

Issue Highlights

Issue Open	November 03, 2023
Issue Close	November 07, 2023
Issue Price	Rs 57 - Rs 60 Per share
Total Issue Size	Rs 463 Cr
Of which	
Fresh Issue	Rs 391 Cr
Offer for Sale	Rs 72 Cr
Employee Discount	Rs 5 Per share
Face Value	Rs 10 Per share
Market Lot	250 Equity Shares
Issue Type	Book Built Issue

Offer Structure

QIB Category	50%
Non-Institutional	15%
Retail category	35%

Lead Book Running Managers

- ⇒ ICICI Securities Ltd
- ⇒ Dam Capital Advisors Ltd
- ⇒ Nuvama Wealth Management Ltd

Registrar To The Offer

- ⇒ Link Intime India Pvt Ltd.

Key Highlights

- ❑ **Company background:** ESAF Small Finance Bank operates majorly in Kerala with a focus on unbanked and under-banked customer segments especially in rural and semi-urban centers. It has a network of 700 banking outlets serving 7.15 Mn customers. It operates majorly in South India with ~62% outlets located in the region. It is the fifth largest SFB in India in terms of AuM as on June, 2023 and has posted growth at 39% CAGR over FY21-23.
- ❑ **Opportunity in small finance banking sector:** The small finance bank's (SFB) AuM has grown at a CAGR of 29% from FY18-23 and is expected to grow at ~22-24% CAGR over June-23 to March-25. Despite the contribution of 47% to the GDP, the rural segment's share in credit remains low at ~8-9% as on FY23. With increased focus on diversifying their portfolio and expanding their reach, SFBs are expected to log in higher growth as they tap newer geographies. Apart from providing credit to microfinance, the SFBs have been diversifying their portfolio in other segments such as MSME loans, affordable housing finance, gold loans, etc. This shall help in diversification of risks and also an opportunity to earn higher margin on loans.
- ❑ **Micro-finance focused banking entity:** The bank's main focus is providing loans to customers in rural and semi-urban centers and it sees growth opportunities in these geographies as compared to urban areas due to under-penetration of financial services. It aims to provide best-in-class banking services and products which are curated for its customers. The management has a deep understanding of micro loan segment which has enabled them to grow outside of Kerala in other states such as Tamil Nadu, Maharashtra, Madhya Pradesh, Karnataka and Chhattisgarh.
- ❑ **Dependency on technology for underwriting:** It has a digitalized central credit-processing unit for micro loans and its onboarding process has been predominantly digitalized for micro loans. The company leverages technology for underwriting and credit sanctioning for its loan products based on input from credit bureaus and customer data analytics. It has also implemented a customer relationship management solution to better handle customers requests and such initiatives have helped to improve customers services and deliver services in a more cost effective manner.
- ❑ **Target customers:** Its target customers have been salaried individuals, self-employed, business and customers who have been graduated from microfinance loans and other micro loans. It sources customers for retail loans through sales executives, dealers and direct sales agents on a walk-in basis in banking outlets and through business correspondents and business facilitators.
- ❑ **Experienced board and key managerial personnel:** The bank has an experienced board with diversified business experience many of whom have held senior position in well known financial services institutions. Its personnel have expertise in the business in which they operate combined with the motive to increase its footprints and growing its reach.
- ❑ **Financials:** Net interest income has grown at a CAGR of 26.5% over FY21-23 while PAT has grown at 135% CAGR over FY21-23. The bank is currently valued at 1.5x P/B which seems fairly valued.
- ❑ **Key risks:** 1) As of now, its operations are limited to South India with lower presence in North India. 2) Hike in RBI's interest rate will result in compression of NIMs from current levels. 3) Increase in stress on assets specially on small ticket items will affect the future cash flows which will lead to increase in NPA.

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No

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	I/we have received any compensation from the subject company in the past twelve months?		No
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Name(s) with Signature(s) of RA(s).

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SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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