

Spandana Sphoorty Financial | BUY

Firing on all cylinders

Spandana delivered yet another strong quarter and reported a PAT of INR 1.2bn (+4.7% QoQ, +135% YoY, +5.4% JMFe) driven by a) strong growth in AUM to INR 97.8bn (+10.6% QoQ, +69.2% YoY) led by a robust growth in disbursement (+51% QoQ, +81% YoY) and healthy customer addition of 0.35mn and b) stable NIMs at 14.1% (+113bps YoY, -11bps QoQ). The management indicated this growth to sustain with AUM expected to reach INR 120bn+, AUM/Loan officer (INR 12mn in H1FY24) to improve to INR 14-15mn and Borrowers/Loan officer (317 in H1FY24) to increase to 380-400 by the end of FY24E. Further, in order to improve the scalability of the business in the future, the management has undertaken Project Parivartan, whereby the current monthly repayment system has been changed to a weekly repayment system. As a result of this transition, the SMA0+ bucket increased to 2.04% (vs 1.36% in Q1FY24), while collection efficiency saw a marginal decline to 97.7% (vs 98.1% in Q1FY24). However, management is confident that this is transient in nature and will normalize in next 3-4 months once all borrowers align to the new system. GNPA/NNPA continued to improve to 1.4%/0.42% (-23bps QoQ, -7bps QoQ). Over the past year SSFL's leadership has stabilized operations, ringfenced past stress and gradually accelerated growth. We believe SSFL is now well placed to deliver RoA/RoE of 5.08%/18.9% by FY25E and therefore increase our earnings estimate by 10.7%/19.8% for FY24E/FY25E. We maintain a BUY with a revised TP of INR 1065 (1.8x FY25E BVPS).

- Robust AUM growth led by healthy disbursements:** AUM grew to INR 97.8bn (+10.6% QoQ, +69.2% YoY) driven by healthy disbursements (+51% QoQ, +81% YoY) and healthy customer addition of 0.35mn. The management indicated that they expect AUM to grow to INR 120bn+ by FY24E. Further, management guided that AUM/Loan officer (INR 12mn in H1FY24) to improve to INR 14-15mn and Borrowers/Loan officer (317 in H1FY24) to increase to 380-400 by the end of FY24E. In order to reduce geographical concentration, management had identified 7 focus states last year, the shares of which have now increased to 22%. Management expects this share to increase to c.26% by FY24E and to c.44% by FY25E. The aim is to restrict share of each state to c.12% by FY25E.
- Strong operational performance with stable NIMs:** Operating profit stood at INR 2.4bn (+40.2% QoQ, +143% YoY) driven by a strong growth in NII to INR 3.6bn (+24.2% QoQ, +100% YoY) and stable operating expenses at INR 1.5bn (+11.1% QoQ, +41.5%). Yields increased to 24.5% (+41bps QoQ) while cost of borrowing remained sequentially flat at 12.5%. NIMs however remained stable at 14.1% (-11bps QoQ) due to an increase in leverage to 2.31 (vs 1.98 in Q1FY24). The management indicated that leverage is to be increased to 3.5-4x in the future thereby leading to some pressure on margins. The management expects NIMs to stabilize at 12-12.5%.
- Asset quality metrics continue to remain steady:** In order to improve future scalability of businesses, the management has introduced Project Parivartan, whereby current monthly repayment system has been changed to a weekly repayment system. Of the 1502



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,065
Upside/(Downside)	16.7%
Previous Price Target	960
Change	10.9%

Key Data – SPANDANA IN

Current Market Price	INR913
Market cap (bn)	INR64.9/US\$0.8
Free Float	32%
Shares in issue (mn)	71.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR214.4/US\$2.6
52-week range	920/470
Sensex/Nifty	64,113/19,141
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	9.4	52.8	52.3
Relative*	12.3	45.7	44.3

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Profit	1,290	466	123	5,294	7,330
Net Profit (YoY) (%)	-61.7%	-63.8%	-73.6%	4,191.1%	38.5%
Assets (YoY) (%)	40.5%	-17.8%	33.8%	36.3%	30.6%
ROA (%)	1.8%	0.6%	0.2%	4.9%	5.1%
ROE (%)	4.8%	1.6%	0.4%	16.0%	18.9%
EPS	20.1	6.8	1.7	74.6	103.3
EPS (YoY) (%)	-61.7%	-66.3%	-74.3%	4,191.1%	38.5%
P/E (x)	45.5	135.3	525.4	12.2	8.8
BV	422	439	429	503	591
BV (YoY) (%)	4.1%	3.9%	-2.3%	17.4%	17.4%
P/BV (x)	2.16	2.08	2.13	1.81	1.54

Source: Company data, JM Financial. Note: Valuations as of 30/Oct/2023

JM Financial Institutional Securities Limited

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branches currently, 370-380 have already been converted, with this number expected to reach 450+ by the end of the year. As a result of this transition, the SMA0+ bucket increased to 2.04% (vs 1.36% in Q1FY24), while collection efficiency saw a marginal decline to 97.7% (vs 98.1% in Q1FY24). However, management is confident that this is transient in nature and will normalize in next 3-4 months once all borrowers align to the new system. GNPA/NNPA continued to improve to 1.4%/0.42% (-23bps QoQ, -7bps QoQ) with a provision coverage >70%. We expect the asset quality to remain stable and build in an average credit cost of 2.2% for FY24E/25E.

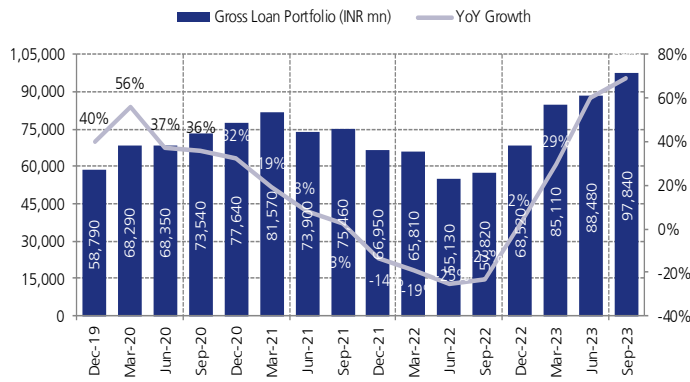
- **Valuation & view:** Over the past year SSFL's leadership has stabilized operations, ringfenced past stress and gradually accelerated growth. We believe SSFL is now well placed to deliver RoA/RoE of 5.08%/18.9% by FY25E and therefore increase our earnings estimate by 10.7%/19.8% for FY24E/FY25E. We maintain a BUY with a revised TP of INR 1065 (1.8x FY25E BVPS).

Key Quarterly trends

Exhibit 1. SSFL – Key quarterly trends (standalone)					
Earnings Table (INR mn)	2Q'23	1Q'24	2Q'24	YoY (%)	QoQ (%)
Interest Income (ex- net gain on fair value changes) (a)	2,599	4,689	5,187	99.6%	10.6%
Net gain on fair value changes (b)	63	128	600	849.7%	369.9%
Interest Expenses (c)	883	1,952	2,229	152.5%	14.2%
Net Interest Income (inc. net gain on fair value change) (a+b-c)	1,779	2,865	3,558	100.0%	24.2%
Net interest income (as reported by company)*	2,190	3,280	4,120	88.1%	25.6%
Non-Interest Income	269	202	352	30.9%	74.1%
Total Income	2,048	3,067	3,910	90.9%	27.5%
Employees Cost	694	1,005	1,086	56.5%	8.0%
Other Expenditure	358	335	403	12.6%	20.2%
Total Operating Expenses	1,052	1,340	1,489	41.5%	11.1%
Operating Profit (PPP)	997	1,727	2,421	143.0%	40.2%
Provisions & Write Offs	238	239	865	263.9%	261.5%
PBT	759	1,487	1,556	105.1%	4.6%
Tax	264	376	393	49.1%	4.6%
Reported Profit	495	1,111	1,163	134.8%	4.7%
Balance Sheet Data (INR bn)					
Assets Under Management	57.8	88.5	97.8	69.2%	10.6%
Disbursements	13.9	16.6	25.1	80.7%	51.0%
Ratios Analysis (%)					
Cost to Income (%)	51.3%	43.7%	38.1%	-13.27%	-5.63%
Effective Tax Rate (%)	35%	25%	25%	-9%	0%
Credit Quality					
Gross NPA (%)	7.37%	1.63%	1.40%	-5.97%	-0.23%
Net NPA (%)	3.84%	0.49%	0.42%	-3.42%	-0.07%
Coverage Ratio (%)	49.8%	70.1%	70.1%	20.3%	0.0%
Capital Adequacy (%)					
CAR (%)	45.30%	37.60%	36.60%	-8.70%	-1.00%
Du-pont Analysis (%) - AUM					
NII / AUM (%)	12.60%	13.20%	15.28%	2.67%	2.07%
Other income / AUM (%)	1.91%	0.93%	1.51%	-0.39%	0.58%
Total Income / AUM (%)	14.51%	14.13%	16.79%	2.28%	2.66%
Cost to AUM (%)	7.45%	6.18%	6.39%	-1.06%	0.22%
PPP / AUM (%)	7.06%	7.96%	10.40%	3.34%	2.44%
Provisions / AUM (%)	1.68%	1.10%	3.71%	2.03%	2.61%
PBT / AUM (%)	5.38%	6.85%	6.68%	1.31%	-0.17%
ROAUM (%)	3.51%	5.12%	4.99%	1.49%	-0.13%

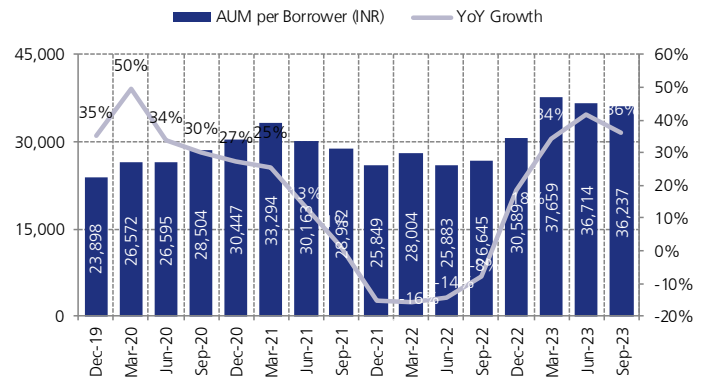
Source: Company, JM Financial *NII as reported by company excludes upfront net gain on fair value change from direct assigned portfolio. It includes the interest income and corresponding interest expense for the assigned portfolio.

Exhibit 2. SSFL: Trends in Gross Loan Portfolio



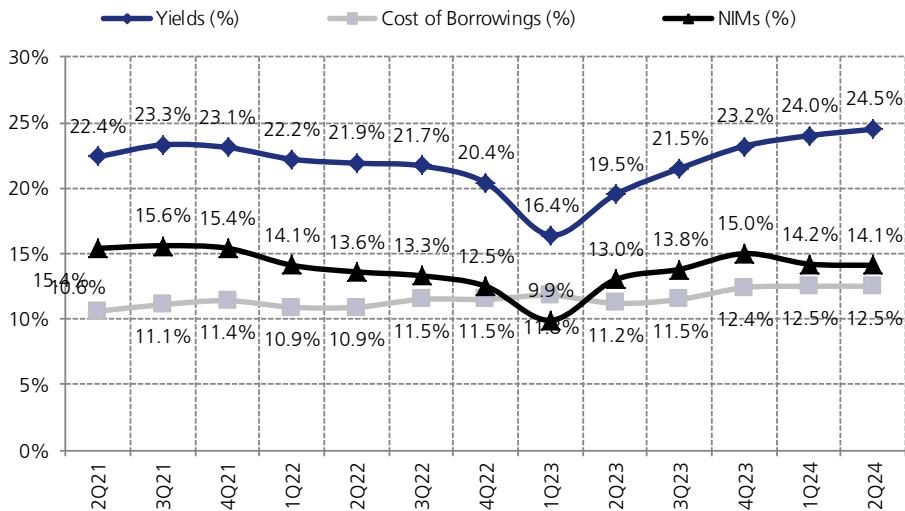
Source: Company, JM Financial

Exhibit 3. SSFL: Trends in AUM per Borrower



Source: Company, JM Financial

Exhibit 4. SSFL: Trend in Yields, Cost of Borrowings and NIMs



Source: Company, JM Financial

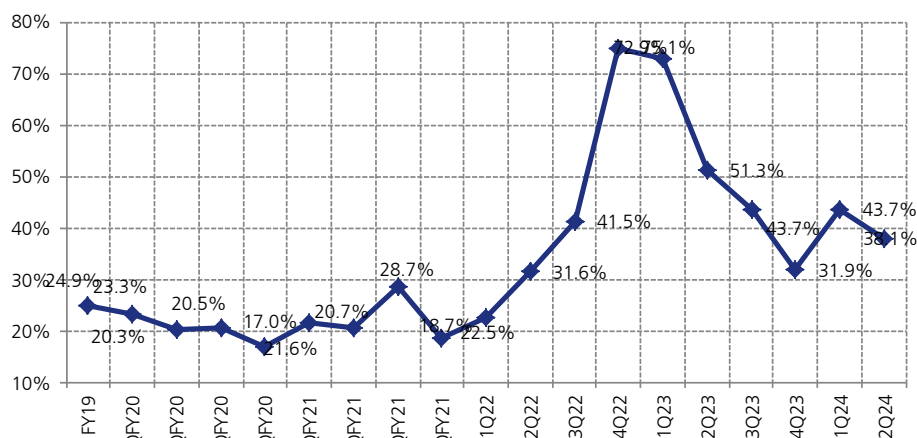
Yield = (Interest income on the loan portfolio + interest income on derecognised loan portfolio passed on to assignees + retained interest income on derecognised loan portfolio) / Quarterly Average AUM

NIM = (Interest income on the loan portfolio + interest income on derecognised loan portfolio passed on to assignees + retained interest income on derecognised loan portfolio) - (Finance Cost - Interest on Lease Liability) / Quarterly Average AUM

Cost of borrowings = (Finance Cost - Interest on Lease Liability) / Quarterly Average Borrowings (Annualised)

* Note that yield and NIM are calculated on overall AUM while cost of borrowings pertains to balance sheet borrowings

Exhibit 5. SSFL: Trend in Cost-to-income Ratio



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement					
	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	9,838	8,150	8,449	14,393	19,656
Non Interest Income	638	625	1,045	991	975
Total Income	10,476	8,775	9,494	15,384	20,631
Operating Expenses	2,301	3,471	4,314	6,143	8,130
Pre-provisioning Profits	8,175	5,304	5,180	9,241	12,502
Loan-Loss Provisions	6,399	4,658	4,998	1,489	2,031
Others Provisions	0	0	0	646	631
Total Provisions	6,399	4,658	4,998	2,136	2,662
PBT	1,776	646	182	7,105	9,840
Tax	487	179	59	1,812	2,509
PAT (Pre-Extra ordinaries)	1,290	466	123	5,294	7,330
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	1,290	466	123	5,294	7,330
Dividend	0	0	0	0	1,100
Retained Profits	1,290	466	123	5,294	6,231

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Equity Capital	643	691	710	710	710
Reserves & Surplus	26,516	29,624	29,722	35,016	41,246
Stock option outstanding	0	0	0	0	0
Borrowed Funds	51,974	36,315	59,342	86,046	1,17,022
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	4,327	2,007	2,083	3,443	4,496
Total Liabilities	83,461	68,637	91,856	1,25,215	1,63,474
Net Advances	66,163	52,637	74,803	1,07,125	1,38,689
Investments	1,146	1,146	3,064	2,142	2,774
Cash & Bank Balances	13,761	11,991	10,015	8,570	11,095
Loans and Advances	743	149	379	516	674
Other Current Assets	271	524	1,213	3,637	6,066
Fixed Assets	205	135	293	374	456
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	1,045	1,812	1,889	2,576	3,362
Total Assets	83,461	68,637	91,856	1,25,215	1,63,474

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	72.3%	-30.1%	63.4%	45.0%	36.0%
Advances	34.9%	-20.4%	42.1%	43.2%	29.5%
Total Assets	40.5%	-17.8%	33.8%	36.3%	30.6%
NII	-2.6%	-17.2%	3.7%	70.3%	36.6%
Non-interest Income	-17.8%	-1.9%	67.1%	-5.2%	-1.6%
Operating Expenses	6.4%	50.9%	24.3%	42.4%	32.3%
Operating Profits	-6.1%	-35.1%	-2.3%	78.4%	35.3%
Core Operating profit	-8.8%	-37.6%	-2.1%	86.5%	37.0%
Provisions	134.5%	-27.2%	7.3%	-57.3%	24.6%
Reported PAT	-61.7%	-63.8%	-73.6%	4,191.1%	38.5%
Yields / Margins (%)					
Interest Spread	7.91%	6.00%	7.29%	8.53%	9.20%
NIM	13.13%	11.06%	11.20%	14.10%	14.39%
Profitability (%)					
ROA	1.81%	0.61%	0.15%	4.88%	5.08%
ROE	4.8%	1.6%	0.4%	16.0%	18.9%
Cost to Income	22.0%	39.6%	45.4%	39.9%	39.4%
Asset quality (%)					
Gross NPA	5.95%	19.35%	2.19%	1.91%	2.12%
LLP	11.11%	7.84%	7.84%	2.35%	2.17%
Capital Adequacy (%)					
Tier I	39.74%	50.55%	36.87%	33.00%	30.36%
CAR	39.20%	50.74%	36.30%	33.00%	30.36%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	13.77%	10.72%	10.53%	13.26%	13.62%
Other Income / Assets	0.89%	0.82%	1.30%	0.91%	0.68%
Total Income / Assets	14.66%	11.54%	11.83%	14.17%	14.29%
Cost / Assets	3.22%	4.56%	5.38%	5.66%	5.63%
PPP / Assets	11.44%	6.97%	6.46%	8.51%	8.66%
Provisions / Assets	8.96%	6.13%	6.23%	1.97%	1.84%
PBT / Assets	2.49%	0.85%	0.23%	6.55%	6.82%
Tax rate	27.4%	27.8%	32.4%	25.5%	25.5%
ROA	1.81%	0.61%	0.15%	4.88%	5.08%
Leverage	3.1	2.3	3.0	3.5	3.9
ROE	4.8%	1.6%	0.4%	16.0%	18.9%

Source: Company, JM Financial

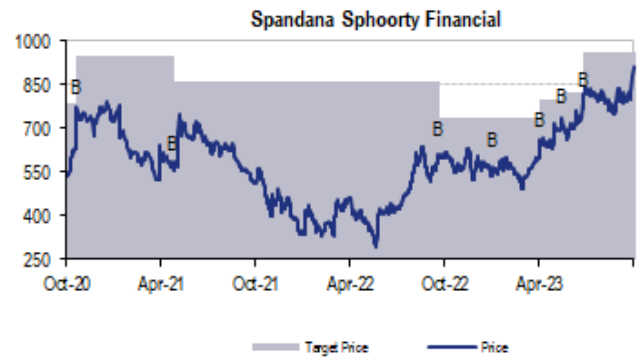
Valuations					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	64.3	69.1	71.0	71.0	71.0
EPS (INR)	20.1	6.8	1.7	74.6	103.3
EPS (YoY) (%)	-61.7%	-66.3%	-74.3%	4,191.1%	38.5%
P/E (x)	45.5	135.3	525.4	12.2	8.8
BV (INR)	422	439	429	503	591
BV (YoY) (%)	4.1%	3.9%	-2.3%	17.4%	17.4%
P/BV (x)	2.16	2.08	2.13	1.81	1.54
DPS (INR)	0.0	0.0	0.0	0.0	15.5
Div. yield (%)	0.0%	0.0%	0.0%	0.0%	1.7%

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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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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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