

July 08, 2024

## DMI Finance Private Limited: Rating confirmed as final for PTCs backed by personal loan receivables issued by PLUM25-3

### Summary of rating action

| Trust Name | Instrument*   | Current Rated Amount (Rs. crore) | Rating Action  |
|------------|---------------|----------------------------------|--|
| PLUM25-3   | PTC Series A1 | 60.19                            | [ICRA]AA+(SO); provisional rating confirmed as final |

*\*Instrument details are provided in Annexure I*

### Rationale

In June 2024, ICRA had assigned Provisional [ICRA]AA+(SO) rating to Pass Through Certificate (PTC) Series A1, issued by PLUM25-3. The PTCs are backed by a pool of a personal loan (PL) receivables originated by DMI Finance Private Limited (DMI/Originator) (rated [ICRA]AA(Stable)/[ICRA]A1+) with an aggregate principal outstanding of Rs. 66.87 crore (pool receivables of Rs. 84.06 crore).

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.

### Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The residual cash flows from the pool, after meeting the promised and expected payouts, will be used for the prepayment of PTC Series A1 principal. Any prepayment in the pool would be used for the prepayment of the PTC Series A1 principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 9.00% of the initial pool principal, amounting to Rs. 6.02 crore, to be provided by the Originator, (ii) principal subordination of 10.00% of the initial pool principal for PTC Series A1 in the form of an equity tranche, and (iii) the entire EIS of 17.68% of the initial pool principal for PTC Series A1.

### Key rating drivers and their description

#### Credit strengths

**Granular pool supported by presence of credit enhancement** – The pool is granular, consisting of 5,333 contracts, with top 10 contracts forming only 0.64% of the initial pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

**No overdue contracts in the pool** –The pool has been filtered in such a manner that there are no overdue contracts as on the cut-off date. Also, none of the contracts have been overdue since origination.

**Strong CIBIL score of the underlying borrowers** – All the borrowers in the pool have a minimum CIBIL score of 700 and 73% of borrowers have a CIBIL score of more than 750 which signifies a strong credit history of such borrowers.

## Credit challenges

**Exposed to interest rate risk** – The transaction is exposed to interest rate risk as the underlying pool has fixed rate loans while the yield on the PTCs is floating (linked to Kotak Mahindra Bank 3-month MCLR with semi-annual reset).

**Risks associated with lending business** – The pool’s performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recovery from delinquent contracts tends to be lower.

## Key rating assumptions

ICRA’s cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator’s loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA’s cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 5.75% of the pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 6% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

## Details of key counterparties

The key counterparties in the rated transactions are as follows:

| Transaction Name                   | PLUM25-3                     |
|------------------------------------|------------------------------|
| Originator                         | DMI Finance Private Limited  |
| Servicer                           | DMI Finance Private Limited  |
| Trustee                            | Catalyst Trusteeship Limited |
| CC Bank                            | ICICI Bank                   |
| Collection and payout account Bank | Kotak Bank                   |

## 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 ~5.5 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 >95%) on a sustained basis, leading to the build-up of the credit enhancement cover for the remaining payouts.

**Negative factors** – Pressure on the rating could emerge on any sustained weak collection performance (monthly collection efficiency <90%) of the underlying pool leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. Weakening in the credit profile of the servicer (DMI) 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 | <a href="#">Rating Methodology for Securitisation Transactions</a> |
| 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 its 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.

## Key financial indicators (standalone)

| Particular for       | FY2022 (A) | FY2023 (A) | FY2024 (A) |
|----------------------|------------|------------|------------|
| Operating Income     | 652        | 1,222      | 2,024      |
| Profit After Tax     | 58         | 324        | 417        |
| Total managed assets | 7,233      | 9,038      | 14,520     |
| Gross Stage 3        | 2.2%       | 3.4%       | 2.5%       |
| CRAR                 | 61%        | 51%        | 45%        |

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 (FY2025) |                                  |                                  |                         |                           | Chronology of Rating History for the Past 3 Years |                         |                         |
|---------|------------|-------------------------|----------------------------------|----------------------------------|-------------------------|---------------------------|---|-------------------------|-------------------------|
|         |            | Instrument              | Initial Amount Rated (Rs. crore) | Current Amount Rated (Rs. crore) | Date & Rating in FY2025 |                           | Date & Rating in FY2024                           | Date & Rating in FY2023 | Date & Rating in FY2022 |
|         |            |                         |                                  |                                  | July 08, 2024           | July 01, 2024             |   |                         |                         |
| 1       | PLUM25-3   | PTC Series A1           | 60.19                            | 60.19                            | [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 No      | Trust Name | Instrument    | Date of Issuance / Sanction | Coupon Rate | Maturity Date     | Amount Rated (Rs. crore) | Current Rating |
|--------------|------------|---------------|-----------------------------|-------------|-------------------|--------------------------|----------------|
| INE0YNM15018 | PLUM25-3   | PTC Series A1 | June 28, 2024               | 9.10%^      | December 25, 2026 | 60.19                    | [ICRA]AA+(SO)  |

<sup>^</sup> 3-month Kotak Mahindra Bank MCLR

Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Not Applicable

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### About ICRA Limited:

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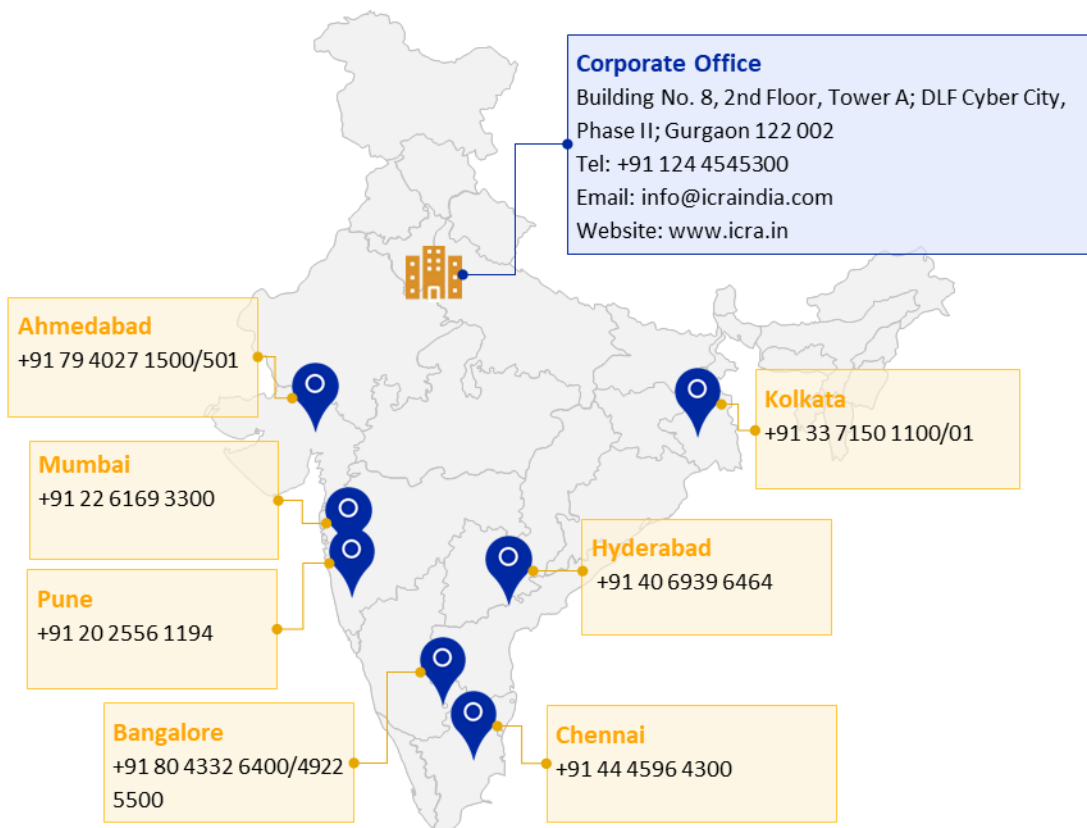
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