Rating Rationale

17 Aug 2026

ESAF Small Finance Bank Ltd.

Brickwork Ratings upgrades the rating for the Tier II bonds (under Basel III) aggregating to Rs. 20.00 Crores of ESAF Small Finance Bank Ltd.

Particulars:

<table>
<tr><th rowspan="2">Instruments</th><th colspan="2">Amount Rs. Crs.</th><th rowspan="2">Tenure</th><th colspan="2">Rating</th><th></th></tr>
<tr><th>Previous</th><th>Present</th><th>Previous
(19 Aug 2025)</th><th>Present</th><th>Regulator</th></tr>
<tr><td>Tier II bonds (under Basel III)</td><td>20.00</td><td>20.00</td><td>Long Term</td><td>BWR BBB+/ Stable/ Downgraded</td><td>BWR A-/ Stable (Upgraded)</td><td>SEBI</td></tr>
<tr><td>Total</td><td>20.00</td><td>20.00</td><td colspan="3">Rupees Twenty Crores Only</td><td></td></tr>
</table>

*Please refer to the BWR website **www.brickworkratings.com/** for the definition of the ratings
** Details of bonds rated are provided in Annexure-II

RATING ACTION/OUTLOOK: UPGRADE/STABLE
Brickwork Ratings (BWR) upgrades the long-term rating at BWR A-/ Stable for the Tier II bonds (under Basel III) of Rs 20.00 Crores of ESAF Small Finance Bank Ltd.(Bank or ESAF SFB), as tabulated above.

BWR has principally relied on the Banks' audited financials up to FY26, limited published financial results of the Bank for Q1FY27, estimates/ projections for the ensuing two years, publicly available information, and information/clarifications provided by the Bank.

The rating upgrade necessarily factors in the improved asset quality over the past few quarters, after a sharp declining trend till Q2FY26. The Gross NPA ratios since then have been improving towards 5% levels, and the Net NPA ratios were already below 1% levels, as of 30 Jun 2026. The Bank had incurred a net loss of Rs. 166 Crores for FY26, due to concerns in asset quality impacting the earnings profile till H1FY26. The Bank has since then strategised and managed its asset profile, resulting in generation of net profits over the past few quarters, and it earned net profit after tax of Rs. 80 Crores for the quarter ended 30 Jun 2026. The Bank has adopted a cautious approach to its disbursements to the microfinance industry (MFI) sector and has been gradually strengthening it exposure to the non-microfinance sector.

The Bank's total capital adequacy ratio was maintained above the 20% level, and was above the minimum regulatory requirements. The Bank continues to be supported by a steady capital infusion to sustain the capitalization levels and maintain low gearing levels, with adequate liquidity to meet its near- to medium-term obligations. The Bank continues to be supported by the promoters and an experienced board and management team.

BWR shall monitor the developments in the Bank with respect to the improvement in collections and disbursements vis-à-vis the improvement in the loan book mix, and its impact on the asset quality and profitability. BWR maintains a stable outlook in view of the expectations of further improvement in the asset quality over the next few quarters, and its effect on the bank's performance to improve upon its overall credit risk profile.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:
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, 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 23.90% as of 30 June 2026, improved from 22.20% as of 31 March 2026, and its Tier I ratio was 15.90% as of 30 June 2026 against 14.70% as of 31 March 2026, comfortably above the minimum regulatory requirement for SFBs, 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 Crores through the Initial Public Offering (IPO). The Bank has raised Non-Convertible Debentures (Tier II Subordinated Bonds) on a private placement basis of Rs. 415 Crores during FY 25-26 and Rs. 85 Crores during Q1 FY27. The Bank is also planning to strengthen its capitalisation levels through further capital infusion during the next one year.

Strong Board and Management
Shri Karthikeyan Manickam, Chairman, has extensive exposure to corporate office and field-level banking during his professional journey of over 36 years. He was the Executive Director of Bank of India for a period of four (4) years from March 10, 2021 to March 31, 2025 and was involved in strategizing, framing enablers as policies and had supervised and handled portfolios such as Compliance, Risk Management, Inspection and Audit, Credit Monitoring, Resources Mobilization, Financial Inclusion, Retail, Agriculture and MSME Financing, Recovery, Stressed Assets Resolutions, Government Business, Publicity, Bancassurance, CSR, Marketing etc. Prior to the same, he was posted as General Manager (Corporate Development Officer) in Indian Bank, and he took over the HRM functions at a crucial phase, post amalgamation of Allahabad Bank with Indian Bank. He has also worked as the Field General Manager in Indian Bank, controlling eight zones. He has also worked as Zonal Manager of Dharmapuri, Pune and Chennai North Zones. He was also on the Board of Tamil Nadu Grama Bank, which was formed as a merged entity of two RRBs, namely Pandian Grama Bank, a subsidiary of Indian Overseas Bank, and Pallavan Grama Bank, a subsidiary of Indian Bank.

Portfolio De-risking & Structural Shift (MARG Strategy)
Secured advances increased to 62% of total advances in Q1FY27, up from 59% in Q1FY26. The MARG (MSME, Agriculture, Retail, Gold) portfolio expanded by 42% YoY to Rs. 12,909 Crores, accounting for 56% of total gross advances (up from 22% in March 2024). Legacy group microfinance loans dropped 58% YoY to Rs. 2,362 Crores (representing only ~10% of total advances compared to ~31% in Q1FY26), reflecting a deliberate strategic pivot toward the Emerging Household (EH) segment and secured assets.

Substantial Asset Quality Clean-Up
Net NPA dropped to 0.8% (Rs. 184 Crores) in Q1FY27 from 3.8% (Rs. 661 Crores) in Q1FY26 and 1.8% (Rs. 382 crore) in Q4FY26. Provision Coverage Ratio (PCR) surged to 85.5% in Q1FY27 compared to 73.2% in Q1FY26 and 80.5% in Q4FY26. Fresh NPA additions slowed down substantially to Rs. 74.7 Crores in Q1FY27, down from Rs. 468.1 Crores in Q1FY26.

Credit Risks:-

CASA drift and Yield compression -
The low and declining CASA ratio (23.4%) increases vulnerability to deposit re-pricing and tightens borrowing margins. Decreasing Yield on Advances requires tight credit cost management to sustain current Net Interest Margins (7.9%).

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 overall 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. 60% of the Banking Outlets network is in South India. While the Bank operates in 26 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 59% of the total gross advances as of June 2026.

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 is reflected in the Bank's various financial parameters such as RoA, yield on advances, NIM and cost-to-income ratio.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA: STANDALONE
For arriving at its ratings, BWR has considered the standalone approach for the Company. BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES
Going forward, the company's ability to show substantial growth in its loan portfolio, while maintaining asset quality, profitability, and adequate liquidity, will be a key rating sensitivity factor.

Positives:

- The rating could be upgraded if the Bank significantly improves its asset quality better than the industry average, with a sustained improvement in GNPA ratios below 4%, scales up its business operations across advances and deposits, improves the CASA ratios, and improves profitability over and above the projected levels for FY27.
- 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 GNPA above 7% .
- Decline in CRAR below 17%, substantial fall in AUM resulting in weakening profitability metrics could result in downgrade of the rating and/or outlook.

LIQUIDITY INDICATORS: ADEQUATE
The Bank had cash and bank balances of Rs. 1093.35 Crores as of 30 June 2025. As of 31 Mar 2026, LCR stood at 140%, leverage ratio stood at 5.37%, and NSFR stood at 165.26%. They were all above the regulatory requirements. The company has yet to make its disclosures to the aforesaid for the period ending 30 June 2026. Additionally, the Bank's loan portfolio consists of small tenured loans, which enhances the liquidity condition.

ENVIRONMENTAL, SOCIAL, GOVERNANCE - ESG PRACTICES - ADEQUATE
The company demonstrates an adequate ESG profile based on its environmental, social, and governance practices. The ESG profile for financial sector entities typically factors governance as a key differentiator.

Environmental: Environmental evaluation considers lending restrictions on environmentally sensitive sectors and the extent of support for green or sustainable financing products.

Social: Social assessment covers employee welfare initiatives, diversity and inclusion practices (women workforce 26.4%), and financial-inclusion measures. Customer service and grievance-resolution systems, data privacy and information-security measures, and community development or CSR initiatives.

Governance: Governance analysis includes the effectiveness of investor and stakeholder grievance-redressal mechanisms, the structure and independence of the board (with 55.56% independent directors and maximum tenure of 10 years (2 consecutive terms of 5 years each), adherence to regulatory and ethical standards, and workforce-governance policies promoting fairness and equity.

The company demonstrates a satisfactory ESG profile, supported by its environmental, social, and governance practices. For financial sector entities, governance remains a key differentiating factor within the ESG framework, and the company has taken steps to strengthen its sustainability and governance processes. Overall, the company's ESG initiatives and governance practices provide comfort regarding its long-term sustainability and stakeholder orientation.

BANK PROFILE

ESAF Small Finance Bank Ltd (ESAF SFBL) was incorporated in May 2016, received the final license from RBI on Nov 18, 2016 to establish a Small Finance Bank (SFB), and started its commercial operations in Mar 2017. On 27 Dec 2018, it received "Scheduled Commercial Bank" status from RBI. ESAF SFB is promoted by Mr. K Paul Thomas, CEO and Managing Director, who is also the founder of ESAF group. He has over 34 years of industry experience, of which more than 24 years are in the microfinance sector.

As of 30th June 2026, ESAF Small Finance Bank has a network of 821 branches, 721 ATMs and 1,064 Customer Service Centres across 24 States and 2 Union Territories with a customer base of more than 1 Crore and 11,021 employees.

KEY FINANCIAL INDICATORS (Standalone)

Particulars	Units	FY24 Audited	FY25 Audited	FY26 Audited	Q1FY27 Unaudited
Gross Advances	Rs. Crores	18,772	18,779	22426	23216
Total Deposits	Rs. Crores	19,868	23276	25850	26924
PAT	Rs. Crores	426	-521.4	-166	80
Gearing	Times	0.8	0.56	0.46	0.96
CRAR	%	23.3	21.8	22.20	23.90
GNPA	%	4.8	6.9	5.6	5.4

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Sr. No.	Name of the instrument	Current Rating 2026			Rating History			
		Type	Amount (Rs Cr)	Rating	2025	2024	2023	2022
1	Tier II Bonds (under Basel III)	Long Term	20.00	**BWR A-/ Stable/ (Upgraded)**	BWR BBB+/ Stable/ **(Downgraded)** Rs.20 Crores	**04-Oct-2024** BWR A-/Stable /removal from ISSUER NOT COOPERATING* Category **(Reaffirmation with Revision in Outlook from Negative to Stable)** Rs.20 Crores **04-Apr-2024** BWR A-/Negative / **ISSUER NOT COOPERATING*/ Downgrade** Rs.20 Crores	-	**30-Dec-2022** BWR A/ Negative **(Reaffirmed)** Rs. 20 Crores **Withdrawn** on non-utilization Rs. 280 Crores **18-Mar-2022** BWR A/ Negative **(Assignment)** Rs. 300 Crores **Withdrawn** on redemption: Unsecured NCD Rs. 50 Crores
	Total		**20.00**		**Rupees Twenty Crores Only**			

Note- **Unsecured NCDs of Rs. 50 Cr was withdrawn on redemption in March 2022, and Rs.280 Cr was withdrawn on non-utilization in Dec 2022.**

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: None from other CRA

COMPLEXITY LEVELS OF THE INSTRUMENTS: Highly Complex
For more information, visit **http://www.brickworkratings.com/download/ComplexityLevels.pdf**

Hyperlink/Reference to applicable Criteria

- General Criteria
- Bank Financial Institution
- Approach to Financial Ratios
- Capital Instruments Issued by Banks and FIs

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ESAF SMALL FINANCE BANK

ANNEXURE-I
Details of Bank Loan Facilities rated by BWR: NA

ANNEXURE-II
INSTRUMENT (Bonds) DETAILS

Instrument	**Issue Date**	**Amount (Rs. Cr.)**	**Coupon Rate (%)**	**Maturity Date**	**ISIN**	**Complexity@**
Tier II Bonds (under Basel III)	31 Mar 2022	20.00	11.25%	30 Apr 2032	INE818W08081	Highly Complex

@http://www.brickworkratings.com/download/ComplexityLevels.pdf

ANNEXURE III
List of entities consolidated: NA

Annexure IV : List of instruments and names of regulators of the instruments

A.	Rating activities	
Sr. No.	Instrument/activity Name	Regulator of the instruments
1	Listed/Proposed to be listed bonds/debentures/preference shares (all securities)	SEBI
2	Unlisted/Proposed to be unlisted Bonds/Debentures/ Preference share (all securities)	MCA
3	Listed PTCs / Securitisation Notes (originated by entities regulated by RBI)* $	RBI
4	Listed PTCs / Securitisation Notes (originated by entities not regulated by RBI)*	SEBI
5	Unlisted PTCs / Securitisation Notes (originated by entities regulated by RBI)*	RBI
6	Listed Commercial Paper and NCDs with original maturity less than 1 year	RBI
7	Unlisted Commercial Paper and NCDs with original maturity less than 1 year	RBI
8	Loan Facilities (Fund/Non-Fund Based) from Bank/NBFCs/NHB/FIs ^	RBI
9	External Commercial Borrowings and other similar borrowings	RBI
10	Certificates of Deposit	RBI
11	Fixed Deposits raised by NBFCs,HFCs, FIs	RBI
12	Fixed Deposits raised by corporates other than NBFCs, Banks, HFCs, FIs	MCA
13	Inter Corporate Deposits/Loans extended by Corporates	MCA
14	Borrowing programme ~	-
15	Issuer Ratings #	-
16	Credit Ratings for Capital Protection Oriented Schemes (by Mutual Funds and AIFs)	SEBI
17	Credit quality ratings (CQRs) for Mutual Fund Schemes and Schemes of AIFs	SEBI
18	Listed Security Receipts $	RBI
19	Unlisted Security Receipts	RBI
20	Independent Credit Evaluation (ICE)	RBI
21	Expected Loss Ratings (Listed/Proposed to be listed bonds/debentures/preference share (all securities))	SEBI
22	Expected Loss Ratings (Unlisted/Proposed to be unlisted Bonds/Debentures/ Preference share (all securities))	MCA
23	Unlisted PTCs / Securitisation Notes (originated by entities not regulated by RBI) *	Investor-side regulator such as IRDAI, PFRDA @

*** Includes securitisation transactions involving assignee payout and acquirer's payout.**
~ The rated instrument may involve issuance of different instruments such as debt securities (listed or otherwise), bank loans, commercial paper (listed or otherwise), etc. The regulator of the instrument may accordingly be SEBI, RBI, or MCA, and can only be determined upon issuance. In PRs subsequent to issuance(s), Brickwork Ratings India Private Limited (BWR) shall separately capture the rated quantum details along with the names of respective regulators.
^ Includes bank facilities such as liquidity facility, second loss facility, which are part of securitisation transactions.
 # There is no instrument being rated, and hence, the Regulator of the Instrument is not applicable. The rating scale and definitions are being followed as stipulated in the SEBI Master Circular for CRAs.

@ These ratings were assigned during the regulatory regime prior to the introduction of SEBI CRA Circular dated Feb 10, 2026, and the investor side regulators have accordingly been included.
$ By virtue of the instrument being listed, SEBI acts as the regulator for listing and related issues.

Note: Kindly note that for activities or instruments falling under the purview of FSRs other than SEBI, the grievance/dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

B	Other Activities	Regulator of the Instruments
1	Monitoring Agencies	SEBI
2	Research activities incidental to rating such as research for Economy, Industries and Companies *	NA

Grievance Management: For any grievances relating to the rating of instruments regulated by SEBI, please contact sebigrievance@brickworkratings.com. Kindly note that for activities or instruments falling under the purview of FSRs other than SEBI, the grievance/dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available

For any grievances relating to the rating of instruments regulated by other FSR (Financial Sector Regulators), please contact **grievance@brickworkratings.com**

DISCLOSURE ON CONFLICT OF INTEREST
BWR Board of Directors have no influence over rating decisions, nor do they sit on the rating committee or review, discuss or evaluate any credit rating during the Board meetings.
About Brickwork Ratings

Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI]. BWR is the 5th agency to get a credit rating registration in India in 2009 and its corporate office in Bengaluru. It has a country-wide presence with representatives in 150+ locations. Canara Bank is Brickwork's strategic partner.

Brickwork offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has also rated NGOs, Educational Institutions, Hospitals, Urban Local Bodies and Municipal Corporations.

Disclaimer

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