

ESAF Small Finance Bank

Joy of Banking!



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ESAF Small Finance Bank Limited is a microfinance bank with a specialization in underserved and less-banked customer segments, particularly in rural and peri-urban regions.

The bank commenced its operations as a microfinance bank on March 10, 2017, and it was included in the second schedule to the RBI Act following a notification dated November 12, 2018, issued by the RBI.

As of June 30, 2023, the bank's gross loans to their customers in rural and peri-urban regions (combined) represented 62.97% of their total loans, and 71.71% of the banking outlets were situated in rural and peri-urban areas (combined).

The bank's primary offerings include their loans (asset products) and savings (liability products).

The bank maintains a network of 700 banking locations (including 59 business correspondent-operated banking locations), 767 customer service centers (operated by their business correspondents), 22 business correspondent partners, 2,116 banking agents, 525 business facilitators, and 559 ATMs spread across 21 states and two union territories, catering to 7.15 million customers as of June 30, 2023.

Despite having a nationwide presence, the bank's primary business operations are concentrated in South India, specifically in the states of Kerala and Tamil Nadu.

The bank leverages business correspondent entities to acquire and serve customers for Micro Loans. These business correspondents also acquire customers for mortgage loans, vehicle loans, MSME loans, agricultural loans, and specific deposit products. Furthermore, they are responsible for acquiring and servicing the banking agents.

Key Financial Data (INR Cr, unless specified)

	Interest Earned	NII	PPOP	Net Profit	NIM (%)	EPS (₹)	BVPS (₹)	RoAA (%)	RoAE (%)	P/E (X)	P/BV
FY21	1641.2	921.6	416.9	105.3	7.5	2.5	30.1	1.0	8.85	24.4	2.0
FY22	1939.9	1147.1	491.8	54.7	6.5	1.2	31.3	0.4	4.12	49.2	1.9
FY23	2853.7	1836.3	893.7	302.3	9.1	6.7	38	1.6	19.3	8.9	1.6

Industry	Banking
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Issue Details

Listing	BSE & NSE
Open Date	3 rd Nov 2023
Close Date	7 th Nov 2023
Price Band	INR 57-60
Face Value	INR 10
Market Lot	250 shares
Minimum Lot	1 Lot

Issue Structure

Offer for Sale	84.38%
Fresh Issue	15.61%
Issue Size (Amt)	INR 463 cr
Issue Size (Shares)	79,035,087
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	449,473,798
Post issue sh (nos)	514,779,858
Post issue M Cap	INR 3088 cr

Shareholding (%)	Pre (%)	Post (%)
Promoters	74.43	62.64
Public	25.57	37.36
TOTAL	100.00	100.00

Growth Strategies

Deeper Penetration into existing and new geographies: 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.

Cross Selling: 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 depositary services. In addition, they plan to offer bank guarantees and letters of credit to MSMEs.

Key Risks & Concerns

- As of March 31, 2023, the bank was not in adherence with 17 out of the 272 Risk-Based Supervision (RBS) Tranche III prerequisites. If the Reserve Bank of India (RBI) decides to levy fines on the bank due to this deviation, it has the potential to detrimentally impact their standing, operations, financial health, performance, and liquidity.
- As of June 30, 2023, a significant portion of the bank's operations is concentrated in South India, with 62.43% of their banking outlets located in this region (comprising 43.43% in Kerala and 13.86% in Tamil Nadu). Furthermore, a substantial portion of their financial activities is also linked to South India, with 73.09% of their gross advances originating from customers in this region (including 43.45% from Kerala and 22.14% from Tamil Nadu), and 86.90% of their deposits sourced from banking outlets within South India (including 80.04% from Kerala and 3.36% from Tamil Nadu). It's important to note that any adverse economic changes in South India, especially within the states of Kerala and Tamil Nadu, have the potential to negatively impact the bank's financial well-being, operational performance, and cash flow.
- 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.

The proposed fresh issue of shares and offer for sale of ESAF Small Finance Bank is INR 463 cr, and the price band for the issue is in the range of INR 57-60 and the bid lot is 250 shares and multiples thereof.

Issue Structure		
Investor Category	Allocation	No. of shares
QIB	Not more than 50% of the Offer	37,541,665
NIB	Not less than 15% of the Offer	11,262,500
Retail	Not less than 35% of the Offer	26,279,167
Employees		2,272,727

Number of shares based on a higher price band of INR 60

Source: Company Reports

ESAF SFB financial summary & analysis

Y/E March (INR crore)	FY21	FY22	FY23	Y/E March (Rs crore)	FY21	FY22	FY23
Income Statement				Ratio Analysis			
Interest Income	1,641.2	1,939.9	2,853.7	Int Expended / Int Earned	43.8	40.9	35.6
Interest Expense	719.6	792.8	1,017.3	Int Income / Total Funds	13.3	11.0	14.1
Net Interest Income	921.6	1,147.1	1,836.3	NII / Total Income	52.1	53.4	58.5
YoY change (%)	16.3	24.5	60.1	Other Inc. / Total Income	7.2	9.7	9.2
Other income	127.2	207.6	287.9	Op. Exp. / Total Income	35.7	40.2	39.2
Total Net Income	1,048.8	1,354.7	2,124.2	Net Profit / Total Funds	0.9	0.3	1.5
Total Operating Expenses	631.9	862.9	1,230.5	Credit / Deposit	0.9	0.9	0.9
Pre Provision profit	416.9	491.8	893.7	Investment / Deposit	0.2	0.3	0.3
YoY change (%)	28.4	18.0	81.7	NIM %	0.1	0.1	0.1
Provisions	275.6	418.0	487.7	Solvency			
Profit Before Tax	141.3	73.8	406.0	Gross NPA	564.0	949.6	351.7
YoY change (%)	(25.8)	(47.8)	450.0	Net NPA	316.6	456.0	157.9
Taxes	36.0	19.1	103.7	Gross NPA (%)	0.0	0.1	0.0
Net profit	105.3	54.7	302.3	Net NPA (%)	0.0	0.0	0.0
YoY change (%)	(44.7)	(48.1)	452.7	Per Share Data (`)			
Balance Sheet				EPS	2.5	1.2	6.7
Cash and Bank	1,819.2	1,511.9	767.1	BVPS	30.1	31.3	38.0
Advances	8,167.6	11,637.0	13,924.3	Valuation Ratio			
Investments	1,932.0	4,070.3	4,888.5	Adj P/E (x)	24.4	49.2	8.9
Other financial assets	281.4	328.9	455.8	Adj P/BV (x)	2.0	1.9	1.6
Net block	132.6	159.4	187.7	Return Ratio			
Total Assets	12,338.7	17,707.5	20,223.4	RoAA (%)	1.0	0.0	0.0
Deposits	8,999.4	12,815.1	14,665.6	RoAE (%)	0.1	0.0	0.2
Other Borrowings	1,694.0	2,952.8	3,354.2	Growth Ratio (%)			
Other liabilities	293.2	528.1	488.8	Interest Income	16.1	18.2	47.1
Networth	1,352.1	1,411.5	1,714.8	Interest Expenses	15.9	10.2	28.3
Total liabilities	12,338.7	17,707.5	20,223.4	Total Income	14.4	21.4	46.3
Dupont Analysis				Net profit	105.3	54.7	302.3
% of Average Assets							
Net Interest Income	1.0	7.6	9.7				
Other Income	0.1	1.4	1.5				
Net Income	1.2	9.0	11.2				
Operating Expenses	0.7	5.7	6.5				
Operating Profit	0.5	3.3	4.7				

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