 5.90 | - |
| NNPA (%) | 6.20 | 4.80 | - |

Source: Company Reports.As per Ind-AS wherever applicable

Credit Drivers:

- **Strong Parentage and competent management:** Mahindra and Mahindra Financial Services Ltd.'s (Mahindra Finance) is a subsidiary of Mahindra & Mahindra Ltd. (M&M) which has a leadership position in the tractors and utility vehicles (UV) segment in India. The financial and operational support from M&M and a competent and experienced management is a key credit driver for the company.
- **Comfortable capital adequacy ratio:** As on March 31, 2019, Mahindra Finance's total capital adequacy ratio (CAR) while declining was still healthy at 20.30% with a Tier I CAR at 15.50%.
- **Diversified funding profile:** Mahindra Finance has a well-diversified resource profile with funds being raised from various avenues like non-convertible debentures, subordinated debt, domestic and foreign currency loans from banks, public deposits and commercial paper.
- **Asset quality is modest albeit deteriorated in FY19:** Gross NPA and Net NPA stood at 9% and 6.20% as on March 31, 2019 respectively as compared to 5.90% and 4.80% respectively as on December 31, 2018.
- **Healthy Earnings Profile:** Mahindra For FY19, Mahindra Finance (Consolidated) reported PAT of Rs.18.6 billion on NII of Rs.59.3 billion.
- **Comfortable liquidity position:** The tenor of the loan assets and borrowings is well matched which leads to comfortable liquidity profile. The company also benefits from strong parent support and availability of on - tap funds from the market at competitive rates.

About the Company:

Mahindra Finance, a non-banking financial company (NBFC), was incorporated in 1991 by M&M, its parent shareholder. Mahindra Finance is a publicly listed NBFC and M&M held a 51.19% shareholding in Mahindra Finance as on March 31, 2019. Mahindra Finance is among the top-five NBFCs with assets under management (AUM) of Rs 612.5 billion as on March 31, 2019. The company finances UVs, cars, tractors, commercial vehicles, pre-owned vehicles, small and medium enterprises and other miscellaneous assets. Mahindra Finance has a strong presence in the semi-urban and rural regions of the country through its wide network of 1321 branches as on March 31, 2019. It's key associates/subsidiaries include Mahindra Rural Home Finance (89%), Mahindra AMC (100%), Mahindra Insurance Brokers (80%) and Mahindra Finance USA (40%).

About the Group:

M&M is among the leading tractor manufacturers in the world and is a leading manufacturer of Goods Light Commercial Vehicles (LCVs) in India. The Mahindra group, through its subsidiaries and group companies, has a presence in varied sectors, such as information technology, financial services, and vacation ownership. In addition, it has presence in the agribusiness, aerospace, components, consulting services, defense, energy, industrial equipment, logistics, real estate, and two wheeler industries, among others.

Industry Outlook:

Growth in NBFC sector is expected to be impacted in FY20 given the liquidity situation, which is expected to continue in first half of FY20. NBFCs are expected to witness growth of 12-14% in FY20 with a continued competition, especially from private banks and potentially from large PSU banks. Retail segment, of which vehicle finance is the largest, will fare relatively better. From an asset quality perspective as well, while overall, the quality of retail assets is expected to remain steady, segments such as SME lending, especially loan against property (LAP), and construction/infrastructure finance could witness some pressure. NBFCs are expected to reorient their funding mix given the current environment. On one side, securitization has proved to be the preferred source of financing; NBFCs have also been tapping alternate sources such as public issuances of NCDs and ECBs. Relatively lower reliance on short-term borrowings while maintaining on-balance sheet liquidity is expected to impact the profitability of the sector; however, ability of NBFCs to pass on the increase in borrowing costs to their customers would define the extent of the impact. The capital position of NBFCs remains adequate with gearing levels expected to remain under control.

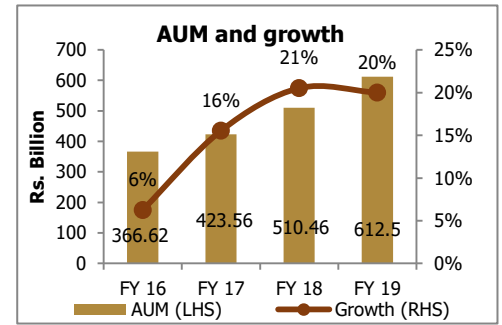
Key Credit Drivers:

Strong market position in rural and semi-urban areas particularly in UV and tractor financing business: Mahindra Finance’s market position in the UV and tractor financing segments remains strong, given its status as M&M’s captive finance company, which enables Mahindra Finance to access the parent’s widespread dealer network. Mahindra Finance’s main competitors include co-operative and nationalized banks and financing entities in the unorganized sector. As of March 31, 2019, on standalone basis, Mahindra Finance had total AUM of Rs.612.5 billion. The AUM comprises of asset class like Auto/utility vehicles (26%), car (21%), tractor (17%), commercial vehicles & Construction equipment (18%), Pre owned vehicles (9%), SMEs and others (9% comprising majorly trade SME loans). 44% of the AUM represented Mahindra products. Mahindra Finance has considerably strengthened its distribution network: it had 1,321 branches across 27 states and 5 Union Territories as on December 31, 2019, with a large number of branches in semi-urban and rural areas, where it enjoys a strong market share.

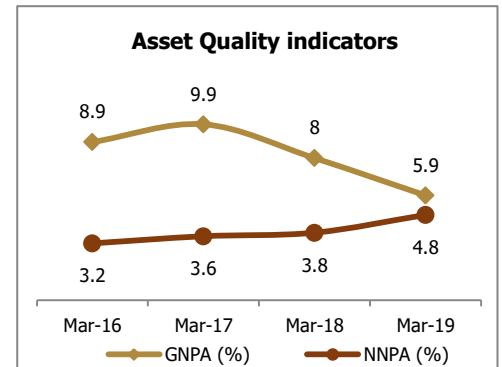
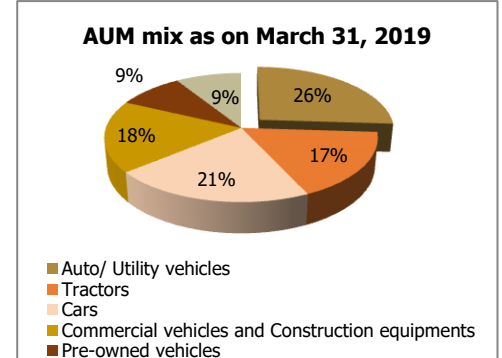
Asset quality is modest albeit improving: Mahindra Finance’s asset quality while is modest has witnessed an improving trend over the years. The company’s focus on strengthening the collection vertical with a dedicated team to tackle overdue loans across buckets is enabling the company to tackle asset quality better. Gross NPAs ratio declined to 5.90% as on March 31, 2019, from 8% as on March 31, 2018. Net NPA was 4.80% (according to IND-AS) as on March 31, 2019 vs 3.8% in FY18. However, the credit quality of the loan book remains susceptible to increased delinquencies because of a relatively weak borrower profile and intrinsic vulnerability of its borrowers’ cash flows to agricultural output. As per the company, a significant number of NPA’s are technical in nature (due to delayed payments). The borrower is either able to catch up with repayment schedule or the asset is repossessed & sold (down payment & subsequent principal repayments received) help to minimize losses on re-sale. Portfolio has held up well to tighter NPA norms (90 dpd vs 120 dpd).

Diversified funding profile: Mahindra Finance funding profile is well diversified with resources being raised from various avenues like non-convertible debentures, subordinated debt, and domestic and foreign currency loans from banks, public deposits, and commercial paper. The company has bank lines from a variety of banks to meet its funding requirements. The company also securitised its portfolio (loans which qualify as priority sector loans see healthy demand from the banking sector at attractive yields) every year which is another source of funding. The company has also been active in raising funds from the Retail and HNI market through Debt Public Issuance route.

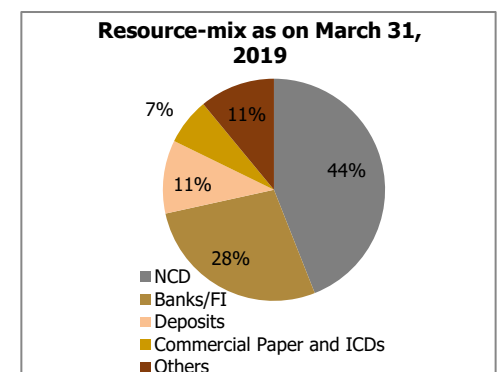
Strong parentage, shared brand and Board of Directors and management support: Mahindra Finance is a subsidiary of Mahindra & Mahindra Ltd. which has a leadership position in the tractors and utility vehicles (UV) segment in India. M&M has been supporting Mahindra Finance through shared ‘Mahindra’ brand as well as representation on Board of Directors as well as management support. The Board of Directors of Mahindra Finance is headed by Mr. Dhananjay Mungale (Non- Executive Chairman) who has vast experience in corporate and investment banking. The operations of the company are headed by Mr. Ramesh Iyer who is the Vice-Chairman and Managing Director and has been with Mahindra Finance since inception in 1995. He is also member of the Group Executive Board of M&M (as President – Financial Services Sector) which explores synergies between all the businesses and formulates strategic plans. Board of MMFSL has representation from the Mahindra group by Dr. Anish Shah (Group President – Strategy at M&M) and Mr. V S Parthasarathy (Group CFO and CIO for M&M).



*FY19 figures are according to IND-AS

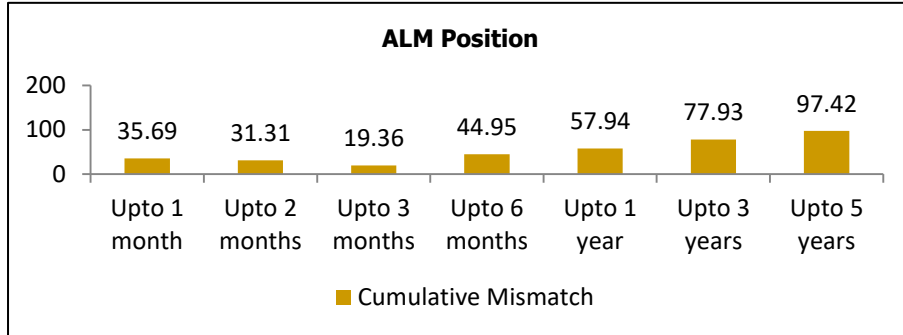


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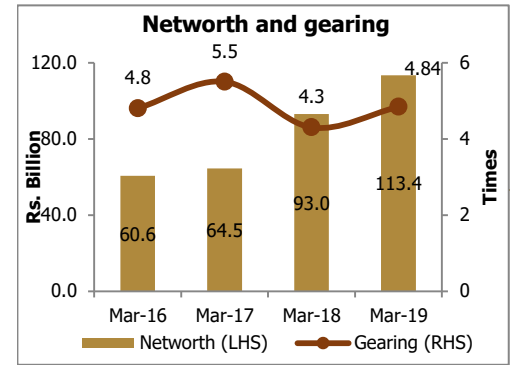


| Name | Designation | Name | Designation |
|-----------------------|--------------------|---------------------|----------------------------|
| Mr. Dhananjay Mungale | Chairman | Mr. V Ravi | Executive Director and CFO |
| Dr. Anish Shah | Director | Mr. C B Bhawe | Independent Director |
| Mr. V S Parthasarathy | Director | Mr. Rama Bijapurkar | Independent Director |
| Mr. Ramesh Iyer | Vice-Chairman & MD | Mr. Milind Sarwate | Independent Director |

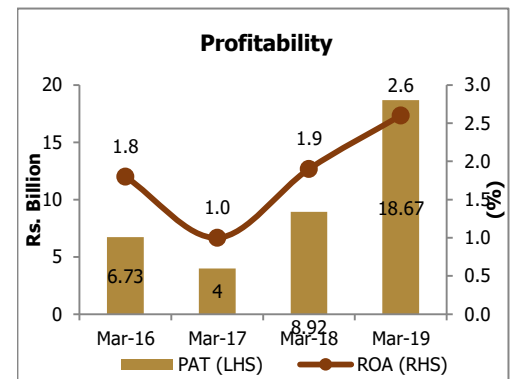
Comfortable liquidity position: Liquidity is healthy as reflected in positive mismatches in the less-than-one-year bucket of its asset-liability- management (ALM) statement. The company also benefits from strong parent support and availability of on - tap funds from the market at competitive rates. Furthermore, a high level of unutilized bank limits also enhances the company's liquidity.



Comfortable capital adequacy level: Mahindra Finance has consistently maintained comfortable capital adequacy ratio at or above 20.3%. As on March 31, 2019, total capital adequacy ratio (CAR) stood at 20.3% with a Tier I CAR at 15.5%. The company raised equity capital of Rs.21.1 billion in FY 2018. Of this, Rs. 10.1 billion was raised through from Mahindra & Mahindra Ltd (maintaining its majority shareholding at 51.2%) and the balance Rs. 10.6 billion from other equity investors. The gearing is also comfortable at 4.84 times as on March 31, 2019, as against 4.3 times as on March 31, 2019.



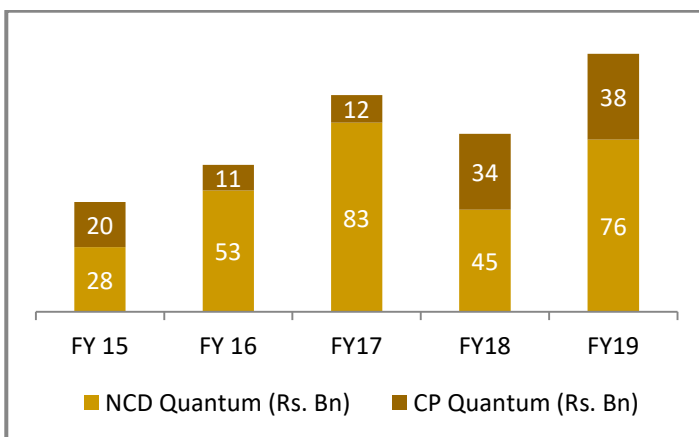
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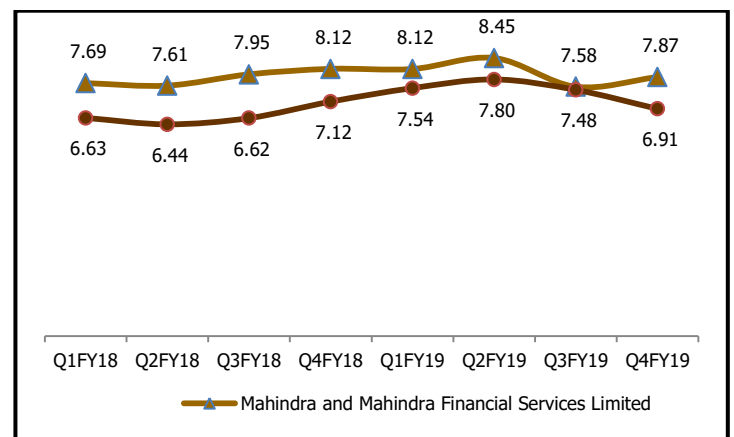
Comfortable Earning Profile: As the target segment of the company is rural which has high dependence on cash, Mahindra Finance saw impact on profitability on account of demonetization during FY17 (especially second half of the year) resulting in decline of 33% in Profit After Tax (PAT) to Rs.5.3 billion on total income of Rs.71.5 billion during FY17 as compared to PAT of Rs.7.9 billion on total income of Rs.65.5 billion during FY16. During FY19, Mahindra Finance saw improvement in recovery and collections resulting in improvement in profitability. It reported PAT of Rs.18.67 billion on total income of Rs.60 billion during FY19 with Return on Total Assets (ROTA) improving to 2.2% as against 1.0% for FY17. Its earning profile is aided by efficient operations (cost to income ratio %), competitive borrowing costs (high rating & support of Mahindra Group) and strong underwriting standards (which minimize final loss on defaults). During FY19, Mahindra Finance reported financial results under IND AS and reported PAT of Rs.18.7 billion on total income of Rs.60 billion, as against PAT of Rs.12.2 billion on total income of Rs.44.8 billion.

NCD & CP Issuance over the past 5 years



*Source: Prime Database, NSDL

Credit Spread over 3 year G-sec



*Source: Reuters

Latest Issuance:

| Name | Type | Date | Tenor | Coupon (%) | Quantum (Rs. Bn) |
|----------------------------|---------|--------------|----------------------------|------------|------------------|
| Mahindra Finance (Primary) | Secured | May 30, 2019 | 1 Year, 11 months, 28 days | 8.52 p.a. | 5 |

Other Information:

| | |
|-----------------|---------------------------------------|
| Auditors | B S R & Co. LLP Chartered Accountants |
|-----------------|---------------------------------------|

Financials: (Standalone)

Profit & Loss Statement

| Particulars (in Bn) | FY16 | FY17 | FY18 |
|---|---------------|----------------|----------------|
| Operating Income | 618.26 | 2322.00 | 2576.54 |
| Other Income | 0.09 | 0.08 | 0.22 |
| Total Income | 618.35 | 2322.08 | 2576.76 |
| Employee Cost | 1.50 | 1.66 | 1.81 |
| Operating & Establishment Expenses | 0.27 | 0.22 | 0.63 |
| Administrations & Other Expenses | 0.33 | 0.52 | 0.57 |
| Provisions and Contingencies | 1.29 | 2.81 | 3.35 |
| Miscellaneous Expenses | 599.47 | 2297.17 | 2546.20 |
| Total Expenditure | 602.86 | 2302.39 | 2552.56 |
| Operating Profit | 15.48 | 19.69 | 24.20 |
| Interest | 11.65 | 13.71 | 17.11 |
| Depreciation | 0.04 | 0.04 | 0.05 |
| Profit Before Taxation & Exceptional Items | 3.79 | 5.93 | 7.04 |
| Profit Before Tax | 3.79 | 5.93 | 7.04 |
| Provision for Tax | 1.29 | 2.03 | 2.41 |
| Profit After Tax | 2.50 | 3.90 | 4.62 |

Key Ratios

| Particulars | FY16 | FY17 | FY18 |
|---|--------|--------|--------|
| Spread Analysis (%) | | | |
| Interest Earned/Avg. Assets (%) | 14.7 | 13.8 | 13.6 |
| Interest Expended/Avg. Assets (%) | 7.2 | 6.8 | 6.1 |
| Net Interest Margin(NIM (%)) | 7.6 | 7.0 | 7.6 |
| Operational & Financial Ratios | | | |
| Earnings Per Share (Rs) | 11.91 | 7.08 | 14.51 |
| DPS(Rs) | 4.00 | 2.40 | 4.00 |
| Book Value (Rs) | 107.40 | 114.20 | 151.04 |
| Performance Ratios | | | |
| ROA (%) | 1.83 | 0.95 | 1.81 |
| ROE (%) | 11.48 | 6.40 | 11.34 |
| Financial Stability Ratios | | | |
| Total Debt/Equity(x) | 4.86 | 5.35 | 4.25 |

Peer Comparison as on March 31, 2018

| Particulars (in Bn) | Mahindra Finance | Shriram Transport | Chola |
|---------------------|------------------|-------------------|-------|
| Total Income | 85.7 | 121.4 | 54.3 |
| NII | 51.1 | 67.3 | 31.2 |
| PAT | 10.5 | 15.7 | 9.7 |
| Equity | 99.2 | 125.7 | 51.5 |
| Debt | 416.4 | 531.1 | 319.0 |
| CRAR (%) | 22 | 16.8 | 18.4 |
| GNPA (%) | 8.5 | 9.1 | 2.9 |
| NNPA (%) | 3.8 | 2.8 | 1.7 |
| ROE | 11.3 | 13.1 | 20.8 |
| ROA | 1.8 | 1.9 | 4.6 |
| Leverage | 4.2 | 5.1 | 6.3 |

*Source: Company Reports & Ace equity. Figures are on Standalone basis

Information Source: Ace Equity, Company Reports, IBEF, NSDL, Prime Database, Bloomberg, Thomson Reuters, Rating Agencies, CRISIL

Balance Sheet

| Particulars (in Bn) | FY16 | FY17 | FY18 |
|--|---------------|---------------|---------------|
| Share Capital | 1.89 | 1.89 | 1.95 |
| Shareholder's Funds | 19.82 | 23.57 | 29.39 |
| Long-Term Borrowings | 65.63 | 91.93 | 134.26 |
| Other Non-Current Liabilities | 2.71 | 4.71 | 8.68 |
| Total Non-Current Liabilities | 68.34 | 96.65 | 142.95 |
| Other Current Liabilities | 39.61 | 39.69 | 46.20 |
| Short Term Borrowings | 47.33 | 58.81 | 58.12 |
| Total Current Liabilities | 86.95 | 98.50 | 104.32 |
| Total Liabilities | 175.11 | 218.72 | 276.66 |
| ASSETS | | | |
| Net Block | 0.27 | 0.26 | 0.58 |
| Capital Work in Progress | 0.00 | 0.27 | 0.00 |
| Other fixed assets | 0.00 | 0.02 | 0.04 |
| Non Current Investments | 8.39 | 6.66 | 6.67 |
| Long Term Loans & Advances | 44.73 | 73.16 | 105.59 |
| Other Non Current Assets | 1.28 | 1.91 | 2.16 |
| Total Non-Current Assets | 54.68 | 82.27 | 115.04 |
| Cash and Bank | 2.61 | 11.68 | 2.51 |
| Other Current Assets | 64.60 | 66.11 | 109.03 |
| Short Term Loans and Advances | 53.23 | 58.66 | 50.08 |
| Total Current Assets | 120.43 | 136.45 | 161.62 |
| Miscellaneous Expenses not written off | 0.00 | 0.00 | 0.00 |
| Total Assets | 175.11 | 218.72 | 276.66 |

Cash flow Statement

| Year End-March (in Bn) | FY16 | FY17 | FY18 |
|---|---------------|---------------|---------------|
| Profit Before Tax | 3.79 | 5.93 | 7.04 |
| Adjustment | 1.26 | 0.97 | 0.77 |
| Depreciation | 0.04 | 0.04 | 0.05 |
| Dividend Received | 0.00 | -0.07 | -0.46 |
| Interest Income | 0.00 | 0.00 | 0.00 |
| Provision & Written Off | 0.40 | 0.56 | 0.59 |
| Bad debts irrecoverable written off | 0.76 | 0.43 | 1.39 |
| Provision for doubtful debts & advances | 0.00 | 0.00 | 0.00 |
| Other Adjustments | 0.06 | 0.01 | -0.81 |
| Changes In working Capital | -36.11 | -35.50 | -61.67 |
| Cash Flow after changes in Working Capital | -31.06 | -28.60 | -53.87 |
| Tax Paid | -1.61 | -2.11 | -2.30 |
| Extra & Other Item | 0.00 | 0.00 | 0.00 |
| Cash From Operating Activities | -32.67 | -30.71 | -56.17 |
| Cash Flow from Investing Activities | -1.43 | 1.52 | 1.19 |
| Purchase of Fixed Assets | -0.03 | -0.03 | -0.38 |
| Sale of Fixed Assets | 0.00 | 0.00 | 0.01 |
| Purchase of Investment | -1.52 | -5.53 | -2.24 |
| Sale of Investments | 0.12 | 7.29 | 3.11 |
| Investment in Subsidiaries | 0.00 | 0.00 | 0.00 |
| Dividend Income | 0.00 | 0.07 | 0.46 |
| Interest Income | 0.00 | 0.00 | 0.00 |
| Other Investment Activities | 0.00 | -0.29 | 0.24 |
| Cash from Financing Activities | 33.74 | 38.24 | 45.73 |
| Net proceeds from borrowings & pref. shares | 33.54 | 38.24 | 44.53 |
| Net proceeds Equity Share Capital | 0.00 | 0.00 | 1.20 |
| Other Financial Activities | 0.20 | 0.00 | 0.00 |
| Net Cash Inflow / Outflow | -0.36 | 9.06 | -9.24 |
| Opening Cash & Cash Equivalents | 2.17 | 1.81 | 10.87 |
| Closing Cash & Cash Equivalent | 1.81 | 10.87 | 1.63 |

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