India Ratings Revises Outlook on SBFC Finance's NCDs & Bank Loan Facilities to Positive; Affirms Existing Debt at 'IND AA-'; Rates Additional Limits

Sep 30, 2026 | SBFC Finance Limited | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has revised the Outlook on SBFC Finance Limited's (SBFC) non-convertible debentures (NCDs) and bank loan facilities to Positive from Stable, while affirming long-term debt rating at 'IND AA-'. The detailed rating actions are as follows:

Details of Instruments

Instrument Type	Regulator of Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (INR million)	Rating Assigned with Outlook/Watch	Rating Action
Bank loan facilities	RBI	-	-	-	10,000	IND AA-/Positive	Assigned
Non-convertible debentures*	Refer ISIN annexure	-	-	-	5,000	IND AA-/Positive	Affirmed; Outlook revised to Positive
Bank loan facilities	RBI	-	-	-	50,000	IND AA-/Positive	Affirmed; Outlook revised to Positive

*Details in annexure

Analytical Approach

Ind-Ra continues to take a standalone view of SBFC to arrive at the ratings.

Detailed Rationale of the Rating Action

The Outlook revision reflects SBFC's expanding franchise, which is supported by a diversified loan book across geographies, healthy internal accruals, a diversified funding profile, and adequate capitalisation. The company benefits from SBFC's focused product approach, including a granular and largely secured loan portfolio, which is supported by defined underwriting standards.

However, the ratings are constrained due to SBFC's moderate seasoning, wherein the asset quality stability through the cycle, along with the stability of the existing senior management, after the recent transitions, needs to be monitored.

List of Key Rating Drivers

Strengths

- Well-diversified branch network supporting granular secured assets
- Healthy profitability buffers
- Adequate capitalisation to support franchise growth
- Diversified borrowing profile

Weaknesses

- Stable asset quality; however, seasoning needs to be established

- Senior management stability, a monitorable

Detailed Description of Key Rating Drivers

Well-Diversified Branch Network Supporting Granular Secured Assets: SBFC is focused on scaling its core lending franchise, supported by significant growth opportunities within its existing product segments and customer base. The company has strengthened its franchise through a steady expansion of its branch network, increasing the total number of branches to 256 as of 1QFY27 (FY26: 251; FY25: 205), spanning 18 states and two union territories, covering 201 cities in India. This expanding geographic footprint supports business diversification, enhances customer reach in underserved markets, and provides a strong platform for sustaining growth in the granular retail lending portfolio. SBFC has indicated a measured approach to branch expansion in FY27, with an aim to add 10-15 branches. As per the management, the company's focus is likely to remain on improving the productivity and profitability of the recently opened branches, before undertaking further expansion.

SBFC's loan portfolio is granular in nature, primarily focusing on two key products: loan against property (LAP), catering to micro, small, and medium enterprises (MSMEs), and loans against gold (LAG). At end-June 2026, the average ticket size of secured MSME loans and LAG stood at INR1.1 million and INR0.1 million, respectively. The company focuses on traders and retail customer profiles in its MSME segment, with ticket sizes less than INR3 million and a loan-to-value ratio of less than 70%. As of 1QFY27, SBFC's AUM stood at INR119.2 billion (FY26: INR112.7 billion; FY25: INR87.5 billion), comprising a co-origination book of INR17.2 billion and the balance of its own book. The composition of secured MSME loans or LAP reduced to 78% of the AUM in 1QFY27 (FY26: 79%; FY25: 83%), while LAG composition increased to 22% (21%, 17%), driven by increased gold prices.

SBFC's gold loan book is efficient, with an AUM of about INR113 million per branch at end-June 2026. Around 90% of the secured MSME book is backed by residential properties as collateral. SBFC's in-house sourcing drives better retention rates. Despite the recent changes in the guidelines for gold loans, SBFC has adapted well to the new norms, ensuring minimal impact on its business operations. The company intends to maintain a conservative loan-to-value (LTV) approach for gold loans amid the changing regulatory norms.

Healthy Profitability Buffers: SBFC's return on average AUM (as per Ind-Ra's calculation methodology) remained healthy at 4.5% in 1QFY27 (FY26: 4.5%; FY25: 4.4%) and its return on tangible equity improved to 14.8% (14.2%; 12.7%), supported by increased leverage. The improvement in profitability over the past 36 months was driven by a shift in business focus towards LAG, which is a higher yielding product. The increased proportion of gold loans with higher yields resulted in a rising trend in yields, despite a focus on better CIBIL score customers in the LAP segment.

The profitability is also being driven by SBFC's ability to reduce borrowing costs as per Ind-Ra's calculation methodology (1QFY27: 7.6%; FY26: 8.6%; FY25: 9.1%). The cost-to-income ratio also stands at reasonable levels of 36.4% in 1QFY27 (FY26: 36.2%; FY25 40%), which is attributable to the loan book growth and improving scale of operations. However, this ratio is likely to decline with the scaling up of the franchise. SBFC carries a goodwill of about INR2.60 billion from acquiring Karvy Financial Services Limited's network in FY18, which is subject to impairment annually. Any adverse outcome in this regard could impact profitability.

Adequate Capitalisation to Support Franchise Growth: SBFC's capitalisation profile remained adequate, providing sufficient support for scaling up its franchise in the secured asset segment. The company's tangible net worth stood at INR35.8 billion in 1QFY27 (FY26: INR34.4 billion; FY25: INR29.3 billion). The leverage (debt/tangible equity) inched up to 2.47x in 1QFY27 (FY26: 2.08x; FY25: 1.79x). The company's loan book grew to INR104.8 billion in 1QFY27 (FY26: INR98.1 billion; FY25: INR75.0 billion). The company has internally set a cap on leverage at 3.0x-3.5x, and aims to grow at a CAGR of 20%-25% over FY27-FY29.

Diversified Borrowing Profile: At end-June 2026, SBFC raised funds through multiple sources, including bank loans (56.6%), external commercial borrowings and foreign currency non-residents (13.5%), co-origination (13.5%), non-convertible debentures (NCDs; 7.8%), and the remaining balance from securitisation, development financial institutions, and financial institutions. The company has diversified its lender base across private and public sector banks to drive further borrowings, and had relationships with around 36 lenders.

Stable Asset Quality; However, Seasoning Needs to Be Established: SBFC commenced lending operations in 2017 and has demonstrated a stable asset quality track record across business cycles. SBFC's gross non-performing assets (GNPA) stood at 2.66% in 1QFY27 (FY26: 2.61%; FY25: 2.74%). While certain states, particularly in Southern India, have reported higher delinquency levels, the overall asset quality profile remains stable. SBFC's credit cost on average advances (as per Ind-Ra's calculation methodology) increased to 1.64% in 1QFY27 (FY26: 1.45%; FY25: 1.11%). Given the limited historical performance of some geographies, the seasonality and long-term performance trends are yet to be fully established.

Secured MSME loans continue to be the main focus area for SBFC. From FY23 to 1QFY27, the proportion of customers with a CIBIL score of more than 700 increased to 88.6% from 82.3%. Within the MSME segment, SBFC continues to focus on ticket size of up to INR3 million. In 1QFY27, a ticket size of less than INR3 million contributed about 96% to the LAP mix. The company discontinued disbursements of loans below INR0.7 million about a year ago, as lower-ticket loans typically entail higher asset quality pressures. This strategic shift is likely to support portfolio quality.

SBFC has introduced artificial intelligence (AI)-based hybrid calling solutions to enhance the quality of customer interactions and enable transcript-based monitoring for the collections process. SBFC's collection efficiency trend has been satisfactory, considering the target segment and ticket size in which it operates. Its provision coverage ratio improved to 42.22% in 1QFY27 (FY26: 41.64%; FY25: 45.7%).

Senior Management Stability, a Monitorable: During FY26-1HFY27, SBFC experienced elevated attrition at the senior management level, including key positions such as head of credit and head of internal audit (who left due to personal reasons), chief collection officer and chief operations officer (who left to pursue new professional opportunities) and chief risk officer and chief financial officer (who left to pursue new entrepreneurial/professional opportunities). These vacancies were promptly addressed. The positions of chief risk officer and head of internal audit were filled through external hiring. The head of credit position was upgraded and replaced by the chief credit officer, who was also appointed through external recruitment. The chief operations officer position was transitioned to an internal leadership role, with an existing senior executive promoted and appointed as the head of operations. Similarly, the position of the chief financial officer was filled internally. The agency also noted the re-designation of Aseem Dhru as the executive vice chairman for a term of five years, given his continued active involvement in the company's operations.

While the number of changes in the senior management warrants ongoing monitoring for stability, the presence of a well-established second line of management, along with an institutionalised approach across functions, has ensured minimal impact on the company. SBFC is backed by the Clermont Group, which held 52.3% stake at the end of June 2026. SBFC's board of directors consists of nine members, comprising four independent directors with varied industry experience, three investor nominee directors, one executive director and a managing director and a chief executive officer. Mahesh Dayani, who had been serving as the chief business officer of SBFC since 2017, was appointed as the managing director and chief executive officer, effective from 1 April 2026.

Liquidity

Adequate: At the end of June 2026, SBFC had an unencumbered bank balance and liquid investments of INR18.64 billion, which were adequate to meet debt outflows worth INR12.04 billion, including principal and interest repayments between July 2026 and September 2026, even in the case of nil collections. As per the behavioural asset-liability management statement at the end of June 2026, there were no negative cumulative mismatches in the up-to-one-year bucket. Also, as per Ind-Ra's stress test, SBFC's asset-liability statement remained matched in the up-to-one-year buckets. According to the management, the company intends to maintain liquidity equivalent to outflows for three months. Ind-Ra expects SBFC to manage its liquidity prudently with staggered payments to avoid the possibility of bulk repayments.

Rating Sensitivities

Positive: Developments that could, collectively, lead to a positive rating action are:

- significant growth in the scale of operations, along with consistently superior asset quality through the cycle
- incremental venturing into product diversification and scaling it sizably
- maintaining capital and profitability buffers

Negative: Developments that could, individually or collectively, lead to a negative rating action are:

- any substantial decline in the operating profit buffers due to a rise in credit cost or competitive pressures on margins,
- a weakened liquidity profile in the form of gaps in the asset-liability maturity profile without sufficient contingent liquidity buffers,
- the leverage exceeding 4.0x on a sustained basis over the medium term

Any Other Information

Not applicable

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on SBFC, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

SBFC is a non-deposit taking systemically important non-banking financial company registered with the Reserve Bank of India and is classified under mid-layer category. It began operations in September 2017 after acquiring the secured retail portfolio, including branch infrastructure and staff, from Karvy Financial Services. The company primarily provides secured MSME loans, LAP, and LAG. At end-June 2026, the entity had 256 branches in India.

Key Financial Indicators

Particulars (INR billion)	1QFY27	FY26	FY25
Tangible assets	127.2	108.0	83.3
Tangible equity	35.8	34.4	29.3
Net profit/loss	1.3	4.5	3.5
Return on average tangible assets (%)	4.4	4.7	4.6
Equity/assets (%)	28.2	31.9	35.1
Debt/tangible equity	2.5	2.1	1.8
GNPA (%)	2.7	2.6	2.7
Source: SBFC, Ind-Ra Note: As per Ind-Ra's calculation methodology			

Status of Non-Cooperation with Previous Rating Agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook					
	Rating Type	Rated Limits (INR million)	Current Rating	16 April 2026	26 May 2025	12 May 2025	12 June 2024	15 December 2023	19 April 2023
Non-convertible debentures	Long-term	5,000	IND AA-/Positive	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND A+/Stable
Bank loan facilities	Long-term	60,000	IND AA-/Positive	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND A+/Stable

Disclosure on instruments / activities and names of regulators:

A list of products/activities or ratings of instruments falling under the purview of various financial sector regulators (FSRs) along with the names of respective FSRs has been duly disclosed by Ind-Ra on its website. A link to the same has been provided below for ready reference:

Rating Activities

Note: Kindly note that for activities or instruments falling under the purview of FSRs other than SEBI, the grievance/dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Bank wise Facilities Details

The details are as reported by the issuer as on (30 Sep 2026)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	International Finance Corporation	ECB	4548.5	IND AA-/Positive
2	Kotak Mahindra Bank	ECB	2263.75	IND AA-/Positive
3	State Bank of India	FCNB - 10	4200	IND AA-/Positive
4	Aditya Birla Finance Limited	Term Loan	106.67	IND AA-/Positive
5	AU Small Finance Bank Limited	Term Loan	1406.25	IND AA-/Positive
6	Axis Bank Limited	Term Loan	937.48	IND AA-/Positive
7	Axis Bank Limited	Term Loan	374.95	IND AA-/Positive

8	Axis Bank Limited	Term Loan	374.95	IND AA-/Positive
9	Bandhan Bank	Term Loan	3000	IND AA-/Positive
10	Canara Bank	Term Loan	899.98	IND AA-/Positive
11	Canara Bank	Term Loan	475	IND AA-/Positive
12	Mahindra & Mahindra Financial Services Limited	Term Loan	50	IND AA-/Positive
13	South Indian Bank	Term Loan	812.37	IND AA-/Positive
14	State Bank of India	Term Loan	3376	IND AA-/Positive
15	State Bank of India	Term Loan	6000	IND AA-/Positive
16	Yes Bank Ltd	Term Loan	300	IND AA-/Positive
17	Yes Bank Ltd	Term Loan	140	IND AA-/Positive
18	Bandhan Bank	Term Loan - 1	1124.91	IND AA-/Positive
19	Canara Bank	Term Loan - 1	66.36	IND AA-/Positive
20	Dhanlaxmi Bank	Term Loan - 1	343.67	IND AA-/Positive
21	IDBI Bank	Term Loan - 1	416.65	IND AA-/Positive
22	IDBI Bank	Term Loan - 1	416.65	IND AA-/Positive
23	Indian Bank	Term Loan - 1	82.07	IND AA-/Positive
24	Karnataka Bank Ltd	Term Loan - 1	418.74	IND AA-/Positive
25	South Indian Bank	Term Loan - 1	27.21	IND AA-/Positive

26	Woori Bank	Term Loan - 1	637.5	IND AA-/Positive
27	Bandhan Bank	Term Loan - 2	1749.94	IND AA-/Positive
28	Canara Bank	Term Loan - 2	578.23	IND AA-/Positive
29	Indian Bank	Term Loan - 2	137.72	IND AA-/Positive
30	Yes Bank Ltd	Term Loan - 2	66.67	IND AA-/Positive
31	Karur Vysya Bank	Term Loan - 2 Tranche 1	186.65	IND AA-/Positive
32	Karur Vysya Bank	Term Loan - 2 Tranche 2	186.65	IND AA-/Positive
33	AU Small Finance Bank Limited	Term Loan - 3	65.63	IND AA-/Positive
34	HDFC Bank Limited	Term Loan - 3	125	IND AA-/Positive
35	Yes Bank Ltd	Term Loan - 3	667.5	IND AA-/Positive
36	Bajaj Finance	Term Loan - 4	145.83	IND AA-/Positive
37	Bajaj Finance	Term Loan - 4	833.33	IND AA-/Positive
38	Bajaj Finance	Term Loan - 5	369.44	IND AA-/Positive
39	IndusInd Bank Limited	Term Loan - 5	239.96	IND AA-/Positive
40	SIDBI	Term Loan - 5	292	IND AA-/Positive
41	Yes Bank Ltd	Term Loan - 5	733.33	IND AA-/Positive
42	IndusInd Bank Limited	Term Loan - 6	1079.97	IND AA-/Positive
43	Yes Bank Ltd	Term Loan - 6	1733.33	IND AA-/Positive

44	Yes Bank Ltd	Term Loan - 6	522.67	IND AA-/Positive
45	Bajaj Finance	Term Loan - 7	979.17	IND AA-/Positive
46	IndusInd Bank Limited	Term Loan - 7	818.16	IND AA-/Positive
47	Kotak Mahindra Bank	Term Loan - 7	262.5	IND AA-/Positive
48	Axis Bank Limited	Term Loan - 7 Tranche 2 (PSL)	481.14	IND AA-/Positive
49	Kotak Mahindra Bank	Term Loan - 8	562.5	IND AA-/Positive
50	Kotak Mahindra Bank	Term Loan - 9	562.5	IND AA-/Positive
51	Kotak Mahindra Bank	WCDL	2.92	IND AA-/Positive
52	Kotak Mahindra Bank	WCDL	597	IND AA-/Positive
53	Ujjivan Small Finance Bank	WCDL	1000	IND AA-/Positive
54	NA	Bank loan(Unutilised)	12220.6	IND AA-/Positive

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan facilities	Low
Non-convertible debentures	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Annexure

Instrument	ISIN	Regulator of Instrument	Date of Issuance	Coupon Rate	Maturity Date	Outstanding/Rated Amount(INR million)	Rating/Outlook
Non-convertible debentures	INE423Y07104	SEBI	13 May 2024	Variable	13 May 2027	2,000	IND AA-/Positive
Non-convertible debentures	INE423Y07138	SEBI	20 August 2025	Variable-Others	20 August 2027	2,000	IND AA-/Positive
Utilised Limit	-	-	-	-	-	**4,000**	-

Instrument	ISIN	Regulator of Instrument	Date of Issuance	Coupon Rate	Maturity Date	Outstanding/Rated Amount(INR million)	Rating/Outlook
Unutilised Limit	-	SEBI	-	-	-	**1,000**	IND AA-/Positive
Total Limit	-	-	-	-	-	**5,000**	-
Source: SBFC, NSDL							

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APPLICABLE CRITERIA AND POLICIES

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

The Rating Process

Evaluating Corporate Governance

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