

CMP: INR 69

Rating: Accumulate

Target Price: INR 80

Stock Info

BSE	543243
NSE	EQUITASBNK
Bloomberg	EQUITASB
Reuters	EQUI.BO
Sector	Financial Services
Face Value (INR)	10
Equity Capital (INR Cr)	1140
Mkt Cap (INR Cr)	7824
52w H/L (INR)	116 / 66
Avg Yearly Vol (in 000')	4,412

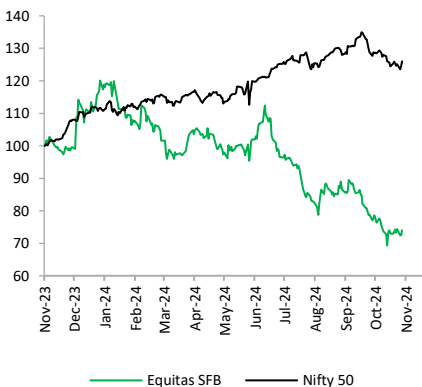
Shareholding Pattern %

(As on September, 2024)

Promoters	-
Public & Others	100

Stock Performance (%)	1m	6m	12m
Equitas SFB	-7.4	-26.5	-28
Nifty	-3.4	9.5	24.3

Equitas SFB Vs Nifty



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Equitas small finance bank reported a net profit of INR 129 mn v/s INR 258 mn in Q1FY25 v/s 1981 mn in corresponding quarter last year (down 50% QoQ, down 93.5% YoY). The profitability decrease is driven by substantial increase of provisions from INR 632 mn in Q2FY24 to INR 3297 mn in Q2FY25 (Q1FY25: INR 3046 mn). Net interest income grew by 4.8% YoY/ 0.1% QoQ at INR 8023 mn, though the NIMs of the bank declined during the quarter at 7.7% (down 28 bps QoQ, down 48 bps YoY) on account of slowdown of disbursements in microfinance segment. Asset quality deteriorated as GNPA ratio for the quarter increased by 22 bps QoQ/ 68 bps YoY, and NNPA increased by 14 bps sequentially while remaining flat YoY.

Asset quality deteriorated, led by increase in slippages in microfinance book: Banks GNPA increased by 22bps QoQ and 68 bps YoY at 2.95%. NNPA increased by 14 bps sequentially but was flat QoQ, at 0.97%. The banks NNPA continues to remain below 1%, as the NNPA levels should be less than 1% in order to apply for universal bank license. Microfinance asset quality remains a concern as slippages continue to remain elevated. Fresh slippages during the quarter increased by 97% YoY and 31.24% QoQ to INR 5.06 bn and slippage ratio for the quarter stood at 5.8%, which is above the comfort level of 4% for small finance bank. The slippages primarily arising from micro finance segment.

Advances growth momentum continues: Banks gross advances stood at INR 360.53 bn v/s INR 312.29 bn in Q2FY24 (+15% YoY, +3.4% QoQ). Growth in Small business loan segment stood at 41% YoY, Micro finance loans were up 16% YoY while housing finance growth stood at 12% YoY. Vehicle finance loan growth was at 25% YoY in which used car segment portfolio growth was sharper at 53% YoY.

NIMs continue to remain under pressure: Net interest margin declined by 28 bps QoQ to 7.7% and by 48 bps YoY, on account of slowdown of disbursements in microfinance segment. Further, lower margins was due to decline in average yields. Yield on average advances declined by 27 bps QoQ and 42 bps YoY, at 16.6%. The cost of funds increased by 6 bps YoY at 7.5% (+4 bps QoQ). The interest rates are expected to remain stable in coming periods, which will stabilize their cost of funds.

Valuation & View:

Equitas SFB reported a substantial drop in profitability this quarter, primarily due to elevated credit costs. Asset quality was impacted, particularly within the MFI segment, leading to a rise in fresh NPA accretion. NIMs were impacted owing to rise in cost of funds and slowdown in disbursement in microfinance segment. Loan growth remained healthy at 15% YoY, mainly driven by the non - MFI segment. However, stress in MFI book is anticipated to continue over the next two quarters. We have a Accumulate rating on the stock with a target price of INR 80, based on 1.1x P/ABV to its FY27E.

Exhibit 1: Financial Performance

in Bn.	NII	PPOP	PAT	NIM (%)	RoA (%)	RoE (%)	P/BV(x)
FY22	20.39	8.72	2.81	8.2%	1.0%	6.6%	2.0
FY23	25.45	11.76	5.74	8.5%	1.4%	11.1%	1.5
FY24A	30.80	13.77	7.99	8.0%	1.8%	13.4%	1.3
FY25E	36.07	16.21	8.25	7.9%	1.5%	12.1%	1.2
FY26E	43.63	19.15	9.55	8.3%	1.5%	12.3%	1.0
FY27E	55.36	6.91	12.41	8.7%	1.7%	13.8%	0.9

Source: Arihant Research, Company Filings

Q2FY25 - Quarterly Performance (Standalone)

(INR Mn)

Quarterly Result Update (INR mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Interest Income	15,549	15,010	13,590	3.6%	14.4%
Interest Expended	7,526	6,995	5,934	7.6%	26.8%
Net Interest Income	8,023	8,015	7,656	0.1%	4.8%
Other Income	2,389	2,087	1,814	14.5%	31.7%
Operating Income	10,412	10,102	9,470	3.1%	10.0%
Operating Expenses	6,915	6,698	6,168	3.2%	12.1%
Employee Expenses	4,024	3,747	3,315	7.4%	21.4%
Other Operating Expenses	2,891	2,951	2,853	-2.0%	1.3%
PPOP	3,497	3,404	3,302	2.7%	5.9%
Provisions	3,297	3,046	632	8.2%	421.6%
PBT	201	358	2,670	-43.9%	-92.5%
Tax Expenses	72	100	689	-28.3%	-89.6%
Net Income	129	258	1,981	-50.0%	-93.5%
Balance Sheet Analysis					
Advances	33,963	31,926	3,09,640	6.4%	9.7%
Deposits	39,859	37,524	3,61,290	6.2%	10.3%
Total Assets	48,634	46,446	4,53,040	4.7%	7.4%
CASA Deposits	12,184	11,724	1,15,520	3.9%	5.5%
CASA (%)	31.0%	31.0%	32.0%	0bps	-100bps
CAR (%)	19.4%	20.6%	21.7%	-119bps	-234bps
Spreads					
NIMs (%)	7.7%	8.0%	8.2%	-28bps	-48bps
Cost of Funds	7.5%	7.5%	7.4%	4bps	6bps
Yield on Average Advances	16.6%	16.9%	17.0%	-27bps	-42bps
Asset Quality					
GNPA	1,023	889	6,605	15.0%	54.9%
NNPA	330	264	2,793	25.0%	18.3%
GNPA (%)	2.95%	2.73%	2.27%	22bps	68bps
NNPA (%)	0.97%	0.83%	0.97%	14bps	0bps
Returns & Expenses					
RoA	0.11%	0.22%	1.83%	-12bps	-173bps
RoE	0.87%	1.71%	13.91%	-85bps	-1305bps
Cost / Income Ratio	66.41%	66.30%	63.49%	11bps	293bps

Source: Arihant Research, Company Filings

Concall Highlights:**Guidance**

- Management expects MFI stress to be elevated for the next two quarters.
- Cost-to-income could remain elevated as investments in product, people and tech would continue for next 2-3 years.
- Going ahead, MFI contribution to total loans is expected to reduce.
- The bank intends to keep unsecured book below 20% mark.

Highlights

- Equitas Small Finance Bank posted soft growth in NII as a result of contraction in margins.
- NIMs declined 28 bps QoQ and 74 bps YoY to 7.69%, and this was due to interest reversals on slippages and higher cost of funds.
- Non-interest income a growth of 31.7% YoY and 14.5% QoQ to INR 2.39 bn and was driven by treasury income.
- Provisions for the quarter jumped sharply owing to decline in asset quality and the bank took additional provisions proactively on its MFI segment to the tune of INR 1.46 bn. Total MFI credit cost for the quarter was at INR 2.41 bn.
- Net profit thus as a result of higher credit cost, declined by 93.5% YoY.
- In Q2 FY25, the bank saw advances growth of 18.1% and 6.4% QoQ to INR 339.63 bn.
- Micro finance loans (MFI) declined by 4% YoY owing to cautious approach and formed 16% of total loan.
- Housing finance and small business loans were up 23% YoY and 28% YoY, respectively.
- Vehicle finance loans were up 14% YoY in which used car and used commercial vehicle saw good growth while new car loan growth was muted as the company focused on other segments.
- Disbursements for the quarter were down 2% YoY mainly due to lower MFI and New CV disbursements.
- Bank witnessed green shoots in its digital initiatives as INR 3.50 bn of loans were disbursed during the quarter was sourced through the newly launched Selfe Loan App
- Deposit growth for the quarter stood at 29.2% YoY and 6.2% to INR 398.59 bn, in this CASA deposits grew at slower pace of 17.7% YoY as a result CASA ratio declined to 31% versus 34% YoY.
- Disbursement yield for Q2 FY25 stands at 17.83% while overall yield was flat at 16.5% YoY.
- The bank has reduced its peak term deposit rate from 8.5% to 8.25%.
- Asset quality deteriorated on overall basis as GNPA and NNPA ratio for the quarter increased by 22 bps and 14 bps sequentially to 2.95% and 0.97%, respectively.
- GNPA in the micro finance segment stood at 4.83% versus 3.82% QoQ. Micro finance segment witnessed increased stress which was seen across industry.
- Collection efficiency in MFI segment was at 98.1% and the bank remains watchful in this segment.
- Fresh slippages during the quarter increased by 31% QoQ to INR 5.06 bn and slippage ratio for the quarter stood at 5.08%.
- Provision coverage ratio for the quarter improved from 57.7% to 67.7% YoY while sequentially it declined by 258 bps. PCR in micro finance segment was at 80% as on Q2 FY25.
- 9% of customers have exposure below INR 2 lakh in MFI segment and ~16% of customers have indebtedness below INR 1.5 lakh during September 2024.
- Around 14.5% of total customers have engagement with four other lenders.

Key Financials

Profit & Loss Statement INR bn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Interest Income	34.6	41.6	54.9	64.7	77.5	95.6
Interest Expended	14.2	16.2	24.1	28.6	33.8	40.2
Net Interest Income	20.4	25.4	30.8	36.1	43.6	55.4
Other Income	5.4	6.7	8.0	9.0	10.9	13.8
Operating Income	25.8	32.1	38.8	45.1	54.5	69.2
Operating Expenses	17.0	20.4	25.0	28.9	35.4	44.6
Employee Expenses	9.0	11.0	13.7	16.7	21.5	28.9
Other Operating Expenses	8.1	9.4	11.3	12.2	13.9	15.6
PPOP	8.7	11.8	13.8	16.2	19.1	24.6
Provisions	4.3	4.1	3.1	4.4	5.5	6.9
PBT	4.4	7.7	10.6	11.8	13.6	17.7
Tax Expenses	1.6	2.0	2.6	3.5	4.1	5.3
Net Income	2.8	5.7	8.0	8.2	9.6	12.4

Balance Sheet (in INR Bn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Equity & Liabilities						
Share Capital	12.5	11.1	11.3	11.3	11.3	11.3
Reserves & Surplus	29.9	40.5	48.3	56.6	66.1	78.5
Net Worth	42.5	51.6	59.7	67.9	77.5	89.9
Deposits	189.5	253.8	361.3	426.3	503.1	593.6
Borrowings	26.2	29.7	17.9	22.7	28.1	36.8
Other Liabilities and Provisions	11.4	14.5	14.2	19.5	21.8	25.4
Total Capital & Liabilities	269.5	349.6	453.0	536.5	630.5	745.6
Assets	-	-	-	-	-	-
Cash & Balances with RBI	9.6	11.7	35.0	10.2	11.2	12.4
Balances with Other Banks & Call Money	11.8	0.7	0.8	4.0	4.8	5.8
Investments	44.5	66.6	90.7	95.2	99.9	104.9
Advances	193.7	258.0	309.6	369.5	458.5	576.0
Fixed Assets	2.0	3.8	6.0	7.6	9.4	11.8
Other Assets	7.9	8.7	11.0	50.0	46.5	34.7
Total Assets	269.5	349.6	453.0	536.5	630.5	745.6

Source: Arihant Research, Company Filings

Ratios	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Growth rates						
Advances (%)	15.0%	33.2%	20.0%	19.4%	24.1%	25.6%
Deposits (%)	15.6%	33.9%	42.3%	18.0%	18.0%	18.0%
Total assets (%)	9.0%	29.7%	29.6%	18.4%	17.5%	18.3%
NII (%)	13.4%	24.8%	21.0%	17.1%	21.0%	26.9%
Pre-provisioning profit (%)	-1.7%	34.9%	17.1%	17.7%	18.1%	28.7%
PAT (%)	-26.9%	104.3%	39.3%	3.2%	15.8%	30.0%
Balance sheet ratios						
Credit/Deposit (%)	102.2%	101.6%	85.7%	86.7%	91.1%	97.0%
CASA (%)	52.0%	52.5%	53.0%	53.0%	53.0%	53.0%
Advances/Total assets (%)	71.9%	73.8%	68.3%	68.9%	72.7%	77.3%
Leverage (x) (Asset/Shareholder's Fund)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
CAR (%)	25.2%	24.9%	24.4%	23.8%	21.9%	20.2%
CAR - Tier I (%)	24.5%	24.4%	24.0%	23.5%	21.6%	20.0%
Operating efficiency						
Cost/income (%)	66.2%	63.4%	64.5%	64.0%	64.9%	64.4%
Opex/total assets (%)	6.3%	5.8%	5.5%	5.4%	5.6%	6.0%
Opex/total interest earning assets	2.4%	2.6%	2.5%	2.5%	2.8%	3.1%
Profitability						
NIM (%)	8.2%	8.5%	8.0%	7.9%	8.3%	8.7%
RoA (%)	1.0%	1.6%	1.8%	1.5%	1.5%	1.7%
RoE (%)	6.6%	11.1%	13.4%	12.1%	12.3%	13.8%
Asset quality						
Gross NPA (%)	4.1%	2.9%	2.9%	2.9%	2.8%	2.7%
Net NPA (%)	2.5%	1.4%	1.1%	0.9%	0.8%	0.6%
PCR (%)	42.7%	56.8%	63.7%	69.5%	74.6%	79.0%
Credit cost (%)	2.2%	1.6%	1.0%	1.2%	1.2%	1.2%
Per share data / Valuation						
EPS (INR)	2.2	5.2	7.0	7.3	8.4	10.9
BVPS (INR)	34	46	53	60	68	79
ABVPS (INR)	30	43	50	57	65	76
P/E (x)	30.8	13.4	9.8	9.5	8.2	6.3
P/BV (x)	2.0	1.5	1.3	1.2	1.0	0.9
P/ABV (x)	2.3	1.6	1.4	1.2	1.1	0.9

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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