Press Release

Paisalo Digital Ltd

March 28, 2018

Rating

Instrument/Facility	Amount (Rs. Crores)	Rating	Rating Action
Fund Based Facilities	990.00	IVR A/Stable Outlook (IVR Single A with Stable Outlook)	Assigned
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 and comfortable capital structure & liquidity position. The rating is however, constrained by higher reliance on bank funding coupled with higher concentration risk and moderate quality of loan book. Ability of the company to grow its loan book with better asset quality and maintaining profitability are the key rating sensitivities.

List of Key Rating Drivers

- Long track record of operations
- Vastexperience of the promoters and the management
- Healthy profitability Margins
- Comfortable capital structure
- Comfortable liquidity position
- Higher reliance on bank funding
- High concentration risk
- Moderate quality of loan book

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.

- ***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 in the range of 11.75% to 12.75% for the past three years (FY2015 to FY2017). Healthy NIM coupled with containment of operating expenses have helped PDL to report higher Return on Total Assets, being in the range of 3.5%to 4.00% during the past three years (FY2015 to FY2017).

- ***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 December 31, 2017, CAR was robust at 37.08% with Tier I CAR being 36.68% [March 31, 2017:38.08% with Tier I CAR being

37.76%]. 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 1.54as on March 31, 2017.

- ***Comfortable liquidity position***

PDL has comfortable liquidity position on the back of its favourable asset–liability maturity profile. While the loan book has an average tenure of 24 months, the company's borrowings are primarily cash credit limits from various banks, being virtually long-term in nature, providing comfort. PDL's average utilisation of cash credit facilities during twelve months ended December 2017 was comfortable at around 60%.

- ***Higher reliance on bank funding***

PDL's borrowing requirements are primarily skewed towards bank borrowings (Cash Credit facilities), which account for about 72% of total borrowings. With a view to diversify its resource base, PDL raised Rs.95 crore through NCDs in FY17,which accounted for 11% of the total debt of PDL as on March 31, 2017.

- ***High concentration risk***

80% of the loan book comprises business loans which are mainly chunky in nature as compared to retail loans. Top 20 exposures accounted for around 50% of the networth as on December 31, 2017. The company's operations are also constrained by geographical concentration risk. Around 92% of the portfolio is concentrated in northern region (Delhi:- 61%, U.P:- 25%, Rajasthan:- 6%). However, the company is taking initiatives to enhance its retail base and to spread its reach into other geographies.

- ***Moderate quality of loan book***

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 property. Around 20% of the loan book of PDL is unsecured in nature. However, such loans areprimarily extended to self-employed individuals for income generating activities providing some comfort. Going forward, the proportion of unsecured loan portfolio may rise as PDL is taking steps to increase retail loans under JLG and income generation loans for individuals through digital lending platform via its app called "Paisalo Digital".

As per RBI requirement, NBFCs were required to revise NPA recognition norm from 150 days to 120 days from March 31, 2017. PDL has the policy to write off loans as soon as they become NPA, instead of making provision. This revision in the NPA norm coupled with slowdown in economic activity due to demonetisation resulted in increase in bad debts write-off as a proportion of average loan assets from 1.37% in FY16 to 2.63% in FY17. The company also makes general provision for standard assets in line with RBI requirement

Analytical Approach & Applicable Criteria

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. He possesses rich experience of 29 years in SME and retail financing business. He is supported by Mr. Harish Singh, the Executive Director of the company. Mr. Harish Singh is a Chartered Accountant and MBA with more than two decades of experience in the financial sector. PDL's primarily extends business loans to SME/corporates and income generation loans to individuals. Over the last 3-4 years, PDL has been expanding its outreach in a big way to widen its retail reach. It has expanded its branch network from 10 branches as on March 31, 2014 to 50 branches as on December 31, 2017 (26 branches as on March 31, 2017). The branches are spread across the states of Uttar Pradesh, Delhi, Rajasthan, Haryana, Maharashtra and Gujarat. 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.

Financials (Consolidated)

(Rs. Crores)

For the year ended / Rs. Crs	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	205.0	266.5
Interest	66.7	94.3
PAT #	42.6	48.8
Total Debt	596.2	770.8
Adjusted Total Debt$	643.9	851.7
Tangible Networth @	506.7	553.7
Ratios		
a. PAT Margin	20.79	18.33
b. Overall Gearing ratio	1.18	1.39
c. Adjusted Overall gearing ratio (including cash margin from customers as they are interest bearing)	1.27	1.54

 # Expenditure on CSR and provision on standard assets aggregating to Rs.3.02 crore (FY16:-Rs.2.68 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.9.85 crore (March 31, 2016:- Rs.12.91 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: Mr. Gauri Shankar who is a member of the Rating Committee of INFOMERICS is on the Board of Paisalo Digital Limited *(hence, in accordance with the compliance norms he has not participated in any of the discussions and processes related to the aforesaid ratings)*

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 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Cash Credit	Long Term	990.00	IVR A/Stable Outlook	--	--	--

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facility

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