

India

HOLD (no change)

Consensus ratings*: Buy 5 Hold 4 Sell 0

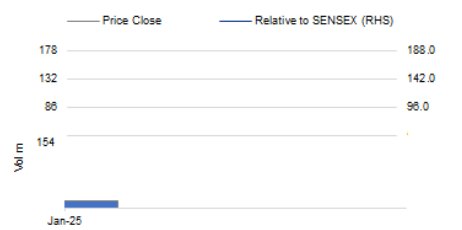
Current price: Rs341
 Target price: ▼ Rs360
 Previous target: Rs500
 Up/downside: 5.6%
 InCred Research / Consensus: -23.9%

Reuters: SPAD.BO
 Bloomberg: SPANDANA IN
 Market cap: US\$335m
 Rs24,333m
 Average daily turnover: US\$4.3m
 Rs314.7m
 Current shares o/s: 0.0m
 Free float: 16.0%

*Source: Bloomberg

Key changes in this note

- Management is witnessing some green shoots in rural India; however, normalization of business activity is likely from 2HFY26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.9	(27.0)	(68.1)
Relative (%)	9.7	(23.6)	(70.4)

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

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Spandana Sphoorty Financial

Normalization unlikely till 2HFY26F

- Spandana Sphoorty posted a wider-than-expected 3Q loss of Rs4.4bn (InCred est. Rs2.4bn) amid slowing growth coupled with elevated opex and provision.
- Regulatory guardrails led to ~43.2% yoy/~4.7% qoq decline in disbursements. GNPA's flat qoq at ~4.85% with PCR of ~80%, ~2.6x qoq surge in write-offs.
- Management sees initial green shoots with normalization in 2HFY26F. But ~12.5% AUM with >30dpd is an area of concern. Retain HOLD with Rs360 TP.

Disbursements slow down - normalization likely in 2HFY26F

Spandana Sphoorty Financial (Spandana Sphoorty) reported another weak set of numbers in 3QFY25 amid dealing with the stress overheating in the MFI industry. Its AUM declined by ~15.2% qoq to Rs89.4bn as disbursements got affected by regulatory guardrails (limiting to four lenders per MFI borrower) implemented in Jul 2024, while the focus of management shifted towards collections. Upcoming guardrails (restricting to two lenders per MFI borrower), applicable from Apr 2025, will dry down disbursements further. NIM during the quarter declined by ~142bp amid a rapid dip in revenue yields due to higher interest reversals. The company is well placed on the liquidity front & capital adequacy (CRAR) at ~36% provides some comfort. Management said the company is witnessing some green shoots, with southern geographies performing relatively better; however, normalization is expected only in 2HFY26F.

Elevated stress in asset quality with a multifold rise in write-offs

Gross stage-3 assets remained flat sequentially at ~4.85% (~4.88% in 2QFY25); however, write-offs during the quarter rose by ~2.6x sequentially to Rs6.8bn. The company continues to maintain a healthy provision coverage ratio of ~80% amid the ongoing deleveraging in the MFI industry. Gross stage-2 assets also remained elevated at ~7.65% (up ~149bp qoq) whereas the overall ~12.5% of AUM is of more than ~30dpd, which further indicates that the movement to bucket-3 in the coming quarters is likely to remain higher.

Full force on survival - opex to remain elevated

Attrition remained an issue at the field level with ~71% loan officers having a vintage of <1 year on account of incrementally more staff leaving the MFI industry. The JLG model remains an issue post Covid-19 pandemic; however, the company has deployed more staff to improve centre meetings' attendance. Further, Spandana Sphoorty continued to invest in adding branch support for recovery, which will keep the overall opex elevated in FY25F.

Valuation and outlook

The MFI industry is in a consolidation phase, which will substantially test the core operations of lenders. We downgraded the stock to HOLD (from ADD) last quarter as management's focus shifted from profitable growth to curtailing losses. We have cut our earnings by ~20.1%/~13.8% for FY26F/27F, respectively, and have arrived at a lower target price of Rs360 (Rs500 earlier), or ~0.8x FY25F BV. Slower growth and a spurt in delinquencies pose downside risks. Better-than-expected recoveries pose an upside risk.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	8,196	13,113	13,242	13,146	15,425
Total Non-Interest Income (Rsm)	1,995	2,959	2,819	2,643	2,623
Operating Revenue (Rsm)	10,192	16,072	16,062	15,789	18,047
Total Provision Charges (Rsm)	(5,443)	(2,826)	(18,609)	(3,277)	(2,439)
Net Profit (Rsm)	124	5,007	(8,729)	2,458	3,999
Core EPS (Rs)	1.75	70.63	(123.12)	34.67	56.41
Core EPS Growth	(83%)	3,940%	(274%)	(128%)	63%
FD Core P/E (x)	195.21	4.83	(2.77)	9.84	6.05
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	398.0	439.7	503.2
P/BV (x)	0.76	0.66	0.86	0.78	0.68
ROE	0.4%	14.7%	(27.0%)	8.3%	12.0%
% 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	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	-13.4%	-21.4%
<i>NIM (% of AUM) Calculated</i>	14.2%	14.1%	13.3%	14.6%	15.2%	11.3%	0.0%		
Fee-Based Income	343.9	965.8	905.4	743.6	434.5	994.4	696.7	-23.1%	-29.9%
Operating Expenses	1,386.2	1,549.1	1,661.9	1,942.8	1,907.6	2,203.4	2,651.4	59.5%	20.3%
Operating Profit	1,891.2	2,575.7	2,404.6	2,660.1	2,868.5	2,278.0	784.4	-67.4%	-65.6%
Provisions	285.8	900.5	701.1	938.4	2,118.0	5,164.1	6,660.7	850.0%	29.0%
Exceptional Items	-	-	-	-	-	-	-		
PBT	1,605.4	1,675.1	1,703.5	1,721.7	750.5	-2,886.1	-5,876.3	-444.9%	103.6%
Tax	-410.8	-423.1	-429.4	-435.1	-193.4	722.8	1,473.9	-443.2%	103.9%
<i>Tax Rate (%)</i>	25.6%	25.3%	25.2%	25.3%	25.8%	25.0%	25.1%		
PAT	1,194.6	1,252.0	1,274.1	1,286.6	557.1	-2,163.3	-4,402.4	-445.5%	103.5%
AUM (Rs bn)	88.5	97.8	104.0	119.7	117.2	105.4	89.4	-14.1%	-15.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

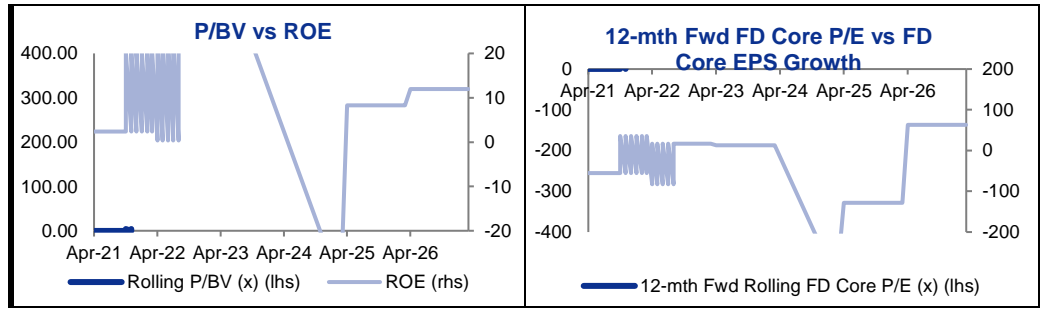
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	15,196	13,242	-12.9%	15,776	13,146	-16.7%	18,490	15,425	-16.6%
Non-Interest Income	3,289	2,819	-14.3%	3,340	2,643	-20.9%	3,866	2,623	-32.2%
PPOP	9,502	6,892	-27.5%	9,706	6,577	-32.2%	11,448	7,807	-31.8%
PAT	-1,824	-8,729	378.6%	3,075	2,458	-20.1%	4,638	3,999	-13.8%
EPS (Rs)	-25.7	-123.1	378.6%	43.4	34.7	-20.1%	65.4	56.4	-13.8%
BV (Rs)	495.4	398.0	-19.7%	545.8	439.7	-19.4%	618.3	503.2	-18.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Earnings call highlights

- Over-leveraging, employee attraction and 'Karza Mukti Aabhiyan' remained a key challenge during the quarter.
- Management sees the current issue as more seasonal in nature as borrowers are facing temporary inability to pay, rather than the willingness to not repay debt.
- Attrition among loan officers is way beyond expectations, which has impacted attendance at centre meetings, as old, seasoned officers are more impactful as compared to new officers.
- Due to disruption currently faced by Spandana Sphoorty, there is a break on the transition of the monthly collection model to the weekly one, which will resume once the business environment gets normalized.
- In terms of collection efficiency, states below the national average like Bihar are deficient by 30-35bp, Karnataka by 30-40bp, and Madhya Pradesh & Maharashtra by 5-10bp.
- Management gave 15% AUM growth guidance for FY26F, with more focus on discipline, employee welfare and maintaining portfolio quality.
- With the Reserve Bank of India's requirement to maintain 75% or more of assets in microfinance, these limits get breached in tough times as more cash is kept on the balance sheet.
- The branch expansion in the monthly model is due to the split of branches as they meet branch-level AUM cap of Rs100-120m.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	8,196	13,113	13,242	13,146	15,425
Total Non-Interest Income	1,995	2,959	2,819	2,643	2,623
Operating Revenue	10,192	16,072	16,062	15,789	18,047
Total Non-Interest Expenses	(4,570)	(6,540)	(9,170)	(9,212)	(10,240)
Pre-provision Operating Profit	5,621	9,532	6,892	6,577	7,807
Total Provision Charges	(5,443)	(2,826)	(18,609)	(3,277)	(2,439)
Operating Profit After Provisions	178	6,706	(11,717)	3,300	5,368
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	178	6,706	(11,717)	3,300	5,368
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	178	6,706	(11,717)	3,300	5,368
Exceptional Items					
Pre-tax Profit	178	6,706	(11,717)	3,300	5,368
Taxation	(54)	(1,698)	2,988	(841)	(1,369)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	124	5,007	(8,729)	2,458	3,999
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	124	5,007	(8,729)	2,458	3,999
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%	95.7%	94.5%	94.5%
Avg Liquid Assets/Avg IEAs	116.6%	115.4%	120.1%	119.6%	113.9%
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-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	77,598	110,143	75,945	87,923	107,219
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	77,598	110,143	75,945	87,923	107,219
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	77,598	110,143	75,945	87,923	107,219
Intangible Assets					
Other Non-Interest Earning Assets	3,994	3,149	3,307	3,472	3,646
Total Non-Interest Earning Assets	4,290	3,623	3,875	4,154	4,465
Cash And Marketable Securities	10,045	18,941	18,542	13,517	13,668
Long-term Investments	1,894	1,118	1,453	1,889	2,456
Total Assets	93,826	133,825	99,815	107,483	127,807
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	60,743	94,046	65,174	69,691	85,107
Total Interest-Bearing Liabilities	60,743	94,046	65,174	69,691	85,107
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,445	3,330	6,421	6,614	7,023
Total Liabilities	62,187	97,376	71,595	76,305	92,130
Shareholders Equity	31,699	36,446	28,217	31,175	35,674
Minority Interests	2	3	3	3	3
Total Equity	31,701	36,449	28,220	31,178	35,677

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	2.9%	60.0%	1.0%	(0.7%)	17.3%
Operating Profit Growth	(2.7%)	69.6%	(27.7%)	(4.6%)	18.7%
Pretax Profit Growth	(82%)	3,661%	(275%)	(128%)	63%
Net Interest To Total Income	80.4%	81.6%	82.4%	83.3%	85.5%
Cost Of Funds	9.32%	11.97%	12.10%	11.50%	11.00%
Return On Interest Earning Assets	19.2%	23.8%	24.6%	25.5%	24.5%
Net Interest Spread	9.92%	11.87%	12.49%	14.01%	13.53%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	97%	30%	270%	50%	31%
Interest Return On Average Assets	9.96%	11.52%	11.34%	12.68%	13.11%
Effective Tax Rate	30.5%	25.3%		25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	0.15%	4.40%	(7.47%)	2.37%	3.40%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.