



Rating Rationale

DMI Finance Pvt Ltd

28 June 2020

Brickwork Ratings assigns 'BWR AA-/Stable' to the proposed NCD issue of DMI Finance Pvt Ltd

Particulars:

Facility/ Instrument**	Amount (Rs Cr)		Tenur e	Rating*	
	Previous	Present		Previous (Nov 19)	Present
Bank Loans	900	900	Long Term	BWR AA- /Stable	BWR AA- /Stable (Reaffirmed)
Proposed Non-Convertible Debentures (NCDs)	-	50	Long Term	-	BWR AA- /Stable (Assigned)
Non-Convertible Debentures	130	130	Long Term	BWR AA- /Stable	BWR AA- /Stable (Reaffirmed)
Total	1030	1080	INR One Thousand and Eighty Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

**Details of Bank loan facilities and NCD are provided in Annexure – I & II

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) assigns '**BWR AA-/Stable**' to the Rs.50 Crs NCD issue of DMI Finance Pvt Ltd (DMI Finance or the company), while reaffirming the ratings on the existing debt as tabulated above.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied on audited financials upto FY19, unaudited financials of FY20, publicly available information and information/clarifications provided by the company.



The rating inter alia factors in DMI Finance's strong sponsor profile, healthy capitalization, experienced management and comfortable liquidity. The ratings are however constrained by exposure to riskier asset classes, average asset quality, and earnings profile.

The Stable outlook indicates a low likelihood of rating change over the medium term. With regular equity infusions via DMI Limited (Mauritius based), the company has been growing consistently over the years and is well capitalized to absorb any credit costs, arising due to COVID-19 related economic slowdown.

Description of Key Rating Drivers

Credit Strengths:

- **Strong sponsor profile:** DMI Finance continues to benefit from strong support from its majority shareholder, DMI Limited, a Mauritius based investment company, where the major investor is New Investment Solution (NIS). NIS, started in 2002 by Takashi Sato is a Zurich-based alternative asset manager with over US\$ 2.0 billion of deployed capital. It currently has 8 investment funds in operation, including NIS Ganesha which is their investment vehicle in India. The fund focuses on Japanese equities, US asset-backed debt and emerging markets, and has presence across various countries of Europe, USA and South East Asia, with investments in technology, financial services, real estate sectors, among others. DMI Limited has consistently infused equity into DMI Finance including the recent sizeable equity raise of Rs 1619 Cr in Jan 2019 and ~Rs 940 Cr in April 2020, placing the shareholding of DMI Limited at 74.5% as on date.
- **Healthy capitalisation:** DMI Finance has a healthy capital adequacy with Capital to Risk Weighted Assets Ratio (CRAR) of ~43% as of 31 March 2020. Reported net worth has consistently increased over the period, due to a series of equity infusions over the years and profit retention, placing the networth at ~ Rs 2467 Cr as of 31 March 2020. This was further augmented by an equity infusion by DMI Ltd. of ~Rs 940 Cr in April 2020. The equity raise has improved the leverage of the company from 1x, as of 31 March 2020 to ~0.6x as of 31 April 2020. Total borrowings of the company was Rs 2591 Cr as of 31 March 2020, with approximately 88% of total borrowings via NCDs, raised mostly from the same set of equity investors. Borrowings are mostly long term in nature and the cost of funds are at competitive rates. BWR believes DMI Finance's capitalisation profile is strengthened with capital infusion in April 2020, which is expected to cover for any asset risks including that due to the COVID-19 pandemic and to also pursue portfolio growth over the medium term.



- **Experienced Management:** DMI Finance is founded by Mr Yuvraja C Singh (former MD, Citigroup) and Mr Shivashish Chatterjee (Co-Head, North America, Securitized Products trading, Citigroup), both having over two decades of experience, across mortgage trading, fixed income structuring and risk management with reputed global investment banks, before starting DMI Finance. The overall operations of DMI Finance are governed by a 8 member board consisting of two promoter directors and two nominee directors including Mr. Gaurav Burman (from Burman family - promoter and director of Dabur India) and Mr. Tammir Amr (former Managing Director of the Lehman Brothers/ PSP Swiss Properties joint venture). Other key members of the board include Mr. Gurcharan Das (former Managing Director of Procter & Gamble) and Mr. Nipendar Kochhar (former Managing Director of ABN AMRO, South East Asia - consumer clients and commercial clients). Also, the senior management of the company comprises professionals who have significant and relevant experience in their respective domains.
- **Comfortable Liquidity:** As per ALM dated 31 March 2020, the company's liquidity profile is comfortable and has a positive cumulative gap in all the time buckets. DMI Finance has raised an equity of ~Rs 940 Cr in April 2020 and hence have a sizeable cash and cash equivalents of Rs 1911 Cr as of 1st June 2020. The total debt repayments and operational expenses of the company for a 12 month period is Rs 519 Cr. i.e. the company has a ~3.7x liquidity buffer, adequate for the growth plans of the company in the medium term, apart from managing the operational and financial costs.

Credit Risks:

- **Exposure to riskier asset classes and average asset quality:** Assets Under Management (AUM) which saw an annual growth of 50% in FY20 to Rs 3609.3 Cr, was primarily driven by consumer lending which is fully unsecured, and contributes to ~60% of portfolio as of 31 March 2020. As a conscious strategy, the company has reduced its real estate sector exposure to 29% of portfolio as of 31 March 2020, from 79% of portfolio as of FY18, mainly through rundown of the portfolio and limited incremental disbursements in the sector. The balance 11% of the portfolio comprises corporate loans. The gross Non Performing Assets (NPA) increased to 4.7% as on 31 March 2020, as compared to 2.9% as on 31 March 2019, primarily due to deterioration of corporate loan book. Going forward, these product segments may experience higher stress during an economic slowdown period, triggered by the COVID-19 pandemic.

Nevertheless, the customer profile is primarily salaried (at ~64% as of 31 March 2020) for the consumer finance segment, where the repayment capability is expected to be better. Also, partial First Loss Default Guarantee (FLDG) support via anchors/partners are available for this product. Real estate finance are fully secured loans with ~ 92% of portfolio having Loan To Value (LTV)



less than 60% as of 31 March 2020. Hence, the overall impact on the portfolio performance of DMI Finance is expected to be limited in the near term. However, the same will remain a key rating monitorable.

- **Average earnings profile:** The earnings profile of the company is average with a Return on Assets (ROA) and Return on Equity (ROE) of 1.8% and 4% respectively for FY20 (at 2.9% and 4.6% for FY19). The dip in returns was due to higher operating cost and credit cost because of business expansion towards retail finance and due to increased provisioning for consumer finance and corporate loan products. The net income from operations have improved to Rs 495.1 Cr as on 31 March 2020, from Rs 243.2 Cr as on 31 March 2019, driven by portfolio growth & increase in exposure to higher yield consumer finance segments. Due to the same, the average yield on advances has improved to ~22% as on 31 March 2020, from 17.9% as on 31 March 2019. The reported PAT is at Rs 98.6 as on 31 March 2020, as compared to Rs 75.3 Cr as on 31 March 2019. While the interest margins have improved over the period, the company's ability to manage the credit cost and reduce the operating cost, to improve the overall earnings profile as it scales business will be a key rating monitorable.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

DMI Finance's ability to improve the earnings profile, asset quality and maintain portfolio growth, liquidity position and capital adequacy will be key rating sensitivity factors.

Positive: The rating may be revised upwards if DMI Finance shows steady and strong growth, while also improving in terms of asset quality and profitability.

Negative: The rating outlook may be revised to Negative if DMI Finance's performance is lower than expectations, in terms of asset quality, business growth, profitability, liquidity, and capital adequacy.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organization (WHO), has become a full-blown crisis globally, including in India. COVID-19 has impacted the domestic economy of India, as the nation had gone into lockdown 24 March 2020 onwards (later converted to partial lockdown in various states). As per BWR, financial institutions, mainly those lending to retail low-income borrower segments could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India, on interest and principal on bank debt, will provide some cushion to the lending



community to realign its collection mechanism and operations during this period. However, lenders' ability to ensure credit discipline among borrowers, as the 6-month moratorium ends, and to collect accumulated interest and principal dues on a timely basis, after this period will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact of its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

Liquidity Profile: Adequate

As per ALM dated 31 March 2020, the company's liquidity profile is comfortable and has a positive cumulative gap in all the time buckets. As of 1 June 2020, the company has cash and cash equivalents of Rs 1911 Cr, as compared to total debt repayments and operational expenses of Rs 519 Cr for 12 months. i.e. entity has ~3.7x liquidity buffer for a 12 month period. Also, the portfolio under moratorium is limited at less than 25% as on date, and the overall collection efficiency continues to be stable for the remaining portfolio.

About the Company

DMI Finance Pvt Ltd is an RBI registered, systemically important non-deposit taking NBFC (NBFC-ND-SI), incorporated in 2008 at New Delhi. The company is promoted by Mr. Yuvraja C Singh (former MD Citigroup) and Mr. Shivashish Chatterjee (Co-Head, North America, Securitized Products trading, Citigroup). DMI Finance is a subsidiary of DMI Limited (based out of Mauritius), which holds a 71% shareholding in DMI Finance as of 31 March 2020.

The major investor in DMI Limited is New Investment Solution (NIS), which is a Zurich-based alternative asset manager with over US\$2.0 bn of deployed capital. NIS was started in 2002 by Takashi Sato. It currently has 8 investment funds in operation including NIS Ganesha which is their Indian investment vehicle. The fund focuses on Japanese Equities, US Asset-backed debt and emerging markets.

As of 31 March 2020, DMI Finance has a portfolio of Rs 3609 Cr (at Rs 2389 Cr in 31 March 2019) i.e. a YoY growth rate of 51%. The portfolio is spread across Pan India with 60% of portfolio in consumer finance, 29% of portfolio from real estate funding and 11% of portfolio from corporate loans. Over the period, the company has consciously reduced real estate sector exposure to 29% of portfolio as of 31 March 2020, from 79% of portfolio as of 31 March 2018. Incrementally, the company is focusing on increasing its share of small ticket size, higher yield, unsecured consumer finance and personal loan product segments.

Financial Performance

Particulars	Units	FY18	FY19	FY 20
		Audited	Audited	Provisional
Net worth	Rs. Crores	869.4	2200.2	2466.6
Net Income from operations	Rs. Crores	141.9	243.16	495.1
PAT	Rs. Crores	65.9	75.34	98.6
AUM	Rs. Crores	1488.4	2389.7	3609.3
CRAR	%	61.2	65.9	42.8
GNPA	%	0.2%	2.9%	4.7%
Gearing	Times	0.69x	0.47x	1.0x

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

		Rating History for the past 3 years										
Facility/ Instrument**	Current Rating (June 2020)			2019			2018			2017		
	Type	Amount (Rs Cr)	Rating	Type	Amount (Rs Cr)	Rating	Type	Amount (Rs Cr)	Rating	Type	Amount (Rs Cr)	Rating
Bank Loans	Long Term	900	BWR AA- /Stable (Reaffirmation)	Long Term	900	BWR AA- / Stable	Long Term	900	BWR AA- / Stable	Long Term	900	BWR AA- / Stable
Proposed Non-Convertible Debentures	Long Term	50	BWR AA- /Stable (Assignment)	Long Term	-	-	Long Term	-	-	Long Term	-	-

Existing Non-Convertible Debentures	Long Term	130	BWR AA-/Stable (Reaffirmation)	Long Term	130	BWR AA-/Stable	Long Term	130	BWR AA-/Stable	Long Term	130	BWR AA-/Stable
Total		1080	INR One Thousand and Eighty Crores Only									

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Basel III Compliant Instruments](#)

For any other criteria obtain hyperlinks from website

Analytical Contacts	Media & Investor Contact
<p>Abin Rasheed Senior Analyst +91 80 40409940 Extn 364 abin.r@brickworkratings.com</p> <p>Vydianathan Ramaswamy +91 022 67456660 Director & Head – Financial Sector Ratings vydianathan.r@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>
Phone: 1-860-425-2742	

ANNEXURE I Details of Bank Loan Facilities rated by BWR

Sl No	Name of the Bank	Type of Facilities	Amount Rated (Rs Cr)
1	HDFC Bank	Term Loans	25.83

2	Kotak Mahindra Bank		5.00
3	Union Bank of India		57.05
4	AU Small Finance Bank		0.99
5	South Indian Bank		17.14
6	Bank of Baroda		75.00
7	HDFC Bank	Cash Credit	20.00
8	Kotak Mahindra Bank		5.00
9	Proposed	Term Loan/Cash Credit	693.98
Total: Rs Nine Hundred Crores only			900

ANNEXURE II
Details of Non Convertible Debentures (NCDs) rated by BWR

Particulars	ISIN	Issue size in Rs Cr	Date of Issue	Maturity Date
Secured NCD	INE604O0707 6	50	03-Oct-18	02-Nov-19
Secured NCD	INE604O0709 2	55	27-Dec-18	26-Dec-19
Proposed*		25	-	-
Proposed**		50	-	-

*unutilized portion from Existing NCD

**freshly proposed NCD

For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.



BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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