



IPO NOTE

ESAF SMALL FINANCE BANK LIMITED



Rating:

SUBSCRIBE

ISSUE OFFER

Issue Opens on	NOV 03, 2023
Issue Close on	NOV 07, 2023
Total IPO size (cr)	463.00
Fresh issue (cr)	390.70
Offer For Sale (cr)	72.30
Price Band (INR)	57- 60
Market Lot	250
Face Value (INR)	10
Retail Allocation	35%
Listing On	NSE, BSE

ISSUE BREAK-UP (%)

QIB Portion	<div><div></div></div>	50%
NIB Portion	<div><div></div></div>	15%
Retail Portion	<div><div></div></div>	35%

SHAREHOLDING (No. of Shares)

Pre Issue

449,473,798

Post Issue

514,779,858

INDICATIVE TIMETABLE

Finalisation 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

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. Its primary products are advances (asset products) and deposits (liability products). Its advances comprise (a) Micro Loans, which comprise Microfinance Loans and Other Micro Loans; (b) retail loans, which include 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.

OBJECTS OF THE ISSUE

- The Net Proceeds are proposed to be utilized towards augmentation of the Bank's Tier-I capital base,

OUTLOOK & VALUATION

ESAF Small Finance Bank has a major operation in the microloan segment, with a main focus on rural areas. The company has a strong presence in southern India. And it has a growing retail deposit portfolio. If we look at its financials, the company has reported strong growth in top- and bottom-line numbers.

However, there are some concerns, like geographical concentration and intense competition in the industry.

The issue is coming at a P/BV of 1.5x, which seems fairly priced. Thus, considering this valuation and its better performance in terms of its CIR, NNPA, and NIM, we will give a subscribe rating to this IPO.



KEY MANAGERIAL PERSONNEL

01

Ravimohan Periyakavil Ramakrishnan

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.

04

Ranjith Raj P

Company Secretary and Compliance Officer of the Bank. He holds a bachelor's degree in commerce from Calicut University. He is a company secretary and is an associate of the Institute of Company Secretaries of India. He was previously employed as company secretary of ESAF Financial Holdings Private Limited.

02

Kadambelil Paul Thomas

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.

03

Gireesh C.P.

Chief Financial Officer of the Bank. He holds a bachelor's degree in science from Mahatma Gandhi University. He is a fellow member of the Institute of Chartered Accountants of India and a certified associate of the Indian Institute of Banking and Finance. He was previously the chief financial officer of South Indian Bank Limited.



COMPANY PROFILE

- ESAF's advances comprise (a) Micro Loans; (b) retail 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 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.
- The bank has a network of 700 banking outlets, 767 customer service centers, 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 of June 30, 2023.
- Bank offers various digital platforms such as an internet banking portal, a mobile banking platform, SMS alerts, bill payments, and RuPay branded ATM cum debit cards.

COMPETITIVE STRENGTHS

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

KEY STRATEGIES

- Penetrate deeper into its existing geographies.
- Increase its deposits and in particular its Retail Deposits.
- Continue to grow its Micro Loans while increasing other categories of advances.
- Increase fee-based income by cross-selling, expanding third-party products and service offerings, and expanding its fee-based offerings.
- Continue to leverage technology and customer data analytics

KEY CONCERNS

- The business is significantly dependent on its microloan segment. Any decrease in demand for its Micro Loans could adversely affect its business.
- Micro Loans and some of its retail loans are unsecured. The inability to recover such advances on time or at all, could impact its business.
- Its business is concentrated in South India, particularly in the states of Kerala and Tamil Nadu.
- It 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 income to local developments.
- The banks are subject to certain approvals and inspections from various regulatory authorities.
- The Indian finance industry is intensely competitive. It faces intense competition in all its principal products and services.

COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31ST MARCH 2023)

Name of the Company	P/B	P/E	Total Income (Mn)	NAV	RONW(%)
ESAF Small Finance Bank Limited	-	-	31,415.72	38.03	17.69
Peer Group					
Suryoday Small Finance Bank Limited	1.10	22.39	12,811.00	149.28	4.90
CreditAccess Grameen Limited	4.25	26.81	35,507.90	326.89	16.18
Spandana Spahoorty Financial Limited	1.88	471.38	14,770.32	436.58	0.40
Bandhan Bank Limited	1.85	16.55	183,732.50	121.58	11.21
Ujjivan Small Finance Bank Limited	2.71	9.81	47,541.90	21.27	26.45
Equitas Small Finance Bank Limited	2.16	21.51	48,314.64	46.44	11.12

FINANCIALS (RESTATED CONSOLIDATED)

PARTICULARS (RS. IN MILLIONS)	FY 2023	FY 2022	FY 2021
Share Capital	4494.7	4494.7	4494.7
Reserves	12596.6	9573.2	9025.9
Net Worth	17091.3	14068.0	13520.6
Deposits	146656.3	128150.7	89994.3
Advances	139243.3	116370.1	81675.9
Interest Earned	28536.6	19399.3	16411.7
EBITDA	6274.4	2205.6	2849.6
NET PROFIT OF THE YEAR	3023.3	547.3	1054.0



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