

DMI Finance Private Limited

March 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	285.00	CARE AA-; Stable	Reaffirmed
Non-convertible debentures	50.00	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has based its assessment on a combined view of DMI Finance Private Limited and its group company, DMI Housing Finance Private Limited, given the operational linkages between the companies in addition to common promoters, directors and management. The parent company, DMI Limited (Mauritius based), held 73% and 95% shareholding in DMI Finance Private Limited and DMI Housing Finance Private Limited, respectively (as on December 2022), wherein DMI Limited is, in turn, backed by NIS Ganesha, a Zurich-based PE Investor.

The rating for the bank facilities and long-term instrument of DMI Finance Private Limited 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 group in nine months ending December 31, 2022, with loan book growing to ₹8,176 crore (vs. ₹6,292 crore as on March 31, 2022 and ₹4,403 crore as on March 31, 2021) on a combined basis.

These rating strengths are, however, partially offset by the inherent portfolio vulnerability associated with the rising share of unsecured retail portfolio. The rating is also constrained by the company's moderate profitability indicators although improving. Going forward, the ability of DMI Finance Private Limited to scale-up business, whilst maintaining asset quality, consistently improving its profitability profile and maintaining comfortable capitalisation levels would be the key rating sensitivities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could individually or collectively 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 rates from diverse resources.
- Strong profitability metrics, whilst keeping credit cost under control.
- Regular support from the parent company in the form of capital commitments.

Negative factors – Factors that could individually or collectively lead to negative rating action/downgrade:

- Rise in the asset quality stress leading to deterioration in profitability metrics, with return on total assets (RoTA) below 0.5%, on a sustained basis.
- Moderation in the loan book growth.
- Incline in leverage profile with overall gearing exceeding 3x.

Analytical approach: Combined approach for DMI Finance Private Limited and DMI Housing Finance Private Limited based on the following factors:

- Closely-held entities with significant ownership and control by a common promoter, DMI Limited.
- Common directorship across entities.
- Business integration in terms of lead generation.

Outlook: Stable

The stable outlook reflects CARE Rating's expectation that DMI Finance Private Limited will continue to grow its retail loan book while maintaining the credit cost under control.

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

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

DMI Finance Private Limited is majority held by NIS Ganesha S.A, a Zurich-based Private Equity Fund, which raises funds from high net worth individuals (HNIs)- largely based out of Japan, via its two entities wherein the latter holds 9% shareholding directly, while 73% holding is through DMI Limited, a Mauritius-based Investment Holding Company, as on December 31, 2022. DMI Limited also held a majority stake of 95% in DMI Housing Finance Private Limited (earlier a subsidiary of DMI Finance Private Limited) as on December 31, 2022.

The investors have been associated with DMI Finance Private Limited since 2008 and have been supporting the company through regular equity infusions. There has been an equity infusion of ₹919 crore in FY19 (refers to the period April 1 to March 31), ₹178 crore in FY20 and ₹942 crore in FY21 (including conversion of compulsorily convertible debentures aggregating ₹351 crore into equity) and ₹234 crore in FY22 (by existing investors as well as new investor Sumitomo Mitsui Trust Bank Limited, Japan's largest trust bank). With this, the reported total capital raised by DMI Finance Private Limited since inception has reached USD 500 million.

The series of equity infusions over the years coupled with positive internal accruals led to CARE Ratings-adjusted tangible net worth (adjusted for deferred tax asset and intangible asset) of the DMI group (on combined level) increasing to ₹4,562 crore as on December 31, 2022, up from ₹4,369 crore as on March 31, 2022 and ₹4,010 crore as on March 31, 2021. Consequently, the adjusted overall gearing moderated to 0.93x as on December 31, 2022, from 0.74x as on March 31, 2022.

The capital adequacy ratio (CAR) of DMI Finance Private Limited continues to remain comfortable at 53.6% as on September 30, 2022, from 61.3% as on March 31, 2022, supported by regular equity infusion with positive internal accruals in 9MFY23. Going forward, CARE Ratings expects the capitalisation level to remain healthy with regular support from the investors to be received as and when required.

Loan book growth driven by growth in retail segment

The loan book of DMI Finance Private Limited and DMI Housing Finance Private Limited on a combined level grew at a three-year compounded annual growth rate (CAGR) of about 30% till fiscal 2022 to ₹6,292 crore as on March 31, 2022. This has further grown by 30% to ₹8,176 crore, driven by rising disbursements in 9MFY23.

In the last couple of years, on a standalone basis, DMI Finance Private Limited 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 ₹5,377 crore as on December 31, 2022 (or 77% of the total loans of DMI Finance Private Limited as on December 31, 2022). On the other hand, the company's wholesale portfolio constituted 23% of assets under management (AUM) and stood at ₹1,649 crore. On a combined basis, the loan portfolio of the company has increased to ₹8,176 crore as on December 31, 2022, with housing loans forming 14% of the total loans on a combined basis. Going forward, CARE Ratings continues to monitor the company's ability to grow its retail business while maintaining the healthy operational and financial metrics.

Adequate risk management systems in place with experienced board members and management team

DMI Finance Private Limited and DMI Housing Finance Private Limited have implemented risk management framework for approving and monitoring its portfolio. The credit committee includes sponsor investor directors, Yuvraja C Singh, Shivashish Chatterjee and Gaurav Burman. 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.

The overall operations of DMI Finance Private Limited are governed by an eight-member Board consisting of two promoter directors and two nominee directors, including Gaurav Burman (from the Burman family-promoter of Dabur India) as nominee director for Windy Investments Private Limited and Alfred Mendoza as nominee director for DMI Finance Private Limited. The Board, chaired by Gurcharan Das (Former MD of Procter & Gamble) also includes Nipender Kochhar (former MD of ABN AMRO South-East Asia - consumer clients and commercial clients), along with Arjun Malhotra (Co-Founder, HCL Group and former Chief Executive Officer (CEO) and Chairman, Headstrong), and Meena Hemchandra (Former ED-RBI).

Key weaknesses

High portfolio vulnerability

Earlier, DMI Finance Private Limited was primarily engaged in secured corporate lending, largely to real estate lenders. However, from FY18, the company has shifted its focus to retail segment, comprising low ticket size loans, such as consumption loans and personal loans. The share of retail loans stood at 77% of the gross loan book of DMI Finance Private Limited and 66% of combined gross loan book as on December 31, 2022. The inherent risk associated with targeted borrower profile and unsecured lending may impact the credit cost, asset quality and profitability of the company. Going forward, the company's ability to maintain credit cost and asset quality under control is key monitorable.

Improving asset quality, supported by conservative write-off policy

The asset quality of the company stands comfortable and has been on an improving trend with gross non-performing assets (GNPA) (on combined level) of 2.2% and net non-performing assets (NNPA) of 0.31%, as on March 31, 2022 (vs. 3.92% and 1.51% as on March 31, 2021). However, the ratios have deteriorated as on December 31, 2022 with GNPA ratio rising to 2.81% owing to higher slippages of ₹120 crore during 9MFY23 arising from the corporate loan book. Apart from this, the company also has restructure portfolio of around 3.5% of combined gross loan book against which adequate provisioning has been made.

For retail portfolio, the company follows a conservative write-off policy at 89+dpd, which in turn has elevated their credit cost and created a negative drag on profitability profile of the company. Going forward, the ability of the company to scale its retail portfolio whilst controlling credit costs remains a key rating monitorable.

Liquidity: Strong

As per the structural liquidity statement dated September 30, 2022, there are positive cumulative mismatches up to five years. As on September 30, 2022, DMI Finance Private Limited had cash and bank balances amounting to ₹698 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.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Housing Finance Companies](#)

[Non Banking Financial Companies](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

DMI Finance Private Limited, 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 non-banking finance company (NBFC)-loan company. NIS Ganesha holds a majority holding in DMI Finance Private Limited as on December 31, 2022, through its direct holding of 9.1% and indirect holding of 73% stake through DMI Ltd, a Mauritius-based investment company. DMI Finance Private Limited is engaged in both unsecured and secured lending. As on December 31, 2022, 66% of the combined gross loan book of the group is towards retail lending, 20% towards corporate lending and rest 14% is towards housing loans.

The loan book of DMI Housing Finance Private Limited is towards the affordable housing. It started its operations in May 2009 and currently have presence in nine states with 51% share in Delhi as on December 31, 2022. The loan book of the company stood at ₹1,149 crore, up by 33% y-o-y basis with an average ticket size of ₹10 lakh.

DMI Group (Combined of DMI Finance Private Limited & DMI Housing Finance Private Limited)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9M FY 2023 (UA)
Total operating income	786.32	961.87	1,202.97
PAT	48.63	77.00	223.32
Interest coverage (times)	1.28	1.44	2.21
Total Assets*	6,726.58	7,847.04	9,178.29
Net NPA (%)	1.41	0.34	0.95
ROTA (%)	0.75	1.06	3.64

A: Audited UA: Unaudited

*total assets are tangible total assets adjusted for deferred tax asset and intangible asset

DMI Finance Private Limited (Standalone)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9M FY 2023 (UA)
Total operating income	674.09	843.51	1097.37
PAT	22.31	57.78	201.45
Interest coverage (times)	1.16	1.41	2.25
Total assets*	5,524.60	6,687.75	7,897.90
Net NPA (%)	1.51	0.31	0.94
ROTA (%)	0.42	0.95	3.50

A: Audited UA: Unaudited

*total assets are tangible total assets adjusted for deferred tax asset and intangible asset

DMI Housing Finance Private Limited (Standalone)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9M FY 2023 (UA)
Total operating income	112.23	118.34	105.59
PAT	26.32	19.22	21.87
Interest coverage (times)	1.93	1.60	1.87
Total assets*	1,170.35	1,156.06	1,278.82
Net NPA (%)	0.33	0.35	0.67
ROTA (%)	2.31	1.65	2.37

A: Audited UA: Unaudited

*total assets are tangible total assets adjusted for deferred tax asset and intangible asset

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	31-03-2023	285.00	CARE AA-; Stable
NCD	INE604007159	29-06-2020	9%	30-06-2023	50.00	CARE AA-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	285.00	CARE AA-; Stable	1)CARE AA-; Stable (05-Jan-23)	1)CARE AA-; Stable (29-Mar-22) 2)CARE AA-; Stable (25-Jun-21) 3)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)
4	Debentures-Non Convertible Debentures	LT	50.00	CARE AA-; Stable	1)CARE AA-; Stable (05-Jan-23)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

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About us:

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