

IPO Flash

August 01, 2019

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Spandana Sphoorty Financial Limited

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IPO Details:	
Issue Opens	Issue Opens On: Monday, August 5, 2019
Issue Closes	Issue Closes On: Wednesday, August 7, 2019
	The Anchor Investor Bidding Date shall be on 2nd August, 2019
Issue Details	Fresh Issue of Equity Shares aggregating upto Rs.400 Cr + Offer for Sale of upto 9,356,725 Equity Shares
Issue Size (Rs. Cr)	Rs.1,198.13 [~] Cr – Rs.1,200.94 [^] Cr
Face Value	Rs10 per share
Price Band	Rs.853 – 856
Bid Lot	17 Equity Shares and multiple thereof
Issue Structure :	
QIB	50% of the offer (7,023,027 [~] - 7,014,810 [^] Equity Shares) (Rs.599.06 [~] Cr - Rs.600.47 [^] Cr)
NIB	15% of the offer (2,106,909 [~] - 2,104,444 [^] Equity Shares) (Rs.179.72 [~] Cr - Rs.180.14 [^] Cr)
Retail	35% of the offer (4,916,120 [~] - 4,910,368 [^] Equity Shares) (Rs.419.35 [~] Cr -Rs.420.33 [^] Cr)
	[~] Lower Price Band and [^] Upper Price Band
GCBRLMs	Axis Capital, ICICI Securities, IIFL Holdings, JM Financial
BRLMs	IndusInd Bank, Yes Securities

Source: Company RHP

Shareholding pattern

Shareholder	Pre-Issue		Post-Issue	
	No. of shares	Holding (%)	No. of shares	Holding (%)
Promoter	46940336	78.7%	39550125	61.5%
Public and Others	12693347	21.3%	24772889	38.5%
Total	59633683	100.0%	64323014	100.0%

Source: Company RHP

About the IPO

Spandana Sphoorty Financial Limited (SSFL) is coming out with an Initial Public Offering (IPO) of up to 14,046,056 shares having face value of Rs.10 each. The issue is priced in a band of Rs.853-Rs.856 per share. The bid lot is 17 shares and in multiples of 17 shares thereafter. The issue size is of Rs. 1198.13 crore–Rs.1200.94 crore at the lower and upper price band, respectively. This offer comprises an offer for sale of upto 9,356,725 equity shares by selling shareholders and a fresh issue of upto 4,689,331 shares (at the upper price band).

Company background

Spandana Sphoorty Financial Limited (SSFL) is a leading, rural focused NBFC-MFI with a geographically diversified presence in India. SSFL offer income generation loans under the joint liability group model, predominantly to women from low-income households in Rural Areas. As of March 31, 2019, SSFL were the fourth largest NBFC-MFI and the sixth largest amongst NBFC-MFIs and SFBs in India, in terms of AUM (Source: ICRA Research). Further, according to ICRA Research, company's operating expense to average managed assets ("AMA") ratio was better than the industry as a whole for Fiscal 2019. SSFL were incorporated as a public company in 2003 and registered as an NBFC with the RBI in 2004. Subsequently, SSFL registered as an NBFC-MFI in 2015. Between the years 2005 to 2010, SSFL grew their micro-finance operations and, as of March 2010, SSFL were the second largest MFI in terms of AUM (Source: ICRA Research).

Key investment rationale

- ◆ **Seasoned business model with resilient performance through business cycles:** Through various business cycles, SSFL have been able to leverage the inherent strength of their client centric business model, focus on internal controls, the expertise of Individual Promoter and core management team to maintain the status as a leading NBFC-MFI. SSFL's response to the 2010 AP crisis demonstrated the strength of their decision making, planning and execution. In the aftermath of the 2010 AP crisis, even while it was under CDR, they continued operations outside Andhra Pradesh in various states.
- ◆ **High degree of client engagement and robust risk management, leading to superior asset quality and collections:** SSFL focus on a high degree of client engagement through large employee base and operating procedures. Client engagement practices include village/block level centre meetings and client training. Prior to lending to a client, SSFL impart training over three days on loan terms, utilization and repayment, insurance and client support services.
- ◆ **Focus on the high potential and under-served rural segment:** Rural Areas in India are a highly under-served market for formal banking services in terms of access, availability and suitability of products and services. Therefore, strategically focus on clients in the rural sector. According to ICRA Research, while rural India accounts for approximately 68% of India's population as of March 2018, it accounted for only 34% of total deposit accounts and 23% of the loan accounts in scheduled commercial banks.

Key risks

- ◆ **Operations are concentrated in the states of Karnataka, Madhya Pradesh, Orissa, Maharashtra and Chhattisgarh and any adverse developments in these states could have an adverse effect on business, financial condition, results of operations and cash flows:** As of March 31, 2019, SSFL conducted operations through 929 branches in India, of which 149, 149, 136, 111 and 83 branches, were located in Karnataka, Madhya Pradesh, Orissa, Maharashtra and Chhattisgarh, respectively. As of March 31, 2019, 20.01%, 19.98%, 13.48%, 10.77% and 8.70%, respectively, of Gross AUM originated in Karnataka, Madhya Pradesh, Orissa, Maharashtra and Chhattisgarh.
- ◆ **Microfinance loans are unsecured and are susceptible to various operational, credit and political risks which may result in increased levels of NPAs, thereby adversely affecting business, results of operation and financial condition:** The focus client segment for micro-loans is women in Rural Areas. As of March 31, 2019, 99.82% of clients were women. Clients typically have limited sources of income, savings and credit histories and as a result, are usually adversely affected by declining economic conditions.
- ◆ **Any downgrade of credit ratings may increase borrowing costs and constrain access to capital and debt markets and, as a result, may adversely affect net interest margin and results of operations:** The cost and availability of funds is dependent, among other factors, on short-term and long-term credit ratings. Credit ratings reflect a rating agency's opinion of financial strength, operating performance, industry position, and ability to meet obligations. Any future performance issues for Company or the industry may result in a downgrade of credit ratings, which may in turn lead to an increase in borrowing costs and constrain access to capital and debt markets and, as a result, may adversely affect net interest income and net interest margin. In addition, any downgrade of credit ratings could result in additional terms and conditions being included in any additional financing or refinancing arrangements in the future.
- ◆ **The company's business, financial condition, cash flows and results of operations have been adversely affected in the past by certain state regulations. There can be no assurance that similar disruptions will not occur in the states in which SSFL operates, which may have an adverse impact on its business, financial condition and results of operations:** SSFL's management of credit risk involves having appropriate credit policies, underwriting standards, approval processes, loan portfolio monitoring, collection and remedial management, provisioning policies and an overall architecture for managing credit risk. If the credit quality of its clients deteriorates or the levels of impairments and write-offs increase, it could have an adverse effect on the business, results of operations and financial condition. In addition, even if the company's policies and procedures are appropriate, they may not be able to anticipate future economic or financial developments or downturns, which could lead to an increase in their NPAs.

Valuations

SSFL is a leading MFI and 6th largest by AUM Rural Focused NBFC-MFI with a geographically diversified presence in India offering income generation loans under the joint liability group model, predominantly to women from low-income households in Rural Areas. SSFL is among the most efficient MFI player with net almost 0.01% NPA as on March 31st 2019 and also delivered impressive AUM growth of 52% and PBT growth of 118% CAGR over last three years and also have decent ROE of 16.5%. At the upper end of issue price, SSFL is offered at 2.7x BV FY2019. Considering all these factors, SSFL prospects looks promising for long term.

Peer comparison

Particulars	Price	EPS	BVPS	ROE	P/EPS	P/BVPS
Spandana Sphoorty (@ lower price band)	853.0	53.35	316.84	16.51%	15.99	2.69
Spandana Sphoorty (@ upper price band)	856.0	53.35	316.84	16.51%	16.04	2.70
Satin Creditcare Network Ltd.	264.0	41.67	235	17.53%	6.34	1.12
Ujjivan Financial Services Ltd.	263.6	12.43	155	8.01%	21.20	1.70
Bandhan Bank	476.3	16.36	93.9	17.42%	29.11	5.07

Source: RHP; Based on FY19 Audited Financials

Note: Price taken for listed entities is the closing price as on 31 July 2019; For SSIFL the price taken are upper and lower price bands

Financials

Profit and loss account (Consolidated)

Particulars	Rs. cr	
	FY2018	FY2019
Interest Income	573.0	997.9
Commission Income	4.0	15.0
Net gain on fair value changes	4.2	26.7
Others	6.1	3.5
Total Revenue from operations	587.3	1,043.1
Other income	0.2	5.4
Total Income	587.5	1,048.5
Expenses		
Finance cost	231.8	357.9
Impairment on financial instruments	-35.4	45.3
Employee benefit expenses	75.9	131.0
Depreciation and amortization expense	5.7	7.0
Other expenses	26.9	33.9
Total expenses	304.8	575.1
Profit before tax	282.7	473.5
Tax expense:		
Current tax	57.3	1.3
Deferred tax	37.4	160.3
Income tax expense	94.8	161.6
Profit for the period	187.9	311.9

Source: Company RHP

Balance Sheet (Consolidated)

Particulars	Rs. cr	
	FY2018	FY2019
Cash and cash equivalents	104.5	148.6
Bank Balances other than cash and cash equivalents	103.2	203.2
Trade Receivables	2.5	3.5
Loan Portfolio	3,089.6	4,267.8
Investments		
Other financial assets	66.0	60.4
Total Financial Assets	3,366.0	4,683.7
Non-financial assets		
Current tax assets (net)	4.2	8.3
Deferred tax assets (net)	384.1	200.0
Property, Plant and Equipment	5.9	7.2
Intangible assets	2.6	2.2
Goodwill	-	17.4
Other non-financial assets	1.5	13.0
Total Non-Financial Assets	398.3	248.1
Total Assets	3,764.2	4,931.7
LIABILITIES AND EQUITY		
LIABILITIES		
Financial Liabilities		
Debt Securities	1,014.7	1,372.0
Borrowings (Other than Debt Securities)	1,296.5	1,575.5
Subordinated Liabilities	20.2	20.3
Other Financial liabilities	14.5	44.5
Total Financial Liabilities	2,345.9	3,012.2
Non-Financial Liabilities		
Current Tax Liabilities (net)	9.3	6.3
Provisions	0.4	0.4
Other Non-Financial liabilities	18.0	22.5
Total Non-Financial Liabilities	27.7	29.1
EQUITY		
Equity Share Capital	29.8	59.6
Other Equity	1,360.9	1,829.8
Equity attributable to shareholders of the company	1,390.6	1,889.4
Non Controlling Interest	-	0.9
Total Equity	1,390.6	1,890.4
Total Liabilities and Equity	3,764.2	4,931.7

Source: Company RHP

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