



Equitas Holdings Limited

01st Apr, 2016

Rating:



Issue Summary:

Price band (Rs)	109-110
Face Value (Rs)	10
Opens	5 th April, 2016
Closes	7 th April, 2016
Issue Size (Rs)	2,175 cr
OFS (Rs)	13 cr shares
Listing	BSE, NSE

Issue Break Up:

QIB portion	50%
NIB portion	15%
Retail portion	35%

Book Running Lead Managers:

➤ Axis Capital Limited
➤ Edelweiss Financial Services Limited
➤ HSBC Securities and Capital Markets (India) Private Limited
➤ ICICI Securities Limited

Registrar:

➤ Linktime India Private Limited

Company & Business Profile

Equitas Holdings Limited was founded in 2007, Company headquarters are based in Chennai, India. Mr P.N Vasudevan the Founder and Managing Director of Equitas Holdings Ltd has extensive experience in financial service sector; he worked for 2 decades with Cholamandalam Investment & Finance company Ltd. He was also the Chairman of the South India Hire Purchase Association for the year 2005-06. This company is a diversified financial services provider focused on individuals and micro and small enterprises (MSEs) that are underserved by formal financing channels. The focus customer segment includes low income groups and economically weaker individuals operating small businesses, as well as MSEs with limited access to formal financing channels on account of their informal, variable and cash-based income profile. These customers require various financial products including small, short-term business loans as well as relatively large, longer tenor enterprise and home loans. Company offers a range of financial products and services that address the specific requirements of these customer segments that take into account their income profile, nature of business and kind of security available. Also, company had applied for an SFB (small finance bank) license under the applicable guidelines and on October 7, 2015, the RBI granted in-principle approval to establish an SFB, subject to the terms and condition of such approval. Equity Housing Finance Ltd. & Equitas Micro – Finance Ltd will be merged with Equitas finance Ltd. which will be merged in 1 entity that is SFB. As of June 30, 2015, company had 520 branches with operations spread across 11 states, one union territory and the NCT of Delhi.

Objects of the Issue

The company proposes to utilize the net proceeds from the fresh issue towards funding of the following:

- Investment in subsidiaries to augment their capital base to meet their future capital requirements arising out of growth in business; Equitas Micro Finance Ltd. (EMFL) – Rs 240.cr, Equitas Finance Ltd. (EFL) – Rs 240.Cr, Equitas Housing Finance Ltd. (EHFL) – Rs 40.Cr.
- OFS - Selling Shareholders will be entitled to their respective portion of the proceeds of the Offer for Sale;
- General corporate purposes.

Investment Positives

- Standardized operating procedures and efficient use of technology resulting in effective risk management and improved efficiencies
- Diversified product offering and markets with significant cross-selling opportunities
- Strong network and customer base to develop the proposed small finance bank operations
- Conversion to small bank will help diversify the product mix which is restricted at present

Concern

- CRR and SLR requirements may bring down the net interest margins



BUSINESS MODEL

Microfinance

The microfinance business provides loans ranging approximately between Rs 5,000 and Rs 35,000 to customers, depending on the loan cycle and mode of disbursement. The microfinance business is conducted through wholly-owned subsidiary EMFL. As of March 31, 2015, EMFL was the fifth largest microfinance company in India in terms of gross loan portfolio. The microfinance business AUM increased at a CAGR of 43.60% from Rs 723.96 Cr as of March 31, 2012 to Rs 2,143.95 Cr as of March 31, 2015, and represented 53.47% of the aggregate AUM as of March 31, 2015. Microfinance business AUM was Rs 2,319.48 Cr as of June 30, 2015, which represents 52.49% of the aggregate AUM. As of June 30, 2015, there were 0.26 Crs loan accounts in the microfinance business. As per the objects of the issue Rs 240 Cr is attributed to EMFL. These proceeds will improve the capital base to meet the future capital requirements arising out of the growth in business.

Vehicle Finance

The used commercial vehicle finance customers are typically first-time formal financial channel borrowers purchasing commercial vehicles. Customers also include small fleet operators. Company is among a few NBFCs in India operating in the used commercial vehicle finance business. Vehicle finance operations are based on experience of working with customers without sufficient credit history and ability to effectively assess risks associated with financing used commercial vehicles. The Average Loan Account in fiscal 2015 and three months ended June 30, 2015 was Rs 0.04 Cr and Rs 0.04 Cr, respectively. Company has experienced significant growth in vehicle finance business, and the AUM increased at a CAGR of 96.46% from Rs 304.52 Cr as of March 31, 2013 to Rs 1,175.40 Cr as of March 31, 2015, which represented 29.31% of the aggregate AUM as of March 31, 2015. Vehicle finance business AUM was Rs 1,248.91 Cr as of June 30, 2015, which represents 28.26% of the aggregate AUM. As of June 30, 2015, there were 45,029 loan accounts in vehicle finance business.

Micro and Small Enterprise (MSE) Finance

Company provides asset backed financing primarily focused on self-employed individuals operating micro enterprises and small enterprises, typically in urban and semi-urban locations. Micro enterprises and small enterprises are internally classified as such on the basis of their loan eligibility. The Average Loan Account Size for MSEs was Rs 0.02 Cr and Rs 0.02 Cr, respectively, in fiscal 2015 and the three months ended June 30, 2015. MSE finance business AUM increased from Rs 87.43 Cr as of March 31, 2014 to Rs 510.98 Cr as of March 31, 2015, which represented 12.74% of the aggregate AUM as of March 31, 2015. MSE finance business AUM was Rs 656.19 Cr as of June 30, 2015, which represented 14.85% of the aggregate AUM. As of June 30, 2015, there were 29,627 loan accounts in MSE finance business. A majority of MSE finance business represents cross-sales to eligible higher income microfinance business customers with a satisfactory track record. In the three months ended June 30, 2015, the proportion of the MSE loan accounts disbursed to microfinance customers was 72.97%.

Housing Finance

Company focuses on providing micro-housing and affordable-housing loans to self-employed individuals who have limited access to loans from banks and larger housing finance companies. The Average Loan Account Size for micro-housing loans and affordable-housing loans was Rs 0.03 Cr and Rs 0.12 Cr, respectively, in fiscal 2015 while it was Rs 0.03 Cr and Rs 0.12 Cr, respectively, in the three months ended June 30, 2015. The housing finance business includes housing loans as well as non-housing loans within specified limits permitted by the National Housing Bank; such mortgage finance offerings represented 21.38% and 20.81% of the housing finance business AUM as of March 31, 2015 and June 30, 2015, respectively. Housing finance business AUM increased at a CAGR of 100.54% from Rs 44.64 Cr as of March 31, 2013 to Rs 179.53 Cr as of March 31, 2015, which represented 4.48% of the aggregate AUM as of March 31, 2015. As of June 30, 2015, there were 3,360 loan accounts in the housing finance business. In the three months ended June 30, 2015, a majority of micro-housing finance loan accounts represents cross sales to eligible higher income microfinance customers with a satisfactory track record.

**Financials**

DESCRIPTION (Rs Cr)	Mar-2015	Mar-2014	Mar-2013	Mar-2012	Mar-2011
P&L					
Total Income	755.93	483.52	283.17	198.65	239.20
Total Expenditure	289.24	173.99	127.95	116.39	121.49
PBIDT	466.69	309.53	155.23	82.26	117.72
PBIT	458.26	303.33	147.39	75.88	112.87
PBT	163.56	113.81	39.76	11.66	44.04
PAT	106.99	74.32	31.90	-2.69	28.52
Cash Profit	115.42	80.52	38.86	4.56	33.36
Sources of Funds					
Equity Paid Up	268.87	72.62	57.76	44.43	44.43
Reserves and Surplus	901.76	669.04	414.18	257.82	257.37
Net Worth	1170.63	741.67	471.94	302.25	301.80
Total Debt	3032.18	1849.16	1274.37	563.79	591.88
Capital Employed	4202.93	2591.17	1746.31	866.05	893.68
Application of Funds					
Gross Block	80.27	52.56	45.17	40.67	30.60
Investments	175.70	3.60	7.55	0.20	0.20
Cash and Bank balance	557.39	414.71	445.99	184.46	241.75
Net Current Assets (Incl. Current Investments)	696.89	315.75	519.56	287.97	271.99
Total Current Liabilities	1804.80	1317.05	728.76	348.89	475.53
Total Assets	4442.47	2736.66	1840.00	954.55	962.27
Cash Flow					
Cash Flow from Operations	-1154.69	-788.02	-580.90	22.12	-122.26
Cash Flow from Investing activities	-229.91	86.07	-120.10	-71.19	-43.27
Cash Flow from Finance activities	1504.35	770.52	848.36	16.08	162.00
Free Cash flow	-1128.89	-784.58	-557.34	33.21	-125.21
Key Ratios					
Debt to Equity(x)	2.59	2.49	2.70	1.87	1.96
Current Ratio(x)	1.39	1.24	1.71	1.83	1.57
PBIDTM(%)	61.81	64.16	55.02	41.53	49.29
PATM(%)	14.17	15.41	11.31	-1.36	11.94
ROCE(%)	13.49	13.99	11.28	8.62	12.63
RONW(%)	11.19	12.25	8.24	-0.89	9.45
Book Value per share	43.54	102.13	81.70	68.03	67.93
Earning per share	3.98	10.23	5.52	-0.61	6.42

As of March 31, 2013, 2014 and 2015 and as of June 30, 2015, the Gross NPAs as a percentage of On-Book AUM were 0.27%, 0.73%, 1.08% and 1.44%, respectively, while Net NPAs as a percentage of On-Book AUM were 0.18%, 0.61%, 0.80% and 1.07%, respectively, while Interest Income, which represents interest from loans to customers and the interest spread on securitization/assignment of receivables, was Rs 254.59 Cr, Rs 435.53 Cr, Rs 686.81 Cr and Rs 215.57 Cr, respectively.

Source: - Ace Equity, Arihant Research



As of June 30, 2015, the capital adequacy ratio (CAR) of EMFL (which operates microfinance business) and EFL (which operates vehicle finance and MSE finance businesses) was 19.60% and 34.75%, respectively, compared to the RBI mandated CAR requirement of 15.00%. As of June 30, 2015, the CAR of EHFL (which operates housing finance business) was 31.03%, as compared to the applicable regulatory requirement of 12.00%.

Peer Group Comparison

Company	Basic EPS	Diluted EPS	NAV	P/E	RONW
Equitas Holdings Limited	4.48	4.47	2.53	27.65	9.11
Cholamandalam Investment Finance Limited	30.71	30.59	3.16	19.13	13.99
Repc Home Finance Limited	19.78	19.71	4.97	32.33	15.16
SKS Microfinance Limited	15.22	15.04	5.65	30.01	17.93
Shriram Transport Finance Limited	45.33	45.33	2.74	20.42	14.14
M&M Financial Services Limited	14.75	14.62	2.53	17.21	15.49

(As of year ended Mar, 2015)

Outlook

Financing needs in India have ascended with the noteworthy growth recorded by the economy over the decade. NBFCs have played a key role in meeting this need. NBFCs aid to fill the space in accessibility of financial services with respect to products as well as customer and geographical segments.

In the Union Budget of fiscal 2016, the government announced that it would set up the Micro Units Development and Refinance Agency (MUDRA). This will be a major catalyst for the MFI industry. MUDRA will serve as a regulator for MFIs and will provide them refinancing services. The corpus for MUDRA would be of Rs 20,000 Crs and it will finance co-operative banks, MFIs, regional rural banks, etc. The funding cost is expected to be cheaper than that by bank. This will help MFI industry fulfill the needed funding support.

Housing finance business is not going good, they are still learning the business. The housing business was started to diversify the portfolio with secured loans. However, GoI has implemented 'Interest Subvention Schemes' like Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) and Rajiv Awas Yojana (RAY), etc., in order to make housing loans affordable for the targeted segments. These measures have resulted in improving the demand for housing loans. RBI has carved out Residential Project loans out of the purview of Commercial Real Estate arena to boost financing of project loans.

Further the GOI implemented the "Housing for All" Mission for urban areas, to provide central assistance to implementing agencies through states and UTs for providing houses to all eligible families/beneficiaries by 2022. The launch of this scheme will provide significant impetus to the housing finance market. Also with the real estate bill put into action, the demand for houses is expected to rise pushing up the loan growth.

Equitas's founder P.N. Vasudevan holds a 3.17% stake in the firm. Overall, foreign shareholding in Equitas stood at 93% as on 31 March 2015. The company will reduce FII stake to 35% from 90% after issue. Regulatory allowance is of 49% for IPO. Overall company looks good at corporate governance, has focused mainly towards the underserved portion of the economy, strong risk management procedure in place, well placed to enjoy the benefits of SFB.



Valuation

At the upper price band of Rs 110, the issue is priced at 27.6 (x) price to earnings (PE) ratio and 2.5 (x) price to book value per share (PB) ratio, based on FY 2015 financials. The valuations look expensive compared to established peers like Shriram Transport Finance and M&M Financial services with lower ROE. With its sound performance in the past the company is well placed to accomplish the future goals. We recommend subscribing the issue for medium to long term horizon and have a rating of 2 stars.



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