October 04, 2022

Criss Financial Limited (erstwhile Criss Financial Holdings Limited): Ratings reaffirmed; Removed from Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	200.00	200.00	[ICRA]BBB reaffirmed; Removed from Watch with Developing Implications and Stable outlook assigned
Market linked debentures	100.00	100.00	PP-MLD[ICRA]BBB reaffirmed; Removed from Watch with Developing Implications and Stable outlook assigned
Total	**300.00**	**300.00**	

**Instrument details are provided in Annexure I*

Rationale

Criss Financial Limited's (Criss) ratings have been removed from Watch with Developing Implications, following a similar rating action on Spandana Sphoorty Financial Limited {SSFL; rated [ICRA]A- (Stable)}, which holds a 98.5% equity stake in Criss. SSFL's rating was removed from watch with developing implications, following the resolution of the disputes between the company and its promoter and erstwhile Managing Director (MD) & Chief Executive Officer (CEO) – Ms. Padmaja Reddy, with a settlement agreement being entered into in June 2022. The settlement enabled the company to retrieve its old systems and servers with all legacy data intact. Further, the disputes related to various related party transactions at Criss Financial Limited have also been settled.

Criss primarily disburses non-qualifying microfinance loans and loan against property (LAP), which constituted about 70% and 25% of its total loan portfolio, respectively, as of March 2022. Apart from this, its loan products include personal loans, interim loans and other loans, which together constituted the balance 5% of the loan portfolio as of March 2022. However, the gold loan portfolio, which accounted for 6% of the total loan portfolio as of March 2021 declined to nil by March 2022. This is because the operational control of all the gold loan branches was taken over by Spandana Mutual Benefit Trust (SMBT), an entity controlled by Ms. Reddy. In June 2022, SSFL entered into a settlement with Ms. Reddy and Criss received its dues along with interest against the gold loans transferred to SMBT.

ICRA continues to believe that the company will benefit from the management and financial support from the parent. SSFL's current senior management team is actively involved in Criss' day-to-day business and operations. Criss' board comprises members from SSFL's board. In addition to this, SSFL has extended a line of credit (current limit of Rs. 200 crore) and a corporate guarantee (up to Rs. 250 crore) against Criss' external borrowings. ICRA draws comfort from the financial flexibility arising from the company's parentage and the expected timely support from SSFL, when required.

Criss has an adequate capital profile currently, with a net worth of Rs. 153.3 crore and a managed gearing of 1.7 times as on March 31, 2022. Over the medium term, the company intends to restrict its leverage with a managed gearing of less than 4.0-4.5 times. Given the company's targeted annual portfolio growth rate of 10-15% over the next three years, ICRA does not expect any significant requirement for incremental equity capital. Nevertheless, if needed, ICRA expects timely support from SSFL to help Criss with its portfolio growth and capital profile.

The ratings continue to factor in Criss' small scale and geographically concentrated operations. ICRA also takes note of the increase in the company's delinquencies in FY2022 (90+ days past due (dpd) stood at 8.7% in March 2022 vis-à-vis 1.9% as of

March 2021) as field activities were disrupted and collections were affected by the lack of access to the erstwhile information technology (IT) systems and historical borrower data. The gross non-performing assets (GNPAs) and net NPAs (NNPAs) stood at 9.2% and 6.1%, respectively, as of March 2022 (1.1% and 0.9%, respectively, as of March 2021). The pressure on the asset quality in FY2022 and the incremental provisions created during the year impacted Criss' return on average managed assets (RoMA), which moderated to 5.5% in FY2022 from 5.7% in FY2021 and 10.3% in FY2020.

Key rating drivers and their description

Credit strengths

Support from SSFL – Criss is a 98.5%-subsidiary of SSFL. ICRA believes that the company will benefit from the management and financial support from the parent. Post the exit of the erstwhile MD of SSFL, who was also a Director at Criss, SSFL's present senior management team is actively involved in Criss' day-to-day business and operations. Further, Criss' board comprised members from SSFL's board. Going forward, a separate senior management team is expected to be put in place in view of the company's growth plans.

The company's financial flexibility is supported by a line of credit from SSFL (upper limit capped at Rs. 200 crore). Criss' external borrowings are backed by a corporate guarantee from SSFL (76% of outstanding external borrowings as on March 31, 2022) up to a limit of Rs. 250 crore. The business synergies with the parent are expected to help Criss scale up its operations and diversify geographically, going forward.

Adequate capital structure – Criss' gearing and total capital adequacy ratio stood at 1.7 times (managed basis) and 36.7%, respectively, as of March 2022 (2.0 times and 33.3%, respectively, as on March 31, 2021). Its capitalisation is supported by equity infusions from the parent (Rs. 25 crore in FY2019 and Rs. 50 crore in FY2021) and steady internal capital generation. The company is expected to keep its leverage less than 4.0-4.5 times in the medium term and ICRA expects timely support from SSFL, if required, to help with its portfolio growth and capital profile.

Credit challenges

Small scale and geographically concentrated operations – The company's scale of operations is small with limited geographical diversification. Currently, Criss' operations are concentrated in two states, i.e. Andhra Pradesh (AP; 73.7% of the portfolio as on March 31, 2022) and Telangana (26.3%), which accentuates the risks associated with geographical concentration. Further, as on March 31, 2022, Criss had a presence in only 19 districts (16 as on March 3, 2021), indicating high portfolio concentration even at the district level, with the top district contributing 10.8% to the total portfolio. The company envisages assets under management (AUM) of ~Rs. 550 crore by March 2023 with the gradual scale-up of the secured (LAP) portfolio. Criss' ability to increase its member base, recruit and retain employees, and augment its geographical diversity would be key for achieving the envisioned growth.

Asset quality pressures remain monitorable – Criss' 90+dpd increased to 8.7% in March 2022 from 5.4% in December 2021 and 1.9% in March 2021 (0.0% in March 2020). The steady increase in delinquencies during this period was due to the disruptions caused by the second wave of the Covid-19 pandemic in Q1 FY2022 as well as the lack of access to the historical borrower data in the erstwhile IT systems prior to September 30, 2021. This impacted collections from existing borrowers in H2 FY2022. Criss restructured Rs. 0.70 crore of its portfolio in FY2022. The NNPAs stood at 6.1% as of March 2022 (0.91% as of March 2021 and 0.03% as of March 2020). Delinquencies remained higher in the LAP segment with the 90+dpd at 13.6% as on March 31, 2022 (3.8% as on March 31, 2021). Total provisions stood at Rs. 16.0 crore as of March 2022 (4.0% of the total loan portfolio as of March 2022) compared to Rs. 2.5 crore as of March 2021.

Criss' microfinance book is vulnerable to socio-political and operational risks, which could negatively impact the operations and financial position of entities with exposure to this sector, including Criss. The industry risks are further accentuated by the company's geographically concentrated portfolio. It currently has exposure to higher-ticket LAP with a maximum exposure of Rs. 0.54 crore as on March 31, 2022. However, going forward, Criss is likely to focus on lower ticket size loans with an average ticket size of up to Rs. 1.5-5 lakh. Criss' performance in the secured asset segment remains a key monitorable.

Earnings impacted in FY2022; expected to remain subdued in the near term due to elevated credit costs – Criss reported a net profit of Rs. 23.1 crore in FY2022, translating into a RoMA of 5.5% and a return on average net worth (RoNW) of 16.3% compared to 5.7% and 17.4%, respectively, in FY2021 (10.3% and 26.6%, respectively, in FY2020). The profitability in FY2022 was impacted by the increase in the credit provision costs to 3.4% of the average managed assets (AMA) from 1.3% in FY2021. Similarly, operating expenses (as a percentage of AMA; annualised) increased to 3.7% in FY2022 from 2.3% as of FY2021. The increase was largely on account of the augmentation of the branches in H1 FY2022. However, lower growth, especially in H2 FY2022, impacted Criss' operating leverage. In Q1 FY2023, credit costs increased further to Rs. 6.6 crore (47% of the credit costs in FY2022) on account of write-offs. Despite improving to 8.6% and 5.7%, respectively, as of June 2022 from 9.18% and 6.09%, respectively, as of March 2022, the GNPAs and NNPAs for Criss, remain stretched. Accordingly, the company's profitability is expected to be subdued in the near term.

Liquidity position: Adequate

Criss had Rs. 1.1 crore of on-book liquidity as on August 31, 2022 and a line of credit of Rs. 200 crore from SSFL (unutilised limits stood at Rs. 75.7 crore as of August 31, 2022). This is adequate to meet its expected debt obligations of Rs. 72.9 crore (excluding payouts against direct assignment transactions) till January 2023. As on March 31, 2022, Criss' total borrowings stood at Rs. 253.7 crore (term loans from banks at 7.6%, term loans from financial institutions at 40.1%, market linked debentures at 7.8% and inter-corporate loans from SSFL at 44.6% of the overall borrowings).

SSFL has extended a line of credit (current limit of Rs. 200 crore) and a corporate guarantee (up to Rs. 250 crore) against Criss' external borrowings. ICRA draws comfort from the financial flexibility arising from the company's parentage and the expected timely support from SSFL, when required. It is critical for Criss to diversify its funding sources to secure the required funds in a timely manner for maintaining a comfortable liquidity profile as the business expands.

Rating sensitivities

Positive factors – ICRA could upgrade Criss' ratings if there is an improvement in SSFL's credit profile or if Criss demonstrates a steady portfolio growth while maintaining a good earnings profile.

Negative factors – Pressure on Criss' ratings could arise if there is a material deterioration in SSFL's credit profile. An increase in the leverage beyond 6 times on a sustained basis or a material deterioration in the asset quality, impacting the earnings profile, would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for NBFCs Impact of Parent or Group Support on Issuer's Rating
Parent/Group support	The ratings factor in the high likelihood of the parent, SSFL, extending financial support because of 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 largely held by Ms. Padmaja Reddy before it was acquired by SSFL in FY2019, which currently holds a 98.45% equity stake. Criss primarily disburses non-qualifying microfinance loans and loan against property (LAP), which constituted about 70% and 25% of its total loan portfolio, respectively, as of March 2022. Apart from this, its loan products include personal loans, interim loans and other loans, which together constituted the balance 5% of the loan portfolio as of March 2022.

Key financial indicators (audited)

Criss Financial Limited	FY2020	FY2021	FY2022
Total income	34.7	54.8	100.4
Profit after tax/(loss)	15.0	16.9	23.1
Net worth	64.2	130.2	153.3
Total managed portfolio	168.4	390.8	367.8
Total managed assets	185.8	412.5	423.4
Return on managed assets	10.3%	5.7%	5.5%
Return on net worth	26.6%	17.4%	16.3%
Gearing (times)	1.8	2.0	1.7
Gross NPA	0.03%	1.12%	9.18%
Net NPA	0.03%	0.91%	6.09%
Capital adequacy ratio	35.02%	33.26%	36.7%

Source: Company's financial statements; 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 (FY2023)					Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2023		FY2022		FY2021	FY2020
					Oct 04, 2022	Jun 17, 2022	Nov 10, 2021	Jun 18, 2021	Jun 19, 2020	Jan 07, 2020
1	**Term loan**	Long term	200.0	200.0	**[ICRA]BBB (Stable)**	**[ICRA]BBB&**	**[ICRA]BBB&**	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**
2	**MLD**	Long term	100.0	100.0	**PP-MLD[ICRA] BBB (Stable)**	**PP-MLD[ICRA] BBB&**	**PP-MLD[ICRA] BBB&**	**PP-MLD[ICRA]BBB (Stable)**	-	-

& - Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Term loans (proposed)	Simple
Principal protected market linked non-convertible debentures	Moderately Complex
Principal protected market linked non-convertible debentures (proposed)	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	3-Feb-21	13.42%	1-Feb-23	2.41	[ICRA]BBB (Stable)
NA	Term loan	23-Mar-21	12.90%	5-Jan-23	2.50	
NA	Term loan	27-Mar-21	14.25%	20-Mar-23	0.82	
NA	Term loan	25-Mar-21	13.25%	25-Dec-22	0.86	
NA	Term loan	30-Mar-21	13.65%	5-Jan-23	5.29	
NA	Term loan	30-Mar-21	13.75%	5-Jan-23	0.73	
NA	Term loan	30-Mar-21	13.75%	30-Dec-22	0.73	
NA	Term loan	31-Mar-21	13.00%	10-Dec-22	2.50	
NA	Term loan	20-Aug-21	13.90%	10-Jun-23	1.12	
NA	Term loan	31-Aug-21	12.50%	5-Jun-23	5.65	
NA	Term loan	2-Sep-21	13.90%	5-Mar-24	5.18	
NA	Term loan	2-Sep-21	12.50%	5-Mar-24	21.10	
NA	Term loan	7-Sep-21	12.50%	7-Sep-23	2.34	
NA	Term loan	7-Sep-21	12.40%	7-Sep-23	2.06	
NA	Term loan	7-Sep-21	12.40%	7-Sep-23	2.06	
NA	Term loan	7-Sep-21	12.40%	7-Sep-23	2.06	
NA	Term loan	3-Feb-21	12.40%	1-Feb-23	0.40	
NA	Term loan (proposed)	NA	-	NA	142.17	
INE02EP07020	Market linked debenture (MLD) programme	15-Jun-21	10 YR GSEC LINKED	15-Jul-23	12.0	PP-MLD[ICRA]BBB (Stable)
INE02EP07012	MLD programme	15-Jun-21	10 YR GSEC LINKED	15-Jan-23	6.0	
NA	MLD programme (proposed)	-	-	-	82.0	

Source: Company; NA – Details not available

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	-	-

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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