

Press Release

(Assignee Payout- Paisalo Digital Limited, Purchaser - Bank of Baroda)

September 07, 2020



Rating Assigned

Assignee Payout*	Rs. 118.21 Cr.
Long Term Rating	ACUITE A (SO) (Assigned: Converted from Provisional to Final rating)

* Refer Annexure for details

Rating Rationale

Acuité has converted the provisional rating to final rating of '**ACUITE A (SO)**' (**read as ACUITE A (Structured Obligation)**) to the Assignee Payout transaction originated by Paisalo Digital Limited (The Originator). The assignee payout comprises of a pool of secured MSME loans with principal outstanding of Rs.118.21 Cr. The conversion from provisional rating to final rating reflects the fulfilment of the conditions laid out in the press release dated 09th June, 2020.

The rating is based on the strength of cash flows from the selected pool of contracts and the credit enhancement is available in the form of:

- (i) Cash collateral of Rs. 38.05 core (32.19 percent of the pool principal outstanding) to be provided by the Originator,
- (ii) Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure.

Acuite understands that this transaction is being undertaken under the Partial Credit Guarantee (PCG) scheme of GOI. (<https://pib.gov.in/Pressreleaseshare.aspx?PRID=1595952>)

The rating assigned is finalized based on the fulfilment of conditions under the structure, copies of legal documents executed in accordance with the structure and an independent legal opinion furnished by the Originator, to the satisfaction of Acuité.

About the Originator (Paisalo Digital Limited)

Delhi based, Paisalo Digital Limited (PDL) incorporated in 1992, is a systemically important non deposit taking NBFC engaged in extending loans to MSME/SME for working capital needs and extending small loans for income generation purpose to individual borrowers as well as under Joint Liability Group (JLG) model. PDL primarily operates in ten states, namely, Rajasthan, Gujarat, Maharashtra, Uttar Pradesh, Haryana, Himachal Pradesh, Uttarakhand, Bihar, Punjab and National Capital Territory of Delhi, through a network of 115 branches as on March 31, 2020. PDL's AUM stood at Rs. 1904.44 Cr as on March 31, 2020 with the primary exposure towards secured MSME loans at Rs. 1702.96 Cr (89 percent of AUM), the balance comprised of small loans to individual borrowers (11 percent of AUM). The ticket size of MSME portfolio ranges between Rs.0.5 Lakhs to Rs. 10 Cr. PDL recorded a net profit of Rs. 54.13 Cr for March 31, 2020 while its reported GNPA stood at 0.44% as on March 31, 2020.

PDL's equity shares are listed on Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE). The promoter and promoter group hold 27.74 percent of the aggregate shareholding in the company, with remaining 72.26% held by Public/FIs, DIs and Mutual Funds.

Assessment of the pool

The current pool of Rs. 118.21 Cr. (Rs.99.53 Cr. as on July 31, 2020) comprises ~6.94 percent of PDL's overall MSME loan exposures as on March 31, 2020. The pool constitutes MSME loans of 241 individual borrowers. The borrowing profile mostly comprises of small traders engaged in agriculture and allied activities coming from rural and semi-urban areas of Delhi, Gujarat, Rajasthan, Uttar Pradesh and Bihar. Around 97.6 percent of the outstanding pool principal is from repeat borrowers with the balance being first time borrowers.

The underlying term loans are repayable on a monthly basis and the original maturity ranges between 18-60 months. The underlying loans are generally secured by either business assets (stock receivables), land

and building or a combination of both. Of pool principal outstanding of Rs.118.21 Cr, 52 % of pool principal (68 borrowers) has Loan to Value (LTV) ratio between 0.7 times to 1 time, followed by 32 % of pool principal (45 borrowers) with LTV greater than 1 time and remaining 16 % of pool principal (128 borrowers) with LTV of below 0.7 times.

In terms of the vintage of origination, loans in respect of 104 borrowers (currently comprising 72% of the pool principal outstanding) were originated between June 01, 2018 and March 31, 2019. The balance 137 borrowers (comprising 28% of pool principal outstanding) were originated between October 01, 2015 and May 31, 2018. The loans have fixed interest rates. The average outstanding per borrower was Rs.0.49 Cr. with highest individual outstanding of Rs. 2.27 Cr. The top 10 borrowers of the pool account for Rs. 20.51 Cr. i.e. 17.35 percent of the pool outstanding.

As on the pool cut-off date, May 31, 2020, the pool was 46.1 percent amortised with an aggregate principal outstanding balance of Rs. 118.21 Cr. The weighted average seasoning of the pool is 19 months. As on the pool cut-off date of May 31, 2020, Rs.4.42 Cr. of interest due but not paid due to moratorium has been capitalised and included in the pool principal outstanding of Rs.118.21 Cr.

Credit Enhancements (CE)

The transaction is supported in the form of:

- i) Cash collateral of 32.19 percent of the pool principal in the form of fixed deposit with assignee in the name of the assignor with a lien marked in favour of the trustee. The cash collateral includes negative Excess Interest spread (EIS) in the first payout month.
- ii) Excess interest spread (EIS) in the pool

Transaction Structure

The transaction is structured at par. The settlement will be on a monthly basis. Collections of a particular month will be utilized to make interest and principal payouts to an assignee. Any excess amount after making payment to assignee will flow back to the originator. The collection and payout account will be maintained with the assignee under the authority of the trustee representative. The payouts of the pool are expected to end by May 2024.

Brief Methodology:

Acuité has arrived at a base case delinquency estimate in respect of the loan assets being sold to the assignee as per the methodology and has applied further stress multipliers to factor in the likely pressure on pool performance, emanating from the current challenging operating environment. The outbreak of COVID-19 and consequent lockdown announced by the government has impacted the movement of men and materials. This, in turn, has impacted the performance of several economic units, including traders, manufacturing units and the individuals. The impact on MSME segment has been very severe, especially in the way of their low shock-absorbing capacity.

While Acuité has added elevated stress factors while arriving at the final delinquency levels, the current juncture is vitiated due to the continuously evolving operating environment. While Acuité believes that the impact on most of the borrowers would be transient, there is always a possibility of some of the borrowers facing an enduring impact on their credit profile. In the event of a structural impairment of the credit profile of some of the borrowers, the extent of recoverability and realisability of the collateral will be critical. Acuité believes that the recovery rates are expected to be much lower in the near future due to the expected contraction in economic activity.

Acuité understands that the pool is under moratorium (both principal and interest) till May 31, 2020 and the extent of permanent stress, if any, will be ascertainable only after the moratorium period has expired and the lockdown has been relaxed to a significant extent. Acuité has relied on the discussion from management, data provided by PDL and publically available information for inputs while arriving at the cash collateral.

Legal Assessment:

Acuité has relied on the documents submitted by assignor, i.e. Deed of assignment, Credit Collateral Agreement, Servicer Agreement, legal opinion dated August 28, 2020 from Wadia Ghandy & CO., etc. along with Acuité internal legal vetting, while converting the ratings from provisional to final.

Key Risks

- **Counterparty Risks**

The borrower class typically comprise of small traders who are engaged in agriculture and allied activities in rural and semi urban areas. The credit profile of such borrowers will depend on the level of agricultural and also other economic activities in their area of operations, this in turn will have an impact on the pool cash flows.

- **Concentration Risks**

The pool is relatively granular in nature accounting for 241 individual borrowers. However, it is required to be noted that top 25 borrowers nearly account for 35 percent of pool principal outstanding of Rs.118.21 Cr. Geographically, the pool is concentrated in Delhi with ~87% of the pool, followed by Uttar Pradesh at ~8% and the remaining pool was collectively from Rajasthan, Gujarat and Bihar.

- **Servicing Risk**

Since the current pool of borrowers in the transaction is retail in nature, there are significant requirements in terms of monitoring, collections and servicing the payouts. The on-going restrictions on movement of people and infrastructural challenges could result in logistical challenges in servicing of the pool transaction. PDL has been undertaking direct assignment transactions since 2018, however this is its first assignee payout transaction.

- **Regulatory Risk**

In the event of government or RBI announcing changes in regulatory framework, applicable to MSME borrowers or banks/NBFCs, it could have implications on the performance of pool. The behaviour of pool borrowers in ensuring timely payments will also be influenced by regulatory environment and policies governing delinquent borrowers. This is specially in respect of post moratorium period. In the event of any leniency in the regulatory framework towards delinquent borrowers, ensuring timely payments from the borrowers could be a challenging task.

- **Prepayment Risk:**

The pool is subject to prepayment risks. In case of significant prepayments, the assignee will be exposed to interest rate risks, since the cash flows from prepayment will have to be deployed at lower interest rates.

Liquidity Position: Adequate

The liquidity position is primarily transaction is majorly supported by cash collateral of Rs. 38.05 Cr. i.e. 32.19% of the pool principal which is marked as a lien to the Assignee. There is moderate gap available between total expected collections from the pool is Rs. 133.86 Cr. against scheduled payouts of Rs. 127.15 Cr over the life of the transaction.

Key Rating sensitivity

- Sharp increase in delinquencies i.e. PAR 90+ days past due.
- Decline in credit quality of originator which could impact the servicing of the pool, in the opinion of the rating agency.
- Changes in regulatory environment

Material Covenants

None

Key Financials – Originator (Paisalo digital Limited)

Particulars	Unit	FY20	FY19
Total Assets	Rs. Cr.	2247.55	2175.11
Total Income*	Rs. Cr.	218.22	211.49
PAT	Rs. Cr.	54.13	56.38
Net Worth	Rs. Cr.	765.98	664.12
Return on Average Assets (RoAA)	(%)	2.45	2.67
Return on Average Net Worth (RoNW)	(%)	7.61	8.88
Total Debt/Tangible Net Worth (Gearing)	Times	1.67	1.94
Gross NPA [^]	(%)	0.44	0.23
Net NPA [^]	(%)	0.34	0.26

*Total income equals to Net interest income plus other income

^reported

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Securitised transactions - <https://www.acuite.in/view-rating-criteria-48.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of the Facilities	Size of the Issue (Rs. Cr.)	Ratings/Outlook
June 12, 2020 (Erratum)	Assignee Payout-PDL-BOB	118.36	ACUITE PROVISIONAL A (SO) (Assigned)
June 09, 2020	Assignee Payout-PDL-BOB	118.21	ACUITE PROVISIONAL A (SO) (Assigned)
March 19, 2020	Assignee Payout-PDL-BOB	118.36	ACUITE PROVISIONAL A (SO) (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Assignee Payout-PDL-BOB	-	10.00 (MCLR+1.50%+0.25%)	-	118.21	ACUITE A (SO) (Converted from Provisional to final Rating)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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