



IPO Note – SBFC Finance Limited – Leading The Pack With Higher Growth Rates

03 August 2023

SBFC Finance Limited (SBFC) is a systemically important NBFC, engaged in providing financing opportunities to business owners who are underserved by traditional banks. It offers secured MSME loans and loans against gold, with most of the borrowers being entrepreneurs and small business owners. **SBFC's AUM grew at ~44% CAGR over FY19-23 which is one of the highest among the MSME focused NBFCs.** There are many MSMEs in the country who do not have access to organised sector. This leaves enough opportunity for the Banks/NBFCs to grow. Overall MSME market in India is approximately INR 8.5lcr, which is expected to grow at 17-18% CAGR. SBFC is in niche MSME market which is expected to double every three years. Riding high on credit growth cycle

Key Highlights: -

- SBFC reported AUM of INR 4,943cr in FY23, a growth CAGR of 44% over FY19-23 driven by ~40% CAGR in disbursements over the same period. The company is spread through 152 branches across 16 states, targeting customers with an average ticket size range between INR 5-30 lakh.
- In 2019, SBFC took the pioneering step of entering into a co-lending agreement with ICICI Bank, wherein both institutions jointly shoulder the risk in an 80:20 ratio. This model helps the company to save costs and improve efficiency.
- In FY23, RoA stood at 2.9%, and there is a positive outlook for improvement as efficiency is anticipated to increase (currently opex is 5.7% of assets), considering that a significant number of branches are yet to realize their full potential.
- Over the past three years, there has been an improvement in asset quality, as evidenced by the decline in GNPA from 3.2% in FY21 to 2.4% in FY23. The management remains optimistic about further enhancing asset quality and anticipates maintaining credit costs within the range of 75 to 100bps.
- Management anticipates that with the upcoming capital raise, the capital adequacy ratio (CAR) will significantly increase to ~41% (vs 31% in FY23), providing a solid foundation for sustainable growth over next 3-4 years.

Key Risks:- 1) Increase in competition from banks/NBFCs can have adverse impact on its business. 2) Non-compliance with observations made by the RBI during the inspections could expose to penalties and restrictions which can ultimately impact business.

Outlook & valuation – SUBSCRIBE

We have a **SUBSCRIBE** recommendation to this issue on the back of a) healthy growth in AUM, which stands as one of the highest among its peers, bolstered by its advantageous position with a low base, b) asset quality has seen an improving trend which is expected to sustain going ahead and c) valuation is reasonable at 2.9x (pre issue) and 2.5x (post issue) book value on a trailing basis, which is 40-50% discount compared to peers leaving decent return on the table for investors.

Key Financials (INR Cr)	FY21	FY22	FY23
Net revenue	272	311	462
PPoP	148	125	233
PAT	85	67	150
NIMs	11.7%	9.4%	9.3%
AUM	2,221	3,192	4,943
GNPA	3.2%	2.7%	2.4%
RoA	2.0%	1.5%	2.9%
RoE	10.0%	6.6%	12.0%

Source: ABML Research, RHP

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Rating	SUBSCRIBE
Issue Details	
Issue Opens	03-August-23
Issue Closes	07-August-23
Price Band (₹)	54-57
Bid Lot	260 shares
Issue Size at higher price band (₹ Cr)	1,025
Market cap @ upper price band (₹ cr)	6,066
Listing	NSE/BSE
BRLMs	ICICI Securities, Axis Capital and Kotak Mahindra Capital
Registrar	KFin Tech Ltd

Issue Structure (Shares in cr)	
Issue size	17.98
OFS	7.46
Break-up of net issue to public (%):	
QIB	50.0
NIB	15.0
Retail	35.0

Source: ABML Research, RHP

Analyst Details

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