

SBFC FINANCE LTD
03-08-2023 to 07-08-2023
Industry: Non Banking Finance Company
Price Band: ₹ 54 -57
Recommendation: Subscribe for long term
Post Implied Market Cap: ₹ 5,778 - 6,066 Cr

Key Data

Issue Size (₹ Cr)	1025
Fresh (₹)	600
OFS (₹)	425
No of shares offered	189,887,816 - 179,889,950
Face Value (₹ /share)	10
Bid Lot	260

About the Company

SBFC Finance Ltd (SBFC) is a diversified Pan-India non-deposit taking non-banking finance company (NBFC) primarily focused on serving the MSME sector. Company's products focuses on many underserved and underbanked customers targeting to serve customers in tier II and tier III cities. The company is supported by marquee institutional investors like Clermont Group, Arpwood Group, and Malabar Group, whose representatives contribute to the company's operations through their presence on the Board. SBFC offers Secured MSME Loans and Loans against Gold, catering to entrepreneurs, small business owners, self-employed individuals, salaried and working-class individuals. With a strong Pan-India presence, the company operates in 120 cities across 16 Indian states and 2 union territories, boasting an extensive network to reach its target customer segment. As of March 31, 2023, SBFC has 152 branches.

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

Shareholding (No. of shares)

Pre-Issue	95,89,08,906
Post Issue (Lower price band)	1,07,00,93,021
Post Issue (Higher price band)	1,06,42,37,454

Shareholding Pattern

	%
Promoters:	
Pre Issue	80.48%
Post Issue	65.51%
Promoters Group:	
Pre Issue	0
Post Issue	0
Public - Other Selling S/h:	
Pre Issue	16.98%
Post Issue	15.30%
Public - Others:	
Pre Issue	2.05%
Post Issue	18.75%
Shares held by Employee Trust	
Pre Issue	0.50%
Post Issue	0.45%

Issue Breakup

QIB	50%
NIB	15%
Retail	35%

Other Details

BRLMs: Axis Capital, ICICI Securities, Kotak Mahindra Capital

Registrar: Kfin Technologies Ltd

Listing: BSE & NSE

Research Analyst

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Investment Rationale

- Diversified Pan-India presence with an extensive network:** SBFC have a widespread presence in 120 cities across 16 states and 2 union territories, with 152 branches. This extensive, geographically diverse distribution network allows them to reach underbanked populations in tier II and tier III cities. As NBFCs with MSME focused normally seen that they have a significant portion of their portfolio (between 25% to 42%) emanating from the largest state in their respective portfolio, SBFC had the lowest proportion of AUM, being 17% in Fiscal 2023, emanating from the largest state in their portfolio, demonstrating better diversification and a granular, even spread. Their 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 and through their 152 branches, they strategically focus for untapped customers with potential for superior yield. While presence in 16 states and 2 union territories also reduces their concentration risk in comparison to peers, which allows them to penetrate a larger number of territories without the risk of entry into an unfamiliar market.
- Experienced, cycle-tested and professional management team to bring in long term sustainable growth:** The company has an experienced and dedicated management team, including KMPs and Senior Management with significant industry experience and who have demonstrated their ability to deliver growth and profitability, across business cycles. They consist of both management executives and independent members, each bringing significant business expertise, especially in banking and related fields like finance, operations, strategy, audit, business development, human resources, compliance, and public relations. Company have zonal heads for business, credit, collections and each of their zonal heads has more than 10 years of relevant experience with proven record of scaling businesses. As company is supported by marquee institutional investors like Clermont Group, Arpwood Group, and Malabar Group, whose representatives contribute to the company's operations through their presence on the Board.
- Expand the product portfolio utilising existing network:** Company is planning to expand the product portfolio through offering affordable housing finance to the target customer segment by utilising their current market networks. For this, SBFC Finance has incorporated a subsidiary, SBFC Home Finance Pvt Ltd, through which they intend to commence their housing finance business. The subsidiary is proposed to be funded by company's internal accruals. They are intending to focus on providing financing for affordable housing loans to individual borrowers from the EWS, LIG, and middle-income segments, with a focus on tier II and tier III cities and towns, which benefit from higher transparency in the sector, increasing affordability and urbanisation, and government schemes such as Housing for All.
- Consistent financial performance backed by profitable growth:** SBFC has demonstrated a history of healthy financial performance. As of March 31, 2023, their average yield on Gross Loan Book was 15.91%, with Secured MSME Loans and Loans against Gold accounting for 15.89% and 15.64%, respectively. Their Secured MSME Loans have progressively increased from comprising 64.93% of their AUM as of March 31, 2021, to 79.31% as of AUM as of March 31, 2023, reflecting their increased focus on this segment. The Return on Tangible Equity was 10.02%, 6.55% and 12.01% in Fiscal 2021, 2022 and 2023. Further, the Return on Total Tangible Assets was 2.15%, 1.57% and 3.07% in Fiscal 2021, 2022 and 2023. They also provide loan management services to third party financial institutions as a master service provider and act as a backup servicer to a leading global bank, where such institutions benefit from their experienced portfolio management, collection, and related services.

Risk

- Collection risk could harm the business.
- Change in Interest rates scenario would affect the net interest income.
- Risk arising from gold provided as collateral.

MView

We believe the SBFC Finance IPO offers an opportunity to investors to invest in the fastest growing MSMEs focused NBFC company in India. SBFC has witnessed a highest growth in AUM at CAGR of 44% in the period of FY 2019 to FY 2023 and also a robust disbursement growth of 40% CAGR between FY 2019 and FY 2023. We like the way SBFC diversified its pan India presence by having lowest proportion of AUM i.e. around 17% in fiscal 2023 compared to normally seen of (between 25% to 42%) coming from large state signifies better diversification and granular even spread. With the presence in 120 cities across 16 states and 2 UT with 152 branches which are strategically focused for untapped customers with potential of superior yield. By looking at the financials, the company has shown a growth of 39%/132% in total revenue and Net Profit for FY 2023 with Gross NPA and Net NPA around 2.43%/ 1.41% for FY 2023 from 3.16%/1.95% in FY 2021 which improved significantly. On valuation parse at upper band of ₹ 57/- the issue is asking for a Market Cap of ₹ 6066 Cr with the price to book value at around 3.51x which is very reasonable compared to industry average trading above ~4.4x leaving something on table for new investors via IPO. Hence considering long term growth rationales with strong experienced leadership, cycle-tested and professional management team, we recommend investors "SUBSCRIBING" to the SBFC Finance IPO with a long term perspective as well as healthy listing gains. With optimistic market sentiments if investors get any listing gains over and above 25%, we recommend booking profits on the listing day.

CONSOLIDATED FINANCIAL TABLES

BASIC FINANCIAL DETAILS

Particulars ₹ (in Cr)	2021	2022	2023
Equity Share Capital	796.67	806.8	889.57
Reserve as stated	408.43	480.37	837.7
Net worth as stated	1,205.11	1,287.17	1,727.27
Revenue from Operations	507.1	529.05	732.81
Revenue Growth (%)	-	4.33%	38.51%
EBITDA as stated	362.06	319.09	490.53
Profit before Tax	114.07	86.7	201.37
Net Profit for the period	85.01	64.52	149.74
EPS (₹)	1.09	0.81	1.71
RONW %	7.67%	5.18%	9.93%
NAV (₹)	14.66%	15.42	19.26
ROA (%)	2.01%	1.48%	2.92%

Source: RHP

COMPARISON WITH LISTED PEERS ₹ (in Cr)

Companies	Consolidated/ Standalone	Mcap (in Cr)	FV	Total Income for FY 2023 (in CR)	EPS	NAV	P/E	P/BV	RONW	Networth
SBFC Finance Ltd	Standalone	6066	10	740.36	1.71	19.26	35.19	3.51x	9.93	1727.33
Aavas Financiers Ltd	Consolidated	12248.79	10	1610.61	54.35	413.58	28.5	3.75x	14.15	3269.66
Home First Finance Co Inida Ltd	Standalone	7670.63	2	795.60	27.92	206.48	31.16	4.22x	13.46	1817.34
Aptus Value Housing Finance India	Consolidated	14095.32	2	1129.00	8.52	67.05	33.2	4.54x	14.45	3110.64
AU Small Finance Bank Ltd	Standalone	48682.11	10	9239.87	23.19	164.64	31.47	4.45x	15.44	10977.35
Five Star Business Finance Ltd	Standalone	21349.07	1	1528.93	22.23	148.94	32.96	4.92x	15.05	3710.35

Data as on 31st March 2023, Cline Mcap, PE, P/BV Calculated as on 31-07-2023



MSEARCH

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Msearch's Recommendation (Absolute Performance)

Buy: > 20% within the next 12 Months

Accumulate: 5% to 20% within the next 12 Months

Sell : < -20% within the next 12 Months

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