Sundaram Finance Limited

Chairman's Speech

67th Annual General Meeting – July 22, 2020

Ladies and Gentlemen,

It gives me great pleasure to welcome you all to the sixty-seventh Annual General Meeting of your Company. The company's annual report and audited accounts for the year ended 31st March 2020 have been with you for some time now, and with your permission, I shall take them as read.

Global Economy

The global economy is now in the throes of the deepest recession since the Great Depression of the 1930s and the global economic outlook is uncertain. In its latest World Economic Outlook, the IMF has painted a grim picture, describing the situation as "A crisis Like no other" and warns that COVID - 19 will have an acute impact on low-income households throughout the globe. It has also cautioned that all countries, even those that have seemingly passed peaks in infections should ensure that their healthcare systems are adequately resourced. Global GDP growth is now projected at minus 4.90% in 2020. The report cautions that 'A high degree of uncertainty surrounds this forecast, with both upside and downside risks to the outlook. On the upside, better news on vaccines and treatments, and additional policy support could lead to a quicker resumption of economic activity. On the downside, further waves of infections could reverse increased mobility and spending, and rapidly tighten financial conditions, triggering debt distress.

Geopolitical and trade tensions could damage fragile global relationships at a time when trade is projected to collapse by around 12 percent.’

INDIAN ECONOMY

The outbreak of the COVID-19 pandemic in the fourth quarter of the financial year completely overshadowed the events of the previous nine months. India’s real GDP growth (as per provisional estimates) in 2019-20 was 4.2% as compared to 6.1% in the previous year. On the other hand, India’s current account balance (CAB) recorded a marginal surplus of US$ 0.6 billion (0.1 per cent of GDP) in Q4 of 2019-20 as against a deficit of US$ 4.6 billion (0.7 per cent of GDP) in Q4 of 2018-19. For the whole financial year 2019-20, the current account deficit narrowed to 0.9 per cent of GDP from 2.1 per cent in 2018-19. The surplus in the current account in Q4 of 2019-20 was primarily on account of a lower trade deficit thanks to the easing of crude oil prices. This was accompanied by impressive Foreign Direct Investment (FDI) and portfolio inflows, resulting in a healthy accretion to foreign exchange reserves which as per RBI data, stood at USD 505.6 billion in June 2020 as compared to USD 412 billion at the end of the financial year 2018-19, thus providing a crucial cushion from unforeseen external shocks.

Mirroring global trends, the gross fiscal deficit increased to 4.6% for the year ending March 2020, reflecting the economic slowdown and revenue collection pressures, as compared to 3.8% estimated earlier (FY 2018-19, 3.4%). The Rupee witnessed a depreciation of 8.3% against the dollar, ending the fiscal year at ₹74.35, and slid further to end at Rs.75.70 in the last week of June 2020.

With the onset of COVID-19 cases in India, mobility constraints on international travel were imposed even before a national “Lockdown” from March 25th. Soon thereafter, the Government came out with a relief package targeted primarily at low income households and MSMEs. This relief took the form of cash transfers, subsidised food grains, free gas cylinders and interest free loans, besides various measures by RBI to encourage bank lending to the MSMEs, small NBFCs and other sectors where resources for restart or revival were critically needed.

Another significant decision of the Government was to extend Collateral free loans to MSMEs under which borrowers with up to ₹25 crore limits and up to ₹100 crore turnover would be eligible to avail an emergency credit line (ECLGS) for up to 20% of their outstanding credit as of Feb 29th, 2020. These loans which will be collateral-free for borrowers, will have a tenor of 4 years with a 1-year moratorium on the repayment of the principal amount and carry a 100% guarantee from the Government of India. This is expected to infuse ₹3 lakh crore in the MSME segment and enable 45 lakh units to resume operations.

RBI on its part announced several measures on March 27, 2020 and followed them up with further steps on April 17. The following are some of the highlights of the RBI announcements:

-Reduction in RBI policy (repo) rate by 75 basis points to 4.4%.

-Liquidity support of Rs. 3,75,000 crores (roughly US$50 billion or 1.7% of GDP) across programs, including the targeted longer-term refinancing operations (TLTRO).

- All lending institutions including NBFCs, permitted to offer a moratorium of three months to their borrowers, on repayment of all term loan instalments falling due between March and May 2020.

- Second round of TLTRO aimed specifically at providing liquidity to NBFCs.

- Further 40 basis points reduction in Repo and reverse repo rates by 40 basis points to 4% and 3.35% respectively.

- Moratorium extended for a further period of three months, ending August 31, 2020

These targeted interventions by RBI ensured that the G-Sec market remained resilient and stable despite the increase in government borrowings and the significant loss of revenue due to the lockdown. While these steps have infused adequate liquidity into the system and ensured that short term rates remained anchored relative to the policy repo rate, Long Term rates have not fallen commensurately with the short-term rates. Overall, however, these measures have brought down financing costs in the corporate bond market to decadal lows, eased the funding access for non-AAA rated entities and led to record primary issuances. Additionally, TLTROs, complemented and supported by the special refinance facilities provided to All India Finance Institutions (AIFIs), are intended to help channelise liquidity to small and mid-sized corporates, including Non-Banking Financial Companies (NBFCs) and micro finance institutions (MFIs). It is to be hoped that these measures are implemented fully in order that they reach the intended beneficiaries.

2019-20 was also significant from the standpoint of tax reforms with the government announcing several changes, significant among them being:

-Reduction of the effective corporate tax rate from 34.9% to 25.17%, (inclusive of cess and surcharge) for all domestic companies, subject to the condition that they would not be eligible for any other incentives or exemptions.

-Introduction of Sabka Vishwas Legacy Dispute Resolution Scheme and Vivad Se Vishwas Scheme to reduce litigation in Indirect and Direct taxes

-Scrapping of the Dividend distribution tax and making dividends taxable in the hands of the recipient – both effective 1st Apr 2020

With the forecast of a normal monsoon at 102 % of Long period Average (LPA), agriculture is expected to cushion some of the shocks of the Covid-19 pandemic in 2020-21. The progress of the monsoon thus far has been encouraging, having covered the whole of India as on 26th June 2020. Kharif sowing is estimated to be higher by 104.3 % over last year's acreage.

Automotive Sector

The year under review continued to be a difficult one for the automotive industry, carrying forward the challenges faced in the second half of FY 19. Among the various segments, commercial vehicles (CV) were the worst affected due to slowing economic growth and excess capacity in the system. The decline in Commercial vehicle sales that began in October 2018, following the announcement of the revised axle load norms in July 2018, continued relentlessly through 2019-20. Overall, CV sales declined 29% with Medium & Heavy Commercial Vehicles and Light Commercial Vehicles declining 56% and 19% respectively, versus the previous year. Demand for commercial vehicles which was tepid to begin with, remained depressed during the first half of the financial year. The expected improvement during the latter part of the year did not materialise, nor did the widely anticipated 'Pre buying', ahead of the imminent transition to the BS VI emission norms from April 1, 2020. Passenger vehicle sales (PV) declined 18%, reflecting the depressed consumer sentiment. Adding to the woes of the automotive industry, the Covid-19 pandemic paralysed economic activity across the country during the traditionally busy fourth quarter, disrupting the entire auto supply chain and impacting automotive despatches.

Working Results

Your Company's disbursements during the year under review stood at ₹15,175 cr., down by 11.62% over the previous year, reflecting the marked decline in sales across the automotive sector. Disbursements against Commercial Vehicles declined 18% in unit terms as compared to the market drop of 29%; disbursements against passenger cars and utility vehicles also declined 18%, mirroring the overall market. The fourth quarter of the financial year normally witnesses a surge in sales of both commercial vehicles and passenger cars. However, the general slowdown in economic activity, coupled with the impending switchover to the BS VI norms and the COVID-19 impact in March 2020, proved to be a significant dampener. Gross receivables managed by the Company as at March 31, 2020 stood at ₹35,088 cr. as against ₹33,447 cr. a growth of 4.91% 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 reasonable level.

Reflecting the economic slowdown and the cash flow strains faced by its customers, the Company's delinquencies increased during the year. Further, the year-end recovery efforts were severely hampered by the nationwide lockdown in March. Stage III assets, gross and net of ECL provisions, stood at 2.47% (1.33%) and 1.65% (0.83%) respectively, as at 31st March 2020.

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 ₹723.95 cr. as against ₹604.05 cr. (excluding the exceptional profit (net of tax) of ₹522.26 cr. on sale of 25.9% stake in Royal Sundaram General Insurance Co. Limited) in the previous year. The company's net worth stood at ₹5547.36 cr., as on 31.3.2020. Capital adequacy (CRAR) at 18.37% was comfortably higher than the statutory requirement of 15%. The net accretion to public deposits during FY 2019-20 was ₹701.03 cr. representing the highest ever in the history of your company. 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 ₹3/- per share, which together with the interim dividend of ₹10/- per share paid during March 2020, aggregates to a total dividend of ₹13/- per share for the financial year ended 31st March 2020, on the paid-up capital of ₹111.10 cr. The final dividend, if approved by the shareholders, will be recognised as a liability in 2020-21.

Prospects

COVID-19 has triggered the deepest global recession in decades. According to a recent World Bank report, the pandemic will result in contractions across the vast majority of emerging markets and developing economies and cause lasting damage to labour productivity and potential output. In India, output is projected to contract by 3.2% in FY 2020-21, when the impact of the pandemic will largely hit. The report goes on to say that stringent measures to control the spread of the virus will heavily curtail activity, despite some support from fiscal and monetary stimulus. Spill overs from weaker global growth and balance sheet stress in the financial sector are also likely to weigh on activity.

The switch over to BS VI norms, effective April 1, 2020 could not have come at a worse time for the Indian automotive industry. Commercial vehicle sales were already projected to be muted due to the economic slowdown and the capacity overhang in the haulage segment. With the COVID-19 imposed lockdown coming into play, this situation has been greatly exacerbated. While demand in the first two months of the current financial year has been virtually non-existent, supply chains have been severely affected as well. Unfortunately, the prospects of an early turnaround in CV sales seem dim and will depend heavily on a sustained revival in economic activity and improvement in the movement of goods and passengers. The Infrastructure sector could offer a big opportunity. Budgetary allocations for this sector are significant and if the various projects get underway, they could provide a boost to CV sales.

Passenger Cars, after a dismal performance in the previous year were expected to stage a revival in the current financial year, but the pandemic intervened. There is a school of thought that with social distancing set to become the norm, demand for 'Personal transportation' could see a surge, especially in the entry level segments. If this hypothesis is proved right, it might provide a boost to car sales especially in the latter half of the year.

Much of the credit demand in the near term, however, will be for working capital rather than asset acquisition. Small businesses, including transport operators whose livelihoods have been frozen for nearly two months, will need working capital to restart their businesses and regain their livelihoods.

Rural India has thus far been relatively unaffected by the pandemic. A bountiful rabi harvest followed by efficient procurement, the recently announced increase in MSP and the prospect of a normal monsoon in the current year, augur well for the agricultural sector and should lead to a growth in sales of tractors and associated farm equipment. Early indications would seem to support this view.

Growth prospects will depend on various factors, not least how the pandemic evolves, the prospect of future shutdowns, the impact of social distancing norms and the implementation of fiscal and monetary policy support. Activity levels in June and July have shown improvement over April and May this year and it is to be hoped that this trend will continue in the coming months leading up to the festive season. While your Company has taken these factors into account in drawing up its plans for the year, the heightened uncertainty surrounding the resumption of normal economic activity renders forecasts and projections nearly impossible. Your Company's primary emphasis will be on maintaining asset quality and preservation of capital, but it will continue to seek new opportunities that may arise in the altered business landscape.

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 ₹94.35 cr. and reported a profit after tax of ₹61.39 cr. The company recommended a total dividend of ₹1.25 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. On a consolidated basis, the assets under management for 2019-20 were ₹36,920 cr. as against ₹ 35677 cr. for 2018-19. The total revenues and Profit after Tax of the asset management business amounted to ₹300.50 cr. and ₹32.69 cr. as against ₹330.28 cr. and ₹28.84 cr. respectively in the previous year.

Sundaram Home Finance Limited (formerly Sundaram BNP Paribas Home Finance Limited) which became a wholly owned subsidiary of your Company during the year reported a profit after tax of ₹218.15 cr. (including one-time reversal of deferred tax liability of ₹60.25 cr.) (PY ₹145.47 cr.). The loan portfolio stood at ₹9456 cr. as at 31st March 2020 as against ₹9064 cr. in the previous year. Stage 3 assets, gross and net of ECL provisions, stood at 3.77% and 1.63% respectively, as at 31st March 2020. The company proposed a dividend of ₹4.20 per share for the year (PY 35%).

Sundaram Fund Services Limited (formerly Sundaram BNP Paribas Fund Services Limited) also became a wholly owned subsidiary of your company during the year. The Company earned an income of ₹5.31cr. during the year as against and ₹35.25 cr. in the previous year and reported a profit after tax at ₹0.58 cr. from continuing operations and ₹15.84 cr. from discontinued operations, as against a loss of ₹8.68 cr. in the previous year. In August 2019, the company concluded a slump sale arrangement with KFin Technologies Private Limited, pursuant to which it transferred its Business comprising

a) Services of a Registrar to an Issue and Share Transfer Agent for Mutual Fund unit schemes and back office functions in relation thereto and

b) Back office and Fund Accounting services to alternative investment funds/Private Equity to them.

JOINT VENTURE

Royal Sundaram General Insurance Co. Limited (Royal Sundaram) reported a Gross Written Premium (GWP) of ₹3,710 cr. as compared to ₹3,196 cr. in the previous year, a robust growth of 21%, and was amongst the fastest growing general insurers in the segments where it operates. Loss after tax for the year was ₹76 cr. as against profit after ₹113 cr. in the previous year. The current year's results were adversely affected as the Company provided Rs. 164.11 cr. (net of tax) towards impairment in respect of its debt exposure and MTM on equity investments.

COVID 19 RESPONSES

The widespread disruption caused by the nationwide lockdown posed several challenges both in terms of people safety and technology. 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 our employees and customers, it was vitally important to ensure that customer service levels were not compromised. Your Company took several steps to enable a 'Work from home' environment, ahead of the nationwide lockdown on 25th March 2020. This included putting in place adequate IT security measures to safeguard the technology environment, while providing access to nearly 3000 users on a real time basis. This ensured continuity of operations and service to customers, especially our depositors. All deposit maturities as well as redemption of other liabilities were met on or before due dates. All borrowers were kept continuously informed about the regulatory developments, especially regarding the grant of moratorium. This was done entirely using digital methods and last mile servicing was done by our employees using telephones and digital communications. With the gradual resumption of activity across our branches, regional offices and Head office, detailed safety protocols have been put in place to ensure that working methodologies including deep cleaning and fumigation, compulsory usage of masks, social distancing and

hand sanitisation and widely communicated to all our employees. Posters communicating the above were printed and are displayed at branches for the benefit of employees, customers and visitors. Employees were also encouraged to download the AROGYA SETHU app. Your Company also harnessed the power of technology to disseminate extensive training to its employees relating to both safety and various functional areas through digital platforms. Digital technology was actively used in regular communication with the employees all over the country as much to ensure adherence to safety standards as to keep their morale high. As of July 15th, 513 of the 609 branches, Head office and Regional offices were functioning in accordance with the prescribed guidelines in the respective states.

In April 2020, the Company made a contribution of `8 crores towards COVID-19 relief work, `4 crores each to PM CARES FUND and the Tamil Nadu State Government's CMPRF, as part of its CSR commitment for the Financial Year 2020-21.

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 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.