Chairman's Speech

64th Annual General Meeting – July 20, 2017

Ladies and Gentlemen,

It gives me great pleasure to welcome you all to the sixty-fourth Annual General Meeting of your Company. The company's annual report and audited accounts for the year ended 31st March 2017 have been with you for some time now, and with your permission, I shall take them as read.

ECONOMY

The Indian Economy continues to be one of the fastest growing amongst the major world economies. According to provisional estimates, GDP growth remains above 7%.

The capital markets have also done well, with bond markets rallying even as the 10-year G-Sec yield dropped from 7.46% to 6.69% during the year. Retail inflation, measured by the changes in the consumer price index (CPI), declined to 3.9% during 2016-17, while Wholesale *price index (WPI) based inflation, remained negative throughout fiscal 2016-17. While WPI has since moved into positive territory, CPI, a key determinant of RBI policy rates, is near historic lows.*

However other key indicators such as industrial growth, including growth in core infrastructure industries have not yet fully recovered. Bank credit growth also remains sluggish, notwithstanding the abundant liquidity in the banking system, driven in part, by demonetisation. Capacity overhang has also added to the hesitancy on the part of industry to invest in new capacity, further aggravated by the apprehensions surrounding the transitional effects of GST, which has come into effect from July 1.

Introduction of GST is a significant step in the reform of indirect taxation, facilitating a common national market and should mitigate cascading or double taxation. Specifically, the free movement of goods from one state to another, without interstate check posts holding up trucks for hours on end, and reduction in paperwork, are expected to benefit your company's customers significantly. In the short term, however, there are concerns with regard to the preparedness of businesses, especially in the small and medium segments- with which your company deals extensively. There are indications of some initial teething problems, especially with respect to the administrative changes that businesses will have to adapt to. The other significant event during the last Financial Year was demonetisation which caused inconvenience to many, during the initial phase of implementation. It entailed withdrawal of 15,40,000 crores (87% of total currency in circulation). While this did have an impact on demand and growth in the *initial two or three months, the economy proved resilient. Micro, Small and Medium Enterprises (MSMEs), construction and rural sectors felt the greatest impact. Your company's customers were also affected, but you will be happy to note that thanks to good underwriting of credit and strong relationships with customers, there was no material effect on your company's collection efficiency.*

Automotive Sector

The medium and heavy commercial vehicle segment remained flat during FY 2016-17, due to multiple factors, including uncertainty of vehicle prices in the wake of GST, subdued demand due to demonetisation, and limited clarity on the timing of emission norm implementation. Freight rates remained weak and lower load availability impacted both new vehicle sales and used vehicle prices. The Light commercial vehicles and pick-up segments witnessed a growth of 7.9% after three consecutive years of decline. Despite the short term impact caused by demonetisation, the tractor industry witnessed a strong 18% growth due to the favourable impact of the monsoon, notably in the states of Andhra Pradesh, Maharashtra, MP and UP. The passenger vehicle industry grew by 9.2% during the year. The SUV segment grew by about 30% and now constitutes a quarter of the passenger vehicle volumes.

Working Results

Your Company's disbursements for the year stood at ₹13,196 crore, registering a healthy growth of 15% over the previous year, driven significantly by a growth of 25% in the LCV segment and strong growth *in passenger cars and utility vehicles, construction equipment and tractors. This growth was achieved notwithstanding the difficult market conditions, impacted further by weak replacement buying, uncertainty surrounding the timing of implementation of BS-IV emission norms and some side effects of demonetisation. Gross receivables managed by the Company stood at ₹24,035 cr. as at 31st March 2017, registering a growth of 16% over the previous year. Your Company continued to maintain a strong position in its key markets and chosen customer segments, despite intense competition which exerted pressure on margins. As always, the emphasis was on preserving asset quality, while exploring profitable growth opportunities.*

Members may recall that your Company had adopted the three month norm to classify Non-Performing Assets, from the financial year ended 31st March 2016, well in advance of the regulatory timeline of 31st March 2018. I am happy to inform you that the Gross and Net NPAs as at 31st March, 2017, stand reduced to 1.54% and 0.55%, respectively, as against 2.08% and 0.92% respectively, in the previous year, a testimony to the prudent credit underwriting policies followed by your Company. The net profit at ₹495.35 cr. as against ₹477.28 cr. in the previous year, registered a growth of 3.79%. However, the previous year's net profit included a onetime profit of ₹40.65 cr., arising from the sale of shares in BNP Paribas Sundaram Global Securities Operations Private Ltd. Adjusting for this exceptional item, net profit from continuing operations for the current year, registered a growth of 11.54% over the previous year. The company's Net-Worth stood at ₹3745.63 cr. as on 31st March 2017, while the consolidated net profit and net worth stood at ₹683.48 cr. and ₹4816.02 cr. respectively, as at *the same date. The net accretion to public deposits during FY 2016-17 was ₹164.80 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 ₹6.50 per share, which together with the interim dividend of ₹5/- per share paid during March 2017, aggregates to a total dividend of ₹11.50 per share for the financial year ended 31st March 2017, on the paid-up capital of ₹111.10 cr. The total pay-out, including dividend tax of ₹18.15 cr., will amount to ₹145.92 cr. As per the new regulations, the recommended final dividend has not been shown as a liability in the accounts.

Prospects

Most estimates suggest that the Indian economy is likely to grow at 7.0-7.5% in 2017-18. With retail inflation at near record lows, expectations of a rate cut by RBI have gained momentum. If, as expected, the monsoon is normal, commodity prices are also expected to remain range bound.

The RBI appears determined to address the issue of non-performing loans in the banking system, and is trying to speed up the resolution process. At this stage, NPA resolution would also be key to spark a sustained recovery in the investment climate.

The budget has seen a boost for public sector investment, with an increase in infrastructure spending, notably in the areas of roads, railways and power. This augurs well for a recovery in investment by the end of this financial year. GST implementation, while causing transition problems in the short term, could have a positive impact. Affordable housing is another focus area in the budget that is expected to provide a much needed fillip to the construction sector and lead to job creation.

The economy appears stable at the moment and seems to have weathered the impact of demonetisation better than expected. The thrust on infrastructure and rural India continues, auguring well for the growth of the Tractor, Light Commercial Vehicles and Two Wheeler segments.

According to the estimates of the Society of Indian Automobile Manufacturers (SIAM), sales of M&HCVs are projected to grow at 4% to 7% in FY 2017-18. With interstate check posts becoming a thing of the past, the viability of truck operations is expected to improve; ironically though, this could lead to better utilisation and absorption of existing capacity, in turn leading to subdued demand in the near term. Passenger Cars and Utility Vehicles are projected to grow at 5-7% and 7-12% respectively.

Your Company expects to post reasonable growth in the light commercial vehicle, construction equipment and tractor segments, while maintaining its market share in the Medium and Heavy Commercial vehicle and passenger car/utility vehicle segments. Once *the GST related transition issues are resolved, it is hoped that Medium and Heavy Commercial vehicle offtake would also see an upturn.*

Subsidiaries

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

Sundaram Asset Management Company Limited earned a gross income of ₹260.54 cr. and reported a profit after tax of ₹30.73 cr (PY ₹4.42 cr). The Average Assets under Management of the Company were ₹28312 cr. for the year 2016-17, registering a healthy growth of 21% over the previous year. The company recommended a dividend of 35% for the year.

Sundaram BNP Paribas Home Finance Limited reported a profit after tax of ₹154 cr. (PY ₹153 cr.). The loan portfolio stood at ₹7663 cr. as at 31st March 2017 as against ₹7510 cr. in the previous year. The gross and net NPAs stood at 2.94% and 0.98% respectively, as at 31st March 2017. The company proposed a dividend of 35% for the year (PY 35%).

Royal Sundaram General Insurance Co. Limited reported a Gross Written Premium (GWP) of ₹2205 cr. as compared to ₹1703 cr. in the previous year, a robust growth of 29.4%, and was among the fastest growing general insurers in the segments where it operates. Profit after tax for the year was ₹43.05 cr., as against ₹26.70 cr. in the previous year.

Legislative and Regulatory Issues

I continue to reiterate our long pending demand to RBI for a reduction in the risk weightage on assets with lower risk profiles, such as commercial vehicles and cars, to differentiate them from other classes of assets which carry inherently higher risks. This assumes greater urgency, considering the rapidly narrowing regulatory gap between NBFC's and Banks.

Composite Scheme of Arrangement and Amalgamation

Over the years, your Company has invested in various non-financial services businesses, as a co-promoter along with TVS Group companies, many of them leaders in their respective markets. Your Company intends to demerge these non-financial services investments, which would result in ring-fencing the regulated financial services assets of the group. Consequent to the demerger, Sundaram Finance Holdings Limited (SFHL) would hold all non-financial services investments of your Company.

As per the proposal initiated by your Board of Directors on 17th February 2017, through a draft Composite Scheme of Arrangement and Amalgamation (Scheme), all shareholders of your Company would receive one share of SFHL for every share held in your Company as on the record date to be fixed after receipt of all approvals including that of the National Company Law Tribunal (NCLT). The Appointed Date for the scheme is 1st April, 2016. As a promoter, your Company would hold 26.47% stake in SFHL and the balance 73.53% will be issued to all *shareholders of your Company, in the ratio of 1:1. SFHL will be listed on the stock exchange, thereby providing a platform for shareholders to participate in the growth prospects of the investee companies.*

Your Company has obtained a 'no-objection' letter from The National Stock Exchange of India Limited, in accordance with the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as well as the approval of the Competition Commission of India for the proposed combination, under Section 6(2) of the Competition Act, 2002. Necessary steps are being taken to file an application with NCLT for approval.

AMALGAMATION OF SUNDARAM INFOTECH SOLUTIONS LIMITED (SISL) WITH THE COMPANY

The Board of Directors, at the meeting held on 25th November 2016, approved a draft Scheme of Amalgamation of SISL with your Company with effect from the Appointed Date, i.e. 1st April 2016. Your Company has received the 'no-objection' letter from National Stock Exchange of India Limited for the draft Scheme.

Necessary application has been filed with NCLT, in accordance with the provisions of Section 232 read with Section 230 and other applicable provisions of the Companies Act, 2013.

Acknowledgements

On behalf of the Board and on my own behalf, I place on record my sincere 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.