April 18, 2022

DMI Housing Finance Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	400.0	400.0	[ICRA]AA- (Stable); Reaffirmed
Fund-based Bank Facilities	350.0	350.0	[ICRA]AA- (Stable); Reaffirmed
Total	**750.0**	**750.0**	

**Instrument details are provided in Annexure-1*

Rationale

To arrive at the rating, ICRA has taken a consolidated view of DMI Housing Finance Private Limited (DHFPL) and DMI Finance Private Limited (DFPL), referred to as the DMI Group, given the operational linkages between the companies in addition to the common promoter, shared name, and management oversight.

The rating factors in the DMI Group's consistent track record of strong capitalisation, aided by regular equity infusions by the promoter i.e. DMI Limited and other external investors. Following the equity infusion of about Rs. 2,950 crore during the six-year period ending December 2021, the Group's consolidated net worth stood at about Rs. 4,348 crore with a consolidated gearing of 0.6x as on December 31, 2021. Moreover, ICRA notes that over the longer term, the Group plans to maintain prudent capitalisation with a peak gearing of 2-3x. The rating also draws comfort from the Group's track record of strong liquidity supported by low leverage and sizeable on-balance sheet liquidity. Moreover, a considerable portion of the loan book has a residual tenor of up to one year, which supports the overall liquidity profile. The available on-balance sheet liquidity of about Rs. 2,007 crore as on December 31, 2021 (Rs. 1,680 crore in DFPL and Rs. 327 crore in DHFPL) is more than sufficient to take care of the debt-servicing obligations falling due in the next one year.

ICRA has taken cognizance of the Group's moderate profitability indicators and the rising share of digital loans (small-ticket personal/consumption retail loans) in the overall portfolio mix. The foray into digital loans and affordable housing loans has led to improved granularity of the portfolio, which, in the past, was characterised by concentrated wholesale exposures primarily to real estate builders. As of December 31, 2021, digital loans constituted 49% of the Group's consolidated loan book of Rs. 5,358 crore, followed by wholesale loans (36%) and affordable housing finance loans (15%). While a higher proportion of digital/retail loans is a positive from a concentration risk perspective, the inherent vulnerability associated with the target borrower profile and unsecured nature of loans augments the portfolio vulnerability.

Nevertheless, ICRA draws comfort from the Group's systems and processes and expects it to report good risk-adjusted returns over the medium term. Further, while the Group has a relatively shorter track record of operations in the digital lending segment, an improvement has been witnessed with four years of operations and disbursements of over Rs. 11,000 crore. It is noted that the Group's asset quality indicators improved in 9M FY2022 due to the restructuring of loans and write-offs. As DMI Group focuses on increasing the share of digital loans that are not backed by first loss default guarantee (FLDG) arrangements with its partners, the Group's ability to manage slippages will remain a monitorable.

Overall, the Group's ability to improve the profitability indicators from the current levels and grow the business while maintaining the underwriting standards and controlling the credit costs would be a key monitorable. At the same time, the ability to diversify the funding mix would be critical to grow the business. As for DHFPL, ICRA notes that the company's scale of operations is modest on a standalone basis with assets under management of Rs. 811 crore as on December 31, 2021. Nonetheless, given the good market potential in the affordable housing finance segment and the company's satisfactory, albeit short, track record of operations, ICRA expects it to grow as per the business plans with good asset quality and return indicators over the medium term.

Key rating drivers and their description

Credit strengths

Strong capitalisation – The Group's capitalisation has consistently remained strong, aided by regular equity infusions by the promoter i.e. DMI Limited and other investors. Following the equity infusion of about Rs. 2,950 crore during the six-year period ending December 2021, the Group's consolidated net worth stood at about Rs. 4,348 crore with a consolidated gearing of 0.6x as on December 31, 2021 and a total capital adequacy ratio of over 40% (for both DFPL and DHFPL) as on December 31, 2021. Further, the Group concluded the latest round of equity raise in December 2021 whereby DMI Finance Limited raised ~Rs. 230 crore from Sumitomo Mitsui Trust Bank Limited and others. In April 2020, about Rs. 942 crore was infused by South Korea's Nexon Co through DMI Limited. As a result, the Group's net worth was Rs. 4,348 crore, as of December 31, 2021, with a gearing of 0.6x. As for DFPL, the net worth stood at about Rs. 3,750 crore, as of December 31, 2021, with a gearing of 0.6x.

While the existing capital base is sufficient to support the growth plans for the near to medium term, ICRA notes that the Group may need incremental capital to maintain a prudent capitalisation level over the longer term, especially given the growth plans for the digital lending and housing finance segments. Nevertheless, given the track record of the existing investors in extending support to the Group, ICRA expects support from the investors to be forthcoming as and when required. Further, ICRA notes that the Group plans to maintain prudent capitalisation over the longer term with a peak gearing of of 2-3x.

Strong liquidity profile – DFPL's asset-liability maturity (ALM) profile is characterised by positive cumulative mismatches in the near-and-medium-term buckets, given the low leverage and sizeable proportion of the loan book with a residual tenor of up to one year. This, along with sizeable cash and liquid investments of about Rs. 1,680 crore as on December 31, 2021 at the standalone level, augurs well for the liquidity profile. Similarly, DHFPL's ALM profile is characterised by positive cumulative mismatches in the near-and-medium-term buckets, given the low leverage and sizeable on-balance sheet liquidity (about Rs. 327 crore as on December 31, 2021). Furthermore, the track record of regular support from the promoter, in terms of equity infusions, provides comfort. Moreover, while the Group is currently maintaining enhanced on-balance sheet liquidity given the challenging operating environment, it endeavours to maintain on-balance sheet liquidity equivalent to six months of the total outflows at all times.

Notwithstanding the diversification in the lender base in recent past, ICRA notes that the Group's dependence on external borrowings from banks, mutual funds and other domestic investors has remained limited compared to the current scale of operations, given the regular fund inflow (equity as well as debt) from the promoter group. Furthermore, the Group's comfortable liquidity position has not yet required it to test the securitisation markets. Going forward, it would be imperative for the Group to augment the lender base, diversify the borrowing profile and establish financial flexibility, given the growing scale. At the same time, the ability to borrow funds at competitive rates while maintaining prudent mix of long-term and short-term borrowings would be a key determinant of the profitability going forward.

Credit challenges

Rising share of digital retail loans; high portfolio vulnerability could keep asset quality indicators volatile – Till FY2018, the Group was mainly engaged in secured corporate lending, largely to real estate builders. However, it subsequently shifted its focus to the small-ticket personal/consumption retail loan and affordable housing finance segments with a sharp growth recorded since then. The Group's consolidated loan book, as on December 31, 2021, was about Rs. 5,360 crore with digital lending accounting for 49%, followed by wholesale/real estate loans (36%) and affordable housing loans (15%). The digital lending business is completely technology-driven with API-based origination, underwriting and loan management systems. The underwriting is based on an algorithm, which uses certain data points for arriving at the loan eligibility with minimum manual intervention and deviations. While such algorithms are regularly updated based on the past performance of the loans with new variables added from time to time, the assumptions for parameters like default rates are critical for the underwriting of loans with expected credit losses, which, in turn, affect the asset quality, credit costs and profitability. Also, while a higher proportion of digital/retail loans is a positive from a concentration risk perspective, the inherent vulnerability associated with the target borrower profile and unsecured nature of loans augments the portfolio vulnerability. Nevertheless, ICRA draws comfort from the Group's systems and processes and expects it to grow the business volumes while maintaining control on the credit costs.

Going forward, the Group's ability to demonstrate the effectiveness of its credit underwriting policies and partnerships and keep the asset quality indicators under control through economic cycles will be imperative. The Group's asset quality indicators witnessed a deterioration in FY2021 with an elevated gross stage 3% (GS3%) of 3.3% as on March 31, 2021. However, with the improvement in the operating environment and the write off of delinquent loans, the reported GS3% reduced to 2.3% as on December 31, 2021. As on December 31, 2021, 5.3% of the Group's loan book was restructured (mainly in the corporate segment). However, since the restructuring was done without providing any moratorium, most of these borrowers have demonstrated a track record of repayment since their accounts were restructured. ICRA takes comfort from the high granularity of this portfolio due to the smaller ticket sizes. This enables the diversification of the risk while the higher yields earned help mitigate the inherent risk in the target segment. ICRA also takes comfort from the Group's adequate track record in real estate financing.

As for DHFPL at the standalone level, the loan book stood at Rs. 811 crore as on December 31, 2021 with an average ticket size of about Rs. 10 lakh and a geographical footprint of about 38 branches across 9 states (though three states of – Uttar Pradesh, Rajasthan and Madhya Pradesh – account for 70% of the portfolio). While home loans account for 87% of the loan book, the balance comprises loan against property (LAP; 13%) and corporate loans (1%). The salaried segment (including pensioners) accounts for 87% of DHFPL's loan portfolio. Herein, the reported GNPA% was comfortable at 1.2% as on December 31, 2021 (though up from 0.5% as on March 31, 2021). However, while the Group has demonstrated good control over the asset quality in the affordable housing finance segment, this loan book remains relatively less seasoned in relation to the tenure of the loan book.

Subdued profitability trajectory – Given the product and target borrower profile, the average yield on loans is ~16-18%. The cost of incremental borrowing has improved in the last two years, however, borrowings done prior to that are considerable, thus keeping the overall cost of borrowing elevated. As the loan book remained stagnant post the onset of the Covid-19 pandemic, the net interest margin (NIM) was lower. It declined to 7.9% in 9M FY2022 from 8.4% in FY2021 and 10.5% in FY2020. As the Group's digital lending and affordable housing finance operations are in the ramp-up phase, the operating expenses remain high. The Group's operating cost (including sizeable commission paid to fintech partners) increased to 4.2% of average total assets (ATA) in 9M FY2022 from 3.1% in FY2018, though it declined from 4.4% in FY2021 and 4.9% in FY2019. Further, the emergence of asset quality pressures increased the credit cost to 4.2% of ATA in FY2021 (compared to 3.0% of ATA in FY2020 and 1.8% of ATA in FY2019 and less than 1% in prior years).

The consolidated return on assets (RoA) and return on equity (RoE) remained subdued at 0.8% and 1.5%, respectively, for FY2021 (compared to 2.4% and 4.4%, respectively, for FY2020). The profitability improved marginally in 9M FY2022 due to the decline in the credit cost resulting in RoA of 1.0% and RoE of 1.8% in 9M FY2022. Nevertheless, the profitability is expected to improve as the operating expenses stabilise with economies of scale and the outgo on account of commission declines with the increased share of direct lending, provided funds are raised at competitive rates. Moreover, good control on slippages needs to be maintained by demonstrating the effectiveness of the credit underwriting policies.

DHFPL reported a profit after tax (PAT) of Rs. 26.3 crore at the standalone level in FY2021 on a gross asset base of Rs. 1,176 crore. It has achieved a PAT of Rs. 14.0 crore in 9M FY2022 on an asset base of Rs. 1,173 crore as on December 31, 2021. The profitability, however, remains subdued with RoA and RoE of 1.6% and 3.2%, respectively, in 9M FY2022. Nonetheless, given the good market potential in the affordable housing finance space and the satisfactory, albeit short, track record of the company's operations, ICRA expects it to grow as per the business plans with good asset quality and return indicators over the medium term.

Liquidity position: Strong

DFPL's ALM profile is characterised by positive cumulative mismatches in near-and-medium-term buckets, given the low leverage and sizeable proportion of the loan book with a residual tenor of up to one year. As on December 31, 2021, the company's ALM reflected debt maturities of Rs. 161 crore for the 12-month period ending December 31, 2021, against which its scheduled inflows were Rs. 2,623 crore. This, along with sizeable cash and liquid investments of Rs. 1,679 crore at the standalone level (equivalent to 75% of borrowing as on December 31, 2021), augurs well for the liquidity profile. Further, the track record of regular support from the promoter, in terms of equity infusions, provides comfort.

Similarly, DHFPL's ALM profile is characterised by positive cumulative mismatches in the near-and-medium-term buckets, given the low leverage and sizeable on-balance sheet liquidity. As on September 30, 2021, the company's ALM reflected debt maturities of Rs. 37 crore for the 12-month period ending September 30, 2022, against which its scheduled inflows were Rs. 38 crore (performing advances). This, along with sizeable cash and liquid investments of over Rs. 327 crore (equivalent to 63% of the borrowings as on December 31, 2021), augurs well for the liquidity profile. As per the dynamic liquidity profile as on December 31, 2021, the company projects inflows of Rs. 319 crore from cash and liquid investments the next six months and has debt repayments of Rs. 18.7 crore during this period.

Rating sensitivities

Positive factors – A well-established track record of strong profitability led by good control on the asset quality and operating efficiencies, while sustaining the current approach towards leverage and liquidity, will remain imperative for a rating upgrade in the medium to long term.

Negative factors – The rating could come under pressure if the leverage increases beyond a gearing of 2x or asset quality pressures adversely impact the company's earnings profile on a sustained basis. Pressure on the rating could also emerge if the liquidity profile weakens.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Approach –Consolidation
Parent/Group Support	-
Consolidation/Standalone	Consolidation: To arrive at the rating, ICRA has taken a consolidated view of DFPL and DHFPL, referred to as the DMI Group, given the operational linkages between the companies in addition to the common promoter, shared name and management oversight.

About the company

DHFPL, incorporated in 2011, is a private financial services company registered as a housing finance company (HFC). It started lending operations in FY2014 and primarily focusses on providing home loans and LAP to borrowers seeking affordable housing. The company's loan book stood at Rs. 811 crore as on December 31, 2021 with an average ticket size of about Rs. 9-10 lakh and a geographical footprint of about 38 branches across nine states (though three states, namely Uttar Pradesh, Rajasthan and Madhya Pradesh, accounted for 70% of the portfolio as on December 31, 2021). While home loans account for 87% of the loan book with the salaried segment (including pensioners) accounting for 86% of the loan book, the balance comprises LAP (13%) and corporate loans (1%). While DHFPL used to be a subsidiary of DFPL (till FY2018), DMI Limited, Mauritius now directly holds 86.22% in the company (as of December 31, 2021).

DHFPL reported a PAT of Rs. 26 crore in FY2021 on an asset base of Rs. 1,176 crore as on March 31, 2021 against a PAT of Rs. 23 crore in FY2020 on an asset base of Rs. 1,119 crore as on March 31, 2020. Subsequently, DHFPL achieved a PAT of Rs. 14 crore in 9M FY2022 on an asset base of Rs. 1,173 crore as on December 31, 2021. As on December 31, 2021, DHFPL's reported capital adequacy was 80.2% (76.4% as on March 31, 2021).

DMI Finance Private Limited

DFPL, 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 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, DFPL predominantly works through front-end partnerships with other fintech companies, original equipment manufacturers (OEMs) and technology-driven aggregators. On a standalone basis, as on December 31, 2021, consumer loans accounted for 58% (54% as on March 31, 2021) of the Rs. 4,437-crore loan book with the wholesale real estate lending book accounting for a 31% share and the non-real estate wholesale loan book accounting for the balance.

DMI Limited, Mauritius holds a 72.98% stake in DFPL (as of December 31, 2021). DMI Limited, Mauritius is, in turn, backed by New Investment Solution (NIS), a Zurich-based alternative asset manager with over $2 billion of deployed capital. NIS is led by Takashi Sato, who was Head of Private Wealth and Asset Management at Nomura Bank (Europe). The fund focusses on Japanese equities, US asset-backed debt and the emerging market debt.

DFPL reported a profit after tax (PAT) of Rs. 26.9 crore in FY2021 on a gross asset base of Rs. 5,899 crore as on March 31, 2021 against a PAT of Rs. 102 crore in FY2020 on a gross asset base of Rs. 5,355 crore. DFPL has achieved a PAT of Rs. 42.8 crore in 9M FY2022 on an asset base of Rs. 6,560 crore as on December 31, 2021. As on December 31, 2021, DFPL's reported capital adequacy was 60.9% (60.2% as on March 31, 2021).

Key financial indicators

Amount (Rs. crore)	DHFPL			DFPL + DHFPL^		
	FY2020	FY2021	9M FY2022	FY2020	FY2021	9M FY2022
	Audited	Audited	Provisional	Audited	Audited	Provisional
Total Income	93	112	88	747	885	707
PAT	23	26	14	125	53	57
Net Worth	551	585	598	3,044	4,092	4,348
Gross Loan Book	795	769	811	4,520	4,404	5,358
Total Gross Assets	1,119	1,176	1,173	6,474	7,075	7,733
Return on Assets (%)	2.7%	2.3%	1.6%	2.4%	0.8%	1.0%
Return on Avg. Net Worth (%)	4.3%	4.6%	3.2%	4.4%	1.5%	1.8%
Gearing (times)	1.0	1.0	0.9	1.0	0.6	0.6
CRAR (%)	79.1%	76.4%	80.2%	NA	NA	NA

Amount (Rs. crore)	DHFPL			DFPL + DHFPL^		
	FY2020	FY2021	9M FY2022	FY2020	FY2021	9M FY2022
Gross NPA (%)	0.2%	0.5%	1.2%	3.8%	3.3%	2.3%
Net NPA (%)	0.0%	0.3%	0.9%	1.6%	1.3%	0.5%
Net NPA/Net Worth	0.0%	0.4%	1.3%	2.3%	1.4%	0.6%

Source: *DFPL, DHFPL, ICRA Research; ^DFPL consolidated + DHFPL*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 18, 2022	Apr 20, 2021	Mar 31, 2021	
1	NCD	Long Term	400	-	**[ICRA]AA- (Stable)**	[ICRA]AA- (Stable)	-	-
2	Fund-based Bank Facility	Long Term	350	197.5	**[ICRA]AA- (Stable)**	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-

Source: *ICRA Research; *As of March 31, 2022*

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Simple
Fund-based Bank Facility	Simple

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	NCD*	NA	NA	NA	400	[ICRA]AA- (Stable)
NA	Fund-based bank facility 1	18-Mar-17	NA	30-Jun-24	5.32	[ICRA]AA- (Stable)
NA	Fund-based bank facility 2	27-Jun-17	NA	27-Jun-24	3.58	[ICRA]AA- (Stable)
NA	Fund-based bank facility 3	3-Mar-17	NA	3-Mar-24	3.05	[ICRA]AA- (Stable)
NA	Fund-based bank facility 4	24-Dec-20	NA	8-Jan-28	44.44	[ICRA]AA- (Stable)
NA	Fund-based bank facility 5	30-Jun-20	NA	1-Apr-25	44.78	[ICRA]AA- (Stable)
NA	Fund-based bank facility 6	30-Jun-20	NA	1-Apr-30	51.28	[ICRA]AA- (Stable)
NA	Fund-based bank facility 7	10-Feb-21	NA	NA	30.00	[ICRA]AA- (Stable)
NA	Fund-based bank facility 8	14-Jan-21	NA	NA	15.00	[ICRA]AA- (Stable)
NA	Unallocated Fund-based bank facility	NA	NA	NA	152.55	[ICRA]AA- (Stable)

*Source: ICRA Research, DHFPL; * yet to be placed*

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
DMI Housing Finance Private Limited (DHFPL)	Rated Entity	Full Consolidation
DMI Finance Private Limited (DFPL)	Fellow Subsidiary	Full Consolidation
DMI Management Services Private Limited (DMSPL)	100% Subsidiary	Full Consolidation
DMI Capital Private Limited (DCPL)	100% Subsidiary	Full Consolidation

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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.

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