

Press Release

Humana People to People India

March 29, 2017

Rating Assigned

Total Instruments Rated*	Rs.5.00 Cr
Long Term Rating	SMERA BB+/Stable

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **SMERA BB+ (read as SMERA double B plus)** to the Rs. 5.00 crore bank facilities of Humana People to People India (HPPI). The outlook is **'Stable'**.

Humana People to People India (HPPI), was incorporated in 2010 as a non-profit company under Section 8 of the Companies Act, 2013. The company is a business correspondent (BC) for banks and non-banking finance companies for generating and facilitating microfinance business. Apart from being a business correspondent, HPPI also takes on certain exposure on its own books.

List of key rating drivers and their detailed description

Strengths:

Experienced management: HPPI is a part of the Humana People to People Network – an international network of Not-for-Profit Organisations. The day-to-day operations are managed by Mr. Snorre Westgaard – Executive Director, Mr. Raj Kumar Singh and Mr. Anurag Dwivedi. The management has significant experience in the microfinance industry in India and the rest of the world.

The company has been able to enter into business correspondence relationship with two banks and one non-banking finance company. As per the BC relationship, HPPI originates microfinance proposals for these banks and NBFC and is also responsible for post disbursement monitoring and for supporting recovery. The company also has a small on-book portfolio which comprises its core lending.

The company has 36 branches across five states and reported an Assets Under Management (AUM) [on-balance sheet loan book plus managed portfolio] of Rs.73.93 cr on 31 March, 2016 as against Rs.46.45 cr on 31 March 2015.

SMERA expects HPPI to scale up its operations and deepen its relationships with banks and institutions on the back of its experienced management.

Comfortable profitability indicators and asset quality metrics: HPPI derives its revenue from two revenue sources – namely yield in its own on-balance sheet loan portfolio and fee income from its managed portfolio. The fee income comprises the yield differential on the managed portfolio i.e. interest rate charged to clients over and above the minimum assured return to be paid to the bank/NBFC. HPPI reported total income of Rs. 8.96 cr in FY2016 (Rs. 7.61 cr in FY2015) which included interest income of Rs.1.84 cr in FY2016 (Rs. 1.23 cr in FY2015) and fee income of Rs. 7.07 cr in FY2016 (Rs. 6.37 cr in FY2015).

The company reported a Return on Average Assets (RoAA) of 11.94 per cent in FY2016 as compared to 18.86 per cent in FY2015. The company's earning assets mainly comprises its own-loan portfolio and fixed deposits offered as first loss security. The company experienced some moderation in its Net Interest Margin (NIM) from 6.19 per cent in FY2015 to 5.12 per cent in FY2016 primarily on account of increased leverage and withdrawal of capital resulting in higher interest expense.

SMERA believes that leverage and withdrawal of capital shall be key rating sensitivities. On the back of prudent risk management practices, HPPI is expected to maintain a healthy asset quality and profitability indicators.

The rating is supported by HPPI's healthy asset quality marked by low Portfolio at Risk (PAR) greater than 90 days of 0.08 per cent as on 31 March, 2016 as compared to 1.07 per cent as on 31 March, 2015. While the company reported spike in its PAR>90 due to demonetisation, SMERA expects such asset quality pressures to be short lived. Sustained stress in asset quality can result in deterioration in the overall credit risk profile.

HPPI's ability to originate loans at competitive rates, maintain healthy asset quality and spread shall be key drivers of its credit profile.

Weaknesses:

Modest network base and scale of operations in a competitive space: There has been an increasing trend on the part of banks and NBFCs to rely on business correspondents to grow their loan book. HPPI faces competition from other micro finance institutions, non-banking finance companies and banks. The competitive scenario coupled with the challenging economic environment impacted the company's ability to scale up its AUM. The outstanding AUM declined to Rs. 63.93 cr on 31 December, 2016 from Rs.73.93 cr on 31 March, 2016.

HPPI reported marginal decline in its network to Rs.6.17 cr on 31 March, 2016 vis-à-vis Rs.6.71 cr on 31 March, 2015 on account of withdrawal of funds from operations to support other activities. Since HPPI is considering expanding its scale of operations, such withdrawals if continued in future could inhibit its ability to maintain profitability and capital structure. Significant withdrawal from capital in the future shall be a key rating sensitivity.

SMERA believes that the modest net worth base and moderate scale of operations in the competitive micro finance segment will continue to impinge on the credit profile of the company in the near to medium term.

Analytical approach: SMERA has taken a standalone view of the above entity.

Applicable Criteria

- Non-Banking Finance Entities: <https://www.smera.in/criteria-nbfc.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that HPPI will maintain a stable outlook on account of its experienced management and established relationship with banks/NBFCs, comfortable capitalisation and healthy asset quality. The outlook may be revised to 'Positive' in case of higher than expected profitability margins and sustained growth in assets under management while maintaining asset quality. Conversely, the outlook may be revised to 'Negative' in case of headwinds faced by HPPI in growing its loan book and/or sustained stress in asset quality or profitability indicators over the near to medium term.

About the Rated Entity

HPPI, incorporated in 1998 is a not-for-profit company under Section 8 of the Companies Act, 2013, that provides micro finance loans in northern India. It is also a business correspondent for several banks and non-banking finance companies. HPPL reported a surplus of Rs. 2.65 cr on total income (Interest Income plus Fee Income) of Rs.8.96 cr in FY2016 as compared to surplus of Rs.3.24 cr on total income of Rs.7.61 cr in FY2015.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: N.A.

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Term Loan	LT	2.00	SMERA BB+/Stable (Assigned)	-	-	-	-	-	-
Proposed Fund Based Facilities	LT	3.00	SMERA BB+/Stable (Assigned)	-	-	-	-	-	-

*Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/ Outlook
Term Loan	N.A	N.A	N.A	2.00	SMERA BB+/Stable (Assigned)
Proposed Fund Based Facilities	N.A	N.A	N.A	3.00	SMERA BB+/Stable (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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