SPANDANA

Ref: SSFL/Stock Exchange/2024-25/092

October 03, 2024

To
BSE Limited,
Department of Corporate Services
P. J. Towers, 25th Floor,
Dalal Street,
Mumbai – 400001

Scrip Code: 542759

To
National Stock Exchange of India Limited,
Listing Department
Exchange Plaza, C-1, Block G
Bandra Kurla Complex, Bandra (E)
Mumbai – 400051

Symbol: SPANDANA

Dear Sir/Madam,

Subject: Intimation of Credit Rating- Rating limits enhanced; Ratings reaffirmed by CARE Ratings Ltd.

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform that CARE Ratings Ltd. has enhanced limits and reaffirmed the ratings for various instruments of the Company as detailed below:

S. No.	Facilities/ Instruments	Amount (Rs. crore)	Rating Action
1.	Long Term Bank Facilities	1,500 (Enhanced from 1,000)	Limit enhanced and rating reaffirmed CARE A+ (Stable)
2.	Non-Convertible Debentures	200	Assigned; CARE A+ (Stable)
3.	Non-Convertible Debentures	500	Reaffirmed; CARE A+ (Stable)
4.	Commercial Paper	100	Reaffirmed; CARE A1+ (Stable)

Please find enclosed rationale as published by CARE Ratings Ltd. on September 30, 2024.

Kindly take the same on record.

Thanking You.

Yours Sincerely,
For Spandana Sphoorty Financial Limited
VINAY PRAKASH TRIPATHI
Digitally signed by VINAY PRAKASH TRIPATHI
Date: 2024.10.03 12:50:55 +05'30'
Vinay Prakash Tripathi
Company Secretary

Encl: as above

Spandana Sphoorty Financial Limited

September 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,500.00 (Enhanced from 1,000.00)	CARE A+; Stable	Reaffirmed
Non Convertible Debentures	200.00	CARE A+; Stable	Assigned
Non Convertible Debentures	500.00	CARE A+; Stable	Reaffirmed
Commercial Paper	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating of the commercial paper (CP), non-convertible debentures (NCD) and bank term loans of Spandana Sphoorty Financial Limited (SSFL) is based on the company's healthy growth in loan portfolio of ₹11,973 crore (on a consolidated basis) as on March 31, 2024, healthy liquidity profile, comfortable capitalisation position with low gearing levels as compared to peers, diversified resource profile with increasing share of bank borrowings owing to stabilization and strengthening of management team and geographically diversified AUM as on June 30, 2024.

However, these rating strengths are partially offset by the ongoing stress in the Micro-Finance industry (MFI) due to increasing borrower indebtedness and the weakening of the Joint Liability Group (JLG) model, debt-waiver campaigns, continued high attrition rate at field staff level and heat wave effect, impacting the company's loan book growth, asset quality and profitability metrics. Owing to rise in delinquencies in Q1FY25 and consequent uptick in the credit costs and operating costs, profitability of SSFL has been impacted with decline in annualized RoTA to 1.72% vis-à-vis 4.47% in FY24. Asset quality after improving significantly in FY24, has deteriorated in Q1FY5, with gross NPA (GNPA) rising from 1.68% as on March 31, 2024 to 2.89% as on June 30, 2024.

Going forward, CARE Ratings anticipates a moderation in loan book growth considering the ongoing MFI stress. Additionally, rising credit costs are expected to exert further pressure on profitability, Company's ability to maintain its financial flexibility in the current environment will remain key rating monitorable.

Rating sensitivities

Positive factors – Factors that could individually or collectively lead to positive rating action/upgrade:

- Significant scale-up of operations while maintaining credit cost remaining below 2%.
- Substantially diversifying lender mix with the company able to raise funds at competitive rates

Negative factors – Factors that could individually or collectively lead to negative rating action/downgrade:

- Weakness in capitalisation profile with asset under management (AUM) to net worth rising 5x.
- Weakness in profitability metrics with return on total assets (RoTA) below 1.5%.
- Rise in gearing level above 4x

Analytical approach: Consolidated. CARE Ratings Limited (CARE Ratings) has adopted a Consolidated approach for SSFL. Please refer Annexure 6.

The list of subsidiary companies is as follows:
- Caspian Financial Services Limited
- Criss Financial Limited

Outlook: Stable

The Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that SSFL will continue to grow the loan book while maintaining the asset quality under control.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers
Key strengths

Healthy growth in FY24, however, growth expected to moderate in FY25
Post exit of the erstwhile Managing Director and promoter, Padmaja Gangireddy in FY22, the top and middle management of SSFL has largely stabilised over the past two years with Shalabh Saxena and Ashish Damani taking charge as the company's MD/ CEO and President/ CFO, respectively.
SSFL has always focused on microfinance segment with 93% of AUM as on June 30, 2024 invested in microfinance business on a consolidated basis. The consolidated AUM of SSFL grew by 41% in FY24 from Rs. 8,511 crore in FY23 to Rs. 11,973 crore amidst expansion of the branches and additions in the borrowers in new geographies. However, the same shrinked by ~2% in Q1FY25 to Rs. 11,723 crore as on June 30, 2024 owing to lower disbursements.

Total disbursement in FY24 stood at ₹10,688 crore vis-à-vis ₹8,125 crore in FY23 while the same were Rs. 2,283 crore in Q1FY25. The disbursements were muted due to stress seen in the MFI sector due to rising indebtedness, general elections, higher attrition rate at branch manager level and heat wave in Q1. Trend was largely in line with the industry wherein MFI book has degrown by 2.01% in Q1FY25, primarily due to increasing borrower indebtedness and the weakening of the Joint Liability Group (JLG) model.

Going forward, CARE Ratings expects the loan book and disbursements of the company to be muted amidst the ongoing stress in MFI sector.

Healthy capitalisation supported by equity infusion and strong investor base
SSFL is backed by marquee PE player i.e. Kedaara Capital which holds 48.13% stake in it (directly and indirectly through its special purpose vehicle (SPV) i.e. Kangchenjunga Limited) as on June 30, 2024. Further, SSFL has submitted an application with the exchanges for re-classification of the promoters Padmaja Gangireddy and Vijaya Sivarami Reddy Vendidandi (holding 8.72% holding as on June 2024) to public shareholders.

The capitalization of SSFL remains comfortably well above regulatory benchmark, though the same has come down in FY24 to 31.95% Capital Adequacy Ratio (CAR)% from 36.87% in FY23. As the loan book of the company increase, its risk weighted assets increased which negatively impacted its CAR%.

In FY24, the gearing level of the company rose from 2.11x as on March 31, 2023 to 2.70x in FY24. However, the same fell to 2.53 times in Q1FY25 owing to fall in borrowings and internal accruals. Going forward, CARE Ratings expects the Company to maintain a gearing level below 4x level in the mid term.

Robust profitability in FY24, though moderation seen in Q1FY25
In FY24, the company earned profit after tax (PAT) of ₹500.72 crore as compared to ₹12.39 crores in FY23.
Higher profitability was on account of lower credit costs of ₹283 crore recorded in FY24 owing to excess provisioning in FY23. The operating expenses (Opex) ratio slightly increased in FY24 to 5.84% from 5.70% in FY23 as the company has expanded its operations owing to expansion of business in new geographies and opening up of new branches. The company opened 463 new branches in FY24 and further 23 branches in Q1FY25 taking the total count to 1,665 branches, as on June 30, 2024. Operating expenses are expected to continue remaining high in the near term, with the company being in expansion phase.
Driven by improved NIMs, rise in income from direct assignment and controlled credit costs, RoTA stood at 4.47% in FY24 (versus 0.15% in FY23).
With increased slippages and write offs in Q1FY25 amidst stress in MFI sector and rising indebtedness amongst borrowers, credit costs to average assets sharply increased to 6.46% in Q1FY25 (versus 2.32% in FY24). Owing to higher opex, compression in fee & other income and DA income and hike in credit costs, the annualized RoTA for Q1FY25 shrinked to 1.72%.

Going forward, the credit costs may further increase in H1FY25 and CARE Ratings expects a further moderation in profitability.

Diversified resource profile with increasing reliance on bank borrowings
SSFL has a diversified lender mix with lending relationships with 54 lenders including 28 NBFCs/ financial institutions, 21 private sector banks/ small finance banks, 4 public sector banks and 1 foreign private investor. The share of funding from banks (as a part of consolidated borrowings) has been increasing over years and stood at 57.9% as on June 2024 as against 55.7% as on March 31, 2024 and 40.2% as on March 2023. The increased share of bank borrowings can be attributed to stabilization in the management team and its impact on company's operations in the past few years. CARE Ratings notes that SSFL plans to keep the share of bank borrowings in the range of 50% to 60% in mid term.
The share of NBFCs has increased from 8.7% in FY22 to 22.8% in Q1FY25 while the share of NCDs (capital market exposure) has reduced from 39.0% as on March 31, 2023 to 17.4% as on June 2024.

The company, on a consolidated level, raised an additional ₹1,554 crore in the form of term loans, NCD and PTCs in Q1FY25 while, on a standalone level, the company raised funds amounting to Rs. 1,460 crore in Q1FY25.
The average cost of funds is 10.66% while incremental cost of borrowing is around 9.96% for funds raised in Q1FY25.
Going forward, CARE Ratings expects some uptick in the incremental borrowing costs and the ability to maintain the share of bank borrowings amidst the stress in sector remains a key monitorable.

Key weaknesses

Improvement in asset quality in FY24, though deterioration expected in FY25, considering the ongoing MFI stress
The microfinance industry is currently facing a significant rise in delinquencies, primarily driven by increasing borrower indebtedness and compounded by various factors, such as heatwaves, general elections, and political movements like the "Karja Mukti Abhiyan." This challenge is further aggravated by the weakening of the Joint Liability Group model, characterized by a notable decrease in center attendance, diminished peer pressure and collective accountability, which have historically helped maintain low default rates.

The gross non-performing assets (GNPAs) of SSFL (on a consolidated level) has declined from 2.22% in FY23 to 1.68% as on March 31, 2024 owing to recoveries/ write offs. Given the provisions carried by the company, the net NPAs were low at 0.34% as on March 31, 2024 compared to 0.70% as on March 31, 2023.

However, due to additional slippages in Q1FY25, GNPA increased to 2.89% and NNPA increased to 0.60%. Net stressed assets to net advances *[(Net NPA+ Standard Restructured Assets (net off provisions) + Amount of securities received by ARC)/ (Total Gross Advances – Closing Provision on NPA– Provision on standard restructured assets - Provision for Impairment loss allowance)]* slightly increased from 1.35% in FY24 to 1.59% as on June 30, 2024. The provision coverage on NPAs have increased from 69.06% in FY23 to 79.67% in Q1FY25, due to stress in MFI sector.

Going forward, Company's ability to maintain its asset quality amidst the ongoing stress remain key rating monitorable

Inherent industry risks
The microfinance sector continues to be impacted by the inherent risk involved. These include socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending and marginal profile of borrowers who are vulnerable to economic downturns besides operational risks related to cash-based transactions. Also, across the MFI sector, there is a rise in delinquencies during Q1FY25 owing to rising indebtedness amongst over-leveraged borrowers, debt-waiver campaigns, continued high attrition rate at field staff level and heat wave effect, a trend that is expected to persist into the next quarter, raising concerns about borrowers' repayment capabilities. This increase in delinquencies poses risks to the growth trajectory of NBFC-MFIs and their profitability metrics as we navigate this challenging environment.

Liquidity: Adequate

The company has an adequate liquidity position given short tenure of its advances, viz., microfinance loans of 17-25 months, with high quality liquid assets (HQLA) of Rs. 1385.55 crore as on March 2024.
According to asset liability management statement as on June 30, 2024, SSFL has no negative cumulative mismatches in any time bucket. As on June 30, 2024, it has liquidity of ₹1,098 crore in the form of free cash in hand. Also, as per the ALM statement, the company has advances of up to six months of ₹ 4,058 crore as against debt of up to six months of ₹ 3,252 crore.

Environment, social, and governance (ESG) risks

SSFL has implemented corporate social responsibility (CSR) programmes that are designed to create a positive impact on the communities where company operates. For this, SSFL has established 65 tailoring training centres specifically for rural women and girls across 10 states. These centres offer a comprehensive 90-day skill development programme in tailoring along with Financial and Digital literacy module. Also, the company carries CSR activities on continuous basis, such as installing four community water centres, promoting clean and affordable energy, conducting digital and financial literacy (DFL) programmes, and comprehensive support to underprivileged citizens by ensuring access to various government welfare schemes.

Applicable criteria

Consolidation
Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Short Term Instruments
Non Banking Financial Companies

About the company

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Financial Institution

SSFL was incorporated on March 10, 2003 under the provisions of the Companies Act, 1956 and was registered as on non-deposit accepting NBFC with the RBI and was classified as an NBFC-MFI effective April 13, 2015. The company is engaged in undertaking microfinance loans business in India in a joint liability group (JLG) and loan against property (LAP) lending model. The company provides micro loans with a tenure of 1-2 years to women borrowers from low-income households for income generation activities like agriculture, handlooms & handicrafts, cattle raring, cottage industries & micro entrepreneurial ventures like tailoring, grocery stores amongst others, education and healthcare. The company has two subsidiaries, Caspian Financial Services Limited (CFSL) and Criss Financial Limited (CFL). As on June 30, 2024, the company operates in 19 states and 1 union territory with consolidated AUM of ₹11,723 crores.

Brief Financials (₹ crore) (Consolidated)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	1,438.46	1,438.29	2,510.78	734.03
PAT	69.83	12.39	500.72	55.70
Interest coverage (times)	1.20	1.06	1.75	1.31
Total assets*	6,867.65	9,163.62	13,227.42	12,629.10
Net NPA^ (%)	11.38	0.65	0.34	0.60
ROTA (%)	0.91	0.15	4.47	1.72

A: Audited; UA: unaudited
*excludes deferred tax assets and intangible assets
^CARE Ratings calculated

Brief Financials (₹ crore) (Standalone)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	1,391.60	1,394.45	2,406.91	689.33
PAT	46.64	12.34	467.88	51.29
Interest coverage (times)	1.14	1.06	1.72	1.30
Total assets*	6,675.37	8,992.03	12,743.05	NA
Net NPA^ (%)	10.95	0.62	0.32	NA
ROTA (%)	0.63	0.16	4.31	NA

A: Audited; UA: unaudited, NA: Not Available
*excludes deferred tax assets and intangible assets
^CARE Ratings calculated

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Not applicable

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
NCD	INE572J07711	12-Sep-2024	9.84%	28-Jun-2026	100.00	CARE A+; Stable
Commercial Paper-Commercial Paper	Proposed	-	-	-	100.00	CARE A1+
Fund-based - LT-Term Loan	-	-	-	28-Aug-2026	1500.00	CARE A+; Stable
NCD	INE572J07711	02-Aug-2024	9.84%	28-Jun-2026	150.00	CARE A+; Stable
NCD	INE572J07711	28-Jun-2024	9.84%	28-Jun-2026	75.00	CARE A+; Stable
NCD	INE572J07729	10-Jul-2024	10.75%	10-Jul-2026	55.00	CARE A+; Stable
NCD	INE572J07737	14-Aug-2024	10.50%	14-Apr-2027	50.00	CARE A+; Stable
NCD	INE572J07752	05-Sep-2024	10.75%	15-Apr-2027	50.00	CARE A+; Stable
NCD	Proposed	-	-	-	220.00	CARE A+; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	-	1)CARE A1+ (21-Mar-24)	-	-
2	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable	-	1)CARE A+; Stable (21-Mar-24)	-	-
3	Fund-based - LT-Term Loan	LT	1500.00	CARE A+; Stable	-	1)CARE A+; Stable (21-Mar-24)	-	-
4	Debentures-Non Convertible Debentures	LT	200.00	CARE A+; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Criss Financial Limited	Full	Subsidiary
2	Caspian Financial Services Limited	Full	Wholly owned Subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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