

CMP: INR 97.75

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)	1,140
Mkt Cap (INR Cr)	11,320
52w H/L (INR)	117 / 68
Avg Yearly Vol (in 000')	5364

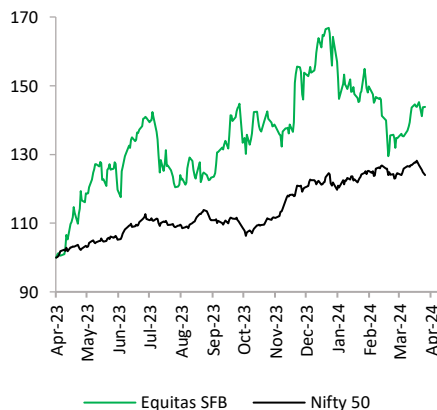
Shareholding Pattern %

(As on March, 2024)

Promoters	-
Public & Others	100

Stock Performance (%)	1m	6m	12m
Equitas SFB	7.1	7.8	45.6
Nifty	1.92	17.3	26.4

Equitas SFB Vs Nifty



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Equitas small finance bank reported a net profit of INR 2.07 bn v/s INR 2.02 bn in Q3FY24 v/s 1.90 bn in corresponding quarter last year (up 2.8% QoQ, up 9.3% YoY). The profitability increase is driven by NII growth of 11.2% YoY at INR 7.85 bn (+0.1% QoQ), though the NIMs of the bank declined during the quarter at 8.2% (down 20 bps QoQ, down 93 bps YoY) on account of increasing cost of funds. Asset quality improved on a YoY basis. GNPA of the bank improved at 2.61% (+8bps QoQ/ -15bps YoY). NNPA came at 1.17% during the quarter (+4bps QoQ, down 4bps YoY).

Asset quality improved on a YoY basis: Banks GNPA improved on a YoY basis by 15 bps at 2.61% (+8bps QoQ). NNPA improved marginally by 4 bps YoY at 1.17% (+4 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 3.12 bn to 3.56 bn sequentially (+13% QoQ). The slippages increased as the bank classified additional loans worth INR 0.39 bn as NPA owing to RBI clarification on co-borrower related issue. Slippage ratio for the quarter stood at 3.87% against 3.99% YoY during the quarter.

Advances growth momentum continues: Banks gross advances stood at INR 343 bn v/s INR 327 bn in Q3FY24 (+22.9% YoY, +4.8% QoQ). Growth in Small business loan segment stood at 30% YoY, Micro finance loans were up 20% YoY while housing finance growth stood at 46% YoY. Vehicle finance loan growth was at 19% YoY in which used car segment portfolio growth was sharper at 71% YoY. 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.

NIMs continue to remain under pressure: Net interest margin declined by 20 bps QoQ to 8.2% and by 93 bps YoY, lower margins was due to increase in cost of funds. The cost of funds increased by 8 bps QoQ at 7.44% (+83 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 future outlook for Equitas Small Finance Bank indicates a continued focus on growth and stability. 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 change in loan mix. One-off items like excess employee cost and provisions impacted net profit growth as it was up only 9.3% YoY. We continue to remain positive on the stock. We upgrade our rating to BUY 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%	3.1
FY23	25.45	11.76	5.74	8.5%	1.4%	11.1%	2.3
FY24E	30.80	13.77	7.99	8.7%	2.1%	14.1%	2.0
FY25E	37.65	18.18	9.47	9.0%	2.2%	15.4%	1.7
FY26E	48.11	24.74	13.18	9.2%	2.3%	16.4%	1.4
FY27E	63.26	7.61	18.84	9.3%	2.5%	18.6%	1.1

Source: Arihant Research, Company Filings

Q4FY24 - Quarterly Performance (Standalone)

(INR Mn)

Quarterly Result Update (INR mn)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Interest Income	14,447	14,288	11,557	1.1%	25.0%
Interest Expended	6,588	6,437	4,488	2.3%	46.8%
Net Interest Income	7,859	7,851	7,070	0.1%	11.2%
Other Income	2,405	2,055	2,387	17.0%	0.7%
Operating Income	10,263	9,906	9,457	3.6%	8.5%
Operating Expenses	6,516	6,303	5,593	3.4%	16.5%
Employee Expenses	3,634	3,460	3,039	5.0%	19.6%
Other Operating Expenses	2,882	2,843	2,553	1.4%	12.9%
PPOP	3,748	3,603	3,864	4.0%	-3.0%
Provisions	1,066	844	1,256	26.3%	-15.1%
PBT	2,682	2,759	2,608	-2.8%	2.8%
Tax Expenses	605	739	707	-18.1%	-14.4%
Net Income	2,076	2,020	1,900	2.8%	9.3%
Balance Sheet Analysis					
Advances	30,964	2,92,100	25,799	6.0%	20.0%
Deposits	36,129	3,23,850	25,381	11.6%	42.3%
Total Assets	45,304	4,15,810	34,958	9.0%	29.6%
CASA Deposits	11,552	1,05,930	10,732	9.1%	7.6%
CASA (%)	32.0%	34.0%	42.3%	-200bps	-1028bps
CAR (%)	21.7%	20.2%	23.8%	146bps	-210bps
Spreads					
NIMs (%)	8.2%	8.4%	9.1%	-20bps	-93bps
Cost of Funds	7.4%	7.4%	6.6%	8bps	83bps
Yield on Average Advances	17.0%	17.6%	17.1%	-58bps	-5bps
Asset Quality					
GNPA	821	7,503	724	9.5%	13.4%
NNPA	361	3,303	312	9.2%	15.7%
GNPA (%)	2.6%	2.5%	2.8%	8bps	-15bps
NNPA (%)	1.2%	1.1%	1.2%	4bps	-4bps
Returns & Expenses					
RoA	1.83%	1.94%	2.17%	-11bps	-34bps
RoE	13.91%	14.14%	14.74%	-23bps	-82bps
Cost / Income Ratio	63.49%	63.63%	59.14%	-14bps	435bps

Source: Arihant Research, Company Filings

Concall Highlights:**Guidance**

- Overall loan growth is expected at 25% going ahead. Unsecured segment to be around 20% of total loan mix.
- Cost of funds could go up by 10-12 bps.
- Cost-to-income is expected to be in the range of 60%-63%.
- Credit cost guidance is at 1.25%.
- PCR is expected to be at 70% in medium to long term.
- ROA target for the bank is at 2%.

Highlights

- The company will continue to remain positive on the India growth story over the medium term to long term as domestic economic activity continues to be resilient and is expected to further pick up in the new financial year as governments spending along with private capex are expected to accelerate.
- Employee expenses were higher owing to changed accounting policy towards ESOPs.
- Provisions were down 56.2% YoY as overall asset quality improved on YoY basis but sequentially provisions were up 26.3%, QoQ rise in provision was due to one-off provision towards NPA.
- The bank has been able to navigate well during the rising interest rate cycle and kept margins, yields and profitability reasonably protected.
- With about 85% of loan book being fixed rate loans, bank had high impact on NIMs over the last few quarters.
- They have been able to pass on some of the interest rate increase to borrowers in the form of improved lending rates to ensure margins are reasonably healthy.
- Interest rates have peaked and are expected to reprice another 10 to 12 basis points in the near future.
- The company will focus on the Micro LAP product, which has a small ticket size and is a secured product.
- They will also focus on growing the used car and used CV book in the coming year
- The management expects personal loan and credit card segment to grow faster. The company is planning to introduce personal loans and credit cards, with personal loans set to launch in April/May and credit cards by the end of the calendar year.

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
Net Interest Income	20.4	25.4	30.8	37.6	48.1	63.3
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
PPOP	8.7	11.8	13.8	18.2	24.7	34.5
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
Net Income	2.8	5.7	8.0	9.5	13.2	18.8

Balance Sheet (in INR Cr)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Equity & Liabilities						
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
Total Capital & Liabilities	269.5	349.6	453.0	537.7	635.3	756.9
Assets						
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
Total Assets	269.5	349.6	453.0	537.7	635.3	756.9

Source: Arian Research, Company Filings

Ratios	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Growth rates						
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%
Balance sheet ratios						
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%
Operating efficiency						
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%
Profitability						
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%
Asset quality						
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%
Per share data / Valuation						
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)	43.5	18.9	13.8	11.7	8.4	5.9
P/BV (x)	2.9	2.1	1.9	1.6	1.3	1.1
P/ABV (x)	3.2	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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