

Cholamandalam Investment and Finance Company Limited

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Chairman's Speech

Address by Mr. M. B. N. Rao, Chairman

at the 37th Annual General Meeting of the Company held on July 31, 2015

Ladies and Gentlemen

On behalf of the board of directors, it gives me great pleasure in welcoming you to your company's 37th Annual General Meeting. The company's annual report including the audited financial statements for the year ended 31 March, 2015 has been with you for some time now and with your permission I shall take them as read.

Economic Review

Eight years since the onset of global financial crisis and after easy money and tough regulations, the global economy is in search of a sustainable growth path, even as inflation in many advanced economies is still below their respective 'comfort' levels. The global economy continued to expand during 2014 at a moderate and uneven pace at 3.4%, as the prolonged recovery process from the global financial crisis was still saddled with unfinished post-crisis adjustments. The growth was supported by the developed economies, which registered the gross domestic product (GDP) growth of 1.8% in 2014 as against 1.4% in the previous year.

The year 2014 will probably be remembered for the rise in geopolitical risk more than the performance of markets. The fall in oil prices may go down as the single most important development of 2014. Accommodative supply faced with weaker demand pushed oil prices down by 42% over the year. The global economy, as per IMF, is expected to expand at a slightly faster but still only moderate pace, with world gross product (WGP) projected to grow by 3.5% and 3.8% in 2015 and 2016 respectively.

The Indian economy is reviving, helped by positive policy actions, progress on key reforms and falling global oil prices. The GDP expanded at 7.3% in FY15 as compared to 6.9% in FY14 supported by the uptick in industrial growth led by manufacturing, utilities and service sector.

Inflation, as measured by consumer price index (CPI), showed a substantial decline and was below 6% for the better part of the year. The drop in the inflation levels were much faster than was anticipated and this led to the RBI now being more open about a softer stance in monetary policy. The decline in inflation and subdued commodity prices provided enough headroom for the RBI to cut interest rates three times during the last six months, making it cumulative 75 bps so far. The expansion in the index of industrial production

to 2.8% in FY15 as against the contraction of 0.1% in the previous year boded well for the economy. The revival in the index could be seen from the growth of the medium and heavy commercial vehicle (MHCV) sector, which is the barometer of the country's economy. This growth is seen after nearly two years of prolonged slump. MHCV segment after dropping by 25% in FY14, grew by 16% in FY15. Given the expected growth in industrial, construction and mining sectors, society of indian automobile manufacturers (SIAM) has projected growth rates of 13-15% for MHCVs and 3-5% for light commercial vehicles (LCVs) in FY16.

Company Performance

Your company's cautious approach to disbursements, continued in FY15 as well. Disbursements saw a drop of 2% from ₹ 13,114 crores in FY14 to ₹ 12,808 crores in FY15. Assets under Management (AUM) showed a growth of 9%. Despite a challenging business environment, your company contained the stress in the portfolio. Gross non-performing assets (GNPA), as a percentage of AUM, moved from 1.9% in FY14 to 2.4% in FY15. Net non-performing assets (NNPA) is at 1.4% of AUM in FY15, compared to 0.7% in FY14. A gradual improvement in collections was witnessed in the second half of the year. As a prudent and conservative measure, your company decided to advance its adoption of the RBI regulations relating to recognition of NPAs at 5 months overdue and increased its standard asset provisioning from 0.25 to 0.30% by one year. The early adoption resulted in the GNPA moving to 3.1% and NNPA of 2%.

Your company's focus on higher yield products and a reduction in interest costs resulted in an increase in net income margin (NIM) from 7.7% in FY14 to 7.9% in FY15. Ongoing cost rationalisation efforts ensured that the operating cost to asset ratio was maintained at 3.4%, same as the previous year.

The net profit after tax for the year rose by 20% from ₹ 364 crores in FY14 to ₹ 435 crores in FY15.

Vehicle Finance (VF)

Automobile sales growth in India remained in single digits at 7.2% in FY15 compared to 3.5% in FY14. Within automobile sales, the commercial vehicle (CV) segment is the only segment that continues to shrink and posted a de-growth of 2.8%. Domestic tractor volumes fell by 13% in FY15 owing to below normal monsoons, which impacted the kharif and rabi crops. Both CV and tractor volumes are expected to pick up in FY16.

Your company has achieved deep penetration in terms of branch network across the country and operated out of 529 VF branches during the year. VF disbursements were ₹ 9,363 crores, as against ₹ 10,128 crores in the previous year. The AUM for the VF business was ₹ 17,639 crores, a growth of 3% as compared to the previous year. The collections efforts intensified given the muted macroeconomic environment and drop in freight utilisation and began to improve in the last few months of the year.

Home Equity (HE)

The HE business continued to maintain a healthy growth trajectory. Disbursements grew by 8% and AUM saw a growth of 24%, increasing from ₹ 5,860 crores in FY14 to ₹ 7,280 crores in FY15. HE business as a percentage of the overall loan book stands at 29%. During the year, your company extended the HE offering to 78 branches, up from 68 branches in FY14. Your company continues to remain focused towards self-employed segment in this business. The outlook for this product is positive, with a projected growth of 20-25% over the medium-term. Competition is intensifying in this product, with both NBFCs and PSU banks actively looking to grow their books. To stand out from the rest, your company is highly focused on building and maintaining a stable and long-term relationship with customers and channel partners. The recent announcement in the union budget of extending the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) to NBFCs will strengthen our efforts at maintaining healthy asset quality.

Other Businesses and New Product Lines

Among new businesses, MSME, home loans and wealth management businesses made noteworthy progress during the year. The affordable home loans business extended its customer base to over 800 and built an AUM of ₹ 121 crores. During the year, the MSME segment disbursed ₹ 249 crores.

Both rural finance and construction equipment continues to show promise and we are carefully increasing our presence and building our book in these lines. In addition, we commenced two wheeler financing in FY15.

Subsidiaries' Performance

Both the subsidiaries of your company performed well in FY15. The income of Cholamandalam Distribution Services during the year grew to ₹ 13.13 crores as against ₹ 11.88 crores in the previous year. The profit before tax was ₹ 5.58 crores as against ₹ 4.68 crores in the previous year. The income of Cholamandalam Securities grew from ₹ 8.04 crores in FY14 to ₹ 14.44 crores in FY15. Further, the business made a profit before tax of ₹ 3.42 crores, as against a loss of ₹ 0.40 crores in FY14.

Outlook

Terming the Indian economy a "bright spot" on the global economic landscape, IMF has projected the growth at 7.5% for the current fiscal. The optimism of economic growth is further affirmed by the revision in India's sovereign rating outlook to "Positive" from "Stable" by Moody's ratings. The focus on implementation of structural reforms, investments in infrastructure, uptick in consumption and cyclical easing of monetary policy would strengthen the aggregate growth. The expected buoyancy in the economy augurs well for the financial services sector as it would increase the credit off-take. However, steady increase in fuel prices and sub-par monsoon might pose a challenge to the ongoing improvement in growth inflation dynamics and monetary easing.

A growth rate of 7-9% is projected for the CV industry in FY16 and the industry is expected to grow at a compounded annual growth rate (CAGR) of 10-13% till FY20 (Source: CRISIL Research). Therefore, the outlook for the vehicle finance business is positive both in the short and medium term. Competition has been rapidly increasing in HE product with almost all the private sector banks and a number of public sector banks increasing their focus on loan against property (LAP) as an exclusive offering. However, your company has established itself in the market place as a trusted and reliable partner for customers seeking a LAP loan with a quick turnaround time and customer friendly service. Building on this momentum, your company expects to grow this product line at a healthy pace in FY16.

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 of the company at all levels for their hard work, dedication and continued commitment. I also take this opportunity to thank all the shareholders for the unstinted support in all our endeavours.

Thank you,

M B N Rao
Chairman