



ESAF SMALL FINANCE BANK

Joy of Banking



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ESAF SMALL FINANCE BANK

Our Bank was incorporated as 'ESAF Small Finance Bank Limited' on May 5, 2016 at Thrissur, Kerala, as a public limited company under the Companies Act, 2013, and was granted the certificate of incorporation by the Registrar of Companies, Kerala at Ernakulam ("RoC"). Our Promoter, ESAF Financial Holdings Private Limited, was granted in-principle approval to establish a small finance bank ("SFB"), by the RBI, pursuant to its letter dated October 7, 2015. Subsequently, our Bank received the final approval to carry on the SFB business in India, pursuant to a letter dated November 18, 2016 issued by the RBI. Our Bank commenced its business with effect from March 10, 2017 and was included in the second schedule to the RBI Act pursuant to a notification dated November 12, 2018 issued by the RBI. For further details, see "History and Certain Corporate Matters" on page 241 of the red herring prospectus dated October 28, 2023 ("RHP" or "Red Herring Prospectus").

Corporate Identity Number: U65990KL2016PLC045669
Registered and Corporate Office: Building No. VII/83/8, ESAF Bhavan, Thrissur-Palakkad National Highway, Mannuthy, Thrissur 680 651, Kerala, India; Tel: +91 487 7123 907; Website: www.esafbank.com; Contact Person: Ranjith Raj P, Company Secretary and Compliance Officer; E-mail: investor.relations@esafbank.com;

OUR PROMOTERS: KADAMBELIL PAUL THOMAS AND ESAF FINANCIAL HOLDINGS PRIVATE LIMITED

INITIAL PUBLIC OFFER OF UP TO [•] EQUITY SHARES OF FACE VALUE OF ₹ 10 EACH ("EQUITY SHARES") OF ESAF SMALL FINANCE BANK LIMITED ("BANK" OR "ISSUER") FOR CASH AT A PRICE OF ₹ [•] PER EQUITY SHARE (INCLUDING A SHARE PREMIUM OF ₹ [•] PER EQUITY SHARE) AGGREGATING UP TO ₹ 4,630.00 MILLION (THE "OFFER") COMPRISING A FRESH ISSUE OF UP TO [•] EQUITY SHARES AGGREGATING UP TO ₹ 3,907.00 MILLION (THE "FRESH ISSUE") AND AN OFFER FOR SALE OF UP TO [•] EQUITY SHARES AGGREGATING UP TO ₹ 723.00 MILLION (THE "OFFER FOR SALE"), COMPRISING UP TO [•] EQUITY SHARES AGGREGATING UP TO ₹ 492.60 MILLION BY THE PROMOTER SELLING SHAREHOLDER (AS DEFINED HEREUNDER), AND UP TO [•] EQUITY SHARES AGGREGATING UP TO ₹ 126.70 MILLION BY PNB METLIFE INDIA INSURANCE COMPANY LIMITED AND UP TO [•] EQUITY SHARES AGGREGATING UP TO ₹ 103.70 MILLION BY BAJAJ ALLIANZ LIFE INSURANCE COMPANY LIMITED (THE "OTHER SELLING SHAREHOLDERS" AND TOGETHER WITH THE PROMOTER SELLING SHAREHOLDER, THE "SELLING SHAREHOLDERS", AND SUCH EQUITY SHARES THE "OFFERED SHARES").

THE OFFER INCLUDES A RESERVATION OF UP TO [•] EQUITY SHARES, AGGREGATING UP TO ₹ 125.00 MILLION (CONSTITUTING UP TO [•]% OF THE POST-OFFER PAID-UP EQUITY SHARE CAPITAL), FOR SUBSCRIPTION BY ELIGIBLE EMPLOYEES ("EMPLOYEE RESERVATION PORTION"). THE OFFER LESS THE EMPLOYEE RESERVATION PORTION IS HEREINAFTER REFERRED TO AS THE "NET OFFER". THE OFFER AND THE NET OFFER SHALL CONSTITUTE [•]% AND [•]%, RESPECTIVELY, OF THE POST-OFFER PAID-UP EQUITY SHARE CAPITAL OF OUR BANK.

DETAILS OF THE OFFER FOR SALE BY THE SELLING SHAREHOLDERS			
NAME OF THE SELLING SHAREHOLDERS	TYPE	NUMBER OF EQUITY SHARES OFFERED/ AMOUNT (IN ₹ MILLION)	WACA (IN ₹ PER EQUITY SHARE)*
ESAF Financial Holding Private Limited	Promoter Selling Shareholder	Up to [•] Equity Shares of face value of ₹ 10 each aggregating up to ₹ 492.60 million	10.11
PNB Metlife India Insurance Company	Other Selling Shareholder	Up to [•] Equity Shares of face value of ₹ 10 each aggregating up to ₹ 126.70 million	40.07
Bajaj Allianz Life Insurance Company Limited	Other Selling Shareholder	Up to [•] Equity Shares of face value of ₹ 10 each aggregating up to ₹ 103.70 million	40.07

WACA: Weighted average cost of acquisition on fully diluted basis *As certified by A. John Moris & Co., Chartered Accountants pursuant to their certificate dated October 28, 2023.

We are a small finance bank headquartered in Kerala provides micro, retail and corporate banking, para banking activities such as debit card, third party financial product distribution, in addition to treasury and permitted foreign exchange business.

The Offer is being made through the Book Building Process in accordance with Regulation 6(1) of the SEBI ICDR Regulations.

- QIB Portion: Not more than 50% of the Net Offer | Non-Institutional Portion: Not less than 15% of the Net Offer | Retail Portion: Not less than 35% of the Net Offer
- Employee Reservation Portion: Upto [•] Equity Shares aggregating up to ₹125.00 Million

PRICE BAND: ₹ 57 TO ₹ 60 PER EQUITY SHARE OF FACE VALUE OF ₹ 10 EACH

THE FLOOR PRICE IS 5.70 TIMES THE FACE VALUE OF THE EQUITY SHARES AND THE CAP PRICE IS 6.00 TIMES THE FACE VALUE OF THE EQUITY SHARES

THE PRICE TO EARNING RATIO BASED ON DILUTED EPS FOR FISCAL 2023 AT THE FLOOR PRICE IS 8.49 TIMES AND AT THE CAP PRICE IS 8.94 TIMES

BIDS CAN BE MADE FOR A MINIMUM OF 250 EQUITY SHARES AND IN MULTIPLES OF 250 EQUITY SHARES THEREAFTER

A DISCOUNT OF ₹ 5 PER EQUITY SHARE IS BEING OFFERED TO ELIGIBLE EMPLOYEES BIDDING IN THE EMPLOYEE RESERVATION PORTION

In accordance with the recommendation of Independent Directors of our Bank, pursuant to their resolution dated October 30, 2023, the above provided price band is justified based on quantitative factors/ KPIs disclosed in the 'Basis for Offer Price' section of the RHP vis-a-vis the weighted average cost of acquisition ("WACA") of primary and secondary transactions, as applicable, disclosed in the 'Basis for Offer Price' section on page 130-149 of the RHP.

In making an investment decision, potential investors must only rely on the information included in the Red Herring Prospectus and the terms of the Offer, including the risks involved and not rely on any other external sources of information about the Offer available in any manner.

RISKS TO INVESTORS:

- Our business is concentrated in Kerala and Tamil Nadu. As at June 30, 2023, 43.43% and 13.86% of our banking outlets were in Kerala and Tamil Nadu, respectively, 43.45% and 22.14% of our gross advances were from customers in Kerala and Tamil Nadu, respectively, and 80.04% and 3.36% of our deposits were from banking outlets in Kerala and Tamil Nadu, respectively. Any adverse change in the economies of those states, could have an adverse effect on our financial condition, results of operations and cash flows.
- As at June 30, 2023, and March 31, 2023, 2022 and 2021, 75.15%, 75.35%, 83.59% and 85.50% of our advances (net of provisions) were unsecured advances, respectively. If we are unable to recover such advances in a timely manner or at all, our financial condition, results of operations and cash flows may be adversely affected.
- As at March 31, 2023, we were in non-compliance with 17 out of the 272 Risk Based Supervision Tranche III requirements and if the Reserve Bank of India imposes penalties on us for this non-compliance, it could adversely affect our reputation, business, financial condition, results of operations and cash flows.
- As at June 30, 2023 and March 31, 2023, 2022 and 2021, 74.70%, 75.04%, 81.16% and 84.80%, respectively, of our advances under management were Micro Loans. Any decrease in demand for our Micro Loans could adversely affect our business, financial condition, results of operations and cash flows.
- Under the provisions of the SFB Licensing Guidelines, the RBI In-Principle Approval and the RBI Final Approval, the Equity Shares are required to be mandatorily listed on a stock exchange in India within three years from the date our Bank reached a net worth of ₹5.00 billion, which we reached on July 31, 2018. Therefore, the Equity Shares were required to be listed on a stock exchange in India before July 31, 2021, which we did not comply with. We could be subject to various sanctions and penalties by the Reserve Bank of India (RBI) for failing to comply with this requirement. The RBI pursuant to its letter June 9, 2023 observed that our Bank continued to be in violation of the listing deadline and directed our Bank to ensure that the Equity Shares are listed by November 30, 2023.
- We are currently in non-compliance with certain major observations of the RBI noted in its regular inspection reports, which we are in the process of rectifying. These major observations include integrate our treasury system with our core banking solution; ensure completion of re-KYC of pending accounts with a particular focus on high-risk customers; ensure that KYC details of pending current and legacy accounts are uploaded to the Central Know Your Customer Registry within the defined timespan; implement an automated asset liability management system; implement system-level controls to ensure customers with a Basic Saving Bank Deposit account are restricted from opening another savings bank account with us; and ensure that our various forms for customers are printed in tri-lingual form and shall include the option of a third gender. Any significant deficiencies identified by the RBI in a final inspection report or other observations made that we are unable to rectify to the RBI's satisfaction could lead to sanctions and penalties being imposed by the RBI on our Bank, which could materially and adversely affect our reputation, business, financial condition, results of operations and cash flows.
- Our business is significantly dependent on our business correspondents. Our business correspondents sourced or serviced 74.75%, 75.53%, 83.35% and 84.78% of our gross advances as at June 30, 2023, and March 31, 2023,

- 2022 and 2021. Our income contributed by business correspondents represented 77.13%, 79.02%, 76.06%, 77.93% and 80.97% of our total income for the three months period ended June 30, 2023 and 2022 and Fiscals 2023, 2022 and 2021, respectively. If any of our business correspondents prefer to promote our competitors' loans over our loans or the agreements between us and them are terminated or not renewed, it would adversely affect our business, financial condition, results of operations and cash flows.
- The attrition rate of our employees was 3.87% (not annualized), 5.66% (not annualized), 24.07%, 20.07% and 13.03% for the three months period ended June 30, 2023 and 2022 and Fiscals 2023, 2022 and 2021, respectively. If the attrition rate of our employees continues to increase our payments to and provisions for employees could increase, which could have an adverse effect on our financial condition, results of operations and cash flows.
- The majority of our customers' complaints relate to (i) internet banking, mobile banking and electronic banking and (ii) transaction disputes related to withdrawal of cash from ATMs through ATM cards and disputes related to debit card transactions carried out at the merchant through point-of-sale machines. If we are unable to resolve our customers' complaints to their satisfaction, they may decide to no longer bank with us, which could have an adverse effect on our business, financial condition, results of operations and cash flows.
- The gross proceeds of the Offer are up to ₹4,630.00 million, which includes the gross proceeds of the Offer for Sale by the Selling Shareholders of up to ₹723.00 million, which represents 15.62% of the gross proceeds of the Offer. Our Bank will not receive any proceeds from the Offer for Sale.
- Average cost of acquisition of Equity Shares for the Selling Shareholders namely, ESAF Financial Holdings Private Limited is ₹10.11, PNB MetLife India Insurance Company Limited is ₹40.07 and Bajaj Allianz Life Insurance Company Limited is ₹40.07 and Offer Price at upper price Band is ₹60.00.
- Weighted average cost of acquisition of all Equity Shares transacted in one year, 18 months and three years preceding the date of the Red Herring Prospectus:

Period	Weighted average cost of acquisition per Equity Share (in ₹)	Upper end of the price band (₹60) is 'X' times the weighted average cost of acquisition	Range of acquisition price: Lowest price – Highest price (in ₹)*
Last one year	Nil	NA	NA
Last 18 months	Nil	NA	NA
Last three years	75	0.80	Highest - 75 Lowest - 75

*As certified by A. John Moris & Co., Chartered Accountants pursuant to their certificate October 30, 2023

- Weighted average cost of acquisition compared to Floor Price and Cap Price:

Past Transactions	Weighted average cost of acquisition (in ₹)*	Floor Price (in ₹)	Cap Price (in ₹)
WACA of past five primary /secondary transactions	75.00	0.76 times	0.80 times

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