

Equitas Small Finance Bank

Refer to important disclosures at the end of this report

Merger process speeding-up; Management overhang to persist

- Equitas Small Finance Bank (Equitas) reported lower PAT of Rs0.97bn (vs. estimate of Rs1.13bn) mainly due to lower other income and higher-than-expected provisions, including on restructured loans. GNPA ratio was down 14bps qoq to 4.1%, while specific PCR improved to 49% as the bank intends to gradually increase it to 70%.
- Healthy credit growth at 22% yoy/6% qoq mainly led by growth in VF and small business loans. Growth in MFI was relatively moderate amid change in RBI's regulations. The bank plans to grow its secured book (including housing), which will have some impact on its margins in the long run, partly offset by moderation in credit cost to support RoAs.
- The reverse merger of the holdco (Equitas holdings) with bank is progressing well with NCLT approval in place. Management expects the merger to be completed before FY23-end. Recently, the RBI granted one-year term extension to the Founder cum MD and CEO, while the bank is in search of potential replacement with a career banker.
- We expect the bank's RoA/RoE to improve to 1.7%-2%/11-16% over FY23-25E from a low of 1.1%/7% in FY21, mainly led by better growth, operating leverage, and lower LLP. We retain Buy with a slight cut in the TP of Equitas SFB to Rs62, based on 1.5x FY24E ABV (vs. Rs67 earlier-on). Effectively, the TP of Equitas holdings has been cut to Rs136 from Rs146. We retain our Buy rating.

Higher CASA helped protect margins: For Q1FY23, Equates SFB reported healthy credit growth at 22% yoy/6% qoq, led by strong growth from SBL, vehicle financing, and housing loans. CASA ratio remained at healthy levels at 52% due to strong CASA growth. As a result, overall CoF stood at 6.2%. However, loans yield fell off a bit, partly due to slowdown in the MFI portfolio, which resulted in a marginal decline in NIM at 9.1%. The bank retains its conservative stance on the MFI portfolio, given higher volatility, while it continues to diversify into other products, which could lead to some margin contraction in the long run.

Higher slippages due to flow from restructured pool: Gross slippages moderated although they remained at elevated levels at Rs3bn/7.1% of loans (vs. 9.7% of loans in Q4). However, GNPA ratio declined by 14bps qoq to 4.1% despite net positive slippages, which is due to higher credit growth. Specific PCR improved to 49% as the bank intends to gradually increase it to 70%. Restructured pool moderated to Rs11.9bn/6% of loans, of which 34% is standard, 13% in 1-30 DPD, 15% in 31-60 DPD, 14% in 61-90 DPD, and 23% in >90 DPD bucket. Majority of stress reduction in RSA pool was witnessed in MFI and CV segment, while that in SBL, HF, and MSE still remains elevated.

Outlook and valuation: We expect the bank's Roam/RoE to improve to 1.7%-2%/11-16% over FY23-25E from a low of 1.1%/s7% in FY21, mainly led by better growth, operating leverage, and lower LLP. We retain Buy with a slight cut in TP of equities SFB to Rs62, based on 1.5x FY24E ABV (vs. Rs67 earlier). Effectively, TP of the Equitas holdings has been cut to Rs136 from Rs146. We retain our Buy recommendation. **Key risks:** Higher-than-expected NPA formation, loss of momentum in CASA flow, and management attrition.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	22,160	25,761	30,738	36,266	43,385
Net profit	3,842	2,807	5,067	7,041	9,192
EPS (Rs)	3.5	2.3	4.0	5.6	7.3
ABV (Rs)	29.0	32.5	35.4	41.4	48.8
RoA (%)	1.7	1.1	1.7	1.9	2.0
RoE (%)	12.5	7.3	11.3	13.8	15.5
PE (x)	12.7	19.0	11.0	7.9	6.1
P/ABV	1.6	1.4	1.3	1.1	0.9

Source: Company, Emkay Research

CMP

Rs 45

as of (July 29, 2022)

Rating

BUY (■)

Target Price

Rs 62 (▼)

12 months

Upside

39.3 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(1.3)/(2.1)
Target Price change (%)	(7.5)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	4.0	5.6
Consensus	4.4	6.1
Mean Consensus TP (12M)	Rs 68	

Stock Details

Bloomberg Code	EQUITASB IN
Face Value (Rs)	10
Shares outstanding (mn)	1,253
52 Week H/L	71 / 37
M Cap (Rs bn/USD bn)	56 / 0.70
Daily Avg Volume (nos.)	18,60,547
Daily Avg Turnover (US\$ mn)	1.1

Shareholding Pattern Jun '22

Promoters	74.5%
FIIIs	4.1%
DIIIs	15.6%
Public and Others	5.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	13	(19)	(19)	(30)
Rel. to Nifty	4	(19)	(19)	(35)

Relative price chart



Source: Bloomberg

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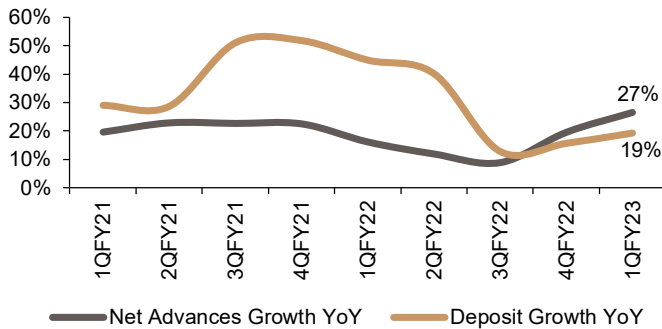
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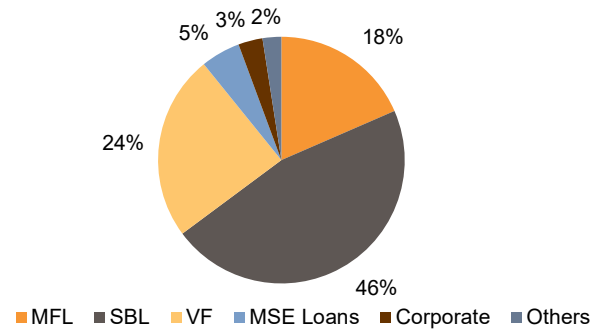
Story in charts

Exhibit 1: Credit growth accelerated due to pick up in VF, small business loans



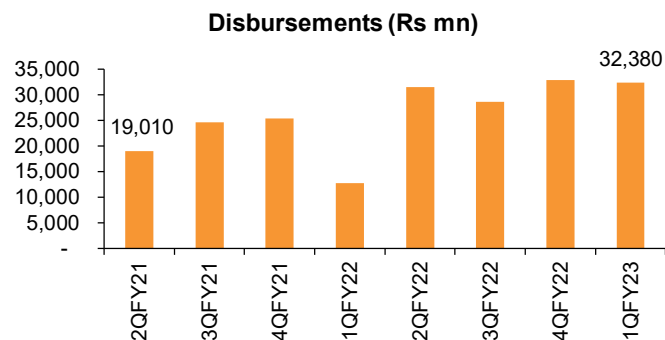
Source: Company, Emkay Research

Exhibit 2: Bank has gradually diversified its portfolio, but needs to manage its portfolio quality



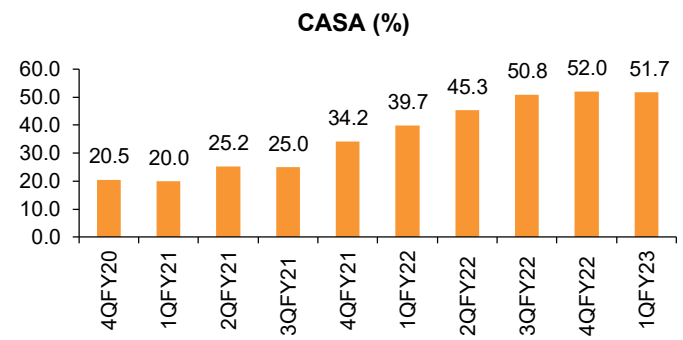
Source: Company, Emkay Research

Exhibit 3: Disbursements remained strong with pick-up seen in VF (CVs), SBL, and affordable housing



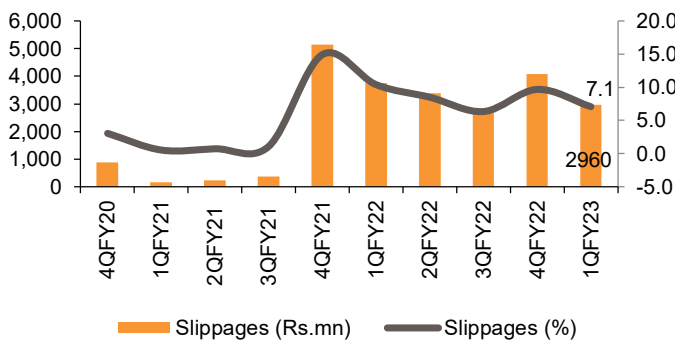
Source: Company, Emkay Research

Exhibit 4: CASA ratio remained healthy



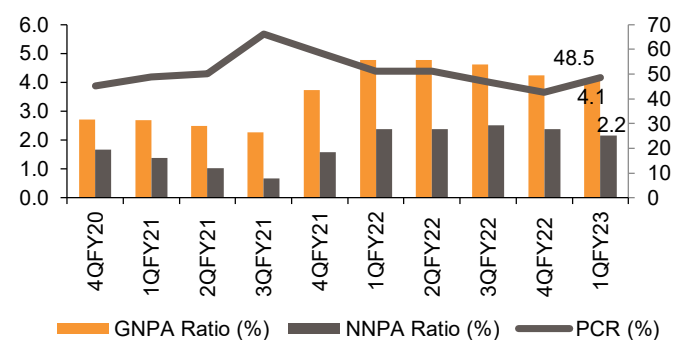
Source: Company, Emkay Research

Exhibit 5: Slippages stay high due to stress flow from RSA pool...



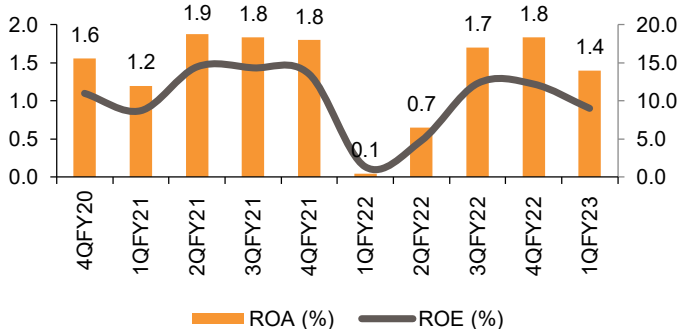
Source: Company, Emkay Research

Exhibit 6: ...thus, GNPA moderation was limited



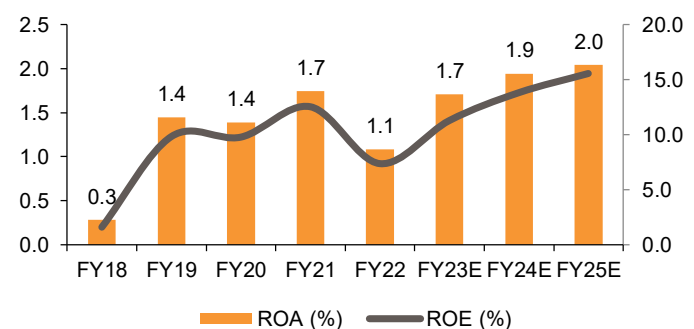
Source: Company, Emkay Research

Exhibit 7: Accelerated provisions led to lower return ratios



Source: Company, Emkay Research

Exhibit 8: RoA/RoE improvement to be led by better growth, improving operating leverage, and lower LLP



Source: Company, Emkay Research

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Exhibit 9: Actuals vs. Estimates (1QFY23)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	7,138	7,330	7,258	-3%	-2%	Lower other income led to a miss
PPOP	2682	2860	2,860	-6%	-6%	Lower net income led to a miss
PAT	970	1,129	1,305	-14%	-26%	Higher provisions led to a miss

Source: Company, Emkay Research

Exhibit 10: Quarterly summary

Rs (mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	8,190	8,435	9,009	8,958	9,404	15	5	34,597	40,879	18
Interest Exp.	3,579	3,597	3,601	3,434	3,598	1	5	14,211	16,086	13
Net Interest Income	4,610	4,838	5,408	5,525	5,806	26	5	20,385	24,793	22
Global NIMs (Reported)	7.9	8.1	9.1	9.1	9.1	118bps	-7bps	8.3	8.8	50bps
Non-interest Income	1,036	1,478	1,341	1,481	1,332	29	-10	5,376	5,945	11
Operating Expenses	4,002	4,370	4,502	4,167	4,456	11	7	17,041	19,467	14
Pre Provisioning Profit	1,644	1,946	2,247	2,839	2,682	63	-6	8,719	11,270	29
Provision & Contingencies	1,501	1,378	784	1,232	1,416	-6	15	4,938	4,500	-9
PBT	142	568	1,463	1,607	1,266	788	-21	3,781	6,771	79
Income Tax Expense (Gain)	23	156	382	412	296	1,174	-28	974	1,704	75
Net Profit/(Loss)	119	412	1,081	1,195	970	713	-19	2,807	5,067	80
Gross NPA (%)	4.8	4.8	4.6	4.2	4.1	-68bps	-14bps	4.24	3.55	-69bps
Net NPA (%)	2.4	2.5	2.5	2.4	2.2	-23bps	-22bps	2.47	1.81	-67bps
Deposits (Rs bn)	171	181	179	190	204	19	8	190	235	24
Net Advances (Rs bn)	171	183	187	197	209	22	6	194	236	22

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	30,445	30,738	1.0%	36,467	36,266	-0.6%	44,181	43,385	-1.8%
PPOP	10,902	11,270	3.4%	13,849	13,924	0.5%	17,765	17,376	-2.2%
PAT	5,135	5,067	-1.3%	7,192	7,041	-2.1%	9,196	9,192	0.0%
EPS (Rs)	4.1	4.0	-1.3%	5.7	5.6	-2.1%	7.3	7.3	0.0%
BV (Rs)	38	38	-0.1%	44	44	-0.4%	51	51	-0.3%

Source: Emkay Research

Exhibit 12: Key assumptions

	FY22A	FY23E	FY24E	FY25E
Loan Growth %	15.0	22.0	24.9	25.1
Deposit Growth %	15.6	23.9	27.0	28.6
NIM %	8.3	8.8	8.7	8.5
GNPA %	4.2	3.6	3.1	2.8
Credit Cost %	2.7	2.1	1.7	1.5

Source: Emkay Research

Exhibit 13: Key ratios and trends

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Loans (Rs bn)	144	159	168	168	167	178	183	194	205
-Growth % (YoY)	19.7	22.9	22.7	22.6	16.2	12.0	8.9	15.0	22.5
-Growth % (QoQ)	4.7	10.7	5.6	0.2	-0.8	6.7	2.7	5.8	5.7
Liability Profile									
Deposit	1,17,870	1,29,006	1,58,620	1,63,920	1,70,950	1,80,940	1,78,840	1,89,508	2,03,860
Deposit (Rs bn)	118	129	159	164	171	181	179	190	204
-Growth % (YoY)	29.1	28.7	51.2	51.9	45.0	40.3	12.7	15.6	19.3
-Growth % (QoQ)	9.3	9.4	23.0	3.3	4.3	5.8	-1.2	6.0	7.6
Asset Quality (%)									
GNPA	2.7	2.5	2.3	3.7	4.8	4.8	4.6	4.2	4.1
NNPA	1.4	1.0	0.7	1.6	2.4	2.5	2.5	2.4	2.2
PCR	48.8	50.2	66.2	58.6	51.2	50.1	46.8	42.7	48.5
Slippages (Rs mn)	154	229	365	5,146	3,749	3,391	2,668	4,086	2,960
Slippages - Annualized (%)	0.5	0.7	1.1	15.0	10.4	8.5	6.3	9.7	7.1
ROE Decomposition (%)									
NII	8.0	8.4	8.0	7.2	7.4	7.6	8.5	8.5	8.4
Other Income	0.6	1.0	2.4	2.8	1.7	2.3	2.1	2.3	1.9
Opex	5.7	5.6	5.9	6.0	6.4	6.9	7.1	6.4	6.4
PPOP	2.9	3.9	4.6	4.0	2.6	3.1	3.5	4.3	3.9
Provisioning Cost	1.4	1.4	2.1	1.5	2.4	2.2	1.2	1.9	2.0
PBT	1.6	2.5	2.5	2.4	0.2	0.9	2.3	2.5	1.8
Tax	0.4	0.6	0.6	0.6	0.0	0.2	0.6	0.6	0.4
ROA	1.2	1.9	1.8	1.8	0.2	0.6	1.7	1.8	1.4
Leverage (x)	7.2	7.5	7.4	7.4	7.3	7.3	7.1	6.1	6.4
ROE	8.6	14.2	13.5	13.3	1.4	4.8	12.1	11.3	8.9

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	17,980	20,385	24,793	29,956	36,667
Other income	4,181	5,376	5,945	6,311	6,718
Fee income	265	381	457	572	715
Net income	22,160	25,761	30,738	36,266	43,385
Operating expenses	13,294	17,041	19,467	22,343	26,009
Pre provision profit	8,866	8,719	11,270	13,924	17,376
PPP excl treasury	8,419	8,293	10,811	13,465	16,917
Provisions	3,753	4,938	4,500	4,514	5,092
Profit before tax	5,113	3,781	6,771	9,410	12,284
Tax	1,270	974	1,704	2,368	3,092
Tax rate	25	26	25	25	25
Profit after tax	3,842	2,807	5,067	7,041	9,192

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	11,393	12,520	12,520	12,520	12,520
Reserves	22,571	29,941	35,008	42,049	51,242
Net worth	33,963	42,462	47,528	54,570	63,762
Deposits	1,63,920	1,89,508	2,34,817	2,98,312	3,83,643
Borrowings	41,653	26,164	23,548	23,077	21,923
Total liabilities	2,47,085	2,69,519	3,23,862	4,00,210	4,99,063
Cash and bank	5,148	9,570	10,048	10,551	11,078
Investments	37,052	44,498	53,310	66,242	83,470
Loans	1,68,482	1,93,742	2,36,452	2,95,346	3,69,376
Others	5,914	7,949	8,737	10,621	13,315
Total assets	2,47,085	2,69,519	3,23,862	4,00,210	4,99,063

Key Ratios (%)

Y/E Mar	FY21	FY22	FY23E	FY24E	FY25E
NIM	8.6	8.3	8.8	8.7	8.5
Non-II/Avg. assets	1.9	2.1	2.0	1.7	1.5
Fee income/Avg. assets	0.1	0.1	0.2	0.2	0.2
Opex/avg assets	6.0	6.6	6.6	6.2	5.8
Provisions/Avg. assets	1.7	1.9	1.5	1.2	1.1
PBT/Avg. assets	2.3	1.5	2.3	2.6	2.7
Tax/Avg. assets	0.6	0.4	0.6	0.7	0.7
RoA	1.7	1.1	1.7	1.9	2.0
RoAE	12.5	7.3	11.3	13.8	15.5
GNPA (%)	3.7	4.2	3.6	3.1	2.8
NNPA (%)	1.7	2.5	1.8	1.3	1.0

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	3.5	2.3	4.0	5.6	7.3
BVPS	31.0	35.5	38.0	43.6	50.9
ABVPS	29.0	32.5	35.4	41.4	48.8
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	12.7	19.0	11.0	7.9	6.1
P/BV	1.5	1.4	1.3	1.1	0.9
P/ABV	1.6	1.4	1.3	1.1	0.9
P/PPOP	5.7	6.4	5.0	4.0	3.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	20.2	13.4	21.6	20.8	22.4
PPOP	48.3	(1.7)	29.3	23.5	24.8
PAT	57.6	(26.9)	80.5	39.0	30.5
Loans	22.6	15.0	22.0	24.9	25.1

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
NII	4,610	4,838	5,408	5,525	5,806
NIM(%)	7.9	8.1	9.1	9.1	9.1
PPOP	1,644	1,946	2,247	2,839	2,682
PAT	119	412	1,081	1,195	970
EPS (Rs)	0.10	0.36	0.95	1.05	0.85

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Feb-22	Mar-22	Jun-22
Promoters	81.6	81.4	74.6	74.6	74.5
FII	0.8	0.7	3.6	3.6	4.1
DII	12.8	12.8	17.0	16.7	15.6
Public and Others	4.8	5.1	4.8	5.1	5.8

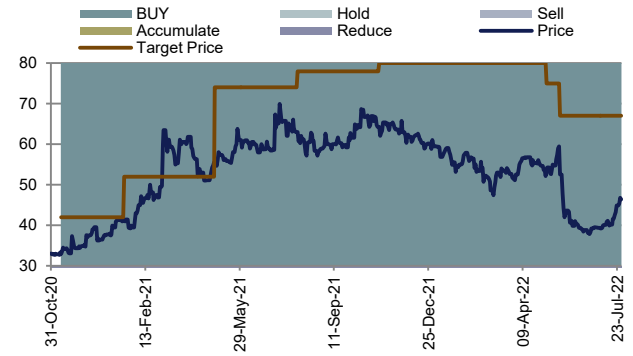
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
20-May-22	53	67	12m	Buy	Anand Dama
05-May-22	54	75	12m	Buy	Anand Dama
22-Mar-22	54	80	12m	Buy	Anand Dama
01-Feb-22	56	80	12m	Buy	Anand Dama
31-Oct-21	64	80	12m	Buy	Anand Dama
01-Aug-21	63	78	12m	Buy	Anand Dama
01-May-21	56	74	12m	Buy	Anand Dama
29-Jan-21	39	52	12m	Buy	Anand Dama
20-Jan-21	41	52	12m	Buy	Anand Dama
11-Nov-20	33	42	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 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 based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	20.17	20.17	0.0%	0	100.00	
Axis Bank	1.99	2.03	2%	4	10.06	0
AU Small Finance Bank	0.27	0.22	-19%	-5	1.08	0
Bandhan Bank	0.19	0.19	0%	0	0.95	0
Bank of Baroda	0.22	0.22	0%	0	1.09	0
Canara Bank	0.13	0.13	0%	0	0.63	0
City Union Bank	0.00	0.04	NA	4	0.19	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00	0
Federal Bank	0.21	0.22	0%	0	1.07	0
HDFC Bank	6.23	6.30	1%	7	31.24	0
ICICI Bank	5.68	5.81	2%	13	28.78	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.62	0.70	14%	9	3.49	0
Karur Vysya Bank	0.00	0.07	NA	7	0.34	0
Kotak Mahindra Bank	2.40	2.07	-14%	-33	10.26	0
Punjab National Bank	0.10	0.00	-100%	-10	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	2.05	2.17	6%	13	10.78	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.04	0.00	-100%	-4	0.00	0
Yes Bank	0.05	0.01	-82%	-4	0.04	0
Cash	0.00	0.00	NA	0	0.0	0

Source: Emkay Research

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

Sector portfolio NAV

	Base					Latest
	1-Apr-19	28-Jul-21	28-Jan-22	28-Apr-22	28-Jun-22	28-Jul-22
EAP - BFSI-Banks	100.0	118.2	128.9	124.3	115.9	128.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	115.6	126.5	121.8	113.6	125.8

*Performance measurement base date 1st April 2019

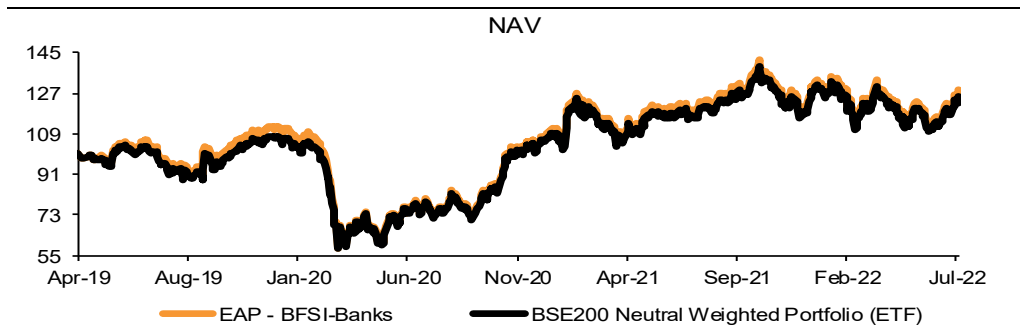
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	10.6%	3.2%	-0.5%	8.5%
BSE200 Neutral Weighted Portfolio (ETF)	10.7%	3.3%	-0.5%	8.9%

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”

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Emkay Rating Distribution

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

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