Spandana Sphoorty Financial Limited

June 11, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	800.00	CARE A-; Stable	Downgraded from CARE A; Negative
Non-convertible Debentures	500.00	CARE A-; Stable	Downgraded from CARE A; Negative
Non-convertible Debentures	200.00	CARE A-; Stable	Downgraded from CARE A; Negative
Commercial Paper	100.00	CARE A2+	Downgraded from CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The downgrade in ratings for Spandana Sphoorty Financial Limited (SSFL) factors in continued weakening in SSFL's consolidated earnings profile and asset quality metrics. SSFL reported a consolidated net loss of ₹434 crore in Q4 FY2025 and ₹1,035 crore in FY2025, as against a net profit of ₹129 crore in Q4 FY2024 and ₹501 crore in FY2024. This has led to a decline in its tangible net worth to ₹2,138 crore as on March 31, 2025 from ₹3,490 crore in March 2024. Its gross stage 3 assets (GS3) stood at 5.63% as on March 31, 2025, up from 1.68% as on March 31, 2024. During FY2025, the company has written off a book of ₹1,618 crore on a consolidated basis, which has led to increase in its credit cost and hence, weakening of its profitability. Furthermore, its scale has declined substantially, owing to lower disbursements and write-offs. It reported consolidated assets under management (AUM) of ₹6,819 crore as on March 31, 2025, as against ₹11,973 crore in March 2024, registering a decline of ~43%. 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. SSFL's operational as well as financial performance was impacted in FY2025 on account of various issues including over-indebtedness of borrowers, dilution of credit discipline, elevation in field level attrition etc. CARE Ratings Limited (CAREEdge Ratings) expects the issues to persist for a few more quarters and its profitability and asset quality is expected to remain moderate to weak in the near term.

On the other hand, SSFL's ratings are supported by its adequate capitalisation profile as it reported capital adequacy ratio (CAR) of 37.1% and gearing[2] of 2.65 times as on March 31, 2025. SSFL's capital profile was supported by decline in its scale. CAREEdge Ratings notes that the entity is in process of raising capital via possible rights issue upto overall approved limits of ₹ 750 crore, which is expected to be completed in Q2 FY2026. The rights issue is being planned to raise support capital and any material deviation in amount or timeline for the proposed capital raise plan could impact its credit profile. SSFL continues to maintain a healthy on-book liquidity and has a diversified funding profile, although the incremental debt raised by the entity has remained low on account of lower business. Its ability to maintain a healthy liquidity profile and raise debt funds at suitable rates will be important for its profile.

CAREEdge Ratings also note that as on March 31, 2025, the company has breached certain financial covenants in respect of borrowings amounting to ₹1,235.95 crore (this comprises of ₹1,058.36 crore of non-convertible debentures (NCDs) and ₹177.58 crore of term loans outstanding) (outstanding balance as on May 31, 2025 was ₹1,131.78 crore), and debenture holders of NCDs worth ₹757.56 crore have received waiver (outstanding as on May 31, 2025) and till date, ₹127.41 crore had exercised early redemption, resulting in the remaining borrowings becoming repayable on demand subject to fulfilment of the terms of sanction/ DTD. SSFL is carrying healthy on-book liquidity of ₹1,324 crore (in the form of free cash) as on March 31, 2025 and ₹1,302 crore as on April 30, 2025.

The Company, being an NBFC–MFI, is required to deploy a minimum of 75% of its total assets toward "microfinance loans" in accordance with paragraph 5.1.21 of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, as amended from time to time. As of March 31, 2025, the Company's qualifying assets (i.e., microfinance loans to total assets) stand at 65.51%. Pursuant to the Company's request dated January 18, 2025, the RBI, vide its communication dated February 6, 2025, has granted an extension of time until June 30, 2025 to meet the qualifying asset requirement of 75%. The Company will take the necessary steps including continued disbursement of microfinance loans in the normal course of business to fully comply with the qualifying asset criteria by June 30, 2025. Subsequently, RBI vide its notification dated June 6, 2025 has revised this requirement to 60% of total assets (net off intangible assets). The change in regulation is expected to allow MFIs to diversify their product profile.

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

[2] *Gearing = on-book debt/ tangible net worth*

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
- Significant scale-up of operations with sustained improvement in asset quality with GNPA/GS3 remaining less than 2.5% on a sustained basis.

Negative factors

- Delay in and/or lower than expected raise in capital.
- Sustained weakness in capitalisation profile with asset under management (AUM) to net worth rising 5x or increase in gearing level above 4x
- Sustained weakening or delay in improvement in its earnings profile by FY26
- Inability to raise funding at competitive rates and/or weakening of its liquidity profile.

Analytical approach: Consolidated. CARE Ratings has adopted a Consolidated approach for SSFL owing to the financial and operational linkages with its below subsidiaries. Please refer Annexure 6.

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

Outlook: Stable

CARE Ratings has changed the outlook from Negative to Stable, owing to expectation of improvement in profitability and asset quality metrics in FY2026.

Detailed description of the key rating drivers

Key strengths

Adequate 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 March 31, 2025. The capitalisation of SSFL remains adequate, with CAR of 37.1% as on March 31, 2025 (32.0% in March 2024) against regulatory requirement of 15%. Further, its gearing level is also adequate at 2.65x as on March 31, 2025 similar to March 2024 level. However, its tangible net worth (TNW) has declined to ₹ 2,138 crore as on March 31, 2025 from ₹ 3,490 crore in March 2024 due to reported losses. CAREEdge Ratings also notes that the Company plans to raise confidence capital in the form of possible rights issue within the overall approved limit of upto ₹750 crore with participation of the promoters. An adequate capital raise on a timely basis will provide it further cushion to absorb expected losses. Going forward, CARE Ratings expects the Company to maintain a gearing level below 4x.

Diversified resource profile with increasing reliance on bank borrowings

SSFL (on a consolidated basis) has a diversified lender mix with lending relationships with more than 50 lenders including NBFCs/ financial institutions, private sector banks/ small finance banks, public sector banks and foreign private investors. Though the share of funding from banks (as a part of consolidated borrowings) has been increasing over years, the same moderated to 45.2% as on March 31, 2025 as against 55.7% as on March 31, 2024. The share of NBFCs has increased from 20.6% in FY24 to 27.4% in FY2025 while the share of NCDs (capital market exposure) has increased from 21.6% as on March 31, 2024 to 24.4% as on March 31, 2025.

The company, on a consolidated level, raised an additional ₹ 473 crore in the form of term loans, NCD and PTCs in Q4FY2025 while, on a standalone level, the company raised funds amounting to ₹ 410 crore in Q4FY2025. SSFL's average cost of debt funds stood at 12.4% (12.1% as reported by the company) in FY2025, comparatively higher than peers, however, its reported marginal cost of borrowing is around 11.9% for funds raised in Q4FY2025 (including DA and PTC) and 11.7% for funds raised in Q3 FY2025 (including DA and PTC). 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 FY2025, due to an increase in its operating expenses and credit costs amid ongoing challenges in the MFI industry. For FY2025, the company incurred losses of ~₹1,035 crore which translated into return on average total assets (RoTA) of -9.8% and return on average net worth (RoNW) of -36.8% as compared to profit after tax (PAT) of ₹500.7 crore, RoTA of 4.5% and RoNW of 15.7% in FY2024. The company witnessed an increase in its operating expenses to 8.3% in FY2025 from 5.8% 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 17.7% in FY2025 from 2.3% in FY2024 due to deterioration in its asset quality, as faced by the entire microfinance industry. 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 FY2025 and continue to be impacted in near future. The company reported consolidated GS3 of 5.6% and NS3 of 1.38% as on March 31, 2025, as against 1.7% and 0.3%, respectively, in March 2024. Further, its 0+ days past due (dpd) (on POS basis) increased to 17.25% in March 2025 from 4.2% in March 2024. During FY2025, the entity (on a consolidated level) has written off a substantial part of its loan book amounting to ~ ₹ 1,555 crore (14.3% of opening loan book). On a lagged basis, its GS3 (including write-offs) stood at 17.7% as on March 31, 2025 as against 3.6% in March 2024. While the entity is carrying a comfortable provision on its GS3 of ~79% as on March 31, 2025, 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 March 31, 2025, around 18% of the total borrowers (as a proportion to current AUM) have been classified as loans outstanding with more than 3 lenders including Spandana (Spandana+>=3 lenders). 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 free cash and cash equivalents of ₹ 1,324 crore as on March 31, 2025. According to asset liability management statement as on March 31, 2025, SSFL has no negative cumulative mismatches in any time bucket. Also, as per the ALM statement, the company has advance collections up to six months of ₹ 2,564 crore as against debt of up to six months of ₹2,411 crore.

CAREEdge Ratings also note that as on March 31, 2025, the company has breached certain financial covenants in respect of borrowings amounting to ₹1,235.95 crore (this comprises of ₹1,058.36 crore of non-convertible debentures (NCDs) and ₹177.58 crore of term loans outstanding) (outstanding balance as on May 31, 2025 was ₹1,131.78 crore), and debenture holders of NCDs worth ₹757.56 crore have received waiver (outstanding balance as on May 31, 2025) and till date, ₹127.41 crore had exercised early redemption, resulting in the remaining borrowings becoming repayable on demand subject to fulfilment of the terms of sanction/ DTD. SSFL is carrying healthy on-book liquidity of ₹1,324 crore (in the form of free cash) as on March 31, 2025 and ₹1,302 crore as on April 30, 2025.

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 & Combined Approach
Policy on Default Recognition
Financial Ratios - Financial Sector
Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Rating of 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 March 31, 2025, the company operates in 19 states and 1 union territory with consolidated AUM of ₹6,819 crore.

Brief Financials (₹ crore) (Consolidated)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)	March 31, 2025 (A)
Total operating income	1,438.46	1,438.29	2,510.78	2,424.00
PAT	69.83	12.39	500.72	-1035.10
Interest coverage (times)	1.20	1.06	1.75	-
Total assets*	6,867.65	9,163.62	13,227.42	7,998.13
Net NPA^ (%)	11.38	0.70	0.34	1.38
ROTA (%)	0.91	0.15	4.47	-9.75

A: Audited; Note: 'the above results are latest financial results available'.
**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)	March 31, 2025 (A)
Total operating income	1,391.60	1,394.45	2,406.91	2,245.19
PAT	46.64	12.34	467.88	-956.74
Interest coverage (times)	1.14	1.06	1.72	-
Total assets*	6,675.37	8,992.03	12,743.05	7,523.94
Net NPA^ (%)	10.95	0.62	0.32	1.11
ROTA (%)	0.63	0.16	4.31	-9.44

A: Audited; Note: 'the above results are latest financial results 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: 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 A2+
Debentures-Non Convertible Debentures	INE572J07729	10-Jul-2024	10.75%	10-Jul-2026	55.00	CARE A-; Stable
Debentures-Non Convertible Debentures	INE572J07711	28-Jun-2024	9.84%	28-Jun-2026	75.00	CARE A-; Stable
Debentures-Non Convertible Debentures	Proposed	-	-	-	20.00	CARE A-; Stable
Debentures-Non Convertible Debentures	INE572J07711	02-Aug-2024	9.84%	28-Jun-2026	150.00	CARE A-; Stable
Debentures-Non Convertible Debentures	INE572J07737	14-Aug-2024	10.50%	14-Apr-2027	50.00	CARE A-; Stable
Debentures-Non Convertible Debentures	INE572J07752	05-Sep-2024	10.75%	15-Apr-2027	50.00	CARE A-; Stable
Debentures-Non Convertible Debentures	INE572J07711	12-Sep-2024	9.84%	28-Jun-2026	100.00	CARE A-; Stable
Debentures-Non Convertible Debentures	Proposed	-	-	-	150.00	CARE A-; Stable
Debentures-Non Convertible Debentures	INE572J07737 R1	13-Aug-2024	10.50	14-Apr-2027	50.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	28-Nov-2026	800.00	CARE A-; Stable

LT: Long Term

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 2025-2026	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
1	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A2+	1)CARE A1 (04-Apr-25)	1)CARE A1 (03-Feb-25) 2)CARE A1+ (27-Dec-24) 3)CARE A1+ (30-Sep-24)	1)CARE A1+ (21-Mar-24)	-
2	Debentures-Non Convertible Debentures	LT	500.00	CARE A-; Stable	1)CARE A; Negative (04-Apr-25)	1)CARE A; Negative (03-Feb-25) 2)CARE A+; Negative (27-Dec-24) 3)CARE A+; Stable (30-Sep-24)	1)CARE A+; Stable (21-Mar-24)	-
3	Fund-based - LT-Term Loan	LT	800.00	CARE A-; Stable	1)CARE A; Negative (04-Apr-25)	1)CARE A; Negative (03-Feb-25) 2)CARE A+; Negative (27-Dec-24) 3)CARE A+; Stable (30-Sep-24)	1)CARE A+; Stable (21-Mar-24)	-

4	Debentures-Non Convertible Debentures	LT	200.00	CARE A-; Stable	1)CARE A; Negative (04-Apr-25)	1)CARE A; Negative (03-Feb-25) 2)CARE A+; Negative (27-Dec-24) 3)CARE A+; Stable (30-Sep-24)	-	-

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

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Priyesh Ruparelia Director **CARE Ratings Limited** Phone: +91-22-6754 1593 E-mail: priyesh.ruparelia@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 914428501001 E-mail: pradeep.kumar@careedge.in	Jatin Arora Assistant Director **CARE Ratings Limited** Phone: 91-120-4450033 E-mail: Jatin.arora@careedge.in Kanika Aggarwal Lead Analyst **CARE Ratings Limited** E-mail: Kanika.aggarwal@careedge.in

About us:
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