

Spandana Sphoorty Financial

BUY

CMP Rs555

Target Rs875

Upside 58.0%

Result Highlights

- ✓ Spandana's Q4 FY21 performance was characterized by an in-line AUM growth, a significant beat on revenue and PPOP, strong collections causing mild improvement in asset quality and high credit cost to raise coverage on stress funnel.
- ✓ Supported by highest-ever quarterly disbursements of Rs24.3bn, AUM grew by 5% qoq/19% yoy to reach Rs81.6bn despite write-off of Rs1.66bn (2% of portfolio). The growth continues to be driven by existing clients having stable repayment record (borrower base shrunk 4% qoq), who were offered much higher loan tickets for their subsequent cycles.
- ✓ AUM/Borrower crossed Rs33000 (up 9% qoq/25% yoy), with Spandana having closed a large part of the gap with its peers. Rising ATS along with suppressed employee cost (lower variable payouts linked to business & collections) underpinned sustained low Opex/AUM delivery.
- ✓ Q4 FY21 had lumpy income components viz. Rs330mn upfront income from assignment transactions and Rs234mn recovery income from written-off accounts.
- ✓ After adding back, the write-off, there was a mild improvement in PAR 30 portfolio from 9.4% to 8.7%. The Balance Sheet provisions were maintained at Rs4.1bn despite the sizeable write-off, and thus credit cost was high at annualized 8%. The provision stock stands at 5% of AUM and 75% of PAR 30 portfolio.
- ✓ Collection Efficiency (with arrears) stood at 101% in Q4 FY21 v/s 96% in the preceding quarter, and without arrears was 96% in March v/s 93% in December (improvement driven by increase in full-paying customers).

Our view – Extended uncertainty and credit cost pain to weigh on stock performance in the near term: Collection efficiency has dipped sharply in April-May (coming down from 96% to around 80%) and if the lockdowns/restrictions are extended to June (couple of states have done so), then PAR metric could see a substantial deterioration. This would call for elevated provisions for ensuing quarters as well, notwithstanding the significant provisioning buffer held as of March. Disbursements have been on pause and approach will be calibrated in the near term. Our earnings and BV estimates for FY22/23 witness a significant downgrade, as we slash AUM growth forecast and build a materially higher credit cost (more than management's assessment of 3.5-5%) for FY22. Equipped with higher capital and pre-provisioning profitability, Spandana should be able to withstand the pain and even grow when situation normalizes. Retain BUY with a lowered price target of Rs875. The stock trades at 0.9x FY23 P/ABV.

Exhibit 1: Result table

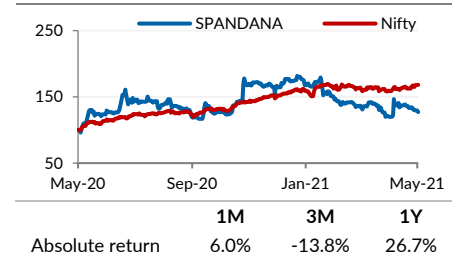
(Rs mn)	Q4 FY21	Q3 FY21	% yoy	Q4 FY20	% qoq
Total Operating Income	4,592	3,271	40.4	4,211	9.0
Interest expended	(1,353)	(1,134)	19.3	(822)	64.5
Net Interest Income	3,239	2,137	51.6	3,389	(4.4)
Other income	64	62	2.5	88	(27.6)
Total Income	3,303	2,199	50.2	3,477	(5.0)
Operating expenses	(618)	(631)	(2.1)	(592)	4.3
PPOP	2,686	1,568	71.2	2,885	(6.9)
Provisions	(2,119)	(1,946)	8.9	(1,874)	13.1
PBT	566	(378)	(249.9)	1,011	(44.0)
Tax	(150)	74	(301.9)	(236)	(36.4)
PAT	416	(304)	(237.2)	775	(46.3)

Source: Company, YES Sec – Research

Stock data (as on May 24, 2021)

Sensex:	15,198
52 Week h/l (Rs)	830 / 413
Market cap (Rs/USD mn)	35605 / 488
Outstanding Shares	64
6m Avg t/o (Rs mn):	46
Div yield (%):	-
Bloomberg code:	SPANDANA IN
NSE code:	SPANDANA

Stock performance



Shareholding pattern

Promoter	62.4%
FII+DII	15.5%
Others	12.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	875	1,150

Financial Summary

	FY22E	FY23E	FY24E
Op. income	12,134	14,790	18,704
PPOP	9,315	11,211	14,158
Net profit	3,719	6,736	8,493
Growth (%)	188.3	81.1	26.1
EPS (Rs)	57.8	104.7	132.1
ABVPS (Rs)	480.1	584.8	716.9
P/E (x)	9.6	5.3	4.2
P/adj.BV (x)	1.2	0.9	0.8
ROE (%)	12.8	19.7	20.3
ROA (%)	4.1	6.4	6.6
CAR (%)	39.3	38.5	36.4

Δ in earnings estimates

	FY22e	FY23e	FY24e
EPS (New)	57.8	104.7	132.1
EPS (Old)	99.0	124.6	-
% change	-41.6%	-16.0%	-

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CON-CALL HIGHLIGHTS

- ✓ Reduction in PAR 30+ during Q4 FY21, reducing from 9.4% to 8.7% - the no. of non-paying borrowers reduced to 61000 (~2.5% of borrower base) - Credit cost was 8.8% in FY21.
- ✓ Co. wrote-off Rs1.66bn in Q4 FY21, after writing off Rs2bn in Q3 FY21 - still carrying Rs4.1bn provisions which is 5.1% of AUM and 80% of PAR 60 portfolio as of March.
- ✓ Collection Efficiency (w/o arrears): Dec 93%, March 96%, April 92% and May 78% (can see some improvement by month-end).
- ✓ Impact in April was less severe due to monthly collection model and most payments falling in the first 10 days of a month - overall Collection Efficiency (incl. arrears) in April at 94% v/s 100% in March.
- ✓ Besides lockdowns/restrictions, certain states like CG, RJ and MP did not including MFI in essential services and large number of LOs getting infected is impacting collections.
- ✓ Kerala has lowest collection efficiency - RJ is another worst impacted state for the co. - AP and TL have 94-95% collection efficiency even in April and May - KTK collection efficiency was resilient at 95% in April, but fell to 82% in March.
- ✓ Collection Efficiency of new loans disbursed from June 2020 is quite better - 99% in April and 91% in May so far.
- ✓ Rs57.7bn of current AUM represents disbursements/new loans created after June 2020 (post-Covid) - 81% share in terms of number of loans and 85% share in terms of loans outstanding - all these loans are on monthly repayment cycle.
- ✓ Guidance for FY22 (assuming normalcy from July and no third wave): Additional 2-3% credit cost from second Covid wave over usual 1-1.5% run-rate, AUM to reach around Rs100bn (20-25% growth) and RoA of 5%+.
- ✓ Spandana raised Rs19.1bn in Q4 FY21, Rs8.3bn from NCDs and MLDs at rates lower than Q3 - total liquidity on BS at Rs11.4bn (13% of loan assets).
- ✓ Q4 FY21 revenues included Rs330mn upfront income from assignment transactions and Rs234mn recovery income from written-off accounts.
- ✓ Rs0.2bn collected in Q4 from Rs2bn loans written-off in Q3 FY21 - co. expects such recoveries to continue.
- ✓ Abhiram, group company, contributed Rs40mn towards rent in Q4 FY21.
- ✓ Criss Financial Holdings (subsidiary NBFC) disbursed Rs3.3bn in FY21 and ended with an AUM of just above Rs4bn - current operations in AP and Telangana (has plans to enter KTK and TN) - products include GL, LAP, BL and PL - GNPL at 1.1% with collection efficiency of 103.6% in Q4 FY21 - management most bullish on Gold Loans (plans to scale portfolio from Rs0.4bn to Rs2.5bn in FY22 by opening more branches in AP).

Exhibit 2: Business data

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Gross Loan Portfolio	81,570	77,640	5.1	68,290	19.4
Disbursement	24,260	23,170	4.7	23,240	4.4
Branches (no)	1,052	1,034	1.7	1,010	4.2
Employees (no)	8,644	8,339	3.7	8,224	5.1
Loan Officers (no)	6,721	6,389	5.2	6,103	10.1
Borrowers (mn)	2.5	2.6	(3.9)	2.6	(4.7)
Borrowers/Branch (no)	2,324	2,468	(5.8)	2,541	(8.5)
AUM/Borrowers (Rs)	33,294	30,447	9.4	26,610	25.1
AUM/Branch	78	75	4.0	68	14.7
AUM /LO (incl. trainees)	12.1	12.2	(0.1)	11.2	8.5

Source: Company, YES Sec - Research

Exhibit 3: Key ratios

(%)	Q4 FY21	Q3 FY21	chg qoq	Q4 FY20	chg yoy
NIM	15.4	15.6	(0.2)	16.2	(0.8)
Portfolio Yield	23.1	23.3	(0.2)	24.0	(0.9)
Cost of Borrowing (WA)	11.4	10.6	0.8	11.9	(0.5)
Opex/AUM	3.2	4.0	(0.8)	4.7	(1.5)
GNPA	3.1	2.7	0.4	0.4	2.7
CRAR	40.0	39.0	1.0	47.4	(7.4)

Source: Company, YES Sec - Research

Exhibit 4: Performance ratios - calculated

(%)	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
NII/Avg. AUM	21.3	13.7	14.3	11.3	16.3
Opex/Avg. AUM	3.7	3.0	3.1	3.3	3.1
PPoP/Avg. AUM	18.2	10.8	11.7	8.3	13.5
Prov./Avg. AUM	11.8	6.5	6.9	10.3	10.6
PAT/Avg. AUM	4.9	3.2	3.5	(1.6)	2.1

Source: Company, YES Sec - Research

Exhibit 5: Districts exposure

% of Portfolio	Q4 FY21	Q3 FY21	Q4 FY20
< 0.5%	223	223	211
0.5% - 1%	53	53	56
1% - 2%	10	10	13
> 2%	1	0	0
Total Districts	287	286	280

Source: Company, YES Sec - Research

Exhibit 6: Funding mix

(%)	Q4 FY21	Q3 FY21	Q4 FY20
Private banks	40.0	36.0	38.0
Public sector banks	28.0	34.0	49.0
Small finance banks	0.0	0.0	2.0
NBFCs	21.0	18.0	7.0
FPIs	3.0	3.0	4.0
Mutual funds	0.0	0.0	0.0
DFI	7.0	9.0	0.0

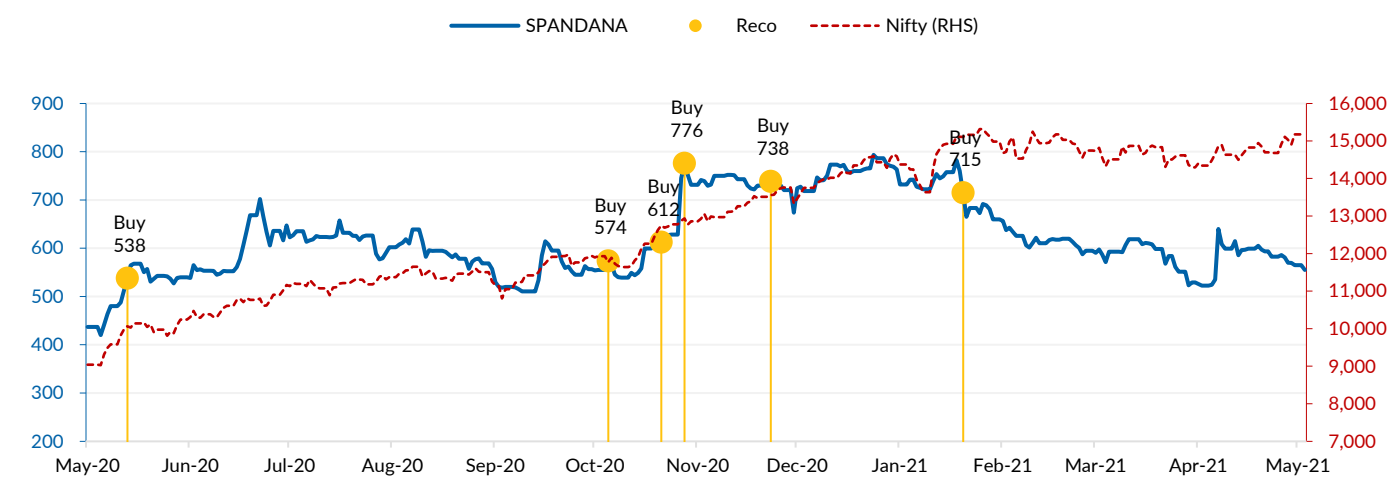
Source: Company, YES Sec – Research

Exhibit 7: AUM – State concentration

States / (%)	Q4 FY21	Q3 FY21	Q4 FY20
MP	18.3	17.3	17.1
Orissa	16.9	16.8	17.3
KTK	12.8	12.8	12.6
MH	11.0	11.5	12.9
AP	11.4	10.7	9.2
Chhattisgarh	7.3	7.0	8.1
Others	22.3	23.9	22.8

Source: Company, YES Sec – Research

Recommendation Tracker



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