Phoenix rising from the ashes

ArihantCapital
Generating Wealth

Initiating Coverage
31st December, 2024

SG Finserve Ltd

Phoenix rising from the ashes

CMP: INR 378

Rating: BUY

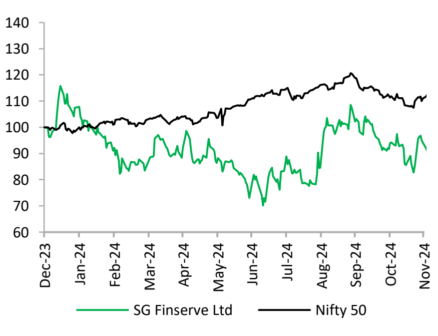
Target: INR 783

Stock Info	
BSE	539199
NSE	NA
Sector	NBFC
Face Value (INR)	10
Equity Capital (INR Mn)	558.95
Mkt Cap (INR Mn)	26,340
52w H/L (INR)	576/ 325
Avg Daily Vol (in 000')	13,740

Shareholding Pattern % (As on September, 2024)	
Promoters	48.38%
Public & Others	51.62%

Stock Performance (%)	1m	6m	12m
SG Finserve Ltd	0.6	8.03	-8.3
Nifty 50	0.5	3.6	16.6

SG Finserve Ltd Vs Nifty 50



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SG Finserve Ltd is an NBFC specializing in providing financing solutions to channel partners such as dealers, distributors, retailers, and buyers of Indian corporations, with interest rates ranging from 11 - 13% per annum. By streamlining supply chain financing and optimizing the working capital cycle, SG Finserve Ltd ensures financial inclusion for Indian MSMEs through the innovative use of technology.

INVESTMENT RATIONALE:

1. Obstacle clearance from RBI to act as a Type II NBFC will lead to mega fold jump in book: RBI vide its letter dated 3rd July 2024 returned company's application for conversion from Type I to Type II NBFC, and advised the company to act as Type 1 NBFC, instead of type 2 NBFC. In order to comply with this letter, SG Finserve Ltd reduced their loan book to INR 8 bn and repaid funds of approximately INR 10 bn, which led to de growth in the company. Later, RBI approved the proposal of the company for conversion from Type I to Type II NBFC in the last week of September 2024. This conversion will help them to raise money from the public, which will support their growth plans and lead to mega fold jump in book. We believe their loan book to reach to INR 25 bn (H1FY25: INR 8.22 Bn) by the end of FY25, INR 35 bn to INR 40 bn by FY26, and INR 60 bn by FY27.

2. High NIMs and zero GNPAs due to extreme short term financing durations: The MSME loans are very short term loans which are majorly addressing the immediate financing needs of smaller supply chain players, hence, NPAs are nil. Further, 84.75% of the loan book is secured via charge on funded inventory and receivables generated by sale of the same. They hold STOP SUPPLY ARRANGEMENT from the Anchors to STOP supply in case of delay/ default with SG Finserve. Going ahead, we expect the NIMs to remain stable while the Income growth to outpace the book growth.

3. Parental Advantage: SG Finserve Ltd got an head start from the group companies which helped in quick scalability of the loan book. Currently, they derive around 40% of its loan book from the group companies. However, the popularity of SG Finserve's product offerings helped in business generation from third party customers. Today, more than 60% of SG Finserve's loan book is from groups such as TATA Group, AMNS India, Vedanta, Ashok Leyland, JSW-MG Motors, Adani Group and Jindal Steel among others. Further, PAN India presence of APL Apollo group will help the geographical expansion of SG Finserve Ltd. Furthermore, The APL group extends support to SG Finserve in terms of requisite information about its dealers for necessary touch base which would form a critical component of the underwriting process.

4. Return ratios to improve going forward: SG Finserve Ltd currently achieves a return of 13% on its equity capital and 5% on its borrowed funds, resulting in a current Return on Equity of 9%. The projected expansion in equity capital is expected to enhance the company's return metrics. With a forecasted growth rate of 25% in Net worth, we anticipate that SG Finserve Ltd's ROE will improve to 15% in current year and 20% over the next few years.

5. Huge scope of growth in MSME Financing: The Indian Macroeconomic landscape lags behind the efficient Supply chain logistics of Western as well as other export oriented nations like China & Other East Asian economies due to the lag of connectivity issues arising among merchandise and payments between manufacturer & customers as the vendor supply chains are not efficient. SG Finserve's business though currently highly reliant on several top customers and Tie-ups, is serving a larger purpose, and will see gravitational growth in the current supply chain ecosystem.

6. Government support of MSMEs through ECLGS during Covid: Several MSMEs are seen taking up calls/orders for larger than before efficiency on their side, ably strengthened on account of ECLGS benefits extended by the Government. This emboldens the market category catered by SG Finserve, i.e, the MSMEs, hence, MSME business is supported by a reliable Government, giving security to MSME financiers.

OUTLOOK:

SG Finserve Ltd has maintained a zero delinquency rate due to its focus on short-term loans and a strong customer base. They are a part of APL Apollo group company, providing financial services and solutions to channel partners such as dealers, distributors, retailers, and buyers of Indian corporations. Additionally, the significant growth potential in MSME financing, supported by government initiatives such as ECLGS, positions the NBFC for accelerated growth. We expect the delinquency rate to remain at zero, with business growth expected to reach 25%, and an expected ROE of 20%. This signals a positive outlook on the company. We initiate coverage on the stock with a BUY rating and a TP of INR 783, based on 2.5x of ABV FY27E, giving an upside of 107%.

Exhibit 1: Financial Summary

Y/E Mar (INR cr)	FY23	FY24	FY25E	FY26E	FY27E
NII	33.0	125.8	141.1	227.5	384.6
PAT	18.4	78.6	86.6	146.9	261.4
Networth	573.1	806.4	1,089.8	1,489.9	1,751.3
Diluted BVPS (INR)	157.0	157.2	165.6	226.4	266.2
Diluted EPS (INR)	5.0	15.3	13.2	22.3	39.7
P/E (x)	80.5	26.5	30.9	18.2	10.2
P/Adj BV (x)	2.6	2.6	2.5	1.8	1.5

Story in charts

Exhibit 2: AUM growth has been steady till Q3FY24. Their degrowth post that, was due to the directions issued by RBI. The AUM is expected to grow from Q3FY25 onwards, driven by regulatory clearance by RBI to act as a Type 2 NBFC.

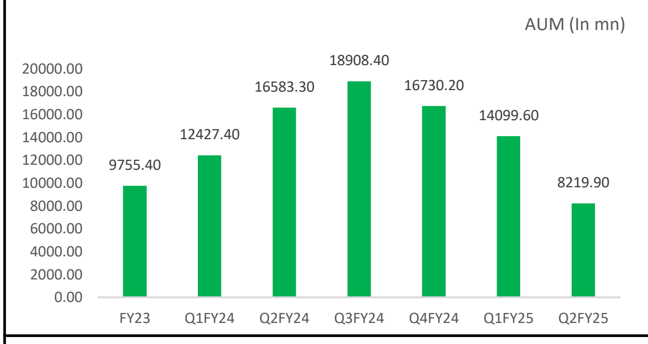


Exhibit 3: Disbursements are expected to grow, led by regulatory clearance by RBI to act as a Type 2 NBFC.

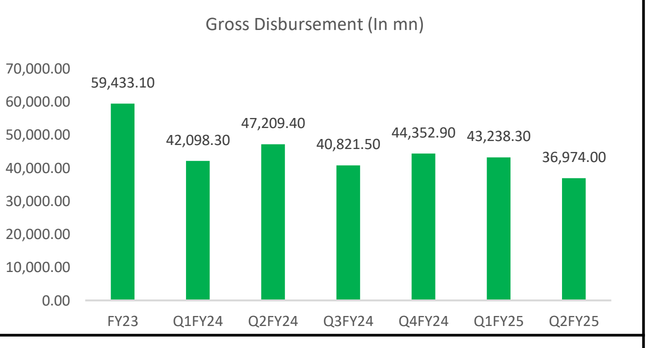


Exhibit 4: The company demonstrated robust asset quality across recent quarters, with both its GNPA and NNPA reported at NIL levels.

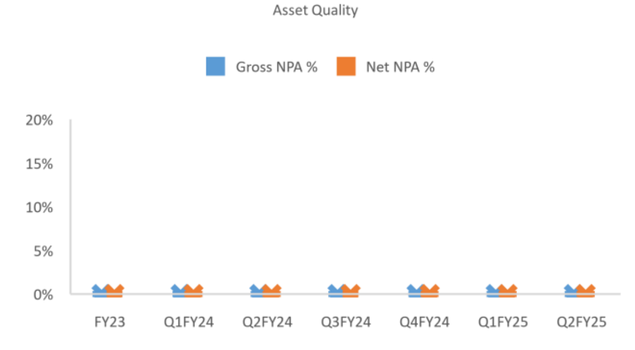


Exhibit 5: Company's collection efficiency remains strong

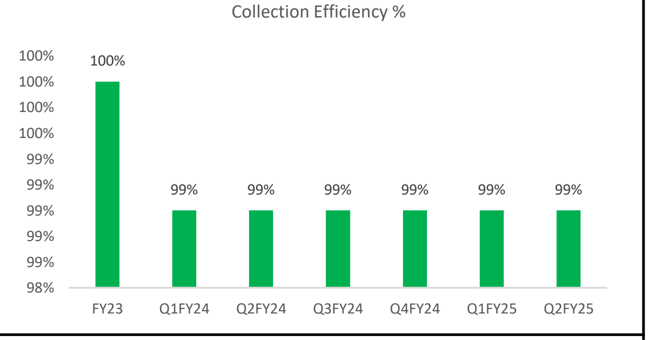


Exhibit 6: The company's strong asset management capabilities are evident in its ability to maintain asset quality. Stage 2 assets remained stable, with no migration to Stage 3 during the period.

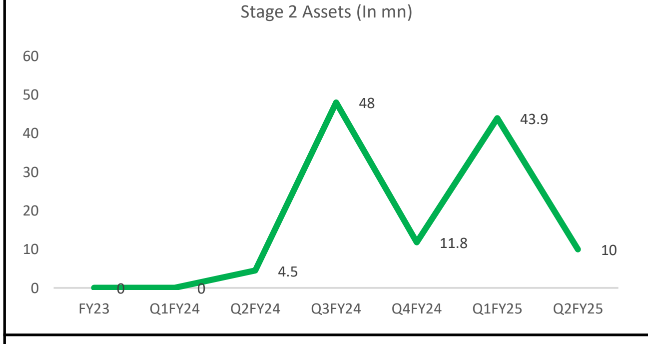


Exhibit 7: The Net interest margins of the company has been showing an increasing trend since past few quarters. We expect it to remain stable at current levels.

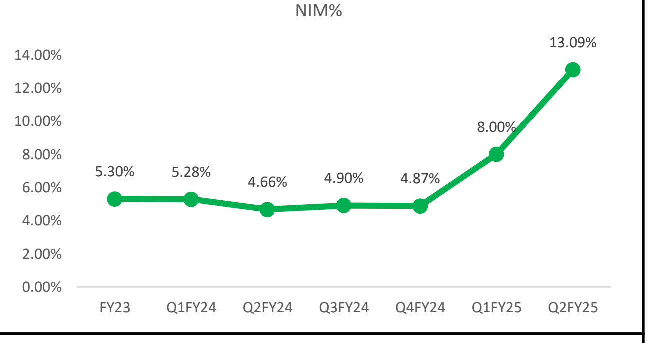


Exhibit 8: The projected expansion in equity capital is expected to enhance the company's return metrics.

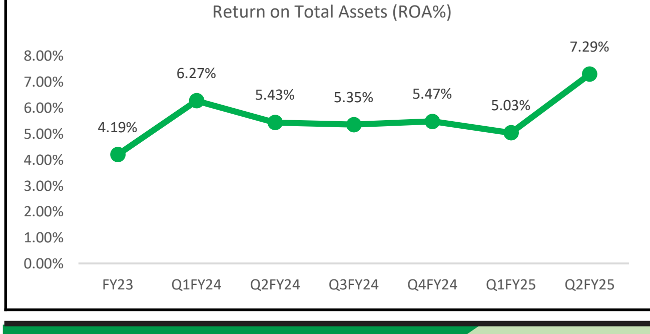
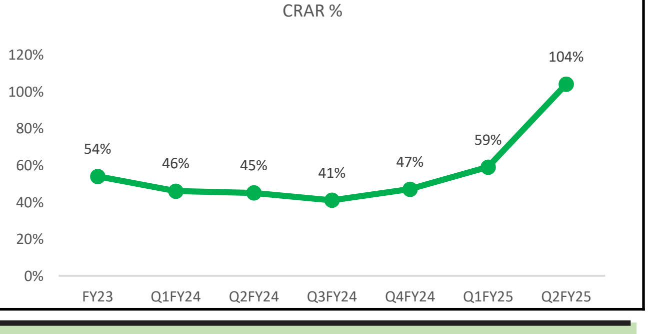


Exhibit 9: CRAR is expected to improve further



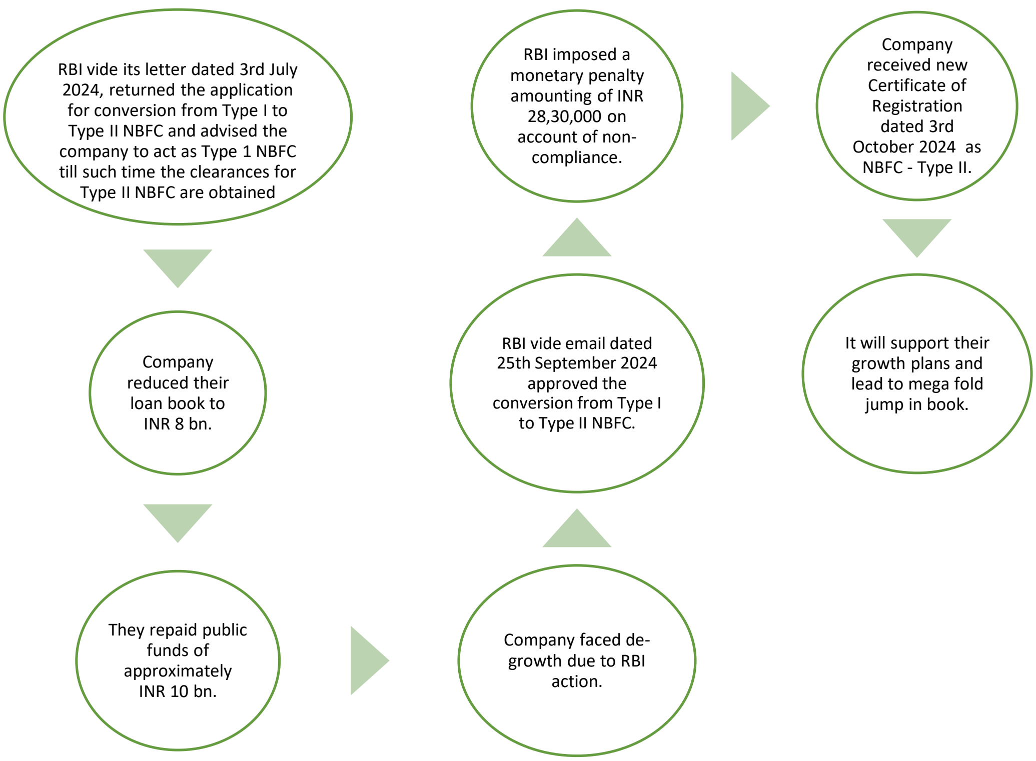
Investment Rationale

1. Obstacle clearance from RBI to act as a Type II NBFC will lead to mega fold jump in book:

RBI vide its letter dated 3rd July 2024, returned the application for conversion from Type I to Type II NBFC and advised the company to act as Type 1 NBFC till such time the clearances for Type II NBFC are obtained. Difference between Type 1 NBFCs and Type 2 NBFCs is as follows:

Sr. No.	Type 1 NBFC	Type 2 NBFC
1	Type 1 NBFCs cannot accept public funds, do not intend to accept them in the future, and do not have a customer interface, nor do they intend to have one.	Type 2 NBFCs accept or intend to accept public funds, and have or intend to have a customer interface.
2	Their Certificate of Registration (CoR) is conditional, and they must get approval from the Reserve Bank of India (RBI) to access public funds or have a customer interface in the future.	Their Certificate of registration (CoR) is not conditional, and they can access public funds or have a customer interface without the approval of Reserve Bank of India (RBI).

In order to comply with this letter, SG Finserve Ltd reduced their loan book to INR 8 bn and repaid public funds of approximately INR 10 bn, which led to de-growth in the company. Later, RBI vide email dated 25th September 2024 approved the conversion from Type I to Type II NBFC. Further, company received new Certificate of Registration dated 3rd October 2024 as NBFC - Type II. RBI further imposed a monetary penalty amounting to INR 28,30,000 on account of non- compliance with the conditions of earlier Certificate of Registration. This conversion will help them to raise capital, which will support their growth plans and lead to mega fold jump in book. We believe their loan book to reach to INR 25 bn (H1FY25: INR 8.22 Bn) by the end of FY25, INR 35 bn to INR 40 bn by FY26, and INR 60 bn by FY27.



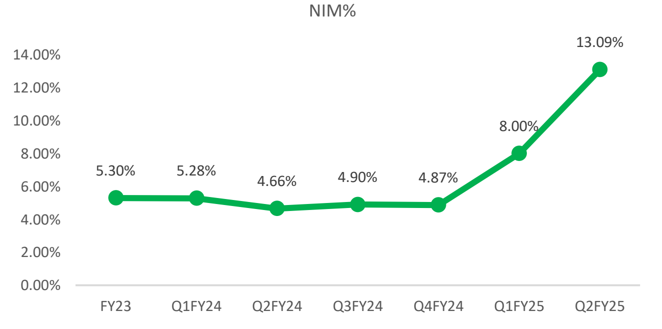
2. High NIMs and zero GNPAs due to extreme short term financing durations:

SG Finserve Ltd specializes in supply chain financing for SME and MSME. They offer financial assistance to their vendors and distribution partners, empowering them to grow and succeed. Company offers a variety of products like Dealer Financing, Retail Financing, Vendor Financing and Transporter Financing.

RBI vide email dated 25th September 2024 approved the conversion from Type I to Type II NBFC. Further, company received new Certificate of Registration dated 3rd October 2024 as NBFC - Type II. This conversion will help them to raise capital, which will support their growth plans.

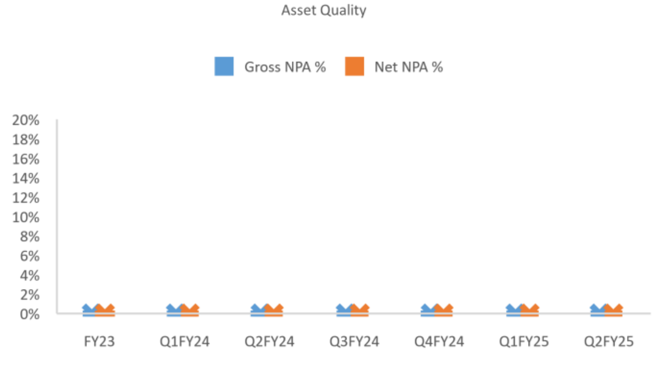
Earlier, RBI vide its letter dated 3rd July 2024, returned the application of the company for conversion from Type I to Type II and advised the company to act as Type 1 NBFC. In order to comply with this letter, SG Finserve Ltd reduced their loan book to INR 8 bn and repaid public deposits and borrowings of approximately INR 10 bn, which led to de - growth in the company.

NIMs expected to slightly impacted due to expected increase in the finance cost post RBI approval.

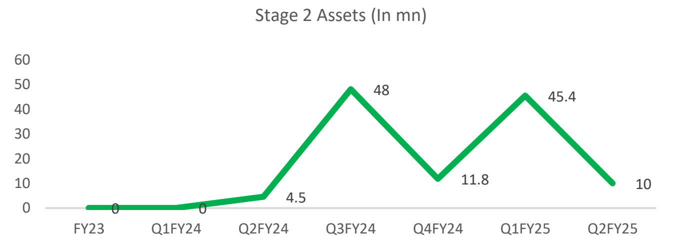


Due to the compliance with RBI letter dated 3rd July, 2024, company's NIMs saw a decline. Post - approval from RBI on 03rd October 2024, to act as a Type 2 NBFC, company's NIMs saw an improvement to 13.09% in Q2FY25. We expect the NIMs to be slightly impacted going forward driven by the expected increase in the finance cost post RBI approval for conversion from Type I to Type II.

Asset quality remains strong with NIL NPAs driven by strong underwriting procedures.



The MSME loans are very short term loans which are majorly addressing the immediate financing needs of smaller supply chain players, hence, NPAs are nil. Further, 84.75% of the loan book is secured via charge on funded inventory and receivables generated by sale of the same. They hold STOP SUPPLY ARRANGEMENT from the Anchors to STOP supply in case of delay/ default with SG Finserve.



The company's strong asset management capabilities are evident in its ability to maintain asset quality. Stage 2 assets remained stable, with no migration to Stage 3 during the period. It indicates a robust system for identifying and mitigating potential risks, ensuring that assets maintain their value and continue to perform without significant losses.

What does the company do to ensure asset quality?

A. There is a stop - supply agreement with the anchor for each and every borrower. In case of default by a borrower, the anchor will stop supplying goods to the borrower till the default is cleared.

B. The relationship between the anchor and the distributor should be at least 5 years, in some cases at least 3 years. Due to this new relationships may be a hindrance, but it helps to maintain a strong asset quality.

C. Atleast 50% of the borrower’s business should come from that anchor.

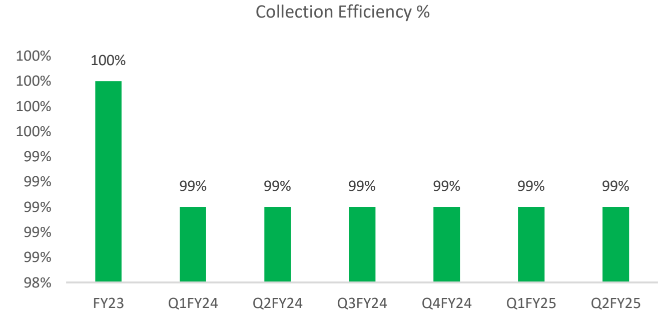
D. Company takes personal guarantees of all promoters. In case, it's a proprietorship, or partnership, company tries to rope in the entire family by taking their guarantees as well to ring fence the credit facility.

E. Further, 84.75% of the loan book is secured via charge on funded inventory and receivables generated by sale of the same.

F. Furthermore, they have security cheques available with them for the entire credit facility provided. So section 138 of The Negotiable Instruments Act, 1881 becomes key to provide them with safety against dishonor of cheques.

G. At the time of onboarding, They've already built a rating and scoring software, which helps them to easily identify which cases to do or not to do.

H. They also keep a lot of focus on monitoring tool, which is also under development. Currently, they monitor all the customers manually.



The collection efficiency ratio continues to demonstrate strong performance, remaining at an 99%. The consistent strength of this ratio highlights the effectiveness of the collection process and its ability to maintain their asset quality with remarkable reliability.

How does the collection happen?

Company has an in-house collections team. They have a business team who is responsible for collections as well and a specific collections team as well, which is doing collections from borrower to borrower. Their collections are all timely, and negligible over dues happen.

In the underwriting team, there are about 12 people. In collections, there are 4 people and business team is about 18 people. The total strength of the company is about 61 people, including other functions such as operations, legal and compliance, IT, HR and finance. They are also opening up new locations and adding business people as they are ramping up their business.

Each of their borrowers have paid at least 8 to 12 times over the last two years. They have seen that all the loans which have been disbursed have come back to them and disbursed again at least 8 to 12 times for each of the borrower, thus ensuring decent vintage in terms of churning.

Key growth drivers moving forward:

1. **Fundraising and Capital Management**: With the receipt of approval and certificate of registration from RBI to operate as a Type 2 NBFC, SG Finserve now has access to public funds, which will help them to grow their business. They demonstrate agility in attracting funds and maintaining a robust capital base, essential for sustained lending operations and expansion.
2. **Geographical Diversification**: The Company is currently present in 14 locations across India, and will expand rapidly in the future. A diversified portfolio across regions will help the NBFC mitigate regional economic risks, ensuring stable growth despite localized challenges.
3. **Asset Quality Management**: Company has a strong asset quality with NIL NPAs, driven by strong underwriting procedure adopted by them. Effective management of asset quality and NPAs is critical for maintaining investor confidence and sustaining growth momentum.
4. **Lower Opex**: Apart from finance cost, company’s other costs are controlled in a very well efficient - manner because of the business model in which they operate. There are no incentives or payouts given to the anchor for business generation, which helps to keep the opex low.
5. **Digitalization**: Adoption of digital technologies enhances operational efficiency, reduces costs, and improves collection rates, thereby boosting profitability.
6. **Credit Penetration in MSMEs**: Significant untapped potential exists in extending credit to Micro, Small, and Medium Enterprises (MSMEs), where SG Finserve plays a pivotal role in meeting financing needs more effectively.

3. Parental Advantage:

SG Finserve Limited is part of APL Apollo Group. In August 2021, the promoters of APL Apollo acquired a 56.25% stake in SG Finserve.

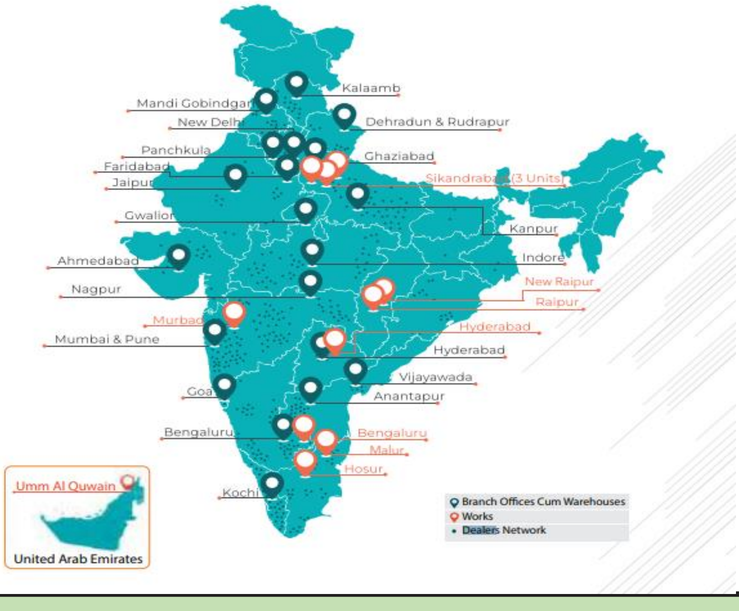
APL Apollo group promotor family

→

SG Finserve Ltd
(48.38%)

As per the latest filing on stock exchanges, the promoter family of APL Apollo Group currently holds 48.38% of SG finserve's share of ownership. It provides support to SG Finserve in terms of the dealer network. APL Apollo Tubes maintains an extensive distribution network with 800 distributors and 50,000 dealers, serving both domestic markets and 20 countries worldwide The company supports a diverse client base across residential construction, commercial construction, and the infrastructure industry. Further, PAN India presence of APL Apollo group will help the geographical expansion of SG Finserve Ltd.

APL Apollo PAN India presence.



Furthermore, The APL group extends support to SG Finserve in terms of details around the dealer network which would form a critical component of the underwriting process.

WHY SG Finserve Ltd?

Before acquisition of SG Finserve Ltd (formerly known as Moongipa Securities Limited), APL Apollo group identified a massive gap in the industry, which is the lack of working capital for these SME traders, which restrict these SME traders from growing their business rapidly or at the same pace of the brand or anchor with whom they are associated with.

In order to fill this gap in the industry, APL Apollo group decided to start a one-stop supply chain funding company.

During COVID, APL Apollo moved to 100% cash and carry business. They stopped giving or offering credit to their distributors from April 2020. Further, they increased the cash discount from 1% to 2% for the distributors as an incentive for them to move to cash and carry.

In Apollo Tubes, their distributor normally turns his capital 7 - 8 times in a year. So, if he gets 2% cash discount, he will be able to earn at least 15% to 16% extra by the end of the year. And for him, the borrowing cost could be 9% - 12%. So still, he would end up making 3% - 4% extra profit. If he moves to 100% cash and carry as per APL Apollo policy.

Most of the distributors switched to this model. And as a result, APL Apollo's debtor days reduced from 25/ 30 days to 5/ 6 days. But, during the initial 1/1.5 years some of the distributors left the 2% cash discount, since they ware not able to raise money from banks or NBFCs and fintechs, even at 12%, 13%. Further, company was dealing with these distributors for the last 20 to 30 years and have never seen even $1 of default from them.

But banks were not ready to fund them. That's where APL Apollo saw a big gap in the industry and decided to address this. That's how the idea of SG Finserve Ltd came into existence.

In October 2022, company raised INR 7.20 bn as a pure equity, wherein the promoters infused 50% of the and the rest 50% came from the external investors through which they started the lending business by acquisition of another listed company Moongipa Securities Limited.

4. Return ratios to improve going forward:

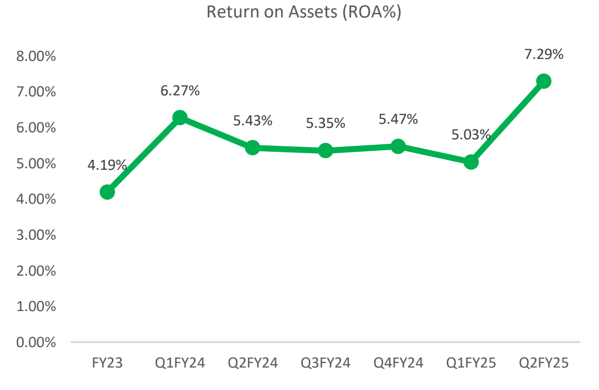
SG Finserve Ltd currently achieves a return of 13% on its equity capital and 5% on its borrowed funds, resulting in a current Return on Equity of 9%. The projected expansion in equity capital is expected to enhance the company's return metrics. With a forecasted growth rate of 25% in net worth, we anticipate that SG Finserve Ltd's post - tax ROE will improve to 15% in current year and 20% over the next few years

Figures in mn

Balance sheet	Net worth (SC+Reserves)	Borrowings	Earnings on Net worth @ yield of 13%	Earnings on borrowings @ spread of 5% with a borrowing cost of 8%	Total Earnings	Pre - tax ROE
FY23	5,730.8	4,929.8	745.0	246.5	**991.5**	17.30%
FY24	8,065.3	9,567.9	1,048.5	478.4	**1,526.9**	18.93%
FY25E	10,000.0	15,000.0	1,300.0	750.0	**2,050.0**	20.50%
FY26E	12,500.0	25,000.0	1,625.0	1,250.0	**2,875.0**	23.00%
FY27E	15,000.0	45,000.0	1,950.0	2,250.0	**4,200.0**	28.00%

28% ROE was calculated on the assumption of INR 15,000 mn of net worth by the end of FY27 along with a leverage of INR 45,000 mn, in the form of loans from the banks, on that net worth. This gives the balance sheet of INR 60,000 mn.

On INR 15,000 mn, company shall be earning 13%, which comes at INR 1,950 mn. On INR 45,000 mn, company shall be earning around 5% spreads, which comes at INR 2,250 mn. If we sum up these, earnings will come at INR 4,200 mn with a net worth of INR 15,000 mn, which gives a pre - tax ROE of 28% and post – tax ROE of 20%.



ROA of the company stood at 6.27% during Q1FY24. Post – that, RBI vide its letter dated 3rd July 2024, returned the application of the company for conversion from Type I to Type II and advised the company to act as Type 1 NBFC. In order to comply with this letter, SG Finserve Ltd reduced their loan book and repaid funds, which led to de - growth in the company and impacted their returns.

Later, RBI approved the proposal for conversion from Type I to Type II NBFC. This conversion will help them to raise capital, which will support their growth plans and help improve their return ratios.

5. Huge scope of growth in MSME Financing:

Increased economic activity has spurred the demand for commercial loans which grew 29% in the Jul-Sep 2023 quarter as compared to the same period in 2022. MSME credit demand at NBFCs (14% share of credit demand) grew fastest at 39% during this quarter.

Credit growth momentum continues within India's MSME credit market

Mapping India's MSME credit sector Demand *(Commercial Credit Inquiry Volumes) Indexed to: Jul-Sep 2021 = 100*		
Jul-Sep 2022	**Jul-Sep 2023**	**YoY Growth (%)**
132	170	29%
Supply *(MSME Disbursement Volumes - In Lakh)*		
Jul-Sep 2022	**Jul-Sep 2023**	**YoY Growth (%)**
9.3	11.2	20 %
Growth *(Balance-Sheet MSME Credit Exposure - In ₹ Lakh Crore) upto 720 days*		
Sep 22	**Sep 23**	**YoY Growth (%)**
23.0	25.7	12%

Credit supply to MSMEs grew by 20% YoY by volumes in quarter Jul-Sep 2023 indicating improved lender confidence. Availability of enriched and timely credit data and rapid implementation of digital lending infrastructure has contributed significantly towards enhancing lender confidence. 7% YoY growth is seen in borrowers who availed sub-INR 1 Crore loans (Micro segment) while growth of borrowers seeking greater than INR 10 Crores (Medium) has decreased by value.

Improvement in delinquencies

Performance *(Delinquency Rates)#* 90-720 dpd (incl Sub-standard)*		
Sep 22	**Sep 23**	**YoY Change (bps)**
3.0%	2.3%	-0.7%

During quarter Jul-Sep 2023, overall balance-level delinquencies measured as 90 days-past-due to 720 days-past-due and those reported as "Sub-standard", have improved, and stands at 2.3%. This is the lowest delinquency rate in the last 2 years.

With promising economic growth prospects as reflected through strong demand, stable portfolio growth and improved credit performance, time is conducive for lenders to expand their MSME credit portfolios. Micro, Small and Medium Enterprises (MSMEs) are critical to the industrial ecosystem in India. Broad spectrum of occupations covered by MSMEs makes them imperative for furthering India's economic growth. Each sector within the MSME segment requires focus as it has the potential of catalyzing social development through economic empowerment.

MSME Credit Originations Growth (Jul-Sep 2023 YoY)		
Borrower Segment	**Value**	**Volume**
Micro	7%	28%
Small	3%	7%
Medium	-9%	-8%

Recent data show 7% YoY growth in origination value for borrowers who availed sub-INR 1 Crore loans (Micro segment). Origination in volume as well as value declined in quarter ending Sep 2023 for borrowers seeking greater than INR 10 Crore loans (Medium segment). New to Credit (NTC) borrowers continue to hold majority share of origination at 46% of MSME loan origination volumes.

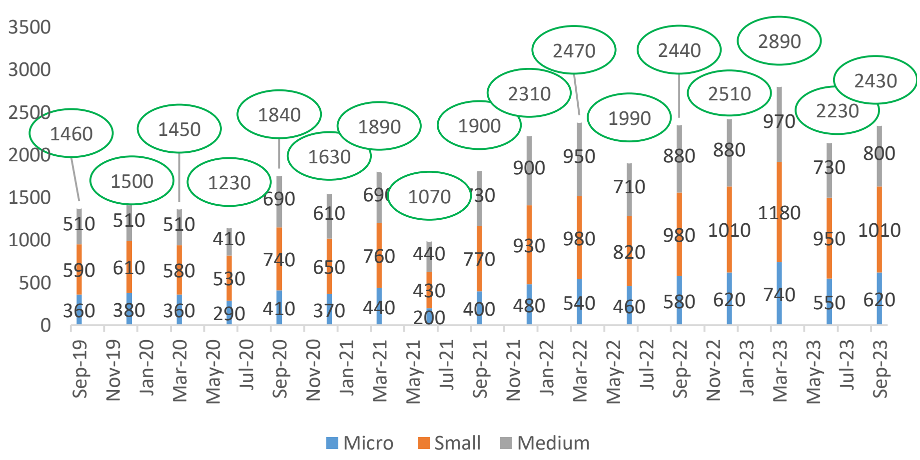
Rapid credit expansion across semi-urban and Rural geographies

Share of Origination Volume – (Jul-Sep 2023 YoY)				
Borrower Characteristics	**Overall**	**Micro**	**Small**	**Medium**
Semi-urban and Rural	46%	49%	39%	34%
Medium risk (CMR 4-6)	55%	61%	41%	20%
New to Credit	46%	61%	5%	1%

In the Jul-Sep 2023 quarter, 46% of MSME originations were from semi-urban and rural region. Almost half (49%) of the Micro segments' origination comes from the semi-urban and rural areas while it is 39% in the Small segment (INR 1 to 10 Crores). One of the key factors towards this expansion is the improvement in credit profiles of MSMEs. Share of high risk (CMR 7-10) MSMEs has reduced to 13% in Jul-Sep 2023 quarter from 15% during the same period previous year. Although Medium (CMR 4-6) risk continues to have high share with 55% of MSMEs in this risk segment.

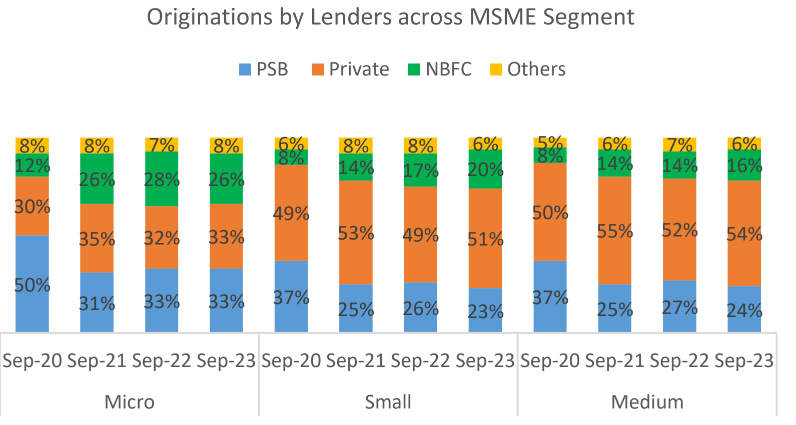
Sustained year-on-year growth in supply as compared with growth in demand

MSME Disbursement Amount (in Thousand Mn)



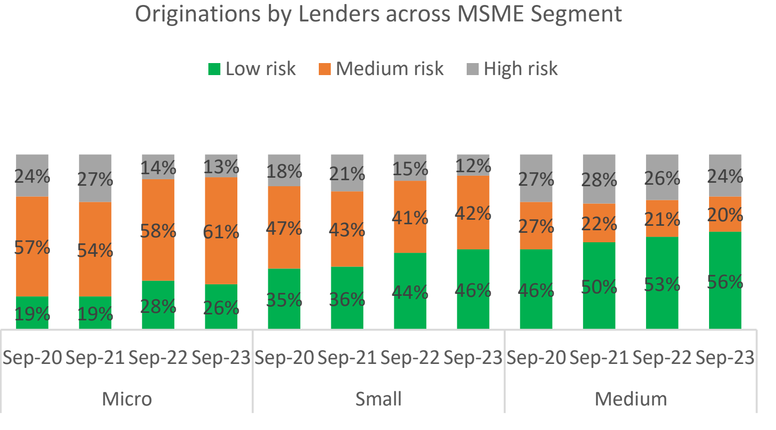
In the July-Sept 2023 quarter, MSME disbursements increased by 8.9% QoQ, reaching INR 2.43 trillion. This marks a substantial growth from INR 1.46 trillion in the same period of 2019. The peak disbursement was recorded in the Jan-Mar 2023 quarter at INR 2.89 trillion, with expectations for disbursements to return to similar levels in the near term. Given the current momentum, MSME disbursement growth is anticipated to remain robust moving forward.

NBFC growing its share in small and medium segment



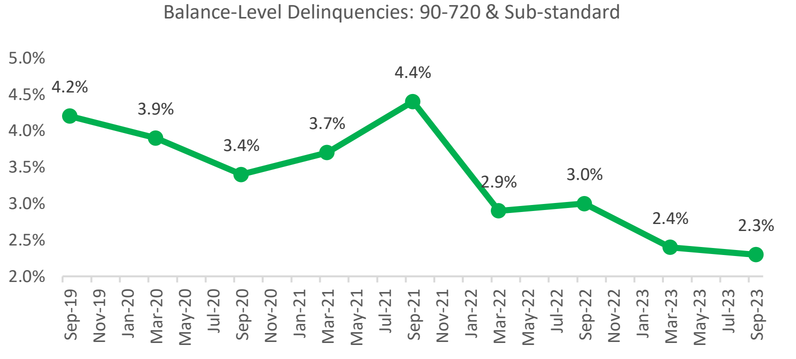
As per the data available, we can see that Private banks have a large share of originations and it continues to grow but it is important to note that NBFC is growing its share in small and medium segment. MSME credit demand at NBFCs (14% share of credit demand) grew fastest at 39% during this quarter.

Increase in share of low-risk segment signifies improved borrower profile at origination



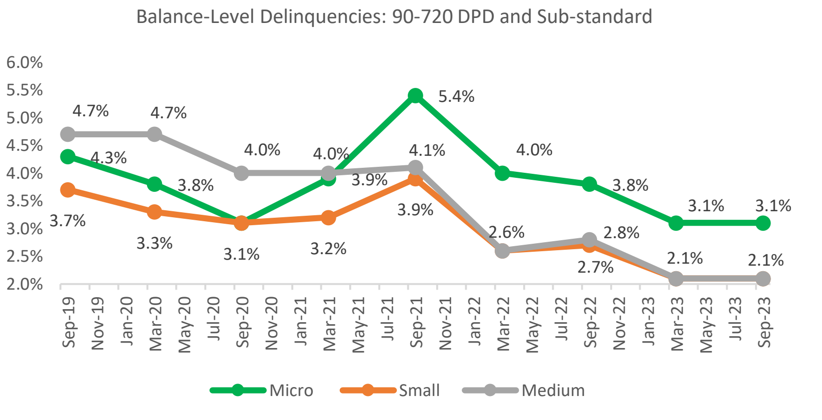
The credit quality of MSME customers has shown significant improvement over the observed period. The proportion of borrowers classified under the medium-risk segment has decreased notably, from 57% in September 2020 to just 20% in September 2023. Simultaneously, the share of borrowers in the low-risk segment has increased substantially, rising from 19% in September 2020 to 56% in September 2023. This shift highlights a notable enhancement in the creditworthiness of borrowers at the time of loan origination.

While the number speak for themselves, to ensure the growth of the sector and that the economy remains sustainable, the Ministry of MSMEs has undertaken various initiatives to foster MSMEs that value these goals. For example, the Credit Guarantee Scheme for Micro & Small Enterprises offer a 10% concession in annual guarantee fees and up to 85% guarantee coverage for female entrepreneur. Meanwhile, the SAMARTH initiative provides more than 7500 women from rural and sub-urban areas with skill development and market development assistance to encourage female entrepreneurship.



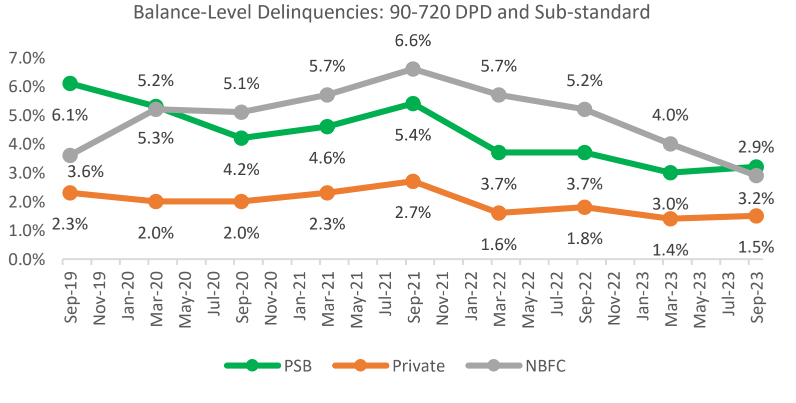
Credit performance has remained strong, with balance-level delinquencies reducing

During Jul-Sep 2023 quarter, overall balance-level delinquencies measured as 90 days-past-due to 720 days-past-due and those reported as "Sub -standard" have improved, and stand at 2.3%. This is the lowest delinquency rate in the last two years. Portfolio performance improved across all borrower segments as delinquency rate declined.



Improvement in delinquencies was observed across MSME segments

Further segment wide break-up shows improvement in delinquencies for 90 days-past-due to 720 days-past-due across micro, small and medium enterprises. The improvement in delinquencies across MSME segments is a clear indicator of improvement in credit quality of customers. The delinquencies in micro segment has improved from 5.4% in Sept 21 to 3.1% in Sept 23. Further, delinquencies in small and medium segment also improved to 2.1%.



Improved delinquencies observed year-on-year across lenders, PSBs and private banks have seen slight increase in the latest quarter

Further sub-segment wide break-up shows private banks have least delinquent portfolio across all lenders at 1.5%, while that of Public Sector Banks stands at 3.2%. It is important to note that delinquencies in NBFCs have shown tremendous improvement over the pas few quarters.

6. Government support of MSMEs through ECLGS during Covid:

Micro, small, and medium enterprises (MSMEs) are one of the driving forces propelling the Indian economy towards global greatness. As per the Udayam portal, MSMEs employ over two crore people, firmly establishing themselves as the bedrock of the economy. Aided partly by supportive and reformatory government initiatives and technological innovations, the MSME sector has grown exponentially, accounting for ~46% of India's total exports.

What government initiatives have supported MSME growth in India?

To support and foster MSME, the Ministry of MSME has launched and implemented various schemes offering credit support, new enterprise development, formalisation, technological assistance, infrastructural development, skill development and training, and market assistance to MSMEs through initiatives like:

1. Udyam Registration Portal

The government notified composite criteria for classifying an enterprise as micro, small, and medium based on investment and turnover. To ensure conformity to the new criteria and enhance the ease of doing business, the government launched the Udyam Portal to facilitate the permanent registration of MSMEs. There is no registration fee, and an enterprise is issued a digital certificate based on self-declaration. The Udyam certificate enables MSMEs to access several government initiatives such as:

2. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

The CGTMSE, operational under the Government of India and the Small Industries Development Bank of India (SIDBI), offers credit guarantees to help MSMEs access bank credit without the hassles of crushing collaterals or third-party guarantees. MSMEs can access collateral-free loans up to INR 5 Cr, with a guaranteed coverage of up to 85% for multiple loan categories under CGTMSE. The scheme has covered over 67 lakh beneficiaries in the first 22 years of its existence and has had a positive impact on six major areas in the MSE sector, viz., technology upgradation, skill degradation, market development, sustainability of the scheme, economic impact, and social impact. During January-November 2023, 12.50 lakh guarantees were approved, amounting to INR 1.46 Lakh Cr.

3. The Prime Minister Employment Generation Programme (PMEGP)

Established to create employment opportunities for MSMEs in India, the PMEGP provides loans and working capital — INR 25 Lakh for manufacturing and INR 10 Lakh for service sector MSMEs — through bank disbursal. The scheme is implemented at the national level by the Khadi and Village Industries Commission (KVIC) and at the state and district levels by State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs), and banks. Since its inception in 2008 and until 30 November 2023, over 9.29 Lakh micro-enterprises have been supported across the country with the disbursement of a Margin Money subsidy of INR 34,517 Cr, generating a total estimated employment for around 78.36 Lakh persons.

4. Raising and Accelerating MSME Performance (RAMP)

Launched in July 2022, under the aegis of the Ministry of MSME, the World Bank-assisted RAMP scheme aims to improve the access of MSMEs to both the global market and credit. RAMP aims to foster the sector by accelerating Centre-State collaboration in MSME promotion and development, Enhancing the effectiveness of existing Ministry of MSME schemes for technology upgradation, Strengthening the Receivable Financing Market for MSMEs, Enhancing the effectiveness of Credit Guarantee Trust for Micro & Small Enterprises (CGTMSE), and promoting guarantee for greening initiatives of MSEs, and women-owned MSEs, and Reducing the incidence of delayed payments to MSEs. An outlay of INR 6000 Cr has been assigned for five years to ensure the implementation. The scheme aims to benefit over 5.5 Lakh MSMEs.

About the company

SG Finserve Limited is a NBFC, formerly known as Moongipa Securities Limited previously offered a wide range of services, including broking, distribution, investment research, online trading, wealth management, investment banking, and insurance. However, the company ceased all operations and re-started its business on Sept 1, 2022. It now provides supply chain financing solutions for Indian conglomerates down to the lowest tier. Through a seamless tech platform solution, SGFL focuses in offering finance solutions to dealers, distributors, vendors, retailers, logistics providers, etc.

They specialise in supply chain financing for SME and MSMEs by partnering with large corporates, known as Anchors. They approach large OEMs who possess extensive vendor and distribution networks through which these Anchors sell their products. SG Finserve provides seamless support in the form of working capital credit to the distributors of these large corporates, which helps in facilitating growth for these corporates. They offer financial assistance to their vendors and distribution partners, empowering them to grow and succeed.

As of Q2FY25, Company has on boarded 37 anchors which includes names like TATA Group, AMNS India, Vedanta, Ashok Leyland, JSW-MG Motors, APL Apollo, Adani Group, Jindal Steel, Kajaria Ceramics, Bajaj Electricals, and Oppo, all of which are market leaders in their respective fields. Further they target to reach 75 anchors by the end of FY27. They are one of the first NBFCs to onboard Adani Copper Kutch, which is coming out with a 5 lac tonnes facility of copper. They will continue to focus on penetrating existing large anchors and target new anchors who are among the top 2 in their sectoral spaces.

Few of the companies SG Finserve Ltd has partnered with:

The Company is currently present in 14 locations across India, and will expand rapidly in the future.

SG Finserve Ltd PAN India presence.

SG Finserve Ltd is an NBFC specializing in providing financing solutions to channel partners such as dealers, distributors, retailers, and buyers of Indian corporations, with interest rates ranging from 10-13% per annum. By streamlining supply chain financing and optimizing the working capital cycle, SG Finserve Ltd ensures financial inclusion for Indian MSMEs through the innovative use of technology. SG Finserve Ltd offers wide range of services as follows:

Services Offerred:	
Products & Solutions	**Platform**
Dealer Financing	One-stop solution in the form of SG Finserve Ltd.
Retailer Financing	
Vendor Financing	Financing needs of all the parties involved in an entire supply chain
Transporter Financing	

Business Model

Company's financing solutions are crafted to benefit both large corporates and the MSMEs.

A. For the MSMEs, there is a struggle to access formal credit. Only 10% of them have access to formal credit. So SG Finserve Ltd helps them get financing.
B. For the large corporates, they help them to make the balance sheets leaner by reducing their debtors.

Business Model:

Apart from finance cost, company's other costs are controlled in a very well efficient - manner because of the business model in which they operate. The business team is divided into 2 teams.

First being an anchor team or the large corporate team which approaches the anchor and signs up MOU with them. That team is composed of a couple of individuals.

Further, there is another set of business team which approaches the prospective borrowers or the qualified leads that company receives from those anchors. That part of the business team is responsible mainly for the execution. So that is why their costs are controlled in a well-mannered manner.

Further, company do not have any distribution channel nor there are any incentives or any payouts given to the anchor. Thus, there is no commission cost regarding this. It is all direct sourcing. Hence, after finance cost, only major costs is employee and tech costs.

Underwriting process

The company is focused on building a resilient, long-term portfolio of high-quality assets. They employ a strong underwriting process designed to maintain stable and superior asset quality over time.

Underwriting Process:

SG Finserve get qualified leads of the dealers through their anchors.

↓

A letter of recommendation, recommending a dealer is received from the anchor.

↓

Relationship team approaches the dealer for product briefing and doing necessary onboarding.

↓

Basic details are auto fetched using PAN. Customer shares consent to pull out his/her data pertaining to GST and ITR. A credit risk assessment note is prepared.

↓

Each and every dealer distributor that is on boarded is met by the team in person before disbursement.

↓

There is a full-fledged report submitted that is the field report.

↓

Based on their credit assessment, company has a rejection rate of 40%.

One very key aspect to be noted here is that all the borrowers are on boarded through a top-down approach under the umbrella of Anchor.

As per the MOU, in case a dealer distributor delays or defaults, then anchor will cut off any supplies to this borrower in future till the time it receives confirmation from SG Finserve Ltd, that overdue has been cleared. The livelihood of that dealer distributor, is dependent on that anchor. And if he delays/defaults with SG Finserve, he will not get goods any longer, which implies that his livelihood will come to a halt. This is the key that company holds, which is present for each and every borrower. This is a **stop - supply agreement** that company has with every anchor.

In addition to this, company is also in the process of developing an AI-based monitoring tool, which will helps them in assessing the borrower for their continued creditworthiness and financial performance. Wherever there is excess funding, they do not shy away from rejecting and not to go ahead with sanctioning loan for that particular customer, to avoid giving any chance to borrower (from their end) for diversion of funds.

Upcoming Initiatives:

- They will soon launch 24/7 banking services, providing their clients with seamless, around-the-clock access for real-time payments and collections.
- An AI-driven monitoring tool is under development to streamline and help monitor existing loans & borrowers financial performance & operational conduct.

The Competitive Advantage:

- A One Stop Solution which provides fuels Holistic Growth of the Supply chain and corporates.
- **Providing Pan India Services**: The Company is currently present in 14 locations across India, and will expand rapidly in the future.
- **Tie-Ups with Top Companies**: SG Finserve has tie-ups with extensive dealership spread with companies such as APL Apollo Tubes Limited, APL Apollo Building Products Pvt. Ltd. Vedanta Limited, Hindustan Zinc Limited, BALCO and other reputed companies like Oppo, Redington, Ingram, etc. These companies have a vast supply chain that needs to be constantly funded to ensure that products reach in time.
- **Reliability for Funds**: The Company is registered with RBI and has partnered with top Indian Banks for fundraising through Working Capital and Term Loans.
- **100% Digital Platform**: The Company has deployed business enhancing IT solutions that allows them to provide customer experience. In addition, it allows them to expand the operations.

Key Risks to Investment:

- **Stagnation in Exports and Manufacturing**: While much of the newer Investments in the Manufacturing and logistical players is based on the hypothesis that the Manufacturing sector of India will flourish in the future. However, the sector has disappointed in prior business cycles, including the cycle after 2008-09 global economic crisis, as Indian manufacturers are generally not eager to compete with global competitors due to their inefficiencies.
- **High Exposure to Industry with larger Tie-Ups & higher business mix**: While till now the Supply chain financing company is majorly involved in the business cycle of APL Apollo Tubes, etc, a downturn in specific sector or industry could have significant impact on their earnings in future. The company however is gradually diversifying its business with rapidly tying up with multiple Anchors/ Corporates in various industries such as IT and peripherals, commodities, building material, Auto etc.

Peer Analysis:

Supply chain industry is divided mainly into three categories:

1. Banks: The banks operate within the range of around 9% to 10.5%, whereas when a particular larger bank approaches a client, they usually offer multiple range of products. A single bank would not have a pure focus on supply chain finance. So, SG Finserve Ltd is able to compete with some of these banks.

2. Larger NBFCs: Larger NBFCs such as Tata Capital, Aditya Birla Finance with whom SG Finserve is able to compete because have a pure play focus on supply chain finance with a lot of innovation on the kind of platform that they have built and the flexibility that they are able to offer. There is a limitation of risk appetite with every financial institution where there is space available for them and that is the reason they've been able to penetrate into the market.

3. Fintechs: FinTechs operate at an interest rate of 13% and upwards. Currently, SG Finserve Ltd is operating within a market segment of upto 13%.

State wise AUM bifurcation for FY24:

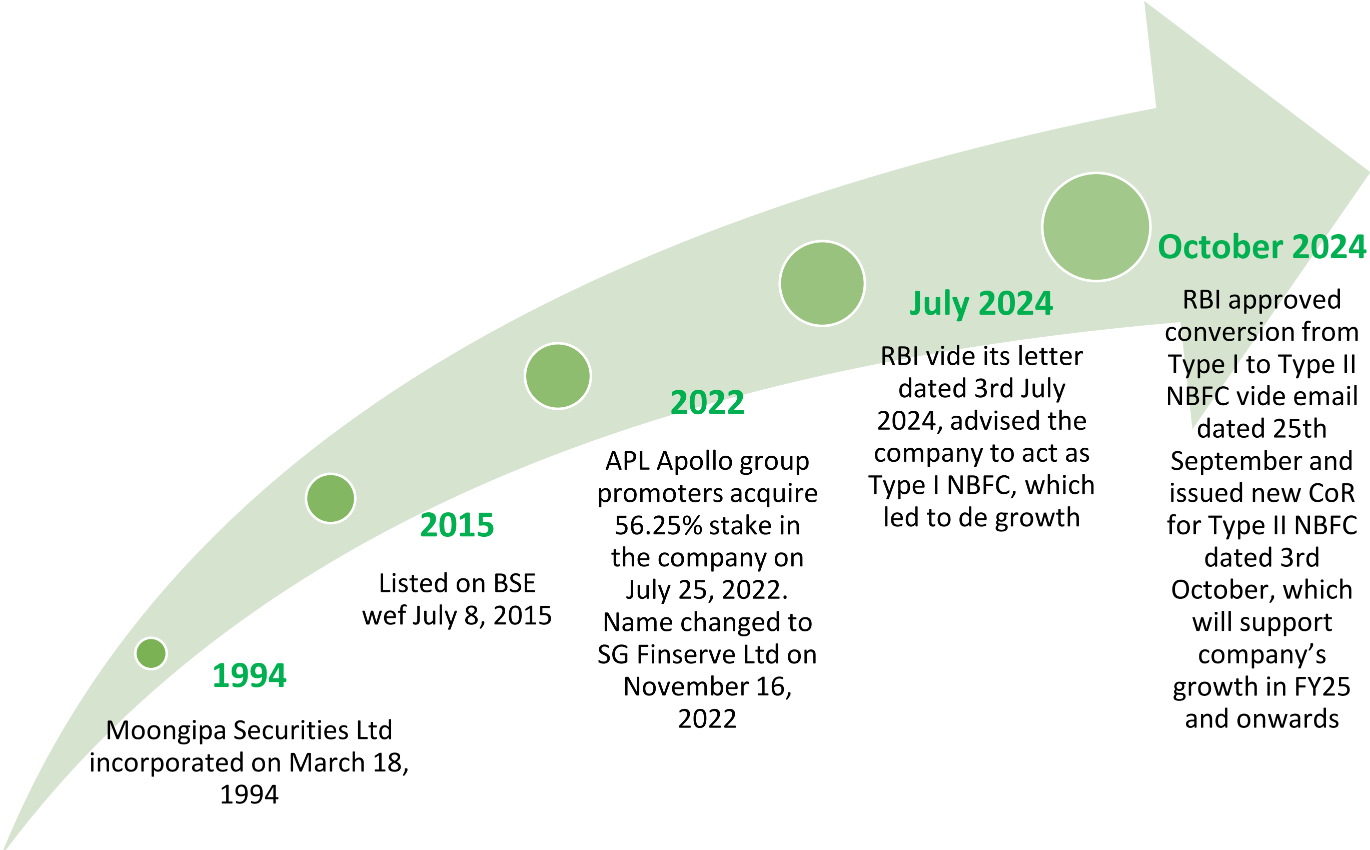
Particulars (INR Mns)	Loans o/s as on 31-Mar-24	%-age of Loan Book
State		
Andhra Pradesh	165.3	0.99%
Assam	30	0.18%
Bihar	14	0.08%
Chhattisgarh	271.6	1.62%
Delhi	3,646.90	21.80%
Goa	155.5	0.93%
Gujarat	607.6	3.63%
Haryana	785.8	4.70%
Himachal Pradesh	15.8	0.09%
Jammu and Kashmir	62.4	0.37%
Jharkhand	24.3	0.15%
Karnataka	2,174.60	13.00%
Kerala	642.50	3.84%
Madhya Pradesh	135.8	0.81%
Maharashtra	2,667.80	15.95%
Nagaland	0	0.00%
Punjab	13.7	0.08%
Rajasthan	577.1	3.45%
Tamil Nadu	1662.2	9.94%
Telangana	492.8	2.95%
Uttar Pradesh	1388.5	8.30%
Uttarakhand	756.7	4.52%
West Bengal	173.4	1.04%
Orissa	13.3	0.08%
Daman & Diu	252.6	1.51%
Total	**16,730.20**	**100%**

As can be seen, around 50% of their AUM during the FY24 came from Delhi, Karnataka, and Maharashtra.

Quarterly Historical:

Key Parameters (INR Mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Gross Disbursement	41,100	43,430	41,390	44,370	43,240	36,980
Number of Invoices Discounted				34,297	32,272	29,067
Loan Book	12,430	16,580	18,910	16,730	14,100	8,220
QoQ Growth (%)		*33.39%*	*14.05%*	*-11.53%*	*-15.72%*	*-41.70%*
Equity	5,990	7,590	7,810	8,060	8,400	8,560
Bank Debt	6,470	9,100	11,100	8,800	6,140	Nil
Unsecured Loan from Promoter	Nil	Nil	Nil	Nil	Nil	Nil
Cash					300	300
Operating Income	348	439	525	590	440	310
Net interest Income	235	283	344	380	310	310
PBT	220	249	299	320	260	210
RoA (%)	6%	5%	6%	6%	5%	7%
Gross NPA	Nil	Nil	NIL	Nil	Nil	Nil
RoE (%)	10%	10%	11%	12%	9%	7%

Key Events



- Moongipa Securities Ltd was **incorporated on March 18, 1994** offering a wide range of services, including broking, distribution, investment research, online trading, wealth management, investment banking, and insurance.
- Company received **confirmation for direct listing** of equity shares at BSE effective **from July 8, 2015**.
- In 2019-20, the Company received a **licensed** from Reserve Bank of India dated **16 May 2018 for doing a Non-Banking Financial Activity**.
- **On July 25, 2022**, the Board of the Company has affected the **change in control and management** in the Company, by appointing the **Mr. Rahul Gupta and Mr. Rohan Gupta (who are also promoters of APL Apollo group)** as the Directors of the Company and the acquisition of 56.25% Equity Shares.
- Subsequent to the change in ownership, management and control of the company, the Board of Directors has proposed **change in Objects** of the company to carry on the business of lending, credit and leasing facility.
- The Company **began lending operations** in the Company effective on **September 01, 2022**.
- The **name of the company was changed** from Moongipa Securities Ltd to SG Finserve Ltd **on November 16, 2022**.
- RBI vide its letter **dated 3rd July 2024, returned the application of the company for conversion from Type I to Type II and advised the company to act as Type 1 NBFC**, due to which SG Finserve Ltd had to reduce their loan book and repay public deposits and borrowings, which **led to de growth** in the company.
- RBI vide **email dated 25th September 2024 approved the conversion from Type I to Type II NBFC**. Further, company **received new Certificate of Registration dated 3rd October 2024** as NBFC - Type II. This regulatory clearance would lead to mega fold jump in book.

Q2FY25 Performance:

Particulars (Figures in mn)	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ	H1FY25	H1FY24	YoY
Interest Income	307.4	429.1	-28.36%	428.4	-28%	735.8	769.8	-4%
Fee Income	1.5	9.5	-84.21%	7	-79%	8.5	17.2	-51%
Operating Income	308.9	438.7	-29.59%	435.4	-29%	744.3	787.1	-5%
Other Income	0	0	0	10.6	-100%	0	0	0
Total Income	308.9	438.7	-29.59%	446	-31%	744.3	787.1	-5%
Interest expenses	0	146	-100.00%	122.6	-100%	122.6	251.6	-51%
Net Interest Income	308.9	292.7	5.53%	312.8	-1%	621.8	535.5	16%
Operating expenses	69	43.3	59.35%	60.8	13%	129.8	66.4	95%
Profit before Provision & Tax	239.9	249.4	-3.81%	262.6	-9%	492	469.1	5%
Impairment on Financial Assets	33.2	16.6	100.00%	-	0	22.7	27.3	-17%
Profit before Tax	206.7	232.8	-11.21%	262.6	-21%	469.3	441.8	6%
Income Tax	65.5	57.9	13.13%	68.7	-5%	134.2	110.5	21%
Profit after Tax	141.2	174.9	-19.27%	193.9	-27%	335.1	331.3	1%
Loan Book EOP	8220	16580	-50.42%	14100	-42%	8220	16580	-50%

Q2FY25 Concall Highlights:

Guidance

- Management has guided the loan book to reach INR 60 bn by FY27 v/s INR 10.68bn as on 14th October 2024.
- Out of INR 60 bn in FY27, group exposure is not expected to exceed 40% of total exposure.
- Loan book is projected to close at 25 bn by the end of FY25.
- ROE is expected to be within the range of 18 to 20% by FY27 against 8% in Q2FY25.
- NIMs are expected to be within the range of 6 - 6.5%.
- Management is confident on company’s growth going forward, driven by ramp up of loan book.
- Asset quality continues to remain strong with NIL GNPA during the Q2FY25.

Highlights

- SG Finserve Ltd is a one - stop supply chain funding company.
- Company identified a massive gap in the industry, which is the lack of working capital for SME traders, which restrict them from growing their business rapidly and is working towards filling that gap.
- Initially, Company’s target was to address the group channel partners associated with Apollo Tubes and Apollo Pipes.
- But today, apart from Apollo Group set of distributors, SG Finserve Ltd is working with renowned groups like AMNS, Vedanta, Tata Group, Oppo, Kajaria, etc.
- Company has developed certain proprietary softwares in house which include scoring and rating model, which helps them in credit assessment on new customers.
- SG Finserve plans to launch their 24/7 banking from the next calendar year onwards. They will be the first NBFC to have 24/7 banking.
- Currently, In the underwriting team consists of about 12 people, with 4 people in collections team and 18 in business team. Total strength of the company is about 61 people, including other functions such as legal and compliance, operations, IT, HR and finance.
- Company plans to open up new locations and adding people as they are ramping up their business.

About the management

Name	Designation	About
Mr. Rahul Gupta and Mr. Rohan Gupta	Promoter	Mr. Rahul Gupta and Mr. Rohan Gupta acquired 56.25% stake in SG Finserve on August 20, 2021. Sons of Mr. Sanjay Gupta, who is the Chairman & Managing Director of APL Apollo Steel Pipes and has more than 30 years of experience in diverse steel industry segments.
Sorabh Dhawan	CEO	With around 17 years of experience, Sorabh Dhawan has worked with leading Banks (including Kotak Bank and Aditya Birla Capital) and Financial Institutions in various leadership roles. He has extensive insight into Corporate Lending, spanning across functions including Business, Credit, Technology, and Operational initiatives.
Sahil Sikka	CFO, COO	With around 14 years of experience, Sahil Sikka has held leadership roles in leading Banks (such as Kotak Bank, HDFC and Aditya Birla Capital) and Financial Institutions. His expertise spans across Business and Credit in Corporate and Investment Banking and has won many accolades such Young Achiever and top business official during his tenor with with various large banks along with Best CFO - Banks and FIs in India CFO Awards 2024.
Abhishek Mahajan	CRO	With over 20 years of hands-on experience in the credit department, Abhishek Mahajan has honed his skills through various roles at renowned institutions such as IDBI Bank, ICICI Bank Limited, and Kotak Mahindra Bank.
Ritu Nagpal	CS & Compliance officer	With over 10 years of professional experience, Ritu Nagpal has worked with prominent CA firms, listed companies, and NBFCs in India. Her expertise lies in various domains including Company Law Compliances, Secretarial Audit, RBI related matters, and other regulatory affairs. Ritu's expertise extends to handling RBI compliances for various types of NBFCs, including Systemically Important (SI) and Non-Systemically Important (NSI) NBFCs, as well as Middle layer and Base layer NBFCs.
Ankush Aggarwal	Chief Experience Officer	Ankush Aggarwal has around 19 years of expertise in client servicing, digital journey, and automation for Corporate Banking & SME Segments in Kotak & IndusInd Bank. His in-depth understanding of customer needs allows him to craft customer-centric journeys, providing clients with a truly enriching experience.
Vivekanand Tiwari	Head Operations	With over 12 years of extensive experience across various sectors including Banks, NBFCs, such as ICICI Bank, Axis Bank and IndusInd Bank. His expertise encompasses a wide range of areas such as Credit Administration & Operations, Customer Relationship Management, Product Development, Policy and Process Improvement, and Portfolio Management.

Key Financials

P&L (INR Cr)	FY23	FY24	FY25E	FY26E	FY27E
Interest income	41.45	189.72	191.33	410.69	694.62
Interest expense	8.42	63.96	50.21	183.20	310.07
NII	**33.03**	**125.76**	**141.13**	**227.49**	**384.55**
Non-interest income	0.51	-	-	-	-
Net revenues	**33.54**	**125.76**	**141.13**	**227.49**	**384.55**
Operating expenses	4.59	14.80	18.13	21.31	24.09
Depreciation	0.03	0.17	0.50	1.08	1.46
Provision for ESOP	-	2.97	3.00	2.54	1.27
Total Opex	**4.62**	**17.94**	**21.63**	**24.93**	**26.82**
PPOP	**28.92**	**107.82**	**119.50**	**202.57**	**357.73**
Provisions	**3.90**	**2.79**	**3.81**	**6.24**	**8.36**
PBT	**25.02**	**105.03**	**115.69**	**196.33**	**349.37**
Tax	6.61	26.45	29.12	49.42	87.94
PAT	**18.41**	**78.58**	**86.57**	**146.91**	**261.44**

Balance sheet	FY23	FY24	FY25E	FY26E	FY27E
Share capital	550.81	725.64	922.52	1,175.64	1,175.64
Reserves & surplus	22.27	80.74	167.31	314.22	575.65
Net worth	**573.08**	**806.38**	**1,089.83**	**1,489.86**	**1,751.30**
Borrowings	492.98	956.79	1,476.96	2,570.00	4,311.32
Short term provisions	4.02	7.19	10.48	16.72	25.09
Other liability	9.15	9.05	14.91	21.11	30.23
Total liabilities	**1,079.23**	**1,779.41**	**2,592.17**	**4,097.69**	**6,117.93**
Fixed assets	1.07	1.92	3.01	3.52	4.12
Advances	975.54	1,673.01	2,500.00	4,000.00	6,000.00
Deferred tax asset	1.01	1.76	-	-	-
Cash & bank balance	91.40	77.23	67.43	72.45	92.08
Other assets	10.21	25.50	21.73	21.73	21.73
Total assets	**1,079.23**	**1,779.41**	**2,592.17**	**4,097.70**	**6,117.93**

Key Ratios

Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth (%)					
NII		280.75%	12.22%	61.20%	69.04%
PPOP		272.82%	10.84%	69.51%	76.60%
PBT		319.83%	10.15%	69.70%	77.96%
PAT		326.91%	10.17%	69.70%	77.96%
Advances		71.50%	49.43%	60.00%	50.00%
Borrowings		94.08%	54.37%	74.01%	67.76%
Spread (%)					
Cost of Borrowings	1.7%	8.8%	8.5%	8.4%	8.3%
Yields	4.2%	14.3%	12.7%	12.6%	13.9%
NIM	3.4%	9.5%	5.0%	6.3%	6.9%
Asset quality (%)					
Gross NPAs	0%	0%	0%	0%	0%
Net NPAs	0%	0%	0%	0%	0%
Return ratios (%)					
RoE	3.21%	11.39%	9.1%	11.4%	16.1%
RoA	1.71%	5.50%	4.0%	4.5%	5.2%
Per share (Rs)					
EPS	5.04	15.32	13.16	22.33	39.73
BV	157	157	166	226	266
ABV	157	157	166	226	266
Valuation (x)					
P/E	80.5	26.5	30.9	18.2	10.2
P/BV	2.6	2.6	2.5	1.8	1.5
P/ABV	2.6	2.6	2.5	1.8	1.5

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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