

# Humana Financial Services Pvt Ltd (HFSPL) New Delhi

Legal Form: NBFC-MFI

January 2023

## Microfinance Institution Grading

Investment Grade	Above	α	α+	GRADING	Dec-2021	Jan-2023
			α		α-	α-
Below	β	β	β+	GRADING OUTLOOK*	positive	positive
			β		β-	
Below	γ	γ	γ+	Category	Grade	
			γ		Dec-2021	Jan-2023
			Governance & strategy		α-	α
			Organisation & Management		α	α
			Financial performance	α-	α-	

\*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation

Visit dates: 4-6 January 2023

### M-CRIL

Shalvi Agrawal, [shalvi@m-cril.com](mailto:shalvi@m-cril.com)

Ammaar Mohammad, [ammaar@m-cril.com](mailto:ammaar@m-cril.com)

Tel: +91 124 491 1939, 491 1942

### Humana

Rajkumar Singh, CEO

[rajkumar@humanafinancial.com](mailto:rajkumar@humanafinancial.com)

Tel: +91 8860342824



# Disclaimer

- ▶ Our services were performed, and this Report was prepared in accordance with the Engagement Letter dated 26 December 2022 subject to the terms and conditions included therein.
- ▶ The information captured in this Report is based on the documentation and information received from time to time from Humana Financial Services Pvt. Ltd. The findings contained herein are limited to the extent of the procedures conducted by M-CRIL till 6 January 2023, which are described in this document. Accordingly, changes in circumstances or information newly available after this date could affect the findings outlined in this Report.
- ▶ We have relied upon representations of employees of Humana Financial Services Pvt. Ltd. that all data and information provided by them are correct to the best of their knowledge. We accept no responsibility for any fact or information that has been intentionally withheld or otherwise omitted which could have had a material bearing on our findings.
- ▶ M-CRIL has relied upon the information supplied in connection with this engagement including management information. M-CRIL did not audit or otherwise verify the information supplied in connection with this engagement, from whatever source obtained, except as may be specified in this Report.
- ▶ In no circumstances shall we be liable, for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us by any person to whom we make information requests.
- ▶ The findings contained in this Report are limited to the extent of the procedures performed by M-CRIL, which are described in this Report. The findings, which are hearsay in nature, should not be construed as an opinion, legal or otherwise, on the rights and liabilities of the Company or any other third party that may be, directly or indirectly, concerned with findings in this Report.
- ▶ All the information presented in this Report from our market sources/third parties are the personal perceptions of the sources. Wherever possible, we have corroborated the information provided to us with the information that may be available in the public domain or that which has been provided to the client, however, we have not done so independently.
- ▶ The Report will be furnished by us is solely for the information of the Humana Financial Services Pvt. Ltd. which had requested M-CRIL to undertake the engagement. Hence, the Report should not be used, circulated, quoted or otherwise referred either wholly or in part.
- ▶ Humana shall be fully and solely responsible for applying independent judgment, with respect to the findings included in this Report, to make appropriate decisions in relation to future course of action, if any. We shall not take responsibility for the consequences resulting from decisions based on information included in the Report.
- ▶ Based on the information provided by HFSPL, M-CRIL has undertaken desk and e-interview based analysis for this grading report.

# Microfinance Institution Grading

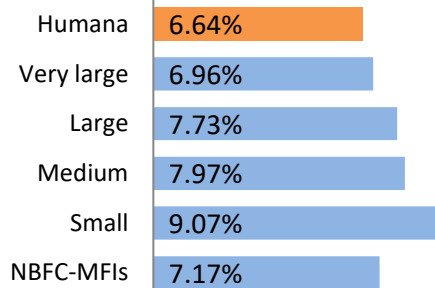
- ▶ **Grading rationale**
- ▶ **Benchmark analysis**
- ▶ **Introduction**
- ▶ **Operational & Financial Performance**
- ▶ **Credit methodology**
- ▶ **Organisational structure**
- ▶ **Loan Products features**
- ▶ **Governance and Strategy**
  - Governance
  - Operational growth & strategy
  - Competition & second line of management
  - Fund mobilization
- ▶ **Organisation and Management**
  - Human resource quality and management
  - MIS and Accounting
  - Monitoring and Supervision
  - Internal Audit
  - Risk Management
  - Cash management
- ▶ **Financial Performance**
  - Financial Profile
  - Credit performance and portfolio quality
  - Staff productivity and operating efficiency
  - Asset Liability management
  - Capital adequacy
  - Profitability and sustainability
- ▶ **Annex**
  - Annex 1: Balance Sheet
  - Annex 2: Income statements
  - Annex 3: Profile of the Board
  - Annex 4: Abbreviations
  - Annex 5: Glossary
  - Annex 6: M-CRIL rating grades

# Grading Rationale

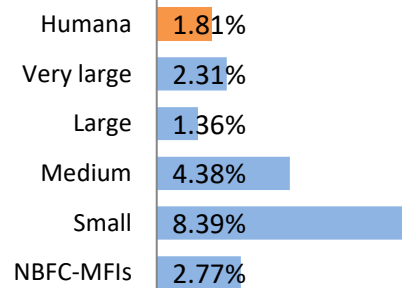
- ↑ **Experienced Board and second-line management:** HFSPL has a proactive four-member Board of Directors who are committed to the company's mission. HFSPL has a strong and experienced second line of management with years of domain experience.
- ↑ **Robust MIS system:** HFSPL has a robust IT infrastructure with real time MIS that allows the integration of various functions of operations. It has an efficient data management and data security system.
- ↑ **Good operational efficiency:** For the past three years, HFSPL has maintained a reasonable operating expense ratio (OER) of around 6.5%. During the period April-September 2022, the OER was 6.6% (annualised).
- ↑ **Diversified borrowing profile:** The company's borrowing base is broadly diversified (18 active lenders), with a good mix of private banks and NBFCs.
- ↑ **Effective internal audit and control systems:** HFSPL has an effective internal audit (IA), monitoring, and supervision system. The IA of branches and departments is detailed, properly documented, and strictly adheres to compliance rules.
- ↑ **Good Profitability:** HFSPL reported a net profit of ₹1.26 crore in H2 of FY2022-23, translating into an annualised return on average assets of 4.0% (increased from 3.9% in FY2021-22).
- ↑ **Improved PAR:** HFSPL's PAR30 decreased from 7.7% in March 2021 to 2.8% in March 2022 but increased to 3.0% in September 2022.
- ↑ **Steady portfolio growth:** HFSPL's operations are limited. It has recorded a positive annualised portfolio growth of 9% during April-December 2022. Despite zero disbursements in April 2022, its assets under management increased from ₹140 crore on 31 March 2022 to ₹149 crore on 31 December 2022.
- ↓ **Improved but high staff attrition:** HFSPL is attempting to increase staff retention. The employee attrition rate for H1 FY 2022-23 was 34.6%, down from 36.4% in FY 2021-22.

# Benchmarking analysis (September 2022)

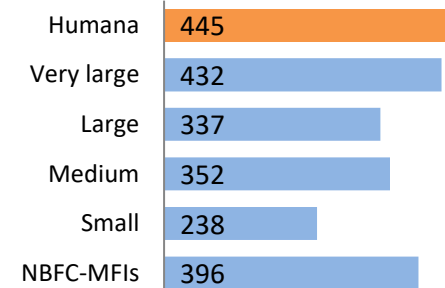
## Operating efficiency



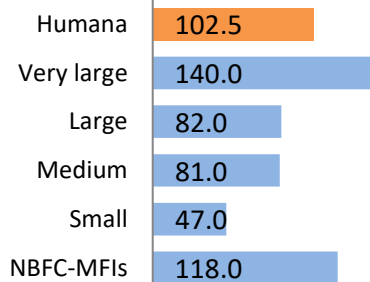
## PAR>30days



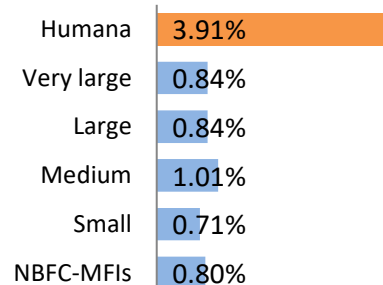
## Borrowers per Field Executive, FE



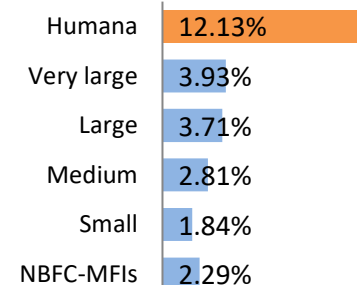
## Portfolio per FE (Rs in Lakh)



## Return on Assets (RoA)



## Return on Equity (RoE)

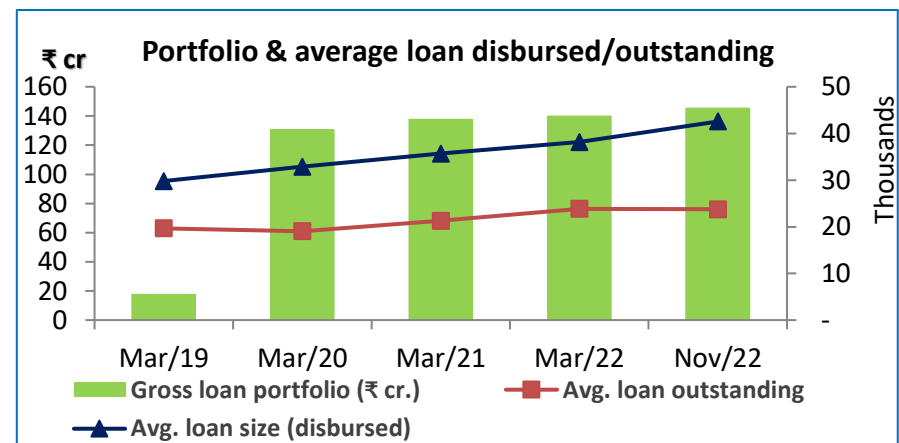


**Source:** Sa-Dhan quarterly report 2022 (report by end September 2022)

**Note:** Small (portfolio < ₹ 100 crore), Medium (portfolio between ₹ 100 to ₹ 500 crore), Large (portfolio between ₹ 500 to ₹ 2000 crore) and Very large (portfolio > ₹ 2000cr)

# Introduction

- ▶ Humana Financial Services Pvt. Ltd. (HF SPL) is a private limited firm that received an NBFC-MFI license on 4 August 2017, but it began microfinance operations from 1 February 2018.
- ▶ Humana People to People India (HPPI), the parent company, was founded in 1998 and is registered as a Section 25 company. HPPI works in 15 states in the areas of education, health, livelihood, microfinance, and environment.
- ▶ HF SPL's primary mission is to provide collateral-free microcredit facilities (based on the JLG model) to economically active women, who otherwise have limited access to mainstream financial services.
- ▶ Mr. Raj Kumar, CEO of HF SPL, oversees the institution's overall operations. He is supported by a team of professionals that includes the Lead-Funding and Corporate Strategy, COO, Head of Finance, Head of Risk & Audit, Chief Manager of IT, Company Secretary, and Partnership Manager.
- ▶ HF SPL has prioritized the implementation of digital solutions for its business processes in order to increase accuracy and productivity. It allows the onboarding of clients digitally and has helped to reduce turn around time (TAT) significantly while also enabling cashless disbursements. The digital solutions are also being developed for strengthening internal audit, human resource management and operational processes.
- ▶ As on 30 November 2022, HF SPL had a presence in 15 districts across 3 states (Haryana, Rajasthan and Uttar Pradesh) through 24 branches. HF SPL had 61,271 active borrowers with ₹145.68 crore loan portfolio (including ₹87.75 BC portfolio). It had a total staff strength of 224 of which 58.9% were Field Executives (FEs).
- ▶ In FY2021-22, HF SPL earned a profit of ₹2.52 crore and ₹1.26 crore in Q2 of FY2022-23.



# Operational & Financial Performance

## Main Performance Indicators

	31-Mar-20	31-Mar-21	31-Mar-22	30-Sep-22
Own Portfolio (₹ crore)	40.4	45.2	48.3	53.4
Assets under Management	131.1	138.1	140.4	137.3
Number of active borrowers	68,718	64,889	58,837	59,643
Average Loan Outstanding (₹)	19,076	21,275	23,854	23,018
Portfolio at Risk (PAR30), % (Gross portfolio)	0.1%	7.7%	2.8%	3.0%
Borrowers per field staff (FE)	550	523	436	445
Portfolio Yield (Own + BC Portfolio)	17.5%	12.5%	13.8%	14.9%
Operating Expense Ratio (OER)	6.4%	6.3%	6.6%	6.6%
Financial Expense Ratio (FER)	13.0%	13.0%	12.1%	12.1%
Operational Self Sufficiency (OSS)	125.1%	112.9%	118.6%	118.4%
Return on Assets (RoA)	3.4%	1.8%	4.0%	3.9%
Capital Adequacy Ratio (CAR)	36.1%	27.7%	30.8%	30.0%
Debt-equity ratio	193.3%	251.1%	197.9%	203.5%

A rating update after one year is suggested to ascertain changes in the creditworthiness of the MFI. This grading is valid, subject to no other significant changes in the organisational structure and external operating environment.

# Credit Methodology

## **Group formation, appraisal and disbursement** - *moderate given the size of operations*

- ▶ The group size ranges from 5 to 8 members. Center size may vary from 10 to 20 members. The groups are formed during group formation meeting where groups eligibility and their responsibilities are discussed, and group leader is appointed. The meeting lasts a day.
- ▶ After the groups are formed, clients submit KYC documents and client details are uploaded in the MIS by the field staff. The software checks the CB and determines whether the client is eligible for a loan and, if so, how much loan amount can be disbursed to the client based on RBI guidelines.
- ▶ Field staff fill up appraisal forms during house visits which includes cash flow analysis and installments being paid to other lenders. However, it does not contain the bifurcation of income and expenses of the clients.
- ▶ FE conducts CGT for 3 days for eligible new clients. After that Branch Manager (BM) or Branch Credit Manager (BCM) conducts pre-Group Recognition Test (GRT), verifies client documents and conducts household visits. After BM's approval, GRT & household visits are conducted by the BM, Area Manager (AM) and Unit Manager (UM).
- ▶ Clients are called to branch for disbursement. All disbursements are done online within 0-3 days.

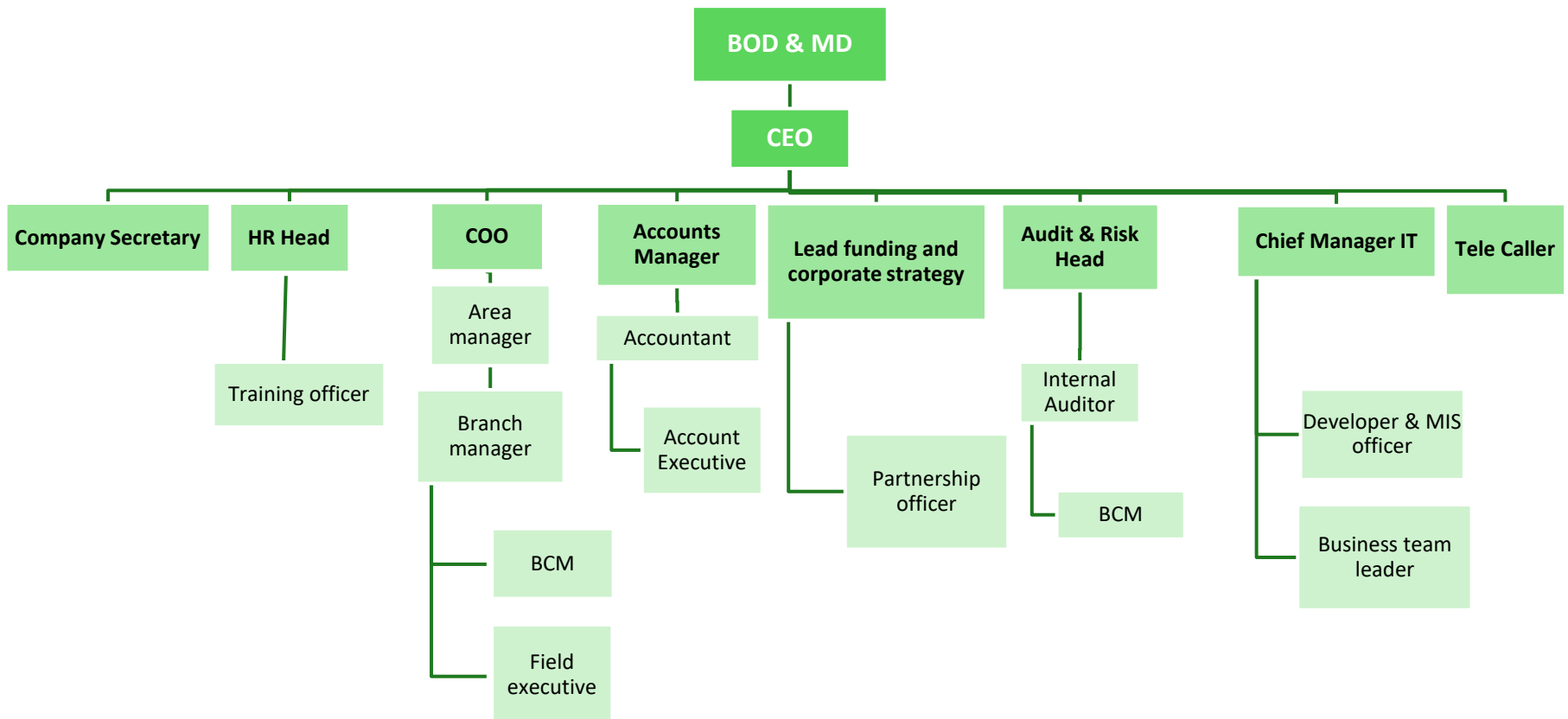
## **Collection and other policies**

- ▶ Collections are done after every 4 weeks. The moratorium for loans is more than 28 days. After every collection, the field executive signs clients' loan cards.
- ▶ There is no policy on pre-closure, hence clients can pre-close any time after disbursement.



# Organisational structure

The Operations head, HR head, Audit and Risk head, IT manager, Accounts manager along with Company secretary, funding lead and tele caller all report to the CEO of the organization. All branches have a BM and BCM each and 4-5 field executives. At branch level, BCM and field executives report to the BM who reports to the Area Manager.



# Features of loan products

Name of the product	IGL-Own	IGL-BC
Clientele	Women with Group Methodology	Women with Group Methodology
Loan size (₹ '000)	20-60	20-60
Loan term (months)	12-24	13-27
Repayment	28 days (4 weekly)	28 days (4 weekly)
ROI or Interest rate (pa)	26.0%	26.0%
LPF (% of loan)	1%+ GST	1%+ GST
Any Penalty	NA	NA
Collateral /Security	Group guarantee	Group guarantee
% of portfolio (November 2022)	37.7%	60.2%

## WASH loans

- ▶ WASH loans were introduced in Q4 of FY2021-22.
- ▶ The WASH loans is non-income generating loan and is only offered in HFSP's own portfolio branches to clients who have already taken IGL loan from HFSP.
- ▶ The number of borrowers as on March 2022 was 776 which increased to 1,672 as on November 2022 resulting in 115% increase in the number of borrowers.
- ▶ WASH loans comprises of 2.3% of the gross portfolio as on 31 March 2022 which increased to 4.3% in November 2022.

# Features of loan products *(continued)*

## Insurance Products

Name of the product	Life Insurance	Hospicash Insurance
Insurance Company	HDFC Life	Doctors on Call and Aiqa Health
Coverage (Person)	Borrower and Co-borrower	Borrower and Co-borrower
Coverage (Amount)	Principal loan amount outstanding	Max. ₹ 25,000 per year
Compulsory/Voluntary	Compulsory	Compulsory-Own, Voluntary-BC
Premium Amount	1.1% p.a.	₹ 750 for loan tenor of <=1 year and ₹ 1200 in other cases
Documents Required	Death certificate, KYC, bank details, claim form	Hospital discharge summary, reports, KYC, bank details, claim form
Avg. time between claim and settlement	10-15 days	15-20 days

HF SPL has strong governance practices and clear growth strategy. It offers a standard loan products. HF SPL is governed by a strong board of directors with a varied range of experience. An efficient second line of management assures that HF SPL's vision is implemented across operations.

## Governance and strategy

Governance

Operational Growth & Strategy

Competition & Second Line Leadership

Fund mobilization

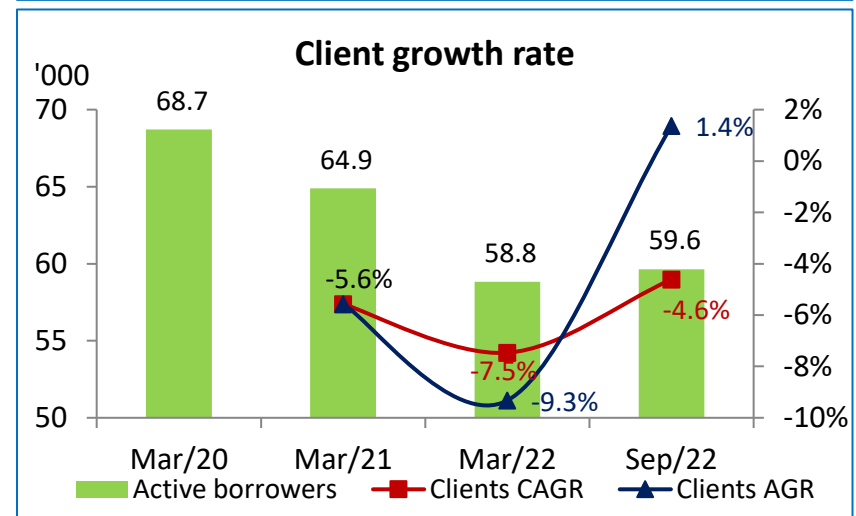
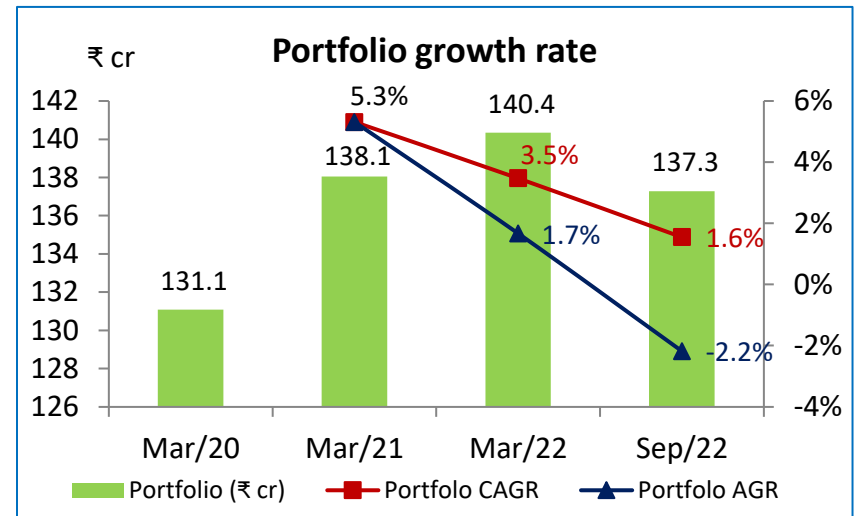
# Governance and Strategy

## Governing Board – *strong board*

- ▶ Humana Trust for financial Inclusion and Development (principal shareholder) holds 84.14% stake in HFSP's followed by Humana and Planet Aid Finance SA at 15.81% on 30 September 2022.
- ▶ HFSP's Board of Directors consists of four members, two of whom are independent directors. Members of the Board have a wide range of experience in social services, livelihood and community development, microfinance, and banking. HFSP plans to introduce one more board member in FY2022-23.
- ▶ To support its Board, HFSP has 4 board level committees namely, Audit Committee, Risk Management (RM) Committee, Nomination and Remuneration Committee and Fund Approval committee. The Independent Directors chair the Audit and Risk Management committees.
- ▶ Board meetings are held on a quarterly basis, and the minutes are well documented. The Board considers strategic concerns, policies, and critical issues as well as financial and operational progress.
- ▶ The Board provides strategic direction and leadership, analyses management decisions objectively, and discusses overall performance of each department.

# Operational and Growth Strategy – good

- ▶ HFSP's operations are concentrated in three states: Rajasthan (53%), Haryana (30%), and Uttar Pradesh (17%), where it operates with both its own and managed portfolios.
- ▶ As of December 2022, HFSP offers its products and services through 25 branches spread across the three states. In Q4 FY2022-23, it plans to expand its operations in Uttar Pradesh by opening 2 more own portfolio branches and 5 branches in FY2023-24 to increase their client base and portfolio.
- ▶ HFSP forecasts its gross portfolio outstanding for 31 March 2023 at ₹175 crore, which is a 25% growth from 31 March 2022. For March 2024, the portfolio forecast by the MFI is ₹250 crore.
- ▶ In the medium term, HFSP plans to expand its operations in Bihar and Madhya Pradesh (FY2025-26) and also plans to introduce MSME loan products in its BC branches.
- ▶ A fortnightly repayment option for borrowers is expected to be introduced in FY2023-24.



## Competition – *high*

---

- ▶ HF SPL faces competition from NBFC-MFIs and SFBs.
- ▶ Despite the existence of MFIs in its operational area, HF SPL is able to expand its client base and portfolio due to recent increases in the ticket size of its loan products, introduction of a WASH product, providing financial literacy and skill trainings to its clients, organizing events such as tree plantation, and Saheli events.
- ▶ HF SPL also has strong client relationships, stringent member selection and quick loan processes.

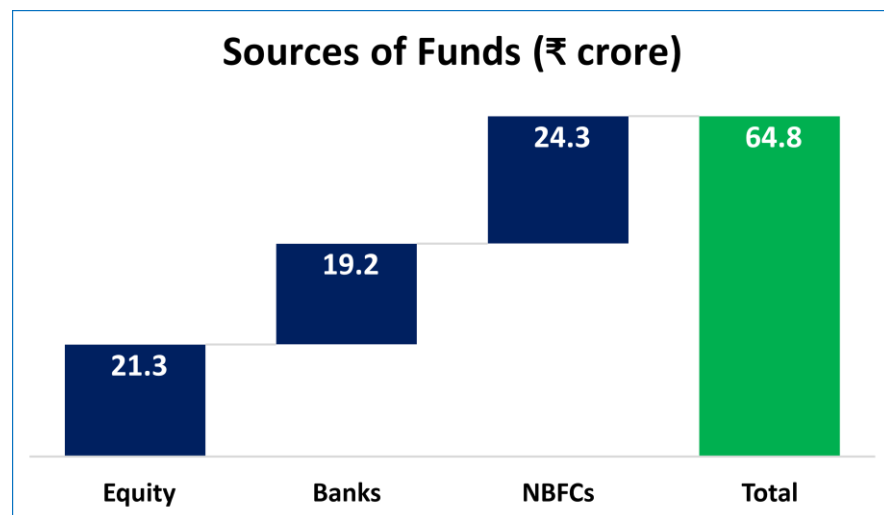
## Second line of leadership – *stable and good experience*

- ▶ HF SPL has a stable and experienced second line of management.
- ▶ The second line management comprises of the head of the following verticals: Operations, Internal Audit, Risk Management, HR, IT/MIS & and the CFO. Most of them have been with the company for over three years.
- ▶ Key staff are motivated and committed. Their involvement in monthly review sessions where strategic decisions are made has increased their sense of ownership of management decisions.

## Fund Mobilization – diversified funding

- ▶ As on 30 September 2022, HFSPL has a diverse base of 18 active lenders. However, the lenders are a mix of NBFCs and private banks.
- ▶ HFSPL started its BC partnership with Yes Bank in December 2019. In FY2022-23, it plans to add the Catholic Syrian Bank Limited (CSB) as its BC partner.
- ▶ As on 30 September 2022, HFSPL had a total liability structure of ₹68.8 crore, including 68.9% debt and 31.1% net worth.
- ▶ In the top 5 funders of HFSPL, except Arohan, all others have changed in the last one year.

Top five funders (Excl. BC partner)	%
SBI	18.8%
AU Bank	11.5%
Union Bank	11.5%
DCB Bank	11.5%
Arohan	6.1%
<b>Total of Top 5 lenders</b>	<b>59.4%</b>





HF SPL has adequate HR policies to support the growth of the organization such as performance linked incentives and staff training. HF SPL has good human resource management, efficient accounting and strong internal control & monitoring system with robust IT infrastructure.

## Organisation and Management

- Human resource quality and management
- MIS and Accounting
- Monitoring and supervision
- Internal audit
- Risk management
- Financial planning and cash management

# Human Resource Management – *good, but high staff attrition*

- ▶ Human Resource (HR) practices are reasonable considering the present level of operations.
- ▶ HR policies and processes are clearly defined. HR policies related to recruitment, exit processes, appraisal and code of conduct have been recently changed to improve HFSP's HR practices. Now, exit interviews are also conducted.
- ▶ Training officer and AQM handles field staff recruitment. Advertisement in local publications, social media, and internal referrals are the main sources of recruitment at HFSP.
- ▶ There are three types of training provided to the branch staff: Induction training (5 days of classroom training + 3 months field training), refresher trainings (2 times per year), and need-based trainings. During COVID-19, the branch staff (AQM, BM, BCM, and field officers) received online trainings. However, now the trainings are held at the branch office and/or HO.
- ▶ The staff is knowledgeable on RBI policies and best microfinance practices.
- ▶ HFSP has an in-house HRIS (Human Resource Information System) that handles all employee recruitment, leave management, performance evaluation, and exit. A separate system (Saral Pay Pack Relyon) handles salary and payroll.
- ▶ As of 30 September 2022, the staff attrition rate is 34.6% as compared to 36.4% for FY2021-22. To improve the staff attrition rate, HFSP has improved performance-based incentive schemes. Monthly incentives are given to employees for company development, disbursements (contest scheme), collection efficiency, digital collections, and branch audit grade. There is no maximum incentive.

# MIS and Accounting – *robust information system*

- ▶ HFSPPL has centralised MIS and accounting practices. HFSPPL currently uses AVASHAM (*a cloud-based system developed internally*) for MIS and Tally for accounting. The MIS is modified, and access to it is given as per the requirements of different functions.
- ▶ The borrowers' details are collected through in-house mobile applications. Collection posting is done by the field staff in the mobile app. BCM/BM reconciles the collection posting and actual cash collected by the field staff and the amount is deposited in Spice/Airtel/Fino Payment Bank and the day closing entry is done in the MIS.
- ▶ No cash is kept in the branch office. If there is cash, BM/BCM takes approval from the HO. Petty cash is also maintained in the BCM's bank account.
- ▶ MIS access is provided as per need of various departments. Partners and funders of HFSPPL are also given limited access to the MIS.
- ▶ The data backup period is maintained at 30 days. Data backup is maintained at the cloud server at the end of the day and offline backup is done every 2 hours everyday.
- ▶ HFSPPL plans to add NPA dashboards and indicators report in the MIS in 2023.
- ▶ In January 2023, HFSPPL has launched an application that will allow borrowers to access all loan details as well as make online repayments. However, the app is in English. They will soon add a complaint feature that will allow borrowers to provide feedback through the app.

# Monitoring and Supervision - *effective system in place*

- ▶ BM supervises the field staff and ensures adherence to procedures. BM/BCM visits all the targeted clients during pre GRT. They cross verify everything that is discussed during CGT.
- ▶ BM and BCM each conduct monitoring visits of 2-3 centres on a daily basis. AQM conducts monitoring visits of 1-2 centres per day.
- ▶ The field staff conducts loan utilisation checks before the date of repayment of the first instalment. BM and BCM verify the utilisation check by calling the clients.
- ▶ For clients with overdues, staff (including BM and BCM) call them and follow up with house visits.
- ▶ There is a tele calling team at the HO which is also responsible for monitoring the branch staff and clients. The team conducts monitoring by calling the staff who are not able to achieve their monthly targets. They also follow up clients with overdues to understand the reason for non-payment and when they will be able to repay.



## Internal Audit – *detailed and adequate*

- ▶ HFSPL has a separate Internal Audit (IA) team led by a qualified and experienced person who reports to the CEO. The IA team consists of 4 members.
- ▶ The IA team covers all the 25 branches in each year. The team covers 1 branch per month which lasts for 4-5 days. Yes Bank also sends a member from its IA team per month covering one of HFSPL's BC branches.
- ▶ The team has a checklist which covers indicators related to regulatory compliance, performance, quality, field staff review, group meetings, loan processes, monitoring and training, client feedbacks, registers maintained at the branch, reporting and disbursements.
- ▶ Branches are required to share their audit compliance reports with the IA team within 14 days from the date of audit.
- ▶ The audit is also digitized and integrated with the MIS.
- ▶ The IA team shares its observations during internal meetings on a monthly basis and with the board on a quarterly basis.

# Risk Management – *good*

- ▶ HFSPL has a risk management team which is led by the internal audit head.
- ▶ The risk management team is responsible for identification, analysis, planning, mitigation and monitoring of risk for HFSPL.
- ▶ The team is under process for creating a risk dashboard which includes indicators related to business operations, financial management, internal control and monitoring, and external environment.
- ▶ The team provides risk scores to branches on the basis of their portfolio quality, sectoral distribution of overdue loans, staff experience, competition, MIS, connectivity, location, loan size, policies, and monitoring to name a few. The grading system and criteria will be further improved and implemented from March 2023 onwards after the approval of the board.
- ▶ HFSPL also has a risk management committee which is responsible for review of operational, liquidity, and political risks for HFSPL. The committee presents its observation to the board on a quarterly basis.

# Cash Management – good

- ▶ Fund planning is done from the bottom to top, depending on feedback from the operations team and disbursement performance from the previous year.
- ▶ The finance department prepares various liquidity structure reports on a monthly basis to ensure proper Asset Liability Management (ALM).
- ▶ HF SPL has a formal Business Plan with three-year financial projections.
- ▶ As per the repayment schedule, installments are collected during group meetings. Collections are deposited in the Spice/Airtel/Fino payment bank on a daily basis. If due to some reason the collections are not deposited, BM/AM inform HO about it and a further decision is taken. HF SPL has also started taking cashless collections which is currently around 8-10 online collections per day per branch.
- ▶ All disbursements are online directly in clients' bank accounts. The insurance premium and loan processing charges are deducted upfront from the loan amount approved.
- ▶ On a daily basis, the accounts manager reviews the reconciliation process at HO. The accounts team is responsible for repayment to lenders.
- ▶ The average cash and bank balances (excluding FD at bank) as a percentage of average total assets was 5.8% during FY 2021-22 and 6.4% during H1 FY 2022-23.

HFSP has recorded positive and high returns. The company has a reasonable level of staff productivity and operational efficiency.

## Financial performance

Financial profile

Credit performance and portfolio quality

Staff productivity and operating efficiency

Asset & liability composition

Capital adequacy

Profitability and sustainability



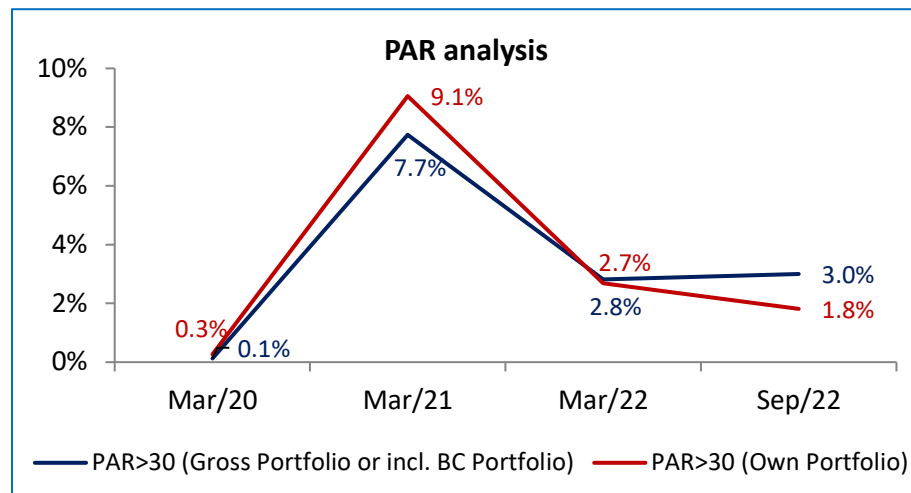
# Financial Profile

Financial Ratios	31-Mar-20	31-Mar-21	31-Mar-22	30-Sep-22
<b>Capital Adequacy</b>				
Risk Weighted Capital Adequacy <sup>#</sup>	36.1%	27.7%	30.8%	30.0%
<b>Asset Quality</b>				
PAR30 (Gross portfolio or incl. BC portfolio)	0.1%	7.7%	2.8%	3.0%
PAR30 (own portfolio)	0.3%	9.1%	2.7%	1.8%
Loan Loss Provision/Gross Loan Portfolio	1.3%	1.1%	-1.3%	0.0%
Write-offs / Average Gross Portfolio	0.1%	0.1%	2.8%	1.1%
<b>Management</b>				
Operating Exp./ Average Gross Portfolio	6.4%	6.3%	6.6%	6.6%*
Borrowers/RO	550	523	436	445
Portfolio/RO (₹. Lakh)	104.9	111.3	104.0	102.5
Borrowers/per staff	317	303	261	265
<b>Earnings</b>				
RoE (Net operating income/Avg. Equity)	10.1%	6.1%	13.4%	12.1%*
RoA (Net operating income/Avg. Assets)	3.4%	1.8%	4.0%	3.9%*
Portfolio Yield (on gross portfolio)	17.5%	12.5%	13.8%	14.9%*
Financial Exp./Avg. gross Portfolio	6.6%	4.1%	4.1%	4.3%*
<b>Liquidity</b>				
Avg. cash and bank balance/Avg. Total Assets	6.7%	4.4%	5.9%	6.6%
Debt Equity Ratio	1.9	2.5	2.0	2.0

\* Annualised; # this calculation uses net owned funds which reduces FLDG and preliminary expenses from net worth

# Credit Performance and Portfolio Quality – improved

- ▶ The collection efficiency (current month collection/current month demand) for HFSP has improved from 95.8% in August 2022 to 96.3% in September 2022. This has been possible as HFSP has implemented various strategies to improve its operations and increase its recovery rates including, strengthening its IT systems, and tracking of overdue payments.
- ▶ The PAR30 (gross portfolio including BC portfolio) has increased from 2.8% in March 2022 to 3.0% in September 2022.
- ▶ Geographically, the portfolio is moderately diverse, covering three states. HFSP has reduced its concentration of portfolio in the agricultural sector (from 69.8% in March 2022 to 64% in September 2022). It is followed by livestock related occupations (26.7%), small scale business (6.5%), WASH loan (2.1%), service sector (0.6%) and the remaining in other sectors.



## Sectoral Distribution of Portfolio %

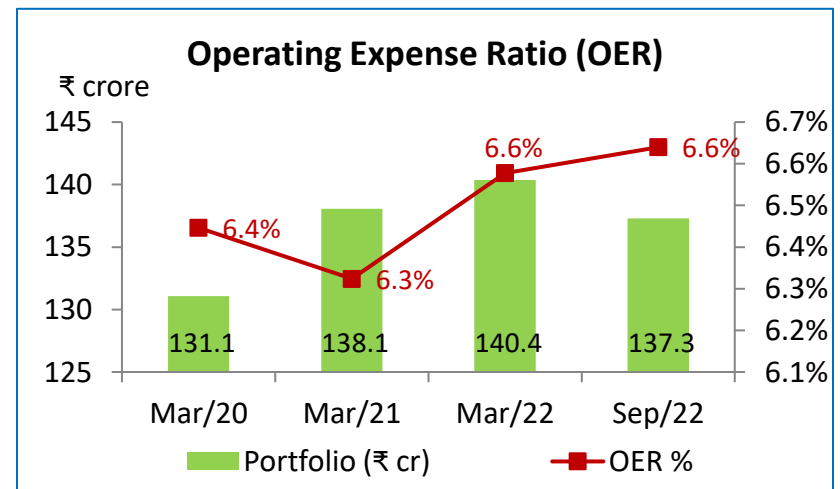
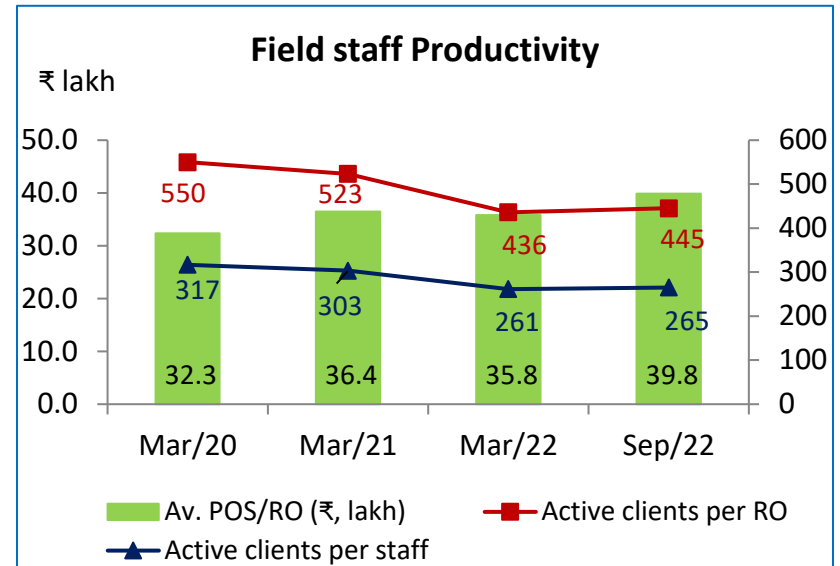
Particulars	Mar-21	Mar-22	Sep-22
Agri Related Occupations	64.4	69.8	64.0
Livestock Related Occupations	24.5	22.1	26.7
Others	0.9	0.1	0.1
Service Related Occupations	1.5	0.4	0.6
Small Scale Business	8.7	7.6	6.5
Wash Loan	0.0	2.3	2.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Staff Productivity - good

- Staff productivity at 445 clients per loan officer (RO) in September 2022 is better than for similar/medium sized MFIs (352 borrowers per field staff) according to Sa-Dhan data.

## Operating Efficiency – good

- HF SPL has maintained a reasonable Operating Expense Ratio (OER) ranging from 6.4% to 6.6% during the last three years. During April-September 2021, the current OER is 6.6% (annualised).
- The OER of HF SPL remains well below similar/medium sized MFIs (8.0%).



## Asset and liability structure and management – *good*

---

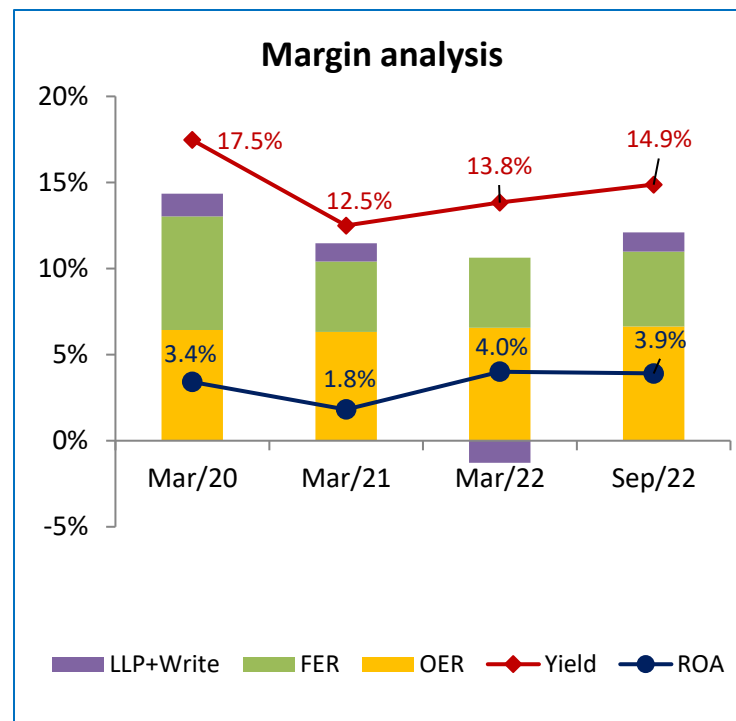
- ▶ Cash in hand and at bank as of 30 September 2022 is only 2.1% of total assets. The average cash and bank balance as a proportion of its average total assets was high (5.8% for FY2021-22 and 6.4% for H2 of FY2022-23).
- ▶ HFSPL has exhibited effective liquidity management techniques. All inflows and outflows, as well as maturity gaps, are tracked on a regular basis.
- ▶ On the liability side, external borrowings accounted for 63.2% in September 2022 (increased from 62.1% in March 2022) and net worth for 31.1% (decreased from 31.4% in March 2022) of total liabilities and net-worth as of 30 September 2022.

## Capital Adequacy – *high*

- ▶ HFSPL's risk weighted Capital Adequacy Ratio (CAR) was high at 35.8% on 30 September 2022. The current level of capital adequacy is more than satisfactory to attract external lenders.
- ▶ The above calculation does not take into account FLDG and preliminary expenses. After deducting these CAR reduces to 30.0% on 30 September 2022 which is still substantially more than the RBI requirement of 15% for NBFC MFIs.
- ▶ HFSPL's net worth increased from ₹20.1 crore in March 2022 to ₹21.4 crore on 30 September 2022, with reserves and surplus accounting for the growth.

# Profitability and Sustainability – improved

- ▶ HF SPL has been able to improve its operations and generate higher profits. HF SPL earned a profit after tax (PAT) of ₹1.06 crore in FY2020-21, ₹2.52 crore in FY2021-22, and ₹1.26 crore in H1 of FY2022-23.
- ▶ OER remained the same at 6.6%, and the Financial Expense Ratio increased slightly from 4.1% to 4.3% (annualised).
- ▶ The overall portfolio yield (including BC portfolio) has increased from 13.8% in FY2021-22 to 14.9% in FY2022-23 because of improved portfolio quality and recovery of previous overdues.
- ▶ Return on Assets (RoA) remained almost the same between March 2022 and September 2022 at around 4%. The RoA of HF SPL is greater than the industry averages (*NBFC-MFIs at 0.80 % and medium size MFIs at 1.01%*). Return on Equity (RoE) was 12.1%, showing a slight decrease of 1.3% during the same period.
- ▶ Write-offs, as a proportion of gross portfolio have significantly reduced which has greatly improved the overall profitability since FY2021-22.





# Annexes

# Annex 1: Financial Statements of HFSP

## Balance Sheet as on...

amount in ₹ crore	31 Mar 2020	31 Mar 2021	31 Mar 2022	30 Sep 2022
<b>ASSETS</b>				
<b><u>Current assets</u></b>				
Cash and bank balance	3.38	8.98	2.18	1.43
Trade receivables	0.82	0.42	0.03	0.06
Other current assets	2.29	3.66	7.94	6.58
Net loan portfolio	39.52	41.39	46.13	51.21
<b>Total current assets</b>	<b>46.02</b>	<b>54.44</b>	<b>56.27</b>	<b>59.27</b>
<b><u>Long term assets</u></b>				
Assets (tangible & intangible)	0.06	0.25	0.18	0.21
Other non-current assets	6.85	8.65	5.45	7.12
Deferred tax asset	0.00	0.01	0.03	0.04
<b>Total long term assets</b>	<b>7.39</b>	<b>8.91</b>	<b>5.66</b>	<b>7.36</b>
<b>Total assets</b>	<b>53.40</b>	<b>63.35</b>	<b>61.93</b>	<b>66.64</b>

## Balance Sheet as on...

amount in ₹ crore	31 Mar 2020	31 Mar 2021	31 Mar 2022	30 Sep 2022
<b>LIABILITIES AND NET WORTH</b>				
<b><u>Current liabilities</u></b>				
Short-term Debt (Secured)	23.07	32.83	26.52	27.53
Short term provisions	0.69	0.77	0.40	0.40
Other liabilities	1.29	0.80	1.61	1.37
<b>Total current liabilities</b>	<b>25.05</b>	<b>34.40</b>	<b>28.53</b>	<b>29.30</b>
<b><u>Long term liabilities</u></b>				
Long term borrowings	10.82	11.36	13.29	15.97
<b>Total long term liabilities</b>	<b>10.82</b>	<b>11.36</b>	<b>13.29</b>	<b>15.97</b>
<b>Total liabilities</b>	<b>35.87</b>	<b>45.76</b>	<b>41.82</b>	<b>45.27</b>
<b><u>Net worth</u></b>				
Share Capital	10.08	10.08	10.08	10.08
Reserves and surplus	1.70	1.76	4.28	5.54
Share Premium	5.76	5.76	5.76	5.76
<b>Total net worth</b>	<b>17.53</b>	<b>17.60</b>	<b>20.12</b>	<b>21.37</b>
<b>Total liabilities and net worth</b>	<b>53.40</b>	<b>63.35</b>	<b>61.94</b>	<b>66.64</b>



## Annex 2: Income Statements for the period...

amount in ₹ crore	FY 2019-20	FY 2020-21	FY 2021-22	Apr-Sep 2022
<b><u>Income</u></b>				
Interest income from own loans	6.80	8.61	8.96	5.51
Interest income from BC services	2.33	6.65	8.31	4.30
Loan processing fee	0.60	0.38	0.42	0.26
Interest on fixed deposit	0.17	0.45	0.31	0.16
Interest on security deposit	0.07	0.12	0.18	0.10
Other income	0.07	0.11	0.28	0.28
<b>Total income</b>	<b>10.04</b>	<b>16.32</b>	<b>18.47</b>	<b>10.61</b>
<b><u>Financial costs</u></b>				
Interest on borrowings	3.32	4.73	4.90	2.67
Other borrowing costs	0.35	0.39	0.30	0.28
<b>Gross financial margin</b>	<b>6.37</b>	<b>11.20</b>	<b>13.28</b>	<b>7.67</b>

## Annex 2: Income Statements for the period...

amount in ₹ crore	FY 2019-20	FY 2020-21	FY 2021-22	Apr-Sep 2022
<b>Gross financial margin</b>				
Provisions	0.73	1.32	-1.63	0.0
Write-offs	0.04	0.11	3.60	1.52
<b>Net financial margin</b>	<b>5.60</b>	<b>9.77</b>	<b>11.31</b>	<b>6.15</b>
<b><u>Operating expenses</u></b>				
Employee benefit expenses	2.82	5.63	6.29	3.04
Administrative & operating expenses	0.76	2.19	2.00	1.40
Depreciation and amortization	0.02	0.10	0.13	0.06
<b>Total operating expenses</b>	<b>3.59</b>	<b>7.91</b>	<b>8.41</b>	<b>4.50</b>
<b>Profit before tax (PBT)</b>	<b>2.01</b>	<b>1.86</b>	<b>2.90</b>	<b>1.65</b>
Tax obligations	0.68	0.80	0.38	0.39
<b>Profit after tax (PAT)</b>	<b>1.33</b>	<b>1.06</b>	<b>2.52</b>	<b>1.26</b>

## Annex 3: Profile of the Board on 30 September 2022

	Board Member	Position on Board	Experience	Since
1	Mr Sanjeev Bhatt	Director	He has over two decades of experience in the development and microfinance sectors. He is heading Grant Administration at HPPI. At the 15th National Seminar on Emerging India, he received the Indian Achievers Award for Social Service.	2016
2	Mr Kailash Khandelwal	Managing Director	A development sector veteran (particularly in rural livelihood and community development) with 21 years of experience, with a primary focus on administration, economy overview, capacity building, and government partnership liaison.	2016
3	Mr Ashok Kumar Pahwa	Independent Director	He has over 38 years of experience in corporate finance, SME & retail banking, operations, and audit.	2019
4	Mr Ashish Kumar Gupta	Independent Director	He holds an IRMA diploma and has extensive experience in the fields of microfinance and livelihood enhancement. He was a supporter of the Jeevika Livelihoods Support Organization, the SONATA MFI, and a few other social and developmental groups.	2016

## Annex 4: Abbreviations

ALM	Asset Liability Management	JLG	Joint Liability Group
AM	Area Manager	LLP	Loan Loss Provision
BC	Business Correspondent	LPF	Loan Processing Fee
BM	Branch Manager	M-CRIL	Micro-Credit Ratings International Ltd
CAR	Capital Adequacy Ratio	MFI	Micro Finance Institution
CEO	Chief Executive Officer	MIS	Management Information System
CFO	Chief Finance Officer	NBFC	Non-Bank Finance Company
CGT	Compulsory Group Training	OER	Operating Expense Ratio
COO	Chief Operating Officer	OSS	Operational Self-Sufficiency
FCR	Financial Cost Ratio	PAR	Portfolio at Risk
FE	Field Executives	RM	Risk Management
GRT	Group Recognition Test	RO	Relationship Officer
HFSP	Humana Financial Services Pvt. Ltd	RoA	Return on Assets
HO	Hed office	RoE	Return on Equity
HR	Human Resources	TAT	Turn Around Time
IA	Internal Audit		



## Annex 5: Glossary

- ▶ **Active borrowers per CO (or field staff):** Number of borrower / Number of COs (or field staff)
- ▶ **Active borrower per staff:** Number of borrower / Total staff
- ▶ **Average loan size:** Total loan amount disbursed in the period / Number of disbursed loans
- ▶ **Average outstanding:** Gross portfolio/Number of active borrowers
- ▶ **Assets under management:** Sum of assets managed by the institution including own portfolio, BC portfolio and securitised portfolio.
- ▶ **Capital Adequacy Ratio:** Total net worth / Total risk weighted assets
- ▶ **Cost per Borrower (active client) :** Operating expenses / Average number of active borrowers
- ▶ **Client drop-out ratio:** Number of clients dropped during the period / (total clients beginning of period + number of clients dropped during period)
- ▶ **Financial expense ratio:** Total interest expense during the period /Average loan portfolio
- ▶ **Debt-equity ratio:** Total liabilities / Total equity
- ▶ **Loan loss provisioning ratio:** Total loan loss provisioning expense during period /Average portfolio
- ▶ **Operational Self-Sufficiency (OSS):** Ratio of total income to total costs for the period
- ▶ **Operating expense ratio:** Total operating expenses (incl. depreciation) during the period / average loan portfolio
- ▶ **Portfolio at risk (PAR (>30days):**The principal balance outstanding on all loans with overdues greater than or equal to 30 days /Total loans outstanding on a given date.
- ▶ **Return on Asset (RoA):** Operational income (or loss) after tax during the period /Average assets
- ▶ **Return on Equity (RoE):** Ratio of operational income (after tax)/(loss) to average net worth
- ▶ **Staff attrition rate:** Number of staff who left the institution during the period / (total staff beginning of period+ number of staff left during period)
- ▶ **Yield on portfolio:** Interest income from managed loans during the period /Average loan portfolio for the year

## Annex 6: M-CRIL Rating Grades

M-CRIL Grade	Description
$\alpha+$	Strong governance, excellent systems and healthy financial position. Without a foreseeable risk ➤ Most highly recommended
$\alpha$	Good governance, excellent/good systems, healthy financial position ➤ Highly recommended
$\alpha-$	Good governance, good systems and good financial performance; Low risk, can handle large volumes ➤ Recommended
$\beta+$	Reasonable performance, reasonable systems. Reasonable safety but may not be able to bear an adverse external environment and much larger scale ➤ recommended, needs monitoring
$\beta$	Moderate systems. Low safety ➤ acceptable only after improvements are made on specified areas
$\beta-$	Weak governance, weak systems. Significant risk ➤ not acceptable but can be considered after significant improvements
$\gamma+$	Weak governance, poor quality systems. High risk ➤ needs considerable improvement
$\gamma$	Weak governance, poor systems, weak financial position. Highest risk ➤ not worth considering

*In addition, a 'Positive' outlook given by M-CRIL suggests that the institution is expected to improve its rating in one year period to one higher notch, 'Neutral/Stable' suggests that the institution is likely to retain its rating till the end of one year from the rating, and 'Negative' outlook suggests that it is expected that the institution will lower its rating performance by one notch in one year period.*