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IPO Note – Equitas Small Finance Bank Limited

19-October-2020

RETAIL RESEARCH

Equitas Small Finance Bank Ltd

Issue Snapshot:
Issue Open: Oct 20 – Oct 22, 2020

Price Band: Rs. 32 – 33

Issue Size: 156,848,485 eq shares
(Fresh Issue of 84,848,485 eq sh + Offer for Sale of 72,000,000 eq sh)

Issue Size: Rs. 501.9 – 517.6 cr

Reservation for:

QIB	Upto 50% eq sh
Non Institutional	atleast 15% eq sh
Retail	atleast 35% eq sh

Employee Reservation: Rs.1 cr
EHL Shareholder Reservation: Rs 51.0 cr

Face Value: Rs 10

Book value: Rs 26.47 (June 30, 2020)

Bid size: - 450 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 1053.4 cr
Post issue Equity:	Rs. 1138.3 cr

Listing: BSE & NSE

Book Running Lead Manager: JM Financial Ltd, Edelweiss Financial Services Ltd, IIFL Securities Ltd.

Registrar to issue: KFin Technologies Private Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	95.5	82.1
Public & Employee	4.5	17.9
Total	100.0	100.0

Source for this Note: RHP

Background & Operations:

Equitas Small Finance Bank Ltd (ESFBL) was the largest SFB in India in terms of number of banking outlets, and the second largest SFB in India in terms of assets under management and total deposits in Fiscal 2019. It has been able to successfully diversify its loan portfolio and significantly reduce its dependence on microfinance business as compared to other microfinance companies that has converted to SFBs. It offers a range of banking products and services to customers with a focus on serving the financially unserved and underserved customer segments in India. Its strength lies in promoting financial inclusion within these segments, with its group beginning operations in 2007 as an NBFC providing microfinance loans through EMFL. It has been providing housing finance since 2011 through EHFL. It has also been providing vehicle finance and MSE finance through the Erstwhile NBFC that received its asset finance license in 2012, primarily to economically disadvantaged households. While its business model has transitioned over the years, the provision of sustainable credit to unserved and underserved segments has remained its core focus.

ESFBL's focus customer segments include individuals with limited access to formal financing channels on account of their informal, variable and cash-based income profile. It offers a range of financial products and services that address the specific requirements of these customer segments by taking into account their income profile, nature of business and type of security available. Its asset products are suited to a range of customers with varying profiles. These include provision of small business loans comprising LAPs, housing loans, and agriculture loans to micro-entrepreneurs, microfinance to JLGs predominantly comprising women, used and new commercial vehicle loans to drivers and micro-entrepreneurs typically engaged in logistics, MSE loans to proprietorships, and corporate loans. On the liability side, its target customers comprise mass and mass-affluent individuals to whom it offers current accounts, salary accounts, savings accounts, and a variety of deposit accounts. In addition, it also provides non-credit offerings comprising ATM-cum-debit cards, third party insurance, mutual fund products, and issuance of FASTags.

ESFBL has witnessed significant growth in its business, and in Fiscal 2019 had a market share of 16% in terms of assets under management in India. In Fiscal 2019, it recorded the fourth lowest yields indicating its diversification away from microfinance. It also witnessed the second fastest growth in deposits from Fiscal 2018 to Fiscal 2019. It deposits has grown at a CAGR of 38.75% from Rs.56,039.73 million as of March 31, 2018 to Rs.107,884.05 million as of March 31, 2020. As of March 31, 2019 its CASA ratio was the second highest among SFBs in India, and its retail deposits to total deposits ratio was the third highest among SFBs in India. As of June 30, 2020, its CASA ratio and retail deposits to total deposits ratio was 19.97% and 37.13%, respectively. As of March 31, 2019, it had the largest network of banking outlets among all SFBs in India. As of June 30, 2020, its distribution channels comprised 856 Banking Outlets and 322 ATMs across 17 states and union territories in India. It also distribute products through digital channels, and leverage technology to identify opportunities to better serve its target customer segment. As its products comprise small ticket loans and retail deposits, its operations require a large number of employees in the field to generate volumes for this business. As a result, it trains its employees to undertake assessment and appraisal of customer creditworthiness with limited documented income. As of March 31, 2019, it was third among SFBs in India in terms of advances made per employee and fourth in terms of deposits collected per employee.

ESFBL will continue to build its brand and develop a wide range of asset and liability products and services that will helps to attract new customers and deepen relationship with existing customer base. To achieve this, it intends to increase the use of technology in its operations, by monetizing its back-end banking capabilities and applying data analytics to gather a deeper understanding of the segments it serves. This will supplement its ongoing efforts to reduce costs, increase operating efficiencies and move customers from an assisted mode to a self-service mode of digital and phone banking.

Objects of Issue:

The Offer comprise of a Fresh Issue and an Offer for Sale.

Objects of the Fresh Issue

ESFBL proposes to utilize the Net Proceeds from the Offer towards augmenting its Bank's Tier I capital base to meet its future capital requirements.

Offer for Sale

The Promoter Selling Shareholder shall be entitled to the proceeds from the Offer for Sale. ESFBL will not receive any proceeds from the Offer for Sale.

The table below sets forth certain performance metrics of Bank for the periods and as of the dates indicated:

Metric	As of and for the year ended March 31,			As of and for the Three Months ended June 30,	
(Rs million, except percentages)	2018	2019	2020	2019	2020
Total Disbursements	58,087.04	85,783.11	99,110.73	20,083.98	5,642.46
Retail Deposits	6,426.29	16,362.50	38,112.87	22,473.65	43,771.18
CASA	16,378.39	22,742.66	22,082.13	22,369.74	23,540.09
CASA Ratio	29.23%	25.25%	20.47%	24.49%	19.97%
Net profit for the period / year	318.31	2,105.66	2,436.35	570.60	576.71
Net Interest Income	8,605.41	11,517.34	14,953.06	3,371.63	4,042.79
Net Interest Margin	9.02%	8.55%	9.11%	8.88%*(2.22%)	8.63%*(2.16%)
Cost to Income Ratio	79.97%	70.30%	66.38%	69.83%	67.27%
Debt Equity Ratio	5.28	5.76	5.8	5.96	6.18
CRAR	29.60%	22.45%	23.61%	22.03%	22.02%
Common Equity Tier 1 Capital Ratio	27.07%	20.93%	22.44%	20.65%	21.04%
Net worth	20,304.72	22,410.38	27,308.69	22,980.99	27,885.40
GNPA Ratio	2.68%	2.53%	2.72%	2.73%	2.68%
Net NPA to net Advance	1.46%	1.44%	1.66%	1.56%	1.48%
Provision coverage ratio	47.07%	43.38%	45.22%	44.00%	48.79%
Return on Assets	0.30%	1.43%	1.38%	1.43%*(0.36%)	1.12%*(0.28%)
Net Profit as a % of Average Shareholders' Equity	1.57%	9.85%	9.84%	10.00%*(2.50%)	8.32%*(2.08%)

*annualized, and figures in square brackets represent unannualized figures

Competitive Strengths

Customer centric organization with a deep understanding of the unserved and underserved customer segments: ESFBL is an SFB offering a range of banking services to customers with a focus on serving the financially unserved and underserved customer segments in India. Its strength lies in promoting financial inclusion within these segments, beginning from its operations in 2007 as an NBFC providing microfinance loans through EMFL. It has also been providing vehicle finance and MSE finance through the Erstwhile NBFC that received its asset finance license in 2012, primarily to economically disadvantaged households. While its business model has transitioned over the years, the provision of sustainable credit to unserved and underserved segments has remained its core focus. It has gained a deep understanding of the market over the years that enables ESFBL to meet the financing requirements of potential customers. It also develop products to match the growth cycle of its target customer base and undertake research on various segments within these markets to understand their borrowing profile in the absence of formal documentation. Factors ESFBL consider for this purpose include ownership of land, cattle, and cash flow generation from these resources. It similarly has a range of savings and investment options for its customers.

Among the largest SFBs in India with a well-diversified asset portfolio: ESFBL were the largest SFB in India in terms of number of banking outlets, as of March 31, 2019, and in Fiscal 2019 it recorded the fourth lowest yields indicating its diversification away from microfinance. ESFBL has been able to successfully diversify its loan portfolio and significantly reduce dependence on its microfinance business as compared to other microfinance companies that has converted to SFBs. Its asset products include provision of small business loans comprising LAPs, housing loans, agriculture loans, microfinance to JLGs, used and new commercial vehicle loans, gold loans, MSE loans, and corporate loans. Within credit portfolio, ESFBL's small business loans (including housing loan) and vehicle finance product segments recorded significant growth with a CAGR of 53.34% and 29.62%, respectively, from March 31, 2018 to March 31, 2020. It assess the track record of its existing customers to advance higher credit to meet their specific financial requirements, thereby further customizing few of its products. As a result of its diverse asset product portfolio, it advanced small business loans to 185,128 new customers, microfinance to 2,656,819 new customers, and vehicle finance loans to 132,427 new customers from Fiscal 2018 to Fiscal 2020. Owing to its diversified asset base, it is relatively insulated from counter cyclical impacts across economic cycles. Each of its product lines is well positioned to grow, creating a foundation of stability, sustainability and scalability for its operations.

Strong retail liability portfolio with a strategic distribution network: As of March 31, 2019, ESFBL were the second largest SFB in India in terms of total deposits. It also witnessed the second fastest growth in deposits from Fiscal 2018 to Fiscal 2019. Its total deposit has grown at a CAGR of 38.75% from Rs.56,039.73 million as of March 31, 2018 to Rs.107,884.05 million as of March 31, 2020, and was

Rs.117,871.27 million as of June 30, 2020. It offer a variety of demand deposits and savings bank account options including deposits and other services through which its customers can realize their savings goals. These deposits are primarily sourced from mass and mass-affluent customer segments, which has enabled low cost of funding opportunities and has been a source of strength for its liability portfolio. Its retail deposit has grown at a CAGR of 143.53% from Rs.6,426.29 million as of March 31, 2018 to Rs.38,112.87 million as of March 31, 2020 and was Rs.43,771.18 million as of June 30, 2020. The ratio of its retail deposits to total deposits in Fiscal 2018, 2019 and 2020 and the three months ended June 30, 2020 was 16.20%, 24.30%, 44.42% and 46.40%, respectively.

The number of ESFBL's CASA customers and term deposit customers has grown from 187,224 and 12,199 as of March 31, 2018, respectively, to 3,09,464 and 537,429 as of March 31, 2020, respectively, and was 3,44,459 and 5,59,745 as of June 30, 2020, respectively. Its diversified and stable retail deposit base enables it to access low cost funding, as reflected in its cost of funds (calculated as interest expense divided by average interest-bearing liabilities), which was 8.36%, 8.13%, 7.97% and 7.63% (annualized)/ 1.91% (unannualized) as of March 31, 2018, 2019, 2020 and June 30, 2020, respectively. Bank's strong brand equity associated with its name "Equitas", translates to fair and transparent, has partially aided the growth of its liability franchise, coupled with its social initiatives and marketing efforts that has improved visibility of its brand. Distribution network and range of payment and transaction channels, including ESFBL's network of ATMs and cash recyclers, and digital banking channels enables mass and mass-affluent customers to use their demand deposits and savings accounts with ESFBL as their primary transaction accounts.

Customized credit assessment procedures for effective credit risk management*:* ESFBL apply different credit assessment procedures based on the products it offers. It also has a risk management framework to identify, measure, monitor and manage credit, market and operational risks including IT security risk. The framework is aimed at protecting its Bank's financial strength and reputation, and ensures that it risk management operations are independent of its business operations, through various policies, procedures and allocation of responsibilities. Its risk management and credit evaluation processes, together with its ability to evaluate risk, has enabled it to contain its level of NPAs, restructured standard asset and special mention accounts category 2 levels. ESFBL risk management measures as well as strong financial performance has also enabled to improve its credit ratings, which has allowed to access capital at competitive rates, as reflected in credit ratings. Its Certificate of Deposit (CD) programme has the highest rating of CRISIL A1+ and its long-term borrowings and non-convertible debentures/ subordinated debt have both been rated CRISIL A+/ Stable.

Technology as an enabler to drive operating procedures*:* ESFBL leverage technology to identify opportunities, and deliver products and services to its target customer segment. It has created a paperless onboarding process for originating microfinance loans, opening savings bank accounts and fixed deposits. Tablets are used by field teams that enable straight through processing of applications. It also record collections digitally by using pre-printed stickers for evidencing cash receipt, to mitigate the operational risks in its microfinance business. This is followed by SMS based collection tracking processes that enable field staff to update transaction record systems with collections report on a real-time basis. It has made significant investments in building technology platforms and in Fiscal 2019, 2020 and in the three months ended June 30, 2020, it invested Rs220.39 million, Rs415.30 million and Rs11.97 million, respectively, on technology initiatives.

ESFBL has also adopted an intuitive approach for its internet banking platform with improved accessibility to enhance user experience. Its internet and mobile banking platforms offer an integrated digital wealth management platform with various investment options and added features to track these investments. Its backend operations including core banking system, customer relationship management systems, anti-money laundering monitoring systems, and loan monitoring systems are also automated and supported by robotic process automation. The use of technology has helped microfinance institutions grow at a fast pace, improve efficiency, lower cash usage and turnaround times, develop new products, provide better services to customers and use analytics for portfolio monitoring and credit appraisal. It has also deployed API integration software to increase operating efficiencies between its various applications. As a result, it has been able to collaborate with fintech companies to enable them to provide their services by monetizing its digital assets and back-end operations.

Professional management, experienced leadership and trained employee base: ESFBL senior management team has significant experience in the financial services industry and has been instrumental in developing and implementing its business strategy and commitment to fair and transparent business practices. Its senior management team has a diversified track record in the financial services industry. Over the years, it has invested in its employee base through training programs. As a result, its employees are trained to undertake assessment and appraisal of customer creditworthiness with limited documented income. It also train its employees on customer handling and engagement, to improve their dealings with its mass and mass-affluent customers, with an emphasis on marketing and sales knowledge for its liability products. In addition, it regularly educate its employees on its core banking systems so they are updated with the processes it deploy and are able to operate them with minimum intervention. Employees are trained to exercise operational risk controls in highly decentralized operations. It provides continuous support to its employees through the mobile learning application 'Equitas CLAPP', specifically for its field employees to provide them access with detailed information on its products, processes, incentives and other useful content, to keep them updated at all times.

Business Strategy:

Leveraging on existing network for deepening penetration and driving operational efficiency*:* ESFBL has over the years made significant investments in expanding its network of Banking Outlets and associated support structures, including network of ATMs, technology infrastructure, and employee training activities. These resources has enabled to gain visibility in certain key regions, establish a trained employee base, and expand customer base for asset side and liability side products. It now intends to leverage these functions to further grow its banking operations. In order to achieve this, it intends to further cross-sell its liability products such as recurring deposits to its asset side customers primarily comprising microfinance customers. ESFBL will primarily focus on improving productivity across all its channels. It seeks to improve monthly deposit generation and customer acquisition at its Banking Outlets that it has established with features such as instant account opening, customer service resources, mobile and banking applications with enhanced features and other value added services to attract mass and mass-affluent customers. It also intends to increase distribution of third party products by offering and marketing them across all its channels, including Banking Outlets and digital channels by deepening penetration in its existing markets, Bank will be able to cross-sell existing products and launch new products by using limited resources and in relatively short periods, as compared to newer markets.

Strengthen liability franchise and focus on increasing retail base to further improve cost of funds*:* As of June 30, 2020, ESFBL had a liability customer base of 0.90 million customers. It intends to further strengthen its liability franchise with a focus on growing its retail deposit and CASA deposit to provide it with a stable and low-cost source of funding. It aims to achieve this by attracting greater retail deposits from its customer segments, and particularly the mass and mass-affluent customer segments. Bank intends to further expand its retail deposit base by carrying out marketing and brand building activities, undertaking measured expansion of its Banking Outlets and by offering digital savings and deposit products through internet and mobile banking. It also propose to meet a majority of its funding requirements through CASA deposits and recurring and fixed deposits by building a sticky deposit base and attracting new customers whose primary avenues of savings and capital building currently include the unorganized sector and other high-risk savings schemes.

Leverage data for analytics to drive operational efficiency*:* The collaboration of microfinance institutions with fintech companies is expected to aid in raising operational efficiencies and reduce cost (Source: CRISIL Report). ESFBL therefore intends to continue to invest in technology as a means of improving its customers' banking experience and offer them a range of products tailored to their financial needs. It intends to develop such tailored products with the help of data analytics. As a large portion of its customers are first-time borrowers, relying solely on credit bureaus for credit decisions is inadequate, and it is mandated by its internal policies to additionally apply extensive knowledge of the segment. Therefore ESFBL intends to increase its focus on applying the data it has gathered over the years by creating customized analytical decision models that leverage machine learning to support underwriting and collection procedures.

Higher mobile penetration, improved connectivity, faster and cheaper data speed, supported by Aadhaar and bank account penetration have led India to shift from being a cash-dominated economy to a digital one therefore ESFBL propose to capitalize on the opportunity it presents, in terms of aggregating data to derive business intelligence including banking trends in various communities, and leverage this to monitor business performance at a unit level with limited manual intervention. It intends to develop digital dashboards and other tools to efficiently track loans and monitor customer history and potential opportunities. These ongoing efforts will enable quick decision making, further refine its credit policies, and improve overall operational efficiency across various functions.

Continue to focus on digital products and technology to grow operations*:* ESFBL intends to leverage its front-end technology platforms to further improve customer acquisition and transaction management. It propose to implement initiatives to make it easier for customers to manage their accounts, while facilitating significant cross-selling opportunities for a wider range of products on its digital platform, thereby building on its existing relationship with customers. It also propose to develop products that will be available only on its digital platforms, specifically designed for the younger and technologically advanced customer base. These products will be customized in terms of the user interface to deliver specialized experiences. Bank is in the process of developing a savings account for children below 18 years of age, as part of these customization efforts. It seeks to continue to deliver these and other personalized customer services through its digital platforms. By furthering its digital and technology platform, its endeavor is to empower customers to access various products and services on their own, reduce its operating costs and increase efficiencies. To achieve this, it has put in place technology at the front-end, such as it mobile banking application, internet banking, ATMs and cash recyclers which allow the customers to access banking services at all times as per their convenience. It is also in the process of introducing virtual relationship managers for its MSE finance customers that will be supported by chatbots and instant messaging applications, for more efficient and personalized customer service.

Continue to diversify product offerings and leverage cross-selling opportunities*:* The loan portfolio of SFBs is expected to grow at a CAGR of 25% in the near term, largely supported by introducing new products and capitalizing on cross-selling opportunities. Its primary focus is to diversify its product offerings while growing its secured loan portfolio, comprising vehicle finance, agriculture loans, gold-loans, microloans against property, working capital loans, and affordable housing loans. It intends to continue to develop and offer a comprehensive range of products anchored around the unserved and underserved customer segments that will help to attract new customers and deepen its relationship with existing customer base. In particular, it propose to cross-sell its individual loans to MSE customers by targeting proprietors. ESFBL has over the years gained access to MSE proprietors which has enabled to scale its business through the disbursement of working capital loans followed by overdraft facilities. As the sole banker to these customers, it propose to leverage such access by offering them liability products including current accounts, vendor accounts, cash management services, family accounts and generally deepening its engagement with this customer base. It also proposes to focus on wholesale agriculture loans, that will be designed to fund capital expenditure as well as working capital requirements in the food and agriculture based industries. As a result, it aim to increase the proportion of secured to unsecured products, to enhance the quality of its credit portfolio and build a scalable, sustainable and stable portfolio.

In addition to expanding its product portfolio, ESFBL intends to strengthen its alternate delivery channels and increase their adoption by encouraging customers to move from less cash to a cashless environment. It intends to achieve this by focusing on its existing internet banking system and mobile banking platform. It also aims to use a combination of physical and digital channels and partnerships to expand its reach and deliver value to its customers. By expanding its range of products and services and by using multiple delivery channels, ESFBL endeavor to meet a range of financial needs of its customers which will result in stronger relationships with them.

Increasingly focus on non-interest income sources*:* An important strategic focus for ESFBL is to diversify its fee and non-fund based revenues. It intends to achieve this by further cross-selling existing fee income products like distribution of mutual funds and insurance products, and introducing newer products and services. It intends to build on this income source and engage with more number of car dealers across India for issuance of similar products. ESFBL intends to provide various payment solutions through mobile and internet banking to increase the fee income generated from debit cards, bill payments, and transfers. In addition to focusing on its existing commission-based products, it intends to capitalize on technology infrastructure to introduce new products and services by collaborating with fintech companies. Through API-led banking, it proposes to monetize its back-end banking capabilities including core banking system, performance management system, knowledge database, and regulatory experience, by engaging fintech companies to front new initiatives, on a fee-based model. It also propose to focus on bancassurance channels to distribute various types of insurance products to existing customers, including to families of JLG customers, thereby promoting greater financial inclusion. It also seeks to engage actively with its customer base to drive debit card and online spending behavior through active promotions, in order to drive growth of its transaction fee income.

Industry

Small Finance Banking Industry

In order to promote financial inclusion, the Indian banking industry has seen several changes in recent years. NBFCs such as, Bandhan and IDFC, received permission to set up universal banks. Further, a few microfinance companies, local area banks and NBFCs have received permission to set up SFBs. SFBs are allowed to take deposits, which provide them an edge of having lower cost of funds in comparison with NBFCs. MFIs turned into SFBs are now diversifying their advances mix, and focusing on other retail and corporate lending business.

Evolution of SFBs

Despite various measures taken by the Government to increase financial penetration in India, a significant percentage of India's population does not have access to basic financial services. In 2013, the RBI constituted a committee that recommended differential licensing in the form of payment bank and SFB. Accordingly, on November 27, 2014, the RBI released guidelines for a new class of banking entity, 'small finance banks', to cater to the diverse needs of the low income group. Further, on September 16, 2015, the RBI awarded SFB licenses to 10 players on account of the Government's focus towards financial inclusion and inclusive banking. Out of the 10 SFBs, there were eight microfinance players, one local area bank and one NBFC. The objective of SFB's is to extend banking services to the underserved and unserved population through savings instruments, and providing credit to small business units, small and marginal farmers, micro and small industries, and other unorganized sector.

The operations of SFBs is technologically driven in order to reduce the cost of operations and also ensure faster reach to the untapped market. According to World Bank's Global Findex Database 2017, India's financial inclusion level has improved significantly with the adult population's bank accounts rising from 53% in 2014 to 80% in 2017 on account of various Government initiatives, institution support and increase in usage of mobile phones as a medium for distributing financial services. As per CRISIL Inclusix, the index that measures the financial inclusion across 666 districts in India, financial inclusion score of 58.0 was reported in Fiscal 2016, having increased from a score of 50.1 and 35.4 in 2013 and 2009, respectively. The overall improvement of the financial inclusion score is primarily driven by the 'JAM' trinity, *i.e. Jan Dhan Yojana*, *Aadhaar* and mobile. Technology improvements help in financial penetration, however, the primary challenge for SFBs is still the ability to generate low cost deposits. While there exists a significant opportunity, SFBs will need to be innovative further in terms of introducing customized and flexible offerings to target the untapped market and move toward becoming universal banks

Growth drivers

Sizeable market opportunity and credit at affordable rates

Due to the size of India's population and the lack of formal banking services for a significant section of India's population, driving financial inclusion has been a key priority for the Government. The banking system and PSL have been the most popular channels to bring the majority of India's population under formal credit institutions. Financial inclusion is a comprehensive exercise that constitutes several products and services, such as provision of bank accounts, insurance facilities, payment and remittance mechanisms, financial counselling and affordable credit. Further, various initiatives have been undertaken by the Government, which have been implemented by NABARD and through entities such as regional rural banks, cooperatives and commercial banks. In addition, in 1970s, such lending institutions achieved significant reach and increasing number of individuals did avail of credit facilities. However, major delinquencies in repayment severely impaired the financial health of such lending institutions and entities. Further, despite the rapid expansion in the scale of the institutions, several households continued to face difficulties in accessing credit facilities. Within the large range of products and services under financial inclusion, such financial players have a major role to play in the provision of credit. The size of the India market (in terms of financially excluded households), offers scope for sustainable credit to the poor at affordable rates to drive growth for SFBs in India.

Customized products aided by technology and availability of information

Increase in the use of technology has enabled lenders to provide customized product offerings to their target customer segments with much lower turnaround times. Further, availability of multiple data points facilitates lending decisions by firms within a few minutes by using data-driven automated lending models. These models help in the supply of credit to small business units and the unorganized sector at low cost. The use of technology is expected to also help such players in expanding their reach to underserved population and areas at a lower operating cost.

Availability of funds at cheaper rates

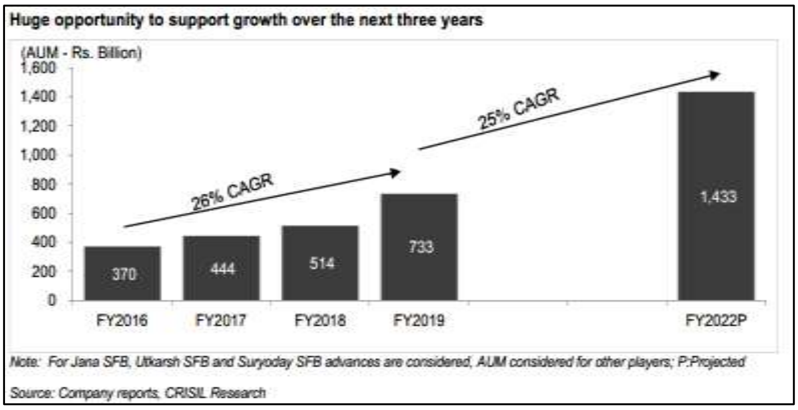
The ability to accept deposits through CASA and other retail deposits would provide SFBs a cheap source of funding which would help them in competing with NBFCs. Further, with the low cost of funds, SFBs would aim to expand their product portfolio and provide competitive rates in the market. In addition, with the further expansion of SFBs in underserved regions, the deposit base is expected to further increase and will help in expanding their asset side portfolio. Accordingly, SFBs will hold an advantage over NBFCs.

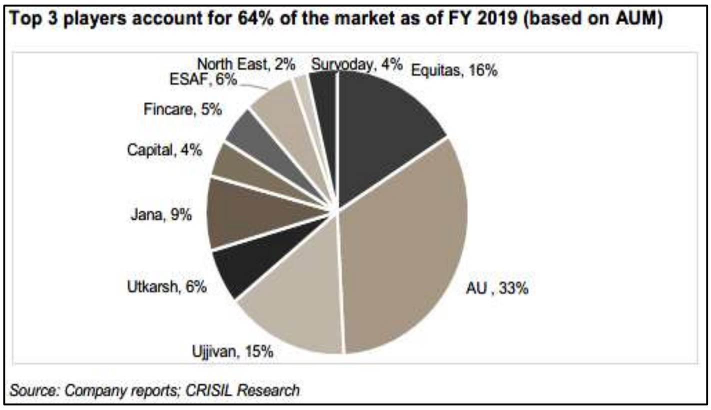
Target audience

SFBs aim to cater to the low-income segment and have an opportunity to offer them with various products and services. Further, unlike NBFCs which expand horizontally with a special focus product, SFBs have the chance to expand vertically and horizontally which will enable them to have a good range of medium and low value customers and as a result, help in increasing their business. However, factors such as, lack of awareness of financial services, illiteracy and poverty will result in a challenge for SFBs from the demand side. Although SFBs will fare better in terms of product and service quality due to their focused approach, SFBs will have to create convenient touch points to initiate customers into saving regularly and also invest in human capital to equip their staff into mobilizing savings.

South India is one of the regions that had the highest literacy rate and which is reinforced by the region's leadership in financial penetration in comparison with other regions. Further, as other regions continue to grow and with the Government's focus on rural rejuvenation, there exists a significant potential in east India and north-east India.

Industry growth and outlook for SFBs





SFBs have grown at a CAGR of 26% from Fiscal 2016 to Fiscal 2019, in terms of assets under management (AUM). Top three SFBs accounted for 64% of the total SFB AUM in Fiscal 2019, compared to 53% in Fiscal 2016. These top three SFBs recorded a CAGR of 34% from Fiscal 2016 to Fiscal 2019. Further, it is expected that the loan portfolio of SFBs will grow at a CAGR of approximately 25% in the near term due to support from (i) significant market opportunities in the rural segment; (ii) new product offerings and cross-selling opportunities with the ability to cross-sell products on the liability side and asset side to improve customer stickiness and loyalty; (iii) higher presence of informal credit channels; (iv) geographic diversification; (v) ability to manage local stakeholders, (vi) access to low cost funds, and (vii) loan recovery and control on NPAs. In the last three years, SFBs have shifted their focus from microfinance to other products, but the core customer focus is not likely to change owing to regulatory norms. Going forward, SFBs will have to focus on small ticket size lending to financially underserved and unserved segments (loans below Rs. 2.5 million have to form at least 50% of loan book). The MFIs that converted into SFBs are expected to further diversify and expand their loan book beyond microfinance loans by focusing on allied segment loans such as MSME loans, affordable housing finance, gold loans, commercial vehicle/ noncommercial vehicle loans and two-wheeler loans.

Non-banks are expected to lose market share to well capitalized banks and SFBs amid ongoing crisis of confidence and consequent liquidity crunch: NBFCs grew at a strong pace in the first half of Fiscal 2019, up approximately 17% on-year. However, the default of IL&FS (Infrastructure Leasing and Financial Services) in mid-September created panic and investor confidence in lending to NBFCs declined. This subsequently led to a spike in market rates and slowdown in commercial paper (CP) and bond issuances for all NBFCs. Investors' risk perception increased significantly towards players with negative asset liability management (ALM) mismatch and high exposure to developer financing. NBFCs that have been relying heavily on short-term CP instruments to grow their book will find it difficult to grow at the same pace and will witness a sharp slowdown in their growth. Wholesale and LAP segments are seen as the most affected by the impact of the ongoing liquidity squeeze, due to their longer tenured loans and subsequent ALM mismatch whereas financiers with shorter term loans and ability to pass on interest rates (such as Microfinance, consumer durable, gold loan segments) are not expected to face much of an impact. Going forward, non-banks are expected to lose market share to well capitalised banks and SFBs amid ongoing crisis of confidence and consequent liquidity crunch. The NBFCs are heavily reliant on banks for funding which has led to a rise in cost of funds. However, access to deposits, resulting in lower cost of funds will allow SFBs to compete with NBFCs on pricing in the underpenetrated region and take away some share from NBFCs resulting in overall business growth for SFBs

Overall deposits base of SFBs grew by 109% year-on-year in Fiscal 2019

SFBs have a sizeable growth opportunity as most of them were previously functioning as NBFCs/ MFIs. In the last one year, all SFBs have focused on increasing their deposit base immediately after commencement of their operations. Overall deposit base of SFBs has grown by 109% to around Rs. 555 billion in Fiscal 2019. However, the CASA deposit reduced from 24% in Fiscal 2018 to 20% in Fiscal 2019. However, SFBs face stiff competition from public sector and private sector banks as these banks benefit from greater trust among the customers in the rural region. Cost of accepting deposits is also expected to be high in the initial years of operation due to high interest rate offerings in order to attract the customers. Further, the average deposit per customer in the rural region is low. In the long run, with a customer centric approach, use of technology, stability of the business model and improved reach, the cost of acquisition and interest paid is expected to reduce. Going forward, it is expected that deposits will grow at a CAGR between 60% to 65% from Fiscal 2019 to Fiscal 2022, as players focus on promoting convenient banking habits in order to make it accessible to the last mile and enhance financial inclusion. In addition, few players are also contemplating capital injections to grow asset size and deepen their penetration in untapped geographies by expanding their network of branches/ banking outlets.

Asset Quality of SFBs

The asset quality of SFBs has improved to 1.6% in Fiscal 2019 from 2.2% in Fiscal 2018. This can be attributed to the diversification of their product mix into relatively less risky assets, write offs of legacy loans and reduction in microfinance loans. In the coming years the asset quality will vary depending on credit underwriting, monitoring and collection efficiency in the new lending segments of these SFBs. Credit costs for SFBs have also seen a decline from 2.1% in Fiscal 2018 to 0.9% in Fiscal 2019. This led to growth in profitability for the banks, reduced headwinds to bank’s capital growth and enhanced the capacity of SFBs to lend.

Profitability of SFBs is expected to improve

Newly converted SFBs had a challenging beginning in Fiscal 2018, as many players experienced decline in profitability due to losses in the second half of the financial year on account of stressed microfinance accounts. The main reason for the sharp increase in non-performing assets in the microfinance portfolio of SFBs was the dual impact of demonetization and loan waivers. Profitability revived in Fiscal 2019 as credit costs on newly originated loans disbursed post demonetization was much lower. Further, due to a rapid growth in deposit base and a consequent reduction in cost of funds the net-interest-margins also increased in Fiscal 2019 compared to the previous year. Profitability however remains partly constrained by high operating expenses representing approximately 7% of average assets. Profitability is expected to improve moderately going forward on account of further reduction in operating expenses as players gradually scale up their banking operations with the aid of digitization. However, the reduction in operating expenses may not be consistent across the board, as it depends on the ability of SFBs to keep branch establishment and employee costs at stable levels, and also scale up their deposit and income base from these branches. Additionally, ability to maintain sound asset quality in new segments while managing growth and profitability across economic cycles remains to be seen.

ANALYSIS OF VARIOUS SEGMENTS

Loans against Property (“LAP”)

A LAP is a secured loan availed by mortgaging a property (residential or commercial) with the lender, at interest rates lower than that of personal or business loans. LAP (banks and non-banks) grew at a CAGR of approximately 16.4% between Fiscal 2016 and Fiscal 2019 driven by rising penetration of formal channels and higher comfort for lenders to lend. However, the growth has slowed down in Fiscal 2019 owing to the liquidity crisis and increasing asset quality concerns and is expected to moderate and grow at a CAGR of approximately 14.4% till Fiscal 2022 due to cautious lending approaches, reduction in balance transfers and top up loans and a reduction in the share of high-ticket sized loans.

Competitive Scenario

In the past few years, the NBFCs have lost their share in LAP owing to efforts to contain asset quality deterioration and yield pressure. With liquidity crisis, non-banks (NBFCs and HFCs) have grown at a rate of 12% in Fiscal 2019 against a CAGR of 19% to 20% till Fiscal 2018. Growth of non-banks is expected to slow down to 9% to 11% till Fiscal 2022 and they are expected to lose market share. SFBs are focusing on low ticket size loans in this segment which is seeing faster growth as compared to high ticket size loans in this segment. This will further augment the share of SFBs in the segment.

Microfinance

Industry GLP recorded a CAGR of 24% since Fiscal 2016

The microfinance industry has recorded healthy growth in the past few years, and the industry's Gross Loan Portfolio (GLP) grew at a CAGR of 24% since Fiscal 2016. The industry has grown at a CAGR of 39% since Fiscal 2007, despite adverse developments in the past decade such as national farm loan waivers (2008), the Andhra Pradesh crisis (2010), Andhra Pradesh farm loan waiver (2014), SFB licences issued to eight MFIs (in-principle approval in 2015), demonetization (2016), and farm loan waiver across some more states (in 2017 and 2018).

On November 8, 2016, the Indian government announced the demonetization of banknotes of Rs.500 and Rs.1,000 denominations. Approximately 86% of the currency in value terms was removed from circulation while replacement of currency (with Rs.100 and Rs.2,000 notes) by the central bank was sluggish. As a consequence, GLP of the MFI industry, which was growing at approximately 70% in the first half of Fiscal 2017 suddenly declined to 22% by the end of the year. Disbursements declined by approximately 29% in the second half of Fiscal 2017 as compared to 60% growth in the first half of Fiscal 2017. Customers belonging to this industry are the bottom of the pyramid and majority of their earnings are cash-based. Further, customers relying on daily-businesses experienced significant earnings loss due to decreased demand on account of non availability of cash. Most of these customers belong to rural areas where the penetration of banking is low, and the cash crunch significantly affected the industry.

Rising penetration is expected to help the microfinance industry grow at a CAGR of approximately 25% over the next three fiscals

As of March 31, 2019, the microfinance industry, excluding self-help group (SHG) bank linkage programme had grown at a CAGR of 30% since Fiscal 2016. In Fiscal 2019, the industry grew by 34% and the number of microfinance accounts grew by 27% to amount to Rs. 93.8 million from Rs. 74.1 million in Fiscal 2018. The domestic microfinance industry has a significant opportunity to capture share from unorganized players by growing their portfolio and covering areas that are less penetrated. It is expected that the microfinance loan portfolio will grow at a CAGR of 25% from Fiscal 2019 to Fiscal 2022, which is much lower compared with the previous three years. By Fiscal 2022 the industry portfolio level is expected to be almost double compared to Fiscal 2019, driven by continuous expansion in the client base of MFIs and healthy growth in the rural areas where MFI penetration is still much lower compared to urban areas. Among the various player groups, SFBs who are diversifying their portfolio into other loan products apart from microfinance loans, are expected to grow their microfinance loans portfolio at a relatively slower pace.

Gradual development in other support systems

Role of MFIN

In June 2014, the MFIN was officially recognized as a SRO for NBFC-MFIs in India. The MFIN is authorised by the RBI to exercise control and regulation on its behalf, to ensure compliance with regulatory prescriptions and the industry code of conduct. The MFIN is the first network to attain such recognition in India and Asia and also maybe internationally. In September 2017, MFIN released a MACC. Under the MACC, an institution will not lend to a borrower that has already availed of loans from three microcredit lenders. While the existing RBI regulations are applicable only to NBFC-MFIs, MACC will cover all entities excluding SHGs. In addition, MFIN's responsibilities includes research and training and submission of MFI financials to the RBI. More than 50 leading NBFC–MFIs in India are members of the MFIN.

Credit bureaus

Credit bureaus collect MFI information in their databases that captures the credit history of borrowers. The presence of a number of credit bureaus ensures that MFIs have access to more data on their borrowers, helping them make informed lending decisions in the long run. As per current norms, a borrower cannot avail of a loan from an MFI if there are already two NBFC-MFI loans existing. This is where the role of a credit bureau becomes critical, as it provides information on two levels- the number of credit lines that a borrower has already availed of, and the borrower's credit history in terms of, amongst others, repayment track record and defaults.

Micro Units Development & Refinance Agency ("MUDRA")

In Union Budget 2015-2016, the Government proposed the formation of MUDRA to facilitate the financial inclusion of the non-corporate smaller business sector through refinance and development support. A majority of this sector does not have access to formal sources of finance. MUDRA will be responsible for refinancing and developing the micro-enterprises sector by providing support to financial institutions that lend to small and micro business entities. It will also help reduce interest rates of the aggregate funds given to MFIs. In Fiscal 2019, Rs. 2,732 billion was disbursed under the Pradhan Mantri Mudra Yojana to 54.1 million accounts. The loan disbursal has been on the rise over the past few years but the growth did slowdown reflecting caution among lenders. The small business loans disbursed also did not achieve the target for Fiscal 2019.

NABARD refinancing MFIs to encourage lending in rural areas

NABARD is the main facilitator and mentor of microfinance initiatives in India, with a focus on rural areas. It assists eligible NBFC-MFIs and SFBs by providing them with long-term refinance support. NBFC-MFIs having continuous profit during the last three years and grading up to mfR2 (mfR3 in northeastern states and hilly areas) by CRISIL or equivalent, are eligible for refinance, subject to the fulfilling of other conditions.

Digitalization to bring down costs, improve efficiency and profitability for MFIs

Digitalization is critical to the MFI industry since lower operating costs can result in higher financial inclusion and increased benefits for customers. The use of technology has helped MFIs grow at a fast pace, improve efficiency, lower cash usage and turnaround times, develop new products, provide better services to customers and use analytics for portfolio monitoring and credit appraisal. About 58% of the total member MFIs have reported to have more than 50% of their disbursement through cashless mode out of which 44 players have 85% of their disbursement through cashless mode. To improve efficiency, many MFIs have provided tablets to their loan officers, thereby eliminating branch visits by loan officers for routine procedural activities. Digitalization is also helping microfinance institutions monitor disbursed loans as each borrower's data is available in digital form and can be accessed easily. Paperwork has reduced with the use of tablets and entries on disbursements and repayments are made in real time. Direct updation of information on the core platform has also enabled better servicing of customers by use of customer relationship management applications, which help in the handling of customers over their credit life cycles. It also helps in targeted marketing, cross-selling of products, and product customization. E-KYC and biometric scanners do away with the requirement for physical documents and help lower turnaround time. The lower cost of serving customers, better productivity and lower credit costs through the use of technology are expected to help MFIs improve profitability. However, not all MFIs will be able to adopt technology; only those who have a sizable business will be able to invest in technology and reap the full benefits.

Gold Loans

Gold loans are typically small ticket, short duration, convenient loans with instant credit. As of March, 2019 industry AUM recorded a growth of approximately 13% year-on-year amounting to Rs. 2.8 trillion on account of increased focus of NBFCs on diversifying their regional concentration, aggressive marketing and stable gold prices. The gold loan market is further expected to grow at a CAGR of approximately 10% over the next three years to Rs. 3.8 trillion by Fiscal 2022. Stable demand and initiatives to increase awareness are expected to help the industry grow moderately along with geographic diversification and rising interest from the northern, western and eastern regions. SFBs to witness strong growth due to following reasons: (i) large customer base, owing to experience in the MFI industry over the years, SFBs have access to large customer segment, both, agriculture and non-agriculture. Large set of such loans would classify under PSL and customers would get subsidies. This would help SFBs cater customers by providing gold loans at competitive interest rates as compared to gold loan NBFCs; (ii) greater accessibility of SFBs will enable them to penetrate the gold loan segment due to their ability or past experience to serve non-bankable and underbanked customers in tier III and tier IV cities. SFBs will therefore be able to capture market share in the organized market and also increase the share of organized financiers in the industry by catering to untapped customers in remote regions.

Affordable housing loan (Ticket size < Rs. 2.5 million)

Affordable Housing Loans are expected to increase at a CAGR of approximately 9% to 10% till Fiscal 2022

The affordable housing loan segment has grown at a CAGR of 12% from Fiscal 2016 to Fiscal 2019. As of March 31, 2019, the outstanding loans were approximately Rs. 8.5 trillion, having grown from 11% from approximately Rs. 7.7 trillion as of March 31, 2018. The affordable housing loan is further expected to increase by approximately 9% to 10% until Fiscal 2022. Loans with ticket sizes from Rs. 1 million to Rs. 2.5 million are expected to grow faster than the low cost housing finance loans below Rs. 1 million.

Low mortgage penetration and increasing lender interest to lead growth

While the mortgage-to-GDP ratio in India is very low at 12.4% as of March 31, 2019, mortgage penetration in affordable housing is considered to be even smaller. Due to the burgeoning traditional mortgage finance market, a few commercial banks have entered the affordable housing market. These banks tend to offer long-term mortgage loans, which extend to 20 years and require down payment between 10% and 30% of the home value, pay slips, and legal title to property. Even at such levels, affordable housing loan penetration in India is expected to remain lower than in developed markets, such as, the United States and developing countries, such as, China.

Used Commercial Vehicle Financing

The used-CV finance market recorded strong growth till Fiscal 2015, supported by demand from small-fleet operators and first time users, and rising need for freight transport, healthy profitability and availability of finance. However, in Fiscals 2016 and 2017, the growth was muted. The disbursement growth slowed due to poor fleet demand from customers owing to slowdown in economic growth that resulted in low capacity utilization of existing fleet of the transport operators, making it challenging for operators to pass on the increase in operating costs, leading to a rise in delinquencies and, consequently, higher credit costs for NBFCs. Also, the replacement cycle of large-fleet operators has stretched to almost five years from an average of four years owing to lack of visibility on contracts and existing unutilized capacities. In Fiscal 2018 and Fiscal 2019, the loan disbursement for purchase of used commercial vehicles grew at approximately 17% and 10% respectively. The used medium and heavy commercial vehicle segment has witnessed faster growth than light commercial vehicles because of increasing demand from road and mining sector along with a stricter implementation of the overloading ban. The growth rate is expected to remain stable over the next two fiscals as the proportion of vehicles coming into financing remains low. In the backdrop of BS-VI transition, financing is expected to be stronger for the medium and heavy commercial vehicle segment on expectations of a greater volume of vehicles entering the vehicle segment. The transport operators are likely to shift towards cheaper BS-IV vehicles because of a rise in prices of new BS-VI vehicles.

New Commercial Vehicle (CV) Finance

CV sales volume witnessed a slowdown in growth in Fiscal 2019. Sales volumes grew by 18.6% as against 25.3% in the previous fiscal. In July 2018, the central government revised axle norms, which aided an increase in the freight carrying capacity of existing CVs, thereby reducing the demand for purchase of additional CVs, in turn impacting sales. The purchasing pattern of small fleet operators is unlikely to differ significantly due to this move as they already overload their CVs by approximately 30% to 40%. However, stringent implementation of the ban on overloading is expected to push these operators towards new purchases, leading to higher sales demand from such players. Within the segments, sales volume of light commercial vehicles (LCVs) witnessed slowdown in growth to approximately 21% in Fiscal 2019 from approximately 29% in the preceding fiscal. This can be attributed to the new axle norms which curtailed additional purchase demand, coupled with the rising interest rates charged by the financiers post the liquidity crunch. Sales volumes are expected to decline by 15% in Fiscal 2020, before increasing by approximately 6% in Fiscal 2021. Average prices for LCVs grew by approximately 5% in Fiscal 2019 on account of changing product mix. Prices of LCVs are expected to witness a muted 1.7% increase in Fiscal 2020. However, BS-VI implementation from April 2020 is expected to increase prices of LCVs by approximately 9% in Fiscal 2021.

MSME finance

MSME financing includes secured non-LAP loans like working capital loans (cash credit, overdraft facility and bill discounting), other asset backed or hypothecated loans and unsecured MSME loans, and amounted to Rs.12.78 trillion outstanding as at the end of Fiscal 2019. It grew by 7.5% year-on-year over the previous fiscal when the outstanding loans were approximately Rs.11.8 trillion. The MSME sector contributes to country's socio-economic development by providing large employment opportunities in rural and backward areas, thereby reducing regional imbalances and assuring equitable distribution of wealth. With increased focus on easing the loan process for MSMEs and more focus on reporting transactions and reforms like GST, formal lending channels are expected to grow further.

Key Concerns:

- The continuing impacts of COVID-19 are highly unpredictable and could be significant, and may have an adverse effect on the business, operations and future financial performance.
- ESFBL is subject to stringent regulatory requirements and prudential norms and inability to comply with such laws, regulations and norms may have an adverse effect on the business, results of operations, financial condition and cash flows.
- Business is vulnerable to interest rate risk, and any volatility in interest rates or inability to manage interest rate risk could adversely affect the Net Interest Margins, income from treasury operations, business, financial condition, results of operations and cash flows.
- ESFBL has a limited operating history as an SFB and its future financial and operational performance cannot be evaluated on account of evolving and growing scale of operations.
- Any adverse developments in the segments ESFBL operates in, including small business loans, microfinance and vehicle finance could adversely affect the business and results of operations.
- ESFBL has a continuous requirement of funds and its inability to access sources of funds in an acceptable and timely manner or any disruption in the access to funds would adversely impact the results of operations, financial condition and cash flows.
- A significant portion of advances are towards customers located in the State of Tamil Nadu and any adverse changes in the conditions affecting the region can adversely impact the business, financial condition, results of operations and cash flows.
- ESFBL deposits depend on a limited number of customers and a loss of such customers could materially and adversely affect its deposit portfolio, funding sources, financial condition, results of operations and cash flows
- The value of collateral may decrease or it may experience delays in enforcing collateral when borrowers default on their obligations, which may result in failure to recover the expected value of collateral security exposing it to potential loss.
- ESFBL microfinance loan portfolio and unsecured business loans portfolio are not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, it may be unable to collect the unpaid balance.

- ESFBL has significant exposure to loans against property. It may not be able to realize the expected value of the collateral on loans due to fluctuating real estate prices and/ or enforce the security in a timely manner or at all in the event of default and this may have a material adverse effect on its business, results of operations, financial condition and cash flows.

- An inability to obtain, renew or maintain its statutory and regulatory permits and approvals required to operate its business may adversely impact the business, financial condition, results of operation and cash flows.

- If ESFBL is not able to control the level of non-performing assets in its portfolio or if there is an increase in RBI mandated provisioning requirements, it could adversely affect the business, financial conditions, results of operations and cash flows.

- Non-compliance with RBI inspection/ observations or other regulatory requirements may have a material adverse effect on its business, financial condition or results of operation. Any adverse observations from such regulators could have a material adverse effect on the business, financial condition, results of operation and cash flows.

- ESFBL has recently introduced new products and services and it cannot be assure that such products and services will be profitable in the future.

- Operations involve handling significant amounts of cash, making susceptible to operational risks, including fraud, petty theft and embezzlement, which could harm results of operations and financial position.

- Rely extensively on and upgrade information technology systems and any disruptions in such systems, or breach of data, could adversely affect the operations and reputation. Further, its success depends on its ability to respond to new technological advances.

- ESFBL depends on its brand recognition, and failure to maintain and enhance awareness of its brand would adversely affect the ability to retain and expand its base of customers.

- ESFBL may face asset liability mismatches, which could affect liquidity and consequently may adversely affect its operations and profitability.

- Inability to expand network of Banking Outlets or manage infrastructure or to attract new customers may adversely affect the business, results of operations, financial condition and cash flows.

- Certain AIFs and their schemes, wherein the associate entities of IIFL Securities Limited (one of the BRLMs) act as sponsor or investment manager, hold Equity Shares in the Bank.

- Negative cash flows from operating activities in the future could adversely affect cash flow requirements, ability to operate business and implement growth plans, thereby affecting the financial performance.

- Risk management measures may not be fully effective in mitigating its risks in all market environments or against all types of risks, which may adversely affect the business and financial performance.

- ESFBL may not be able to detect money-laundering and other illegal or improper activities in a comprehensive manner or on a timely basis, which could expose it to additional liability and harm the business or reputation.

- The Indian banking industry is very competitive and growth strategy depends on ESFBL’s ability to compete effectively.

- Inability to grow CASA deposits and CASA ratio may result in higher cost of deposits and impact financial condition and cash flows.

- Operations depend on the accuracy and completeness of information about customers and counterparties which if inaccurate or materially misleading could adversely affect the business and results of operations.

- ESFBL undertakes certain fee and commission-based activities and its financial performance may be adversely affected by an inability to generate income from such activities.

- The success of business operations is dependent on senior management team and key management personnel as well as its ability to attract, train and retain such employees.

- Changes in environmental, tax or other laws may lead to a decline in the sale of vehicles or value of vehicles as a collateral, which could adversely affect the business, results of operations and prospects
- Weakness or failures of internal control system may cause significant operational errors, which may in turn materially and adversely affect the business.
- ESFBL's operations could be adversely affected by strikes, work stoppages or increased wage demands by its employees or any other kind of disputes with its employees.
- Any downgrade of credit ratings could adversely affect the business.
- Any future hedging strategies may not be successful in preventing all risk of losses.
- ESFBL's business is subject to seasonality, which may contribute to fluctuations in its results of operations and financial condition.
- ESFBL will continue to be controlled by Promoter immediately after the completion of the Offer.
- Any deterioration in the general economic conditions in India and globally could adversely affect the business and results of operations.
- If there is any change in tax laws or regulations, or their interpretation, such changes may significantly affect the financial statements for the current and future years.
- A significant change in the Government of India's economic liberalization and deregulation policies could adversely affect the business and the price of Equity Shares.
- Financial difficulty and other problems in certain financial and other non-banking financial institutions in India could materially adversely affect the business and the price of Equity Shares.
- Any adverse change in India's credit rating by an international rating agency could materially adversely affect the business and profitability.
- Fluctuation in the exchange rate between the Indian Rupee and foreign currencies may have an adverse effect on the value of Equity Shares, independent of operating results.

Balance Sheet

Particulars (Rs in million)	Q1FY21	FY20	FY19	FY18
CAPITAL AND LIABILITIES				
Capital	10534.0	10534.0	10059.4	10059.4
Reserves and Surplus	17484.2	16907.5	12483.8	10378.1
Deposits	117871.3	107884.1	90067.4	56039.7
Borrowings	55,255.34	51,348.74	39,730.26	51,772.08
Other Liabilities and Provisions	7,776.58	6,471.19	5,286.11	4,762.17
TOTAL	**208921.4**	**193145.5**	**157626.9**	**133011.5**
ASSETS				
Cash and Balances with Reserve Bank of India	4,290.23	3,808.64	4,027.04	3,860.81
Balances with Banks and Money At Call and Short Notice	14,965.45	21,559.79	8,579.12	8,250.84
Investments	34,785.77	23,425.06	23,444.54	38,568.41
Advances	143,886.20	137,472.42	115,935.65	77,060.29
Fixed Assets	1,976.64	2,127.69	2,373.36	2,808.83
Other Assets	9,017.10	4,751.87	3,267.20	2,462.32
TOTAL	**208,921.39**	**193,145.47**	**157,626.91**	**133,011.50**
Contingent Liabilities	192.14	269.79	327.23	331.45

(Source: RHP)

Profit & Loss

Particulars (Rs in million)	Q1FY21	FY20	FY19	FY18
INCOME				
Interest earned	7213.1	26454.4	21119.3	15316.9
Other income	296.6	2823.5	2829.0	2412.2

TOTAL	**7509.7**	**29278.0**	**23948.3**	**17729.0**
EXPENDITURE				
Interest expended	3170.3	11501.4	9602.0	6711.5
Operating expenses	2919.2	11800.8	10084.9	8811.1
Provisions and contingencies	843.5	3539.4	2155.8	1888.1
TOTAL	**6933.0**	**26841.6**	**21842.7**	**17410.7**
PROFIT	**576.7**	**2436.4**	**2105.7**	**318.3**
APPROPRIATIONS				
Statutory reserves	0.0	609.1	526.4	79.6
Special reserve account	0.0	48.3	26.4	6.7
Investment Reserve	0.0	0.0	0.0	23.0
Investment Fluctuation Reserve	0.0	27.6	84.3	0.0
Balance carried over to Balance Sheet	576.7	1751.3	1468.6	209.1
TOTAL	**576.7**	**2436.4**	**2105.7**	**318.3**
Equity	10534.0	10534.0	10059.4	10059.4
FV	10.0	10.0	10.0	10.0
EPS	0.5	2.3	2.1	0.3

(Source: RHP)

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