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## **Cholamandalam Investment and Finance Company Limited**

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# Chairman's Message

**38<sup>th</sup> Annual General Meeting of the Company held on July 29, 2016**

### **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 2015–16 as well as the outlook for the forthcoming year.

### **Economic Review**

The international economic environment witnessed a perfect storm in a VUCA world during FY 16. The term VUCA—an acronym for Volatility, Uncertainty, Complexity, and Ambiguity—serves well to describe the shape of global economies last fiscal. There were challenges all around, characterized by depreciating currencies, plunging oil prices and political turmoil, leading to declining GDPs. Ensuing business risks were significant and companies with overseas exposure had to be astute in managing these. Although some of these tensions, particularly geo-political, are still prevalent in pockets, indications are that a recovery, if only modest, is on the horizon.

Against this challenging landscape, India stood out stable. She emerged as one of the fastest growing economies in 2016. The country's economy is expected to grow at 7.5% during FY 17, despite the uncertainties in the global market. In fact, the Economic Survey FY 16 forecasts predict that the Indian economy will grow by more than 7% for the third consecutive year in FY 17 and may even touch 8% or more growth in the next two years. Improvement in India's economic fundamentals has accelerated in 2016 thanks to the combined impact of strong government reforms, RBI's focus on bringing down inflation and benign global commodity prices.

The significant fall in global crude prices reined in the wholesale price index (WPI) inflation in the negative territory for the whole of FY 16. Also the current account deficit for FY 16 is expected to further contract to 1.1% of GDP as against 1.5% in FY 15. With inflation well under control, RBI first reduced the repo rate by 50 basis points from 7.25% in June 2015 to 6.75% in September 2015 and then further reduced it to 6.50% in April 2016. It is expected that this will give a boost to India's GDP growth.

## **Fiscal Scenario**

The Government complemented the macroeconomic objectives of promoting growth and stability with the reduced fiscal space by increasing the outlays on infrastructure investments. Further the Government revised its expenditure policy to consolidate and focus on core developmental schemes and measures were also taken to enhance the tax and non-tax revenues. The impact of twin measures both on macroeconomic and fiscal fronts has shown positive results. This is reflected by the higher trends of economic growth and stability along with an improved performance on all fiscal parameters.

## **Company performance**

Your company continued to remain focused on maintaining asset quality. Disbursements grew by 28% from ₹ 12,808 crores in FY 15 to ₹ 16,380 crores in FY 16. Assets under Management (AUM) grew by 16%. Gross Non Performing Assets as a percentage of AUM, was at 3.5% at the end of FY 16, compared to 3.9% in FY 15. Net NPA was at 2.1% of AUM at the end of FY 16, compared to 2.7% in FY 15. Your company accelerated the adoption of the revised asset classification norms one year ahead of the mandatory requirement by recognising NPAs at 4 months overdue and standard assets provisioning to 0.40%. Further, the company has also created a one-time additional provision of ₹ 54.80 crores against standard assets. The net profit after tax for the year rose by 31% from ₹ 435 crores in FY 15 to ₹ 568 crores in FY 16.

## **Vehicle Finance (VF)**

Automobile sales growth in India remained in single digits at 3.8% in FY 16 compared to 7.2% in FY 15. Within automobile sales, the commercial vehicle (CV) segment posted a growth of 11.5%.

VF disbursements were ₹ 12,383 crores, as against ₹ 9,363 crores in FY 15, a growth of 32% as compared to the previous year. The AUM for the VF business was ₹ 20,100 crores. The division recorded a growth of 14% in closing managed assets and a PBT growth of 60%. Further the division improved the portfolio quality during the year. The CV industry is expected to grow between 11–12% in FY 17.

## **Home Equity (HE)**

The HE business continued to maintain a healthy growth trajectory. Disbursements grew by 14% and business AUM was at ₹ 8,852 crores in FY 16. HE business as a percentage of the overall loan book stands at 29%. Your company extended the HE offering to 92 branches by adding 14 branches during the year. Your company continues to remain focused towards self-employed and the middle socio economic class segment in this business. The HE market has been growing at a CAGR of more than 30% in the last 3 years. CRISIL expects the growth to slow down in the coming year and is

estimating a CAGR growth rate of 20–22%. Being a secured lending product and given its potential, there is increasing focus on this business by NBFCs and banks, leading to increased competition.

### **Other Businesses**

The Corporate Finance division continued its focus on MSME loans and ended the year with AUM of ₹ 423 crores. Disbursements in home loans were at ₹ 175 crores as against ₹ 89 crores in the previous year. Home Loans business has been growing steadily and operates from 45 branches currently. The HL business has expanded its operations recently to four more states: Andhra Pradesh, Karnataka, Gujarat and Maharashtra. The rural financing vertical disbursed ₹ 21 crores during the year. Your company will continue to leverage the vast rural network of our group company, Coromandel International Limited for future growth of this segment.

### **Subsidiaries' Performance**

Our two subsidiaries put together made a PBT of ₹ 8.23 crores. The income of Cholamandalam Distribution Services Limited (CDSL) during the year was at ₹ 12.62 crores as against ₹ 13.13 crores in the previous year. The profit before tax was ₹ 7.01 crores as against ₹ 5.58 crores in the previous year. The income of Cholamandalam Securities Limited (CSEC) was at ₹ 12.83 crores as against 14.57 crores in the previous year. Further, the business made a profit before tax of ₹ 1.74 crores, as against ₹ 3.42 crores in FY 15. During the the year, your company made an investment of ₹ 8 crores for a 63% stake in White Data Systems India Pvt. Ltd., a start up in the freight aggregation space, the investment will help Chola supplement the truck lending business and add to business growth. WDSI became a subsidiary of the company with effect from 16 March, 2016. WDSI had commenced operations in April 2015 and recorded a gross income of ₹ 0.04 crores for the period ended 31 March, 2016 with a loss before tax of ₹ 0.52 crore.

During the year, CDSL was given an “in principle” approval by RBI to convert CDSL into a payments bank. However, considering the challenges in the project and the changing landscape, leading to substantially higher investment over and above the regulatory capital requirement of ₹ 100 crores, longer gestation period to reach profitable operations, the board decided not to proceed with the payments bank proposal and the “in principle” approval was surrendered to RBI in March 2016.

### **Outlook**

As per IMF – World Economic Outlook, India is one of the bright spots in the slowing global world. India is expected to be one of the fastest growing emerging markets in FY 17. Many economic indicators are showing signs of recovery and the signals are positive. Fiscal policy of the Government in FY 17 has enhanced the level of public investments in the major infrastructure sectors of power, railways, highways, rural roads, waterways as well as in other focus areas of drinking water and

sanitation, these measures will continue to create a more conducive environment for higher economic growth next year. With these measures and restoration of the domestic private sector confidence, investments and growth in the Indian economy has the potential to scale new heights.

### **Acknowledgement**

To conclude, I, on behalf of the company and the board of directors, 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.

Thank you,

**M B N Rao**

Chairman