



Ref: SSFL/Stock Exchange/2024-25/119

December 27, 2024

To
BSE Limited,
Department of Corporate Services
P. J. Towers, 25th Floor,
Dalal Street,
Mumbai - 400001

To
National Stock Exchange of India Limited,
Listing Department
Exchange Plaza, C-1, Block G
Bandra Kurla Complex, Bandra (E)
Mumbai - 400051

Scrip Code: 542759

Symbol: SPANDANA

Dear Sir/Madam,

Subject: Intimation of Credit Rating - Rating affirmed; Outlook revised to Negative for existing instruments of the Company by India Ratings & Research.

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform that India Ratings & Research has affirmed ratings and revised outlook to Negative from Stable, for existing instruments of the Company as detailed below:

S. No.	Facilities/ Instruments	Amount (Rs. Billion)	Rating Action
1.	Non-Convertible Debentures	19.45 (Reduced from 21.45)*	IND A+/Negative; rating affirmed outlook revised to Negative from Stable
2.	Bank Loan	15.00	IND A+/Negative; rating affirmed outlook revised to Negative from Stable

Please find enclosed rationale as published by India Ratings & Research on December 27, 2024.

Kindly take the same on record.

Thanking You.

Yours Sincerely,
For Spandana Sphoorty Financial Limited

Vinay Prakash Tripathi
Company Secretary

Encl: as above

Spandana Sphoorty Financial Limited

CIN - L65929TG2003PLC040648

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India Ratings Revises Outlook on Spandana Sphoorty Financials' NCDs and Bank Loans to Negative; Affirms 'IND A+'

Dec 27, 2024 | Microfinance Institutions

India Ratings and Research (Ind-Ra) has revised the Outlook on Spandana Sphoorty Financial Limited's (Spandana) debt instruments to Negative from Stable while affirming the ratings on them as follows:

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*	-	-	-	INR19.45 (reduced from INR21.45)	IND A+/Negative	Affirmed, Outlook Revised to Negative
Bank loan	-	-	-	INR15.0	IND A+/Negative	Affirmed, Outlook Revised to Negative

*Details in annexure

Analytical Approach

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

Detailed Rationale of the Rating Action

The Outlook revision to Negative reflects the deterioration in Spandana's asset quality and the consequent pressure on its profitability in 1HFY25 on a consolidated basis, largely on account of the elevated credit costs. The Outlook also reflects Ind-Ra's expectation of a weak financial and operating performance over the near term. The company witnessed a significant uptick in the portfolio delinquencies during 1HFY25, largely on account of factors such as the impact of general elections in 1QFY25, political movements namely Karza Mukti Abhiyan in certain geographies, extreme adverse climatic conditions and increasing levels of borrower indebtedness, high field staff attrition and operational challenges due to the transition to weekly collections mode from a monthly mode in select geographies.

The rating affirmation factors in Spandana's geographically diversified loan portfolio and a healthy capitalisation profile supported by regular equity infusions in the past. However, Spandana's overall cost of borrowings remains higher than its peers, thus its ability to further diversify the funding profile and raise debt at improved rates compared to its peers is a key rating monitorable. Moreover, the ratings remain vulnerable to the risks associated with the microfinance business, including its modest borrower profile. This, however, is mitigated by the geographical diversification in Spandana's portfolio as well as the revised regulatory guidelines for the microfinance segment in FY22, which enable risk-based pricing for the industry.

As on 30 September 2024, the company was not in compliance with the financial covenants pertaining to asset quality and profitability for 12 of its non-convertible debenture (NCD) ISINs with an outstanding principal of INR7,328.8 million as on 30 September 2024 (31 October 2024: INR6,985.9 million; 30 November 2024: INR6,028.4 million). The company has [informed Ind-Ra](#) that the debenture holders pertaining to NCDs with an outstanding principal of INR1,983.2 million as on 14 December 2024 have requested for an early redemption, in line with the transaction documents. Moreover, the company was in breach of the covenants pertaining to asset quality for two of its term loan facilities with an outstanding principal of INR1,145.8 million as of 30 September 2024 (30 September 2024: INR1,348.6 million) and has requested for covenant waivers from the respective bankers/ lenders. It has received the waiver in relation to term loans for the current quarter. The ability of the company to receive the required waivers from the lenders for such cases and limit early redemptions over the near term is monitorable.

List of Key Rating Drivers

Strengths

- Geographically diversified portfolio
- Healthy capitalisation profile

Weaknesses

- Moderation in asset quality; profitability to be impacted in FY25 due to higher credit costs
- Further scope to strengthen 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 1,723 branches on a consolidated basis (20 states and 1,611 branches on a standalone basis) as of September 2024. On a standalone basis, its top state, Odisha accounted for 13.4% of the assets under management (AUM) and the share of the top three states, i.e. Odisha, Madhya Pradesh and Bihar stood at 38.5% as of September 2024 (March 2024: 14.3% and 39.2%; March 2023: 16.8% and 42.8%; March 2022: 18.5% and 47.5%). As of September 2024, no state accounted for over 14% of the overall standalone AUM. As the company will further expand its portfolio in the medium term, Ind-Ra expects the single-state concentration to reduce further. As of September 2024, Madhya Pradesh, Odisha, Maharashtra, Rajasthan and Gujarat (42.5% of the loan portfolio) contributed to around 62% of the company's gross stage 3 assets. The company has witnessed a high level of attrition of loan officers (1HFY25: nearly 71%), largely in the states of Madhya Pradesh, Telangana, Rajasthan, Gujarat and Maharashtra. SSFL's growth trajectory in the high-risk geographies will be a monitorable.

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. Spandana's portfolio moderated 10% qoq during 2QFY25 to INR10,5370 million (30 June 2024: INR11,723 million) on account of muted disbursements. The consolidated borrower base stood at 3.3 million as of September 2024 (March 2024: 3.32 million; March 2023: 2.26 million), with the average outstanding loan ticket size per borrower remaining low at about INR31,930 (March 2024: INR36,063).

Healthy Capitalisation Profile: The company maintains a healthy capitalisation profile with a consolidated net worth (adjusted for deferred tax assets, intangibles and goodwill) of INR32,373 million as of September 2024 (1QFY25: 34,964 million; 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 35.7% in 1HFY25 (FY24: 32%; FY23: 37%; FY22: 51%), supported by regular equity infusions (last round in FY22). Its consolidated leverage stood at 2.4x in 1HFY25 (FY24: 2.7x; FY23: 2.1x; FY22: 1.3x); the moderation in leverage was on account of muted disbursements and decline in AUM during the period. Ind-Ra expects the company to maintain the leverage below 4x over the medium term.

Moderation in Asset Quality; Profitability to be Impacted in FY25 Due to Higher Credit Costs: In terms of asset quality, Spandana's consolidated gross stage 3 assets (IND AS; Indian Accounting Standard) and net stage 3 assets stood at 4.8% and 1.0%, respectively, as of September 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 1HFY25, owing to the operational disruptions faced during the period. Collection efficiency (collections made against demand for the period) moderated to 90.8% for 2QFY25 from 93.7% in 1QFY25 and 96.7% in 4QFY24. Incremental write-offs stood at INR2,928 million (5.5% of the average loan book; annualised) for 1HFY25 (FY24: INR946.5 million; 1.0%). With the recent MFIN (Microfinance Institution Network) guardrails (applicable from January 2025) in place for microfinance lenders, 26.9% of SSFL's borrowers as of September 2024, with loans from more than three lenders, will face limitations in availing incremental loans, which will further impact the asset quality over the near term.

The company encountered several challenges during 1HFY25, on account of factors such as the general elections, adverse climatic conditions, localised political movements and borrower over-leveraging, high loan officer/ branch manager attrition and operational issues due to the migration to weekly from monthly collections, impacting both disbursements and collections. Some of the risk mitigation techniques adopted by the company including a conservative lending approach by pause on on-boarding or lending to new-to-credit borrowers in 46% of the branches, risk-based classification of branches based on asset quality and collection efficiency and strengthening of KYC (know-your-customer) verification systems and internal controls. To strengthen the collections team, the company has taken initiatives such as increasing bench staff, recruited branch quality managers to support branch managers etc.

The company maintains a high provisioning with the provision coverage ratio on stage 3 assets at around 80% for FY24 and 1HFY25; the total credit cost as a percentage of the average loan book stood at 7.1% (annualised) for 1HFY25 (FY24: 2.7%; FY23: 7.1%). The company created incremental provisions of INR4,353.8 million during 1HFY25 (FY24: INR1,180.7 million) and wrote-off INR2,928.3 million (INR946.5 million). Considering the impact of elevated credit cost, the company reported a consolidated loss of INR1,606 million for 1HFY25, translating to an annualised return on assets negative 2.6% (FY24: INR5,007.2 million; 4.5%). The company's ability to control asset quality stress will remain key towards an improvement in the profitability over the near term.

Further Scope to Strengthen Funding Profile: The company on a consolidated basis raised INR104,413 million in FY24 (FY23: INR57,753 million) from the existing as well as new lenders. Further, between April and November 2024, the company raised incremental funds of INR37,712.6 million. The marginal cost of borrowings for Spandana, after witnessing a declining trend between 2QFY24 and 1QFY25, saw an uptick in 2QFY25 and stood at 11.4% (1QFY25: 10.8%). Its cost of borrowing remain higher than some of the industry peers. The share of bank funding declined to 54% as of September 2024 from 59% as of June 2024 (March 2024: 57%; March 2023: 45%; March 2022: 46%). It will be crucial for Spandana to strengthen and diversify its borrowing profile and avail funding at competitive rates.

As of 31 October 2024, Spandana had lending relationships with 26 banks including three public sector banks, 27 financial institutions and non-banking finance companies (NBFCs), 2 development financial institutions one foreign private investor on a consolidated basis.

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 INR18,655.5 million as on 31 October 2024. Its total debt obligations between November 2024 and March 2025 stand at INR33,283 million. The cash position as of October 2024 was sufficient to cover the debt obligations for November 2024 and December 2024; the expected average monthly collections between December 2024 to March 2025 are estimated to be about INR8,130 million which further supports the liquidity profile of the company. The company had undrawn sanctions of INR1,570 million as of October 2024. Spandana's asset-liability maturity profile as on 30 September 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 a significant diversification in the funding profile could lead to a positive rating action.

Negative: Deterioration in the asset quality impacting 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.

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. It was listed on the stock exchange in August 2019 post the initial public offering of its equity shares. As on 30 September 2024, Spandana had operations in 20 states/union territories spanning across more than 400 districts in 1,723 branches with an outstanding AUM of INR105,370 million.

Key Financial Indicators

Particulars (INR million) - Consolidated	1HFY25	FY24	FY23
Total tangible assets*	1,12,796	1,32,274	91,636

Total tangible equity*	32,373	34,898	28,803
Net profit	-1,606.2	5,007	124
Return on average assets (%)	-2.6	4.5	0.2
Equity/assets (%)	28.69	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.			

Particulars (INR million) – Standalone	1HFY25	FY24	FY23
Total tangible assets*	106,978	127,431	89,920
Total tangible equity*	31,916	34,295	28,496
Net profit	-1,527	4,679	123
Return on average assets (%)	-2.6	4.3	0.2
Equity/assets (%)	29.8	26.9	31.7
Total capital ratio (%)	35.7	32.0	36.9
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	8 October 2024	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	INR19.45	IND A+/Negative	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+/Negative	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

The details are as reported by the issuer as on (27 Dec 2024)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	Bajaj Finance	Term Loan	395.83333	IND A+/Negative
2	Aditya Birla Finance Limited	Term Loan	405.382232	IND A+/Negative
3	Hongkong Shanghai Banking corporation	Term Loan	135.714285	IND A+/Negative
4	Hongkong Shanghai Banking corporation	Term Loan	723.809523	IND A+/Negative
5	Equitas Small Finance Bank	Term Loan	333.2	IND A+/Negative
6	Hinduja Leyland Finance Ltd.	Term Loan	404.195992	IND A+/Negative
7	MAS Financial Services Ltd.	Term Loan	311.111104	IND A+/Negative
8	MAS Financial Services Ltd.	Term Loan	77.777776	IND A+/Negative
9	Northern ARC Capital Limited	Term Loan	458.333	IND A+/Negative
10	Woori Bank	Term Loan	525	IND A+/Negative
11	NABKISAN Finance Ltd	Term Loan	550	IND A+/Negative
12	Equitas Small Finance Bank	Term Loan	103.85	IND A+/Negative
13	Equitas Small Finance Bank	Term Loan	72.775	IND A+/Negative

14	NA	Term Loan	10503.017756	IND A+/Negative
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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+/Negative
NCD	INE572J07398	24 March 2022	11.85	24 March 2028	0.35	IND A+/Negative
NCD	INE572J07448	20 October 2022	12	20 October 2024	0.60	WD/Paid in Full
NCD	INE572J07505	22 December 2022	11.5	20 December 2024	0.65	WD/Paid in Full
NCD	INE572J07513	30 December 2022	11.35	30 December 2025	1.00	IND A+/Negative
NCD	INE572J07547	17 March 2023	10.5	17 March 2025	1.25	WD/Paid in Full
NCD	INE572J07554	10 April 2023	10.25	25 May 2026	0.25	WD/Paid in Full
NCD	INE572J07562	24 April 2023	11.1	24 April 2025	1.00	IND A+/Negative
NCD	INE572J07745*	24 April 2023	11.1	24 April 2026	1.00	IND A+/Negative
NCD	INE572J07588	12 June 2023	10	12 June 2025	0.75	IND A+/Negative
NCD	INE572J07596	20 June 2023	10.1	20 June 2025	1.25	WD/Paid in Full
NCD	INE572J07604	24 August 2023	10.6	24 February 2025	0.80	IND A+/Negative
NCD	INE572J07612	4 September 2023	10.75	4 September 2026	0.30	IND A+/Negative
NCD	INE572J07620	7 September 2023	10.43	7 March 2025	1.00	IND A+/Negative
NCD	INE572J07612	26 September 2023	10.75	4 September 2026	0.30	IND A+/Negative
NCD	INE572J07612	26 October 2023	10.75	4 September 2026	0.40	IND A+/Negative
NCD	INE572J07646	6 October 2023	10.75	24 March 2025	0.75	IND A+/Negative
NCD	INE572J07638	6 October 2023	10.75	22 September 2025	0.50	IND A+/Negative
NCD	INE572J07653	18 December 2023	10.11	18 December 2025	1.00	IND A+/Negative
NCD	INE572J07653	18 January 2024	10.11	18 December 2025	1.00	IND A+/Negative
NCD	INE572J07661	13 February 2024	10.75	13 August 2025	1.00	IND A+/Negative
NCD	INE572J07679	7 March 2024	10.75	3 April 2026	0.70	IND A+/Negative
NCD	INE572J07695	21 March 2024	10.75	21 December 2026	0.50	IND A+/Negative
NCD	INE572J07687*	30 December 2022	11.35	30 April 2025	1.00	IND A+/Negative
NCD	INE572J07612	7 August 2024	10.75	4 September 2026	0.50	IND A+/Negative
				Utilised limits	14.10	IND A+/Negative
				Unutilised Limits	5.35	IND A+/Negative
				Total Limits	19.45	IND A+/Negative

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

Contact

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

Solicitation Disclosures

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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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