

About 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. The core strength of the bank lies in the following:-

1. In-depth knowledge of the Microloan segment helped ESAF to grow outside Kerala.
2. Strong presence in rural and semi-urban areas.
3. Strong customer relationships driven by Bank's customer-centric products.
4. Digital Technology platform for convenience banking.

Objects of the Offer:

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.

Rationale

Deep understanding of the microfinance segment

As at June 30, 2023, ESAF SFB had over 0.33 crore customers with Micro Loans, the majority of whom were women. As at June 30, 2023, their products and services were offered in 21 states and 2 union territories. Their gross Micro Loans to customers outside of Kerala were ₹4,330.52 crore, representing 42.30% of the total

Subscribe

Issue

Open	Close
Friday 03-Nov-23	Tuesday 07-Nov-23

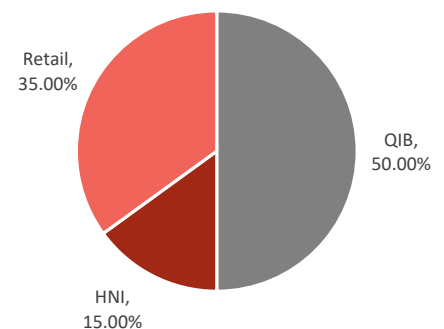
Issue Size

Fresh Issue	390.70 cr
Offer for Sale	72.30 cr
Total Issue	463.00 cr

Per Equity Share

Price Band	Face Value
Rs.57 - Rs60	Rs 10
Minimum Shares	250 Qty

NET OFFER STRUCTURE



Source: Dalal & Broacha Research

gross Micro Loans, as at June 30, 2023. As at June 30, 2023, their Top-5 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 ₹5,043.73 crore, which represented 49.27% of the total gross Micro Loans.

Growing retail deposit portfolio

Bank's total deposits increased from ₹8,999.43 crore as at March 31 2021 to ₹14,665.63 crore as at March 31, 2023, representing a CAGR of 27.66%, and further increased to ₹15,655.85 crore as at June 30, 2023, an increase of 6.75%. They have placed an emphasis on increasing their Retail Deposits. The Retail Deposits increased from ₹8,796.38 crore as at March 31, 2021 to ₹13,323 crore as at March 31, 2023, representing a CAGR of 23.07%, and further increased to ₹13,977.27 crore as at June 30, 2023, an increase of 4.91%. The CASA increased from ₹1,747.65 crore as at March 31, 2021 to ₹3,137.45 crore as at March 31, 2023, representing a CAGR of 33.99%, and decreased to ₹2,851.97 crore as at June 30, 2023, a decrease of 9.10%.

Technology driven model with an advanced digital technology platform

The Bank continuously works towards improving their customers' experience through the use of technology. They offer their customers various digital platforms, including an internet banking portal, a mobile banking platform, SMS alerts, bill payments and RuPay branded ATM cum debit cards. All banking and payment transactions, such as remittances and utility payments, can be completed through these platforms. Their customer on-boarding process has been predominantly digitalized for their micro loans. They leverage technology for underwriting and credit sanctioning for their loan products based on inputs from credit bureaus and/or their customer data analytics. They have implemented technology solutions that enable them to ensure cashless disbursement of loans and implemented electronic signing for micro loans, both of which have reduced paperwork.

Conclusion

Started operations in 1995 & promoted by Mr.Kadambelil Paul Thomas, ESAF received NBFC-MFI status in 2014 and SFB license in 2017. It has dominant presence in Kerala (45% of AUMs come from Kerala State) and largely into micro-loans financing (75% share). It has total AUM of INR 163 bn with majority into MFI loans, retail loans have 16% share and other loans (incl. MSME, loans to financial institutions & agricultural loans) have 9% share. As on Mar'23, it has 700 banking outlets, 20 BCs, 2023 banking agents, 481 business facilitators and 528 ATMs.

Loans & deposits have grown at a CAGR of 39% and 27.7% respectively. Financials of the company was badly impacted due to COVID period. Over the period, the bank has cleaned up the book and NPLs have been reduced considerably (gross NPAs came down from 7.8% in FY22 to 2.5% in FY23). *ROA, which had hit low of 0.4% in FY22 recovered to 1.6% levels in FY23, which is further to improve to 2-2.1% in FY24/FY25 period.* *Post money, ESAF SFB will trade at reasonable valuations as compare to peers - @1x FY25e ABV vs. Ujjivan SFB at 1.6x, Equites SFB at 1.6x, Utkarsh SFB at 1.5x for the same period FY25. Post money, valuations look reasonable for ROA of ~2%/ROA of ~20%. Recommend **SUBSCRIBE** rating to the IPO*.

Disclaimer

Sources of the reports taken from: Red Herring Prospectus, Various other the company sites, etc.

This document has been prepared and compiled from reliable sources. While utmost care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the Company nor any of its Directors, Officers or Employees shall in any way be responsible for the contents. The Company, its Directors, Officers or Employees may have a position or may otherwise be interested in the investment referred in this document. This is not an offer or solicitation to buy, sell or dispose off any securities mentioned in this document.

Report Prepared by: Homiyar Doctor / Anusha Raheja

For Further details contact: Mr. Mahendra Panikkar / Mr. Navish Bangera / Ms. Mita Sanghvi / Ms. Bijal Sanghvi / Ms. Manisha Sonawala

DALAL & BROACHA STOCK BROKING PVT

1114/15, Maker Chamber V - 221, Nariman Point, Mumbai - 400 021

Tel: 91 - 22- 66212500/ 535 Direct: Fax: 91-22-6636 8905 E-mail: mf.sales@dalal-broacha.com