

IPO Details

Opening Date	Aug 03, 2023
Closing Date	Aug 07, 2023
Stock Exchange	NSE, BSE
Lot Size	260 Shares
Issue Price	₹ 54 to ₹57 per share
Issue Size	Aggregating up to ₹ 1,025 Cr.
Fresh Issue	Aggregating up to 600 Cr.
Application Amount (@ upper Band)	Min. Inv. - ₹ 15,000 (600 shares) Max. Inv. - ₹ 1,95,000 (7800 shares)

IPO Objective

Proceeds towards augmenting the company's capital base to meet the future capital requirements.

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	77,17,07,101	80.48%
Public	18,24,50,805	19.03%

Promoter of the Company

1	SBFC Holdings Pte. Limited.
2	Clermont Financial Pte. Limited.
3	Arpwood Partners Investment Advisors LLP.
4	Arpwood Capital Private Limited.
5	Eight45 Services LLP.

Competitive Strengths

1	Diversified pan-India presence with an extensive network to cater to the target customer segment.
2	100% in-house sourcing, leading to favourable business outcomes.
3	Comprehensive credit assessment, underwriting and risk management framework.
4	Healthy liability franchise with low cost of funds.
5	Consistent financial performance backed by profitable growth.

Company Background

- Company was incorporated in the year 2008 and has its registered office in Mumbai.
- Company is a systemically important, non-deposit taking non-banking finance company offering Secured MSME Loans and Loans against Gold, with most of the borrowers being entrepreneurs, small business owners, self-employed individuals, salaried and working-class individuals.
- The company has a diversified pan-India presence, with an extensive network in the target customer segment.
- As on March 31, 2023, Company had 2,822 employees as on payroll.

Market Capitalization

		(In Cr.)
	Pre-Issue	Post-Issue
	₹ 5,465.78	₹ 6,490.78

Financial Summary

				(In Lacs)
For the Period Ended	Mar-21	Mar-22	Mar-23	
Total Assets	4,23,119	4,51,503	5,74,644	
Net Assets	94,472	1,02,678	1,46,688	
Total Borrowings	2,77,255	2,94,882	3,74,583	
Total Revenue	51,153	53,070	74,036	
Profit After Tax	8,501	6,452	14,973	

Tentative Timeline

Opening Date	Aug 03, 2023
Closing Date	Aug 07, 2023
Basis of Allotment	Aug 10, 2023
Initiation of Refunds	Aug 11, 2023
Credit of Shares to Demat	Aug 14, 2023
Listing Date	Aug 16, 2023

Company Background and Analysis

The Company was originally incorporated as on January 25, 2008, in Mumbai. The bank is a systematically important, non-deposit taking non-banking finance company. The bank offers Secured MSME Loans and Loans against Gold, with many of the borrowers being entrepreneurs, small business owners, self-employed individuals, salaried and working-class individuals. The bank measures eligibility based on declared income, and spend a considerable amount of time, including locally, to understand the formal and informal income sources of customers as well as that of their family members, savings capacity and repayment track record with their formal and informal borrowings. The bank has a dedicated credit team at branches, who are deployed with knowledge of local markets. The team visits a customer's residence and place of business, gather detailed information about the customer from the neighbourhood, locality and their customers and suppliers and conduct a cash flow assessment of their income to enable them to make informed decisions. In addition, the bank physically inspects the collateral provided for the loans. Among MSME-focused NBFCs in India, the bank has one of the highest assets under management ("AUM") growth, at a CAGR of 44% in the period from Fiscal 2019 to Fiscal 2023.

The bank has a diversified pan-India presence, with an extensive network in the target customer segment. As of March 31, 2023, the bank has an expansive footprint in 120 cities, spanning 16 Indian states and two union territories, with 152 branches. The banks geographically diverse distribution network is spread across the North, South, East and West zones, allowing to penetrate underbanked populations in tier II and tier III cities in India. The banks AUM is diversified across India, with 30.84%, being ₹ 15,242.41 million, in the North (in the states of Chandigarh, Delhi, Haryana, Punjab, Rajasthan, Uttar Pradesh and Uttarakhand), 38.53%, being ₹ 19,047.97 million, in the South (in the states of Karnataka, Andhra Pradesh, Telangana, Tamil Nadu and Puducherry), and 30.63%, being ₹ 15,137.85 million, in the West and East (in the states of Gujarat, Madhya Pradesh, Maharashtra, West Bengal, Assam and Bihar) collectively, as of March 31, 2023.

The banks underwriting model contributes to suitable customers being onboarded, the bank has also created an on-ground collections infrastructure that is extensive, to ensure to maintain a high asset quality. The banks collections process is also technology driven. As of March 31, 2023, approximately 89.49% of the Secured MSME Loan collections and 90.92% of the unsecured loan collections were non-cash-based EMI collections, thus reducing the cash management risk, and enabling customers to receive real-time payment receipts through SMS.

Technology is at the core of the operations, and bank have adopted a well-defined IT strategy since inception. In terms of distribution, the bank has centralized real-time lending system, is a multi-product digital platform supporting mobile customer onboarding, paperless login and loan processing, which leads to quicker turn-around time. The mobile application also enables customers to manage existing loans, in addition to servicing loans online. The bank has introduced 'Leviosa', a loan origination platform capable of on boarding and disbursing loans.

To conclude, the bank was incorporated in the year 2008 and thus has good experience in the industry. The bank offers secured MSME loans and loans against gold. The bank is a technology driven company. The bank is raising 1,025 Cr and it is planning to utilize the Net Proceeds to meet the future capital requirements. The bank has incorporated a subsidiary called SBFC Home Finance Private Limited as of December 2022, through which the bank intends to commence its housing finance business.

Business Strategies

1. Leverage the pan-India network to deepen the penetration of target customer segment.

The bank's business model is scalable and by drawing on the experience of the team, the bank expects to be able to expand the operations efficiently, with low incremental costs. Owing to the geographical diversification at present, the company intends to undertake geographical expansion by penetrating further in states in which they are already present. The bank intends to do this by leveraging the brand presence in the areas in which they operate to expand into adjacent districts, as well as expand into new districts of existing states in which the bank has a presence.

2. Expand the product portfolio through offering affordable housing finance to the target customer segment, utilising the existing network.

In December 2022, the company has incorporated a subsidiary, SBFC Home Finance Private Limited, through which the bank intends to commence the housing finance business. They had applied to RBI for registration of SBFC Home Finance Private Limited as a housing finance company on March 29, 2023, which has subsequently been returned, with directions to make such application after meeting the requirement of net owned funds for housing finance companies.

3. Diversify the source of borrowings and improve operating leverage.

The bank intends to continue to diversify the funding sources, enhance limits from existing sources, identify new sources and pools of capital and strengthen asset liability management policies further, with the aim of further optimizing the borrowing costs. Further, intend to expand and diversify the lender base. The bank is focused on the asset and liability management to ensure to have a positive asset-liability position.

4. Utilize technology to drive operational efficiency.

The bank has made strategic investments in the information technology systems and implemented automated, digitized technology-enabled platforms and tools, to strengthen the offerings and derive greater operational, cost and management efficiencies. The bank plans to ensure that the information technology systems continue to help with several functions, including loan origination, credit underwriting, collections and customer service. The bank intends to strategically invest the resources for leveraging technology for efficient operations as the bank scales up to ensure increased effectiveness of the operations.

Competitive Scenario and Peer Mapping

Competition

The company faces high competition from the existing players in the market such as Aavas Financiers Limited, Home First Finance Company Limited, AU Small Finance Bank Limited etc. The bargaining power of the bank is low. The financial industry in which the company operates in has a wide range of financial entities, including traditional banking institutions, captive finance affiliates of players in various industries, NBFCs and small finance banks approved by RBI to enhance credit penetration.

Peer Analysis

The comparison of the key performance indicators of the listed peers as on Mar-23 is given below -

Particulars	SBFC Finance Limited	Aavas Financiers Limited	Home First Finance Company India Limited	Aptus Value Housing Finance India Limited	AU Small Finance Bank Limited	Five Star Business Finance Limited
P/E	35.19	29.60	28.63	28.48	27.04	26.10
P/B	3.76	3.88	4.20	4.36	4.42	4.78
RoNW	8.67%	13.15%	12.54%	13.66%	13.01%	13.92%
NAV per share	30.30	2.03	2.45	12.81	18.95	8.03

The comparison of the key performance indicators of the listed peers as on Mar-22 is given below -

Particulars	SBFC Finance Limited	Aavas Financiers Limited	Home First Finance Company India Limited	Aptus Value Housing Finance India Limited	AU Small Finance Bank Limited	Five Star Business Finance Limited
P/E	72.15	48.63	33.91	52.22	33.61	-
P/B	5.04	4.52	4.85	4.91	6.46	-
RoNW	5.01%	12.71%	11.82%	11.14%	15.04%	12.24%
NAV per share	22.58	1.28	2.19	8.54	12.46	-

The comparison of the key performance indicators of the listed peers as on Mar-21 is given below -

Particulars	SBFC Finance Limited	Aavas Financiers Limited	Home First Finance Company India Limited	Aptus Value Housing Finance India Limited	AU Small Finance Bank Limited	Five Star Business Finance Limited
P/E	53.77	62.65	40.03	-	31.43	-
P/B	5.39	5.29	5.53	-	7.74	-
RoNW	7.05%	12.08%	7.25%	11.53%	18.66%	15.48%
NAV per share	21.14	1.04	3.01	-	10.65	-

Industry Overview

Exhibit 1: Total Banking Sector Assets (US\$ billion)

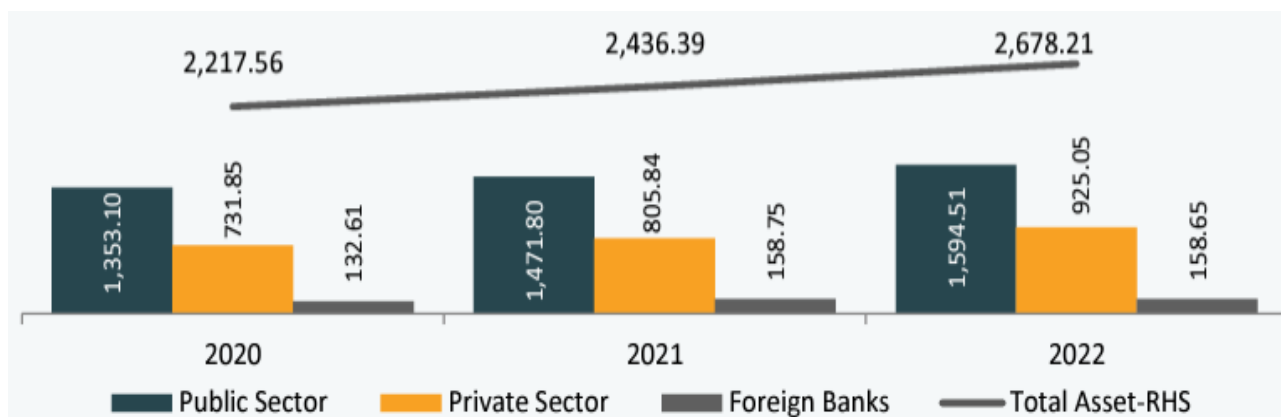


Exhibit 2: Interest Income Growth (US\$ billion)

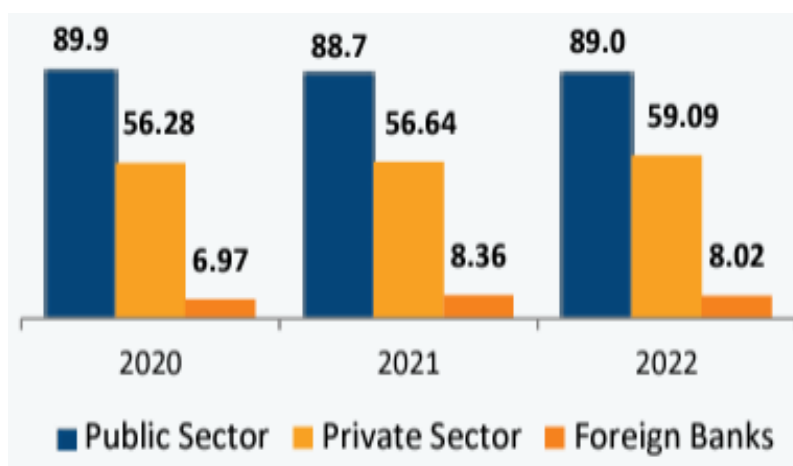
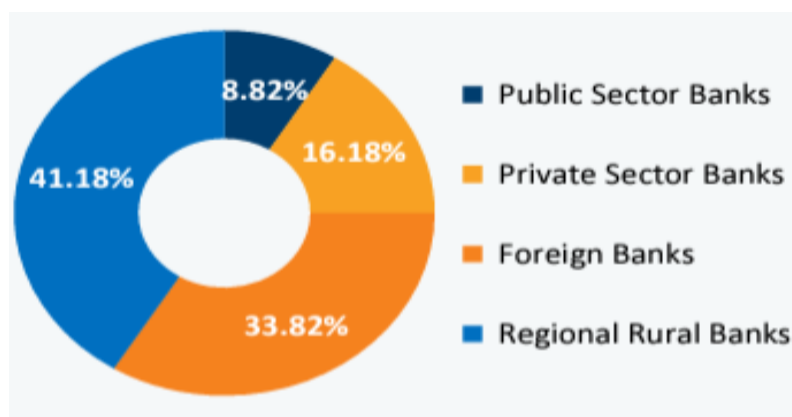


Exhibit 3: Breakup of Banks in India (FY20)



(Source: ibef.com)

NBFC's Sector

The Indian financial system includes banks and non-banking financial companies (NBFCs). Though the banking system dominates financial services, NBFCs have grown in importance by carving a niche for themselves by catering to customers in underbanked regions or those who would not be catered to by traditional financial institutions, due to absence of credit history or lack of proper collateral records.

NBFC credit to grow faster than systemic credit between Fiscal 2023 and Fiscal 2025

Over the past decade, banking credit growth lagged systemic credit growth for several years as NBFCs grew at a much faster pace. However, the NBFCs suffered a blow after IL&FS defaulted in September 2018. NBFCs not having the advantage of size, rating and/or parentage had to grapple with a liquidity crisis and as raising funding became difficult. Initially, post the IL&FS crisis, banks were expected to fill the space left out by NBFCs.

In the fourth quarter of Fiscal 2020 and the first quarter of Fiscal 2021, with the outbreak COVID-19 pandemic, challenges had intensified for both banks and NBFCs. NBFCs were hit harder in terms of demand, and they also turned cautious as they lend to borrowers with relatively weaker credit profile. In the second half of Fiscal 2021, the Indian economy showed signs of improvement, the effect of which was seen in the credit growth.

In Fiscal 2022, the second wave of the COVID-19 pandemic led to weak demand for credit in the first quarter of the year. However, the pace of credit recovered, with overall credit growing by 9% and retail credit increasing by 11.3% year-on-year as of March 2022. With the effect of COVID-19 waning, vaccination coverage progressively improving, the situation and growth improved further.

In Fiscal 2023, pace of credit further improved and is at par with pre-COVID levels. Overall credit grew by an estimated 13.3% and systemic retail credit grew by 19.2%. CRISIL MI&A projects NBFC credit to grow at 12% - 14% between Fiscal 2023 and Fiscal 2025. The credit growth will be driven by the retail vertical, including housing, auto and microfinance segments. Rapid revival in the economy is expected to drive consumer demand in Fiscal 2024, leading to healthy growth for NBFCs. Moreover, organic consolidation is underway with larger NBFCs gaining share. Further, growth of the non-banking industry will be driven mainly by NBFCs with strong parentage who have funding advantage over other NBFCs.

NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than ₹ 2 trillion AUM at the turn of the century to ₹ 34 trillion at the end of Fiscal 2023. CRISIL MI&A expects NBFC credit to grow at 12% - 14% CAGR between Fiscal 2023 and Fiscal 2025. Their share in the overall credit pie has increased from 12% in Fiscal 2008 to 18% in Fiscal 2023 and is projected to remain stable in Fiscal 2024. CRISIL MI&A believes NBFCs will remain a force to reckon 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.

(Source: Prospectus)

Key Managerial Personnel

Neeraj Swaroop, aged 65, is an Independent Director and Chairperson of the Board. He holds a Bachelor of Technology degree in mechanical engineering, and a post graduate diploma in management. He is also currently a visiting faculty at S.P. Jain Institute of Management & Research, Mumbai.

Aseem Dhru, aged 53, is the Managing Director and Chief Executive Officer of the Company. He holds a bachelor's degree in commerce. He is a member of the Institute of Chartered Accountants of India and has been certified by the Institute of Cost and Works Accountants of India. He has over 25 years of experience in the banking industry.

Amol Jain, aged 50, is a Non-Executive Nominee Director of the Company. He holds a Bachelor of Technology degree in electrical engineering, and a post graduate diploma in management.

Arjun Sakhuja, aged 34, is a Non-Executive Nominee Director of the Company. He holds a Bachelor of Science degree in economics, and a master's degree in business administration.

John Mescall, aged 42, is a Non-Executive Nominee Director of the Company. He holds a bachelor's degree in law and accounting.

Jonathan Tadeusz Tatur, aged 38, is a Non-Executive Nominee Director of the Company. He holds a Bachelor of Arts degree, and a Master of Philosophy degree in economics.

Rajesh Mannalal Agrawal, aged 47, is an Independent Director of the Company. He holds a bachelor's degree in business studies, and a master's degree in business administration. He is currently associated with Ajanta Pharma Limited as joint managing director.

Surekha Marandi, aged 63, is an Independent Director of the Company. She holds a master's degree in arts with honours in history. She has served at the Reserve Bank of India for over three decades in the regulatory and supervisory, financial inclusion and development and human resource management areas.

To conclude, the banks promoters are SBFC Holdings Pte Limited, Clermont Financial Pte Limited, Arpwood Partners Investment advisors LLP, Arpwood Capital Private Limited and Eight45 Services LLP. The Directors of the company have vast knowledge and experience in the industry in which the company operates in and in the industry which helps in the growth of the business.

Financial Snapshot

Profit and Loss Statement			(Amt in Lacs)
Particulars	As at 31st March 2021 (Standalone)	As at 31st March 2022 (Standalone)	As at 31st March 2023 (Consolidated)
Revenue from operations			
Interest income	46,316.60	47,314.70	65,415.20
Fees and commission income	2,415.30	2,723.90	4,125.20
Net gain on fair value changes	910.60	1,572.20	1,197.60
Net gain on derecognition of financial instruments under amortised cost category	396.80	-	283.00
Other operating income	670.60	1,294.40	2,260.20
Total Revenue from operations	50,709.90	52,905.20	73,281.20
Other Income	443.40	165.00	754.90
Total Income	51,153.30	53,070.20	74,036.10
Expenses			
Finance costs	23,845.60	22,061.70	27,645.20
Net Loss on derecognition of financial instruments under amortised cost category	-	1,069.20	-
Impairment on financial instruments	3,364.00	3,608.80	3,205.60
Employee benefits expense	8,418.30	10,953.40	16,012.30
Depreciation and amortisation expense	954.00	1,178.10	1,271.40
Other expenses	3,164.90	5,529.40	5,765.00
Total Expenses	39,746.80	44,400.60	53,899.50
Profit before tax	11,406.50	8,669.60	20,136.60
Tax expenses	-	-	-
Current tax	3,002.40	2,621.20	5,849.00
Deferred tax charge/ (credit)	-96.90	-403.70	-686.00
Total tax expenses	2,905.50	2,217.50	5,163.00
Profit after tax	8,501.00	6,452.10	14,973.60

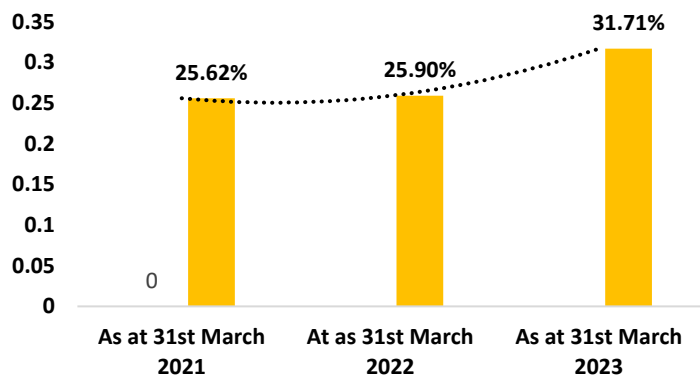
Balance Sheet			(In Lacs)
Particulars	As at 31st March 2021 (Standalone)	As at 31st March 2022 (Standalone)	As at 31st March 2023 (Consolidated)
Assets			
i) Financial assets			
Cash and cash equivalents	13,827	15,148	18,344
Bank balances other than cash and cash equivalents	20,311	18,382	21,700
Receivables -	-	-	-
a) Trade receivables	389	827	1,083
Loans	2,07,019	2,98,241	4,41,531
Investments	1,48,425	84,811	60,659
Other financial assets	582	342	390
Total Financial Assets	3,90,553	4,17,750	5,43,707
ii) Non-Financial assets			
Current tax assets (net)	2,064	3,419	-
Property, plant and equipment	3,900	3,571	3,365
Intangible assets under development	33	-	75
Goodwill	26,039	26,039	26,039
Other intangible assets	172	329	235
Other non-financial assets	357	395	1,222
Total Non-Financial Assets	32,566	33,753	30,937
Total Assets	4,23,119	4,51,503	5,74,644

Liabilities and Equity			
Liabilities			
i) Financial Liabilities			
Payables -	-	-	-
a) Trade Payables -	-	-	-
i) total outstanding dues of micro enterprises and small enterprises	-	-	30
ii) total outstanding dues of creditors other than micro enterprises and small enterprises	527	807	893
b) Other Payables	-	-	-
i) total outstanding dues of micro enterprises and small enterprises	-	-	-
ii) total outstanding dues of creditors other than micro enterprises and small enterprises	63	405	363
Debt securities	15,845	4,540	4,540
Borrowings (other than debt securities)	2,60,973	2,89,450	3,69,366
Other financial liabilities	22,671	25,012	25,098
Total Financial Liabilities	3,00,078	3,20,214	4,00,290
ii) Non-Financial Liabilities			
Current tax liabilities (net)	-	-	5
Provisions	23	25	13
Deferred tax liabilities (net)	2,349	1,945	1,259
Other non-financial liabilities	159	603	349
Total Non-Financial Liabilities	2,530	2,573	1,627
Total Liabilities	3,02,608	3,22,787	4,01,917
Equity			
Equity Share Capital	79,667	80,680	88,957
Other Equity	40,843	48,037	83,770
Non-Controlling Interest	-	-	-
Total Equity	1,20,511	1,28,717	1,72,727
Total Liabilities and Equity	4,23,119	4,51,503	5,74,644

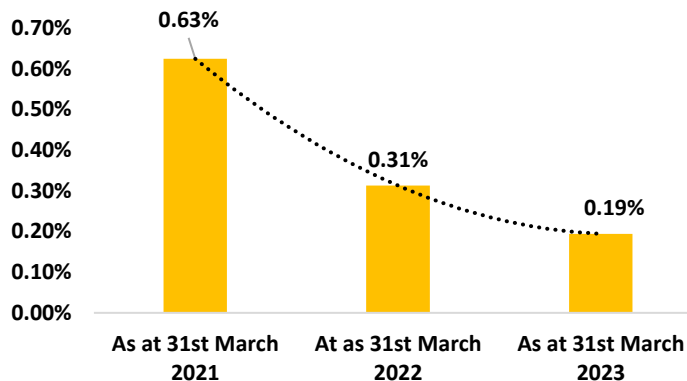
Particulars	As at 31st March 2021	At as 31st March 2022	As at 31st March 2023
Banking ratios			
Common Equity Tier I (CET) capital ratio	25.62%	25.90%	31.71%
Tier I Capital ratio	25.62%	25.90%	31.71%
Tier II Capital ratio	0.63%	0.31%	0.19%
Total Capital ratio (CRAR) (%)	26.25%	26.21%	31.91%
Return Ratios			
RoNW	7.05%	5.01%	8.67%
Valuation Ratios			
P/E	53.77	72.15	35.19
P/B	5.39	5.04	3.76

Financial Charts

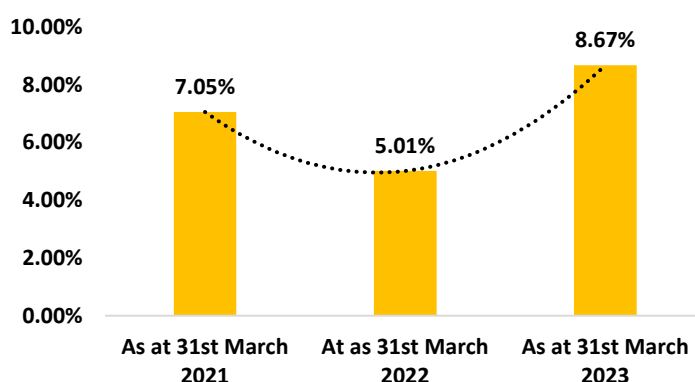
Tier I Capital ratio



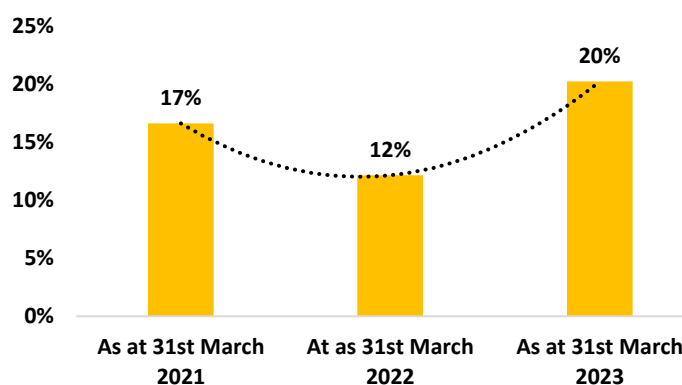
Tier II Capital ratio



Return on Net Worth



Net Profit Margin



Key Risk Factors

1. The bank has had negative cash flow from operation for all the three fiscal years. Any negative cash flows in the future would adversely affect the cash flow requirements, which may adversely affect the ability to operate the business and implement the growth plans, thereby affecting the financial condition.
2. The bank has faced asset-liability mismatches, which could affect the liquidity and consequently, may adversely affect the operations and profitability. **As of March 31, 2023, the bank had a negative asset liability mismatch of ₹ 9,681.89 million and ₹ 10,723.03 million for over one year and up to three years maturity, and for over three years and up to five years maturity, respectively.**
3. There are 8 FIRs filed against the company and employees of the Company in relation to cheating, criminal conspiracy, criminal breach of trust.
4. As of March 31, 2023, the company had contingent liabilities amounting to 63.6 lakhs which have not been provided for in the financial statements and could adversely affect the financial condition.
5. The bank is or may be involved in certain legal and regulatory proceedings. Any adverse decision in such proceedings may have a material adverse effect on the business, financial condition, cash flows and results of operations. The company has 8 cases against the company amounting to 33.10 million and 3,829 cases by the bank regarding the tax proceedings amounting to 1,502.95 million.

Track Record of Lead Manager

The lead manager to the issue is ICICI Securities Limited, Axis Capital Limited and Kotak Mahindra Capital Company Limited. A table has been set below highlighting the details of the IPO of the last 5 companies handled by the Lead Managers in recent times –

ICICI Securities Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Utkarsh Small Finance Bank Limited	500.00	25.00	July 21, 2023	51.2
2.	KFin Technologies Limited	1,500.00	366.00	December 29, 2022	389.00
3.	Landmark Cars Limited	552.00	506.00	December 23, 2022	730.00

As per the offer document ICICI Securities Limited have had 36 in the last three fiscal years. For ICICI Securities Limited out of the 3 mentioned above, 1 opened at discounts and the remaining opened at premium on the listing day.

Axis Capital Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Cyient DLM Limited	592.00	265.00	July 10, 2023	509.00
2.	Mankind Pharma Limited	4,326.36	1,080.00	May 09, 2022	1,815.00
3.	Elin Electronics Limited	475.00	247.00	December 30, 2022	149.00

As per the offer document Axis Capital Limited have had 38 in the last three fiscal years. For Axis Capital Limited out of the 3 mentioned above, 1 opened at discounts and the remaining opened at premium on the listing day.

Kotak Mahindra Capital Company Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Utkarsh Small Finance Bank Limited	500.00	25.00	July 21, 2023	51.2
2.	Mankind Pharma Limited	4,326.36	1,080.00	May 09, 2023	1,815.00
3.	KFin Technologies Limited	1,500.00	366.00	December 29, 2022	389.00

As per the offer document Kotak Mahindra Capital Company Limited have had 30 in the last three fiscal years. For Kotak Mahindra Capital Company Limited out of the 3 mentioned above, all opened at premiums ranging on the listing day.

*CMP for all the above-mentioned company is taken as on 28th July 2023

Recommendation

The Bank has been into the industry since 2008 indicating good experience in the industry. The bottom line has seen a sudden surge in the FY-23 raising concerns about the sustainability.

The management outlook of the company is not that satisfactory with only 1 director having knowledge in the industry in which the company operates in.

The PE on an annualised and Post IPO basis is around 30.30 times which seems to be fairly priced looking at the performance peers.

The bank has good experience in the industry, but the management outlook is not satisfactory along with the financials sudden surge which does not seem to be sustainable. The company has seen negative cashflows for all the three fiscal years which is very risky for the growth of the business. One can **APPLY** for this IPO yet there are other better opportunities available in the banking sector when compared to SBFC Finance Limited.

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