

**REDUCE** **Equitas Small Finance Bank****Higher NPAs due to floods lead to earnings miss**

BFSI - Banks ▶ Result Update ▶ January 29, 2024

**TARGET PRICE (Rs) : 100**

**Equitas SFB reported a 5% miss on PAT at Rs2bn/2% RoA (vs Emkay estimate of Rs2.1bn), mainly owing to higher staff cost and higher LLP (Rs843mn). Headline GNPA ratio inched up by 20bps QoQ to 2.5%, stalling the steady improving trend since Covid mainly due to higher slippages on account of floods in the Madurai division of Tamil Nadu (TN), particularly in the CV and MFI segments. However, the SFB expects to claw-back some NPAs as business normalizes during 4Q. Equitas expects credit/deposit growth to remain healthy, but we believe that the rising CoF coupled with the SFB's planned moderation in LDR ratio to 85% could further decelerate margins.**

**Factoring-in some growth moderation, margin softness, and elevated LLP amid rising stress levels in the system, we cut our earnings estimates for FY24-26 by 3-18% and lower our rating to REDUCE from ADD with a nudged-down TP of Rs100/share (from Rs107/share), implying valuation at 1.6x Dec-25E ABV.**

**Equitas Small Finance Bank: Financial Snapshot (Standalone)**

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	2,804	5,736	7,914	9,100	10,464
Loan growth (%)	15.0	33.2	24.2	23.7	24.7
NII growth (%)	13.4	24.8	22.4	22.9	23.3
NIM (%)	8.3	8.6	8.2	8.0	7.8
PPOP growth (%)	(1.7)	34.9	17.5	27.0	29.4
Adj. EPS (Rs)	2.3	4.9	7.1	8.0	9.3
Adj. EPS growth (%)	(33.1)	107.1	45.4	13.9	15.0
Adj. BV (INR)	32.5	44.3	49.3	55.7	63.3
Adj. BVPS growth (%)	13.8	36.9	11.1	12.9	13.1
RoA (%)	1.1	1.9	2.0	1.8	1.7
RoE (%)	7.3	12.2	14.4	14.7	14.9
P/E (x)	44.3	21.4	14.7	12.9	11.2
P/ABV (x)	3.2	2.3	2.1	1.9	1.6

Source: Company, Emkay Research

**Bank plans to lower LDR to 85% which may weigh on margins**

Equitas SFB reported gross advances growth (including IBPC and securitization) at 32% YoY/5% QoQ, while net advances growth was 25% YoY/2% QoQ. The growth was mainly dominated by SBL, MFI and VF loans, while the MSE/Corporate Book continued to see a run-down. MFI growth remains robust at 32% YoY/3% QoQ, benefiting from the resilient underlying demand. Deposit growth came in at a high 38% YoY/5% QoQ; CASA ratio continues to slip (down by 85bps QoQ to 33%), though the pace of moderation has come off. The higher yields during the quarter were offset by rising CoF which led to a slight 6bps QoQ dip in margin to 8.4%.

**NPAs inch-up due to the recent floods in TN**

Gross slippages were elevated at Rs3.1bn/5.4% of loans, while recoveries/upgrades were benign due to floods in TN, thus leading to a 26bps rise in GNPA ratio to 2.5%. The bank's specific PCR still remains sub-par at 56%, which it intends to shore up to 70% over the next two years. This, coupled with rising stress levels in the system, could keep LLP elevated and thus weigh on profitability, in our view.

**We downgrade to REDUCE**

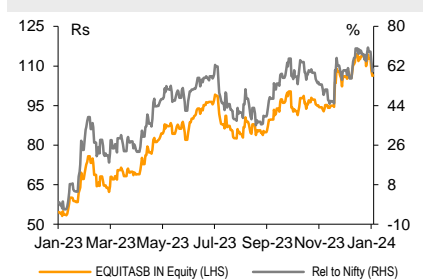
Factoring-in some growth moderation, margin softness, and elevated LLP amid the rising stress levels in the system, we cut our earnings estimates for FY24-26 by 3-18% and lower our rating to REDUCE from ADD, with our TP a tad lower at Rs100/share (from Rs107/share); this implies valuation at 1.6x Dec-25E ABV. Key risks to our rating: Lower than expected formation, and better cost controls.

Target Price – 12M	Dec-24
<b>Change in TP (%)</b>	<b>(6.5)</b>
Current Reco.	REDUCE
Previous Reco.	ADD
Upside/(Downside) (%)	(5.9)
CMP (25-Jan-24) (Rs)	106.3

Stock Data	Ticker
52-week High (Rs)	117
52-week Low (Rs)	52
Shares outstanding (mn)	1,132.3
Market-cap (Rs bn)	120
Market-cap (USD mn)	1,448
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	5
ADTV-3M (Rs mn)	556.7
ADTV-3M (USD mn)	6.7
Free float (%)	96.0
Nifty-50	21,353
INR/USD	83.1
<b>Shareholding, Dec-23</b>	
Promoters (%)	-
FPIs/MFs (%)	19.6/45.7

**Price Performance**

(%)	1M	3M	12M
Absolute	0.2	14.7	94.0
Rel. to Nifty	0.2	2.7	62.5

**1-Year share price trend (Rs)****Anand Dama**

anand.dama@emkayglobal.com  
+91 22 6624 2480

**Kunaal N**

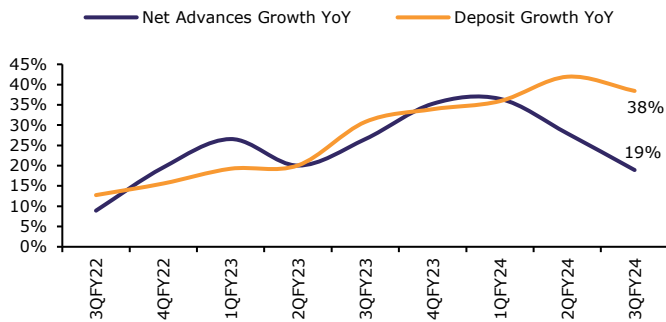
kunaal.n@emkayglobal.com  
+91 22 6612 1275

**Marazbaan Dastur**

marazbaan.dastur@emkayglobal.com  
+91 22 6612 1281

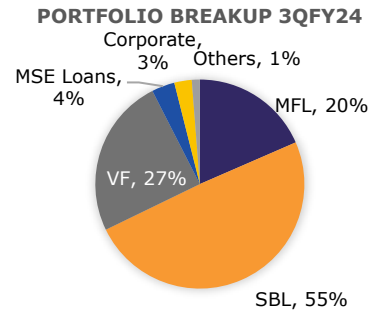
## Story in Charts

**Exhibit 1: Deposits outpace credit growth**



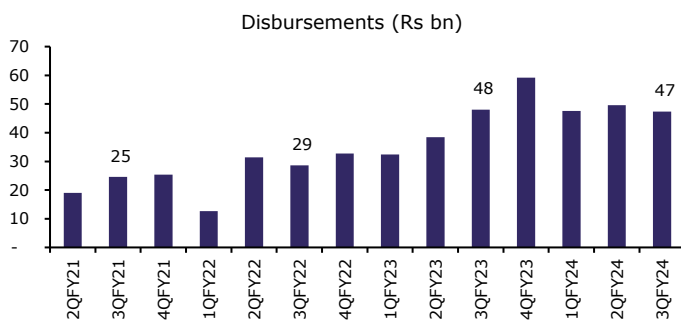
Source: Company, Emkay Research

**Exhibit 2: Healthy portfolio mix, with increasing share of non-MFI loans**



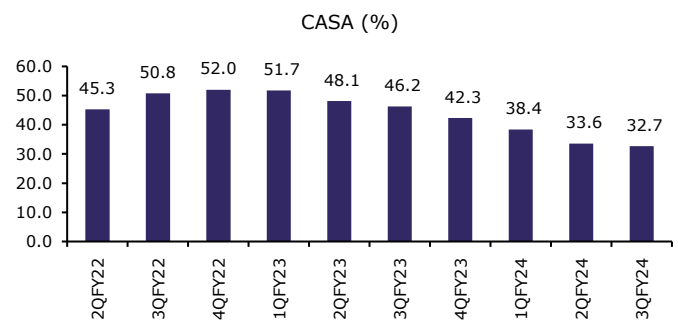
Source: Company, Emkay Research

**Exhibit 3: Disbursements remain healthy in Q3**



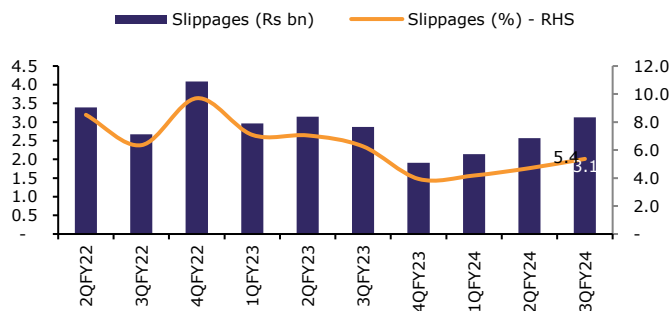
Source: Company, Emkay Research

**Exhibit 4: CASA cannibalization continues**



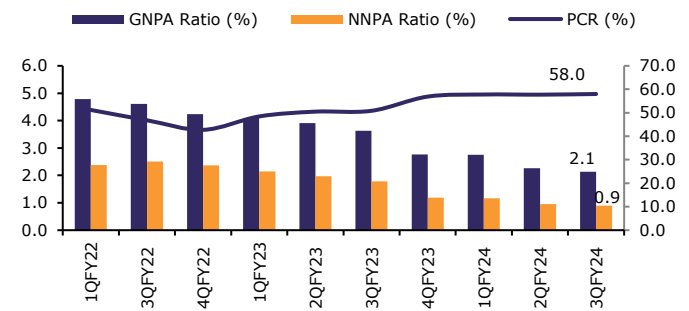
Source: Company, Emkay Research

**Exhibit 5: Slippages shoot up primarily due to stress build-up in CV/MFI financing...**



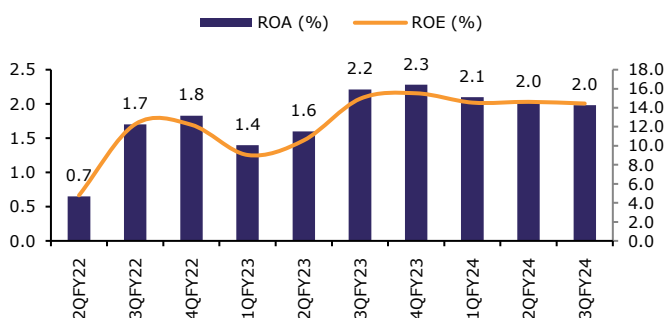
Source: Company, Emkay Research

**Exhibit 6: ...while lower recoveries/upgrades lead to a sharp rise in GNPA's**



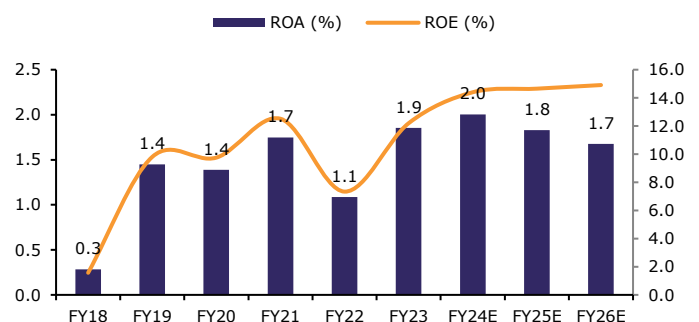
Source: Company, Emkay Research

**Exhibit 7: RoA slows a bit to 1.9%**



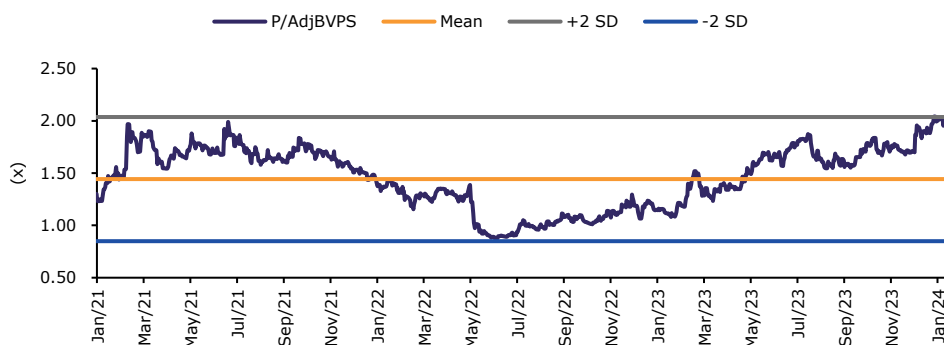
Source: Company, Emkay Research

**Exhibit 8: RoA to moderate due to temperance in growth, softer margins, and higher LLP**



Source: Company, Emkay Research

## Exhibit 9: The stock currently trades at 1.6x Dec-25E ABV



Source: Emkay Research

## Exhibit 10: Actuals vs Estimates (Q3FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	9,906	9,739	8,501	2%	17%	Strong growth led to slight beat on Net income
PPOP	3,603	3,444	2,887	5%	25%	Higher other income and lower other opex led to a beat
PAT	2,020	2,133	1,704	-5%	19%	Higher provisions led to a miss on PAT

Source: Company, Emkay Research

## Exhibit 11: Quarterly Summary

(Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	10,634	11,557	12,540	13,590	14,288	34	5	41,619	55,374	33
Interest Exp	4,159	4,488	5,108	5,934	6,437	55	8	16,172	24,237	50
Net Interest Income	6,475	7,070	7,431	7,656	7,851	21	3	25,447	31,136	22
Global NIMs (reported)	9.0	9.1	8.8	8.4	8.4	-64bps	-6bps	8.6	8.2	-42bps
Non-interest Income	1,526	2,387	1,714	1,814	2,055	35	13	6,696	7,831	17
Operating Expenses	5,210	5,593	6,024	6,168	6,303	21	2	20,383	25,145	23
Pre Provisioning Profit	2,791	3,864	3,121	3,302	3,603	29	9	11,760	13,822	18
Provision & Contingencies	499	1,256	601	632	844	69	34	4,072	3,246	-20
PBT	2,292	2,608	2,521	2,670	2,759	20	3	7,688	10,576	38
Income Tax Expense (Gain)	591	707	609	689	739	25	7	1,952	2,662	36
Net Profit/(Loss)	1,701	1,900	1,912	1,981	2,020	19	2	5,736	7,916	38
Gross NPA (%)	3.6	2.8	2.8	2.3	2.5	-110bps	26bps	2.76	2.46	-30bps
Net NPA (%)	1.8	1.2	1.2	1.0	1.1	-66bps	17bps	1.21	1.07	-14bps
Deposits (Rs bn)	234	254	277	308	324	38	5	254	348	37
Net Advances (Rs bn)	237	262	280	291	296	25	2	258	320	24

Source: Company, Emkay Research

## Exhibit 12: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	39,225	38,967	-0.7%	48,321	47,096	-2.5%	60,102	57,193	-4.8%
PPOP	14,386	13,822	-3.9%	18,675	17,561	-6.0%	24,650	22,718	-7.8%
PAT	8,149	7,914	-2.9%	10,133	9,100	-10.2%	12,703	10,464	-17.6%
EPS (Rs)	7.3	7.1	-3.3%	9.0	8.0	-10.9%	11.3	9.3	-18.3%
BV (Rs)	52	52	-1.1%	60	58	-2.4%	69	66	-4.9%

Source: Emkay Research

**Exhibit 13: Key Assumptions**

(%)	FY23A	FY24E	FY25E	FY26E
Loan Growth	33.2	24.2	23.7	24.7
Deposit Growth	33.9	37.0	31.8	28.6
NIM	8.6	8.2	8.0	7.8
GNPA	2.8	2.5	2.5	2.6
Credit Cost	1.6	1.3	1.6	1.9

Source: Emkay Research

**Exhibit 14: Key ratios and trends**

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Loans (Rs bn)	183	194	205	218	233	258	275	288	292
-Growth YoY (%)	8.9	15.0	22.5	22.4	27.1	33.2	34.4	31.7	25.5
-Growth QoQ (%)	2.7	5.8	5.7	6.6	6.6	10.8	6.7	4.5	1.5
<b>Liability Profile</b>									
Deposit (Rs bn)	179	190	204	217	234	254	277	308	324
-Growth YoY (%)	12.7	15.6	19.3	20.1	30.8	33.9	35.9	41.9	38.4
-Growth QoQ (%)	-1.2	6.0	7.6	6.6	7.7	8.5	9.2	11.3	5.0
<b>Asset Quality (%)</b>									
GNPA	4.6	4.2	4.1	3.9	3.6	2.8	2.8	2.3	2.5
NNPA	2.5	2.4	2.2	2.0	1.8	1.2	1.2	1.0	1.1
PCR	46.8	42.7	48.5	50.5	50.8	56.9	57.8	57.7	56.0
Slippages (Rs mn)	2,668	4,086	3,380	3,140	2,865	1,906	2,139	2,568	3,122
Slippages - annualized	6.3	9.7	8.1	7.0	6.3	3.9	4.2	4.7	5.4
<b>ROE Decomposition (%)</b>									
NII	8.5	8.5	8.4	8.4	8.4	8.5	8.1	7.8	7.7
Other Income	2.1	2.3	1.9	2.0	2.0	2.9	1.9	1.9	2.0
Opex	7.1	6.4	6.4	7.0	6.8	6.7	6.6	6.3	6.2
PPOP	3.5	4.3	3.9	3.3	3.6	4.6	3.4	3.4	3.5
Provisioning Cost	1.2	1.9	2.0	1.2	0.6	1.5	0.7	0.6	0.8
PBT	2.3	2.5	1.8	2.1	3.0	3.1	2.8	2.7	2.7
Tax	0.6	0.6	0.4	0.5	0.8	0.8	0.7	0.7	0.7
ROA	1.7	1.8	1.4	1.6	2.2	2.3	2.1	2.0	2.0
Leverage (x)	7.1	6.1	6.4	6.5	6.7	6.5	6.8	7.1	7.1
ROE	12.1	11.3	8.9	10.4	14.7	14.7	14.3	14.5	14.1

Source: Company, Emkay Research

Equitas Small Finance Bank : Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	34,597	41,619	55,374	68,176	83,004
Interest Expense	14,211	16,172	24,237	29,911	35,824
Net interest income	20,385	25,447	31,136	38,265	47,180
NII growth (%)	13.4	24.8	22.4	22.9	23.3
Other income	5,376	6,696	7,831	8,831	10,013
Total Income	25,761	32,143	38,967	47,096	57,193
Operating expenses	17,041	20,383	25,145	29,535	34,475
PPOP	8,719	11,760	13,822	17,561	22,718
PPOP growth (%)	(1.7)	34.9	17.5	27.0	29.4
Core PPOP	8,293	11,546	13,322	17,011	22,113
Provisions & contingencies	4,942	4,072	3,246	5,400	8,734
PBT	3,778	7,688	10,576	12,161	13,983
Extraordinary items	0	0	0	0	0
Tax expense	974	1,952	2,662	3,061	3,520
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	2,804	5,736	7,914	9,100	10,464
PAT growth (%)	(27.0)	104.6	38.0	15.0	15.0
Adjusted PAT	2,804	5,736	7,914	9,100	10,464
Diluted EPS (Rs)	2.2	4.7	0.0	0.0	0.0
Diluted EPS growth (%)	(33.5)	108.3	(100.0)	0.0	0.0
DPS (Rs)	0.0	0.9	1.2	1.4	1.6
Dividend payout (%)	0.0	19.4	17.1	17.4	17.3
Effective tax rate (%)	25.8	25.4	25.2	25.2	25.2
Net interest margins (%)	8.3	8.6	8.2	8.0	7.8
Cost-income ratio (%)	66.2	63.4	64.5	62.7	60.3
Shares outstanding (mn)	1,252.0	1,110.6	1,131.0	1,131.0	1,131.0

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	8,371.8	7,239.6	7,990.4	10,247.2	13,068.3
Net NPLs	4,794.7	3,120.1	3,435.9	3,791.5	3,920.5
GNPA ratio (%)	4.2	2.8	2.5	2.5	2.6
NNPA ratio (%)	2.5	1.2	1.1	1.0	0.8
Provision coverage (%)	42.7	56.9	57.0	63.0	70.0
Gross slippages	13,893.3	10,870.9	10,725.3	11,284.4	14,105.4
Gross slippage ratio (%)	7.0	4.1	3.3	2.8	2.8
LLP ratio (%)	2.7	1.6	1.3	1.6	1.9
NNPA to networth (%)	10.7	5.9	5.7	5.6	5.1
Capital adequacy					
Total CAR (%)	25.2	23.8	21.5	19.1	17.2
Tier-1 (%)	24.5	23.1	21.0	18.7	16.8
CET-1 (%)	24.5	23.1	21.0	18.7	16.8
RWA-to-Total Assets (%)	59.6	56.8	57.0	58.0	59.0
Miscellaneous					
Total income growth (%)	10.7	20.9	30.8	21.8	20.8
Opex growth (%)	28.2	19.6	23.4	17.5	16.7
Core PPOP growth (%)	(1.5)	39.2	15.4	27.7	30.0
PPOP margin (%)	21.8	24.3	21.9	22.8	24.4
PAT/PPOP (%)	32.2	48.8	57.3	51.8	46.1
LLP-to-Core PPOP (%)	59.6	35.3	24.4	31.7	39.5
Yield on advances (%)	17.7	17.0	17.4	17.2	16.7
Cost of funds (%)	6.7	6.5	7.4	7.0	6.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	12,520	11,106	11,310	11,310	11,310
Reserves & surplus	29,941	40,474	47,033	54,549	63,203
Net worth	42,462	51,579	58,343	65,859	74,513
Deposits	189,508	253,806	347,747	458,414	589,531
Borrowings	26,164	29,738	26,169	20,935	16,748
Interest bearing liab.	479,350	298,002	381,886	489,329	618,910
Other liabilities & prov.	11,385	14,459	7,970	9,980	12,630
Total liabilities & equity	269,519	349,581	440,229	555,189	693,423
Net advances	193,742	257,986	320,456	396,557	494,618
Investments	44,498	66,646	85,545	114,203	144,187
Cash, other balances	21,325	12,443	20,565	27,802	36,377
Interest earning assets	259,566	337,074	426,566	538,562	675,181
Fixed assets	2,004	3,791	2,869	3,062	3,268
Other assets	7,949	8,716	10,794	13,565	14,974
Total assets	269,519	349,581	440,229	555,189	693,423
BVPS (Rs)	33.9	46.4	51.6	58.2	65.9
Adj. BVPS (INR)	32.5	44.3	49.3	55.7	63.3
Gross advances	197,319	262,105	325,010	403,013	503,766
Credit to deposit (%)	102.2	101.6	92.2	86.5	83.9
CASA ratio (%)	52.0	42.3	31.8	30.1	30.4
Cost of deposits (%)	6.4	6.1	7.2	6.9	6.5
Loans-to-Assets (%)	71.9	73.8	72.8	71.4	71.3
Net advances growth (%)	15.0	33.2	24.2	23.7	24.7
Deposit growth (%)	15.6	33.9	37.0	31.8	28.6
Book value growth (%)	14.6	22.9	19.2	11.9	13.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	44.3	21.4	14.7	12.9	11.2
P/B (x)	3.1	2.2	2.0	1.8	1.6
P/ABV (x)	3.2	2.3	2.1	1.9	1.6
P/PPOP (x)	14.9	9.8	8.5	6.7	5.2
Dividend yield (%)	0.0	0.9	1.1	1.3	1.5
DuPont-RoE split (%)					
NII/avg assets	7.9	8.2	7.9	7.7	7.6
Other income	2.1	2.2	2.0	1.8	1.6
Fee income	1.9	2.1	1.8	1.6	1.5
Opex	6.6	6.6	6.4	5.9	5.5
PPOP	3.4	3.8	3.5	3.5	3.6
Core PPOP	3.2	3.7	3.4	3.4	3.5
Provisions	1.9	1.3	0.8	1.1	1.4
Tax expense	0.4	0.6	0.7	0.6	0.6
RoA (%)	1.1	1.9	2.0	1.8	1.7
Leverage ratio (x)	6.8	6.6	7.2	8.0	8.9
RoE (%)	7.3	12.2	14.4	14.7	14.9
Quarterly data					
Rs mn, Y/E Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
NII	6,475	7,070	7,431	7,656	7,851
NIM(%)	9.0	9.1	8.8	8.4	8.4
PPOP	2,791	3,864	3,121	3,302	3,603
PAT	1,701	1,900	1,912	1,981	2,020
EPS (Rs)	1.36	1.71	1.72	1.78	1.81

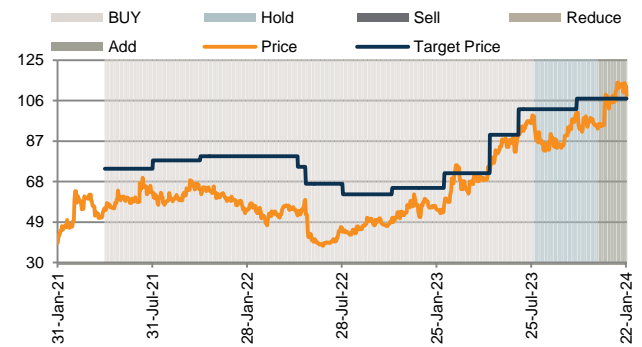
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	94	107	Add	Anand Dama
20-Oct-23	100	107	Hold	Anand Dama
31-Jul-23	95	102	Hold	Anand Dama
01-Jul-23	90	102	Buy	Anand Dama
07-May-23	73	90	Buy	Anand Dama
09-Mar-23	73	72	Buy	Anand Dama
09-Feb-23	58	72	Buy	Anand Dama
01-Nov-22	51	65	Buy	Anand Dama
30-Jul-22	45	62	Buy	Anand Dama
20-May-22	53	67	Buy	Anand Dama
05-May-22	54	75	Buy	Anand Dama
22-Mar-22	54	80	Buy	Anand Dama
01-Feb-22	56	80	Buy	Anand Dama
31-Oct-21	64	80	Buy	Anand Dama
01-Aug-21	63	78	Buy	Anand Dama
01-May-21	56	74	Buy	Anand Dama

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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**Emkay Global Financial Services Ltd.**

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India  
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com



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