

Equitas Small Finance Bank | BUY



Steady quarter; growth momentum continues

Equitas SFB reported a core PPOP of INR 3.3bn (+36% YoY, +6% QoQ) on account of strong credit growth across segments (AUM growth +37% YoY, +6% QoQ) and controlled opex (+2% QoQ, +20% YoY). NIMs declined to 8.43% (-33bps QoQ) on account of majority of deposits being repriced in 2Q24 and management maintained its NIM guidance of 8.5% for FY24E. AUM stood at INR 312bn (+37% YoY/+6% QoQ) led by vehicle finance, small business loans and affordable housing loans. Deposit growth remains strong (+42% YoY) with CASA at 34% (-380bps QoQ) due to increase in contribution in TD (82% vs 20% QoQ). Equitas SFB sold INR 1620mn of NPA assets to ARC during 2Q24 for a consideration of INR 1180mn resulting in decline in GNPA/NNPA to 2.27%/0.97% (-49bps/ -21bps QoQ); PCR stood at 58% in 2Q24. We build avg. credit costs of 110-120bps over FY24-25E. We maintain BUY on the stock given its continued growth momentum, diversified asset portfolio and operating leverage. We see Equitas SFB achieving RoAs/RoEs of 2.35%/18.5%. Maintain BUY with a TP of INR 115 valuing the stock at 1.9x P/B FY25E.

- Healthy loan growth; in-line operational performance:** Overall AUM growth stood at +37% YoY/+6% QoQ on the back of healthy disbursements (+29% YoY,+4.3% QoQ). AUM growth was broad based led by vehicle finance (+38% YoY,+6% QoQ), small business loans (+32% YoY,+7% QoQ) and housing finance (+69% YoY,+12% QoQ); whereas MFI witnessed moderation (+42% YoY,+5% QoQ) and MSE finance witnessed contraction (-10% YoY, -5% QoQ). Deposits growth stood at +42% YoY/+11% QoQ aided by momentum in term deposits (+20% QoQ) while CASA declined to 34% (-480bps QoQ). NIMs stood at 8.43% (-33bps QoQ) on account of majority of deposits being repriced in 2Q24. Mgmt. maintained NIMs guidance of 8.5% for FY24E on the back of asset side repricing setting off increase in funding costs. We build an AUM CAGR of 23-28% over FY24-25E. Operating profit stood at INR 3.3bn (+36% YoY, 5.8% QoQ) supported by steady NII growth (26% YoY, 3% QoQ) operating expenses (+20% YoY, +2% QoQ). Cost to income ratio remained within mgmt guidance at 65% and expected to gradually improve further. PAT was aided by lower credit cost (-30% YoY, 5% QoQ) and stood at INR 1.98bn (+70% YoY, +4% QoQ).
- Improved asset quality:** Overall asset quality improved with GNPA/ NNPA at 2.27%/0.97% (-49bps/ -21bps QoQ) and PCR at 58% in 2Q24. Equitas SFB sold INR 1620mn of NPA assets to ARC during 2Q24 for a consideration of INR 1180mn; provisions of INR 480mn has been created against the SR's. Gross slippages increased to 4.12% (vs 3.62%) on account of marginal increase witnessed in commercial vehicle finance segment due to cyclical impact; though it is expected to normalise in coming quarters. Additional provisions of INR 280mn were made during the quarter to strengthen coverage. We build avg. credit costs of 115bps over FY24-25E.
- Valuation and view:** We maintain BUY on the stock given its continued growth momentum, diversified asset portfolio and operating leverage. We see Equitas SFB achieving RoAs/ RoEs of 2.35%/18.5%. Maintain BUY with a TP of INR 115 valuing the stock at 1.8x FY25E BV.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	115
Upside/(Downside)	14.5%
Previous Price Target	110
Change	4.5%

Key Data – EQUITASB IN

Current Market Price	INR100
Market cap (bn)	INR112.7/US\$1.4
Free Float	86%
Shares in issue (mn)	1,139.3
Diluted share (mn)	
3-mon avg daily val (mn)	INR556.2/US\$6.7
52-week range	102/47
Sensex/Nifty	65,398/19,543
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	19.8	44.3	112.1
Relative*	20.9	31.7	92.4

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Profit	3,842	2,807	5,736	9,142	11,788
Net Profit (YoY) (%)	57.7%	-26.9%	104.3%	59.4%	28.9%
Assets (YoY) (%)	28.1%	9.0%	29.7%	26.5%	26.4%
ROA (%)	1.7%	1.1%	1.9%	2.3%	2.4%
ROE (%)	12.5%	7.3%	12.2%	16.5%	18.5%
EPS	3.4	2.2	5.2	8.2	10.6
EPS (YoY) (%)	45.8%	-33.5%	130.4%	59.4%	28.9%
PE (x)	29.7	44.6	19.4	12.1	9.4
BV	30	34	46	53	62
BV (YoY) (%)	14.4%	13.8%	36.9%	14.3%	16.2%
P/BV (x)	3.35	2.95	2.15	1.88	1.62

Source: Company data, JM Financial. Note: Valuations as of 20/Oct/2023

Key trends: 2QFY24

Exhibit 1. Equitas SFB: Results Summary

Earnings Table (Rs mn)	2Q23	1Q24	2Q24	YoY (%)	QoQ (%)
NII	6,097	7,431	7,656	25.6%	3.0%
Misc Income	540	514	584	8.0%	13.6%
Non-Interest income	1,450	1,714	1,814	25.1%	5.8%
Total Income	7,547	9,145	9,470	25.5%	3.5%
Employee Cost	2,751	3,280	3,315	20.5%	1.1%
Other Operating Expenses	2,373	2,744	2,853	20.2%	3.9%
Total Operating Expenses	5,124	6,024	6,168	20.4%	2.4%
Operating Profit	2,423	3,121	3,302	36.3%	5.8%
Loan Loss Provisions	901	601	632	-29.9%	5.1%
Total Provisions	901	601	632	-29.9%	5.1%
PBT	1,522	2,521	2,670	75.4%	5.9%
Tax	358	609	689	92.4%	13.2%
Reported Profit	1,164	1,912	1,982	70.2%	3.7%
Balance sheet (Rs bn)					
Deposits	217.3	277.1	308.4	41.9%	11.3%
Net Advances	218.4	275.3	287.7	31.7%	4.5%
Total Assets	299.2	380.4	401.3	34.1%	5.5%
Low-cost Deposits (%)	48.0%	38.4%	33.6%	-14.5%	-4.8%
Loan-Deposit ratio (%)	100.5%	99.3%	93.3%	-7.2%	-6.1%
Key Ratios					
Credit Quality					
Gross NPAs (Rs. mn.)	8,703	7,702	6,605	-24.1%	-14.2%
Net NPAs (Rs. mn.)	4,309	3,251	2,793	-35.2%	-14.1%
Gross NPA (%)	3.91%	2.75%	2.27%	-1.64%	-0.49%
Net NPA (%)	1.97%	1.18%	0.97%	-1.00%	-0.21%
Loan Loss Provisions (%)	1.82%	1.00%	1.00%	-0.82%	0.00%
Coverage Ratio (%)	50.5%	57.8%	57.7%	7.2%	-0.1%
Capital Adequacy					
Tier I (%)	22.6%	21.4%	20.7%	-1.90%	-0.71%
CAR (%)	23.1%	22.1%	21.3%	-1.75%	-0.73%
Du-pont Analysis					
NII / Assets (%)	8.37%	8.14%	7.83%	-0.53%	-0.31%
Non-Interest Inc. / Assets (%)	1.99%	1.88%	1.86%	-0.13%	-0.02%
Operating Cost / Assets (%)	7.03%	6.60%	6.31%	-0.72%	-0.29%
Operating Profits / Assets (%)	3.33%	3.42%	3.38%	0.05%	-0.04%
Provisions / Assets (%)	1.24%	0.66%	0.65%	-0.59%	-0.01%
ROA (%)	1.60%	2.10%	2.03%	0.43%	-0.07%

Source: Company, JM Financial

Exhibit 2. Equitas SFB: AUM break-up

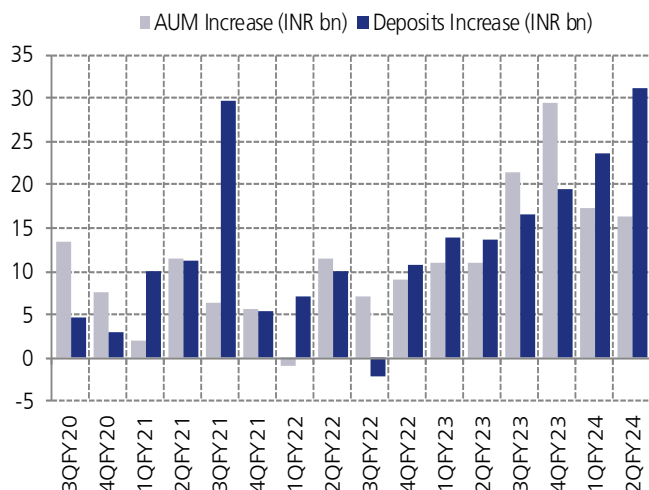
AUM Composition (INR bn)	2Q23	1Q24	2Q24	YoY (%)	QoQ (%)
Micro Finance	41.4	56.3	58.8	41.8%	4.5%
Small Business Loans (incl. HF)	108.5	139.9	151.3	39.5%	8.1%
Vehicle Finance	56.4	73.4	77.8	37.9%	5.9%
- Used CV	34.9	43.8	46.6	33.5%	6.3%
- New CV	21.5	29.6	31.2	45.0%	5.3%
MSE Finance	11.6	10.9	10.4	-10.3%	-5.0%
NBFC	7.1	11.8	10.4	47.0%	-11.5%
Others	2.8	3.7	3.6	28.4%	-1.9%
AUM	227.8	296.0	312.3	37.10%	5.5%
AUM mix (%)					
Micro Finance	18.2%	19.0%	18.8%	0.6%	-0.2%
Small Business Loans (incl. HF)	47.6%	47.3%	48.5%	0.8%	1.2%
Vehicle Finance	24.8%	24.8%	24.9%	0.1%	0.1%
- Used CV	15.3%	14.8%	14.9%	-0.4%	0.1%
- New CV	9.4%	10.0%	10.0%	0.5%	0.0%
MSE Finance	5.1%	3.7%	3.3%	-1.8%	-0.4%
NBFC	3.1%	4.0%	3.3%	0.2%	-0.6%
Others	1.2%	1.2%	1.2%	-0.1%	-0.1%
Total	100.0%	100.0%	100.0%		

Source: Company, JM Financial

Exhibit 3. Equitas SFB: Deposits break-up

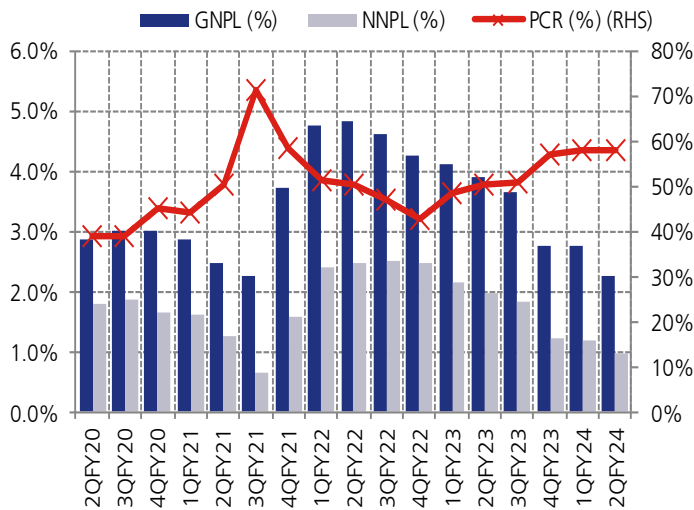
Deposits Composition (INR bn)	2Q23	1Q24	2Q24	YoY (%)	QoQ (%)
Current	6.3	8.4	8.1	30.0%	-3.2%
Saving	98.0	98.0	95.4	-2.7%	-2.7%
CASA	104.2	106.4	103.5	-0.7%	-2.8%
Time Deposits	112.7	170.7	204.9	81.8%	20.1%
Total Deposits (ex-CDs)	216.9	277.1	308.4	42.2%	11.3%
Certificate of Deposits	0.3	0.0	0.0	-98.5%	#DIV/0!
Total Deposits	217.3	277.1	308.4	41.9%	11.3%
Current	2.9%	3.0%	2.6%	-0.2%	-0.4%
Saving	45.2%	35.4%	30.9%	-14.2%	-4.5%
CASA	48.0%	38.4%	33.6%	-14.5%	-4.8%
Time Deposits	52.0%	61.6%	66.4%	14.5%	4.8%
Total Deposits (ex-CDs)	100%	100%	100%		
Deposits Composition (INR bn)	2Q23	1Q24	2Q24	YoY (%)	QoQ (%)

Source: Company, JM Financial

Exhibit 4. Equitas SFB: Trend in accretion to loans and deposits

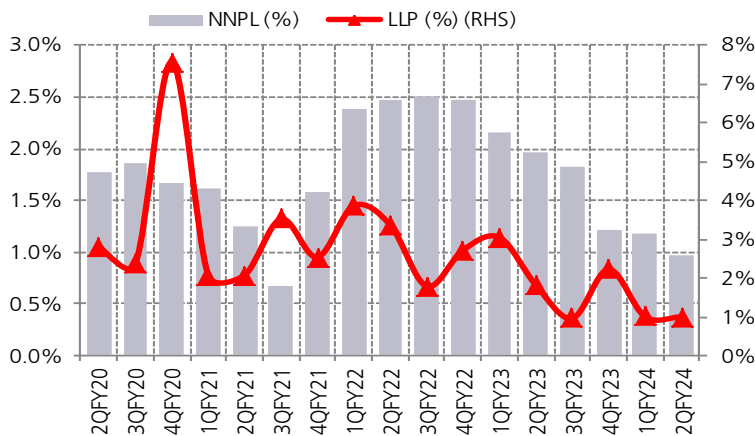
Source: Company, JM Financial

Exhibit 5. Equitas SFB: Trend in asset quality



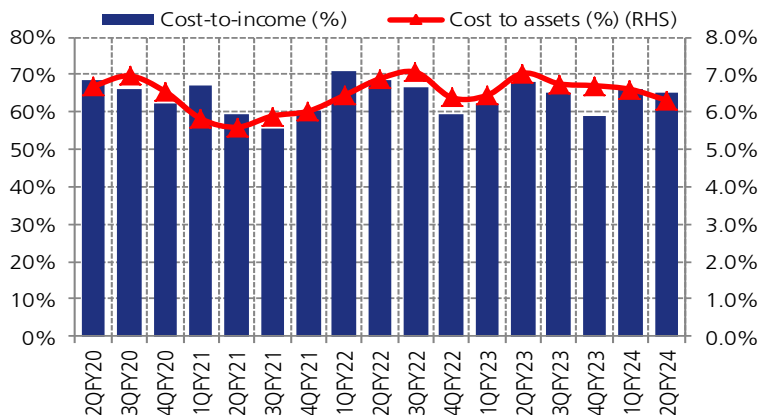
Source: Company, JM Financial

Exhibit 6. Equitas SFB: Net NPLs and LLP trends



Source: Company, JM Financial

Exhibit 7. Equitas SFB: Trend in cost ratios



Source: Company, JM Financial

Financial Tables (Standalone)

Profit & Loss						(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Net Interest Income	17,980	20,385	25,447	32,516	41,088	
Profit on Investments	447	426	214	400	350	
Exchange Income	0	0	0	0	0	
Fee & Other Income	3,734	4,949	6,482	7,845	9,494	
Non-Interest Income	4,181	5,376	6,696	8,245	9,844	
Total Income	22,160	25,761	32,143	40,761	50,932	
Operating Expenses	13,294	17,041	20,383	25,129	30,931	
Pre-provisioning Profits	8,866	8,719	11,760	15,632	20,002	
Loan-Loss Provisions	4,697	4,935	3,659	3,442	4,285	
Provisions on Investments	0	0	403	0	0	
Others Provisions	-943	3	10	0	0	
Total Provisions	3,753	4,938	4,072	3,442	4,285	
PBT	5,113	3,781	7,688	12,190	15,717	
Tax	1,270	974	1,952	3,047	3,929	
PAT (Pre-Extraordinaries)	3,842	2,807	5,736	9,142	11,788	
Extra ordinaries (Net of Tax)	0	0	0	0	0	
Reported Profits	3,842	2,807	5,736	9,142	11,788	
Dividend paid	0	0	1,111	1,777	2,221	
Retained Profits	3,842	2,807	4,625	7,365	9,566	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)					
Deposits	51.9%	15.6%	33.9%	31.0%	30.0%
Advances	22.7%	15.0%	33.2%	28.0%	28.0%
Total Assets	28.1%	9.0%	29.7%	26.5%	26.4%
NII	20.2%	13.4%	24.8%	27.8%	26.4%
Non-interest Income	48.1%	28.6%	24.6%	23.1%	19.4%
Operating Expenses	12.7%	28.2%	19.6%	23.3%	23.1%
Operating Profits	48.4%	-1.7%	34.9%	32.9%	28.0%
Core Operating profit	41.7%	-1.5%	39.2%	31.9%	29.0%
Provisions	52.2%	31.6%	-17.5%	-15.5%	24.5%
Reported PAT	57.7%	-26.9%	104.3%	59.4%	28.9%
Yields / Margins (%)					
Interest Spread	7.36%	7.12%	7.47%	7.46%	7.43%
NIM	8.45%	8.17%	8.53%	8.48%	8.38%
Profitability (%)					
Non-IR to Income	18.9%	20.9%	20.8%	20.2%	19.3%
Cost to Income	60.0%	66.2%	63.4%	61.7%	60.7%
ROA	1.75%	1.09%	1.85%	2.31%	2.35%
ROE	12.5%	7.3%	12.2%	16.5%	18.5%
Assets Quality (%)					
Slippages	4.37%	8.38%	5.75%	4.00%	3.75%
Gross NPA	3.73%	4.24%	2.76%	2.46%	2.34%
Net NPAs	1.58%	2.47%	1.21%	1.02%	0.95%
Provision Coverage	58.6%	42.7%	56.9%	59.0%	60.0%
Specific LLP	2.83%	1.89%	2.05%	1.04%	1.01%
Net NPAs / Networth	7.8%	11.3%	6.0%	5.7%	5.9%
Capital Adequacy (%)					
Tier I	23.23%	24.53%	23.08%	20.05%	18.71%
CAR	24.18%	25.16%	23.80%	20.59%	19.14%

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Equity Capital	11,393	12,520	11,106	11,106	11,106	
Reserves & Surplus	22,571	29,941	40,474	47,839	57,406	
Deposits	163,920	189,508	253,806	332,485	432,231	
Borrowings	41,653	26,164	29,738	34,198	39,328	
Other Liabilities	7,616	11,385	14,459	16,627	19,122	
Total Liabilities	247,152	269,519	349,581	442,256	559,192	
Investments	37,052	44,498	66,646	82,932	106,343	
Net Advances	168,479	193,742	257,986	330,222	422,684	
Cash & Equivalents	33,787	21,325	12,443	16,712	21,419	
Fixed Assets	1,851	2,004	3,791	4,664	5,729	
Other Assets	5,983	7,949	8,716	7,727	3,016	
Total Assets	247,152	269,519	349,581	442,256	559,192	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	8.17%	7.89%	8.22%	8.21%	8.21%
Other Income / Assets	1.90%	2.08%	2.16%	2.08%	1.97%
Total Income / Assets	10.07%	9.97%	10.38%	10.30%	10.17%
Cost / Assets	6.04%	6.60%	6.58%	6.35%	6.18%
PBP / Assets	4.03%	3.38%	3.80%	3.95%	3.99%
Provisions / Assets	1.71%	1.91%	1.32%	0.87%	0.86%
PBT / Assets	2.32%	1.46%	2.48%	3.08%	3.14%
Tax rate	24.8%	25.8%	25.4%	25.0%	25.0%
ROA	1.75%	1.09%	1.85%	2.31%	2.35%
RoRWAs	3.10%	1.90%	3.19%	3.94%	3.92%
Leverage	7.3	6.3	6.8	7.5	8.2
ROE	12.5%	7.3%	12.2%	16.5%	18.5%

Source: Company, JM Financial

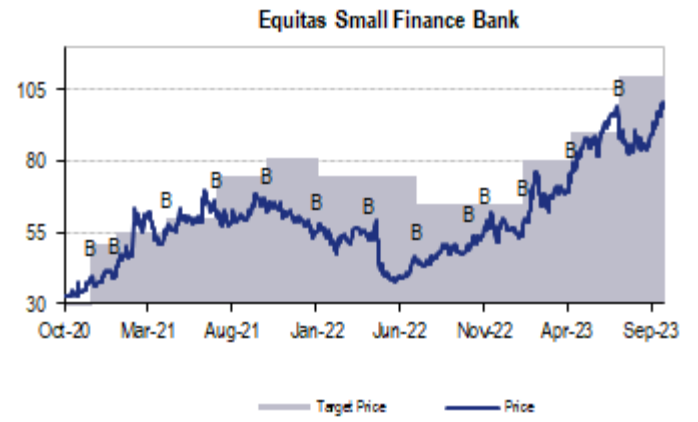
Valuations					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	1,139.3	1,252.0	1,110.6	1,110.6	1,110.6
EPS (INR)	3.4	2.2	5.2	8.2	10.6
EPS (YoY) (%)	45.8%	-33.5%	130.4%	59.4%	28.9%
PER (x)	29.7	44.6	19.4	12.1	9.4
BV (INR)	30	34	46	53	62
BV (YoY) (%)	14.4%	13.8%	36.9%	14.3%	16.2%
ABV (INR)	29	32	46	52	61
ABV (YoY) (%)	17.2%	10.0%	42.1%	14.6%	16.3%
P/BV (x)	3.35	2.95	2.15	1.88	1.62
P/ABV (x)	3.43	3.12	2.19	1.91	1.65
DPS (INR)	0.0	0.0	1.0	1.6	2.0
Div. yield (%)	0.0%	0.0%	1.0%	1.6%	2.0%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
16-Dec-20	Buy	51	
30-Jan-21	Buy	55	7.8
2-May-21	Buy	60	9.1
1-Aug-21	Buy	75	25.0
31-Oct-21	Buy	81	8.0
31-Jan-22	Buy	75	-7.4
5-May-22	Buy	75	0.0
29-Jul-22	Buy	65	-13.3
1-Nov-22	Buy	65	0.0
30-Nov-22	Buy	65	0.0
10-Feb-23	Buy	80	23.1
6-May-23	Buy	90	12.5
31-Jul-23	Buy	110	22.2

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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