

Sundaram Finance Limited
Chairman's Speech
70th Annual General Meeting – 21st July 2023

Ladies and Gentlemen,

It gives me great pleasure to welcome you all to the Seventieth Annual General Meeting of your Company. The company's annual report and audited accounts for the year ended 31st March 2023 have been with you for some time now, and with your permission, I shall take them as read.

GLOBAL ECONOMY

On the global front, the year witnessed several headwinds from a range of inter-related sources.

The year started with the impact of the Russia-Ukraine war that resulted in a sharp commodity price surge, further heightening Covid-related inflationary pressures. Consequently, inflation remained persistently at elevated levels across economies. To counter this, most central banks across the globe remained in tightening mode and focussed on aggressive rate hikes to cool demand and bring down the high inflation levels. As monetary policy actions were taking effect, the banking turmoil in the US and Europe during March, involving the closure of three banks in the US and sale of a Swiss bank, and the accompanying concerns about financial stability in the regions, rattled the global financial markets. The US Federal Reserve responded swiftly with measures that directly addressed the concerns around contagion through various assurances, easing market fears.

Overall, the global economy was able to overcome challenges through the year and is expected to grow at about 2.9% in the calendar year 2023 according to IMF estimates. That said, geopolitical tensions, upsurge in financial market volatility and tightening global financial conditions continue to be causes for concern for the growth outlook of economies across the world.

INDIAN ECONOMY

Against the backdrop of an unstable global economy, India's economic growth in financial year 2023, which was the first year of uninterrupted functioning of the economy after two years of disruption caused by the Covid-19 pandemic, was robust. Domestic economic activity exhibited resilience, particularly in the second half of financial year 2023 and the National Statistical Office placed the real GDP growth for financial year 2023 at 7.2%, higher than the second advance estimate of 7.0%.

India's growth estimate for financial year 2023 has been higher than almost all major economies and even slightly above the average growth of the Indian economy in the decade leading up to the pandemic. Among the various measures initiated by the Government of India to counter the disruption caused by the pandemic, the vaccination coverage across the country has not only saved lives, but also played a crucial role in serving as a health stimulant to raise consumer sentiments. This has boosted private consumption and helped in the recovery and growth of the economy.

The country's level of inflation was a cause for concern, rising from 5.5% in financial year 2022 to 6.7% during financial year 2023, largely due to rising international commodity prices, as well as local weather conditions like excessive heat and unseasonal rains, which kept food prices high. Unlike global inflation which was the result of demand-side drivers, inflation in India in financial year 2023 was driven by supply side challenges. Inflation has subsequently stabilised during the second quarter of financial year 2023, falling sharply from 6.4% in February 2023 to 4.7% in April 2023 largely due to the softening across all the three major groups, viz., food, fuel and core inflation.

As part of the efforts to restrain inflation, the RBI, like other central banks, increased the policy repo rate by 250 basis points from 4% to 6.5% between May 2022 and February 2023, and drained out excess liquidity. Additionally, the Government introduced a slew of measures like cutting excise and customs duties, and restricting exports in select commodities & products, to control the inflationary trend.

Fiscal deficit, which reached 9.2% of GDP during financial year 2021, moderated to 6.7% of GDP in financial year 2022 and has been budgeted to reach 6.4% of GDP in financial year 2023, thanks to prudent fiscal management by the Government and supported by appreciable increase in revenue collection over the last two years.

Impacted by the global shocks, the Indian Rupee touched an all-time low of 83.2 per US\$ during October 2022. It recovered during November 2022, riding on a depreciating US dollar and net inflows through foreign portfolio investments. These factors, coupled with a sharp increase in India's net services exports, helped stabilise the Rupee, which was at 82.2 per US\$ at the close of financial year 2023. As on 31st March, 2023, the country's foreign exchange reserves stood at USD 578.4 billion, equivalent to 9.8 months of projected merchandise imports in financial year 2023 or 94.4% of outstanding external debt at end-December 2022.

AUTOMOTIVE SECTOR

The automotive sector is a key driver of India's economic growth and contributes about 7% to the country's overall GDP. After witnessing various challenges like economic slowdown, widespread disruption caused by the pandemic, semi-conductor chip shortages, supply chain dislocations and price escalation for successive years, the automotive sector witnessed healthy growth across all segments during financial year 2023. Overall, the automotive sector grew by 20% supported by strong replacement demand in commercial vehicles, healthy urban demand in passenger vehicles and higher infrastructure spending providing fillip to tippers and construction equipment. In December 2022, India became the 3rd largest automobile market, surpassing Japan and Germany in terms of sales. The commercial vehicle segment grew by 34% in financial year 2023 over financial year 2022 driven by robust freight movement pan-India, increases in infrastructure spending and pre-buying given the expected price hikes due to transitioning to Phase 2 of BS6 on 1st April, 2023. Medium & Heavy Commercial Vehicles sales grew by 49% while intermediate, light and small commercial vehicles grew by 27%.

Sales of cars & utility vehicles grew by 27%, recording a new high for the number of passenger vehicle sales in the country. The early part of the year witnessed continued post-pandemic pent up demand, and the latter part of the year witnessed easing of the semi-conductor shortage issue as well as the launch of a slew of new models by the OEMs. Utility vehicles and high-end variant demand continued to remain high, while the higher inflation and consequent increased interest rates adversely impacted demand for entry level models.

The tractor segment witnessed a growth of 12% driven by robust agriculture output procurement at healthy support prices, a normal monsoon, various government schemes and subsidies for farm mechanisation, and a substantial easing in the availability of finance.

On the export front, overall exports across segments witnessed a decline of about 15% due to global macroeconomic uncertainty with the export of passenger vehicles being the sole bright spot witnessing a growth of nearly 14%.

WORKING RESULTS

After two years of disruption caused by the Covid-19 pandemic, financial year 2023 was the first uninterrupted year of operations for your Company. Your Directors are happy to inform you that the Company's disbursements at an all-time high of ₹20,966 cr. (previous year ₹13,275 cr.) have registered a healthy growth of 58% during the year under review, reflecting the robust market conditions in the automotive sector and focused efforts of the Company. Disbursements across all asset classes have been consistent and registered strong growth. Gross receivables managed by your Company as of 31st March, 2023, stood at ₹39,950 cr., as against ₹33,774 cr., recording a growth of 18% over the previous year. During the year, overall margins have been under pressure due to the increase in interest rates, but your Company's "AAA" credit rating and the treasury team's ability to raise resources at competitive rates enabled it to maintain its margins at a reasonably healthy level.

Your Company's superior credit standards, strong customer relationships and systematic collection efforts have enabled it to navigate turbulent times and ensured best-in-class performance on asset quality. Stage III assets, gross and net of ECL provisions, stood at 1.66% and 0.85% respectively, as at 31st March, 2023.

Your Company has been maintaining comfortable liquidity in the form of liquid investments and undrawn bank limits, to meet its maturing liabilities.

Your Company registered a net profit of ₹1,088 cr. compared to ₹903 cr. in the previous year, a growth of 20.5%. Your Company's net worth stood at ₹7,737 cr., as on 31st March 2023. Capital adequacy (CRAR) at 22.77% was comfortably higher than the statutory requirement of 15%.

DIVIDEND

Your Directors are pleased to recommend a final dividend of ₹15/- per share, which together with the interim dividend of ₹12/- per share paid during March 2023, aggregates to a total dividend of ₹27/- per share for the financial year ended 31st March 2023, on the paid-up capital

of ₹111.10 cr. The final dividend, if approved by the shareholders, will be recognised as a liability in financial year 2023-24.

PROSPECTS

The Indian economy is expected to be amongst the fastest growing major economies in financial year 2024, backed by strong domestic drivers and strengthening macroeconomic fundamentals. Weak external demand and protracted geopolitical tensions continue to pose risks to the outlook. India's real GDP growth for financial year 2024 has been projected at 6.5% by the RBI. Inflation has been showing signs of moderation and has remained within tolerance levels during the second quarter of calendar year 2023. For financial year 2024, inflation has been projected at 5.1%. According to the Monetary Policy Committee of the Reserve Bank of India (MPC), the disinflation towards the target rate of 4% is likely to be gradual and protracted. Interest rates are expected to remain around the current levels for some time. The Monetary Policy Committee of the Reserve Bank of India, at its meeting held in early June 2023, decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50%.

The south-west monsoon in the backdrop of a likely *El Nino* weather pattern and its impact on food prices will require close monitoring. Additionally, several global factors, namely, geopolitical hostilities, volatile financial markets, supply chain dislocations, crude oil prices, inflation and climate shocks like heat waves and unseasonal rains, are areas of key concern. Domestic responses on the monetary and fiscal policy front to these global factors will influence India's macroeconomic trajectory.

The overall outlook for the automotive sector seems to be positive, with growth across all segments expected to continue. However, in line with the macroeconomy, the automotive sector outlook is also faced with downside risks for financial year 2024. Under these circumstances, your Company continues to rely on its time-tested Growth with Quality and Profitability (GQP) philosophy. Key priorities include:

- i) Delivering growth across all asset classes and geographies to sustain the momentum established in financial year 2023,
- ii) Ensuring that the asset quality remains best-in-class,

- iii) Maintaining traditional levels of net interest margin by ensuring that cost of borrowing remains competitive and optimising yield by driving a judicious balance across asset classes and customer segments, and,
- iv) Expanding your Company's geographic footprint in the regions of operations and accelerating growth in its new areas of focus – lending to MSMEs, NBFCs and the leasing business.

SUBSIDIARIES AND JOINT VENTURES

Your Company's main subsidiaries have reported satisfactory results for the year under review.

Sundaram Finance Holdings Limited earned a gross income of ₹130.61 cr. and reported a profit after tax of ₹94.75 cr. The company paid a final dividend of ₹1.50/- per share (30%) for the year. This, together with the interim dividend of ₹1.50 per share (30%) paid during February 2023, would aggregate to a total dividend of ₹3.00/- per share (60%) for the financial year ended 31st March 2023. In addition, the company has paid a Special Dividend of ₹1.00/- per share (20%) for the financial year ended 31st March 2023.

Sundaram Asset Management Company Limited is present in the Asset Management business through four entities: Sundaram Asset Management Company Ltd, Sundaram Asset Management Singapore (Pte) Ltd, Sundaram Trustee Company Ltd and Sundaram Alternate Assets Ltd. On a consolidated basis, the assets under management for financial year 2022-23 were ₹55,648 cr. as against ₹46,630 cr. for the previous year. The total revenues amounted to ₹379.26 cr. against ₹345.00 cr. for the previous year. Profit after tax was ₹78.72 cr. as against ₹71.63 cr. in the previous year.

Sundaram Home Finance Limited reported 69% growth in disbursements to ₹3,901 cr. and a profit after tax of ₹215.41 cr. in the year under review. The loan portfolio stood at ₹11,181 cr. as at 31st March 2023 as against ₹9,495 cr. in the previous year, a growth of 18%. Stage 3 assets, gross and net of ECL provisions, stood at 2.26% and 1.13% respectively, as at 31st March 2023. The company paid a total dividend of ₹10.00 per share (100%) for the year (PY 80%).

Sundaram Fund Services Limited earned an income of ₹4.60 cr. during the year as against ₹4.85 cr. in the previous year and reported a profit after tax at ₹2.26 cr., as against ₹2.27 cr. in the previous year.

Royal Sundaram General Insurance Co. Limited (Royal Sundaram), the joint venture with Ageas Insurance, reported a Gross Written Premium (GWP) of ₹3,517 cr. in financial year 2023 as compared to ₹2,966 cr. in the previous year, representing a growth of 19%. The Company reported a profit after tax as per IND AS of ₹44 cr. for the current year as against ₹172 cr. in the previous year. The current year's profit as per IND AS was lower than the previous year mainly due to "mark to market loss" on equity investments. The Company recommended a dividend of ₹0.70/- (7%) per share for the year ended 31st March 2023.

ACKNOWLEDGEMENTS

On behalf of the Board and on my own behalf, I place on record my appreciation and gratitude to our customers, depositors, shareholders, bankers, mutual funds and insurance companies, for their continued support and the confidence they have reposed in the Company. I record my special appreciation to Team Sundaram for their dedication and commitment in delivering the highest quality of service to every one of our valued customers.

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.