

## India Ratings Assigns Spandana Sphoorty Financial's Additional NCDs and Affirms Existing Debt at 'IND A+/Stable'

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Spandana Sphoorty Financial Limited's (Spandana) debt instruments:

### Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating Assigned along with Outlook/Watch	Rating Action
Non-convertible debentures*	-	-	-	INR2.0	IND A+/Stable	Assigned
Non-convertible debentures*	-	-	-	INR19.45 (reduced from INR20.65)	IND A+/Stable	Affirmed
Bank loan				INR15.0 (reduced from INR20.0)	IND A+/Stable	Affirmed

\* Details in annexure

### Analytical Approach

Ind-Ra continues to take a full consolidated view of Spandana and its subsidiaries Criss Financial Limited (holds 99.90% stake; debt rated at 'IND A+/Stable') and Caspian Financial Services Limited (holds 100.0% stake), to arrive at the ratings, owing to the strategic and operational linkages between them.

### Detailed Rationale of the Rating Action

The ratings factor in Spandana's geographically diversified loan portfolio, and a healthy capitalisation profile supported by regular equity infusions. The company witnessed an uptick in the portfolio delinquencies during 1QFY25, largely on account of the general elections as well as summer heat waves across several parts of the country which led to an elevation in the credit costs and moderation in the profitability during the period. The ratings continue to factor in the improvement in Spandana's funding profile with a steady moderation in the cost of borrowings between 1QFY24 and 1QFY25. However, Ind-Ra notes that although the overall cost of borrowings remains higher than its peers, the ability of the company to further diversify the funding profile and raise debt at improved rates compared to its peers will remain a key rating monitorable. The ratings remain vulnerable to the risks associated with the microfinance business, including its modest borrower profile. This, however, is mitigated to some extent by the geographical diversification in Spandana's portfolio as well as the revised regulatory guidelines for the microfinance segment in FY22, which enables risk-based pricing for the industry.

### List of Key Rating Drivers

#### Strengths

- Geographically diversified portfolio
- Modest asset quality and earnings profile, on account of higher provisioning buffer
- Healthy capitalisation profile

#### Weaknesses

- Further scope to improve funding profile
- Sectoral risk associated with microfinance segment

### Detailed Description of Key Rating Drivers

**Geographically Diversified Portfolio:** Spandana's loan operations were spread across 20 states and 1,665 branches on a consolidated basis (20 states and 1,570 branches on a standalone basis) as of June 2024. On a standalone basis, its top state, Odisha accounted for 13.6% of the assets under management (AUM) and the share of the top three states, ie. Odisha, Madhya Pradesh and Bihar, stood at 38.8% as of June 2024 (March 2024: 14.3% and 39.2%; March 2023: 16.8% and 42.8%; March 2022: 18.5% and 47.5%). As of June 2024, no state accounted for more than 14% of the overall standalone AUM. With the continuous portfolio expansion, Ind-Ra expects the single-state concentration to reduce further.

Spandana's consolidated AUM expanded at cumulative annual growth rate of 34.9% over FY22-FY24 and 40.7% yoy to INR119,730 million as of March 2024. The growth in AUM was supported by the disbursements and borrower additions in the geographies beyond the core areas of operations. However, the company encountered operational challenges during 1QFY25, on account of the elections and prolonged heat waves in several states coupled branch manager attrition in five key states., impacting both disbursements and collections. Spandana's portfolio moderated 2.1% qoq during 1QFY25 to INR117,230 million. With the addition of about 0.2 million borrowers during 1QFY25 and 1.39 million borrowers in FY24 (FY23: 0.88 million), the consolidated borrower base stood at 3.41 million as of June 2024, with the average outstanding loan ticket size per borrower remaining low at about INR34,000. Ind-Ra notes that the company is slowly transitioning to a weekly cycle (13.3% of the portfolio as of June 2024), which enables closer engagement with the borrowers. As per its medium-term growth plan, Spandana aims its consolidated AUM to touch INR280,000 million by end-FY28, supported by portfolio expansion in non-core geographies and diversification into new asset segments. The ability of the company to expand the scale of operations on steady basis while managing the asset quality and maintaining healthy collections will be a key monitorable.

**Modest Asset Quality and Earnings Profile on account of Higher Provisioning Buffer:** In terms of asset quality, Spandana's consolidated gross stage 3 assets and net stage 3 assets stood at 2.9% and 0.6%, respectively, as of June 2024 (March 2024: 1.7% and 0.3%; March 2023: 2.2% and 0.7%; March 2022: 18.6% and 11.4%). The company saw higher delinquencies in 1QFY25, owing to the operational disruptions faced during the quarter. Collection efficiency (collections made against demand for the month) moderated to 93.7% in June 2024 from 96.7% in March 2024. Ind-Ra takes note of the guardrails introduced by Spandana to improve its asset quality including the pause on the acquisition of new-to-credit borrowers as well as on the acquisition of new borrowers in 14% of the branches across key states, and restriction on the addition of new centres in 39% of the branches.

The company maintains a high provisioning with the provision coverage ratio on stage 3 assets at around 80% for FY24 and 1QFY25; the total credit cost as a percentage of average loan book stood at 7.4% (annualised) for 1QFY25 (FY24: 2.7%; FY23: 7.1%). The company created incremental provisions of INR1,816 million during 1QFY25 (FY24: INR1,180.7 million) and wrote-off INR302 million during 1QFY25, as against INR946.5 million in FY24. Considering the impact of elevated credit cost, the return on assets (RoA) moderated to 1.7% (annualised) during 1QFY25 from 4.5% during FY24. The company's ability to maintain portfolio quality will remain key towards a continued improvement in profitability over the medium term.

**Healthy Capitalisation Profile:** The company maintains a healthy capitalisation profile with a consolidated net worth (adjusted for deferred tax assets, intangibles and goodwill) of INR34,964 million as of June 2024 (FY24: INR34,898 million; FY23: INR28,803 million; FY22: INR28,813 million). Also, its standalone capital adequacy ratio remained above the regulatory benchmark of 15% and stood at 32.7% in 1QFY25 (FY24: 32%; FY23: 37%; FY22: 51%), supported by regular equity infusions (last round in FY22). Its consolidated leverage stood at 2.5x in 1QFY25 (FY24: 2.7x; FY23: 2.1x; FY22: 1.3x). Ind-Ra expects the company to maintain the leverage below 4x over the medium term.

**Further Scope to Improve Funding Profile:** Spandana's funding profile has improved in the past five quarters, characterised by an increase in the lender base and a steady moderation in the marginal cost of borrowing. In 1QFY25, Spandana had lending relationships with 24 banks including four public sector banks, 24 financial institutions, and non-banking finance companies (NBFCs) and one foreign private investor on a standalone basis.

The company on a consolidated basis raised INR104,413 million in FY24 (FY23: INR57,753 million) from the existing as well as new lenders. During 1QFY25, Spandana raised incremental funds of INR1,5540 million. The marginal cost of borrowings for Spandana has moderated over the past six quarters and stood at 11.4% as of June 2024 (March 2024: 11.9%; March 2023: 12.6%). Spandana's cost of borrowing, however, remained higher than some of the industry peers. The share of bank funding improved to 59% as of June 2024 (March 2024: 57%; March 2023: 45%; March 2022: 46%). It will be crucial for Spandana to further strengthen and diversify its borrowing profile and avail funding at improved rates as it scales up its AUM.

**Sectoral Risk Associated with Microfinance Segment:** The microfinance segment as such is vulnerable to socio-political, climatic risks as well as operational risks associated with marginal borrower profile, higher borrower attrition, overleveraging, multiple lending, among others. Geographical diversification will act as a mitigating factor for the socio-political risk to some extent, while improved underwriting capabilities, along with a strong collection mechanism and higher employee retention will be key to manage the strong growth in the sector. Furthermore, the microfinance sector is regulated by multiple bodies which, from time to time, have been providing several directives to maintain credit discipline and avoid over indebtedness for borrowers.

## Liquidity

**Adequate:** Spandana's unencumbered cash position stood at INR10,980 million as on 30 June 2024, and the company further had unutilised sanctions of INR3,200 million. Spandana's total debt obligations between July 2024 and September 2024 stood at INR20,736 million. The cash position as of June 2024 along with the unutilised sanctions is sufficient to cover the debt obligations for July 2024 and August 2024; the average monthly collection over the next few months is estimated to be about INR9,000 million which further supports the liquidity profile of the company. Spandana's asset-liability maturity profile as on 30 June 2024 was characterised with a positive mismatch in all buckets.

## Rating Sensitivities

**Positive:** A significant scale-up in AUM with geographical diversification, a sustained improvement in the asset quality and the earnings profile and significant diversification in the funding profile could lead to a positive rating action.

**Negative:** Inability to deliver on franchise growth expectations, a weakening in the profitability, funding challenges, leading to a dilution in liquidity, and a moderation in the capitalisation profile with the leverage exceeding 4.0x, all on a sustained basis, could lead to a negative rating action.

## Any Other Information

**Standalone Financials:** Spandana's total tangible assets and total tangible equity (total assets and equity adjusted for deferred tax assets and intangibles) stood at INR1,27,431 million and INR34,295 million, respectively, as of March 2024 (March 2023: INR89,920 million and INR28,496 million). The net profit stood at INR513 million for 1QFY25 (FY24: net profit and RoA INR4,679 million and 4.3%; FY23: INR123 million and 0.2%).

## ESG Issues

**ESG Factors Minimally Relevant to Rating:** Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Spandana, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

## About the Company

Spandana was incorporated on 10 March 2003 as an NBFC after it took over the microfinance operations of a non-governmental organisation in 1998. The company was classified as an NBFC—microfinance institution effective 13 April 2015. Spandana was listed on the stock exchange in August 2019 post the initial public offering of its equity shares. As on 30 June 2024, Spandana had 1,665 branches across 20 states/union territories with an outstanding AUM of INR117,230 million.

## Key Financial Indicators

Particulars (INR million) - Consolidated	1QFY25	FY24	FY23
Total tangible assets*	1,26,291	1,32,274	91,636
Total tangible equity*	34,961	34,898	28,803
Net profit	557.0	5,007	124
Return on average assets (%)	1.7	4.5	0.2
Equity/assets (%)	27.7	26.4	31.4
Total capital ratio (%)	-	31.3	36.3

Source: Spandana; Ind-Ra

\*Total assets and equity adjusted for deferred tax assets, good-will and intangibles

Note: All ratios in the rating rationale are as per Ind-Ra methodology and can vary from those reported by the company.

## Status of Non-Cooperation with previous rating agency

Not applicable

## Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook										
	Rating Type	Rated Limits (billion)	Rating	19 August 2024	24 June 2024	11 September 2023	30 May 2023	19 January 2023	20 December 2022	13 September 2022	25 August 2022	15 December 2021	28 July 2021	14 June 2021
Non-convertible debentures	Long-term	INR21.40	IND A+/Stable	IND A+/Stable	IND A+/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Rating watch with Negative implications	IND A/Stable	IND A/Stable
Principal protected market-linked debentures	Long-term	INR9.20	-	-	WD	IND PP-MLD A/Stable	IND PP-MLD A/Stable	IND PP-MLD Aemr/Stable	IND PP-MLD Aemr/Stable	IND PP-MLD Aemr/Stable	IND PP-MLD Aemr/Stable	IND PP-MLD Aemr/Rating watch with Negative implications	IND PP-MLD Aemr/Stable	IND PP-MLD Aemr/Stable
Bank loans	Long-term	INR15.00	IND A+/Stable	IND A+/Stable	IND A+/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Rating watch with Negative implications	IND A/Stable	IND A/Stable
Commercial papers	Short-term	INR5.00	-	-	WD	IND A1	IND A1	IND A1	-	-	-	-	-	-

## Bank wise Facilities Details

### Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan	Low
Non-convertible debenture	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

## Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (INR billion)	Rating/ Outlook
NCD	INE572J07349	31 March 2021	12.5	31 December 2024	0.25	IND A+/Stable
NCD	INE572J07356	31 March 2021	12.5	15 September 2024	0.20	WD (Paid in full)
NCD	INE572J07398	24 March 2022	11.85	24 March 2028	0.35	IND A+/Stable
NCD	INE572J07448	20 October 2022	12	20 October 2024	0.60	IND A+/Stable
NCD	INE572J07489	8 December 2022	11.35	8 September 2024	1.00	WD (Paid in full)
NCD	INE572J07505	22 December 2022	11.5	20 December 2024	0.65	IND A+/Stable
NCD	INE572J07513	30 December 2022	11.35	30 December 2025	1.00	IND A+/Stable
NCD	INE572J07547	17 March 2023	10.5	17 March 2025	1.25	IND A+/Stable
NCD	INE572J07554	10 April 2023	10.25	25 May 2026	0.25	IND A+/Stable
NCD	INE572J07562	24 April 2023	11.1	24 April 2025	1.00	IND A+/Stable
NCD	INE572J07745*	24 April 2023	11.1	24 April 2026	1.00	IND A+/Stable
NCD	INE572J07588	12 June 2023	10	12 June 2025	0.75	IND A+/Stable
NCD	INE572J07596	20 June 2023	10.1	20 June 2025	1.25	IND A+/Stable
NCD	INE572J07604	24 August 2023	10.6	24 February 2025	0.80	IND A+/Stable
NCD	INE572J07612	4 September 2023	10.75	4 September 2026	0.30	IND A+/Stable
NCD	INE572J07620	7 September 2023	10.43	7 March 2025	1.00	IND A+/Stable
NCD	INE572J07612	26 September 2023	10.75	4 September 2026	0.30	IND A+/Stable
NCD	INE572J07612	26 October 2023	10.75	4 September 2026	0.40	IND A+/Stable
NCD	INE572J07646	6 October 2023	10.75	24 March 2025	0.75	IND A+/Stable
NCD	INE572J07638	6 October 2023	10.75	22 September 2025	0.50	IND A+/Stable
NCD	INE572J07653	18 December 2023	10.11	18 December 2025	1.00	IND A+/Stable
NCD	INE572J07653	18 January 2024	10.11	18 December 2025	1.00	IND A+/Stable
NCD	INE572J07661	13 February 2024	10.75	13 August 2025	1.00	IND A+/Stable
NCD	INE572J07679	7 March 2024	10.75	3 April 2026	0.70	IND A+/Stable
NCD	INE572J07695	21 March 2024	10.75	21 December 2026	0.50	IND A+/Stable
NCD	INE572J07687*	30 December 2022	11.35	30 April 2025	1.00	IND A+/Stable
NCD	INE572J07612	7 August 2024	10.75	4 September 2026	0.50	IND A+/Stable
				Utilised limits	18.10	IND A+/Stable

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (INR billion)	Rating/ Outlook
				Unutilised Limits	3.35	IND A+/Stable
				Total Limits	21.45	IND A+/Stable

Source: Company; NSDL; \*ISIN no. INE572J07539 has been merged with ISIN No. INE572J07687; \*ISIN no. INE572J07570 merged with ISIN no. INE572J07745

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## APPLICABLE CRITERIA AND POLICIES

### Non-Bank Finance Companies Criteria

### Evaluating Corporate Governance

### Financial Institutions Rating Criteria

### The Rating Process

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