

Equitas Small Finance Bank Ltd.

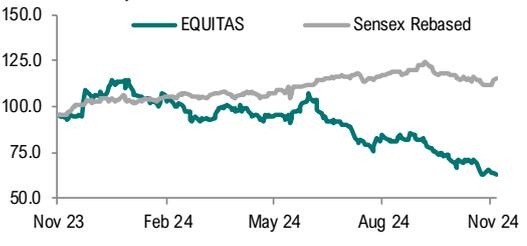
HOLD

Sector: Banking

26th November 2024

Key Changes:	Target ▼	Rating ▼	Earnings ▼	Target	Rs.69		
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame	CMP	Rs.63
Small Cap	EQUITASB:IN	80,004	EQUITASBNK	543243	12 Months	Return	+10%

Data as of: 26-11-2024

Company Data			
Market Cap (Rs. cr)	7,175		
52 Week High — Low (Rs.)	117-62		
Outstanding Shares (Rs cr)	113.9		
Free Float (%)	97.0		
Dividend Yield (%)	1.6		
6m average volume (million)	3.7		
Beta	0.8		
Face value (Rs.)	10.0		
Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	-	-	-
FII's	19.5	19.7	16.9
MFs/Institutions	45.2	45.4	43.7
Public	35.3	34.9	39.4
Total	100.0	100.0	100.0
Promoter Pledge	-	-	-
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-24.5%	-34.5%	-33.9%
Absolute Sensex	-1.2%	6.2%	21.4%
Relative Return	-23.3%	-40.7%	-55.4%
*over or under performance to benchmark index			
			
Y.E March (cr)	FY24A	FY25E	FY26E
NII	3,080	3,294	4,015
Growth(%)	21.0	7.0	21.9
NIM(%)	8.0	7.0	7.2
Provisions	314	1,023	822
Adj. PAT	799	311	772
Growth(%)	39.3	-61.1	148.7
Adj. EPS	7.1	2.7	6.8
Growth(%)	51.2	-61.7	148.7
BVPS	52.6	54.2	58.7
Adj BVPS	49.4	50.1	54.2
P/E	8.8	23.1	9.3
P/B	1.2	1.2	1.1
Adj. P/B	1.3	1.3	1.2
ROE (%)	14.4	5.1	12.0

Stress from microfinance segment far from over..

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 987 banking outlets.

- Net Advances grew muted (18%YoY), driven by a 28% YoY increase in the Small Business Loan, 53% YoY increase in used car vehicle finance and 23%YoY increase in housing finance segments. Deposit growth advanced by 29.2% YoY, with CASA accounts growing by 17% YoY. The CASA ratio stood at 30.6%, a sequential decrease of 68bps.
- The bank is shifting its focus towards increasing disbursements in small business loans, vehicle finance, and affordable housing segments. This shift is evident as the microfinance segment experienced a 33% YoY decline in disbursements.
- Net Interest Income grew by 7.9% YoY in Q2FY25, impacted by falling yields on disbursements and rising costs of funds. Additionally, NIM contracted by 28 bps sequentially to 7.69%.
- Management has noted rising stress in the microfinance sector due to borrower over-leveraging and an increase in the number of lenders. Despite increasing its PCR to 67.7%, the company continues to face asset quality challenges and high operating expenses, which are impacting its margins. GNPA and NNPA have deteriorated to 2.95% and 0.97%, respectively, from 2.12% and 0.91% in Q2 FY24.
- Other income grew 10%YoY, driven by an increase in treasury income and asset fee income. But a significant increase in provisions led PAT to degrow 94% YoY to Rs.12.9cr.

Outlook & Valuation

The ongoing stress in the microfinance segment is expected to keep credit costs elevated for the next two quarters. The shift to lower-yielding assets compared to microfinance is also expected to reduce yields, further weighing on return ratios. The management remains focused on maintaining a robust and scalable banking model to enhance profitability and efficiency. **Given the ongoing stress in the microfinance segment, we are downgrading our rating from Accumulate to Hold with a target price of Rs. 69 based on 1.2x FY26E BVPS.**

Quarterly Financials (Standalone)

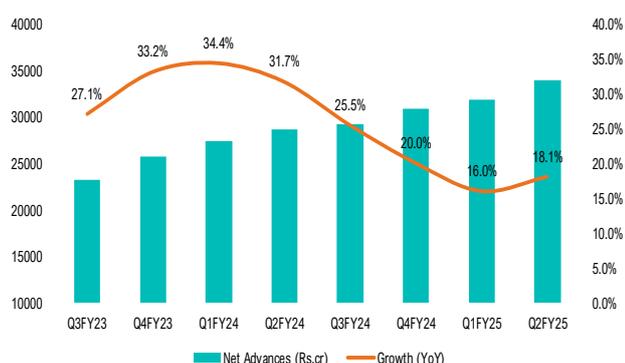
Rs cr	Q2FY25	Q1FY25	QoQ(%)	Q2FY24	YoY(%)	H1FY25	H1FY24	YoY (%)
Net Interest Income (NII)	802	801	0.1	766	4.8	1,604	1,509	6.3
Total Income	1,041	1,010	3.1	947	10.0	2051	1861	10.2
Expenditure	692	670	3.2	617	12.1	1,361	1,219	11.7
Pre-Provision Profit	350	340	2.7	330	5.9	690	642	7.4
Provision	330	305	8.2	63	421.6	634	123	414.6
PBT	20	36	-43.9	267	-92.5	56	519	-89.2
Reported PAT	13	26	-50.0	198	-93.5	39	389	-89.2
Adj. PAT	13	26	-50.0	198	-93.5	39	389	-90.1
Diluted EPS (Rs)	0.1	0.2	-50.0	2	-93.7	0.3	3.4	-90.4



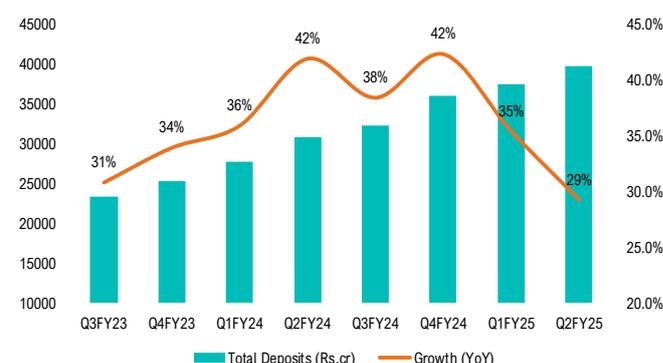
Key Highlights

- The microfinance segment faced significant challenges in Q2 FY25, marked by elevated slippages and stress. Advances in this segment declined by 4%YoY and 6%QoQ. To address the ongoing issues, the bank made extra provisions totaling Rs. 146 crores, which included Rs. 100 crores as a buffer for standard assets and Rs. 46 crores for strengthening IRAC norms. Efforts to enhance collection efficiency are underway, with initiatives aimed at better customer interaction and engagement. The bank has also increased the number of field personnel to support these efforts. However, the stress in the microfinance portfolio is expected to persist for another two quarters.
- GNPA increased by 28 bps QoQ to 2.95% in Q2FY25, compared to 2.67% in Q1FY25. NNPA increased by 16 bps QoQ to 0.97% in Q2FY25, compared to 0.81% in Q1FY25.
- The bank is currently focusing on several key segments, including Small Business Loans (SBL), which experienced a 28% YoY growth; Vehicle Finance, with notable performance in used car loans (53%YoY) and used commercial vehicles (14% YoY); and Affordable Housing, which saw a 23%YoY increase.
- The bank's return ratios are currently impacted by elevated credit costs, particularly in the microfinance segment. For Q2FY25, the ROA and ROE stand at 0.11% and 0.86%, respectively, significantly lower than the 2.03% and 14.62% recorded in Q2FY24.

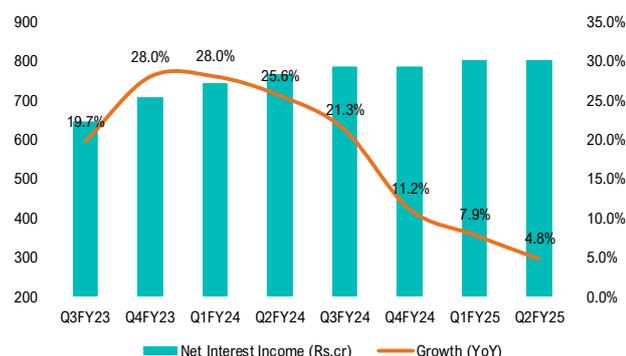
Net Advances



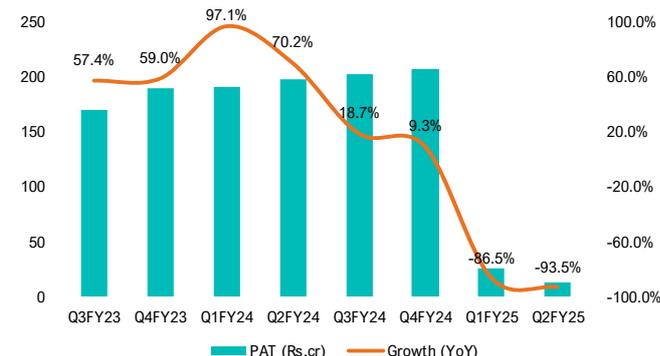
Total Deposits



Net Interest Income



PAT



Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income (NII)	3,517	4,337	3,294	4,015	-6.3	-7.4
Net Interest Margin (%)	7.41	7.46	6.99	7.21	-42bps	-25bps
Pre-Provision Profit	1,634	2,131	1,436	1,849	-12.1	-13.3
Adj. PAT	697	959	311	772	-55.4	-19.5
Diluted EPS (Rs)	6.1	8.4	2.7	6.8	-55.3	-19.3



Standalone Financials

Profit & Loss

Y. E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest Income	3,460	4,162	5,486	6,350	7,061
Interest Expense	1,421	1,617	2,407	3,055	3,046
Net Int. Income	2,039	2,545	3,080	3,294	4,015
% Change	13.4%	24.8%	21.0%	7.0%	21.9%
Non Int. Income	538	670	799	934	1,059
Operating Income	2,576	3,214	3,878	4,228	5,074
% Change	16.2%	24.8%	20.7%	9.0%	20.0%
Operating Exp.	1,704	2,038	2,501	2,792	3,225
Pre Prov. Profit	872	1,176	1,377	1,436	1,849
Prov. & Conting.	494	407	314	1023	822
PBT	378	769	1,063	413	1,027
% Change	-26.1%	103.3%	38.3%	-61.2%	148.7%
Tax	97	195	264	102	255
Tax Rate	26%	25%	25%	25%	25%
Reported PAT	281	574	799	311	772
Adj*	-	-	-	-	-
Adj. PAT	281	574	799	311	772
% Change	-26.9%	104.3%	39.3%	-61.1%	148.7%
No. of shares (cr)	125	111	113	114	114
EPS (Rs)	2.2	4.7	7.1	2.7	6.8
% Change	-33.5%	110.0%	51.2%	-61.7%	148.7%

Balance Sheet

Y. E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	2,133	1,244	3,579	4,556	5,639
Loans & Advances	19,374	25,799	30,964	35,365	42,197
Investments	4,450	6,665	9,065	10,712	12,917
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	1,269	1,530
Total Assets	26,952	34,958	45,304	52,624	63,142
Deposits	18,951	25,381	36,129	43,918	53,405
Borrowings	2,616	2,974	1,788	951	1,147
Other Liabilities	1,139	1,446	1,418	1,586	1,912
Equity Capital	1,252	1,111	1,135	1,138	1,138
Reserves & Surplus	2,994	4,047	4,834	5,030	5,539
Shareholder's Funds	4,246	5,158	5,969	6,169	6,678
Total Liabilities	26,952	34,958	45,304	52,624	63,142
BVPS (Rs)	33.9	46.4	52.6	54.2	58.7
% Change	13.8%	36.9%	13.2%	3.0%	8.2%
Adj. BVPS (Rs)	30.1	43.6	49.4	50.1	54.2
% Change	9.5%	45.0%	13.2%	1.5%	8.1%

Ratios

Y. E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitability & Return					
Interest yield (%)	13.9	14.0	14.2	13.5	12.7
Cost of funds (%)	6.7	6.5	7.3	7.4	6.1
Spread(%)	7.1	7.5	6.9	6.1	6.6
NIM (%)	8.2	8.5	8.0	7.0	7.2
ROE (%)	7.3	12.2	14.4	5.1	12.0
ROA(%)	1.1	1.9	2.0	0.6	1.3
Business Growth					
Loans & Advances (%)	15.0	33.2	20.0	14.2	19.3
Deposits (%)	15.6	33.9	42.3	21.6	21.6
Operating Ratios					
Cost to Income (%)	66.2	63.4	64.5	66.0	63.6
CASA (%)	52.0	42.3	32.0	31.2	31.5
Asset Quality					
GNPA (%)	4.3	2.8	2.7	3.6	3.3
NNPA (%)	2.5	1.2	1.2	1.3	1.2
Capital Adequacy					
CAR (%)	21.9	23.8	21.7	20.9	19.0
Valuation					
P/E (x)	28.3	13.5	8.9	23.2	9.3
P/B (x)	1.9	1.4	1.2	1.2	1.1
Adj. P/B (x)	2.1	1.5	1.3	1.3	1.2



Recommendation Summary (last 3 years)



Dates	Rating	Target
16.Aug.22	Buy	52
03.Nov.22	Accumulate	57
31.Mar.23	Hold	74
08.Sep.23	Buy	102
03.May.24	Accumulate	115
12.Aug.24	Accumulate	89
26.Nov.24	Hold	69

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.

Symbols definition: ▲ Upgrade ● No Change ▼ Downgrade

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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