MANAGEMENT DISCUSSION AND ANALYSIS

I. Cautionary Statement

Statements in the Management Discussion & Analysis describing the Company's objectives, projections, estimates and expectations may be considered as "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. The factors that might influence the operations of the Company are economic conditions, government regulations and natural calamities over which the Company has no control. The Company assumes no responsibility in respect of the forward looking statements herein which may undergo changes in future on the back of subsequent developments, information or events.

II. General Economy Outlook

Global

As per the International Monetary Fund's report on the World Economic Outlook in April 2019, after strong growth in 2017 and early 2018 global economy met with a number of challenges in the second half of 2018 - US China Trade War, Iran sanctions, a strengthening dollar and FPI outflows from EMs to name a few. China's growth declined following a combination of regulatory tightening to rein in shadow banking and an increase in trade tensions with the United States. The euro area economy lost more momentum as car production in Germany was disrupted by the introduction of new emission standards; investment dropped in Italy as sovereign spreads widened; and external demand, especially from emerging Asia, softened. Trade tensions increasingly took a toll on business confidence and, financial market sentiment worsened in emerging markets in the spring of 2018 and then in advanced economies later in the year.

Against a difficult backdrop that included intensified US-China trade and technology tensions as well as prolonged uncertainty on Brexit, momentum in global activity remained soft in the first half of 2019. Global growth is now projected to slow from 3.6% in CY2018 to 3.2% in CY2019, before returning to 3.5% in CY2020.

Domestic

After averaging close to 8% through Q3:2017- 18 to Q1:2018-19, domestic economic activity lost speed. Domestic economic activity lost pace in Q2 and Q3:FY2019, with a sharper deceleration in Q4 with the economy growing at 5.8% for the quarter. As per the IMF annual GDP growth in CY2018 decelerated to 6.8% from 7.2% in CY2017. The slowdown was broad-based, with private consumption and investment growth slowing from previous quarters. On the supply side, agriculture and manufacturing grew more slowly while on the demand side a continued moderation in private consumption growth remained a matter of concern.

Looking ahead, as per the IMF, growth is projected to pick up to 7% in CY2019, supported by a recovery of investment and consumption amid a more expansionary stance of monetary policy and impetus from fiscal policy. Favorable factors such as a stable government at the center, policy continuity and reforms, stabilization of crude oil and other commodity prices and expectations of a normal monsoon would further boost economic growth. However, there remain headwinds in the form of greater than expected moderation in global growth and global trade, unanticipated volatility in global financial markets, as well as a greater reduction in domestic demand.

III. The Company

Cox & Kings Financial Service Limited (CKFSL) was incorporated on December 29, 2016 as a public limited company under the provisions of the Companies Act, 2013. The company is promoted by the Cox & Kings Limited (CKL) which owns 19.22% in CKFSL.

The Hon'ble National Company Law Tribunal (NCLT) vide it's order dated August 2, 2018 sanctioned the scheme of arrangement ('Scheme') for demerger of the foreign exchange division of Cox and Kings Ltd into a separate entity - Cox & Kings Financial Service Limited ('CKFSL') i.e. April 1, 2017.

In May 2018, CKFSL was granted the RBI license to function as a non-deposit taking NBFC. On April 11th, 2019 CKFSL was listed on the BSE and NSE.

The company is currently in two business verticals – forex services and financing. With the completion of the demerger, NBFC approval and listing, the company is now focusing on charting its growth path in both businesses by introducing new products and services to generate additional revenue streams. In March 2019, Brickworks assigned a Long Term Rating of BBB-/ Stable and a Short Term Rating of A3+ to CKFSL.

A. Forex Services Business

Under the forex services business, CKFSL meets the forex needs of financial institutions, corporates, individual travelers and students travelling overseas by offering an array of services which include buying and selling of foreign currency notes, offering of internationally accepted multi-currency travel cards, issuance of demand drafts/ travelers cheques and outward remittances which would include student fees, tour remittances, film shoots, etc. via SWIFT.

Being a highly regulated business in India, CKFSL has robust systems and processes related to due diligence of its customers, acquisition of new customers, KYC documentation and anti-money laundering measures as well as annual training of employees.

As of March 2019, CKFSL has 147 locations (own branches + franchise) in over 79 Cities in India and a well-trained team of over 400 professionals to cater to forex requirements of customers. We are one of the partners for ICICI Travel Currency Cards. With this tie-up, our customers can access their money 24 x 7 and from over 800,000 ATM locations across the world. We are also one of the leading exporters of foreign currencies such as Russian Rouble and Bangladeshi Taka from India.

The focus of the forex business is to bring value addition to its customers requiring foreign exchange not only for leisure travel but also overseas education, overseas medical treatment, emigration, participation in overseas conferences and specialized training etc. We like to think different and strategize to capture business by walking a unique path. For example, we are establishing ourselves in the Student Counseling Industry which will create captive customers for our student segment.

Revenues for the forex business increased by 8% in 2018-19 to ₹102.5cr from ₹94.9cr in the previous financial year.

Going ahead, CKFSL plans to grow its student and leisure travel related forex services with both offline and digital customer touchpoints as well as by further developing its student counselling initiative. With over 500 consultant and university tie ups in FY19, CKFSL has assisted over 19,000 students in remitting money overseas.

In our corporate business, with close to 2,000 relationships, we are focusing on growing this business with corporates that transact on good credit terms.

Opportunities & Threats

As per the United Nations World Tourism Organization, about 24 Mn Indian tourists travelled overseas in 2017. Outbound tourist numbers have seen a CAGR of 9.1% between 2010 and 2017. Not only are Indians travelling to international destinations more; the average spend on travel too is on the rise. While total expenditure on outbound travel has increased at ~12% CAGR (2013-17) to ~USD 21.9Bn in 2017 from ~USD 13.9Bn in 2013, personal travel expenditure has increased at ~18% CAGR (2013-17) to USD 12.25Bn in 2017 from USD 6.36Bn in 2013.

Remittances for studies abroad increased by 77% in FY18-19 to USD 3.6Bn (FY17-18 USD 2Bn). The total number of Indian students abroad increased to 7,52,725 as at July 2018 from 5,86,183 in December 2017 as per the Ministry of External Affairs, which signifies a strong interest in overseas education programmes.

Threats to our forex services business would arise as a result of a global slowdown in tourism and travel due to concerns related to escalations between countries due to trade wars, sanctions, terrorist attacks or in overseas education due to stringent norms for granting Indian students work permits post their overseas education. Other exigencies such as an outbreak of disease too could result in a slowdown in travel to affected regions.

B. Financing Business

The Financing business is yet to commence and will have two product lines – holiday financing and student financing. CKFSL intends to initially commence operations with holiday financing to customers within C&K group's existing ecosystem. Post holiday financing being launched, CKFSL will enter into the student financing business as CKFSL already services a large student base through its existing forex business.

Opportunities & Threats

Apart from the opportunities in India outbound travel covered above, the domestic travel landscape too presents itself with opportunities.

As per the Ministry of Tourism, the number of Indians travelling domestically has increased to 1.7Bn in 2017 from from 747Mn in 2010 at a CAGR of 12%. As per the Bain & Company report "How Does India Travel", the number is expected to increase to 1.8Bn for 2018.

The same report estimates the total spends by Indian tourists domestically at ~USD 72Bn.

Total spends by Indian tourists including both outbound and domestic travel is thus expected to increase from ~USD 94Bn to ~USD 136Bn by 2021.

As per the Ministry of External Affairs, total number of Indian students abroad increased to 7,52,725 as at July 2018 from 5,86,183 in December 2017 signifying a strong interest in overseas education programmes. While the US, Canada, and the UK remain the key destinations for them, students are now increasingly opting for Australia and EU countries as well. Remittances for studies abroad too increased by 77% in FY18-19 to USD 3.6Bn (FY17-18 USD 2Bn).

Apart from the threats as covered in the forex business section, we envisage the following threats to the financing business:

- Liquidity constraints in the financial system could affect capital planning and future fund raising activities.
- Rise in NPAs
- Rise in Cost of Funds
- Competition from other NBFCs and Banks.

IV. Risks & Concerns

Your Company has an elaborate Risk Management procedure and has adopted a systematic approach to mitigate risk associated with accomplishment of objectives, operations, revenues and regulations. Your Company believes that this would ensure mitigating steps proactively and help to achieve stated objectives. The entity's objectives can be viewed in the context of four categories: Strategic, Operations, Reporting and Compliance. The Risk Management process of the Company focuses on three elements, viz. (1) Risk Assessment; (2) Risk Management; (3) Risk Monitoring.

A Risk Management Committee is constituted which has been entrusted with the responsibility to assist the Board in overseeing and approving the Company's enterprise wide risk management framework; and the key risks and mitigating actions are also placed before the Audit Committee of the Company.

Key risks are as follows:

Credit Risk: It is a risk of default or non-repayment of dues by debtors or loan by borrower which involves monetary loss to the company.

<u>Mitigation:</u> Your Company has laid down a detailed risk management policy, customer identification and acceptance procedure and KYC/ AML norms. Credit procedure envisaged by the Company's credit policy ensures identification of the operational and business risk while entering into any transactions with the prospective customers. The financial risks involved are evaluated through a well laid down procedure. All the inherent business risks are adequately insured by the Company. New relationships are established only with corporates with a strong credit history.

Exchange Rate Risk: It is the financial risk arising from fluctuations in the value of a base currency against a foreign currency in which the company has assets or obligations.

<u>Mitigation:</u> Exchange rate volatility is mitigated by closely monitoring exchange rate movements and hedging liabilities on this account in the Forwards Forex market.

To an extent, currency stocks act as a natural hedge against forex liabilities to our issuers. Personal & Student Forex business happens on cash & carry basis as well. In the corporate business stringent processes are followed on credit approvals.

Operational Risk: It arises when the processes and controls relating to the operations of the company are not effectively designed or may not be operating effectively, which may adversely impact the continuity of business, reputation and profitability of the company.

<u>Mitigation:</u> We have adopted all contemporary and proficient operational methods and systems. Operational benchmarks for the Company have been set across customer on boarding, transaction booking, confirmations and settlement processes. Additionally, regular concurrent audits provide a check on any contingent deviation from operational efficiency.

Regulatory Risk: It is the risk of change in or non- adherence to laws and regulations materially impacting the business.

<u>Mitigation:</u> The Company's business is also subjected to a regulatory framework established by the RBI & FIU. Hence, there is a regulatory control in addition to the self-control on the operations of the Company. All the applicable periodic guidelines issued by the RBI and the FIU are fully adhered to and complied with by the Company.

Human Capital Risk: It is the gap between the goals of the organisation and the skills of its workforce.

<u>Mitigation:</u> We have a policy of providing excellent working environment for employees across all sections for better work-life balance. The compensation paid by the Company is comparable with industries of its class and size. We hire qualified personnel required for technical jobs and also train the personnel to handle their jobs more efficiently and effectively.

V. Internal Control Systems

The Company has in place Internal Control Systems, commensurate with size & complexity of its operations to ensure proper recording of financial and operational information & compliance of various internal controls & other regulatory & statutory compliances. During the year under review, no material or serious observation has been received from the Auditors of the Company for inefficiency or inadequacy of such controls.

Auditors' comprising of professional Chartered Accountants monitor & evaluate the efficacy of Internal Financial Control system in the Company, its compliance with operating system, accounting procedures & policies at all the locations of the Company. Based on their report of Audit function, corrective actions in the respective area are undertaken & controls are strengthened. Significant audit observations & corrective action suggested are presented to the Audit Committee. Monitoring by the Audit team also ensures compliance of the regulatory framework of RBI & FIU.

VI. Human Resources

Your Company believes that people perform to the best of their capability in organisations to which they feel truly associated. Your Company focuses on widening organisational capabilities and improving organisational effectiveness by having a competent and engaged workforce. Our people are our partners in progress and employee empowerment has been critical in driving our organisation's growth to the next level.

Talent Management and Development plays a pivotal role to attract and build people capability for employee growth and through them for the growth of the organisation. The Company also identifies and adopts best industry practices related to Health, Safety, Security and Environment which outlines the core of its business and ensures in developing a culture where its employees drive them. The Company's focus has also been to improve the staff's contribution towards the various services offered. To achieve this objective the Company has ensured that all its employees receive continuous update on the Company's policies as well as the regulatory framework.

VII. Operational Review

- Total Revenue increased to ₹102.5 crores in 2018-19 from ₹94.9 crores in 2017-18, an increase of 8%.
- Total PAT decreased to ₹3.3 crores in 2018-19 from ₹13.6 crores in 2017-18, a decrease of 75.4%.
- Number of licensed branches stood at 147 as on 31st March, 2019, same as that on 31st March, 2018.
- Customer base stood at 1,41,258 customers.
- Increased employee base to 416 as on 31st March, 2019, as against 398 as on 31st March, 2018.

VIII. Financial Review

The following table presents Company's standalone abridged financials for the financial year 2018-19, including revenues, expenses and profits:

Abridged Statement of Profit & Loss (in ₹ Crores)

Particulars	FY19	FY18	Growth (Y-o-Y)
Revenue From Operations	101.9	94.8	7.5%
Other Income	0.6	0.1	384.1%
Total Revenues	**102.5**	**94.9**	**8.0%**
Operating Expenses	52.8	46.5	13.4%
Depreciation & Amortisation	0.4	0.4	-13.9%
Finance Costs	44.3	26.3	68.4%
Profit Before Tax	**5.0**	**21.6**	**-77.0%**
Profit After Tax	**3.3**	**13.6**	**-75.4%**

- Total Revenue of the Company during 2018-19 increased by 8% over previous year while operating expenses increased by 13.4%. Operating profit grew by 2.7% from ₹48.4 crores in 2017-18 to ₹49.7 crores in 2018-19.
- PAT for the year, at ₹3.3 crores, degrew by 75.4% and PBT for the same period degrew by 77% to ₹5 crores.
- RoE for the year under review stood at 3.7% against 15.8% in 2017-18.
- Net Debt to Equity increased to 3.99x from 2.64x as borrowing increased to ₹400 crores from ₹250 crores in 2017-18
- The Company's cost-to-income ratio for the year under review stood at 51.5% compared to 49% in 2017-18.