

Spandana Sphoorty Financial

BUY

CMP Rs761

Target Rs1,150

Upside 51.1%

Adequate provisioning sets the tone for normative profitability; retain BUY with 12m PT of Rs1150

Spandana's Q3 FY21 earnings performance was marred by substantial portfolio write-off (Rs1.96bn - 2.5% of AUM) and the interest reversal associated with it (Rs160mn). The company did not utilize its Covid provisioning buffer/management overlay (which was marginally augmented to Rs4.1bn - 5.9% of on-BS portfolio), and thus made huge provisions pertaining to the write-off. The write-off related to non-paying loans which crossed 120 dpd in January. Spandana has another 2.2% non-paying borrowers, which are part of the 2.7% proforma GNPL. Collection Efficiency without arrears and pre-closures was around 93% in Q3 FY21 and proportion of borrowers making full-payments improved to 91.5% in December (84% in September).

Disbursements (Rs23bn - up 42% qoq/18% yoy) and AUM expansion (5.6% qoq, despite write-offs) in Q3 FY21 exceeded expectations; and it was courtesy large quantum (Rs20bn) of borrowings the company could raise. About 90% of disbursements during the quarter were to existing customers; largely in the form of migration to next cycle after pre-closure of exiting loans (reflected in disbursement ATS of Rs38000). New group formation (NGF) is expected to pick up from Q4 FY21. Management targets to close the fiscal with an AUM of Rs82-83bn (6-7% qoq growth in Q4).

Company expects provisioning to normalize from Q4 FY21. It is highly probable in our view too, considering that it holds a provisioning of ~40% (higher if adjusted for on-BS risk) on PAR 30-90 portfolio. Notably, unlike usual times, this bucket comprises of customers who are part-paying, irregularly paying and those having resumed repayments with some lag after the end of moratorium. Further improvement in collection efficiency in January (~95% without arrears and pre-closures) suggests slower flow to forward buckets with more customers making full-payments and consistent collection of overdues.

The reported loss in Q3 FY21 neither significantly alters our earnings/ABV estimates for FY22/23, nor our positive view on the stock. We believe that Spandana carries adequate provisions to address the eventual impact of Covid, and thus growth and profitability could fully normalize from FY22. The likelihood of company delivering 6-7% RoA in FY22 should re-rate the stock from current low valuation of 1.1x FY23 P/ABV.

Management Commentary - Key takeaways

Guidance

- ✓ AUM will be Rs82-83bn at the end of the year.

Exhibit 1: Financial Summary

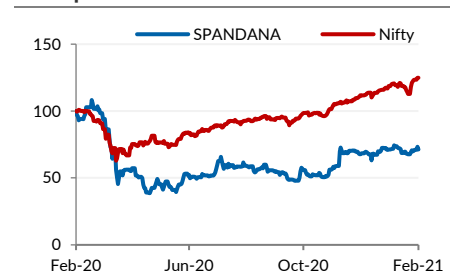
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	10,873	10,432	13,433	17,017
PPOP	8,710	8,053	10,341	13,074
Net profit	3,367	2,279	6,369	8,012
yoy growth (%)	9.1	(32.3)	179.4	25.8
EPS (Rs)	52.4	35.4	99.0	124.6
Adj. BVPS (Rs)	405.5	441.0	540.0	664.6
P/E (x)	14.5	21.4	7.7	6.1
P/adj.BV (x)	1.9	1.7	1.4	1.1
ROE (%)	15.0	8.4	20.2	20.7
ROA (%)	6.2	3.4	7.4	7.3
CAR (%)	52.9	44.0	42.5	39.8

Source: Company, YES Sec - Research

Stock data (as on February 09, 2021)

Nifty	15,109
52 Week h/l (Rs)	1188 / 405
Market cap (Rs/USD mn)	48922 / 671
Outstanding Shares (mn)	64
6m Avg t/o (Rs mn):	44
Div yield (%):	-
Bloomberg code:	SPANDANA IN
NSE code:	SPANDANA

Stock performance



	1M	3M	1Y
Absolute return	0.1%	25.9%	-28.7%

Shareholding pattern

Promoter	62.4%
FII+DII	15.2%
Others	22.5%

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- ✓ No provision on the old portfolio (pre-Covid) will be required in coming quarters.

Disbursements and AUM Growth

- ✓ Disbursements touched historical high of Rs23bn in Q3 FY21, up by 18% yoy and 42% qoq – thus, AUM grew 5.6% qoq to Rs78bn.
- ✓ 90% of disbursement to existing customers with track record of on-time repayments – only ~60000 new customers were acquired in Q3 – average disbursement ATS at Rs38,000.
- ✓ Disbursed Rs10.5bn in January which is an all-time high.
- ✓ 50% of current portfolio was created post April 2020 (post-Covid portfolio) – it has consistently had 100% collection efficiency.

Funding and Liquidity

- ✓ Raised Rs20bn during Q3 FY21 - Rs9.2bn through money market instruments and Rs5bn from retail investors through wealth management channel – also added 8 new lenders.
- ✓ Marginal Cost of Borrowing at 11.4% in 9M v/s 10.6% yoy – increased due to higher-costing Market-linked debentures raised and higher sourcing fees on it.
- ✓ Sharp increase in interest cost qoq due to significant increase in on-BS borrowings.
- ✓ As of 31st Dec 2020, Cash & Cash equivalents is Rs7.8bn and sanctions in pipeline of over Rs.26bn.

Asset quality and Provisions

- ✓ Collection Efficiency of 96% (excludes prepayments, but with arrears) in Q3 FY21 - January collections at 98.7%.
- ✓ Collection Efficiency without arrears at 93% v/s 89% in Q2 FY21.
- ✓ Rs20.7bn absolute collections in Q3 FY21 – collected 43% of pre Covid portfolio in 9m FY21.
- ✓ PAR 0 at 10.9%, PAR 30 at 9.4% and PAR 60 at 5.7% and PAR 90 (proforma GNPL) at 2.7%.
- ✓ PAR 30-90 bucket (5.7% of AUM) comprises of customers who are part-paying and those who started paying late – thus, flow forward into 90+ dpd should not be much in Q4 FY21.
- ✓ Cumulative provisions of Rs4.1bn, at 5.9% of on-Balance Sheet portfolio - ECL coverage of 17% on Stage-2 assets and 53% on Stage-3 assets + Rs1.2bn ad-hoc provisions.
- ✓ Wrote-off Rs2.1bn worth of loans (including accrued interest) in Q3 FY21, which crossed 120 dpd by January 15 – the write-off pool resided in Orissa, MP, MH and Chhattisgarh.
- ✓ Recent developments in Assam will not affect collections in other states.

Exhibit 2: Result Table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Operating Income	3,271	3,375	(3.1)	3,436	(4.8)
Interest expended	(1,134)	(837)	35.4	(844)	34.3
Net Interest Income	2,137	2,538	(15.8)	2,591	(17.5)
Other income	62	85	(26.7)	85	(26.2)
Total Income	2,199	2,623	(16.2)	2,676	(17.8)
Operating expenses	(631)	(543)	16.2	(550)	14.8
PPOP	1,568	2,080	(24.6)	2,126	(26.2)
Provisions	(1,946)	(1,219)	59.7	(415)	368.5
PBT	(378)	861	(143.9)	1,711	(122.1)
Tax	74	(231)	(132.1)	(450)	(116.5)
PAT	(304)	630	(148.2)	1,261	(124.1)

Source: Company, YES Sec - Research

Exhibit 3: Business data

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Gross Loan Portfolio	77,640	73,540	5.6	58,790	32.1
Disbursement	23,170	16,340	41.8	19,710	17.6
Branches (no)	1,034	1,027	0.7	980	5.5
Employees (no)	8,339	7,614	9.5	7,545	10.5
Loan Officers (no)	6,389	5,818	9.8	5,586	14.4
Borrowers (mn)	2.6	2.6	(1.2)	2.5	3.7
Borrowers/Branch (no)	2,468	2,511	(1.7)	2,506	(1.5)
AUM/Borrowers (Rs)	30,447	28,523	6.7	23,940	27.2
AUM/Branch	75	72	4.2	60	25.0
AUM /LO (incl. trainees)	12.2	12.6	(3.9)	10.5	15.5

Source: Company, YES Sec - Research

Exhibit 4: Key ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM	15.6	15.9	(0.3)	16.4	(0.8)
Portfolio Yield	23.3	22.4	0.9	24.0	(0.7)
Cost of Borrowing (WA)	10.6	11.0	(0.4)	10.9	(0.3)
C/I	23.4	20.9	2.5	20.7	2.7
Opex/AUM	3.4	4.0	(0.6)	4.7	(1.3)
RoA	9.4	10.0	(0.6)	9.1	0.3
RoE	24.5	26.4	(1.9)	21.1	3.4
GNPA	2.7	0.5	2.2	0.3	2.4
CRAR	39.0	45.0	(6.0)	50.5	(11.5)

Source: Company, YES Sec - Research

Exhibit 5: Performance ratios - calculated

(%)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21
NII/Avg. AUM	18.4	21.3	13.7	14.3	11.3
Opex/Avg. AUM	3.9	3.7	3.0	3.1	3.3
PPoP/Avg. AUM	15.1	18.2	10.8	11.7	8.3
Prov./Avg. AUM	2.9	11.8	6.5	6.9	10.3
PAT/Avg. AUM	8.9	4.9	3.2	3.5	(1.6)

Source: Company, YES Sec - Research

Exhibit 6: Districts exposure

% of Portfolio	Q3 FY21	Q2 FY21	Q3 FY20
< 0.5%	223	216	208
0.5% - 1%	53	54	52
1% - 2%	10	12	16
> 2%	0	0	0
Total Districts	286	282	276

Source: Company, YES Sec - Research

Exhibit 7: Funding mix

(%)	Q3 FY21	Q2 FY21	Q3 FY20
Private banks	36.0	36.0	51.0
Public sector banks	34.0	40.0	33.0
Small finance banks	0.0	2.0	3.0
NBFCs	18.0	10.0	8.0
FPIs	3.0	4.0	5.0
Mutual funds	0.0	0.0	1.0
DFI	9.0	9.0	0.0

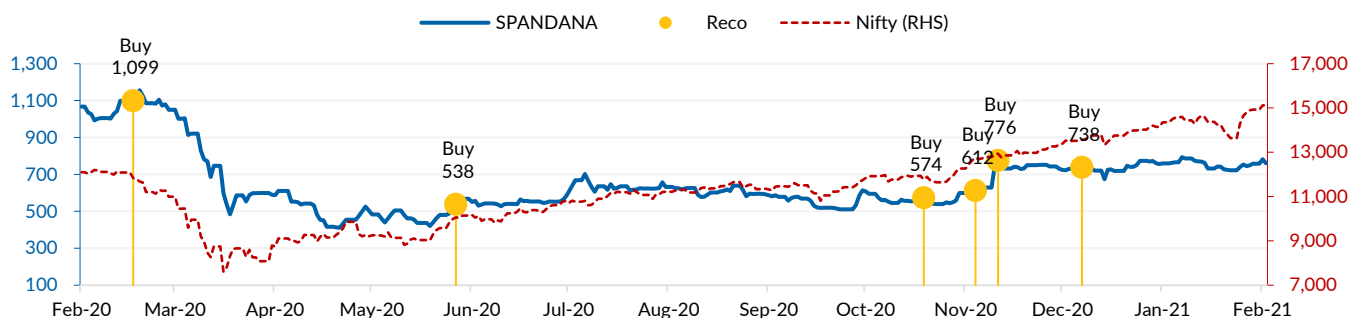
Source: Company, YES Sec - Research

Exhibit 8: AUM - State concentration

States / (%)	Q3 FY21	Q2 FY21	Q3 FY20
MP	17.3	17.0	17.5
Orissa	16.8	17.0	17.9
KTK	12.8	13.0	13.4
MH	11.5	13.0	12.3
AP	10.7	10.0	8.2
Chattisgarh	7.0	8.0	8.6
Others	23.9	22.0	22.1

Source: Company, YES Sec - Research

Recommendation Tracker



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