



SMC Ranking
 ★★☆☆☆ (2/5)

Issue Highlights

| Industry | Bank |
|--------------------------------|-------------------|
| Offer for sale (Shares) | 12,050,000 |
| Fresh Issue (Shares) | 65,116,667 |
| Net Offer to the Public | 77,166,667 |
| Issue Size (Rs. Cr.) | 440-463 |
| Price Band (Rs.) | 57-60 |
| Employee Discount | 5 |
| Offer Date | 3-Nov-23 |
| Close Date | 7-Nov-23 |
| Face Value | 10 |
| Lot Size | 250 |

Issue Composition

| | In shares |
|----------------------|------------|
| Total Issue for Sale | 77,166,667 |
| QIB | 38,583,333 |
| NIB | 11,575,000 |
| Retail | 27,008,333 |

Shareholding Pattern (%)

| Particulars | Pre-issue | Post-issue |
|-----------------------------|----------------|----------------|
| Promoters & promoters group | 74.43% | 63.41% |
| QIB | 25.57% | 29.09% |
| NIB | 0.00% | 2.25% |
| Retail | 0.00% | 5.25% |
| Total | 100.00% | 100.00% |

*calculated on the upper price band

Objects of the Issue

The Net Proceeds are proposed to be utilized towards augmentation of the Bank's Tier-I capital base to meet the Bank's future capital requirements which are expected to arise out of growth in the Bank's assets, primarily the Bank's loans/advances and investment portfolio and to ensure compliance with regulatory requirements on capital adequacy prescribed by the RBI from time to time.

The Bank expects to receive the benefits of listing the Equity Shares on the Stock Exchanges.

Book Running Lead Manager

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

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 1992, ESAF is a Small Finance Bank mainly focusing on providing loans to rural and semi-urban customers. The Bank's products consist of (a) Micro Loans, (b) retail loans, (c) MSME loans; (d) loans to financial institutions; and (e) agricultural loans. As of March 2023, Bank has a network of 700 outlets, 743 customer service centers, 20 business correspondents and 481 business facilitators. The Bank has 581 ATM's located across 21 states of India. Bank offers convenience banking through various digital platforms such as an internet banking portal, a mobile banking platform, SMS alerts, bill payments and RuPay branded ATM cum debit cards. As of 31st March 2022, the Bank has provided employment to 4100 people. As at June 30, 2023 and March 31, 2023, 2022 and 2021, its gross non-performing advances (NPAs) as a percentage of gross advances were 1.65%, 2.49%, 7.83% and 6.70%, respectively

Strength

Understanding of the micro loan segment: ESAF Small Finance Bank can trace its microfinance roots back to 1995. As at June 30, 2023, it had over 0.32500 crore customers with Micro Loans (majorities are women). Its understanding of the micro loan segment has enabled it to successfully expand its business outside of Kerala. As at June 30, 2023, its products and services were offered in 21 states and two union territories. Its gross Micro Loans to customers outside of Kerala were Rs. 4330.50 crore, representing 42.30% of its total gross Micro Loans, as at June 30, 2023. As at June 30, 2023, its top five states outside Kerala for gross Micro Loans were Tamil Nadu, Maharashtra, Madhya Pradesh, Karnataka and Chhattisgarh, with gross Micro Loans in those states (combined) being Rs. 5043.7 crore, which represented 49.27% of its total gross Micro Loans.

Main focus on its rural and semi-urban banking franchise: ESAF Small Finance Bank's main focus is on providing loans to customers in rural and semi-urban centres. Its customers in rural and semi-urban centres (combined) have increased from 0.30 crore as at March 31, 2021 to 0.39 crore as at March 31, 2023 and further increased to .40 crore as at June 30, 2023. As at June 30, 2023, its gross advances to customers in rural and semi-urban centres (combined) were Rs. 90,95.18 crore, representing 62.97% of its gross advances. As at June 30, 2023, 4.07 million of its customers were in rural and semi-urban centres (combined), representing 56.92% of its total customers, and the number of banking outlets in rural and semi-urban centres (combined) was 502, representing 71.71% of its total banking outlets.

Growing Retail Deposits portfolio: ESAF Small Finance Bank total deposits increased from Rs. 8999.4 crore as at March 31 2021 to Rs. 14666 crore as at March 31, 2023, representing a CAGR of 27.66%, and further increased to Rs. 15656 crore as at June 30, 2023, an increase of 6.75%. It has placed an emphasis on increasing its Retail Deposits. Its Retail Deposits increased from Rs. 8796.48 crore as at March 31, 2021 to Rs. 13323.00 crore as at March 31, 2023, representing a CAGR of 23.07%, and further increased to Rs. 13977.27 crore as at June 30, 2023, an increase of 4.91%. CASA tends to provide a stable and low-cost source of deposits compared to term deposits. Its CASA increased from Rs. 1747.64 crore at March 31, 2021 to Rs. 3137.44 crore as at March 31, 2023, representing a CAGR of 33.99%, and decreased to Rs. 2851.97 crore as at June 30, 2023, a decrease of 9.10%.

Strategy

Penetrate deeper into existing geographies: As at June 30, 2023, ESAF Small Finance Bank had 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. As at June 30, 2023, ESAF Small Finance Bank served over 0.72 crore customers in 21 states and two union territories. ESAF Small Finance Bank intends to deepen its distribution within the states and union territories it operates in by opening additional Branches, having business correspondents open more customer service centres and business correspondent-operated banking outlets and encouraging them to enter into agreements with more banking agents, entering into relationships with new business correspondent entities and business facilitators and adding ATMs.

Increase its deposits and in particular Retail Deposits: ESAF Small Finance Bank plans to continue to increase its deposits, in particular its Retail Deposits, in order to help grow its business and reduce its Cost of Funds. ESAF Small Finance Bank's total deposits increased from Rs. 8999.43 crore as at March 31 2021 to Rs. 14665.62 crore as at March 31, 2023, representing a CAGR of 27.66%, and further increased to Rs. 15655.85 crore as at June 30, 2023, an increase of 6.75%. Retail Deposits increased from Rs. 8796.38 crore as at March 31, 2021 to Rs. 13323.00 crore as at March 31, 2023, representing a CAGR of 23.07%, and further increased to Rs. 13977.27 crore as at June 30, 2023, an increase of 4.91%. To increase its deposits, its banking outlets and business correspondents would continue to target new and existing customers to source deposits in the form of CASA, fixed deposits and recurring deposits by focusing on customer service and offering competitive pricing. Furthermore, it intends to continue to target NRIs to scale up its deposit base and in particular its CASA base. ESAF Small Finance Bank began offering NRIs savings bank and term deposits in June 2018 and current accounts in June 2021. As at June 30, 2023, deposits from NRIs were Rs. 3285.22 crore, which represented 20.98% of total deposits as at that date. To target NRIs, it will continue to focus on regions where NRI remittances are high by launching targeted campaigns around festivals, conducting marketing activities at airports, malls, etc., and entering into tie-ups with third parties, such as remittance arrangers. It also plans to continue to open new banking outlets in centres that have a large population dependent on remittances.

Continue to grow Micro Loans while increasing other categories of advances both in absolute terms and as a percentage of total AUM

Continue to grow Micro Loan business: ESAF Small Finance Bank AUM of Micro Loans increased from Rs. 7145.28 crore as at March 31, 2021 to Rs. 12254.90 crore as at March 31, 2023, representing a CAGR of 30.96%, and further increased to Rs. 12851.20 crore as at June 30, 2023, an increase of 4.87%. CRISIL MI&A expects small finance banks' AUM to grow at approximately 22-24% CAGR between June 30, 2023 and March 31, 2025. (Source: CRISIL MI&A Report). ESAF Small Finance Bank plans to continue to grow Micro Loans by cross-selling and up-selling to its customer base and marketing these loans to family members of existing customers, thereby deepening its relationships with them and becoming their trusted bank of choice. It also plans to appoint new business correspondents and have its banking agents start to source customers.

Expand retail loan business: In Fiscal 2018, ESAF Small Finance Bank began offering retail loans and since then it has been expanding its portfolio of retail loan products, including offering gold loans in Fiscal 2019. Gold loans in particular have contributed to the growth of its retail loans. It plans to continue to increase its retail advances both in terms of amount and as a percentage of AUM by targeting agriculturists / small farmers, small-scale entrepreneurs, salaried employees, students and senior citizens in small towns and rural India, thereby expanding its retail loan customer base. ESAF Small Finance Bank plans to continue to focus on its individual customers to continue to build its retail loan portfolio, as well as capitalise on its relationships with its existing micro loan customers whose borrowing ability has increased and who require increased loan amounts.

Increase its MSME loans: ESAF Small Finance Bank's started offering MSME loans in Fiscal 2020. Its AUM of MSME Loans increased from Rs. 48.36 crore as at March 31, 2021 to Rs. 160.06 crore as

at March 31, 2023, representing a CAGR of 81.93%, and decreased to Rs. 153.17 crore as at June 30, 2023, a decrease of 4.31%. It plans to increase its MSME loans both in terms of amount and as a percentage of its AUM by having its relationship managers in its banking outlets reach out to MSMEs and offer them working capital and term loans.

Grow its agricultural loan business: ESAF Small Finance Bank has set up agricultural (agri) loan business department in Fiscal 2020. In Fiscals 2023, 2022 and 2021, it introduced two, two and three new agricultural loan products, respectively, resulting in us having seven agricultural loan products as at June 30, 2023. Its AUM of agricultural loans increased from Rs. 9.03 crore as at March 31, 2021 to Rs. 687.82 crore as at March 31, 2023, representing a CAGR of 772.76%, and increased to Rs. 783.85 crore as at June 30, 2023, an increase of 13.96%.

Increase fee-based income by cross-selling, expanding third-party products and service offerings and expanding its feebased offerings: ESAF Small Finance Bank intends to increase its fee-based income by cross-selling third-party products and service offerings to its customers and expanding third-party products and service offerings. In Fiscal 2019, it began distributing the National Pension System, Atal Pension Yojna and third-party general insurance products. In Fiscal 2020, it began distributing third-party life insurance products. In Fiscal 2023, it began distributing third-party mutual funds and offering third-party depository services. In addition, it plans to offer bank guarantees and letters of credit to MSMEs.

Continue to leverage technology and customer data analytics: ESAF Small Finance Bank believes its use of technology has significantly improved the efficiency of its operations. It plans to further enhance its technology platforms, such as internet banking, mobile banking, ATMs, cash deposits machines, customer service applications and payment interfaces, which it believes will increase the adoption of its service delivery mechanisms. This will also enable it to perform more reliable data analytics, resulting in more efficient risk management processes, targeted customer profiling and offer customised products to suit its customers' diverse requirements.

Risk factor

- The bank is subject to stringent regulatory requirements and prudential norms.
- The bank depends on its brand recognition.
- The Indian finance industry is intensely competitive

Peer comparison

| Co_Name | Total Income | PAT | EPS | P/E | P/BV | BV | FV | Price | Mcap |
|---------------------------------|--------------|---------|-------|-------|------|--------|----|---------|----------|
| Spandana Sphoort | 2075.53 | 421.57 | 59.30 | 15.35 | 1.93 | 472.59 | 10 | 910.00 | 6468.63 |
| CreditAcc. Gram. | 4394.27 | 1204.23 | 75.70 | 21.21 | 4.41 | 364.45 | 10 | 1605.55 | 25541.16 |
| Equitas Sma. Fin | 5576.15 | 749.51 | 6.71 | 13.62 | 1.86 | 49.03 | 10 | 91.40 | 10202.83 |
| Suryoday Small | 1395.64 | 117.56 | 11.07 | 14.02 | 1.01 | 153.82 | 10 | 155.20 | 1647.63 |
| Bandhan Bank | 19678.55 | 2541.08 | 15.77 | 13.61 | 1.66 | 129.09 | 10 | 214.65 | 34577.21 |
| Ujjivan Small | 5628.31 | 1254.50 | 6.41 | 7.92 | 2.20 | 23.09 | 10 | 50.77 | 9929.98 |
| ESAF Small Finance Bank Limited | 2305.97 | 326.33 | 6.34 | 9.46 | 1.38 | 43.33 | 10 | 60.00 | 3087.54 |

*Peer companies financials and ESAF Financials are TTM based.

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.60, the stock is priced at pre issue P/E of 8.26x on FY23 EPS of Rs.7.26. Post issue, the stock is priced at a P/E of 9.46x on its EPS of Rs.6.34. Looking at the P/B ratio at Rs.60, pre issue, book value of Rs. 40.92 of P/Bvx 1.47x. Post issue, book value of Rs. 43.33 of P/Bvx 1.38x.

Considering the P/E valuation, on the lower end of the price band of Rs.57, the stock is priced at pre issue P/E of 7.85x on FY23 EPS of Rs.7.26. Post issue, the stock is priced at a P/E of 8.99x on its EPS of Rs.6.34. Looking at the P/B ratio at Rs.57, pre issue, book value of Rs. 40.92 of P/Bvx 1.39x. Post issue, book value of Rs. 43.33 of P/Bvx 1.32x.

Key Ratios

| Ratios | FY23 | FY22 | FY21 |
|------------------------------|----------|---------|---------|
| AUM (Rs. In crores) | 13504.57 | 9811.76 | 7518.96 |
| ROE (%) | 19.36 | 4.12 | 8.85 |
| ROA (%) | 1.63 | 0.38 | 0.96 |
| GNPA (%) | 2.49 | 7.83 | 6.70 |
| Net NPA (%) | 1.13 | 3.92 | 3.88 |
| Provision Coverage Ratio (%) | 56.67 | 59.38 | 52.77 |

Industry Outlook

Small finance banks aim to service the underserved through savings instruments, and supplying credit to small business units, small and marginal farmers, micro and small industries, and other unorganized sector/lending through informal channels. The 12 small finance banks, including us, cumulatively accounted for approximately 13% of the total AUM of the industry as of June 30, 2023. Small finance banks advances under management (AUM) clocked 29% CAGR from March 31, 2018 to June 30, 2023 and CRISIL MI&A expects this to increase by a CAGR of 22- 24% between June 30, 2023 and March 31, 2025.

Outlook

ESAF SFB is a small banking lender and its asset products include micro loans, retail loans, MSME loans, loans to financial institutions, and agricultural loans. It is a south centric SFB and enjoys its niche play. The company has reported steady growth in its earnings for the reported periods. A long term Investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

| EVENT | INDICATIVE DATE (On or about) |
|--|----------------------------------|
| BID/ISSUE OPENS ON | 03-November-23 |
| BID/ISSUE CLOSES ON | 07-November-23 |
| Finalisation of Basis of Allotment with the Designated Stock Exchange | 10-November-23 |
| Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account | 13-November-23 |
| Credit of Equity Shares to demat accounts of Allottees | 15-November-23 |
| Commencement of trading of the Equity Shares on the Stock Exchanges | 16-November-23 |

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

| Particulars | Period ended 30-Jun-23 (3 Months) | Period ended 31-Mar-23 (12 Months) | Period ended 31-Mar-22 (12 Months) |
|----------------------------|--------------------------------------|---------------------------------------|---------------------------------------|
| Interest Earned | 898.75 | 2853.66 | 1939.93 |
| Interest Expended | 313.29 | 1017.32 | 792.79 |
| Net interest income | 585.45 | 1836.34 | 1147.14 |
| Other Income | 93.03 | 287.91 | 207.58 |
| Total Income | 678.48 | 2124.25 | 1354.72 |
| Operating Exps | 377.81 | 1230.54 | 862.87 |
| Operating profit | 300.67 | 893.71 | 491.85 |
| Provision for tax | 170.71 | 591.38 | 437.12 |
| PAT | 129.96 | 302.33 | 54.73 |

Balance Sheet

Rs. in Cr.

| Particulars | As on 30-Jun-23 | As on 31-Mar-23 | As on 31-Mar-22 |
|---|-----------------|-----------------|-----------------|
| CAPITAL AND LIABILITIES | | | |
| Employee Stock Options Outstanding | 5.81 | 5.88 | 4.81 |
| Deposits | 15655.85 | 14665.63 | 12815.07 |
| Borrowings | 2739.13 | 3354.20 | 2952.83 |
| Other Liabilities and Provisions | 556.06 | 488.83 | 528.06 |
| TOTAL CAPITAL AND LIABILITIES | 18956.85 | 18514.53 | 16300.77 |
| ASSETS | | | |
| Cash and Balances with Reserve Bank of India | 821.27 | 739.55 | 1300.67 |
| Balances with Banks and Money at Call and Short Notice | 65.55 | 27.50 | 211.24 |
| Investments | 4882.12 | 4888.53 | 4070.30 |
| Advances | 14321.55 | 13924.33 | 11637.01 |
| Fixed Assets | 187.26 | 187.93 | 159.48 |
| Other Assets | 518.20 | 455.82 | 328.88 |
| Total Assets | 20795.94 | 20223.66 | 17707.56 |
| Net worth represented by: | 1839.09 | 1709.13 | 1406.80 |
| Capital | 449.47 | 449.47 | 449.47 |
| Reserves and Surplus | 1389.62 | 1259.66 | 957.32 |
| Net Worth | 1839.09 | 1709.13 | 1406.80 |

RANKING METHODOLOGY

| | |
|------------------|-------|
| WEAK | ★ |
| NEUTRAL | ★★ |
| FAIR | ★★★ |
| GOOD | ★★★★★ |
| EXCELLENT | ★★★★★ |

E-mail: researchfeedback@smcindiaonline.com



Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402,
4th Floor, Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court, Gate No.- 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

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