

February 03, 2025

## Spandana Sphoorty Financial Limited: Rating downgraded to [ICRA]A (Negative)

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term fund based – Term loan	2,105.0	2,105.0	[ICRA]A (Negative); downgraded from [ICRA]A+ (Negative)
Non-convertible debentures	423.0	423.0	[ICRA]A (Negative); downgraded from [ICRA]A+ (Negative)
<b>Total</b>	<b>2,528.0</b>	<b>2,528.0</b>	

\* Instrument details are provided in Annexure I

### Rationale

The rating downgrade and the Negative outlook factor in the significant deterioration in Spandana Sphoorty Financial Limited's (SSFL) asset quality and profitability in Q2 and Q3 FY2025 and ICRA's view of a weaker-than-expected financial and loan quality performance in the near term. The microfinance industry is experiencing a significant rise in delinquencies, largely on account of borrower overleveraging apart from adverse climatic conditions, attrition at the field level and other regional factors which has impacted loan collections.

SSFL's collections were significantly impacted, resulting in a deterioration in its consolidated gross stage 3 to 5.2% as of December 2024 from 1.7% as of March 2024, while its 30+ days past due (dpd) delinquencies weakened to 12.8% from 3.0% during this period (on assets under management (AUM) basis). Moreover, it wrote off Rs. 970.8 crore (Rs. 908.6 crore on a standalone basis) of delinquent loans in 9M FY2025. As a result, credit costs (as a percentage of average managed assets) increased to 14.2% (annualised) in 9M FY2025 from 1.5% in FY2024 on a consolidated basis, resulting in a sizeable net loss of 6.2% (on average managed assets) in 9M FY2025 vis-à-vis a profit of 4.1% in FY2024 (0.1% in FY2023) on a consolidated basis (net loss of 5.9% in 9M FY2025 vis-à-vis profit of 3.9% in FY2024 on a standalone basis).

SSFL's asset quality performance is likely to continue to face near-term headwinds in view of the stress in the microfinance segment, new regional developments that can impact microfinance institution (MFI) operations in general and further tightening of the lending norms as guided by the MFI-self regulatory organisation (MFI-SRO). Consequently, disbursements are expected to remain muted, given the focus on bringing the asset quality under control.

The rating continues to factor in the company's comfortable capitalisation profile and its diversified geographical presence. SSFL's capital adequacy ratio stood at 36.0% as of December 2024 on a consolidated basis, remaining well above the regulatory requirement. The managed gearing (consolidated) was comfortable at 2.4x as of December 2024 (2.8x as of March 2024), providing adequate buffer in view of the elevated credit losses and muted earnings expected in the near term. The company recently gained approval from its board for an equity raise of up to Rs. 750 crore. While this is not expected in the near term, SSFL would initiate the process if required.

ICRA also notes that the company had breached some of the financial covenants related to the asset quality and profitability in respect of Rs. 373 crore of non-convertible debentures (NCDs) and Rs. 268 crore of term loans outstanding as of December 2024. These covenant breaches were reported by the company as a part of declaration of financial results for the quarter ended December 31, 2024. In the near term, the company's ability to obtain the requisite waivers for these cases and restrict incremental early redemptions would be a key monitorable. Previously (in Q3FY2025), ICRA notes that the company had received request for early redemption of about ~Rs. 200 crore of NCD's on the account of covenant breaches and the same were redeemed as of Dec -2024. The company has not received any further requests for early redemption till date concerning

the breaches reported in the 3QFY2025. Nevertheless, SSFL is maintaining adequate liquidity (cash and cash equivalents of Rs. 1,311.5 crore as on December 31, 2024). Slower growth and elevated on-balance sheet liquidity carried by the company resulted in non-compliance of the requirement for maintaining minimum qualifying assets of 75% of total assets. The company has sought time till June 30, 2025 from the RBI for meeting the required qualifying assets criteria.

## Key rating drivers and their description

### Credit strengths

**Comfortable capitalisation profile** – SSFL’s capital adequacy ratio stood at 36.0% as of December 2024, well above the regulatory requirement of 15%. On a consolidated basis, the managed gearing was comfortable at 2.4x as of December 2024, reducing from 2.8x as of March 2024 due to the decline in the AUM in 9M FY2025. Disbursements are expected to be muted in FY2025, impacting the AUM. However, it is expected to improve in subsequent years as the asset quality performance normalises. While the company is facing elevated losses, the sizeable net worth is expected to bolster its overall capital profile. ICRA expects SSFL to maintain its consolidated managed gearing well below 4.0x over the next two years.

**Diversified geographical presence** – SSFL’s consolidated AUM stood at Rs. 8,936 crore as of December 2024, catering to 29.6 lakh active borrowers through a network of 1,774 branches spread across 20 states and Union Territories. Its portfolio remains fairly diversified with no state accounting for more than 14% of the portfolio (standalone basis). The concentration of the top 5 states in the portfolio (standalone basis) was 58.9% as on December 31, 2024 (58.6% as on March 31, 2024). As on December 31, 2024, its largest state, Odisha, accounted for 13.1% of the standalone portfolio, followed by Madhya Pradesh (12.9%), Bihar (12.0%), Andhra Pradesh (10.6%) and Karnataka (10.2%).

However, the top 5 most impacted states (standalone basis) in terms of the recent asset quality performance, which constituted 56.6% of the loan portfolio, contributed 58.9% to the total stage 3 assets. ICRA notes that, in H1FY2025, the company had taken initiatives such as risk-based classification of branches, which would restrict member/centre additions in geographies perceived to be high risk. Going forward, SSFL’s incremental growth trends in such high-risk geographies and its performance in these areas would be monitorable.

### Credit challenges

**Pressure on asset quality; risks associated with microfinance business** – SSFL’s collections have been significantly impacted in YTD FY2025 on account of multiple factors, including high employee attrition, climatic factors, overleveraging of borrowers, external factors such as Karza Mukti Abhiyan, and its transition to the weekly collection model from the monthly model. The monthly collection efficiency<sup>1</sup> dropped to 89.9% as of December 2024 from 98.5% as of March 2024. The Group wrote off Rs. 970.8 crore in 9M FY2025, with Rs. 677.97 crore written off in Q3 FY2025. Despite this, the 0+ and 30+ remain elevated at 16.9% and 12.8%, respectively, in December 2024. As of January 2025, 29.8% of SSFL’s borrowers had availed loans from more than three microfinance lenders<sup>2</sup>. Headwinds for the asset quality could continue in the near term from such overleveraged borrowers, who are likely to face constraints in obtaining incremental microfinance loans, in line with the guardrails for microfinance lenders by Micro Finance Institutions Network (MFIN).

Over the last few months, SSFL has taken some measures to stabilise its asset quality. The number of new borrowers acquired by the company has been significantly reduced in the current fiscal (3.3 lakh in 9M FY2025 vis-à-vis 13.9 lakh in FY2024), with significant tightening of underwriting and disbursements. Further, SSFL is strengthening its collections/recovery teams. However, considering the marginal borrower profile, the unsecured nature of lending, and other regulatory and political risks, the company’s ability to bring its asset quality performance under control over the next few months remains to be seen.

**Higher credit costs impacting profitability in the near term** – SSFL reported a consolidated loss of Rs. 600.9 crore, translating into a return on managed assets (RoMA) of -6.2% in 9M FY2025 (profit after tax (PAT) of Rs. 500.7 crore and RoMA of 4.1% in FY2024). Credit costs increased to 14.2% (annualised) in 9M FY2025 from 1.5% in FY2024 due to the deterioration in the asset

<sup>1</sup> Percentage of outstanding receivables collected within a specific period of time (Current collections/Current demand)

<sup>2</sup> Source: Company; based on credit bureau data

quality. ICRA expects the credit costs to remain elevated over the next few quarters. The forward flow from the current bucket to the delinquent buckets is expected to start improving during Q4 FY2025-Q1 FY2026, though the extent of recoveries from the delinquent portfolio would be a key monitorable. SSFL's profitability metrics are expected to be significantly impacted in the near term on account of the above.

**Critical to strengthen funding profile** – The company raised about Rs. 4,009.5 crore in 9M FY2025 (Rs. 10,441 crore in FY2024) from its lenders. Further, till Q3 FY2025, SSFL had obtained incremental borrowings of Rs. 872 crore. As of December 2024, it had lending relationships with 57 lenders including 28 non-banking financial companies (NBFCs)/financial institutions, 26 banks and 2 development financial institution and 1 FPIs.

ICRA also notes that SSFL's cost of borrowing is higher compared to some of the industry peers. Further, its marginal cost of borrowing, after declining over the last few quarters, increased in Q3 FY2025 (11.7% vis-à-vis 11.4% in Q2 FY2025). The share of bank borrowings (consolidated basis) also witnessed a reduction to 55% as of December 2024 from 57% as of March 2024, though it remained better than 45% as of March 2023. Correspondingly, the combined share of the other relatively higher-cost borrowings (NBFCs, external commercial borrowings (ECBs), and capital market sources, etc.) increased slightly to 45% as of December 2024 from 43% in March 2024. In the near term, SSFL's ability to maintain a stable funding profile and secure funding at competitive rates would be monitorable.

### Environment and social risks

Given the service-oriented business of SSFL, its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. While lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, SSFL's exposure to environmentally sensitive segments remains moderate. However, most of its borrowers are in small businesses, with the majority engaged in essential commodity related activities, primarily dependent on local demand-supply forces. If such borrowers face livelihood disruptions because of physical climate adversities, the same could translate into credit risks for entities such as SSFL.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as material lapses could be detrimental to their reputation and could invite regulatory censure.

### Liquidity position: Adequate

The company had cash and liquid investments of Rs. 1,311.5 crore and sanctioned undrawn bank lines of Rs. 157 crore as on December 31, 2024. SSFL's total scheduled debt obligation over the next three months (January-March 2025) is Rs. 1,744.6 crore. The on-book liquidity maintained by the company typically covers two months of its debt repayment obligations. The cumulative collection is expected to be ~Rs. 2362.6 (January-March 2025) crore, providing support to the liquidity profile.

ICRA notes that the company had breached some of the financial covenants related to the asset quality and profitability in respect of Rs. 373 crore of NCDs and Rs. 268 crore of term loans outstanding as of December 2024. SSFL's ability to obtain the requisite waivers in these cases and restrict significant early redemptions would be a key monitorable.

### Rating sensitivities

**Positive factors** – ICRA could revise the outlook if the company demonstrates a sustained improvement in its asset quality and profitability indicators.

**Negative factors** – Weakening in the liquidity profile or a lack of material improvement in the asset quality or profitability shall negatively impact the rating.

## Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Non-banking Finance Companies (NBFCs)</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on SSFL's consolidated financial statements (Annexure II)

## About the company

Spandana Sphoorty Financial Limited (SSFL) was incorporated in 2003 as a non-banking financial company (NBFC) and it took over the microfinance operations of Spandana, a non-governmental organisation started by Ms. Padmaja Reddy in 1998. The company was classified as an NBFC-microfinance institution (NBFC-MFI) in 2015. Following the microfinance crisis in Andhra Pradesh (AP), the company entered into a master restructuring agreement (MRA) as a part of the corporate debt restructuring (CDR) with its lenders in September 2011. It exited the CDR in April 2017 after an equity investment led by Kedaara Capital Investment Managers Limited (Kedaara Capital) and fresh funding from three banks. SSFL completed its initial public offering (IPO) in August 2019. The current leadership team is headed by Mr. Shalabh Saxena (Managing Director & Chief Executive Officer) and Mr. Ashish Damani (President & Chief Financial Officer). The company has a 10-member board of directors, including 5 independent directors.

## Key financial indicators

Spandana Sphoorty Financial Limited (standalone)	FY2023	FY2024	9M FY2025
Total income	1,355.8	2,386.7	1,868.1
PAT	12.3	467.9	(546.5)
Total managed assets	9,933.3	13,852.3	10,879.0
Return on managed assets	0.1%	3.9%	(5.9%)
Managed/Adjusted/Reported gearing (times)	2.1	2.7	2.3
Gross stage 3	1.9%	1.6%	5.3%
CRAR	36.9%	32.0%	36.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Spandana Sphoorty Financial Limited (consolidated)	FY2023	FY2024	9M FY2025*
Total income	1,438.3	2,510.8	2005.4
PAT	12.4	500.7	(600.9)
Total managed assets	10,159.5	14,406.9	11,493.3
Return on managed assets	0.1%	4.1%	(6.2%)
Managed/Adjusted/Reported gearing (times)	2.1	2.8	2.4
Gross stage 3	2.1%	1.7%	5.2%
CRAR	-	-	-

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; \*As per company presentation

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 03 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
NCD	Long term	423.0	[ICRA]A (Negative)	Dec 05, 2024	[ICRA]A+ (Negative)	Jan-15-2024	[ICRA]A (Positive)	Mar-27-2023	[ICRA]A- (Positive)	Nov-10-2021	[ICRA]A-&
				Oct-18-2024	[ICRA]A+ (Stable)	Dec-15-2023	[ICRA]A (Stable)	Mar-01-2023	[ICRA]A- (Positive)		
				Jul-15-2024	[ICRA]A+ (Stable)	Aug-18-2023	[ICRA]A (Stable)	Sep-29-2022	[ICRA]A- (Stable)		
NCD	Long term			Oct-18-2024	[ICRA]A+ (Stable)						
Term loan	Long term	2,105.0	[ICRA]A (Negative)	Dec 05, 2024	[ICRA]A+ (Negative)	Jan-15-2024	[ICRA]A (Positive)	Mar-27-2023	[ICRA]A- (Positive)	Nov-10-2021	[ICRA]A-&
				Oct-18-2024	[ICRA]A+ (Stable)	Dec-15-2023	[ICRA]A (Stable)	Mar-01-2023	[ICRA]A- (Positive)		
				Jul-15-2024	[ICRA]A+ (Stable)	Aug-18-2023	[ICRA]A (Stable)	Sep-29-2022	[ICRA]A- (Stable)		

## Complexity level of the rated instrument

Instrument	Complexity indicator
Long-term fund based – Term loan	Simple
Non-convertible debentures	Simple

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	Term loan	December-27-2022 to Oct-07-2024	NA	Feb-28-2025 to Jun-30-2027	433.42	[ICRA]A (Negative)
Unutilised	Term loan	NA	NA	NA	1,671.58	[ICRA]A (Negative)
INE572J07414	NCD	Aug-01-2022	12.29%	Aug-01-2028	23.00	[ICRA]A (Negative)
INE572J07703	NCD	Mar-28-2024	9.81%	Apr-02-2026	100.00	[ICRA]A (Negative)
Yet to be placed	NCD	-	-	-	300.00	[ICRA]A (Negative)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company name	SSFL ownership	Consolidation approach
Criss Financial Holdings Limited	99.90%	Full consolidation
Caspian Financial Services Limited	100.00%	Full consolidation

Source: Company; Note: ICRA has taken a consolidated view of the parent (SSFL) and its subsidiaries while assigning the rating

## ANALYST CONTACTS

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**A M Karthik**

+91 44 4596 4308

[a.karthik@icraindia.com](mailto:a.karthik@icraindia.com)

**R Srinivasan**

+91 44 4596 4315

[r.srinivasan@icraindia.com](mailto:r.srinivasan@icraindia.com)

**Shaik Abdul Saleem**

+91 40 6939 6464

[shaik.saleem@icraindia.com](mailto:shaik.saleem@icraindia.com)

**Jaynesh Shah**

+91 22 6169 3300

[jaynesh.shah@icraindia.com](mailto:jaynesh.shah@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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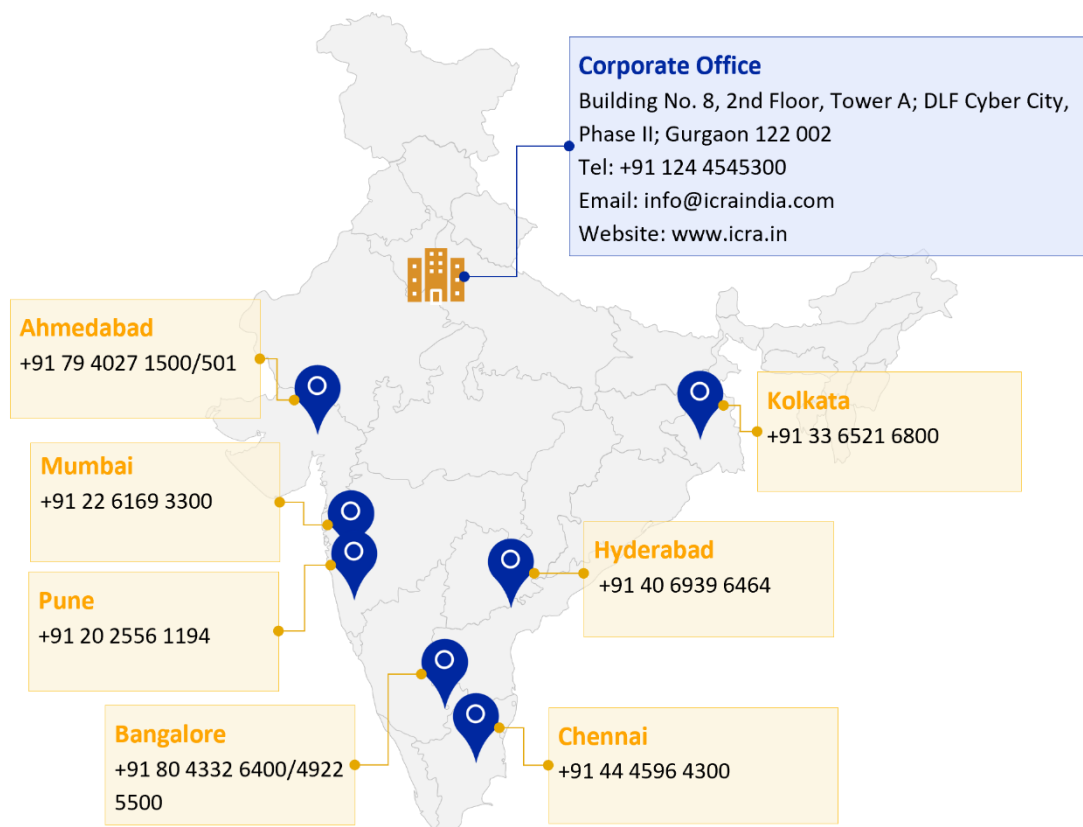
### Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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