

Spandana Sphoorty

Estimate change



TP change



Rating change



Bloomberg	SPANDANA IN
Equity Shares (m)	71
M.Cap.(INRb)/(USD\$)	64.9 / 0.8
52-Week Range (INR)	920 / 470
1, 6, 12 Rel. Per (%)	12/47/45
12M Avg Val (INR M)	106

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
NII	13.0	17.5	22.1
Total Income	15.4	19.7	24.3
PPoP	8.9	11.6	14.4
PAT	5.0	6.4	7.9
EPS (INR)	71.1	90.1	111.3
EPS Gr. (%)	3,975	27	24
BV (INR)	508	598	709

Ratios (%)

NIM	14.0	14.0	13.9
C/I ratio	42.1	41.2	40.6
Credit cost	2.2	2.4	2.4
RoA	4.6	4.5	4.4
RoE	15.1	16.3	17.0

Valuations

P/E (x)	12.8	10.1	8.2
P/BV (x)	1.8	1.5	1.3

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	60.4	62.4	63.0
DII	13.0	8.4	8.6
FIIFII	18.7	21.3	13.1
Others	7.8	7.9	15.3

FII Includes depository receipts

CMP: INR913

TP: INR1100 (+21%)

Buy

Strong AUM growth; high other income drives earnings beat

Asset quality improves; reported NIM declines ~10bp QoQ

- Spandana's PAT surged ~127% YoY to ~INR1.25b (6% beat) in 2QFY24, driven by higher other income despite sequentially higher credit costs. NII grew ~70% YoY to ~INR3.2b (in line).
- The company continued to pursue customer acquisition-led growth, with the addition of ~350k borrowers (up ~180% YoY) in 2QFY24. We estimate a ~34% CAGR in AUM over FY23-FY26, driven by strong customer acquisitions. We believe that the company has now comfortably pivoted from consolidation to the growth phase and it will maintain tight control over asset quality. We increase our FY24E/FY25E EPS by ~9% each to factor in higher AUM growth and other income and lower credit costs.
- Spandana has refined its processes by adopting the right tools and technologies. The new management team has fortified governance and risk controls and scaled up multiple technology-related initiatives to further refine JLG processes.
- The company trades at 1.4x Sep'25E P/BV with FY26E RoA/RoE of 4.4%/17%. Given the strong opportunity in the microfinance sector, we think that the company is poised for further rerating if it executes well on its stated goal of quality growth. **Maintain BUY with a TP of INR1110 (premised on 1.7x Sep'25E BV).**

Healthy AUM growth; minor NIM compression QoQ

- AUM grew ~69% YoY to ~INR97.8b, while disbursement increased by ~80% YoY to INR25.1b. The company added ~314 loan officers during the quarter and currently employs ~8,500 loan officers.
- Reported yields improved ~40bp QoQ to 24.5%, while CoF remained stable at 12.5%, resulting in a ~10bp QoQ decline in NIM to 14.1%.
- Spandana borrowed ~INR31.9b in 2QFY24. The marginal CoF remained stable QoQ at 12.3%.

Asset quality improved, but credit costs elevated sequentially

- GNPA/NNPA fell 25bp/5bp QoQ to ~1.4%/0.4%. PCR was steady at ~70%.
- Annualized credit costs in 2QFY24 stood at 4.2% (vs. 1.4% in 1QFY24 and 2.0% in 2QFY23). This included ~2.6% of credit costs for impairment cost pertaining to loans disbursed prior to Apr'21 and security receipts. Excluding it, normalized credit costs stood at ~1.6%.
- As a part of its risk management strategy, the company is working on reducing the concentration risk and aims to limit the maximum contribution of any state in the AUM mix to ~12% by Mar'25.
- Gross collection efficiency (including arrears) was at 100.3% (vs. 101.5% in 1Q) and net collection efficiency stood at 97.7% (vs. 98.1% in 1Q). The management attributes higher flows in the 1-90dpd bucket and a decline in collections to Project Parivartan, which has changed the operational model of ~700 branches and the collection date for 1.5m customers.

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Highlights from the management commentary

- Spandana will focus on moving into geographies where it can get customers with a single lender relationship, and the company has guided that this number should improve to ~38-39% from current levels of 34%.
- Further flows into 90+ dpd are unlikely because of administrative issues related to Project Parivartan. It maintains credit cost guidance of <2%.

Valuation and view

- The new management has successfully navigated various disruptions and consequent asset quality stress. With strengthened processes, it is now ready to capitalize on the strong opportunity in the MFI sector and deliver an AUM CAGR of 34% over FY23-FY26E.
- We estimate Spandana to deliver FY26 RoA/RoE of 4.4%/17%, aided by: a) operating leverage resulting in decline in operating cost ratios, and b) normalization in credit costs from FY25 onward.
- **Key downside risks:** 1) Poor execution on asset quality could increase the credit cost; and 2) Inability to retain talent in the senior/middle management teams.

Quarterly Performance												
Y/E March	FY23				FY24				FY23	FY24E	2QE	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	2,440	2,765	3,377	4,193	4,929	5,436	6,034	6,694	12,775	23,094	5,210	4
Interest Expenses	968	914	1,207	1,490	1,995	2,277	2,710	3,095	4,579	10,077	2,117	8
Net Interest Income	1,472	1,851	2,170	2,703	2,934	3,159	3,324	3,599	8,196	13,016	3,093	2
YoY Growth (%)	-41.9	-7.7	14.5	76.8	99.3	70.6	53.2	33.1	2.9	58.8	67.1	
Other Income	149	337	373	1,137	344	966	626	698	1,995	2,334	415	133
Total Income	1,621	2,188	2,543	3,840	3,277	4,125	3,950	4,298	10,192	15,350	3,508	18
YoY Growth (%)	-44.4	-11.2	20.6	100.9	102.2	88.5	55.4	11.9	8.4	50.6	60.3	
Operating Expenses	1,114	1,088	1,136	1,232	1,386	1,549	1,695	1,833	4,570	6,464	1,488	4
Operating Profit	506	1,100	1,406	2,608	1,891	2,576	2,255	2,464	5,621	8,886	2,021	27
YoY Growth (%)	-77.6	-35.2	13.6	351.3	273.5	134.1	60.3	-5.5	-2.6	58.1	83.6	
Provisions & Loan Losses	3,517	258	446	1,222	286	901	450	453	5,443	2,090	429	110
Profit before Tax	-3,011	843	960	1,386	1,605	1,675	1,805	2,011	178	6,797	1,592	5
Tax Provisions	-814	291	247	330	411	423	464	449	54	1,747	406	4
Net Profit	-2,197	552	714	1,055	1,195	1,252	1,341	1,562	124	5,050	1,186	6
YoY Growth (%)	-501.0	-194.1	58.3	269.0	-154.4	126.9	87.9	48.0	-82.3	3,974.6	114.9	
Key Parameters (%)												
Yield on loans	18.3	21.0	22.7	23.5	24.7	25.5	25.6	25.3				
Cost of funds	11.1	10.5	10.9	10.6	12.8	12.9	12.9	13.0				
Spread	7.2	10.5	11.8	12.9	11.9	12.6	12.7	12.3				
NIM	11.0	14.0	14.6	15.2	14.7	14.8	14.1	13.6				
Credit cost	26.4	2.0	3.0	6.9	1.4	4.2	1.9	1.7				
Cost to Income Ratio (%)	68.8	49.7	44.7	32.1	42.3	37.6	42.9	42.7				
Tax Rate (%)	27.0	34.5	25.7	23.8	25.6	25.3	25.7	22.3				
Performance ratios (%)												
AUM/Branch (INR m)	53	55	61	69	68	70						
AUM/Loan Officer (INR m)	9.0	9.1	10.2	10.9	10.8	11.5						
Borrowers/Branch	1,907	1,946	2,009	1,842	1,850	1,798						
Borrowers/Loan Officer	257	258	257	226	226	213						
Balance Sheet Parameters												
AUM (INR B)	55.1	57.8	68.5	85.1	88.5	97.8	110.2	122.4				
Change YoY (%)	-25.4	-23.4	2.3	29.3	60.5	69.2	60.8	43.9				
Disbursements (INR B)	13.3	13.9	23.6	30.5	16.6	25.1	32.4	38.0				
Change YoY (%)	513.9	5.3	422.3	120.5	25.5	80.7	37.3	24.5				
Borrowings (INR B)	32.4	37.6	52.0	66.1	68.7							
Change YoY (%)	-37.3	-26.6	7.5	59.8	112.3							
Borrowings/Loans (%)	58.7	65.0	75.9	77.6	77.6							
Debt/Equity (x)	1.1	1.3	1.7	2.0	2.0	2.3						
Asset Quality (%)												
GS 3 (INR M)	3,670	4,260	3,640	1,660	1,370	1,270						
G3 %	6.7	7.4	5.3	2.1	1.6	1.4						
NS 3 (INR M)	1,770	2,220	1,730	510	410	380						
NS3 %	3.4	4.0	2.6	0.7	0.5	0.4						
PCR (%)	51.8	47.9	52.5	69.3	70.1	70.1						
ECL (%)	5.0	4.8	4.0	2.9	2.5	2.4						
Return Ratios - YTD (%)												
ROA (Rep)	-13.2	3.4	3.8	4.8	5.0	4.8						
ROE (Rep)	-29.7	7.8	9.8	13.9	15.1	15.2						
E: MOSL Estimates												



Highlights from the management commentary

Business philosophy

- Focused on the following priorities: a) People - reinforcing the senior and middle management teams, b) Strengthening governance, risk and controls by refining processes, c) technology scale-up, d) customer focus
- Rolled out employee benefits like Health Insurance and started doing quarterly town halls.

Guidance

- The management has guided that yields could increase by 10-20bp.
- Borrowers per loan officer should be around 450-470, with AUM per loan officer of INR15m.
- It plans to add another 500-700 loan officers over a course of time, but a large part of team building is now complete.

Asset Quality

- Further flows into 90+ are unlikely because of administrative issues related to Project Parivartan.
- Still continues to guide for credit costs of <2%.
- Areas that had deficient/excess rainfall were just ~2-3% of the entire Spandana loan book.
- Bihar CE is better than the national average. Not seen any specific stress in any states.
- ARC book on the balance sheet - Total outstanding is INR1.64b. Confident that it should be able to collect from most of the customers in the ARC pool and further provisioning should not be required.
- Targets ~INR1b of recoveries (from written-off pool) in FY24

Customer Profile

- About 33-34% of Spandana customers have a single lender relationship, another 36% have 1+1 and 19% have a 1+2 lender relationship.
- It will focus on moving into geographies where it can get customers with a single lender relationship and it has guide that this number should improve to ~38-39%.

Performance update

- Added 350k customers with 183% YoY growth in new customer acquisitions
- Acquired 610k customers and on course to cross 3m customers by year end.
- AUM stood at INR97.86b, 69% YoY and 11% QoQ.
- Seven new focus states contributed 22% to the total AUM and their contribution will increase to 26% by Mar'24 and 30% by Mar'25 and subsequently to 40-41%. No state should be more than 12% of the total AUM.
- GNPA declined 22bp to 1.4% and NNPA declined to 0.42%.
- CRAR is ~37%, indicating a good balance sheet position.
- Comfortable with leverage of 3.5-4.0x and beyond that, it will start looking for equity growth capital.
- PAT stood at INR1.25b, up 127% YoY and 5% QoQ. Received a credit rating upgrade to A (Stable) from ICRA and now all three rating agencies have the same credit rating.

Distribution

- Customer acquisition led growth
- Moving to the weekly repayment model from the current monthly model
- Branch Expansion - During 1HFY24, it has operationalized 165 branches. Another 110 branches will be operationalized within next 3 months. It will take its total branch count to over 1,500.

Lending philosophy

- Acquire more customers
- Lend shorter tenors (12-18 months)
- Muted ticket sizes (not be aggressive on ticket sizes)
- Weekly repayments (by end of FY25, 80% of the Spandana branches will be on weekly model)

Project Parivartan

- Earlier, first 10 days of the month were reserved for collections and the remaining 20 days were for sales/servicing.
- It feels that it should be doing all three things: a) acquire, b) disburse and c) collect from customers at the same time.
- It changed the model in 730 branches in 2QFY24, with 1.5m customers affected. Changed the EMI collection date to weekly with no customer interface on Saturday/Sunday. It does not plan to make any operational changes in the remaining 300 branches.
- It led to an increase in the flows and Spandana is confident that within 3-4 months it will stabilize 1-90dpd.

Liabilities

- Mobilized INR31.9b in 2Q. Added three big lenders: SBI, NABARD and SIDBI
- Could see some improvement in the marginal CoB. As the participation from PSU Banks improves and the liability mix changes, CoB should start coming down.

New customer acquisitions

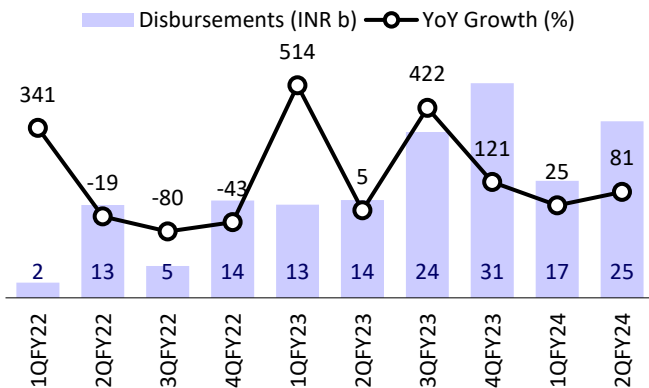
- Added 610k customers in 1HFY24. Guides for new customer acquisitions of 1.1-1.15m in FY24. However, it will still remain within the guided AUM of INR120b by Mar'24.

Others

- It will continue to focus on lower ticket size. Even for customers with vintage of 7-8 years, it gives a loan with maximum ticket size of INR80k.
- Rejection rate is ~45% since Spandana is not ready for longer tenor of over 2 years.
- Customer indebtedness will remain static or will decline for the next 6-12 months.
- Does not see any regulatory risk or RBI interventions on capping yields or spreads.
- Opened 10 LAP branches and disbursed INR35m and within Nano-SME it has disbursed INR2.5m. Plans to add another 40 branches and LAP disbursements of INR750m-1b by Mar'24.
- DA outstanding of INR7.32b

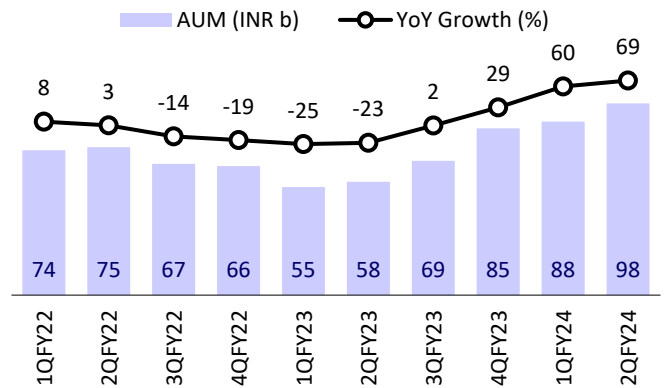
Story in charts

Exhibit 1: Disbursements grew 80% YoY...



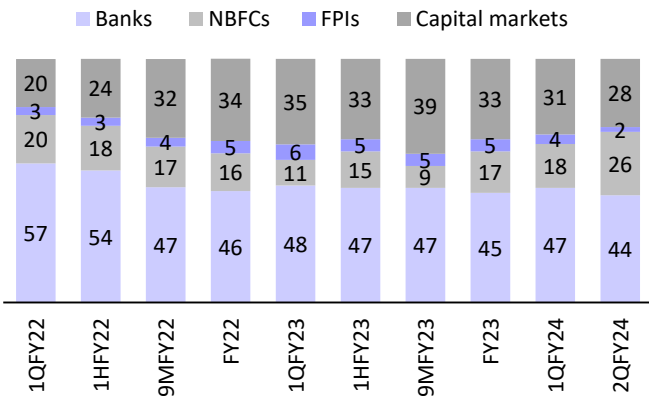
Source: MOFSL, Company

Exhibit 2: ...driving 69% YoY growth in AUM



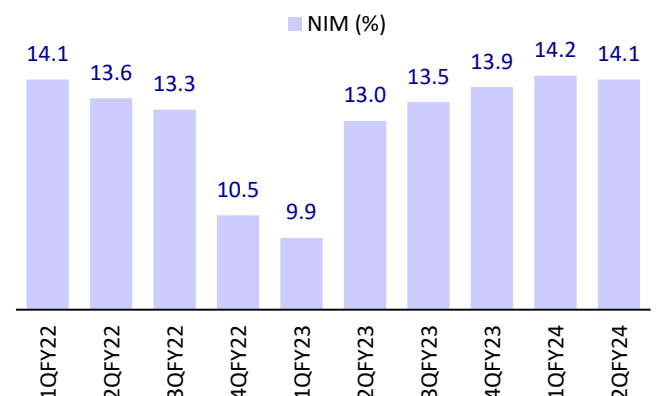
Source: MOFSL, Company

Exhibit 3: Borrowing mix (%)



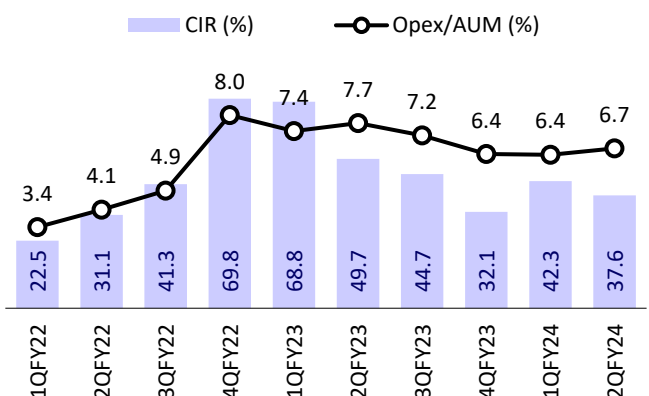
Source: MOFSL, Company

Exhibit 4: Reported NIM contracted ~10bp sequentially (%)



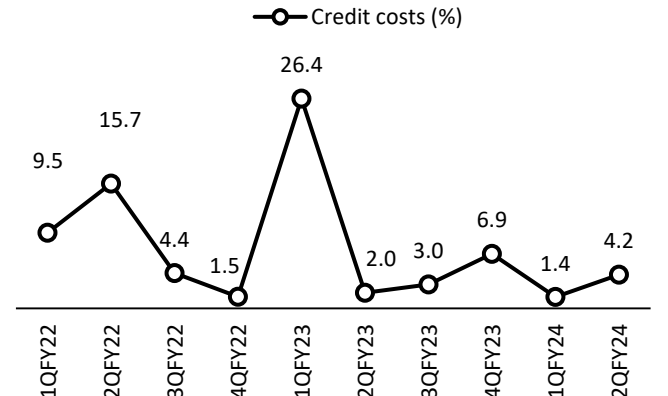
Source: MOFSL, Company

Exhibit 5: Opex/AUM increased by 30bp QoQ (%)



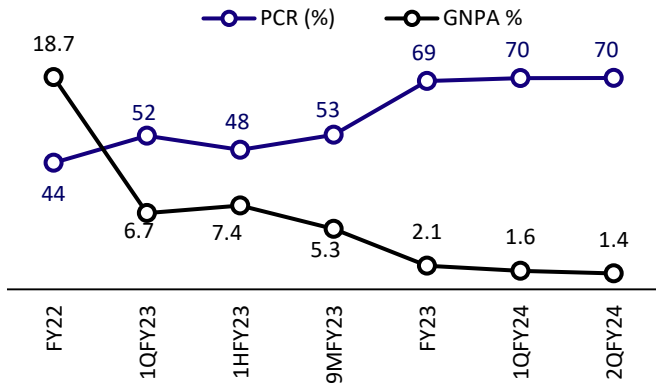
Source: MOFSL, Company

Exhibit 6: Credit costs rose to 4.2(%)



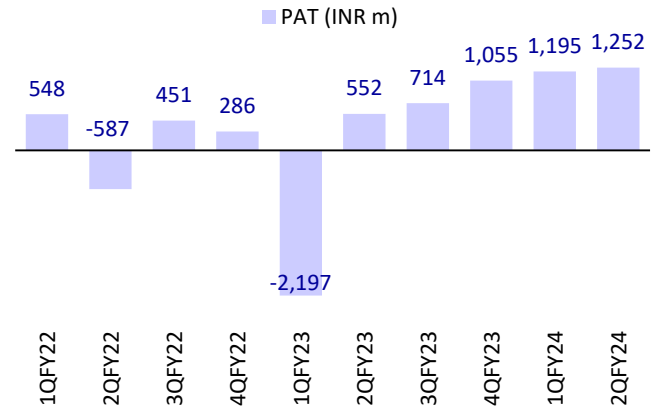
Source: MOFSL, Company

Exhibit 7: GS3 improved ~20bp sequentially (%)



Source: MOFSL, Company

Exhibit 8: 2QFY24 PAT grew to ~INR1.25b



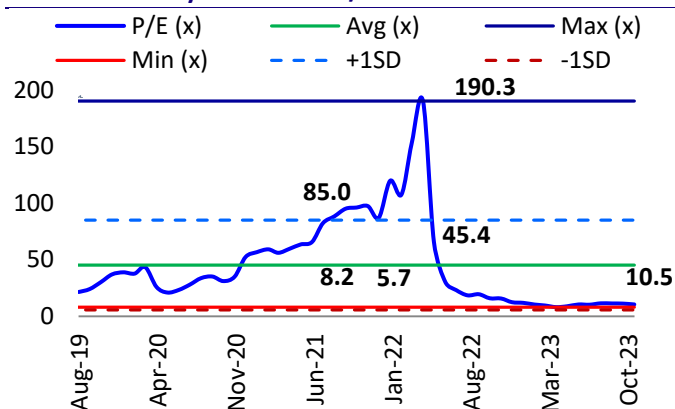
Source: MOFSL, Company

Exhibit 9: Increase our FY24/FY25 EPS estimates by 9% each to factor in higher other income, higher AUM growth and lower credit costs

INR B	Old Est.		New Est.		% change	
	FY24	FY25	FY24	FY25	FY24	FY25
NII	12.7	16.5	13.0	17.5	2.8	6.5
Other Income	1.9	1.7	2.3	2.2	24.2	27.9
Total Income	14.5	18.2	15.4	19.7	5.5	8.4
Operating Expenses	6.2	7.3	6.5	8.1	5.0	11.0
Operating Profits	8.4	10.8	8.9	11.6	5.9	6.8
Provisions	2.1	2.9	2.1	3.0	-1.8	1.2
PBT	6.3	7.9	6.8	8.6	8.5	8.8
Tax	1.6	2.0	1.7	2.2	7.2	8.8
PAT	4.6	5.9	5.0	6.4	8.9	8.8
AUM	116	151	122	161	5.7	6.3
Borrowings	83	108	87	116	5.3	7.0
RoA	4.3	4.3	4.6	4.5	6.5	3.7
RoE	13.9	15.2	15.1	16.3	8.2	6.9

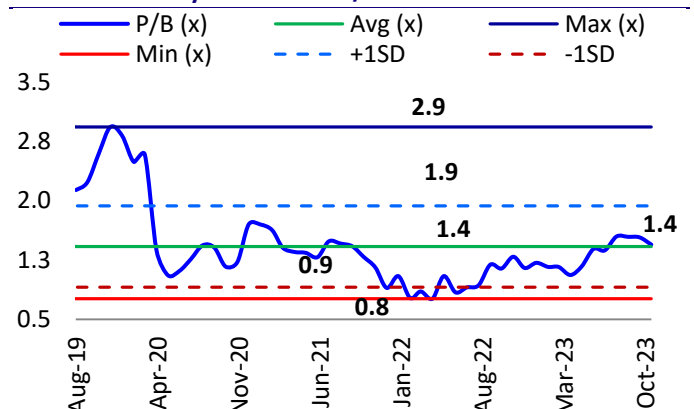
Source: MOFSL, Company

Exhibit 10: One year forward P/E



Source: MOFSL, Company

Exhibit 11: One year forward P/B



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR M)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	5,730	9,979	11,692	13,627	13,365	12,775	23,094	31,205	39,937
Interest Expenses	2,318	3,579	3,563	4,232	5,401	4,579	10,077	13,671	17,805
Net Interest Income	3,413	6,400	8,129	9,395	7,964	8,196	13,016	17,534	22,133
Change (%)	110.9	87.5	27.0	15.6	-15.2	2.9	58.8	34.7	26.2
Other Operating Income	143	452	2,661	1,199	1,263	1,233	1,800	1,727	1,804
Other Income	2	54	342	230	172	763	534	427	342
Total Income	3,557	6,907	11,132	10,824	9,399	10,192	15,350	19,688	24,278
Change (%)	67.7	94.1	61.2	-2.8	-13.2	8.4	50.6	28.3	23.3
Total Operating Expenses	1,084	1,719	2,211	2,369	3,625	4,570	6,464	8,114	9,856
Change (%)	13.7	58.5	28.7	7.1	53.0	26.1	41.4	25.5	21.5
Employee Expenses	759	1,310	1,707	1,715	2,284	3,057	4,647	6,041	7,491
Depreciation	57	70	88	76	92	109	174	200	230
Other Operating Expenses	269	339	416	577	1,249	1,404	1,643	1,873	2,135
Operating Profit	2,473	5,188	8,920	8,456	5,774	5,621	8,886	11,574	14,422
Change (%)	111.7	109.8	71.9	-5.2	-31.7	-2.6	58.1	30.2	24.6
Total Provisions	-354	453	2,736	6,451	4,806	5,443	2,090	2,971	3,788
% Loan loss provisions to									
Avg loans ratio	-1.7	1.2	5.9	10.8	7.7	8.2	2.2	2.4	2.4
PBT	2,827	4,735	6,185	2,004	969	178	6,797	8,604	10,634
Tax Provisions	948	1,616	2,666	550	270	54	1,747	2,211	2,733
Tax Rate (%)	33.5	34.1	43.1	27.4	27.9	30.5	25.7	25.7	25.7
PAT	1,879	3,119	3,518	1,455	698	124	5,050	6,392	7,901
Change (%)	255.0	66.0	12.8	-58.7	-52.0	-82.3	-	26.6	23.6

Balance Sheet								(INR M)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	298	596	643	643	691	710	710	710	710
Reserves & Surplus	13,609	18,298	25,616	26,848	30,185	30,280	35,330	41,723	49,624
Non-controlling interest	0	9	13	20	24	2	2	2	2
Net Worth	13,906	18,904	26,272	27,511	30,899	30,992	36,042	42,435	50,336
Borrowings	23,314	29,677	30,253	53,733	37,721	60,743	86,912	1,15,623	1,48,152
Change (%)	149.8	27.3	1.9	77.6	-29.8	61.0	43.1	33.0	28.1
Other Liabilities	422	736	3,248	4,526	2,143	2,091	2,296	2,521	2,770
Total Liabilities	37,642	49,317	59,774	85,769	70,763	93,826	1,25,250	1,60,580	2,01,257
Cash and Bank	2,078	3,518	2,571	13,810	12,022	10,045	10,475	12,723	15,106
Investments	1	1	4,875	23	24	1,894	1,304	1,734	2,222
Loans	30,896	42,678	49,767	69,330	55,184	77,598	1,08,640	1,41,004	1,78,496
Change (%)	158.6	38.1	16.6	39.3	-20.4	40.6	40.0	29.8	26.6
Fixed Assets	85	268	339	380	313	249	274	301	331
Other Assets	4,583	2,853	2,221	2,225	3,220	4,040	4,558	4,817	5,102
Total Assets	37,642	49,317	59,774	85,769	70,763	93,826	1,25,250	1,60,580	2,01,257

E: MOFSL Estimates

Financials and valuations

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
AUM	31,662	43,720	68,290	81,570	65,810	85,110	1,22,435	1,60,580	2,03,236
Change (%)	144	38	56	19	-19	29	44	31	27
Disbursements	38,577	49,157	77,222	60,990	33,740	81,320	1,12,222	1,45,888	1,82,360
Change (%)	87	27	57	-21	-45	141	38	30	25
Ratios									
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Spreads Analysis (%)									
Avg. Yield on Loans	26.8	27.1	25.3	22.9	21.5	19.2	24.8	25.0	25.0
Avg Cost of Funds	14.2	13.5	11.9	10.1	11.8	9.3	13.7	13.5	13.5
Spread of loans	12.6	13.6	13.4	12.8	9.7	9.9	11.2	11.5	11.5
NIM (on loans)	15.9	17.4	17.6	15.8	12.8	12.3	14.0	14.0	13.9
Profitability Ratios (%)									
RoE	16.2	19.0	15.6	5.4	2.4	0.4	15.1	16.3	17.0
RoA	6.6	7.2	6.5	2.0	0.9	0.2	4.6	4.5	4.4
Int. Expended / Int.Earned	40.4	35.9	30.5	31.1	40.4	35.8	43.6	43.8	44.6
Other Inc. / Net Income	4.1	7.3	27.0	13.2	15.3	19.6	15.2	10.9	8.8
Efficiency Ratios (%)									
Op. Exps. / Net Income	30.5	24.9	19.9	21.9	38.6	44.8	42.1	41.2	40.6
Empl. Cost/Op. Exps.	70.0	76.2	77.2	72.4	63.0	66.9	71.9	74.5	76.0
Asset-Liability Profile (%)									
Loans/Borrowings Ratio	1.3	1.4	1.6	1.3	1.5	1.3	1.3	1.2	1.2
Assets/Equity	2.7	2.6	2.3	3.1	2.3	3.0	3.5	3.8	4.0
Asset Quality (%)									
GNPA (INR m)	8,654	3,628	180	4,095	11,489	1,775	1,452	1,666	1,950
GNPA (%)	21.9	7.8	0.4	5.6	18.7	2.2	1.3	1.2	1.1
NNPA (INR m)	57.9	5.5	34.6	2,193.8	6,442.7	549.1	435.6	433.1	428.9
NNPA (%)	0.2	0.0	0.1	3.1	11.4	0.7	0.4	0.3	0.2
PCR (%)	99.3	99.8	80.8	46.4	43.9	69.1	70.0	74.0	78.0
Credit costs	-1.7	1.2	5.9	10.8	7.7	8.2	2.2	2.4	2.4
Valuations									
Book Value (INR)	467	317	408	427	447	437	508	598	709
BV Growth (%)	43	-32	29	5	5	-2	16	18	19
P/BV	1.9	2.9	2.2	2.1	2.0	2.1	1.8	1.5	1.3
EPS (INR)	63.2	52.3	54.7	22.6	10.1	1.7	71.1	90.1	111.3
EPS Growth (%)	239	-17	5	-59	-55	-83	3,975	27	24
P/E	14.4	17.4	16.6	40.2	90.0	521.2	12.8	10.1	8.2
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
E: MOFSL Estimates									

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Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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