February 05, 2024

DMI Finance Private Limited: Rating confirmed as final for PTCs backed by personal loan receivables issued by PLUM 24-7

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
PLUM 24-7	PTC Series A1	186.28	[ICRA]AA(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In February 2024, ICRA had assigned Provisional [ICRA]AA(SO) rating to Pass Through Certificate (PTC) Series A1 issued by PLUM 24-7. The PTCs are backed by receivables from a Rs. 214.11 crore (pool principal; receivables of Rs. 270.15 crore) pool of a personal 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.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), principal subordination and cash collateral (CC).
- The current pool has no overdue contracts as on pool cut-off date.
- High share of salaried borrowers in the pool (~81% of initial pool principal).

Credit challenges

- Moderate share of high interest rate contracts with ~30% of contracts in pool having interest rate (IRR) 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 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 EIS, if any, shall flow back to the originator on every payout date after making all the payouts to PTC Series A1 as per the waterfall mechanism.

The first line of support for PTC Series A1 in the transaction is in the form of an equity tranche/principal subordination of 13.00% of the initial pool principal. Additionally, the EIS of 17.18% of the initial pool principal available in the structure provides CE support. A CC of 5.00% 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 same. The equity tranche PTC payouts are completely subordinated to the PTC Series A1 payouts and the equity tranche payments are not promised at every payout.

There were no overdues in the pool as on the cut-off date. The pool has average seasoning of 7.3 months and pre-assignment amortisation of 17.4% as on the cut-off date. All the contracts in the initial pool had a CIBIL score of at least 700 while 65.0% had a CIBIL score of 750 and above. The pool has a high share of salaried borrowers at ~81%. It also has a moderate share of contracts with higher interest rates – 30% of the contracts have an IRR of more than 24%.

The company has a lower track record of ~4 years in the PL business. While delinquencies in the portfolio have been low, the same has been 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 performance: ICRA has ratings outstanding on ten personal loan (PL) PTC transactions of DMI. The live PL pools (completed at least two payouts) as on December 2023 payouts have shown healthy cumulative collection efficiency upwards of 99% and loss cum 90+ dpd in the range of 2 to 4%.

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 5.00-6.00% 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

The liquidity for PTC Series A1 is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~5 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency greater than 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 less than 90%) of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

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 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 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, with the non-real estate wholesale loan book accounting for the balance.

Key financial indicators (standalone)

	FY2020 (A)	FY2021 (A)	FY2022 (A)	FY2023 (A)
Total income	645	764	911	1,656
Profit after tax	99	22	58	324
Gross loan book	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

Sr. No.	Trust Name	Current Rating (FY2024)					Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					February 05, 2024	February 01, 2024	-	-	-
1	PLUM 24-7	PTC Series A1	186.28	186.28	[ICRA]AA(SO)	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	Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
INE0T7315019	**PLUM 24-7**	PTC Series A1	January 2024	9.30%	July 2027	186.28	[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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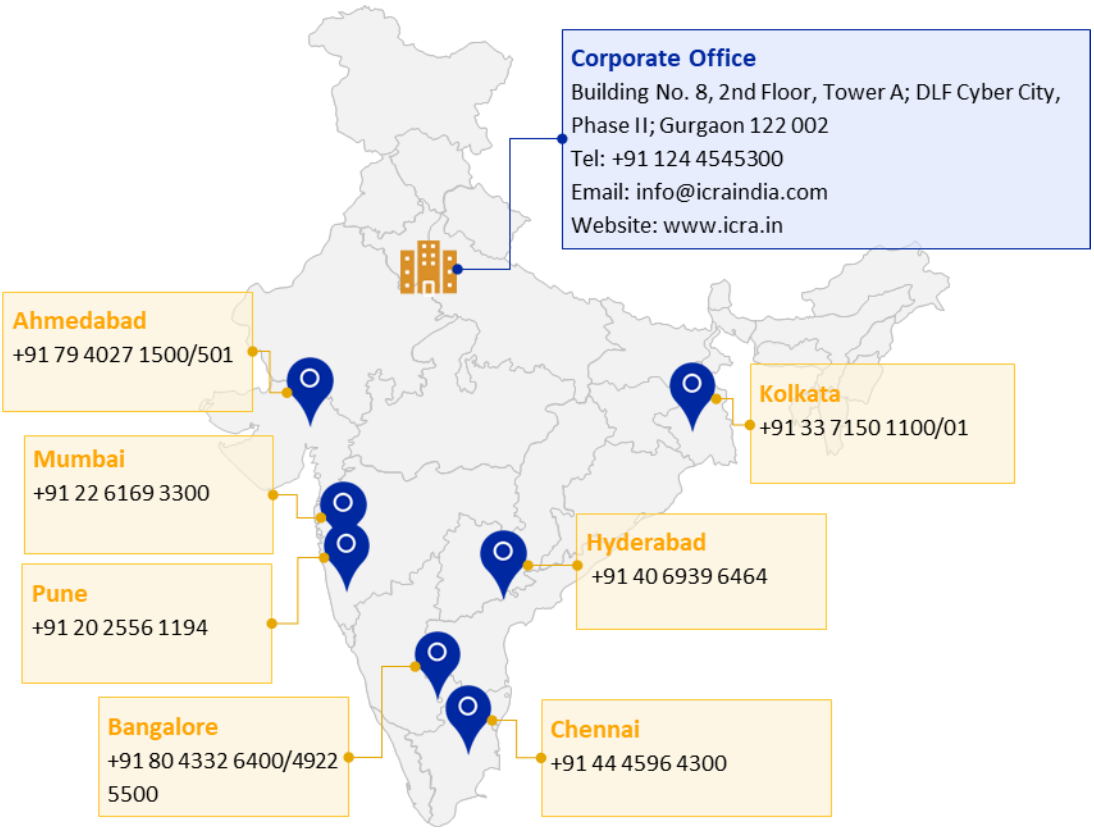

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