January 02, 2023

DMI Finance Private Limited: Provisional [ICRA]AA(SO) assigned to PTC Series A1 issued by Plum II, backed by a pool of personal loan receivables

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
PLUM II	PTC Series A1	77.27	Provisional [ICRA]AA(SO); Assigned

**Instrument details are provided in Annexure I*

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful

Rationale

ICRA has assigned a provisional rating to PTC Series A1 issued under a securitisation transaction originated by DMI Finance Private Limited (DMI/originator) (rated [ICRA]AA-(Stable)/[ICRA]A1+). The pass-through certificates (PTCs) are backed by a pool of Rs. 85.86 crore (pool principal; receivables of Rs. 106.47 crore) of personal loan receivables.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts as well as the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 10.00% of the initial pool principal to be provided by the originator, (ii) over-collateralisation of 10.00% of the initial pool principal for PTC Series A1, and (iii) the entire excess interest spread (EIS) of 17.61% of the initial pool principal in the structure. The rating is also based on the integrity of the legal structure and is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, principal subordination and cash collateral
- The current pool has no overdue contracts as on pool cut-off date.
- Average seasoning of the pool at ~12 months and pre-assignment amortization at ~28% as on cut-off date

Credit challenges

- Moderate share of higher FOIR contracts with 46% share of contracts having FOIR more than 50%
- Limited track record and elevated credit costs in personal loan segment
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A1 at the predetermined interest rate on the principal outstanding. The entire principal is promised on the final maturity date. During the tenure of 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 (100% of principal billed). However, this principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. The surplus EIS available after meeting the promised and expected payouts to the PTCs will be used to accelerate the principal repayments to the PTC holders.

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation of 10.00% of the initial pool principal. Additionally, the EIS of 17.61% of the initial pool principal available in the structure provides CE support. A CC of 10.00% of the initial pool principal provided by DMI acts as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC to meet the shortfall.

There were no overdues in the pool as on the cut-off date. The pool has average seasoning of 12.1 months and pre-assignment amortisation of 28.2% as on the cut-off date. All the contracts in the initial pool had a CIBIL score of at least 700 while 38.3% has a CIBIL score of 750 and above. The pool has a moderate share (~46%) of contracts having FOIR greater than 50%. The entity also has a limited track record in the personal loan business of ~3.5 years and while delinquencies in portfolio have been low the same has been aided by writeoffs. Few of the older vintages in the portfolio were impacted due to pandemic while recovery from writeoffs has been lower as is expected given the unsecured nature of the loans. The pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class. Also, its performance would remain exposed to any macro-economic shocks/business disruptions.

Past rated pools: This is the first PTC rating exercise for personal loan pool of DMI that is being carried out by ICRA. ICRA also has outstanding rating on one pool of consumer loans for DMI.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.50-5.50% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 4.8-18.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. Also, the cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC Series A1 investors.

Rating sensitivities

Positive factors – 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 rating could emerge on the sustained weak collection performance (monthly collection efficiency <90%) of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of DMI's portfolio till September 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

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

Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

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 few years ago, it has shifted focus to digital lending, wherein it provides consumption loans, personal loans and 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 (OEMs) and technology-driven aggregators. As on March 31, 2022 retail loans accounted for 62% of the Rs. 5,432-crore loan book with the wholesale real estate lending booking having 38% share. Out of retail book personal Loans has 42% share, consumer loans has 51% and MSME loans the balance 8%.

Key financial indicators (standalone)

Particular for	FY2020 (A)	FY2021 (A)	FY2022 (A)
Total income (Rs. crore)	645	764	911
Profit After Tax (Rs. crore)	99	22	58
Asset under management (Rs. crore)	3,725	3,655	5,432
Gross NPA %	4.6%	3.9%	2.2%
Net NPA%	1.9%	1.5%	0.3%

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

Sr. No.	Trust Nam	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					January 02, 2023	-	-	-
1	PLUM II	PTC Series A1	77.27	77.27	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	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

ISIN Number	Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
-	**PLUM II**	PTC Series A1	December 2022	9.20%	May 2025	77.27	Provisional [ICRA]AA(SO)

** Scheduled maturity date at transaction initiation; may change on account of prepayments*

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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