January 15, 2024

Criss Financial Limited (erstwhile Criss Financial Holdings Limited): Ratings upgraded; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	110.00	110.00	[ICRA]A- (Positive); upgraded from [ICRA]BBB+ and outlook revised to Positive from Stable
Market linked debentures	82.00	82.00	PP-MLD[ICRA]A- (Positive); upgraded from PP-MLD[ICRA]BBB+ and outlook revised to Positive from Stable
Total	**192.00**	**192.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in the improvement in Criss Financial Limited's (Criss) strategic position and its linkage with its parent (Spandana Sphoorty Financial Limited {SSFL; rated [ICRA]A (Positive)}, 99.85% equity stake in Criss), as well as the revision in the rating outlook of the parent. Criss shall play a critical part in SSFL's diversification plan in the new non-microfinance institution (MFI) business segments, i.e., micro-loan against property (LAP) and nano enterprise loans. The company's current loan book, which largely comprises non-qualifying microfinance loans, is expected to shift towards the above-mentioned newer segments. Criss shall continue to benefit from the managerial, capital, and liquidity support from its parent; SSFL has extended a line of credit (current limit of Rs. 400 crore) and corporate guarantees for Criss' borrowings. Criss currently has an adequate capital profile, with a net worth of about Rs. 173 crore and a managed gearing of 2.6 times as on September 30, 2023. Criss is expected to grow its portfolio to around Rs. 3,000-3,500 crore by FY2028, which would require timely capital infusions from SSFL to keep the capitalisation profile under control.

Criss' earnings profile is on an improving trend with the return on managed assets (RoMA) at 5.9% in H1 FY2024 compared to 0.3% in FY2023 and 5.4% in FY2022. Its profitability has been supported by the improvement in the asset quality; credit costs, as a percentage of the average managed assets, stood at 2.1% in H1 FY2024 (9.0% in FY2023 and 3.3% in FY2022). The company's 0+ and 90+ days past due (dpd) improved to 6.7% and 3.4%, respectively, as of September 2023 from 8.0% and 3.5%, respectively, as of March 2023 (30.3% and 8.7%, respectively, as of March 2022).

The ratings continue to factor in Criss' small scale of operations, with the portfolio largely concentrated in two states, namely Andhra Pradesh (AP; 76.2% of the portfolio as on September 30, 2023) and Telangana (23.2%), accentuating the risks associated with geographical concentration. The underlying credit risk profile of the end borrowers is expected to be moderate. Given the significant targeted growth and the focus on the newer loan segments over the medium term, Criss' ability to control the asset quality on a sustained basis shall remain a monitorable.

Key rating drivers and their description

Credit strengths

Strategic importance for SSFL – Criss is a 99.85%-subsidiary of SSFL. SSFL's senior management team is actively involved in Criss' day-to-day business and operations. Further, its board comprises members from SSFL's board. As per SSFL's Vision 2028, Criss shall play a critical part in its diversification plans. ICRA believes that Criss would benefit from this renewed focus through increased managerial and operational support. Further, SSFL is expected to support Criss' capital and liquidity requirements as it scales up its operations. Currently, the company's liquidity is supported by a line of credit from SSFL (upper limit capped at Rs. 400 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 2.6 times and 30.9% as of September 2023 (2.4 times and 29.3%, respectively, as of March 2023; 1.7 times and 36.7%, respectively, as of March 2022). Its capitalisation is supported by equity infusions from the parent (Rs. 25.0 crore in FY2019 and Rs. 50.0 crore in FY2021) and steady internal capital generation. Over the medium term, the company intends to restrict its leverage with a managed gearing of less than 4.5 times. ICRA expects timely support from SSFL, as and when required, to aid the targeted medium-term portfolio growth (assets under management (AUM) of Rs. 3,000-3,500 crore by FY2028) and capital profile, as internal generation shall remain moderate in relation to the envisaged AUM expansion.

Improving earnings profile – Supported by the improvement in the asset quality, Criss' profitability increased with its RoMA at 5.9% in H1 FY2024 vis-à-vis 0.3% in FY2023. The profitability was impacted in FY2023 by the increase in credit and provision costs to 9.0% of the average managed assets from 3.3% in FY2022 and the moderation in the net interest margin (NIM) to 12.3% from 13.9% during this period. Going forward, as the company scale ups its portfolio in the newer asset segments, the earnings performance shall remain a monitorable. However, the same would benefit from the parent's diverse presence and operational and financial support.

Credit challenges

Geographically concentrated operations – Criss' scale of operations is small with AUM of Rs. 572.5 crore as of September 30, 2023 and Rs. 531.6 crore as on March 31, 2023 (Rs. 374.6 crore as of March 2022 and Rs. 403.3 crore as of March 2021). Its operations have been predominantly concentrated in two states, i.e. AP (76.2% of the portfolio as on September 30, 2023) and Telangana (23.2%), accentuating the risks associated with geographical concentration. The company has recently expanded its operations in Rajasthan, which contributed 0.7% to its portfolio as of September 2023. Further, Criss had a presence in only 26 districts as on September 30, 2023 (19 as on March 31, 2022 and 16 as on March 31, 2021), indicating high portfolio concentration even at the district level. Its top district contributed 23.6% to its total portfolio as on September 30, 2023 against 10.8% in March 2022.

Criss has historically been disbursing non-qualifying microfinance loans and LAP, which constituted 91.8% and 8.0% of its total loan portfolio, respectively, as of September 2023. Apart from this, its loan products include personal loans, interim loans and other loans, which constituted the balance 0.2% of the loan portfolio as of September 2023. ICRA notes that Criss will be predominantly focused on scaling up the micro-LAP and nano enterprise loan segments. Its ability to scale up these business segments and augment its geographical diversity, in line with its medium-term plans, would be a key monitorable, going forward.

Modest customer profile – For the new business segments (i.e. micro-LAP and nano enterprise loans), Criss' borrowers would mainly be small business owners and self-employed individuals with a focus on the services industry. These borrowers typically have a modest underlying credit profile with limited or no traditional income evidence. Criss' current loan book largely comprises non-qualifying joint liability loans. Its 0+ and 90+ dpd improved to 6.7% and 3.4%, respectively, as of September 2023 (8.0% and 3.5%, respectively, as of March 2023) from 30.3% and 8.7%, respectively, as of March 2022. The improvement in portfolio delinquencies during March 2022-March 2023 can largely be attributed to the write-off of Rs. 31.3 crore in FY2023. The company's ability to maintain the asset quality in the new asset segments would remain a key monitorable.

Liquidity position: Adequate

Criss had Rs. 1.6 crore of on-book liquidity as on November 30, 2023 and a line of credit of Rs. 400.0 crore from SSFL (unutilised limit stood at Rs. 285.3 crore as of November 2023). This is adequate to meet its expected debt obligations of Rs. 109.8 crore between December 2023 and February 2024. The average monthly collections between April 2023 and September 2023 stood at about Rs. 39 crore. As on September 30, 2023, Criss' total borrowings stood at Rs. 444.6 crore (term loans from banks at

9.0%, term loans from non-banking financial companies (NBFCs) at 37.4%, borrowings through capital market instruments at 11.3% and loans from SSFL at 42.4%).

ICRA draws comfort from the financial flexibility arising from the company's parentage and the expected timely support from SSFL, when required. It is critical for Criss to diversify its external funding sources as the business expands.

Rating sensitivities

Positive factors – Improvement in SSFL's credit profile or a material improvement in Criss' scale of operations while maintaining a good earnings profile.

Negative factors – Pressure on Criss' ratings could arise if there is a deterioration in SSFL's credit profile. Material deterioration in its asset quality, impacting the earnings profile or leverage, would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	The ratings factor in the high likelihood of the parent, SSFL, extending financial support, given 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 acquired by SSFL in FY2019 from Ms. Padmaja Reddy (SSFL's founder). SSFL currently holds a 99.85% equity stake in the company. Criss has historically been disbursing non-qualifying microfinance loans and loan against property (LAP). Apart from this, its loan products include personal loans, etc. Going forward, Criss will scale up the LAP portfolio and diversify into other asset segments such as nano enterprise loans, etc.

Key financial indicators (audited)

Criss Financial Limited(erstwhile Criss Financial Holdings Limited)	FY2022	FY2023	H1 FY2024
Total income	100.4	101.3	64.2
Profit after tax/(loss)	23.1	1.4	17.9
Total managed assets	439.5	553.6	655.6
Return on managed assets	5.4%	0.3%	5.9%
Managed gearing (times)	1.7	2.4	2.6
Gross NPA	9.2%	3.9%	3.4%
Capital adequacy ratio	36.7%	29.3%	30.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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 (FY2024) Date & Rating in FY2024		Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)			Date & Rating in FY2023			Date & Rating in FY2022		Date & Rating in FY2021
					Jan 15, 2024	Aug 21, 2023	Mar 01, 2023	Oct 04, 2022	Jun 17, 2022	Nov 10, 2021	Jun 18, 2021	Jun 19, 2020
1	**Term loan**	Long term	110.0	110.0	**[ICRA]A- (Positive)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB&**	**[ICRA]BBB&**	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Stable)**
2	**MLD**	Long term	82.0	82.0	**PP-MLD[ICRA]A- (Positive)**	**PP-MLD[ICRA]BBB+ (Stable)**	**PP-MLD[ICRA]BBB (Positive)**	**PP-MLD[ICRA]BBB (Stable)**	**PP-MLD[ICRA]BBB&**	**PP-MLD[ICRA]BBB&**	**PP-MLD[ICRA]BB (Stable)**	-

& – Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Principal protected market linked non-convertible debentures	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term fund based – Term loan**	Sep-02-2021 to Jun-15-2023	NA	Mar-05-2024 to Jul-28-2025	78.98	[ICRA]A- (Positive)
-	**Term loan (Unutilised)**	NA	NA	NA	31.02	[ICRA]A- (Positive)
-	**MLD programme (proposed)**	-	-	-	82.00	PP-MLD[ICRA]A- (Positive)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	**-**	-

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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