

Press Release

Humana People to People India (HPPI)

December 27, 2017

Rating Downgraded & Assigned



Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	SMERA BB/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has downgraded the long-term rating on the Rs. 5.00 crore bank facilities of '**SMERA BB+/Stable**' (**read as SMERA double B plus**) to **SMERA BB/Stable** (**read as SMERA BB**) and assigned rating of **SMERA BB/Stable** (**read as SMERA double B**) on the Rs. 10.00 crore facilities of Humana People to People India (HPPI). The outlook is '**Stable**'.

The downgrade is in view of the continuing asset quality pressures which are expected to have a bearing on the profitability and performance of the company over the near to medium term.

However, the rating continues to draw comfort from the management's experience in the industry along with comfortable capital adequacy ratios. Further, the rating is constrained by decline in profitability, asset quality metrics and intense competition in the industry.

The New Delhi-based HPPI, was incorporated in 1998 as a not-for-profit company set up under Section 8 of the Companies Act, 2013. Its business entails providing micro finance loans in north India. It is also a business correspondent for several banks and non-banking finance companies. HPPI has 39 branches across five states in India.

Key Rating Drivers

Strengths

Experienced management

HPPI is 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 relationships with two banks and a non-banking finance company. As per the BC relationship, HPPI originates microfinance proposals for these banks and NBFC. It is also responsible for post disbursement monitoring and for supporting recovery. The management has infused additional capital, as a result of which, the capital adequacy ratio (CAR) continues to remain comfortable at 106.97 per cent as of 31 March, 2017 as against

67.49 per cent as on 31 March 2016 (excluding first loss guaranteed deposits (FLGD)). The company also has a small own portfolio which comprises core lending. HPPI has 39 branches across five states. SMERA expects HPPI to scale up its operations and further develop its relationships with banks and institutions on the back of its experienced management.

Weaknesses

Decline in profitability and asset quality metrics

HPPI derives its revenue from two sources, namely – yield in its own loan portfolio and fee income from its managed portfolio. The fee income is constituted by the yield differential on the managed portfolio ie interest rate charged to clients over and above the minimum assured return to be paid to the bank/NBFC. HPPI reported Net interest income (NII) of Rs.1.02 crore in FY2017 as against Rs. 1.94 crore in FY2016. The company has experienced moderation in its Net Interest Margin (NIM) from 2.53 per cent in FY2016 to 1.62 per cent in FY2017. The Return on Average Assets (RoAA) deteriorated from 5.03 per cent in FY2016 to

2.13 per cent in FY2017. HPPI reported Assets under Management (AUM) [owned plus managed portfolio] of Rs.56.00 crore on 31 March, 2017 as against Rs. 73.93 crore on 31 March, 2016. The decline in AUM is mainly due to low disbursements in the year. The AUM stood at Rs. 60.00 crore as on October 2017. HPPI has offered FLGD of Rs. 5.23 crore as on 31 March, 2017 to business partners. The rating is constrained by HPPI's deteriorated asset quality marked by Portfolio at Risk (PAR) greater than 90 days at 20 per cent as on 31 March, 2017 as compared to 1.33 per cent as on 31 March, 2016.

Surging competitive intensity

HPPI faces competition from other micro finance institutions, NBFC's, and SFB's in the region. There has been an increasing trend on the part of banks and NBFCs to rely on business correspondents to grow their loan book. The competitive scenario coupled with the challenging economic environment impacted the company's ability to scale up its AUM.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of the company.

Outlook: Stable

SMERA believes that HPPI will maintain a stable outlook on account of its experienced management and established relationship with banks/NBFCs. 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 – Consolidated Key Financials

	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	68.57	85.84	19.39
Total Income	Rs. Cr.	26.51	8.96	7.61
PAT	Rs. Cr.	1.65	2.65	3.24
Net Worth	Rs. Cr.	7.71	6.18	6.71
Return on Average Assets (RoAA)	(%)	2.31	5.03	18.86
Return on Average Net Worth(RoNW)	(%)	23.72	41.09	54.34
Total Debt/Tangible Net Worth (Gearing)	Times	1.27	1.52	0.75
Gross NPA	(%)	1.10	0.04	-
Net NPA	(%)	17.19	-	-

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Non-Banking Finance companies - https://www.smerra.in/criteria-nbfc.htm_
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
29-March, 2017	Term Loan	Long Term	INR 2.00	SMERA BB+ / Stable (Assigned)
	Proposed Fund based	Long Term	INR 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. Crore)	Ratings/Outlook
Term Loan	NA	NA	NA	2.00	SMERA BB/Stable (Downgraded)
Term Loan	NA	NA	NA	10.00	SMERA BB/Stable (Assigned)
Proposed Fund based	NA	NA	NA	3.00	SMERA BB/Stable (Downgraded)

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Leena Gupta Analyst - Rating Operations Tel: 022-67141172 leena.gupta@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smerra.in) for the latest information on any instrument rated by SMERA.