June 17, 2022

Criss Financial Limited (erstwhile Criss Financial Holdings Limited): Ratings continues to remain on rating under watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	200.00	200.00	[ICRA]BBB&, continues to remain on rating under watch with developing implications
Market Linked Debentures	100.00	100.00	PP-MLD[ICRA]BBB&, continues to remain on rating under watch with developing implications
Total	**300.00**	**300.00**	

**Instrument details are provided in Annexure-1*

Rationale

Criss Financial Limited's (Criss) ratings were placed on Watch with Developing Implications in November 2021 following a similar rating action on Spandana Sphoorty Financial Limited (SSFL; rated [ICRA]A-&; under Watch with Developing Implications), which holds a 98.5% equity stake in Criss. SSFL's rating was placed under Watch with Developing Implications following the sudden exit of Mrs. Padmaja Reddy, the former Managing Director (MD) of the company, who resigned from the post with effect from November 02, 2021, and a few other exits at the senior management level. The rating action factored in the expected impact of the aforementioned development on SSFL's business and operations.

SSFL's board had constituted a management committee under the chairmanship of Mr. Ramchandra Kasargod Kamath, former Chairman and MD of Punjab National Bank and a non-executive director on the board of the company, and empowered it to provide a strategic direction to the business operations in the interim till a new leadership team takes over the reins. Mr. Nitin Prakash Agarwal was appointed the Chief Executive Officer (CEO) and Mr. Amit Mittal was appointed the Chief Financial Officer (CFO) for the interim period till the new leadership team – Mr. Shalabh Saxena (CEO) and Mr. Ashish Damani (CFO) – joined SSFL in March 2022.

SSFL's new leadership team is taking various initiatives to streamline key functions, including operations, information technology (IT) systems and fund raising, which were affected following the exits witnessed in the management team in November 2021. SSFL raised capital to the extent of Rs. 300 crore from the existing shareholders (Kedaara Capital and Valiant Capital), which supports its overall risk profile. Criss' operations and IT systems were also affected by the management exits as Mrs. Reddy, Mr. Satish Kottakota and Mr. Abdul Feroz Khan were the key management personnel at Criss and were involved in its day-to-day activities.

The removal of the rating watch on SSFL would depend on the stability provided by the new management team. Such a rating action would also take into consideration SSFL's asset quality performance and the consequent impact, if any, on its financial risk profile. Criss' risk profile remains closely linked to SSFL's performance, considering its significant stake and management control and the expectation of financial support from SSFL.

Criss has an adequate capital structure with a net worth of Rs. 142.9 crore and a managed gearing of 2.0 times as on December 31, 2021. It primarily disburses non-qualifying microfinance loans and loan against property (LAP), which constituted about 70% and 25% of its total loan portfolio, respectively, as on December 31, 2021 (69% and 23%, respectively, as on March 31, 2021). However, the gold loan portfolio, which accounted for 6% of the total loan portfolio as on March 31, 2021 declined to nil in March 2022 as the operational control of all the gold loan branches was taken over by Spandana Mutual Benefit Trust (SMBT), an entity controlled by Mrs. Reddy. The receivables (excluding interest) against the gold loan portfolio stood at Rs. 35.4 crore as of February 2022. The loan portfolio remained stable between March 2021 and December 2021 but was lower than the September 2021 level, as fresh disbursements were impacted in Q3 FY2022 and the gold loan portfolio was taken over by SMBT. Criss' loan portfolio stood at Rs. 415 crore as of December 2021 compared to Rs. 403 crore as of March 2021 (Rs. 504.0 crore in September 2021).

The ratings continue to factor in Criss' small scale and geographically concentrated operations. ICRA also takes note of the increase in the company's delinquencies in 9M FY2022 (90+ days past due (dpd) stood at 5.4% in December 2021 vis-à-vis 1.9% as of March 2021 and 0.0% in March 2020) as field activities were disrupted and collections were affected by the lack of access to the erstwhile IT systems and historical borrower data. The gross non-performing assets (GNPAs) and net NPAs (NNPAs) stood at 5.5% and 3.9%, respectively, as of December 2021 (2.8% and 2.2%, respectively, as of September 2021). The pressure on the asset quality in 9M FY2022 and the incremental provisions created during the quarter impacted Criss' return on average managed assets (RoMA), which moderated to 3.9% in 9M FY2022 from 5.7% in FY2021 and 10.3% in FY2020.

Key rating drivers and their description

Credit strengths

Support from SSFL – Criss is a 98.5% subsidiary of SSFL. ICRA believes that the company would benefit from the management and financial support from the parent. Post the exit of the erstwhile MD of SSFL, who was also a Director at Criss, SSFL's present senior management team is actively involved in Criss' day-to-day business and operations. Further, Criss' board comprised members from SSFL's board. A separate senior management team for Criss is expected to be put in place in view of its growth plans.

The company's financial flexibility is supported by a line of credit from SSFL (upper limit capped at Rs. 200 crore). Criss' external borrowings are backed by a corporate guarantee from SSFL (76% of outstanding external borrowings as on March 31, 2022) up to a limit of Rs. 250 crore. The business synergies with the parent are expected to help Criss scale up its operations and diversify geographically going forward.

Adequate capital structure – Criss' gearing and total capital adequacy ratio stood at 2.0 times (managed basis) and 32.0%, respectively, as on December 31, 2021 (2.0 times and 33.3%, respectively, as on March 31, 2020). Its capitalisation is supported by equity infusions from the parent (Rs. 25 crore in FY2019 and Rs. 50 crore in FY2021) and steady internal capital generation. The company is expected to keep its leverage at around 4-4.5 times in the near to medium term and ICRA expects timely support from SSFL, if required, to support its portfolio growth and capital profile.

Credit challenges

Disruptions faced by operations and IT systems in the recent past – ICRA takes note of the disruptions in the company's operations and IT systems following the exit of the erstwhile senior management team at SSFL. The company implemented a new IT system and has uploaded the borrower database for the period up to September 30, 2021 in the new Loan Management System. Criss is in the process of validating the same with the borrower data available at the branches. SSFL's senior management team is currently overseeing Criss' day-to-day business, operational and treasury functions.

Small scale and geographically concentrated operations – Criss' loan portfolio increased by 140% year-on-year (YoY) to Rs. 403.4 crore as on March 31, 2021 from Rs. 168.4 crore as on March 31, 2020. The portfolio, however, remained stable between March 2021 and December 2021 (declined between September 2021 and December 2021). This decrease in the portfolio was on account of lower loan disbursements in Q3 FY2022 as well as the takeover of the gold loan portfolio by SMBT. Criss' loan portfolio stood at Rs. 415 crore as of December 2021 compared to Rs. 403 crore as of March 2021 (Rs. 504 crore as of September 2021).

The company's scale of operations is small with limited geographical diversification. Currently, Criss' operations are concentrated in two states, i.e. Andhra Pradesh (AP; 74.5% of the portfolio as on December 31, 2021) and Telangana (25.5%), which accentuates the risks associated with geographical concentration. Further, as on December 31, 2021, Criss had a presence in only 19 districts (16 districts as on March 3, 2021), indicating high portfolio concentration even at the district level, with the top district contributing 10.8% to the total portfolio. The company envisages assets under management (AUM) of ~Rs. 550 crore by March 2023 with the gradual scale-up of the secured (LAP) portfolio. Criss' ability to increase its member base, recruit and retain employees, and augment its geographical diversity would be key for achieving the envisioned growth.

Asset quality pressures remain monitorable – Criss' 90+dpd increased to 5.4% in December 2021 from 2.6% in December 2020 and 1.9% in March 2021 (0.0% in March 2020). The steady increase in delinquencies during this period was due to the disruptions caused by the second wave of the Covid-19 pandemic in Q1 FY2022 as well as the lack of access to the historical borrower data in the erstwhile IT systems prior to September 30, 2021. This impacted collections from existing borrowers in Q3 and Q4 FY2022. Criss restructured Rs. 0.70 crore of its portfolio in FY2022. The NNPAs stood at 3.9% as of December 2021 (0.91% as of March 2021 and 0.03% as of March 2020). Delinquencies remained higher in the LAP segment with the 90+dpd at 10.1% as on December 31, 2021 (3.8% as on March 31, 2021). Total provisions stood at Rs. 16.6 crore as of December 2021 (4.0% of the total loan portfolio as of December 2021) compared to Rs. 2.5 crore as of March 2021.

Criss' microfinance book is vulnerable to socio-political and operational risks, which could negatively impact the operations and the financial position of entities with exposure to this sector, including Criss. The industry risks are further accentuated by the company's geographically concentrated portfolio. It currently has exposure to higher-ticket LAP with a maximum exposure of Rs. 0.54 crore as on March 31, 2022. However, going forward, Criss is likely to focus on lower ticket size loans with an average ticket size up to Rs. 1.5-5 lakh. Criss' performance in the secured asset segment remains a key monitorable.

Earnings impacted in 9M FY2022 – Criss reported a net profit of Rs. 12.8 crore in 9M FY2022, translating into a RoMA of 3.9% (annualised) and a return on average net worth (RoNW) of 12.5% compared to 5.7% and 17.4%, respectively, in FY2021 (10.3% and 26.6%, respectively, in FY2020). The profitability in 9M FY2022 was impacted by the increase in credit provision costs during the period, which stood at 4.4% of the average managed assets (annualised) compared to 1.3% in FY2021. Similarly, operating expenses (as a percentage of average managed assets; annualised) increased to 3.6% in 9M FY2022 from 2.3% as of FY2021. The increase was largely on account of the augmentation of the branches in H1 FY2022. However, lower growth, especially in H2 FY2022, impacted Criss' operating leverage. Going forward, the ability to contain the credit and operational costs would be crucial for incremental profitability.

Liquidity position: Adequate

Criss had Rs. 0.6 crore of on-book liquidity as on April 30, 2022 and a line of credit of Rs. 200 crore from SSFL (unutilised limits stood at Rs. 87 crore as of March 31, 2022). This is adequate to meet its expected debt obligations of Rs. 82.5 crore (excluding payouts against direct assignment transactions) till December 2022. As on December 31, 2021, Criss' total borrowings stood at Rs. 283.2 crore (term loans from banks at 2.9%, term loans from financial institutions at 65.3%, market linked debentures at 6.8% and inter-corporate loans from SSFL at 25% of the overall borrowings).

SSFL has extended a line of credit (current limit of Rs. 200 crore) and a corporate guarantee (up to Rs. 250 crore) against Criss' external borrowings. ICRA draws comfort from the financial flexibility arising from the company's parentage (SSFL is estimated to have liquidity of Rs. 900 crore as on May 31, 2022) and the expected timely support from SSFL, when required. It is critical for Criss to diversify its funding sources to secure the required funds in a timely manner for maintaining a comfortable liquidity profile as the business expands.

Rating sensitivities

Positive/Negative factors – The resolution of the rating watch on Criss will depend upon the resolution of the rating watch on the parent entity. However, the ratings will be negatively impacted in case of lower-than-expected support from SSFL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for NBFCs Impact of Parent or Group Support on Issuer's Rating
Parent/Group Support	The ratings factor in the high likelihood of the parent, SSFL, extending financial support because of its majority shareholding
Consolidation/Standalone	The ratings are based on Criss' standalone financial statements

About the company

Criss Financial Limited is a non-banking financial company (NBFC) incorporated in 1992. It was largely held by Mrs. Padmaja Reddy before it was acquired by SSFL in FY2019, which currently holds a 98.45% equity stake. The company primarily gives non-qualifying microfinance loans, which constituted 70.1% of its Rs. 415.0 crore total loan portfolio as on December 31, 2021. Apart from microfinance loans, Criss' loan products include LAP (25.4% as on December 31, 2021), personal loans (1.4%), interim loans (1.3%) and other loans (1.7%).

Key financial indicators (audited)

Criss Financial Limited	FY2019	FY2020	FY2021	9M FY2021
Total income	40.0	34.7	54.0	73.2
Profit after tax/ (loss)	13.8	15.0	16.9	12.8
Net worth	49.1	64.2	130.2	142.9
Total managed portfolio	102.8	168.4	403.4	415.3
Total managed assets	106.3	185.8	412.5	464.4
Return on managed assets	12.3%	10.3%	5.7%	3.9%
Return on net worth	41.4%	26.6%	17.4%	12.5%
Gearing (times)	1.0	1.8	2.0	2.0
Gross NPA (%)	0.0%	0.03%	1.12%	5.49%
Net NPA (%)	0.0%	0.03%	0.91%	3.92%
Capital adequacy ratio (%)	47.82%	35.02%	33.26%	32.00%

Source: Company Financial Statements; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2023	FY2022		FY2021	FY2020
					Jun 17, 2022	Nov 10, 2021	Jun 18, 2021	Jun 19, 2020	Jan 07, 2020
1	Term Loan	Long Term	200.00	200.00	[ICRA]BBB&	[ICRA]BBB&	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	MLD	Long Term	100.00	100.00	PPMLD[ICRA] BBB&	PPMLD[ICRA] BBB&	PP-MLD[ICRA]BBB (Stable)	-	-

& - Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Term Loans (proposed)	Simple
Principal Protected Market Linked Non-Convertible Debentures	Moderately Complex
Principal Protected Market Linked Non-Convertible Debentures (proposed)	Moderately Complex

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	NA	-	NA	99.9	[ICRA]BBB&
NA	Term Loan (proposed)	NA	-	NA	100.1	
INE02EP07020	Market Linked Debenture (MLD) Programme	Jun-15-21	NA	Jul-15-23	12.0	PP-MLD[ICRA]BBB&
INE02EP07012	Market Linked Debenture (MLD) Programme	Jun-15-21	NA	Jan-15-23	6.0	
NA	Market Linked Debenture (MLD) Programme (proposed)	-	-	-	82.0	

Source: *Company; NA: details not available; &= continues to remain on rating under watch with developing implications*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	-	-

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