June 30, 2022

DMI Finance Private Limited: Provisional [ICRA]AA+(SO) assigned to PTCs issued under consumer loan securitisation transaction – MOST I

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
MOST I	PTC Series A	238.10	Provisional [ICRA]AA+(SO); assigned

**Instrument details are provided in Annexure-1*

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

Rationale

ICRA has assigned a Provisional [ICRA]AA+(SO) rating to the PTC Series A under a securitisation transaction originated by DMI Finance Private Limited (DMI) ([ICRA]AA-(Stable)/[ICRA]A1+). The pass-through certificates (PTCs) are backed by a pool of Rs. 292.11 crore consumer loan receivables. For the purpose of the transaction, the pool receivables have been discounted using a discounting factor of 15% to arrive at pool principal of Rs. 281.38 crore. As per the transaction structure, the originator would assign follow-on pools to the trust during the replenishment period of six months (at same discounting factor) basis defined eligibility criteria. The amortisation of the PTCs would begin post crystallization of the pool either at end of replenishment period or on occurrence of any pre-defined trigger event, whichever is earlier.

The provisional rating is based on the strength of cash flows from the selected pool of contracts and the available credit enhancement in the form of (i) a cash collateral (CC) of Rs. 21.91 crore (i.e. 7.50% of the pool receivables) to be provided by the Originator, and (ii) cashflow subordination of about Rs. 40.85 crore (after adjusting the purchase consideration and the interest payouts to the PTC Series A investor from the pool receivables), as well as the integrity of the legal structure. The rating is subject to fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of cashflow subordination and cash collateral
- The current pool has no overdue contracts as on pool cut-off date. Further any follow-on pool would also not include any overdue contracts on date of assignment to trust.
- Improvement in the asset quality of the consumer loan portfolio of the company for book originated post Covid

Credit challenges

- The performance of the transaction would be exposed to performance of the follow-on pools which have a moderate selection criteria
- Lower tail period for recovery for pool available at end of replenishing period
- Performance of the current as well as follow-on pools remain exposed to any fresh disruptions due to the Covid-19 pandemic

Description of key rating drivers highlighted above

DMI would assign the future receivables arising from the selected pool of loans to a special purpose vehicle (trust). The pool comprises of loans given by DMI for consumer durables for Samsung products under subvention scheme.

The trust would issue two series viz. PTC Series A (Senior) and PTC Series B backed by the assigned consumer loan receivables. The entire principal amount is promised to PTC Series A in a single bullet instalment on the scheduled maturity date. The cashflows available after meeting the expected principal and promised interest payouts to the PTC Series A investor are available as a form of support. A cash collateral of 7.50% of the pool receivables provided by DMI acts as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC monthly interest payouts and the PTC principal on the scheduled maturity date, the trustee will utilise the cash collateral to meet the shortfall.

The legal maturity for the PTCs is scheduled on January 31, 2024. DMI will hold the security interest in trust for the benefit of the investors. The tenure of transaction shall be divided into two periods:

- Replenishment Period
- Amortisation Period

Replenishment Period:

During the replenishment period, the principal collections from the pool will be utilised to purchase additional receivables (or further receivables or fresh set of additional receivables) at monthly intervals. These receivables would be assigned to trust. The replenishment period will be for a period of six months from the transaction commencement date. During the replenishment period, PTC Series A investors will receive only the promised interest payouts on a monthly basis and from the available balance amount the trust will purchase fresh pools as per the selection criteria. Any residual amount will flow back to the originator.

Amortisation Period:

Post the replenishment period, the residual pool collections, after meeting the promised interest payout to PTC investors, shall be used to make expected principal payouts to the PTC investors. However, the principal is 'promised' to the investors only on the legal final maturity date of the transaction. The transaction also entails certain trigger events for pool amortisation. A breach of any of these trigger events would result in the replenishment period coming to an end and start of the amortisation period. If a trigger event occurs at any time during the replenishment period, then the tenure of the PTCs shall be reduced and be co-terminus with the remaining tenure of the pool of receivables held by the Trust.

Additional or Further receivables

In conventional securitisation transactions, all or majority of pool collections in a particular month (including prepayments, if any) are passed on to the PTC investors on the following payout date as per the cash flow waterfall. However, in the present structure, during the replenishment period of six months post transaction date, only the PTC interest will be serviced and the balance pool cashflows will be utilised to acquire further receivables to maintain asset cover. Principal collections including part prepayment / foreclosures will be used to purchase these additional receivables from the Originator during the replenishment period. The contracts in the fresh pools would be required to meet certain pre-specified eligibility criteria.

Key eligibility criteria for the receivables

Eligibility Criteria shall be met at:

1. Commencement of the transaction
2. At each Replenishment event for all the new assets being added as well as for the updated pool (as applicable)

The following key eligibility criteria will have to be met:

No loan has been purchased from other entities
None of the loans have a bullet repayment schedule for principal and/or interest
None of the loans are in the nature of revolving credit facilities (e.g. cash credit accounts, credit card receivables etc.)
No obligor is an employee of the Seller

- No loan has been restructured and rescheduled in the past
- The aggregate outstanding principal balance to any single obligor does not exceed 0.25% of the entire pool's outstanding balance as on the cut-off date
- All loans are current as on the cut-off date and Ever DPD status of loans is less than 30 days
- Original term of any loan not to exceed [15] months
- No loan has an original loan balance that exceeds Rs. [175,000]
- At any payment date during the transaction the borrowers with "-1" CIBIL credit score do not make up more than [40]% of the overall portfolio size and besides the borrowers with -1 score, no borrower has a CIBIL credit score of less than 700
- At any payment date during the transaction, self-employed borrowers do not make up more than 75% of the overall portfolio size
- Concentration limits on top states is at 40% while that for top three states is at 65%.

Key Trigger Events

At the occurrence of any of the following triggers, replenishment will stop and all the total collections will be used as per the Post-Replenishment Payment Waterfall -

- 30+ delinquency (ratio of Receivables which are more than 30 days delinquent to total Receivables balance expressed in percentage is more than [6.00]%
- 60+ delinquency (ratio of Receivables which are more than 60 days delinquent to total Receivables balance expressed in percentage is more than [5.00]%
- 90+ delinquency (ratio of Receivables which are more than 90 days delinquent to total Receivables balance expressed in percentage is more than [4.00]%
- CC is not at its required level ([7.5]% of initial CC balance)
- An Event of Default has occurred on any outstanding debt of DMI
- If DMI stops originating consumer loans
- Credit Enhancement at any point of time during Replenishment Period ("Current Credit Enhancement") is less than Credit Enhancement at closing

The rating draws comfort from the track of DMI in the consumer loan business (more specifically, its partnership with Samsung for financing the mobile phones) where it has seen many loan vintages complete the entire repayment cycle as the product tenure is less than 15 months. While the consumer loan portfolio of DMI was impacted due to the Covid-19 pandemic resulting in relatively higher write-offs, ICRA has also noted the reasonable recoveries from the written-off book as well as better performance of the post-Covid originated loan book. A potential concern pertaining to a replenishing structure is the uncertainty regarding the exact composition of the additional receivables. However, the specified eligibility criteria ensure a reasonable credit quality of the assigned pool during replenishment period through favourable seasoning, credit profile of borrower and low delinquency levels. Nevertheless, the rating remains exposed to any fresh Covid-related disruptions that may impact the performance of the current as well as follow-on pools in the transaction.

Past rated pools performance: This is the first PTC transaction for DMI rated by ICRA.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed security (ABS) transactions involves the simulation of potential delinquencies (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the shortfall in collections are arrived at after taking into account the past performance of the originator's portfolio and the rated pools as well as the characteristics of the current pool being evaluated. However, in the current transaction since the pool would be revised during the replenishment period the characteristics of the pool would change unlike other PTC transactions where the pool is static. ICRA has used the defined eligibility criteria to arrive at potential loss for the follow-on pools. Additionally, the assumptions may be adjusted to account for the current macroeconomic situation as well as any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the current pool as well follow-on pools is estimated to be 5.0-6.0% with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-9.0% per annum.

Liquidity position: Strong

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. The amortisation of PTCs will start after occurrence of trigger event or end of replenishing period (6 months) and the collected principal will be passed on to the investor on expected basis. Additionally, a cash collateral of 7.50% of pool receivables is also available in the transaction. The collections and the credit enhancements are expected to be comfortable to meet the promised payouts to the investors.

Rating sensitivities

Positive factors – Since the principal amortisation would begin on crystallization of final pool, the rating is unlikely to be upgraded till the final pool is crystalized. The rating could be upgraded basis healthy collections observed in final crystalized pool leading to buildup of credit enhancement cover over the rated PTCs.

Negative factors - The rating could be downgraded on occurrence of trigger event, non-adherence to the key transaction terms and deterioration in performance of follow-on pools such that delinquencies during the amortisation period are higher-than-expected.

Analytical approach

The rating action is based on the analysis of the performance of DMI's consumer loan portfolio till March 2022 and the key characteristics and composition of the current pool and defined eligibility criteria for follow-on pools, performance expected over the balance tenure of the follow-on pools, and the credit enhancement 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 ratings are provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Power of Attorney
6. Chartered Accountant's (CA) certificate
7. Any other documents executed for the transaction including for the CC

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 ratings, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

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 the retail book, personal loans had 42% share, consumer loans had 51% share and MSME loans had the balance 8% share.

Key financial indicators

Particular	FY2020 (A)	FY2021 (A)	9MFY2022 (Prov)
Total income (Rs. crore)	654	773	619
Profit After Tax (Rs. crore)	102	27	43
Asset under management (Rs. crore)	3,725	3,635	4,547
Gross NPA %	4.6%	3.9%	2.5%
Net NPA%	1.9%	1.5%	0.4%

Amounts 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 Name	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 30, 2022	-	-	-
1	MOST I	PTC Series A	238.10	238.10	Provisional [ICRA]AA+(SO)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
PTC Series A	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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Type	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
MOST I	PTC Series A	June 2022	8.30%	January 2024	238.10	Provisional [ICRA]AA+(SO)

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

Source: *Company*

Annexure-2: 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.

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