

## Management Discussion and Analysis

### Economic Outlook

#### Global Economic Overview

Global markets have witnessed significant softening over the last year with a sharp uptick in international trade protectionism via imposition of tariffs and other measures. Such protectionist moves by large economic powers tend to have a negative spillover effect on global markets. Money from developing markets has been pulled out systematically over the fiscal and reallocated to dollar denominated instruments given the superior performance of the US economy. Tangible global risks include the possibility of escalating trade tensions, sharper-than-expected slowdowns in major economies, and renewed financial stress in the banking system.

#### Indian Economic Overview

The Indian economy witnessed a slowdown in FY19 in the backdrop of a weakening global economy. Gross Domestic Product ("GDP") growth plunged to 6.8% this year from 7.2% in FY18; this is lower compared to the last 5-year average GDP of 7.5%. A weaker-than-anticipated inflation, growth slowdown and softer international monetary conditions have led to 75 bps decline in repo rates after increasing by 50 bps during the first half of FY19. The Indian economy is likely to see recovery in FY20, with the GDP growth pegged at 7% for the year. Investment rate is expected to pick up on the back of higher credit growth and improved demand. Political stability, higher capacity utilization and uptick in business expectations is also expected to contribute to the investment climate. Accommodative monetary policy is expected to lower lending rates as well.

### Sectoral Outlook

#### Industry Landscape

FY19 was a mixed year for the financial sector, a year of two distinct halves. The first half started on a positive note with tailwinds from smooth functioning of GST, thrust to the rural and infrastructure sectors in the Budget, recapitalization of public sector banks and resolution of distressed assets under the Insolvency and Bankruptcy Code. Bank credit growth was higher during this period relative to FY18. Incremental credit was Rs.9,446 billion compared with Rs.5,847 billion last year. However, the distribution was quite uneven, and this was quite significant given the liquidity strains that were witnessed during the second part of the year.

#### The NBFC Sector

Non-Banking Financial Companies ("NBFCs") have come under serious financial stress in the last several quarters, especially post September 2018 which saw defaults from some large NBFCs in the country. As a result, NBFCs, large or small have had to pay a heavy price including Small Finance Banks especially due to rising Non-Performing Assets ("NPAs") and poor growth of book size owing to asset liability management concerns. Banks and mutual funds, the biggest sources of funding for the sector, cut down on their exposures to NBFCs and Housing Finance Companies (HFCs), while interest rates on Commercial Papers spiked. This jointly resulted in a higher cost of borrowing for NBFCs causing a liquidity squeeze forcing many NBFCs to sell assets and cut back on new loans. Subsequently, the credit raised by NBFCs was mostly deployed for building resilience capital on the balance sheets or fulfilling debt obligations instead of expanding loan books.

The sector's gross NPAs as a proportion of total loans increased from 5.8% in FY18 to 6.6% in FY19. As of March 2019, the capital adequacy ratio of the NBFC sector moderated at 19.3% from 22.8% in March 2018. It is however noteworthy that the consolidated balance sheet size of the NBFC sector grew by 20.6% to



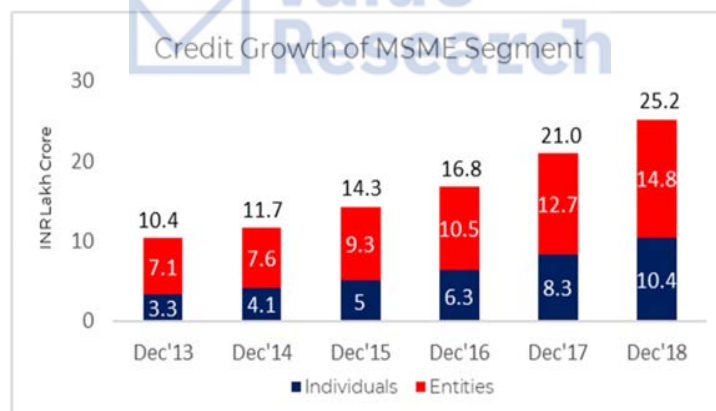
Rs.28.8 trillion in FY19 compared to 17.9% to Rs.24.5 trillion in FY18. The share of loans extended to the commercial sector by NBFCs shrank by almost a third the previous financial year amid unfavourable liquidity conditions and a revival in bank credit growth. NBFCs with a higher proportion of lower cost borrowings from banks and strong asset liability management are expected to sail through the rough weather in the near to medium term.

According to the latest Financial Stability Report (“FSR”) by the Reserve Bank of India (“RBI”), NBFC exposure in the industry credit pie reduced to 26.6% in FY19 from 39.1% in FY18. However, with over 25% of the credit flow still coming from NBFCs, RBI maintains that the sector is an important and integral part of the financial sector. Even the Finance Minister has acknowledged the importance of NBFCs in sustaining consumption demand as well as capital formation, especially in the small and medium industrial segment. Besides providing working capital support to MSMEs, NBFCs have helped create consumption demand in several sectors including auto, consumer durables, etc. by providing easy loans during the past few years.

**Micro, Small and Medium Enterprises (“MSME”) Sector Outlook**

The MSME sector, that has 63.3 million registered MSMEs in the country (Indian MSME Industry Annual Report 2018) continues to be a significant contributor to the GDP growth. The sector provides employment to over 111 million people, of which 24% are women thereby creating massive potential for social progress and change.

According to the 2019 MSME Pulse report by TransUnion CIBIL & SIDBI, the 5 year growth in aggregate MSME lending is at 15.7% Compound Annual Growth Rate (“CAGR”) of lending to entities and 26.1% of business lending to individuals. The comparatively higher rate of business lending to individuals has translated into a major shift in the composition of the MSME Lending industry in favour of individuals.



Source: Ministry of MSME

CAGR	Individuals	Entities	Total
	15.70%	26.10%	19.30%

MSME sector continues to grab the Government’s attention. Presenting the Budget 2019-20, The Finance Minister unveiled a slew of initiatives and new provisions to tackle issues related to the MSME sector in the country. From widening the net for reduction in corporate tax for companies to strengthening TReDS, the budget is expected to have wide-ranging impact on MSMEs. Highlights include-

- 1) Lower rate of 25 % Corporate Tax extended to companies with annual turnover up to Rs 400 crore from earlier cap of upto Rs 250 crore.
- 2) Rs 350 crore has been allocated under the Interest Subvention Scheme, for 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans
- 3) The Government to create a payment platform for MSMEs to enable filing of bills and payment; thereby eliminating delays in payment and giving a boost to investment in MSMEs
- 4) To bring more participants, especially NBFCs, not registered as NBFCs-Factor, on the TReDS platform

- 5) Extend the pension benefit to about 3 crore retail traders and small shopkeepers whose annual turnover is less than Rs. 1.5 crore under Pradhan Mantri Karam Yogi Maandhan Scheme.

### Business and Financial Performance

FY19 has been a year of consolidation for the industry and great learning for Dhanvarsha too. The business is insulated from the impending NPA pressure that is likely to emerge via real estate loans going bad since the company's focus remains on smaller ticket MSME loan underwriting and is fully funded by proprietary capital. However, the industry headwinds did slowdown the overall pace of growth and the business strategies had to be realigned.

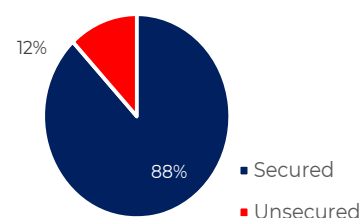
The key financial parameters for the Financial Year ended March 31, 2019 for Dhanvarsha are as follows:

- Assets under Management of Rs.48.73 crore compared to Rs.48.58 crore as on March 31, 2018
- Gross income stood at Rs.21.29 crore, up 79% from last year while Net Profit after tax is Rs.4.43 crore up 8% over previous year. This was on account of a balanced strategy between generating fund based and non-fund-based income.
- The Earning per share ended up at Rs.3.66, lower than the Earning per share of Rs.5.26 the previous year

(Rupees in crore)

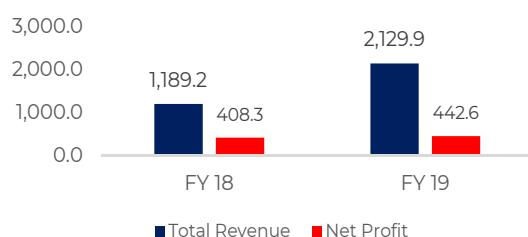
Particulars	Year ended March 31, 2019	Year ended March 31, 2018
<b>Total revenue</b>	21.30	11.90
<b>Profit before interest and depreciation</b>	11.07	6.67
Less: Interest and finance charges	5.18	2.00
Less: Depreciation and amortization	0.17	0.05
<b>Profit Before Tax</b>	5.73	4.62
Less: Provision for taxation	1.30	0.53
<b>Profit After Tax</b>	4.43	4.08

Portfolio Split (By Security)

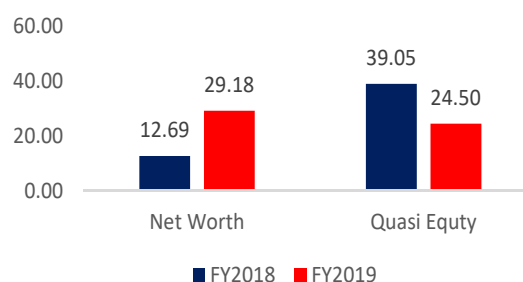


AUM - Rs.48.73 crore

Total Revenues & Profits  
(Rs. in lakh)



Balance Sheet (Rs. in crore)



Dhanvarsha believes in the power of Technology as the key driver of doing business at scale and has recognized the need to be investing in building its technology capabilities. With that as a view, Dhanvarsha has -

- (1) Core lending system fully deployed – MiFiN
- (2) State of the art IT infrastructure including Blackberry (Work), Independent Servers, Firewalls, etc.
- (3) Continued investment in stronger technology led loan delivery systems

### Outlook for lending to MSME & Low-Mid Income Segments

The share of Public Sector Banks lending to the MSME sector has reduced over time and the space has been taken up aggressively by private sector players and NBFCs which are nimbler in their turnaround times. NBFCs' share in MSME credit has increased from 13% to 21% from 2013 to 2018. The New To Credit ("NTC") numbers in the MSME space has also increased consistently; almost 500,000 new MSMEs entered

the credit market in the second half of 2018 and this is only expected to rise given the headroom in the current Debt to GDP position in the country.

Dhanvarsha believes in the long-term growth potential of the Indian economy, anchored firmly on the country's demographic profile, consumption demand, the digital economy and the attractiveness to investors, both domestic and global. These factors would drive the long-term growth of the Indian Banking and Financial Services sector. Dhanvarsha wants to be both a contributor and a benefactor of the growing formalization of the economy, the recently introduced insolvency resolution regime and the rapid adoption of technology in every business element will go a long way in defining the future.

### **Opportunities & Threats**

A significant threat for any lending company is to maintain the asset quality while aiming for an expanding the assets under management. Dhanvarsha endeavors to balance the growth rate that it has targeted with a robust Risk Assessment and Credit Assessment framework with operational protocols that ensure high quality assets at scale. Also, the Loan Portfolio will be a healthy mix of Secured loans and Unsecured loans.

In the last several quarters, interest rates substantially hardened given the market conditions and Dhanvarsha foresees that to be the case in the next couple of quarters too. Ensuring that the overall interest cost remains under control is a challenge in the next financial year.

The 'e- business' units, which were once built by several large financial institutions to ride the wave of e-commerce eventually became the 'new normal'. The internet evolution and large technology investments drove massive advances in efficiency. The 'digital' wave that has taken over our lives, that which has left no industry undisturbed, has the same elements – specific teams, P&Ls, and resources set aside to advance the digital agenda. This agenda extends from customer experience to turn around time, from data driven decisions to achieving operational efficiencies never thought before. Banking and financial services have seen disruptions all through the value chain. The 'digital' approach applies to B2C led segments like payments, retail banking, insurance and wealth management as much as toward institutional areas such as commercial banking and capital markets.

New FinTech models led by emerging technologies are gradually eating away the lunch of the 'big boys' of financial services. This journey started off with 'unbundling' institutions and is now very well 'rebundling' the whole financial services value chain led by value driven collaborations between large incumbents and small but nimble Fintech companies. Dhanvarsha aims to be at the intersection of the traditional and the new.

### **Our Digital Journey**

As a Company, we recognised that going digital is no more a choice, but the imperative. We are realigning our core business offerings so that they can be delivered by digital channels by implementing cutting edge technology systems and platforms to offer our customers a differentiated experience.

Digital transformation is not only driven by meaningful consumer engagement but also how quickly businesses can capture, transform and convert customer insights into impactful business growth. In FY2019-20, the core objective of the company will be to become a 'digital first' NBFC geared up for the opportunity to make a massive social impact in a space which is ripe for disruption. Dhanvarsha will strive to be an active contributor to help achieve the '5 trillion-dollar economy' target that the Government has set out for India by 2025.

**Drivers of Digitization in the MSME Sector**

The Government has been on a journey for achieving a ‘digital economy’ since the last term in 2015. The push for digital continues to be part of the Government’s agenda in this term too. The MSME sector has been impacted significantly and positively in this digital agenda.

**Government Initiatives**

**Unified Payments Interface (UPI) - 2016**

Real time payment settlement system for mobile transactions

**Demonetization – 2016**

Removal of large denomination currency from the banking system accelerated digital payments

**Goods & Services Tax (GST) – 2017**

Forced MSMEs to formalize their business & increase reporting; ~9.2 mn MSME are GST registered

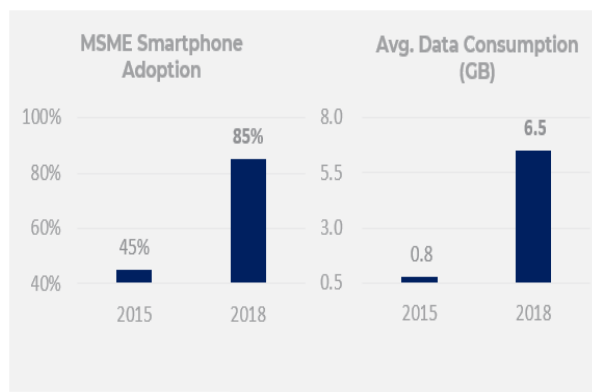
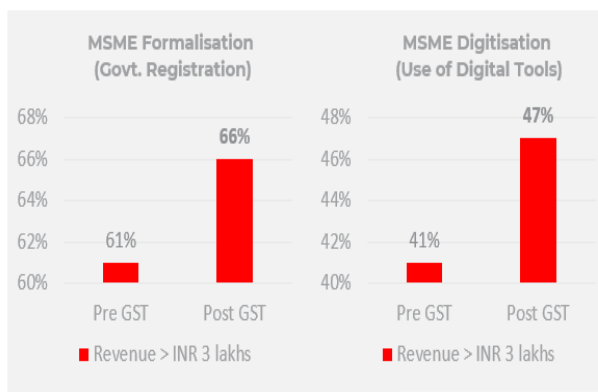
**The JAM Trinity**

**Jan Dhan, Aadhaar and Mobile Trinity**

Forms the backbone of Fintech in India and has provided unprecedented adoption via access for millions – for data, financial services

**Smartphones and Data Costs**

Rapid “smart phonization” of handsets including the MSME fraternity. Data costs have plummeted significantly providing data access to the masses



Source: BCG & Omidyar Network Report Nov 2018 (“Credit Disrupted: Digital MSME Lending in India”)

**Business Strategy**

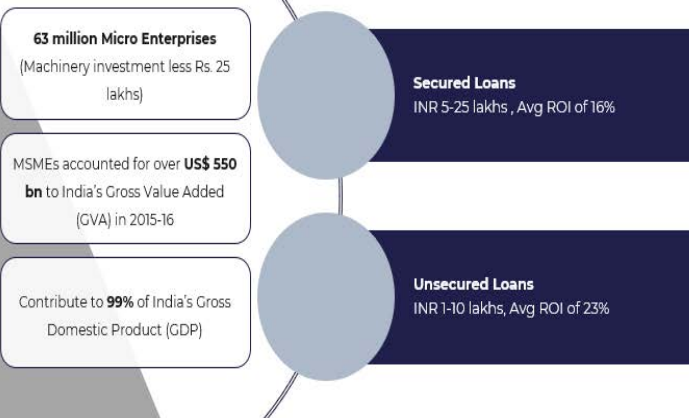
During FY19, Dhanvarsha focussed its strategy largely on the small business loans segment. The change in the focus saw Dhanvarsha launch new unsecured product lines specifically tailored to the small businesses over and above the primary secured product - Loan Against Property. In the tough market landscape, Dhanvarsha is among the few NBFCs to start lending again by turn of the calendar year with a shift in the focus from high ticket, low yield funding to low ticket, high yield unsecured products. Specific products were also introduced for the salaried class.

**MSME Categorization (Millions)**



Source: Govt. of India MSME Report (2017-18)

**Our Products**



\*MSME: Micro, Small & Medium Enterprises

In FY20, the Business Strategy will focus on -

- Asset light business model targeting small, retail business from own Balance Sheet (Fund based Income);

- Developing additional revenue streams (non-fund based) via retail loans syndication and channel Partnerships with large banks;
- Using technology as a strong enabler to become the leading interface between creditworthy borrowers and financing options.

Thus, the Micro Enterprises segment will continue to be important for Dhanvarsha in the IMPACT STORY it wants to chart out. The segment offers a balanced opportunity in terms of risk - reward profile as well.

- Based on the experience over the last 2 years, Dhanvarsha seeks Customers with small ticket underwriting in this segment (sub Rs.25 lakhs) which limits the risk per client, fund strong cash flow led and high integrity businesses;
- Dhanvarsha's strength lies in the specialized underwriting expertise that it developed for this segment, backed by a multi-pronged collections approach;
- The yields are significantly better than those that banks make in similar products, thereby compensating for the higher risk adequately.

### Going Digital-First

The Digital First journey that has been envisaged for Dhanvarsha and the Digital Platform that is being built has been kickstarted with the launch of mobile applications for both the Customers and Channel Partners. "Dhanvarsha" and "Dhanvarsha Channel Partner" Mobil apps are available on Android and IOS operating systems. Our digital initiatives are guided by the singular idea of providing value driven services to our Customers.

The DIY style mobile application has 7 quick and easy steps to follow and allows customers to apply for a loan anytime and from anywhere. The mobile app offers customized products with flexible terms and allows the customer to resume from where he stopped last time, he used the app. The customer's data gets auto populated once he/she uploads the necessary details and is guided into a seamless experience of applying for a loan. The Channel Partner app allows flexibility to the Channel Partner to push the loan applications straight into the Dhanvarsha lending platform through Dhanvarsha Channel Partner mobile app.

The mobile app is integrated with the web platform which helps automate the lending process, has a timely and efficient response system built in and has literally made minimal manual intervention necessary from our team. The Dhanvarsha processing team takes care of the rest for the Customer – from regular follow ups to highlighting any inconsistencies in the documentation submitted via the mobile app. The intelligent credit decisioning system embedded at the backend churns results consistently making the complete application to disbursement process quick, efficient and almost paperless. The platform is equipped to run credit checks (based on well identified parameters) and is intelligent enough of generating scorecards in backend after considering all factors including an individual's credit history, repayment track record, financial information and data from credit bureaus. There has been a conscious effort in being able to provide unique digital experiences to the customers with a human touch, so that we are there for our Customers whenever they need us.

Dhanvarsha will continue to consistently build its business on the foundation of collaboration with partners and leading industry players. The entire bouquet of services will be delivered on the Dhanvarsha Lending Platform leveraged by the joint capability of the partner ecosystem that Dhanvarsha will help build. The strength in the approach is that every borrower / customer that is fundable will essentially be served by us – either by Dhanvarsha or the Partner Network. This gives us an unparalleled advantage both in terms of getting to serve a large Customer base while improving profitability for the business. The digital delivery of our products will give us access to a massive data pool that will be pivotal in defining our future strategies and creating products that are in line with the changing Customer preferences and market dynamics.

Dhanvarsha has been consistently investing in enhancing its technology capabilities and building a state-of-the-art technology platform is the latest in that endeavour. The Platform will be capable enough to handle large volume of data required to evaluate customer applications and flexible enough to capitalize on changing customer preferences, market trends and regulatory requirements. This will help create immense value in a very unorganised and cluttered market, creating a “one stop shop” that will provide credit access to millions of small businesses and generate employment.

### **Risk Management Framework**

To identify, monitor and manage inherent risks in our operations, Dhanvarsha has a robust and comprehensive credit assessment and risk management framework. Dhanvarsha's Comprehensive Risk Management Framework covers not only Credit, Market and Interest rate risks of the Company but also includes Collections risk, Operational risk, Fraud risk, Vigilance risk, Asset liability risk, Foreign exchange risk, People Risk etc.

Judging the overall market scenario, it seemed prudent to tighten the risk assessment & due diligence in the underwriting process. Our Risk Management Framework comprise of:

- Deep understanding of the MSME market and experience of underwriting segments within this market;
- Policy and process-based approach to assist people in risk-mitigation with customized policies to cater to multiple customer requirements;
- A Centralized Credit Processing Centre with Committee Approach for sanction ensuring tight underwriting controls. Multi-layered system strengthens the credit assessment process;
- Multiple verifications and checks have been introduced to get a 360-degree risk assessment done before the final disbursement call;
- Major Risk Assessment tools deployed are Credit Bureau Checks, Satisfactory Banking Habits, Genuineness of Financial Statements, Decent Business/Residential Set-up, Personal/Surprise visits, Field Investigation, Fraud Control Unit Checks, etc.;
- Specialized collections team manages overdue collections.

### **Human Capital**

The objective for the year of the Human Capital Management (“HCM”) department at Dhanvarsha was to build robust systems and processes

We designed the HCM policy framework and ensure that we become a statutory compliant organization. Strategic hiring and providing employees with an environment that fosters continuous learning and recognition has also been high on our agenda for the year. Being the prime custodian of the culture driven at Dhanvarsha, this year the key initiatives undertaken were:

- (1) Developing a culture of collaboration by creating unofficial dialogue platforms through fun events and activities;
- (2) Creating a future influx of talent by extensively working on campus relations; and
- (3) Implementing the new Performance Management Process with emphasis on driving discussion between a manager and his/ her subordinate.

Hiring is an extremely critical function at Dhanvarsha. The hiring process not only aims for talent that is a fit for the current role on offer but also someone who fits in the organization culture and has the capability to grow into the next level roles. Besides hiring leaders to build each departmental vertical and processes, we also emphasized on building a strong support function by extensively hiring in the IT and Sales to support our technology platform. With an agenda to build a performance centric culture, Dhanvarsha redesigned the Performance Management System this year. Individual job descriptions and annual goal sheets were made to help bridge any communication gap between the manager and his/ her subordinate

in terms of expectations versus delivery. This further helped in driving individual performance in turn driving the Dhanvarsha's performance on a holistic level. Building a progressive culture through forward looking policies which will last beyond an individual's lifetime. Keeping this in perspective, Dhanvarsha introduced the HCM policy manual to evolve with the times and remain relevant in the changing time as well as motivate employees. Also, to encourage fun & camaraderie among the employees there are several team/ organizational success celebrations, health initiatives & festivals organized across the organization.

Prevention of Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013: Dhanvarsha has a zero tolerance for sexual harassment at its workplace and has adopted a policy on prevention, prohibition and redressal of sexual harassment at the workplace in line with the provisions of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and the rules there under for prevention and redressal of complaints of sexual harassment at workplace. Also, employees were sensitized about the policy and their rights as per the act guidelines.

### **Compliance Framework**

Compliance function assumes great importance in Dhanvarsha. The Board of Directors and the Audit Committee are responsible for overseeing the implementation of the compliance and risk management framework across Dhanvarsha. The Compliance function not only approves all the new products to be launched to ensure that they are in line with regulatory guidelines, but also undertakes a constant monitoring of the portfolio to identify and mitigate any ongoing risks. The Compliance team also assesses corporate risks on an ongoing basis and keeps the Management/Board informed about important matters through regular updates and annual compliance reviews.

### **Internal Control Systems**

Dhanvarsha believes in a robust and comprehensive internal control system is crucial for business. The Company's internal controls ensure efficiency of operations, compliance with internal policies and applicable laws and regulations, and this is further improved by extensive internal audits, regular reviews by the management and standard policies and guidelines. Dhanvarsha's Internal Auditors performed regular reviews of business processes to assess the effectiveness of internal controls and compliance with laid down policies and procedures. The Internal Audit reports are periodically reviewed by the Audit Committee and any suggestions for improvement are implemented immediately. Dhanvarsha is continuously upgrading its organizational structure, documented policy guidelines, defined authority matrix and other processes and systems in line with the best available practices.

### **Cautionary Statement**

Statements made in this Management Discussion and Analysis Report may contain certain forward-looking statements based on various assumptions on the Company's present and future business strategies and the environment in which it operates. Actual results may differ substantially or materially from those expressed or implied due to risk and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India and abroad, volatility in interest rates and in the securities market, new regulations and Government policies that may impact Dhanvarsha 's businesses as well as the ability to implement its strategies. The information contained herein is as of the date referenced and Dhanvarsha does not undertake any obligation to update these statements. Dhanvarsha has obtained all market data and other information from sources believed to be reliable or its internal estimates, although its accuracy or completeness cannot be guaranteed.