



India

ADD (no change)

Consensus ratings*: Buy 10 Hold 0 Sell 0	
Current price:	Rs925
Target price:	Rs1,300
Previous target:	Rs1,300
Up/downside:	40.5%
InCred Research / Consensus:	-4.0%
Reuters:	
Bloomberg:	SPANDANA IN
Market cap:	US\$795m Rs65,915m
Average daily turnover:	US\$2.8m Rs231.6m
Current shares o/s:	0.0m
Free float:	16.0%
*Source: Bloomberg	

Key changes in this note

- Implementation of Project Parivartan to be gradual, including shifting to weekly meetings. However, credit costs remain within the guided range of 2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.7)	(8.9)	62.3
Relative (%)	(6.7)	(13.9)	32.7

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

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Spandana Sphoorty Financial

Visibility improving; risk-reward favourable

- The RBI's concerns about higher interest rates charged by MFIs are restricted to a few specific MFIs. SSFL has not taken any generalized rate cuts.
- Implementation of Project Parivartan to be gradual, including shifting to weekly meetings. However, credit costs remain within the guided range of 2%.
- We have added Spandana Sphoorty Financial or SSFL to our high-conviction stocks list with an ADD rating and a target price of Rs1,300 (~2.0x FY25F BV).

RBI's concerns over loan pricing have a negligible impact on SSFL

The Reserve Bank of India (RBI) has been vocal about higher interest rates charged by micro finance institutions (MFIs), after removal of the cap on spreads, at ~10% during Mar 2022. However, we observed that top 17 NBFC MFIs in India, which hold ~93% of market the share (Fig. 5), have average lending yield in the range of ~21%-26% and earn a spread of ~11%-13%, which is normal. There are a few NBFC MFIs, who cater to a relatively riskier set of customers, charging higher rates. Such MFIs may be targeted by the RBI. Spandana Sphoorty Financial (SSFL) has reported a spread of ~11.5% in 9MFY24 with an average yield of ~24.2%, which is manageable. Our interactions with SSFL's management indicate that the company has not taken any specific rate cuts, apart from favourable rates being offered to vintage customers to improve the retention rate. The impact of a reduction in margins will be negligible.

Implementation of Project Parivartan to be a gradual affair

SSFL's management has adapted Project Parivartan, under which the collection mechanism has been shifted from a date-wise to a day-wise methodology. Secondly, it also intends to shift the group meeting intervals to a weekly basis as against a monthly basis now. Our recent interactions with SSFL's management indicate that ~730 branches have converted to day-wise collections already, but shifting group meetings to a weekly basis will be a time-consuming affair and may take a few quarters to implement. Thus, volatility in collection efficiency at bucket levels may stay for a while but SSFL's management remains firm on managing credit costs in the range of ~2%, as guided earlier.

Outlook & valuation

Spandana Sphoorty Financial is one of fastest-growing NBFC MFIs in India with an aim to increase its overall customer base (Fig. 5) rather than focusing on increasing the ticket size (Fig. 6). The company lost disbursement momentum in Oct 2023 amid implementation of Project Parivartan. However, the company's management is committed to achieving Rs120bn MFI AUM with the net interest margin or NIM at ~13% & RoA at ~4.5% for FY24F. We have removed the stock from our high-conviction ideas list post 3QFY24 results amid slowing growth and rising non-performing assets or NPAs, but the recent correction provides an attractive risk-reward ratio. We have added SSFL to our high-conviction stocks list again with an ADD rating and a target price of Rs1,300 (~2.0x FY25F BV). Slower growth and a spurt in delinquencies remain the key downside risks to our investment thesis.

Financial Summary

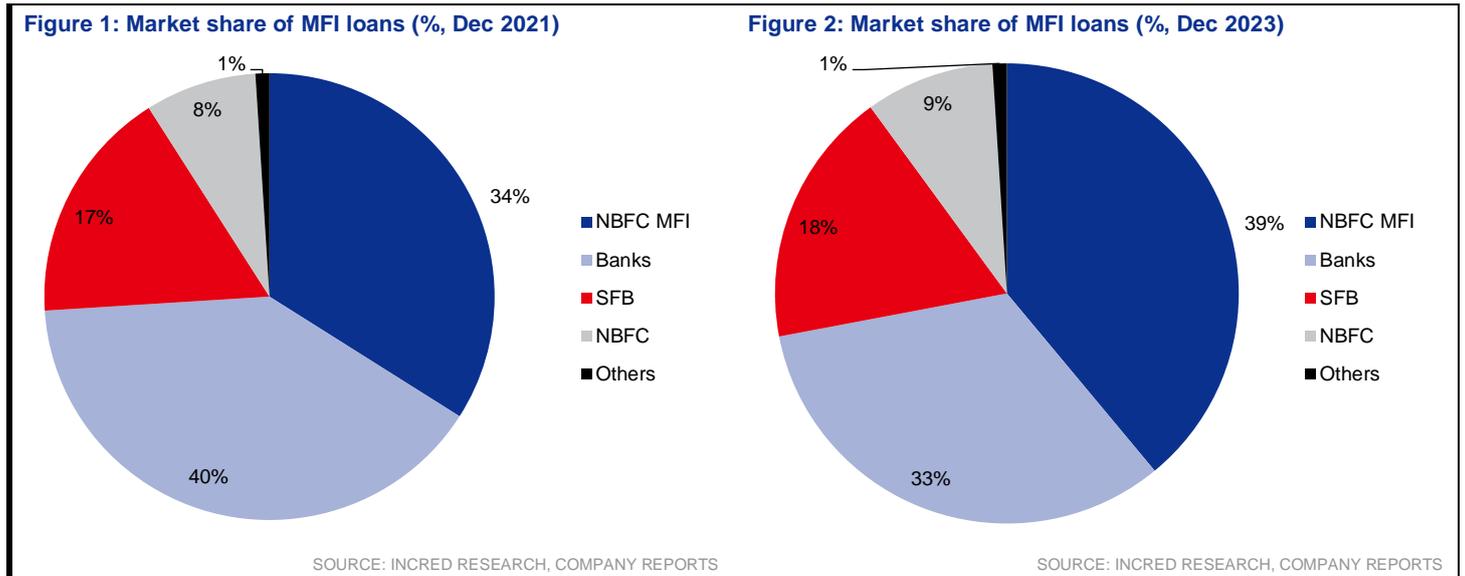
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	7,964	8,196	13,004	16,589	20,164
Total Non-Interest Income (Rsm)	1,435	1,995	3,020	3,971	4,957
Operating Revenue (Rsm)	9,399	10,192	16,024	20,560	25,121
Total Provision Charges (Rsm)	(4,805)	(5,443)	(2,507)	(2,937)	(3,040)
Net Profit (Rsm)	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)	91.24	529.15	12.10	9.29	7.64
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)	446.9	447.1	530.6	637.2	765.2
P/BV (x)	2.07	2.07	1.74	1.45	1.21
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

Key trends

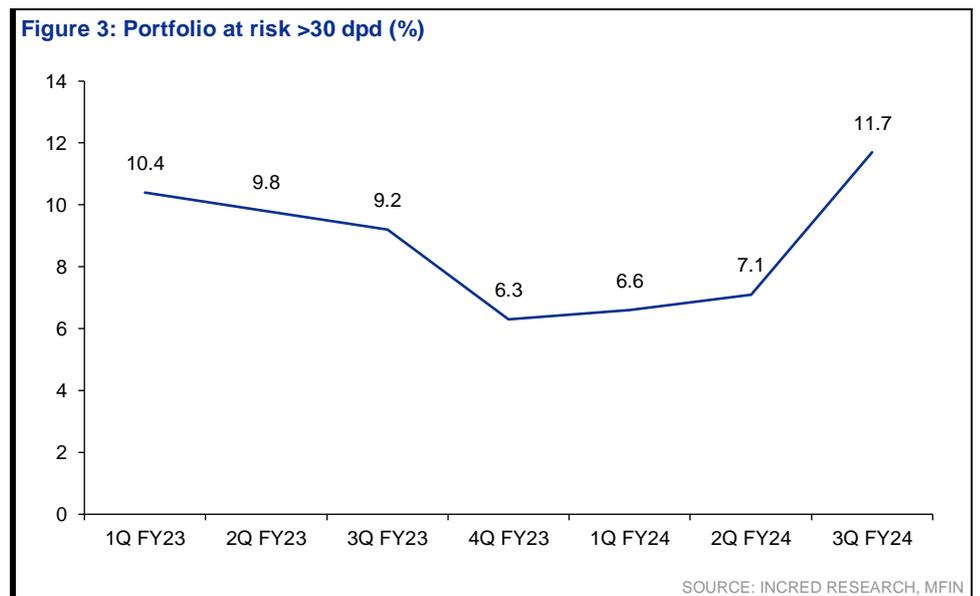
NBFC MFIs gaining market share the most while banks lose out

NBFC MFIs held a 39% share of the total MFI market as of 3QFY24-end, which was up from 34% in 3QFY22. This can be attributed to the RBI overhauling several practices of the MFI business in Mar 2022, which included lifting the 10% cap on pricing. The weak performance by banks is also due to the slow MFI book movement of Bandhan Bank (~14% market share).



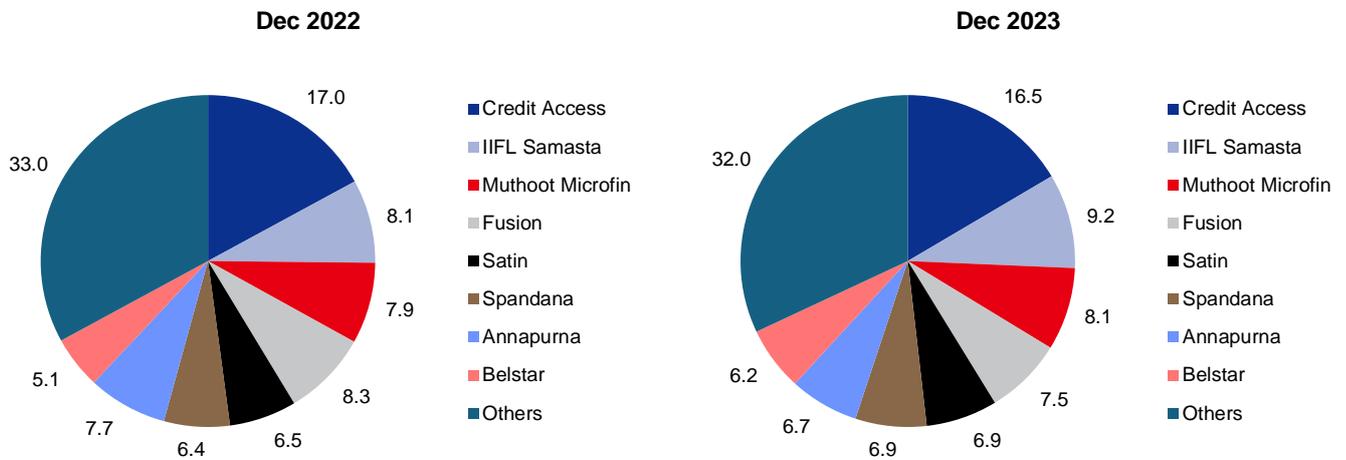
Rising asset stress levels in Punjab

Amidst farmers' protests for farm loan waiver under the banner of Samyukt Kisan Morcha, there is rising stress seen in MFI lending in Punjab. The portfolio at risk (PAR) > 30 days stood at 11.7%, the highest in the past seven quarters. Punjab contributed ~2% to the total MFI AUM.



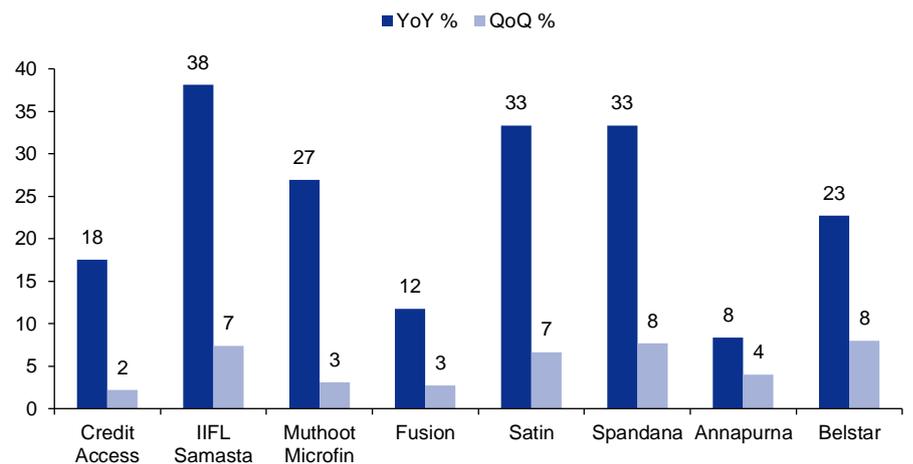
KEY CHARTS

Figure 4: Annapurna, Fusion MicroFinance and CreditAccess Grameen are losing market share while IIFL Samasta, SSFL and Belstar are gaining market share (%)



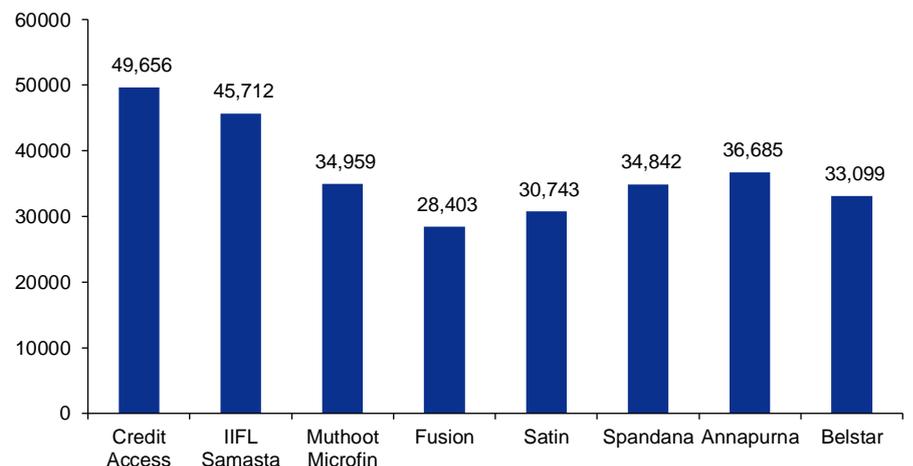
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Client growth – SSFL witnessed the second-highest client addition in 3QFY24 among the top-8 players



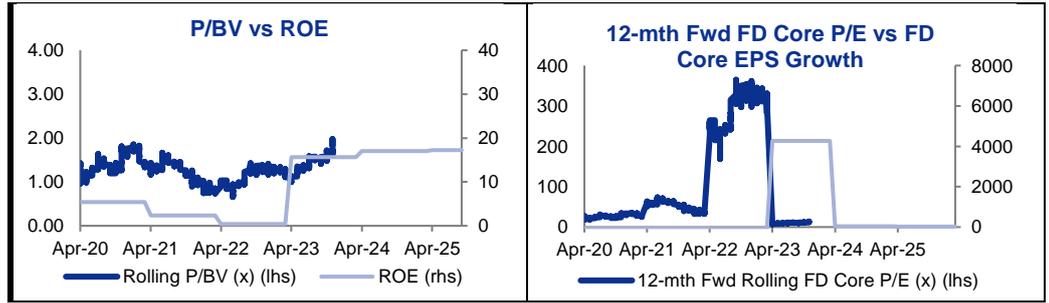
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Average AUM per customer (Rs) – Fusion MicroFinance remains at the lower end



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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