

India

**ADD** (no change)

Consensus ratings*: Buy 10 Hold 0 Sell 0	
Current price:	Rs702
Target price:	Rs900
Previous target:	Rs1,300
Up/downside:	28.2%
InCred Research / Consensus:	-24.4%
Reuters:	SPAD.BO
Bloomberg:	SPANDANA IN
Market cap:	US\$597m
	Rs50,021m
Average daily turnover:	US\$2.0m
	Rs166.1m
Current shares o/s:	71.3m
Free float:	43.2%
*Source: Bloomberg	

**Key changes in this note**

- Macroeconomic adversities in rural India with transitory issues within SSFL to weigh over performance in the near term.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	0.4	(20.3)	(14.8)
Relative (%)	(2.5)	(26.8)	(30.7)

<b>Major shareholders</b>	% held
KANGCHENJUNGA	41.1
PADMAJA GANGIREDDY	8.6
KEDAARA CAPITAL	7.0

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# Spandana Sphoorty Financial

## Sprucing up loan book; remains attractive

- SSFL posted a lower-than-expected 1Q PAT of Rs557.m (InCred est: Rs1.5bn), due to a sharp rise in provisions despite in-line operating profit.
- Transitional movement in 1-90 dpd (Project Parivartan) as well as higher employee attrition in top states affected overall growth and collections.
- Macroeconomic adversity in rural India with transitory issues weigh over results. Retain ADD with a TP of Rs900. SSFL is out of our high conviction list.

### Weak growth amid higher attrition & rising management issues

Spandana Sphoorty Financial's (Spandana) weak disbursement growth of -42.2% qoq amid elevated attrition at the branch manager level in key states (Madhya Pradesh, Maharashtra, Rajasthan, Telangana & Gujarat) affected the overall business momentum. Management has given various reasons for such attrition including heavy workload, better opportunities outside, etc. The company has created additional support to existing branch managers by providing them with extra resources at ~20% of existing branches, which will further spread to ~50% of branches by Sep 2024F. The company is also creating an additional layer of employees, which will allow faster replacement of outgoing employees to ensure a smooth transition. Considering the adversities in certain states, management has turned cautious on managing portfolio quality and has stopped lending to new-to-credit customers, paused completely new customer acquisition in ~14% branches, paused centre addition for ~39% branches, etc. Though management is focused on managing quality growth with a consistent de-risking of the overall portfolio, considering macroeconomic headwinds as well as company-specific issues (employee attrition, shifting to weekly model, etc.), we are building in ~18.8% CAGR in AUM, which is backed by ~17.3% CAGR in disbursements over FY24-27F.

### Sustains healthy NIM; moderation in opex supports profitability

Net interest margin improved to 15.2% from 14.6% sequentially led by lower cost of funds amid credit rating upgrade & balanced borrowings. Operating expenses moderated, resulting in improved cost-to-average assets ratio at ~6.4% against ~6.9% in Mar 2024.

### Asset quality spikes; bucket-level volatility to settle down gradually

The gross NPA ratio rose by 110bp sequentially to 2.6%, and there was a bucket-level spike in defaults amid elevated employee attrition as well as a shift in collections to a weekly basis. Management indicated another two quarters to settle the volatility. Credit cost guidance for FY25F has been revised upwards to ~350bp against 250bp earlier.

### Outlook & valuation

Spandana Sphoorty Financial is one of the fastest-growing NBFC MFIs in India, but we expect weak growth and profitability momentum in the near term. Accordingly, we have removed the stock from our high-conviction ideas list but maintain ADD rating on it with a lower target price of Rs900 (Rs1,300 earlier), or ~1.3x FY25F BV. Slower growth and a spurt in delinquencies pose downside risks.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	8,196	13,113	18,679	21,988	25,593
Total Non-Interest Income (Rsm)	1,995	2,959	3,313	3,466	4,444
Operating Revenue (Rsm)	10,192	16,072	21,991	25,454	30,037
Total Provision Charges (Rsm)	(5,443)	(2,826)	(4,905)	(4,421)	(4,377)
Net Profit (Rsm)	124	5,007	5,979	7,113	8,413
Core EPS (Rs)	1.75	70.63	84.33	100.33	118.66
Core EPS Growth	(83%)	3,940%	19%	19%	18%
FD Core P/E (x)	401.29	9.93	8.32	6.99	5.91
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	605.4	712.8	838.5
P/BV (x)	1.57	1.36	1.16	0.98	0.84
ROE	0.4%	14.7%	15.1%	15.2%	15.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly earnings estimates**

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	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	48.0%	12.5%
<i>NIM (% of AUM) Calculated</i>	9.9%	13.0%	13.8%	13.9%	14.2%	14.1%	13.3%	14.1%	14.2%		
Fee-Based Income	149.0	336.7	372.7	1,137.0	343.9	965.8	905.4	743.6	434.5	26.3%	-41.6%
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	37.6%	-1.8%
<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>2,868.5</b>	<b>51.7%</b>	<b>7.8%</b>
Provisions	3,517.2	257.5	446.1	1,222.4	285.8	900.5	701.1	938.4	2,118.0	641.1%	125.7%
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>750.5</b>	<b>-53.3%</b>	<b>-56.4%</b>
Tax	813.6	-291.0	-246.7	-330.2	-410.8	-423.1	-429.4	-435.1	-193.4	-52.9%	-55.6%
<i>Tax rate (%)</i>	27.0%	34.5%	25.7%	23.8%	25.6%	25.3%	25.2%	25.3%	25.8%		
<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>557.1</b>	<b>-53.4%</b>	<b>-56.7%</b>
<b>AUM (Rs bn)</b>	55.1	57.8	68.5	85.1	88.5	97.8	104.0	119.7	117.2	<b>32.5%</b>	<b>-2.1%</b>

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	16,626	18,679	12.3%	19,750	21,988	11.3%	23,865	25,593	7.2%
Non-interest Income	4,125	3,313	-19.7%	5,188	3,466	-33.2%	6,340	4,444	-29.9%
PPOP	12,021	12,930	7.6%	14,699	13,969	-5.0%	18,232	15,669	-14.1%
PAT	6,694	5,979	-10.7%	8,580	7,113	-17.1%	10,686	8,413	-21.3%
EPS (Rs)	94.4	84.3	-10.7%	121.0	100.3	-17.1%	150.7	118.7	-21.3%
BV (Rs)	615.6	605.5	-1.6%	743.6	712.8	-4.1%	901.4	838.6	-7.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 1QFY25 conference-call highlights

- The heat wave and general elections-related disruption led to unusually higher absenteeism among customers which impacted weekly collection in key states like Madhya Pradesh, Rajasthan, Gujarat, Maharashtra and Telangana having a 32% cumulative contribution to AUM.
- Branch manager attrition in key states like Madhya Pradesh, Rajasthan, Gujarat, Maharashtra, and Telangana is 10.5%, much higher than the national average of 5.9%, impacting branch operations. The high attrition is due to extensive workloads and external opportunities. To address this, the company is hiring and deploying a credit force to affected branches, expecting normalization by Aug 2024F.
- The additional workforce deployed consists of loan officers who have been with the company for more than two years with a good performance track record.
- Parivartan branches had higher GNPA contribution, despite the collection efficiency being at 98%. The rundown in GNPA is due to the historical legacy issue with the loan book.
- The disruption is across portfolios, be it Parivartan or non-Parivartan branch, and the aim is to regularize the disruption across branches. The situation is getting better in Jul 2024, as per ground reports received by management, and is expected to further improve in Aug 2024F.
- Management still believes that the weekly collection model is better than monthly collection; the only difference is the transition in remaining branches will be at a gradual pace.
- The current net interest margin or NIM at 15% is a bit high and the guided range is around 13.5%-14%.
- Credit costs are expected to be at 3.75% on a full-year basis from its earlier guidance of 2.5%, but there will be additional flows in 30 days DPD and 90 days DPD. The upgrades will improve credit costs. There is nothing inherently wrong with the customers, which brings confidence in loan recovery.
- Customers exposed to small-ticket loans of Rs50,000 account for 48% of the loan book.

**Figure 3: InCred BFSI Coverage Universe**

Banks	Rating	CMP(Rs)	TP(Rs)	P/BV(x) (at TP)			ROA (%)			ROE (%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
SBI **	ADD	848	1,000	2.1	1.8	1.6	1.0%	1.1%	1.1%	16.3%	17.2%	17.6%
HDFC Bank **	ADD	1,616	2,000	3.1	2.8	2.6	1.9%	2.0%	2.0%	15.4%	16.3%	16.9%
ICICI Bank	ADD	1,197	1,300	3.5	3.0	2.6	2.3%	2.2%	2.3%	17.7%	17.3%	17.7%
Axis Bank	HOLD	1,175	1,300	2.3	2.0	1.7	1.7%	1.7%	1.7%	16.8%	15.9%	16.3%
IndusInd Bank	HOLD	1,379	1,500	1.7	1.5	1.3	1.7%	1.7%	1.7%	13.8%	14.2%	14.7%

NBFCs	Rating	CMP(Rs)	TP(Rs)	P/BV(x) (at TP)			ROA (%)			ROE (%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Bajaj Finance	ADD	6,647	9,000	6.0	5.1	4.2	4.2%	4.4%	4.5%	21.0%	23.5%	25.4%
Cholamandalam Finance	ADD	1,363	1,400	5.0	4.1	3.4	2.5%	2.5%	2.5%	21.0%	21.8%	22.5%
MMFS **	ADD	289	370	2.4	2.2	2.0	1.8%	1.9%	2.0%	12.3%	14.0%	15.7%
Shriram Finance	ADD	2,679	3,750	2.6	2.2	1.9	3.3%	3.4%	3.6%	16.5%	17.5%	18.9%
SBI Cards **	REDUCE	730	500	3.5	3.0	2.6	3.9%	3.6%	3.6%	18.7%	17.8%	17.5%
Aavas Financiers	ADD	1,778	2,000	3.6	3.0	2.6	3.1%	3.1%	3.1%	14.1%	14.7%	15.8%
Home First Finance	ADD	1,030	1,350	4.9	4.2	3.7	3.6%	3.5%	3.4%	16.9%	18.3%	19.4%
Spandana Spoorthy	ADD	699	900	1.5	1.3	1.1	4.0%	4.0%	4.0%	15.1%	15.2%	15.3%
Fusion Micro Finance	HOLD	438	580	1.7	1.4	1.1	4.7%	4.7%	4.7%	19.4%	19.6%	19.7%

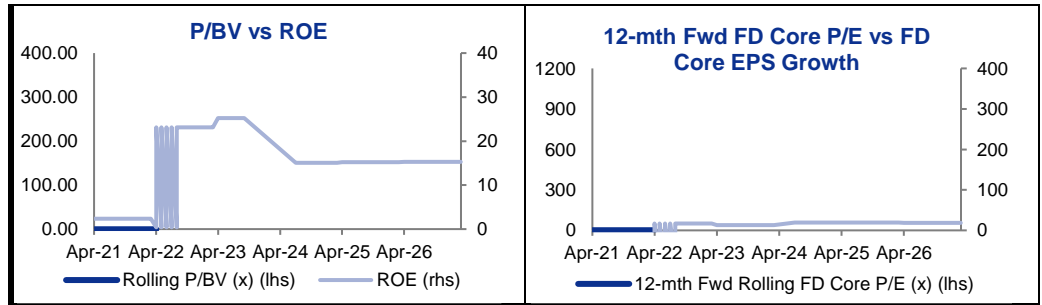
AMCs	Rating	CMP(Rs)	TP(Rs)	P/E(x) (at TP)			ROAUM (%)			ROE (%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Nippon AMC	ADD	639	800	35.7	29.5	23.7	0.28%	0.26%	0.25%	35.2%	41.8%	50.7%
HDFC AMC	HOLD	4,058	4,250	33.5	29.9	25.3	0.37%	0.35%	0.35%	32.8%	34.2%	37.3%
UTI AMC	ADD	1,027	1,200	16.8	13.8	11.8	0.30%	0.30%	0.29%	19.5%	21.1%	22.0%
ABSL AMC**	ADD	697	950	26.9	22.0	18.2	0.27%	0.27%	0.27%	29.9%	32.0%	33.9%

Insurance	Rating	CMP(Rs)	TP(Rs)	P/EV (x) (at TP)			Return on EV (%)			ROE (%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
SBI Life Insurance	HOLD	1,695	1,750	2.5	2.2	1.8	18.9%	18.5%	18.1%	15.4%	16.6%	16.2%

NOTE: \*\* HIGH CONVICTION  
SOURCES: INCRED RESEARCH

**BY THE NUMBERS**



**Profit & Loss**

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	8,196	13,113	18,679	21,988	25,593
<b>Total Non-Interest Income</b>	<b>1,995</b>	<b>2,959</b>	<b>3,313</b>	<b>3,466</b>	<b>4,444</b>
Operating Revenue	10,192	16,072	21,991	25,454	30,037
<b>Total Non-Interest Expenses</b>	<b>(4,570)</b>	<b>(6,540)</b>	<b>(9,061)</b>	<b>(11,485)</b>	<b>(14,368)</b>
Pre-provision Operating Profit	5,621	9,532	12,930	13,969	15,669
<b>Total Provision Charges</b>	<b>(5,443)</b>	<b>(2,826)</b>	<b>(4,905)</b>	<b>(4,421)</b>	<b>(4,377)</b>
Operating Profit After Provisions	178	6,706	8,025	9,548	11,292
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	178	6,706	8,025	9,548	11,292
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	178	6,706	8,025	9,548	11,292
<b>Exceptional Items</b>					
Pre-tax Profit	178	6,706	8,025	9,548	11,292
Taxation	(54)	(1,698)	(2,046)	(2,435)	(2,880)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	124	5,007	5,979	7,113	8,413
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	124	5,007	5,979	7,113	8,413
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%	96.6%	96.8%	96.9%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>116.6%</b>	<b>115.4%</b>	<b>116.3%</b>	<b>116.0%</b>	<b>116.4%</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>135,128</b>	<b>159,622</b>	<b>190,514</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	77,598	110,143	135,128	159,622	190,514
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	77,598	110,143	135,128	159,622	190,514
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>3,994</b>	<b>3,149</b>	<b>3,307</b>	<b>3,472</b>	<b>3,646</b>
<b>Total Non-Interest Earning Assets</b>	<b>4,290</b>	<b>3,623</b>	<b>3,875</b>	<b>4,154</b>	<b>4,465</b>
Cash And Marketable Securities	10,045	18,941	20,979	26,200	31,139
<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	161,435	191,865	228,574
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	60,743	94,046	113,109	135,227	162,272
Total Interest-Bearing Liabilities	60,743	94,046	113,109	135,227	162,272
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,445	3,330	5,399	6,098	6,848
Total Liabilities	62,187	97,376	118,508	141,324	169,120
Shareholders Equity	31,699	36,446	42,925	50,538	59,451
<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	42,928	50,541	59,454

<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%	42.4%	17.7%	16.4%
Operating Profit Growth	(2.7%)	69.6%	35.7%	8.0%	12.2%
Pretax Profit Growth	(82%)	3,661%	20%	19%	18%
Net Interest To Total Income	80.4%	81.6%	84.9%	86.4%	85.2%
Cost Of Funds	9.32%	11.97%	10.80%	10.50%	10.20%
Return On Interest Earning Assets	19.2%	23.8%	24.4%	23.8%	23.3%
Net Interest Spread	9.92%	11.87%	13.55%	13.27%	13.09%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	97%	30%	38%	32%	28%
Interest Return On Average Assets	9.96%	11.52%	12.65%	12.45%	12.17%
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%	4.05%	4.03%	4.00%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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