

9<sup>th</sup> December, 2019

CMP – ₹1226/-

 View – **ACCUMULATE**
**Company Background and Business Model**
**Important Statistics (₹crs)**

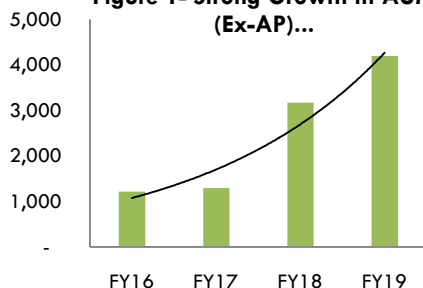
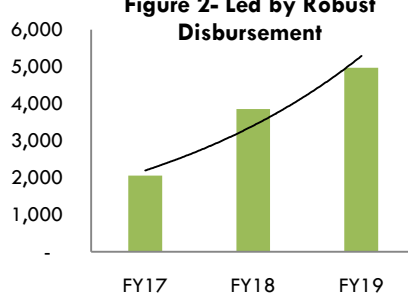
**Financial Products** – Spandana Sphoorty Financial Ltd (Spandana) is a rural focused Micro-Finance Institution with a pan India presence. It mainly focuses on 'Abhilasha' loans whose primary objective is to empower women in setting up and expanding income generating activities, smoothen household cash flows and acquire productive assets. For its income generation loans, it presently focus on areas such as agriculture, agriculture allied activities, small-scale activities and emergency needs.

<b>M.Cap (Cr)</b>	₹7,868.11
<b>52 Week H/L (₹)</b>	1400/690
<b>NSE Code</b>	SPANDANA
<b>BSE Code</b>	542759

**Details of key products offered by Spandana**

Product category	Loan size in ₹ (range)	Interest rate (%)	Tenure
<b>Core Product – 98% of AUM</b>			
Income generation (Abhilasha) loans	6,000 – 60,000	24%	1-2 Years
<b>Other Products – 2% of AUM</b>			
Loans against property	100,000 – 1,00,00,000	22-26%	1-10 Years
Education Loans	10,000-20,000	24%	1-4 Years
Gold loans	10,000 – 1,00,00,000	16-27%	1 to 12 Months

- **Loan Portfolio** – Spandana has reported ~52% AUM CAGR from FY16-19 to ₹4,437 Cr. Post exit from CDR in FY17, Spandana was able to optimize the ticket sizes and also acquire new clients at existing and new branches. Overall disbursement for the company has also witnessed robust growth of CAGR ~55% from FY17-19.

**Figure 1- Strong Growth in AUM (Ex-AP)...**

**Figure 2- Led by Robust Disbursement**


- **Geographical Presence** –Spandana faces limited concentration risk with portfolio spread across 17 states covering more than 272 districts.

To address geographic concentration risk, SSFL management has maintained stringent exposure caps at the state, district and branch levels. With this adopted norm, the company's operations are geographically well-diversified with no single state contributing more than 22% of AUM, no district contributing more than 1.9% of AUM and no branch contributing to more than 0.4% of AUM as on September 30, 2019.



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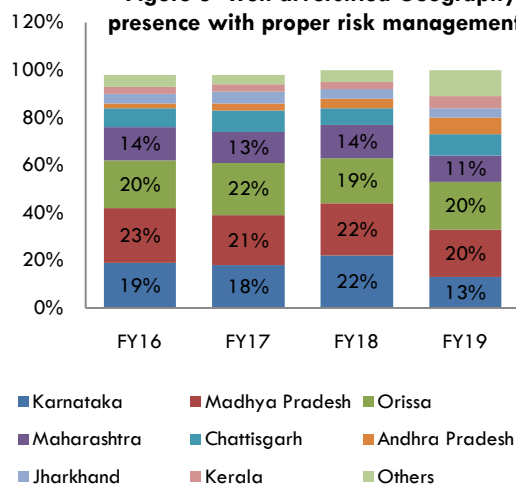
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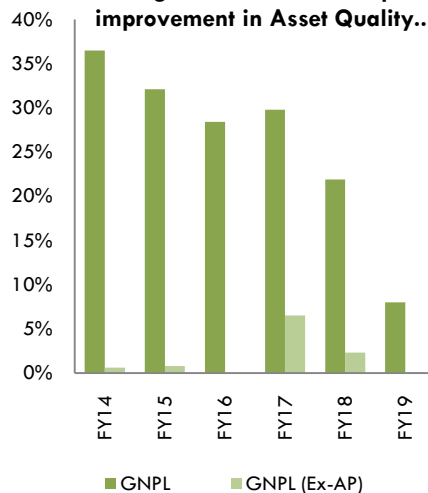
- **Asset Quality** –The company's gross non-performing assets (GNPA) were 7.9 per cent of the loan portfolio in FY19, largely on account of ₹358.6 crore of NPA from the old AP portfolio and were fully provided for. Excluding Andhra Pradesh (AP) portfolio GNPA were 0.1% for FY19.

Post demonetisation in Nov'16, SSFL has efficiently managed the situation and maintain industry leading portfolio quality with collection efficiency for FY17 at 97.1%, 99.3% and 99.7% in for FY18 and FY19, on a consolidated basis respectively.

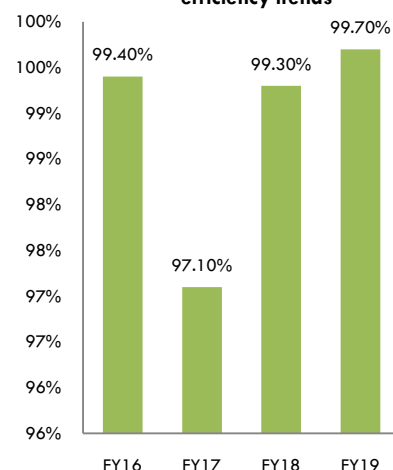
**Figure 3- Well diversified Geography presence with proper risk management..**



**Figure 4- .... led to sharp improvement in Asset Quality...**

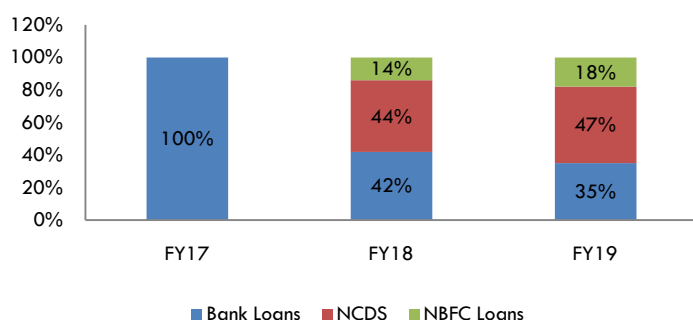


**Figure 5-...Reflected in collection efficiency trends**

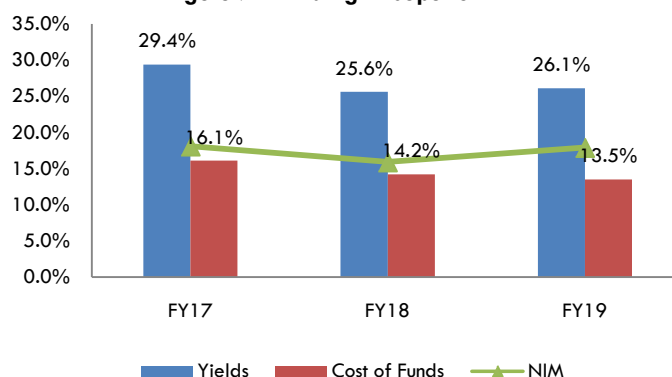


- **Liability** – Spandana, post its exit from CDR scheme in 2017, has consistently diversified its overall liability with incremental borrowings being obtained from NCDs (~47%), NBFC (~18.5%) instead of remaining highly dependent on bank borrowings (~35% vs 100% earlier) leading to a reduction in Average Effective Cost of Borrowing from 16.3% for FY17 to 12.8% for FY19.

**Figure 6- Diversified Borrowing Profile post exit from CDR**



**Figure 7- ...Aiding in superior NIM**





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- **Key Risk** – High exposure in the state of Orissa possess elevated risk of defaults in the event of cyclone and floods in the state.

Unsecured nature of portfolio may affect asset quality & profitability in case of defaults.

Peer Comparison	Credit Access Grameen	Spandana**
Gross AUM (₹ in Cr.)	7,905	5,407
GNPA (%)	0.52	0.77
Cost/Income (%)	39.8	20.3
Capital Adequacy (%)	34.2	51
NIM (%)	12.1	18.6
ROA (%)	4.8	14.6**
ROE (%)	16.1	35.4**
Price/Book Trailing	~4.5	~3.3

\*\* Spandana ROA & ROE pre-tax numbers have been mentioned in Investor Presentation.

## Views & Valuations

Micro-Finance in India remains the bright spot with ₹5-6 Tn opportunity (As per ICRA Research- Report titled "Indian Microfinance sector" dated 09 July, 2019). Spandana is in a better position to capitalize well on this growing demand considering its thrust on rural market, ample liquidity, robust return ratios, low operating expenses, positive ALM and superior asset quality.

**Spandana trades at a discount of ~25% to Credit Access-its closest peer. Comparing the two, Spandana has better metrics in each of the segment which is the key reason for our optimism on the stock& hence we recommend to *ACCUMULATE* the stock in a staggered manner around the current market price and any decline (1250-1100). We expect the valuation gap to narrow on sustainable performance by Spandana.**

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### Disclosure of Interest Statement Spandana Sphoorty Financial Limited. as on December 9<sup>th</sup>, 2019

Name of the Security	Spandana Sphoorty Financial Limited.
Name of the analyst	Harshil Gandhi
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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