

November 02, 2022

RESULT REPORT Q2 FY23 | Sector: Financials

Equitas Small Finance Bank

Stabilizing asset quality

Equitas SFB delivered nearly an in-line PAT wherein lower-than-estimated credit cost (asset quality internals much better than preceding 2Qs) was offset by higher employee cost (~Rs0.3bn employee-related provisioning reversals in preceding 2Qs and 6% qoq increase in headcount). Yoy growth in NII and PPOP was ahead of the 20% loan growth and there was marginal 5 bps qoq decline in NIM. Stronger growth in affordable housing (17% qoq) and new vehicle financing (9% qoq), and lower growth in MFI book (3% qoq) were factors behind stable portfolio yield. Increase in Bulk TD contribution and decline in CASA share were reasons behind slight uptick in CoD. Brisk traction in core fees continued.

Management commentary reassuring on asset quality

Key management commentary included a) expectation of 25% loan growth for FY23 v/s earlier aspired 30%, b) credit cost of ~Rs0.75bn in next 2Qs and likelihood of containing the full-year number around 1.5%, c) no significant slippage expectation from std. OTR pool (3.2% of book) and further decline in loss on sale in vehicle finance, d) X bucket collection efficiency of 99.3% for SBL, 97% for VF and 99% for MFI, e) NIM outlook to be determined by changes in product mix and pace of increase in CoD and f) cost/income ratio to reach 62-63% whenever loan growth accelerates to 30%.

Slippages meaningfully lower qoq; reduction also seen in 1-90 dpd

Gross/Net NPLs were stable in abs. terms and improved by 20 bps qoq in % terms. The PCR was raised by 200 bps to 50.5%. On like-to-like basis (netting intra-month movement), the gross slippages were lower ~20% qoq aided by much lesser flow from the restructured portfolio. Write-off at Rs0.8bn was also materially lower than Rs1.3bn in Q1 and Rs1.92bn in Q4 FY22. Restructured book declined by Rs2bn during the quarter to Rs9.9bn largely due to collections, and the reduction was largely contributed by CV and MFI portfolios. Annualized credit cost stood at 1.35% excluding the one-time impact from recent clarification in RBI's FAQ wrt. Restructured loans. Bank's 1-90 dpd pool came down to 8.9% from 10.3% as of the preceding quarter.

Key monitorables in the coming quarters would be 1) any acceleration in growth, 2) trends in mobilization and pricing of Retail/HNI CASA and TDs, 3) outcomes from bank's focus on deepening the recently acquired liability relationships, 4) trajectory of NIM and 5) management transition. Calibration of NIM and cost/income expectations has led to mild cuts in earnings estimates. We however retain BUY on favourable risk-reward with valuation at 1.2x FY24 P/ABV.

Exhibit 1: Result table

(Rs mn)	Q2 FY23	Q1 FY23	% qoq	Q2 FY22	% yoy
Operating Income	10,024	9,404	6.6	8,436	18.8
Interest expended	(3,927)	(3,598)	9.1	(3,597)	9.2
Net Interest Income	6,097	5,806	5.0	4,838	26.0
Total Income	7,547	7,138	5.7	6,359	18.7
Operating expenses	(5,124)	(4,456)	15.0	(4,370)	17.3
PPOP	2,423	2,682	(9.6)	1,989	21.8
Provisions	(901)	(1,416)	(36.4)	(1,421)	(36.6)
PBT	1,522	1,266	20.2	568	167.9
Tax	(358)	(296)	21.0	(156)	129.0
PAT	1,164	970	20.0	412	182.6

Source: Company, YES Sec

Reco : **BUY**

CMP : Rs 51

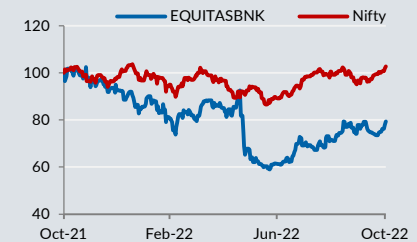
Target Price : Rs 63

Potential Return : 23.5%

Stock data (as on Nov 01, 2022)

Nifty	18,145
52 Week h/l (Rs)	68 / 37
Market cap (Rs/USD mn)	64000 / 774
Outstanding Shares (mn)	1,254
6m Avg t/o (Rs mn):	77
Div yield (%):	-
Bloomberg code:	EQUITASB IN
NSE code:	EQUITASBNK

Stock performance



	1M	3M	1Y
Absolute return	2.1%	13.8%	-17.7%

Shareholding pattern

Promoter	74.5%
FII+DII	19.7%
Others	5.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	63	65

Δ in earnings estimates

	FY22	FY23e	FY24e
EPS (New)	2.2	4.1	6.3
EPS (Old)	2.2	4.4	6.8
% Change	-	-6.5%	-7.4%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Op. income	25,761	31,084	38,891
PPOP	8,719	10,572	14,489
Net profit	2,807	5,152	7,886
Growth (%)	(26.9)	83.5	53.1
EPS (Rs)	2.2	4.1	6.3
ABVPS (Rs)	30.2	34.7	40.9
P/E (x)	22.7	12.4	8.1
P/ABV (x)	1.7	1.5	1.2
ROE (%)	7.3	11.4	15.3
ROA (%)	1.1	1.7	2.1
Tier-1 (%)	24.5	21.9	20.1

RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in

+91 22 6885 0521



MANUJ OBEROI, Associate

KEY CON-CALL HIGHLIGHTS

Disbursements & Growth

- Current year loan growth would be around 25% (as against earlier aspired 30%).
- Within SBL, the bank has been focused on increasing the non-TN share – this focus has been calibrating the portfolio growth.
- Used car financing disbursements at Rs0.5bn monthly run-rate.
- Affordable HL disbursements momentum at Rs1bn per month - the scale-up is as per plan.

Asset Quality & Credit Cost

- Credit cost was Rs0.75bn in Q2 excluding the one-off provision – bank expects this run-rate to continue in H2.
- Bank hopes to contain credit cost to 1.5% for full year.
- Collection efficiency improved materially across business segments.
- X bucket collection efficiency at 99.3% for SBL, 97% for VF and 99% for MFI.
- 1-90 dpd for the bank has come down to 8.9% from 10.3% - the buckets are 1-30 dpd 4.3%, 30-60 dpd 2.9% and 60-90 dpd 1.7%.
- MFI 1-90 dpd portfolio at 5.8% v/s 8.5% as of June.
- Slippages at Rs3.14bn - bank stopped netting intra-month slippages and upgradations - like-to-like figure for Q1 is Rs3.38bn.
- O/S restructured pool at Rs9.9bn – overall write-offs from the original pool has been Rs2.5bn.
- About Rs1bn of slippages was from restructured book.
- Restructured pool behavior has stabilized – no significant incremental flows into NPL expected.
- Loss of sale in vehicle finance portfolio has been coming down (43% in Q4 FY22, 38% in Q1 FY23 and 36% in Q2 FY23) – it is expected to further decline to 30% as resale prices of vehicles are consistently rising.

NIM, CoF & Opex

- Rise in increment CoD could pose some concern for next 2-3 quarters.
- NIM outlook to be more determined by changes in product mix – stronger growth in affordable housing to continue.
- Employee addition and higher business costs drove the qoq increase in Opex - 280 employees added in Branch Banking and bulk of remaining to drive loan growth.
- Full-year employee costs estimated to grow by 18% yoy – non-emp cost should grow by 20%+ yoy.
- Cost/Income ratio could reach 62-63% when loan growth stabilizes at 30%.
- Bank focused on deepening the recently acquired liability relationship through relation management and cross-sell to drive the deposits growth.

Management Transition & Merger

- Likely to complete the merger couple of months ahead of schedule.
- Management transition process on track.

Exhibit 2: Business Data

(Rs mn)	Q2 FY23	Q1 FY23	% qoq	Q2 FY22	% yoy
AUM	227,790	216,880	5.0	189,780	20.0
Microfinance	41,440	40,070	3.4	34,380	20.5
SBL/Agri Loans	87,250	82,340	6.0	74,210	17.6
Housing Finance	21,210	18,210	16.5	11,750	80.5
Vehicle Finance	56,410	52,790	6.9	46,700	20.8
MSE Finance	11,570	11,220	3.1	11,700	(1.1)
NBFC	7,090	6,920	2.5	9,080	(21.9)
Others	2,820	5,330	(47.1)	1,960	43.9
Disbursements	38,450	32,380	18.7	31,450	22.3
Microfinance	9,710	9,390	3.4	9,380	3.5
SBL/Agri Loans	10,960	9,780	12.1	9,510	15.2
Housing Finance	3,880	2,660	45.9	2,030	91.1
Vehicle Finance	10,980	8,890	23.5	7,820	40.4
MSE Finance	770	730	5.5	980	(21.4)
NBFC	1,350	300	350.0	1,360	(0.7)
Others	800	630	27.0	370	116.2
Customer Deposits	217,260	203,860	6.6	180,940	20.1
CASA	104,560	105,480	(0.9)	82,000	27.5
TD	112,700	98,380	14.6	98,940	13.9
Investments	57,458	48,540	18.4	35,307	62.7

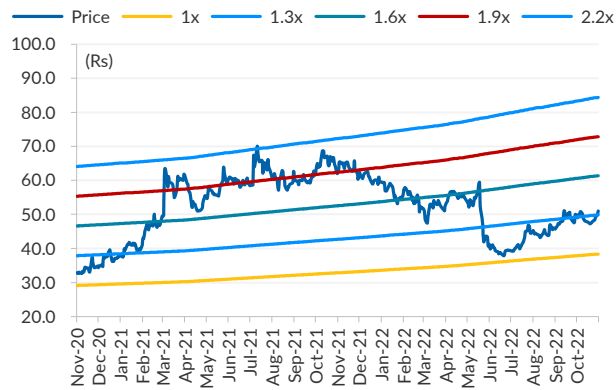
Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q2 FY23	Q1 FY23	chg qoq	Q2 FY22	chg yoy
NIM	9.0	9.1	(0.1)	8.1	0.9
Yield on advances	17.1	17.2	(0.0)	17.8	(0.6)
Cost of Funds	6.3	6.2	0.0	6.8	(0.6)
CASA	48.1	51.7	(3.6)	45.3	2.8
Cost to Income	67.9	62.4	5.5	68.7	(0.8)
RoE	10.6	9.0	1.5	4.8	5.8
RoA	1.6	1.4	0.2	0.7	1.0
CAR	23.1	24.6	(1.5)	22.2	0.9
Gross NPA	3.9	4.1	(0.2)	4.8	(0.9)
Net NPA	2.0	2.2	(0.2)	2.5	(0.5)

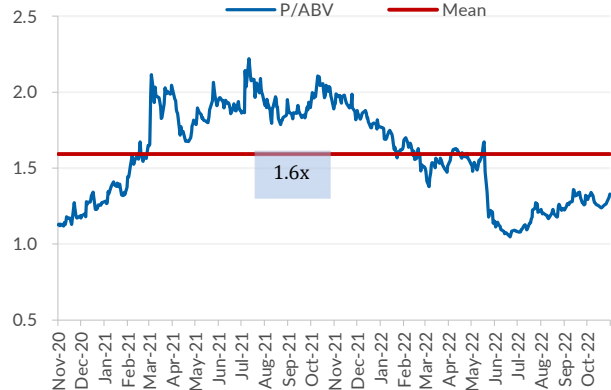
Source: Company, YES Sec

Exhibit 4: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 5: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Total cash & equivalents	25,368	33,787	21,325	22,355	22,010
Investments	23,425	37,052	44,498	60,073	81,099
Advances	137,472	168,479	193,742	241,935	306,281
Total interest-earning assets	186,266	239,318	259,566	324,363	409,389
Fixed assets	2,128	1,851	2,004	2,004	2,004
Other assets	4,752	5,983	7,949	8,744	9,618
Total assets	193,145	247,152	269,519	335,111	421,012
Net worth	27,441	33,963	42,462	47,613	55,499
Deposits	107,884	163,920	189,508	246,363	320,272
Borrowings	51,349	41,653	26,164	27,472	28,846
Total interest-bearing liabilities	159,233	205,573	215,672	273,835	349,118
Non-interest-bearing liabilities	6,471	7,616	11,385	13,662	16,395
Total liabilities	165,704	213,189	227,057	287,498	365,513
Equity & Total liabilities	193,145	247,152	269,519	335,111	421,012

Source: Company, YES Sec

Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Interest Income	26,454	31,944	34,597	41,578	54,090
Interest expense	(11,501)	(13,965)	(14,211)	(16,514)	(22,574)
Net interest income	14,953	17,980	20,385	25,064	31,516
Non-interest income	2,824	4,181	5,376	6,021	7,375
Total op income	17,777	22,160	25,761	31,084	38,891
Total op expenses	(11,801)	(13,294)	(17,041)	(20,512)	(24,402)
PPoP	5,976	8,866	8,719	10,572	14,489
Provisions	(2,466)	(3,753)	(4,938)	(3,703)	(3,975)
Profit before tax	3,509	5,113	3,781	6,869	10,514
Taxes	(1,073)	(1,270)	(974)	(1,717)	(2,629)
Net profit	2,436	3,842	2,807	5,152	7,886

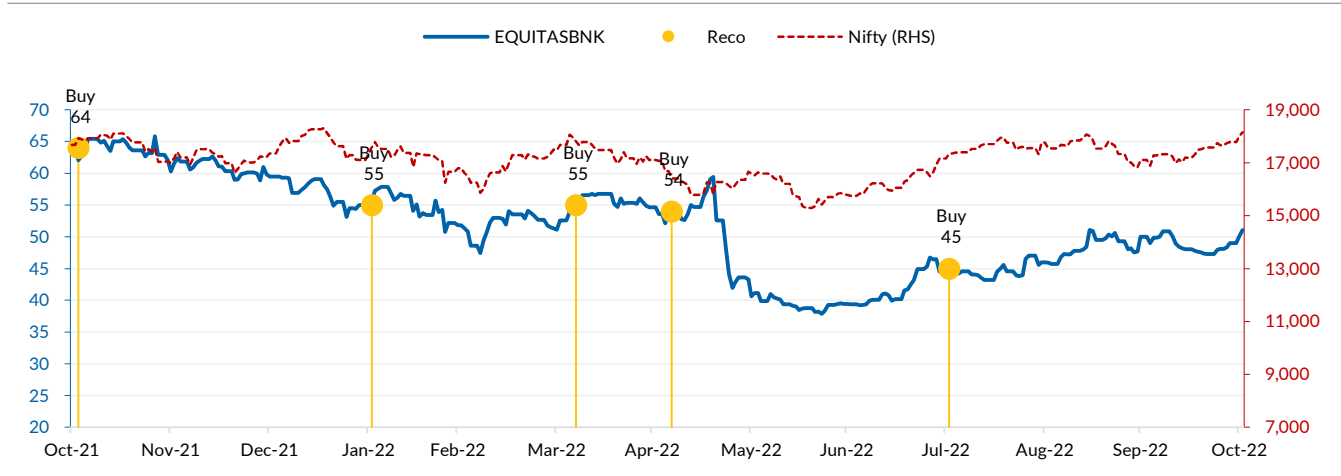
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Net interest income	29.8	20.2	13.4	22.9	25.7
Total op income	23.9	24.7	16.2	20.7	25.1
Op profit (pre-provision)	40.2	48.4	(1.7)	21.2	37.0
Net profit	15.7	57.7	(26.9)	83.5	53.1
Advances	18.6	22.6	15.0	24.9	26.6
Deposits	19.8	51.9	15.6	30.0	30.0
Total assets	22.5	28.0	9.0	24.3	25.6
Profitability Ratios (%)					
NIM	10.0	9.8	9.2	9.3	9.1
Non-interest income /Total income	15.9	18.9	20.9	19.4	19.0
Return on Equity	9.7	12.5	7.3	11.4	15.3
Return on Assets	1.4	1.7	1.1	1.7	2.1
Per share ratios (Rs)					
EPS	2.3	3.4	2.2	4.1	6.3
Adj. BVPS	23.9	27.6	30.2	34.7	40.9
Other key ratios (%)					
Cost/Income	66.4	60.0	66.2	66.0	62.7
Tier-I capital	22.4	23.2	24.5	21.9	20.1
Gross NPLs/Loans	2.7	3.6	4.1	3.5	3.1
Net NPLs/Net loans	1.7	1.5	2.4	1.7	1.4
Tax rate	30.6	24.8	25.8	25.0	25.0

Source: Company, YES Sec

Recommendation Tracker



DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all

jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

YES Securities (India) Limited distributes research and engages in other approved or allowable activities with respect to U.S. Institutional Investors through SEC 15a-6 rules and regulations under an exclusive chaperone arrangement with Brasil Plural Securities LLC. The views and sentiments expressed in this research report and any findings thereof accurately reflect YES Securities (India) Limited analyst's truthful views about the subject securities and or issuers discussed herein. YES Securities (India) Limited is not registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC. For questions or additional information, please contact Gil Aikins (gil.aikins@brasilplural.com) or call +1 212 388 5600.

This Research Report is the product of YES Securities (India) Limited. YES Securities (India) Limited is the employer of the research analyst(s) who has prepared the research report. YES Securities (India) Limited is the employer of the YES Securities (India) Limited Representative who is responsible for the report, are responsible for the content of the YES Securities (India) Limited Research Report; any material conflicts of interest of YES Securities (India) Limited in relation to the issuer(s) or securities discussed in the YES Securities (India) Limited Research Report. This YES Securities (India) Limited Research Report is distributed in the United States through Brasil Plural Securities LLC (BPS). The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and is/ are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by YES Securities (India) Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity. Transactions in securities discussed in this research report should be effected through Brasil Plural Securities LLC (BPS) or another U.S. registered broker dealer/Entity as informed by YES Securities (India) Limited from time to time.

YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single
Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL:
IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH
ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 |
Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT
III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |
AMFI ARN Code – 94338.

Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

DISCLOSURE OF INTEREST

Name of the Research Analyst : Rajiv Mehta, Manuj Oberoi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.