

Equitas Holdings

BSE SENSEX	S&P CNX
36,583	10,912
Bloomberg	EQUITAS IN
Equity Shares (m)	341
M.Cap.(INRb)/(USDb)	41.3 / 0.6
52-Week Range (INR)	173 / 78
1, 6, 12 Rel. Per (%)	-2/-15/-18
12M Avg Val (INR M)	379
Free float (%)	100.0

Financials & Valuations (INR b)

Y/E March	FY19E	FY20E	FY21E
NII	12.1	16.1	20.1
OP	4.7	6.5	8.5
NP	2.3	3.2	4.3
NIM (%)	7.7	7.6	7.6
EPS (INR)	6.8	9.5	12.5
BV/Sh. (INR)	73	81	92
ABV/Sh. (INR)	69	76	86
RoE (%)	9.7	12.4	14.5
RoA (%)	1.5	1.6	1.7

Valuations

P/E(X)	17.7	12.6	9.6
P/BV (X)	1.6	1.5	1.3
P/ABV (X)	1.7	1.6	1.4

CMP: INR120
TP: INR150 (+25%)
Buy

Core operating performance improves; lower provisions drive earnings

- **PPoP growth in line; Cost-ratios remain elevated:** Equitas reported PPoP growth of 198%/14% YoY/QoQ to INR1.2b (largely in line with our estimates), driven by 37%/16% YoY/QoQ growth in NII. Lending spreads improved 49bp QoQ to 11.2%, while NIM stood at 8.98% (+128bp QoQ) on the back of 62bp improvement in cost of funds. Total opex grew 17%/12% YoY/QoQ to INR2.6b (5% above MOSLe) led by 40% YoY growth in other opex (paid PSLC premium of INR238m). Cost-income ratio, thus, remains elevated at 68.2% (39bp QoQ decline).
- **Balance sheet de-risking continues:** Total AUMs grew 41%/9% YoY/QoQ to INR108.6b, with share of microfinance AUM at 27.2% of total AUM v/s 32% in 3QFY18. However, on an absolute basis, MFI AUM registered 9% QoQ growth (20% YoY) to INR29.5b. Non-MFI AUM registered robust 50%/9% YoY/QoQ growth to INR79.1b, led by 52%/26% YoY growth in business loans and vehicle finance. Vehicle finance loans constituted 25% of the total AUM as at 3QFY19.
- **Strong term deposit growth supported overall deposit growth:** Total deposits of the bank grew 17% QoQ to INR66.8b, led by 25% sequential growth in term deposits. CASA growth was muted at 2% QoQ, dragging the overall CASA ratio to 30.2% (down 443bp QoQ). Cost of SA was up 8bp QoQ to 6.21%, while overall cost of deposit increased 19bp QoQ to 7.35%.
- **Asset quality improved sequentially:** GNPLs increased 5.2% QoQ to INR3.4b while NNPAAs declined 0.5% QoQ to INR1.8b. Fresh slippages stood at INR0.8b while reductions stood at INR0.6b. In percentage terms, GNPA/NNPA came in at 3.13%/1.75% (-23bp YoY/-23bp QoQ). According to the new recognition policy, GNPAAs in the MFI/Vehicle finance/Small business loans/MSE finance stood at 0.74%/6.27%/2.79%/4.29%. Calculated PCR rose to 44% from ~41% in 2QFY19, despite 20% QoQ decline in provisions at INR243m. Credit cost, thus, stood at 0.96% as against 1.36% in 2QFY19.
- **Other highlights: (1)** Risk weighted asset grew ~11% QoQ as against the ~9% QoQ growth in total AUMs, **(2)** Capitalization levels stood strong at 23% (down 80bp QoQ), while tier-1 ratio was at 21.6%, **(3)** Cyclone 'Gaja' affected portfolio stood at INR600m with PAR between 61-90day bucket at INR54m (OD amount : INR13m), **(4)** the board has decided to use INR8.3b of securities' premium and reserves (as at FY18) for the purpose of the scheme, and **(5)** the bank guided for some moderation in NIMs as the portfolio mix changed in favor of secured loans.
- **Valuation and view:** The bank has delivered on its goal of de-risking its balance sheet and lowering the MFI proportion in its loan book. This has been partially offset by high growth in secured products. The recalibration in its growth strategy should yield positive results over the medium-to-long term. Thus, we have revised our PAT estimates upwards for FY20/21E by 13%/13%. In our view, the near-term stock performance may be under pressure arising from the parallel listing of the SFB, which may result in widening of the holding company's discount. We reiterate **BUY** with a target price of INR150, based on 1.9x Sep-20E ABV of INR81 per share.

Quarterly Performance

Y/E March	FY18				FY19E				FY18	FY19E	3Q FY19E	v/s Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Interest Income	2,160	2,263	2,337	2,485	2,544	2,771	3,203	3,629	9,245	12,147	2,975	8
% Change (YoY)	5.7	12.8	-13.6	12.2	17.8	22.4	37.0	46.1	8.1	31.4	27.3	
Other Income	820	314	326	433	610	647	654	966	1,893	2,877	727	-10
Total Income	2,980	2,577	2,663	2,918	3,154	3,418	3,857	4,596	11,138	15,024	3,702	4
Operating Expenses	2,263	2,175	2,252	2,244	2,394	2,342	2,632	2,964	8,907	10,332	2,500	5
Operating Profit	717	402	411	674	760	1,076	1,225	1,631	2,231	4,692	1,201	2
% Change (YoY)	-37.1	-54.6	-60.7	42.2	6.0	167.7	197.9	142.0	-37.1	110.3	192.3	
Provisions	439	273	869	138	209	305	243	388	1,719	1,145	288	-16
Profit before Tax	278	129	-458	536	551	771	982	1,243	512	3,547	913	7
Tax	98	65	-152	187	198	274	357	412	198	1,242	320	12
Net Profit	180	64	-306	348	353	497	624	831	314	2,306	594	5
% Change (YoY)	-70.5	-86.1	-168.2	404.7	95.7	671.2	-304.1	138.7	-80.3	634.3	-294.0	
Operating Parameters												
Deposits (INR b)	23	31	37	47	57	57	67	79	47	79	79	-15
Loans (INR b)	61	64	72	78	84	95	107	119	78	119	101	6
Deposit Growth (%)	NM	NM	387	150	154	84	81	67	150	67	114	-33
Loan Growth (%)	7	14	22	34	38	48	49	52	34	52	41	8
Asset Quality												
Gross NPA (INR B)	3,000	3,702	3,560	2,130	2,390	3,188	3,353	3,674	2,130	3,678	3,404	-2
Net NPA (INR B)	1,630	1,988	1,350	1,310	1,460	1,880	1,870	2,145	1,320	2,145	1,974	-5
Gross NPA (%)	4.9	5.8	5.0	2.7	2.8	3.4	3.1	3.1	2.7	3.1	3.3	0
Net NPA (%)	3.0	3.2	1.6	1.4	1.5	2.0	1.8	1.8	1.7	1.8	1.9	0

Source: Company, MOSL

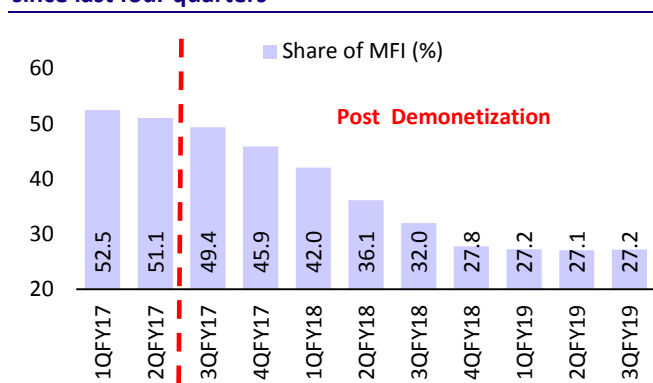
Exhibit 1: Core operating performance improves despite lower other income

Y/E MARCH	3QFY19A	3QFY19E	Var. (%)	Comments
Interest Income	5573	5,638	-1	
Interest Expense	2370	2,663	-11	
Net Interest Income	3,203	2,975	8	Beat on NII as interest expenses were lower-than-expected
% Change (Y-o-Y)	37	27		
Other Income	654	727	-10	Lower-than-expected PSLC income
Total Income	3,857	3,702	4	
Operating Expenses	2,632	2,500	5	Higher-than-expected operating expense as the bank had to pay premium on PSLC certificates bought
Operating Profit	1,225	1,201	2	Largely in line
% Change (Y-o-Y)	198	192		
Other Provisions	243	288	-16	Lower-than-expected provisions due to lower slippages
Profit before Tax	982	913	7	
Tax	357	320	12	
Net Profit	624	594	5	Higher-than-expected PAT due to lower provisions
% Change (Y-o-Y)	-304	-294.0		

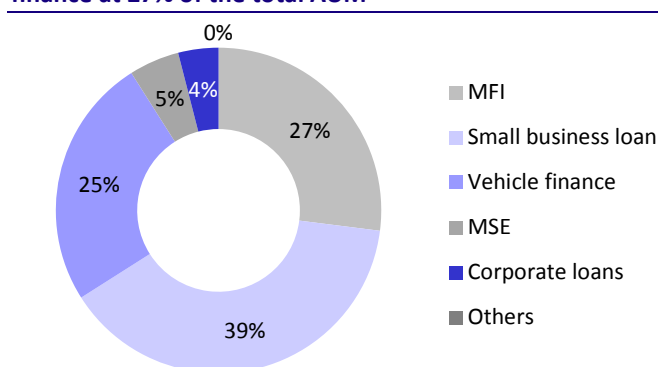
Source: MOSL, Company

AUM grows ~41%/9% YoY/QoQ led by MFI and Vehicles portfolio

- Total AUM grew 40.7%/9.3% YoY/QoQ led by healthy growth in MFI, vehicle finance and business loans.
- MFI book grew 19.6%/9.3% YoY/QoQ and constituted 27.2% of the total AUM as against 32% in 3QFY18. The growth in the vehicle finance book was strong at 8.7% QoQ and constituted 25% of the total AUMs.
- On a sequential basis, business loans were flat as Equitas was cautious on the unsecured part of the book, while it grew the working capital and secured loans.
- On book, AUM grew 48.9%/12.8% YoY/QoQ to INR 107.1b, faster than AUM growth as the company continued to run down its securitized portfolio, which currently stands at 1.4% of total AUM, compared to 6.8% a year ago.

Exhibit 2: Share of micro finance portfolio stable at 27% since last four quarters

Source:

Exhibit 3: Well diversified loan book with share of micro finance at 27% of the total AUM

Source:

Deposits growth remains healthy; CASA ratio declines to 30.2%

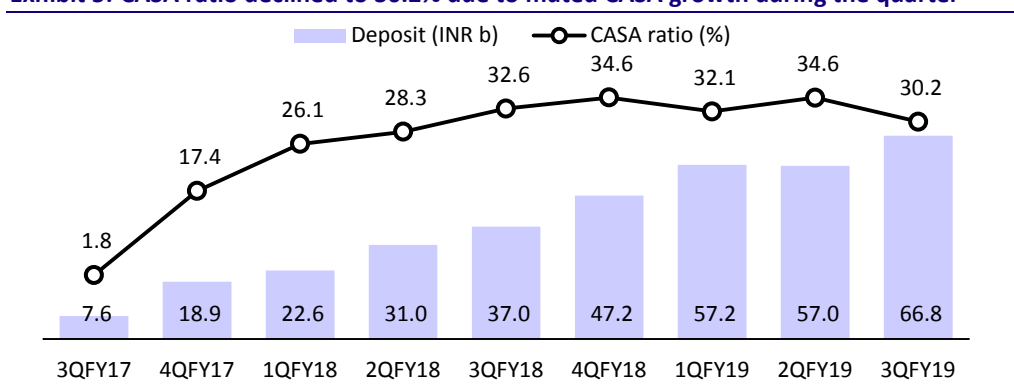
- Deposits grew 80.6%/17.3% YoY/QoQ to INR66.8b, taking CD ratio to 1.6x (1.7x in 2QFY19) led by healthy growth in the term deposits. CASA deposit growth was muted at 2% QoQ leading to 440bp decline in the CASA ratio to 30.2%.

Exhibit 4: CASA + TD now forms 56% of the funding profile v/s 45% a year ago

Funding Profile	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
TD	30%	30%	29%	33%	33%	39%
CASA	12%	15%	15%	16%	18%	17%
CD	12%	10%	8%	9%	10%	9%
Refinance	13%	11%	16%	23%	30%	26%
Debenture	24%	21%	16%	13%	4%	2%
Sub- Debt	4%	3%	3%	2%	2%	2%
CBLO	2%	5%	5%	2%	2%	0%
Term loans	0%	0%	0%	0%	0%	0%
Borrowing from RBI	3%	5%	7%	2%	0%	2%
Total Borrowings (INRm)	73,731	82,593	106,067	116,347	112,124	118,980

Source: Company, MOSL

Exhibit 5: CASA ratio declined to 30.2% due to muted CASA growth during the quarter



Source: Company, MOSL

Asset quality improved sequentially as slippages moderated to INR0.8b

- GNPLs increased 5.2% QoQ to INR3.4b, while NNPA's declined by 0.5% QoQ to INR1.8b. Fresh slippages stood at INR0.8b while reductions stood at INR0.6b. In percentage terms, GNPA/NNPA came in at 3.13%/1.75% (-23bp YoY/-23bp QoQ). According to the new recognition policy, GNPA's in the MFI/Vehicle finance/Small business loans/MSE finance stood at 0.74%/6.27%/2.79%/4.29%. Calculated PCR rose to 44% from ~41% in 2QFY19, despite 20% QoQ decline in provisions at INR243m.

Exhibit 6: Asset quality ratios improved across segments, except for the MSE segment

GNPA by segments	2QFY19	3QFY19
MSE	2.63%	4.29%
Small business loans	3.08%	2.79%
Micro Finance	0.88%	0.74%
Vehicle Finance	6.83%	6.27%
Total	3.36%	3.13%

Source: Company, MOSL

3QFY19 Conference Call highlights**Balance sheet and P&L related**

- The share premium and reserves of the SFB will be reduced for issuance of shares under the scheme announced
- Promoters have two more years to reduce the shareholding to 40%
- Bank has slowed lending to NBFCs; while it also slowed lending of unsecured loans during the quarter.
- NIMs are expected to decrease as portfolio mix changes.
- Traction in TD deposits has been encouraging; bank is not participating in the bulk SA auctions.
- INR1.2b was collected in insurance premium during the quarter (third-party income).
- Bank has received INR6b of refinancing from SIDBI; it has also redeemed INR2b of CPs during the quarter.
 - Approvals required under the scheme: the RBI, the SEBI, both stock exchanges, and the NCLT (Chennai). Later, a final approval will be needed again from the NCLT, after which the scheme will be filed with the SEBI to list shares without an IPO.
 - SWAP ratio will be calculated again when the NCLT approvals come in and the record date is announced
 - Securities Premium: INR8.3b eligible under companies Act (as of FY18), which can be used for the scheme
 - Both entities will be listed till further approvals
 - Scheme will be tax neutral
- The bank increased retail TD rates from 1st Nov'18. Therefore, good amount of growth was seen on that front. Rates for TD: 1/2 years 8.5%/8.8% p.a.
- Equitas bought PSLC this quarter; last year the bank had sold more PSLC. On a net basis, bank won't be having PSLC income in FY20.
- The bank has marginally increased SA rates for above INR1lac bucket.
- MSE has two components: Unsecured business loans, which management is cautious about. The bank plans to grow secured loans and working capital book.
 - INR1b of secured loans and balance is unsecured loans (started in 2017)
- Scope of further reduction in the investment book is limited as the bank would like to maintain liquidity. INR1b of NCDs are maturing in the near future.
- INR0.6m of PSLC expense will be booked in the next quarter.
- Operating expense will stay flat for the next couple of quarters; later it should start increasing as the bank plans to expand its sales team in the existing branch network
- Bank is not planning to add any branches in the near future (till 1HFY19).
- Other income will trend in line with loan growth.
- Yield on unsecured loan is 18%.
- Bank is seeing some opportunities through cross-selling and deepening in the existing geographies.
- 15% of the portfolio would be on fortnightly repayments.
- Bank had repaid some high ticket borrowings at the end of 2Q, 40-50bp NIM benefit spilled over in 3Q.
- Entire AFS book comprises treasury bills.

- Bank does not use DSA to source loans. All sourcing of loans and liability products is done by internal staff.
- Cross-selling: Micro Lap and Micro housing were extended to existing customers.
- INR35b of cross-selling already achieved (1.5lac clients).
- Lending yields in the used vehicles segment at ~20%, which takes into account the higher credit cost.
 - Not much improvement in the asset quality of the vehicle finance portfolio can be expected.
- Bank's micro LAP book is non PSL compliant.
- Growth in the northern and western geographies will be higher than the southern states. The bank is expecting to reduce its exposure to Tamil Nadu by 5-6% in FY20.

Asset Quality related

- Bank is expecting very less delinquency (based on past quarters) from the cyclone affected portfolio.
- Asset quality on the MSE has risen due to the shrinking portion of unsecured business loans. Bank is trying to recover loans, even seeking the legal process.

Maintain Buy with a target price of INR150 (1.9x Sept-20E ABV)

Valuation and view

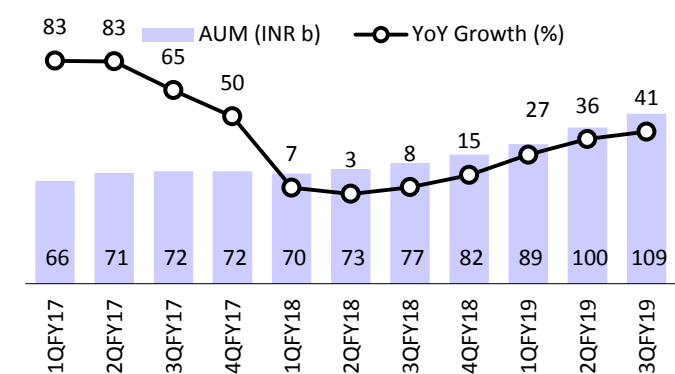
- We like management's focus on building a base (investments in branches and AUM diversification) for strong growth. We see profitability impact in FY20, also due to diversification of AUM mix, SFB transition and Micro Finance asset quality issues as transitory in nature. We believe EQUITAS to be a strong long-term play with the healthy asset mix and strong play on operating leverage.
- Equitas has delivered on its goal of balance sheet de-risking and has successfully lowered the MFI proportion in its loan book. This has been partially offset by the high growth in secured products. The recalibration in growth strategy will yield positive results over medium-to-long term. Thus, we have revised our PAT estimates upwards for FY20/21E by 13% /13%. In our view, the near-term stock performance may be under pressure arising from parallel listing of the SFB, which may result in a widening of holding company discount. We reiterate BUY with a target price of INR150 based on 1.9x Sep'20E ABV of INR81 per share.

Exhibit 7: RoA/RoE to improve led by operating leverage

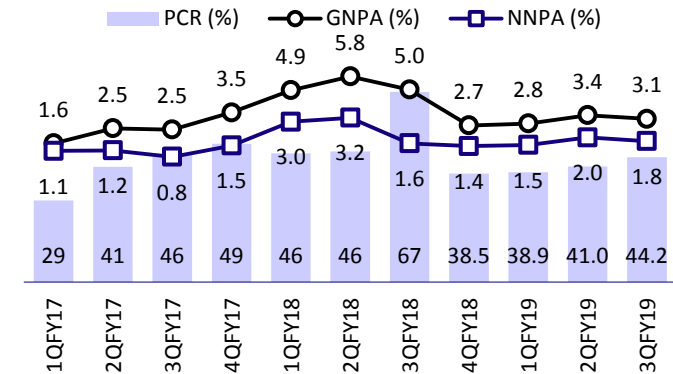
	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Interest Income	9.8	11.1	10.8	8.1	7.8	8.1	8.1
Other Income	2.9	1.4	1.4	1.6	1.9	1.8	1.9
Total Income	12.8	12.6	12.3	9.7	9.7	9.9	9.9
Operating Expenses	6.9	6.7	7.8	7.8	6.7	6.6	6.5
Operating Profits	5.9	5.9	4.5	1.9	3.0	3.3	3.4
Core operating Profits	5.8	5.7	4.1	1.9	2.8	3.0	3.2
Provisions	1.4	1.1	1.3	1.5	0.7	0.8	0.8
PBT	4.5	4.8	3.2	0.4	2.3	2.5	2.6
RoA	2.95	3.09	2.02	0.27	1.5	1.6	1.7
RoE	11.1	13.3	8.9	1.4	9.7	12.4	14.5

Source: MOSL, Company

Story in charts

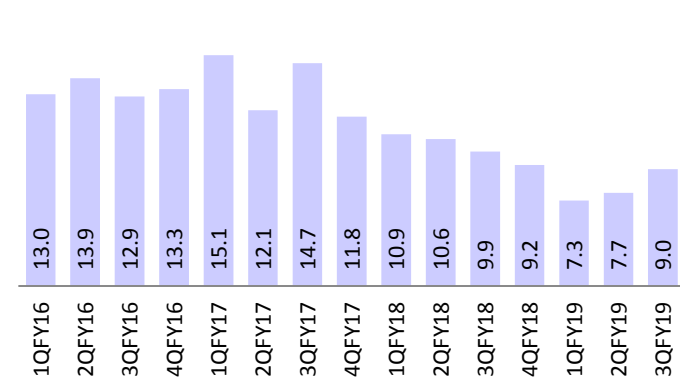
Exhibit 8: AUM growth picked up to 41%/9% YoY/QoQ


Source: Company, MOSL

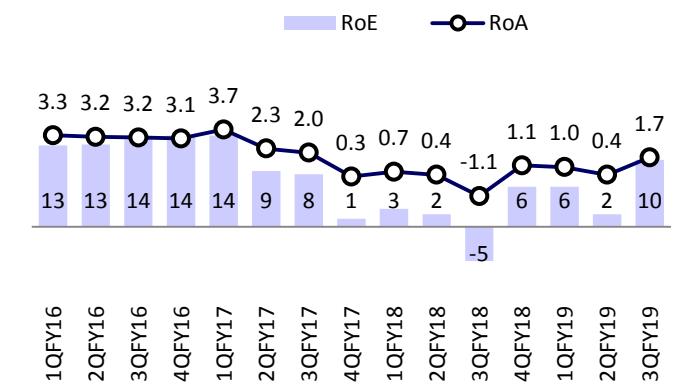
Exhibit 9: GNPA/NNPA declined to 3.1%/1.8%


Note: Company has changed the recognition policy to daily basis from 2QFY19

Source: Company, MOSL

Exhibit 10: NIM improved by 128bp to 8.98%


Source: Company, MOSL

Exhibit 11: RoA/RoE picked up to 1.7%/10.4%


Source: Company, MOSL

Financials and Valuations

Income Statement						(INRm)
Y/E March	FY16	FY17	FY18	FY19E	FY20E	FY21E
Interest Income	10,368	14,426	15,981	21,520	28,811	36,270
Interest Expense	4,359	5,871	6,736	9,373	12,755	16,125
Net Interest Income	6,009	8,555	9,245	12,147	16,057	20,144
Growth (%)	69.3	42.4	8.1	31.4	32.2	25.5
Non Interest Income	781	1,140	1,893	2,877	3,654	4,641
Total Income	6,790	9,695	11,138	15,024	19,711	24,785
Growth (%)	47.2	42.8	14.9	34.9	31.2	25.7
Operating Expenses	3,597	6,150	8,907	10,332	13,217	16,310
Pre Provision Profits	3,193	3,545	2,231	4,692	6,494	8,475
Growth (%)	49.2	11.0	-37.1	110.3	38.4	30.5
Core PPOp	3,077	3,279	2,231	4,276	6,028	7,909
Growth (%)	48.2	6.6	-32.0	91.7	41.0	31.2
Provisions (excl tax)	591	1,029	1,719	1,145	1,506	1,930
PBT	2,602	2,516	512	3,547	4,988	6,545
Tax	930	922	198	1,242	1,746	2,291
Tax Rate (%)	35.7	36.6	38.7	35.0	35.0	35.0
PAT	1,672	1,594	314	2,306	3,242	4,254
Growth (%)	56.8	-4.7	-80.3	634.3	40.6	31.2
Balance Sheet						
Y/E March	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	2,699	3,378	3,404	3,404	3,404	3,404
Reserves & Surplus	10,714	18,928	19,359	21,466	24,112	27,769
Net Worth	13,413	22,306	22,763	24,870	27,516	31,173
Deposits	0	18,850	47,190	78,807	114,271	156,551
Growth (%)			150.3	67.0	45.0	37.0
of which CASA Dep	0	3,320	16,340	29,947	45,708	65,751
Growth (%)			392.2	83.3	52.6	43.9
Borrowings	46,579	46,579	58,877	64,765	71,241	78,365
Other Liabilities & Prov.	3,497	6,700	6,118	7,342	8,810	10,567
Total Liabilities	63,489	94,435	134,948	175,784	221,837	276,656
Current Assets	9,469	10,651	11,941	18,664	20,406	23,492
Investments	119	19,159	38,569	48,211	60,264	75,330
Growth (%)	-93.2	16,000.0	101.3	25.0	25.0	25.0
Loans	50,702	58,289	78,001	118,562	154,130	197,286
Growth (%)	46.3	15.0	33.8	52.0	30.0	28.0
Fixed Assets	623	3,288	3,304	4,038	4,913	5,788
Other Assets	2,576	3,248	3,133	-13,691	-17,876	-25,240
Total Assets	63,489	94,635	134,948	175,784	221,837	276,656
Total AUM	61,248	71,760	82,390	123,562	157,130	197,286
Growth (%)	52.7	17.2	14.8	50.0	27.2	25.6
Asset Quality						
	FY16	FY17	FY18	FY19E	FY20E	FY21E
GNPA (INR m)	681	2,065	2,130	3,678	4,287	5,306
NNPA (INR m)	478	1,050	1,320	2,145	2,315	2,680
GNPA Ratio	1.34	3.54	2.73	3.10	2.78	2.69
NNPA Ratio	0.94	1.80	1.69	1.81	1.50	1.36
Slippage Ratio	0.72	2.54	4.89	3.20	2.20	1.80
Credit Cost	0.97	1.80	1.75	1.00	1.00	1.00
PCR (Excl Tech. write off)	29.8	49.1	38.0	41.7	46.0	49.5

Financials and Valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E	FY21E
Yield and Cost Ratio (%)						
Avg. Yield- on Earning Assets	20.3	19.5	14.8	13.7	13.7	13.7
Avg. Yield on loans	24.0	26.0	20.4	18.1	17.8	17.5
Avg. Yield on Investments	12.4	2.0	7.1	7.1	7.1	7.1
Avg. Cost of Int. Bear. Liab.	11.2	10.5	7.9	7.5	7.8	7.7
Interest Spread	9.0	9.0	6.9	6.2	6.0	6.0
NIM (on IEA)	11.8	11.5	8.5	7.7	7.6	7.6

Business and Efficiency Ratios (%)

Loans/Deposit Ratio	NM	309.2	165.3	150.4	134.9	126.0
CASA Ratio	NM	17.6	34.6	38.0	40.0	42.0
Cost/Assets	5.7	6.5	6.6	5.9	6.0	5.9
Cost/Total Income	53.0	63.4	80.0	68.8	67.1	65.8
Cost/Core income	53.9	65.2	80.0	70.7	68.7	67.3

Profitability Ratios and Valuation

RoE	13.3	8.9	1.4	9.7	12.4	14.5
RoA	3.1	2.0	0.3	1.5	1.6	1.7
Book Value (INR)	49.7	66.0	66.9	73.1	80.8	91.6
Growth (%)	14.1	32.9	1.3	9.3	10.6	13.3
Price-BV (x)		1.8	1.8	1.6	1.5	1.3
Adjusted BV (INR)	48.5	63.3	64.2	68.7	76.1	86.1
Price-ABV (x)		1.9	1.9	1.7	1.6	1.4
EPS (INR)	6.2	5.2	0.9	6.8	9.5	12.5
Growth (%)	-0.6	-15.5	-82.3	631.5	40.6	31.2
Price-Earnings (x)		22.9	129.6	17.7	12.6	9.6
Dividend Per Share (INR)	0.0	0.4	0.0	0.6	1.8	1.8
Dividend Yield (%)	0.0	0.3	0.0	0.5	1.5	1.5

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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