DMI Finance Private Limited

April 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Non-Convertible Debentures	285	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed and Outlook revised from Stable to Negative
Non-Convertible Debentures	150	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed and Outlook revised from Stable to Negative
Long Term Bank Facilities	900	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed and Outlook revised from Stable to Negative

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating for the bank facilities and non-convertible debentures of DMI Finance Pvt Ltd (DFPL; a 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 FY19 and 9M FY20 and, profitable operations and adequate liquidity. These rating strengths are, however, offset by the concentration of the loan portfolio in the corporate lending segment, vulnerability in wholesale loan book following protracted weakness in the real estate sector and resultant pressure on asset quality profile. The ratings are also constrained on account of 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

- Growth in loan book with further increase in share of retail portfolio 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

Negative factors

- Decline in capitalization profile with net gearing (adjusted for cash and cash equivalents and liquid investments) rising above 3.0 times
- Further deterioration in asset quality profile with one year lagged NPA rising above 9%
- Substantial decline in profitability with return on total assets (RoTA) falling below 2%

Outlook: Negative

The outlook has been revised to 'Negative' from 'Stable' on account of deteriorating asset quality with Gross NPA at 5.85% as on Dec 31, 2019 increased from 2.88% as on March-19 due to persistent weakness in company's wholesale portfolio coupled with inch up of Gross NPA in its retail portfolio. The CARE adjusted provision coverage ratio of the company has been coming down and stood at 53% as on Dec-19 as against 57% as on March-19 and 86% as on Dec-18. While the company has been working on de-risking its portfolio by reducing the share of real estate (RE) while simultaneously focusing on small ticket size retail portfolio, CARE takes note of the fact that the retail portfolio is exposed to customers who are relatively weaker than those in banks and other financial institutions and is completely unsecured. With retail book being doubled from Rs.1,003 crore as on Mar-19 to Rs.2,012 crore as on Dec-19, and an uptick in delinquencies across maturity buckets, the ability of

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

company to maintain and improve asset quality both in retail and corporate portfolio and to limit credit costs would be key rating sensitives.
The outlook may be revised to 'Stable' if the company is able to improve its asset quality and limit credit costs while growing its portfolio and improve its operating profitability while maintaining the gearing and capitalization levels at a reasonable level.

The rating may be downgraded if there is further deterioration in asset quality thereby adversely affecting profitability profile, decline in cash surplus and liquidity buffers and increase in gearing levels beyond the threshold limits of the company.

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 MD Citigroup) and Mr Shivashish Chatterjee (former Co-Head North America Securitized Products Trading, Citigroup). Both the directors have an experience of nearly two decades in the field of mortgage lending and risk management with reputed global investment banks. 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 a 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) 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 (an Alternate Asset Management company) to the extent of 11.58% and 78.53% respectively as on December 31, 2019. The 78.53% holding is through DMI Limited, a Mauritius based Investment Company. DMI Ltd has also taken a majority stake of 95% 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 and further of Rs 171 crore in July 2019. Additionally during FY19, compulsorily convertible debentures aggregating Rs.351 crore were converted into equity and DFPL also received nearly Rs.138 crore from sale of its majority stake in DHFPL. 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.2,440 crore as on Dec-19 from Rs.2,195 crore as on Mar-19. Consequently, the company's adjusted overall gearing (basis gross debt and including corporate guarantee extended and accrued interest) stood at 0.51 times as on Mar-19 and at 0.68 times as on Dec-19. Adjusting for the liquid cash and investments from the overall debt, the net gearing of DFPL was 0.27 times as on Mar-19 and 0.50 times as on Dec-19. The capital adequacy ratio of DFPL continues to remain comfortable at 65.85% as on March 31, 2019 and 49.74% as on Dec 31, 2019 supported by largely equity capital funded business growth so far.

DMI had outstanding borrowings of Rs.1,571 crore as on Dec-19. Of the total borrowings, market borrowings via non-convertible debentures constituted 76% of its borrowings outstanding as on Dec-19 while the term loans and cash credit limits from 14 Banks/FIs constituted remaining 24% of its borrowings.
The promoters of DFPL are regularly supporting the company in the form of direct equity infusions and debt funding.

Loan book growth driven by growth in retail segment
In the last couple of years, DFPL has seen high growth in its loan book with loan book growing at a three year compounded annual growth rate (CAGR) of about 22% till fiscal 2019. End fiscal 2019, the total loans grew by 65% Y-o-Y to Rs 2455 crore (from Rs 1,488 crore as on March 31, 2018) and further to Rs.3,434 crore as on Dec-19 driven by strong growth in its retail portfolio. Incrementally the company is focusing on increasing its share of granular, small ticket size, higher yield, retail loans (Consumption loan /Personal Loan). As a result, the share of company's real estate loans as a proportion of total loans has come down to 27% as on December 31, 2019 as against 44% as on March 31, 2019 and 79% as on March 31, 2018.

On an absolute basis, DFPL's real estate loan book declined from Rs.1,085 crore as on Mar-19 to Rs.949 crore as on Dec-19 whereas the overall wholesale book grew by 7% from Rs.1,355 crore as on March-18 to Rs.1,452 crore as on March-19, however de-grew to Rs.1,421 crore as on Dec-19. On the other hand, DFPL's retail portfolio constituting personal loans (PL), consumption loans (CL), MSME, stood at Rs.2,012 crore as on December 31, 2019 (or 59% of total loans as on December 31, 2019) as against Rs 1003 crore (41%) as on March 31, 2019.

Profitable operations
The overall profitability profile of DFPL remains adequate with DFPL registering 54% growth in total income to Rs.384 crore during FY19 (PY Rs.249 crore) on the back of the strong growth in loan book and margin expansion. DFPL reported the overall profits at similar levels with PAT being Rs.75 crore during FY19 (PY Rs.76 crore). During 9M FY20, the company reported net profit of Rs.90.6 crore on total income (net of interest expense) of Rs.372 crore.

DFPL saw a marginal improvement in net interest margin (NIMs) from 9.28% in FY18 to 9.37% in FY19 and CARE adjusted NIMs (annualized) further improved to 11.1% as on Dec-19 driven by company shifting its focus to higher yield, lower ticket size retail portfolio. However this shift also led to rise in costs with operating expenses (as a % of average total assets) increasing to 2.2% during FY18 to 4.2% in FY19 (as per INDAS) and further to 5.2% as on Dec-19 (annualized). Additionally there has been increase in credit costs (as % of average total assets) to 2.06% in FY19 (as against 0.13% in FY18 as per IGAAP and 1.09% as per INDAS) and further increased to 3.18% in 9M FY20. Consequently DFPL reported return on average total assets (ROTA) of 3.04% for 9M FY 2020, slightly up from 2.91% in FY19 (INDAS), though down from 4.38% (INDAS) in FY18.

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

About a fourth of book in real estate loan with company shifting towards retail, small ticket size, unsecured portfolio (personal and consumption loan)
DFPL had an outstanding loan book of Rs.2,455 crore as on Mar-19 that further increased to Rs.3,434 crore as on Dec 31, 2019. 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-19. Wholesale Lending segment is secured with an average collateral cover of over 2 times (secured lending portfolio had weighted average LTV ratio of 54% as on December 31, 2019). 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, 2019, the real estate portfolio constituted 27% of total loans outstanding as against 52% an year ago however in absolute terms the DFPL's real estate loan book declined by 12.5% from Rs.1,085 crore as on Mar-19 to Rs.949 crore as on Dec-19. The top 13 borrowers of the corporate book contributed 16% to the total outstanding loan book and 22% of net worth as on Dec 31, 2019.

DFPL has been making efforts to de-risk the book by not growing the RE book and incrementally company has been focusing on building the retail loan book which primarily consists of granular, small ticket size, shorter tenured, retail loans that are sourced via company's tie-up with various fintech partners, OEMs and ecommerce companies. The retail loan book comprising CL, PL, MSME loans grew 2 times during 9M FY20 from Rs 1,003 crore as on March 31, 2019 toRs.2,012 crore as on Dec-19 and constituted 59% of the overall loan book as on Dec-19 (as against 38% as on Mar-19).
Additional, company has taken select exposure in the non-real estate corporate segment which stood at Rs.472 crore as on Dec-19.

Increase in vulnerability of wholesale loan book following weakness in real estate sector
The asset quality of the company deteriorated with absolute GNPA and NNPA at Rs.200.90 crore and Rs.95.07 crore respectively as on Dec 31, 2019, up from Rs.72.57 crore and Rs.31.41 crore respectively as on March 31, 2019. As against GNPA (Stage 3 loans) of Rs.200.9 crore, a provision of Rs.105.8 crore (or 53%) has been made as on Dec-19 in line with the ECL provisioning under IndAS. As a result the GNPA% and NNPA% of DFPL deteriorated to 5.85% and 2.86% respectively as on Dec 31, 2019 up from 2.88% and 1.29% as on March 31, 2019 (per IndAS). The rise in absolute NPAs during 9M FY20 has been due to slippage of five accounts into NPA category coupled with inch up of delinquencies in its retail book. The net NPA as a percentage of tangible net worth stood at 3.90% as on Dec-19, up from 1.43% as on March-19

Additionally, there has been subsequent recovery of Rs.15.63 crore during Jan-20 and the company has written-off loans of Rs.33.52 crore in Jan 20. DFPL also had security receipts (SRs) of Rs.19.66 crore and Asset under Settlement (AUS) of Rs.35 crore outstanding as on Dec-19. Subsequently there has been an increase in overall stressed assets (including NNPA + SRs + Assets under settlement) from Rs.104 crore as on March-19 to Rs.150 crore as on Dec-19. Consequently, the overall CARE adjusted net stressed assets ratio has increased to 4.44% as on Dec-19 from 4.20% as on Mar-19.

The vulnerability of its wholesale loan book remains relatively high following weakness in real estate sector. DFPL's ability to control additional slippages in its wholesale 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 has entered into new business segments of retail consumer finance and SME lending through fintech platforms with retail book being doubled from Rs.1,003 crore as on Mar-19 to Rs.2,012 crore as on Dec-19. 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 2019, 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 month tenure. Salaried customer formed 65% of retail customers while the remaining 35% are self-employed. 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, the retail loan book being recently originated and thus the ability of DFPL to maintain asset quality is yet to be seen. There has been an uptick in delinquencies in softer buckets in the retail lending segment as reflected by PAR 60 of 3.79% as on Dec 31, 2019, up from 2.28% as on March 31, 2019. The company's PAR 90 stood at 1.75% as on Dec-19, up from 0.81% as on March 31, 2019. 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.

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, 2019, there are positive cumulative mismatches upto 5 years. Over next six months, there will be inflow from advances of Rs.1,410 crore as against there will be debt repayment of Rs.267 crore, giving a coverage of around 5.28 times. As on March-20, DFPL had surplus cash/liquid investments of Rs.1290 crore and sanctioned but undrawn lines of Rs.100 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, 2019, through its direct holding of 11.58% and indirect holding of 78.53% stake through DMI Ltd, a Mauritius based investment company. DFPL is engaged in both unsecured and secured lending. As on December 31, 2019, 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, 2019, company had an outstanding loan portfolio of Rs.3,434 crore.

Brief Financials (Rs. crore)	FY18 (A)	FY18 (A)	FY19 (A)
	IGAAP	INDAS	INDAS
Total operating income	246.28	248.89	384.10
PAT	65.97	75.67	75.33
Interest coverage (times)	2.03	2.54	1.93
Total Assets	1904	1,897	3,275
Net NPA (%)	0.03	NA	1.29
ROTA (%)	3.81	4.38	2.91

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

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		-	-	Oct-2022	900.00	CARE AA-; Negative
Debentures-Non Convertible Debentures	INE604O07035	15-June-18	9.95%	14-Jun-20	150.00	CARE AA-; Negative
Debentures-Non Convertible Debentures	INE604O07100	18-July-19	10.35%	17-Aug-20	90.00	CARE AA-; Negative
Debentures-Non Convertible Debentures	INE604O07118	18-July-19	10.35%	16-July-21	95.00*	CARE AA-; Negative
Debentures-Non Convertible Debentures	INE604O07126	18-July-19	10.35%	15-July-22	100.00*	CARE AA-; Negative

* An amount of Rs.5 crore has been subscribed so far
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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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based-Long Term	LT	900.00	CARE AA-; Negative	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	150.00	CARE AA-; Negative	1)CARE AA-; Stable (05-Apr-19)	-	1)CARE AA-; Stable (14-Mar-18)	-
3.	Debentures-Non Convertible Debentures	LT	285.00	CARE AA-; Negative	1)CARE AA-; Stable (01-Aug-19) 2)CARE AA-; Stable (16-Jul-19)	-	-	-

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

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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