

Growth Momentum Intact; Leadership Transition Clouds Near-Term Outlook

 Est. Vs. Actual for Q2FY27: NII – **MISS**; PPOP – **MISS**; PAT – **BEAT**

Changes in Estimates post Q2FY27

FY27E/FY28E/FY29E (in %): NII: 1.7/1.2/0.7; PPOP: 2.4/0.4/-2.2; PAT: 11.5/3.1/-1.1

Recommendation Rationale

- **MD & CEO Resigns; Leadership Transition Raises Near-Term Uncertainty:** EQSFB's MD & CEO P N Vasudevan's decision to step down as MD & CEO introduces a near-term leadership transition overhang at a time when EQSFB is demonstrating improving business momentum, stronger asset quality and better profitability. Management clarified that the resignation was driven by persistent investor concerns around the perception of a conflict of interest arising from his family's investments in an NBFC, rather than any regulatory or legal impediment. He clarified that there was no regulatory nudge to his decision to step down. **The board has initiated the process to identify a suitable successor, with both internal and external candidates under consideration.** The board expects the transition process to be completed in 3-4 months, with the candidate-selection process itself expected to take <1 month. Mr Vasudevan will continue to discharge his responsibilities until his successor takes over, providing continuity during the interim period. **With Mr Vasudevan's association with the bank since its inception, his departure creates a near-term overhang regarding leadership transition.**
- **Excess Liquidity Drives Near-Term Compression; H2 Recovery Expected:** In Q2, EQSFB's margins declined sharply by 33bps QoQ, reflecting the combined impact of excess liquidity and higher CoF even as yields remained stable. The bank had proactively strengthened its funding profile through deposit mobilisation, refinance borrowings, securitisation and direct assignment transactions, alongside a Tier II capital raise resulting in temporarily higher liquidity. **Going into H2, management expects margins to recover 18-20bps by Q4 vs Q2 levels as the excess liquidity gets deployed. Over the medium term, the bank is working towards a sustainable NIM of ~7% over the next two years.** However, management expects a further 8-10 bps increase over the next 2-3 quarters as existing deposits mature and reprice. While the bank has already raised SA and TD rates ahead of the recent repo rate increase, EQSFB does not plan another immediate rate revision at present and will assess the transmission of rates based on future rate hikes. **While we expect some near-term recovery in margins as surplus liquidity gets deployed, a largely fixed book limits meaningful yield improvement going ahead. We expect NIMs to settle at 6.8-6.9% over FY27-29E.**

Sector Outlook: Positive

Company Outlook: EQSFB's diversified lending franchise and strong demand across segments provide visibility on sustained growth. The improvement in asset quality, supported by healthy MFI CE and limited exposure to drought-affected regions, should support healthy asset quality metrics, thereby keeping credit costs contained. Near-term margin pressures should ease as surplus liquidity gets deployed and improve by 18-20bps by exit-FY27. Management's focus on branch productivity and cross-selling should support operating leverage, thereby driving the C-A Ratio lower over the medium term, eventually aiding RoA improvement to 1.5% by FY29E. The MD CEO's resignation and the consequent leadership transition remain a near-term overhang on the stock. This could also potentially delay the application for the Universal Banking License. Appointment of a credible successor will be important to sustain strategic continuity and investor confidence.

Current Valuation: 1.0x Sep'28E ABV Earlier Valuation: 1.4x FY28E ABV

Current TP: Rs 74/share Earlier TP: Rs 93/share

Recommendation: We maintain our BUY recommendation

Alternative BUY Ideas from our Sector Coverage:

AUSFB (TP – Rs 1,180); Ujjivan SFB (TP – Rs 86)

Financial Performance:

- **Operational Performance:** EQSFB's disbursements growth improved to 39/10% YoY/QoQ, primarily led by non-MFI disbursements (+31/13% YoY/QoQ). Advances growth improved to 30/6% YoY/QoQ, led by healthy growth in the MFI segment (+87/5% YoY/QoQ) and continued growth in non-MFI segments (+24/7% YoY/QoQ). Deposits growth was robust, up 19/7% YoY/QoQ, led by TDs, which rose 28/6% YoY/QoQ. CASA deposits grew by -1/10% YoY/QoQ. CASA ratio improved from 25.7% vs 30.9/25.1% YoY/QoQ.

- **Financial Performance:** NII growth was healthy at 31% YoY, flat QoQ. However, NIM contracted by 33bps QoQ to 6.74%. Non-interest income grew by 27/14% YoY/QoQ, primarily driven by strong fee income (+17/16% QoQ). Opex growth was at 20/4% YoY/QoQ, with C-I ratio at 69.5% vs 68.6% QoQ. PPOP grew by 67/-1% YoY/QoQ. Credit costs improved meaningfully to 94bps vs 137bps QoQ. PAT grew by 801/19% YoY/QoQ.

- **Asset Quality** improved with GNPA/NNPA at 2.29/0.70% vs 2.42/0.71% QoQ. Slippages were higher QoQ, with the slippage ratio at 3.8% vs 3.4% QoQ, mainly due to higher non-MFI slippages.

Key Financials (Standalone)

(Rs Cr)	Q2FY27	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	1030	5.0	31.0	1003	2.7
PPOP	405	0.6	28.6	367	10.2
Net Profit	184	-13.7	-182.1	162	13.6
NNPA (%)	0.7	-1 bps	-24 bps	0.7	1 bps
RoA (%)	1.2	-29 bps	285 bps	1.1	12 bps

Source: Company, Axis Securities Research

 (CMP as of 29th October, 2026)

CMP (Rs)	57.2
Upside /Downside (%)	29%
High/Low (Rs)	83.9/51.3
Market cap (Cr)	6,541
Avg. daily vol. (6m) Shrs.	42,55,121
No. of shares (Cr)	114.4

Shareholding (%)

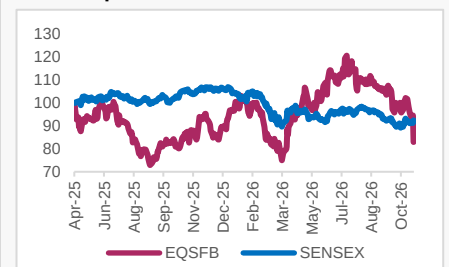
	Mar-26	Jun-26	Sep-26
Promoter	0.0	0.0	0.0
FII's	14.7	15.7	15.4
MF's / UTI	45.2	45.6	45.6
Others	40.1	38.7	39.0

Financial & Valuations

Y/E Mar (Rs Cr)	FY27E	FY28E	FY29E
NII	4,334	5,193	6,284
PPOP	1,817	2,287	2,943
Net Profit	896	1,096	1,455
EPS (Rs)	7.9	9.6	12.8
ABV (Rs)	58.7	67.7	79.6
P/ABV (x)	1.0	0.8	0.7
RoA (%)	1.3	1.3	1.5
NNPA (%)	0.6	0.6	0.6

Change in Estimates (%)

Y/E Mar	FY27E	FY28E	FY29E
NII	1.7	1.2	0.7
PPOP	2.4	0.4	-2.2
PAT	11.5	3.1	-1.1

Relative performance


Source: Ace Equity, Axis Securities

Results Gallery
[Q1FY27](#)
[Q4FY26](#)
[Q3FY26](#)
[Q2FY26](#)
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Key Takeaways

- **Diversified Lending Franchise Drives Strong Momentum:** EQSFB's strong credit growth momentum was broad-based and reflected healthy demand trends across segments. **Management expects growth momentum to sustain going into H2 and has guided for advances growth of 25+% in FY27, with growth remaining buoyant across segments.**
- **Retail Mobilisation Gains Traction, CoF Remain a Headwind:** EQSFB's deposit growth momentum picked up after 2-3 quarters of subdued growth. The bank is strengthening its retail franchise through differentiated SA and TD propositions, relationship-led acquisition and a greater focus on affluent customers. The bank is also leveraging its NRI franchise and digital initiatives to broaden its funding base. Management indicated that ~92% of bulk term deposits were non-callable, providing greater visibility on funding stability. EQSFB mobilised \$110 Mn under the FCNR(B) scheme, taking the total FCNR(B) book to \$138 Mn. The mobilisation was spread across 4,000 customers from 150 countries, indicating a granular customer base.
- **Early Signs of Operating Leverage as the Franchise Scales:** EQSFB's opex growth of +20/4% YoY/QoQ reflected the expansion in business volumes and the continued scaling up of the bank's franchise. Despite this, EQSFB's C-A Ratio improved sequentially to 5.5% from 5.6%. Management highlighted that only 3 asset branches had been added (YoY), with growth increasingly being driven by improved productivity and deeper product penetration across the existing network. Focus remains on improving productivity of the existing branch network and strengthening product distribution across the existing network. The bank has extended gold-loan sourcing capabilities to select asset branches in 60 locations and intends to scale it up to 90. EQSFB is also using its liability branches to cross-sell asset products. This initiative is being expanded to 50 branches by Q3 vs 20 branches at present. This approach should support incremental business generation while limiting the need for commensurate growth in the distribution network.
- **Asset Quality Improves and Remains Comfortable:** In Q2, GNPA/NNPA improved sequentially to 2.29%/0.70%, while net slippages moderated to 1.39% vs 1.43% QoQ. The improvement in credit costs (94bps) was owing to an ARC sale of Rs 110 Cr; barring which, credit costs would have been 112bps, still lower QoQ. The improvement is supported by stable collection performance in the MFI portfolio and continued discipline in the non-MFI businesses. Collection efficiency (CE) in MFI remained strong at ~99.6%, with gross/net slippages declining to 2.57/2.10%, respectively, vs 3.09/2.49% in Q1. Management is monitoring weather-related risks in parts of Maharashtra (MH) and Karnataka (KA), where rainfall deficiency and isolated instances of political intervention (in MH) could affect MFI collections. However, **MFI exposure to the identified drought-affected regions is limited to 2.9% of total advances, and the bank has not observed any material deterioration in collection trends through Oct'26.**

In the VF segment, the bank has reduced exposure to the HCV segment and shifted its focus towards better-profile customers. While some limited stress was noted among certain customers in Rajasthan's cement-linked segments, management indicated that portfolio performance was better YoY. **Management expects a marginal increase in credit costs followed by stabilisation towards H2.**

- **FY27 RoA Guidance Raised:** EQSFB reported strong earnings growth in H1, supported by lower credit costs and a lower C-A Ratio, despite temporary margin pressures. Management has raised its FY27 RoA guidance to ~1% vs 1% earlier, citing the expected recovery in NIM as surplus liquidity is deployed, normalisation in credit costs, which should continue to remain contained, and a continued reduction in the C-A Ratio. Over the longer term, management is targeting an average RoA of ~2% over the next 2-4 years and indicated that this level could be reached as early as FY28.

Company Guidance and Outlook

EQSFB expects to grow advances by 25+% in FY27 driven by growth across products, with MFI mix capped at 10% of overall advances. Cost-to-income ratio is expected to moderate further in H2FY27, driven by operating leverage with growth in advances. Going forward, credit costs are expected to normalise. With these positive levers in place, the bank expects to achieve an exit RoA of ~1.5% in Q4FY27. For full year FY27, the management has revised its RoA guidance upwards to 1.35% vs 1.2% earlier. We expect growth momentum to improve going ahead. While margin pressures are expected to ease as surplus liquidity gets deployed, we expect largely range-bound margin movement over the medium term, with a largely fixed book limiting the benefits of the rate hike. We broadly maintain our NII estimates over FY27-29E with a minor tweak. However, improving operational performance driven by improved productivity and contained credit costs should drive earnings growth. We revise our PAT estimates upwards by 3-12% over FY27-28E, while broadly maintaining our FY29 estimates. **We expect EQSFB to deliver a Credit/Deposits/NII growth of 22/22/23% CAGR over FY26-29E, with earnings witnessing a sharp rebound. We expect RoA to recover to 1.3-1.5% over FY27-29E vs 0.2% in FY26.**

Valuation & Recommendation

A steady improvement in RoA and consistent performance on asset quality remain key re-rating drivers for the bank. However, with the current MD CEO stepping down, leadership overhang will weigh on near-term performance. **We maintain our BUY recommendation on the stock, backed by reasonable valuations for RoA improvement to 1.5% by FY29E.** We value EQSFB at 1.0x Sep'28E ABV (vs. current valuations of 0.8x Sep'28E ABV) to arrive at a target price of Rs 74/share, implying a 29% upside from the CMP.

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit growth, which could potentially derail our earnings estimates.
- Asset quality concerns cropping up from the new businesses remain a risk to our earnings estimates

Change in Estimates

	Revised			Old			% Change		
	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
NII	4,334	5,193	6,284	4,261	5,129	6,241	1.7	1.2	0.7
PBP	1,817	2,287	2,943	1,775	2,277	3,009	2.4	0.4	-2.2
Provisions	623	826	1,003	703	859	1,047	-11.4	-3.9	-4.3
PAT	896	1,096	1,455	803	1,063	1,471	11.5	3.1	-1.1

Source: Company, Axis Securities Research

Results Review (Standalone)

Rs Cr	Q2FY27	Q2FY26	% YoY	Q1FY27	% QoQ	H1FY27	H1FY26	% YoY
Net Interest Income	1,026	774	32.6	1,030	-0.4	2,055	1,559	31.8
Non-Interest Income	292	229	27.3	255	14.3	547	521	5.0
Operating expenses	915	762	20.1	880	4.0	1,795	1,525	17.7
Staff Cost	546	474	15.3	549	-0.5	1,095	934	17.3
Pre-provision profits	402	241	67.2	405	-0.6	807	555	45.3
Provisions and contingencies	115	207	-44.5	161	-28.4	276	819	-66.4
PBT	287	34	755.4	244	17.7	531	-264	-301.4
Provision for Tax	69	9	637.5	60	14.7	130	-64	-301.8
PAT	218	24	801.2	184	18.8	402	-200	-301.3
Business Update								
Disbursements	7,450	5,380	38.5	6,784	9.8	14,234	8,893	60.1
AUM	50,694	39,123	29.6	47,640	6.4	50,694	39,123	29.6
MFI	6,331	3,392	86.6	6,018	5.2	6,331	3,392	86.6
Vehicle Finance	11,330	9,801	15.6	10,946	3.5	11,330	9,801	15.6
SBL	19,966	17,188	16.2	19,249	3.7	19,966	17,188	16.2
MSE	2,563	1,851	38.5	2,176	17.8	2,563	1,851	38.5
NBFC	2,213	1,085	104.0	1,778	24.5	2,213	1,085	104.0
Affordable Housing	6,422	5,066	26.8	6,044	6.3	6,422	5,066	26.8
Others	654	333	96.4	450	45.3	654	333	96.4
Operational Metrics								
Cost-Income ratio (%)	69.5	76.0	-655bps	68.5	96bps	69.0	73.4	-442bps
Yields on Advances (%)	15.8	15.7	7bps	15.9	-6bps	15.8	15.9	-6bps
Cost of Deposits (%)	7.1	7.4	-23bps	7.1	7bps	7.1	7.4	-33bps
Cost of Funds (%)	7.1	7.4	-23bps	7.1	7bps	7.1	7.4	-33bps
NIMS (%)	6.7	6.3	45bps	7.1	-33bps	6.9	6.4	48bps
Asset Quality								
Gross NPA (%)	2.3	2.8	-53bps	2.4	-13bps	2.3	2.8	-53bps
Net NPA (%)	0.7	1.0	-25bps	0.7	-1bps	0.7	1.0	-25bps
PCR (%)	70.1	66.9	316bps	71.0	-93bps	70.1	66.9	316bps
Slippages (Rs. Cr.)	464.9	599.0	-22.4	400.0	16.2	864.9	1262.9	-31.5
Slippage Ratio (%)	3.8	6.2	-246bps	3.4	37bps	3.6	6.6	-304bps
Capital Adequacy								
CRAR	20.9	20.7	18bps	19.4	148bps	20.9	20.7	18bps
Tier I	16.4	16.4	-9bps	16.0	34bps	16.4	16.4	-9bps
Tier II	4.6	4.3	27bps	3.4	114bps	4.6	4.3	27bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY26	FY27E	FY28E	FY29E
Net Interest Income	3,391	4,334	5,193	6,284
Non-Interest Income	1,074	1,261	1,483	1,763
Total Income	4,465	5,595	6,676	8,047
Operating Expenses	3,200	3,778	4,389	5,105
Pre-Provision Profits	1,265	1,817	2,287	2,943
Provisions	1,137	623	826	1,003
PBT	128	1,194	1,461	1,940
Tax	25	299	365	485
Profit After Tax	103	896	1,096	1,455

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY26	FY27E	FY28E	FY29E
SOURCES OF FUNDS				
Equity Share Capital	1,141	1,141	1,141	1,141
Reserves & Surplus	4,984	5,880	6,975	8,430
Net Worth	6,125	7,021	8,116	9,571
Deposits	46,533	57,947	70,093	84,649
Borrowings	5,773	7,107	8,855	11,049
Other Liabilities	2,180	2,689	3,248	3,927
Total Liabilities	60,610	74,764	90,312	1,09,197
APPLICATION OF FUNDS				
Cash & Bank balances	5,666	5,781	6,292	7,599
Investments	10,149	13,334	16,128	19,478
Loans	42,751	53,128	64,846	78,438
Fixed Assets & Others	2,044	2,521	3,046	3,682
Total Assets	60,610	74,764	90,312	1,09,197

Source: Company, Axis Securities Research

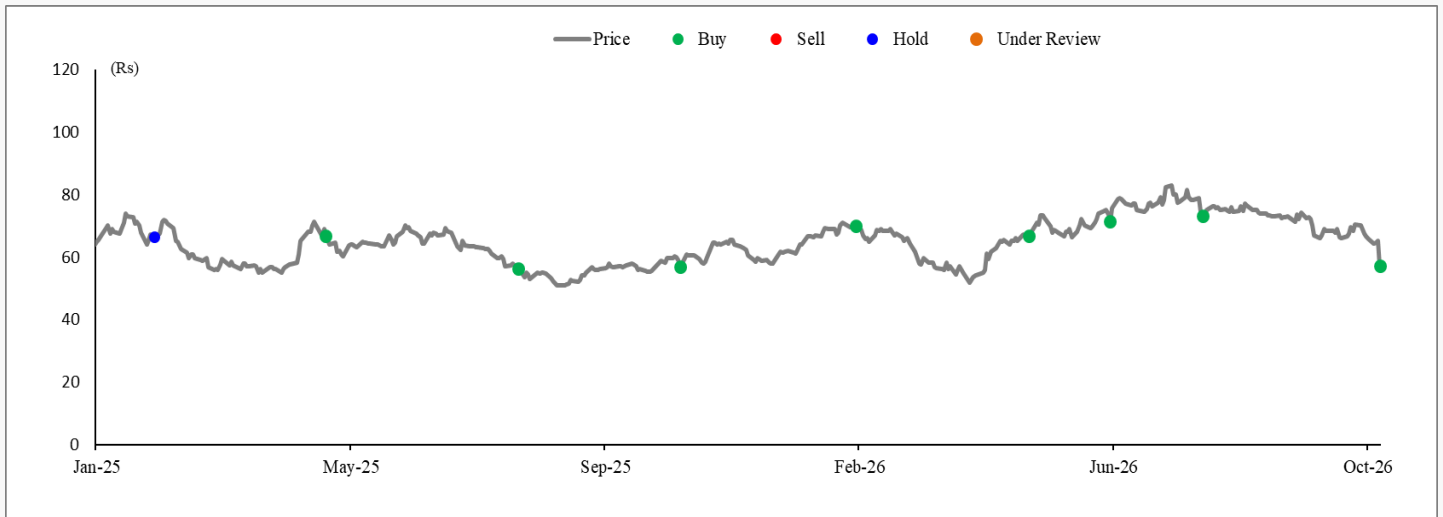
Ratio Analysis

(%)

Y/E March	FY26	FY27E	FY28E	FY29E
VALUATION RATIOS				
EPS	0.9	7.9	9.6	12.8
Earnings Growth (%)	-30.0	769.0	22.3	32.8
BVPS	53.7	61.5	71.1	83.9
Adj. BVPS	51.0	58.7	67.7	79.6
RoA (%)	0.2	1.3	1.3	1.5
ROAE (%)	1.7	13.6	14.5	16.5
P/E (x)	63.3	7.3	6.0	4.5
P/ABV (x)	1.1	1.0	0.8	0.7
OPERATING EFFICIENCY				
NIM (%)	6.7	6.9	6.8	6.8
Cost/Avg. Asset Ratio (%)	5.6	5.6	5.3	5.1
Cost-Income Ratio (%)	71.7	67.5	65.7	63.4
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	21.5	23.7	22.1	21.0
Deposits Growth (%)	7.9	24.5	21.0	20.8
C-D Ratio (%)	91.9	91.7	92.5	92.7
Equity/Assets (%)	10.1	9.4	9.0	8.8
Equity/Loans (%)	14.3	13.2	12.5	12.2
Total Capital Adequacy Ratio (CAR)	20.3	18.5	17.2	16.7
Tier I (%)	16.7	15.0	13.9	13.5
ASSET QUALITY				
Gross NPLs (%)	2.6	2.1	2.0	2.1
Net NPLs (%)	0.7	0.6	0.6	0.6
Coverage Ratio (%)	73.0	71.0	71.1	71.2
Provision/Avg. AUM (%)	2.9	1.3	1.4	1.4
ROAA TREE (on Total Assets)				
Net Interest Income	6.0	6.4	6.3	6.3
Non-Interest Income	1.9	1.9	1.8	1.8
Operating Cost	5.6	5.6	5.3	5.1
Provisions	2.0	0.9	1.0	1.0
Tax	0.0	0.4	0.4	0.5
ROAA	0.2	1.3	1.3	1.5
Leverage (x)	9.3	10.3	10.9	11.3
ROAE	1.7	13.6	14.5	16.5

Source: Company, Axis Securities Research

Equitas Small Finance Bank Price Chart and Recommendation History



Date	Reco	TP	Research
01-Feb-25	HOLD	72	Result Update
02-May-25	BUY	76	Result Update
11-Aug-25	BUY	69	Result Update
03-Nov-25	BUY	69	Result Update
01-Feb-26	BUY	85	Result Update
04-May-26	BUY	86	Result Update
30-Jul-26	BUY	93	Result Update
30-Oct-26	BUY	74	Result Update

Source: Axis Securities Research

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HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning a valuation and recommendation.
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