

Q2 2023

1. Profit margin trends

- **Narrative:** Management has highlighted a focus on improving financial performance metrics, particularly the net collection efficiency and return on assets (ROA). The company is actively working on enhancing its operational efficiency with a specific target for ROA, indicating a strategic approach to financial growth and stability.

- **Management's Guidance:**

- Management anticipates an improvement in net collection efficiency from the current level of 97.5% over the next couple of quarters. The company aspires to achieve a ROA in the range of 4% to 4.5% as leverage and other financial elements align.

- **Actual Results:**

['Q3', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q4', '2023']:

- The net collection efficiency for the period was 97.57%, which is 3.05% up from Q3, which was the previous quarter. The ROA for Q4 FY23 was reported at 4.5%.

['Q2', '2023']:

- ROA (%) - annualised Post credit cost was 3.8% for FY23Q2, which is below the management's guidance target range of 4% to 4.5%.

- **Evaluation:**

- **Expectations Met:** The company's net collection efficiency improved to 97.57%, and the ROA reached 4.5% in Q4 FY23, meeting the management's guidance target range.

2. Loan portfolio growth

- **Narrative:** The management at Spandana Sphoorty Financial Limited is focused on executing a structured disbursement plan across the fiscal quarters. They demonstrate a strong commitment to their growth trajectory, ensuring that the company's loan portfolio expands systematically and progressively. The plan outlines specific disbursement targets for each quarter, which reflects their strategic intent to enhance loan book growth in a phased manner. Additionally, the management is concentrating on optimizing operational efficiency by strategically deploying loan officers to achieve a targeted borrowers per loan officer metric. This operational refinement is aimed at boosting the company's loan disbursement capacity and enhancing portfolio management.

- **Management's Guidance:**

- 1. The company aims for disbursements of 1200-1300 Crores in Q1, 1400-1500 Crores in Q2, 2500 Crores in Q3, and 3500 Crores in Q4, adhering to its strategic disbursement plan. 2. Spandana Sphoorty is targeting an increase in the borrowers per loan officer to a range of 450 to 500, with an enterprise-level average disbursement of about 1.25 to 1.3 Crores, progressing towards 1.5 Crores in the coming quarters.

- **Actual Results:**

['Q1', '2024']:

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

['Q2', '2023']:

- In Q2 2023, Spandana Sphoorty Financial Limited disbursed Rs. 1,391 crores, which is an increase from Rs. 1,320 crores in the previous quarter, showing a growth of 5.3%. This disbursement figure is slightly below the lower end of the management's guidance range of 1,400 to 1,500 crores for Q2.

['Q3', '2023']:

- Disbursement for the quarter was INR 2,361 crores, which is a 70% increase sequentially from the previous quarter's INR 1,391 crores. During the quarter, Spandana Sphoorty Financial Limited added 2.19 lakh new borrowers, marking a 77% growth over the prior quarter.

['Q4', '2023']:

- Data Not Available

- **Evaluation:**

- **Expectations Not Met:** Spandana Sphoorty's loan disbursement in Q2 2023 was slightly below the lower end of the management's guidance range, and in Q3, the disbursement was below the target of 2500 Crores, indicating that expectations were not fully met.

3. Interest income developments

- **Narrative:** The management highlighted their strategic approach towards enhancing interest income through several measures. They discussed their expectation of maintaining Net Interest Margins (NIMs) above 12.5% and indicated that recent rate increases of 1% will be maintained in the upcoming quarters. Additionally, new disbursements in the second half will be at higher interest rates, with specific disbursements expected to be at a 25% rate of interest, contributing positively to yield and Return on Assets (ROA) by the fourth quarter.

- **Management's Guidance:**

- Management expects Net Interest Margins (NIMs) to remain above 12.5%. Recent rate increases by 1% will be held steady for the next couple of quarters. New disbursements in the second half will be at higher rates, specifically at a 25% rate of interest, positively impacting yield and ROA by Q4.

- **Actual Results:**

['Q3', '2023']:

- Yield improved by 200 bps to 21.5%, while the NIM improved by 80 bps to 13.8%.

['Q4', '2023']:

- Normalized NIM has improved to 13.86%, which is above the management guidance of maintaining NIMs above 12.5%. Net interest income was up 51% to INR384 crores for the quarter. Our normalized yield on the portfolio has improved to 22.8% from 21.2% in the previous quarter.

['Q1', '2024']:

- NIM is 14.2%. That is up 38 basis points over normalized NIM of last quarter and 434 bps over quarter 1 of FY '23.

['Q2', '2023']:

- In Q2 FY23, the Net Interest Margin (NIM) was reported at 11.2%, which is below the target of maintaining NIMs above 12.5%. Additionally, the yield was reported at 19.5%, and rates were increased to 24%.

- **Evaluation:**

- **Expectations Exceeded:** The actual results showed that the Net Interest Margins (NIM) improved significantly to 13.86% in Q4 2023 and further to 14.2% in Q1

2024, exceeding the management's guidance of maintaining NIMs above 12.5%. Additionally, yield improvements surpassed expectations, contributing to better-than-anticipated financial performance.

4. Asset under management (AUM) targets

- **Narrative:** Management has articulated a clear strategy for growth in their asset under management (AUM) with specific targets set for the upcoming quarters. The company is focused on achieving a significant increase in AUM, indicating a robust expansion plan.

- **Management's Guidance:**

- Management expects the AUM to close north of 8000 Crores, ranging anywhere between 8000 and 8500 Crores by the year-end.

- **Actual Results:**

['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.

['Q1', '2024']:

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

['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.

- **Evaluation:**

- **Expectations Exceeded:** Management expected the AUM to be between INR 8000 and 8500 crores by year-end, but the actual AUM exceeded this range, reaching INR 8,511 crores in Q4 2023 and further growing to INR 8,848 crores in Q1 2024, surpassing expectations.

5. Partnership development

- **Narrative:** Management highlighted their strategic focus on optimizing financial partnerships to bolster their funding stability and reduce reliance on capital markets. This initiative is part of their broader market strategy aimed at enhancing financial resilience and operational efficiency.

- **Management's Guidance:**

- Management plans to increase bank exposure to approximately 75% over the next couple of quarters, thereby reducing capital market dependency to around 25%.

- **Actual Results:**

['Q1', '2024']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

['Q2', '2023']:

- 10 new (in FY23) Lenders Onboarded with 2 Marquee first time Lenders

['Q3', '2023']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

6. Rural penetration initiatives

- **Narrative:** Management reiterated their commitment to expanding their presence in rural areas, emphasizing the importance of reaching tier three, four, and five regions, which they consider integral to their vision for 2025.

- **Management's Guidance:**

- Management plans to continue their strategic focus on rural penetration as part of their 2025 vision, aiming for growth in these regions.

- **Actual Results:**

['Q1', '2024']:

- 26% of new borrowers added during the quarter were from these seven focus states.

['Q4', '2023']:

- Data Not Available

['Q2', '2023']:

- Our overall rural portfolio now has increased to 88%. Focus on acquiring new customers continues. 46% disbursement in Q2 was to new customers. Rural portfolio has increased from 85% to 88% on the overall book reaffirming the direction of focus on rural geographies.

['Q3', '2023']:

- 87% Rural 13% Urban

- **Evaluation:**

- **Expectations Met:** The management's focus on expanding in rural areas as part of their 2025 vision aligns with actual results, showing an increase in the rural portfolio from 85% to 88% and a significant portion of new borrowers and disbursements coming from rural regions, confirming the strategic direction.

7. Market share growth

- **Narrative:** Management outlined strategic initiatives aimed at expanding market share. This includes plans to significantly increase the workforce by adding new loan officers, which is expected to enhance customer outreach and service capabilities. Additionally, management anticipates leveraging more PTC and DA transactions in the latter half of the financial year, which they believe will bolster their market position.

- **Management's Guidance:**

- Management is planning to add 752,000 loan officers in the current quarter, which is expected to expand market penetration. Furthermore, they expect a rise in PTC and DA transactions in the second half of the financial year, which should contribute to an increase in the market share of the banks.

- **Actual Results:**

['Q1', '2024']:

- Data Not Available

['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

['Q4', '2023']:

- Data Not Available

['Q3', '2023']:

- In Q3 FY23, management reported the addition of approximately 2,000 to 2,500 personnel, indicating a significant scale-up in workforce, although specific figures for loan officers were not detailed. Market penetration and share growth outcomes were not explicitly quantified in the available data.

- Evaluation:

- Insufficient Info: Data not available.

8. Client retention programs

- Narrative: Management emphasized their commitment to enhancing client retention through strategic initiatives aimed at re-engaging customers and reintegrating them into mainstream financial activities. This reflects a proactive approach to stabilizing and potentially increasing their customer base.

- Management's Guidance:

- Management indicated plans to continue their client retention efforts over the next two quarters, with expectations of reasonable upsides as a result of these initiatives. They have articulated clear plans for customer engagement to achieve these objectives.

- Actual Results:

['Q4', '2023']:

- Data Not Available

['Q3', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2023']:

- We acquired 1.23 lakh customers during the quarter, which was a growth of 16% over the previous quarter.

- Evaluation:

- Insufficient Info: Data not available.

9. Vision 2025 roadmap

- Narrative: Management has reaffirmed their commitment to the Vision 2025 roadmap, emphasizing a growth strategy that focuses on customer acquisition. They plan to maintain a conservative approach towards ticket sizes. The goal is to enhance their market position by increasing the proportion of single lender relationships to 80%-81%, with the remaining distribution in one plus one and minimal single-digit relationships.

- Management's Guidance:

- Management plans to increase single lender relationships to 80%-81% and expects a one plus one relationship to comprise another 11%-12%. They are working towards achieving these targets as part of their Vision 2025 roadmap.

- Actual Results:

['Q4', '2023']:

- Data Not Available

['Q3', '2023']:

- 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.

['Q2', '2023']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

10. Forward-looking statements

- Narrative: Management has articulated a clear strategic vision focused on maintaining their current operational approach through fiscal year 2025. This indicates a commitment to stability and sustained growth, leveraging their established strategies to achieve projected goals.

- Management's Guidance:

- Management plans to continue their existing operational strategy through FY2025 as part of their growth projections.

- Actual Results:

['Q3', '2023']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2023']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

11. New branch openings

- Narrative: Management has outlined a comprehensive plan for geographic and branch expansion, focusing on opening a significant number of new branches to increase their market presence. This expansion is strategically planned to occur between the third quarter of the current fiscal year and the first quarter of the following fiscal year, reflecting management's commitment to enhancing customer acquisition capabilities through these new branches.

- Management's Guidance:

- Management plans to open approximately 560 new branches from now until FY2025. The effort to open these branches will commence immediately to ensure

they are operational by the first quarter of FY2025. Furthermore, all new branches opening in the current and next quarter will focus solely on customer acquisition.

- Actual Results:

['Q1', '2024']:

- Over the past two quarters, we opened a net 188 branches, most of which are in these focus states. Momentum on increasing distribution sustained 188 branches added over last 2 quarters; ~13% YoY growth in borrower base.

['Q3', '2023']:

- Data Not Available

['Q2', '2023']:

- Data Not Available

['Q4', '2023']:

- During the quarter, we have opened about 112 branches.

- Evaluation:

- Expectations Not Met: Management guided for opening 560 new branches by FY2025, but only 188 branches were opened over the past two quarters, indicating a slower pace than planned.