Sundaram Finance Limited

Chairman's Speech

69th Annual General Meeting – 27th July 2022

Ladies and Gentlemen,

It gives me great pleasure to welcome you all to the sixty-nineth Annual General Meeting of your Company. The company's annual report and audited accounts for the year ended 31st March 2022 have been with you for some time now, and with your permission, I shall take them as read.

GLOBAL ECONOMY

The financial year 21-22 started with the virulent Wave 2 of the Covid-19 pandemic in the first quarter of the financial year. The year closed with optimism of a post Covid-19 pandemic recovery but the shock waves from the war in Ukraine and retaliatory economic sanctions on Russia have jolted the global economy and led to a costly humanitarian crisis.

Economic damage from the conflict has contributed to a significant slowdown in global growth in 2022 and triggered inflation across the globe, which is expected to remain elevated for some time to come. Increasing fuel and food prices, coupled with shortage of essential commodities, have adversely affected large sections of vulnerable populations in low-income countries.

Global growth is projected to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. The IMF states that beyond 2023, global growth is forecasted to decline to about 3.3 percent over the medium term.

Global firms have been hit by the rise in energy and raw material prices. Emerging and developing economies that are net importers of energy and food are likely to be hit the hardest by surging international prices. The US economy has seen headline inflation in the 8-9% range, the highest level in four decades. The US Federal Reserve delivered a 75-basis point interest rate hike in June 2022 and is expected to announce an additional 75-100 basis point increase in their July meeting. The risk of a hard landing by way of a recession in the US economy cannot be ruled out and this will have consequences across the globe.

INDIAN ECONOMY

While businesses in different parts of the country have resumed their operations on a full-fledged basis, they are still facing macro-economic challenges caused by the pandemic and the war in Europe, which has lingered for nearly five months now. The third wave of the pandemic, which occurred in the later part of the year, thankfully had much less detrimental impact on the economy than the earlier ones. The last two quarters of the financial year 21-22 witnessed gradual pick-up in activity and most of the macro parameters such as consumption, investments, capacity utilisation, etc. saw improvements. Domestic economic activity has stabilised thereafter, with the ebbing of the third wave and the easing of restrictions. Urban demand appears to have maintained expansion, but some weakness persists in rural demand. Investment activity seems poised to gain traction. This was partly due to the support extended by the central government which announced a package of measures for around ₹6.3 trillion including extension of ECLGS programme, expansion of PLI scheme, a DISCOM reform package and outlays for the health sector.

The Indian Rupee reached an all-time-low and extended its fall past ₹80 to the US dollar, tracking the strength of the US economy and persistent foreign fund outflows. The Reserve Bank of India raised overseas borrowing limits for companies and liberalised norms for foreign investments in government bonds, as part of a slew of measures to curb the fall of the rupee. On the emerging market front, the faster US rate hike, substantial FII outflows, higher commodity prices, and overshooting inflation have urged central bankers to go for rate hikes and potentially compromise economic growth. The RBI raised its policy rate by 40 basis points to 4.40% in an out-of-turn monetary policy meeting in May. This was hiked by an additional 50 basis points in the scheduled monetary policy meeting in June to 4.90%. In view of the expected continued inflationary pressures, markets seem to expect further rate hikes taking the Repo levels, to above pre-Covid levels.

Fiscal deficit for financial year 21-22 improved to 6.71% of the GDP over the revised budget estimate of 6.9%. This was possible thanks to significant increase in tax collections, especially direct tax.

Inflation based on consumer price index rose to 7.8% in April 2022, largely due to the tense global geo-political situation and consequent elevated commodity prices. India's GDP growth for financial year 22-23 has been estimated at 7.2% by the RBI and consensus estimates by various agencies are in the 7.2-7.5% range, far better than the IMF's estimates for other major economies like the US, China, and Japan.

AUTOMOTIVE SECTOR

Overall, passenger and commercial vehicle sales witnessed a growth of 15.6% in the financial year 21-22. All segments faced supply side challenges and the industry is yet to see complete recovery after the disruptions it faced since the early 2020. There was a steep increase in commodity cost by 90%, aggravated further by the Russia - Ukraine war. Passenger vehicle exports were at 5.78 lakhs units during the financial year 21-22 when compared to 4.04 lakh units in financial year 20-21, providing fillip to the manufacturers. That said, exports are down by 13% when compared with pre-Covid levels.

During the year, the sale of commercial vehicles as well as passenger vehicles got impacted in the first quarter of financial year 21-22 by the second wave of the pandemic, when most dealerships were closed, and RTO operations were impacted. Nevertheless, some sequential recovery was reported by the quarter ending September 2021 with volumes gradually improving. Commercial vehicle industry volumes improved through remainder of the year as a result of an improvement in the macroeconomic environment and a revival in demand in Medium and Heavy Commercial Vehicles, especially in the tipper & haulage segments. The industry registered sales of 7.16 lakh units, a 26% growth in sales over the previous year and reached the pre-pandemic fiscal year 19-20 levels.

While Government interventions have helped in easing out most of the supply side challenges, rising interest rates coupled with the overall inflationary trend, could pose challenges for the end-customer, thereby impacting demand.

WORKING RESULTS

Your Company's disbursements at ₹13,275 cr. (previous year ₹11,742 cr.) were up by 13.1% during the year under review, reflecting the improved market conditions in the automotive sector and focused efforts of the company. Adjusting for the ECLGS disbursements, which were a one-time Covid dispensation, year-on-year growth in disbursements were at 24% for the year under review. Disbursements against Commercial Vehicles, Passenger cars and Utility Vehicles recorded stronger growth though in unit terms the growth was less than that in the industry. Gross receivables managed by your Company as of March 31, 2022, stood at ₹33,774 cr., as against ₹35,736 cr. 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.

While customers' business viability is improving post the pandemic, several sub-segments of customers - especially in the school bus, route bus and travel & tourism segments - continue to struggle with business recovery. However, your Company's superior credit standards, strong customer relationships and systematic collection efforts ensured best-in-class performance on asset quality. Stage III assets, Gross and Net of ECL provisions as at 31st March, 2022, stood at 2.19% (previous year at 1.84%) and 1.07% (previous year 1.01%) respectively.

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 ₹903 cr. compared to ₹809 cr. in the previous year, a growth of 11.7%. Your Company's net worth stood at ₹6,893 cr., as on 31st March, 2022. Capital adequacy (CRAR) at 24.2% was comfortably higher than the statutory requirement of 15%.

DIVIDEND

Your directors are pleased to recommend a final dividend of ₹10/- per share, which together with the interim dividend of ₹10/- per share paid during March 2022, aggregates to a total dividend of ₹20/- per share for the financial year ended 31st March 2022, 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 22-23.

PROSPECTS

The financial year 22-23 has gotten off to a mixed start for the Indian economy. The third wave of the Covid pandemic has been contained due, in large part, to the successful vaccination drive and the improved immunity levels within the population. The risk of a fourth wave remains but confidence and optimism seem to have been re-established among the general population. However, a confluence of global and domestic factors creates macroeconomic uncertainty for the year.

Globally, several factors including the escalation of geopolitical tensions in general and the Russia-Ukraine conflict in particular, hardening of global commodity prices, disruptions to the global supply chains due to Covid-related shutdowns in China, and, varying monetary policy actions by central banks around the globe and associated uncertainty, are impacting economic growth and price stability.

Domestically, consumer demand & private investment remain tepid which are softening the momentum of the recovery. Sustained investment by the government in infrastructure as well as the forecast of another normal monsoon with robust sowing to date are positives for economic activity. Simultaneously, food and oil price inflation driven by global forces have reached multi-year highs warranting monetary policy actions despite inflation being driven by insufficient supply and not overstimulated demand.

Competitive intensity in the financial services space is likely to remain high as banks expand their franchise and new age fintech players attempt to disrupt the space with differentiated offerings and the promise of enhanced customer experience. On the regulatory front, financial year 22-23 will mark the transition to scale-based regulatory framework for NBFCs that the RBI has already announced.

Under these turbulent conditions, it seems a given that interest rates will move up through the course of the year. The RBI has already increased interest rates by 90 basis points in this financial year and it is expected that the entire 115 basis points of pandemic accommodation would be unwound in the August monetary policy committee meeting. The Government has announced several measures to improve supply of food grains and commodities. The headline inflation dropped from April's 7.79% to 7.04% in May and held steady at 7.01% in June. Further rate hikes by the Monetary Policy Committee are contingent upon how headline inflation moves through the rest of the year.

Given this unpredictable environment, your Company will continue to rely on its time-tested Growth with Quality and Profitability (GQP) philosophy. Key priorities include:

i) Ensuring growth across all asset classes to regain and extend market share across all geographies and resume the pre-pandemic trajectory of growth of the asset book,

ii) Transitioning to the scale-based regulatory framework as required by the RBI on October 1 and ensuring that the asset quality remains best-in-class,

iii) Transmitting the increases in cost of borrowing through a judicious balance across asset classes and customer segments that ensures maintaining pre-pandemic levels of net interest margin, and,

iv) Expanding your Company's geographic footprint in the regions of operations and growing 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 ₹80.08 cr. and reported a profit after tax of ₹46.91 cr. The company paid a final dividend of ₹1/- per share (20%) for the year. During the year, the Company disinvested a 1.50% stake held in Sundaram Clayton Limited and the entire 14.98% stake held in TVS Investments Private Limited. Using the proceeds of these disinvestments, the Company paid a total Special Dividend of ₹1.75 per share (35%) for the financial year ended 31st March 2022.

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 21-22 were ₹46,630 cr. as against ₹36,962 cr. for the previous year. The total revenues and Profit after Tax of the asset management business amounted to ₹345 cr. and ₹71.63 cr. as against ₹288.20 cr. and ₹55.13 cr. respectively in the previous year. During the financial year 21-22, Sundaram Asset Management successfully acquired and completed the integration of Principal Asset Management's business.

Sundaram Home Finance Limited reported 84% growth in disbursements to ₹2,311 cr. and a profit after tax of ₹167.70 cr. in the year under review. The loan portfolio stood at ₹9,495 cr. as at 31st March 2022 as against ₹9,173 cr. in the previous year. Stage 3 assets, gross and net of ECL provisions, stood at 3.00% and 1.57% respectively, as at 31st March 2022. The company paid a total dividend of ₹8.00 per share (80%) for the year (PY 70%).

Sundaram Fund Services Limited earned an income of ₹4.85 cr. during the year as against ₹4.94 cr. in the previous year and reported a profit after tax at ₹2.27 cr., as against ₹0.11 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 ₹2,966 cr. in financial year 21-22 as compared to ₹2,883 cr. in the previous year, representing a growth of 2.8%. The Company reported a profit after tax (as per IND AS) of ₹172 cr. for the current year as against ₹313 cr. in the previous year. The current year's profit was lower primarily due to higher loss ratios caused by the Covid-19 pandemic and lower Mark to Market gain (net of tax) on equity investments compared to previous year. During the current year, ₹33 cr. was MTM gain vs ₹137 cr. in the previous year. The Company recommended a maiden dividend of ₹0.60/- (6%) per share for the year ended 31st March 2022.

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.

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