**Sundaram Finance Limited**

**Chairman's Speech**

**68th Annual General Meeting – 6th September 2021**

Ladies and Gentlemen,

It gives me great pleasure to welcome you all to the sixty-eighth Annual General Meeting of your Company. The company's annual report and audited accounts for the year ended 31st March 2021 have been with you for some time now, and with your permission, I shall take them as read.

## GLOBAL ECONOMY

The financial year 2020-21 was fraught with uncertainty across the globe as the once-in-a-century COVID-19 pandemic led to a significant loss of lives and livelihoods. This had a devastating impact on global growth that witnessed a contraction of 3.5% year on year in the CY 2020. The IMF notes that "the adverse impact has been severe on women, youth, the poor, informally employed, and those who work in contact-intensive sectors." While growth for almost every region of the world has been revised upward for CY 2021, many countries continue to grapple with COVID-19 and what is likely to be its long shadow. In light of the second and third waves witnessed around the world, the level of global GDP in CY 2021 is expected to be 3.2% below pre-pandemic projections, and per capita GDP among many developing economies is anticipated to remain below pre-COVID-19 peaks for an extended period. The mutations of the virus and the consequent evolution of the pandemic will shape the trajectory of global economic activity.

Overall, the IMF projects the global economy to grow 6.0% in CY 2021 and 4.9% in CY 2022, reflecting the detrimental impact of the pandemic. Geopolitical tensions around the world, including the disruptions that might be caused by the withdrawal of US troops from Afghanistan, might further add to the uncertainties.

## INDIAN ECONOMY

The first wave of COVID-19 infections in India caused significant economic disruptions despite all-round policy support from the regulators and the government. The contact-sensitive services segment was the most impacted and the largely informal nature of this segment in India further worsened the economic impact on the nation. All told, the toll on India's economy has been severe and the provisional estimates show a GDP growth in FY21 of (7.3)% YOY. To overcome the impact of the pandemic, the government and the Reserve Bank of India announced a slew of fiscal and monetary measures. The government's Atma Nirbhar Bharat Abhiyan packages totaled ₹17.2 lakh crores of fiscal measures. This was expanded on and followed up with other packages for MSMEs, NBFCs, migrant workers, agriculture, social sector funding, festival allowances and state government support. The extension of the production-linked incentive (PLI) scheme to ten sectors is expected to improve the long-term competitiveness of the Indian industry.

The RBI's accommodative monetary policy reduced the burden on borrowers by making abundant liquidity available. Starting in the last week of March 2020, the RBI cut its key policy Repo rate by 115 basis points to 4% and cut the cash reserve ratio (CRR) by 100 basis points. Through various other liquidity tools like the long-term repo operations (LTRO), targeted long term repo operations (TLTRO), open market purchases (OMO), special liquidity to mutual funds and others, the RBI infused a total liquidity of ₹12.7 lakh crores into the system, resulting in a significant reduction in interest rates. The measures of extended regulatory forbearance, easing of asset classification norms, relaxation to banks on commercial real estate, moratorium extensions, introduction of a resolution framework, particularly for the MSME segment, and rationalisation of risk weights for individual housing, all helped ease systemic stress.

As per estimates, India registered a decline of over 15% in its GDP in the first half of FY21 and a growth of 1.1% in the second half aided by the measures announced by the government and the RBI. The fiscal deficit for FY21 slipped to 9.5% of GDP.

## AUTOMOTIVE SECTOR

The automotive sector was already witnessing bouts of weakness even before the commencement of FY21. Since 2018, the sector has been impacted by a continuing set of disruptions – revised axle load norms for heavy commercial vehicles in July 2018, severe liquidity crunch in the financial system in 2019-20 particularly after institutional stress across specific banks and non-banks and the transition to BS VI emission norms from April 2020. The onset of the COVID-19 pandemic and related economic slowdown only worsened the situation in FY21. This has meant heightened volatility in sales of Commercial Vehicles, Passenger Cars, Two Wheelers along with significant disruptions to the supply chains. Unsurprisingly, the year under review continued to be a difficult one for the automotive industry. The commercial vehicles (CV) segment was the worst affected, given its close linkages to overall economic activity and compounded by excess capacity in the system. M&HCV sales were down by 14% while the sales of ICVs/LCVs/SCVs were down by 44%/49%/11% respectively. The buoyancy in the tractor and farm equipment segment sales with 27% growth due to a normal monsoon in FY21 provided cheer in an otherwise gloomy automotive sector environment.

Amidst such an uncertain business environment and supply-side as well as demand-side challenges, the industry is trying to maximize production and sales.

## YOUR COMPANY'S COVID 19 RESPONSE

The widespread disruption caused by the nationwide lockdown posed several challenges to your Company in terms of people safety and ensuring ongoing operations. But it also created opportunities in terms of technology deployment and adoption. As a customer-facing business, your Company had to quickly reorient its approach and processes to respond to the emerging situation. While the primary objective was to ensure the safety of employees, customers, associates and other partners, it was vitally important to ensure that customer service levels were not compromised. Your Company rapidly enabled a 'Work from home' environment during the nationwide lockdown. Remote access was provided to over 3000 users on a real-time basis along with adequate IT security measures to safeguard the technology environment. This enabled continuity of operations and service to customers, especially depositors. All deposit maturities as well as redemption of other liabilities were met on or before due dates.

All borrowers were kept informed about the regulatory and policy developments, especially regarding the relief measures announced by the government and the RBI. This was done entirely digitally with last mile servicing done by our employees using mobile devices and digital communications.

Detailed safety protocols were put in place to ensure that operating procedures included deep cleaning and fumigation of premises, educating and training staff to wear masks and adhere to social distancing and hand sanitisation norms.

All employees have been covered under a group insurance Covid secure scheme to protect against Covid-related health issues. Multiple vaccination drives were conducted in your Company's head office and regional locations and coordinated efforts continue to ensure that all employees, especially frontline staff, are fully vaccinated at the earliest. As of date, over 97% of eligible staff have received at least one dose of the vaccination and nearly 25% of eligible staff have received both doses of the vaccination.

## WORKING RESULTS

Your Company's disbursements during the year under review stood at ₹11,741 cr., down by 22.6% over the previous year, reflecting the decline in sales across the automotive sector. Disbursements against Commercial Vehicles declined 41% in unit terms as compared to the market drop of 21% (the drop in M&HCV was 14% only since the slowdown had already commenced in 2019-2020); disbursements against passenger cars also declined by 3%, mirroring the overall market which was lower by 2%. Gross receivables managed by the Company as at March 31, 2021 stood at ₹35,736 cr., as against ₹35,088 cr., showing a marginal growth over the previous year. Your Company's tight rein on operating costs and its ability to raise resources at competitive rates enabled it to maintain its margins at a reasonably healthy level.

Reflecting the economic slowdown and the cash flow strains faced by its customers, your Company's delinquencies increased during the year. However, your Company's superior credit standards, strong customer relationships and systematic collections and recovery efforts ensured best-in-class performance on asset quality. Stage-3 assets, gross and net of ECL provisions, stood at 1.84% (PY 2.47%) and 1.01% (PY 1.65%) respectively, as at 31st March, 2021.

I am happy to inform you that your Company has been maintaining comfortable liquidity in the form of liquid investments and undrawn bank limits to meet its maturing liabilities and has not opted for moratorium in respect of its debt obligations to its lenders.

The net profit for the year was ₹809 cr. as against ₹724 cr. in the previous year, a 12% increase. The net profit for the previous year included a one-time gain of ₹53 cr. on sale of equity shares in Sundaram Finance Holdings Ltd. Adjusting for this one-time gain, net profit for the year in review grew by 21% on a like-to-like basis. Your Company's net worth stood at ₹6,179 cr., as at 31st March 2021. Capital adequacy at 22.06% was comfortably higher than the statutory requirement of 15%. The net accretion to public deposits during FY21 was ₹344.81 cr. 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 ₹6/- per share, which together with the interim dividend of ₹12/- per share paid during March 2021, aggregates to a total dividend of ₹18/- per share for the financial year ended 31st March 2021, on the paid-up capital of ₹111.10 cr. The final dividend, if approved by the shareholders, will be recognised as a liability in FY22.

## PROSPECTS

As outlined earlier, the pandemic has caused significant economic damage. However, the central government, stretching itself within its framework of prudence, and the swift and frequent RBI policy measures have helped to contain the negative impact.

The momentum built up in the third and fourth quarters of FY21 was dealt a blow by the ferocious second wave of the pandemic in April/May 2021, which inflicted significant economic and emotional damage in a short period of 6-8 weeks. The second wave was met with a series of staggered lockdowns that led to a sharp drop in activity. Again, various monetary, regulatory and fiscal policy measures helped contain the solvency risk of financial entities.

The tapering of the second wave coupled with an aggressive vaccination drive has brightened the near-term prospects for the economy, with the adverse economic impact expected to be limited to the first quarter of FY22. The past few weeks have witnessed a steady improvement in the pace of vaccinations with 10 million doses administered on August 27th and over 12 million doses on August 31, 2021.

The agricultural sector has turned buoyant with a near-normal monsoon, robust procurement by the government and improved Kharif sowing. The re-establishment of GST collections to ₹1 lakh+ crore levels, increases in fertilizer sales, improved e-way bill activity, increases in power & fuel consumption, and growth in eight core industries all point to a sequential improvement in economic activity from the disruptions induced by the second wave.

As per RBI estimates, India's real GDP growth is projected at 9.5% in FY22, which includes growth of 21.4% in the first quarter; 7.3% in the second quarter; 6.3% in the third quarter and 6.1% growth in the fourth quarter of FY22.

All that said, realistically, India's economic recovery in the current financial will be marked by a high degree of uncertainty. The country's ability to mobilise vaccines at scale, maintain the pace of vaccinations, and the speedy containment of the spread of the virus, especially as new variants emerge, will all be determinants of consumer confidence sustaining and consequently of economic recovery. The automotive sector is facing challenges on the supply side due the global shortage of semiconductors, which is adversely impacting production schedules of most of the large manufacturers and creating disruptions to the supply chain. Recent pandemic-driven lockdowns in East Asia are compounding the challenge. This, coupled with relatively high input prices on fuel and commodities, presents the risk of a dampener to the upcoming festival season.

Given this level of uncertainty and volatility, your Company's focus will continue to remain on striking a judicious balance between Growth, Quality and Profitability, the time-tested trinity that has served your Company well. Key priorities remain:

i) supporting loyal customers tide over the aftermath of the Covid crisis by deploying all measures made available by the regulator and the government,

ii) driving collections and recovery efforts with a view to maintaining the traditional asset quality levels and preserving capital, and

iii) prudently pursuing growth opportunities that emerge as economic activity resumes post Wave 2 across the well-understood and diversified asset class base that your Company has established.

## 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 ₹39.76 cr. and reported a profit after tax of ₹14.55 cr. The company recommended a total dividend of ₹0.50 per share (10%) for the year. During the year the Company took several initiatives to consolidate its shareholdings in many group companies.

In order to meet the funding requirement for the acquisition of shares in Brakes India Private Limited, the Company had raised funds by way of a rights issue of ₹355 cr. (equity shares of ₹5/- each at a price of ₹50/- per rights equity share in the ratio of 23:49) and the allotment was completed in June 2021.

**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 FY21 were ₹36,962 cr. as against ₹ 36,916 cr. for the previous year. The total revenues and Profit after Tax of the asset management business amounted to ₹288.15 cr. and ₹55.13 cr. as against ₹300.50 cr. and ₹32.69 cr. respectively in the previous year.

**Sundaram Home Finance Limited** reported a profit after tax of ₹191.64 cr. (PY ₹218.15 cr. including one-time reversal of deferred tax liability of ₹60.25 cr.). The loan portfolio stood at

₹9173 cr. as at 31st March 2021 as against ₹9638 cr. in the previous year. Stage 3 assets, gross and net of ECL provisions, stood at 4.48 % and 1.09% respectively, as at 31st March 2021. The company paid a total dividend of ₹7.00 per share (70%) for the year (PY 42%).

**Sundaram Fund Services Limited** earned an income of ₹4.94 cr. during the year as against ₹5.30 cr. in the previous year and reported a profit after tax at ₹0.11 cr., as against ₹0.58 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 ₹2,883 cr. in FY21 as compared to ₹3,718 cr. in the previous year, impacted primarily by a drop in motor insurance sales due to the pandemic situation and the Company's decision to exit from writing crop business during the FY21. The Company reported, as per IND AS, a profit after tax of ₹313 cr. for the current year as against loss after tax of ₹76 cr. in the previous year. The current year's profit was higher due to decline in motor claims in the early months of lock-down and marked to market (MTM) gain of ₹137 cr. (net of tax) on equity investments against the previous year MTM loss of ₹72 cr. (net of tax) on equity investments.

## REGULATORY COMPLIANCE

Pursuant to the Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks, UCBs and NBFCs (including HFCs) issued by the Reserve Bank of India during April 2021, the existing Statutory Auditors of the Company would not be eligible to continue if their term has exceeded three years and consequently, the Company is required to appoint two independent Chartered Accountant firms in their place as the Joint Statutory Auditors for a maximum term of three consecutive years.

In compliance with these RBI Guidelines, M/s Sundaram & Srinivasan, Chartered Accountants, Chennai, who had been appointed as the Statutory Auditors of the Company for a period of five consecutive years from the conclusion of the 64th Annual General Meeting, will be demitting office at the conclusion of the 68th Annual General Meeting. Further, as stipulated in the RBI Guidelines, the Board of Directors has recommended for the approval of the shareholders the appointment of M/s B.K. Khare & Co., Chartered Accountants, Mumbai and M/s N.C. Rajagopal & Co., Chartered Accountants, Chennai, as the Joint Statutory Auditors of the Company for a term of three consecutive years from the conclusion of the 68th Annual General Meeting to the conclusion of the 71st Annual General Meeting.

## 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 even in these difficult and challenging circumstances.

I thank you for your attention.

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