DMI Finance Private Limited

March 29, 2022

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	285.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**285.00 (Rs. Two hundred eighty-five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd has based its assessment on a combined view of DMI Finance Private Limited (DFPL) and its group company, DMI Housing Finance Private Limited (DHFPL), wherein DMI Limited, the holding company, held 73% and 86% shareholding in DFPL and DHFPL, respectively.

The rating for the bank facilities of DFPL derives strength from the company's experienced board and management team, adequate risk management systems and strong liquidity profile. The rating also factors in the company's strong capitalisation profile, driven by periodic equity infusions from new and existing investors, majority led by DMI Limited and NIS Ganesha (the holding company of DMI Limited), which in turn translates into a strong investor profile and low gearing. Furthermore, the rating takes into account growth in the loan book of the company in nine months ending December 31, 2021, with loan book growing to Rs.4,437 crore as on December 31, 2021 (vs. Rs.3,633 crore as on March 31, 2021) on a standalone basis.

These rating strengths are, however, partially offset by the concentration of the loan portfolio in the corporate lending segment, albeit improving with the rising share of digital consumer loans and affordable housing loan in the portfolio mix and inherent portfolio vulnerability with wholesale portfolio being primarily towards real estate and unsecured nature of consumer loan segment. The rating is also constrained on account of moderation in the profitability profile of the company amid rising asset quality stress in the consumer book on the back of elevated write-off expenses during FY21 (refers to the period April 1 to March 31) and 9MFY22.
Going forward, the ability of DFPL to scale-up business, whilst maintaining asset quality, improving its profitability profile and maintaining comfortable capitalisation levels would be the key rating sensitivities.

Rating Sensitivities

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

- Significant and sequential growth in the loan book with rising share of consumer portfolio.
- The ability to mobilise resources at competitive costs from diverse resources.
- Strong profitability metrics with return on total assets (RoTA) above 2% on a sustained basis, whilst keeping credit costs under control.
- Regular support from the parent in the form of capital commitments.

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

- Rise in the asset quality stress with gross non-performing asset (GNPA) rising above 6%.
- Moderation in the loan book growth.
- Substantial decline in profitability with RoTA remaining below 1% on a sustained basis.
- Incline in the leverage profile with overall gearing exceeding 3.0x.

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable capitalisation and low gearing led by regular capital infusion from the investors

DFPL is majority held by NIS Ganesha S.A, a Zurich-based Private Equity Fund, which raises funds from high networth individuals (HNIs)- largely based out of Japan, via its two entities wherein the latter holds 9.1% shareholding directly, while 73.0% holding is through DMI Limited, a Mauritius-based Investment Holding Company, as on December 31, 2021. DMI Limited also held a majority stake of 86.2% in DHFPL (earlier a subsidiary of DFPL) as on December 31, 2021.

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). Furthermore, in December 2021, DFPL

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

announced the closure of a USD 47 million equity investment round led by new investor Sumitomo Mitsui Trust Bank Limited, Japan's largest trust bank, wherein fresh equity of Rs.232 crore was infused into DFPL (around USD 32 million), while the balance was in the form of internal exchange of shareholding between investors. With this, the reported total capital raised by DFPL since inception has reached USD 500 million.

The series of equity infusions over the years coupled with positive internal accruals led to CARE Ratings Ltd-adjusted tangible net-worth (adjusted for deferred tax asset and intangible asset) of DFPL increasing significantly to Rs.3,666 crore as on December 31, 2021, up from Rs.3,386 crore as on December 31, 2020 and Rs.2,443 crore as on March 31, 2020. Consequently, the adjusted overall gearing (basis gross debt and including corporate guarantee extended and accrued interest) moderated to 0.71x as on March 31, 2021, from 1.27x as on March 31, 2020, on account of decrease in the amount of corporate guarantee extended to DMI Housing Finance Private Limited and rise in the net worth.

The capital adequacy ratio (CAR) of DFPL continues to remain comfortable at 60.9% as on December 31, 2021, up from 60.2% as on March 31, 2021, supported by equity infusion in December 2021 coupled with positive internal accruals in 9MFY22.

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 20% till fiscal 2021 to Rs.3,633 crore as on March 31, 2021, with marginal moderation witnessed in FY21 as it declined by 2% Y-o-Y owing to the de-growth in retail portfolio because of its shorter loan tenure and exacerbated by COVID-19 pandemic. However, end nine months December 31, 2021, assets under management (AUM) of DFPL grew by 22% to Rs.4,437 crore, driven by rising disbursements in 9MFY22 as it increased by 52% on Y-o-Y basis.

In the last couple of years, on a standalone basis, DFPL as a part of its conscious strategy, has been aiming to de-risk its book by moving towards granular, lower ticket size retail portfolio. As a result, the digital lending-based retail portfolio constituting personal loans (PL), consumption loans (CL) and retail micro small and medium enterprises (MSME) loans stood at Rs.2,557 crore as on December 31, 2021 (or 58% of the total loans as on December 31, 2021). On the other hand, the company's wholesale portfolio constituted 42% of AUM and stood at Rs.1,880 crore.
On a combined basis, loan portfolio of the company has increased to Rs.5,248 crore as on December 31, 2021, with housing loans forming 15% of the total loans.

Experienced board members and management team
DFPL was founded by Mr Yuvraja C. Singh (Former Managing Director (MD) at Citigroup's Fixed Income department) and Mr Shivashish Chatterjee (former Co-Head North America Securitized Products Trading, Citigroup) who co-founded the DMI group and are joint MDs 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 eight-member Board consisting of two promoter directors and two nominee directors, including Mr Gaurav Burman (from Burman family-promoter of Dabur India) as nominee director for Windy Investments Private Limited and Mr Tamer Amr (former MD 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 Chief Executive Officer (CEO) and Chairman, Headstrong), Ms Meena Hemchandra (Former ED-RBI).

Risk management systems in place
DFPL and DHFPL have 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 the 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
Of the outstanding loan book of Rs.4,437 crore for DFPL as on December 31, 2021, 42% was towards wholesale lending segment (real estate loans and non-real estate loans in manufacturing/services domain) while the balance 58% were towards retail loans (PL/CL/MSME). Wholesale lending segment is secured with an average collateral cover of over two times. 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 2021, the real estate portfolio constituted 31% of total loans outstanding, down from 34% of the total loans outstanding as on March 31, 2021.

DFPL has been making efforts to de-risk the book by reducing the share of wholesale loan book, and thus incrementally, focusing on building the retail loan book, which primarily consists of granular, small ticket size, shorter tenured, retail loans that are majorly sourced digitally via the company's tie-up with various fintech partners, original equipment manufacturers (OEMs) and ecommerce companies. Additionally, the company has taken select exposure in the non-real estate corporate segment, which stood at Rs.505 crore as on December 31, 2021, forming 11% of the total loan outstanding. While borrower concentration is on a declining trend with rising share of digital retail loans, which are much more granular and lower ticket in nature, CARE Ratings Ltd notes that portfolio remains vulnerable considering the unsecured nature of the loan book and unseasoned nature of the portfolio.

Improving asset quality, supported by conservative write off policy
The company's asset quality indicators stand comfortable and have been on an improving trend with GNPA of 3.92% and net non-performing assets (NNPA) of 1.51%, as on March 31, 2021 (vs. 4.93% and 2.97% as on March 31, 2020). The ratios further improved to 2.55% and 0.43%, respectively, as on December 31, 2021, on a standalone basis. The improvement mainly came from no new slippages in the corporate portfolio and conservative 90 days write-off policy for the digital-retail lending portfolio.
While the asset quality profile of the company is showing an improving trend, it has been on the back of elevated write-off expenses, which in turn has created a negative drag on profitability profile of the company. Thus, the ability of the company to scale its retail portfolio going forward whilst controlling credit costs remains a key rating monitorable.
Also, the vulnerability of its wholesale loan book remains relatively high following weakness in the 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.

Moderation in profitability profile driven by higher credit costs and operating expenses
DFPL, on a standalone basis, reported net profit of Rs.22 crore on a total income (net of interest expense) of Rs.571 crore in FY21 as against net profit of Rs.99 crore on the total income (net of interest expense) of Rs.499 crore in FY20. With impairment cost almost doubling to Rs.285 crore in FY21 from Rs.153 crore in FY20, the profits came down on yearly basis.

The company's net interest margins (NIMs) stand in the range of 9%-10%. However, high operating expenses (opex to average total assets (ATA) ratio of 4.8% in FY21) along with rising credit costs have put a drag on the profitability. Credit costs have been on a rising trend increasing to 5.3% of ATA in FY21 (vs. 3.6% in FY20 and 2.1% in FY19) due to uptick in delinquencies in the retail portfolio. Furthermore, end-December 31, 2021, the credit costs of the company remained elevated at Rs.221 crore (including write-off expenses of Rs.184 crore), translating into a credit cost percentage (over total assets) of 4.75%. Consequently, return on average total assets remained subdued to 0.92% in 9MFY22 (vs. 0.42% in FY21 and 2.35% in FY20).
As a result, DFPL reported net profit of Rs.43 crore in 9MFY22, on a total income (net of interest expense) of Rs.478 crore, improving on an Y-o-Y basis owing to the growth in retail loan portfolio during the period. Going forward, the ability of the company to report higher profitability whilst keeping operating expenses and credit costs under control remains a key rating sensitivity.

Liquidity: Strong
As per the structural liquidity statement dated December 31, 2021, there are positive cumulative mismatches up to five years. As on December 31, 2021, DFPL had cash and bank balances amounting to Rs.163 crore and investments in liquid mutual funds of Rs.1,466 crore, which provides comfort to the overall liquidity profile.
On a combined basis, the liquidity profile of the company remains comfortable with positive cumulative mismatches and high liquid balances in the form of cash and investments.

Analytical approach: Combined for DMI Finance Private Limited and DMI Housing Finance Private Limited

Applicable Criteria
Policy on Default Recognition
Financial Ratios – Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating methodology for consolidated/combined approach
Rating Methodology – Non-Banking Finance Companies (NBFCs)
Methodology for Housing Finance companies

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 9.1% and indirect holding of 73% stake through DMI Ltd, a Mauritius-based investment company. DFPL is engaged in both unsecured and secured lending. As on December 31, 2021, 58% of the total loan book is towards retail lending and remaining is towards wholesale lending. It started its operations in May 2009, and as on December 31, the company had a combined loan portfolio of Rs.5,248 crore.

Brief Financials (Combined, Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Provisional)
Total operating income	737.47	876.68	707.08
PAT	122.20	48.63	56.86
Interest coverage (times)	2.02	1.28	1.44
Total Assets	6,258.69	6,726.58	7,597.99
ROTA (%)	2.41	0.75	1.06

A: Audited

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	285.00	CARE AA-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based-Long Term	LT	285.00	CARE AA-; Stable	1)CARE AA-; Stable (25-Jun-21) 2)CARE AA-; Stable (05-Apr-21)	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (05-Apr-19)	-
2	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (05-Apr-21)	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (05-Apr-19)	-
3	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (05-Apr-21)	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (01-Aug-19) 2)CARE AA-; Stable (16-Jul-19)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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

Sr. No	Name of instrument	Complexity level
1	Fund-based-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender-wise details of bank facilities please click here

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

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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