

December 05, 2024 <sup>(Revised)</sup>

## Spandana Sphoorty Financial 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	2,105.0	2,105.0	[ICRA]A+ (Negative); reaffirmed and outlook revised to Negative from Stable
Non-convertible debentures	423.0	423.0	[ICRA]A+ (Negative); reaffirmed and outlook revised to Negative from Stable
<b>Total</b>	<b>2,528.0</b>	<b>2,528.0</b>	

\*Instrument details are provided in Annexure I

### Rationale

The revision in the outlook to Negative considers the deterioration in Spandana Sphoorty Financial Limited's (SSFL) 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 slowed down this transition on account of the headwinds in the sector.

SSFL's collections were significantly impacted, resulting in a deterioration in its consolidated gross stage 3 to 5.3% as of September 2024 from 1.7% as of March 2024, while its 30+ days past due (dpd) delinquencies weakened to 10.8% from 3.0% during this period (on AUM basis). As a result, credit costs (as a percentage of average managed assets) increased to 10.5% (annualised) in H1 FY2025 from 2.1% in FY2024, resulting in a deterioration in the net profitability (return on average managed assets; RoMA) to -2.3% in H1 FY2025 from 4.1% in FY2024 (0.1% in FY2023) on a consolidated basis. Moreover, SSFL's asset quality performance is likely to face near-term headwinds in view of the stress in the microfinance segment and the tightening of the lending norms as guided by the MFI-SRO. Consequently, disbursements are expected to remain muted, given the focus on bringing the asset quality under control.

ICRA also notes that the company had breached some of the financial covenants related to the asset quality and profitability in respect of Rs. 698.6 crore of non-convertible debentures (NCDs) and Rs. 124.7 crore of term loans outstanding as of October 2024. Of this, as on date, the company has received early redemption request for Rs. 196.3 crore of NCDs from debenture holders, while it has asked for covenant waivers for the other cases. In the near term, SSFL's ability to obtain the requisite waivers for these cases and restrict significant early redemptions would be a key monitorable. Nevertheless, ICRA notes that the company is maintaining adequate liquidity (on-balance sheet (on-b/s) of Rs. 1,331.5 crore as on September 30, 2024), sufficient to cover approximately two months of debt repayment obligations without considering the inflows from loan collections.

The rating continues to factor in the comfortable capitalisation profile and the diversified geographical presence. SSFL's capital adequacy ratio stood at 35.8% as of September 2024 on consolidated basis, remaining well above the regulatory requirements. On a consolidated basis, the managed gearing was comfortable at 2.4x as of September 2024 (2.8x as of March 2024), providing adequate buffer in view of the elevated credit losses and muted earnings expected in the near term.

## Key rating drivers and their description

### Credit strengths

**Diversified geographical presence** – SSFL's consolidated assets under management (AUM) stood at Rs. 10,537.1 crore as of September 2024, catering to 33.0 lakh active borrowers through a network of 1,723 branches spread across 20 states and Union Territories. Its portfolio remains fairly diversified with no state accounting for more than 14% of the portfolio (on a standalone basis). The concentration of the top 5 states in the portfolio (standalone basis) was 58.6% as on September 30, 2024 (59.6% as on March 31, 2024). As on September 30, 2024, its largest state, Odisha, accounted for 13.4% of the standalone portfolio, followed by Madhya Pradesh (13.0%), Bihar (12.2%), Andhra Pradesh (10.1%) and Karnataka (10.1%).

However, the top 5 most impacted states (standalone basis) in terms of the recent asset quality performance, which constituted 42.5% of the loan portfolio, contributed 61.4% to the total stage 3 assets. ICRA notes that the company has recently started initiatives such as risk-based classification of branches, which would restrict member/centre additions in geographies perceived to be high risk. Going forward, SSFL's incremental growth trends in such high-risk geographies and its performance in these areas would be monitorable.

**Comfortable capitalisation profile** – SSFL's capital adequacy ratio stood at 35.8% as of September 2024, well above the regulatory requirement of 15%. On a consolidated basis, the managed gearing was comfortable at 2.4x as of September 2024, reducing from 2.8x as of March 2024 due to the decline in the AUM in H1 FY2025. Disbursements are expected to be muted in FY2025, thus impacting the AUM. However, it is expected to improve in subsequent years as the asset quality performance normalises. ICRA expects SSFL to maintain its consolidated managed gearing well below 4.5x over the next two years.

### Credit challenges

**Pressure on asset quality; risks associated with microfinance business** – SSFL's collections have been significantly impacted in YTD FY2025 on account of multiple factors, including high employee attrition, climatic factors, overleveraging of borrowers, external factors such as Karza Mukti Abhiyan, and its transition to the weekly collection model from the existing monthly model. The monthly collection efficiency<sup>1</sup> dropped to 88.3% as of September 2024 from 96.7% as of March 2024. Consequently, the gross stage 3 assets (consolidated) deteriorated to 5.3% as of September 2024 from 1.7% as of March 2024 (2.9% as of June 2024). Similarly, the 0+ dpd deteriorated to 16.1% in H1 FY2025 from 4.3% in FY2024 (on AUM basis). Write-offs stood at 5.6% in H1 FY2025 (consolidated; annualised).

As of October 2024, 26.7% of SSFL's borrowers had availed loans from more than three microfinance lenders<sup>2</sup>. Headwinds for the asset quality could continue in the near term from such overleveraged borrowers, who are likely to face constraints in obtaining incremental microfinance loans, in line with the guardrails for microfinance lenders by Micro Finance Institutions Network (MFIN). The company is obligated to limit its engagement to borrowers with a maximum of three microfinance lenders (including SSFL) from January 2025. This is anticipated to lead to a further deterioration in the asset quality. As of September 2024, roughly 26.9% of the total borrowers will be classified as SSFL+3 and SSFL +>4, thereby exceeding the parameters set by the guardrail. As such, the stress is expected to continue in Q4 FY2025 as well.

Over the last few months, the company has taken some measures to stabilise its asset quality. These include the acquisition of new-to-credit customers (addressing issues arising from multiple identity proof and other gaps in bureau information), addition of new centres in 15% of its branches, and pausing of acquisition of new members in 46% of its branches. Further, SSFL is strengthening its collections/recovery teams. However, considering the marginal borrower profile, the unsecured nature of lending, and other regulatory and political risks, the company's ability to bring its asset quality performance under control over the next few months remains to be seen.

<sup>1</sup> Percentage of outstanding receivables collected within a specific period of time (Current collections/Current demand)

<sup>2</sup> Source: Company; based on credit bureau data

**Higher credit costs to impact profitability in FY2025** – SSFL reported a consolidated loss of Rs. 160.6 crore, translating into RoMA of -2.3% in H1 FY2025 (profit after tax (PAT) of Rs. 500.7 crore and RoMA of 4.1% in FY2024). Credit costs increased to 10.5% (annualised) in H1 FY2025 from 1.5% in FY2024 due to the deterioration in the asset quality performance. ICRA expects the credit costs to remain elevated over the next few quarters. The collection efficiency is expected to normalise from Q4 FY2025-Q1 FY2026, though the extent of recoveries from the delinquent portfolio would be a key monitorable. SSFL's profitability metrics are expected to be significantly impacted in the near term on account of the above.

**Critical to strengthen funding profile** – The company raised about Rs. 3,138 crore in H1 FY2025 (Rs. 10,441 crore in FY2024) from its lenders. Further, till date in Q3 FY2025, SSFL has obtained incremental borrowings of Rs. 702.2 crore. As of September 2024, it had lending relationships with 49 lenders including 22 non-banking financial companies (NBFCs)/financial institutions, 21 private banks/small finance banks, 4 public sector banks and 2 development financial institutions.

ICRA also notes that SSFL's cost of borrowing is higher compared to some of the industry peers. Further, its marginal cost of borrowing, after declining over the last few quarters, increased in Q2 FY2025 (11.4% vis-à-vis 10.8% in Q1 FY2025). The share of bank borrowings (consolidated basis) also witnessed a reduction to 54% as of September 2024 from 57% as of March 2024, though it remained better than 45% as of March 2023. Correspondingly, the combined share of the other relatively higher-cost borrowings (NBFCs, external commercial borrowings (ECBs), and capital market sources, etc.) increased slightly to 46% as of September 2024 from 43% in March 2024. In the near term, SSFL's ability to maintain a stable funding profile and secure funding at competitive rates would be monitorable. However, ICRA takes comfort from the adequate on-b/s liquidity maintained by the company.

## Environment and social risks

Given the service-oriented business of SSFL, its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. While lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, SSFL's exposure to environmentally sensitive segments remains moderate. However, most of its borrowers are in small businesses, with the majority engaged in essential commodity related activities, primarily dependent on local demand-supply forces. If such borrowers face livelihood disruptions because of physical climate adversities, the same could translate into credit risks for entities such as SSFL.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as material lapses could be detrimental to their reputation and could invite regulatory censure.

## Liquidity position: Adequate

The company had cash and liquid investments of Rs. 1,331.5 crore and sanctioned undrawn bank lines of Rs. 687.0 crore as on September 30, 2024. SSFL's total scheduled debt obligation over the next three months (October-December 2024) is Rs. 1,807 crore. However, ICRA notes that the company had breached some of the financial covenants related to the asset quality and profitability in respect of Rs. 698.6 crore of NCDs and Rs. 124.7 crore of term loans outstanding as of October 2024. Of this, as on date, the company has received early redemption requests for Rs. 196.3 crore for NCDs from debenture holders while it has asked for covenant waivers for the other cases. In the near term, the company's ability to obtain requisite waivers in these cases and restrict significant early redemptions would be a key monitorable.

The on-book liquidity maintained by the company typically covers two months of its debt repayment obligations. The monthly average collection over the next few months is expected to be ~Rs. 850 crore, providing support to the liquidity profile.

## Rating sensitivities

**Positive factors** – A significant scale-up in the operations, while maintaining healthy profitability and asset quality, would be a positive factor.

**Negative factors** – A managed gearing of more than 5x on a sustained basis or a significant weakening in the asset quality or profitability (RoMA of less than 2.5%), on a sustained basis, could lead to a negative impact.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Non-banking Finance Companies (NBFCs)</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on SSFL's consolidated financial statements (Annexure II)

## About the company

Spandana Sphoorty Financial Limited (SSFL) was incorporated in 2003 as a non-banking financial company (NBFC). However, it took over the microfinance operations of Spandana, a non-governmental organisation in 1998. The company was classified as an NBFC-microfinance institution (NBFC-MFI) in 2015. Following the microfinance crisis in Andhra Pradesh (AP), the company entered into a master restructuring agreement (MRA) as a part of the corporate debt restructuring (CDR) with its lenders in September 2011. It exited the CDR in April 2017 after an equity investment led by Kedaara Capital Investment Managers Limited (Kedaara Capital) and fresh funding from three banks. SSFL completed its initial public offering (IPO) in August 2019. The current leadership team is led by Mr. Shalabh Saxena (Managing Director & Chief Executive Officer) and Mr. Ashish Damani (President & Chief Financial Officer). The company has a 10-member board of directors, including 5 independent directors.

## Key financial indicators (audited)

Spandana Sphoorty Financial Limited (standalone)	FY2023	FY2024	H1 FY2025
Total income	1,355.8	2,386.7	1,342.2
PAT	12.3	467.9	(152.65)
Total managed assets	9,933.3	13,852.3	12,387.8
Return on managed assets	0.1%	3.9%	-2.3%
Managed/Adjusted/Reported gearing (times)	2.1	2.7	2.4
Gross stage 3	1.9%	1.6%	5.3%
CRAR	36.9%	32.0%	35.7%

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

Spandana Sphoorty Financial Limited (consolidated)	FY2023	FY2024	H1 FY2025
Total income	1,438.3	2,510.8	1,436.1
PAT	12.4	500.7	(160.6)
Total managed assets	10,159.5	14,406.9	13,070.7
Return on managed assets	0.1%	4.1%	-2.3%
Managed/Adjusted/Reported gearing (times)	2.1	2.8	2.4
Gross stage 3	2.1%	1.7%	5.3%
CRAR	-	-	-

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
NCD	Long term	423.0	[ICRA]A+ (Negative)	Oct-18-2024	[ICRA]A+ (Stable)	Jan-15-2024	[ICRA]A (Positive)	Mar-27-2023	[ICRA]A- (Positive)	Nov-10-2021	[ICRA]A-&
				Jul-15-2024	[ICRA]A+ (Stable)	Dec-15-2023	[ICRA]A (Stable)	Mar-01-2023	[ICRA]A- (Positive)		
						Aug-18-2023	[ICRA]A (Stable)	Sep-29-2022	[ICRA]A- (Stable)		
NCD	Long term			Oct-18-2024	[ICRA]A+ (Stable)						
				Oct-18-2024	[ICRA]A+ (Negative)	Jan-15-2024	[ICRA]A (Positive)	Mar-27-2023	[ICRA]A- (Positive)	Nov-10-2021	[ICRA]A-&
				Jul-15-2024	[ICRA]A+ (Stable)	Dec-15-2023	[ICRA]A (Stable)	Mar-01-2023	[ICRA]A- (Positive)		
Term loan	Long term	2,105.0	[ICRA]A+ (Negative)	Oct-18-2024	[ICRA]A+ (Stable)	Jan-15-2024	[ICRA]A (Positive)	Mar-27-2023	[ICRA]A- (Positive)	Nov-10-2021	[ICRA]A-&
				Jul-15-2024	[ICRA]A+ (Stable)	Dec-15-2023	[ICRA]A (Stable)	Mar-01-2023	[ICRA]A- (Positive)		
						Aug-18-2023	[ICRA]A (Stable)	Sep-29-2022	[ICRA]A- (Stable)		
MLD	Long term	-	-	Oct-18-2024	-	Jan-15-2024	PP-MLD[ICRA]A (Positive)	Mar-27-2023	PP-MLD[ICRA]A- (Positive)	Nov-10-2021	PP-MLD[ICRA]A-&
				Jul-15-2024	PP-MLD[ICRA]A+ (Stable); Withdrawn	Dec-15-2023	PP-MLD[ICRA]A (Stable)	Mar-01-2023	PP-MLD[ICRA]A- (Positive)		
						Aug-18-2023	PP-MLD[ICRA]A (Stable)	Sep-29-2022	PP-MLD[ICRA]A- (Stable)		

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term loan	Simple
Non-convertible debentures	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	Term loan	Novemeber-30-2022 to Oct-07-2024	NA	Dec-03-2024 to Jun-30-2027	480.59	[ICRA]A+ (Negative)
Unutilised	Term loan	NA	NA	NA	1,624.41	[ICRA]A+ (Negative)
INE572J07414	NCD	Aug-01-2022	12.29%	Aug-01-2028	23.00	[ICRA]A+ (Negative)
INE572J07703	NCD	Mar-28-2024	9.81%	Apr-02-2026	100.00	[ICRA]A+ (Negative)
Yet to be placed	NCD	-	-	-	300.00	[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

Company Name	SSFL Ownership	Consolidation Approach
Criss Financial Holdings Limited	99.90%	Full consolidation
Caspian Financial Services Limited	100.00%	Full consolidation

Source: Company; Note: ICRA has taken a consolidated view of the parent (SSFL) and its subsidiaries while assigning the rating

### Corrigendum

The rating rationale document dated December 05,2024 has been corrected with the revision as detailed below:

- Changes made in Page-5 (under Rating history for past three years).

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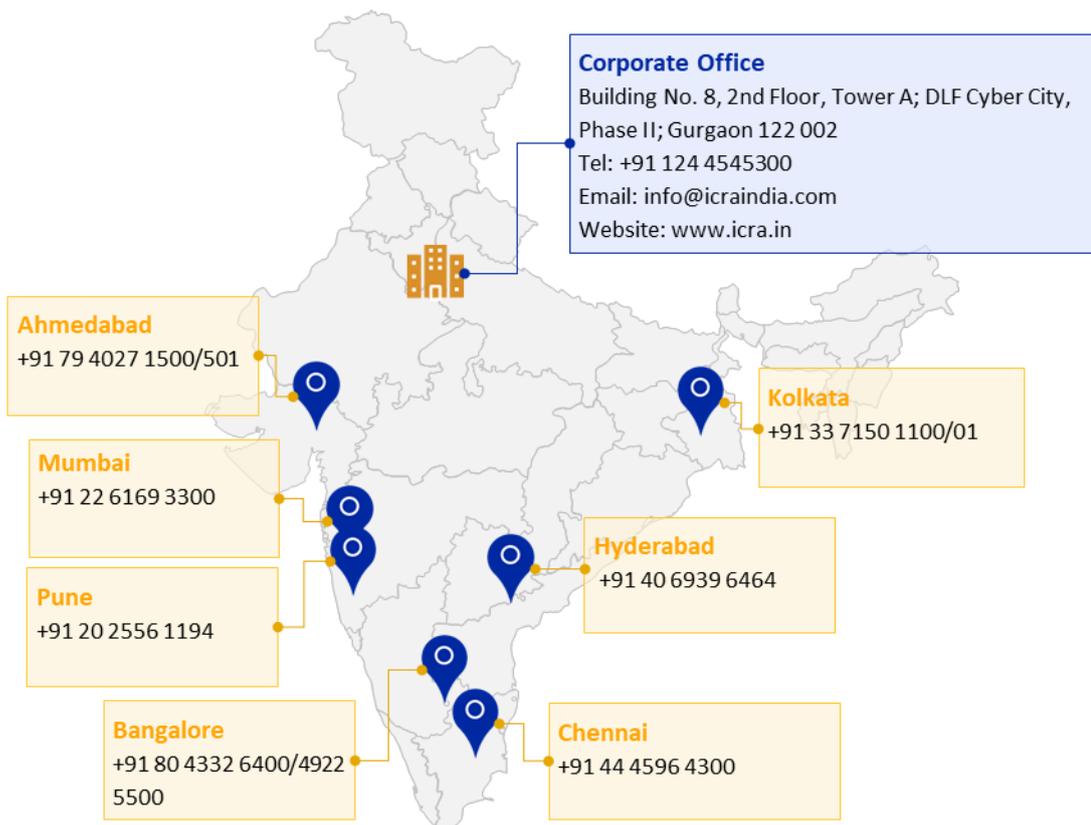
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