

Annexure –3 to CG

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Economic Review

Indian economy started the fiscal year 2018–19 with a healthy 8.2 percent growth in the first quarter on the back of domestic resilience. Growth eased to 7.3 percent in the subsequent quarter due to rising global volatility, largely from financial volatility, normalized monetary policy in advanced economies, externalities from trade disputes, and investment rerouting. Even with this lower growth for 2017-18, GDP growth has averaged 7.3 per cent for the period from 2014-15 to 2018-19, which is the highest among the major economies of the world. That this growth has been achieved in a milieu of lower inflation, improved current account balance and notable reduction in the fiscal deficit to GDP ratio makes it all the more creditable. The economy stabilizing after the introduction of GST last year and adding to the advantages from faster resolution of problems associated with non- performing assets of the banks and liberalization of FDI policies, the economy seems to develop further in the coming years.

Real Estate Overview

The real estate sector is one of the most globally recognized sectors. In India, real estate is the second largest employer after agriculture and is slated to grow at 30 per cent over the next decade. The real estate sector comprises four sub sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodations. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy.

It is also expected that this sector will incur more non-resident Indian (NRI) investments in both the short

term and the long term. Bengaluru is expected to be the most favoured property investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun.

Opportunities

As compared to last year, the Indian real estate sector has witnessed high growth in recent times with the rise in demand for office as well as residential spaces. Private equity investments in real estate are estimated to grow by 2026 with tier 1 and 2 cities being the prime beneficiaries.

The Securities and Exchange Board of India (SEBI) has given its approval for the Real Estate Investment Trust (REIT) platform which will help in allowing all kinds of investors to invest in the Indian real estate market. It would create an opportunity in the Indian market over the years. Responding to an increasingly well-informed consumer base and, bearing in mind the aspect of globalisation, Indian real estate developers have shifted gears and accepted fresh challenges. One of our projects “The Verge” is a commercial project creating a space for Entrepreneurs.

Threats and Challenges

Interest rates and the economy:

As interest rates rise, commercial and residential real estate markets are seeing several changes, such as decreasing demand for commercial property and higher home mortgage rates. Rate increases are making homes less affordable and are also limiting the value appreciation for commercial real estate. “Lack of wage growth for all but the wealthiest population segment is dampening housing demand, and limiting consumer spending that the economy needs for growth,” the Counselors of Real Estate’s report notes.

Regulatory Hurdles

Politics and political uncertainty:

Tax reform and policies aimed at balancing trade with other countries will have an impact on jobs, incomes, and both commercial and residential property, according to the report. "Congressional action to relax certain bank lending and asset management regulations was also among developing trends that may improve access to capital," the Counselors of Real Estate's report notes.

Future Outlook

As far as the real estate's outlook for the year 2019 is concerned, Indian real estate is going through a major transformation in the recent years. Some of the big decisions and new policies of the Indian Government have affected the real estate sector in big way, albeit in positive or negative manner. Few of the policy changes introduced by the government, such as demonetization, RERA, and REITs in 2016, followed by GST and FDI in 2017, have made huge impacts on Indian real estate sector. Apart from this, there are various other reforms anticipated by the experts in Indian economy, which may come into force in the coming time. However, the new legislation and trends that have come up in the real estate market have the power to reshape the Indian real estate sector for a long term and year 2019 can be a starting point towards the Indian real estate growth story.

Segment wise Performance

The Company has only one segment that is developing and promoting of residential apartments. Hence there is no requirement of segment wise reporting.

Risks and Concerns

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Financial Performance

A detailed report about financial performance forms part of Directors Report to the shareholders.

Human resources

ARIHANT firmly believes that human resources are key enablers for the Company's growth. At Arihant, the key principle which drives the same thought process is that the vision and success of the company is closely aligned to the goals of the human resources of company. Hence, it continuously carries out a training process for the benefit and facelift of existing and new employees. By following this philosophy, the company hopes to scale up its size of activities, simultaneously with the growth of its workforce in their careers.

Internal Control System and their Adequacy

In order to get the best assurance of the Internal Control System the Company has appointed M/s. Ernst & Young LLP, Chartered Accounts, Major international accounting and consulting firm as the Internal Auditors of the Company. There are adequate internal financial controls in place with reference to the financial statements. During the year under review, these controls were evaluated and no significant weakness was identified either in the design or operation of the controls.

Cautionary Statement

Statements in this Management Discussion and Analysis Report are based upon data available with the Company and on certain assumptions having regard to the economic conditions, government policies and political developments within and outside the country. The management is not in a position to guarantee the accuracy of the assumptions and the projected performance of the Company in future. It is, therefore, cautioned that the actual results may differ from those expressed or implied herein.