

Press Release

Mpokket Financial Services Private Limited

January 25, 2023

Rating Reaffirmed



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---------------------------------------|---------------------|--|----------------------|
| Bank Loan Ratings | 10.00 | ACUITE BBB- Positive Reaffirmed Stable to Positive | - |
| Total Outstanding Quantum (Rs. Cr) | 10.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed 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 has been revised from '**Stable**' to '**Positive**'.

Rationale for the rating

The rating and revision in outlook takes into account the healthy capital position, comfortable leverage marked by gearing of 0.68 times as on September 30, 2022 and improvement in profitability and AUM aided by healthy disbursements at consolidated level. The CAR of MFSPL stood at 28.30 percent at the end of September, 2022. While the financing arm of the group, MFSPL, commenced operations in 2021, Maybright Ventures Private Limited (MVPL) has been originating loans through the group's technology platform 'Mpokket' since 2016. The platform's active customer base stood at 13.82 lac borrowers as on September 30, 2022. This coupled with disbursements of ~ Rs.1605.7 Cr. till September 2022 has resulted in MVPL achieving profitability of ~ Rs.70.50 Cr. with an AUM size of ~Rs.540.98 Cr. as on September 30, 2022.

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. The digital platform of the group is only used by MFSPL (subsidiary). At platform level, delinquencies in 90dpd+ as a percentage of AUM made till September, 2022 stood at 4.27%. 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 improve its resource pool and sustain its growth in profitability & 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 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 53.34 lacs and

Rs.540.98 Cr. respectively as on September 30, 2022.

About the Group

Kolkata based MVPL is holding company of MFSPL. It commenced its operations in 2016 and owns and operates "Mpocket app", through which loans are originated by MFSPL. MVPL is promoted by Mr. Gaurav Jalan who is also part of the board of MVPL and MFSPL. 'Mpocket app', presently caters to college students, recent graduates and young salaried professionals. The platform has an active customer base of 13.82 lac borrowers as on September 30, 2022 and loans of approximately Rs.1605.79 Cr. have been originated through this platform till September 2022 in FY23.

Analytical Approach

Acuité 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 ('Mpocket' platform) and MFSPL.

Extent of consolidation: Full

Key Rating Drivers

Strength

Comfortable capital position

MVPL's consolidated capital position is comfortable marked by networth of Rs.335.57 Cr. as on September 30, 2022. The networth at the end of FY22 stood at Rs. 265.11 Cr. 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 networth 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.205.54 Cr. as on September 30, 2021 comprising of optionally convertible debentures issued to high networth individuals and ICDs. Consequently, gearing is comfortable at 0.61 times as on September 30, 2022 as against 0.58 times as on March 2022.

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

Improved Profitability and Growth in Disbursements

MVPL commenced its operations in 2016 and turned profitable in 3 years of commencing operations with surplus of Rs.70.50 Cr. as on September 30, 2022. The PAT for FY22 stood at Rs.107.85 Cr which improved from Rs. 20.55 Cr. for FY21. The improvement in PAT levels have also led to an increase in RoAA, which improved to 33.7 percent for FY22 from 14.95 percent in FY21. MVPL facilitates lending through 'Mpocket app'. This profitability has been primarily driven by healthy disbursements of approximately Rs.1605.79 Cr. (till September 2022) made through the platform. The disbursements for FY22 stood at Rs. 1904.55 Cr. Acuité notes that Kolkata based lender partner NBFC, Jalan Chemicals Industries Private Limited (JCIPL) has stopped lending through the platform from FY23. Of the total disbursements in FY22, disbursements of about Rs.371.27 Cr. were made by JCIPL. The improvement in disbursements have aided in the growth of the AUM of MFSPL, which stood at Rs. 540.98 Cr at the end of September, 2022. The AUM for FY22 stood at Rs. 388.42 Cr which improved from Rs. 257.76 Cr in FY21.

Acuité notes that the Group continues to 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.

Weakness

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 comprises five members, of whom two are part of the BoD MFSPL (subsidiary), including the promoter, Mr. Gaurav Jalan who is involved in daily operations of both the companies and another is a shareholder representative. The digital platform, 'Mpocket app' has a vintage of nearly six years, it presently has only MFSPL (subsidiary) as lending partner. MFSPL commenced its operations in FY21. At platform level, delinquencies in 90dpd+ as a percentage of AUM stood at 4.27% as on September, 2022. The company does writeoff at 120+ DPD from FY23. During FY22 writeoffs were made at 90+ DPD.

Acuité believes that the ability of MVPL to significantly grow its portfolio (i.e MFSPL) and contain asset quality risks coupled with scaling its operations will be a key monitorable.

Modest resource profile

MVPL (consolidated) has outstanding debt of Rs.205.54 Cr. as on September 30, 2022 comprising of optionally convertible debentures issued to high networth individuals and ICDs. In addition, it has a WCDL facility of Rs.15 Cr. from a bank which was sanctioned in November, 2022. MFSPL currently relies on its parent entity, MVPL and JCIPL for funding in the form ICDs which stood at Rs.387.90 Cr. as on September 30, 2021. Acuité understands that MFSPL is in discussions with multiple lenders for raising external borrowings and its reliance on ICDs shall reduce in the near term.

MFSPL'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, disbursements and collections are largely automated, any breach shall expose the company to cyber events and liabilities arising thereon. Acuite notes that the company has fully complied with the digital lending norms by RBI. Still, the company is exposed to evolving regulatory developments given that the fintech business model is at nascent stage.

Rating Sensitivity

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

Material Covenants

None

Liquidity Position Adequate

MFSPL reported adequate liquidity position with cash and cash equivalents at Rs.37.76 Cr. as on September 30, 2022 with debt financing from parent entity and JCIPL 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.40 Cr. as on

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

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

| Particulars | Unit | FY2022 | FY2021 |
|---|---------|--------|--------|
| Total Assets | Rs. Cr. | 433.18 | 3.25 |
| Total Income (Net of Interest Expense) | Rs. Cr. | 148.36 | 0.21 |
| PAT | Rs. Cr. | 43.68 | 0.06 |
| Net Worth | Rs. Cr. | 101.26 | 3.18 |
| Return on Average Assets (RoAA) | (%) | 20.02 | 2.17 |
| Return on Average Net Worth (RoNW) | (%) | 83.66 | 2.21 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 3.06 | 0.00 |
| Gross NPAs | (%) | - | - |
| Net NPAs | (%) | - | - |

Ratios as per Acuité calculations

Key Financials - Consolidated

| Particulars | Unit | FY2022 | FY2021 |
|--|---------|--------|--------|
| Total Assets | Rs. Cr. | 467.85 | 172.24 |
| Total Income (Net of Interest Expense) | Rs. Cr. | 330.67 | 108.54 |
| PAT | Rs. Cr. | 107.85 | 20.55 |
| Net Worth | Rs. Cr. | 265.11 | 146.77 |
| Return on Average Assets (RoAA) | (%) | 33.70 | 14.95 |
| Return on Average Net Worth (RoNW) | (%) | 52.37 | 17.32 |

| | | | |
|---|-------|------|------|
| Debt/Tangible Net Worth (Gearing) | Times | 0.58 | 0.12 |
| Gross NPAs | (%) | - | - |
| Net NPAs | (%) | - | - |

Ratios as per Acuité calculations

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

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|---------------------------------|
| 28 Oct 2021 | Proposed Term Loan | Long Term | 10.00 | ACUITE BBB- Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------|----------------|--------------------|------------------|----------------|----------------|------------------|-------------------|---|
| Not Applicable | Not Applicable | Proposed Term Loan | Not Applicable | Not Applicable | Not Applicable | Simple | 10.00 | ACUITE BBB- Positive Reaffirmed Stable to Positive |

Contacts

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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