

Shubh Nivesh



CMP: ₹ 84

Target: ₹ 105 (25%)

Target Period: 6-12 months

BUY (HIGH CONVICTION IDEA)

Nov 13, 2023

Play on formalization opportunity of MSME financing segment

About the stock: SBFC is a systemically important, non-deposit taking NBFC offering secured MSME loans & loans against gold, with a majority of company's borrowers being entrepreneurs, small business owners, self-employed individuals, salaried and working-class individuals.

- Average ticket size stands at ₹9.89 lakh in MSME segment and ₹0.86 lakh in loan against gold segment
- Pan India presence with 177 branches across 16 states & 2 UTs (Headcount at 3278)

Investment Rationale:

- **Large under-penetrated addressable market provides opportunity for sustained growth:** According to CRISIL, overall MSME gap stands at ₹92 trillion, of which gap in small ticket loans is estimated at ₹22 trillion. Addressable market size of secured small ticket MSME financing stands at ~₹2.5 trillion, with penetration of formal financing in single digit offering long term growth opportunity for players.
- **PAN India presence to aid business growth with risk diversification:** Strategy to build pan India presence with focus on under-penetrated geographies aids sustained and distributed growth thereby lowering concentration risk. Currently, SBFC is one of the few NBFCs with presence across 16 states covering ~26% districts in those states. Building distribution capabilities in under-penetrated districts is expected to improve diversification and sustained AUM growth. As of Sep 2023, SBFCs AUM was well spread across different states with South at 39.1% of AUM, North at 33.9%, West at 17.9% and East at 9.1% with no single state contributing >20% of AUM. Expect AUM growth to remain strong at ~34% CAGR in FY24-26E.
- **Conservative under-writing & robust collection mechanism to keep asset quality prudent:** Stringent practices including in-house sales, focus on quality customers, hybrid underwriting model, robust collection mechanism led to steady asset quality and credit cost (<100 bps in FY18-23). Expect GNPA to remain steady at 2.4-2.6% and credit cost below 100 bps in FY24-26E.
- **Borrowing at competitive rates & improving productivity to aid profitability:** SBFCs ability to access diversified source of capital, rating upgrades on the back of strong financial performance remains key contributor enabling borrowing at competitive rates. Fresh capital raising is expected to improve margins in near term with gradual improvement ahead. Investment in distribution capabilities (branch increased from 124 in FY21 to 171 in Sep'23) kept opex higher, however, improving branch vintage is seen to result in gradual improvement in productivity.

Rating and Target Price

- Strategy focussing on pan India expansion with investment in distribution network to aid sustained healthy business growth. Diversified borrowing, improving productivity and stringent under writing practice is expected to keep credit cost lower and thus enable superior RoA at 2.6-2.8% ahead.
- At CMP, the stock is trading ~3x FY25E ABV. Given sustained healthy growth outlook with improvement in RoA, we assign a multiple of ~3.8x FY25E ABV and ascribe target of ₹105 per share and a BUY rating



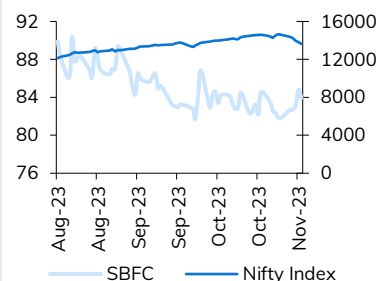
Particulars

Particulars	Amount
Market Capitalisation	8,929
52 week H/L	95.4/80.2
Net Worth	2,599
Face Value	10.00
DII Holding (%)	12.42
FII Holding (%)	2.74

Shareholding pattern

	Dec-22	Mar-23	Jun-23	Sep-23
Promoter				64.1
FII				2.7
DII				12.4
Others				20.8

Price Chart



Recent Event & Key risks

- Focus on under-penetrated MSME segment with faster growth at 44% CAGR in FY19-23
- **Key Risk:** (i) Accuracy of under-writing and borrower information which determines asset quality, (ii) liabilities accretion at competitive cost

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Key Financial Summary

₹crore	FY21	FY22	FY23	2 year CAGR (FY21-23)	FY24E	FY25E	2 year CAGR (FY23-25)
NII	224.7	252.5	377.7	77.1%	501.0	647.2	30.9%
PPP	147.7	122.7	233.4	79.5%	306.8	395.6	30.2%
PAT	85.0	64.4	149.7	75.4%	190.3	243.4	27.5%
BV	15.1	16.0	19.4		26.78	29.08	
P/E	787.3	1052.3	499.2		467.5	365.6	
P/ABV	5.6	5.3	4.3		3.1	2.9	
RoA	2.0	1.4	2.6		2.6	2.7	
RoE	7.1	5.0	8.7		6.7	7.9	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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