Press Release

Hedge Finance Limited (HFL)

Revised Press Release

August 23, 2023

The revised press release is provided in relation to the Press Release published on October 25, 2022. The revised press release mentions the following:

- Transaction Structure
- Detailed explanation of covenants of the rated instrument/facilities as per the regulator guidelines.

Link to the press release dated October 25, 2022, published on Infomerics' website:

https://www.infomerics.com/admin/uploads/pr-hedge-finance-25oct22.pdf

Ratings

Instruments	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Facility – Proposed Non Convertible Debentures (NCDs)	35.00 (Increased from INR20.00 Crore*)	IVR BB+/Stable Outlook (IVR Double B Plus with stable outlook)	Reaffirmed	Simple
Long Term Facility – Non Convertible Debentures (NCDs)	10.00	IVR BB+/Stable Outlook (IVR Double B Plus with stable outlook)	Assigned	Simple
Total	**45.00 (Forty Five Crore Only)**			

Of the initial INR20.00 Crore Proposed Facilities, the company has subscribed for INR10.00 Crore of Secured Redeemable Non-Convertible Debentures and the specifications of the subscription are captured in Annexure I

Details of instruments are in Annexure 1

Detailed Rationale

The rating reaffirmation/assigned to the NCDs of Hedge Finance Limited (HFL) continues to derives comfort from its significant experience of board of directors and comfortable operational indicators backed by regular equity infusion, However, the rating strengths are partially offset by moderate scale and regionally concentrated operations, concentrated funding profile, and limited vintage of portfolio along with asset quality indicators.

Key Rating Sensitivities

Upward Factors

Substantial scaling up its operations and diversifying its loan portfolio geographically, while maintaining the asset quality indicators, adequate capital position and profitability.

Downward Factors

Adverse movement in the collection efficiency which impacts the asset quality significantly thereby increasing the credit cost for the Company.

Key Rating Drivers with detailed description

Key Rating Strengths-

Significant experience of board of directors:

The Company's promoter, Mr. Alex Babu acts as the Managing Director of the Kerala based Hedge Group of Companies. In order to focus on providing credit facilities to the retail segment, the Company reconstituted its board and included prominent ex-bankers as its directors in September 2019. The top management altogether has extensive experience of handling various functions in similar business, including disbursements, collections, credit, etc. The management is also focused on building good governance systems. The experienced and professional senior management shall enable the Company in scaling-up its operations, while managing the inherent risk of the business

Comfortable operational indicators backed by regular equity infusion:

HFL primarily focuses on lending in the form of MSME loans, personal loans, Gold loans, etc. for income generation activities, primarily in the southern part of India. Over the years, the company has successfully expanded its operations by opening 21 branches in 13 districts with ~19,800 odd borrowers base as on March 31, 2022. The operations of the company are still predominantly concentrated in the state of Kerala and further proposes to tap other regions .The Company's total Asset Under Management (AUM) stood at INR164.50 Crore (FY21:

INR152.90 Crore) which further led the company in reporting improved total earnings of INR34.37 Crore in FY22 (FY21: INR24.14 Crore) with the prudent practice adopted by the company in making the disbursements and further by making strategic shift in disbursing more towards retail side as compared to corporate lending. Further, the promoters of the company have infused additional capital, resulting to equity of INR28.87 Crore in FY22 as compared with INR22.47 Crore in FY21 and FY20, with increase in capital & retention of profit the overall tangible net worth has also increased to INR34.06 Crore in FY22 (FY21: 24.63 Crore). The promoters of the company has planned equity infusion in FY23 & FY24 in a phased manner. The moderate delinquency levels have enabled the Company to maintain comfortable profitability metrics. The overall profitability in FY22 has increased as compared to previous year on account of increased in borrowing exposure to increase the book size, the company marked profit amounting to INR2.87 Crore in FY22 (FY21: INR0.57 Crore). However, with the positive movement in the economy along with stable cost structure the company's top line and bottom line improved in FY22 as compared to previous years

Key Rating Weaknesses-

Moderate scale and regionally concentrated operations:

HFL's loan portfolio remains moderate at ~INR165 Crore as on March 31st, 2022. The Company's key product offerings are exposed towards MSME borrower base. The serviceability of these loans is directly dependent on the level of economic activity in the region and HFL's loan portfolio is geographically concentrated in Kerala (~ more than 90% of the total loan portfolio as on FY22). HFL's strategic ability to improve its reach to newer geographies, while keeping its earnings profile and asset quality intact is a key rating sensitivity.

Concentrated funding profile:

The Company has limited relationships with traditional lenders in the form of banking channels, with majority of the funding coming in the form of Non-Convertible Debentures. HFL's gearing stood at 4.83x as on March 31st, 2022 and ~6.43x in FY21 and is expected to remain in similar ranges in the medium term. Its CAR (%) increased to 21.07% in FY22 as against 17.56% in FY21. Given the growth plans and current market conditions, the ability of the Company to raise resources in the form of core equity and debt while diversifying its lender base would be critical going forward.

Limited vintage of portfolio and asset quality indicators yet to stabilize:

Consequent to change in its overall lending strategy and business plan in 2019, the company became more selective and granular in its loan disbursements, and largely focused on retail lending in the form of MSME loans, business loans, etc. with an average tenure up to 36 months. The current portfolio is yet to achieve seasoning as majority of the loan disbursements have happened in the last three years The Company's modest asset quality is due to the high risk vintage portfolio. Now, with improved quality of loan origination as well as robust collection practices since the change in lending strategy, its asset quality is being maintained although with the impact of pandemic cannot be devastated and with that hit the GNPA stood at 2.83% and NNPA at 1.81% in FY21 as against 2.50% and 1.74% in FY20. While the Company's focus on largely untapped MSME retail segment is likely to support its yields in near term, 4 further its ability to maintain the asset quality while growing at an aggressive pace would be critical to its profitability going forward.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Financial Institutions/NBFCs
Criteria for rating outlook

Liquidity: Adequate

Liquidity is marked adequate by the balanced ALM profile for the short term with sufficient cushion of inflows as against its repayment obligations largely because of its short term lending type of loans as against term debt availed. Apart from it, the Company maintains cash and cash equivalents of about INR17.40 Crore as on March 31st, 2022.

About the Company

Kerala based Hedge Finance Limited, forms a part of the Hedge Group of Companies, which includes Hedge Equities Ltd (engaged in equity broking), Hedge Commodities Ltd (commodity broking) and Hedge School of Applied Economics. The main promoter of the Group, Mr. Alex Babu started HFL with main focus was on finance against shares and mutual funds, complementing the business of its parent Company, Hedge Equities Limited. Recently in 2019, HFL diversified into loans against property, business loans, Gold loans, personal loans and MSME loans.

Financials: Standalone **(Rs. Crore)**

For the year ended/ As On*	31-3-2021 (Audited)	31-3-2022 (Audited)
Total Operating Income	24.14	34.37
Interest Expenses	14.13	17.63
PAT	0.57	2.87
Total Debt	158.33	164.66
Tangible Net-worth	24.63	34.06
Total Loan Assets	150.96	161.16
Ratios (%)		
PAT Margin (%)	2.36	8.36
Overall Gearing Ratio (x)	6.43	4.83
Total CAR (%)	17.56	21.07
Gross NPA (%)	2.83	4.43
Net NPA (%)	1.81	4.01

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (April 27, 2022)	Date(s) & Rating(s) assigned in 2021-22 (April 28, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Facility – Proposed Non Convertible Debentures (NCDs)	Long Term	35.00	IVR BB+/Stable Outlook	IVR BB+/Stable	IVR BB+/Stable	--	--
2.	Long Term Facility – Non Convertible Debentures (NCDs)	Long Term	10.00	IVR BB+/Stable Outlook	--	--	--	--

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook

Proposed Non Convertible Debentures (NCDs)	--	--	--	35.00	IVR BB+/Stable Outlook
Placed NCDs	August 2, 2022	10.5% -11%	August 2, 2027	10.00	IVR BB+/Stable Outlook

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: None

Proposed NCDs Indicative Term Sheet Details

Instrument Description	10.50% Secured Rated Listed Redeemable Non Convertible Debentures Series V Tranche. Date Of Maturity 14/10/2027.	11% Secured Rated Listed Redeemable Non Convertible Debentures Series V Tranche Date Of Maturity 14/04/2028.	Balance NCD = INR25 Crore
Issue Size	INR5 Crore	INR5 Crore	Will be in multiple Tranches.
ISIN No (in case generated)	INE01ZK07GO8	INE01ZK07GN0	Not Generated
Redemption Date	Not yet allotted. Once we get the in principal approval, then only will finalise the date of allotment and maturity	Not yet allotted. Once we get the in principal approval, then only will finalise the date of allotment and maturity	Not Finalised
Repayment Terms	Monthly	Compounding	Monthly, Annual and Compounding
Coupon Rate	10.50%	11.00%	10%-11%
Coupon Repayment timeline	Monthly	On Maturity	Monthly, Annual and Compounding

Placed NCDs Term Sheet Details-

Instrument Description	10.50% Secured, Not guaranteed, Senior, Taxable, Non Cumulative, Rated, Redeemable, Principal Protected Non Convertible Private Placement of Debentures Series - IV Monthly Tranche 8 Secured	11% Secured, Not guaranteed, Senior, Taxable, Cumulative, Rated, Redeemable, Principal Protected Non Convertible Private Placement of Debentures Series - IV Cumulative Tranche 8 Secured
Issue Size	INR5 Crore	INR5 Crore

ISIN No (in case generated)	INE01ZK07FS1	INE01ZK07FT9
Redemption Date	02-08-2027	02-08-2027
Repayment Terms	Monthly	Compounding
Coupon Rate	10.50%	11.00%
Coupon Repayment timeline	Monthly	On Maturity

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:

Financial Covenants	**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. **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.
Non-Financial Covenants	**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.

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.