

Equitas Holdings

Refer to important disclosures at the end of this report

Healthy retail deposit growth; asset quality remains monitorable

CMP: Rs 53
as of (July 5, 2020)

TP: Rs 65 (▲)
12 months

Rating: BUY (■)

Upside: 21.7 %



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- In its Q1FY21 business update, Equitas has reported healthy deposit (ex-CD) growth of 11% qoq to Rs114.7bn, led by strong traction in Retail TD (17% qoq) in line with the management's strategy to focus on granular retail deposits.
- The moratorium in value terms has fallen from 93% in April'20 to ~50% in June'20, the improvement was witnessed across business segments (MFI at 56% from 100%, small business loans (SBL) at 42% from 87% and VF at 65-70% from 90%).
- The moratorium as well as business resumption led to reduction in the SMA/overdue pool across products. Collection efficiency has improved in the MFI business to 44% for June EMIs, while the balance remaining in auto-moratorium (56%). Monthly fresh disbursements picked up in June 20 mainly in MFI, VF and SBL.
- We retain our Buy rating with a revised TP of Rs65 (up from Rs54), based on 0.7x FY22 ABV, given better deposit traction after a scare across SFBs in Q4, which should help the bank in the long run to protect its margins/RoA. However, asset quality performance and listing its SFB will remain key monitorable in the near term.

Clear focus on granular retail deposits a long-term positive: Deposit growth at 11% qoq to Rs114.7bn was driven by strong growth in Retail TD of 17% qoq, led by focus on HNI/NRI customers. After a scare in Q4 post Yes Bank saga, CASA growth also picked up at 7% qoq. However, management is aware of the fact that mobilizing low-cost CASA will be challenging, turning the focus on retail TD growth to replace its high cost borrowing and thus, structurally improved margin profile. Though the bank did not disclose Q1 credit growth, it has disbursed Rs4.6bn (3% of loans) in June by giving more loans to existing customers across business segments to restart business activities. However, eligible portfolio under the MSME guarantee scheme is lower than the bank's earlier estimate of Rs55bn loans outstanding due to loans given in individual capacity. On an overall basis, we build in 20% credit growth in FY21.

Need to be on vigil to limit asset quality impact once moratorium ends: With the revival of business activity and "Opt-in" mechanism for the second moratorium, the overall moratorium rate fell to ~50% in June'20 from 93% in April'20. The moratorium rate in CV (24% of loans) too declined from 90%, but remains elevated at 65-70%. The bank is extending moratorium after physical inspection of vehicles and has completed 76% physical inspection for high-risk VF loans. The bank has classified 31% of VF as high risk on the basis of higher LTV. Nearly 67% SMA loans in VF pool of Rs5bn (17% of VF loans) have normalized and 58% in SBL SMA pool of Rs1.6bn (2.5% of SBL loans). The bank made a Covid-19 provision buffer of Rs1bn (0.6% of loans) in Q4FY20.

Outlook and Valuation: We retain Buy on Equitas over healthy asset diversification, liability profile with focus on granular retail deposits, good management pedigree, capital position and reasonable valuations. We revise our TP to Rs65 based on 0.7x FY22 ABV (vs. 0.6x FY22 ABV earlier), on better deposit traction after a scare in Q4, which should help protect its margins/RoA in the long run. Key risks to our call: higher-than-expected NPAs and delay in the listing of SFB subsidiary leading to regulatory overhang.

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	13,996	17,450	20,233	24,236	29,748
Net profit	1,766	2,060	2,418	3,438	4,906
EPS (Rs)	5.2	6.0	7.1	10.1	14.4
ABV (Rs)	68.0	79.9	83.3	91.3	104.3
RoA (%)	1.2	1.1	1.1	1.3	1.5
RoE (%)	7.5	7.7	8.0	10.4	13.4
PE (x)	10.3	8.9	7.5	5.3	3.7
P/ABV	0.8	0.7	0.6	0.6	0.5

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(2.7)/(3.3)
Target Price change (%)	20.4
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	7.1	10.1
Consensus	8.3	11.6
Mean Consensus TP (12M)	Rs 70	

Stock Details

Bloomberg Code	EQUITAS IN
Face Value (Rs)	10
Shares outstanding (mn)	342
52 Week H/L	131 / 33
M Cap (Rs bn/USD bn)	18 / 0.24
Daily Avg Volume (nos.)	19,877,110
Daily Avg Turnover (US\$ mn)	13.1

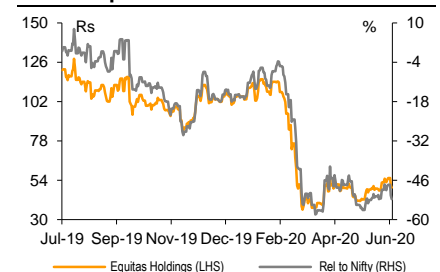
Shareholding Pattern Mar '20

Promoters	-%
FIIs	28.7%
DIIIs	34.5%
Public and Others	36.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	10	43	(49)	(56)
Rel. to Nifty	4	9	(42)	(50)

Relative price chart



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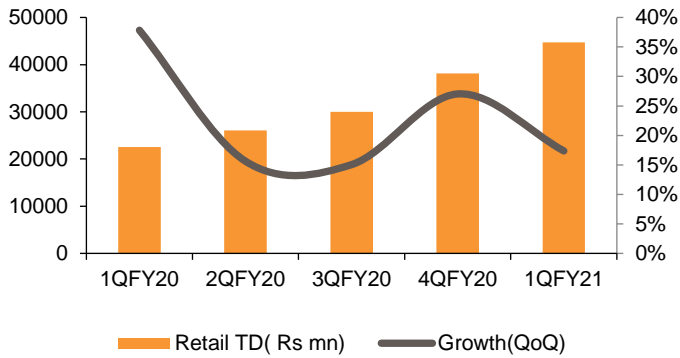
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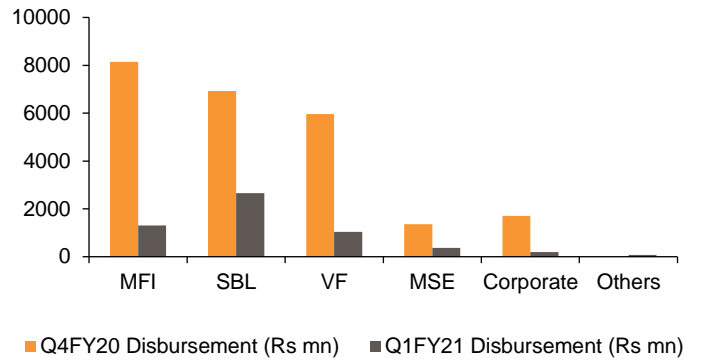
Story in Charts

Exhibit 1: Retail TD momentum continues



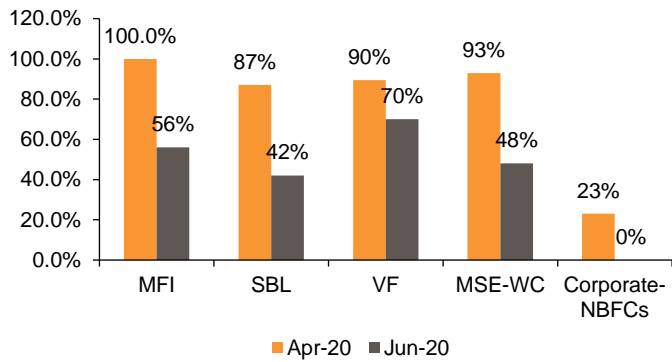
Source: Company, Emkay Research

Exhibit 2: Rs4.6bn disbursed in June to assist customers in restarting business activities



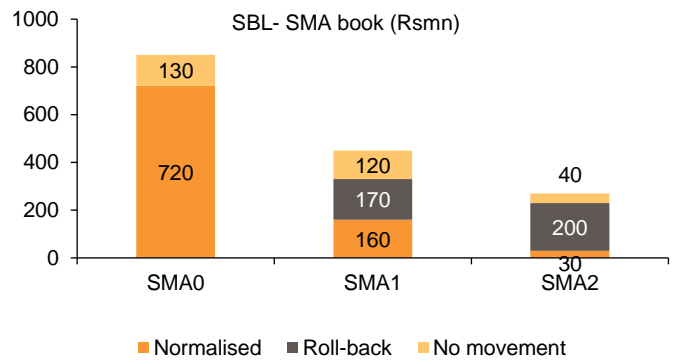
Source: Company, Emkay Research

Exhibit 3: Moratorium rate has fallen meaningfully across products in Phase 2, but for vehicle finance (CV)



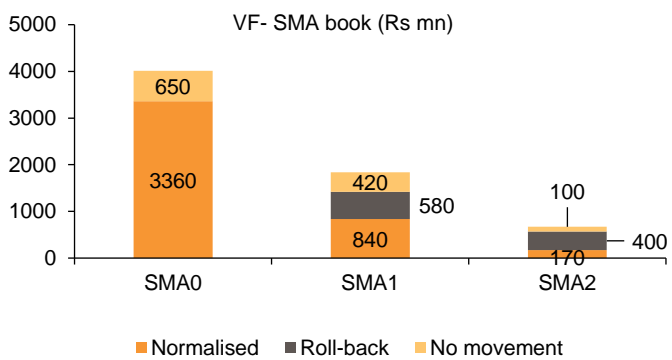
Source: Company, Emkay Research

Exhibit 4: Rs1.57bn Small Business Loans- SMA pool as on 29th Feb, of which 58% normalized and 24% rolled back



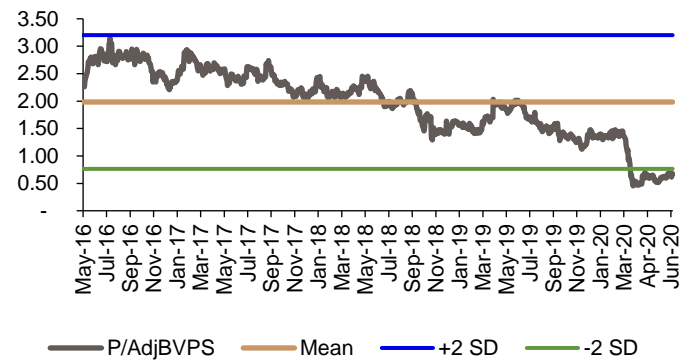
Source: Company, Emkay Research

Exhibit 5: Rs6.5bn Vehicle Finance- SMA pool as on 29th Feb, of which 67% normalized and 15% rolled back



Source: Company, Emkay Research

Exhibit 6: The stock currently trades at 0.7x – 1 year forward ABV



Source: Company, Emkay Research

Exhibit 7: Revision in Estimates

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	20,036	20,233	1.0%	24,054	24,232	0.7%	29,575	29,734	0.5%
PPOP	6,589	6,940	5.3%	8,631	8,990	4.2%	11,215	11,942	6.5%
PAT	2,412	2,362	-2.1%	3,513	3,403	-3.1%	4,816	4,904	1.8%
EPS (Rs)	7.1	6.9	-2.7%	10.3	10.0	-3.3%	14.1	14.3	1.8%
BV (Rs)	90.3	90.4	0.1%	98.4	98.5	0.1%	110.2	110.9	0.6%

Source: Company, Emkay Research

Exhibit 8: 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	8.3	8.4	8.4
GNPA %	2.7	3.9	3.7	3.3
Credit Cost %	1.6	2.8	2.2	1.9

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	12,357	15,843	18,562	22,390	27,626
Other income	1,639	1,607	1,671	1,846	2,122
Fee income	738	959	1,007	1,208	1,450
Net income	13,996	17,450	20,233	24,236	29,748
Operating expenses	10,270	11,783	13,293	15,242	17,792
Pre provision profit	3,726	5,667	6,940	8,994	11,955
PPP excl treasury	3,693	5,633	6,905	8,955	11,913
Provisions	1,013	2,505	3,709	4,399	5,400
Profit before tax	2,713	3,162	3,231	4,595	6,556
Tax	947	1,102	813	1,157	1,650
Tax rate	35	35	25	25	25
Profit after tax	1,766	2,060	2,418	3,438	4,906

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	3,415	3,418	3,417	3,417	3,417
Reserves	21,022	25,613	28,031	31,128	35,521
Net worth	24,437	29,031	31,448	34,545	38,938
Deposits	88,287	106,786	130,925	170,904	220,425
Borrowings	39,714	66,106	59,557	50,265	46,418
Total liabilities	157,133	208,352	239,240	292,097	362,567
Cash and bank	2,868	25,372	17,168	16,609	18,700
Investments	23,459	23,444	29,594	36,463	46,496
Loans	115,744	151,058	183,534	229,417	286,772
Others	2,402	3,146	3,551	3,996	4,604
Total assets	157,133	208,352	239,240	292,097	362,567

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	8.9	9.1	8.8	8.9	8.8
Non-ll/avg assets	1.1	0.9	0.7	0.7	0.6
Fee income/avg assets	0.5	0.5	0.4	0.5	0.4
Opex/avg assets	7.0	6.4	5.9	5.7	5.4
Provisions/avg assets	0.7	1.4	1.7	1.7	1.6
PBT/avg assets	1.9	1.7	1.4	1.7	2.0
Tax/avg assets	0.6	0.6	0.4	0.4	0.5
RoA	1.2	1.1	1.1	1.3	1.5
RoAE	7.5	7.7	8.0	10.4	13.4
GNPA (%)	2.5	2.7	4.0	3.8	3.4
NNPA (%)	1.6	1.5	2.2	1.9	1.5

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	5.2	6.0	7.1	10.1	14.4
BVPS	71.6	84.9	92.0	101.1	113.9
ABVPS	68.0	79.9	83.3	91.3	104.3
DPS	0.0	0.0	0.0	1.0	1.5

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	10.3	8.9	7.5	5.3	3.7
P/BV	0.8	0.7	0.6	0.6	0.5
P/ABV	0.8	0.7	0.6	0.6	0.5
P/PPOP	4.9	3.3	2.7	2.1	1.5
Dividend Yield (%)	0.0	0.0	0.0	1.9	2.8

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	31.1	28.2	17.2	20.6	23.4
PPOP	105.8	52.1	22.5	29.6	32.9
PAT	1,190.7	16.7	17.4	42.2	42.7
Loans	47.3	30.5	21.5	25.0	25.0

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
NII	3,380	3,628	3,779	4,107	4,381
NIM(%)	8.9	8.6	8.8	9.2	9.1
PPOP	1,079	1,212	1,222	1,447	1,784
PAT	419	703	413	793	161
EPS (Rs)	1.23	2.05	1.21	2.32	0.47

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoters	-	-	-	-	-
FII	18.6	20.2	22.7	26.1	28.7
DII	42.0	40.9	40.8	37.2	34.5
Public and Others	39.4	38.9	36.4	36.7	36.9

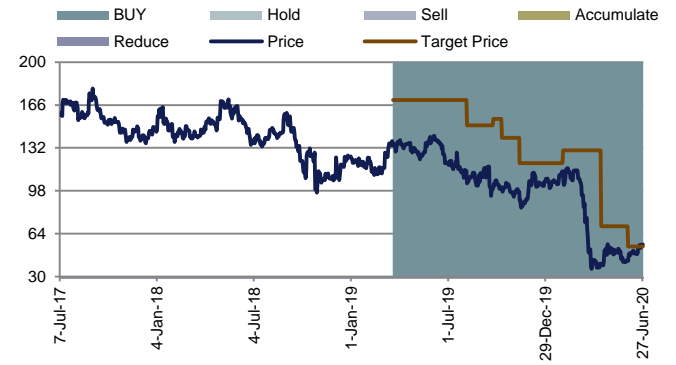
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
31-May-20	42	54	12m	Buy	Anand Dama
11-Apr-20	40	70	12m	Buy	Anand Dama
31-Jan-20	109	130	12m	Buy	Anand Dama
11-Nov-19	91	120	12m	Buy	Anand Dama
9-Oct-19	101	140	12m	Buy	Anand Dama
23-Sep-19	101	155	12m	Buy	Anand Dama
5-Aug-19	104	150	12m	Buy	Anand Dama
14-May-19	126	170	12m	Buy	Anand Dama
4-Apr-19	136	170	12m	Buy	Anand Dama
20-Mar-19	134	170	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



Analyst: Anand Dama

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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)
BFSI-Banks	19.61	19.56	-0.2%	-4	100.00
Axis Bank	1.70	1.85	9%	15	9.45
AU Small Finance Bank	0.06	0.04	-34%	-2	0.21
Bandhan Bank	0.18	0.18	0%	0	0.90
Bank of Baroda	0.11	0.00	-100%	-11	0.00
Canara Bank	0.05	0.00	-100%	-5	0.00
City Union Bank	0.16	0.16	0%	0	0.82
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.19	0.24	29%	5	1.23
HDFC Bank	8.13	8.42	4%	29	42.93
ICICI Bank	4.09	4.29	5%	20	21.89
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.52	0.60	14%	7	3.05
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.92	2.43	-17%	-48	12.41
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.13	0.13	0%	0	0.66
State Bank of India	1.22	1.22	0%	0	6.24
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.04	0.00	-100%	-4	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.04	NA	4	0.2

Source: Emkay Research

* Not under coverage: Equal Weight

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

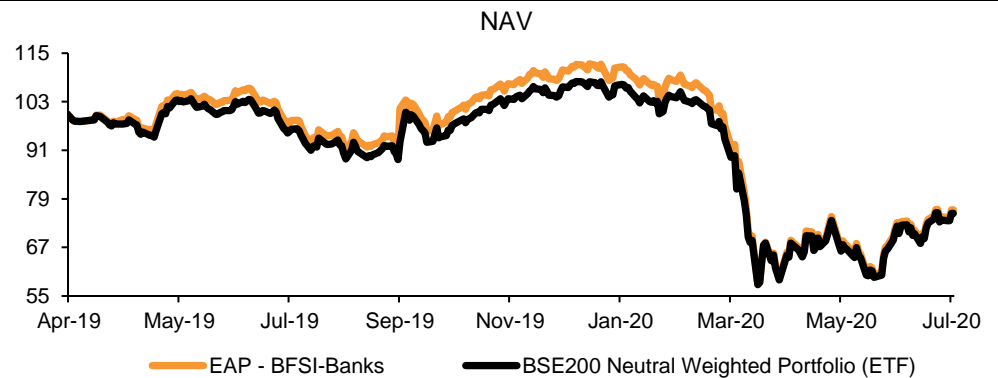
Sector portfolio NAV

	Base					Latest
	01-Apr-19	01-Oct-19	02-Jan-20	01-Apr-20	02-Jun-20	02-Jul-20
EAP - BFSI-Banks	100.0	99.0	112.3	62.7	71.6	76.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	96.4	107.9	62.0	70.7	75.4

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

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

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

“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: 05 Jul 2020 22:53:59 (SGT)

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