

August 26, 2025

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

* Instrument details are provided in Annexure I

Rationale

The rating actions follow the sustained weakening in the profitability and asset quality performance of Spandana Sphoorty Financial Limited (SSFL), on the back of elevated forward flows into overdue buckets. Further, the ratings also consider the significant decline in the scale of its operations, with its consolidated assets under management (AUM) declining to Rs. 4,958 crore as of June 2025 from Rs. 11,973 crore as of March 2024 (Rs. 6,819 crore as of March 2025). This has resulted in weakening in its operating efficiencies with the cost-to-income ratio¹ increasing to 142.5% in Q1 FY2026 from 62.1% in FY2025. Incrementally, it would be critical for the company to steadily improve its disbursements over the next few months to augment its scale and optimise its operating expenses. Further, sustained reduction in forward flows and recoveries from the overdue books would be key to keep its credit costs under control.

SSFL's consolidated gross stage 3 was at 5.5% as of June 2025 and 5.6% as of March 2025 (higher than 1.7% as of March 2024), while its 30+ days past due (dpd) delinquencies stood elevated at 13.4% and 14.8%, as of June 2025 and March 2025 respectively (3.0% as of March 2024), on an AUM basis. In addition, SSFL wrote off Rs. 642 crore (Rs. 581 crore on a standalone basis) of delinquent accounts in Q1 FY2026 vis-à-vis Rs. 1,618 crore (Rs. 1,555 crore on a standalone basis) in FY2025. The credit costs (as a percentage of average managed assets) was at 19.7% in Q1 FY2026 and 16.5% in FY2025 on a consolidated basis, resulting in a sizeable net loss of 16.8% (annualised; on average managed assets) in Q1 FY2026 and net loss of 8.6% in FY2025 (net loss of 16.3% in Q1 FY2026 and 8.4% in FY2025 on a standalone basis). Losses have resulted in a significant reduction in its capital base; the same, however, in view of the augmentation via the Rs. 400-crore rights issue in July 2025 (partly paid to the extent of Rs. 200 crore with the company having the right to make a capital call for the balance amount before March 2027) as well as the lower scale of operations remains comfortable. The managed gearing (consolidated) was at 2.1 times as of June 2025 and 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.

ICRA notes that NCDs outstanding of Rs. 293.6 crore were in breach of various covenants (tested on a quarterly basis; covenants relate to asset quality, profitability, etc.) as of June 2025, of which Rs. 223.0 crore got waiver². Overall, accelerated payment of Rs. 50.72 crore was made, based on requests from investors, after June 2025 (Rs. 127.4 crore in Q1 FY2026). Further, term loans of Rs.138 crore had breaches in the covenants, of which Rs. 71 crore received a waiver approval, but no payment has been requested as such. These covenant breaches were reported by the company as part of declaration of

¹ Operating cost/Net Interest Income

² Rs. 1,058 crore of NCDs were in breach of covenants as of March 2025, of which Rs. 728 crore is carried out covenant testing for profitability on annual basis, and Rs. 307 crore covenant testing is done on a quarterly basis. Of the NCDs with the covenant testing on annual basis, the company has received waivers for Rs. 575 crore till March 2026.

financial results for the quarter ended June 30, 2025. SSFL has been maintaining adequate liquidity with cash and cash equivalents of Rs. 1,653 crore as on June 30, 2025 (of which Rs. 999 crore constitutes free cash and bank balances).

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile – On a consolidated basis, the managed gearing was comfortable at 2.1 times as of June 2025 and 2.3 times as of March 2025, reducing from 2.8 times as of March 2024 due to the decline in AUM in FY2025 and Q1 FY2026. The disbursements have been muted in FY2025 and were paused during February–April 2025 to strengthen the controls, which has impacted the AUM. However, the company restarted disbursements from May 2025, and the AUM is expected to stabilise and improve hereon. Overall, the sizeable losses have resulted in a significant reduction in its capital base; the same, however, in view of the augmentation via the Rs. 400-crore rights issue in July 2025 (partly paid to the extent of Rs. 200 crore with the company having the right to make a capital call for the balance amount before March 2027) as well as the lower scale of operations remains comfortable.

ICRA notes that the SSFL Tier-I capital (Rs. 1,246 crore) is significantly lower than its net worth, due to deductions (Rs. 1,047 crore) primarily related to deferred tax, credit enhancement to Pass through certificates (PTCs) and investments/loans into Criss Financial Limited as of June 2025. SSFL's capital adequacy ratio stood at 36.9% as of June 2025 and 36.3% as of March 2025 (32.0% as of March 2024).

Diversified geographical presence – SSFL's consolidated AUM stood at Rs. 4,958 crore as of June 2025 (Rs. 6,819 crore as of March 2025 and Rs. 11,973 crore as of March 2024), catering to 20.4 lakh active borrowers through a network of 1,720 branches across 20 states and Union Territories. Its portfolio remains fairly diversified with no state accounting for more than 15% of the portfolio (standalone basis). The concentration of the top five states in the portfolio (standalone basis) was 58.8% as of June 2025 and 58.9% as of March 2025 (58.6% as of March 2024). As of June 2025, its largest state, Madhya Pradesh, accounted for 14.2% of the standalone portfolio, followed by Odisha (12.7%), Andhra Pradesh (11.9%), Bihar (11.2%) and Karnataka (8.8%). 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 by multiple factors, including elevated field attrition, over-indebtedness of borrowers, socio-political disruptions, its transition to the weekly collection model from the monthly model, etc and the stress was continued in Q1 FY2026 as well. The monthly collection efficiency³ continued to be lower at 90.0% as of June 2025 and 90.6% as of March 2025 vis-à-vis 98.5% as of March 2024. The consolidated write off was high at Rs. 642 crore in Q1 FY2026 and Rs. 1,618 crore in FY2025. Despite this, the 0+ and 30+ delinquencies (consolidated) remain elevated at 16.5% and 13.4%, respectively, as of June 2025 (17.4% and 14.8%, respectively, in March 2025). As of July 2025, 21.0% of SSFL's borrowers had availed loans from more than three microfinance lenders⁴. 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 the 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.

³ Percentage of outstanding receivables collected within a specific period (Current collections/Current demand)

⁴ Source: Company; based on credit bureau data

Higher credit and operating costs impacting profitability in the near term – SSFL reported a consolidated loss of Rs. 360.2 crore, translating into a return on managed assets (RoMA) of -16.8% in Q1 FY2026, and a loss of Rs. 1,035.2 crore and RoMA of -8.6% in FY2025 (profit after tax, or PAT, of Rs. 500.7 crore and RoMA of 4.1% in FY2024). Credit costs increased to 19.7% in Q1 FY2026 and 16.5% in FY2025 from 1.5% in FY2024 due to technical write-offs emanating from the deterioration in the asset quality. ICRA expects the credit costs to remain elevated over the next few quarters. The forward flow from the current bucket to the delinquent buckets is expected to start improving from Q3–Q4 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, its operating costs have witnessed an increase and would remain relatively higher in the near term. Overall, SSFL's profitability metrics are expected to be significantly impacted by the above in the near term.

Critical to strengthen funding profile – The company has not drawn any incremental funding in Q1 FY2026, due to adequate liquidity. It had raised about Rs. 4,482 crore in FY2025 (Rs. 10,441 crore in FY2024) from its lenders. As of June 2025, it had relationships with 51 lenders, including 25 non-banking financial companies (NBFCs)/financial institutions, 23 banks and two development financial institutions (DFI) and one foreign portfolio investor (FPI).

ICRA also notes that SSFL's cost of borrowing remains elevated. Its marginal cost of borrowing, after declining over the last few quarters, increased to 11.7% in Q3 FY2025 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 55% as of June 2025 and 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, or ECBs, and capital market sources, etc) stood at 45% as of June 2025 and 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. 1,653 crore (of which Rs. 999 crore constitutes free cash and bank balances) as on June 30, 2025. SSFL's total scheduled debt obligation over the next three months (July–September 2025) is Rs. 1,206 crore. The cumulative collection is expected to be about Rs. 1,264 crore (July–September 2025), providing support to the liquidity profile.

ICRA notes that NCDs outstanding of Rs. 293.6 crore were in breach of various covenants (tested on a quarterly basis; covenants relate to asset quality, profitability, etc.) as of June 2025, of which Rs. 223.0 crore got waiver⁵. Overall, accelerated payment of Rs. 50.72 crore was made, based on requests from investors, after June 2025 (Rs. 127.4 crore in Q1 FY2026). Further, term loans of Rs.138 crore had breaches in the covenants, of which Rs. 71 crore received a waiver approval, but no

⁵ Rs. 1,058 crore of NCDs were in breach of covenants as of March 2025, of which Rs. 728 crore is carried out covenant testing for profitability on annual basis, and Rs. 307 crore covenant testing is done on a quarterly basis. Of the NCDs with the covenant testing on annual basis, the company has received waivers for Rs. 575 crore till March 2026.

payment has been requested as such. 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 (see Annexure II).

About the company

Spandana Sphoorty Financial Limited was incorporated in 2003 as a non-banking financial company. 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, the company entered into a master restructuring agreement (MRA) as 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. The company has a nine-member board of directors, including five independent directors.

Key financial indicators

Spandana Sphoorty Financial Limited (standalone)	FY2024	FY2025	Q1 FY2026
Total income	2,386.7	2,245.2	264.2
PAT	467.9	(956.7)	(328.9)
Total managed assets	13,852.4	9,040.3	7,086.9
Return on managed assets	3.9%	(8.4%)	(16.3%)
Managed gearing (times)	2.7	2.2	1.9
Gross stage 3	1.6%	4.9%	4.9%
CRAR	32.0%	36.3%	36.9%

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

Spandana Sphoorty Financial Limited (consolidated)	FY2024	FY2025	Q1 FY2026
Total income	2,510.8	2,424.1	304.1
PAT	500.7	(1,035.2)	(360.2)
Total managed assets	14,406.9	9,628.8	7,540.8
Return on managed assets	4.1%	(8.6%)	(16.7%)
Managed gearing (times)	2.8	2.3	2.1
Gross stage 3	1.7%	5.6%	5.5%
CRAR	-	-	-

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	Type	Current (FY2026)				Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Aug-26-2025	FY2026		FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
NCD	Long term	423.00	[ICRA]BBB+ (Negative)	Jun-11-2025	[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]BBB+ (Negative)	Jun-11-2025	[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	-	-	Jun-11-2025	-	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 sanction/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	1,195.44	[ICRA]BBB+(Negative)
Unutilised	Term loan	NA	NA	NA	909.56	[ICRA]BBB+(Negative)
INE572J07414	NCD	Aug-01-2022	12.29%	Aug-01-2028	23.00	[ICRA]BBB+(Negative)
INE572J07703	NCD	Mar-28-2024	9.81%	Apr-02-2026	100.00	[ICRA]BBB+(Negative)
Yet to be placed	NCD	-	-	-	300.00	[ICRA]BBB+(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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