

Cholamandalam Investment and Finance Company Limited

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Chairman's Message

39th Annual General Meeting of the Company held on July 27, 2017

Ladies and Gentlemen

It gives me great pleasure to share with you some key highlights of the economy, the performance of your Company and that of its subsidiaries during the financial year 2016 - 17 as well as the outlook for the financial year 2017 - 18.

Economic Review

FY 17 witnessed significant events at the global and Indian macroeconomic environment. Global events like BREXIT and US Presidential election created a huge impact on global economic activity. The US economy strengthened following a sluggish start in 2016, primarily driven by strong labour markets and improved household balance sheets. Global economic growth slowed down to 2.3%, as global trade got stagnated, weak investment and policy uncertainty increased.

India continues to be one of the world's fastest growing economies, despite operating in a volatile global environment. The GDP for FY 17 touched 7.1%, demonstrating the fact that the country's economic fundamentals continue to be strong. The demonetisation initiative by the Government in November 2016 saw a significant impact in the economic activity in the country. Though initially perceived as inconvenient and disruptive by certain sectors of the economy, was later accepted and acknowledged as a welcome move by the public at large.

The real Gross Value Added growth in FY 17 is estimated at 6.7% as against 7.8% in FY 16 by the Central Statistical Organisation. Consumer price index based retail inflation stood at 4.5% in FY 17, compared to 4.9% in the previous year. The annual wholesale price index (WPI) inflation for FY 17 stood at 1.7% as against a negative 3.7% in the previous year, while Index of Industrial Production (IIP) increased by 5.0% versus 3.4% in the previous year. The capital goods segment however, remained sluggish, registering a meager growth of 1.9% during the year. Growth in the services sector, which contributes nearly 54% of the share of GDP, has dropped for the second year in succession to an estimated 7.9% from 9.8% in the previous year. The agricultural sector demonstrated enhanced performance, owing to a favourable monsoon after two consecutive years of drought.

India has been focused on long term economic growth and has initiated huge bold steps in that direction. A strong policy framework combined with multiple initiatives and projects should support the economic growth in the long term. The implementation of GST, implementation of

the insolvency and bankruptcy code and the banking sector reforms are some of the big bold steps that will drive the economy in that direction. India being a young country, with a great demographic advantage is well poised to grow with its young population taking to and leading in digitization and innovation in all fronts.

Fiscal Scenario

Several economies of the world including India are focusing on the reduction of public debt and fiscal deficit in order to make their fiscal policy more effective. Empirical studies have demonstrated that India has been successful in making these attempts. The underlying effect of this success has been found to be raising public expenditure by the government in subsequent years. While major macro economic data points like increase in FDI activity due to budgetary policy action, strong growth in exports, pick up in industrial activities and expansion in government capital expenditure coupled with revival in private sector capex would provide fiscal support, rich demographic dividend with the higher share of working age population would bring a faster than expected growth in the economy.

Financial services sector

India's financial services sector is diversified, comprising of entities such as commercial banks, co-operatives, insurance companies, pension funds, mutual funds, non-banking financial companies (NBFCs) and other various entities. NBFCs continued to grow their share in the financial services industry. As per data published by RBI in its Financial Stability Report of December 2016, NBFCs have outperformed Scheduled Commercial Banks (SCBs) on growth in advances and in asset quality. The growth momentum of NBFCs will result in their share in the financial services sector increasing in the near future.

Company performance

Your company continued to remain focused on maintaining asset quality. The company's aggregate loan disbursements grew by 13% from ₹ 16,380 crores in FY 16 to ₹ 18,591 crores in FY 17. The total AUM for the company as a whole grew by 15% (YoY) and the growth of on-balance sheet assets was 15%. The business AUM (including on book and assigned and net of provisions) in FY 17 stood at ₹ 34,167 crores as against ₹ 29,650 crores recorded in FY 16. The Profit After Tax (PAT) for the year is ₹ 719 crores, a growth of 26% over the last financial year. Earnings per share for the year stood at ₹ 46.01/- and the book value per share stood at ₹ 276/- as against ₹ 37.50/- and ₹ 234/- respectively, in the previous year. Net Income Margin (NIM) is at 8.6% for the year driven by reduction in cost of funds & increase in fee and other income.

Vehicle Finance (VF)

The overall commercial vehicles segment registered a growth of 4.16% in FY 17, compared to the same period last year. Medium & Heavy Commercial Vehicles (M&HCVs) grew by 0.04% and Light Commercial Vehicles (LCVs) grew by 7.41% during FY 17 over the same period last year.

The VF business posted a disbursement growth of 17% and PBT growth of 23% in FY 17. The disbursements during the year were ₹ 14,471 crores against ₹ 12,383 crores in the previous year. The PBT during the year was ₹ 682 crores against ₹ 555 crores in the previous year.

The VF business continued to focus on strengthening its business operations through various initiatives and organizational restructuring which improved its asset quality by reducing its gross NPAs from 3.7% to 2.9%. This business continues to remain optimistic and is focused on growing the book while maintaining and improving asset quality.

Home Equity (HE)

HE business continues to focus on self-occupied residential properties as its preferred asset class - a safer asset class to lend against. Its target segment continues to be the self-employed, non-professional customers. The business has built deep expertise in understanding and assessing this customer segment.

Your company remains highly focused on building and maintaining a stable and long-term relationship with its customers and channel partners. Your company has always been focusing on a faster turnaround time (TAT) leading to better customer service. With this focus, the business is confident of continued progress on its growth trajectory. The extension of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) to NBFCs in respect of loans over ₹ 100 lakhs, effective September 2016 is a laudable initiative by the government and is a welcome move to NBFCs lending in this product.

Managed assets for the business grew by 8.4% during FY 17 and stood at ₹ 9,593 crores as against ₹ 8,851 crores during FY 16. The overall disbursements during FY 17 stood at ₹ 3,056 crores against ₹ 3,476 crores during FY 16, due to a sharp slowdown in the HE market. The company continued to expand its reach in the HE business and added 14 branches during the year, taking the total branch count to 123 at the end of FY 17.

Other Businesses

In the immediate period post demonetisation in November 2016, there was a slowdown in individual home loan disbursements across the industry. Secondary market real estate transactions saw a slowdown in certain pockets of the country. The affordable home loans (HL) business was launched in FY 13 and has been growing at a steady rate. The customer base for this business is over 3,500 and the total managed assets stood at ₹ 518 crores. The managed assets in corporate finance business stood at ₹ 379 crores as of March 2017 against ₹ 423 crores as of March 2016. The business will continue its increased focus on MSME loans in FY 17. The Rural Finance product was carried out at 100 Mana Gromor centres during FY 17. Mana Gromor centres are the retail outlets operated by Coromandel International Ltd, where the company finances the agri input procurement needs of the farming community. The number of Mana Gromor centres is proposed to be increased to 200 during FY 18.

Subsidiaries' Performance

The subsidiaries, Cholamandalam Securities Limited (CSEC), Cholamandalam Distribution Services Limited (CDSL) and White Data Systems India Private Limited (WDSI) together made a PBT of ₹ 6.86 crores in FY 17 as against ₹ 8.23 crores in FY 16. CSEC recorded a gross income of ₹ 15.33 crores in FY 17 and made a PBT of ₹ 2.68 crores as against a PBT of ₹ 1.74 crores in the previous year. CDSL recorded a gross income of ₹ 13.40 crores in FY 17 and made a PBT of ₹ 8.35 crores as against a PBT of ₹ 7.01 crores in the previous year. WDSI recorded a gross income of ₹ 11.07 crores in FY 17 and made a loss of ₹ 4.17 crores as against loss of ₹ 0.52 crores in the previous year.

Outlook

India is expected to be the third largest consumer economy as its consumption may triple to US\$ 4 trillion by 2025, owing to shift in consumer behaviour and expenditure pattern, according to a Boston Consulting Group (BCG) report; and is estimated to surpass USA to become the second largest economy in terms of purchasing power parity (PPP) by the year 2040, according to a report by PricewaterhouseCoopers.

In the current situation where the Government seeks to reduce the economy's dependence on cash, the increased focus on technology acceptance promises to take the sector on a path of rapid growth. The Government's monetary policy initiatives to rationalise interest rates, licence to foreign reinsurance, monetisation alternatives in infra and realty sectors through Real Estate Investment Trusts / Infrastructure Investment Trusts, and focus on micro and SME finance in rural markets are likely to have a positive impact for the sector.

The Company will continue to increase its market presence and add more branches, implement the various digital initiatives to improve business and operational efficiency and continue to acquire new customers and provide better reach and services to our customers.

Changes to Board constitution

I, on behalf of the company and the board of directors, wish to put on record our sincere appreciation for the contributions made by Mr. Nalin Mansukhlal Shah as a Chairman of audit committee and member of the board, holding office till the conclusion of this Annual General Meeting. Further, I wish to record our appreciation for the leadership and contributions made by Mr. Vellayan Subbiah, Managing Director, who holds office up to August 18, 2017. I also take this opportunity to welcome on board Mr. N. Srinivasan who assumes office as Executive Vice Chairman and Managing Director as well as Mr. Arun Alagappan who assumes office as Executive Director effective August 19, 2017. We wish them all success.

Acknowledgement

To conclude, I express my sincere thanks to our customers, stakeholders, bankers, financial institutions, rating agencies, vehicle manufacturers, vehicle dealers, service providers and all other constituents for their valuable support and unstinted co-operation. To my colleagues on the board, I owe a great deal of gratitude for their prudent counsel and continued guidance. My special thanks and appreciation goes to the employees at all levels of the company, for their hard work, dedication and continued commitment. I also take this opportunity to thank all the shareholders for their unstinted support in all our endeavours. We continue to be committed towards creating value for all our stakeholders and adhering to the highest standards of corporate governance.

Thank you,

M B N Rao

Chairman