

Financials

Company update

Target price: Rs815

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	63.0	63.0	63.0
Institutional investors	21.7	25.0	28.7
MFs and other	0.0	0.6	0.6
Banks/ FIs	0.6	0.5	0.5
Insurance	4.3	4.3	4.1
FIs	16.8	19.6	23.5
Others	15.3	12.0	8.3

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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Spandana Sphoorty

BUY

Maintained

Rs702

Moving to the most preferred 'Weekly Collection' model

Spandana Sphoorty (Spandana) has embarked on a transformation journey to build a sustainable long-term micro-finance lending model since the management change in Mar'22. While most building blocks are in place like revamped HR practices, strengthened mid-level management team, significantly reduced stressed asset pool (GNPL at 2.1% with ~70% PCR as on Mar'23) and growth revival in FY23 (AUM growth of 29% in FY23 vs 19% decline in FY22), management is now intending to migrate to the most preferred 'weekly collection' model from current monthly collections. However, change in collection frequency would be gradual – i) in phase 1, only new branches would be rolling out weekly collections, ii) in phase 2, new loans at existing branches would be disbursed on a weekly model and iii) in the last phase, all outstanding loans would move to the weekly collection model. As on Mar'23, 100 branches of 1,227 are following the weekly collection model. We believe migration to weekly collection is a right step towards ensuring lower credit cost in next credit cycle.

Our interaction with MFI borrowers during the past couple of months suggests that contrary to the prevailing perception of customer preference for monthly collections, borrowers are incrementally preferring weekly collection given low EMIs vs monthly EMIs (which have risen on the back of increasing ticket size and a series of rate hikes by lenders in H2FY23).

Considering the operational stability, gradual recovery in earnings led by credit cost normalisation and improved visibility on achieving >4% RoA by FY24E, we maintain BUY on Spandana with an unchanged target price of Rs815, valuing the stock at P/BV multiple of 1.5x Sep'24E BVPS.

- **Execution track-record during FY23 reinforces our view of management being on the right track to achieve its Vision 2025 goals.** AUM growth of 29% YoY in FY23 with PAR portfolio at 1.5%, net collections at 97.6% and NNPL at 0.6% as of Mar'23 speaks for successful execution of business strategies by the new management. The same reinforces our view of it achieving Vision 2025 goals - AUM to Rs180bn by FY25E, of which Rs150bn would be MFI while the rest would be non-MFI, RoA at 4.5-5.2% and RoE at >20%. New businesses may be completely different from JLG business – with separate teams, branches, customers, geography, credit etc.
- **Steady-state credit cost at 2%:** Management has projected 2% credit cost on a steady-state basis. Considering the new flows (1.2-1.3% only), we believe credit cost of 2% is the sufficient cushion to cover LGDs. ECL policy is likely to deal with flows that have been curtailed to a significantly lower level. By the end of FY24 (for full-year), the company expects credit cost to remain around 2%.

Market Cap	Rs49.9bn/US\$607mn	Year to Mar	FY22	FY23	FY24E	FY25E
Bloomberg	SPANDANA IN	NII (Rs bn)	9.2	9.4	12.5	16.6
Shares Outstanding (mn)	71.0	Net Profit (Rs bn)	0.7	0.1	4.2	5.9
52-week Range (Rs)	734/405	EPS (Rs)	10.1	1.7	59.0	82.7
Free Float (%)	37.0	% Chg YoY	(55.3)	(82.7)	nmf	40.2
FII (%)	23.5	BVPS (Rs)	447.2	436.6	495.6	578.3
Daily Volume (US\$'000)	776	P/E (x)	69.3	nmf	11.9	8.5
Absolute Return 3m (%)	32.0	P/BV (x)	1.6	1.6	1.4	1.2
Absolute Return 12m (%)	72.0	Net NPA (%)	6.0	0.6	0.5	0.5
Sensex Return 3m (%)	10.3	RoAuM (%)	0.9	0.2	4.2	4.4
Sensex Return 12m (%)	24.7	RoE (%)	2.4	0.4	12.7	15.4

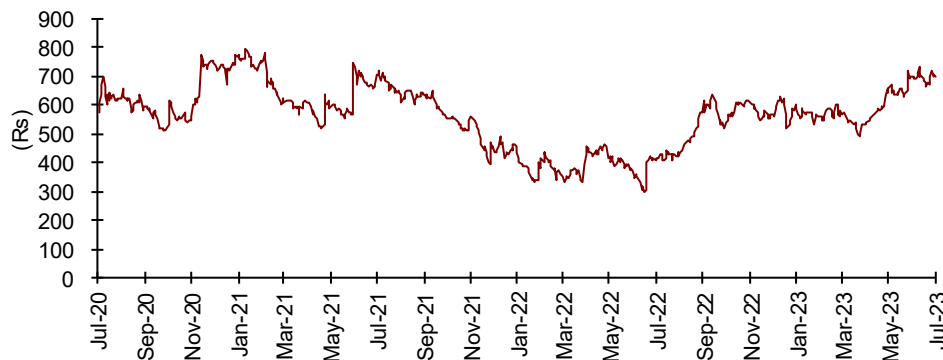
- ▶ **Change in ECL policy:** Spandana adjusted its ECL model to ensure 70% PCR wherein it increased PD and LGD considerations. It plans to be conservative in the provisioning. If performance continues to be at current levels, the company may look at reducing the provisioning levels four quarters down the line. But, as of now, the company is comfortable at current levels.
- ▶ **Borrower mix.** Unique customer base stands at 36%, ~65% (cumulative) is Spandana+1, 85.8% (cumulative) is Spandana+2, and another 95.8% (cumulative) is Spandana+3.
- ▶ **Key risks.** Stress unfolding higher than anticipated, and operational instability caused by outside interference.

Table 1: Vision 2025 targets

Particulars	FY25
No. of branches	1,500
Customers (mn)	4.0
Disbursements (Rs mn)	1,80,000
Average ticket -size	47,800
AUM (Rs mn)	1,81,640
NIM	10.0%
Cost to income ratio	35.7%
Opex to ANR	5.2%
Credit cost	1.5%
RoA	4.5-5.25%
RoE	22-24%

Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Interest income	13,365	12,775	17,611	23,218
Finance costs	5,401	4,579	6,566	8,575
Y-Y growth	28%	-15%	43%	31%
NII	9,227	9,429	12,499	16,572
Y-Y growth	-13%	2%	33%	33%
Total revenue	14,800	14,770	19,827	25,910
Net Revenue	9,399	10,192	13,261	17,335
Total Opex	3,625	4,570	5,617	6,919
Employee benefits expenses	2,284	3,057	3,822	4,777
Y-Y growth	33%	34%	25%	25%
Other expenses	1,249	1,404	1,685	2,022
Y-Y growth	116%	12%	20%	20%
Depreciation and amortisation expenses	92	109	110	120
PPoP	5,774	5,622	7,645	10,416
Y-Y growth	-32%	-3%	36%	36%
Provision and write-offs	4,806	5,443	2,050	2,571
Adjusted PBT	969	178	5,595	7,845
Exceptional items (IV)	0	0	0	0
Profit before tax	969	178	5,595	7,845
Tax	270	54	1,408	1,975
Profit after tax	698	124	4,187	5,871

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

Year to March	FY22	FY23	FY24E	FY25E
Share capital	691	710	710	710
Reserves and surplus	30,209	30,283	34,469	40,340
Shareholders' funds	30,899	30,992	35,179	41,050
Debt securities	17,782	33,688	23,185	32,317
Borrowings (other than debt securities)	19,737	26,855	54,099	75,407
Subordinated liabilities	202	200	200	200
Other financial liabilities	1,312	1,553	1,553	1,553
Other non-financial liabilities	509	435	435	435
Equity and liabilities	70,763	93,826	1,14,754	1,51,065
Total borrowings	37,721	60,743	77,484	1,07,925
Assets				
Property, plant & equipment	68	249	249	249
Intangible assets	71	47	47	47
Non-current investments	24	1,894	750	750
Loan Portfolio	55,184	77,598	98,513	1,30,796
Other non-financial assets	618	409	409	409
Cash and bank balances	12,022	10,045	10,836	14,388
Other financial assets	745	1,221	1,587	2,064
Tax assets	2,030	2,364	2,364	2,364
Assets	70,763	93,826	1,14,754	1,51,065

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Growth ratios (%)				
NII growth	-13%	2%	33%	33%
AUM Growth	-19%	29%	34%	33%
Asset yields	18%	17%	18%	18%
Cost of funds	12%	9%	10%	9%
Spread	6%	8%	8%	8%
Opex growth	53%	26%	23%	23%
Productivity ratio - Customer / LO	360.4	289.7	450.0	500.0
AUM/LO	10.1	10.9	13.7	16.5
Avg borrowing ticket size	28,004	37,659	30,531	33,096
PPP growth	-32%	-3%	36%	36%
Provisions growth	-26%	13%	-62%	25%
Credit cost	6.5%	7.2%	2.1%	1.9%
PAT growth	-52%	-82%	3275%	40%
Key ratios (%)				
Cal NIM	12.5%	12.5%	12.6%	12.5%
Opex/AUM	4.9%	6.1%	5.6%	5.2%
Opex/AUM (Cal.)	4.9%	6.1%	5.6%	5.2%
Cost/Income ratio	38.6%	44.8%	42.4%	39.9%
Credit cost	6.5	7.2	2.1	1.9
Asset quality (%)				
GNPA	15.0	2.1	2.0	2.0
NNPA	6.0	0.6	0.5	0.5
PCR	60%	69%	75%	75%
Per share data Rs)				
Diluted EPS	10.1	1.7	59.0	82.7
EPS growth (%)	(55.3)	(82.7)	3,275.3	40.2
Book value per share	447.2	436.6	495.6	578.3
BVPS growth (%)	4.5	(2.4)	13.5	16.7
Valuation				
P/E (x)	69.3	400.6	11.9	8.5
P/B (x)	1.6	1.6	1.41	1.21
RoA decomposition				
Net interest income (%)	12.5%	12.5%	12.6%	12.5%
Other income (%)	0.2%	1.0%	0.8%	0.6%
Total income (%)	12.8%	13.5%	13.3%	13.1%
Employee expenses (%)	3.1%	4.1%	3.8%	3.6%
Depre (%)	1.7%	1.9%	1.7%	1.5%
Other operating expenses (%)	0.1%	0.1%	0.1%	0.1%
Total operating expenses (%)	4.9%	6.1%	5.6%	5.2%
Pre provisioning profits (%)	7.8%	7.4%	7.7%	7.9%
Provisions (%)	6.5%	7.2%	2.1%	1.9%
Pre tax profits (%)	1.3%	0.2%	5.6%	5.9%
Tax (%)	0.4%	0.1%	1.4%	1.5%
RoAUM (%)	0.9%	0.2%	4.2%	4.4%
Leverage	2.5	2.4	3.0	3.5
RoE (%)	2.4%	0.4%	12.7%	15.4%
Capital Adequacy				
CRAR - Tier I capital (%)	49.0%	35.3%	35.0%	30.9%
CRAR - Tier II capital (%)	1.0%	1.0%	1.0%	1.0%
CRAR (%)	50.0%	36.3%	36.1%	32.0%

Source: Company data, I-Sec research

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