

Cholamandalam Investment and Finance Company Limited

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Chairman's Speech

Address by Mr. M. B. N. Rao, Chairman at the 36th Annual General Meeting of the Company held on 31 July, 2014

Ladies and Gentlemen

On behalf of the board of directors, it gives me great pleasure in welcoming you to your company's 36th Annual General Meeting. The company's annual report including the audited accounts for the year ended 31 March, 2014 has been with you for some time now and with your permission I shall take them as read.

Economic Review

The year saw the global economy maintain its path of gradual recovery with a growth of 3% which is marginally lower than 3.2% growth in the last year. The first half was a bit sluggish with a growth of 2.7%. However, the growth in the second half of 2013-14 strengthened to 3.7%. The strengthening of growth in the second half was largely supported by strong revival in the growth of developed economies.

India on the other hand grew at a sluggish growth rate with a GDP growth of 4.7% in the year 2013-14. However, it marginally revived from 4.5% in the previous year. The key reasons for the sluggish growth has been significant delays in project clearances, deceleration in corporate investment, high interest rates and supply bottlenecks including land and fuel availability.

The Wholesale Price Index inflation during the year largely remained above Reserve Bank of India's (RBI) comfortable zone, due to which, even after a sluggish overall economic environment, RBI kept the repo rate at an elevated level. This led to high cost of funds in the system. The growth in the Index of Industrial Production (IIP) in the year 2013-14 was negative by 0.1% and for mining it was negative by 0.8%.

The slow moving economy had its repercussions on the overall auto sales growth in India which remained sluggish at 3.5% in 2013-14. This has been due to the significant fall in commercial and passenger vehicle sales. The commercial vehicle sales for the year 2013-14 were down by 20% of which the medium and heavy commercial vehicle sales were down by 27%. The overall utilisation level for commercial vehicles also

dropped to 65%, which had a negative impact on the vehicle operator's cash flows. Hence, during the year the overall delinquencies in the financial system for commercial vehicles have gone up.

Company Performance

After continuously growing at a significant pace over the last two years, your company took a conscious decision to consolidate its growth this year and remained focused towards asset quality. Hence, its overall growth in disbursement has been at 8.2% in 2013-14 as against an average of 46% over the past 3 years. The disbursements for the year was ₹ 13,114 crores as against ₹ 12,118 crores in the previous year. During the year, with the overall market conditions being unstable, the gross non-performing assets (GNPA) moved up from 1% in 2012-13 to 1.9% in 2013-14. Net non-performing assets (NNPA) stand at 0.7% in 2013-14 compared to 0.2% in 2012-13. Despite an increase in cost of funds, your company was able to marginally enhance its net interest margin to 7.7% in 2013-14 as against 7.6% in the previous year.

With these measures, amid a very challenging business environment, your company's net income margin during the year increased to ₹ 1,492 crores as against ₹ 1,145 crores in the previous year. The net profit after tax also grew by 18.57% from ₹ 307 crores in 2012-13 to ₹ 364 crores in 2013-14.

Vehicle Finance (VF)

The auto industry witnessed a very sluggish growth for the second year in a row. The commercial vehicle segment has been the worst hit with a 20% fall in sales volume. Only the tractor segment was able to see some growth. However, the long-term perspective of the commercial vehicle industry continues to remain positive and is expected to grow at a compound annual growth rate (CAGR) of 10-12% till 2017-18 (Source: CRISIL Research).

During the year, your company slowed the branch expansion nevertheless added 54 new branches taking the total branch strength to 527. The disbursement for VF during the year grew by 2.5% from ₹ 9,882 crores in 2012-13 to ₹ 10,128 crores in 2013-14. The total assets under management (AUM) for VF segment at the end of 2013-14 reached ₹ 17,065 crores, up by 18.8% over 2012-13. The asset quality noticed some degradation but is well in control.

Home Equity (HE)

The HE business segment of your company during the year performed well. Disbursement grew by 30%. Share of HE in the total on book asset enhanced to 25.2% in 2013-14 from 22.8% in 2012-13. During the year, your company extended the HE offering to 68 branches, up from 61 branches in 2012-13. Your company continues to remain focused towards self-employed segment in this business where most of its customers

have been from micro, small and medium enterprises (MSME). With increased awareness and gradual enhancement of reach, this business has great potential for growth in the coming years.

Other Businesses

Among its new businesses, home loan and wealth management businesses made noteworthy progress during the year. The affordable home loans business was launched in 2012-13 and has been growing since then. The business built an AUM of ₹ 41.10 crores with 291 active customers. During the year, the MSME segment disbursed ₹ 137 crores.

New Product lines

During the year, your company introduced two new products, rural finance and construction equipment finance and is running on a pilot basis. Your company would continue to grow its branch network and new businesses to further broaden its presence and revenue stream.

Subsidiaries' Performance

Despite the slack investment cycle in India due to a sluggish overall economic growth, the performance of product distribution as well as securities of your company fared well during the year 2013-14. The Cholamandalam Distribution Services income during the year grew to ₹ 11.8 crores as against ₹ 11.6 crores in the previous year. The net profit was ₹ 4.7 crores as against ₹ 2 crores in the previous year. The Cholamandalam Securities income grew from ₹ 7.2 crores to ₹ 8.0 crores. Further, the losses in the business have come down from ₹ 1 crore in 2012-13 to ₹ 0.4 crore in 2013-14.

Outlook

The year 2013-14 has been one of the toughest years in terms of business environment. The double whammy of significantly high inflation as well as cost of funds had taken a toll on the growth as well as margins of the financial services industry. However, over the last three months, many key economic data points have shown good signs of revival. Consumer price index (CPI) which stood at 8.31% at the end of March 2014 has come down to 7.31% in the month of June 2014. Also IIP which stood in the negative territory for the year as well as for the month ended March 2014 has significantly revived to 3.4% in the month of April 2014 and further moved up to 4.7% in May 2014. Hence, the Indian economy is now showing good signs of revival. Also as per the Economic survey report, the GDP growth for India for the year 2014-15 is expected to rise and is projected to be in the range of 5.4% to 5.9%.

The fall in subsidy for retail diesel prices, although negative for the vehicle finance industry, would lead to significant reduction in the fuel subsidy for the government. This would lead to lower fiscal deficit. The fiscal

deficit target set in the budget for the year 2014-15 is 4.1% of the GDP, which is lower than the fiscal deficit of 4.5% in the previous year. This would also help in better liquidity scenario in the industry. With falling inflation, there is higher probability that the RBI may reduce the repo rate, which would lead to lower cost of funds in the system.

Hence, all key economic data are currently indicating towards a better growth for the financial services industry over the coming years.

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