

ESAF Small Finance Bank

Joy of Banking!



NOT RATED

Joy of Banking!

ESAF Small Finance Bank Limited is a microfinance bank with a specialization in underserved and less-banked customer segments, particularly in rural and peri-urban regions.

The bank commenced its operations as a microfinance bank on March 10, 2017, and it was included in the second schedule to the RBI Act following a notification dated November 12, 2018, issued by the RBI.

As of June 30, 2023, the bank's gross loans to their customers in rural and peri-urban regions (combined) represented 62.97% of their total loans, and 71.71% of the banking outlets were situated in rural and peri-urban areas (combined).

The bank's primary offerings include their loans (asset products) and savings (liability products).

The bank maintains a network of 700 banking locations (including 59 business correspondent-operated banking locations), 767 customer service centers (operated by their business correspondents), 22 business correspondent partners, 2,116 banking agents, 525 business facilitators, and 559 ATMs spread across 21 states and two union territories, catering to 7.15 million customers as of June 30, 2023.

Despite having a nationwide presence, the bank's primary business operations are concentrated in South India, specifically in the states of Kerala and Tamil Nadu.

The bank leverages business correspondent entities to acquire and serve customers for Micro Loans. These business correspondents also acquire customers for mortgage loans, vehicle loans, MSME loans, agricultural loans, and specific deposit products. Furthermore, they are responsible for acquiring and servicing the banking agents.

Industry	Banking
----------	---------

Issue Details	
Listing	BSE & NSE
Open Date	3 rd Nov 2023
Close Date	7 th Nov 2023
Price Band	INR 57-60
Face Value	INR 10
Market Lot	250 shares
Minimum Lot	1 Lot

Issue Structure	
Offer for Sale	84.38%
Fresh Issue	15.61%
Issue Size (Amt)	INR 463 cr
Issue Size (Shares)	79,035,087
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	449,473,798
Post issue sh (nos)	514,779,858
Post issue M Cap	INR 3088 cr

Shareholding (%)	Pre (%)	Post (%)
Promoters	74.43	62.64
Public	25.57	37.36
TOTAL	100.00	100.00

Key Financial Data (INR Cr, unless specified)

	Interest Earned	NII	PPOP	Net Profit	NIM (%)	EPS (₹)	BVPS (₹)	RoAA (%)	RoAE (%)	P/E (X)	P/BV
FY21	1641.2	921.6	416.9	105.3	7.5	2.5	30.1	1.0	8.85	24.4	2.0
FY22	1939.9	1147.1	491.8	54.7	6.5	1.2	31.3	0.4	4.12	49.2	1.9
FY23	2853.7	1836.3	893.7	302.3	9.1	6.7	38	1.6	19.3	8.9	1.6

Growth Strategies

Deeper Penetration into existing and new geographies: Since April 2020, they have considerably expanded the number of states and territories they operate in. In Fiscal 2021, they expanded their operations to Meghalaya, Uttar Pradesh, Haryana, Tripura and Chandigarh, by opening banking outlets and/or appointing business correspondents for these states/union territory. In Fiscal 2022, they expanded their operations to Uttarakhand by appointing a business correspondent for that state. In Fiscal 2023, they opened Branches in Tripura and Uttarakhand for the first time.

Cross Selling: The Bank intends to increase their fee-based income by cross-selling third-party products and service offerings to their customers and expanding third-party products and service offerings. In Fiscal 2019, they began distributing the National Pension System, Atal Pension Yojna and third-party general insurance products. In Fiscal 2020, they began distributing third-party life insurance products. In Fiscal 2023, they began distributing third-party mutual funds and offering third-party depositary services. In addition, they plan to offer bank guarantees and letters of credit to MSMEs.

Key Risks & Concerns

- As of March 31, 2023, the bank was not in adherence with 17 out of the 272 Risk-Based Supervision (RBS) Tranche III prerequisites. If the Reserve Bank of India (RBI) decides to levy fines on the bank due to this deviation, it has the potential to detrimentally impact their standing, operations, financial health, performance, and liquidity.
- As of June 30, 2023, a significant portion of the bank's operations is concentrated in South India, with 62.43% of their banking outlets located in this region (comprising 43.43% in Kerala and 13.86% in Tamil Nadu). Furthermore, a substantial portion of their financial activities is also linked to South India, with 73.09% of their gross advances originating from customers in this region (including 43.45% from Kerala and 22.14% from Tamil Nadu), and 86.90% of their deposits sourced from banking outlets within South India (including 80.04% from Kerala and 3.36% from Tamil Nadu). It's important to note that any adverse economic changes in South India, especially within the states of Kerala and Tamil Nadu, have the potential to negatively impact the bank's financial well-being, operational performance, and cash flow.
- The Bank has failed to comply with KYC mandatory requirements in the past. Any non-compliance with mandatory AML, KYC and CFT laws and regulations could expose them to liability and harm their business and reputation.

The proposed fresh issue of shares and offer for sale of ESAF Small Finance Bank is INR 463 cr, and the price band for the issue is in the range of INR 57-60 and the bid lot is 250 shares and multiples thereof.

Issue Structure		
Investor Category	Allocation	No. of shares
QIB	Not more than 50% of the Offer	37,541,665
NIB	Not less than 15% of the Offer	11,262,500
Retail	Not less than 35% of the Offer	26,279,167
Employees		2,272,727
<i>Number of shares based on a higher price band of INR 60</i>		
<i>Source: Company Reports</i>		

ESAF SFB financial summary & analysis

Y/E March (INR crore)	FY21	FY22	FY23	Y/E March (Rs crore)	FY21	FY22	FY23
Income Statement				Ratio Analysis			
Interest Income	1,641.2	1,939.9	2,853.7	Int Expended / Int Earned	43.8	40.9	35.6
Interest Expense	719.6	792.8	1,017.3	Int Income / Total Funds	13.3	11.0	14.1
Net Interest Income	921.6	1,147.1	1,836.3	NII / Total Income	52.1	53.4	58.5
YoY change (%)	16.3	24.5	60.1	Other Inc. / Total Income	7.2	9.7	9.2
Other income	127.2	207.6	287.9	Ope. Exp. / Total Income	35.7	40.2	39.2
Total Net Income	1,048.8	1,354.7	2,124.2	Net Profit / Total Funds	0.9	0.3	1.5
Total Operating Expenses	631.9	862.9	1,230.5	Credit / Deposit	0.9	0.9	0.9
Pre Provision profit	416.9	491.8	893.7	Investment / Deposit	0.2	0.3	0.3
YoY change (%)	28.4	18.0	81.7	NIM %	0.1	0.1	0.1
Provisions	275.6	418.0	487.7	Solvency			
Profit Before Tax	141.3	73.8	406.0	Gross NPA	564.0	949.6	351.7
YoY change (%)	(25.8)	(47.8)	450.0	Net NPA	316.6	456.0	157.9
Taxes	36.0	19.1	103.7	Gross NPA (%)	0.0	0.1	0.0
Net profit	105.3	54.7	302.3	Net NPA (%)	0.0	0.0	0.0
YoY change (%)	(44.7)	(48.1)	452.7	Per Share Data (`)			
Balance Sheet				EPS	2.5	1.2	6.7
Cash and Bank	1,819.2	1,511.9	767.1	BVPS	30.1	31.3	38.0
Advances	8,167.6	11,637.0	13,924.3	Valuation Ratio			
Investments	1,932.0	4,070.3	4,888.5	Adj P/E (x)	24.4	49.2	8.9
Other financial assets	281.4	328.9	455.8	Adj P/BV (x)	2.0	1.9	1.6
Net block	132.6	159.4	187.7	Return Ratio			
Total Assets	12,338.7	17,707.5	20,223.4	RoAA (%)	1.0	0.0	0.0
Deposits	8,999.4	12,815.1	14,665.6	RoAE (%)	0.1	0.0	0.2
Other Borrowings	1,694.0	2,952.8	3,354.2	Growth Ratio (%)			
Other liabilities	293.2	528.1	488.8	Interest Income	16.1	18.2	47.1
Networth	1,352.1	1,411.5	1,714.8	Interest Expenses	15.9	10.2	28.3
Total liabilities	12,338.7	17,707.5	20,223.4	Total Income	14.4	21.4	46.3
Dupont Analysis				Net profit	105.3	54.7	302.3
% of Average Assets							
Net Interest Income	1.0	7.6	9.7				
Other Income	0.1	1.4	1.5				
Net Income	1.2	9.0	11.2				
Operating Expenses	0.7	5.7	6.5				
Operating Profit	0.5	3.3	4.7				

Disclosures and Disclaimer

Ventura Securities Limited (VSL) is a SEBI registered intermediary offering broking, depository and portfolio management services to clients. VSL is member of BSE, NSE and MCX-SX. VSL is a depository participant of NSDL. VSL states that no disciplinary action whatsoever has been taken by SEBI against it in last five years except administrative warning issued in connection with technical and venial lapses observed while inspection of books of accounts and records. Ventura Commodities Limited, Ventura Guaranty Limited, Ventura Insurance Brokers Limited and Ventura Allied Services Private Limited are associates of VSL. Research Analyst (RA) involved in the preparation of this research report and VSL disclose that neither RA nor VSL nor its associates (i) have any financial interest in the company which is the subject matter of this research report (ii) holds ownership of one percent or more in the securities of subject company (iii) have any material conflict of interest at the time of publication of this research report (iv) have received any compensation from the subject company in the past twelve months (v) have managed or co-managed public offering of securities for the subject company in past twelve months (vi) have received any compensation for investment banking merchant banking or brokerage services from the subject company in the past twelve months (vii) have received any compensation for product or services from the subject company in the past twelve months (viii) have received any compensation or other benefits from the subject company or third party in connection with the research report. RA involved in the preparation of this research report discloses that he / she has not served as an officer, director or employee of the subject company. RA involved in the preparation of this research report and VSL discloses that they have not been engaged in the market making activity for the subject company. Our sales people, dealers, 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. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of VSL. This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients / prospective clients of VSL. VSL will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of clients / prospective clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. And such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document. The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accepted accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by VSL, its associates, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts. The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. We do not provide tax advice to our clients, and all investors are strongly advised to consult regarding any potential investment. VSL, the RA involved in the preparation of this research report and its associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report/document has been prepared by VSL, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. VSL has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change. This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of VSL. This report or any portion hereof may not be printed, sold or distributed without the written consent of VSL. This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of VSL and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection. This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith. 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 Securities Market.

Ventura Securities Limited - SEBI Registration No.: INH000001634

Corporate Office: I-Think Techno Campus, 8th Floor, 'B' Wing, Off Pokhran Road No 2, Eastern Express Highway, Thane (W) – 400608