

ESAF SMALL FINANCE BANK LIMITED

SUBSCRIBE

LKP

Since 1948

Trust • Invest • Grow

Company Overview

ESAF Small Finance Bank has a focus on unbanked and under-banked customer segments, especially in rural and semi urban areas. The AUM grew from ₹84.26 billion to ₹163.2 billion as at March 31, 2021 and 2023, respectively, registering a CAGR of 39.22%, which was the highest CAGR among peers. The bank's deposits grew from ₹90 billion to ₹146.6 billion as at March 31, 2021 and 2023, respectively, registering a CAGR of 27.66%. The Retail Deposits Ratio as of FY23 end was 90.8%, which was the highest among peers. As at March 31, 2023, the bank's gross advances to customers in rural and semi-urban areas (combined) accounted for 62.84% of gross advances and 71.71% of banking outlets were located in rural and semi-urban areas (combined). The asset products comprise: (a) Micro Loans (75% of book) (b) retail loans, which includes gold loans, mortgages, personal loans, and vehicle loans, (16% of book); (c) MSME loans (1% of book); (d) loans to financial institutions (3.8% of book); and (e) agricultural loans (4.2% of book). The liability products comprise current accounts, savings accounts, term deposits and recurring deposits. As at March 31, 2023, the bank had 6.48 million deposit accounts. The total deposits were ₹146.7 billion, ₹128.1 billion and ₹90 billion as at March 31, 2023, 2022 and 2021, respectively. The bank has an extensive network of 700 banking outlets (including 59 business correspondent-operated banking outlets), 743 customer service centres (which are operated by the business correspondents), 20 business correspondents, 2,023 banking agents, 481 business facilitators and 528 ATMs spread across 21 states and two union territories, serving 6.83 million customers as at March 31, 2023. The bank uses business correspondent entities to source and service customers for Micro Loans. The business correspondents also source customers for mortgage loans, vehicle loans, MSME loans, agricultural loans and select deposit products.

The Bank is led by Mr. Kadambelil Paul Thomas, Managing Director and Chief Executive Officer, who has over 27 years of experience in the banking/microfinance industry in India. The Board comprises individuals having diverse experience across industries and our Independent Directors provide strategic guidance to help improve and grow the operations. The senior management team has significant experience in the banking and financial services industry. The bank had 5,034 employees as at March 31, 2023.

Offer Summary

The promoter (74.43% Pre-IPO) and other shareholders (25.57% Pre-IPO) of ESAF SFB are executing OFS of 12.2mn shares with an offer size of ~₹723mn and fresh issue of ₹3907mn. Post IPO the total number of shares would be ~515mn. The issue price band stands at ₹57 – ₹60. The issue opens at 3rd Nov – 2023 and closes on 7th Nov – 2023. The implied post issue market cap stood at ~₹30bn.

Outlook and Valuation

At higher price band (₹60), the stock is valued at 1.46(x) P/BVPS with current book value per share of ₹40.92. Factoring the superlative return ratios, FY23 ROA/ROE of 1.6%/19.4%, we believe that ESAF Small Finance Bank Limited is worth subscribing. Thus we recommend to **SUBSCRIBE**.

Issue Details

Fresh Issue of Equity shares aggregating upto ₹390.70 Crore and Offer for sale of Equity Shares aggregating upto ₹72.30 Cr

Issue Highlights

Issue Size:	₹ 463 Cr
Face Value:	₹ 10/- per share
Price Band:	₹ 57 - 60
Bid Lot:	250 Shares and in multiple thereof
Employee Reservation:	Shares aggregating upto ₹12.50 Cr
Employee Discount:	₹ 5/- per share
Post Issue Implied MCAP:	₹ 2,953 – 3088 Cr
Issue Opens On:	Friday, 3rd Nov'2023
Issue Closes On:	Tuesday, 7th Nov'2023
BRLMs:	ICICI Securities, DAM Capital, Nuvama Wealth Management
Registrar:	Link Intime India Pvt. Ltd.
Listing :	BSE & NSE

Indicative Timetable

Activity	On or about
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

Issue break-up

	No. of Shares		₹ In Cr	% of Issue
	@Lower	@upper		
QIB	39,517,542	37,541,665	225.25	50%
NIB	11,855,264	11,262,500	67.57	15%
-NIB2	7,903,509	7,508,333	45.05	--
-NIB1	3,951,755	3,754,167	22.53	--
Retail	27,662,281	26,279,167	157.67	35%
Emp.	2,403,846	2,272,727	12.50	-
Total	81,438,933	77,356,059	463.00	100%

NIB-1=NII Bid between ₹ 2 to 10 Lakhs

NIB-2 =NII Bid Above ₹ 10 Lakhs

Category	Retail Category	NII-Bid between ₹2-10 Lakhs	NII - Bid Above ₹ 10Lakhs
Min.Bid Lot (Shares)	250	3,500	16,750
Mini. Bid Lot (₹)	₹15,000 [^]	₹2,10,000 [^]	₹10,05,000 [^]
Appl for 1x	1,05,117	1,073	2,145

Shareholding (No. of Shares)

Pre- Issue	Post-Issue [^]	Post-Issue [#]
449,473,798	518,228,521	514,779,858

[^]@Lower price Band [#]@ Upper Price Band

Shareholding (%)	Pre issue	Post issue
Promoters & Promoter Group	74.43%	62.64%
Public	25.57%	37.36%
Total	100.00%	100.00%

Financial Summary

(₹ mn)	FY19	FY20	FY21	FY22	FY23
Advances	45,483	65,478	81,676	116,370	139,243
Deposits	43,170	70,284	89,994	128,151	146,656
CASA (%)	14	14	19	23	21
NIMs (calculated,%)	10.0	9.9	8.7	7.9	10.0
GNPA (%)	1.6	1.5	6.7	7.8	2.5
NNPA (%)	0.8	0.6	4.0	4.1	1.1
PCR (%)	52	57	40	48	54
ROA (%)	1.6	2.4	1.0	0.4	1.6
ROE (%)	14.6	19.3	8.7	4.0	19.4
BVPS (₹)	20.9	25.3	30.1	31.5	38.3
CRAR (%)	27.6	24.0	24.2	18.6	19.8
RWA % of Asset	57.1	56.5	52.3	49.5	46.7

Source: Company, LKP Research

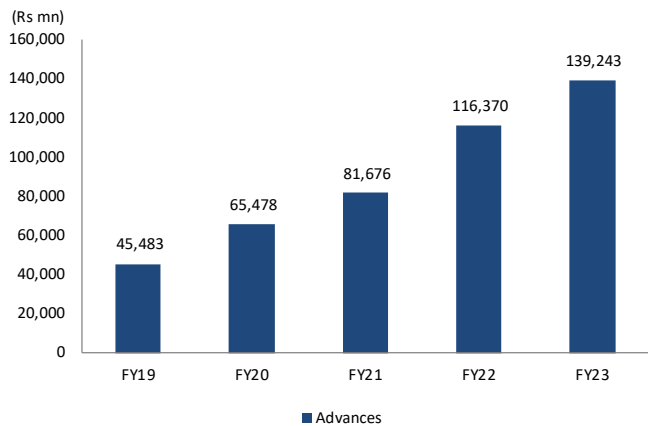
Brief Biographies of Directors

Key Person	Designation	Descriptions
Ravimohan Ramakrishnan	Part-time chairman	He is the Part-Time Chairman and Non-Executive Independent Director of the Bank. 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.
Kadambelil Paul Thomas	MD & CEO	Kadambelil Paul Thomas is the Promoter, Managing Director and Chief Executive Officer of the Bank. He was previously the managing director of ESAF Financial Holdings Pvt. Ltd. He was also previously a director on the boards of Sanma Garments Pvt. Ltd., Rhema Dairy Products India Pvt. Ltd., Rhema Milk Producer Co. Ltd., Lahanti Homes and Infrastructure Pvt Ltd, ESAF Health Care Services Pvt Ltd, ESAF Swasraya Producers Co Ltd, CEDAR Retail Pvt Ltd, ESAF Enterprise Development Finance Ltd and CEDAR Livelihood Services Pvt Ltd (Formerly Cedar Agri Solutions Pvt Ltd).
Vinod Vasudevan	Independent director	Vinod Vijayalekshmi Vasudevan is a Non-Executive Independent Director on the Board of the Bank. He is the group CEO of FLYTXT, Dubai and Amsterdam. He is currently on the board of directors of Flytxt Mobile Solutions International, Z3P Tech Fund and Z3P Global, Mauritius.
Ravi Venkatraman	Independent director	Ravi Venkatraman is a Non-Executive Independent Director on the Board of the Bank. He was the former Executive Director and Chief Financial Officer of Mahindra and Mahindra Financial Services Ltd. He is currently on the board of directors of Bajaj Finserv Mutual Fund Trustee Ltd, Kotak Mahindra General Insurance Co Ltd, Avanse Financial Services Ltd, Kotak Mahindra Prime Ltd, Sarvagram Solutions Pvt Ltd, Aditya Birla AMC Ltd..
Ranjith Raj P	Company Secretary	Ranjith Raj P is the Company Secretary and Compliance Officer of the Bank. He was previously employed as company secretary of EFHPL. He joined the Bank with effect from March 29, 2017.
Gireesh C P	CFO	Gireesh C P is the Chief Financial Officer of the Bank. He was previously the chief financial officer of South Indian Bank Ltd. He joined the Bank with effect from September 5, 2018.

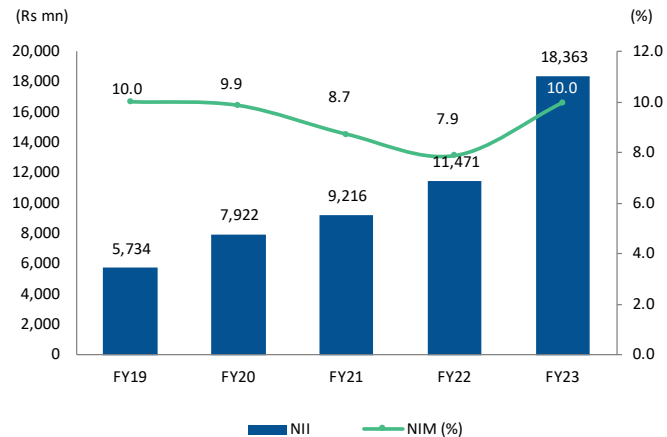
Source: Company, LKP Research

Story in charts

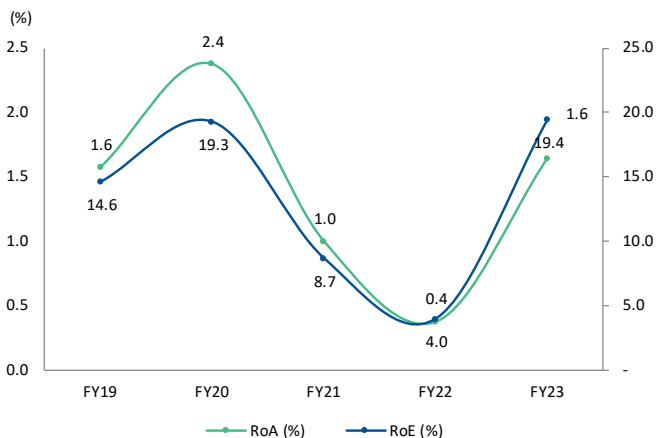
Advance Trend



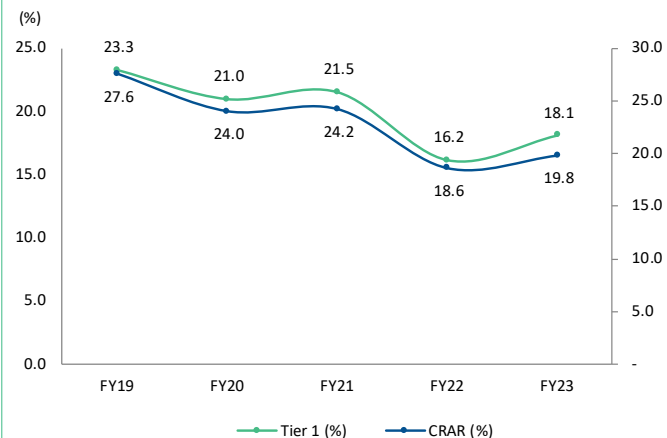
NII and NIM Trend



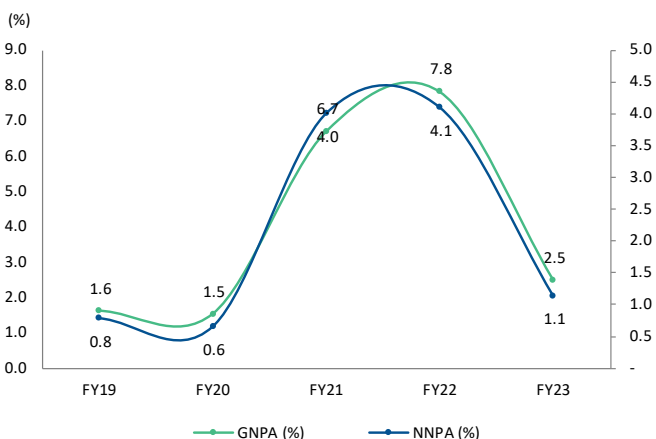
Return Ratio Trend



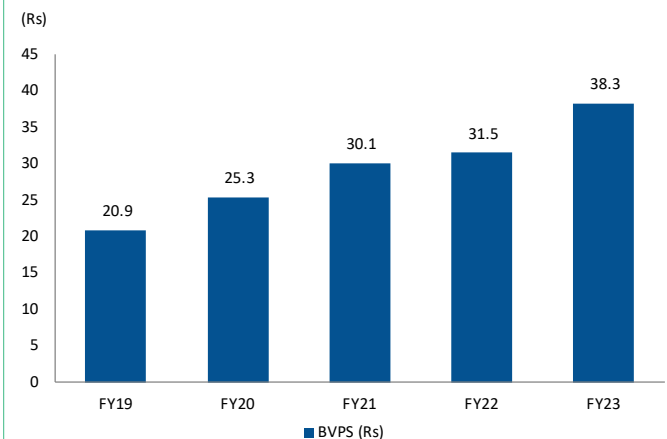
Capital Adequacy Trend



Asset Quality Trend



Book Value per share



Financials

Income Statement

(₹ mn)	FY19	FY20	FY21	FY22	FY23
Interest Earned	10,316	14,132	16,412	19,399	28,537
Interest Expended	4,583	6,211	7,196	7,928	10,173
NII	5,734	7,922	9,216	11,471	18,363
YoY (%)	103.3%	38.2%	16.3%	24.5%	60.1%
Other Income	1,092	1,332	1,272	2,076	2,879
YoY (%)	7.2%	22.0%	-4.5%	63.1%	38.7%
Employee Exp.	771	1,441	1,878	2,321	2,780
Other Opex	3,763	4,566	4,441	6,307	9,525
Total Opex	4,534	6,007	6,319	8,629	12,305
YoY (%)	48.9%	32.5%	5.2%	36.6%	42.6%
PPOP	2,291	3,247	4,170	4,919	8,937
YoY (%)	188.5%	41.7%	28.4%	18.0%	81.7%
Provisions	1,019	685	2,756	4,180	4,877
YoY (%)	186.6%	-32.8%	302.6%	51.7%	16.7%
PBT	1,272	2,563	1,414	739	4,060
Taxes	369	659	360	191	1,037
PAT	903	1,904	1,054	547	3,023
YoY (%)	234.5%	110.9%	-44.6%	-48.1%	452.4%

Balance Sheet

(₹ mn)	FY19	FY20	FY21	FY22	FY23
Capital	4,278	4,278	4,495	4,495	4,495
Reserves and Surplus	4,659	6,563	9,026	9,573	12,597
Networth	8,937	10,841	13,521	14,068	17,091
Deposits	43,170	70,284	89,994	128,151	146,656
YoY (%)	71.1%	62.8%	28.0%	42.4%	14.4%
Borrowings	17,024	12,033	16,940	29,528	33,542
Total Liabilities	70,584	94,700	123,387	177,076	202,237
Advances	45,483	65,478	81,676	116,370	139,243
YoY (%)	44.2%	44.0%	24.7%	42.5%	19.7%
Investments	15,307	17,336	19,321	40,703	48,885
Total Assets	70,584	94,700	123,387	177,076	202,237
Average Earnings Assets	68,605	91,842	119,188	172,192	195,799

Common Size Balance Sheet

(%)	FY19	FY20	FY21	FY22	FY23
Shareholders Funds	12.7%	11.4%	11.0%	7.9%	8.5%
Deposits	61.2%	74.2%	72.9%	72.4%	72.5%
Borrowings	24.1%	12.7%	13.7%	16.7%	16.6%
Investments	21.7%	18.3%	15.7%	23.0%	24.2%
Advances	64.4%	69.1%	66.2%	65.7%	68.9%

Deposit Profile

(₹ mn)	FY19	FY20	FY21	FY22	FY23
Current Deposits (₹ mn)	340	578	1,532	2,198	2,638
YoY (%)	-28.0%	70.3%	164.8%	43.5%	20.0%
Saving Deposits (₹ mn)	5,510	9,024	15,945	27,076	28,737
YoY (%)	168.5%	63.8%	76.7%	69.8%	6.1%
CASA (₹ mn)	5,850	9,603	17,476	29,274	31,374
YoY (%)	131.7%	64.1%	82.0%	67.5%	7.2%
Term Deposit (₹ mn)	37,320	60,681	72,518	98,877	115,282
YoY (%)	64.4%	62.6%	19.5%	36.3%	16.6%
CA (%)	0.8%	0.8%	1.7%	1.7%	1.8%
SA (%)	12.8%	12.8%	17.7%	21.1%	19.6%
CASA (%)	13.6%	13.7%	19.4%	22.8%	21.4%

Asset Quality

(₹ mn)	FY19	FY20	FY21	FY22	FY23
GNPA	740	1,009	5,640	9,496	3,517
NNPA	352	422	3,166	4,560	1,579
GNPA (%)	1.6%	1.5%	6.7%	7.8%	2.5%
NNPA (%)	0.8%	0.6%	4.0%	4.1%	1.1%
PCR (%)	52%	57%	40%	48%	54%
Slippage (%)	2.0%	1.4%	6.4%	6.5%	5.6%
Credit Costs (in bps, calculated)	263	107	382	419	378

Yields, Margins and Imp Ratios (calculated)

(%)	FY19	FY20	FY21	FY22	FY23
Yield on Advances	23.7%	22.3%	20.0%	17.4%	19.8%
Yield on assets	18.0%	17.6%	15.6%	13.3%	15.5%
Cost of Deposits	7.8%	8.6%	7.5%	6.2%	6.1%
Cost of Funds	9.0%	8.7%	7.6%	6.0%	6.0%
NIMs (earning assets)	10.0%	9.9%	8.7%	7.9%	10.0%
NIMs (total assets)	9.7%	9.6%	8.5%	7.6%	9.7%
Cost to Income	66.5%	65.4%	61.6%	65.8%	58.4%
Credit-Deposit Ratio	105.4%	93.2%	90.8%	90.8%	94.9%
Provisions/PPOP	44%	21%	66%	85%	55%
PPOP/ Assets	4%	4%	4%	3%	5%

Capital Adequacy

(₹ mn)	FY19	FY20	FY21	FY22	FY23
CET	22.1%	20.1%	20.8%	15.6%	17.6%
Tier 1	23.3%	21.0%	21.5%	16.2%	18.1%
CRAR	27.6%	24.0%	24.2%	18.6%	19.8%
RWA (₹mn)	40,322	53,482	64,489	87,578	94,373
RWA % of Asset	57.1%	56.5%	52.3%	49.5%	46.7%

Return Ratio and Per share numbers

(₹)	FY19	FY20	FY21	FY22	FY23
ROA	1.6%	2.4%	1.0%	0.4%	1.6%
ROE	14.6%	19.3%	8.7%	4.0%	19.4%
BVPS	21	25	30	32	38
ABVPS	20	25	25	24	36

Gross Loan Book Mix

(%)	FY19	FY20	FY21	FY22	FY23
MFI	45.5	61.4	71.5	100.2	122.5
MSME	0.3	1.1	0.5	1.2	1.6
Vehicle Finance	-	-	0.7	0.9	1.1
Gold Loans & Other retail	-	-	7.7	12.3	23.2
Loans to Fis	-	-	2.6	4.1	6.1
Others	1.4	3.6	1.3	4.7	8.8
Total	47.2	66.1	84.3	123.4	163.3

AUM Mix (%)

<i>MFI</i>	96%	93%	85%	81%	75%
<i>MSME</i>	1%	2%	1%	1%	1%
<i>Vehicle Finance</i>	0%	0%	1%	1%	1%
<i>Gold Loans & Other retail</i>	0%	0%	9%	10%	14%
<i>Loans to Fis</i>	0%	0%	3%	3%	4%
<i>Others</i>	3%	5%	2%	4%	5%

ROA Tree (Dupont)

(%)	FY19	FY20	FY21	FY22	FY23
Interest income	17.5%	17.1%	15.1%	12.9%	15.0%
Interest expenses	7.8%	7.5%	6.6%	5.3%	5.4%
Net interest income	9.7%	9.6%	8.5%	7.6%	9.7%
Treasury income	0.0%	0.1%	0.2%	0.3%	0.1%
Other Inc. from operations	1.8%	1.5%	1.0%	1.1%	1.4%
Total income	11.6%	11.2%	9.6%	9.0%	11.2%
Employee expenses	1.3%	1.7%	1.7%	1.5%	1.5%
Other operating expenses	6.4%	5.5%	4.1%	4.2%	5.0%
Operating profit	3.9%	3.9%	3.8%	3.3%	4.7%
Loan loss provisions	1.7%	0.8%	2.5%	2.8%	2.6%
Tax	0.6%	0.8%	0.3%	0.1%	0.5%
RoAA	1.5%	2.3%	1.0%	0.4%	1.6%
RoAE	14.6%	19.3%	8.7%	4.0%	19.3%

DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.