ESAF Small Finance Bank Limited

September 01, 2026

Instruments	Name of the Regulator[1]	Amount (₹ crore)	Rating[2]	Rating Action
Lower tier II	SEBI	150.00	CARE A-; Stable	Reaffirmed; Outlook revised from Negative
Lower tier II	SEBI	130.00	CARE A-; Stable	Reaffirmed; Outlook revised from Negative
Lower tier II	SEBI	500.00	CARE A-; Stable	Reaffirmed; Outlook revised from Negative
Tier II bonds	MCA	20.00	CARE A-; Stable	Reaffirmed; Outlook revised from Negative
Certificate of deposit	RBI	500.00	CARE A1	Reaffirmed

Details of instruments in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CareEdge Ratings) has revised the outlook on long-term rating of ESAF Small Finance Bank Limited (ESFBL) to Stable from Negative. Revision reflects material moderation in fresh slippages and asset-quality stress, and the resultant improvement in the Bank's profitability. After five consecutive quarters of losses (from Q2FY25 to Q2FY26), the bank started reporting profits from Q3FY26 and the profits have been growing quarter-on-quarter.

ESFBL's performance was adversely affected in FY25 and H1FY26 by stress in the microfinance portfolio, which resulted in elevated credit costs and interest-income reversals. The bank undertook a significant portfolio clean-up, including the sale of NPAs aggregating ₹1,019 crore to asset reconstruction companies in FY26. Slippages declined sequentially from ₹468 crore in Q1FY26 to ₹75 crore in Q1FY27. Consequently, gross non-performing assets (GNPA) and net NPA (NNPA) moderated to 5.40% and 0.83%, respectively, as on June 30, 2026 (8.54% and 3.83%, respectively, as on September 30, 2025), while net stressed assets to net worth declined to 11.9% (45.9% as on September 30, 2025).

Moderation in slippages, recovery in margins and improved operating efficiency supported a sequential turnaround in profitability with profit after tax (PAT) improving from a loss of ₹116 crore in Q2FY26 to profits of ₹80 crore in Q1FY27 (FY25: -₹521 crore and FY26: -₹166 crore). While return on average total assets (RoTA) increased to 1.04% in Q1FY27, supported by stronger margins and operating leverage, annualised credit cost remained elevated at 3.1%, partly due to additional provisioning. Sustained profitability remains contingent on further moderation in credit costs.

The operating profile has been strengthened by the significant portfolio rebalancing as the share of microfinance loans/ Unsecured loans declined from 69% of gross advances as on March 31, 2024, to 38% as on June 30, 2026. micro, small and medium enterprise (MSME), agriculture, retail and gold (MARG) portfolio contributed 56% of gross advances, while Emerging Household loans (includes individual microfinance loans and other loans) accounted for 32% as on June 30, 2026. Diversification of portfolio should support stability in earnings and in asset-quality in the medium term, although the increasing concentration in gold loans (42% as on June 2026) and the lower yields associated with secured lending could keep margins lower than the historical highs in FY24.

Ratings continue to derive strength from ESFBL's experienced management and granular retail deposit franchise. These strengths are partially offset by elevated gearing, moderate current account and savings account (CASA) deposits, geographical and product concentration, and the need to demonstrate sustained profitability and lower credit costs over a longer period.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating actions/upgrade:

[1]SEBI: Securities and Exchange Board of India; RBI: Reserve Bank of India; MCA: Ministry of Corporate Affairs; IRDAI: Insurance Regulatory and Development Authority of India; PFRDA: Pension Fund Regulatory and Development Authority
[2]Complete definitions of ratings assigned are available at www.careratings.com and in other CARE Ratings Limited's publications.

- Significant scale up in operations with sizeable increase in capital base.
- Sustained improvement in asset quality and profitability, with RoTA sustaining above 2%.

Negative factors: Factors that could individually or collectively lead to negative rating actions/downgrade:

- Deterioration in capitalisation, with common equity tier 1 (CET 1) capital declining below 15%.
- Deterioration in profitability with RoTA declining below 1%.
- Net stressed assets to net worth increasing above 12.5%.

Analytical approach:
Standalone

Outlook: Stable
The Stable Outlook reflects expectations that ESFBL will sustain growth in advances and deposits over the medium term, contain asset-quality risks and maintain adequate capitalisation.

Detailed description of key rating drivers

Key strengths
Established track record of the bank
ESFBL is promoted by Dr K Paul Thomas, who is promoter of the Kerala-based ESAF group, operating in the microfinance space since 1995 (ESAF Microfinance started its operations as an NGO as Evangelical Social Action Forum) and set up ESAF Microfinance & Investments Private Limited (EMFIL) in 2007. EMFIL subsequently received small finance bank (SFB) license and started its banking operations from March 2017. K Paul Thomas holds 6.04% stake in ESFBL as on June 30, 2026. He has over 35 years' industry experience, of which, over 25 years are in the microfinance sector. He is supported by a well-qualified and experienced management team, having rich experience in the banking and financial services sector. As on June 30, 2026, the bank's board consisted of eight directors, including five independent directors, one non-executive director apart from MD and one executive director, having extensive experience in the banking and financial services industry.

Adequate capitalisation levels
ESFBL reported capital adequacy ratio (CAR) of 23.86% and a Tier I CAR of 15.90% (CET I CAR of 15.48%) as on June 30, 2026, providing an adequate buffer over the applicable regulatory requirement. Capital position was supported by Tier-II capital issuances of ₹415 crore in FY26 and ₹85 crore in Q1FY27, which partly offset erosion in net worth due to losses reported in FY25 and FY26. Shift towards secured lending, particularly gold loans, reduced capital intensity of the portfolio, with risk-weighted assets (RWA) as a proportion of total assets declining from 48.6% as on March 31, 2024, to 33.7% as on June 30, 2026.

Overall gearing remained elevated at 18.18x as on June 30, 2026, with tangible net worth of ₹1,597 crore still below the pre-stress level. Going forward, expected improvement in profitability should aid internal capital generation; however, given the bank's growth plans and elevated gearing, augmentation of core equity capital would be required to support balance-sheet expansion while maintaining adequate capital buffers. The management's proposed equity raise in FY27 and its timely completion will therefore remain a key monitorable.

Diversification of loan book; however, geographical concentration exists
ESFBL has materially rebalanced its loan book away from traditional microfinance towards diversified and secured lending. The share of microfinance/ unsecured loans declined from 69% as on March 31, 2024, to 38% as on June 30, 2026, while share of secured loans increased from 31% to 62%, led by strong growth in gold loans, which accounted for 42% of gross advances. Gross advances grew 27% YoY to ₹23,216 crore as on June 30, 2026, with MARG and Emerging Household segments accounting for 56% and 32%, respectively. The shift towards a more diversified and secured portfolio is expected to enhance earnings stability, strengthen asset-quality resilience and reduce dependence on traditional microfinance. However, concentration remains elevated, with microfinance and gold loans together constituting a significant portion of the loan book. Increasing share of relatively lower-yielding secured loans could exert pressure on portfolio margins.

Despite improved product mix, ESFBL remains geographically concentrated, with Kerala accounting for 40% of branches, 33% of advances and 71% of deposits as on June 30, 2026, followed by Tamil Nadu. While the bank reduced its dependence on Kerala in recent years, the concentration exposes the bank to region-specific risks, including natural calamities, political developments and regulatory changes. Geographical diversification and management of product concentration will remain key rating monitorable.

Key weaknesses

Weak-yet-improving, asset quality and profitability

ESFBL's asset quality and profitability weakened materially in FY25 and H1FY26, primarily due to stress in its microfinance portfolio. Elevated slippages, interest-income reversals and credit costs resulted in GNPA and NNPA peaking at 8.54% and 3.83%, respectively, as on September 30, 2025, while net stressed assets to net worth increased to 45.91%. Consequently, the bank reported net losses of ₹521 crore in FY25 and ₹166 crore in FY26, compared to PAT of ₹426 crore in FY24.

The bank undertook portfolio clean-up through sale of NPAs aggregating ₹1,019 crore to asset reconstruction companies (ARCs) in FY26, including ₹628 crore in Q3FY26. Importantly, the subsequent improvement in asset quality has been supported by a sustained decline in fresh NPA additions, which moderated from ₹468 crore in Q1FY26 to ₹219 crore in Q3FY26, ₹106 crore in Q4FY26 and ₹75 crore in Q1FY27. Consequently, GNPA and NNPA moderated to 5.40% and 0.83%, respectively, as on June 30, 2026, while net stressed assets to net worth declined to 11.94%.

Moderation in fresh slippages, recovery in margins and improved operating efficiency supported a sequential turnaround in profitability. PAT improved from a loss of ₹116 crore in Q2FY26 to ₹7 crore in Q3FY26, ₹24 crore in Q4FY26 and ₹80 crore in Q1FY27, with RoTA improving to 1.04% in Q1FY27. While annualised credit cost remained elevated at 3.1% in Q1FY27, partly due to additional prudential provisioning, the provision coverage ratio improved to 85.31%. Going forward, further moderation in fresh slippages and credit costs, and benefits from portfolio diversification and operating efficiencies, is expected to support profitability. However, sustainability of earnings recovery depends on the bank's ability to contain fresh slippages and normalise credit costs over a sustained period.

CASA proportion remains moderate

The bank's resource profile majorly consists of deposits (86% of total liabilities as on June 30, 2026) followed by borrowings. The bank's total deposits grew by 19% year-on-year (y-o-y) and stood at ₹26,924 crore as on June 30, 2026. The bank has a granular deposit profile with 91% of total deposits being retail consisting of less than ₹3 crore category as on June 30, 2026, with low dependence on bulk deposits for funding. However, the bank's CASA (as a percentage of total deposits) ratio remained relatively moderate at 23.39% as on June 30, 2026. The bank's ability to maintain granular deposit profile while improving its CASA base with meaningful reduction in cost of deposits remains a monitorable.

Liquidity: Adequate

Per the structural liquidity statement as on June 30, 2026, there were no negative cumulative mismatches for time buckets up to one year. The bank's liquidity coverage ratio was comfortable at 132% as on June 30, 2026, against minimum regulatory requirement of 100%. The bank consistently maintains excess statutory liquidity ratio (SLR) investments, which provides cushion to its liquidity which stood at ₹1,355 crore (5% of (net demand and time liabilities) as on June 30, 2026. The bank also has access to borrowing from Reserve Bank of India's (RBI's) liquidity adjustment facility (LAF) and marginal standing facility (MSF) and option to refinance from Small Industries Development Bank of India (SIDBI), National Housing Bank (NHB), and National Bank for Agriculture and Rural Development (NABARD) among others, and access to call money markets.

Environment, social, and governance (ESG) risks

Given ESFBL's service-oriented nature of business, its direct exposure to environmental risks remains low. However, it faces implicit environmental risks through its portfolio of assets. Customer data privacy and security remain the key social risk-related vulnerabilities for ESFBL as breaches could attract regulatory attention and damage the bank's reputation. While digital banking offers many benefits to the bank, poor execution of IT strategies and failure to adequately meet customer needs could lead to high costs. ESFBL's Board comprises eight directors, including five independent directors and one women director.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Banks
Financial Ratios - Financial Sector
Short Term Instruments
Rating Basel III - Hybrid Capital Instruments issued by Banks

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Other bank

ESFBL is a Kerala-based small finance bank (SFB), which commenced its banking operations on March 10, 2017. The bank is promoted by K Paul Thomas, who is part of the Kerala-based ESAF group operating in microfinance space from 1995 (ESAF Microfinance started its operations as an NGO as Evangelical Social Action Forum) and set up ESAF Microfinance & Investments Private Limited (EMFIL) in 2007. EMFIL subsequently got its SFB license and started banking operations from March 2017. ESFBL is currently focused on retail banking business with presence in micro-finance, housing finance, business loans, loan against property (LAP), gold loans and providing financing solutions for marginal customers who lack access to the formal banking and financing channels while providing a comprehensive banking and digital platform for all. The bank received scheduled bank status from RBI on December 27, 2018.

Brief Financials (₹ crore)	March 31, 2025 (A)	March 31, 2026 (A)	Q1FY27 (UA)
Total income	4,329	4,348	1,364
Profit after tax (PAT)	-521	-166	80
Total assets	26,960	30,595	31,211
Net interest margin (NIM) (%)	7.72	5.91	7.55
Gross non-performing assets (NPA) (%)	6.87	5.41	5.40
Net NPA (%)	2.99	1.77	0.83
Capital adequacy ratio (CAR) (%)	21.84	22.22	23.86

A: Audited; UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

For complexity level of instruments rated refer to Annexure-1

Lender details: Annexure-4

Disclosure on facilities/instruments and name of regulators:
A list of facilities / instruments falling under the purview of financial sector regulators (FSRs) along with the names of respective FSRs has been duly disclosed by CareEdge Ratings on its website. A link to the same has been provided below for ready reference:

https://www.careratings.com/activities_and_regulators

Note: For facilities or instruments falling under the purview of FSRs other than Securities and Exchange Board of India (SEBI), the grievance / dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Annexure-1: Details of instruments

Name of the Instrument	Name of the Regulator	Complexity Level	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Tier II Bonds (Basel III)	MCA	Complex	INE818W08081	March 31, 2022	11.25%	April 30, 2032	20	CARE A-; Stable
Lower Tier-II bonds (Basel II)	SEBI	Complex	INE818W08099	September 04, 2023	11.25%	May 04, 2029	85	CARE A-; Stable
Lower Tier-II bonds (Basel II)	SEBI	Complex	INE818W08107	February 29, 2024	11.10%	February 28, 2034	60	CARE A-; Stable
Lower Tier-II bonds (Basel II)	SEBI	Complex	INE818W08123	March 20, 2024	11.00%	April 20, 2030	85	CARE A-; Stable
Lower Tier-II bonds (Basel II)	SEBI	Complex	INE818W08115	March 20, 2024	11.10%	April 20, 2031	50	CARE A-; Stable
Lower Tier-II bonds (Basel II)	SEBI	Complex	INE818W08131	July 17, 2025	11.10%	July 17, 2031	65	CARE A-; Stable
Lower Tier-II bonds (Basel II)	SEBI	Complex	INE818W08149	August 14, 2025	11.30%	May 14, 2031	50	CARE A-; Stable
Lower Tier-II bonds (Basel II)	SEBI	Complex	INE818W08156	November 10, 2025	11.30%	August 10, 2031	150	CARE A-; Stable
Lower Tier-II bonds (Basel II)	SEBI	Complex	INE818W08164	January 23, 2026	11.65%	February 23, 2032	150	CARE A-; Stable
Lower Tier-II bonds (Basel II)	SEBI	Complex	INE818W08172	June 25, 2026	11.65%	July 25, 2032	85	CARE A-; Stable
Certificate Of Deposit	RBI	Simple	Proposed	-	-	-	500	CARE A1

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2026-2027	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024
1	Bonds-Tier II Bonds	LT	-	-	-	1)Withdrawn (02-Sep-25)	1)CARE A; Negative (28-Mar-25) 2)CARE A; Negative (17-Mar-25) 3)CARE A; Stable (04-Jul-24)	1)CARE A; Stable (22-Feb-24) 2)CARE A; Stable (01-Aug-23) 3)CARE A; Stable (04-Jul-23)
2	Certificate Of Deposit	ST	500.00	CARE A1	-	1)CARE A1 (02-Sep-25)	1)CARE A1+ (28-Mar-25) 2)CARE A1+ (17-Mar-25) 3)CARE A1+ (04-Jul-24)	1)CARE A1+ (22-Feb-24) 2)CARE A1+ (01-Aug-23) 3)CARE A1+ (04-Jul-23)
3	Bonds-Tier II Bonds	LT	20.00	CARE A-; Stable	-	1)CARE A-; Negative (02-Sep-25)	1)CARE A; Negative (28-Mar-25) 2)CARE A; Negative (17-Mar-25) 3)CARE A; Stable (04-Jul-24)	1)CARE A; Stable (22-Feb-24) 2)CARE A; Stable (01-Aug-23) 3)CARE A; Stable (04-Jul-23)
4	Bonds-Lower Tier II	LT	150.00	CARE A-; Stable	-	1)CARE A-; Negative (02-Sep-25)	1)CARE A; Negative (28-Mar-25)	1)CARE A; Stable (22-Feb-24)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2026-2027	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024
							2)CARE A; Negative (17-Mar-25) 3)CARE A; Stable (04-Jul-24)	2)CARE A; Stable (01-Aug-23)
5	Bonds-Lower Tier II	LT	130.00	CARE A-; Stable	-	1)CARE A-; Negative (02-Sep-25)	1)CARE A; Negative (28-Mar-25) 2)CARE A; Negative (17-Mar-25) 3)CARE A; Stable (04-Jul-24)	1)CARE A; Stable (22-Feb-24)
6	Bonds-Lower Tier II	LT	500.00	CARE A-; Stable	-	1)CARE A-; Negative (02-Sep-25)	1)CARE A; Negative (28-Mar-25)	-

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Priyesh Ruparelia Director **CARE Ratings Limited** Phone: 022-67543593 E-mail: Priyesh.ruparelia@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 044-28501001 E-mail: pradeep.kumar@careedge.in	Shreekiran Rao Director **CARE Ratings Limited** Phone: +91-22-6754-3405 E-mail: Shreekiran.rao@careedge.in Ravi Nayak Assistant Director **CARE Ratings Limited** E-mail: ravi.nayak@careedge.in

About us:
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