



India

ADD (no change)

Consensus ratings\*: Buy 8 Hold 0 Sell 0

Current price: Rs913  
 Target price: ▲ Rs1,150  
 Previous target: Rs1,000  
 Up/downside: 26.0%  
 InCred Research / Consensus: 13.1%

Reuters:  
 Bloomberg: SPANDANA IN  
 Market cap: US\$894m  
 Rs64,889m  
 Average daily turnover: US\$2.5m  
 Rs180.9m  
 Current shares o/s: 0.0m  
 Free float: 16.0%

\*Source: Bloomberg

**Key changes in this note**

- SSFL witnessed a spurt in provisioning due to restructuring & assignment-led provisions, but net credit costs remain low at ~1.4%.



Price performance	1M	3M	12M
Absolute (%)	9.4	8.2	52.3
Relative (%)	12.3	12.2	44.3

Major shareholders	% held
KANGCHENJUNGA	41.0
PADMAJA GANGIREDDY	14.5
KEDAARA CAPITAL	7.0

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# Spandana Sphoorty Financial

## Growing from strength-to-strength

- SSFL reported in-line 2QFY24 PAT of Rs1.25bn aided by stable margins & improving asset quality, coupled with robust disbursement growth (+51% qoq).
- SSFL witnessed a spurt in provisioning due to restructuring & assignment-led provisions, but net credit costs remained low at ~1.4%.
- Improved performance in growth & profitability to ensure a reduction in the valuation gap for SSFL. Retain ADD rating on SSFL with a new TP of Rs1,150.

**Focus on new customer additions with a diversified presence**

Spandana Sphoorty Financial (SSFL) has been focusing on new customer additions to scale up its assets under management or AUM for the past several quarters. The company added 0.35m customers in 2QFY24 and has ~2.7m customer base as of Sep 2023-end. The customer addition is also aided by geographic diversity whereby it focused on seven states (Rajasthan, Uttar Pradesh, Bihar, West Bengal, Haryana, Tamil Nadu and Gujarat), which accounted for ~31% of customer additions. SSFL's management has front-loaded branch additions in 1HFY24 and added ~299 branches during the quarter, which will support disbursement growth in 2HFY24F. SSFL has separately added 10 branches in Rajasthan for giving small-ticket loans against property & micro enterprise loans, which will further add to growth and provide diversity to AUM.

**Steady margins amid yield improvement; cost of funds stagnant**

SSFL witnessed a sequential surge in yields (+50bp), as the company continued to enjoy pricing power (due to its unique customer base), but the cost of funds remained stagnant as it kept diversifying the source of borrowings. This resulted in sequentially flat margins at ~14.1%. The company has been witnessing credit rating improvement as its business scaling up will continue to support margins.

**NPAs easing; bucket-level volatility to settle down gradually**

SSFL posted a granular improvement in asset quality as gross non-performing assets or GNPA's improved to ~1.40% vs. ~1.63% in 1QFY24. As highlighted by us in our previous report, SSFL has shifted from date-based collection to day-based collection (Project Parivartan), which led to a spurt in the 1-90 days bucket, but management remains confident of normalization by 4QFY24F. Similarly, SSFL saw a spurt in provisioning due to restructuring & assignment-led provisions, but net credit costs remained low at ~1.4%.

**Outlook & valuation**

SSFL is shifting from a turnaround story to an ideal microfinance or MFI play, with a focus on diversity and profitability. We believe that with continued delivery by the company's new management, the valuation gap between SSFL and other MFI players will continue to narrow. SSFL remains our high conviction bet with an ADD rating and a higher target price of Rs1,150 from Rs1,000 earlier, or ~1.8x Mar 2025F P/ABV. Rise in fresh slippage, and resurgence of the tussle with the old promoter are key downside risks.

**Financial Summary**

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	7,964	8,196	13,766	19,432	25,105
Total Non-Interest Income (Rsm)	1,435	1,995	2,693	2,299	3,159
Operating Revenue (Rsm)	9,399	10,192	16,460	21,731	28,263
Total Provision Charges (Rsm)	(4,805)	(5,443)	(2,485)	(4,109)	(5,812)
Net Profit (Rsm)	700	124	5,796	7,293	9,335
Core EPS (Rs)	10.14	1.75	81.75	102.87	131.67
Core EPS Growth	(55%)	(83%)	4,577%	26%	28%
FD Core P/E (x)	90.04	522.20	11.17	8.87	6.93
DPS (Rs)	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
BVPS (Rs)	446.9	447.1	535.9	645.8	784.5
P/BV (x)	2.04	2.04	1.70	1.41	1.16
ROE	2.4%	0.4%	16.6%	17.4%	18.4%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	2,533.3	2,007.0	1,894.5	1,529.1	1,471.6	1,851.3	2,170.0	2,703.3	2,933.5	3,159.0	70.6%	7.7%
<i>NIM (% of AUM) Calculated</i>	14.1%	13.6%	13.3%	10.5%	9.9%	13.0%	13.8%	13.9%	14.2%	14.1%		
Fee-Based Income	381.0	456.0	212.8	382.1	149.0	336.7	372.7	1,137.0	343.9	965.8	186.9%	180.8%
Operating Expenses	654.5	765.1	869.9	1,333.7	1,114.1	1,087.5	1,136.2	1,232.3	1,386.2	1,549.1	42.4%	11.8%
<b>Operating Profit</b>	<b>2,259.8</b>	<b>1,697.9</b>	<b>1,237.4</b>	<b>577.5</b>	<b>506.5</b>	<b>1,100.4</b>	<b>1,406.5</b>	<b>2,608.0</b>	<b>1,891.2</b>	<b>2,575.7</b>	<b>134.1%</b>	<b>36.2%</b>
Provisions	1,549.0	2,413.6	643.0	199.6	3,517.2	257.5	446.1	1,222.4	285.8	900.5	249.7%	215.1%
Exceptional Items	-	-	-	-	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>710.8</b>	<b>-715.7</b>	<b>594.4</b>	<b>377.9</b>	<b>-3,010.7</b>	<b>842.9</b>	<b>960.4</b>	<b>1,385.6</b>	<b>1,605.4</b>	<b>1,675.1</b>	<b>98.7%</b>	<b>4.3%</b>
Tax	-162.8	128.0	-143.7	-92.0	813.6	-291.0	-246.7	-330.2	-410.8	-423.1	45.4%	3.0%
<i>Tax Rate (%)</i>	22.9%	17.9%	24.2%	24.3%	27.0%	34.5%	25.7%	23.8%	25.6%	25.3%		
<b>PAT</b>	<b>548.0</b>	<b>-587.7</b>	<b>450.7</b>	<b>285.9</b>	<b>-2,197.2</b>	<b>551.9</b>	<b>713.7</b>	<b>1,055.4</b>	<b>1,194.6</b>	<b>1,252.0</b>	<b>126.9%</b>	<b>4.8%</b>
<b>AUM (Rs bn)</b>	<b>73.9</b>	<b>75.5</b>	<b>67.0</b>	<b>65.8</b>	<b>55.1</b>	<b>57.8</b>	<b>68.5</b>	<b>85.1</b>	<b>88.5</b>	<b>97.8</b>	<b>69.2%</b>	<b>10.6%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

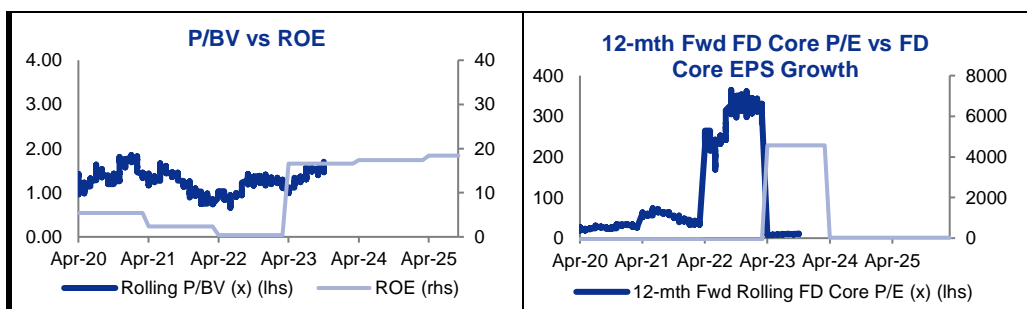
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest income	13,365	13,766	3.0%	18,735	19,432	3.7%	24,137	25,105	4.0%
Non-Interest Income	1,939	2,693	38.9%	2,299	2,299	0.0%	2,961	3,159	6.7%
PPOP	9,374	10,266	9.5%	13,536	13,898	2.7%	17,489	18,342	4.9%
PAT	5,354	5,796	8.3%	7,129	7,293	2.3%	9,241	9,335	1.0%
EPS (Rs)	75.5	81.8	8.3%	100.5	102.9	2.3%	130.3	131.7	1.0%
BV (Rs)	529.7	535.9	1.2%	637.3	645.9	1.3%	774.7	784.6	1.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Conference-call highlights

- Under 'Project Parivartan, SSFL shifted from the date-based collection model to the day-based one. Earlier, the company used to collect on the dates between 1-10 of each month, which it changed during the quarter to a day-based model i.e., between Monday to Friday. This change led to the absence of communication between some customers and loan officers, leading to a delay in meetings.
- SSFL will keep the non-MFI business separate from its MFI business.
- Management will come out with a strategy for FY26F-28F by the end of FY24F.
- The borrowers per loan officer are now around 360-370, which the company intends to increase to 450 by next year.
- SSFL currently has 323 weekly branches out of its 1,502 branches. Management will gradually convert monthly branches to weekly as well.
- SSFL has a lower loan ticket size per borrower of Rs36,800 while the industry average is Rs40,000-43,000.
- Rolled out employee benefits like MediClaim, life insurance and formalized the performance management system.
- For the old stressed assets pool, Rs0.4-0.5bn more provisioning is required, which will be spread across several quarters.

**BY THE NUMBERS**



<b>Profit &amp; Loss</b>					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	7,964	8,196	13,766	19,432	25,105
<b>Total Non-Interest Income</b>	<b>1,435</b>	<b>1,995</b>	<b>2,693</b>	<b>2,299</b>	<b>3,159</b>
Operating Revenue	9,399	10,192	16,460	21,731	28,263
<b>Total Non-Interest Expenses</b>	<b>(3,624)</b>	<b>(4,570)</b>	<b>(6,194)</b>	<b>(7,833)</b>	<b>(9,921)</b>
Pre-provision Operating Profit	5,775	5,621	10,266	13,898	18,342
<b>Total Provision Charges</b>	<b>(4,805)</b>	<b>(5,443)</b>	<b>(2,485)</b>	<b>(4,109)</b>	<b>(5,812)</b>
Operating Profit After Provisions	970	178	7,780	9,790	12,531
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	970	178	7,780	9,790	12,531
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	970	178	7,780	9,790	12,531
<b>Exceptional Items</b>					
Pre-tax Profit	970	178	7,780	9,790	12,531
Taxation	(270)	(54)	(1,984)	(2,496)	(3,195)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	700	124	5,796	7,293	9,335
Minority Interests					
Prof. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	700	124	5,796	7,293	9,335
Recurring Net Profit					

<b>Balance Sheet Employment</b>					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	96.0%	94.1%	94.2%	95.2%	95.7%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>120.7%</b>	<b>116.6%</b>	<b>107.1%</b>	<b>102.4%</b>	<b>102.6%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provsns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
<b>Total Gross Loans</b>	<b>55,184</b>	<b>77,598</b>	<b>121,241</b>	<b>162,111</b>	<b>201,127</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	55,184	77,598	121,241	162,111	201,127
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	55,184	77,598	121,241	162,111	201,127
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>3,219</b>	<b>3,994</b>	<b>4,194</b>	<b>4,403</b>	<b>4,624</b>
<b>Total Non-Interest Earning Assets</b>	<b>3,531</b>	<b>4,290</b>	<b>4,548</b>	<b>4,829</b>	<b>5,134</b>
Cash And Marketable Securities	12,022	10,045	4,124	2,688	6,653
<b>Long-term Investments</b>	<b>24</b>	<b>1,894</b>	<b>2,272</b>	<b>2,954</b>	<b>3,840</b>
Total Assets	70,762	93,826	132,186	172,581	216,755
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	37,519	60,743	91,114	123,004	156,494
Total Interest-Bearing Liabilities	37,519	60,743	91,114	123,004	156,494
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	2,344	1,445	3,074	3,786	4,635
Total Liabilities	39,863	62,187	94,188	126,790	161,129
Shareholders Equity	30,876	31,699	37,995	45,789	55,624
<b>Minority Interests</b>	<b>24</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Total Equity	30,899	31,701	37,998	45,791	55,626

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Income Growth	(15.2%)	2.9%	68.0%	41.2%	29.2%
Operating Profit Growth	(31.7%)	(2.7%)	82.6%	35.4%	32.0%
Pretax Profit Growth	(52%)	(82%)	4,264%	26%	28%
Net Interest To Total Income	84.7%	80.4%	83.6%	89.4%	88.8%
Cost Of Funds	11.86%	9.32%	12.75%	11.50%	10.50%
Return On Interest Earning Assets	21.5%	19.2%	23.6%	22.4%	21.9%
Net Interest Spread	9.60%	9.92%	10.83%	10.91%	11.40%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	83%	97%	24%	30%	32%
Interest Return On Average Assets	10.18%	9.96%	12.18%	12.75%	12.90%
Effective Tax Rate	27.8%	30.5%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	0.89%	0.15%	5.13%	4.79%	4.80%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
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