

CMP: INR 88

Rating: BUY

Target Price: INR 108

Stock Info

BSE	543243
NSE	EQUITASBNK
Bloomberg	EQUITASB
Reuters	EQUI.BO
Sector	Financial Services
Face Value (INR)	10
Equity Capital (INR Cr)	1,116
Mkt Cap (INR Cr)	10,347
52w H/L (INR)	101 / 43
Avg Yearly Vol (in 000')	4,357

Shareholding Pattern %

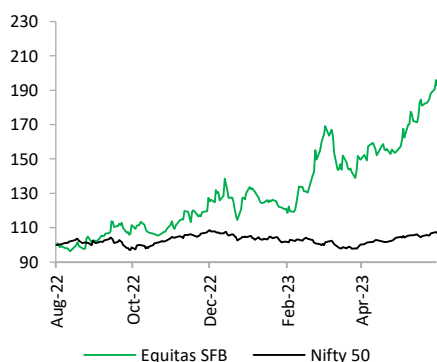
(As on June, 2023)

Promoters	74.5
Public & Others	25.5

Stock Performance (%)

	1m	6m	12m
Equitas SFB	5.7	48.5	100
Nifty	1.7	11.2	13.3

Equitas SFB Vs Nifty



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Equitas small finance bank reported a net profit of INR 191 cr v/s INR 190 cr in last quarter v/s 97 cr in corresponding quarter last year (up 0.6% QoQ, up 97% YoY). The profitability is stable sequentially, despite being a seasonally weak quarter but increased on a YoY basis, though the NIMs of the bank declined during the quarter at 8.76% (down 34 bps QoQ, down 29 bps YoY) on account of increasing cost of funds. Asset quality improved. GNPA of the bank remained stable QoQ at 2.6%, but improved by 135 bps YoY. NNPA came at 1.12% during the quarter (down 2bps, down 96bps YoY).

Stable profitability in a seasonally weak quarter: Bank has been able to maintain its profitability levels during the seasonally weak quarter. This is despite the fact that the NIMs have declined. Their cost of funds has increased by 33 bps during the quarter. Further, 80% of their loan portfolio is fixed. This has put pressure on NIMs during the quarter. The cost of funds is expected to increase in coming quarters. Credit growth momentum continues to be strong. Their advances have grown 36% YoY/ 6% QoQ at INR 29,601 cr.

Asset quality improved: Banks GNPA remained stable on a sequential basis but improved by 135 bps at 2.6% YoY. NNPA declined marginally by 2 bps QoQ and by 96 bps YoY at 1.12% during the quarter. Bank has made additional provisions of INR 14 crs during the quarter and PCR improved to 57.79% from 56.90% in Q4FY23 and 48.46% in Q1FY23. Their restructured book is at INR 213 cr, out of which they have created a provision of 97% for NPAs arising out of this book.

Advances growth momentum continues: Banks gross advances stood at INR 29,601 cr v/s INR 27,861 cr in last quarter (up 6.25% QoQ, up 37% YoY). They have been able to increase their advances despite seasonality, which has helped them to keep their profitability stable, even when their NIMs are decreasing. The growth momentum is expected to continue for remainder of the financial year. Further, Bank is work on new products like personal loan, credit card loans among others which are expected to roll out in next 12-15 months. This will further help them in advances growth.

Valuation & View: The bank was able to maintain their performance during the quarter, in terms of profitability, although their increasing cost of funds has put the NIMs under pressure. NIMs will continue to remain under pressure for coming quarters, owing to increasing cost of funds. However, we have a long term positive outlook on the company, since its advance growth has been robust during the quarter. Further, its new products will start contributing to its profitability soon. We maintain our BUY rating on the stock with a target price of INR 108, based on 1.8x P/ABV to its FY25E.

Exhibit 1: Financial Performance

in Cr.	NII	PPOP	PAT	NIM (%)	RoA (%)	RoE (%)	P/BV(x)
FY20	1,495	598	244	8.8%	1.3%	8.9%	3.4
FY21	1,798	887	384	8.5%	1.6%	11.3%	3.0
FY22	2,039	872	281	8.2%	1.0%	6.6%	2.6
FY23	2,545	1,176	574	8.5%	1.4%	11.1%	1.9
FY24E	3,168	1,549	829	8.6%	2.0%	13.8%	1.6
FY25E	3,862	1,939	1,038	8.8%	2.1%	14.8%	1.4

Source: Arihant Research, Company Filings

Q1FY24 - Quarterly Performance (Standalone)

(INR Cr)

Quarterly Result Update (INR in Cr)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Interest Income	1,254	1,156	940	8.5%	33.3%
Interest Expended	511	449	360	13.8%	42.0%
Net Interest Income	743	707	581	5.1%	28.0%
Other Income	171	239	133	-28.2%	28.6%
Operating Income	915	946	714	-3.3%	28.1%
Operating Expenses	602	559	446	7.7%	35.2%
Employee Expenses	328	304	226	7.9%	45.3%
Other Operating Expenses	274	255	220	7.5%	24.8%
PPOP	312	386	268	-19.2%	16.4%
Provisions	60	126	142	-52.2%	-57.6%
PBT	252	261	127	-3.3%	99.1%
Tax Expenses	61	71	30	-14.0%	105.7%
Net Income	191	190	97	0.6%	97.1%

Source: Arian Research, Company Filings

Concal Highlights:

Industry

Credit growth continues to be robust, with early signs of inflation softening. This indicates that growth momentum will continue to be robust during the remainder of the fiscal year. Further, sales for tractor and 3 wheeler vehicles have increased, thereby increasing vehicle loans.

Financial Highlights

- NII came at INR 743 cr v/s INR 707 cr last quarter v/s INR 581 cr in corresponding quarter last year (up 5.1% QoQ, up 28% YoY).
- PPOP arrived at INR 312 cr against INR 368 cr in last quarter (down 19.2% QoQ, up 16.2% YoY).
- PAT came at INR 191 cr (up 0.6% QoQ, up 97.1% YoY).

New Products

- New products like commercial vehicles, affordable housing are doing good and expected to contribute to profitability in coming quarters.
- Bank is working on new products like personal loan, car loan, credit card loan, among others and is expected to roll out in next 12 -15 months.

Key Metrics

- NIMs declined by 34 bps QoQ at 8.76%, driven by the increasing cost of funds and change in product mix.
- Their cost of funds has increased by 33 bps during the quarter. Further, 80% of their loan portfolio is fixed. This has put pressure on NIMs during the quarter. The cost of funds is expected to increase in coming quarters.

Key Financials

Profit & Loss Statement (in INR Cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Interest Income	3,194	3,460	4,162	5,304	6,404
Interest Expended	1,396	1,421	1,617	2,136	2,543
Net Interest Income	1,798	2,039	2,545	3,168	3,862
Other Income	418	538	670	792	965
Operating Income	2,216	2,576	3,214	3,960	4,827
Operating Expenses	1,329	1,704	2,038	2,411	2,888
Employee Expenses	791	898	1,097	1,344	1,665
Other Operating Expenses	538	806	942	1,066	1,222
PPOP	887	872	1,176	1,549	1,939
Provisions	335	433	407	366	457
PBT	551	438	769	1,184	1,482
Tax Expenses	167	158	195	355	445
Net Income	384	281	574	829	1,038

Balance Sheet (in INR Cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity & Liabilities					
Share Capital	1,139	1,252	1,111	1,111	1,111
Reserves & Surplus	2,257	2,994	4,047	4,876	5,914
Net Worth	3,396	4,246	5,158	5,986	7,024
Deposits	16,392	18,951	25,381	29,949	35,340
Borrowings	4,165	2,616	2,974	3,184	4,036
Other Liabilities and Provisions	762	1,139	1,446	1,947	2,682
Total Capital & Liabilities	24,715	26,952	34,958	41,066	49,082
Assets					
Cash & Balances with RBI	515	957	1,174	914	1,005
Balances with Other Banks & Call Money	2,864	1,176	70	1,120	1,243
Investments	3,705	4,450	6,665	7,331	7,698
Advances	16,848	19,374	25,799	30,467	38,075
Fixed Assets	185	200	379	717	724
Other Assets	598	795	872	517	336
Total Assets	24,715	26,952	34,958	41,066	49,082

Source: Arian Research, Company Filings

Ratios	FY21A	FY22A	FY23A	FY24E	FY25E
Growth rates					
Advances (%)	22.7%	15.0%	33.2%	18.1%	25.0%
Deposits (%)	51.9%	15.6%	33.9%	18.0%	18.0%
Total assets (%)	28.1%	9.0%	29.7%	17.5%	19.5%
NII (%)	20.2%	13.4%	24.8%	24.5%	21.9%
Pre-provisioning profit (%)	48.4%	-1.7%	34.9%	31.7%	25.2%
PAT (%)	57.7%	-26.9%	104.3%	44.5%	25.2%
Balance sheet ratios					
Credit/Deposit (%)	102.8%	102.2%	101.6%	101.7%	107.7%
CASA (%)	34.2%	52.0%	52.5%	53.0%	53.0%
Advances/Total assets (%)	68.2%	71.9%	73.8%	74.2%	77.6%
Leverage (x) (Asset/Shareholder's Fund)	7.3%	6.3%	6.8%	6.9%	7.0%
CAR (%)	24.2%	25.2%	24.9%	25.0%	24.0%
CAR - Tier I (%)	23.2%	24.5%	24.4%	24.6%	23.7%
Operating efficiency					
Cost/income (%)	60.0%	66.2%	63.4%	60.9%	59.8%
Opex/total assets (%)	5.4%	6.3%	5.8%	5.9%	5.9%
Opex/total interest earning assets	2.6%	2.4%	2.6%	2.5%	2.6%
Profitability					
NIM (%)	8.5%	8.2%	8.5%	8.6%	8.8%
RoA (%)	1.6%	1.0%	1.6%	2.0%	2.1%
RoE (%)	11.3%	6.6%	11.1%	13.8%	14.8%
Asset quality					
Gross NPA (%)	3.6%	4.1%	2.9%	3.0%	2.9%
Net NPA (%)	1.6%	2.5%	1.4%	1.2%	0.9%
PCR (%)	58.6%	42.7%	56.8%	63.6%	69.6%
Credit cost (%)	2.0%	2.2%	1.6%	1.2%	1.2%
Per share data / Valuation					
EPS (INR)	3.4	2.2	5.2	7.5	9.3
BVPS (INR)	30	34	46	54	63
ABVPS (INR)	27	30	43	51	60
P/E (x)	26.1	39.2	17.0	11.8	9.4
P/BV (x)	3.0	2.6	1.9	1.6	1.4
P/ABV (x)	3.2	2.9	2.0	1.7	1.5

Source: Arian Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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