

Ref No: 03/SE/CS/OCT/2024-25

Date: October 04, 2024

To,

<b>Listing Department</b> <b>BSE Limited</b> <b>Phiroze Jeejeebhoy Towers,</b> <b>Dalal Street, Mumbai – 400001</b>	<b>Listing &amp; Compliance Department</b> <b>National Stock Exchange of India Limited</b> <b>Exchange Plaza, 5<sup>th</sup> Floor</b> <b>Plot No.C/1, “G” Block</b> <b>Bandra- Kurla Complex</b> <b>Bandra(E), Mumbai- 400051</b>
<b>BSE Scrip Code: 544020</b>	<b>NSE Symbol: ESAFSFB</b>

Dear Sir / Madam,

**Sub: Intimation on the reaffirmation of Credit Rating by Brickwork Ratings (BWR)**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”), we hereby intimate that BWR has reaffirmed the credit rating of the Tier II Bonds (under BASEL III) of ESAF Small Finance Bank Limited (the Bank) aggregating to Rs 20 Crores as BWR A- with revision in Outlook from Negative to Stable and removed the rating from the ISSUER NOT COOPERATING category vide Rationale released on October 04, 2024. The rating rationale is enclosed.

Requesting you to take the same into your records.

Thanking you,

Yours Faithfully,

For ESAF Small Finance Bank Limited

**Ranjith Raj. P**  
**Company Secretary and Compliance Officer**



**Brickwork Ratings India Pvt. Ltd.**

3rd Floor, Raj Alkaa Park, Kalena Agrahara,  
Bannerghatta Road, Bengaluru - 560 076  
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**Ref. No. [BWR/NCD//CRC/HS/0136/2024-25](#)**

**04 Oct. 2024**

To  
Mr. Gireesh CP  
Chief Finance Officer  
**ESAF Small Finance Bank Ltd.**  
2nd Floor, Hepzibah Complex  
Mannuthy P.O., Thrissur - 680651, Kerala

Dear Sir,

**Ref:** Our rating letter no. [BWR/NCD/HO/CRC/VS/0002/2024-25](#) dated 03 Apr. 2024.

**Sub:** Review of rating of Tier-II bonds (under BASEL-III) of ESAF Small Finance Bank Limited amounting to Rs. 20.00 Crores (Rupees Twenty Crores only) with a tenor up to 30 Apr. 2032.

On a review of ESAF Small Finance Bank Ltd.'s performance based on the information furnished to us by you and as available in public sources, we are pleased to inform you that Brickwork Ratings has reaffirmed the rating at BWR A- with revision in Outlook from Negative to Stable and removed the rating from the ISSUER NOT COOPERATING\* category for ESAF Small Finance Bank Ltd.'s Tier - II bonds (under Basel III) amounting to Rs. 20.00 crs. last rated by us on 30 Dec. 2022. Instruments with this rating are considered to have an adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

Please note that the rating is valid for 12 months till 03 Oct.2025, subject to terms and conditions in your mandate, our rating letter dated 03 Apr. 2024 and BWR's standard disclaimer appended below.

Non-submission of NDS on a monthly basis will result in publishing your bank's name on our website under "NDS not submitted".

Best Regards

**Hemant Sagare**  
**Director - Ratings**



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**ESAF Small Finance Bank Ltd.**

**Annexure I - Details of Bank Facilities**

Lender	Facility	Long Term	Short Term	Total	Complexity of the Instrument
Nil	Nil	Nil	Nil	Nil	Nil

**Annexure II - Details of NCD**

Instrument	Issue Date	Amt. O/s (Rs. Crs.)	Coupon Rate p.a.	Frequency	Maturity Date	ISIN No.	Complexity of the Instrument*#
Tier II Bonds (Basel III)	31 Mar 2022	20.00	11.25%	Semi-Annually	30 Apr 2032	INE818W08081	Highly Complex
<b>Total</b>		<b>20.00</b>	<b>Rupees Twenty Crs. Only</b>				

\*# BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com / download / ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf). Investors' queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**Annexure - III**  
**List of Entities Consolidated**

Name of the Entity	% of Ownership	Extent of Consolidation	Rationale for Consolidation
Nil	Nil	Nil	Nil



## RATING RATIONALE

04 Oct 2024

### ESAF Small Finance Bank Ltd.

**Brickwork Ratings reaffirms the rating for the Tier II Bonds (under BASEL III) amounting to Rs. 20.00 Crores of ESAF Small Finance Bank Ltd, and removes it from the ISSUER NOT COOPERATING\* category.**

#### Particulars

Instruments**	Amount Rs Crs.		Tenure	Rating#	
	Previous	Present		Previous (04 Apr 2024)	Present
Tier II Bonds (under Basel III)	20.00	<b>20.00</b>	Long Term	BWR A-/Negative/ ISSUER NOT COOPERATING*/ Downgraded	<b>BWR A-/Stable/ removed from ISSUER NOT COOPERATING* Category (Reaffirmed and revised the Outlook)</b>
<b>Total</b>	20.00	<b>20.00</b>	<b>Rupees Twenty Crores Only</b>		

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

\* Issuer did not cooperate; based on best available information.

\*\* Complete details of instruments are provided in Annexure - II

#### RATING ACTION / OUTLOOK

Brickwork Ratings reaffirms the rating for the Tier II Bonds (under BASEL III) amounting to Rs. 20.00 crores at BWR A-/ Stable and removes the rating from the ISSUER NOT COOPERATING\* category, of ESAF Small Finance Bank Ltd. (ESAF or bank).

BWR notes that the Bank's management had resumed cooperation with BWR and shared the requisite information and documents to complete the rating review, hence BWR has removed the rating from the ISSUER NOT COOPERATING\* category.

The reaffirmation of the rating factors in the comfortable capitalization levels, adequate liquidity and growth in its loan book and deposits, resulting in improved net profits for FY24. The rating however is constrained by the asset quality weakening reflected through high levels of GNPA ratio at 4.8% as of 31 March 2024 and at 6.6% as of 30 June 2024. The majority of the loan book pertains to the micro loans segment, wherein the incremental slippages were visible over the past few quarters resulting in the weakening of the asset quality. The collection efficiency of the microfinance industry for the current year is expected to be marginally lower than the previous year. The bank's ability to improve upon its portfolio mix and improve its collection efficiency with a reduction in slippages to NPA shall be a key rating monitorable on its asset quality movement over the near to medium term.



The diminishing effects of COVID-19 pandemic on the bank's asset quality, profitability, and net worth reduced gradually till FY24. While the bank's net profits and net worth had improved for FY24, the asset quality remained a concern. The high levels of Gross NPA (GNPA) ratio in FY24 had weakened further in Q1FY25. The growth in loan book portfolio was majorly driven by the micro loan segment and loan sourcing through its business correspondence model.

During FY25, the Bank has initiated reducing its dependency on the business correspondence model for business growth and improving upon its own book portfolio. The Bank also informs BWR of having adopted strategic measures to improve upon its restructured book for early recognition of non-performing assets, make adequate provisioning and thereby expects an improvement in its profitability over the medium term. With the microloan segment remaining the majority of its portfolio, a better yielding and secured product mix may assist in improving its earnings profile. Noting this, BWR has revised the outlook of the Bank from a Negative Stable. BWR believes that the bank will maintain its growth trajectory in its credit profile, while the focus on improving asset quality through various measures, including enhancing its risk management framework and internal controls, shall be rating monitorable.

## **KEY COVENANTS OF THE INSTRUMENT**

The distinguishing feature of Tier-II capital instruments under Basel III is the existence of the point of non-viability (PONV) trigger, and the occurrence of such a situation may result in the loss of principal to investors, and hence, to default on the instrument by the issuer. According to the Basel III guidelines, the PONV trigger will be determined by the RBI. BWR believes that the PONV trigger is a remote possibility in the Indian context, given the robust regulatory and supervisory framework and the systemic importance of the banking sector. The inherent risk associated with the PONV feature is adequately factored into the rating on the instrument. The tier II bonds (under Basel III) of the bank are partly raised for a tenor of 10 years at a competitive coupon rate to strengthen the capital structure of the bank.

Further details of the bonds such as the coupon rate, frequency of interest payment etc are given in Annexure - II.

## **KEY RATING DRIVERS**

### **Credit Strengths:-**

#### **Comfortable Capitalization level**

The bank's total CRAR stood at 23.3% as of 31 March 2024 and 23.5% as of 30 June 2024, and its Tier I ratio was 20.1% as of 31 March 2024 and 19.5% as of 30 June 2024, comfortably well above the minimum regulatory requirement, to support its business growth. The bank was listed on the stock exchanges in November 2023, wherein it had raised capital amounting to Rs. 463 Crs through the Initial Public offering (IPO). The bank's net worth increased to Rs. 2,419 Crs as of March 31, 2024, from Rs. 1,634 Crs as of March 31, 2023, with the retention of net profits and raising of capital..

#### **Growth in the loan portfolio**

With the adequacy of capital, the bank managed to expand its total loan book from Rs. 16,331 Crs. in FY23 to Rs. 19,659 Crs. in FY24. However, in Q1FY25 the growth in the loan portfolio was stagnant at Rs. 19,664 Crs.. Consequently, with the growth in advances, the profitability of the bank witnessed





an upward trend with PAT of Rs.426 Crs in FY24 from Rs. 302 Crs in FY23. Interest income was Rs. 3,818 Crs in FY24 from Rs. 2,853 Crs in FY23. The bank's PAT for Q1FY25 was lower at Rs. 63 Crs, as against Rs. 143 Crs in Q1FY24. And the other profitability metrics weakened, with a decline in RoA and an increase in the cost-to-income ratio over the quarters. The RoA reduced from 2.5% in Q1FY24 to 0.9% in Q1FY25, and the cost-to-income ratio increased from 55.7% in Q1FY24 to 64% in Q1FY25, which will be rating monitorable. BWR anticipates that the bank's growth momentum will be sustained in the medium to long term, driven by its steady expansion into new territories. In FY24, the number of branches increased to 753 across 23 states, up from 700 branches as of March 2023. However, the performance of the newly established branches to drive the business growth over the near to medium term shall remain monitorable.

### **Steady growth in Deposits**

In FY24, the bank's deposits grew from Rs. 14,666 crs in FY23 to Rs. 19,868 crs. Of the total deposits as of 31 March 2024, 92.4% were retail term deposits, reflecting the granularity and low concentration risk of the deposit profile. However, the share of CASA in total deposits remained low at 23%.

### **Credit Risks:-**

#### **Weakening Asset Quality Metrics**

The bank's asset quality weakened in FY24, with a Gross NPA ratio of 4.8% (Net NPA: 2.3%) as of 31 March 2024, from 2.5% (Net NPA: 1.1%) as of 31 March 2023. This weakened further to 6.6% (Net NPA: 3.2%) in Q1FY25. The bank's PCR was 65.2% in FY24, as against 56.7% in FY23, with incremental NPAs. In FY24, loans totaling Rs. 968 crores slipped into NPA, and Rs. 390 crores slipped into NPA in Q1FY25. As of March 2024, the SMA portfolio consisted of 1.7% in the SMA 1 category and 1.3% in the SMA 2 category, in addition to the 4.8% NPA. Going forward, reduction in slippages to NPA and an improvement in its collection efficiency over its current collection efficiency of 94%, shall assist in improving upon its asset quality. The ability of the Bank to achieve the same shall be a rating monitorable, and any further significant decline in the gross npa ratios shall be a key rating sensitivity.

#### **Diversifying the Portfolio Mix and Concentration risk remains monitorable**

Diversifying the credit risk profile across the product mix and geographies remains monitorable. A gradual reduction of concentration of business in certain states will assist in improving upon its over credit profile and the asset quality. The bank's portfolio primarily comprises small ticket size and has short tenure loans requiring healthy collection efficiency levels at least at par with its peers in the industry. Maintaining a balanced portfolio mix with better yields and healthy collection efficiency will reduce asset quality concerns and improve profitability. The bank has its business spread across various geographies, however majorly driven from the states of Kerala, Tamil Nadu and Maharashtra, followed by Madhya Pradesh and Chhattisgarh. While the bank operates in 23 states, its advances and loan portfolio are heavily concentrated in the southern region of India, particularly in its home state of Kerala and Tamil Nadu, which together account for 57% of the total gross advances as of June 2024. Furthermore, 70% of the top 50 exposures belong to NBFCs and other financial institutions, posing a sector-specific concentration risk.



### **Operating in an intense competitive landscape**

The bank faces stiff competition from both other Small Finance Banks (SFBs) and larger universal banks. The presence of multiple players offering similar financial products, particularly in the priority sector lending space, puts pressure on margins and limits pricing power. Additionally, larger universal banks, with their broader reach and greater financial resources, often offer more attractive loan terms, making it challenging for smaller institutions like SFBs to compete effectively. This reflects in bank's various financial parameters such as RoA reduced to 0.9% in Q1FY25 from 2.5% in Q1FY24, yield on advances reduced to 20.2% in Q1FY25 from 21% in Q1FY24, NIM reduced to 9.4% in Q1FY25 from 11.3% in Q1FY24 and cost-to-income ratio deteriorated to 64% in Q1FY25 from 55.7% in Q1FY24.

### **ANALYTICAL APPROACH AND APPLICABLE CRITERIA**

BWR has considered the bank's standalone financial profile and has applied its rating methodology as detailed in the Rating Criteria (hyperlinks are provided at the end of this rationale).

### **RATING SENSITIVITIES**

Going forward, the bank's ability to sustain business growth while maintaining asset quality will be key to rating considerations:

#### **Positives:**

- The rating could be upgraded if the bank significantly improves upon its asset quality better than the industry average, scales up business operations and improves profitability.
- Diversification across geography and sector-wise in the corporate loan segment, without adversely affecting profit margins.

#### **Negatives:**

- The rating may be downgraded if there is a further significant deterioration in asset quality with Gross NPA ratios increasing above 7%.
- Decline in AUM growth resulting in decline in profitability metrics of NIMs and ROA momentum could result in downgrade of the rating and or outlook

### **LIQUIDITY INDICATORS - Adequate**

The bank's liquidity profile is adequate. The bank's structural liquidity statement as on June 30, 2024, has no cumulative negative mismatch across all maturity buckets. As at Mar. 31, 2024, the bank has maintained the LCR at 139.12%. The bank ensures compliance with other regulatory liquidity requirements, such as SLR. Additionally, the bank's loan portfolio consists of small tenured loans which enhances the liquidity condition.

### **COMPANY'S PROFILE**

Headquartered in Thrissur, Kerala, ESAF Small Finance Bank Ltd. (formerly known as ESAF Microfinance and Investments) is a small finance bank providing banking services to the underbanked and unbanked. The bank started its operation as an NGO in 1992 under the name of Evangelical Social Action Forum. ESAF Microfinance was a non-banking finance bank and microfinance institution (NBFC-MFI), licensed by the Reserve Bank of India (RBI). It became a small finance bank in March 2017 and started operating in January 2018. On 27 Dec 2018, it received "Scheduled Commercial Bank" status from RBI.





As of June 30, 2024, the bank operates in 23 states and 2 union territories, with 755 banking outlets, 8,481 total customer touchpoints, 627 ATMs, a customer base of 86.7 lakhs, and 6,283 employees.

### KEY FINANCIAL INDICATORS

Particulars	Units	FY-22 (Audited)	FY-23 (Audited)	FY-24 (Audited)
Total Loan book	Rs. Crs.	12,131	16,331	19,659
Total Deposits	Rs. Crs.	12815	14,666	19,868
PAT	Rs. Crs.	55	302	426
Gearing	Times	1.7x	1.4x	0.8
CRAR	%	18.6	19.8	23.3
GNPA	%	7.8	2.5	4.8

### NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY, IF ANY

There is no Non-cooperation from other CRAs.

### RATING HISTORY FOR THE PREVIOUS THREE YEARS [Including withdrawal & suspended]

Instrument	Current Rating (2024)		2023		2022		2021 (16 Mar. 21)	
	Amt.	Rating	Amt.	Rating	Amt.	Rating	Amt.	Rating
Tier II Bonds (under Basel III)	20.00	BWR A-/ Stable/ removed from ISSUER NOT COOPERATING* Category (Reaffirmed with Revision in Outlook)	NA	NA	20.00	BWR A/ Negative Reaffirmed	50.00	BWR A Stable
					0.00	Withdrawn on non-utilization (30 Dec. 22)		
	20.00	BWR A-/ Negative/ ISSUER NOT COOPERATING */Downgrade (04 Apr. 2024)			0.00	Withdrawn on redemption		
				300.00	BWR A/ Negative Assignment (18 Mar. 2022)			
INR Twenty Crores Only								

**Note:** NCDs of Rs. 50 crs was withdrawn on redemption in March 2022 and Rs.280 crs was withdrawn on non utilization in Dec 2022

**HYPERLINK/REFERENCE TO APPLICABLE CRITERIA**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Rating Criteria for Basel III Compliant Instruments](#)
- [What Constitutes Non-Cooperation](#)

Analytical Contacts	
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1-860-425-2742	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

**ESAF Small Finance Bank Ltd.**

**ANNEXURE - I  
Details of bank loan facilities rated by BWR**

Lender	Type of Facility	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)	Complexity
Nil	Nil	Nil	Nil	Nil	Nil

**ANNEXURE - II  
Instrument (NCD/Bonds/CP/FDs) details**

Instrument	Issue Date	Amount (Rs. Crs.)	Coupon Rate	Maturity Date	ISIN	Complexity@
Tier II Bonds (under Basel III)	31 Mar 2022	20	11.25%	30 Apr 2032	INE818W08081	Highly Complex

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

**ANNEXURE - III  
List of entities consolidated**

Name of Entity	Ownership (%)	Extent of Consolidation	Rationale for Consolidation
Nil	Nil	Nil	Nil



**For print and digital media,** The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

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