

Q4 2023

1. Profit margin trends

- **Narrative:** The management of Spandana has provided insights into the anticipated trends in profit margins, emphasizing a period of stability following a brief phase of decline. They highlighted the strategic aim to stabilize and achieve a consistent return on assets (ROA).

- **Management's Guidance:**

- The management expects the ROA to stabilize at 4.5% by the last quarter of the year, indicating a positive outlook for the company's financial performance after a downward trend in the upcoming quarters.

- **Actual Results:**

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- ROA at 5.5%, which is higher than the stabilization target of 4.5% by the last quarter of the year.

['Q1', '2024']:

- Our business as usual, ROA should be around 4.5%. Now this quarter, we have already reached 6%.

['Q4', '2023']:

- ROA for Q4 FY23 was reported as 4.5%, meeting the management's guidance for stabilization.

- **Evaluation:**

- **Expectations Exceeded:** The management expected ROA to stabilize at 4.5% by the last quarter of the year, but actual results showed ROA reaching 6% in Q1 2024 and 5.5% in Q3 2024, surpassing the stabilization target.

2. Loan portfolio growth

- **Narrative:** Management discussed their strategic focus on expanding loan disbursements and optimizing borrowing costs to enhance the company's loan portfolio growth. The emphasis is on strengthening relationships with existing lenders and reaching out to new, like-minded vendors. Additionally, they are adjusting their ticket size expectations to align with market conditions.

- **Management's Guidance:**

- Management expects to increase loan disbursements by 20% in the next fiscal year. They also anticipate maintaining their loan ticket sizes within the range of INR4 lakhs to INR6 lakhs, ideally between INR3 lakhs to INR5 lakhs.

- **Actual Results:**

['Q1', '2024']:

- We disbursed INR1,664 crores during the quarter, up 26% Y-o-Y.

['Q3', '2024']:

- Disbursement for the quarter was INR2,543 crores with a Y-o-Y growth of 8% and a quarter on growth of 1%. The disbursement was short by around INR450 crores.

['Q2', '2024']:

- On the disbursement, disbursement for the quarter was 2,513 Crores. This was a Y-O-Y growth of 81% and a quarter-on-quarter growth of 51%.

['Q4', '2023']:

- On the disbursement side, Spandana disbursed INR3,054 crores during the quarter, which was a growth of about 30% over the previous quarter, exceeding the expected 20% increase in loan disbursements. The disbursement for the year was INR8,125 crores, which was 141% higher than INR3,373 crores disbursed in the last financial year FY '22.

- **Evaluation:**

- **Expectations Exceeded:** The management expected a 20% increase in loan disbursements, but the actual results showed a year-end growth of 141%, significantly surpassing expectations.

3. Interest income developments

- **Narrative:** Management has outlined a positive trajectory in the development of interest income, highlighting improvements in yield and net interest margin (NIM). The adjustments in interest rates and processing fees are expected to bolster financial metrics, reflecting strategic pricing changes made during the quarter.

- **Management's Guidance:**

- Management has stated an improvement in the normalized yield on the portfolio to 22.8% from the previous quarter's 21.2%. They also indicated a normalized NIM improvement to 13.86%, with further potential slight improvements anticipated. The company has adjusted its interest rate to 25% plus a 1% processing fee starting October, aiming for a sustained NIM of 13.5% as a business-as-usual target.

- **Actual Results:**

['Q2', '2024']:

- The actual yield for Q2 FY24 improved to 24.5%, and the NIM was stable at 14.1%.

['Q3', '2024']:

- Data Not Available

['Q4', '2023']:

- Our normalized yield on the portfolio has improved to 22.8% from 21.2% in quarter 3. Normalized NIM has improved to 13.86%. That is up 38 basis points over last quarter.

['Q1', '2024']:

- In Q1 FY24, the yield on the portfolio improved to 24% from a normalized yield of 22.8% in Q4 FY23. The NIM increased to 14.2%, up 38 basis points from the normalized NIM of the previous quarter. Net interest income was up 102%, reaching INR 328 crores for the quarter compared to INR 162 crores in Q1 FY23.

- **Evaluation:**

- **Expectations Exceeded:** The actual yield and NIM exceeded management's expectations, with the yield reaching 24.5% and NIM stable at 14.1% in Q2 FY24, surpassing the forecasted improvements and maintaining a strong upward trend.

4. Asset under management (AUM) targets

- **Narrative:** Management has outlined a strategic plan to achieve substantial growth in Asset Under Management (AUM) in the upcoming fiscal years. They aim

to close FY '24 with an AUM of INR 11,500 crores, with a more significant push expected in the latter half of the year due to strategic agendas in the initial quarters. Looking further ahead, the company targets an ambitious AUM of INR 18,000 crores by the end of FY '25, with a diversified mix between Joint Liability Group (JLG) loans and other business segments like loan against property and Nano MSME enterprise business.

- Management's Guidance:

- The management plans to end FY '24 with an AUM of about INR 11,500 crores, with growth efforts concentrated in the latter half of the fiscal year. For FY '25, the target is set at INR 18,000 crores, with specific allocations of INR 15,000 crores to JLG, and INR 2,000 to 3,000 crores to other segments like loan against property and Nano MSME enterprise business.

- Actual Results:

['Q3', '2024']:

- In Q3 FY24, Spandana reported an AUM of INR 10,404 crores, which shows a substantial growth but is below the FY '24 target of INR 11,500 crores set by the management. The company achieved a 52% year-on-year growth and a 6% quarter-on-quarter growth in AUM.

['Q4', '2023']:

- On the AUM side, we ended the year at an AUM of INR8,511 crores, an all-time high for Spandana. This was a growth of 24.2% over the previous quarter and 29% growth over INR6,581 crores that was reported for March 2022, which was last year.

['Q2', '2024']:

- The AUM at the end of Q2 FY24 was reported as INR 9,784 crores, reflecting a 69% year-over-year growth and an 11% quarter-over-quarter growth.

['Q1', '2024']:

- We ended the quarter at an AUM of INR8,848 crores, an all-time high for Spandana.

- Evaluation:

- Expectations Not Met: Spandana's AUM in Q3 FY24 was INR 10,404 crores, which, while showing substantial growth, fell short of the management's target of INR 11,500 crores for FY '24.

5. Digital lending platforms

- Narrative: Management has focused on strengthening their digital lending platforms by implementing a new software solution, which is part of their strategic re-launch of the Loan Against Property (LAP) business. This move is anticipated to enhance operational efficiency and expand their market presence, particularly with the initiation of operations in Rajasthan.

- Management's Guidance:

- Management anticipates significant traction in the digital lending segment as operations commence in Rajasthan with 10 new branches. This is expected to contribute positively in the upcoming quarter (Q1).

- Actual Results:

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

6. Process automation

- Narrative: The management has focused on enhancing operational efficiency through process automation. This involves strategic adjustments to the operational model to achieve greater coverage and efficiency.

- Management's Guidance:

- Management has indicated an improvement in their operational model to ensure 70% coverage, reflecting an emphasis on efficiency and process optimization for future quarters.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q4', '2023']:

- 06ae54d7362ff1f2f4213acef948d1a7 --> Ashish Damani [This quarter, again, we have tweaked the model to ensure that 70% kind of coverage is there.]

['Q2', '2024']:

- We changed the model in Q2 in 700 branches, which covered about 1.5 million customers.

['Q1', '2024']:

- Data Not Available

- Evaluation:

- Expectations Met: Management aimed for 70% coverage through process automation, and by Q4 2023, the model was successfully tweaked to achieve the targeted coverage, aligning with their guidance.

7. New financial products

- Narrative: Management outlined plans to introduce a new financial product targeting the bottom of the pyramid micro, small, and medium enterprise (MSME) sector. This Nano Enterprise loan product is designed to cater to smaller ticket sizes initially, which deviates from the prevailing market norms, thereby positioning Spandana to capture a niche segment of the market.

- Management's Guidance:

- During the upcoming year, the company will launch the Nano Enterprise loan product aimed at bottom-of-the-pyramid MSMEs. The initial focus will be on providing loans with ticket sizes ranging from INR 3 lakh to INR 4 lakh, as opposed to the typical market offerings of INR 7 lakh to INR 10 lakh. The company plans to gradually expand the ticket size based on the initial performance and experience with the product.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

8. Cost reduction initiatives

- Narrative: Management has emphasized the importance of operational efficiency through cost reduction initiatives. A key focus area is to decrease overall costs while strategically positioning the company for entry into public sector banks.

- Management's Guidance:

- Management anticipates that the cost reduction strategies will begin to materialize in two to three quarters, alongside efforts to establish a foothold in public sector banks.

- Actual Results:

['Q1', '2024']:

- Data Not Available

['Q3', '2024']:

- On the opex side, we are currently at 6.6%.

['Q4', '2023']:

- Operating Cost (■ Cr) increased by 26% from 362 Cr in FY22 to 457 Cr in FY23, contrary to the cost reduction initiatives.

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Expectations Not Met: Management anticipated a decrease in costs, but the operating costs increased by 26% from FY22 to FY23, contradicting the expected cost reduction initiatives.

9. Rural penetration initiatives

- Narrative: Management is focusing on strategic adjustments in loan offerings by introducing new branches with a modified ticket size to enhance market penetration in rural areas.

- Management's Guidance:

- The company plans to initially offer a loan ticket size of INR35,000 in new branches and gradually expand this initiative across other locations.

- Actual Results:

['Q2', '2024']:

- Unfortunately, without the actual results data from the knowledge graph, I am unable to provide the actual results for the theme Market Strategy and Expansion and subtheme Rural penetration initiatives for Spandana in Q2 2024. Please provide the necessary data for analysis.

['Q1', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

10. Emerging market entry

- Narrative: Management has outlined a strategic plan to expand its market presence by launching the MSME business and penetrating new geographical territories. The focus will initially be on deepening their presence in Rajasthan and subsequently entering three to four additional states.

- Management's Guidance:

- The company plans to launch the MSME business by the end of quarter 2 or the beginning of quarter 3. Additionally, the next two quarters are seen as critical as the company plans to explore and enter three to four new states during the financial year.

- Actual Results:

['Q1', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

11. Long-term growth strategy

- Narrative: Management reiterated their commitment to a strategic three-year plan established a year ago, emphasizing their adherence to the outlined objectives and timelines. They have completed one-third of this plan, indicating a steady progression towards their long-term growth targets.

- Management's Guidance:

- Management confirmed that they are on track with their execution of the strategic plan over the next two years, maintaining alignment with their long-term

growth objectives.

- Actual Results:

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

12. Forward-looking statements

- Narrative: Management highlighted their strategic focus on leveraging specific initiatives to drive future benefits and growth. This reflects a commitment to enhancing operational efficiencies and unlocking potential growth vectors.

- Management's Guidance:

- Management anticipates the accrual of more benefits from their strategic initiatives within the next two quarters.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

13. Credit risk assessment

- Narrative: In the recent discussions, management emphasized a cautious approach towards the Loan Against Property (LAP) business in the upcoming quarters. They are focused on maintaining a conservative stance with regard to credit risk assessment, reflecting a strategic effort to manage potential risks effectively. A consistent theme in the management's narrative is the aim to achieve and maintain a credit cost around 2%, indicating a disciplined approach to risk management.

- Management's Guidance:

- Management plans to adopt a cautious strategy for the LAP business in the first two quarters. They have budgeted for a 2% credit cost, which will be re-evaluated after four quarters to ensure alignment with their risk management objectives. By the end of the financial year, they aim to achieve a credit cost within the 2% range. The management plans to maintain a conservative Loan to Value (LTV) ratio, typically between 40% to 55%, to further bolster their credit risk management framework.

- Actual Results:

['Q2', '2024']:

- In Q2 2024, the credit cost increased to almost 3.9% on an annualized basis, which is above the management's target of 2%. The rejection rate is at 45%. The Gross Non-Performing Assets (GNPA) decreased by 23 basis points to 1.4% quarter on quarter, and the Net Non-Performing Assets (NNPA) saw a reduction of 7 basis points over the previous quarter, reaching 0.42%.

['Q3', '2024']:

- Spandana with an asset quality of sub of 2% or rather credit loss of under 2%

['Q1', '2024']:

- NNPA has reduced to 0.49% and GNPA improved to 1.63%. The number for the previous quarter were 2.07% and 0.64%.

['Q4', '2023']:

- Data Not Available

- Evaluation:

- Expectations Not Met: The management aimed to maintain a credit cost around 2%, but the actual credit cost in Q2 2024 increased to almost 3.9%, significantly above the target, indicating that the expectations for credit risk management were not met.

14. New branch openings

- Narrative: Management has outlined an ambitious expansion strategy focused on significant branch openings. The plan involves a substantial increase in the number of operational branches within a short period to strengthen the company's footprint and capitalize on market opportunities.

- Management's Guidance:

- Management plans to have about 1,500 operational branches by the end of the year, indicating a rapid scale-up strategy. They aim to open 50 new branches by the end of 2024, highlighting a commitment to growth and market penetration. Additionally, it was noted that a typical microfinance branch takes about five months to break even and 11 months to reach full profitability. This timeline underscores the urgency in opening branches early to ensure a stable financial runway.

- Actual Results:

['Q1', '2024']:

- Over the past two quarters, we opened a net 188 branches, most of which are in these focus states. Total branches are 1,100 to 1,200.

['Q2', '2024']:

- Shalabh Saxena: We are already at 1502 branches...

['Q3', '2024']:

- During Q3, 2024, Spandana reported the opening of 72 new branches, contributing to a total of 1,574 branches, with 375 of these branches having weekly

repayment schedules. These new branches accounted for 16% of the disbursements in that quarter.

['Q4', '2023']:

- During the quarter, management reported that they have opened about 112 branches.

- Evaluation:

- **Expectations Exceeded:** Spandana exceeded expectations by reaching 1,574 branches by Q3 2024, surpassing the target of 1,500 branches by year-end, along with a significant number of newly opened branches contributing to their disbursement growth.

15. State-level dominance

- **Narrative:** The management of Spandana has outlined a strategic focus on increasing its presence and dominance in seven specific states. This expansion is intended to significantly boost the company's share of assets under management (AUM) in these regions, highlighting a targeted approach to geographic growth and branch expansion.

- Management's Guidance:

- By the end of the current fiscal year, the company anticipates that the total share of loans in these seven states will reach approximately 22% to 23%.

Furthermore, by the end of the fiscal year 2025, they aim for these states to account for about 40% of their AUM.

- Actual Results:

['Q2', '2024']:

- Currently our biggest states are in the range of about 15, 15.2, 15.3.

['Q1', '2024']:

- Data Not Available

['Q3', '2024']:

- In Q3, 2024, management reported that the top two states, Madhya Pradesh and Orissa, accounted for 14% of the AUM, which is a decrease from the previously reported 16.5% when they had taken over.

['Q4', '2023']:

- 29% of the loans in the quarter have gone to the seven states that we had identified.

- Evaluation:

- **Expectations Met:** By Q4 2023, 29% of loans were directed to the seven targeted states, surpassing the initial year's target of 22% to 23% share, aligning with management's geographic expansion goals.