

## Asset quality, margins remain an irritant

BFSI - Banks ▶ Result Update ▶ April 25, 2024

TARGET PRICE (Rs) : 100

Equitas SFB continues to report subdued credit growth at 20% YoY mainly due to slower growth in the new CV and NBFC segments, which coupled with elevated funding cost has led to further deterioration in NIM by 20bps QoQ to 8.2%. However, higher other income led to a 4% beat on PAT at Rs2.1bn/1.9% RoA. The bank has made one-off additional provisions (Rs110mn) due to recognition of co-borrower as NPA, and ESOPs (Rs220mn), while reverse retirement provisions are to the tune of Rs80mn, adjusted for which PAT would have been higher at Rs2.3bn/RoA at 2.15%. Headline GNPA ratio deteriorated further by 8bps QoQ to 2.6%, mainly due to stress in the MFI/MSE book, while PCR remains sub-par at 56% and thus remains a concern.

Factoring-in the slower growth, some softness in margins, and the higher LLP partly to shore-up PCR, we expect the bank to report slight moderation in RoA to 1.8% over FY25-27E from 2% in FY24, while logging ROE of ~14-16%. We retain REDUCE, with a TP of Rs100/sh, implying valuation of 1.5x FY26E ABV.

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

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	5,736	7,989	9,118	11,080	13,589
Loan growth (%)	33.2	20.0	19.8	22.8	24.7
NII growth (%)	24.8	21.0	17.8	23.5	24.5
NIM (%)	8.6	8.0	7.7	7.8	7.8
PPOP growth (%)	34.9	17.1	18.3	32.6	34.6
Adj. EPS (Rs)	4.9	7.1	8.0	9.8	12.0
Adj. EPS growth (%)	107.1	46.6	12.9	21.5	22.6
Adj. BV (INR)	44.3	50.2	56.7	64.8	74.8
Adj. BVPS growth (%)	36.9	13.2	13.0	14.1	15.3
RoA (%)	1.9	2.0	1.8	1.8	1.8
RoE (%)	12.2	14.4	14.3	15.3	16.4
P/E (x)	20.1	13.7	12.1	10.0	8.1
P/ABV (x)	2.2	1.9	1.7	1.5	1.3

Source: Company, Emkay Research

## Margin continues to slip at a faster pace

Equitas SFB reported subdued gross advances growth at 23% YoY, while net advances growth came in at 20% YoY mainly due to a slowdown in the new CV (up 17% YoY) and NBFC (down 40% YoY) segments. MSME growth too has been subdued, amid rising asset quality noise, but the Bank continues to grow its ML, used car, and SBL book at a faster pace. As guided, the Bank accelerated deposit growth, leading to a sharp drop in LDR by 450bps QoQ to 86% as well as in CASA ratio by 100bps to a low of 32%. This, coupled with rising funding costs and securitization of the high-yielding loan portfolio, led to a 20bps QoQ fall in NIM to 8.2%. Going forward, Management guides to growth of 25% and emphasizes strategic measures to protect its CASA pool. Bank expects PL and Credit Cards to go live by the end of FY25 but believes the share of unsecured loans including PL, CC, and MFI will remain below 20% of the book.

## Asset quality and lower PCR remains an irritant

Gross slippages remain elevated at Rs3.6bn/5.5% of loans, while recoveries/upgrades were benign leading to a further increase in GNPA ratio by 8bps QoQ to 2.6%. The bank attributes the higher slippages to rising stress in the MSE/MFI portfolio, with a GNPA ratio at 4%/7.1% and one-off recognition of co-borrower NPAs to the tune of Rs0.4bn. On the other hand, the Bank's PCR remains sub-par at 56%, which we believe needs to shore-up and could lead to higher LLP.

## We retain REDUCE

Factoring-in the slower growth, some softness in margins, and higher LLP partly to shore-up PCR, we expect the bank to report slight moderation in RoA to 1.8% over FY25-27E from 2% in FY24, while registering ROE of around 14-16%. We retain REDUCE on Equitas SFB with a TP of Rs100/share, implying a valuation of 1.5x FY26E ABV. Key risks to our rating: Better growth/margin trajectory and lower than expected NPA formation.

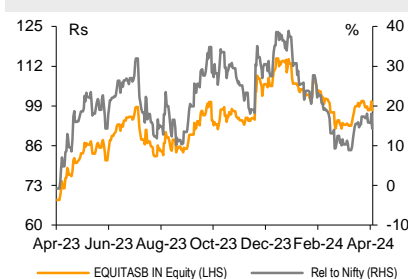
Target Price – 12M	Mar-25
Change in TP (%)	NA
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	2.6
CMP (24-Apr-24) (Rs)	97.5

Stock Data	Ticker
52-week High (Rs)	117
52-week Low (Rs)	68
Shares outstanding (mn)	1,134.9
Market-cap (Rs bn)	111
Market-cap (USD mn)	1,328
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	397.8
ADTV-3M (USD mn)	4.8
Free float (%)	96.0
Nifty-50	22,402
INR/USD	83.3
<b>Shareholding, Mar-24</b>	
Promoters (%)	-
FPIs/MFs (%)	19.5/45.2

## Price Performance

(%)	1M	3M	12M
Absolute	5.1	(8.2)	42.1
Rel. to Nifty	3.6	(12.1)	12.6

## 1-Year share price trend (Rs)



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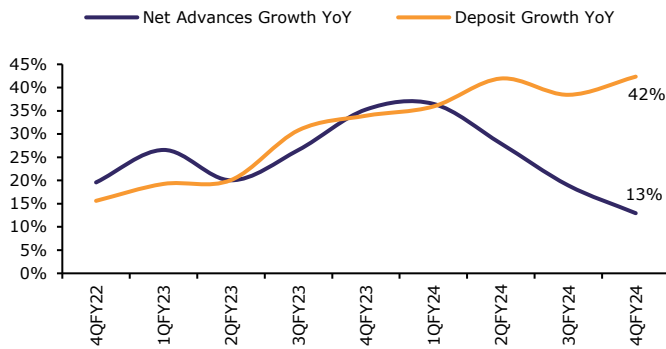
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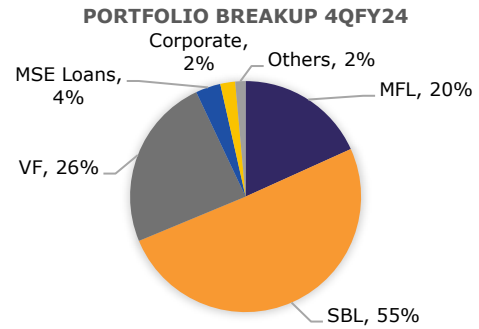
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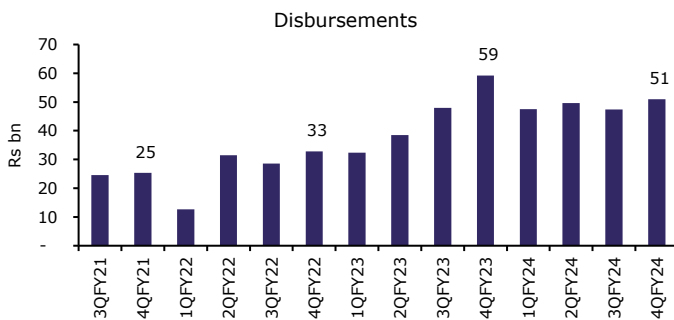
## Story in Charts

**Exhibit 1: Deposits outpace credit growth leading to lower LDR**


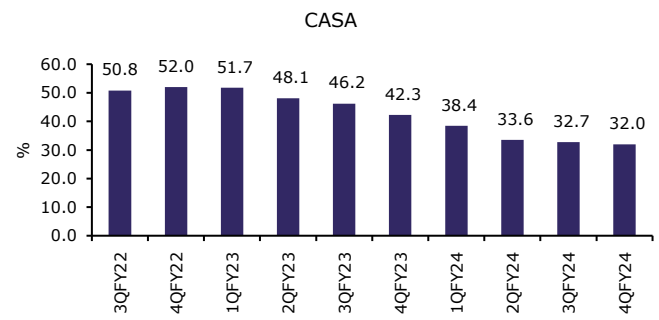
Source: Company, Emkay Research

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


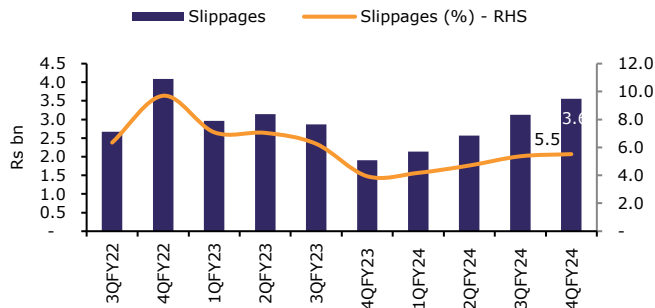
Source: Company, Emkay Research

**Exhibit 3: Disbursements remain healthy**


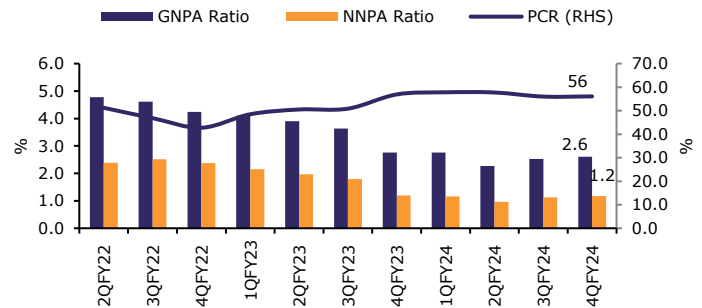
Source: Company, Emkay Research

**Exhibit 4: CASA cannibalization continues**


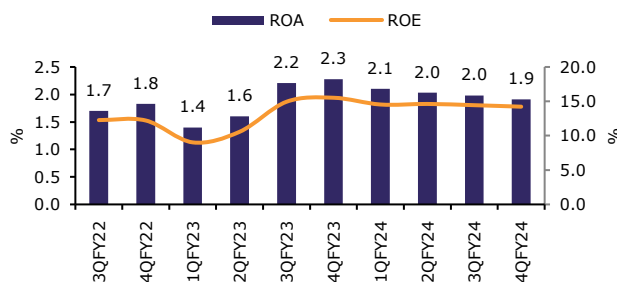
Source: Company, Emkay Research

**Exhibit 5: Slippages remain elevated...**


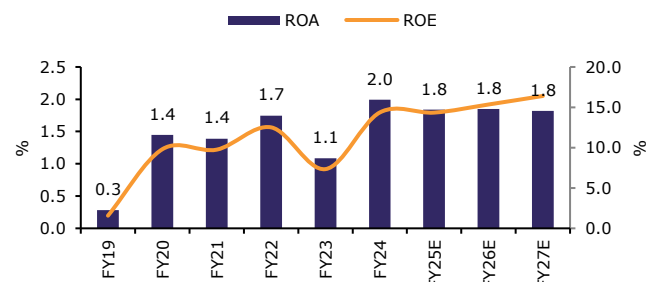
Source: Company, Emkay Research

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


Source: Company, Emkay Research

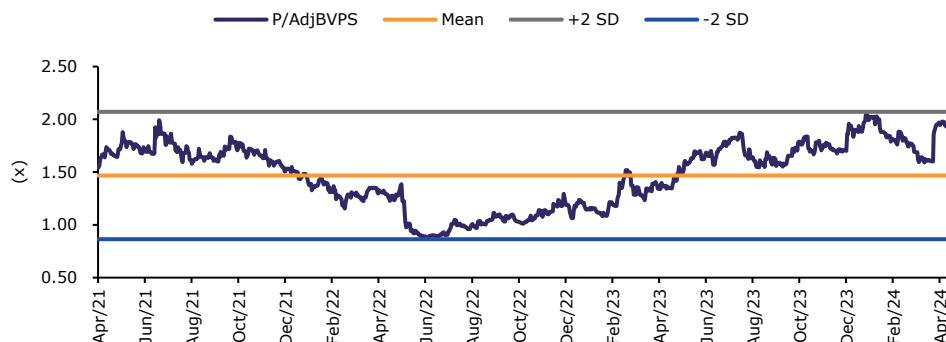
**Exhibit 7: RoA slows down a tad, to 1.9%**


Source: Company, Emkay Research

**Exhibit 8: RoA to moderate further due to slower growth, margins and rising LLP**


Source: Company, Emkay Research

## Exhibit 9: The stock currently trades at 1.5x FY26E ABV



Source: Emkay Research

## Exhibit 10: Actuals vs Estimates (Q4FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	10,263	10,446	10,496	-2%	-2%	Moderate growth led to a slight miss on Net income
PPOP	3,748	3,796	3,794	-1%	-1%	Higher other opex led to a miss
PAT	2,076	2,001	2,075	4%	0%	Lower LLP led to a slight beat in PAT

Source: Company, Emkay Research

## Exhibit 11: Quarterly Summary

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23A	FY24A	YoY (%)
Interest Earned	11,557	12,540	13,590	14,288	14,446	25	1	41,619	54,864	32
Interest Exp	4,488	5,108	5,934	6,437	6,588	47	2	16,172	17,481	8
Net Interest Income	7,070	7,431	7,656	7,851	7,859	11	0	25,447	37,383	47
Global NIMs (reported)	9.1	8.8	8.4	8.4	0.0	-910bps	-837bps	8.6	9.8	111bps
Non-interest Income	2,387	1,714	1,814	2,055	2,405	1	17	6,696	7,987	19
Operating Expenses	5,593	6,024	6,168	6,303	6,516	17	3	20,383	25,011	23
Pre Provisioning Profit	3,864	3,121	3,302	3,603	3,748	-3	4	11,760	20,359	73
Provision & Contingencies	1,256	601	632	844	1,066	-15	26	4,072	3,142	-23
PBT	2,608	2,521	2,670	2,759	2,682	3	-3	7,688	17,217	124
Income Tax Expense (Gain)	707	609	689	739	605	-14	-18	1,952	2,642	35
Net Profit/(Loss)	1,900	1,912	1,981	2,020	2,076	9	3	5,736	14,575	154
Gross NPA (%)	2.8	2.8	2.3	2.5	2.6	-15bps	8bps	2.76	2.53	-23bps
Net NPA (%)	1.2	1.2	1.0	1.1	1.2	-2bps	4bps	1.21	1.11	-10bps
Deposits (Rs bn)	254	277	308	324	361	42	12	254	361	42
Net Advances (Rs bn)	262	280	291	296	315	20	6	258	310	20

Source: Company, Emkay Research

## Exhibit 12: Revision in Estimates

Y/E Mar (Rs mn)	FY25E			FY26E		
	Earlier	Revised	% change	Earlier	Revised	% change
Net income	48,321	45,600	-5.6%	60,102	55,669	-7.4%
PPOP	18,675	16,290	-12.8%	24,650	21,595	-12.4%
PAT	10,133	9,118	-10.0%	12,703	11,080	-12.8%
EPS (Rs)	9.0	8.0	-11.1%	11.3	9.8	-13.8%
BV (Rs)	60	59	-0.4%	69	68	-2.2%

Source: Emkay Research

**Exhibit 13: Key Assumptions**

	FY24A	FY25E	FY26E	FY27E
Loan Growth %	20.0	19.8	22.8	24.7
Deposit Growth %	42.3	24.4	25.1	29.0
NIM %	8.0	7.7	7.8	7.8
GNPA %	2.6	2.7	2.8	2.9
Credit Cost %	1.3	1.5	1.6	2.0

Source: Emkay Research

**Exhibit 14: Key ratios and trends**

	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Loans (Rs bn)	194	205	218	233	258	275	288	292	310
-Growth YoY (%)	15.0	22.5	22.4	27.1	33.2	34.4	31.7	25.5	20.0
-Growth QoQ (%)	5.8	5.7	6.6	6.6	10.8	6.7	4.5	1.5	6.0
<b>Liability Profile</b>									
Deposit (Rs bn)	190	204	217	234	254	277	308	324	361
-Growth YoY (%)	15.6	19.3	20.1	30.8	33.9	35.9	41.9	38.4	42.3
-Growth QoQ (%)	6.0	7.6	6.6	7.7	8.5	9.2	11.3	5.0	11.6
<b>Asset Quality (%)</b>									
GNPA	4.2	4.1	3.9	3.6	2.8	2.8	2.3	2.5	2.6
NNPA	2.4	2.2	2.0	1.8	1.2	1.2	1.0	1.1	1.2
PCR	42.7	48.5	50.5	50.8	56.9	57.8	57.7	56.0	56.1
Slippages (Rs mn)	4,086	3,380	3,140	2,865	1,906	2,139	2,568	3,122	3,559
Slippages - Annualized	9.7	8.1	7.0	6.3	3.9	4.2	4.7	5.4	5.5
<b>ROE Decomposition (%)</b>									
NII	8.5	8.4	8.4	8.4	8.5	8.1	7.8	7.7	7.2
Other Income	2.3	1.9	2.0	2.0	2.9	1.9	1.9	2.0	2.2
Opex	6.4	6.4	7.0	6.8	6.7	6.6	6.3	6.2	6.0
PPOP	4.3	3.9	3.3	3.6	4.6	3.4	3.4	3.5	3.5
Provisioning Cost	1.9	2.0	1.2	0.6	1.5	0.7	0.6	0.8	1.0
PBT	2.5	1.8	2.1	3.0	3.1	2.8	2.7	2.7	2.5
Tax	0.6	0.4	0.5	0.8	0.8	0.7	0.7	0.7	0.6
ROA	1.8	1.4	1.6	2.2	2.3	2.1	2.0	2.0	1.9
Leverage (x)	6.1	6.4	6.5	6.7	6.5	6.8	7.1	7.1	7.3
ROE	11.3	8.9	10.4	14.7	14.7	14.3	14.5	14.1	13.9

Source: Company, Emkay Research

Equitas Small Finance Bank : Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	41,619	54,864	65,302	78,258	96,023
Interest Expense	16,172	24,066	29,010	33,436	40,232
Net interest income	25,447	30,798	36,291	44,822	55,791
NII growth (%)	24.8	21.0	17.8	23.5	24.5
Other income	6,696	7,986	9,309	10,846	12,795
Total Income	32,143	38,784	45,600	55,669	68,586
Operating expenses	20,383	25,011	29,310	34,074	39,513
PPOP	11,760	13,773	16,290	21,595	29,073
PPOP growth (%)	34.9	17.1	18.3	32.6	34.6
Core PPOP	11,546	13,273	15,690	20,935	28,347
Provisions & contingencies	4,072	3,142	4,105	6,788	10,913
PBT	7,688	10,631	12,185	14,807	18,160
Extraordinary items	0	0	0	0	0
Tax expense	1,952	2,642	3,067	3,727	4,571
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,736	7,989	9,118	11,080	13,589
PAT growth (%)	104.6	39.3	14.1	21.5	22.6
Adjusted PAT	5,736	7,989	9,118	11,080	13,589
Diluted EPS (Rs)	4.7	0.0	0.0	0.0	0.0
Diluted EPS growth (%)	108.3	(100.0)	0.0	0.0	0.0
DPS (Rs)	0.9	1.0	1.2	1.4	1.6
Dividend payout (%)	19.4	14.2	14.9	14.3	13.4
Effective tax rate (%)	25.4	24.8	25.2	25.2	25.2
Net interest margins (%)	8.6	8.0	7.7	7.8	7.8
Cost-income ratio (%)	63.4	64.5	64.3	61.2	57.6
Shares outstanding (mn)	1,110.6	1,134.9	1,134.9	1,134.9	1,134.9

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	7,239.6	8,212.6	10,248.9	12,846.4	16,759.9
Net NPLs	3,120.1	3,608.9	4,099.6	4,496.2	5,028.0
GNPA ratio (%)	2.8	2.6	2.7	2.8	2.9
NNPA ratio (%)	1.2	1.2	1.1	1.0	0.9
Provision coverage (%)	56.9	56.1	60.0	65.0	70.0
Gross slippages	10,870.9	11,389.0	11,312.9	12,987.2	15,654.2
Gross slippage ratio (%)	4.1	3.6	3.0	2.8	2.7
LLP ratio (%)	1.6	1.3	1.5	1.6	2.0
NNPA to networth (%)	5.9	5.9	5.9	5.7	5.5
Capital adequacy					
Total CAR (%)	23.8	21.7	20.2	18.7	16.9
Tier-1 (%)	23.1	20.7	19.7	18.3	16.6
CET-1 (%)	0.0	0.0	0.0	0.0	0.0
RWA-to-Total Assets (%)	56.8	57.4	58.0	59.0	60.0
Miscellaneous					
Total income growth (%)	20.9	30.1	18.7	19.4	22.1
Opex growth (%)	19.6	22.7	17.2	16.3	16.0
Core PPOP growth (%)	39.2	15.0	18.2	33.4	35.4
PPOP margin (%)	24.3	21.9	21.8	24.2	26.7
PAT/PPOP (%)	48.8	58.0	56.0	51.3	46.7
LLP-to-Core PPOP (%)	35.3	23.7	26.2	32.4	38.5
Yield on advances (%)	17.0	17.5	17.2	17.0	16.7
Cost of funds (%)	6.5	7.3	6.9	6.5	6.2

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	11,106	11,349	11,349	11,349	11,349
Reserves & surplus	40,474	48,338	56,094	65,586	77,359
Net worth	51,579	59,687	67,443	76,935	88,708
Deposits	253,806	361,292	449,295	562,234	725,450
Borrowings	29,738	17,875	11,619	7,552	4,909
Interest bearing liab.	298,002	393,352	471,895	582,971	743,904
Other liabilities & prov.	14,459	14,184	10,981	13,185	13,545
Total liabilities & equity	349,581	453,039	539,338	659,905	832,612
Net advances	257,986	309,643	370,947	455,478	568,053
Investments	66,646	90,653	112,002	137,849	175,867
Cash, other balances	12,443	35,790	36,873	45,583	64,272
Interest earning assets	337,074	436,085	519,822	638,910	808,191
Fixed assets	3,791	6,047	6,307	6,584	6,881
Other assets	8,716	10,906	13,210	14,411	17,539
Total assets	349,581	453,039	539,338	659,905	832,612
BVPS (Rs)	46.4	52.6	59.4	67.8	78.2
Adj. BVPS (INR)	44.3	50.2	56.7	64.8	74.8
Gross advances	262,105	314,247	377,096	463,828	579,785
Credit to deposit (%)	101.6	85.7	82.6	81.0	78.3
CASA ratio (%)	42.3	32.0	30.5	31.7	33.3
Cost of deposits (%)	6.1	7.0	6.9	6.5	6.2
Loans-to-Assets (%)	73.8	68.3	68.8	69.0	68.2
Net advances growth (%)	33.2	20.0	19.8	22.8	24.7
Deposit growth (%)	33.9	42.3	24.4	25.1	29.0
Book value growth (%)	36.9	13.2	13.0	14.1	15.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	20.1	13.7	12.1	10.0	8.1
P/B (x)	2.1	1.9	1.6	1.4	1.2
P/ABV (x)	2.2	1.9	1.7	1.5	1.3
P/PPOP (x)	9.3	8.2	6.9	5.2	3.9
Dividend yield (%)	1.0	1.0	1.2	1.4	1.6
DuPont-RoE split (%)					
NII/avg assets	8.2	7.7	7.3	7.5	7.5
Other income	2.2	2.0	1.9	1.8	1.7
Fee income	2.1	1.8	1.7	1.7	1.6
Opex	6.6	6.2	5.9	5.7	5.3
PPOP	3.8	3.4	3.3	3.6	3.9
Core PPOP	3.7	3.3	3.2	3.5	3.8
Provisions	1.3	0.8	0.8	1.1	1.5
Tax expense	0.6	0.7	0.6	0.6	0.6
RoA (%)	1.9	2.0	1.8	1.8	1.8
Leverage ratio (x)	6.6	7.2	7.8	8.3	9.0
RoE (%)	12.2	14.4	14.3	15.3	16.4

Quarterly data					
Rs mn, Y/E Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
NII	7,070	7,431	7,656	7,851	7,859
NIM(%)	9.1	8.8	8.4	8.4	8.2
PPOP	3,864	3,121	3,302	3,603	3,748
PAT	1,900	1,912	1,981	2,020	2,076
EPS (Rs)	1.71	1.72	1.78	1.81	1.87

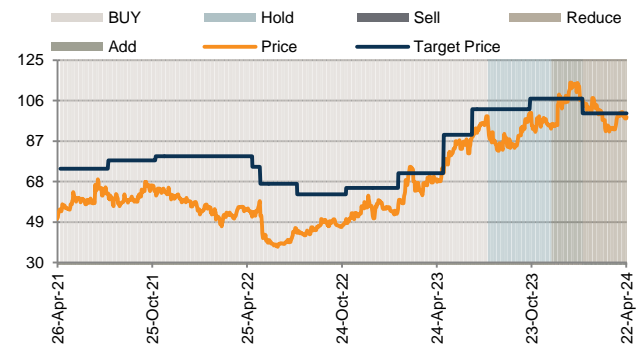
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
29-Jan-24	106	100	Reduce	Anand Dama
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	89	102	Buy	Anand Dama
07-May-23	72	90	Buy	Anand Dama
09-Mar-23	73	72	Buy	Anand Dama
09-Feb-23	57	72	Buy	Anand Dama
01-Nov-22	51	65	Buy	Anand Dama
30-Jul-22	44	62	Buy	Anand Dama
20-May-22	52	67	Buy	Anand Dama
05-May-22	53	75	Buy	Anand Dama
22-Mar-22	54	80	Buy	Anand Dama
01-Feb-22	55	80	Buy	Anand Dama
31-Oct-21	64	80	Buy	Anand Dama
01-Aug-21	62	78	Buy	Anand Dama
01-May-21	55	74	Buy	Anand Dama

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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