Press Release

Paisalo Digital Limited (PDL)

August 25, 2022

Ratings

Instruments	Amount (INR. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Facility – Cash Credit	905.00 (Increased from INR758.12 Crore)	IVR AA-/Stable Outlook (IVR Double A Minus with Stable Outlook)	Reaffirm	Simple
Long Term Fund Based Facility- Term Loan	155.29 (Increased from INR31.68 Crore)	IVR AA-/Stable Outlook (IVR Double A Minus with Stable Outlook)	Reaffirm	Simple
Non-Convertible Debentures (SERIES - 07-2020)	50.00	IVR AA-/Stable Outlook (IVR Double A Minus with Stable Outlook)	Reaffirm	Simple
Non-Convertible Debentures (SERIES 08-2020)	00.00 (Previously rated INR20.00 Crore)	--	Withdrawn*	Simple
Non-Convertible Debentures (SERIES 11-2020)	0.00 (Previously rated INR16.00 Crore)	--	Withdrawn*	Simple
Proposed Long Term Facility	739.71 (Increased from INR370.20 Crore)	IVR AA-/Stable Outlook (IVR Double A Minus with Stable Outlook)	Reaffirm	Simple
Proposed Non Convertible Debentures	65.00 (Increased from INR29.00 Crore)	IVR AA-/Stable Outlook (IVR Double A Minus with Stable Outlook)	Reaffirm	Simple
Total	**1915.00**			

**The NCDs stands fully paid*

Details of instruments are in Annexure 1

Detailed Rationale

The rating reaffirmation to the bank facilities and Non-Convertible Debentures (NCDs) of Paisalo Digital Limited (PDL) continues to derive strength from its experienced promoters and management team along with its long track record of operations, comfortable capital structure, tie-up with prominent PSU bank for co-lending of small ticket unsecured loans, healthy asset quality and range-bound profitability margins. However, rating strengths are partially off-set by High concentration risk and Uncertainty still involved with COVID-19 global pandemic.

Key Rating Sensitivities

<u>Upward Factors</u>

• Substantial scaling up its operations and diversifying its loan portfolio geographically, while maintaining the asset quality indicators, adequate capital position and profitability on a consolidated basis.

<u>Downward Factors</u>

• Significant deterioration in scale of operations, asset quality and/or capitalization levels on a consolidated basis.

Key Rating Drivers with detailed description

Key Rating Strengths-

- ***<u>Experienced promoters and Management</u>***

Paisalo Group has long track record of operations of over three decades with Mr. Sunil Agarwal managing the affairs of the company since inception. The group 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. PDL launched the product, Loan against Property from 2013 and Income Generation Loans under Co- Lending Scheme since January 2017.

- ***<u>Long track record of operations</u>***

Mr. Sunil Agarwal, the Managing Director of the company, possesses rich experience of ~30 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 over two decades of experience in the financial sector.

- ***Comfortable capital structure***

The group 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, 2022 CAR stands comfortable at 42.92% (FY21:44.47%) with Tier I CAR being 37.73% (37.08%). The overall CAR has been stable backed with increase in business operations which reflects infusion of required capital along with rational utilisation of the existing capital. Overall capital structure provides considerable leeway to the group to raise funds to support business growth, going forward. The group's healthy CAR is reflected in its overall gearing ratio which was comfortable at 1.64x as on March 31, 2022

- ***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. The overall share of this portfolio has also increased to 2.82% in FY22 from 1.34% in FY20. As per the PDL, State Bank of India has signed its first Co-lending arrangement (Priority Sector Loan Agreement) with PDL in FY19. Overall as on date the company has co-lending arrangement with 6 Public Sector Banks as on date namely viz. State Bank of India, Bank of Baroda, Union Bank, Central Bank of India, Bank of India, Bank of Maharashtra and securitisation/assignment with 3 Public Sector Banks namely viz. South Indian Bank, Central Bank of India and SBI.

- ***Healthy asset quality***

The group primarily lends business loans to SME/corporates which are relatively more susceptible to economic slowdown. 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. PDL has a policy to write off loans that are considered irrecoverable (however part recoveries are available each year), while the remaining NPAs are recognised as per the RBI guidelines and provided for (being systematically important NBFC-90 days criteria). The GNPAs and NNPAs as on March 31, 2022 stood at 1.56% and 1.26%, respectively, the marginal decline is due to covid related head winds however the company has strategically maintained its portfolio and the same has improved in Q1FY23 standing with GNPA of 0.81%

and NNPA of 0.39%. The average collection efficiency stands at ~97.76% in FY22 , further for last 4 months ended July, 2022 stands at ~98.68%.

- ***Range-bound profitability Margins***

The group 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. The group's Net Interest Margin (NIM) has been above 8.00% for the past three fiscals ended FY22. Healthy NIM coupled with containment of operating expenses have helped the group to report higher Return on Total Assets, being in the range of 2.50% to 3.50% during the past three fiscals years ended FY22. Further, overall operating income of the group has improved in FY22 as compared to FY21 and stood at INR392.22 Crore in FY22 and INR346.02 Crore in FY21. However, overall PAT margin has increased to 20.21% in FY22 as compared to 16.55% in FY21. The company's Q1FY23 performance has also shown growth in its top line and bottom line as compared to previous year's corresponding quarter along with improvement in asset quality.

Key Rating Weaknesses-

- ***High concentration risk***

Around 96.35% 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 96.84% of the portfolio is concentrated in northern region (Delhi – 88.05%, U.P – 7.34%, Rajasthan – 1.45%). 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 UT of Delhi as the underwriting process is centrally done through Delhi office, however the exposure is diversified in 2125 postal pin-codes at PAN India level with 174 branches as on Q1FY23 (increased from 129 branches in FY21) because being 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)

- ***Uncertainty still involved with COVID-19 global pandemic:***

Global pandemic has contributed to a significant decline and volatility in global & Indian markets and a significant impact in economic activity. The group's businesses might get impacted by lower lending opportunities and decline in collection efficiencies as the uncertainties remains. However, the company's capital & liquidity position remains strong.

Analytical Approach: Consolidated

For arriving at the rating, Infomerics has taken the consolidated approach of Paisalo Digital Limited (PDL) and its wholly owned subsidiary, Nupur Finvest Private Limited (NFPL) collectively known as Paisalo group. Moreover, PDL has given corporate guarantee for bank facilities of NFPL.

Applicable Criteria:

Rating Methodology for Financial Institutions/NBFCs
Criteria for rating outlook

Liquidity: Adequate

Liquidity is marked by adequate accruals with sufficient cushion for repayment obligations and adequate cash and cash equivalents to the tune of INR10.34 Crore as on March 31, 2022. With a gearing of 1.64 times as of March 31, 2022, the company has sufficient gearing headroom, to raise additional debt for its business growth. The company has a balanced ALM profile. However, the average utilization of its working capital limits were ~87% for the 12 months ended July 2022.

About the Company

Incorporated in 1992, PDL is registered with RBI as a non-deposit taking systemically important 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.

Financials: Consolidated **(Rs. Crore)**

For the year ended/ As On*	31-3-2021 (Audited)	31-3-2022 (Audited)
Total Operating Income	346.02	392.22
Interest Expenses	161.95	184.11
PAT	57.28	79.25
Total Debt	1,321.57	1,675.96

Tangible Net-worth	863.01	1,022.12
Total Loan Assets	2,119.13	2,591.49
Ratios (%)		
PAT Margin (%)	16.55	20.21
Overall Gearing Ratio (x)	1.53	1.64
Total CAR (%)	44.47	42.92
Gross NPA (%)	0.72	1.56
Net NPA (%)	0.56	1.26

**Classification as per Infomerics' standards*

Financials: Standalone **(Rs. Crore)**

For the year ended/ As On*	31-3-2021 (Audited)	31-3-2022 (Audited)
Total Operating Income	311.55	356.40
Interest Expenses	143.76	166.79
PAT	56.82	78.71
Total Debt	1,185.96	1,481.35
Tangible Net-worth	850.89	1,011.40
Total Loan Assets	1,903.31	2348.27
Ratios (%)		
PAT Margin (%)	18.24	22.09
Overall Gearing Ratio (x)	1.39	1.46
Total CAR (%)	44.47	42.92
Gross NPA (%)	0.72	1.56
Net NPA (%)	0.56	1.26

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: None

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. did not participate in the rating exercise for this Company, including the rating decision. Also the rating note was not sent to Mr. Gauri Shankar.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (August 26, 2021)	Date(s) & Rating(s) assigned in 2020-21 (August 26, 2020)	Date(s) & Rating(s) assigned in 2019-20 (February 22, 2020)

1.	Long Term Fund Based Facility – Cash Credit	Long Term	905.00	IVR AA-/Stable Outlook	IVR AA-/Stable Outlook	IVR A+/Stable Outlook	IVR A/ Positive Outlook
2.	Long Term Fund Based Facility-Term Loan	Long Term	155.29	IVR AA-/Stable Outlook	IVR AA-/Stable Outlook	IVR A+/Stable Outlook	--
3.	Non-Convertible Debentures (SERIES - 07-2020)	Long Term	50.00	IVR AA-/Stable Outlook	IVR AA-/Stable Outlook	IVR A+/Stable Outlook	--
4.	Non-Convertible Debentures (SERIES 08-2020)	Long Term	0.00	Withdrawn	IVR AA-/Stable Outlook	--	--
5.	Non-Convertible Debentures (SERIES 11-2020)	Long Term	0.00	Withdrawn	IVR AA-/Stable Outlook	--	--
6.	Proposed Long Term Facility	Long Term	739.71	IVR AA-/Stable Outlook	IVR AA-/Stable Outlook	IVR A+/Stable Outlook	IVR A/ Positive Outlook
7.	Proposed Non Convertible Debentures	Long Term	65.00	IVR AA-/Stable Outlook	IVR AA-/Stable Outlook	IVR A+/Stable Outlook	IVR A/ Positive Outlook

Name and Contact Details of the Rating Team:

Name: Jayshree Purohit
Tel: (022) 62396023
Email: jpurohit@infomerics.com

Name: Amit Bhuwania
Tel: (022) 62396023
Email: abhuwania@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of

Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. 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, suspend 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
Long Term Fund Based Facility – Cash Credit	--	--	--	905.00	IVR AA-/Stable Outlook
Long Term Fund Based Facility- Term Loan	--	--	Up to November, 2024	155.29	IVR AA-/Stable Outlook
Non-Convertible Debentures (SERIES - 07-2020)	July, 2020	10.50%	Up to April, 2023	50.00	IVR AA-/Stable Outlook
Proposed Long Term Facility	--	--	--	739.71	IVR AA-/Stable Outlook
Proposed Non Convertible Debentures	--	--	--	65.00	IVR AA-/Stable Outlook

Annexure 2: List of companies considered for consolidated analysis:

Name of the 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-Digital-aug22.pdf

NCD Details –

Name of Trustee	**IDBI Trusteeship Services Limited**
Instrument Description	10.50% SECURED RATED LISTED TAXABLE BONDS IN THE NATURE OF DEBENTURES. SERIES -07-2020. DATE OF MATURITY 21/04/2023
Issue Size	INR50 Crore
ISIN No	INE420C07015
Date of Allotment	16-Jul-2020
Redemption Date	21-Apr-2023
Coupon Rate	10.50%
Coupon Repayment timeline	PAYABLE QUARTERLY ON 16/10/2020,16/01/2021 AND SO ON TILL MATURITY.
Objective/Purpose of the Issue	Onward lending

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.