

15<sup>th</sup> April, 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 Brickwork Ratings via letter dated March 18, 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
Unsecured NCD	50.00	BWR A (Stable)	Reaffirmed

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

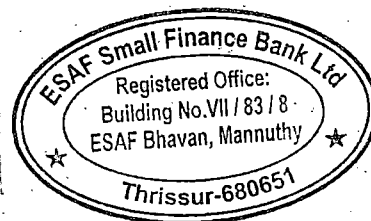
We request you to kindly take the above documents on record.

Thanking you,

Yours Faithfully,

For ESAF Small Finance Bank Limited,

  
Ranjith Raj  
Company Secretary  
Membership No: A 30388

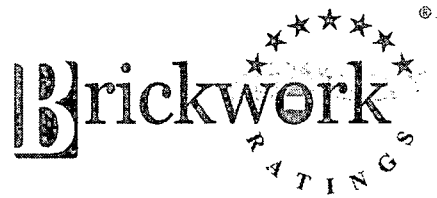


**ESAF SMALL FINANCE BANK LIMITED**

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)



## RATING RATIONALE

18 Mar 2020

### ESAF Small Finance Bank Ltd

**Brickwork Ratings Reaffirms the ratings for the Non-Convertible Debentures of ₹. 50 Crores and withdraws the ratings for the Bank Loan Facilities of Rs 342.11 Crs of ESAF Small Finance Bank Ltd [hereafter referred to as ESAF SFB or the "Bank"]**

#### Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Feb, 2019)	Present
Unsecured NCD	50	50	Long Term	BWR A (Stable)	BWR A (Stable)
Fund based	342.11	-	Long Term	BWR A (Stable)	Withdrawn
<b>Total</b>	<b>392.11</b>	<b>50</b>	<b>INR Fifty Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of NCD is provided in Annexure-I

#### RATING ACTION / OUTLOOK

The rating reaffirmation factors, inter alia, ESAF's stable business growth with established presence in microfinance loans through MFI branches, improved profitability and adequate capitalization. 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:** ESFBL currently operates in 17 states with 454 branches and 208 ATMs and has plans to further expand the branches across India. For the nine months ended December 31, 2019 total business grew by ~59% year-on-year(y-o-y) to Rs 12,516 Crs as total advances grew by ~38% year-on-year(y-o-y) to Rs 6,045 Crs and total deposits grew by ~87% to Rs 6,471 Crs. Current & savings accounts (CASA) ratio, stood at 12.67% as on December 31, 2019 (12.60% as on March 31, 2019) remains much lower than industry levels.
- **Adequate capitalisation:** In FY19, the bank raised capital of Rs 464 Crs from various institutional investors resulting in increase in reported Networth to Rs 894 Crs as on March 31, 2019. It further increased to Rs 1,030 Crs by end of December 2019 due to retention of profits resulting in an adequate capital position with total regulatory capital adequacy ratio (CRAR) of 23.43% and Tier I CRAR of 20.17%. The bank's ability to continue to raise capital during the current fiscal to sustain business growth will be a key rating monitorable.
- **Improved profitability:** ESAF's profitability improved in FY19 with profit after tax (PAT) increasing to Rs 90 Crs for FY19 from Rs 27 Crs in FY18 mainly due to decrease in borrowing costs and cost of deposits thereby resulting in improved net interest margin (NIM) from 8.65% in FY18 to 10.65% in FY19. Return on assets (ROA) & return on Networth (RONW) also improved from 0.72% & 9.33% in FY18 to 1.52% & 13.86% respectively in FY19. For 9MFY20, Bank's profitability further improved with PAT of Rs 136 Crs on the back of good business growth. The bank's ability to continue to maintain its operating profitability and manage provisioning costs will remain a key monitorable.

### Credit Risks:

- **Regional Concentration of operations:** As on 31 Dec 2019, the bank operates in 17 states with 454 branches. ~84% of gross loan portfolio is concentrated in southern states with Kerala accounting for 53% of total portfolio, TamilNadu accounting for 27.19% and Karnataka accounting for 3.17%. 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 ~97% of the total AUM (against 98% of the total AUM as on March 31, 2018) 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 507.02% and positive cumulative mismatches up to 1-year time bucket as per the Structural liquidity statement dated December 31, 2019. Bank also has excess SLR investments of Rs.166 crore as on September 30, 2019 which remained favorable from the liquidity perspective.

## **COMPANY PROFILE**

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 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 454 Branches and 208 ATMs spread across 17 states in India.



As on December 31, 2019, ESAF Microfinance & Investments Pvt Ltd (EMFIL) held 65.63% of the shareholding in ESAF SFB while Mr. Paul Thomas holding 7.29%, 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	9MFY20
Result Type		Audited	Audited	Unaud
Deposits	Rs in Crs	2523	4317	6,471
Advances	Rs in Crs	3155	4548	6,045
Total Business	Rs in Crs	5678	8865	12,516
CASA	%	9.82	12.60	12.67
CRAR	%	16.87	27.59	23.43
GNPA	%	3.79	1.61	1.96
NNPA	%	2.69	0.77	0.69
Networth	Rs in Crs	343	894	1,030

**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 2020)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs in Crs)	Rating	13 Feb 2019	27 Mar 2018	3 Oct 2017
1	Fund Based Term Loans	Long Term	342.11	Withdrawn	BWR A (Stable)	BWR A- (Stable)	BWR A- (Stable)
2	Unsecured NCD	Long Term	50	BWR A (Stable)	BWR A (Stable)	BWR A- (Stable)	NA

### COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

- General Criteria
- Banks and Financial Institutions

Analytical Contacts	Investor Contacts
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1-860-425-2742	



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

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