

Spandana Sphoorty Financial | BUY

Weak quarter; valuations remain un-demanding

Spandana reported weak results in 1Q25, with provisions coming in at INR 2,018mn (+128.6% QoQ, +743.5% YoY), or 7.8% of AUM, annualised. PPOP was a beat on JMFe – with NII at INR 4.15bn (+5.6% QoQ, +44.7% YoY), other income at INR 286mn (-25.4% QoQ, +41.3% YoY) and operating expenses at INR 1.7bn (-3.9% QoQ, +28.4% YoY). Gross loan portfolio was at INR 117.2bn, down 2.1% QoQ, as disbursements moderated to INR 22.8bn, -42.5% QoQ. With the elevated credit costs, PAT came in at INR 513mn (-58.0% QoQ, -53.8% YoY), against our estimate of INR 904mn. Management attributed the elevated credit costs to elevated attrition, coupled with elections and heat wave. The company has taken strong steps to control credit costs from here - disbursal to new-to-credit customers has been stopped, new customer acquisition stopped in 14% of branches, new centre addition stopped in 39% of branches, support provided to 20% of the Branch Managers by designating a seasoned internal employee as a second hand, movement to weekly collections has been made more gradual than previously planned, tech-enabled tools provided to supervisors monitoring the branches - being the key. The management has guided for credit costs of 3.75% for FY25 and an AUM of INR 140bn by Mar'25 – we believe that these targets are achievable with sustained efforts, given that the management has already initiated strong steps. However, we recognise the pressures on profitability in FY25 and wait for 3Q25 to stability. We cut FY25e PAT by 32% to INR 4.2bn, however, we expect PAT to normalise in FY26, with RoA/RoE of 4.2%/17.9%. Even after revising our estimates downwards, valuations remain un-demanding at 1.1x FY26e BV. We value the company at 1.5x FY26e BV of INR 64.9bn to get a revised Target Price of INR 950. Maintain BUY.

- **Credit costs elevated at INR 2,018mn, 7.8% of AUM:** Credit costs for the standalone entity came at INR 2,018mn – 7.8% of average AUM. Management attributed the elevated credit costs to five states – Rajasthan, Gujarat, Madhya Pradesh, Maharashtra and Odisha – these states comprised 59% of the GNPA while contributing to 32% of the overall AUM. This was attributed to 10.5% attrition at Branch Manager level in these states, coupled with elections and heat wave. The company has adopted a six-pronged approach to check credit costs hereon –
 - acquisition of new-to-credit customers stopped,
 - new customer acquisition paused in 14% of branches,
 - new centre addition restricted in 39% of branches,
 - support provided to 20% of the Branch Managers by designating a seasoned internal employee as a second hand – to be scaled to 50% of branches by Sep'24,
 - bench strength of 20% added to 60% of branches,
 - tech-enabled tools provided to supervisors monitoring the branches. The management has guided for credit costs of 3.75% for FY25.

Management believes much of the attrition is attributable to fatigue amongst employees, as weekly collections were being rolled out across the branches. The company will, henceforth, move to weekly collections only in a gradual manner. The company



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	950
Upside/(Downside)	35.4%
Previous Price Target	1,150
Change	-17.4%

Key Data – SPANDANA IN

Current Market Price	INR702
Market cap (bn)	INR50.0/US\$0.6
Free Float	33%
Shares in issue (mn)	71.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR166.1/US\$2.0
52-week range	1,243/678
Sensex/Nifty	81,333/24,835
INR/US\$	83.7

Price Performance

%	1M	6M	12M
Absolute	-0.7	-32.9	-16.9
Relative*	-3.5	-40.7	-32.4

* To the BSE Sensex

Financial Summary						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Profit	466	123	4,679	4,210	7,676	
Net Profit (YoY) (%)	-63.8%	-73.6%	3,689.5%	-10.0%	82.3%	
Assets (YoY) (%)	-17.8%	33.8%	40.1%	25.0%	26.9%	
ROA (%)	0.6%	0.2%	4.2%	2.9%	4.2%	
ROE (%)	1.6%	0.4%	14.2%	11.2%	17.9%	
EPS	6.8	1.7	65.6	59.0	107.7	
EPS (YoY) (%)	-66.3%	-74.3%	3,672.4%	-10.0%	82.3%	
P/E (x)	104.0	403.9	10.7	11.9	6.5	
BV	439	429	499	552	649	
BV (YoY) (%)	3.9%	-2.3%	16.3%	10.7%	17.6%	
P/BV (x)	1.60	1.64	1.41	1.27	1.08	

Source: Company data, JM Financial. Note: Valuations as of 26/Jul/2024

JM Financial Institutional Securities Limited

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mentioned that net collection efficiency was 98.1% in weekly collections, compared to 94% on a blended-level. The company guided for FY25 credit costs of around 3.75%.

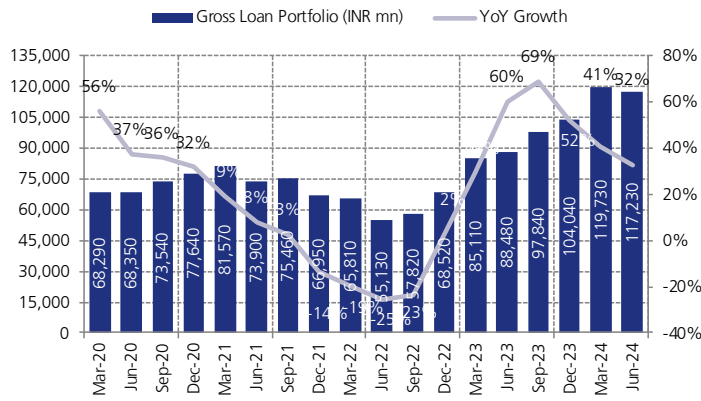
- **AUM contracted with a cautious approach to disbursements:** AUM contracted 2.1% QoQ to INR 117.2bn (+32.6% YoY). This was due to the curbs placed by the management on customer acquisition and the discontinuity in branches, on account of the elevated attrition. Management mentioned that they expect to return to growth, and target an AUM of INR 140bn by Mar'25.
- **NIMs and capital adequacy remains strong:** Reported NIMs expanded by 58bps QoQ to 15.2%. This was led by reduced costs of borrowings at 11.6%. Marginal rate reduced to 10.8% due to PTC transactions. The company has reduced its rates of interest only for borrowers on their 6th cycle. Capital adequacy remained strong at 32.7%.
- **Valuation and view:** The company targets credit costs of 3.75% for FY25 and an AUM of INR 140bn by Mar'25 – we believe that these targets are achievable with sustained efforts, given that the management has already initiated strong steps. However, we recognise the pressures on profitability in FY25 and wait for 3Q25 to see stable asset quality. We cut FY25e PAT by 32% to INR 4.2bn, however, we expect PAT to normalise in FY26, with RoA/RoE of 4.2%/17.9%. Even after revising our estimates downwards, valuations remain un-demanding at 1.1x FY26e BV. We value the company at 1.5x FY26e BV of INR 64.9bn to get a revised Target Price of INR 950. Maintain BUY.

Heading

Exhibit 1. Spandana: Key quarterly trends (standalone)					
Earnings Table (INR mn)	1Q'24	4Q'24	1Q'25	YoY (%)	QoQ (%)
Interest Income (ex- net gain on fair value changes) (a)	4,689	5,974	6,473	38.0%	8.4%
Net gain on fair value changes (b)	128	339	134	5.1%	-60.4%
Interest Expenses (c)	1,952	2,386	2,462	26.1%	3.2%
Net Interest Income (inc. net gain on fair value change) (a+b-c)	2,865	3,927	4,145	44.7%	5.6%
Net interest income (as reported by company)*	3,280	3,780	4,250	29.6%	12.4%
Non-Interest Income	202	383	286	41.3%	-25.4%
Total Income	3,067	4,310	4,431	44.5%	2.8%
Employees Cost	1,005	1,303	1,207	20.1%	-7.4%
Other Expenditure	335	489	515	53.5%	5.3%
Total Operating Expenses	1,340	1,791	1,722	28.4%	-3.9%
Operating Profit (PPP)	1,727	2,519	2,710	57.0%	7.6%
Provisions & Write Offs	239	883	2,018	743.5%	128.6%
PBT	1,487	1,636	692	-53.5%	-57.7%
Tax	376	414	179	-52.5%	-56.8%
Reported Profit	1,111	1,222	513	-53.8%	-58.0%
Balance Sheet Data (INR bn)					
Assets Under Management	88.5	119.7	117.2	32.5%	-2.1%
Disbursements	16.6	39.7	22.8	37.2%	-42.5%
Ratios Analysis (%)					
Cost to Income (%)	43.7%	41.6%	38.8%	-4.86%	-2.71%
Effective Tax Rate (%)	25%	25%	26%	1%	1%
Credit Quality					
Gross NPA (%)	1.49%	1.43%	2.60%	1.11%	1.17%
Net NPA (%)	0.45%	0.29%	0.52%	0.07%	0.23%
Coverage Ratio (%)	69.9%	79.9%	79.8%	9.9%	-0.1%
Capital Adequacy (%)					
CAR (%)	38.00%	31.95%	32.72%	-5.28%	0.77%
Du-pont Analysis (%) - AUM					
NII / AUM (%)	13.20%	14.04%	14.00%	0.79%	-0.04%
Other income / AUM (%)	0.93%	1.37%	0.97%	0.03%	-0.40%
Total Income / AUM (%)	14.13%	15.41%	14.96%	0.83%	-0.45%
Cost to AUM (%)	6.18%	6.40%	5.81%	-0.37%	-0.59%
PPP / AUM (%)	7.96%	9.00%	9.15%	1.19%	0.14%
Provisions / AUM (%)	1.10%	3.16%	6.81%	5.71%	3.66%
PBT / AUM (%)	6.85%	5.85%	2.33%	-4.52%	-3.51%
ROAUM (%)	5.12%	4.37%	1.73%	-3.39%	-2.64%

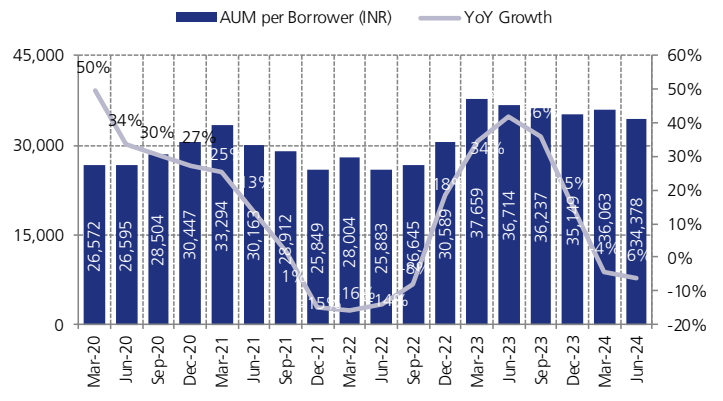
Source: Company, JM Financial

Exhibit 2. Trend in gross loan portfolio, growth (YoY, %)



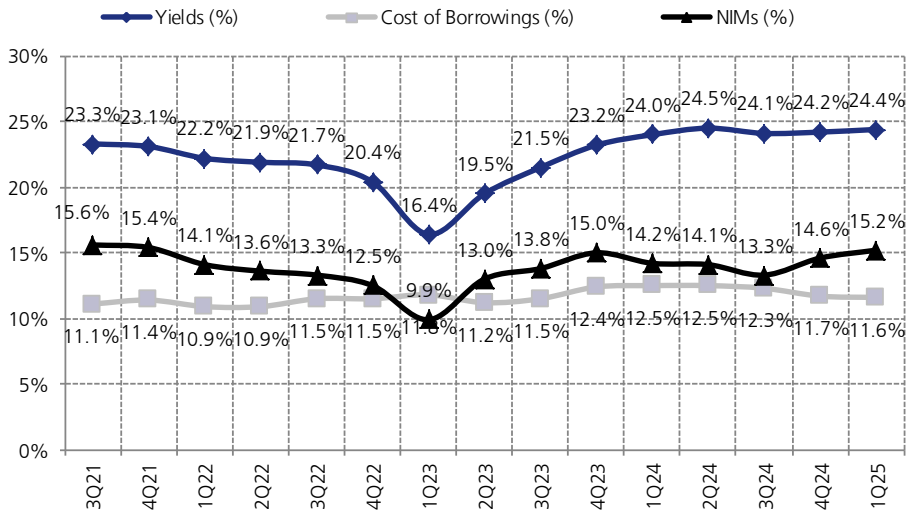
Source: Company, JM Financial

Exhibit 3. Trend in AUM per borrower, growth (YoY, %)



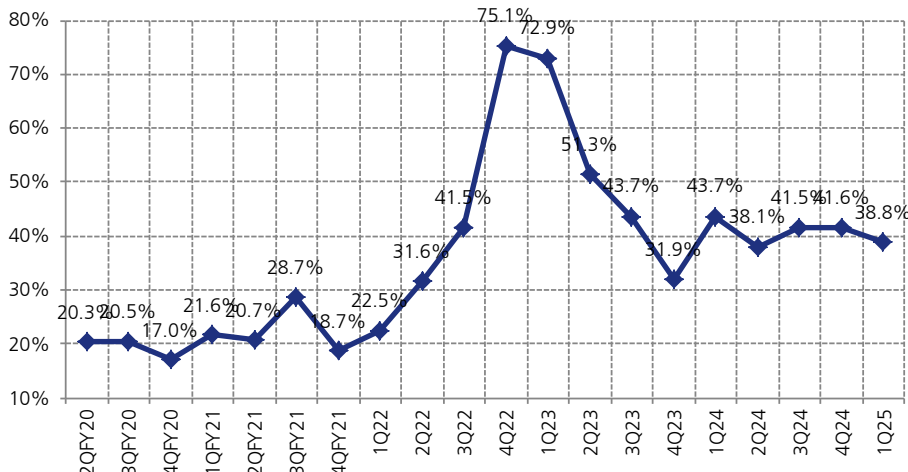
Source: Company, JM Financial

Exhibit 4. Trend in yields, Cost of borrowings and NIMs (%)



Source: Company, JM Financial

Exhibit 5. Trend in Cost-to-Income Ratio (%)



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	8,150	8,449	13,821	17,528	21,603
Non Interest Income	625	1,045	1,274	1,425	1,650
Total Income	8,775	9,494	15,095	18,953	23,253
Operating Expenses	3,471	4,314	6,203	8,406	10,194
Pre-provisioning Profits	5,304	5,180	8,893	10,546	13,059
Loan-Loss Provisions	4,658	4,998	2,633	4,346	2,137
Others Provisions	0	0	0	568	652
Total Provisions	4,658	4,998	2,633	4,914	2,789
PBT	646	182	6,260	5,632	10,270
Tax	179	59	1,581	1,423	2,594
PAT (Pre-Extra ordinaries)	466	123	4,679	4,210	7,676
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	466	123	4,679	4,210	7,676
Dividend	0	0	0	421	768
Retained Profits	466	123	4,679	3,789	6,908

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Equity Capital	691	710	713	713	713
Reserves & Surplus	29,624	29,722	34,847	38,635	45,544
Stock option outstanding	0	0	0	0	0
Borrowed Funds	36,315	59,342	90,122	1,17,158	1,52,306
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	2,007	2,083	3,014	4,426	5,615
Total Liabilities	68,637	91,856	1,28,696	1,60,932	2,04,177
Net Advances	52,637	74,803	1,03,438	1,31,861	1,64,461
Investments	1,146	3,064	3,288	3,956	4,934
Cash & Bank Balances	11,991	10,015	18,700	23,735	29,603
Loans and Advances	149	379	476	596	756
Other Current Assets	524	1,213	827	-1,643	1,385
Fixed Assets	135	293	322	370	429
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	1,812	1,889	1,222	1,528	1,938
Total Assets	68,637	91,856	1,28,696	1,60,932	2,04,177

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Growth (YoY) (%)					
Borrowed funds	-30.1%	63.4%	51.9%	30.0%	30.0%
Advances	-20.4%	42.1%	38.3%	27.5%	24.7%
Total Assets	-17.8%	33.8%	40.1%	25.0%	26.9%
NII	-17.2%	3.7%	63.6%	26.8%	23.3%
Non-interest Income	-1.9%	67.1%	21.9%	11.9%	15.8%
Operating Expenses	50.9%	24.3%	43.8%	35.5%	21.3%
Operating Profits	-35.1%	-2.3%	71.7%	18.6%	23.8%
Core Operating profit	-37.6%	-2.1%	81.3%	17.9%	24.5%
Provisions	-27.2%	7.3%	-47.3%	86.7%	-43.3%
Reported PAT	-63.8%	-73.6%	3,689.5%	-10.0%	82.3%
Yields / Margins (%)					
Interest Spread	6.00%	7.29%	9.81%	8.81%	8.97%
NIM	11.06%	11.20%	13.49%	13.00%	12.83%
Profitability (%)					
ROA	0.61%	0.15%	4.24%	2.91%	4.20%
ROE	1.6%	0.4%	14.2%	11.2%	17.9%
Cost to Income	39.6%	45.4%	41.1%	44.4%	43.8%
Asset quality (%)					
Gross NPA	19.35%	2.19%	1.61%	4.65%	2.71%
LLP	7.84%	7.84%	2.95%	4.18%	1.88%
Capital Adequacy (%)					
Tier I	50.55%	36.87%	31.95%	28.95%	27.71%
CAR	50.74%	36.90%	31.95%	28.95%	27.71%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
NII / Assets	10.72%	10.53%	12.53%	12.10%	11.83%
Other Income / Assets	0.82%	1.30%	1.16%	0.98%	0.90%
Total Income / Assets	11.54%	11.83%	13.69%	13.09%	12.74%
Cost / Assets	4.56%	5.38%	5.62%	5.80%	5.58%
PPP / Assets	6.97%	6.46%	8.06%	7.28%	7.15%
Provisions / Assets	6.13%	6.23%	2.39%	3.39%	1.53%
PBT / Assets	0.85%	0.23%	5.68%	3.89%	5.63%
Tax rate	27.8%	32.4%	25.3%	25.3%	25.3%
ROA	0.61%	0.15%	4.24%	2.91%	4.20%
Leverage	2.3	3.0	3.6	4.1	4.4
ROE	1.6%	0.4%	14.2%	11.2%	17.9%

Source: Company, JM Financial

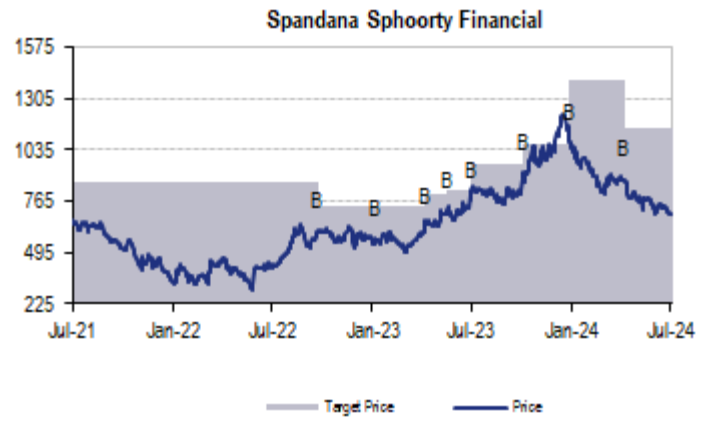
Valuations					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shares in Issue	69.1	71.0	71.3	71.3	71.3
EPS (INR)	6.8	1.7	65.6	59.0	107.7
EPS (YoY) (%)	-66.3%	-74.3%	3,672.4%	-10.0%	82.3%
P/E (x)	104.0	403.9	10.7	11.9	6.5
BV (INR)	439	429	499	552	649
BV (YoY) (%)	3.9%	-2.3%	16.3%	10.7%	17.6%
P/BV (x)	1.60	1.64	1.41	1.27	1.08
DPS (INR)	0.0	0.0	0.0	5.9	10.8
Div. yield (%)	0.0%	0.0%	0.0%	0.8%	1.5%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
29-Jan-20	Buy	1,400	
8-Jun-20	Buy	650	-53.6
14-Sep-20	Buy	785	20.8
17-Nov-20	Buy	950	21.0
24-May-21	Buy	860	-9.5
17-Oct-22	Buy	735	-14.5
31-Jan-23	Buy	735	0.0
2-May-23	Buy	800	8.8
13-Jun-23	Buy	825	3.1
25-Jul-23	Buy	960	16.4
30-Oct-23	Buy	1,065	10.9
23-Jan-24	Buy	1,400	31.5
29-Apr-24	Buy	1,150	-17.9

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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