

29 April 2024

India | Equity Research | Q4FY24 results review

SBFC Finance

NBFCs

Steady improvement in profitability along with robust growth taking RoAUM to 4.6%

SBFC Finance (SBFC) continued to sustain industry-leading financial performance with robust 9% QoQ/38% YoY AUM growth, steady decline in cost-to-AUM – falling to 5.3% vs. 5.8% in FY23 – along with a >50bps QoQ spread expansion during Q4FY24. Notably, while most of the financiers are finding it challenging to pass on borrowing rate hike, SBFC is successfully navigating the increasing rate cycle, reflective in the cumulative 112bps increase in asset yields (44bps in Q4FY24) vs. only 70bps increase in funding cost during the past one year. Sequential increase in GNPL ratio to 2.43% vs. 2.38% QoQ, raises concern over sticky forward flows; however, management sounded confident about maintaining GNPL <2.5% going ahead as it derives comfort from improvement in collections to 98.3% vs. 97.5% QoQ and 1+ DPD falling to 5.59% vs. 5.61% QoQ. Maintain **BUY** with a TP of INR 115, valuing the stock at 4x Sep'25E BVPS.

Q4FY24 result highlights: Record quarterly RoAuM, at 4.6%; NIM expansion and better operational efficiency

SBFC continued to deliver better-than-expected performance. This was driven by: 1) its distribution network being the most diversified in the business (presence in >15 states with no single state contributing >20% of AUM); 2) SBFC targeting formal MSME customers (ITR is mandatory for all borrowers); 3) its in-house operations divided into six independent verticals and being managed by a highly experienced management team.

It delivered strong 38% YoY (9% QoQ) AUM growth vs. envisaged 20–28% YoY in FY24. This resulted in strong 15% QoQ PAT growth to INR 734mn supported by 11% QoQ NII growth, 300bps QoQ reduction in cost-income ratio and steady credit cost at 80bps. Consequently, SBFC recorded its highest quarterly RoAUM at 4.6% and RoATE at 11.9% during Q4FY24.

Top-line growth was driven by: 1) Robust credit growth at 9% QoQ led by higher disbursement ticket size at INR 9.7mn vs. INR 9.4mn QoQ. 2) ~44bps sequential rise in asset yields to 17.6% vs. 17.2% QoQ; the rise was sharp due to higher interest sharing in co-origination AUM under a revised agreement – previously allocated under other income. 3) cost of borrowing at 9.5%, 10bps lower QoQ. Healthy NII growth/better productivity of existing branches led to the cost-income ratio moderating to 42% in Q4FY24 vs. 44% QoQ. While GNPL rose a tad to 2.43% vs. 2.38% QoQ, credit costs were steady at 80bps during Q4FY24.

AUM growth remained much higher at 40% YoY vs management guidance of 20%-28%,

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Interest Income (INR mn)	3,777	5,676	7,230	9,019
PAT (INR mn)	1,497	2,370	3,095	4,013
EPS (INR)	1.7	2.2	2.9	3.7
% Chg YoY	111.0	29.6	30.6	29.7
P/E (x)	53.7	41.5	31.7	24.5
P/BV (x)	4.9	3.5	3.2	2.8
Gross Stage - 3 (%)	2.4	2.5	2.7	2.7
RoA (%)	2.9	3.7	3.9	4.0
RoE (%)	9.9	10.5	10.6	12.2

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Market Data

Market Cap (INR)	98bn
Market Cap (USD)	1,180mn
Bloomberg Code	SBFC IN
Reuters Code	SBFC.BO
52-week Range (INR)	98 /72
Free Float (%)	22.0
ADTV-3M (mn) (USD)	4.0

Price Performance (%)	3m	6m	12m
Absolute	2.2	8.4	-
Relative to Sensex	(1.6)	(8.7)	-

Earnings Revisions (%)	FY25E	FY26E
Revenue	4	12
EPS	(2)	2

Previous Reports

30-01-2024: [Q3FY24 results review](#)03-11-2023: [Initiating Coverage](#)

Slight increase in GNPL, but underlying portfolio remains healthy – evident in 80bps QoQ improvement in collections to 98.3%

SBFC's focus on the small-ticket formal segment and incremental disbursement towards better quality customers have helped it to maintain steady collection efficiencies at >97% across quarters. The company has managed to secure this position by improving the share of customers with >700 CIBIL score to 85% vs. 82% in Q4FY23, coupled with its strong collection focus with minimum one resource per branch for collection. Robust collections have also supported SBFC in sustaining portfolio quality with the current book stable at 93.2% Q4FY24. Early delinquencies at 5.6% in Q4FY24, improved marginally from 5.61% in Q3FY24 to 5.59% in Q4FY24 – remained within guided range of 5.5–6%. However, higher forward flows from early buckets resulted in sequential increase in GNPL ratio to 2.43% vs. 2.38% QoQ. Despite higher slippages and increase in coverage ratio to 45% vs. 43.5% QoQ, credit cost remained range bound at ~80bps during all four quarters of FY24.

Increased focus on cost rationalisation and productivity improvement led to steady decline in cost-income ratio

Post the aggressive branch expansion during the build-up phase of FY19–22, management has incrementally focused on sweating existing infrastructure. The same led to steady improvement in productivity during FY24 – AUM per branch with vintage of <12 months (22% of branches), 12–26 months (16% of branches) and >36 months (62% of branches) increasing to INR 90mn, INR 310mn and INR 490mn, respectively in Mar'24 vs. INR 70mn, INR 310mn, and INR 380mn in Mar'23.

Better operational efficiency, coupled with strong revenue growth, led to reduction in its cost to income and opex to AUM levels to 42% and 5.3%, respectively in Q4FY24 vs. 45% and 5.5% in Q3FY24. The same remained in-line with management's guidance of 50bps reduction in opex to AUM in FY24E, from FY23 (5.8%). Notably, with large part of investments already done in building the ecosystem across the 16 states, management sounded confident on another 50bps reduction in the opex to AUM levels in FY25E, despite its target to add 25–30 branches next fiscal.

Spreads likely to be maintained at ~7%

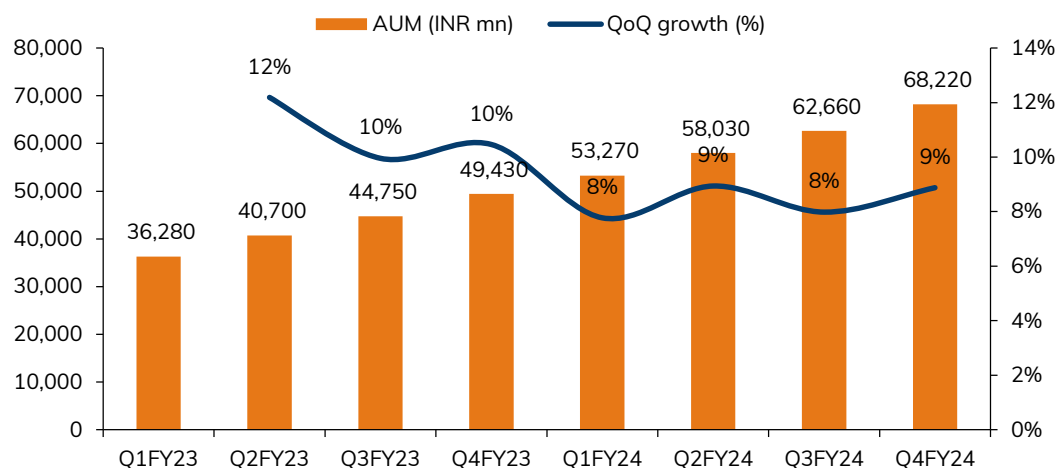
SBFC has proactively built >90% of its assets and liabilities on floating rates to ensure stable spreads across interest rate cycles. While the yields of the company have almost moved up 112bps YoY during FY24, the cost of borrowings increased by only 70 bps, supported by its strategic replacement of bank borrowings with the foreign borrowings (share of foreign borrowings increased from 1% in Dec'22 to 17% in Mar'24) and stable credit ratings at A+/Stable. Notably, the company even got a rating upgrade from India Ratings to AA-/Stable in Q3FY24. Owing to the tight banking liquidity situation and increased risk weightage, while it might be difficult to bring down the cost of borrowings at the current stage, however, management believes that recent rating upgrade will ensure a stable cost of borrowing in the near term. Furthermore, >90% of floating borrowings would ensure a declining cost in-line with the reversal in interest rate cycle, whenever it kick starts.

Key risks: 1) Deceleration in AUM growth; and 2) stress unfolding higher-than-anticipated.

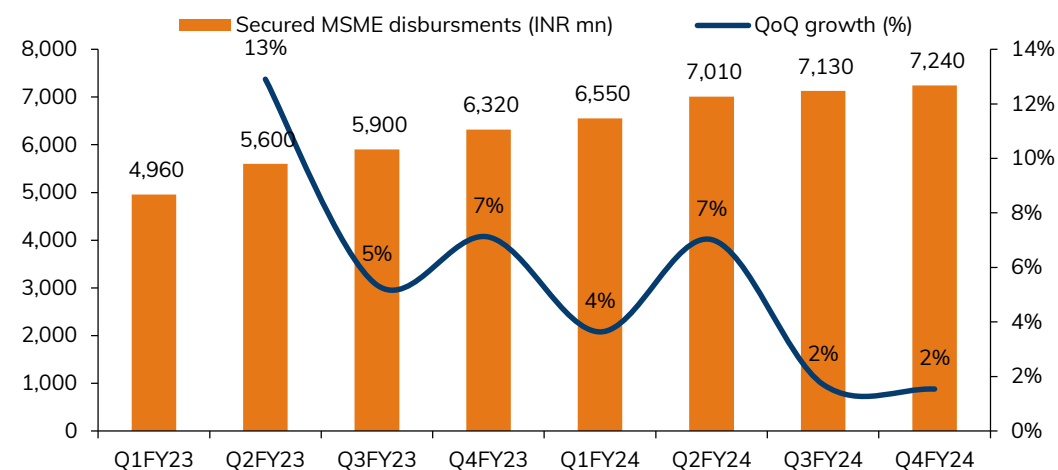
Exhibit 1: Q4FY24 result review

	Q4FY23	Q3FY24	Q4FY24	% YoY	% QoQ
Income statement (INR mn)					
Interest income	1,891	2,368	2,575	36.2	8.8
Interest expenses	787	846	883	12.2	4.4
Net interest income	1,104	1,522	1,692	53.3	11.2
Non-interest income	196	271	219	12.0	(19.2)
Total net income	1,300	1,794	1,912	47.1	6.6
Employee expenses	461	570	600	30.1	5.2
Depreciation and amortization	31	34	36	17.9	6.3
Other operating expenses	154	209	170	10.1	(18.9)
Total Operating Expense	646	813	806	24.8	(0.9)
Pre-provisioning profit (PPoP)	654	980	1,105	69.1	12.8
Provisions and write offs	73	123	136	87.2	11.0
PBT	581	857	969	66.8	13.0
Tax expenses	153	217	235	53.3	8.2
PAT (Adjusted)	428	640	734	71.7	14.7
Diluted EPS (INR)	0.4	0.6	0.7	52.3	15.5
Balance Sheet					
Shareholders' funds	17,270	26,770	27,780	60.9	3.8
Borrowings	37,390	36,480	39,960	6.9	9.5
Payables	130	460	220	69.2	(52.2)
Other Liabilities and provisions	2,670	2,900	2,670	0.0	(7.9)
Total Liabilities and SHE	57,460	66,610	70,630	22.9	6.0
Loans	44,150	54,220	58,360	32.2	7.6
Cash & bank balances	4,000	4,340	4,660	16.5	7.4
Investments	6,070	4,710	4,270	(29.7)	(9.3)
Fixed assets	2,970	2,970	3,010	1.3	1.3
Other financial assets	150	270	280	86.7	3.7
Non-Financial Assets	120	100	50	(58.3)	(50.0)
Total Assets	57,460	66,610	70,630	22.9	6.0
Key ratios					
AUM (INR mn)	49,430	62,660	68,220	38.0	8.9
Secured MSME disbursements (INR mn)	6,320	7,130	7,240	14.6	1.5
Yields (%)	16.5	17.2	17.6	112 bps	44 bps
COB (%)	8.9	9.4	9.3	36 bps	-9 bps
Spreads (%)	7.6	7.8	8.3	75 bps	52 bps
Opex to AUM	5.6	5.5	5.0	-57 bps	-48 bps
Gross Stage 3 (%)	2.6	2.4	2.4	-14 bps	5 bps
Net Stage 3 (%)	1.6	1.4	1.4	-22 bps	0 bps
1+ dpd	0.1	5.6	5.6	553 bps	-2 bps
Cumulative annualized credit cost (%)	0.8	0.8	0.8	0 bps	0 bps
RoAAUM	3.7	4.3	4.6	85 bps	26 bps
RoAE	11.8	10.8	11.9	9 bps	113 bps

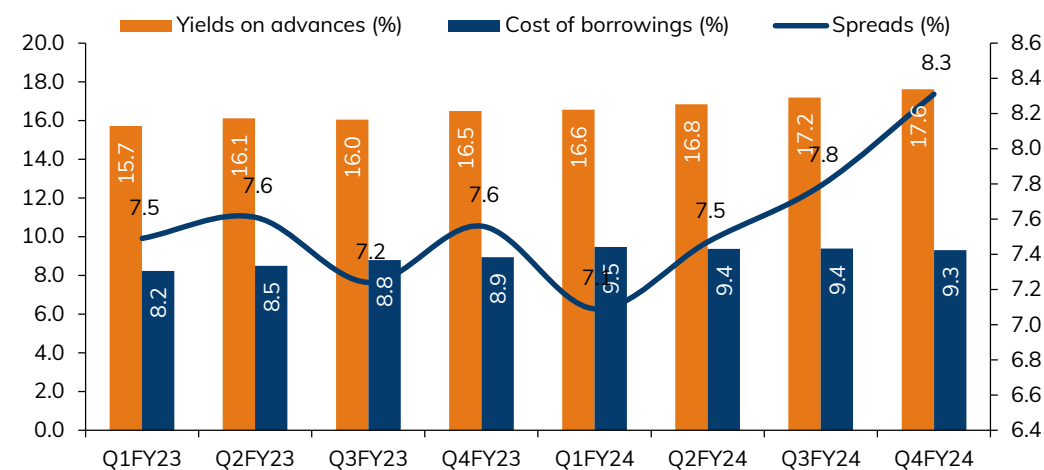
Source: Company data, I-Sec research

Exhibit 2: Sustained AUM growth momentum at 9% QoQ

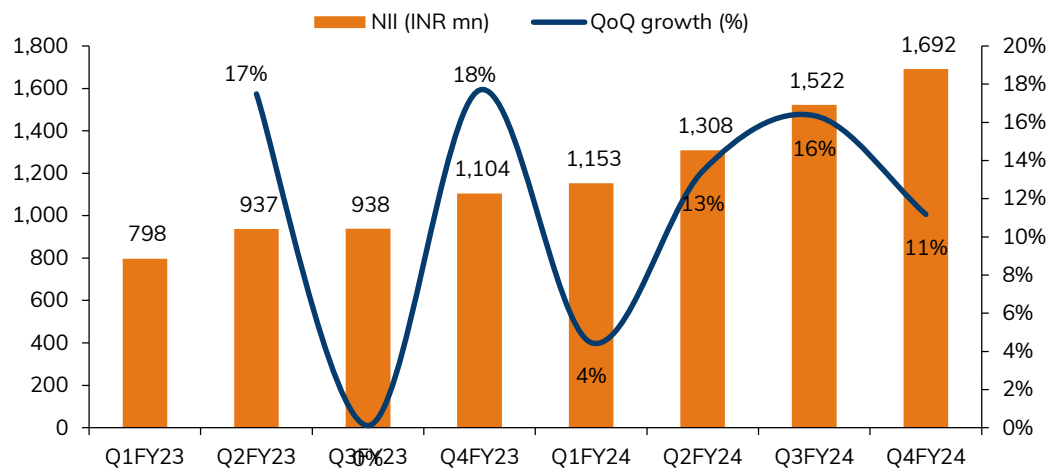
Source: Company data, I-Sec research

Exhibit 3: Steady growth in secured MSME (84% of overall book) with disbursals up 2% QoQ

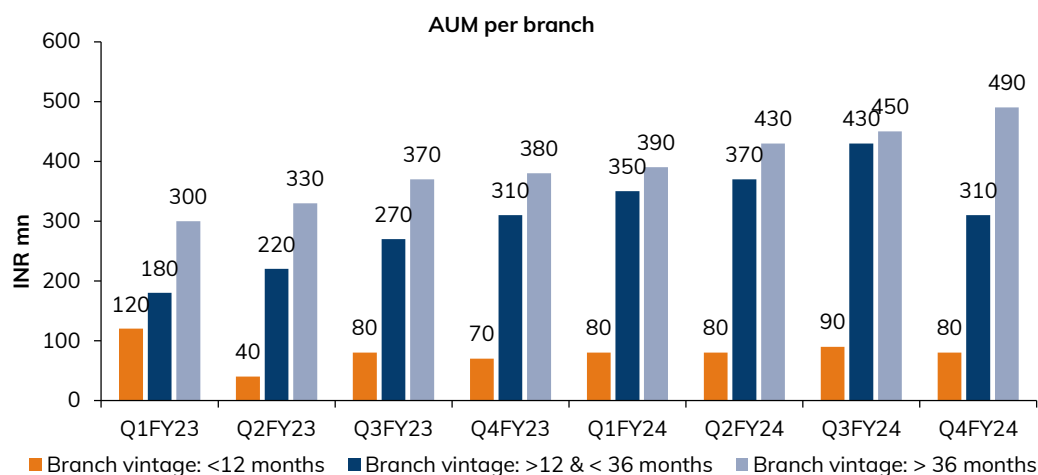
Source: Company data, I-Sec research

Exhibit 4: Yields up by 44bps QoQ owing to higher interest sharing under co-origination against borrowing cost decline of 60 bps...

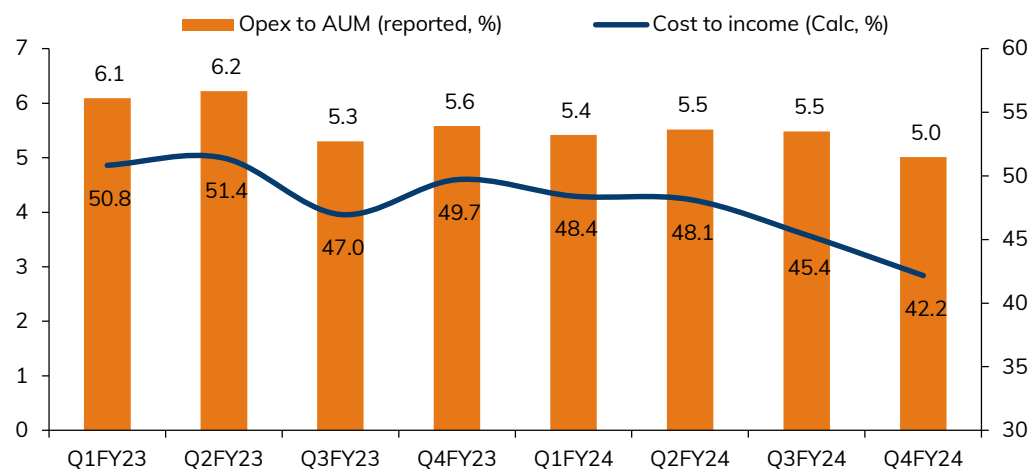
Source: Company data, I-Sec research

Exhibit 5: ...resulting in robust NII growth of 11% QoQ

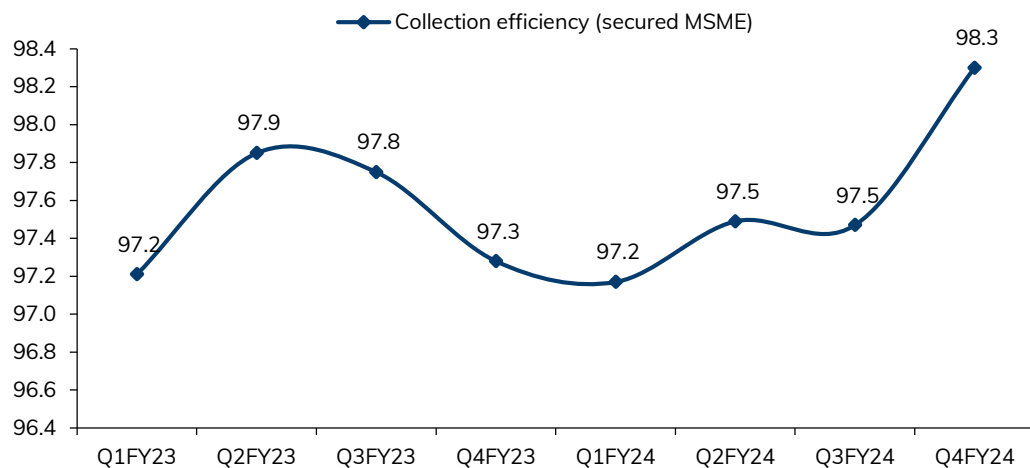
Source: Company data, I-Sec research

Exhibit 6: Increasing productivity in branches...

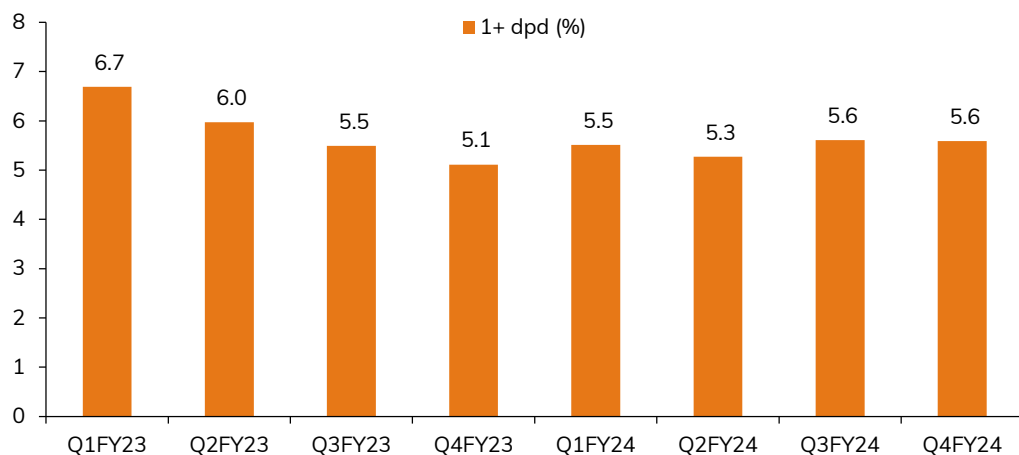
Source: Company data, I-Sec research

Exhibit 7: ...resulting in higher operational efficiencies

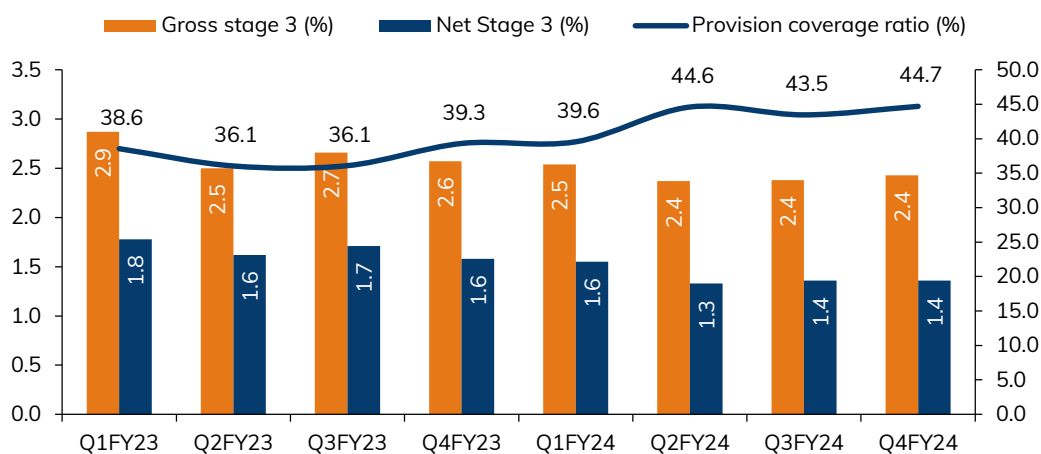
Source: Company data, I-Sec research

Exhibit 8: Collection efficiency for secured MSME went up to 98.3% vs. 97.5% QoQ


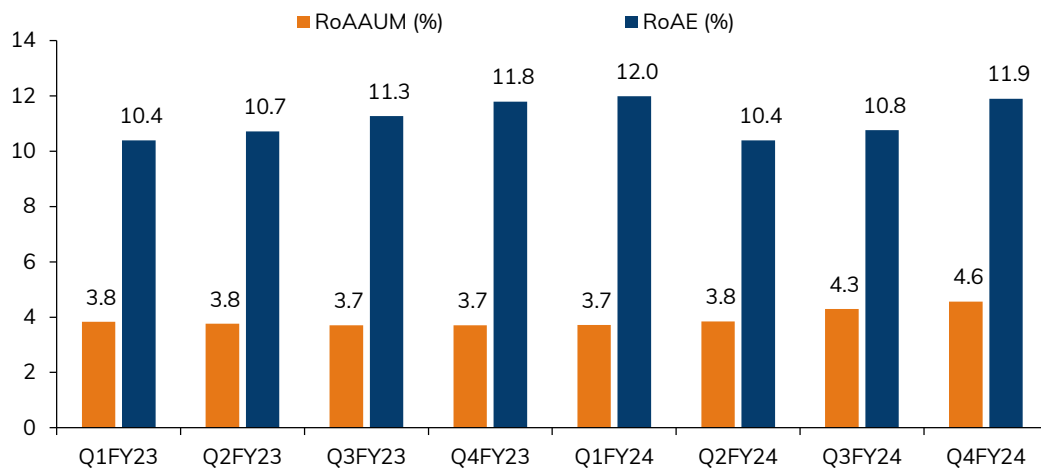
Source: Company data, I-Sec research

Exhibit 9: 1+ dpd remained range bound at 5.5%-6%...


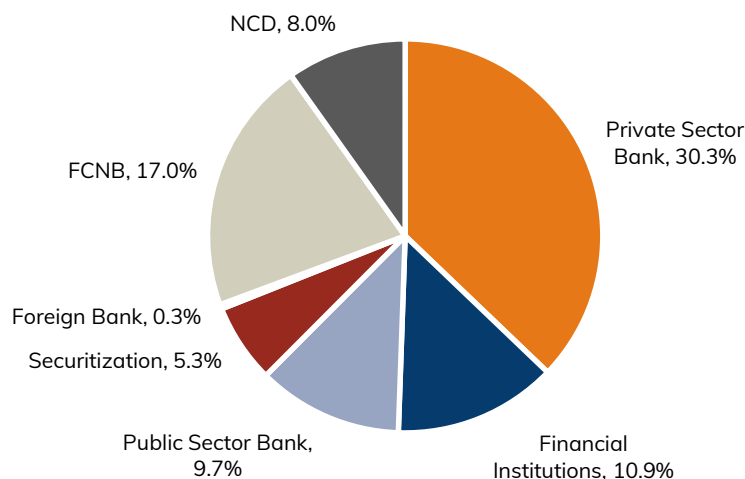
Source: Company data, I-Sec research

Exhibit 10: ...with steady gross and net stage 3 assets


Source: Company data, I-Sec research

Exhibit 11: RoA reached >4.5% with RoE at ~12%

Source: Company data, I-Sec research

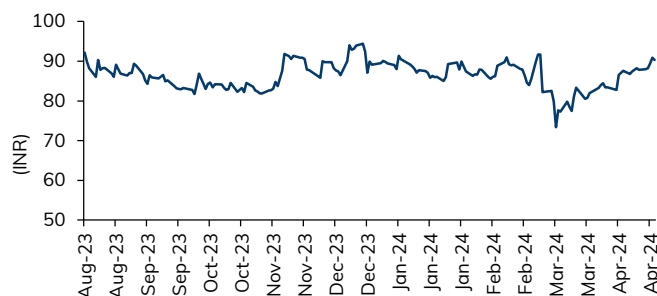
Exhibit 12: Well-diversified borrowings profile with 19% of foreign and 8% of capital market borrowings

Source: Company data, I-Sec research

Exhibit 13: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	64.1	63.7	60.7
Institutional investors	15.2	14.2	16.3
MFs and others	10.8	10.2	11.6
FIs/Banks	0.0	0.0	0.0
Insurance	0.8	0.9	1.0
FIIIs	3.6	3.1	3.7
Others	20.7	22.1	23.0

Source: Bloomberg

Exhibit 14: Price chart

Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest Income	6,542	9,183	11,215	14,430
Net gain on fair value changes	120	175	259	389
Interest Expenses	(2,765)	(3,506)	(3,985)	(5,411)
Net Interest Income (NII)	3,777	5,676	7,230	9,019
Other Income	742	840	1,279	1,678
Total Income (net of interest expenses)	4,639	6,692	8,769	11,086
Employee benefit expenses	(1,601)	(2,171)	(2,849)	(3,497)
Depreciation and amortization	(127)	(134)	(144)	(158)
Other operating expenses	(577)	(756)	(1,020)	(1,377)
Total Operating Expense	(2,305)	(3,061)	(4,013)	(5,032)
Pre Provisioning Profits (PPoP)	2,334	3,631	4,755	6,054
Provisions and write offs	(321)	(470)	(629)	(703)
Profit before tax (PBT)	2,014	3,160	4,127	5,351
Total tax expenses	(516)	(790)	(1,032)	(1,338)
Profit after tax (PAT)	1,497	2,370	3,095	4,013

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Share capital	8,896	10,719	10,719	10,719
Reserves & surplus	8,377	17,064	20,158	24,171
Shareholders' funds	17,273	27,783	30,877	34,890
Borrowings	37,391	39,960	54,911	75,474
Provisions & Other Liabilities	2,675	2,777	2,559	2,562
Deferred tax liabilities (net)	126	110	116	121
Total Liabilities and Stakeholder's Equity	57,464	70,630	88,462	1,13,047
Cash and balance with RBI	4,004	4,658	6,181	7,947
Fixed assets	337	380	399	419
Loans	44,153	58,365	77,452	99,581
Investments	6,066	4,272	1,327	1,841
Other Assets	2,904	2,955	3,103	3,258
Total Assets	57,464	70,630	88,462	1,13,047

Source Company data, I-Sec research

Exhibit 17: Key Ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
AUM and Disbursements (INR mn)				
AUM	49,428	68,220	91,695	1,18,050
On-book Loans	44,153	58,365	77,452	99,581
Off-book Loans	5,275	9,855	14,243	18,469
Disbursements	36,313	44,783	57,329	67,254
Growth (%):				
Total AUM (%)	54.8	38.0	34.4	28.7
Disbursements (%)	41.2	23.3	28.0	17.3
Loan book (on balance sheet) (%)	48.0	32.2	32.7	28.6
Total Assets (%)	27.3	22.9	25.2	27.8
Net Interest Income (NII) (%)	49.6	50.3	27.4	24.7
Non-interest income (%)	77.5	13.2	52.2	31.2
Total Income (net of interest expenses) (%)	49.6	44.2	31.0	26.4
Operating Expenses (%)	23.1	32.8	31.1	25.4
Employee Cost (%)	46.2	35.6	31.2	22.7
Non-Employee Cost (%)	(12.6)	31.0	35.0	35.0
Pre provisioning operating profits (PPoP) (%)	90.1	55.5	31.0	27.3
Provisions (%)	(11.2)	46.7	33.7	11.8
PBT (%)	132.3	56.9	30.6	29.7
PAT (%)	132.1	58.3	30.6	29.7
EPS (%)	111.0	29.6	30.6	29.7
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	10.2	11.1	10.6	10.2
NIM on IEA (%)	8.5	9.0	8.5	8.1
NIM on AUM (%)	9.3	9.6	9.0	8.6
Yield on loan assets (%)	17.7	17.9	16.5	16.3
Yield on IEA (%)	14.7	14.5	13.1	12.9
Yield on AUM (%)	16.1	15.6	14.0	13.8
Cost of borrowings (%)	8.3	9.1	8.4	8.3
Interest Spreads (%)	9.4	8.8	8.1	8.0
Operating efficiencies				
Non interest income as % of total income	51.0	55.7	56.7	54.7
Cost to income ratio	49.7	45.7	45.8	45.4
Op.costs/avg assets (%)	4.5	4.8	5.0	5.0
Op.costs/avg AUM (%)	5.7	5.2	5.0	4.8
No of employees (estimate) (x)	2,822	3,758	4,514	4,947
Salaries as % of non-interest costs (%)	69.5	70.9	71.0	69.5
NII /employee (INR mn)	1.3	1.5	1.6	1.8
AUM/employee(INR mn)	17.5	18.2	20.3	23.9
Capital Structure				
Average gearing ratio (x)	2.2	1.4	1.8	2.2
Leverage (x)	3.3	2.5	2.9	3.2
CAR (%)	31.9	46.3	39.8	35.5
Tier 1 CAR (%)	31.7	46.2	39.7	35.4
Tier 2 CAR (%)	0.2	0.2	0.1	0.1
RWA (estimate) - INR mn	44,300	54,449	70,770	90,438
RWA as a % of loan assets	100.3	93.3	91.4	90.8

Source Company data, I-Sec research

	FY23A	FY24A	FY25E	FY26E
Asset quality and provisioning				
GNPA (%)	2.4	2.5	2.7	2.7
NNPA (%)	1.4	1.4	1.4	1.4
GNPA (INR mn)	1,082	1,440	2,063	2,656
NNPA (INR mn)	627	800	1,100	1,417
Coverage ratio (%)	42.0	44.4	46.7	46.7
Credit Costs as a % of avg AUM (bps)	79	80	79	67
Credit Costs as a % of avg on book loans (bps)	87	92	93	79
Return ratios				
RoAA (%)	2.9	3.7	3.9	4.0
RoAE (%)	9.9	10.5	10.6	12.2
ROAAUM (%)	3.7	4.0	3.9	3.8
Valuation Ratios				
No of shares	878	1,072	1,072	1,072
No of shares (fully diluted)	926	1,072	1,072	1,072
ESOP Outstanding	-	-	-	-
EPS (INR)	1.7	2.2	2.9	3.7
EPS fully diluted (INR)	1.6	2.2	2.9	3.7
Price to Earnings (x)	53.7	41.5	31.7	24.5
Price to Earnings (fully diluted) (x)	56.7	41.5	31.7	24.5
Book Value (fully diluted)	19	26	29	33
Adjusted book value	18	25	28	32
Price to Book	4.9	3.5	3.2	2.8
Price to Adjusted Book	5.1	3.6	3.3	2.9

Source Company data, I-Sec research

Exhibit 18: Key Metrics

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
DuPont Analysis				
Average Assets (INR mn)	51,307	64,047	79,546	1,00,755
Average Loans (INR mn)	36,989	51,259	67,909	88,517
Average Equity (INR mn)	15,072	22,528	29,330	32,883
Interest earned (%)	12.7	14.3	14.1	14.3
Net gain on fair value changes (%)	0.2	0.3	0.3	0.4
Interest expended (%)	5.4	5.5	5.0	5.4
Gross Interest Spread (%)	7.4	8.9	9.1	9.0
Credit cost (%)	0.6	0.7	0.8	0.7
Net Interest Spread (%)	6.7	8.1	8.3	8.3
Operating cost (%)	4.5	4.8	5.0	5.0
Lending spread (%)	2.2	3.3	3.3	3.3
Non interest income (%)	1.4	1.3	1.6	1.7
Operating Spread (%)	3.7	4.7	4.9	4.9
Tax rate (%)	25.6	25.0	25.0	25.0
ROAA (%)	2.9	3.7	3.9	4.0
Effective leverage (AA/ AE)	3.4	2.8	2.7	3.1
RoAE (%)	9.9	10.5	10.6	12.2

Source Company data, I-Sec research

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