

Mahindra Finance Strategy 2020

A real-world, real rural growth strategy you can bank on!

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Why are we here today?

To help Mahindra Financial Services accelerate profitable growth...

...leveraging off its core-competencies and the technical know-how of Tech Mahindra...

...all the time working towards Mahindra Group's vision of being a global Top 50 brand!

Mahindra Rise!

3

Expand presence in rural markets

- Consumer education
- New products
- Acquisition

Develop technological capabilities with Tech Mahindra

- Software for payment bank
- Mobile banking platform

International expansion in developing countries

- Rural

Executive Summary

STRATEGY	MICRO-STRATEGY	DETAILS
Rural India	Expansion	-Large rural market (47% untapped) -Low presence in Southern India -Organic growth in N & W, Acquisition 1 st in S, then E
	Education & Awareness	-The value of savings, how new products work, etc. -Will require staff training through external agency
Geo	India	-Core competency in rural, not highly competitive urban
	International	-Start exploring suitable markets in Yr. 3
Products	Insurance	-Home insurance (to tie in with Home Finance product) -Group/Village insurance (H ₂ O, Grain, Power, etc. costs)
Tech Leverage	Internal Software	-Payment Bank systems tie-in, new region intel, etc.
	Mobile Banking	-Telephone (Voice), SMS, Smartphone App (NO NFC!)

Alternatives

Urban

Rural

Domestic

International

Alternatives

Urban

Rural

Domestic

International



The Finer Details

Let Andrea explain our strategy in a little more detail

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The Indian Market

- ▶ Young: the average age is 30
- ▶ Contains 21% of the worlds unbanked population
- ▶ Only 53% bank account penetration

Rural India:

- ▶ Low education (10th grade) – low literacy, need high trust
- ▶ 69% of the population
- ▶ Villages organized in clusters – clusters are scattered
- ▶ Average income of 10,000 Rs.
- ▶ Industries are focused on agriculture and small trading

Mahindra Finance has built a reputation and trust in the rural market.

Expand Presence in Rural Markets

Consumer Education:

- There is low financial literacy in rural India
- Educate consumers on the importance of saving
- Collect 100Rs/month (equivalent of \$2)
 - Once your technology platforms and payment bank have been developed this can be done through automatic withdrawal
- This will increase your total volume of deposits
- Will need to train your sales force
- Develop simple education materials with visuals and take language variances into account

**Educating consumers on the importance of saving
will increase trust and volume of deposits**

Expand Presence in Rural Markets

Organic Growth

- Focus on north and west regions where you already have a strong hold
- 2/3 of villages are available for you to reach
- Utilize your trusted brand and face to face business model when most are moving towards online platforms

Acquisition

- In the south where you don't yet have a strong presence
- Will give you instant access to a large base of rural customers when revenue growth has been slowing

Growth can make Mahindra one of the top financial services company in India

New Products

Home Insurance

- ▶ Complementary product to home finance mortgages
- ▶ Homes for all by 2022 will result in 42M new rural homes in the next 7 years
- ▶ Consider customizable and flexible arrangements where the value of the mortgages increases as home completions are undertaken

Group Insurance

- ▶ The village can take out insurance against increasing prices in water, power, or grain
- ▶ Will need to work with village leaders

Technology

- ▶ A payment bank will require software to handle deposits
- ▶ Tech Mahindra can develop the software and a mobile platform for customers
- ▶ Will reduce burden of sales force
 - ▶ Don't eliminate face to face sales interactions but use platform to collect/disburse money
- ▶ Will be adopted – young population and high cell phone usage
 - ▶ But, smart phone capabilities are not highly developed
 - ▶ Will need phone banking, SMS capabilities, and an app
- ▶ Useful for SMEs to make payments to employees and to make deposits
- ▶ Can be used to collect monthly savings from Mahindra customers

International Expansion

- ▶ You have a business model that works in rural markets
 - ▶ Face to face business model builds trust
 - ▶ Complementary products
 - ▶ Customizable to local needs
- ▶ Identify developing and emerging countries with large rural populations, developed agriculture industry, and a lack of banking infrastructure

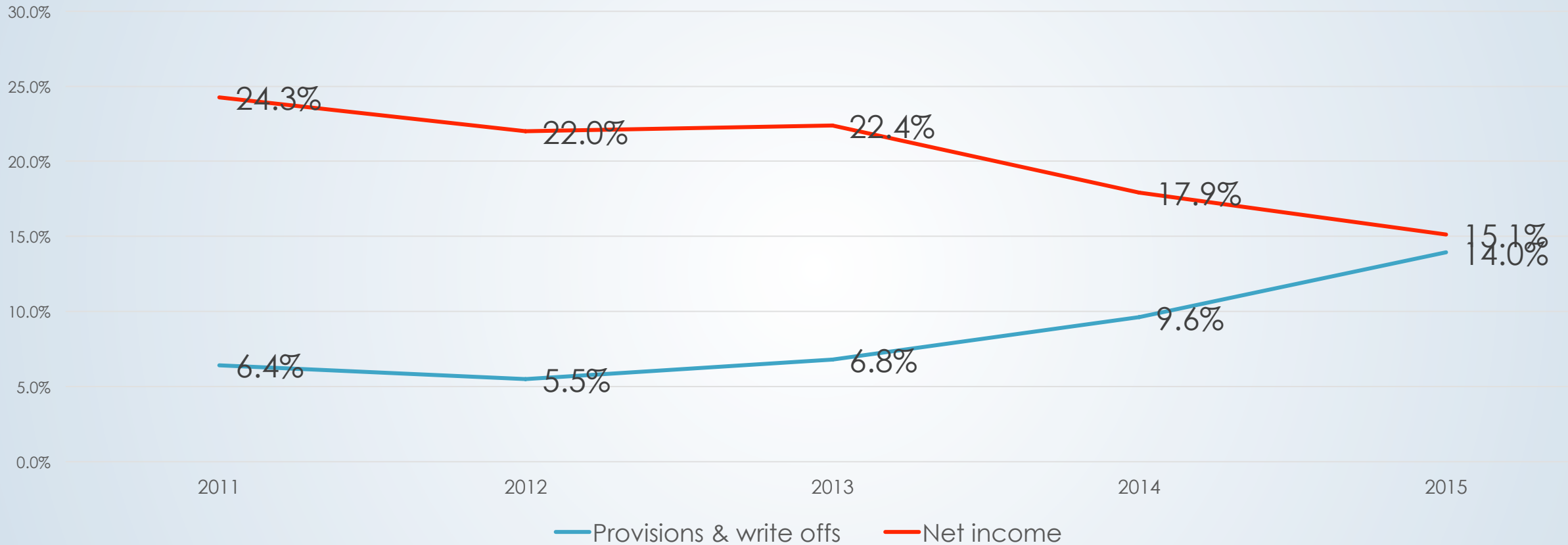


Accept no limits

Numbers you can take to the bank

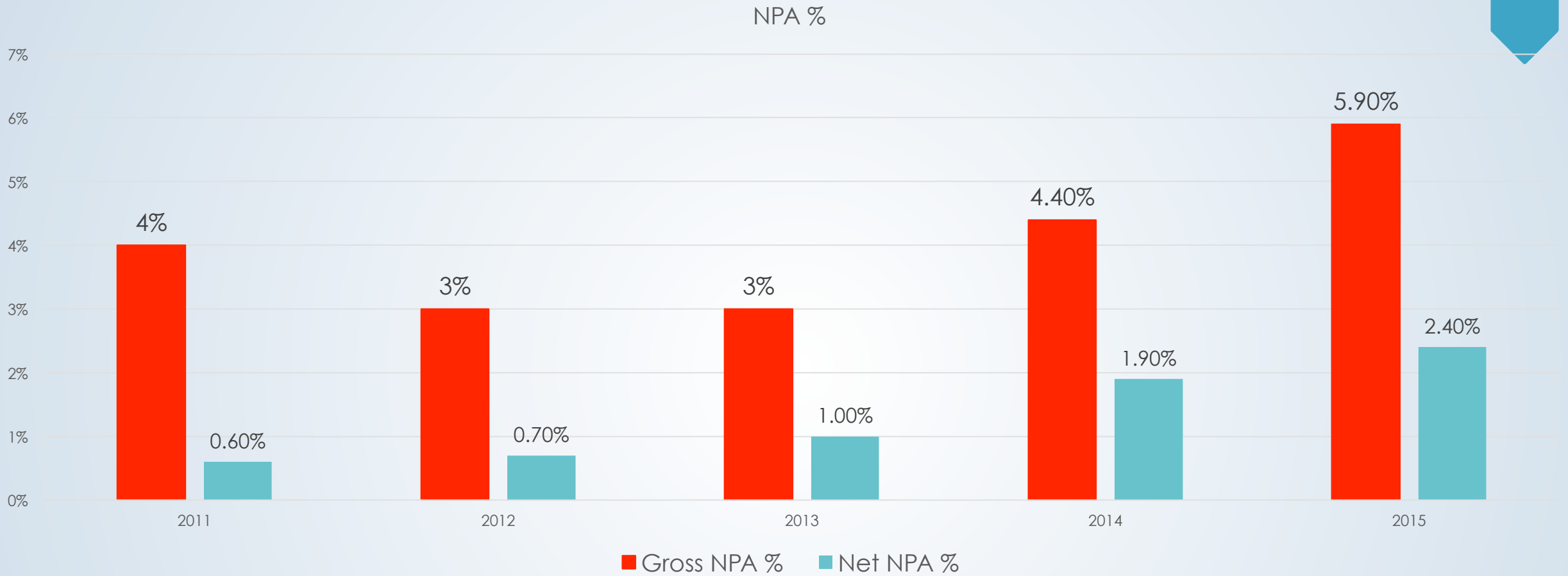
Income Statement Analysis

Income & Expenses



Focus on decreasing write- offs

Concerns



Focus on improving the credit profile of the customers by strengthening collections

Costs

Education and Awareness program	
Training Agency	INR 5 MN
Mobile Banking	INR 10MN
Additional Staff (Next 5 years)	5000
Costs	INR MN1997

Acquisition Valuation

- ▶ EV/EBIDTA multiple : 21.25
- ▶ Value of Sundram finance: 225 million Rs
- ▶ Value of Shriram City: 191 million Rs
- ▶ Other costs: 75 million
- ▶ End result top 2 company in terms of revenue

Assumption:

-Cost of capital 12.5 %

Risky Alternatives: DO NOT Enter Urban Market

- Difficult to penetrate in a highly competitive market
- Growth is possible by capturing new geographies- rural
- 100 smart cities will be made by converting majority of semi-urban cities
- Difficult to build relationships with customer in urban market



Do not enter urban market

Risky Alternatives: DO NOT do NFC

- ▶ (Near Field Communications)
- ▶ Difficult to build trust with rural customers
- ▶ Fear of loosing cards, and the fear loosing money
- ▶ Card system not yet trusted in rural population, (however this is increasing)
- ▶ No solid infrastructure for merchants



STOP



DO NOT do NFC

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How can we enable rural residents
to create more value in their lives?

Forward Thinking

These are ideas we think are worth considering, however we are not recommending them at this time.

- ▶ Enter consumer financing market by providing loans for consumer products, and necessary goods for small business.
- ▶ Launch an incubator program for entrepreneurial ideas that emerge in the rural market. (Structure, a deal that give Mahindra Financing a board seat and ownership.)

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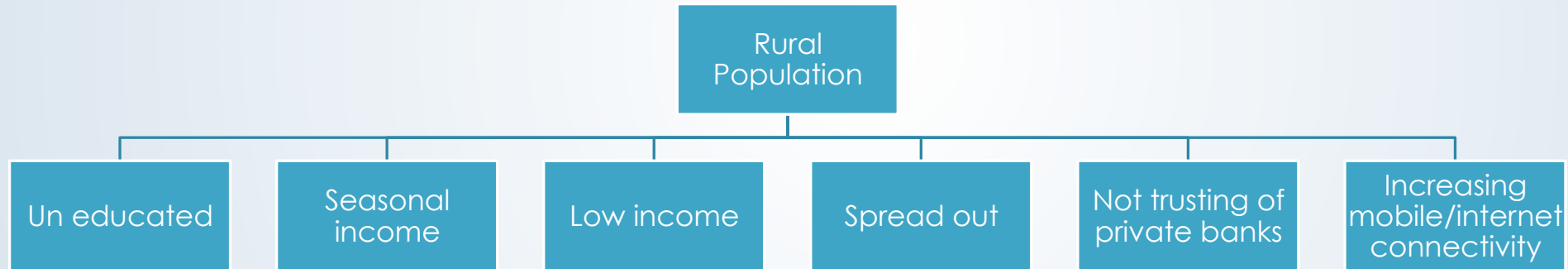
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To be able to come a well respected financial service market we recommend that Mahindra Finance focus on expanding rurally in India, working with Mahindra IT to develop technology, and look into entering like international markets.

Mahindra Finance

The importance of creating a trusted brand image with the rural population. This can be communicating, trust, understanding, and educating the rural consumer.



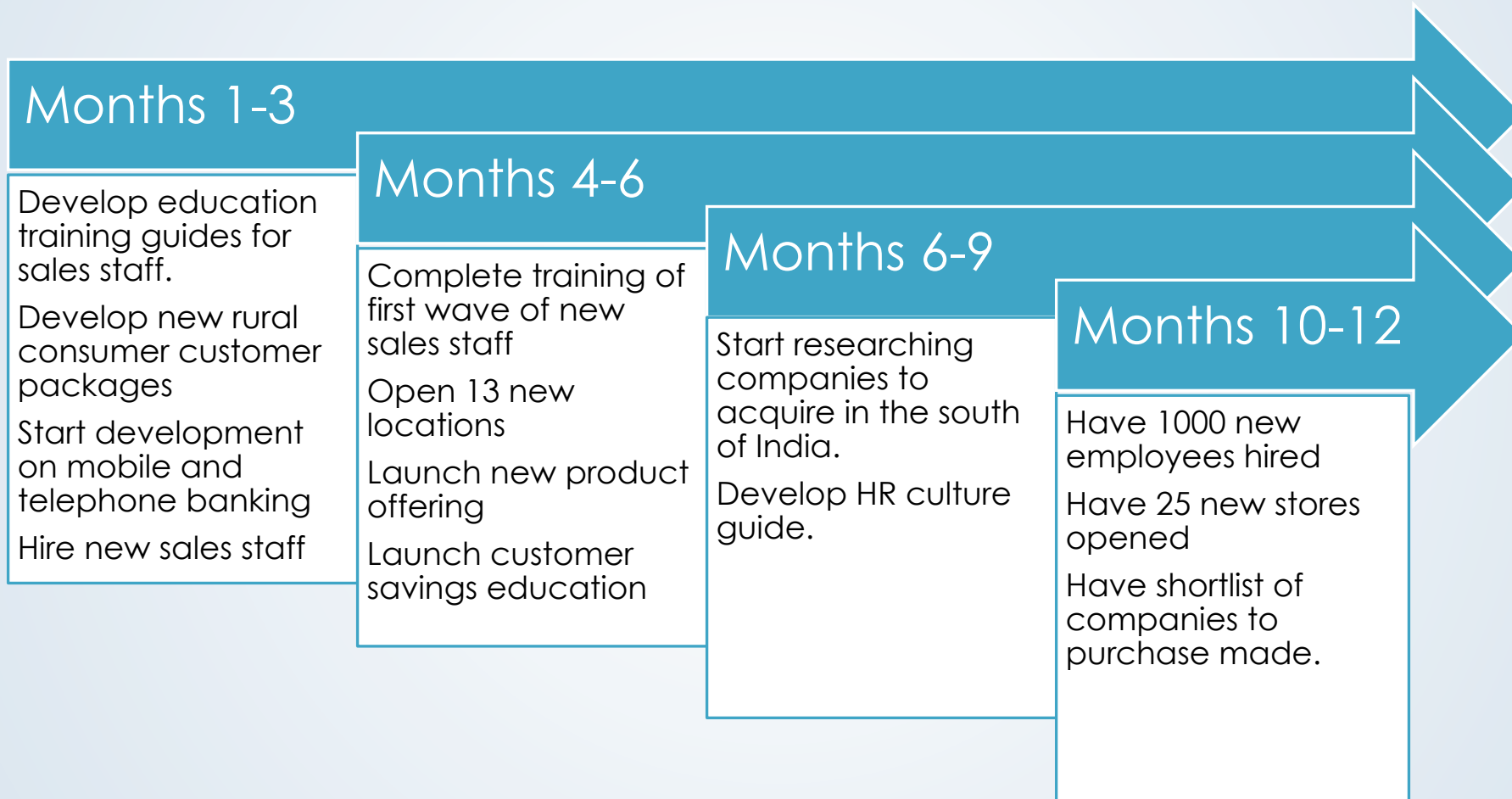
Marketing

- ▶ Develop strong customer service policy and training guide
 - ▶ Focus on understanding the fears and uncertainties of the rural customer
 - ▶ Focus on TRUST and EDUCATION
- ▶ Initiatives:
 - ▶ Advertise in stores where customers purchase supplies
 - ▶ Advertise in News Paper
 - ▶ Develop online/mobile presence
 - ▶ Launch savings education
 - ▶ Work with communities to provide jobs for the young and ambitious

Group Insurance

- Reduce risk of seasonal income
- Reduce risk of rising cost
- Allows for budgeting
- Hedges commodities/costs in the forward market

Financing the Rise of Mahindra: Year 1



Year 1: Focus on India

Financing The Rise of Mahindra: Year 1-5

Year 1

- Expand reach in North and west India.
- Launch new product
- Hire 1000

Year 2

- Acquire a company in the South of India
- Focus of the Government housing program
- Corporate culture initiative

Year 3

- Research international growth opportunities
- Open 25 new stores
- Hire 1000 new people

Year 4

- Enter international market, with pilot program

Year 5

- Be the leader in rural finance service
- Become top finance brand

Risks and Mitigation

Risk	Mitigation	Likelihood	Impact
Customer Default	Small loans easy payback	M	L
Currency/ interest fluctuations	Hedge on international markets	M	h
Customer Fears	Educate	H	L
Cyber security	Secure coding	M	H
Telephone security	Passcode and secure lines	M	H

The risks can be managed

You asked?

1. Should Mahindra Finance stick to its core rural and semi-urban market, or expand into urban markets?
 1. We say RURAL
2. How can the company straddle being an asset financing company and a payment bank?
 1. Through integration
3. How can you use new technology to capture new opportunity?
 1. Cross selling products
4. Should Mahindra Finance expand to other markets like the US, RSA, SK, China OR focus on India?
 1. Focus expansion on rural population in developing nations
5. What new capabilities does Mahindra Finance need?
 1. Tech support



Enriching Lives

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