November 11, 2022

DMI Finance Private Limited: Rating confirmed as final for PTCs issued under a consumer loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
MOST I	PTC Series A	238.10	[ICRA]AA+(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In June 2022, ICRA had assigned Provisional [ICRA]AA+(SO) rating to Pass Through Certificate (PTCs) Series A issued by MOST I. The pass-through certificates (PTCs) are backed by a pool of Rs. 292.11 crore consumer loan receivables originated by DMI Finance Private Limited (DMI/Originator) (rated [ICRA]AA-(Stable)/[ICRA]A1+). 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 rating has now been confirmed as final.

The transaction has completed three payouts as on September 2022 month with almost nil amortisation of PTCs given that it is currently in the replenishment period. There has been nil cash collateral (CC) utilization in the transaction.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of cashflow subordination and cash collateral
- The initial pool had 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
- 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

DMI has assigned 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 has 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 initial pool receivables provided by DMI would 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 has been utilised to purchase additional receivables (or further receivables or fresh set of additional receivables) at monthly intervals. These receivables has been 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 has received only the promised interest payouts on a monthly basis and from the available balance amount the trust has purchase fresh pools as per the selection criteria. Any residual amount has flown 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

Past rated pools: 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 initial 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 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 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 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 March 31, 2022, consumer loans accounted for 62% (44% as on March 31, 2021) of the Rs. 5,432-crore loan book with the wholesale real estate lending book accounting for a 27% share and the non-real estate wholesale loan book accounting for the balance. As of June 30, 2022, the share of consumer loans increased to 71% on the loan book of Rs. 6,591 crore with the share of the wholesale real estate lending book reducing to 22% and the non-real estate wholesale loan book accounting for the balance.

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 Name	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
					Nov 11, 2022	Jun 30, 2022	-	-	-
1	MOST I	PTC Series A	238.10	238.10	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-	-	-

Complexity level of the rated instrument

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: Click Here

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
MOST I	PTC Series A	June 2022	8.30%	January 2024	238.10	[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

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Gaurav Mashalkar
+91 22 6114 3431
gaurav.mashalkar@icraindia.com

Palak Bhatt
+91 22 6114 3450
palak.bhatt@icraindia.com

Samriddhi Chowdhary
+91 22 6114 3411
samriddhi.chowdhary@icraindia.com

Advait Athavale
+91 22 6114 3433
advait.athavale@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches