

Spandana Sphoorty Financial Limited

SUBSCRIBE

Issue Open: Aug 05, 2019

Issue Close: Aug 07, 2019

Spandana Sphoorty Financial (SSFL) was established in 2003 and got registered as an NBFC in 2004. The company provides microfinance largely to women from lower-income households with an average loan size of ₹17,768/customer, in which it follows 'joint liability group' model. It also follows a diversified lending and borrowing strategy. It has wide presence in the nation with presence across 16 states and 1 union territory. Spandana stands as the 4th largest NBFC-MFI nationally in terms of AUM with a size of ₹4,437Cr in FY2019.

Continuous improvement in performance: By March 2010, SSFL was the 2nd largest MFI in India in terms of AUM and borrowers. In October 2010, the MFI industry was severely impacted due to external regulatory action (govt. of formerly unified Andhra Pradesh promulgated AP Microfinance Ordinance 2010), enforcing several restrictions on the operations of MFIs. This, severely affected Spandana's collections and the consequent cash-flow shortage impacted its ability to service debt, impairing SSFL's growth. Hence, SSFL's lenders moved the company into CDR (Corporate debt restructuring). However, SSFL continued its efforts and turned profitable by 2014. SSFL also received capital infusion from its Corporate Promoter and Kedaara AIF-1, enabling it to exit from CDR mechanism successfully. Since exit from CDR, SSFL has improved on all parameters like avg. effective cost of borrowing declined from 16.3% to 12.3%; PAR 0+ reduced from ₹139.1cr to ₹38.3cr; and AUM grew at CAGR of 52% over FY2017-19.

Credit rating upgrade post listing to help reduce cost of borrowing: In FY2017, SSFL did not have a credit rating, however, in August 2017 it received a rating of BBB-, and since then the rating kept on improving and now it stands at A-. We believe that post listing there is a strong possibility of a rating upgrade, which will help to reduce the incremental cost of borrowing.

Diversified AUM across 17 states and opportunity to cater unbanked population: SSFL's operation is well spread across 17 states with 929 branches. No single state/district/branch contributes more than 20%/1.8%/0.3% to the AUM as of March 2019. Average loan per borrower is at ~₹17,800 vs. close peers at more than ₹25,000, which clearly shows management's conservative approach and clears risk diversification by limiting AUM by state/ district /branch.

Outlook & Valuation: At upper end of the price band, SSFL is valued at 2.7x of FY2019 BV (Pre-IPO) and on post dilution basis at 2.4x of Book value, whereas close peers i.e. CreditAccess Grameen is trading at 3x FY2019 BV. Given SSFL's successful exit from CDR in March 2017, healthy NIM, return ratio and low penetration of financial services in rural India coupled with a well-capitalised balance sheet and experienced management; we believe the company has an excellent base for next level of growth. Based on the positive factors, we assign SUBSCRIBE rating to the issue.

Exhibit 1 : Key Financial

Y/E March (₹ cr)	FY17	FY18	FY19
NII	221.2	335.7	646.5
YoY Growth (%)		51.8	92.6
PAT	432.8	187.3	311.8
YoY Growth (%)		(56.7)	66.5
EPS	72.6	31.4	52.3
Book Value	155.5	233.2	317.0
P/E	11.8	27.3	16.4
P/BV	5.5	3.7	2.7
ROE (%)	50.7	19.0	21.5
ROA (%)	36.2	10.3	9.6

Note - Valuation done on pre IPO financials

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹59.6cr

Offer for Sale: **0.94cr Shares

Fresh issue: ₹400cr

Post Eq. Paid up Capital: ₹64.3cr

Issue size (amount): *₹1,198cr - **1,201 cr

Price Band: ₹853-856

Lot Size: 17 shares and in multiples thereafter.

Post-issue implied mkt. cap: *₹5,485cr - **₹5,504cr

Promoters holding Pre-Issue: 81.20%

Promoters holding Post-Issue: 62.59%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	63%
Others	37%

Jaikishan J Parmar
 Research Analyst
 +022 39357600, Extn: 6810
 Jaikishan.parmar@angelbroking.com

Company Background

Spandana Sphoorty Financial (SSFL) is an NBFC-MFI, which was incorporated as a company in 2003. Later in 2004, the company got registered as an NBFC with the RBI and subsequently in 2015 it turned into an NBFC-MFI. It offers loan to women from low-income households and follows a 'joint liability group' model. As of 31 March 2019, Spandana was the fourth largest NBFC-MFI in India in terms of AUM with a size of ₹4,437Cr. Of the total AUM 88% of the lending is in the rural areas. It operates in 929 branches across 16 states and 1 union territory. In none of the branches does it concentrate more than 0.3% of its AUM. This diversification in lending reduces credit risk for the company. Further, its borrowing is also diversified which helps it balance its borrowing cost.

Exhibit 1: Strong performance in just 24 months since CDR exit

Particular	Mar'17	Mar'19
Gross AUM (₹ Cr)	1,302	4,437
Net worth (₹ Cr)	928	1,889
PAR 0+ (₹ Cr)	139	38
Profit Before Tax (₹ Cr)	46	474
Cost-Income Ratio (%)	41.8	24.9
No. of lenders (x)	3	28
Avg. Eff. Borrowing Cost (%)	16.3	12.8
Credit Rating	NA	A- (Stable)
Avg. Eff. Borrowing Cost (%)	16.3	12.8
	Exit from CDR	(4th largest NBFC-MFI in India)

Source:RHP

Key Management Personnel:

Padmaja Gangireddy is the Promoter and Managing Director of the company. She also serves as a director on the board of directors of Caspian Financial Services Limited. She has been a Director on the Company Board since April 19, 2003. She founded Spandana Rural and Urban Development Organisation ("SRUDO") in 1998.

Sudhesh Chandrasekar is the Chief Financial Officer of the Company. He holds a post graduate diploma in management from the Indian Institute of Management, Bangalore and a bachelor's degree in commerce (honours) from Shri Ram College of Commerce, University of Delhi, Delhi. Prior to joining the Company he worked with Unitus Capital and with ICICI Bank . Mr. Sudhesh Chandrasekar joined SSFL on August 17.

Abdul Feroz Khan is the Chief Strategy Officer of the Company. He holds a masters' degree in business administration from Institute of Chartered Financial Analysts of India University, Dehradun. He joined Company on November 10, 2008 as an assistant finance manager and was designated as Chief Strategy Officer on May 15, 2018.

Issue details

This IPO is a mix of OFS and issue of fresh shares. The issue would constitute fresh issue worth ₹400cr and OFS worth ₹801cr. OFS largely would offer partial exit to investors (Kedaara Capital, Helion Venture Partners, Valiant Mauritius Partners) and Promoter Padmaja Gangireddy.

Under the OFS, the promoters and other investors are offering 9.3 million equity shares worth ₹800Cr.

Exhibit 2: Pre and Post-IPO shareholding pattern

Particular	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	4,84,31,819	81.2	4,02,45,099	62.59
Investor/Public	1,11,97,364	18.8	2,40,56,981	37.41
	5,96,29,183	100.0	6,43,02,080	100.00

Source: RHP Note: Calculated on upper price band

Exhibit 3: Selling Shareholder

Shareholder	Shares Offered
Kangchenjunga Limited	59,67,097
Padmaja Gangireddy	14,23,114
Vijaya Siva Rami	7,96,509
Valiant Mauritius Partners	7,83,747
Helion Venture Partners	1,32,831
Kedaara Capital	1,29,732
Helion Venture Part	1,23,695
Total shares	93,56,725

Source: Company

Objects of the offer

- The Net Proceeds of the Fresh Issue are proposed to be utilised for augmenting capital base and general corporate purposes.
- To achieve the benefits of listing the Equity Shares on the Exchanges and to carry out offer for sale of equity shares

Risk

- The operations are concentrated to five states (72% of AUM) and any adverse sustained economic downturn and political unrest/disruption could change repayment behaviour of the borrowers.
- Unsecured Portfolio –SSGL` s operations involve transactions with relatively high risk borrowers (Unsecured Loan). Any default from the customers could adversely affect the business, operations and financial condition.

Exhibit 4: Relative Valuation

Particular	M.cap	AUM	M.cap/ AUM	P/B	P/E	AUM Growth		ROA	ROE	Leverage	CRAR
						YoY	3 Year	FY19	FY19		
Spandana	5,505	4,270	1.29	2.4	18	35	52	8.5	19	2.2	40
CreditAccess Grameen	7,198	7,160	1.01	3.0	22	44	43	5.2	17	3.3	36
Bharat Fin	12,596	17,390	0.72	3.0	13	38	31	9.0	27	3.0	50
Credit Satin	1,398	6,730	0.21	1.2	7	33	27	3.1	20	6.5	28
Ujjivan Small Fin	3,948	11,050	0.36	2.1	26	46	27	1.3	8	6.5	19
Bandhan Bank	57,299	34,700	1.65	4.7	29	69	41	3.9	19	4.9	29

Source: Company, Spandana P/B valuation has done considering fresh issue; All other stock Market cap is based on 02/8/2019 and for BFIL last trading day Mcap.

Exhibit 5: Operational Parameter

Particular	Advance Per Borrower	AUM Per Branch	AUM Per AUM	GNPA/NPA (%)		
		₹ in Cr	₹ in Cr	FY17	FY18	FY19
Spandana Sphoorty Fin Ltd	17,792	4.7	0.66	42.1/2.9	25.9/0.3	7.9/0
CreditAccess Grameen Ltd	28,640	10.7	0.89	0.1/0	0.8/0	0.6/0
Bharat Fin	23,500	10.1	0.90	6/2.7	2.4/1	0.8/0.2
Credit Satin	21,710	6.9	0.65	14.4/12.8	4.4/2.6	3.9/2.4
Ujjivan Small Finance Bank	27,625	21.1	0.75	0.3/0	0.36/0.7	0.9/0.3

Source: Company, All operation parameter based on FY19 financials

Exhibit 6: Du Pont Analysis for FY19

DuPont Analysis	BFIL	Cre.Access	Spandana
NII	12.11	12.86	17.57
Provision	0.66	1.20	1.23
Adj NII	11.45	11.66	16.34
Other Inc.	8.38	1.04	1.20
Total Income	19.83	12.70	17.54
Opex	8.13	4.71	3.56
PBT	11.71	7.99	13.98
Taxes	2.83	2.82	4.39
RoA	8.88	5.17	9.59
Leverage	3.01	3.28	2.24
RoE	26.75	16.94	21.50

Income Statement

Y/E March (₹ cr)	FY17	FY18	FY19
NII	221.2	335.7	646.5
- YoY Growth (%)		51.8	92.6
Other Income	8.0	19.3	44.2
- YoY Growth (%)		141.3	128.8
Operating Income	229.2	355.0	690.6
- YoY Growth (%)		54.9	94.5
Operating Expenses	95.8	108.5	171.9
- YoY Growth (%)		13.2	58.5
Pre - Provision Profit	133.4	246.6	518.7
- YoY Growth (%)		84.8	110.4
Prov. & Cont.	98.4	(35.4)	45.3
- YoY Growth (%)		(136.0)	(228.0)
Profit Before Tax	35.0	282.0	473.4
- YoY Growth (%)		705.6	67.9
Prov. for Taxation	(397.8)	94.7	161.6
-			
PAT	432.8	187.3	311.8
- YoY Growth (%)		(56.7)	66.5

Balance Sheet

Y/E March (₹ cr)	FY17	FY18	FY19
Share Capital	28	30	60
Reserve & Surplus	899	1,361	1,831
Net Worth	928	1,391	1,890
Total Borrowings	959	2,346	3,012
- Growth (%)		145	28
Total provisions	1	0	0
Other Liabilities	41	27	29
Total Liabilities	1,929	3,764	4,932
Cash and Cash equivalents	290	105	149
Investments	4	169	264
Total Loans & Advances	1,195	3,090	4,268
- Growth (%)		159	38
Fixed Assets	9	9	27
Other Assets	431	392	225
Total Assets	1,929	3,764	4,932

Key Ratio

Y/E March	FY17	FY18	FY19
Profitability ratios (%)			
NIMs	18.5	15.1	16.6
RoA	36.2	10.3	9.6
RoE	50.7	19.0	21.5
C/I	41.8	30.6	24.9
Asset Quality (%)			
Gross NPAs %	42.0	25.9	7.9
Net NPAs %	2.9	0.3	-
Credit Cost	8.2	(1.1)	1.1
Per Share Data (₹)			
EPS	72.6	31.4	52.3
BVPS	155.5	233.2	317.0
Valuation Ratios			
PER (x)	11.8	27.3	16.4
P/BVPS (x)	5.5	3.7	2.7
DuPont Analysis			
NII	17.0	15.7	17.6
Provision	7.6	(1.7)	1.2
Adj NII	9.4	17.3	16.3
Other Inc.	0.6	0.9	1.2
Total Income	10.0	18.2	17.5
Opex	4.5	3.5	3.6
PBT	5.6	14.7	14.0
Taxes	(30.6)	4.4	4.4
RoA	36.2	10.3	9.6
Leverage	1.4	1.8	2.2
RoE	50.7	19.0	21.5

Note: Calculations based on higher end of the price band – ₹856 and without considering fresh issue.

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.