Press Release

Paisalo Digital Ltd

July 5, 2019

Rating

Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
Fund Based Facilities	990.00	IVR A/Positive Outlook (IVR Single A with Positive Outlook)	Rating reaffirmed and change in outlook from Stable to Positive
Total	**990.00**		

Details of Facility are in Annexure 1

Rating Rationale

The rating derives comfort from long track record of operations of the company, vast experience of the promoters and the management coupled with healthy profitability margins, tie-up with a prominent bank for co-origination of small loans, comfortable asset quality, and comfortable capital structure. The rating is however, constrained by moderate liquidity position and higher reliance on bank funding coupled with higher concentration risk. Ability of the company to grow its loan book with better asset quality, maintaining profitability and managing its liquidity position are the key rating sensitivities.

Detailed Description of Key Rating Drivers

- ***Long track record of operations***

PDL has long track record of operations of over two decades with the current promoter, Mr. Sunil Agarwal managing the affairs of the company since inception. The company was into vehicle financing earlier; however since 2000, it has been providing business loans to SME/corporates and since 2006, Income Generation Loans to individuals. The company launched the product, Loan against Property from 2013 and Income Generation Loans under Joint Lending Scheme since January 2017. The company is also in the process of increasing its retail presence through digital lending platform on the back of its app called "Paisalo Digital" launched in January 2018.

- ***Vast experience of the promoters and the management***

Mr. Sunil Agarwal, the Managing Director of the company, possesses rich experience of 29 years in the SME and retail financing business. He is supported by Mr. Harish Singh, the Executive Director of the company, and a team of qualified & experienced professionals. Mr. Harish Singh is a Chartered Accountant and MBA with more than two decades of experience in the financial sector.

- ***Comfortable capital structure***

The Company has maintained a healthy capital adequacy ratio (CAR) over the years, being well above the RBI's stipulated norm of 15%. As on March 31, 2019, CAR was robust at 33.95% with Tier I CAR being 29.81% [March 31, 2018: 31.67% with Tier I CAR being 31.32%]. This provides considerable leeway to the company to raise funds to support business growth, going forward. The healthy CAR is reflected in its overall gearing ratio which was comfortable at 1.96x as on March 31, 2019.

- ***Tie-up with prominent PSU bank for co-origination of small ticket unsecured loans***

PDL has entered in to an arrangement with a prominent PSU bank, wherein it would originate loans under its income generation loans extended to both individuals and under its group lending schemes, of which 80% would be funded by the PSU bank and the balance would be funded by PDL. PDL would manage the loan including collections and would earn a fee on the off-book AUM. This arrangement would allow PDL to mitigate the risks associated with the unsecured lending portfolio.

- ***Comfortable asset quality***

PDL primarily lends business loans to SME/corporates which are relatively more susceptible to economic slowdown. The company is vulnerable to higher credit risk, given the moderate quality of its portfolio. However, the credit risk under the business loan segment is mitigated to some extent because of collateral back-up in the form of residential/commercial property. Around 11% of the consolidated loan book of PDL is unsecured in nature. However, such loans are primarily extended to dairy farmers for income generating activities providing some comfort.

As per RBI requirement, NBFCs were required to revise NPA recognition norm from 120 days to 90 days from March 31, 2018. PDL has a policy to write off loans NPAs that are considered irrecoverable, while the remaining NPAs are recognised as per the RBI guidelines and provided for. The Gross NPA and Net NPA ratio were comfortable as on March 31, 2019 at 0.30% and 0.26%, respectively. In FY19, the write-offs stood at 2.69% of the portfolio as compared to 2.22% in FY18 (combined write-offs of PDL and Nupur Finvest Private Limited). The company also makes general provision for standard assets in line with RBI requirement.

- ***Healthy profitability Margins***

PDL's primarily extends business loans to SME/corporates and income generation loans to individuals, yielding higher return. This has helped the company in earning healthy profitability margins. PDL's Net Interest Margin (NIM) has been above 10.00% for the past three years (FY2017 to FY2019). Healthy NIM coupled with containment of operating expenses have helped PDL to report higher Return on Total Assets, being in the range of 2.75% to 3.50% during the past three years (FY2017 to FY2019).

- ***Geographic and customer concentration risk***

91% of the loan book comprises business loans which are mainly chunky in nature. Top 20 exposures accounted for around 63% of the net worth as on March 31, 2019. The company's operations are also constrained by geographical concentration risk. Around 95% of the portfolio is concentrated in northern region (Delhi – 80%, U.P – 11%, Rajasthan – 4%). However, the company is taking initiatives to enhance its retail base and to spread its reach into other geographies.

- ***Moderate liquidity position***

PDL has moderate liquidity position on the back of its balanced asset–liability maturity profile. While the loan book has an average tenure of 24 months, the company's borrowings are primarily cash credits from various banks, being virtually long-term in nature. PDL's average utilisation of cash credit facilities during twelve months ended March 2019 was high at around 96%. However, given the comfortable capital structure, PDL has enough headroom to raise additional debt to fund its business growth.

- **Higher reliance on bank funding**

PDL's borrowing requirements are primarily skewed towards bank borrowings (Cash Credit), which account for about 66% of total borrowings. With a view to diversify its resource base, PDL raised Rs.204 crore through NCDs (including subordinated NCDs of Rs.81 crore), accounting for 17% of the total debt of PDL as on March 31, 2019.

Liquidity

Liquidity is marked by adequate accruals with sufficient cushion for repayment obligations and modest cash and cash equivalents to the tune of Rs.14 crore as on March 31, 2019. With a gearing of 1.96 times as of March 31, 2019, the issuer has sufficient gearing headroom, to raise additional debt for its business growth. The company has a balanced ALM profile. There are no negative mismatches in any of the time buckets. However, the average utilisation of its working capital limits were around 96% for the past 12 months.

Analytical Approach & Applicable Criteria

Consolidated Approach – For arriving at the rating, INFOMERICS has considered the consolidated financials of PDL. As on March 31, 2019, the company had one subsidiary – Nupur Finvest Private Limited – that was fully consolidated.

Rating Methodology for Financial Institutions/NBFCs

Financial Ratios & Interpretation (Financial Sector)

About the Company

Incorporated in 1992, PDL is registered with RBI as a non-deposit taking NBFC. The shares of PDL are listed on both BSE and NSE. Mr. Sunil Agarwal, the founder promoter of the company, continues to be the Managing director of the company since inception. PDL primarily extends business loans to SME/corporates and income generation loans to individuals. Over the past 5 years, PDL has expanded its branch network from 10 branches as on March 31, 2014 to 114 branches as on March 31, 2019 (66 branches as on March 31, 2018). The branches are spread across 10 states including Delhi, Uttar Pradesh, Rajasthan, Maharashtra, Gujarat, and Haryana. The company has also been increasingly making more use of technology to improve operating efficiency and reduce the turnaround time. The company is also in the process of increasing its retail presence through digital lending platform on the back of its app called "Paisalo Digital" launched in January 2018.

Infomerics Valuation And Rating Pvt. Ltd.

Financials (Consolidated)

(Rs. Crore)

For the year ended / Rs. Crs	**31-03-2018**	**31-03-2019**
	Audited	**Audited**
Total Operating Income	303.1	360.6
Finance Cost	117.5	149.1
PAT #	53.7	55.6
Total Debt	1,078.5	1,156.7
Adjusted Total Debt$	1,159.4	1,237.6
Tangible Networth @	604.0	658.3
Ratios		
a. PAT Margin	17.72	15.43
b. Overall Gearing ratio	1.79	1.76
c. Adjusted Overall gearing ratio (including cash margin from customers as they are interest bearing)	2.11	1.96

 # Expenditure on CSR and provision on standard assets aggregating to Rs.0.76 crore (FY18:-Rs.4.04 crore) have been adjusted directly in reserves in the balance sheet; for our analysis purpose, those have been charged to P&L Account.
$ Cash margin from customers have been included in Total debt as they are interest bearing.
@Deferred Revenue expenditure aggregating to Rs.5.82 crore (March 31, 2018: Rs.9.68 crore) appearing under "Other Non-current Assets" have been netted of from net worth.

Note: Classification of financial numbers is as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Disclosure: Mr. Gauri Shankar who is a member of the Rating Committee of INFOMERICS is on the Board of Paisalo Digital Ltd. He did not participate in any of the discussions and processes related to the aforesaid rating mentioned herein.

Rating History for last three years:

S. No	**Name of Instrument /Facilities**	**Current Rating (Year 2019-20)**			**Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**	**Date(s) & Rating(s) assigned in 2016-17**
1.	Cash Credit	Long	990.00	IVR	--	IVR A/Stable	--

		Term		A/Positive Outlook		Outlook (March 2018)	

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit Limits	-	-	-	990.00 (including untied portion of Rs.167.50	IVR A/Positive Outlook (IVR Single A with Positive Outlook)

				crore)	