

March 01, 2023

Criss Financial Limited (erstwhile Criss Financial Holdings Limited): Ratings reaffirmed; Outlook revised to Positive

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------------|--------------------------------------|-------------------------------------|---|
| Long-term fund based – Term loan | 200.00 | 200.00 | [ICRA]BBB reaffirmed; Outlook revised to Positive from Stable |
| Market linked debentures | 100.00 | 100.00 | PP-MLD[ICRA]BBB reaffirmed; Outlook revised to Positive from Stable |
| Total | 300.00 | 300.00 | |

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of Criss Financial Limited's (Criss) ratings and the revision in the outlook follow a similar rating action on Spandana Sphoorty Financial Limited (SSFL; rated [ICRA]A- (Positive)), which holds a 99.85% equity stake in Criss. ICRA continues to believe that the company will benefit from the management and financial support from the parent. SSFL's current senior management team is actively involved in Criss' day-to-day business and operations. Criss' board comprises members from SSFL's board. In addition to this, SSFL has extended a line of credit (current limit of Rs. 300 crore) and a corporate guarantee (up to Rs. 250 crore) for Criss' external borrowings. ICRA draws comfort from the financial flexibility arising from the company's parentage and the expected timely support from SSFL, when required.

Criss primarily disburses non-qualifying microfinance loans and loan against property (LAP), which constituted about 86% and 13% of its total loan portfolio, respectively, as of December 2022. Apart from this, its loan products include personal loans, interim loans and other loans, which together constituted the balance 1% of the loan portfolio as of December 2022.

Criss currently has an adequate capital profile, with a net worth of Rs. 165.5 crore and a managed gearing of 2.3 times as on December 31, 2022. Over the medium term, the company intends to restrict its leverage with a managed gearing of less than 4.0 times. Given the company's targeted annual portfolio growth rate of 10-15% over the next three years, ICRA does not expect any significant requirement for incremental equity capital. Nevertheless, if needed, ICRA expects timely support from SSFL to help Criss with its portfolio growth and capital profile.

The ratings continue to factor in Criss' small scale and geographically concentrated operations. ICRA also takes note of the improvement in delinquencies in 9M FY2023 (90+ days past due (dpd) stood at 6.5% in December 2022 vis-à-vis 8.5% as of March 2022). Despite the improvement, the asset quality is still subdued and remains a key monitorable.

Key rating drivers and their description

Credit strengths

Support from SSFL – Criss is a 99.85%-subsidiary of SSFL. ICRA believes that the company will benefit from the management and financial support from the parent. Following the exit of the erstwhile Managing Director (MD) of SSFL, who was also a Director at Criss, SSFL's present senior management team is actively involved in Criss' day-to-day business and operations. Further, Criss' board comprises members from SSFL's board. Going forward, a separate senior management team is expected to be put in place in view of the company's growth plans. The company's financial flexibility is supported by a line of credit from SSFL (upper limit capped at Rs. 300 crore). Criss' external borrowings are backed by a corporate guarantee from SSFL up

to a limit of Rs. 250 crore. The business synergies with the parent are expected to help Criss scale up its operations and diversify geographically, going forward.

Adequate capital structure – Criss' gearing and total capital adequacy ratio stood at 2.3 times (managed basis) and 30.2%, respectively, as of December 2022 (1.7 times and 36.7%, respectively, as on March 31, 2022). Its capitalisation is supported by equity infusions from the parent (Rs. 25 crore in FY2019 and Rs. 50 crore in FY2021) and steady internal capital generation. The company is expected to keep its leverage below 4.0 times in the medium term and ICRA expects timely support from SSFL, if required, to help with its portfolio growth and capital profile.

Credit challenges

Small scale and geographically concentrated operations – The company's scale of operations is small with assets under management (AUM) of Rs. 550 crore as on December 31, 2022 (Rs. 375 crore in March 2022 and Rs. 403 crore in March 2021). Its operations are concentrated in two states, i.e. Andhra Pradesh (AP; 72.9% of the portfolio as on December 31, 2022) and Telangana (27.1%), accentuating the risks associated with geographical concentration. Further, Criss had a presence in only 19 districts as on December 31, 2022 (19 as on March 31, 2022 and 16 as on March 31, 2021), indicating high portfolio concentration even at the district level. Its top district contributed 21.3% to its total portfolio as on December 31, 2022 against 10.8% in March 2022. Criss' ability to increase its member base, recruit and retain employees, and augment its geographical diversity would be a key monitorable, going forward.

Asset quality pressures remain monitorable – Criss' 90+dpd stood at 6.5% in December 2022 vis-à-vis 8.5% in March 2022 and 1.9% in March 2021 (0.0% in March 2020). The improvement in delinquencies in 9M FY2023 was on account of the marginal improvement in the collection efficiency and the growth in the AUM. Despite the marginal improvement in the asset quality, it is still weak and remains a monitorable. Going forward, it is crucial for Criss to bolster its collection efficiency efforts to stop the forward flow of delinquencies from softer delinquency buckets to harder buckets.

Criss' microfinance book is vulnerable to socio-political and operational risks, which could negatively impact the operations and financial position of entities with exposure to this sector, including Criss. The industry risks are further accentuated by the company's geographically concentrated portfolio.

Earnings impacted in FY2022; expected to remain subdued in the near term due to elevated credit costs – Criss reported a net profit of Rs. 12.2 crore in 9M FY2023, translating into a return on managed assets (RoMA) of 3.2% and a return on average net worth (RoNW) of 10.2% compared to 5.4% and 16.3%, respectively, in FY2022 (5.6% and 17.4%, respectively, in FY2021). The profitability in 9M FY2023 was impacted by the increase in credit provision costs to 3.5% of the average managed assets (AMA) from 3.3% in FY2022 and the reduction in the net interest margin (NIM) to 7.6% of the AUM from 9.6% during this period. Despite the marginal improvement in the gross and net non-performing advances (GNPAs and NNPAAs) as of December 2022 from March 2022, the asset quality remains weak. Accordingly, the company's profitability is expected to be moderate in relation to its past performance.

Liquidity position: Adequate

Criss had Rs. 0.9 crore of on-book liquidity as on December 31, 2022 and a line of credit of Rs. 300 crore from SSFL (unutilised limits stood at Rs. 18.3 crore as of December 31, 2022). This is adequate to meet its expected debt obligation of Rs. 14.7 crore till February 2023. As on December 31, 2022, Criss' total borrowings stood at Rs. 378.5 crore (term loans from banks at 0.9%, term loans from financial institutions at 18.2%, capital market instruments at 5.7% and inter-corporate loans from SSFL at 75.2% of the overall borrowings). SSFL had increased the limit of the credit line extended to Criss to Rs. 300 crore from Rs. 200 crore in FY2023. ICRA draws comfort from the financial flexibility arising from the company's parentage and the expected timely support from SSFL, when required. It is critical for Criss to diversify its funding sources to secure the required funds in a timely manner for maintaining a comfortable liquidity profile as the business expands.

Rating sensitivities

Positive factors – ICRA could upgrade Criss' ratings if there is an improvement in SSFL's credit profile or if Criss demonstrates a steady portfolio growth while maintaining a good earnings profile.

Negative factors – Pressure on Criss’ ratings could arise if there is a material deterioration in SSFL’s credit profile. An increase in the leverage beyond 6 times on a sustained basis or a material deterioration in the asset quality, impacting the earnings profile, would also negatively impact the ratings.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | ICRA Rating Methodology for NBFCs Impact of Parent or Group Support on Issuer's Rating |
| Parent/Group support | The ratings factor in the high likelihood of the parent, SSFL, extending financial support because of its majority shareholding |
| Consolidation/Standalone | The ratings are based on Criss’ standalone financial statements |

About the company

Criss Financial Limited is a non-banking financial company (NBFC) incorporated in 1992. It was largely held by Ms. Padmaja Reddy before it was acquired by SSFL in FY2019, which currently holds a 99.85% equity stake. Criss primarily disburses non-qualifying microfinance loans and loan against property (LAP), which constituted about 86% and 13% of its total loan portfolio, respectively, as of December 2022. Apart from this, its loan products include personal loans, interim loans and other loans, which together constituted the balance 1% of the loan portfolio as of December 2022.

Key financial indicators (audited)

| Criss Financial Limited | FY2020 | FY2021 | FY2022 | 9M FY2023 |
|--------------------------|--------|--------|--------|-----------|
| Total income | 34.7 | 54.8 | 100.4 | 68.3 |
| Profit after tax/(loss) | 15.0 | 16.9 | 23.1 | 12.2 |
| Net worth | 64.2 | 130.2 | 153.2 | 165.5 |
| Total assets | 185.8 | 399.9 | 420.5 | 557.5 |
| Total managed assets | 188.2 | 415.0 | 439.5 | 573.8 |
| Return on managed assets | 10.2% | 5.6% | 5.4% | 3.2% |
| Return on net worth | 26.6% | 17.4% | 16.3% | 10.2% |
| Gearing (times) | 1.8 | 1.9 | 1.7 | 2.3 |
| Gross NPA | 0.0% | 1.1% | 9.2% | 6.5% |
| Net NPA | 0.0% | 0.9% | 6.1% | 4.6% |
| Capital adequacy ratio | 35.0% | 33.3% | 36.7% | 30.2% |

Source: Company's financial statements; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating (FY2023) | | | | | | Chronology of Rating History for the Past 3 Years | | | |
|---|------------|-------------------------|--------------------------|--------------------------------|-----------------------------|---------------------------|-------------------|---|---------------------------|-------------------------|-------------------------|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2023 | | | Date & Rating in FY2022 | | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | | March 01, 2023 | Oct 04, 2022 | Jun 17, 2022 | Nov 10, 2021 | Jun 18, 2021 | Jun 19, 2020 | Jan 07, 2020 |
| 1 | Term loan | Long term | 200.0 | 200.0 | [ICRA]BBB (Positive) | [ICRA]BBB (Stable) | [ICRA]BBB& | [ICRA]BBB& | [ICRA]BBB (Stable) | [ICRA]BBB- (Stable) | [ICRA]BBB- (Stable) |
| 2 | MLD | Long term | 100.0 | 100.0 | PP-MLD[ICRA] BBB (Positive) | PP-MLD[ICRA] BBB (Stable) | PP-MLD[ICRA] BBB& | PP-MLD[ICRA] BBB& | PP-MLD[ICRA] BBB (Stable) | - | - |

& – Under Watch with Developing Implications

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Term loans | Simple |
| Principal protected market linked non-convertible debentures | Moderately Complex |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](https://www.icra.in)

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|--------------|---|-----------------------------|----------------------|-------------------|--------------------------|----------------------------|
| NA | Term loan | January 30, 2021 | NA | February 1, 2023 | 1.25 | [ICRA]BBB (Positive) |
| NA | Term loan | March 17, 2021 | NA | March 20, 2023 | 0.29 | [ICRA]BBB (Positive) |
| NA | Term loan | August 6, 2021 | NA | June 10, 2023 | 3.00 | [ICRA]BBB (Positive) |
| NA | Term loan | August 21, 2021 | NA | June 5, 2023 | 2.68 | [ICRA]BBB (Positive) |
| NA | Term loan | September 1, 2021 | NA | March 5, 2024 | 21.10 | [ICRA]BBB (Positive) |
| NA | Term loan | September 1, 2021 | NA | March 5, 2024 | 2.34 | [ICRA]BBB (Positive) |
| NA | Term loan | September 3, 2021 | NA | September 7, 2023 | 1.37 | [ICRA]BBB (Positive) |
| NA | Term loan | September 3, 2021 | NA | September 7, 2023 | 1.37 | [ICRA]BBB (Positive) |
| NA | Term loan | September 3, 2021 | NA | September 7, 2023 | 1.37 | [ICRA]BBB (Positive) |
| NA | Term loan | September 3, 2021 | NA | September 7, 2023 | 0.26 | [ICRA]BBB (Positive) |
| NA | Term loan | December 20, 2022 | NA | July 28, 2025 | 34.00 | [ICRA]BBB (Positive) |
| NA | Term loan (proposed) | NA | - | NA | 130.97 | [ICRA]BBB (Positive) |
| INE02EP07020 | Market linked debenture (MLD) programme | June 15, 2021 | 10-year G-Sec linked | July 15, 2023 | 12.0 | PP-MLD[ICRA]BBB (Positive) |
| INE02EP07012 | MLD programme | June 15, 2021 | 10-year G-Sec linked | January 15, 2023 | 6.0 | PP-MLD[ICRA]BBB (Positive) |
| NA | MLD programme (proposed) | - | - | - | 82.0 | PP-MLD[ICRA]BBB (Positive) |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|----------------|-----------|------------------------|
| Not Applicable | - | - |

ANALYST CONTACTS

Karthik Srinivasan

+91 22 6114 3444

karthiks@icraindia.com

Krishan Kumar Saini

+91 124 4545 442

krishan.saini@icraindia.com

R Srinivasan

+91 44 4596 4315

r.srinivasan@icraindia.com

Ramya G

+91 44 4596 4309

ramya.g@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.