August 21, 2023

Criss Financial Limited (erstwhile Criss Financial Holdings Limited): Ratings upgraded with change in outlook to [ICRA]BBB+ (Stable) and PP-MLD[ICRA]BBB+ (Stable)

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	110.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Positive) and outlook revised to Stable from Positive
Market-linked debentures	82.00	82.00	PP-MLD [ICRA]BBB+ (Stable); upgraded from PP-MLD[ICRA]BBB (Positive) and outlook revised to Stable from Positive
Market-linked debentures	18.00	0.00	PP-MLD [ICRA]BBB+(Stable); upgraded from PP-MLD [ICRA]BBB(Positive) and outlook revised to stable from Positive and withdrawn
Total	**300.00**	**192.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings upgrade and the revision in the outlook for Criss Financial Limited (Criss) follow a similar rating action for Spandana Sphoorty Financial Limited {SSFL; rated [ICRA]A (Stable)}, which holds a 99.85% equity stake in Criss. ICRA continues to believe that Criss will benefit from the management and financial support from its parent. SSFL has extended a line of credit (current limit of Rs. 400 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 currently has an adequate capital profile, with a net worth of Rs. 154.70 crore and a managed gearing of 2.4 times as on March 31, 2023. Over the medium term, the company intends to restrict its leverage with a managed gearing of less than 4.0 times. ICRA expects Criss to grow at a compound annual growth rate (CAGR) of 30-35% over the next 3 years and does not expect any significant requirement for incremental equity capital. Nevertheless, if needed, ICRA expects timely support from SSFL for managing the portfolio growth and capital profile.

The ratings continue to factor in Criss' small scale and geographically concentrated operations. ICRA also takes note of the moderation in delinquencies in FY2023 and Q1 FY2024 (90+ days past due (dpd) stood at 3.5% in March 2023 and 3.7% in June 2023 vis-à-vis 8.7% as of March 2022). Criss' earnings profile remains subdued with a return on managed assets (RoMA) and a return on average net worth (RoNW) of 0.3% and 0.9%, respectively, as of March 2023

ICRA has upgraded the long-term rating on the Rs. 18.00-crore principal protected market linked debenture programme to PP-MLD[ICRA]BBB+ from PP-MLD[ICRA]BBB, while revising the outlook to Stable from Positive, and has simultaneously withdrawn the rating as the instrument has been fully redeemed with no amount outstanding against the same. The rating was withdrawn as per ICRA's policy on the withdrawal of credit ratings.

The rated term loan amount has been reduced to Rs. 110.00 crore from Rs. 200.00 crore at the request of the company.

Key rating drivers and their description

Credit strengths

Support from SSFL – SSFL has a 99.85% stake in Criss. SSFL's senior management team is actively involved in Criss' day-to-day business and operations. Further, Criss' board comprises members from SSFL's board. ICRA believes that the company will benefit from the management and financial support from the parent. The company's financial flexibility is supported by a line of credit from SSFL (upper limit capped at Rs. 400 crore). Criss' external borrowings are also backed by corporate guarantees from SSFL (up to 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 2.4 times (managed basis) and 29.3%, respectively, as of March 2023 (1.7 times and 36.7%, respectively, as on March 31, 2022). Its capitalisation is supported by equity infusions from the parent (Rs. 25.0 crore in FY2019 and Rs. 50.0 crore in FY2021) and steady internal capital generation. 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. 515.7 crore as of June 30, 2023 and Rs. 531.6 crore as on March 31, 2023 (Rs. 374.6 crore as of March 2022 and Rs. 403.3 crore as of March 2021). Its operations are concentrated in two states, i.e. Andhra Pradesh (AP; 75.1% of the portfolio as on June 30, 2023) and Telangana (24.9%), accentuating the risks associated with geographical concentration. Further, Criss had a presence in only 27 districts as on June 30, 2023 (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 23.3% to its total portfolio as on June 30, 2023 against 10.8% in March 2022. The company plans to diversify geographically by opening new branches in Rajasthan in FY2024.

Criss has historically been disbursing non-qualifying microfinance loans and loan against property (LAP), which constituted about 86% and 13% of its total loan portfolio, respectively, as of June 2023. 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 June 2023. ICRA notes that, going forward, Criss will scale up the LAP portfolio and diversify into other asset segments such as small-ticket unsecured micro, small and medium enterprise (MSME) loans, home improvement loans, etc. 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' 0+ and 90+dpd moderated to 7.9% and 3.7%, respectively, as of June 2023 (8.0% and 3.5%, respectively, as of March 2023) from 30.3% and 8.7%, respectively, as of March 2022. Around 10% of Criss' portfolio is secured while the balance is the unsecured portfolio. The improvement in portfolio delinquencies between March 2022 and March 2023 can largely be attributed to the write-off of Rs. 31.3 crore in FY2023.

Despite the improvement in FY2023 and Q1 FY2024, Criss' asset quality remains a monitorable in the near term as it scales up its LAP and other asset segments. Also, in the near term, its non-qualifying 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.

Subdued earnings profile – Criss reported a net profit of Rs. 1.4 crore in FY2023, translating into a RoMA of 0.3% and RoNW of 0.9% compared to 5.4% and 16.3%, respectively, in FY2022. The profitability was impacted in FY2023 by the increase in credit provision costs to 9.0% of the average managed assets (AMA) from 3.3% in FY2022 and the moderation in the net interest margin (NIM) to 12.3% from 13.9% during this period. The company reported a profit of Rs. 9.0 crore in Q1 FY2024, leading to a RoMA of 6.6%. Given the improvement in the monthly collection efficiency trend and the diversification into newer secured asset segments, ICRA expects the credit costs to moderate and the profitability metrics to improve in the near to medium term.

Liquidity position: Adequate

Criss had Rs. 1.2 crore of on-book liquidity as on June 30, 2023 and a line of credit of Rs. 400.0 crore from SSFL (unutilised limit stood at Rs. 172.3 crore as of July 2023). This is adequate to meet its expected debt obligations of Rs. 41.7 crore between July 2023 and September 2023. The average monthly collections over the last six months stood at Rs. 37.3 crore. As on March 31, 2023, Criss' total borrowings stood at Rs. 364.1 crore (term loans from banks at 0.4%, term loans from non-banking financial companies (NBFCs) at 34.0%, borrowings through capital market instruments at 4.1% and loans from SSFL at 61.5%).

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 external funding sources 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 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 Criss' leverage beyond 6 times on a sustained basis or a material deterioration in its asset quality, impacting the earnings profile, would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Rating Approach – Implicit Parent or Group Support Policy on Withdrawal of Credit Ratings
Parent/Group support	The ratings factor in the high likelihood of the parent, SSFL, extending financial support, given 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 (SSFL's founder) before it was acquired by SSFL in FY2019, which currently holds a 99.85% equity stake. Criss has historically been disbursing non-qualifying microfinance loans and loan against property (LAP). Apart from this, its loan products include personal loans, interim loans, etc. Going forward, Criss will scale up the LAP portfolio and diversify into other asset segments such as small-ticket unsecured MSME loans, home improvement loans, etc.

Key financial indicators (audited)

Criss Financial Limited	FY2021	FY2022	FY2023
Total income	54.8	100.4	101.4
Profit after tax/(loss)	16.9	23.1	1.4
Net worth	130.2	153.2	154.7
Total assets	399.9	420.5	523.4
Total managed assets	415.0	439.5	553.6
Return on managed assets	5.6%	5.4%	0.3%
Return on net worth	17.4%	16.3%	0.9%
Gearing (times)	1.9	1.7	2.4
Gross stage 3 assets (%)	1.1%	9.2%	3.9%
Net stage 3 assets (%)	0.9%	6.1%	1.5%
Capital adequacy ratio	33.3%	36.7%	29.3%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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 (FY2024)	Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023			Date & Rating in FY2022		Date & Rating in FY2021
					Aug 21, 2023	Mar 01, 2023	Oct 04, 2022	Jun 17, 2022	Nov 10, 2021	Jun 18, 2021	Jun 19, 2020
1	**Term loan**	Long term	110.0 (reduced from 200.0)	110.0	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB&**	**[ICRA]BBB&**	**[ICRA]BBB (Stable)**	**[ICRA]BBB - (Stable)**
2	**MLD**	Long term	82.0	82.0	**PP-MLD[ICRA]BBB+ (Stable)**	**PP-MLD[ICRA] BBB (Positive)**	**PP-MLD[ICRA] BBB (Stable)**	**PP-MLD[ICRA] BBB&**	**PP-MLD[ICRA] BBB&**	**PP-MLD[ICRA]BBB (Stable)**	-
3	**MLD**	Long term	18.0	0.0	**PP-MLD[ICRA]BBB+ (Stable); withdrawn**	**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

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term fund based – Term loan**	September 02, 2021 to June 15, 2023	NA	September 07, 2023 to July 25, 2025	109.61	[ICRA]BBB+ (Stable)
-	**Term loan (Unutilised)**	NA	NA	NA	0.39	[ICRA]BBB+ (Stable)
INE02EP07020	**MLD**	June 15, 2021	10-year G-Sec linked	July 15, 2023	12.0	PP-MLD[ICRA]BBB+ (Stable); withdrawn
INE02EP07012	**MLD**	June 15, 2021	10-year G-Sec linked	January 15, 2023	6.0	PP-MLD[ICRA]BBB+ (Stable); withdrawn
-	**MLD programme (proposed)**	-	-	-	82.00	PP-MLD[ICRA]BBB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	-	-

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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.

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