

Equitas Small Finance Bank Ltd –Long Term Subscribe

19th Oct 2020

IPO DETAILS

Issue Date	20 th Oct-22 nd Oct 2020
Price Band	32-33 per Share
Bid Lot	450 & in multiple there
Face Value	Rs 10/Share
Listing	BSE, NSE
Fresh Issue	Rs 280 Crores
Offer For Sale	72,000,000 Eq Shares
Pre Issue Eq Shares	1,053,0401,602 Eq Shares
BRLM	JM Financial Limited Edelweiss Financial Services Securities Ltd, IIFL Securities Ltd
Registrar	KFin Technologies Private Limited

Bank was the largest SFB in India in terms of number of banking outlets, and the second largest SFB in India in terms of assets under management and total deposits in Fiscal 2019. Bank offer a range of banking products and services to customers with a focus on serving the financially unserved and underserved customer segments in India. Bank's strength lies in promoting financial inclusion within these segments, with Bank's group beginning operations in 2007 as an NBFC providing microfinance loans through EMFL. Bank have been providing housing finance since 2011 through EHFL.

Bank have witnessed significant growth in its business, and in Fiscal 2019 had a market share of 16% in terms of assets under management in India . Bank's Gross Advances (including IBPC issued) have grown from ₹79,370.55 million as of March 31, 2018 to ₹117,028.49 million as of March 31, 2019 and was ₹153,669.37 million as of March 31, 2020, and ₹155,729.14 million as of June 30, 2020. Of bank's Gross Advances (including IBPC issued), secured advances constituted 66.33% as of March 31, 2018, 70.72% as of March 31, 2019, and increased to 75.39% as of March 31, 2020 and further increased to 75.75% as of June 30, 2020

In Fiscal 2019, Bank recorded the fourth lowest yields indicating Bank's diversification away from microfinance. Bank also witnessed the second fastest growth in deposits from Fiscal 2018 to Fiscal 2019 . Bank's deposits have grown at a CAGR of 38.75% from ₹56,039.73 million as of March 31, 2018 to ₹107,884.05 million as of March 31, 2020. As of March 31, 2019 Bank's CASA ratio was the second highest among SFBs in India, and Bank's retail deposits to total deposits ratio was the third highest among SFBs in India. As of June 30, 2020, Bank's CASA ratio and retail deposits to total deposits ratio was 19.97% and 37.13%, respectively. Further, Bank's certificate of deposits programme has been rated CRISIL A1+ by CRISIL Limited and its long-term borrowings and non-convertible debentures/ subordinated debt have both been rated CRISIL A+ / Stable.

As of March 31, 2019, Bank had the largest network of banking outlets among all SFBs in India . As of June 30, 2020, Bank's distribution channels comprised 856 Banking Outlets and 322 ATMs across 17 states and union territories in India. Bank also distribute products through digital channels, and leverage technology to identify opportunities to better serve its target customer segment. To this end, Bank have introduced facial recognition features for transaction authentication in Bank's mobile banking application. Bank have over the years also invested in building a large and trained employee base, and as of March 31, 2019, had the third largest number of employees among SFBs in India.

Valuation

Bank is bringing the issue at p/b multiple of approx 1.3x at higher end of price band of Rs 32-33/share on FY20 book values basis.

Bank being customer centric organization with a deep understanding of the unserved and underserved customer segments is among the largest SFBs in India with a well-diversified asset portfolio. Also, bank has strong retail liability portfolio with a strategic distribution network & customized credit assessment procedures for effective credit risk management.

However looking after current market volatility we recommend "Long term Subscribe" on the issue.



BANK OVERVIEW

Bank have also been providing vehicle finance and MSE finance through the Erstwhile NBFC that received its asset finance license in 2012, primarily to economically disadvantaged households. While Bank's business model has transitioned over the years, the provision of sustainable credit to unserved and underserved segments has remained Bank's core focus. Bank's focus customer segments include individuals with limited access to formal financing channels on account of their informal, variable and cash-based income profile. Bank offer a range of financial products and services that address the specific requirements of these customer segments by taking into account their income profile, nature of business and type of security available. Bank's asset products are suited to a range of customers with varying profiles. These include provision of small business loans comprising LAPs, housing loans, and agriculture loans to micro-entrepreneurs, microfinance to JLGs predominantly comprising women, used and new commercial vehicle loans to drivers and micro-entrepreneurs typically engaged in logistics, MSE loans to proprietorships, and corporate loans. On the liability side, Bank's target customers comprise mass and mass-affluent individuals to whom Bank offer current accounts, salary accounts, savings accounts, and a variety of deposit accounts. In addition, Bank also provide non-credit offerings comprising ATM-cum-debit cards, third party insurance, mutual fund products, and issuance of FASTags.

Moratorium information for a particular month is calculated as the aggregate value of EMIs due in a particular month that have not been repaid, divided by Gross Advances (including IBPC issued) as of the dates indicated below.

Asset Products	For June'20	For July'20	For Aug'20
	Value of EMIS due that hav not been paid in June as % of Gross Advances (including IBPC issued) as of Mar'20	Value of EMIS due that hav not been paid in July as % of Gross Advances (including IBPC issued) as of Mar'20	Value of EMIS due that hav not been paid in Aug as % of Gross Advances (including IBPC issued) as of Mar'20
Small Business Loans	42.06%	39.17%	39.25%
Micro Finance	58.00%	41.60%	24.65%
New Commercial Vehicle Finance	65.82%	53.52%	46.56%
Used Commercial Vehicle Finance	74.40%	58.90%	54.57%
MSE Finance (including Working Capital)	48.25%	40.59%	18.60%
Corporate	12.42%	13.65%	13.69%
Total	51.17%	42.40%	36.24%



Among the largest SFBs in India with a well-diversified asset portfolio

Bank was the largest SFB in India in terms of number of banking outlets, as of March 31, 2019, and in Fiscal 2019 Bank recorded the fourth lowest yields indicating Bank's diversification away from microfinance. Bank have been able to successfully diversify its loan portfolio and significantly reduce its dependence on Bank's microfinance business as compared to other microfinance companies that have converted to SFBs. Bank's asset products include provision of small business loans comprising LAPs, housing loans, agriculture loans, microfinance to JLGs, used and new commercial vehicle loans, gold loans, MSE loans, and corporate loans. The table below sets forth Bank's Gross Advances (including IBPC issued) by product as of March 31, 2018, 2019 and 2020:

	2018	2019	2020	Q1FY21
	% Total	% Total	% Total	% Total
Small Business Loans (Inc housing finance)	33.64	39.11	40.86	41.64
Small Business Loans	26.62	31.38	32.50	33.08
Housing Finance	3.41	3.22	3.93	4.04
Agriculture Loans	3.61	4.52	4.43	4.52
Micro Finance	28.44	26.23	23.53	23.23
Vehicle Finance	28.20	25.22	24.47	23.23
Used Commercial Vehicle	25.01	19.31	17.08	16.87
New Commercial Vehicle	3.19	5.91	7.39	7.38
MSE Finance (working capital)	0.10	1.55	4.36	4.57
Corporate	3.15	3.90	5.32	4.96
Others	6.47	3.99	1.46	1.35
Total Gross Advances (including IBPC issued)	100.0	100.00	100.00	100.00

Strong retail liability portfolio with a strategic distribution network

As Bank's liability customers predominantly belong to mass and mass-affluent segments, as of June 30, 2020, 54.23%, 33.79%, 9.88% and 2.10% of Bank's total deposit were in metropolitan, urban, semi-urban and rural areas, respectively. In order to complement the profile of these customers, certain of Bank's Banking Outlets are equipped with customer waiting areas, teller counters, lockers, ATMs and cash deposit machines. As of June 30, 2020, Bank's deposit base was spread across 17 States and union territories in India, through a network of 856 Banking Outlets, with 37.99%, 41.88%, and 20.14% of Bank's deposits in the Northern, Southern, and Western regions of India, respectively. Bank's strong brand equity associated with name "Equitas", which translates to fair and transparent, has partially aided the growth of Bank's liability franchise, coupled with Bank's social initiatives and marketing efforts that have improved visibility of Bank's brand. As of June 30, 2020, Bank had 856 Banking Outlets and 322 ATMs spread across 17 states and union territories in India. In the three months ended June 30, 2020, Bank recorded an average of 1,146 transactions per month per ATM, and an average of 78% of such transactions were by customers of other banks. In Fiscal 2019, 2020 and the three months ended June 30, 2020, the average debit card spend was ₹2,718.89 million, ₹1,120.20 million and ₹513.94 million, respectively.



Leveraging on Bank's existing network for deepening penetration and driving operational efficiency

Bank now intend to leverage these functions to further grow its Banking operations. In order to achieve this, Bank intend to further cross-sell its liability products such as recurring deposits to bank's asset side customers primarily comprising microfinance customers. Bank also intend to increase distribution of third party products by offering and marketing them across all channels, including Banking Outlets and digital channels. Bank's aim is to reduce the Cost to Income ratio which was 66.38% and 67.27% as of March 31, 2020 and June 30, 2020, respectively, by leveraging Bank's existing infrastructure of Banking Outlets and large customer base to cross-sell range of products.

Strengthen liability franchise and focus on increasing Bank's retail base to further improve cost of funds

As of June 30, 2020, Bank had a liability customer base of 0.90 million customers. Bank intend to further strengthen its liability franchise with a focus on growing its retail deposit and CASA deposit to provide Bank with a stable and low-cost source of funding. Bank aim to achieve this by attracting greater retail deposits from its customer segments, and particularly the mass and mass-affluent customer segments. For instance, Bank have recently launched differentiated CASA products for various types of customers, such as the 'Wings Account' for mass-affluent depositors and 'Elite Programme' for higher income households. As of June 30, 2020, Bank's deposit of ₹117,871.27 million represented 68.08% of its overall funding profile. Bank's retail deposits represented 16.20%, 24.30%, 44.42% and 46.40% of its total term deposits as of March 31, 2018, 2019, 2020 and June 30, 2020, respectively. Bank's CASA ratio was 29.23%, 25.25%, 20.47% and 19.97% as of March 31, 2018, 2019, 2020 and June 30, 2020, respectively. As a result, Bank's cost of funds were 8.13% and 7.97% in Fiscal 2019 and 2020, respectively, and was 7.63% (annualized)/ 1.91% (unannualized) in the three months ended June 30, 2020.

Increasingly focus on non-interest income sources

An important strategic focus for Bank is to diversify its fee and non-fund based revenues. Bank intend to achieve this by further cross-selling existing fee income products like distribution of mutual funds and insurance products, and introducing newer products and services. Bank engage with car dealers for issuance of 'FASTag', a self-service application for toll booths. Bank intend to build on this income source and engage with more number of car dealers across India for issuance of similar products. Bank intend to provide various payment solutions through mobile and internet Banking to increase the fee income generated from debit cards, bill payments, and transfers. For microfinance customers, Bank aim to market fee and nonfund based products such as health insurance, life insurance and general insurance, and also introduce micro-insurance products. For MSE and corporate customers, Bank intend to offer cash management services.



Risk Factors:

Any measures taken by the RBI and other authorities that regulate Bank's operations may impact Bank's operations. Supreme Court pursuant to an interim order passed on various petitions filed by borrowers, has extended the moratorium period introduced by the RBI until appropriate decisions have been taken. The matter is currently pending. Further, the methodology of computation of interest during the moratorium period is subject to decision of the Supreme Court, when passed. In the event the moratorium is extended further or if there are adverse directions on the levy of interest on the borrowings during the moratorium period, it may adversely impact Bank's business and operations and financial performance.

Objects of Issue:

Fresh Issue

Bank proposes to utilize the Net Proceeds from the Offer towards augmenting Bank's Tier I capital base to meet bank's future capital requirements.

Financial Statement

(Rs Cr)

	FY18	FY19	FY20	Q1FY21
Interest Income	1531.69	2111.93	2645.44	721.31
Growth %		37.88	25.26	(72.73)
Other Income	241.22	282.90	282.35	29.66
Net Income	1772.90	2394.83	2927.80	750.97
Growth %	#REF!	35.08	22.25	(74.35)
Total Expenses	1552.26	1968.69	2330.22	608.95
Pre Provision Profit	220.643	426.145	597.578	142.017
Growth %	#REF!	93.14	40.23	(76.23)
Provisions	188.81	215.58	353.94	84.35
PAT	31.83	210.57	243.64	57.67
Growth %		210.57	243.64	57.67
Eq Cap	1005.94	1005.94	1053.40	1,053.40
Net Worth	2,043.75	2,254.32	2,744.15	2,801.82
Eq Shares	100.59	100.59	105.34	105.34
EPS	0.3	2.1	2.3	0.5
Book Value	20.32	22.41	26.05	26.60
CASA Ratio	29.23	25.25	20.47	19.97
NIM %	9.02	8.55	9.11	2.16
Cost to income Ratio	79.97	70.30	66.38	67.27
CRAR	29.60	22.45	23.61	22.02
GNPA%	2.68	2.53	2.72	2.68
NNPA%	1.46	1.44	1.66	1.48
Provision coverage ratio%	47.07	43.38	45.22	48.79
ROA %	0.30	1.43	1.38	0.28
ROE%	1.57	9.85	9.84	8.32

Source:RHP

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