

Financials

Company update

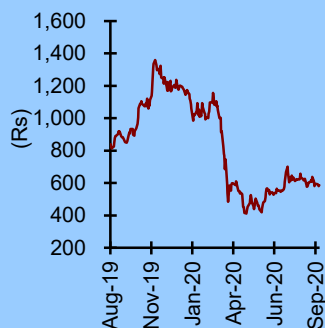
Target price: Rs690

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	62.6	62.6	62.6
Institutional investors	16.1	16.3	16.3
MFs and other	6.8	4.2	4.2
Banks/ FIs	0.5	0.5	0.5
Insurance	0.0	0.0	0.0
FII	8.8	11.6	11.6
Others	21.3	21.1	21.1

Source: BSE

Price chart



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INDIA

Spandana Sphoorty

BUY

**Maintain
Rs558**

Business resiliency to cushion earnings volatility

We attended Spandana Sphoorty Financial's business update call and the key takeaways include: A) Cumulative collection efficiency (April'20 to 13th Sep'20) stands at 55%; it collected >Rs14bn vs demand of Rs31bn since the lockdown, B) August'20 collection efficiency (ex arrears) stands at ~78/80%, management expects it to reach 98% (borrowers) by October'20, C) state-wise – Kerala and Odisha are lagging in collections, while Gujarat, AP, Karnataka, Telangana, MP are leading, D) Spandana is comfortably placed on liquidity - raised ~Rs15bn since lockdown, at an average cost of borrowing of 9.95% (~10.6% ex assignments) and E) company expects industry-level write-offs to remain 3-4% due to Covid-19 pandemic. While ~13% inactive customer base poses near-term risk on asset quality, improving collection across states, diversified operations, adequate provisioning buffer and comfortable capital position (CAR 53%) would ensure it navigates through the current cycle relatively better than peers. **Maintain BUY.**

Other takeaways:

- ▶ MFI industry's resilience is reflected in its steady improvement in collections with every passing month. In-line with industry, collections for Spandana also improved from lows of 2% in April to 23%/75%/95% in June/July/August, respectively.
- ▶ Spandana is following "interest capitalisation" method and hence, unlike peers, it is not collecting interest on EMIs due during moratorium period. It already capitalised Rs80mn in Q1FY21.
- ▶ While disbursement remained muted until July'20, it gained momentum in August'20 with disbursement increases to Rs5.2bn and it further improve to Rs3.17bn in September (from 1-13 September'20).
- ▶ Including past month's due, collection is already running at >100% since last week of August'20.
- ▶ Most banks have renewed credit lines – Spandana has not availed moratorium from any lenders.
- ▶ Abhiram marketing (group company) – Abhiram will continue to remain profit-neutral entity; leftover cash at the end of each year will be transferred to Spandana as commission income. Since 1st April '20, Abhiram's role has been restricted to procuring products from manufactures and lending will happen on Spandana's balance sheet. As a result, commission income for Spandana is likely to fall but will be offset by higher interest income. Currently, ~8% borrowers have consumer loans.

Market Cap	Rs35.8bn/US\$488mn	Year to Mar	FY19	FY20	FY21E	FY22E
Bloomberg	SPANDANA IN	NII (Rs bn)	6.9	10.8	10.8	12.7
Shares Outstanding (mn)	64.3	Net Profit (Rs bn)	3.1	3.5	3.7	5.7
52-week Range (Rs)	1360/412	EPS (Rs)	52.0	54.8	58.3	88.5
Free Float (%)	37.4	% Chg YoY	34.9	5.5	6.4	51.8
FII (%)	11.6	BVPS (Rs)	315.1	409.4	455.8	526.6
Daily Volume (US\$'000)	459	P/E (x)	10.8	10.2	9.6	6.3
Absolute Return 3m (%)	2.7	P/BV (x)	1.8	1.4	1.2	1.1
Absolute Return 12m (%)	(30.2)	Net NPA (%)	0.0	0.1	0.5	0.1
Sensex Return 3m (%)	15.4	RoAuM (%)	8.3	6.3	5.2	6.9
Sensex Return 12m (%)	4.8	RoE (%)	19.0	15.6	13.5	18.0

- ▶ Between April and July'20, it collected Rs9.3bn and disbursed only Rs2.4bn.
- ▶ From 1st Sep'20, Spandana is presenting revised loan repayment schedule to borrowers and expects activation rate to improve from September'20 onwards. In-active borrower base stands at 13% as on June'20.
- ▶ Spandana is the sole lender to ~40% borrowers, ~50% of its borrowers will have 2-MFI and one more lender and 5-6% will have more than three lenders.
- ▶ Moving to monthly collection model - Nov'19 onwards, all fresh loans have been disbursed with "monthly collections". Currently, ~40% of its AuM is on monthly collection and by April'21, it expects ~90% of loans to be serviced on monthly basis.
- ▶ Center attendance has reached ~70-75%, and will take 2-3 months to reach pre-Covid level of over 80%.

Financial summary

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Interest income on portfolio loans	9,979	11,692	12,800	15,271
Finance costs	3,579	3,563	3,838	4,795
NII	6,852	10,790	10,781	12,746
NII growth	104%	57%	0%	18%
Net Revenue	6,907	11,132	10,846	12,811
Total Opex	1,719	2,212	2,870	3,424
Employee benefits expenses	1,310	1,708	2,251	2,731
Y-Y growth	73%	30%	32%	21%
Other expenses	339	416	530	605
Y-Y growth	26%	23%	28%	14%
PPoP	5,188	8,920	7,976	9,387
YoY growth	110%	72%	-11%	18%
Provision and write-offs	453	2,736	2,975	1,794
Adjusted PBT	4,735	6,184	5,001	7,593
Exceptional items (IV)	0	0	0	0
Profit before tax	4,735	6,184	5,001	7,593
Tax	1,616	2,666	1,259	1,911
Profit after tax	3,119	3,518	3,743	5,682

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

Year to March	FY19	FY20E	FY21E	FY22E
Share capital	596	642	642	642
Reserves and surplus	18,298	25,616	28,610	33,156
Shareholders' funds	18,904	26,271	29,252	33,798
Debt securities	13,720	7,776	16,751	23,005
Borrowings (other than debt securities)	15,755	22,273	16,751	23,005
Subordinated liabilities	203	203	203	203
Other financial liabilities	445	2,272	2,726	2,726
Other non-financial liabilities	225	301	362	362
Equity and liabilities	49,317	59,772	66,721	83,775
Total borrowings	29,677	30,253	33,706	46,214
Assets				
Property, plant and equipment	72	152	152	152
Intangible assets	22	13	13	13
Non-current investments	1	4,875	750	750
Loan Portfolio	42,678	48,524	54,285	65,490
Other non-financial assets	339	510	510	510
Non-current assets				
Cash and bank balances	3,518	2,571	7,085	11,850
Other financial assets	604	2,905	3,776	4,909
Tax assets	2,083	223	100	100
Assets	49,317	59,774	66,671	83,775

Source: Company data, I-Sec research

Table 3: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Growth ratios (%)				
NII growth	104	57	0	18
AUM Growth	38	56	9	21
Asset yields	26	21	18	19
Cost of funds	14	12	12	12
Spread	13	9	6	7
Opex growth	59	29	30	19
Productivity ratio - Customer / LO	514.0	421.1	575.0	575.0
AUM/LO	9.4	11.2	11.7	12.6
Avg borrowing ticket size	18,201	26,572	20,334	21,944
PPP growth	110	72	-11	18
Provisions growth	-228	504	9	-40
Credit cost	1.2	4.9	4.2	2.2
PAT growth	66	13	6	52
Key ratios (%)				
Cal NIM	18.2	19.3	15.1	15.5
Opex/AUM	4.6	3.9	4.0	4.2
Opex/AUM (Cal.)	4.6	3.9	4.0	4.2
Cost/Income ratio	24.9	19.9	26.5	26.7
Credit cost	1.2	4.9	4.2	2.2
Asset quality (%)				
GNPA	0.0	0.8	6.0	0.9
NNPA		0.1	0.5	0.1
PCR	100	89	92	89
Per share data Rs)				
Diluted EPS	52.0	54.8	58.3	88.5
EPS growth (%)	34.9	5.5	6.4	51.8
Book value per share	315.1	409.4	455.8	526.6
BVPS growth (%)	10.5	29.9	11.3	15.5
Valuation				
P/E (x)	10.8	10.2	9.6	6.3
P/B (x)	1.8	1.4	1.2	1.1
RoA decomposition				
Net interest income (%)	18.2	19.3	15.1	15.5
Other income (%)	0.1	0.6	0.1	0.1
Total income (%)	18.3	19.9	15.2	15.6
Employee expenses (%)	3.5	3.0	3.2	3.3
Depre (%)	0.9	0.7	0.7	0.7
Other operating exp (%)	0.2	0.2	0.1	0.1
Total operating exp (%)	4.6	3.9	4.0	4.2
Pre provisioning profits (%)	13.8	15.9	11.2	11.4
Provisions (%)	1.2	4.9	4.2	2.2
Pre tax profits (%)	12.6	11.0	7.0	9.3
Tax (%)	4.3	4.8	1.8	2.3
RoAUM (%)	8.3	6.3	5.2	6.9
Leverage	2.3	2.5	2.6	2.6
RoE (%)	19.0	15.6	13.5	18.0
Capital Adequacy				
CRAR - Tier I capital (%)	38.6	51.9	43.6	40.0
CRAR - Tier II capital (%)	1.0	1.0	1.0	1.0
CRAR (%)	39.6	52.9	44.6	41.0

Source: Company data, I-Sec research

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