

Rating: Subscribe for long term

Issue Offer

OFS of 72,000,000 shares by Promoter and fresh issue of Rs 280 cr taking the total issue size at Rs 518 cr

Issue Summary

Price Band (Rs)	32-33
Face Value (Rs)	10
Implied Market Cap (Rs Cr)	3,756
Market Lot	450
Issue Opens on	Oct 20, 2020
Issue Close on	Oct 22, 2020
No. of share pre-issue	1,053,401,602
No. of share post issue	1,138,250,087
Listing	NSE and BSE

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

JM Financial Ltd
Edelweiss Financial Services Ltd
IIFL Securities Ltd

Registrar

Kfin Technologies Private Limited

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	95.5%	82.1%
Public & Others	4.5%	17.9%

Objects of the offer

- To fulfil the Regulatory requirement
- To strengthen the capital position

In order to comply with RBI norm of listing, the bank within 3 years of commencement, Equitas Small Finance Bank (Equitas SFB) is coming with an IPO of Rs 518 cr, including fresh issue of Rs 280 cr and OFS of 7.2 cr shares by promoter (Equitas Holdings). Post this IPO, Promoters stake in the bank will fall to 82.1%, which will have to be prune down further to 40% by Sep'21. Management has indicated that they will seek permission to do Holdco merger with Bank after completion of 5 years or may look for other option like M&A/OFS to reduce promoter stake to 40% and below.

Diversified lending profile with strong retail liability portfolio: Equitas SFB provides various range of loan services to the customers. The Bank has reduced its portfolio concentration in MFI to 23% from 28% in FY18, given the high risks and volatility associated with MFI business, while it has well diversified profile into non-MFI loans including small business loans (Housing, Agri etc.), vehicle and SME segments being the key drivers of growth. Its average ticket size of loan is Rs 4 lakh with LTV at 40%. Bank is performing well on liability front with increasing share of AUM/Deposits at 76% and CASA ratio at 20%.

Strong Distribution Network: As of June 30, 2020, Equitas SFB has strong network of 856 Banking Outlets and 322 ATMs spread across 17 states and union territories in India. It does not have a presence in East India and bank plans to leverage on existing presence in South, West and North India.

Asset quality remained steady but it is highest in the industry: GNPA ratio of the bank largely remained steady over the past few years at 2.7% as on Q1FY21. However, given the impact of Covid-19 mainly in its Vehicle and MFI business, the NPA ratios may inch up going ahead. As a prudent strategy, Bank has increased its PCR at 49% in Q1FY21 from 44% in FY20. Moratorium book of the bank came down substantially to 35% in Aug'20 vs. 51% in Jun'20. Also, collection efficiency of the bank improved from 49% in Jun'20 to 83% as on Aug'20.

Financial Performance: During the period of FY18-20, Equitas SFB's AUM and Deposits has grown at a CAGR of 39%. Company has reported NII growth of 30% YoY in FY20 to Rs 1,495 cr while profit growth was at 16% YoY to Rs 244 cr. NIM of the bank stood at 9.1% as on FY20.

Valuation and View:

At upper price band of Rs 33, the issue has been offered at FY20 P/BV of 1.4x (post issue) which is reasonable as compared to its closest peers Ujjivan SFB which is trading at 1.8x FY20 P/BV. Equitas SFB is well capitalized with CAR at ~22% (vs. 15% as per RBI requirement), including CET 1 at 21.0% which will further improve after the fresh capital infusion. The bank has diversified lending portfolio, good retail liability profile, sound management and reasonable return ratios. Currently, SME and MFI portfolio of the bank is facing challenges due to outbreak of Covid-19, which will take time to rebound. Thus, near term outlook of the bank will remain challenging primarily on asset quality front. Hence, we recommend investor to 'Subscribe' for this issue only from a longer term perspective.

Risks: a. Substantial increase in NPAs b. Promoter stake dilution c. Geographical concentration risk in Tamil Nadu (54.3% portfolio is in Tamil Nadu)

Peer Group Comparison

Bank Name	CMP	AUM (in cr.)	Deposits (in cr.)	PAT (in Cr.)	EPS (Rs)	BVPS (Rs)	GNPA (%)	NNPA (%)	NIM (%)	RoA (%)	RoE (%)	CRAR (%)	P/E(x)	P/BV(x)
Equitas SFB [^]	33	13,747	10,788	244	2.4	26	2.7	1.7	9.1	1.4	8.9	23.6	13.8	1.3
Ujjivan SFB	31	14,153	10,780	350	2.2	17	1.0	0.2	10.8	2.2	13.9	28.8	14.2	1.8
AU SFB	726	30,893	26,164	596	22.8	143	1.7	0.8	5.4	1.6	15.8	22.0	31.9	5.1
Bandhan Bank	304	71,846	57,082	3024	18.8	94	1.5	0.6	9.3	4.1	22.9	25.2	16.2	3.2

All Financials are as on FY20.[^] @ upper price band.

Portfolio Break-up

Advances (in cr.)	FY18	FY19	FY20	Q1FY21
Small business loans	2,671	4,577	6,279	6,484
% of total Advances	34%	39%	41%	42%
Microfinance	2,257	3,070	3,616	3,618
% of total Advances	28%	26%	24%	23%
Vehicle Finance	2,238	2,951	3,760	3,776
% of total Advances	28%	25%	24%	24%
MSE Finance (Working Capital)	8	181	669	712
% of total Advances	0%	2%	4%	5%
Corporates	250	456	818	772
% of total Advances	3%	4%	5%	5%
Corporates	514	468	224	210
% of total Advances	6%	4%	1%	1%
Total Gross Advances	7,937	11,703	15,367	15,573
Advances growth	NA	47%	31%	27%

Liability Profile of the Bank

Deposits (in cr.)	FY18	FY19	FY20	Q1FY21
Demand Deposits	389	482	350	330
Savings Deposits	1,249	1,792	1,859	2,024
Savings Deposits	3,966	6,732	8,580	9,433
CASA Deposits	1,638	2,274	2,208	2,354
CASA Ratio (%)	29.2%	25.3%	20.5%	20.0%
Total Deposits (C+F)	5,604	9,007	10,788	11,787

Moratorium & Collection efficiency position of the Bank

Asset Products	Mortorium		Collection Efficiency	
	As on Jun'20	Aug'20	As on Jun'20	Aug'20
Small business loans	42%	37%	61%	105%
Microfinance	59%	25%	42%	77%
New Vehicle Finance (* VF)	65%	47%	42%*	72%*
Used Vehicle Finance	70%	55%		
MSE Finance (Working Capital)	48%	18%	20%	56%
Corporates	13%	13%	92%	88%
Total	51%	35%	49%	83%

Income Statement				
(Rs.Cr)	FY18	FY19	FY20	Q1FY21
Interest Income	1532	2112	2645	721
Interest Expenses	671	960	1150	317
Net Interest Income	861	1152	1495	404
Other Income	241	283	282	30
Operating Income	1102	1435	1778	434
Operating Expenses	881	1008	1180	292
Operating Profit	221	426	598	142
Provisions and Contingencies	189	216	354	84
Profit After Taxes	32	211	244	58

Balance Sheet				
(Rs. cr)	FY18	FY19	FY20	Q1FY21
LIABILITIES				
Capital	1006	1006	1053	1053
Reserves & Surplus	1038	1248	1691	1748
Deposits	5604	9007	10788	11787
Borrowings	5177	3973	5135	5526
Other liabilities & provisions	476	529	647	778
Total Liabilities	13301	15763	19315	20892
ASSETS				
Cash and Bank Balance	386	403	381	429
Balance with Banks	825	858	2156	1497
Investments	3857	2344	2343	3479
Net Advances	7706	11594	13747	14389
Fixed assets	281	237	213	198
Other assets	246	327	475	902
Total Assets	13301	15763	19315	20892

Ratio Analysis				
Particulars	FY18	FY19	FY20	Q1FY21
Per Share Data (Rs.)				
EPS	0.3	2.1	2.4	2.2*
Book Value per share	20.2	22.3	25.9	26.5
Adjusted Book Value	19.1	20.6	23.8	24.4
Asset Quality				
Gross NPAs	213	296	417	417
Net NPAs	113	167	229	213
Gross NPAs (%)	2.7%	2.5%	2.7%	2.7%
Net NPAs (%)	1.5%	1.4%	1.7%	1.5%
PCR (%)	47.1%	43.4%	45.2%	48.8%
Other ratios (%)				
NIM	9.02%	8.55%	9.11%	8.63%*
Cost to Income	80.0%	70.3%	66.4%	67.3%
CD-ratio (%)	137.5%	128.7%	127.4%	122.1%
CRAR (%)	29.6%	22.5%	23.6%	22.0%
Return Ratios (%)				
ROE	1.57%	9.85%	9.84%	8.32%*
ROA	0.3%	1.4%	1.4%	1.12%*
Valuation (x) @ upper price band				
P/E	103.1	15.8	13.8	15.0
P/ABV	1.6	1.5	1.3	1.2
P/BV	1.7	1.6	1.4	1.3

Note: * on an annualized basis.

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