

Retail Research	IPO Note
Sector: Small Finance Bank	Price Band (Rs): 57 - 60
2nd Nov 2023	Recommendation: Subscribe for long term Horizon

ESAF Small Finance Bank Ltd.

Company Overview:

The ESAF Small Finance bank provides banking services to unbanked and under-banked customer segments, especially in rural and semi-urban centers. The bank offers products like (a) Micro Loans (b) Retail loans like gold loans, mortgages, personal loans, and vehicle loans; (c) MSME loans; (d) Loans to financial institutions; and (e) Agricultural loans etc.

Key Highlights:

Pan India presence with strong growth track record: The bank has 700 banking outlets (including 59 business correspondent-operated banking outlets), 767 customer service centers spread across 21 States and 2 Union Territories. While business is spread across 21 States, the presence is highly concentrated in Southern India, particularly in the states of Kerala and Tamil Nadu. During the last 3 years, the bank has registered 39.2% CAGR growth in AUM to Rs 8,425.9 cr as of Mar'23 while deposits grew 27.7% CAGR to Rs 14,665.6 cr.

Understanding of the micro loan segment has enabled it to grow its business outside of Kerala: As at 30th Jun, 2023, the bank has over 3.25 mn customers with Micro Loans, the majority of whom were women. The understanding of the micro loan segment has enabled it to successfully expand business outside of Kerala. The gross Micro Loans to customers outside of Kerala are at Rs 4,330.5 cr, representing 42.3% of total gross Micro Loans.

Customer connections driven by customer-centric products and processes: The bank aims to provide the best-in-class banking services to its customers. The products and services are designed to meet the various lifecycle needs of 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. As an example, Micro Loans can be repaid on a weekly, fortnightly or monthly basis based on customers' preferences.

Technology-driven model with a digital technology platform: The account opening and loan underwriting processes have been digitalized by using tablets which enables the bank to reduce turnaround time and offer better service to customers. By leveraging technology solutions, the bank provides customers with pre-generated kits immediately upon account opening. During FY23, the bank has disbursed over 0.5 mn loans using e-signatures, which showcases its commitment to digital advancement.

Valuation:

The business is valued at an FY23 Post issue P/BV multiple of 1.4x/1.5x at the lower and upper price band respectively. The IPO looks fairly valued across various valuation parameters when compared with its peers. Investors can SUBSCRIBE to the issue for a long-term investment perspective.

Issue Details	
Date of Opening	3 rd November 23
Date of Closing	7 th November 23
Price Band (Rs)	57-60
Employee Discount	Rs 5 per share
Issue Size (Rs cr)	463.0
No. of shares	Total: 8,12,28,070 - 7,71,66,667 OFS: 1,26,84,211- 1,20,50,000 Fresh Issue: 6,85,43,860 - 6,51,16,667
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	2,952.7-3,087.5
BRLMs	ICICI Securities Ltd. DAM Capital Advisors Ltd. Nuvama Wealth Management Ltd.
Registrar	Link Intime India Private Ltd.
Bid Lot	250 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB (HNI) shares	15%

Objects of Issue	
	(Rs Cr.)
Gross proceeds of the Issue	390.7
Less: Fresh Issue expenses	[●]
Net Proceeds	[●]

*The net proceed will be finalized upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	33,45,28,839	74.4
Public	11,49,44,959	25.6
Total	44,94,73,798.0	100.0

Post Issue @Lower Price Band		
	No. of Shares	%
Promoter & Promoter Group	32,58,86,734	62.9
Public and Others	19,21,30,924	37.1
Total	51,80,17,658	100.0

Post Issue @Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	32,63,18,839	63.4
Public and Others	18,82,71,626	36.6
Total	51,45,90,465	100.0

Source: RHP, SSL Research

Risk factors

- Business is highly concentrated in the Southern region predominately in Kerala and Tamil Nadu. Of the total banking outlets of 700 as of Jun'23, 57.3% of outlets and 65.6% of its total AUM are in these two States.
- AUM is highly concentrated in unsecured micro loan segment. As per the RBI guideline, the SFBs have to extend adjusted net bank credit up to 75% to priority sector. The unsecured nature of lending is vulnerable to the credit risk in case of adverse economic growth outlook.
- High cost of operation as the bank operates primarily in rural and semi-urban areas. The cost to income ratio will remain at an elevated level.
- Vulnerability of household's income to local developments as the income profile of borrowers are generally lumpy in nature.
- At least 25.0% of total banking outlets, which comprises branches and business correspondent-operated banking outlets, are required to be located in Unbanked Rural Centers. This increases the cost of operation and takes longer duration for turnaround.

Growth strategy

- Penetrate deeper into existing geographies
- Increase the share of retail deposits in order to further granularize the liability mix and lower the cost of funds.
- Continue to grow Micro Loans while increasing other categories of advances both in absolute terms and as a % of total AUM.
- Expand retail loan business by targeting agriculturists / small farmers, small-scale entrepreneurs, salaried employees, students and senior citizens in small towns and rural India.
- Increase fee-based income by cross-selling, expanding to third-party products and service offerings and expanding fee-based offerings.
- To continue leveraging technology and customer data analytics

AUM Break-up (Rs cr)

Particular	2021A	2022A	2023A	CAGR %
Micro loan	7,145.3	10,016.0	12,254.9	31.0
Retail loan	960.7	1,465.0	2,614.8	65.0
MSME loan	48.4	123.3	160.1	81.9
Loans to financial institutions	262.5	409.6	613.7	52.9
Agricultural loan	9.0	326.8	687.8	772.8
Total Loans	8,425.9	12,340.7	16,331.3	39.2

Source: RHP, SSL Research

% Of AUM	2021A	2022A	2023A
Micro loan	84.8	81.2	75.0
Retail loan	11.4	11.9	16.0
MSME loan	0.6	1.0	1.0
Loans to financial institutions	3.1	3.3	3.8
Agricultural loan	0.1	2.6	4.2
Total Loans	100.0	100.0	100.0

Source: RHP, SSL Research

Liability profile of bank (Rs cr)

Particulars	2021A	2022A	2023A
Demand deposits	153.2	219.8	263.8
Savings bank deposits	1,594.5	2,707.6	2,873.7
CASA	1,747.6	2,927.4	3,137.4
Retail Term Deposits	7,048.7	9,081.4	10,185.6
Bulk Deposits	203.0	806.2	1,342.6
Total Retail Deposit	8,796.4	12,008.8	13,323.0
Total Deposit	8,999.4	12,815.1	14,665.6

Source: RHP, SSL Research

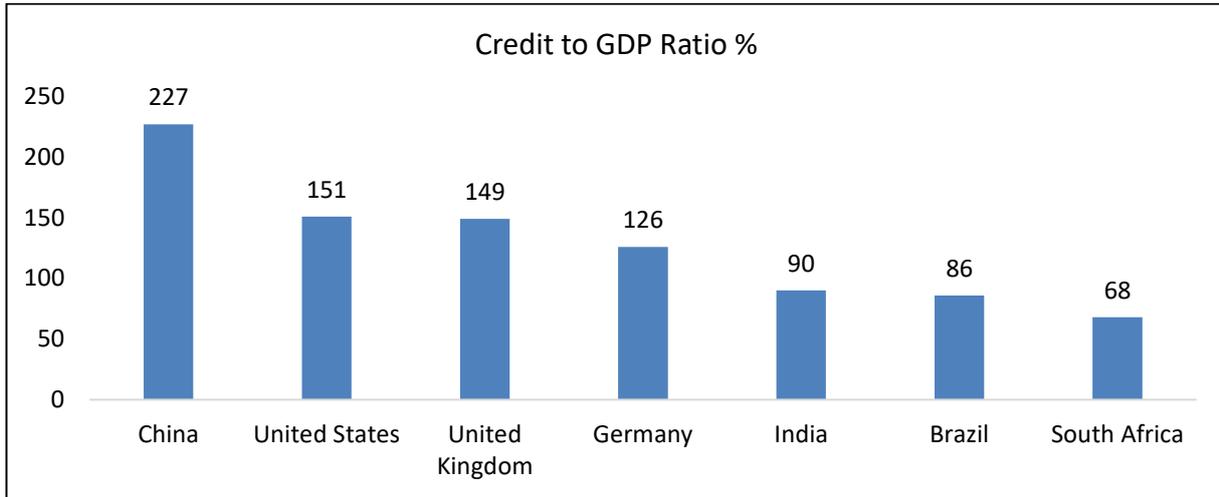
% Of Total Deposit	2021A	2022A	2023A
Demand deposits	1.7	1.7	1.8
Savings bank deposits	17.7	21.1	19.6
CASA	19.4	22.8	21.4
Retail Term Deposits	78.3	70.9	69.5
Bulk Deposits	2.3	6.3	9.2
Total Retail Deposit	97.7	93.7	90.8
Total Deposit	100.0	100.0	100.0

Source: RHP, SSL Research

Industry Overview

Credit to GDP Ratio % (As of 1QFY23)

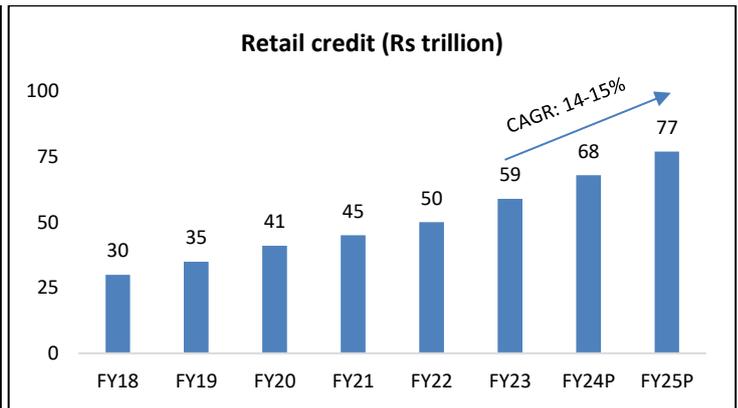
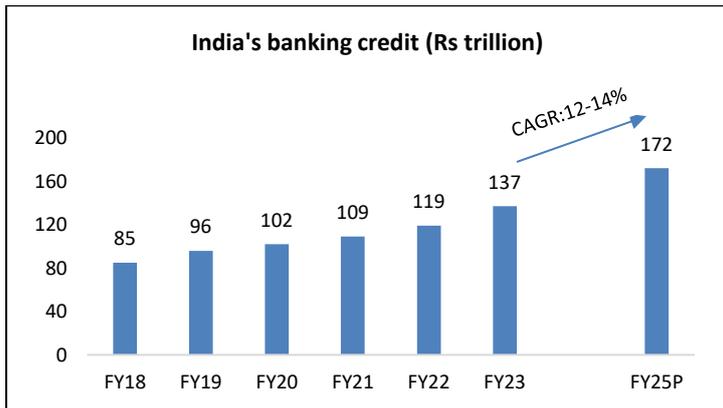
In terms of the credit to GDP ratio, India has low credit penetration compared with other developing countries such as China, indicating the potential that can be tapped going ahead.



Source: RHP, SSL Research

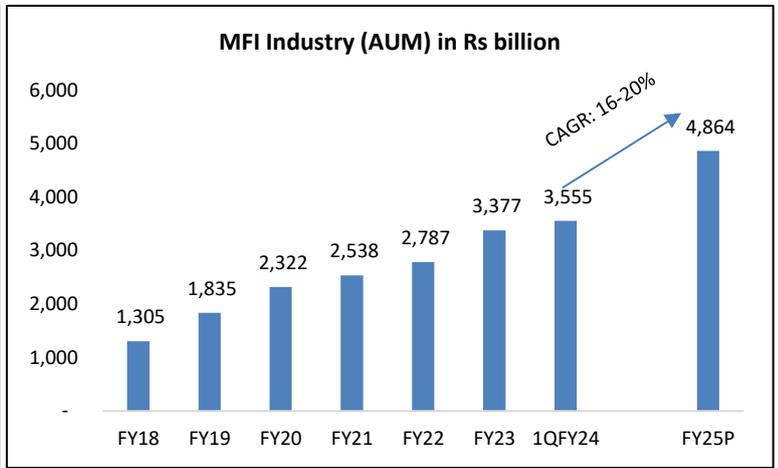
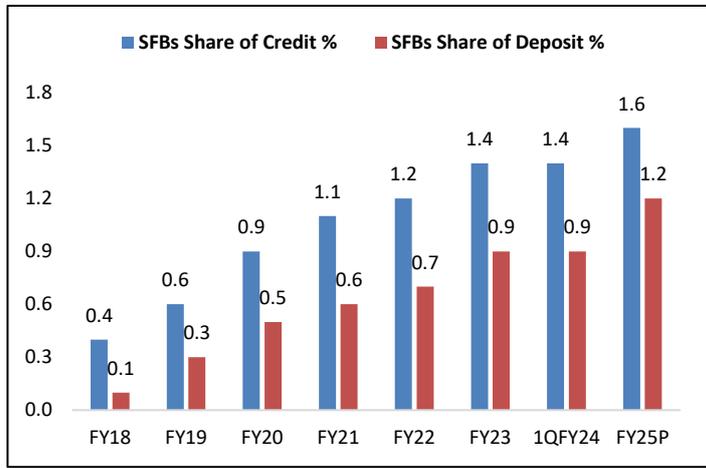
India's banking credit

The overall bank credit to clock a CAGR of 12-14% between FY23 and FY25. 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.



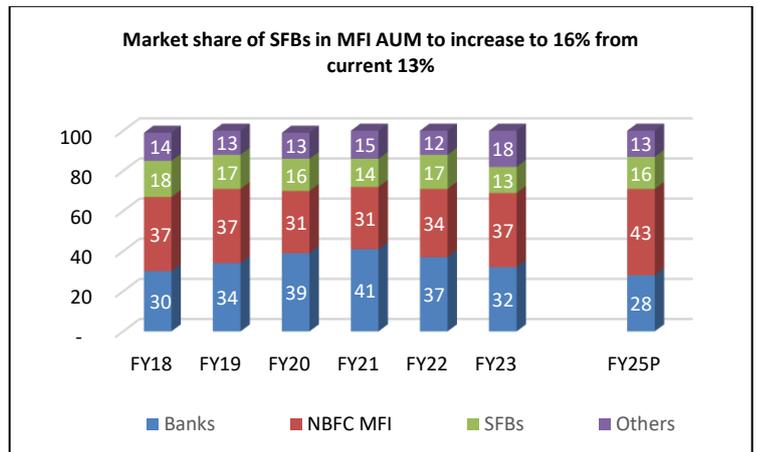
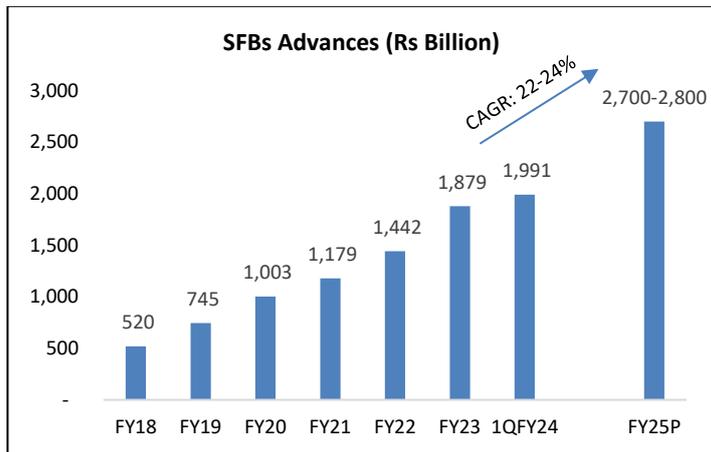
Source: RHP, SSL Research

SFB share in overall banking credit and banking deposit are at 1.4% and 0.9% respectively as of March 31, 2023. The same is expected to touch 1.6% and 1.2% by 2025.



Source: RHP, SSL Research_

Between Q1FY2024 and FY2025, the MFI loan portfolio is expected to clock 16-20% CAGR. Growth would be driven by continuous expansion in the client base of MFIs and increased penetration in rural centers. The market share of SFBs in micro finance book to touch 16% from current 13%.



Source: RHP, SSL Research_

Financials Snapshot

Income Statement	FY21	FY22	FY23
Interest Income	1,641.2	1,939.9	2,853.7
Interest & Other Financial Charges	719.6	792.8	1,017.3
Net Interest Income	921.6	1,147.1	1,836.3
Other Income	127.2	207.6	287.9
Total Income	1,048.8	1,354.7	2,124.3
Operating Expenditures	603.3	830.1	1,188.8
Employee Expenses	187.8	232.1	278.0
Other Expenses	415.5	598.0	910.8
Operation Profit before Provision	445.6	524.6	935.5
Provisions Excluding Tax	275.6	418.0	487.7
Operating Profit After Provision	169.9	106.6	447.8
Depreciation & Amortization	28.6	32.8	41.8
Profit Before Tax	141.4	73.9	406.0
Provision for Tax	36.0	19.1	103.7
Current Tax	60.2	48.5	77.1
Provision Related to Earlier Year	-	-	-
Deferred Tax	(24.3)	(29.4)	26.6
Profit After Tax	105.4	54.7	302.3

Balance Sheet	FY21	FY22	FY23
Shareholder's fund	1,352.1	1,411.6	1,715.0
Share capital	449.5	449.5	449.5
Reserves and surplus	902.6	962.1	1,265.5
Non-current liabilities	10,986.6	16,296.0	18,508.7
Deposit	8,999.4	12,815.1	14,665.6
Borrowings	1,694.0	2,952.8	3,354.2
Other Liability and Provision	293.2	528.1	488.8
Total Equity and Liabilities	12,338.7	17,707.6	20,223.7
Assets	FY21	FY22	FY23
Non-current assets			
Cash and Balances with Reserve Bank of India	1,618.1	1,300.7	739.5
Balances with Banks and Money at Call and Short Notice	201.1	211.2	27.5
Investments	1,932.1	4,070.3	4,888.5
Advances	8,167.6	11,637.0	13,924.3
Fixed Assets	138.5	159.5	187.9
Other Assets	281.4	328.9	455.8
Total assets	12,338.7	17,707.6	20,223.7

Source: RHP, SSL Research

ESAF Small Finance Bank			
(Rs. Cr.)	Pre -Issue	Post Issue	
	FY22	FY23	
Particulars		Price Band	
		57	60
Net Interest Income	1,147.1	1,836.3	1,836.3
Net Revenue	1,354.7	2,124.3	2,124.3
PAT	54.7	302.3	302.3
Equity Share Capital	449.5	518.0	514.6
No of Equity Shares	44.9	51.8	51.5
Face Value	10.0	10.0	10.0
EPS	1.2	5.8	5.9
CMP	60.0	57.0	60.0
Borrowings & Deposits	9,862.2	11,311.4	11,311.4
Net Worth	1,411.6	2,105.7	2,105.7
Loan Book	11,637.0	13,924.3	13,924.3
Cash and Investment	4,281.5	4,916.0	4,916.0
Interest Earning Assets	15,918.5	18,840.4	18,840.4
Total Asset	17,707.6	20,223.7	20,223.7
Market Cap	2,696.8	2,952.7	3,087.5
BV per share (Rs)	31.4	40.6	40.9
PE(x)	49.3	9.8	10.2
P/BV (x)	1.9	1.4	1.5
NIM (%)	8.8	10.6	10.6
ROA (%)	0.4	1.6	1.6
Cost of fund (%)	9.2	9.6	9.6
Yield on Assets (%)	14.8	16.4	16.4
Spread (%)	5.6	6.8	6.8
Cost to Income Ratio (%)	61.3	56.0	56.0
RoE (%)	4.0	19.3	19.3
GNPA (%)	7.8	2.5	2.5
NNPA (%)	3.9	1.1	1.1
PCR (%)	59.4	56.7	56.7

Source: RHP, SSL Research (Post Issue)

Peer Comparison

ESAF Small Finance Bank							
Particulars	Lower	Upper	Equitas Small Fin. Bank	Credit Access Grameen	Spandana Sphoorty	Ujjivan Small Fin.Bank	Suryoday Small Fin. Bank
CMP (Rs)	57.0	60.0	94.6	1,620.0	897.0	52.2	153.8
Market. Cap (Rs Cr)	2,952.7	3,087.5	10,493.0	25,600.0	6,438.0	10,297.0	1654.0
P/BV (x)	1.4	1.5	2.0	5.0	2.1	2.6	1.0
P / E (x)	9.8	10.2	18.3	31.2	18.4	9.5	21.0
NIM (%)	10.6	10.6	9.0	12.2	13.9	9.5	9.5
ROA (%)	1.6	1.6	1.9	4.2	5.9	3.9	0.9
NNPA %	1.1	1.1	1.1	1.2	0.6	0.0	1.5
CAR %	19.8	19.8	23.8	25.0	36.3	25.8	33.7

(Source: RHP, SSL Research)

CMP as of 1st Nov 2023 live price

The data is based on FY23 financial data

SBICAP Securities Limited

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SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

Portfolio Manager: INP000004912 | IRDA/RW/IR2/2015/081 | IRDA/RW/IR1/2016/041 | IRDA: CA0103

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