M Power Micro Finance Private Limited

June 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	25.00 (Reduced from 48.20)	CARE B+; Stable	Rating removed from ISSUER NOT COOPERATING category; revised from CARE BB+ (Rating Watch with Developing Implications); and removed from Rating Watch with Developing Implications; Stable outlook assigned
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating of M Power Micro Finance Private Limited (M Power) has been due to the Company incurring net losses in FY21, FY22 and 9MFY23, albeit reducing leading to erosion in net worth and significant decline in on book portfolio with the Company not able to raise incremental funding lines over the past two years.

The rating continues to derive strength from support of promoters in the form of equity infusion and rise in off-balance sheet portfolio supported by BC partners. The ability of the company to improve the asset quality and profitability while increasing the scale of operations would remain the key rating sensitivities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Significant rise in the scale of operations while maintaining asset quality.
- Improving profitability with credit costs under control.

Negative factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Continued net losses resulting in further erosion of net worth.
- Lack of significant scale up in loan book over medium term.

Analytical approach: Standalone

Outlook: Stable

The stable outlook factors in CARE Ratings Limited's (CARE Ratings') expectation that M Power will be able to grow its scale of operations while maintaining adequate profitability.

Detailed description of the key rating drivers:

Key weaknesses

Weak profitability: Due to significant rise in the credit costs, M Power reported net losses of ₹4.57 crore in FY21, which further increased to ₹18.34 crore in FY22. In 9MFY23, however, with improving collection efficiency, credit costs lowered, resulting in reduction in net losses to ₹6.23 crore.

With the rising share of off-balance sheet portfolio, fee and other income significantly increased from 3.92% of average assets for FY22 to 19.72% for 9MFY23.

Inability to raise incremental funds: As the company's financial condition has deteriorated in the last two years, it has not been able to raise any incremental funds and has been relying on funding from the promoters. Consequently, total borrowings decreased from ₹43.49 crore as on March 31, 2022 to ₹16.93 crore as on December 31, 2022. It led to a decrease in gearing

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

from 9.82x to 2.06x between the same periods. However, due to high share of off-balance sheet portfolio, asset under management (AUM)/ net worth stands at 16.59xas on December 31, 2022.

Weak asset quality: M Power's asset quality has been deteriorating since FY21. Slippages coupled with declining loan book size, resulted in rise in gross non-performing assets (GNPA) of 9.75% in FY21 to 35.41% as on March 31, 2022. In 9MFY23, GNPA in absolute terms decreased from ₹13.21 crore as on March 31, 2022 to ₹9.57 crore as on December 31, 2022. However, due to declining loan book, GNPA ratio further increased to 57.23% as on December 31, 2022.

M Power has not been doing any fresh disbursements on its own book for the last two years. Disbursements happen only through BC partners- Hinduja Leyland Finance, MAS Financial Services Limited and DCB bank. Considering unsecured nature of loans extended by the company and weak profitability levels, the ability to contain its asset quality remains crucial from the credit perspective.

Regulatory risks and demographical risks inherent in the industry: The microfinance sector continues to be impacted by the inherent risk involved, viz., socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending and marginal profile of borrowers who are vulnerable to economic downturns besides operational risks related to cash-based transaction.

Key strengths

Support from promoters: M Power has been getting timely support from its promoters in the form of equity infusion. ₹1 crore was infused into the company in December 2022 and then again ₹1 crore was infused in March 2023.

The company is promoted by K. M. Vishwanathan, Managing Director & CEO, and K. V. Balaji, COO. K.M. Vishwanathan has over three decades of experience in banking and financial services. He was associated with HDFC Bank, Cholamandalam and Karnataka Bank at senior management level. K. V. Balaji has more than two decades of experience in commercial lending and has expertise in sales strategy, team management and human resources.

Rise in AUM supported by BC partners: M Power's AUM increased from ₹93 crore as on March 31, 2022, to ₹136 crore as on December 31, 2022, which was mainly due to off book portfolio in the form of BC partners. Managed portfolio increased from ₹55.62 crore as on March 31, 2022, to ₹119.62 crore as on December 31, 2022. Around 92% of AUM is off book (BC and DA) and only 8% is on book.

Liquidity: Stretched

As on March 31, 2023, the company had cash and bank balance of ₹4.59 crore against which the company has debt obligations including interest of ₹8.39 crores upto 12 months. Liquidity, however, will be further supported by short tenure of its standard lending portfolio of ₹4.37 crore.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Microfinance Institutions

M Power was incorporated in November 2009 and non-banking finance company (NBFC) license was granted by Reserve Bank of India (RBI) in April 2010. Subsequently, it got registered as NBFC-MFI with RBI on June 22, 2016. The Company commenced its operations from Gujarat and has gradually expanded its operations to neighbouring states of Maharashtra and Rajasthan. It is focused toward its micro-credit business and follows the JLG model for risk mitigation, with business being targeted towards under-privileged women in groups of 10. Each center has typically three to five groups. M Power is promoted by K. M. Vishwanathan and K. V. Balaji, who earlier held senior positions at HDFC Bank, Cholamandalam and Karnataka Bank.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23(UA)
Total operating income	38.69	17.2	9.87
PAT	-4.57	-18.34	-6.23
Interest coverage (times)	0.71	-1.05	-1.08
Total assets	118.27	56.42	34.17
Net NPA (%)	5.19	22.03	42.19
ROTA (%)	-3.07	-21.00	-18.34

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Subordinated Bank Loan		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	October 2024	25.00	CARE B+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	25.00	CARE B+; Stable	-	1)CARE BB+ (RWD); ISSUER NOT COOPERATING* (27-Dec-22)	1)CARE BB+ (CW with Developing Implications); ISSUER NOT COOPERATING* (28-Mar-22)	1)CARE BBB- (CW with Developing Implications) (16-Feb-21) 2)CARE BBB-; Negative (20-May-20)
2	Fund-based - LT-Subordinated Bank Loan	LT	-	-	-	1)CARE BB+ (RWD); ISSUER NOT COOPERATING* (27-Dec-22)	1)CARE BB+ (CW with Developing Implications); ISSUER NOT COOPERATING* (28-Mar-22)	1)CARE BBB- (CW with Developing Implications) (16-Feb-21) 2)CARE BBB-; Negative (20-May-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Subordinated Bank Loan	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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