June 11, 2025

Spandana Sphoorty Financial Limited: Rating downgraded to [ICRA]A- (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); downgraded from [ICRA]A (Negative)
Non-convertible debentures	423.0	423.0	[ICRA]A- (Negative); downgraded from [ICRA]A (Negative)
Total	**2,528.0**	**2,528.0**	

** Instrument details are provided in Annexure I*

Rationale

The rating downgrade and continuation of the Negative outlook for Spandana Sphoorty Financial Limited (SSFL) reflects the continued underperformance in asset quality and profitability performance in Q4 FY2025 and, a subdued performance expected in the near term, according to ICRA's expectations. The microfinance industry experienced a significant rise in delinquencies during FY2025, largely on account of borrower overleveraging, apart from adverse climatic conditions, attrition at the field level and other regional factors which impacted loan collections. While the sector has witnessed some improvement in Q4 FY2025, the headwinds are expected to continue in the near term.

SSFL's collections, notwithstanding some improvement in Q4 FY2025, continue to be impacted, resulting in a deterioration in its consolidated gross stage 3 to 5.6% as of March 2025 (5.2% as of December 2024) from 1.7% as of March 2024, while its 30+ days past due (dpd) delinquencies stood elevated at 14.8% (12.8%) from 3.0% during this period (on assets under management (AUM) basis). While the above is partly on account of the decline in the AUM, also SSFL wrote off Rs. 1,618 crore (Rs. 1,555 crore on a standalone basis) of delinquent loans in FY2025, of which Rs. 647 crore (Rs. 647 crore on a standalone basis) was written off in Q4 FY2025. The credit costs (as a percentage of average managed assets) increased to 16.5% in FY2025 {14.2% (annualised) in 9M FY2025} from 1.5% in FY2024 on a consolidated basis, resulting in a sizeable net loss of 8.6% (on average managed assets) in FY2025 (net loss of 6.2% in 9M FY2025) against a profit of 4.1% in FY2024 on a consolidated basis (net loss of 8.4% in FY2025 vis- à-vis profit of 3.9% in FY2024, on a standalone basis). The sizeable losses have resulted in a significant reduction in its capital base, the same however, in view of the reduction in the scale remains comfortable. The managed gearing (consolidated) was comfortable at 2.3 times as of March 2025 (2.8 times as of March 2024), providing adequate buffer for the weak earnings expected in the near term. The company has also recently gained approval from its board and shareholders for an equity raise of up to Rs. 750 crore.

ICRA also notes that the company had breached some of the financial covenants related to the asset quality and profitability in respect of Rs. 1,058 crore of non-convertible debentures (NCDs) outstanding as of March 2025, of which, waiver for ~Rs. 800-crore NCDs has been received from the investors. Apart from the above (~Rs. 260 crore), the company has not received a waiver for the term loans (about Rs. 178 crore), and its ability to continue obtaining the requisite waivers and restrict incremental early redemptions would be a key monitorable. Nevertheless, SSFL is maintaining adequate liquidity (cash and cash equivalents of Rs. 1,356 crore as on May 31, 2025).

ICRA takes note of the sudden exit of SSFL's managing director & chief executive officer in April 2025. While the company has an experienced senior management team and a diverse board, it is crucial to have a stable team in view of the elevated headwinds faced by the entity.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile – On a consolidated basis, the managed gearing was comfortable at 2.4 times as of March 2025 and December 2024, reducing from 2.8 times as of March 2024 due to the decline in the AUM in FY2025. The disbursements have been muted in FY2025 and was stopped during February - April 2025, impacting the AUM. However, the company restarted disbursements from May 2025 and is expected to steadily improve. While the company is facing elevated losses, the sizeable net worth is expected to bolster its overall capital profile. ICRA notes that the SSFL Tier-I capital at Rs. 1,673 crore has been impacted because of the adjustments to net worth (Rs. 930 crore) for deferred tax, credit enhancement to PTCs and investments into Criss. SSFL's capital adequacy ratio stood at 36.3% as of March 2025 (32.0% as of March 2024). ICRA expects SSFL to maintain its consolidated managed gearing below 4.0 times over the next two years.

Diversified geographical presence – SSFL's consolidated AUM stood at Rs. 6,819 crore as of March 2025 (Rs. 8,936 crore as of December 2024 and Rs. 11,973 crore as of March 2024), catering to 24.9 lakh active borrowers through a network of 1,804 branches spread across 20 states and Union Territories. Its portfolio remains fairly diversified with no state accounting for more than 14% of the portfolio (standalone basis). The concentration of the top five states in the portfolio (standalone basis) was 59.1% as on March 31, 2025 (58.9% as on March 31, 2024). As on March 31, 2025, its largest state, Madhya Pradesh, accounted for 13.4% of the standalone portfolio, followed by Odisha (12.9%), Bihar (11.5%), Andhra Pradesh (11.1%) and Karnataka (10.0%). Incrementally, the company has identified certain states where it would scale-down its presence, while strengthening its presence in others.

Credit challenges

Pressure on asset quality; risks associated with microfinance business – SSFL's collections have been significantly impacted in 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 monthly model. The monthly collection efficiency[1] dropped to 90.6% as of March 2025 (89.9% as of December 2024) from 98.5% as of March 2024. The Group wrote off Rs. 1,618 crore in FY2025, with Rs. 647 crore written off in Q4 FY2025. Despite this, the 0+ and 30+ remain elevated at 17.4% and 14.8%, respectively, in March 2025 (16.9% and 12.8% in December 2024), partly impacted by the decline in the AUM. As of April 2025, 20.3% of SSFL's borrowers had availed loans from more than three microfinance lenders[2]. 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), which is an MFI-SRO (self-regulatory organisation).

Over the last few months, SSFL has taken some measures to stabilise its asset quality. The number of new borrowers acquired by the company has significantly reduced in FY2025, with substantial tightening of underwriting and disbursements. 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.

Higher credit and operating costs impacting profitability in the near term – SSFL reported a consolidated loss of Rs. 1,035.2 crore, translating into a return on managed assets (RoMA) of -8.6% in FY2025 (profit after tax (PAT) of Rs. 500.7 crore and RoMA of 4.1% in FY2024). The credit costs (as a proportion of AMA) increased to 16.5% in FY2025 from 1.5% in FY2024 due to the deterioration in the asset quality. ICRA expects the credit costs to remain elevated in the near term. The forward flow from the current bucket to the delinquent buckets is expected to start improving from Q2 FY2026, though the extent of recoveries from the delinquent portfolio would be a key monitorable. Also, given the increased focus on collections and subdued disbursements in the near term, and notwithstanding the cost reduction efforts and operating expense ratios would continue

[1] Percentage of outstanding receivables collected within a specific period of time (Current collections/Current demand)

[2] Source: Company; based on credit bureau data

to remain relatively higher in the near term. Overall, SSFL's profitability metrics are expected to be impacted in the near term on account of the above.

Critical to strengthen funding profile – The company raised about Rs. 4,482 crore in FY2025 (Rs. 10,441 crore in FY2024) from its lenders. Further, in Q3 and Q4 FY2025, SSFL had obtained incremental borrowings of Rs. 872 crore and Rs. 473 crore, respectively, on a consolidated basis. As of March 2025, it had relationships with 57 lenders including 28 non-banking financial companies (NBFCs)/financial institutions, 26 banks and two development financial institutions and one FPI.

ICRA also notes that SSFL's cost of borrowing is higher compared to some of the industry peers. Its marginal cost of borrowing, after declining over the last few quarters, increased in Q3 FY2025 to 11.7% and further to 11.9% in Q4 FY2025 vis-à-vis 11.4% in Q2 FY2025. The share of bank borrowings (consolidated basis) stood at 57% as of March 2025 and March 2024, and 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.) stood at 43% as of March 2025 and March 2024. In the near term, SSFL's ability to maintain a stable funding profile and secure funding at competitive rates would be key from a liquidity perspective as the business volumes pick-up.

Environment and social risks

Environmental considerations: While MFIs like SSFL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the borrowers, to whom such MFIs have an exposure, face livelihood disruption because of physical climate adversities, it could translate into credit risks for them. However, such a risk is not material for SSFL as it benefits from adequate geographical diversification of its portfolio. Further, the lending is for loans with a tenure of around two years, which will allow it to adapt and take incremental exposure to borrowers facing relatively fewer downside environmental risks.

Social considerations: Data security and customer privacy are among the key sources of vulnerability for MFIs as a material lapse could be detrimental to their reputation and invite regulatory censure. SSFL has not faced such lapses over the years, which highlights its sensitivity to such risks.

Liquidity position: Adequate

The company had cash and liquid investments of Rs. 1,356 crore and sanctioned undrawn bank lines of Rs. 325 crore as on May 31, 2025. SSFL's total scheduled debt obligation over the next three months (June-August 2025) is Rs. 1,261 crore. The company has no cumulative negative mismatches as per the ALM as of March 2025. The cumulative collection is expected to be ~Rs. 1,459 crore (June-August 2025), providing support to the liquidity profile.

ICRA notes that the company had breached some of the financial covenants related to the asset quality and profitability in respect of Rs. 1,058 crore of NCDs (waiver received for ~Rs. 800 crore) and Rs. 178 crore (no wavier received) of term loans outstanding as of March 2025. SSFL's ability to obtain the requisite waivers in these cases and restrict significant early redemptions would be a key monitorable.

Rating sensitivities

Positive factors – ICRA could revise the outlook, if the company demonstrates a sustained improvement in its asset quality and profitability indicators.

Negative factors – Weakening in the liquidity profile or a lack of material improvement in the asset quality or profitability shall negatively impact the rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs)
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) and it took over the microfinance operations of Spandana, a non-Governmental organisation started by Ms. Padmaja Reddy 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 headed by Mr. Ashish Damani as the interim Chief Executive Officer, since Mr. Shalabh Saxena (Managing Director & Chief Executive Officer) has resigned and is serving notice period. The company has a 10-member board of directors, including five independent directors.

Key financial indicators

Spandana Sphoorty Financial Limited (standalone)	FY2023	FY2024	FY2025
Total income	1,355.8	2,386.7	2,245.2
PAT	12.3	467.9	(956.7)
Total managed assets	9,933.3	13,852.4	9,040.3
Return on managed assets	0.1%	3.9%	(8.4%)
Managed gearing (times)	2.1	2.7	2.2
Gross stage 3	1.9%	1.6%	4.9%
CRAR	36.9%	32.0%	36.3%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore

Spandana Sphoorty Financial Limited (consolidated)	FY2023	FY2024	FY2025
Total income	1,438.3	2,510.8	2,424.1
PAT	12.4	500.7	(1,035.2)
Total managed assets	10,159.5	14,406.9	9,628.8
Return on managed assets	0.1%	4.1%	(8.6%)
Managed gearing (times)	2.1	2.8	2.3
Gross stage 3	2.1%	1.7%	5.6%
CRAR	-	-	-

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	Jun-11-2025	Date	Rating	Date	Rating	Date	Rating
NCD	Long term	423.00	[ICRA]A- (Negative)	Feb- 03-2025	[ICRA]A (Negative)	Jan-15-2024	[ICRA]A (Positive)	Mar-27-2023	[ICRA]A- (Positive)
				Dec-05-2024	[ICRA]A+ (Negative)	Dec-15-2023	[ICRA]A (Stable)	Mar-01-2023	[ICRA]A- (Positive)
				Oct-18-2024	[ICRA]A+ (Stable)	Aug-18-2023	[ICRA]A (Stable)	Sep-29-2022	[ICRA]A- (Stable)
				Jul-15-2024	[ICRA]A+ (Stable)	-	-	-	-
Term loan	Long term	2,105.00	[ICRA]A- (Negative)	Dec-05-2024	[ICRA]A+ (Negative)	Jan-15-2024	[ICRA]A (Positive)	Mar-27-2023	[ICRA]A- (Positive)
				Oct-18-2024	[ICRA]A+ (Stable)	Dec-15-2023	[ICRA]A (Stable)	Mar-01-2023	[ICRA]A- (Positive)
				Jul-15-2024	[ICRA]A+ (Stable)	Aug-18-2023	[ICRA]A (Stable)	Sep-29-2022	[ICRA]A- (Stable)
MLD	Long term	-	-	Dec-05-2024	-	Jan-15-2024	PP-MLD[ICRA]A (Positive)	Mar-27-2023	PP-MLD[ICRA]A- (Positive)
				Oct-18-2024	-	Dec-15-2023	PP-MLD[ICRA]A (Stable)	Mar-01-2023	PP-MLD[ICRA]A- (Positive)
				Jul-15-2024	PP-MLD[ICRA]A+ (Stable); Withdrawn	Aug-18-2023	PP-MLD[ICRA]A (Stable)	Sep-29-2022	PP-MLD[ICRA]A- (Stable)

Complexity level of the rated instrument

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**	December-27-2022 to Oct-07-2024	NA	Jan-27-2026 to Jun-30-2027	324.93	[ICRA]A- (Negative)
Unutilised	**Term loan**	NA	NA	NA	1,780.07	[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	**99.92%**	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

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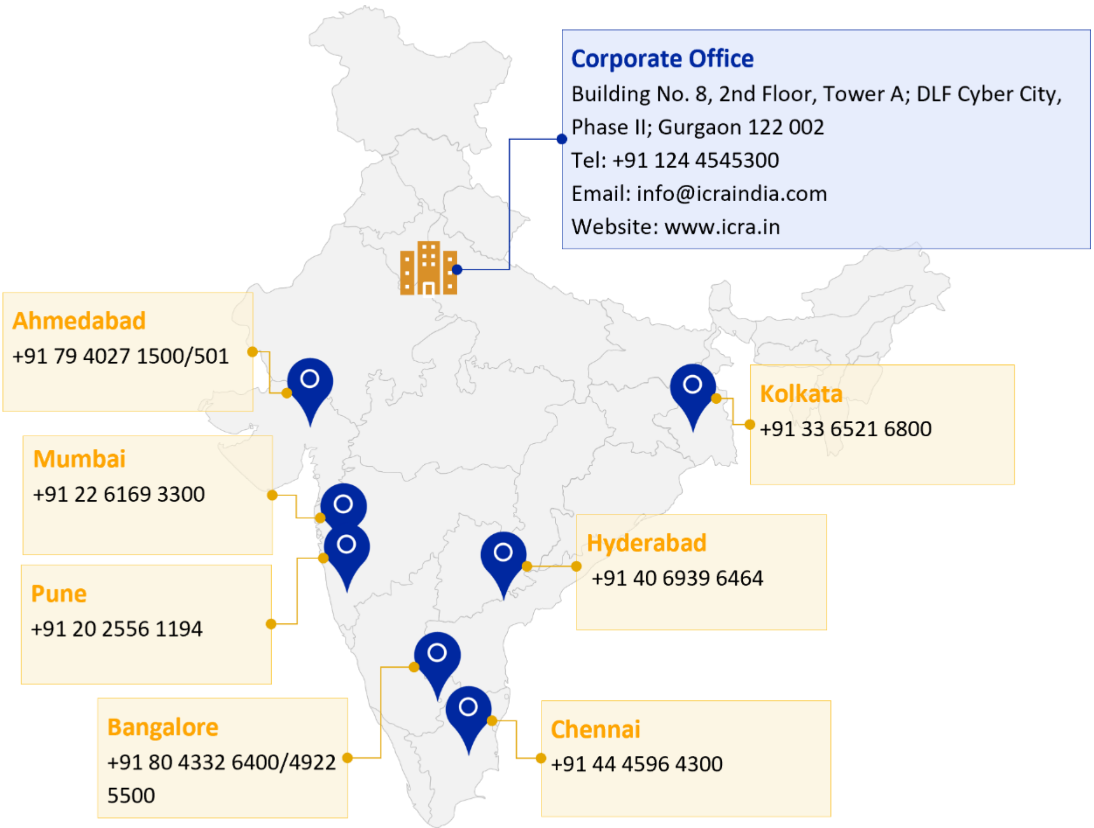

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