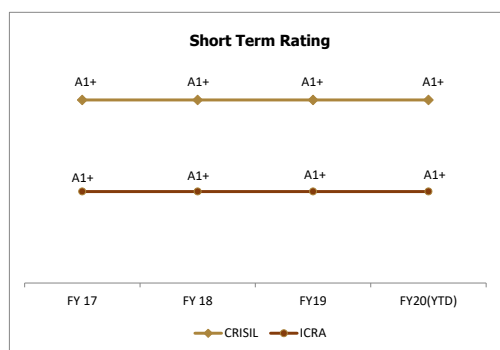
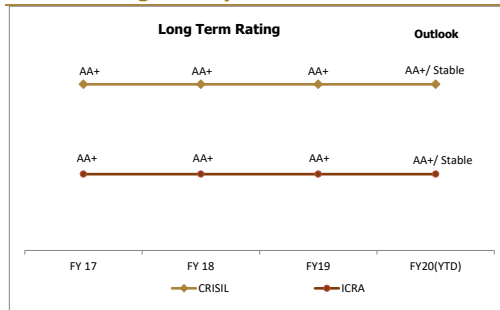


**Shareholding pattern as on Sept 30, 2019**

Promoter & Promoter Group	79.86%
Foreign Institutions	13.54%
Others	6.60%

**Credit Rating History**



**Financial Performance**

Particulars	1HFY20	1HFY19	% chg
Total Income	16.68	10.78	54.72
EBITDA	9.77	6.15	58.83
PAT	1.65	0.83	97.58
EBITDA Margins (%)	58.57	57.05	-
PAT Margins (%)	9.88	7.74	-

Source: Company Reports;  
As per INDAS wherever applicable

**Credit Drivers:**

- **Strong parentage:** Hero Fincorp Limited (HFCL) receives operational, financial, and managerial support from HMCL, its parent and largest shareholder. HMCL, its associate companies, and members of the Munjal family together own 79.9% of HFCL's equity as of September 30, 2019.
- **Strong operating performance and improved business mix:** HFCL's portfolio grew at a healthy CAGR of over 60% over FY2015-19 with most of the expansion coming from the segments outside the parent's ecosystem. HFCL has expanded its portfolio from bill discounting and 2-wheeler financing to include Loans Against Property (LAP), Business loans to SMEs, personal loans and used car loans.
- **Diversified borrowing mix and good financial flexibility:** Given the strong parentage, the company enjoys good financial flexibility and has raised funds at competitive costs from diverse sources including a healthy share of debt market instruments.
- **Adequate capitalization:** HFCL is well-capitalized, as reflected in its net worth of Rs 37.78 billion and overall CRAR of 19.24% as on March 31, 2019 with tier I capital CRAR of 16.26% and comfortable gearing of around 4.8 times as on September 30, 2019.
- **Adequate liquidity:** The liquidity position of HFCL is supported through regular support from the parent in terms of equity infusion with the most recent instance being the infusion of Rs 5.87 billion from the existing shareholders of the company through a rights issue in March 2019.

**About the Company:**

Hero FinCorp Limited (HFCL), set up in 1991, undertakes bill discounting for Hero Motocorp Ltd (HMCL) vendors and suppliers, apart from retail financing of HMCL two wheelers, corporate lending to mid-sized clients and small and medium enterprises, loan against property (LAP), and the operating lease business. It has recently ventured in used car financing and loyalty personal loans. Loyalty Personal Loans (as a cross sell loan given to existing two wheeler customers having excellent track record with no overdue in the nine month period post sanctioning of loan). As on September 30, 2019, the loan book stood at Rs 216 billion. HMCL, its associate companies, and members of the Munjal family (promoters of the Hero group) together own 79.9% of HFCL's equity as of September 30, 2019 (41.2% owned by HMCL), while external investors (Otter Ltd and Credit Suisse Singapore 13%) and HMCL's dealers, employees, and associates (7.1%) own the remainder.

**Industry Outlook:**

Growth in NBFC sector is expected to be impacted in FY20 given the liquidity situation. NBFCs are expected to witness moderate growth of 8-10% in FY20 with a continued competition, especially from private banks and potentially from large PSU banks. Retail segment, of which vehicle finance is the largest, is expected to fare relatively better. From an asset quality perspective as well, while overall, the quality of retail assets is expected to remain steady, segments such as SME lending, especially loan against property (LAP), and construction/infrastructure finance could witness some pressure. Further, the wholesale book typically has significant concentration risks, which could result in chunky NPAs. NBFCs are expected to reorient their funding mix given the current environment. On one side, securitisation has proved to be the preferred source of financing; NBFCs have also been tapping alternate sources such as public issuances of NCDs and ECBs. Relatively lower reliance on short-term borrowings while maintaining on-balance sheet liquidity is expected to impact the profitability of the sector; however, ability of NBFCs to pass on the increase in borrowing costs to their customers would define the extent of the impact. The capital position of NBFCs remains adequate with gearing levels expected to remain under control.

### Key Credit Drivers:

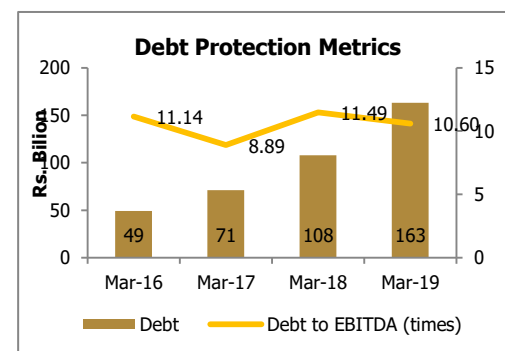
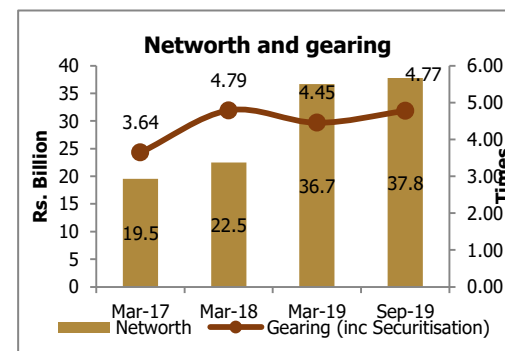
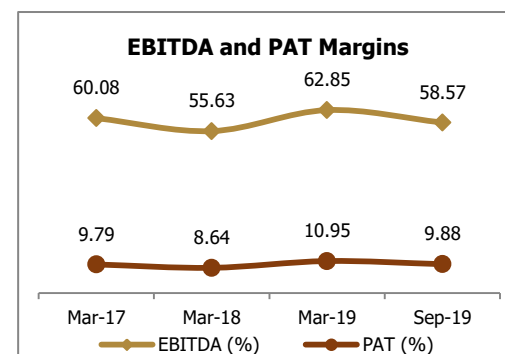
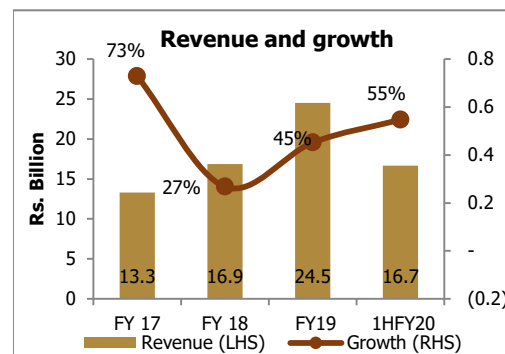
**Strong support from parent HMCL and experienced management team:** HFCL receives operational, financial, and managerial support from HMCL, its parent and largest shareholder. HMCL, its associate companies, and members of the Munjal family together own 79.9% of HFCL's equity as of September 30, 2019 (41.2% owned by HMCL). Promoters' have strong reliance in NBFC business and have been regularly infusing equity capital to support the growth. There has been frequent capital infusion by promoters, including the equity infusion in the form of rights issue of Rs 5.91 billion in July 2018, of which Rs 5 billion was infused by the promoters. HMCL and HFCL have two common directors on their boards and HFCL's management team is well experienced in the relevant line of business. On the operational front, HMCL provides inputs on dealers, vendors, and vendors' suppliers for financing by HFCL. Furthermore, HFCL finances two-wheeler sales of HMCL. HMCL has given, Rs 2.5 billion of committed inter-corporate deposits to support the liquidity requirement in case of contingency, to HFCL.

**Strong operating performance and improved business mix:** The portfolio of HFCL grew at a healthy CAGR of over 60% over FY2015-19 with most of the expansion coming from the segments outside the parent's ecosystem. HFCL has expanded its portfolio from bill discounting and 2-wheeler financing to include Loans Against Property (LAP), Business loans to SMEs, personal loans and used car loans. This has correspondingly lead to a decline in HFCL's dependence on HMCL and its associates. Further due to the limited track record of HFCL in these segments, the portfolio seasoning is limited and the ability of HFCL to maintain asset quality while growing business in these segments will be tested. HMCL and its associates accounted for nearly 45% of total business sourced within the HMCL ecosystem.

Although economic activity is weakening in last few quarters, HFCL's 1HFY20 operating revenue grew 55% YoY to Rs 16.7 billion with strong EBITDA margins of 58%. HFCL's EBITDA grew at a strong CAGR of 51% over FY16-19 to Rs 15.4 billion while revenue grew at 47% CAGR over same period to Rs 24.5 billion. EBITDA margin had declined in FY18 to 55.6% due to softening of systematic interest rates and increased competitive intensity, it has recovered to 58.5% in 1HFY20 due to larger decline in cost of funds in the subsequent quarters.

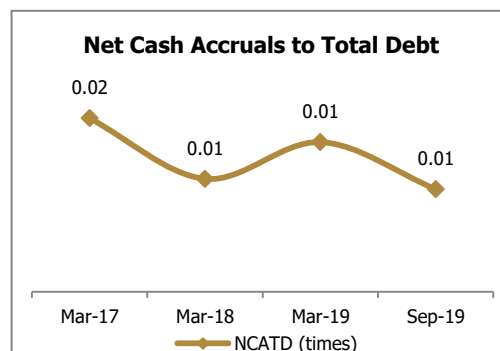
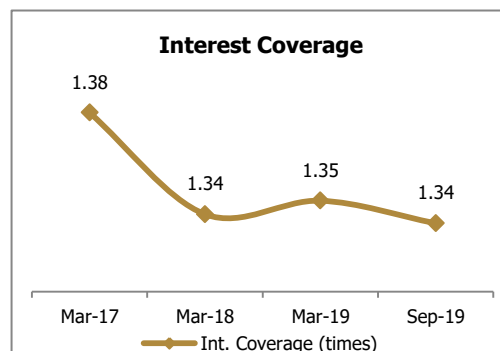
**Diversified borrowing mix and good financial flexibility:** Given the strong parentage, the company enjoys good financial flexibility and has raised funds at competitive costs from diverse sources including a healthy share of debt market instruments (NCD and CPs constituted 50% of the funding mix as on March 31, 2019) with balance being from banks. Although overall borrowings have also increased at a CAGR of 49% to Rs180.4 billion as on September 30, 2019 it is in line with HFCL's strong operating performance over last 4 years. Interest coverage ratio has remained flattish at 1.34x as on September 30, 2019 from 1.38x as on March 31, 2017. HFCL's net worth increased from Rs 36.7 billion as on March 31, 2019 to Rs 37.8 billion as on September 30, 2019 while gearing has increased from 4.45x to 4.77x over the same period.

**Limited track record in newer asset classes:** Over the past few years, HFCL has made conscious efforts to diversify its loan book, from mainly operating as a bill discounting player, to enter two-wheeler financing, loans against property, SME and MME financing, personal loans, and used-car loans. HFCL has started its wholly owned subsidiary Hero Housing to enter into the home loans segment. However, HFCL is yet to demonstrate its ability to manage asset quality in these newer segments. Furthermore, there was some pressure on asset quality in FY19, with gross non-performing assets (NPAs) of ~4.1% as on March 31, 2019 (3.7% as on March 31, 2018; 90+ days past due). These delinquent loans in portions of corporate loans to HMCL suppliers' network continue to be recoverable from HMCL. In other asset classes, any credit losses will be fully borne by HFCL. HFCL is in the process of strengthening its credit underwriting standards and processes, with a redefined focus on collection.



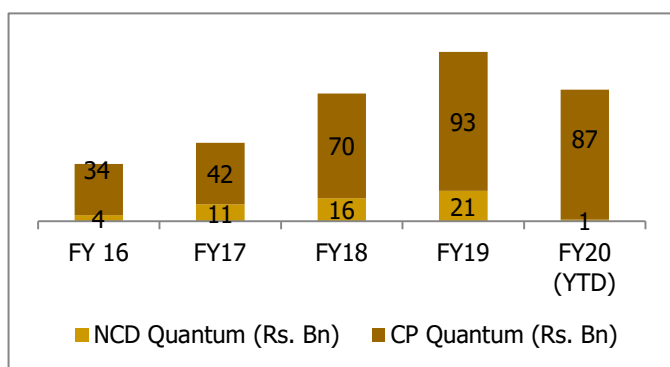
**Adequate capitalisation:** HFCL is well-capitalised, as reflected in its net worth of Rs 37.78 billion and overall CRAR of 19.24% as on March 31, 2019 with tier I capital CRAR of 16.26% and comfortable gearing of around 4.8 times as on September 30, 2019. Healthy internal accruals and regular capital infusion from promoter supports HFCL's capital profile. HFCL has completed rights issue of Rs 11.82 billion in July 2018. However HFCL would need external capital over the medium term in order to maintain prudent capitalisation levels while growing as per business plans and the support from parent is expected as and when required.

**Adequate liquidity:** The liquidity position of HFCL is supported through regular support from the parent in terms of equity infusion with the most recent instance being the infusion of around Rs 5.87 billion from the existing shareholders of the company through a rights issue in March 2019 along with sufficient liquid investments in Mutual funds (~Rs 5.65 billion as on February 28, 2019), adequate sanctioned and unutilized bank lines (Rs12.23 billion as on February 28, 2019). In addition to this HFCL has been able to successfully raise funds in form of commercial papers and working capital limits despite tight liquidity situation owing to its long outstanding relationships with a large network of banks, mutual funds and the other financial institutions by virtue of being a part of The Hero Group thereby providing additional comfort.



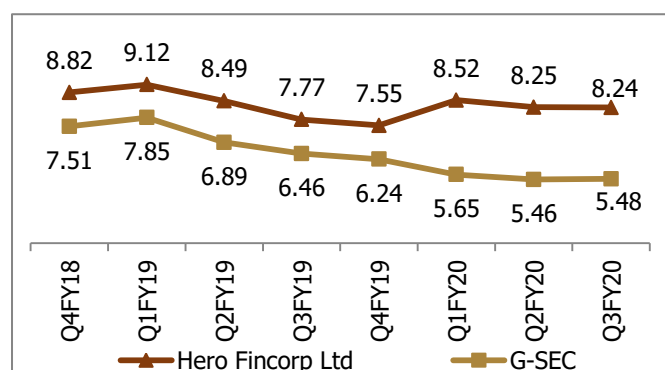
Key Management Personnel			
Name	Designation	Name	Designation
Mrs. Renu Munjal	Managing Director	Mr. Sanjay Kukreja	Non Executive Director
Mr. Abhimanyu Munjal	Jt Managing Director and CEO	Mr. Jayesh Jain	CFO
Mr. Pawan Munjal	Non Executive Director	Mr. S K Suman	Company Secretary
Mr. Pradeep Dinodia	Non Executive independent Director	Mr. D N Davar	Non Executive independent Director

#### NCD & CP Issuances over 5 years



Source: NSDL, Prime Database

#### Credit spread over 5 Year G-Sec:



Source: Thomson Reuters

#### Latest Issuance:

Name	Type	Date	Tenor	Coupon (%)	Quantum (Rs. Bn)
Hero Fincorp Limited	Secured	December 20, 2019	3 Years	7.75	1

#### Other Information:

<b>Auditors</b>	M/s. B S R & Co. LLP, Chartered Accountants
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**Financials: (Standalone as per IND AS)**

\*FY17 numbers are as per IGAAP

**Profit & Loss Statement**

Particulars (in Bn)	FY17*	FY18	FY19
<b>INCOME :</b>			
Gross Sales	13.31	16.88	24.50
Net Sales	0.01	0.03	0.42
<b>EXPENDITURE :</b>	<b>13.33</b>	<b>16.91</b>	<b>24.93</b>
Increase/Decrease in Stock	1.04	1.44	2.08
Raw Material Consumed	1.05	1.09	1.50
Power & Fuel Cost	1.42	2.59	3.54
Employee Cost	0.25	2.19	1.73
Other Manufacturing Expenses	1.54	0.18	0.25
General and Administration Expenses	5.32	7.49	9.10
Selling and Distribution Expenses	8.01	9.42	15.82
Miscellaneous Expenses	5.80	7.00	11.44
Less: Expenses Capitalised	0.21	0.27	0.24
Total Expenditure	2.01	2.15	4.14
Operating Profit (Excl OI)	2.01	2.15	4.14
Other Income	0.70	0.69	1.45
Operating Profit	1.30	1.46	2.68
Interest	13.31	16.88	24.50
PBDT	0.01	0.03	0.42
Depreciation	13.33	16.91	24.93
Profit Before Taxation & Exceptional Items	1.04	1.44	2.08
Profit Before Tax	1.05	1.09	1.50
Provision for Tax	1.42	2.59	3.54
Profit After Tax	0.29	0.48	1.32

**Key Ratios**

Particulars	FY17	FY18	FY19
<b>Operational &amp; Financial Ratios</b>			
Earnings Per Share (Rs)	14.07	14.81	23.51
DPS(Rs)	1.50	1.41	2.61
Book Value (Rs)	199.49	228.03	319.94
<b>Margin Ratios</b>			
PBIDTM (%)	60.20	55.80	64.60
PATM (%)	9.80	8.60	11.00
<b>Performance Ratios</b>			
ROA (%)	1.58	1.24	1.58
ROE (%)	9.06	7.12	9.10
ROCE (%)	9.80	8.10	9.40
<b>Efficiency Ratios</b>			
Receivable days	0.00	1.30	0.80
Inventory Days	0.00	0.00	0.00
Payable days	78.90	88.50	88.60
<b>Growth Ratio</b>			
Net Sales Growth(%)	72.80	26.80	45.20
Core EBITDA Growth(%)	80.60	17.60	67.90
PAT Growth(%)	60.00	11.80	84.00
<b>Financial Stability Ratios</b>			
Total Debt/Equity(x)	4.16	4.81	4.49
Current Ratio(x)	1.30	3.00	3.10
Quick Ratio(x)	1.30	3.10	3.10
Interest Coverage Ratio	1.30	1.30	1.40

**Peer Comparison as on March 31, 2019**

Particulars (in Bn)	Hero Fincorp	Bajaj Finance	TVS Credit
Total Income	24.93	174.01	16.34
PAT	2.68	38.90	1.48
Net Worth	36.52	194.26	11.51
Debt	163.86	731.59	73.18
EBITDA margin (%)	63.47	70.17	48.26
ROE (%)	9.10	22.13	14.58
ROCE (%)	9.41	14.69	10.43
Leverage (times)	4.49	3.77	6.36

**Balance Sheet**

Particulars (in Bn)	FY17	FY18	FY19
<b>EQUITY AND LIABILITIES</b>			
Share Capital	0.93	0.98	1.14
Shareholder's Funds	19.52	22.52	36.67
Long-Term Borrowings	43.76	68.91	106.46
Other Non-current liabilities	0.06	-0.99	-1.21
Total Non-Current Liabilities	43.82	67.92	105.25
Current Liabilities	9.81	4.63	6.07
Trade Payables	27.35	38.95	56.77
Other Current Liabilities	37.16	43.58	62.84
Short Term Borrowings	100.50	134.01	204.75
Short Term Provisions	0.00	0.00	0.00
Total Current Liabilities	1.05	1.10	0.95
Total Liabilities	0.00	0.00	0.00
<b>ASSETS</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Non-Current Assets	0.57	0.57	9.62
Net Block	51.95	0.15	0.22
Capital Work in Progress	0.00	0.13	0.18
Other Fixed Assets	53.57	1.95	10.97
Non Current Investments	0.03	0.01	1.07
Long Term Loans & Advances	0.90	0.45	0.52
Other Non Current Assets	45.99	131.60	192.19
Total Non-Current Assets	46.92	132.06	193.79
Current Assets - Loans & Advances	0.00	0.00	0.00
Currents Investments	100.50	134.01	204.75
Inventories	0.93	0.98	1.14
Sundry Debtors	19.52	22.52	36.67
Cash and Bank	43.76	68.91	106.46
Other Current Assets	0.06	-0.99	-1.21
Short Term Loans and Advances	43.82	67.92	105.25
Total Current Assets	9.81	4.63	6.07
Miscellaneous Expenses not written off	27.35	38.95	56.77
Total Assets	37.16	43.58	62.84
Total Debt (Long Term Plus Short Term)	100.50	134.01	204.75

**Cash flow Statement**

Particulars (in Bn)	FY17	FY18	FY19
Profit Before Tax	2.01	2.15	4.14
Adjustment	-4.54	3.98	4.72
Changes In working Capital	0.21	0.27	0.24
Cash Flow after changes in Working Capital	0.00	0.00	-0.01
Interest Paid	-10.96	0.00	-0.02
Tax Paid	0.73	1.43	1.46
Other Direct Expenses paid	0.00	0.83	0.36
Extra & Other Item	0.00	0.00	0.00
Cash From Operating Activities	5.48	1.45	2.68
Cash Flow from Investing Activities	-34.26	-36.00	-60.92
Cash from Financing Activities	-36.79	-29.87	-52.07
Net Cash Inflow / Outflow	-0.86	-1.30	-1.86
Opening Cash & Cash Equivalents	6.04	0.00	0.00
Cash & Cash Equivalent on Amalgamation / Take over / Merger	-31.61	-31.16	-53.92
Cash & Cash Equivalent of Subsidiaries under liquidations	-0.83	-0.36	-8.72
Translation adj. on reserves / op cash balances frgn subsidiaries	-0.43	-0.47	-0.20
Effect of Foreign Exchange Fluctuations	0.09	0.08	0.09
Closing Cash & Cash Equivalent	-0.50	-76.40	-143.32

Information Source: Ace Equity, Company Reports, IBEF, NSDL, Prime Database, Bloomberg, Thomson Reuters, Rating Agencies, CRISI;

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