

# Equitas Small Finance Bank

## Near-term uncertainty on asset quality

### A quarter of higher slippages, softer growth, and one-time PCR augmentation

Equitas SFB's earnings performance in Q1 FY25 was impacted by 1) creation of Rs1.8bn Floating Provision to increase PCR to 70%, 2) persistent elevated slippages in MFI and increased slippages in VF portfolio and 3) sequential contraction in MFI book and deceleration of growth in AHL and VF portfolios. Overall growth in the bank's loan portfolio moderated to 1.6% qoq/17.8% yoy with disbursements declining by 21% qoq/15% yoy. Business activity was somewhat impacted by heatwave/elections and the dip in collections. Gross slippage rate for Q1 FY25 was higher than Q4 FY24 at 4.5%, and the 30-90 dpd pool rose from 3% to 3.9%. Hence, the credit cost was higher at 1.44% (vs earlier guidance of 1.25%) without considering the augmentation of PCR. NII growth was slightly better-than-expectations with the loan book yield improving on the back of higher disbursements yield in non-MFI segments.

### Management reasonably confident on growth, but watchful of MFI asset quality and overall credit cost

While July X-bucket CE in MFI segment was similar to June, the bank is hopeful of recovery taking shape in coming quarters. It is also of the view that VF delinquency flows and NPL resolutions would improve. Hence, gross slippage rate is expected to abate and GNPL level is estimated to stabilize in H2 FY25. The credit cost range for the year is being reassessed by the management in the wake of some uncertainty over MFI collection trends. The PCR would be maintained at 70% in the future and the NNPLs at below 1%. Disbursements/sequential growth in SBL, AHL and VF is expected to accelerate through the remainder of the year, while MFI disbursements are expected to moderately pick-up only in the second half of the year. Bank is reasonably confident about achieving 25% loan growth expecting much higher growth in non-MFI products.

### Earnings cut has been significant; valuation recovery could be slow - downgrade to ADD

Our earnings cut of 32%/12% for FY25/26 has been a function of 1) PCR augmentation provision incurred in Q1 FY25 2) expectations of elevated slippages and credit cost even in Q2 FY25, 3) higher provisioning rate for incremental slippages, 4) calibration of growth estimate for current year due to meek start and MFI issues, and 5) somewhat detrimental impact on near-term margins from declining MFI share in overall loans. In FY26, which can be a usual year and may see a margin recovery, we estimate RoA/RoE at 1.8%/15.5%. While valuation is undemanding at 1.4x FY26 P/ABV on revised figures, the recovery in valuation could be slow and hinged on Q2 FY25 performance being better than current expectations. Downgrade the stock to Hold with lowered 12m PT of Rs103.

#### Exhibit 1: Result table

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total Operating Income	15,010	14,447	3.9	12,540	19.7
Interest expended	(6,995)	(6,588)	6.2	(5,108)	36.9
Net Interest Income	8,015	7,859	2.0	7,431	7.9
Other Income	2,087	2,405	(13.2)	1,714	21.8
Total Income	10,102	10,263	(1.6)	9,145	10.5
Operating expenses	(6,698)	(6,516)	2.8	(6,024)	11.2
PPoP	3,404	3,748	(9.2)	3,121	9.1
Provisions	(3,046)	(1,066)	185.8	(601)	407.2
PBT	358	2,682	(86.7)	2,521	(85.8)
Tax	(100)	(605)	(83.5)	(609)	(83.6)
PAT	258	2,076	(87.6)	1,912	(86.5)

Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 87
Target Price	: Rs 103
Potential Return	: +17.8%

#### Stock data (as on July 26, 2024)

Nifty	24,835
52 Week h/l (Rs)	117 / 82
Market cap (Rs/USD mn)	100730 / 1203
Outstanding Shares (mn)	1,137
6m Avg t/o (Rs mn):	424
Div. yield (%):	1.0
Bloomberg code:	EQUITASB IN
NSE code:	EQUITASBNK

#### Stock performance



	1M	3M	1Y
Absolute return	-11.5%	-12.0%	-12.3%

#### Shareholding pattern (As of Mar-24)

Promoter	0.0%
FII+DII	64.7%
Others	35.3%

#### Δ in stance

(1-Yr)	New	Old
Rating	ADD	BUY
Target Price	103	118

#### Δ in earnings estimates

	FY24	FY25e	FY26e
EPS (New)	7.0	5.6	9.4
EPS (Old)	7.0	8.3	10.7
% Change	-	-32.5%	-12.5%

#### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Op. income	38,784	43,808	54,439
PPOP	13,774	15,159	19,859
Net profit	7,990	6,362	10,622
Growth (%)	39.3	(20.4)	67.0
EPS (Rs)	7.0	5.6	9.4
ABVPS (Rs)	49.4	53.6	64.1
P/E (x)	12.4	15.5	9.3
P/ABV (x)	1.8	1.6	1.4
ROE (%)	14.4	10.3	15.5
ROA (%)	2.0	1.3	1.8
Tier-1 (%)	20.7	18.9	17.1

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MANUJ OBEROI, Associate

## Exhibit 2: Business Data

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
<b>AUM</b>	3,48,710	3,43,360	1.6	2,96,010	17.8
Microfinance	59,730	62,650	(4.7)	56,260	6.2
SBL/Agri Loans	1,37,470	1,31,520	4.5	1,07,870	27.4
Housing Finance	43,420	41,840	3.8	32,060	35.4
Vehicle Finance	84,720	83,240	1.8	73,420	15.4
MSE Finance	12,350	12,010	2.8	10,930	13.0
NBFC	6,430	7,160	(10.2)	11,780	(45.4)
Others	4,590	4,940	(7.1)	3,690	24.4
<b>Disbursements</b>	40,280	50,950	(20.9)	47,580	(15.3)
Microfinance	10,350	14,660	(29.4)	14,640	(29.3)
SBL/Agri Loans	13,050	16,270	(19.8)	13,610	(4.1)
Housing Finance	3,170	4,700	(32.6)	4,380	(27.6)
Vehicle Finance	10,610	12,540	(15.4)	11,690	(9.2)
MSE Finance	1,210	1,680	(28.0)	910	33.0
NBFC	650	-	-	1,350	(51.9)
Others	1,240	1,100	12.7	1,000	24.0
<b>Customer Deposits</b>	3,75,240	3,61,290	3.9	2,77,090	35.4
CASA	1,17,240	1,15,520	1.5	1,06,420	10.2
TD	2,58,000	2,45,770	5.0	1,70,670	51.2
Investments	94,920	90,653	4.7	71,910	32.0

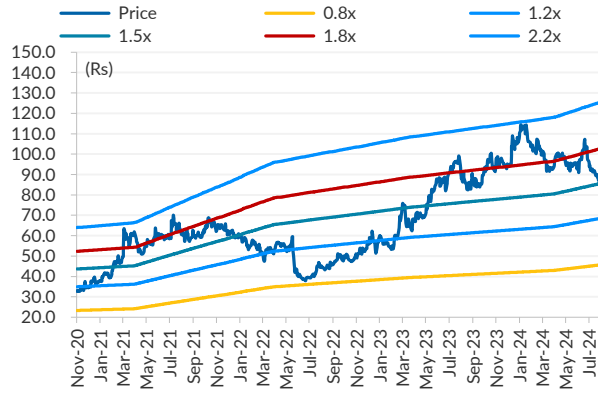
Source: Company, YES Sec

## Exhibit 3: Key Ratios

(%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
NIM	8.0	8.2	(0.2)	8.8	(0.8)
Yield on advances	16.5	17.0	(0.6)	16.3	0.1
Cost of Funds	7.5	7.4	0.0	6.9	0.5
CASA	31.2	32.0	(0.7)	38.4	(7.2)
Cost to Income	66.3	63.5	2.8	65.9	0.4
RoE	1.7	14.2	(12.5)	14.5	(12.8)
RoA	0.2	1.9	(1.7)	2.1	(1.9)
CAR	20.6	21.7	(1.2)	22.1	(1.5)
Gross NPA	2.7	2.6	0.1	2.8	(0.0)
Net NPA	0.8	1.2	(0.3)	1.2	(0.4)

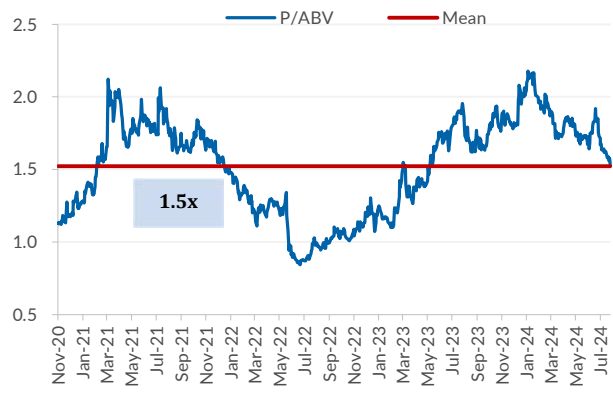
Source: Company, YES Sec

**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	41,839	46,838
Investments	44,498	66,646	90,653	1,08,783	1,30,540
Advances	1,93,742	2,57,986	3,09,643	3,76,919	4,71,243
<b>Total interest-earning assets</b>	<b>2,59,566</b>	<b>3,37,074</b>	<b>4,36,085</b>	<b>5,27,542</b>	<b>6,48,620</b>
Fixed assets	2,004	3,791	6,047	6,047	6,047
Other assets	7,949	8,716	10,906	11,997	13,197
<b>Total assets</b>	<b>2,69,519</b>	<b>3,49,581</b>	<b>4,53,039</b>	<b>5,45,586</b>	<b>6,67,864</b>
<b>Net worth</b>	<b>42,462</b>	<b>51,579</b>	<b>59,687</b>	<b>64,070</b>	<b>72,713</b>
Deposits	1,89,508	2,53,806	3,61,292	4,51,613	5,62,258
Borrowings	26,164	29,738	17,875	14,300	15,730
<b>Total interest-bearing liabilities</b>	<b>2,15,672</b>	<b>2,83,543</b>	<b>3,79,167</b>	<b>4,65,913</b>	<b>5,77,988</b>
Non-interest-bearing liabilities	11,385	14,459	14,184	15,603	17,163
<b>Total liabilities</b>	<b>2,27,057</b>	<b>2,98,002</b>	<b>3,93,352</b>	<b>4,81,516</b>	<b>5,95,151</b>
<b>Equity &amp; Total liabilities</b>	<b>2,69,519</b>	<b>3,49,581</b>	<b>4,53,039</b>	<b>5,45,586</b>	<b>6,67,864</b>

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	65,947	80,128
Interest expense	(14,211)	(16,172)	(24,066)	(31,323)	(36,344)
<b>Net interest income</b>	<b>20,385</b>	<b>25,447</b>	<b>30,798</b>	<b>34,624</b>	<b>43,785</b>
Non-interest income	5,376	6,696	7,987	9,185	10,654
<b>Total op income</b>	<b>25,761</b>	<b>32,143</b>	<b>38,784</b>	<b>43,808</b>	<b>54,439</b>
<b>Total op expenses</b>	<b>(17,041)</b>	<b>(20,383)</b>	<b>(25,011)</b>	<b>(28,649)</b>	<b>(34,580)</b>
<b>PPoP</b>	<b>8,719</b>	<b>11,760</b>	<b>13,774</b>	<b>15,159</b>	<b>19,859</b>
Provisions	(4,938)	(4,072)	(3,142)	(6,694)	(5,725)
Profit before tax	3,781	7,688	10,631	8,465	14,134
Taxes	(974)	(1,952)	(2,641)	(2,103)	(3,512)
<b>Net profit</b>	<b>2,807</b>	<b>5,736</b>	<b>7,990</b>	<b>6,362</b>	<b>10,622</b>

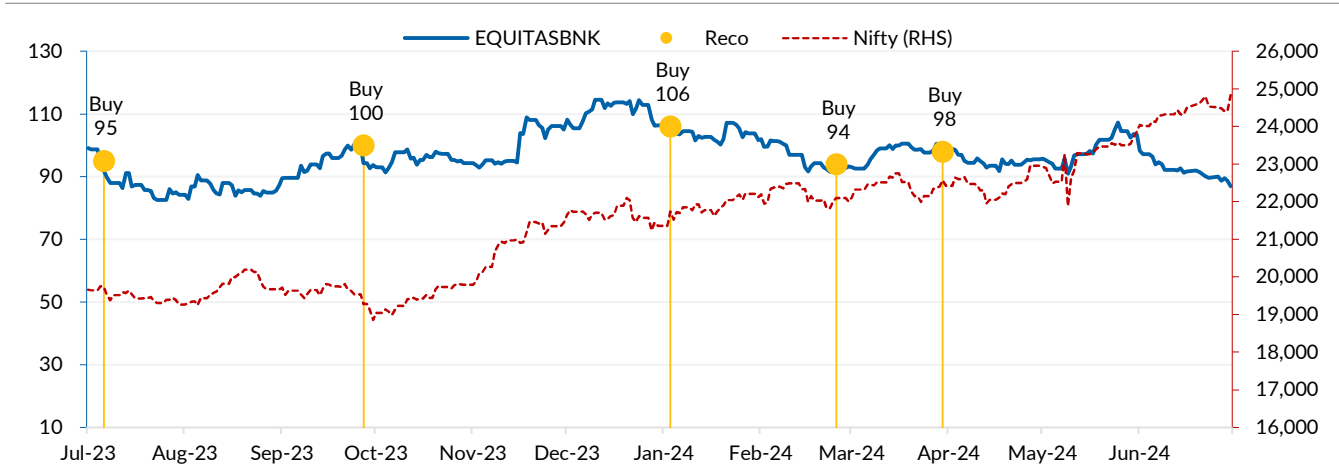
Source: Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	13.4	24.8	21.0	12.4	26.5
Total op income	16.2	24.8	20.7	13.0	24.3
Op profit (pre-provision)	(1.7)	34.9	17.1	10.1	31.0
Net profit	(26.9)	104.3	39.3	(20.4)	67.0
Advances	15.0	33.2	20.0	21.7	25.0
Deposits	15.6	33.9	42.3	25.0	24.5
Total assets	9.0	29.7	29.6	20.4	22.4
<b>Profitability Ratios (%)</b>					
NIM	9.2	9.0	8.5	7.8	8.1
Non-interest income /Total income	20.9	20.8	20.6	21.0	19.6
Return on Equity	7.3	12.2	14.4	10.3	15.5
Return on Assets	1.1	1.9	2.0	1.3	1.8
<b>Per share ratios (Rs)</b>					
EPS	2.2	5.2	7.0	5.6	9.4
Adj. BVPS	30.1	43.6	49.4	53.6	64.1
<b>Other key ratios (%)</b>					
Cost/Income	66.2	63.4	64.5	65.4	63.5
Tier-I capital	24.5	23.1	20.7	18.9	17.1
Gross NPLs/Loans	4.2	2.8	2.6	2.9	2.6
Net NPLs/Net loans	2.5	1.2	1.2	0.9	0.8
Tax rate	25.8	25.4	24.8	24.8	24.8

Source: Company, YES Sec

## Recommendation Tracker



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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

Analyst signature

Analyst signature

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSIL") is a wholly owned subsidiary of YES BANK LIMITED. YSIL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSIL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSIL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSIL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSIL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSIL by SEBI/Stock Exchanges.