

Retail Equity Research

Equitas Small Finance Bank Ltd.
 Banking

BSE CODE : 543243
 BLOOMBERG CODE: EQUITASB:IN

NSE CODE: EQUITASBNK
 SENSEX : 74,611

BUY

12 Months Investment Period
Rating as per Small Cap

CMP Rs. 95
 TARGET Rs. 115
 RETURN 21%
 

(Closing: 02-05-24)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Path laid for long term growth

Equitas Small Finance Bank (ESFBL) is the second-largest SFB in India in terms of total advances as of FY24. ESFBL, located across 18 states and UTs, serves through 964 banking outlets.

- Net Advances grew by 20%YoY, aided by 24%YoY growth in the Small Business Loan and housing finance segment. Deposit growth advanced at 42.3%YoY, with the CASA account growing at 7.6%YoY. The CASA ratio stood at 32% (-10.3% sequentially).
- The Credit to Deposit (CD) ratio has improved from 103.4% to 86.98% in FY24. The management expect to stabilize CD ratio at 85% in the long run. Asset quality has improved marginally, GNPA and NNPA stood at 2.5% and 1.12% respectively.
- Net Interest Income grew by 21%YoY in FY24, dragged by lacklustre advance growth, NIM also contracted by 64bps YoY due to pressure from cost of deposits.
- The ongoing contraction in NIM is expected to persist for 2 more quarters as management endeavours to achieve the target CD ratio. Despite this, the bank's long-term outlook remains positive, buoyed by robust asset quality and deposit growth. Consequently, we reiterate our Buy rating with a target price of Rs.115, based on 1.7x FY26E BVPS.

Loan growth to align going forward

As the company worked on the goal of achieving CD ratio of 85%, it dragged the Disbursements to Rs.5,095cr in Q4 as compared to Rs.5,917cr an year ago but up from Rs.4,740cr in previous quarter. The Net Advance growth lagged at 20%YoY compared to deposit growth of 42.3%YoY. The growth in advances was aided by strong traction seen across the segments, with micro finance and vehicle finance growing at 20% and 46% respectively. Equitas has been able to maintain its growth momentum with continued investment in technology, product innovations and geographical expansion. We expect loans and advances to grow at a CAGR of 22% during FY25-26E. CASA ratio stood at 32% down from 42.3% a year ago. The surge in the move towards Term deposits have led to the fall in CASA as well as put pressure in NIMs. We expect the pressure from liability side on the NIMs to stabilise within 2 quarters.

Stabilized credit cost and consistent operational efficiency

Equitas has consistently reported strong operational performance, including increasing topline, stable margins and improved asset quality. The combination of all these factors is helping the bank report a stable financial performance with ROA of 2% and ROE of 14.4%. With advances expected to align in the future, we expect the NII to grow at a CAGR 21.7% during FY25-26E. Operating expenses are estimated to increase due to expansions to wider geographies and addition of staff counts. We expect PAT to register a strong CAGR of 22% over FY25-26. ROA is expected to remain stable around 2% by FY26.

Improving asset quality

Asset quality has improved in FY24 with GNPA and NNPA standing at 2.52% and 1.12% respectively in comparison to 2.6% and 1.14% of FY23. In the last quarter GNPA and NNPA have deteriorated compared to the previous quarter which stood at 2.52% and 1.12%. This has been as part of the compliance procedure as laid down by RBI with regards to co-borrowers and as such it does not depict an actual deterioration in asset quality. We expect the management to achieve its target of 1% NNPA by FY26.

Valuation and Outlook

Equitas SFB is expected to maintain its growth momentum with strong growth in business, investments in technology and product innovations, stable margins and improving asset quality. We expect the bank to grow its advance book at a CAGR of 22% over FY25-26E. Management's success in keeping credit cost under control gives confidence for further reduction and resultantly, the ROA is expected to remain stable around 2% by FY26. Therefore, we reiterate our Buy rating with a revised target price of Rs. 115 based on 1.7x FY26E BVPS.

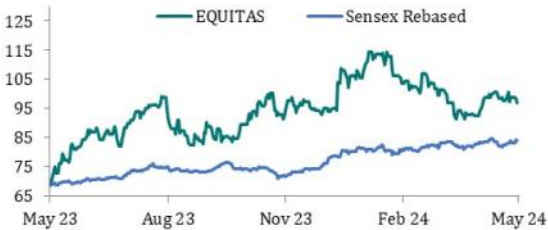
Company Data

Market Cap (Rs.cr)	10,988.2
Outstanding Shares (cr)	113.5
Free Float (%)	97.0
Dividend Yield (%)	1.0
52 week high (Rs.)	116.5
52 week low (Rs.)	71.9
6m average volume (cr)	0.4
Beta	0.8
Face value (Rs.)	10.0

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	-	-	-
FPI's	18.2	19.6	19.5
MFs/Institutions	43.9	45.7	45.2
Public	37.9	34.7	35.3
Total	100.0	100.0	100.0
Promoter Pledge	-	-	-

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-6.5%	-0.8%	40.8%
Absolute Sensex	3.8%	16.2%	21.9%
Relative Return*	-10.3%	-17.0%	18.9%

*over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
NII	3,080	3,607	4,563
Growth(%)	21.0	17.1	26.5
NIM(%)	796.67	748.29	766.85
Provisions	314	382	413
Adj. PAT	799	958	1,230
Growth(%)	39.3	20.0	28.3
Adj. EPS	7.1	8.4	10.8
Growth(%)	51.2	18.6	28.3
BVPS	52.6	60.0	67.6
Adj BVPS	49.4	56.4	63.5
P/E	13.5	11.4	8.9
P/B	1.8	1.6	1.4
Adj. P/B	1.9	1.7	1.5
ROE (%)	14.4	15.0	17.0
ROA (%)	2.0	1.9	2.0

Quarterly Financials (Standalone)

(Rs cr)	Q4FY24	Q3FY24	QoQ Growth (%)	Q4FY23	YoY Growth (%)	FY24	FY23	YoY Growth (%)
Interest Income	1,445	1,429	1.1	1,156	25.0	5,486	4,162	31.8
Interest Expense	659	644	2.3	449	46.8	2407	1617	48.8
Net Interest Income (NII)	786	785	0.1	707	11.2	3,080	2,545	21.0
Fee and Other Income	240	205	17.0	239	0.7	799	670	19.3
Total Income	1,026	991	3.6	946	8.5	3,878	3,214	20.7
Expenditure	652	630	3.4	559	16.5	2,501	2,038	22.7
Pre-Provision Profit	375	360	4.0	386	-3.0	1,377	1,176	17.1
Provision	107	84	26.3	126	-15.1	314	407	-22.8
Exceptional Item	0	0		0		0	0	
PBT	268	276	-2.8	261	2.8	1,063	769	38.3
Tax	61	74	-18.1	71	-14.4	264	195	35.3
Reported PAT	208	202	2.8	190	9.3	799	574	39.3
Adjustment	-	-		-		-	-	
Adj. PAT	208	202	2.8	190	9.3	799	574	39.3
Diluted EPS (Rs)	1.81	1.77	2.3	1.69	7.1	7.01	4.67	50.1

Change in Estimates

	Old estimates		New estimates		Change	
Year / Rs cr	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income (NII)	3,944	-	3,607	4,563	-8.6%	
Net Interest Margin (%)	8.23	-	8.71	8.83	48bps	
Pre-Provision Profit	1,838	-	1,674	1,996	-8.9%	
Adj. PAT	969	-	972	1,191	0.3%	
Diluted EPS (Rs)	8.7	-	8.6	10.5	-1.6%	

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest Income	3,460	4,162	5,486	6,655	7,970
Interest Expense	1,421	1,617	2,407	3,048	3,408
Net Int. Income	2,039	2,545	3,080	3,607	4,563
Change	13.4	24.8	21.0	17.1	26.5
Non Int. Income	538	670	799	1,180	1,126
Operating Income	2,576	3,214	3,878	4,787	5,689
Change	16.2	24.8	20.7	23.4	18.8
Operating Exp.	1,704	2,038	2,501	3,130	3,641
Pre Prov. Profit	872	1,176	1,377	1,656	2,048
Prov. & Conting.	494	407	314	382	413
PBT	378	769	1,063	1,275	1,635
Change	-26.1	103.3	38.3	19.9	28.3
Tax	97	195	264	316	405
Tax Rate (%)	26	25	25	25	25
Reported PAT	281	574	799	958	1,230
Adj*	0	0	0	0	0
Adj. PAT	281	574	799	958	1,230
Change	-26.9	104.3	39.3	20.0	28.3
No. of shares (Cr)	125	111	113	113	113
EPS (Rs)	2.2	4.7	7.1	8.4	10.8
Change	-33.5	110.0	51.2	18.6	28.3

BALANCE SHEET

Y.E March (Rs Cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	2,133	1,244	3,579	4,535	6,189
Loans & Advances	19,374	25,799	30,964	37,420	46,393
Investments	4,450	6,665	9,065	10,830	13,629
Gross Fixed Assets	603	707	1,280	1,601	2,001
Net Fixed Assets	200	379	605	723	859
Other Assets	795	872	1,091	1,384	1,716
Total Assets	26,952	34,958	45,304	54,892	68,787
Deposits	18,951	25,381	36,129	44,006	54,559
Borrowings	2,616	2,974	1,788	2,036	4,038
Other Liabilities	1,139	1,446	1,418	2,036	2,524
Equity Capital	1,252	1,111	1,135	1,135	1,135
Reserves & Surplus	2,994	4,047	4,834	5,679	6,531
Shareholder's Funds	4,246	5,158	5,969	6,815	7,666
Total Liabilities	26,952	34,958	45,304	54,892	68,787
BVPS (Rs)	33.9	46.4	52.6	60.0	67.6
Change	13.8	36.9	13.2	14.2	12.5
Adj. BVPS (Rs)	30.1	43.6	49.4	56.4	63.5
Change	9.5	45.0	13.3	14.1	12.5

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
ProfitAF. & Return					
Interest yield (%)	13.9	14.0	14.2	13.8	13.4
Cost of funds (%)	6.7	6.5	7.3	7.3	6.5
Spread(%)	7.1	7.5	6.9	6.5	6.8
NIM (%)	8.2	8.5	8.0	7.5	7.6
ROE (%)	7.3	12.2	14.4	15.0	17.0
ROA(%)	1.1	1.9	2.0	1.9	2.0
Business Growth					
Loans & Advances (%)	15.0	33.2	20.0	20.9	24.0
Deposits (%)	15.6	33.9	42.3	21.8	24.0
Operating Ratios					
Cost to Income (%)	66.2	63.4	64.5	65.4	64.0
CASA (%)	52.0	42.3	32.0	47.5	38.3
Asset Quality					
GNPA (%)	4.3	2.8	2.7	2.5	2.3
NNPA (%)	2.5	1.2	1.2	1.1	1.0
Capital Adequacy					
CAR (%)	21.9	23.8	21.7	21.9	19.8
Valuation					
P/E (x)	43.2	20.6	13.6	11.5	8.9
P/B (x)	2.9	2.1	1.8	1.6	1.4
Adj. P/B (x)	3.2	2.2	2.0	1.7	1.5

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
16 August 2022	Buy	52
03 November 2022	Accumulate	57
31 March 2023	Hold	74
08 September 2023	Buy	102
03 May 2024	Buy	115

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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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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