



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 June 20, 2023. 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 June 20, 2023, published on Infomerics' website:

<https://www.infomerics.com/admin/uploads/pr-Hedge-Finance-20jun23.pdf>

Ratings

| Facilities | Amount (Rs. Crore) | Ratings | Rating Action | <u>Complexity Indicator</u> |
|--|--|---|----------------------|--|
| Long Term Fund Based Facility – Non-Convertible Debentures (NCDs) | 30.00 (Increased from INR10.00 crore) | IVR BB+ / Stable (IVR Double B Plus with Stable Outlook) | Reaffirmed | Simple |
| Proposed Long Term Fund Based Facility – Non-Convertible Debentures (NCDs) | 75.00 (Increased from INR35.00 crore) | IVR BB+ / Stable (IVR Double B Plus with Stable Outlook) | Reaffirmed | Simple |
| Total | 105.00 | (Rupees One Hundred Crore and Five Lakh Only) | | |

Details of facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating to the Non-Convertible Debentures (NCDs) of Hedge Finance Limited (HFL) factors in significant experience of board of directors, comfortable operational indicators backed by regular equity infusion and Improving scale; albeit regionally concentrated operations. The ratings are, however, constrained by concentrated funding profile and limited vintage of portfolio and asset quality indicators yet to stabilize.



Press Release

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

- Significant deterioration in scale of operations, asset quality and/or capitalization levels.

List of 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 18 branches in 13 districts with ~18,800 odd borrowers base as on March 31, 2023. The operations of the company are still predominantly concentrated in the state of Kerala and further proposes to cover other regions. The Company's total Asset Under Management (AUM) stood at INR199.09 crore during FY23 (FY22: INR164.50 Crore) which further led the company in reporting improved total earnings of INR39.40 crore in FY23 (FY22: INR34.37 crore) with the



Press Release

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 INR34.02 crore in FY23 as compared to INR28.87 crore in FY22, with increase in capital & retention of profit the overall tangible net worth has also increased to INR41.47 crore in FY23 (FY22: INR33.83 crore). The promoters of the company has planned more equity infusion by FY26 in a phased manner. The moderate delinquency levels have enabled the Company to maintain comfortable profitability metrics. The Profit after Tax stood at INR2.43 crore in FY23 (FY22: INR 2.87 crore).

Improving scale; albeit regionally concentrated operations

HFL's loan portfolio remains moderate at ~INR199 crore as on March 31, 2023. 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 98% of the total loan portfolio as on FY23). 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.

Key Rating Weaknesses:

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 4.64x as on March 31, 2023 and 4.87x in FY22 and is expected to remain in similar ranges in the medium term. Its CAR (%) improved to 23.47% in FY23 as against 21.07% in FY22. 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



Press Release

on retail lending in the form of MSME loans, business loans, etc. with an average tenure up to 60 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 4.67% and NNPA at 3.72% in FY23 as against 4.43% and 4.01% in FY22, respectively. 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: Standalone

Applicable Criteria:

[Rating Methodology for Financial Institutions & NBFCs / HFCs](#)

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

[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 INR16.78 crore as on March 31, 2023.

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.



Press Release

Recently in 2019, HFL diversified into loans against property, business loans, Gold loans, personal loans and MSME loans.

Financials (Standalone):

| For the year ended* As on | (INR Crore) | |
|---------------------------|-------------|-------------|
| | 31-03-2022 | 31-03-2023 |
| | Audited | Provisional |
| Total Operating Income | 34.37 | 39.40 |
| Interest Expenses | 17.63 | 19.74 |
| PAT | 2.87 | 2.43 |
| Total Debt | 164.66 | 192.62 |
| Tangible Net Worth | 33.83 | 41.47 |
| Total Loan Assets | 161.66 | 194.38 |
| Ratios | | |
| PAT Margin (%) | 8.36 | 6.17 |
| Overall Gearing Ratio (x) | 4.87 | 4.64 |
| GNPA (%) | 4.43 | 4.67 |
| NNPA (%) | 4.01 | 3.72 |
| CAR (%) | 21.07 | 23.47 |

* Classification as per Infomerics' standards

Status of Non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

| Sr. No. | Name of Instrument /Facilities | Current Ratings (Year 2023-24) | | | Rating History for the past 3 years | | | |
|---------|---|--------------------------------|--------------------------------|-----------------|---|-----------------|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2022-23 | | Date(s) & Rating(s) assigned in 2021-22 | Date(s) & Rating(s) assigned in 2020-21 |
| | | | | | October 25, 2022 | April 27, 2022 | April 28, 2021 | |
| 1 | Fund Based Bank Facilities – Non-Convertible Debentures (NCDs) | Long Term | 30 | IVR BB+/ Stable | IVR BB+/ Stable | -- | -- | -- |
| 2 | Proposed Fund Based Bank Facilities – Non-Convertible Debentures (NCDs) | Long Term | 75 | IVR BB+/ Stable | IVR BB+/ Stable | IVR BB+/ Stable | IVR BB+/ Stable | -- |



Press Release

Name and Contact Details of the Rating Analyst:

Name: Amey Joshi

Tel: (022) 62396023

Email: amey.joshi@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Limited (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

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 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.



Press Release

Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--|------------------|------------------|-------------------|------------------------------|--------------------------|
| Non-convertible Debentures (NCDs) | August 2, 2022 | 10.50% | August 2, 2027 | 5.00 | IVR BB+ / Stable |
| Non-convertible Debentures (NCDs) | August 2, 2022 | 11.00% | August 2, 2027 | 5.00 | IVR BB+ / Stable |
| Non-convertible Debentures (NCDs) | October 27, 2022 | 10.50% | October 27, 2027 | 5.00 | IVR BB+ / Stable |
| Non-convertible Debentures (NCDs) | October 27, 2022 | 11.00% | April 27, 2028 | 5.00 | IVR BB+ / Stable |
| Non-convertible Debentures (NCDs) | March 1, 2023 | 10.50% | March 1, 2028 | 5.00 | IVR BB+ / Stable |
| Non-convertible Debentures (NCDs) | March 1, 2023 | 11.00% | September 1, 2028 | 5.00 | IVR BB+ / Stable |
| Proposed Non-convertible Debentures (NCDs) | -- | -- | -- | 75.00 | IVR BB+ / Stable |

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

Annexure 3: Facility wise lender details: None

Term Sheet Details:

| Instrument Description | 10.50% Non-Convertible Debentures – Series IV Monthly -2027 | 11.00% Non-Convertible Debentures – Series IV Cumulative - 2027 | 10.50% Non-Convertible Debentures – Series V Monthly -OCT2027 |
|------------------------------------|---|---|---|
| Placement Date | August 2, 2022 | August 2, 2022 | October 27, 2022 |
| Issue Size (Rs.) | 5 Crore | 5 Crore | 5 Crore |
| ISIN No (in case generated) | INE01ZK07FS1 | INE01ZK07FT9 | INE01ZK07GO8 |
| Redemption Date (Bullet repayment) | August 2, 2027 | August 2, 2027 | October 27, 2027 |
| Coupon Repayment Terms | Monthly | Compounding | Monthly |
| Coupon Rate | 10.50% | 11.00% | 10.50% |
| Coupon Repayment timeline | Monthly | On Maturity | Monthly |



Press Release

| Instrument Description | 11.00% Non-Convertible Debentures – Series V Cumulative - APR2028 | 10.50% Non-Convertible Debentures – Series VI Monthly - MAR2028 | 11.00% Non-Convertible Debentures – Series VI Cumulative - SEP2028 | Proposed NCDs = INR75 Crore |
|------------------------------------|---|---|--|------------------------------|
| Placement Date | October 27, 2022 | March 1, 2023 | March 1, 2023 | NA |
| Issue Size (Rs.) | 5 Crore | 5 Crore | 5 Crore | Will be in multiple tranches |
| ISIN No (in case generated) | INE01ZK07GN0 | INE01ZK07HK4 | INE01ZK07HJ6 | Not generated |
| Redemption Date (Bullet repayment) | April 27, 2028 | March 1, 2028 | September 1, 2028 | Not finalized |
| Coupon Repayment Terms | Compounding | Monthly | Compounding | Yet to be decided |
| Coupon Rate | 11.00% | 10.50% | 11.00% | Yet to be decided |
| Coupon Repayment timeline | On Maturity | Monthly | On Maturity | Yet to be decided |

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

| | |
|--------------------------------|---|
| 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> |



Press Release

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 <https://www.infomerics.com/>.