

No. CTL/DEB/20-21/Noting Certificate/292

May 29, 2020

To Whomsoever It May Concern,

CERTIFICATE FOR RECEIPT AND NOTING OF INFORMATION

[Pursuant to Regulation 52(5) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015]

We, Catalyst Trusteeship Limited (“**Debenture Trustee**”) hereby confirm that we have received and noted the information, as specified under regulation 52(4) of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation, 2015 (“**Regulations**”), provided to us by **ESAF Small Finance Bank Limited** (“**the Company**”) for the Half year ended March 31, 2020.

This Certificate is being issued pursuant to the requirements of regulation 52(5) of the aforesaid Regulations, for onward submission to Stock Exchange(s) by the Company.

For Catalyst Trusteeship Limited

For CATALYST TRUSTEESHIP LIMITED



Authorised Signatory

Authorised Signatory

Encl: Results submitted by Company



Independent Auditor's Report on the Half Yearly and Year to Date Audited Financial Results of the ESAF Small Finance Bank Limited Pursuant to the Regulation 52 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended

To
The Board of Directors of
ESAF Small Finance Bank Limited

Opinion

We have audited the accompanying statement of half yearly and year to date financial results of ESAF Small Finance Bank Limited (the "Bank"), for the six months and year ended March 31, 2020 ("Statement"), attached herewith, being submitted by the Bank pursuant to the requirements of Regulation 52 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended (the "Listing Regulations").

In our opinion and to the best of our information and according to the explanations given to us, the Statement:

- i. is presented in accordance with the requirements of the Listing Regulations in this regard; and
- ii. gives a true and fair view in conformity with the recognition and measurement principles laid down in the applicable accounting standards as per the section 133 of the Companies Act, 2013 (the "Act") read with Companies (Accounts) Rules, 2014 as amended to the extent applicable, the relevant provisions of the Banking Regulation Act, 1949, accounting principles generally accepted in India and guidelines and directions issued by the Reserve Bank of India from time to time (the "RBI guidelines") of the net profit and other financial information of the Bank for the six months and year ended March 31, 2020.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Act. Our responsibilities under those Standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Results" section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 7 to the Statement, which describes the extent to which COVID-19 Pandemic will impact the Bank's operations and asset quality will depend on future developments, which are highly uncertain.

Our opinion is not modified in respect of this matter.

S.R. BATLIBOI & ASSOCIATES LLP

Chartered Accountants

Management's Responsibilities for the Financial Results

The Statement has been prepared on the basis of the annual financial statements. The Board of Directors of the Bank are responsible for the preparation and presentation of the Statement that gives a true and fair view of the net profit of the Bank and other financial information in accordance with the applicable accounting standards prescribed under Section 133 of the Act, the relevant provisions of the Banking Regulation Act, 1949, the RBI Guidelines and other accounting principles generally accepted in India and in compliance with Regulation 52 of the Listing Regulations. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the Statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the Statement, the Board of Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are also responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Results

Our objectives are to obtain reasonable assurance about whether the Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Statement.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under Section 143(3) (i) of the Act, we are also responsible for expressing our opinion on whether the Bank has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial results or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit

S.R. BATLIBOI & ASSOCIATES LLP

Chartered Accountants

evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Statement, including the disclosures, and whether the Statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Further, we report that the figures for the half year ended March 31, 2020 represent the derived figures between the audited figures in respect of the financial year ended March 31, 2020 and the published audited figures for the half year ended September 30, 2019, which were subjected to an audit by us.

For S.R. BATLIBOI & ASSOCIATES LLP

Chartered Accountants

ICAI Firm registration number: 101049W/E300004

Sarvesh Warty.

per Sarvesh Warty

Partner

Membership No.: 121411

UDIN: 20121411AAAACP5270

Place: Mumbai

Date: May 29, 2020

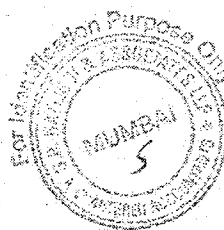
ESAF SMALL FINANCE BANK LIMITED
 Building No.VII/83/B, ESAF Bhavan, Thrissur - Palakkad National Highway,
 Mannuthy, Thrissur, Kerala - 690651
 CIN : U65990KL2016PLC045669

Statement of Audited financial results for the Six months and Year ended 31 March 2020

Rs. in Lakhs

Particulars	Six Months ended 31 March 2020	Six Months ended 31 March 2019	Year ended 31 March 2020	Year ended 31 March 2019
	Audited (Refer Note 8)	Audited (Refer Note 8)	Audited	Audited
I. INCOME				
Interest Earned	75,257	55,931	1,41,325	1,03,164
Other Income	6,500	4,855	13,319	10,915
Total	81,757	60,786	1,54,644	1,14,079
II. EXPENDITURE				
Interest expended	32,633	24,378	62,106	45,828
Operating Expenses	31,934	25,312	60,068	45,339
Provisions and Contingencies	7,395	4,474	13,431	13,884
Total	71,962	54,164	1,35,605	1,05,051
III. PROFIT				
Net Profit for the Period/Year (I - II)	9,795	6,622	19,039	9,028
Analytical Ratios				
(i) Capital Adequacy Ratio	24.03%	27.59%	24.03%	27.59%
(ii) Earnings Per Share (EPS) (Face value of Rs.10 each) *				
- Basic (Rs.)	2.29	1.74	4.45	2.37
- Diluted (Rs.)	2.29	1.74	4.45	2.37
NPA Ratio				
a) Gross NPA	10,086	7,401	10,086	7,401
Net NPA	4,217	3,521	4,217	3,521
b) % of Gross NPA	1.53%	1.61%	1.53%	1.61%
% of Net NPA	0.64%	0.77%	0.64%	0.77%
c) Return on Assets *	1.09%	1.11%	2.24%	1.52%

* Six Months numbers are not annualised



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ESAF SMALL FINANCE BANK LIMITED
 Building No.VII/83/8, ESAF Bhavan, Thrissur - Palakkad National Highway.
 Mannuthy, Thrissur, Kerala - 680651
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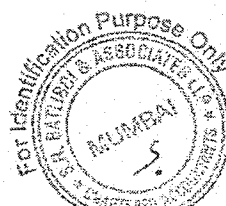
Notes :

1. Statement of Assets and Liabilities as at 31 March 2020

Rs.in Lakhs

Particulars	As at	As at
	31 March 2020	31 March 2019
	Audited	Audited
CAPITAL AND LIABILITIES		
Capital	42,780	42,780
Reserves and Surplus	65,629	46,589
Deposits	7,02,838	4,31,701
Borrowings	1,20,332	1,70,236
Other Liabilities and Provisions	15,418	14,535
Total	9,46,997	7,05,841
ASSETS		
Cash and Balances with Reserve Bank of India	30,477	24,674
Balances with Banks and Money at Call and Short Notice	59,802	53,472
Investments	1,73,363	1,53,075
Advances	6,54,782	4,54,825
Fixed Assets	12,011	8,994
Other Assets	16,562	10,801
Total	9,46,997	7,05,841
Contingent Liabilities	150	5,833
Bills for collection	-	-

2. The statement of audited financial results for the six months and year ended 31 March 2020 ("Statement" or "financial results") have been reviewed by the Audit Committee and approved by the Board of Directors at their respective meetings held on 29 May 2020.
3. The above financial results of the Bank have been prepared in all material aspects, in accordance with the generally accepted accounting principles in India ("Indian GAAP"), statutory requirements prescribed under the Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India ("RBI") from time to time, Regulation 52 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirement) 2015 and Accounting Standards as prescribed under section 133 of the Companies Act, 2013.
4. There are no changes to the significant accounting policies adopted during the year ended 31 March 2020 as compared to those followed for the year ended 31 March 2019.
5. The Capital adequacy ratio ("CRAR") has been computed as per the Operating guidelines vide RBI notification RBI/2016-17/81 DBR.NBD.NO.26/16.13.218/2016-17 dated 6 October 2016 ("the Operating guidelines") prescribed for Small Finance Bank. The Bank has followed Basel II standardised approach for credit risk in accordance with the operating guidelines issued by the RBI for Small Finance Banks. Further no separate capital charge for market risk and operational risk have been computed in view of the exception contained in RBI Notification DBR.NBD.NO.4502/16.13.218/2017-18 dated 8 November 2017.
6. The Bank has elected to exercise the option of lower tax rates permitted under Section 115 BAA of the Income Tax Act, 1961 as introduced by the Taxation Laws (Amendment) Ordinance 2019. Accordingly, the Bank has recognised Provision for Income Tax for the year ended 31 March 2020 and re-measured its deferred tax assets basis the rates prescribed in the aforesaid section and recognised the effect of change in the Profit and Loss Account. The re-measurement has resulted in a write down of the net deferred tax assets pertaining to earlier years by Rs. 79.76 Lakhs which has been fully charged to the Profit and Loss Account during the six months ended 30 September 2019.
7. The outbreak of COVID-19 virus, declared as a global pandemic by the World Health Organisation (WHO) has affected the world economy including India leading to a significant decline and volatility in financial markets and decline in economic activities across the globe. Various governments and central banks have introduced a variety of measures to contain the spread of the virus and to moderate the impact on economic activities and disruptions. On 24 March 2020, the Government of India announced a 21-day lock-down which was further extended three times up to May 31, 2020 across the country to contain the spread of the virus. The extent to which the COVID-19 pandemic will impact the Bank's business prospects, asset quality, results of operations and other future developments, is highly uncertain. However, the Bank is taking all possible steps to take care of the activities and take proactive steps leveraging the Government of India measures to strengthen the rural economy including among the other things to reduce the severity of the COVID-19 pandemic.



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ESAF SMALL FINANCE BANK LIMITED
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Mannuthy, Thrissur, Kerala - 686651
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In accordance with the RBI guidelines relating to COVID 19 regulatory package dated 27 March 2020, 17 April 2020 and 23 May 2020, the Bank has granted a moratorium of six months on the payment of instalments and/ or interest, as applicable, falling due between 1 March 2020 to 31 August 2020 to all eligible borrowers. For all such accounts where the moratorium is granted, the asset classification shall remain standstill during the moratorium period (i.e. the number of days past due shall exclude the moratorium period for the purpose of asset classification under the income recognition, asset classification and provisioning norms). In line with the RBI guidelines, the Bank has made a provision of Rs. 440.78 Lakhs as on 31 March 2020 in respect of standard accounts in overdue category against the potential impact of COVID-19.

8. The figures of the six months ended 31 March 2020 and 31 March 2019 have been derived as balancing figures between the amounts as per the annual audited accounts for the years then ended, and the audited financial results for the six months ended 30 September 2019 and unaudited financial results for the six months ended 30 September 2018 being the half year of the respective financial years, which were subject to audit/ limited review respectively.

9. Figures for the previous period/year have been classified/regrouped wherever necessary, to conform to the current period/ year classification.

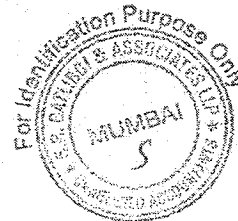


Kadambelli Paul Thomas
Managing Director & CEO
DIN: 00199925

Place : Mannuthy
Date : 29 May 2020



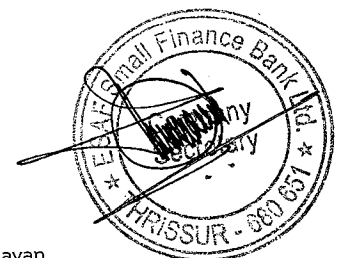
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Disclosures made in compliance with the Regulation 52(4) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for the period ended 31st March, 2020.

- A. Credit rating and change in credit rating – (Enclosed)
 B. Debt-Equity ratio: 1.13
 C. Previous due date for the payment of interest/ dividend for non-convertible redeemable preference shares/ repayment of principal of non-convertible preference shares/non-convertible debt securities and whether the same has been paid or not;

Particulars	Rate of Interest	Interest Due Date	Actual Date of Payment
250 Unsecured, Rated, Listed, Redeemable, Non-Convertible Debentures of Rs.10 Lakhs	17.23%	23.12.2019	23.12.2019
250 Unsecured, Rated, Listed, Redeemable, Non-Convertible Debentures of Rs.10 Lakhs	16.83%	30.12.2019	30.12.2019
200 Unsecured, Basel III Compliant Tier II Bonds of Rs.10 Lakhs	10.50%	31.12.2019	31.12.2019
200 Rated, Listed, Redeemable Unsecured, Basel III Compliant Tier II Bonds of Rs.10 Lakhs	11.50%	31.12.2019	31.12.2019
400 Rated, Listed, Redeemable, Unsecured Basel III Compliant Tier II Bonds	11.50%	31.12.2019	31.12.2019



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

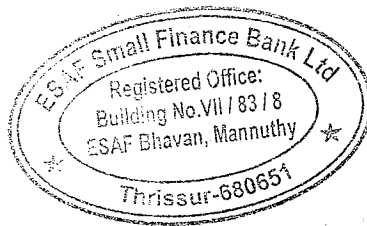
D. Next due date for the payment of interest/ dividend of non-convertible preference shares/principal along with the amount of interest/ dividend of non-convertible preference shares payable and the redemption amount;

Particulars	Rate of Interest	Interest Due Date	Principal Due Date
250 Unsecured, Rated, Listed, Redeemable, Non-Convertible Debentures of Rs.10 Lakhs	17.23%	22.12.2020	22.12.2020
250 Unsecured, Rated, Listed, Redeemable, Non-Convertible Debentures of Rs.10 Lakhs	16.83%	28.12.2020	28.12.2020
200 Unsecured, Basel III Compliant Tier II Bonds of Rs.10 Lakhs	10.50%	30.06.2020	30.06.2020
200 Rated, Listed, Redeemable Unsecured, Basel III Compliant Tier II Bonds of Rs.10 Lakhs	11.50%	30.06.2020	30.06.2020
400 Rated, Listed, Redeemable, Unsecured Basel III Compliant Tier II Bonds of Rs.10 Lakhs	11.50%	30.06.2020	30.06.2020

- E. Net-worth – Rs.1078.63 Cr.
 F. Net Profit after Tax – Rs. 190.39 Cr.
 G. EPS – Rs. 4.45

Thanking you,
 Yours Faithfully


Ranjith Raj P
 Company Secretary
 Mem No : A 30388



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 ¹	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

- 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

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

CARE Ratings Limited

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CIN-LA7190MH15983PLC071691

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 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

Ravi Shankar R
Manager

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 ²	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

¹Complete 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 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 Multi-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

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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 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-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	Type	Current Ratings		Rating history			
			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. Investors/market intermediaries/regulators or others are welcome to write to 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. Ravi Shankar
Ravi Shankar R
Manager

Encl: As above

CARE Ratings Limited

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CIN: L67190MH1993PLC071691

Annexure - I
Rating Rationale
ESAF Small Finance Bank

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	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

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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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

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

Criteria for Short term instruments

Policy on Withdrawal of ratings

About the Company

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Financial Performance:

	(Rs. crore)		
	ESAF SFB*	ESAF SFB	ESAF SFB
<i>For the period ended / as at March 31,</i>	<i>2017*</i>	<i>2018</i>	<i>2019</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, A)</i>
Working Results			
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
Financial Position			
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
Key Ratios (%)			

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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 networth	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 Networth (%)	0.99	25.43	3.96

A: Audited; *The financials of SFB and MFIs 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

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

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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)	-	-



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
Total	392.11	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

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 Swaraya 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

Hyperlink/Reference to applicable Criteria

- General Criteria
- Banks and Financial Institutions

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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

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