

**CMP: INR 58**

**Rating: BUY**

**Target Price: INR 74**

**Stock Info**

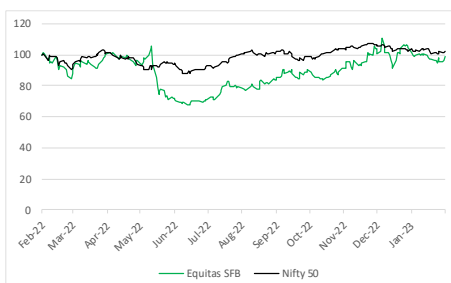
BSE	543243
NSE	EQUITASBNK
Bloomberg	EQUITASB
Reuters	EQUI.BO
Sector	Financial Services
Face Value (INR)	10
Equity Capital (INR bn)	12.5
Mkt Cap (INR bn)	73
52w H/L (INR)	63 / 37
Avg Yearly Vol (in 000')	267

**Shareholding Pattern %**

(As on Dec, 2022)

Promoters	74.5
Public & Others	25.5

Stock Performance (%)	1m	3m	12m
EQUITASBNK	1.6	12.8	3.5
Nifty	-0.1	1.9	3.7



Equitas SFB posted good set of numbers – PAT came in at INR 1.7 bn, up by 57.4% yoy and 46% qoq. Key highlights of the quarter were – 1) strong assets growth across all segments 2) margins stable 3) improving asset quality + write-back of provisions on the standard restructured book. Good performance of the bank is likely to continue. Retain BUY with TP of INR 74, upside of 28% from the current levels on ROE/ROA of >13%/1.7%.

**Advances grew at healthy pace of 27% yoy** – During the quarter, gross advances of the bank reported strong growth of 27% yoy & 9.4% qoq to INR 249 bn. Management is seeing strong growth across all segments viz. MFI posted (18% share) 24% yoy growth, housing finance (10% share) 88% yoy, vehicle finance (25% share) 28% yoy, Small Business Loans (37% share) 22% yoy for Q3FY23 period. For Q4FY23 & FY24 year as well, management is seeing credit growth of 25%+. Also, disbursements stood at one of the highest levels at INR 48 bn, up by 68% yoy and 25% qoq. While disbursements were strong across all segments

**Asset quality improved, provisions withdrawn on std. rest. Assets** – in Q3FY23, incremental slippages were relatively lower at INR 2.9 bn vs. INR 3.1 bn in Q2 and INR 3 bn in Q1. In % terms, GNPA/NNPA were reduced down to 3.5%/1.7% vs. 3.8%/1.9% in Q2FY23. DPD buckets have normalized as covid impact wanes off and restructured book contracts. 1-90 DPD stands at 7.53% in Q3FY23 as compared to 10.43% in March'22 and 5.51% in March'20 (Pre-Covid'19). Also, during the quarter, the bank utilised INR 36 cr of provisioning on standard restructured assets as the accounts are performing now and higher provisioning is not required on the same. It continues to hold INR 60 cr provisioning on standard restructured assets which it is likely to use in coming quarters. The bank expects credit cost for the current fiscal FY23 to be at 1.5% vs. 1.6% seen in 9MFY23.

**Valuations** – The bank has recovered smartly post COVID which had impacted its growth and asset quality badly. ROAs/credit cost which were at 1.1%/2.6% has now improved to 2.2%/0.8% in Q3FY23. More importantly, the bank is doing a extremely good job on building liability franchise (CASA at 40%) which will be crucial for growth going forward. Currently, it is trading at 1.5x/1.3x FY24e/FY25e ABV respectively We retain BUY rating on the stock with TP of 74, upside of 28% from the current levels on ROE/ROA of >13%/1.7%.

**Exhibit 1: Financial Performance**

(Rs.cr)	FY22	FY23A	FY24E	FY25E
PAT (Rs)	281	467	621	810
growth (%)	-27%	66%	33%	30%
<b>EPS (Rs)</b>	<b>2.2</b>	<b>3.7</b>	<b>5.0</b>	<b>6.5</b>
ABV (Rs)	30	35	40	46
P/E (x)	25.9	15.5	11.7	9.0
P/ABV (x)	1.9	1.7	1.5	1.3

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

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**Retail deposits gaining traction, CASA ratio at 40%** - Having limited operating history, the bank is doing wonderfully good job on building sizeable amount of CASA plus retail term deposits. Total deposits witnessed growth of 30.8% yoy and 7.7% qoq. Total CASA deposits + retail TDs showed growth of 18.6% yoy and 5.6% qoq to INR 191 bn, hence, incremental reliance on the bulk deposits is reduced to that extent (which is down by 24% yoy to INR 42.8 bn).

### Details on deposits

(in CR)	Q3FY23	Q3FY22	yoy (%)	Q2FY23	qoq (%)
Deposits	23,393	17,884	30.8	21,726	7.7
CASA	10817	9085	19.1	10456	3.5
TDs	12576	8799	42.9	11270	11.6
-Retail Deposits	8300	7039	17.9	7663.6	8.3
-Bulk Deposits	4276	5631	-24.1	3606	18.6
Total CASA + Retail TDs	19117	16124	18.6	18120	5.5

**Launch of new products** – On the asset side, the bank introduced new product line merchant overdraft where the gross advances crossed INR 1 bn. In vehicle finance, the bank recently entered new geographies i.e. it entered state of Kerala and Uttar Pradesh are contributing well. In affordable housing finance space, the bank had ventured into southern states (from its maiden states of Gujarat & Maharashtra) – which are contributing well currently.

**Merger Status** – As per management, the shareholders are likely to receive the shares of holding company in their demat account in next couple of days. More details wrt to merger are shares below

## Merger Updates

### Impact of Merger

Particulars	
ESFB Networth (Rs. Crs)	4,640
EHL Networth (Rs. Crs)	325*
ESFB Networth Post Merger (Rs. Crs)	4,965
ESFB BVPS (Rs.)	36.98
ESFB BVPS Post Merger (Rs.)	44.72
ESFB No of Shares (# Crs)	125
ESFB No of Shares Post Merger (# Crs)	111

\*basis unaudited management accounts

### Merger Timeline

Particulars	Dates
Record Date	03-02-2023
ESFB Board Meeting for allotment	08-02-2023
Filing of PAS-3 form with MCA <sup>#</sup>	09-02-2023
Listing approval with Stock Exchanges	09-02-2023
Filing Corporate action with Depositories	Post listing approval
Trading approval with Stock Exchanges	T+3 from corporate action

<sup>#</sup>subject to technical support from MCA

## Concall Highlights

- Branch expansion plans – The bank is planning to add branches in top marquee locations in next couple of months.
- Current strong performance is likely to continue in Q4 quarter as well. Loan growth target of 25% for the current fiscal
- It expects credit cost estimate of 1.5% for FY23 vs. 1.6% seen in 9MFY23
- Bank sees good growth in MFI & vehicle finance segment.
- Disbursements are picking up at across all segments
- Collection efficiency is improving across all segments
- Mobilisation of deposits – Deposits showed growth of 30% yoy. It is also targeting mass affluent segments has helped to gain traction in deposits due to reasons like relationship management, branding, sustained innovation of products, virtual RMs etc.
- It aims to have CASA ratio at 45% vs. 40% currently. Bank said SA rates will not be changed which is in top quartile in the industry currently, while TD are likely to get increased.
- Credit cost is expected to be at 1.5% in FY23 vs. .6% for 9MFY23

**Exhibit 2: Q3FY23 - Quarterly Performance (Standalone)**

(in CR)	Q3FY23	Q3FY22	yoy (%)	Q2FY23	qoq (%)	9MFY23	9MFY22	yoy (%)
<b>Interest earned</b>	<b>1063.4</b>	<b>901.1</b>	<b>18.0</b>	<b>1002.4</b>	<b>6.1</b>	<b>3006.1</b>	<b>2563.9</b>	<b>17.3</b>
-Interest/discount on advances/bills	959.3	819.2	17.1	904.3	6.1	2718.1	2327.8	16.8
-Income on investments	80.6	63.9	26.1	72.7	11.0	214.9	180.5	19.1
-Interest on bal. with RBI	23.5	18.1	29.9	25.4	-7.5	73.1	55.6	31.6
-Others	0.0	0.0	-	0.0	-	0.0	0.0	-
Interest expenses	415.9	360.1	15.5	392.7	5.9	1168.4	1077.8	8.4
<b>Net Interest Income (NII)</b>	<b>647.5</b>	<b>541.1</b>	<b>19.7</b>	<b>609.7</b>	<b>6.2</b>	<b>1837.8</b>	<b>1486.1</b>	<b>23.7</b>
Other Income	152.6	133.9	14.0	145.0	5.3	430.9	389.4	10.7
Total income	<b>800.1</b>	<b>674.9</b>	<b>18.6</b>	<b>754.7</b>	<b>6.0</b>	<b>2268.7</b>	<b>1875.5</b>	<b>21.0</b>
Operating expenses	<b>521.0</b>	<b>450.2</b>	<b>15.7</b>	<b>512.4</b>	<b>1.7</b>	<b>1479.0</b>	<b>1287.4</b>	<b>14.9</b>
-Employee cost	292.0	240.4	21.4	275.1	6.1	792.8	689.6	15.0
-Other operating expenses	229.0	209.8	9.2	237.3	-3.5	686.3	597.8	14.8
<b>Operating profit</b>	<b>279.1</b>	<b>224.7</b>	<b>24.2</b>	<b>242.3</b>	<b>15.2</b>	<b>789.6</b>	<b>588.1</b>	<b>34.3</b>
Provision for contingencies	49.9	78.4	-36.4	90.1	-44.6	281.6	370.7	-24.0
<b>PBT</b>	<b>229.2</b>	<b>146.3</b>	<b>56.7</b>	<b>152.2</b>	<b>50.6</b>	<b>508.0</b>	<b>217.4</b>	<b>133.7</b>
Provision for taxes	59.1	38.2		35.8		124.5	56.2	121.7
<b>Net profit</b>	<b>170.1</b>	<b>108.1</b>	<b>57.4</b>	<b>116.4</b>	<b>46.1</b>	<b>383.6</b>	<b>161.2</b>	<b>137.9</b>
Equity	1254.3	1147.9	9.3	1253.7	0.1	1254.3	1147.9	9.3
EPS	1.36	0.94	44.0	0.93	46.1	3.06	1.40	117.7
<b>Ratios (%)</b>								
Int. exp/Int earned (%)	39.1	40.0	-	39.2	-	38.9	42.0	-
Cost/Income ratio (%)	65.1	66.7	-	67.9	-	65.2	68.6	-
Gross NPAs (Rs)	861.4	863.8	-0.3	870.3	-1.0	861.4	863.8	-0.3
Net NPAs (Rs)	423.4	459.4	-7.8	430.9	-1.7	423.4	459.4	-7.8
Gross NPAs (%)	3.6	4.6	-	3.9	-	3.6	4.6	-
Net NPAs (%)	1.6	2.5	-	2.0	-	1.6	2.5	-
ROA (%)	0.5	0.4	-	0.4	-	1.5	1.5	-
CAR (%)	24.3	21.9	-	23.1	-	24.3	21.9	-
<b>Balance Sheet (Rs.mn)</b>								
<b>Sources of Funds</b>								
Capital	1,254	1,148	9.3	1,254	0.1	1,254	1,148	9.2
Reserves and Surplus	3,386	2,435	39.1	3,213	5.4	3,386	2,435	39.1
Deposits	23,393	17,884	30.8	21,726	7.7	23,393	17,884	30.8
Advances	23,277	18,315	27.1	21,840	6.6	23,277	18,315	27.1

Key Financials

Profit & Loss Statement (in INR Cr)	FY22A	FY23A	FY24E	FY25E
Interest Income	3,460	3,945	4,748	5,829
Interest Expended	1,421	1,646	2,013	2,465
<b>Net Interest Income</b>	<b>2,039</b>	<b>2,299</b>	<b>2,735</b>	<b>3,364</b>
Other Income	538	598	684	841
Operating Income	2,576	2,897	3,419	4,205
Operating Expenses	1,704	1,888	2,194	2,629
Employee Expenses	898	999	1,186	1,469
Other Operating Expenses	806	889	1,009	1,160
<b>PPOP</b>	<b>872</b>	<b>1,010</b>	<b>1,225</b>	<b>1,577</b>
Provisions	433	342	337	419
PBT	438	667	887	1,158
Tax Expenses	158	200	266	347
<b>Net Income</b>	<b>281</b>	<b>467</b>	<b>621</b>	<b>810</b>

Balance Sheet (in INR Cr)	FY22A	FY23A	FY24E	FY25E
<b>Equity &amp; Liabilities</b>				
Share Capital	1,252	1,252	1,252	1,252
Reserves & Surplus	2,994	3,461	4,083	4,893
Net Worth	4,246	4,713	5,335	6,145
Deposits	18,951	23,120	27,975	33,850
Borrowings	2,616	3,215	3,442	4,536
Other Liabilities and Provisions	1,139	1,367	1,840	2,465
<b>Total Capital &amp; Liabilities</b>	<b>26,952</b>	<b>32,415</b>	<b>38,592</b>	<b>46,995</b>
<b>Assets</b>				
Cash & Balances with RBI	957	684	844	1,047
Balances with Other Banks & Call Money	1,176	1,369	1,406	1,745
Investments	4,450	4,895	5,384	5,923
Advances	19,374	22,814	28,123	34,908
Fixed Assets	200	217	235	255
Other Assets	795	2,435	2,600	3,117
<b>Total Assets</b>	<b>26,952</b>	<b>32,415</b>	<b>38,592</b>	<b>46,995</b>

Ratios	FY22A	FY23A	FY24E	FY25E
<b>Growth rates</b>				
Advances (%)	15.0%	25.0%	23.3%	22.0%
Deposits (%)	15.6%	22.0%	21.0%	21.0%
Total assets (%)	9.0%	20.3%	19.1%	21.8%
NII (%)	13.4%	12.8%	19.0%	23.0%
Pre-provisioning profit (%)	-1.7%	15.8%	21.3%	28.7%
PAT (%)	-26.9%	66.4%	33.0%	30.5%
<b>Balance sheet ratios</b>				
Credit/Deposit (%)	102.2%	98.7%	100.5%	103.1%
CASA (%)	52.0%	52.5%	53.0%	53.0%
Advances/Total assets (%)	71.9%	70.4%	72.9%	74.3%
Leverage (x) (Asset/Shareholder's Fund)	6.3%	6.9%	7.2%	7.6%
CAR (%)	25.2%	25.7%	24.2%	22.9%
CAR - Tier I (%)	24.5%	25.2%	23.7%	22.6%
<b>Operating efficiency</b>				
Cost/income (%)	66.2%	65.2%	64.2%	62.5%
Opex/total assets (%)	6.3%	5.8%	5.7%	5.6%
Opex/total interest earning assets	2.4%	2.4%	2.5%	2.6%
<b>Profitability</b>				
NIM (%)	8.2%	8.3%	8.4%	8.5%
RoA (%)	1.0%	1.4%	1.6%	1.7%
RoE (%)	6.6%	9.9%	11.6%	13.2%
<b>Asset quality</b>				
Gross NPA (%)	4.1%	3.4%	3.2%	3.0%
Net NPA (%)	2.5%	1.6%	1.3%	1.0%
PCR (%)	42.7%	55.1%	61.7%	67.6%
Credit cost (%)	2.2%	1.5%	1.2%	1.2%
<b>Per share data / Valuation</b>				
EPS (INR)	2.2	3.7	5.0	6.5
BVPS (INR)	34	38	43	49
ABVPS (INR)	30	35	40	46
P/E (x)	25.9	15.5	11.7	9.0
P/BV (x)	1.7	1.5	1.4	1.2
P/ABV (x)	1.9	1.7	1.5	1.3

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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