

SBFC FINANCE LIMITED

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Company Overview

SBFC FINANCE LTD is a systemically important, non-deposit taking non-banking finance company ("NBFC-ND-SI") offering Secured MSME Loans and Loans against Gold, with a majority of the borrowers being entrepreneurs, small business owners, self-employed individuals, salaried and working class individuals. Among MSME-focused NBFCs in India, the company has one of the highest assets under management ("AUM") growth, at a CAGR of 44% in the period from Fiscal 2019 to Fiscal 2023. The company has also witnessed healthy disbursement growth, at a CAGR of 40% between Fiscal 2021 and Fiscal 2023. As of June 20, 2023, approximately only 16.9 million MSMEs have registered on UDYAM, of the estimated 70 million MSMEs in India, leaving a large number of MSMEs without access to organised finance owing to their unregistered status.

As of March 2022, less than 15% of MSMEs have access to credit in any manner and traditional institutions have historically refrained from providing credit to underserved or unserved MSMEs and self-employed individuals, leaving them to resort to credit from informal sources. The credit gap was estimated at around ₹92 trillion in Fiscal 2023, offering growth potential for financial institutions. Further, with increasing presence of MSME lenders in smaller cities and lenders increasingly focusing on underserved customers, the portfolio of secured MSME loans with ticket size between ₹ 0.50 million and ₹ 3.00 million is expected to grow at a CAGR of 18% - 20% between Fiscal 2023 and Fiscal 2026.

In addition, there has been credit growth in non-metro cities, owing to financial literacy, mobile penetration and government schemes aimed at bringing the unbanked within the formal banking system. As a result, the industry has witnessed an increase in access to formal credit to MSMEs, which could be attributed to the increase in the number of MSMEs registered with the Ministry of Micro, Small and Medium Enterprises, to 13.09 million in Fiscal 2023, from 0.50 million in Fiscal 2016. Accordingly, the company is focused on disbursing loans with a ticket size in the range of ₹ 0.50 million to ₹ 3.00 million and as of March 31, 2023, 87.27% of the AUM had a ticket size within this range. The company believes that the products allow many underserved and under banked customers to thrive.

Financial Summary (₹ mn)	FY23	FY22	FY21
AUM	49,428	31,922	22,213
Tangible Network	14,669	10,268	9,447
Net Interest Income	3,789.4	2,542.4	2,269.0
Profit after Tax	1,497.4	645.2	850.1
NIM (%)	9.3	9.4	11.7
GNPA (%)	2.4	2.7	3.2
NNPA (%)	1.4	1.6	2.0
ROA (%)	2.9	1.5	2.0
Return on Tangible Equity (%)	12.0	6.6	10.0

Source: RHP, LKP Research

Issue Details

Fresh Issue of Equity Shares aggregating upto ₹600 Crore and Offer for Sale of Equity shares aggregating upto ₹425 Cr

Issue Highlights

Issue Size:	₹ 1,025 Cr
No. of Shares:	189,887,816 - 179,889,950
Face Value:	₹ 10/
Price Band:	₹ 54 - 57
Bid Lot:	260 Shares & in multiple thereof
Employee Reservation:	Shares aggregating upto 10.25Cr
Employee Discount:	₹ 2/- per share
Post Issue Implied MCAP:	₹ 5,778 – 6,066 Cr
Issue Opens On:	Thursday, 3rd August'2023
Issue Closes On:	Monday, 7th August'2023
BRLMs:	Axis Capital, ICICI Securities, Kotak Mahindra Capital
Registrar:	KFin Technologies Ltd.
Listing :	BSE & NSE

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	10-08-2023
Refunds/Unblocking ASBA Fund	11-08-2023
Credit of equity shares to DP A/c	14-08-2023
Trading commences	16-08-2023

Issue break-up

	No. of Shares		₹ In Cr	% of Issue
	@Lower	@upper		
QIB	93,958,330	89,013,156	507.38	50%
NIB	28,187,500	26,703,948	152.21	15%
-NIB1	9,395,834	8,901,316	50.74	
-NIB2	18,791,666	17,802,632	101.48	
Retail	65,770,833	62,309,210	355.16	35%
EMP	1,971,153	1,863,636	10.25	
Total	189,887,816	179,889,950	1,025.00	100%

NIB-1=NII Bid between ₹ 2 to 10 Lakhs, NIB-2=NII Bid Above ₹ 10 Lakhs

Category	Retail Category	NII-Bid between ₹2-10 Lakhs	NII - Bid Above ₹ 10Lakhs
Minimum Bid Lot	260	3,640	1,7680
Minimum Bid Lot	₹14,820^	₹207,480^	₹1,007,760^
No. of Applications	2,39,651	2,445	4,891

Shareholding (No. of Shares)

Pre- Issue	Post-Issue~	Post-Issue^
958,908,906	1,070,093,021	1,064,237,454

~@ Lower price Band ^@ Upper Price Band

Shareholding (%)	Pre issue	Post issue
Promoters	80.48%	65.51%
Public – Investor S/h	16.98%	15.30%
Public –Other	2.05%	18.75%
Shares held by Employee Trust	0.50%	0.45%
Total	100.00%	100.00%

As of March 31, 2023, the average ticket size (“ATS”) of the Secured MSME Loans, Loans against Gold and other unsecured loans, on the basis of disbursed amounts was ₹ 0.99 million, ₹ 0.09 million and ₹ 0.69 million, respectively. Among NBFCs, the Gross NPA for Secured MSME Loans for ticket sizes between ₹ 0.50 million and ₹ 3.00 million was 4.2% in March 2023. As of March 31, 2023, the company’s Gross NPA to AUM ratio for ticket sizes between ₹ 0.50 million and ₹ 3.00 million was 1.97%. The total AUM as of March 31, 2021, March 31, 2022 and March 31, 2023 was ₹ 22,213 million, ₹ 31,921 million and ₹ 49,428 million, respectively. As of March 31, 2021, March 31, 2022 and March 31, 2023, the company had provided loans to 56,587, 72,816 and 102,722 customers, respectively.

The company serves customers in Tier II and Tier III cities, thereby fostering entrepreneurship in these regions, focusing on customers who have a strong credit history but may lack formal proof of income documents. The company has a diversified pan-India presence, with an extensive network in the target customer segment. As of March 31, 2023, SBFC has an expansive footprint in 120 cities, spanning 16 Indian states and two union territories, with 152 branches. The company’s AUM is diversified across India, with 30.84%, being ₹ 15,242.41 million, in the North (in the states of Chandigarh, Delhi, Haryana, Punjab, Rajasthan, Uttar Pradesh and Uttarakhand), 38.53%, being ₹ 19,047.97 million, in the South (in the states of Karnataka, Andhra Pradesh, Telangana, Tamil Nadu and Puducherry), and 30.63%, being ₹ 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. The disbursements across zones are also well-distributed, and SBFC has reduced the concentration risk across industries and sectors, as demonstrated by the fact that no single industry, including the manufacturing sector, contributes more than 10% of loan portfolio as of March 31, 2023.

Offer Summary

The promoter (80.48% Pre-IPO) and other shareholders (19.52% Pre-IPO) of SBFC Finance are executing fresh issue of Rs6bn and OFS of Rs4.25bn. Post IPO the total number of shares would be ~1064mn. The issue price band stands at Rs54 – Rs57. The issue opens at 3rd Aug 2023 and closes on 7th Aug 2023. The implied post issue market cap stood at ~Rs60bn.

Outlook and Valuation

At higher price band (Rs57), the stock is valued at 2.4(x) P/BVPS with current book value per share of Rs23. Factoring the superlative return ratio, FY23 ROA of ~3% and further improvement post fund raise; we believe that SBFC Finance Limited is worth subscribing. Thus we recommend **SUBSCRIBE**.

Key Management Personnel

Key Person	Designation	Description
Neeraj Swaroop	Chairman, Independent Director	He is an Independent Director and Chairperson of the Board. He has been associated with the company since November 21, 2017. Prior to joining the company, he was associated with Pond's (India) Ltd, Bank of America, HDFC Bank, Standard Chartered Bank and Singapore Exchange Ltd.
Aseem Dhru	CEO & MD	He is the Managing Director and Chief Executive Officer of the company. He has over 25 years of experience in the banking industry and has been associated with the company since September 28, 2017. He was associated earlier with HDFC Bank Ltd., HDFC Securities Ltd. as Managing Director and a director on the board of HDB Financial Services Ltd.
Narayan Barasia	CFO	He is the Chief Financial Officer of the company. He joined the Company on October 24, 2018. He has more than 2 decades of experience, and has worked at Godrej Foods Ltd, Godrej Sara Lee Ltd, and subsequently worked with Olam Agro India Ltd. Prior to joining the company, he was working with Greaves Cotton Ltd.
Jay Mistry	Compliance officer	He is the Company Secretary and Compliance Officer of the company. He joined the company on June 5, 2021. He has more than 5 years of experience in securities and corporate laws, and corporate compliances.

AUM and Capital

(₹ mn)	FY23	FY22	FY21
AUM	49,428	31,922	22,213
AUM Growth (%)	55	44	35
Disbursement	36,313	25,709	15,025
Secured MSME Disbursement	22,768	13,328	5,955
Gold Loan Disbursement	13,234	11,270	8,300
Other Disbursement	311	1,111	769
Tangible Networkth	14,669	10,268	9,447
CRAR (%)	31.9	26.2	26.3
Total Borrowings to Tangible Equity (%)	2.6	2.9	2.9

Source: RHP, LKP Research

Profitability Measures

(₹ mn)	FY23	FY22	FY21
Net Interest Income	3,789	2,542	2,269
Fee and Other Income	862	576	484
Total Income	7,404	5,307	5,115
Profit after Tax	1,497	645	850
Yield on Avg. Gross loans (%)	15.9	14.9	15.1
Cost of Fund (%)	8.2	7.7	8.1
Spread (%)	7.7	7.2	7.0
NIM (%)	9.3	9.4	11.7
Cost to Income (%)	49.8	57.2	46.3

Source: RHP, LKP Research

Important Ratios

(%)	FY23	FY22	FY21
Net Income to Avg. AUM (%)	11.4	11.5	14.2
NIM (%)	9.3	9.4	11.7
Opex. To Avg. AUM (%)	5.7	6.6	6.6
Credit cost to Avg. AUM (%)	0.8	1.7	1.7
ROA (%)	2.9	1.5	2.0
Return on Tangible Equity (%)	12.0	6.6	10.0
GNPA (%)	2.4	2.7	3.2
NNPA (%)	1.4	1.6	2.0
PCR (%)	42.0	40.4	38.3

Source: RHP, LKP Research

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