

## Rating Rationale

April 21, 2023 | Mumbai

### mPokket Financial Services Private Limited

'CRISIL BBB/Stable' assigned to Bank Debt

#### Rating Action

|   |                                     |
|---|-------------------------------------|
| <b>Total Bank Loan Facilities Rated</b> | <b>Rs.150 Crore</b>                 |
| <b>Long Term Rating</b>                 | <b>CRISIL BBB/Stable (Assigned)</b> |

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB/Stable**' rating to the bank facilities of mPokket Financial Services Private Limited (mPokket).

The rating reflects mPokket's healthy capitalisation metrics supported by healthy internal accruals and scalable business model aided by technology-based sourcing and assessment. These strengths are partially offset by the inherent vulnerability of asset quality metrics given the segment of borrowers and modest resource profile. The company is vulnerable to the changing regulatory landscape for digital lenders. Any material adverse impact on the business risk profile because of regulatory changes will be a key monitorable.

mPokket is a wholly owned subsidiary of Maybright Ventures Private Limited (MVPL), which was incorporated in 2016 as a technology platform. mPokket is the only NBFC affiliated with the platform and is expected to remain so even going forward.

The consolidated entity, referred to as 'mPokket group', offers loans ranging from Rs 500 to Rs 2,000 for tenors of one month to three months. The primary customer base is salaried customers, which accounts for 55% of the AUM and the balance 45% is college students. This couple of fiscals earlier used to be around 25:75.

mPokket received its NBFC license in fiscal 2021 and started housing the book generated since fiscal 2022. CRISIL Ratings notes that prior to fiscal 2022, the assets under management (AUM) were housed in another NBFC i.e., Jalan Chemical Industries Private Limited (JCIPL). This book is being run down and stood at only Rs 28 crores as on March 31, 2022

#### Analytical Approach

CRISIL Ratings has evaluated the consolidated credit and financial risk profile of the group i.e., mPokket and MVPL, as there are significant operational and managerial linkages between the companies. Additionally, all the equity raises are done at the parent company i.e., MVPL, part of which is infused in MFSPL.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- Healthy capitalisation metrics aided by healthy internal accruals**

The capitalization metrics remained comfortable, driven by healthy internal accruals to support growth. The networth stood at Rs 362 crores as on December 31, 2022, at the consolidated level with gearing of 0.68 times. Capitalisation is supported by profits of Rs 94 crores for the nine months ended December 31, 2022, and Rs 107 crores for fiscal 2022. The group has since inception also raised equity to the tune of Rs ~55 crores till 31<sup>st</sup> Dec 2022. The gearing at the group level is not expected to go beyond 3.0 times in the medium term. Capitalisation is expected to remain comfortable over the medium term by internal accruals and capital infusion, thus providing a cushion against asset-side risks.

The earnings profile for the company has remained comfortable supported by relatively high yields given the business model. The group generates both interest income from the loans and processing fees with each disbursement. Given the short tenure of loans, the disbursements are almost 4X the AUM. Consequently, the processing and other service fees have a significant contribution to the earnings. For the nine months ended December 31, 2022, the other income of the group which is primarily processing fee stood at 40-50% of the total income. Given the shift in the portfolio towards more salaried borrowers, the yields are expected to moderate over the medium term, nevertheless, still remain comfortable.

Despite early stage of operations, the group had been reporting profit since the last couple of fiscals, recording healthy return on managed assets (RoMA) of 21%, with profit after tax (PAT) as a percentage of disbursements at 3.5% for the nine months ended December 2022.

However, credit costs for the group are elevated with the credit costs (as a % of disbursements) at 4.8% as on December 31, 2022 (26.8% of AUM), as against 3.0% (11.4% of AUM) as on March 31, 2022. The group writes off loan accounts at 120+ dpd. Given the faster churn in the portfolio credit costs stem more from disbursements. Operating expenses too remain elevated given the nascent stage of operations at 5.7% as percentage of disbursements (34% as a percentage of AUM).

While relatively high yields on the portfolio supports the earnings profile, going forward, ability to control credit costs and bring down operating expenses will be the key drivers of profitability going forward.

- **Scalable business model aided by technology-based sourcing and assessment**

mPokket group offers unsecured loans of up to Rs. 2000 to young professionals with for a tenure of up to 3 months. The company has a fully automated digital lending model with the loan origination happening through its mobile application. Owing to its digital origination method, the company has a sphere of lending across India. The majority of the sourcing happens via referrals from existing borrowers while the rest stems from other channels of marketing like Facebook, Google, Affiliate partners and API partners.

The origination and disbursements of loans happen through the app, which has an integrated in-house technology platform with an interactive user-friendly app and website to facilitate the borrowers to apply for loans. It has end-to-end integration in terms of loan origination, risk assessment, collections, etc.

Given the business model, the disbursements for the group have grown to Rs 2670 crores for the nine months ended December 31, 2022, as against Rs 1904 crores for fiscal 2022. Consequently, the AUM has also grown to Rs 646 crores as on December 31, 2022, as against Rs 417 crores as on March 31, 2022. The growth in disbursements stem from the increased customer base for the group with live active borrowers at 14,21,999 as on January 31, 2023, which has more than doubled since January 31, 2022. Over the period of the last 2 fiscals, the group has increased the share of salaried customers in the portfolio which stood at 55% as on December 31, 2022, as against 41% as on March 31, 2022 and 25% as on March 31, 2021.

CRISIL Ratings expects that going forward the growth momentum will continue to be strong with the overall portfolio constitution continuing to tilt towards salaried borrowers and will reach 80:20 (Students) in the medium term.

#### **Weaknesses:**

- **Inherent vulnerability in asset quality owing to risks associated with the borrower segment along with limited track record of operation**

The group has put in place strong risk management systems and processes. The lending decision is primarily based on the output from the proprietary credit risk model. Further, the group regularly reviews the model on quarterly basis and makes timely upgrades to the model based on the performance of the portfolio/collections experience. Furthermore, the group initially offers low limit to its borrowers and gradually increase the limit based on the performance of the borrower.

This coupled with strong collection mechanisms has helped the group in maintaining its asset quality, with collection efficiency remaining close to 90% across the pandemic. Consequently, the asset quality in terms of 90+ dpd (adjusted for the last 12 months write offs) at 6.4% as on December 31, 2022, at the consolidated level, as against 2.5% as on March 31, 2022. Further, what supports the asset quality are the high prepayments received because of the low quantum of the loan amount. On an average the group receives 15-20% of prepayment collections.

However, CRISIL Ratings note that the group, at the initial years of its operations, primarily served the student segment and the share of salaried segment has only started increasing in last couple of fiscals. Further, the portfolio lacks seasoning given the scale up in the recent past and the ability to control asset quality metrics would be demonstrated only over the medium term.

- **Relatively high cost of funding in resource profile**

The resource profile of the group remains modest as on December 31, 2022. Of the total outstanding borrowings of around Rs 248 as on December 31, 2022, ~85% was from the partner NBFC against which the average borrowing rate was relatively high. The group has also received sanctions from some banks and other lenders recently. CRISIL Ratings understands the interest rate of the borrowing line from the partner NBFC have been negotiated and the group has also received sanctions from larger banks and NBFCs recently at an average borrowing cost of 11-13%. This should help in bringing the cost of borrowings down from the current levels.

CRISIL Ratings also understands that the management focus is to increase their external borrowings. Therefore, ability to diversify the resource profile and raise funds at competitive costs remains a key monitorable.

**Liquidity: Adequate**

The group had positive cumulative mismatches across buckets as on December 31, 2022. As on December 31, 2022, the group had cash and cash equivalents of Rs 28.01 crores, against which it had debt repayments of Rs164.57 crore for the next 3 months. However, the group has monthly collections of more than Rs 300 crores which supports. Further, the group has available credit line from the partner NBFC which can be dipped into for any exigency.

**Outlook: Stable**

CRISIL Ratings believes mPokket will maintain healthy capitalisation metrics while benefitting from the experience of the promoters. However, asset quality performance and its impact on profitability will be demonstrated only over time.

**Rating Sensitivity factors****Upward factors:**

- Ramp up in operations with the group continuing to report profits along with continued comfortable capitalisation metrics also supported by equity infusion
- Sustainable improvement in asset quality with 90+ dpd (including 12 months write-offs, as a % of disbursements) remaining under 4.0% as the portfolio scales up

**Downward factors:**

- Increase in the steady state gearing of above 4 times
- Adverse movement in asset quality metrics and consequently credit costs, thereby, leading to an impact on the earnings profile of the group.

**About the Company**

mPokket Financial Services Limited (MFSPL) is a non-banking financial company (NBFC) registered with the Reserve Bank of India in October 2020. The company offers short-term loans to salaried individuals and college students who are looking for small-ticket loans for their education or personal needs.

Maybright Ventures Private Limited (MVPL) is the parent company of MFSPL and was founded in 2016 by Gaurav Jalan, and it is headquartered in Kolkata, West Bengal, India. It offers a technology platform for financial services connecting potential loan seekers to loan providers. It facilitates the loan transactions between the borrowers and the NBFCs.

mPokket provides loans starting from Rs 500 to Rs 2,000 with repayment periods up to three months.

mPokket received its NBFC license in fiscal 2021 and started housing the book generated since fiscal 2022. CRISIL Ratings notes that prior to fiscal 2022, the assets under management (AUM) were housed in another NBFC i.e., Jalan Chemical Industries Private Limited (JCIPL). Since 2022, 100% lending is in the books of MFSPL.

**Key Financial Indicators: Maybright Ventures Private Limited - Consolidated**

| As on / for the period ended                               | Unit     | December 2022 | March 2022 |
|--|----------|---------------|------------|
| Total assets   | Rs crore | 728.0         | 467.9      |
| AUM  | Rs crore | 645.8         | 417.1*     |
| Disbursements  | Rs crore | 2669.1        | 1904.6*    |
| Total income   | Rs crore | 457.8         | 337.4      |
| Profit after tax (PAT)                                     | Rs crore | 94.0          | 107.8      |
| 90+ dpd including last 12 months write-offs/ Disbursements | %        | 6.4           | 2.5        |
| Adjusted Gearing   | Times    | 0.7           | 0.6        |
| PAT/ Disbursements   | %        | 3.5           | 5.7        |

\*Includes the numbers of partner NBFC

**mPokket Financial Services Private Limited - Standalone**

| As on / for the period ended                               | Unit     | December 2022 | March 2022 |
|--|----------|---------------|------------|
| Total assets   | Rs crore | 705.6         | 435.9      |
| AUM  | Rs crore | 645.8         | 388.2      |
| Disbursements  | Rs crore | 2669.1        | 1533.3     |
| Total income   | Rs crore | 308.8         | 182.4      |
| Profit after tax (PAT)                                     | Rs crore | 29.7          | 43.7       |
| 90+ dpd including last 12 months write-offs/ Disbursements | %        | 6.4           | 3.0        |
| Adjusted Gearing   | Times    | 3.1           | 3.1        |
| PAT/ Disbursements   | %        | 1.1           | 2.8        |

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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**Annexure - Details of Instrument(s)**

| ISIN | Name of instrument                           | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs.Crore) | Complexity level | Rating assigned with outlook |
|------|--|-------------------|-----------------|---------------|-----------------------|------------------|------------------------------|
| NA   | Proposed Long Term Bank Loan Facility        | NA                | NA              | NA            | 135                   | NA               | CRISIL BBB/Stable            |
| NA   | Working Capital Demand Loan <sup>&amp;</sup> | NA                | NA              | NA            | 15                    | NA               | CRISIL BBB/Stable            |

& - Sublimit with CC of Rs 5 crore

**Annexure – List of entities consolidated**

| Names of Entities Consolidated             | Extent of Consolidation | Rationale for Consolidation |
|--|-------------------------|-----------------------------|
| Maybright Ventures Private Limited         | Full                    | Parent                      |
| mPokket Financial Services Private Limited | Full                    | Subsidiary                  |

**Annexure - Rating History for last 3 Years**

| Instrument            | Current |                    |                   | 2023 (History) |        | 2022 |        | 2021 |        | 2020 |        | Start of 2020 |
|-----------------------|---------|--------------------|-------------------|----------------|--------|------|--------|------|--------|------|--------|---------------|
|                       | Type    | Outstanding Amount | Rating            | Date           | Rating | Date | Rating | Date | Rating | Date | Rating | Rating        |
| Fund Based Facilities | LT      | 150.0              | CRISIL BBB/Stable |                | --     |      | --     |      | --     |      | --     | --            |

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

| Facility                                     | Amount (Rs.Crore) | Name of Lender   | Rating            |
|--|-------------------|------------------|-------------------|
| Proposed Long Term Bank Loan Facility        | 25                | Not Applicable   | CRISIL BBB/Stable |
| Proposed Long Term Bank Loan Facility        | 110               | Not Applicable   | CRISIL BBB/Stable |
| Working Capital Demand Loan <sup>&amp;</sup> | 15                | RBL Bank Limited | CRISIL BBB/Stable |

& - Sublimit with CC of Rs 5 crore

This Annexure has been updated on 21-Apr-23 in line with the lender-wise facility details as on 21-Apr-23 received from the rated entity.

**Criteria Details**

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| <b>Links to related criteria</b>   |
| <a href="#">Rating Criteria for Finance Companies</a>                              |
| <a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a> |
| <a href="#">CRISILs Criteria for Consolidation</a>                                 |

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