

SBFC Finance Limited

March 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	200.00	CARE A+; Positive	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating for the long-term bank facilities of SBFC Finance Ltd takes into consideration the improvement in its profitability profile and strong capitalisation levels of the company. The capitalisation improved on account of the company raising equity of ₹750 crores through IPO and pre-IPO funding rounds during the year, which is sufficient to support the company's medium term growth plans. The rating continues to factor in the experienced management team with retail lending experience alongside strong representation of Clermont group on the board.

These rating strengths are however partially offset by the retail credit profile of the borrower segment making it susceptible to asset quality issues and concentration of the loan portfolio in the micro enterprises (ME) segment. However, secured and granular nature of the loan book and lower LTV in retail segment provides comfort.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Scaling up of loan book along with maintaining leverage below 3x.
- Sustained improvement in profitability metrics with return on total assets (ROTA) above 4% while maintaining asset quality with gross non-performing assets (GNPA) of less than 3%.

Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Deterioration in the overall asset quality with GNPA above 5% on a sustained basis.
- Moderation in capitalisation with leverage beyond 4x.
- Deterioration in profitability on sustained basis with ROTA below 2%.

Analytical approach: Standalone

CARE Ratings Limited (CARE Ratings) has considered the standalone profile of SBFC.

Outlook: Positive

The revision in the outlook reflects the continued growth in the operations while maintaining profitability. The positive outlook also signifies CARE Ratings' expectation that the company will continue to grow its business operations as envisaged in a calibrated manner with improvement in profitability and asset quality metrics. CARE Ratings expects a consistent growth in AUM for the company while improving its asset quality and keeping a comfortable capitalization profile. However, the outlook may be revised back to stable in case the company is unable to grow at the envisaged growth rate or it reports moderation in its asset quality and profitability metrics.

Key strengths

Experienced management team; with retail lending experience.

SBFC has an experienced management team with rich experience in the finance industry. The company is headed by Mr. Aseem Dhru, Managing Director (MD) & Chief Executive Officer (CEO), who has 28 years of experience in the financial services industry. Prior to joining the company, he was associated with HDFC bank for 20 years and served as Group head- Business banking and agriculture finance before his current stint in SBFC. He also served as Ex MD & CEO of HDFC Securities Ltd and Nominee Director in HDB Finance Ltd. Furthermore, SBFC has appointed seasoned professionals from the banking and non-banking financial (NBFC) sectors having rich retail experience across all major functions and product segments. The Clermont (^58.26%) group have strong representation on the board.

[^]Shareholding as on 31st December 2023.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Focused secured book with adequate seasoning and lower LTV in retail segment.

SBFC's strategy revolves around better quality customers (CIBIL Score 700+), lower LTV (42% in micro enterprise and 68% in gold loans) majorly secured by way of self-occupied residential property and gold in tier 2 and 3 cities. The loan book for SBFC comprise of owned originated book (83.9%), co-originated on book (2.9%), co-originated off book (11.6%), portfolio acquired from Karvy (1.6%) as on September 30, 2023. SBFC operates in secured retail segment (97% of secured loan portfolio) basically lending to micro enterprises (ME) secured majorly by self-occupied or commercial properties (94.6%). SBFC had introduced ticket size of less than Rs 30 lacs from January 2019 in ME portfolio, thus, as on September 30, 2023 the share of less than Rs 30 lacs ticket size is 92% of the portfolio which have increased from 87% in FY22. Loan against gold segment has an average ticket size of Rs 1 lacs and average tenor of 6 months.

In addition to the on-book loans, the acquired book from DHFL (Home loan and LAP) in the year June 2019 were in the form of PTC investment. Original investment from SBFC was Rs 2,365 crore (on the overall book of Rs 2,957 crore) on this book and SBFC acts as a servicer to ensure collection efficiency. The structure initially had a first loss cover of 25% which subsequently increased to 197%. Since, the underlying loans are performing good and also given the high first loss cover, there is no credit loss provision for these investments. Further, the total pool balance has been run down to Rs 1,032 crore out of which SBFC's balance is ₹147 crores in September 2023. Given the monthly collection of around Rs 10-12 crores, this portfolio will run down in next 12-14 months.

Improving earnings profile

SBFC's profitability profile is consistently on an improving trend since FY18, where the profit after tax (PAT) improved from ₹3 crore in FY18 to ₹150 crore in FY23 driven by the growth in the loan book from ₹778 crore as on March 31, 2018, to ₹4,943 crore as on March 31, 2023.

Further during 9MFY24, the company has reported a PAT of ₹164 crore, leading to a ROTA of 3.67%. The overall yield of the company also includes the yield from the DHFL portfolio having a floating interest rate of 11%, which is lower than the average yield of 16.75% for SBFC's on book loan portfolio. Post the running down of this portfolio in the next few months, SBFC will be able to originate in higher yields, thus improving the profitability levels.

Healthy capitalisation and improved gearing levels

As on December 31, 2023, the CRAR of SBFC stood at 41.53%, well above the regulatory requirement of 15%. The company has got listed on BSE and NSE as on August 16, 2023. During this year SBFC raised equity of ₹750 crores through IPO and pre-IPO funding rounds increasing the overall tangible net worth of the company to ₹2,413 crores on December 31, 2023 as compared to ₹1,464 crores as on March 31, 2023, and ₹1,023 crores on March 31, 2022. The gearing improved to 1.51x* as on December 31, 2023, from 2.55x* as on March 31, 2023. The capitalization profile of the company is expected to remain strong with the leverage not expected to exceed 4.0x over the medium term.

** Ratios are as per CARE calculations*

Key weaknesses**Moderate asset quality; albeit improvement**

Historically, asset quality of SBFC was impacted due to legacy book acquired from Karvy along with unsecured segment. As on December 31, 2023, the Gross NPA of the company stood at 2.38% (Ind AS) and Net NPA stood at 1.36% as against the Gross NPA of 2.57% (2.91% in FY22) and Net NPA of 1.58% (1.83% in FY22) as on March 31, 2023. The improvement in asset quality was on account of lower slippages during the last year.

The provision coverage ratio (PCR) of the company has been increasing with the book size and as on March 31, 2022, the total PCR stood at 37.9% which increased to 39.3% as on March 31, 2023 and is now at 43.5% as on December 31, 2023. The collection efficiency for the ME segment and co-origination was 96%, during 9MFY24.

Concentration of the loan portfolio in the ME segment

SBFC lends loans to the micro enterprise (ME) segment, which is characterized by the marginal credit profile of the borrowers. In order to mitigate the same, the company restricts the LTV, and as on September 30, 2023, majority of the outstanding loan portfolio had an LTV of below 40%. The company mitigates the risk by giving relatively lower ticket size loans and valuation of collateral security (self-occupied properties) and higher credit score (+700) of the customer. In the loans against gold segment, majority of the outstanding loan has a LTV of less than 75% at a ticket size of less than ₹50,000

Liquidity: Adequate

As on December 2023, SBFC had total liquidity of ₹ 551 crore by way of cash and bank balance and liquid investments against debt obligation of ₹ 529 crore for the next 3 months. Also, as per the structural liquidity statement as on December 31, 2022, there are no mismatches in any of time bucket up to 1 year providing additional comfort. The company has successfully raised funds from numerous lenders, including PSU/ Pvt banks/ NBFCs.

Environment, social and governance (ESG) risks

SBFC maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding its grievance redressal, related party transactions, fair practice code, whistle blower policy and prevention of sexual harassment policy. The Company's Corporate Governance philosophy is to ensure fairness, transparency and integrity of the management, in order to protect the interests of all its stakeholders. They strive to balance profitability with principles, adhering to stringent governance, compliance, and risk management measures while proactively working towards empowering the underbanked and underserved sectors of society. The company focuses on supporting environmentally friendly businesses.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Rating Methodology-Non-Banking Financial Companies](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company (NBFC)

SBFC Finance Limited is registered with the Reserve Bank of India (RBI) as a systematically important non-deposit taking non-banking financial company (NBFC-ND-SI). The company commenced its operations in September 2017 after acquiring the secured retail portfolio from Karvy Financial Service Ltd along with its branch infrastructure and staff. The company is into the lending business and offers products, such as secured MSME loans and loan against gold (LAG) with majority of the customers being low- and middle-income small business customers, salaried or working-class individuals and self-employed customers in urban and semi-urban areas in India, comprising Tier-2 and Tier-3 cities. Unsecured loans like personal loans and business/professional loans have been discontinued from September 2022. As on December 31, 2023, the operations of the company are spread across 16 states and two union territories with total 171 branches in 140 cities. The company is backed by the promoters, viz., SBFC Holdings Pte Ltd, Clermont Financial Pte Ltd, Arpwood Partners Investment Advisors LLP, Arp wood Capital Private Limited and Eight45 Services LLP.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total income	531	740	740
PAT	64	150	164
Overall gearing (times)	2.88	2.55	1.51
Total assets (Net of intangible and deferred tax assets)	4,251	5,486	6,401
Net NPA (%) (IndAS)	1.83	1.58	1.36
ROTA (%)	1.56	3.07	3.67
RONw (%)	6.53	12.00	11.25

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'.

All ratios are as per CARE's calculation.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	-	200.00	CARE A+; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based-Long Term	LT	200.00	CARE A+; Positive	1)CARE A+; Stable (05-Apr-23)	-	-	-

LT: Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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Disclaimer:

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