



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- The bank's C-I ratio was 66% for the quarter, with management aiming to keep it above 60% as the bank plans to establish new business areas and invest in digital infrastructure.
- On a quarterly basis, asset quality was stable, with GNPA at 2.6/1.1%.
- CASA ratio was 38%, retail TD + CASA ratio contributed 78% of total deposit base, and deposit base increased by 9% QoQ.
- MFI, new CV, and house financing were important growth drivers, with disbursements being well distributed. Strong disbursements accelerated advanced growth to 37% YoY (6% QoQ).

2. MANAGEMENT COMMENTARY:

- New products like credit cards, new vehicle loans, and personal loans (PL) over the next 12-15 months will maintain credit growth healthy in the medium term.
- The management expects the C-I Ratio to remain range-bound between 63 and 65% in FY24, before decreasing somewhat in FY25E. On a steady-state basis, the bank will aim for a C-I Ratio of 55-60%, assisted by increased productivity.
- With little insight on further stress creation, management feels confident in keeping credit costs at 1.25% in FY24E. Over the following two years, the bank intends to increase the PCR to 70%.
- Bank Eyeing to deliver 2% RoA

3. BUSINESS OVERVIEW:

- Equitas Small Finance Bank (SFB) is India's largest small finance bank. Equitas SFB, as a new-age bank in one of the fastest growing economies, provides a suite of products and services tailored to the needs of its customers, who include individuals with limited access to formal financing channels, as well as affluent and mass affluent individuals, Micro, Small & Medium Enterprises (MSMEs), and corporates. The bank has 922 branches, 349 ATMs and approximately 20,563 employees as of March, 2023.

4. MANAGEMENT GUIDANCE

- The loan growth for FY24 is expected to be 25-30%
- The bank plans to add 15 liability branches and 30 asset branches in FY24.
- RoA for FY24 is expected to be in the range of 2-2.25%
- Target Loan Mix for FY24- Mortgage- 50%, Vehicle Finance- 20-25%, MFI- 15%.
- The management expects the C-I Ratio to remain range-bound between 63 and 65% in FY24, before decreasing somewhat in FY25E.
- Credit Cost is expected to be in the range of 1.2-1.25% in FY24 and the bank has set its PCR target at 70% in coming quarters.

5. BANKING INDUSTRY

- The Indian banking sector has recovered strongly following the covid epidemic, owing to a variety of factors including as early regulatory action, careful capital raising by banks, improved lending discipline, and cautious provisioning practices at banks. Indian banks have an all-time high CET 1 / tier 1 level, decadal low gross / net NPAs, the highest PCR, and robust contingent provisions as of FY23.

6. VALUATION AND OUTLOOK:

- Loan growth for FY24 is expected to be 25-30%. New products like credit cards, new vehicle loans, and personal loans over the next 12-15 months will maintain credit growth healthy in the medium term. The cost-to-income ratio is likely to remain elevated through FY24. The bank's asset quality has improved over the previous year, and the trend of good recoveries and upgrades is projected to continue.
- We value the company at 15.9x FY24 EPS to arrive at the target of 112.

RECOMMENDATION - BUY

CMP - 96

TARGET - 112 (16.5%)

Industry	Bank - Private
NSE CODE	EQUITASBNK
BSE CODE	543243
Market Cap (₹ Cr)	10811
Shares Outstanding (in Cr)	111.32
52 wk High/Low (₹)	101.2 / 47.2
P/E	16.38
P/BV	2.04
Face Value (₹)	10.00
Book Value (₹)	47.66
EPS (FY23) (₹)	5.16
Dividend Yield (%)	1.49

SHAREHOLDING PATTERN

	Jun'23	Mar'23	Dec'22
Promoters	0.00	0.00	74.48
Mutual Funds	37.05	37.93	13.37
FII/FPI	21.45	22.68	4.08
Non-Institutions	35.58	34.34	6.10
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2023A	2024E
Core			
Interest Earned	3459	4162	5452
Other Income	537	669	803
Total Income	3997	4831	6255
Interest Expense	1421	1617	2298
Profit from Ordinary Activity	378	768	1050
PAT	281	573	787.50
EPS	2.24	5.16	7.03
Ratios			
ROE (%)	7.35	12.21	14.2
ROA (%)	1.09	1.85	2.01
Valuation			
P/E (x)	22.81	12.99	15.9
P/BV (x)	1.51	1.45	1.9

Historical & Industrial Val Ratios

Historical P/E	16.38
Industry P/E	21.84
Historical P/B	2.04
Industry P/B	2.95



Liability Trends	Q1FY24	Q4FY23	Q3FY23	Q2FY23	Q1FY23	Q4FY22	Q3FY22
Total Deposit	27709	25381	23393	21726	20386	18951	17095
CASA	10642	10732	10817	10456	10548	9855	6794
Total Advances	29601	27861	24915	22779	21688	20597	19687
CASA Ratio (%)	38	42	46	48	52	52	40

QUARTERLY PERFORMANCE (STANDALONE)

(₹ Cr)

Y/E March	FY22			FY23				FY24	FY24E*
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Interest Earned	843.72	901.16	895.83	940.40	1002.37	1063.39	1155.73	1253.96	5452
YoY change (%)	5.79%	5.12%	9.47%	14.83%	18.80%	18.00%	29.01%	33.34%	31.00%
Other Income	151.98	133.85	148.15	133.22	145.03	152.64	238.69	171.37	803
Total Income	995.69	1035.01	1043.98	1073.62	1147.39	1216.03	1394.42	1425.33	6255
Interest Expense	359.75	360.08	343.37	359.82	392.68	415.89	448.77	510.82	2298
Operating Expenses	437.01	450.22	416.70	445.61	512.40	521.03	559.26	602.39	2445
Operating Profit	198.93	224.71	283.91	268.19	242.32	279.11	386.39	312.12	1512
Provision	142.11	78.40	123.17	141.60	90.10	49.90	125.60	60.07	462
Profit Before Tax	56.82	146.31	160.73	126.59	152.22	229.21	260.79	252.05	1050
Tax	15.63	38.20	41.22	29.58	35.80	59.08	70.75	60.85	262.5
Net Profit After Tax	41.19	108.11	119.51	97.01	116.42	170.13	190.04	191.20	787.50
YoY change (%)	-60.01%	-2.34%	5.88%	713.16%	182.64%	57.37%	59.02%	97.09%	37.30

Source: Company, Hem Securities Research.

EWS*Insights into the assumptions:

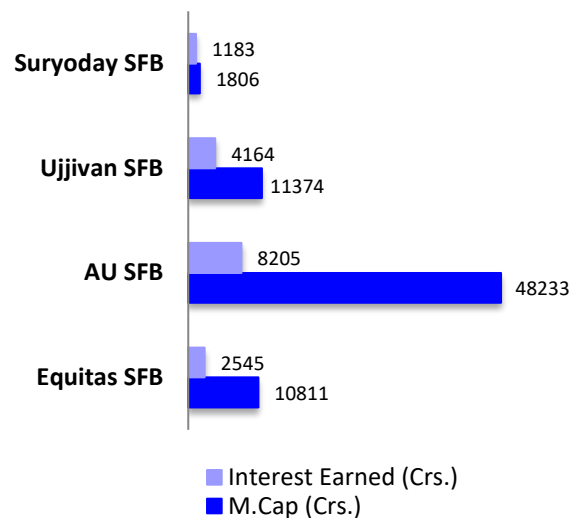
- 1> Bank credit growth is likely to increase up, Credit growth has started showing signs of recovery.
- 2> Asset quality improved as lower slippages and better recoveries helped the overall performance.
- 3> Banks are preparing to expand their digital offerings through partnerships with fintech companies or in-house development.
- 4> Improvement in collection.
- 5> Given the economy's return to normalcy, the forecast for company growth and credit costs remains positive.



INDUSTRY OVERVIEW

- The RBI changed its accommodative stance and raised the repo rate by a total of 225 basis points over the previous five monetary policy meetings, which led to an increase in interest rates. Banks may gain in the short run on the margin front because the majority of loans are made on a floating rate basis and higher deposit costs may take some time to take impact.
- Scheduled Commercial Banks (SCBs) continued to maintain robust capital positions, with CRAR and CET-1 Ratios of SCBs reaching as high as 16.7% and 13.6%, respectively, in March 2022. (RoE). The ratios of SCBs' gross nonperforming assets (GNPA) and net non-performing assets (NNPA) fell to six-year lows of 5.9 percent and 1.7%, respectively, in March 2022. The provisioning coverage ratio (PCR) increased from 67.6 percent in March 2021 to 70.9 percent in March 2022.
- Banks, especially larger banks, are getting ready to increase their digital offerings through internal development or partnerships with fintech. Incumbents will be helped by persistent focus on digital offerings to manage disruptive issues. Additionally, "digital banking," a new banking format, is developing steadily.
- According to RBI monthly figures, systemic credit growth reached a multi-year high of 15.0% YoY in FY23. Credit growth began the year at 11.2% (YoY) and peaked at 17.9% YoY in October'22.

KEY PLAYERS



PEER PERFORMANCE

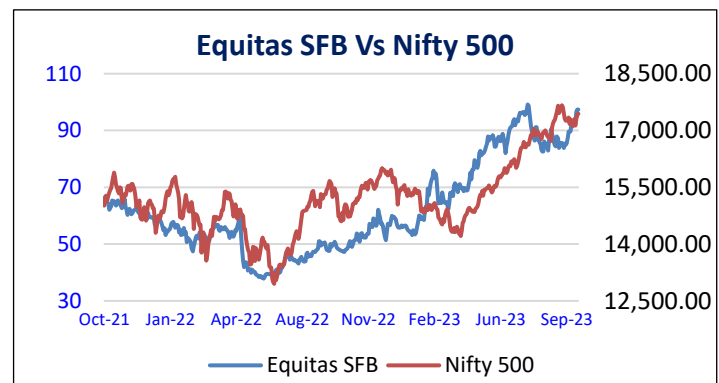
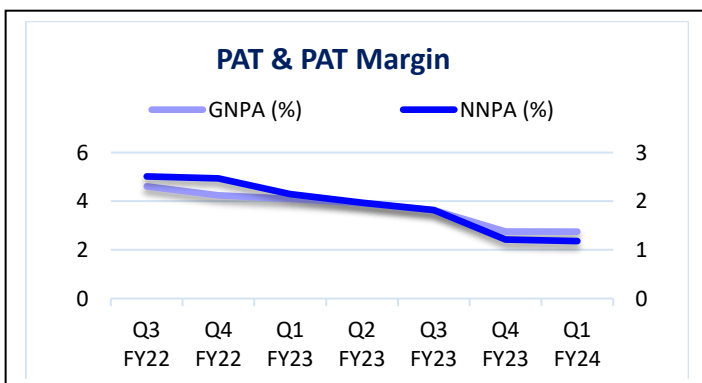
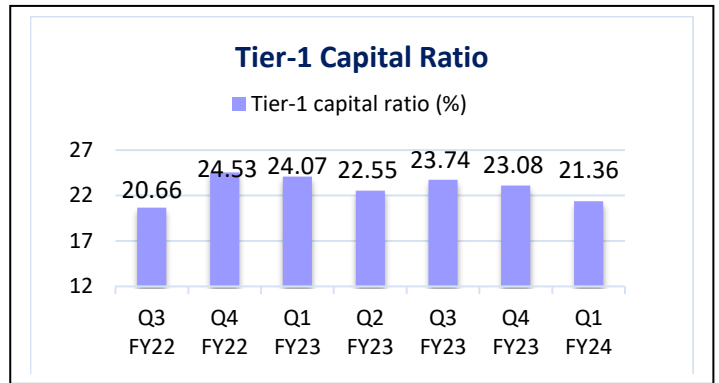
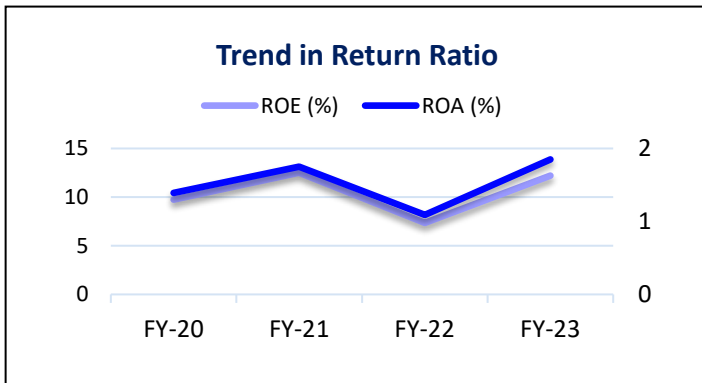
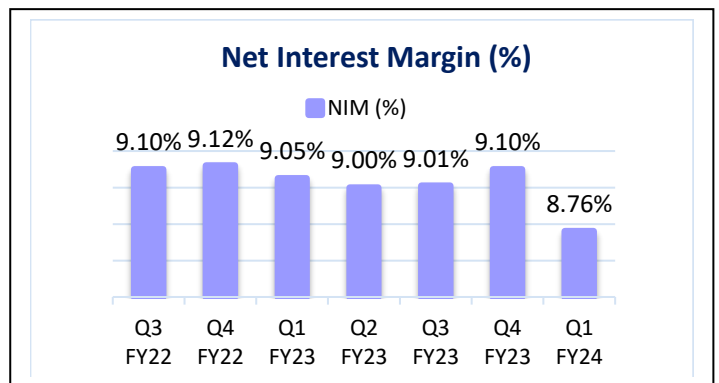
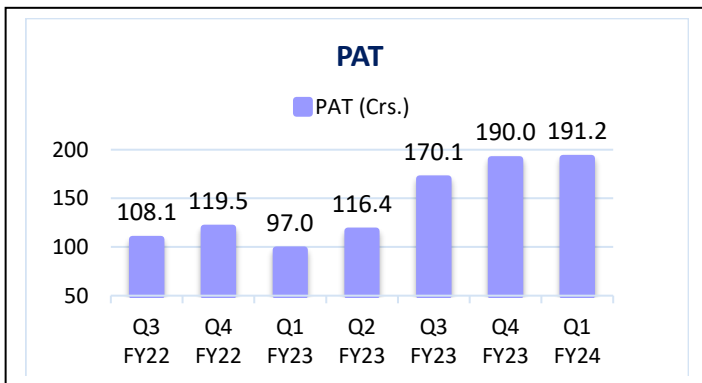
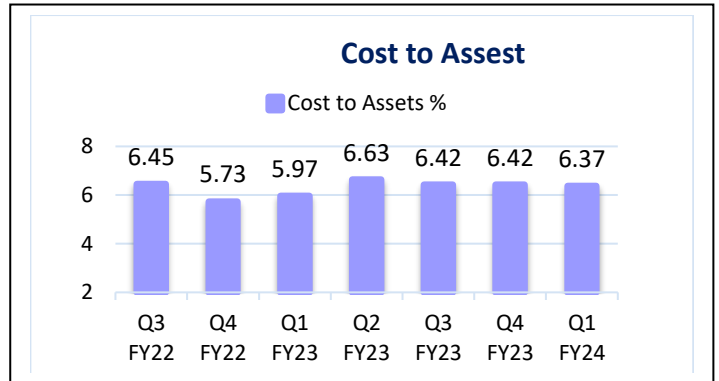
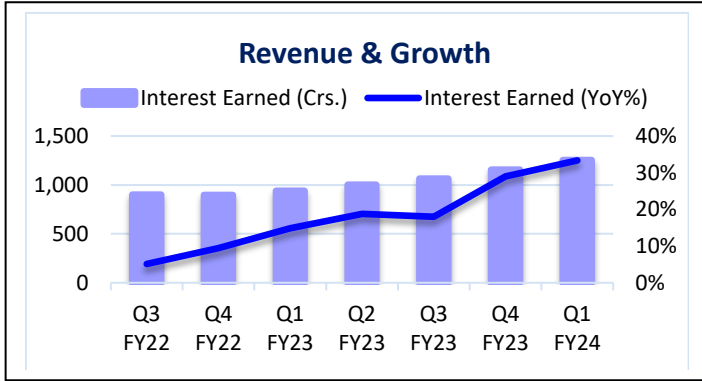
(₹ Cr)

Particulars	Equitas SFB	AU SFB	Ujjivan SFB	Suryoday SFB
Market Cap	10811	48233	11374	1806
Interest Earned (FY-23)	2545	8205	4164	1183
Profit from Ordinary Activities	768	1864	1467	100
PAT	573	1428	1100	78
EPS(Rs)	4.71	21.86	5.82	7.32
Total Deposit	25381	69315	26660	5167
CASA Ratio	42	35	24.6	21.7
Net Interest Income	707	1246	793	210
NIM	9.0	5.7	9.2	10.4
Total Advances	27861	63635	25326	6114
Gross NPA (%)	2.76	1.76	2.4	3.1
Net NPA (%)	1.21	0.55	0.06	1.5
Provision Coverage Ratio	56.90	73	97.6	51.5
Capital Adequacy Ratio	23.80	21.5	26.7	33.72

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- With a well-diversified portfolio of products, including small company loans (36%), car finance loans (25%), home finance loans (11%), and micro finance loans (19%), Equitas's total advances were at INR296 billion (FY23: INR278 billion; FY22: INR206 billion). Before it became a bank in 2016, Equitas was already active in several markets. Corporate loans (mostly provided by non-bank financing organisations; 4%), medium-sized businesses (4%) and others (1%), are some of the more recent divisions.
- The loan book of Equitas increased at a CAGR of 27% from FY17 to FY23 (up 32% year over year), partly as a result of the secured segments' rapid expansion over the previous three to four years. In FY24–FY25, bank anticipates a loan book growth of 25%–35% yoy. In the medium-to-long term, it is predicted that the percentage of unsecured lending, which mostly consists of microfinance loans, would decline to 10%–15% of total advances (FY23: 19%).
- In 1QFY24, Equitas kept its tier 1 capital ratio at 21.36% (FY23: 23.08%; FY22: 24.53%; FY21: 23.23%), which was deemed appropriate. By using the qualifying institutional placement procedure, the bank raised INR5.5 billion in equity in FY22. Additionally, the bank's net value increased to INR53.6 billion in 1QFY24 (from INR51.5 billion, INR42.46 billion, and INR33.96 billion in 1QFY23), thanks to a net profit of INR1.9 billion (compared to INR5.7 billion in 1QFY23, INR2.8 billion in 1QFY22, and INR3.8 billion in 1QFY21). Credit costs may be cushioned by acceptable levels of capitalization and pre-provision operating profitability buffers (1QFY24:3.4%, FY23:3.8%, FY22:3.4%, and FY21:4%), which are anticipated to rise as a result of lending to borrowers with lower credit profiles and substantially higher yields.
- Significant improvement in asset quality.
- Following this reverse merger, the bank's MD & CEO said in an interview that they will check with the RBI to see if they qualified for the universal banking license. If the bank is approved and given this license, it can enter a variety of markets available to commercial banks, including credit cards, asset management, underwriting, investment banking, and personal loans. Once the bank receives this license, the capital adequacy standards and priority sector lending objectives would also be lowered. In the near future, we'll need to keep an eye out for any new developments in this situation.

RISK FACTORS:

- Due to a decrease in current account traction and a rise in customer preference for fixed deposits in quest of better interest rates, the current account and saving account (CASA) ratio to total deposits fell to 38.4% in 1QFY24 (FY23: 42%; FY22: 52%; FY21: 34.3%).
- Higher-than-expected deterioration in the asset quality.
- Equitas SFB has higher operating expenditures, compared to peer banks.
- The bank's loan book continued to be characterized by geographic concentration. Tamil Nadu accounted for 52% of the loan book in FY23, followed by Maharashtra (14%) and Karnataka (10%). Any economic slowdown especially in the areas where the bank has strong presence could impact the business growth of the company.

COMPANY RECAP

- Equitas SFB, a new-age bank in one of the world's fastest-growing economies, offers a variety of goods and services that are specifically suited to the needs of its clients, who include both wealthy and less-wealthy people as well as corporates, MSMEs, and individuals with limited access to formal financing channels. The Bank's firmly established strategy is to focus on lending money to unbanked and underbanked micro and small business owners while creating products to meet the rising ambitions at the "bottom of the pyramid." This approach is supported by modest deposits and "value for money" banking relationships. The bank has 922 branches, 349 ATMs and approximately 20,563 employees as of March, 2023.
- Vasudevan Pathangi Narasimhan is the MD and CEO of our Bank. He holds a bachelor's degree in science (physics) from University of Madras. He is a qualified company secretary from the Institute of Company Secretaries of India. He has extensive experience in the financial services sector and had served as the executive vice president and head of consumer banking group in Development Credit Bank Limited, for more than one and half years. He has also worked for about two decades in Cholamandalam Investment and Finance Company Limited, part of the Murugappa Group, where he joined as a management trainee and resigned as the vice president and head of vehicle finance. He was also the chairman of the managing committee of the South India Hire Purchase Association for Fiscal 2006. He joined erstwhile Equitas Finance Limited, now our Bank on July 25, 2016. Prior to joining our Bank, he was the Managing Director of EHL.



ANNUAL PERFORMANCE

Financials & Valuations						
Income Statement	₹ Cr)					
	2019	2020	2021	2022	2023	2024E
Interest Earned	2111.93	2645.44	3194.41	3459.67	4161.88	5452
YoY change (%)	36.90%	25.26%	20.75%	8.30%	20.30%	31.00%
Other Income	282.90	282.35	418.05	537.56	669.59	803
Total Income	2394.83	2927.80	3612.47	3997.23	4831.46	6255
Interest Expense	960.20	1150.14	1396.45	1421.13	1617.15	2298
Operating Expense	1008.49	1180.08	1329.43	1704.15	2038.30	2445
Provision	102.41	246.64	375.32	493.84	407.20	462
Profit from Ordinary Activities Before Tax	323.74	350.94	511.26	378.11	768.81	1050
YoY change (%)	567.20%	8.40%	45.69%	-26.04%	103.33%	36.58%
Tax	113.17	107.30	127.04	97.38	195.22	262.50
Net Profit After Tax	210.57	243.64	384.22	280.73	573.59	787.50
YoY change (%)	561.50%	15.70%	57.70%	-26.94%	104.32%	37.30%
EPS	2.09	2.31	3.37	2.24	5.16	7.0317

Source: Company, Hem Securities Research.

Balance Sheet					
Y/E March	₹ Cr)				
	2019	2020	2021	2022	2023
Share Capital	1,006	1,053	1,139	1,252	1,111
Reserves	1,248	1,691	2,257	2,994	4,047
Borrowings	12,980	15,923	20,557	21,567	28,354
Other Liabilities	529	628	755	1,134	1,446
Total Liabilities & Equity	15,763	19,296	24,708	26,948	34,958
Fixed Assets	236	210	184	189	338
CWIP	2	2	1	11	41
Investments	2,344	2,343	3,705	4,450	6,665
Other Assets	13,181	16,740	20,818	22,297	27,914
Total Assets	15,763	19,296	24,708	26,948	34,958

Source: Company, Hem Securities Research.



Ratios				
Y/E March (Basic (INR))	2020	2021	2022	2023
Profit and Loss Account				
Net interest income	1495	1798	2039	2545
Employee expenses	710	791	898	1097
ROE (%)	9.75	12.51	7.35	12.21
ROA (%)	1.39	1.75	1.09	1.85
EPS	2.31	3.37	2.24	5.16
Key Performance Indicator				
NIM (%)	9.11	8.44	8.54	9.00
CASA (%)	21	34	52	42.28
Yield on Advances (%)	18.90	18.66	17.62	16.99
Cost of Funds (%)	7.97	7.43	6.58	6.38
Cost-to- Asset (%)	6.75	5.52	6.00	6.34
GNPA (%)	2.72	3.59	4.06	2.60
NNPA (%)	1.67	1.52	2.37	1.14
Provision Coverage Ratio (%)	45.22	58.59	42.73	56.90
Credit/Deposit (%)	127.75	102.78	102.23	101.65
Capital Adequacy Ratio (%)	23.61	24.18	25.16	23.80
Tier I (%)	22.44	23.23	24.53	23.08
Valuations Ratios				
P/E (x)	0.00	17.81	22.81	12.99
P/BV (x)	0.00	2.01	1.51	1.45
Dividend Yield (%)	0	0	0	1.49
OPERATIONAL				
Advances	15367	17925	20597	27861
Deposit	10788	16392	18951	25381
Net Interest Income	1495	1798	2039	2545
Net Profit	244	384	281	574

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
13-October-2023	BUY	112

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Name of the Research Analyst: Madhur Mandhana

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