

Retail Research	IPO Note
Sector: NBFC	Price Band (Rs): 54 - 57
2 <sup>nd</sup> August 2023	Recommendation: Subscribe for listing gains

## SBFC Finance Limited

### Company Overview:

SBFC is a systemically important non-deposit taking non-banking finance company (NBFC-ND-SI) specializing in offering Secured MSME Loans and Loans against Gold. The company's clientele primarily comprises entrepreneurs, small business owners, self-employed individuals, salaried, and working-class individuals. Among the MSME-focused NBFCs in India, SBFC stands out with one of the highest assets under management (AUM) growth rates, achieving a compound annual growth rate (CAGR) of 44% during the period from FY19 to FY23. Additionally, they have experienced substantial healthy disbursement growth, with a CAGR of 40% between FY21 and FY23.

### Key Highlights:

**Strong historical growth:** The company's business model focuses on cash flow collection, leading to significant AUM growth at a CAGR of 49.17% from Rs 2,221.3 cr as of March'21, to Rs 4,942.82 cr as of March'23. The company experienced robust disbursement growth at a CAGR of 40% between FY19 and FY23. Their balance sheet has consistently improved, with net worth reaching Rs 1,727.27 cr as of March'23. Additionally, stable credit history, risk management policies, and brand equity has enabled them to access borrowings at a competitive cost, with an average cost of borrowing at 8.22% for FY23.

**Robust business model:** The company focuses on loans with ticket sizes ranging from Rs 5 lakhs to Rs 30 lakhs, benefiting underserved customers. As of March'23, 87.27% of the AUM falls within this range, with a Gross NPA to AUM ratio of 1.97%. The company's diverse loan products have served 1,02,722 customers, and the total AUM reached Rs 4,942.82 cr as of March'23.

**Stringent credit quality checks help to maintain asset quality:** The company's loan portfolio benefits from in-house origination and a robust risk management framework. They focus on small enterprise borrowers with monthly incomes up to Rs 1.5 lakh, having a CIBIL score above 700. The company's stringent credit quality checks and custom operating procedures ensure comprehensive risk management at each stage. With direct customer sourcing and strong relationships, they maintain low Gross NPAs and Net NPAs, with ratios of 2.43% and 1.41% as of March'23 respectively.

**PAN India presence:** The company has a strong pan-India presence, with a network in 120 cities across 16 states and 2 union territories. Their diverse distribution allows them to reach underbanked populations in tier II and tier III cities. They actively manage state concentration, resulting in low AUM concentration per state despite the growth. Their AUM is well-diversified across North, South, and West/East zones, with no single industry contributing more than 10% to the loan portfolio as of March'23.

**Valuation: SBFC, at the Lower/Upper price band of Rs 54 / Rs 57, is valued at 2.5x/2.6x of its FY23 book value based on post-issue capital. While comparing the stock with its close peers on similar valuation parameters, the company is fairly valued. We recommend investors to subscribe the IPO for listing gains at a CUT-OFF price.**

Issue Details	
Date of Opening	3 <sup>rd</sup> August 23
Date of Closing	7 <sup>th</sup> August 23
Price Band (Rs)	54 – 57
Issue Size (Rs cr)	1,025
No. of shares	18,98,14,815 – 17,98,24,561
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	5,778 – 6,066
BRLMs	ICICI Securities Ltd, Kotak Mahindra Capital Company Limited
Registrar	KFin Technologies Limited
Bid Lot	600 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB (HNI) shares	15%
Employee Reservation	Rs 10.25 cr

Objects of Issue	
	(Rs Cr.)
Gross proceeds of the fresh issue	600
(Less) Issue expenses in relation to the fresh issue	-
Net proceeds*	-

\* To be finalised upon determination of the Issue Price and updated in the Prospectus prior to filing with the RoC

Shareholding Pattern		
Pre Issue	No. of Shares	%
Promoter & Promoter Group	77,17,07,101	80.5
Public & Others	18,72,01,805	19.5
<b>Total</b>	<b>95,89,08,906.0</b>	<b>100.0</b>

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	69,30,03,397	64.8
Public & Others	37,70,16,620	35.2
<b>Total</b>	<b>1,07,00,20,017</b>	<b>100.0</b>

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	69,71,45,697	65.5
Public & Others	36,70,26,366	34.5
<b>Total</b>	<b>1,06,41,72,064</b>	<b>100.0</b>

Source: RHP, SSL Research

## Risk Factors

- The risk of non-payment or default by the borrowers may adversely affect the business, results of operations and financial condition.
- The company depend on the accuracy and completeness of information provided by the customers and certain third party service providers and reliance on any erroneous or misleading information may affect judgement of their creditworthiness, as well as the value of and title to the collateral.
- The quality of the portfolio may be impacted due to higher levels of NPAs and the business may be adversely affected if the company is unable to provide for such higher levels of NPAs.
- Any 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.
- The company requires substantial capital for the business and any disruption in the sources of capital could have an adverse effect on the business, results of operations and financial condition.
- The company's 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 the net interest income and net interest margin, thereby affecting the results of operations and cash flows.

## Growth Strategy

- Leverage on pan-India network to deepen the penetration in the target customer segment
- Expanding the product portfolio through offering affordable housing finance to the target customer segment by utilizing the existing network
- Diversifying the source of borrowings and improve operating leverage
- Utilize technology to drive operational efficiency

## Key Operational and Financial Information

Particulars	FY21	FY22	FY23
Customers	56,587	72,816	1,02,722
AUM (Rs cr)	2,221.32	3,192.18	4,942.82
Net Worth (Rs cr)	1,205.11	1,287.17	1,727.27
Tangible Net Worth (Rs cr)	944.72	1,026.78	1,466.88
Leverage (AUM/ Net worth)	1.84	2.48	2.86
AUM/ Tangible Net Worth	2.35	3.11	3.37
Restated Profit After Tax for the Year / Period (Rs cr)	85.01	64.52	149.74
RoA	2.01%	1.48%	2.92%
ROE	7.67%	5.18%	9.93%
Return on Tangible Equity	10.02%	6.55%	12.01%
Branches	124	135	152
Employees	1,471	2,048	2,822
AUM per branch (Rs cr)	17.91	23.65	32.52
AUM per employee (Rs cr)	1.51	1.56	1.75
Disbursement (Secured MSME Loans) per branch per month (Rs cr)	0.40	0.82	1.25
Disbursement (Secured MSME Loans) per employee per month (Rs cr)	0.07	0.09	0.11
Gross NPA ratio	3.16%	2.74%	2.43%
Net NPA ratio	1.95%	1.63%	1.41%
Operating Expenses to Average AUM	6.59%	6.59%	5.70%
Average cost of borrowing	8.11%	7.65%	8.22%
Cost to income ratio	46.34%	57.19%	49.82%
Provision Coverage Ratio	38.25%	40.44%	42.04%
Average yield on Gross Loan Book	15.09%	14.89%	15.91%
Net Interest Margin	11.73%	9.39%	9.32%

Source: RHP, SSL Research

## Key Financial and Operational Parameters

Key financial and operational parameters pertaining to the Secured MSME Loan portfolio as of/ for the relevant periods	FY21	FY22	FY23
Live MSME loan accounts	12,250	23,018	40,872
MSME borrowers	9,665	19,004	34,738
MSME disbursements (Rs cr)	595.52	1,332.83	2,276.82
AUM from MSMEs (Rs cr)	1,442.28	2,326.27	3,920.00

Source: RHP, SSL Research

Customer segment	FY21		FY22		FY23	
	AUM (Rs Cr)	% of Total AUM	AUM (Rs Cr)	% of Total AUM	AUM (Rs Cr)	% of Total AUM
South India	863.25	38.86%	1,199.42	37.57%	1,904.80	38.53%
North India	648.60	29.20%	1,030.33	32.28%	1,524.24	30.84%
West India	574.34	25.85%	741.01	23.21%	1,037.05	20.98%
East India	134.78	6.07%	221.20	6.93%	476.74	9.65%
Total	2,221.32	100.00%	3,192.18	100.00%	4,942.82	100.00%

Source: RHP, SSL Research

## Consistent Financial Performance Backed by Profitable Growth

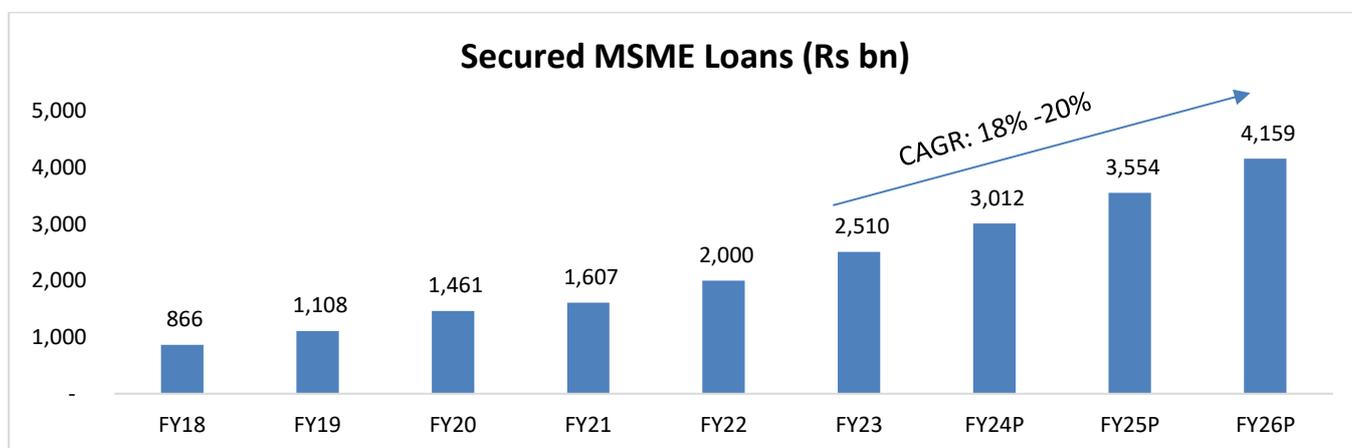
Customer segment	FY21		FY22		FY23		AUM CAGR (FY21 - FY23) (%)
	AUM (Rs Cr)	% of total AUM (%)	AUM (Rs Cr)	% of total AUM (%)	AUM (Rs Cr)	% of total AUM (%)	
Secured MSME Loans	1,442.28	64.93%	2,326.27	72.87%	3,920.00	79.31%	64.86%
Loans against Gold	560.05	25.21%	639.56	20.04%	864.10	17.48%	24.21%
Others	219.00	9.86%	226.35	7.09%	158.72	3.21%	(14.87)%
Total	2,221.32	100.00%	3,192.18	100.00%	4,942.82	100.00%	49.17%

Source: RHP, SSL Research

## Industry Overview

### Secured MSME loans (Rs 5 lakhs - Rs 30 lakh) will continue to grow at a strong pace

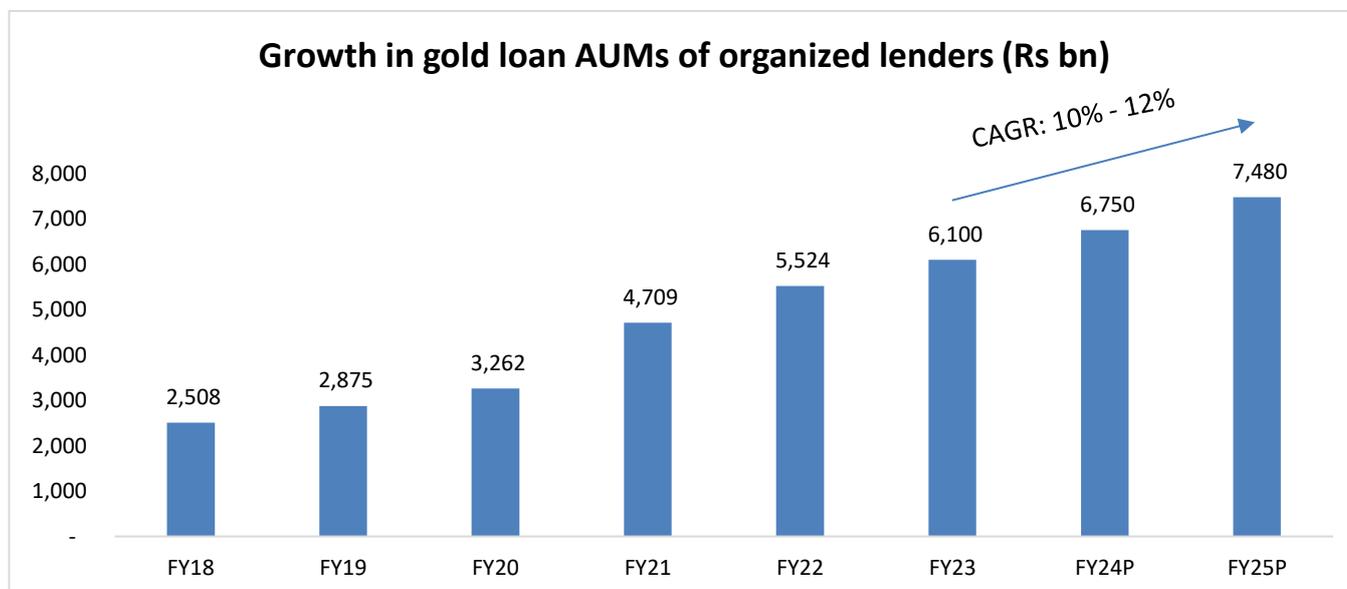
There is a huge demand supply gap in the secured MSME loan segment, especially in lower ticket size segments. With increasing presence of MSME lenders in smaller cities and rising focus of lenders on underserved target customer segment, loan portfolio is expected to see a strong growth in future. Going forward, CRISIL MI&A expects the portfolio of secured MSME loans with ticket size in between Rs 5 lakhs and Rs 30 lakhs to grow at 18% - 20% CAGR over FY23 and FY26 aided by increasing lender focus and penetration of such loans, enhanced availability of data increasing lender comfort while underwriting such loans, enhanced use of technology, newer players entering the segment, and continued government support.



Source: RHP, SSL Research

### Online gold loans and doorstep schemes to aid in market expansion

Increasing awareness and comfort of customers with gold loans due to the convenience are expected to help the industry grow moderately along with geographic diversification to markets beyond the southern part of India. Demand for gold loans from micro enterprises and individuals to fund working capital and personal requirements is expected to increase owing to pickup in economic activity. In addition, with demand reviving and market expansion through doorstep gold loans model, CRISIL MI&A expects AUM to touch close to Rs 7,480 bn by March'25, translating into a 10% - 12% CAGR between FY23 and FY25.



Source: RHP, SSL Research

## Financial Snapshot

SBFC Finance Ltd			
(Rs. Cr)	Pre Issue	Post Issue	
	FY22	FY23	
Particulars		Price Band	
		54	57
Net Interest Income	252.5	377.7	377.7
Total Income	310.1	463.9	463.9
PAT	64.5	149.7	149.7
Equity Share Capital	806.8	1,070.0	1,064.2
No of Equity Shares	80.7	107.0	106.4
Face Value	10.0	10.0	10.0
EPS	0.8	1.4	1.4
CMP	57.0	54.0	57.0
Cash and Bank	335.3	400.4	400.4
<b>Borrowings &amp; Deposits</b>	<b>2,939.9</b>	<b>3,739.1</b>	<b>3,739.1</b>
Net Worth	1,287.2	2,327.3	2,327.3
Loan Book	2,982.4	4,415.3	4,415.3
Cash and Investment	1,183.4	935.3	935.3
<b>Interest Earning Assets</b>	<b>4,165.8</b>	<b>5,350.6</b>	<b>5,350.6</b>
Total Asset	4,515.0	5,746.4	5,746.4
Market Cap	4,598.8	5,778.1	6,065.8
BV per share (Rs)	16.0	21.7	21.9
PE(x)	71.3	38.6	40.5
P/BV (x)	3.6	2.5	2.6
NIM (%)	6.3	7.9	7.9
ROA (%)	1.5	2.9	2.9
Cost of fund (%)	7.7	8.3	8.3
Yield on Assets (%)	11.7	13.6	13.6
Spread (%)	4.0	5.4	5.4
Cost to Income Ratio (%)	56.6	46.9	46.9
RoE (%)	5.2	9.9	9.9
GNPA (%)	2.7	2.4	2.4
NNPA (%)	1.6	1.4	1.4
PCR (%)	40.5	42.0	42.0

Source: RHP, SSL Research (Post Issue)

Profit and Loss Account	Standalone		
	FY21	FY22	FY23
<b>Particulars (Rs cr)</b>			
Interest Income	463.2	473.1	654.2
Interest & Other Financial Charges	238.5	220.6	276.5
<b>Net Interest Income</b>	<b>224.7</b>	<b>252.5</b>	<b>377.7</b>
Other Operating Income	-	-	-
Other Income	48.4	57.6	86.2
<b>Total Income</b>	<b>273.1</b>	<b>310.1</b>	<b>463.9</b>
<b>Operating Expenditures</b>	<b>115.8</b>	<b>175.5</b>	<b>217.8</b>
Employee Expenses	84.2	109.5	160.1
Other Expenses	31.6	66.0	57.7
<b>Operation Profit before Provision</b>	<b>157.2</b>	<b>134.6</b>	<b>246.1</b>
Provisions	33.6	36.1	32.1
<b>Operating Profit After Provision</b>	<b>123.6</b>	<b>98.5</b>	<b>214.1</b>
Depreciation & Amortisation	9.5	11.8	12.7
<b>Profit Before Tax</b>	<b>114.1</b>	<b>86.7</b>	<b>201.4</b>
<b>Provision for Tax</b>	<b>29.1</b>	<b>22.2</b>	<b>51.6</b>
Current Tax	30.0	26.2	58.5
Provision Related to Earlier Year	-	-	-
Deferred Tax	(1.0)	(4.0)	(6.9)
<b>Profit After Tax</b>	<b>85.0</b>	<b>64.5</b>	<b>149.7</b>

Source: RHP, SSL Research (Post Issue)

## Peer Comparison

Particulars.	SBFC Finance Ltd.		AU Small Fin.	Aptus Value Finance td
	Lower	Upper		
CMP (Rs)	54.0	57.0	722.4	269.0
M. Cap (Rs Cr)	5,778.1	6,065.8	48,201.0	13,393.0
P/BV (x)	2.5	2.6	4.4	4.0
P / E (x)	38.6	40.5	33.7	26.6
NIM (%)	7.9	7.9	6.1	9.5
ROA (%)	2.9	2.9	1.8	2.2
NNPA %	1.4	1.4	0.4	0.9
CAR %	31.9	31.9	23.6	80.8

(Source: RHP, SSL Research)

CMP as on 31<sup>st</sup> July, 2023

For SBFC Finance Limited: The data is based on FY23 post-issue market cap. For all others, the data is based on FY23.

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