

Press Release

Mpokket Financial Services Private Limited

October 28, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.10.00 crore
Long Term Rating	ACUITE BBB-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) on the Rs.10.00 Cr. proposed bank loan facilities of Mpokket Financial Services Private Limited (MFSPL). The outlook is '**Stable**'.

The rating takes into account the healthy capital position, comfortable leverage marked by gearing of 0.07 times as on June 30,2021 and demonstrated track record to generate profit at consolidated level. While the financing arm of the group, MFSPL commenced operations in 2021, MVPL has been originating loans through the group's technology platform 'Mpokket' since 2016. The platform's active customer base stood at 7.23 lac borrowers as on June 30,2021. This coupled with cumulative disbursements of approximately Rs.2900 Cr. till September 2021 has resulted in MVPL achieving profitability in 3 years of commencing operations in 2016.

The rating is however constrained by MVPL's nascent scale of operations modest resource profile, limited track record of the financing arm and an unsecured loan book with comparatively smaller ticket size and low tenure. Though the digital platform of the group has a vintage of nearly five years, it presently has only two lending partners viz. Jalan Chemicals Industries Private Limited (JCIPL) and MFSPL (subsidiary). Lead generation under the platform was solely done for JCIPL until March 2021 when the group's lending arm, MFSPL started operations. MFSPL's AUM accounted for about 44% of the consolidated AUM (platform level) of Rs.327.9 Cr. as on June 31,2021. As the group ramps up lending operations, MFSPL's share in the origination is expected to increase in the near to medium term. At platform level, delinquencies in 90dpd+ as a percentage of cumulative disbursements made till August 2021 stood at 4.09%. Further, while the key business functions are largely automated, there is fair degree of manual intervention in user onboarding and collection processes which Acuite understands shall continue to be strengthened. Going forward, the Group's ability to sign up additional lending partners on its platform, profitably & sustainably scale up its portfolio (i.e MFSPL's portfolio) while maintaining robustness of its technology platform/ security given the evolving nature of fintech model are key monitorables.

About the Group:

Kolkata based MVPL is holding company of MFSPL. It commenced its operations in 2016 and owns and operates "Mpokket app", through which loans are originated by presently, two NBFCs viz. Jalan Chemicals Industries Private Limited (JCIPL) and MFSPL. MVPL is additionally providing client sourcing, underwriting and collections services to its lender partner. MVPL is promoted by Mr. Gaurav Jalan who is also part of the board of MVPL and MFSPL. The platform has two NBFCs viz. JCIPL and MFSPL as its lending partners on its platform, 'Mpokket app', which presently caters to college students, recent graduates and young salaried professionals. The platform has an active customer base of 7.23 lac borrowers as on June 30,2021 and loans of approximately Rs.2900 Cr. have been originated through this platform till September 2021.

About the Company:

Kolkata based MPokket Financial Services Private Limited (MFSPL) is RBI registered NBFC and wholly-owned subsidiary of Maybright Ventures Private Limited (MVPL). The company is engaged in providing small ticket, short tenure, instant unsecured personal loans to college students, recent graduates, and young salaried professionals. The company commenced its operations in March 2021

and has leveraged the digital platform (owned by MVPL) to scale up its presence across India with outstanding number of loans and portfolio of 15.7 lacs and Rs.214.3 Cr. respectively as on August 31, 2021.

Analytical approach:

Acuite has considered the consolidated business and financial risk profile of Maybright Ventures Private Limited (MVPL) to arrive at this rating. This approach is in view of capital, operational, technological and managerial support from the parent entity, MVPL besides interlinkages between MVPL ('Mpokket' platform) and MFSPL.

Extent of consolidation: Full

Key Rating Drivers:

Strengths:

- **Comfortable capital position**

MVPL's consolidated capital position is comfortable marked by network of Rs.173.9 Cr. as on June 30,2021. MVPL has raised about Rs.79.4 Cr. of capital since inception from various sources viz. the promoter, high networth individuals, stock options and a venture capital firm. Of the total capital raised, Rs.47.0 Cr. has been infused since March 2020 by a US-based venture capital firm, Lotus Microfinance LLC whose managing partner, Mr. Abhishek Agarwal is on the board of MVPL and MFSPL in the capacity of shareholder representative. In addition to capital infusion, the growth in network is also supported by healthy internal accruals as the Group achieved breakeven in three years of commencing operations. At consolidated level, MVPL has outstanding debt of Rs.12.35 Cr. as on June 30,2021 comprising entirely of optionally convertible debentures issued to high networth individuals. Consequently, gearing is comfortable at 0.07 times as on June 30,2021.

Acuite expects capitalisation to remain comfortable over the medium term, supported by internal accruals and regular capital infusion.

- **Early track record of the Group's profitability**

MVPL commenced its operations in 2016 and turned profitable in 3 years of commencing operations with cumulative surplus of Rs.92.3 Cr. as on June 30,2021. MVPL facilitates lending through 'Mpokket app' besides providing outsourcing activities viz. sourcing, underwriting and collections. This profitability has been primarily driven by healthy disbursements of approximately Rs.2900 Cr. (till September 2021) made through the platform since it was operationalized in 2016. Acuite notes that lead generation till February 2021 were solely for Kolkata based lender partner NBFC, Jalan Chemicals Industries Private Limited (JCIPL). Of the cumulative disbursements till September 2021, disbursements of about Rs.1207 Cr. and Rs.733 Cr. (collectively accounting for ~67% of the cumulative disbursements) were made by JCIPL during FY2021 and FY2020 respectively. The revenue is derived from two sources viz. fee income for providing origination and other outsourcing activities (~87% of total revenue in FY2021) and interest income on intercorporate loans extended to JCIPL and MFSPL (~13% of total revenue in FY2021). However, owing to nascent stage of operations, operating expenses remained elevated as depicted by operating expenses to average total assets at about 59% in FY2021 (FY2020:47%). Consequently, net profit (PAT) stood at Rs.20.6 Cr. for FY2021 (FY2020: Rs.35.3 Cr.). For Q1FY2021, PAT stood at Rs.24.1 Cr. on a total income of Rs.59.67 Cr. On a standalone level, MFSPL reported PAT of Rs.4.8 Cr. and Rs.0.1 Cr. on total income of Rs.0.2 Cr. for FY2021. PAT stood at Rs.4.8 Cr. on total income of Rs.13.7 Cr. for Q1FY2022.

Acuite notes that the Group continues to ramp up its employee base and further strengthen systems and believes that the profitability trajectory hinges on the ability of the Group to manage credit costs and reduce operating expenses as it scales up the operations.

Weaknesses:

- **Nascent stage of operations and asset quality a monitorable**

MVPL commenced operations in 2016 in Kolkata and over the last five fiscals, diversified to 36 states

and union territories through its branchless business model. The board of MVPL and MFSP (subsidiary) comprises three members, of whom two are professional individuals (including the promoter, Mr. Gaurav Jalan) involved in daily operations of both the companies and another is a shareholder representative. The digital platform, 'Mpocket app' has a vintage of nearly five years, it presently has only two lending partners viz. JCIPL and MFSP (subsidiary). Disbursals through the platform were made solely by JCIPL until March 2021 when MFSP started lending operations through the platform. Consequently, AUM, at platform level (i.e. JCIPL and MFSP combined), stood at Rs.304.4 Cr. as on March 31, 2021, of which MFSP's AUM stood at Rs.2.8 Cr. As on June 30, 2021, MFSP's share in the AUM of Rs.327.9 Cr. rose to Rs.145.3 Cr. (44% of the AUM) and Acuite expects, overtime, the share of MFSP to constitute majority of the AUM given the management's plans to reduce dependency/reliance on JCIPL. While the key business functions are largely automated, there is fair degree of manual intervention in user onboarding and collection processes.

At platform level, delinquencies in 90dpd+ as a percentage of cumulative disbursements made till August 2021 stood at 4.09% and at MFSP level, given the operations started recently, 90dpd+ stood at 0.65% of its portfolio as on August 31, 2021.

Acuite believes that the ability of MVPL to significantly grow its portfolio (i.e. MFSP) and contain asset quality risks coupled with scaling its operations by signing up with additional lending partners will be a key monitorable.

• Modest resource profile

MVPL (consolidated) has outstanding debt of Rs.12.35 Cr. as on June 30, 2021 comprising solely of optionally convertible debentures issued to high networth individuals. In addition, it has unutilized CC/OD facility of Rs.2 Cr. from a bank. MFSP currently relies on its parent entity, MVPL for funding in the form ICDs which stood at Rs.112.6 Cr. as on June 30, 2021. Acuite understands that MFSP is in discussions with multiple lenders for raising external borrowings and its reliance on ICDs shall reduce in the near term.

MFSP's ability to diversify its resources profile and access funding at competitive rates will be a key monitorable.

• Evolving nature of fintech business model

Given that the digital lending particularly in B2C segment is evolving and the Group is still in the early stage of operations, it is yet to be seen how it achieves scalability and sustained profitability. Though MVPL has demonstrated track record of profitability in 3 years of commencing operations, the ability of to scale its operations given the competitive intensity in fintech space will be a monitorable.

• Technology and regulatory risks

Given that innovative technology is the backbone of fintech business model, the company is exposed to technology risks encompassing data security, privacy and technology failure. Since MVPL's key business functions like data storage, disbursals and collections are largely automated, any breach shall expose the company to cyber events and liabilities arising thereon. Additionally, the company is also exposed to evolving regulatory developments given that the fintech business model is at nascent stage.

Rating Sensitivities

- Parent support
- Significant and sustained scale up in portfolio
- Movement in liquidity, earnings profile and asset quality metrics
- Changes in Regulatory environment

Material Covenants

Not Applicable

Liquidity Position: Adequate

MFSP reported adequate liquidity position with cash and cash equivalents at Rs.7.79 Cr. as on June 30, 2021

with debt financing from parent entity with repayment on demand basis. Additionally, liquidity is supported by availability of funding from MVPL as and when required.

MVPL (consolidated) reported cash and cash equivalents of Rs.11.08 Cr. as on June 30,2021 while debt obligations till March 2022 amounting Rs.0.90 Cr.

Outlook: Stable

Acuite believes that MVPL will maintain 'Stable' outlook over the near to medium term on account of healthy capital position and support from marquee investors. The outlook may be revised to 'Positive' in case MVPL demonstrates significant and sustainable growth in its scale of operations while mitigating asset quality risks in portfolio. Conversely, the outlook may be revised to 'Negative' in case of any challenges in scaling up operations or in case of any sharp deterioration in asset quality and profitability levels.

MVPL- Key financials (Consolidated)

	Unit	FY2021	FY2020
Total Assets	Rs. Cr.	171.94	102.70
Total Income (Net of Interest Expense)	Rs. Cr.	108.54	74.03
PAT	Rs. Cr.	20.55	35.31
Net Worth	Rs. Cr.	146.76	90.57
Return on Average Assets (RoAA)	(%)	14.96	61.44
Return on Average Net Worth (RoNW)	(%)	17.32	69.89
Total Debt/Tangible Net Worth (Gearing)	Times	0.12	0.06
Gross NPAs	(%)	-	-
Net NPAs	(%)	-	-

Ratios as per Acuite calculations

MFSP- Key Financials (Standalone)

	Unit	FY2021	FY2020
Total Assets	Rs. Cr.	3.25	2.13
Total Income (Net of Interest Expense)	Rs. Cr.	0.21	0.08
PAT	Rs. Cr.	0.06	0.02
Net Worth	Rs. Cr.	3.18	2.12
Return on Average Assets (RoAA)	(%)	2.17	1.59
Return on Average Net Worth (RoNW)	(%)	2.21	1.60
Total Debt/Tangible Net Worth (Gearing)	Times	0.00	0.00
Gross NPAs	(%)	-	-
Net NPAs	(%)	-	-

Ratios as per Acuite calculations

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>
- Consolidation of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Proposed Term Loan	Not Available	Not Available	Not Available	10.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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