

SBFC Finance Limited

July 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	1,700.00 (Enhanced from 200.00)	CARE AA-; Stable	Revised from CARE A+; Positive
Non Convertible Debentures	400.00	CARE AA-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating of SBFC Finance Limited (SBFC) factors in the sizeable growth in its scale of operation, with its AUM growing at a CAGR of 43% over the last five years to ₹ 6,822 crore as on March 31, 2024. The company has also improved profitability while maintaining the asset quality parameters during the said period. The rating revision also factors in the healthy capitalisation profile of the company which was supported by the proceeds from the IPO which was completed in August 2023. This along with healthy internal accruals, helped the company in increasing the tangible net worth (TNW) to ₹2,518 crore as on March 31, 2024, translating to improvement in the gearing profile to 1.59x as on March 31, 2024, from 2.55x as on March 31, 2023. The company has also been able to borrow at competitive cost through diverse sources of funding. Furthermore, 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 partially offset by the modest 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:

- Sizable growth in scale of operations while maintaining profitability and asset quality parameters at comfortable levels.

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

- Moderation in capitalization with leverage beyond 4 times.
- Deterioration in profitability on sustained basis with ROTA below 2.5%
- Weakening of asset quality parameters with gross non-performing assets (GNPA) of above 3% on a sustained basis.

Analytical approach: Standalone

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

Outlook: Stable

The Stable outlook reflects expectation of continued operational and financial position along with comfortable capitalisation levels.

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 group (with shareholding of 55.21% as on March 31st 2024) have strong representation on the board.

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

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

SBFC strategy revolves around better quality customers with over 84% customers having CIBIL Score 700+ and secured loans which forms 99% of the AUM. The company also keep LTV around 43.6% for ME loans and majority (84% of AUF) of the collateral for ME loans consists of self-occupied residential properties. The loan book for SBFC comprises of owned book of 86% while the remaining is the off book as on March 31, 2024. As on March 31, 2024, the share of less than Rs 25 lacs ticket size is 93.5% of the portfolio, in last two years the company started disbursing ME loans having ATS in the range of Rs. 9-10 lakh. Loan against gold segment has a average ticket size of Rs 0.92 lacs and average tenor of 12 months. The portfolio of the company is geographically diversified across the 16 states and 2 union territories with 183 branches. Both the sourcing and collection functions are in-housed and driven by branches which helps the company in sourcing better quality customers as well as keeping the healthy collection efficiencies. CARE expects the company to maintain similar customer profile and underwriting policies going forward.

Improving scale of the operations and earnings profile

SBFC's profitability profile has been consistently improving since FY18. The company reported a PAT of Rs. 237 crores in FY24, up from Rs. 150 crores in FY23. Disbursements in FY24 stood at Rs. 4,353 crores, compared to Rs. 3,631 crores in FY23. This growth in interest income by 45.5% is primarily driven by a 38% year-on-year increase in AUM, reaching Rs. 6,822 crores as of March 31, 2024.

The company's ROTA improved to *3.78 in FY24 from *3.07 in FY23, driven by increased yields. The yield on advances rose from 16.10% in FY23 to 17.1% in FY24, as the company passed on higher borrowing costs to its customers. Additionally, a strategic shift from high-ticket to lower-ticket loans led to an increase in interest rates. This shift was further supported by increase in interest sharing in assets under co-origination under a revised agreement.

CARE Ratings expects SBFC's profitability to remain at similar levels going forward

** Ratios are as per CARE calculations*

Healthy capitalisation and improved gearing levels

As on March 31, 2024, the CRAR of SBFC stood at 40.5%, 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 ₹2,518 crores on March 31, 2024 as compared to ₹1,467 crores as on March 31, 2023, and ₹1,027 crores on March 31, 2022. The gearing improved to 1.59x as on March 31, 2024, 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.

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. On AUM basis as on March 31, 2024, the Gross NPA of the company stood at 2.43% and Net NPA stood at 1.36% as against the Gross NPA of 2.57% in FY23 (2.91% in FY22) and Net NPA of 1.58% in FY23 (1.83% in FY22).

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 38% which went to 39% as on March 31, 2023 and is now at 45% as on March 31, 2024. The collection efficiency in ME segment and co-origination was 97% in each segment as on March 31, 2024. As the company provide business loans to micro enterprises, with growing scale, asset quality remains a key monitorable.

Concentration of the loan portfolio in the ME segment

As of FY24, the company's AUM is concentrated towards Secured MSME loans (81% of total AUM), 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 March 31, 2024, 45% 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) (around 84%) and higher credit score (+700) of the customer.

Liquidity: Adequate

As on March 2024, SBFC had total liquidity of ₹ 623 crore by way of cash and bank balance and liquid investments against debt obligation of ₹ 394 crore for the next 3 months. Also, as per the structural liquidity statement as on May 31, 2024, the 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 March 31, 2024, the operations of the company are spread across 16 states and two union territories with total 183 branches in 149 cities. The company is backed by the promoters, viz., SBFC Holdings Pte Ltd, Clermont Financial Pte Ltd.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total income	531	740	1,020
PAT	64	150	237
Overall gearing (times)	2.88	2.55	1.59
Total assets (Net of intangible and deferred tax assets)	4,251	5,486	6,800
Net NPA (%) (IndAS)	1.83	1.58	1.36
ROTA (%)	1.56	3.07	3.78
RONw (%)	6.53	12.00	11.91

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
Debentures-Non Convertible Debentures	-	-	-	-	400.00	CARE AA-; Stable
Fund-based-Long Term	-	-	-	-	1700.00	CARE AA-; Stable

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 2024-2025	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
1	Fund-based-Long Term	LT	1700.00	CARE AA-; Stable	-	1)CARE A+; Positive (19-Mar-24) 2)CARE A+; Stable (05-Apr-23)	-	-
2	Debentures-Non Convertible Debentures	LT	400.00	CARE AA-; Stable	-	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short 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	Debentures-Non Convertible Debentures	Simple
2	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

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Sanjay Agarwal Senior Director CARE Ratings Limited Phone: 022- 6754 3500 E-mail: sanjay.agarwal@careedge.in</p> <p>Gaurav Dixit Director CARE Ratings Limited Phone: +91-11-4533237 E-mail: gaurav.dixit@careedge.in</p> <p>Sudam Shingade Associate Director CARE Ratings Limited Phone: 022- 6754 1453 E-mail: sudam.shingade@careedge.in</p>
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About us:

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