

Shubh Nivesh



CMP: ₹ 1156 Target: ₹ 1450 (25%) Target Period: 6-12 months

BUY

Jan 08, 2024

On a journey from business revival to sustainability...

About the stock: Incorporated on 10th March 2003, Spandana Sphoorty Financial (Spandana) is a leading rural focused NBFC-MFI with pan India presence offering income generation loans under joint liability group model, predominantly to women.

- Spandana has a diversified and large presence with ~1502 branches and ~12600 employees
- As of 30 Sep 2023, AUM stands at ₹ 9784 crore, with a large customer base of 27 lakh borrowers.

Investment Rationale:

- Redefining business model for sustained growth:** Redefining of business model with focus on customers, employees and collection has led to improvement in business metrics. Continued expansion through branch addition (at 1502 as of Sep'23), addition of loan officers (at 8504 as of Sep'23) has led to strong accretion of customer (at ~27 lakhs). In Vision 2028, Management aims to AUM size of ₹28000 crore in FY28E, implying a ~25% CAGR growth with customer acquisition remaining core driving metric (target of ~62 lakh borrowers in FY28E).
- Risk management and diversified liabilities mix remains core:** Management aims to focus on tech-enabled process emphasizing on score-card based lending, process automation and geo-tagging to fasten turnaround time, improve operational efficiency and keep a tight control on asset quality. Strategies including focus on JLG model with weekly collections, shorter tenure loans, check on loan utilization and limiting customer indebtedness is seen to keep credit cost in a narrow range, thereby driving profitability. Further strategy to diversify liabilities mix and improvement in credit rating is seen to aid margin stability ahead.
- Entry in secured loans via wholly owned subsidiary:** Management aims to enter in secured small ticket loans through a wholly owned subsidiary – Criss Financial. Under this subsidiary, LAP product with ticket size of ~₹5 lakhs and nano enterprise loans of ₹60k-1 lakh are been offered. As of FY28E, the company targets to reach an AUM size of ₹3000-3500 crore with ~2.5-3 lakh borrowers.

Rating and Target Price

- Aim towards business growth with focus on technology and customers along with emphasis on risk management is expected to aid improvement in RoA ahead of 4%
- At CMP, the stock is trading ~1.9x FY25E ABV. As a player in micro-finance segment, with huge growth opportunity, and anticipated improvement in business fundamentals, we assign a multiple of ~2.4x FY25E ABV and ascribe a target of ₹1450 per share. Maintain our **BUY** rating

Key Financial Summary

₹ crore	FY21	FY22	FY23	2 year CAGR (FY21-23)	FY24E	FY25E	2 year CAGR (FY23-25)
NII	1056.0	796.4	819.6	-11.9%	1236.0	1697.1	43.9%
PPP	845.1	577.4	562.1	-18.4%	880.3	1220.4	47.3%
PAT	145.0	69.8	12.4	-70.8%	493.0	696.2	649.3%
BV	427.5	447.2	436.5		505.95	604.01	
P/E	51.3	114.4	661.9		166.5	117.9	
P/ABV	2.7	2.6	2.6		2.3	1.9	
RoA	1.7	1.0	0.1		4.2	4.6	
RoE	5.3	2.3	0.4		13.7	16.2	

Source: Company, ICICI Direct Research



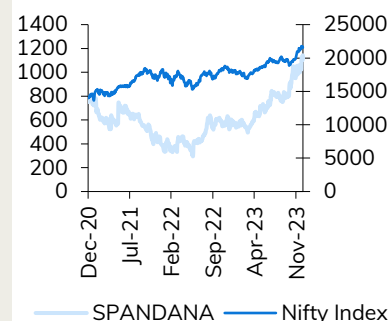
Particulars

Particular	Amount
Market Capitalisation	₹ 8,232
52 week H/L	1164/470
Networth	₹3359 crore
Face value	₹ 10
DII Holding (%)	13.0
FII Holding (%)	18.7

Shareholding pattern

	Dec-22	Mar-23	Jun-23	Sep-23
Promoter	63.0	63.0	62.4	60.4
FII	19.6	20.2	21.3	18.7
DII	8.9	8.4	8.4	13.0
Others	8.5	8.3	7.9	7.8

Price Chart



Recent Event & Key risks

- Sustained recovery witnessed in last 6 consecutive quarters translating in improvement in RoA
- Key Risk:** (i) Diversification with entry in new loans loan segment; (ii) Moderation in growth led by any external factors

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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