



Presents

Hero-Fin Corp 2019-20 Results Update

Hero FinCorp, part of the ‘**Hero**’ group is an Indian NBFC. It is engaged primarily in financing two-wheelers for Hero Motocorp, the largest motorcycle maker in the world. To diversify its base, it has forayed into providing loans against property and in commercial lending. It has an employee base of 1500.

The Company has one wholly-owned subsidiary company viz. **Hero Housing Finance Limited** (“HHFL”). HHFL had started its lending operations from April 2018. It is an all-inclusive housing finance company providing hassle-free home loans PAN India which includes the following products to its customers:

(i) **Home Loans**, (ii) **Loan Against Property**, etc.

HHFL has shown tremendous growth and touched loans of INR 556.75 crore during the first year of its operation in FY19.

Loan mix consists:

- a.) Retail Individuals - 39%.
- b.) Retail Businesses - 30%.
- c.) Commercial Loans – 31%.

Financials Highlight of FY19-20 :

| Particular | Half year ended | | Year ended | |
|---|------------------------------|------------------------------|-----------------------------|-----------------------------|
| | March 31, 2020 (Audited#) | March 31, 2019 (Audited#) | March 31, 2020 (Audited) | March 31, 2019 (Audited) |
| Income | | | | |
| I Revenue from operations | | | | |
| Interest income | 1,777.31 | 1,219.22 | 3,287.80 | 2,229.90 |
| Dividend income | 0.37 | 0.49 | 0.74 | 0.50 |
| Profit on sale of investment | 25.23 | 37.32 | 53.06 | 39.07 |
| Rental income | 5.18 | 7.85 | 12.03 | 17.48 |
| Net gain on fair value changes | - | 2.61 | - | 2.52 |
| Insurance commission | 6.35 | 0.48 | 11.09 | 0.48 |
| Other charges | 180.48 | 146.40 | 298.48 | 202.57 |
| Total revenue from operations | 1,994.92 | 1,414.37 | 3,663.20 | 2,492.52 |
| II Other income | 24.33 | - | 39.42 | - |
| III Total income (I + II) | 2,019.25 | 1,414.37 | 3,702.62 | 2,492.52 |
| IV Expenses | | | | |
| Finance costs | 808.99 | 646.74 | 1,539.84 | 1,119.96 |
| Impairment allowance on loans | 415.33 | 59.92 | 638.44 | 173.07 |
| Employee benefits expenses | 130.83 | 105.15 | 251.94 | 208.18 |
| Depreciation and amortization | 16.37 | 12.45 | 33.02 | 24.05 |
| Other expenses | 411.39 | 306.76 | 758.45 | 553.60 |
| V Total expenses | 1,782.91 | 1,131.02 | 3,221.69 | 2,078.86 |
| VI Profit before tax (III - V) | 236.34 | 283.35 | 480.93 | 413.66 |
| VII Tax expense | | | | |
| Current tax | 168.72 | 112.98 | 248.48 | 198.05 |
| Tax adjustment relating to earlier year | (0.12) | - | (0.12) | - |
| Deferred tax (credit) (net) | (77.61) | (14.58) | (77.60) | (52.76) |
| Total tax expense | 90.99 | 98.40 | 170.76 | 145.29 |
| VIII Net profit after tax from operations (VI - VII) | 145.35 | 184.95 | 310.17 | 268.37 |
| IX Other comprehensive income/ (loss) | | | | |
| Items that will not be reclassified to profit or loss:- | | | | |
| Remeasurement of (losses)/gains on defined benefit plans | 0.42 | (0.55) | (1.27) | (2.08) |
| Income tax benefit on above | (0.11) | 0.20 | 0.32 | 0.73 |
| X Other comprehensive income/ (loss) for the period/ year, net of tax | 0.31 | (0.35) | (0.95) | (1.35) |
| XI Total comprehensive income/ (loss) for the period/ year, net of tax | 145.66 | 184.60 | 309.22 | 267.02 |

UnlistedZone Review:

1. The company's loan book has grown from ~19000 Cr in FY19 to ~22500 Cr in FY20. The growth is excellent considering the challenges faced by NBFC industry as a whole.
2. The company has shown excellent growth of 47% in revenue in FY20.
3. PAT has grown at 15% in FY20. The PAT has gone up to 310 Cr in FY20.

4. The management has also proposed a dividend of Rs. 2.25 per share subject to the approval of shareholders.

5. The D/E as on 31.03.2020, stands at 4.38x. Total debt outstanding is ~ 19500 Cr. The D/E is manageable.

6. The company has the highest credit rating of **AA+ and A1+** for Long-term and Short-term ,respectively, as per CRISIL. This shows the robustness in the business of the company.

Price movement of Hero-Fin Corp in Unlisted Market

The share price in the last one year has moved steadily from level of 800 to 1100 on back of excellent financial performance during the year in spite of problems in NBFC sector. However, lately due to COVID-19 gripping the Indian economy, the financial sector like Banks, NBFC, SFBs, MFI are most hit in both listed and unlisted space. Due to which the price of share has come down and currently, the share again trading around 800-830 level.

Valuation:

Below is the snapshot of Equity from the balance sheet of Hero-fin corp as on 31.03.2020.

| | | |
|----------------------|-----------------|-----------------|
| Equity | | |
| Equity share capital | 121.54 | 114.15 |
| Other equity | 4,405.93 | 3,552.36 |
| Total equity | 4,527.47 | 3,666.51 |

Net-worth of the company as on 31.03.2020 = 4527 Cr.

Total Share outstanding = 12.154 Cr

Book Value = 372 per share

P/B = 2.15 to 2.23(undervalued stock)

Private Placement:

If you see the balance sheet of Hero-Fin Corp, the Equity shares have gone up from 114.15 to 121.54, which shows that the company has issued 73.9 lakh shares.

The Hero-Fin Corp during the year 2019-20, has done private placement of 1,13,109,753 shares(56%) paid up. That means 56% have been paid. 56% of 1,13,109,753 is approx. 73.9 Lakh shares. This private placement was done at Rs. 820 per share.

Conclusion:

The Hero-Fin corp has once again shown robust numbers in FY20. The stock is currently available at attractive valuation as compared to private placement done by the company during the year. However, having said that, the challenge of COVID-19 is what management has to deal with going forward in FY20-21.

Source:

https://www.herofincorp.com/sites/default/files/HFCL_Financial_Results_31March2020.pdf

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