

Management Discussion and Analysis

Company Overview:

The Company is asset finance company focusing on rural, semi-urban & other under banked geographies of Gujarat, Maharashtra & Madhya Pradesh.

Company has conceptualized simple, speedy, small ticket asset financing products with high yields.

With a network of 36 branches, we offer wide range of customized retail products such as financing two wheelers, auto rickshaw, cars & consumer durables.

Key Competitive Advantages:

- Robust and comprehensive Credit assessment and Risk management framework.
- Significant presence in Rural and Semi-urban markets with focus on low and middle income customers.
- Deep customer insight and strong business model.
- Strong Balance sheet.
- Easy and fast appraisal and disbursements makes Shalibhadra the preferred choice for many of its customers.
- Flexible repayment options aligned to the unique needs of customers.

Risk Management:

- The Company is exposed to high credit risk given the unbanked rural customer base. The Company manages credit risk through customized credit norms established through adequate experience in this line of business. Deep insight about the nature of borrowers and a strong business model reduces the risk of default significantly. Moreover, the advances being retail loans are spread over a large customer and geographic base.
- There may be drastic economic slowdown in demand for the two wheelers. However, company is confident to growing business due to withdrawal of NBFC's /Bank from this sector coupled with company's diversified business portfolio and customer reach.
- There is always a greater difficulty of seizing NPA assets from rural area due to non-co-operation of customers and local community pressure. Company has mitigated this risk to a great degree by keeping average loan size small, financing a maximum of 75% of vehicle cost, adapting a robust hypothecation policy and collaborating with local business partners.

- Shortage of skilled manpower in the local areas of operation poses a considerable risk. To counter this, the company strives to attract and retain the best talent from local markets, adopts a robust performance management system, employee engagement and training practices to create an inspiring and rewarding work environment.
- However, a major slowdown in economy, fluctuation in interest rates, liquidity availability, extra-ordinary increase in fuel prices or vehicle taxes, floods or such calamities can drastically affect growth and asset portfolio in non-urban segments.

Operations & Control Systems:

Shalibhadra Finance Limited has a very good presence in Gujarat and Maharashtra, being *"the dominant player"* in its segment of financing 2 wheelers in rural, semi-rural and under banked areas. Company operates in small towns, villages and city outskirts where the customer is not very literate and highly unorganized. With its grip on the right pulse of the market segment in question, the Company has mastered the art of keeping excellent relations with its clients without compromising on growth and bottom-line, resulting in return business and word of mouth publicity.

The Company has tie up's with various dealers, brokers and service station spread around 50 km range of each branch from where regular business is generated.

Company also believes that normal collection through post dated cheques / ECS / NACH will not work in rural areas due to poor banking habits & less banking penetration. Therefore the company has tied up with various Co-operative banks to collect on behalf of company which has received good response from customers.

Company does not operate on franchise or DSA model but put up its own branches in owned premises. The company thinks that this small loan business is highly service oriented & requires physical presence & cannot be done from a long distance. We have to be physically present & be face-to-face to give service to rural borrower. Company covers up to 50 km. of area from each branch to keep its high standard of service & be in touch with customers directly.

Company employs local rural people who know local market well, know local language properly & can easily establish good relationship with local customers. This also helps in keeping employee cost down and attrition rate low.

Shalibhadra Finance Limited have a reasonably de-centralized decision making system with the first contact employee empowered to initiate sanction of loans under supervision of branch heads upto certain amounts. All disbursements of loan are done from head office. All branches are fully computerized and are linked on line.

Once loan is sanctioned there is strong MIS system which is centralized at head office. Monthly reporting system of all overdues and follow-ups with customers are in place. All documents pertaining to hypothecation are kept at branches. NOC are sent from Head office. The company has also got all its documents digitized by an outside agency.

People having extremely low income are served by Microfinance institutions. The company does not target them as they usually do not have means / income to buy any vehicles. The company wants to finance people who are in slightly higher income bracket.

Company has started financing white goods in rural areas. Due to heavy competition from large NBFCs, company will not be able to grow this business. Company has also started financing old 3/4 wheelers.

The company has got rating renewal of BBB- (Stable) from ICRA. This will help in raising funds at cheaper rate.

Company successfully expanded in the state of Madhya Pradesh this year. Company is trying to increase geographical presence. It is planning to open new branches in Maharashtra & further expand in Madhya Pradesh this year.

Company has also recently implemented new software which has improved efficiency.

Future Outlook:

Due to withdrawal by Banks /NBFC from Two wheelers financing business we have great opportunity to tap this market

The Indian rural landscape is rapidly changing, presenting various growth opportunities. The rural customer (>75% of the population) is becoming more market savvy, and aspires for a higher life quality. Objective of the company is to grow its customer base to over 1,00,000 customers, 50 branches and a vehicle finance portfolio of Rs 125 crores by March 2020.

Shalibhadra Finance Limited plans to concentrate further on smaller but upcoming towns to avoid margin competition. Customers of the company are generally

salaried class, agriculturist and self-employed. This industry in growing in double figure rates and competition from other NBFC's and banks is practically non-existent due to relatively small & wide market and high service oriented business.

Human Resource

Company believes in taking care of its employees and ensuring that their career aspirations are met through professional growth, personal development and fair economic rewards.

With a very low attrition rates, company is focused in creating a happy & engaged workforce

Information Technology

Investments have been made in state-of-the-art IT infrastructure to enable collection campaigns, asset recovery, better communication & service to customers. Outsourced services are deployed to leverage specialised skills and better service levels.

Internal Control

The Company has put in place an adequate internal control system to safeguard all assets and ensure operational excellence. The system also meticulously records all transaction details and ensures regulatory compliance.

Reputed audit firms also ensure that all transactions are correctly authorised and reported. The reports are reviewed by the Audit Committee of the Board. Wherever necessary, internal control systems are strengthened and corrective actions initiated

Cautionary Statement:

Certain statements in the Management Discussion and Analysis describing the Company's objectives, predictions may be "forward-looking statements" within the meaning of applicable laws and regulations. Actual results may vary significantly from the forward looking statements contained in this document due to various risks and uncertainties.

Financial Performance

During the year the operations have been satisfactory and profitable insofar as the Company has generated revenue of Rs.22.2 crores (Previous year Rs. 19.4 crores) and a profit after tax of Rs.6.4 crores (Previous Year Rs 5.7 crores).