DECEMBER 14, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES AND DEBT INSTRUMENTS OF EQUITAS SMALL FINANCE BANK LIMITED

Ratings

Facilities/ Instruments I*	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	600	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Sub-total	**600 (Rupees Six Hundred Crore only)**		
Non-Convertible Debenture Issue –I	50.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture Issue-II	58.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture Issue(Proposed)	500.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture Issue(Proposed)	850.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed

Facilities/ Instruments II*	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank facilities	1,000	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Sub-total	**1,000 (Rupees One Thousand Crore only)**		
Non-Convertible Debenture Issue –I	60.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture Issue-II	17.50	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture Issue – III	100.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture Issue –IV	75.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture Issue – V	75.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Sub-ordinated debt Issue	30.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed

I-Refer to facilities/instruments of Equitas Finance Ltd; II-Refer to facilities/instruments of Equitas Micro Finance Ltd

Rating Rationale

Equitas Microfinance Limited (EMFL) along with Equitas Housing Finance Limited (EHFL) were amalgamated with Equitas Finance Limited (EFL). Subsequently EFL was converted into Equitas Small Finance Bank Limited (ESFB). Hence, CARE has taken a combined view of EMFL, EHFL and EFL while arriving at the ratings of ESFB.

The reaffirmation in the ratings assigned to the long term bank facilities and debt instruments of ESFB factors in growth in the loan portfolio of EMFL during FY16 (refers to the period April 1 to March 31), fresh capital infusion in EMFL & EFL and

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

the improvement in the business risk profile arising from product/portfolio diversification on account of merger of the three entities.

The ratings also factor in the experience of the founder and senior management team, demonstrated equity raising ability of the Equitas group, comfortable capital adequacy levels, comfortable asset quality and profitability levels. The ratings also take note of transition from NBFC to a Small Finance Bank (SFB).

The ratings are constrained by the geographically concentrated portfolio, low seasoning of portfolio originated in the new business segments and moderately diversified funding profile. Going forward, ability of the company to diversify its portfolio across geographies, maintain asset quality in all segments and effectively manage transition from NBFC to SFB will be key rating sensitivities.

Background

Equitas Small Finance Bank Limited (ESFB) is Chennai based SFB which has commenced its operations on September 5, 2016. ESFB was formed through amalgamation of the three of the Equitas group entities. Equitas Holdings Ltd (EHL) is the holding company of ESFB. As on September 30, 2016, 100% stake in ESFB is held by EHL which is listed in NSE and BSE.

RBI has granted the final license to start SFB operations. One of the conditions that were stipulated by RBI is merger of three of Equitas Holdings Limited's (EHL) subsidiaries namely, EMFL (Micro finance entity), EFL (Vehicle Finance entity) and EHFL (Housing Finance entity). The Madras High Court had approved the amalgamation of EMFL and EHFL with EFL. On amalgamation coming into effect, Equitas Finance Limited was renamed as Equitas Small Finance Bank on the same day.

Analyst Contact

Name: Mr P Sudhakar
Tel: 044- 28490811
Email: p.sudhakar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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