

Press Release

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

September 03, 2021

Rating Withdrawn



| | |
|-------------------------|------------------------------|
| Assignee Payout* | Rs. 118.21 Cr. |
| Long Term Rating | ACUITE A (SO) (Withdrawn) |

* Refer Annexure for details

Rating Rationale

Acuite has withdrawn the rating of '**ACUITE A (SO)**' (read as **ACUITE A (Structured Obligation)**) to the Assignee Payout transaction originated by Paisalo Digital Limited (The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 comprised of a pool of secured MSME loans with principal outstanding of Rs.118.21 Cr. The transaction has been paid in full, and hence the rating is being withdrawn.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 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:

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

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

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.

Assessment of the pool:

The pool of Rs. 118.21 Cr. comprised ~6.94 percent of PDL's overall MSME loan exposures as on March 31, 2020. The pool constituted MSME loans of 241 individual borrowers. The borrowing profile mostly 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 97.6 percent of the outstanding pool principal were from repeat borrowers with the balance being first time borrowers.

The underlying term loans were repayable on monthly basis and the original maturity ranged between 18-60 months. The underlying loans were 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) had 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 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.

Based on the position as on May 29 2020, PDL had extended moratorium to all their pool borrowers for instalments upto May 31, 2020 and consequently, the final maturity has been extended by 2 to 3 months. In case, the management of PDL decides to extend further moratorium due to lockdown extensions or other reasons beyond May 31, 2020, the cashflows will require to be revised and the case will have to be revisited, including the credit enhancement.

Credit Enhancements (CE)

The transaction was supported in the form of:

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

Transaction Structure

The transaction was structured at par. The settlement was on monthly basis. Collections of a particular month was utilized to make interest and principal payouts to assignee. Any excess amount after making payment to assignee flowed back to the originator. The collection and payout account was maintained with the assignee under the authority of the trustee representative.

Assessment of Adequacy of Credit Enhancement:

Acuite has arrived at a base case delinquency estimate in respect of the loan assets being sold to 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 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 way of their low shock absorbing capacity.

While Acuite 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 Acuite 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. Acuite believes that the recovery rates are expected to be much lower in the near future due to the expected contraction in the economic activity.

Acuite 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. Acuite 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:

The assessment is based on the executed documents.

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:

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 in the transaction is adequate. The initial cash collateral available in the transaction amounted to Rs.38.05 Cr. The payout was also 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.
- Changes in regulatory environment

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).

Outlook: Not applicable

Key Financials – Originator (Paisalo digital Limited)

| Particulars | Unit | FY21 | FY20 |
|---|---------|---------|---------|
| Total Assets | Rs. Cr. | 2294.39 | 2247.55 |
| Total Income* | Rs. Cr. | 167.78 | 218.22 |
| PAT | Rs. Cr. | 60.26 | 54.13 |
| Net Worth | Rs. Cr. | 854.48 | 765.98 |
| Return on Average Assets (RoAA) | (%) | 2.65 | 2.45 |
| Return on Average Net Worth (RoNW) | (%) | 7.46 | 7.61 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 1.42 | 1.67 |

*Total income equals to Net interest income plus other income

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 |
|--------------------|-------------------------|-----------|-----------------------------|---|
| September 07, 2020 | Assignee Payout-PDL-BOB | Long term | 118.21 | ACUITE A (SO) (Assigned; converted to final from provisional rating) |
| June 09, 2021 | Assignee Payout-PDL-BOB | Long term | 118.21 | ACUITE PROVISIONAL A (SO) (Assigned) |

*Annexure – Details of instruments rated

| Lender Name | Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|----------------|-------------------------|------------------|-------------|----------------|-----------------------------|------------------------------|
| Not Applicable | Assignee Payout-PDL-BOB | Not applicable | 10.00 | Not applicable | 118.21 | ACUITE A (SO) (Withdrawn) |

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About Acuité Ratings & Research:

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