SPANDANA

Ref: SSFL/Stock Exchange/2024-25/146

February 12, 2025

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

Scrip Code: 542759

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

Symbol: SPANDANA

Dear Sir/Madam,

Subject: Intimation of Credit Rating - Rating downgraded to IND A / 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 downgraded rating to IND A / Negative, for existing instruments of the Company as detailed below:

S. No.	Facilities/ Instruments	Amount (Rs. in billion)	Rating Action
1.	Non-Convertible Debentures	17.20 (reduced from 17.45)	IND A/Negative (downgraded from IND A+/Negative)
2.	Bank Loans	15.00	IND A/Negative (downgraded from IND A+/Negative)

Please find enclosed rationale as published by India Ratings & Research on February 12, 2025.

Kindly take the same on record.

Thanking You.

Yours Sincerely,
For Spandana Sphoorty Financial Limited

VINAY PRAKASH TRIPATHI
Digitally signed by VINAY PRAKASH TRIPATHI
Date: 2025.02.12 20:43:48 +05'30'

Vinay Prakash Tripathi
Company Secretary

Encl: *as above*

IndiaRatings & Research
A Fitch Group Company

India Ratings Downgrades Spandana Sphoorty Financials's NCDs and Bank Loans to 'IND A'; Outlook Negative

Feb 12, 2025 | Microfinance Institutions

India Ratings and Research (Ind-Ra) has downgraded rating of Spandana Sphoorty Financial Limited's (Spandana) non-convertible debentures (NCDs) and bank loans to 'IND A' with a Negative Outlook from 'IND A+' as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating Assigned along with Outlook/Watch	Rating Action
Non-convertible debentures*	-	-	-	INR17.20 (reduced from INR17.45)	IND A/Negative	Downgraded
Bank loans	-	-	-	INR15.0	IND A/Negative	Downgraded

*Details in annexure

Analytical Approach

Ind-Ra continues to fully consolidate Spandana's 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 among them.

Detailed Rationale of the Rating Action

The downgrade and Negative Outlook reflect deterioration in Spandana's asset quality during 9MFY25 and the consequent pressure on its consolidated profitability in 2QFY25 and 3QFY25, largely on account of elevated credit costs and operating expenses. The rating action also reflects higher reported losses during 9MFY25, largely in line with Ind-Ra's stressed estimates for FY25 and the agency's expectation of a weak financial and operating performance over the near term. The company witnessed a significant uptick in portfolio delinquencies during 9MFY25, 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 transition has been paused at present due to headwinds in the sector). The uncertainties in Karnataka with respect to any restrictions in the microlending operations and its incremental impact on Spandana's collections and asset quality over the near term will be closely monitored by the agency. Karnataka comprised 10.25% of Spandana's assets under management (AUM) as of December 2024.

However, the ratings are supported by 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, the company's ability to further diversify its funding profile and raise debt at improved rates compared to its peers is a key rating monitorable. The ratings remain vulnerable to the risks associated with the microfinance business, including its modest borrower profile. This, however, is mitigated to some extent 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 31 December 2024, the company was not in compliance with the financial covenants pertaining to asset quality and profitability for seven of its NCDs with an outstanding principal of INR3,728.1 million as on 31 December 2024 (reduced from INR7,328.8 million as on 30 September 2024). Of the ISINs which were in breach of covenants as on 30 September 2024, debenture holders pertaining to NCDs with an outstanding principal of INR1,983.2 million had requested for an early redemption in 3QFY25 and such debentures were redeemed in December 2024. These covenant breaches were reported by the company as a part of declaration of financial results for the quarter ended 31 December 2024. Moreover, the company was in breach of the covenants pertaining to asset quality and profitability for its term loans with an outstanding principal of INR2,678.9 million as of 31 December 2024. The company was also in breach of covenants pertaining to downgrade of credit ratings (by other credit rating agencies) with respect to its term loans with an outstanding amount of INR2,874.7 million as of 31 January 2025, and NCDs with an outstanding principal of INR 5,254.5 million. Ind-Ra notes that the lenders have not requested for any further recall of facilities or accelerated redemptions so far. However, 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 a key rating 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: At the consolidated level, Spandana's loan operations are spread across 20 states and 1,774 branches (20 states and 1,620 branches on a standalone basis) as of December 2024. On a standalone basis, its top state, Odisha accounted for 13.14% of the AUM and the share of the top three states, i.e. Odisha, Madhya Pradesh and Bihar stood at 38.07% as of December 2024 (March 2024: 14.3% and 39.2%; March 2023: 16.8% and 42.8%; March 2022: 18.5% and 47.5%). As of December 2024, no state accounted for over 14% of the overall standalone AUM. Ind-Ra expects the single-state concentration to reduce further as the company expands its portfolio in the medium term. As of December 2024, Madhya Pradesh, Odisha, Maharashtra, Rajasthan and Gujarat (41.1% of the loan portfolio) contributed to around 51% of the company's gross stage 3 assets. The company has witnessed a high level of attrition of loan officers largely in the states of Madhya Pradesh, Telangana, Rajasthan, Gujarat and Maharashtra. SSFL's growth trajectory in the high-risk geographies will be monitorable.

Spandana's consolidated AUM expanded at a 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 15.2% qoq to INR89,360 million during 3QFY25 (3QFY24: INR117,230 million) on account of muted disbursements. The consolidated borrower base stood at 2.96 million as of December 2024 (March 2024: 3.32 million; March 2023: 2.26 million), with the average outstanding loan ticket size per borrower remaining low at about INR30,189 (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 INR27,348.9 million as of 31 December 2024 (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 36% in 9MFY25 (FY24: 32%; FY23: 37%; FY22: 51%), supported by regular equity infusions (last round in FY22). Its consolidated leverage (outstanding debt to tangible net-worth) stood at 2.5x in 9MFY25 (FY24: 2.7x; FY23: 2.1x; FY22: 1.3x); the moderation in leverage was on account of muted disbursements and the decline in AUM during the period. Ind-Ra expects the company to maintain the leverage below 4.0x over the medium term. Ind-Ra takes note of the board approval taken by the company to raise equity capital of INR7,500 million over the near term; the quantum and proposed timeline for the equity raise is yet to be finalised. Ind-Ra believes an adequate capital raise on a timely basis will provide it further cushion to absorb the expected losses.

Moderation in Asset Quality; Profitability to be Impacted in FY25 due to Higher Credit Costs: In terms of asset quality, the consolidated gross stage 3 assets (IND-AS) and net stage 3 assets stood at 5.2% and 1.1%, respectively, as of December 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 9MFY25, owing to the operational disruptions faced during the period. Collection efficiency (collections made against demand for the period) moderated to 88.82% in December 2024 from 89.95% in November 2024 and 94.62% as of April 2024. Incremental write-offs stood at INR9,708 million (13.1% of the average loan book; annualised) for 9MFY25 (FY24: INR946.5 million; 1.0%). With the recent Microfinance Institution Network guardrails (applicable from January 2025) in place for microfinance lenders, 29.8% of SSFL's borrowers as of December 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 uncertainties in Karnataka with respect to any restrictions in the microlending operations and its incremental impact on Spandana's collections and asset quality over the near term will be closely monitored by the agency.

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 include a conservative lending approach by pause on on-boarding or lending to new-to-credit borrowers , pause on on-boarding new 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, among others.

The company maintains a high provisioning with the provision coverage ratio on stage 3 assets at around 80% for FY24 and 9MFY25; the total credit cost as a percentage of the average loan book stood at 18.3% (annualised) for 9MFY25 (FY24: 2.7%; FY23: 7.1%). The company created incremental provisions of INR4,234.9million during 9MFY25 (FY24: INR1,180.7 million) and wrote-off INR9,708 million (INR946.5 million). Total write-offs as percentage of the average loan book stood at 13.1% as of December 2024 (FY24: 1.0%). The cost to income ratio has also increased to 53.7% for 9MFY25 from 41.3% in FY24 on account of incremental expenses incurred to strengthen the collections infrastructure. Considering the impact of elevated credit cost, the company reported a consolidated loss of INR6,008.8 million for 9MFY25, translating to an annualised return on assets of negative 7% (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. Furthermore, between April and December 2024, the company raised incremental funds of INR40,095.2 million on a consolidated basis. Spandana's marginal cost of borrowings, after witnessing a declining trend between 2QFY24 and 1QFY25, saw an uptick in 2QFY25 and 3QFY25 and stood at 11.7% (1QFY25: 10.8%). Its cost of borrowing remains 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; it stood at 55% as of December 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 December 2024, Spandana had lending relationships with 26 banks including three public sector banks, 28 financial institutions and non-banking finance companies (NBFCs), two development financial institutions and 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 and liquid Investments stood at INR13,115 million as on 31 December 2024. It has total debt obligations of INR17,641.5 million between January 2025 and March 2025. The cash position as of December 2024 was sufficient to cover the debt obligations; the expected average monthly collections between January 2025 to June 2025 are estimated to be about INR 7,255.3 million, which further supports the liquidity profile. The company had unutilised sanctions of INR2,070 million as of January 2025. Spandana's asset-liability maturity profile, as on 31 December 2024, was characterised with a positive mismatch in all buckets.

Rating Sensitivities

Positive: A significant scale-up in the 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: Significant delays in improvement of 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 31 December 2024, Spandana had operations in 20 states/union territories spanning across more than 400 districts in 1,774 branches with an outstanding AUM of INR89,360 million.

Key Financial Indicators

Particulars (INR million) - Consolidated	9MFY25	FY24	FY23
Total tangible assets*	97,168	1,32,274	91,636
Total tangible equity*	27,347	34,898	28,803

Net profit	-6008.8	5,007	124
Return on average assets (%)	-7.0	4.5	0.2
Equity/assets (%)	28.14	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	**9MFY25**	**FY24**	**FY23**
Total tangible assets*	92,210.9	127,431	89,920
Total tangible equity*	27,465.7	34,295	28,496
Net profit	-5465.3	4,679	123
Return on average assets (%)	-6.6	4.3	0.2
Equity/assets (%)	29.79	26.9	31.7
Total capital ratio (%)	36	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	27 December 2024	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	INR17.20	IND A/Negative	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+/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

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan	Low
Non-convertible debentures	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
Non-convertible debentures	INE572J07349	31 March 2021	12.5	31 December 2024	0.25	WD (paid in full)
Non-convertible debentures	INE572J07398	24 March 2022	11.85	24 March 2028	0.35	IND A/Negative
Non-convertible debentures	INE572J07513	30 December 2022	11.35	30 December 2025	1.00	IND A/Negative
Non-convertible debentures	INE572J07562	24 April 2023	11.1	24 April 2025	1.00	IND A/Negative
Non-convertible debentures	INE572J07745*	24 April 2023	11.1	24 April 2026	1.00	IND A/Negative
Non-convertible debentures	INE572J07588	12 June 2023	10	12 June 2025	0.75	IND A/Negative
Non-convertible debentures	INE572J07604	24 August 2023	10.6	24 February 2025	0.80	IND A/Negative
Non-convertible debentures	INE572J07612	4 September 2023	10.75	4 September 2026	0.30	IND A/Negative
Non-convertible debentures	INE572J07620	7 September 2023	10.43	7 March 2025	1.00	IND A/Negative
Non-convertible debentures	INE572J07612	26 September 2023	10.75	4 September 2026	0.30	IND A/Negative
Non-convertible debentures	INE572J07612	26 October 2023	10.75	4 September 2026	0.40	IND A/Negative
Non-convertible debentures	INE572J07646	6 October 2023	10.75	24 March 2025	0.75	IND A/Negative
Non-convertible debentures	INE572J07638	6 October 2023	10.75	22 September 2025	0.50	IND A/Negative
Non-convertible debentures	INE572J07653	18 December 2023	10.11	18 December 2025	1.00	IND A/Negative
Non-convertible debentures	INE572J07653	18 January 2024	10.11	18 December 2025	1.00	IND A/Negative

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (INR billion)	Rating/ Outlook
Non-convertible debentures	INE572J07661	13 February 2024	10.75	13 August 2025	1.00	IND A/Negative
Non-convertible debentures	INE572J07679	7 March 2024	10.75	3 April 2026	0.70	IND A/Negative
Non-convertible debentures	INE572J07695	21 March 2024	10.75	21 December 2026	0.50	IND A/Negative
Non-convertible debentures	INE572J07687*	30 December 2022	11.35	30 April 2025	1.00	IND A/Negative
Non-convertible debentures	INE572J07612	7 August 2024	10.75	4 September 2026	0.50	IND A/Negative
Non-convertible debentures				Utilised limits	13.85	IND A/Negative
Non-convertible debentures				Unutilised limits	3.35	IND A/Negative
				Total limits	**17.20**	**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

Primary Analyst
Deepali Panda
Associate Director
India Ratings and Research Pvt Ltd
Unit# 614 - 616, 6th Floor, B Wing, Mittal Tower, M G Road, Bengaluru - 560 001
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Amit Rane
Senior Analyst
+91 22 40001700

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

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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.

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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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