

Company Overview

SBFC Finance Ltd. (SBFC) is a systemically important, non-deposit taking non-banking financial company offering loans including secured Micro, Small and Medium Enterprises loans and loans against gold, with a focus on ticket size in the range of Rs. 5 lakhs to Rs. 30 lakhs. As of March 31, 2023, it had a footprint in 120 cities, spanning 16 Indian states and two Union Territories, with 152 branches. Among MSME-focused NBFCs in India, SBFC has one of the highest assets under management growth, at a CAGR of 44% in the period from FY19 to FY23 (Source: CRISIL Report). It has also witnessed healthy disbursement growth, at a CAGR of 40% between FY21 and FY23. SBFC primarily focuses on small enterprise borrowers, whose monthly income is up to Rs. 1.5 lakhs, with a demonstrable track record of servicing loans such as gold loans, and loans for two-wheeler vehicles and have a CIBIL score above 700 at the time of origination. SBFC has a diversified pan-India presence, with an extensive network in its target customer segment. Their 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. As of March 31, 2023, their AUM is diversified across India, with 30.84% (Rs. 1,524.2 crores) in the North (in the states of Chandigarh, Delhi, Haryana, Punjab, Rajasthan, Uttar Pradesh and Uttarakhand), 38.53% (Rs. 19,04.8 crores) in the South (in the states of Karnataka, Andhra Pradesh, Telangana, Tamil Nadu and Puducherry), and 30.63% (Rs. 1,513.8 crores) in the West and East collectively (in the states of Gujarat, Madhya Pradesh, Maharashtra, West Bengal, Assam and Bihar). They source customers directly through their sales team of 1,911 employees as of March 31, 2023, and have adopted a direct sourcing model through branch-led local marketing efforts, repeat customers or walk-ins.

Objects of the issue

The IPO proceeds will be used towards the following purposes:

- ⇒ To utilize the Net Proceeds towards augmenting the Company's capital base to meet its future capital requirements arising out of the growth of the business and assets.

Investment Rationale

Diversified pan-India presence with an extensive network to cater to its target customer segment

SBFC is a lender that provides loans to entrepreneurs, small business owners, self-employed individuals, and salaried and working-class individuals. As of March 31, 2023, they had an expansive footprint in 120 cities, spanning 16 Indian states and two union territories, with 152 branches. The extent of SBFC's network allows them to service its existing customers and attract new customers as a result of personal relationships cultivated through proximity and frequent interaction by its employees. Their extensive and geographically diverse distribution network allows them to penetrate the underbanked population in tier II and tier III cities in India. The branches 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. Through its 152 branches, the company strategically focuses on untapped customers with the potential for beneficial yield.

Healthy liability franchise with low cost of funds

SBFC 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. Their average cost of borrowing was 8.11%, 7.65% and 8.22% for FY21, FY22 and FY23, respectively, and their incremental cost of borrowings (which represents the weighted average rate of interest on fresh borrowings in the relevant period) was 8.76% for FY23. As of March 31, 2023, their outstanding borrowings included Rs. 2,912.2 crores from public and private sector banks and Rs. 3,67.3 crores from NBFCs and other financial institutions. As of March 31, 2023, their total borrowings aggregated to Rs. 3,745.83 crores, comprising primarily of term loans of Rs. 3,279.4 crores, working capital demand loans from banks of Rs. 60.0 crores, non-convertible debentures of Rs. 43.0 crores and other collateralized borrowings of Rs. 3,63.4 crores.

Issue Details

Offer Period	03 rd Aug, 2023 - 07 th Aug, 2023
Price Band	Rs. 54 to Rs. 57
Bid Lot	260
Listing	BSE & NSE
Issue Size (no. of shares in mn)	180
Issue Size (Rs. in bn)	10.3
Face Value (Rs.)	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Axis Capita, ICICI Securities, Kotak Mahindra Capital
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Registrar	KFin Technologies Limited
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Particulars	Pre Issue %	Post Issue %
Promoter	80.48%	65.51%
Public	19.03%	34.05%
Shares held by Employee Trust	0.50%	0.45%
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

Valuation and Outlook

NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than Rs. 2 trillion AUM at the turn of the century to Rs. 34 trillion at the end of FY23. CRISIL MI&A expects NBFC credit to grow at 12-14% CAGR between FY23 and FY25. Their share in the overall credit pie has increased from 12% in FY08 to 18% in FY23 and is projected to remain stable in FY24. NBFCs will remain a force to reckon with within the Indian credit landscape, given their inherent strength of providing last-mile funding and catering to customer segments that are not catered by banks. We believe that SBFC is one of the decent NBFCs in the space growing at a healthy pace. With the management having vast experience, an HDFC background and an in-house sales team, we remain comfortable on the credit profiling and corporate governance front. Moreover, the lender has a strategic focus on diversifying its loan portfolio across the states, thereby avoiding concentration risk and helping it to grow at a faster pace. With the company's limited leverage position and the current P/BV multiple of 2.9x, we believe that the company is fairly valued and advise investors to "Subscribe" from a medium to long-term perspective.

Key Ratios

Particulars	FY21	FY22	FY23
NIM (%)	11.73%	9.39%	9.32%
RoA (%)	2.01%	1.48%	2.92%
RoE (%)	10.02%	6.55%	12.01%
BV per Share (INR.)	15.1	16.0	19.4
P/E (x)	35.2	72.2	53.8
P/BV (x)	3.8	3.6	2.9
Cost to Income Ratio	46.3%	57.2%	49.8%

Source: RHP, BP Equities Research



SBFC Finance Ltd.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
(I) Revenue from operations			
Interest income	6,542	4,731	4,632
Fees and commission income	413	272	242
Net gain on fair value changes	120	157	91
Net gain on derecognition of financial instruments under amortised cost category	28	-	40
Other operating income	226	129	67
Total Revenue from operations	7,328	5,291	5,071
(II) Other income	75	17	44
(III) Total Income (I+II)	7,404	5,307	5,115
Expenses			
Finance costs	2,765	2,206	2,385
Net Loss on derecognition of financial instruments under amortised cost category	0	107	0
Impairment on financial instruments	321	361	336
Employee benefits expense	1,601	1,095	842
Depreciation and amortisation expense	127	118	95
Other expenses	577	553	316
(IV) Total expenses	5,390	4,440	3,975
(V) Profit before tax (III - IV)	2,014	867	1,141
Tax expense			
Current tax	585	262	300
Deferred tax charge/ (credit)	-69	-40	-10
(VI) Total tax expense	516	222	291
(VII) Profit after tax (V-VI)	1,497	645	850
(VIII) Other comprehensive income			
(A) Items that will not be reclassified to profit or loss			
Remeasurement of Net defined benefit plan	2	4	2
Income tax relating to items that will not be reclassified to profit or loss	0	-1	0
(B) Items that will be reclassified to profit or loss			
Other Comprehensive Income	1	3	1
(IX) Total comprehensive income for the period/ year (VII + VIII)	1,499	648	851
Profit for the year attributable to:	1,497	645	850
Owners of the Company	1,497	645	850
Non-controlling interest			
Other Comprehensive Income attributable to:	1	3	1
Owners of the Company	1	3	1
Non-controlling interest			
Total Comprehensive Income attributable to:	1,499	648	851
Owners of the Company	1498.77	647.99	851.42
Non-controlling interest			
(X) Earnings per equity share (Face value Rs. 10/- per share)			
Basic (Rs.)	1.71	0.81	1.09
Diluted (Rs.)	1.62	0.79	1.06

Source: RHP, BP Equities Research



SBFC Finance Ltd.

Balance Sheet (Rs. In millions)

Particulars	FY21	FY22	FY23
ASSETS			
I. Financial assets			
(a) Cash and cash equivalents	1,383	1,515	1,834
(b) Bank balances other than cash and cash equivalents	2,031	1,838	2,170
(c) Receivables			
(i) Trade receivables	39	83	108
(d) Loans	20,702	29,824	44,153
(e) Investments	14,842	8,481	6,066
(f) Other financial assets	58	34	39
Total Financial Assets	39,055	41,775	54,371
II. Non-Financial assets			
(a) Current tax assets (net)	206	342	0
(b) Property, plant and equipment	390	357	337
(c) Intangible assets under development	3	0	7
(d) Goodwill	2,604	2,604	2,604
(e) Other intangible assets	17	33	24
(g) Other non-financial assets	36	40	122
Total Non-Financial Assets	3,257	3,375	3,094
TOTAL ASSETS	42,312	45,150	57,464
LIABILITIES AND EQUITY			
LIABILITIES			
I. Financial Liabilities			
(a) Payables	-	-	-
(A) Trade payables	-	-	-
(i) total outstanding dues of micro enterprises and small enterprises	-	-	3
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	53	81	89
(B) Other payables	-	-	-
(i) total outstanding dues of micro enterprises and small enterprises	0	0	0
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	6	40	36
(b) Debt securities	1,584	454	454
(c) Borrowings (other than debt securities)	26,097	28,945	36,937
(d) Other financial liabilities	2,267	2,501	2,510
Total Financial Liabilities	30,008	32,021	40,029
II. Non-Financial Liabilities			
(a) Current tax liabilities (net) 0.53	0	0	1
(b) Provisions	2	2	1
(c) Deferred tax liabilities (net)	235	195	126
(d) Other non-financial liabilities	16	60	35
Total Non-Financial Liabilities	253	257	163
TOTAL LIABILITIES	30,261	32,279	40,192
EQUITY			
(a) Equity share capital	7,967	8,068	8,896
(b) Other equity	4,084	4,804	8,377
(c) Non Controlling Interest	-	-	-
TOTAL EQUITY	12,051	12,872	17,273
TOTAL LIABILITIES AND EQUITY	42,312	45,150	57,464

Source: RHP, BP Equities Research

**SBFC Finance Ltd.****Cash Flow Statement (Rs. in millions)**

Particulars (Rs in million)	FY21	FY22	FY23
Cash Flow from operating activities	(835)	13,292	15,590
Cash flow from investing activities	(5,324)	(7,387)	(6,932)
Cash flow from financing activities	1,717	1,113	(2,211)
Net increase/(decrease) in cash and cash equivalents	(4,442)	7,018	6,447
Cash and cash equivalents at the beginning of the period	16,141	11,698	18,716
Cash and cash equivalents at the end of the period	11,698	18,716	25,164

Source: RHP, BP Equities Research

Key Risk

- ⇒ The risk of non-payment or default by SBFC's borrowers may adversely affect its business, results of operations and financial condition.
- ⇒ SBFC's 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 its business, results of operations and financial condition.
- ⇒ SBFC require substantial capital for its business and any disruption in its sources of capital could have an adverse effect on its business, results of operations and financial condition.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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