

July 15, 2024

## Criss Financial Limited (erstwhile Criss Financial Holdings Limited): Ratings upgraded and rated amount enhanced; outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	110.00	150.00	[ICRA]A (Stable); assigned/upgraded from [ICRA]A- and outlook revised to Stable from Positive
Market linked debentures	82.00	82.00	PP-MLD[ICRA]A (Stable); upgraded from PP-MLD[ICRA]A- and outlook revised to Stable from Positive
<b>Total</b>	<b>192.00</b>	<b>232.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating action factors in the improvement in the credit profile of the parent [Spandana Sphoorty Financial Limited {SSFL; upgraded to [ICRA]A+ (Stable) from [ICRA]A (Positive)} holding 99.90% equity stake in Criss Financial Limited (Criss)}. Criss shall play a critical part in SSFL's diversification plan for the new non-microfinance institution (MFI) business segments, i.e. micro-loan against property (LAP) and nano enterprise loans. The company's current loan book, which largely comprises non-qualifying microfinance loans, is expected to shift to the above-mentioned segments. Criss shall continue to benefit from managerial, capital, and liquidity support from its parent; SSFL has extended a line of credit (current limit of Rs. 400 crore) and corporate guarantees for Criss' borrowings. Criss currently has an adequate capital profile, with a net worth of about Rs. 288 crore and a managed gearing of 1.7 times as on March 31, 2024, supported by the equity infusion of Rs. 100 crore by SSFL in FY2024. Criss is expected to grow its portfolio to around Rs. 3,000-3,500 crore by FY2028, which would require timely capital infusions from SSFL to maintain the capitalisation profile.

Criss' earnings profile improved with the return on managed assets (RoMA) at 4.9% in FY2024 compared to 0.3% in FY2023. Its profitability has been supported by the improvement in the asset quality; credit costs, as a percentage of the average managed assets (AMA), stood at 2.4% in FY2024 (9.0% in FY2023 and 3.3% in FY2022). The company's 0+ and 90+ days past due (dpd) improved to 6.0% and 2.5%, respectively, as of March 2024 from 8.0% and 3.5%, respectively, as of March 2023 (30.3% and 8.7%, respectively, as of March 2022).

The ratings continue to consider Criss' small scale of operations, with the portfolio largely concentrated in two states, namely Andhra Pradesh (AP; 70.5% of the portfolio as of March 2024) and Telangana (23.5%), accentuating the risks associated with geographical concentration. The underlying credit risk profile of the end borrowers is also modest. Given the significant targeted growth and the focus on newer loan segments over the medium term, Criss' ability to control the asset quality on a sustained basis shall remain a monitorable.

The Stable outlook factors in ICRA's expectation of continued managerial and financial support from SSFL, which would aid its risk profile, as its scales up its operations in the near-to-medium term.

## Key rating drivers and their description

### Credit strengths

**Strategic importance for SSFL** – Criss is a 99.90% subsidiary of SSFL. The parent's senior management team is actively involved in Criss' day-to-day business and operations. Further, its board comprises members from SSFL's board. As per SSFL's Vision 2028 document, Criss would be a critical part of its diversification plans and would shift to the new non-MFI business segments, i.e. micro LAP and nano-enterprise loans. ICRA believes that this renewed focus on Criss would benefit it through increased managerial and operational support. Further, SSFL is expected to support the company's capital (Rs. 100-crore equity was infused in FY2024) and liquidity requirements as it scales up its operations. Going forward, the business synergies with the parent are expected to help Criss scale up its operations and diversify geographically.

**Adequate capital structure** – Criss' gearing and total capital adequacy ratio stood at 1.7 times and 33.2%, respectively, as of March 2024 (2.4 times and 29.3%, respectively, as of March 2023). Its capitalisation is supported by equity infusions from the parent (Rs. 100 crore in FY2024, Rs. 50 crore in FY2021 and Rs. 25 crore in FY2019) and steady internal capital generation. ICRA expects timely support from SSFL, as and when required, to support the targeted medium-term portfolio growth (Rs. 3,000-3,500 crore AUM by FY2028) and capital profile.

**Improving earnings profile** – Supported by its improving asset quality and lower credit costs, Criss' profitability is on a rising trend, with profit after tax (PAT)/AMA at 4.9% in FY2024 vis-à-vis 0.3% in FY2023. The improvement was due to lower credit costs (2.4% of AMA from 9.0% in FY2023 on account of lower write-offs) and the higher net interest margin (NIM) of 13.3% of AMA in FY2024 vis-à-vis 12.3% in FY2023. ICRA expects the asset quality to witness some improvement in the near term. Further, it expects the company to maintain healthy operating profitability, supported by strong interest margins and lower operating expenses. Overall, ICRA expects the profitability metrics to remain healthy in the near-to-medium term.

### Credit challenges

**Geographically concentrated operations** – The company's scale of operations is small with assets under management (AUM) of Rs. 774.2 crore as of March 31, 2024 and Rs. 531.6 crore as of March 31, 2023 (Rs. 374.6 crore as of March 2022). Its operations have been predominantly concentrated in two states, i.e. AP (70.5% of the portfolio as of March 2024) and Telangana (23.5%), accentuating the risks associated with geographical concentration. The company recently expanded into Rajasthan, which contributed 5.2% to its portfolio as of March 2024. Criss had a presence in 56 districts as of March 2024 with the top district contributing 22.7% to the total portfolio.

Criss has historically been disbursing non-qualifying microfinance loans and LAP, which constituted about 91% and 9%, respectively, of its total loan portfolio as of March 2024. Apart from this, its loan products include personal loans and interim loans though their share was negligible as of March 2024. ICRA notes that, going forward, Criss will be predominantly focused on scaling up the micro LAP and nano-enterprise loan segments. Its ability to increase its member base, recruit and retain employees, scale up its operations and augment its geographical diversity in line with its medium-term plans would be a key monitorable, going forward.

**Modest customer profile; however, improvement seen in asset quality** – For the new segments, Criss' borrowers would be mainly small business owners and self-employed individuals with a focus on the services industry. These borrowers usually have modest credit profiles without traditional income evidence. Given the significant growth targeted by the company over the medium term, its ability to control the asset quality on a sustained basis remains to be seen.

Criss' 0+ and 90+dpd improved to 6.0% and 2.5%, respectively, as of March 2024 (8.0% and 3.5%, respectively, as of March 2023). Around 8% of the portfolio is secured while the balance is unsecured. The improvement in portfolio delinquencies between March 2023 and March 2024 can be attributed to the write-off of Rs. 8.4 crore in FY2024.

## Liquidity position: Adequate

Criss had on-book liquidity of Rs. 9.7 crore as on May 31, 2024 and a line of credit of Rs. 400.0 crore from SSFL (unutilised limit stood at Rs. 325.0 crore as of May 2024). This is adequate to meet its expected debt obligation of Rs. 94.2 crore between June 2024 and August 2024. As on March 31, 2024, Criss' total borrowings stood at Rs. 486.0 crore (borrowings through capital market instruments at 40.4%, term loans from non-banking financial companies (NBFCs) at 35.3%, loans from SSFL at 15.1%, and term loans from banks at 9.1%).

ICRA draws comfort from the financial flexibility arising from the company's parentage and the expected timely support from SSFL, when required. Nevertheless, it is critical for Criss to diversify its external funding sources as the business expands.

## Rating sensitivities

**Positive factors** – An improvement in SSFL's credit profile or a closer association with the Spandana brand would positively impact the ratings.

**Negative factors** – Pressure on Criss' ratings could arise on a material deterioration in SSFL's credit profile. A significant deterioration in its asset quality, impacting the earnings or leverage profile, would also negatively impact the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Non-banking Financial Companies (NBFCs)</a>
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 acquired by SSFL in FY2019 from Ms. Padmaja Reddy (SSFL's founder). SSFL currently holds a 99.9% stake in the company. Criss has historically been disbursing non-qualifying microfinance loans and loan against property (LAP). Apart from this, its loan products include personal loans, etc. 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.

### Key financial indicators (audited)

Criss Financial Limited (erstwhile Criss Financial Holdings Limited)	FY2022	FY2023	FY2024
Total income	100.4	101.3	146.1
Profit after tax/(loss)	23.1	1.4	33.5
Total managed assets	439.5	553.6	827.4
Return on managed assets	5.4%	0.3%	4.9%
Managed gearing (times)	1.7	2.4	1.7
Gross stage 3	9.2%	3.9%	2.5%
Capital adequacy ratio	36.7%	29.3%	33.2%

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 (FY2025)			Chronology of Rating History for the Past 3 Years							
	Type	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023			Date & Rating in FY2022		
			Jul 15, 2024	Jan 15, 2024	Aug 21, 2023	Mar 01, 2023	Oct 04, 2022	Jun 17, 2022	Nov 10, 2021	Jun 18, 2021	
1 Term loan	Long term	150.0	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB&	[ICRA]BBB&	[ICRA]BBB (Stable)	
2 MLD	Long term	82.0	PP-MLD[ICRA]A (Stable)	PP-MLD[ICRA]A- (Positive)	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)	

& – Rating 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	Dec-28-2022 to Jun-15-2023	NA	Mar-17-2025 to Jul-28-2025	46.08	[ICRA]A (Stable)
-	Term loan (unutilised)	NA	NA	NA	103.92	[ICRA]A (Stable)
-	MLD programme (proposed)	-	-	-	82.00	PP-MLD[ICRA]A (Stable)

Source: Company

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

**Annexure II: List of entities considered for consolidated analysis**

Not applicable

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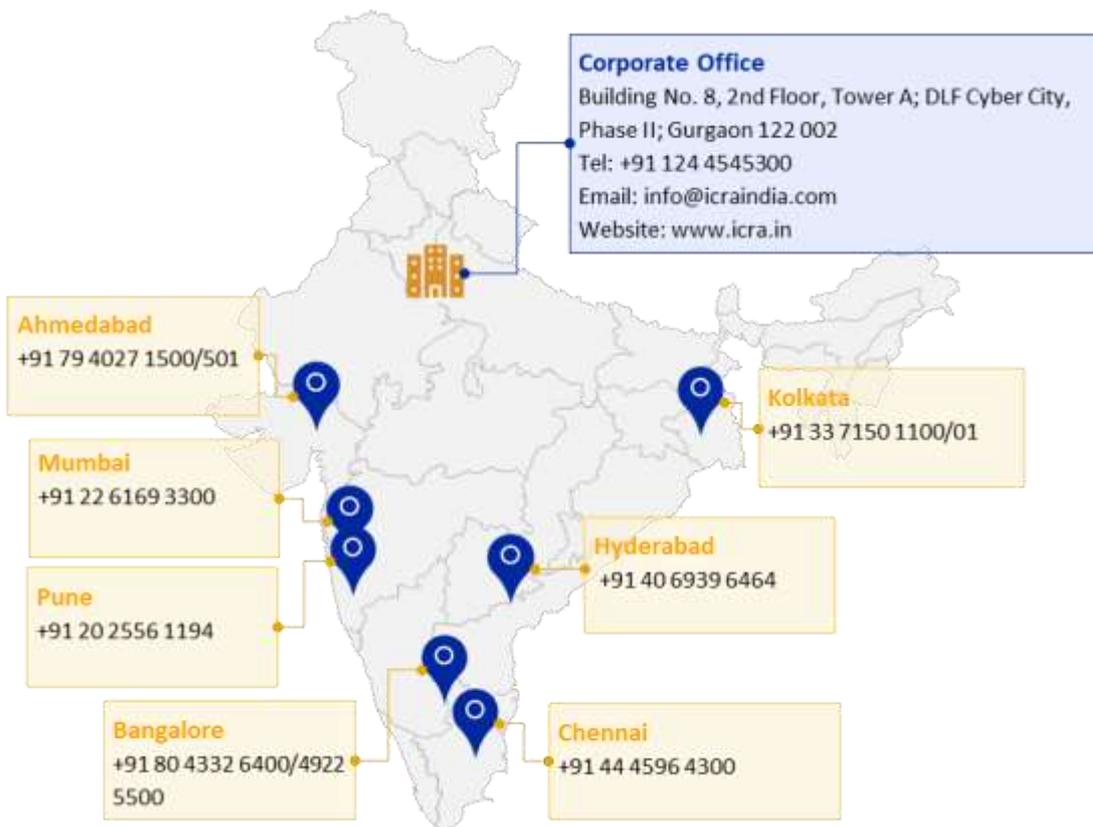
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