Chairman's Speech

66th Annual General Meeting – July 19, 2019

Sri S. Viji

Chairman, SUNDARAM FINANCE LIMITED

Ladies and Gentlemen,

It gives me great pleasure to welcome you all to the sixty-sixth Annual General Meeting of your Company. The company's annual report and audited accounts for the year ended 31st March 2019 have been with you for some time now, and with your permission, I shall take them as read.

Economy

2018-19 was a turbulent year for most of the world's major economies and India was no exception. While the Indian Economy continued to be one of the fastest growing amongst the major economies, GDP growth dropped to a 20- quarter low of 5.8%, year on year, in the fourth quarter of 2018-19, driven primarily by a negative growth in the agricultural sector and a slowdown in manufacturing. For the year as a whole, GDP growth stood at 6.8%, against 7.2% in the previous year. Retail inflation climbed to a 6-month high in April 2019 (2.9%) but remains well within the Reserve Bank of India's (RBI) comfort zone. India's foreign exchange reserves which stood at USD 412.9 billion at the end of March 2019 have gone up to USD 426.4 billion, as of June 2019. RBI's Monetary policy committee (MPC) raised the repo rate from 6% to 6.50% in two stages in June and August 2018, against the backdrop of rising inflation and a sharp increase in global crude oil prices. However, with the easing of headline inflation and stable crude oil prices, the MPC has, between February and June 2019, effected three successive reductions of 0.25% each in the repo rate, which now stands at 5.75%. Significantly, the MPC has also indicated a shift in policy stance from stable to accommodative, perhaps an indication of more cuts to come.

As is well known, the NBFC sector and the wider financial markets witnessed considerable turmoil with the default of AAA rated IL&FS in August 2018. This was followed by a few more downgrades of NBFCs and Housing finance companies, as a result of which liquidity for the NBFC sector, particularly the small and medium players, was severely constricted. Consequently, the cost of funds for NBFCs witnessed a sharp increase, reflecting the liquidity situation as well as the heightened risk perception of lenders.

The recently presented Finance Budget 2019 seeks to carry forward the process of fiscal consolidation. The main thrust of the budget appears to be on attracting greater FDI, continuing investments in infrastructure and an ambitious disinvestment programme. The government has set a growth target of 8% and a vision of a USD 5 trillion economy by 2024. The fact that such an objective has actually been defined is commendable but the real test lies in the execution.

Turning specifically to the financial sector, there are several noteworthy proposals, both on the capital markets front and the regulatory and taxation fronts. The proposal to permit transfer or sale of investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund – Non-Bank Finance Companies (IDF-NBFCs) to domestic investors and allow AA rated bonds as collateral, should hopefully kick off the long talked about deepening of bond markets. The move to bring HFCs under RBI supervision is also very logical. After months of uninformed discourse on the 'NBFC crisis', the Hon'ble Finance Minister's acknowledgement of the significant role played by them in last mile credit delivery and their vital contribution to the country's economic growth is indeed reassuring. The one-time partial credit guarantee offered to public sector banks for purchase of 'high-rated pooled assets' of financially sound NBFCs amounting to ₹1 lakh crore in FY 20 is a good confidence restoring move, while the removal of the Debenture Redemption Reserve for NBFCs opens up a viable avenue of resource raising for well-run NBFCs.

Automotive Sector

2018-19 was a difficult year for the automotive industry. Festive season demand which is one of the key drivers of vehicle sales was lacklustre, while natural calamities in two of the Southern states also acted as a dampener. Increasing fuel prices, withdrawal of several NBFCs from the market, revised axle load norms and buyer fatigue are some of the reasons attributed to the overall slowing down in the automotive sector. The M&HCV segment which witnessed very strong growth during the first half of the financial year saw a complete reversal of fortunes in the second half, with volumes dropping month after month, ending with an overall growth of 10% for the year. Passenger car/SUV sales registered a meagre 3% growth over the previous year.

Working Results

Your Company's disbursements for the year stood at ₹17,170 cr., registering a growth of 9.3% over the previous year, thanks mainly to the company's sharper focus on the rapidly growing construction equipment and Intermediate and Light Commercial Vehicle segments and the deepening of its presence in new geographies and market segments. Pricing pressures continued unabated, with several new players seeking to gain a foothold in the fiercely competitive vehicle finance segment. Your Company was largely able to counter this on account of the strong customer relationships that it has built and nurtured over the decades, as also its ability to raise resources at competitive rates. Gross receivables managed by the Company stood at ₹33,447 cr. as at 31st March 2019, registering a growth of 17% over the previous year.

I am happy to inform you that your Company's sustained focus on maintaining superior asset quality ensured that its portfolio continued to be best in class. The Gross and Net NPAs as at 31st March, 2019, stood at 1.33% and 0.83%, as against 1.27% and 0.66% respectively, in the previous year - a testimony to the prudent credit underwriting policies followed by your Company. The net profit for the year after considering the exceptional profit (₹522.26 cr.) on sale of 25.9% stake in Royal Sundaram General Insurance Co. Limited was ₹1126.31 cr. as against ₹563.43 cr. in the previous year. The company's Net-Worth stood at ₹5043.81 cr. as on 31st March 2019. The net accretion to public deposits during FY 2018-19 was ₹475.84 cr. I am happy to inform you that your Company's Deposits crossed the ₹3000 crore mark in April this year. I thank our depositors, for their continued confidence in the Company and assure them of our commitment to maintain the highest standards of prudence, efficiency and personalised service.

Dividend

Your directors are pleased to recommend a final dividend of ₹7.50 per share and a special dividend of ₹5/- per share, which together with the interim dividend of ₹5/- per share paid during February 2019, aggregates to a total dividend of ₹17.50 per share for the financial year ended 31st March 2019, on the paid-up capital of ₹111.10 cr. The total dividends recommended for the year 2018-19, if approved by the shareholders will be recognised as a liability during the financial year 2019-20.

Prospects

Most economic commentaries seem to point to a challenging year ahead for the economy in general and the automotive sector in particular. Growth in Vehicle sales has remained feeble for almost ten months now, for reasons articulated earlier. The uncertainties surrounding market liquidity, interest rates, global oil prices and the imminent introduction of the BS VI emission norms render forecasts difficult. As per the Society of Indian Automotive Manufacturers (SIAM), M&HCV sales are estimated to grow at a mere 5 % and LCVs at 9%-10%, in 2019-20. With the new BS VI emission norms slated for implementation effective April 1 2020 and the likely increase in the prices of vehicles there are expectations of pre-buying, though there are divergent views on this. Sales of passenger vehicles (Cars and SUVs) are projected to grow at 3%–5%. Tractor sales are also expected to moderate after three or four years of strong growth. The Government's continuing thrust on infrastructure should hopefully provide some impetus to the Construction equipment and related segments. As always, much will depend on the progress of the Southwest monsoon, given its impact on the overall prosperity and well-being of rural India, which in turn will influence consumption spending.

Worryingly, in the first quarter of the current financial year, sales of Medium and Heavy Commercial vehicles and Passenger cars/SUVs have fallen sharply by 16% and 18% respectively, compared to the same period last year.

Your Company has taken these factors into account in drawing up its plans for the year, focussing on its core markets and segments, while simultaneously exploring opportunities in newer geographies.

Subsidiaries and Joint Ventures

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

Sundaram Finance Holdings Limited (classified as a subsidiary under the applicable Accounting Standards) earned a gross income of ₹120.71 cr. and reported a profit after tax of ₹84.93 cr. The company recommended a dividend of ₹1.75 per share for the year.

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. Sundaram Alternate Assets Ltd was demerged from Sundaram Asset Management Company Ltd pursuant to the order of National Company Law Tribunal on 29th May 2018. On a consolidated basis, the assets under management for 2018-19 were ₹35,390 cr. as against ₹37,108 cr. for 2017-18. The total revenues and Profit after Tax of the asset management business amounted to ₹330.28 cr. and ₹28.83 cr. as against ₹343.53 cr. and ₹31.02 cr. respectively in the previous year.

Sundaram BNP Paribas Home Finance Limited reported a profit after tax of ₹145.48 cr. (PY ₹144.42 cr.). The loan portfolio stood at ₹9041 cr. as at 31st March 2019 as against ₹8336 cr. in the previous year. The gross and net NPAs stood at 2.95% and 1.39% respectively, as at 31st March 2019. The company proposed a dividend of ₹3.50 per share for the year (PY 35%).

Royal Sundaram General Insurance Co. Limited (Royal Sundaram) reported a Gross Written Premium (GWP) of ₹3,196 cr. as compared to ₹2,643 cr. in the previous year, a robust growth of 21%, and was amongst the fastest growing general insurers in the segments where it operates. Profit after tax for the year was ₹121 cr., as against ₹83 cr. in the previous year.

During the year, your Company divested 25.90% of its shareholding in Royal Sundaram to Ageas Insurance International N.V., Belgium, for a total consideration of ₹984.17 cr., thereby bringing down your Company's shareholding in Royal Sundaram from 75.90% to 50%.

Your Board of Directors approved the acquisition of 49.9% stake in Sundaram BNP Paribas Home Finance Limited (Sundaram Home), from BNP Paribas Personal Finance S.A. (BNPPF), France, subject to necessary regulatory approvals. After the proposed acquisition, your Company's stake in Sundaram Home will increase from 50.1% to 100% making it a wholly-owned subsidiary of your Company.

Further, your Board of Directors have also approved the acquisition of 49% stake in Sundaram BNP Paribas Fund Services Limited (SBFS), from BNP Paribas Securities Services, France, subject to necessary regulatory approvals. After this proposed acquisition, your Company's stake in SBFS will increase from 51% to 100% and SBFS will become a wholly-owned subsidiary of your Company.

Regulatory Issues

Your Company has, for the first time, adopted the Indian Accounting Standards (IND-AS) as required by the Companies Act 2013. Accordingly, the financial statements have been drawn up under IND-AS.

NBFCs have long sought parity with banks in respect of taxability of income on non-performing assets, under Section 43D of the Income Tax Act. Currently, interest on certain bad or doubtful debts made by scheduled banks and other financial institutions is allowed to be offered to tax only in the year in which this interest is actually received. In the recent Budget, it has been proposed to extend this facility to deposit taking as well as systemically important non-deposit taking NBFCs as well. This is indeed a long overdue and welcome step.

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 of the tireless efforts of 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.*