

Stellar Performance

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) | 555/ 325 |
| Avg Daily Vol (in 000') | 13,740 |

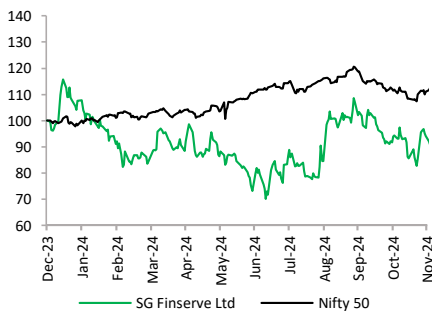
Shareholding Pattern %

(As on September, 2024)

| | |
|-----------------|--------|
| Promoters | 48.38% |
| Public & Others | 51.62% |

| Stock Performance (%) | 1m | 6m | 12m |
|-----------------------|-------|------|-------|
| SG Finserve Ltd | -11.6 | -7.4 | -28.2 |
| Nifty 50 | -4.7 | -6.5 | 7.6 |

SG Finserve Ltd Vs Nifty 50



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SG Finserve Ltd has posted a 67.73% YoY jump in net profit at INR 236.9 mn against our estimate of INR 214.9 mn (up 9.4% QoQ). Provision for the quarter was at INR 29.8 mn vs. INR 33.2 mn in Q2FY25 (down 10.15% QoQ). NII growth of the company was strong at 26.49% QoQ at INR 388.9 mn, inline with our estimate of INR 388 mn, and was up by 17.85% YoY. Asset quality of the company remains strong with GNPA and NNPA ratios of 0%. Further, they reported PPOP of INR 351.4 mn, higher than our estimate of INR 346.8 mn (v/s INR 239.9 mn for Q2FY25) (v/s INR 298.7 mn for Q3FY24). PBT came in at INR 321.5 mn, against our estimate of INR 316.8 mn (v/s INR 206.7 mn for Q2FY25) (v/s INR 289.4 mn for Q3FY24). Loan Book grew by 91% QoQ at INR 15.68 bn (-17.1% YoY).

Strong operational performance: NII growth for the quarter was at 26.5% QoQ/ 17.85% QoQ to INR 388.9 mn, which was inline with our estimates. NII growth was driven by strong growth in loan book during the quarter. The resolution of RBI regulatory issues in the Q2FY25, helped the company to grow at faster pace.

Asset Quality remains strong : The GNPA and NNPA ratios remains strong at 0%, driven by strong underwriting procedures adopted by the company. They acknowledged potential future NPAs but deems risks minimal due to close anchor relationships and short loan durations.

Disbursement growth picks up: Disbursement registered a growth of 25% QoQ at INR 46,250 mn. The strong growth in disbursements was again attributable to the resolution of RBI regulatory issues in the Q2FY25. Further, strong growth in disbursements led to 91% sequential growth in their loan book. Going forward, the company expects the disbursement growth momentum to continue. They welcomed new anchor clients during the quarter, and integrated with an additional bank for smoother payments, which is expected to support their growth plans.

Valuation and View: SG Finserve Limited reported strong financial performance in Q3FY25 in terms of operational parameters like profitability and asset quality among others. Further, their disbursement growth has picked up in Q3FY25. We expect the disbursement growth momentum to continue in coming quarters, owing to resolution of RBI regulatory issues in the Q2FY25. The company has set a loan book target of INR 25 bn by FY25, INR 40 bn by FY26, INR 60 bn by FY27. Despite potential future NPAs and competition, we expect asset quality to remain strong going forward. We maintain our positive outlook on the company. We have BUY rating on the stock and a TP of INR 783 based on 2.5 x of ABV FY27E, giving an upside of 99%.

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 |

Q3FY25 - Quarterly Performance

(In INR Mn)

| Quarterly Result Update (INR Mn) | Q3FY25 | Q2FY25 | Q3FY24 | Q-o-Q | Y-o-Y |
|----------------------------------|--------------|--------------|--------------|---------------|---------------|
| Interest Income | 400.5 | 307.4 | 511.0 | 30.29% | -22% |
| Interest Expended | (11.7) | - | (181.1) | 100.00% | -93.55% |
| Net Interest Income | 388.9 | 307.4 | 330.0 | 26.49% | 17.85% |
| Processing Fees & Other Charges | 24.4 | 1.5 | 13.6 | 1526.77% | 79.37% |
| Operating Income | 413.2 | 308.9 | 343.6 | 33.77% | 20.28% |
| <u>Operating Expenses</u> | (61.9) | (69.0) | (44.9) | -10.29% | 37.96% |
| Employee Expenses | (29.9) | (38.9) | (25.6) | -23.18% | 16.64% |
| Other Operating Expenses | (32.0) | (30.1) | (19.3) | 6.35% | 66.30% |
| PPOP | 351.4 | 239.9 | 298.7 | 46.44% | 17.62% |
| Provisions | (29.8) | (33.2) | (9.3) | -10.15% | 220.47% |
| PBT | 321.5 | 206.7 | 289.4 | 55.53% | 11.10% |
| Tax Expenses | (84.7) | (65.5) | (72.9) | 29.22% | 16.14% |
| Net Profit | 236.9 | 141.2 | 216.5 | 67.73% | 9.40% |

Concall KTAs:

Guidance

- Company aims to achieve Loan Book of INR 25 bn by FY25, INR 40 bn by FY26, INR 60 bn by FY27.
- They have an ROE target of 18-20% with an ROA of 4 - 4.5%.
- They further plan to venture into retailer financing next fiscal year, starting with reputed large distributors.
- They are considering raising INR 5 bn through NCDs, with the rating already secured.
- Debt to equity ratio will be maintained at a maximum of 3:1.

Highlights

- Company added 3 new anchors during the Q3FY25, viz: Whirlpool, Ingram, and Polycab, taking the anchor count to 40.
- Company's new product 24/7 banking is set to launch on February 1st, 2025.
- Company's NII rose to INR 388.9 mn, up 26.5% QoQ and 17.85% YoY.
- Loan Book expanded robustly to INR 15.68 bn (+91% QoQ).
- Gross Disbursements climbed to INR 46,250 mn, reflecting a 25% rise QoQ.
- Company's asset quality remained strong with a GNPA/ NNPA of 0%.
- They acknowledged potential future NPAs but deems risks minimal due to close anchor relationships and short loan durations.
- Company ROA stood at 7.86% annualized with ROE of 9.54% annualized.
- In the current quarter, company have raised bank debt of INR 7500 mn from HDFC Bank, Axis Bank, Yes Bank, Bank of Baroda, Bajaj Finserve and RBL Bank.
- Company secured equity commitments for an additional INR 4500 mn through share warrants. Out of this, INR 1120 mn stands received in Oct 24. They expect INR 880 mn will be received in Q4FY25. Balance funds of INR 250 mn will be received in the next FY.
- They received credit rating of AA/A1+ from two reputed rating agencies- CRISIL Ratings and ICRA.
- Average Loan Book churn days were at 36.

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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