

November 2, 2023

IPO Note

IPO NOTE

Issue Details

Price Band: ₹ 57 to ₹ 60
Employee Discount: ₹ 5/Share
Issue Opens on: November 3, 2023
Issue Closes on: November 7, 2023
Lot Size: 250 Shares & in Multiples thereafter

Issue Highlights

Issue Size : ₹ 463 Cr.
Face Value : ₹ 10

Offer Structure

Issuance	₹ in Cr.
Fresh Issue	390.70
Offer for Sale	72.30
Total	463.00

Issue Breakup

Reservation for	% of Issue	₹ in Cr. (at upper band)
QIB	50	225.25
HNI	15	67.58
Retail	35	157.68
Employee	-	12.5
Total	100	463.00

Listing

BSE & NSE

Lead Managers

- ICICI Securities Limited
 - DAM Capital Advisors Limited
 - Nuvama Wealth Management Limited

Registrar

Link Intime India Private Limited

ANALYST

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COMPANY OVERVIEW

ESAF is a small finance bank with a focus on unbanked and under-banked customer segments, especially in rural and semiurban centres. Their primary products are advances (asset products) and deposits (liability products). Advances comprises of: (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. Liability products comprise current accounts, savings accounts, term deposits and recurring deposits.

Their services include safety deposit lockers, foreign currency exchange, giving customers access to the Bharat Bill Payment System, money transfer services and Aadhaar Seva Kendra services. They also distribute third-party life and general insurance policies and Government pension products.

It has a network of 700 banking outlets, 767 customer service centres 22 business correspondents, 2,116 banking agents, 525 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.

Its business is concentrated in South India, particularly in the states of Kerala and Tamil Nadu. The "ESAF" brand has been built over more than 27 years, beginning in 1995 when ESAF Foundation started its micro loan activities.

HIGHLIGHTS

1. Main focus on rural and semi-urban banking franchise
2. Growing Retail Deposits portfolio
3. Customer connections for Micro Loan customers
4. Technology-driven model with a digital technology platform

OBJECTS OF THE ISSUE

Fresh issue of Equity shares aggregating up-to ₹ 390.70 Cr.

1. Augmenting its Tier - 1 capital base to meet its future capital requirements.
2. General corporate purpose.

Offer for sale of equity shares aggregating up-to ₹ 72.30 Cr.

OUR VIEW

ESAF Foundation in 1995 started its micro loan activities. It currently boasts of 700 Banking Outlets 559 ATMs across 21 States and 2 UTs. The Primary products are advances (asset products) and deposits (liability products). They follow a social business strategy seeking a triple bottom line impact: People; Planet; and Prosperity. The main focus being rural and semi-urban banking franchise, expanding horizons with increase in MSME Loans, agricultural loan business and retail loan business.

ESAF will continue to leverage technology and customer data analytics. However, a lot of its business is concentrated in South India. The company saw high attrition rate of employees in the recent years 24.07%, 20.07%, 13.03% for Fiscals 2023, 2022 and 2021, respectively.

Their deposits have grown from ₹ 89,994.26 million to ₹ 146,656.25 million from FY21-23 registering a CAGR of 27.66%, and increased to ₹ 156,558.54 million as at June 30, 2023. The CASA ratio dropped from 22.84% in FY22 to 21.39% in FY23 & registered 18.22% as at Q1FY24. Also, cost of Funds has reduced from 7.56% in FY21 to 6.19% in FY23 and registered 1.71% as at Q1FY24. Also, ESAF SFB was 3rd in deposits to net advances (loan book) at 109.3% and 5th in deposits to overall borrowings at 85.1% among the compared SFBs as at Q1FY24. The gross NPA and net NPA stood at 2.49% and 1.13% respectively, which improved significantly from previous year.

Its topline and bottomline both registered growth of CAGR of 32% and 69% respectively from FY21-23. The issue is priced at a P/BV of 1.47 based on its NAV of ₹ 40.92 as of June 30, 2023. Based on peer comparison, highest P/B ratio is 4.25 (Credit Access Grameen Limited), the lowest P/B ratio is 1.10 (Suryoday Small Finance Bank Limited) and the average P/B ratio is 2.33. The company is asking for a PE Multiple of 8.94x on the upper end of the price band over the diluted EPS of FY23 (₹ 6.71) and multiple of 5.19x over annualized diluted EPS for quarter ended Q1FY23 (₹ 2.89).

Keeping all the factors in mind we recommend the investors to Apply for the IPO with medium to Long term visibility.

Brief Financials

PARTICULARS	As at June 30, 2023			₹ in Million
		FY '23	FY '22	FY '21
Total Income	9,917.75	31,415.72	21,475.08	17,684.21
Total Expenditure	8,618.11	28,392.39	20,927.76	16,630.25
Profit after Tax	1,299.64	3,023.33	547.32	1,053.96
Net Interest Margin (%)	2.85*	8.45	7.64	9.68
Net NPA (%)	0.81	3.88	3.92	1.13
E.P.S. (Diluted)	2.89*	6.71	1.22	2.46
P/E (x) (Diluted)	-	8.94	-	-
RONW (%)	7.07*	17.69	3.89	7.80

PRICE CHART (@ ₹ 60) (Retail Category)

LOT SIZE	Amount
250	15,000
500	30,000
750	45,000
1,000	60,000
1,250	75,000
1,500	90,000
1,750	105,000
2,000	120,000
2,250	135,000
2,500	150,000
2,750	165,000
3,000	180,000
3,250	195,000

HNI Payment Chart

Category	No. of Shares	Minimum Bid Lot Amount(Rs.)
Between ₹ 2 to ₹ 10 Lakhs (Minimum Shares)	3,500	210,000
Between ₹ 2 to ₹ 10 Lakhs (Maximum Shares)	16,500	990,000
Above ₹ 10 Lakhs	16,750	1,005,000

Indicative Time Table

Tentative Events	Indicative Dates
Finalisation of Basis of Allotment with the Designated Stock Exchange	10/11/2023
Initiation of refunds/unblocking ASBA Fund	13/11/2023
Credit of Equity Shares to demat accounts of Allottees	15/11/2023
Commencement of trading of the Equity Shares on the Stock Exchanges	16/11/2023

[For more details, Please refer RHP,
\(SEBI | ESAF Small Finance Bank Limited - corrigendum to RHP\)](#)

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