

CMP: INR 66

Rating: Accumulate

Target Price: INR 83

Stock Info

BSE	543243
NSE	EQUITASBNK
Bloomberg	EQUITASB
Reuters	EQUI.BO
Sector	Financial Services
Face Value (INR)	10
Equity Capital (INR Cr)	1135
Mkt Cap (INR Cr)	7591
52w H/L (INR)	109.75 / 61.35
Avg Yearly Vol (in 000')	4,120

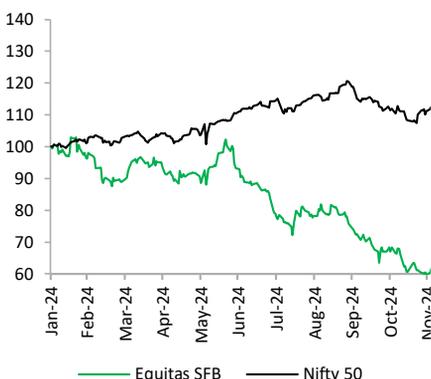
Shareholding Pattern %

(As on December, 2024)

Promoters	-
Public & Others	100

Stock Performance (%)	1m	6m	12m
Equitas SFB	4.1	-17.5	-35.8
Nifty	-0.7	-5.9	8.04

Equitas SFB Vs Nifty



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Equitas small finance bank reported a net profit of INR 663 mn, above our estimate of INR 340 mn, against INR 128.8 mn in Q2FY25. (vs INR 2,020 mn for Q3FY24) (-67.2% YoY, +414.7% QoQ). NII stood at INR 8184 mn, lower than our estimate of INR 8551 mn (+8.9% YoY, +6.6% QoQ). They reported PPOP of INR 3329 mn, which was below our estimate of INR 3925 mn (vs INR 3497 mn for Q2FY25) (vs INR 3603 mn for Q3FY24). Provisions came at INR 2431 mn (+188.1% YoY/ -26.3% QoQ). PBT came in at INR 897 mn, above our estimate of INR 529 mn (vs INR 201 mn for Q2FY25) (vs INR 2759 mn for Q3FY24). NIMs declined 30 bps QoQ and 98 bps YoY to 7.39% driven mainly by the drop in MFI business mix and reduction in treasury yields. Asset quality deteriorated as GNPA ratio for the quarter increased by 2 bps QoQ/ 59 bps YoY, and NNPA increased by 1 bps sequentially and -10 YoY, at 0.96%.

Asset quality deteriorated, led by increase in slippages in microfinance book: Banks GNPA ratio for the quarter increased by 2 bps QoQ/ 59 bps YoY, and NNPA increased by 1 bps sequentially and -10 YoY, at 0.96%. 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. Net slippages during the quarter increased by 321.2% YoY and 60.72% QoQ to INR 1.99 bn and slippage ratio for the MFI book deteriorated to 14.16% from 8.31% QoQ. The slippages primarily arising from micro finance segment.

Advances growth momentum continues: Banks gross advances stood at INR 373.44 bn v/s INR 327.76 bn in Q3FY24 (+14% YoY, +4% QoQ). Growth in Small business loan segment stood at 27% YoY, Micro finance loans were down 11% YoY, due to the stress in the segment, while housing finance growth stood at 18% YoY. Vehicle finance loan growth was at 14% YoY in which used car and used commercial vehicle saw good growth, while new car loan de-grew as the company focused on other segments.

NIMs continue to remain under pressure: Net interest margin declined 30 bps QoQ and 98 bps YoY to 7.39%, on account of slowdown of disbursements in microfinance segment and reduction in treasury yields. Yield on gross advances improved by 6 bps QoQ and 10 bps YoY, at 16.55%. The cost of funds remained stable at 7.49% in Q3 FY25, despite raising INR 5 bn in tier 2 bonds.

Valuation & View:

Equitas Small Finance Bank Limited reported a strong financial performance in Q3FY25, with advances grew by 14% YoY, with non-microfinance books increasing by 20% while microfinance decreased by 17-18%. NIMs declined during the quarter, mainly due to the drop in MFI business mix and reduction in treasury yields. Non-microfinance segments showed strong performance, particularly small business loans with a 27% YoY growth. The bank's future outlook includes a strategic shift towards non-microfinance growth, with a focus on small business loans and used vehicles. However, stress in MFI book is anticipated to continue over the next quarters. We have a BUY rating on the stock with a target price of INR 83, 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

Q3FY25 - Quarterly Performance (Standalone)

(INR Mn)

Quarterly Result Update (INR mn)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Interest Income	16,119	15,549	14,288	3.7%	12.8%
Interest Expended	7,935	7,526	6,437	5.4%	23.3%
Net Interest Income	8,184	8,023	7,851	2.0%	4.2%
Other Income	2,384	2,389	2,055	-0.2%	16.0%
Operating Income	10,568	10,412	9,906	1.5%	6.7%
Operating Expenses	7,239	6,915	6,303	4.7%	14.9%
Employee Expenses	4,255	4,024	3,460	5.7%	23.0%
Other Operating Expenses	2,985	2,891	2,843	3.2%	5.0%
PPOP	3,329	3,497	3,603	-4.8%	-7.6%
Provisions	2,431	3,297	844	-26.3%	188.1%
PBT	897	201	2,759	347.4%	-67.5%
Tax Expenses	234	72	739	226.6%	-68.3%
Net Income	663	129	2,020	414.7%	-67.2%
Balance Sheet Analysis					
Advances	35,386	33,963	292,100	4.2%	21.1%
Deposits	40,738	39,859	323,850	6.2%	25.8%
Total Assets	50,823	48,634	415,810	4.7%	22.2%
CASA Deposits	11,668	12,184	105,930	3.9%	10.1%
CASA (%)	29.0%	31.0%	34.0%	-200bps	-500bps
CAR (%)	19.4%	19.4%	20.2%	0bps	-88bps
Spreads					
NIMs (%)	7.4%	7.7%	8.4%	-30bps	-98bps
Cost of Funds	7.5%	7.5%	7.4%	-1bps	13bps
Yield on Average Advances	16.4%	16.6%	17.6%	-15bps	-115bps
Asset Quality					
GNPA	1,072	1,023	7,503	15.0%	42.9%
NNPA	340	330	3,303	25.0%	2.9%
GNPA (%)	2.97%	2.95%	2.53%	2bps	44bps
NNPA (%)	0.96%	0.97%	1.13%	-1bps	-17bps
Returns & Expenses					
RoA	0.53%	0.11%	1.94%	42bps	-141bps
RoE	4.44%	0.87%	14.14%	357bps	-970bps
Cost / Income Ratio	68.50%	66.41%	63.63%	209bps	488bps

Source: Arihant Research, Company Filings

Concall Highlights:

- NIMs declined 30 bps QoQ and 98 bps YoY to 7.39% driven mainly by the drop in MFI business mix and reduction in treasury yields.
- Credit cost was 2.65% in Q3FY25 v/s 3.72% in Q2FY25 and 1.05% in Q3 FY24. The company utilized INR 0.38 bn from the INR 1 bn stress sector provisioning created in Q2FY25.
- In Q3FY25, the bank saw advances growth of 14% YoY and 4% QoQ to INR 373.44 bn as the micro finance continued to de-grow.
- Disbursement in MLAP (micro loan against property) doubled during the year, led by special emphasis in the segment.
- The company's MFI contribution reduced to 14%, with the remaining coming from secured loans. Affordable housing finance contributed ~12% to the overall portfolio.
- Micro finance loans declined by 11% YoY. Non-MFI book increased by 20% YoY.
- Housing finance and small business loans were up 18% YoY and 27% YoY, respectively. The affordable housing book was INR 45 bn as on Q3FY25.
- Vehicle finance loans were up 14% YoY in which used car and used commercial vehicle saw good growth, while new car loan de-grew as the company focused on other segments.
- Disbursements for the quarter were up by 8% YoY mainly due to lower MFI, housing finance and new CV disbursements.
- The overall loan book for cars was INR 17 bn as on Q3FY25.
- Deposit growth for the quarter stood at 26% YoY and 2% QoQ to INR 407.38 bn, backed by strong growth in retail term deposit.
- CASA ratio remained stable at 29% during the quarter. Current account balance witnessed uptick, however growth in savings account remained a challenge.
- Retail term deposits (TD) showed a growth of 31% YoY and retail TD + CASA formed 73% of the total deposit.
- They transformed the slabs for saving accounts which yielded a reduction of ~13 bps in savings account interest cost in 9MFY25. They further reduced term deposit interest rate by 25 bps in Q3FY25.
- During the quarter, they rolled out personal loans for deposit customers and credit cards for them is expected to go live by March 2025.
- GNPA in the micro finance segment stood at 5.62% versus 4.83% QoQ.
- GNPA in home loans at 1.36%, small business loans it is at 2.34% and vehicle segment has GNPA of 2.67% in Q3FY25.
- Net slippages during the quarter improved to 3.15% v/s 3.31% in Q2FY25. Improvement was led by non-micro finance book, which reduced from 2.28% in Q2FY25 to 1.11% in Q3FY25. However, MFI deteriorated to 14.16% from 8.31% QoQ.
- MFI contribution is expected to reduce further and reach single digit, going forward.
- The quality of the borrowers is anticipated to improve, led by reduction in cost of finance in the next 3-5 years.
- The bank plans to expand its network of small business loan in Andhra Pradesh, Telangana and Karnataka in the coming year.

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: Arianth 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)	29.4	12.8	9.4	9.1	7.8	6.0
P/BV (x)	1.9	1.4	1.3	1.1	1.0	0.8
P/ABV (x)	2.2	1.5	1.3	1.2	1.0	0.9

Source: Arian 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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