

Financials

Q1FY22 result review

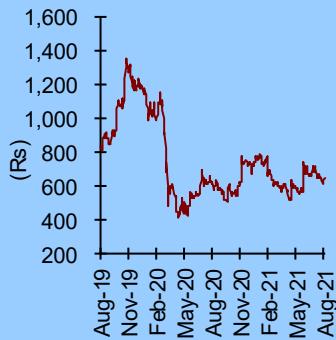
Target price: Rs840

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	62.4	62.4	62.3
Institutional investors	15.2	15.5	15.6
MFs and other	0.0	0.0	0.0
Banks/ Fls	0.4	0.4	0.4
Insurance	0.0	0.0	0.0
Fls	14.7	15.1	15.2
Others	22.5	22.1	22.1

Source: BSE

Price chart



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INDIA

Spandana Sphoorty

BUY
Maintain**Rs653**

Prudent provisioning continued; strategic focus on building secured assets

Spandana Sphoorty's (Spandana) Q1FY22 performance was characterised by prudent approach in recognising stress and strengthening balance sheet by building adequate provision buffer. It built additional provision of ~Rs1.5bn towards stressed asset pool of Rs7.65bn (customer missing 1 full or partial EMI during Q1FY22) and would continue to build further ~Rs1.4bn-1.5bn provisioning pool over next 3 quarters. Currently, it holds cumulative provision buffer of Rs5.7bn, or ~7.8% of AUM. Further prioritising collections over growth helped it improve collections sharply to 93% by Jul'21 from lows of 72% in May'21. While near-term asset quality concerns persist, considering elevated PAR 0 portfolio at 22% in Jul'21, adequate provision buffer of ~7.8% of AUM, healthy capital position (CAR 40%) and diversified operations with ~78% districts having <0.5% exposure per district, will ensure that Spandana gets back to normalcy quicker than peers. Strategic focus on building secured assets (at consolidated level) is the right step towards bringing earnings stability and sustainability. Maintain BUY with an unchanged target price of Rs840.

- ▶ **Building talent pool for future needs and for better risk management; strategic shift towards building secured asset book in Criss Financial (98.5% holding).** Spandana articulated its asset diversification strategy and plans to build 40% secured asset book via Criss financial by FY24E. Broadly, within its secured asset portfolio, small-ticket LAP and gold loans will remain key growth drivers. Currently, it offers gold loans and LAP in Andhra Pradesh and Telangana through 28 branches. Notably, it highlighted that MFI will continue to be the key focus area and that it invested in talent and technology even during the pandemic. Over the past couple of years, with increasing scale and for better risk management, Spandana has strengthened the second layer of management in MFI vertical by lateral hiring.
- ▶ **Prudent provisioning and reducing PAR portfolio to help navigate current asset quality cycle effectively.** Spandana continued its prudent approach of recognising stress upfront while providing ~20% (Rs1.51bn) on its assessed covid-2.0 impacted loanbook of Rs7.65bn (customers missing 1 full or partial EMI during Q1FY22). While GNPL was well contained at 4.6% during Q1FY22, PAR 0 at 22% poses risk of near-term asset quality weakness. However, total provisioning pool of Rs5.7bn, or ~7.8% of AUM, would help it contain FY22E credit cost lower than FY21 level. We are building-in credit cost at ~Rs4bn, or ~4.4% of AUM, in FY22E. Collection efficiency (ex-arrears) remained at 90% in Jul'21 and 80% in Jun'21. Collections in states like Kerala, Karnataka, Maharashtra, Rajasthan and MP remained lower than in the rest of India.
- ▶ **Disbursement trend encouraging; asset quality performance of incremental book built during covid provides much comfort.** With gradual pick-up in business activities on the back of easing restrictions coupled with improved collection efficiency to 93% in Jul'21 vs 80% in Jun'21, disbursements picked up to Rs1.2bn vs Rs0.2bn in Jun'21. Further, collections in the portfolio disbursed post-covid-1.0 (76% of AuM) remaining much higher at 99% in Jul'21 vs 83% in pre-Covid-1.0 portfolio, reinforces our view that Spandana will navigate the current cycle better than peers.

Market Cap	Rs42bn/US\$565mn	Year to Mar	FY20	FY21	FY22E	FY23E
Bloomberg	SPANDANA IN	NII (Rs bn)	10.8	10.6	12.1	14.6
Shares Outstanding (mn)	64.3	Net Profit (Rs bn)	3.5	1.5	4.0	6.6
52-week Range (Rs)	794/510	EPS (Rs)	54.8	22.6	62.6	102.5
Free Float (%)	37.7	% Chg YoY	5.5	(58.7)	176.6	63.8
FII (%)	15.2	BVPS (Rs)	409.4	427.8	477.5	559.5
Daily Volume (US\$'000)	1,992	P/E (x)	11.9	28.9	10.4	6.3
Absolute Return 3m (%)	12.1	P/BV (x)	1.6	1.5	1.4	1.2
Absolute Return 12m (%)	4.3	Net NPA (%)	0.1	1.4	0.5	0.2
Sensex Return 3m (%)	14.8	RoAuM (%)	6.3	1.9	4.5	6.1
Sensex Return 12m (%)	48.3	RoE (%)	15.6	5.4	13.8	19.8

Please refer to important disclosures at the end of this report

- **Core performance muted; earnings supported by lower provisioning at Rs1.5bn (still significantly higher than historical averages).** Muted disbursements (down 91% QoQ) and ~90bps QoQ yield compression and a highly liquid balance sheet (cash & bank balances constitute ~20% of total assets) resulted in 13% QoQ decline in NII during Q1FY22. Despite muted business activities, staff costs grew 6% QoQ as Spandana added >550 loan officers in MFI vertical during Q1FY22. However, sequentially lower provisioning of Rs1.55bn (~8% of AUM), still higher than historical averages, supported earnings growth at 11% QoQ to Rs0.55bn in Q1FY22 vs Rs0.49bn in Q4FY21.
- **Key risk:** a) Stress unfolding higher than expected, and b) higher operating costs if the company further accelerates branch expansion to drive growth.

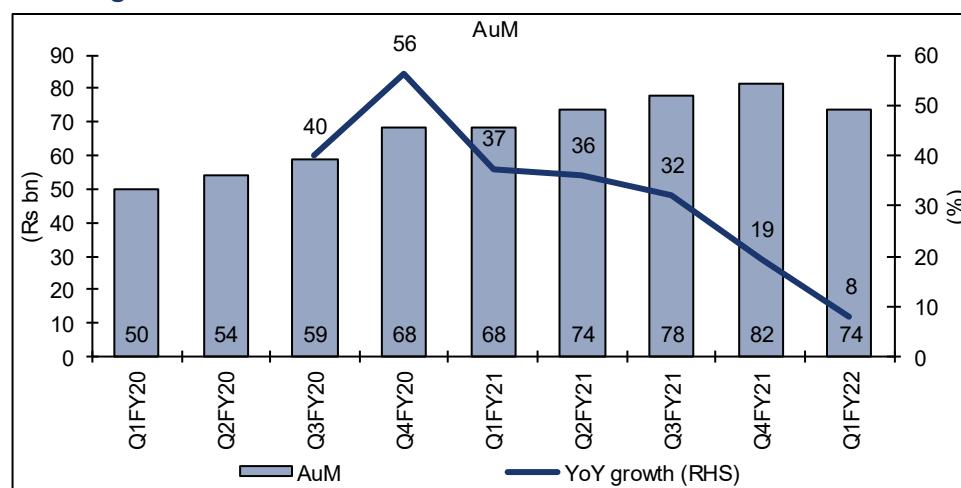
Table 1: Q1FY22 result review

(Rs mn)

	Q1FY22	Q1FY21	% change YoY	Q4FY21	% change QoQ
Interest Income	4,342	3,260	33.2	4,739	(8.4)
Interest Expended	1,434	850	68.7	1,381	3.8
Net interest income (NII)	2,908	2,410	20.7	3,358	(13.4)
Other income	7	10	(26.0)	64	(88.5)
Total income	2,915	2,420	20.5	3,422	(14.8)
Operating expenses	655	521	25.7	634	3.4
-Staff expenses	469	416	12.8	441	6.4
-Other expenses	186	105	76.7	193	(3.6)
Operating profit	2,260	1,899	19.0	2,788	(18.9)
Total provisions	1,549	1,115	39.0	2,116	(26.8)
Profit before tax	711	784	(9.3)	672	5.8
Tax	163	194	(15.9)	179	(9.0)
Profit after tax	548	590	(7.2)	493	11.2
Key statistic (Rs mn)					
AuM	73,900	68,350	8.1	81,570	(9.4)
Borrowers (in Lakh)	25	26	(4.7)	25	-
Avg ticket size	30,163	26,595	13.4	33,294	(9.4)
Ratios (%)					
			bp chg YoY		bp chg QoQ
Profitability ratios					
Portfolio Yields	22.2	23.0	(80)	23.1	(90)
Cost of Funds	10.9	11.0	(10)	11.4	(50)
NIM	14.1	15.5	(140)	15.4	(130)
RoA	8.6	8.7	(10)	7.5	110
RoaE	22.0	22.3	(30)	17.5	450
Asset Quality					
Gross NPL ratio	4.6	0.6	396	3.1	150
Business & Other Ratios					
Cost-income ratio	22.5	21.5	93	18.5	395
CAR	42.4	-	4,240	40.0	240

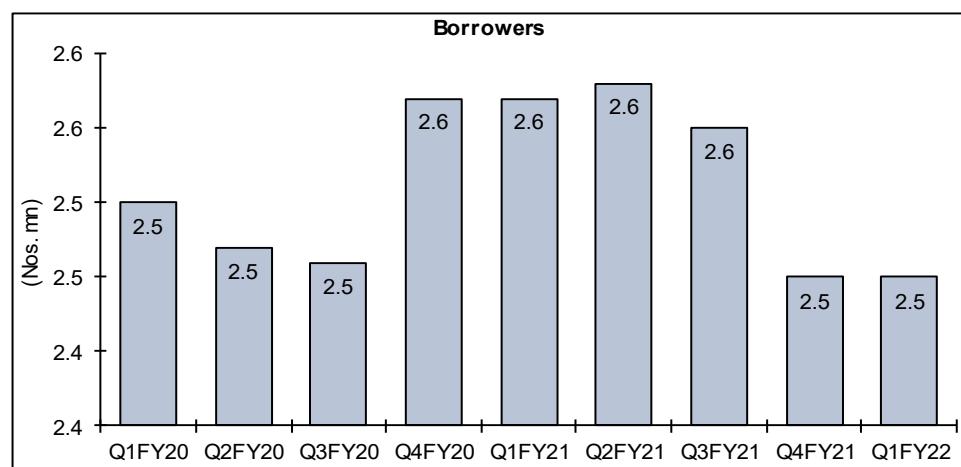
Source: Company, I-Sec research

Chart 1: AUM growth moderated due to management's cautious stance of lowering disbursements in Q1FY22



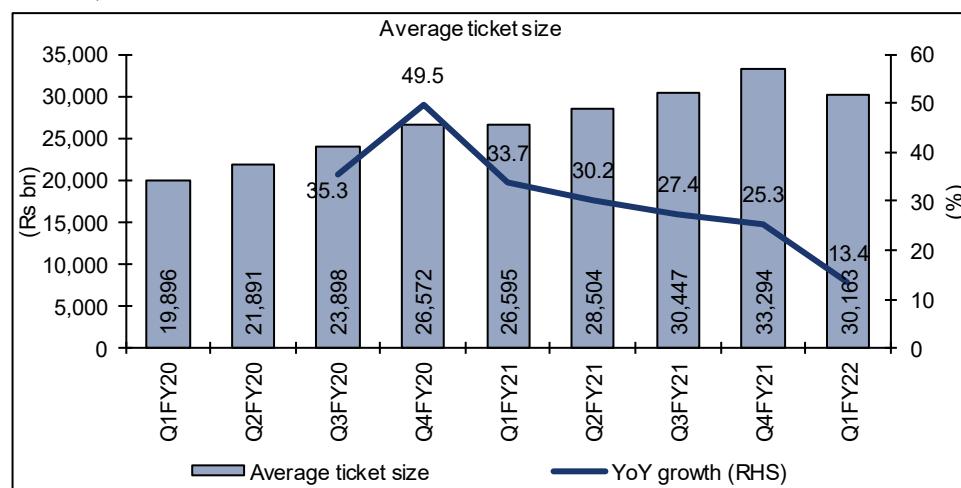
Source: Company, I-Sec research

Chart 2: Borrower base remained stable with addition of ~16,000 new customers in Q1FY22

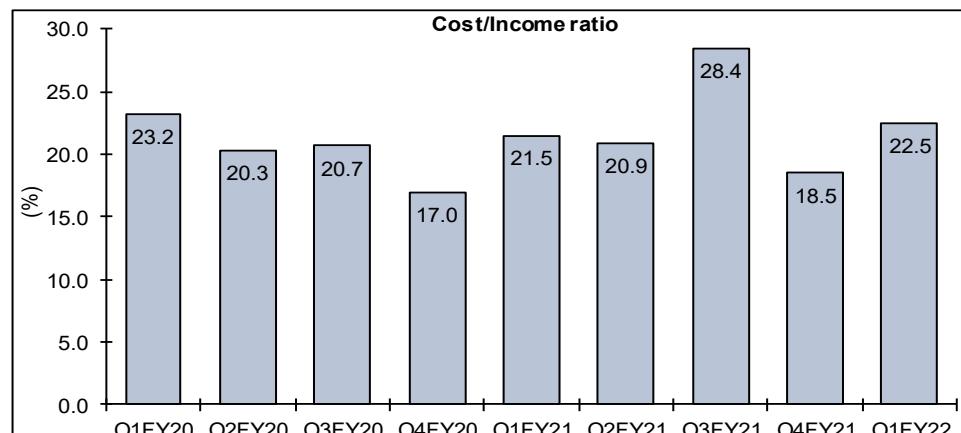


Source: Company, I-Sec research

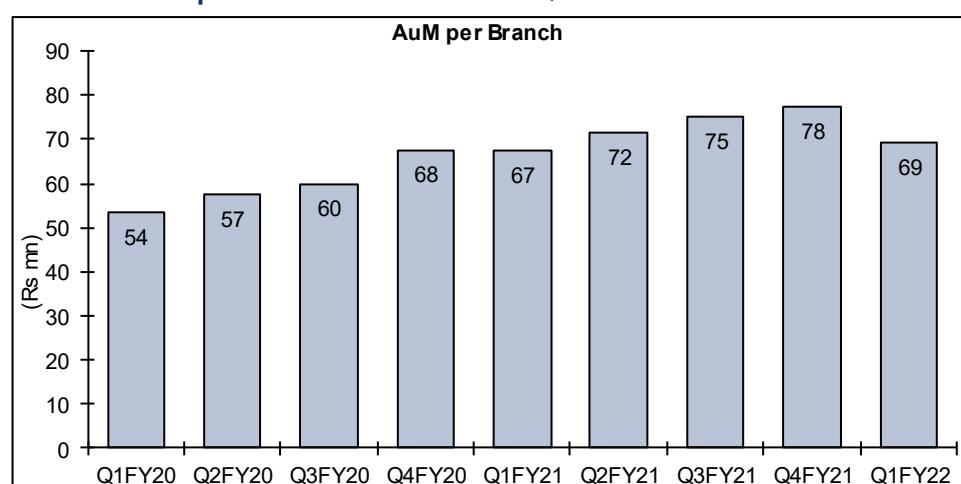
Chart 3: Average ticket size settling downwards at comfortable level of ~Rs30,000 amid uncertain times of covid second wave



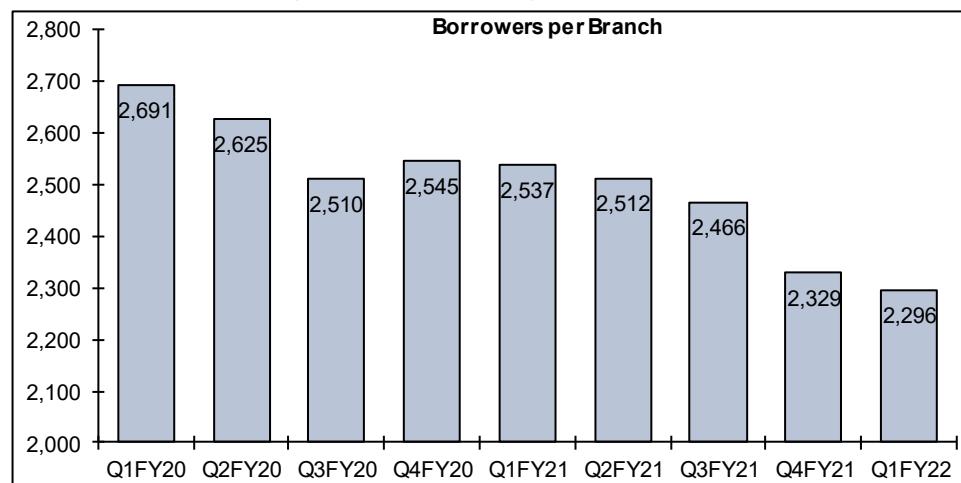
Source: Company, I-Sec research

Chart 4: Cost/income ratio increased with addition of branches and employees

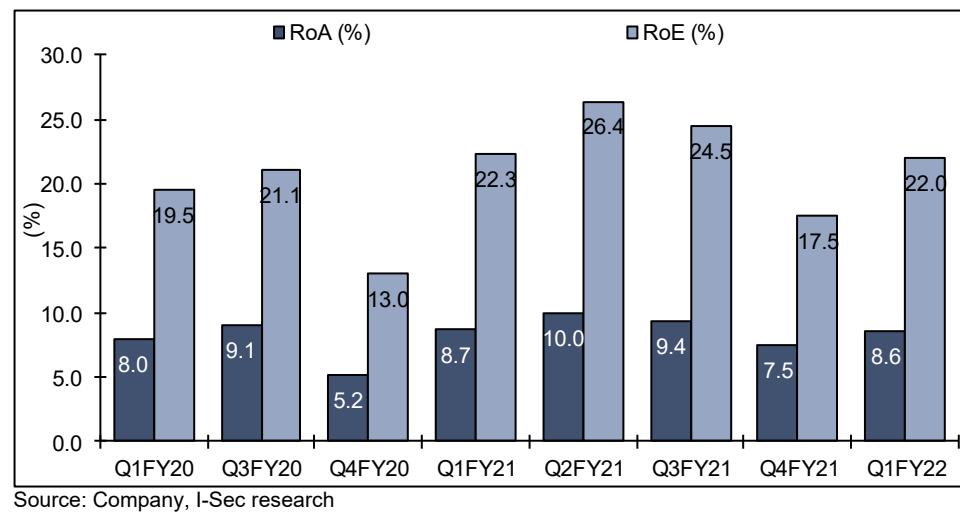
Source: Company, I-Sec research

Chart 5: AUM per branch moderated in Q1FY22 due to muted disbursements

Source: Company, I-Sec research

Chart 6: Borrowers per branch remained lower due to tepid new customer acquisition, especially from the recently added >50 branches (over past 1 year)

Source: Company, I-Sec research

Chart 7: Industry-leading return ratios (adjusted for covid-related provisions and one-time deferred adjustments)

Financial summary

Table 2: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Interest income	11,692	13,627	16,118	19,535
Finance costs	3,563	4,232	5,462	6,556
NII	10,790	10,595	12,128	14,663
YoY growth	57%	-2%	14%	21%
Net Revenue	11,132	10,824	12,358	14,893
Total Opx	2,212	2,369	3,088	3,732
Employee benefits expenses	1,708	1,715	2,255	2,766
YoY growth	30%	0%	31%	23%
Other expenses	416	577	756	891
YoY growth	23%	39%	31%	18%
Depreciation and amortisation expenses	88	76	76	76
PPoP	8,920	8,456	9,270	11,161
YoY growth	72%	-5%	10%	20%
Provision and write-offs	2,736	6,451	3,893	2,355
Adjusted PBT	6,184	2,004	5,377	8,805
Exceptional items (IV)	0	0	0	0
Profit before tax	6,184	2,004	5,377	8,805
Tax	2,666	550	1,353	2,216
Profit after tax	3,518	1,455	4,024	6,589

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

Year to March	FY20	FY21	FY22E	FY23E
Share capital	642	643	643	643
Reserves and surplus	25,616	26,848	30,067	35,338
Shareholders' funds	26,271	27,511	30,710	35,981
Debt securities	7,776	20,347	18,316	22,967
Borrowings (other than debt securities)	22,273	33,184	42,737	53,590
Subordinated liabilities	203	202	202	202
Other financial liabilities	2,272	2,697	2,697	2,697
Other non-financial liabilities	301	414	414	414
Equity and liabilities	59,774	85,769	95,075	1,15,851
Total borrowings	30,253	53,733	61,255	76,759
Assets				
Property, plant & equipment	152	199	199	199
Intangible assets	13	8	8	8
Non-current investments	4,875	23	750	750
Loan Portfolio	48,524	69,330	84,176	1,01,869
Other non-financial assets	510	441	441	441
Cash and bank balances	2,571	13,810	8,418	11,206
Other financial assets	2,905	757	984	1,279
Tax assets	223	1,201	100	100
Assets	59,774	85,769	95,075	1,15,851

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Growth ratios (%)				
NII growth	57%	-2%	14%	21%
<i>AuM Growth</i>	56%	19%	19%	21%
Asset yields	21%	18%	18%	18%
Cost of funds	12%	10%	10%	10%
Spread	9%	8%	9%	9%
Opx growth	29%	7%	30%	21%
PPP growth	72%	-5%	10%	20%
Provisions growth	504%	136%	-40%	-39%
Credit cost	4.9%	8.6%	4.4%	2.2%
PAT growth	13%	-59%	177%	64%
Key ratios (%)				
Cal NIM	19.3%	14.1%	13.6%	13.6%
Opx/AUM	3.9%	3.2%	3.5%	3.5%
Opx/AUM (Cal.)	3.9%	3.2%	3.5%	3.5%
Cost/Income ratio	19.9%	21.9%	25.0%	25.1%
Credit cost	4.9	8.6	4.4	2.2
Asset quality (%)				
GNPA	0.8	3.1	1.0	1.0
NNPA	0.1	1.4	0.5	0.2
PCR	89%	55%	50%	80%
Per share data (Rs)				
Diluted EPS	54.8	22.6	62.6	102.5
EPS growth (%)	5.5	(58.7)	176.6	63.8
Book value per share	409.4	427.8	477.5	559.5
BVPS growth (%)	29.9	4.5	11.6	17.2
Valuation				
P/E (x)	11.9	28.9	10.4	6.3
P/B (x)	1.6	1.5	1.4	1.2
RoA decomposition				
Net interest income (%)	19.3%	14.1%	13.6%	13.6%
Other income (%)	0.6%	0.3%	0.3%	0.2%
Total income (%)	19.9%	14.4%	13.8%	13.8%
Employee expenses (%)	3.0%	2.3%	2.5%	2.6%
Depre (%)	0.7%	0.8%	0.8%	0.8%
Other operating expenses (%)	0.2%	0.1%	0.1%	0.1%
Total operating expenses (%)	3.9%	3.2%	3.5%	3.5%
Pre provisioning profits (%)	15.9%	11.3%	10.4%	10.4%
Provisions (%)	4.9%	8.6%	4.4%	2.2%
Pre tax profits (%)	11.0%	2.7%	6.0%	8.2%
Tax (%)	4.8%	0.7%	1.5%	2.1%
RoAUM (%)	6.3%	1.9%	4.5%	6.1%
Leverage	2.5	2.8	3.1	3.2
RoE (%)	15.6%	5.4%	13.8%	19.8%
Capital Adequacy				
CRAR - Tier I capital (%)	51.9%	39.0%	39.3%	35.5%
CRAR - Tier II capital (%)	1.0%	1.0%	1.0%	1.0%
CRAR (%)	52.9%	40.0%	40.4%	36.5%

Source: Company data, I-Sec research

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