

March 01, 2023

## Criss Financial Limited (erstwhile Criss Financial Holdings Limited): Ratings reaffirmed; 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	200.00	200.00	[ICRA]BBB reaffirmed; Outlook revised to Positive from Stable
Market linked debentures	100.00	100.00	PP-MLD[ICRA]BBB reaffirmed; Outlook revised to Positive from Stable
<b>Total</b>	<b>300.00</b>	<b>300.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The reaffirmation of Criss Financial Limited's (Criss) ratings and the revision in the outlook follow a similar rating action on Spandana Sphoorty Financial Limited (SSFL; rated [ICRA]A- (Positive)), which holds a 99.85% equity stake in Criss. ICRA continues to believe that the company will benefit from the management and financial support from the parent. SSFL's current senior management team is actively involved in Criss' day-to-day business and operations. Criss' board comprises members from SSFL's board. In addition to this, SSFL has extended a line of credit (current limit of Rs. 300 crore) and a corporate guarantee (up to Rs. 250 crore) for Criss' external borrowings. ICRA draws comfort from the financial flexibility arising from the company's parentage and the expected timely support from SSFL, when required.

Criss primarily disburses non-qualifying microfinance loans and loan against property (LAP), which constituted about 86% and 13% of its total loan portfolio, respectively, as of December 2022. Apart from this, its loan products include personal loans, interim loans and other loans, which together constituted the balance 1% of the loan portfolio as of December 2022.

Criss currently has an adequate capital profile, with a net worth of Rs. 165.5 crore and a managed gearing of 2.3 times as on December 31, 2022. Over the medium term, the company intends to restrict its leverage with a managed gearing of less than 4.0 times. Given the company's targeted annual portfolio growth rate of 10-15% over the next three years, ICRA does not expect any significant requirement for incremental equity capital. Nevertheless, if needed, ICRA expects timely support from SSFL to help Criss with its portfolio growth and capital profile.

The ratings continue to factor in Criss' small scale and geographically concentrated operations. ICRA also takes note of the improvement in delinquencies in 9M FY2023 (90+ days past due (dpd) stood at 6.5% in December 2022 vis-à-vis 8.5% as of March 2022). Despite the improvement, the asset quality is still subdued and remains a key monitorable.

### Key rating drivers and their description

#### Credit strengths

**Support from SSFL** – Criss is a 99.85%-subsidiary of SSFL. ICRA believes that the company will benefit from the management and financial support from the parent. Following the exit of the erstwhile Managing Director (MD) of SSFL, who was also a Director at Criss, SSFL's present senior management team is actively involved in Criss' day-to-day business and operations. Further, Criss' board comprises members from SSFL's board. Going forward, a separate senior management team is expected to be put in place in view of the company's growth plans. The company's financial flexibility is supported by a line of credit from SSFL (upper limit capped at Rs. 300 crore). Criss' external borrowings are backed by a corporate guarantee from SSFL up

to a limit of Rs. 250 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 2.3 times (managed basis) and 30.2%, respectively, as of December 2022 (1.7 times and 36.7%, respectively, as on March 31, 2022). Its capitalisation is supported by equity infusions from the parent (Rs. 25 crore in FY2019 and Rs. 50 crore in FY2021) and steady internal capital generation. The company is expected to keep its leverage below 4.0 times in the medium term and ICRA expects timely support from SSFL, if required, to help with its portfolio growth and capital profile.

### Credit challenges

**Small scale and geographically concentrated operations** – The company's scale of operations is small with assets under management (AUM) of Rs. 550 crore as on December 31, 2022 (Rs. 375 crore in March 2022 and Rs. 403 crore in March 2021). Its operations are concentrated in two states, i.e. Andhra Pradesh (AP; 72.9% of the portfolio as on December 31, 2022) and Telangana (27.1%), accentuating the risks associated with geographical concentration. Further, Criss had a presence in only 19 districts as on December 31, 2022 (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 21.3% to its total portfolio as on December 31, 2022 against 10.8% in March 2022. Criss' ability to increase its member base, recruit and retain employees, and augment its geographical diversity would be a key monitorable, going forward.

**Asset quality pressures remain monitorable** – Criss' 90+dpd stood at 6.5% in December 2022 vis-à-vis 8.5% in March 2022 and 1.9% in March 2021 (0.0% in March 2020). The improvement in delinquencies in 9M FY2023 was on account of the marginal improvement in the collection efficiency and the growth in the AUM. Despite the marginal improvement in the asset quality, it is still weak and remains a monitorable. Going forward, it is crucial for Criss to bolster its collection efficiency efforts to stop the forward flow of delinquencies from softer delinquency buckets to harder buckets.

Criss' microfinance book is vulnerable to socio-political and operational risks, which could negatively impact the operations and financial position of entities with exposure to this sector, including Criss. The industry risks are further accentuated by the company's geographically concentrated portfolio.

**Earnings impacted in FY2022; expected to remain subdued in the near term due to elevated credit costs** – Criss reported a net profit of Rs. 12.2 crore in 9M FY2023, translating into a return on managed assets (RoMA) of 3.2% and a return on average net worth (RoNW) of 10.2% compared to 5.4% and 16.3%, respectively, in FY2022 (5.6% and 17.4%, respectively, in FY2021). The profitability in 9M FY2023 was impacted by the increase in credit provision costs to 3.5% of the average managed assets (AMA) from 3.3% in FY2022 and the reduction in the net interest margin (NIM) to 7.6% of the AUM from 9.6% during this period. Despite the marginal improvement in the gross and net non-performing advances (GNPAs and NNPAAs) as of December 2022 from March 2022, the asset quality remains weak. Accordingly, the company's profitability is expected to be moderate in relation to its past performance.

### Liquidity position: Adequate

Criss had Rs. 0.9 crore of on-book liquidity as on December 31, 2022 and a line of credit of Rs. 300 crore from SSFL (unutilised limits stood at Rs. 18.3 crore as of December 31, 2022). This is adequate to meet its expected debt obligation of Rs. 14.7 crore till February 2023. As on December 31, 2022, Criss' total borrowings stood at Rs. 378.5 crore (term loans from banks at 0.9%, term loans from financial institutions at 18.2%, capital market instruments at 5.7% and inter-corporate loans from SSFL at 75.2% of the overall borrowings). SSFL had increased the limit of the credit line extended to Criss to Rs. 300 crore from Rs. 200 crore in FY2023. 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 funding sources to secure the required funds in a timely manner for maintaining a comfortable liquidity profile as the business expands.

### Rating sensitivities

**Positive factors** – ICRA could upgrade Criss' ratings if there is an improvement in SSFL's credit profile or if Criss demonstrates a steady portfolio growth while maintaining a good earnings profile.

**Negative factors** – Pressure on Criss’ ratings could arise if there is a material deterioration in SSFL’s credit profile. An increase in the leverage beyond 6 times on a sustained basis or a material deterioration in the asset quality, impacting the earnings profile, would also negatively impact the ratings.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA Rating Methodology for NBFCs</a> <a href="#">Impact of Parent or Group Support on Issuer's Rating</a>
Parent/Group support	The ratings factor in the high likelihood of the parent, SSFL, extending financial support because of 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 largely held by Ms. Padmaja Reddy before it was acquired by SSFL in FY2019, which currently holds a 99.85% equity stake. Criss primarily disburses non-qualifying microfinance loans and loan against property (LAP), which constituted about 86% and 13% of its total loan portfolio, respectively, as of December 2022. Apart from this, its loan products include personal loans, interim loans and other loans, which together constituted the balance 1% of the loan portfolio as of December 2022.

### Key financial indicators (audited)

Criss Financial Limited	FY2020	FY2021	FY2022	9M FY2023
Total income	34.7	54.8	100.4	68.3
Profit after tax/(loss)	15.0	16.9	23.1	12.2
Net worth	64.2	130.2	153.2	165.5
Total assets	185.8	399.9	420.5	557.5
Total managed assets	188.2	415.0	439.5	573.8
Return on managed assets	10.2%	5.6%	5.4%	3.2%
Return on net worth	26.6%	17.4%	16.3%	10.2%
Gearing (times)	1.8	1.9	1.7	2.3
Gross NPA	0.0%	1.1%	9.2%	6.5%
Net NPA	0.0%	0.9%	6.1%	4.6%
Capital adequacy ratio	35.0%	33.3%	36.7%	30.2%

Source: Company’s financial statements; 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 (FY2023)						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	Date & Rating in FY2020
					March 01, 2023	Oct 04, 2022	Jun 17, 2022	Nov 10, 2021	Jun 18, 2021	Jun 19, 2020	Jan 07, 2020
1	Term loan	Long term	200.0	200.0	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB&	[ICRA]BBB&	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	MLD	Long term	100.0	100.0	PP-MLD[ICRA]BBB (Positive)	PP-MLD[ICRA]BBB (Stable)	PP-MLD[ICRA]BBB&	PP-MLD[ICRA]BBB&	PP-MLD[ICRA]BBB (Stable)	-	-

& – Under 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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	January 30, 2021	NA	February 1, 2023	1.25	[ICRA]BBB (Positive)
NA	Term loan	March 17, 2021	NA	March 20, 2023	0.29	[ICRA]BBB (Positive)
NA	Term loan	August 6, 2021	NA	June 10, 2023	3.00	[ICRA]BBB (Positive)
NA	Term loan	August 21, 2021	NA	June 5, 2023	2.68	[ICRA]BBB (Positive)
NA	Term loan	September 1, 2021	NA	March 5, 2024	21.10	[ICRA]BBB (Positive)
NA	Term loan	September 1, 2021	NA	March 5, 2024	2.34	[ICRA]BBB (Positive)
NA	Term loan	September 3, 2021	NA	September 7, 2023	1.37	[ICRA]BBB (Positive)
NA	Term loan	September 3, 2021	NA	September 7, 2023	1.37	[ICRA]BBB (Positive)
NA	Term loan	September 3, 2021	NA	September 7, 2023	1.37	[ICRA]BBB (Positive)
NA	Term loan	September 3, 2021	NA	September 7, 2023	0.26	[ICRA]BBB (Positive)
NA	Term loan	December 20, 2022	NA	July 28, 2025	34.00	[ICRA]BBB (Positive)
NA	Term loan (proposed)	NA	-	NA	130.97	[ICRA]BBB (Positive)
INE02EP07020	Market linked debenture (MLD) programme	June 15, 2021	10-year G-Sec linked	July 15, 2023	12.0	PP-MLD[ICRA]BBB (Positive)
INE02EP07012	MLD programme	June 15, 2021	10-year G-Sec linked	January 15, 2023	6.0	PP-MLD[ICRA]BBB (Positive)
NA	MLD programme (proposed)	-	-	-	82.0	PP-MLD[ICRA]BBB (Positive)

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	Ownership	Consolidation Approach
Not Applicable	-	-

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