Hero Fincorp Limited

	Amount Rated	Rating	Rating Action
Non Convertible Debenture Programme	Rs. 600 crore	[ICRA]AA+ (stable)	Assigned

ICRA has assigned rating of [ICRA]AA+ (pronounced ICRA double A plus) with a stable outlook to the Rs. 600 crore NCD (Non Convertible Debentures) programme of Hero Fincorp Limited (HFCL)[1]. The outlook on the long term rating is Stable. ICRA has rating outstanding of [ICRA]AA+ to the long term bank limits of Rs. 3825 crore, long term NCD programme of Rs. 1000 crore and Subordinated Debt Programme of Rs. 400 crore. The long term ratings have a stable outlook. ICRA also has rating outstanding of [ICRA] A1+ for short term bank limit of Rs. 175 crore and short term debt/commercial paper programme of Rs. 250 crore.

The ratings continue to factor in the strengths HFCL's derives from its strong parentage. HFCL is 48.4% owned by Hero MotoCorp Limited (HMCL) (rated at [ICRA]AAA for its long term borrowings), and 42.6% by the promoter group's investment companies and promoters. HFCL is strategically importance to the group given the strong linkages of its business model with that of HMCL.

HFCL is a key entity for the group's foray in the financial service business and support from HMCL has been forthcoming in the form of capital, management, liquidity and systems. ICRA expects such support to remain forthcoming as the company expands the scale of its operations. In ICRA's view common brand name with HMCL, the group's franchise and established position in the domestic two-wheeler market, and its large ecosystem should enable HFCL to grow business volumes in its targeted segments of two-wheeler financing, mid corporate/SME lending and loan against property (LAP).

ICRA notes the expansion of the company in the mid corporate, LAP and SME lending segment to customers beyond its traditional HMCL ecosystem where asset quality in the past has been favorable with established mechanisms to recover dues from HMCL in case of default. While HFCL is a relatively new lender in the two wheeler financing segment and towards non HMCL ecosystem entities, ICRA notes the moderate risk profile of its target customers, in line with industry lending norms, experienced management team and implementation of technology infrastructure which should enable it to achieve its planned profitable growth over medium term.

As on March 31, 2016 HFCL was adequately capitalized with a gearing of 5.2 times, while reported capital adequacy ratio was 17.4% and tier 1 capital was 15.5%. ICRA expects HFCL's shareholders to continue to extend capital support such that it maintains a prudent capital structure as it expands going forward. In August 2015, HFCL mobilized ~Rs. 407 crore of equity through a rights issue from its existing shareholders. ICRA has noted HFCL plans to raise further equity of around Rs. 500-800 crore in FY17 through external investors as well as existing promoters.

The ratings also draw comfort from the company's comfortable liquidity profile with a favorable asset liability maturity in short-term. Liquidity profile of HFCL is further supported by the relatively high financial flexibility it enjoys owing to its strong parentage and with access to Rs. 1030 crore un-utilized bank limits as on March 31, 2016 and an Rs.250 crore line of credit from HMCL.

Earnings level of HFCL has moderated over the past years (PAT/ATA declined to 1.69% in 2015-16 from 3.26% in 2012-13) as operating expenses have increased as the company has made investments to expand its retail and wholesale financing operations; though HFCL return of assets (ROA) and return on equity (ROE) have improved over previous fiscal year (ROA improved from 1.5% to 1.7% in FY16 and ROE improved from 8.6% to 10.3%) owing to improved scale of operations and stable operating expenses. ICRA expects HFCL operating efficiencies would improve over the next 2-3 years as the company increases its scale of operations. ICRA has taken note of the marginal deterioration in the asset quality indicators of the company with gross NPA%[2] increasing from 0.2% as on March 31, 2015 to 0.9% as on March 31, 2016, owing to slippages in the

[1] For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

[2] Company reports NPA (Non Performing Asset) at 150+ DPD days past due, since April 2015 (as compare to 180+ DPD)

corporate loan book. Nevertheless, the overall asset quality indicators for the company are comfortable. Going forward ability of the company to exercise a control over its asset quality as it grows its book and improve scale efficiencies will be important rating considerations.

Company Profile:
Hero FinCorp Limited (HFCL) was incorporated in December 1991, under the name Hero Honda Finlease Limited. Subsequent to the change in the ownership of its parent and name – Hero MotoCorp Limited (formerly Hero Honda Motors Limited), the company also changed its name to Hero FinCorp Limited on July 16, 2011. Before April 2013, HFCL was involved in extending term loans, machinery loans, and bill discounting facilities primarily to entities within the HMCL ecosystem. Subsequently the company has expanded its product offering to entities outside the HMCL ecosystem and entered the financing of HMCL two wheelers and Loan against Property segment. As on March 31, 2016, HFCL originated two wheeler loans from 779 HMCL dealerships and 795 sales points and originates its wholesale business from 14 states and 44 locations/branches, which are largely located in metros and tier 1 cities.

As on March 31, 2016, HFCL had a total credit portfolio of Rs. 6,407 crore, which comprised of term advances/leases (40% of total portfolio), bill discounting loans (14% of total portfolio), two wheeler loans (29% of total portfolio) and LAP (at 18% of total portfolio).

Shareholding pattern of Hero FinCorp Limited as on March 31, 2016

Hero MotoCorp Limited	**48.4%**
Promoter / Group Holding companies	42.6%
Dealers / Employees/Associates	9%

As per audited results for 2015-16, the company reported a PAT (Profit After Tax) of Rs.81.5 crore on an asset base of Rs. 6521 crore as compared to PAT of Rs.33.1 crore on an asset base of Rs.3149 crore for the previous financial year. As on March 31, 2016 the company had a net worth of Rs. 1030.2 crore and gross NPA of 0.9% & Net NPA of 0.5%.

July 2016

For further details please contact:
Analyst Contacts:
Mr. Rohit Inamdar (Tel. No. +91-124-4545847)
rohit.inamdar@icraindia.com

Relationship Contacts:
Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	