

Financials

Q4FY20 result review
and TP revision

Target price: Rs620

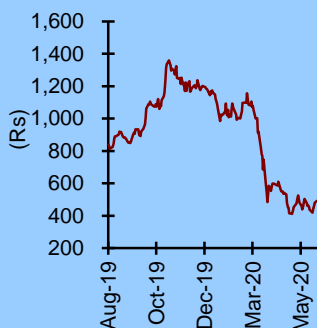
Target price revision
Rs620 from Rs570

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	62.7	62.7	62.6
Institutional investors	16.2	16.1	16.3
MFs and other	0.0	0.0	0.0
Banks/ FIs	0.8	0.5	0.5
Insurance	0.0	0.0	0.0
FIs	15.4	15.6	15.8
Others	21.1	21.2	21.1

Source: BSE

Price chart



Research Analysts:

Renish Bhuvra

renish.bhuvra@icicisecurities.com
+91 22 6637 7465

Kunal Shah

kunal.shah@icicisecurities.com
+91 22 6637 7572

Sandeep Joshi

Sandeep.joshi@icicisecurities.com
+91 22 6637 7658

Abhijit Tibrewal, CFA

abhijit.tibrewal@icicisecurities.com
+91 22 6637 7230

INDIA

Spandana Sphoorty

BUY

Maintain
Rs535

Capital sufficiency to help tackle current cycle

Spandana Sphoorty's (Spandana) Q4FY20 earnings has to be seen against the backdrop of its pro-active upfront of Covid-19-related provisions at Rs1.3bn (~190bps of AuM), highest within the MFI space, and yet delivering ~5% RoA. While AuM growth remained strong at 56% YoY, average ticket size increased by a sharp 50% YoY to ~Rs26,500 – this is a parameter to watch out for going ahead. Higher securitisation income of Rs1bn and margin expansion supported revenue progression and enabled Spandana to improve its cost/income ratio in Q4FY20. Notably, it collected >Rs1.45bn since Apr'20. While entering Covid-19 phase with high growth (47% CAGR FY18-FY20), biweekly/monthly collection model and the likelihood of ~20% borrowers availing extended moratorium poses near-term risk on asset quality. However, Spandana's diversified operations with 95% of districts having <1% exposure per district, strong operating margin at 16% and comfortable capital position (CAR 52.9%) would ensure it navigates through the current challenging cycle relatively better than peers. Maintain BUY.

- **Collection efficiency to remain at a minimum of 50% in Jun'20.** 95% of Spandana's borrowers are in rural areas (which are relatively less impacted by the lockdown), and ~57% are engaged in essential services such as dairy and agriculture. This borrower profile helped it collect Rs1.45bn since Apr'20 and it expects to collect Rs3bn in Jun'20 (at ~50% collection efficiency). On a positive side, collection efficiency touched as high as 85% in Andhra Pradesh on 2nd Jun'20. Currently, all its branches are operational and ~92% of field officers have resumed work. However, ~20% of borrowers, mostly in urban / semi-urban areas, are likely to avail of extended moratorium – which poses risk to asset quality going ahead.
- **AUM growth remains strong, but lower net customer addition is a concern.** Spandana continues to deliver industry-leading AUM growth at 56% YoY with only 4.5% YoY growth in customer acquisition. Bulk of the growth was driven by increase in average ticket size due to higher loans to vintage customers – and this is a parameter to watch out for in coming quarters. Management appears confident of resuming business operations from Jun'20 onwards with a disbursement target of Rs1.5bn in Jun'20 and expects the same to normalise at Rs6bn by Sep'20.
- **Contingency buffer of ~190bps of AuM is highest in MFI space.** Spandana has proactively built a Covid-19-related contingency buffer of Rs1.3bn (~190bps of AuM), highest within the MFI space, since it believes the impact of the pandemic is more aggravated than any of the past cycles like demonetisation, natural calamities, etc. However, strong PPOP margin at 16% and higher contingency buffer would ensure Spandana navigating through the current challenging cycle relatively better than peers.
- **Outlook.** While near-term asset quality and growth concerns persist, we believe Spandana's comfortable capital position (CAR at 52.9%), industry-leading profitability (PPOP margin at 16%) and ~190bps of contingency buffer would ensure it achieves normalcy quicker than peers. Maintain **BUY** with a revised target price of Rs620 (earlier: Rs570). The stock is currently trading at 1.1x / 0.9x FY21E / FY22E P/BV respectively.

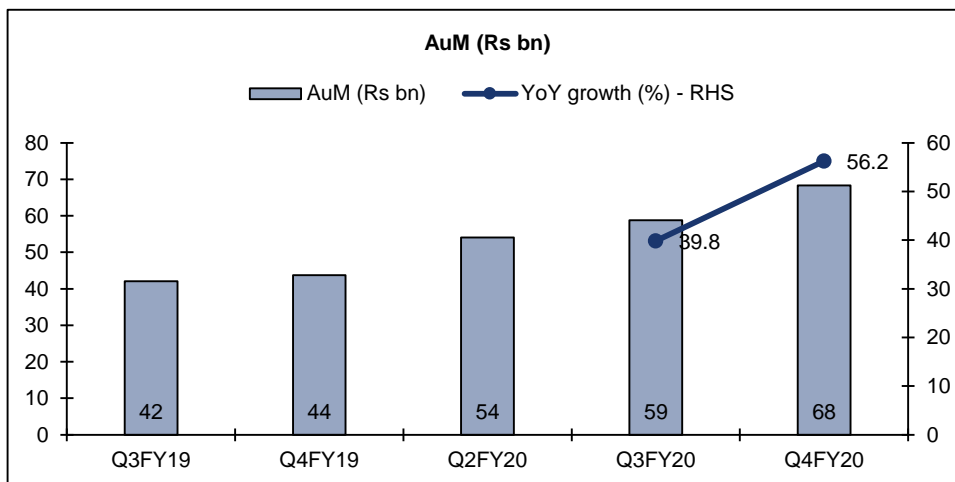
Market Cap	Rs34.6bn/US\$459mn	Year to Mar	FY19	FY20	FY21E	FY22E
Bloomberg	SPANDANA IN	NII (Rs bn)	6.9	10.8	11.3	12.9
Shares Outstanding (mn)	64.3	Net Profit (Rs bn)	3.1	3.5	4.1	5.9
52-week Range (Rs)	1360/412	EPS (Rs)	52.0	58.6	68.9	97.6
Free Float (%)	37.4	% Chg YoY	34.9	12.8	17.5	41.6
FII (%)	15.8	BVPS (Rs)	315.1	437.8	492.8	570.8
Daily Volume (US\$'000)	814	P/E (x)	10.3	9.1	7.8	5.5
Absolute Return 3m (%)	(51.3)	P/BV (x)	1.7	1.2	1.1	0.9
Absolute Return 12m (%)	NA	Net NPA (%)	0.0	0.1	0.5	0.1
Sensex Return 3m (%)	(11.4)	RoAuM (%)	8.3	6.3	5.8	7.1
Sensex Return 12m (%)	(14.3)	RoE (%)	19.0	15.6	14.8	18.4

Table 1: Q4FY20 result review*(Rs mn)*

	Q4FY20	Q4FY19	% change YoY	Q3FY20	% change QoQ
Interest Income	4,287	2,652	61.6	3,585	19.6
Interest Expended	825	900	(8.3)	996	(17.1)
Net interest income (NII)	3,461	1,752	97.6	2,589	33.7
Other income	111	33	233.8	79	40.7
Total income	3,572	1,785	100.1	2,668	33.9
Operating expenses	607	496	22.3	542	11.9
-Staff expenses	486	373	30.3	403	20.6
-Other expenses	120	123	(2.1)	139	(13.4)
Operating profit	2,966	1,289	130.0	2,126	39.5
Total provisions	1,881	212	789.1	210	795.8
Profit before tax	1,085	1,078	0.6	1,916	(43.4)
Tax	254	341	(25.4)	1,457	(82.5)
Profit after tax	830	737	12.7	459	80.9
Key statistic (Rs mn)					
AuM	68,290	43,720	56.2	54,070	26.3
Borrowers (in Lakh)	26	25	4.5	25	4.0
Avg ticket size	26,572	17,772	49.5	21,891	21.4
AuM mix					
MFI	98	N/A		98	-
Non MFI	2	N/A		2	-
Ratios (%)			bp chg YoY		bp chg QoQ
Profitability ratios					
Portfolio Yields	24.0	26.2	(220)	24.0	-
Cost of Funds	10.9	12.0	(110)	12.7	(180)
NIM	16.6	15.9	70	18.6	(200)
RoA	5.2	7.0	(180)	N/A	
RoaE	13.0	15.1	(210)	N/A	
Asset Quality					
Gross NPL ratio	0.4	-	36	0.8	(41)
Business & Other Ratios					
Cost-income ratio	17.0	27.8	(1,080)	20.3	(334)
CAR	52.9	-	5,290	50.0	290

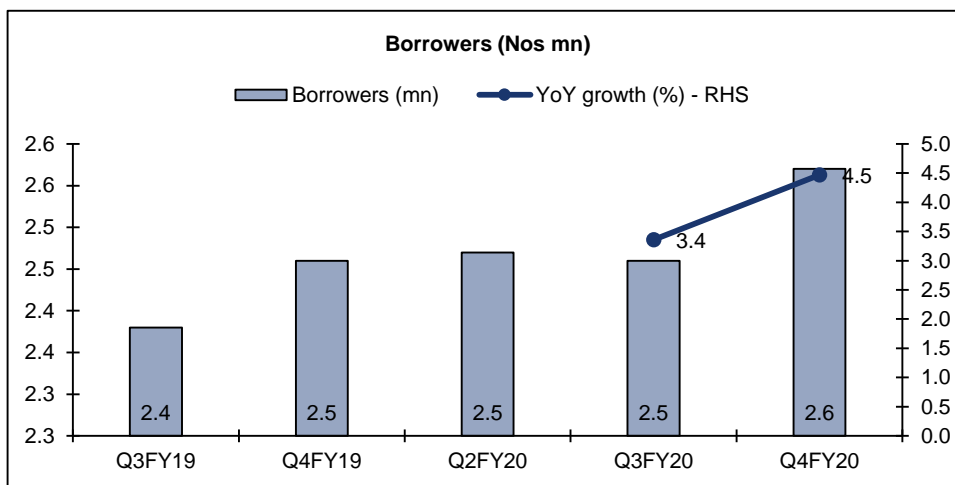
Source: Company, I-Sec research

Chart 1: AUM growth remains strong at 56% YoY



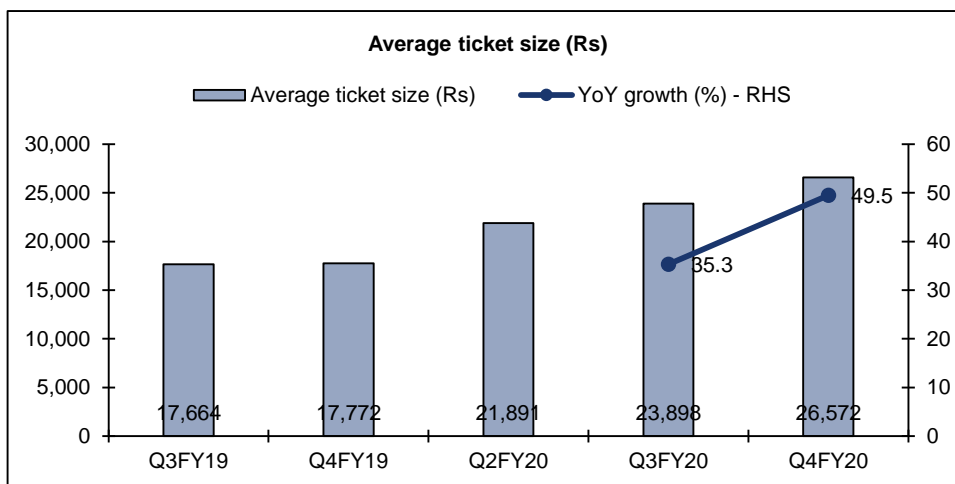
Source: Company, I-Sec research

Chart 2: Net customer addition remains muted at 5% YoY



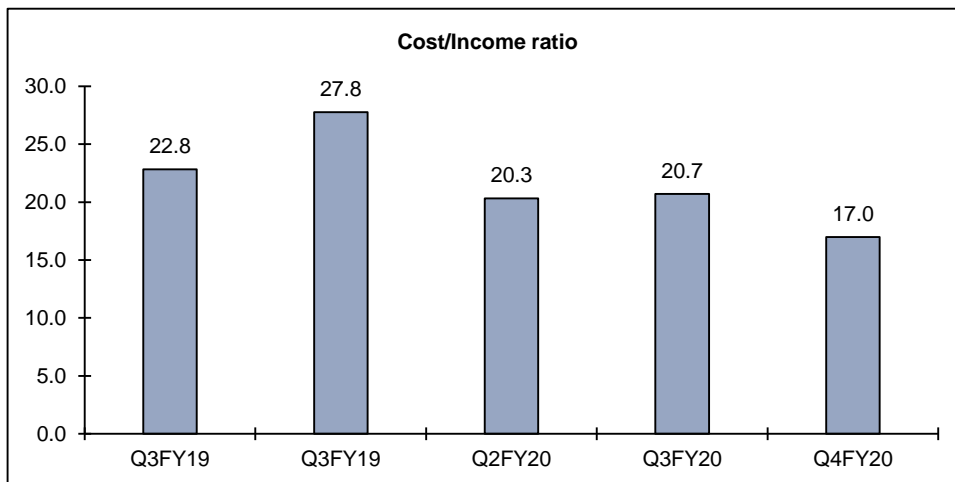
Source: Company, I-Sec research

Chart 3: Average ticket size increased 50% YoY due to higher loans to vintage customers



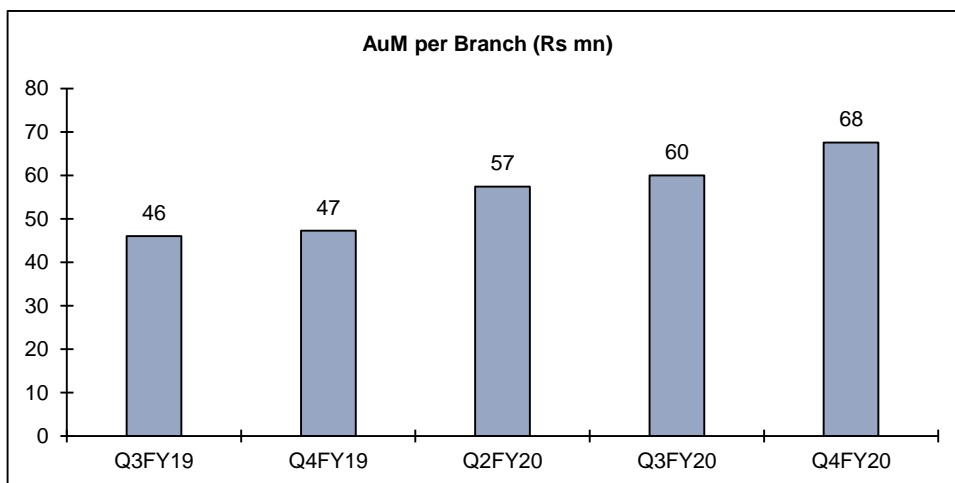
Source: Company, I-Sec research

Chart 4: Cost/Income ratio fell to 17% driven by productivity improvement and strong traction in revenues led by higher securitisation income.



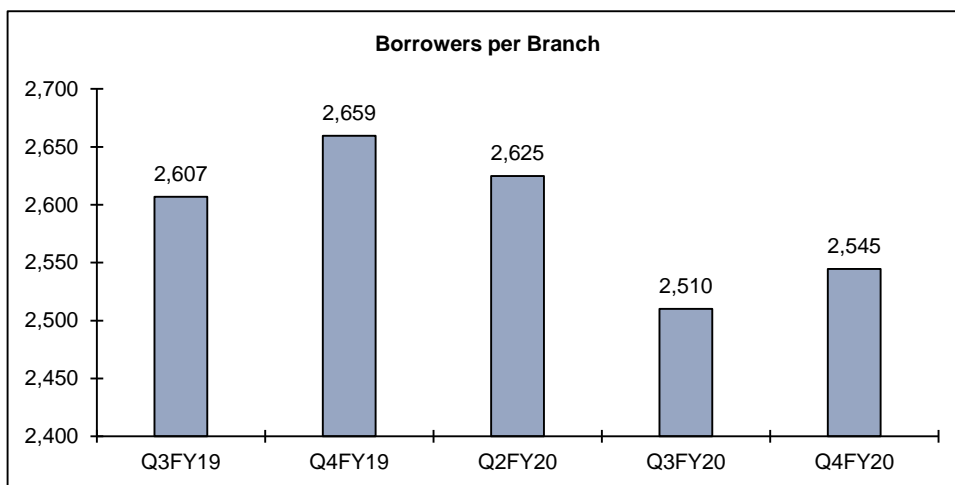
Source: Company, I-Sec research

Chart 5: Consistent improvement in AuM per branch – now at Rs68mn



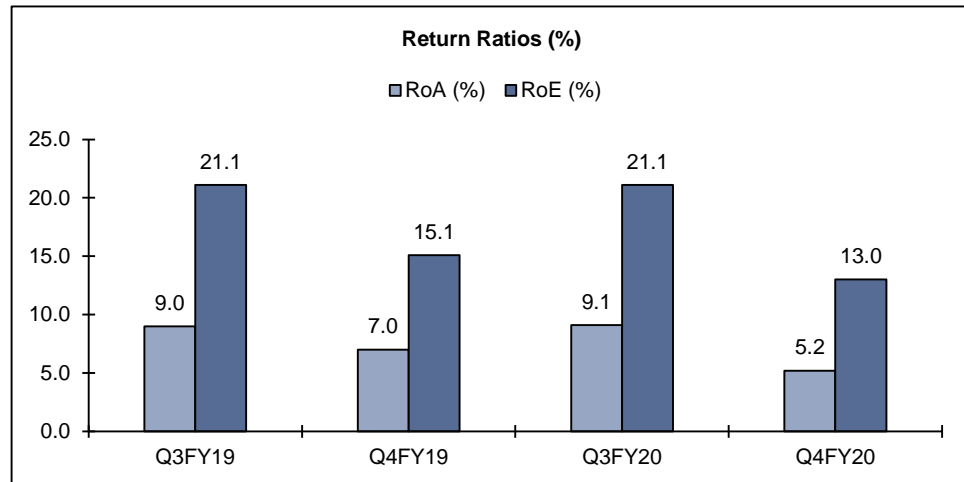
Source: Company, I-Sec research

Chart 6: Borrowers per branch improved sequentially



Source: Company, I-Sec research

Chart 7: Industry-leading return ratios



Source: Company, I-Sec research

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Interest income on portfolio loans	9,979	11,692	13,108	15,271
Finance costs	3,579	3,563	3,821	4,757
NII	6,852	10,790	11,304	12,979
NII growth	104%	57%	5%	15%
Net Revenue	6,907	11,132	11,369	13,044
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	8,500	9,620
YoY growth	110%	72%	-5%	13%
Provision and write-offs	453	2,736	2,975	1,794
Adjusted PBT	4,735	6,184	5,525	7,826
Exceptional items (IV)	0	0	0	0
Profit before tax	4,735	6,184	5,525	7,826
Tax	1,616	2,666	1,391	1,970
Profit after tax	3,119	3,518	4,134	5,856

Source: Company data, I-Sec research

Table 3: 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	28,924	33,609
Shareholders' funds	18,904	26,271	29,566	34,251
Debt securities	13,720	7,776	16,614	22,825
Borrowings (other than debt securities)	15,755	22,273	16,614	22,825
Subordinated liabilities	203	203	203	203
Other non-financial liabilities	225	301	362	362
Equity and liabilities	49,317	59,772	66,761	83,866
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	7,124	11,942
Other current assets	604	2,905	3,776	4,909
Tax assets	2,083	223	100	100
Assets	49,317	59,774	66,761	83,866

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Growth ratios (%)				
NII growth	104	57	5	15
AuM Growth	38	56	9	21
Asset yields	26	21	21	21
Cost of funds	14	12	12	12
Spread	13	9	9	9
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
PPP growth	110.0	72.0	-5.0	13.0
Credit cost	1.2	4.9	4.2	2.2
PAT growth	66	13	18	42
Key ratios (%)				
Cal NIM	18.2	19.3	15.8	15.8
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	25.2	26.2
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	58.6	68.9	97.6
EPS growth (%)	34.9	12.8	17.5	41.6
Book value per share	315.1	437.9	492.8	570.8
BVPS growth (%)	10.5	39.0	12.5	15.8
Valuation				
P/E (x)	10.3	9.1	7.8	5.5
P/B (x)	1.7	1.2	1.1	0.9
RoA decomposition				
Net interest income (%)	18.2	19.3	15.8	15.8
Other income (%)	0.1	0.6	0.1	0.1
Total income (%)	18.3	19.9	15.9	15.9
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	11.9	11.7
Provisions (%)	1.2	4.9	4.2	2.2
Pre tax profits (%)	12.6	11.0	7.7	9.5
Tax (%)	4.3	4.8	1.9	2.4
RoAUM (%)	8.3	6.3	5.8	7.1
Leverage	2.3	2.5	2.6	2.6
RoE (%)	19.0	15.6	14.8	18.4
Capital Adequacy				
CRAR - Tier I capital (%)	38.57	51.86	48.88	40.50
CRAR - Tier II capital (%)	1.04	1.04	1.04	1.04
CRAR (%)	39.61	52.9	49.9	41.5

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, *Renish Bhuva, CFA (ICFAI); Kunal Shah, CA; Sandeep Joshi, CA; Abhijit Tibrewal, PGDM*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.