IPO Note

August 02, 2023

SBFC Finance Limited

HDFC securities
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20 YEARS

Issue Snapshot:
Issue Open: Aug 03 – Aug 07, 2023

Price Band: Rs. 54 – 57 (Discount of Rs 2 for all eligible employees)

*Issue Size: 179,824,561 eq sh (Fresh Issue of Rs 600 cr + Offer for sale of Rs.425.0 cr)

Reservation for:

QIB	upto	50% eq sh
Non-Institutional	atleast	15% eq sh

((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))

Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 19.26 (March 31, 2023)

Bid size: - 260 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	958.91 cr
*Post issue Equity:	Rs.	1064.17 cr

Listing: BSE & NSE

Book Running Lead Managers: ICICI Securities Limited, Axis Capital Limited, Kotak Mahindra Capital Company Limited

Sponsor Bank: Axis Bank Ltd & ICICI Bank Ltd

Registrar to issue: KFin Technologies Limited

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	80.48	65.51
Public & Employees	19.52	34.49
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

SBFC Finance Limited (SBFC) is a systemically important, non-deposit taking non-banking finance company offering Secured MSME Loans and Loans against Gold, with a majority of its borrowers being entrepreneurs, small business owners, self-employed individuals, salaried and working class individuals. Among MSME-focused NBFCs in India, it has one of the highest assets under management ("AUM") growth, at a CAGR of 44% in the period from Fiscal 2019 to Fiscal 2023. It has also witnessed healthy disbursement growth, at a CAGR of 40% between Fiscal 2021 and Fiscal 2023.

SBFC's products allow many underserved and underbanked customers to thrive. As of March 31, 2023, the average ticket size ("ATS") of Secured MSME Loans, Loans against Gold and other unsecured loans, on the basis of disbursed amounts was Rs.0.99 million, Rs.0.09 million and Rs.0.69 million, respectively. Among NBFCs, the Gross NPA for Secured MSME Loans for ticket sizes between Rs.0.50 million and Rs.3.00 million was 4.2% in March 2023. As of March 31, 2023, its Gross NPA to AUM ratio for ticket sizes between Rs.0.50 million and Rs.3.00 million was 1.97%. Total AUM as of March 31, 2021, March 31, 2022 and March 31, 2023 was Rs.22,213.23 million, Rs.31,921.81 million and Rs.49,428.23 million, respectively. As of March 31, 2021, March 31, 2022 and March 31, 2023, SBFC had provided loans to 56,587, 72,816 and 102,722 customers, respectively. It serves customers in tier II and tier III cities, thereby fostering entrepreneurship in these regions, focusing on customers who has a strong credit history but may lack formal proof of income documents.

SBFC's has a diversified pan-India presence, with an extensive network in its target customer segment. As of March 31, 2023, it has an expansive footprint in 120 cities, spanning 16 Indian states and two union territories, with 152 branches. Its geographically diverse distribution network, spread across the North, South, East and West zones, allows it to penetrate underbanked populations in tier II and tier III cities in India. The Company's AUM is diversified across India, with 30.84%, being Rs.15,242.41 million, in the North (in the states of Chandigarh, Delhi, Haryana, Punjab, Rajasthan, Uttar Pradesh and Uttarakhand), 38.53%, being Rs.19,047.97 million, in the South (in the states of Karnataka, Andhra Pradesh, Telangana, Tamil Nadu and Puducherry), and 30.63%, being Rs.15,137.85 million, in the West and East (in the states of Gujarat, Madhya Pradesh, Maharashtra, West Bengal, Assam and Bihar) collectively, as of March 31, 2023. Its disbursements across zones are also well-distributed, and it has reduced its concentration risk across industries and sectors, as demonstrated by the fact that no single industry, including the manufacturing sector,
contributes more than 10% of its loan portfolio as of March 31, 2023.

The Company's complete portfolio of loans has in-house origination and benefits from its risk management framework. Leveraging significant operational experience, SBFC has set up stringent credit quality checks and customized operating procedures that exist at each stage for comprehensive risk management. It primarily focusses on small enterprise borrowers, whose monthly income is up to Rs.0.15 million, with a demonstrable track record of servicing loans such as gold loans, loans for two-wheeler vehicles and have a CIBIL score above 700 at the time of origination. It sources customers directly through its sales team of 1,911 employees as of March 31, 2023, and has adopted a direct sourcing model through branch-led local marketing efforts, repeat customers or through walk-ins, which has helped it maintain contact with its customers and establish strong relationships with them, high levels of customer satisfaction and increased loyalty. The Company has an experienced and dedicated management team with significant industry experience and who has demonstrated their ability to deliver growth and profitability, across business cycles.

Objects of Issue:

The Offer comprises a Fresh Issue aggregating up to Rs. 6,000 million by the Company and an Offer for Sale aggregating up to Rs.4,250 million by the Promoter Selling Shareholders.

Offer for Sale

Each Promoter Selling Shareholder will be entitled to its respective share of the proceeds of the Offer for Sale after deducting its respective proportion of the Offer related expenses and relevant taxes thereon. The Company will not receive any proceeds from the Offer for Sale by the Promoter Selling Shareholders and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.

Fresh Issue

SBFC proposes to utilize the Net Proceeds towards augmenting the Company's capital base to meet future capital requirements arising out of the growth of the business and assets. Further, the Company expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges, enhancement of the Company's brand name and creation of a public market for its Equity Shares in India.

Competitive Strengths

Diversified pan-India presence with an extensive network to cater to target customer segment: SBFC has strategically focused its expansion within its target customer segment which offers significant growth opportunities. It is a lender that provides loans to borrowers being entrepreneurs, small business owners, selfemployed individuals, salaried and working class individuals. Most small businesses in India do not maintain documents such as income proof, business registration, GST registration, income tax filings, and bank statements which makes access to credit challenging. Its understanding of local characteristics of these markets and customers has allowed it to address the needs of low and middle income customers and assisted it to penetrate deeper into such markets. As of March 31, 2023, it has an expansive footprint in 120 cities, spanning 16 Indian states and two union territories, with 152 branches. The extent of its network allows it to service its existing customers and attract new customers as a result of personal relationships cultivated through proximity and frequent interaction by its employees.

Branches of SBFC are also spread across India to reduce concentration risk, with 28.95% in the North, 31.58% in the South, and 39.47% in the West and East collectively, as of March 31, 2023, and through its 152 branches, it strategically focuses for untapped customers with potential for beneficial yield. Its presence in 16 states and two union territories reduces its concentration risk in comparison to peers, while also allowing it to penetrate a larger number of territories without the risk of entry into an unfamiliar market. It adopts a calibrated strategy of utilizing neighbouring branches to evaluate the local credit environment and focus on hiring local staff with an understanding of the catchment area, local personal and professional networks and the market. It also enables it to reduce its exposure to local or regional economic downturns, disruptions from political circumstances and/or natural disasters. SBFC has made significant investments in terms of infrastructure and personnel in setting up its branch network in its existing geographies. It has adopted a contiguous strategy wherein it expands across regions in India where it has a presence and expand to adjacent geographies by evaluating areas with established credit culture. The Company will be able to benefit from its operating leverage in consolidating its position in these geographies, as well as in any future expansion plans in these regions and adjunct areas.

100% in-house sourcing, leading to favourable business outcomes: Prohibitive cost of delivering services physically and high risk perception have constrained traditional institutions' ability to provide credit to underserved or unserved MSMEs and self-employed individuals historically. SBFC acknowledge the complexities of underwriting such loans, and to ensure positive business outcomes, 100% of its loan portfolio has in-house origination, limiting its reliance on direct selling agents or connectors in order to ensure a more direct, thorough understanding of the customer's profile. SBFC source customers directly through its sales team of 1,911 personnel as of March 31, 2023, and have adopted a direct sourcing model through branch-led local marketing efforts, repeat customers or through walk-ins, which has helped it maintain contact with its customers and establish close relationships with them, high levels of customer satisfaction and increased loyalty. Direct sourcing allows for 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. It has helped mitigate underwriting and default risks by enabling SBFC to have a customer base with a better credit profile. Further, it reduces turn-around time, as the borrower's profile is readily available with it, and it is aware of their existing credit history, reducing the time taken for profile verification.

SBFC is aided in its loan origination process by technology. Its centralized real-time lending system, is a multiproduct digital platform, which leads to faster product launches and turn-around time. It enables, among other things, real time integration through open API architecture that facilitate seamless customer information validation and cashless collections. It is able to capture significant amounts of data points through credit bureau data, micro-services driven, agile API stack enabling independent validation from source, customer financials, observations from its front end team, and feedback from its credit underwriting and management teams.

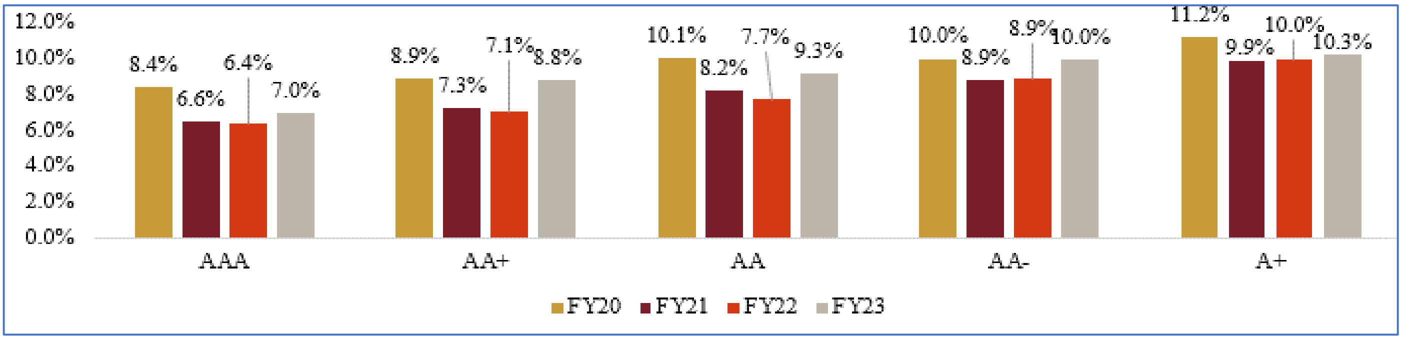
Comprehensive credit assessment, underwriting and risk management framework: SBFC has a credit assessment and risk management framework to identify, monitor and manage risks inherent in its operations. Credit management is crucial to its business since a significant number of its customers are from the underserved financial segment. It has a core focus area of small enterprise borrowers, whose monthly income is up to Rs. 0.15 million, with a demonstrable track record of servicing loans such as gold loans, loans for two-wheeler vehicles, among others. High risk perception and prohibitive cost of delivering services physically have constrained formal lending to MSMEs. It focusses on customers who have better income profiles, providing it with a stable growth trajectory.

The Company's risk management committee has developed risk management policies, addressing credit risk, market risk, liquidity risks and operational risks. Leveraging its significant operational experience, it has set up stringent credit quality checks and customised operating procedures that exist at each stage for comprehensive risk management. It serves customers in tier II and tier III markets who have a strong credit history but may lack formal proof of income documents. Recognizing that borrowing from it is the transition from the unorganized to the organized lending sector for such customers, it mandates submission of income tax returns for eligibility calculation. Further, SBFC focus on collateral-backed lending and as of March 31, 2023, 96.44% of its loan portfolio was secured. Property which is provided as collateral is largely self-occupied residential or commercial property, and as of March 31, 2023, 82.75% of Secured MSME Loans were with selfoccupied residential property as collateral and 11.01% were with self-occupied commercial property as collateral. The remaining collateral provided is either rented or mixed use property. As of March 31, 2023, its Secured MSME Loans have an average LTV ratio of 42.51% and Loans against Gold having an average LTV ratio of 68.51%.

Loans against Gold are primarily driven by the product programs for gold, duly approved by the Board, and the branch has limited control over the credit/product parameters. It has a dedicated in-house team of 167 chief valuers as of March 31, 2023, who are distributed across branches for valuation of gold, and who are guided by valuation guidelines approved by it. Each Loan against Gold has to be approved by two employees, as maker and author. Security policies such as dual control over vault operations for cash and gold movement, CCTV surveillance, among others, have been put in place at its branches, for risk management.

Extensive on-ground collections infrastructure leading to maintenance of asset quality: While SBFC's underwriting model contributes to suitable customers being onboarded, it has also created an extensive on-ground collections infrastructure to ensure that it maintains a high asset quality. Its branches are staffed with persons sourced from the local area, with each branch servicing an area with a limited radius, resulting in branch staff being able to quickly attend a customer's location as issues arise. SBFC also have an in-house collections team, responsible for detecting likely default early, thereby maintaining relatively low Gross NPA ratios. 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. Additionally, it deploys collection agencies to assist its inhouse collections team, and as of March 31, 2023, it has engaged 19 such agencies which are dedicated to its Secured MSME Loan portfolio. SBFC vary its collections strategy based on the different stages of a loan, and have a monitoring mechanism that ensures involvement and intervention from various individuals across its business, all of which also ensures suitable asset quality. As of March 31, 2023, approximately 89.49% of its Secured MSME Loan collections and 90.92% of its unsecured loan collections, were non-cash based EMI collections, thus reducing its cash management risk, and enabling customers to receive real-time payment receipts through SMS. It leverages its collections infrastructure to assist collections on behalf of third parties. This demonstrates the strength and reliability of its collections infrastructure, while allowing it to gain insights into borrower trends that sharpen its own loan origination.

Healthy liability franchise with low cost of funds: SBFC's ability to access diversified sources of funding is a key contributor to its growth. It intends to continue to diversify its funding sources, identify new sources and pools of capital and implement ALM policies with the aim of further optimizing its borrowing costs and help expand its net interest margin. It has secured financing from diversified sources of capital, including term loans, proceeds from loans securitized, proceeds from the issuance of NCDs from banks and financial institutions to meet its capital requirements. The following table sets forth the average cost of borrowings trend by ratings category among NBFCs:



The Company has the ability to access borrowings at a competitive cost due to its stable credit history, credit ratings, conservative risk management policies and brand equity. As of March 31, 2023, its outstanding borrowings included Rs.29,121.73 million from public and private sector banks and Rs.3,672.49 million from NBFCs and other financial institutions. It has received a credit rating upgrade of [ICRA] A+ (Stable) in October 2022 from [ICRA] A (Positive) in October 2021. It has received a rating of CARE A+; Stable for its long term bank facilities in April 2023. Its ratings indicate resilient liability origination despite challenges faced by the Indian economy for varied factors. In addition, it has entered into a co-origination agreement with ICICI Bank Limited in 2019, through which ICICI Bank Limited and its Company 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 it, and accordingly reflect as assets in its financial statements. This arrangement enables it to extend priority sector loans jointly with the leading bank, creating a seamless flow of funds.

Consistent financial performance backed by profitable growth: In a limited period, SBFC has demonstrated a history of healthy financial performance. As of March 31, 2023, its average yield on Gross Loan Book was 15.91%, with Secured MSME Loans and Loans against Gold accounting for 15.89% and 15.64%, respectively. It has witnessed rapid growth since the commencement of its operations in 2017. Its Secured MSME Loans has progressively increased from comprising 64.93% of its AUM as of March 31, 2021 to 79.31% as of AUM as of March 31, 2023, reflecting its increased focus on this segment. It has reduced its concentration risk across industries and sectors, as demonstrated by the fact that no single industry contributes more than 10% of its loan portfolio, as of March 31, 2023. SBFC secured portfolio has increased from 90.16% of its AUM as of March 31, 2021 to 96.44% as of March 31, 2023. Its quality loan portfolio also enables it to effectively assign or securitize a significant portion of it from time to time, thereby reducing operational risks. Its Loan against Gold portfolio optimizes overall yield profile and provides additional growth levers. It also provides loan management services to third party financial institutions as a master service provider and act as a backup servicer to a leading global bank, where such institutions benefit from its experienced portfolio management, collection and related services.

Experienced, cycle-tested and professional management team with good corporate governance backed by marquee investors: SBFC have an experienced and dedicated management team, including KMPs and Senior Management with significant industry experience and who have demonstrated their ability to deliver growth and profitability, across business cycles. Its Key Managerial Personnel and Senior Management includes a combination of management executives and independent members who bring in significant business experience, which positions it well to capitalize on future growth opportunities. Each of them have extensive experience in the banking or related industry such as finance, commercial operations, strategy, audit, business development, human resources, compliance and public relations. The industry experience of heads of functional groups, such as operations, risk, finance, audit and collections, enhance the quality of its management. It has zonal heads for business, credit and collections, with regional experience that allows them to grow its operations in their respective areas, and ensure business efficiency. Each of its zonal heads has more than ten years of relevant experience with proven record of scaling businesses. It is backed by marquee institutional investors such as the Clermont Group, Arpwood Group, and Malabar Group, who provide their expertise to its operations, including through their representatives on its Board. Its investors offer its strategic guidance and has enabled it to develop its multi-state, multi-city operations across India. In addition to providing it with capital, its institutional shareholders have assisted it in its growth through strategic guidance based on their previous experience and insight into the financial services sector in India.

Business Strategy:

Leverage pan-India network to deepen penetration in target customer segment: SBFC business model is scalable and by drawing on the experience of its team, it expects to be able to expand its operations efficiently, with low incremental costs. Owing to its geographical diversification at present, it intends to undertake geographical expansion by penetrating further in states in which it is already present. It intends to do this by leveraging its brand presence in the areas in which it operates to expand into adjacent districts, as well as expend into new districts of existing states in which it has a presence. When it enters a new state through contiguous expansion, it opens new branches in district headquarters and then expand deeper by deploying personnel to adjacent areas to source new customers. It witnesses higher AUM at branches with higher vintage, and intends to set up new branches gradually as the branches it has added in Fiscal 2021 increasingly mature. It is constantly evaluating additional locations using its criteria and expects to continue to add branches to grow out network in the near term. As of March 31, 2023, it had reached an average district level penetration of 27.68% in the states in which it operates, calculated on the basis of location of its branches. District level penetration is the number of districts that its operate in as a percentage of the total number of districts in a given state. Accordingly, there is scope to continue to grow its business further in these states, through increased penetration at the district level.

Expand product portfolio through offering affordable housing finance to its target customer segment, utilising existing network: In December 2022, SBFC have incorporated a subsidiary, SBFC Home Finance Private Limited, through which it intends to commence its housing finance business. It had applied to RBI for registration of SBFC Home Finance Private Limited as a housing finance company on March 29, 2023, which has subsequently been returned, with directions to make such application after meeting the requirement of net owned funds for housing finance companies. It 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, which benefits from higher transparency in the sector, increasing affordability and urbanisation, 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: SBFC's average cost of borrowings was 8.11%, 7.65% and 8.22% in Fiscal 2021, 2022 and 2023, respectively. Its low cost of funds is due to several factors, primarily its stable credit history, credit ratings, conservative risk management policies and brand equity. A lower average cost of borrowing enables it to competitively price its loan products and helps it grow its business and operations. It has also diversified its funding sources by using term loans, proceeds from loans securitized, proceeds from the issuance of NCDs from banks and financial institutions to ensure that its debt capital requirements are met at optimal costs. It intends to continue to diversify its 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 its borrowing costs. Further, it intends to expand and diversify its lender base. It is focused on its asset and liability management to ensure that it continue to have a positive asset-liability position. It will continue to review and identify means to improve its cost to income ratio and improve its overall net interest margin from current levels, which stands at 9.32% as of March 31, 2023. As a result of these various initiatives it seeks to improve its credit ratings for new fund raising, reduce the cost of its borrowing and hence deliver desriable return ratios.

Utilize technology to drive operational efficiency: SBFC has made strategic investments in its information technology systems and implemented automated, digitized technology-enabled platforms and tools, to strengthen its offerings and derive greater operational, cost and management efficiencies. It plans to ensure that its information technology systems continue to help it with several functions, including loan origination, credit underwriting, collections and customer service. It intends to strategically invest its resources for leveraging technology for efficient operations as it scale up to ensure increased effectiveness of its operations. The Company intends to reduce its operating costs and increase efficiency in its business operations to improve the overall customer experience through increasing use of technology. It intends to continue strengthening and increasing the user-friendliness of its existing technology infrastructure.

Industry:

NBFC Sector Assessment

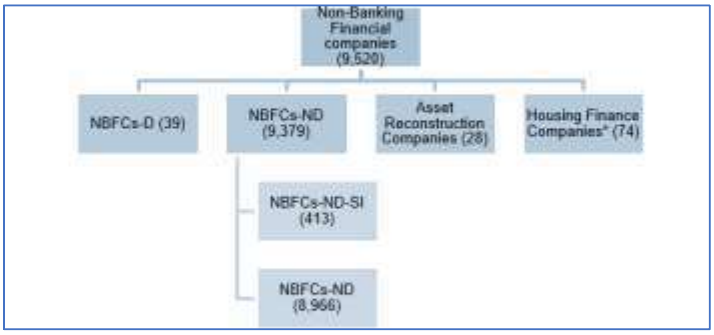
Constituents of NBFC industry in India

The Indian financial system includes banks and non-banking financial companies (NBFCs). Though the banking system dominates financial services, NBFCs have grown in importance by carving a niche for themselves by catering to customers in underbanked regions or those who would not be catered to by traditional financial institutions, due to absence of credit history or lack of proper collateral records.

Classification of NBFCs

NBFCs are classified on the basis of liabilities into two broad categories: a) deposit-taking; and b) non-deposittaking. Deposit-taking NBFCs are subject to requirements of capital adequacy, liquid assets maintenance, exposure norms, etc. Further, in 2015, non-deposit-taking NBFCs with an asset size of Rs.5 billion and above were labelled as 'systemically important non-deposit taking NBFCs' ("**NBFC–ND–SI**") and separate prudential regulations were made applicable to them.

Classification of NBFCs based on liabilities



Key regulations pertaining to NBFCs

Given the importance of NBFCs in financial system especially by accessing public funds and inter-connectedness with banking, they are subject to prudential regulations by the Reserve Bank of India (RBI) as given below

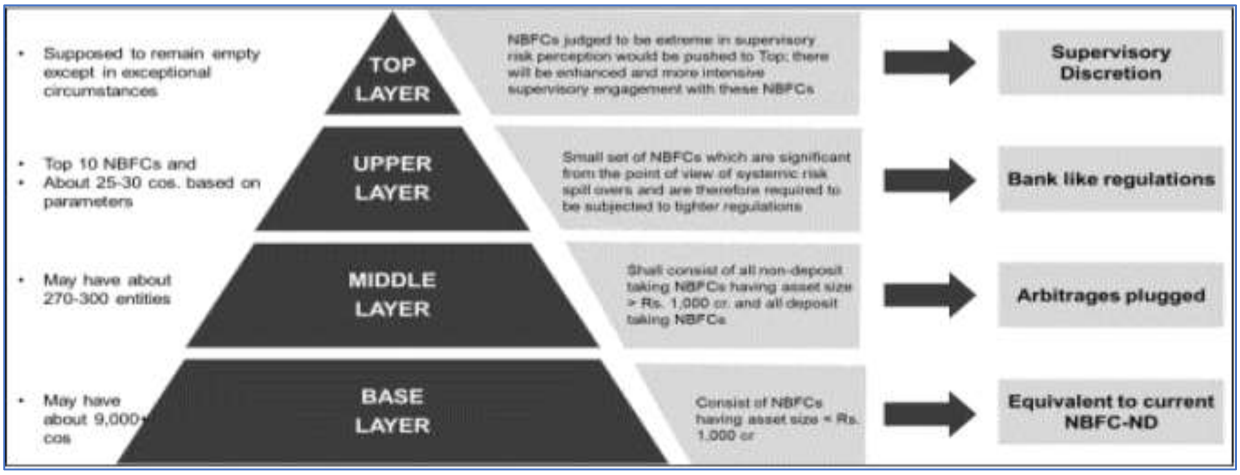
Regulatory distinction between banks and NBFCs

	NBFC – ND –SI	NBFC – D	Banks (Basel-III)
Minimum net owned funds	Rs. 20 million	Rs. 20 million	N.A.
Capital Adequacy	15.0%	15.0%	11.5%
Tier I Capital	10.0%	10.0%	9.5%
Stage III assets	90 days#	90 days#	90 days
Cash Reserve ratio (CRR)	N.A.	N.A.	3.0%
Statutory liquidity ratio (SLR)	N.A.	15.0%	18.00%
Priority Sector	N.A.	N.A.	40% of advances
SARFAESI eligibility	Yes*	Yes*	Yes
Exposure norms (% of NOF)	Single borrower: 15% (+10% for IFC)	Single borrower: 15%	Single borrower: 15% (+5% for infrastructure projects)
	Group of borrowers: 25% (+15% for IFC)	Group of borrowers: 25%	Group of borrowers: 30% (+10% for infrastructure projects)

Scale based approach proposed for NBFCs

The Reserve Bank of India (RBI) in January 2021 had proposed a tighter regulatory framework for NBFCs by creating a four-tier structure with a progressive increase in intensity of regulation in a discussion paper titled 'Revised Regulatory Framework for NBFCs - A Scale-based Approach'. Based on the inputs received, in October 2021, RBI put in place a revised regulatory framework for NBFCs, which is slated to be effective from October 2022.

In the framework for Scale Based Regulation for NBFCs, the RBI has said the regulatory and supervisory framework of NBFCs should be based on a four-layered structure based on their size, activity, and perceived riskiness: Base Layer, Middle Layer, Upper Layer and Top Layer. NBFCs in lower layer will be known as NBFCBase Layer ("**NBFC-BL**"). NBFCs in middle layer will be known as NBFC-Middle Layer ("**NBFC-ML**"). An NBFC in the Upper Layer will be known as NBFC-Upper Layer ("**NBFC-UL**") and will invite a new regulatory superstructure. There is also a top layer, ideally supposed to be empty.



RBI has taken a balanced view, and instead of going for a one size fits all, it has opted for differential regulation based on size and the systemic importance of an NBFC. Further, the importance of NBFCs in providing credit to underserved customers has been recognised. The RBI has not proposed imposition of CRR and SLR on NBFCs, which would come as a relief to NBFCs.

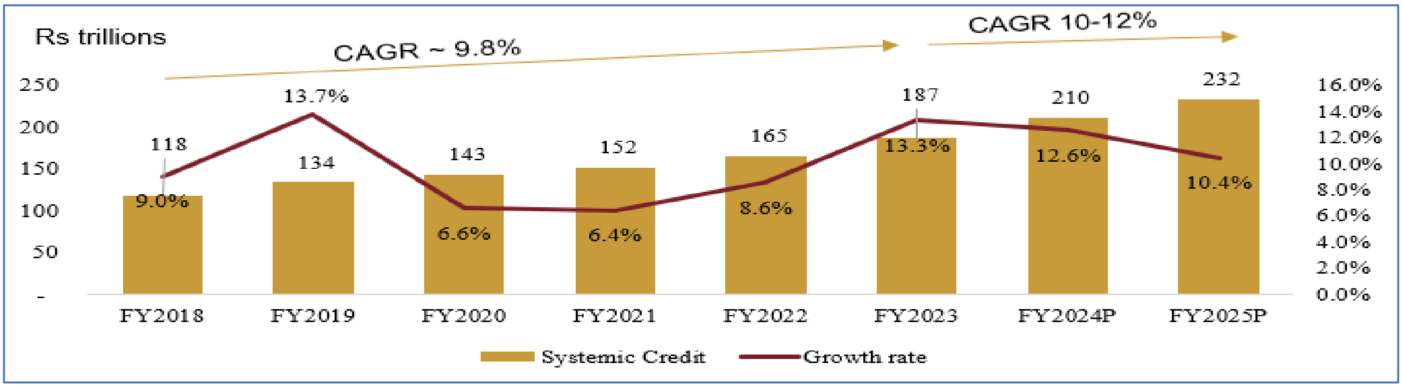
The proposed 9% common equity tier-1 ratio should not be difficult to manage as majority of the NBFCs remain well capitalised. Cap on leverage levels would impact NBFCs in the mortgage business if limits are proposed in line with other asset classes. Differential standard asset provisioning will have a negative impact for NBFCs who have large exposure to sensitive sectors like commercial real estate (for example: CRE at the rate of 1.00%, CRERH at the rate of 0.75%; current norm for NBFCs is 0.4%). Cap of Rs.0.01 billion on IPO financing per individual would hurt NBFCs operating in this space. Post this regulatory change, few NBFCs falling in the NBFC-UL category may consider conversion into universal banks. Overall, it is believed the scale-based approach will translate into greater regulatory oversight and better governance practices, which will structurally strengthen the sector.

Systemic credit to grow at 10% -12% CAGR between Fiscal 2023-2025

Corporate credit determines the growth in overall credit as it accounts for nearly two-third of systemic credit. Overall systemic non-retail credit grew approximately 9% in Fiscal 2019, mainly driven by public sector undertakings and energy sector (oil and gas and power generation and distribution). The corporate credit of banks grew just approximately 3% year-on-year as of March 2019, as demand dropped sharply, and alternate capital market channels opened up. The financial sector, which was already reeling under the NBFC liquidity crisis, saw financial institutions turn cautious towards corporate lending and shift their focus towards the retail segment. While this shift has caused retail credit to drive overall credit growth, it witnessed a slowdown in growth from 18.3% in Fiscal 2018 to 15.4% in Fiscal 2019 on account of a slump in consumption. The slowdown in economic activity, coupled with heightened risk aversion among lenders, further tightened the overall credit growth to approximately 6.6% in Fiscal 2020. Retail credit grew by 16.3% in Fiscal 2020. In Fiscal 2021, credit grew by approximately 6.4% supported by disbursements to MSMEs under the ECLGS and an uptick in economic activity post the COVID-19 lockdown.

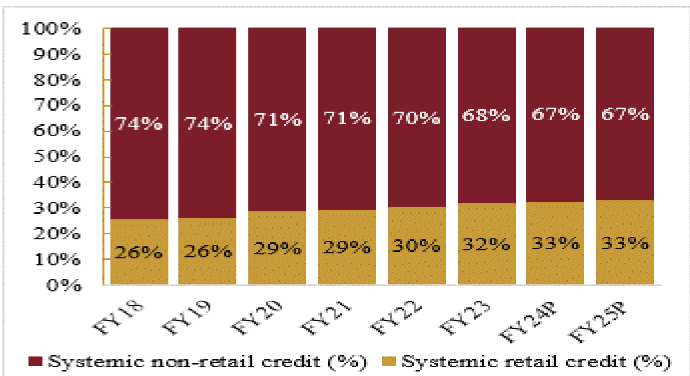
In Fiscal 2022, the systemic credit growth picked up steam despite the second wave of COVID-19 hurting economic growth in the first quarter of the Fiscal. The systemic credit grew at 9% from the previous year to reach approximately Rs.166 trillion. The growth was mainly driven by the budgetary push towards investments, pick-up in private investment, and business activity also slowly humming back to pre-COVID levels. In Fiscal 2023, systemic credit showed strong growth on back of pent-up retail demand from sectors like housing and auto. Credit demand also grew due to strong credit demand from NBFCs and trade segment. CRISIL MI&A projects systemic credit to grow at 10% - 12% CAGR between Fiscals 2023 and Fiscal 2025.

Systemic credit to grow by 10% - 12% between Fiscal 2023 and Fiscal 2025

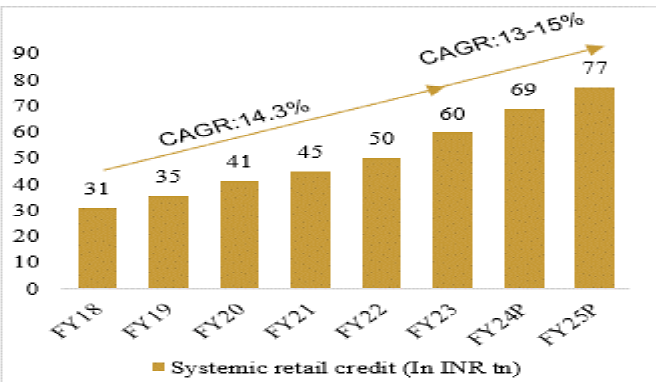


While systemic credit in India grew at a tepid rate of 9.8% CAGR annually between Fiscals 2018 and Fiscal 2023, systemic retail credit grew at a much faster rate of 14.3% CAGR during the same period. Retail credit growth in Fiscal 2020 was around approximately 16.3% which came down to approximately 9.5% in Fiscal 2021. However, post-pandemic, retail credit growth revived back to reach approximately 11.3% in Fiscal 2022. CRISIL MI&A estimated retail credit to have grown at approximately 19% - 20% year-on-year in Fiscal 2023. CRISIL MI&A thus expects retail credit growth to continue in the long term with banks and NBFCs' continued focus on the segment.

Retail segment is estimated to account for 32% of overall systemic credit as of Fiscal 2023



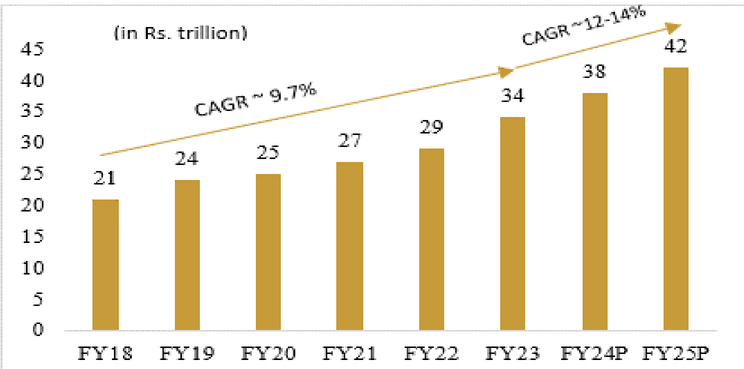
Retail credit growth to continue a strong footing in Fiscal 2024



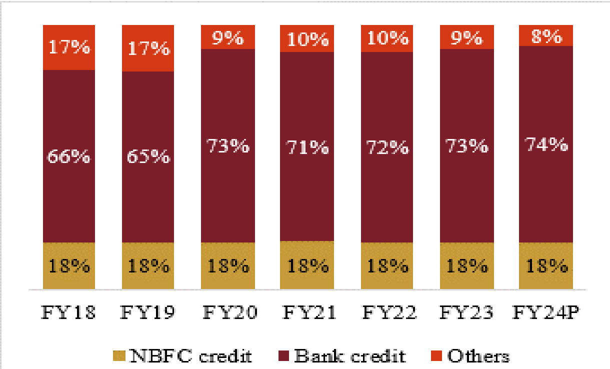
NBFC credit to grow faster than systemic credit between Fiscal 2023 and Fiscal 2025

Over the past decade, banking credit growth lagged systemic credit growth for several years as NBFCs grew at a much faster pace. However, the NBFCs suffered a blow after IL&FS defaulted in September 2018. NBFCs not having the advantage of size, rating and/or parentage had to grapple with a liquidity crisis and as raising funding became difficult. Initially, post the IL&FS crisis, banks were expected to fill the space left out by NBFCs. In the fourth quarter of Fiscal 2020 and the first quarter of Fiscal 2021, with the outbreak COVID-19 pandemic, challenges had intensified for both banks and NBFCs. NBFCs were hit harder in terms of demand, and they also turned cautious as they lend to borrowers with relatively weaker credit profile. In the second half of Fiscal 2021, the Indian economy showed signs of improvement, the effect of which was seen in the credit growth. In Fiscal 2022, the second wave of the COVID-19 pandemic led to weak demand for credit in the first quarter of the year. However, the pace of credit recovered, with overall credit growing by 9% and retail credit increasing by 11.3% year-on-year as of March 2022. With the effect of COVID-19 waning, vaccination coverage progressively improving, the situation and growth improved further. In Fiscal 2023, pace of credit further improved and is at par with pre-COVID levels. Overall credit grew by an estimated 13.3% and systemic retail credit grew by 19.2%. CRISIL MI&A projects NBFC credit to grow at 12% - 14% between Fiscal 2023 and Fiscal 2025. The credit growth will be driven by the retail vertical, including housing, auto and microfinance segments. Rapid revival in the economy is expected to drive consumer demand in Fiscal 2024, leading to healthy growth for NBFCs. Moreover, organic consolidation is underway with larger NBFCs gaining share. Further, growth of the non-banking industry will be driven mainly by NBFCs with strong parentage who have funding advantage over other NBFCs.

NBFC credit to grow at CAGR 12-14% between fiscals 2023 and 2025



Share of NBFC credit in overall systemic credit remained 18% in fiscal 2023

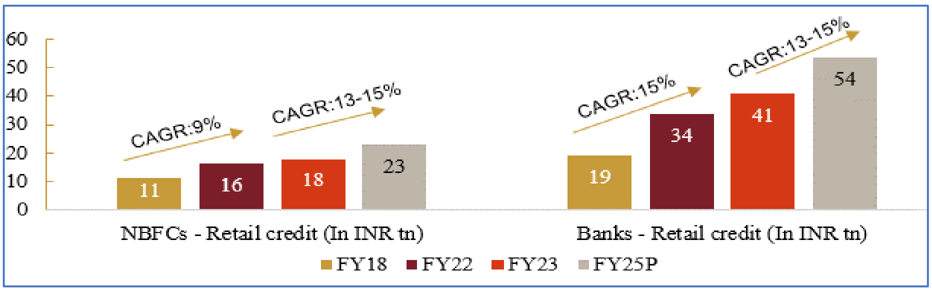


Retail segment to support NBFCs overall credit growth

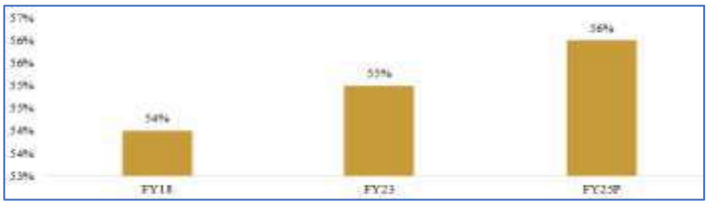
The NBFC sector has, over the years, evolved considerably in terms of size, operations, technological sophistication and entry into newer areas of financial services and products. The number of NBFCs as well as the size of the sector have grown significantly, with a number of players with heterogeneous business models starting operations. Over the last few years, CRISIL MI&A has seen a transformation in the Indian financial services landscape. The increasing penetration of neo-banking, digital authentication and mobile phone usage as well as mobile internet has resulted in the modularization of financial services, particularly credit. The sector has also seen the emergence of several financial technology entities ("**fintechs**") that leverage technology, data, and business insights to provide various financial products and services to identified customer segments. Fintech players in India started lending in Fiscal 2015 but they started gaining traction from Fiscal 2017 onwards. The business model of fintech firms differ widely but in almost all cases they use technology to change or support existing way of doing business, and hold the promise of enhancing customer convenience, facilitating access to credit for unserved or underserved customer segments and/or improving operating efficiency. Many times, fintechs enter into tie-ups with financing partners (banks and NBFCs) for taking the loans originated by them on the balance sheet of the partner. Reflecting the growing importance of NBFCs in the financial services landscape and their ability to offer differentiated solutions to meet the requirement of target customers, the market share of NBFCs in overall systemic credit has increased from approximately 16% in Fiscal 2017 to approximately 18% in Fiscal 2023.

After a moderation in growth post COVID, NBFCs are back on track with an estimated credit growth of 12% - 13% during Fiscal 2023. Going ahead, CRISIL MI&A expects the growth trend to continue, with credit growth at 13% - 14% during Fiscal 2024. The industry will continue to witness the emergence of newer NBFCs catering to specific customer segments. The pandemic and consequent acceleration in adoption of technology and change in consumer habits and increasing availability of data for credit decision-making has made it possible to build an NBFC lending business without investing large sums to have brick-and-mortar presence on the ground. Overall, between Fiscal 2023 to Fiscal 2025, CRISIL MI&A forecasts NBFC credit to grow at a CAGR of 12% - 14%. Further, retail credit given out by NBFCs is forecast to grow at a pace of 13% -15% CAGR over the same period.

NBFCs retail credit is expected to grow at 13% - 15% CAGR in the next two years



Share of retail credit in total NBFC credit to continue to grow



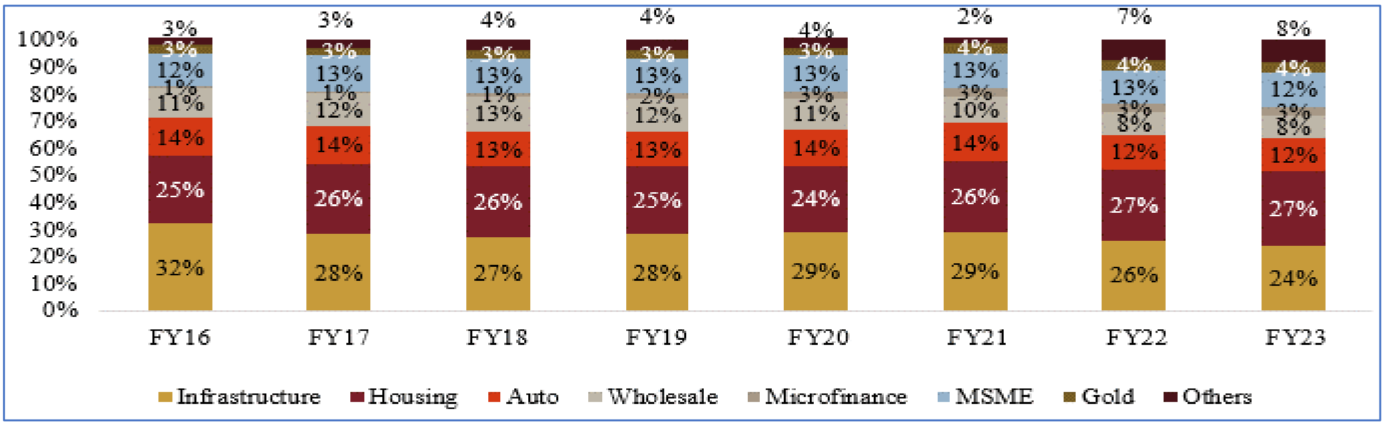
Housing and auto to lead NBFC credit growth

Housing outstanding book of NBFCs and HFCs grew at a healthy CAGR of 15% over Fiscal 2015 to Fiscal 2020, led by increasing demand from Tier II and III cities, rising disposable incomes, and government initiatives such as the Pradhan Mantri Aavas Yojana, interest rate subvention schemes, and Fiscal incentives. However, growth slowed down in the first half of Fiscal 2021 owing to the covid-19 pandemic, but there was faster-than-envisaged revival in the second half supported by the RBI, the Centre and state governments providing impetus, which led to 7% growth for Fiscal 2021. The second COVID-19 wave impacted disbursements in the first quarter of Fiscal 2022. However, with income levels of salaried customers largely intact and home loan rates at historical low during Fiscal 2022, disbursements rebounded in the second half of Fiscal 2022 leading to a growth of 13% yearon- year. With visible recovery across most sectors and increasing demand for housing, CRISIL MI&A expects NBFC housing credit will continue to see momentum and is like to grow at 12% - 14% for Fiscal 2024. With continued support from the government, central bank and increase in demand for housing and deeper penetration in tier-II and -III cities, affordable HFCs are back on healthy double digit growth trend with estimated growth of 14% - 16% during Fiscal 2023, outpacing credit growth in the retail housing segment. Going ahead. However, CRISIL MI&A expects affordable HFCs to grow at 15% - 17% in Fiscal 2024. NBFCs' auto finance book is anticipated to have increased by 15% – 17% year-on-year in Fiscal 2023, up from a 4.6% year-on-year increase during the two preceding years. In Fiscal 2024, pent-up demand and new launches is expected to drive sales of cars and utility vehicles, while the infrastructure sector will have a significant impact on the demand for commercial vehicles, fleet replacement, and last-mile connectivity, causing auto loans to grow at 12% - 14%.

Housing and infrastructure loans account for more than 50% share in overall NBFC portfolio as of Fiscal 2023

In terms of asset size wise mix, housing loans and infrastructure loans continue to account major chunk of overall NBFC portfolio. Microfinance loans have increased their share from approximately 2% to 3% between Fiscal 2019 and Fiscal 2023. Going forward, CRISIL MI&A expects housing and infrastructure loans to maintain their share in overall NBFC credit. Further, auto, personal loan and microfinance is expected to perform better than other segments in Fiscal 2024.

Distribution of NBFC credit across asset classes



NBFCs have a reasonable market share across segments

NBFCs have consistently gained or maintained market share across most asset classes over the last few years. Though, in certain segments such as housing finance to prime customers, they have lost market share to banks due to the decline in market interest rates. In the gold loans market, NBFCs slightly lost market share in Fiscal 2022 due to increasing focus of banks (both public and private) towards gold loans as well as RBI permitting banks to offer gold loans at a higher loan-to-value amidst the COVID-19 pandemic. Nevertheless, NBFCs continue to have a healthy market share across other segments. NBFCs have been able to compete with banks mainly on account of their strong origination skills, extensive reach, better customer service, faster processing, fewer documentation requirements, digitalisation of customer onboarding process, customised product offerings, local knowledge, and differentiated credit appraisal methodology. Furthermore, by catering to under banked, lower income and mass market customers who are unserved or underserved by banks, NBFCs have enhanced financial inclusion and expanded the market for formal financial services. The rapid evolution of fintechs over the last few years has added another dimension to the market served by NBFCs and has fuelled rapid growth across the landscape.

MSME lending in India

Brief overview of MSMEs in India

The National Sample Survey in its 73rd round dated June 2016 estimated that there are around 63.5 million MSMEs in India. Since then, the number of MSMEs is estimated to have increased further to around 70 million as of Fiscal 2022. MSMEs complement large corporates as suppliers or directly cater to end users. The MSME sector contributes to India's socio-economic development by providing huge employment opportunities in rural and backward areas, reducing regional imbalances, and assuring equitable distribution of national wealth and income. The segment currently contributes to 30% of the GDP, over 40% of exports and creates employment for about 110 million people in the country, thus supporting economic development and growth.

The RBI has adopted the definition of MSMEs in line with the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. This definition is based on investments in plant and machinery in the manufacturing and services sectors. To bring in more enterprises under the ambit of MSMEs and widen the definition of MSMEs taking into account inflation over the past few years, in June 2020, the Government revised the MSME investment limit across each category and introduced an alternate and additional criterion of turnover buckets to the definition. It further removed the difference between the definition of manufacturing based and services based MSMEs. In June 2021, the Indian government has included retailers and wholesalers under the MSMEs definition to extend the benefits of priority sector lending to traders as well. The move is structurally positive from long-term perspective, as it will enable entities operating in the segment to register on Government's Udyam portal, participate in government tenders and also avail financing options/benefits available to the category.

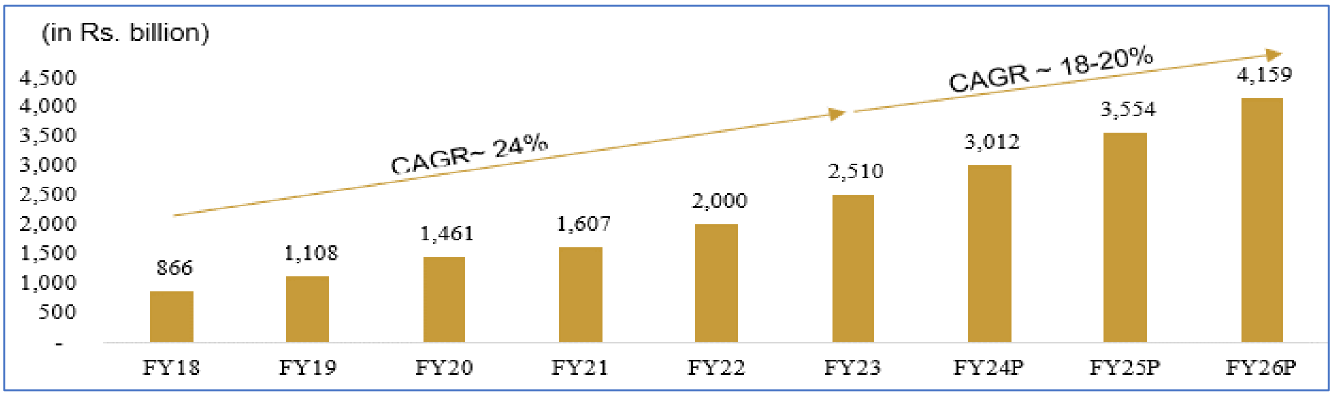
MSME Credit gap estimated at Rs.92 trillion as of Fiscal 2023

High risk perception and prohibitive cost of delivering services physically have constrained formal lending to MSMEs. The emerging self-employed individual and micros, small and medium enterprise segment is largely unaddressed by lending institutions in India. An IFC report titled Financing India's MSMEs (November 2018) estimated the MSME credit demand at Rs.69.3 trillion in Fiscal 2017, of which only approximately 16% of demand was met through formal financing and consequently, the MSME credit gap (defined as the gap between the demand for funds amongst MSMEs and the supply from formal financiers) was estimated at Rs.58.4 trillion. This gap was met through informal sources including moneylenders, chit funds and personal sources from friends and relatives. The interest rate for these sources generally ranges between 30-60% per annum. The credit gap is estimated to have further widened over the last 4 years due to slower economic growth in Fiscal 2020, followed by the COVID-19 pandemic in Fiscal 2021. In Fiscal 2021, the nationwide lockdown to contain the spread of the COVID-19 pandemic disrupted economic activity, hurt demand, impacted working capital needs and supply chain along with future investments and expansions. Domestic supplies and supplies from imports also suffered, affecting both, their availability and cost. Contractual and wage labour were also hit due to lower demand and layoffs. MSMEs and businesses in the sectors such as hotels, tourism, logistics, construction, textiles and gems and jewellery suffered the most during the first half of the Fiscal. Businesses in the retail sector, especially those catering to daily usage goods and everyday cash and carry businesses such as grocery shops, fruits and vegetables sellers, etc., however, fared relatively better as their availability close to the residences of customers' increased the demand for their services. Furthermore, government schemes post the COVID-19 pandemic such as the ECLGS scheme provided relief only to MSME units with existing loans from a formal financial institution. As of Fiscal 2023, the MSME credit demand is estimated to be around Rs.117 trillion, of which 21% of demand met through formal financing. Assuming an increase of around 9% annually in the demand for credit and the availability of credit from formal sources, CRISIL MI&A estimates the credit gap to have increased to Rs.92 trillion as of Fiscal 2023.

Overall MSME lending has grown at a CAGR of 10% in past decade; NBFC share estimated at 24%

CRISIL MI&A estimates the total size of MSME lending market across ticket sizes and various player groups (banks, NBFCs, small finance banks, and other formal lenders) to be around Rs.26 trillion as of March 2023. This market size includes loans taken by MSMEs across various constitution types (sole proprietorships, partnership firms, private and public limited companies, and co-operatives) and the ticket size spectrum, and includes loans extended in the name of the firm/entity/company as well as the individuals in case of micro enterprises or entrepreneurs. CRISIL MI&A estimates loans to MSMEs to have grown at a CAGR of 10% during Fiscal 2012 to Fiscal 2023, which is similar to the nominal GDP growth in this period. This can be attributed to various events during this time span that has impacted MSMEs – demonetisation of high-value currency loans in November 2016, the implementation of GST subsequently, the economic slowdown in Fiscal 2020 followed by the COVID-19 pandemic. In Fiscal 2023, with recovery in economic activity, MSME lending is estimated to have grown at a 13% growth rate year-on-year. Further, in Fiscal 2024, CRISIL MI&A projects the MSME overall industry growth to be at 13% - 15% owing to budgetary push and rise in entrepreneurship in India.

Secured MSME Loans with ticket size between Rs.0.5 million - Rs.3.0 million to grow at 18% - 20% CAGR over Fiscals 2023 - 2026 (Rs.billion)



Growth drivers

High credit gap in the MSME segment

Less than 15% of approximately 70 million odd MSMEs have access to formal credit in any manner as of March 2022. High risk perception and the prohibitive cost of delivering services physically have constrained traditional institutions' ability to provide credit to underserved or unserved MSMEs and self-employed individuals historically. As a result, they resort to credit from informal sources. This untapped market offers huge growth potential for financial institutions. As stated earlier, the credit gap was estimated at around Rs.58.4 trillion as of 2017 (Source: IFC report named Financing India's MSMEs released in November 2018) and is estimated to have widened further to around Rs.92 trillion as of Fiscal 2023.

Increased data availability and transparency

With increased digital initiatives by the MSMEs, the shift towards their formalisation and digitisation has created a plethora of data points for lenders that would help improve the efficacy of credit assessment and gradually enable provision of credit to hitherto underserved customer segments. For example, the quantum of retail digital payments has catapulted from Rs.140 trillion in Fiscal 2017 to Rs.606 trillion in Fiscal 2023. Within UPI, the quantum of person-to-merchant payments has zoomed from Rs.6.2 trillion in Fiscal 2021 to Rs.30.7 trillion in Fiscal 2023. UPI has increased banking transactions materially, impacting significant increase in tax compliance. This increase has created a digital footprint of customers, which can be potentially used for credit decision making, along with other relevant parameters such as customer demographics, business details, credit score, and personal situation of the borrower. Demonetisation and GST have further accelerated formalization of the Indian economy.

Growth in branch network of players in MSME segment

Over past few years, players offering MSME loans have expanded their branch network with the intent to serve a larger customer base. In the future also, CRISIL MI&A expects lenders with a strong focus on MSME lending and healthy competitive positioning to continue to invest in branch expansion. With increasing branch network, customer acquisition and credit penetration, share of MSME loans is also expected to increase.

Reduction in risk premiums due to information asymmetry

In the absence of reliable information about small businesses, it becomes difficult for lenders to assess the creditworthiness of the borrower. Hence, lenders often charge a credit risk premium from these customers, leading to higher interest rates. By leveraging technology and using a combination of traditional data (bureau data, financial statements, credit score), non-traditional data (payments, telecom, provident fund contribution and psychometric data), and government data (Aadhaar, GST), lenders would be able to gain greater insight into their customers' data, thereby increasing the accuracy of customer assessments. This would reduce the level of asymmetry in information and could lower the credit risk premium over a period.

Increasing competition with entry of new players and partnerships between them

More players in consumer-facing businesses with a repository of data (such as e-commerce companies and payment service providers) are expected to enter the lending business, intensifying competition. For example, In June 2018, Amazon India launched a platform for lenders and sellers, wherein sellers can choose loan offers from various lenders at competitive rates. In August 2021, Meta (earlier known as Facebook) partnered with Indifi Technologies to provide loans to small businesses that advertise on its platform. Incumbent traditional lenders will increasingly leverage the network of their partners and/or digital ecosystem to cross-sell products to existing customers, tap customers of other lenders, and also cater to new-to-credit customers. This will expand the market for MSME loans.

Reduction in TAT and increased use of technology

With the availability of multiple data points and technological advancement, TAT for lending to MSMEs has been continuously declining. This too will drive the demand for MSME loans.

Government initiatives

Relaxation in the threshold under SARFAESI Act from Rs.5 million to Rs.2 million for NBFCs

In the Union Budget 2021-22, presented by the Finance Minister, for NBFCs with a minimum asset size of ₹1 billion, the minimum loan size eligible for debt recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) Act, 2002 was proposed to be reduced from the existing level of Rs.5 million to Rs.2 million. The objective of this move is to improve credit discipline while continuing to protect the interest of small borrowers. This relaxation is expected to facilitate recovery from stressed books, help the NBFCs to improve their ability to recover smaller loans and strengthen their overall financial health. More importantly, it acts as a deterrent to default and enhances the enforceability of collateral for players focused on the medium ticket size LAP segment with loans of Rs.2 million - Rs.5 million.

Inclusion of retail and wholesale trade under MSME category

In July 2021, the Ministry of Micro, Small and Medium enterprises decided to include Retail and Wholesale trade as MSMEs for the purpose of Priority Sector Lending and they would be allowed to be registered on UDYAM Registration Portal. The move is structurally positive from long-term perspective, as it will enable entities operating in the segment to register on Government's UDYAM portal, participate in government tenders and also avail financing options/ benefits available to the category. This move will also aid in the formalisation of India's retail trade and enable financial support to small and mid-sized retail businesses. By widening the scope of MSME to cover wholesale as well as retail trade, this move also creates an additional opportunity for MSME lenders to increase their penetration and business.

Government initiatives addressing structural issues in the MSME market

The government has unveiled a number of initiatives aimed at addressing some of the structural issues plaguing small business lending segment. These include granting licenses to account aggregators, the Pradhan Mantri Mudra Yojana (PMMY), unveiling Trades Receivables Discounting System ("**TReDS**") platforms and the implementation of GST.

Gold loans

Overview of gold loan market in India

Gold loans are typically small ticket, short duration, convenient and instant credit. While the industry has been around for several decades with local financiers and moneylenders extending finance against gold, especially in semi-urban and rural areas, the industry has witnessed a spurt in organized financiers offering gold loans since 2008 with the specialized gold loan NBFCs expanding their branch network and making available loans in a very easy and consumer friendly manner by putting in place strong systems and processes. Though moneylenders and pawn brokers understand the psyche of local borrowers and offer immediate liquidity without any documentation formalities, customers are left vulnerable to exploitation, due to the absence of regulatory oversight. Such players also give lower loan-to-value ratio compared with organized ones while charging exorbitant interest. As banks and NBFCs aggressively moved in to seize this vast untapped market, they cornered a significant market share from unorganized lenders, growing at a CAGR of 76% between Fiscal 2009 and Fiscal 2012. Sustained increase in gold price till 2012 also supported the gold loan business boom in India. In such a scenario, customers would be offered higher and higher loan amounts on their gold, while lenders would benefit by price increases acting as a natural hedge, in the event of default.

The high growth in the NBFCs' gold loan offtake because of high LTVs, the speed at which the NBFCs opened branches, the decline in the capital adequacy ratios of NBFCs offering gold loans and increase in gold prices alarmed the Reserve Bank of India (RBI), leading to a slew of regulatory steps being taken. The measures initiated included capping the loam-to-value of gold loans at 60% (which was subsequently increased to 75% in January 2014), prohibiting grant of loans against bullion and gold coins, standardization of the value of gold while calculating the loan to value ratio and streamlining the process for auctioning gold. Furthermore, NBFCs were directed to disburse gold loans of greater than Rs.1,00,000 ticket size through cheques only. The RBI also directed that if the loans extended by a NBFC comprise 50% or more of its financial assets, it shall maintain a minimum Tier-l capital of 12% by April 01, 2014. These measures derailed the growth of NBFCs gold loan offtake for a brief period of time and they lost considerable ground to banks. The industry has however bounced back subsequently. With regulations in respect of key aspects such as loan to value for NBFCs now being on par with banks, players compete on parameters such as interest rates, customer service, turnaround time, convenience, and trust developed.

Gold loans AUM is expected to grow at 10% - 12% CAGR between Fiscal 2023 and Fiscal 2025

In Fiscal 2020, gold loan industry (including Banks and NBFCs) AUM grew approximately 13% YoY to reach Rs.3.2 trillion on account of increased focus of players on diversifying their regional presence, strong growth in non-southern regions and rise in gold prices by approximately 19% in Fiscal 2020. In Fiscal 2021, the demand for gold loan finance witnessed a massive surge with AUM shooting up from Rs.3.2 trillion to Rs.4.7 trillion, as India's economy coped with the devastating effect of the global pandemic and consumers availed of gold loans to meet their consumption and emergency funding needs. Many consumers, who had gold stock and ornaments lying with them, considered gold loans as an option to meet their credit requirements during this period. The demand for gold loans was also supported by a consistent surge in gold price, liquidity crunch in the immediate aftermath of the pandemic and lenders' hesitancy to give unsecured loans due to risk aversion. The RBI also revisited its guidelines for banks' lending gold loans by increasing the maximum LTV allowed to 90% from existing 75% for non-agricultural gold loans extended during August 2020 to March 2021 to help stressed borrowers to unlock more value. The growth was also supported by players continued focus to wean away consumers from the unorganised gold loan market by means of awareness and diversifying their regional presence with the help of branch as well as digital channels.

In Fiscal 2022 as well, the gold loan market continued to witness strong growth, with industry AUM increasing by 17% year-on-year to touch Rs.5.5 trillion as of March 2022. Increase in AUM can be attributed to factors such as high gold prices, strong demand and increased promotion by financiers to acquire unorganised gold loan market by means of awareness and diversifying their regional presence with the help of branch as well as digital channels. Financiers also were very aggressive in tapping new customers during the year with some of them running campaigns offering gold loans at a lower interest rate for short tenures. For instance, Manappuram Finance introduced low interest rate, for retail customers with a tenure of three months. In Fiscal 2023, the growth for gold loans NBFCs is estimated to have moderated owing to increased competition from banks and lower demand from the target audience.

Key Concerns

- The risk of non-payment or default by borrowers may adversely affect its business, results of operations and financial condition.
- Dependance on the accuracy and completeness of information provided by SBFC's customers and certain third party service providers and its reliance on any erroneous or misleading information may affect its judgement of their creditworthiness, as well as the value of and title to the collateral.
- The quality of portfolio may be impacted due to higher levels of NPAs and business may be adversely affected if SBFC 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, could adversely affect the business, results of operations and financial condition.
- Risk arising from collateral for portfolio, other than Loans against Gold
- SBFC requires substantial capital for its business and any disruption in its sources of capital could have an adverse effect on the business, results of operations and financial condition.
- Business is particularly vulnerable to interest rate risk, and volatility in interest rates for both lending and treasury operations, could have an adverse effect on its net interest income and net interest margin, thereby affecting its results of operations and cash flows.

- Any negative cash flows in the future would adversely affect the cash flow requirements, which may adversely affect its ability to operate business and implement growth plans, thereby affecting its financial condition.

- Any downgrade in credit ratings could increase SBFC's borrowing costs, affect its ability to obtain financing, and adversely affect the business, results of operations and financial condition.

- As an NBFC, SBFC is subject to periodic inspections by the RBI. Non-compliance with observations made by the RBI during these inspections could expose it to penalties and restrictions.

- Inability to compete effectively in an increasingly competitive industry may adversely affect its net interest margins, income and market share.

- SBFC is subject to laws and regulations governing the financial services industry and its operations in India, including laws in relation to capital adequacy ratios. Changes in regulations governing it could adversely affect the business, results of operations and prospects.

- Any failure or significant weakness of internal processes or systems could cause operational errors or incidents of fraud, which would adversely affect the business, profitability and reputation.

- SBFC may face asset-liability mismatches, which could affect the liquidity and consequently, may adversely affect its operations and profitability.

- SBFC handles high volumes of cash and gold jewellery in a dispersed network of branches. Accordingly, it is exposed to operational risks, including employee negligence, fraud, petty theft, burglary and embezzlement, which could harm its results of operations and financial position.

- Inability to meet obligations, including financial and other covenants under debt financing arrangements could adversely affect the business, results of operations and financial condition.

- SBFC may not be able to sustain growth or manage it effectively or execute its growth strategy effectively. If it fails to increase its operational efficiency, it may not be able to meet its customers' needs, hire and retain new employees or operate its business effectively.

- There are certain defaults/ delay in payment of statutory dues by SBFC. Any further default/ delay in payment of statutory dues may attract financial penalties from the respective government authorities and in turn may have a material adverse impact on its financial condition and cash flows.

- SBFC participates in markets with continuously evolving technology and customer needs, and if it does not compete effectively with such established companies and new market entrants, its business, results of operations, cash flows and financial condition could be adversely affected.

- Inability to expand business into new regions and markets in India or the sub-optimal performance of its new branches could adversely affect the business, results of operations, financial condition and cash flows.

- Although Promoters have made investments in the financial services sector in India, SBFC's Promoters do not have experience in certain functional areas of its business operations.

- SBFC relies on its internal credit policy to make credit decisions. If it does not make accurate credit decisions, its business and financial results will be adversely affected, and the impact could be material.

- The Company derives a significant portion of its AUM and disbursements from its co-origination agreement with ICICI Bank Limited. The termination of its co-origination agreement or similar agreements that it may enter into in future, may adversely affect the growth and prospects.

- COVID-19 has had and a similar pandemic could continue to have certain adverse effects on the business, operations, cash flows and financial condition.

- Derives a portion of assets under management ("AUM") from Loans against Gold, and the top three gold financing NBFCs accounted for 70% share in NBFC gold loan book in Fiscal 2023.

- SBFC relies significantly on its information technology systems for its business and any inadequacy or security breach in such systems could adversely affect the results of operations and reputation.

- Any deterioration in the performance of any pool of receivables securitized to banks and other institutions may adversely impact its results of operations.

- Fluctuations in the market values of investments could adversely affect the results of operations and financial condition.

- Certain statutory and regulatory licenses and approvals are required for conducting business and any failure or omission to obtain, maintain or renew these licenses and approvals in a timely manner, or at all, could adversely affect the business and results of operations.

- Inability to detect money-laundering and other illegal activities fully and on a timely basis may expose SBFC to additional liability and adversely affect its business and reputation.

- SBFC has geographic concentration in certain states and therefore are dependent on the general economic conditions and activities in these states.

- SBFC is exposed to risks that may arise if its customers opt for balance transfers to other banks or financial institutions.

- Some of the loans SBFC provides are unsecured and are susceptible to certain operational and credit risks which may result in increased levels of non-performing assets ("NPAs"), which may adversely affect its business, prospects, results of operations and financial condition.

- Insurance coverage may not be sufficient or may not adequately protect against all material hazards, which may adversely affect the business, results of operations and financial condition.

- SBFC may face difficulties and incur additional expenses in operating in semi-urban and rural markets, where infrastructure may be limited.

- SBFC is dependent on its Senior Management and Key Managerial Personnel, and the loss of, or its inability to hire, retain, train, and motivate qualified personnel could adversely affect the business, results of operations, and financial condition.

- Certain of its Directors are on the board of directors of companies engaged in a line of business similar to that of its.

- Entered into related party transactions in the ordinary course of business and it cannot be assured you that such transactions will not have an adverse effect on its results of operation and financial condition.

- Negative publicity could damage reputation and adversely impact the business and financial results.

- Recent global economic conditions have been challenging and continue to affect the Indian market, which may adversely affect the business, financial condition, results of operations and prospects.

- Any downgrading of India's sovereign debt rating by an international rating agency could have a negative impact on the business and results of operations.

- Changing regulations in India could lead to new compliance requirements that are uncertain

- Changes in the taxation system in India could adversely affect the business.

- If inflation were to rise in India, SBFC might not be able to increase the prices of its services at a proportional rate thereby reducing its margins.

- Fluctuation in the exchange rate between the Indian Rupee and foreign currencies may have an adverse effect on the value of Equity Shares, independent of its operating results.

- Investors may be subject to Indian taxes arising out of capital gains on the sale of the Equity Shares.

Profit & Loss

Particulars (Rs in million)	FY23	FY22	FY21
Revenue from operations			
Interest income	6541.5	4731.5	4631.7
Fees and commission income	412.5	272.4	241.5
Net gain on fair value changes	119.8	157.2	91.1
Net gain on derecognition of financial instruments under amortised cost category	28.3	0.0	39.7
Other operating income	226.0	129.4	67.1
Other income	75.5	16.5	44.3
Total Income	**7403.6**	**5307.0**	**5115.3**
Total Expenditure	**2498.3**	**2116.1**	**1494.7**
Net Loss on derecognition of financial instruments under amortised cost category	0.0	106.9	0.0
Impairment on financial instruments	320.6	360.9	336.4
Employee Benefits Expenses	1601.2	1095.3	841.8
Other Expenses	576.5	552.9	316.5
PBIDT	**4905.3**	**3190.9**	**3620.6**
Interest	2764.5	2206.2	2384.6
PBDT	**2140.8**	**984.8**	**1236.1**
Depreciation and amortization	127.1	117.8	95.4
PBT	**2013.7**	**867.0**	**1140.7**
Tax (incl. DT & FBT)	**584.9**	**262.1**	**290.6**
Current tax	584.9	262.1	300.2
Deferred tax (net)	-68.6	-40.4	-9.7
PAT	**1497.4**	**645.2**	**850.1**
EPS (Rs.)	1.7	0.8	1.1
Face Value	10	10	10
OPM (%)	74.6	67.4	77.3
PATM (%)	22.9	13.6	18.4

Balance Sheet

Particulars (Rs in million) As at	FY23	FY22	FY21
ASSETS			
Financial assets			
Cash and cash equivalents	1,834.4	1,514.8	1,382.7
Bank balances other than cash and cash equivalents	2,170.0	1,838.2	2,031.1
Receivables			
Trade receivables	108.3	82.7	38.9
Loans	44,153.1	29,824.1	20,701.9
Investments	6,065.9	8,481.1	14,842.5
Other financial assets	39.0	34.2	58.2
Total Financial Assets	**54,370.7**	**41,775.0**	**39,055.3**
Non-Financial assets			
Current tax assets (net)	0.0	341.9	206.4
Property, plant and equipment	336.5	357.1	390.0
Intangible assets under development	7.5	0.0	3.3
Goodwill	2,603.9	2,603.9	2,603.9
Other intangible assets	23.5	32.9	17.2
Other non-financial assets	122.2	39.5	35.7
Total Non-Financial Assets	**3,093.7**	**3,375.3**	**3,256.6**
TOTAL ASSETS	**57,464.4**	**45,150.3**	**42,311.9**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial Liabilities			
Trade payables			
total outstanding dues of micro enterprises and small enterprises	3.0	0.0	0.0

total outstanding dues of creditors other than micro enterprises and small enterprises	89.3	80.7	52.7
Other payables			
total outstanding dues of micro enterprises and small enterprises	0.0	0.0	0.0
total outstanding dues of creditors other than micro enterprises and small enterprises	36.3	40.5	6.3
Debt securities	454.0	454.0	1,584.5
Borrowings (other than debt securities)	36,936.6	28,945.0	26,097.3
Other financial liabilities	2,509.8	2,501.2	2,267.1
Total Financial Liabilities	**40,029.0**	**32,021.4**	**30,007.8**
Non-Financial Liabilities			
Current tax liabilities (net)	0.5	0.0	0.0
Provisions	1.3	2.5	2.3
Deferred tax liabilities (net)	125.9	194.5	234.9
Other non-financial liabilities	34.9	60.3	15.9
Total Non-Financial Liabilities	**162.7**	**257.3**	**253.0**
TOTAL LIABILITIES	**40,191.7**	**32,278.7**	**30,260.8**
EQUITY			
Equity share capital	8,895.7	8,068.0	7,966.7
Other equity	8,377.0	4,803.7	4,084.3
TOTAL EQUITY	**17,272.7**	**12,871.7**	**12,051.1**
TOTAL LIABILITIES AND EQUITY	**57,464.4**	**45,150.3**	**42,311.9**

Source: RHP