Chairman's Speech

65th Annual General Meeting – July 20, 2018

Sri S. Viji

Chairman, SUNDARAM FINANCE LIMITED

Ladies and Gentlemen,

It gives me great pleasure to welcome you all to the sixty-fifth Annual General Meeting of your Company. The company's annual report and audited accounts for the year ended 31st March 2018 have been with you for some time now, and with your permission, I shall take them as read.

Composite Scheme of Arrangement and Amalgamation

As members are aware, pursuant to the sanctioning of the Composite Scheme of Arrangement and Amalgamation (Scheme) by the Hon'ble National Company Law Tribunal (NCLT), Division Bench, Chennai, the various actions as required by the Scheme were given effect to from the appointed date, i.e. 1st April 2016.

Accordingly, the non-financial services businesses and investments of your Company were demerged into Sundaram Finance Holdings Limited (SFHL). As a result, the shared services and BPO operations hitherto carried out by your Company and the investments in companies engaged primarily in the manufacture and distribution of automotive components, are now vested in SFHL. As envisaged under the scheme, all the shareholders of your Company were allotted shares of the face value of ₹5/- each in SFHL on a 1:1 basis and the shares were listed on the National Stock Exchange on 26th March 2018.

The accounts for the financial year ended 31st March 2018 have been prepared after giving effect to the Scheme and, therefore, the figures given herein and elsewhere in the Annual Report are not strictly comparable with those of the previous year.

Amalgamation of Sundaram Infotech Solutions Limited (SISL) with the Company

Sundaram Infotech Solutions Limited (SISL) was amalgamated with your Company with effect from the 'Appointed Date', 1st April 2016, pursuant to the Order of the Hon'ble National Company Law Tribunal (NCLT), Division Bench, Chennai, dated 26th September 2017.

Economy

The Indian Economy continues to be one of the fastest growing amongst the major world economies, as per the IMF. According to provisional estimates, GDP is expected to grow at 7.3% in 2018-19.

The introduction of the Goods and Services Tax (GST) on 1st July 2017, posed myriad issues ranging from initial teething troubles to several technical issues. However, things appear to be settling down, albeit gradually, and it is to be hoped that the widely anticipated benefits of this unified tax regime will flow through, sooner than later. In the aftermath of two major events, demonetisation and GST, India's GDP growth in 2017-18 could be considered satisfactory. Gross tax collections for the year 2017-18 recorded an increase of 11.9% over the previous year while the net tax revenue increased by 12.8%. Retail inflation, measured by the changes in the consumer price index (CPI), which averaged 3.6% during 2017-18, has risen steadily and stood at 4.9% in May 2018. The Wholesale price index (WPI) based inflation, which averaged 2.9% for 2017-18, increased to 4.4% in May 2018.

Other key indicators such as industrial growth, including growth in core infrastructure industries, registered a growth of 4.2% (on a cumulative basis) during the year as compared to 4.8% during 2016-17. India's foreign exchange reserves which stood at USD 424.5 billion at the end of March 2018 have come down to USD 412.8 billion, as of May 2018, largely on account of exits by foreign portfolio investors.

Automotive Sector

The Commercial vehicle industry faced significant turbulence in 2017-18. The BS IV emission norms that went into effect from April 1, 2017, meant that prices of commercial vehicles increased sharply. Shortly thereafter, India entered the GST era which affected the movement of goods in the first few months and also increased the working capital requirements of transport operators. Against this backdrop sales of Medium and Heavy commercial vehicles (M&HCV) registered a sharp fall during the first half of the financial year compared to the previous year. However, a turnaround in the second half of the year, driven predominantly by the continuing focus of the government on infrastructure, robust demand in parts of Northern India and the substantial discounts that were on offer, ensured that M&HCV sales registered a growth of 12.5%, for the year. Light and small commercial vehicles sales also increased by 13%, while sales of Passenger Cars and Utility vehicles grew by 8%. Relatively good monsoons in the last two years coupled with subsidy support and a good harvest enabled the tractor industry to record a growth of 22% in the previous year.

Working Results

Your Company's disbursements for the year stood at ₹15,632 cr., registering a healthy growth of 18% over the previous year, thanks mainly to the company's sharper focus on the rapidly growing construction equipment and tractor 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 as much on account of the strong customer relationships that it has built and nurtured over the decades, as its ability to raise resources at or near the best rates in the debt markets. Gross receivables managed by the Company stood at ₹28,648 cr. as at 31st March 2018, registering a growth of 19% over the previous year.

I am happy to inform you that the Gross and Net NPAs as at 31st March, 2018, reduced further, to 1.29% and 0.50%, respectively, as against 1.54% and 0.55% 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 effects of demerger was ₹532.95 cr. as against ₹460.57 cr. (adjusted net profit on demerger) in the previous year, registering a growth of 16%. The company's Net-Worth stood at ₹3,970.85 cr. as on 31st March 2018, while the consolidated net profit and net worth stood at ₹711.54 cr. and ₹4,902.34 cr. respectively, as at the same date. The net accretion to public deposits during FY 2017-18 was ₹88.25 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 ₹7/- per share, which together with the interim dividend of ₹5/- per share paid during May2018 aggregates to a total dividend of ₹12/- per share for the financial year ended 31st March 2018, on the paid-up capital of ₹111.10 cr. The total dividends recommended for the year 2017-18, if approved by the shareholders will be recognised as a liability during the financial year 2018-19.

Prospects

Most estimates suggest that the Indian economy is likely to grow at 7.3% in 2018-19. The main thrust of the Union Budget for 2018-19 is on the rural economy and strengthening of the agriculture sector, healthcare for the economically less privileged, infrastructure creation and improvement in the quality of education. These increased allocations are expected to have a salutary impact on the Indian economy as a whole and the rural economy in particular.

The Society of Indian Automobile Manufacturers (SIAM) expects the growth momentum of Commercial vehicle sales to continue at 10-12% in 2018-19. The government's continuing emphasis on infrastructure and a recovery in the mining sector bodes well for sales of tippers. Sales of passenger vehicles are expected to grow at 8-10% (utility vehicles at 14-15% and cars at 8-9%). As per a report by CRISIL, tractor sales are projected to increase by 11-13% in 2018-19, assuming a normal monsoon and increased government support.

However, global developments, notably the looming trade wars, could add a layer of uncertainty to economic growth. Diesel prices continue to remain stubbornly high and coupled with higher interest rates could prove a dampener from the point of view of the transport operator's viability and consequently on commercial vehicle offtake. With inflation numbers trending upwards and liquidity tightening, interest rates have already shown an upward bias in the first quarter of the current financial year. RBI, for the first time in almost two years, raised the policy rate by 25 basis points in June this year. It is widely predicted that further increases are likely in the coming months.

Your Company has taken these factors into account in drawing up its plans for the year. While concentrating on its core markets and product segments, your company sees significant opportunities in the rapidly growing construction equipment segment, as also the LCV and tractor segments. Rising interest rates and intensifying competition are likely to exert pressure on margins. Your company expects to manage this through financing an appropriate mix of higher and lower yielding assets, while ensuring that asset quality continues to remain best in class.

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 ₹308.04 cr. and reported a profit after tax of ₹38.24 cr. (PY ₹30.73 cr.). The Average Assets under Management of the Company were ₹34,306 cr. for the year 2017-18, registering a healthy growth of 21% over the previous year. The company recommended a dividend of 40% for the year.

Sundaram BNP Paribas Home Finance Limited reported a profit after tax of ₹136 cr. (PY ₹154 cr.). The loan portfolio stood at ₹8,336 cr. as at 31st March 2018 as against ₹7,639 cr. in the previous year. The gross and net NPAs stood at 3.27% and 1.09% respectively, as at 31st March 2018. 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 ₹2,643 cr. as compared to ₹2,205 cr. in the previous year, a robust growth of 19.86%, and was amongst the fastest growing general insurers in the segments where it operates. Profit after tax for the year was ₹83.00 cr., as against ₹43.05 cr. in the previous year.

Regulatory Issues

In March 2016, The Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) (Amendment) Rules, 2016, which include a road map for implementation of Indian Accounting Standards (Ind AS) by Non-Banking Financial Companies. As per this notification, NBFCs having a net worth of ₹500 cr. or more, and their holding, subsidiary, joint venture or associate companies, are required to adopt the Indian Accounting Standards ('Ind AS') notified under the Companies (Indian Accounting

Standard Rules, 2015) for accounting periods beginning from 1stApril 2018 onwards. Accordingly, your Company's accounts commencing from the quarter ending 30th June 2018, will be drawn up under Ind AS.

The government has increased the maximum safe axle weight of commercial vehicles (CV), resulting in a 14-18 % increase in the load-carrying capacity of trucks, in a move that is intended to reduce logistics costs in the country. Gross vehicle weight (GVW) of a two-axle truck has been increased from 16.2T to 18.5T; similarly, GVW for a three-axle truck has been increased from 25T to 28.5T and for a five-axle truck from 37T to 43.5T. The load carrying capacity of tractor trailers has also been increased. The notification is however silent on whether the norms will be applicable only for new vehicles or for existing vehicles as well. Even on a prospective basis, a host of technical issues, such as braking systems, chassis and axle design and tyres will need to be addressed, before this can take effect. While a prospective application of the new axle load limits is unlikely to have an impact on sale of new CVs, making them applicable to existing vehicles, could have negative implications for new CV offtake in the near term.

Awards and Recognition

Your Company was chosen for the Mahindra Transport Excellence Award instituted by Mahindra & Mahindra Limited, in the category, 'Enablers of Social Change', in recognition of the outstanding contribution made by your Company, in fostering and developing the transport ecosystem, especially single truck owners and small fleet owners, over several decades.

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.