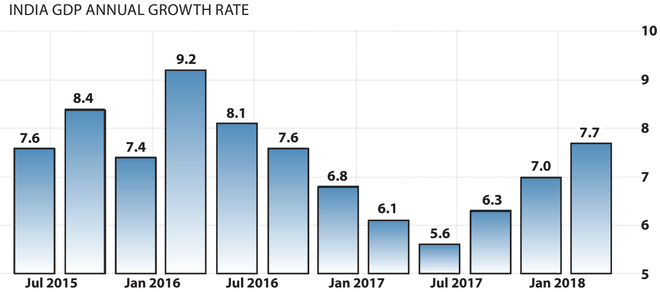
Management Discussion and Analysis

MACROECONOMIC OVERVIEW:

FY 18 was a challenging one. The severe impact of the disruptions caused by the two structural changes - demonetisation and the Goods and Service Tax (GST) was wearing off in differing degrees across various industries and businesses. The impact of introducing the Bharat Stage (BS) IV norms had boosted the demand for vehicles. Favourable monsoon, rising demand, high liquidity, low cost of funds etc., created the right atmosphere in which the market is soaring because of which Indian economy is expected to grow faster than expected in the year 2018-19.

In the first half of FY 18, India's GDP growth slumped to a three-year-low mainly due to destocking ahead of the GST implementation. However, the second half of the year picked up with a growth rate of 7.7%. Multiple macro-economic factors show a possible turn-around of the Indian economy in the year 2018-19.

INDIA GDP ANNUAL GROWTH RATE



SOURCE: TRADINGECONOMICS.COM : MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION (MOSPI)

Recovery in global demand to boost India's growth

The global economy has turned a corner, with demand rising robustly since late-2016 and is likely to accelerate further. More than 75% of the world economy is now enjoying an upswing, with forecasts anticipating global growth to rise to 3.7% in 2018, from 3.2% in 2016. Growth in advanced economies is at its fastest in three years, with Organisation for Economic Co-operation and Development (OECD) lead indicators pointing to slightly above the trend growth. Recoveries are broadening into more emerging markets and global trade and investment activity have finally been picking up. At the same time, risks to the outlook have increased substantially as per Economic Outlook - November 2017. US policy uncertainty and a potential trade war could quickly darken the current bright skies.

As the global economy is in its heights after recovering from the shocks of 2008 crisis, India is expected to take the benefit of this opportunity. India's ability to withstand the economic pressure was helped by the fact that it is much less dependent than most countries on global flows of trade and capital and therefore, the recovery in global economic conditions should help India boost its domestic growth.

Favourable domestic conditions

There is optimism in domestic demand in the form of consumption and revival in small-scale business activities. This is expected to result in an increase in Foreign Direct Investment into the country. Moreover, India has moved up in the World Bank's "Ease of Doing Business Index" which is helping build optimism in India's story and is expected to attract more investors to the country. The GST is also taking Indian economy slowly and steadily towards greater formalization.

International credit rating agency Moody's upgraded India's sovereign bond rating for the first time in 14 years. The last upgrade had happened in 2004. It is an endorsement of structural reforms undertaken by the Central Government. Further, Government has announced bank recapitalization worth ₹ 2,11,000 crores into public sector banks over the next 2 years, which will help restore the health of the current banking system. The cleansing of the bank non performing assets (NPAs) is expected to result in the emergence of strong banks who could weather the storm and grow.

Increased infrastructure spending initiatives

There is a lot of focus on infrastructural development. The government in the Budget 2018 allocated a massive ₹ 5,97,000 crores to infrastructural development with the aim to pave more than 80,000 kms of roads by March 2022. Further, it has taken steps to collaborate with international partners to speed up the process of infrastructure building. This is expected to improve job availability and rural income while achieving the goals of improving the infrastructure across the nation.

INDUSTRY GROWTH PROSPECTS:

AUTO INDUSTRY:

The Indian automotive industry is expected to further improve the performance in FY 19. The domestic commercial vehicle (CV) industry is in a recovery trend from the second half of FY 18, as there was contraction in CV sales during the first quarter, due to limited availability of BS-IV compliant vehicles and fleet operators deferring new vehicle purchases due to impending GST implementation. The factors that led to recovery are pent-up demand post GST, healthy replacement-led demand, pick up in construction and mining activities. This aided by government's increased thrust in infrastructure and rural sectors in the recent budget and other regulatory action such as potential implementation of freight modernization or scrappage program and advancement in timelines for migration to BS VI norms will drive the current CV cycle growth.

Demonetisation had major impact in the business of small fleet operators and first time buyers. Post demonetisation, the improvement in liquidity situation and good monsoons, helped the revival of the rural economy. Crop output was stable, while consumption demand had started to pick up. Changes in warehousing pattern post GST, through increasing adoption of hub and spoke model is driving the need for faster and efficient trucks. Stronger demand from consumption-driven sectors and e-commerce focused logistic companies is expected to fuel the growth. Government has announced two ambitious infrastructure projects, Bharatmala (India's biggest highway construction project) and Sagarmala (India's largest port and coastal transport project). Implementation of these projects will help increase the demand for tippers and construction equipment.

The current CV recovery trend started in early 2017, when the government intensified its crackdown on overloaded vehicles and advanced the timelines for migration to BS VI norms. With the recent announcement of scrappage policy to phase out vehicles over 15 years, the Government's intent to modernize CV space is quite evident. CRISIL reports suggests that this policy can translate into incremental sales of 4,40,000 heavy CVs over FY 19 to FY 21 and additional 2,00,000 CVs will be replaced over this period. Stricter clampdown on overloading of vehicles by charging more toll on overloaded vehicles, have resulted in a shift to higher tonnage vehicles. In order to curb pollution, government has fast tracked the migration to BS VI regime by April 2020, four years prior to the original plan. The above measures are expected to result in a stronger growth outlook for CV Industry.

Passenger vehicle segment is expected to grow at 9-11% in FY 19 as well. Lower penetration, income growth and nuclear family structure, demographic profile etc will drive passenger vehicle segment. Capacity utilisation of passenger vehicle industry increased to 77% in FY 18 from 68% in FY 16 and is expected to continue rising in FY 19 as well. Utility vehicle and small cars are expected to outperform.

HOME EQUITY:

The loan against property (LAP) business also faced disruptions with structural reforms from the Government in the form of demonetisation, implementation of GST and Real Estate Regulation and Development Act (RERA). These reforms disrupted the real estate market and the resultant stagnant property prices led to a slow-down in the LAP market till the first half of FY 17.

Post demonetisation, progressive familiarisation with GST regulations and favourable real estate prices in Tier-II and smaller towns, has led to a slow and gradual recovery in this segment in FY 18 which is expected to improve in FY 19. The structural reforms are expected to bring in brighter growth prospects in the medium term (FY 20 and beyond). CRISIL research expects LAP portfolio to grow at 13-15% in FY 19 to ₹ 4,25,900 crores.

LAP segment is predominantly funded for self-employed borrowers and with 70-75% of disbursements being funded for self-employed non-professionals like small manufacturers or traders (SMEs) who avail LAP as a term loan to meet capacity utilisation, working capital, debt repayment etc. As LAP is secured by residential or commercial property, the product carries a lower interest rates compared to personal loans.

The key demand drivers for this segment are increase in self-employed borrower profiles, higher finance penetration from organized channels in smaller towns, increasing customer awareness for credit off-take, favourable risk-return equation and competitive interest rates.

HOME LOANS:

The Indian housing finance market has grown rapidly at 18% CAGR from FY 11 to FY 17, and is expected to grow at 16-18% in FY 19, aided by higher finance penetration and demand for affordable housing. As per Government data as of October 2017, 2 lakhs houses have been constructed under Pradhan Mantri Awas Yojana (PMAY) and with a target of constructing 20 million homes across India by 2022, the pace of construction work will increase and subsequently prompt higher demand for loans. Further, inclusion of middle income group (MIG) whose income range between ₹ 6 lakhs to ₹ 18 lakhs per annum under credit linked interest subsidy scheme, is expected to lead a surge in disbursements over the next 3-5 years.

Mortgage penetration as a percentage of GDP in India has increased from around 7% in 2007 to 10% in 2017. This is much lower than other regional emerging markets like China which is at 18%. However progressively due to various structural drivers like younger and earning population, smaller family sizes, urbanisation and rising income levels, the penetration levels are expected to improve to 12-14% by 2022.

The growth drivers in this segment include increasing urbanaisation, favourable demographics with a large proportion of Indian population below the age of 30 years, increase in supply of afforadable homes especially in satellite towns, tax incentives on home loans for both principal and interest repayment, credit link subsidy for eligible population for acquisition and construction of houses and Government's push for "Housing for all".

BUSINESS ANALYSIS

VEHICLE FINANCE

The vehicle finance (VF) business posted a record disbursement growth of 42% and PBT growth of 50% in FY 18. The disbursements during the year were ₹ 20,540 crores as against ₹ 14,471 crores in the previous year. The PBT during the year was ₹ 1,023 crores as against ₹ 682 crores in the previous year. The division continued its focus on strengthening its business operations and improving asset quality through aggressive collections efforts, which resulted in reduction of its gross non-performing assets (GNPA) from 4.2% to 2.0% with an absolute reduction of ₹ 354 crores. The net credit losses (NCL) to average assets has come down to 0.9% from 1.4 % when compared to the previous year. The VF division is expected to continue delivering strong growth and maintain superior asset quality.

The consistent superior performance of the VF division was driven by the following strengths:

a. one of the fastest turnaround time (TAT) in industry (achieved through best in class digitalization of sourcing new loans and customer on-boarding),

b. strong Original Equipment Manufacturer support and superior dealer service,

c. sustained penetration in Tier II, III and IV towns,

d. experienced and stable in-house sales and collections teams,

e. effective underwriting and strong collection management leading to lower delinquencies,

f. right product mix focused on profitable growth,

g. diversified product portfolio and geographical presence preventing concentration risks,

h. a committed top management team who have grown in the company with 10+ years of experience,

Implementation of tablet based system for business origination and collections has helped VF scale disbursements and maintain asset quality. Other digital initiatives like Customer Facing App with customer service module (CSM), Pay Now feature and Gaadi Bazaar (Vehicle Auction platform) have supported VF business in the current growth cycle.

The division will continue to strengthen its engagement with manufacturer and channel relationships through effective tie-ups, increased engagement with brokers, implementation of Chola Express loan for few product segments, strengthen analytics in underwriting process by using artificial intelligence / machine learning technology, build behavior models for predicting customer behavior which will enable in servicing customer needs better.

In order to further increase our market presence the business has grown to 868 branches from 698 branches as at end of previous year. With the inclusion of these branches, Chola will have a balanced presence across all the four regions in India. The primary focus will be on acquiring new customers in the rural market, to provide better reach for our customers to enable repeat business and to improve proximity for better collection.

HOME EQUITY

Managed assets for the business grew by 4.2% during FY 18 and stood at ₹ 9,997 crores as against ₹ 9,593 crores during FY 17. The overall disbursements during FY 18 stood at ₹ 3,174 crores as against ₹ 3,056 crores during FY 17, a growth of 3.9%.

The delinquency levels have dropped, with resolutions through The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI) starting to come through. GNPA levels have dropped to 5.36% in March 2018 from 5.77% in March 2017. The SARFAESI resolutions have started to yield results particularly in the last quarter of FY 18 and the business expects to see better resolutions during FY 19.

Credit off-take slowed down due to de-growth in the economy after GST & demonetisation impact. New lending entities are looking to expand their LAP Portfolio, which has led to aggressive acquisition of customers in the small ticket portfolio. Due to intense competition, the yields have dropped by 200 bps in the past 18 months. Much of the impact was managed in FY 18 due to lower cost of funds, as the market rates were benign. As a result, slippages in net interest margins were contained and was maintained at 3.5%-4% this fiscal. To succeed in such competitive environment, the company has over years built strong systems and processes focused on acquiring the right customers. The company is focused on strengthening analytics and automation in underwriting process, customer behavior, efficiency of sourcing channels and collection analytics, thereby strengthening customer and channel partner relationships. With this digital focus, the business is confident of pushing boundaries in delivering growth and maintaining asset quality.

The business continues to focus on self-occupied residential properties as its preferred asset class - a safer asset class to lend against. Its target segment continues to be the self-employed, non-professional customers. The business has built deep expertise in understanding and assessing this customer segment.

The business operates out of 148 branches and will continue to expand geographically, reaching out to customers in the Tier 3 and Tier 4 cities which offers low risk and high return market potential.

HOME LOANS

The affordable home loans (HL) business has increased the disbursement to ₹ 606 crores during FY 18 as against ₹ 325 crores in FY 17, registering a growth of 87%. Managed Assets was at ₹ 984 crores in FY 18 as against ₹ 518 crores in FY 17, registering a healthy growth of 90%. HL business was launched in FY 13 and the company spent the first few years understanding the nuances of this business. In FY 18, the business started growing aggressively and is expected to grow at this rate. The business is at present operating from 127 branches in the states of Tamil Nadu, Karnataka, Andhra Pradesh, Gujarat, Rajasthan and Maharashtra. The business will continue to expand into newer markets during this year as well.

The prime focus of the business is the self-employed non-professional customers seeking to buy / construct a new home under affordable housing. During the year, the board of directors of your company approved setting up of a housing finance company (HFC) as a subsidiary. The subsidiary company is in the process of making an application to National Housing Bank for starting the HFC.

CORPORATE FINANCE

Under corporate finance, the business offers short-term financing products such as bill discounting and working capital loans. AUM in this business stood at ₹ 292 crores as of March 2018.

RURAL FINANCE

The rural finance product was carried out at 170 Mana Gromor centres during FY 18. Mana Gromor centres are the retail outlets operated by Coromandel International Limited, where the company finances the agri input procurement needs of the farming community.

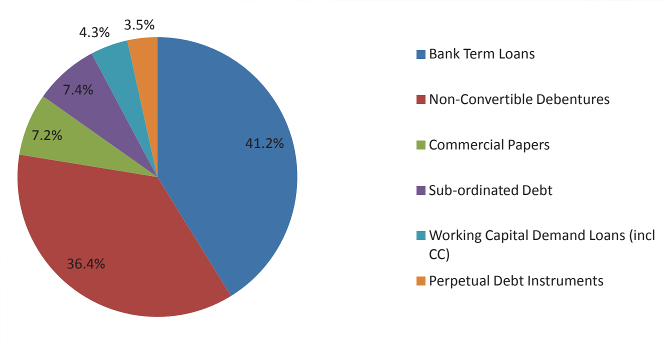
ASSET LIABILITY MANAGEMENT

During FY 18, the company maintained optimum asset liability management (ALM) position while ensuring that the cost of funds is kept under control. The company continued to be successful in getting subscription for its Commercial Paper (CP) and Non-Convertible Debentures (NCDs) from banks apart from Mutual Funds (MF).

Long-term borrowings in the form of medium-term loans, medium/long-term NCDs and Tier II - contributed ~40% of the gross incremental on-balance sheet borrowings. Sale of receivables by way of securitisation amounting to ₹ 3,355 crores helped in managing the cash flows over the tenure of the loan book as well as reducing the borrowing costs.

RESOURCES & TREASURY

During the year, the company raised funds from banks and from money markets to support the growth of its businesses at lower interest rates while maintaining the right mix of long and short-term borrowings and thereby maintaining a healthy asset liability position. The borrowing profile as on 31 March, 2018, is given below:



BANK BORROWING

In FY 18, the company mobilised ₹ 7,577 crores of medium-term loans and ₹ 413 crores (net) as working capital and cash credit facilities from banks. The company was successful in getting support for its money market issuances from banks through subscription of CPs and NCDs. Wherever possible, the company successfully negotiated Foreign Currency Term Loans (FCTLs) to the tune of ₹ 775 crores from banks on a fully hedged basis, and leveraged opportunities to raise bank loans with pricing linked to external benchmarks, to the tune of ₹ 877 crores. These were aimed at lowering borrowing costs considering the comparatively higher cost in Marginal Cost Based Lending Rates (MCLR) based bank borrowings.

MARKET BORROWING

During FY 18, the company raised ₹ 9,550 crores* (previous year ₹ 8,620 crores*) and repaid Rs. 9,815 crores* (previous year ₹ 8,681 crores*) of CPs. CP outstanding as at the end of the year was ₹ 2,400 crores (previous year ₹ 2,665 crores). Medium and long-term secured NCDs to the tune of ₹ 4,526 crores (previous year ₹ 7,143 crores) were mobilised at competitive rates. At the end of FY 18, outstanding NCD stood at ₹ 11,610 crores (previous year ₹ 10,299 crores). New investor profiles were added to ensure no undue concentration in any single/group of investors. The NCD issuances continued to help support reducing the borrowing costs as compared to bank term loans.

Apart from secured borrowings by way of NCDs, the company also placed sub-ordinated debt instruments of ten year tenure to the tune of ₹ 715 crores during the year, to strengthen the capital adequacy requirements of the company.

(*gross borrowings and includes fresh borrowings which were repaid during the year)

MOVEMENT IN INTEREST COST

The company's efforts in balancing the sourcing strategy (including NCD / bank loans mix) without losing sight of ALM, showed favourable results on interest cost, which decreased from 9.2% in FY 17 to 8.5% in FY 18. Interest cost was monitored closely and kept under control by selecting the right mix of borrowings / effecting periodic re-pricing of bank loans.

Though the availability of bank loans to NBFCs remained robust, MCLR remained range bound till Q2 of FY 18. In Q4 of FY 18, increase of MCLR by banks, ranging from 5-45 bps had started impacting borrowing costs.

The money market based borrowings of the company opened up further after INDIA ratings and CARE ratings announced a rating upgrade on the company's debt rating i.e from AA to AA+ on senior debt and from AA - to AA on perpetual debt, effective Q3 of FY 18. The rating upgrade not only helped obtain incremental borrowings at lower rate, but also opened up new set of investors who were keen to invest in AA+ rated instruments.

Securitisation of receivables to the tune of ₹ 3,355 crores at lower rates resulted in good savings of interest costs. The benefits of the low interest cost on these deals will continue to accrue over the tenure of underlying receivables.

CAPITAL ADEQUACY RATIO (CAR)

As at the end of FY 18, the capital adequacy ratio stood at 18.36% (Tier I: 13.23% and Tier II: 5.13%)

INVESTMENTS

The company's investments of ₹ 318.94 crores include investments in subsidiaries of ₹ 72.90 crores, investments in pass through certificates of ₹ 246.02 crores and investments in equity shares of ₹ 0.02 crores (net of provisions).

FINANCIAL REVIEW

The company's aggregate loan disbursements grew by 35% from ₹ 18,591 crores in FY 17 to ₹ 25,114 crores in FY 18. This was primarily on account of a 42% growth in vehicle finance disbursements. Home equity disbursements grew by 4% over previous year. The total AUM for the company as a whole grew by 25% (YoY) and the growth of on-balance sheet assets was 31%. The business AUM (including on book and assigned and net of provisions) in FY 18 stood at ₹ 42,879 crores as against ₹ 34,167 crores recorded in FY 17.

Aggressive collection efforts helped in improving asset quality which resulted in GNPA dropping steeply to 2.9% and NNPA to 1.7% in FY 18 as compared to a GNPA of 4.7% and NNPA of 3.2% in FY 17 at 3 months overdue basis.

The company achieved a PBT Return on Total Assets (PBT - ROTA) of 4.6% in FY 18 as compared to 3.9% in FY 17. This was attained through balanced disbursement mix, robust collection of over-dues and lower cost of funds, resulting in better profitability. Net Income Margin (NIM) improved to 9.7% in FY 18 from 8.6% in FY 17.

The net profit after tax for the year rose by 36% to ₹ 974 crores from ₹ 719 crores in the previous year. Earnings per share for the year stood at ₹ 62.32 and the book value per share stood at ₹ 329.5 as against ₹ 46.01 and ₹ 274.2 in the previous year respectively.

HUMAN RESOURCES (HR)

The key HR Interventions for FY 18 focused on productivity enhancement, alternate sources of hiring Feet on Street - Hire / Train / Deploy model, study organization structural efficiency & compensation positioning in the NBFC & banking sectors, HR process improvements etc. Our learning and development initiatives revolved around building people capabilities with specific focus on improving team / manager efficiency.

- Partnering for productivity enhancement - regional HR teams partnered with business managers in identifying productivity delimiting factors and arrived at employee specific action plans to resolve the challenges to build a culture of high performance. Interventions deployed included,
- Facilitation with reporting managers learning: employee specific refresher learning session
- Hire/Train/Deploy - Alternate sourcing channel: This year again, the front end roles staffing was done through Hire, Train & Deploy model which was deployed extensively across three zones.
- Study organisation structural efficiency & compensation positioning - the company engaged Aon Hewitt and undertook the manning study and benchmarked the company's compensation with NBFC and banking sector. Based on the results, actions are planned to be deployed in FY 19.
- Manning study focused on the analyzing the organization structure, understanding key responsibilities at different levels and inter dependability, touch points across each function & across customer life cycle, differentiation / combination of products in Sales & Credit, Headcount analysis and key staffing ratios across the functions, level and sub levels.
- Compensation benchmark study focused on the position mapping of Chola with the industry and the compensation positioning of various roles and levels with respect to the NBFC and banking sector

HR Process Improvement - Validated the process efficiency post the implementation of Lean Management.

Learning and Development

- Belbin Tool Training conducted for select employees to make the transformation from being effective process managers to becoming outstanding people managers. The pretest and training gives an insight about the individual's strengths and weaknesses and helps managers to put together their own great teams
- Behavioural event interview training was conducted for select employees from the business and they were certified as the Interview panel. The objective of the training is to enable participants assess whether the candidate demonstrates traits that fit the workplace culture, use of questions that solicit real-life experiential responses that provide a way to evaluate skills, knowledge, and behaviours versus philosophical views.

Employee Engagement

The Epic League - Chola Rewards and Recognition Program was launched. The objective of this was to create an environment to nurture employees through recognition and celebrating their contribution, by creating Rewards & Recognition framework which is measurable, exciting, relevant and transparent.

TECHNOLOGY INITIATIVES

The primary theme for the digital technology team was 'Stabilization', without compromising on the company's ability to deliver new features and capabilities for the business. Along with business growth, the load on the application and technology infrastructure continues to see monthly, quarterly, and annual highs. To handle this, systematic approach for tuning across the entire applications, servers, and network infrastructure were put in place. The above measures ensured that the environment is positioned to handle increasing loads. Any potential hot-spot is identified on a pro-active basis, and speedy issue resolution is put in place, thereby minimizing business impact.

On the core technology infrastructure front, strategic upgrades were carried out for our data-center networks, servers, and storage infrastructure. This helped eliminate legacy equipment while positioning us to deliver much higher processing capability and ability to scale as the business grows. Tools and processes were put in place to handle cyber security related incidents, timely reporting of system related abnormal events, and tracking and resolution of such events. Technology risk initiatives like improved coverage of end-point device protection and risk-based coverage of devices for data leakage protection were of a continuous focus for the team. Gap assessment was carried out as per the Master Directions for NBFCs issued by Reserve Bank of India (RBI) and efforts are underway to ensure compliance to the same.

From a mobility perspective, focus on performance tuning and optimization ensured much better experience for our sales and collections staff in the field. Integration with new Credit Bureau for two-wheeler express credit, updated credit scoring model integration, and controls around cash collections were some of key highlights of functionality developed and delivered. New mobile application was rolled out to support Chola customers using iOS devices while the app was also enhanced to support customer service requests and payment options like UPI. Similarly, the GaadiBazaar app was augmented to support online auctions, integration with valuation service providers, and user notifications.

On the lending & financial platform front, delivery of timeline critical functionality like GST compliance and Ind-AS preparedness, as well as improved automation for transaction and credit bureau reporting were done. A coordinated exercise to optimize the month-end process and related reporting activity was carried out. This helped availability of systems for processing within a short period of time as well as timely availability of data and reports for financial reporting.

Digital Innovation was an area of renewed focus covering diverse digital initiatives like API Management, ChatBots, application containers, DevOps, continuous integration & continuous delivery, and big-data based document management solutions. The business continues to leverage and learn from projects carried out in each of these areas and adopt them for mainstream implementation in different projects.

RISK MANAGEMENT

The company is committed to create value for its stakeholders through sustainable business growth and with that intent has put in place a robust risk management framework to promote a proactive approach in reporting, evaluating and resolving risks associated with the business. Given the nature of the business, the company is engaged in, the risk framework recognizes that there is uncertainty in creating and sustaining such value as well as in identifying opportunities. Risk management is therefore made an integral part of the company's effective management practice.

Risk Management Framework: The company's risk management framework is based on

(a) Clear understanding and identification of various risks

(b) Disciplined risk assessment by evaluating the probability and impact of each risk

(c) Measurement and monitoring of risks by establishing key risk indicators with thresholds for all critical risks and

(d) Adequate review mechanism to monitor and control risks.

The company has a well-established risk reporting and monitoring framework. The in-house developed risk monitoring tool, Chola Composite Risk Index, measures the movement of top critical risks. This provides the level and direction of the risks, which are arrived at based on the two level risk thresholds for the identified key risk indicators and are aligned to the overall company's risk appetite framework approved by the board. The company also developed such risk reporting and monitoring mechanism for the risks at business / vertical level. The company identifies and monitors risks periodically. This process enables the company to reassess the top critical risks in a changing environment that need to be focused on.

Risk Governance structure: The company's risk governance structure operates with a robust board and risk management committee with a clearly laid down charter and senior management direction and oversight. The board oversees the risk management process and monitors the risk profile of the company directly as well as through a board constituted risk management committee. The committee, which meets a minimum of four times a year, reviews the risk management policy, implementation of risk management framework, monitoring of critical risks, and review of various other initiatives with a structured annual plan. The risk management division has established a comprehensive risk management framework across the business and provides appropriate reports on risk exposures and analysis in its pursuit of creating awareness across the company about risk management. The company's risk management initiatives and risk MIS are reviewed monthly by the managing director and business heads. The key risks faced by the company are credit risk, liquidity risk, interest rate risk, operational risk, reputational and regulatory risk, which are broadly classified as credit risk, market risk and operational risk.

CREDIT RISK

Credit risk arises when a borrower is unable to meet his financial obligations to the lender. This could be either because of wrong assessment of the borrower's payment capabilities or due to uncertainties in his future earning potential. The effective management of credit risk requires the establishment of appropriate credit risk policies and processes.

The company has comprehensive and well-defined credit policies across various businesses, products and segments, which encompass credit approval process for all businesses along with guidelines for mitigating the risks associated with them. The appraisal process includes detailed risk assessment of the borrowers, physical verifications and field visits. The company has a robust post sanction monitoring process to identify credit portfolio trends and early warning signals. This enables it to implement necessary changes to the credit policy, whenever the need arises. Also, being in asset financing business, most of the company's lending is covered by adequate collaterals from the borrowers. During the year under review, the company achieved major milestones in the area of credit risk management. The company developed online application scoring model to assess the credit worthiness of the borrower for underwriting decisions for its vehicle finance, home equity and home loan business.

The company also has a well-developed model for the vehicle finance portfolio, to help business teams plan volume with adequate pricing of risk for different segments of the portfolio.

MARKET RISK

Market Risk is the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates and other asset prices. The company's exposure to market risk is a function of asset liability management and interest rate sensitivity assessment. The company is exposed to interest rate risk and liquidity risk, if the same is not managed properly.

The company continuously monitors these risks and manages them through appropriate risk limits. The Asset Liability Management Committee (ALCO) reviews market-related trends and risks and adopts various strategies related to assets and liabilities, in line with the company's risk management framework. ALCO activities are in turn monitored and reviewed by a board sub-committee.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The operational risks of the company are managed through comprehensive internal control systems and procedures and key back up processes. In order to further strengthen the control framework and effectiveness, the company has established risk control self-assessment at branches to identify process lapses by way of exception reporting. This enables the management to evaluate key areas of operational risks and the process to adequately mitigate them on an ongoing basis. The company also undertakes risk based audits on a regular basis across all business units / functions. While examining the effectiveness of control framework through self-assessment, the risk-based audit would assure effective implementation of self-certification and internal financial controls adherence, thereby, reducing enterprise exposure.

The company has put in place a robust Disaster Recovery (DR) plan, which is periodically tested. Business Continuity Plan (BCP) is further put in place to ensure seamless continuity of operations including services to customers, when confronted with adverse events such as natural disasters, technological failures, human errors, terrorism, etc. Periodic testing is carried out to address gaps in the framework, if any. DR and BCP audits are conducted on a periodical basis to provide assurance regarding the effectiveness of the company's readiness.

The company is continuously engaged in creating risk awareness and culture across the organisation through training on risk management tools and communication through risk e-newsletters.

INTERNAL CONTROL SYSTEMS

An internal control framework, including internal financial controls, encompassing clear delegation of authority and standard operating procedures, are available across all businesses and functions. Clear segregation of duties exists between various functions. Key operational processes (finance and operations) are centralised at head office for better control. The company has instituted a strong IT security system to ensure information security. All policies are reviewed and approved by the board on a periodic basis.

The company adopts a co-sourced model of internal audit. Both the in-house internal audit department and M/s. Price WaterhouseCoopers Private Limited (PWC), the company's external internal auditors, executed a rigorous audit calendar spanning multiple business processes. Internal audit team conducts an independent review of the design and operating effectiveness of internal financial controls established by the management and recommends improvements. Critical audit observations are shared with the audit committee on a quarterly basis to effectively monitor controls and implement recommendations. The external audit team engaged for internal audit is rotated every three years and accordingly, the tenure of PWC is getting over in FY 18. M/s Deloitte Haskins & Sells is being engaged to do the internal audit for the next three years commencing from FY 19.

On compliance, a methodical system of monthly self- assessment exists in all functions. A robust mechanism is in place to control, detect and prevent fraud. The investigations are reviewed by a disciplinary committee comprising senior management members and chaired by the managing director.

The internal financial control systems are constantly monitored both by an in-house team as well as the external internal auditors. The risk and control matrices are reviewed by the internal audit team on a quarterly basis, control measures are tested and results are communicated to the audit committee. These measures have helped in ensuring the adequacy and operating effectiveness of internal financial controls.

The statutory auditors of the company have also certified on the existence and operating effectiveness of the internal financial controls relating to financial reporting as of March 2018.

RESULT OF OPERATIONS

Balance Sheet

The company's balance sheet size has steadily grown, compared to the previous year. A summarised version of the same is given below:

₹ in crores

Particulars	March 2018	March 2017	Growth %
Assets			
Business Assets	37,201	28,414	31%
Other Assets	2,304	2,181	6%
TOTAL	**39,505**	**30,595**	**29%**
Liabilities			
Net worth	5,150	4,285	20%
Borrowings	31,902	24,109	32%
Other Liabilities	2,453	2,201	11%
TOTAL	**39,505**	**30,595**	**29%**
Off-Balance Sheet Assets	6,233	6,263	0%
Total AUM	**45,738**	**36,858**	**24%**

STATEMENT OF PROFIT & LOSS

The company's PBT increased from ₹ 1,106 crores in FY 17 to ₹ 1,483 crores in FY 18. The summarised version is given below:

₹ in crores

Particulars	March 2018	March 2017	Growth %
Disbursements	**25,113.51**	**18,591.26**	**35%**
Income	5,425.77	4,660.35	16%
Cost of Funds	(2,307.85)	(2,230.80)	3%
Net Margin	**3,117.92**	**2,429.55**	**28%**
Operating Expenses	(1,289.52)	(1,013.34)	27%
Provisions and Losses	(345.09)	(310.63)	11%
Profit Before Tax (PBT)	**1,483.31**	**1,105.58**	**34%**
Current and Deferred Tax	(509.19)	(386.84)	32%
Profit After Tax (PAT)	**974.12**	**718.74**	**36%**

Key Ratios

Particulars	March 2018	March 2017	Growth %
Net Income Margin	9.7%	8.6%	13%
Return on Equity - PAT	20.8%	18.1%	15%
Return on Total Assets - PAT	3.0%	2.6%	19%
Total AUM - Gross (₹ in crores)	45,738	36,858	24%
Earnings Per Share - Basic in ₹	62.32	46.01	35%
Market Price - as of 31st March (in ₹)	1,449.70	964.45	50%
Market Capitalisation - as of 31st March (₹ in crores)	22,662	15,072	50%
CAR	18.4	18.6	(1%)
Operating Expenses to Assets	4.0	3.6	12%
Profit Before Tax to Income	27.3	23.7	15%

% of AUM

Particulars	March 2018	March 2017
Non-Performing Assets (NPA) recognition timeline	3 months overdue	3 months overdue
Gross Non-Performing Assets (GNPA)	2.94	4.66
Provisions	1.28	1.47
Net Non-Performing Assets (NNPA)	1.66	3.19
Provision Coverage on GNPA	43.48	31.64

KEY PARTNERSHIPS AND TIE-UPS

Particulars	Institution
Life Insurance business Limited	HDFC Standard Life Insurance Company
General Insurance business	Cholamandalam MS General Insurance Company Limited
Manufacturer Tie ups	Tata Motors Limited
	Mahindra & Mahindra Limited
	Ashok Leyland Limited
	SML Isuzu Limited
	Force Motors Limited
	Daimler India Commercial Vehicles
	Eicher Polaris
	John Deere India
	Mahindra Gujarat Tractors Limited
	Sany India
	Hyundai Construction Equipment India
	Escorts Construction Equipment
	Action Construction Equipment
	Terex India
	Royal Enfield India

CONSOLIDATED RESULTS

The consolidated profit after tax for the year under review was ₹ 975.42 crores in FY 18, as against ₹ 719.43 crores in FY 17.

On behalf of the board

Place : Chennai
Date : April 23, 2018

M.B.N. Rao
Chairman