

Business Update – April 2020

Further to our previous note shared with you shortly after the imposition of the national Covid19-related lockdown, we would like to provide an update on our recent progress.

Green Signal to Resume Operations in Green Zones

Pursuant to the order issued by the Ministry of Home Affairs on 15 April 2020, microfinance institutions were specifically permitted to resume operations in “Green” zones (i.e., with zero Covid19 cases) from 20 April 2020.

- **794 out of Spandana’s 1,006 branches (79%) are in Green zones** – all of these have been operational since 20 April 2020
 - Given carefully calibrated rural footprint, first MFI to have such a large proportion of branches already active – places us in **unique position to benefit from first-mover advantage for both collections and new business, ahead of rest of industry**
- Strong emphasis on employee safety and operational integrity
 - Staff issued with appropriate personal protective gear, health and safety training, and requisite permissions from local authorities
 - Started with only approximately 30% **field staff strength** to ensure sanctity of operational procedures in current environment, **now up to almost 50%**
 - Still challenges on the ground to operate freely, but improving daily
 - Work-from-home processes at head office continue uninterrupted, providing all the required support for the field operations
- Rest of branches expected to open soon, following the lifting of the national lockdown – almost none in “Red” zones, given our rural footprint

Spandana’s Borrower Base Better Positioned to Repay

Spandana has always been conservative in terms of borrower indebtedness, and focused on more resilient rural borrowers. This has resulted in Spandana having superior asset quality through various industry dislocations, and we expect this one to be no different.

- **Spandana’s borrower base not as significantly impacted by Covid19 vs. most peers due to company’s rural focus**
 - 91% of borrowers are in rural areas (which fortunately have little or no Covid19 incidence), and 57% engage in “essential services” activities such as dairy or agricultural activities – hence their health and cash flows are largely intact, as verified by our loan officers post our resumptions of operations
- Average ticket size of our loans is Rs. 23,940 vs Rs. 37,465 for the industry – this means that our borrowers are better positioned to cover a missed installment vs others
- **Most borrowers reached out to have been willing to pay, and we have collected over Rs.13.3 cr in the last one week** despite the tight restrictions in operations – we find this trend to be very encouraging



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- Field staff working with borrowers to ensure that they are fully educated on moratorium option – **only take collections if borrowers want to pay** in order to avoid an increased debt burden further down the line
- Significantly more collections expected in coming weeks, as rest of field staff returns, and the remaining branches open

Focus on Supporting our Borrowers with Fresh Loans

Spandana's mission since its founding as an NGO in 1996 has always been to provide empowerment to poor women in rural India. This remains at the forefront of operational planning, especially when our borrower base is going through a challenge like the Covid19 lockdown.

- For borrowers with genuine cashflow disruptions from Covid19, a new product '**Emergency Covid Loan**' will be provided
 - A small loan of this nature, if given immediately, will help them restart their income generation activities and be able to resume meeting their living expenses and debt servicing on a normal basis
 - Without this, they will likely lose their ability to support their families – hence it is **critical to provide this support right away**
- For borrowers who have been servicing their loans regularly, and would be eligible to be up-cycled (i.e., only have one or two installments left), **fresh loans to be disbursed as normal**
 - Careful checks on their income generation activities and credit bureau standing to be done before any such loan disbursements

Given our ahead-of-the-curve resumption of operations and strong available liquidity cushion, we are well placed to restart our loan disbursements, and further cement our leadership position in the industry.

Liquidity and Debt Servicing:

Spandana is one of the highest rated NBFC-MFIs in the country (ICRA "A- Stable and M1 Grading"), has a capital adequacy ratio north of 50%, and has a strong multi-decade repayment track record with all lenders across multiple business cycles. This has fortunately placed us in a strong liquidity position even during this challenging period.

- **Received moratorium from most lenders**, in line with RBI's Covid-19 regulatory package announcement
 - Spandana has received a moratorium on debt servicing from all of its DA/PTC lenders
 - Additionally, we have been granted a moratorium by a majority of our term loan lenders, with more expected soon
- **However, have anyway pro-actively serviced debt obligations of all lenders – both principal and interest for March 2020 and April 2020, despite having the option of a moratorium. Our loan accounts with each and every lender is regular as on date.**
 - Given Spandana's strong liquidity position and deep relationships with lenders, we have **voluntarily decided to pass on all DA/PTC collections, and repay both our principal and interest debt servicing obligations for March and April.**



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- **While we have the flexibility of the moratorium, we expect to be able to continue making full lender payments going forward, based on the strength of our balance sheet and the recent resumption of business operations**
- **Raised approximately Rs. 800 cr after the imposition of the national lockdown** – an industry leading figure, with additional funds expected soon
 - Funds raised in form of direct assignment and term loans from marquee institutions such as the **State Bank of India and NABARD** – **entirely independent of the RBI's recently announced LTRO and refinance scheme**
 - Working with various banks under the TLTRO 2.0 program, and with government institutions such as SIDBI and NABARD for further funding, to provide headroom for our continued business growth – **expecting significant traction here, since only highly-rated MFI to already resume business operations**

We sincerely appreciate the support that our lenders and other stakeholders have provided to us in this challenging period. We would like to take this opportunity to thank them, and look forward to continuing our strong relationships with them.

It appears that Covid19-related situation has moved in a positive direction for Spandana in the last few weeks, and we believe that we are better placed than our industry peers for now. However, the situation and environment continues to be quite dynamic, and is highly influenced by Government actions. We will hence continue to provide updates on any material developments from time to time, as appropriate.

Safe Harbor Statement

This document may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company's management as the date of this press release and the company do not assume any obligation to update their forward looking statements if those beliefs, opinions, expectations, or other circumstances should change. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. Consequently, readers should not place any undue reliance on such forward-looking statements.

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