

Spandana Sphoorty's new MD opts for kitchen sinking, but Q4 financials worry analysts

After he is done with that process, the new chief of the microlender plans to increase the number of branches to 1,500 by FY25-end from 1,120 as of March 31.

PIYUSH SHUKLA ([HTTPS://WWW.MONEYCONTROL.COM/AUTHOR/PIYUSH-SHUKLA-21591/](https://www.moneycontrol.com/author/piyush-shukla-21591/))

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Spandana Sphoorty

Spandana Sphoorty's new Managing Director and Chief Executive Officer Shalabh Saxena chose "kitchen sinking" as his first major task after taking the helm of the microfinance institution (MFI) in March.



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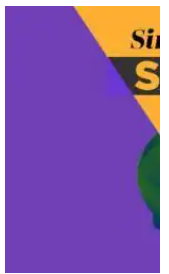
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Kitchen sinking, in this context, refers to the process of a new chief executive recognising loan stress upfront and setting aside money to cover it.

After he is done with that, Saxena plans to increase the Hyderabad-based MFI's branches to 1,500 by FY25-end from 1,120 as of March 31.

By FY25-end, the MFI aims to expand assets under management (AUM) to Rs 18,164 crore, said its Q4FY22 investor presentation.

Saxena's first act of kitchen sinking was an eye opener. Spandana Sphoorty's gross non-performing assets (GNPAs) rose to 17.7 percent as of March end from 5.65 percent as of December-end and 3.1 percent a year ago.



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Net NPAs (NNPAs) rose to 9.68 percent as of March 31 from 2.83 percent as of December 31 and 1.4 percent a year ago. Its provision coverage ratio (PCR) was 45.30 percent as of March-end.

Financial deterioration

As GNPAs surged, experts said it was “scary” that the overall provisions Spandana Sphoorty made in the January-March quarter were so low.

For Q4, Spandana Sphoorty reported a net profit of Rs 18.2 crore on the back of lower provisions.

Money set aside to cover impairment of financial instruments and other provisions fell to Rs 20.5 crore during January-March, lower than Rs 211.9 crore a year ago. According to Q4 results the MFI filed with the RBI, approval of Bakesh Mahajan's reappointment as MD of the bank.



RBI approves Bakesh Mahajan's reappointment as MD of the bank.



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exchanges.

“The Q4 bottomline is only optically appearing good because of lower provisions. This is reflected in the higher net NPA numbers,” said a senior official at a domestic rating agency.

“Prompt corrective action is not applicable to MFIs so they should be fine, but it is really high. They could have chosen to increase the PCR from 45%. When you

have high net NPA number, you must increase provisions and it becomes more important as your loan book is shrinking,” the person said.

COVID-related stress

Sanjay Agarwal, senior director at CARE Ratings, said the microfinance industry had GNPA's to the tune of 12 percent during the two years of COVID-19, and this had built significant stress on microlenders' books.

Spandana Sphoorty's total AUM declined to Rs 6,581 crore as of March 31, 2022 from Rs 8,157 crore as of March 31, 2021.

“The microfinance industry has witnessed significant stress for two years due to Covid-19. The regulator allowed lenders to provide loan moratoriums, conduct restructuring of loans, and top-up loans to enable consumers to endure difficulties,” Agarwal said.

“While some MFIs (microfinance lenders) recognised stress upfront, some delayed it and have started doing it now. Moratorium window has ended and asset quality stress is visible now,” he added.

Of its total AUM, 15 percent of loans are restructured, but no moratorium has been provided to the customers, Spandana Sphoorty said in its Q4 investor presentation.

Management tussle

A smooth management transition and maintaining business as usual remains key for Saxena, analysts said.

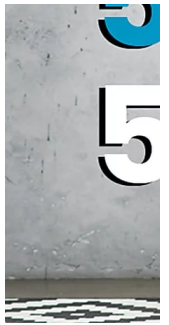
The MFI has emerged from a year-long tussle between Spandana Sphoorty founder Padmaja Reddy and the Board of the company, backed by private equity firm Kedaara Capital.

In November 2021, Reddy quit her role as chief of Spandana Sphoorty, saying she wanted to continue as MD but her contract had not been renewed by the Board.

She alleged that the Board wanted to sell the company to Axis Bank at a “throwaway price” and that she had been ousted as a result of her dissent.

After alleging that the Board was using inappropriate standards to calculate loan recollection efficiency after her departure, and also on how the firms had to appoint several employees just to perform her job, Reddy has settled with Spandana Sphoorty for Rs 40.7 crore.

Can Spandana recover its mojo?



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In a statement on June 23, Spandana Sphoorty said: "Ms. Padmaja Reddy resigned from her position as the Managing Director of the Company on November 2, 2021. Subsequently, certain disputes arose between Ms. Padmaja Reddy and the Board of Directors of the Company (Board). We are now pleased to inform you that the Company and Ms. Reddy have resolved their differences and agreed to part ways on amicable terms."

"While Ms. Reddy is no longer serving as the Managing Director of the Company, she continues to be a substantial shareholder and member of the Company's Board," it said.

As of March-end, Reddy held a 14.52 percent stake in Spandana Sphoorty.

Experts said the public tussle between the founder and the board could have been prevented had the two parties reached an internal understanding. The public spat caused Spandana Sphoorty to stop loan disbursements for two months, November and December, last year.

Reddy has gone on to operate another small-ticket loan venture, **as Moneycontrol reported** (<https://www.moneycontrol.com/news/business/exclusive-spandana-sphoorty-founder-padmaja-reddy-buys-rajshree-tracom-signals-return-to-small-loan-business-8405221.html>) on April 25. It remains to be seen how quickly Spandana Sphoorty puts the tussle behind it and gets on with the task of business expansion.

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