

Retail Equity Research

Equitas Small Finance Bank Ltd.

Banking/Finance

BSE CODE : 543243

NSE CODE: EQUITASBNK

BLOOMBERG CODE: EQUITASB:IN

SENSEX : 60,836

Accumulate

12Months Investment Period

Rating as per Small Cap

CMP Rs. 49 TARGET Rs. 57 RETURN 16% 

(Closing: 03-11-22)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Robust growth outlook to support higher valuation

Equitas Small Finance Bank (ESFBL) is the second-largest SFB in India in terms of total advances as of FY22. ESFBL, located across 17 states and UTs, serves through 887 banking outlets.

- Total advances grew by 20% YoY as disbursements for the quarter grew 22% YoY, led by housing and vehicle finance.
- Total deposits of the bank grew by 205% YoY to Rs.21,726cr. CASA ratio of the bank stands at 48%.
- With 26% YoY growth in NII and lower provisioning, the net profit of the bank grew by 183% YoY and 20% sequentially.
- Asset quality improved during the quarter, with GNPA/NNPA declining to 3.99%/1.97% compared to 4.18%/2.15% during previous quarter.
- Management expects advances to grow at 25% and credit cost to be brought down to 1.5% in FY23.
- We value the stock at 1.5x FY24E Adj. BVPS to arrive at a target price of Rs.57 and recommend an Accumulate rating.

Strong disbursement led by housing and vehicle finance

In Q2FY23, total advances grew by 20% YoY and 5% QoQ to Rs.22,779cr, supported by 22% YoY growth in disbursements. Growth in disbursements was led by 91% growth in housing finance and 40% growth in vehicle finance. However, the microfinance segment witnessed a dismal growth rate of 4%. As of the quarter, small business loan contributed 38% to the total loan book, while vehicle finance contributed 25% and microfinance 18%. Management has brought down the growth forecast for FY23 from 30% to 25% due to a slower than expected start for the year. On the liability front, the total deposit of the bank grew 20% YoY to Rs.21,726cr. A shift in customer deposit preference was seen during the quarter with CASA book witnessing a de-growth of 1% sequentially while high cost fixed deposit grew by 15%. CASA ratio of the bank stands at 48%.

Credit cost to be brought down to 1.5% in FY23

During the quarter, interest income grew by 19% YoY and 7% QoQ, while interest expense grew by 9% YoY and 9% sequentially. As a result, Net Interest Income increased by 26% YoY and 5% sequentially. Bank's reported NIM stood at 9.0% in this quarter compared to 9.05% in Q1FY23 and 8.1% in Q2FY22. Operating expenses saw a sequential increase of 15%, leading to a higher cost-to-income ratio of 66.6% compared to 60.6% in Q1. Management expects to keep cost-to-income ratio at 60% to 63% in the medium term. As a result, the pre-provision profit of the bank declined 10% sequentially, however, grew by 22% YoY. Provision for the quarter stood at Rs.90cr compared to Rs.142cr in Q1, with credit costs declining to 1.6% compared to 2.7% in Q1FY23. Management is confident in bringing down the full year credit cost to 1.5%. The bank reported a net profit of Rs.116cr during the quarter registering a YoY growth of 183% and sequential growth of 20%.

Improving asset quality

Asset quality continued to improve during the quarter, with GNPA improving 19bps sequentially from 4.18% to 3.99% and NNPA improving 18bps from 2.15% to 1.97%. Slippages for the quarter stood at Rs.314cr compared to Rs.296cr due to a change in the method of slippage calculation. On a like to like basis, the slippages have come down to Rs.236cr. Provision coverage ratio of the bank improved to 50.5% from 48.5% in Q1FY23. Restructured book came down from Rs.1190cr in Q1 to Rs.986cr and constitutes 4.33% of the total loan book. Of the total restructured book, 32% are standard, 42% are in the 1 to 90 day bucket and 26% have fallen into NPA category.

Valuation and Outlook

Equitas SFB has shown decent growth along with improvements in asset quality. However, due to a slow start to the year, the management has cut down the FY23 advance growth forecast from 30% to 25%. With improving asset quality, management is also confident in bringing down the credit cost to 1.5% for FY23. We expect advances to grow at a CAGR of 22% over FY22-24. Therefore, we value at 1.5x FY24E Adj. BVPS to arrive at a target price of Rs.57 and recommend an Accumulate rating.

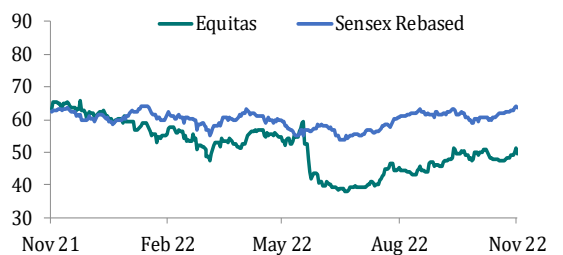
Company Data

Market Cap (Rs.cr)	6211.9
Outstanding Shares (cr)	125.4
Free Float (%)	25.5
Dividend Yield	-
52 week high (Rs.)	68.1
52 week low (Rs.)	37.5
6m average volume (cr)	0.2
Beta	1.0
Face value	10.0

Shareholding (%)	Q4FY22	Q1FY23	Q2FY23
Promoters	74.6	74.5	74.5
FPI's	3.6	4.1	4.3
MFs/Institutions	15.7	15.6	15.4
Public	5.1	5.8	5.8
Total	100.0	100.0	100
Promoter Pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	12.0%	-8.7%	-21.0%
Absolute Sensex	4.5%	11.1%	1.5%
Relative Return*	7.5%	-19.8%	-22.5%

*over or under performance to benchmark index



Standalone (cr)	FY22A	FY23E	FY24E
NII	2,039	2,405	2,892
Growth(%)	13.4	18.0	20.3
NIM(%)	8.2	8.6	8.8
Provisions	494	399	373
Adj. PAT	281	441	624
Growth(%)	-26.9	57.2	41.5
Adj. EPS	2.2	3.5	5.0
Growth(%)	-33.5	57.2	41.5
BVPS	33.9	37.4	42.4
Adj BVPS	30.1	33.6	38.3
P/E	22.1	14.0	9.9
P/B	1.5	1.3	1.2
Adj. P/B	1.6	1.5	1.3
ROE(%)	7.3	9.9	12.5
ROA(%)	1.1	1.5	1.8

Cyril Charly
 Research Analyst

Quarterly Financials (Standalone)

(Rs cr)	Q2FY23	Q1FY23	QoQ Growth (%)	Q2FY22	YoY Growth (%)	H1FY23	H1FY22	YoY Growth (%)
Interest Income	1,002	940	6.6	844	18.8	1,943	1,662	16.9
Interest Expense	393	360	9.1	360	9.2	752.5	717.6	4.9
Net Interest Income (NII)	610	581	5.0	484	26.0	1,190	945	26.0
Fee and Other Income	145	133	8.9	152	-4.7	278	253	10.0
Total Income	755	714	5.7	636	18.7	1,468	1,198	22.6
Expenditure	512	446	15.0	437	17.3	958	837	14.4
Pre-Provision Prof-	242	268	-9.6	199	21.8	510	361	41.5
Provision	90	142	-36.4	142	-36.6	232	290	-20.0
Exceptional Item	0	0		0		0	0	
PBT	152	127	20.2	57	168.0	279	71	292.4
Tax	36	30	21.0	16	129.0	65	18	264.2
Reported PAT	116	97	20.0	41	182.8	213	53	302.0
Adjustment	-	-		-		-	-	
Adj. PAT	116	97	20.0	41	182.8	213	53	302.0
Diluted EPS (Rs)	0.92	0.77	19.5	0.98	-6.1	1.69	1.96	-13.8

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Interest Income (NII)	2,355	2,816	2,405	2,892	2.1	2.7
Net Interest Margin (%)	8.30	8.30	8.63	8.83	33bps	53bps
Pre-Provision Profit	992	1,249	995	1,217	0.3	-2.6
Adj. PAT	416	656	441	624	6.1	-4.8
Diluted EPS (Rs)	3.3	5.2	3.5	5.0	6.8	-4.1

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Interest Income	2,645	3,194	3,460	4,000	4,968
Interest Expense	1,150	1,396	1,421	1,596	2,075
Net Int. Income	1,495	1,798	2,039	2,405	2,892
Change(%)	29.8	20.2	13.4	18.0	20.3
Non Int. Income	282	418	538	600	745
Operating Income	1,778	2,216	2,576	3,005	3,638
Change(%)	23.9	24.7	16.2	16.6	21.1
Operating Exp.	1,180	1,329	1,704	2,010	2,421
Pre Prov. Profit	598	887	872	995	1,217
Prov. & Conting.	247	375	494	399	373
PBT	351	511	378	596	844
Change(%)	8.4	45.7	-26.1	57.7	41.5
Tax	107	127	97	155	219
Tax Rate (%)	31	25	26	26	26
Reported PAT	244	384	281	441	624
Adj*	0	0	0	0	0
Adj. PAT	244	384	281	441	624
Change(%)	15.7	57.7	-26.9	57.2	41.5
No. of shares (Cr)	105	114	125	125	125
EPS (Rs)	2.3	3.4	2.2	3.5	5.0

BALANCE SHEET

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	2,537	3,379	2,133	1,056	1,207
Loans & Advances	13,747	16,848	19,374	23,439	28,752
Investments	2,343	3,705	4,450	6,098	6,756
Gross Fixed Assets	489	430	538	673	841
Net Fixed Assets	213	185	200	181	201
Other Assets	475	598	795	924	1,126
Total Assets	19,315	24,715	26,952	31,698	38,043
Deposits	10,788	16,392	18,951	22,760	27,551
Borrowings	5,135	4,165	2,616	2,772	3,378
Other Liabilities	647	762	1,139	1,478	1,802
Equity Capital	1,053	1,139	1,252	1,252	1,252
Reserves & Surplus	1,691	2,257	2,994	3,436	4,060
Shareholder's Funds	2,744	3,396	4,246	4,688	5,312
Total Liabilities	19,315	24,715	26,952	31,698	38,043
BVPS (Rs)	26.1	29.8	33.9	37.4	42.4
Change(%)	16.2	14.4	13.8	10.4	13.3
Adj. BVPS (Rs)	23.7	27.5	30.1	33.6	38.3
Change(%)	15.3	15.9	9.5	11.6	14.1

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
ProfitAF. & Return					
Interest yield (%)	15.6	15.0	13.9	14.4	15.2
Cost of funds (%)	8.0	7.7	6.7	6.8	7.4
Spread(%)	7.7	7.4	7.1	7.6	7.8
NIM (%)	8.8	8.4	8.2	8.6	8.8
ROE (%)	9.7	12.5	7.3	9.9	12.5
ROA(%)	1.4	1.7	1.1	1.5	1.8
Business Growth					
Loans & Advances (%)	18.6	22.6	15.0	21.0	22.7
Deposits (%)	19.8	51.9	15.6	20.1	21.1
Operating Ratios					
Cost to Income (%)	66.4	60.0	66.2	66.9	66.6
CASA (%)	20.5	34.4	52.0	53.0	55.0
Asset Quality					
GNPA (%)	3.0	3.8	4.3	3.6	3.1
NNPA (%)	1.8	1.6	2.5	2.1	1.8
Capital Adequacy					
CAR (%)	20.0	20.2	21.9	20.0	18.5
Valuation					
P/E (x)	21.4	14.7	22.1	14.0	9.9
P/B (x)	1.9	1.7	1.5	1.3	1.2
Adj. P/B (x)	2.1	1.8	1.6	1.5	1.3

Recommendation Summary (Since listing)



Dates	Rating	Target
16 August 22	Buy	52
03 November 22	Accumulate	57

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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