

Private Equity Analysis Report, 2023 ESAF Small Finance Bank

Banking Industry

Market Capitalization (Est.)
INR 5245.14Cr.

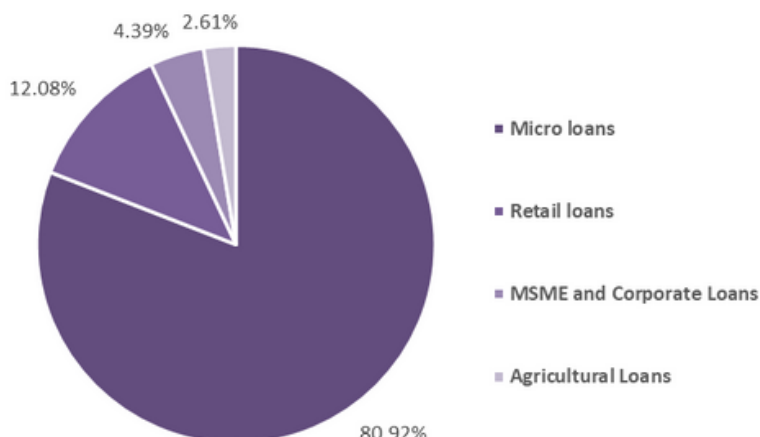
Book Value
INR 2077.81 Cr.

Enterprise Value
INR 19322.48 Cr.

DROP IN PROFITABILITY AND CASA, UNSECURED ADVANCES

- The advances growth rate was at 42.48% in FY22, a 17.74% growth compared to FY21. Growth is driven by growth in term loans and unsecured loans. There has been a decline in cash credits, overdrafts, and loans repayable on demand, and also on advances secured by tangible assets. Advances in India.
- Deposits growth is driven by term deposits with a substantial increase from other banks. And a substantial decline in demand deposits was also seen in FY22 from other banks.
- CASA ratio declined to 3.43% in FY22, from 19.42% in FY21.
- Net Interest Margin (NIM) also declined from 9.12% in FY21 to 7.30% in FY22 due to higher growth in advances and investments, offsetting gain on interests.
- Advertisement and publicity expenses have increased operating expenses. A 117.67% growth was seen in advertisement and publicity expenses and operating expenses growth was at 36.56%.
- Cost to income ratio has also increased from 35.75% in FY21 to 40.18% in FY22.

SEGMENTATION OF ADVANCES



VALUATION AND OUTLOOK

Despite showing good strides outside of its home ground and gaining advances, the net interest margin and CASA ratio point towards reduced profitability. The cost-to-income ratio and provisions coverage has increased. Moreover, the bank has a 70.62% increment in Gross NPA and a 44.03% increment in Net NPA. Therefore, based on a conservative note, we value the market capitalization of ESAF SFB at INR5245.14 Crores, based on a weighted average computation on the basis of PBV, EVEBITDA, price-to-advances and price-to-interest earned valuation.

STRENGTHS

- 55.72% of total microloans advanced outside Kerala.
- Has the highest percentage of gross advances as of FY22 end, from rural and semi-urban areas.
- Has the greatest proportion of retail deposits at 93.71%. Retail deposits are considered to be more stable than the wholesale deposit.
- Its signature "Business correspondents system" has been able to collect from 57.06% of its microloan customers on a weekly basis. They claim that rapport leads to a lower risk of delinquency.
- Higher customer retention rates with 80.23% of current borrowers being previously borrowers.













INCREASE IN GNPA, NNPA AND PROVISIONS

- The Gross NPAs to gross advances increased from 6.70% to 7.83% in FY22.
- The Net NPA's to Net advances increased from 3.88% to 3.92%. 35.62% of increment in substandard NPAs and 239.25% increment in doubtful NPAs, which is worrisome.
- The provisions coverage ratio has increased from 3.59% to 4.54%.

MARKET CAPITALISATION VALUATION

| Market capitalisation based on different methods | |
|--|-------------------|
| Market Capitalisation (Cr.) | |
| PBV | ₹ 2,077.81 |
| EV EBITDA | ₹ 8,511.41 |
| Price to advances | ₹ 3,707.76 |
| Price to interest earned | ₹ 3,417.31 |
| weighted average | ₹ 5,245.14 |

KEY METRICS

| Metrics | FY2021 | FY2022 | Trend in last 3 years |
|------------------------------|--------|---------|--|
| CASA Ratio | 19.42% | 3.43% |  |
| Interest income growth | 16% | 18% |  |
| Interest expenses growth | 16% | 10% |  |
| net interest growth | 16.33% | 24.47% |  |
| advances growth | 24.74% | 42.48% |  |
| Investments growth | 11.45% | 110.67% |  |
| Net interest margin | 9.12% | 7.30% |  |
| Provisions coverage ratio | 90.13% | 80.12% |  |
| Cost to income ratio | 35.75% | 40.18% |  |
| provisions coverage | 3.59% | 4.54% |  |
| Interest earned on advances | 20.09% | 16.67% |  |
| Interest expense on deposits | 8.00% | 6.19% |  |

PROJECTED P&L STATEMENT

| P&L Statement(in Cr.) | FY2021 | FY2022 | FY2023E | FY2024E | FY2025E |
|--|----------------|----------------|----------------|----------------|----------------|
| Interest income | 1641.17 | 1939.93 | 2293.06 | 2710.48 | 3203.89 |
| Other income | 126.10 | 207.58 | 211.29 | 215.07 | 218.91 |
| Total income | 1767.28 | 2147.51 | 2504.35 | 2925.55 | 3422.80 |
| Interest expenses | 719.58 | 792.79 | 853.62 | 919.11 | 989.64 |
| Payments to and provisions for employees | 187.78 | 232.14 | 237.16 | 242.30 | 247.54 |
| Rent taxes and lighting | 42.04 | 60.02 | 60.33 | 60.64 | 60.96 |
| Printing and stationery | 5.29 | 6.74 | 6.75 | 6.75 | 6.76 |
| Advertisement and publicity | 2.71 | 5.90 | 5.90 | 5.90 | 5.91 |
| Depriciation on Bank's property | 28.57 | 32.77 | 32.88 | 32.99 | 33.10 |
| Director's fees, allowances and expenses | 1.40 | 1.48 | 1.48 | 1.48 | 1.48 |
| Auuditor fees and expenses | 0.63 | 0.75 | 0.75 | 0.75 | 0.75 |
| Law charges | 0.26 | 0.43 | 0.43 | 0.43 | 0.43 |
| Postage, telegrams, telephones etc. | 9.17 | 10.94 | 10.95 | 10.97 | 10.98 |
| Repairs and maintenance | 1.58 | 1.76 | 1.76 | 1.76 | 1.76 |
| Insurance | 10.83 | 12.73 | 12.75 | 12.76 | 12.78 |
| Other expenditure | 341.58 | 497.20 | 520.67 | 545.24 | 570.98 |
| Provisions and contingencies | 310.44 | 437.12 | 454.60 | 472.79 | 491.70 |
| Total Expenses | 1661.88 | 2092.78 | 2200.03 | 2313.88 | 2434.74 |
| Profit for the year | 105.40 | 54.73 | 304.32 | 611.68 | 988.06 |
| Balance in profit and loss account | 227.20 | 306.24 | 321.50 | 563.24 | 1057.42 |
| Net profit | 332.59 | 360.98 | 625.82 | 1174.91 | 2045.48 |

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