

India

HOLD (no change)

Consensus ratings*: Buy 4 Hold 4 Sell 0

Current price: Rs290
 Target price: ▼ Rs310
 Previous target: Rs360
 Up/downside: 6.9%
 InCred Research / Consensus: -9.0%

Reuters:
 Bloomberg: SPANDANA IN
 Market cap: US\$242m
 Rs20,671m
 Average daily turnover: US\$1.9m
 Rs160.0m
 Current shares o/s: 0.0m
 Free float: 16.0%

*Source: Bloomberg

Key changes in this note

- We have revised downwards our AUM estimate and raised the provision requirement.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.5	15.0	(62.1)
Relative (%)	4.3	3.4	(65.6)

Major shareholders	% held
KANGCHENJUNGA	41.1
KEDAARA CAPITAL	7.0
GOLDMAN SACHS	3.8

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Spandana Sphoorty Financial

Shrinking to survive; looking to revive

- SSFL posted a loss of Rs4bn in 4Q led by high credit costs amid elevated write-offs & low disbursements, as the company continued to remain cautious.
- Management chalked out its FY26 strategy, with AUM growth of ~20% yoy led by filtered existing and new borrowers, although we stay slightly conservative.
- Continued uncertainty led us to retain HOLD rating with a lower TP of Rs310.

Takes a step back – collect now and lend later

Spandana Sphoorty Financial (SSFL) reported a net loss of Rs4bn in 4QFY25 led by elevated asset quality stress, lower disbursements and shrinking assets under management or AUM amid top management reshuffle. SSFL continues to focus on collections, with its X-bucket collection efficiency at 98.9% (excluding Karnataka, including which it is 98.6%). Management highlighted that collections remained strained in Karnataka and Andhra Pradesh. AUM declined by ~24% qoq and ~43% yoy to Rs 68bn because of write-offs (~7% of opening AUM) and the focus on collections. Disbursements stood at Rs3.6bn, down ~75% qoq and ~91% yoy, as SSFL continues to be cautious on the disbursement front amid elevated stress and implementation of the new guardrails.

Continued elevated write-offs; stress to ease from 2HFY26F

Gross stage-3% assets were up 78bp qoq at 5.63% as the AUM fell sequentially while absolute gross stage-3 assets declined by ~12% qoq, with the provision coverage ratio (PCR) at 80%. Gross stage-2% assets increased by ~155bp qoq to 9.2% with a PCR of ~45%, while these assets declined by ~9% qoq. Higher write-offs led to elevated credit costs of ~7.7%, eating into the wafer-thin operating profit. We expect the write-offs to continue in 1QFY26F and expect credit costs to remain high in 1HFY26F before cooling in 2HFY26F.

Moving around the guardrails with rural outlook improving

Management has chalked out a strategy for increasing the AUM by ~20% yoy in FY26F aided by disbursements to existing eligible borrowers (~51% of the borrowers) and new borrowers expected to pick up pace in 2HFY26F. Focus states remain Maharashtra, Uttar Pradesh, Bihar, Telangana, Chhattisgarh, and West Bengal. However, we remain slightly conservative as compared to SSFL's guidance and expect AUM to grow by ~16.5% yoy.

Outlook and valuation

There is a high amount of sectoral and specific uncertainty looming on SSFL. Sectoral uncertainty includes disbursements under the new guardrails and the remainder asset quality pain. However, more specific issues remain about the change in leadership, breach of covenants and high attrition. While we appreciate the management's guidance and probable confidence-capital raising plan, we remain comparatively conservative. We maintain HOLD rating on SSFL with a lower target price of Rs310 (Rs360 earlier), valuing the stock at 0.7x FY27F BV. Downside/upside risks: Higher-than-expected asset quality stress and slower disbursements remain key downside risks and vice versa.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	13,113	12,621	9,903	13,407	4,417
Total Non-Interest Income (Rsm)	2,727	2,298	2,211	2,262	581
Operating Revenue (Rsm)	15,840	14,918	12,114	15,670	4,998
Total Provision Charges (Rsm)	(2,594)	(19,863)	(4,948)	(3,089)	(1,163)
Net Profit (Rsm)	5,007	(10,352)	79	3,146	1,172
Core EPS (Rs)	70.23	(145.16)	1.11	44.11	16.43
Core EPS Growth	3,917%	(307%)	(101%)	3,884%	(63%)
FD Core P/E (x)	4.13	(2.00)	261.83	6.57	17.64
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)	511.2	369.2	370.3	414.5	430.9
P/BV (x)	0.57	0.79	0.78	0.70	0.67
ROE	14.7%	(33.0%)	0.3%	11.2%	3.9%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: : Quarterly earnings summary

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	YoY (%)	QoQ (%)
Net Interest Income	2,933.5	3,159.0	3,161.1	3,859.3	4,341.6	3,487.0	2,739.1	2,052.4	-46.8%	-25.1%
NIM (% of AUM) Calculated	14.2%	14.1%	13.3%	14.6%	15.2%	11.3%	11.3%	10.7%		
Fee-Based Income	343.9	965.8	905.4	743.6	434.5	994.4	696.7	282.3	-62.0%	-59.5%
Operating Expenses	1,386.2	1,549.1	1,661.9	1,942.8	1,907.6	2,203.4	2,651.4	2,083.3	7.2%	-21.4%
Operating Profit	1,891.2	2,575.7	2,404.6	2,660.1	2,868.5	2,278.0	784.4	251.4	-90.5%	-68.0%
Provisions	285.8	900.5	701.1	938.4	2,118.0	5,164.1	6,660.7	6,027.6	542.3%	-9.5%
Exceptional Items	-	-	-	-	-	-	-	-		
PBT	1,605.4	1,675.1	1,703.5	1,721.7	750.5	-2,886.1	-5,876.3	-5,776.2	-435.5%	-1.7%
Tax	-410.8	-423.1	-429.4	-435.1	-193.4	722.8	1,473.9	1,433.2	-429.4%	-2.8%
Tax rate (%)	25.6%	25.3%	25.2%	25.3%	25.8%	25.0%	25.1%	24.8%		
PAT	1,194.6	1,252.0	1,274.1	1,286.6	557.1	-2,163.3	-4,402.4	-4,343.0	-437.6%	-1.3%
AUM (Rs bn)	88.5	97.8	104.0	119.7	117.2	105.4	89.4	68.2	-43.0%	-23.7%
Disbursements (Rs bn)	16.6	25.1	25.4	39.5	22.8	15.1	14.4	3.7	-90.8%	-74.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

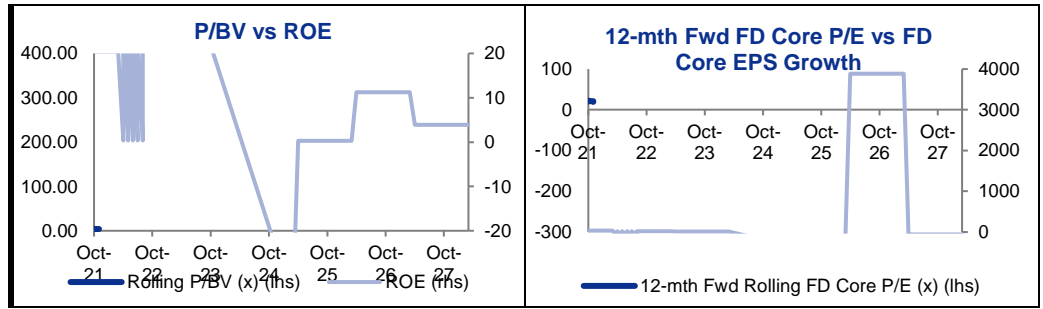
Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	13,146	9,903	-24.7%	15,425	13,407	-13.1%	-	19,287	-
Non-Interest Income	2,643	2,211	-16.3%	2,623	2,262	-13.7%	-	2,816	-
PPOP	6,577	5,053	-23.2%	7,807	7,273	-6.8%	-	12,468	-
PAT	2,458	79	-96.8%	3,999	3,146	-21.3%	-	5,529	-
EPS (Rs)	34.7	1.1	-96.8%	56.4	44.1	-21.8%	-	77.5	-
BV (Rs)	439.7	370.4	-15.8%	503.2	414.5	-17.6%	-	492.0	-

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY25 earnings call highlights ►

- SSFL's board has approved a plan to raise Rs7.5bn capital.
- Capital raising may include a possible rights share issue in 2QFY26F with promoter participation.
- Despite the breach of profitability covenants on the borrowing front, none of the lenders have urged immediate payment.
- Out of the breach in borrowings to the extent of Rs4.4bn, Rs2.6bn were capital market borrowings and Rs1.8bn were term loans.
- The company is looking at restarting the onboarding of new-to-credit customers, which was halted in Jul 2024.
- There is a new layer of quality and control checks at the company's branches.
- The company has introduced Aadhar-based e-KYC, along with e-verification of voter cards.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	13,113	12,621	9,903	13,407	4,417
Total Non-Interest Income	2,727	2,298	2,211	2,262	581
Operating Revenue	15,840	14,918	12,114	15,670	4,998
Total Non-Interest Expenses	(6,540)	(8,843)	(7,061)	(8,397)	(2,276)
Pre-provision Operating Profit	9,300	6,075	5,053	7,273	2,722
Total Provision Charges	(2,594)	(19,863)	(4,948)	(3,089)	(1,163)
Operating Profit After Provisions	6,706	(13,788)	105	4,184	1,559
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	6,706	(13,788)	105	4,184	1,559
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	6,706	(13,788)	105	4,184	1,559
Exceptional Items					
Pre-tax Profit	6,706	(13,788)	105	4,184	1,559
Taxation	(1,699)	3,436	(26)	(1,038)	(387)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	5,007	(10,352)	79	3,146	1,172
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	5,007	(10,352)	79	3,146	1,172
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	95.2%	93.5%	88.5%	88.4%	89.3%
Avg Liquid Assets/Avg IEAs	115.4%	122.4%	123.8%	113.7%	109.3%
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-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	110,143	57,084	71,478	96,576	117,399
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	110,143	57,084	71,478	96,576	117,399
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	110,143	57,084	71,478	96,576	117,399
Intangible Assets					
Other Non-Interest Earning Assets	3,149	7,830	9,517	11,568	12,146
Total Non-Interest Earning Assets	3,623	8,316	10,057	12,167	12,761
Cash And Marketable Securities	18,941	18,438	12,216	10,728	9,263
Long-term Investments	1,118	1,098	1,234	1,500	1,575
Total Assets	133,825	84,935	94,985	120,972	140,999
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	94,046	56,556	64,331	84,021	102,137
Total Interest-Bearing Liabilities	94,046	56,556	64,331	84,021	102,137
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	3,330	2,046	4,243	7,393	8,132
Total Liabilities	97,376	58,602	68,573	91,414	110,269
Shareholders Equity	36,446	26,331	26,410	29,555	30,727
Minority Interests	3	2	2	2	2
Total Equity	36,449	26,333	26,412	29,558	30,730

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	60.0%	(3.8%)	(21.5%)	35.4%	(67.1%)
Operating Profit Growth	65.4%	(34.7%)	(16.8%)	43.9%	(62.6%)
Pretax Profit Growth	3,661%	(306%)	(101%)	3,884%	(63%)
Net Interest To Total Income	82.8%	84.6%	81.7%	85.6%	88.4%
Cost Of Funds	11.97%	12.38%	8.54%	8.16%	2.28%
Return On Interest Earning Assets	23.8%	26.2%	23.4%	23.2%	6.1%
Net Interest Spread	11.87%	13.86%	14.90%	15.00%	3.83%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	28%	327%	98%	42%	43%
Interest Return On Average Assets	11.52%	11.54%	11.01%	12.42%	3.37%
Effective Tax Rate	25.3%		24.8%	24.8%	24.8%
Net Dividend Payout Ratio					
Return On Average Assets	4.40%	(9.46%)	0.09%	2.91%	0.89%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Stock Ratings

Definition:

- 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.

Sector Ratings

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.

Country Ratings

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.