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 27, 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 April 27, 2022, published on Infomerics' website:

https://www.infomerics.com/admin/uploads/pr-Hedge-Finance-27apr22.pdf

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity indicators
1.	Long Term Facility – Proposed Non Convertible Debentures (NCDs)	20.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
	Total	**20.00**			

Details of Facilities are in Annexure I

Detailed Rationale

The reaffirmation of ratings to the proposed NCDs of Hedge Finance Limited (HFL) continues to derives comfort from significant experience of its board of directors and comfortable operational indicators backed by regular equity infusion . 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 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

<u>Significant experience of board of directors:</u>

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.

<u>Comfortable operational indicators backed by regular equity infusion:</u>

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 22 branches in 12 districts with ~22,000 odd borrowers base as on March 31, 2021. 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 INR152.90 Crore in FY21 [INR168.05 Crore: FY22(Estimates)] as against INR114.60 Crore in FY20 which further led the company in reporting improved total earnings of INR24.14 Crore in FY21 as against INR19.45 Crore in FY20 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 (Est) 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 INR34.48 Crore in FY22 (FY21: 24.63 Crore). The promoters of the company has planned equity infusion in FY23 & FY24 in a phased manner.

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The moderate delinquency levels have enabled the Company to maintain comfortable profitability metrics. The overall profitability in FY21 has declined as compared to previous year on account of increased in borrowing exposure to increase the book size which in all increased the finance cost of the company from INR9.57 Crore in FY20 to INR14.13 Crore in FY21 however, the company marked profit amounting to INR0.57 Crore in FY21 as against INR1.00 Crore in FY20. However, with the positive movement in the economy along with stable cost structure the company's top line and bottom line improved in FY22 (estimates) at INR33.35 Crore and INR2.26 Crore respectively.

Key Rating Weaknesses

<u>Moderate scale and regionally concentrated operations:</u>

HFL's loan portfolio remains moderate at ~INR159 Crore as on March 31st, 2021. 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 FY21). 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.

<u>Concentrated funding profile:</u>

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 ~6x in FY21 and is expected to remain in similar ranges in the medium term. Its CAR (%) reduced to 17.19% in FY21 as against 20.28% in FY20 [although the same has improved in FY22: 21.90%]. 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.

<u>Limited vintage of portfolio and asset quality indicators yet to stabilize:</u>

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, 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

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 INR13.01 Crore as on March 31st, 2021.

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*	31-03-2020	31-03-2021
	(Audited)	(Audited)
Total Operating Income	19.45	24.14
Interest	9.57	14.13

PAT	1.00	0.57
Total Debt	110.40	158.33
Tangible Net worth	24.68	24.63
Total Loan Assets	113.46	150.96
PAT Margin %	5.15	2.36
Overall Gearing Ratio (x)	4.47	6.43
Gross NPA (%)	2.50%	2.83%
Net NPA (%)	1.74%	1.81%
CAR (%)	20.28%	17.56%

* *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 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	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 Bank Facility – Proposed NCDs	Long Term	20.00	IVR BB+/Stable	IVR BB+/Stable		-

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.

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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 I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Proposed NCDs	-	-	-	20.00	IVR BB+/Stable

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

Annexure 3: Facility wise lender details: Not Applicable

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.

Annexure 5: Note on complexity level of the rated Instruments: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.