

EQUITAS HOLDINGS

BANKS & FINANCIAL SERVICES

3 NOV 2017

Quarterly Update

BUY

Target Price: Rs 168

Transition costs, asset quality impact Q2

Q2FY18 was weak marked by sluggish growth in loan book (~14% YoY) and further deterioration in asset quality (GNPAs up 85 bps QoQ at 5.76%). Consequently, PAT was 76 YoY lower than estimate (Rs 109 mn). The bank has diluted its provisioning policy; if not, it would have reported no profit/loss in Q2.

The weakness was due to lower NII growth (~8% YoY) and higher SFB transition related expenses, which pushed the cost to income ratio sharply up at 83.1% (76.7% in Q1FY18). Equitas will continue to run off the share of its MFI book (36%; down from 46% in FY17) and expects non-MFI book to drive the loan growth (expects ~15% YoY in FY18). Next few quarters will require additional provisioning and, rebalancing of loans will remain an overhang on earnings and return ratios.

CMP : Rs 145
Potential Upside : 16%

MARKET DATA

No. of Shares : 339 mn
Free Float : 100%
Market Cap : Rs 49 bn
52-week High / Low : Rs 188 / Rs 139
Avg. Daily vol. (6mth) : 2.0 mn shares
Bloomberg Code : EQUITAS IB Equity
Promoters Holding : 0%
FII / DII : 43% / 36%

Q2FY18 key highlights: (a) AUM growth (~4% YoY) was sluggish due to conscious run-off in its MFI book (down 27% YoY). Ground situation in MFI is improving (quarterly collections at 94.5% flat QoQ), however, it is still not near the pre-demonetization level; (b) Of net increase of Rs 700 mn in GNPAs, ~29% was contributed by MFI book while the remaining was primarily contributed by used CV segment. Stress in used CV was due to macro headwinds arising from demonetization and GST; (c) It added 57 new liability branches (now 392 branches covering 13 states and 2 UTs) and witnessed a 37% QoQ increase in customer deposits to ~Rs 31 bn; and (d) Management guided that transitioning costs have peaked in Q2 and that it does not expect any significant uptick in expenses going ahead.

Maintain BUY with revised TP of Rs 168 (earlier Rs 184): Disbursements to moderate in MFI, but will be well compensated by newer product lines (gold, agri, business loans). With most of the transition expenses behind, we expect some signs of improvement in ensuing quarters. We cut earnings for FY18E and FY19E by 60% and 36% to factor in weak H1FY18 and higher provisioning in MFI book. We value Equitas at 2.5x FY19E P/ABV to arrive at revised TP of Rs 168 (16% upside from CMP). At CMP, Equitas trades at 2.2x FY19E P/ABV of Rs 67.

Financial summary (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
PAT (Rs mn)	1,671	1,594	661	1,716
EPS (Rs)	6	5	2	5
EPS chg (%)	56.3	(23.8)	(58.5)	159.4
Book value (Rs)	50	66	67	71
Adj. BV (Rs)	49	64	63	67
PE (x)	23.4	30.7	74.0	28.5
P/ABV (x)	3.0	2.3	2.3	2.2
RoE (%)	13.3	8.9	2.9	7.3
RoA (%)	3.0	2.0	0.7	1.5
Net NPA (%)	0.9	1.8	3.1	2.7

Source: Company, Axis Capital

Key drivers

(%)	Q4FY17	Q1FY18	Q2FY18
AUM growth	17	7	4
GNPA	3.5	4.9	5.8
NIM	9.8	9.1	9.3

Price performance

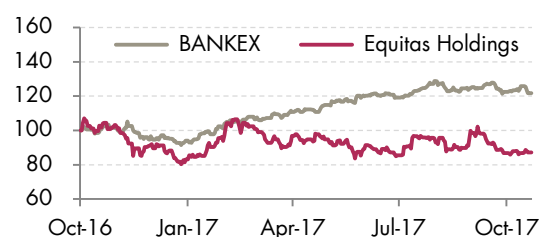
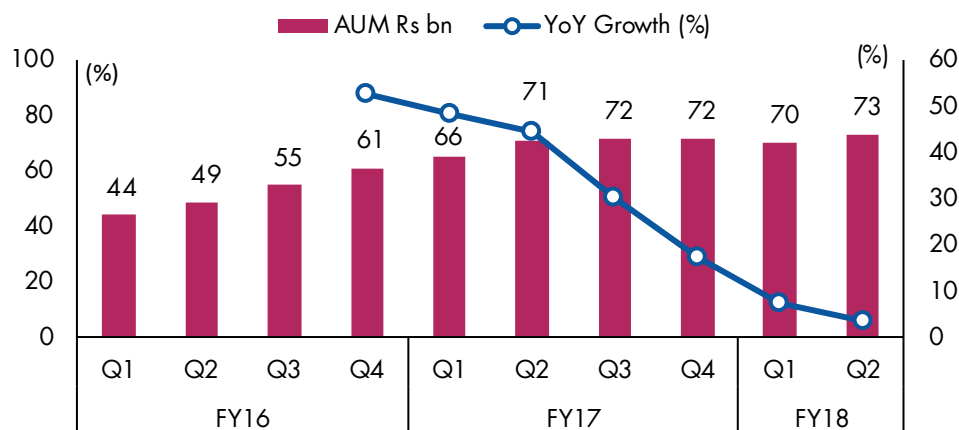
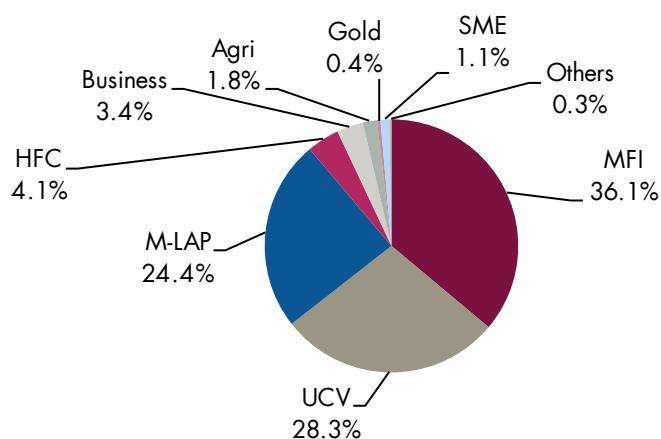


Exhibit 1: AUM growth slowed down, primarily due to 11% QoQ run-off in MFI book



Source: Company, Axis Capital

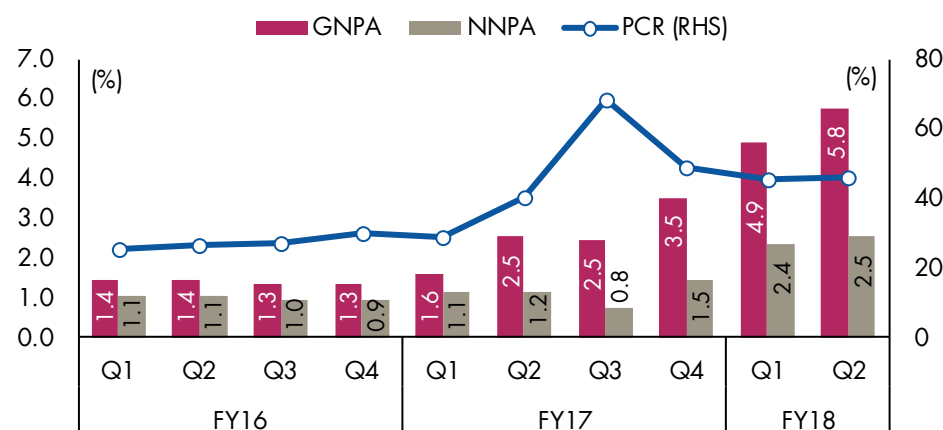
Exhibit 2: Loan book mix



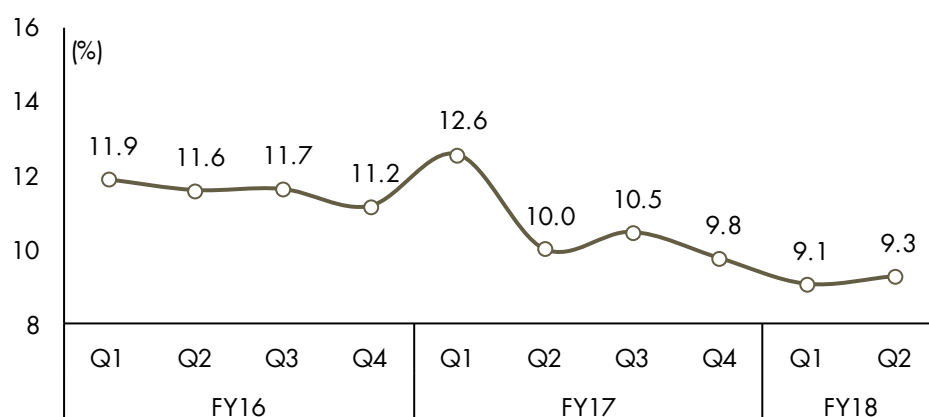
Source: Company, Axis Capital

Management maintained its cautious approach on MFI segment and emphasized its intent to further bring down the share of MFI book (36% in Q2FY18)

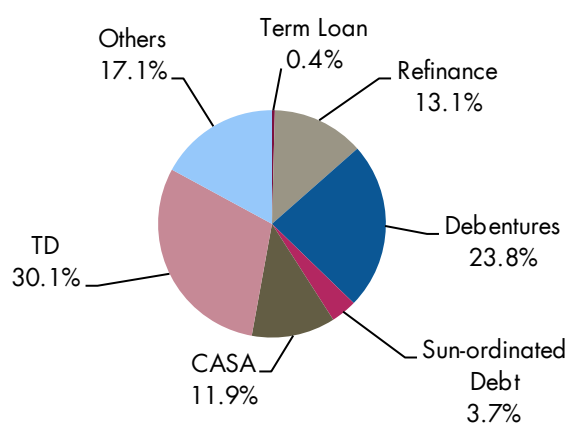
Exhibit 3: Headline asset quality deteriorated QoQ – MFI & Used CV stress



Source: Company, Axis Capital

Exhibit 4: NIM improved 20 bps QoQ due to benefit from lower cost of funds


Source: Company, Axis Capital

Exhibit 5: Borrowing profile


CASA ratio to total deposits is at 28.3 vs. 25.9% in Q1

Source: Company, Axis Capital

Exhibit 6: Results update

(Rs mn)	Quarter ended					12 months ended		
	Sep-17	Sep-16	% Chg	Jun-17	% Chg	Mar-18E	Mar-17	% Chg
Interest income	4,173	3,845	9	4,532	(8)	14,768	13,303	11
Interest expended	1,585	1,445	10	1,586	(0)	6,386	5,760	11
Net interest income	2,588	2,400	8	2,946	(12)	8,381	7,543	11
Non-interest income	49	5	885	34	43	3,441	2,263	52
Net income	2,637	2,405	10	2,980	(12)	11,822	9,805	21
Operating expenses	2,192	1,408	56	2,286	(4)	9,197	6,150	50
Operating profit	445	997	(55)	694	(36)	2,625	3,655	(28)
Provision & Contingencies	271	260	4	441	(39)	1,607	1,140	41
PBT	174	737	(76)	254	(31)	1,018	2,516	(60)
Tax	65	273	(76)	98	(33)	356	922	(61)
Net Profit	109	463	(76)	156	(30)	661	1,594	(58)
Exceptional Item	0	0	-	0	-	0	0	-
Reported Profit	109	463	(76)	156	(30)	661	1,594	(58)
Yields & Margins (%)								
Net interest margin	9.3	10.0	(74)bps	9.1	20 bps	9.2	10.2	(107)bps
Cost to income	83.1	58.6	2,457 bps	76.7	643 bps	77.8	62.7	1,508 bps
Asset quality								
Gross NPAs (Rs mn)	3,702	1,437	158	3,000	23	3,983	2,060	93
Gross NPAs (%)	5.8	2.5	322 bps	4.9	85 bps	5.8	3.5	224 bps
Net NPAs (Rs mn)	1,988	853	133	1,640	21	2,151	1,045	106
Net NPAs (%)	2.5	1.2	137 bps	2.4	18 bps	3.1	1.8	132 bps
Provisioning coverage (%)	46.3	40.6	566 bps	45.3	96 bps	46.0	49.3	(329)bps
Balance sheet (Rs bn)								
AUM	73.3	70.8	3	70.4	4.1	79.1	75.2	5
Interest income	4,173	3,845	9	4,532	(8)	14,768	13,303	11

Source: Company, Axis Capital Note: Ratios are on calculated basis, hence may differ from actuals

Financial summary (Standalone)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	10,137	13,303	14,768	17,154
Interest expended	(4,360)	(5,760)	(6,386)	(6,703)
Net interest income	5,777	7,543	8,381	10,451
Non interest income	1,012	2,263	3,441	3,937
Net income	6,789	9,805	11,822	14,388
Operating expenses	(3,597)	(6,150)	(9,197)	(10,199)
Staff expenses	(2,338)	(3,961)	(5,458)	(5,879)
Other operating expenses	(1,259)	(2,189)	(3,739)	(4,320)
Operating profit	3,192	3,655	2,625	4,188
Provisions & contingencies	(591)	(1,140)	(1,607)	(1,549)
Pre-tax profit	2,601	2,516	1,018	2,639
Tax expense	(930)	(922)	(356)	(924)
Profit after tax	1,671	1,594	661	1,716
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	1,671	1,594	661	1,716

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Total assets	65,065	94,435	104,700	130,657
Cash & Balances with RBI	9,470	10,651	7,339	6,823
Investments	121	18,959	20,220	24,526
Advances	50,702	58,289	69,003	90,398
Fixed assets	589	2,553	2,698	2,678
Other assets	3,815	3,550	4,900	5,610
Total liabilities	65,065	94,435	104,700	130,657
Equity capital	2,699	3,378	3,378	3,378
Reserves & surplus	10,714	18,931	19,370	20,680
Networth	13,414	22,309	22,748	24,058
Borrowings	46,833	46,216	23,702	16,977
Deposits	-	19,213	49,691	80,500
Other liabilities & prov.	4,819	6,698	8,560	9,122

Source: Company, Axis Capital

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per share data				
FDEPS (Rs.)	6	5	2	5
BV (Rs.)	50	66	67	71
Adj. BV (Rs.)	49	64	63	67
DPS (Rs.)	-	-	1	1
Dividend payout (%)	-	-	33	24
Yields & Margins (%)				
Yield on advances	21.8	21.5	20.8	19.4
Cost of deposit	-	-	7.1	6.9
Net interest margin	11.3	10.2	9.2	9.6
Asset quality (%)				
Gross NPAs	1.3	3.5	5.8	5.3
Net NPAs	0.9	1.8	3.1	2.7
Credit cost	0.3	1.4	2.1	1.4
Provisioning coverage	29.9	49.3	46.0	50.0

Efficiency (%)

ROA	3.0	2.0	0.7	1.5
ROE	13.3	8.9	2.9	7.3
Cost to income	53	63	78	71
CASA	-	17	20	21
Effective tax rate	36	37	35	35

Growth (%)

Net interest income	47	31	11	25
Fee income	44	51	25	20
Operating expenses	45	71	50	11
Profit after tax	57	(5)	(58)	159
Advances	46	15	18	31
Deposits	-	-	159	62
Total assets	46	45	11	25

Source: Company, Axis Capital

Note: Ratios are on calculated basis, hence may differ from actuals

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HOLD	Between 10% and -10%
SELL	Less than -10%

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