

Company Overview

Spandana Sphoorthy Financial Limited ("SSFL") Incorporated on March 10, 2003 is a leading, 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. As of March 31, 2019, they were the 4th largest NBFC-MFI and the 6th largest amongst NBFC MFIs and Small Finance Banks ("SFBs") in India.

Objects of Issue

The objects of the offer is to utilize the Net Proceeds from the Fresh Issue towards augmenting its capital base to meet future capital requirements. Further aiming to receive the benefits of listing of the Equity Shares on the Stock Exchanges, enhancement of the company's brand name and creation of a public market for the Equity Shares in India and also for the General Corporate Purposes

Investment Rationale

Seasoned business model with resilient performance through business cycles

Spandana has been able to leverage the inherent strength of their client centric business model, focus on internal controls, the expertise of their Individual Promoter and core management team to maintain their status as a leading NBFC-MFI. Company'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 they were under CDR, it continued operations outside Andhra Pradesh in various states. In this period, they focused on rebuilding profitable operations through portfolio diversification, cost rationalization, customer retention, and recovery from their Andhra Pradesh portfolio. These measures helped company to raise new debt from existing lenders and gain capital infusion from Kangchenjunga, their Corporate Promoter and Kedaara AIF – 1, which allowed them to exit from CDR in March 2017.

High degree of client engagement and robust risk management, leading to superior asset quality and collections

Company's client engagement practices include village/block level centre meetings and client training. Prior to lending to a client, they impart training over 3 days on loan terms, utilization and repayment, insurance and client support services. They also conduct center meetings where clients interact with their staff at regular intervals (typically based on their installment payments frequency). Further, their risk management norms are designed keeping in mind the various kinds of risks to their business. It make changes to these norms from time to time in response to business environment to ensure a responsive risk management strategy. Many risk control measures are embedded in the business process. They follow a set of eligibility criteria for clients, which are aimed at minimizing credit risk. Every prospective client prior to disbursement is also assessed for their credit history with other lenders reporting into the credit bureau.

Valuation and Outlook

Spandana through their loan products and client-centric approach, it endeavor to strengthen the socio-economic well-being of low-income households by providing financing on a sustainable basis in order to improve livelihoods, establish identity and enhance self-esteem. SSFL yielded the desired result with its cost-cutting measures that lead to a reduction in its cost of borrowings from 16.31% in FY17 to 12.84% in FY19, ROE of 15.6% with Net NPA standing negligible at 0.01% as on FY19 respectively. On valuation front, at the upper end of the price band, SSFL is valued at a 2.91x P/BV which is approx. 6.5% discount to its nearest peer Credit Access Grahmin Ltd (CAGL) which is valued at P/BV of 3.21x . Owing to above factors, we recommend "SUBSCRIBE" rating on this issue.

Issue Details

Offer Period	Aug 5th - Aug 7th 2019
Price Band	INR.853 to INR.856
Bid Lot	17
Listing	BSE&NSE
Issue Size (no. of shares in mn)	14.02
Issue Size (Rs. in bn)	12.0
Face Value	10

Issue Structure

QIB	50%
Retail	15%
HNI	35%
BRLM	IndusInd Bank, Yes Securities
Registrar	Karvy Fintech Pvt Ltd

Particulars Pre Issue % Post Issue %

Promoter	81.22	62.58
Public	18.78	37.42
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (Millions)

Particulars	FY17	FY18	FY19
Revenue from operations	3,771	5,875	10,363
Total revenue	3,771	5,875	10,363
Expenses			
Employee benefit expenses	581	759	1,300
Impairment on financial instruments	983	(354)	453
Other expenses	294	268	335
Total Operating expenses	1,858	673	2,088
EBITDA	1,913	5,202	8,275
Interest cost	1,494	2,318	3,565
Depreciation and amortisation expense	83	57	69
Other income	16	2	54
PBT	319	2,825	4,586
Current tax	236	573	3
Deferred Tax charge	(4,214)	374	1,603
Total tax expenses	(3,978)	948	1,606
Profit for the Period/ Year	4,298	1,877	2,980
Diluted EPS	216.9	42.5	52.8

Source: Company, BP Equities Research

Cash Flow Statement (Millions)

Particulars	FY17	FY18	FY19
Cash Flow from operating activities	(588)	(18,551)	(6,498)
Cash flow from investing activities	(12)	(55)	(593)
Cash flow from financing activities	3,149	16,730	7,520
Net increase/(decrease) in cash and cash equivalents	2,549	(1,876)	429
Cash and cash equivalents at the beginning of the period	353	2,901	1,025
Cash and cash equivalents at the end of the period	2,902	1,025	1,454

Source: Company, BP Equities Research

Balance Sheet (Millions)

Particulars	FY17	FY18	FY19
Liabilities			
Share Capital	284	298	597
Reserves and surplus	8,991	13,609	18,267
Minority Interest	-	-	-
Net worth	9,276	13,906	18,864
Long-Term Borrowings	9,325	12,965	15,529
Borrowings	-	10,147	13719
Other long term liabilities	270	347	637
Current tax liabilities	236	93	3
Provisions	6	4	3.59
Other non financial liabilities	175	180	223.43
Total equity and liabilities	19,286	37,642	48,980
Assets	19,286	37,642	48,980
Cash and Cash equivalents	2,901	1,025	1454.07
Bank and balances	23	1,032	2028.09
Trade Receivables	15	25	35.49
Loan Portfolio	11,945	30,896	41,654
Investments	1	21	646
Other financial assets	17	660	861
Total Current Asset	14,903	33,659	46,679
Non current assets			
Current tax assets	47	42	83
Deferred tax assets	4,215	3,841	1,998
Tangible assets	66	59	71
Intangible assets	24	26	21.53
Goodwill	-	-	-
Other non current assets	32	15	127
Total non current Asset	4,383	3,983	2,301
Total assets	19,286	37,642	48,980

Source: Company, BP Equities Research

Key Risks

- ⇒ Their business is vulnerable to interest rate risk, and volatility in interest rates could have a material adverse effect on net interest income, net interest margin and financial performance.
- ⇒ They are subject to certain conditions and restrictions in terms of its financing arrangements, which could restrict its ability to conduct its business and operations in the manner they desire.
- ⇒ Micro finance loans are unsecured and are susceptible to various operational, credit and political risks which may result in increased levels of non-performing assets, thereby adversely affecting its business, results of operation and financial condition.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392