



India

HOLD (previously ADD)

Consensus ratings*:	Buy 10	Hold 0	Sell 0
Current price:	Rs459		
Target price:	Rs500		
Previous target:	Rs700		
Up/downside:	8.9%		
InCred Research / Consensus:	-39.1%		
Reuters:	SPAD.BO		
Bloomberg:	SPANDANA IN		
Market cap:	US\$451m		
	Rs32,761m		
Average daily turnover:	US\$2.1m		
	Rs155.2m		
Current shares o/s:	71.3m		
Free float:	36.5%		

*Source: Bloomberg

Key changes in this note

- Weak numbers with a high focus on collections and curbing employee attrition, resulting in elevated credit costs, high opex and shrinking AUM qoq.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(22.8)	(34.5)	(47.9)
Relative (%)	(17.4)	(33.4)	(58.5)

Major shareholders	% held
KANGCHENJUNGA	41.0
Valiant Mauritius	7.7
PADMAJA GANGIREDDY	7.7

Research Analyst(s)**Jignesh SHIAL**

T (91) 22 4161 1547

E jignesh.shial@incredresearch.com

Meghna LUTHRA

T (91) 22 4161 1500

E meghna.luthra@incredresearch.com

Rishabh JOGANI

T (91) 22 4161 1569

E rishabh.jogani@incredresearch.com

Spandana Sphoorty Financial

Back to survival mode

- We downgrade SSFL to HOLD (from ADD earlier) with a lower TP of Rs500 as its management's focus has shifted from profitable growth to curtailing losses.
- SSFL has reported a wider-than-expected loss of Rs2bn in 2Q, led by high asset quality stress with ~11% AUM, >30 dpd and de-risking of the portfolio.
- Disbursements declined by ~34% qoq amid stringent new loan policies, conservative management approach as well as the rising focus on collections.

Disbursements decline; AUM growth to remain sluggish

Spandana Sphoorty Financial (SSFL) reported another weak set of numbers amid dealing with the overheating stress in the microfinance or MFI industry. Its AUM declined by ~10.1% qoq to Rs105bn in 2QFY25 as the focus of management has shifted towards collections whereas the disbursement policy has been made much more stringent. Disbursements were lower by ~34% qoq as fresh sanctions are made only to the existing borrowers of SSFL and new borrowers are admitted only if the borrower has two loans or less currently. This norm is even more stringent compared to Microfinance Institutions' Network or MFIN's mandate of three loans or less. Though this is a near-term arrangement, we expect the assets under management or AUM growth in FY25F to remain subdued, as management focuses on de-risking the loan book.

Spike in asset quality stress, although recoveries inching up

Gross stage-3 assets were at ~4.86% (up ~226bp qoq) with a provision coverage ratio of ~80% amid the ongoing deleveraging in the MFI industry. Accordingly, provisions grew by ~2.4x qoq/~5.7x yoy weighed by higher write-offs at Rs2.6bn. Gross stage-2 assets also remained elevated at ~6.16% (up ~300bp qoq), with a recovery rate of ~50%. This indicates that the movement to bucket-3 in coming quarters is likely to remain higher. On the positive front, average indebtedness among SSFL's borrowers declined by ~13% yoy and ~8% qoq. However, the trend of elevated credit costs is likely to remain in 2HFY25F.

Full focus on survival; opex to remain elevated

Attrition remained an issue at the field level, with ~67% loan officers having a service tenure of <1year on account of incrementally more staff leaving the MFI industry. However, the attrition of branch managers was curtailed by managing to retain ~78% of the managers who resigned, along with higher employee engagement activities. Further, SSFL continued to invest in adding branch support with ~300 people dedicated to recovery, which will move up by another 200-250 people in coming quarters. Thus, FY25F opex is likely to stay high.

Valuation and outlook

The MFI industry is in a consolidation phase, which will substantially test the core operations of the lenders. We have downgraded SSFL's rating to HOLD (from ADD earlier) as its management's focus has shifted from profitable growth to curtailing losses. We have cut our target price to Rs500 (Rs700 earlier), or ~0.9x FY25F BV. Downside risks: Slower growth and a spurt in delinquency. Upside risks: Better growth & lower delinquency..

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	8,196	13,113	15,196	15,776	18,490
Total Non-Interest Income (Rsm)	1,995	2,959	3,289	3,340	3,866
Operating Revenue (Rsm)	10,192	16,072	18,485	19,117	22,357
Total Provision Charges (Rsm)	(5,443)	(2,826)	(11,950)	(5,578)	(5,223)
Net Profit (Rsm)	124	5,007	(1,824)	3,075	4,638
Core EPS (Rs)	1.75	70.63	(25.72)	43.37	65.41
Core EPS Growth	(83%)	3,940%	(136%)	(269%)	51%
FD Core P/E (x)	262.83	6.51	(17.86)	10.59	7.02
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)	447.1	514.0	495.4	545.8	618.3
P/BV (x)	1.03	0.89	0.93	0.84	0.74
ROE	0.4%	14.7%	(5.1%)	8.3%	11.2%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Net Interest Income	1,471.6	1,851.3	2,170.0	2,703.3	2,933.5	3,159.0	3,161.1	3,859.3	4,341.6	3,487.0	10.4%	-19.7%
<i>NIM (% of AUM) Calculated</i>	9.9%	13.0%	13.8%	13.9%	14.2%	14.1%	13.3%	14.6%	15.2%	0.0%		
Fee-Based Income	149.0	336.7	372.7	1,137.0	343.9	965.8	905.4	743.6	434.5	994.4	3.0%	128.9%
Operating Expenses	1,114.1	1,087.5	1,136.2	1,232.3	1,386.2	1,549.1	1,661.9	1,942.8	1,907.6	2,203.4	42.2%	15.5%
Operating Profit	506.5	1,100.4	1,406.5	2,608.0	1,891.2	2,575.7	2,404.6	2,660.1	2,868.5	2,278.0	-11.6%	-20.6%
Provisions	3,517.2	257.5	446.1	1,222.4	285.8	900.5	701.1	938.4	2,118.0	5,164.1	473.4%	143.8%
Exceptional Items	-	-	-	-	-	-	-	-	-	-	-	-
PBT	-3,010.7	842.9	960.4	1,385.6	1,605.4	1,675.1	1,703.5	1,721.7	750.5	-2,886.1	-	-
Tax	813.6	-291.0	-246.7	-330.2	-410.8	-423.1	-429.4	-435.1	-193.4	722.8	-	-
<i>Tax rate (%)</i>	27.0%	34.5%	25.7%	23.8%	25.6%	25.3%	25.2%	25.3%	25.8%	25.0%		
PAT	-2,197.2	551.9	713.7	1,055.4	1,194.6	1,252.0	1,274.1	1,286.6	557.1	-2,163.3	-	-
AUM (Rs bn)	55.1	57.8	68.5	85.1	88.5	97.8	104.0	119.7	117.2	105.4	7.7%	-10.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

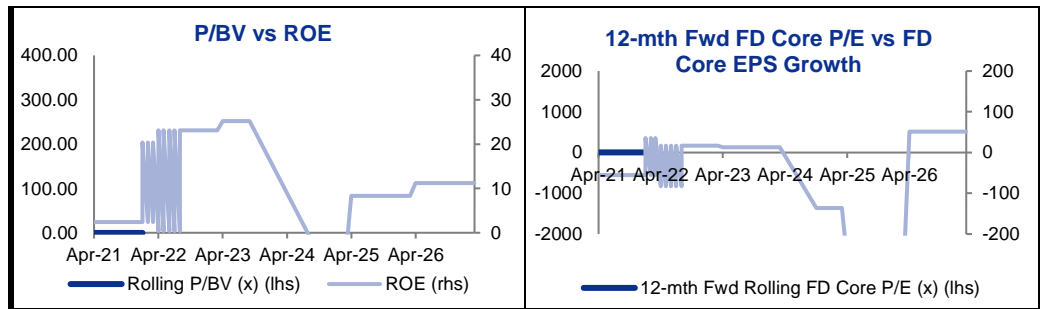
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	18,199	15,196	-16.5%	19,897	15,776	-20.7%	22,082	18,490	-16.3%
Non-Interest Income	3,259	3,289	0.9%	3,702	3,340	-9.8%	4,155	3,866	-7.0%
PPOP	12,398	9,502	-23.4%	12,113	9,706	-19.9%	12,070	11,448	-5.2%
PAT	3,844	-1,824	-147.5%	5,207	3,075	-40.9%	6,066	4,638	-23.5%
EPS (Rs)	54.2	-25.7	-147.5%	73.4	43.4	-40.9%	85.6	65.4	-23.5%
BV (Rs)	575.4	495.4	-13.9%	655.8	545.8	-16.8%	748.5	618.3	-17.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY25 earnings conference-call highlights ►

- SSFL's management has indicated that operations should normalize by the end of the financial year.
- AUM in FY25F is indicated to be slightly higher than last year.
- Group meetings witness an attendance of 60-65%.
- The company continues its restricted stance from the previous quarter with limited addition of new centres.
- New-to-credit customers are not being onboarded.
- The onboarding of new customers is minimal and was at 80,000 for the quarter.
- While onboarding new customers, the company will not onboard a borrower with three or more existing loans.
- Management has indicated that the cost-to-income ratio will be ~45% in FY25F due to additional support to the branches.
- Recoveries are indicated to be 20-30%.
- The incremental benefits of strengthened collection teams are indicated to be more effective from 3QFY25F.
- Borrowers with 5+ lenders in addition to SSFL were ~12-12.5% who had GNPA + arrears of ~21%.
- Borrowers with 4+ lenders in addition to SSFL were 13.8%.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	8,196	13,113	15,196	15,776	18,490
Total Non-Interest Income	1,995	2,959	3,289	3,340	3,866
Operating Revenue	10,192	16,072	18,485	19,117	22,357
Total Non-Interest Expenses	(4,570)	(6,540)	(8,983)	(9,411)	(10,909)
Pre-provision Operating Profit	5,621	9,532	9,502	9,706	11,448
Total Provision Charges	(5,443)	(2,826)	(11,950)	(5,578)	(5,223)
Operating Profit After Provisions	178	6,706	(2,448)	4,128	6,225
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	178	6,706	(2,448)	4,128	6,225
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	178	6,706	(2,448)	4,128	6,225
Exceptional Items					
Pre-tax Profit	178	6,706	(2,448)	4,128	6,225
Taxation	(54)	(1,698)	624	(1,053)	(1,587)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	124	5,007	(1,824)	3,075	4,638
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	124	5,007	(1,824)	3,075	4,638
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	94.1%	95.2%	96.2%	95.8%	95.7%
Avg Liquid Assets/Avg IEAs	116.6%	115.4%	117.1%	116.2%	111.8%
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-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	77,598	110,143	107,130	116,007	145,122
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	77,598	110,143	107,130	116,007	145,122
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	77,598	110,143	107,130	116,007	145,122
Intangible Assets					
Other Non-Interest Earning Assets	3,994	3,149	3,307	3,472	3,646
Total Non-Interest Earning Assets	4,290	3,623	3,875	4,154	4,465
Cash And Marketable Securities	10,045	18,941	18,162	17,906	12,983
Long-term Investments	1,894	1,118	1,453	1,889	2,456
Total Assets	93,826	133,825	130,620	139,957	165,026
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	60,743	94,046	89,344	95,473	114,567
Total Interest-Bearing Liabilities	60,743	94,046	89,344	95,473	114,567
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,445	3,330	6,151	5,784	6,621
Total Liabilities	62,187	97,376	95,495	101,257	121,188
Shareholders Equity	31,699	36,446	35,122	38,697	43,835
Minority Interests	2	3	3	3	3
Total Equity	31,701	36,449	35,125	38,700	43,838

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	2.9%	60.0%	15.9%	3.8%	17.2%
Operating Profit Growth	(2.7%)	69.6%	(0.3%)	2.1%	17.9%
Pretax Profit Growth	(82%)	3,661%	(137%)	(269%)	51%
Net Interest To Total Income	80.4%	81.6%	82.2%	82.5%	82.7%
Cost Of Funds	9.32%	11.97%	11.00%	10.50%	10.20%
Return On Interest Earning Assets	19.2%	23.8%	23.3%	22.8%	22.4%
Net Interest Spread	9.92%	11.87%	12.27%	12.34%	12.17%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	97%	30%	126%	57%	46%
Interest Return On Average Assets	9.96%	11.52%	11.49%	11.66%	12.13%
Effective Tax Rate	30.5%	25.3%		25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	0.15%	4.40%	(1.38%)	2.27%	3.04%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.