Spandana Sphoorty Financial Limited

February 03, 2025

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The downgrade of ratings of the commercial paper (CP), non-convertible debentures (NCD) and bank term loans of Spandana Sphoorty Financial Limited (SSFL) factors in significant weakening of its earnings profile with the Company reporting net losses of Rs 601 crore in 9MFY25 amidst the ongoing microfinance stress. SSFL's performance in terms of profitability and asset quality has been impacted during 9M FY2025, on account of various issues including over-indebtedness of borrowers, dilution of credit discipline, elevation at field level attrition etc. CARE Ratings Limited (CARE Ratings) expects the headwinds to continue and its profitability and asset quality to remain muted in the near term. Furthermore, the entity has witnessed a contraction in its scale due to slowdown of disbursements, coupled with write off done by the entity during 9M FY2025. It reported a consolidated assets under management (AUM) of ₹ 8,936 crore as on December 31, 2024, down from ₹ 11,973 crore in March 2024. The ratings remain constrained due to the inherent risks involved in the microfinance industry, including unsecured lending, marginal profile of borrowers, socio-political intervention risk, and regulatory uncertainty.

Owing to significant slippages during 9M FY25, there has been an sharp uptick in credit costs (as a percentage of average total assets) of the company from 2.32% in FY24 to 16.08% (annualised) in 9M FY2025 and deterioration in its gross stage 3 (GS3) assets to 5.25% and net stage 3 (NS3) assets to 1.11% as on December 31, 2024, compared to GS3 of 1.68% and NS3 of 0.34% as on March 31, 2024. Further, it also witnessed an increase in its employee expenses to focus on recoveries, reduce pressure on field staff given that sizable collections are door-knock based and maintain adequate staff strength to proactively counter for elevated field level attrition. This has negatively impacted the profitability of SSFL with decline in return on average total assets (RoTA) from 4.47% in FY24 to -6.98% in 9M FY2025.

On the other hand, SSFL's capitalisation profile remains comfortable with a capital adequacy ratio (CAR) of 36.0% and gearing of 2.47 times as on December 31, 2024. Further, SSFL has sought approval from its board of directors to raise confidence capital of up to ₹ 750 crore, however, the Company is yet to finalize investors and proposed timeline. While its growth is expected to remain moderate in the near term, the proposed capital raise will help in improving loss absorbing cushion for the entity. Further, the company continues to maintain a healthy liquidity and has a diversified funding profile, although it has seen slight moderation with reduction in share of bank funding to 49.4% in December 2024 from 55.7% in March 2024.

CARE Ratings also note that as on December 31, 2024, the company has breached certain financial covenants in respect of borrowings amounting to ₹ 640.70 crore (this comprises of ₹ 372.81 crore of non-convertible debentures (NCDs) and ₹ 267.89 crore of term loans outstanding), resulting in these borrowings becoming repayable on demand subject to fulfilment of the terms of debenture trust deed. Till Dec'24, debenture holders of NCDs worth ₹ 198.32 crore have exercised early redemption, while it has received waivers from 2 lenders for all the term loans, however, no early redemption requests have been received for the breach of aforesaid borrowings amounting to ₹ 640.70 crore. These covenant breaches were reported by the company as a part of declaration of financial results for the quarter ended December 31, 2024. CARE Ratings notes that lenders have not made any requests for sizeable recall or accelerated repayments so far, however, any deviation from the lender's current stance will be a critical factor for ongoing monitoring.

Going forward, CARE Ratings anticipates a moderation in loan book growth considering the ongoing MFI stress. Additionally, with rising credit costs 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: Factors likely to lead to rating actions

Positive factors

- Improving profitability profile with return on total assets (RoTA) of more than 2% on a sustained basis

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

- Timely raising /infusion of proposed capital

Negative factors

- Significant reduction in borrowings owing to sizeable recalls/ repayments, adversely impacting liquidity profile
- Sustained weakening or delay in improvement in its earnings profile
- Sustained weakness in capitalisation profile with asset under management (AUM) to net worth rising 5x or Increase 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: Negative

The outlook remains negative due to ongoing stress in the Company's MFI portfolio, which is expected to lead to high credit costs, and consequently muted profitability metrics in near term. CARE Ratings will continue to monitor the impact of the stress on overall microfinance industry and individual company's performance. Additionally, the outlook may be revised back to stable if the company shows significant improvement in profitability & asset quality metrics or it is able to raise adequate capital in a timely manner.

Detailed description of the key rating drivers

Key strengths

Healthy capitalisation profile

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 December 31, 2024. The capitalization of SSFL remains comfortable, with Capital Adequacy Ratio (CAR) of 36.0% as on December 31, 2024 (31.95% in March 2024) against regulatory requirement of 15%. Further its gearing level also improved to 2.47 times in December 2024 from 2.70x as on March 31, 2024. Despite a decline in its tangible net worth (TNW) to ₹ 2,735 crore in December 2024 from ₹ 3,490 crore in March 2024 due to net losses, its capitalisation metrics improved on account of decline in scale. Its AUM to TNW stood at 3.27 times as on December 31, 2024, down from 3.43x in March 2024. Going forward, CARE Ratings expects the Company to maintain a gearing level below 4x level. CARE Ratings also notes that its board has approved a capital raise plan of up to ₹ 750 crore, however, the Company is yet to finalize investors and proposed timeline. An adequate capital raise on a timely basis will provide it further cushion to absorb expected losses.

Diversified resource profile with increasing reliance on bank borrowings

SSFL (on a consolidated basis) has a diversified lender mix with lending relationships with 57 lenders including 30 NBFCs/ financial institutions, 22 private sector banks/ small finance banks, 4 public sector banks and 1 foreign private investor. Though the share of funding from banks (as a part of consolidated borrowings) has been increasing over years, the same moderated to 49.4% as on December 2024 as against 55.7% as on March 31, 2024. The share of NBFCs has increased from 8.7% in FY22 to 23.9% in 9M FY2025 while the share of NCDs (capital market exposure) has reduced from 39.0% as on March 31, 2023 to 24.2% as on December 2024, though increased from March 2024 i.e. 21.6%.

The company, on a consolidated level, raised an additional ₹ 4,009.52 crore in the form of term loans, NCD and PTCs in 9M FY2025 while, on a standalone level, the company raised funds amounting to ₹ 3,669.09 crore in 9M FY2025. The average cost of funds is 12.30% for 9M FY2025, comparatively higher than peers, however incremental cost of borrowing is around 10.50% for funds raised in 9M FY2025 and 10.98% for funds raised in Q3 FY2025. Going forward, SSFL's ability to raise funding at competitive rates while maintaining a stable funding profile would be monitorable.

Key weaknesses

Weak profitability on account of elevated credit cost and operating expenses

The company's consolidated profitability weakened during 9M FY2025, due to an increase in its operating expenses and credit costs amid ongoing challenges in the MFI industry. For 9M FY2025, the company incurred losses of ₹600.86 crore (as per limited review financials) which translated into return on average total assets (ROTA) of -6.98% (annualised) and return on average net worth (RoNW) of -25.74% (annualised) as compared to profit after tax (PAT) of ₹500.72 crore, RoTA of 4.47% and RoNW of 15.72% in FY2024. The company witnessed an increase in its operating expenses to 7.87% in 9M FY2025 (annualised) from 5.84% in FY2024, on account of increase in employee expenses, required to counter for elevated field level attrition, , reduce field level stress as sizable collections are door-knock based and strengthen its collection vertical. Further, its credit cost increased to 16.08% in 9M FY2025 (annualised) from 2.32% in FY2024 due to deterioration in its asset quality.

CARE Ratings expects its operating expenses and credit costs to remain elevated in the near term, hence, keeping its earnings profile moderate. Any significantly higher than expected losses would further impact its credit profile.

Weak asset quality metrics
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 centre attendance, diminished peer pressure and collective accountability, which have historically helped maintain low default rates. Due to these factors, the collections of SSFL were impacted in 9M FY2025 and continue to be impacted in near future.

The company had consolidated GS3 of 5.25% and NS3 of 1.11% as on December 31, 2024, as against 1.68% and 0.34%, respectively, in March 2024. Further, its 0+ days past due (dpd) (on POS basis) increased to 16.74% in December 2024 from 4.20% in March 2024. During 9M FY2025, the entity (on a consolidated level) has written off a substantial part of its loan book amounting to ~ ₹ 971 crore (8.55% of opening loan book). On a lagged basis, its GS3 (including write-offs) stood at 14.20% as on December 31, 2024 as against 3.56% in March 2024. While, the entity is carrying a comfortable provision on its GS3 of ~80% as on December 31, 2024, its slippage rate from current bucket to delinquent pool is high. Going forward, company's ability to contain incremental slippages shall remain key rating monitorable.

As on December 31, 2024, around 29.8% of the total borrowers (as a proportion to current AUM) have been classified as loans outstanding with more than 3 lenders including Spandana. Owing to the new stricter guardrails by Micro Finance Institutions Network (MFIN) limiting the number of lenders per borrower with a maximum of three microfinance lenders including SSFL (effective from April 01, 2025), headwinds for the asset quality are expected to continue in the near term from such overleveraged borrowers due to restricted availability of incremental microfinance loans.

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.

Liquidity: Adequate
The company (on a standalone basis) has an adequate liquidity position given short tenure of its advances, viz., microfinance loans of 12-30 months, with cash and cash equivalents of ₹ 1,311.35 crore as on December 2024.
According to asset liability management statement as on December 31, 2024, SSFL has no negative cumulative mismatches in any time bucket. As on December 31, 2024, it has liquidity of ₹1,311.45 crore in the form of free cash in hand. Also, as per the ALM statement, the company has advance collections up to six months of ₹ 3,099 crore as against debt of up to six months of ₹2,519 crore.
Further, CARE Ratings notes that the company has breached certain financial covenants in respect of borrowings amounting to ₹ 640.70 crore (this comprises of ₹ 372.81 crore of non-convertible debentures (NCDs) and ₹ 267.89 crore of term loans outstanding) which could lead to accelerated debt prepayments, subject to fulfilment of the terms of debenture trust deed. This might weaken the liquidity profile of the company.

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
Policy on Default Recognition
Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Financial Ratios - Financial Sector
Short Term Instruments
Non Banking Financial Companies

About the company

Industry classification

Macroeconomic 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 December 31, 2024, the company operates in 19 states and 1 union territory with consolidated AUM of ₹8,936 crores.

Brief Financials (₹ crore) (Consolidated)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	1,438.46	1,438.29	2,510.78	2,005.43
PAT	69.83	12.39	500.72	-600.86
Interest coverage (times)	1.20	1.06	1.75	NM
Total assets*	6,867.65	9,163.62	13,227.42	9,718.00
Net NPA^ (%)	11.38	0.70	0.34	1.11
ROTA (%)	0.91	0.15	4.47	-6.98

A: Audited; UA: unaudited; NM: Not Meaningful
**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)	9MFY25 (UA)
Total operating income	1,391.60	1,394.45	2,406.91	1877.55
PAT	46.64	12.34	467.88	-546.53
Interest coverage (times)	1.14	1.06	1.72	NM
Total assets*	6,675.37	8,992.03	12,743.05	9,221.09
Net NPA^ (%)	10.95	0.62	0.32	1.08
ROTA (%)	0.63	0.16	4.31	-6.64

A: Audited; UA: unaudited, NM: Not Meaningful
**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: Annexure - 2

Detailed explanation of Covenants of rated instrument / facility: Annexure-3

Complexity level of 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
Commercial Paper-Commercial Paper	Proposed	-	-	-	100.00	CARE A1
Debentures-Non Convertible Debentures	INE572J07729	10-Jul-2024	10.75%	10-Jul-2026	55.00	CARE A; Negative
Debentures-Non Convertible Debentures	INE572J07711	28-Jun-2024	9.84%	28-Jun-2026	75.00	CARE A; Negative
Debentures-Non Convertible Debentures	Proposed	-	-	-	20.00	CARE A; Negative
Debentures-Non Convertible Debentures	INE572J07711	02-Aug-2024	9.84%	28-Jun-2026	150.00	CARE A; Negative
Debentures-Non Convertible Debentures	INE572J07737	14-Aug-2024	10.50%	14-Apr-2027	50.00	CARE A; Negative
Debentures-Non Convertible Debentures	INE572J07752	05-Sep-2024	10.75%	15-Apr-2027	50.00	CARE A; Negative
Debentures-Non Convertible Debentures	INE572J07711	12-Sep-2024	9.84%	28-Jun-2026	100.00	CARE A; Negative
Debentures-Non Convertible Debentures	Proposed	-	-	-	150.00	CARE A; Negative
Debentures-Non Convertible Debentures	INE572J07737 R1	13-Aug-2024	10.50	14-Apr-2027	50.00	CARE A; Negative
Fund-based - LT-Term Loan		-	-	28-Nov-2026	1500.00	CARE A; Negative

NA: Not Applicable

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+ (27-Dec-24) 2)CARE A1+ (30-Sep-24)	1)CARE A1+ (21-Mar-24)	-	-
2	Debentures-Non Convertible Debentures	LT	500.00	CARE A; Negative	1)CARE A+; Negative (27-Dec-24) 2)CARE A+; Stable (30-Sep-24)	1)CARE A+; Stable (21-Mar-24)	-	-
3	Fund-based - LT-Term Loan	LT	1500.00	CARE A; Negative	1)CARE A+; Negative (27-Dec-24) 2)CARE A+; Stable (30-Sep-24)	1)CARE A+; Stable (21-Mar-24)	-	-
4	Debentures-Non Convertible Debentures	LT	200.00	CARE A; Negative	1)CARE A+; Negative (27-Dec-24) 2)CARE A+; Stable (30-Sep-24)	-	-	-

LT: Long term; ST: 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.

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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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