



SBFC Finance Ltd

Driving success with strategic financing



Kyon ki bhaiya, sabse bada rupaiya.

Subscribe at upper price band of INR 57

Driving success with strategic financing

SBFC Finance Limited (SBFC) is a significant non-banking finance company (NBFC-ND-SI) in India, established on January 25, 2008. It offers Secured MSME Loans and Loans against Gold, primarily catering to entrepreneurs, small business owners, self-employed individuals, salaried, and working-class individuals.

SBFC has shown impressive growth with a 44% CAGR in assets under management (AUM) from Fiscal 2019 to Fiscal 2023 and a 40% CAGR in disbursements during the same period. Operating in 120 cities across 16 states and 2 union territories, the company has a strong pan-India presence with 152 branches.

They are backed by marquee institutional investors such as the Clermont Group, Arpwood Group and Malabar Group, who provide their expertise to their operations, including through their representatives on their Board. In addition to providing them with capital, their institutional shareholders have assisted them in their growth through strategic guidance based on their previous experience and insight into the financial services sector in India

Their AUM is well-diversified across different regions, with approximately 31% in the North, 39% in the South, and the rest in the West and East combined as of March 31, 2023. To facilitate collections, SBFC uses two applications named 'Delta' and 'Omega,' providing real-time priority lists of overdue customers to their collection team.

SBFC's proposed issue size is INR 1,025 cr out of which INR 600 cr is a fresh issue and the remaining INR 425 cr is OFS. The proposed fresh issue will be utilized towards augmenting the Company's capital base to meet their future capital requirements arising out of the growth of the business and assets.

At the IPO price of INR 57 (upper price band), SBFC is valued at P/B of 3.6x. Considering the growth opportunities in the company and strong fundamentals, we recommend a SUBSCRIBE rating

| | |
|----------|------|
| Industry | NBFC |
|----------|------|

Issue Details

| | |
|-------------|--------------------------|
| Listing | BSE & NSE |
| Open Date | 3 rd Aug 2023 |
| Close Date | 7 th Aug 2023 |
| Price Band | INR 54-57 |
| Face Value | INR 10 |
| Market Lot | 260 shares |
| Minimum Lot | 1 Lot |

Issue Structure

| | |
|---------------------|---------------|
| Offer for Sale | 41.5% |
| Fresh Issue | 58.5% |
| Issue Size (Amt) | INR 1025 cr |
| Issue Size (Shares) | 17,98,89,950 |
| QIB Share (%) | ≤ 50% |
| Non-Inst Share (%) | ≥ 15% |
| Retail Share (%) | ≥ 35% |
| Pre issue sh (nos) | 95,89,08,906 |
| Post issue sh (nos) | 106,42,37,454 |
| Post issue M Cap | 6,066 cr |

| Shareholding (%) | Pre (%) | Post (%) |
|------------------|------------|------------|
| Promoter | 80.48 | 65.51 |
| Public | 19.03 | 34.05 |
| Employee Trust | 0.5 | 0.45 |
| TOTAL | 100 | 100 |

Key Financial Data (INR Cr, unless specified)

| | Revenue | PPoP | PAT | PPoP (%) | PAT (%) | Adj EPS (₹) | BVPS (₹) | RoE (%) | RoA (%) | NIM (%) | P/B (X) |
|------|---------|-------|-------|----------|---------|-------------|----------|---------|---------|---------|---------|
| FY21 | 507.1 | 152.8 | 85.0 | 30.1 | 16.8 | 1.1 | 10.9 | 10.0 | 2.0 | 11.7 | 5.2 |
| FY22 | 529.1 | 132.9 | 66.8 | 25.1 | 12.2 | 0.8 | 11.6 | 6.6 | 1.5 | 9.4 | 4.9 |
| FY23 | 732.8 | 238.6 | 149.7 | 32.6 | 20.4 | 1.7 | 15.6 | 12.0 | 2.9 | 9.3 | 3.6 |

Issue Structure and Offer Details

The proposed fresh issue size of SBFC is INR 1025 cr (INR 425 cr OFS and 600 cr fresh issue) and the price band for the issue is in the range of INR 54– 57 and the bid lot is 260 shares and multiples thereof.

| Issue Structure | | |
|-------------------|--------------------------------|-----------------------|
| Investor Category | Allocation | No. of shares offered |
| QIB | Not more than 50% of the Offer | 8,90,13,156 |
| NIB | Not less than 15% of the Offer | 2,67,03,948 |
| Retail | Not less than 35% of the Offer | 6,23,09,210 |

Number of shares based on a higher price band of INR 57

Source: Company Reports

| Details of the selling shareholders | | |
|---|-------------------------|--------------------|
| Promoter Selling shares | Amount offered | No of shares |
| Arpwood Partners Investment Advisors LLP | Not more than 306.25 Cr | 5,37,28,070 |
| Arpwood Capital Pvt Ltd | Not more than 75.16 Cr | 1,31,86,315 |
| Eight45 Services LLP | Not more than 43.59 Cr | 76,47,017 |

The amount is based on a higher price band of INR 57

Source: Company Reports

SBFC financial summary and analysis

| Fig in INR cr | FY20 | FY21 | FY22 | FY23 |
|---|----------------|----------------|----------------|----------------|
| Interest income | 409.7 | 463.2 | 473.2 | 654.2 |
| Interest on loans | 214.5 | 277.4 | 382.5 | 595.3 |
| <i>Interest yield on loans (%)</i> | | <i>15.3</i> | <i>15.1</i> | <i>16.1</i> |
| Interest on deposits | 7.2 | 13.8 | 7.1 | 14.6 |
| <i>Interest yield on deposits (%)</i> | | <i>3.6</i> | <i>2.1</i> | <i>4.0</i> |
| Interest on investments | 188.0 | 172.0 | 83.6 | 44.3 |
| <i>Interest yield on investments (%)</i> | | <i>10.2</i> | <i>7.2</i> | <i>6.1</i> |
| Net gain on fair value change & derecognition | 11.5 | 13.1 | 15.7 | 14.8 |
| Fees & commission income | 17.5 | 24.2 | 27.2 | 41.3 |
| <i>Fees & commission income as % of advances</i> | <i>1.1</i> | <i>1.2</i> | <i>0.9</i> | <i>0.9</i> |
| Other operating income | 6.0 | 6.7 | 12.9 | 22.6 |
| <i>Other operating income as % of advances</i> | <i>0.4</i> | <i>0.3</i> | <i>0.4</i> | <i>0.5</i> |
| Total income | 444.7 | 507.1 | 529.1 | 732.8 |
| <i>YoY Growth (%)</i> | | <i>14.0</i> | <i>4.3</i> | <i>38.5</i> |
| Interest cost | 244.2 | 238.5 | 220.6 | 276.5 |
| <i>Cost of borrowing (%)</i> | | <i>8.2</i> | <i>7.7</i> | <i>8.3</i> |
| Net interest income | 165.5 | 224.7 | 252.5 | 377.7 |
| <i>Calculated NIM</i> | | <i>7.1</i> | <i>7.4</i> | <i>7.8</i> |
| Net Loss on derecognition of financial instrum | 0.0 | 0.0 | 10.7 | 0.0 |
| Other expenses | 32.8 | 31.6 | 55.3 | 57.7 |
| Employee cost | 73.6 | 84.2 | 109.5 | 160.1 |
| Total operating cost | 106.4 | 115.8 | 175.5 | 217.8 |
| <i>YoY Growth (%)</i> | | <i>8.9</i> | <i>51.5</i> | <i>24.1</i> |
| <i>Operating cost to total income ratio (%)</i> | <i>23.9</i> | <i>22.8</i> | <i>33.2</i> | <i>29.7</i> |
| Pre-provisioning profit | 94.0 | 152.8 | 132.9 | 238.6 |
| <i>PPoP margin (%)</i> | <i>21.1</i> | <i>30.1</i> | <i>25.1</i> | <i>32.6</i> |
| Depreciation | 8.2 | 9.5 | 11.8 | 12.7 |
| Impairment on financial instruments | 0.0 | 33.6 | 36.1 | 32.1 |
| <i>Impairment on financial instruments as % of advances</i> | | <i>1.6</i> | <i>1.2</i> | <i>0.7</i> |
| Other non-operating income | 0.2 | 4.4 | 4.0 | 7.6 |
| PBT | 86.0 | 114.1 | 89.0 | 201.4 |
| <i>PBT margin (%)</i> | <i>19.3</i> | <i>22.5</i> | <i>16.8</i> | <i>27.5</i> |
| Tax | 23.1 | 29.1 | 22.2 | 51.7 |
| <i>Tax rate (%)</i> | <i>26.9</i> | <i>25.5</i> | <i>24.9</i> | <i>25.6</i> |
| Net profit | 62.9 | 85.0 | 66.8 | 149.7 |
| <i>Net margin (%)</i> | <i>14.2</i> | <i>16.8</i> | <i>12.6</i> | <i>20.4</i> |
| Gross NPA | | 25.5 | 33.5 | 45.5 |
| <i>Gross NPA (%)</i> | | <i>3.2</i> | <i>2.8</i> | <i>2.4</i> |
| Net NPA | | 41.2 | 49.4 | 62.7 |
| <i>Net NPA (%)</i> | | <i>2.0</i> | <i>1.7</i> | <i>1.4</i> |
| <i>Provision coverage ratio</i> | | <i>38.3</i> | <i>40.4</i> | <i>42.0</i> |
| Gross advances | | 2,136.8 | 3,065.3 | 4,523.5 |
| Share Capital | 742.3 | 796.7 | 806.8 | 889.6 |
| Share Warrants & Outstandings | 17.8 | 21.7 | 21.4 | 30.2 |
| Total Reserves | 252.4 | 386.8 | 459.0 | 807.6 |
| Shareholder's Funds | 1,012.5 | 1,205.1 | 1,287.2 | 1,727.3 |
| Borrowings | 3,055.6 | 2,768.2 | 2,939.9 | 3,739.1 |
| Deferred Tax Assets / Liabilities | 24.5 | 23.5 | 19.5 | 12.6 |
| Provisions | 12.3 | 42.6 | 68.9 | 222.1 |
| Other financial liabilities | 109.3 | 228.3 | 256.1 | 254.5 |
| Payables | 6.1 | 5.9 | 12.1 | 12.9 |
| Total Liabilities | 4,220.3 | 4,273.5 | 4,583.7 | 5,968.4 |
| Advances | 1,548.2 | 2,070.2 | 2,982.4 | 4,415.3 |
| <i>YoY Growth (%)</i> | | <i>33.7</i> | <i>44.1</i> | <i>48.0</i> |
| Investments | 1,879.1 | 1,484.3 | 848.1 | 606.7 |
| Bank balance other than cash | 190.8 | 203.1 | 183.8 | 216.9 |
| Cash balance | 225.1 | 138.3 | 151.5 | 183.4 |
| Goodwill | 260.4 | 260.4 | 260.4 | 260.4 |
| Net block | 32.4 | 39.0 | 35.7 | 33.7 |
| Other intangible assets | 1.0 | 1.7 | 3.3 | 2.4 |
| Other assets | 83.3 | 76.6 | 118.5 | 249.6 |
| Total Assets | 4,220.3 | 4,273.5 | 4,583.7 | 5,968.4 |
| Post listing number of shares | 106.4 | 106.4 | 106.4 | 106.4 |
| Adjusted Network | | 1,164.0 | 1,237.8 | 1,664.6 |
| Post listing BVPS | | 10.9 | 11.6 | 15.6 |
| P/B on higher price band of INR 57 per share | | 5.2 | 4.9 | 3.6 |

Source: Ventura Research

Disclosures and Disclaimer

Ventura Securities Limited (VSL) is a SEBI registered intermediary offering broking, depository and portfolio management services to clients. VSL is member of BSE, NSE and MCX-SX. VSL is a depository participant of NSDL. VSL states that no disciplinary action whatsoever has been taken by SEBI against it in last five years except administrative warning issued in connection with technical and venial lapses observed while inspection of books of accounts and records. Ventura Commodities Limited, Ventura Guaranty Limited, Ventura Insurance Brokers Limited and Ventura Allied Services Private Limited are associates of VSL. Research Analyst (RA) involved in the preparation of this research report and VSL disclose that neither RA nor VSL nor its associates (i) have any financial interest in the company which is the subject matter of this research report (ii) holds ownership of one percent or more in the securities of subject company (iii) have any material conflict of interest at the time of publication of this research report (iv) have received any compensation from the subject company in the past twelve months (v) have managed or co-managed public offering of securities for the subject company in past twelve months (vi) have received any compensation for investment banking merchant banking or brokerage services from the subject company in the past twelve months (vii) have received any compensation for product or services from the subject company in the past twelve months (viii) have received any compensation or other benefits from the subject company or third party in connection with the research report. RA involved in the preparation of this research report discloses that he / she has not served as an officer, director or employee of the subject company. RA involved in the preparation of this research report and VSL discloses that they have not been engaged in the market making activity for the subject company. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of VSL. This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients / prospective clients of VSL. VSL will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of clients / prospective clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. And such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document. The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accepted accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by VSL, its associates, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts. The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. We do not provide tax advice to our clients, and all investors are strongly advised to consult regarding any potential investment. VSL, the RA involved in the preparation of this research report and its associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report/document has been prepared by VSL, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. VSL has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change. This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of VSL. This report or any portion hereof may not be printed, sold or distributed without the written consent of VSL. This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of VSL and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection. This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Securities Market.

Ventura Securities Limited - SEBI Registration No.: INH000001634

Corporate Office: I-Think Techno Campus, 8th Floor, 'B' Wing, Off Pokhran Road No 2, Eastern Express Highway, Thane (W) – 400608