

No. CTL/DEB/20-21/Noting Certificate/2947

November 10, 2020

To Whomsoever It May Concern,

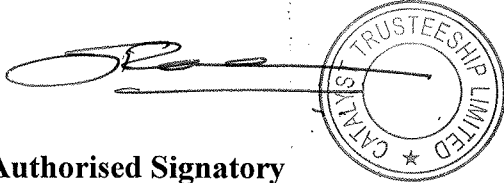
CERTIFICATE FOR RECEIPT AND NOTING OF INFORMATION

[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 September 30, 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**



Authorised Signatory

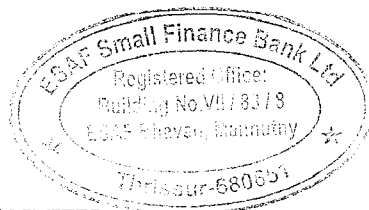
Encl: Results submitted by Company



Disclosures made in compliance with the Regulation 52 (4) of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 for the period ended 30th September, 2020

- A) Credit Rating and Change in Credit Rating – (Provided as Enclosures Separately)
- B) Asset Cover Available in case of Non- Convertible Debt Securities – NA, as the Bank has issued unsecured Debt instruments.
- C) Debt Equity ratio – 1.14
- D) 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 Lakh	17.23%	Nil	Nil
250 Unsecured, Rated, Listed, redeemable , Non Convertible Debentures of Rs.10 Lakh	16.83%	Nil	Nil
200 Unsecured, Rated, Listed, Basel III Compliant Tier II Bonds Rs.10 Lakh	10.50%	30.06.2020	30.06.2020
200 Rated, Listed, , Redeemable , Unsecured Basel III Compliant Convertible Debentures of Rs.10 Lakh	11.50%	30.06.2020	30.06.2020
400 Rated, Listed, , Redeemable , Unsecured Basel III Compliant Convertible Debentures of Rs.10 Lakh	11.50%	30.06.2020	30.06.2020



For ESAF Small Finance Bank Ltd

(Signature)
Ranjith K P
Company Secretary

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.

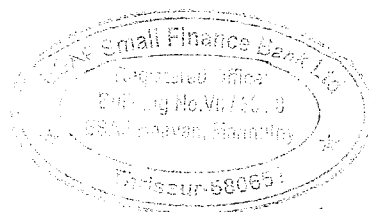
Ph. No: 0487 7123456, 123457, Email: customercare@esafbank.com www.esafbank.com

E) Next Due Date for the Payment of Interest/ dividend of Non- Convertible Debentures with amount of Interest payable and redemption amount

Particulars	Rate of Interest	Interest Due Date	Principal Due Date
250 Unsecured, Rated, Listed, redeemable , Non Convertible Debentures of Rs.10 Lakh	17.23%	22.12.2020	22.12.2021
250 Unsecured, Rated, Listed, redeemable , Non Convertible Debentures of Rs.10 Lakh	16.83%	28.12.2020	28.12.2021
200 Unsecured, Rated, Listed, Basel III Compliant Tier II Bonds Rs.10 Lakh	10.50%	31.12.2020	30.12.2024
200 Rated, Listed, , Redeemable , Unsecured Basel III Compliant Convertible Debentures of Rs.10 Lakh	11.50%	31.12.2020	28.03.2025
400 Rated, Listed, , Redeemable , Unsecured Basel III Compliant Convertible Debentures of Rs.10 Lakh	11.50%	31.12.2020	01.06.2025

- F) Debt Service Coverage Ratio – NA
G) Interest Service Coverage Ratio - NA
H) Outstanding Redeemable Preference Shares (Quantity and Value)- Nil
I) Capital Redemption Reserve/ DRR - NA
J) Net worth – Rs.1208.96 Crore
K) Net Profit after Tax – Rs.130.42 Crore
L) Earnings Per Share – Rs.3.05

For ESAF Small Finance Bank Ltd



[Handwritten Signature]
Ranjith S.J.P.
Company Secretary

INDEPENDENT AUDITORS' REVIEW REPORT ON REVIEW OF INTERIM FINANCIAL RESULTS

TO THE BOARD OF DIRECTORS ESAF SMALL FINANCE BANK LIMITED

1. We have reviewed the accompanying Statement of Unaudited Financial Results of **ESAF SMALL FINANCE BANK LIMITED** (the "Bank") for the six months ended September 30, 2020 (the "Statement"); being submitted by the Company pursuant to the requirement of Regulation 52 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.
2. This Statement, which is the responsibility of the Bank's Management and approved by the Board of Directors, has been prepared in accordance with the recognition and measurement principles laid down in Accounting Standard 25 for "Interim Financial Reporting" ("AS 25"), prescribed under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder, in so far as they apply to banks, the relevant provisions of the Banking Regulation Act, 1949, the circulars, guidelines and directions issued by the Reserve Bank of India (RBI) from time to time ("RBI Guidelines") and other accounting principles generally accepted in India. Our responsibility is to express a conclusion on the Statement based on our review.
3. We conducted our review of the Statement in accordance with the Standard on Review Engagements (SRE) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Institute of Chartered Accountants of India. A review of interim financial information consists of making inquiries, primarily of the Bank's personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
4. Based on our review conducted as stated in paragraph 3 above, nothing has come to our attention that causes us to believe that the accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in Accounting Standard 25 for "Interim Financial Reporting" ("AS 25"), prescribed under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder, in so far as they apply to banks, the relevant provisions of the Banking Regulation Act, 1949, the RBI Guidelines and other accounting principles generally accepted in India, has not disclosed the information required to be disclosed in terms of Regulation 52 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it contains any material misstatement.



Deloitte Haskins & Sells

5. As more fully described in Note 6 to the Statement, the potential impact of the COVID-19 pandemic on the Bank's results are dependent on future developments, which are highly uncertain.
Our conclusion is not modified in respect of this matter.
6. The comparative financial information of the Bank for the previous reporting periods have been audited by the predecessor auditors. The report of these auditors on these comparative financial information expressed an un-modified opinion.
Our conclusion is not modified in respect of this matter.

For **Deloitte Haskins & Sells**
Chartered Accountants
(ICAI Reg. No 117365W)



A handwritten signature in black ink, appearing to read "G. K. Subramaniam".

G. K. Subramaniam
(Partner)
(Membership No. 109839)
UDIN: 20109839AAAAXH9582

MUMBAI, November 10, 2020

ESAF SMALL FINANCE BANK LIMITED
Building No.VII/83/8, ESAF Bhavan, Thrissur - Palakkad National Highway,
Mannuthy, Thrissur, Kerala.- 680651
CIN : U65990KL2016PLC045669

Statement of unaudited financial results for the Six Month Period ended 30 September 2020

Rs. In Lakhs

Particulars	Six Month Period ended 30 September 2020	Six Month Period ended 30 September 2019	Year ended 31 March 2020
	Unaudited	Audited	Audited
I. INCOME			
Interest Earned	84,290	66,068	1,41,325
Other Income	4,502	6,819	13,319
Total	88,792	72,887	1,54,644
II. EXPENDITURE			
Interest expended	35,700	29,473	62,106
Operating Expenses	26,598	28,134	60,068
Provisions and Contingencies	13,452	6,036	13,431
Total	75,750	63,643	1,35,605
III. PROFIT			
Net Profit for the Period/Year (I - II)	13,042	9,244	19,039
Analytical Ratios			
(i) Capital Adequacy Ratio	24.29%	25.69%	24.03%
(ii) Earnings Per Share (EPS) (Face value of Rs.10/- each) *			
- Basic	3.05	2.16	4.45
- Diluted	3.05	2.16	4.45
NPA Ratio			
a) Gross NPA	9,761	9,634	10,086
Net NPA	1,352	3,341	4,217
b) % of Gross NPA	1.32%	1.76%	1.53%
% of Net NPA	0.19%	0.62%	0.64%
c) Return on Assets *	1.24%	1.16%	2.24%

* six months period numbers are not annualised



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Notes :

1. Statement of Assets and Liabilities as at 30 September 2020

Particulars	Rs.in Lakhs	
	As at 30 September 2020	As at 31 March 2020
	Unaudited	Audited
CAPITAL AND LIABILITIES		
Capital	42,780	42,780
Reserves and Surplus	78,671	65,629
Deposits	8,20,839	7,02,838
Borrowings	1,39,015	1,20,332
Other Liabilities and Provisions	37,280	15,418
Total	11,18,585	9,46,997
ASSETS		
Cash and Balances with Reserve Bank of India	34,382	30,477
Balances with Banks and Money at Call and Short Notice	1,26,131	59,802
Investments	1,97,843	1,73,363
Advances	7,28,968	6,54,782
Fixed Assets	12,478	12,011
Other Assets	18,783	16,562
Total	11,18,585	9,46,997
Contingent Liabilities	145	150
Bills for collection	-	-

2. The statement of unaudited financial results for the six month period ended 30 September 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 10 November 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 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 six month period ended 30 September 2020 as compared to those followed for the year ended 31 March 2020.

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. (i) The outbreak of COVID-19 pandemic across the globe and in India has contributed to a significant decline and volatility in the global and Indian financial markets and slowdown in the economic activities. The RBI on 27 March 2020, 17 April 2020 and 23 May 2020, announced 'COVID-19 Regulatory Package' on asset classification and provisioning. In terms of these RBI guidelines, the lending institutions have been permitted to grant an effective moratorium of six months on payment of all instalments/interest as applicable, falling due between 1 March 2020 and 31 August ('moratorium period'). As such, in respect of all accounts classified as standard as on 29 February 2020, even if overdue, the moratorium period, wherever granted, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under RBI's Income Recognition and Asset Classification norms.



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(ii) Further, during the current period on account of the moratorium, the collections have been impacted resulting in consequential lower Business Correspondent expenses (included in Other Expenses), which are accounted on completion of collection services rendered. The Bank has seen an increase in the collection and disbursement activity post the moratorium period.

(iii) The Honourable Supreme Court in PIL by Gajendra Sharma Vs Union of India & Anr vide its interim order dated 3 September 2020 has directed Banks that the accounts which were not declared as NPA till 31 August 2020 shall not be declared as NPA till further orders, pending disposal of the case by Supreme Court. Pursuant to the order, the Bank has not classified any borrower account which has not been declared as NPA as at 31 August 2020 as per the RBI Prudential norms on Income Recognition, Asset classification, provisioning and other related matters as Non-Performing Asset (NPA) after 31 August 2020.

However, if the Bank had classified borrower accounts as NPA after 31 August 2020 and corresponding provisions would have been made, the Bank's proforma Gross NPA ratio and proforma Net NPA ratio would have been 1.46% and 0.29% respectively.

(iv) The Bank had provided Rs.440.78 Lakhs during the year ended 31 March 2020 and Rs. 440.78 Lakhs during the six month period ended 30 September 2020 as required under regulatory guidelines aggregating to 10% of the SMA accounts outstanding as on 29 February 2020. However, considering the prevailing uncertainty over the business due to covid 19 pandemic, the Bank as a prudential measure set aside an additional provision of Rs. 4,407.79 Lakhs during six month period ended 30 September 2020 being 50% of such outstanding SMA accounts taking the total provisions to Rs.5,289.35 Lakhs as against the outstanding amount of Rs. 8815.57 Lakhs as on 29 February 2020.

(v) The extent to which the COVID-19 pandemic will impact the Bank's provision on assets and future results will depend on future developments including the final decision of the Honourable Supreme Court of India in relation to moratorium and other related matters, which are highly uncertain, including, among other things, any new information concerning the severity of the COVID-19 pandemic and any action to contain its spread or mitigate its impact whether Government-mandated or adopted by the Bank.

7. The Government of India (GOI) has announced the Scheme for grant of ex-gratia payment of difference between compound interest and simple interest ("differential interest") for six months to borrowers in specified loan accounts (1.3.2020 to 31.8.2020) on 23 October 2020, which mandates ex-gratia payment to certain categories of borrowers by way of crediting the difference between simple interest and compound interest for the period between 1 March 2020 to 31 August 2020 by respective lending institutions. Further Department of Financial Services vide its circular dated October 29, 2020 has clarified among other points that crops and other agricultural loans are excluded from the ambit of this scheme. Accordingly the Bank has given credit to the eligible customer account on 4 November 2020.

8. The figures for the six month period ended 30 September 2019 and year ended 31 March 2020 were audited by the previous Statutory Auditors.

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

Kadambelil Paul Thomas
Managing Director & CEO
DIN: 00199925

Place : Mannuthy
Date : 10 November 2020



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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	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

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

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CARE Ratings Limited

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Off Eastern Express Highway, Sion (E), Mumbai - 400 022.
Tel: +91-22-6754 3456 • Fax: +91-22-6754 3457
Email: care@careratings.com • www.careratings.com

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 7612

CIN: L67120MH1993PLC071691

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

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CARE Ratings Limited

Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai - 600 002.
 Tel: +91-44-2849 0811 / 137 767 2850-1000. • Tel./Fax: +91-44-2849 7812 • www.careratings.com • CIN-L67190MH1993PLC071691

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.

Complete 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.454 crore through private placement of equity shares during September 2018. As on March 31, 2019, the CAR and Tier I ratio stood at 27.99% 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.165 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.

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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 1998 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. Ravishanker

Ravi Shankar R
Manager

Encl: As above

CARE Ratings Limited

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CIN: L67190MR1993PLC071691

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 1 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 a % 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 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.

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)
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	782	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 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. 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

About CARE Ratings:

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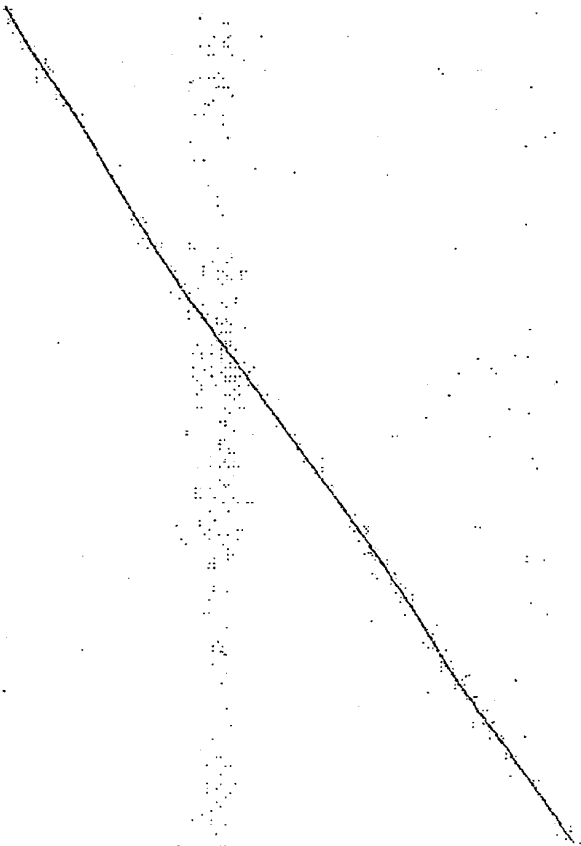
Disclaimer

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 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 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	9MFY 20
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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