SPANDANA

Ref: SSFL/Stock Exchange/2025-26/033

June 11, 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	INR12.30 (reduced from INR17.20)	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 June 10, 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: 2025.06.11 11:31:03 +05'30'

Vinay Prakash Tripathi
Company Secretary

Encl: *as above*

India Ratings & Research
A Fitch Group Company

India Ratings Downgrades Spandana Sphoorty Financial's NCDs and Bank Loans to 'IND A-'/Negative

Jun 10, 2025 | Microfinance Institutions

India Ratings and Research (Ind-Ra) has downgraded Spandana Sphoorty Financial Limited's (Spandana) non-convertible debentures (NCDs) and bank loans' ratings to 'IND A-' from 'IND A' with a Negative Outlook 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*	-	-	-	INR12.30 (reduced from INR17.20)	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 (99.92% stake; 'IND BBB+/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 the continued stress on Spandana's asset quality during FY25, leading to pressure on its consolidated profitability, largely on account of elevated credit costs and operating expenses. Furthermore, the infusion of the confidence equity capital, as guided by the management during 4QFY25, is yet to be completed. Ind-Ra notes that, as per the management's estimates, the capital infusion will be completed by 2QFY26. Spandana is one of the companies that have been most impacted by the microfinance crisis, and the rating action reflects the significant losses reported by the company during FY25, higher than the Ind-Ra's estimates for the period, post the declaration of 1HFY25 financial performance and in line with the agency's revised estimates. The agency expects the operating and financial performance to remain under pressure in the near term. The company witnessed a significant uptick in portfolio delinquencies in FY25, largely on account of 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), leading to weakening of the asset quality. The internal challenges were further exacerbated by external factors such as the impact of general elections in 1QFY25, political movements, namely Karza Mukti Abhiyan, in certain geographies, and adverse weather conditions. Furthermore, during 4QFY25, the company's operations in Karnataka were disrupted by the implementation of the microfinance bill to curb coercive recovery practices. Karnataka comprised 10% of Spandana's assets under management (AUM) as of March 2025.

The ratings are supported by Spandana's geographically diversified loan portfolio and a healthy capitalisation profile, supported by the demonstrated track record of regular equity infusions. However, Spandana's overall cost of borrowings remains higher than that of its peers. The company also witnessed an uptick in the marginal cost of borrowing between 1QFY25 and 4QFY25. Thus, Spandana's ability to further diversify its funding profile and raise debt at improved rates compared to its peers would be 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. Given the exit of the erstwhile managing director, Shalabh Saxena, in the midst of the headwinds faced by the company, the stability of the leadership team will remain key for the execution of management strategy and scaling up of the franchise. Ashish Damani (chief financial officer and president, Spandana) has been appointed as the interim CEO, and there have not been any other exits from the company's senior management team.

As on 31 March 2025, the company was not in compliance with the financial covenants pertaining to asset quality, profitability and management covenant (post the exit of the erstwhile managing director on 23 April 2025) for 14 of its NCDs with an outstanding principal of INR10,583.6 million as on 31 March 2025. The company was in breach of management covenant for only one NCD (outstanding amount of INR375 million as on 31 March 2025). With respect to the ISINs that were in breach of covenants as on 31 March 2025, the company has received redemption request from debenture holders for a principal amount of INR1,274.1 million till date, and the debentures will be redeemed to that extent. Spandana has received a waiver on covenant breach from debenture holders for seven NCDs, with an outstanding principal of INR7,984.5 million. Moreover, the company was in breach of the covenants pertaining to asset quality and profitability for its term loans, with an outstanding principal of INR1,776 million as on 31 March 2025. Additionally, the company was not compliant with the terms of agreement pertaining to the downgrade of credit ratings in 4QFY25 with respect to some of its term loan facilities. The lenders have not requested for any further recall of term loan facilities 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 would be key rating monitorables.

List of Key Rating Drivers

Strengths

Geographically diversified portfolio
Healthy capitalisation profile

Weaknesses

Strategic execution key to regain franchise
Weak asset quality; near-term profitability to be impacted 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, as of March 2025, Spandana's loan operations were spread across 20 states and 1,804 branches (20 states and 1,628 branches on a standalone basis). On a standalone basis, its top state, Madhya Pradesh accounted for 13.4% of the AUM, and the total share of the top three states, i.e. Odisha, Madhya Pradesh and Bihar, stood at 37.9% as of March 2025 (March 2024: 14.3% and 39.2%; March 2023: 16.8% and 42.8%; March 2022: 18.5% and 47.5%). As of March 2025, 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 March 2025, the top five states in terms of portfolio concentration, Madhya Pradesh, Odisha, Bihar, Andhra Pradesh and Karnataka (59.1% of the loan portfolio), contributed 61.1% to the company's gross stage 3 assets. As part of its calibrated growth approach, Spandana plans to maintain its AUM in these high-risk geographies at similar levels in FY26.

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 in FY24. However, the portfolio moderated 43% yoy to INR68,190 million during FY25 on account of muted disbursements and higher portfolio write-offs taken during the period. The management expects the AUM to grow by around 20% yoy in FY26, which will be driven by new borrower acquisition and cautious disbursements to the existing borrowers, taking into account the overall indebtedness and credit profile of the borrower. The consolidated borrower base stood at 2.49 million as of March 2025 (March 2024: 3.32 million; March 2023: 2.26 million), with the average outstanding loan ticket size per borrower remaining low at about INR27,386 (March 2024: INR36,063).

Healthy Capitalisation Profile: Spandana maintains a healthy capitalisation profile, with a consolidated net worth (adjusted for deferred tax assets, intangibles and goodwill) of INR21,378 million as on 31 March 2025 (FY24: INR34,898 million; FY23: INR28,803 million; FY22: INR28,813 million). Also, its standalone capital adequacy ratio stood at 36% in FY25 (FY24: 32%; FY23: 37%; FY22: 51%), remaining above the regulatory benchmark of 15%, supported by regular equity infusions (last round in FY22). Its consolidated leverage (outstanding debt to tangible net-worth) stood at 2.6x in FY25 (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. The company has received board and shareholder's approval to raise confidence equity capital of INR7,500 million over the near term, a part of which will be raised by 2QFY26 through a rights issue, as per the management. Any significant delay in the timing of equity capital infusion along with any material changes in the quantum of equity proposed to be raised will be a rating monitorable.

Strategic Execution key to regain franchise: Adopting a cautious approach, Spandana pulled back on its disbursements between January-May 2025, leading to a significant loss of a part of its franchise. Ind-Ra expects the company to cover major strides in regaining the franchise in FY26 on the back of healthy capitalisation levels. Growth will be driven by the servicing of the existing borrower base along with acquisition of new borrowers. Ind-Ra will closely monitor the company's efforts to build its franchise while keeping asset quality under control. The agency has taken note of the auditor's observations on the internal controls related to certain operating procedures and increased cash frauds in the branches in FY25; therefore, further strengthening of the internal controls will remain key. With the exit of Shalabh Saxena, the erstwhile managing director and chief executive officer, the stability of the leadership team will also remain key for the execution of management strategy and scaling up of the franchise. Ashish Damani (chief financial officer & president, Spandana) has been appointed as the interim CEO and there have not been any other exits from the senior management team at Spandana.

Weak Asset Quality; Near-Term Profitability to be Impacted by Higher Credit Costs: In terms of asset quality, the consolidated gross stage 3 assets (IND-AS) and net stage 3 assets stood at 5.63% and 1.19%, respectively, as of March 2025 (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 FY25, owing to the various operational disruptions faced during the period. As of March 2025, Spandana's 0+dpd and 30+dpd on a standalone basis remained elevated at 18.1% and 15.5%, respectively, (December 2024: 16.9%, 12.8%; September 2024: 16.0%, 10.9%) on a lower AUM base. The collection efficiency (collections made against demand for the period) remained flattish at 89.41% in March 2025 (December 2024: 88.82% in, November 2024: 89.95%, April 2024: 94.62%). The incremental write-offs stood at INR16,176 million (18.3% of the average loan book) in FY25 (FY24: INR946.5 million; 1.0%). With the recent Microfinance Institution Network guardrails (applicable from April 2025) in place for microfinance lenders, 20.3% of SSFL's borrowers as of March 2025, 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 normalisation of the asset quality in Karnataka in the near term will be a key monitorable.

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 collections from monthly collections, which impacted both disbursements and collections. Some of the risk mitigation techniques adopted by the company include a conservative lending approach by not on-boarding any delinquent borrowers (the borrower should not be even a single day delinquent, taking household delinquency levels into account), 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 setting up a dedicated collections team for non-performing accounts, 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 of 79% in FY25 (FY24: around 80%); the total credit cost as a percentage of the average loan book stood at 22.5% for FY25 (FY24: 2.7%; FY23: 7.1%). Spandana incurred incremental credit costs of INR19,863 million during FY25. The cost to income ratio also increased to 59.3% in FY25 (FY24: 41.3%) on account of incremental expenses incurred to strengthen the collections infrastructure. Considering the impact of elevated credit cost in FY25, the company reported a consolidated loss of INR10,352 million for FY25, translating to negative return on assets (FY24: INR5,007.2 million; 4.5%). Spandana's asset quality is yet to stabilise, given the slippages in the softer delinquency buckets, and therefore, Ind-Ra expects the near-term profitability to remain impacted due to incremental credit costs. 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: Spandana, on a consolidated basis, raised INR44,820 million in FY25 (FY24: INR 104,413 million; FY23: INR57,753 million) from its existing as well as new lenders. Furthermore, the company raised incremental funds of INR40,789 million on a standalone basis during FY25. After having declined during 2QFY24-1QFY25, Spandana's marginal cost of borrowings saw an uptick between 2QFY25-4QFY25 and stood at 11.9% (1QFY25: 10.8%; 2QFY25: 11.4%; 3QFY25: 11.7%). Its cost of borrowing remains higher than some of the industry peers'. The share of bank funding stood at 57% as of March 2025 (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 on 31 March 2025, 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 INR13,240 million as on 31 March 2025. It has total debt obligations and operational expenses of INR 30,652.1 million between April 2025 and September 2025. The management estimates the average monthly collections between April 2025 to September 2025 to be about INR4,963.4 million. The cash position as of March 2025 along with the monthly collections is sufficient to cover the debt obligations and operational expenses until September 2025. Spandana's asset-liability maturity profile, as on 31 March 2025, had a positive mismatch in all tenor buckets.

Rating Sensitivities

Positive: A significant scale-up in the AUM with geographical diversification, a material improvement in the asset quality and stabilisation in the earnings profile and a significant diversification in the funding profile with a reduction in the cost of borrowing in-line with peers could lead to a positive rating action.

Negative: Further delays in improvement of the asset quality, adversely impacting profitability, funding challenges, leading to a dilution in liquidity, significant delay in timing of equity capital infusion and any material changes in the quantum of equity proposed to be raised, a moderation in the capitalisation profile, with the leverage exceeding 4.0x, all on a sustained basis and/or any adverse regulatory action, could lead to a negative rating action.

Any Other Information

Not Applicable

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 March 2025, Spandana had operations in 20 states/union territories spanning across more than 400 districts in 1,804 branches with an outstanding AUM of INR68,190 million.

Key Financial Indicators

Particulars (INR million) - Consolidated	**FY25**	**FY24**	**FY23**
Total tangible assets*	79,981	1,32,274	91,636
Total tangible equity*	21,379	34,898	28,803
Net profit	-10,351.6	5,007	124
Return on average assets (%)	-9.8	4.5	0.2
Equity/assets (%)	26.7	26.4	31.4
Total capital ratio (%)	37.1	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	**FY25**	**FY24**	**FY23**
Total tangible assets*	75,674.2	127,431	89,920
Total tangible equity*	21,822.1	34,295	28,496
Net profit	-9,567.4	4,679	123
Return on average assets (%)	-9.4	4.3	0.2
Equity/assets (%)	28.84	26.9	31.7
Total capital ratio (%)	36.3	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	12 February 2024	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
Non-convertible debentures	Long-term	INR12.30	IND A-/Negative	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
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
Bank loans	Long-term	INR15.00	IND A-/Negative	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
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
NCD	INE572J07398	24 March 2022	11.85	24 March 2028	0.35	WD (paid in full)
NCD	INE572J07513	30 December 2022	11.35	30 December 2025	1.00	IND A-/Negative
NCD	INE572J07562	24 April 2023	11.1	24 April 2025	1.00	WD (paid in full)
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	INE572J07604	24 August 2023	10.6	24 February 2025	0.80	WD (paid in full)
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	WD (paid in full)
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	WD (paid in full)
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

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (INR billion)	Rating/ Outlook
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	WD (paid in full)
NCD	INE572J07612	7 August 2024	10.75	4 September 2026	0.50	IND A-/Negative
NCD				Utilised limits	8.95	IND A-/Negative
NCD				Unutilised limits	3.35	IND A-/Negative
				Total limits	**12.30**	**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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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

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

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria