

Oct 21, 2023

RESULT REPORT Q2 FY24 | Sector: Financials

Equitas Small Finance Bank

Pivoting to 2% RoA for near-term

Sustained profitability amidst sharp increase in deposits cost

Equitas SFB delivered 11% beat on PAT, which was driven by marginally higher NII (stable lending spread), higher other income (beat ex. of treasury), flattish employee cost and lower credit cost (moderate net slippages even adj. for ARC sale). Importantly, the Bank maintained its profitability of 2% RoA/15% RoE notwithstanding the sharp uptick in CoF (TD cost up 45 bps qoq + decline in CASA share), and without compromising on franchise investments and provision coverage, while sustaining the strong pervasive asset growth momentum. The pleasant surprise was a significant 40 bps improvement in Portfolio Yield which offset the impact of CoF increase. NIM declined on reduction in C/D ratio (from 100% to 93%) with TDs growing by 20% qoq. Even without the NPL sale of Rs1.6bn to ARC, the GNPL level would have been stable sequentially owing to restrained net slippages.

Management comments were reassuring on growth, margin and asset quality

The bank expects to maintain the strong loan growth momentum in coming quarters underpinned by 1) resilient demand trends across product segments, 2) encouraging X-bucket collection efficiency across products, 3) implementation of LOS in VF, SBL and AHL enhancing productivity, 4) scaling-up of used car financing and Merchant QR loans (recently introduced products), and 5) introduction of PL and Cards in H1 FY25.

Management has retained NIM guidance of 8.5% for the year considering a) moderation in incremental repricing of deposits (expected to increase further 30 bps by Q4 FY24), b) incremental improvement seen in portfolio yield (disbursement yields running 70-90 bps higher in main products), and c) comfort with growing higher yielding products. While strategic investments are being made in the areas of technology (LOS, CRM, Customer App, etc.), loan products (PL & CC) and fee products (first set of products to go live under AD-1 license in Q1 FY25), the Cost/Income ratio is expected to moderate mildly in H2 FY24.

Bank expects net slippages to remain range-bound in coming quarters given strong trends in collection efficiency. The 31-90 dpd bucket has been stable for a while at around 3.25%. Credit cost could be higher in H2 v/s H1 largely due to enhancement of PCR.

Upgrade estimates/TP and retain BUY; see secular RoE improvement over FY24-26

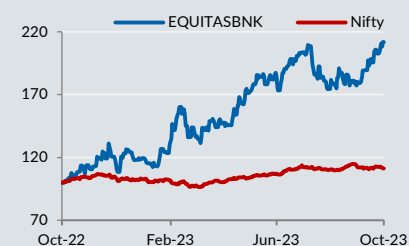
We have upgraded FY24/25 earnings estimates by 4-6% by positively tweaking growth, opex and credit cost assumptions. Bulk of the NIM erosion is behind, and the bank could witness meaningful margin recovery when deposit rates start to decline. In the near term, moderation in cost/income ratio may offset the impact of credit cost normalization (incl. PCR increase) and help the bank in maintaining 2% RoA. We see secular RoE improvement over FY24-26 aided by growth, partial margin recovery and operating leverage. Thus, expect earnings CAGR of 30%+ over the aforesaid period. With valuation still palatable (1.8x P/ABV and 10x P/E on FY25E), we maintain BUY rating with an increased 12m PT of Rs120. Notably, Equitas SFB's valuation is at par with other SFBs having much less diversified & secured loan book and a less developed deposits franchise.

Reco	: BUY
CMP	: Rs 100
Target Price	: Rs 120
Potential Return	: 20.3%

Stock data (as on Oct 20, 2023)

Nifty	19,543
52 Week h/l (Rs)	102 / 47
Market cap (Rs/USD mn)	110835 / 1333
Outstanding Shares (mn)	1,124
6m Avg t/o (Rs mn):	509
Div. yield (%):	1.1
Bloomberg code:	EQUITASB IN
NSE code:	EQUITASBNK

Stock performance



	1M	3M	1Y
Absolute return	17.4%	4.0%	112.3%

Shareholding pattern

Promoter	0.0%
FII+DII	64.4%
Others	35.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	120	115

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	7.2	9.6	12.5
EPS (Old)	6.8	9.2	-
% Change	6.2%	4.0%	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	39,465	50,718	63,833
PPOP	14,174	19,979	26,332
Net profit	8,019	10,626	13,919
Growth (%)	39.8	32.5	31.0
EPS (Rs)	7.2	9.6	12.5
ABVPS (Rs)	49.5	56.8	70.9
P/E (x)	13.8	10.5	8.0
P/ABV (x)	2.0	1.8	1.4
ROE (%)	14.6	17.0	19.1
ROA (%)	2.0	2.0	2.1
Tier-1 (%)	19.1	17.4	16.4

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Exhibit 1: Result table

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Operating Income	13,590	12,540	8.4	10,024	35.6
Interest expended	(5,934)	(5,108)	16.2	(3,927)	51.1
Net Interest Income	7,656	7,431	3.0	6,097	25.6
Other Income	1,814	1,714	5.8	1,450	25.1
Total Income	9,470	9,145	3.5	7,547	25.5
Operating expenses	(6,168)	(6,024)	2.4	(5,124)	20.4
PPOP	3,302	3,121	5.8	2,423	36.3
Provisions	(632)	(601)	5.2	(901)	(29.9)
PBT	2,670	2,521	5.9	1,522	75.4
Tax	(689)	(609)	13.2	(358)	92.4
Reported PAT	1,981	1,912	3.6	1,164	70.2

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
AUM	312,290	296,010	5.5	227,790	37.1
Microfinance	58,780	56,260	4.5	41,440	41.8
SBL/Agri Loans	115,500	107,870	7.1	87,250	32.4
Housing Finance	35,820	32,060	11.7	21,210	68.9
Vehicle Finance	77,770	73,420	5.9	56,410	37.9
MSE Finance	10,380	10,930	(5.0)	11,570	(10.3)
NBFC	10,420	11,780	(11.5)	7,090	47.0
Others	3,620	3,690	(1.9)	2,820	28.4
Disbursements	49,610	47,580	4.3	38,450	29.0
Microfinance	14,060	14,640	(4.0)	9,710	44.8
SBL/Agri Loans	14,940	13,610	9.8	10,960	36.3
Housing Finance	5,000	4,380	14.2	3,880	28.9
Vehicle Finance	13,410	11,690	14.7	10,980	22.1
MSE Finance	1,020	910	12.1	770	32.5
NBFC	250	1,350	(81.5)	1,350	(81.5)
Others	930	1,000	(7.0)	800	16.3
Customer Deposits	308,390	277,090	11.3	217,260	41.9
CASA	103,490	106,420	(2.8)	104,560	(1.0)
TD	204,900	170,670	20.1	112,700	81.8
Investments	85,506	71,910	18.9	57,458	48.8

Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
NIM	8.4	8.8	(0.3)	9.0	(0.6)
Yield on advances	17.4	17.1	0.3	17.1	0.3
Cost of Funds	7.2	6.9	0.3	6.3	1.0
CASA	33.6	38.4	(4.8)	48.1	(14.6)
Cost to Income	65.1	65.9	(0.7)	67.9	(2.8)
RoE	14.6	14.5	0.1	10.6	4.1
RoA	2.0	2.1	(0.1)	1.6	0.4
CAR	21.3	22.1	(0.7)	23.1	(1.8)
Gross NPA	2.3	2.8	(0.5)	3.9	(1.6)
Net NPA	1.0	1.2	(0.2)	2.0	(1.0)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Disbursements & Growth

- Very strong demands across products at ground level - ample availability of load and stable freight rates in CV finance - strong growth in MFI guided by X-bucket CE remaining firm at 99.4%.
- In VF, banks' focus is on financing used LCVs & MHCVs, financing new SCVs and financing of Used Cars for personal use.
- New LOS now active in 300 SBL branches and would cover all branches by end of the year.
- Bank will resume growth in MSE finance once the delinquency trends start to improve.
- Management expects traction to remain strong in Affordable Housing in coming quarters.
- Bank remains comfortable with growing higher yielding products.

NIM, CoF & Opex

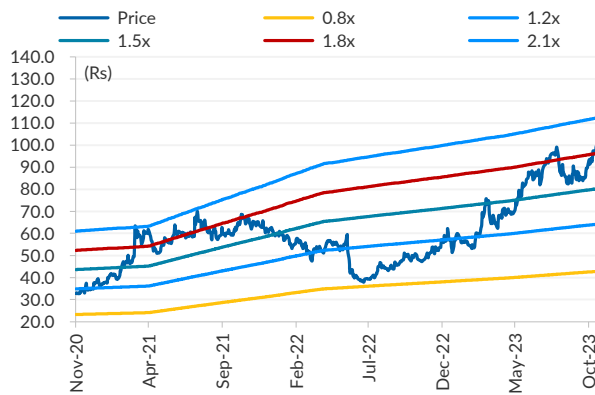
- Higher growth in deposits vs loans led to compression of NIM in Q2.
- Portfolio yield will further improve in coming quarters, as the disbursement yield was 18.3% in Q2 v/s portfolio yield of 17.4%.
- Reasonable lending rate hikes were taken across products in recent quarters - disbursement yield at 17% in SBL v/s 16.3% in Q4 FY23 - disbursement yield in VF at 17%.
- CoF expected to increase to 7.5% by end of the year - a significant portion of older deposits re-priced in Q2.
- TD mobilization has been robust, driven by the 444-days product which is offering 8.5% to depositors - this scheme contributed 70-75% of the TDs mobilized in Q2.
- In terms of volume 110000 FDs were mobilized in H1, of which 80000 were from new customers - 444-days scheme witnessing within HNI and Senior Citizen segments.
- Incremental NIM decline to be moderate in H2 - the bank has retained its full year NIM guidance of 8.5%.
- 85% of loan book at fixed rate, and thus NIM would benefit when interest rates decline.
- Bank has not cut back on strategic investments to manage Cost/Income ratio - franchise investments are being made in the areas of technology (LOS, CRM, Customer App, etc.), loan products (PL & CC to go live in H1 FY25) and fee products (first set of products to go live under AD-1 license in Q1 FY25).
- Due to lower business volume and salary revision, typically Cost/Income ratio is higher in H1 v/s H2.

Asset Quality & Credit Cost

- 31-90 dpd bucket remains stable qoq at 3.26%.
- Slippages are marginally higher qoq with slippages seasonally increasing in CV - bank expects CV slippages to improve in H2.
- Overall slippages would remain range-bound in rest of the year given the trends in collection efficiency.
- ARC sale of Rs1.62bn comprised entirely of SBL NPLs.
- ARC sale to the extent of Rs1.18bn included in NPL recoveries and the balance amount of Rs0.4bn was a part of write-off.

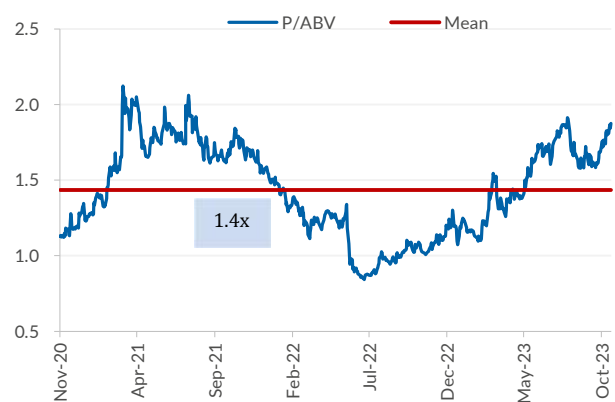
- GNPL level would have been stable without the ARC sale.
- While ARC sale released Rs240mn provisions, the bank made additional provisions of Rs280mn to maintain the PCR.

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)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	21,325	12,443	13,658	16,927	19,182
Investments	44,498	66,646	103,301	131,708	164,636
Advances	193,742	257,986	337,789	427,187	532,273
Total interest-earning assets	259,566	337,074	454,748	575,822	716,090
Fixed assets	2,004	3,791	3,791	3,791	3,791
Other assets	7,949	8,716	9,588	10,547	11,601
Total assets	269,519	349,581	468,127	590,160	731,483
Net worth	42,462	51,579	58,049	66,739	78,721
Deposits	189,508	253,806	362,948	470,018	592,223
Borrowings	26,164	29,738	31,224	35,908	41,294
Total interest-bearing liabilities	215,672	283,543	394,173	505,926	633,517
Non-interest-bearing liabilities	11,385	14,459	15,905	17,495	19,244
Total liabilities	227,057	298,002	410,077	523,421	652,762
Equity & Total liabilities	269,519	349,581	468,127	590,160	731,483

Source: Company, YES Sec

Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	34,597	41,619	57,000	76,439	95,994
Interest expense	(14,211)	(16,172)	(24,834)	(34,333)	(42,323)
Net interest income	20,385	25,447	32,166	42,106	53,670
Non-interest income	5,376	6,696	7,298	8,612	10,162
Total op income	25,761	32,143	39,465	50,718	63,833
Total op expenses	(17,041)	(20,383)	(25,290)	(30,739)	(37,501)
PPoP	8,719	11,760	14,174	19,979	26,332
Provisions	(4,938)	(4,072)	(3,426)	(5,737)	(7,676)
Profit before tax	3,781	7,688	10,748	14,242	18,656
Taxes	(974)	(1,952)	(2,729)	(3,616)	(4,737)
Net profit	2,807	5,736	8,019	10,626	13,919

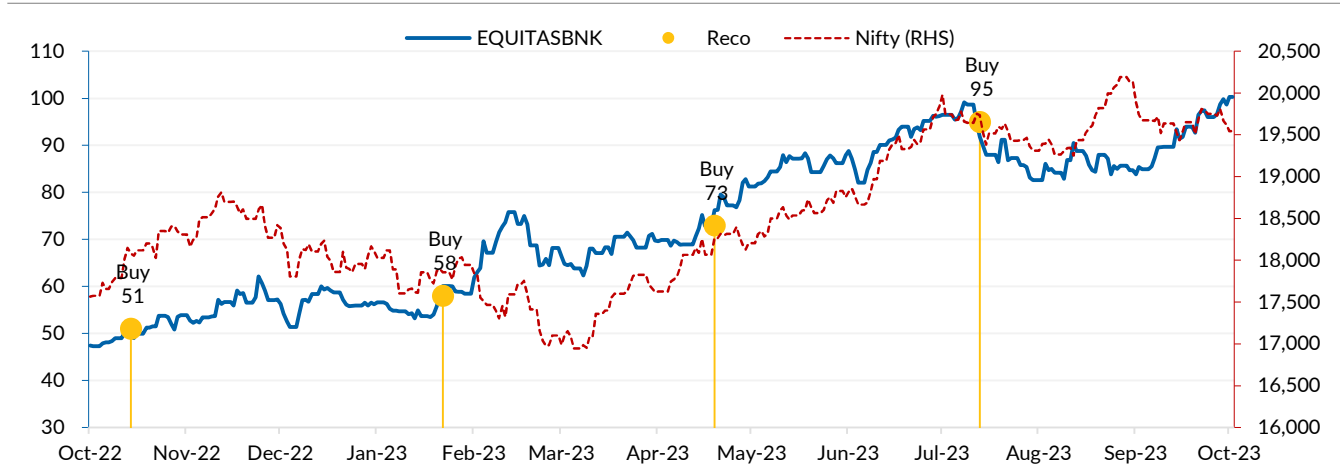
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	13.4	24.8	26.4	30.9	27.5
Total op income	16.2	24.8	22.8	28.5	25.9
Op profit (pre-provision)	(1.7)	34.9	20.5	41.0	31.8
Net profit	(26.9)	104.3	39.8	32.5	31.0
Advances	15.0	33.2	30.9	26.5	24.6
Deposits	15.6	33.9	43.0	29.5	26.0
Total assets	9.0	29.7	33.9	26.1	23.9
Profitability Ratios (%)					
NIM	9.2	9.0	8.4	8.4	8.5
Non-interest income /Total income	20.9	20.8	18.5	17.0	15.9
Return on Equity	7.3	12.2	14.6	17.0	19.1
Return on Assets	1.1	1.9	2.0	2.0	2.1
Per share ratios (Rs)					
EPS	2.2	5.2	7.2	9.6	12.5
Adj. BVPS	30.1	43.6	49.5	56.8	70.9
Other key ratios (%)					
Cost/Income	66.2	63.4	64.1	60.6	58.7
Tier-I capital	24.5	23.1	19.1	17.4	16.4
Gross NPLs/Loans	4.2	2.8	2.2	2.2	2.2
Net NPLs/Net loans	2.5	1.2	0.9	0.9	0.8
Tax rate	25.8	25.4	25.4	25.4	25.4

Source: Company, YES Sec

Recommendation Tracker



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