# Press Release

## Paisalo Digital Limited

**September 15, 2023**

**Ratings**

| Instrument / Facility | Amount (Rs. crore) | Previous Ratings | Current Ratings | Rating Action | Complexity Indicator |
|---|---|---|---|---|---|
| Long Term Bank Facilities | 1663.01 | IVR AA-/ Stable (IVR Double A Minus; with Stable Outlook) | IVR AA/ Stable (IVR Double A; with Stable Outlook) | Upgraded | Simple |
| Proposed Long Term Bank Facilities | 436.99 | IVR AA-/ Stable (IVR Double A Minus; with Stable Outlook) | IVR AA/ Stable (IVR Double A; with Stable Outlook) | Upgraded | Simple |
| Proposed NCD | 235.00 | IVR AA-/ Stable (IVR Double A Minus; with Stable Outlook) | IVR AA/ Stable (IVR Double A; with Stable Outlook) | Upgraded | Simple |
| Proposed Commercial Paper | 432.00 | IVR A1+ (IVR A One Plus) | IVR A1+ (IVR A One Plus) | Reaffirmed | Simple |
| Commercial Paper | 18.00 | - | IVR A1+ (IVR A One Plus) | Assigned | Simple |
| NCD | 50.00* | IVR AA-/ Stable (IVR Double A Minus; with Stable Outlook) | - | Withdrawn | - |
| **Total** | **2785.00** | **Rupees Two Thousand Seven Hundred Eighty Five Crore Only** | | | |

*The above amount has not been included in total as these NCD's ratings are being withdrawn as they have been repaid.

**Details of Facilities are in Annexure 1**

**Note**: Mr. Gauri Shankar who is a member of the Rating Committee of INFOMERICS is on the Board of Paisalo Digital Ltd. He does not participate in any of the discussions and processes related to the aforesaid rating and the rating note has not been circulated to him.

**Detailed Rationale**

Informerics Valuation and Rating Private Limited (IVR) has upgraded the long-term rating of bank loan facilities, non-convertible debentures (NCD) to IVR AA with a Stable outlook and reaffirmed/assigned short-term rating of IVR A1+ for the commercial papers (CP) of Paisalo Digital Limited (PDL). IVR has also withdrawn the rating of previously rated NCD of Rs. 50.00 crore as it has received "No objection certificate" from the debenture trustee. The company has repaid the entire listed NCD therefore the rating has been withdrawn.

The rating continues to draw comfort from the established track record of operations and experienced management, improvement in scale of operations and operating profit, comfortable collection efficiency, capital adequacy ratio and low levels of GNPA's and tie-up with prominent PSU bank for co-lending of small ticket loans. However, these strengths are partially offset by portfolio and geographic concentration risk, working capital intensive nature of operations and intense competition in the industry.

The 'Stable' outlook indicates improvement in scale of operations and profitability which likely to sustain. IVR believes PDL's will continue benefit from its operational track record in the business, controlled NPA level, adequate capital adequacy, availability of fund for further growth and higher acceptability of the company in the market.

IVR has principally relied on the consolidated audited financial results of PDL upto 31 March 2023, Q1FY2024 unaudited results and projected financials for FY2024, FY2025 and FY2026, and publicly available information/ clarifications provided by the company's management.

**Key Rating Sensitivities:**

**Upward Factors**

- Substantial improvement in the scale of operations with total income above Rs. 850 crore and asset under management
- Maintains strong asset quality and capital adequacy ratio
- Sustenance of the overall gearing

**Downward Factors**

- Deterioration in overall gearing
- Deterioration in the asset quality and earning profile of the company
- Substantial rise in slippages to NPA's

**List of Key Rating Drivers with Detailed Description**

**Key Rating Strengths**

- **Established track record of operations and experienced management:**
  The company commenced its business loans operations in 2006 and has a successful track record of around 17 years in the existing line of business. Overall activities of PDL are managed by ten directors with Mr. Sunil Agarwal being the Managing Director. He has experience of more than 3 decades in SME and retail financing. He is ably supported by other directors as well as by qualified and well experienced management team.

- **Improvement in scale of operations and operating profit:**
  The total income (TI) has improved by 20.64% to Rs. 473.19 crore in FY2023 as compared to Rs. 392.22 crore in FY2022 mainly due to increase in loan disbursements in FY2023 which in turn increased interest income. The operating profit has improved to Rs. 130.77 crore in FY2023 from Rs. 107.09 crore in FY2022 mainly due to increase in scale of operations. Going forward, the company's continued ability to diversify their resource profile and raise funds at competitive interest rates would add to the profitability of the company.

- **Comfortable collection efficiency, CAR and low levels of GNPA's**
  The collection efficiency has remained at comfortable levels during the past 12 months ending July 2023. The gross and net NPAs remained comfortable at 0.25% and 0.02% in FY2023. In FY2023, PDL's 97.92% of the total portfolio is current and 1.83% falls within 90DPD bucket and remaining 0.25%, are declared as NPA against the total loan portfolio in FY2023 due to better recovery process and quality customers. The capital adequacy ratio remained comfortable at improved to 40.34% in FY2023.

- **Comfortable financial risk profile:**
  The overall gearing remained comfortable at 1.82x in FY2023. The tangible networth has improved to Rs. 1162.54 crore in FY2023 from Rs. 1022.71 crore in FY2022 mainly due to retention of profits.

- **Tie-up with prominent PSU bank for co-lending of small ticket unsecured loans**
  PDL has entered into 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 major share 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. Overall, the company has co-lending arrangement with 5 Public Sector Banks as on date namely viz. State

Bank of India, Bank of Baroda, Karnataka Bank, Punjab National Bank and UCO Bank and assignment transaction with 4 Banks namely viz. South Indian Bank, SBI, Central Bank of India and Bank of Baroda.

**Key Rating Weaknesses**

- **Portfolio and geographic concentration risk:**
  Around 97.23% of the loan book comprises business loans which are mainly chunky in nature. The company's operations are also constrained by geographical concentration risk. Around 97.22% of the portfolio is concentrated in northern region (Delhi – 87.31%, Uttar Pradesh– 8.87%, Rajasthan – 1.04%). However, the company is taking initiatives to enhance its retail base and to spread its reach into other geographies. The company’s MSME portfolio is booked in the Delhi as the underwriting process is centrally done through Delhi office because the larger ticket size component involved in the MSME category specialized staff is required to monitor the transaction. Therefore, with the operational efficiencies involved, MSME portfolio is booked in Delhi (as the booking cannot be made at the branch wise).

- **Working capital intensive nature of operations:**
  PDL’s operations are working capital intensive in nature, supported largely by bank borrowings. The average utilization of fund based working capital limits of the company stood high around ~93% during the last 12 months ending 31st July 2023.

- **Intense competition in the industry:**
  The company is exposed to intense competition from other varied sized NBFCs. The lending industry focused on NBFC financing of varied ticket size is highly fragmented with unorganized/organized lenders also relying for the same set of borrowers. However, to some extent the robust digital model and outreach created by PDL alongwith turnaround time delivered, enables to attract and retain customers.

**Analytical Approach:** For arriving at the ratings, INFOMERICS has applied its rating methodology as detailed in the rating criteria below. IVR has analysed PDL’s credit profile by considering the consolidated financial statements of the NBFC.IVR has taken a consolidated view of the business and financial profiles of Paisalo Digital Limited and its subsidiary viz, Nupur Finvest Private Limited collectively referred to as Paisalo Group because of the commonality of management and business and significant operational and financial linkages between the entities.

**Applicable Criteria:**

Rating Methodology for Financial Institutions/NBFC's
Financial Ratios & Interpretation (Financial Sector)
Policy on Withdrawal of Rating
Criteria for Assigning Rating Outlook

**Liquidity – Adequate**

The liquidity profile of the company remains adequate with no cumulative mismatches in its asset-liability management profile as on June 30, 2023. Further, PDL's has a liquidity cushion of Rs. 80 crore in the form of cash and cash equivalents (Rs. ~4 crore) and undrawn banking lines (Rs. ~76 crore) and as on August 31, 2023. Also, the company maintains surplus liquidity to cover 2 weeks to its debt obligations and operating expenses. IVR does not foresee any liquidity risk in the near term, given PDL's adequate liquidity position and its ability to raise funds.

**About the Company**

Paisalo Digital Limited (PDL) was incorporated in 1992 and is registered with RBI as a non-deposit taking NBFC. The company provides business loans to SMEs/corporates and income generation loans to individuals. Mr. Sunil Agarwal, the founder promoter of the company, continues to be the Managing director of the company since inception. The company is listed on Bombay Stock Exchange and National Stock Exchange.

**Financials (Consolidated):**

(Rs. crore)

| For the year ended as on | 31-03-2022 | 31-03-2023 |
|---|---|---|
| | Audited | Audited |
| Total Income | 392.22 | 473.19 |
| PAT | 79.25 | 93.62 |
| Total Debt | 1,675.96 | 2,117.19 |
| Tangible Networth | 1,022.71 | 1,162.54 |
| Total Assets (excluding deferred tax) | 2,755.19 | 3,351.81 |
| Overall Gearing Ratio (x) | 1.64 | 1.82 |
| Return on Total Assets (%) | 3.19 | 3.08 |
| Gross NPA (%) | 1.52 | 0.25 |
| Net NPA (%) | 1.26 | 0.02 |

**Financials (Standalone):**

**(Rs. crore)**

| For the year ended as on | 31-03-2022 | 31-03-2023 |
|---|---|---|
| | Audited | Audited |
| Total Income | 356.40 | 422.97 |
| PAT | 78.72 | 91.69 |
| Total Debt | 1,481.35 | 1,817.80 |
| Tangible Networth | 1,011.86 | 1,150.19 |
| Total Assets (excluding deferred tax) | 2,548.06 | 3,035.95 |
| Overall Gearing Ratio (x) | 1.46 | 1.58 |
| Return on Total Assets (%) | 3.40 | 3.30 |
| Gross NPA (%) | 1.52 | 0.25 |
| Net NPA (%) | 1.26 | 0.02 |

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Mr. Gauri Shankar who is a member of the Rating Committee of INFOMERICS is on the Board of Paisalo Digital Ltd. He does not participate in any of the discussions and processes related to the aforesaid rating and the rating note has not been circulated to him.

**Rating History for last three years:**

| Sr. No. | Type of Facilities/Instrument | Current Ratings (Year 2023-24) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Tenure | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2022-23 (28 March 2023) | Date(s) & Rating(s) assigned in 2021-22 (26 August 2021) | Date(s) & Rating(s) assigned in 2020-21 (26 August 2020) |
| 1. | Fund Based-Bank Facilities | Long Term | 1663.01 | IVRAA/Stable (Upgraded) | IVRAA-/Stable | IVRAA-/Stable | IVRA+/Stable |
| 2. | Fund Based-Proposed Bank Facilities | Long Term | 436.99 | IVRAA/Stable (Upgraded) | IVRAA-/Stable | IVRAA-/Stable | IVRA+/Stable |

| Sr. No. | Type of Facilities/Instrument | Current Ratings (Year 2023-24) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Tenure | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2022-23 (28 March 2023) | Date(s) & Rating(s) assigned in 2021-22 (26 August 2021) | Date(s) & Rating(s) assigned in 2020-21 (26 August 2020) |
| 3. | Proposed NCD | Long Term | 235.00 | IVRAA/Stable (Upgraded) | IVRAA-/Stable | IVRAA-/Stable | IVRA+/Stable |
| 4. | NCD | Long Term | 50.00 | Withdrawn | IVRAA-/Stable | IVRAA-/Stable | IVRA+/Stable |
| 5. | Proposed CP | Short Term | 432.00 | IVR A1+ (Reaffirmed) | IVR A1+ | - | - |
| 6. | CP | Short Term | 18.00 | IVR A1+ (Assigned) | - | - | - |

**Name and Contact Details of the Rating Analyst:**

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**About Infomerics:**

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.
For more information visit www.infomerics.com.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

**Annexure 1: Details of Facilities**

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|---|---|---|---|---|---|
| Cash Credit/WCDL | - | - | - | 728.75 | IVR AA/Stable |
| Term Loan | - | - | Nov, 2023 | 3.50 | IVR AA/Stable |
| Term Loan | - | - | Mar, 2024 | 18.75 | IVR AA/Stable |
| Term Loan | - | - | Aug, 2024 | 30.00 | IVR AA/Stable |
| Term Loan | | | Sep, 2024 | 10.42 | IVR AA/Stable |
| Term Loan | | | Dec, 2024 | 54.11 | IVR AA/Stable |
| Term Loan | - | - | Mar, 2025 | 43.75 | IVR AA/Stable |
| Term Loan | - | - | Jun, 2025 | 50.00 | IVR AA/Stable |

| | | | | | |
|---|---|---|---|---|---|
| Term Loan | - | - | Sep, 2025 | 34.73 | IVR AA/Stable |
| Term Loan | - | - | Dec, 2026 | 10.00 | IVR AA/Stable |
| Term Loan | - | - | Mar, 2028 | 403.34 | IVR AA/Stable |
| Term Loan | - | - | Jun, 2028 | 241.66 | IVR AA/Stable |
| Term Loan | - | - | May, 2029 | 34.00 | IVR AA/Stable |
| Proposed Term Loan | - | - | - | 436.99 | IVR AA/Stable |
| CP (ISIN: INE420C14011) | April 06, 2023 | 10.00% p.a. | March 27, 2024 | 18.00 | IVR A1+ |
| Proposed CP | - | - | - | 432.00 | IVR A1+ |
| Proposed NCD | - | 9.95% p.a. | - | 50.00 | IVR AA/Stable |
| Proposed NCD | - | 9.95% p.a. | - | 185.00 | IVR AA/Stable |

**Annexure 2: List of companies considered for consolidated analysis:**

| Name of Company | Extent of Consolidation |
|---|---|
| Paisalo Digital Limited (PDL) | Full |
| Nupur Finvest Private Limited (NFPL) | Full |

**Annexure 3: Facility wise lender details:**
[https://www.infomerics.com/admin/prfiles/len-Paisalo-sep23.pdf](https://www.infomerics.com/admin/prfiles/len-Paisalo-sep23.pdf)

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:**

| Name of Instrument | NCD |
|---|---|
| Financial Covenant | -CAR shall be above 25%<br>-NPA lower than 5%<br>-Total debt/TNW not exceed level of 5x |
| Rating Covenant | -If at any time during the tenor of the debentures, the rating of the Issuer's bank facilities/other instruments is downgraded below AA-, the coupon rate shall be increased by 25 basis points for every one notch downgrade Such coupon is applicable from the date of such downgrade until such event is |

| | |
|---|---|
| | cured on the outstanding principal and accrued interest. |
| **Non-Financial Covenant** | -Debentures shall be secured by continuing security by way of an exclusive charge up to extent of 1.10x of principal amount of Debentures outstanding (Security cover) on standard/hypothecated receivable in favour of the Debenture trustee for the benefit of debenture holders<br>-The record date shall be 7 calendar days prior to each coupon payment date/ redemption date.<br>-Quarterly reports on book debts on which charge has been created to be submitted after end of each quarter. |

| **Name of Instrument** | **Commercial Paper (CP)** |
|---|---|
| **Financial Covenant** | Not Available |
| **Rating Covenant** | Not Available |
| **Non-Financial Covenant** | Not Available |

**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 Complexity Level of Rated Instruments/Facilities.