

Board's Report & Management Discussion and Analysis

Dear Shareholders,

The Directors take pleasure in presenting the 71st Annual Report together with the audited financial statements of the Company for the year ended March 31, 2020.

COMPANY OVERVIEW

Cholamandalam Financial Holdings Limited ('CFHL') is the holding company for the financial services and risk management businesses of the Murugappa Group. CFHL is registered as a Non-Deposit taking Systemically Important Core Investment Company ('CIC') pursuant to a certificate of registration dated January 6, 2020 issued by the Reserve Bank of India (RBI) under Section 45-IA of the Reserve Bank of India Act, 1934.

SHARE CAPITAL

The Company's paid up equity share capital as on March 31, 2020 was ₹18.77 Crore. During the year 23,796 equity shares were allotted upon exercise of vested stock options by the eligible option grantees under the Company's Employees Stock Option Schemes 2007 and 2016.

MACRO ECONOMIC ENVIRONMENT

Indian economy had shown clear signs of slowing down even before the onset of the pandemic. The country's GDP grew by 4.2% in the FY 19-20 with a moderate growth of 4.8% in the first half year. A weak consumer demand, slow private investment and tight credit conditions in the financial sectors were some of the key factors for the decelerated growth during the year. Reforms undertaken by the government to revamp the financial sector, address the NBFC crisis, reduce the stress in the real estate sector and speed up the resolution under Insolvency and Bankruptcy Code (IBC) had a marginal impact during the second half year. However, GDP growth tapered significantly to 3.1% in the fourth quarter due to the outbreak of coronavirus pandemic and the resultant nationwide lock down.

Globally, the weaker-than-expected performance reflected a marked slowdown amongst some of the developing economies. The slowdown partly reflects global factors such as softened demands, political instability and impacts due to extreme weather events. Few major economies witnessed a dampened growth during the year due to contraction in global trade and manufacturing activities. International trade disputes resulted in uncertainty and strained global trade which

further led to a decline in most commodity prices. Financial market improved towards the end of the fiscal year with the easing of trade tensions. However, the outbreak of COVID-19 in the beginning of the year 2020 has sent shock waves across global equity markets. The pandemic paralyzed activities in most of the countries. Financial sector volatility has exploded to levels last seen during the global financial crisis. With the continuing unprecedented situation, a probability exists that major parts of the global economy could slip into recession.

In India, adverse impact is manifested in most of the businesses due to supply disruptions, fall in consumption demand and stress on the banking and financial sectors. India's GDP growth for FY 20-21 is estimated to reduce significantly as compared to pre-covid projection of around 5%. Several important relief measures and stimulus packages announced by the government is expected to contain the economic impact of COVID-19.

BUSINESS ENVIRONMENT

CFHL earns revenue predominantly by way of dividend income from investments held in subsidiary and other group companies. An overview of the financial service sector in which the company operates along with a business update of these companies during FY 19-20 is summarised in the following paragraphs.

NBFC Industry & Business Update

India's financial sector is a highly diversified one comprising commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. The sector is predominantly driven by banking and non-banking financial companies ('NBFCs'). Over the past few years NBFCs have emerged as important financial intermediaries, particularly for the small-scale and retail sectors in underserved areas and unbanked sectors. The sector turned out to be growth engines in an environment where significant importance is assigned to financial inclusion and have aided the economy in employment generation and wealth creation by making credit available to the rural segment. However, in recent times the sector is becoming a weaker segment in Indian financial system.



During FY 19-20 the sector continues to witness liquidity challenges which led to certain NBFCs experience stress in their loan books as evidenced by the growing level of non-performing assets ('NPAs'). The onset of COVID-19 during the fourth quarter, further weakened NBFCs stance in the economy. Asset quality deterioration in NBFCs is expected to be more severe than banks because of its exposure in riskier segments. To support the economy, the RBI eased monetary policy to maintain adequate liquidity in the system, facilitate smooth bank credit flow and moderate financial strain. Revival measures initiated by the regulator include provision of moratorium on EMI repayments, cut on repo rates from 6.25% to 4.40%, relaxation in classification of loan as NPAs and provision of long-term repo operations (LTRO). Prudential requirements for banks have also been eased to free up liquidity for lending.

Cholamandalam Investment and Finance Company Limited (CIFCL), a NBFC incorporated in 1978, is one of the leading, comprehensive financial service provider offering vehicle finance, home loans, home equity loans etc., to a wide range of customers. The NBFC business observed an overall slow-down during the FY 19-20.

The Vehicle Finance (VF) business comprising of diversified portfolio viz., commercial vehicles, passenger vehicles and used vehicles, continues to be the major segment, contributing 73% of its aggregate assets under management (AUM) as at March 31, 2020. The division has more than 80% of branches operating in the rural areas, towns and semi urban areas. CIFCL is one of the largest player in the used vehicle financing business with a disbursement mix of almost 30% in this segment. Severe de-growth in the auto industry across product segments led to a decline of 6% in VF disbursements to ₹23387 Crore (previous year: ₹24983 Crore). With higher disbursements from used, 3-wheeler and 2-wheeler products, the Company was able to offset drop in other segments. Assets under management grew by 9% to ₹44206 Crore (net) (previous year: ₹40606 Crore). The business has a robust collection mechanism and strong credit risk assessment framework in place which will help navigate the present day conditions.

The Home Equity (HE) business continues to focus on a systematic approach to build a healthy portfolio mix, with more than 80% of the portfolio as Self-Occupied Residential Properties (SORP) and an average loan ticket size of less than ₹50 Lakh. AUM for HE business grew by 11% to ₹12960 Crore (previous year: ₹11626 Crore) and disbursements registered a decline of 5% to ₹3662 Crore (previous year: ₹3837 Crore). End to end digital

integration in loan processing has been the focus for business in order to improve overall customer experience and cut down business turnaround time. Online payment modes for collections have been enhanced to offer multiple payment options to customers. During the year, the business expanded its branch network pan India, with focus on Tier II, III and IV cities.

Home Loans (HL) business offers loans for self-construction, purchase of new and resale flats/independent houses, balance transfer from other financiers, top-up loans for existing customers. As at March 31, 2020, the business division had 24,000 live accounts and disbursed ₹1505 Crore during the year (previous year: ₹1157 Crore), registering a growth of 30%. Middle-Income-Group customers continue to be the target group for the HL business. 95% of the portfolio comprises business owners with semi-formal income and significant business vintage buying their first home. Lending for self-construction, remains to be a strong focus with significant proportion of the portfolio and fresh disbursements sourced from this segment.

The Company has fast-tracked implementation of a host of IT and digital initiatives which shall help to serve customers better and faster in a post COVID-19 world.

Business outlook of CIFCL for FY 20-21 remains uncertain with the COVID-19 situation evolving each day. Vehicle finance segment will continue to be the mainstay for CIFCL. While the home equity portfolio has also been a significant contributor to the company's growth, the home loan business has a great potential to be built into a solid portfolio considering the expertise of the company in handling typical customer profiles.

General Insurance Industry & Business Update

In India, insurance industry is gaining momentum in securing life, health and property of individuals by acting as a risk management tool. Government's policy of insuring the uninsured has gradually pushed insurance penetration in the country and proliferation of insurance schemes. The general insurance industry grew by 9.5% in FY 19-20 and achieved a Gross Written Premium (GWP) of ₹1642 billion with about 55% market share of private players vis-à-vis PSU players. During the year, the general insurance industry underwent a turbulent phase with several far-reaching developments many of which were positive and impactful with a clutch of factors causing severe transitory problems and impact on profitability. Positive developments during FY 19-20 include, amendment proposed to Motor Vehicles Act, mandatory minimum pricing for property line of business,

continued strong growth of specialized health players etc. Decline in sale of new vehicles, pricing discounts offered in Motor Own Damage (OD) insurance resulting in sharp rise in Motor OD claims, heavy losses from crop insurance segment and mandatory investment norms on stressed housing & infrastructure sectors were some of the limitation factors for industry's growth.

Cholamandalam MS General Insurance Company Limited (MSGICL), the insurance business division of CFHL, is registered with Insurance Regulatory and Development Authority of India (IRDA) to carry on general insurance business. MSGICL offers a wide range of insurance including motor, travel, health, accident, home and other types of insurance for corporate customers. In a highly competitive business environment, MSGICL ranks 8th position among private insurers with a market share of 3.1% (excluding crop insurance).

MSGICL recorded a gross written premium of ₹4824 Crore (previous year: ₹4552 Crore) for the year ended March 31, 2020. Growth in business operations continues to be driven by strong performance in retail channels with Motor & Health insurance segments being significant contributors of the premiums with a good mix across metros & non metros. In Motor insurance business, besides stepping up its presence significantly in the two-wheeler segment, the Company expanded its participation in the OEM programs of motor vehicles. The premium pricing in Motor OD insurance witnessed severe pressure throughout the year with discounts across vehicle categories rising to new highs. The decision of the regulator to defer the price increase in motor third party premium could further aggravate the situation. The Health, Accident and Travel lines of business (other than employer-employee group health) grew by 9.5% during the year. Muted disbursements in motor NBFCs / HFCs, impacted the benefit of product bundling in health and accident products leading to lower growth. Loss ratios across this line of business continues to be good with the Company continuing to adopt prudent underwriting practices while focusing on new segments of growth. Revenue from property lines of business scaled up (both banca and commercial channels) contributing about 8% of the total GWP. Higher proportion of business from preferred category risks, geographical spread of risks, granular risks have ensured improvement in the claims ratios of these lines.

MSGICL strengthened its bancassurance business through renewal of its tie-up with a PSU bank for a further period of 3 years. Expansion of its network with channel partners including PSU Banks, NBFCs,

Co-operative banks and addition of OEMs and digital partners is expected to provide a strong momentum in the coming years. Pricing discounts in Motor OD business due to a slump in automobile industry, continued weakness in credit markets, leading to downgrades and defaults in the financial sector, natural catastrophes and prolonged monsoons impacted business growth during the year. Business during the year experienced favourable reinsurance treaties resulting in the willingness of global reinsurers to enhance their capacity and support. As at March 31, 2020 the investment portfolio was ₹9027 Crore (previous year: ₹7697 Crore). The Company continues to emphasise on safety and liquidity of investments and together with monetised gains, grew the investment income to ₹770 Crore (previous year: ₹566 Crore) with a gross yield of 9.05% (previous year: 7.92%). The average investment portfolio duration was at 4.25 years.

During the year, the Company focussed on new digital enablers across all operating functions and processes through a number of initiatives. These initiatives have enabled the Company to serve its customers faster and better bringing in efficiencies and more importantly strengthening the ability to scale volumes.

Growth in general insurance industry is driven by economic activities and GDP growth. Motor insurance and property line of business are likely to be impacted with its dependence on automotive and industrial sectors. Business has drawn counter measures to reduce the COVID-19 impact which include enhanced focus on renewals, higher volumes in health line of business, launch of COVID-19 specific products and harnessing the state-owned banks bancassurance relationships. The Company will monitor the environment carefully to recalibrate its growth plans for the ensuing years.

Risk Management Solutions – Business Update

Cholamandalam MS Risk Services Limited (CMSRSL), is engaged in providing risk management and engineering solutions in the field of safety, health and environment, in association with MSGICL. CMSRSL strengthened its order book during the year by bagging few long term contracts in domestic as well as in overseas. The Company continued to partner with organizations in implementation of their CSR projects in the areas of Health, Safety & Environment (HSE) programs, and Road Safety programs. The business also partnered with digital developers to introduce HSE digital products and explore introduction of AI integrated studies into the market. The joint venture partner, Mitsui Sumitomo Insurance Company Ltd., Japan, continues to support



the Company by introducing Japanese companies entering the Indian market for risk management services. As on March 31, 2020, CMSRSL had an order book of ₹68 Crore for execution in the coming financial year.

STANDALONE FINANCIAL RESULTS (₹ in Crore)

Particulars	2019-20	2018-19
Total Income	90.90	73.52
Total Expenses	3.97	2.61
Profit Before Tax	86.93	70.91
Tax Expense	3.60	4.38
Profit for the year	83.33	66.53
Other Comprehensive Income	(0.61)	(0.68)
Total Comprehensive Income	82.72	65.85

APPROPRIATIONS

During the year the Company has transferred ₹16.67 Crore to statutory reserve (previous year: ₹13.31 Crore) as required under RBI regulations.

FINANCIAL REVIEW - SUBSIDIARY / ASSOCIATE / JV COMPANIES

CFHL earned an income of ₹90.90 Crore (previous year: ₹73.52 Crore) and profit before tax was ₹86.93 Crore (previous year: ₹70.91 Crore) for the year ended March 31, 2020. An additional capital of ₹300 Crore was infused in the preferential allotment of shares of CIFCL besides market purchase of CIFCL's shares aggregating to ₹24.26 Crore. As at March 31, 2020, aggregate investments stood at ₹1278.35 Crore (previous year: ₹954.78 Crore). During the year, the Company obtained a term loan of ₹200 Crore to meet its funding requirements. Financial review of CFHL's subsidiary / associate and JV companies during the year is furnished below.

Cholamandalam Investment & Finance Company Limited (CIFCL)

CFHL holds 45.50% in the paid-up equity share capital of CIFCL as on March 31, 2020. Securities of CIFCL are listed and traded on the National Stock Exchange of India Limited (NSE) and the BSE Limited (BSE). CIFCL is treated as a subsidiary under Ind-AS. Rationale in this regard is provided under Note 23 of standalone financial statements.

During the year, the existing equity shares of CIFCL of ₹10/- each fully paid up were subdivided into five equity shares of face value of ₹2/- each fully paid up. The Company raised ₹1200 Crore by way of equity infusion

through qualified institutional placement (₹900 Crore) and preferential allotment (₹300 Crore) during the year to strengthen its capital adequacy requirement. CIFCL further raised funds through an issue of 'Masala bonds' of ₹400 Crore to augment its Tier II capital requirements.

Assets under Management grew by 12% to ₹60549 Crore (net) as at March 31, 2020 (previous year: ₹54279 Crore). Loan disbursements aggregated to ₹29091 Crore (previous year: ₹30451 Crore) registering a decline of 4% during the year. Profit after tax was ₹1052 Crore after a one-time provision of ₹504 Crore to cover contingencies due to COVID-19 and macro-economic factors. On a comparable basis, profit after tax for the year ended March 31, 2020 was ₹1387 Crore before the one-time provision as against ₹1186 Crore the previous year, registering a growth of 17%. Pursuant to RBI guidelines the Company offered moratorium to its customers for EMI repayments. CIFCL's liquidity position was strongly placed as at March 31, 2020 to meet its near term commitments. The Company did not avail moratorium on its borrowing obligations. As at end of the year, capital adequacy improved to 20.7% as against the statutory requirement of 15%.

CIFCL paid interim dividend in two tranches aggregating to ₹1.70 per equity share of face value of ₹2/- each. The first interim dividend at the rate of 50% (₹1/- per equity share) was approved in December 2019 and the second interim dividend at the rate of 35% (₹0.70 per share) was approved in February 2020. The Board of CIFCL has not recommended any final dividend for the year ended March 31, 2020.

CIFCL's subsidiary companies are Cholamandalam Securities Limited (CSEC) and Cholamandalam Home Finance Limited (CHFL). CSEC is engaged in stock broking and investment advisory services. The Broking business grew by 9% while wealth business dropped by 32% due to cap on upfront income and insurance distribution business scaled up significantly during FY 19-20. CSEC achieved a gross income of ₹23.58 Crore for the year ended March 31, 2020 and Profit Before Tax of ₹3.26 Crore as against ₹2.68 Crore in the previous year.

CHFL recorded a gross income of ₹38.61 Crore for the year ended March 31, 2020 and made a loss before tax of ₹0.77 Crore as against a loss of ₹11.0 Crore in the previous year. The Company had filed an application with the regulator seeking registration as a Housing Finance Company and the registration is awaited. Currently, the

Company continues its focus on growing insurance corporate agency business.

Cholamandalam MS General Insurance Company Limited (CMSGICL)

The Company holds 60% in the paid-up equity share capital of CMSGICL - a joint venture with Mitsui Sumitomo Insurance Company Ltd., Japan and is a material subsidiary of CFHL.

IRDAI has deferred the implementation of Ind-AS for insurance companies. Therefore, financials of CMSGICL have been restated as per Ind-AS for consolidation purposes and the figures reported for CMSGICL in the annual report are under Ind-AS.

CMSGICL achieved a gross written premium of ₹4824 Crore during the FY 19-20 (previous year: ₹4552 Crore), and the profit before tax was ₹216 Crore (previous year: ₹280 Crore). While Claims ratios were under control despite adverse environment of cyclones, higher discounts in motor own damage etc, business sourcing costs were higher impacting the underwriting results to remain flat at a negative of ₹218 Crore. Aided by over ₹5 billion of long term premium, investment income levels rose to ₹770 Crore from ₹566 Crore despite interest rates dropping during the year. ₹170 Crore was the gain on sale of debt investments for the year which largely helped in meeting the provisioning / write off of stressed debt assets.

With a view to conserve its resources, the Board of CMSGICL has not recommended dividend for FY 19-20.

Cholamandalam MS Risk Services Limited (CMSRSL)

The Company holds 49.5% in the paid-up equity share capital of CMSRSL, a joint venture with Mitsui Sumitomo Insurance Company Ltd., Japan and has a technical collaboration with Inter Risk, a group company of Mitsui Sumitomo Insurance Group.

CMSRSL achieved a revenue of ₹46.28 Crore (previous year: ₹40.82 Crore) and profit before tax of ₹5.62 Crore (previous year: ₹4.88 Crore) for the year ended March 31, 2020. CMSRSL recommended a dividend of ₹1.25 per share on its equity share of face value of ₹10/- each for the FY 19-20.

Cholamandalam Health Insurance Limited (Chola Health)

Chola Health was incorporated in July 2017 to offer health insurance services and the Company has invested 99.9% in its paid up capital. Chola Health is yet to commence its business operations.

DIVIDEND

The Company paid an interim dividend on the equity shares at the rate of 65% i.e., ₹0.65 per equity share of face value of ₹1/- each as approved by the Board of Directors on February 26, 2020 for the year ended March 31, 2020. The Board has recommended to confirm the interim dividend as the final dividend for FY 19-20.

CONSOLIDATED FINANCIAL RESULTS

Particulars	₹ in Crore)	
	2019-20	2018-19
Total Income	13135.73	10946.81
Total Expenses	11330.11	8812.02
Profit Before Share of Profits from Associate / Joint Venture and Tax	1805.62	2134.79
Share of Profit from Associate /Joint Venture (Net of Taxes)	1.27	1.11
Profit Before Tax	1806.89	2135.90
Tax Expense	(641.84)	(721.07)
Profit for the year	1165.05	1414.83
Minority Interest	(614.20)	(718.13)
Net Profit for the year attributable to owners of the company	550.85	696.70

BUSINESS REVIEW – SUBSIDIARY, ASSOCIATE AND JOINT VENTURE COMPANIES

CFHL's subsidiary companies are Cholamandalam MS General Insurance Company Limited and Cholamandalam Health Insurance Limited. Under Ind-As, Cholamandalam Investment and Finance Company Limited is treated as a subsidiary company and Cholamandalam MS Risk Services Limited is a joint venture company of CFHL. There has been no change in the nature of business of these companies during the year. Business performance of these companies are detailed in earlier paragraphs of this report.

A report on the performance and financial position of each of the aforesaid companies as per section 129(3) of the Act read with the Companies (Accounts) Rules, 2014, in the prescribed form AOC-1 is annexed to this Report as **Annexure A**. The consolidated financial statements of the Company, prepared in accordance with the Companies Act, 2013 ("the Act") and the relevant Accounting Standards, forms part of the annual report.

The annual report containing standalone and consolidated financial statements will be posted on the



Company's website, www.cholafhl.com. The annual accounts of the subsidiary companies will also posted on the Company's website and be made available for inspection by shareholders until the date of the Annual General Meeting ("AGM") through electronic mode.

COVID-19 – BUSINESS UPDATE / OUTLOOK

Spread of the COVID-19 pandemic impacted the regular operations of the Company and its subsidiary / associate / JV companies. In response to the nation-wide lock down announced by the Government, the Companies activated business continuity plan addressing financial planning, business strategy realignment, employee productivity re-focus, IT enablement and renewed customer engagement. To ensure safety of employees and in adherence to the Government norms various measures including the facility to work from home have been implemented. Since the pandemic and the lockdown imposed affected the tail end of the financial year, there is no impact on the standalone financial performance during FY 19-20. A note in this regard is included in the Standalone and Consolidated Audited Financial Statements for the year under review vide Note 1.4 and Note 4.1 respectively. Given the inherent uncertainty regarding the severity and duration of the pandemic, the Company will continue to monitor for any material changes to future economic conditions.

DIRECTORS

At the 70th AGM held on August 1, 2019 the appointment of Mr. Ashok Kumar Barat and Mr. B Ramaratnam as Independent Directors of the Company for a term of five years commencing August 1, 2018 and March 18, 2019 respectively, was approved. Further, Mr. Sridharan Rangarajan and Mr. V Ravichandran were appointed as directors liable to retire by rotation at the 70th AGM.

Ms. Shubhalakshmi Panse (DIN: 02599310), Independent Director, resigned from the Board on November 20, 2019. The Board places on record its appreciation for the contribution rendered by Ms. Panse during her tenure as an Independent Director and as a member of Board Committees.

Based on the recommendation of the Nomination & Remuneration Committee of the Board, Ms. Vasudha Sundararaman (DIN: 06609400) has been appointed as an additional director in the capacity of an Independent Director with effect from February 12, 2020 and holds office till the date of the ensuing 71st AGM. The Company has received a notice from a shareholder proposing the appointment of Ms. Vasudha as a director of the Company. The Board recommends her appointment as

a director of the Company and the resolution proposing her appointment forms part of the Notice for the 71st AGM of the Company.

As per the provisions of section 152 of the Act, Mr. Sridharan Rangarajan retires by rotation at the ensuing AGM and being eligible, offers himself for re-appointment. The Board recommends the re-appointment of Mr. Sridharan Rangarajan as a director liable to retire by rotation and the resolution in this regard forms part of the notice for the 71st AGM of the Company.

Information as required to be disclosed under regulation 36(3) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("the Listing Regulations"), for appointment / reappointment of directors is provided in the Notice for AGM.

DECLARATION FROM INDEPENDENT DIRECTORS

The Independent Directors ("IDs"), Mr. Ashok Kumar Barat, Mr. B Ramaratnam and Ms. Vasudha Sundararaman have submitted declaration stating that they meet the criteria of independence as required under the provisions of section 149 of the Act and regulation 16 of the Listing Regulations. In the opinion of the Board, all the IDs possess integrity, expertise and relevant experience in their respective fields including the proficiency required to effectively discharge their roles and responsibilities in directing and guiding the affairs of the Company. All the IDs are registered in the independent directors' data bank maintained by the Indian Institute of Corporate Affairs as required under the Companies Act, 2013 and the Rules referred therein. The IDs are in the process of completion of the online proficiency self-assessment test as per the timeline notified by the Ministry of Corporate Affairs ("MCA").

KEY MANAGERIAL PERSONNEL

Pursuant to the provisions of section 203 of the Companies Act, 2013, Mr. N Ganesh, Manager & Chief Financial Officer and Ms. E Krithika, Company Secretary are the key managerial personnel of the Company and there were no changes during the year.

Mr. Ganesh was appointed as the Manager of the Company with effect from August 9, 2017 for a period of three years. His tenure as Manager expires on August 8, 2020. Subject to the approval of shareholders, the Board at its meeting held on June 15, 2020 re-appointed Mr. N Ganesh as the Manager for a further period of three years with effect from June 15, 2020. Appropriate resolution seeking shareholders' approval is provided in the Notice for the 71st AGM of the Company.

STATUTORY AUDITORS

M/s. S.R. Batliboi & Associates LLP, Chartered Accountants, were appointed as the Statutory Auditors of the Company at the 66th AGM held on August 10, 2015, for a period of five years and will complete their present term on conclusion of the ensuing 71st AGM of the Company. The Board pursuant to the recommendation of the Audit Committee, recommends the re-appointment of M/s. S.R. Batliboi & Associates LLP, Chartered Accountants, as the Auditors of the Company for a second term of five years from the conclusion of the 71st AGM until the conclusion of the 76th AGM.

Appropriate resolution seeking shareholders' approval for the re-appointment of M/s. S.R. Batliboi & Associates LLP as the Auditors and authorisation to the Board to fix the remuneration payable to them, is provided in the Notice for the 71st AGM of the Company.

FINANCE

Deposits

The Company has not accepted any fixed deposits under Chapter V of the Companies Act, 2013 and as such no amount of principal and interest were outstanding as on March 31, 2020.

Particulars of Loans, Guarantees or Investments

The provisions of section 186 of the Act pertaining to investment and lending activities is not applicable to CFHL since the Company is an NBFC whose principal business is acquisition of securities. Information regarding investments made during the year is given in the financial statements. During the year the Company has not given any loans or guarantees under the provisions of section 186 of the Act.

Internal Financial Control Systems with reference to the Financial Statements

The Company has in place adequate internal financial controls to ensure reliability of financial and operational information and regulatory and statutory compliances. The Company's business processes are equipped with monitoring and reporting processes to ensure financial discipline and accountability. The internal financial control systems are monitored both by internal and statutory auditors of the Company. The statutory auditors of the company have also certified on the existence and operating effectiveness of the internal financial controls as on March 31, 2020.

Financial Ratios

In terms of the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018, the Company is required to disclose details of significant key financial ratios along with the detailed explanations therefor. The Company being an investment company and not having any trade receivables, debtors turnover ratio, inventory turnover ratio, interest coverage ratio, current ratio, operating margin ratio and net profit margin ratio are not applicable. The leverage ratio computed in accordance with RBI regulations is 0.03 as against the regulatory maximum of 2.5. Capital adequacy ratio of the Company as on March 31, 2020 was 478.51% as against the minimum RBI requirement of 30%. Return on net worth of the Company was 7.45% as at March 31, 2020 as against 6.25% as at March 31, 2019. Change in the rate was on account of higher receipt of dividend income during the year.

RISK MANAGEMENT

Managing risk is fundamental to any business, in general and in particular, to financial services industry. The Company has an established risk management framework which provides an integrated approach for identifying, monitoring and mitigating risks associated with its business and that of its subsidiaries / associates. Risks arising out of NBFC, insurance and risk management businesses of the investee companies are the dominant risks of the Company. The investee companies have their own risk management framework in line with its strategic business operations as appropriate to the industry in which they operate. Various risk exposures of CFHL include financial risks, governance risks, market risks, reputation risks and compliance risks. The Risk Management Committee (RMC) assists the Board to oversee various risks including review and analysis of risk exposures related to the Company and its subsidiary / associate companies. RMC is supported by the Asset Liability Committee (ALCO) constituted pursuant to the RBI guidelines. The ALCO monitors asset liability mismatches besides management of liquidity risks. A Risk Management Policy has been framed by the Board of Directors. The Company has also put in place a risk control matrix. The control measures basis the matrices, are tested by the internal auditor and reported to the Audit Committee. The Board reviews the risk framework on an annual basis.



INTERNAL CONTROL SYSTEM

Internal control systems of an organisation is looked at as the key to its effective functioning. The Company has in place internal control framework to ensure compliance with internal policies, regulatory matters and to safeguard reliability of financial reporting and its disclosures. An audit of systems and processes is conducted by the internal auditor of the Company and the key findings are reported to the Audit Committee every quarter.

The Audit Committee evaluates adequacy and effectiveness of the internal controls, recommends improvements and reviews the corrective action taken to address gaps, if any.

CORPORATE GOVERNANCE

The Company firmly believes in committing itself to maintaining high standards of corporate governance.

A report on corporate governance of the Company together with a certificate from the Auditors in accordance with the Listing Regulations is annexed to this Report as **Annexure B**. The Report further contains other details which are required to be provided in the Board's Report.

BOARD MEETINGS

Seven meetings of the Board were held during the year. Details of the Board meetings are disclosed in the Report on Corporate Governance.

COMPOSITION OF THE AUDIT COMMITTEE

The Board has constituted an Audit Committee in terms of the applicable provisions of the Act and the Listing Regulations. Details of terms of reference, composition and meetings of the committee are disclosed in the Report on Corporate Governance.

BOARD EVALUATION

Pursuant to the provisions of section 134 of the Act and regulation 17 of the Listing Regulations, the Board has carried out an annual evaluation of its own performance, individual directors and its committees for FY 19-20. The manner in which evaluation has been carried out is provided in the Report on Corporate Governance.

POLICY ON BOARD NOMINATION AND REMUNERATION

The Board has framed a policy for selection and appointment of directors, senior management and their remuneration. Details of which are furnished in the Report on Corporate Governance.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Company being a part of the Murugappa Group, is known for its tradition of philanthropy and community service. The Company's philosophy is to reach out to the community through service-oriented philanthropic institutions in the fields of education and healthcare.

With the enactment of CSR provisions in the Companies Act, 2013, the Company has framed a CSR policy and the policy is available on the Company's website at, <http://www.cholafhl.com/article/investors/467>.

Pursuant to the provisions of section 135 of the Companies Act, 2013, atleast 2% of the average net profits of the Company shall be spent towards CSR activities. Accordingly, the Company has spent an amount of ₹11 Lakh on CSR projects / programmes approved by the CSR Committee during the year ended March 31, 2020 as against the statutory requirement of ₹6 Lakh. Detailed information on the CSR activities undertaken during the year is annexed to this Report as **Annexure C**.

RELATED PARTY TRANSACTIONS

All transactions that were entered into with related parties during the financial year were in the ordinary course of business and on an arm's length basis. There were no materially significant related party transactions during the year which may have a potential conflict with the interest of the Company at large. Necessary disclosures as required under the Indian Accounting Standard (IND AS) have been made in the notes to the financial statements. The Company has framed a policy on related party transactions. None of the Directors had any pecuniary relationships or transactions vis-à-vis the Company.

HUMAN RESOURCES AND PARTICULARS OF EMPLOYEES

As on March 31, 2020, CFHL had two employees. The investee companies of CFHL continue to emphasise on resourcing and talent planning strategies based on their functional and general management requirements in preparing the organisation for the future. The information required to be disclosed under the provisions of section 197 of the Act read with rule 5 of the Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014 is annexed to this Report as **Annexure D**.

EMPLOYEE STOCK OPTION (ESOP) SCHEMES

The Company's ESOP Schemes viz., Employee Stock Option Plan 2007 (ESOP 2007) and Employee Stock Option Plan 2016 (ESOP 2016) have been approved by the shareholders. During the year there have been no

fresh grants under both the schemes. Details in respect of ESOP 2007 and ESOP 2016 as required under the SEBI (Share Based Employee Benefits) Regulations, 2014 are displayed on the Company's website at <http://www.cholafhl.com/article/investors/554>. Both the schemes are in compliance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and SEBI (Share Based Employee Benefits) Regulations, 2014 respectively.

Vide the scheme of arrangement (demerger), employees of the Company were transferred to the resulting company, Tube Investments of India Ltd. The stock options granted by the Company prior to the effective date of demerger, i.e. August 1, 2017, continue to be held by the option grantees who are employees of the resulting company. During the year, upon exercise of stock options by the eligible option grantees, 7026 and 16770 equity shares were allotted under ESOP 2007 and ESOP 2016 schemes, respectively.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company has no activity relating to consumption of energy or technology absorption etc. The Company does not have any foreign exchange earnings. There was a foreign exchange outgo, by way of repatriation of dividend, amounting to ₹0.007 Crore during the year (previous year ₹0.008 Crore).

WHISTLEBLOWER / VIGIL MECHANISM

In compliance with the provisions of section 177(9) of the Act, read with rules made thereunder and the Listing Regulations, the Company has established a whistleblower / vigil mechanism which inter alia facilitates its employees to report genuine concerns. The mechanism provides for adequate safeguards against victimisation of persons using the mechanism and makes provision for direct access to the Chairman of the Audit Committee in appropriate or exceptional cases. The policy is available on the Company's website at, <http://www.cholafhl.com/article/investors/34>.

PREVENTION OF SEXUAL HARASSMENT AT WORKPLACE

Pursuant to the Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013, the Company has a policy for prevention of sexual harassment at workplace. An Internal Complaints

Committee (ICC) is in place to redress complaints received regarding sexual harassment. The policy extends to all employees (permanent, contractual, temporary and trainees). During the year no referrals were received under the policy and no complaints were pending at the beginning of the year.

SECRETARIAL AUDIT

Pursuant to the provisions of section 204 of the Companies Act, 2013, and the rules made thereunder, the Board appointed M/s Srinidhi Sridharan & Associates, Practicing Company Secretaries, as the secretarial auditor to conduct secretarial audit of the Company for the year ended March 31, 2020. The Report issued by the secretarial auditor in the prescribed form MR-3 is annexed to this Report as **Annexure E**.

The said secretarial audit report does not contain any qualification or adverse remarks.

ANNUAL RETURN

The extract of annual return as required under section 92(3) of the Companies Act, 2013, in the prescribed form MGT-9 is annexed to this Report as **Annexure F**. Copy of the return is available on the Company's website, www.cholafhl.com.

COMPLIANCE WITH SECRETARIAL STANDARDS

The Company has complied with the applicable Secretarial Standards issued by the Institute of Company Secretaries of India.

MATERIAL CHANGES AND COMMITMENTS AFFECTING THE FINANCIAL POSITION OF THE COMPANY AFTER MARCH 31, 2020

There are no material changes and commitments, affecting the financial position of the Company which have occurred between March 31, 2020 and the date of this report.

BUSINESS RESPONSIBILITY REPORT

The Company abides by a set of enduring values and beliefs called the 'five lights' viz., the lights of integrity, passion, quality, respect and responsibility in order to be a socially responsible business, which would on a continuous basis, enhance the interests of all its stakeholders. By steadfastly upholding the principles of good and robust corporate governance ingrained with discipline, accountability, transparency and fairness, the Company constantly endeavours to sustain and enhance itself as a responsible corporate citizen.



In terms of regulation 34(2) of the Listing Regulations the annual report shall include a Business Responsibility Report (BRR) in the prescribed form. Accordingly, a BRR is annexed to this Report as **Annexure G**.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors confirm that the Company has in place a framework of internal financial control and compliance system, which is monitored and reviewed by the Audit Committee and the Board, besides the statutory, internal and secretarial auditors. Further, pursuant to section 134(5) of the Companies Act, 2013, the Board of Directors confirm that:

- a) in the preparation of the annual financial statements for the year ended March 31, 2020, the applicable accounting standards have been followed and that there were no material departures therefrom;
- b) they have, in the selection of the accounting policies, consulted the statutory auditors and have applied their recommendations consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2020 and of the profit of the Company for the year ended on that date;
- c) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) they have prepared the annual financial statements on a going concern basis;
- e) they have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively during the year ended March 31, 2020; and
- f) proper system has been devised to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively during the year ended March 31, 2020.

DECLARATIONS / AFFIRMATIONS

- There were no significant material orders passed by the regulators or courts or tribunals impacting the Company's going concern status and its operations in future.
- The Company complies with all applicable laws, rules, circulars and regulations, including the Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016 ('Directions'), as amended from time to time, and does not carry on any activities other than those specifically permitted by the RBI for CICs.
- RBI does not accept any responsibility or guarantee about the present position as to the financial soundness of the Company or the correctness of any of the statements or representations made or opinions expressed by the Company and for discharge of any liability by the Company.

Neither there is any provision in law to keep, nor does the Company keep any part of the deposits with RBI and by issuing a Certificate of Registration to the Company, RBI neither accepts any responsibility nor guarantees the payment of deposits to any depositor or any person who has lent any sum to the Company.

ACKNOWLEDGEMENT

The Directors express their gratitude for the support and co-operation extended by the Ministry of Corporate Affairs, Securities and Exchange Board of India, Reserve Bank of India, Stock Exchanges and other statutory authorities. The Directors also wish to thank all investors, vendors, financial institutions, banks and joint venture partners for their continued support and faith reposed in the Company. The Directors also place on record their appreciation for the contribution made by the employees of the Company and its associate / subsidiaries across all levels.

On behalf of the Board

Place : Chennai
Date : June 15, 2020

M M Murugappan
Chairman