

Press Release

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

March 12, 2021



Rating Withdrawn

Assignee Payout*	Rs. 118.36 Cr.
Long Term Rating	ACUITE PROVISIONAL A (SO) (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has withdrawn the rating of '**ACUITE PROVISIONAL A (SO)**' (read as **ACUITE Provisional A (Structured Obligation)**) to the Assignee Payout transaction of originated by Paisalo Digital Limited (The Originator). The assignee payout comprised of a pool of secured MSME loans with principal outstanding of Rs.118.36 Cr. The transaction was not initiated, and hence the rating is being withdrawn. The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating and pursuant to a request received from the company in this regard.

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

- (i) Cash collateral of Rs. 13.78 core (11.64 % 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.

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 lending 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 116 branches as on December 31, 2019. PDL's AUM stood at Rs. 1934.30 Cr as on December 31, 2019 with the primary exposure towards secured MSME loans at Rs. 1673.56 Cr (87 % of AUM), the balance comprised of small loans to individual borrowers (13 % of AUM). The ticket size of MSME portfolio ranges between Rs. 10 Lakhs to Rs. 5 Cr. PDL recorded a net profit of Rs. 56.4 Cr in FY 2019 while its GNPA post write offs stood at 0.23% as on March 31, 2019.

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 % of the aggregate shareholding in the company, with remaining 72.26% held by Public/FIIs, DIs and Mutual Funds.

Assessment of the pool:

The current pool of Rs. 118.36 Cr. comprised ~7.07 % of PDL's overall secured MSME loan exposures as on December 31, 2019. The pool constituted MSME loans of 244 individual borrowers. The borrowing profile comprised 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 97.7 % of the outstanding pool principal were from repeated borrowers with the balance being first time borrowers.

The underlying term loans were repayable on monthly basis and were secured in nature. The original maturities of these loans ranged between 18-60 months. The loans had fixed interest rates. The average outstanding per borrower was Rs. 48.50 lakhs with highest individual outstanding of Rs. 2.48 Cr. The top 10 borrowers of the pool accounted for Rs. 20.74 Cr. i.e. 17.53 % of the pool outstanding.

As on the pool cut-off date, February 29, 2020, the pool was 54.7 % amortised with an aggregate principal outstanding balance of Rs. 118.36 Cr. The weighted average seasoning of the pool was 19 months. As on

the pool cut-off date of February 29, 2020, there were no overdues from the designated loans of the pool.

Credit Enhancements (CE)

The transaction was supported in the form of:

- i) Cash collateral of 11.64 % of the pool principal in the form of fixed deposit with assignee in the name of the originator with a lien marked in favour of the trustee.
- ii) Excess interest spread (EIS) in the pool

Transaction Structure

The transaction was structured at par. The settlement was supposed to be on monthly basis.

Brief Methodology:

Acuite has arrived at a base case delinquency estimate of 4% - 5 % in respect of the loan assets being sold to assignee. Acuite has further applied appropriate stress factors to the base loss figures to arrive at the final loss estimates and consequently, the extent of credit enhancement required. The final loss estimates also considers the risk profile of the particular asset class, i.e. secured MSME loans, the borrower strata, economic risks and the collection efficiency record over the past nine months. Acuite has also considered the adequate track record of operations of the originator and the initial pool characteristics while arriving at the final loss estimate.

Assessment of Adequacy of Credit Enhancement:

Acuite has arrived at a base case delinquency estimate of 2%-3% % in respect of the loan assets being securitised. Acuite has further has applied appropriate stress factors to the base loss figures to arrive at the final loss estimates and consequently the extent of credit enhancement required. The final loss estimates also consider the risk profile of the particular asset class i.e. unsecured loans, the borrower strata, economic risks and the demonstrated collection efficiency over the past eleven months. Acuite has also considered the limited track record of operations of the originator and certain pool parameters while arriving at the final loss estimate. Acuite has accounted for the probable impact of COVID19 in the transaction for its analysis.

Legal Assessment:

The assessment is based on the draft terms; the final legal opinion will be on the documents required for conversion from provisional to final rating.

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 cashflows.

- **Concentration Risks:**

Since the pool is granular, i.e. underlying assets in the pool are in nature of retail loans to 244 individual borrowers, hence the risk is significantly mitigated. Geographically, the pool is concentrated in Delhi with ~84% of the pool, followed by Uttar Pradesh at ~8%, Bihar at ~4% and the remaining pool was collectively from Rajasthan and Gujarat.

- **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.

- **Servicing Risk**

There is limited track record of servicing assignee payout transactions, since this is the first assignee payout transaction for PDL. However, PDL has undertaken some direct loan assignment with banks.

- **Regulatory Risk**

In the event of any regulatory stipulation impacting the PCG scheme of GOI or the securitisation market as a whole, the payouts to the assignee may be affected.

Liquidity Position: Adequate

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to Rs.13.78 Cr, i.e. 11.64% of the pool principal outstanding. The payout will also be supported by an internal credit enhancement in the form of excess interest spread.

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.

Material Covenants

The following covenant is included in the transaction structure: The collection in month M will be deposited into the Collection and Payout Account (CPA) in the month (M+1).

Key Financials – Originator (Paisalo digital Limited)

Particulars	Unit	FY19	FY18
Total Assets	Rs. Cr.	2175.11	2042.48
Total Income*	Rs. Cr.	211.49	190.12
PAT	Rs. Cr.	56.38	57.75
Net Worth	Rs. Cr.	664.12	613.70
Return on Average Assets (RoAA)	(%)	2.67	3.17
Return on Average Net Worth (RoNW)	(%)	8.88	9.84
Total Debt/Tangible Net Worth (Gearing)	Times	1.94	2.07
Gross NPA [^]	(%)	0.23	0.24
Net NPA [^]	(%)	0.26	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	Term	Size of the Issue (Rs. Cr.)	Ratings/Outlook
March 19, 2020	Assignee Payout-PDL-BOB	Long	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	-	118.36	ACUITE PROVISIONAL A (SO) (Withdrawn)

Contacts

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About Acuite Ratings & Research:

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