

# Humana Financial Services Pvt. Ltd. (HFSPL) New Delhi

Legal Form: NBFC-MFI

December 2021

## Microfinance Institution Rating

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

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

Management discussion dates: 16-17 December 2021

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- ▶ Our services were performed and this Report was prepared in accordance with the Engagement Letter dated 10 December 2021 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 24 December 2021, 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 rating report.

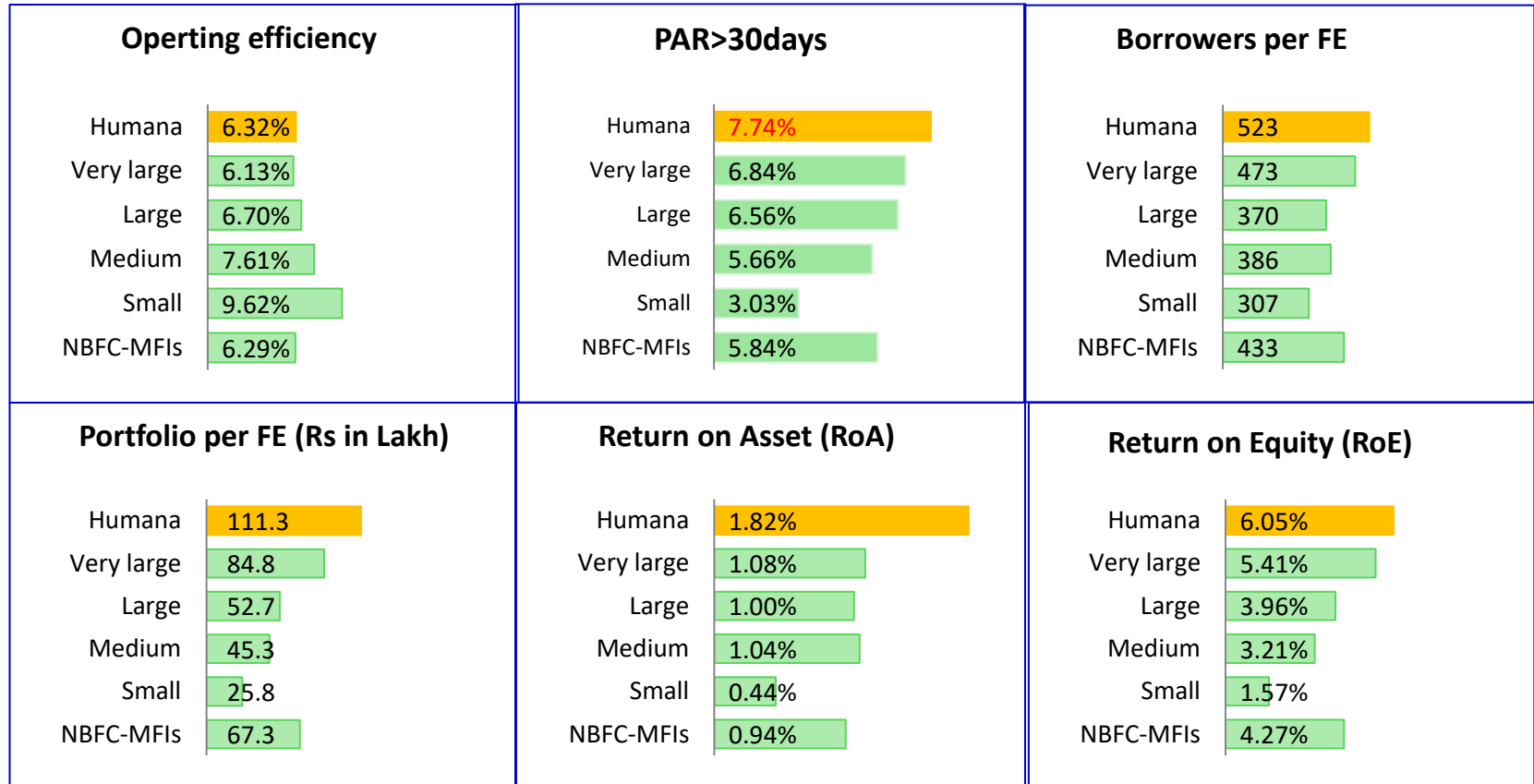
# Microfinance Institution Rating

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# Rating Rationale

- ↑ **Experienced Board and second-line management:** HFSPL has a proactive four-member Board of Directors who are committed to the company's mission and backed with parent organisation. With years of domain experience, HFSPL has a strong and experienced second line of management.
- ↑ **Healthy CAR:** Capital adequacy was good at 44.7% on 30 September 2021. This gives comfort to external investors especially in an adverse environment.
- ↑ **Robust MIS system:** HFSPL has a robust IT infrastructure with real time MIS and 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 less than 6.5%. During the period April –September 2021, the OER was 6.2% (annualised).
- ↑ **Diversified borrowing profile:** The company's borrowing base is broadly diversified (15 active lenders), with a good mix of private banks and NBFCs.
- ↑ **Effective internal audit and control system:** 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.
- ↑ **Improved staff attrition:** HFSPL is attempting to increase staff retention. The employee attrition rate for FY 2020-21 is 16.8%, down from 29% in FY 2019-20.
- ↔ **Profitability moderated due to COVID-19 provisions:** HFSPL reported a net profit of ₹1.06 crore in FY2020-21, translating into a return on average assets of 1.8% (decreased from 3.4% in FY2019-20).
- ↓ **High PAR:** As a result of COVID-19, HFSPL's PAR30 increased from 0.1% in March 2020 to 7.7% in March 2021 but decreased to 5.7% in September 2021 due to various recovery measures and write-offs.
- ↓ **Negative portfolio growth:** HFSPL's operations are limited. It has recorded negative portfolio growth during Apr-Sep 2021. Its gross portfolio reduced from ₹ 138.1 crore in Mar 21 to ₹ 120.2 crore in September 2021.

# Benchmarking analysis (March 2021)

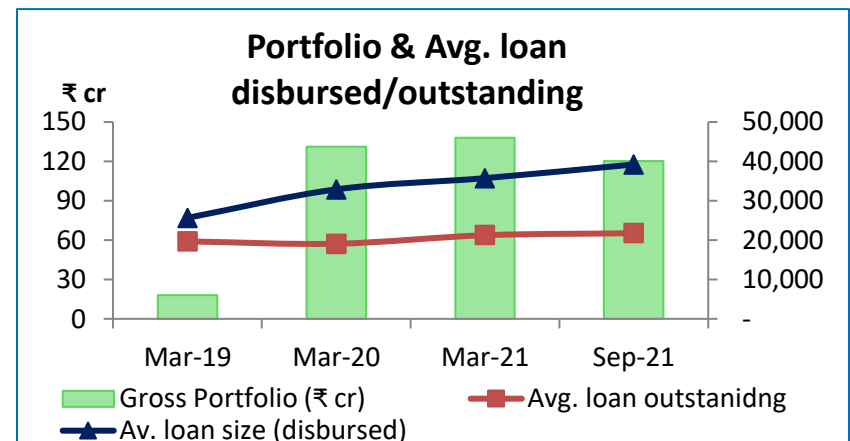


**Source:** Sa-Dhan report 2021 (report by end March 2021)

**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. (HFSPL) is a private limited firm established on 8 July 2016, that received an NBFC-MFI license on 4 August 2017, but it began microfinance operations in February 2018.
- ▶ Humana People to People India (HPPI), the parent company, was founded in 1998 and is a Section 25 company. HPPI works in 13 states in the areas of education, health, livelihood, microfinance, and environment.
- ▶ HFSPL'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 service providers.
- ▶ Mr. Raj Kumar, CEO of HFSPL, oversees the institution's overall operation. 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.
- ▶ HFSPL has focused on deploying digital solutions for its business processes for improving 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 September 2021, HFSPL had a presence in 13 districts across 3 states (Haryana, Rajasthan and Uttar Pradesh) through 23 branches. HFSPL have 55,506 active borrowers with ₹120.16 crore loan portfolio (incl. ₹80.9 BC portfolio). It had a total staff strength of 212 of which 59.4% were Field Executives (FEs).
- ▶ Despite the COVID-19 crisis, HFSPL earned a profit after tax of ₹1.06 crore in FY2020-21 and ₹2.02 crore in H1 of FY2021-22.



# Operational & Financial Performance

Main Performance Indicators				
	Mar 2019	Mar 2020	Mar 2021	Sep 2021
Own Portfolio (₹ crore)	18.1	40.4	45.2	39.3
<b>Assets under Management</b>	<b>18.1</b>	<b>131.1</b>	<b>138.1</b>	<b>120.2</b>
Number of active borrowers	9,192	68,718	64,889	55,145
Average Loan O/S (₹)	19,681	19,076	21,275	21,791
Portfolio at Risk (PAR30) (Gross portfolio)	0.2%	0.1%	7.7%	5.7%
Borrowers per field staff (FE)	263	550	523	438
Portfolio Yield (including BC portfolio)	24.3%	17.5%	12.5%	14.0%
Operating Expense Ratio (OER)	5.6%	5.7%	6.3%	6.2%
Financial Expense Ratio (FER)	13.0%	11.2%	13.0%	11.7%
Operational Self Sufficiency (OSS)	105.7%	125.1%	112.9%	142.6%
Return on Assets (RoA)	0.3%	3.4%	1.8%	6.7%
Capital Adequacy Ratio (CAR)	46.5%	35.2%	31.1%	44.7%
Debt-Equity Ratio	1.7	1.9	2.5	1.5

A rating update after one year is suggested to ascertain changes in the creditworthiness of the institution. This rating 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 the operations*

- ▶ The group size ranges from 5 to 8 members. Center size may vary from 10-20 members.
- ▶ Clients are supposed to submit KYC documents before Compulsory Group Training (CGT). The Field staff uploads client details in the MIS. The software checks CB and returns whether the client is eligible for loan or not and if eligible, how much loan amount at max could be disbursed to the client based on RBI guidelines.
- ▶ FEs fill up appraisal form during house visits. The assessment of income and expenses is done by FE based on business and number of family members. The form also covers installments being paid to other lenders.
- ▶ FE conducts CGT for 3 days for eligible new clients. Post that Branch Manager (BM) conducts pre-Group Recognition Test (GRT), verifies client documents and also conducts household visits. After BM's approval, GRT & household visits are conducted by the Area Manager (AM).
- ▶ Clients are called to branch for disbursement. All disbursements are done online.
- ▶ During field visits, it was observed that installments being paid to other lenders is not cross verified with CB report while filling appraisal form. Also, the appraisal form requires the staff to mention total income and total expenses of the household with no further bifurcation.

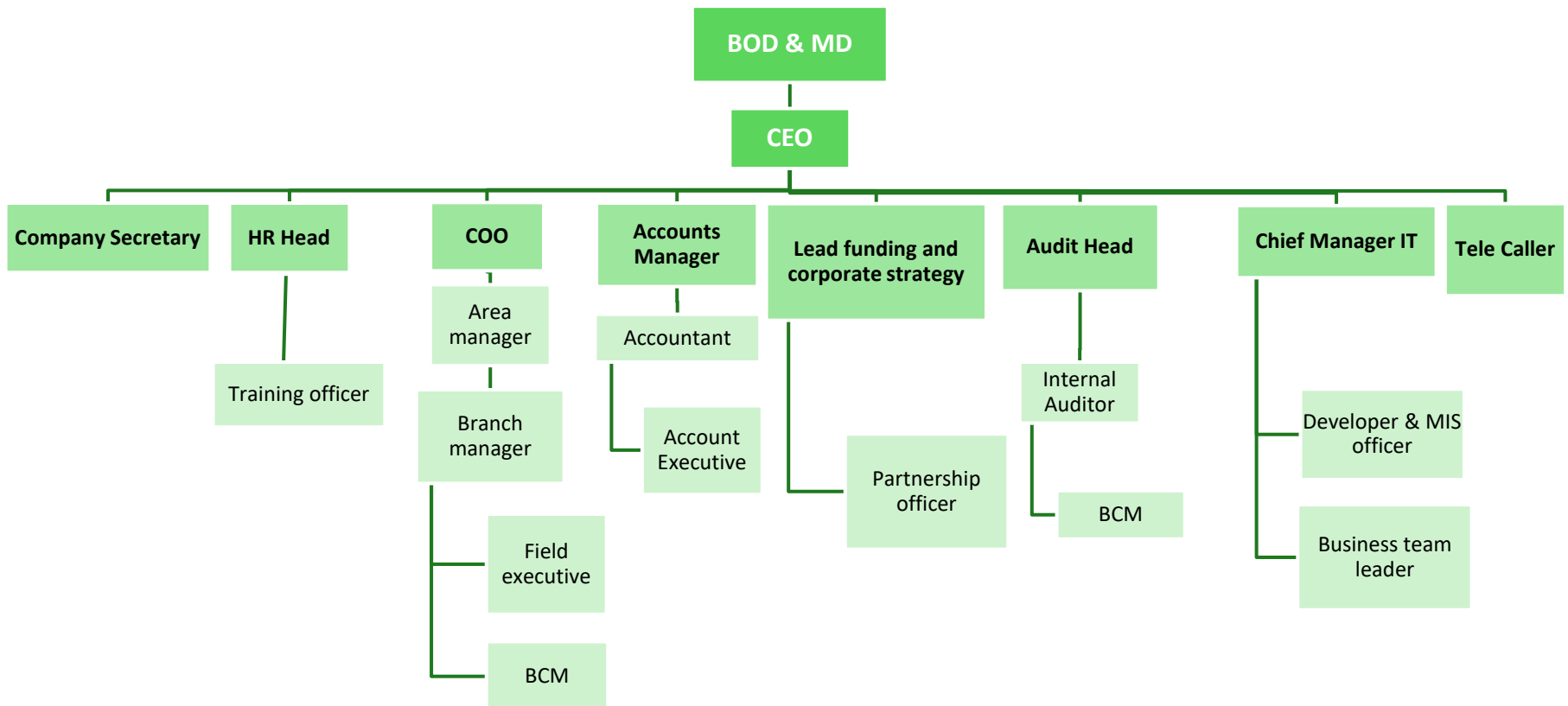
## **Collection and other policies**

- ▶ Collections are done after every 4 weeks. The moratorium for loans is more than 28 days. After every collection, field executive signs the 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 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 BM and BM reports to AM.



# 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 – 50	12-48
Loan term (months)	12 – 24	13 – 27
Repayment	28 days (4 weekly)	28 days (4 weekly)
ROI or Interest rate (pa)	21.89%	24.0%
LPF (% of loan)	1%+ GST	1%+ GST
Any Penalty	NA	NA
Collateral /Security	Group guarantee	Group guarantee
% of portfolio (September 2021)	32.7%	67.3%
% of Borrowers (September 2021)	32.9%	67.1%

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

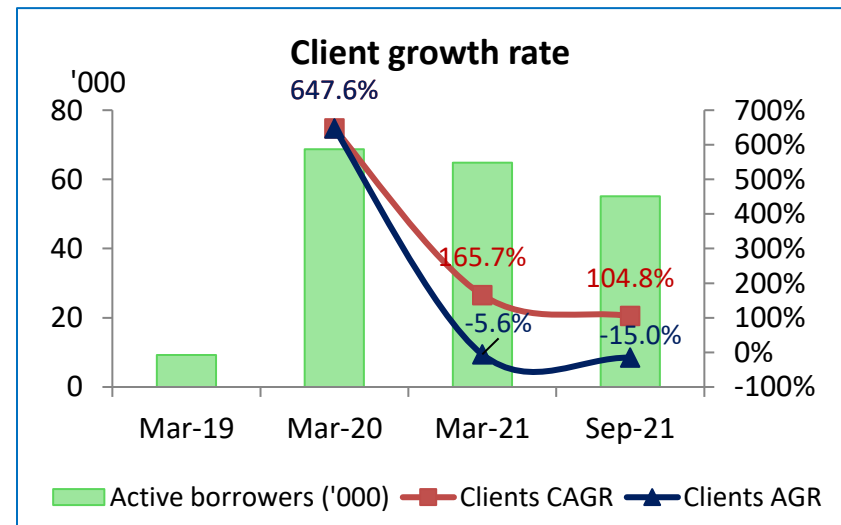
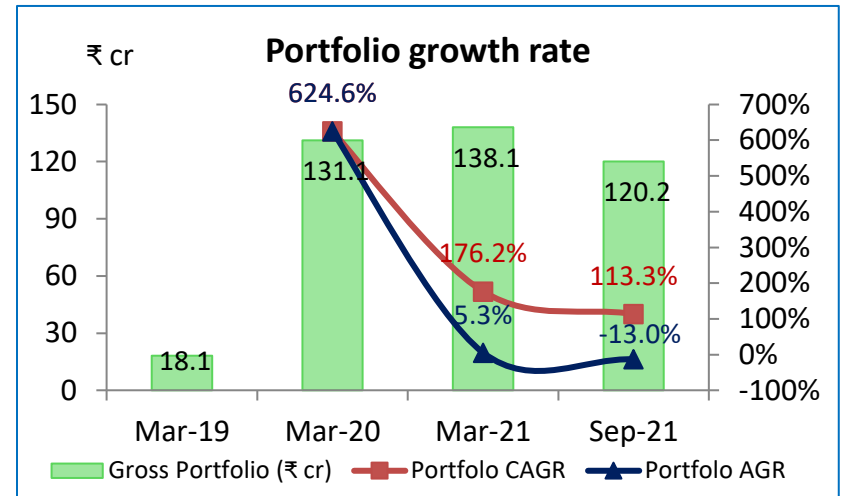
# Governance and Strategy

## Governing Board – *Strong Board*

- ▶ Humana Trust for financial Inclusion and Development (principal shareholder) holds 84.1% stake in HFSP's followed by Humana and Planetaid Finance SA at 15.8% on September 2021.
- ▶ 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. Mr. Ashish Gupta, a recent member to the Board, will bring substantial experience in microfinance and livelihood enhancement.
- ▶ 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
- ▶ The 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 – Clear but negative growth rate

- ▶ HFSP has concentrated its operations in three states: Rajasthan (53%), Haryana (36%), and Uttar Pradesh (11%), where it operates with both its own and managed portfolios.
- ▶ As of September 2021, the proportion of own portfolio to gross portfolio is 33%. HFSP has maintained this level for three years and aims to reach 40% by FY 2023-24.
- ▶ HFSP feels that there is considerable room for expansion in their operational locations in terms of loan demand, and as a result, they have no immediate intentions to expand to other geographies. In medium term, HFSP plans to expand its operations by starting operations in Bihar (FY2022-23)
- ▶ Due to COVID 19, HFSP established a conservative growth strategy to primarily service existing borrowers for loan disbursement, resulting in a 20% decrease in active borrowers after FY2020.



## Competition – *High*

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- ▶ HF SPL faces competition from big NBFC-MFIs and SFBs.
- ▶ HF SPL believes **there are untapped clients and credit demand** despite the existence of MFIs in its operational area.
- ▶ Despite the fact that multiple loans are increasing, HF SPL will be able to expand their client base and portfolio because to their strong client relationships, stringent member selection and quick loan process.
- ▶ HF SPL does not anticipate lowering their interest rates in response to competition. As a result, competition pressure is likely to intensify in the near future as the company expands into new markets.

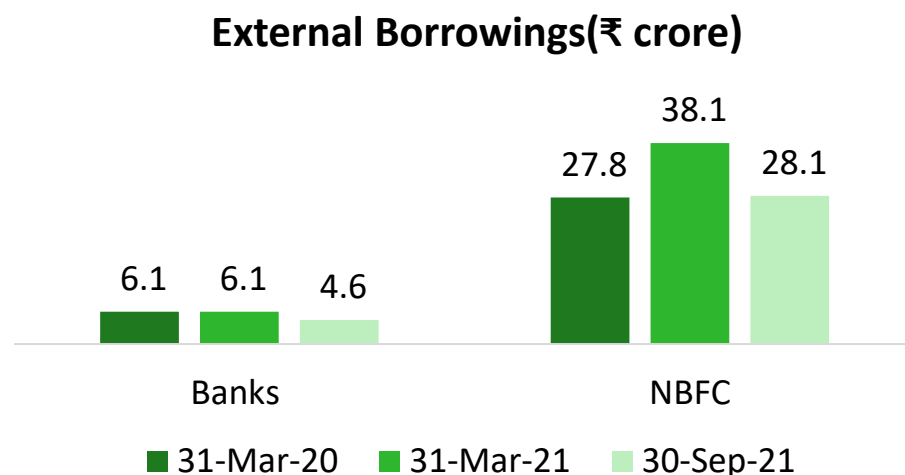
## Second line of leadership – *Stable and increased experience*

- ▶ HF SPL has stable and experienced second line of management.
- ▶ The second line management comprises of the head of the following verticals: Operations, Internal Audit, HR, IT/MIS & and the CFO. The majority of them have been with the company for a long time.
- ▶ During FY 2022-23, HF SPL will be creating a profile of Risk Head, reporting to the CEO.
- ▶ **Key staff are motivated and committed.** Their ownership has grown as a result of their participation in monthly review sessions where strategic decisions are made..

# Fund Mobilization –Diversified funding

- ▶ On March 31, 2021, HFSP has a diverse base of 15 active lenders. However, the lenders are a mix of NBFCs and private banks.
- ▶ HFSP has started its BC partnership with Yes Bank in December 2019. HFSP. The management has further extension plans in FY2022-23 by opening 3 additional branches in Haryana under Yes Bank portfolio.
- ▶ HFSP had a total liability structure of ₹ 57 crore at the end of September 2021, with debt accounting for 61% and net worth accounting for 39%.
- ▶ They intend to introduce HNI equity investors in Q4 2021-22 with a ₹ 4-5 crore investment.

Top five funders (Excl. BC partner)	%
NABARD	18.4%
Maanaveeya	12.3%
IDFC First Bank	11.8%
Ananya Finance	10.7%
Arohan	7.9%
<b>Total of Top 5 lenders</b>	<b>61.1%</b>



HF SPL has adequate HR policies to support the growth of organization such as performance linked incentive and staff trainings. 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
- Staff productivity and operating efficiency
- MIS and Accounting
- Loan tracking system
- Monitoring and supervision
- Internal audit
- Financial planning and cash management



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

- ▶ Human Resource (HR) practices are reasonable considering present level of operations.
- ▶ HR policies and processes for recruitment, training, remuneration and benefits, appraisal, internal transfer, exit, and grievance channels are clearly defined.
- ▶ Given the scale of operations, field level employee recruiting is centralised and is handled by the Training Officer at HO and AQM. Internal referrals and advertisements in local publications are used to solicit applications. During COVID-19, workers received training via online media while adhering to physical separation requirements.
- ▶ Induction training for FEs includes 5 days of classroom instruction and 3 months of field training. After three months of probation and satisfactory performance, a staff member is confirmed.
- ▶ HFSPL has an internally developed HRIS (Human Resource Information System) that handles all employee recruitment, leave management, performance review, and exit. Salary and payroll are handled by a different system (i.e. SPP Relyon).
- ▶ The quality of staff at HFSPL is reasonable. The staff is well-versed in RBI policies and appropriate microfinance practices.
- ▶ HFSPL has a performance-based incentive scheme that will be changed in January 2021. Monthly incentives are given to employees for company development, collection efficiency, digital collections, and branch audit grade. There is no maximum incentive.
- ▶ HFSPL is working to improve employee retention. The staff attrition rate for FY 2020-21 is 16.8%, a significantly improved from 29% in FY 2019-20.

## MIS and Accounting – *robust information system*

- ▶ HF SPL has centralised MIS and accounting practices. HF SPL is currently using AVASHAM (*internally developed cloud-based system*) for MIS and Tally for accounting. The MIS is developed internally and is being modified as per the requirements of different functions. HF SPL plans to integrate accounting module in central MIS by the end of FY 2021-22.
- ▶ Group loan disbursement files are prepared at Branches. The borrowers' details are entered in MIS through inhouse developed mobile application.
- ▶ The daily collection sheet is generated from MIS by BCM a day before collection. The field staff collects the repayment and post the entry in the mobile app. BCM/BM reconciles collection posting with the actual cash collection and the amount is deposited in Bank/ Airtel payment bank/ Fino Payment Bank and the day closing entry is done in the MIS.
- ▶ BM and AQM have access to the customised MIS reports for their area of operation.
- ▶ Branch level expenses are centrally managed by Accounts team at HO and the receipts of the expenses is sent through courier to be verified by Accounts manager.
- ▶ Cash is kept in lockers present in branches covered under CCTV and insurance.
- ▶ HF SPL is developing an application for borrowers to access all details related to their loan and further will allow them to make online repayments.

# Monitoring and Internal Audit

## Monitoring and supervision - *effective system in place*

- ▶ At the Branch level, the BM is responsible for supervising the FEs and ensuring adherence to procedures. All targeted clients are visited by the BM/BCM during pre GRT.
- ▶ BM and BCM each conducts monitoring visits of 2-3 centres on daily basis. AQM covers 2-3 branches and conducts monitoring visits of 2 centres in a day.
- ▶ Tele calling team at HO conducts monitoring by tele calling staff who are falling short on their targets. Further the team also telecalls all clients after the new disbursements to understand the utilisation of the loan. Overdue follow up is also done by the team the next day to understand the reason of non- payment and when can the repayment be arranged and same is communicated to the concerned staff.

## Internal audit – *detailed and adequate*

- ▶ HF SPL has a separate Internal Audit (IA) team headed by a qualified and experienced person who reports to the CEO. The Internal audit team consists of 4 members.
- ▶ The IA team covers all the 23 branches in each quarter. The branch audit for a specific branch lasts for 4-6 days, wherein aspects pertaining to process compliance regarding disbursement, group formation, client awareness, legal regulatory and HR compliance to name a few. Branches are required to submit audit compliance within 11 days from the date of audit.
- ▶ The auditors consolidate their observations and share with senior management on monthly basis. The consolidated findings are presented to the Board on quarterly basis.

# Cash Management – good

- ▶ Fund planning is done from bottom to top based on the feedback received from the operation team and previous year's disbursement performance.
- ▶ To ensure proper Asset Liability Management (ALM), the finance department prepares various liquidity structure reports on a monthly basis.
- ▶ HFSP has a formal Business Plan with three-year financial projections.
- ▶ Installments are collected during the group monthly meetings as per the repayment schedule. Collections pertaining to each branch are deposited in the bank on a daily basis. In case collections are not deposited, AM/RH is informed regarding the same and further decision is taken. After the COVID 19 imposed lockdown, HFSP also started taking cashless collections which is around 4% as on 30 September 2021.
- ▶ The accounts manager monitors the reconciliation process at HO on daily basis. Repayment to lenders is managed by the Accounts team.
- ▶ The loan amount is directly transferred to the client's bank account provided by the client. Almost 100% disbursements are done directly in client's account. The insurance premium , loan processing charges are deducted upfront from the loan amount approved.
- ▶ The average cash and bank balances (excluding FD at bank) as a percentage of average total assets was 4.4% during FY 2020-21.

Despite COVID-19, HFSPL has recorded positive returns. The company has a reasonable level of staff productivity and operational efficiency. COVID-19 had a negative influence on asset quality.

## Financial performance

Financial profile

Credit performance and portfolio quality

Staff productivity and operating efficiency

Asset & liability composition

Capital adequacy

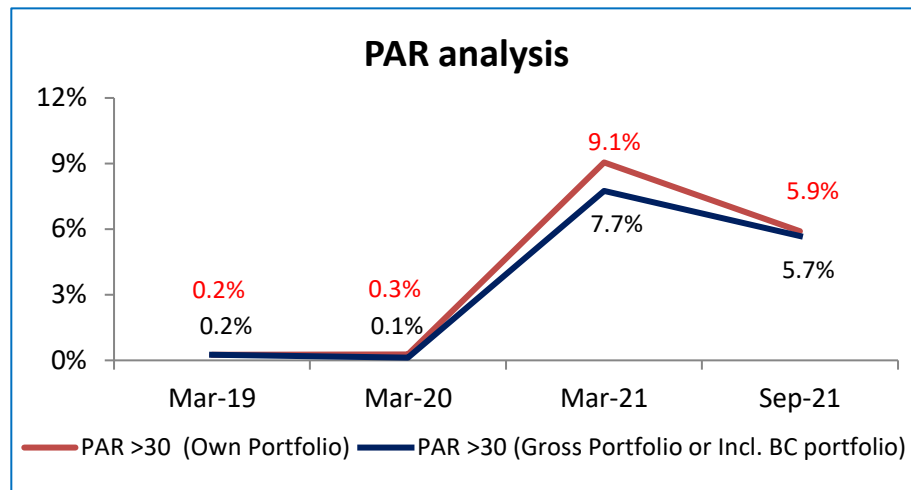
Profitability and sustainability

# Financial Profile

Financial Ratios	Mar 2019	Mar 2020	Mar 2021
<b>Capital Adequacy</b>			
Risk Weighted Capital Adequacy	46.5%	35.2%	31.1%
<b>Asset Quality</b>			
PAR30 (Gross portfolio or incl. BC portfolio)	0.2%	0.1%	7.7%
PAR30 (Own portfolio)	0.2%	0.3%	9.1%
Loan Loss Provision/Avg. Own Portfolio	1.8%	2.2%	3.3%
Write-offs / Average Gross Portfolio	0.0%	0.1%	0.1%
<b>Management</b>			
Operating Exp./ Average Gross Portfolio	5.6%	5.7%	6.3%
Borrowers/FE	263	550	523
Portfolio/FE (₹. Lakh)	51.7	104.9	111.3
Borrowers/per staff	161	317	303
<b>Earnings</b>			
RoE (Net operating income/Avg. Equity)	0.7%	10.1%	6.1%
RoA (Net operating income/Avg. Assets)	0.3%	3.4%	1.8%
Portfolio Yield (on Own Portfolio)	25.9%	22.4%	22.8%
Operating Self-Sufficiency (OSS)	105.7%	125.1%	112.9%
<b>Liquidity</b>			
Avg. cash and bank bal./Avg. Total Assets	14.2%	6.7%	4.4%
Debt Equity Ratio	1.7	1.9	2.5

# Credit Performance and Portfolio Quality – low, but improved

- ▶ The COVID-19 pandemic had a substantial impact on collecting efficiency between April and August 2020. HFSP has implemented various strategies to increase its recovery rates, including the deployment of specialised collection teams, the enhancement of internal IT systems and processes, and the tracking of overdue payments. As a result, collection efficiency (current month collection/current month demand) increased from 14.36% in Aug 2020 to 94.05% in Sep 2021.
- ▶ As per reported data, the PAR30 (gross portfolio) is reduced from 7.7% in March 2021 to 5.7% in September 2021 due to higher provisioning and write-offs.
- ▶ Geographically, the portfolio is moderately diverse, spanning three states. The portfolio by sector shows a strong concentration in the agriculture sector (65.1% of gross portfolio), followed by agri-allied (24.6%), small business (8.5%), the service sector (1.4%), and the remaining in other sectors.

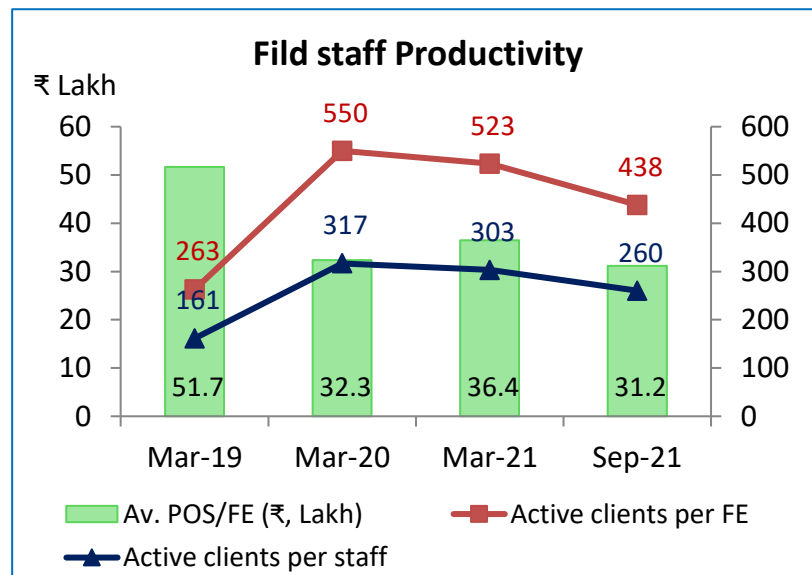


## Sectoral Distribution of Portfolio %

Sectors	Mar 2020	Mar 2021	Sep 2021
Agriculture	64.4	64.4	65.1
Agri Allied	21.1	24.5	24.6
Others	4.7	0.9	0.4
Service	1.3	1.5	1.4
Small Business	8.6	8.7	8.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

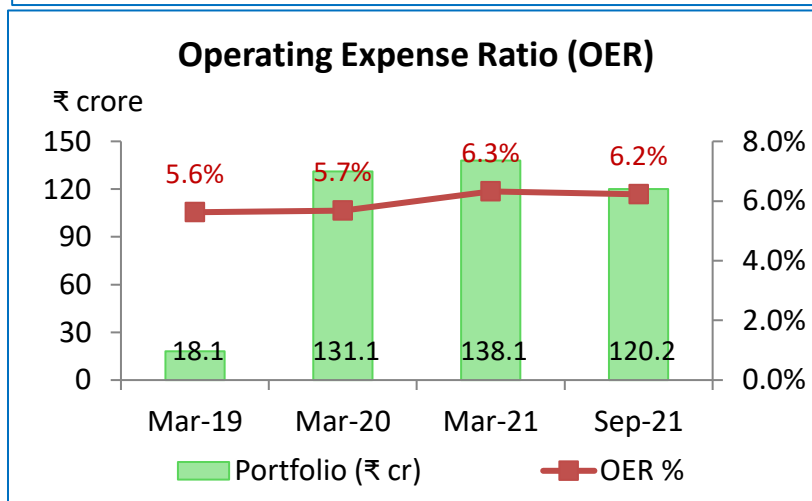
## Staff Productivity - Good

- ▶ Staff productivity been declining since March 2020 (from 550 in March 2020 to 438 in September 2020). This is due to a decrease in the borrower base caused by a lack of non-availability of sufficient funds. However, it remained greater than for similar /medium sized MFIs (386 borrower per field staff)
- ▶ As per the business target, HFSPPL plans to increase caseload up to 605 clients per field staff by FY2024.



## Operating Efficiency – reasonable

- ▶ HFSPPL has maintained a reasonable Operating Expenses Ratio (OER) ranging from 6.3% to 5.7% during the last three years. During April-September 2021, the current OER is 6.2% (annualised).
- ▶ M-CRIL believes, HFSPPL will be able to improve its operating efficiency slightly in medium term and stabilize at 5.5%.





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

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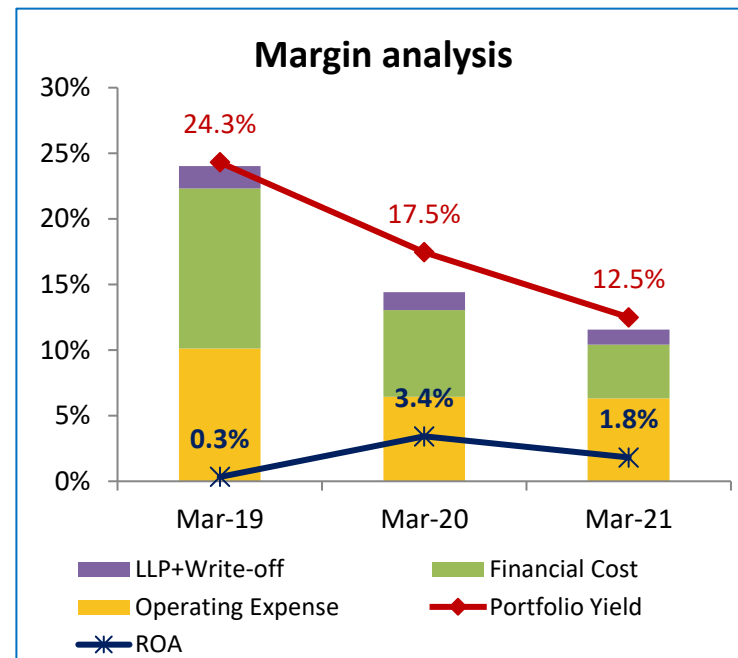
- ▶ For the past two years, the net loan portfolio to total assets ratio has been in the range of 65% to 68%. As on 30 September 2021, the 66.9% ratio is reasonable considering First Loan Default Guarantee (FLDG) deposit with the Yes Bank.
- ▶ Cash in hand and at bank were a reasonable 10.7% of total assets. The average cash and bank balance as a proportion of its average total assets was low (4.4% for FY2020-21 and 6.1% for H1 of FY2021-22).
- ▶ HFSP has demonstrated good liquidity management mechanisms. All inflows/outflows, as well as maturity gaps, are regularly monitored.
- ▶ On the liability side, external borrowings accounted for 57.3% in September 2021 (decreased from 69.7% in March 2021) and net worth for 39.1% (increased from 27.8%) of total liabilities and net worth as of 30 September 2021.

## Capital Adequacy – *High*

- ▶ HFSP's risk-weighted Capital Adequacy Ratio (CAR) was high at 44.7% on 30 September 2021. The present of capital adequacy is comfortable to attract external lenders.
- ▶ HFSP's net worth increased from ₹ 17.6 crore in March 2021 to ₹ 22.3 crore in September 2021, with retained surplus accounting for the growth.

# Profitability and Sustainability – reasonable

- ▶ Despite the impact of COVID-19, **HFSPL has been able to maintain operations and generate reasonable profits.** HFSPL earned a profit after tax (PAT) of ₹ 1.33 crore in FY2019-20, ₹ 1.17 crore in FY2021-22, and ₹ 2.02 crore (excluding the ₹ 2.66 crores reversal of LLP) in H1 of FY2021-22.
- ▶ Both the yield on the BC portfolio and the yield on the Own portfolio have remained steady over the last two years at 10% and 22%, respectively. Similarly, both the OER and financial cost ratios have decreased marginally.
- ▶ The overall portfolio yield (incl. BC portfolio) has decreased from 17.5% in FY2019-20 to 12.5% in FY2020-21. As a result, the Return on Asset (RoA) decreased from 3.4% in FY 2019-20 to 1.8% in FY 2020-21. However, RoA remained greater than for industry averages (NBFC-MFIs at 0.94 % and medium size MFIs at 1.04%)
- ▶ Higher write-offs have harmed overall profitability FY2020-21. Given the additional provisioning made by HFSPL, the impact of loan write-off due to the COVID pandemic is likely to be limited going forward.





# Annexes

# Annex 1: Financial Statements of HFSP

## Balance Sheet on

amount in ₹ crore	31 Mar 2019	31 Mar 2020	31 Mar 2021	30 Sep 2021
<b>ASSETS</b>				
<b><u>Current assets</u></b>				
Cash and bank balance	5.30	3.38	8.98	6.10
Trade receivables	0.07	0.82	0.42	3.82
Other current assets	0.20	2.29	3.66	4.78
Net loan portfolio	17.91	39.52	41.39	38.12
<b>Total current assets</b>	<b>23.48</b>	<b>46.02</b>	<b>54.44</b>	<b>52.83</b>
<b><u>Long term assets</u></b>				
Assets (tangible & intangible)	0.02	0.06	0.25	0.23
Other non-current assets	0.85	6.85	2.90	0.88
Long term loans and advances	-	0.48	5.75	3.06
Deferred tax asset	0.00	0.00	0.01	0.01
<b>Total long term assets</b>	<b>0.87</b>	<b>7.39</b>	<b>8.91</b>	<b>4.19</b>
<b>Total assets</b>	<b>24.34</b>	<b>53.40</b>	<b>63.35</b>	<b>57.02</b>

## ...Balance Sheet on

amount in ₹ crore	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21
<b>LIABILITIES AND NET WORTH</b>				
<b><u>Current liabilities</u></b>				
Short term provisions	0.09	0.69	0.78	0.78
Other liabilities	8.86	24.36	33.62	29.23
<b>Total current liabilities</b>	<b>8.95</b>	<b>25.05</b>	<b>34.40</b>	<b>30.00</b>
<b><u>Long term liabilities</u></b>				
Long term borrowings	6.49	10.82	11.36	4.74
Other long term liabilities				-
<b>Total long term liabilities</b>	<b>6.49</b>	<b>10.82</b>	<b>11.36</b>	<b>4.74</b>
<b>Total liabilities</b>	<b>15.44</b>	<b>35.87</b>	<b>45.76</b>	<b>34.74</b>
<b><u>Net worth</u></b>				
Share Capital	6.69	10.08	10.08	10.08
Share Premium	0.37	1.70	1.76	6.44
Reserves and surplus	1.84	5.76	5.76	5.76
<b>Total net worth</b>	<b>8.90</b>	<b>17.53</b>	<b>17.60</b>	<b>22.27</b>
<b>Total liabilities and net worth</b>	<b>24.34</b>	<b>53.40</b>	<b>63.35</b>	<b>57.02</b>

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

amount in ₹ crore	1 Apr 2018 To 1 Mar 2019	1 Apr 2019 To 31 Mar 2020	1 Apr 2020 To 31 Mar 2021	1 Apr 2021 To 30 Sep 2021
<b><u>Income</u></b>				
Interest income from own loans	2.17	6.80	8.61	4.44
Interest income from BC services	-	2.33	6.65	4.15
Loan processing fee	0.27	0.60	0.38	0.14
Interest on fixed deposit	0.10	0.17	0.45	0.24
Interest on security deposit	0.01	0.07	0.12	-
Other income	0.00	0.07	0.11	0.08
<b>Total income</b>	<b>2.55</b>	<b>10.04</b>	<b>16.32</b>	<b>9.05</b>
<b><u>Financial costs</u></b>				
Interest on borrowings	1.04	3.32	4.73	2.39
Other borrowing costs	0.19	0.35	0.39	0.07
<b>Gross financial margin</b>	<b>1.33</b>	<b>6.37</b>	<b>11.20</b>	<b>6.59</b>

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

amount in ₹ crore	1 Apr 2018 To 1 Mar 2019	1 Apr 2019 To 31 Mar 2020	1 Apr 2020 To 31 Mar 2021	1 Apr 2021 To 30 Sep 2021
<b>Gross financial margin</b>				
Provisions	0.17	0.73	1.21	**
Write-offs	-	0.04	0.11	-
<b>Net financial margin</b>	<b>1.16</b>	<b>5.60</b>	<b>9.88</b>	<b>9.25</b>
<b><u>Operating expenses</u></b>				
Employee benefit expenses	0.81	2.82	5.63	3.04
Administrative & operating expenses	0.20	0.76	2.19	0.80
Depreciation and amortization	0.01	0.02	0.10	0.06
<b>Total operating expenses</b>	<b>1.02</b>	<b>3.59</b>	<b>7.91</b>	<b>3.89</b>
<b>Profit before tax (PBT)</b>	<b>0.14</b>	<b>2.01</b>	<b>1.97</b>	<b>2.70</b>
Tax obligations	0.09	0.68	0.80	0.68
<b>Profit after tax (PAT)</b>	<b>0.05</b>	<b>1.33</b>	<b>1.17</b>	<b>2.02</b>

**\*\*Note:** Reversal of Loan Loss Provision of ₹ 2.66 crore for April-September 2021 is excluded due to the potential risk of COVID-19 (with omicron variant)

## Annex 3: Profile of the Board on 30 September 2021

	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	RoA	Return on Assets
HFSP	Humana Financial Services Pvt. Ltd	RoE	Return on Equity
HO	Hed office	TAT	Turn Around Time
HR	Human Resources		
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.*