

Issue Size & Market Cap	
Type of Issue	Rs. Mn
Fresh Issue	6,000
Offer for Sale	4,250
Total Issue Size	10,250
Post-Issue Market cap*	60,658

*At Upper Price Band

Issue Break-Up	
Reservation for	% of Issue
QIB	50%
NII (HNI)	15%
Retail	35%
Total	100%

Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	03rd Aug 2023
Bid/Offer Closing Date	07th Aug, 2023
Basis of Allotment	10th Aug 2023
Initiation of refunds	11th Aug, 2023
Credit of shares	14th Aug, 2023
Listing Date	16th Aug, 2023

Use of Net Proceeds
Towards augmenting the capital base to meet future capital requirements

General Information	
Book Running	ICICI Securities
Lead Managers	Axis Capital
	Kotak Mahindra Capital Company
Registrar	KFin Technologies

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MSME focused portfolio having pan-India presence... SUBSCRIBE

Business Overview:

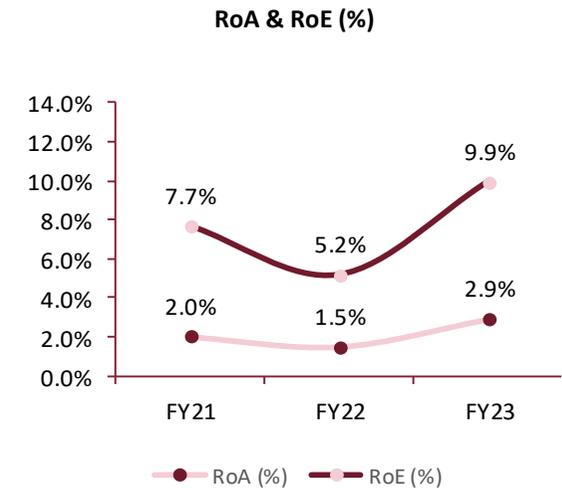
- **SBFC Finance** is a systemically important, non-deposit taking non-banking finance company (“NBFC-ND-SI”) offering Secured MSME Loans and Loans against Gold. It caters to entrepreneurs, small business owners, self-employed individuals, salaried and working-class individuals. It serves to customers in tier II and tier III cities who have a strong credit history but may lack formal proof of income documents.
- Its **AUM has grown at a CAGR of 49.2% to Rs. 49,428mn as of March 31, 2023**. Among MSME-focused NBFCs in India, it has one of the highest AUM growths. (CAGR of 44% in FY19-FY23)
- SBFC has 152 branches with a pan-India presence in 120 cities, spanning 16 Indian states and 2 UT.
- The disbursement growth was healthy between FY21-FY23 growing at a CAGR of 40%. It has reduced concentration risk across industries and sectors - no single industry contributes more than 10% of loan portfolio as of March 31, 2023. SBFC Finance focusses on disbursing loans with a ticket size in the range of **Rs. 0.50mn to Rs. 3mn (87.3% of AUM in FY23)**. The average ticket size of Secured MSME Loans, Loans against Gold and other unsecured loans, based on disbursed amounts was Rs. 0.99mn, Rs. 0.09mn and Rs. 0.69mn, respectively.
- Its complete portfolio of loans is originated in-house and it benefits from its risk management framework. It sources customers directly through its sales team and have a direct sourcing model through branch-led local marketing efforts, repeat customers or through walk-ins.
- **As of March 31, 2023, Gross NPA ratio was 2.43% and Net NPA ratio was 1.41%**. Among NBFCs, the Gross NPA for Secured MSME Loans for ticket sizes between Rs. 0.50mn to Rs. 3mn was 4.2% in March 2023. Similarly, SBFC Finance’s Gross NPA to AUM ratio was 1.97%.
- As of March 31, 2023, ~89.5% of Secured MSME Loan collections and 90.9% of unsecured loan collections were non-cash based EMI collections. **SBFC Finance average cost of borrowing was 8.22% for FY23**.
- SBFC has adopted technology since inception. For distribution, its has a **centralized real-time lending system**. Its **mobile application** enables customers to manage existing loans, in addition to servicing loans online. It has introduced ‘**Leviosa**’, a loan origination platform capable of on boarding and disbursing loans. For Loan against Gold portfolio, it has set up a dedicated ‘**Gold Genie**’ sales application, enabling gold loan disbursal at a customer’s home.
- It is backed by an dedicated management team having significant industry experience with a track record of delivering growth and profitability, across business cycles. Further, it is backed by marquee institutional investors such as the **Clermont Group, Arpwood Group and Malabar Group**, who add expertise to the operations, provide capital and strategic guidance.

Valuation and Views: At the upper price band, SBFC Finance is valued at 2.6x P/Bv (post issue basis). The issue is priced effectively and is the having the lowest P/Bx amongst its listed peer set. Five-Star Business Finance is leading valuation with a P/Bx of 5.1. Keeping in mind the under-penetration in the segment it operates and the loan growth potential of 18%-20% for FY23-FY26E. We recommend “**Subscribe**” to the issue.

Shareholding Pattern & Promoters participating in OFS

Shareholding Pattern						
	Pre Issue		Offer		Post Issue	
	# of shares (in Mn)	%	Type	# of shares (in Mn)	# of shares (in Mn)	%
Promoter	771.7	80.5%	OFS	-74.6	697.1	65.5%
Public	182.5	19.0%	Fresh Issue + OFS	179.8	362.3	34.0%
Employee Trust	4.8	0.5%	-	-	4.8	0.4%
Total	958.9	100.0%	Fresh Issue	105.3	1,064.2	100.0%

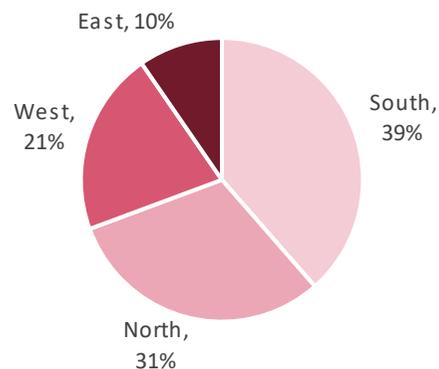
Selling Shareholders (Promoters)	Amount (in Mn)	# of Shares (in Mn)
Arpwood Partners Investment Advisors LLP	3,062.5	53.7
Arpwood Capital Private Ltd	751.6	13.2
Eight45 Services LLP	435.9	7.6
Total	4,250.0	74.6



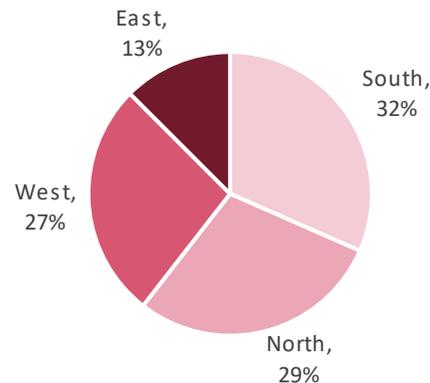
Pre-IPO placement: On May 23, 2023 the company allotted shares to Amansa Investments @ Rs. 55/share.

Pre-IPO Placement (Public)	Amount (in Mn)	# of Shares (in Mn)
Amansa Investments Ltd	1,500.0	27.3
Total	1,500.0	27.3

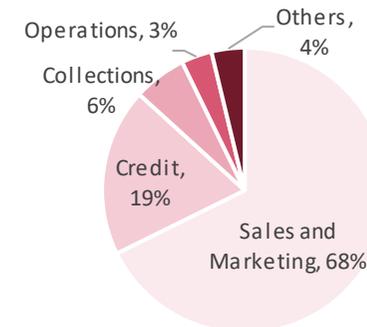
AUM, by Region (%) - FY23 - Rs. 49,428 Mn



Branches, by Region (%) - FY23 - 152



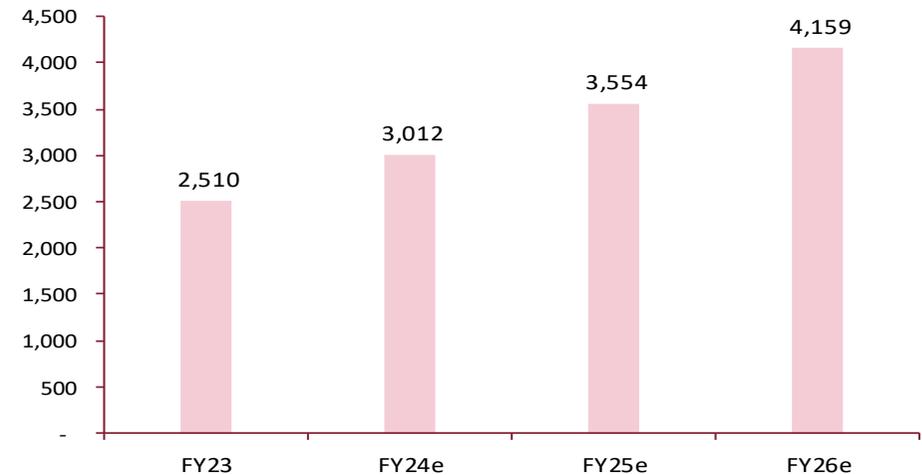
Employees, by department (%) - FY23 - 2822



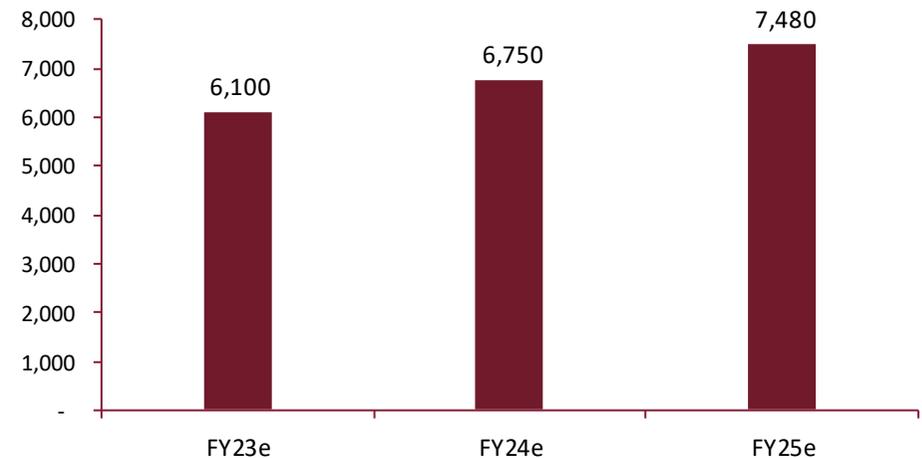
Industry

- As of June 20, 2023, ~16.9mn MSMEs have registered on UDYAM, of the estimated 70mn MSMEs in India, leaving many MSMEs **without access to organized finance owing to their unregistered status.**
- As of March 2022, **less than 15% of MSMEs** have access to credit in any manner and traditional institutions have historically refrained from providing credit to underserved or unserved MSMEs and self-employed individuals, leaving them to resort to credit from informal sources.
- **The credit gap was estimated at around Rs. 92tn in FY23, offering growth potential for financial institutions.**
- Further, with increasing presence of MSME lenders in smaller cities and lenders increasingly focusing on underserved customers, **the portfolio of secured MSME loans with ticket size between Rs.0.50mn and Rs. 3mn is expected to grow at a CAGR of 18%-20% between FY23 and FY26.**
- In addition, there has been **credit growth in non-metro cities**, owing to financial literacy, mobile penetration and government schemes aimed at bringing the unbanked within the formal banking system. As a result, the industry has witnessed an increase in access to formal credit to MSMEs, which could be **attributed to the increase in the number of MSMEs registered with the Ministry of Micro, Small and Medium Enterprises, to 13.09mn in FY23, from 0.50mn in FY16.**
- CRISIL MI&A believes that the scope to capture share from unorganized gold loan financiers', initiatives to increase awareness and increasing comfort of customers with gold loans due to the convenience are expected to help the industry grow moderately along with geographic diversification to markets beyond the southern part of India
- Demand for gold loans from micro enterprises and individuals to fund working capital and personal requirements is expected to increase owing to pickup in economic activity. In addition, with demand reviving and market expansion through doorstep gold loans model, **AUM is expected to grow with 10%-12% CAGR between FY23 and FY25.**

Secured MSME Loans Market Size (Rs. Bn) - (Rs. 0.5mn to Rs. 3.0mn Ticket size)



Gold Loans AUM (Organized) (Rs. Bn)



Strengths

- **Diversified pan-India presence with an extensive network to cater to target customer segment:** Lower geographic concentration risk allows to penetrate underbanked populations in tier II and tier III cities in India. It maintains low levels of AUM concentration/state despite growth over the years. While MSME focused NBFCs have a significant portion of their portfolio (between 25% to 42%) emanating from the largest state in their respective portfolio, SBFC Finance has the lowest proportion of AUM, being 17% in FY23, demonstrating better diversification and a granular, even spread. Our branches are spread across India with 29% in the North, 32% in the South, and 39% in the West and East collectively. As of March 31, 2023, Average district level penetration is 27.7% in the states in which it operates.
- **100% in-house sourcing, leading to favorable business outcomes:** 100% of loan portfolio of SBFC Finance is in-house origination, limiting reliance on direct selling agents or connectors in order to ensure a more direct, thorough understanding of the customer's profile. It has sales team of 1,911 personnel as of March 31, 2023, and has adopted a direct sourcing model through branch-led local marketing efforts, repeat customers or through walk-ins. It believes direct sourcing allows complete control over the quality of customers and processes involved for disbursement, which leads to better asset quality, compared to other methods of customer acquisition. This method results in lower churn rate of customers.
- **Comprehensive credit assessment, underwriting and risk management framework:** SBFC Finance core focus area is small enterprise borrowers, whose monthly income is up to Rs. 0.15mn, with a demonstrable track record of servicing loans. As of March 31, 2023, 82.3% of Secured MSME Loan customers have a CIBIL score above 700 at the time of origination, while 7.90% of customers are new to the formal secured lending ecosystem. Further, it focusses on collateral-backed lending and as of March 31, 2023, 96.4% of our loan portfolio was secured. It has developed a scorecard-based 'customer segmentation' approach. This segmentation classifies customers into 5 categories based on risk behavior. The categorization is done based on filtering more than 200 data points. Gross NPA for Grade 1, Grade 2, Grade 3, Grade 4 and Grade 5 was 0.79%, 1.09%, 1.56%, 2.42% and 5.73%, respectively. It also eliminates keyman risks in loans by insuring borrowers. In addition, loan portfolio has a spouse or parent as a co-borrower to ensure that there are joint holders for loans. For Loans against Gold it has dedicated in-house team of 167 chief valuers as of March 31, 2023.
- **Extensive on-ground collections infrastructure leading to maintenance of asset quality:** It has a three-tier collections infrastructure, comprising (i) tele-calling, (ii) field collection, and (iii) legal recovery, in order to optimize collections and minimize NPAs. Additionally, it deploys collection agencies to assist our inhouse collections team. As of March 31, 2023, ~89.5% of Secured MSME Loan collections and 90.9% of unsecured loan collections, were non-cash based EMI collections. Further, collection services are aided by a mobile application 'Delta' and a web application 'Omega', which are collections applications providing a priority list of overdue customers to the collection team in real-time. For FY23, Gross NPA ratio was 2.43% and Net NPA ratio was 1.41%.
- **Healthy liability franchise with low cost of funds:** Average cost of borrowing 8.22% for FY23 and Incremental Cost of Borrowings was 8.76% for FY23. As of March 31, 2023, its outstanding borrowings included Rs. 29,122mn from public and private sector banks and Rs.3,672mn from NBFCs and other financial institutions. As of March 31, 2023, total borrowings aggregated to Rs. 37,458mn, comprising primarily of TL of Rs. 32,794mn, WC demand loans from banks of Rs. 600mn, NCDs of Rs. 430mn and other collateralized borrowings of Rs. 3,634mn. SBFC Finance has received a rating of CARE A+ (Stable) for long term bank facilities in April 2023. In addition, it also has co-origination agreement with ICICI Bank Limited since 2019, through which ICICI Bank Limited and SBFC co-originate Secured MSME Loans at a mutually agreed ratio of 80:20, respectively. Loans sourced through the co-origination agreement are serviced entirely by us. This arrangement enables to extend priority sector loans jointly with the leading bank, creating a seamless flow of funds.

Business Strategies

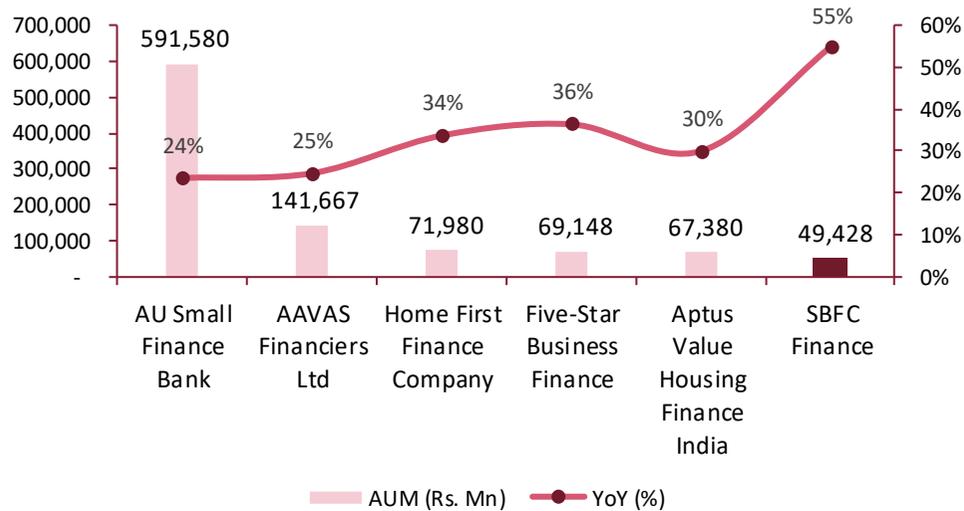
- **Leverage pan-India network to deepen penetration in target customer segment:** SBFC Finance intends to undertake geographical expansion by penetrating further in states in which we are already present. It witnesses higher AUM at branches with higher vintage, and it intends to set up new branches gradually. It is constantly evaluating additional locations using criteria and expect to continue to add branches to grow network in the near term. As of March 31, 2023, it reached an average district level penetration of 27.7% in the states in which we operate, calculated based on location of our branches. There is scope to continue to grow business further in these states, through increased penetration at the district level.
- **Expand product portfolio through offering affordable housing finance to target customer segment, utilizing existing network:** The company through its subsidiary SBFC Home Finance intends to focus on providing financing for affordable housing loans to individual borrowers from the EWS, LIG, and middle-income segments, with a focus on tier II and tier III cities and towns. This segment will benefit from higher transparency in the sector, increasing affordability and urbanization, and government schemes such as Housing for All. The increasing demand for housing is likely to continue the momentum of the NBFC housing credit market, especially affordable housing finance companies. The provision of housing loans through a registered housing finance entity provides certain competitive advantages, including increased leverage due to lower capital adequacy norms applicable to such entity, and lower risk-weightage applicable to housing finance loans.
- **Diversify source of borrowings and improve operating leverage:** Low cost of funds is due to several factors, primarily stable credit history, credit ratings, conservative risk management policies and brand equity. The company has also diversified funding sources by using term loans, proceeds from loans securitized, proceeds from the issuance of NCDs from banks and financial institutions to ensure that debt capital requirements are met at optimal costs. It intends to continue to diversify funding sources, enhance limits from existing sources, identify new sources and pools of capital and strengthen asset liability management policies further, with the aim of further optimizing borrowing costs. Further, it intends to expand and diversify lender base. It is focused on asset and liability management to ensure that it continue to have a positive asset-liability position.
- **Utilize technology to drive operational efficiency:** SBFC Finance has made strategic investments in information technology systems and implemented automated, digitized technology-enabled platforms and tools, to strengthen offerings and derive greater operational, cost and management efficiencies. It plans to ensure that information technology systems continue to help with several functions, including loan origination, credit underwriting, collections and customer service. It intends to strategically invest resources for leveraging technology for efficient operations as it scales up to ensure increased effectiveness of its operations. It intends to reduce operating costs and increase efficiency in business operations to improve the overall customer experience through increasing use of technology.

Key Risks

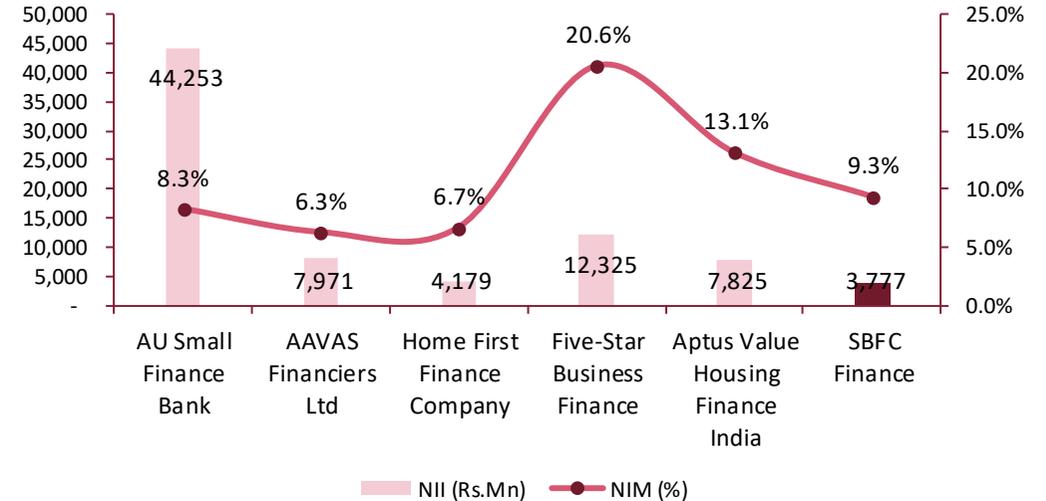
- Non-payment or default by borrowers may adversely affect business, results of operations and financial condition.
- The quality of portfolio may be impacted due to higher levels of NPAs and business may be adversely affected if SBFC Finance is unable to provide for such higher levels of NPAs.
- Inability to assess and recover the full value of collateral, or amounts outstanding under defaulted loans in a timely manner, or at all.
- Any downgrade in credit ratings could increase borrowing costs, affect ability to obtain financing.
- Asset-liability mismatches could affect liquidity.
- The company is exposed to operational risks, including employee negligence, fraud, petty theft, burglary and embezzlement, which could harm results of operations and financial position while handling gold loans.
- Significant portion of AUM and disbursements are from co-origination agreement with ICICI Bank Limited. The termination of co-origination agreement or similar agreements that we may enter into in future, may adversely affect growth and prospects.
- A portion of AUM is derived from Loans against Gold, and the top three gold financing NBFCs accounted for 70% share in NBFC gold loan book in FY23.
- Any deterioration in the performance of any pool of receivables securitized to banks and other institutions may adversely impact results of operations.
- Due to geographic concentration in certain states ,SBFC Finance is dependent on the general economic conditions and activities in these states.
- Unsecured loans are susceptible to certain operational and credit risks which may result in increased levels of NPA.

Peer Set Key Metrics

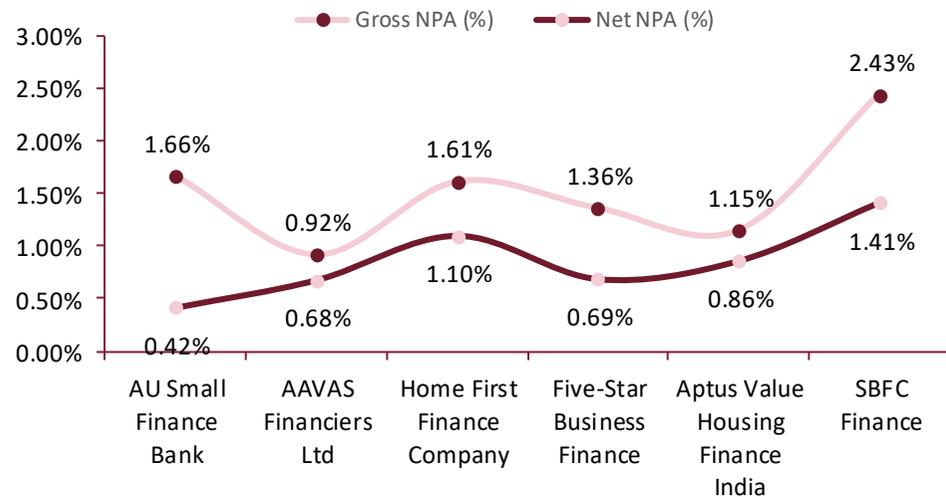
AUM (Rs. Mn) & YoY (%) - FY23



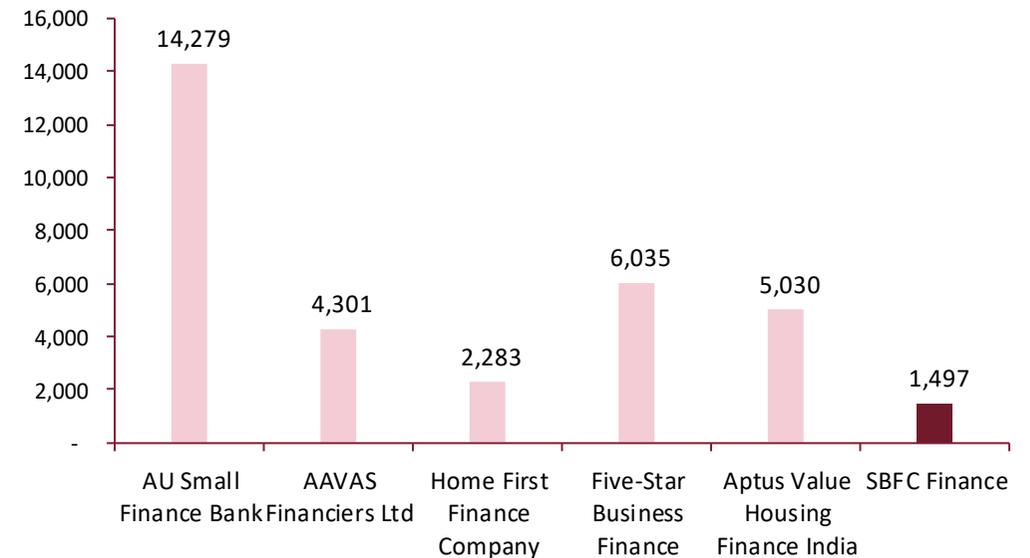
NII (Rs. Mn) & NIM (%) - FY23



Gross NPA (%) & Net NPA (%) - FY23

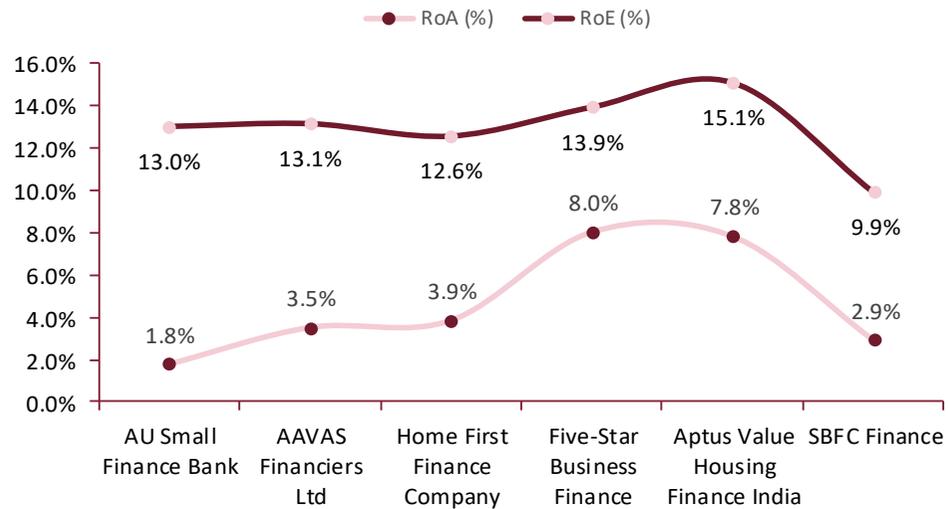


PAT (Rs. Mn) - FY23

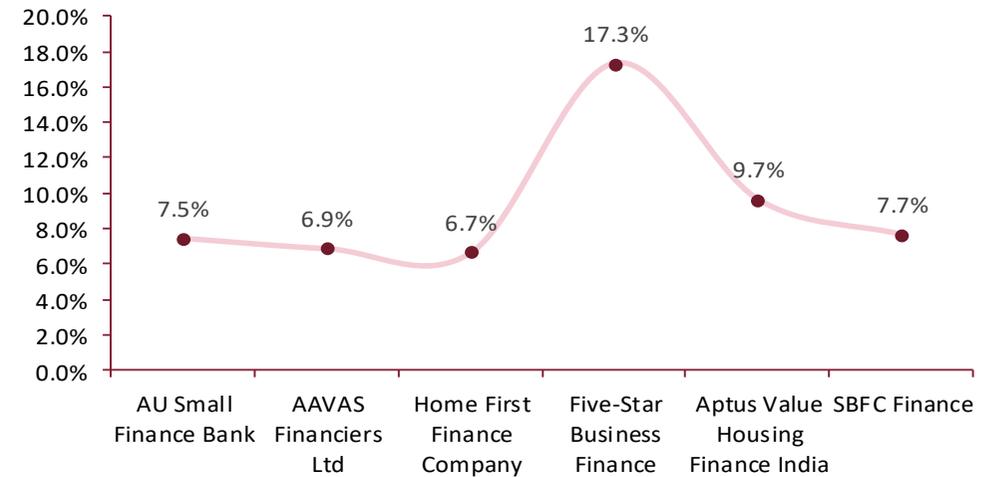


Peer Set Key Metrics

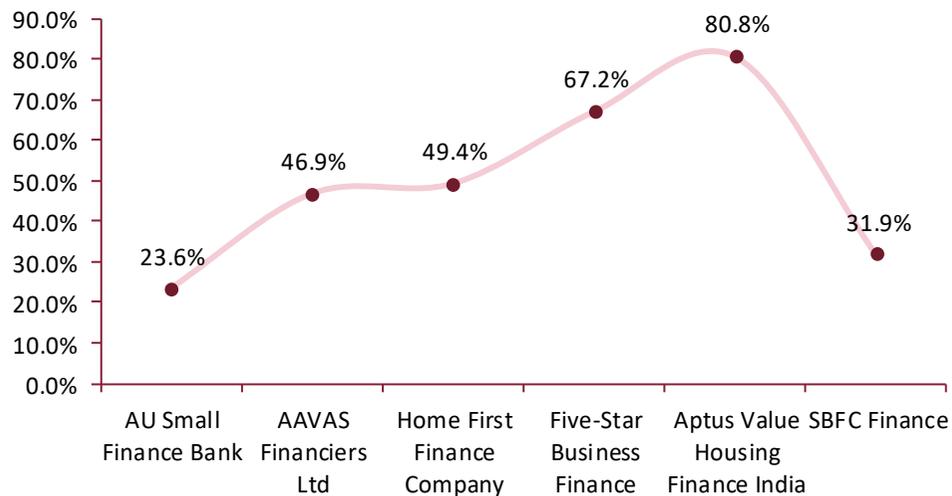
RoA (%) & RoE (%) - FY23



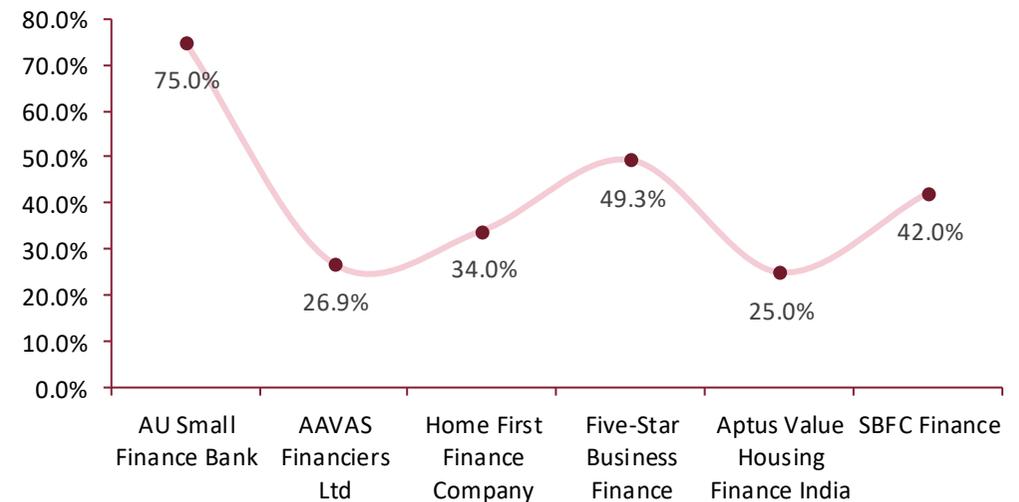
Spread (%) - FY23



Capital Adequacy Ratio (%) - FY23

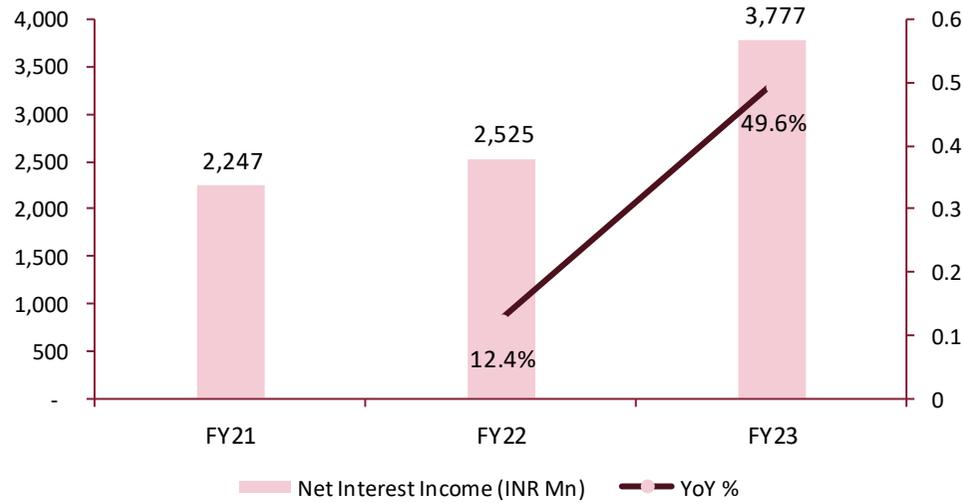


Provision Coverage Ratio (%) - FY23

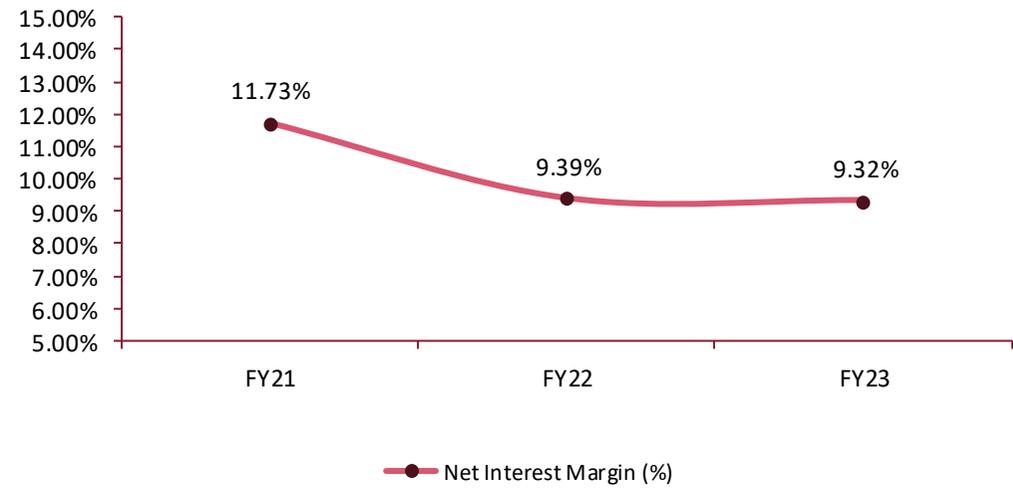


SBFC Finance : Financial story in charts

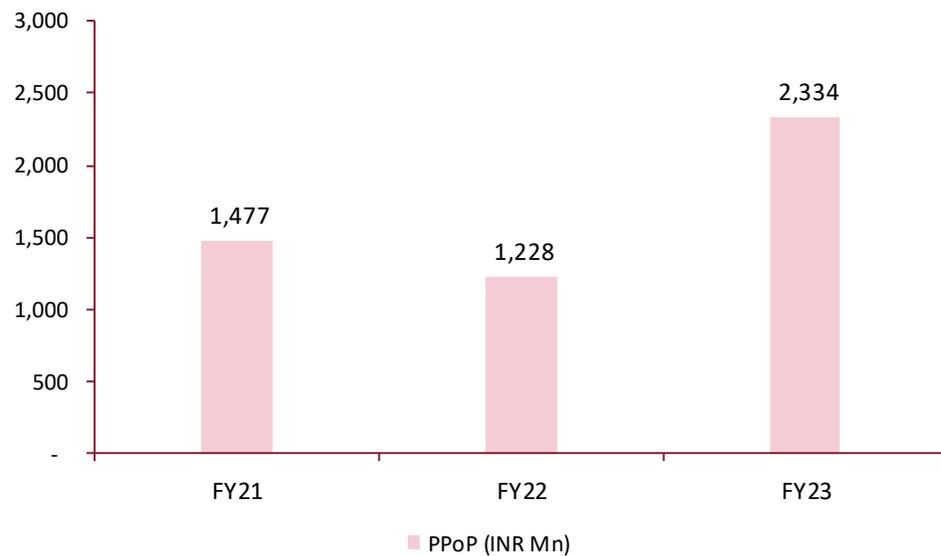
Net Interest Income (Rs. Mn)



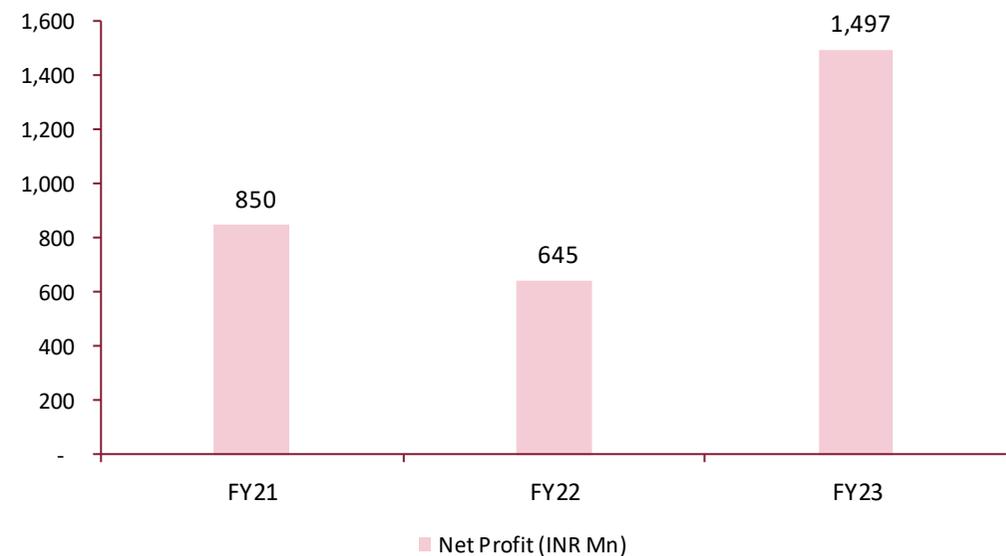
NIM (%)



Pre Provision Operating Profit (Rs. Mn)

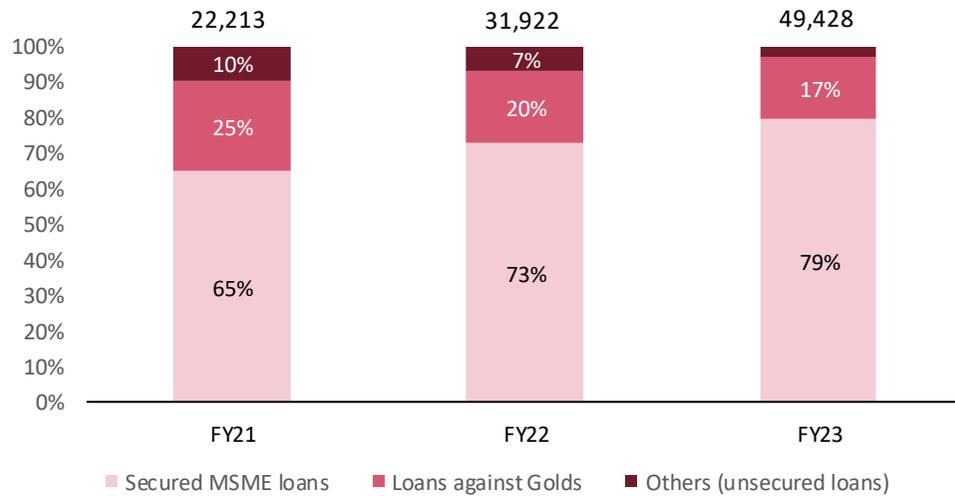


Net Profit (Rs. Mn)

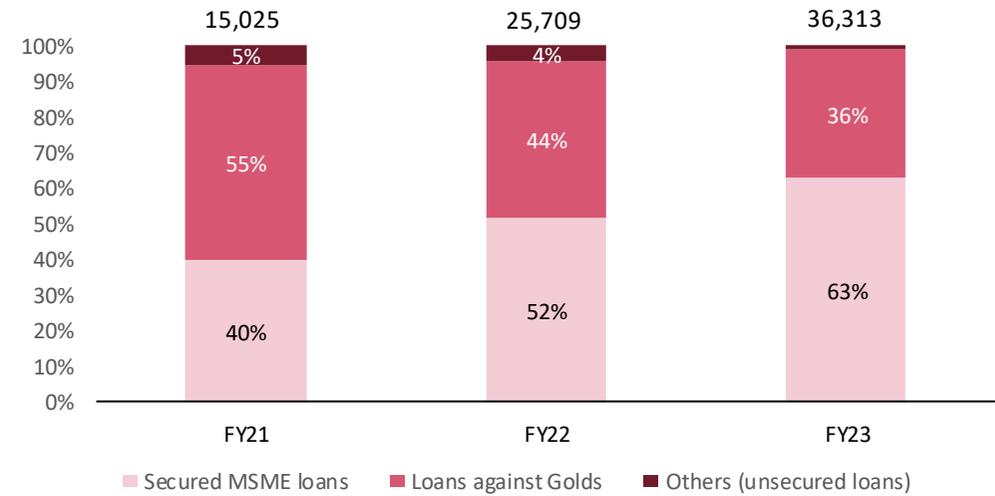


SBFC Finance : Financial story in charts

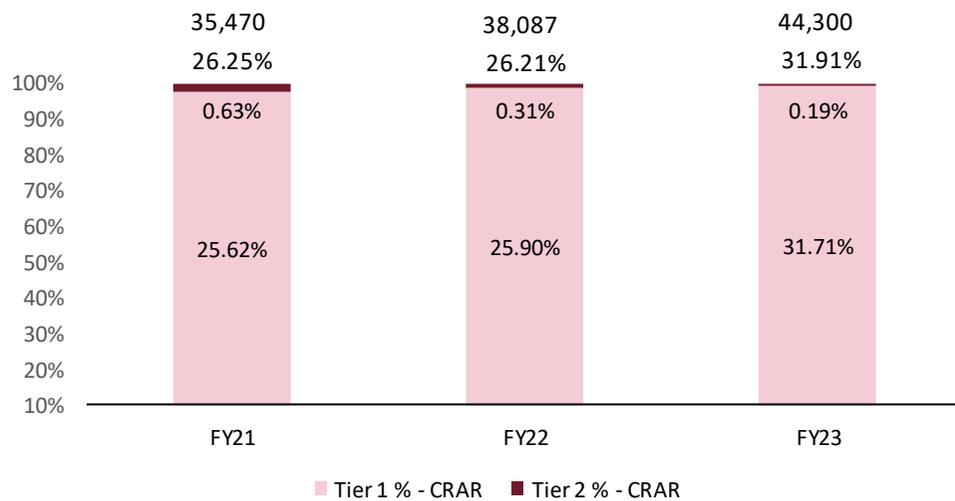
AUM, by segment - (Rs. Mn)



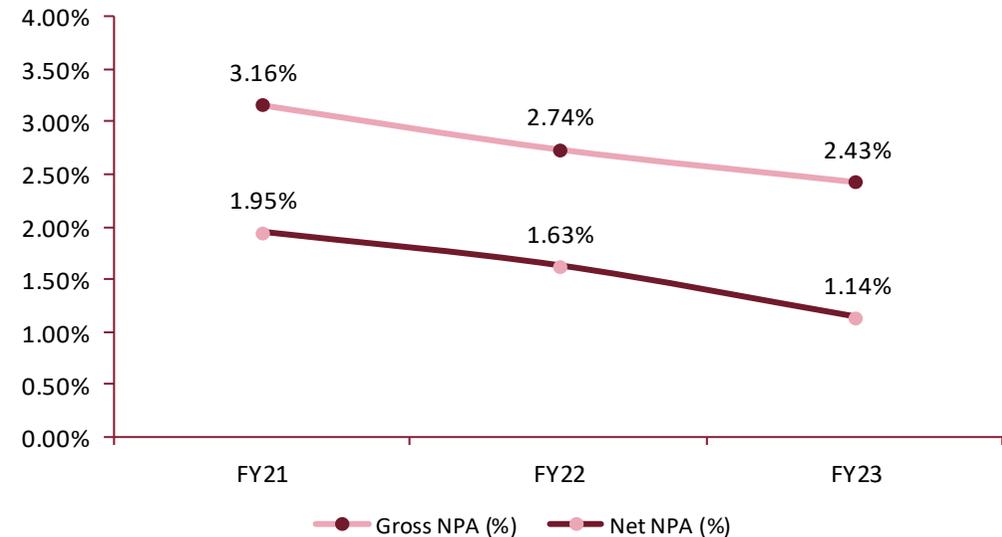
Disbursement, by segment - (Rs. Mn)



CRAR (%) & Risk weighted Assets (Rs. Mn)

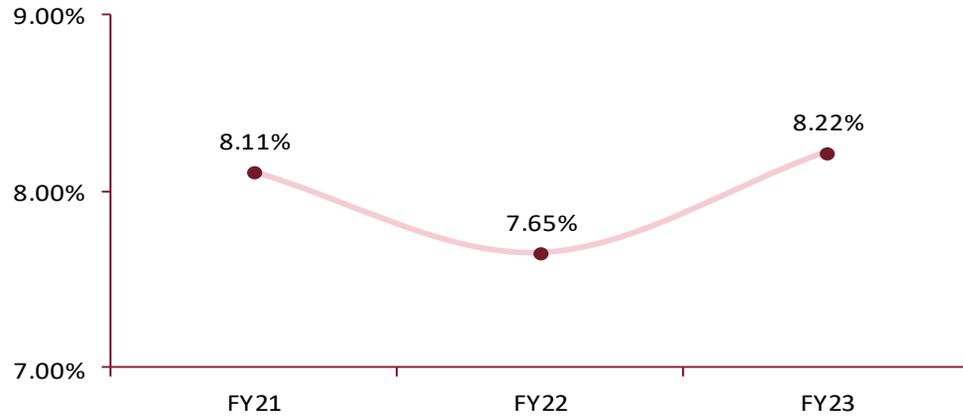


Gross NPA (%) and Net NPA (%)

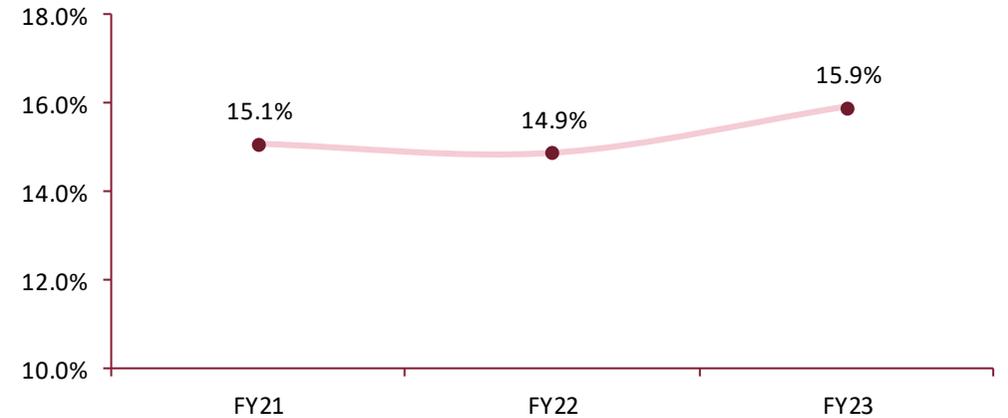


SBFC Finance : Financial story in charts

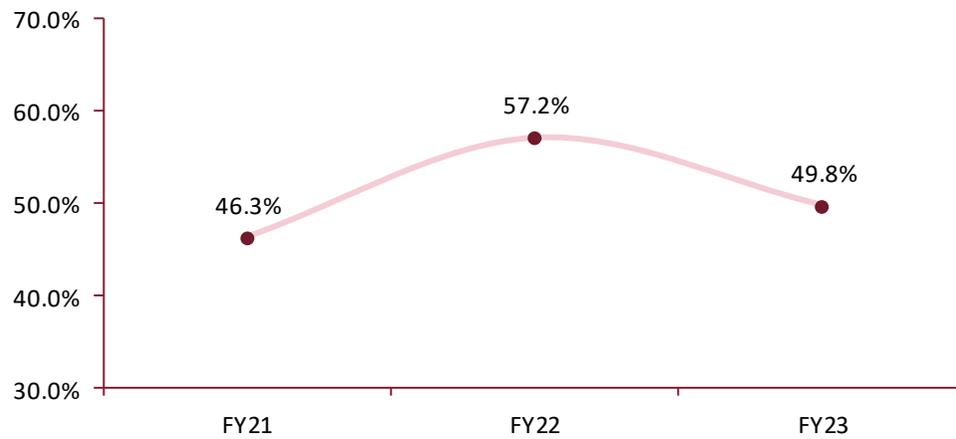
Average Cost of Borrowings - (%)



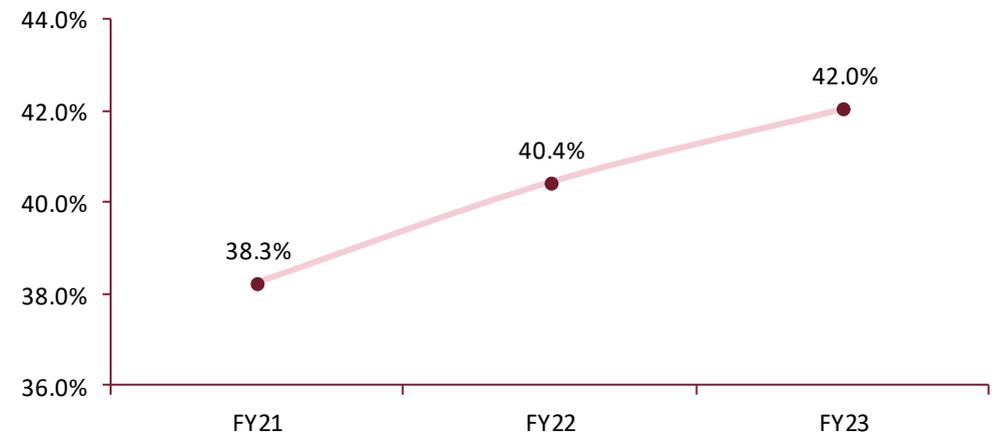
Average Yield on Gross Loan Book - (%)



Cost to Income Ratio - (%)



Provision Coverage Ratio (%)



INDSEC Rating Distribution

BUY : Expected total return of over 15% within the next 12-18 months.

HOLD : Expected total return between 0% to 15% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

Note: Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

DISCLOSURE

DISCLOSURE

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