October 18, 2024

Criss Financial Limited (erstwhile Criss Financial Holdings Limited): MLDs withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	150.00	150.00	[ICRA]A(Stable); Outstanding
Market linked debentures	82.00	0.00	PP-MLD[ICRA]A(Stable); withdrawn
Total	232.00	150.00	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in the support for Criss Financial Limited (Criss) from Spandana Sphoorty Financial Limited {SSFL; [ICRA]A+(Stable), holds 99.90% equity stake in Criss}. Criss is expected to 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. 292.5 crore and a managed gearing of 1.7 times as of June 2024. 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 capitalization profile under control.

Criss's return on managed assets (RoMA) declined to 2.1% in Q1FY2025 compared 4.9% in FY2024 due to deterioration in its asset quality because of of operational disruptions arising from multiple factors such as the heat wave, general elections, high employee attrition in key states, etc. Consequently, its credit costs, as a percentage of the average managed assets, stood at 4.5% in Q1FY2025 vis-a-vis 2.4% in FY2024. The company's 0+ and 90+ days past due (dpd) impacted as of June 2024 to 8.5% and 2.5%, respectively from 6.0% and 2.5%, respectively, as of March 2024.

The ratings continue to factor in Criss' small scale of operations, with the portfolio largely concentrated in two states, namely Andhra Pradesh (AP; 70.5% of the portfolio as of March 2024) and Telangana (23.5%), 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. Further, ICRA also expects the operating costs to remain elevated over the near-to-medium term as the company expands its operating infrastructure in line with the envisages growth.

The Stable outlook factors in ICRA's expectation of continued managerial and financial support from SSFL, which would aid its risk profile, as its scales up its operations in the near-to-medium term.

ICRA has withdrawn the long-term ratings on the Rs. 82.00-crore Market linked debenture (MLD) programme as per the management request, as these instruments have not been placed and no amount was outstanding against the same. The rating have been withdrawn as per ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strategic importance for SSFL – Criss is a 99.90% subsidiary of SSFL. SSFL's senior management team is actively involved in Criss' day-to-day business and operations. Further, Criss' board comprises members from SSFL's board. As per SSFL's Vision 2028 document, Criss would be a critical part of its diversification plans and would shift to the new non-MFI business segments, i.e. micro LAP and nano-enterprise loan. ICRA believes that this renewed focus on Criss would benefit the company through increased managerial and operational support. Further, SSFL is expected to support the capital (Rs. 100-crore equity was infused in FY2024) and liquidity requirements as it scales up its operations . Going forward, the business synergies with the parent are expected to help Criss scale up its operations and diversify geographically.

Adequate capital structure – Criss' gearing and total capital adequacy ratio stood at 1.7 times and 33.7% respectively, as of June 2024 and 1.7 times and 33.2% as of March 2024 (2.4 times and 29.3% as of March 2023). Its capitalisation is supported by equity infusions from the parent (Rs. 100 crore in FY2024 and Rs. 50 crore in FY2021) and steady internal capital generation. ICRA expects timely support from SSFL, as and when required, to support the targeted medium-term portfolio growth (Rs. 3000-3500 crore AUM by FY2028) and capital profile.

Credit challenges

Geographically concentrated operations – The company's scale of operations is small with assets under management (AUM) of Rs 796.6 as of June 2024 and Rs. 774.2 crore as of March 2024 (Rs. 531.6 crore as of March 2023). Its operations have been pre-dominantly concentrated in two states, i.e. Andhra Pradesh (AP; 70.5% of the portfolio as of March 2024) and Telangana (23.5%), accentuating the risks associated with geographical concentration. The company has recently expanded its operations in Rajasthan which contributed to 5.2% of its portfolio as of March 2024. Further, Criss had increased its presence from 56 districts as of March 2024 to 67 districts as of June 2024 . Its top district contributed 22.7% to its total portfolio as of March 2024.

Criss has historically been disbursing non-qualifying microfinance loans and LAP, which constituted about 91% and 9%, respectively, of its total loan portfolio as of March 2024. Apart from this, its loan products include personal loans, interim loans and other loans, their share was negligible as of March 2024. ICRA notes that, going forward, Criss will be predominantly focused on scaling up in the micro LAP, and nano-enterprise loan segment, majorly focused on the state of Rajasthan, Madhya Pradesh, Karnataka and Tamil Nadu. Criss' ability to increase its member base, recruit and retain employees, scale up its operations and augment its geographical diversity in line with its medium-term plans would be a key monitorable, going forward.

Modest borrower profile impacting the asset quality and earnings – For the new focus segments, Criss' borrowers would be mainly small business owners and self-employed individuals with a focus on the services industry. These borrowers usually have modest credit profiles and without traditional income evidence. Given the significant growth targeted by the company over the medium-term, ability to control asset quality on a sustained basis remains to be seen. The asset quality witnessed a deterioration in Q1 FY2025, owing to operational disruptions arising from multiple factors such as the heat wave, general elections, high employee attrition in key states, etc. Further, Criss' operating expenditure also witnessed an increase to 8.9% in Q1FY2025 from 4.7% in FY2024 majorly due to increase in employee costs as company has now shifted its office from SSFL's premises to entirely new location and at the same time have onboarded few SSFL payroll employee on CFL payroll. These factors impacted Criss' profitability overall, with its Profit after tax / average managed assets (PAT/AMA) at 2.1% in Q1FY2025 from 4.9% in FY2024 and 0.3% in FY2023.

Criss' 0+ and 90+dpd improved to 8.5% and 2.5% respectively in June 2024 (6.0% and 2.5% dpd in March 2024). Around 8% of Criss' portfolio is secured while the balance is the unsecured portfolio as of March 2024 and company is trying to increase its secured portfolio which will ultimately bring down the credit cost moving forward.

Liquidity position: Adequate

Criss had on-book liquidity of Rs. 3.8 crore as on June 30, 2024, and a line of credit of Rs 400 from SSFL (unutilized limit stood at Rs 335.0 crore as of June 2024). This is adequate to meet its expected debt obligation of Rs. 189.4 crore between July 2024 and December 2024. As on June 30, 2024, Criss' total borrowings stood at Rs. 499.9 crore (borrowings through capital market instruments at 49.8%, term loans from non-banking financial companies (NBFCs) at 29.6%, loans from SSFL at 13.0%, and term loans from banks at 7.5%).

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

Rating sensitivities

Positive factors – An improvement in SSFL's credit profile or a closer association with the Spandana brand would positively impact the ratings.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Financial Companies (NBFCs) Policy on Withdrawal of Credit Ratings
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 99.9% 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 small-ticket unsecured micro, small and medium enterprise (MSME) loans, home improvement loans, etc.

Key financial indicators (audited)

Criss Financial Limited (erstwhile Criss Financial Holdings Limited)	FY2023	FY2024	Q1FY2025
Total income	101.3	146.1	49.5
Profit after tax/(loss)	1.4	33.5	4.4
Total managed assets	553.6	827.4	848.7
Return on managed assets	0.3%	4.9%	2.1%
Managed gearing (times)	2.4	1.7	1.7
Gross stage 3	3.9%	2.5%	2.5%
Capital adequacy ratio	29.3%	33.2%	33.7%

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 (FY2025)				Chronology of Rating History for the Past 3 Years						
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024		Date & Rating in FY2023			Date & Rating in FY2022	
				Oct 18, 2024	Jul 15, 2024	Jan 15, 2024	Aug 21, 2023	Mar 01, 2023	Oct 04, 2022	Jun 17, 2022	Nov 10, 2021	Jun 18, 2021
1	Term loan	Long term	150.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB&	[ICRA]BBB&	[ICRA]BBB (Stable)
2	MLD	Long term	82.0	PP-MLD[ICRA] A (Stable); withdrawn	PP-MLD[ICRA] A (Stable)	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] BBB (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**	Dec-28-2022 to Jun-15-2023	NA	Mar-17-2025 to Jul-28-2025	32.70	[ICRA]A (Stable)
-	**Term loan (unutilised)**	NA	NA	NA	117.30	[ICRA]A (Stable)
-	**MLD programme (proposed)**	-	-	-	82.00	PP-MLD[ICRA]A (Stable); withdrawn

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

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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