

# SBFC Finance | BUY

Strong, consistent and in-line

SBFC Finance (SBFC) reported an in-line PAT of INR 944mn (+29% YoY, +7% QoQ) resulting in RoA/RoE of 4.5%/12% during the quarter. This was driven by i) NII growth of +5% QoQ, +25% YoY, -3% JMFs, as NIMs (calc.) declined -14bps QoQ, ii) operating leverage resulting -36bps YoY reduction in opex/AAUM ratio leading to PPoP growth of +33%YoY, +7% QoQ, iii) stable asset quality leading to lower credit costs of 99bps (vs 96bps QoQ). However, 1+DPD was up +57bps QoQ due to impact on collections in Karnataka. Management does not foresee any material movement here though and thus maintained a guidance of ~1% credit costs going forward. Besides, the company also carries INR 40mn management overlay on its book. AUM growth was strong at (+28% YoY, +7% QoQ) led by healthy disbursements of INR 7.6bn (+6% YoY, +10% QoQ). Management guided for consistent 5-7% QoQ growth in the coming quarters, and operating leverage will aid in 50bps reduction in opex ratio in FY26E. NIMs are likely to remain steady as MCLR linked borrowings re-pricing would largely take effect in 2H of FY26 which will also be passed on to customers. SBFC has successfully demonstrated strong resilience to the industry trends as visible in small ticket SME space. Further, SBFC has tightened underwriting in certain geographies where collections are showing signs of weakness (KA and TN). We expect SBFC to continue delivering strong growth of ~26% CAGR over FY25-27E on a smaller base and expect strong return ratios of 4.5%/13.8% RoA/RoE by FY27E which should account for a target valuation multiple of 3.3x FY27E BVPS entailing a revised TP of INR 125. Maintain BUY.

- **Growth momentum continues:** SBFC reported a robust AUM growth of (+28% YoY, +7% QoQ) at INR 87.5bn led by MSME disbursements of INR 7.7bn (+6% YoY, +10% QoQ). The growth was led by Loan against gold (+45% YoY, +14% QoQ) and secured MSME (+27% YoY, +7% QoQ). Management maintains guidance for sequential AUM growth of 5-7% QoQ going forward on a sustainable basis and guided to cross INR 100bn in FY26E with gold loan book to be maintained in the range of 15-17% of total AUM over the long-term. We expect SBFC AUM to grow at ~26% CAGR over FY25-27E.
- **Inline operational performance:** NII growth during the quarter stood at +25% YoY, +5% QoQ, -3.3% JMFs as calc. NIMs declined -14bps QoQ to 10%. However, spread improved 3bps QoQ led by +7bps increase in yields and +4bps increase in CoFs. Opex/AAUM ratio remained steady at 4.6% (-36bps YoY) led to PPoP growth of +33%YoY, +7% QoQ. The management continued to guide for -50bps reduction in FY26E led by improving operating leverage and continued scale up in the business. Credit cost was steady at 99bps (vs 96bps of AUM QoQ) which led to an in-line PAT of INR 944mn (+29% YoY, +7% QoQ). Management guided for margins to remain largely steady as MCLR linked borrowings repricing would largely take effect in 2H of FY26 which will also be passed on to customers. We build in largely steady NIM (on on-book loans) for FY26E and -25bps decline in cost to assets aiding EPS CAGR of 24% over FY25-27E.
- **Largely stable asset quality; credit costs guidance intact:** Headline asset quality metrics remained largely stable with GS3/NS3 at 2.75%/1.51% (+4bps QoQ/-13bps QoQ).

Financial Summary					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	2,370	3,452	4,300	5,346	6,624
Net Profit (YoY) (%)	58.2%	45.6%	24.6%	24.3%	23.9%
Assets (YoY) (%)	22.9%	21.7%	23.5%	22.7%	23.3%
ROA (%)	3.7%	4.4%	4.5%	4.5%	4.6%
ROE (%)	10.5%	11.6%	12.6%	13.8%	14.8%
EPS	2.2	3.2	4.0	4.9	6.1
EPS (YoY) (%)	31.3%	43.8%	24.6%	24.3%	23.9%
<b>P/E (x)</b>	<b>47.9</b>	<b>33.3</b>	<b>26.7</b>	<b>21.5</b>	<b>17.4</b>
BV	26	29	33	38	44
BV (YoY) (%)	33.5%	13.4%	13.5%	14.8%	15.9%
<b>P/BV (x)</b>	<b>4.09</b>	<b>3.61</b>	<b>3.18</b>	<b>2.77</b>	<b>2.39</b>

Source: Company data, JM Financial. Note: Valuations as of 28/Apr/2025



Ajit Kumar  
ajit.k@jmfl.com | Tel: (91 22) 66303489

Mayank Mistry  
mayank.mistry@jmfl.com | Tel: (91 22) 62241877

Raghvesh Sharan  
raghvesh@jmfl.com | Tel: (91 22) 66303099

Shreyas Pimple  
shreyas.pimple@jmfl.com | Tel: (91 22) 66301881

Gayathri Shivaram  
gayathri.shivaram@jmfl.com | Tel: (91 22) 66301889

Shubham Karvande  
Shubham.karvande@jmfl.com | Tel: (01 22) 6630 3696

## Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	125
Upside/(Downside)	18.2%
Previous Price Target	105
Change	19.0%

## Key Data – SBFC IN

Current Market Price	INR106
Market cap (bn)	INR114.9/US\$1.4
Free Float	41%
Shares in issue (mn)	1,071.9
Diluted share (mn)	
3-mon avg daily val (mn)	INR279.2/US\$3.3
52-week range	110/77
Sensex/Nifty	80,218/24,329
INR/US\$	85.0

## Price Performance

%	1M	6M	12M
Absolute	19.9	30.1	17.2
Relative*	15.7	30.3	9.1

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

1+DPD for secured MSME inched up +57bps QoQ mainly due to collections from Karnataka. Management does not foresee any material movement here though and thus maintained a guidance of ~1% credit costs going forward. Besides, the company also carries INR 40mn management overlay on its book. The company has tightened its underwriting practices in certain geographies (Karnataka and Tamil Nadu) where collections are showing signs of weakness.

- **Valuation and view:** We expect SBFC to continue delivering strong growth of ~26% CAGR over FY25-27E on a smaller base and expect strong return ratios of 4.5%/13.8% RoA/RoE by FY27E which should account for a target valuation multiple of 3.3x FY27E BVPS entailing a revised TP of INR 125. Maintain BUY.

## SBFC – 4QFY25 Quarterly Performance

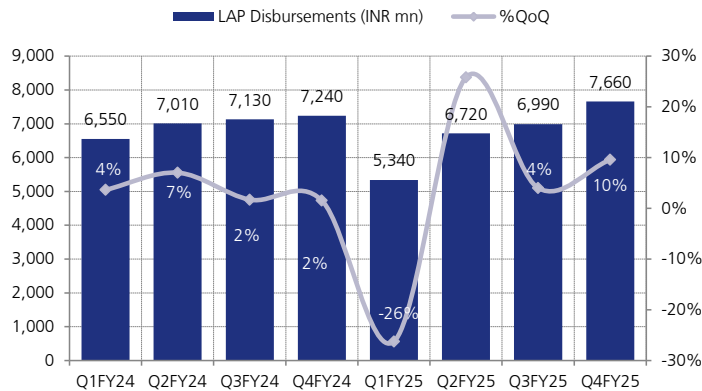
### Exhibit 1. SBFC: 4QFY25 Results Snapshot

Earnings Table (INR mn)	4Q'24	3Q'25	4Q25	YoY (%)	QoQ (%)	4Q25	%var
Interest Income (a)	2,575	3,073	3,294	28%	7%	3,299	0%
Interest Expenses (b)	883	1,061	1,180	34%	11%	1,114	6%
<b>Net Interest Income</b>	<b>1,692</b>	<b>2,012</b>	<b>2,114</b>	<b>25%</b>	<b>5%</b>	<b>2,185</b>	<b>-3%</b>
Non-Interest income	219	259	318	45%	23%	284	12%
<b>Total Income</b>	<b>1,912</b>	<b>2,271</b>	<b>2,432</b>	<b>27%</b>	<b>7%</b>	<b>2,469</b>	<b>-2%</b>
Total Operating Expenses	806	906	965	20%	7%	995	-3%
<b>Operating Profit (PPP)</b>	<b>1,105</b>	<b>1,366</b>	<b>1,467</b>	<b>33%</b>	<b>7%</b>	<b>1,474</b>	<b>-1%</b>
Provisions & write offs	136	191	209	53%	9%	204	2%
<b>PBT</b>	<b>969</b>	<b>1,175</b>	<b>1,258</b>	<b>30%</b>	<b>7%</b>	<b>1,270</b>	<b>-1%</b>
Tax	235	294	314	34%	7%	330	-5%
<b>PAT</b>	<b>734</b>	<b>881</b>	<b>944</b>	<b>29%</b>	<b>7%</b>	<b>940</b>	<b>0%</b>
<b>Key growth parameters (INR bn)</b>							
Assets Under Management	68	81	87	28%	7%	86	1%
Disbursements	7	7	8	6%	10%	7	2%
<b>Ratios Analysis (%)</b>							
NIM	10.3%	10.1%	10.0%	-33bps	-14bps	10.4%	
Cost to Income (%)	45.7%	27.2%	40.0%	-576bps	1275bps	40.2%	
Gross S3 (%)	2.42%	2.69%	2.73%	31bps	4bps	2.39%	
Net S3 (%)	1.37%	1.64%	1.51%	14bps	-13bps	1.39%	
Coverage ratio (%)	44.4%	40.3%	45.9%	149bps	562bps	43.0%	
Credit costs (on AUM)	0.8%	1.0%	1.0%	15bps	2bps	1.0%	
<b>Capital Adequacy (%)</b>							
Tier I (%)	40.5%	38.4%	36.1%	-440bps	-230bps	0.0%	
CAR (%)	40.5%	38.4%	36.1%	-440bps	-230bps	0.0%	
<b>Du-pont Analysis (%)</b>							
NII / Avg. Assets (%)	9.9%	10.4%	10.2%	0.3%	-0.2%	10.5%	
Non-Interest Inc. / Assets (%)	1.3%	1.3%	1.5%	0.3%	0.2%	0.0%	
Op. Cost / Assets (%)	4.7%	4.7%	4.7%	0.0%	0.0%	4.8%	
Provisions / Assets (%)	0.8%	1.0%	1.0%	0.21%	0.02%	1.0%	
<b>ROA (%)</b>	<b>4.3%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>0.3%</b>	<b>0.0%</b>	<b>4.5%</b>	
<b>ROE</b>	<b>10.8%</b>	<b>11.7%</b>	<b>12.0%</b>	<b>1.3%</b>	<b>0.4%</b>	<b>12.0%</b>	

Source: Company, JM Financial

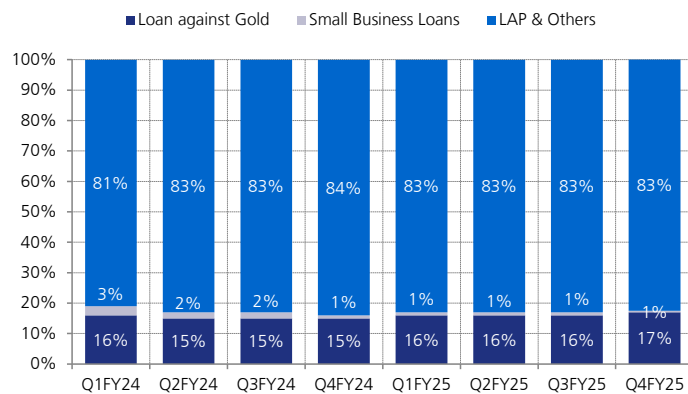
## Quarterly Trends

### Exhibit 2. Trend in LAP Disbursements growth



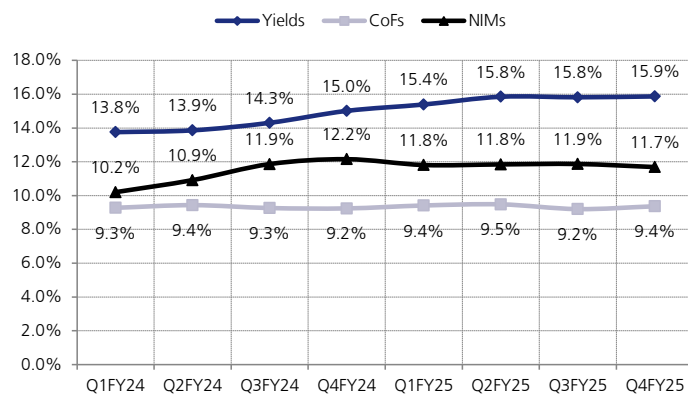
Source: Company, JM Financial

### Exhibit 4. Trend in Product wise AUM Mix



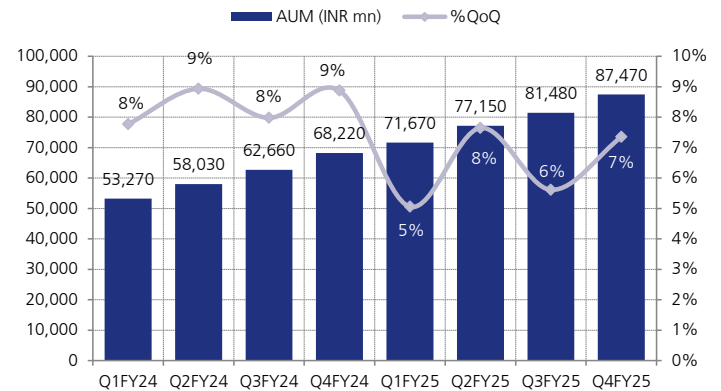
Source: Company, JM Financial

### Exhibit 6. Margins Trend



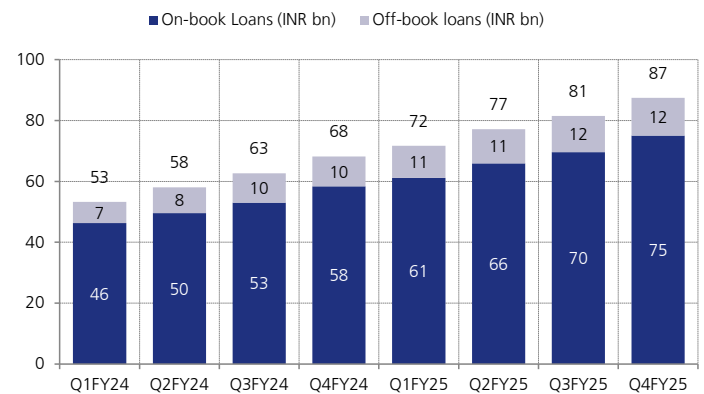
Source: Company, JM Financial

### Exhibit 3. Trend in AUM growth



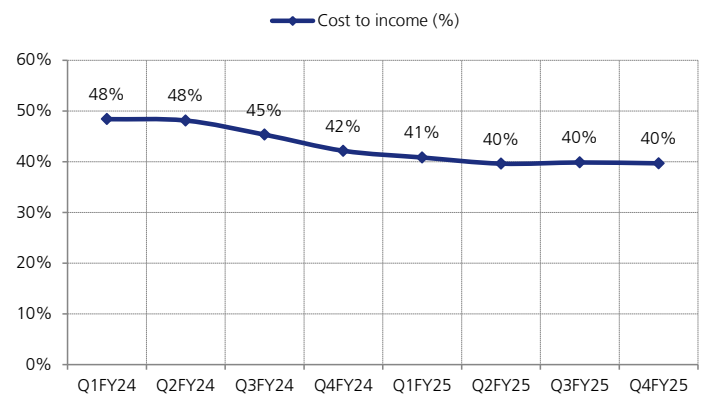
Source: Company, JM Financial

### Exhibit 5. Trend in on-book mix



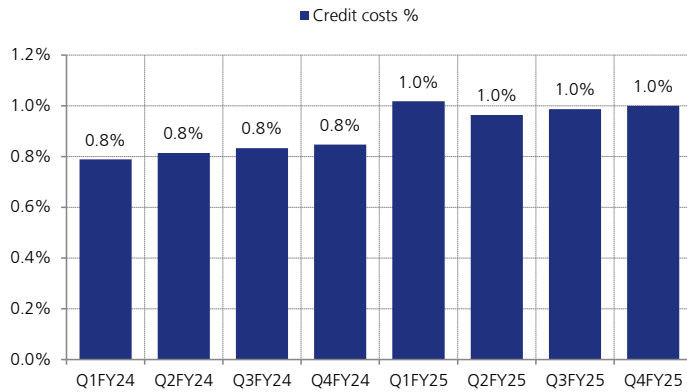
Source: Company, JM Financial

### Exhibit 7. Cost-to-income trend



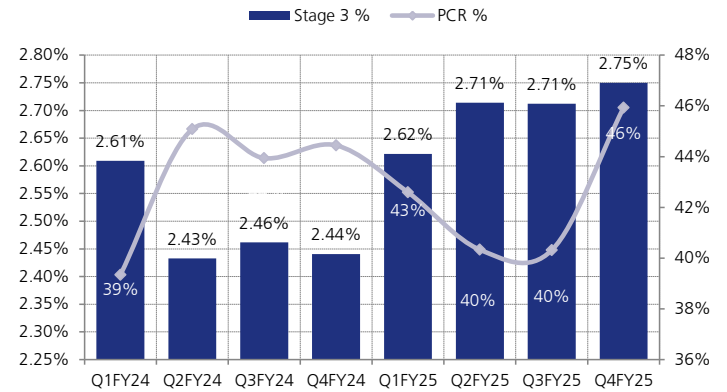
Source: Company, JM Financial

Exhibit 8. Trend in credit costs



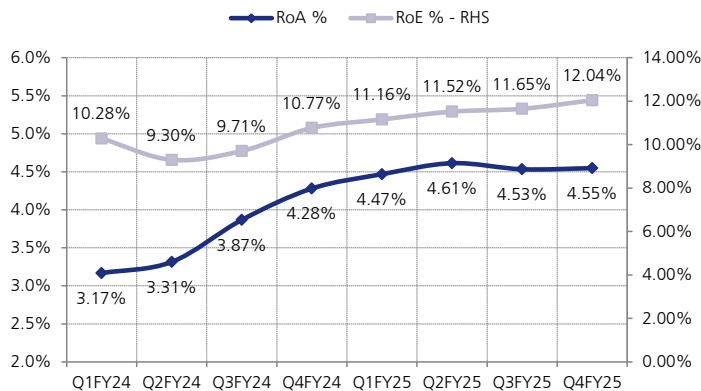
Source: Company, JM Financial

Exhibit 9. Asset Quality Trend



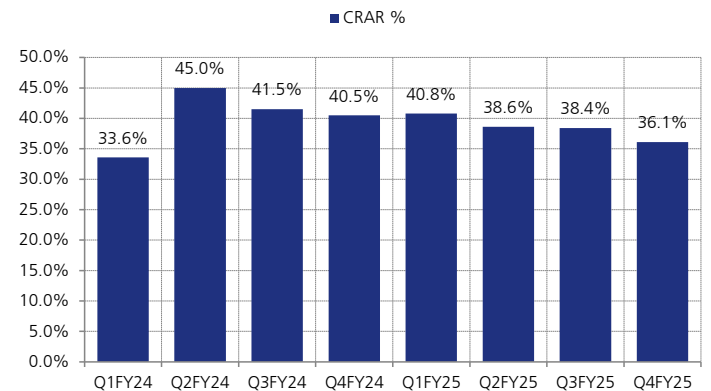
Source: Company, JM Financial

Exhibit 10. Return Ratios trend

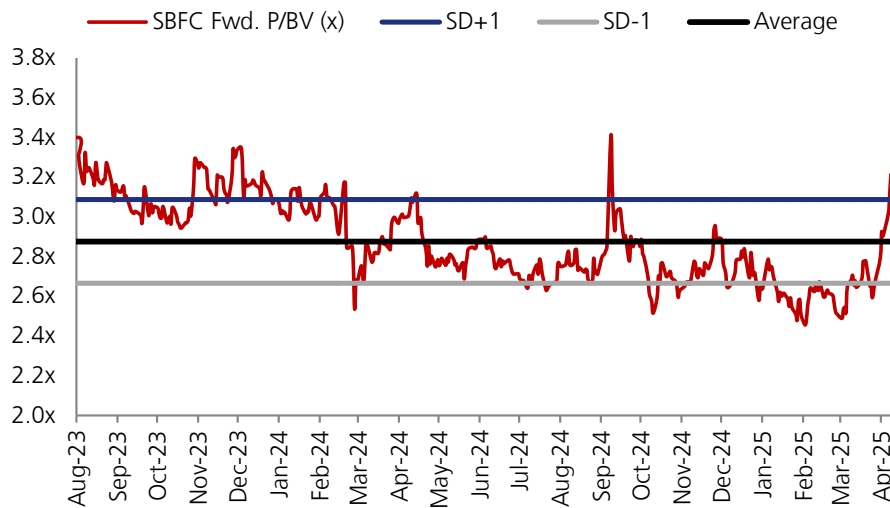


Source: Company, JM Financial

Exhibit 11. Trend in Capital adequacy



Source: Company, JM Financial

**Exhibit 12. SBFC: 1-year forward P/B**

Source: Company, JM Financial

**Exhibit 13. Changes in our estimates**

Old vs. New Estimates	FY26E, Old	FY26E, New	Change	FY27E, Old	FY27E, New	Change	FY28E, New
<b>Income Statement (Rs mn)</b>							
Net Interest Income	9,487	9,543	1%	11,660	11,413	-2%	13,686
Non-Interest Income	1,269	1,296	2%	1,523	1,533	1%	1,819
<b>Total Income</b>	<b>10,756</b>	<b>10,838</b>	<b>1%</b>	<b>13,183</b>	<b>12,946</b>	<b>-2%</b>	<b>15,505</b>
Operating Expenses	4,116	4,111	0%	4,835	4,548	-6%	5,087
<b>Pre-provisioning Profits</b>	<b>6,640</b>	<b>6,727</b>	<b>1%</b>	<b>8,348</b>	<b>8,398</b>	<b>1%</b>	<b>10,418</b>
<b>Reported Profits</b>	<b>4,268</b>	<b>4,300</b>	<b>1%</b>	<b>5,359</b>	<b>5,346</b>	<b>0%</b>	<b>6,624</b>
<b>Balance Sheet (Rs bn)</b>							
Borrowings	66	66	-1%	86	84	-3%	106
Net Advances	93	93	0%	117	116	-1%	144
Total Assets	106	106	0%	133	130	-2%	161
<b>Key Ratios (%)</b>							
NIM (%)	9.71%	9.68%	0%	9.47%	9.20%	0%	8.78%
ROA (%)	4.44%	4.48%	0%	4.49%	4.52%	0%	4.55%
ROE (%)	12.8%	12.6%	0%	14.0%	13.8%	0%	14.8%
EPS (Rs.)	4.0	4.0	0%	5.0	4.9	-1%	6.1
BV (Rs.)	33.1	33.4	1%	38.1	38.3	0%	44.4

Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income (NII)	5,679	7,771	9,543	11,413	13,686
Non Interest Income	1,013	1,098	1,296	1,533	1,819
<b>Total Income</b>	<b>6,692</b>	<b>8,869</b>	<b>10,838</b>	<b>12,946</b>	<b>15,505</b>
Operating Expenses	3,061	3,546	4,111	4,548	5,087
<b>Pre-provisioning Profits</b>	<b>3,631</b>	<b>5,322</b>	<b>6,727</b>	<b>8,398</b>	<b>10,418</b>
Loan-Loss Provisions	0	737	993	1,270	1,586
Others Provisions	0	0	0	0	0
<b>Total Provisions</b>	<b>470</b>	<b>737</b>	<b>993</b>	<b>1,270</b>	<b>1,586</b>
<b>PBT</b>	<b>3,161</b>	<b>4,585</b>	<b>5,734</b>	<b>7,128</b>	<b>8,832</b>
Tax	790	1,133	1,433	1,782	2,208
<b>PAT (Pre-Extra ordinaries)</b>	<b>2,370</b>	<b>3,452</b>	<b>4,300</b>	<b>5,346</b>	<b>6,624</b>
Extra ordinaries (Net of Tax)	0	0	0	0	0
<b>Reported Profits</b>	<b>2,370</b>	<b>3,452</b>	<b>4,300</b>	<b>5,346</b>	<b>6,624</b>
Dividend	0	0	0	0	0
<b>Retained Profits</b>	<b>2,370</b>	<b>3,452</b>	<b>4,300</b>	<b>5,346</b>	<b>6,624</b>

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Equity Capital	10,719	10,852	10,852	10,852	10,852
Reserves & Surplus	17,064	21,049	25,350	30,696	37,320
Stock option outstanding	0	0	0	0	0
Borrowed Funds	39,960	52,643	65,804	83,571	1,06,135
Deferred tax liabilities	110	9	9	9	9
Preference Shares	2,777	1,405	4,175	5,120	6,315
Current Liabilities & Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>70,630</b>	<b>85,958</b>	<b>1,06,189</b>	<b>1,30,248</b>	<b>1,60,631</b>
Net Advances	58,365	75,041	93,283	1,16,271	1,43,894
Investments	4,272	3,268	4,011	5,000	6,187
Cash & Bank Balances	4,658	4,294	5,224	5,116	6,331
Loans and Advances	0	0	0	0	0
Other Current Assets	291	283	405	446	613
Fixed Assets	380	437	571	700	864
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	61	31	91	112	138
<b>Total Assets</b>	<b>70,630</b>	<b>85,958</b>	<b>1,06,189</b>	<b>1,30,248</b>	<b>1,60,631</b>

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Growth (YoY) (%)</b>					
Borrowed funds	6.9%	31.7%	25.0%	27.0%	27.0%
Advances	32.2%	28.6%	24.3%	24.6%	23.8%
Total Assets	22.9%	21.7%	23.5%	22.7%	23.3%
NII	49.2%	36.8%	22.8%	19.6%	19.9%
Non-interest Income	21.5%	8.3%	18.0%	18.3%	18.7%
Operating Expenses	32.9%	15.9%	15.9%	10.6%	11.8%
Operating Profits	55.5%	46.6%	26.4%	24.8%	24.1%
Core Operating profit	56.1%	48.8%	26.8%	25.1%	24.3%
Provisions	46.7%	56.8%	34.7%	27.9%	25.0%
Reported PAT	58.2%	45.6%	24.6%	24.3%	23.9%
<b>Yields / Margins (%)</b>					
Interest Spread	8.85%	8.88%	8.74%	8.46%	8.23%
NIM	9.51%	10.37%	10.31%	9.97%	9.68%
<b>Profitability (%)</b>					
ROA	3.70%	4.41%	4.48%	4.52%	4.55%
ROE	10.5%	11.6%	12.6%	13.8%	14.8%
Cost to Income	45.7%	40.0%	37.9%	35.1%	32.8%
<b>Asset quality (%)</b>					
Gross NPA	2.43%	2.75%	2.87%	2.91%	2.94%
LLP	0.82%	1.13%	1.40%	1.36%	1.37%
<b>Capital Adequacy (%)</b>					
Tier I	40.52%	36.10%	33.60%	31.84%	30.28%
CAR	40.52%	36.10%	33.72%	31.94%	30.37%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	8.87%	9.93%	9.93%	9.65%	9.41%
Other Income / Assets	1.58%	1.40%	1.35%	1.30%	1.25%
Total Income / Assets	10.45%	11.33%	11.28%	10.95%	10.66%
Cost / Assets	4.78%	4.53%	4.28%	3.85%	3.50%
PPP / Assets	5.67%	6.80%	7.00%	7.10%	7.16%
Provisions / Assets	0.73%	0.94%	1.03%	1.07%	1.09%
PBT / Assets	4.93%	5.86%	5.97%	6.03%	6.07%
Tax rate	25.0%	24.7%	25.0%	25.0%	25.0%
ROA	3.70%	4.41%	4.48%	4.52%	4.55%
Leverage	2.8	2.6	2.8	3.0	3.2
ROE	10.5%	11.6%	12.6%	13.8%	14.8%

Source: Company, JM Financial

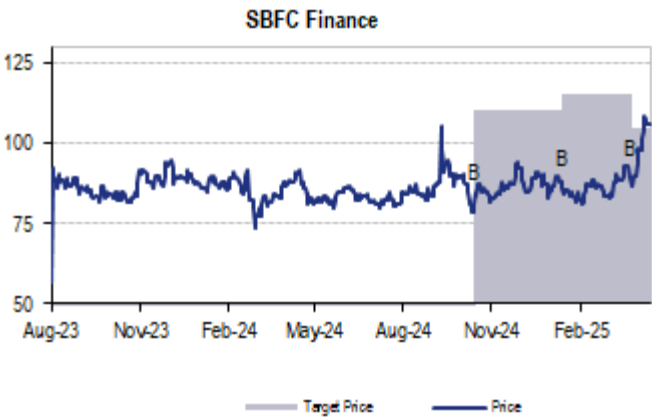
Valuations					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	1,071.9	1,085.2	1,085.2	1,085.2	1,085.2
EPS (INR)	2.2	3.2	4.0	4.9	6.1
EPS (YoY) (%)	31.3%	43.8%	24.6%	24.3%	23.9%
P/E (x)	47.9	33.3	26.7	21.5	17.4
BV (INR)	26	29	33	38	44
BV (YoY) (%)	33.5%	13.4%	13.5%	14.8%	15.9%
P/BV (x)	4.09	3.61	3.18	2.77	2.39
DPS (INR)	0.0	0.0	0.0	0.0	0.0
Div. yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
28-Oct-24	Buy	110	
27-Jan-25	Buy	115	4.5
8-Apr-25	Buy	105	-8.7

Recommendation History





## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Chenergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: [jmfinancial.research@jmfl.com](mailto:jmfinancial.research@jmfl.com) | [www.jmfl.com](http://www.jmfl.com)Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: [sahil.salastekar@jmfl.com](mailto:sahil.salastekar@jmfl.com)Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: [instcompliance@jmfl.com](mailto:instcompliance@jmfl.com)

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Rating	Meaning
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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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