

10<sup>th</sup> March, 2020

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 dated March 02, 2020, 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	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed

Enclosed herewith the rating letter issued by CARE Ratings for your reference.

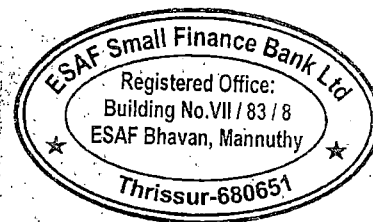
We request you to kindly take the above documents on record.

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: info@esafbank.com [www.esafbank.com](http://www.esafbank.com)

CARE/CRO/RL/2019-20/1791

Mr. K Paul Thomas  
Managing Director & CEO  
ESAF Small Finance Bank Limited  
ESAF Bhavan, Mannuthy P.O.,  
Thrissur, Kerala - 680 651

March 2, 2020

**Confidential**

Dear Sir,

**Credit rating for Debt facilities**

On the basis of recent developments including operational and financial performance of your bank for FY19 (Audited) and H1FY20 (Provisional), our Rating Committee has reviewed the following ratings:

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Tier II Bond facilities	125* (Rs. One Hundred and Twenty Five crore only)	CARE A, Stable (Single A; Outlook: Stable)	Reaffirmed

\*outstanding amount of Rs.80 crore as on February 25, 2020

- Details of the instruments are provided in Annexure I
- Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

Instrument type	ISIN	Issue Size (Rs cr)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Debenture Trustee	Details of top 10 investors
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- The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

1

**CARE Ratings Limited**

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Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.  
Tel.: +91-44-2849 0811 / 13 / 76 / 2850 1000  
Tel./ Fax: +91-44-2849 7812

CIN: L67190MH1993PLC071691

which is enclosed for your perusal as Annexure. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by March 4, 2020, we will proceed on the basis that you have no any comments to offer.

5. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
6. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instrument, CARE shall carry out the review on the basis of best available information throughout the life time of such instrument. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
7. 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.
8. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.
9. CARE ratings are not recommendations to buy, sell, or hold any securities.

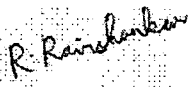
If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

  
**Meenakshi D**  
Manager

[meenakshi.d@careratings.com](mailto:meenakshi.d@careratings.com)

  
**Ravi Shankar R**  
Manager  
[ravi.s@careratings.com](mailto:ravi.s@careratings.com)

Encl.: As above

**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.

**ANNEXURE I**

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	INE818W08016	30-Dec-2017	10.50%	30-Dec-2024	20.00	CARE A; Stable
Tier II Bonds	INE818W08024	28-Mar-2018	11.50%	28-Mar-2025	20.00	CARE A; Stable
Tier II Bonds	INE818W08032	01-Jun-2018	11.50%	01-Jun-2025	40.00	CARE A; Stable
Tier II Bonds (Proposed)	-	-	-	-	45.00	CARE A; Stable

**Annexure  
Press Release**

**ESAF Small Finance Bank**

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>2</sup>	Rating Action
Tier II Bond Issue	125.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Certificate of Deposits (Proposed)	500.00	CARE A1+ (A One Plus)	Reaffirmed
Long term Bank Facilities	-	-	Withdrawn

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the debt instruments and certificate of deposits of ESAF Small Finance Bank Ltd (ESAF SFB) factors in comfortable capitalisation profile and growth in overall business of the bank and improving profitability during FY19(refers to the period April 01 to March 31) and H1FY20(refers to the period April 01 to September 30). The ratings continue to factor in experience of the promoter & management team in the lending business, the group's significant experience in microfinance loans and comfortable liquidity position. The ratings are, however, constrained by regionally concentrated nature of business, limited diversification in loan portfolio which mainly consists of micro finance loans.

The ratings assigned to the long-term bank facilities is withdrawn with immediate effect, as the bank has fully repaid the amount under the said facility and there is no amount outstanding as on date.

**Rating Sensitivities**

**Positive Factors**

- Increase the scale of operations across newer geographies and improve product mix of advances book while maintaining good asset quality on a sustained basis.

**Negative Factors**

- Weakening of asset quality on sustained basis
- Weakening of capital adequacy with CAR declining below 17% on a sustained basis

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://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 December 31, 2019. He has over 32 years of industry experience, of which more than 22 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. The bank has been augmenting its senior management team by recruiting professionals from the banking and financial sector. As on December 31, 2019, the bank's board comprised of eight Directors including five Independent directors who have rich experience in banking and financial services industry.

**Comfortable capitalisation levels:** The bank's capitalisation profile is comfortable supported by the capital infusion of Rs.464 crore through private placement of equity shares during September 2018. As on March 31, 2019, the CAR and Tier I ratio stood at 27.59% and 23.30% respectively (25.69% and 21.99% as on September 30, 2019) as against 16.92% and 12.40% as on March 31, 2018.

**Improvement in advances, however share of MFI loans continues to be high:** ESAF SFB's AUM improved by 22% during FY19 and stood at Rs.5,060 crore as on March 31, 2019 (PY:Rs.4,131 crore) and during H1FY20, AUM improved by 10% and stood at Rs.5,559 crore as on September 30, 2019. Post transition to SFB, ESAF SFB has introduced new products like LAP (Loan against Property), business loans, corporate loans, gold loan, etc. Nevertheless, the microfinance loan book stood at 97% of the AUM as on March 31, 2019 (96% of the AUM as on September 30, 2019) as against 98% of the AUM of the total AUM as on March 31, 2018.

**Significant growth in Deposits with improvement in granularity:** The bank's total borrowing increased to Rs.6,019 crore as on March 31, 2019 (Rs.7,401 crore as on September 30, 2019 ) as against Rs. 5,240 crore as on March 31, 2018. The bank's borrowing profile majorly comprised of deposits, loans from other institutions and sub-debts at 72%, 23% and 3% respectively as on March 31, 2019 (PY:60%, 24% and 11%). As on September 30, 2019, the share (as a % of total borrowings) of deposits, loans from other institutions and sub-debt stood at 82%, 15% and 3% respectively. The total deposits grew by 71% during FY19 and stood at Rs.4,317 crore as on March 31, 2019 (PY: Rs.2,523 crore). During H1FY20, deposits grew by 40% and stood at Rs. 6,063 crore as on September 30, 2019. Due to significant growth in deposits, the CD ratio of the bank improved to 105 times as on March 31, 2019 (89% as on September 30, 2019) as against 125 times as on March 31, 2018.

The bank's term deposits are also granular in nature with 89% of the total term deposits below the ticket size of Rs.1.0 crore as on March 31, 2019 (88% as on September 30, 2019) as against 56% as on March 31, 2018. The bank's CASA (as % total deposits) has also improved to 14% in March 31, 2019 (12% in September 30, 2019) from 10% in March 31, 2018.

***Improving asset quality indicators but risks associated with marginal credit profile of borrowers continues:***

The bank improved its collections and recovery mechanisms and the collection efficiency stood at 90% for FY19 (PY: 96%) and has improved to 97% for H1FY20 though the bank was impacted by Kerala floods and collection efficiency declined to 75% during August 2018. During FY19, the bank written off its loans to the extent of Rs.89.4 crore and the asset quality indicators of the bank has improved with gross NPA and Net NPA stood at 1.61% and 0.77% respectively as on March 31, 2019 (1.76% and 0.62% as on September 30, 2019) as against 3.79% and 2.69% as on March 31, 2018. It is critical for the bank to maintain its asset quality indicators at current levels due to credit risks associated with marginal credit profile of borrowers (share of microfinance loans stood at 96% of the AUM as on September 30, 2019) who are vulnerable to adverse economic cycles.

***Improving profitability metrics:***

ESAF SFB's profitability improved during FY19, PAT stood at Rs.90 crore on a total income of Rs.1,141 crore in FY19 as against PAT at Rs.27 crore on a total income of Rs.699 crore in FY18. During FY19, the yield on advances (as a % of average interest earning assets) improved to 23.75% (PY:23.15%) and the cost of borrowings (as a % of average interest bearing liabilities) declined to 8.97% in FY19 (PY:9.45%) thereby improvement in NIM at 9.75% in FY19 (PY:7.32%). The operating expenses (as a % of average total assets) have slightly improved to 7.71% in FY19 (PY: 7.90%). Credit costs (as % average total assets) has increased to 1.99% in FY19 from 0.92% in FY18. ROTA has improved to 1.53% in FY19 as against 0.70% in FY18 supported by improvement in NIM. During H1FY20, PAT stood at Rs.91 crore on a total income of Rs.729 crore. During H1FY20, operating expenses (as a % of average total assets) ratio improved to 7.21% as against 7.71% in FY19 and credit costs (as a % of average total assets) improved to 1.55% in H1FY20 as against 1.99% in FY19 and aided in improving the profitability indicators. ROTA for H1FY20 stood at 2.36% (no tax expenses were incurred).

***Key Rating Weaknesses***

***Regional concentration of loan portfolio continues:*** ESAF SFB's AUM continues to remain concentrated in Kerala at 53% as on September 30, 2019. The top two states constitutes 81% of the overall portfolio as on March 31, 2019 (PY:81%). However, the bank has taken initiatives to reduce the concentration, AUM in Kerala declined to 52% as on March 31, 2019 from 59% as on March 31, 2019, through establishment of branches and expansion of portfolio across newer states. The bank has improved its presence to 12 states



as on March 31, 2019 as against 10 states as on March 31, 2018 and further to 17 states across 322 branches as on September 30, 2019.

Liquidity: Adequate

As per structural liquidity statement of the bank as on December 31, 2019, the bank does not have negative cumulative mismatches up to 1 year time bucket. Also, the Liquidity Coverage Ratio (LCR) stood comfortable at 507.02% as on September 30, 2019. In addition, the bank had excess SLR investments of Rs.166 crore as on September 30, 2019 which remained favourable from the liquidity perspective.

**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

Bank - CARE's Rating Methodology for Banks

Bank - Rating framework for Basel III instruments (Tier I & Tier II)

Criteria for Short term instruments

Policy on Withdrawal of ratings

**About the Company**

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 December 31, 2019, 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 September 30, 2019, the bank has 332 branches across 153 districts in 17 states of India with deposits of Rs.6,063 crore and AUM of Rs.5,559 crore.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	699	1,141
PAT	27	90
Interest coverage (times)	1.25	1.50
Total Assets	4,714	7,052
Net NPA (%)	2.69	0.77
ROTA (%)	0.70	1.53

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

#### Analyst Contact

Mr P.Sudhakar

Contact no. - 044-28501000

Email: [p.sudhakar@careratings.com](mailto:p.sudhakar@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.

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**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	INE818W08016	30-Dec-2017	10.50%	30-Dec-2024	20.00	CARE A; Stable
Tier II Bonds	INE818W08024	28-Mar-2018	11.50%	28-Mar-2025	20.00	CARE A; Stable
Tier II Bonds	INE818W08032	01-Jun-2018	11.50%	01-Jun-2025	40.00	CARE A; Stable
Tier II Bonds (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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	1) CARE A; Stable (25-Jan-19)	1) CARE A-; Negative (01-Dec-17)	1) CARE A-; Stable (02-Feb-17) 2) CARE A- (04-Nov-16)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1) Withdrawn (01-Dec-17)	1) CARE A-; Stable (02-Feb-17) 2) CARE A- (04-Nov-16)
3.	Commercial Paper	ST	-	-	-	-	1) CARE A1 (01-Dec-17)	1) CARE A1 (15-Feb-17)
4.	Bonds-Tier II Bonds	LT	125.00	CARE A;	-	1) CARE A;	1) CARE A-;	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
				Stable		Stable (25-Jan-19)	Negative (01-Dec-17)	
5.	Certificate Of Deposit	ST	500.00	CARE A1+		1) CARE A1+ (12-Mar-19)		

*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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

CARE/CRO/RR/2019-20/1152

Mr. K Paul Thomas  
Managing Director & CEO  
ESAF Small Finance Bank Limited  
ESAF Bhavan, Mannuthy P.O.,  
Thrissur, Kerala - 680 651

March 2, 2020

Dear Sir,

**Credit rating of debt instruments**

Please refer to our letter dated March 2, 2020 on the above subject.

2. The rationale for the rating is attached as an Annexure - I.
3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by March 4, 2020 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

*R. Rameshankar*  
Ravi Shankar R  
Manager

Encl: As above

CARE Ratings Limited

**Annexure - I**  
**Rating Rationale**  
**ESAF Small Finance Bank**

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Tier II Bond Issue	125.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Certificate of Deposits (Proposed)	500.00	CARE A1+ (A One Plus)	Reaffirmed
Long term Bank Facilities	-	-	Withdrawn

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the debt instruments and certificate of deposits of ESAF Small Finance Bank Ltd (ESAF SFB) factors in comfortable capitalisation profile and growth in overall business of the bank and improving profitability during FY19 (refers to the period April 01 to March 31) and H1FY20 (refers to the period April 01 to September 30). The ratings continue to factor in experience of the promoter & management team in the lending business, the group's significant experience in microfinance loans and comfortable liquidity position. The ratings are, however, constrained by regionally concentrated nature of business, limited diversification in loan portfolio which mainly consists of micro finance loans.

The ratings assigned to the long-term bank facilities is withdrawn with immediate effect, as the bank has fully repaid the amount under the said facility and there is no amount outstanding as on date.

**Rating Sensitivities**

**Positive Factors**

- Increase the scale of operations across newer geographies and improve product mix of advances book while maintaining good asset quality on a sustained basis

**Negative Factors**

- Weakening of asset quality on sustained basis
- Weakening of capital adequacy with CAR declining below 17% on a sustained basis

**Detailed description of the key rating drivers**

**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 December 31, 2019. He has over 32 years of industry experience, of which more than 22 years are in the microfinance sector. He is

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supported by well qualified and experienced management team which has rich experience in the banking and financial services sector. The bank has been augmenting its senior management team by recruiting professionals from the banking and financial sector. As on December 31, 2019, the bank's board comprised of eight Directors including five Independent directors who have rich experience in banking and financial services industry.

**Comfortable capitalisation levels:** The bank's capitalisation profile is comfortable supported by the capital infusion of Rs.464 crore through private placement of equity shares during September 2018. As on March 31, 2019, the CAR and Tier I ratio stood at 27.59% and 23.30% respectively (25.69% and 21.99% as on September 30, 2019) as against 16.92% and 12.40% as on March 31, 2018.

**Improvement in advances, however share of MFI loans continues to be high:** ESAF SFB's AUM improved by 22% during FY19 and stood at Rs.5,060 crore as on March 31, 2019 (PY:Rs.4,131 crore) and during H1FY20, AUM improved by 10% and stood at Rs.5,559 crore as on September 30, 2019. Post transition to SFB, ESAF SFB has introduced new products like LAP (Loan against Property), business loans, corporate loans, gold loan, etc. Nevertheless, the microfinance loan book stood at 97% of the AUM as on March 31, 2019 (96% of the AUM as on September 30, 2019) as against 98% of the AUM of the total AUM as on March 31, 2018.

**Significant growth in Deposits with improvement in granularity:** The bank's total borrowing increased to Rs.6,019 crore as on March 31, 2019 (Rs.7,401 crore as on September 30, 2019) as against Rs. 5,240 crore as on March 31, 2018. The bank's borrowing profile majorly comprised of deposits, loans from other institutions and sub-debts at 72%, 23% and 3% respectively as on March 31, 2019 (PY:60%, 24% and 11%). As on September 30, 2019, the share (as a % of total borrowings) of deposits, loans from other institutions and sub-debt stood at 82%, 15% and 3% respectively. The total deposits grew by 71% during FY19 and stood at Rs.4,317 crore as on March 31, 2019 (PY: Rs.2,523 crore). During H1FY20, deposits grew by 40% and stood at Rs. 6,063 crore as on September 30, 2019. Due to significant growth in deposits, the CD ratio of the bank improved to 105 times as on March 31, 2019 (89% as on September 30, 2019) as against 125 times as on March 31, 2018.

The bank's term deposits are also granular in nature with 89% of the total term deposits below the ticket size of Rs.1.0 crore as on March 31, 2019 (88% as on September 30, 2019) as against 56% as on March 31, 2018. The bank's CASA (as % total deposits) has also improved to 14% in March 31, 2019 (12% in September 30, 2019) from 10% in March 31, 2018.

**Improving asset quality indicators but risks associated with marginal credit profile of borrowers continues:** The bank improved its collections and recovery mechanisms and the collection efficiency stood at 90% for FY19 (PY: 96%) and has improved to 97% for H1FY20 though the bank was impacted by Kerala floods and collection efficiency declined to 75% during August 2018. During FY19, the bank written off its loans to the extent of Rs.89.4 crore and the asset quality indicators of the bank has

improved with gross NPA and Net NPA stood at 1.61% and 0.77% respectively as on March 31, 2019 (1.76% and 0.62% as on September 30, 2019) as against 3.79% and 2.69% as on March 31, 2018. It is critical for the bank to maintain its asset quality indicators at current levels due to credit risks associated with marginal credit profile of borrowers (share of microfinance loans stood at 96% of the AUM as on September 30, 2019) who are vulnerable to adverse economic cycles.

**Improving profitability metrics:** ESAF SFB's profitability improved during FY19, PAT stood at Rs.90 crore on a total income of Rs.1,141 crore in FY19 as against PAT at Rs.27 crore on a total income of Rs.699 crore in FY18. During FY19, the yield on advances (as a % of average interest earning assets) improved to 23.75% (PY:23.15%) and the cost of borrowings(as a % of average interest bearing liabilities) declined to 8.97% in FY19(PY:9.45%) thereby improvement in NIM at 9.75% in FY19 (PY:7.32%). The operating expenses (as a % of average total assets) have slightly improved to 7.71% in FY19 (PY: 7.90%). credit costs (as % average total assets) has increased to 1.99% in FY19 from 0.92% in FY18. ROTA has improved to 1.53% in FY19 as against 0.70% in FY18 supported by improvement in NIM. During H1FY20 PAT stood at Rs.91 crore on a total income of Rs.729 crore. During H1FY20, operating expenses (as a % of average total assets) ratio improved to 7.21% as against 7.71% in FY19 and credit costs (as a % of average total assets) improved to 1.55% in H1FY20 as against 1.99% in FY19 and aided in improving the profitability indicators. ROTA for H1FY20 stood at 2.36% (no tax expenses were incurred).

**Regional concentration of loan portfolio continues:** ESAF SFB's AUM continues to remain concentrated in Kerala at 53% as on September 30, 2019. The top two states constitutes 81% of the overall portfolio as on March 31, 2019 (PY:81%). However, the bank has taken initiatives to reduce the concentration of AUM in Kerala to 52% as on March 31, 2019 from 59% as on March 31, 2019, through establishment of branches and expansion of portfolio across newer states. The bank has improved its presence to 12 states as on March 31, 2019 as against 10 states as on March 31, 2018 and further to 17 states across 322 branches as on September 30, 2019.

**Liquidity: Adequate**

As per structural liquidity statement of the bank as on December 31, 2019, the bank does not have negative cumulative mismatches up to 1 year time bucket. Also, the Liquidity Coverage Ratio (LCR) stood comfortable at 507.02% as on September 30, 2019. In addition, the bank had excess SLR investments of Rs.166 crore as on September 30, 2019 which remained favorable from the liquidity perspective.

**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**



Bank - CARE's Rating Methodology for Banks

Bank - Rating framework for Basel III instruments (Tier I & Tier II)

Criteria for Short term instruments

Policy on Withdrawal of ratings

**About the Company**

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 December 31, 2019, 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 September 30, 2019, the bank has 332 branches across 153 districts in 17 states of India with deposits of Rs.6,063 crore and AUM of Rs.5,559 crore.

**Financial Performance:**

	(Rs. crore)		
	ESAF SFB*	ESAF SFB	ESAF SFB
For the period ended / as at March 31,	2017*	2018	2019
	(12m, A)	(12m, A)	(12m, A)
<b>Working Results</b>			
Interest Income	445	597	1,032
Non Interest Income	39	102	109
Total Income	484	699	1,141
Interest Expenses	195	315	458
Operating Expenses (Incl. Depreciation)	174	304	453
Provisions (excl tax)	25	36	102
PAT	55	27	90
<b>Financial Position</b>			
Deposits	409	2,523	4,317
Tangible Network	305	333	888
On book Advances	1,483	3,155	4,548
Total Advances (including off-book)	2,327	4,131	5,060
Investments	579	732	1,531
Total Assets	3,183	4,714	7,052
<b>Key Ratios (%)</b>			

**Profitability**

Interest Income/Avg Interest Earning Assets	18.41	18.58	19.53
Interest Expenses / Avg Interest Bearing Liabilities	9.54	9.45	8.97
Interest Spread	8.87	9.13	10.56
Net Interest Margin (NIM)	10.12	7.32	9.75
Operational Expenses / Avg Total Assets	7.08	7.90	7.71
Return on total assets	2.22	0.70	1.53
Return on network	16.89	8.45	14.78

**Solvency**

Overall Gearing (times)	7.76	12.67	6.81
Capital Adequacy Ratio	16.27	16.87	27.59
Tier I Capital Adequacy Ratio	13.39	12.36	23.30
Credit/Deposit ratio	362.23	125.05	105.36

**Asset Quality**

Gross NPA to Gross Advances (%)	0.53	3.79	1.61
Net NPA to Net Advances (%)	0.24	2.69	0.77
Net NPA to Tangible Network (%)	0.99	25.43	3.96

A: Audited: \*The financials of SFB and MFI is consolidated

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

*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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

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**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

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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.

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**Annexure-1: Details of Instruments/Facilities**

Name of the Instruments	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Tier II Bonds	INE818W08016	30-Dec-2017	10.50%	30-Dec-2024	20.00	CARE A; Stable
Tier II Bonds	INE818W08024	28-Mar-2018	11.50%	28-Mar-2025	20.00	CARE A; Stable
Tier II Bonds	INE818W08032	01-Jun-2018	11.50%	01-Jun-2025	40.00	CARE A; Stable
Tier II Bonds (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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	1) CARE A; Stable (25-Jan-19)	1) CARE A-; Negative (01-Dec-17)	1) CARE A-; Stable (02-Feb-17) 2) CARE A- (04-Nov-16)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1) Withdrawn (01-Dec-17)	1) CARE A-; Stable (02-Feb-17) 2) CARE A- (04-Nov-16)
3.	Commercial Paper	ST	-	-	-	-	1) CARE A1 (01-Dec-17)	1) CARE A1 (15-Feb-17)
4.	Bonds-Tier II Bonds	LT	125.00	CARE A; Stable	-	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+ (12-Mar-19)	-	-