

CMP: INR 69

Rating: BUY

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)	7646
52w H/L (INR)	108 / 52.52
Avg Yearly Vol (in 000')	4,120

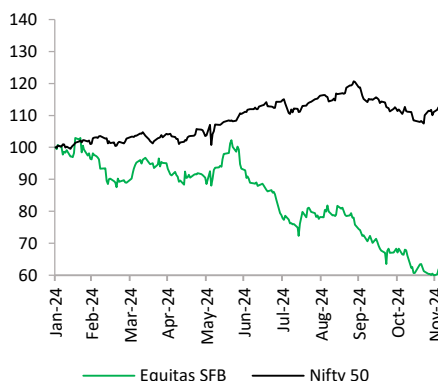
Shareholding Pattern %

(As on March, 2025)

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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Company reported a net profit of INR 421.08 mn, below our estimate of INR 699 mn, against INR 663 mn in Q3FY25. (vs INR 2,076 mn for Q4FY24) (-66% YoY, +5% QoQ). NII stood at INR 8294.25 mn, lower than our estimate of INR 8480 mn (+6% YoY, +1% QoQ). They reported PPOP of INR 3112.99 mn, which was below our estimate of INR 3451 mn (vs INR 3329 mn for Q3FY25) (vs INR 3748 mn for Q4FY24). Provisions came at INR 2580.11 mn (+142% YoY/ +6% QoQ). PBT came in at INR 532.88 mn, below our estimate of INR 947 mn (vs INR 897 mn for Q3FY25) (vs INR 2682 mn for Q4FY24). Gross Advances growth at 11% YoY and 2% QoQ. Non-Microfinance book grew 19% YoY, led by 25% growth in SBL over previous year. Overall deposits registered a growth of 19% YoY & 6% QoQ.

Asset quality improved sequentially, driven by reduction MFI book: GNPA improved by 8 bps sequentially in Q4 FY25. GNPA, including securitization book stood at 2.81%. NNPA increased by 2 bps QoQ during the quarter. 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. Net slippages during the quarter were flat at 3.16% v/s 3.15% in Q3 FY25. Improvement was led by MFI, which reduced from 14.16% in Q3 FY25 to 12.85% in Q4 FY25. However, non-MFI deteriorated to 1.54% from 1.11% QoQ. The company's MFI contribution reduced to 12% during the quarter, with the remaining coming from secured loans. In FY26, MFI contribution is expected to reduce to mid-single digits, while in FY27, the same is expected to decline further to reach low single digits

Advances growth muted during the quarter: Bank saw muted gross advances growth of 11% YoY and 2% QoQ to INR 379.86 bn as the micro finance continued to de-grow. Net advances grew by ~17% YoY and by ~2% sequentially. MFI declined by 28% YoY during the quarter. Non-MFI book increased by 19% YoY, led by small business loan (SBL) segment which had increased by 25% YoY, led by micro loan against property. Vehicle finance loans were up 14% YoY, in which used car grew by 53% YoY and used commercial vehicle (CV) saw a healthy growth of 24% YoY, while new CV loan de-grew by 13% YoY as the company focused on other segments bringing the contribution of new CV loans to 8%. Additionally, it also witnessed good growth in micro & small enterprises (MSE) finance loans with efficient credit controls.

NIMs continue to remain under pressure: Net interest margin declined 26 bps QoQ and 104 bps YoY to 7.13%. NIM for the full year declined from 8.36% in FY24 to 7.51% in FY25. This was mainly due to the drop in MFI (micro finance institution) portfolio. The yield on advances remained steady at 16.3% during Q4 FY25, despite the contraction in the MFI book. The yield on disbursements dropped by ~140 bps on a QoQ basis to 16.76%.

Valuation & View:

Equitas Small Finance Bank Limited reported a below expectation performance in Q4FY25. Net Interest Margin (NIM) declined 26 bps QoQ and 104 bps YoY to 7.13% in Q4, with FY25 NIM compressing to 7.51% from 8.36% in FY24, largely due to the shrinking MFI portfolio. Deposit growth remained strong at 19% YoY and 6% QoQ. Management expects FY26 to show improvement, aided by a continued reduction in the MFI book, which should support margin recovery and operational efficiency. ROA is projected to exceed 1% by FY26-end and reach 1.5%–1.7% by FY27. We have a BUY rating on the stock with a target price of INR 83, based on 1.2x 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
FY24	30.80	13.77	7.99	8.0%	1.8%	13.4%	1.3
FY25	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

Q4FY25 - Quarterly Performance (Standalone)

(INR Mn)

Quarterly Result Update (INR mn)	Q4FY25	Q3FY25	Q4FY24	Q-o-Q	Y-o-Y
Interest Income	16,440	16,119	14,447	2.0%	13.8%
Interest Expended	8,145	7,935	6,588	2.6%	23.6%
Net Interest Income	8,294	8,184	7,859	1.3%	5.5%
Other Income	2,254	2,384	2,405	-5.4%	-6.2%
Operating Income	10,549	10,568	10,263	-0.2%	2.8%
Operating Expenses	7,436	7,239	6,516	2.7%	14.1%
Employee Expenses	4,184	4,255	3,634	-1.7%	15.1%
Other Operating Expenses	3,251	2,985	2,882	8.9%	12.8%
PPOP	3,113	3,329	3,748	-6.5%	-16.9%
Provisions	2,580	2,431	1,066	6.1%	142.0%
PBT	533	897	2,682	-40.6%	-80.1%
Tax Expenses	112	234	605	-52.3%	-81.5%
Net Income	421	663	2,076	-36.5%	-79.7%
Balance Sheet Analysis					
Advances	36,209	35,386	30,964	2.3%	16.9%
Deposits	43,107	40,738	36,129	5.8%	19.3%
Total Assets	52,836	50,823	45,304	4.0%	16.6%
CASA Deposits	1,241	11,668	11,552	-89.4%	-89.3%
CASA (%)	29.0%	29.0%	32.0%	0bps	-300bps
CAR (%)	20.6%	20.3%	21.7%	31bps	-110bps
Spreads					
NIMs (%)	7.1%	7.4%	8.2%	-26bps	-104bps
Cost of Funds	7.5%	7.5%	7.4%	5bps	10bps
Yield on Average Advances	16.2%	16.4%	17.0%	-26bps	-83bps
Asset Quality					
GNPA	1,072	1,023	821	4.8%	30.5%
NNPA	354	330	361	7.2%	-1.9%
GNPA (%)	2.89%	2.97%	2.61%	-8bps	28bps
NNPA (%)	0.98%	0.96%	1.17%	2bps	-19bps
Returns & Expenses					
RoA	0.32%	0.52%	1.83%	-20bps	-151bps
RoE	2.77%	4.42%	13.91%	-164bps	-1114bps
Cost / Income Ratio	70.49%	68.50%	63.49%	199bps	700bps

Source: Arianth Research, Company Filings

Guidance

- They expect FY26 to be better than FY25 as the MFI book has reduced and they anticipate the same to reduce even further which could boost the overall operations.
- In FY26, MFI contribution would reduce to mid-single digits, while in FY27, the same is expected to decline further to reach low single digits. They do not anticipate the rate to decline to zero in the coming years.
- The advances of INR 45 bn in MFI as of FY25 would decline to INR 30 bn in FY26, backed by strict guardrail implementation and organising fresh loans majorly from existing clients.
- Collection efficiency in the MFI book has normalised and thereby, they envisage credit cost to improve by Q3 FY26.
- The company anticipates the affordable housing book and the MSE finance book to be profitable in FY26.
- The cost of funds would come down in the next few quarters due to repricing of deposits and lower rates.
- ROA would be higher than 1% as of FY26 end and would reach 1.5% - 1.7% by FY27 end. The management's main focus would be to drive the return ratios in the coming time.
- They will continue to focus on used CV and used car segment in the vehicle portfolio.
- In terms of deposits, they would continue focusing on the retail portfolio.

Highlights

- NIM declined 26 bps QoQ and 104 bps YoY to 7.13%. NIM for the full year declined from 8.36% in FY24 to 7.51% in FY25. This was mainly due to the drop in MFI (micro finance institution) portfolio.
- Other income for the year stood at INR 8.71 bn. The total treasury income stood at INR 1.42 bn during the same period, up by ~36%.
- Opex stood at INR 7.35 bn in Q4 FY25, higher by ~16% YoY. Opex for FY25 was higher by ~15% as the company continued to invest in tech, people and new products.
- The cost to income for FY25 stood at 67.64% v/s 63.74% last year. The cost of funds remained stable at 7.54% in Q4 FY25.
- Credit cost was 2.74% in Q4 FY25 v/s 2.65% in Q3 FY25 and 1.27% in Q4 FY24. The company further utilized INR 0.23 bn during the quarter from the INR 1 bn stress sector provisioning created in Q2 FY25, taking the unutilised provisions to INR 0.38 bn.
- The yield on advances remained steady at 16.3% during Q4 FY25, despite the contraction in the MFI book. The yield on disbursements dropped by ~140 bps on a QoQ basis to 16.76%, due to the same reason mentioned.
- Return on Equity was 2.79% as on 31st March 2025.
- In Q4 FY25, the bank saw muted gross advances growth of 11% YoY and 2% QoQ to INR 379.86 bn as the micro finance continued to de-grow. Net advances grew by ~17% YoY and by ~2% sequentially.
- Net slippages during the quarter were flat at 3.16% v/s 3.15% in Q3 FY25. Improvement was led by MFI, which reduced from 14.16% in Q3 FY25 to 12.85% in Q4 FY25. However, non-MFI deteriorated to 1.54% from 1.11% QoQ.

Key Financials

Profit & Loss Statement INR bn)	FY22A	FY23A	FY24A	FY25A	FY26E	FY27E
Interest Income	34.6	41.6	54.9	63.1	77.3	95.6
Interest Expended	14.2	16.2	24.1	30.6	34.0	40.2
Net Interest Income	20.4	25.4	30.8	32.5	43.3	55.4
Other Income	5.4	6.7	8.0	9.1	10.8	13.8
Operating Income	25.8	32.1	38.8	41.6	54.2	69.2
Operating Expenses	17.0	20.4	25.0	28.3	35.4	44.6
Employee Expenses	9.0	11.0	13.7	16.2	21.5	28.9
Other Operating Expenses	8.1	9.4	11.3	12.1	13.9	15.6
PPOP	8.7	11.8	13.8	13.3	18.8	24.6
Provisions	4.3	4.1	3.1	11.4	5.5	6.9
PBT	4.4	7.7	10.6	2.0	13.3	17.7
Tax Expenses	1.6	2.0	2.6	0.5	4.0	5.3
Net Income	2.8	5.7	8.0	1.5	9.3	12.4

Balance Sheet (in INR Bn)	FY22A	FY23A	FY24A	FY25A	FY26E	FY27E
Equity & Liabilities						
Share Capital	12.5	11.1	11.3	11.4	11.3	11.3
Reserves & Surplus	29.9	40.5	48.3	49.3	59.1	71.5
Net Worth	42.5	51.6	59.7	60.7	70.4	82.9
Deposits	189.5	253.8	361.3	431.1	503.1	593.6
Borrowings	26.2	29.7	17.9	21.4	28.1	36.8
Other Liabilities and Provisions	11.4	14.5	14.2	15.2	21.8	25.4
Total Capital & Liabilities	269.5	349.6	453.0	528.4	623.4	738.6
Assets	-	-	-	-	-	-
Cash & Balances with RBI	9.6	11.7	35.0	49.5	11.2	12.4
Balances with Other Banks & Call Money	11.8	0.7	0.8	5.8	4.8	5.8
Investments	44.5	66.6	90.7	92.9	99.9	104.9
Advances	193.7	258.0	309.6	362.1	458.5	576.0
Fixed Assets	2.0	3.8	6.0	7.0	9.4	11.8
Other Assets	7.9	8.7	11.0	11.1	39.5	27.6
Total Assets	269.5	349.6	453.0	528.4	623.4	738.6

Source: Arianth Research, Company Filings

Ratios	FY22A	FY23A	FY24A	FY25A	FY26E	FY27E
Growth rates						
Advances (%)	15.0%	33.2%	20.0%	17.0%	26.6%	25.6%
Deposits (%)	15.6%	33.9%	42.3%	19.3%	16.7%	18.0%
Total assets (%)	9.0%	29.7%	29.6%	16.6%	18.0%	18.5%
NII (%)	13.4%	24.8%	21.0%	5.6%	33.3%	27.8%
Pre-provisioning profit (%)	-1.7%	34.9%	17.1%	-3.1%	40.7%	31.3%
PAT (%)	-26.9%	104.3%	39.3%	-81.6%	531.5%	33.7%
Balance sheet ratios						
Credit/Deposit (%)	102.2%	101.6%	85.7%	84.0%	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%	68.5%	73.5%	78.0%
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%	21.8%	19.9%	18.6%
CAR - Tier I (%)	24.5%	24.4%	24.0%	21.4%	19.6%	18.4%
Operating efficiency						
Cost/income (%)	66.2%	63.4%	64.5%	68.0%	65.3%	64.4%
Opex/total assets (%)	6.3%	5.8%	5.5%	5.4%	5.7%	6.0%
Opex/total interest earning assets	2.4%	2.6%	2.5%	2.3%	2.7%	3.1%
Profitability						
NIM (%)	8.2%	8.5%	8.0%	6.9%	8.0%	8.7%
RoA (%)	1.0%	1.6%	1.8%	0.3%	1.5%	1.7%
RoE (%)	6.6%	11.1%	13.4%	2.4%	13.2%	15.0%
Asset quality						
Gross NPA (%)	4.1%	2.9%	2.9%	2.9%	2.8%	2.7%
Net NPA (%)	2.5%	1.4%	1.1%	1.0%	0.8%	0.6%
PCR (%)	42.7%	56.8%	63.7%	69.4%	74.5%	78.9%
Credit cost (%)	2.2%	1.6%	1.0%	3.1%	1.2%	1.2%
Per share data / Valuation						
EPS (INR)	2.2	5.2	7.0	1.3	8.2	10.9
BVPS (INR)	34	46	53	54	62	73
ABVPS (INR)	30	43	50	50	59	70
P/E (x)	30.8	13.4	9.8	53.3	8.4	6.3
P/BV (x)	2.0	1.5	1.3	1.3	1.1	0.9
P/ABV (x)	2.3	1.6	1.4	1.4	1.2	1.0

Source: Arianth Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return

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