

Board's Report

BOARD'S REPORT

Your directors have pleasure in presenting the fortieth annual report together with the audited accounts of the company for the year ended 31 March, 2018.

FINANCIAL RESULTS

Particulars	₹ in crores	
	2017 - 18	2016 - 17
Gross Income	5,425.77	4,660.35
Profit Before Tax (PBT)	1,483.31	1,105.58
Profit After Tax (PAT)	974.12	718.74
Add: Balance brought forward	450.85	247.94
Amount available for appropriation	1,424.97	966.69
Adjustments / Appropriation:		
Transfer to statutory and other reserves	700.00	450.00
Dividend – Equity	101.60	54.70
Tax on dividend	20.68	11.14
Balance carried forward	602.69	450.85
TOTAL	1,424.97	966.69

SHARE CAPITAL

The paid up equity share capital of the company as at 31 March, 2018 is ₹ 156.33 crores including the increase during the year by ₹ 5.38 lakhs, consequent to allotment of shares upon exercise of stock options by employees under the company's employee stock option scheme 2007 and employee stock option scheme 2016.

OPERATIONS

During the year, your company achieved a 34% growth in profit before tax (PBT) and 25% growth in total assets under management. During the second half of the year the commercial vehicle (CV) industry saw a sharp recovery boosting sales of vehicles across.

Vehicle finance (VF) business recorded a disbursement growth of 42% buoyed by the recovery signals in the CV market. Disbursements in VF for the year were at ₹ 20,540 crores as against ₹ 14,471 crores in the previous year.

The business recorded a growth of 33% in closing managed assets and a PBT growth of 50%. With a relentless focus on collections, the business brought down the non performing assets to 2% of closing assets as compared to 4.2% as on 31 March, 2017.

Home equity (HE) business recorded a disbursement of ₹ 3,174 crores as against ₹ 3,056 crores in the previous year. The business faced huge rate competition from Banks which triggered lot of pre-closures leading to a marginal growth in assets under management by 4%.

Disbursements in home loans (HL) were at ₹ 606 crores as against ₹ 325 crores in the previous year and Micro, Small and Medium Enterprise (MSME) were at ₹ 629 crores as against ₹ 666 crores in the previous year. The rural agri financing business disbursed ₹ 97 crores as against ₹ 73 crores during the previous year. The new initiative line of businesses Vishesh and Trip Loans has recorded ₹ 67 crores of disbursements in its first year of launch.

The business assets under management (net of provisions) of the company as at 31 March, 2018 increased to ₹ 42,879 crores from ₹ 34,167 crores in the previous year, recording a growth of 25%.

The PBT for the year was at ₹ 1483.31 crores as against ₹ 1,105.58 crores in the previous year, recording a growth of 34%.

Profit after tax grew by 36% and was at ₹ 974.12 crores for the year as compared to ₹ 718.74 crores in the previous year.

DIVIDEND

Dividend distribution policy

The company has formulated a dividend distribution policy in compliance with regulation 43A of SEBI (Listing Obligation and Disclosure Requirement) Regulations, 2015 (Listing Regulations), copy of which is available on the website of the company (weblink: <http://www.cholamandalam.com/files/media/Cholamandalam-Dividend-Distribution-policy.pdf>).

Payment of dividend

The company paid an interim dividend on the equity shares at the rate of 45% (₹ 4.50 per equity share) as approved by the board on 30 January, 2018 for the year ended 31 March, 2018.

Your directors are pleased to recommend a final dividend of 20% (₹ 2 per equity share) on the equity shares of the company. With this, the total dividend will be 65% (₹ 6.5 per equity share) for the year ended 31 March, 2018.

CREDIT RATING

The credit rating details of the company as at 31 March, 2018 are as follows:

Rating Agency	Term	Type	Rating
ICRA	LT	NCD / SD / CC / TL	[ICRA]AA with Positive Outlook
	LT	PD	[ICRA]AA- with Positive Outlook
	ST	CP / WCDL	[ICRA]A1+
CRISIL	ST	CP	[CRISIL]A1+
	LT	SD	[CRISIL]AA / Stable
CARE*	LT	SD	CARE AA+
	LT	PD	CARE AA
INDIA Ratings*	LT	NCD / SD	IND AA+ with Stable Outlook
	LT	PD	IND AA with Stable Outlook
Brickwork Ratings	LT	NCD	BWR AA+ with Stable Outlook

NCD - Non Convertible Debenture

CP - Commercial Paper

PD - Perpetual Debt

CC - Cash Credit

ST - Short Term

SD - Subordinated Debt

LT - Long Term

TL - Term Loan

WCDL - Working Capital Demand Loan

* INDIA ratings and CARE ratings have upgraded the long term rating to IND AA+ (Stable) and CARE AA+ during the year.

The ratings as mentioned above were re-affirmed by the rating agencies during FY 18.

TRANSFER TO RESERVES

Your company has transferred a sum of ₹ 200 crores to statutory reserve as required under the Reserve Bank of India Act, 1934 and ₹ 500 crores to general reserves.

OUTLOOK

The company continues to focus and grow its two main business lines - VF and HE, while testing the waters in new businesses such as HL, MSME loans, and rural agri loans. The company continued its pilot of trip loans and Chola Vishesh the new product extensions under VF, catering to the funding requirements of the VF eco-system. Trip loan is targeted at the trucking community by extending short-term credit for the freight/transportation process, and is aimed at moving this lending product from the unorganized segment to the organised segment. This will help the truckers get comparatively lower cost credit in a transparent process and thereby improving their profitability. Chola Vishesh is extended to existing credit tested customers, a pre-approved loan leveraging technology.

FIXED DEPOSITS

The company is a Systemically Important Non-Deposit Accepting Non-Banking Finance Company (NBFC-ND-SI). It ceased taking deposits from the public effective 1 November, 2006. At the time of conversion, the outstanding unmatured deposits were transferred to an escrow account together with the future interest payable thereon till the date of maturity and were repaid on maturity. All the amounts were repaid and there was no unclaimed / unpaid matured deposits lying in the escrow account and hence the escrow account was closed on 31 March, 2018.

ASSET FINANCE COMPANY

During the year, the company continued being categorised as an Asset Finance Company (AFC) under the RBI Regulations.

CAPITAL ADEQUACY

The company's capital adequacy ratio was at 18.36% as on 31 March, 2018 as against the statutory minimum capital adequacy of 15% prescribed by RBI.

EMPLOYEE STOCK OPTION (ESOP) SCHEMES

ESOP 2016

Pursuant to the approval accorded by the shareholders by way of postal ballot on 3 January, 2017, the nomination and remuneration committee had formulated an employee stock option scheme 2016 (ESOP 2016). During the year, the company made two grants aggregating to 82,860 options to 15 employees. The scheme is in compliance with Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 (SEBI (SBEB) Regulations) and the Companies Act, 2013 (the Act). The total number of options available as on 31 March, 2018 under ESOP 2016 is 6,05,513.

ESOP 2007

Pursuant to the approval accorded by the shareholders at the twenty ninth annual general meeting (AGM) of the company held on 30 July, 2007, the nomination and remuneration committee had formulated an employee stock option scheme 2007 (ESOP 2007). During the year, there have been no fresh grants under the scheme and there have been no changes in the scheme. The scheme is in compliance with SEBI (SBEB) Regulations and the Act. Number of options outstanding as on 31 March, 2018 under the ESOP 2007 is 44,294.

The certificate from the statutory auditors confirming that ESOP 2007 and ESOP 2016 have been implemented in accordance with the SEBI (SBEB) Regulations and shareholders resolution will be placed before the shareholders at the ensuing AGM.

The details of both the schemes as on 31 March, 2018 are provided and disclosed on the website of the company (weblink: <http://www.cholamandalam/esop.aspx>).

DIRECTORS

Appointment:

During the year, Mr. N. Srinivasan was appointed as an executive vice chairman & managing director for a period of two years and Mr. Arun Alagappan was appointed as an executive director for a period of five years with effect from 19 August, 2017.

Further, the board at its meeting held on 30 October, 2017 appointed Mr. Ashok Kumar Barat as an additional director of the company, who shall hold office up to the date of ensuing AGM

as an additional director. Mr. Barat is eligible for a term of office as an independent director up to 5 years with the approval of shareholders.

Reappointment:

Mr. N. Srinivasan, executive vice chairman & managing director, (EVC & MD) retires by rotation at the ensuing AGM and being eligible, has offered himself for re-appointment.

Retirement / Resignation:

The term of office of Mr. Nalin Mansukhlal Shah, independent director of the company expired at the 39th AGM held on 27 July, 2017 and accordingly he ceased to be a director. The term of office of Mr. Vellayan Subbiah, managing director expired at the close of business hours on 18 August, 2017.

Mr. M. M. Murugappan, non-executive director resigned from the office of directorship of the company effective the close of business hours on 31 October, 2017.

The board places on record its deep appreciation for the significant contributions made by Mr. Nalin Mansukhlal Shah and Mr. M. M. Murugappan as members of the Board and its sub-committees during their tenure of office. Further, the board acknowledges and places on record its deep appreciation to Mr. Vellayan Subbiah, former managing director for ably steering the company for the last 7 years and building the company from strength to strength.

DECLARATION FROM INDEPENDENT DIRECTORS

The independent directors (IDs) have submitted declaration of independence, as required pursuant to section 149(7) of the Act, stating that they meet the criteria of independence as provided in section 149(6) of the Act. In the opinion of the board, these IDs fulfil the conditions specified in the Act and the rules made there under for appointment as IDs and confirm that they are independent of the management.

KEY MANAGERIAL PERSONNEL

Pursuant to the provisions of section 203 of the Act read with the rules made there under, the following employees are the whole-time key managerial personnel of the company:

1. Mr. N. Srinivasan, EVC & MD (from 19 August, 2017)
2. Mr. Vellayan Subbiah, Managing Director (upto 18 August, 2017)
3. Mr. Arun Alagappan, Executive Director (from 19 August, 2017)
4. Mr. D. Arul Selvan, Chief Financial Officer and
5. Ms. P. Sujatha, Company Secretary

DIRECTORS' RESPONSIBILITY STATEMENT

The directors' responsibility statement as required under section 134(5) of the Act, reporting the compliance with accounting standards, is attached and forms part of the board's report.

SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS

There are no significant and material orders passed by the regulators or courts or tribunals which would impact the going concern status of the company and its future operations.

MANAGEMENT DISCUSSION AND ANALYSIS

The management discussion and analysis report (MDA), highlighting the business-wise details is attached and forms part of this report. MDA report also contains the details of the risk management framework of the company including the development and implementation of risk management policy and the key risks faced by the company.

CORPORATE GOVERNANCE REPORT

A report on corporate governance as per the Listing Regulations is attached and forms part of this report. The report also contains the details as required to be provided on the composition and category of directors, number of meetings of the board, composition of the various committees including the audit committee, nomination and remuneration committee, stakeholders relationship committee and corporate social responsibility committee, annual board evaluation, remuneration policy, criteria for board nomination and senior management appointment, whistle blower policy/vigil mechanism, disclosure of relationships between directors inter-se, state of company's affairs, etc.

The managing director and the chief financial officer have submitted a certificate to the board regarding the financial statements and other matters as required under regulation 17(8) of the Listing Regulations.

BUSINESS RESPONSIBILITY REPORT

A business responsibility report is attached and forms part of this report.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statement is prepared in accordance with the Act and the relevant accounting standards form part of this annual report.

AUDITORS

M/s. S. R. Batliboi & Associates LLP, chartered accountants were appointed as statutory auditors of the company at the thirty ninth AGM held on 27 July, 2017 for a period of five years commencing from the conclusion of thirty ninth AGM till the forty fourth AGM subject to ratification by members at every AGM. Accordingly, your directors recommend the ratification of the appointment of

M/s. S. R. Batliboi & Associates LLP, as statutory auditors of the company from the conclusion of the fortieth AGM till the conclusion of the forty first AGM of the company. The statutory auditors have confirmed their eligibility for appointment.

SECRETARIAL AUDIT

Pursuant to the provisions of the Act and the rules framed there under, M/s. R. Sridharan & Associates, company secretaries had undertaken a secretarial audit of the company for FY 18. The secretarial audit report is attached and forms part of this report and does not contain any qualification.

EXTRACT OF ANNUAL RETURN

In accordance with section 134(3)(a) of the Act, the extract of the annual return in form MGT-9 is attached and forms part of this report.

CORPORATE SOCIAL RESPONSIBILITY

The murugappa group is known for its tradition of philanthropy and community service. The group's philosophy is to reach out to the community by establishing service-oriented philanthropic institutions in the field of education and healthcare as the core focus areas. The company upholds the group's tradition by earmarking a part of its income for carrying out its social responsibilities.

The company has been carrying out corporate social responsibility (CSR) activities for many years now even before it was mandated under the Act. The company has put in place a CSR policy and is available on the website of the company (weblink: www.cholamandalam.com/csr-policy.aspx).

As per the provisions of the Act, the company is required to spend at least 2% of the average net profits of the company made during the three immediately preceding financial years. This amount aggregated to ₹ 17.56 crores and the company actually spent ₹ 17.57 crores towards CSR activities during FY 18, the details of which are annexed to and forms part of this report.

INTERNAL FINANCIAL CONTROLS

Internal control framework including clear delegation of authority and standard operating procedures are established and laid out across all businesses and functions. These are reviewed periodically at all levels. The company has a co-sourced model of internal audit. The risk and control matrices are reviewed on a quarterly basis and control measures are tested and documented. These measures have helped in ensuring the adequacy of internal financial controls commensurate with the scale of operations of the company.

RELATED PARTY TRANSACTIONS

The company has in place a policy on related party transactions as approved by the board and the same is available on the website of the company (weblink: <http://www.cholamandalam.com/files/MEDIA/Policy-on-Related-Party-Transactions.pdf>).

All related party transactions that were entered into during the financial year were in the ordinary course of business and were on an arm's length basis. There are no materially significant related party transactions made by the company with promoters, directors, key managerial personnel or other designated persons which may have a potential conflict with the interest of the company at large. There are no contracts or arrangements entered into with related parties during the year to be disclosed under sections 188(1) and 134(h) of the Act in form AOC-2. All related party transactions were placed before the audit committee for prior omnibus approval at the beginning of the financial year. The transactions entered into pursuant to the approval so granted were placed before the audit committee for its review on a quarterly basis. None of the directors has any pecuniary relationship or transaction vis-à-vis the company.

INFORMATION AS PER SECTION 134(3)(m) OF THE ACT

The company has no activity relating to consumption of energy or technology absorption. Foreign currency expenditure amounting to ₹ 1.89 crores was incurred during the year under review. Foreign currency remittances made during the year was ₹ 10.30 crores towards purchase of fixed assets. The company does not have any foreign exchange earnings.

DISCLOSURE OF REMUNERATION

The disclosure with respect to remuneration as required under section 197 of the Act read with rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is attached and forms part of this report.

PARTICULARS OF EMPLOYEES

In accordance with section 136 of the Act, the report and accounts is being sent to the members and others entitled thereto, excluding the statement prescribed under rule 5(2) and 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

The aforesaid information is available for inspection at the registered office of the company during the business hours on working days

of the company. If any member is interested in obtaining a copy, such member may write to the company secretary in this regard.

SUBSIDIARIES

CHOLAMANDALAM SECURITIES LIMITED (CSEC)

CSEC recorded a gross income of ₹ 19.68 crores for the year ended 31 March, 2018 and made a PBT of ₹ 3.54 crores as against a PBT of ₹ 2.68 crores in the previous year.

CHOLAMANDALAM DISTRIBUTION SERVICES LIMITED (CDSL)

CDSL recorded a gross income of ₹ 11.51 crores for the year ended 31 March, 2018 and made a PBT of ₹ 6.78 crores as against a PBT of ₹ 8.35 crores in the previous year.

WHITE DATA SYSTEMS INDIA PRIVATE LIMITED (WDSI)

WDSI recorded a gross income of ₹ 50.33 crores for the year ended 31 March, 2018 and made a loss of ₹ 4.34 crores as against loss of ₹ 4.18 crores in the previous year.

COMPLIANCE WITH SECRETARIAL STANDARDS ON BOARD AND GENERAL MEETINGS

The company has complied with secretarial standards issued by the Institute of Company Secretaries of India in respect of Board Meetings and Annual General Meeting held during the year.

ACKNOWLEDGEMENT

The directors wish to thank the company's customers, vehicle manufacturers, vehicle dealers, channel partners, banks, mutual funds, rating agencies and shareholders for their continued support. The directors also thank the employees of the company for their contribution to the company's operations during the year under review.

On behalf of the board

Place : Chennai
Date : April 23, 2018

M.B.N. Rao
Chairman