



## India

## ADD (no change)

Consensus ratings\*: Buy 10 Hold 0 Sell 0

Current price:	Rs879
Target price:	Rs1,300
Previous target:	Rs1,300
Up/downside:	47.9%
InCred Research / Consensus:	4.0%

Reuters:	
Bloomberg:	SPANDANA IN
Market cap:	US\$751m
	Rs62,681m
Average daily turnover:	US\$2.1m
	Rs176.3m
Current shares o/s:	0.0m
Free float:	16.0%

\*Source: Bloomberg

## Key changes in this note

- Sharp rise in disbursements amid geographic expansion and improving NIM. Transitional volatility in 1-90dpd while moving to a weekly collection model.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.6	(16.0)	47.2
Relative (%)	3.2	(19.2)	20.5

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

## Research Analyst(s)



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## Spandana Sphoorty Financial

## Sprucing up loan book; remains attractive

- SSFL posted a lower-than-expected 4Q PAT of Rs1.27bn, despite qoq margin improvement amid elevated opex, as it remains in the expansion phase.
- Transitional movement in 1-90DPD as the implementation of Project Parivartan (weekly model) may take another two quarters to stabilize.
- Management is progressing well on diversifying growth with a consistent improvement in return ratios. Retain high-conviction ADD with a TP of Rs1,300.

## Ironing out the revised business model; disbursements pick up pace

Spandana Sphoorty Financial (SSFL) witnessed strong disbursement growth at 56% qoq and 30% yoy in 4QFY24. SSFL's management remains firm on implementation of Project Parivartan, whereby collections are being shifted to a weekly basis from monthly earlier. During the quarter, ~21% of the disbursements were through weekly branches while the assets under management or AUM contribution stood at ~10%. Total AUM grew strongly by ~15% qoq and ~41% yoy to ~Rs 120bn. Despite the sharp rise in disbursements, average customer indebtedness was stable at Rs36,000 with an upper limit of Rs80,000, indicating continued granularity of AUM. SSFL continued its geographic derisking by reducing the concentration of the top 3 states to ~39% qoq from 41% in the previous quarter.

## Healthy NIM to sustain; higher operating expenses to normalize

Net interest margin or NIM improved to 14.1% from 13.3% sequentially led by better yields, lower cost of funds as most of the borrowings were scheduled towards the end of the quarter, and lower average cash balance. However, with the full impact of interest payments, 1QFY25F may witness some margin volatility. Operating expenses were bunched up due to higher branch expansion and a sharp rise in disbursements. However, the same are in a transitional mode and are expected to normalize in FY25F with higher branch maturity.

## Asset quality stable; bucket level volatility to settle down gradually

The gross NPA ratio improved 11bp sequentially to 1.5%, although there was a rise of 36bp qoq in the 1-90DPD bucket. Management attributed the same to unrest due to the Karza Mukti Abhiyan in some parts of Rajasthan and Madhya Pradesh, while the company has no exposure to Punjab or Haryana. Management indicated another two quarters to tackle the volatility. Prudently, the coverage for stage-2 and stage-3 assets has been shored up to ~48% (8pp qoq) and ~80% (+9pp qoq), respectively.

## Outlook &amp; valuation

SSFL is one of fastest-growing NBFC MFIs in India which is aiming to increase its overall customer base rather than focusing on increasing loan ticket sizes. The recent correction provides an attractive risk-reward ratio, and we continue to maintain our high-conviction ADD rating on the stock with a target price of Rs1,300 (~1.8x FY26F BV). Slower growth and a spurt in delinquencies remain the key downside risks to our investment thesis.

## Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	8,196	13,113	17,626	22,694	28,223
Total Non-Interest Income (Rsm)	1,995	2,959	4,213	5,436	6,661
Operating Revenue (Rsm)	10,192	16,072	21,839	28,130	34,885
Total Provision Charges (Rsm)	(5,443)	(2,826)	(3,640)	(4,747)	(5,878)
Net Profit (Rsm)	124	5,007	6,685	8,623	10,607
Core EPS (Rs)	1.75	70.63	94.29	121.62	149.60
Core EPS Growth	(83%)	3,940%	33%	29%	23%
FD Core P/E (x)	503.46	12.46	9.33	7.24	5.88
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	615.4	744.1	900.7
P/BV (x)	1.97	1.71	1.43	1.18	0.98
ROE	0.4%	14.7%	16.7%	17.9%	18.2%

% 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	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	42.8%	22.1%
<i>NIM (% of AUM) Calculated</i>	9.9%	13.0%	13.8%	13.9%	14.2%	14.1%	13.3%	14.1%		
Fee Based Income	149.0	336.7	372.7	1,137.0	343.9	965.8	905.4	743.6	-34.6%	-17.9%
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	57.7%	16.9%
<b>Operating Profit</b>	<b>506.5</b>	<b>1,100.4</b>	<b>1,406.5</b>	<b>2,608.0</b>	<b>1,891.2</b>	<b>2,575.7</b>	<b>2,404.6</b>	<b>2,660.1</b>	<b>2.0%</b>	<b>10.6%</b>
Provisions	3,517.2	257.5	446.1	1,222.4	285.8	900.5	701.1	938.4	-23.2%	33.8%
Exceptional Items	-	-	-	-	-	-	-	-		
<b>PBT</b>	<b>-3,010.7</b>	<b>842.9</b>	<b>960.4</b>	<b>1,385.6</b>	<b>1,605.4</b>	<b>1,675.1</b>	<b>1,703.5</b>	<b>1,721.7</b>	<b>24.3%</b>	<b>1.1%</b>
Tax	813.6	-291.0	-246.7	-330.2	-410.8	-423.1	-429.4	-435.1	31.8%	1.3%
<i>Tax rate (%)</i>	<i>27.0%</i>	<i>34.5%</i>	<i>25.7%</i>	<i>23.8%</i>	<i>25.6%</i>	<i>25.3%</i>	<i>25.2%</i>	<i>25.3%</i>		
<b>PAT</b>	<b>-2,197.2</b>	<b>551.9</b>	<b>713.7</b>	<b>1,055.4</b>	<b>1,194.6</b>	<b>1,252.0</b>	<b>1,274.1</b>	<b>1,286.6</b>	<b>21.9%</b>	<b>1.0%</b>
<b>AUM (Rs bn)</b>	<b>55.1</b>	<b>57.8</b>	<b>68.5</b>	<b>85.1</b>	<b>88.5</b>	<b>97.8</b>	<b>104.0</b>	<b>119.7</b>	<b>40.7%</b>	<b>15.1%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Quarterly earnings summary**

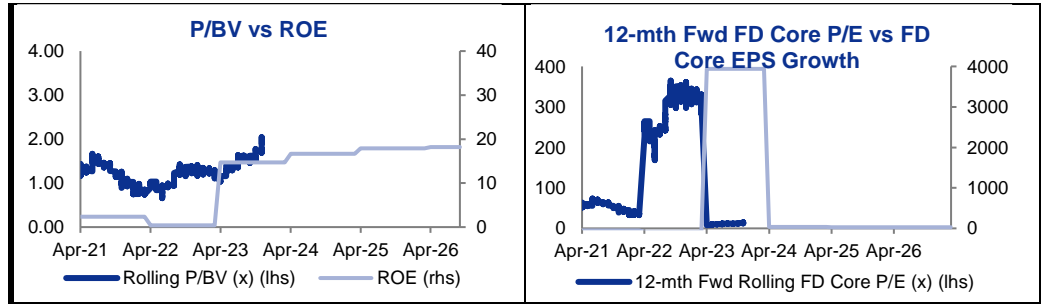
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest income	16,589	17,626	6.3%	20,164	22,694	12.5%	NA	28,223	NA
Non-Interest Income	3,971	4,213	6.1%	4,957	5,436	9.7%	NA	6,661	NA
PPOP	12,409	12,613	1.6%	14,557	16,321	12.1%	NA	20,115	NA
PAT	7,057	6,685	-5.3%	8,580	8,623	0.5%	NA	10,607	NA
EPS (Rs)	99.5	94.3	-5.3%	121.0	121.6	0.5%	NA	149.6	NA
BV (Rs)	637.2	615.4	-3.4%	765.2	744.1	-2.8%	NA	900.8	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 4QFY24 earnings conference-call highlights

- Net gain on fair value change was because of direct assignment transaction undertaken to the extent of Rs160m in 4QFY24 vs. Rs200m in 3QFY24 & Rs440m in 4Q FY23.
- The company has projected its customer base to be at 4m by FY25F, which is currently at 3.32m.
- AUM growth guidance is at 20-25% for FY25F, with 2% credit costs.
- The cost-to-income ratio is indicated to be in the range of 40-45% for FY25F.
- Average cash balance, as a percentage of average AUM, was at 17% in 3QFY24, which reduced to 11% in 4QFY24.
- Micro loans against property or LAP loans have been initiated through a subsidiary having 3,000 customers and AUM of Rs520m in select states like Rajasthan, Madhya Pradesh, Andhra Pradesh, Karnataka and Tamil Nadu.

**BY THE NUMBERS**



**Profit & Loss**

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	8,196	13,113	17,626	22,694	28,223
<b>Total Non-Interest Income</b>	<b>1,995</b>	<b>2,959</b>	<b>4,213</b>	<b>5,436</b>	<b>6,661</b>
Operating Revenue	10,192	16,072	21,839	28,130	34,885
<b>Total Non-Interest Expenses</b>	<b>(4,570)</b>	<b>(6,540)</b>	<b>(9,226)</b>	<b>(11,809)</b>	<b>(14,769)</b>
Pre-provision Operating Profit	5,621	9,532	12,613	16,321	20,115
<b>Total Provision Charges</b>	<b>(5,443)</b>	<b>(2,826)</b>	<b>(3,640)</b>	<b>(4,747)</b>	<b>(5,878)</b>
Operating Profit After Provisions	178	6,706	8,973	11,575	14,237
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	178	6,706	8,973	11,575	14,237
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	178	6,706	8,973	11,575	14,237
<b>Exceptional Items</b>					
Pre-tax Profit	178	6,706	8,973	11,575	14,237
Taxation	(54)	(1,698)	(2,288)	(2,952)	(3,630)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	124	5,007	6,685	8,623	10,607
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	124	5,007	6,685	8,623	10,607
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%	96.7%	97.0%	97.2%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>116.6%</b>	<b>115.4%</b>	<b>112.3%</b>	<b>107.4%</b>	<b>106.8%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>	<b>77,598</b>	<b>110,143</b>	<b>149,871</b>	<b>189,183</b>	<b>230,683</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	77,598	110,143	149,871	189,183	230,683
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	77,598	110,143	149,871	189,183	230,683
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>3,994</b>	<b>3,323</b>	<b>3,489</b>	<b>3,664</b>	<b>3,847</b>
<b>Total Non-Interest Earning Assets</b>	<b>4,290</b>	<b>3,623</b>	<b>3,849</b>	<b>4,096</b>	<b>4,365</b>
Cash And Marketable Securities	10,045	18,941	12,941	12,189	16,375
<b>Long-term Investments</b>	<b>1,894</b>	<b>1,118</b>	<b>1,453</b>	<b>1,889</b>	<b>2,456</b>
Total Assets	93,826	133,825	168,115	207,357	253,879
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	60,743	94,046	119,025	148,287	182,746
Total Interest-Bearing Liabilities	60,743	94,046	119,025	148,287	182,746
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,445	3,330	5,457	6,312	7,269
Total Liabilities	62,187	97,376	124,482	154,600	190,015
Shareholders Equity	31,699	36,446	43,631	52,754	63,861
<b>Minority Interests</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
Total Equity	31,701	36,449	43,634	52,757	63,864

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth	2.9%	60.0%	34.4%	28.8%	24.4%
Operating Profit Growth	(2.7%)	69.6%	32.3%	29.4%	23.2%
Pretax Profit Growth	(82%)	3,661%	34%	29%	23%
Net Interest To Total Income	80.4%	81.6%	80.7%	80.7%	80.9%
Cost Of Funds	9.32%	11.97%	11.80%	11.20%	10.50%
Return On Interest Earning Assets	19.2%	23.8%	23.2%	22.2%	21.7%
Net Interest Spread	9.92%	11.87%	11.43%	11.02%	11.22%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	97%	30%	29%	29%	29%
Interest Return On Average Assets	9.96%	11.52%	11.68%	12.09%	12.24%
Effective Tax Rate	30.5%	25.3%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	0.15%	4.40%	4.43%	4.59%	4.60%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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