Annexure-5

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

ECONOMIC OVERVIEW

Global Economy

Declining Growth, Uncertain Outlook

The world economy witnessed a mixed Calendar Year (CY) 2019. The global real Gross Domestic Product (GDP) growth in CY 2019 was 2.9% compared with 3.6% in CY 2018, reflecting slow growth in both emerging markets and advanced economies. Higher reciprocal tariffs and an uncertain macro environment led to a broad-based slowdown in manufacturing and global trade. Concerns about future global growth and mixed macro Environment led to accommodative monetary policies by global central banks.

World Economic Growth

The global economy started CY 2020 on a strong note with the US-China trade conflicts reaching phase one agreement and the uncertainty around Brexit fading. However, the outbreak of the COVID-19 pandemic, originating from China and spreading across the world, prompted most major countries to impose a Lockdown to break the chain of transmission. The containment measures severely impacted economic activities worldwide.

Outlook

While the magnitude of the COVID-19 impact is yet to be ascertained, the IMF forecasts the 'Great Lockdown' to lead to the worst downturn in CY 2020 since the Great Depression, with global GDP likely to fall as much as -4.9%. However, assuming the contagion recedes by second half of 2020, the global economy could witness a sharp recovery of 5.4% in CY 2021.

Indian Economy

In 2019, India became a US$ 2.7 Trillion economy, having added one Trillion US dollars in the last five years. The recent Economic Survey of the present government outlined the blueprint to achieve the vision of making India a US$ 5 Trillion economy by 2024-25. Following the path, India's rank in the World Bank's Ease of Doing Business 2020 has consistently improved over last three years and stands at 63, among 190 countries, making it the one of world's top 10 most improved countries for the third consecutive time. Further, the government has set a target to invest worth Rs.111 Trillion over 2020-2026 under National Infrastructure Pipeline (NIP). NIP is likely to help provide quality and adequate infrastructure across the nation and boost economic growth.

The Reserve Bank of India (RBI) has undertaken a number of measures to ensure sufficient liquidity in the system since the beginning of FY 2019-20. The policy rate (repo rate) has been cut from 6.25% in the beginning of year to 4% now in ongoing fiscal so far. We also note this time transmission of rate cuts has happened in a large way and helped across all industries and borrowers.

The government collected Rs.16.49 Lakh Crore as net tax revenue in FY 2019-20 as against Rs.14.84 Lakh Crore collected in FY 2018-19. The direct tax collection stood at Rs.11.7 Lakh Crore in FY 2019-20 as against estimated Rs.13.4 Lakh Crore in FY 2018-19. For FY 2020-21, the gross direct tax collections are budgeted to increase by 12.7% according to the Union Budget as against 2.9% growth achieved in FY 2018-19. Further, capital expenditure for FY 2020-21 is pegged at Rs. 4.12 Lakh Crore as against Rs.3.49 Lakh Crore incurred in FY 2019-20 and fiscal deficit was targeted at 3.5% in FY 2020-21, which is unlikely to be achieved given the disruption in economy due to the COVID-19 pandemic. The Goods and Service Tax (GST) gross mop up for FY 2019-20 was Rs. 12.2 Lakh Crore against Rs. 11.7 Lakh Crore in FY 2018-19, reflecting increase in manufacturing and consumption activity, supported by rate cuts during the fiscal.

The non-food bank credit recorded a growth of 6.7% Y-o-Y to Rs. 92.11 Lakh Crore in March 2020 as compared to Rs.86.33 Lakh Crore in March 2019. The growth was a result of increase in growth of service sector by 7.4% to Rs. 25.95 Lakh Crore from Rs. 24.15 Lakh Crore (consisting of NBFC growth of 26% to Rs. 8.07 Lakh Crore) and personal loan by 15% to Rs. 25.54 Lakh Crore from Rs. 22.20 Lakh Crore (including growth in housing by 15.4% to Rs. 13.39 Lakh Crore). The growth in industry (micro & small, medium and large) was marginal at 0.7% to Rs. 29.05 Lakh Crore.

The Indian Economy was not immune to the global slowdown and was affected across all four key growth engines of the economy – private consumption, private investment, exports and government consumption and investment faltered to stimulate any growth. The first three have slowed down significantly led by a variety of reasons. Consumption, the biggest contributor of growth was subdued, pointing to fragile consumer sentiment and purchasing ability. Similarly, private investments and exports have remained muted owing to softdemand, global uncertainties around trade and investments and geopolitical tensions. The fourth engine has been moderated because of the limited elbow room the government has for counter-cyclical spending as the budget deficit remains under pressure.

Given the sharp deterioration in economic activities from the beginning of FY 2020-21 and higher risk of steep deterioration in fiscal discipline, India may be exposed to sovereign rating downgrade, which may have wide ramifications on our financial markets. Given a sharp contraction in domestic economic activities and soft stance of global bankers towards interest rates as to promote consumption activities are likely to keep interest rate scenario benign in India. A sharp fall in oil prices and other commodities are likely to result in softening of inflation rate in subsequent months, which along with a normal monsoon forecast does not warrant a significant rise in the food inflation trajectory. The RBI had changed its stance from neutral to accommodative in its April 2020 monetary policy and a shift in stance is unlikely going forward, given the macroeconomic backdrop.

COVID-19 impact in India

Regarded as one of the largest lockdowns in the history, affecting most businesses in the form of supply disruptions, steep fall in consumption demand, investments, uncertainty for the informal sector and large cash flow gaps for the corporates will significantly affect the overall economy.

The actual impact still remains a challenge to project, given the uncertainty around the containment measures and ultimate recovery.

Cyclical slowdown, recovery delayed

The Indian economy grew by 4.2% in FY 2019-20, compared to 6.1% in FY 2018-19. The slowdown can be largely attributed to weak domestic consumption, sluggish manufacturing (from 5.7% to 0.9%) and construction activities (from 6.1% to 3.0%). Further, weak fixed investment and muted exports have dampened the sentiments. Despite a series of rate cuts by the RBI, credit off take remained slow.

India GDP Growth

As green shoots of recovery started to become visible, an unexpected COVID-19 pandemic engulfed India too, Compelling the government to impose a nationwide lockdown beginning March 24, 2020. This has dashed hope of any early recovery on economy, which will have wider ramification in current fiscal. It brought all business activities, except those related to essential goods and services to standstill and put over 1.3 Billion in suspended animation.

Government announces interim relief; central bank steps in to stabilize economy

The central government announced a special economic package of Rs.20.9 Lakh Crore consisting of mix of short-term measures (fiscal and monetary) and reforms to boost long-term economic prospects to overcome the impact of COVID-19 and boost demand. The RBI announced series of liquidity measures to mitigate the COVID-19 impact and stabilise the economy, along with a host of other measures, including interest rate cuts, reduction in Statutory Liquidity Ratio (SLR)/Cash Reserve Ratio (CRR), moratorium on loans, loan provisioning norms, etc.

Outlook

As per CRISIL, the Indian economy will see contraction at 5% in FY 2020-21, while non-agricultural GDP is to contract 6%, agriculture could cushion the blow by growing at 2.5%. This is mainly led by steep deterioration in business activities and sharp contraction in consumption trend due to disruption led by COVID-19. A recent KPMG report (April 2020) expects the economic recovery in India to be smoother and faster than other advanced economies to emerge stronger out of the pandemic. On a positive note, Moody's (a global rating company) has forecasted, India's GDP growth rate to bounce back to 6.6% in FY 2021-22. The government's clear focus in current fiscal is to revive demand and consumption to drive economic growth back to normalcy.

INDUSTRY OVERVIEW

NBFC industry

NBFCs have played a vital role in the financial system over the last decade. They complement as well as compete with banks, bringing in efficiency and diversity in the financial intermediary segment. NBFCs bridge the gap between formal credit channels and those who are denied credit from these channels, i.e., they help financing those individuals (majorly SENPs) and entities (mostly MSMEs) that are unserved or underserved by formal banking channels. Systemic credit in Indian markets grew from Rs.75.4 Trillion in FY 2013-14 to Rs.130.2 Trillion in FY 2019-20. The proportion of NBFCs in this growing systemic credit has been consistently expanding from 17% in FY 2013-14 to 22% in FY 2019-20.

Delving Deeper

The credit growth of NBFCs was slower in FY 2019-20, due to the risk perception for players with higher exposure to wholesale lending, asset-liability mismatches, capital adequacy and perceived corporate governance. This led to a scenario where NBFCs with riskier exposures and ALM mismatches finding it difficult to access capital market over the near to medium term. According to a CRISIL report on NBFCs (April 2020), the loan book of NBFCs grew at a 3-year CAGR of 13% CAGR fromRs.20.1 Lakh Crore in FY 2016-17 (Estimated) to Rs.28.7 Lakh Crore (Estimated) in December 2019. As per RBI, the industry received the highest share in credit deployment by NBFCs (56.7%), followed by retail loans (20.2%) and services (14.5%) as on September 30, 2019.

Borrowings of the NBFCs upto September 2019, majorly consisting of bank borrowings grew by 21.2% Y-o-Y to touch Rs. 6.3 Lakh Crore in 2019-20, whereas other sources grew 16.8%Y-o-Y to Rs. 7.6 Lakh Crore. Borrowings from public deposits grew by 40.3% to Rs. 0.5 Lakh Crore. Securitisation has played a significant role for raising resources effectively for NBFCs. Since September 2018, the securitization volumes of NBFCs have jumped significantly and continue to remain high for FY 2019-20 as well.

RBI measures to boost NBFCs

The RBI and the government have taken several measures to enhance system liquidity and strengthen the governance and risk management framework of NBFCs, including HFCs:

• Removal of 25% Debenture Redemption Reserve (DRR) requirement
• Relaxation of end-use restrictions on external commercial borrowings from recognised lenders
• Allowance of Partial Credit Enhancements (PCE) to banks for bonds tenured three years and above
• Relaxation of the minimum holding period of loans with original maturities > 5 years to encourage securitising assets
• Allowing co-origination of loans with scheduled commercial banks
• Liquidity coverage ratio maintenance of 50% and 30%, as per the size of AUM
• Interest subvention scheme for NBFC-ND-SI for loans provided to MSMEs to the extent of 2% for all GST registered MSMEs
• One-time restructuring of existing loans to MSMEs

In addition, the RBI undertook a series of initiatives to strengthen the financial services industry, like accommodative monetary policies, reducing the benchmark rates by 115 basis points, CRR exemption for retail loans, externally benchmarking rates, long term repo operations and operation twist.

Outlook

Since September 2018, NBFCs have faced multiple headwinds, with constrained funding access, coupled with rising borrowing costs and re-calibration of loan-book, which has constrained growth. Typical sharp increase in disbursements seen in March end of a fiscal was confined in FY 2019-20 due to lockdown, growth for FY 2020-21 is now expected to be lower due to curtailed disbursements during initial few months of FY 2020-21 to conserve liquidity.

However, due to the cyclical slowdown, the share of NBFCs is expected to face a slight blip, as it is projected to drop slightly from 23% in FY 2018-19 to 22% in each of FY 2019-20 and FY 2020-21.

• In this extreme challenging environment, NBFC credit growth is expected to be flat in FY 2020-21 after registering growth of ~6 % to Rs.29 Trillion (projected) in FY 2019-20.
• Home Loans and MSME finance, are better placed as compared to auto finance and wholesale finance segments.

• Well-capitalised lenders with balanced ALMs and secured lending are expected to grow, as liquidity and low NPA levels would bring in long-term growth for these players.

Special measures by the Government and RBI forCOVID-19 impact mitigation

1. Additional policy rate cut by 115 bps to 4%
2. Reverse repo rate cut at 3.35%, to purposefully create an imbalance, encouraging banks to productively disburse for lending purposes
3. Targeted Long-Term Repo Operations (TLTRO) upto Rs. 1, 00,000 Crore
4. Reduction of CRR by 1% for 1-year period to 3%
5. Reduce daily CRR requirement from 90% to 80% till June 26, 2020
6. Increase accommodation under the Marginal Standing Facility (MSF) from 2% to 3% till June 30, 2020
7. Additional measures like permitting all lending institutions to provide a 6-month moratorium for all term loans, deferring interest on working capital facilities and easing working capital financing, were announced to infuse liquidity in the markets
8. On April 17, 2020, the RBI announced another round of TLTRO amounting to Rs.50, 000 Crore and the banks are required to invest the funds in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs, with at least 50% of the total amount availed going to small and mid-sized NBFCs and Micro Finance Institutions (MFIs)
9. Further, RBI provided a Special Liquidity Facility (SLF) of Rs.15, 000 Crore to enable it to provide liquidity support to the MSMEs and meet sectoral credit needs.
10. Rs.45, 000 Crore partial credit guarantee (PCG 2.0) scheme for non-banking financial companies (NBFCs)
11. Rs.30, 000 Crore special liquidity scheme for NBFCs, housing finance companies (HFCs) and microfinance institutions (MFIs) with full guarantee by the government.

COMPANY BUSINESS OVERVIEW:

Arnold Holdings Limited is a public limited company incorporated in the year 1981 listed in Bombay Stock Exchange. It is a non-deposit taking NBFC, registered with the RBI vide Registration No. B-13.02130 Ever since its incorporation the company engaged in investment in shares and activity of non-banking finance company

Our Company is primarily focused in providing inter corporate loans, personal loans, loans against shares & securities, loans against properties, trade financing, bills discounting, trading in shares & securities. Being an, NBFC our Company has positioned itself between the organized banking sector and local money lenders, offering the customers competitive, flexible and timely lending services.

Products & Services:

Our Company offers financial services to commercial, industrial and financial clients with a one stop financial solution:-

✓ Trade Finance & Bill Discounting
✓ Working capital loans
✓ Loan against property
✓ Margin funding and loan against approved securities
✓ Capital market
✓ Corporate finance
✓ Mortgage and loans
✓ Infrastructure finance

FINANCIAL PERFORMANCE:

During the fiscal Year 2020, the gross operational income of the Company stood at Rs.2413.85 Lacs as compared to previous fiscal Year of Rs. 1646.06 Lacs. The company has continued its lending activities and advances portfolio of the Company has been Rs. 3894.29 Lacs and the interest income of the Company have been stood at Rs. 328.826Lacs. This fiscal Year Company's profits have been 156.53 Lacs as compared to Rs. 28.45 Lacs of fiscal Year 2019.

Financial Highlights:

- Income from operation stood at Rs. 2413.07 Lacs for fiscal Year 2020.
- Profit before Taxes of fiscal Year 2020 was Rs. 212.47 Lacs.
- Profit after Taxes of fiscal Year 2020 was Rs. 156.53 Lacs.
- Earnings per share for fiscal Year 2020 were Rs. 0.520 per share.
- Net Worth of company stood at Rs. 5248.928 Lacs as on March 31, 2020.

SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE

The company is operating as Non-banking Financial Company and so does not have segment wise performance. The performances are reflected in the balance sheet.

SWOT ANALYSIS:

Strengths:

An integrated financial services platform: We offer our clients an integrated financial services platform by offering lending against demat shares, finance consultancy, loan against immovable properties and allied products. Our integrated service platform allows us to leverage relationships across the lines of businesses and our industry and product knowledge by providing multi-channel delivery systems to our client base, thereby increasing our ability to cross-sell our services.

Experienced Management: We believe that our senior management and our talented and experienced Team are the principal reason for the growth of our Company. We believe that the extensive experience and financial acumen of our management and staff facilitates us with a significant competitive advantage.

Weakness:

Branding: Our Company is not a well-established brand among large NBFC players who have access to larger financial resources.

Accessibility: We do not have branches so we are unable to explore the business opportunities in other areas.

Opportunities:

Large Market: The players in the NBFC sector still have a lot of scope to cover larger market and the rural markets are still untapped.

Desire for Status: With increased desire of individuals to improve their standard of living, the NBFC industry is getting exposed to new category of client (individuals) in a big way with large share of business coming from this segment apart from corporate clients.

Threats:

Economic Downturn: If the economic downturn is prolonged it can reduce the financing need of people due to shrinking business opportunities.

Private Banks: Private Banks are also working on the similar business model as the NBFCs do, thereby giving a very strong competitions to the NBFC’s.

RBI and Government restrictions: With more stringent norms governing the functioning of NBFC and certain government restrictions act as a hindrance in smooth functioning of NBFC.

FUTURE STRATEGY:

- **Expansion of existing activities**: Our Company intends to expand its financial services by enhancing its focus on margin funding, loan against shares and securities, loan against properties and corporate loan, bill discounting and working capital loan.

- **Differentiated Services**: In the growing economy, the corporate clients will be requiring funds for further expansions. Our Company would be providing all diversified service portfolio under one umbrella to cater most of the customer needs and demands.
- **Brand recognition**: We are in such a business where we are facing lot of competition. Our Company is not a well-established brand among large NBFC players. We will be making the necessary arrangements for our brand reorganization.

RISKS AND CONCERNS

As a NBFC, the Company is exposed to market risk, global risk, regulatory risk, credit risk, liquidity risk, competition risk and interest rate risk etc. which can affect the return on investments and financial business in unexpected way. Sustained efforts to strengthen the risk framework and portfolio quality have yielded consistently better outcomes for the Company. The level and degree of each risk varies depending upon the nature of activity undertaken by them.The company's operations might be adversely impacted due to incapacitation of sections of the global workforce due to exposure to the pandemic COVID 19, reduced productivity due to employee stress and impact on emotional well-being while under local lockdowns or quarantines, inability to provide work from home access to some employees due to logistical or security or contractual reasons. Demand for the company's product may be adversely affected not only in industry segments directly impacted by the pandemic – like hotels and hospitality, but across other segments as well due to a sharp slowing down of the world's major economies. This is likely to affect the company's earnings in the short and medium term.

HEALTH SAFETY AND PANDEMIC RISK

In addition to serious implications for people's health and the healthcare services, coronavirus (COVID-19) is having a significant impact on the world-wide economy including India in terms of business growth and business models. The disruption has pushed the financial sector to adopt digital model for sustenance and growth. The company and its subsidiaries have been proactive enough to switch over to fully digital mode since the Covid-19 ensuring employees the best health safety measures and uninterrupted service to the stakeholders. However, the performance of the company and its subsidiaries may be impacted in future because of the lasting effect of this disruption on the economy.

INTERNAL CONTROL SYSTEM AND ADEQUACY:

The Company maintains a system of internal controls designed to provide a high degree of assurance regarding the effectiveness and efficiency of operations, the adequacy of safeguards for assets, the reliability of financial controls, and compliance with applicable laws and regulations.

The organization is well structured, and the policy guidelines are well documented with pre-defined authority. The Company has also implemented suitable controls to ensure that all resources are utilized optimally, financial transactions are reported with accuracy and there is strict adherence to applicable laws and regulations.

The Company has put in place adequate systems to ensure that assets are safeguarded against loss from unauthorized use or disposition and that transactions are authorized, recorded and reported. The Company also has an exhaustive budgetary control system to monitor all expenditures against approved budgets on an ongoing basis.

The Company uses information technology extensively in its operations for ensuring effective controls besides economy. It also helps the Company in providing accurate MIS and prompt information / services to its customers and other stakeholders. The Company has implemented enhanced level of Information System Security controls with monitoring systems to address technology risks.

The Company has an independent internal audit function which continuously evaluates the adequacy of, and compliance with, policies, plans, regulatory and statutory requirements. Risk based approach is adopted while carrying out the audits. Internal audit also evaluates and suggests improvement in effectiveness of risk management, control and governance process. The Audit Committee of the Board provides necessary oversight and directions to the internal audit function and periodically reviews the findings and ensures corrective measures are taken.

MATERIAL DEVELOPMENT IN HUMAN RESOURCES

Your Company firmly believes that its human resources are the key enablers for the growth of the Company and important asset. Hence, the success of the Company is closely aligned to the goals of the human resources of the Company. Taking into this account, your Company continued to Invest in developing its human capita and establishing its brand on the market to attract and retain the best talent.
Employee relations during the period under review continued to be healthy, cordial and harmonious at all levels and your Company is committed to maintain good relations with the employees.

SIGNIFICANT CHANGES:

a. Debtors turnover ratio stood at 218.08 in FY.20 as against 59.02 in FY.19.
b. Inventory turnover ratio has decreased 2.26 in FY 20 as compared to 1.81 in FY 19.
c. Interest Coverage Ratio has increased 2.621 in FY 20 as compared to 1.96 in FY 19.
d. Current Ratio has increased from 27.48 in FY.19 to 706.55 in FY.20.
e. Debt Equity Ratio reduced from 0.170 in FY.19 to 0.019 in FY.20.
f. Operating profit margin has increased from 4.94% in FY.19 to 9.23% in FY.20.
g. Similarly, net profit margin also shown growth from 1.73% in FY.19 to 6.49% in FY.20.
h. Return on net worth stood at 2.98% in FY.20 as compared to 0.56% in FY.19.

CAUTIONARY:

Statement in the Management Discussion & Analysis, describing the company's objectives, projections and estimates are forward looking statement and progressive within the meaning of applicable laws & regulations. Actual result may vary from those expressed or implied.

Important developments that could affect the company's operations are significant changes in political and economic environment in India, tax laws, RBI regulations, exchange rate fluctuation and other incidental factors.

Place: Mumbai
Date: 22.08.2020

For the Board of Director
Arnold Holdings Limited

Sd/-
Mahendraprasad Mallawat
Whole Time Director
DIN: 00720282

For the Board of Director
Arnold Holdings Limited

Sd/-
Munni Devi Jain
Chairman
DIN: 08194500