

September 24, 2024^(Revised)

SBFC Finance Limited: Rating upgraded to [ICRA]AA- (Stable); ratings for NCDs withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based term loan	2,100.00	2,100.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
Long term fund based term loan	1,400.00	0.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable) and withdrawn
Non-convertible debentures	100.00	0.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable) and withdrawn
Total	3,600.00	2,100.00	

*Instrument details are provided in Annexure I

Rationale

The ratings upgrade factors in SBFC Finance Limited's (SBFC) demonstrated ability to scale up its portfolio while maintaining a comfortable earnings profile. The ratings also factor in the company's healthy capitalisation profile supported by the capital raise of Rs. 750 crore in H1 FY 2024, which would support its medium-term growth plans (AUM is expected to increase at compound annual growth rate (CAGR) of 25-30% till FY2027). The ratings also favourably factor in the comfortable profitability metrics for SBFC aided by the high share of relatively higher yielding lower ticket small and medium enterprise (SME) loans in the overall portfolio mix. Also, with the entire loan book being at floating rate of interests, the company has been able to pass on the rate hike to the end borrowers and, thus supporting its margins.

The rating also factors in its adequate liquidity profile and a diversified borrowing profile commensurate for the current scale of operations. The rating is however constrained by the relatively lower seasoning for the loan book since a large part of the current book was originated in the past few years as compared with the asset tenure of up to 15 years, which exposes the company to volatility in asset quality indicators as the portfolio seasons. Further, the portfolio vulnerability is further augmented given the target borrower profile are more susceptible to economic shocks given the lower income buffers. In this regard, the secured and granular nature of loans provides some comfort. SBFC's asset quality remained comfortable with a gross stage 3 (GS3) of 2.6% as on June 30, 2024 from 2.4% as on March 31, 2024 (2.6% as on March 31, 2023). While the early delinquencies could remain volatile for the company, the ultimate loss given default is expected to remain limited given the secured (99% of portfolio secured by property or gold) nature of loans.

The stable outlook factors in ICRA's expectations that SFBC will continue to profitability improve its scale while keeping its managed gearing and asset quality under control.

ICRA has upgraded and withdrawn the ratings on the Rs. 100.00-crore non-convertible debentures (NCDs) and Rs. 1,400-crore long term fund based term loan and there is no amount outstanding against the rated instruments. The ratings have been withdrawn as per ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Good capitalisation supported by the recent capital raise - SBFC is capitalization profile is characterized by healthy a net worth of Rs. 2,864 crore and a capital-to-risk weighted assets ratio (CRAR) of 40.8% and managed gearing of 1.8 times as on June 30, 2024. The company completed its Pre IPO equity infusion of Rs. 150 Crore and Initial Public Offer (IPO) in August 2023 consisting

of fresh issue of ~Rs. 600 crore, which strengthened its capitalisation profile. The managed gearing remained improved to 1.8 times as on March 31, 2024 (2.6 times as on March 31, 2023). While the gearing would go up from current levels with incremental growth being funded out of fresh borrowings however need for external capital is not envisaged over the medium term given the good internal capital generation and low gearing levels currently. Adequate capital buffers is one of the key mitigants against the portfolio vulnerability and ICRA expects the company to maintain a prudent capitalization profile going forward as well.

Comfortable profitability metrics¹ - The average yields on SBFC's portfolio improved over the past two years following the change in the mix in favour of the relatively higher-yielding small and medium-sized enterprise (SME) and gold loans. Although the cost of funds increased with the rise in systemic interest rates, SBFC has been able to pass on the hike as the entire loan book is at floating rates of interest. Consequently, the net interest margin (NIM) improved to 8.2% of AMA (average managed assets) in FY2024 from 7.2% in FY2023. At the same time, the operating expenses/AMA remained broadly stable at 4.3% in FY2024 (4.2% in FY2023) as the company continued to invest in expansion. The credit costs remained also remained stable at 0.7% in FY2024 (0.6% in FY2023). Overall, the improvement in the margins led to an improvement in the return on managed assets (RoMA) to 3.3% in FY2024 from 2.7% in FY2023. Further, the company reported a net profit of Rs. 79 crore in Q1FY2025 compared to Rs. 237 crore in FY2024. Going forward, the margins are expected to be under pressure, however, the decline is expected to be somewhat offset by the reduction in operating expense ratio with the economies of scale kicking in, resulting in only a marginal dip in the overall profitability at the current levels, provided the company is able to maintain control on fresh slippages.

Secured and retail nature of exposure - As of June 30, 2024, the secured loan book comprised ~99% of the overall loan book, including MSME-loan against property (LAP) of ~84% and loan against gold jewellery (LAG; ~15%). The overall assets under management (AUM) comprises of ~87% of on-book portfolio and ~13% of the off-book portfolio originating from the co-origination partnership with ICICI Bank. The average ticket size is modest at Rs. 9.2 lakh for LAP segment and Rs. 0.9 lakh for LAG segment, reflecting a granular retail loan book. The portfolio is diversified across 16 states and 2 union territories with 186 branches as on June 30, 2024. Going forward, the mix of the share of LAP and LAG in the overall AUM is expected to remain at similar levels on a steady state basis and the unsecured loan book would be completely run down in due course.

Credit challenges

Modest credit profile of target customer segment - SBFC predominantly provides small-to-medium-sized ticket loans to self-employed borrowers. Considering the borrowers' business and income profiles, their credit profiles are expected to be modest and vulnerable to income shocks induced by macroeconomic events such as the Covid-19 pandemic, the ongoing inflation and the increase in interest rates. Reflecting this moderate credit profile, the softer bucket delinquencies, 1+days past due (dpd) stood at 6.9% (on book) on June 30, 2024. While the early delinquencies could remain volatile for the company, the ultimate loss given default is expected to remain limited given the secured (99% of portfolio secured by property or gold) nature of loans.

Low portfolio seasoning - SBFC's asset quality remained comfortable with a gross stage 3 (GS3) of 2.6% as on June 30, 2024 as compared with 2.4% as on March 31, 2024 (2.6% as on March 31, 2023). However, this is at the back of the high growth in AUM. SBFC's consolidated portfolio expanded at a CAGR of 45% during FY2021-FY2024 while it grew at a pace of 20% (annualised) in Q1FY2025 and is expected to increase at a CAGR of ~25-30% during FY2025-FY2027. Thus, the seasoning for the loan book is relatively low as a large part of the current book was originated in the past few years as compared with the asset tenure of up to 15 years, which exposes the company to volatility in asset quality indicators as the portfolio seasons. In this regard, the secured and granular nature of loans provides some comfort.

¹ Ratios as per ICRA calculations

Environmental and social risks

While NBFCs like SBFC do not face material physical climate risks; however, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses on SBFC has an exposure face business disruption because of physical climate adversities, or if such businesses face climate transition risks because of technological, regulatory, or customer behavior changes, it could translate into credit risks for the company.

With regard to the social risks, data security and customer privacy are among the key sources of vulnerabilities for financial institutions as any material lapses could be detrimental to the reputation and invite regulatory censure. As majority of SBFC's services are digitally driven with high utility of information technology, SBFC faces the risk of data breaches, cyber-attack and other operational risks affecting the customer data, trading, broking etc. However, SBFC had no such instances in the past which indicates the risk management and processes are adequate.

Liquidity position: Adequate

The company's liquidity profile is adequate with positive cumulative mismatches across all buckets. As on March 31, 2024, the company had ~Rs. 623 crore of unencumbered cash and liquid investments. Further, SBFC had undrawn bank lines of Rs. 240 crore as on March 31, 2024. The company has expected inflows from advances of ~Rs. 1,995 crore against debt obligations of Rs. 1,432 crore over the next one year. Additionally, it has a diversified resource profile with the majority of the funding from banks and Fis (~89% as on June 30, 2024) through a mix of instruments (term loans, non-convertible debentures, foreign currency loans) while mutual funds account for the balance 11% (through non-convertible debentures).

Rating sensitivities

Positive factors – The company's rating could be positively impacted if it is able to scale up its loan portfolio significantly while maintaining good asset quality and a strong earnings profile on a sustained basis.

Negative factors – Pressure on rating could arise if there is an increase in managed gearing beyond 4.0 times or a deterioration in asset quality indicators resulting in gross stage 3 % of more than 4% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-Banking Finance Companies (NBFCs) Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

SBFC Finance Limited (SBFC) is a non-banking financial company that provides loans against property, gold loans and personal loans. Backed by the Clermont Group, the company commenced operations in September 2017 after acquiring the secured retail loans from Karvy Financial Services Limited's (KFSL). Following the acquisition, SBFC focused on building adequate systems and processes and on the onboarding of experienced professionals in the management team before rebooting the lending business. It leverages technology and analytics to provide customers with easy access to credit and to assess their credit behavior through their digital footprint.

SBFC reported a profit after tax (PAT) of Rs. 79 crore on total income of Rs. 298 crore in Q1 FY2025 compared with a PAT of Rs. 47 crore on total income of Rs. 230 crore in Q1 FY2024. As on June 30, 2024, the total AUM of the company stood at Rs. 7,167 crore comprising of LAP (83%), LAG (16%) and unsecured personal loans (1%)

In FY2024, it reported a PAT of Rs. 237 crore on total income of Rs. 1,020 crore compared to PAT of Rs. 150 crore on total income of Rs. 740 crore, respectively, in FY2023.

Key financial indicators

SBFC Finance Limited	FY2023	FY2024	Q1FY2025
	Audited	Audited	Unaudited
Total income	740	1,020	298
Profit after tax	150	237	79
Total managed assets	6,236	7,971	8,014
Return on managed assets	2.7%	3.3%	3.9%
Gross gearing (managed; times)	2.6	1.8	1.8
Gross stage 3	2.6%	2.4%	2.6%
CRAR	31.9%	40.5%	40.8%

Source: Company, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current (FY2025)		Chronology of rating history for the past 3 years					
		Amount Rated (Rs. crore)	FY2025	FY2024		FY2023		FY2022	
			24-Sep-2024	Date	Rating	Date	Rating	Date	Rating
Long term-fund based-term loan	Long Term	2,100.00	[ICRA]AA-(Stable)	29-SEP-2023	[ICRA]A+(Stable)	03-OCT-2022	[ICRA]A+(Stable)	08-OCT-2021	[ICRA]A (Positive)
Non-convertible debenture	Long Term	100.00	[ICRA]AA-(Stable); withdrawn	29-SEP-2023	[ICRA]A+(Stable)	03-OCT-2022	[ICRA]A+(Stable)	08-OCT-2021	[ICRA]A (Positive)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based term loan	Simple
Non-convertible debenture programme	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details as at August 31, 2024

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	2021	NA	2032	2,071.13	[ICRA]AA- (Stable)
NA	Unallocated term loan	NA	NA	NA	28.87	[ICRA]AA- (Stable)
NA	Unallocated term loan	NA	NA	NA	1,400.00	[ICRA]AA- (Stable); withdrawn
INE423Y07062	Non-convertible debentures	Aug-21	8.57%	Aug-24	43.00	[ICRA]AA- (Stable); withdrawn
-	Non-convertible debentures*	-	-	-	57.00	[ICRA]AA- (Stable); withdrawn

Source: Company; *unutilised/yet to be placed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not Applicable

Corrigendum:

Revisions in page 4 of report in annexure I for the PR dated September 24, 2024.

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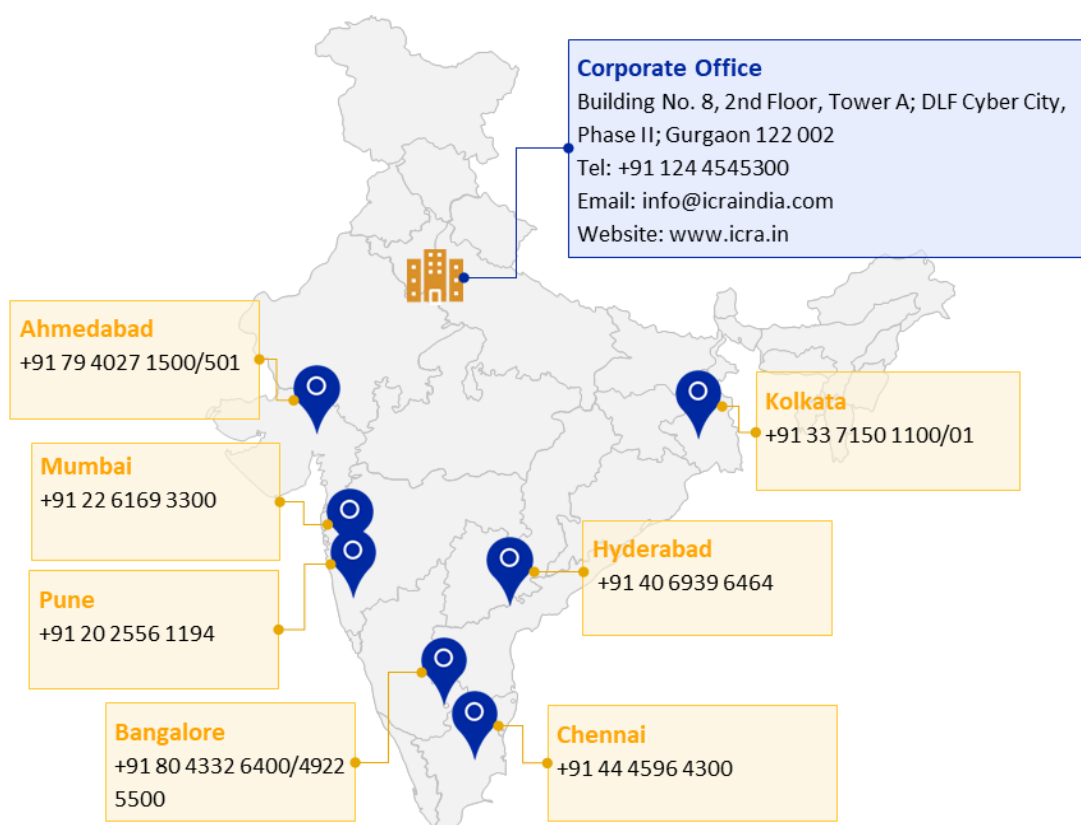


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Branches



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