

IPO Note

ESAF SMALL FINANCE BANK LIMITED

November 03, 2023



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Details of the Issue

Price Band	₹ 57 - ₹ 60
Issue Size	₹ 463 Cr
Face Value	₹ 10
Bid Lot	250
Listing on	BSE, NSE
Post Issue Mcap	₹ 3,087.54 Cr
Investment Range	₹ 14,250 - ₹ 15,000

Important Indicative Dates (2023)

Opening	03 - Nov
Closing	07 - Nov
Basis of Allotment	10 - Nov
Refund Initiation	13 - Nov
Credit to Demat	15 - Nov
Listing Date	16 - Nov

No of shares (Mn)

Fresh Issue of Shares	6.51
Offer for Sales	1.25
Total No of Shares	7.71

Lead Manager

ICICI Securities Limited
DAM Capital Advisors Limited
Nuvama Wealth Management Limited

Offer Details

Offer Size	₹ 463 Cr
Fresh Issue	₹ 390.70 Cr
OFS	₹ 72.30 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	232	38.58	40.61	50
NIB	810	13.50	14.21	35
Retail	122	2.03	2.13	15
Em-ploy.	-	-	-	-
Total	463	54.11	56.96	100

Invest Now**Company Profile**

Established in 1992, ESAF is a Small Finance Bank with a primary focus on providing financial assistance to rural and semi-urban customers. The bank offers a range of products, including:

- (a) Micro Loans
- (b) Retail Loans
- (c) MSME Loans
- (d) Loans to Financial Institutions
- (e) Agricultural Loans

As of March 2023, ESAF boasts an extensive network of 700 outlets, 743 customer service centers, 20 business correspondents, and 481 business facilitators. Additionally, the bank operates 581 ATMs spanning across 21 states in India.

ESAF is committed to providing convenience banking to its customers through various digital platforms, including an internet banking portal, a mobile banking platform, SMS alerts, bill payment services, and RuPay branded ATM-cum-debit cards.

Business Highlights & Services

ESAF is a small finance bank with a focus on unbanked and under-banked customer segments, especially in rural and semiurban centres. Company commenced business as a small finance bank on March 10, 2017 and were included in the second schedule to the RBI Act pursuant to a notification dated November 12, 2018 issued by the RBI. Bank does not have any subsidiaries, associates or joint ventures or a holding company.

As at June 30, 2023, gross advances to customers in rural and semi-urban centres (combined) accounted for 62.97% of gross advances and 71.71% of banking outlets were located in rural and semi-urban centres (combined). Its primary products are advances (asset products) and deposits (liability products). Its advances comprise: (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. AUM grew from ₹84,259.30 million to ₹163,312.65 million as at March 31, 2021 and 2023, respectively, registering a CAGR of 39.22%, and increased to ₹172,039.68 million as at June 30, 2023, an increase of 5.34%. Bank deposits grew from ₹89,994.26 million to ₹146,656.25 million as at March 31, 2021 and 2023, respectively, registering a CAGR of 27.66%, and increased to ₹156,558.54 million as at June 30, 2023, an increase of 6.75%. 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. It also distributes third-party life and general insurance policies and Government pension products.

Bank has a network of 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 spread across 21 states and two union territories, serving 7.15 million customers as at June 30, 2023. While its operations are spread out across India, its business is concentrated in South India, particularly in the states of Kerala and Tamil Nadu. As at June 30, 2023, 62.43% of banking outlets are located in South India (including 43.43% in Kerala and 13.86% in Tamil Nadu), 73.09% of gross advances are from customers in South India (including 43.45% from Kerala and 22.14% from Tamil Nadu) and 86.90% of deposits are from banking outlets in South India (including 80.04%



from Kerala and 3.36% from Tamil Nadu).

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

The table below sets forth our AUM by product type and as a percentage of AUM as at the dates indicated.

AUM	As at June 30, 2023		As at March 31, 2023		As at March 31, 2022		As at March 31, 2021	
	Amount (₹ in million)	% of AUM	Amount (₹ in million)	% of AUM	Amount (₹ in million)	% of AUM	Amount (₹ in million)	% of AUM
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	100.00%	163,312.65	100.00%	123,406.91	100.00%	84,259.30	100.00%

Liability Product: The bank offers a range of liability products, including current accounts, savings accounts, fixed deposits, and recurring deposits. In addition to catering to domestic customers, ESAF also serves NRI (Non-Resident Indian) customers and provides NRE (Non-Resident External) and NRO (Non-Resident Ordinary) current accounts, savings accounts, fixed deposits, and recurring deposits to meet their specific banking needs.

Particulars	As at June 30, 2023		As at March 31, 2023		As at March 31, 2022		As at March 31, 2021	
	(₹ in million)	% of Total Deposits	(₹ in million)	% of Total Deposits	(₹ in million)	% of Total Deposits	(₹ in million)	% of Total Deposits
Demand deposits [A]	2,372.74	1.52	2,637.53	1.80	2,197.91	1.72	1,531.84	1.70
Savings bank deposits [B]	26,146.96	16.70	28,736.94	19.59	27,076.07	21.13	15,944.61	17.72
CASA [C = A + B]⁽¹⁾	28,519.70	18.22	31,374.47	21.39	29,273.98	22.84	17,476.45	19.42
Retail Term Deposits ⁽²⁾ [D]	111,252.97	71.06	101,855.56	69.45	90,814.46	70.87	70,487.39	78.32
Bulk Deposits [E]	16,785.87	10.72	13,426.21	9.15	8,062.28	6.29	2,030.42	2.25
Total term deposits [F = D + E]	128,038.84	81.78	115,281.78	78.61	98,876.74	77.16	72,517.81	80.58
Total Retail Deposits⁽³⁾ [G = C + D]	139,772.67	89.28	133,230.03	90.85	120,088.44	93.71	87,963.84	97.74
Total deposits [H = C + E]	156,558.54	100.00	146,656.25	100.00	128,150.72	100.00	89,994.26	100.00
Of which:								
Total NRI deposits	32,853.29	20.98	31,662.32	21.59	26,529.35	20.70	20,191.50	22.44

ESAF Bank serves as a corporate agent for various insurance products, collaborating with prominent insurers such as Bajaj Allianz Life Insurance Company Limited, Kotak Mahindra Life Insurance Company Limited, PNB MetLife India Insurance Company Limited for life insurance offerings, and ICICI Lombard and IFFCO Tokio General Insurance for general insurance products. ESAF Bank offers a diverse range of additional services, including:

1. Pension Systems
2. Safe Deposit Lockers
3. Foreign Exchange Services
4. Bharat Bill Payment System
5. Money Transfer Services
6. Aadhaar Seva Kendra Services



Company Key performance Indicators

Particulars	As at and for the three months period ended June 30,		As at and for the year ended March 31,		
	2023	2022	2023	2022	2021
	(₹ in million, except percentages)				
AUM ⁽¹⁾	172,039.68	127,352.96	163,312.65	123,406.91	84,259.30
Disbursements	45,093.40	28,684.49	146,906.51	119,452.20	62,863.74
Deposits	156,558.54	134,577.46	146,656.25	128,150.72	89,994.26
Net Worth ⁽²⁾	18,390.93	15,127.62	17,091.29	14,067.96	13,520.64
Net Interest Income ⁽³⁾	5,854.53	4,487.62	18,363.40	11,471.39	9,215.91
Net profit for the period/year	1,299.64	1,059.66	3,023.33	547.32	1,053.96
Average Total Assets ⁽⁴⁾	205,097.98	179,058.33	185,256.79	143,504.36	110,306.75
Return on Average Assets ⁽⁵⁾ (%)	0.63 ⁽¹⁰⁾	0.59 ⁽¹⁰⁾	1.63	0.39	0.95
Return on Average Equity ⁽⁶⁾ (%)	7.33 ⁽¹⁰⁾	7.26 ⁽¹⁰⁾	19.36	4.12	8.85
Retail Deposits to total deposit ratio ⁽⁷⁾ (%)	89.28	92.93	90.85	93.71	97.74
Provision Coverage Ratio ⁽⁸⁾ (%)	74.35	62.00	56.67	59.38	52.77
Gross NPAs as a percentage of gross advances (%)	1.65	6.16	2.49	7.83	6.70
Net NPAs as a percentage of net advances (net of provisions) (%)	0.81	3.78	1.13	3.92	3.88
Yield on Average Interest-Earning Advances ⁽⁹⁾ (%)	5.81 ⁽¹⁰⁾	5.31 ⁽¹⁰⁾	20.87	18.46	20.14

Non-Performing Asset

Particulars	As at and for the three months period ended June 30,		As at and for the year ended March 31,		
	2023	2022	2023	2022	2021
	(₹ in million, except percentages)				
Opening balance of gross NPAs at the beginning of the period/year	3,516.90	9,495.94	9,495.94	5,639.97	1,008.61
Additions during the period/year	1,200.43	2,075.05	7,190.49	6,424.56	4,734.65
Less: Reductions during the period/year on account of recovery	73.51	214.82	294.61	210.14	23.84
Less: Reductions during the period/year on account of upgradations	260.36	1,373.07	2,026.21	1,613.90	79.45
Less: Reductions during the period/year on account of write-offs (including technical write-offs)	2,007.32	2,639.51	4,965.95	744.55	-
Less: Reductions during the period/year on account of sale of NPAs to an asset reconstruction company	-	-	5,882.76	-	-
Gross NPAs at the end of the period/year [A]	2,376.14	7,343.59	3,516.90	9,495.94	5,639.97
Total provision towards NPAs at the end of the period/year [B]	1,220.00	2,949.38	1,937.96	4,936.38	2,474.19
Net NPAs [C = A – B]	1,156.14	4,394.21	1,578.94	4,559.56	3,165.78
Gross advances [D]	144,435.54	119,260.14	141,181.27	121,306.43	84,150.05
Net Advances [E = D – B]	143,215.54	116,310.76	139,243.31	116,370.05	81,675.86
Gross NPAs as a percentage of gross advances [F = A / D] (%)	1.65	6.16	2.49	7.83	6.70
Net NPAs as a percentage of net advances [G = C / E] (%)	0.81	3.78	1.13	3.92	3.88
Provision for standard assets ⁽¹⁾ [H]	860.22	2,335.78	896.57	2,177.65	1,241.42
Total of provision towards NPAs and provision towards standard assets ⁽¹⁾ [I = B + H]	2,080.22	5,285.16	2,834.53	7,114.03	3,715.61
Total of provision towards NPAs and provision towards standard assets held as percentage of gross advances (%) [J = I / D] ^(*)	1.44	4.43	2.01	5.86	4.41
Total provision towards NPAs held as percentage of gross NPAs (%) [K = B / A] ^(*)	51.34	40.16	55.10	51.98	43.87
Outstanding balance of technical written-off accounts [L]	2,130.80	4,219.28	127.13	1,728.03	1,063.33
Provision Coverage Ratio [M = (B+L)/(A+L)] (%)	74.35	62.00	56.67	59.38	52.77



Delivery Channels

Bank deliver its products and services through business correspondents, banking outlets (including business correspondent operated banking outlets), customer service centers (which are operated by business correspondents), banking agents, business facilitators, ATMs, ATM cum debit cards, mobile banking platforms, internet banking portals, unified payment interface facilities and SMS alerts



Name of the State/ Union Territory	Banking Outlets	ATMs	CSCs
Andhra Pradesh	3	3	1
Assam	3	2	10
Bihar	10	9	12
Chhattisgarh	35	26	31
Gujarat	5	5	49
Haryana	6	2	6
Jharkhand	15	14	5
Karnataka	26	19	94
Kerala	304	275	25
Madhyapradesh	68	45	90
Maharashtra	71	49	117
Meghalaya	1	0	0
New Delhi	9	8	1
Odisha	10	5	52
Rajasthan	9	2	37
Tamil Nadu	97	77	118
Telangana	4	4	0
Tripura	3	0	6
Union Territory Of Chandigarh	1	1	0
Union Territory Of Puduchery	3	1	1
Uttar Pradesh	9	7	34
Uttarakhand	3	1	6
West Bengal	5	4	72
Grand Total	700	559	767

Banking Outlets

ESAF banking outlets comprise of Branches (all of which it operate) and business correspondent-operated banking outlets (in which it have some employees assisting with the operations). The table below sets forth the number of Branches and business correspondent-operated banking outlets as at the dates indicated.

Particulars	As at June 30, 2023	As at March 31, 2023	As at March 31, 2022	As at March 31, 2021
	(actual number, not in million)			
Number of Branches (all of which we operate)	641	641	573	550
Number of business correspondent-operated banking outlets (in which we have some employees assisting with the operations)	59	59	2	-
Total number of banking outlets	700	700	575	550

Objective of IPO

- ◆ **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

**Companies Competitive Strength :**

- understanding of the micro loan segment has enabled them to grow their business outside of Kerala, home state.
- Growing Retail Deposits portfolio.
- Customer connections driven by customer-centric products and processes and other non-financial services for Micro Loan customers .
- Technology-driven model with a digital technology platform.
- Experienced Board and Key Managerial Personnel and Senior Management Personnel.

Key Strategies Implemented by Company

- Penetrate deeper into their existing geographies.
- Increase deposits and in particular Retail Deposits .
- Continue to grow Micro Loans while increasing other categories of advances both in absolute terms and as a percentage of total AUM .
- Increase fee-based income by cross-selling, expanding third-party products and service offerings and expanding feebased offerings.
- Continue to leverage technology and customer data analytics

Particular	2023	2022	2021
Share Capital	449.5	449.5	449.5
ESOP outstanding	5.9	4.8	-
Reserves	1259.7	957.3	902.6
Net Worth as stated	1709.1	1406.8	1352.1
Deposits	14665.6	12815.1	8999.4
Advances	13924.3	11637.0	8167.6
Interest Earned	2853.7	1939.9	1641.2
Interest Earned Growth (%)	47.10%	18.20%	-
EBITDA as stated	627.44	220.56	284.96
Net Profit for the period	302.33	54.73	105.4
EPS - Basic (₹)	6.73	1.22	2.46
EPS - Diluted (₹)	6.71	1.22	2.46
RONW (%)	17.69%	3.89%	7.80%

Valuations and Recommendation:

- EAFS Small Fin Bank Ltd Book Value arrives at ₹ 1,709 Cr for FY23. At upper price band of ₹ 60, Company is looking for post issue market cap of ₹ 3,087.54 Cr, Which implies a earning multiple (P/B) of 1.8(x).
- Based on the valuation, issue appears to be fairly valued, ESAF Small Finance Bank is prominently engaged in microloans, particularly emphasizing rural regions, and holds a substantial footprint in southern India. Additionally, the bank's retail deposit portfolio is steadily expanding. Considering its financial performance, ESAF has demonstrated robust growth in both revenue and profitability figures. Hence, we recommend "Subscribe" rating to the stock issue.



Notes

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