Press Release

Paisalo Digital Limited (PDL)

August 26, 2020

Ratings

Facilities	Amount (INR crore)	Ratings	Rating Action
Cash Credit	759.75 (Reduced from 822.50)	IVR A+ / Stable Outlook (IVR Single A Plus with Stable Outlook)	Revised
Proposed Long Term Facility	91.25 (Increased from 67.50)	IVR A+ / Stable Outlook (IVR Single A Plus with Stable Outlook)	Revised
Term Loan	39.00	IVR A+ / Stable Outlook (IVR Single A Plus with Stable Outlook)	Assigned
Non-Convertible Debentures	50.00	IVR A+ / Stable Outlook (IVR Single A Plus with Stable Outlook)	Assigned
Proposed Non-Convertible Debentures	50.00 (Reduced from 100.00)	IVR A+ / Stable Outlook (IVR Single A Plus with Stable Outlook)	Revised
Total	**990.00**	**(Nine Hundred and Ninety crore Only)**	

Details of Facilities are in Annexure 1

Rating Rationale

The revision in the rating factors overall improvement in operational & financial parameters (operating income, capital adequacy, cost to income ratio, gearing and adequate liquidity position) in FY20 along with satisfactory performance in Q1FY21.

The rating continues to derive comfort from long track record of operations, 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, moderate asset quality and comfortable capital structure. The rating is however, constrained by a higher concentration risk.

Key Rating Sensitivities

Upward Factor

- Substantial improvement in the scale of operations along with better asset quality and reduction in geographical concentration.
- Ability of the Company to maintain its capitalization metrics.

Downward Factor

- Substantial deterioration in asset quality.
- Any Sharp fall in profitability.
- Significant adverse change in the liquidity position.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long track record of operations:

PDL has long track record of operations of over two decades with 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.

Experienced promoters and Management:

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 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, 2020, at standalone level, CAR has further improved to 43.06% with Tier I CAR being 37.74% [March 31, 2019: 34.04% with

Tier I CAR being 29.89%]. 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 remains comfortable at 1.62x as on March 31, 2020 [FY19: 1.76x].

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.

Moderate 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.
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 GNPAs and NNPAs as on March 31, 2020 stood at 0.44% and 0.34%, respectively. The total write-offs in FY20 stood at 3.88% as compared to 2.69% in FY19. 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 four fiscals (FY2017 to FY2020). Healthy NIM coupled with containment of operating expenses have helped PDL to report higher Return on Total Assets, being in the range of 2.50% to 3.50% during the past four years (FY2017 to FY2020). The Cost to income ratio has also improved to 27.53% in FY20 as against 35.26% in FY19.

Adequate liquidity position:

PDL has adequate 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 2020 was high at around 96%. However, given the comfortable capital structure, PDL has enough headroom to raise additional debt to fund its business growth.

Key Rating Weaknesses

High concentration risk:

The Company loan book is mainly concentrated to business loans. The Company's operations are also constrained by geographical concentration risk. Around 97.74% of the portfolio is concentrated in northern region (Delhi – 78.24%, U.P – 15.63%, Rajasthan – 3.87%). However, the company is taking initiatives to enhance its retail base and to spread its reach into other geographies.

Analytical Approach:

Consolidated: Details of entities consolidated are given in Annexure 2.

For arriving at the rating, INFOMERICS has considered the consolidated approach of PDL and its wholly owned subsidiary Nupur Finvest Private Limited.

Applicable Criteria:

Rating methodology for Financial Institutions / NBFCs

Financial Ratios & Interpretation (Financial Sector)

Liquidity: Adequate

Liquidity is marked by adequate accruals with sufficient cushion for repayment obligations and modest cash and cash equivalents to the tune of Rs. 34.99 Crs (Includes restricted fixed deposit of Rs. 1.03 Crs) as on March 31, 2020. With a gearing of 1.62 times as of March 31, 2020, the Company 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 utilization of its working capital limits were around ~96% for the 12 months ended March 2020.

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.

Financials (Consolidated) **(Rs. crore)**

For the year ended* / As On	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	360.60	374.77
Finance Cost	149.11	156.55
PAT	55.63	53.20
Total Debt	1156.69	1237.09
Adjusted Total Debt	1237.59	1317.99
Tangible Networth	658.31	762.29
Ratios		
PAT Margin (%)	15.43	14.19
Overall Gearing Ratio (x)	1.76	1.62
Gross NPA (%)	0.26	0.44
Net NPA (%)	0.23	0.34

*Classification as per Infomerics' standards

During Q1FY21, the Company has reported an operating income of Rs. 86.56 Crs at consolidated level.

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

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

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years			
		Type	Amount (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (February 22, 2020)*	Date(s) & Rating(s) assigned in 2019-20 (July 5, 2019)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18 (March 28, 2018)
1	Cash Credit	Long Term	759.75	IVR A+ / Stable Outlook	IVR A / Positive Outlook	IVR A / Positive Outlook	--	IVR A / Stable Outlook
2	Proposed Long Term Facility	Long Term	91.25	IVR A+ / Stable Outlook	IVR A / Positive Outlook	IVR A / Positive Outlook	--	IVR A / Stable Outlook
3	Term Loan	Long Term	39.00	IVR A+ / Stable Outlook	--	--	--	--
4	Non-Convertible Debentures	Long Term	50.00	IVR A+ / Stable Outlook	--	--	--	--
5	Proposed Non-Convertible Debentures	Long Term	50.00	IVR A+ / Stable Outlook	IVR A / Positive Outlook	--	--	--

***Reclassification of proposed rated facility.**

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:

Press Release

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 Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	--	--	--	759.75	IVR A+ / Stable Outlook
Proposed Long Term Facility	--	--	--	91.25	IVR A+ / Stable Outlook
Term Loan	--	--	Dec 2023	39.00	IVR A+ / Stable Outlook
Non-Convertible Debentures	--	--	Apr 2023	50.00	IVR A+ / Stable Outlook
Proposed Non-Convertible Debentures	--	--	--	50.00	IVR A+ / Stable Outlook

Annexure 2: Entities considered for consolidated analysis

Name of the company	Consolidation Approach
Nupur Finvest Private Limited	Full Consolidation