# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. AN ECONOMIC OVERVIEW

The Indian economy grew at a considerable slower rate of 6.8% in FY19 against 7.2% in FY18

So what led to the decline? India started on a healthy note with an 8% GDP growth in the first quarter and a 7% growth in the second. But in the second half growth slipped to below 6.5%. This was due to the poor performance of farm, mining and manufacturing sectors – it led to an overall deceleration in economic progress. In addition, the second half of the year experienced the NBFC crisis which soon snowballed into a full-fledged liquidity crisis. This had a dual impact on commercial India – one, the banking and financial sector throttled liquidity to India Inc. and two, reduced credit to the consumption sector.

The per-capita income at current prices during 2018-19 is estimated to have attained a level of ₹1,26,406 ( ₹10,533.83 monthly) as compared to the estimated for the year 2017-18 of ₹1,14,958 ( ₹9,579.83 a month), showing a rise of 10%

Growth in private final consumption was muted at 8.1% with capital investment as measured by gross fixed capital formation expanding from 9.3% in FY18 to 10% in FY19.

On the investment front, FY19 witnessed a rebound with fixed investment growing 12.2% in FY19 from 7.6% in FY18. This rebound in fixed investments lead to a pick-up in the investment ratio from 30-31% in FY18 to 32.9% in FY19. The Central and State Governments spent substantial funds on building social infrastructure such as construction of rural roads, highways, and affordable housing.

The external global market sentiments were favorable for much of FY19, this lead to a fairly good growth on the export front at 12.1% with the easing of constraints posed by GST implementation.

### Looking forward to FY20

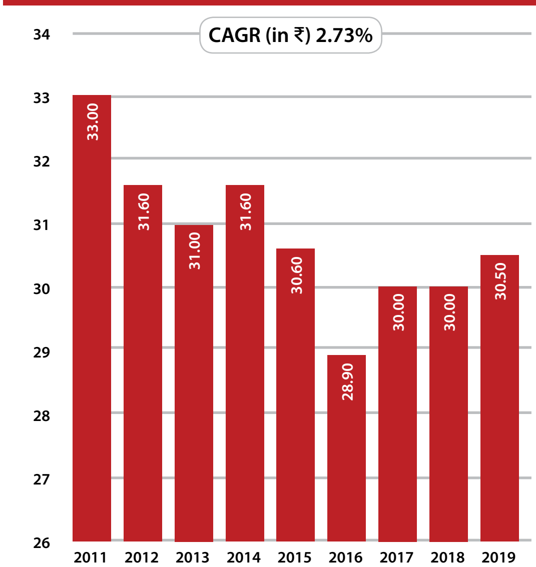
- There could be some major respite from crude price driven inflation in FY20 due to the softening of global crude prices which have come off their peak in October'18 with low probability of rebounding to those high levels.
- Current account deficit is expected to reduce to 2.4% of GDP in FY20, compared to 2.6% in FY19. Import bill is expected be lower owing to lower oil prices. Exports are also expected to languish on the back of weak global growth outlook and global trade impacted by escalating trade wars.
- Domestic Interest rates are also expected to head southward, the dampening mood of consumption in household sector will be a key catalyst for rate to hover lower than FY19.

*(Source: Ministry of Finance, The Economic Times, CRISIL Research)*

### Estimates for FY20

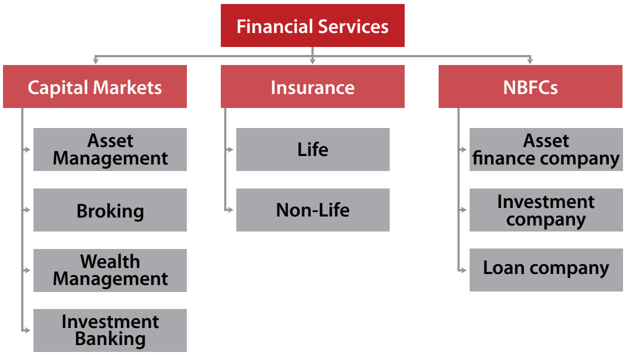
The RBI has pared its growth projection for FY20 to 6.9% from its earlier forecast of 7%, maintaining that the risks are tilted to the downside as domestic economic activity remained weak, while the global slowdown and trade tensions intensified.

Gross national savings as per cent of GDP




## 2. INDIAN FINANCIAL SERVICE SECTOR

The Financial service sector in India comprises of many segments - each segment providing a unique contribution that have worked in conjunction to strengthen the nation's financial backbone. The sector is mainly dominated by the commercial banks, insurance companies, non-banking financial companies, housing finance companies, co-operatives, pension funds, mutual funds.




**Growth drivers**

- With Indian earning more, the demand for financial services across income brackets is on the rise.
- The RBI has made financial inclusion a mandate which is slated to expand the market for financial services across the rural and urban divide.
- The Indian Insurance sector alone can witness its asset pool rise to US$1 trillion by 2025.

**Recent innovations**

- The advent of Fin-tech is about to change the face of financial services sector in India.
- As of October 2018, the Financial Inclusion Lab has selected 11 Fin-tech innovators with an investment of US$ 9.5 million promoted by the IIM-Ahmedabad's Bharat Inclusion Initiative (BII) along with JP Morgan, Michael and Susan Dell Foundation, and the Bill and Melinda Gates Foundation.

**Impetus from Government**

- New banking licenses from government is on the rise with more impetus coming in the form of increase in FDI limit in the insurance sector.
- Major government schemes like Gold Monetization, Atal Pension Scheme, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana will help increase the market for financial services in India.

**Market penetration**

- The Government of India has launched India Post Payments Bank (IPPB), to provide every district with one branch which will help increase rural penetration. It opened a total of 18,96,410 accounts till December 24, 2018.
- Constant rise in credit, insurance, and investment penetration in rural areas.
  (Source: IMF, World Bank, KPMG report, "Indian Mutual Fund Industry, Ministry of External Affairs)

**Non-Banking Financial Companies**

The NBFC sector is rapidly gaining prominence as intermediaries in the retail finance space. The sector finances more than 80% of the equipment leasing and hire purchase activity in the country. The public deposit to the NBFC sector increased from US$0.9 billion in FY09 to US$ 4.95 billion in FY18, growing at a CAGR of 36.86%. The gross loan of the sector increased 24% y-o-y in Q2FY18 to $5.89 billion.

In FY19, the progress of the NBFC sector was significantly dented owing to series of defaults by some leading NBFCs which snowballed into a liquidity crisis for the Indian Financial Services sector.

The recent developments in the non-bank space have brought the focus on the NBFC sector (including housing finance companies) especially with regard to their exposures, quality of assets and asset-liability mismatches (ALM).

This stress helped bring greater market discipline to the NBFC sector, with the better-performing companies able to raise funds.

The consolidated balance sheet size of the NBFC sector grew by 20.6% to ₹28.8 trillion during 2018-19 as against 17.9% to ₹24.5 trillion during 2017-18. The sector's gross bad loans as a proportion of total loans increased from 5.8% in 2017-18 to 6.6% in 2018-19. As of March 2019, the capital adequacy ratio of the NBFC sector moderated at 19.3% from 22.8% in March 2018.

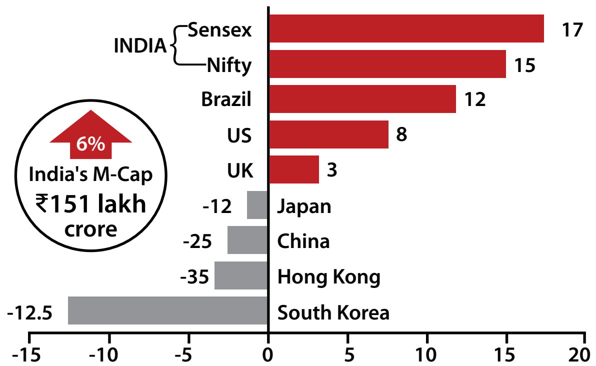
## 3. INDIA'S CAPITAL MARKET:

The Indian stock market is one of the more vibrant in Asia and given the focus of the Indian government to grow the market size and also the regulatory vigil of the Securities and Exchange board of India (SEBI), India capital markets now are one of the best functioning and regulated among leading market of the world. In FY19, the two major indices S&P Sensex and Nifty50 rose by 17% and 15% respectively.

This enabled the Indian stock markets to outperform several major global markets despite prevailing headwinds.

## WEATHERING THE STORM

**EQUITY MARKETS RETURNS IN FY19(%)**




*(Source: Times of India, April, 2019)*

**Fund raising:** According to Prime Database, a total of ₹56,440 crore (₹1.75 lakh crore raised in FY18) was raised through the public equity markets in FY19, a year marked by volatile stock market trends coupled with subdued corporate investments.

The drop in the cumulative equity numbers was owing to a sharp slowdown in fund raising through IPOs - a drop of 81% from ₹83,767 crore raised in FY18 to ₹16,294 in FY19. Of the total IPO amount of ₹56,440 crore, the amount raised through fresh capital was only ₹22,255 crore (or 39%), of the total, with the remaining ₹34,185 crore were Offers for Sale.

In contrast to the sluggish sentiment in the equity markets, public bonds saw renewed momentum, with 26 issues raising ₹36,715 crore — marking a five year high. The amount mobilised in FY19 was seven times higher than the ₹5,167 crore raised last year.

### 4. MUTUAL FUND INDUSTRY

FY19 has been a complicated mixed bag for the mutual fund industry and its investors. The re-categorisation of schemes was implemented around the start of the year with schemes moving into category buckets clearly defined by SEBI. Around halfway through the year, problems in certain corporate groups and their consequent debt defaults or downgrades shook the industry, particular debt funds which held troubled papers.

**Debt funds:** The FY began inauspiciously for long-duration funds which are more sensitive to interest rates than accrual funds. Interest rates rose on the back of a rising rate cycle, higher crude oil prices and tightening global liquidity. Oil prices began rising in mid-2017 and peaked at around US$85 a barrel (Brent crude) in October 2018. At the time, credit funds were seen as the safe haven in the debt category. The picture reversed around September 2018, when defaults by leading NBFCs started spilling over to the entire financial sector.

Debt funds - Accrual funds which had taken aggressive credit bets with these corporates were hit hard by downgrades or defaults. On the other hand, interest rates fell due to softening inflation rate, pushing up returns on long duration funds. However, returns varied significantly from scheme to scheme.

**Equity Linked Funds:** According to the Association of Mutual Funds in India's (AMFI) data, investors put in more than ₹1.11 lakh crore in equity-oriented mutual fund (MF) schemes in 2018-19, a decline of 35% compared to ₹1.71 lakh crore inflows in 2017-18. The flows into equity funds in 2018-19 were lower than the flows in 2017-18 primarily due to the equity markets displaying a fair bit of volatility which made some investors take a break from making fresh equity investments. Despite this drop, FY19 was the fifth successive year of net inflows in equity mutual funds.

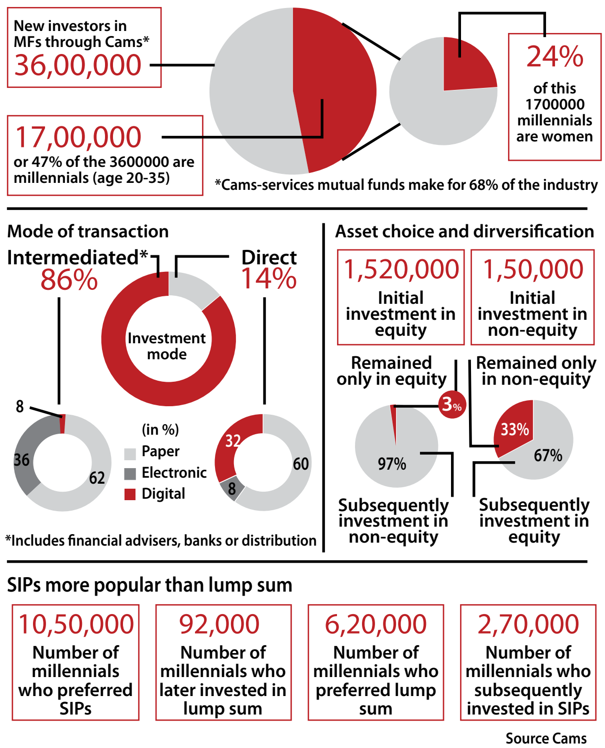
On the equity side, the Nifty and the Sensex led the pack, carrying exchange-traded funds (ETFs) along. ETFs tracking the Sensex gave 16-18%, while those following the Nifty gave 14-17%. Mid- and small-cap categories languished, clocking average losses of -1.18% and -7.72%, respectively. However, in what re-established the importance of fund selection, there was significant divergence in returns from funds within categories.

The assets under management (AUM) of equity MFs stood at a record high of ₹7.73 lakh crore at the end of March 2019 as against ₹7.50 lakh crore in March 2018, an increase of 3%.

During 2018-19, the SIP (Systematic Investment Plans) accounts grew by 51 lakh to 2.62 crore from 2.11 crore in March 2018. Besides, SIP contribution to the industry surged to ₹92,693 crore in 2018-19, from ₹67,190 crore in the preceding fiscal.

## MILLENNIALS LIKE THEIR MUTUAL FUNDS

FY18-19 saw a large number of millennials buy mutual funds




## 5. BROKING INDUSTRY

Over the years, the Indian equity broking industry has been rapidly expanding on the back of the growth in the capital market participation. There are also major disruptions within the industry with the advent of the discount broking model.

The major player in the broking industry is Zerodha, which has within 5 years clocked 15% volume market share. The success of the discount brokers comes from the fact that they continue to invest in new applications. However these discount brokers have not been very successful in capturing the market share in the 40+ age category. This is mainly due to the relatively young age, they do not have a high credibility attached to their brand.

In 2018-19, amid market volatility and cautious investor sentiments, Indian broking industry posted a moderate growth. While the flagship indices of the two exchanges touched an all-time high in August 2018, rising to about five per cent over the earlier high achieved in January, the mid- and small-cap indices on the two exchanges trailed 5-20% behind the peak level seen in January 2018.

The underperformance of mid- and small-cap securities had a bearing on retail investor participation, particularly in the cash segment, with the investors yet to recoup their losses. The industry cash delivery volumes fell from 30.4% in FY18 to 25.9% in FY19. The decline in delivery volumes in the cash segment also points towards the growing shift towards trading as opposed to investment-oriented transactions.

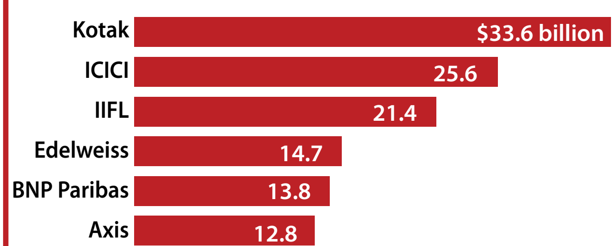
Going forward, a meaningful revival in corporate earnings and abatement of liquidity and capital availability issues would be a key for further fillip to the capital markets and for boosting FPI (foreign portfolio investor) equity inflows.

## 6. WEALTH MANAGEMENT

India is the fastest growing wealth management destination across the globe. The rise of wealth and wealthy people in India is a major cause for growth in the wealth management industry. The year 2018 witnessed the largest growth in the number of ultra net worth individuals according to a Knight Frank Report. India had over 2,697 individuals with net worth of over $30 million in 2018.

**Swelling Wealth**

**Assets under management at India's top 6 wealth managers**




NOTE: AUM as of 2018

Source: Asian Private Banker

In FY19, the Indian wealth management industry witnessed a considerable growth bucking a slowing trend in most of Asia. The top 20 wealth firms in India expanded their AUM by 18% over the previous year to US$193 billion, as per a report by Asian Private Banker.

In contrast, assets at the 20 largest private banks across the whole of Asia fell 3.6% as market turbulence deterred rich clients from deploying their wealth, according to an APB survey in April. Domestic asset managers continued to expand their hold on the market, accounting for about 78% of the top 20's AUM last year, versus 64% in 2015, according to the survey.

The Industry will experience major overhaul due to the evolving regulatory environment for fiduciary duties in the wealth management space, this in turn will benefit player who quickly adopt new investor protection measures. The industry is also in its infancy and will have new brands based on the partnership model to improve the advisory services which is a critical service offering in this industry. There is also need for investment in new technologies, imbibing state-of-the-at best practices of advisory and creating customised and innovative products that drive growth.

## 7. ABOUT THE COMPANY

WEALTH FIRST is an independent Investment Advisory Firm focused only on "INVESTMENT MANAGEMENT." The Company's more than two decades of experience is invested in ensuring consistent growth of our client's investments.

Headquartered in Ahmedabad, Gujarat, the Company's operations are spearheaded by Mr. Ashish Shah and managed by a team of experienced financial experts managing clients from all walks-of-life in India and globally. Wealth First became the first Independent Financial Advisor in India to list practice on a stock exchange (NSE)

## 8. OUR COMPETITIVE ADVANTAGE

**Experience:** We have a team of experience professionals who help us serve our clients better. Our promoters have astute knowledge of the business based on 27 years of experience, with our core team of professional who have been with is since inception. There is an optimal synergy in terms of enthusiasm to grow the business and also the necessary experiential wherewithal to serve our client by providing market relevant investment strategy and advisory.

**Product & service:** Our product portfolio is designed with our client requirements in mind. We have based our research and advisory on the cornerstone of study, analysis, educate, monitor one of the widest basket of financial products. We are vendor/brand agnostic since we have no products of our own which enables to improve transparency and client trust in us.

**Client centricity:** We work on a personalised model, through our relationship managers we understand client requirement, risk appetite and work towards building a life time bond with client this maximising on their life time value and generate business on repeat or referral basis.

**Personalisation:** We have an approach which enables us to grow a deep understanding of client requirements and thus we are better equipped to provide tailor made investment solutions that match client expectations. This unique approach has been invaluable to the growth of our brand equity.

**Transparency:** Since inception we have adopted a business approach that is built on creating client ease and bring about transparency. We make concerted efforts to unravel the complexities of financial jargons and quantitative concepts to create qualitative experience for our client. Hence client chose us on a regular basis as their investment partner of choice.

## 9. RISK MANAGEMENT

**Risk Management Approach:** At Wealth First, we recognise the nature of business we are in is froth with multiple kinds of risk and hence we through our experience over the years and in-depth market understanding remain vigilant to mitigate these risks across market cycles. We have adopted an intensive and well formulated risk mitigation framework along with prudential standards, well thought out reporting and effective control mechanisms. The strength of this framework has been enhanced by a combination of centrally-issued policies and divisionally-evolved procedures. The senior management team is constantly appraise and analyses the risk management framework to keep itself abreast with the contemporary standards and evolving challenges.

## 10. RISK AND CHALLENGES

**Volatility risk**

- The entire business is froth with the risk arising out of volatility in prices oil, foreign exchange rates, interest rate, and flows in the equity market

**Margin risk**

- The revenue model of the business depends to a great extent on the fluctuations in the commission rate on trading of various securities

**Statutory risk**

- The Investment management space is highly regulated by various governments and quasi-government agencies who formulate rule and legislation that impact business and market sentiment on a continuing basis.

**Intellectual capital risk**

- The nature of the business makes it imperative to retain and train resource to be savvy of client interaction and appreciate the importance of soft skills. Absence of skilled professional or attrition of such resources can be a significant impediment to business continuity

### Compliance risk

- Business profitability is always in jeopardy due to the mandate of compliance with statutory provision of the regulators, the related cost of compliance can be a continuous pressure on margins

### Cost risk

- A significant chunk of new products under the government financial inclusion plan are absolutely low cost and margin destructive

### Asset-class risk

- There is constant competition from other asset classes like real estate and gold, given the volatile nature of capital markets, oil prices, currency markets that tend to create disincentives for investors to remain invested.

### Expectation risk

- Since the business is indirect investors facing, managing the return on investment could become a daunting task.

## 11. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACIES

Wealth First has internal controls for its business processes across departments to ensure efficiency of operations, compliance with internal policies and applicable laws and regulations. Also the protection of resources, assets and accurate reporting of financial transactions as criteria, is fulfilled. This system of internal control is supplemented by regular reviews by management and standard policies and guidelines to ensure the reliability of financial and all other records.

## 12. FINANCIAL OVERVIEW

We generate revenues primarily from Sales of Bonds and Equity, Mutual Fund Distribution and revenue from Fixed Deposits. For the financial year ended March 31, 2019, our revenue from operations and net profit amounted to ₹33,024.85 Lakhs and ₹704.66 Lakhs respectively. Company's total revenue has increased by 47.58% from ₹22,445.24 Lakhs in F.Y 2017-18 to ₹33,123.81 Lakhs in F.Y 2018-19. Net Profit of the Company has reduced to 19.58% from ₹876.25 Lakhs in F.Y 2017-18 to ₹704.66 Lakhs in F.Y 2018-19 due to increase in Total Expenses.

## 13. CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's objectives, projections and approximate estimate may be "forward looking statements" set in the framework meaning of applicable securities laws and regulations. Actual results may differ materially from those expressed or implied. Important factors that could influence the Company's operations include Economic developments within the Country, Change in Market Condition, Change in Interest Rate, Changes in Government Regulations, tax laws and other factors such as litigation and industrial relations.