



Press Release

Hedge Finance Limited (HFL)

July 23, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Proposed Non-Convertible debentures (NCDs)	100.00	IVR BB+/ Stable (IVR Double B Plus with Stable outlook)	-	Assigned	Simple
Non-Convertible debentures (NCDs)	105.00	IVR BB+/ Stable (IVR Double B Plus with Stable outlook)	IVR BB+/ Stable (IVR Double B Plus with Stable outlook)	Reaffirmation	Simple
Total	205.00 (Rupees Two Hundred Five crore Only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics ratings has assigned/reaffirmation its ratings to the various NCDs issues of Hedge Finance Limited (HFL) as it continues to derive comfort from the comfortable capitalisation, improving earnings profile and experienced management. However, the ratings are constrained by weak asset quality, leveraged capital structure and moderate scale of operations given the regional concentration.

Outlook is stable on account of consistent growth in AUM and earnings profile. IVR expects the growth momentum to continue backed by adequate capitalisation and proposed borrowing plans.

Key Rating Sensitivities:

Upward Factors



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- Substantial and sustained growth in AUM while maintaining healthy asset quality, adequate capitalisation and liquidity.
- Improvement in asset quality with GNPA decreasing below 3% and gearing decreasing below 3x.

Downward Factors

- Adverse movements in collection efficiency resulting in increased credit costs.
- Substantial deterioration in AUM levels, profitability, capitalisation levels, liquidity and asset quality.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Comfortable capitalisation

On the back of consistent capital infusion by promoters coupled with retention of profits, HFL has been able to maintain comfortable capitalisation with total CRAR of 23.40% at the end of March 31, 2024, (March 31, 2023: 23.37%) and tangible networth of Rs 45.73 crore for FY24(refers to period April 1st, 2023, to Mar 31, 2024) (FY23: Rs 41.47 crore).

Improving earnings profile

HFL's net interest income and PAT have improved to Rs 19.48 crore and Rs 5.46 crore respectively during FY24 when compared to net interest income of Rs 14.70 crore and PAT of Rs 2.38 crore in FY23 due to growth in AUM and increase in NIM which has improved to 9.15% in FY24 as compared to 8.27% in FY23.

Experienced promoters

Hedge Finance Limited is promoted by Mr. Alex K Babu, Founder, Chairman and Managing Director of the company. He has over a decade of rich experience in capital markets & is well supported by an experienced board and management team. The board of the Company was



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reconstituted in September 2019, by adding experienced bankers with the objective of strengthening the board and to focus on the retail financing space.

Key Rating Weaknesses

Weak asset quality

HFLs portfolio is exposed to high-risk product categories viz., corporate loans and MSME loans, which together contribute to ~50% of total AUM. These sectors were severely impacted by COVID 19 and hence the portfolio was restructured. Also, HFLs loan portfolio has higher percentage of higher ticket sized loans where the risk of delinquencies is higher given slippage from a single account can result in increased NPAs. Asset quality of HFL remains weak with GNPA of 4.44% and NNPA of 2.99% at the end of FY24 (FY23: GNPA:4.67% and NNPA:3.72%). Going forward, ability to improve its asset quality with timely recoveries will be a key monitorable.

Moderate scale of operations given the regional concentration

HFLs total AUM has consistently grown in the last 3 years from Rs 164.50 crore in FY22 to Rs 199.90 crore in FY23 and further to Rs 237.16 crore in FY24 on the back of increased disbursements. Despite consistent growth witnessed in HFLs AUM in the last 3 years, the scale of operations remains moderate given the regional concentration of operations with Kerala contributing to ~99% of total AUM. Going forward, the ability of the company to foray into new states and reduce its geographical concentration will be a key rating monitorable.

Highly leveraged capital structure

HFLs capital structure remains highly leveraged with gearing of 5.07x as on 31 March 2024 (31 March 23:4.65 x) despite regular capital infusion from promoters since most of the growth in AUM is debt funded. However, IVR derives comfort as NCDs, and subordinated debt are subscribed by promoters, friends and relatives and as per management going forward also HFL will raise NCD's and subordinated debt from promoters, friends and relatives. Going forward, the ability of the company to infuse capital and deleverage the capital structure will be a key rating monitorable.



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Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Financial Institutions/Non-Banking Finance companies](#)

[Policy on Default Recognition and Post – Default Curing Period](#)

[Criteria of assigning Rating Outlook.](#)

[Complexity level of rated instruments/Facilities](#)

[Financial Ratios & Interpretation \(Financial Sector\)](#)

Liquidity: Adequate

HFLs liquidity remains adequate with cash and cash equivalents of Rs 33.57 crore and tangible Networth of Rs 45.73 crore as on 31 March 2024. As on 31 March 2024, VCCL has an adequately matched ALM profile with no negative cumulative mismatches across all the buckets.

About the company

Hedge Finance Limited (HFL) is a Kerala based non-deposit taking NBFC, registered with the Reserve Bank of India. The company is a part of the Hedge Group of companies, founded by Mr. Alex K Babu in 2011. The group includes Hedge Equities Ltd, Hedge Commodities Ltd and Hedge School of Applied Economics. The group started its operations in 2008 & provides services in capital markets, wealth management, and other investment products. HFLs initial focus was to finance against shares and mutual funds, complementing the business of its group company, Hedge Equities Ltd. However, in 2019, HFL diversified into products including loans against property, business loans, personal loans, loans against hypothecation of equipment/ machinery/ infrastructure/ vehicles and MSME loans.

Financials (Standalone)*:

Rs in crore

For the year ended/As on*	31-03-2023	31-03-2024
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	(Audited)	(Audited)
Total Income	39.35	50.46
PAT	2.38	5.46
AUM	199.09	237.16
Tangible Networkth	41.38	45.73
Total debt	192.62	231.83
<u>Ratios</u>		
NIM (%)	8.27	9.15
ROTA (%)	1.10	2.14
Interest Coverage (Times)	1.17	1.32
Total CRAR (%)	23.47	23.40
GNPA (%)	4.67	4.44
NNPA (%)	3.72	2.99
Overall Gearing (Times)	4.65	5.07

***Classification as per Infomerics' standards**

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2024-25 – (13 June 2024)	Date(s) & Rating(s) assigned in 2023-24 – (20 June 2023)	Date(s) & Rating(s) assigned in 2022-23 (25 Oct 2022)	Date(s) & Rating(s) assigned in 2022-23 (27 April 2022)
1.	Proposed Non-Convertible Debentures	Long Term	100.00	IVR BB+/Stable	-	-	-	-
2.	Non-Convertible Debentures	Long Term	105.00	IVR BB+/Stable	IVR BB+/Stable	IVR BB+/Stable	IVR BB+/Stable	IVR BB+/Stable
3.	Proposed Non-Convertible Debentures	Long Term	0.00	-	-	IVR BB+/Stable	IVR BB+/Stable	IVR BB+/Stable



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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength



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of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Instrument/Facility Details

Instrument	ISIN	Date of Issuance	Maturity Date	Coupon (%)	Amount (Rs in Crores)	Listing Status	Rating
NCDs	INE01ZK07FS1	2 Aug 2022	2 Aug 2027	10.50	5.00	Listed	IVR BB+/Stable
	INE01ZK07FT9	2 Aug 2022	2 Aug 2027	11.00	5.00	Listed	
	INE01ZK07GO8	27 Oct 2022	27 Oct 2027	10.50	5.00	Listed	
	INE01ZK07GN0	27 Oct 2022	27 Apr 2028	11.00	5.00	Listed	
	INE01ZK07HK4	1 Mar 2023	1 Mar 2028	10.50	5.00	Listed	
	INE01ZK07HJ6	1 Mar 2023	1 Sep 2028	11.00	5.00	Listed	
	INE01ZK07IH8	28 Jun 2023	28 June 2028	10.50%	5.00	Listed	
	INE01ZK07IG0	28 Jun 2023	28 Dec 2028	11.00%	5.00	Listed	
	INE01ZK07JD5	18 Sep 2023	18 Dec 2028	10.00%	5.00	Listed	
	INE01ZK07JB9	18 Sep 2023	18 Mar 2026	10.25%	5.00	Listed	
	INE01ZK07JC7	18 Sep 2023	18 June 2027	10.50%	5.00	Listed	
	INE01ZK07KE1	5 Jan 2024	5 Jan 2025	10.00%	5.00	Listed	
	INE01ZK07KD3	5 Jan 2024	5 July 2026	10.25%	7.50	Listed	
	INE01ZK07KC5	5 Jan 2024	5 Oct 2027	10.50%	7.50	Listed	
	INE01ZK08588	18 Mar 2024	18 Mar 2026	11.00%	10.00	Listed	
	INE01ZK08604	23 May 2024	23 May 2026	10.50%	10.00	Listed	
	INE01ZK08596	23 May 2024	23 May 2029	11.00%	10.00	Listed	
Proposed NCDs	-	-	-	-	100.00	To be listed	IVR BB+/Stable
	Total				205.00		

Annexure 2: Facility wise lender details – Not Applicable

Annexure 3: Detailed explanation of covenants of the rated Security/facilities:



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Instrument Description	Hedge Finance Limited - 10.50% Non-Convertible Debentures – Series IV Monthly -2027	Hedge Finance Limited - 11.00% Non-Convertible Debentures – Series IV Cumulative 2027	Hedge Finance Limited - 10.50% Non-Convertible Debentures – Series V Monthly -OCT2027	Hedge Finance Limited - 11.00% Non-Convertible Debentures – Series V Cumulative - APR2028
Issue Date	8/2/2022	8/2/2022	10/27/2022	10/27/2022
Issue Size (Rs in Crs)	5.00	5.00	5.00	5.0
ISIN (in case generated)	INE01ZK07FS1	INE01ZK07FT9	INE01ZK07GO8	INE01ZK07GN0
Redemption Date	8/2/2027	8/2/2027	10/27/2027	4/27/2028
Repayment Terms	Monthly	Compounding	Monthly	Compounding
Coupon Rate	10.50%	11.00%	10.50%	11.00%
Coupon Repayment timeline	Monthly	Compounding	Monthly	Compounding

Instrument Description	Hedge Finance Limited - 10.50% Non-Convertible Debentures – Series VI Monthly MAR2028	Hedge Finance Limited - 11.00% Non-Convertible Debentures – Series VI Cumulative SEP2028	Hedge Finance Limited - 10.50% Non-Convertible Debentures – Series VII Monthly JUNE2028	Hedge Finance Limited - 11.00% Non-Convertible Debentures – Series VII Cumulative DEC2028
Issue Date	3/1/2023	3/1/2023	6/28/2023	6/28/2023
Issue Size (Rs in Crs)	5.00	5.00	5.00	5.00
ISIN (in case generated)	INE01ZK07HK4	INE01ZK07HJ6	INE01ZK07IH8	INE01ZK07IG0
Redemption Date	3/1/2028	9/1/2028	6/28/2028	12/28/2028
Repayment Terms	Monthly	Compounding	Monthly	Compounding
Coupon Rate	10.50%	11.00%	10.50%	11.00%
Coupon Repayment timeline	Monthly	Compounding	Monthly	Compounding



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Instrument Description	Hedge Finance Limited - 10.00% Non-Convertible Debentures – Series VIII Monthly - DEC2024	Hedge Finance Limited - 10.25% Non-Convertible Debentures – Series VIII Monthly - MAR2026	Hedge Finance Limited - 10.50% Non-Convertible Debentures – Series VIII Monthly - JUNE2027	Hedge Finance Limited - 10.00% Non-Convertible Debentures – Series IX Monthly - APR2025
Issue Date	9/18/2023	9/18/2023	9/18/2023	1/5/2024
Issue Size (Rs in crs)	5.00	5.00	5.00	5.00
ISIN No (in case generated)	INE01ZK07JD5	INE01ZK07JB9	INE01ZK07JC7	INE01ZK07KE1
Redemption Date	12/18/2024	3/18/2026	6/18/2027	4/5/2025
Repayment Terms	Monthly	Monthly	Monthly	Monthly
Coupon Rate	10.00%	10.25%	10.50%	10.00%
Coupon Repayment timeline	Monthly	Monthly	Monthly	Monthly

Instrument Description	Hedge Finance Limited - 10.25% Non-Convertible Debentures – Series IX Monthly - JUL2026	Hedge Finance Limited - 10.50% Non-Convertible Debentures – Series IX Monthly - OCT2027	Hedge Finance Limited - 11.00% Non-Convertible Debentures – Series X Monthly - ANNUALLY - MARCH2026	Hedge Finance Limited - 10.50% Non-Convertible Debentures – Series XI Monthly - MAY2026	Hedge Finance Limited - 11.00% Non-Convertible Debentures – Series XI Monthly - MAY2029
Issue Date	1/5/2024	1/5/2024	3/18/2024	5/23/2024	5/23/2024
Issue Size (Rs in Crs)	7.50	7.50	10.00	10.00	10.00
ISIN No (in case generated)	INE01ZK07KD3	INE01ZK07KC5	INE01ZK08588	INE01ZK08604	INE01ZK08596
Redemption Date	7/5/2026	10/5/2027	3/18/2026	5/23/2026	5/23/2029
Repayment Terms	Monthly	Monthly	Annually	Monthly	Monthly
Coupon Rate	10.25%	10.50%	11.00%	10.50%	11.00%
Coupon Repayment timeline	Monthly	Monthly	Annually	Monthly	Monthly



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Financial Covenants for NCDs rated by Infomerics: The below mentioned covenants are uniform across all NCD issues rated by Infomerics.

Financial Covenants	<p>Default in payment. In case of default in payment of Interest and/or principal redemption on the due dates, the additional interest of 2% p.a. over the Coupon rate will be payable by the Company for the defaulting period.</p> <p>Delay in listing In case of delay in listing of the NCDs beyond 20 days from the Deemed Date of Allotment, the Company will pay penal amount of at least 1 % p.a. over the Coupon Rate from the expiry of 30 days from the Deemed Date of Allotment till the listing of such NCDs to the investor.</p>
Non-Financial Covenants	<p>Transferability Subject to provisions of Memorandum of Association and Articles of Association of the Company, the Companies Act, 2013 and other applicable laws, the NCDs shall be freely transferable.</p>

Draft Term sheet for the proposed NCDs of Rs 100.00 crore:

Issuer	Hedge Finance Limited
Type of Instrument	Non-Convertible Debentures
Nature of Instrument (Secured or Unsecured)	Secured / Unsecured
Seniority (Senior or Subordinated)	Senior
Listing (name of stock Exchange(s) where it will be listed and timeline for listing)	BSE
Issue Size	Up to 100 crores in multiple tranches
Objects of the Issue / Purpose for which there is requirement of funds	The Object of the Issue is to meet the working capital requirements of the Company
Coupon / Dividend Rate	9% - 14%
Coupon/Dividend Payment Frequency	Monthly / Annually / Cumulative
Coupon Type (Fixed, floating, or other structure)	Fixed
Tenor	12 months – 84 months
Covenants	<p>Default in payment In case of default in payment of Interest and/or principal redemption on the due dates, the additional interest of 2% p.a. over the</p>



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	<p>Coupon rate will be payable by the Company for the defaulting period.</p> <p>Delay in listing In case of delay in listing of the NCDs beyond 20 days from the Deemed Date of Allotment, the Company will pay penal amount of at least 1 % p.a. over the Coupon Rate from the expiry of 30 days from the Deemed Date of Allotment till the listing of such NCDs to the investor.</p> <p>Transferability Subject to provisions of Memorandum of Association and Articles of Association of the Company, the Companies Act, 2013 and other applicable laws, the NCDs shall be freely transferable.</p>
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Annexure 4: List of companies considered for consolidated/Combined analysis: Not applicable.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.