



## Hero FinCorp Limited

	Amount Rated	Rating	Rating Action
Non Convertible Debenture Programme	Rs. 250 crore	[ICRA]AA+ (stable)	Re-affirmed
Long Term Fund based facilities	Rs. 725 crore (from Rs. 112 crore)	[ICRA]AA+ (stable)	Re-affirmed; amount enhanced
Short Term Bank Limit	Rs. 275 crore (from Rs. 310 crore)	[ICRA]A1+	Re-affirmed; amount reduced
Short term Debt/ commercial Paper Programme	Rs.250 crore	[ICRA]A1+	Re-affirmed

ICRA has reaffirmed the rating of [ICRA]AA+ (pronounced ICRA double A plus) to the long term bank facilities for an enhanced amount of Rs. 725 crore of Hero FinCorp Limited (HFCL) <sup>†</sup>. ICRA has also re-affirmed the rating of [ICRA]AA+ to the Rs.250 crore long-term NCD programme of the company. The long term ratings of the company have a 'Stable' outlook. ICRA has also reaffirmed the rating of [ICRA]A1+ to the Rs. 250 crore Short Term Debt (STD)/ Commercial Paper (CP) programme and the Rs. 275 crore (amount reduced from Rs. 310 crore) short term fund based facilities of the company <sup>†</sup>.

The ratings are primarily based on HFCL's strong parentage [ownership by Hero MotoCorp Limited (HMCL), promoter group and associates; HMCL is rated at [ICRA]AAA for its long term borrowings] and its strategic importance to the group given the strong linkages of its business model with that of HMCL. HMCL has increased its shareholding in HFCL to 48.4% in May 2014 against 40.4% following a rights issue in May 2014. HFCL is a key entity in 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. 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, and mid corporate/SME lending and loan against property (LAP). ICRA notes the proposed expansion of the company in the mid corporate 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 operational track record in the two wheeler financing and to non HMCL ecosystem entities is limited 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 September 30, 2014 HFCL was well capitalized with a gearing of 1.54 times; ICRA expects HFCL's shareholders to continue to extend capital support such that it maintains a prudent capital structure as it expands going forward. The ratings also takes 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 un-utilized bank limits and an Rs.350 crore line of credit from HMCL. ICRA expects earnings of the company to moderate in the near to medium term (PAT/ATA declined to 1.56% in 2013-14 against 3.26% in 2012-13 in the previous year) as operating expenses increase as the company makes investments to roll out its retail and wholesale financing operations; over the long term ability of the company to improve scale efficiencies and maintain asset quality will be key rating sensitivities.

As on October 30, 2014 HFCL had a total credit portfolio of Rs. 1385 crore, which comprised of term advances (36% of total portfolio), bill discounting loans (26% of total portfolio), two wheeler loans (34% of total portfolio) and LAP (at 3% of total portfolio). The company intends to maintain around 35-40% of its portfolio in the two-wheeler segment over the medium term.

### 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. HFCL is involved in extending term loans, machinery loans, and bill discounting facilities primarily to entities within the HMCL ecosystem; the company however since 2015-14 has expanded its product offering to entities outside the HMCL ecosystem. The company in 2013-14 entered the financing of HMCL two wheelers and further expanded its product offering to the LAP segment in 2014-15 segment. The company also earns arrangement fees from preferred financiers appointed for financing HMCL two-wheelers and commission income by acting as a mutual fund broker to HMCL. As on October 31, 2014 HFCL originates two wheeler loans from 573 HMCL dealerships and 208 sales points. As on October 31, 2014 HFCL originates its wholesale business from 7 branches, which are largely located in metros and tier 1 cities.

**Shareholding pattern of Hero FinCorp Limited as on December 31, 2014**

Hero MotoCorp Limited	48%
Promoter / Group Holding companies	38%
Dealers / Employees/Associates	14%

As per audited results for 2013-14, the company reported a PAT (Profit After Tax) of Rs.14.98 crore on an asset base of Rs.1166 crore as compared to PAT of Rs.19.04 crore on an asset base of Rs.751 crore for the previous financial year. During the half year period ended September 30, 2014 the company reported a PAT of Rs. 14.1 crore against a PAT of Rs. 5.6 crore during the corresponding period in the previous financial year. As on September 30, 2014 the company had a net worth of Rs. 545 crore and had a gearing of 1.54 times. As on September 30, 2014 the company had NIL gross NPA's.

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