October 29, 2024

DMI Finance Private Limited: Ratings confirmed as final for PTCs backed by a pool of personal loan receivables issued by PLUM 25-4

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
PLUM 25-4	PTC Series A1	173.16	[ICRA]AAA(SO); provisional rating confirmed as final
	PTC Series A2	13.77	[ICRA]AA+(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In September 2024, ICRA had assigned Provisional [ICRA]AAA(SO) rating to Pass Through Certificate (PTC) Series A1 and Provisional [ICRA]AA+(SO) rating to PTC Series A2, issued by PLUM 25-4. The PTCs are backed by a pool of personal loan (PL) receivables originated by DMI Finance Private Limited (DMI/Originator; rated [ICRA]AA; rating watch with negative implications/[ICRA]A1+) with an aggregate principal outstanding of Rs. 208.62 crore (pool receivables of Rs. 264.47 crore). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said ratings have now been confirmed as final.

ICRA takes note that on October 17, 2024, RBI issued directions to DMI to cease and desist from sanction and disbursal of loans, effective from close of business of October 21, 2024. These business restrictions do not preclude DMI from servicing its existing customers by way of carrying out collections and recoveries in accordance with the extant regulatory guidelines. Any probable impact on the collection efficiency and asset quality of the pool would be a monitorable.

Transaction structure

As per the transaction structure, PTC Series A2 payouts are completely subordinated to PTC Series A1. The collections from the pool, after making the promised interest payouts to PTC Series A1, will be used to make the expected principal payouts to PTC Series A1, followed by the expected interest payout to PTC Series A2. The entire principal repayment to PTC Series A1 is promised on the scheduled maturity date. After the maturity of PTC Series A1, interest payouts will be promised to PTC Series A2 and all excess cashflows, after meeting the promised PTC Series A2 interest payouts, will be passed on for expected PTC Series A2 principal payout. The entire principal repayment to PTC Series A2 is promised on the scheduled maturity date. The excess interest spread (EIS) available after meeting the expected and promised PTC payments will be used for accelerated amortisation of PTCs (PTC Series A1 first and PTC Series A2 after maturity of PTC Series A1). The cash collateral (CC) would be utilised by the trustee to meet any shortfall for the monthly promised interest and to the extent of 83.00% of the monthly billed principal for PTC Series A1. On maturity of PTC Series A1, CC would be utilised by the trustee to meet any shortfall for the monthly promised interest and for the payment of expected Investor principal payments in respect of PTC Series A2.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 11.00% of the initial pool principal, amounting to Rs. 22.95 crore, to be provided by the Originator, (ii) principal subordination of 17.00% and 10.40% of the initial pool principal for PTC Series A1 and PTC Series A2 respectively, and (iii) the excess interest spread (EIS) of 21.36% and 20.28% of the initial pool principal for PTC Series A1 and PTC Series A2 respectively.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 15,919 obligors, with the top 10 obligors forming only 0.22% of the initial pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb part of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there are no overdue contracts as on the cut-off date. Also, ~66% of the contracts have never been overdue since origination while the peak days past due (dpd) in the remaining contracts is up to one month.

Strong CIBIL score of the underlying borrowers – All the borrowers in the pool as on cut-off date have a minimum CIBIL score of 700 and 56% of borrowers have a CIBIL score of at least 750 which signifies a strong credit history of such borrowers.

Credit challenges

Moderate share of high interest rate contracts – Around 33% (in terms of the principal amount outstanding on the cut-off date) of the contracts in the pool had an interest rate of more than 24%. Contracts with a high rate of interest are considered riskier as they usually indicate the weaker credit profile of the borrower.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recoveries from delinquent contracts tends to be lower. On October 17, 2024, RBI issued directions to DMI to cease and desist from sanction and disbursal of loans, effective from close of business of October 21, 2024. Any probable impact on the collection efficiency and asset quality of the pool would be a monitorable.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 6.00% of the pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 5% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transaction is as follows:

Transaction Name	PLUM 25-4
Originator	DMI Finance Private Limited
Servicer	DMI Finance Private Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	IndusInd Bank Limited
Collection and payout account bank	IndusInd Bank Limited

Liquidity position

The liquidity for PTC Series A1 and PTC Series A2 is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~7.50 and ~6.25 times the estimated loss in the pool for PTC Series A1 and PTC Series A2 respectively.

Rating sensitivities

Positive factors – Not applicable for PTC Series A1. For PTC Series A2, the rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the CE cover for the remaining payouts.

Negative factors – Pressure on the ratings could emerge on any sustained weak collection performance of the underlying pool (monthly collection efficiency <90%) leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer (DMI) could also exert pressure on the ratings.

Analytical approach

The rating actions are based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the Originator

DMI Finance Private Limited (DMI), incorporated in 2008, is a private financial services company registered as a non-banking financial company (NBFC) with the Reserve Bank of India (RBI). While it was mainly engaged in secured corporate lending (largely to real estate builders) till a few years ago, it has shifted its focus to digital lending, wherein it provides consumption loans, personal loans and micro, small and medium enterprise (MSME) loans. This is a completely digital-technology-driven business with API-based origination, underwriting and loan management systems. Herein, DMI predominantly works through front-end partnerships with other fintech companies, original equipment manufacturers and technology-driven aggregators.

Key Financial Indicators

Particular for	FY2022 (Audited)	FY2023 (Audited)	FY2024 (Audited)
Operating Income	652	1,222	2,024
Profit after tax	59	320	417
Total managed assets	7,268	9,060	14,520
Gross stage 3	2.2%	3.4%	2.5%
CRAR	61%	51%	45%

Source: ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3">Sr. No.</th><th rowspan="3">Trust Name</th><th colspan="5">Current Rating (FY2025)</th><th colspan="3">Chronology of Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Instrument</th><th rowspan="2">Initial Amount Rated (Rs. crore)</th><th rowspan="2">Current Amount Rated (Rs. crore)</th><th colspan="2">Date & Rating in FY2025</th><th>Date & Rating in FY2024</th><th>Date & Rating in FY2023</th><th>Date & Rating in FY2022</th></tr>
<tr><th>October 29, 2024</th><th>September 12, 2024</th><th>-</th><th>-</th><th>-</th></tr>
<tr><td rowspan="2">1</td><td rowspan="2">PLUM 25-4</td><td>PTC Series A1</td><td>173.16</td><td>173.16</td><td>[ICRA]AAA(SO)</td><td>Provisional [ICRA]AAA(SO)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>PTC Series A2</td><td>13.77</td><td>13.77</td><td>[ICRA]AA+(SO)</td><td>Provisional [ICRA]AA+(SO)</td><td></td><td></td><td></td></tr>
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Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
PLUM 25-4	PTC Series A1	September 09, 2024	8.95%	January 25, 2028	173.16	[ICRA]AAA(SO)
	PTC Series A2	September 09, 2024	10.80%	January 25, 2028	13.77	[ICRA]AA+(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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