



India

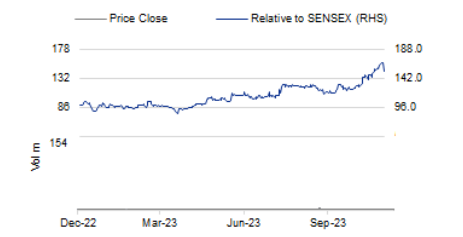
ADD (no change)

Consensus ratings*:	Buy 8	Hold 0	Sell 0
Current price:	Rs1,017		
Target price:	Rs1,300 ▲		
Previous target:	Rs1,150		
Up/downside:	27.8%		
InCred Research / Consensus:	14.4%		
Reuters:	SPANDANA IN		
Bloomberg:	US\$868m		
Market cap:	Rs72,345m		
Average daily turnover:	US\$2.3m		
	Rs188.5m		
Current shares o/s:	0.0m		
Free float:	16.0%		

*Source: Bloomberg

Key changes in this note

- ▶ Improving staff productivity, increasing the size of its centres, shifting towards a weekly model & diversifying assets/liabilities are some of the company's goals.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.9	27.1	70.5
Relative (%)	(3.0)	22.2	51.5

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

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Spandana Sphoorty Financial

Spandana 2.0: Firing on all cylinders

- We attended the analyst meet of Spandana Sphoorty Financial where its top management provided a five-year vision (Spandana 2.0) for the company.
- Management plans to achieve AUM of Rs280bn by FY28F backed by a customer base of ~6.2m, aiming at a RoA of ~4.5% and RoE of ~18-20%.
- Improving staff productivity, increasing the size of its centres, shifting to a weekly model & diversifying assets/liabilities are some of the company's goals.

Sticking to JLG model with smaller loan ticket sizes and lower tenure

Spandana Sphoorty Financial or SSFL's management is committed to follow the traditional JLG (Joint Liability Group) model, against the lending based on individual capacity, to avoid concentration risk and to follow the basic discipline of microfinance. Also, to avoid systemic risks, SSFL prefers lower loan ticket sizes (especially for first-cycle customers) and relatively smaller duration lending. SSFL has an average entry ticket size of Rs36,000 for a weekly collection customer and Rs42,000 for a monthly collection customer whereas Rs80,000 remains the highest exposure per customer. This is ~15-20% lower exposure compared to the industry average. Management gradually intends to shift from two years (24 months) loan maturity to ~75 weeks (1.5 years) loan maturity to ensure a faster turnaround. SSFL also aims to remain a lender in case of emergency rather than being a static lender with a fixed duration, as it ensures prompt repayment.

Focus on weekly collections & improving employee productivity

All new branches opened in the past one year have been operating on a weekly model against the monthly model and SSFL's management ~remains firm on shifting the entire business model to weekly collection by FY25F. SSFL is already witnessing improved attendance (~80%) at its branches operating on a weekly model. The company also intends to improve overall employee productivity by increasing the size of its centres from 8-10 members currently to ~18-20 members. This will ensure ~450-475 borrowers per loan officer from ~317 borrowers currently, enhancing employee productivity. SSFL is keeping track of the actual utilization of money (should be for income generation purpose) to avoid misutilization of loans, which generally creates larger defaults.

Diversification of assets, liabilities and geography on the cards

Under Spandana 2.0, SSFL's management aims to attain balance sheet diversity, The company has a fully operational subsidiary, Criss Financial, which will engage in small-ticket LAP (loan against property) as well as micro enterprise loans for small shop owners and MSME customers, with an average ticket size of Rs0.5m. Management aims at AUM of Rs30-35bn for Criss Financial by FY28F. On the liability front, SSFL intends to increase its share of bank and foreign market borrowings. SSFL also aims at geographical diversity, with the top three states contributing less than ~36% to AUM against the ~44% contribution currently.

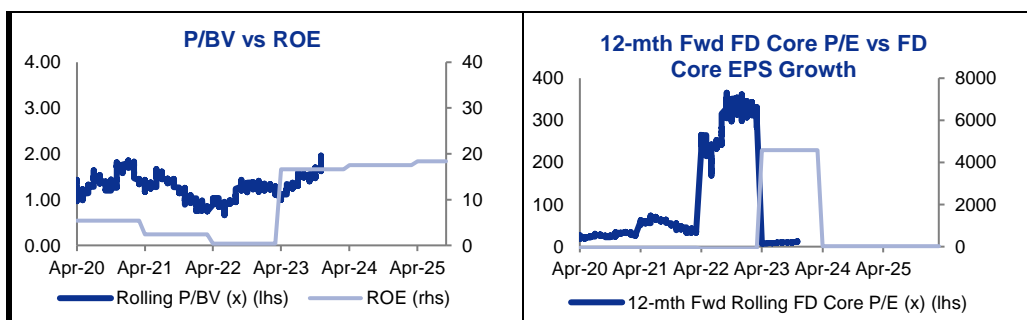
Outlook and valuation

SSFL is one of fastest-growing NBFC MFIs with an aim to increase the overall customer base (from the identified seven new states) rather than focusing on increasing ticket sizes. The company is equally investing in technology and data analytics to ensure faster turn around and better customer acquisition. Management aims at 12% NIM and 1.5% credit costs to ensure ~4.5% RoA and ~18-20% steady-state RoE. SSFL may create management overlay over a period to avoid earnings volatility. With the streamlining of processes and lower employee attrition, SSFL is operationally equivalent to most MFI peers. This will further ensure a narrowing discount with most listed MFI players. At current valuation, SSFL offers an attractive risk-reward ratio. We maintain our ADD rating on the stock with a higher target price of Rs1,300 (~2.0x FY25F ABV) against the previous target price of Rs1,150 (~1.8x FY25 ABV). Slower growth and a spurt in delinquencies remain the key downside risks to our investment thesis.

Key takeaways from the analyst meet

- Management indicated that most of the turnaround work is over in respect of its people, portfolio quality, governance and stakeholder relationship while in the case of distribution, half of the work is over and the remaining will be completed when there is a complete shift to the weekly model.
- Management reiterated its guidance for 2025F of achieving Rs150bn MFI AUM that was given six quarters ago, with better visibility.
- Vision 2028 - Management gave guidance of Rs280bn AUM by FY28F, with 6.2m customer base (2.7m now), NIM at 12%, ROA at 4.5%, ROE at 18%, opex-to-asset ratio at 5.5%, CRAR at 25%, and branches numbering 1,950.
- Customer acquisition to remain the key driver of business growth, as per management. New customer acquisition to contribute 35% post FY26F-27F in overall AUM growth (65% now).
- SSFL to focus on improving employee productivity driven by policies, data, geo tagging and technology. The company indicated that employee productivity is set to increase from 317 customers per employee currently to 475 customers per employee by FY28F.
- SSFL to focus on short-tenure loans, which will increase customer interaction with the company. However, the company will always be there for its borrowers to support them in case of emergencies or for meeting their additional requirement.
- SSFL has adequate checks on assessing loan utilization by borrowers to prevent misutilization of loans towards non-income generating activities.
- SSFL to improve geographical diversification by reducing AUM concentration in top three states from 44% currently to 36% by FY28F.
- SSFL focuses on establishing a data-driven and rule-based decisioning model where day-to-day decisions are driven by data and rules instead of individual judgement.
- The company has a 170-strong employee team which monitors compliance of its policies and procedures across its branches. This team visits the branches every quarter to verify the implementation of the policies and procedures.
- The biggest challenge for the company is employee retention, which it is trying to address by establishing a healthy work environment and remunerative culture.
- SSFL to structurally improve its cost of borrowing by improving diversification, increasing the share of direct assignment and raising the share of external commercial borrowing or ECB.
- With a technology-driven process, SSFL is reducing its turnaround time between customer onboarding and loan sanctioning from four-to-five days to a few hours.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	7,964	8,196	13,766	19,530	25,803
Total Non-Interest Income	1,435	1,995	2,693	2,339	3,334
Operating Revenue	9,399	10,192	16,460	21,869	29,137
Total Non-Interest Expenses	(3,624)	(4,570)	(6,194)	(7,833)	(9,921)
Pre-provision Operating Profit	5,775	5,621	10,266	14,037	19,216
Total Provision Charges	(4,805)	(5,443)	(2,485)	(4,179)	(6,710)
Operating Profit After Provisions	970	178	7,780	9,857	12,506
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	970	178	7,780	9,857	12,506
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	970	178	7,780	9,857	12,506
Exceptional Items					
Pre-tax Profit	970	178	7,780	9,857	12,506
Taxation	(270)	(54)	(1,984)	(2,514)	(3,189)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	700	124	5,796	7,344	9,317
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	700	124	5,796	7,344	9,317
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%	95.3%	95.9%
Avg Liquid Assets/Avg IEAs	120.7%	116.6%	107.1%	103.3%	102.7%
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	121,241	166,970	216,432
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	55,184	77,598	121,241	166,970	216,432
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	55,184	77,598	121,241	166,970	216,432
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	4,124	5,478	4,739
Long-term Investments	24	1,894	2,272	2,954	3,840
Total Assets	70,762	93,826	132,186	180,231	230,146
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	37,519	60,743	91,114	130,584	169,759
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	2,344	1,445	3,074	3,806	4,729
Total Liabilities	39,863	62,187	94,188	134,389	174,488
Shareholders Equity	30,876	31,699	37,995	45,839	55,656
Minority Interests	24	2	2	2	2
Total Equity	30,899	31,701	37,998	45,842	55,659

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	(15.2%)	2.9%	68.0%	41.9%	32.1%
Operating Profit Growth	(31.7%)	(2.7%)	82.6%	36.7%	36.9%
Pretax Profit Growth	(52%)	(82%)	4,264%	27%	27%
Net Interest To Total Income	84.7%	80.4%	83.6%	89.3%	88.6%
Cost Of Funds	11.86%	9.32%	12.75%	11.50%	10.75%
Return On Interest Earning Assets	21.5%	19.2%	23.6%	22.4%	21.9%
Net Interest Spread	9.60%	9.92%	10.83%	10.90%	11.13%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	83%	97%	24%	30%	35%
Interest Return On Average Assets	10.18%	9.96%	12.18%	12.50%	12.58%
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%	4.70%	4.54%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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