Chairman's Speech at 35th AGM of Morarka Finance Limited

Ladies and Gentlemen,

Welcome to the 35th Annual General Meeting ("AGM") of your Company through video conferencing. In view of the Covid 19 pandemic MCA and SEBI through its various circulars permitted to conduct AGM through Video Conferencing / Other Audit Visual Means and your company has appointed Central Depository Services (India) Limited ("CDSL") to provide the facility to conduct AGM through Video Conferencing. On behalf of the Board, I thank you for joining us today. Your presence is indeed a true testimony of your involvement and support to the Company.

The audited financial statements of your company for the year ended 31st March, 2020 along with the Directors' Report, have already been circulated to you. With your permission, we may take them as read. I would like to begin the proceedings by giving you a report on the overall performance of your company and the environment in which it operates.

BUSINESS & OPERATIONAL OVERVIEW

The Company, in current fiscal has made profits of Rs. 494.65 lakhs as against profit of Rs. 46.65 lakhs for the previous year. During the year, the Company received dividend of Rs 486.64 Lakhs by way of dividend including dividend from Dwarikesh Sugar Industries Limited. The revenue from the rental income and management consultancy fees will be contributing regularly and steadily rather than dependence on volatile capital market revenue generation.

NBFC SECTOR:

Non-banking financial companies (NBFCs) are struggling to raise funds from the capital market due to higher cost and lack of availability of funds. NBFCs' borrowing profile has changed significantly from capital market instruments to bank borrowings. Banks' lending to NBFCs registered a growth of 34.7 per cent from September 2018 to January 2020. The overall composition of NBFCs in bank credit improved from 5.5 per cent in July 2018 to 6.6 per cent in March 2019 and 7.4 per cent in January 2020.

NBFCs are better placed with adequate liquidity to manage capital market debt repayments over the next two months and just about 4 percent of total debt is in shaky sectors such as aviation, gems and jewellery, real estate that could blow up. Sectors which are very critical to NBFCs such as auto, manufacturing and retail business are going through shock for a while. When the economy restarts, the banks and NBFCs will be pushed towards prudent lending for retrieving business which is going to add more pressure.

The outbreak of COVID-19 has resulted in lockdown and huge business disruption causing uncertainty in markets. The world over stock markets have tumbled, making equity investors lose money but of late Stock market all over the world has bounced back. Although financial market indicators are not to be taken as a conclusion, the Macro parameters are showing dismal progress in the economy . The reasons for recent bounce back of Stock market is attributed to excessive liquidity in the economy, U S elections in the offing etc.

COVID-19 IMPACT

Covid - 19 Pandemic has resulted in decrease in the economic activities across the country on account of lockdown that started on 24th March, 2020 Employees are facilitated to Work From Home (WFH) and enabled through secured remote access to ensure business continuity. The lockdown didn't have much impact on business operations since lockdown commenced in the last week of March, 2020.

OPPORTUNITIES, THREATS AND STRATEGIES:

Over the last decade, India's non-banking financial companies (NBFCs) have assumed critical importance in the financial system. The total asset size of all NBFCs in India is more than $370 billion. The importance of such a strong credit system in a growing economy like India can't be overemphasized. The industry is growing from strength to strength by serving the often ignored retail and MSME segments which are the backbone of India's growth story. Over the last five years, the NBFC lending book has grown at nearly 18% driven by a deep understanding of target customer segments, use of technology advances, lean cost structures and differentiated business models to reach credit-starved segments. The government took quick cognizance of the troubles in the sector and launched initiatives to provide relief. The Reserve Bank of India announced in August that banks can have an exposure of up to 20 per cent of their Tier 1 capital to a single NBFC as compared to the 15 per cent limit earlier. This helped boost credit flow as bank funding to NBFCs grew by 30 per cent year on year. At the same time, the regulator also eased the priority sector lending norms by allowing banks to provide funds to NBFCs for on-lending to agriculture up to INR 10 lakh, MSMEs up to INR 20 lakh and housing up to INR 20 lakh per borrower to be classified as priority sector lending.

However, recently, the sector has taken a beating in the stock market with defaults and liquidity challenges, specifically related to one large NBFC. Although the problem seems isolated, it has concerned regulators due to the risk of contagion effect and the overall governance in the sector. Another green shoot that emerged from the regulatory intervention as RBI introduced a new liquidity risk management framework to holistically counter future risks in the sector. Given the sector is fairly large now to impact the overall economy, this certainly entails some potential implications, including new compliance measures by the regulator, lending slowdown and potential consolidation by larger players. Furthermore, the NBFC lending model is also under pressure as a result of increased internal and external forces such as:

1. Operational Risk

It arises when the flow of and controls over the operations of the company are lacking, which has adverse impact on the continuity of business, reputation and profitability of the company.

2. Credit Risk

It is a risk of default or non-repayment of loan by a borrower which involves monetary loss to the company, both in terms of principal and interest.

3. Business Risk

Morarka Finance being a NBFC is exposed to various external risks which have direct bearing on the sustainability and profitability of the Company. Foremost amongst them are Industry Risk and Competition Risk. The volatile macro-economic conditions and changes in sector attitude in various economic segments cause ups and downs in the business, and result in loan asset impairment.

4. Regulatory Risk

It is the risk of change in laws and regulations materially impacting the business.

5. Human Capital Risk

Human capital risk is the gap between the goals of the organisation and the skills of its workforce.

6. Technology advances (e.g., cloud computing, and big data analytics) that are enabling personalisation, realtime and social mobility, in addition to reducing cost to-serve and an increased ability to launch new product and reach new customer segments

Despite concerns surrounding the sector, we believe such NBFCs with robust business models, strong liquidity mechanism, governance and risk management standards are well positioned to take advantage of the market opportunity. Hence, it is even more critical for incumbent and new-to-market NBFCs to define and implement a balanced strategy that meets table-stakes across essential, core capabilities and differentiates across high value-adding capabilities.

The overall investment philosophy stems from our objective of delivering superior risk adjusted returns to investors over an extended time frame. The investment philosophy is rooted in a set of well-established but flexible principles that relies extensively on fundamental research. It is our belief that over the time, stock prices will reflect a business' underlying intrinsic values and its long term prospects. As a result, our near strategy is to arrive at a comprehensive understanding of a company's business including the nature of its interactions with customers, suppliers, competitors and regulators. While doing so our strategy is to rely on various earnings multiples besides analyzing private market value and appropriate regional and global comparisons. The basic principles that serve as the foundation for the above investment approach are managing risk, maintain a balanced outlook on the market and focus on the long term. Even in these trying times the Company is motivated and positive in having better growth and market share in the near future.

DIVIDEND

Ladies and Gentlemen, your directors have taken conservative approach in the present difficult times by not recommending any dividend for the year and plough back the profits in the business. The reason for ploughing back is on account of outbreak of pandemic situation due to Covid 19 situation & resulting uncertainties arising from the same .However, we are always looking to maximise shareholders wealth by value creation.

CORPORATE SOCIAL RESPONSIBILITY – CSR

The company is not falling within the purview of Section 135 of the Companies Act, 2013 based on the parameters specified therein viz Net worth of Rs. 500 Crore or more or Turnover of Rs. 1000 Crore or More or Net Profit of Rs. 5 crore or more.

CONCLUDING REMARKS AND ACKNOWLEDGEMENT

To conclude, I express my sincere gratitude to our business associates and our shareholders, for the trust and confidence they reposed in the Company. My special thanks and deep appreciation go to the employees of the Company at all levels for their hard work, dedication and continued commitment. Last but not the least, I also would like to place on record many thanks to my colleagues on the Board for their valuable guidance and contributions.

Thanking You,

G R Morarka

Chairman

August 31, 2020