

Apr 25, 2024

RESULT REPORT Q4 FY24 | Sector: Financials

Equitas Small Finance Bank

Delivering stable profitability

A good quarter

Equitas SFB delivered a sturdy quarter which was characterized by 1) RoA/RoE of 2%/15% adjusted for one-offs/lumpy items (both adverse and beneficial), 2) purposeful LDR correction (from 91.5% to 87%), 2) prudential loan growth (pivoted on better RoA products and avoiding aggression in current rate environment), 3) reasonably strong overall/granular deposits mobilization along with moderated increase in CoF, 4) 20 bps NIM decline which had additional impact of increased balance sheet liquidity, 5) improved traction in processing fees and TPP income and 6) stable asset quality reflected in steady X-bucket CE, SMA pool, core slippages and recurring credit cost. During the quarter, there were additional (one-time) slippages (Rs385mn) and credit cost (Rs150mn) due to NPA classification of loans involving co-borrowers. The quarter also had a net one-off impact of Rs170mn from accounting policy change with respect to ESOPs.

Guidance of 25% growth and stable NIM & RoA for FY25

Focused deposits mobilization through segmented approach, cross-sell and digital/tech platforms, and limited incremental LDR adjustment (envisaged at 85% by Mar'25) underpin management's expectation of delivering around 25% loan growth and a largely stable NIM and RoA in FY25. Management believes that deposit rates have peaked and estimates CoF increase of 10-12 bps over next two quarters. Through the aforesaid deposit strategy, the bank targets to reduce the CoF differential with the large banks to 100-125 bps in the next three years from ~250 bps currently. The bank has also planned an opex outlay of Rs5.2bn over next three years for developing products like PL, Credit Cards, Selfe (Digital) SA & Loans and Forex Services.

Nuanced growth moderation, decreasing CoF increase and steady asset quality

Gross advances growth moderated to 5% qoq/23% yoy with bank calibrating new CV financing and significantly slowing NBFC lending. New products like Merchant OD and Used Car financing continue to scale-up well. Traction also remained strong in SBL and Affordable Housing. In the context of the incremental lending mix/focus, the disbursement yield has further improved in recent quarters. The CoF increased only by 8 bps qoq in Q4 FY24 versus much larger increases seen (15-30 bps) in the preceding 4-5 quarters. The X-bucket CE remains firm across main loan products at 99%+ and 30-90 dpd pool for the bank continues to be moderate at near 3%. Gross NPA addition was stable qoq, and Net NPA addition was much lower due to stronger upgradations and recoveries.

Retain estimates and constructive view

Our earnings and RoE estimates for FY25/26 largely remain unchanged. We estimate earnings/AUM CAGR of 22-25% with RoE reaching near 17% in FY26. Valuation is reasonably attractive at 9x PE and 1.4x P/ABV on FY26 in context of a) resilient RoA delivery in ongoing tough environment, b) bank being a significant beneficiary in a rate cut cycle and c) diversified asset portfolio and better-among-SFBs deposit franchise.

Reco	: BUY
CMP	: Rs 98
Target Price	: Rs 118
Potential Return	: +20.2%

Stock data (as on Apr 24, 2024)

Nifty	22,402
52 Week h/l (Rs)	117 / 68
Market cap (Rs/USD mn)	114140 / 1370
Outstanding Shares (mn)	1,135
6m Avg t/o (Rs mn):	485
Div. yield (%):	1.0
Bloomberg code:	EQUITASB IN
NSE code:	EQUITASBNK

Stock performance



	1M	3M	1Y
Absolute return	5.1%	-8.2%	42.1%

Shareholding pattern (As of Mar-24)

Promoter	0.0%
FII+DII	64.7%
Others	35.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	118	118

Δ in earnings estimates

	FY24	FY25e	FY26e
EPS (New)	7.0	8.3	10.7
EPS (Old)	7.1	8.3	10.7
% Change	-0.8%	-0.3%	0.1%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Op. income	38,784	46,133	56,947
PPOP	13,774	16,847	21,799
Net profit	7,990	9,391	12,155
Growth (%)	39.3	17.5	29.4
EPS (Rs)	7.0	8.3	10.7
ABVPS (Rs)	49.4	55.8	68.1
P/E (x)	13.9	11.8	9.2
P/ABV (x)	2.0	1.8	1.4
ROE (%)	14.4	14.8	16.8
ROA (%)	2.0	1.9	2.0
Tier-1 (%)	20.7	19.5	18.0

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Exhibit 1: Result table

(Rs mn)	Q4 FY24	Q3 FY24	% qoq	Q4 FY23	% yoy
Operating Income	14,447	14,288	1.1	11,557	25.0
Interest expended	(6,588)	(6,437)	2.3	(4,488)	46.8
Net Interest Income	7,859	7,851	0.1	7,070	11.2
Other Income	2,405	2,055	17.0	2,387	0.7
Total Income	10,263	9,906	3.6	9,457	8.5
Operating expenses	(6,516)	(6,303)	3.4	(5,593)	16.5
PPOP	3,748	3,603	4.0	3,864	(3.0)
Provisions	(1,066)	(844)	26.3	(1,256)	(15.1)
PBT	2,682	2,759	(2.8)	2,608	2.8
Tax	(605)	(739)	(18.1)	(707)	(14.4)
Reported PAT	2,076	2,020	2.8	1,900	9.3

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q4 FY24	Q3 FY24	% qoq	Q4 FY23	% yoy
AUM	3,43,360	3,27,760	4.8	2,78,610	23.2
Microfinance	62,650	60,560	3.5	52,250	19.9
SBL/Agri Loans	1,31,520	1,22,850	7.1	1,00,830	30.4
Housing Finance	41,840	38,840	7.7	28,730	45.6
Vehicle Finance	83,240	80,930	2.9	69,710	19.4
MSE Finance	12,010	11,670	2.9	11,750	2.2
NBFC	7,160	8,870	(19.3)	11,840	(39.5)
Others	4,940	4,040	22.3	3,500	41.1
Disbursements	50,950	47,390	7.5	59,170	(13.9)
Microfinance	14,660	13,800	6.2	16,760	(12.5)
SBL/Agri Loans	16,270	14,350	13.4	14,640	11.1
Housing Finance	4,700	4,390	7.1	5,570	(15.6)
Vehicle Finance	12,540	12,380	1.3	15,910	(21.2)
MSE Finance	1,680	1,520	10.5	880	90.9
NBFC	-	-	-	4,250	-
Others	1,100	950	15.8	1,160	(5.2)
Customer Deposits	3,61,290	3,23,850	11.6	2,53,810	42.3
CASA	1,15,520	1,05,930	9.1	1,07,320	7.6
TD	2,45,770	2,17,920	12.8	1,46,490	67.8
Investments	90,653	84,750	7.0	66,646	36.0

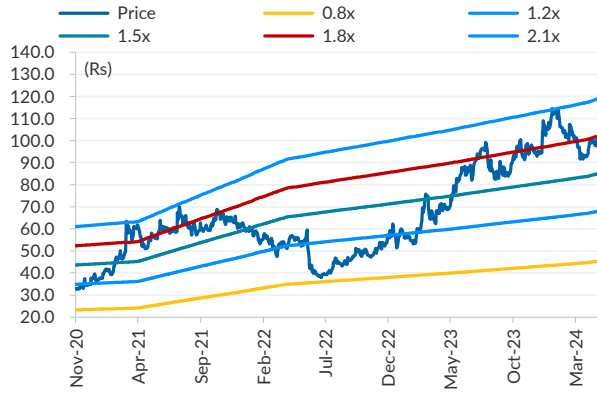
Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q4 FY24	Q3 FY24	chg qoq	Q4 FY23	chg yoy
NIM	8.2	8.4	(0.2)	9.1	(0.9)
Yield on advances	17.0	17.6	(0.6)	17.1	(0.0)
Cost of Funds	7.4	7.4	0.1	6.6	0.8
CASA	32.0	32.7	(0.7)	42.3	(10.3)
Cost to Income	63.5	63.6	(0.1)	59.1	4.3
RoE	14.2	14.4	(0.2)	15.5	(1.3)
RoA	1.9	2.0	(0.1)	2.3	(0.4)
CAR	21.7	20.2	1.5	23.8	(2.1)
Gross NPA	2.6	2.5	0.1	2.8	(0.2)
Net NPA	1.2	1.1	0.0	1.2	(0.0)

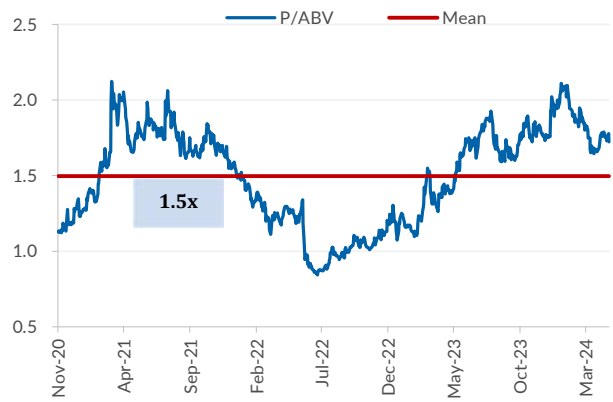
Source: Company, YES Sec

Exhibit 4: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 5: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
Total cash & equivalents	21,325	12,443	35,790	42,874	51,465
Investments	44,498	66,646	90,653	1,08,783	1,30,540
Advances	1,93,742	2,57,986	3,09,643	3,82,487	4,77,838
Total interest-earning assets	2,59,566	3,37,074	4,36,085	5,34,145	6,59,843
Fixed assets	2,004	3,791	6,047	6,047	6,047
Other assets	7,949	8,716	10,906	11,997	13,197
Total assets	2,69,519	3,49,581	4,53,039	5,52,189	6,79,087
Net worth	42,462	51,579	59,687	67,099	77,275
Deposits	1,89,508	2,53,806	3,61,292	4,51,613	5,66,774
Borrowings	26,164	29,738	17,875	17,875	17,875
Total interest-bearing liabilities	2,15,672	2,83,543	3,79,167	4,69,488	5,84,649
Non-interest-bearing liabilities	11,385	14,459	14,184	15,603	17,163
Total liabilities	2,27,057	2,98,002	3,93,352	4,85,091	6,01,812
Equity & Total liabilities	2,69,519	3,49,581	4,53,039	5,52,189	6,79,087

Source: Company, YES Sec

Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	34,597	41,619	54,864	69,147	85,561
Interest expense	(14,211)	(16,172)	(24,066)	(31,880)	(38,808)
Net interest income	20,385	25,447	30,798	37,268	46,752
Non-interest income	5,376	6,696	7,987	8,865	10,195
Total op income	25,761	32,143	38,784	46,133	56,947
Total op expenses	(17,041)	(20,383)	(25,011)	(29,286)	(35,149)
PPoP	8,719	11,760	13,774	16,847	21,799
Provisions	(4,938)	(4,072)	(3,142)	(4,326)	(5,592)
Profit before tax	3,781	7,688	10,631	12,521	16,207
Taxes	(974)	(1,952)	(2,641)	(3,130)	(4,052)
Net profit	2,807	5,736	7,990	9,391	12,155

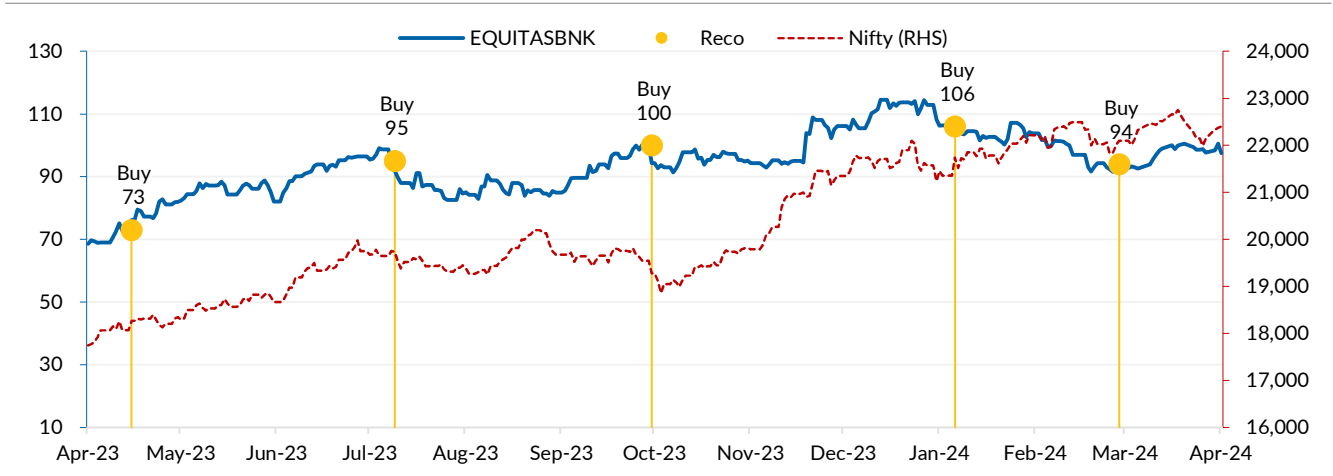
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	13.4	24.8	21.0	21.0	25.5
Total op income	16.2	24.8	20.7	18.9	23.4
Op profit (pre-provision)	(1.7)	34.9	17.1	22.3	29.4
Net profit	(26.9)	104.3	39.3	17.5	29.4
Advances	15.0	33.2	20.0	23.5	24.9
Deposits	15.6	33.9	42.3	25.0	25.5
Total assets	9.0	29.7	29.6	21.9	23.0
Profitability Ratios (%)					
NIM	9.2	9.0	8.5	8.4	8.5
Non-interest income /Total income	20.9	20.8	20.6	19.2	17.9
Return on Equity	7.3	12.2	14.4	14.8	16.8
Return on Assets	1.1	1.9	2.0	1.9	2.0
Per share ratios (Rs)					
EPS	2.2	5.2	7.0	8.3	10.7
Adj. BVPS	30.1	43.6	49.4	55.8	68.1
Other key ratios (%)					
Cost/Income	66.2	63.4	64.5	63.5	61.7
Tier-I capital	24.5	23.1	20.7	19.5	18.0
Gross NPLs/Loans	4.2	2.8	2.6	2.6	2.6
Net NPLs/Net loans	2.5	1.2	1.2	1.0	1.0
Tax rate	25.8	25.4	24.8	25.0	25.0

Source: Company, YES Sec

Recommendation Tracker



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