June 30, 2023

DMI Finance Private Limited: Provisional [ICRA]AA(SO) assigned to PTC Series A1 issued by PLUM 24-2, backed by a pool of personal loan receivables

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
PLUM 24-2	PTC Series A1	64.91	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. 72.12 crore (pool principal; receivables of Rs. 92.05 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 21.57% 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.
- The share of salaried borrowers is high in the pool and constitutes ~89% of the initial pool principal.

Credit challenges

- Moderate share of high interest rate contracts with ~30% of contracts in pool having interest rate greater than 24%.
- 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 promised cashflow schedule for PTC Series A1 on a monthly basis will comprise only interest (at the pre-determined yield) payment and principal payment on the final payout 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 (not promised), and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. All prepayment amounts would be passed on to PTC Series A1 (till the PTC Series A1 principal is not fully amortized) every month and its future payouts revised accordingly. The Excess

Interest Spread ("EIS") shall be used for accelerated amortization of PTC Series A1 (and hence there shall be no leakage of EIS during the tenure of the PTCs to the originator.

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 21.57% 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 ~8 months and pre-assignment amortisation of ~20% as on the cut-off date. All the contracts in the pool had a CIBIL score of at least 700 while ~50% had a CIBIL score of 750 and above. The company also has a shorter track record of ~4 years in the personal loan business. The pool has a low share of self-employed borrowers at ~11%. The pool also has a higher share of higher interest rate contracts with ~30% of the contracts having an IRR of more than 24%. While delinquencies in the portfolio have been low, the same was aided by write-offs. Some of the older vintages in the portfolio were impacted by the Covid-19 pandemic while recoveries from write-offs were lower as 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 fifth PTC rating exercise for a personal loan pool of DMI to be carried out by ICRA. The live pools, backed by personal loan receivables, have shown healthy cumulative collection efficiency in the range of 98-99% with nil CC utilisation as on May 2023 payout.

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% with a mean of 12.0% per annum.

Liquidity position: Strong

For the transaction, 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 of contracts (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 of contracts, 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 personal loan portfolio till March 2023, 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 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, DMI 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, 2023, consumer loans accounted for 79% (62% as on March 31, 2022) of the Rs. 7,511-crore loan book with the wholesale real estate lending book accounting for a 16% share and the non-real estate wholesale loan book accounting for the balance.

Key financial indicators (standalone)

Particular for	FY2020 (A)	FY2021 (A)	FY2022 (A)	FY2023 (A)
Total income (Rs. crore)	645	764	911	1,656
Profit After Tax (Rs. crore)	99	22	58	324
Gross loan book (Rs. crore)	3,725	3,655	5,432	7,511
Gross NPA %	4.6%	3.9%	2.2%	3.60%
Net NPA%	1.9%	1.5%	0.3%	1.50%

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="4">Current Rating (FY2024)</th><th colspan="3">Chronology of Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Instrument</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding (Rs. crore)</th><th>Date & Rating in FY2024</th><th>Date & Rating in FY2023</th><th>Date & Rating in FY2022</th><th>Date & Rating in FY2021</th></tr>
<tr><th>June 30, 2023</th><th>-</th><th>-</th><th>-</th></tr>
<tr><td>1</td><td>PLUM 24-2</td><td>PTC Series A1</td><td>64.91</td><td>64.91</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

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
PLUM 24-2	PTC Series A1	June 2023	9.15%	October 2026	64.91	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.

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