

Chairman's Speech

58th Annual General Meeting – July 13, 2011



SUNDARAM FINANCE
Enduring values. New age thinking.



Sri S. Viji
Chairman, SUNDARAM FINANCE LIMITED

Ladies and Gentlemen,

It gives me great pleasure to welcome you all to the fifty eighth Annual General Meeting of your Company. The company's annual report and audited accounts for the year ended 31 March 2011 have been with you for some time now and with your permission, I shall take them as read.

Economy

Latest data from the IMF indicate that global economic growth is likely to moderate from 5% in 2010 to 4.4% in 2011. Growth is projected to decelerate in advanced economies due to the waning impact of fiscal stimuli, high oil and commodity prices and the sovereign debt crisis in the euro region. Growth in emerging market economies is also expected to decelerate on account of monetary tightening and rising commodity prices. India's GDP growth for 2010-11 is now estimated to have been at 8.5%, but is expected to drop below the 8% mark in 2011-12. The fiscal deficit has been reduced to 4.7% in 2010-11 as against the budget estimates of 5.5%. The first two months of the current



fiscal, saw exports registering a growth of around 45% against a growth of 33% in imports. The wholesale price index based inflation has risen to 9.06% in May 2011 and with further hikes in oil prices not ruled out, it is expected to remain elevated at least for the first half of the year. RBI in its latest policy announcement in June 2011, raised the repo and reverse repo rates by a further 25 basis points to 7.5% and 6.5% respectively, making for an increase of 275 basis points in policy rates, over the last 16 months. As per the RBI's Annual Monetary Policy statement, released in May 2011, "Notwithstanding the preliminary indication of a normal monsoon by the India Meteorological Department during 2011, agricultural growth is likely to revert to its trend growth from the higher base of last year. The pace of industrial activity has been slowing due to the impact of past monetary policy actions and higher input prices. External demand too may slow if global recovery slackens." Inevitably, the progress of the monsoon, inflation and the consequential impact on interest rates and domestic demand, will all have a major bearing on India's economic growth prospects in 2011-12.

Working Results

Your company's hire purchase and loan disbursements at ₹ 7478 crores during the year, registered a growth of 28%, over the previous year, with Medium/Heavy Commercial vehicles and passenger cars/utility vehicles being the key drivers of growth. Your Company has also increased its presence in the rapidly growing Construction Equipment (CE) and Tractor segments. The company's continuing focus on asset quality, backed by robust and time tested credit appraisal and collection processes, has ensured that the portfolio continues to be one of the best in the industry. Gross and net NPA's stood at 0.77% and 0.20% respectively, as against 1.26% and 0.45% in the previous year.

Gross receivables managed by the Company, including assets sold or securitised stood at ₹ 12354 crores as of 31 March 2011, as against ₹ 10219 crores in the previous year.

The net profit for the year was ₹ 257.50 crores as against ₹ 201.36 crores in the previous year (both excluding special items), registering a growth of 28%. The company's



Net-Worth crossed the ₹ 1500 crore mark and stood at ₹ 1529.34 crores as on 31 March 2011, while the consolidated net profit and net worth stood at ₹ 388.90 crores and ₹ 1806.08 crores respectively, as at 31 March, 2011.

Last year, your Company started making a voluntary general provision at 0.4% of Standard Assets. During the year, RBI has mandated a contingent provision against Standard Assets at 0.25% for all NBFCs. Your directors have however decided, as a measure of prudence, to continue with the provision at the higher level of 0.4% and transferred an amount of ₹ 6.46 crores towards contingent provision on Standard Assets.

The net accretion to public deposits during the year 2010-11, was ₹ 97.12 crores, taking the deposits outstanding at the year end to ₹ 1192.03 crores. I thank our depositors, many of whom have been with us for several decades, for the high degree of confidence reposed in the Company and assure them of our constant endeavour to maintain the highest standards of safety, efficiency and personalised service for which your Company is renowned.

Your directors are pleased to recommend a final dividend of ₹ 7/- per share, which together with the interim dividend of ₹ 7/- per share paid in February 2011, aggregates to a total dividend of ₹ 14/- per share for the financial year ended 31 March 2011, on the paid-up capital of ₹ 55.55 crores. The total payout, including dividend tax of ₹ 4.45 crores, will amount to ₹ 82.22 crores.

Prospects

Overall sentiments seem to have turned slightly negative, with infrastructure companies reporting a slowdown in investments and the corporate sector, from real estate to auto, witnessing a demand slowdown. Banks too are lowering their credit growth forecasts. After two successive years of high growth, sales of medium and heavy commercial vehicles were almost flat in the first three months of the current financial year, compared to the corresponding period in the previous year. The increases in vehicle and diesel prices, higher interest rates and slowing IIP growth do not bode well for the road transport sector and are likely to have a significant impact on commercial vehicle sales. Light



commercial vehicles (LCVs) on the other hand, seem poised for another year of healthy growth, fuelled primarily by the sub-one ton segment. Sales of passenger cars and utility vehicles have also slowed in the first quarter and growth, if any, is only expected to be moderate. Given its close linkages with the automotive sector, your Company expects only a modest growth in disbursements but is however confident of maintaining profitability through its continued focus on superior asset quality, efficient cost management and an optimum product mix.

Subsidiaries and Joint Ventures

Your company's subsidiaries and joint ventures have reported good results for the year under review. Sundaram BNP Paribas Asset Management Company Limited and Sundaram BNP Paribas Trustee Company Limited became wholly owned subsidiaries of your company from October 2010, consequent to the acquisition of 49.90% equity shares held by the joint venture partner, BNP Paribas Asset Management, France, in these companies. The names of the companies were thereafter changed to Sundaram Asset

Management Company Limited and Sundaram Trustee Company Limited respectively. Reflecting the volatility in the stock market and several regulatory changes, Sundaram Asset Management reported a profit after tax of ₹ 13.36 crores as against ₹ 20.84 crores in the previous year.

Sundaram BNP Paribas Home Finance Limited reported an impressive 72% growth in profit after tax at ₹ 47.68 crores (PY ₹ 27.72 crores). The loan portfolio stood at ₹ 2653 crores as at 31 March 2011 as against ₹ 1981 crores in the previous year. The gross and net NPA stood at 0.29% and 0.09% respectively, as at 31 March 2011, clearly one of the best in the industry.

Royal Sundaram posted a growth of 25 percent in Gross Written Premium (GWP) at ₹ 1143.99 crores during the year, as compared to the GWP of ₹ 913.11 crores in the previous year. The Company also recorded a healthy Profit before Tax and motor pool losses of ₹ 60.93 crores, registering a growth of 18 percent over last year.

However, in March 2011 IRDA announced a steep increase in loss ratios (including for the past three years) for the motor



third party pool, requiring the company to make a higher provision of ₹ 75.81 crores for the year, as against ₹ 17.67 crores in the previous year.

Consequently, the company reported a loss of ₹ 20.14 crores for the year, after making provisions for tax and motor pool losses, as against a profit of ₹ 30.97 crores in the previous year.

Legislative and Regulatory Issues

Over the past few months, the Reserve Bank of India has announced several changes in the regulatory guidelines applicable to NBFCs, notable among which are:

- Increase in the Capital Adequacy Ratio (CRAR) from 12% to 15%, effective 31 March 2012;
- Contingent provision of 0.25% on standard assets; and
- Removal of Priority Sector status for bank lending to NBFCs.

RBI has also constituted a working group under the chairmanship of Mrs. Usha Thorat, former Deputy Governor, RBI to examine a wide range of issues pertaining to regulation of the NBFC sector.

While appreciating the need for regulatory rigour in these uncertain times, I would urge the RBI to take into account the heterogeneity of the NBFC sector and the vital contribution of Asset Financing NBFCs in fostering financial inclusion, while framing new guidelines for the sector.

While the CRAR has been raised from 12 to 15%, a long pending demand for differential risk weights for different classes of assets, based on their risk categorisation, remains unaddressed. Asset financing NBFCs have consistently demonstrated their ability to manage retail portfolios with low levels of credit losses and it is only fair that this be duly recognised by RBI.

Banks and NBFCs have for long worked in tandem as wholesaler and retailer, in delivering credit to large numbers of small transport operators and SMEs. The recent move by RBI to deny priority sector status for bank lending to NBFCs, for on-lending to end users will result in higher financing costs for them. RBI's concerns on end use can be adequately addressed by putting in place an appropriate due diligence mechanism to prevent misuse.



I would also reiterate our submissions to the Ministry of Finance to treat asset financing companies on par with banks and housing finance companies with regard to tax treatment of income recognition and provisioning in respect of Non-Performing Assets.

Acknowledgements

On behalf of the Board and on my own behalf, I place on record my sincere appreciation and gratitude to our customers, depositors, shareholders, bankers and mutual funds for their continued support and the confidence they have reposed in the Company. I record my special appreciation of the sterling efforts and untiring commitment of the loyal band of employees who make up Team Sundaram.

I thank you for your attention.

Note: This does not purport to be a record of the proceedings of the Annual General Meeting of the Company



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