Q4 2022

1. Profit margin trends

- **Narrative:** Management has laid out a strategic vision aimed at strengthening the company's financial fundamentals and infrastructure, which is expected to drive profit margins in the future. They have emphasized the importance of establishing a solid foundation in the earlier quarters, which will support the anticipated growth trajectory. This approach is intended to ensure sustainable profitability and is expected to result in significant improvements in the company's return on assets (ROA) and return on equity (ROE) over the coming years.
- **Management's Guidance:**
- The company aims to achieve an ROA closer to 5% in FY2025, with a ROE of 22% to 24% based on a customer base of approximately 40 lakhs. Additionally, management expects that by Q3 and Q4, they will be confident in the fundamentals in place, which will allow them to achieve a strong FY2023 performance, characterized by back-ended growth supported by robust infrastructure and risk mitigation strategies. They anticipate a closing basis target of 2%, with initial costs potentially being offset by recoveries later in the year.
- **Actual Results:**

['Q3', '2023']:
- In Q3 FY23, Spandana reported a Return on Assets (ROA) of 4.1% and a Return on Equity (ROE) of 9.8%. The Pre-Provision Operating Profit (PPOP) was INR 140.6 crore, and the Profit After Tax (PAT) was INR 71.4 crore.

['Q4', '2022']:
- Data Not Available

['Q2', '2023']:
- ROA (%) - annualised Post credit cost 3.8% FY23Q2

['Q1', '2023']:
- ROA (%) - annualised Pre write-off 2.7% FY22Q4 1.8% FY23Q1 Post write-off 2.8% FY22Q4 -14.2% FY23Q1
- **Evaluation:**

- Expectations Not Met: Management aimed for ROA closer to 5% and ROE between 22% to 24% by FY2025, with a strong performance in FY2023. However, in Q3 FY23, the ROA was 4.1% and ROE was only 9.8%, indicating that the expectations for profitability improvements were not met.

2. Loan portfolio growth

- **Narrative:** The management of Spandana Sphoorty Financial Ltd. outlined an ambitious growth strategy aimed at significantly expanding their loan portfolio. Their vision for FY25 is to achieve a loan book of 15,000 Crores, a substantial increase from the current 6,500-6,600 Crores. This growth is expected to be driven by a focus on both restructured and non-restructured books, with a particular emphasis on improving collection efficiencies and expanding secured lending lines.
- **Management's Guidance:**
- Spandana plans to grow its loan book to 15,000 Crores by FY25, up from the current 6,500-6,600 Crores. There is an attempt to achieve growth 'anywhere upwards north of 10%' on the secured line, contributing an additional 2,000 to 3,000 Crores to the total book.
- **Actual Results:**

['Q2', '2023']:
- We disbursed 1391 Crores as against 1320 Crores in the previous quarter, which is a growth of 5%. The book composition has changed from March of 2022, the post April 2021 book which was 48% in March 2022 became 70% end of quarter one and is now 82% in quarter two. Disbursement Momentum Continues: 5.3% growth QOQ.

['Q3', '2023']:
- Data Not Available

['Q4', '2022']:
- Data Not Available

['Q1', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

3. Asset under management (AUM) targets

- **Narrative:** The management of Spandana is strategically focusing on capturing a greater market share to drive growth in their Asset Under Management (AUM). They are targeting an incremental increase by capturing a modest market share, which would significantly boost their AUM.
- **Management's Guidance:**
- Management anticipates that by achieving a market share of about 2.5% to 3%, the company could see an incremental increase in AUM by approximately 6000 to 6500. They also expect a return to normalized conditions in the second quarter concerning the supply side, following recent disclosures.
- **Actual Results:**

['Q1', '2023']:
- We had a book of 6214 Crores. We now have an AUM of 5513 Crores.

['Q2', '2023']:
- AUM of Rs. 5,782 crores, ~5% growth over previous quarter.

['Q3', '2023']:
- Spandana's AUM grew by 19% sequentially to end the quarter at INR 6,852 crores against INR 5,782 crores reported end of quarter 2.

['Q4', '2022']:
- The actual Asset Under Management (AUM) at the end of Q4 FY22 was reported as 6,581 Crores.
- **Evaluation:**

- Expectations Met: Spandana's AUM grew sequentially to INR 6,852 crores in Q3 2023, aligning with management's guidance of an incremental increase, despite a drop in Q1.

4. Process automation

- **Narrative:** Management highlighted a significant improvement in process automation aimed at drastically reducing the time taken for loan processing. This strategic move aligns with the company's commitment to enhance operational efficiency and optimize customer service delivery.

- **Management's Guidance:**
- Management anticipates that the automation of the loan processing procedure will reduce the time required from the current three to five days to potentially 60 to 90 seconds in future quarters.
- **Actual Results:**
['Q2', '2023']:
- Data Not Available
['Q1', '2023']:
- To perform the analysis for the actual results regarding Spandana's operational efficiency and optimization, specifically focusing on process automation, during Q1 2023, I will need to review the provided actual results data. Please provide the actual results data within the specified format so that I can proceed with the analysis.
['Q3', '2023']:
- Data Not Available
['Q4', '2022']:
- Shalabh Saxena: We have already moved to the new process and as you know that every loan we are disbursing this month, starting this month from the 1st is under the new regime. Renish Bhuva: So entire 1000 plus branch network are now on the new process. Current loan process takes about three to five days.
- **Evaluation:**
- Insufficient Info: Data not available.

5. Emerging market entry
- **Narrative:** Management discussed the strategic approach to expand into seven additional states as part of its market strategy. The focus is on quality growth, aiming to capture a significant portion of the market share in these regions.
- **Management's Guidance:**
- Management anticipates that the expansion into these seven states will facilitate an incremental AUM (Assets Under Management) growth of 6000 to 7000 units, emphasizing a selective approach to ensure quality in this growth trajectory.
- **Actual Results:**
['Q2', '2023']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
['Q4', '2022']:
- Identified 7 additional states with favorable metrics for quick scale up of microfinance book.
- **Evaluation:**
- Insufficient Info: Data not available.

6. Forward-looking statements
- **Narrative:** The management of Spandana has outlined a focused approach towards regulatory compliance and operational regularization. They have expressed confidence in obtaining necessary licenses and stabilizing their operations in the coming quarters, which aligns with their strategic vision to ensure sustainable growth and market stability.
- **Management's Guidance:**
- Management anticipates acquiring a necessary license within the next two months, which is crucial for enhancing operational capabilities. They are optimistic about regularizing their financial book within the next two quarters, indicating a move towards stabilizing their financial position. The expectation is set to achieve operational regularization within the next quarter, suggesting imminent strategic progress.
- **Actual Results:**
['Q2', '2023']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
['Q4', '2022']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

7. Market share growth
- **Narrative:** Management outlined a strategic initiative to significantly increase the customer base, aiming to bolster market share through expanded customer engagement and acquisition.
- **Management's Guidance:**
- Management anticipates a growth in customer numbers from the current 2.3 million to 4 million, indicating a focused strategy on scaling operations and expanding market reach in the near future.
- **Actual Results:**
['Q1', '2023']:
- Data Not Available
['Q3', '2023']:
- New members acquired (in ‘000) 101 106 123 Q4FY22 Q1FY23 Q2FY23 54% Q3FY23 +77% 46% 219 Q3FY23
['Q4', '2022']:
- Current customer number is 2.3 million.
['Q2', '2023']:

- 46% loans in the quarter to new customers. Growth in Borrowers with New Member Acquisitions (In lakhs) +1.9% 23.5 21.3 21.7 Mar-22 Jun-22 Sep-22
- **Evaluation:**
- **Expectations Not Met: Management aimed to increase the customer base to 4 million, but the actual results show only a moderate increase in new members and customer numbers, falling short of the targeted growth.**

8. Vision 2025 roadmap
- **Narrative:** Management articulated a Vision 2025 for Spandana, focusing on scaling up the business significantly over the next three years.
- **Management's Guidance:**
- Management plans to scale up the business to an Assets Under Management (AUM) of 15,000 Crores, which represents more than a twofold increase from the current levels within three years.
- **Actual Results:**
['Q3', '2023']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
['Q4', '2022']:
- Data Not Available
['Q2', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

9. Credit risk assessment
- **Narrative:** In the management's discussion for Q4 2022, there was a focus on maintaining a disciplined approach towards credit risk assessment. The management emphasized their commitment to managing credit costs effectively while ensuring robust risk management practices to safeguard the company's portfolio.
- **Management's Guidance:**
- Management projected a 2% credit cost for FY2023, indicating their expectation of maintaining credit risk at a manageable level through strategic initiatives and risk assessment practices.
- **Actual Results:**
['Q1', '2023']:
- Data Not Available
['Q2', '2023']:
- Data Not Available
['Q3', '2023']:
- The net NPA has moved to 2.5%.
['Q4', '2022']:
- Credit Cost 2% (FY23)
- **Evaluation:**
- **Expectations Not Met: Management projected a 2% credit cost for FY2023; however, by Q3 2023, the net NPA had increased to 2.5%, indicating that credit risk management did not meet the expected target.**

10. Digital lending platforms
- **Narrative:** Management outlined plans to significantly enhance the digital customer experience by implementing an end-to-end paperless process. This transformation is aimed at streamlining operations and increasing customer satisfaction.
- **Management's Guidance:**
- Management is committed to scaling up operations to deliver an end-to-end paperless customer experience over the next four quarters.
- **Actual Results:**
['Q3', '2023']:
- Data Not Available
['Q4', '2022']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
['Q2', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

11. New branch openings
- **Narrative:** Management has outlined a strategic plan focused on expanding the number of branches. There is a clear emphasis on increasing the branch network to support growth initiatives and enhance service delivery. The discussion indicates a potential for significant expansion in the near term.
- **Management's Guidance:**
- Management is projecting an increase in the number of branches from 1120 to 1500, which translates to an addition of approximately 380 new branches.
- **Actual Results:**
['Q2', '2023']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
['Q3', '2023']:

- Data Not Available
['Q4', '2022']:
- Branch count ~1,500
- **Evaluation:**
- Expectations Met: Management projected an increase in branch count to 1,500, and by Q4 2022, the actual branch count was approximately 1,500, aligning with their expectations.

12. e-KYC implementation
- **Narrative:** Management highlighted the transition towards a thumb-based e-KYC and validation model, aimed at significantly streamlining the customer onboarding process. This digital transformation initiative reflects the company's commitment to leveraging technology to enhance operational efficiency and improve service delivery.
- **Management's Guidance:**
- The new e-KYC implementation is expected to reduce the current onboarding time from three to five days to a mere 90 to 180 seconds, thereby substantially increasing the productive time available to loan officers.
- **Actual Results:**
['Q3', '2023']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
['Q4', '2022']:
- Data Not Available
['Q2', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.