

ESAF SMALL FINANCE BANK

03-11-2023 to 07-11-2023

Industry: Microfinance Institutions

Price Band: ₹ 57 - 60

Recommendation: Subscribe for Listing Gains

Post Implied Market Cap: ₹ 2,953 - 3,088 Cr

Key Data

Issue Size (₹ Cr)	463
Fresh (₹)	390.7
OFS (₹)	72.3
No of shares offered	6,51,16,667
Face Value (₹ /share)	10
Bid Lot	250

About the Company

ESAF Small Finance Bank ("ESAF SFB"), established in 2016, it primarily serves unbanked and under-banked customers in rural and semi-urban areas. As of June 30, 2023, a significant portion of their loans and banking outlets are in these areas. They focus on advances and deposits, with retail deposits making up a substantial part of their total deposits which accounted for 89.28% of their total deposits. The bank operates through a network of 700 banking outlets, 767 customer service centres, 22 business correspondents, 2116 banking agents, 525 business facilitators and 559 ATMs which is spread across multiple states, with a concentration in South India, especially Kerala and Tamil Nadu.

Investment Rationale

- **Deep understanding of the microfinance segment:** As of June 30, 2023, ESAF SFB had more than 0.33 cr customers with Micro Loans, primarily women. These services were available in 21 states and 2 union territories. A significant portion of their Micro Loans, 42.30%, were provided outside of Kerala, with the top five states being Tamil Nadu, Maharashtra, Madhya Pradesh, Karnataka, and Chhattisgarh, accounting for 49.27% of total Micro Loans.
- **Strong rural and semi-urban banking franchise:** ESAF SFB from March 31, 2021 to June 30, 2023 saw an increase in their customers in rural and semi-urban areas, growing from 0.30 cr to 0.41 cr. As of June 30, 2023, their total gross advances to customers in these areas were ₹ 9,095.18 cr, accounting for 62.97% of their total advances. These rural and semi-urban customers comprised 56.92% of their total customer base and 71.71% of their banking outlets were located in these areas.
- **Growing retail deposit portfolio:** ESAF SFB has experienced significant growth in their total deposits, which increased from Rs.8,999.43 cr as of March 31, 2021, to ₹ 15,655.85 cr as of June 30, 2023. They focused on boosting their Retail Deposits, which grew from ₹ 8,796.38 cr to ₹ 13,977.27 cr during the same period. The CASA also increased substantially from ₹ 1,747.65 cr to ₹ 3,137.45 cr by March 31, 2023 but decreased slightly to ₹ 2,851.97 cr by June 30, 2023.
- **Penetrate deeper into the existing geographies:** ESAF Small Finance Bank expanded its operations to several states and union territories in recent years. In Fiscal 2021, they entered Meghalaya, Uttar Pradesh, Haryana, Tripura, and Chandigarh. In Fiscal 2022, they expanded to Uttarakhand. In Fiscal 2023, they established branches in Tripura and Uttarakhand. Their plan is to further enhance their presence in these regions by opening more branches, customer service centres and business correspondent-operated outlets. They also aim to partner with additional banking agents, business correspondent entities and business facilitators, while expanding their network of ATMs.

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	10-11-2023
Refunds/Unblocking ASBA Fund	13-11-2023
Credit of equity shares to DP A/c	15-11-2023
Trading commences	16-11-2023

Shareholding (No. of shares)

Pre-Issue	44,94,73,798
Post Issue (Lower price band)	51,82,28,521
Post Issue (Higher price band)	51,47,79,858

Shareholding Pattern

	%
Promoters:	
Pre Issue	74.43%
Post Issue	62.64%
Public - Others:	
Pre Issue	25.57%
Post Issue	37.36%

Issue Breakup

QIB	50%
NIB	15%
Retail	35%

Other Details

BRLMs: ICICI Securities, DAM Capital, Nuvama Wealth Management
Registrar: Link Intime India Pvt. Ltd.
Listing: BSE & NSE

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Risk

- Higher dependency on Unsecured Loans.
- Business concentration in South India.

MView

We believe the ESAF SFB IPO offers an opportunity to investors to invest in a fastest growing SFB in India in terms of AUM. ESAF has witnessed a highest growth in AUM at CAGR of 39% in the period of FY 2021 to FY 2023 and also its capital adequacy ratio as at June 30, 2023, was 20.6%, which is the best asset quality amongst comparable peers. We think ESAF with strong rural and semi-urban presence with majority of customers as women and presence across multiple states gives them a deep understanding of micro finance segment. We also believe with an impressive growth in retail deposits and a strategic focus on expanding within their current operational areas will help them to increase their offerings. By looking at the financials, the company has shown a strong growth in deposits 42.4%/14.4% in FY22-FY23 especially retail deposits grown with a CAGR of 23.07% in FY 21 to FY 23 and Net Profit grown by 452.4% in FY 2023. On valuation parse at upper band of ₹60/- and based on annualized earnings and fully diluted post-IPO paid-up capital, the issue is asking for a Market Cap of ₹ 3088 Cr with the price to book value at around 1.18x which is very attractively priced compared to industry average trading above ~2.2x. Hence considering the above rationales, we recommend investors "SUBSCRIBE" to the ESAF SFB IPO for healthy listing gains.

CONSOLIDATED FINANCIAL TABLES

BASIC FINANCIAL DETAILS

Particulars ₹ (in Cr)	As at Jun' 30		As at March' 31		
	2023 (03)	2022 (03)	2023	2022	2021
Equity Share Capital	449.47	449.47	449.47	449.47	449.47
ESOP Outstanding	5.81	6.33	5.88	4.81	-
Reserve as stated	1,389.62	1,063.29	1,259.66	957.32	902.59
Net worth as stated	1,839.09	1,512.76	1,709.13	1,406.80	1,352.06
Deposits	15,665.85	13,457.75	14,665.63	12,815.07	8,999.43
Advances	14,321.55	11,631.08	13,924.33	11,637.01	8,167.59
Interest Earned	898.75	690.31	2,853.66	1,939.93	1,641.17
Interest Earned Growth (%)	30.20%	-	47.10%	18.20%	-
EBITDA as stated	245.96	193.9	627.44	220.56	284.96
Net Profit for the Period	129.96	105.97	302.33	54.73	105.4
EPS (₹)	2.89	2.36	6.73	1.22	2.46
RONW%	7.07%	7.00%	17.69%	3.89%	7.80%
NAV (₹)	40.92	33.66	38.03	31.3	30.08

Source: Company RHP

COMPARISON WITH LISTED PEERS ₹ (in Cr)

Companies	Consolidated/ Standalone	Mcap (in Cr)	FV	Revenue from Operations (As on 31st March 2023)	EPS	NAV	P/E	P/B	RONW
ESAF Small Finance Bank Ltd	Restated (Annualised FY 2024)	3088	10	3,141.57	10.10	58.47	5.94	1.18	17.69
Suryoday Small Finance Bank	Consolidated	1,643	10	1,281.10	7.32	149.28	13.84	1.03	4.9
CreditAccess Grameen Ltd	Consolidated	26,607	10	3,550.79	52.04	326.89	21.77	4.47	16.18
Spandana Sphoorty Financial Ltd	Consolidated	6,490	10	1,477.03	1.74	436.58	17.76	2.02	0.4
Bandhan Bank Ltd	Consolidated	35,029	10	18,373.25	13.62	121.58	13.63	1.67	11.21
Ujjivan Small Finance Bank Ltd	Consolidated	10,521	10	4,754.19	5.88	21.27	8.28	2.18	26.45
Equitas Small Finance Bank Ltd	Consolidated	11,016	10	4,831.46	2.16	46.44	14.63	2	11.12

Date as on 31st March 2023, Cline Mcap, PE calculated as on 03-11-2023

ESAF SFB Ltd, Revenue EPS/PE, NAV calculated on annualised basis post money



MSEARCH

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Msearch's Recommendation (Absolute Performance)

Buy: > 20% within the next 12 Months

Accumulate: 5% to 20% within the next 12 Months

Sell : < -20% within the next 12 Months

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