

Huge opportunity in supply chain management financing

CMP: INR 411

Outlook: Positive

Target Price: NA

Stock Info

BSE	539199
NSE	NA
Bloomberg	SGFIN:IN
Sector	Finance-NBFC
Face Value (INR)	10
Equity Capital (INR Mn)	550
Mkt Cap (INR Mn)	22,990
52w H/L (INR)	600/ 325
Avg Yearly Vol (in 000')	9501

Shareholding Pattern %

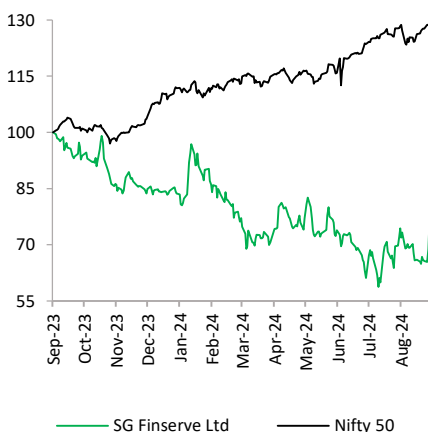
(As on June, 2024)

Promoters	46.99
Public & Others	53.01

Stock Performance (%)

	1m	6m	12m
SG Finserve Ltd	-1.6	-5.4	-29.2
Nifty	0.9	12.9	29.6

SGFIN Vs Nifty



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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 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.

INVESTMENT RATIONALE:

1. 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.

2. 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.

3. High NIMs, Lower leverage, zero GNPA's 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 Other Income growth to outpace the book growth. The Company has zero Bank Debts, so, even without external leverage, the Company is able to finance their business operational capital pretty well.

4. Parental Advantage:

SG Finserve Ltd derives more than 40% of its revenue from its affiliate, SG Mart Ltd, which operates under the APL Apollo group umbrella. SG Mart Ltd specializes in the trading of a comprehensive range of building material products, with an inventory exceeding 2,500 SKUs across over 27 product categories. The anticipated enhancement in operational efficiency at SG Mart Ltd's Raipur and Dubai facilities is expected to positively impact SG Finserve Ltd's growth trajectory. Further, PAN India presence of APL Apollo group will help the geographical expansion of SG Finserve Ltd. Further, 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 as well as enforce stop supply in the event of any delay from the network of APL Apollo.

5. 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%, we anticipate that SG Finserve Ltd's ROE will improve to 15% in current year and 20% over the next few years.

OUTLOOK:

SG Finserve Ltd and SG Mart Ltd are a part of APL Apollo group company, with SG Finserve providing financial services and solutions that support the operations of SG Mart Ltd. While SG Mart focuses on the trading and distribution of building materials across India, SG Finserve offers financing solutions that could assist SG Mart's channel partners in managing their working capital and expanding their businesses. SG Finserve Ltd has maintained a zero delinquency rate due to its focus on short-term loans and a strong customer base. 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 believe this to be a high-multiple investment opportunity.

About the Company

SG Finserve Limited is a NBFC, formerly known as Moongipa Securities Limited. They previously offered a wide range of services, including broking, distribution, investment research, online trading, wealth management, investment banking, and insurance. However, the company recently 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.

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



SG Finserve Ltd offers wide range of services as follows:

Services Offered :	
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	

Statewise AUM/ Disbursement bifurcation for FY23:

Particulars (INR Mns)	AUM	Disbursements For FY23
State		
Andhra Pradesh	354.40	3,093.00
Assam	0.10	13.60
Bihar	22.80	243.90
Chhattisgarh	259.90	2,308.00
Delhi	1,082.90	1,733.10
Goa	107.10	481.30
Gujarat	642.40	5,253.70
Haryana	129.20	1,312.60
Himachal Pradesh	6.30	474.20
Jammu and Kashmir	59.90	226.10
Jharkhand	12.90	76.20
Karnataka	1,539.50	11,114.60
Kerala	1,213.30	6,855.20
Madhya Pradesh	151.50	1,448.50
Maharashtra	2,002.90	10,852.70
Nagaland	2.40	2.40
Punjab	295.40	927.20
Rajasthan	486.10	2,586.30
Tamil Nadu	358.40	2,813.40
Telangana	4.70	4.60
Uttar Pradesh	24.00	1,235.00
Uttar Pradesh (East)	351.20	3,375.20
Uttar Pradesh (West)	584.10	7,283.10
Uttarakhand	10.30	26.80
West Bengal	45.60	353.70
Orissa	7.90	342.40
Total	9,755.40	64,437.20

As can be seen, more than 45% of their disbursements during the FY23 came from Delhi, Karnataka, Kerala and Maharashtra, with 60% of their AUM coming from the same states.

Quarterly Historical:

Key Parameters (INR Mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Gross Disbursement	41,100	43,430	41,390	44,370	43,240
Number of Invoices Discounted				34,297	32,272
Loan Book	12,430	16,580	18,910	16,730	14,100
QoQ Growth (%)		33.4%	14.1%	-11.5%	-15.7%
Equity	5,990	7,590	7,810	8,060	8,400
Bank Debt					Nil
Unsecured Loan from Promoter	6,470	9,100	11,100	8,800	6,140
Cash					300
Operating Income	348	439	525	590	440
Net interest Income	235	283	344	380	310
PBT	220	249	299	320	260
RoA (%)	6%	5%	6%	6%	5%
Gross NPA	Nil	Nil	NIL	Nil	Nil
RoE (%)	10%	10%	11%	12%	9%

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, Dorset, Prayag, 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.

Q1FY25 Financial Performance

Particulars (INR Crs)	Q1FY25	Q1FY24	Change (%)	Q4FY24	Change (%)	FY24	FY23	Change (%)
Interest Income	42.83	34.07	26%	54.02	-21%	182.11	40.25	352%
Fee Income	0.70	0.77	-9%	4.53	-85%	7.61	1.17	550%
Dividend Income			0%		0%		0.03	-100%
Operating Income	43.54	34.84	25%	58.55	-26%	189.72	41.45	358%
Other Income	1.06			0.87	22%		0.51	-100%
Total Income	44.60	34.84	28%	59.42	-25%	189.72	41.96	352%
Interest expenses	12.26	10.56	16%	20.69	-41%	63.96	8.42	660%
Net Interest Income	31.28	24.28	29%	37.86	-17%	125.76	33.54	275%
Operating expenses	6.08	2.31	163%	6.82	-11%	17.94	4.62	288%
Profit before Provision & Tax	26.26	21.97	20%	31.91	-18%	107.82	28.92	273%
Impairment on Financial Assets*		1.07				2.79	3.9	-28%
Profit before Tax	26.26	20.90	26%	31.91	-18%	105.03	25.02	320%
Income Tax	6.87	5.26	31%	8.11	-15%	26.44	6.61	300%
Profit after Tax	19.39	15.64	24%	23.80	-19%	78.59	18.41	327%
Loan Book EOP	1,410	1,243	13%	1,673	-16%	1,673	976	71%

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 and Financial Institutions in various leadership roles. He has extensive insight into Corporate Lending, spanning across functions including Business, Credit, Technology, and Operational initiatives. He holds a master's degree in business administration from the University of Aberdeen, Scotland, UK.
Sahil Sikka	CFO, COO	With around 14 years of experience, Sahil Sikka has held leadership roles in leading Banks and Financial Institutions. His expertise spans across Business and Credit in Corporate and Investment Banking. He holds a Bachelor's degree in Engineering (B.Engg.). He is also a Dean's Honor Student MBA graduate and has achieved the Chartered Financial Analyst (CFA) Level 2 certification.
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. Furthermore, she possesses extensive experience in SEBI (Securities and Exchange Board of India) LODR (Listing Obligations and Disclosure Requirements) compliances related to listed companies, including filing requirements on stock exchanges
Vivekanand Tiwari	Head Operations	With over 12 years of extensive experience across various sectors including Banks, NBFCs, Fintech, and Startups. 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. Having worked with renowned institutions such as ICICI Bank Limited, Axis Bank Limited, and IndusInd Bank, Vivekanand brings with him a wealth of experience and a deep understanding of the intricacies of the financial services industry.

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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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