

## ABOUT SES

Stakeholders Empowerment Services (SES) is a Corporate Governance research and advisory firm. SES assists investors to analyze governance practices including matters relating to sustainability, prevalent at listed entities and empower Investors to undertake meaningful engagement with Investee entities.

## SES SERVICES

**E-BRSR Tool:** Online web-based platform to create BRSR Report by the Company and generate XBRL in seamless, cost and time effective manner  
Already Subscribed by HDFC, Hero, M&M, L&T, UPL, Wipro, Reliance group and many others. [Read More](#)  
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[esgdata@sesgovernance.com](mailto:esgdata@sesgovernance.com)

### SES AIMS:

Designed primarily for Institutional investors to carry out their stewardship activities in an efficient manner. [Read More](#)

### Proxy Advisory:

Advises investors on the matters that require shareholder approval at listed entities and identify Governance issues. [Read More](#)

### ESG Scores:

Analyze sustainability initiatives of Companies based on various environmental, social and governance factors. [Read More](#)

### Corporate Governance Score (CGS):

CGS model measures the Company's compliance and also evaluates the governance practices with respect to global benchmarks. [Read More](#)

### E-Ballot:

One stop solution for investors – Online Vote Management System to cater to requirements of Institutional Investors. [Read More](#)

# Proxy Advisory Report (Addendum)

## Cholamandalam Investment & Finance Company Ltd

## COMPANY INFORMATION

**BSE CODE:** 511243

**NSE SYMBOL:** CHOLAFIN

**ISIN:** INE121A01024

**Industry:** Non-Banking Financial Company (NBFC)

**Email:** [investors@chola.murugappa.com](mailto:investors@chola.murugappa.com)

**Phone:** +91 44 4090 7172

**Registered Office:** Dare House, No.2, N.S.C. Bose Road, Parrys, Chennai - 600 001.

## MEETING DETAILS

**Meeting Type:** AGM

**Meeting Date:** 1<sup>st</sup> August, 2023 at 4:00 P.M

**Venue:** Video Conferencing (VC) facility or other audio-visual means (OAVM)

**Notice Date:** 3<sup>rd</sup> May, 2023

**Notice:** [Click here](#)

**Annual Report:** [FY 2022-23](#)

**SES PA Report:** [Report](#)

## E-VOTING DETAILS

**e-Voting Platform:** [NSDL](#)

**Cut-off Date:** 25<sup>th</sup> July, 2023

**Remote E-voting:**

- **Start:** 28<sup>th</sup> July, 2023
- **Ends:** 31<sup>st</sup> July, 2023

**ADDENDUM REPORT RELEASE DATE:** 27<sup>th</sup> July, 2023

**Research Analyst:** Karishma Yadav

**Conflict Disclosure:** SES - No Conflict | Analyst - No Conflict



## ADDENDUM

This addendum is being issued based on e-mail dated 24<sup>th</sup> July, 2023, sent by Cholamandalam Investment and Finance Company Ltd ('the Company'), with respect to Proxy Advisory Report ('[PA Report](#)') issued by SES in relation to the 45<sup>th</sup> AGM of the Company to be held on 1<sup>st</sup> August, 2023.

**SES is changing its recommendation from AGAINST to FOR in resolution no. #5 (Approval for increase in borrowing powers), based on additional disclosure made by the Company via email.**

**Except the Resolution #5, there is no change in any of the SES recommendation.**

EXISTING RECOMMENDATION					
S. No.	Resolution	Type	SES Observation #	Rec.	Rationale
5	Approval for increase in borrowing powers of the company.	S	<span style="color: green;">LC</span> + <span style="color: red;">GC</span>	AGAINST	<del>The proposed borrowing limit will lead to significant decrease in CAR.</del>
REVISED RECOMMENDATION					
5	Approval for increase in borrowing powers of the company.	S	<span style="color: green;">LC</span>	FOR	No major concern identified.

S - Special Resolution, Rec. - Recommendation

# LC - Legally Compliant, NC - Legally Non-Compliant, TC - Disclosures & Transparency Concern, GC - Governance Concern

### BACKGROUND

SES, as per its policy, had e-mailed its [PA Report](#) to the Company on 23<sup>rd</sup> July, 2023 in respect of ensuing AGM of the Company to be held on 1<sup>st</sup> August, 2023.

Post release of the PA Report, the Company sent an email to SES on 24<sup>th</sup> July, 2023. SES has analysed the information provided by the Company and has provided appropriate response.

SES has reproduced the Company's response (*in blue italics*) and SES comments thereon (in black text).

### SES COMMENTS ON COMPANY'S RESPONSE

#### *Approval for increase in borrowing powers of the company.*

*The Company is seeking shareholders' approval to increase the borrowing limit of the Company from ₹ 1,10,000 crores to ₹ 2,00,000 crores over and above the aggregate of the paid-up share capital and free reserves of the Company. Kindly note that this is an enabling resolution and not meant to be used up fully in FY 2024. Keeping in mind the requirement that any increase in borrowing powers require approval of the shareholders vide a special resolution it is customary for NBFCs to take approval once in three to four years. As the new lines of business has taken off very well for the Company, keeping in mind the funds requirement for the near future, the proposal to revise the borrowing limit is brought to the shareholders. As you have rightly observed due to the nature of business, as the Company is engaged in lending business and being a NBFC, it relies on its borrowings to fund its lending business in the ordinary course of their operations. As the Company has already utilised more than 80% of its existing borrowing limits keeping aside conservatively the paid-up capital, free reserves and temporary loans, which can be exempted from the overall borrowings, approval of the shareholders is sought. As per the Risk appetite statement approved by the Board of Directors, the Company shall at all times endeavour to maintain 17% CAR, 200 basis points over and above the regulatory minimum.*

*Further, we wish to bring to your notice that the company during its earnings call held on May 4, 2023, had clarified to investors that the Company will be looking at raising equity in the current financial year. Copy of transcript of earnings call uploaded in company's website and disclosed to stock exchanges is enclosed for reference. Please refer pages 5 and 6 of transcript for reference.*



**SES Comment:**

SES in its report, had raised a concern with regard to increase in borrowing limit by 81%, that will result in significant decrease in Capital Adequacy Ratio (CAR) of the Company, which stood at 17.1% as on 31<sup>st</sup> March, 2023.

Shareholders may note that:

The Company has stated that *“the Company shall at all times **endeavour to maintain 17% CAR**, 200 basis points over and above the regulatory minimum.”*

Further, the Company had also discussed the same during the Earnings call, where Mr. Vellayan Subbiah stated that *“we are at 17 predominantly because we have not used a lot of Tier 2. It is a fair ask that, we will kind of, we will obviously something that again, we tend to be conservative on. So, it is something that, we will kind of review in this upcoming financial year... we will **review equity capital and its requirements** in the current financial year.”*

Additionally, the Company has also stated that *“this is an enabling resolution and **not meant to be used up fully** in FY 2024”.*

It appears, the Company has taken cognizance of the impact of increase in borrowing limit on the CAR and will take effective measures to review and maintain the capital of the Company.

Therefore, given the above disclosures and assurance by the Company to maintain its CAR over and above the statutory limit, and also considering its nature of the business, **no major concern is being raised**.

**Hence, SES is changing its recommendation for resolution #5 from **AGAINST** to **FOR**.**

**Amendment to the Articles of Association of the company.**

*The Company has sought amendment only to the extent of complying with statutory requirement under SEBI Debenture Trustee Regulations (highlighted para). The provision for appointment of directors nominated by any institution in pursuance of any agreement with the Company is an existing clause approved by shareholders and the company is not seeking any fresh approval in this regard. We also state that the existing provision for appointment of director nominated by an institution is in line with Section 161(3) of the Companies Act, 2013.*

*The proposed clause 17.8 is reproduced with amendments highlighted for ready reference:*

*“Notwithstanding anything to the contrary contained in these Articles and pursuant to provisions of the Act and Rules made thereunder, the Board of Directors may from time to time appoint any such person as a “Nominee Director”. For the purpose of this clause, “Nominee Director” means a Director nominated by any institution in pursuance of the provisions of any law for the time being in force, or of any agreement, or appointed by any Government, or any other person to represent its interests and includes any person nominated by the debenture trustee(s) in terms of Regulation 15(1)(e) of the Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993 as a director on the board of the company”.*

*Kindly note that the Company does not currently have any director or institutional nominees on the Board on perpetual basis. Further, there is no intent or provision in the near future for appointment of such director or financial institution nominees on perpetual basis. Hence, there is no reason for shareholders to have any concerns on that matter. The amendment is proposed only with an intent to comply with the regulatory requirement and not to permit any appointment on perpetual basis.*

**SES Comment:**

Shareholders may note that, SES has no concern with Amendment brought in Article 17.8 with respect to, appointment of persons nominated by Debenture Trustees as the same is being done to align with Clause 23(6) of SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.

The concern raised by SES is with respect to power of Board to appoint Nominee Directors which may include a director nominated by any institution in pursuance of any law **or of any agreement, or any other person to represent its interests**. SES is against the Board's power to appoint a nominee in pursuance to any agreement or any other person to represent their interest.

SES is of the view that, the Board and NRC shall only nominate the said individuals and should be appointed on the Board only after shareholders' approval.



SES reiterates that, as per its policy, it allows maximum of 1 nominee of public financial institution on a non-rotation basis.

Further, the nomination rights to debenture trustee are only a part of the clause that on a broader aspect deals with rights to appoint directors made pursuant to any agreements entered with the Company. And hence, SES is constrained to raise a concern with the entire Article proposed to be adopted.

SES acknowledges that the Company does not have any nominees on perpetual basis at the moment, however, this cannot be taken as assurance for future appointments, unless the Articles clearly state the same.

Hence, the concerns raised by SES stands unaddressed.

**Therefore, there is no change in the recommendation regarding amendment to the Articles of Association of the Company.**

**COMPANY'S EMAIL**

Dear Karishma Yadav,

Thank you for sharing your advisory report. Please find attached the Company responses and submissions to your voting recommendation report on the AGM Notice for the ensuing Annual General Meeting scheduled on 1<sup>st</sup> August 2023. We would request you to consider the facts submitted and take a considered view on your recommendations on approval for increase in borrowing powers of the Company and Amendment to Articles of Association resolutions. Please do feel free to reach out to the undersigned for any further information or documentation that you may need in support of our responses.

**Attachment Text****Item No: 5****Approval for increase in borrowing powers of the company.**

The Company is seeking shareholders' approval to increase the borrowing limit of the Company from ₹ 1,10,000 crores to ₹ 2,00,000 crores over and above the aggregate of the paid-up share capital and free reserves of the Company. Kindly note that this is an enabling resolution and not meant to be used up fully in FY 2024. Keeping in mind the requirement that any increase in borrowing powers require approval of the shareholders vide a special resolution it is customary for NBFCs to take approval once in three to four years. As the new lines of business has taken off very well for the Company, keeping in mind the funds requirement for the near future, the proposal to revise the borrowing limit is brought to the shareholders. As you have rightly observed due to the nature of business, as the Company is engaged in lending business and being a NBFC, it relies on its borrowings to fund its lending business in the ordinary course of their operations. As the Company has already utilised more than 80% of its existing borrowing limits keeping aside conservatively the paid-up capital, free reserves and temporary loans, which can be exempted from the overall borrowings, approval of the shareholders is sought. As per the Risk appetite statement approved by the Board of Directors, the Company shall at all times endeavour to maintain 17% CAR, 200 basis points over and above the regulatory minimum.

Further, we wish to bring to your notice that the company during its earnings call held on May 4, 2023, had clarified to investors that the Company will be looking at raising equity in the current financial year. Copy of transcript of earnings call uploaded in company's website and disclosed to stock exchanges is enclosed for reference. Please refer pages 5 and 6 of transcript for reference.

**Item No: 9****Amendment to the Articles of Association of the company.**

The Company has sought amendment only to the extent of complying with statutory requirement under SEBI Debenture Trustee Regulations (highlighted para). The provision for appointment of directors nominated by any institution in pursuance of any agreement with the Company is an existing clause approved by shareholders and the company is not seeking any fresh approval in this regard. We also state that the existing provision for appointment of director nominated by an institution is in line with Section 161(3) of the Companies Act, 2013.

**The proposed clause 17.8 is reproduced with amendments highlighted for ready reference:**

"Notwithstanding anything to the contrary contained in these Articles and pursuant to provisions of the Act and Rules made thereunder, the Board of Directors may from time to time appoint any such person as a "Nominee Director". For the purpose of this clause, "Nominee Director" means a Director nominated by any institution in pursuance of the provisions of any law for the time being in force, or of any agreement, or appointed by any Government, or any other person to represent its interests and **includes any person nominated by the debenture trustee(s) in terms of Regulation 15(1)(e) of the Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993 as a director on the board of the company**".

Kindly note that the Company does not currently have any director or institutional nominees on the Board on perpetual basis. Further, there is no intent or provision in the near future for appointment of such director or financial institution nominees on perpetual basis. Hence, there is no reason for shareholders to have any concerns on that matter. The amendment is proposed only with an intent to comply with the regulatory requirement and not to permit any appointment on perpetual basis.





## Disclaimer

### Sources

Only publicly available data has been used while making the report. Our data sources include Notice of Shareholders' Meeting, BSE, NSE, SEBI, Capitaline, MCA, Moneycontrol, Businessweek, Reuters, Annual Reports, Sustainability Reports, IPO Documents and Company Website.

### Analyst Certification

The Analyst(s) involved in development of this Report certify that no part of the Research Analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the Research Analyst(s) in this Report. The concerned Research Analyst(s) and Director(s) do not have any pecuniary relationship with the Reported Company, except that they may be holding miniscule shares in the Company which does not impact their independence in respect of this Report.

SES may be a shareholder in the Company holding equity shares as disclosed on its [website](#). The objective of SES' investment is solely to obtain Shareholders' communications from the Company as a shareholder.

### CAUTIONARY STATEMENT

The recommendations made by SES are based on publicly available information and conform to SES's stated Proxy-Advisory Guidelines. SES opinion is based on SES's interpretation of law and governance benchmarks, which may differ from opinion/ benchmarks of other analysts or practitioners. Further, SES analysis is recommendatory in nature and reflects how SES would have voted if it was a shareholder. Therefore, SES expects that the clients will evaluate the effect of their vote on their investments independently and diligently and will vote accordingly. Subscribers may also carry out an impact analysis of their votes and keep the same as an addendum for their records. In our opinion, Institutional investors are positioned significantly differently from other shareholders due to their ability to engage with the board and the management to bring out desired result. As a firm, it is our endeavour to improve the level of corporate governance while not causing any disruption in company's proceedings and therefore we respect the independence of investors to choose alternate methods to achieve similar results.

### Disclaimer

While SES has made every effort, and has exercised due skill, care and diligence in compiling this report based on publicly available information, it neither guarantees its accuracy, completeness or usefulness, nor assumes any liability whatsoever for any consequence from its use. This report does not have any approval, express or implied, from any authority, nor is it required to have such approval. The users are strongly advised to exercise due diligence while using this report.

This report in no manner constitutes an offer, solicitation or advice to buy or sell securities, nor solicits votes or proxies on behalf of any party. SES, which is a not-for-profit initiative or its staff, has no financial interest in the companies covered in this report except for what is disclosed on its website. The report is released in India and SES has ensured that it is in accordance with Indian laws. Person resident outside India shall ensure that laws in their country are not violated while using this report; SES shall not be responsible for any such violation.

All disputes shall be subject to jurisdiction of High Court of Bombay, Mumbai.

### Concern terminology

**NC – Compliance Concern:** The Company has not met statutory compliance requirements

**FC – Fairness Concern:** The Company has proposed steps which may lead to undue advantage to a particular class of shareholders and can have adverse impact on non-controlling shareholders including minority shareholders

**GC – Governance Concern:** SES questions the governance practices of the Company. The Company may have complied with the statutory requirements in letter. However, SES finds governance issues as per its standards.

**TC - Disclosures & Transparency Concern:** The Company has not made adequate disclosures necessary for shareholders to make an informed decision. The Company has intentionally or unintentionally kept the shareholders in dark.

## Company Information



Stakeholders Empowerment Services

SEBI Reg. No. INH000000016

CIN No. -

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## Contact Information

### Stakeholders Empowerment Services

109, Shyam Baba House,  
Upper Govind Nagar,  
Malad East,  
Mumbai – 400097  
Tel +91 22 4022 0322

[research@sesgovernance.com](mailto:research@sesgovernance.com)

[info@sesgovernance.com](mailto:info@sesgovernance.com)

[www.sesgovernance.com](http://www.sesgovernance.com)



### Warning

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

