

IPO Details	
Opening Date	Nov 03, 2023
Closing Date	Nov 07, 2023
Stock Exchange	BSE, NSE
Lot Size	250 Shares
Issue Price	₹ 57 to ₹ 60 per share
Issue Size	Aggregating up to 463.00 Cr.
Fresh Issue	Aggregating up to 390.70 Cr.
Offer for Sale	Aggregating up to 72.30 Cr.
Application Amount	Min. Inv. - ₹ 15,000 (250 shares) Max. Inv. - ₹ 1,95,000 (3,250 shares)

IPO Objective	
Augmentation of the Bank's Tier-I capital base to meet the bank's future capital requirements.	

Pre-Issue Shareholding			
Category	No. of Shares	% of Total Shares	
Promoter & Promoter Group	33,45,28,839	74.43%	
Public	11,49,44,959	25.57%	

Promoter of the Company	
1	Kadambelil Paul Thomas
2	ESAF Financial Holdings Private Limited

Competitive Strengths	
1	The main focus is on rural and semi-urban banking franchises.
2	Growing Retail Deposits Portfolio.
3	Customer connections are driven by customer-centric products.
4	A technology-driven model with a digital technology platform.
5	Experienced Promoters.

Company Background	
○	ESAF Small Finance Bank Limited was originally incorporated in the year 2016 and has its registered office in Kerala.
○	The Bank is a small finance bank with a focus on unbanked and under-banked customer segments, especially in rural and semi-urban centres.
○	The bank has a network of 700 banking outlets (including 59 business correspondent-operated banking outlets), 767 customer service centres (which are operated by the business correspondents)
○	The bank focuses on leveraging technology to deliver products and services and continuously works towards improving the customers' experience using technology.
○	As of 30 th June 2023, the bank has 5,160 employees on its payroll

Market Capitalization (In Cr.)	
Pre-Issue	Post-Issue
₹ 2,696.84	₹ 3,087.54

Financial Summary (In Cr.)				
For the Period Ended	Mar-21	Mar-22	Mar-23	Jun-23
Total Assets	12,338	17,707	20,223	20,795
Net Assets	1,352	1,406	1,709	1,839
Total Borrowings	1,694	2,952	3,354	2,739
Total Revenue	1,641	1,939	2,853	898
Profit After Tax	105	54.73	302	129

Tentative Timeline	
Opening Date	Nov 03, 2023
Closing Date	Nov 07, 2023
Basis of Allotment	Nov 10, 2023
Initiation of Refunds	Nov 13, 2023
Credit of Shares to Demat	Nov 15, 2023
Listing Date	Nov 16, 2023

Company Background and Analysis

The Bank was originally incorporated on May 05, 2016, and is included in the second schedule to the RBI Act. The bank is a small finance bank with a focus on unbanked and under-banked customer segments, especially in rural and semi-urban centres and 71.71% of the banking outlets were located in rural and semi-urban centres (combined). The bank has a network of 700 banking outlets (including 59 business correspondent-operated banking outlets), 767 customer service centres (which are operated by the business correspondents), 22 business correspondents, 2,116 banking agents, 525 business facilitators and 559 ATMs spread across 21 states and to union territories, serving 7.15 million customers as of June 30, 2023.

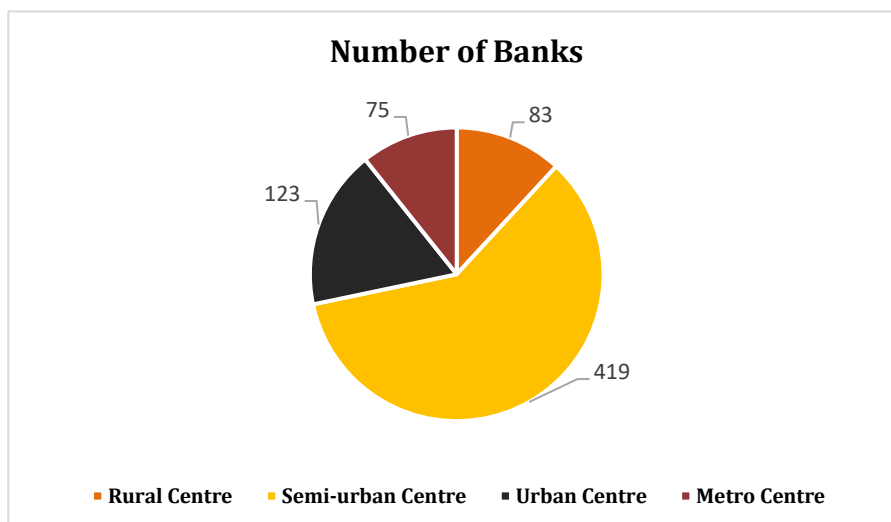
While the operations are spread out across India, the business is concentrated in South India, particularly in the states of Kerala and Tamil Nadu. The Bank's services include safety deposit lockers, foreign currency exchange, giving its customers access to the Bharat Bill Payment System, money transfer services and Aadhaar Seva Kendra services. The company also distribute third-party life and general insurance policies and Government pension products.

The Bank's primary products are as follows –

1. Advances (Asset Products) – It comprises Micro Loans, which comprises Microfinance Loans and Other Micro Loans, retail loans, which include gold loans, mortgages, personal loans, vehicle loans, MSME loans, loans to financial institutions, and agricultural loans.
2. Deposits (Liability Products) – It comprises current accounts, savings accounts, term deposits and recurring deposits.

The Bank focuses on leveraging technology to deliver products and services and continuously works towards improving the customers' experience through the use of technology. The Bank have crossed a technology milestone with the successful adoption of e-signatures for Micro Loan disbursals. In Fiscal 2023, the bank disbursed over 0.53 million loans using e-signatures. The bank offers its customers various digital platforms, including an internet banking portal, a mobile banking platform, SMS alerts, bill payments and RuPay branded ATM cum debit cards.

Bifurcation of the Number of Banks for the Period ended June 30, 2023, are as follows -



AUM for Asset Products Bifurcation for the financial year ended 2021, 2022, 2023, and the period ended June 30, 2023, are as follows –

(Amount in Lakhs)

AUM	As at March 31, 2021		As at March 31, 2022		As at March 31, 2023		As at June 30, 2023	
	Amount	%	Amount	%	Amount	%	Amount	%
Micro Loans	7,14,528.00	84.80	10,01,596.20	81.16	12,25,488.30	75.04	12,85,119.70	74.70
Retail Loans	96,071.90	11.40	1,46,497.40	11.87	2,61,475.40	16.01	2,79,844.80	16.27
MSME Loans	4,835.70	0.57	12,331.50	1.00	16,006.10	0.98	15,316.90	0.89
Loans to Financial Institutions	26,254.40	3.12	40,963.00	3.32	61,374.30	3.76	61,730.30	3.59
Agricultural Loans	903.00	0.11	32,681.00	2.65	68,782.40	4.21	78,385.10	4.56
Total AUM	8,42,593.00	100.00	12,34,069.10	100.00	16,33,126.50	100.00	17,20,396.80	100.00

To conclude, the Bank was incorporated in the year 2016. The bank is a small finance bank with a focus on unbanked and under-banked customer segments, especially in rural and semi-urban centres. The bank is raising 390.70 Cr of fresh issue for augmentation of the bank's Tier-I capital base.

Business Strategies

1. Penetrate deeper into the existing geographies –

The Bank plans to continue to open Branches in urban and semiurban centres after taking into account data from the RBI for certain parameters, such as aggregate deposits, deposit growth, number of urban households, households with banking access, share of PSU deposits and total NRI remittances.

2. Increase the deposits and in particular Retail Deposits –

The Bank plans to plan to add more business correspondents, which will help to increase the deposits. The Bank intends to continue to target NRIs to scale up the deposit base and in particular the CASA base. The Bank also intends to continue to target HNIs to scale up the deposit base and in particular the CASA base.

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

The Bank plans to continue to grow the Micro Loans by cross-selling and up-selling to the customer base and marketing these loans to family members of its existing customers, thereby deepening the relationships with them and becoming their trusted bank of choice.

4. Increase fee-based income by cross-selling, expanding third-party products and service offerings and expanding the fee-based offerings –

To Bank intends to increase the fee-based income by cross-selling third-party products and service offerings to its customers and expanding third-party products and service offerings. In addition, the Bank plans to offer bank guarantees and letters of credit to MSMEs.

5. Continue to leverage technology and customer data analytics –

The Bank believes the use of technology has significantly improved the efficiency of its operations. The Bank plans to further enhance the technology platforms, such as Internet banking, mobile banking, ATMs, cash deposit machines, customer service applications and payment interfaces, which they believe will increase the adoption of the service delivery mechanisms.

Competitive Scenario and Peer Mapping

Competition

The Bank faces competition in this Industry. Loans in the microfinance sectors are provided by banks, SFBs, NBFC-MFIs, other NBFCs and non-profit organisations. competitors in the organised sector may have better brand recognition, greater business experience, more diversified operations, a greater customer and depositor base, a larger branch network and better access to funding at lower costs than the Bank does. The banking sector has slightly high entry barriers. The bargaining power with the customers is very low in the sector in which the company operates.

Peer Analysis

The comparison of the key performance indicators of the listed peers as of Mar-23 is given below –

Particulars	ESAF Small Finance Bank Limited	Suryoday Small Finance Bank Limited	CreditAccess Grameen Limited	Spandana Sphoorty Financial Limited	Bandhan Bank Limited	Ujjivan Small Finance Bank	Equitas Small Finance Bank
P/E	8.94	13.01	17.31	306.24	14.37	4.48	13.00
P/B	3.38	1.03	5.06	2.07	1.77	2.47	10.14
RoNW	17.69	4.92%	16.17%	0.39%	11.21%	14.35%	53.75%
NAV per share	28.49	16.64	5.58	5.71	100.05	166.69	15.92

The comparison of the key performance indicators of the listed peers as of Mar-22 is given below –

Particulars	ESAF Small Finance Bank Limited	Suryoday Small Finance Bank Limited	CreditAccess Grameen Limited	Spandana Sphoorty Financial Limited	Bandhan Bank Limited	Ujjivan Small Finance Bank	Equitas Small Finance Bank
P/E	49.18	-11.60	37.08	55.08	384.55	-6.69	23.50
P/B	4.11	1.08	6.20	2.13	2.00	3.71	2.55
RoNW	3.89	-6.18%	8.47%	1.59%	0.72%	-14.81%	6.62%
NAV per share	23.45	14.81	4.96	7.95	57.95	174.58	80.65

The comparison of the key performance indicators of the listed peers as of Mar-21 is given below –

Particulars	ESAF Small Finance Bank Limited	Suryoday Small Finance Bank Limited	CreditAccess Grameen Limited	Spandana Sphoorty Financial Limited	Bandhan Bank Limited	Ujjivan Small Finance Bank	Equitas Small Finance Bank
P/E	24.39	248.04	73.11	29.57	25.24	610.00	17.98
P/B	4.28	1.02	7.11	2.32	1.99	3.23	3.19
RoNW	7.8	0.75%	3.91%	4.75%	12.67%	0.25%	11.31%
NAV per share	22.53	5.75	5.43	4.58	50.37	105.51	56.04

Based on the above analysis, the Bank has a high return on net worth when compared to all the peer companies except Equitas Small Finance Bank which has a high RoNW for FY 2023. The Bank on an average when compared had high RoNW for FY 2022 and for FY 2021.

Industry Overview

Exhibit 1: Total Banking Sector Assets (US\$ billion)

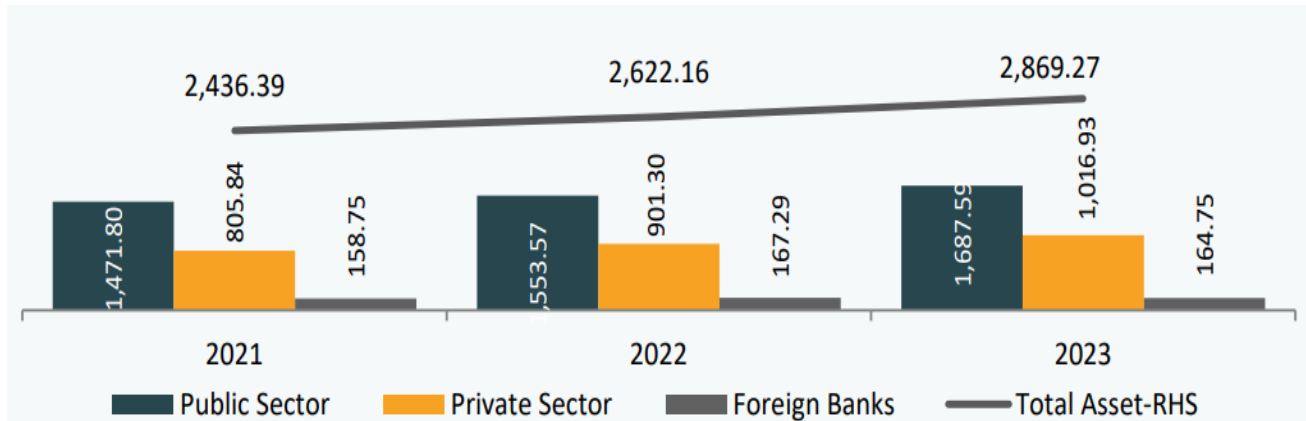
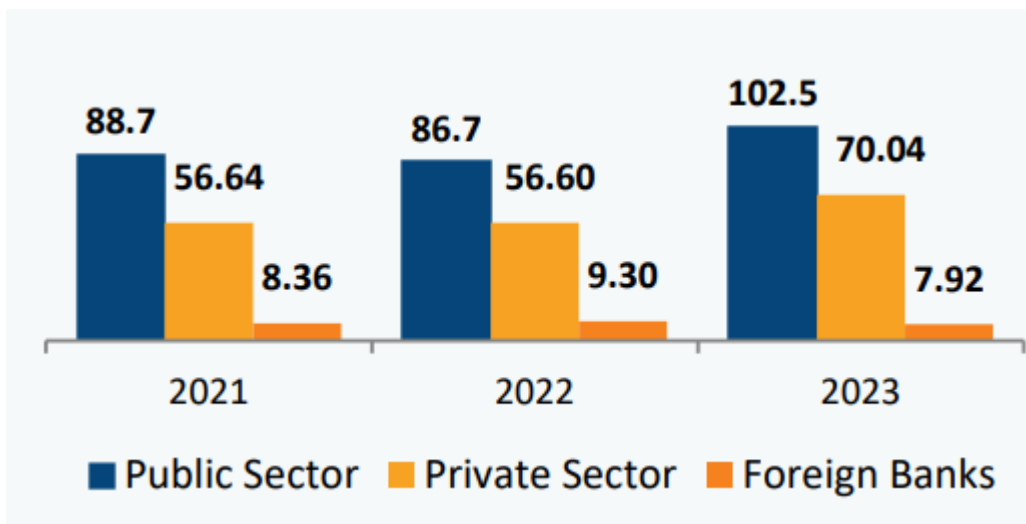


Exhibit 2: Interest Income (US\$ billion)



(Source: prospectus)

Indian Banking Industry -

Over the past decade, banking credit growth lagged systemic credit growth for several years as NBFCs grew at a much faster pace. However, the NBFCs suffered a blow after IL&FS defaulted in September 2018. NBFCs, not having the advantage of size, rating and/or parentage, had to grapple with a liquidity crisis and as raising funding became difficult. Initially, post the IL&FS crisis, banks were expected to fill the space left out by NBFCs. However, with slower economic growth and muted private capex, banking credit growth remained low at ~6.8% in Fiscal 2020.

In the fourth quarter of Fiscal 2020 and the first quarter of Fiscal 2021, with the outbreak COVID-19 pandemic, challenges had intensified for both banks and NBFCs. NBFCs were hit harder in terms of demand, and they also turned cautious as they lend to borrowers with relatively weaker credit profile. In the second half of Fiscal 2021, the Indian economy showed signs of improvement, the effect of which was seen in the credit growth.

At the end of Fiscal 2021, the banking credit grew by ~5% on year while NBFCs witnessed a growth of 7.3% during the same period. In Fiscal 2022, the second wave of the COVID-19 pandemic led to weak demand for credit in the first quarter of the year. However, the pace of credit recovered, with overall credit growing by 8.4% and retail credit increasing by 11.6% year-on-year as of March 2022. Further, high frequency indicators point out that economic activity and consumer spending is returning to pre-COVID-19 levels. With the effect of COVID-19 waning, vaccination coverage progressively improving, the situation and growth improved further.

Going forward, credit to the overall retail segment is expected to lead the growth of the banking sector, supported by healthy growth in housing, consumer durable, gold and other personal loans segments. CRISIL MI&A expects bank credit to grow at 12-14% CAGR between Fiscal 2023 and Fiscal 2025.

In Fiscal 2018, deposit growth rate fell to its lowest in over 55 years to ~7%, as the effect of demonetisation subsided, and households moved their savings from deposits to other lucrative instruments such as shares and debentures. However, in Fiscal 2019, deposit growth picked up and clocked 11%, in the wake of capital market volatility and higher deposit rates offered by the banks. In addition, inclusion of more people under the formal financial services channel improved deposit mobilisation as players continued to expand in the underbanked centres. Banking deposit growth was higher in semi-urban centres as compared to urban and rural centres, which witnessed similar growth.

In Fiscal 2020, with slowdown in the economy, deposits grew at a moderate ~9%. The banking sector witnessed movement of deposits from private sector banks to public sector banks as one of the private sector banks gross NPAs spiralled. Towards the end of Fiscal 2020, Yes Bank was put under moratorium for 30 days, wherein withdrawal of deposits was restricted before a management change was effected by the regulator and the central Government. Earlier, in 2019, the RBI had imposed operational restrictions and restrictions on withdrawals from Punjab and Maharashtra Co-operative Bank Limited after finding financial irregularities. Fiscal 2020 also saw deposit rates coming down with lending linked to an external benchmark and interest rate cycle on a downward scenario, resulting in banks reducing deposit rates to preserve their spread. With the outbreak of COVID-19 in the last quarter of Fiscal 2021, conserving money became a priority and households reduced their private consumption, leading to a 11% deposit growth in Fiscal 2021.

(Source: prospectus)

Key Managerial Personnel

Ravimohan Periyakavil Ramakrishnan, aged 65, is the Part-Time Chairman and Non-Executive Independent Director of the company. He holds a bachelor's degree in science and master's degree in science, and a master's degree in business administration. He is a certified associate of the Indian Institute of Bankers.

Kadambelil Paul Thomas, aged 60, is the Promoter, Managing Director, and Chief Executive Officer of the company. He holds a master's degree in business administration. He was previously the chairman and managing director of ESAF Financial Holdings Private Limited. He has also served as the founder secretary cum honorary executive director of Evangelical Social Action Forum for over 25 years.

Thomas Jacob Kalappila, aged 70, is the Non-Executive Independent Director of the company. He holds a bachelor's degree in science, is an associate member of the Institute of Chartered Accountants of India and holds a diploma in information and systems audit. He is a partner of Thomas Jacob & Co., a partnership firm and has 35 years of experience in statutory audit, and internal and forensic audit of banks.

Vinod Vijayalekshmi Vasudevan, aged 56, is the Non-Executive Independent Director of the company. He holds a bachelor's degree in technology (computer science and engineering), a master's degree in technology (computer science and engineering), and a doctorate in philosophy (computer science and engineering).

Ravi Venkataraman, aged 64, is the Non-Executive Independent Director of the company. He has passed the final examination held by the Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India. He is currently on the board of directors of Bajaj Finserv Mutual Fund Trustee Limited, Kotak Mahindra General Insurance Company Limited, etc.

Kolasseril Chandramohanan Ranjani, aged 65, is the Non-Executive Independent Director of the company. She holds a bachelor's degree in science and a master's degree in bank management. She has held senior management positions with SIDBI and has more than 21 years of experience in Micro, Small and Medium Enterprises in India.

Biju Varkkey, aged 57, is the Additional Non-Executive Independent Director of the company. He holds a bachelor's degree in science and a fellowship programme from the National Institute of Bank Management.

John Samuel, aged 68, is the Non-Executive Nominee Director of the company. He holds a master's degree in business administration, and a master's degree in commerce. He is an associate of the Institute of Chartered Accountants of India.

Ajayan Mangalath Gopalakrishnan Nair, aged 65, is the Non-Executive Nominee Director of the company. He holds a bachelor's degree in science (Horticulture) and is a certified associate of the Indian Institute of Bankers. He is currently an additional director on the board of directors of ESAF Financial Holdings Private Limited.

To conclude, the company has 2 promoters, out of which one is an individual promoter, and the other is a corporate promoter. The promoter has vast knowledge and experience in the industry in which the company operates in. Directors of the company have good knowledge and experience in their respective fields which helps in the overall growth of the company.

Financial Snapshot

Profit and Loss Statement				
(Amt in Lacs)				
Particulars	FY 21	FY 22	FY 23	Jun-23
Revenue from operations				
Interest income	1,64,117.30	1,93,992.50	2,85,365.90	89,874.60
Other Income	12,724.80	20,758.30	28,791.30	9,302.90
Total Income	1,76,842.10	2,14,750.80	3,14,157.20	99,177.50
Expenses				
Interest Expended	71,958.20	79,278.60	1,01,731.90	31,329.30
Operating Expenses	63,185.50	86,287.10	1,23,054.10	37,781.30
Provision and Contingencies	31,158.80	43,711.90	59,137.90	17,070.50
Total Expenses	1,66,302.50	2,09,277.60	2,83,923.90	86,181.10
Profit after tax	10,539.60	5,473.20	30,233.30	12,996.40

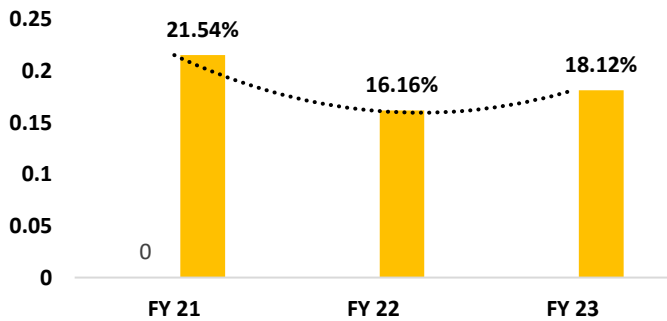
Balance Sheet				
(Amt in Lacs)				
Particulars	FY 21	FY 22	FY 23	Jun-23
Capital				
Capital	44,947.40	44,947.40	44,947.40	44,947.40
Total Capital	44,947.40	44,947.40	44,947.40	44,947.40
Liabilities				
Employee Stock Options Outstanding	-	480.60	587.50	581.00
Reserves and Surplus	90,259.00	95,732.20	1,25,965.50	1,38,961.90
Deposits	8,99,942.60	12,81,507.20	14,66,562.50	15,65,585.40
Borrowings	1,69,400.00	2,95,283.30	3,35,419.50	2,73,912.50
Other Liabilities and Provisions	29,316.20	52,805.70	48,883.30	55,605.90
Total Liabilities	11,88,917.80	17,25,809.00	19,77,418.30	20,34,646.70
Total Capital and Liabilities	12,33,865.20	17,70,756.40	20,22,365.70	20,79,594.10
Assets				
Cash and Balances with Reserve Bank of India	1,61,807.20	1,30,066.80	73,954.80	82,126.90
Balances with Banks and Money at Call and Short Notice	20,105.40	21,123.60	2,750.10	6,554.50
Investments	1,93,206.90	4,07,029.80	4,88,852.80	4,88,211.70
Advances	8,16,758.60	11,63,700.50	13,92,433.10	14,32,155.40
Fixed Assets	13,851.20	15,947.50	18,792.70	18,725.60
Other Assets	28,135.90	32,888.20	45,582.20	51,820.00
Total Assets	12,33,865.20	17,70,756.40	20,22,365.70	20,79,594.10

Cash Flow Statement				
(Amt in Lacs)				
Particulars	FY 21	FY 22	FY 23	Jun-23
Cash Flow from Operating Activities	112744.5	-58450.2	-57300	70578.9
Cash Flow from Investing Activities	-63795.5	-98184.7	-57321.7	2904.6
Cash Flow from Financing Activities	65327	125883.3	40136.2	-61507

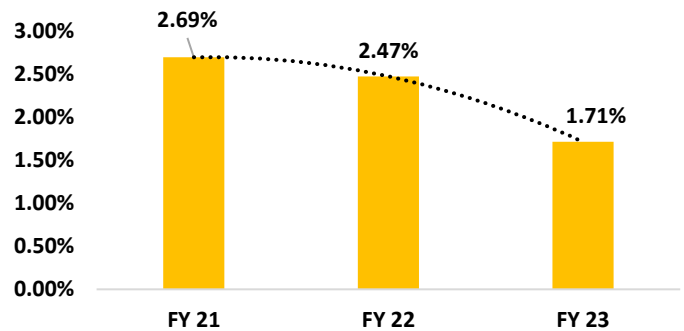
Particulars	FY 21	FY 22	FY 23
Banking ratios			
Common Equity Tier I (CET) capital ratio	21.54%	16.16%	18.12%
Tier I Capital ratio	21.54%	16.16%	18.12%
Tier II Capital ratio	2.69%	2.47%	1.71%
Total Capital ratio (CRAR) (%)	24.23%	18.64%	19.83%
CASA	19.42%	22.84%	21.39%
Return Ratios (%)			
RoNW	7.80	3.89	17.69
RoA	0.85	0.31	1.49
Valuation Ratios			
P/E	24.39	49.18	8.94
P/B	4.28	4.11	3.38
Leverage Ratios			
Leverage Ratio	11.26%	7.99%	8.45%
Debt-to-Equity Ratio	1.25	2.10	1.96
Debt-to-Capital Ratio	10.84	18.09	17.92
Net Interest Margin	56.15%	59.13%	64.35%

Financial Charts

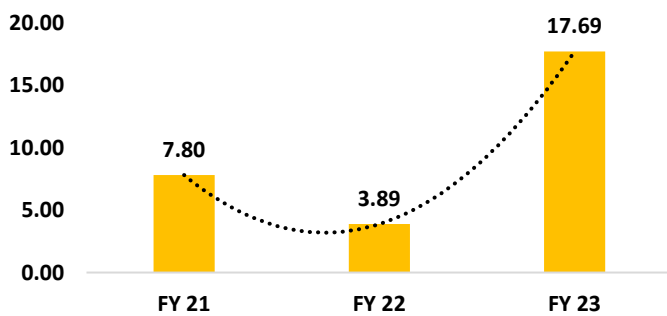
Tier I Capital ratio



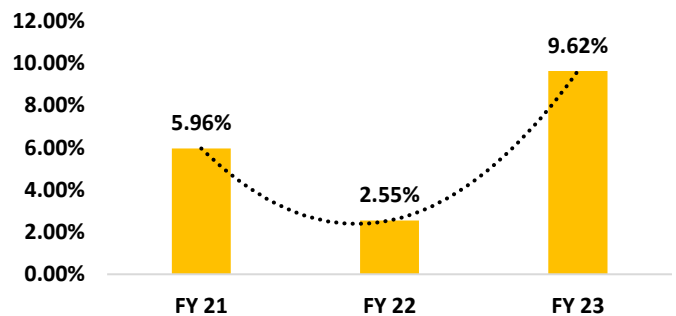
Tier II Capital ratio



RoNW



Net Profit Margin



Key Risk Factors

1. The attrition rate of the employees was 3.87% (not annualized), 5.66% (not annualized), 24.07%, 20.07%, and 13.03% for the three months period ended June 30, 2023, and Fiscals 2023, 2022 and 2021, respectively. If the attrition rate of the employees continues to increase, may need to increase the compensation paid to employees in order to retain more of its employees, which could have an adverse effect on the financial condition, results of operations and cash flows.
2. The company and the promoters are involved in certain material legal proceedings amounting to Rs. 5,600.7 lakhs, excluding the 862 criminal proceedings by the Bank amounting to Rs. 1,362.4 lakhs, any adverse developments related to which could adversely affect the reputation, business and cash flows.
3. The company had negative cash flows generated from operating activities for Fiscals 2023 and 2022 of Rs. 57,300.0 lakhs and Rs. 584.502 lakhs, respectively, and the company may experience negative cash flows from operating activities in the future.

Track Record of Lead Manager

The lead manager to the issue is ICICI Securities Limited, Dam Capital Advisors Limited, and Nuvama Wealth Management Limited. A table has been set below highlighting the details of the IPO of the recent companies handled by the Lead Managers in recent times –

ICICI Securities Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Blue Jet Healthcare Limited	840.27	346.00	November 01, 2023	161.00
2.	JSW Infrastructure Limited	2,800.00	119.00	October 03, 2023	141.00
3.	Signatureglobal (India) Limited	730.00	385.00	September 27, 2023	693.00
4.	Zaggle Prepaid Ocean Services Limited	563.38	164.00	September 22, 2023	402.00
5.	Jupiter Lifeline Hospitals Limited	869.08	735.00	September 18, 2023	25.4

The company has had 41 mandates in the past three years (Including the current year)

Dam Capital Advisors Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	JSW Infrastructure Limited	2,800.00	119.00	October 03, 2023	161.00
2.	Yatra Online Limited	775.00	142.00	September 28, 2023	141.00
3.	Rishabh Instruments Limited	490.78	441.00	September 11, 2023	693.00
4.	Avalon Technologies Limited	865.00	436.00	April 18, 2023	402.00
5.	Uniparts India Limited	835.61	577.00	December 12, 2022	25.4

The company has had 16 mandates in the past three years (Including the current year)

Nuvama Wealth Management Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Sai Silks (Kalamandir) Limited	1,201.00	222.00	September 27, 2023	161.00
2.	Jupiter Lifeline Hospitals Limited	869.08	735.00	September 18, 2023	141.00
3.	TVS Supply Chain Solutions Limited	880.00	197.00	August 23, 2023	693.00
4.	Inox Green Energy Services Limited	1,200.9	222.00	November 23, 2022	
5.	Five Star Business Finance Limited	869.7	735.00	November 21, 2022	

The company has had 15 mandates in the past three years (Including the current year)

*CMP for the above-mentioned companies is taken as of 1st November 2023.

As per the offer document, for all the above-mentioned mandates, 1 opened at a par, 6 have opened at a discount and the remaining all have opened at premiums on the listing day.

Recommendation

The company has been in the industry since 2016 and has good experience in the industry. The company has seen an increase in the interest earned over the years. The company faces intensive competition. The management outlook of the company is good.

The P/E on a post-IPO basis is 5.94 times which seems to be fairly priced by looking at the performance of the company. The Sector P/E is 11.7 times.

The company has a good financial outlook with increasing deposits and cash balances over the years. The company has many outlets across India and is planning to increase its geographical reach which will yield good growth. The company has majorly performed better when compared to its peer companies. With all the strategies mentioned in the business strategies of this report, the company can look at good growth. Thus, one can **APPLY** to this IPO.

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