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 April 28, 2021. 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 April 28, 2021, published on Infomerics' website: https://www.infomerics.com/admin/uploads/PR_Hedge_Finance_28_04_2021.pdf

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned
1.	Long Term Facility – Proposed NCD	20.00	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
	Total	**20.00**	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from the significant experience of its board of directors and healthy operational indicators. However, the rating strengths are partially offset by moderate scale & regionally concentrated operations, concentrated funding profile and limited seasoning of portfolio with asset quality indicators yet to stabilize.

Key Rating Sensitivities:

- **Upward Factor**
  - ➢ Substantial scaling up its operations and diversifying its loan portfolio geographically, while maintaining the asset quality indicators, adequate capital position and profitability.
- **Downward Factor**
  - ➢ Significant deterioration in scale of operations and/or asset quality, capitalization levels.

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.

- ***Healthy operational indicators:***

HFL primarily focuses on lending in the form of MSME loans, personal loans, Gold loans, etc. for income generation activities. Over the past couple of years, the Company has been able to grow its reach to19 branches in 9MFY21 as against a single branch in FY19, leading to increased active borrower base of 17181 in 9MFY21 as against 7213 in FY19. The operations are still concentrated in the state of Kerala and further proposes to tap other regions. The total AUM increased to INR114.60 Crore as on March 31st, 2020 when compared to INR81.85 Crore as on March 31st, 2019 which further led the Company in reporting improved total earnings of INR19.66 Crore in FY20 as against INR12.37 Crore in FY19 and INR9.88 Crore in FY18.

Key Rating Weaknesses

- ***Moderate scale and regionally concentrated operations:***

HFL's loan portfolio remains moderate at INR114.60 Crore as on March 31st, 2020 as against INR81.85 Crore as on March 31st, 2019 and INR64.98 Crore as on March 31st, 2018. 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 (almost 92% of the total loan portfolio as on 9MFY21).

- ***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 4.31x as on March 31st, 2020 and is expected to remain in similar ranges in the medium term. Its CAR (%) reduced to 17.19% in H1FY21 as against 20.28% in FY20. 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 seasoning 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 two 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 has seen marginal Y-o-Y improvement. The GNPA improved to 2.50% in FY20 as against 3.44% in FY19 and NNPA improved to 1.74% in FY20 as against 2.57% in FY19. While the Company's focus on largely untapped MSME retail segment is likely to support its yields in near term, further its ability to maintain the asset quality while growing at an aggressive pace would be critical to its profitability going forward.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Financial Institutions/NBFCs

Financial Ratios & Interpretation (Financial Sector)

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 its debt availed. Apart from it, the Company maintains cash and cash equivalents of about INR14.57 Crore as on March 31st, 2020.

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:

(INR Crore)

For the year ended/ As On*	**31-03-2019 (Audited)**	**31-03-2020 (Audited)**
Total Operating Income	12.37	19.66
Interest	6.09	9.57
PAT	(0.35)	1.14
Total Debt	65.36	107.02
Total Net-worth	23.71	24.82
Total Loan Assets	81.85	114.60
Ratios (%)		
PAT Margin (%)	(2.83)	5.80
Overall Gearing Ratio (x)	2.76	4.31
GNPA (%)	3.44	2.50
NNPA (%)	2.57	1.74
CAR (%)	35.13	20.28

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) &Rating(s) assigned in 2020-21	Date(s) &Rating(s) assigned in 2019-20	Date(s) &Rating(s) assigned in 2018-19
1.	Long Term Facility – Proposed NCD	Long Term	20.00	IVR BB+	--	--	--

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.

Name and Contact Details of the Rating Analyst:

Name: Amey Joshi

Tel: (022) 62396023

Email: amey.joshi@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

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

Long Term Facility – Proposed NCD	20.00	NA	NA	NA	IVR BB+/Stable

Annexure 2: 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.