December 05, 2024

Criss Financial Limited (erstwhile Criss Financial Holdings Limited): Rating reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	150.0	150.0	[ICRA]A (Negative); reaffirmed and outlook revised to Negative from Stable
Total	**150.0**	**150.0**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the outlook for Criss Financial Limited (Criss) follows a similar action for Spandana Sphoorty Financial Limited {SSFL; rated [ICRA]A+ (Negative)}, which holds an equity stake of 99.9% in Criss. SSFL's Negative outlook reflects the sharp deterioration in its asset quality and profitability in H1 FY2025 and the expected weak overall performance in the near term. ICRA notes that the microfinance industry is experiencing a significant rise in delinquencies due to multiple factors such as overleveraging of borrowers, political movements such as Karza Mukti Abhiyan, adverse climatic conditions, high staff attrition, etc. SSFL is especially facing high attrition and other operational challenges on account of its intention to transition to a weekly collection model. The company has significantly slowed down this transition on account of the headwinds in the sector

ICRA notes that Criss' joint liability group (JLG) loans have also been impacted by most of the above-mentioned factors as well as the recent floods in Andhra Pradesh (AP)/Telangana, which weakened its asset quality and led to higher credit costs in the current year. As a result, the company's return on managed assets (RoMA) declined to -1.7% in H1 FY2025 (annualised) from 4.9% in FY2024.

The rating continues to factor in Criss' small scale of operations, with the portfolio largely concentrated in two states, namely AP (63.5% of the portfolio as of September 2024) and Telangana (21.9%), accentuating the risks associated with geographical concentration. Nevertheless, ICRA derives comfort from the company's status as a critical part of SSFL's diversification plan in the new non-microfinance institution (MFI) business segments, i.e. micro-loan against property (LAP) and nano enterprise loans. The current loan book, which largely comprises non-qualifying microfinance loans, is expected to shift towards the above-mentioned newer segments. Criss shall continue to benefit from the 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. The company currently has an adequate capital profile in relation to its scale of operations, with a net worth of Rs. 280.2 crore and a managed gearing of 2.3 times as of September 2024.

Key rating drivers and their description

Credit strengths

Strategic importance for SSFL – Criss is a 99.9% subsidiary of SSFL. SSFL'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 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 2.3 times and 34.9%, respectively, as of September 2024 and 1.7 times and 33.2%, respectively, as of March 2024 (2.4 times and 29.3%, respectively, as of March 2023). The capitalisation is supported by equity infusions from the parent (Rs. 100 crore in FY2024 and Rs. 50 crore in FY2021) and steady internal capital generation. ICRA expects timely aid from SSFL, as and when required, to support the targeted medium-term portfolio growth and capital profile.

Credit challenges

Geographically concentrated operations – The company's scale of operations is small with assets under management (AUM) of Rs. 795.5 crore as of September 2024 and Rs. 774.2 crore as of March 2024 (Rs. 531.6 crore as of March 2023). Its operations have been predominantly concentrated in two states, i.e. AP (63.5% of the portfolio as of September 2024) and Telangana (21.9%), accentuating the risks associated with geographical concentration. The company recently expanded its operations to four new state, viz., Rajasthan (which contributed to 9.1% to the portfolio as of September 2024), Madhya Pradesh (2.3%), Tamil Nadu (1.7%) and Karnataka (1.5%). As such, Criss has increased its presence to 67 districts as of September 2024 from 56 districts as of March 2024. Its top district contributed 20.5% to its total portfolio as of September 2024.

Criss has historically been disbursing non-qualifying microfinance loans, which constituted 84.5% of its total loan portfolio as of September 2024 (balance 15.5% derived from LAP). ICRA notes that the company will be predominantly focussing on scaling up the micro LAP and nano enterprise loan segments, mainly in Rajasthan, Madhya Pradesh, Karnataka and Tamil Nadu. Criss' 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.

Modest borrower profile impacting asset quality and earnings – Criss' borrowers in the new focus segments would mainly be 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. The asset quality deteriorated in H1 FY2025 due to multiple factors such as overleveraging of borrowers, high employee attrition, etc. Criss' 0+ days past due (dpd) and 90+dpd deteriorated to 17.6% and 4.7%, respectively, as of September 2024 (6.0% and 2.5%, respectively, as of March 2024). Further, its operating costs increased in H1 FY2025 as it focussed on scaling up its operational infrastructure. Consequently, the net profitability (profit after tax/average managed assets) declined to -1.7% in H1 FY2025 from 4.9% in FY2024.

Liquidity position: Adequate

Criss had on-book liquidity of Rs. 75.7 crore as on October 30, 2024 and a line of credit of Rs. 400 crore from SSFL (utilised limit stood at Rs. 283.3 crore). This is adequate for its expected debt obligation of Rs. 206.8 crore between November 2024 and April 2024. As on September 30, 2024, Criss' total borrowings stood at Rs. 636.1 crore (non-convertible debentures (NCDs): 19.3%, securitisation: 35.7%, term loans (TLs) from financial institutions (FIs): 21.6%, intercorporate deposits (ICDs) from SSFL: 18.5%, and TLs from banks: 4.9%). 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 SSFL's brand would positively impact the rating.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs)
Parent/Group support	The rating factors in the high likelihood of the parent, SSFL, extending financial support, given its majority shareholding
Consolidation/Standalone	The rating is based on Criss' standalone financial statements

About the company

Criss Financial Limited is a non-banking financial company (NBFC) incorporated in 1992 and is a subsidiary of SSFL. SSFL currently holds a 99.9% stake in Criss. Criss has historically been disbursing non-qualifying microfinance loans, 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 & medium enterprise (MSME) loans, home improvement loans, etc.

Key financial indicators (audited)

Criss	FY2023	FY2024	H1 FY2025
Total income	101.3	146.1	99.24
PAT	1.4	33.5	(7.96)
Total managed assets	553.6	827.4	999.9
Return on managed assets	0.3%	4.9%	-1.7%
Managed/Adjusted/Reported gearing (times)	2.4	1.7	2.3
Gross stage 3	3.9%	2.5%	4.7%
CRAR	29.3%	33.2%	34.9%

Source: Company, ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years								
				FY2025		FY2024		FY2023		FY2022		
Instrument	Type	Amount rated (Rs. crore)	Dec 05, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long term	150.00	[ICRA]A (Negative)	Oct 18, 2024	[ICRA]A (Stable)	Jan 15, 2024	[ICRA]A- (Positive)	Mar 01, 2023	[ICRA]BBB (Positive)	Nov 10, 2021	[ICRA]BBB&
				Jul 15, 2024	[ICRA]A (Stable)	Aug 21, 2023	[ICRA]BBB+ (Stable)	Oct 04, 2022	[ICRA]BBB (Stable)	Jun 18, 2021	[ICRA]BBB (Stable)
								Jun 17, 2022	[ICRA]BBB&		
MLD	Long term	-	-	Oct 18, 2024	PP-MLD[ICRA] A (Stable); withdrawn	Jan 15, 2024	PP-MLD[ICRA] A-(Positive)	Mar 01, 2023	[ICRA]BBB (Positive)	Nov 10, 2021	PP-MLD[ICRA] BBB&
				Jul 15, 2024	PP-MLD[ICRA] A (Stable)	Aug 21, 2023	PP-MLD[ICRA] BBB+ (Stable)	Oct 04, 2022	PP-MLD[ICRA] BBB (Stable)	Jun 18, 2021	PP-MLD[ICRA] BBB (Stable)
								Jun 17, 2022	PP-MLD [ICRA] BBB&		

&-Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Term loans	Simple

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	23.66	[ICRA]A (Negative)
-	Term loan (unutilised)	NA	NA	NA	126.34	[ICRA]A (Negative)

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

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Shaik Abdul Saleem
+91 40 6939 6464
shaik.saleem@icraindia.com

Jaynesh Shah
+91 22 6169 3300
jaynesh.shah@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.

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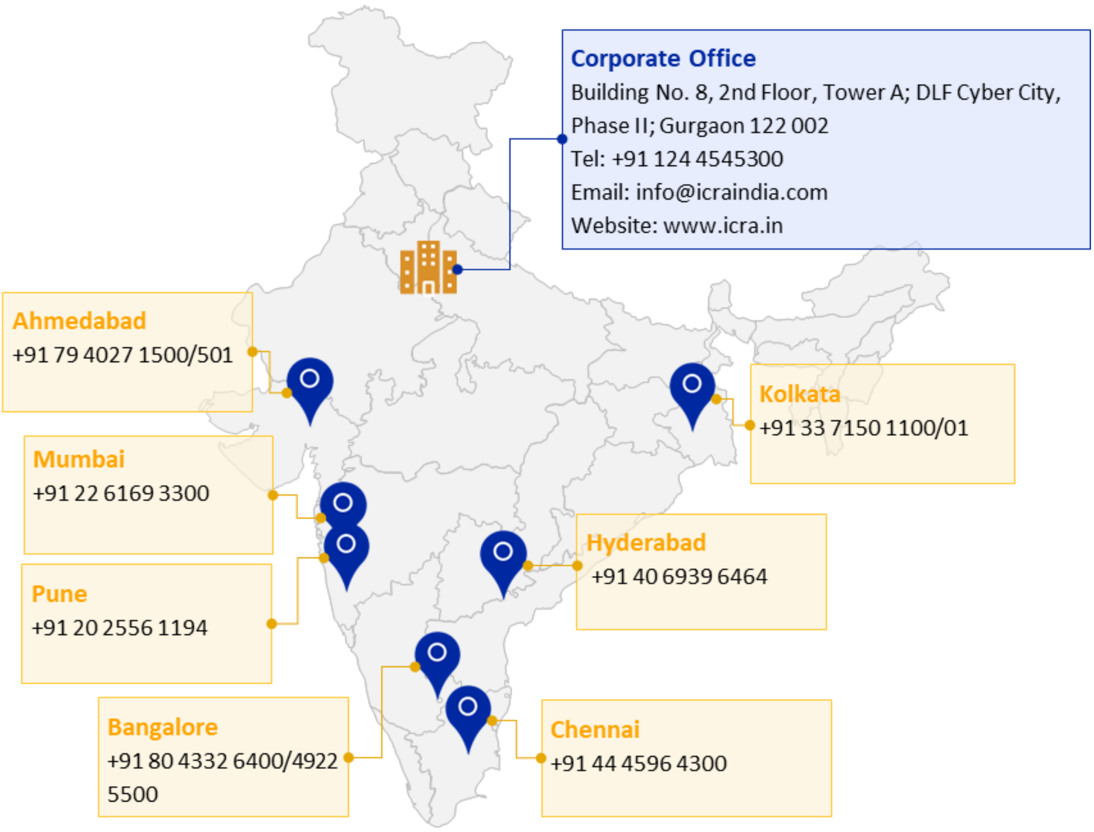
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



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