

Cholamandalam Investment and Finance Company Limited

Registered Office: "Dare House", No.2, N.S.C. Bose Road, Parrys, Chennai - 600 001.
Phone: 044 30007172; Fax: 25346464; Email ID: inverstors@chola.murugappa.com

CHAIRMAN'S SPEECH

**Address by Mr. M. B. N. Rao, Chairman
at the 34th Annual General Meeting of the Company held on July 30, 2012**

LADIES AND GENTLEMEN

On behalf of the Board of Directors, I have great pleasure in extending to you all a very warm welcome to the 34th Annual General Meeting of your Company. At the outset, I express my sincere thanks to you for your continued trust, encouragement and support.

ECONOMIC SCENARIO:

During the fiscal year 2011-12, the Indian Economy registered a real GDP growth of 6.5% which is lowest in the past nine years while the global growth environment remained challenging due to unstable oil prices, sovereign debt crisis in EU and many countries attained only a meager growth. Industrial Production (IIP) grew by a mere 2.4% in May 2012, indicating a persistent slowdown. The wholesale price index (WPI) a main inflation gauge rose at an annual rate of 7.25% in June, lower than the 7.62% rise estimated by analysts. India's current account deficit is at 4.2% of GDP in 2011-12 an increase from 2.7% of GDP in 2010-11. The main reason behind this high current account deficit was lower growth in export as compared to high growth in imports. In order to contain inflation, RBI had increased the Repo rate progressively from 5.75% (17.3.2011) to 8.5% (25.10.2011), an increase by 2.75% which was later brought down to 8% in April 2012. This was followed through by banks increasing their lending rates at similar levels. In view of the economy experiencing high inflation and interest rates, the GDP is expected to be around 6.3% for the year 2012-2013.

COMPANY PERFORMANCE:

During the year ended 31 March, 2012, the Company recorded an all-round growth due to the sustained performance of the Vehicle Finance and Home Equity businesses. Your Company is strongly positioned in each of its business and remains focused on sustainable growth and strong profitability in its core businesses by improved process changes aided by technology to increase the overall productivity and profitability.

HIGHLIGHTS**BUSINESS HIGHLIGHTS:**

During the year, the Company disbursed aggregate loans of ₹ 8,889 crores as against ₹ 5,731 crores in the previous year registering a growth of 55%. The aggregate disbursements of ₹ 7,306 crores in Vehicle Finance and ₹ 1,528 crores in Home Equity verticals by the Company was the highest ever since inception. The Company has disbursed ₹ 54 crores in its newly launched loan against gold business. The net managed assets grew to ₹ 13,462 crores as against ₹ 9,124 crores in the previous year clocking a growth of 48% over

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the previous year and is the highest ever achieved. The total assets (including off-balance sheet assets) grew to ₹ 14,643 crores as against ₹ 10,441 crores in the previous year. The profit before tax for the year was ₹ 290.11 crores as against ₹ 100.11 crores in the previous year.

Profit after tax was at ₹ 172.54 crores for the year as compared to ₹ 62.18 crores in the previous year. The performance of the Company can be considered highly satisfying as its growth across the business verticals has been significantly higher than the industry growth levels.

The gross non-performing assets of the Company were at 0.80% of total assets and the net NPAs constituted 0.25% of the total assets.

VEHICLE FINANCE (VF):

The overall industry rate of growth of CV was lower than FY 2010-11, largely due to the sharp drop in the growth of heavy commercial vehicles and also due to the impact of a higher base in 2010-11. Medium & Heavy Commercial Vehicles registered a growth of 8%, while Light Commercial Vehicles grew at 27.36%. The Company's overall Commercial Vehicle disbursement grew by 63% over the previous year to ₹ 7,306 crores. The growth in new commercial vehicle disbursements in terms of units was 49% against the industry's growth of 18%. The Company's commercial vehicle market share increased this FY from 8% to 10%. VF continues to account for the largest share of the Company's asset portfolio with an asset deployment of ₹ 9,841 crores, constituting 73% of net managed assets. For better market penetration and strategic expansion, 124 new branches were added to increase pan India footprint. The Company also executed MOUs for strategic alliances and was accredited with "Preferred Financier" status with India's top most automobile manufacturers.

HOME EQUITY (HE):

The HE business has established itself as one of the most competitive and profitable industry players in the five years of its operation. The business continues to focus on self-occupied residential properties as the preferred asset class and expects robust growth in FY 2012 - 13. HE closed the year with an asset portfolio of ₹ 3,083 crores, constituting 23% of net managed assets. It recorded a disbursement of ₹ 1,528 crores as against ₹ 1,235 crores in the previous year recording a growth of 24%. The business commenced operations in 9 new locations and is currently present in 45 locations across the country.

BUSINESS FINANCE:

During the year, the division closed with an asset float of ₹ 491 crores which constituted close to 4% of the net managed assets of the Company. These loans are collateralized and the Company has stringent evaluation and online control mechanism for monitoring the stock prices. The book is secured 68% by way of equity shares and 32% by way of combination of property/assets and shares. The business continues its focus on the promoter financing books as the key business segment.

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NEW BUSINESSES:

Your Company has entered Tractor financing as a line extension of vehicle finance and achieved a 3.5% market share in the first year of its operations. Your Company is also planning to enter into affordable housing finance as a line extension of Home Equity.

GOLD LOAN:

Your Company launched gold loan business during the current financial year and commenced operations with its first branch in Chennai during December, 2011. The business recorded disbursements aggregating to ₹ 54 crores with 31 branches, a customer base of 1,673 and an asset portfolio of ₹ 42 crores which constitutes less than 1% of the total asset book.

OTHER SIGNIFICANT EVENTS

Your Company raised Equity capital by way of a preferential issue of shares aggregating to ₹ 212 crores to domestic and foreign investors. Your Company raised tier II capital of ₹ 583 crores in the form of perpetual debt and subordinated debt.

During the year, the Company was categorised as an Asset Financing Company (AFC) by RBI. The capital adequacy ratio was at 18.08% as on 31 March, 2012 as against 16.67% as on 31 March, 2011. The minimum capital adequacy ratio prescribed by RBI for an AFC is 15%.

The Company increased presence in 124 new locations in Tier III and Tier IV towns and increased the total branch strength to 375 branches across India towards growing its vehicle finance and other businesses. During the year, the Company expanded its branch network significantly.

ICRA upgraded its long-term rating on non-convertible debentures and lines of credit from banks from [ICRA] AA- to [ICRA]AA. The outlook on the upgraded rating is Stable.

SUBSIDIARIES' PERFORMANCE:

The securities business incurred a loss before tax of ₹ 2.58 crores as against a profit of ₹ 0.49 crores in the previous year. The distribution / wealth management business made a loss before tax of ₹ 0.37 crores as against a profit of ₹ 6.90 crores in the previous year. Cholamandalam Factoring Limited, made a loss before tax of ₹ 61.29 crores as against a loss of ₹ 8.16 crores in the previous year.

OUTLOOK:

Growth of commercial vehicles industry is closely linked to the country's economic growth. The CV growth in 2011 was moderate and some of the macroeconomic challenges faced in 2011 are expected to continue in 2012 as well, thus further weakening the business sentiment and growth outlook. Even as RBI nuances monetary policy to maintain the growth-inflation balance, manufacturing is likely to remain flat. The global contagion

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and the falling value of the rupee limit the RBI's options to cut interest rates and liquidity conditions are expected to remain tight. A deficit monsoon, continuing high input costs, high wages and a sticky inflation point to a tough going for business in the months ahead and these are expected to impact the rural as well as the overall demand.

In spite of the various uncertainties in the macroeconomic environment and the not too optimistic outlook for the automotive industry, your Company will endeavour to attain a well balanced growth in its various portfolios and further strengthen its system for better monitoring and healthy credit besides maintaining adequate provision to protect asset portfolios from any adverse growth risks.

ACKNOWLEDGMENT:

In conclusion, I, on behalf of the Company, Board of Directors and on my own behalf, express my gratitude 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. I also wish to place on record our sense of appreciation for the dedicated services of our employees which enabled your Company to perform well during the year. I also take this opportunity to thank all the stakeholders for their unstinted support in all our endeavours. Your Company on its part will always strive to perform well and meet the expectation of its family of shareholders.

Thank you,

M B N Rao

Chairman