

CMP: INR 106

Rating: Accumulate

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)	1,132
Mkt Cap (INR Cr)	12,031
52w H/L (INR)	117 / 52
Avg Yearly Vol (in 000')	6175

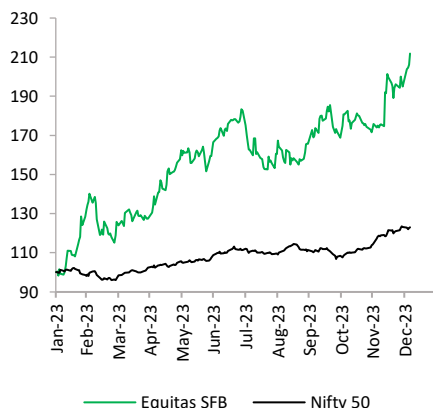
Shareholding Pattern %

(As on December, 2023)

Promoters	-
Public & Others	100

Stock Performance (%)	1m	6m	12m
Equitas SFB	0.47	11.9	95.9
Nifty	-1.74	8.09	20.99

Equitas SFB Vs Nifty



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Equitas small finance bank reported a net profit of INR 2.02 bn v/s INR 1.98 bn in Q2FY24 v/s 1.70 bn in corresponding quarter last year (up 1.9% QoQ, up 18.7% YoY). The profitability increase is driven by strong NII growth of 21.3% YoY at INR 7.85 bn (+2.6% QoQ), though the NIMs of the bank declined during the quarter at 8.37% (down 6 bps QoQ, down 64 bps YoY) on account of increasing cost of funds and partly due to fall in credit-to-deposit ratio. Asset quality improved on a YoY basis. GNPA of the bank improved at 2.53% (+48bps QoQ/ -93bps YoY). NNPA came at 1.13% during the quarter (+22bps QoQ, down 60bps YoY).

Asset quality improved on a YoY basis: Banks GNPA improved on a YoY basis by 93 bps at 2.53% (+41bps QoQ). NNPA improved by 60 bps YoY at 1.13% (+22 bps QoQ). Though the asset quality improved on YoY basis, it degraded sequentially, due to the increase in slippages during the quarter. The slippages increased from 2.56 bn to 3.12 bn sequentially (+21.6% QoQ). The slippages increased on account of heavy floods in Tamil Nadu and are primarily arising from vehicle finance and micro finance segment. Slippage ratio for the quarter stood at 3.99%.

Advances growth momentum continues: Banks gross advances stood at INR 327 bn v/s INR 312 bn in Q2FY24 (+31.3% YoY, +4.8% 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.

NIMs continue to remain under pressure: Net interest margin declined by 6 bps QoQ to 8.37% and by 64 bps YoY, lower margins was partly due to fall in credit-to-deposit ratio and increase in cost of funds. The cost of funds increased by 15 bps QoQ at 7.36% (+95 bps YoY), owing to repricing of deposits. The interest rates are expected to remain stable in next year, which will stabilize their cost of funds.

Valuation & View:

The bank exhibited robust profitability in the latest quarter, although its Net Interest Margins faced downward pressure due to rising costs of funds, primarily attributable to deposit repricing. Credit growth is expected to remain strong at 25 – 30%, led by the healthy demand across sectors. We continue to remain positive on the stock. We reduce our rating to Accumulate 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%	3.6
FY22	20.39	8.72	2.81	8.2%	1.0%	6.6%	3.1
FY23	25.45	11.76	5.74	8.5%	1.4%	11.1%	2.3
FY24E	31.95	15.83	8.48	8.7%	2.1%	14.1%	2.0
FY25E	39.35	20.31	10.96	9.0%	2.2%	15.4%	1.7
FY26E	49.00	25.86	13.97	9.2%	2.3%	16.4%	1.4

Source: Arihant Research, Company Filings

Q3FY24 - Quarterly Performance (Standalone)

(INR Mn)

Quarterly Result Update (INR mn)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Interest Income	14,288	13,590	10,634	5.1%	34.4%
Interest Expended	6,437	5,934	4,159	8.5%	54.8%
Net Interest Income	7,851	7,656	6,475	2.6%	21.3%
Other Income	2,055	1,814	1,526	13.3%	34.6%
Operating Income	9,906	9,470	8,001	4.6%	23.8%
Operating Expenses	6,303	6,168	5,210	2.2%	21.0%
Employee Expenses	3,460	3,315	2,920	4.4%	18.5%
Other Operating Expenses	2,843	2,853	2,290	-0.3%	24.1%
PPOP	3,603	3,302	2,791	9.1%	29.1%
Provisions	844	632	499	33.5%	69.1%
PBT	2,759	2,670	2,292	3.3%	20.4%
Tax Expenses	739	689	591	7.4%	25.1%
Net Income	2,020	1,981	1,701	1.9%	18.7%
Balance Sheet Analysis					
Advances	2,92,100	2,87,680	2,32,770	1.5%	25.5%
Deposits	3,23,850	3,08,390	2,33,930	5.0%	38.4%
Total Assets	4,15,810	4,01,290	3,18,050	3.6%	30.7%
CASA Deposits	1,05,930	1,04,853	1,08,170	1.0%	-2.1%
CASA (%)	34.0%	34.0%	46.2%	0bps	-1224bps
CAR (%)	20.2%	21.3%	24.3%	-109bps	-404bps
Spreads					
NIMs (%)	8.4%	8.4%	9.0%	-6bps	-64bps
Cost of Funds	7.4%	7.2%	6.4%	15bps	95bps
Yield on Average Advances	17.6%	17.4%	17.0%	17bps	58bps
Asset Quality					
GNPA	7,503	6,605	8,614	13.6%	-12.9%
NNPA	3,303	2,793	4,234	18.3%	-22.0%
GNPA (%)	2.5%	2.1%	3.5%	41bps	-93bps
NNPA (%)	1.1%	0.9%	1.7%	22bps	-60bps
Returns & Expenses					
RoA	1.94%	1.98%	2.14%	-3bps	-20bps
RoE	14.14%	14.47%	14.67%	-33bps	-53bps
Cost / Income Ratio	63.63%	64.37%	65.12%	-107bps	-149bps

Source: Arianth Research, Company Filings

Concall Highlights:

- There is healthy demand across sectors for products in which company is operating.
- Net interest margin declined by 6 bps QoQ to 8.37% and by 64 bps YoY, lower margins was partly due to fall in credit-to-deposit ratio and increase in cost of funds.
- Cost to income declined by 107 bps YoY/ 149 bps QoQ, attributed to treasury performance during the quarter.
- In Q3 FY24, the bank saw advances growth of 32% YoY and 5% sequentially.
- 85% of the loan book consists of fixed rate loans.
- Yield on disbursements improved by 120 bps YoY/ 47 bps QoQ to 18.77% in Q3 FY24. This has helped the bank to mitigate the some of the impact of rising interest rates. The interest rate has significantly increase in the vehicle finance, micro finance and small business loans.
- NII growth remains strong with a growth of 21.3% YoY, at INR 7.85 bn (+2.6% QoQ).
- Asset quality improved on a YoY basis as GNPA & NNPA ratio for the quarter declined by 93 bps and 60 bps, respectively.
- Fresh slippages during the quarter increased by 21.6% QoQ to INR 3.12 bn and slippage ratio for the quarter stood at 3.99%. The slippages increased on account of heavy floods in Tamil Nadu and are primarily arising from vehicle finance and micro finance segment.
- Recoveries and upgrades for the quarter stood at INR 0.70 bn and INR 1.02 bn, respectively.
- Provision coverage ratio for the quarter improved on a YoY basis from 50.8% to 55.97%, while sequentially it declined by 175 bps. The bank continues to follow stringent provision norms across product segments.
- They expect loan growth for FY24 to be in the range of 25%-28%.
- Company guided slippages to be in the range of 3%-4%, going forward.
- They expect credit cost & NIM for FY24 to be 1.25% & 8.5%, respectively.
- Bank have a target ROA of 2.25%, going forward.

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)	31.4	47.3	20.5	13.9	10.7	8.4
P/BV (x)	3.6	3.1	2.3	2.0	1.7	1.4
P/ABV (x)	3.9	3.5	2.4	2.1	1.7	1.4

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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