

05.03.2021

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 CARE Ratings via letter no: CARE/CRO/RR/2020-21/1899 dated March 2, 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
Tier II Bond Issue	125.00 (Rupees One Hundred Twenty Five Crore only)	CARE A; Stable (Single A ; Outlook:Stable)	Reaffirmed

The details of the instruments are provided below:

ISIN	Date of Issuance	Coupon Rate	Maturity Date	Amount (Rs. Crore)
INE818W08016	30.12.2017	10.50%	30-December-2024	20
INE818W08024	28.03.2018	11.50%	28- March-2025	20
INE818W08032	01.06.2018	11.50%	01-June-2025	40
Tier II Bonds (Basel III) - (proposed)		45 Crores		

Enclosed herewith the press release issued by CARE Ratings for your reference.

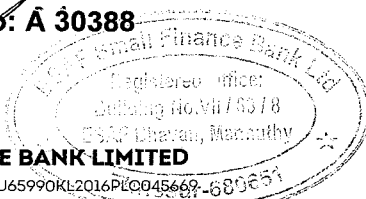
Requesting you to take note of the information on your records.

Thanking you,

Yours Faithfully,

For ESAF Small Finance Bank Limited,


Ranjith Raj R.
Company Secretary
Membership No: A 30388



ESAF SMALL FINANCE BANK LIMITED

RBI License No.: MUM 124, CIN: U65990KL2016PLC045669-680651

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

Annexure 2
Press Release
ESAF Small Finance Bank

Ratings

Facilities	Amount (Rs. crore)	Rating ²	Rating Action
Tier II Bonds (Basel III) [#]	125.00 (Rupees One hundred and twenty five crore only)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Certificate of Deposits (Proposed)	500.00 (Rupees Five hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

[#]Tier II Bonds under Basel III are characterised by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable. In CARE's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess rating of Tier II instruments even under Basel II. CARE has rated the Tier II bonds under Basel III after factoring in the additional feature of PONV.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of ESAF Small Finance Bank (ESAF SFB) continue to factor in experience of the promoter & management team in the lending business, the group's significant experience in microfinance loans, comfortable capitalization levels and adequate liquidity position. The ratings are, however, constrained by regionally concentrated nature of business, moderation in asset quality parameters during 9MFY21 (refers to the period April 01 to March 31) due to Covid-19 pandemic induced slowdown, limited diversification in loan portfolio which mainly consists of micro finance loans.

Rating Sensitivities

Positive Factors

- Increase in the scale of operations with diversification in terms of geography & products while maintaining good asset quality and capital adequacy levels

Negative Factors

- Weakening of asset quality parameters with credit costs of above 4% on sustained basis resulting in reduction of capital adequacy levels below 18%.

²Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Detailed description of the key rating drivers

Key Rating Strengths

Experience of promoter and management team

ESAF SFB was promoted by Mr. K Paul Thomas, who is the founder of ESAF group and holds 7.3% stake in ESAF SFB as on September 30, 2020. He has over 32 years of industry experience, of which more than 25 years are in the microfinance sector. He is supported by well qualified and experienced management team which has rich experience in the banking and financial services sector. As on December 31, 2020, the bank's board comprised of nine Directors including six Independent directors who have rich experience in banking and financial services industry.

Comfortable capitalisation levels

Bank's CAR and Tier 1 CAR stood comfortable at 24.03% and 20.99% as on March 31, 2020 respectively (Minimum regulatory requirement of 15% and 7.5%) as against 27.59% and 23.30% as on March 31, 2019. Total CAR stood at 21.04% as on December 31, 2020; reduction in CAR during 9MFY21 was on account growth in net advances to Rs. 7,717 crore as on December 31, 2020 against Rs. 6,548 crore as on March 31, 2020. The bank's tangible net worth stood at Rs. 1,073 crore as on March 31, 2020 (Rs. 1,185 crore September 30, 2020).

Significant growth in AUM; however, share of MFI loans continues to be high

ESAF SFB's AUM grew by 37% during FY20 and stood at Rs.6,818 crore as on March 31, 2020 (PY: Rs.4,972 crore) and during 9MFY21, AUM grew by 15% and stood at Rs.7,820 crore as on December 31, 2020. The bank ventured into new products like LAP (Loan against Property), business loans, corporate loans, gold loan, etc. Nevertheless, the microfinance loan book stood at 93% of the AUM as on March 31, 2020 (89% of the AUM as on December 31, 2020) as against 96% of the AUM as on March 31, 2019. Next to MFI loans, gold loans stood at Rs. 446 crore as on December 31, 2020. Bank has also disbursed Covid-Care loan during 9MFY21 and the outstanding Covid-care loan stood at Rs. 532 crore as on December 31, 2020.

Significant improvement in Deposits in FY20 and 9MFY21

The bank's resource profile majorly comprised of deposits, borrowings and sub-debts at 85%, 10% and 2% respectively as on March 31, 2020 (PY: 72%, 23% and 3%). The total deposits grew by 63% during FY20 and stood at Rs. 7,028 crore as on March 31, 2020 (PY: Rs.4,317 crore). During 9MFY21, deposits grew by 23% on y-o-y basis and stood at Rs. 8,651 crore as on December 31, 2020. In terms of granularity of deposits, 87% of total deposits were below the ticket size of Rs.1 crore as on March 31, 2020 (86% as on September 30, 2020). The bank's CASA (as % total deposits) stood at 13.66% as on March 31, 2020 as against 13.55% as on March 31, 2019 and improved to 15.07% as on September 30, 2020.

Improvement in profitability metrics during FY20; However, declined in 9MFY21 due to impact of Covid-19

During FY20, the interest income (as a % of average interest earning assets) reduced to 18.39% (PY:19.53%) and the cost of funds (as a % of average interest-bearing liabilities) declined to 8.72% in FY20 (PY:8.97%) thereby NIM reduced to 9.60% in FY20 (PY: 9.75%). The operating expenses (as a % of average total assets) have slightly improved to 7.28% in FY20 (PY: 7.71%). Credit costs (as % average total assets) reduced to 0.83% in FY20 from 1.99% in FY19. ROTA has improved to 2.31% in FY20 as against 1.53% in FY19 supported by decline in credit cost.

During 9MFY21, PAT stood at Rs. 62 crore on a total income of Rs.1,336 crore. NIM of the bank declined to 9.03% in 9MFY21 due to interest reversal of 90+DPD accounts. PPOP remained healthy at Rs.359 crore during 9MFY21 as against Rs.230 crore in 9MFY20. PPOP/total average assets stood at 4.54% in 9MFY21 as against 2.32% in FY20. However, PAT declined during 9MFY21 on account of increase in provisions to Rs. 297 crore during the period due to impact of Covid-19 on the asset quality of the bank. Credit cost (as a % of total assets) stood at 3.76% and ROTA declined to 0.78% during 9MFY21. With moderation in asset quality parameters post moratorium, the increase in credit costs is expected to impact the profitability in the near term. However, PPOP is expected to absorb the credit costs arising out of the increase in delinquencies.

Key Rating Weaknesses

Moderation in asset quality parameters during 9MFY21

Asset quality witnessed improvement during FY20 with Gross NPA and Net NPA stood at 1.53% and 0.64% respectively as on March 31, 2020 as against 1.61% and 0.77% respectively as on March 31, 2019. Gross NPA and Net NPA stood at 1.22% and 0.05% as on December 31, 2020 (As per Supreme court order on NPA recognition). Proforma Gross NPA and proforma Net NPA stood at 10.70% and 7.40% as on December 31, 2020. 0+ DPD (days past due) increased post moratorium period and stood at 34.44% as on December 31,2020 as against 2.68% as on March 31, 2020. Bank's overdue which were increasing post September 2020 has declined with improvement in collection in January 2021. It is critical for the bank to improve its asset quality indicators due to credit risks associated with marginal credit profile of borrowers.

Regional concentration of loan portfolio

ESAF SFB's AUM continues to remain concentrated in Kerala at 58% of AUM as on December 31, 2020(57% as on March 31, 2020). The top two states constitute 79% of the overall portfolio as on December 31,2020. The bank has improved its presence to 21 states across 483 branches as on September 30,2020 (524 branches as on December 31, 2020) as against 17 states across 322 branches as on September 30, 2019.

Impact of Covid-19

On account of COVID-19, significant proportion of borrowers had availed moratorium. The collection efficiency has witnessed gradual improvement and reached around 73% in the month of September 30,2020 and 78% in January,

2021. The bank has already made total provision of Rs. 220 crore as on December 31,2020 for the impact of Covid-19. With increased delinquencies post moratorium period, the entire impact of Covid-19 on the asset quality and profitability remains to be seen.

Liquidity: Adequate

As per structural liquidity statement of the bank as on December 31,2020, the bank does not have negative cumulative mismatches up to 1-year time bucket. Also, the Liquidity Coverage Ratio (LCR) stood comfortable at 198.65 % as on December 31,2020.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings

CARE's Policy on Default Recognition

Financial Ratios-Financial Sector

CARE's Rating Methodology for Banks

Rating framework for Basel III instruments

Criteria for Short term Instruments

About the Bank

ESAF Small Finance Bank Limited (ESAF SFB) is a Kerala based Small Finance Bank (SFB) which has 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 subsequently got SFB license and started its banking operations from March 2017 onwards. ESAF SFB is currently focused in retail banking business with presence in micro-finance, housing finance, business loans, loan against property (LAP), gold loans and providing financing solutions for marginal customers who lack access to the formal banking and financing channels while providing a comprehensive banking and digital platform for all.

The bank received Scheduled status from RBI on December 27, 2018. As on September 31,2020, ESAF Financial Holdings Private Limited held 65.63% of the shareholding in ESAF SFB while Mr. Paul Thomas holding 7.29%, ESAF Swasraya Muti State Agro Co- operative 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. As on December 31, 2020, the bank has 524 branches with Rs. 8,651 crore of deposits and AUM of Rs. 7,820 crore.

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	1,141	1,546
PAT	90	190
Interest coverage (times)	1.50	1.52
Total Assets	7,052	9,459

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Net NPA (%)	0.77	0.64
ROTA (%)	1.53	2.31

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Tier II Bonds (Basel III)	INE818W08016	30-Dec-2017	10.50%	30-Dec-2024	20.00	CARE A; Stable
Tier II Bonds (Basel III)	INE818W08024	28-Mar-2018	11.50%	28-Mar-2025	20.00	CARE A; Stable
Tier II Bonds (Basel III)	INE818W08032	01-Jun-2018	11.50%	01-Jun-2025	40.00	CARE A; Stable
Tier II Bonds (Basel III) (Proposed)	-	-	-	-	45.00	CARE A; Stable
Certificate of Deposits (Proposed)	-	-	-	-	500.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (06-Mar-20)	1)CARE A; Stable (25-Jan-19)	1)CARE A-; Negative (01-Dec-17)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (01-Dec-17)
3.	Commercial	ST	-	-	-	-	-	1)CARE A1

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
	Paper							(01-Dec-17)
4.	Bonds-Tier II Bonds	LT	125.00	CARE A; Stable	-	1)CARE A; Stable (06-Mar-20)	1)CARE A; Stable (25-Jan-19)	1)CARE A-; Negative (01-Dec-17)
5.	Certificate Of Deposit	ST	500.00	CARE A1+	-	1)CARE A1+ (06-Mar-20)	1)CARE A1+ (12-Mar-19)	-

Annexure 3: Complexity of Instruments

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Tier II Bonds	Complex
2.	Certificate Of Deposit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact 1

Mr. P Sudhakar
Contact no. - 044-28501000
Email: p.sudhakar@careratings.com

Analyst Contact 2

Mr. Ravi Shankar R
Contact no. - 044-2850 1016
Email ID: ravi.s@careratings.com

Relationship Contact

Mr. V Pradeep Kumar
Contact no. : 044-2850 1001
Email ID: pradeep.kumar@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

CARE's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.