VALUE RESEARCH PREMIUM



# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

## I. INDUSTRY STRUCTURE, DEVELOPMENTS :

### The Global Economy – Performance & Prospects:

The growth of real GDP for the first quarter of 2019-20 was 5.0 per cent as compared to 8.0 percent in the corresponding period of previous year. The consumer price inflation stood at 3.99 percent in September 2019, as compared to 3.2 percent in August 2019. The Budget Estimate of the fiscal deficit for 2019-20 has been set at 3.3 percent of GDP, as compared to 3.4 percent in 2018-19. In Emerging Markets and Developing Economies (EMDE), GDP growth reduced from 4.5% in 2018 to an estimated 3.7% in 2019 due to increased Government debt and a slowing of investment. Simultaneously, weaker exports and investment in advanced economies (USA, EU and Japan), led to a slower GDP growth of 1.7% in 2019 against 2.2% in 2018.

India joined a near-worldwide lockdown in March, while the equity markets joined in a global sell-off. The S&P BSE SENSEX posted its worst-ever quarterly decline, and its worst month since 2008, declining 23% and 28% over the month and quarter, respectively. Volatility soared. The SENSEX posted some of its best and worst-ever daily returns, including a record 13% decline on March 23rd. Two days later, cheered by hopes for fiscal stimulus, the benchmark posted its largest daily gain in a decade, rising 7%. The 1.7 trillion rupee package announced to support the economy and fight COVID-19 helped bring the bulls back; the benchmark has now risen 13% from its 2020 lows. Amongst Indian equity strategies, the S&P BSE Enhanced Value led the way down with a decline of 37% in Q1. In contrast, Low Volatility helped to limit some of the losses, with the S&P BSE Low Volatility outperforming by 12% over the quarter.

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### 1. MACRO REVIEW:

The fiscal year of 2020 was a challenging year of Indian market. NDA secured second term in the general elections and announced several economic measures to revive domestic economic growth that has slumped to lowest in decade led by weak auto sales, muted growth in personal and consumer loans and sluggish rural demand. The year saw various domestic events like default of a major housing finance company, removal of Article 370 of the Constitution of India, revival of a major private bank, merger of public sector banks etc. However, the single biggest event of the year, which happened in last quarter of the year, was origination and spread of corona virus pandemic. The virus that originated in China rapidly covered all major countries, especially in the month of March, 2020. Many economies implemented shutdown – partial or full and consequently economic activity was severely disrupted globally. This also resulted in stagnant growth of the companies. In India, to control the spread of the virus, government announced lockdown for 21 days till April 14 and later on extended it to May 31. Government first announced an economic stimulus package worth R 1.7 trillion to help millions of low income cope with lockdown and a second package of R 20 lakh crore later on to revive the country's economy.

Impact of this on global economic growth is going to be huge. The Organisation for Economic Co-operation and Development (OECD) has halved the global gross domestic product (GDP) growth projection for 2020 due to Coronavirus. Globally, stock markets are in a bear grip on concerns over the novel coronavirus, or COVID-19, pandemic. Within predominant equities markets, India's benchmark index Sensex was among the worst-hit, down over 23 percent. However, the country's handling of the COVID-19 pandemic is quite better compared to some other countries. A host of measures were taken by RBI to help liquidity conditions in the economy which included Repo rate cut by 115 bps to 4%, moratorium of three months of EMIs on all outstanding loans which was later on extended by another three months till August end, auction of targeted long term repo operations worth R 1 crore etc. Although, International Monetary Fund slashed its FY2021 growth projection for India to 1.9% from 5.8% projected in January, India stands to benefit in this uncertain environment. Disruption in global supply chain has highlighted risk of overdependence on a single country.

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Aryaman Capital Markets Limited is diversifies financial services company with stock broking business activity in Mumbai. ACML is Member on both the Stock Exchanges viz. Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The Company offers trading and investments in quoted and unquoted securities, underwriting capital market issuances brokerage income from equity/debt market placements, and market making. Its business model involves fee-based service activities, as well as fund-based trading and investment activities. The Company's business lines include corporate advisory and other secondary market transaction facilitation, and underwriting and other primary market transactions facilitation. It is engaged in underwriting primary issuances, as well as other deal execution and processing activities. ACML creates its niche in each of the business segments and command premium position as compare to its peers. The Company has prestigious employees constantly working for the betterment of the company and contributing immensely for the growth of the Company.

## 2. OPPORTUNITIES AND THREATS:

### ➢ OPPORTUNITIES:

India is already the fastest growing economy globally and various projections for growth by World Bank or IMF etc., indicate that India will continue to outperform other economies. This would open up vast opportunities for SME businesses which constitutes more than 45% of Industrial Output and which employs large part of total workforce of India. Easy capital generation means and relaxation in Government regulations & policies will facilitate the ease of doing business in India for SME’s. As the Company operates as Market Maker for SME listed companies, robust performance by the SME sector and growth in SME Listed bourses will also open up new client segments which market makers like ours can tap for future growth.

Various Opportunities:

- Long-term economic outlook positive, will lead to opportunity for financial services
- Growing Financial Services industry’s share of wallet for disposable income.
- Regulatory reforms would aid greater participation by all class of investors
- Leveraging technology to enable best practices and processes
- Corporates looking at consolidation/acquisitions/restructuring opens out opportunities for the corporate advisory business

### ➢ THREATS:

Despite great opportunities, there are significant factors presenting threats to our businesses viz.

a) Increased competition from local and global players operating in India;
b) Continuous downward pressure on the fees, commissions and brokerages caused by heightened competition and willingness of most players to deliver services at very low fees;
c) Execution risk
d) Short term economic slowdown impacting investor sentiments and business activities
e) Slowdown in global liquidity flows
f) Increased intensity of competition from local and global players
g) Market trends making other assets relatively attractive as investment avenues
h) Impact due to Covid-19.

## 3. INDUSTRY MEGATRENDS

The Brokers & Exchanges Industry is cyclical and comprised of two distinct types of businesses. Brokerages, also known as financial services companies, strive to meet the investing needs of their clients, and exchanges facilitate securities trading. Net profits correlate to the performance of the broader equity market.

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Exchanges provide a marketplace for traders to buy and sell securities. In years past, trading took place on large open floors, where buyers and sellers engaged in face-to-face transactions. Today, most exchanges utilize electronic systems, which allow for fast, efficient trading. A few still use traditional trading floors, but in conjunction with an electronic system.

Exchanges generate revenue in several ways. Those that concentrate on the equities market collect fees from listed companies. Both equity and derivative exchanges receive a payment for each trade that takes place on their platform. The top lines of these companies perform quite well during volatile markets. Another source of revenue comes from supplying market data to financial information providers. Too, revenue may be produced from developing, marketing and distributing technology used in trading and information processing. Among other means of generating revenue, an exchange may clear third-party or in-house trades.

Given the cyclical nature of this industry, investors have to be willing to endure a healthy dose of volatility. Most Securities Brokerage issues carry above-market Betas (1.00). Since the equities market is a leading indicator of the prospects for the broader economy, investors need to be attuned to the business cycle in order to commit at an opportune time.

## I. INDIA'S GDP AND COVID-19 IMPACT

The growth of India's real GDP in 2019-20 is estimated at 5.0 per cent (Second Advance Estimates) as compared to 6.1 per cent (First Revised Estimates) in 2018-19. However, with the onset of COVID-19 pandemic, its intensity, spread and duration will now majorly determine whether India is able to realize its estimated and projected GDP growth. COVID-19 pandemic has emerged as a key risk to human health and is causing significant and rising human costs and economic turmoil. As per IMF's World Economic Outlook (April 2020), global growth is expected to contract sharply by -3 per cent in 2020-21, much worse than during the global financial crisis of 2008-09.

There were some signs of uptick in growth prior to the onset of COVID-19 pandemic in India. Index of Industrial Production (IIP) grew by 4.5 per cent during February 2020, as compared to 2.1 per cent in January 2020. Eight core industries registered a growth of 5.5 per cent in February 2020, highest growth since March 2019 and consecutive increase since the previous four months.

The outbreak of Novel Coronavirus (COVID-19), first in China and spreading globally, has infected more than 20.34 lakh people (World Health Organization). Several multilateral organizations have slashed their growth projections of world and individual countries output. The pandemic has emerged as a key risk to human health and is causing significant and rising human costs and economic turmoil through supply disruption, drop in domestic and external demand, reduction in trade, lower tourism and business travel and loss of consumer and investor confidence.

## II. BUSINESS PERFORMANCE:

### 1) REVIEW OF OPERATIONS:

The Total Income of the Company stood at ₹8462.35 for the year ended March 31, 2020 as against 7786.26 lacs in the previous year. The Company made a net profit of ₹9.48 lacs for the year ended March 31, 2020 as compared to the net profit of ₹ 21.75 lacs in the previous year.

### 2) INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

The company has an Internal Control System commensurate with its requirement and size of business to ensure that the assets and interest of the company assets are safeguarded. The adequacy and effectiveness of the internal control across various activities, as well as compliance with laid down system and policies are comprehensively and frequently monitored by your company's management at all the levels of the organization. The company has established well defined policies and

processes across the organization covering all major activities including authority for approvals. In all cases where monetary decisions are involved, various limits and authorities are in place.
The Company's internal controls are structured in a manner that ensure reasonable assurance with regard to recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding assets from unauthorized use or losses, executing transactions with proper authorization and ensuring compliance of corporate policies, laws and accounting standards.

With a strong monitoring system in place, the Company has an Audit Committee, the details of which have been provided in the Corporate Governance Report .The Audit Committee of the Board of Directors review the existing audit procedures and internal systems of control on an ongoing basis keeping in mind the organization's requirements, growth prospects and ever evolving business environment. They also review the internal audit findings and recommendations and ensure that corrective measures are implemented. Suggestions for improvement are considered and the Audit Committee follows up on the implementation of corrective actions.

**3) RISKS AND CONCERN:**

Risk is an integral part of the business and we aim at delivering superior shareholder value by achieving an appropriate balance between risks and returns. The financial services industry is subject to continuously evolving legislative and regulatory environment due to increasing globalization, integration of world markets, newer and more complex products & transactions and an increasingly stringent regulatory framework.

Our senior management identifies and monitors the risks on an ongoing basis and evolves processes/systems to monitor and control the same to contain the risks to minimum levels. Periodic monitoring by our officials helps in identifying risks in early stage. If required, a risk event update report is periodically placed before the Board of Directors of the Company.

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Regulatory framework, focused on maintaining controls on domestic businesses but even inadvertently creating more favorable regulatory environment for global entities operating in India is a matter of concern. We actively participate in dialogue in industry bodies and with regulators to point these out and to recommend appropriate changes.

**4) RISK MANGEMENT:**

For Aryaman Capital Market Limited, an effective risk management policy lies at the core of our business philosophy, which is centered on delivering higher and better returns to all our stakeholders. With ups and downs, volatility and fluctuations in the financial business in which the Company operates, Aryaman Capital Market Limited is exposed to various risks and uncertainties in the normal course of our business. Since such variations can cause deviations in the results from operations and affect our financial state, the focus on risk management continues to be high.

Aryaman Capital Market Limited, risk management strategy has product neutrality, speed of trade execution, reliability of access and delivery of service at its core. Multiple products and diverse revenue streams enable the Company to ensure continued offering of customized solutions to suit client needs at all times – good and bad.

State-of-the-art technology, experienced professionals, a highly qualified IT team for in-house software development, coupled with adequate back-up systems and compliance with regulatory norms insulate Aryaman Capital Market Limited from the vagaries of the financial business.

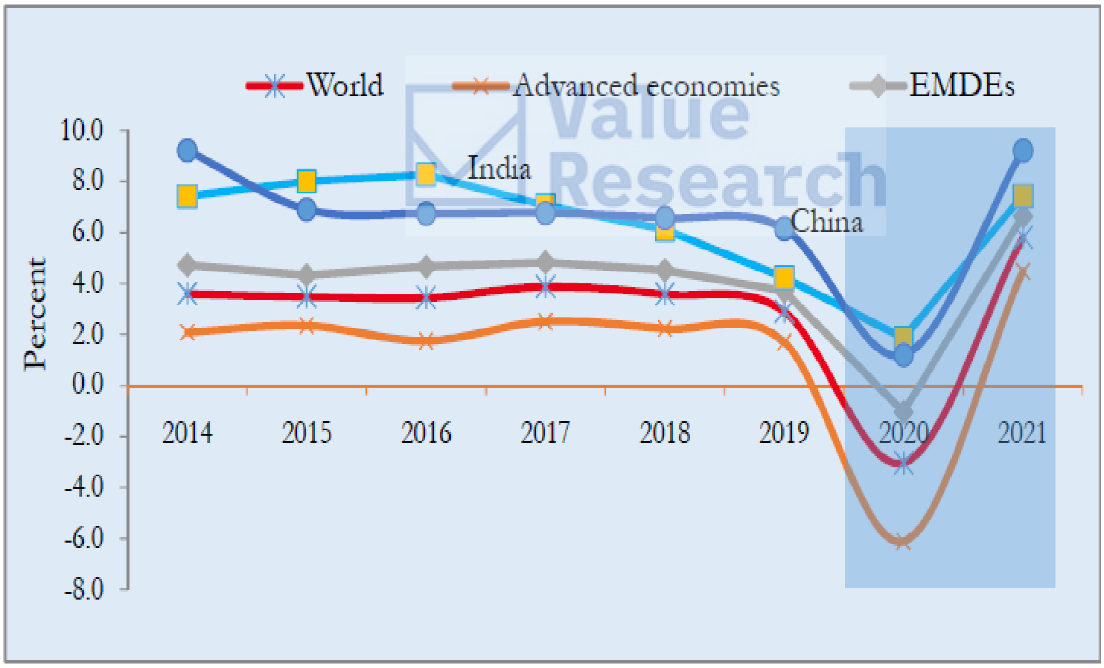
**5) HUMAN RESOURCES:**

Aryaman Capital Markets Ltd. is part of a dynamic and progressive group that actively fosters a challenging work environment and encourages Entrepreneurship. With trust being the critical part of our business belief, we lay a strong emphasis on integrity, teamwork, innovation, performance and partnership. Our professional staff with diverse backgrounds brings varied talent, knowledge and experience to the Group, helping our businesses to remain competitive, achieve greater success and newer milestones. Our management team and board of directors are resolved to do what, we believe, is best for our shareholders, clients and associates.

At Aryaman Capital Market limited, we recruit for skill, experience, right attitude, commitment and diversity. However, the one common trait that runs through the DNA of every employee is entrepreneurship. We encourage our employees to act as owners, partners and managers of their individual functions while providing a conducive environment for them to be creative and productive.

**6) OUTLOOK:**

The volatility and the bearish sentiment in the market continued to prevail which will affect the capital markets. The proposed budget by the newly formed government is likely to set a tone for further activities in the market. Though many Companies hold SEBI approval to raise money from the capital market, on account of subdued conditions, they are not able to launch their IPOs. Repeat of political mandate to the present party in power and the stable government at centre may make sentiments positive for the capital market. It remains to be seen whether capital market sees positive developments on account of various factors.




Data Source: World Economic Outlook, April 2020.

Note: EMDE – Emerging Market and Developing Economies

As per IMF's World Economic Outlook, April 2020, the global economy is projected to contract sharply by –3 per cent in 2020-21, much worst than during the 2008-09 financial crisis, as a result of the pandemic. The global economy is projected to grow by 5.8 per cent in 2021 (above) as economic activity normalizes, helped by policy support. The projections assume that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound.

### 7) SAFE HARBOUR:

This document contains statements about expected future events, financial and operating results of the businesses, which are forward-looking. By their nature, forward-looking statements require the businesses to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in its entirely by the assumptions, qualifications and risk factors referred to in the management's discussion and analysis of Aryaman Capital Market Limited's Annual Report, FY2020.

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