

Jan 27, 2024

RESULT REPORT Q3 FY24 | Sector: Financials

# Equitas Small Finance Bank

## A mixed quarter; further RoA improvement looks tough

### Manages to maintain 2% RoA

Equitas SFB's PPOP beat of 6% on our estimate, despite 2% NII miss, was led by higher treasury income and lower opex. The bank managed to maintain RoA/RoE at 2%/14.5% despite the marginal increase in credit cost on further normalization of NPL additions/reductions. While the portfolio spread was stable at 10.2%, NIM declined by 6 bps on increased BS liquidity on moderation of CD ratio (fell from 93% to 90%). Gross advances grew 5% qoq/32% yoy even though disbursements were 5% lower sequentially, as the annualized portfolio run-off rate declined to 41% from 45% in preceding quarter. Bank's loan growth continues to be driven by Small Business & Agri (6.4% qoq), Affordable Housing (8.4% qoq) and Used Car (11.5% qoq) financing segments. Deposits growth was healthy at 5% qoq, led by strong traction in Retail TDs while CASA deposits grew sequentially (breaking the declining trend of past 3Qs).

### CD ratio to moderate; NIM will stabilize soon

Management guides for 25-28% gross loan book growth in FY24 and 25%+ growth in FY25 and achieving a CD ratio of 85% by Mar'25. Loan growth is expected to be led by Small Business & Agri loans (non-TN portfolio), Vehicle Finance (Used Cars & New LCV/SCV/Pick-up financing) and Affordable Housing loans. The roll-out of new LOS (loan origination systems) for these products is expected to enhance productivity/competitiveness and thus augment growth. With the pace of increase in funding cost declining and the pace of increase in portfolio yield improving, Equitas SFB's NIM could stabilize soon and then can start inching-up notwithstanding the targeted gradual reduction in CD ratio. Banks' blended disbursement yield is trending 120 bps higher than portfolio yield. Thus, NIM would benefit when deposit cost peaks out.

### Limited room for improvement in CI ratio; credit cost is normalizing

Cost/Income ratio is expected to remain under check with moderation in Branch expansion investments and improving profitability of currently sub-scale loan product segments. However, investments on Tech, digital products and Branding will continue. Besides normalizing asset quality trends, higher slippages in the quarter were caused by floods in Tamil Nadu in the month of December which increased delinquencies in VF and MFI portfolios. Collections are expected to be better in Q4 FY24 as many of these delinquencies would be collected. Management expects credit cycle to normalize with expectations of slippage rate of 3-4% and credit cost of 1.25%.

### Improving RoA beyond 2% looks tough; Maintain BUY

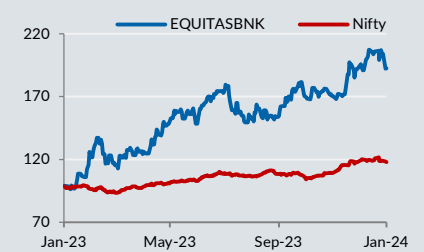
Our earnings estimates for FY25/26 have undergone materials cuts due to calibration of loan growth and considering the moderation of CD ratio. The challenges around improving RoA beyond 2% could last for the bank, despite a likely significant loan spread expansion (assuming peaking of deposits cost), on account of moderation in CD ratio, limited room for CI ratio improvement and full normalization of credit cost. A renewed intent to augment PCR towards 70% can push credit cost higher. We estimate 25% loan CAGR, 30% earnings CAGR and stable RoA of 2% over FY23-26. RoE is expected to improve to 17.5-18% by FY26 on rise in leverage. Even on lowered estimates, the valuation is not expensive at 9x P/E and 1.5x P/ABV on FY26 estimates. Maintain BUY and increase 12m PT to Rs125 on rolling over target multiple to FY26.

Reco	: BUY
CMP	: Rs 106
Target Price	: Rs 125
Potential Return	: 17.7%

#### Stock data (as on Jan 25, 2024)

Nifty	21,353
52 Week h/l (Rs)	117 / 52
Market cap (Rs/USD mn)	120362 / 1448
Outstanding Shares (mn)	1,132
6m Avg t/o (Rs mn):	548
Div. yield (%):	0.9
Bloomberg code:	EQUITASB IN
NSE code:	EQUITASBNK

#### Stock performance



	1M	3M	1Y
Absolute return	-1.8%	14.4%	94.5%

#### Shareholding pattern

Promoter	0.0%
FII+DII	0.0%
Others	34.8%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	125	120

#### Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	7.2	9.0	11.3
EPS (Old)	7.2	9.6	12.5
% Change	-0.7%	-5.8%	-9.5%

#### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	38,992	49,377	60,802
PPOP	13,898	18,304	23,082
Net profit	7,965	10,012	12,599
Growth (%)	38.9	25.7	25.8
EPS (Rs)	7.2	9.0	11.3
ABVPS (Rs)	49.6	56.4	69.1
P/E (x)	14.8	11.8	9.3
P/ABV (x)	2.1	1.9	1.5
ROE (%)	14.5	16.1	17.6
ROA (%)	2.0	2.0	2.0
Tier-1 (%)	19.7	17.9	16.8

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## Exhibit 1: Result table

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Operating Income	14,288	13,590	5.1	10,634	34.4
Interest expended	(6,437)	(5,934)	8.5	(4,159)	54.8
Net Interest Income	7,851	7,656	2.6	6,475	21.3
Other Income	2,055	1,814	13.3	1,526	34.6
Total Income	9,906	9,470	4.6	8,001	23.8
Operating expenses	(6,303)	(6,168)	2.2	(5,210)	21.0
PPOP	3,603	3,302	9.1	2,791	29.1
Provisions	(844)	(632)	33.5	(499)	69.1
PBT	2,759	2,670	3.3	2,292	20.4
Tax	(739)	(689)	7.4	(591)	25.1
Reported PAT	2,020	1,981	1.9	1,701	18.7

Source: Company, YES Sec

## Exhibit 2: Business Data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
<b>AUM</b>	3,27,760	3,12,290	5.0	2,49,150	31.6
Microfinance	60,560	58,780	3.0	46,000	31.7
SBL/Agri Loans	1,22,850	1,15,500	6.4	93,120	31.9
Housing Finance	38,840	35,820	8.4	24,630	57.7
Vehicle Finance	80,930	77,770	4.1	62,030	30.5
MSE Finance	11,670	10,380	12.4	11,720	(0.4)
NBFC	8,870	10,420	(14.9)	8,720	1.7
Others	4,040	3,620	11.6	2,930	37.9
<b>Disbursements</b>	47,390	49,610	(4.5)	47,970	(1.2)
Microfinance	13,800	14,060	(1.8)	13,400	3.0
SBL/Agri Loans	14,350	14,940	(3.9)	12,600	13.9
Housing Finance	4,390	5,000	(12.2)	4,270	2.8
Vehicle Finance	12,380	13,410	(7.7)	13,340	(7.2)
MSE Finance	1,520	1,020	49.0	920	65.2
NBFC	-	250	-	2,610	-
Others	950	930	2.2	830	14.5
<b>Customer Deposits</b>	3,23,850	3,08,390	5.0	2,33,930	38.4
CASA	1,05,930	1,03,490	2.4	1,08,170	(2.1)
TD	2,17,920	2,04,900	6.4	1,25,760	73.3
Investments	84,750	85,506	(0.9)	61,813	37.1

Source: Company, YES Sec

## Exhibit 3: Key Ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
NIM	8.4	8.4	(0.1)	9.0	(0.6)
Yield on advances	17.6	17.4	0.2	17.0	0.6
Cost of Funds	7.4	7.2	0.2	6.4	1.0
CASA	32.7	33.6	(0.8)	46.2	(13.5)
Cost to Income	63.6	65.1	(1.5)	65.1	(1.5)
RoE	14.4	14.6	(0.2)	14.9	(0.5)
RoA	2.0	2.0	(0.0)	2.2	(0.2)
CAR	20.2	21.3	(1.1)	24.3	(4.0)
Gross NPA	2.5	2.3	0.3	3.6	(1.1)
Net NPA	1.1	1.0	0.2	1.8	(0.7)

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### Disbursements & Growth

- Expect to end FY25 with 25-28% gross loan book growth - 25%+ growth expected in FY25.
- Target to bring down CD ratio to 85% by end of Mar'25, which is currently at 91.5%.
- SBL growth has been strong and share of non-TN disbursements rose to 45% in Dec - AP, TL, KTK and MH have been growth markets.
- In SBL, New LOS has been implemented across 182 branches – it will be rolled out in another 200 branches in Q4 FY24.
- In MFI, 100% of new customers were acquired using E-KYC and 95% of customers signed digital contracts last year.
- Used Car financing rose to 14% of VF book and crossed Rs10bn – bank's focus on New/Used CV remains on SCL, LCV and Pick-ups.
- Banks would sustain the current growth in VF portfolio - LOS was rolled out in H1 FY24.
- Affordable HL business operating through 34 branches across 5 states - New LOS has been rolled out in all branches.

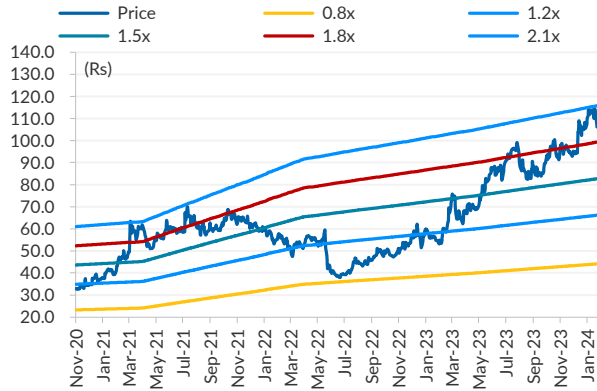
### NIM, CoF & Opex

- NIM came-off to 8.37% on account of build-up of liquidity on BS (reduction in CD ratio) and further rise in CoF.
- Portfolio yield has improved by 60 bps in past 12m and the Disb yield has improved by 100+ bps.
- Significant rate increases were taken in SBL MFI and VF segments, whereas rates were raised marginally Affordable HL.
- Disbursement Yield for SBL at 17.2%, Used VF at 19.6%, New CV at 13.7% and MFI at 25%.
- 85% of loan book at fixed rate, and thus NIM would benefit when interest rates stabilizes or declines.
- Incremental impact of calibration of CD ratio would be muted/gradual on the NIM.
- Bulk TD is raised based on requirement - structural focus on Retail TD and CASA mobilization.
- CoD expected to rise marginally in Q4 FY24.
- ESOP grant pool at around 3-4% of bank's equity.
- C/I ratio expected to remain under check aided by 1) moderation in Branch expansion investments and 2) product-level profitability improving with rising scale - Investments on digital products, Tech investments and Branding will continue.

### Asset Quality & Credit Cost

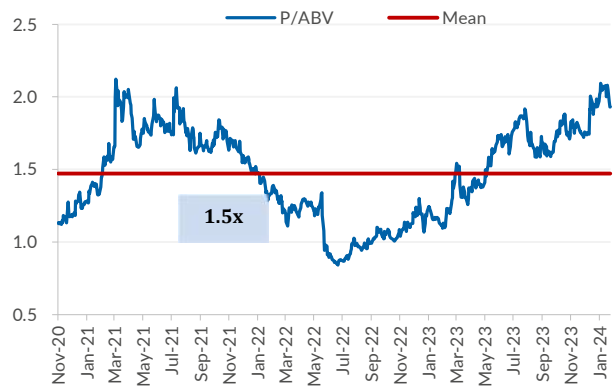
- Heavy floods in TN during Dec increased slippages in VF and MFI segments.
- VF delinquencies have normalized – Collections would be much better in Q4 FY24.
- SBL X-Bucket CE stood at 99.5%.
- Credit cost cycle seems to have fully normalized - slippage run-rate would be 3-4%.
- Credit Cost in FY24 estimated within 1.25% - should be settling around similar level in longer run.

**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	FY24E	FY25E	FY26E
Total cash & equivalents	21,325	12,443	23,632	32,055	40,005
Investments	44,498	66,646	86,639	1,08,299	1,35,374
Advances	1,93,742	2,57,986	3,27,886	4,09,481	5,08,274
<b>Total interest-earning assets</b>	<b>2,59,566</b>	<b>3,37,074</b>	<b>4,38,158</b>	<b>5,49,835</b>	<b>6,83,653</b>
Fixed assets	2,004	3,791	3,791	3,791	3,791
Other assets	7,949	8,716	9,588	10,547	11,601
<b>Total assets</b>	<b>2,69,519</b>	<b>3,49,581</b>	<b>4,51,537</b>	<b>5,64,173</b>	<b>6,99,045</b>
<b>Net worth</b>	<b>42,462</b>	<b>51,579</b>	<b>57,995</b>	<b>66,070</b>	<b>76,733</b>
Deposits	1,89,508	2,53,806	3,55,334	4,76,148	5,99,946
Borrowings	26,164	29,738	22,303	4,461	3,122
<b>Total interest-bearing liabilities</b>	<b>2,15,672</b>	<b>2,83,543</b>	<b>3,77,637</b>	<b>4,80,608</b>	<b>6,03,068</b>
Non-interest-bearing liabilities	11,385	14,459	15,905	17,495	19,244
<b>Total liabilities</b>	<b>2,27,057</b>	<b>2,98,002</b>	<b>3,93,542</b>	<b>4,98,103</b>	<b>6,22,313</b>
<b>Equity &amp; Total liabilities</b>	<b>2,69,519</b>	<b>3,49,581</b>	<b>4,51,537</b>	<b>5,64,173</b>	<b>6,99,045</b>

Source: Company, YES Sec

### Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	34,597	41,619	55,670	73,014	90,377
Interest expense	(14,211)	(16,172)	(24,311)	(32,415)	(39,846)
<b>Net interest income</b>	<b>20,385</b>	<b>25,447</b>	<b>31,359</b>	<b>40,599</b>	<b>50,531</b>
Non-interest income	5,376	6,696	7,633	8,778	10,271
<b>Total op income</b>	<b>25,761</b>	<b>32,143</b>	<b>38,992</b>	<b>49,377</b>	<b>60,802</b>
<b>Total op expenses</b>	<b>(17,041)</b>	<b>(20,383)</b>	<b>(25,094)</b>	<b>(31,073)</b>	<b>(37,720)</b>
<b>PPoP</b>	<b>8,719</b>	<b>11,760</b>	<b>13,898</b>	<b>18,304</b>	<b>23,082</b>
Provisions	(4,938)	(4,072)	(3,222)	(4,885)	(6,195)
Profit before tax	3,781	7,688	10,675	13,419	16,887
Taxes	(974)	(1,952)	(2,711)	(3,407)	(4,288)
<b>Net profit</b>	<b>2,807</b>	<b>5,736</b>	<b>7,965</b>	<b>10,012</b>	<b>12,599</b>

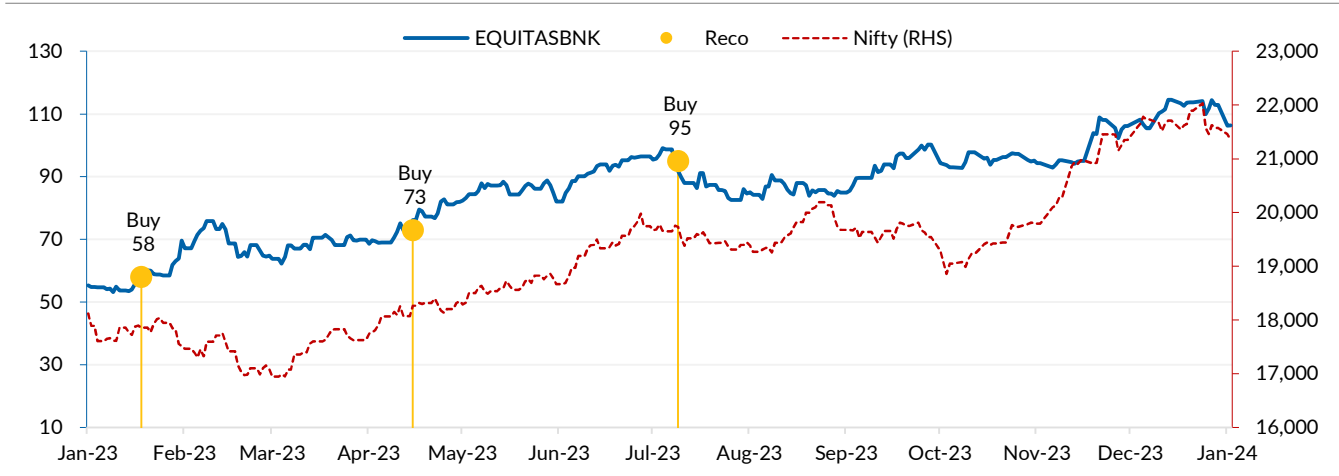
Source: Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	13.4	24.8	23.2	29.5	24.5
Total op income	16.2	24.8	21.3	26.6	23.1
Op profit (pre-provision)	(1.7)	34.9	18.2	31.7	26.1
Net profit	(26.9)	104.3	38.9	25.7	25.8
Advances	15.0	33.2	27.1	24.9	24.1
Deposits	15.6	33.9	40.0	34.0	26.0
Total assets	9.0	29.7	29.2	24.9	23.9
<b>Profitability Ratios (%)</b>					
NIM	9.2	9.0	8.5	8.7	8.7
Non-interest income /Total income	20.9	20.8	19.6	17.8	16.9
Return on Equity	7.3	12.2	14.5	16.1	17.6
Return on Assets	1.1	1.9	2.0	2.0	2.0
<b>Per share ratios (Rs)</b>					
EPS	2.2	5.2	7.2	9.0	11.3
Adj. BVPS	30.1	43.6	49.6	56.4	69.1
<b>Other key ratios (%)</b>					
Cost/Income	66.2	63.4	64.4	62.9	62.0
Tier-I capital	24.5	23.1	19.7	17.9	16.8
Gross NPLs/Loans	4.2	2.8	2.2	2.2	2.2
Net NPLs/Net loans	2.5	1.2	0.9	0.9	0.8
Tax rate	25.8	25.4	25.4	25.4	25.4

Source: Company, YES Sec

## Recommendation Tracker





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

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

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YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL 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). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL 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 YSL by SEBI/Stock Exchanges.