SPANDANA

Ref: SSFL/Stock Exchange/2024-25/100

October 21, 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- Rated amount enhanced; Ratings reaffirmed for existing instruments of the Company by ICRA Limited.

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform that ICRA Limited has enhanced rated amount of non-convertible debentures and reaffirmed the ratings for various instruments of the Company as detailed below:

S. No.	Facilities/ Instruments	Previously rated amount (Rs. crore	Current rated amount (Rs. crore)	Rating Action
1.	Long – term fund based – Term loan	2,105.00	2,105.00	(ICRA) A+(Stable); reaffirmed
2.	Non-Convertible Debentures	223.00	223.00	(ICRA) A+(Stable); reaffirmed
3.	Non-Convertible Debentures	35.00	0.00	(ICRA) A+(Stable); reaffirmed and withdrawn
4.	Non-convertible debentures	0.00	200.0	(ICRA) A+(Stable); assigned

Please find enclosed rationale as published by ICRA Limited on October 18, 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: 2024.10.21 15:51:00 +05'30'

Vinay Prakash Tripathi
Company Secretary

Encl: as above

October 18, 2024

Spandana Sphoorty Financial Limited: Rated amount enhanced; Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	2,105.00	2,105.00	[ICRA]A+ (Stable); reaffirmed
Non-convertible debentures	223.00	223.00	[ICRA]A+ (Stable); reaffirmed
Non-convertible debentures	35.00	0.00	[ICRA]A+ (Stable); reaffirmed and withdrawn
Non-convertible debentures	0.00	200.0	[ICRA]A+ (Stable); assigned
Total	**2,363.00**	**2,528.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in the comfortable capitalisation profile of Spandana Sphoorty Financial Limited (SSFL) and its diversified geographical presence. SSFL's capital adequacy ratio stood at 32.7% as of June 2024, which remains well above the regulatory requirements. On a consolidated basis, the managed gearing was comfortable at 2.5 times as of June 2024 (2.8 times as of March 2024), providing adequate capital buffers.

SSFL has witnessed a sharp deterioration in its asset quality on account of operational disruptions arising from multiple factors such as the heat wave, general elections, high employee attrition in key states and transition to the weekly collection model from the existing monthly model. Further, ICRA also takes note of the stress in the microfinance sector overall, driven by increasing borrower indebtedness, political movement such as Karza Mukhti Abhiyan, etc. SSFL's gross stage 3 assets (consolidated) deteriorated to 2.9% as of June 2024 from 1.7% as of March 2024, while its 30+ days past due (dpd) delinquencies weakened to 5.8% from 3.0%. Consequently, the net profitability (return on average managed assets; RoMA) reduced to 1.6% in Q1FY2025 from 4.1% in FY2024 (0.1% in FY2023 and 0.8% in FY2022) on consolidated basis, due to increase in credit costs (credit and other provision costs stood at 5.9% in Q1FY2025 from 2.1% in FY2024). Incrementally, the asset quality performance is likely to remain under stress over the next few months, with some improvement expected from Q4 FY2025 onwards. As such, ICRA expects the profitability performance of the company to remain depressed in FY2025.The capital buffers at present however support the risk profile. Going forward, weaker than envisaged collections/recoveries and the consequent impact on profitability will be a key near-term monitorable.

SSFL's consolidated assets under management (AUM) stood at Rs. 11,723 crore as of June 2024, catering to 34.1 lakh active borrowers through a network of 1,665 branches spread across 20 states and union territories. Its portfolio remains diversified with no state accounting for more than 15% of the same. In the near term, disbursements and AUM growth are expected to remain muted, given the focus on bringing the asset quality performance under control.

The Stable outlook reflects ICRA's opinion that SSFL adequate liquidity along with a comfortable capital buffers would cushion the impact of the higher credit costs and consequent weaker profitability performance in the near term.

ICRA has reaffirmed and withdrawn the long-term ratings on the Rs. 35.00-crore non-convertible debenture (NCD) programme as the instruments have been fully redeemed with no amount outstanding against the same. The ratings have been withdrawn as per ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Diversified geographical presence – SSFL's consolidated AUM grew by 32.0% year-on-year (YoY) in Q1FY2025 and stood at Rs. 11,723 crore as of June 2024. SSFL's portfolio remains fairly diversified with no state accounting for more than 15% of the portfolio. The concentration of the top 5 states in the company's portfolio (on a standalone basis) was 58.8% as on June 30, 2024 (59.6% as on March 31, 2024). As on June 30, 2024, its largest state, Odisha, accounted for 13.6% of the standalone portfolio, followed by Madhya Pradesh (13.1%), Bihar (12.1%), Karnataka (10.0%) and Andhra Pradesh (9.9%). The company has identified seven states for scaling up and diversifying its AUM, which would bring down its geographical concentration further. High attrition has been seen in key states like Madhya Pradesh, Maharashtra, Rajasthan, Telangana and Gujarat. As of Jun 2024, the top 5 most impacted states contributed to 47% of its stage-2 portfolio and 59% of its stage-3 portfolio, though the AUM contribution from these states remain lower at 32%. Going forward, exposure to these high-risk states and that the performance in these geographies would be monitorable.

Comfortable capitalisation profile – SSFL's capital adequacy ratio stood at 32.7% as of June 2024 and remains well above the regulatory requirement of 15% and the leverage has been comfortable. On a consolidated basis, the managed gearing was comfortable at 2.5x as of June 2024 and 2.8x as of March 2024 (2.1x as of March 2023). SSFL's standalone managed gearing stood at 2.5x as of June 2024 and at 2.7x as of March 2024 due to decline in AUM. As such, the company has sufficient capital buffers (with a net worth of Rs. 3,707 crores as of June 2024) to meet incremental credit costs in the near term. The AUM growth is expected be muted for FY2025 but is expected to improve in subsequent years as the asset quality performance normalises. Overall, ICRA expects SSFL to maintain its consolidated managed gearing below 4.5x over the next two years.

Credit challenges

Pressure on asset quality; Risks associated with microfinance business– SSFL's gross stage 3 assets (standalone) has witnessed a sharp deterioration to 2.9% as of June 2024 from 1.6% as of March 2024 on account of operational disruptions arising from multiple factors such as the heat wave, general elections, high employee attrition in key states and transition to the weekly collection model from the existing monthly model. These events restricted movement of customers and employees, resulting in less availability for centre meetings which led to reduction in collection efficiency of the company from 96.7% in March 2024 to 93.7% as of June 2024. The company has taken some precautionary measures to improve its asset quality they have stopped acquisition of new-to-credit customers (addressing issues arising from multiple identity proof and other gaps in bureau information), new centre addition in 39% branches and paused new member acquisition in 14% branches across key states. SSFL reported a decline in consolidated RoMA to 1.6% in Q1 FY2025 from 4.1% in FY2024 as credit cost has increased from 1.5% in FY 2024 to 5.9% in Q1FY2025. Further, SSFL's lending rate was predominantly in the range of 24.0-26.0%, which has supported an improvement in its net interest margin to 12.3% in Q1FY2025 from 11.4% in FY2024 and 9.5% in FY2023, with a steady decline in its funding costs.

The ratings factor in the risks associated with the marginal borrower profile, unsecured lending, business and political risks, along with the challenges associated with a high pace of growth and attrition. The credit level resources have been put in branches, and bench strengths have been enhanced at the branches. SSFL has loans per borrower at about 1.17 vis-à-vis 1.91 as per the industry average as of June 2024; ~6% of AUM are the borrowers have borrowed from 5 or more lenders and ~11% have borrowed from 4 or more lenders as of August 2024. The average customer indebtedness of SSFL is ~Rs.42,000/- which is 76% of the industry average, while only 0.7% of the borrowers who has other MFI exposure of more than Rs.2,00,000/-as of June 2024.

ICRA notes the recent introduction of guardrails for microfinance lenders by MFIN, which would strengthen the underwriting practices of MFIs and support in reducing incremental credit flow to overleveraged borrowers. Incrementally, SSFL's ability to onboard borrowers with a good credit history, recruit and retain employees and maintain a geographically diversified portfolio would be key monitorable.

Increased credit costs to impact profitability in FY2025 – SSFL reported a consolidated profit after tax (PAT) of Rs. 55.7 crore, translating into RoMA of 1.6% for Q1 FY2025 (Rs 500.7 crore and 4.1% for FY2024 and Rs. 12.4 crore and 0.1%, respectively, for FY2023). The credit and other provision costs increased to 5.9% for Q1FY2025 from 2.1% FY2024 on the back of significant increase in credit provisioning (for portfolio slippages into stage-2 and stage-3) on account of the operational disruptions which impacted its asset quality performance. ICRA expects the credit costs to remain elevated over the next few months. Normalisation of collection efficiencies is expected from Q4FY2025 onwards; however, the extent of recoveries from its delinquent portfolio would be a key monitorable. Overall, SSFL's profitability metrics are expected to be impacted on account of the above in FY2025.

Ability to strengthen funding profile critical – SSFL's borrowing profile has improved steadily in the last 4-6 quarters, characterised by the addition of new lenders. The company raised about Rs. 1,460 crore in Q1FY2025 (Rs. 10,441 crore in FY2024) from its lenders. The marginal cost of borrowing has declined over the last five quarters and stood at 11.4% in Q1FY2025 which was at 11.9% as of Q4FY2024. On consolidated basis. However, SSFL's cost of borrowing is higher compared to some of the industry peers. ICRA notes that the share of bank borrowings on consolidated basis has improved to 59% as of June 2024 which was at 57% as of March 2024 from 45% as of March 2023; correspondingly, the combined share of the other relatively higher-cost borrowings (NBFCs, ECBs, and capital market sources, etc.) moderated to 41% as of June 2024 from 43% in March 2024 and 55% as of March 2023. Going forward, it is critical for SSFL to strengthen its funding profile, secure funding at competitive rates and achieve the targeted AUM over the near-to-medium term.

Environmental 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. Nevertheless, ICRA notes that SSFL has recently upgraded its loan management system software and is making further investments to create a stable infrastructure to minimise data breaches and safeguard stakeholder data.

Liquidity position: Adequate

The company has a cash and liquid investments of Rs. 1,580 crore and sanctioned undrawn bank lines of Rs. 487 crore as on August 31, 2024. SSFL's total debt obligation over the next three months (September 2024 - November 2024) is Rs. 2,026 crore. The on-book liquidity is sufficient to cover approximately three months of debt repayment obligations. The monthly average collection over the next few months is expected to be about ~Rs. 800-900 crore, providing support to the liquidity profile.

As of June 2024, SSFL had lending relationship with 54 lenders including 26 NBFCs/Financial Institutions, 21 private banks/ small finance banks, 4 public sector banks and 2 Development Financial Institution. Its funding profile (on a consolidated basis) comprised borrowings from banks (59%), financial institutions (FIs)/NBFCs (25%), Capital Markets (16%) as of June 2024.

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 – 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	Non-banking Financial Companies (NBFCs) Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are 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	Q1FY2025
Total income	1,355.8	2,386.7	686.9
Profit after tax	12.3	467.9	51.3
Total managed assets	9,933.3	13,852.3	13,250.5
Return on managed assets	0.1%	3.9%	1.5%
Managed gearing (times)	2.1	2.7	2.5
Gross stage 3	1.9%	1.6%	2.9%
CRAR	36.9%	32.0%	32.7%

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

Spandana Sphoorty Financial Limited (consolidated)	FY2023	FY2024	Q1FY2025
Total income	1,438.3	2,510.8	734.8
Profit after tax	12.4	500.7	55.7
Total managed assets	10,159.5	14,406.9	13,834.8
Return on managed assets	0.1%	4.1%	1.6%
Managed gearing (times)	2.1	2.8	2.5
Gross stage 3 assets	2.2%	1.7%	2.9%
CRAR	NA	NA	NA

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 Rating (FY2025)			Chronology of Rating History for the Past 3 Years				
			Amount Rated	Date & Rating in FY2025		Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022
			(Rs. crore)	Oct-18-2024	Jul-15-2024	Jan-15-2024	Dec-15-2023 Aug-18-2023	Mar-27-2023 Mar-01-2023	Sep-29-2022	Nov-10-2021
1	NCD	LT	223.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A-&
			200.00	[ICRA]A+ (Stable)	-	-	-	-	-	-
2	Term loan	LT	2,105.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A-&

LT – Long term; & - Rating watch with developing implications

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**	Sep-30-2021 to Oct-03-2024	NA	Jul-29-2024 to Oct-02-2026	384.01	[ICRA]A+(Stable)
Unutilised	**Term loan**	NA	NA	NA	1720.99	[ICRA]A+(Stable)
INE572J07414	**NCD**	Aug-01-2022	12.29%	Aug-01-2028	23.00	[ICRA]A+(Stable)
INE572J07703	**NCD**	Mar-28-2024	9.81%	Apr-02-2026	100.00	[ICRA]A+(Stable)
Yet to be placed	**NCD**	-	-	-	100.00	[ICRA]A+(Stable)
Yet to be placed	**NCD-Fresh**	-	-	-	200.00	[ICRA]A+(Stable)
INE572J07323	**NCD**	Mar-12-2021	11.49%	Mar-12-2024	35.00	[ICRA]A+(Stable); withdrawn

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	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 ratings

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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.

For more information, visit www.icra.in

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