

# Chairman's Speech

60<sup>th</sup> Annual General Meeting – July 18, 2013

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**SUNDARAM FINANCE**  
*Enduring values. New age thinking.*



**Sri S. Viji**

*Chairman, SUNDARAM FINANCE LIMITED*

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Ladies and Gentlemen,

It gives me great pleasure to welcome you all to the sixtieth Annual General Meeting of your Company. The company's annual report and audited accounts for the year ended 31 March 2013 have been with you for some time now, and with your permission, I shall take them as read.

## Economy

Global economic growth remains subdued, recovery is slow and risks remain elevated on account of fiscal policy changes, even as uncertainty about outcomes continues to threaten the prospects of a sustained recovery in several advanced economies. In a recently released report, The International Monetary Fund (IMF) says that Global growth increased only slightly in the first quarter of 2013, instead of accelerating further as was widely expected. The underperformance was due to continuing growth disappointments in major emerging market economies, a deeper recession in the euro



area, and a slower U.S. expansion than expected. IMF expects global growth in 2013 to remain unchanged from 2012, at just over 3% and goes on to add that weakness in emerging market economies will dampen global growth prospects. Global growth is now projected at 3.1% for 2013 and 3.8% for 2014, a downward revision of  $\frac{1}{4}$  percentage point each year, compared with earlier forecasts.

On the domestic front, macroeconomic conditions remain weak, hamstrung by infrastructure bottlenecks, supply constraints, lacklustre domestic demand and subdued investment sentiment. Though Inflation has moderated, as projected, pressures arising as a result of rupee depreciation and recent increases in administered prices, pose fresh risks on the inflation front. Headline WPI inflation eased for three months in succession with the May 2013 reading at 4.7%, down from an average of 7.4% in 2012-13, with all constituent categories, barring food, having moderated. Although retail inflation, as measured by the new combined

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(rural and urban) CPI, edged down from an average of 10.2% last fiscal year to 9.3% in May, it still remains outside the zone of comfort.

Despite a moderation in the Current Account Deficit (CAD) in the fourth quarter of FY 13, to 3.6% of GDP, down from 6.7% in the previous quarter, the near term economic outlook does not seem encouraging. The fall in CAD is largely attributable to lower non-oil and non-gold imports, reflecting the dampened sentiments in the domestic economy. More worryingly, the Rupee has depreciated by more than 10% since April, largely nullifying the benefits of the reduction in global oil prices. Petrol and diesel prices were raised by ₹ 2 and ₹ 0.50, in June and further increases cannot be ruled out, given the continuing weakness of the Rupee against the US Dollar. Apprehensions of an early rollback of Quantitative easing by the US Federal Reserve continue. As a consequence, the outflows from the Indian debt market alone have amounted to USD 7.6 billion from



22 May 2013, the first time that the Fed's QE tapering started to be discussed in earnest. Should this trend continue, it is likely to exert further pressure on the Rupee.

## Working Results

Your company's disbursements at ₹ 9991 cr. for the year, registered a growth of 6%, over the previous year, in what was a very challenging period for the automotive sector as a whole. The gross receivables managed by the Company, grew by 13.5% and stood at ₹ 17645 cr. as at 31 March 2013. Your Company increased its market share in the M&HCV segment, its traditional area of strength. The company's continued focus on strict credit acceptance norms and superior collection skills has ensured that asset quality continues to be one of the best in the industry. In December 2012, Reserve Bank of India (RBI), issued draft guidelines on the regulatory framework for NBFCs, which, inter alia,

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propose that the asset classification and provisioning norms for NBFCs, should, in a phased manner, be made similar to those for banks. In view of the imminent tightening of regulations, the Company has made a provision of ₹ 15.81 cr. on assets whose instalments are overdue for 120 days and above. Further, the Company foresees emerging stress on commercial vehicle operators, occasioned by the difficult economic environment and has, as a measure of prudence, made an additional provision of ₹ 20.91 cr. during the year. Gross and Net NPAs as at 31 March 2013 stood at 1.04% and 0.45%, respectively, based on the more stringent provisions made by your Company.

The net profit from operations was ₹ 410.11 cr. as against ₹ 355.45 cr. in the previous year, registering a growth of 15.38%. The company's Net-Worth stood at ₹ 2086.71 cr. as on 31 March 2013, while the consolidated net profit and net worth stood at ₹ 563.97 cr. and ₹ 2614.29 cr. respectively, as at 31 March 2013.



The net accretion to public deposits during the year 2012-13, was ₹ 216.15 cr. which is the highest ever in a single financial year, in the history of your Company, taking the deposits outstanding at the year end to ₹ 1476.99 cr. I thank our depositors, many of whom have been with us for several decades, for the high degree of confidence reposed in the Company and assure them of our constant endeavour to maintain the highest standards of safety, efficiency and personalised service for which your Company is renowned.

Your directors are pleased to recommend a final dividend of ₹ 4.50 per share, which together with the interim dividend of ₹ 4.50 per share paid in February 2013, aggregates to a total dividend of ₹ 9.00 per share for the financial year ended 31 March 2013, on the enhanced paid-up capital of ₹ 111.10 cr., as a result of the bonus issue in the ratio of 1:1, in December 2012. The total payout, including dividend tax of ₹ 12.83 cr., will amount to ₹ 99.99 cr.

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In June 2013, your Company was awarded the prestigious **“MAME Award for Managerial Excellence”** in the services sector, by the Madras Management Association. The award recognises an organisation’s commitment to a philosophy of excellence, in every area of management and is designed to identify and reward companies and institutions in the southern States of Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Puducherry.

## Prospects

The outlook for the year remains uncertain. While the emergence of so-called ‘green shoots’ in the economy is being mentioned in some quarters, the signs are faint, at best. The fact remains that until the severe fiscal imbalances are corrected, economic growth will continue to suffer. In recent months, the government has made some course corrections by way of policy responses and spelt out a path of fiscal consolidation and it is to be hoped that these



will have the desired impact. WPI inflation is expected to be around 5.5% during 2013-14, based on forecasts of domestic demand-supply, global commodity prices and the expectation of a normal monsoon. While the RBI was expected to consider some calibrated easing of rates, based on falling inflation and global commodity prices, the recent weakening of the Rupee could nullify all the gains and curtail the room for easing.

According to The Society of Indian Automobile Manufacturers (SIAM), sales of all categories of vehicles are estimated to grow by 6-8% in 2013-14 and that of medium and heavy commercial vehicles by 1-3%, with *"sales likely to remain sluggish over the next few quarters with probably marginal recovery during the second half."* Domestic sales of passenger cars and utility vehicles were down 7%, while sales of M&HCVs declined by 16%, in the first quarter 2013-14, compared to the corresponding period last year. The M&HCV segment of the commercial vehicle industry has

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been in the grip of a severe downturn for nearly two years now. However, with reports of a bountiful monsoon across the country, and the possible revival of stalled infrastructure projects, there is hope of a turnaround in the latter half of the financial year.

Given the muted projections for the automotive sector, your company's disbursements are only expected to grow at a modest pace in the current financial year. Your Company has consistently believed that growth should be accompanied in equal measure by quality and profitability, and it is this philosophy that will help us navigate this challenging phase. Your Company, while continuing to be a leading player in the M&HCV segment, has also taken initiatives to deepen its presence in other segments, including light commercial vehicles and tractors, besides offering a number of working capital products to our commercial vehicle customers and a wide range of retail financial products, such as Home loans, Insurance, and Mutual Funds, to all our customers.



## Subsidiaries and Joint Ventures

Your company's subsidiaries and joint ventures have reported good results for the year under review.

**Sundaram Asset Management Company** continued to face a challenging environment in the form of volatile equity markets, affected by many factors, including regulatory changes. The company was however able to respond to the situation appropriately and reported a profit after tax of ₹ 16.86 cr. as against ₹ 11.00 cr. in the previous year.

**Sundaram BNP Paribas Home Finance** reported an impressive 35% growth in profit after tax at ₹ 126.55 cr. (PY ₹ 93.73 cr.). The loan portfolio stood at ₹ 5902 cr. as at 31 March 2013 as against ₹ 4226 cr. in the previous year. The gross and net NPA stood at 0.77% and 0.23% respectively, as at 31 March 2013, clearly one of the best in the industry.



**Royal Sundaram** reported an impressive profit after tax of ₹ 54.67 cr. during the year. The Gross Written Premium (GWP) was ₹ 1560 cr. as compared to ₹ 1479.79 cr. in the previous year. The company has been able to balance prudent selection and pricing of risks, resulting in profitable growth. During the year, the shareholders of Royal Sundaram infused additional capital of ₹ 40 cr. taking the total paid-up capital of the company to ₹ 315 cr.

## Legislative and Regulatory Issues

In August 2011, Reserve Bank of India released draft guidelines for licensing of new banks in the private sector, inviting feedback from the public and aspiring applicants. Following this, RBI released the gist of the feedback on draft guidelines, in July 2012. In December 2012, Lok Sabha passed the Banking Laws (Amendment) Bill, following which RBI issued final guidelines for new banking licences, in February 2013.



Your Company undertook a study of the guidelines, with a view to determine whether it should apply for a banking licence. Based on a detailed and thorough analysis of the guidelines, the Board of Directors of your Company are of the considered view that it is not in the long term interests of the stakeholders to apply for a banking licence.

A robust banking and financial sector is a critical prerequisite for developing and developed economies alike, as they provide the vital fuel for the engines of economic growth. Within this, financial intermediaries such as Non-Banking Finance Companies (NBFCs) have a very definite and important role, both in terms of credit delivery and mobilisation of domestic savings. They are a vital link in the system, especially in a country as diverse as India.

But first, it is vitally important to appreciate the role played by **Asset Financing NBFCs (NBFC-AFCs)** in the growth and development of the road transport industry in India, over the past seventy years. NBFCs, due to their inherent strengths of local knowledge, credit appraisal skills, well

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trained collection machinery and personalised customer service, are in an excellent position to cater to the needs of small and medium transport operators, especially in the semi-urban and rural areas. In many ways, it is the NBFCs who wrote the original script on financial inclusion, over 70 years ago! However, notwithstanding the pioneering work that they have done, especially in financing commercial vehicles and SMEs, they have been given short shrift.

NBFCs are clearly an additional delivery channel not only for lending products but also for a whole range of savings and investment products such as insurance and mutual funds. It is in the economy's interest to develop a robust NBFC sector. It is equally important to recognise the larger role played by Asset financing NBFCs in terms of asset creation. Banks and NBFCs must be viewed as part of a continuum, so that the ends of efficient credit delivery are met. It is also vitally important to create a framework for long-term funding, especially for the small and medium NBFCs, with appropriate safeguards in place, including for deposits.



The Working Group on the Issues and Concerns in the NBFC Sector, headed by Smt. Usha Thorat, former Deputy Governor RBI, in its report submitted to RBI, in August 2011, had this to say “.....In the period following the last amendment of the (RBI) Act in 1997, the non-banking financial sector has evolved considerably in terms of operations, variety of market products and instruments, technological sophistication, etc. Over recent years the NBFCs have assumed increasing significance and have added considerable depth to the overall financial sector. The regulatory responses on the part of RBI have also kept pace with the evolution of this sector....” The report goes on to add, that “...given the growing importance of this segment of the financial system, it has become equally important to ensure that the dynamism displayed by NBFCs in delivering innovation and last mile connectivity for meeting the credit needs of the productive sectors of the economy is not curbed. There has emerged therefore

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**a need to rationalise the type and nature of NBFCs being regulated so that the objectives of regulation are met in an optimal and balanced manner..."**

Given the cultural and geographic diversity of India and the challenges of last mile credit delivery, NBFCs have a very significant role to play in making financial inclusion a reality. **The legitimate demands of NBFC-AFCs, to be afforded parity with Banks and Housing Finance companies, in respect of differential risk weights for different asset classes, tax treatment of NPA provisions and income relating to NPA accounts, and SARFAESI Act have, sadly, fallen on deaf ears.** Viewed in the context of recent and impending regulatory actions, these issues take on even greater significance. Capital adequacy requirements for all NBFCs have been raised from 12 to 15%, significantly higher than that required for banks. As per The RBI's Draft Guidelines based on the Usha Thorat Committee Report on Issues and Concerns in NBFC Sector, released in Dec 2012,



“It has been decided that the asset classification and provisioning norms (including standard asset provisioning norms) should, in a phased manner, be made similar to that of banks for all registered NBFCs irrespective of size. The same will be implemented in phases, viz; a 120 day norm shall be applied from April 01, 2014 to March 31, 2015 and a 90 day norm thereafter. Further, it is proposed to raise the provisioning for standard assets from 0.25% to 0.40% of the outstanding amount w.e.f. March 31, 2014 for all NBFCs.” It is pertinent to note that while NBFCs are increasingly being subjected to the same rigour as banks, in terms of regulation, they have for long been denied their rightful parity with other constituents of the financial system, in spite of the fact that the NPAs of Asset Financing NBFCs have been consistently lower than that of most banks. The moot question is, will somebody sit up and take notice?

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## 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 and mutual funds 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, a dedicated and loyal band of people who have displayed unswerving commitment to their work in these challenging times and helped the Company deliver strong results.

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.*



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