

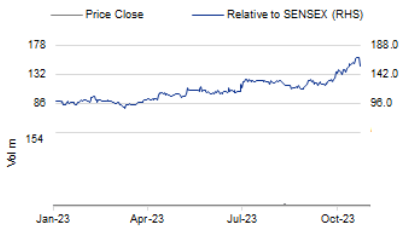
India

ADD (no change)

Consensus ratings*:	Buy 8 Hold 0 Sell 0
Current price:	Rs1,156
Target price:	Rs1,300
Previous target:	Rs1,300
Up/downside:	12.5%
InCred Research / Consensus:	3.9%
Reuters:	
Bloomberg:	SPANDANA IN
Market cap:	US\$991m
	Rs82,302m
Average daily turnover:	US\$3.1m
	Rs261.1m
Current shares o/s:	0.0m
Free float:	16.0%
*Source: Bloomberg	

Key changes in this note

- Shifting the collection method from monthly to weekly may have an adverse impact in 4QFY24F, but management expects normalization by 1QFY25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	11.6	41.0	101.0
Relative (%)	11.1	29.1	70.6

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

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Spandana Sphoorty Financial

Parivartan-led consolidation continues

- SSFL posted lower-than-expected 3Q PAT of Rs1.27bn (InCred est: Rs1.5bn) as project Parivartan (shift in the collection method) impacted growth & NPAs.
- The shift in collections from monthly to weekly basis may have an adverse impact on NPAs in 4QFY24F, but we expect normalization by 1QFY25F.
- Post recent run-up & a probable consolidation in 4QFY24F, we have removed SSFL from our high-conviction list. Retain ADD rating with a TP of Rs1,300.

Parivartan impacts disbursement in Oct 2023; 4QFY24F to be normal

As highlighted by Spandana Sphoorty Financial or SSFL's management earlier, the company continues to adopt a weekly mode for collections at its ~375 branches out of a total ~1,574 branches. This includes all new branches opened during the last two quarters and management remains firm on shifting the entire business model to weekly collections by FY25F. Our discussion with its management indicates that there had been some sluggishness in disbursement in Oct 2023 (Rs5.25bn) but there was normalcy from Nov 2023 (Rs18.9bn). The company has also removed Haryana from its core growth states amid political uncertainty. However, the overall portfolio in the state was nominal at ~0.5% of assets under management or AUM. We expect disbursements to pick up from 4QFY24F.

NPAs witness a spurt; bucket-level volatility to settle down gradually

Like last quarter, SSFL witnessed a spurt in the 1-90 days bucket due to a change in the collection methodology (Project Parivartan) but management remains confident of normalization by 4QFY24F. GNPA's during the quarter also inched up ~1.61% vs. ~1.4% last quarter whereas NNPA's increased to ~0.48% vs. ~0.42% last quarter. Such volatility in NPAs resulted in a rise in credit costs to ~2.8% (annualized) but ~half of this (Rs1bn of Rs1.9bn) is attributable to previous year's impairments. Management is firm on keeping credit costs under ~2% in FY24F despite a volatile 4QFY24F.

Dip in margins amid interest reversals; cost of funds stagnant

SSFL witnessed ~38bp sequential decline in yields due to interest reversal of Rs60m amid a rise in NPAs whereas the cost of funds remained stagnant as it kept diversifying the source of borrowing. This resulted in an ~84bp dip in margins sequentially. We expect the pressure on margins to stay in 4QFY24F amid Project Parivartan under implementation, but normalized margins are likely in FY25F.

Outlook and valuation

SSFL is one of fastest-growing NBFC MFI with an aim to increase the overall customer base rather than focusing on increasing loan ticket sizes. Management aims at ~13.5% net interest margin or NIM and ~2% credit costs to ensure ~4.5% RoA and ~18-20% steady-state RoE. Post recent run-up & probable consolidation in 4QFY24F, we have removed SSFL from our high-conviction list. We retain ADD rating on SSFL with a target price of Rs1,300 (~2.0x FY25F ABV). Downside risks: Slower growth and a spurt in delinquencies.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	7,964	8,196	13,004	16,589	20,164
Total Non-Interest Income (Rsm)	1,435	1,995	3,020	3,971	4,957
Operating Revenue (Rsm)	9,399	10,192	16,024	20,560	25,121
Total Provision Charges (Rsm)	(4,805)	(5,443)	(2,507)	(2,937)	(3,040)
Net Profit (Rsm)	700	124	5,418	7,057	8,580
Core EPS (Rs)	10.14	1.75	76.42	99.54	121.01
Core EPS Growth	(55%)	(83%)	4,272%	30%	22%
FD Core P/E (x)	114.05	661.46	15.13	11.62	9.56
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	530.6	637.2	765.2
P/BV (x)	2.59	2.59	2.18	1.81	1.51
ROE	2.4%	0.4%	15.6%	17.0%	17.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results

Particulars (Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Net Interest Income	2,170.0	2,703.3	2,933.5	3,159.0	3,161.1	45.7%	0.1%
<i>NIM (% of AUM) Calculated</i>	13.8%	13.9%	14.2%	14.1%	13.3%		
Fee-Based Income	372.7	1,137.0	343.9	965.8	905.4	143.0%	-6.2%
Operating Expenses	1,136.2	1,232.3	1,386.2	1,549.1	1,662.0	46.3%	7.3%
Operating Profit	1,406.5	2,608.0	1,891.2	2,575.7	2,404.6	71.0%	-6.6%
Provisions	446.1	1,222.4	285.8	900.5	701.1	57.2%	-22.1%
Exceptional Items	-	-	-	-	-		
PBT	960.4	1,385.6	1,605.4	1,675.1	1,703.5	77.4%	1.7%
Tax	-246.7	-330.2	-410.8	-423.1	-429.4	74.0%	1.5%
<i>Tax rate (%)</i>	25.7%	23.8%	25.6%	25.3%	25.2%		
PAT	713.7	1,055.4	1,194.6	1,252.0	1,274.0	78.5%	1.8%
AUM (Rs bn)	68.5	85.1	88.5	97.8	104.0	51.8%	6.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

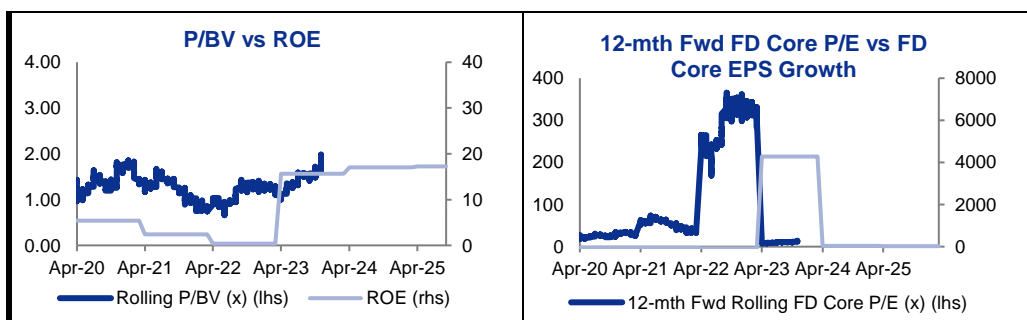
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	13,766	13,004	-5.5%	19,530	16,589	-15.1%	25,803	20,164	-21.9%
Non-Interest Income	2,693	3,020	12.1%	2,339	3,971	69.8%	3,334	4,957	48.7%
PPOP	10,266	9,760	-4.9%	14,037	12,409	-11.6%	19,216	14,557	-24.2%
PAT	5,796	5,418	-6.5%	7,344	7,057	-3.9%	9,317	8,580	-7.9%
EPS (Rs)	81.8	76.4	-6.5%	103.6	99.5	-3.9%	131.4	121.0	-7.9%
BV (Rs)	535.9	530.6	-1.0%	646.6	637.2	-1.4%	785.0	765.3	-2.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- Spandana Sphoorty Financial or SSFL saw a rating upgrade from 'A' to 'A Positive' by rating agencies ICRA and Crisil. This supported its average cost of borrowing at 12.3% (12.5% in 2QFY24), which management aims to reduce to 12%.
- During the quarter, 72 branches were opened. Out of the total 1,574 branches, 375 branches are on a weekly collection model.
- Disbursement for the quarter stood at Rs25.4bn, out of which weekly collection model branches made a disbursement of Rs4bn, which is 16% of total disbursement.
- As regards the portfolio quality of the company, 90 days DPD stands at 2.49%, gross non-performing assets or GNPA's at 1.61% and net non-performing assets or NNPA's at 0.48%. The gross slippage during the first nine months of the current financial year was Rs1.1bn and for the quarter the slippage stood at Rs0.5bn.
- The NIM during the quarter fell from 14.1% to 13.3%, which is largely because of the rise in leverage and interest income reversal of Rs60m on slippage amounting to Rs0.5bn.
- There is no change in the profile of its customers due to the change in the collection mode from monthly to a weekly one. As it's a cash flow adjustment, it becomes slightly easier for the customers to pay off every week rather than waiting for a month, and it is linked to their income generation.
- Management projects RoA at upwards of 4.5%, credit loss ratio under 2% and RoE in the range of 17% to 19%.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	7,964	8,196	13,004	16,589	20,164
Total Non-Interest Income	1,435	1,995	3,020	3,971	4,957
Operating Revenue	9,399	10,192	16,024	20,560	25,121
Total Non-Interest Expenses	(3,624)	(4,570)	(6,264)	(8,150)	(10,564)
Pre-provision Operating Profit	5,775	5,621	9,760	12,409	14,557
Total Provision Charges	(4,805)	(5,443)	(2,507)	(2,937)	(3,040)
Operating Profit After Provisions	970	178	7,253	9,473	11,517
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	970	178	7,253	9,473	11,517
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	970	178	7,253	9,473	11,517
Exceptional Items					
Pre-tax Profit	970	178	7,253	9,473	11,517
Taxation	(270)	(54)	(1,835)	(2,416)	(2,937)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	700	124	5,418	7,057	8,580
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	700	124	5,418	7,057	8,580
Recurring Net Profit					

Balance Sheet Employment

(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%	95.0%	95.4%
Avg Liquid Assets/Avg IEAs	120.7%	116.6%	112.9%	113.4%	113.7%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	55,184	77,598	108,071	136,644	167,404
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	55,184	77,598	108,071	136,644	167,404
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	55,184	77,598	108,071	136,644	167,404
Intangible Assets					
Other Non-Interest Earning Assets	3,219	3,994	4,194	4,403	4,624
Total Non-Interest Earning Assets	3,531	4,290	4,548	4,829	5,134
Cash And Marketable Securities	12,022	10,045	13,827	18,846	22,719
Long-term Investments	24	1,894	2,272	2,954	3,840
Total Assets	70,762	93,826	128,719	163,273	199,097
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	37,519	60,743	88,077	114,500	140,575
Total Interest-Bearing Liabilities	37,519	60,743	88,077	114,500	140,575
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	2,344	1,445	3,022	3,596	4,265
Total Liabilities	39,863	62,187	91,099	118,096	144,840
Shareholders Equity	30,876	31,699	37,617	45,175	54,254
Minority Interests	24	2	2	2	2
Total Equity	30,899	31,701	37,620	45,177	54,257

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	(15.2%)	2.9%	58.7%	27.6%	21.6%
Operating Profit Growth	(31.7%)	(2.7%)	73.6%	27.1%	17.3%
Pretax Profit Growth	(52%)	(82%)	3,969%	31%	22%
Net Interest To Total Income	84.7%	80.4%	81.2%	80.7%	80.3%
Cost Of Funds	11.86%	9.32%	12.50%	12.00%	11.00%
Return On Interest Earning Assets	21.5%	19.2%	24.0%	23.5%	22.5%
Net Interest Spread	9.60%	9.92%	11.53%	11.49%	11.49%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	83%	97%	26%	24%	21%
Interest Return On Average Assets	10.18%	9.96%	11.69%	11.36%	11.13%
Effective Tax Rate	27.8%	30.5%	25.3%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	0.89%	0.15%	4.87%	4.83%	4.74%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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