

# Spandana Sphoorty Financial | BUY

## NIMs miss drags overall earnings

In 3QFY24, Spandana Sphoorty Financial (Spandana's) profits at INR1.3bn missed our and consensus estimates due to NIM compression of -80bps QoQ led by decline in yields by -40bps QoQ. This was due to lower DA income (INR 200mn vs INR 400mn QoQ) and interest reversal of INR 60mn. Also cost of funds declined -20bps QoQ. Opex growth of (+7.3% QoQ, +46% YoY) led to a PPOp of INR 2.4bn (-6.6% QoQ, +71% YoY) while credit costs remained elevated (3.3% vs 4.6% QoQ). The transition from monthly to weekly disbursement cycle during the quarter led to a shortfall in its disbursements (+1.2% QoQ, +7.7% YoY), however, AUM growth was still healthy at (+6.3% QoQ, +52% YoY). Mgmt guided for INR 115-120bn AUM and expects to reach INR 280bn by FY28E. Asset quality showed slight deterioration with a) DPD0+ bucket moving up +45bps QoQ to 2.49%, b) GNPA/NNPA inching up (+21bps QoQ/+6bps QoQ) to 1.61%/0.48% and c) collection efficiency marginally declining to 97.2% (vs 97.7% in Q2FY24) on account of transitioning from monthly to weekly collection cycle. Management indicated the transition to further affect the asset quality for next quarter as well, while guiding for credit costs to decline in Q4 with full year guidance at less than 2%. 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. Over the past few quarters Spandana's leadership has stabilized operations, ring-fenced past stress and gradually accelerated growth. We believe, Spandana has positioned itself well to deliver RoA/RoE of 4.4%/18.2% by FY26E. We maintain a BUY with a TP of INR 1400 (2.0x FY26E BVPS).

- Healthy AUM growth:** AUM grew to INR 104bn (+6.3% QoQ, +52% YoY) despite subdued growth in disbursements (+1.2% QoQ, +7.7% YoY) due to more focus towards change in disbursement cycle from monthly to weekly disbursements. Customer addition was healthy at 0.26mn. Mgmt targets to reach INR 280bn AUM by FY28 while ending FY24 with INR 115-120bn. In order to reduce geographical concentration, company had identified 7 focus states last year for expansion while it aims to limit its single state focus to 11-13% of total AUM. Currently, top 3 states account for 41% of total AUM which is expected to move down to 35-36% going forward by FY25E. The plans to diversify its book by adding 2 new products viz. LAP (secured – INR 0.4-0.5mn ticket size) and Nano Enterprise loans (small ticket loans to shopkeepers, etc) is expected to play key role in delivering strong growth moving ahead. Company plans to reach 250-300k borrowers under these new business segments by FY28 which currently stands at less than 1.5k. We are optimistic about the continued positive growth prospects within the MFI sector and expect Spandana to deliver 30% AUM CAGR for FY23-26E.
- Margins compression due to one-offs:** NII stood at INR 3.5bn (-1% QoQ, +65% YoY) as NIMs declined -80bps QoQ led by decline in yields by -40bps QoQ. This was due to lower DA income QoQ (INR 200mn vs INR 400mn QoQ) and interest reversal of INR 60mn adjusting for which yields would have moved up ~+60bps. CoFs was down -20bps QoQ at 12.3% under the guided levels of sub 12%. Opex growth of (+7.3% QoQ, +46% YoY) led to a PPOp of INR 2.4bn (-6.6% QoQ, +71% YoY) while sequential decline in credit costs (3.3% vs 4.6% QoQ) led to a PAT of INR 1.3bn (+79% YoY, +1.7% QoQ).



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,400
Upside/(Downside)	21.1%
Previous Price Target	1,400
Change	0.0%

### Key Data – SPANDANA IN

Current Market Price	INR1,156
Market cap (bn)	INR82.3/US\$1.0
Free Float	32%
Shares in issue (mn)	71.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR261.1/US\$3.1
52-week range	1,243/470
Sensex/Nifty	71,424/21,572
INR/US\$	83.1

### Price Performance

%	1M	6M	12M
Absolute	11.6	57.8	101.0
Relative*	11.1	47.3	70.6

\* To the BSE Sensex

### Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit	466	123	5,075	6,511	8,174
Net Profit (YoY) (%)	-63.8%	-73.6%	4,014.3%	28.3%	25.5%
Assets (YoY) (%)	-17.8%	33.8%	36.1%	30.3%	29.0%
ROA (%)	0.6%	0.2%	4.7%	4.5%	4.4%
ROE (%)	1.6%	0.4%	15.4%	16.9%	18.1%
EPS	6.8	1.7	71.5	91.7	115.1
EPS (YoY) (%)	-66.3%	-74.3%	4,014.3%	28.3%	25.5%
<b>P/E (x)</b>	<b>171.3</b>	<b>665.2</b>	<b>16.2</b>	<b>12.6</b>	<b>10.0</b>
BV	439	429	500	583	686
BV (YoY) (%)	3.9%	-2.3%	16.7%	16.5%	17.8%
<b>P/BV (x)</b>	<b>2.63</b>	<b>2.70</b>	<b>2.31</b>	<b>1.98</b>	<b>1.68</b>

Source: Company data, JM Financial. Note: Valuations as of 20/Jan/2024

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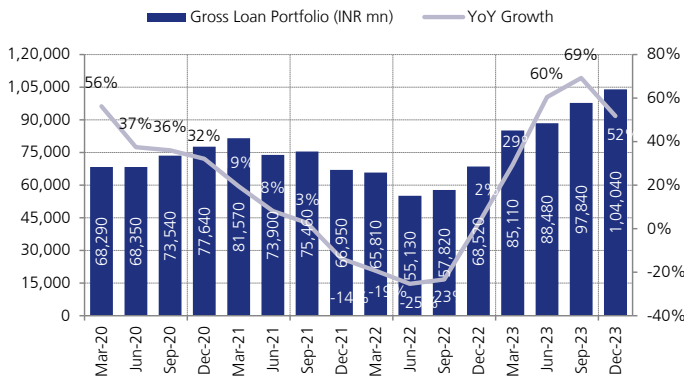
- **Slight deterioration in asset quality:** In order to improve future scalability of businesses, the management had introduced Project Parivartan, whereby monthly repayment system was changed to weekly repayment system. As a result of this transition, the DPD0+ bucket increased to 2.49% (vs 2.04% in Q2FY24), while collection efficiency saw a marginal decline to 97.2% (vs 97.7% in Q2FY24). GNPA/NNPA saw a marginal increase to 1.61%/0.48% (+21bps QoQ/ +6bps QoQ) with a provision coverage of 70.3%. However, management is confident that this is transient in nature and asset quality will normalize in next 3-4 months once all borrowers align to the new system. We expect the asset quality to largely remain stable on a long-term basis while mgmt guides for some deterioration in the short-term due to on-going change in collection cycle. We build in an average credit cost of 2.1% for FY24-26E.
- **Valuation & view:** : Over the past few quarters Spandana's leadership has stabilized operations, addressed historical stress issues, and incrementally propelled growth. Moreover, by outlining an ambitious future roadmap till FY28, the management has conveyed robust confidence in the company's prospective performance going ahead. In our view, Spandana has positioned itself well to deliver RoA/RoE of 4.4%/18.2% by FY26E. We maintain a BUY with a TP of INR 1400 (2.0x FY26E BVPS).

## Key Quarterly trends

<b>Exhibit 1. SPANDANA – Key quarterly trends (standalone)</b>					
<b>Earnings Table (INR mn)</b>	<b>3Q'23</b>	<b>2Q'24</b>	<b>3Q'24</b>	<b>YoY (%)</b>	<b>QoQ (%)</b>
Interest Income (ex- net gain on fair value changes) (a)	3,233	5,187	5,321	64.6%	2.6%
Net gain on fair value changes (b)	84	600	559	563.7%	-6.8%
Interest Expenses (c)	1,181	2,229	2,407	103.8%	8.0%
<b>Net Interest Income (inc. net gain on fair value change) (a+b-c)</b>	<b>2,136</b>	<b>3,558</b>	<b>3,473</b>	<b>62.6%</b>	<b>-2.4%</b>
Net interest income (as reported by company)*	<b>2,540</b>	<b>4,120</b>	<b>4,070</b>	<b>60.2%</b>	<b>-1.2%</b>
Non-Interest Income	238	352	336	41.4%	-4.7%
<b>Total Income</b>	<b>2,373</b>	<b>3,910</b>	<b>3,809</b>	<b>60.5%</b>	<b>-2.6%</b>
Employees Cost	664	1,086	1,153	73.6%	6.3%
Other Expenditure	373	403	429	14.8%	6.3%
<b>Total Operating Expenses</b>	<b>1,038</b>	<b>1,489</b>	<b>1,582</b>	<b>52.5%</b>	<b>6.3%</b>
<b>Operating Profit (PPP)</b>	<b>1,336</b>	<b>2,421</b>	<b>2,227</b>	<b>66.7%</b>	<b>-8.0%</b>
Provisions & Write Offs	398	865	645	62.3%	-25.4%
PBT	938	1,556	1,581	68.6%	1.6%
Tax	245	393	399	62.4%	1.4%
<b>Reported Profit</b>	<b>693</b>	<b>1,163</b>	<b>1,183</b>	<b>70.7%</b>	<b>1.7%</b>
<b>Balance Sheet Data (INR bn)</b>					
<b>Assets Under Management</b>	<b>68.5</b>	<b>97.8</b>	<b>104.0</b>	<b>51.8%</b>	<b>6.3%</b>
Disbursements	23.6	25.1	25.4	7.7%	1.2%
<b>Ratios Analysis (%)</b>					
Cost to Income (%)	43.7%	38.1%	41.5%	-2.18%	3.46%
Effective Tax Rate (%)	26%	25%	25%	-1%	0%
<b>Credit Quality</b>					
Gross NPA (%)	5.10%	1.27%	1.50%	-3.60%	0.23%
Net NPA (%)	2.30%	0.38%	0.45%	-1.85%	0.07%
Coverage Ratio (%)	55.9%	70.2%	70.1%	14.2%	-0.1%
<b>Capital Adequacy (%)</b>					
CAR (%)	45.30%	37.60%	36.60%	-8.70%	-1.00%
<b>Du-pont Analysis (%) - AUM</b>					
NII / AUM (%)	13.52%	15.28%	13.76%	0.24%	-1.51%
Other income / AUM (%)	1.50%	1.51%	1.33%	-0.17%	-0.18%
Total Income / AUM (%)	15.03%	16.79%	15.09%	0.07%	-1.70%
Cost to AUM (%)	6.57%	6.39%	6.27%	-0.30%	-0.12%
PPP / AUM (%)	8.46%	10.40%	8.82%	0.37%	-1.57%
Provisions / AUM (%)	2.52%	3.71%	2.56%	0.04%	-1.16%
PBT / AUM (%)	5.94%	6.68%	6.27%	0.33%	-0.42%
ROAUM (%)	4.39%	4.99%	4.69%	0.30%	-0.31%

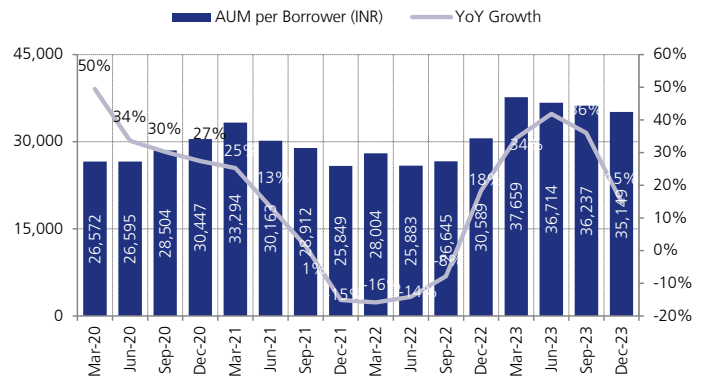
Source: Company, JM Financial \*NII as reported by company excludes upfront net gain on fair value change from direct assigned portfolio. It includes the interest income and corresponding interest expense for the assigned portfolio.

Exhibit 2. SPANDANA: Trends in Gross Loan Portfolio



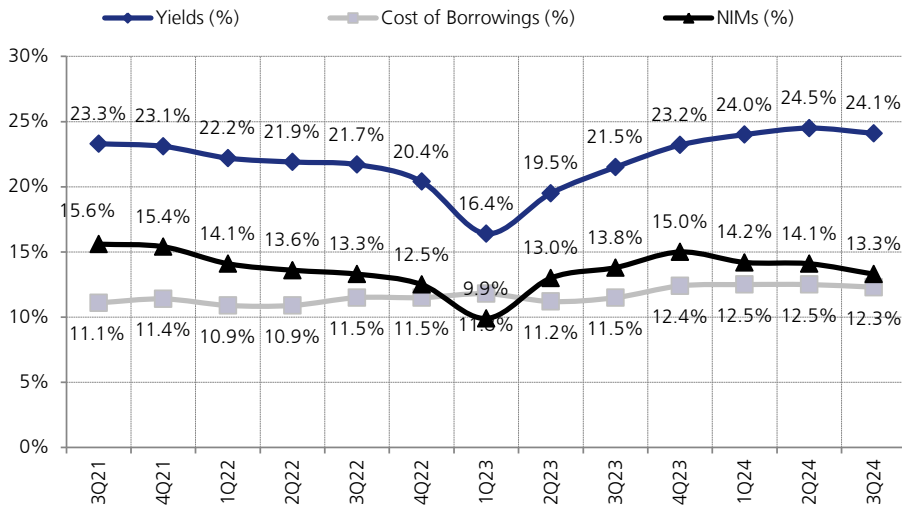
Source: Company, JM Financial

Exhibit 3. SPANDANA: Trends in AUM per Borrower



Source: Company, JM Financial

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



Source: Company, JM Financial

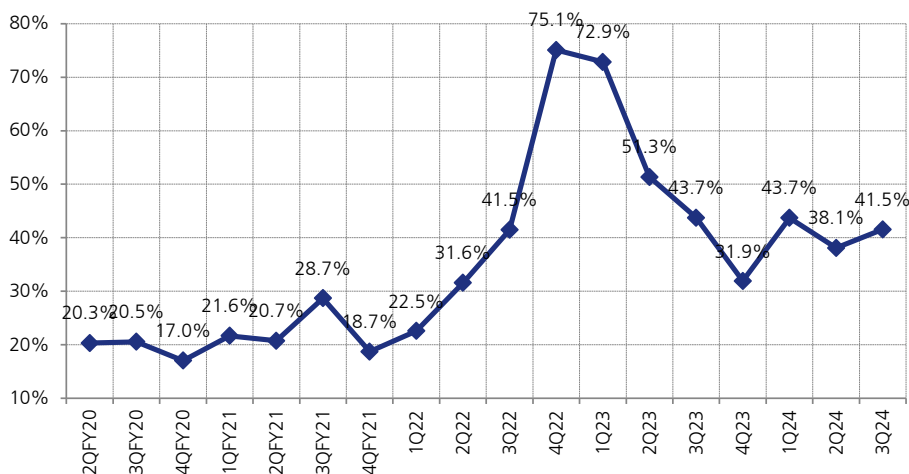
**Yield** = (Interest income on the loan portfolio + interest income on derecognised loan portfolio passed on to assignees + retained interest income on derecognised loan portfolio) / Quarterly Average AUM

**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. SPANDANA: Trend in Cost-to-income Ratio



Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Interest Income (NII)	8,150	8,449	14,127	17,899	22,639
Non Interest Income	625	1,045	1,172	1,287	1,484
<b>Total Income</b>	<b>8,775</b>	<b>9,494</b>	<b>15,299</b>	<b>19,186</b>	<b>24,123</b>
Operating Expenses	3,471	4,314	6,025	7,877	9,951
<b>Pre-provisioning Profits</b>	<b>5,304</b>	<b>5,180</b>	<b>9,274</b>	<b>11,309</b>	<b>14,172</b>
Loan-Loss Provisions	4,658	4,998	1,991	2,000	2,410
Others Provisions	0	0	471	570	791
<b>Total Provisions</b>	<b>4,658</b>	<b>4,998</b>	<b>2,461</b>	<b>2,570</b>	<b>3,200</b>
<b>PBT</b>	<b>646</b>	<b>182</b>	<b>6,813</b>	<b>8,739</b>	<b>10,971</b>
Tax	179	59	1,737	2,228	2,798
<b>PAT (Pre-Extra ordinaries)</b>	<b>466</b>	<b>123</b>	<b>5,075</b>	<b>6,511</b>	<b>8,174</b>
Extra ordinaries (Net of Tax)	0	0	0	0	0
<b>Reported Profits</b>	<b>466</b>	<b>123</b>	<b>5,075</b>	<b>6,511</b>	<b>8,174</b>
Dividend	0	0	0	651	817
<b>Retained Profits</b>	<b>466</b>	<b>123</b>	<b>5,075</b>	<b>5,860</b>	<b>7,356</b>

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Equity Capital	691	710	710	710	710
Reserves & Surplus	29,624	29,722	34,797	40,657	48,013
Stock option outstanding	0	0	0	0	0
Borrowed Funds	36,315	59,342	86,046	1,17,022	1,55,640
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	2,007	2,083	3,437	4,479	5,779
<b>Total Liabilities</b>	<b>68,637</b>	<b>91,856</b>	<b>1,24,990</b>	<b>1,62,868</b>	<b>2,10,142</b>
Net Advances	52,637	74,803	98,345	1,26,831	1,66,366
Investments	1,146	3,064	1,967	2,537	3,327
Cash & Bank Balances	11,991	10,015	8,851	11,415	14,973
Loans and Advances	149	379	515	671	866
Other Current Assets	524	1,213	12,094	17,253	19,283
Fixed Assets	135	293	374	455	544
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	1,812	1,889	2,571	3,350	4,322
<b>Total Assets</b>	<b>68,637</b>	<b>91,856</b>	<b>1,24,990</b>	<b>1,62,868</b>	<b>2,10,142</b>

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (YoY) (%)</b>					
Borrowed funds	-30.1%	63.4%	45.0%	36.0%	33.0%
Advances	-20.4%	42.1%	31.5%	29.0%	31.2%
Total Assets	-17.8%	33.8%	36.1%	30.3%	29.0%
NII	-17.2%	3.7%	67.2%	26.7%	26.5%
Non-interest Income	-1.9%	67.1%	12.2%	9.8%	15.3%
Operating Expenses	50.9%	24.3%	39.7%	30.7%	26.3%
Operating Profits	-35.1%	-2.3%	79.0%	21.9%	25.3%
Core Operating profit	-37.6%	-2.1%	86.2%	23.4%	26.0%
Provisions	-27.2%	7.3%	-50.7%	4.4%	24.5%
Reported PAT	-63.8%	-73.6%	4,014.3%	28.3%	25.5%
<b>Yields / Margins (%)</b>					
Interest Spread	6.00%	7.29%	8.66%	8.55%	8.40%
NIM	11.06%	11.20%	14.07%	13.51%	13.13%
<b>Profitability (%)</b>					
ROA	0.61%	0.15%	4.68%	4.52%	4.38%
ROE	1.6%	0.4%	15.4%	16.9%	18.1%
Cost to Income	39.6%	45.4%	39.4%	41.1%	41.3%
<b>Asset quality (%)</b>					
Gross NPA	19.35%	2.19%	2.74%	2.63%	2.43%
LLP	7.84%	7.84%	2.84%	2.28%	2.18%
<b>Capital Adequacy (%)</b>					
Tier I	50.55%	36.87%	32.83%	29.99%	27.91%
CAR	50.74%	36.30%	32.83%	29.99%	27.91%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
NII / Assets	10.72%	10.53%	13.03%	12.44%	12.14%
Other Income / Assets	0.82%	1.30%	1.08%	0.89%	0.80%
Total Income / Assets	11.54%	11.83%	14.11%	13.33%	12.93%
Cost / Assets	4.56%	5.38%	5.56%	5.47%	5.34%
PPP / Assets	6.97%	6.46%	8.55%	7.86%	7.60%
Provisions / Assets	6.13%	6.23%	2.27%	1.79%	1.72%
PBT / Assets	0.85%	0.23%	6.28%	6.07%	5.88%
Tax rate	27.8%	32.4%	25.5%	25.5%	25.5%
ROA	0.61%	0.15%	4.68%	4.52%	4.38%
Leverage	2.3	3.0	3.5	3.9	4.3
ROE	1.6%	0.4%	15.4%	16.9%	18.1%

Source: Company, JM Financial

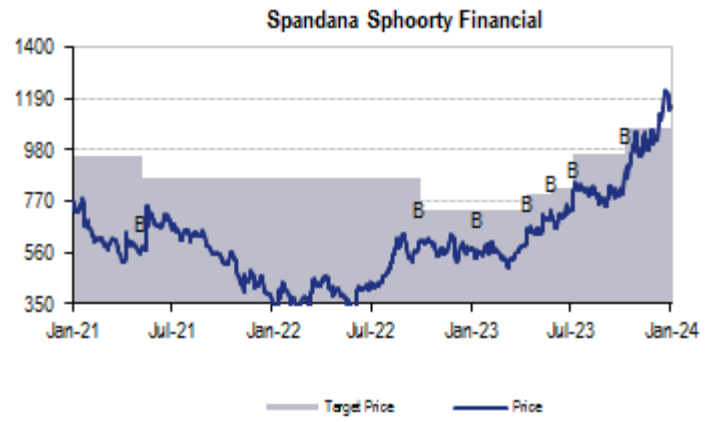
Valuations					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shares in Issue	69.1	71.0	71.0	71.0	71.0
EPS (INR)	6.8	1.7	71.5	91.7	115.1
EPS (YoY) (%)	-66.3%	-74.3%	4,014.3%	28.3%	25.5%
P/E (x)	171.3	665.2	16.2	12.6	10.0
BV (INR)	439	429	500	583	686
BV (YoY) (%)	3.9%	-2.3%	16.7%	16.5%	17.8%
P/BV (x)	2.63	2.70	2.31	1.98	1.68
DPS (INR)	0.0	0.0	0.0	9.2	11.5
Div. yield (%)	0.0%	0.0%	0.0%	0.8%	1.0%

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

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

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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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