DMI Finance Private Limited

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	900	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed and Outlook revised to Stable
Non-Convertible Debentures*	-	-	Withdrawn
Non-Convertible Debentures*	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

* *DMI Finance Private Limited has repaid the aforementioned NCD issue in full and there is no outstanding under the said issue as on date.*

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating for the bank facilities and non-convertible debentures of DMI Finance Private Limited (DFPL), a systemically important, non-deposit accepting NBFC (NBFC-ND-SI) continues to derive strength from the company's experienced board and management team, comfortable capital structure and low gearing levels owing to strong investors in NIS Ganesha who have regularly infused capital in the business. The rating also factors in adequate risk management systems put in place by the company, growth in loan book during FY20 and 9M FY21 and adequate liquidity. These rating strengths are, however, offset by the concentration of the loan portfolio in the corporate lending segment, and expectation of asset quality vulnerability in wholesale loan book. The ratings are also constrained on account of moderation in the profitability profile of the company and short track record of operations in the unsecured consumer lending segment which remains untested across economic cycles.

Going forward, the ability of DFPL to scale-up business, diversify its loan book by establishing itself in new business segments viz. Consumer Lending and SME, further reduce the share of wholesale loan book while improving asset quality in wholesale as well as the retail segment, improving its profitability profile and maintaining comfortable capitalization levels and liquidity profile would be key rating sensitivities.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Growth in loan book while bringing down real estate portfolio (as a % and on an absolute basis)
- Ability to mobilize resources at competitive costs from diverse resources
- Regular support from the parent in the form of equity infusion
- Gross NPA below 2.5% on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in capitalization profile with net gearing (adjusted for cash and cash equivalents and liquid investments) rising above 2.0 times
- Deterioration in asset quality profile with GNPA rising above 6%
- Substantial decline in profitability with return on total assets (RoTA) below 1% on sustained basis

Outlook: Stable

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

The revision in outlook from 'Negative' to '**Stable**' factors in strong promoter/shareholder support as evidenced by comfortable capitalization profile of the company with regular equity infusion from the promoters that includes equity infusion of Rs.942 crore (including conversion of compulsorily convertible debentures aggregating Rs.351 crore into equity) in FY 21. Also being largely equity funded, the debt levels of company have come down to Rs.1,948 crore; majority of which (93% of total debt as on Dec-20) is from DMI managed funds and remaining from external resources. This has resulted in comfortable gearing at 0.6 times as on Dec 31, 2020. Also, CARE takes cognizance of the fact that the asset quality of the company has weakened with proforma GNPA at 6% after adjusting for First Loss default Guarantee (FLDG) protection on retail book as on Dec-20. Given the fact that DFPL follows an aggressive write off policy at 90+ DPD, the adjusted proforma GNPAs would have been lower, if there was no dispensation on NPA recognition as per Supreme court's order. The net adjusted proforma NPA stood at 1.3% as on Dec-20 on account of comfortable provision coverage ratio (PCR) at 81% as on Dec-20 (includes 100% provision on accounts not recognized as NPA till Dec-20 and 67% on reported GNPA till Dec-20) thereby providing enough cushion to absorb any asset side risks. The reported GNPA and NNPA stood at 3.57% and 1.92% respectively as on Dec-20.

However, given the exposure to corporates and low seasoning of retail book of DFPL, CARE will continue to monitor the developments with respect to the asset quality of DFPL.

Detailed description of the key rating drivers
Key Rating Strengths

Experienced board members and management team
DFPL is founded by Mr Yuvraja C. Singh (Former Managing Director at Citigroup's Fixed Income department) and Mr Shivashish Chatterjee (former Co-Head North America Securitized Products Trading, Citigroup) who co-founded DMI group and are joint managing directors of the group. Both the directors have an experience of nearly two decades in the field of mortgage lending and risk management and currently they look after the overall operations of the company along with a team of senior management team who are experienced professionals in their respective domains.

The overall operations of DFPL are governed by an 8 member Board consisting of 2 promoter directors and 2 nominee directors including Mr. Gaurav Burman (from Burman family-promoter of Dabur India) as nominee director for Windy Investments Pvt Ltd and Mr Tamer Amr (former Managing Director of the Lehman Brothers -Swiss Operations / PSP Swiss Properties joint venture) as nominee director for DFPL. The Board, chaired by Mr Gurcharan Das (Former MD of Procter & Gamble) also includes Mr. Nipender Kochhar (former MD of ABN AMRO South East Asia - consumer clients and commercial clients). DFPL also has Mr Arjun Malhotra (Co-Founder, HCL Group and former CEO and Chairman, Headstrong), Ms Meena Hemchandra (Former ED-RBI) and Mr Sanjay Bhattacharyya (Former MD & CEO, State Bank of India) on its advisory board.

Comfortable capitalization and low gearing led by regular capital infusion from the investors
DFPL is held directly and indirectly by NIS Ganesha S.A, a Zurich based Private Equity Fund which raises funds from HNIs- largely based out of Japan, to the extent of 10.5% and 71.2% respectively as on March 31, 2020. The 71.2% holding is through DMI Limited, a Mauritius based Investment Holding Company. DMI Ltd has also taken a majority stake of 86.5% in DMI Housing Finance Pvt Ltd (DHFPL, earlier a subsidiary of DFPL) in Dec-18 as part of internal shareholding restructuring.

The investors have been associated with DFPL since 2008 and have been supporting the company through regular equity infusions. There has been an equity infusion of Rs.919 crore in FY19, Rs.178 crore in FY20 and Rs.942 crore in FY21 (including conversion of compulsorily convertible debentures aggregating Rs.351 crore into equity). The series of equity infusions over the years coupled with positive internal accruals led to CARE adjusted tangible net-worth (adjusted for deferred tax asset and intangible asset) of DFPL increasing to Rs.3,386 crore as on Dec-20 from Rs.2,443 crore as on Mar-20 and Rs.2,195 crore as on Mar-19. However, the company's adjusted overall gearing (basis gross debt and including corporate guarantee extended and accrued interest) stood at 0.68 times as on Dec-20 as against 1.27 times as on Mar-20, and 0.51 times as on Mar-19 mainly on account of increase in borrowings and increase in amount of corporate guarantee extended to DMI Housing Finance Private Limited. Although adjusting for the liquid cash and investments from the overall debt, the net gearing of DFPL was 0.19 times as on Dec-20, down from 0.50 times as on Dec-19. The capital adequacy ratio of DFPL continues to remain comfortable at 44.0% as on March 31, 2020 and 59.1% as on Dec 31, 2020 supported by largely equity capital funded business growth so far.

DFPL had outstanding borrowings of Rs.1,948 crore as on Dec-20. Of the total borrowings, market borrowings via non-convertible debentures constituted 96% of its borrowings outstanding as on Dec-20 while the term loans and cash credit limits form only 4% of its borrowings.

Loan book growth driven by growth in retail segment

The loan book of DFPL grew at a three-year compounded annual growth rate (CAGR) of about 36% till fiscal 2020, driven by strong growth in its retail portfolio. However, end Dec-20, the total loans grew only by 13% Y-o-Y to Rs 3,894 crore (from Rs 3,434 crore as on Dec 31, 2019) on account of slow-down in disbursements in the current fiscal due to covid 19 induced economic slowdown. In the last couple of years, DFPL has been, as a part of its conscious strategy to de-risk its book, moving towards granular, lower ticket size retail portfolio. As a result, the retail portfolio constituting personal loans (PL), consumption loans (CL) stood at Rs.2,309 crore as on December 31, 2020 (or 59% of total loans as on December 31, 2020). On the other hand, the company's wholesale portfolio constituting the remaining 41% of AUM stood at Rs 1, 586 crore end Dec 2020. Of the wholesale portfolio of Rs 1586 crore, the commercial real estate book (CRE) stood at Rs 1106 crore end Dec 2020, up from Rs 949 crore end Dec 2019. The remaining Rs 480 crore were towards MSME/other loans.

Risk management systems in place

DFPL has implemented risk management framework for approving and monitoring its portfolio. The credit committee includes sponsor investor directors Mr Yuvraja C Singh, Mr Shivashish Chatterjee and Mr. Gaurav Burman. The committee members are eminent professionals having more than two decades of experience in real estate lending, credit appraisal and risk management. The company has its in-house credit team looking after the appraisals of the prospective clients in the Real Estate and Corporate lending segment. DMI is largely relying on analytics for its consumer lending operations.

Key Rating Weaknesses

High, albeit reducing, real estate exposure

DFPL had an outstanding loan book of Rs.3,725 crore as on Mar-20 that further increased to Rs.3,894 crore as on Dec 31, 2020. Of this total loan book, 41% pertains to wholesale lending segment (real estate loans and non-real estate loans in manufacturing/services domain) while the balance 59% is retail loans (PL/CL/MSME) as on Dec-20. Wholesale Lending segment is secured with an average collateral cover of over 2 times (secured lending portfolio had weighted average LTV ratio of 55% as on December 31, 2020). The collateral is mainly in the form of property (including land and building) and an additional security in the form of pledge of shares. End December 31, 2020, the CRE portfolio constituted 28% of total loans outstanding in line with last year however in absolute terms the DFPL's real estate loan book increased 16% y-o-y to Rs.1106 crore. The top 10 borrowers of the corporate book contributed 13% to the total outstanding loan book and 15% of net worth as on Dec 31, 2020.

DFPL has been making efforts to de-risk the book by not growing the CRE book and thus incrementally, the company has been focusing on building the retail loan book which primarily consists of granular, small ticket size, shorter tenured, retail loans that are digitally sourced via company's tie-up with various fintech partners, OEMs and ecommerce companies. The retail loan book comprising CL, PL, MSME loans grew from Rs.2,012 crore as on Dec-19 to Rs.2,309 crore as on Dec-20 and constituted 59% of the overall loan book as on Dec-20. Additional, company has taken select exposure in the non-real estate corporate segment which stood at Rs.480 crore as on Dec-20.

Deterioration in asset quality

The asset quality of the company weakened with adjusted proforma GNPA% (adjusted for 90+ accounts covered under FLDG protection) at 6.16% as on Dec-20, up from 5.85% as on Dec-19. Given the stringent write off policy at 90+ DPD followed by DFPL, the adjusted proforma GNPAs would have been lower, if there was no dispensation on NPA recognition as per Supreme court's order. However, with the increase in CARE adjusted PCR on adjusted proforma GNPA (adjusted for 90+ accounts covered under FLDG protection) to 81% as on Dec-20 (includes 100% provision on accounts not recognized as NPA till Dec-20 and 67% on reported GNPA till Dec-20), the adjusted proforma net NPA% however reduced to 1.23% as on Dec-20, from 2.86% as on Dec 31, 2019. The reported GNPA and NNPA stood at 3.57% and 1.92% respectively as on Dec-20.

Additionally, DFPL had Asset under Settlement (AUS) of Rs.19 crore outstanding as on Dec-20.

The vulnerability of its wholesale loan book remains relatively high following weakness in real estate sector and thus DFPL's ability to control additional slippages in its overall portfolio and recover from the balance assets under settlement would be critical for it to maintain its asset quality profile and would be a key rating sensitivity.

Retail book remains untested across economic cycles and asset quality trend yet to be established

The company entered into new business segments of retail consumer finance and SME lending through fintech platforms in 2017 and the retail book grew from Rs.1,003 crore as on Mar-19 to Rs.2,214 crore as on Mar-20 and further to Rs.2,309 crore as on Dec-20. In retail portfolio, the company focuses on advancing consumer/personal, higher yield, small ticket size unsecured loans to salaried and self-employed individuals. End December 2020, 56% of retail book has a ticket size of less than Rs 50,000 with about two third of retail book for less than 18 months tenure. Salaried customer formed 51% of retail customers, while the remaining 49% are self-employed (including students and pensioners). Owing to retail loans being advanced to customers who are relatively weaker than those in banks and other financial institutions, the company remains susceptible to rising asset quality risks in this segment.

Also, since the majority of retail loan book has recently originated, its performance across economic cycles and the ability of DFPL to maintain asset quality over long term is yet to be seen. Also, there has been an uptick in delinquencies in softer buckets in the retail lending segment. The company's PAR 90 (adjusted for 90+ accounts covered under FLDG protection) stood at 6.2% as on Dec-20, up from 5.85% as on Dec-19. Since retail book was started in Q42017, the ability of the company to profitably scale up the new businesses, while maintaining asset quality in these segments would be crucial.

Moderation in profitability profile driven by higher credit costs and operating expenses

For fiscal year ending March 31, 2020, the total income of DFPL increased by 65% y-o-y to Rs.636 crore on account of 70% y-o-y rise in interest income to Rs.608 crore backed by strong growth in loan book and margin expansion. However, the net profit of the company was up by 32% y-o-y to Rs.99 crore on account of increasing operating expenses and provisioning cost of the company. The rise in operating expenses and credit cost is underpinned by the fact that company is moving towards more retail oriented/granular portfolio. As a result, the operating expenses (as a % of average total assets) increased to 4.77% in FY20 from 4.19% in FY19 (as per INDAS) while the credit costs (as % of average total assets) increased to 3.64% in FY20 from 2.06% in FY19. Consequently, the company reported RoTA of 2.35% end FY 20 down from 2.91% previous fiscal.

During 9M FY21, DFPL reported net profit (PAT) of Rs.36 crore on total income of Rs.556 crore. The annualized net interest margin (NIM) of DFPL stood at 6.76% end Dec-20, down from 10.94% end March-20. Also the annualized operating cost increased to 4.83% while the annualized credit cost further surged to 3.93% during the same period. With the dip in NIM and increasing credit cost and operating expenses, the annualized return on total assets (RoTA) of the company reduced to 0.85% end Dec 20.

Liquidity: Strong

The liquidity position of DFPL remains favorable on account of the company's lending for average tenor of around 2.5 years which is primarily funded from net-worth. As per structural liquidity statement dated December 31, 2020, there are positive cumulative mismatches upto 5 years. Over next six months, there will be scheduled inflow from advances of Rs.1,566 crore as against there will be debt repayment of Rs.36 crore, giving a coverage of around 43.5 times. As on Dec-20, DFPL had cash and bank balances of Rs.74 crore and other than cash and bank balance, investment in fixed deposits of Rs.27.7 crore and investment in liquid MFs of Rs.1,558 crore.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Non Banking Finance Companies (NBFCs)
Financial Ratios – Financial Sector

About the Company

DFPL, established in year 2008, is a private financial services company registered with the Reserve Bank of India (RBI) as a Systematically Important Non-Deposit taking NBFC-loan company. NIS Ganesha, holds a majority holding in DFPL as on March 31, 2020, through its direct holding of 10.5% and indirect holding of 71.2% stake through DMI Ltd, a Mauritius based investment company. DFPL is engaged in both unsecured and secured lending. As on December 31, 2020, 59% of the total loan book is towards retail lending and remaining 41% is towards wholesale lending. It started its operations in May 2009 and as on December 31, 2020, company had an outstanding loan portfolio of Rs.3,894 crore.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
	IND AS	IND AS
Total operating income	384.10	635.59
PAT	75.33	99.09
Interest coverage (times)	1.93	1.91
Total Assets (adjusted for deferred tax assets and intangible assets)	3,275	5,147
Net NPA (%)	1.29	1.92
ROTA (%)	2.91	2.35

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	Oct 2022	900.00	CARE AA-; Stable
Debentures-Non Convertible Debentures				0.00	Withdrawn
Debentures-Non Convertible Debentures				0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	900.00	CARE AA-; Stable	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (05-Apr-19)	-	1)CARE AA-; Stable (14-Mar-18) 2)CARE AA-; Stable (02-May-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (05-Apr-19)	-	1)CARE AA-; Stable (14-Mar-18)
3.	Debentures-Non Convertible Debentures	LT	-	-	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (01-Aug-19) 2)CARE AA-; Stable (16-Jul-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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