

# PAISALO

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2020-2021  
ANNUAL REPORT  
PAISALO DIGITAL LIMITED

Reporting Principles

The financial and statutory data disclosed in this Report is in line with the requirements of the Companies Act, 2013; Indian Accounting Standards; the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015; and the Secretarial Standards.

Forward-looking Statements

Certain statements in this Report relating to the Company's business operations and prospects may be forward-looking statements. These statements can be identified by usage of words such as 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'may', 'will', 'plans', 'outlook' and other words of similar meaning in connection with a discussion of future operating or financial performance. These forward-looking statements are dependent on assumptions, data or methods that may be incorrect or imprecise and hence may be incapable of being realised. Such statements are not guaranteed of future operating, financial and other results, but constitute our current expectations based on reasonable assumptions. The Company's actual results could materially differ from those projected in any forward-looking statements due to various future events, risks and uncertainties some of which are beyond our control. The Company does not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This annual report can be accessed at [www.paisalo.in](http://www.paisalo.in)

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Since inception we have supported the crucial role that the banking sector plays in the community through its potential for empowering people economically, for enabling corporations in realizing their vision and mission

# Dear Shareholders,

2020 has been an extraordinary year by any measure. It brought in its wake a global pandemic that manifested a global recession hitherto unknown to mankind. It induced governments the world over to take decisions and actions that have no global precedence. It presented tribulations for which there were no answers. It felled millions with the scythe of the Grim Reaper, foisting everlasting grief on family members, friends, and colleagues. It was a year which wreaked havoc on those of us lesser privileged by forcing joblessness and unwanted impoverishment. And it was a time where corporations discovered what they very were and, sometimes, what they could become.

Watching events unfold throughout the year, we keenly targeted on what we, as an organization, might do to serve our communities. We at Paisalo also recognise the need to evolve and adapt to the new normal, and it gives me great pleasure to tell you that our Company and its numerous employees all over the country performed exceedingly well as a team and on an individual level.

Since inception we have supported the crucial role that the banking sector plays in the community through its potential for empowering people economically, for enabling corporations in realizing their vision and mission, and for being a monetary bulwark during tough times. It was great to see that during these debilitating times, the banking sector stepped up to meet the financial challenges and it pleases me to inform you that Paisalo in consonance with the banking sector stepped up to this challenge.

As I look back on the previous year and the last almost three decades - starting from a small office in 1992 - Paisalo has faced, survived and grown despite some unexampled, distinctive and unknown challenges; not solely in terms of economic performance, but also has grown conjointly in our dedication to assist clients and communities. FY 2020-21 was another strong year for Paisalo. We earned INR 3,315 million in revenue and Profit after Tax (PAT) of INR 609 million, reflecting strong underlying performance across our business. We saw a growth in our market share in the Co-Originator of Small Priority Sector Loan (known as Co-Lending of Loans w.e.f. 5 November, 2020); and continued to make significant investments in our lending products, people and technology, while maintaining credit discipline and our balance sheet. In total, we extended credit of INR 14,238 million to businesses, and individuals including significant number of women borrowers.

Paisalo was listed on Delhi, Kanpur and Ahmedabad Stock Exchange in 1996. Our stocks are owned by DIs, FIIs, Institutional Funds and directly by individual investors. However, it's necessary to recollect that in the

majority of cases, the final beneficiaries are the people in our communities. Several of these are veterans, teachers, health-care staff, retirees or those saving for a home or retirement. Your management team goes to work every day recognising and understanding the responsibilities that we have taken on so as to maximise returns for our shareholders.

While we do not run Paisalo worrying about the stock price in the short run, in the long run our stock price is a measure of progress that we have made over the years. This progress is a function of continual investments in our people, systems and products, in good and bad times, to build our capabilities. These necessary investments drive our company's future prospects and position it to grow and prosper.

We have over the years represented to you—our shareholders—the essential principles and techniques we use to make this company—from maintaining a strong Capital Adequacy Ratio (CAR), constantly investing, nurturing talent, fully satisfying regulators, and continually improving risk to governance and controls serving customers while lifting up communities across India.

Adhering to these principles permits us to drive sensible organic growth and properly manage our capital (including dividends), which we have consistently demonstrated over the past decade.

If you look deeper, you will observe that our successes and accomplishments are a function supported on our foundational commitment to our shareholders. Shareholder value can be built only by maintaining a healthy and vibrant company, which is an outcome of good job done well and constantly caring for our customers, workers and communities. As we have learnt in 2020, there are many ways an establishment can demonstrate its compassion for its workers and its communities while still upholding stockholder value.

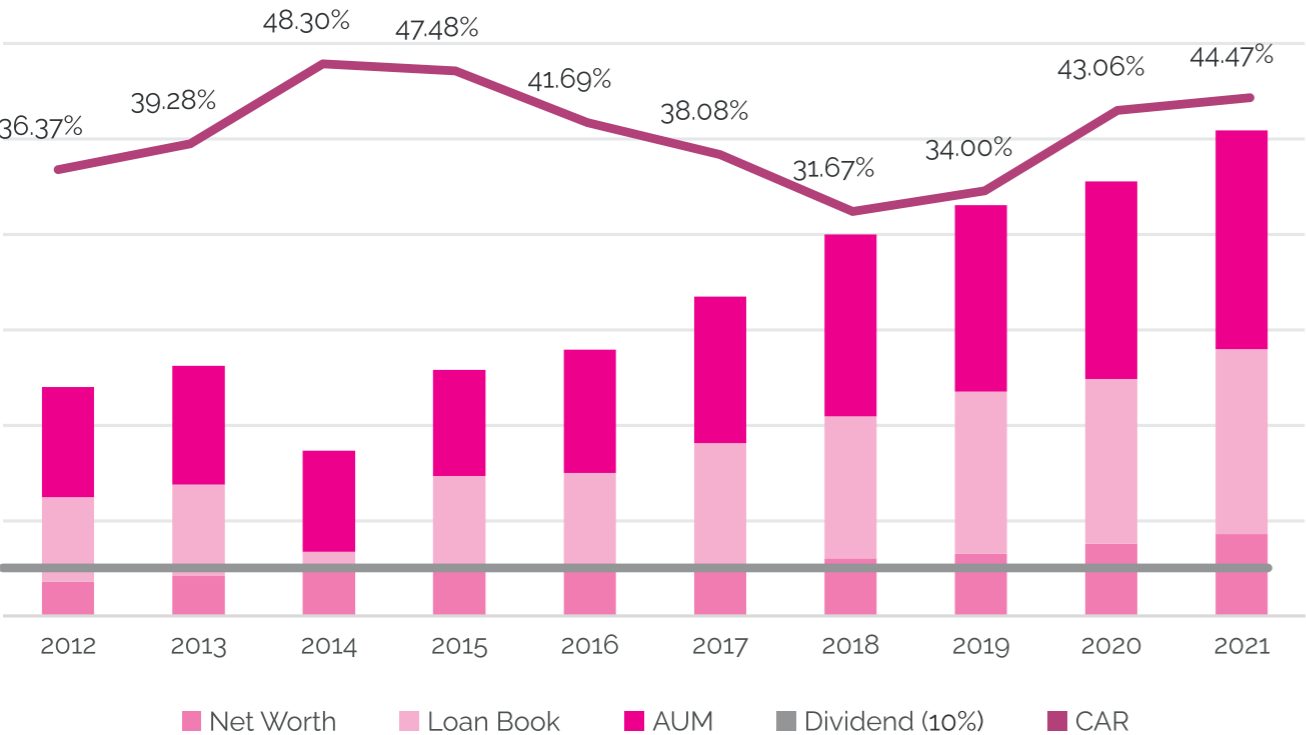
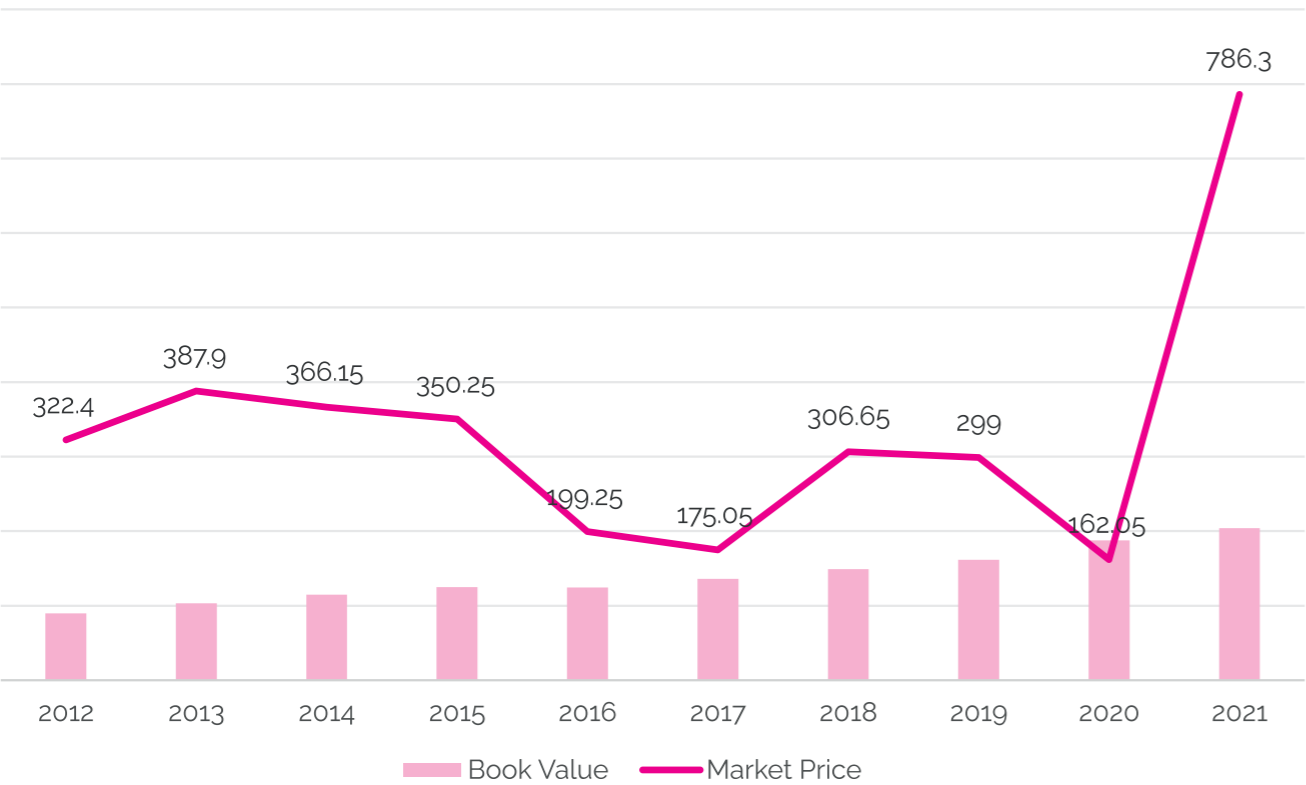
Ultimately, the premise of our success is our people. They serve our customers and communities, bolster technology, make strategic choices, manage risks, verify investments and drive innovation. Having an excellent team of individuals - with determination, domain knowledge and proven capabilities and an insatiable desire to dedicate themselves to difficult circumstances with skilled excellence - is what ensures our prosperity, currently and in the future.

**Within this letter, I discuss the following:**

**A. Aim of a company**

**B. Lessons of Leadership**

**C. Paisalo's Competitive advantage**



## A.

We need to make and maintain a healthy and vivacious company, over the long haul, to be able to contend with the uncertainties of life, to invest, to initiate and to grow.

To be healthy and vivacious, an organisation should do several things well; it should do an excellent job for customers; attract, develop and retain talented employees; and serve its communities

It is very important that all these virtues are observed with dedication, because the failure to perform any one of them with excellence may lead to the failure of all. Over the years, we have practised these efforts extensively in order to care for our customers and our workers.

To be healthy and vibrant - and to create long term shareholder value - a company must be financially successful over the long run.

The day for every member of Team Paisalo begins with these principles that ensures a prospering company. An organisation is as good as its team. It is imperative for us to do several things well to succeed, and, ultimately, that results in making long-term shareholder value.

The problem with the people at large is the impression that too many of them interpret it to mean short, quick profit taking - which, ironically, is the last thing that leads to building real, long-term shareholder value.

Businesses should earn the trust of their customers and communities by acting ethically and virtuously. To a company, its name is everything. That name is earned day in and day out with each interaction with customers and communities.

While all businesses differ from each other, there are some fundamentals which should be kept in mind, like, smart and easy to use products, clear evaluation and pricing, responsive service and continuous innovation. Successful corporations perpetually set high standards, acknowledge their mistakes and discipline themselves.

Great companies are strict about having fair dealings with their customers. I want to remind customers, clients and institutions that Paisalo is currently offering one of the cheapest and easy Loan product in the market to the bottom of pyramid of population in the country.

NBFCs, especially have to be compelled to be rigorous regarding standards. Unlike several other corporations which will merely sell you a product, NBFCs should essentially turn down clients or enforce rules that a customer may not like (for example, covenants to ensure recovery, amongst others). This makes open and clear dealings even a lot more necessary.

We should always try to earn the trust of our customers and communities. Businesses should earn the trust of

Aim  
of a company

their customers and communities by acting ethically and virtuously.

When Paisalo now enters a community, we take great pride in being a responsible institution at the local level. We lend to and support local businesses, by offering one of the cheapest lending product in the market. Now with Paisalo becoming National Business Correspondent of State Bank of India, we will be able to help customers with banking, lending, insurance and saving. All these initiatives will help Paisalo make these communities stronger.

Most people consider corporate social responsibility to be merely enhanced philanthropy. But it is far harder to understand what being a responsible community citizen means in terms of macro corporate responsibility. While we are devoted to Corporate Social Responsibility— we have spent INR 114.73 million in the past years, and INR 32.80 million in FY 2020-21— but corporate responsibility is far more than that.

We can now help not just with funding but with

developing stronger and seamless banking service offering to the bottom of pyramid population, communities and clients, which can have a greater impact on society.

- a. Almost 42,000 of our borrowers from amongst almost 4,50,000 received credit at 12.4% p.a., which is one of the cheapest offerings in the market
- b. We have encouraged over 30,000 borrowers, open Basic Savings Bank Deposit Account, by explaining through our financial literacy program about the importance and advantages of joining mainstream banking.
- c. We have encouraged 45 borrowers, complete and/or refresh their KYC details on their KYC documents, by explaining to them about the errors and omissions.
- d. We have designed branches, products, services and digital solutions to help clients and borrowers manage their financial lives, with particular focus on bottom of pyramid population.

When Paisalo now enters a community, we take great pride in being a responsible institution at the local level

Lessons for Leadership

B.

Great management is crucial for the long run success of any organisation. Robust management is disciplined and rigorous. Facts, analysis, detail...repeat. Complicated activity needs exertions and analysed ideas.

Effective business models must be developed, albeit with the rider that such models, cannot be perceived as the only solution. Dynamic judgement must be considered and exercised in matters associated with individuals and extraordinary events. You need to have good decision-making processes. Force urgency and kill complacency. Recognise that there is competition in everywhere at all the time.

A good deciding process involves having the correct individuals within the area with all information shared amongst the group. There is, additionally the requirement for constant feedback and follow-up. A bad decision-making process is the path to failure. If necessary, review the knowledge over and over. Typically, the solution is just waiting to be found—and if you don't have to, don't rush. Intuition matters, and it may be the ultimate deciding issue, as intuition is not estimation - it is usually based on years of experience, hard work and practice; something which can be demonstrated by Paisalo's Board of Directors having a combined experience over 100 years.

It is useful to separate and examine actual information versus calculated numbers. You always learn a great deal after you dig deep into the numbers—investigation of total automobile sales, employment data, asset quality numbers across various portfolios, asset quality numbers across various postal codes, the actual price of goods compared with calculated data like gross domestic product (GDP), inflation, productivity, etc. Being faithful to this principle needs relentless discipline—which you can expect of Paisalo.

Sometimes a new product or an investment should simply be considered without much analysis at all. Think about Paisalo adding the National Business Correspondent Service to its basket of easy financial product offering, maintaining a strong technology infrastructure and our constant adoption of new technology, like cloud services, artificial intelligence and machine learning for credit decision making. These could be life-or-death decisions for a company. So, the emphasis should be on getting the work done properly, efficiently and quickly.

I often see individuals attempting to solve or tackle complex issues in an superficial manner without delving into all the factors concerned. It is necessary to put out all the variables before you begin forming an assessment to confirm that they are all rigorously reviewed, and one's judgment isn't clouded by over-specialising. In business, this kind of assessment ought to be applied even to your competitors and to those you consider to be future competitors, similarly on your own strengths and weaknesses.

In business, as in life, we have to deal with certainty and uncertainty. A straightforward investigation in history and our economic past illustrates the rather unpredictable nature of things. As a result, at Paisalo we have developed a propensity for investigating all possible variables and scenarios that can possibly occur. We minutely examine a broad array of potentialities and possibilities to confirm all of the attainable outcomes. Sometimes the action you take may not be the

one that gives you the best outcome, but one that results in a fairly decent outcome mitigating the possibilities of a bad outcome. It also is often very difficult to capture the inflection points in the economy. Most people imagine the future as being roughly equivalent to the past, give or take a bit. However, we know there are significant inflection points, which are sometimes easy to see in hindsight but almost impossible to predict.

In addition to the above thoughts on analysis, assessment and good decision making, some leadership lessons are equally necessary. As corporations get larger and a lot more complicated, leaders have to be a lot of like coaches and conductors, rather than players. If MDs and CEOs are running a small business, they will virtually be able to be concerned in just about everything and do most of the selections - they typically follow

the command and manage approach. This approach does not work as corporations get larger. Command and constant feedback are better than command and manage approach. Here leaders provide clear direction, letting people do their job, including making mistakes along the way.

Leaders need to frequently learn from individuals. They need to attend sales conference and raise a lot of queries from their CSPs. Gather technology people in the room with branch managers and ask about things.

In business, some selections need to be done rigorously. But others, such as addressing client issues, repetitional problems, should be done quickly, for these issues do not age well.



## Paisalo's Competitive Advantage

It is crystal clear that progressively, several banking services and product offerings, are moving out of the banking industry. Additionally, lending in many forms—including joint lending group, small income generations loans, mortgages, student loans, consumer loans—is moving out of the banking system. Non-Banks like Paisalo are adding these to their product portfolio.

We believe that lending and financial service products, combining the infrastructure of Non-Banks like Paisalo and the Banking System is the future, as proven by the State Bank of India and Paisalo Co-Originator of Small Ticket Size Priority Sector Loans, as well in the pipeline is the National Business Correspondent Service; these product tie-ups do a terrific job in easing consumer pain points and making a product or service extremely simple and easy to use.

We cannot hyperbolise the extraordinary importance of latest technology within the new world. Today, all technology is made 'cloud enabled', which implies that these applications and their associated knowledge will run on the cloud. This brings several extraordinary benefits. However, the one that I wish to highlight is the immediate ability to access knowledge and associate machine learning with just about unlimited reckoning

computing power. Primarily, within the cloud, you have access to numerous databases and you can deploy machine learning in seconds—one thing legacy systems and databases cannot do. To travel from the legacy world to the cloud, applications need to be refurbished, but a lot more necessary, data and knowledge should be refurbished so that it is accessible. All of this work takes time and resources, but it is essential that we do it.

Paisalo already extensively uses Artificial Intelligence and Machine Learning in its credit method and is quite successful, in mitigating fraud, risk management, postal code analysis for opening new branches and efficiency improvement to great effect. We are still in the journey to optimise and improve. All of this has helped us develop simple to use, intuitive, quick, smart and sensible loaning products.

While we have a tendency to ceaselessly get ready for multiple business situations, we were never prepared for a worldwide pandemic that created a gargantuan blockage of the world economy. Whereas several of our staff, significantly within the branches, continued to work on our premises daily, we quickly and seamlessly adapted our systems and technologies to allow our staff to work from home safely and securely.

In conclusion I would like to express my deepest feeling and appreciation for the staff of Paisalo. From this letter, I hope shareholders and every reader is able to appreciate the tremendous character and capabilities of our team members. They have faced these times of adversity head-on with grace and courage.

I hope you are as proud of them as I am.

We sincerely hope that the global community will be able to move beyond this unprecedented pandemic and look forward to a brighter future.

~Sunil Agarwal

Managing Director & Chief Executive Officer

# Mission and Vision

PAISALO believes in breaking barriers & limitations to create a positive difference & value for our stakeholders beyond traditional boundaries of doing business.

India definitely remains as a sweet spot for investors as there is huge potential for growth and we are committed to our stakeholders to add value by questioning status quo, challenging current practices and thereby creating opportunities.

We are in a constant search of knowledge and keep on asking ourselves. Can we come up with a better way?

At PAISALO our belief of overcoming limitations has continually inspired us to work towards raising our own benchmark.

PAISALO has always emerged a winner by coming up with its OWN WAY – a sustainable and better way.

PAISALO aims to be Available - Aware – Affordable





# ESG

## AT A GLANCE



### Decent Work and Economic Environment

Revenue	EBITDA	PAT
3,115 Mn	2,212.34 Mn	609 Mn
RoA	RoE	Employment Generation
2.66%	7.07%	1284



### Industry, Innovation and Infrastructure

Centralized Process, Real Time Credit Credential and Character Check	Innovative Financial Lending Product and Service
States	Branch Network
10	132
Small and Medium Businesses Helped	Digital platform in
60,000	2,125 Pincodes



### Gender Equality

Women Customers  
4,50,000



### Reduced Inequalities

Customer Serviced  
12,04,304



### Peace, Justice and Strong Institutions

Board of Directors  
150 years experience



### Good Health and Well being

Independent Directors  
6



### Climate Action

Paper Consumption  
Minimal  
Cashless Disbursement  
100%



### Responsible Consumption and Production

Sourcing and Servicing  
Digital Process  
Cashless Collection  
92%