

Recommendation	Subscribe	
Price Band	Rs 54-57	
Bidding Date	3 <sup>rd</sup> Aug-7 <sup>th</sup> Aug	
Book Running Lead Manager	ICICI Securities, Axis Capital, Kotak	
Registrar	KFin Technologies	
Sector	NBFC	
Minimum Retail Application- Detail At Cut off Price		
Number of Shares	260	
Minimum Application Money	Rs. 14820	
Discount to retail	0	
Payment Mode	ASBA	
Consolidated Financials (Rs Cr)	FY22	FY23
Total Income	310	464
Pre Prov. Profit	133	233
Adj PAT	65	150
Valuations (FY23 Post Issue)	Upper Band	
Market Cap (Rs Cr)	6066	
BVPS	24.4	
EPS	1.4	
P/B	2.3	
P/E	40.5	
Post Issue Shareholding Pattern		
Promoters	65.5%	
Public	34.5%	
Offer structure for different categories		
QIB (Including Mutual Fund)	50%	
Non-Institutional	15%	
Retail	35%	
Post Issue Equity (Rs. in cr)	1064.2	
Issue Size (Rs in cr)	1025	
Face Value (Rs)	10	
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## BACKGROUND

Incorporated in 2008, SBFC's primary customer base includes small business owners, self-employed individuals, and salaried and working-class individuals. SBFC provides Secured MSME Loans and Loans against Gold with an average ticket size of Rs. 10 Lacs (MSME Loans). Its robust underwriting processes in this unserved borrower segment has resulted in healthy portfolio quality indicators with GNPA/NNPA at 2.4%/1.4% combined with NIMs of ~9.3% resulting in ROA/ROE of 2.9%/9.9% for FY23. The AUM has grown to Rs. 4,415 Cr as of FY23, from Rs. 2,070 Cr as of FY21, at a CAGR of 46% between FY21-FY23.

### Objects and Details of the Issue:

The public issue consists of Offer For Sale of Rs. 425 Cr and Fresh Issue of Rs. 600 Cr aggregating to total issue size of Rs. 1025 Cr.

### Investment Rationale:

- Secured MSME loans with ticket size between Rs. 5 and 30 Lacs has witnessed high growth within the overall secured MSME portfolio.
- 100% in-house sourcing; comprehensive credit assessment and robust collections framework, leading to good asset quality
- Access to diversified and cost-effective long-term financing

### Valuation and Recommendation:-

SBFC is a proxy play on secured business loans to self-employed individuals which is one of the fastest growing segments in lending. SBFC has grown its AUM at a CAGR of 46% over FY21-23, one of the fastest amongst listed financials. With a loan book of just Rs. 4415 Cr as on FY23, the runway for accelerated growth is huge. Owing to SBFC's focus on low ticket size (Rs. 10 Lacs in MSME) and self employed segment; its business is a difficult one to establish and execute, especially with regards to the underwriting capabilities for this segment which acts as durable competitive advantage and thus SBFC faces low competition. SBFC is being offered at a discount to listed comparable peers on P/B basis and thus we recommend 'Subscribe' to the issue.

Financials (Cr)	FY20	FY21	FY22	FY23
Total Income	201	273	310	464
<b>Growth</b>	NA	36%	14%	50%
Pre Prov Profit	91	148	133	233
<b>Growth</b>	NA	63%	-10%	75%
PAT	35	85	65	150
<b>Growth</b>	NA	140%	-24%	132%
BVPS	14	15	16	24 #
EPS	0.3	0.8	0.6	1.4 #
ROA	1.2%	2.0%	1.5%	2.9%
ROE	3.8%	7.7%	5.2%	9.9%
P/E (Post IPO)	-	-	-	40.5 #
P/B (Post IPO)	-	-	-	2.3 #

Source: NBRR

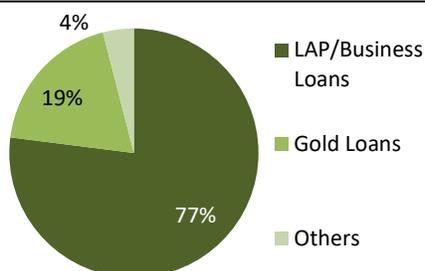
# denotes: on post IPO basis

## Company Background

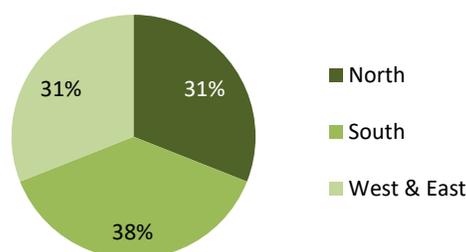
SBFC Finance Limited is a Non-Banking Finance Company (NBFC) incorporated in 2008. It is categorized as a systemically important, non-deposit-taking NBFC. The company's main focus is on providing financial services to underserved or unserved individuals and businesses, including entrepreneurs, small business owners, self-employed individuals, and salaried and working-class individuals.

The financial services offered are primarily in the form of Secured MSME Loans and Loans against Gold. It has a diversified pan-India presence through an extensive network with presence across 120 cities in 16 Indian states and 2 union territories. SBFC currently operates 152 branches in various regions.

### AUM Mix (Segmental)



### AUM Mix (State-wise)



Source: Company, NBRR

**The average ticket size (ATS) of Secured MSME Loans, Loans against Gold and other unsecured loans, on the basis of disbursed amounts is Rs 10 lacs, Rs 0.9 lacs and Rs 7 lacs respectively.**

SBFC has implemented a comprehensive and robust credit assessment, risk management and collections framework to identify, monitor and manage risks inherent in its line of business. 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.

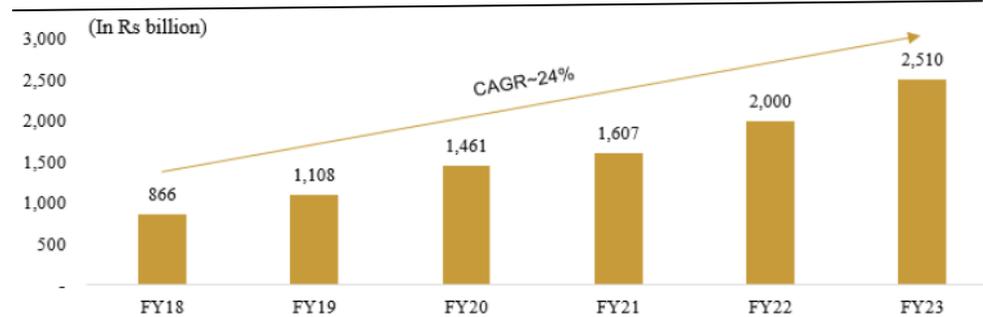
SBFC is backed by marquee institutional investors such as Clermont Group, Arpwood Group and Malabar Group, who provide their expertise to the operations, through their representatives on the Board. In addition to providing with capital, the institutional shareholders have assisted the company in strengthening its corporate governance framework.

## Investment Rationale

**Secured MSME loans with ticket size between Rs. 5 and 30 Lacs has witnessed high growth within the overall secured MSME portfolio**

According to CRISIL, secured MSME loans with ticket size between Rs 5 and Rs 30 Lacs extended to MSMEs, and individuals as reported in consumer bureau is estimated to be around Rs. 2.5 trillion, representing 30% of overall secured business loans outstanding, as of March 2023. Secured MSME loans in the Rs 5 to 30 Lacs ticket size band grew at a strong pace with portfolio registering a CAGR of 24% over FY18-23. Over the last few years, expansion in branch network, more data availability and government initiatives like GST, UDYAM, and increasing formalisation of the MSME segment has led to increasing focus of lenders, especially NBFCs, on this space. NBFCs cumulatively enjoyed a market share of 51% as of March 2023 in loans outstanding in the aforesaid ticket size band.

**Portfolio outstanding for secured MSME (Rs 5 - 30 Lacs) grew at 24% CAGR over FY18-23**



Source: Companies, NBRR

**100% in-house sourcing; comprehensive credit assessment and robust collections framework, leading to good asset quality**

SBFC directly sources customers through a sales team consisting of 1,911 employees, either through its branch-led local marketing efforts (i.e., door-to-door or specific referral marketing), repeat customers or through walk-ins. In-house sourcing allows for complete control over the quality of customer and processes involved, which leads to better asset quality, compared to other methods of customer acquisition. Their primary focus is on small enterprise borrowers with a monthly income of up to Rs 1.5 lakhs. These borrowers must also have a demonstrable track record of servicing loans, particularly in areas such as gold loans and loans for two-wheeler vehicles. Additionally, a CIBIL score above 700 at the time of origination is required which emphasizes creditworthiness and financial discipline among its borrowers.

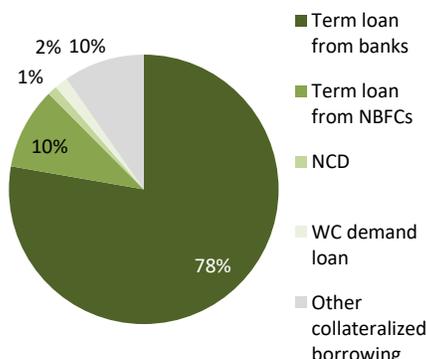
To maintain high asset quality and manage collections efficiently, SBFC has built an extensive on-ground technology driven infrastructure. It has a three-tier collections infrastructure, comprising (i) tele-calling, (ii) field collection, and (iii) legal recovery, in order to optimize collections and minimize NPAs. It also tracks collections in real time through its mobile application 'Delta'. As of March 31, 2023, approximately 89% of Secured MSME Loan collections and 91% of unsecured loan collections were conducted through non-cash-based EMI collections, thus reducing the cash management risk, and enabling customers to receive real-time payment receipts through SMS.

It has also introduced 'Leviosa', a loan origination platform capable of on-boarding and disbursing loans. For the loan against gold portfolio, a dedicated 'Gold Genie' sales application has been set enabling gold loan disbursement at a customer's home.

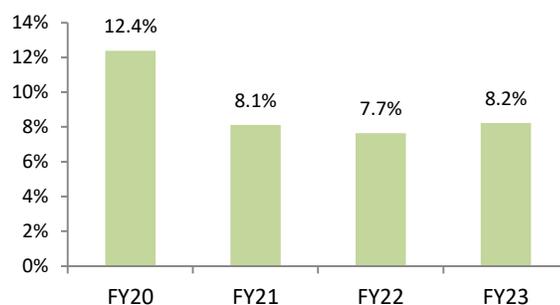
**Access to diversified and cost-effective long-term financing**

SBFC has secured financing from diversified sources of capital, including term loans, proceeds from loans securitized and proceeds from the issuance of NCD from banks and financial institutions to meet its capital requirements.

**Sources of borrowings (FY23)**



**Cost of borrowing**



Source: Companies, NBRR

**Key Risks**

**Economic slowdown can increase the risk of non-payment or default by borrowers from the low income segment**

SBFC has a concentration of loans to MSMEs with an average ticket size of Rs. 10 Lacs. As of 31st March, 2023, 81% of total AUM of secured MSME loan customers are self-employed. Most of the customers do not have credit histories supported by tax returns and other documents. SBFC may not receive updated information regarding any change in the financial condition of such customers. Thus it is difficult to carry out precise credit risk analysis on all customers. Self-employed customers and MSMEs are often perceived to be higher risk customers. A severe slowdown in the economy shall expose such self employed customers to higher risks thus impacting SBFC.

**Rising competition from NBFCs and SFBs in the longer term**

The small business finance industry in India is witnessing a gradual increase in competition from NBFCs and SFBs. Some of its competitors have more resources, a wider branch and distribution network, access to cheaper capital and superior technology. This may encourage competitors to expand and to achieve economies of scale to a greater extent. Thus if the competition increases, SBFCs growth and margins would get impacted.

## Valuation and Recommendation

SBFC is a proxy play on secured business loans to micro-entrepreneurs and self-employed individuals which is one of the fastest growing segments in lending. With its focus on 'Self Occupied Residential Property' as collateral and proven asset quality track record, the business appears less risky and more rewarding compared to many other listed NBFCs and SFBs engaged in segments such as vehicle loans, unsecured business loans, unsecured micro loans and wholesale. SBFC has grown its AUM at a CAGR of 46% over FY21-23, one of the fastest amongst listed financials. With a loan book of just Rs. 4415 Cr as on FY23, the runway for accelerated growth is huge.

Owing to SBFC's focus on low ticket size (Rs. 10 Lacs in MSME) and self employed segment; its business is a difficult one to establish and execute, especially with regards to the underwriting capabilities for this segment which acts as durable competitive advantage and thus SBFC faces low competition. This provides SBFC with some pricing power which is reflected in its Yields and NIMs.

As there is no direct listed comparable peer with respect to (i) Secured MSME Loans, PLUS (ii) identical Average Ticket Size, we compare SBFC with companies that are focused on either of these two criteria. We observe that although SBFC's return metrics are lower than others mainly due to higher opex. This is because the company has invested heavily in the business in the last couple of years and opex intensity shall reduce going forward which is likely to expand return ratios. On the other hand SBFC has demonstrated higher growth than others and with a lower base and widely spread out geographical presence, it is likely to continue to grow faster. SBFC is being offered at a discount to listed comparable peers on P/B basis and thus we recommend 'Subscribe' to the issue.

### Listed players in Secured MSME lending / similar average ticket size

As on FY23	Aavas	Aptus	Home First	Five Star	Average	SBFC
AUM (Rs Cr)	14,167	6,738	7,198	6,915	8,755	4,415
FY21-23 AUM CAGR	22%	29%	32%	25%	27%	46%
Avg Tkt Size (Rs Lacs)	9.0	8.0	11.1	2.4	8	10.0
<u>Customer Mix</u>						
Salaried	40%	40%	70%	15%	41%	20%
Self Employed	60%	60%	30%	85%	59%	80%
Competitive Intensity	Low	Low	Med-Low	Very Low		Low
<u>Business Mix</u>						
Home Loans	70%	65%	88%	0%	56%	0%
LAP/Business Loans	30%	35%	12%	100%	44%	77%
Gold Loans					0%	19%
Others					0%	4%
<u>Key Ratios</u>						
Yield	13.1%	17.0%	13.1%	24.2%	16.9%	15.9%
COF	7.6%	8.1%	7.4%	10.1%	8.3%	8.2%
Spreads	5.5%	8.9%	5.7%	14.1%	8.6%	7.7%
NIM	8.3%	8.9%	6.4%	18.0%	10.4%	9.3%
Cost/Income	45%	19%	36%	35%	33.7%	49.7%
Credit Cost	0.1%	0.5%	0.3%	0.3%	0.3%	0.9%
GNPA	0.9%	1.2%	1.6%	1.4%	1.3%	2.4%
NNPA	0.7%	0.9%	1.1%	0.7%	0.8%	1.4%
ROA	3.4%	7.1%	3.6%	8.1%	6.3%	2.9%
ROE	15.5%	18.0%	15.8%	18.2%	17.3%	9.9%
P/E (x) (Post IPO)	28.8	26.7	32.6	35.1	30.8	40.5
P/B (x) (Post IPO)	3.8	4.0	4.1	4.9	4.2	2.3

Source: NBRR

## Financials

P&L (Rs. Crs)	FY20	FY21	FY22	FY23
Interest earned	410	463	473	654
Interest expende	244	238	221	276
<b>NII</b>	<b>166</b>	<b>225</b>	<b>253</b>	<b>378</b>
Non interest incc	35	48	58	86
<b>Total income</b>	<b>201</b>	<b>273</b>	<b>310</b>	<b>464</b>
<i>Growth</i>	NA	36%	14%	50%
Total Op. expens	110	125	177	230
<i>Growth</i>	NA	14%	41%	31%
<i>Staff costs</i>	74	84	110	160
<i>Other Op Exp</i>	36	41	67	70
<b>Profit before prc</b>	<b>91</b>	<b>148</b>	<b>133</b>	<b>233</b>
<i>Growth</i>	NA	63%	-10%	75%
Provisions	32	34	47	32
Profit before tax	59	114	87	201
Taxes	23	29	22	52
<b>Net profit</b>	<b>35</b>	<b>85</b>	<b>65</b>	<b>150</b>
<i>Growth</i>	NA	140%	-24%	132%

Bal. Sheet (Rs. Crs)	FY20	FY21	FY22	FY23
Equity capital	742	797	807	890
Reserves & surplus	270	409	480	838
Net worth	1,012	1,205	1,287	1,727
Borrowings	3,056	2,860	3,107	3,927
Other liab and prov	140	166	121	92
<b>Total liab and equit</b>	<b>4,208</b>	<b>4,231</b>	<b>4,515</b>	<b>5,747</b>
Cash & Bank Balance	416	341	335	401
Investments	1,879	1,484	848	607
<b>Net Advances</b>	<b>1,548</b>	<b>2,070</b>	<b>2,982</b>	<b>4,415</b>
<i>Growth</i>	NA	34%	44%	48%
Other assets	365	336	349	324
<b>Total assets</b>	<b>4,208</b>	<b>4,231</b>	<b>4,515</b>	<b>5,747</b>

Asset Quality	FY20	FY21	FY22	FY23
GNPA ratio	2.3%	3.2%	2.7%	2.4%
NNPA ratio	1.6%	2.0%	1.6%	1.4%
Credit Cost	2.3%	1.9%	1.9%	0.9%

Other Parameters	FY20	FY21	FY22	FY23
AUM	1,648	2,221	3,192	4,942
<i>Growth</i>	NA	35%	44%	55%
Yield on Advances	15.8%	15.1%	14.9%	15.9%
Cost of Borrowings	12.4%	8.1%	7.7%	8.2%
Spread	3.4%	7.0%	7.2%	7.7%
NIM	12.0%	11.7%	9.4%	9.3%
CRAR	21.9%	26.3%	26.2%	31.9%
Cost / Income Ratio	54.7%	58.2%	72.0%	49.7%
ROA	1.2%	2.0%	1.5%	2.9%
ROE	3.8%	7.7%	5.2%	9.9%

Per Share Data	FY20	FY21	FY22	FY23
EPS (Diluted)	0.3	0.8	0.6	1.4
BVPS	13.6	15.1	16.0	19.4
BVPS (Post IPO)	13.6	15.1	16.0	24.4

Valuation Ratios	FY20	FY21	FY22	FY23
P/E (Post IPO)	170.9	71.3	94.0	40.5
P/BV	4.2	3.8	3.6	2.9
P/BV (Post IPO)	4.2	3.8	3.6	2.3

Source: Company data, NBRR

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