

Mahindra FINANCE

Mahindra & Mahindra Financial Services Limited (MMFSL)

INVESTMENT RATIONALE

- The issue offers coupon rate ranging from 7.75% to 8.05% depending up on the Category of Investor and the option applied for.
- The NCDs are proposed to be listed on the BSE Limited ("BSE").
- Credit Rating of 'IND AAA'/Outlook Stable' by India Ratings and 'BWR AAA, Outlook: Stable' by Brickwork Ratings.
- The Shelf Limit of the Issue is Rs. 2,000 Crores.

COMPANY PROFILE

- Mahindra & Mahindra Financial Services Limited (MMFSL) was incorporated in 1991 and commenced operations as a finance company in 1993. MMFSL was registered as a deposit-taking NBFC in 1998 and has since established a pan-India presence, spanning 27 states and 4 union territories through 1,182 offices as of March 31, 2017.
- MMFSL is one of the leading non-banking finance companies ("NBFCs") with customers primarily in the rural and semi-urban markets of India. MMFSL is part of the Mahindra group, which is one of the largest business conglomerates in India.
- MMFSL primarily engaged in providing financing for new and pre-owned auto and utility vehicles, tractors, cars and commercial vehicles. MMFSL also provide housing finance, personal loans, financing to small and medium enterprises, insurance broking and mutual fund distribution services.
- MMFSL primarily focuses on providing financing for purchases of auto and utility vehicles, tractors, cars, commercial vehicles and construction equipment's and pre-owed vehicles and others which accounted for 28%, 19%, 22%, 11% and 20% of estimated total value of the assets financed, respectively, for the year ended March 31, 2017.
- MMFSL commenced its housing finance business through subsidiary Mahindra Rural Housing Finance Limited (MRHFL). MMFSL provide housing loans to individuals through, MRHFL, a registered housing finance company, in which NHB presently owns a 12.5% equity share capital of MRHFL. MRHFL grants housing loans for purchase, construction, extension and renovation of house property.
- On standalone basis, as of March 31, 2017, MMFSL maintained a NPA coverage ratio of 61.80%, net NPA of 3.60% of total assets, capital adequacy ratio of 17.20%, total loans and advances outstanding of Rs.42,523.37 crores and total assets of Rs.45,985.23 crores.

Source: Shelf Prospectus dated June 29, 2017 and Tranche 1 Prospectus dated June 29, 2017

Disclaimer: Invest only after referring to the Shelf Prospectus and Tranche 1 Prospectus

STRENGTHS

- ***Knowledge of rural and semi-urban markets***

MMFSL has over 20 years of operating experience primarily in rural and semi-urban markets, which has led to a significant understanding of local characteristics of these markets and has allowed them to address the unique needs of their customers. MMFSL has adapted to markets that are affected by limitations of rural infrastructure and has developed a diversified customer base of farmers, car-owners, transport agencies, small businessmen and home-owners.

- ***Extensive network of offices***

MMFSL operate an extensive network of 1182 offices spanning across 27 states and 4 union territories, as of March 31, 2017. The reach of offices allows them to service their existing customers and attract new customers as a result of personal relationships cultivated through proximity and frequent interaction by their employees. MMFSL widespread office network reduces their reliance on any one region in India and allows them to apply best practices developed in one region to other regions.

- ***Streamlined Approval and Administrative Procedures and Effective Use of Technology***

MMFSL benefits from streamlined company-wide approval and administrative procedures that are supplemented by employee training and integrated technology. Simple documentation to comply with the regulatory norms is required; typically loans are disbursed within two business days from receiving the complete loan application. Customer is required to provide a guarantor as part of reference check prior to disbursing the funds.

- ***History of strong customer and dealer relationships***

MMFSL maintains from strong relationships with its customers. As part of its customer-centric approach, recruitment of employees is done locally to increase familiarity with the local customers and area. Also personal contact is maintained, which includes visits by employees to a customer's home or business to collect instalment payments, increasing the likelihood of repayment.

- ***Brand recall and synergies with the Mahindra group***

M&M, their Promoter and the flagship company of the Mahindra group. M&M has been selling automotive and farm equipment in semi-urban and rural markets for over 6 decades. The Mahindra group is one of the largest business conglomerates in India and has a strong presence in utility vehicles, tractors, information technology, financial services, aerospace, real estate, and hospitality and logistics sectors.

- ***Access to cost-effective funding***

MMFSL believe that they able to access cost-effective debt financing due to their strong brand equity, stable credit history, superior credit ratings and conservative risk management policies. Historically, MMFSL has secured cost-effective funding from a variety of sources. MMFSL maintains borrowing relationships with several banks, mutual funds and insurance companies.

- ***Experienced management team***

MMFSL has an experienced management team, which is supported by a capable and motivated pool of employees. MMFSL's senior managers have diverse experience in various financial services and functions related to their business. MMFSL's senior managers have an in-depth understanding of the specific industry, products and geographic regions they cover, which enables them to appropriately support and provide guidance to their employees.

Source: Shelf Prospectus dated June 29, 2017 and Tranche 1 Prospectus dated June 29, 2017

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ISSUE STRUCTURE

Issuer	Mahindra & Mahindra Financial Services Limited
Type of instrument/ Name of the security/ Seniority	Unsecured Subordinated Redeemable Non-Convertible Debentures
Nature of Indebtedness and Ranking / Seniority	Subject to applicable RBI requirements and other applicable statutory and/or regulatory provisions, the NCDs will be in the nature of subordinated debt and will be eligible for Tier II capital.
Mode of the issue	Public issue
Lead Managers	A. K. Capital Services Limited, Edelweiss Financial Services Limited, Axis Bank Limited, Trust Investment Advisors Private Limited and Yes Securities (India) Limited
Tranche 1 Issue Size	Base Issue Size of Rs 250 Crores lakhs with an option to retain oversubscription up to Rs 1,750 crores aggregating upto Rs 2,000 crores
Base Issue Size	Rs 250 crores
Option to retain Oversubscription Amount	Upto the Shelf Limit, i.e. upto Rs 2000 crores
Step up/ Step down interest rates	NA
Interest type	Fixed
Interest reset process	NA
Issuance mode of the instrument*	Demat
Day count basis	Actual / Actual
Interest on application amounts received which are used towards allotment of NCDs	At the rate of 7.50% per annum on the amount allotted to the Applicants, other than to ASBA Applicants, subject to deduction of income tax under the provisions of the Income Tax Act, 1961, as amended, as applicable, to the Applicants to whom full amount of NCDs applied for are allotted pursuant to the Tranche 1 Issue from the date of realization of the cheque(s)/demand draft(s) upto one day prior to the Deemed Date of Allotment.
Interest on application amounts received which are liable to be refunded:	At the rate of 5.00% per annum on the amount which is liable to be refunded to the Applicants, other than to ASBA Applicants, subject to deduction of income tax under the provisions of the Income Tax Act, 1961, as amended, as applicable, to the Applicants whose Valid Applications receive (i) partial allotment due to oversubscription or (ii) no allotment due to oversubscription pursuant to the Tranche 1 Issue from the date of realization of the cheque(s)/demand draft(s) upto one day prior to the Deemed Date of Allotment. The Company shall not be liable to pay any interest on monies liable to be refunded in case of (a) invalid applications or applications liable to be rejected, (b) applications which are withdrawn by the Applicant and/or (c) monies paid in excess of the amount of NCDs applied for in the Application Form.
Redemption Amount	The principal amount of the NCDs along with interest accrued on them as on the Redemption Date.
Issue Price (in Rs)	Rs 1,000 per NCD
Minimum Application size and in multiples of NCD thereafter	Rs 10,000 (10 NCDs) collectively across all Series and in multiple of Rs 1,000 (1 NCD) thereafter across all Series
Pay-in date	Application Date. The entire Application Amount is payable on Application.
Credit ratings	The NCDs proposed to be issued under this Tranche 1 Issue have been rated 'IND AAA/ Outlook Stable' for an amount of Rs 2000 crores, by India Ratings & Research Private Limited ("India Rating") vide their letters dated June 6, 2017 and June 27, 2017 and 'BWR AAA, Outlook: Stable' for an amount of Rs 2000 crores, by Brickwork Ratings India Private Limited ("BWR") vide their letters dated June 7, 2017 and June 27, 2017. The rating of NCDs by India Ratings and BWR indicate that instruments with this rating are considered to have highest degree of safety regarding timely servicing of financial obligations and carry lowest credit risk.
Listing	The NCDs are proposed to be listed on BSE. The NCDs shall be listed within 12 Working Days from the date of Issue Closure.
Issue opening date	Monday, July 10, 2017
Issue closing date**	Friday, July 28, 2017
Record date	15 (fifteen) days prior to the relevant interest payment date, relevant Redemption Date for NCDs issued under the relevant Tranche Prospectus. In case of redemption of NCDs, the trading in the NCDs shall remain suspended between the Record Date and the Redemption Date. In the event the Record Date falls on a Sunday or holidays of Depositories, the succeeding working day or a date notified by the Company to the stock exchanges shall be considered as Record Date.
Deemed date of Allotment	The date on which the Board of Directors/or Bond Issue Committee approves the Allotment of the NCDs for each Tranche Issue or such date as may be determined by the Board of Directors/ or Bond Issue Committee and notified to the Designated Stock Exchange. The actual Allotment of NCDs may take place on a date other than the Deemed Date of Allotment. All benefits relating to the NCDs including interest on NCDs shall be available to the Debenture holders from the Deemed Date of Allotment.

* In terms of Regulation 4(2)(d) of the SEBI Debt Regulations, the Company will undertake this public issue of the NCDs in dematerialised form.

**The Tranche 1 Issue shall remain open for subscription on Working Days from 10 a.m. to 5 p.m. during the period indicated above, except that the Tranche 1 Issue may close on such earlier date or extended date as may be decided by the Board or Bond Issue Committee thereof. In the event of an early closure or extension of the Tranche 1 Issue, the Company shall ensure that notice of the same is provided to the prospective investors through an advertisement in a reputed daily national newspaper on or before such earlier or extended date of Issue closure. On the Issue Closing Date, Application Forms will be accepted only between 10 a.m. and 3 p.m. (Indian Standard Time) and uploaded until 5 p.m. or such extended time as may be permitted by BSE.

Source: Shelf Prospectus dated June 29, 2017 and Tranche 1 Prospectus dated June 29, 2017

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SPECIFIC TERMS FOR EACH SERIES OF NCDs

Series	I	II	III
Frequency of Interest Payment	Annual	Annual	Annual
Minimum Application	Rs 10,000 (10 NCDs) across all Series collectively		
In Multiples of thereafter	Rs 1,000 (1 NCD)		
Face Value of NCDs (Rs/ NCD)	Rs 1,000		
Issue Price (Rs/ NCD)	Rs 1,000		
Mode of Interest Payment	Through various options available		
Tenor	7 years	10 years	15 years
Coupon (%) for NCD Holders in Category I and Category II	7.75	7.90	7.95
Coupon (%) for NCD holders in Category III and Category IV	7.85	8.00	8.05
Effective Yield (per annum) for NCD holders in Category I & II	7.76	7.91	7.95
Effective Yield (per annum) for NCD holders in Category III & IV	7.86	8.01	8.05
Put Option	NA	NA	NA
Call Option	NA	NA	Subject to compliance with applicable laws, in case of Series III NCDs, call option may be exercised by the Company at the end of the 10 th year from the Deemed Date of Allotment. In the event of call option being exercised for Series III NCDs, the Redemption Date for Series III NCDs shall be 10 years from Deemed Date of Allotment or such date for exercising the call option as intimated by the Company.
Redemption Date	7 years from the Deemed Date of Allotment	10 years from the Deemed Date of Allotment	15 years from the Deemed Date of Allotment. In the event of call option being exercised for Series III NCDs, the Redemption Date for Series III NCDs shall be 10 years from Deemed Date of Allotment or such date for exercising the call option as intimated by the Company.
Redemption Amount (Rs/NCD)	Rs 1,000		

**The Company shall allocate and allot Series I NCDs wherein the Applicants have not indicated their choice of the relevant NCD Series*

ALLOCATION RATIO

QIB Portion	Corporate Portion	High Net Worth Individual Portion	Retail Individual Investor Portion
20% of the Overall Issue Size	10% of the Overall Issue Size	35% of the Overall Issue Size	35% of the Overall Issue Size

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INVESTOR CATEGORIES AND ALLOTMENT

Category I Investors	Category II Investors	Category III Investors	Category IV Investors
Institutional Investors	Non Institutional Investors	High Net-worth Individual, ("HNIs"), Investors	Retail Individual Investors
<ul style="list-style-type: none"> • Public financial institutions, scheduled commercial banks, Indian multilateral and bilateral development financial institution which are authorised to invest in the NCDs; • Provident funds, pension funds with a minimum corpus of Rs 2,500 lakhs, superannuation funds and gratuity funds, which are authorised to invest in the NCDs; • Venture Capital Funds/ Alternative Investment Fund registered with SEBI; • Insurance Companies registered with IRDA; • State industrial development corporations; • Insurance funds set up and managed by the army, navy, or air force of the Union of India; • Insurance funds set up and managed by the Department of Posts, the Union of India; • Systemically Important Non- Banking Financial Company, a non-banking financial company registered with the Reserve Bank of India and having a net-worth of more than five hundred crore rupees as per the last audited financial statements; • National Investment Fund set up by resolution no. F. No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India; and • Mutual Funds registered with SEBI. 	<ul style="list-style-type: none"> • Companies within the meaning of section 2(20) of the Companies Act, 2013; statutory bodies corporations and societies registered under the applicable laws in India and authorised to invest in the NCDs; • Co-operative banks and Regional Rural Banks; • Public/private charitable/religious trusts which are authorised to invest in the NCDs; • Scientific and/or industrial research organisations, which are authorised to invest in the NCDs; • Partnership firms in the name of the partners; • Limited liability partnerships formed and registered under the provisions of the Limited Liability Partnership Act, 2008 (No. 6 of 2009); • Association of Persons; and • Any other incorporated and/ or unincorporated body of persons 	<ul style="list-style-type: none"> • Resident Indian individuals and Hindu Undivided Families through the Karta applying for an amount aggregating to above Rs 10.00 lakhs across all series of NCDs in Issue 	<ul style="list-style-type: none"> • Resident Indian individuals and Hindu Undivided Families through the Karta applying for an amount aggregating up to and including Rs 10.00 lakhs across all series of NCDs in Issue

APPLICATIONS CANNOT BE MADE BY

- a. Minors without a guardian name* (A guardian may apply on behalf of a minor. However, Applications by minors must be made through Application Forms that contain the names of both the minor Applicant and the guardian);
- b. Foreign nationals, NRI inter-alia including any NRIs who are (i) based in the USA, and/or, (ii) domiciled in the USA, and/or, (iii) residents/citizens of the USA, and/or, (iv) subject to any taxation laws of the USA;
- c. Persons resident outside India and other foreign entities;
- d. Foreign Institutional Investors;
- e. Foreign Portfolio Investors;
- f. Foreign Venture Capital Investors;
- g. Qualified Foreign Investors;
- h. Overseas Corporate Bodies; and
- i. Persons ineligible to contract under applicable statutory/regulatory requirements.

*Applicant shall ensure that guardian is competent to contract under Indian Contract Act, 1872

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MODES OF MAKING APPLICATIONS

Mode of Submission of Application Forms	To whom the Application Form has to be submitted
ASBA Applications	(i) If using <u>physical Application Form</u> , (a) to the Lead Managers or Trading Members of the Stock Exchange only at the Specified Cities (" Syndicate ASBA "), or (b) to the Designated Branches of the SCSBs where the ASBA Account is maintained; or (ii) If using <u>electronic Application Form</u> , to the SCSBs, electronically through internet banking facility, if available.
Non-ASBA Applications	The Lead Managers or Trading Members of the Stock Exchange at the centres mentioned in the Application Form.

Please note that clarifications and/or confirmations regarding the implementation of the requisite infrastructure and facilities in relation to direct online applications and online payment facility have been sought from the Stock Exchange and the Stock Exchange has confirmed that the necessary infrastructure and facilities for the same have not been implemented by the Stock Exchange. Hence, the Direct Online Application facility will not be available for this Issue.

KEY OPERATIONAL AND FINANCIAL PARAMETERS (ON CONSOLIDATED BASIS)**(Rs. in Crs)**

Parameters	Fiscal 2017	Fiscal 2016	Fiscal 2015
Net worth	6960.16	6469.40	5942.72
Total Debt	40811.05	34043.69	29231.70
of which – Non Current Maturities of Long Term Borrowing	24984.92	20341.21	16865.25
- Short Term Borrowing	7217.63	5217.53	5258.62
- Current Maturities of Long Term Borrowing	8608.50	8484.96	7107.83
Net Fixed Assets	134.53	129.07	119.18
Non Current Assets	29843.22	24250.25	21165.26
Cash and Cash Equivalents	603.88	605.94	490.18
Current Investments	592.40	546.70	94.50
Current Assets	22232.55	19474.88	16764.02
Current Liabilities	2767.99	1932.56	1569.88
Assets Under Management	54196.88	46360.63	40313.64
Off Balance Sheet Assets	790.31	1353.79	1803.50
Interest Income	6550.29	5939.03	5394.41
Interest Expense	3160.75	2842.05	2618.99
Provisioning & Write-offs	1389.55	1098.19	849.12
PAT	511.64	772.29	912.91
Gross NPA (%)*	9.00%	8.00%	5.90%
Net NPA (%)*	3.60%	3.20%	2.40%
Tier I Capital Adequacy Ratio (%)*	12.80%	14.60%	15.50%
Tier II Capital Adequacy Ratio (%)*	4.40%	2.70%	2.80%

* all ratios on standalone basis

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