

Sammaan Capital Ltd — Nov 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Beat (Execution) / Transitional (Structure) **One-line:** Management has executed the "Big Clean" of the legacy book by utilizing rights issue capital to create a massive provision buffer (₹9,575 Cr), effectively de-risking the balance sheet and clearing the path for the affordable housing subsidiary's monetization.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Beat	Legacy collections at ₹3,104 Cr vs guidance of ₹3,000 Cr; AUM growth resumption.	□
Earnings Quality	Low (Accounting Reset)	P&L shows loss due to one-time ₹4,050 Cr tactical provision; however, Net Worth remains stable.	□
Guidance Confidence	Strong	Management provided granular 12-quarter cash flow projections for legacy assets.	□
Management Credibility	Improving	Delivered on the "tactical steps" promised in Q1; successfully navigated rebranding/license pivot.	□
Business Quality Signal	Improving	Shift to 55% Growth AUM / 45% Legacy (first time Growth > Legacy); Subsidiary SFL is now a "clean" asset.	□
Key Q&A Exchange	Q#6 - Fair Value Logic	Mgmt justified the 20% discount on asset transfers as a "credit fund" approach to provide a buffer.	□
The Street's Primary Anxiety	Legacy Haircuts	Management responded by taking a ₹4k Cr hit now to ensure no future credit cost surprises.	□
Capital Cycle Stage	Re-launch / Growth	Rights issue complete; capital now being allocated to a granular retail engine.	□
Return Ratio Trajectory	Improving	Incremental Retail ROE at 15.8% (Target 18%); ROA at 3.0% (Target 3.2%).	□
Pricing Power	Stable	10 partner banks for co-lending; cost of funds for retail at 8.5%–9.5%.	□
FCF Conversion & Quality	Strong (Liquidity)	LCR at 345% (RBI requirement 85%); Net Worth stable at ~₹20,000 Cr despite provisions.	□
Competitive Moat Signals	Widening	Exclusive affordable housing vehicle (SFL) created to attract strategic investors.	□
Balance Sheet Strength	Strong	Net worth protected; Provisioning at 30% of legacy book; Gearing at 2.3x (Consol).	□
Working Capital Efficiency	N/A	Finance sector: Liquidity Coverage Ratio is the primary efficiency driver.	□
Mgmt Guidance Track Record	Reliable	Delivered on Q1 collection targets; maintain FY27 long-term roadmap.	□
Key Vulnerability / Red Flag	Recovery Velocity	The thesis depends on realizing ₹1,650 Cr of write-backs in H2FY25 to prove provision adequacy.	□
Management Tone	Resolute	CEO Banga emphasized transition from "Survivor" to "Institution Builder."	□

Key Takeaways: * **Positives:** Management successfully ring-fenced the legacy book. By taking a ₹4,050 Cr "tactical provision," they have created a ₹9,575 Cr imputed provision pool (~30% of legacy book), which should end the cycle of credit cost surprises. Cash collections are ahead of schedule (₹5,053 Cr in H1FY25). The growth book (Retail/MSME) is now larger than the legacy book (55% vs 45%). * **Negatives:** The consolidated P&L shows a heavy loss (₹2,434 Cr for H1) due to the provisioning. While net worth is protected by the rights issue, the ROE will remain depressed until the legacy book reaches a single-digit percentage of AUM. * **Street Concern:** Analysts were focused on the "fair value" discount logic of transferring assets between subsidiaries. Management clarified this was a deliberate choice to leave the affordable housing subsidiary (SFL) with almost zero NPAs (₹25 Cr), making it an attractive "pure-play" for strategic investors. * **Watchpoint:** The realization of the projected ₹1,650 Cr in recoveries/write-backs over the next two quarters is the critical milestone to validate that the provisions taken this quarter were indeed "tactical" and not a recognition of deeper-than-expected rot.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q2FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	₹37.95 Cr (H1)	6.9%	-	↑	Growth driven by retail disbursements; H1FY25 interest income at ₹3,795 Cr.
NIM (AUM basis %)	Not in doc	First entry	First entry	→	Blended yields supported by Asset-Light model.
Cost of Funds %	8.5% - 9.5%	First entry	First entry	→	8.5% for co-lending; ~9.5% for on-balance sheet.
Loans Growth (% YoY)	₹62,928 Cr (AUM)	-1.0%	-3.7%	↓	AUM fell QoQ due to aggressive legacy book rundown (₹6.5k Cr reduction).
GNPA %	2.4%	↓	↓	↑	Consol GNPA down from 2.7% (Q1) to 2.4%. Lowest in 22 quarters.
NNPA %	1.4%	↓	↓	↑	Consol NNPA down from 1.5% (Q1) to 1.4%.
Credit Cost (₹Cr)	₹4,773 Cr (H1)	↑	↑	↓	Massive spike due to one-time tactical provision of ₹4,050 Cr.
Collection Efficiency	₹3,104 Cr/qtr	First entry	↑	↑	Legacy collections beat guidance of ₹3,000 Cr.
Capital Adequacy (%)	34.4%	↑	↑	↑	Significantly enhanced by rights issue; Consol NW at ₹19,979 Cr.
PAT (₹Cr)	-₹2,761 Cr (Q2)	↓	↓	↓	Reported loss due to tactical provisioning; Adj. H1 PAT ₹601 Cr.
Fee Income Growth %	₹0.60 Cr (H1)	1.7%	-	→	Fee and commission income stable at ₹60 Cr.

2B. SEGMENT BREAKDOWN

Segment	AUM (₹ Cr)	Share of AUM	Trend	vs Co. Avg	Key Development
Growth Book (Retail)	₹32,010 Cr	51%	↑	High Quality	Retail AUM grew from ₹26.5k Cr (Mar-24).
Legacy Book	₹30,918 Cr	49%	↓	High Risk	Reduced by ₹7.9k Cr in H1; 92.4% is Stage 1.
Sammaan Finserve (SFL)	₹4,898 Cr	8%	↑	Pure Play	Cleaned of legacy assets; GNPA at 0.5%.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	AUM	₹1,00,000 Cr by FY27.	Needs ~₹7,500 Cr net AUM add per quarter; current pace is below this.	First entry	Moderate
Guidance	ROE	18% by FY27.	Needs legacy book to drop <10% of AUM to remove equity drag.	First entry	High
Guidance	Legacy Book	Single-digit % of AUM by FY27.	Must continue ₹5,000 Cr+ collections per half-year.	Delivered	Low
Guidance	Credit Cost	80–100 bps p.a. going forward.	Radical drop from 145 bps in FY24; relies on zero new slippages.	New	Moderate
Strategy	Monetization	Induction of strategic partner in SFL.	SFL right-sized to ₹3,000 Cr Net Worth; needs management hiring first.	New	Moderate
Balance	Debt Repayment	₹1,79,000 Cr gross repaid since 2018.	Track record of meeting all international/masala bond obligations.	Consistent	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Sumit Bhalotia (MK Ventures)	Legacy Provisioning	Financials	"Is this a one-time provisioning and are we back to business as usual with lower credit costs?"	Management confirmed this is a one-time exercise with no further "tail" expected and credit costs normalizing at 80-100 bps. Implication: P&L volatility should cease, allowing investors to value the core retail housing engine.	None	5.0	Quantified & Clear
2	4.5	Sumit Bhalotia (MK Ventures)	Asset Transfer	Financials	"Did the transfer of assets from SFL lead to the ₹4,050 Cr provision?"	Management explained that SFL was cleaned of overdues first, and the balance ₹2,500 Cr acted as a general provision for the parent. Implication: The accounting hit was concentrated to allow the subsidiary a "clean" start for monetization.	None	4.0	Logical reset
3	4.0	Sumit Bhalotia (MK Ventures)	Growth Infrastructure	Management Outlook	"How are you confident in scaling disbursements to ₹3,000 Cr/month and what is the	Management stated they are staffed at 5,700 people (same as 2018 peak) and SFL will hire independent	None	3.5	Operational readiness

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					staff strength?"	top-deck leadership. Implication: Operating leverage should kick in as disbursements ramp up on existing branch/tech infrastructure.			
4	4.5	Prithvi (VicAsset)	Monetization	Strategy	"What are the monetization plans for the Sammaan Finserve subsidiary?"	Management indicated SFL will be "de-subsidized" in coordination with RBI after the new leadership team is in place. Implication: Potential for a significant valuation unlock if SFL is valued at peer multiples (4x P/B).	Timeline	3.0	Strategic intent
5	4.0	Siddharth Dahiya (Aberdeen)	Ratings	Financials	"Are there any pressures on international ratings following this provisioning?"	Management noted proactive reach-out to agencies and argued that credit/balance sheet ratios (CRAR 34%) have actually strengthened. Implication: Minimal risk of a rating downgrade as capital ratios remain far above regulatory requirements.	None	4.0	Directional

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
6	5.0	Abhiram Iyer (Deutsche Bank)	Fair Value Logic	Financials	"Why was a 50% discount (fair value) applied to the transferred assets but not the whole book?"	Management explained SFL assets were treated like a third-party sale to a credit fund (20% discount rate), whereas SCL's own cost of funds is only 9.5%. Implication: The provision buffer is "tactical" and creates a general pool that can be written back upon recovery.	None	5.0	Technically sound
7	3.5	Abhiram Iyer (Deutsche Bank)	Legacy Split	Business Overview	"What is the broad split of the legacy book (Retail vs LAP vs Wholesale)?"	Management deflected a specific split, stating the entire legacy book is running down proportionally as most of it (96%) is a "good book" paying regularly. Implication: Wholesale concentration remains the primary black box for analysts.	Exact split	2.5	Deflected

PATTERN FLAGS & SENTIMENT Analyst concern was heavily focused on the **Asset Transfer and Provisioning logic**. Analysts were trying to determine if the ₹4k Cr hit was a sign of deteriorating asset quality or a strategic accounting maneuver. Management was highly confident and detailed in explaining it as a "structural reset" to prepare SFL for a strategic partner while providing a massive safety net for SCL.

Analyst Sentiment Verdict: Analysts appear **cautiously convinced**. While the one-time loss is massive, the fact that net worth remained stable (thanks to the rights issue) and cash collections hit record levels (₹5k Cr in

H1) provides credibility. The friction point remains the **Wholesale/CRE split** within the legacy book, which management continues to guard with broad-brush commentary. Credibility improved this quarter because they delivered on the specific collection guidance given in Q1.

5. WHAT CHANGED vs PRIOR QUARTER

vs prior quarter (Q1FY25)

What Changed	Prior Quarter	This Quarter	Direction
Legacy AUM	€37,386 Cr	€30,918 Cr	↑ (Rapid Rundown)
Growth vs Legacy Mix	Legacy was majority	Growth AUM (51%) > Legacy (49%)	↑ (Positive Pivot)
Provision Pool	€6,287 Cr	€9,575 Cr (Imputed)	↑ (Strength)
Asset Quality (GNPA)	2.68%	2.40%	↑ (Lowest in 22 Qtrs)
SFL Status	Integrated Subsidiary	"Cleaned" Pure-Play Vehicle	↑ (Monetization Ready)
Management Focus	Regulatory/Name Change	Execution/Collections/Staffing	↑ (Growth Mode)
Cash Collections	Guided €3,000 Cr	Delivered €3,104 Cr	↑ (Execution)

STOP HERE.