

Business Overview

- ESAF Small Finance Bank Limited is a small finance bank with a focus on unbanked and under-banked customer segments, especially in rural and semi urban centers.
- The Bank commenced their business as a small finance bank on March 10, 2017 and they were included in the second schedule to the RBI Act pursuant to a notification dated November 12, 2018 issued by the RBI.
- As at June 30, 2023, the Bank's gross advances to their customers in rural and semi-urban centers (combined) accounted for 62.97% of their gross advances and 71.71% of the Banking outlets were located in rural and semi-urban centers (combined).
- The Bank's primary products are their advances (asset products) and deposits (liability products).
- The Bank has a network of 700 banking outlets (including 59 business correspondent-operated banking outlets), 767 customer service centers (which are operated by their 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 the Bank's operations are spread out across India, their business is concentrated in South India, particularly in the states of Kerala and Tamil Nadu.
- The Bank uses business correspondent entities to source and service customers for Micro Loans. Their business correspondents also source customers for mortgage loans, vehicle loans, MSME loans, agricultural loans and select deposit products. In addition, their business correspondents are responsible for sourcing and servicing the Banking agents.

Asset Products:

The Bank's asset products comprise Micro Loans, Retail Loans, MSME Loans, Loans to Financial Institutions & Agricultural Loans.

The table below sets forth their AUM by product type and as a percentage of total AUM:

AUM	As at June 30, 2023		As at March 31, 2023		As at March 31, 2022		As at March 31, 2021	
	Amount	%	Amount	%	Amount	%	Amount	%
Micro Loans	128,511.97	74.70%	122,548.83	75.04%	100,159.62	81.16%	71,452.80	84.80%
Retail Loans	27,984.48	16.26%	26,147.54	16.01%	14,649.74	11.87%	9,607.19	11.40%
MSME Loans	1,531.69	0.89%	1,600.61	0.98%	1,233.15	1.00%	483.57	0.57%
Loans to financial institutions	6,173.07	3.59%	6,137.43	3.76%	4,096.30	3.32%	2,625.44	3.12%
Agricultural Loans	7,838.51	4.56%	6,878.24	4.21%	3,268.10	2.65%	90.30	0.11%
Total AUM	172,039.68	100%	163,312.65	100%	123,406.91	100%	84,259.30	100%

Liability Products

The Bank's liability products comprise current accounts, savings accounts, fixed deposits and recurring deposits. They also serve NRI customers and offer NRE and NRO current accounts, saving accounts, fixed deposits and recurring deposits.

Distribution of Third Party Products

Insurance Products: The Bank is a corporate agent for Bajaj Allianz Life Insurance Company Limited, Kotak Mahindra Life Insurance Company Limited and PNB MetLife India Insurance Company Limited for life insurance products and ICICI Lombard and IFFCO Tokio General Insurance for general insurance products.

Other Services:

- Pension Systems
- Foreign Exchange Services
- Money Transfer Services
- Safe Deposit Lockers
- Bharat Bill Payment System
- Aadhaar Seva Kendra Services

Issue Details

Fresh Issue of up to [●] Equity Shares aggregating up to ₹3,907 million and Offer for Sale of up to [●] Equity Shares aggregating up to ₹723 million.

Issue size: ₹463 Cr
No of Shares (Net): 75,083,332 - 79,035,087
Employee Reservation: ₹12.5 Cr
Face value: ₹10/-

Price band: ₹57 - 60
Employee Discount: ₹5 per Share
Bid Lot: 250 shares and in multiples thereon

Post Issue Implied Market Cap: ₹2,953 - 3,088 Cr

BRLMs: ICICI Securities Limited, DAM Capital Advisors Limited, Nuvama Wealth Management Limited
Registrar: Link Intime India Private Limited

Indicative Timetable

Activity	On or about
Anchor Investor Issue Opens	02-11-2023
Issue Opens	03-11-2023
Issue Closes	07-11-2023
Finalization of Basis of Allotment	10-11-2023
Refunds/ Unblocking ASBA Fund	13-11-2023
Credit of equity shares to DP A/c	15-11-2023
Trading commences	16-11-2023

Listing: BSE & NSE

Issue Break Up

Retail	QIB	NII
35%	50%	15%

Shareholding *

	Pre Issue	Post Issue
Promoters & Promoter Group	74.43%	63.50%
Public - Selling Shareholder	8.63%	7.37%
Public - Other	16.94%	29.13%
Total	100.00%	100.00%

*Calculated using data in RHP on pages - 1, 22 & 119.

Competitive Strengths

Their understanding of the micro loan segment has enabled them to grow their business outside of Kerala, their home state: As at June 30, 2023, the Bank had over 3.25 million customers with Micro Loans, the majority of whom were women. Their understanding of the micro loan segment has enabled them to successfully expand their business outside of Kerala. As at June 30, 2023, their products and services were offered in 21 states and two union territories. Their gross Micro Loans to customers outside of Kerala were ₹43,305.24 million, representing 42.30% of their total gross Micro Loans, as at June 30, 2023. As at June 30, 2023, their top five states outside Kerala for gross Micro Loans were Tamil Nadu, Maharashtra, Madhya Pradesh, Karnataka and Chhattisgarh, with gross Micro Loans in those states (combined) being ₹50,437.31 million, which represented 49.27% of their total gross Micro Loans.

Main focus on their rural and semi-urban banking franchise: The Bank's main focus is on providing loans to customers in rural and semi-urban centres. Their customers in rural and semi-urban centres (combined) have increased from 3.00 million as at March 31, 2021 to 3.93 million as at March 31, 2023 and further increased to 4.07 million as at June 30, 2023. As at June 30, 2023, their gross advances to customers in rural and semi-urban centres (combined) were ₹90,951.76 million, representing 62.97% of their gross advances. As at June 30, 2023, 4.07 million of their customers were in rural and semi-urban centres (combined), representing 56.92% of their total customers, and the number of banking outlets in rural and semi-urban centres (combined) was 502, representing 71.71% of their total banking outlets.

Growing Retail Deposits portfolio: The Bank's total deposits increased from ₹89,994.26 million as at March 31 2021 to ₹146,656.25 million as at March 31, 2023, representing a CAGR of 27.66%, and further increased to ₹156,558.54 million as at June 30, 2023, an increase of 6.75%. They have placed an emphasis on increasing their Retail Deposits. Their Retail Deposits increased from ₹87,963.84 million as at March 31, 2021 to ₹133,230.03 million as at March 31, 2023, representing a CAGR of 23.07%, and further increased to ₹139,772.67 million as at June 30, 2023, an increase of 4.91%. CASA tends to provide a stable and low-cost source of deposits compared to term deposits. Their CASA increased from ₹17,476.45 million as at March 31, 2021 to ₹31,374.47 million as at March 31, 2023, representing a CAGR of 33.99%, and decreased to ₹28,519.70 million as at June 30, 2023, a decrease of 9.10%.

Customer connections driven by their customer-centric products and processes and other non-financial services for Micro Loan customers: The Bank aims to provide the best-in-class banking services to their customers, as they believe their customers are the most important stakeholders in their business. Their products and services are designed to meet the various lifecycle needs of their customers, such as home loans, clean energy product loans, loans for agricultural activities, loans against property, personal loans, education loans, gold loans and vehicle loans. An example of their customer-centric approach is that their Micro Loans can be repaid on a weekly, fortnightly or monthly basis based on their customers' preferences. As at June 30, 2023, 55.31% of their Micro Loan customers repaid their loans on a weekly basis. Their business correspondents collect cash repayments on their behalf and through regularly meeting with their Micro Loan customers, their business correspondents are better able to understand those customers' requirements. They believe their business correspondents' constant engagement with their Micro Loan customers helps to keep delinquencies in check.

Technology-driven model with a digital technology platform: The Bank offers their customers various digital platforms, including an internet banking portal, a mobile banking platform, SMS alerts, bill payments and RuPay branded ATM cum debit cards. All banking and payment transactions, such as remittances and utility payments, can be completed through these platforms. Their customers are also able to register their savings accounts on a unified payment interface based mobile applications. Their account opening and loan underwriting processes have been digitalised by using tablets, which enabled them to reduce their turnaround time and offer better service to customers. They have a digitalised central credit-processing unit for their micro loans. Their customer on-boarding process has been predominantly digitalised for their micro loans.

Experienced Board and Key Managerial Personnel and Senior Management Personnel: The Bank has an experienced Board comprising members with diverse business experience, many of whom have held senior positions in well-known financial services institutions. Mr. Kadambelil Paul Thomas, their Managing Director and Chief Executive Officer and one of their Promoters, was previously a senior field representative at Indian Farmers Fertilizers Cooperative Limited and since 2013 he has been the president of the Kerala Association of Micro Institutional Entrepreneurs. Members of their Senior Management Personnel and Key Managerial Personnel have been working in the banking and financial services sector for more than 27 years. The members of their Senior Management Personnel have expertise in scaling up financial services organizations and collectively they have all the relevant experience in credit evaluation, risk management, treasury and technology.

For further details, refer to 'Our Strengths' page 193 onwards of RHP

Business Strategies

Penetrate deeper into their existing geographies: As at June 30, 2023, the Bank had 700 banking outlets (including 59 business correspondent-operated banking outlets), 767 customer service centres (which are operated by business correspondents), 22 business correspondents, 2,116 banking agents, 525 business facilitators and 559 ATMs. As at June 30, 2023, they served over 7.15 million customers in 21 states and two union territories. Since April 2020, they have considerably expanded the number of states and territories they operate in. In Fiscal 2021, they expanded their operations to Meghalaya, Uttar Pradesh, Haryana, Tripura and Chandigarh, by opening banking outlets and/or appointing business correspondents for these states/union territory. In Fiscal 2022, they expanded their operations to Uttarakhand by appointing a business correspondent for that state. In Fiscal 2023, they opened Branches in Tripura and Uttarakhand for the first time.

Increase their deposits and in particular their Retail Deposits: The Bank plans to continue to increase their deposits, in particular their Retail Deposits, in order to help grow their business and reduce their Cost of Funds. Their total deposits increased from ₹89,994.26 million as at March 31 2021 to ₹146,656.25 million as at March 31, 2023, representing a CAGR of 27.66%, and further increased to ₹156,558.54 million as at June 30, 2023, an increase of 6.75%. Their Retail Deposits increased from ₹87,963.84 million as at March 31, 2021 to ₹133,230.03 million as at March 31, 2023, representing a CAGR of 23.07%, and further increased to ₹139,772.67 million as at June 30, 2023, an increase of 4.91%. To increase their deposits, the Banking outlets and business correspondents will continue to target new and existing customers to source deposits in the form of CASA, fixed deposits and recurring deposits by focusing on customer service and offering competitive pricing.

Continue to grow their Micro Loans while increasing their other categories of advances both in absolute terms and as a percentage of their total AUM:

- *Continue to grow their Micro Loan business:* Their AUM of Micro Loans increased from ₹71,452.80 million as at March 31, 2021 to ₹122,548.83 million as at March 31, 2023, representing a CAGR of 30.96%, and further increased to ₹128,511.97 million as at June 30, 2023, an increase of 4.87%. CRISIL MI&A expects small finance banks' AUM to grow at approximately 22-24% CAGR between June 30, 2023 and March 31, 2025.
- *Expand their retail loan business:* In Fiscal 2018, they began offering retail loans and since then they have been expanding their portfolio of retail loan products, including offering gold loans in Fiscal 2019. Gold loans in particular have contributed to the growth of their retail loans.
- *Increase their MSME loans:* Their AUM of MSME Loans increased from ₹483.57 million as at March 31, 2021 to ₹1,600.61 million as at March 31, 2023, representing a CAGR of 81.93%, and decreased to ₹1,531.69 million as at June 30, 2023, a decrease of 4.31%. They plan to increase their MSME loans both in terms of amount and as a percentage of their AUM by having their relationship managers in the Banking outlets reach out to MSMEs and offer them working capital and term loans.
- *Grow their agricultural loan business:* They set up their agricultural (agri) loan business department in Fiscal 2020. In Fiscals 2023, 2022 and 2021, they introduced two, two and three new agricultural loan products, respectively, resulting in them having seven agricultural loan products as at June 30, 2023. Their AUM of agricultural loans increased from ₹90.30 million as at March 31, 2021 to ₹6,878.24 million as at March 31, 2023, representing a CAGR of 772.76%, and increased to ₹7,838.51 million as at June 30, 2023, an increase of 13.96%.

Increase fee-based income by cross-selling, expanding third-party products and service offerings and expanding their feebased offerings: The Bank intends to increase their fee-based income by cross-selling third-party products and service offerings to their customers and expanding third-party products and service offerings. In Fiscal 2019, they began distributing the National Pension System, Atal Pension Yojna and third-party general insurance products. In Fiscal 2020, they began distributing third-party life insurance products. In Fiscal 2023, they began distributing third-party mutual funds and offering third-party depository services. In addition, they plan to offer bank guarantees and letters of credit to MSMEs.

Continue to leverage technology and customer data analytics: The Bank believes their use of technology has significantly improved the efficiency of their operations. They plan to further enhance their technology platforms, such as internet banking, mobile banking, ATMs, cash deposits machines, customer service applications and payment interfaces, which they believe will increase the adoption of their service delivery mechanisms. This will also enable them to perform more reliable data analytics, resulting in more efficient risk management processes, targeted customer profiling and offer customised products to suit their customers' diverse requirements.

For further details, refer to 'Our Strategies' page 196 onwards of RHP

Profile of Directors

Ravimohan Periyakavil Ramakrishnan is the Part-Time Chairman and Non-Executive Independent Director of the Bank. He is a certified associate of the Indian Institute of Bankers. He was previously employed as a chief general manager in the department of banking supervision of the RBI. He was previously a resident advisor, financial sector supervision, International Monetary Fund, AFRITAC South, Mauritius.

Kadambelil Paul Thomas is the Managing Director and Chief Executive Officer of the Bank. He was previously the chairman and managing director of ESAF Financial Holdings Private Limited. He has also served as the founder secretary cum honorary executive director of Evangelical Social Action Forum for over 25 years. He was also previously a director on the boards of Sanma Garments Private Limited, Rhema Dairy Products India Private Limited, Rhema Milk Producer Company Limited, Lahanti Homes and Infrastructure Private Limited, ESAF Health Care Services Private Limited, ESAF Swasraya Producers Company Limited, CEDAR Retail Private Limited, ESAF Enterprise Development Finance Limited and CEDAR Livelihood Services Private Limited (Formerly Cedar Agri Solutions Private Limited). Presently, he is the president of Kerala Association of Microfinance Institutions Entrepreneurs. He was previously the chairman of Sa-Dhan, and the chairman of Confederation of Indian Industry - Kerala. During Fiscal 2022, he received the Marketing Meister award, the Business Leader of the Year award, FE Pillar of the BFSI Industry award, the APY Big Believers (ABB) 3.0 award from PFRDA for the best performing MD & CEO, the India Banking Summit CEO of the Year Award, the Exemplary Diamond award from PFRDA, the CEO with HR orientation award at world HRD congress, the APY Big Believers Exemplary Award of Par Excellence from PFRDA, and the APY Big Believers Award of Excellence from PFRDA. He is on the board of directors of Thrissur Startup Incubation Council.

Thomas Jacob Kalappila is a Non-Executive Independent Director on the Board of the Bank. He is an associate member of the Institute of Chartered Accountants of India and holds a diploma in information and systems audit from the Institute of Chartered Accountants of India. He is a partner of Thomas Jacob & Co., a partnership firm and has 35 years of experience in statutory audit, internal and forensic audit of banks. He has previously served as an independent director on the board of directors of South Indian Bank Limited and Malabar Cements Limited.

Vinod Vijayalekshmi Vasudevan is a Non-Executive Independent Director on the Board of the Bank. He is the group CEO of FLYTXT, Dubai and Amsterdam. He is currently on the board of directors of Flytxt Mobile Solutions International, Z3P Tech Fund and Z3P Global, Mauritius.

Ravi Venkatraman is a Non-Executive Independent Director on the Board of the Bank. He was the former Executive Director and Chief Financial Officer of Mahindra and Mahindra Financial Services Limited. He is currently on the board of directors of Bajaj Finserv Mutual Fund Trustee Limited, Kotak Mahindra General Insurance Company Limited, Avanse Financial Services Limited, Kotak Mahindra Prime Limited, Sarvagram Solutions Private Limited, Aditya Birla AMC Limited.

Kolasseril Chandramohan Ranjani is a Non-Executive Independent Director on the Board of the Bank. She has held senior management positions with SIDBI, and has more than 21 years of experience in Micro, Small and Medium Enterprises in India. She is currently on the board of directors of SM Swasthman Foundation.

Biju Varkkey is an Additional Non-Executive Independent Director on the Board of the Bank. He is also a faculty member at IIM Ahmedabad. He was on the board of directors of Bank of Baroda.

John Samuel is a Non-Executive Nominee Director on the Board of the Bank. He is an associate of the Institute of Chartered Accountants of India. He was previously a Member of the Postal Services Board and held the position of Chief Post Master General.

Ajayan Mangalath Gopalakrishnan Nair is a Non-Executive Nominee Director on the Board of the Bank. He is a certified associate of the Indian Institute of Bankers. He was previously employed as the Executive Vice President of the Bank. He was previously the General Manager of IT and CIO, General Manager of retail assets, General Manager of transaction banking, General Manager of Pune Circle, Chief Compliance Officer and Deputy General Manager of Calicut Circle in Canara Bank. He is currently an additional director on the board of directors of ESAF Financial Holdings Private Limited.

Given above is the abstract of data on directors seen on page 253 - 254 of the RHP

Object of the Offer

Offer for Sale: Since the Offer is an offer for sale, the Bank will not receive any proceeds from the Offer.

Fresh Issue: The Bank proposes to utilize the Net Proceeds from the Fresh Issue towards augmenting the Bank's Tier - I capital base to meet the Bank's future capital requirements and for increasing the 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.

Above data is obtained from page 126 of RHP

Comparison with peers

Following is the comparison with the Bank's Peer Group Companies listed on Indian Stock exchanges, whose business profile is comparable to the Bank:

Company	FV/Share (₹)	EPS (Basic)	RONW (%)	NAV (₹ per share)	P/E (times)
ESAF Small Finance Bank Limited*	10	6.73	17.69	38.03	[•]
Listed Peers					
Suryoday Small Finance Bank Limited	10	7.32	4.90	149.28	22.39
CreditAccess Grameen Limited	10	52.04	16.18	326.89	26.81
Spandana Sphoorty Financial Limited	10	1.74	0.40	436.58	471.38
Bandhan Bank Limited	10	13.62	11.21	121.58	16.55
Ujjivan Small Finance Bank Limited	10	5.88	26.45	21.27	9.81
Equitas Small Finance Bank Limited	10	4.71	11.12	46.44	21.51

Above data is obtained from page 132 of RHP

*Financial information for ESAF Small Finance Bank Limited is derived from the Restated Financial Information for the year ended March 31, 2023.

Notes:

- All the financial information for listed industry peers mentioned above is on a consolidated basis (unless otherwise available only on standalone basis) and is sourced from the annual reports/ financial results as available of the respective company for the year ended March 31, 2023 submitted to stock exchanges.
- Basic EPS as reported in the relevant financial results of the respective company for the year ended March 31, 2023.
- Return on net worth (%) = Net profit/(loss) after tax / Net worth at the end of the year.
- Net asset value per share (in ₹) = Net worth at the end of the year / Total number of equity shares outstanding at the end of the year.
- P/E ratio is calculated as closing share price (October 20, 2023 - BSE) / Basic EPS for the year ended March 31, 2023.

Financials (Restated):

(₹ in Million unless stated otherwise)

Particulars	As at June 30, 2023	As at March 31, 2023	As at March 31, 2022	As at March 31, 2021
Equity Share Capital	4,494.74	4,494.74	4,494.74	4,494.74
Reserves and Surplus	13,896.19	12,596.55	9,573.22	9,025.90
Net Worth	18,390.93	17,091.29	14,067.96	13,520.64
Assets Under Management	172,039.68	163,312.65	123,406.91	84,259.30
Deposits	156,558.54	146,656.25	128,150.72	89,994.26
Total Borrowings	27,391.25	33,541.95	29,528.33	16,940.00
Total Income	9,917.75	31,415.72	21,475.08	17,684.21
EBITDA	2,459.55	6,274.35	2,205.64	2,849.61
Profit/(Loss) Before Tax	1,737.46	4,060.45	738.50	1,413.73
Profit/(Loss) After Tax	1,299.64	3,023.33	547.32	1,053.96
Net Interest Income	5,854.53	18,363.40	11,471.39	9,215.91
Net Interest Margin	2.85%*	9.68%	7.64%	8.45%
Return on Average Assets	0.63%*	1.63%	0.38%	0.96%
Return on Average Equity	7.33%*	19.36%	4.12%	8.85%
Return on Net Worth	7.07%*	17.69%	3.89%	7.80%
CASA Ratio	18.22%	21.39%	22.84%	19.42%
Total Capital Ratio (CRAR)	20.56%	19.83%	18.64%	24.23%
Provision Coverage Ratio	74.35%	56.67%	59.38%	52.77%
Net NPA	0.81%	1.13%	3.92%	3.88%
Basic EPS	2.89*	6.73	1.22	2.46

*Not Annualised

Above data obtained from pages 23, 98-100, 132-134 & 370 of RHP

Notes:

- Net worth represents the sum of equity share capital and reserves and surplus as of the last day of the relevant fiscal year / quarter.
- AUM represents Advances under Management and is calculated as the sum of gross advances plus advances originated and transferred under securitization, assignment and inter-bank participation certificates for which the company continues to hold collection responsibilities.
- Earnings before interest, tax, depreciation and amortization (EBITDA), which is a non-GAAP financial measure, has been arrived at by adding back depreciation on Bank's property, tax expense and Interest on Reserve Bank of India/Inter Bank Borrowings and Others.
- Net Interest Margin represents net interest income for the relevant fiscal year/ quarter to the Average Total Assets for the relevant fiscal year/quarter, represented as a percentage.
- Return on Average Assets is calculated as the net profit for the relevant fiscal year / quarter to Average Total Assets for the relevant fiscal year/quarter, expressed as a percentage.
- Return on Average Equity is calculated as the net profit for the relevant fiscal year / quarter to Average Net Worth for the relevant fiscal year/quarter, expressed as a percentage.
- CASA Ratio represents current account deposits and savings account deposits (together, "CASA") to total deposits as of the last day of the relevant fiscal year / quarter, expressed as a percentage.
- CRAR (%) as of the last day of the relevant fiscal year / quarter as reported by the company.
- Provision Coverage Ratio (%) - Provision Coverage Ratio represent the ratio of NPA provision including technical write off and Gross NPA, including technical write-off.
- Net NPA disclosed by the company as of the last day of the relevant fiscal year / quarter.
- Basic EPS as reported by the company represents EPS as computed in accordance with Accounting Standard 20 notified under the Companies Act (Accounting Standards) Rules of 2014 (as amended).
Basic earnings per share = Net Profit for the period/year, as restated, attributable to equity shareholders divided by Weighted average number of Equity Shares outstanding during the year/ period.

Key Risk Factors

- As at June 30, 2023 and March 31, 2023, 2022 and 2021, 74.70%, 75.04%, 81.16% and 84.80%, respectively, of the Bank's advances under management, which is gross advances plus advances originated and transferred under securitization, assignment and inter-bank participation certificates for which they continue to hold collection responsibilities ("Advances Under Management" or "AUM") were Micro Loans. As at June 30, 2023 and March 31, 2023, 56.52% and 63.66%, respectively, of their AUM were Microfinance Loans and 18.18% and 11.38%, respectively, of their AUM were Other Micro Loans. Any decrease in demand for their Micro Loans could adversely affect their business, financial condition, results of operations and cash flows.
- As at June 30, 2023, and March 31, 2023, 2022 and 2021, 75.15%, 75.35%, 83.59% and 85.50% of the Bank's advances (net of provisions) were unsecured advances, respectively. If they are unable to recover such advances in a timely manner or at all, their financial condition, results of operations and cash flows may be adversely affected.
- The Bank 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.
- The Bank's 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 June 30, 2023, 62.43% of the Banking outlets are located in South India (including 43.43% in Kerala and 13.86% in Tamil Nadu), 73.09% of their gross advances are from customers in South India (including 43.45% from Kerala and 22.14% from Tamil Nadu) and 86.90% of their deposits are from banking outlets in South India (including 80.04% from Kerala and 3.36% from Tamil Nadu). Any adverse change in the economy of South India, particularly in the states of Kerala and Tamil Nadu, could have an adverse effect on their financial condition, results of operations and cash flows.
- As at March 31, 2023, the Bank 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 them for this non-compliance, it could adversely affect their reputation, business, financial condition, results of operations and cash flows.
- The Bank 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 and external auditors appointed by the RBI have observed various non-compliances by them in the past and have required them to, among other things, take corrective actions and pay compensation. They are currently in non-compliance with certain major observations of the RBI, which they are in the process of rectifying. Any significant deficiencies identified by the RBI in a final inspection report or other observations made that they are unable to rectify to the RBI's satisfaction could lead to sanctions and penalties being imposed by the RBI on the Bank, which could materially and adversely affect their reputation, business, financial condition, results of operations and cash flows.
- The Reserve Bank of India (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 their Promoter Group and one of the Group Entities, and Lahanti Lastmile Services Private Limited ("Lahanti"), one of the Group Entities. They cannot assure you that their holding structure will not be subject to additional scrutiny by the RBI in the future.
- Certain directions have been issued by the Reserve Bank of India (RBI) to the Bank in respect of the office of Kadambelil Paul Thomas, the Managing Director, Chief Executive Officer and one of their promoters. They cannot assure you that the Bank and Kadambelil Paul Thomas will not be subject to issuance of further directions by the RBI in future, which could have an adverse reputational effect on their business and operations.
- The Insurance Regulatory and Development Authority of India ("IRDAI") and the Securities and Exchange Board of India (SEBI) have issued orders to two of their Selling Shareholders, namely, PNB MetLife and Bajaj Allianz, directing them to pay certain penalties and imposing certain restrictions on them. While they have complied with the said orders, there is no assurance that the IRDAI or SEBI will not take any further action against PNB MetLife and Bajaj Allianz and any such action could adversely affect their reputation.
- The Bank faces challenges in their 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 their business, financial condition, results of operations and cash flows.
- The Bank has failed to comply with KYC mandatory requirements in the past. Any non-compliance with mandatory AML, KYC and CFT laws and regulations could expose them to liability and harm their business and reputation.

Please read carefully the Risk Factors given in detail in section II (page 35 onwards) of RHP

Disclaimer

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