

**CMP: INR 89**

**Rating: BUY**

**Target Price: INR 129**

**Stock Info**

BSE	543243
NSE	EQUITASBNK
Bloomberg	EQUITASB
Reuters	EQUI.BO
Sector	Financial Services
Face Value (INR)	10
Equity Capital (INR Cr)	1111
Mkt Cap (INR Cr)	9871
52w H/L (INR)	116 / 82.1
Avg Yearly Vol (in 000')	4,720

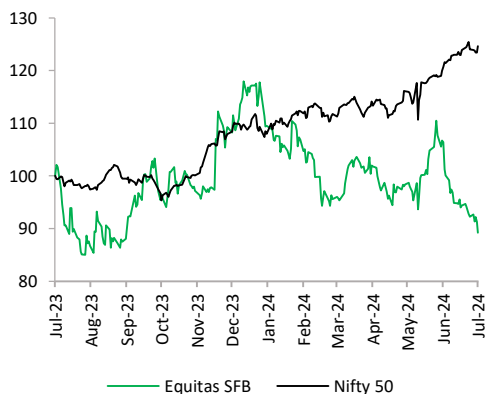
**Shareholding Pattern %**

(As on June, 2024)

Promoters	-
Public & Others	100

Stock Performance (%)	1m	6m	12m
Equitas SFB	-16.2	-18.2	-10.8
Nifty	3.3	13.4	24.6

**Equitas SFB Vs Nifty**



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Equitas small finance bank reported a net profit of INR 258 mn v/s INR 2076 mn in Q4FY24 v/s 1912 mn in corresponding quarter last year (down 87.6% QoQ, down 86.5% YoY). The profitability decrease is driven by substantial increase of provisions from INR 601 mn in Q1FY24 to INR 3046 mn in Q1FY25 (Q4FY24: INR 2076 mn). Net interest income grew by 7.9% YoY/ 2% QoQ at INR 8015 mn, though the NIMs of the bank declined during the quarter at 8.0% (down 20 bps QoQ, down 79 bps YoY) on account of slowdown of disbursements in microfinance segment. Asset quality deteriorated as GNPA ratio for the quarter increased by 12 bps QoQ. However, there was improvement in NNPA as it declined by 35 bps sequentially.

**Asset quality deteriorated, led by increase in slippages in microfinance book:** Banks GNPA increased by 12bps QoQ at 2.73%. However, there was improvement in NNPA as it declined by 35 bps sequentially. This was one-time correction done by increasing the PCR as the NNPA levels should be less than 1% in order to apply for universal bank license. Microfinance asset quality remains a concern as slippages continue to remain elevated. Fresh slippages during the quarter increased by 80.1% YoY and 8.3% QoQ to INR 3.85 bn and slippage ratio for the quarter stood at 4.49%, which is above the comfort level of 4% for small finance bank. The slippages primarily arising from commercial vehicle finance and micro finance segment.

**Advances growth momentum continues:** Banks gross advances stood at INR 348.71 bn v/s INR 296.01 bn in Q1FY24 (+18% YoY, +2% QoQ). Growth in Small business loan segment stood at 27% YoY, Micro finance loans were up 6% YoY while housing finance growth stood at 35% YoY. Vehicle finance loan growth was at 15% YoY in which used car segment portfolio growth was sharper at 59% YoY.

**NIMs continue to remain under pressure:** Net interest margin declined by 20 bps QoQ to 8.0% and by 79 bps YoY, on account of slowdown of disbursements in microfinance segment. Further, lower margins was due to increase in cost of funds. The cost of funds increased by 52 bps YoY at 7.5% (+2 bps QoQ). The interest rates are expected to remain stable in coming periods, which will stabilize their cost of funds.

**Valuation & View:**

The company's net profit was impacted on account of higher provisions during the quarter. NNPA improved due to the one-time correction done by increasing the PCR as the NNPA levels should be less than 1% in order to apply for universal bank license. The bank aims for a 25% gross advances growth, with emphasis on specific segments such as Micro LAP and used vehicle financing. NIMs were impacted owing to rise in cost of funds and slowdown in disbursement in microfinance segment. The management expects slippages in the commercial vehicle segment to reduce in the upcoming quarters. We continue to remain positive on the stock. We continue to maintain our BUY rating on the stock with a target price of INR 129, based on 1.5x P/ABV to its FY27E.

**Exhibit 1: Financial Performance**

in Bn.	NII	PPOP	PAT	NIM (%)	RoA (%)	RoE (%)	P/BV(x)
FY22	20.39	8.72	2.81	8.2%	1.0%	6.6%	2.9
FY23	25.45	11.76	5.74	8.5%	1.4%	11.1%	2.1
FY24E	30.80	13.77	7.99	8.0%	1.8%	13.4%	1.9
FY25E	37.65	18.18	9.47	8.1%	1.8%	13.7%	1.6
FY26E	48.11	24.74	13.18	8.7%	2.1%	16.0%	1.4
FY27E	63.26	7.61	18.84	9.3%	2.5%	18.6%	1.1

Source: Arihant Research, Company Filings

## Q1FY25 - Quarterly Performance (Standalone)

(INR Mn)

Quarterly Result Update (INR mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Interest Income	15,010	14,447	12,540	3.9%	19.7%
Interest Expended	6,995	6,588	5,108	6.2%	36.9%
<b>Net Interest Income</b>	<b>8,015</b>	<b>7,859</b>	<b>7,431</b>	<b>2.0%</b>	<b>7.9%</b>
Other Income	2,087	2,405	1,714	-13.2%	21.8%
Operating Income	10,102	10,263	9,145	-1.6%	10.5%
Operating Expenses	6,698	6,516	6,024	2.8%	11.2%
Employee Expenses	3,747	3,634	3,280	3.1%	14.2%
Other Operating Expenses	2,951	2,882	2,744	2.4%	7.5%
<b>PPOP</b>	<b>3,404</b>	<b>3,748</b>	<b>3,121</b>	<b>-9.2%</b>	<b>9.1%</b>
Provisions	3,046	1,066	601	185.8%	407.2%
PBT	358	2,682	2,521	-86.7%	-85.8%
Tax Expenses	100	605	609	-83.5%	-83.6%
<b>Net Income</b>	<b>258</b>	<b>2,076</b>	<b>1,912</b>	<b>-87.6%</b>	<b>-86.5%</b>
<b>Balance Sheet Analysis</b>					
Advances	31,926	30,964	2,75,260	3.1%	16.0%
Deposits	37,524	36,129	2,77,090	3.9%	35.4%
Total Assets	46,446	45,304	3,80,420	2.5%	22.1%
CASA Deposits	11,724	11,552	1,05,294	1.5%	11.3%
CASA (%)	31.0%	32.0%	38.0%	-100bps	-700bps
CAR (%)	20.6%	21.7%	22.1%	-115bps	-151bps
<b>Spreads</b>					
NIMs (%)	8.0%	8.2%	8.8%	-20bps	-79bps
Cost of Funds	7.5%	7.4%	6.9%	2bps	52bps
Yield on Average Advances	16.9%	17.0%	17.1%	-16bps	-28bps
<b>Asset Quality</b>					
GNPA	889	821	7,702	8.3%	15.4%
NNPA	264	361	3,251	-26.8%	-18.8%
GNPA (%)	2.7%	2.6%	2.8%	12bps	-2bps
NNPA (%)	0.8%	1.2%	1.2%	-34bps	-35bps
<b>Returns &amp; Expenses</b>					
RoA	0.22%	1.83%	2.01%	-161bps	-179bps
RoE	1.71%	13.91%	14.27%	-1220bps	-1255bps
Cost / Income Ratio	66.30%	63.49%	65.87%	282bps	43bps

Source: Arianth Research, Company Filings

**Concall Highlights:****Guidance**

- Management has given a loan book growth guidance of around 25% for FY25.
- PCR and cost to income ratio is expected to be at similar levels.
- Management expects ROA to be at 2.25%.
- Slippages in the commercial vehicle segment are expected to reduce in the upcoming quarters.
- With the upcoming festival season in Q2FY25, the management is hopeful for upswing in the consumer cycle.

**Highlights**

- NIMs declined by 20 bps QoQ/ 79 bps YoY to 7.97%, on account of slowdown of disbursements in microfinance segment.
- Operating expenses increased by 11% YoY/ 2.8% QoQ to INR 6.70 bn, during the quarter.
- Provisions for the quarter increased by 407% YoY and 186% QoQ to INR 3.05 bn. This impacted the net profit of the bank during the quarter.
- Microfinance book witnessed a muted growth on a YoY basis, in line with the bank's strategy to reduce microfinance weightage over a period of time.
- Disbursements for the quarter decreased by 15% YoY/ 21% QoQ to INR 40.29 bn, impacted by general elections, extended heatwaves and business seasonality.
- Asset quality deteriorated as GNPA ratio for the quarter increased by 12 bps QoQ. However, there was improvement in NNPA as it declined by 34 bps sequentially. This was one-time correction done by increasing the PCR as the NNPA levels should be less than 1% in order to apply for universal bank license.
- Microfinance asset quality remains a concern as slippages continue to remain elevated and centre discipline remains poor. Bank remains cautious on growth in this segment.
- Fresh slippages during the quarter increased by 80.1% YoY/ 8.3% QoQ to INR 3.85 bn and slippage ratio for the quarter stood at 4.49%, which is above the comfort level of 4% for small finance bank.
- The slippages primarily arising from commercial vehicle finance and micro finance segment.
- Recoveries and upgrades for the quarter stood at INR 0.59 bn and INR 1.21 bn, respectively.
- Provision coverage ratio for the quarter improved on a QoQ basis from 56.06% to 70.29%, because in order to apply for universal bank license PCR should be more than 70%, as per RBI guidelines.
- Their investments in technology to help build more customer stickiness through app and launch of credit cards, personal loans, etc are progressing well. These products are expected to be rolled out in few months.

## Key Financials

Profit & Loss Statement (Inr bn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Interest Income	34.6	41.6	54.9	66.2	82.0	103.5
Interest Expended	14.2	16.2	24.1	28.6	33.8	40.2
<b>Net Interest Income</b>	<b>20.4</b>	<b>25.4</b>	<b>30.8</b>	<b>37.6</b>	<b>48.1</b>	<b>63.3</b>
Other Income	5.4	6.7	8.0	9.4	12.0	15.8
Operating Income	25.8	32.1	38.8	47.1	60.1	79.1
Operating Expenses	17.0	20.4	25.0	28.9	35.4	44.6
Employee Expenses	9.0	11.0	13.7	16.7	21.5	28.9
Other Operating Expenses	8.1	9.4	11.3	12.2	13.9	15.6
<b>PPOP</b>	<b>8.7</b>	<b>11.8</b>	<b>13.8</b>	<b>18.2</b>	<b>24.7</b>	<b>34.5</b>
Provisions	4.3	4.1	3.1	4.7	5.9	7.6
PBT	4.4	7.7	10.6	13.5	18.8	26.9
Tax Expenses	1.6	2.0	2.6	4.1	5.7	8.1
<b>Net Income</b>	<b>2.8</b>	<b>5.7</b>	<b>8.0</b>	<b>9.5</b>	<b>13.2</b>	<b>18.8</b>

Balance Sheet (in INR Bn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Equity &amp; Liabilities</b>						
Share Capital	12.5	11.1	11.3	11.3	11.3	11.3
Reserves & Surplus	29.9	40.5	48.3	57.8	71.0	89.8
Net Worth	42.5	51.6	59.7	69.2	82.3	101.2
Deposits	189.5	253.8	361.3	426.3	503.1	593.6
Borrowings	26.2	29.7	17.9	22.7	28.1	36.8
Other Liabilities and Provisions	11.4	14.5	14.2	19.5	21.8	25.4
<b>Total Capital &amp; Liabilities</b>	<b>269.5</b>	<b>349.6</b>	<b>453.0</b>	<b>537.7</b>	<b>635.3</b>	<b>756.9</b>
<b>Assets</b>						
Cash & Balances with RBI	9.6	11.7	35.0	10.2	11.2	12.4
Balances with Other Banks & Call Money	11.8	0.7	0.8	4.0	4.8	5.8
Investments	44.5	66.6	90.7	95.2	99.9	104.9
Advances	193.7	258.0	309.6	387.8	492.3	634.1
Fixed Assets	2.0	3.8	6.0	7.6	9.4	11.8
Other Assets	7.9	8.7	11.0	32.9	17.6	-12.1
<b>Total Assets</b>	<b>269.5</b>	<b>349.6</b>	<b>453.0</b>	<b>537.7</b>	<b>635.3</b>	<b>756.9</b>

Source: Arianth Research, Company Filings

Ratios	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Growth rates</b>						
Advances (%)	15.0%	33.2%	20.0%	25.3%	26.9%	28.8%
Deposits (%)	15.6%	33.9%	42.3%	18.0%	18.0%	18.0%
Total assets (%)	9.0%	29.7%	29.6%	18.7%	18.2%	19.1%
NII (%)	13.4%	24.8%	21.0%	22.2%	27.8%	31.5%
Pre-provisioning profit (%)	-1.7%	34.9%	17.1%	32.0%	36.1%	39.5%
PAT (%)	-26.9%	104.3%	39.3%	18.5%	39.3%	42.9%
<b>Balance sheet ratios</b>						
Credit/Deposit (%)	102.2%	101.6%	85.7%	91.0%	97.9%	106.8%
CASA (%)	52.0%	52.5%	53.0%	53.0%	53.0%	53.0%
Advances/Total assets (%)	71.9%	73.8%	68.3%	72.1%	77.5%	83.8%
Leverage (x) (Asset/Shareholder's Fund)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
CAR (%)	25.2%	24.9%	24.4%	23.1%	21.6%	20.6%
CAR - Tier I (%)	24.5%	24.4%	24.0%	22.8%	21.4%	20.4%
<b>Operating efficiency</b>						
Cost/income (%)	66.2%	63.4%	64.5%	61.4%	58.9%	56.3%
Opex/total assets (%)	6.3%	5.8%	5.5%	5.4%	5.6%	5.9%
Opex/total interest earning assets	2.4%	2.6%	2.5%	2.4%	2.7%	2.9%
<b>Profitability</b>						
NIM (%)	8.2%	8.5%	8.0%	8.1%	8.7%	9.3%
RoA (%)	1.0%	1.6%	1.8%	1.8%	2.1%	2.5%
RoE (%)	6.6%	11.1%	13.4%	13.7%	16.0%	18.6%
<b>Asset quality</b>						
Gross NPA (%)	4.1%	2.9%	2.9%	2.8%	2.7%	2.6%
Net NPA (%)	2.5%	1.4%	1.1%	0.9%	0.7%	0.6%
PCR (%)	42.7%	56.8%	63.7%	69.8%	75.1%	79.7%
Credit cost (%)	2.2%	1.6%	1.0%	1.2%	1.2%	1.2%
<b>Per share data / Valuation</b>						
EPS (INR)	2.2	5.2	7.0	8.3	11.6	16.6
BVPS (INR)	34	46	53	61	73	89
ABVPS (INR)	30	43	50	58	69	86
P/E (x)	44.0	19.1	14.0	11.8	8.5	5.9
P/BV (x)	2.9	2.1	1.9	1.6	1.4	1.1
P/ABV (x)	3.3	2.3	2.0	1.7	1.4	1.1

Source: Arianth Research, Company Filings

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**Stock Rating Scale**

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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