

CMP: INR 101

Rating: BUY

Target Price: INR 125

Stock Info

BSE	543243
NSE	EQUITASBNK
Bloomberg	EQUITASB
Reuters	EQUI.BO
Sector	Financial Services
Face Value (INR)	10
Equity Capital (INR Cr)	1,122
Mkt Cap (INR Cr)	11,049
52w H/L (INR)	101 / 47
Avg Yearly Vol (in 000')	5292

Shareholding Pattern %

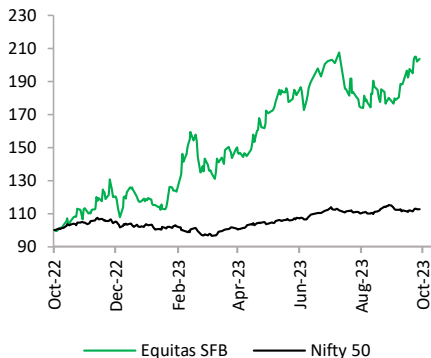
(As on September, 2023)

Promoters	-
Public & Others	100

Stock Performance (%)

	1m	6m	12m
Equitas SFB	17.5	41.5	108
Nifty	-1.4	11.4	11.7

Equitas SFB Vs Nifty



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Equitas small finance bank reported a net profit of INR 1.98 bn v/s INR 1.91 bn in Q1FY24 v/s 1.19 bn in corresponding quarter last year (up 3.6% QoQ, up 66% YoY). The profitability increase is driven by strong NII growth of 26% YoY at INR 7.65 bn (+3% QoQ), though the NIMs of the bank declined during the quarter at 8.43% (down 33 bps QoQ, down 57 bps YoY) on account of increasing cost of funds. Asset quality improved. GNPA of the bank improved at 2.12% (-48bps QoQ/ -179bps YoY). NNPA came at 1.12% during the quarter (Flat QoQ, down 21bps YoY).

Increase in Profitability, driven by increasing yield on advances: Net income grew by 66% YoY/ 3.6% QoQ at INR 1.98 bn. Bank has seen a good growth of high yielding product like vehicle financing, affordable housing among others, during the quarter. This increased their yield on advances from 17.13% in Q1FY24 to 17.41% in Q2FY24 (+28bps QoQ, +31bps YoY). NIMs saw a decline of 33bps QoQ at 8.43% (-57 bps YoY), led by the increasing cost of funds. Management has given a NIM guidance of 8.5%. Their cost of funds has increased by 27 bps during the quarter. The cost of funds is expected to increase in coming quarters due to the impact of deposit repricing. NIMs will continue to remain under pressure. Credit growth momentum continues to be strong.

Asset quality improved led by increase in recoveries: Banks GNPA improved on a sequential basis by 48 bps at 2.12% (-179bps YoY). NNPA remained flat sequentially at 1.12% and improved by 21 bps YoY. Bank has made additional provisions of INR 2.8 bn during the quarter and PCR increased to 57.7% from 50.4% in Q2FY23.

Advances growth momentum continues: Banks gross advances stood at INR 312 bn v/s INR 296 bn in Q1FY24 (+37% YoY, +5% QoQ). They have been able to increase their advances due to good industry growth across various segments, which has helped them to keep their increase their profitability, despite decreasing NIMs. The growth momentum is expected to continue for remainder of the financial year.

Valuation & View:

Bank has shown a good performance in terms of profitability and asset quality among others. The cost of funds is expected to increase at 7.25 – 7.5%, driven by the repricing of deposits, which will put the NIMs under pressure. Credit growth is expected to remain strong at 25 – 30%, led by the healthy demand across sectors. We have a positive outlook on the stock. We maintain our BUY rating on the stock with a target price of INR 125, based on 1.7x P/ABV to its FY26E.

Exhibit 1: Financial Performance

In Bn.	NII	PPOP	PAT	NIM (%)	RoA (%)	RoE (%)	P/BV(x)
FY21	17.98	8.87	3.84	8.5%	1.6%	11.3%	3.0
FY22	20.39	8.72	2.81	8.2%	1.0%	6.6%	2.6
FY23	25.45	11.76	5.74	8.5%	1.4%	11.1%	1.9
FY24E	31.95	15.83	8.48	8.7%	2.1%	14.1%	1.6
FY25E	39.35	20.31	10.96	9.0%	2.2%	15.4%	1.4
FY26E	49.00	25.86	13.97	2.2%	15.4%	0.0%	1.4

Source: Arihant Research, Company Filings

Q2FY24 - Quarterly Performance (Standalone)

(INR Mn)

Quarterly Result Update (INR mn)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Interest Income	13,590	12,540	10,024	8.4%	35.6%
Interest Expended	5,934	5,108	3,927	16.2%	51.1%
Net Interest Income	7,656	7,431	6,097	3.0%	25.6%
Other Income	1,814	1,714	1,450	5.8%	25.1%
Operating Income	9,470	9,145	7,547	3.5%	25.5%
Operating Expenses	6,168	6,024	5,124	2.4%	20.4%
Employee Expenses	3,315	3,280	2,751	1.1%	20.5%
Other Operating Expenses	2,853	2,744	2,373	3.9%	20.2%
PPOP	3,302	3,121	2,423	5.8%	36.3%
Provisions	632	601	901	5.2%	-29.9%
PBT	2,670	2,521	1,522	5.9%	75.4%
Tax Expenses	689	609	328	13.2%	110.0%
Net Income	1,981	1,912	1,194	3.6%	65.9%
Balance Sheet Analysis					
Advances	287,680	275,260	218,400	4.5%	31.7%
Deposits	308,390	277,090	217,260	11.3%	41.9%
Total Assets	401,290	380,420	299,240	5.5%	34.1%
CASA Deposits	104,853	105,294	104,560	-0.4%	0.3%
CASA (%)	34.0%	38.0%	48.1%	-400bps	-1413bps
CAR (%)	21.3%	22.1%	23.1%	-73bps	-175bps
Spreads					
NIMs (%)	7.4%	8.8%	9.0%	-133bps	-157bps
Cost of Funds	7.2%	6.9%	6.3%	27bps	96bps
Yield on Average Advances	17.4%	17.1%	17.1%	28bps	32bps
Asset Quality					
GNPA	6,605	7,702	8,703	-14.2%	-24.1%
NNPA	2,793	3,251	4,309	-14.1%	-35.2%
GNPA (%)	2.1%	2.6%	3.8%	-48bps	-170bps
NNPA (%)	0.9%	1.1%	1.9%	-21bps	-102bps
Returns & Expenses					
RoA	1.98%	2.01%	1.60%	-4bps	38bps
RoE	14.47%	14.27%	10.69%	20bps	377bps
Cost / Income Ratio	65.13%	65.87%	67.89%	-74bps	-276bps

Source: Arihant Research, Company Filings

Concall Highlights:

- There is healthy demand across sectors for products in which company is operating.
- It has helped the company to sustain credit growth with advances growing at 37% YoY and 6% QoQ at INR 312 bn, which is expected to be 25 – 30% going forward.
- **NII growth remains strong** with a growth of 26% YoY, at INR 7.65 bn (+3% QoQ).
- Equitas SFB witnessed **good growth in high yielding products**, like vehicle financing, housing finance among others. It increased their yield on advances from 17.13% in Q1FY24 to 17.41% in Q2FY24 (+28bps QoQ, +31bps YoY).
- **NIMs were under pressure** during the quarter and saw a decline of 33bps QoQ at 8.43% (-57 bps YoY), led by the increasing cost of funds. NIMs are expected to remain under pressure for remaining quarters.
- The **cost of funds** grew by 27bps QoQ at 7.21% (+96bps YoY). Management has given a guidance of 7.25% - 7.5%.
- The **lending rate increased** during Q2FY24, the impact of which is expected to be seen in the coming quarters.
- Bank has seen a good growth in its new product, **used car financing**. Its advances grew by 16.9% QoQ at INR 9.84 bn. The demand of used car is doing good, which will help it to grow further.
- Further, the demand for affordable housing is also strong.
- **CASA ratio** declined from 38% in Q1FY24 to 34% in Q2FY24 (Q2FY24: 48.05%) Bank is planning to take initiatives to improve their CASA ratio.
- **Total deposits** stood at INR 308.4 bn v/s 217.26 bn (+11% QoQ).
- Bank is comfortable with their current portfolio mix and no major changes are expected.

Key Financials

Profit & Loss Statement (in INR bn)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Interest Income	31.9	34.6	41.6	53.4	64.9	80.8
Interest Expended	14.0	14.2	16.2	21.5	25.5	31.8
Net Interest Income	18.0	20.4	25.4	31.9	39.4	49.0
Other Income	4.2	5.4	6.7	8.0	9.8	12.3
Operating Income	22.2	25.8	32.1	39.9	49.2	61.3
Operating Expenses	13.3	17.0	20.4	24.1	28.9	35.4
Employee Expenses	7.9	9.0	11.0	13.4	16.7	21.5
Other Operating Expenses	5.4	8.1	9.4	10.7	12.2	13.9
PPOP	8.9	8.7	11.8	15.8	20.3	25.9
Provisions	3.4	4.3	4.1	3.7	4.7	5.9
PBT	5.5	4.4	7.7	12.1	15.7	20.0
Tax Expenses	1.7	1.6	2.0	3.6	4.7	6.0
Net Income	3.8	2.8	5.7	8.5	11.0	14.0

Balance Sheet (in INR Cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Equity & Liabilities						
Share Capital	11.4	12.5	11.1	11.1	11.1	11.1
Reserves & Surplus	22.6	29.9	40.5	49.0	59.9	73.9
Net Worth	34.0	42.5	51.6	60.1	71.0	85.0
Deposits	163.9	189.5	253.8	299.5	353.4	417.0
Borrowings	41.7	26.2	29.7	33.0	41.8	70.5
Other Liabilities and Provisions	7.6	11.4	14.5	19.5	26.8	35.1
Total Capital & Liabilities	247.2	269.5	349.6	412.0	493.1	607.6
Assets	-	-	-	-	-	-
Cash & Balances with RBI	5.1	9.6	11.7	9.3	10.2	11.2
Balances with Other Banks & Call Money	28.6	11.8	0.7	6.7	4.0	4.8
Investments	37.1	44.5	66.6	73.3	77.0	80.8
Advances	168.5	193.7	258.0	309.6	387.8	492.3
Fixed Assets	1.9	2.0	3.8	4.7	5.9	7.4
Other Assets	6.0	7.9	8.7	8.4	8.2	11.0
Total Assets	247.2	269.5	349.6	412.0	493.1	607.6

Source: Arihant Research, Company Filings

Ratios	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Growth rates						
Advances (%)	22.7%	15.0%	33.2%	20.0%	25.3%	26.9%
Deposits (%)	51.9%	15.6%	33.9%	18.0%	18.0%	18.0%
Total assets (%)	28.1%	9.0%	29.7%	17.9%	19.7%	23.2%
NII (%)	20.2%	13.4%	24.8%	25.5%	23.2%	24.5%
Pre-provisioning profit (%)	48.4%	-1.7%	34.9%	34.6%	28.3%	27.3%
PAT (%)	57.7%	-26.9%	104.3%	47.8%	29.3%	27.4%
Balance sheet ratios						
Credit/Deposit (%)	102.8%	102.2%	101.6%	103.4%	109.7%	118.0%
CASA (%)	34.2%	52.0%	52.5%	53.0%	53.0%	53.0%
Advances/Total assets (%)	68.2%	71.9%	73.8%	75.1%	78.6%	81.0%
Leverage (x) (Asset/Shareholder's Fund)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
CAR (%)	24.2%	25.2%	24.9%	24.7%	23.8%	22.4%
CAR - Tier I (%)	23.2%	24.5%	24.4%	24.2%	23.5%	22.1%
Operating efficiency						
Cost/income (%)	60.0%	66.2%	63.4%	60.4%	58.7%	57.8%
Opex/total assets (%)	5.4%	6.3%	5.8%	5.9%	5.9%	5.8%
Opex/total interest earning assets	2.6%	2.4%	2.6%	2.5%	2.6%	2.8%
Profitability						
NIM (%)	8.5%	8.2%	8.5%	8.7%	9.0%	9.2%
RoA (%)	1.6%	1.0%	1.6%	2.1%	2.2%	2.3%
RoE (%)	11.3%	6.6%	11.1%	14.1%	15.4%	16.4%
Asset quality						
Gross NPA (%)	3.6%	4.1%	2.9%	2.9%	2.8%	2.7%
Net NPA (%)	1.6%	2.5%	1.4%	1.1%	0.9%	0.7%
PCR (%)	58.6%	42.7%	56.8%	63.7%	69.8%	75.1%
Credit cost (%)	2.0%	2.2%	1.6%	1.2%	1.2%	1.2%
Per share data / Valuation						
EPS (INR)	3.4	2.2	5.2	7.6	9.9	12.6
BVPS (INR)	30	34	46	54	64	77
ABVPS (INR)	27	30	43	51	61	73
P/E (x)	29.9	45.0	19.6	13.2	10.2	8.0
P/BV (x)	3.4	3.0	2.2	1.9	1.6	1.3
P/ABV (x)	3.7	3.4	2.3	2.0	1.7	1.4

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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