

23rd July, 2014

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National Stock Exchange of India Limited,
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Name of the Scrip: Mahindra & Mahindra Financial Services Limited
Scrip Code : M&MFIN

Dear Sir,

Sub : Upgradation in Ratings by Brickwork Ratings India Private Limited

We wish to inform you that Brickwork Ratings India Private Limited vide its Rating Release dated 22nd July, 2014, has upgraded its ratings assigned to Unsecured Subordinated Debt (bonds) issued by the Company to 'BWR AAA' with a **Stable Outlook** from 'BWR AA+' with a Positive Outlook.

This is for your information please.

Thanking you,

Yours faithfully,

Mahindra & Mahindra Financial Services Limited

Arnavaz
Arnavaz M. Pardiwalla
Company Secretary & Compliance Officer

Encl : Rating Release



Rating Rationale

Brickwork Ratings revises rating of various bonds for Mahindra & Mahindra Financial Services Ltd to 'BWR AAA' from BWR AA+

Brickwork Ratings has revised Ratings¹ for the following bonds of Mahindra & Mahindra Financial Services Ltd (MMFSL or the Company) to BWR AAA (Outlook: Stable) from BWR AA+ (Outlook: Positive).

The details are as under:

Instruments	Amount (₹ Cr)	Assigned/ Reaffirmed / Revised	Rating History
Unsecured Subordinated Debt	200	BWR AAA (Pronounced BWR Triple A) Outlook - Stable (July 21, 2014)	BWR AA+ (Positive) (July, 2013)
Unsecured Subordinated Debt	100	BWR AAA (Pronounced BWR Triple A) Outlook - Stable (July 21, 2014)	BWR AA+ (Positive) (July, 2013)

The upward revision in rating factors strength of MMFSL's parent Mahindra & Mahindra's (M&M) continued strong financial & business performance, high financial flexibility enjoyed by MMFSL on account of timely support by M&M, focus towards financial inclusion in India and very high level of corporate governance standards.

The Rating continues to factor, inter alia, MMFSL's business model which has clear focus on untapped rural/semi-urban markets, proven track record in asset financing, wide network of field staff across 25 states and 4 union territories with 893 branches, well diversified portfolio, conservative provisioning policies, high capital adequacy and backing of the parent company Mahindra & Mahindra Ltd. (M&M).

BWR has relied on the FY14 audited financial results, projected financials and the information and clarifications provided by MMFSL.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Background:

Mahindra & Mahindra Financial Services Limited (MMFSL) is a subsidiary of Mahindra and Mahindra Limited, one of India's leading tractor and utility vehicle manufacturers. As of FY14, M&M holds 51.2% stake in the company. MMFSL finances Auto/Utility vehicles, Cars and non M&M UV's, Tractors and SCV's. MMFSL's client base predominantly is small entrepreneurs or self-employed individuals such as transport operators, taxi operators and farmers. The business model is positioned to tap the demand for financing in rural and semi-urban areas. As part of its business strategy, MMFSL is slowly reducing its dependence on M&M and is focusing on non M&M products. It has emerged as the second largest financier for Maruti Ltd. over the years. Recently, the company has tied up with Toyota Kirloskar Motors to offer financing solutions to its customers.

As of FY14, MMFSL has a network of 893 branches in 25 states and 4 union territories in India with over 3.1 million vehicle finance customer contracts since inception. Mahindra and Mahindra has 51.2% holding in MMFSL, FIIs hold 41.4%, Mutual Funds, DIIs and ESOP Trust hold about 2.3% and Non Institutions hold 5.1% stake in MMFSL. Looking at Board profile, the company has eight directors on its Board of which four are independent. Mr. Bharat N. Doshi is Chairman of the company and Mr. Ramesh Iyer is Managing Director.

Capital Adequacy:

In FY14, MMFSL's consolidated net worth increased 15.6% y-o-y to ₹ 5293.7 Cr. as compared with ₹ 4579.6 Cr. in FY13. Overall Capital adequacy of the company declined YoY in FY14; however it is robust and well above RBI regulatory requirement. Total Capital Adequacy ratio as of FY14 stood at 18.0% with Tier I Capital Adequacy ratio at 15.5%. MMFSL is adequately capitalized for future expected growth.

Asset Quality:

MMFSL reported 22.2% y-o-y increase in its asset under management to ₹ 34133 Cr in FY14 from ₹ 27913 Cr in FY13. Over years, the loan portfolio of MMFSL has become more diversified. About 29% of the AUM is in the Auto/Utility Vehicles, 19% is in Tractors, around 24% is in Cars. Commercial Vehicles and Construction Equipments constitute about 15% and Pre-owned vehicles, Trade advances to dealers and Other SME loans constitute about 13% in the total AUM. MMFSL's asset quality has come under pressure in last few quarters with Gross NPA percentage at 4.4% for FY14 compared to 3.0% for FY13. Similarly, Net NPA's are at 1.9% for FY14 compared to 1.0% for FY13. In FY14 the provision coverage ratio stood at 59% compared to 66% for FY13. We believe the asset quality will continue to remain under pressure for at least next two quarters.

The improvement in asset quality will also be sensitive to overall weather conditions in India and related economic activities.

Earnings Profile:

Company's overall spread has suffered and earnings profile has weakened in FY14, due to combination of decline in yields, increase in cost of funds and considerable increase in provisions. At standalone level, the total revenues of company have seen 27.16% growth from ₹ 3895 Cr in FY13 to ₹ 4953 Cr in FY14. However, the PAT in same period increased marginally from ₹ 883 Cr to ₹ 887 Cr. Company's net spread after tax stood at 3.2% for FY14 compared to 4.0% for FY13.

At consolidated level, MMFSL reported 28.8% y-o-y increase in Total Income (Consolidated) at ₹ 5300 Cr as compared to ₹ 4113 Cr in FY13. The interest cost during same period increased by 36.5% from ₹ 1671 Cr to ₹ 2281 Cr. However, PAT in same period grew marginally by 4.0% to ₹ 954 Cr from ₹ 927 Cr in FY13. Standalone lending activities generates 93% of Consolidated Income and PAT of MMFSL. Similarly, standalone business accounts for 96% of Consolidated net worth of MMFSL. The remaining accounts for Mahindra Rural Housing and Mahindra Insurance Brokers Ltd.

Liquidity Profile:

MMFSL depends primarily on banks (58%) for fund raising followed by Insurance companies / mutual funds (18%). The Standalone borrowings (excluding assignments) increased 26.8% y-o-y to ₹ 23930 Cr from ₹ 18,872 Cr in FY13. In FY13, MMFSL's sources of funding on the basis of funding instruments come primarily from Bank Term Loans (54%), NCD's (22%), Assignments (10%), FD's (14%) and CP, ICD's (0.16%). The structural liquidity profile of MMFSL is well matched with no mismatches in short term buckets.

Rating Outlook:

MMFSL has, since inception, concentrated on semi-urban and rural areas, where competition is relatively low. As per company they are present in one out of every three villages in India, indicating the company's focus on overall financial inclusion in India. The vast distribution network has enabled MMFSL to post strong and consistent growth in business. MMFSL has in recent years made attempts to diversify its loan portfolio and also expanded its relationship with various manufacturers. MMFSL is currently the second largest financier for Maruti Ltd. MMFSL continues to contribute almost 30% to its parent M&M's overall sales and thus is of strategic importance to its parent.

We expect MMFSL will continue to contribute considerably to overall sales of M&M and will continue to enjoy strong brand and required financial support of M&M. The company has highly experienced management and high quality Board with corporate governance standards better than most of its relevant peers. The company also has strong capital adequacy which is well above required RBI regulatory requirements. The company also has conservative provisioning policies compared to requirements of RBI. The company also has good liquidity profile with no mismatches in short term buckets. MMFSL has seen many business cycles and has stood resilient in difficult times like 2008, where they paid all dues timely without single request for roll over. In current scenario, the asset quality and earnings profile of MMFSL are under pressure and are expected to remain under pressure for at least next two quarters. Improvement in the asset quality and earnings profile, maintaining adequate capitalization and contribution to M&M's revenues will be the key sensitivities.

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