



## Business Update on Impact of COVID-19

We would like to give an update on the business in the aftermath of COVID-19 outbreak to all the stakeholders and place on our record our sincere thanks for their support at this challenging time. As the situation is evolving and the environment in which we are operating is very dynamic and the business operations are highly influenced by the decision taken by the Government from time to time, any material change in the business from what is reported here will be updated from time to time.

### **Normal Operations till 20<sup>th</sup> March 2020:**

Business was conducted as usual till 20<sup>th</sup> March 2020. Except Kerala, where the State Government announced lockdown a week prior, in all other states, we conducted centre meetings and other operations as usual, based on Government advice in each state. However, all employees were advised to take adequate precautions while meeting borrowers, and were provided with appropriate personal protection equipment. We continued with our healthy rate of disbursements based on strong demand from our borrowers, and collection efficiency for the period 1<sup>st</sup> January 2020 to 20<sup>th</sup> March 2020 was 98.6%.

### **Realignment of Operations since 21<sup>st</sup> March 2020 and Business Continuity Planning:**

Starting from 21<sup>st</sup> March 2020, in light of the increasing cases of Covid-19, we stopped loan disbursements as a precautionary measure, despite continued borrower demand. Following the Central Government's announcement of a complete lockdown from 24<sup>th</sup> March 2020 onwards, we also closed down all branch and head office operations, suspending collections and other operations, in compliance with the order, and to ensure the health and safety of our employees.

Communications via text messages and calls have gone out to every one of our borrowers about the ongoing lockdown situation, and our inability to reach out to them and conduct centre meetings until the lockdown period has been completed. We have also advised them about the precautions and care to be taken at individual and community level, and have assured them of our support through this period.

We have ensured that all our residential branch staff have adequate medical and general provisions, and have implemented "work from home" for all head office staff. Due to Spandana's flexible, cloud-based IT architecture, this shift has been seamless, and all operations continue to function effectively.

We plan to reopen the head office and each of our branch locations at the earliest, as soon as we are permitted to by the Central and State Government authorities, and we believe that it is medically advisable for our employees.

### **Rural Focus and Diverse Footprint mean Borrower Repayment Ability Largely Unaffected:**

As of December 2019, Spandana had 91% of the borrowers and 90% of the AUM in rural geographies. Fortunately, Covid-19's impact in rural areas has been minimal so far, and has hence not impacted our borrower base in a significant fashion. Even if certain pockets of Covid-19 do emerge, our extremely diversified footprint (no state >18% of AUM, no district >1.6% of AUM) means that this will not have a major impact on our entire portfolio.

Moreover, most rural microfinance borrowers engage in agricultural activity as daily wage earners and/or engage in dairy activity (which alone accounts for 56.7% of our borrower base). Since both these are essential items, income continues to flow to the rural households. As their income is largely unaffected, their ability to pay is also not affected. Additionally, the government has announced a series of economic relief measures for rural India, which will further support our borrowers' repayment capacity.

Finally, considering many of our borrowers are in their 3<sup>rd</sup> or higher cycle, we have strong confidence in their ability to withstand any impact from Covid-19, and manage the household cash flows well to repay loans.

### **Spandana has Superior Experience with Macro Events:**

Spandana, with its 16+ years of microfinance experience has withstood multiple crises in the microfinance space across its journey, and hence is uniquely experienced to navigate the current situation. Starting from the 2010 Andhra Pradesh industry crisis, Spandana demonstrated its operational excellence by being one of the only two MFIs to come out of CDR, and the only MFI to have collected a substantial portion of its AP portfolio since 2010 (over 45%, and still collecting to this day).

During demonetization as well, the Company demonstrated its strength in terms of asset quality vs. the industry: our PAR 0 was 60% lower than the industry average. This also enabled us to resume our business operations strongly, recording a strong 144% growth in AUM in the year following demonetization.

Spandana has also navigated through multiple smaller political interventions and natural calamities very successfully in the recent times, to record a stable and industry leading profitability.

### **Borrower Moratorium Assistance:**

Guided by the policy announced by the Reserve Bank of India, Spandana's Board has approved the moratorium policy for its borrowers wherein they can choose to either pay all the dues or to avail moratorium, at their own option. In case borrowers avail moratorium, the incremental interest charge, and resultant extension of loan tenor will be clearly explained to them individually. We are providing this flexibility to choose to the borrowers since we expect that in many cases, they would like to continue to pay the instalments due to no or marginal impact on their own income sources, and avoid the incremental cost.

### **Strong Fund-Raising Record and Liquidity Position:**

We continued to receive strong support from our lenders during Q4 and March 2020 as well. During Q4, we raised a total amount of Rs. 1,942 Crs, out of which Rs. 1,262 Crs through assignment transactions and Rs. 147 Crs was raised through securitization transaction. In March 2020 alone, we raised a total amount of Rs. 848 Crs, including Rs. 490 Crs raised through assignment transaction with the State Bank of India, post the lockdown, on 30<sup>th</sup> March 2020.

A unique aspect of Spandana has been its ability to do high volume of securitization and assignment transactions wherein the risk on the underlying portfolio can be transferred to the investor/assignee. In Spandana's history, Q4 FY2019-20 registered the highest value of assignment transactions. During FY2019-20, we concluded assignment transactions of Rs. 2,841 Crs and securitization transactions totalling Rs. 935 Crs. Consequently, more than 38% of the AUM is securitized or assigned, indicating significant de-risking of the balance sheet.

Mirroring the assistance we have extended to our own borrowers, and in line with RBI policy, we have requested for moratorium on all our facilities from our lenders till 31<sup>st</sup> May 2020. We also continue to work with our lenders to raise more funds, to support our mission of providing vital capital to economically-weaker women in rural India.

As of 31<sup>st</sup> March 2020, we had lien-free cash balance of Rs. 537 Crs. Hence, notwithstanding the above, we have sufficient liquidity to service all our obligations and comfortably maintain our operations.

### **Provisional Key Metrics (Consolidated):**

As of 31<sup>st</sup> March, 2020, the unaudited Gross AUM was Rs. 6,900 Crs, driven by strong loan demand from our borrower base. Of this, the on-book portfolio was Rs. 5,017 Crs and the assigned portfolio outstanding was Rs. 1,883 Crs.

The unaudited total borrowings (including PTC) were Rs. 3,073 Crs, spread across a large and diversified base of 32 lenders.

Given that a substantial portion of the quarter's collections happened prior to the 24<sup>th</sup> March 2020 lockdown, we do not expect any significant impact on profitability for the quarter.

We had an equity base of Rs. 2,505 Crs as of December 31, 2019, with a substantial capital adequacy ratio of 50.5%. We expect our March 31, 2020 equity base to be approximately Rs. 2,650 Crs, and are hence well capitalized for all eventualities.



SPANDANA

## Safe Harbor Statement

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