Spandana Sphoorty Financial Limited

March 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Short Term Instruments-Commercial Paper	100.00	CARE A1+	Assigned
Long Term Instruments - Debentures - Non Convertible Debentures	500.00	CARE A+; Stable	Assigned
Bank Facilities - Fund-based - LT - Term Loan	1000.00	CARE A+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the proposed commercial paper (CP), non-convertible debentures (NCD) and bank term loans of Spandana Sphoorty Financial Limited (SSFL) is based on the company's sizable and diversified loan portfolio of ₹10,404 crore (on a consolidated basis) as on December 31, 2023 with healthy capitalisation and comfortable liquidity profile.
SSFL's profitability was impacted in FY23 due to sizable credit costs. However, driven by improved net interest margins (NIMs) and controlled credit cost, profitability improved as reflected in return on total assets (RoTA) of 4.81% in 9MFY24. Asset quality after deteriorating significantly in FY22 has improved with gross NPA reducing from 18.63% as on March 31, 2022 to 2.07% as on March 31, 2023 and further to 1.60% as on December 31, 2023.

In FY22, the company witnessed a transition in the management team (both senior and middle management team) after the exit of the erstwhile Managing Director and promoter, Padmaja Gangireddy. Since then, there has been a stability in the top management team and strengthening of manpower across levels, leading to improvement in SSFL's operational and profitability metrics.

However, these rating strengths are partially offset by relatively higher cost of funds as compared to peers. The rating is also constrained due to inherent risks involved in the microfinance industry including unsecured lending, marginal profile of borrowers, socio-political intervention risk, regulatory uncertainty and its unforeseen impact in certain geographies that could adversely impact credit profile of micro finance companies including SSFL.

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 with return on total assets (RoTA) below 2.5%.

Analytical approach: Consolidated. CARE Ratings Limited (CARE Ratings) has adopted a Consolidated approach for SSFL.

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

Detailed description of the key rating drivers

Key strengths

Improving scale of operations post stabilisation of management

In FY22, the company faced operational and other issues owing to the exit of the erstwhile Managing Director and promoter, Padmaja Gangireddy. Top and middle management have largely stabilised over the past one to one and a half year with Shalabh Saxena and Ashish Damani taking charge as the company's MD/ CEO and President/ CFO, respectively.

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

SSFL has always focused on microfinance segment with 94% of AUM as on December 31, 2023 invested in microfinance business on a consolidated basis. Due to management issues and challenging operating environment amidst COVID-19, AUM declined by 19% y-o-y in FY22. Post that, business has continuously expanded, with AUM growing by 29% y-o-y in FY23 to ₹8,511 crore, and further to ₹10,404 crore as on December 2023 recording a 52% y-o-y growth as compared to ₹6,852 as on December 2022 amidst expansion of the branches and additions in the borrowers in new geographies.

Total disbursement in FY23 stood at ₹8,125 crore as compared to ₹3,373 crore in FY22 and the same stood at ₹6,719 crore in 9MFY24. Over 50% of total loans disbursed in FY23 were to new borrowers of the company. Steady demand for microfinance and the tailwinds from economic growth further fuel the demand.

Going forward, CARE Ratings expects the company to continue growing its book at a healthy pace of around 40% y-o-y in FY24.

Healthy capitalisation supported by equity infusion and strong investor base

SSFL is backed by marquee PE player i.e. Kedaara Capital which holds 48.34% stake in it (directly and indirectly through its special purpose vehicle (SPV) i.e. Kangchenjunga Limited) as on March 31, 2023. Further, other investors forming 22% of the stake include Valiant Mauritius Partners FDI Limited, ICICI Prudential Life Insurance, Goldman Sachs Funds, Valient Mauritius Partners Limited, JM Financial India Trust II and Valiant India Opportunity Limited. The company has received continued support from its investors, with a capital infusion in the form of preferential allotment of ₹86.47 crore and ₹218.72 crore in FY23 and FY22 respectively.

Padmaja Gangireddy, the erstwhile promoter and MD of SSFL currently holds around 11.50% of shareholding as on December 31, 2023, which has reduced from 16.0%, as on March 31, 2021. She does not hold any management position or board position and is not involved in the operations of the Company. She will be declassified as promoter, if her stake falls below 10%.

SSFL's capitalisation remains comfortably well above regulatory benchmark, though has come down in FY23 to 36.87% CAR% from 50.74% in FY22, due to rise in loan book. The gearing remained comfortable at 2.11x as on March 31, 2023 and 2.38x as on December 31, 2023 from 1.31x as on March 31, 2022 due to rise in borrowings during FY23 and 9MFY24.

Improving profitability

In FY23, the company earned profit after tax (PAT) of ₹12.39 crores (RoTA of 0.15%) as compared to ₹69.83 crore in FY22. The profitability was impacted due to high credit costs of ₹544 crore recorded in FY23. However, driven by improved NIMs and controlled credit costs, RoTA improved to 4.8% in 9MFY24 (versus 0.2% in FY23).

With rising yields post Reserve Bank of India's (RBI) revised regulatory framework (de-regulation of NIMs), SSFL's NIMs increased to 12.0% in 9MFY24 (versus 10.2% in FY23). Operating expenses (Opex) to average assets ratio increased in FY23 to 5.70% from 4.74% in FY22 and further to 5.9% in 9MFY24 with the company expanding its operations. The company opened 104 new branches in FY23 and further 331 branches in 9MFY24 taking the total count to 1484 branches, as on December 31, 2023. Operating expenses are expected to continue remaining high in the near term, with the company being in expansion phase. With reduced slippages and rising loan book, credit costs to average assets reduced to 2.2% in 9MFY24 (versus 6.3% in FY23). Despite higher opex expected to continue in the medium term, with falling credit costs, the company is expected to report strong profitability with ROTA expected to be more than 3.5% in FY25.

Improvement in asset quality

The asset quality was impacted due to the challenging operating environment amidst COVID-19 and changes in SSFL's management with GNPAs as high as 18.63% as on March 31, 2022. However, driven by reduced slippages and write offs, GNPA% and NNPA% have sharply declined to 2.07% and 0.65% as on March 31, 2023 respectively and further to 1.60% and 0.48% as on December 31, 2023 respectively. 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 – Provision on standard restructured assets - Provision for Impairment loss allowance)]* also remained comfortable at 2.10% as on December 31, 2023.
Going forward, the company's ability to grow its loan book while maintaining asset quality remains a key monitorable. CARE Ratings notes that the company is transitioning to weekly collections model, to gain more stability in the asset quality.

Key weaknesses

Relatively high cost of borrowings

SSFL has a moderate lender mix with lending relationships with 43 lenders including 19 NBFCs, 20 private sector banks/ small finance banks, 3 public sector banks/ financial institutions and 1 foreign private investor. Further, the share of funding from banks stood modest at 41.4% as on March 31, 2023. CARE notes that the share has improved to 51.3% as on December 31, 2023 but still remain lower as compared to peers. The share of NBFCs has increased from 9% in FY22 to 16.2% in FY23 and has further increased to 21.8% in 9MFY24 and the share of NCDs (capital market exposure) has reduced from 46% as on March 31, 2022 to 25% as on December 31, 2023. The reduced share of bank borrowings can be attributed to corporate debt restructuring coupled with management changes and its impact on company's operations in the past few years.

The company's borrowing profile has improved in last three to four quarters with reduction in the average cost of funds from 10.82% in Q1FY24 to 10.56% in Q3FY24 as compared to 11.14% in FY23 with incremental borrowing costs at 10.71% in 9MFY24. Despite a decline in the incremental costs, the funding cost remained higher as compared to the peers. Hence, improvement in cost of funding and diversification of resource profile will remain the key rating monitorables.

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 has an adequate liquidity position given short tenure of its advances, viz., microfinance loans of 17-25 months. According to asset liability management statement as on December 31, 2023, SSFL has no negative cumulative mismatches in any time bucket. As on December 31, 2023, it has liquidity of ₹1,243.7 crore in the form of free cash in hand. Over next six months, the company has advances of up to six months of ₹ 3,316 crore as against debt of up to six months of ₹ 3,232 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

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

About the company

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Microfinance Institutions

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, 2023, the company operates in 20 states and 1 union territory with AUM of ₹9,763 crores and consolidated AUM of ₹10,404 crores.

Brief Financials (₹ crore) (Consolidated)	March 31, 2022 (A)	March 31, 2023 (A)	9M FY 2024 (UA)
Total operating income	1,438.46	1,438.29	1,807.87
PAT	69.83	12.39	372.07
Interest coverage (times)	1.18	1.04	1.74
Total assets*	6,867.65	9,163.62	11,465.53
Net NPA^ (%)	11.38	0.65	0.48
ROTA (%)	0.91	0.15	4.81

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)	9M FY 2024 (UA)
Total operating income	1,391.60	1,394.45	1,737.40
PAT	46.64	12.34	345.72
Interest coverage (times)	1.18	1.04	1.70
Total assets*	6,675.37	8,992.03	11,107.41
Net NPA^ (%)	9.68	0.58	0.45
ROTA (%)	0.63	0.16	4.59

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 along with Rating Outlook
Commercial Paper-Commercial Paper (Carved out)		Na	NA	NA	100.00	CARE A1+
Debentures-Non Convertible Debentures		NA	NA	NA	500.00	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	NA	1000.00	CARE A+; Stable

Annexure-2: Rating history for the 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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+				
2	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable				
3	Fund-based - LT-Term Loan	LT	1000.00	CARE A+; Stable				

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	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 all the 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 the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any 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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