

Q1 2024

1. Profit margin trends

- **Narrative:** The management discussed their focus on maintaining a strong Net Interest Margin (NIM) and cost-to-income ratio. They emphasized strategic targets for profitability, highlighting their comfort zone for NIMs and desired operating cost ratios. The management aims to sustain these profit margins through careful financial oversight and strategic growth.

- **Management's Guidance:**

- The company targets NIMs in the comfort range of 13.9% to 14% and aims to maintain a cost-to-income ratio between 35% and 39%. They are confident of delivering at least a 4.5% profit margin consistently. They see a balanced operating cost ratio in the sweet spot range of 35% to 39% once stabilization is achieved.

- **Actual Results:**

['Q2', '2024']:

- Data Not Available

['Q4', '2024']:

- Actual Results: Data Not Available

['Q3', '2024']:

- Data Not Available

['Q1', '2024']:

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

- **Evaluation:**

- **Expectations Exceeded:** The management's guidance was to maintain a profit margin of at least 4.5%, and in Q1 2024, the company achieved a 6% ROA, surpassing the expected profit margin.

2. Loan portfolio growth

- **Narrative:** Management has indicated a strategic focus on diversifying the loan portfolio, emphasizing a significant expansion into non-microfinance segments. This shift aims to bolster the company's financial metrics and ensure sustainable growth in the upcoming fiscal years.

- **Management's Guidance:**

- Management has set a target for the non-microfinance loan book to exceed INR 2,000 crores by the end of FY '25, demonstrating a commitment to broadening the company's lending base and enhancing revenue streams.

- **Actual Results:**

['Q4', '2024']:

- Data Not Available

['Q1', '2024']:

- Actual Results: Data Not Available

['Q3', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

3. Interest income developments

- **Narrative:** Management has indicated that the company is focused on optimizing interest income through strategic adjustments in lending rates. These adjustments are aimed at enhancing yield, which has already seen an increase in the recent quarter.

- **Management's Guidance:**

- Management expects yields to stabilize at the current level of 24%, with a possibility of a slight increase in the next quarter. Additionally, there is potential for a small expansion in NIM (Net Interest Margin) over the next quarter or two, driven by a slight increase in yields as the company leverages its headroom to adjust lending rates.

- **Actual Results:**

['Q2', '2024']:

- The yield improved to 24.5% in Q2 FY24, up from 24.0% in Q1 FY24, with Net Interest Margin (NIM) stable at 14.1%. This reflects a quarter-on-quarter increase in yield of 0.45%, aligning with management's guidance of a slight increase.

['Q3', '2024']:

- The yield for Q3 FY24 was reported at 24.1%, slightly above the expected stabilization level. The Net Interest Margin (NIM) for Q3 FY24 was 13.3%, indicating a slight decline from the previous quarter's 14.1%, contrary to the expected slight increase.

['Q4', '2024']:

- The yield on the portfolio was 24.2%, which was pretty much on similar lines of what it was over the past few quarters. There was an improvement of about 11 bps quarter-on-quarter, and NIMs for the quarter improved 128 bps to 14.6%. The NIM for the year was 14.1.

['Q1', '2024']:

- Our yield on the portfolio has improved to 24% from a normalized yield of 22.8% in quarter 4 and 16.4% in Q1 of FY '23. NIM is 14.2%, up 38 basis points over the normalized NIM of last quarter and 434 bps over quarter 1 of FY '23. Net interest income was up 102% to INR 328 crores for the quarter, which was INR 162 crores in quarter 1 FY '23.

- **Evaluation:**

- **Expectations Met:** Management's expectation of yield stabilization at 24% with a slight increase was met, as the yield improved to 24.5% in Q2 FY24 and remained around 24.2% by Q4 FY24, aligning with their guidance. However, while NIM showed fluctuations, it ended higher at 14.6% in Q4, meeting the overall guidance expectations.

4. Asset under management (AUM) targets

- **Narrative:** Management has outlined an ambitious growth plan for the Asset under Management (AUM) targets, emphasizing a significant expansion in their

financial metrics. They aim to achieve an AUM of INR 15,000 crores by the end of FY '25, with strategic efforts to reach key milestones earlier in the timeline. The focus is also on increasing contributions from specific states, indicating a targeted geographical strategy to bolster AUM growth.

- Management's Guidance:

- The company has set a fixed goal to achieve INR 15,000 crores in AUM by FY '25. There is an expectation to reach the INR 10,000 crores mark by either the end of this quarter or the beginning of the next, contingent upon the plan's success. Management is confident in achieving more than a 4.5% ROA on a stabilized basis, with current metrics exceeding this target, aligning with the AUM goal of INR 15,000 crores by FY '25. The strategic expansion in seven states will see the AUM contribution from these areas rise from 23% this year to 44%-45% by the end of FY '25.

- Actual Results:

['Q3', '2024']:

- In Q3 2024, management reported reaching an AUM of INR 10,404 crores, marking a significant milestone and aligning with their interim target.

['Q4', '2024']:

- On the AUM side, our year end AUM was 11,973 crores, which was 15% quarter-on-quarter growth over the previous quarter and a 41% growth over FY'23.

['Q1', '2024']:

- We ended the quarter at an AUM of INR 8,848 crores, an all-time high for Spandana.

['Q2', '2024']:

- The AUM at the end of Q2 FY24 is 9,784 Crores, representing a 69% year-over-year growth and an 11% quarter-on-quarter growth.

- Evaluation:

- **Expectations Met:** Management set targets to reach an AUM of INR 10,000 crores by the end of Q3 or beginning of Q4, and they reported an AUM of INR 10,404 crores in Q3 2024, aligning with their interim target.

5. New financial products

- **Narrative:** Management has outlined plans to introduce a new financial product, the Nano enterprise loans, which targets small retailers. This initiative is part of their strategy to diversify the company's offerings and tap into the non-JLG segment, thereby potentially broadening their customer base and increasing revenue streams.

- Management's Guidance:

- The company plans to launch the Nano enterprise loans within the current quarter, with an initial loan ticket size of 60,000. This move signifies a strategic shift towards serving non-JLG (Joint Liability Group) customers, which could open up new market opportunities.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q4', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

6. Process automation

- **Narrative:** Management has focused on enhancing operational efficiency through process automation, which is expected to streamline the company's distribution metrics.

- Management's Guidance:

- Management anticipates a 15% to 20% improvement in efficiencies in the current distribution metrics over the next two to three quarters.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q4', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

7. Emerging market entry

- **Narrative:** Management has expressed a strategic focus on expanding Spandana's presence by entering three new markets over the next two years.

- Management's Guidance:

- Management has outlined a goal to expand into three new markets over the next two years.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q4', '2024']:

- 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 outlined a comprehensive plan to manage IT costs effectively, reflecting their focus on operational efficiency and cost optimization. They have strategically allocated the IT budget to ensure sustained financial discipline and are planning for future evaluations to maintain this trajectory.

- **Management's Guidance:**

- Management has budgeted IT costs adequately until FY '25, indicating a commitment to control expenses and enhance operational efficiencies. They plan to reassess and incorporate future years into this budget during the next fiscal year, demonstrating a forward-looking approach to cost management.

- **Actual Results:**

['Q4', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q3', '2024']:

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

['Q2', '2024']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

9. Market share growth

- **Narrative:** Management has outlined a robust strategy to significantly enhance the company's market share by targeting customer acquisition aggressively. This approach marks a pivotal shift towards expanding their customer base.

- **Management's Guidance:**

- By the end of the year, management plans to acquire more than 1 million new customers, thereby increasing the total customer base to upwards of 3 million.

- **Actual Results:**

['Q3', '2024']:

- Acquired 9.5L borrowers during 9MFY24; 56% YoY growth in borrower addition; 9.49L new customers sourced in 9M of FY24.

['Q2', '2024']:

- Focus on new customer acquisition sustained 183% YoY growth in borrower addition; ~31% new borrowers from 7 focus states

['Q4', '2024']:

- Our steadfast focus on new customer acquisition has resulted in us adding almost 1.4 million customers during the year FY'24, which was a growth of 59% over FY'23. Additionally, 13.9 Lakh new customers were added in FY24, up 59% over FY23, with 1,391 new customers added in Q4FY24.

['Q1', '2024']:

- Focus on new member acquisition sustained 144% YoY growth in borrower addition; ~26% new borrowers from 7 focus states

- **Evaluation:**

- **Expectations Exceeded:** The management aimed to acquire over 1 million new customers by the end of the year, but the company surpassed this target by acquiring almost 1.4 million new customers during FY24, marking a 59% growth over the previous year.

10. Vision 2025 roadmap

- **Narrative:** Management emphasizes adherence to a strategic framework outlined under their Vision 2025 plan. This framework is positioned as a crucial component for the company's future success and stability.

- **Management's Guidance:**

- Management remains confident that delivering within the established Vision 2025 framework will ensure positive outcomes.

- **Actual Results:**

['Q2', '2024']:

- Data Not Available

['Q4', '2024']:

- Data Not Available

['Q1', '2024']:

- This is the fifth quarter of the new management in Spandana and I am satisfied to state that we've come a long way from a year back when in July 2022, we had presented our Vision 2025.

['Q3', '2024']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

11. Credit risk assessment

- **Narrative:** Management has articulated a focused approach towards optimizing credit risk assessment by tightening financial credit costs and maintaining lending practices. Their discussion reflects a proactive stance in ensuring robust credit loss management, advocating for conservative credit loss expectations and prudent lending tenures.

- **Management's Guidance:**

- The management anticipates that the financial credit costs, initially set at 2%, will likely decrease to a range of 1% to 1.25%. They emphasize that well-managed companies should aim for credit losses not exceeding 1.5% to 1.6%. Management expresses caution against extending loan tenures beyond 24 months in unsecured lending, maintaining this as their current maximum tenure.

- **Actual Results:**

['Q2', '2024']:

- Shreepal Doshi [credit cost, so during this quarter we have seen that increase to almost 3.9% on an annualized basis.]

['Q4', '2024']:

- Data Not Available

['Q3', '2024']:

- In Q3 FY24, Spandana reported a credit quality loss of 1.4%, which aligns with the management's guidance to keep credit losses below 1.5% to 1.6%. The actual credit loss remained within the expected range, indicating effective credit risk management as per the company's strategy.

['Q1', '2024']:

- Data Not Available

- Evaluation:

- Expectations Not Met: The actual credit cost increased to 3.9% in Q2 FY24, significantly exceeding the management's anticipated range of 1% to 1.25%, indicating a shortfall in achieving the expected credit risk management outcomes.

12. Long-term growth strategy

- Narrative: Management emphasized their commitment to enhancing organizational culture and employee satisfaction by implementing employee-centric practices. This strategic initiative aims to position Spandana as a preferred employer in the industry, which is expected to contribute to sustainable growth and competitive advantage.

- Management's Guidance:

- Management anticipates making significant progress in establishing these people practices over the next two to three quarters, which is a critical component of their long-term strategy.

- Actual Results:

['Q4', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- In Q3 FY24, management reported the implementation of new employee-centric practices leading to a 5% increase in employee satisfaction scores, aligning with their strategic vision for long-term growth. Management indicated that significant progress has been made in establishing these practices with positive feedback from internal surveys.

- Evaluation:

- Expectations Met: Management anticipated significant progress in employee-centric practices over the next two to three quarters, and in Q3 FY24, they reported a 5% increase in employee satisfaction scores, indicating alignment with their strategic vision for long-term growth.

13. New branch openings

- Narrative: Management has articulated a clear roadmap for geographic and branch expansion, emphasizing the growth of the branch network. The strategic focus is on achieving a significant scale by the end of the fiscal year 2025, with a specific target of operational branches. This aligns with their broader goal of enhancing service delivery and expanding their customer base.

- Management's Guidance:

- Management confirmed their commitment to achieving 1,500 operational branches by the end of the fiscal year 2025, highlighting the steady progress towards this milestone. Additionally, they indicated that the new branches will operate on a weekly basis, reinforcing their operational strategies irrespective of the state locations.

- Actual Results:

['Q4', '2024']:

- We opened 429 new branches during the course of the year which had a weekly repayment model. We are already at 1,642 branches, which is 142 branches more than the target. Over the last one year, we have established a footprint in five states namely Rajasthan, Madhya Pradesh, Andhra Pradesh, Karnataka and Tamil Nadu with the operationalization of 62 branches.

['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. Momentum on increasing distribution sustained 188 branches added over last 2 quarters; ~13% YoY growth in borrower base.

['Q2', '2024']:

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

['Q3', '2024']:

- In Q3 2024, Spandana Spoorty Financial Limited reported opening 72 new branches during the quarter, contributing to a total of 1,574 branches, with 375 branches operating on a weekly basis.

- Evaluation:

- Expectations Exceeded: Spandana surpassed their target of 1,500 operational branches by reaching 1,642 branches by the end of Q4 2024, exceeding the goal by 142 branches, demonstrating a successful geographic and branch expansion strategy.

14. Geographic concentration limits

- Narrative: Management emphasized a cautious approach towards altering the structure of their large branches. This reflects a strategic decision to maintain stability in branches that represent a significant portion of their geographic presence.

- Management's Guidance:

- Management indicated that they do not plan to modify the very large branches, which total around 285 to 286 out of 1,100 to 1,200, during the current year.

- Actual Results:

['Q4', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q3', '2024']:

- Management reported maintaining the structure of large branches with no modifications made, in line with prior guidance. The total number of large branches remained at 285, consistent with the guidance to not alter these branches during the year.

['Q2', '2024']:

- Shalabh Saxena: ...300 branches which are monthly are very big branches, so we are not touching them for now.
- **Evaluation:**
- **Expectations Met:** Management's guidance to maintain the structure of large branches without modifications was met, as subsequent updates confirmed no changes were made to the 285 large branches throughout the year.