

PAISALO

EASY LOAN आसान लोन

Co-Lending to Fuel Growth.....

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Paisalo Digital Ltd (PAISALO) was one of the first NBFC to enter into a co-origination loan agreement to improve priority sector lending with India's largest bank State Bank of India. Ample liquidity with banks along with Paislo's digital capability and strength of providing last mile connectivity is a winning combination.

Going forward, we expect the company to grow its loan book at CAGR 26% in FY 21-23E. At CMP the stock trades at 3.1x its FY22E BV and 2.8x its FY23E BV (Peak valuation 4.0x its FY22E BV). **We initiate coverage on Paisalo with a BUY rating giving a P/BV multiple of 3.6x on FY23E BV to arrive at target price of Rs 900 i.e. upside of 26%.**

Investment Thesis:

- Paisalo has signed co-lending agreements with major PSU banks like SBI, Bank of India, Bank of Maharashtra and Bank of Baroda. It has the first mover advantage in this space.
- **End to End digital framework built:** The company has built end to end digital framework with SBI following all the regulations of co lending. Can partner with multiple banks and start disbursal process with each bank immediately.
- **Reduction in MSME book, Complete focus on co-lending with SBI-** Company is continuously reducing its exposure to its MSME book (which is 99% secured) and growing its microfinance book on a continuous basis.
- **Best in class asset quality over the years:** This is the strongest point of the company as GNPA and NNPA has been consistently <1%. Even during covid pandemic company has managed to maintain stable asset quality with FY21 GNPA, NNPA at 0.72%/0.57% and Q1'22 GNPA/NNPA at 0.70%/0.48% respectively.
- **Priority sector target:** All domestic scheduled commercial banks must lend 40% of adjusted net bank credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. To achieve this target, banks need the reach of NBFCs. Paisalo can expand their book at a rapid pace thanks to their agreements with PSU banks.
- **Pincode matching technology:** There are 19283 pin codes in the country, the company monitors pin codes wise default percentages across all pin codes where in all loan accounts where principal outstanding is less than INR 2 Lakhs across all lending activities like two wheeler loan, consumer loan, personal loan, credit card, gold loan, MFI loan, etc.
- From there they filter the pin codes where in is default is less than 2% and map those pin codes to company's existing branches (if within radius) or they keep them for mapping new branches that they are planning to open in states where they intend to deepen penetration of credit.

Financial Summary

Y/E Mar (Rs Mn)	FY20	FY21	FY22E	FY23E
NII	2180	1840	2400	3040
Adj net profit	540	600	800	1070
Net worth	7660	8650	9390	10470
Adj BVPS	180	202	218	243
EPS (Rs)	13	14	19	25
P/ABV (x)	3.9	3.5	3.2	2.9
P/E (x)	54	50	37	28
RoA (%)	2.5	2.6	2.7	2.7
RoE (%)	7.6	7.5	8.8	10.8

Source: Dalal & Broacha Research, Company

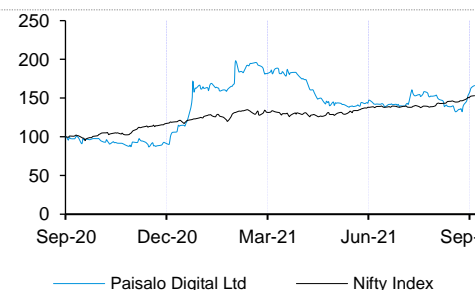
Rating	TP (Rs)	Up/Dn (%)
BUY	900	26

Market data

Current price	Rs	712
Market Cap (Rs.Bn)	(Rs Bn)	30
Market Cap (US\$ Mn)	(US\$ Mn)	406
Face Value	Rs	10
52 Weeks High/Low	Rs	880/346
Average Daily Volume	('000)	118
BSE Code		532900
Bloomberg		PAISALO:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	40.64	43.78
Public	59.36	56.22
Others	0.00	0.00
Total	100	100

Source: BSE

Company Background

Paisalo Digital Limited (PAISALO), an Investment and Credit-Systemically Important Non Deposit Taking Non Banking Financial Company (NBFC-ND-SI). PAISALO’s beginning dates back to 1992 when it started its finance business with the name of S.E. Investments Private Limited. Now it is carrying out its business from more than 132 offices and has presence in ten States of the Country and with focus on financing of self-employed borrowers, a segment which is still untapped/ unserved, driven by rising affluence, aspiration and favorable demographics.

Company lends to following two segments:

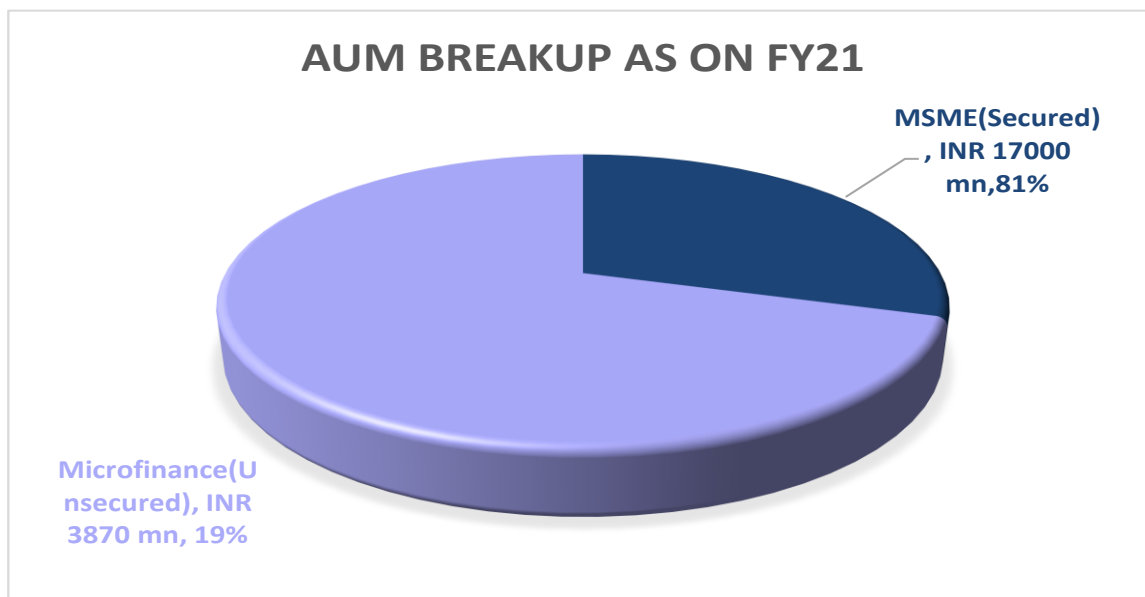
1. Small Finance Division:

Target Group: This division works for lower income generation group. Focus mainly is in rural & semi urban areas. Loan is granted only for income generation activities i.e. Dairy Farming, Cycle Rickshaw, Cattle Farming, Tiny Traders, Handicraft work, Papad making, and similar other activities. (ii) Ticket Size: Ticket Size for such loans ranges from INR. 15,000 to INR. 2,00,000. (iii) Tenor & Terms of Repayment: Tenor Ranges from 18 months to 24 months. Repayment of loan is on EMI basis. (iv) Scheme: Income Generation Loans, Paisalo-JLG, Co-origination Scheme with SBI.

2. Corporate Loan Division

Target Group: This division works for funding to SME’s, Corporate Group, Educational Institutions, Loan against Property etc. The company provides loan only for working capital requirement; company never ever funds for project financing. (ii) Ticket Size: Loan size under this category primarily ranges in between INR. 25 lacs to INR 5 crores. (iii) Tenor & Terms of Repayment: Tenor under this category ranges between 18 to 36 months. Repayment terms are monthly equated Installment (EMI). (v) Scheme: MSME’s / SME / BUSINESS LOANS MSME’s / SME / BUSINESS LOANS - Paisalo Digital Limited offers customizable MSME, SME and Commercial loan based on borrower’s profile.

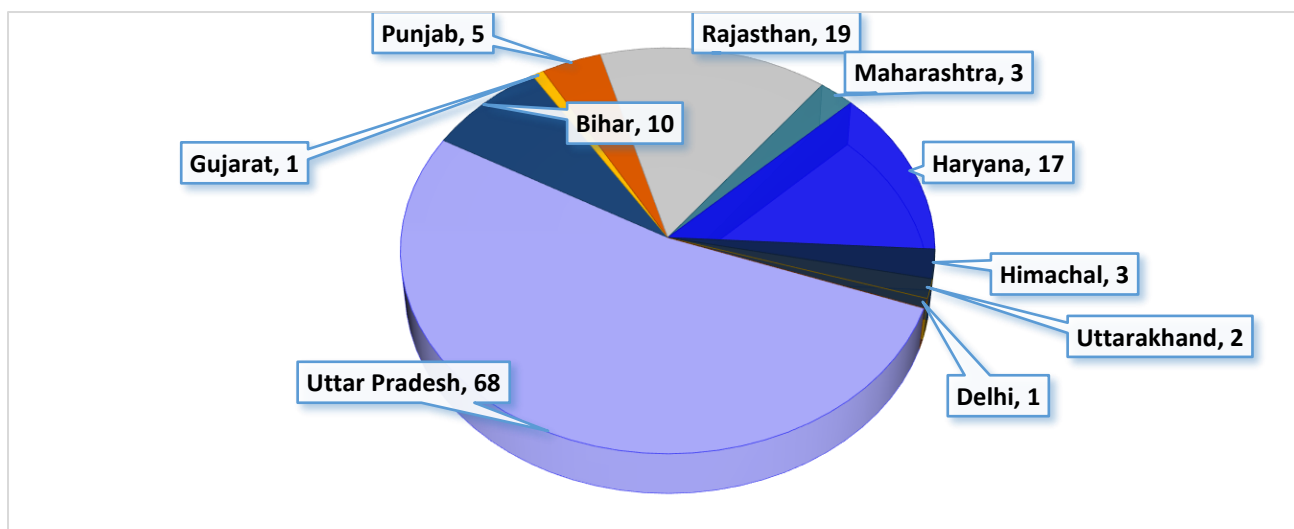
Exhibit 1: (Figure in INR millions)



Source: Dalal & Broacha Research, Company

Geographical Breakup of Branches

Exhibit 2: No of branches state wise:



Source: Dalal & Broacha Research, Company

RBI introduced revised co-lending scheme in November 2020 which can be a game-changer.

In 2018 RBI had put in place a framework for co-origination of loans by banks and Non-Banking Financial Companies (NBFCs) for lending to the priority sector subject with certain conditions. However, this model faced operational challenges since, although the credit parameters are predefined between the co-lenders, the turn-around time of banks for approvals are much longer than NBFCs which blunts the sharpness of the model.

Some of the major changes in the new scheme that gives impetus to co lending are:

- 1) The erstwhile Regulations for priority sector lending covered co-lending transactions of Banks and Systemically Important NBFCs. However, under the Co-Lending Model. The CLM covers all NBFCs (including HFCs).
- 2) The erstwhile guidelines required that the interest rate charged on the loans originated under the co-lending guidelines would be calculated as per Blended Interest Rate Calculations, that is to say the rate shall be calculated by assigning weights in proportion to risk exposure undertaken by each party, to the benchmark interest rate of the respective lender.
The current guidelines require that the interest rate shall be an all inclusive rate that is mutually agreed by parties. This change would provide flexibility to the lenders and also ensure that the cost incurred in tracing and disbursements to remote sectors as well as enhanced risk exposure is appropriately compensated.
- 3) The erstwhile regulation allowed banks to cherry pick the customers sourced by the NBFC's before disbursing credit. The current guidelines prevents banks from choosing which customers to give credit to in the co-lending process and the onus is on NBFC's to choose the customers and banks most likely will have to participate. If they cherry pick it will be known as direct assignment transaction. Even in co-lending banks can do ex-ante due diligence but the credit-screens are pre-arranged and on a case by case basis or so-called "cherry picking" basis, the participating bank cannot select or dis-select loans. This change will reduce TAT and give more freedom to NBFC in selecting customers.

Paisalo Agreement with SBI and features of the co-lending agreement signed

- Paisalo Digital signed the first co-origination loan agreement with State Bank of India in April 2019, the first agreement of its kind in the country that State Bank of India had signed.
- The main reason co-lending agreement was signed was to provide small loans to lower rung of society at affordable rates.
- The strategy was SBI's low cost of funds and Paisalo's low cost of operations will offer the lowest borrowing cost to customer. (approx rate 12%). The borrowing cost for the borrower is extremely low in comparison to the rates charged by the MFIs (goes as high as 22%).
- SBI contributes 80% of value under the model, paisalo contributes 20%. The risk and reward are shared in the same 80:20 ratio.
- Paisalo sources and services the customers. The collection efforts are also handled by Paisalo.
- The agreement signed between Paislo and SBI (co-origination of small ticket size priority sector loans) does not have an expiry clause.

Why is it beneficial for SBI to go for co-lending?

- Allows SBI to know more about the borrower at the very inception stage on Paisalo's digital platform, by various credit checks thus ensuring very high due diligence and remote chances of default; in case of Direct Assignment it is a pool and due diligence on credit parameters of each and every loan account is not practically possible.
- Allows SBI to leverage on PAISALO's digital platform, experience and low cost of operations in small ticket size income generation loans.
- Allows SBI to earn 10% on 'Priority Sector Loans' without any cost.
- Helps SBI meet its 'Priority Sector' Goal shortfall (Priority sector target: All domestic scheduled commercial banks must lend 40% of adjusted net bank credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher).
- SBI in its FY 21 annual report has clearly stated that co-lending is set to be the new focus area for the Bank to bolster its Priority Sector loans. Through the co-lending arrangement, SBI has sanctioned 38,000 loans in the last one year in a complete digitisation mode for loans up to INR 1 lakh. SBI has a priority sector book of INR 5,64,000 crores as on FY21 up from INR 5,26,000 crores in FY20.

Why is this beneficial for Paisalo Digital Ltd to go for co-lending?

- Co-lending has opened up liquidity windows for market players which boosts confidence. This unique liquidity window through banking channels will provide growth capital for Paisalo on a sustainable basis. In the absence of co-lending directives, lenders have remained reluctant to increase their exposure directly to NBFCs.
- The co-lending agreement that the company has signed with SBI and other banks will enable it to raise capital in a much easier route compared to other NBFC's.
- It is an excellent avenue for Paisalo to grow their assets under management. It will omit the occurrence of funding related challenges or capital constraints.
- Paisalo can aggressively compete with microfinance companies and SFBS

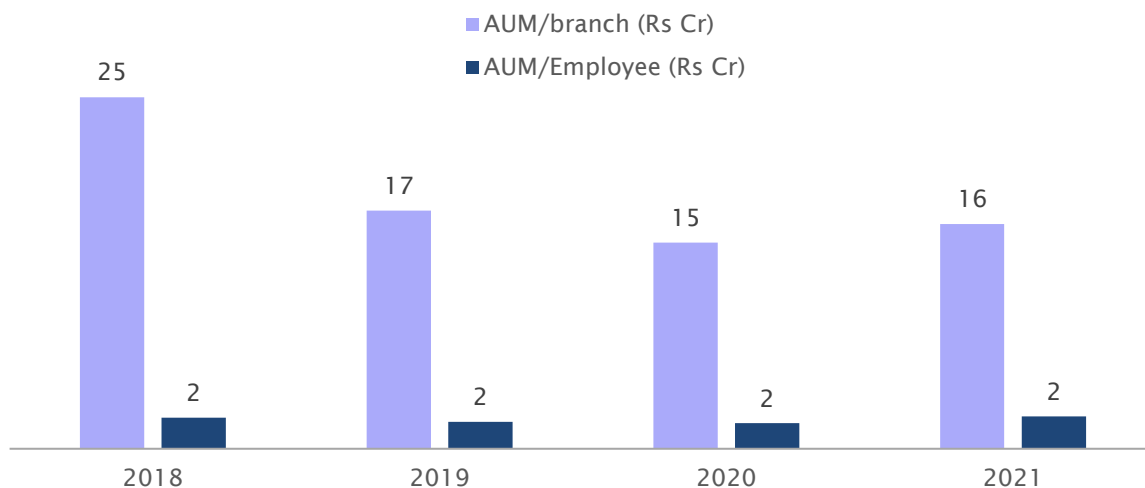
Advantage of Securitization of book by Paisalo

- Paisalo Digital can securitise both 20% Co-Origination book and Non Co-Origination Book. This can free up capital for further lending.
- Post securitisation, servicing and recovery of borrower will be done by PAISALO, but in case of default by borrower PAISALO will not be liable for payment of securitized portion from its own funds.
- PAISALO and SBI can securitise there portion of the co-origination portfolio by taking prior permission from each other , as the case maybe.

Securitisation done by Pasialo Digital Ltd till date -

- With State Bank of India - INR 415.26 crores, repaid - INR 359.89 crores, outstanding - INR 55.37 crores
- With Central Bank of India - INR 23.19 crores, repaid - INR 6.99 crores, outstanding - INR 16.3 crores
- With South Indian Bank - INR 58.47 crores, repaid - INR 37.02 crores, outstanding - INR 21.45 crores
- With Bank of Baroda - INR 118.21 crores, repaid - INR 96.08 crores, outstanding - INR 22.13 crores

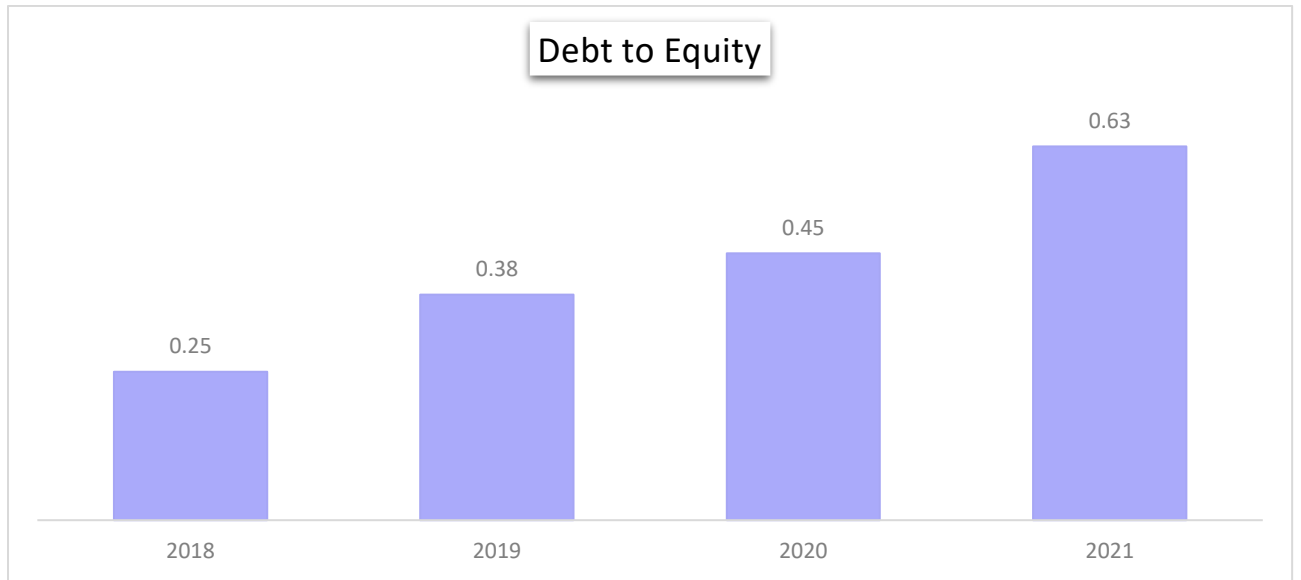
Exhibit 3: AUM/branch and AUM/employee should pick up in FY22 and FY23



Source: Dalal & Broacha Research,Company

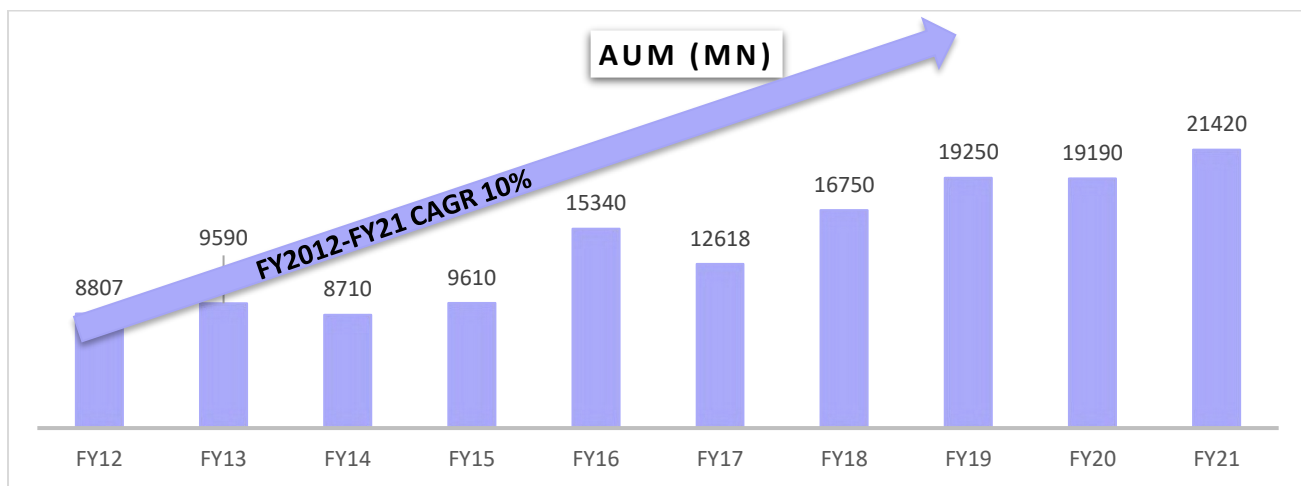
Stable Earnings while maintaining industry leading asset quality

Exhibit 4: Debt/equity of less<1 maintained



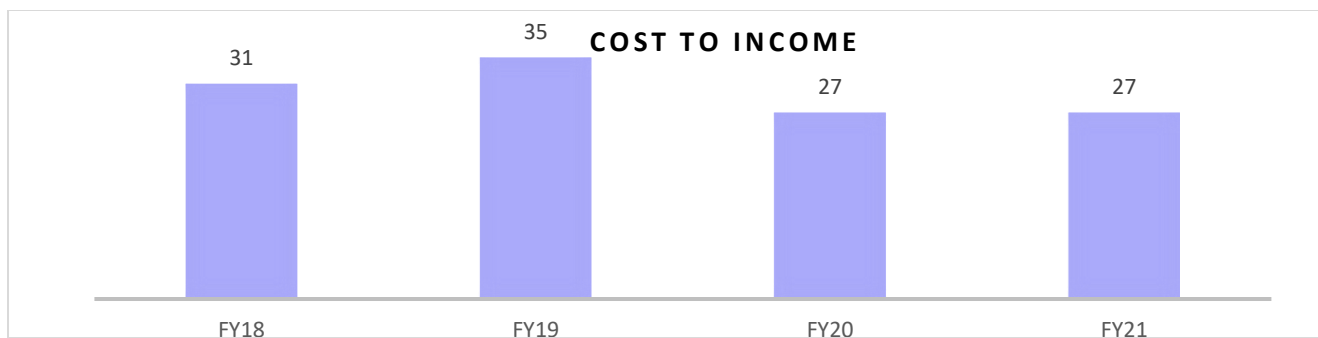
Source: Dalal & Broacha Research, Company

Exhibit 5: Stable Growth in AUM



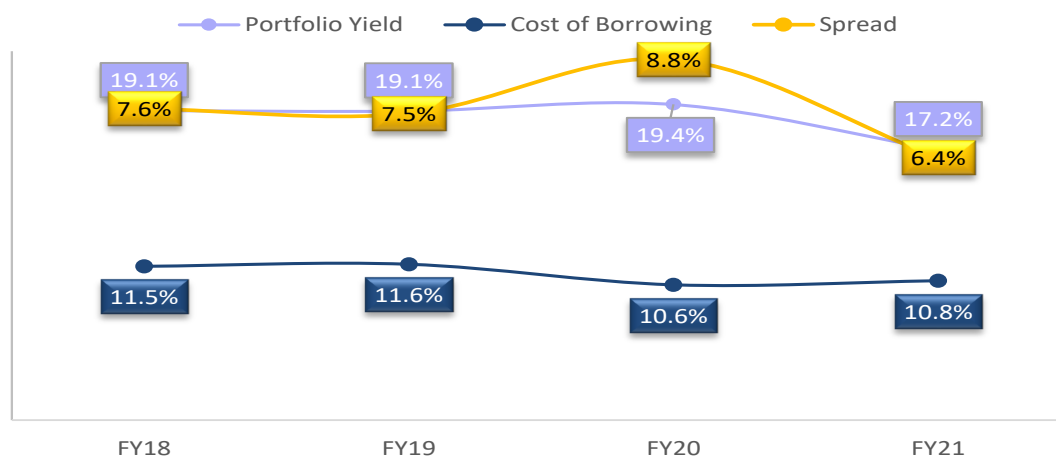
Source: Dalal & Broacha Research, Company

Exhibit 6: Reducing trend in cost to income, amongst lowest in the industry



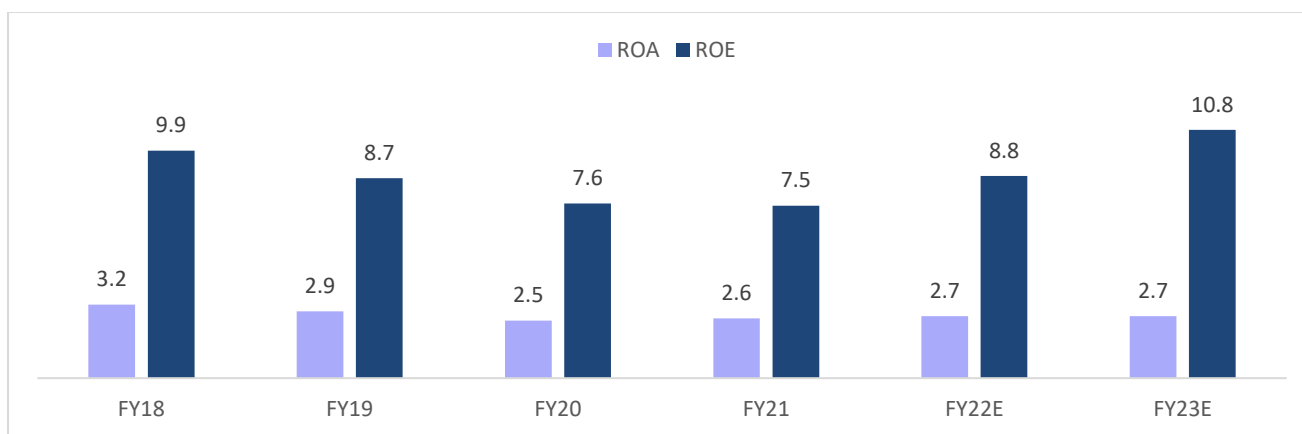
Source: Dalal & Broacha Research, Company

Exhibit 7: Stable spreads



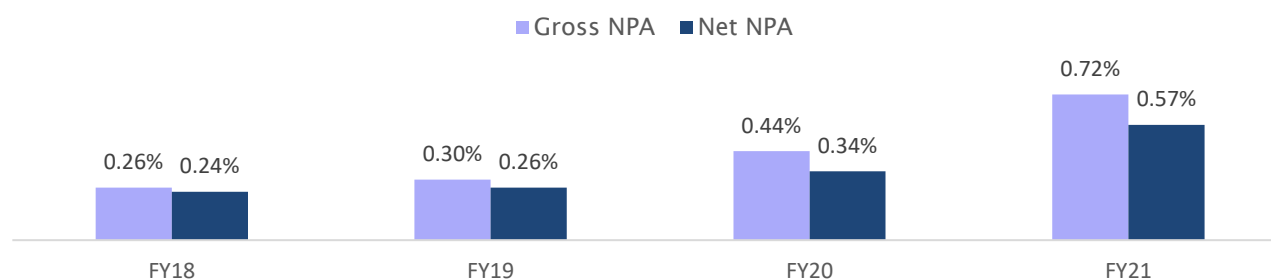
Source: Dalal & Broacha Research, Company

Exhibit 8: Stable ROA/ROE



Source: Dalal & Broacha Research, Company

Exhibit 9: Industry best asset quality



Source: Dalal & Broacha Research, Company

Exhibit 10: Peer comparison

FY21	NIM	COF	C/I Ratio	GNPA	NNPA	ROA	ROE	Yield
Paisalo Digital	8.9	10.8	27	0.7	0.5	2.6	7.5	17.2
Credit Access Grameen	9.3	9.1	38	4.4	0.0	1.0	4.1	17.6
Satin Creditcare	9	8.5	57	8.4	3.3	-0.1	-0.9	17.5
Equitas Small Finance Bank	8.4	7.5	60	3.6	1.6	1.7	12.5	15.0
Ujjivan Small Finance Bank	9.5	7	60	7.1	2.9	0.04	0.3	15.5
AU Small Finance Bank	5.2	6.5	43	4.3	2.2	2.5	22.0	10.1
Spandana Spoorthy	15.4	11.4	22	3.1	1.4	7.8	20.9	23.1

Source: Dalal & Broacha Research, Company

Exhibit 11

FY21	AUM (Rs Bn)	CAGR (FY16-FY21)	Disbursements (Rs Bn)	ATS (Rs 000)	CAR	FY21 (P/BV)	FY22 (P/BV)	FY23 (P/BV)
Paisalo Digital	23.1	7	14	27	44.4	3.4	3.1	2.8
Credit Access Grameen	116.3	35	96.4	29	31.8	2.9	2.7	2.3
Satin Creditcare	72.7	17	44	33	25.3	0.3	0.3	0.3
Equitas Small Finance Bank	179.3	24	75	30	25.1	2.2	1.9	1.6
Ujjivan Small Finance Bank	151.4	23	84	39	26	1.1	1	1
AU Small Finance Bank	377.1	36	175.9	500	23.4	5.8	5.0	4.3
Spandana Spoorthy Ltd	81.5	46	64.2	30	40	1.5	1.1	1

Source: Dalal & Broacha Research, Company

SBI selects Paisalo Digital for engagement as Corporate Business Correspondent

SBI in July this year selected Paisalo Digital Ltd as National Corporate Business Correspondent of the Bank for financial inclusion by providing banking services through kiosks. This is a major development as this indicates the trust SBI has on Paisalo Digital Ltd and will help to improve the value and volume and customer experience of the Company's already up and running fully digital small loan business under SBI loan Co-origination with the Bank. Although the finer details of the engagement is not yet known engagement will help Paisalo to increase share of fee/service income in total income in future which is negligible currently.

Launch of EASE 4.0 or Enhanced Access and Service Excellence in August 2021 – a common reform agenda for PSBs aimed at institutionalising clean and smart banking.

Co-lending with nonbanking finance companies (NBFCs), digital, agriculture financing, and technological resilience for 24x7 banking are expected to be part of Ease 4.0 Index, a reform agenda for 2021-22 for public sector banks

A huge focus has been given to data analytics, automation, and digitization. Finance Ministry is pushing PSU banks to get into co-lending agreements to enhance credit growth.

Risks in the business

- Third wave of covid striking the nation is the biggest risk. The company has managed to navigate through two waves and we feel is inherently strong to withstand a third wave, but growth can slow down.
- Any negative change in rules and regulations pertaining to co-lending.

Promoter and Management

40.64% is owned by the promoters Mr Sunil Agarwal, Mr Santanu Agarwal, Ms Suneeti Agarwal. Mr. Sunil Agarwal is a founder member, Promoter and Managing Director of the Company with an experience of over three decades. Mr Santanu Agarwal, the son of Mr Sunil Agarwal is the deputy CEO and his name appeared in the coveted Forbes 30 under 30 under finance category in 2021.

Valuation and Outlook

Microfinance as a sector is highly underpenetrated in India. We like the company's direction to expand their co-lending book with major PSU banks. The company's co-lending microfinance book is small hence have not been majorly affected by covid at a time when all microfinance companies and SFB have suffered with huge NPA's. Now with majority of the country getting vaccinated the company can press hard on the growth pedal and expand their microfinance book giving attractive rate (all-inclusive rate of 12%) to the borrower without any legacy issues. We have seen that majority of the PSU banks are looking to take the co-lending route to expand their priority sector book and Paisalo Digital with its digital infrastructure can be a major beneficiary going forward. **We initiate coverage on the company with a "BUY" rating giving a P/BV, multiple of 3.6x on FY23E BV to arrive at a target price of INR 900 i.e upside of 26%.**

Company Financials

P&L (Rs Mn)	FY20	FY21	FY22	FY23
Interest income	3750	3460	4440	5890
Interest expense	1570	1620	2040	2850
NII	2180	1840	2400	3040
Non-interest income	0	0	0	0
Net revenues	2180	1840	2400	3040
Operating expenses	590	500	630	760
PPOP	1590	1340	1770	2280
Provisions	850	540	710	850
PBT	740	800	1060	1430
Tax	200	200	260	360
PAT	540	600	800	1070

Balance sheet (Rs mn)	FY20	FY21	FY22	FY23
Share capital	420	420	420	420
Reserves & surplus	7240	8230	8970	10050
Net worth	7660	8650	9390	10470
Borrowings	11490	12330	21590	30230
Other liability	3320	3457	3620	3811
Total liabilities	22470	24437	34600	44511
Fixed assets	640	627	658	691
Investments	240	240	260	290
Loans	19270	20870	25850	33020
Cash	350	480	5400	7840
Other assets	1970	2220	2432	2670
Total assets	22470	24437	34600	44511

Ratios	FY20	FY21	FY22	FY23
Growth (%)				
NII	3	-16	31	26
PPOP	16	-16	32	29
PAT	-4	12	30	36
Advances	-1	0.1	24	28
Spread (%)				
Yield on Funds	19.4	17.2	19.0	20.0
Cost of Funds	10.6	10.8	11.0	11.0
Spread	8.8	6.4	8.0	9.0
NIM	11.0	8.9	9.1	8.4
Asset quality (%)				
Gross NPAs	0.4	0.7	0.7	0.7
Net NPAs	0.3	0.5	0.6	0.6
Provisions res)	85	54	71	85
Return ratios (%)				
RoE	7.6	7.5	8.8	10.8
RoA	2.5	2.6	2.7	2.7
Per share (Rs)				
EPS	13.0	14.0	19.0	25.0
BV	181	205	222	248
ABV	180	202	218	243
Valuation (x)				
P/E	53.6	49.8	36.7	27.9
P/BV	3.9	3.4	3.1	2.8
P/ABV	3.9	3.5	3.2	2.9

Source: Dalal & Broacha Research, Company

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