IPO Note

November 02 2023

ESAF Small Finance Bank Limited

Issue Snapshot:

Issue Open: November 03 – November 07, 2023

Price Band: Rs. 57 –60 (Discount of Rs 5 for all eligible employee)

*Issue Size: Rs.463.0 Cr (Fresh Issue of Rs 390.7 cr + Offer for sale of Rs 72.3 cr including employee reservation of Rs.12.5 cr)

Reservation for:

QIB	upto	50% eq sh
Non-Institutional	atleast	15% eq sh
((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))		
Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 40.92 (June 30, 2023)

Bid size: - 250 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	449.47 cr
*Post issue Equity:	Rs.	514.59 cr

Listing: BSE & NSE

Book Running Lead Managers ICICI Securities Limited, DAM Capital Advisors Limited and Nuvama Wealth Management Limited

Sponsor Bank: HDFC Bank Ltd and Kotak Mahindra Bank Ltd

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	74.43	63.41
Public & Employees	25.57	36.59
Total	100.0	100.0

*=assuming issue subscribed at higher band

Source for this Note: RHP

Background & Operations:

ESAF Small Finance Bank Limited (ESAF) is a small finance bank with a focus on unbanked and under-banked customer segments, especially in rural and semiurban centres. As at June 30, 2023, its gross advances to its customers in rural and semi-urban centres (combined) accounted for 62.97% of its gross advances and 71.71% of its banking outlets were located in rural and semi-urban centres (combined). Its primary products are its advances (asset products) and deposits (liability products). ESAF's advances comprise: (a) Micro Loans, which comprises Microfinance Loans and Other Micro Loans; (b) retail loans, which includes gold loans, mortgages, personal loans, and vehicle loans; (c) MSME loans; (d) loans to financial institutions; and (e) agricultural loans. Its liability products comprise current accounts, savings accounts, term deposits and recurring deposits. Its AUM grew from ₹84,259.30 million to ₹163,312.65 million as at March 31, 2021 and 2023, respectively, registering a CAGR of 39.22%, and increased to ₹172,039.68 million as at June 30, 2023, an increase of 5.34%. The Company's deposits grew from ₹89,994.26 million to ₹146,656.25 million as at March 31, 2021 and 2023, respectively, registering a CAGR of 27.66%, and increased to ₹156,558.54 million as at June 30. 2023, an increase of 6.75%. Its services include safety deposit lockers, foreign currency exchange, giving its customers access to the Bharat Bill Payment System, money transfer services and Aadhaar Seva Kendra services. It also distributes third-party life and general insurance policies and Government pension products.

ESAF has a network of 700 banking outlets (including 59 business correspondent-operated banking outlets), 767 customer service centres (which are operated by its business correspondents), 22 business correspondents, 2,116 banking agents, 525 business facilitators and 559 ATMs spread across 21 states and two union territories, serving 7.15 million customers as at June 30, 2023. While its operations are spread out across India, its business is concentrated in South India, particularly in the states of Kerala and Tamil Nadu. As at June 30, 2023, 62.43% of its banking outlets are located in South India (including 43.43% in Kerala and 13.86% in Tamil Nadu), 73.09% of its gross advances are from customers in South India (including 43.45% from Kerala and 22.14% from Tamil Nadu) and 86.90% of its deposits are from banking outlets in South India (including 80.04% from Kerala and 3.36% from Tamil Nadu).

The Bank use business correspondent entities to source and service customers for Micro Loans. Its business correspondents also source customers for mortgage loans, vehicle loans, MSME loans, agricultural loans and select deposit products. In addition, its business correspondents are responsible for sourcing and servicing its banking agents. It focuses on leveraging technology to deliver products and services and it continuously work towards improving its customers' experience through the use of technology. It has crossed a technology milestone with the successful adoption of e-signatures for Micro Loan disbursals. In Fiscal 2023, it disbursed over 0.53 million loans using e-signatures. It offers its customers various digital platforms, including an internet banking portal, a mobile banking platform, SMS alerts, bill payments and RuPay branded ATM cum debit cards. ESAF's customers are also able to register for its savings accounts on a unified payment interface based mobile applications. Its collections mechanism has also been digitalised through the use of mobile applications and a payment gateway through which its borrowers can repay their loans. It has also implemented a customer relationship management solution to better handle customer requests.

Objects of Issue:

The Offer comprises the Fresh Issue and an Offer for Sale.

Offer for Sale

Each of the Selling Shareholders will be entitled to their respective portion of the proceeds from the Offer for Sale in proportion of the Equity Shares offered by the respective Selling Shareholders as part of the Offer for Sale. ESAF Bank will not receive any proceeds from the Offer for Sale.

Fresh Issue

The Bank proposes to utilize the Net Proceeds from the Fresh Issue towards augmenting its Bank's Tier – I capital base to meet its Bank's future capital requirements and for increasing Bank's business, which is primarily onward lending. Further, the proceeds from the Fresh Issue will also be used towards meeting the expenses in relation to the Offer.

Competitive Strengths

- Understanding of the micro loan segment has enabled to grow business outside of Kerala, its home state.
- Main focus on rural and semi-urban banking franchise
- Growing Retail Deposits portfolio
- Customer connections driven by customer-centric products and processes and other non-financial services for Micro Loan customers
- Technology-driven model with a digital technology platform
- Experienced Board and Key Managerial Personnel and Senior Management Personnel

Business Strategy:

- Penetrate deeper into existing geographies
- Increase deposits and in particular Retail Deposits
- Continue to grow Micro Loans while increasing other categories of advances both in absolute terms and as a percentage of total AUM
- Increase fee-based income by cross-selling, expanding third-party products and service offerings and expanding feebased Offerings
- Continue to leverage technology and customer data analytics

Industry:

Indian Banking Industry

Bank credit to move marginally faster than systemic credit

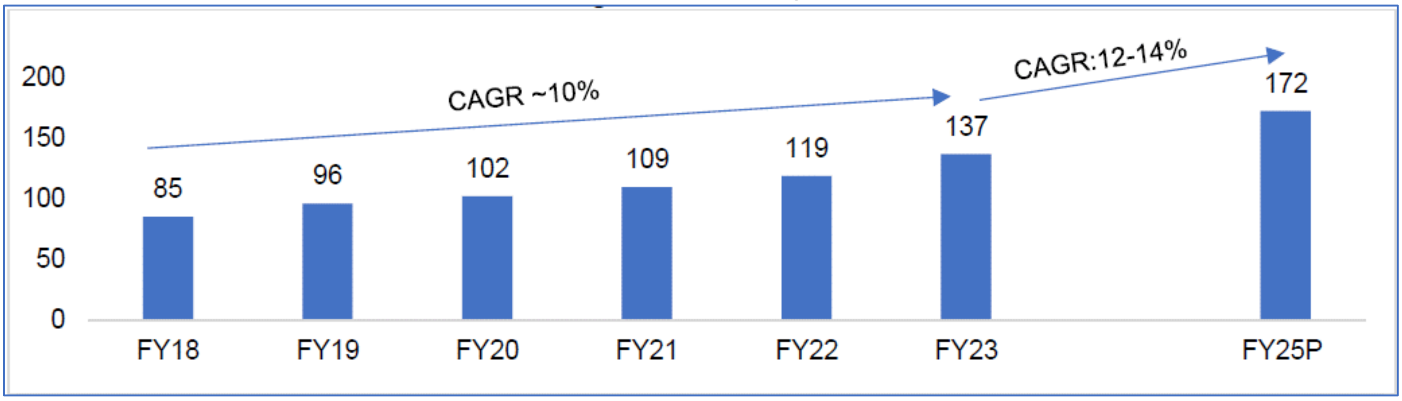
Over the past decade, banking credit growth lagged systemic credit growth for several years as NBFCs grew at a much faster pace. However, the NBFCs suffered a blow after IL&FS defaulted in September 2018. NBFCs, not having the advantage of size, rating and/or parentage, had to grapple with a liquidity crisis and as raising funding became difficult. Initially, post the IL&FS crisis, banks were expected to fill the space left out by NBFCs. However, with slower economic growth and muted private capex, banking credit growth remained low at ~6.8% in Fiscal 2020.

In the fourth quarter of Fiscal 2020 and the first quarter of Fiscal 2021, with the outbreak COVID-19 pandemic, challenges had intensified for both banks and NBFCs. NBFCs were hit harder in terms of demand, and they also turned cautious as they lend to borrowers with relatively weaker credit profile. In the second half of Fiscal 2021, the Indian economy showed signs of improvement, the effect of which was seen in the credit growth.

At the end of Fiscal 2021, the banking credit grew by ~5% on year while NBFCs witnessed a growth of 7.3% during the same period. In Fiscal 2022, the second wave of the COVID-19 pandemic led to weak demand for credit in the first quarter of the year. However, the pace of credit recovered, with overall credit growing by 8.4% and retail credit increasing by 11.6% yearon- year as of March 2022. Further, high frequency indicators point out that economic activity and consumer spending is returning to pre-COVID-19 levels. With the effect of COVID-19 waning, vaccination coverage progressively improving, the situation and growth improved further.
Due to COVID-19 pandemic, demand for credit reduced drastically on account of economic activity coming down to standstill due to lockdown led sharp fall in disbursements. However, there was a pickup in disbursements since the second half of Fiscal 2022, a trend that continued in Fiscal 2023. The bank credit demand was broad based in Fiscal 2023 growing at 15% year on year. There was strong retail credit demand from segments like personal loans, consumer durables, credit card, vehicle loans etc.

Going forward, credit to the overall retail segment is expected to lead the growth of the banking sector, supported by healthy growth in housing, consumer durable, gold and other personal loans segments. CRISIL MI&A expects bank credit to grow at 12-14% CAGR between Fiscal 2023 and Fiscal 2025.

Bank credit to clock a CAGR of 12-14% through Fiscal 2023 to Fiscal 2025



Bank deposits to grow 11-12% in Fiscal 2024

In Fiscal 2018, deposit growth rate fell to its lowest in over 55 years to ~7%, as the effect of demonetisation subsided, and households moved their savings from deposits to other lucrative instruments such as shares and debentures. However, in Fiscal 2019, deposit growth picked up and clocked 11%, in the wake of capital market volatility and higher deposit rates offered by the banks. In addition, inclusion of more people under the formal financial services channel improved deposit mobilisation as players continued to expand in the underbanked centres. Banking deposit growth was higher in semi-urban centres as compared to urban and rural centres, which witnessed similar growth.

In Fiscal 2020, with slowdown in the economy, deposits grew at a moderate ~9%. The banking sector witnessed movement of deposits from private sector banks to public sector banks as one of the private sector banks gross NPAs spiralled. Towards the end of Fiscal 2020, Yes Bank was put under moratorium for 30 days, wherein withdrawal of deposits was restricted before a management change was effected by the regulator and the central Government. Earlier, in 2019, the RBI had imposed operational restrictions and restrictions on withdrawals from Punjab and Maharashtra Co-operative Bank Limited after finding financial irregularities. Fiscal 2020 also saw deposit rates coming down with lending linked to an external benchmark and interest rate cycle on a downward scenario, resulting in banks reducing deposit rates to preserve their spread. With the outbreak of COVID-19 in the last quarter of Fiscal 2021, conserving money became a priority and households reduced their private consumption, leading to a 11% deposit growth in Fiscal 2021.

The weighted average domestic term deposit rate declined 80 bps from 6.07% as of April 30, 2020 to 5.28% as of March 31, 2021. (*Source: CRISIL MI&A*). With the RBI maintaining its accommodative stance with policy rates unchanged for the entire Fiscal 2022, the weighted average term deposit rate declined a further 25 bps to 5.03% as of March 31, 2022. RBI hiked the policy rates by 40 bps in May 2022, 50 bps in each of June 2022, August 2022 and September 2022, 35 bps in December 2022 and 25 bps in February 2023 taking the repo rate to 6.50% as of February 2023. With this, the weighted average term deposit rate moved upwards to 5.90% as of January 31, 2023. Further, the incremental credit to deposit ratio rose to more than 100% during the second quarter of Fiscal 2023 and deposit growth continued to lag credit growth.

CRISIL MI&A expects deposits rate to inch up with increase in competition and to support the credit growth. However, the increase in Fiscal 2024 might be at a slower pace on account of new taxation rule that will come into effect from April 1, 2023, which will take away tax advantage from most debt mutual funds and will give edge to bank fixed deposits. Hence, the deposits are expected to grow by 11-12% in Fiscal 2024.

GNPA of banks is expected to improve further to 3.8-4.0% in Fiscal 2024

The pandemic resulted in one of the worst economic declines in decades. Airlines, hospitality, travel, gems and jewelry, auto dealers, and real estate were hit the hardest, given the discretionary nature of these sectors. Both collections and disbursements were impacted significantly in the first half of Fiscal 2021. However, with measures taken by the government and the RBI assisting in containing the deterioration in asset quality, overall GNPA ended Fiscal 2021 at 7.4%. About 0.9% of the total credit outstanding was restructured by the RBI as of March 2021 under the one-time restructuring framework 1.0, which was significantly lower than earlier estimates. In the case of public banks, the majority of the restructurings come from the corporate sector. In the case of large and mid-size private sector banks, the proportion of retail assets in total restructuring (invoked + implemented) was relatively high.

On May 5, 2021, the RBI announced the restructuring framework 2.0 to protect individuals and MSMEs from the adverse impact of the second wave. The resolution facility was applicable for accounts classified as 'Standard' as at March 31, 2021, wherein individuals and MSMEs having an aggregate loan exposure of up to ₹250 million who have not availed restructuring under any of the earlier restructuring frameworks and who were classified as 'Standard' as on March 31, 2021 were allowed to restructure their loans. Restructuring under the proposed framework was able to be invoked up to September 30, 2021 and had to be finalised and implemented within 90 days after invocation of the resolution process (with the last date to implement the restructuring for banks being December 31, 2021). This framework saw better response from corporate borrowers. CRISIL MI&A estimates the overall restructuring (1.0 and 2.0) at ~1.4% of the loans outstanding as of March 2023. However, the stress on account of slippages from this portfolio remains to be monitored.

GNPA of both private and public banks improved in Fiscal 2022 on account of reduction in fresh slippages and improvement in upgrades and recoveries. GNPA of scheduled commercial banks stood at a six-year low of ~5.9% as of March 2022. CRISIL MI&A estimates the GNPA of scheduled commercial banks to have declined further in Fiscal 2023 on account of lower slippages, higher recoveries and expectation of recoveries via the NCLT and National Asset Reconstruction Company Ltd (NARCL) route. Going forward, CRISIL MI&A expects GNPA of banks to improve to 3.8%-4.0% in Fiscal 2024 due to robust collections, upgrades for large corporate accounts and lower slippages.

Growth drivers for small finance banks

Customized products aided by technology and information availability

Greater use of technology is enabling lenders to provide customised products, that too at much lower turnaround time. Multiple data points are available for lenders that is facilitating quick decision making. In fact, they can take lending decisions within minutes using data-driven automated models. These models would help in supply of credit to small business units and the unorganised sector at low cost. Technology also helps these players expand their reach to under penetrated population in remote centres at a lower operating cost.

Availability of funds at cheaper rates

CASA and other retail deposits are a cheap source of funds for SFBs, which help them expand their product portfolio. They can provide lower rates in the market to compete with NBFCs. With SFBs expanding in the underserved regions further, their deposit base is expected to further widen. The CASA deposits for SFBs is estimated to have grown at 66% CAGR from Fiscal 2018 to Fiscal 2023. This will give them an advantage over NBFCs and help expand their asset book.

Industry growth and outlook

Huge opportunity to support growth over next three years (AUM)

The small finance banks' advances under management (which is gross advances plus off-balance sheet advances ("AUM") is estimated to have clocked 29% CAGR from March 31, 2018 to June 30, 2023. CRISIL MI&A estimates that the top three SFBs accounted for ~60% of the aggregate AUM as of June 30, 2023, up from 55% as of March 31, 2017 indicating the rising concentration and expansion of players within the SFBs. CRISIL MI&A also estimates that the top six players accounted for ~85% of the market share as of June 30, 2023. In Fiscals 2021 and 2022, new loan origination remained low as SFBs turned cautious and selective in disbursals due to the pandemic. However, as economy revived and business operations normalised, SFBs' AUM witnessed strong growth post pandemic. As of June 30, 2023, SFB AUM is estimated to have crossed ₹1,900 billion. CRISIL MI&A expects SFB's AUM to grow at ~22-24% CAGR between June 30, 2023 and March 31, 2025, as most of the SFBs have completed the transition phase and are likely to benefit from their operating leverage.

SFBs continue to diversify their portfolio beyond microfinance business

Eight of the 10 firms that got SFB licences in the initial phase were MFIs and for most of them, microfinance is the central product. The microfinance segment is estimated to account for 34% (including Capital and AU SFB) of the overall business of SFBs as of March 31, 2023. In fact, SFBs have shifted their focus from microfinance to other products. But their core customer base is unlikely to have changed much because of the regulatory norms. After the conversion of NBFC-MFIs to SFBs, the focus is now on diversifying the product portfolio. As a result, the share of their MFI portfolio in total advances reduced to 34% as of March 31, 2023 from 90-95% as of March 31, 2016. Going forward, SFBs will have to focus on small-ticket size lending to financially under-served and un-served segments (loans below ₹2.5 million will have to form at least 50% of their loan portfolio (gross advances). CRISIL MI&A expects MFIs that converted to SFBs to further diversify and focus on allied segment loans, such as MSME loans, affordable housing finance, gold loans, CV/non-CV loans and two-wheeler loans, which will reduce the dominance of microfinance in their overall loan portfolio.

SFB deposits to grow faster than private and public-sector banks

SFBs have a significant growth potential as most of them were functioning as NBFCs/MFIs previously. Immediately after commencement of their operation, all SFBs focused on increasing their deposit base. Their overall deposit base doubled to around ₹375 billion as of March 31, 2019. Further, the proportion of CASA deposits is estimated to have shot up from nearly ~20% as of March 31, 2020 to ~36% as of June 30, 2023. The increase could be attributed to the higher interest rates they offer and the increase in their branch network. Deposit for SFBs reached ₹1,971 billion at the end of June 2023. Going forward, CRISIL MI&A expects SFBs' deposit to grow at 40-45% CAGR over June 2023 and March 2025 as players focus on popularizing convenient banking habits to cover the last mile and widen financial inclusion by deepening their penetration in untapped geographies.

Gold loans AUM is expected to grow at 10-12% CAGR between Fiscal 2023 and 2025

In Fiscal 2020, gold loan industry (including Banks and NBFCs) AUM grew ~15% YoY to reach Rs.2.92 trillion on account of increased focus of players on diversifying their regional presence, strong growth in non-southern regions and rise in gold prices by ~19% in Fiscal 2020.

In Fiscal 2021, the demand for gold loan finance witnessed a massive surge with AUM shooting up from Rs.2.9 trillion as at March 31, 2020 to Rs.3.8 trillion, as India's economy coped with the devastating effect of the global pandemic and consumers availed of gold loans to meet their consumption and emergency funding needs. Many consumers, who had gold stock and ornaments lying with them, considered gold loans as an option to meet their credit requirements during this period. The demand for gold loans was also supported by a consistent surge in gold price, liquidity crunch in the immediate aftermath of the pandemic and lenders' hesitancy to give unsecured loans due to risk aversion. The RBI also revisited its guidelines for banks' lending gold loans by increasing the maximum LTV allowed to 90% from existing 75% for non-agricultural gold loans extended during August 2020 to March 2021 to help stressed borrowers to unlock more value. The growth was also supported by players continued focus to wean away consumers from the unorganised gold loan market by means of awareness and diversifying their regional presence with the help of branch as well as digital channels.

In Fiscal 2022 as well, the gold loan market continued to witness strong growth, with industry AUM increasing by 24% yearon- year to reach Rs.4.7 trillion as of March 2022. By the end of March 2023, gold loans market crossed ₹7 trillion mark. Increase in AUM can be attributed to factors such as high gold prices, strong demand and increased promotion by financiers to acquire unorganised gold loan market by means of awareness and diversifying their regional presence with the help of branch as well as digital channels. Financiers also were very aggressive in tapping new customers during the year with some of them running campaigns offering gold loans at a lower interest rate for short tenures. For instance, Manappuram Finance introduced low interest rate, for retail customers with a tenure of 3 months.

Going forward, CRISIL MI&A expects gold loans to grow at CAGR of 10-12% between June 30, 2023 and March 31, 2025 as demand for gold is likely to remain buoyant for it is considered as a secured asset. The transformation in the gold loan sector continues – shift from unorganised to organised and further from organised to digital and online means. Increasing focus on online gold loans in the current scenario is expected to support overall growth in the coming years.

Key Concerns

- As at June 30, 2023 and March 31, 2023, 2022 and 2021, 74.70%, 75.04%, 81.16% and 84.80%, respectively, of ESAF's advances under management, which is gross advances plus advances originated and transferred under securitization, assignment and inter-bank participation certificates for which it continues to hold collection responsibilities ("Advances Under Management" or "AUM") were Micro Loans.

- As at June 30, 2023, and March 31, 2023, 2022 and 2021, 75.15%, 75.35%, 83.59% and 85.50% of its advances (net of provisions) were unsecured advances, respectively. If ESAF is unable to recover such advances in a timely manner or at all, its financial condition, results of operations and cash flows may be adversely affected.

- ESAF could be subject to various sanctions and penalties by the Reserve Bank of India (RBI) for failing to comply with the requirement to list the Equity Shares on a stock exchange in India before July 31, 2021.

- Business is concentrated in Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Telangana and the Union Territory of Puducherry (collectively, "South India"), particularly in the states of Kerala and Tamil Nadu.

- As at March 31, 2023, ESAF was in non-compliance with 17 out of the 272 Risk Based Supervision ("RBS") Tranche III requirements and if the Reserve Bank of India (RBI) imposes penalties on it for this non-compliance, it could adversely affect its reputation, business, financial condition, results of operations and cash flows.

- ESAF is subject to inspections by the Reserve Bank of India (RBI). Inspection by the RBI is a regular exercise for all banks and financial institutions.

- The RBI has in the past sought clarifications on acquisition of Equity Shares by ESAF Swasraya Multi-State Agro Co-operative Society Limited ("ESMACO"), a member of its Promoter Group and one of the Group Entities, and Lahanti Lastmile Services Private Limited ("Lahanti"), one of the Group Entities.

- ESAF faces challenges in its rural–focused Microfinance Loan business, including the high cost of reaching customers, potential customers' lack of financial and product awareness and vulnerability of household's income to local developments, which could adversely affect its business, financial condition, results of operations and cash flows.

- ESAF is subject to stringent regulatory requirements and prudential norms. If it is unable to comply with such laws, regulations and norms it may have an adverse effect on its business, financial condition, results of operations and cash flows.

- As a small finance bank within the meaning of SFB licensing guidelines (SFB), ESAF is required to extend 75% of its adjusted net bank credit, which is gross advances less bills re-discounted and other permissible reductions as per Reserve Bank of India (RBI) guidelines and increased by bonds/debentures in investments eligible by priority sectors ("ANBC"), to the sectors eligible for classification as priority sector lending by the RBI, such as agriculture, micro, small and medium enterprises (MSMEs), export credit, education, housing, social infrastructure, renewable energy and other sectors.

- ESAF is required to create a reserve fund and shall, out of the balance of profit of each year as disclosed in the profit and loss account and before any dividend is declared, transfer to the reserve fund a sum equivalent to not less than 25% of such profit.

- ESAF has entered into lease transactions with Lahanti Homes and Infrastructure Private Limited ("Lahanti Homes"), a member of its Promoter Group, and it make payment of rent to such entity. It also pays certain interest to its Promoter and members of Promoter Group, and royalty expenses to ESAF Foundation (formerly known as Evangelical Social Action Forum) ("ESAF Foundation").

- If ESAF is unable to resolve its customers' complaints to their satisfaction, they may decide to no longer bank with it, which could have an adverse effect on its business, financial condition, results of operations and cash flows.

- ESAF does not have much of a presence in Bihar, Uttar Pradesh, West Bengal, Odisha or Rajasthan, which are among the top 10 states for Microfinance Loans advances under management for the industry as at June 30, 2023, and it do not have any customers in Jammu and Kashmir, Himachal Pradesh, and Manipur, which are three of the top five most underpenetrated states as at June 30, 2023.

- ESAF is required to maintain a minimum cash reserve ratio (CRR) and statutory liquidity ratio (SLR). In the event that the CRR or SLR requirements applicable to it is increased in the future, its ability to make advances would be correspondingly reduced, which may adversely affect its results of operations and cash flows.

- ESAF is required to maintain a minimum total of capital to risk weighted asset ratio (CRAR). As it continues to grow its loan portfolio and asset base, it may be required to raise additional capital in order to continue to meet applicable CRARs with respect to its business.

- ESAF may face asset liability mismatches, which could affect its liquidity and consequently may adversely affect its financial condition, results of operations and cash flows.
- At least 25% of ESAF's total banking outlets, which comprises its Branches and business correspondent–operated banking outlets, are required to be located in Unbanked Rural Centres. This requirement is only applicable to small finance bank within the meaning of SFB licensing guidelines (SFB).
- COVID-19 has had and could continue to have an adverse effect on the business, financial condition, results of operations and cash flows.
- ESAF and its Promoters are involved in certain material legal proceedings, including 862 criminal proceedings by its Bank with an aggregate amount involved of ₹78.86 million, any adverse developments related to which could adversely affect its reputation, business and cash flows.
- ESAF depends on its brand recognition. Negative publicity about its brand, third parties who use the "ESAF" brand, including ESAF Financial Holdings Private Limited (EFHPL), its corporate promoter, and third parties whose products it distributes could damage its reputation and, in turn, its business, financial condition, results of operation and cash flows.
- If ESAF is unable to secure funding on acceptable terms and at competitive rates when needed, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.
- The Indian finance industry is intensely competitive and if ESAF is unable to compete effectively it would adversely affect its business, financial condition, results of operations and cash flows.
- Weaknesses, disruptions or failures in IT systems could adversely affect the business.
- ESAF may face cyber threats attempting to exploit its network to disrupt services to customers and/ or theft of sensitive internal data or customer information, which may cause damage to ESAF's reputation and adversely affect its financial condition, results of operations and cash flows.
- ESAF may be unable to maintain or renew certain of its statutory and regulatory permits, licences and approvals required to operate its business.
- If ESAF's risk management policies are ineffective, it could adversely affect its business, financial condition, results of operations and cash flows.
- Bank is exposed to operational risks, including employee negligence, petty theft, burglary and embezzlement and fraud by employees, agents (including business correspondents and banking agents), customers or third parties, which could harm reputation, business, financial condition, results of operations and cash flows.
- The number of banking agents has increased from 48 as at March 31, 2021 to 2,116 as at June 30, 2023. The increase in the number of banking agent's increases ESAF's exposure to the risk of fraud by banking agents.
- If ESAF breaches third-party intellectual property rights it could have an adverse effect on its reputation, business, financial condition, results of operations and cash flows.
- If ESAF fails to adapt to technological advancements in the financial services sector, it could affect the performance and features of its products and services and reduce its attractiveness to customers.
- ESAF leases or licences all of its business premises and any failure to renew such leases or licences or their renewal on terms unfavourable to it may adversely affect the business, financial condition and results of operations and cash flows.
- As at June 30, 2023, 274 out of 700 lease/ license agreements have not been registered.
- ESAF depends on the accuracy and completeness of information about customers and counterparties and any misrepresentation, errors or incompleteness of such information could cause its business to suffer.

- Ability to borrow in foreign currencies is restricted by Indian law.
- Fluctuations in the exchange rate between the Rupee and other currencies could have an adverse effect on the value of the Equity Shares in those currencies, independent of ESAF's results of operations.

Profit & Loss

Particulars (Rs in million)	Q1FY24	FY23	FY22	FY21
INCOME				
Interest Earned	8987.5	28536.6	19399.3	16411.7
Other Income	930.3	2879.1	2075.8	1272.5
Total	**9917.8**	**31415.7**	**21475.1**	**17684.2**
EXPENDITURE				
Interest Expended	3132.9	10173.2	7927.9	7195.8
Operating Expenses	3778.1	12305.4	8628.7	6318.6
Provisions and Contingencies	1707.1	5913.8	4371.2	3115.9
Total	**8618.1**	**28392.4**	**20927.8**	**16630.3**
PROFIT				
Net Profit for the year (I - II)	**1299.6**	**3023.3**	**547.3**	**1054.0**
Add: Balance in Restated Profit and Loss Account brought forward from Previous Year	5420.2	3215.0	3062.4	2272.0
APPROPRIATIONS				
Transfer to Statutory Reserve	0.0	755.8	136.8	263.5
Transfer to Capital Reserve	0.0	2.8	37.3	0.0
Transfer to/(from) Investment Fluctuation Reserve Account	0.0	59.5	220.7	0.0
Balance carried over to Restated Statement of Assets and Liabilities	6719.9	6238.3	3609.8	3325.9
Total	**6719.9**	**6238.3**	**3609.8**	**3325.9**
Earnings per share	2.9	6.7	1.2	2.5
FV	10	10	10	10

Balance Sheet

Particulars (Rs in million) As at	Q1FY24	FY23	FY22	FY21
CAPITAL AND LIABILITIES				
Capital	4,494.7	4,494.7	4,494.7	4,494.7
Employee Stock Options Outstanding	58.1	58.8	48.1	0.0
Reserves and Surplus	13,896.2	12,596.6	9,573.2	9,025.9
Deposits	156,558.5	146,656.3	128,150.7	89,994.3
Borrowings	27,391.3	33,542.0	29,528.3	16,940.0
Other Liabilities and Provisions	5,560.6	4,888.3	5,280.6	2,931.6
Total	**207,959.4**	**202,236.6**	**177,075.6**	**123,386.5**
ASSETS				
Cash and Balances with Reserve Bank of India	8,212.7	7,395.5	13,006.7	16,180.7
Balances with Banks and Money at Call and Short Notice	655.5	275.0	2,112.4	2,010.5
Investments	48,821.2	48,885.3	40,703.0	19,320.7
Advances	143,215.5	139,243.3	116,370.1	81,675.9
Fixed Assets	1,872.6	1,879.3	1,594.8	1,385.1
Other Assets	5,182.0	4,558.2	3,288.8	2,813.6
Total	**207,959.4**	**202,236.6**	**177,075.6**	**123,386.5**
Contingent Liabilities	19.0	19.0	20.5	15.0
Bills for collection	0.0	0.0	0.0	0.0

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