

SBFC Finance Ltd



Driving success with strategic financing



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Subscribe at upper price band of INR 57

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

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

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

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

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

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

Industry	NBFC
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Issue Details

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

Issue Structure

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

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

Key Financial Data (INR Cr, unless specified)

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

Issue Structure and Offer Details

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

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

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

Source: Company Reports

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

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

Source: Company Reports

SBFC financial summary and analysis

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

Source: Ventura Research

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