

17.03.2021

To,

Department of Corporate Services
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street
Mumbai – 400 001

Dear Sir/ Madam,

Subject: Intimation of Reaffirmation of Credit Rating

We hereby intimate that Brickwork Ratings vide their letter dated March 16, 2021, as part of annual rating surveillance exercise has reaffirmed the credit Rating of the Bank's Non-Convertible Debentures (NCDs) and the details of the same are as follows:

Facilities	Amount (Rs. Crore)	Rating	Rating Action
Unsecured NCDs	50 Crores	BWR A Stable	Reaffirmed

The details of the instruments are provided below:

ISIN	Date of Issuance	Coupon Rate	Maturity Date	Amount (Rs. Crore)
INE879Q08028	22.12.2015	17.23%	22.12.2021	25
INE879Q08036	28.12.2015	16.83%	28.12.2021	25

Enclosed herewith the credit reaffirmation letter issued by Brickwork Ratings for your reference.

Requesting you to take note of the information on your records.

Thanking you,

Yours Faithfully,

For ESAF Small Finance Bank Limited,


Ranjith Raj P
Company Secretary
Membership No: A 30388



ESAF SMALL FINANCE BANK LIMITED

RBI License No.: MUM 124, CIN: U65990KL2016PLC045669

Registered & Corporate Office: ESAF Small Finance Bank Limited, Building No. VII/83/8, ESAF Bhavan, Mannuthy, Thrissur – Palakkad National Highway, Thrissur – 680 651, Kerala.

Ph. No: 0487 7123456, 123457, Email: customercare@esafbank.com www.esafbank.com

RATING RATIONALE 2021

ESAF Small Finance Bank Ltd

Brickwork Ratings reaffirms the ratings for the Non-Convertible Debentures of ₹. 50 Crores of ESAF Small Finance Bank Ltd [hereafter referred to as ESAF SFB or the "Bank"]

Particulars:

Facility/ Instrument**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Mar 2020)	Present
Unsecured NCDs	50	50	Long Term	BWR A Stable	BWR A Stable
Total	50	50	INR Fifty Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of NCD is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms BWR A/Stable rating for ESAF Small Finance Bank Ltd.'s (hereafter referred to as "ESAF SFB" or the Bank) unsecured Non Convertible Debentures (NCDs) of Rs 50 Crs as tabulated above.

The rating reaffirmation factors, inter alia, ESAF's stable business growth with established presence in microfinance loans through MFI branches, comfortable capitalization, stable asset quality and adequate liquidity. However, the rating is constrained by the limited diversification of the portfolio and regionally concentrated operations.

Rating Outlook: Stable

BWR believes the **ESAF Small Finance Bank Limited's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- Stable business growth:** ESAF has witnessed consistent and sustainable growth in its business in the last 3 years post receipt of "small finance bank" license. Total business of the bank as on 31 Dec 2020 substantially grew to Rs 16,463 Crs from Rs 13,576 Crs in FY20. Bank's Loan book grew by 37% during FY20 from Rs 4,548 Crs in FY19 to Rs.6,548 crs in FY20 and further grew by 15% to Rs.7,812 crs as on 31 December 2020. Microfinance loan book constitutes ~88% of total loan book as on 31 Dec 2020. The total deposits grew by 63% during FY20 from Rs 4,317 Crs in FY19 to Rs.7,028 crs in FY20 and further deposits grew by 23% on y-o-y basis and stood at Rs.8,651 crs as on December 31, 2020. The bank's CASA ratio improved from 13.66% in FY20 to 16.53% as on 31 Dec 2020. Going forward, the ability of the bank to continue its growth trajectory will be a key rating monitorable.
- Comfortable capitalisation:** Bank's CAR and Tier 1 CAR stood comfortable at 21.04% and 18.53% as on 31 Dec 2020, respectively (Minimum regulatory requirement of 15% and 7.5%). The bank's Net worth as on 31 Dec 2020 stood at Rs.1,093 crore with cost of funds at 7.82%. The bank's ability to continue to raise capital during the current fiscal to sustain business growth will be a key rating monitorable.
- Stable financial risk profile:** ESAFs interest income grew by 36.99% from Rs 1,031.64 crs in FY19 to Rs 1,413.25 crs in FY20. For 9MFY21, Bank has reported interest income of 1,256.08 Crs when compared to Rs 1,026.23 Crs for 9MFY20. The increase in interest income is on the back of the consistent growth in advances. For the same period, PAT increased by 110.86% from Rs 90.29 Crs in FY19 to Rs 190.39 crs in FY20. However, for 9MFY21, the bank has reported PAT of Rs 62.11 Crs when compared to Rs 135.86 Crs in 9MFY20. The decrease in PAT is due to increase in provisions to Rs 297 Crs due to the impact of COVID 19. This has resulted in a decrease of ROA & ROE from 2.24% and 17.56% in FY20 to 0.76% and 7.20% in 9MFY21. The bank's ability to continue to maintain its operating profitability and manage provisioning costs will remain a key monitorable.

- **Stable asset quality albeit stressed in the recent past due to the impact of COVID 19:** Bank's asset quality improved in FY20 with Gross NPA and Net NPA decreasing to 1.53% and 0.64%, from 1.61% and 0.77%, respectively in FY19. Gross NPA and Net NPA further improved to 1.22% and 0.05% in 9MFY21 mainly due to the Supreme court order on NPA recognition. However, the pro forma Gross NPA and proforma Net NPA stood at 10.70% and 7.40% as on December 31, 2020. In absolute terms Gross NPA for 9MFY21 stood at Rs 95 Crs and proforma GNPA stood at Rs 835 Crs. Provision coverage ratio as on 31 Dec 2020 stood at 59%. Apart from the normal provisioning, the bank has already made a total provision of Rs.224 Crs as on December 31, 2020 for the impact of Covid-19. The ability of the bank to keep making provisions towards COVID 19 impact and at the same time maintain its profitability and maintain stable asset quality will remain a key rating sensitivity.

Bank's collection efficiency has improved MoM and reached around 50% in January 2021. However, ~92% of borrowers have started repaying in the month of Feb 2021 and the reason behind low collection efficiency is overdues for earlier months. BWR expects that the collection efficiency will improve month on month which will help the bank to maintain a stable asset quality. However, the ability of the bank to improve its collection efficiency to reach pre covid levels will be a key rating sensitivity.

Credit Risks:

- **Regional Concentration of operations:** As on 31 Dec 2020, the bank operates in 21 states with 524 branches. ~82% of gross loan portfolio is concentrated in southern states with Kerala accounting for ~58% of total portfolio, TamilNadu accounting for ~21% and Karnataka accounting for ~3%. The bank plans to diversify geographically in next 2-3 years by opening more branches outside Kerala which will help them to reduce the geographical concentration.
- **Limited diversification of portfolio:** Microfinance loans contribute to ~88% of the total advances (against 97% of the total AUM as on March 31, 2020 and hence is concentrated. Bank has introduced new loans like Home loans, Two-Wheeler loans, Gold loans and Agri - MSME loans to address the issue. Going forward, the company's ability to build a non-MFI portfolio will be a key rating sensitivity.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has considered the standalone financial profile of the bank and has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: Ability to raise capital to support profitable business growth, geography and product diversification, improvement in resource profile and manage asset quality from any further deterioration will be key rating positives.

Negative: Non achievement of the projected financial performance, deterioration in asset quality and its impact on profitability and capitalisation will be key rating sensitivities.

LIQUIDITY POSITION: Adequate

Bank has adequate liquidity as reflected through its Liquidity Coverage ratio of 231.56% as on 30 Sep 2020 (as against Min LCR of 100% by Jan 2021) and positive cumulative mismatches up to 1-year time bucket as per the Structural liquidity statement dated December 31, 2020.

COMPANY PROFILE

ESAF Small Finance Bank Limited (ESAF SFB) is a Kerala based Small Finance Bank (SFB) which commenced its banking operations on March 10, 2017. The bank was promoted by Mr. K. Paul Thomas which is a part of Kerala based ESAF group operating in Microfinance space from 1995 and set up ESAF Microfinance & investments Pvt. Limited (EMFIL) in 2007. EMFIL received in principle approval from the Reserve Bank of India (RBI) to establish a Small Finance Bank (SFB) in the private sector under section 22 of the Banking Regulations Act, 1949 on Sep 16, 2015. The Bank received the final license from RBI on Nov 18, 2016 and commenced commercial operations as an SFB on March 10, 2017. On 27 Dec 2018, the bank received "Scheduled Commercial Bank" status from RBI. Its registered office is located at Thrissur. ESAF Small Finance Bank currently operates through 524 Branches across 21 states in India.

As on December 31, 2020, ESAF Microfinance & Investments Pvt Ltd (EMFIL) held 65.63% of the shareholding in ESAF SFB while Mr. Paul Thomas holding 7.30%, ESAF Swasraya Multi state Agro Cooperative Society Ltd 4.99%, PNB Metlife India Insurance 4.99%, Muthoot Finance Ltd 4.38%, Bajaj Allianz life insurance company 4.08%, PI Ventures 2.04%, ICICI Lombard General Insurance company held 1.46% and individual investors hold the remaining.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY 18	FY 19	FY20
Result Type		Audited	Audited	Audited
Deposits	Rs in Crs	2523	4317	7028
Advances	Rs in Crs	3155	4548	6548
Total Business	Rs in Crs	5678	8865	13576
CASA	%	9.82	12.60	13.66
CRAR	%	16.92	27.59	24.03
GNPA	%	3.79	1.69	1.53
NNPA	%	2.69	0.77	0.64
Networth	Rs in Crs	325	881	1061

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: Nil

RATING HISTORY

Sl. No.	Instrument/Facility	Current Rating (Mar 2021)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs in Crs)	Rating	18 Mar 2020	13 Feb 2019	27 Mar 2018
1	Fund Based Term Loans	Long Term	-	-	Withdrawn	BWR A (Stable)	BWR A- (Stable)
2	Unsecured	Long Term	50	BWR A	BWR A	BWR A	BWR A-

	NCD			(Stable)	(Stable)	(Stable)	(Stable)
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COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Banks and Financial Institutions

Analytical Contacts			
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ESAF Small Finance Bank Ltd

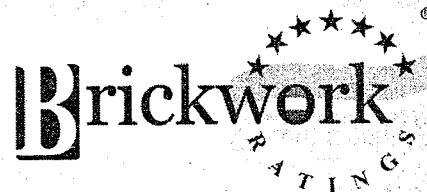
ANNEXURE I

INSTRUMENT (NCD/Bonds/CP) DETAILS

Instrument	Issue Date	Amount in Crs.	Coupon Rate	Maturity Date	ISIN Particulars
Unsecured NCD	22 Dec 2015	25	17.23	22 Dec 2021	INE879Q08028
	28 Dec 2015	25	16.83	28 Dec 2021	INE879Q08036

For print and digital media

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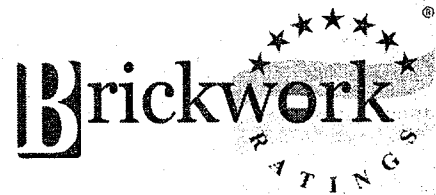
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