

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 |

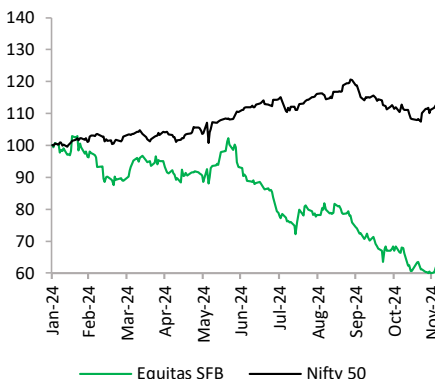
Shareholding Pattern %

(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: 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) | 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: 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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