

# Equitas Small Finance Bank

Refer to important disclosures at the end of this report

## Strong CASA traction; NPA formation to be contained as collections pick up

CMP: Rs 33  
as of (November 10, 2020)

TP: Rs 42 (■)  
12 months

Rating: BUY (■)

Upside: 25.9 %

- Equitas SFB reported a higher PAT of Rs1bn, driven by lower opex and contained provisions. Covid-19 provisioning remains moderate at Rs1.7bn (1% of loans), but management believes that it is sufficient given better-than-expected collection efficiency.
- Overall loan growth improved to 23% yoy, while CASA surprised positively with ratio now at 25% vs. 20% in Q1. Overall collection efficiency comparable with peers stood at 87%, mainly dragged by VF. For MFI, it is reasonable at 91% in Oct'20. The bank expects 1.5% restructuring and LLP at 2%, including 1% BAU/ageing related.
- The recent IPO and resultant promoter stake reduction to 82% eased regulatory constraints on branch opening/CEO compensation, but the bank has to reduce it further to 40% by Sep'21, 30% by Sep'26 and to 26% by Sep'28, calling for continued dilution. The reverse merger of holdco and inorganic acquisition will be the options at disposal of the bank.
- We like Equitas for its healthy asset diversification, better management pedigree, reasonable liability profile, capital position and reasonable valuations. We assume coverage on Equitas SFB with a Buy rating (TP Rs42) and continue our coverage on holdco with a Buy rating and a revised TP of Rs86 (assuming a 25% holdco discount).

**Sharp improvement in CASA to support margins as bank continues to diversify loan portfolio:** Loan growth picked up – 23% yoy/11% qoq, led by a sharp recovery in disbursements (now at 80% of Q2FY20 levels), which would further improve as the bank will shift focus from collections to growth. Apart from revival in MFI, HL and VF, gold loans and used car segments are witnessing healthy traction. The MFI now contributes 22% of the portfolio against 24% as of Sep'19, in line with the bank's strategy to diversify loan book away from volatile MFI and increasing share of secured loans, which will have some bearing on margins. However, the bank has adopted strategic focus on open market sourcing of deposits since inception and is yielding results with its CASA ratio jumping up to 25% and retail deposits, including SA/TD, at 60% of deposits.

**Collection efficiency improving, but higher provisioning buffer would have been preferred:** GNPA improved by 20bps qoq to 2.5% in Q2 due to SC stay on NPA tagging, adjusting for which proforma GNPA would have been 28bps higher than actual GNPA at 2.8% (up 10bps qoq). Overall collection efficiency comparable with peers stood at 87% mainly dragged by VF, but for MFI, it is reasonable at 91% in Oct'20. Repayments from nearly 7-8% customers who have not paid single EMI post moratorium remain a concern. Covid-19 provisioning is moderate at Rs1.7bn/1% of loans, which is lower than peers like Ujjivan, primarily due to lower share of MFI portfolio. However, we believe that the risk is high on the VF portfolio and thus, a higher provisioning buffer would have been preferred. We conservatively build in 250bps LLP vs. management's expectation of 200bps.

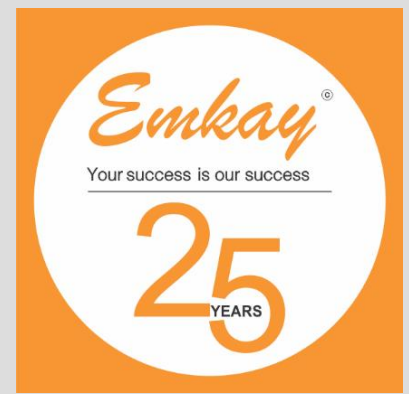
**Outlook and Valuation:** We like Equitas for its healthy asset diversification, better management pedigree, reasonable liability profile, capital position and reasonable valuations. We assume coverage on Equitas SFB with a Buy rating (TP Rs42) and continue our coverage on holdco with a Buy rating and a revised TP of Rs86 (assuming 25% holdco discount). Key risks to our call: Higher-than-expected NPAs, regulatory overhang on promoter stake dilution and loss of momentum in CASA flow.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 7\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	14,346	17,777	20,493	24,233	29,112
Net profit	2,106	2,438	3,263	4,376	5,870
EPS (Rs)	2.1	2.4	3.0	3.8	5.2
ABV (Rs)	21.1	24.7	28.2	31.0	36.2
RoA (%)	1.4	1.4	1.5	1.7	1.9
RoE (%)	9.8	9.8	10.7	12.3	14.4
PE (x)	15.8	13.9	11.1	8.6	6.4
P/ABV	1.6	1.4	1.2	1.1	0.9

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	3.0	3.8
Consensus	-	-
Mean Consensus TP (12M)	-	-

### Stock Details

Bloomberg Code	EQUITASB IN
Face Value (Rs)	10
Shares outstanding (mn)	1,138
52 Week H/L	34 / 30
M Cap (Rs bn/USD bn)	38 / 0.51
Daily Avg Volume (nos.)	-
Daily Avg Turnover (US\$ mn)	-

### Shareholding Pattern Nov '20

Promoters	82.1%
FIIIs	1.3%
DIIIs	10.4%
Public and Others	6.3%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	-	-	-	-
Rel. to Nifty	-	-	-	-

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

#### Anand Dama

anand.dama@emkayglobal.com  
+91 22 6624 2480

#### Neelam Bhatia

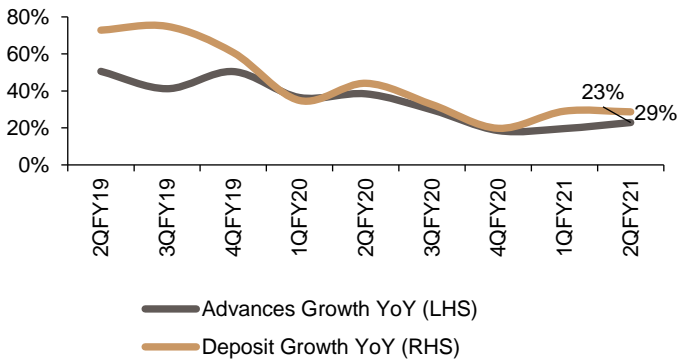
neelam.bhatia@emkayglobal.com  
+91 22 6612 1262

#### Mayank Agarwal

mayank.agarwal@emkayglobal.com

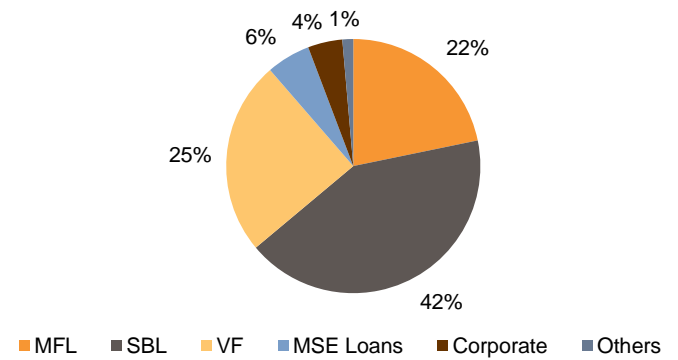
## Story in charts

**Exhibit 1: Healthy growth trajectory as unlocking accelerates**



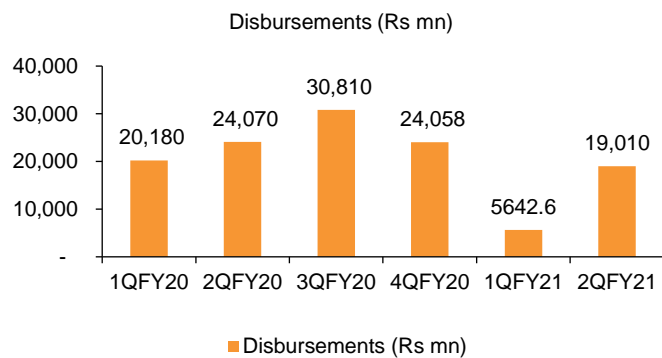
Source: Company, Emkay Research

**Exhibit 2: Share of MFI declines further to 22% of loans**



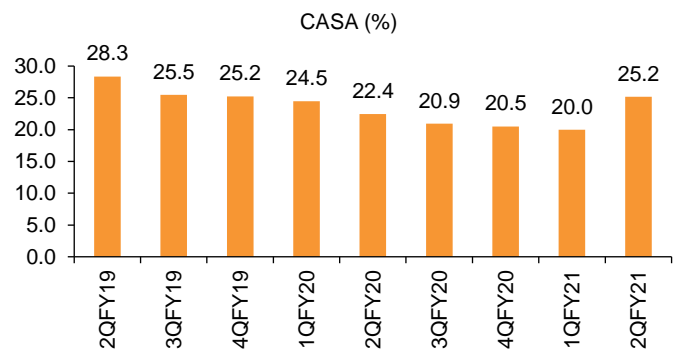
Source: Company, Emkay Research

**Exhibit 3: Disbursements have reached to 80% of pre-Covid levels**



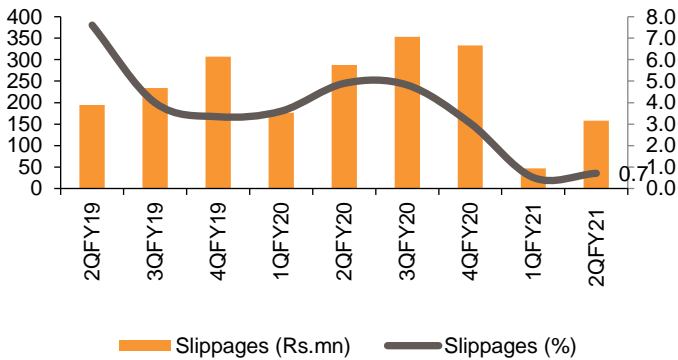
Source: Company, Emkay Research

**Exhibit 4: CASA ratio improves to 25% as SA growth accelerates**



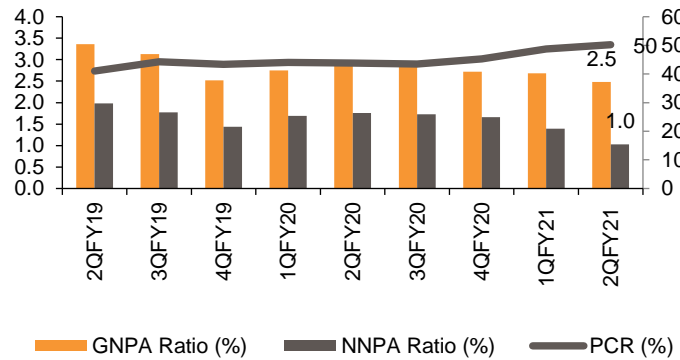
Source: Company, Emkay Research

**Exhibit 5: Fresh slippages were lower due to SC stay on NPA tagging**



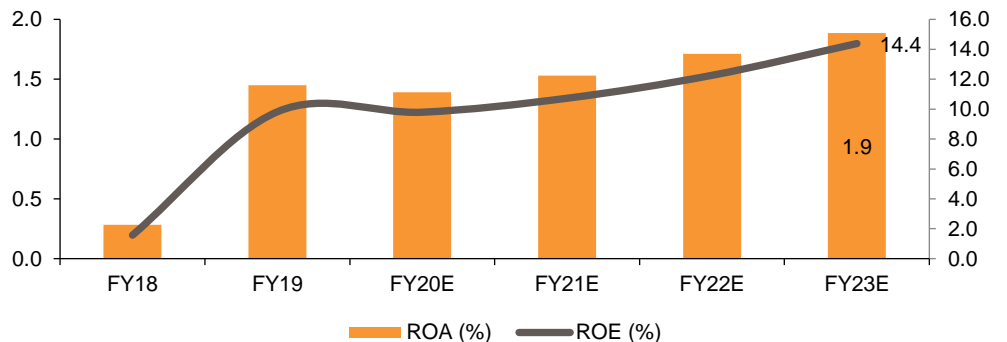
Source: Company, Emkay Research

**Exhibit 6: Proforma GNPA ex SC stay was higher by 28bps at 2.8% (up 10bps qoq)**



Source: Company, Emkay Research

**Exhibit 7: Strong ROA/ROE are expected from FY23**



Source: Emkay Research

**Exhibit 8: Quarterly Summary**

Rs (mn)	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	YoY (%)	QoQ (%)	FY20E	FY21E	YoY (%)
Interest Earned	6,395	6,767	7,258	7,210	7,975	25	11	27,752	32,095	16
Interest Exp	2,889	2,931	3,019	3,170	3,363	16	6	11,909	13,508	13
Net Interest Income	3,505	3,836	4,239	4,040	4,612	32	14	15,843	18,587	17
Global NIMs (reported)	8.83	9.17	9.11	8.63	9.02	19bps	39bps	8.7	8.4	-30bps
Non-interest Income	639	857	736	300	637	0	112	1,607	1,575	-2
Operating Expenses	2,862	3,108	3,092	2,880	3,053	7	6	11,783	13,375	14
Pre Provisioning Profit	1,282	1,584	1,884	1,460	2,197	71	50	5,667	6,788	20
Provision & Contingencies	454	405	1,299	680	839	85	23	2,506	3,454	38
PBT	829	1,179	585	780	1,358	64	74	3,161	3,333	5
Income Tax Expense (Gain)	353	239	154	180	328	-7	82	1,102	839	-24
Net Profit/(Loss)	476	940	431	600	1,030	117	72	2,060	2,494	21
Gross NPA (%)	2.88	2.86	2.72	2.68	2.48	-40bps	-20bps	2.73	4.01	127bps
Net NPA (%)	1.76	1.73	1.66	1.39	1.03	-73bps	-36bps	1.64	2.16	52bps
Deposits (Rs in bn)	100	105	108	118	129	29	9	107	131	23
Net Advances (Rs in bn)	130	137	137	144	159	23	11	151	184	21

Source: Company, Emkay Research

**Exhibit 9: Earnings estimates**

Y/E Mar (Rs mn)	FY21E Introduced	FY22E Introduced	FY23E Introduced
Net income	20,163	24,368	29,904
PPOP	6,788	9,302	12,643
PAT	2,494	3,370	5,237
EPS (Rs)	7.3	9.9	15.3
BV (Rs)	92.2	101.8	116.6

Source: Emkay Research

**Exhibit 10: Key assumptions**

	FY20A	FY21E	FY22E	FY23E
Loan Growth %	29.8	20.0	25.0	25.0
Deposit Growth %	21.0	22.6	30.5	29.0
NIM %	8.7	8.4	8.6	8.6
GNPA %	2.7	4.0	3.8	3.4
Credit Cost %	1.9	2.7	2.3	2.0

Source: Emkay Research

**Exhibit 11: Key ratios and trends**

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
<b>Loans (Rs bn)</b>	<b>94</b>	<b>106</b>	<b>116</b>	<b>120</b>	<b>130</b>	<b>137</b>	<b>137</b>	<b>144</b>	<b>159</b>
-Growth % (YoY)	45.7	46.8	48.7	36.4	38.4	29.8	18.6	19.7	22.9
-Growth % (QoQ)	6.2	12.8	9.8	3.7	7.8	5.7	0.3	4.7	10.7
<b>Liability Profile</b>									
Deposit (Rs bn)	70	79	90	91	100	105	108	118	129
-Growth % (YoY)	74.9	74.7	62.3	34.8	44.1	32.6	19.8	29.1	28.7
-Growth % (QoQ)	2.7	13.7	13.8	1.4	9.8	4.7	2.8	9.3	9.4
<b>Asset Quality (%)</b>									
GNPA	3.4	3.1	2.5	2.8	2.9	2.9	2.7	2.7	2.5
NNPA	2.0	1.8	1.4	1.7	1.8	1.7	1.7	1.4	1.0
PCR	41.0	44.2	43.4	44.1	43.8	43.5	45.2	48.8	50.2
Slippages (Rs mn)	1,183	746	644	794	1,146	1,272	881	154	229
Slippages - annualized (%)	7.6	4.0	3.3	3.6	4.9	4.8	3.0	0.5	0.7
<b>ROE Decomposition %</b>									
NII	9.5	8.6	8.5	8.3	8.3	8.6	9.0	8.0	8.4
Other Income	2.5	2.0	1.9	1.5	1.5	1.9	1.6	0.6	1.2
Opex	8.3	7.2	7.1	6.8	6.8	7.0	6.5	5.7	5.6
PPOP	3.7	3.4	3.2	3.0	3.0	3.5	4.0	2.9	4.0
Provisioning Cost	1.1	0.7	0.7	0.8	1.1	0.9	2.7	1.4	1.5
PBT	2.6	2.7	2.6	2.3	2.0	2.6	1.2	1.6	2.5
Tax	0.9	1.0	0.9	0.8	0.8	0.5	0.3	0.4	0.6
ROA	1.7	1.7	1.7	1.5	1.1	2.1	0.9	1.2	1.9
Leverage (x)	5.4	6.6	6.8	7.0	7.2	6.6	6.9	7.2	7.5
ROE	9.2	11.4	11.6	10.2	8.1	13.9	6.3	8.6	14.2

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>11,517</b>	<b>14,954</b>	<b>18,120</b>	<b>21,714</b>	<b>26,433</b>
<b>Other income</b>	<b>2,829</b>	<b>2,824</b>	<b>2,374</b>	<b>2,520</b>	<b>2,678</b>
Fee income	186	210	219	252	289
<b>Net income</b>	<b>14,346</b>	<b>17,777</b>	<b>20,493</b>	<b>24,233</b>	<b>29,112</b>
Operating expenses	10,085	11,801	12,458	14,286	16,605
<b>Pre provision profit</b>	<b>4,261</b>	<b>5,977</b>	<b>8,036</b>	<b>9,948</b>	<b>12,506</b>
<b>PPP excl treasury</b>	<b>4,229</b>	<b>5,943</b>	<b>7,995</b>	<b>9,899</b>	<b>12,448</b>
Provisions	777	2,466	3,675	4,100	4,662
<b>Profit before tax</b>	<b>3,484</b>	<b>3,511</b>	<b>4,361</b>	<b>5,848</b>	<b>7,845</b>
Tax	1,379	1,073	1,098	1,472	1,975
Tax rate	40	31	25	25	25
<b>Profit after tax</b>	<b>2,106</b>	<b>2,438</b>	<b>3,263</b>	<b>4,376</b>	<b>5,870</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	10,059	10,534	11,382	11,382	11,382
Reserves	12,399	16,796	22,122	26,498	32,368
<b>Net worth</b>	<b>22,459</b>	<b>27,330</b>	<b>33,504</b>	<b>37,880</b>	<b>43,751</b>
Deposits	90,067	107,884	139,612	182,655	239,081
Borrowings	39,730	49,149	44,234	39,810	37,820
<b>Total liabilities</b>	<b>157,627</b>	<b>193,145</b>	<b>233,665</b>	<b>277,752</b>	<b>344,427</b>
Cash and bank	4,027	3,809	3,999	4,199	4,409
Investments	23,445	23,425	40,905	42,769	53,212
Loans	115,950	137,472	167,743	209,753	262,381
Others	3,253	4,751	5,966	6,251	7,060
<b>Total assets</b>	<b>157,627</b>	<b>193,145</b>	<b>233,665</b>	<b>277,752</b>	<b>344,427</b>

**Key Ratios (%)**

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	8.3	9.0	8.9	8.9	8.9
Non-ll/avg assets	1.9	1.6	1.1	1.0	0.9
Fee income/avg assets	0.1	0.1	0.1	0.1	0.1
Opex/avg assets	6.9	6.7	5.8	5.6	5.3
Provisions/avg assets	0.5	1.4	1.7	1.6	1.5
PBT/avg assets	2.4	2.0	2.0	2.3	2.5
Tax/avg assets	0.9	0.6	0.5	0.6	0.6
RoA	1.4	1.4	1.5	1.7	1.9
RoAE	9.8	9.8	10.7	12.3	14.4
GNPA (%)	2.5	3.0	4.0	3.6	3.2
NNPA (%)	1.6	1.8	2.0	1.6	1.3

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	2.1	2.4	3.0	3.8	5.2
BVPS	22.3	26.5	30.6	33.3	38.4
ABVPS	21.1	24.7	28.2	31.0	36.2
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	15.9	14.1	11.2	8.7	6.5
P/ABV	1.6	1.4	1.2	1.1	0.9
P/BV	1.5	1.3	1.1	1.0	0.9
P/PPOP	7.8	5.8	4.7	3.8	3.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Emkay Research

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
NII	33.8	29.8	21.2	19.8	21.7
PPOP	93.1	40.2	34.5	23.8	25.7
PAT	561.5	15.8	33.9	34.1	34.1
Loans	50.5	18.6	22.0	0.0	0.0

<b>Quarterly (Rs mn)</b>	<b>2QFY20</b>	<b>3QFY20</b>	<b>4QFY20</b>	<b>1QFY21</b>	<b>2QFY21</b>
NII	3,505	3,836	4,239	4,040	4,612
NIM (%)	8.83	9.17	9.11	8.63	9.02
PPOP	1,282	1,584	1,884	1,460	2,197
PAT	476	940	431	600	1,030
EPS (Rs)	0.47	0.89	0.41	0.57	0.98

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Oct-20</b>	<b>Nov-20</b>
Promoters	-	-	-	82.1	82.1
FIIIs	-	-	-	1.3	1.3
DIIIs	-	-	-	10.4	10.4
Public and Others	100.0	100.0	100.0	6.3	6.3

Source: Capitaline

## Emkay Alpha Portfolio – BFSI-Banks



### Analyst: Anand Dama

#### Contact Details

anand.dama@emkayglobal.com  
+91 22 6624 2480

#### Sector

Banks

#### Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-Banks</b>	<b>21.29</b>	<b>21.29</b>	<b>0.0%</b>	<b>0</b>	<b>100.00</b>
Axis Bank	2.17	2.31	7%	14	10.87
AU Small Finance Bank	0.25	0.21	-13%	-3	1.01
Bandhan Bank	0.36	0.52	44%	16	2.43
Bank of Baroda	0.09	0.09	1%	0	0.42
Canara Bank	0.04	0.00	-100%	-4	0.00
City Union Bank	0.20	0.20	-1%	0	0.92
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.16	0.12	-24%	-4	0.58
HDFC Bank	7.96	8.13	2%	17	38.21
ICICI Bank	4.66	4.84	4%	19	22.74
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.68	0.73	8%	5	3.45
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	3.29	2.68	-18%	-61	12.61
Punjab National Bank	0.05	0.00	-100%	-5	0.00
RBL Bank	0.12	0.12	0%	0	0.58
State Bank of India	1.23	1.32	7%	9	6.20
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

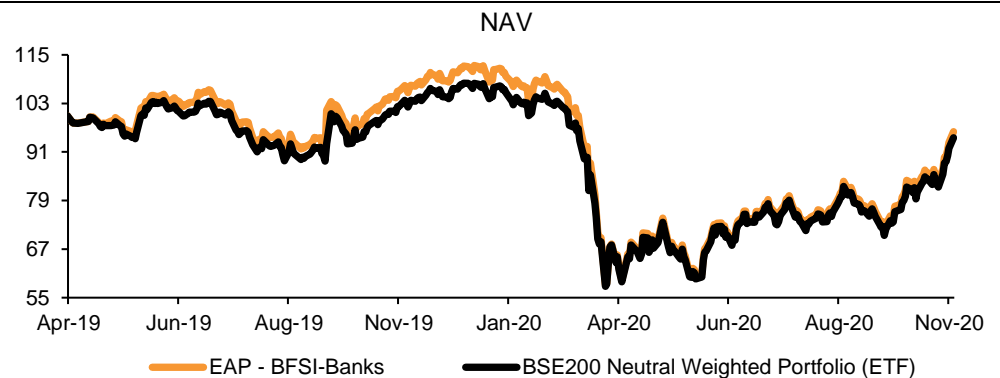
### Sector portfolio NAV

	Base					Latest
	01-Apr-19	10-Feb-20	11-May-20	10-Aug-20	09-Oct-20	09-Nov-20
EAP - BFSI-Banks	100.0	108.0	65.9	75.6	84.0	96.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	104.0	65.0	74.7	82.3	94.5

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 11 Nov 2020 04:51:15 (SGT)

Dissemination Date: 11 Nov 2020 04:52:15 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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**Emkay Global Financial Services Ltd.**

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com