

May fall short of achieving FY 26 numbers, could achieve FY27

CMP: INR 390

Rating: BUY

Target: INR 710

Stock Info

BSE	539199
NSE	SGFIN
Sector	NBFC
Face Value (INR)	10
Equity Capital (INR Mn)	558.95
Mkt Cap (INR Mn)	22,034
52w H/L (INR)	505/ 308
Avg Daily Vol (in 000')	13,740

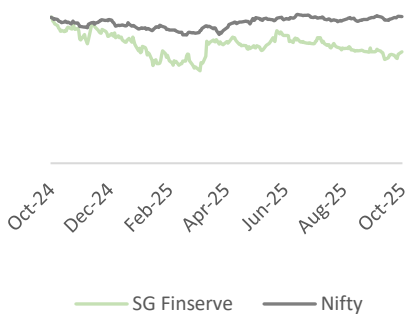
Shareholding Pattern %

(As on Sep, 2025)

Promoters	48.38%
Public & Others	51.62%

Stock Performance (%)	3m	6m	12m
SG Finserve Ltd	-7.03	-8.52	-23.64
Nifty 50	0.13	8.14	0.40

SG Finserve Ltd Vs Nifty 50



The company has delivered a positive performance in Q2FY26, following a period of de-growth attributable to regulatory compliance challenges that impacted its performance in quarters preceding Q1FY26. They reported a net profit of INR 283.9 mn (v/s INR 141.2 mn in Q2FY25) (v/s INR 245.2 mn for Q1FY26) (+101.04% YoY, +15.81% QoQ). NII stood at INR 422.9 mn (+37.57% YoY, +5.75% QoQ). They reported PPOP of INR 383.5 mn, (v/s INR 206.7 mn for Q2FY25) (v/s INR 348.9 mn for Q1FY26). PBT came in at INR 384.3 mn (v/s INR 206.7 mn for Q2FY25) (v/s INR 348.9 mn for Q1FY26). Loan Book grew by 15% QoQ at INR 28.7 bn.

Inline operational performance: NII growth for the quarter was at 5.75% QoQ/ +37.57% YoY to INR 422.9 mn, which was inline with our estimates. The impact of the RBI resolution in Q2FY25 still brings tangible growth benefits to the company. Processing fees decreased on a quarterly basis by -3.73% QoQ but was saw a strong 1294.93% YoY at INR 20.9 mn. Net profit grew by a decent 15.81% QoQ to INR 283.9 mn. As compared to previous quarter, falling ESOP costs contributed to this number and expectation is that ESOP will continue to fall.

Asset Quality remains strong for now : The GNPA and NNPA ratios remains strong at 0%, driven by the lending duration and strong underwriting procedures adopted by the company. They acknowledged potential future NPAs but underlined the fact that close anchor relationships and short loan durations may keep this in check.

Disbursement growth momentum continues: Disbursement registered a growth of 11% QoQ and 39% YoY (H1 basis) at INR 58,460 mn. The strong growth in disbursements are attributable to the RBI regulatory resolutions combined with a robust disbursement growth resulting in a 15% sequential loan book growth. Going forward, the company expects the pace of disbursement growth continue driven by the retailer of distributor sales push. The addition of new anchor clients are expected to continue lending revenue stability while partnering with another bank would further enhance growth.

Valuation and View: SG Finserve Limited has reported growth despite conditions of economic slowdowns, as highlighted by Management. Going forward, we expect the disbursement growth momentum to continue for the coming quarters. The company has set a loan book target of INR 40 bn by FY26, INR 60 bn by FY27. While the outlook is positive, there seem to be numerous overhangs on this stock, the most notable being the concurrent auditor and management change. We advise a BUY on this with consideration to the above factors and with a reduced TP of INR 710 based on 1.7 x of ABV FY27E, giving an upside of 55%.

Exhibit 1: Financial Summary

Y/E Mar (INR Mn)	FY24	FY25	FY26	FY27E	FY28E
NII	1,218	1,391	2,239	3,810	5,322
PAT	786	810	1,402	2,543	3,555
Networth	8,064	10,148	13,134	15,677	19,232
Diluted BVPS (INR)	157.2	154.2	199.6	238.3	292.3
Diluted EPS (INR)	15.3	12.3	21.3	38.7	54.0
P/E (x)	25.7	32.0	18.5	10.2	7.3
P/Adj BV (x)	2.5	2.6	2.0	1.7	1.3

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Q2FY26 - Quarterly Performance

(In INR Mn)

Quarterly Result Update (INR Mn)	Q2FY26	Q1FY26	Q2FY25	Q-o-Q	Y-o-Y
Interest Income	726.2	648.0	307.4	12.07%	136%
Interest Expended	(303.3)	(248.0)	-	100.00%	NA
Net Interest Income	422.9	399.9	307.4	5.75%	37.57%
Processing Fees & Other Charges	20.9	27.9	1.5	-25.20%	1294.93%
Operating Income	443.8	427.9	308.9	3.73%	43.66%
<u>Operating Expenses</u>	(60.3)	(79.0)	(69.0)	-23.67%	-12.61%
Employee Expenses	(35.4)	(53.4)	(38.9)	-33.84%	-9.06%
Other Operating Expenses	(24.9)	(25.5)	(30.1)	-2.40%	-17.18%
PPOP	383.5	348.9	239.9	9.93%	59.84%
Provisions	0.8	(10.3)	(33.2)	-107.82%	-102.43%
PBT	384.3	338.5	206.7	13.52%	85.90%
Tax Expenses	(100.4)	(93.4)	(65.5)	7.53%	53.27%
Net Profit	283.9	245.2	141.2	15.81%	101.04%

Concall KTAs –**Guidance**

- The Company expecting INR 2,500 Mn PBT on a full year basis.
- Company has provided discounts to large clients on the various rates if volumes are high but they plan not to do this in future. This has resulted in yield compression from 12 to 11.5%.
- Leverage to move from 1:2 to 1:3 and with this they expect a 12 -13% ROE expansion going forward with yields of 12 to 13%. This will be mainly due to their strategy of targeting retailers of distributors where numbers will be higher.
- The Company expects margin expansion of 200 bps as retailer lending book expands. Normal expansion would be 100 bps so the new retailer initiative would add 100 bps (expected).
- Downward revision – While PAT guidance was at INR 1,500 Mn in previous quarter, assuming an EPS of 10-12% in Q3/Q4, Management feels that PAT estimates may fall short and they may struggle to reach INR 1,300 Mn. (Here, at least one analyst said that in the Arihant Bharat Connect forum, Management had given a PAT number of INR 1,650 Mn which was at odd with previous guidance). This difference in narratives was flagged, and Management did not reply to this).
- Overall, the concern was that the expansion in topline and margin expansion is not contributing to a robust bottom-line

Multiple Top Management Changes

- The company stated that the leadership transition is not coordinated but purely coincidental, though the process itself is well planned. Vinay, an ex-Yes Bank executive and supply chain specialist, along with Sanjay, a seasoned finance professional, are overseeing a smooth and structured handover to ensure business continuity and stability..
- Management says that the business model and strategy will continue and the succession will not impact
- With strong directors and independent directors in place, there is confidence that there will be minimal to no disruption. Business continuity plans are in place and being executed

Competition

- NPA levels are low and will continue to be that way for some time. Competition does not have zero NPAs but even SGF expects that there may be some minimal

Key Financials

P&L (INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest income	1,858	1,710	4,071	6,910	9,508
Interest expense	640	320	1,832	3,101	4,186
NII	1,218	1,391	2,239	3,810	5,322
Non-interest income	39	0	36	36	36
Net revenues	1,258	1,391	2,275	3,846	5,358
Operating expenses	148	261	302	336	390
Depreciation	2	5	11	15	20
Provision for ESOP	30	0	25	13	13
Total Opex	179	266	338	363	423
PPOP	1,078	1,125	1,937	3,482	4,936
Provisions	28	23	62	84	185
PBT	1,050	1,102	1,874	3,399	4,750
Tax	265	292	472	855	1,196
PAT	786	810	1,402	2,543	3,555

Balance sheet	FY24	FY25	FY26E	FY27E	FY28E
Share capital	7,256	10,148	11,731	11,731	11,731
Reserves & surplus	807	0	1,402	3,946	7,501
Net worth	8,064	10,148	13,134	15,677	19,232
Borrowings	9,568	13,847	25,700	43,113	63,810
Short term provisions	72	100	167	251	436
Other liability	91	69	98	140	201
Total liabilities	17,794	24,164	39,099	59,181	83,679
Fixed assets	19	22	35	41	49
Advances	16,730	22,460	37,000	57,000	81,000
Investment	55	57	32	32	32
Deferred tax asset	0	803	0	0	0
Cash & bank balance	772	611	1,820	1,896	2,386
Other assets	217	211	211	211	211
Total assets	17,794	24,164	39,099	59,181	83,679

Key Ratios

Ratios	FY24	FY25	FY26E	FY27E	FY28E
Growth (%)					
NII	268.91%	14.14%	60.99%	70.15%	39.71%
PPOP	272.82%	4.31%	72.20%	79.81%	41.74%
PBT	319.83%	4.89%	70.12%	81.34%	39.77%
PAT	326.91%	3.08%	73.15%	81.34%	39.77%
Advances	71.50%	34.25%	64.73%	54.05%	42.11%
Borrowings	94.08%	44.72%	85.60%	67.76%	48.01%
Spread (%)					
Cost of Borrowings	8.8%	8.5%	8.4%	8.3%	8.3%
Yields	14.3%	12.7%	12.6%	13.9%	13.1%
NIM	9.5%	5.2%	6.5%	7.0%	7.3%
Asset quality (%)					
Gross NPAs	0%	0%	0%	0%	0%
Net NPAs	0%	0%	0%	0%	0%
Return ratios (%)					
RoE	11.39%	8.9%	12.0%	17.7%	20.4%
RoA	5.50%	3.9%	4.7%	5.4%	5.2%
Per share (Rs)					
EPS	15.32	12.31	21.31	38.65	54.02
BV	157	154	200	238	292
ABV	157	154	200	238	292
Valuation (x)					
P/E	25.7	32.0	18.5	10.2	7.3
P/BV	2.5	2.6	2.0	1.7	1.3
P/ABV	2.5	2.6	2.0	1.7	1.3

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return

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