

Equitas Small Finance Bank

BUY

CMP Rs56

Target Rs75

Upside 34%

Result Highlights

- ✓ In Q4 FY21, ESFB experienced incremental normalcy in business volumes (except in Microfinance) and achieved pre-Covid collections in the current bucket across products and an improvement in billing efficiency and overall collection efficiency (incl. arrears).
- ✓ Despite the drag from Microfinance business (cautious disbursements + w/off of Rs1.7bn), overall growth in gross advances was healthy at 3.5% qoq/17% yoy with sustained strong new business originations in Small Business Loans, Vehicle Finance, Home Loans and MSE Finance.
- ✓ Encouraging collection performance and w/off of MFI loans led to a sharp correction in NPLs (Gross/Net NPLs fell to 3.6%/1.5% v/s 4.2%/1.7% as of Q3). Annualized credit cost stood lower than Q3; the bank maintained PCR near 60%, but doesn't hold any contingency buffer for second Covid wave.
- ✓ With sustained acceleration in liability customer acquisition, the bank made significant progress in further granularizing its deposits mix. CASA + Retail TDs' share jumped to 70% of customer deposits from 60% as of Q3, causing incremental decline in funding cost.

Our view – Sustaining asset quality resilience in the second wave will be key: ESFB's asset quality and growth resilience surprised positively during the first pandemic wave. The bank is having a strong capital position (Tier-1 at 23%) and a comfortable PCR on existing NPLs (improved over past four quarters). NIM should be structurally better in ensuing quarters versus Q4 FY21 level (impacted by int.-on-int. reversal and lumpy slippage recognition); with product mix expected to stabilize and liability mix expected to improve further. Sweating of branch banking and digital investments would cause cost/income ratio to improve.

Retain BUY on ESFB with a 12m PT of Rs75, as we see the bank delivering significant RoA/RoE expansion over FY21-24. Valuation at 1.5x FY23 P/ABV is undemanding for 16-18% ABV compounding over the next three years.

Exhibit 1: Result table

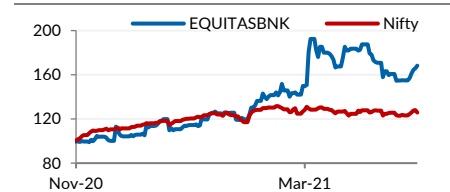
(Rs mn)	Q4 FY21	Q3 FY21	% yoy	Q4 FY20	% qoq
Total Operating Income	8,183	8,572	(4.5)	7,259	12.7
Interest expended	(3,698)	(3,734)	(1.0)	(3,019)	22.5
Net Interest Income	4,486	4,839	(7.3)	4,240	5.8
Other income	1,784	1,463	21.9	736	142.4
Total Income	6,270	6,302	(0.5)	4,976	26.0
Operating expenses	(3,771)	(3,551)	6.2	(3,092)	22.0
PPOP	2,498	2,750	(9.2)	1,884	32.6
Provisions	(970)	(1,261)	(23.1)	(1,300)	(25.4)
PBT	1,529	1,490	2.6	584	161.6
Tax	(400)	(383)	4.5	(154)	159.3
PAT	1,129	1,107	2.0	430	162.4

Source: Company, YES Sec – Research

Stock data (as on Apr 30, 2021)

Sensex:	14,631
52 Week h/l (Rs)	68 / 30
Market cap (Rs/USD mn)	63230 / 853
Outstanding Shares	1,139
6m Avg t/o (Rs mn):	-
Div yield (%):	-
Bloomberg code:	EQUITASB IN
NSE code:	EQUITASBNK

Stock performance



	1M	3M	1Y
Absolute return	-7.9%	40.7%	-

Shareholding pattern

Promoter	82.1%
FII+DII	11.7%
Others	6.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	75	60

Financial Summary

	FY22E	FY23E	FY24E
Op. income	26,723	32,875	40,963
PPOP	10,897	13,884	18,173
Net profit	4,725	7,049	9,431
Growth (%)	23.0	49.2	33.8
EPS (Rs)	4.1	6.2	8.3
ABVPS (Rs)	31.3	37.3	45.1
P/E (x)	13.3	8.9	6.6
P/adj.BV (x)	1.8	1.5	1.2
ROE (%)	13.0	16.7	18.7
ROA (%)	1.7	2.1	2.3
Tier - 1 (%)	21.5	20.3	19.6

Δ in earnings estimates

	FY22e	FY23e	FY24e
EPS (New)	4.1	6.2	8.3
EPS (Old)	4.6	6.6	-
% change	-10.9%	-6.1%	-

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Exhibit 2: Business Data

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
AUM	179,250	173,730	3.2	153,664	16.7
Microfinance	32,360	34,910	(7.3)	36,160	(10.5)
Small Business Loans	79,710	74,960	6.3	62,790	26.9
Vehicle Finance	45,300	42,750	6.0	37,600	20.5
MSE Finance	11,800	9,880	19.4	6,694	76.3
Corporate Loans	7,830	8,980	(12.8)	8,181	(4.3)
Others	2,250	2,250	-	2,238	0.5
Disbursements	25,350	24,610	3.0	24,051	5.4
Microfinance	6,550	5,960	9.9	8,143	(19.6)
Small Business Loans	9,600	8,730	10.0	6,903	39.1
Vehicle Finance	7,230	6,210	16.4	5,973	21.0
MSE Finance	1,230	1,000	23.0	1,364	(9.8)
Corporate Loans	510	2,450	(79.2)	1,708	(70.1)
Others	230	260	(11.5)	(41)	(666.9)
Customer Deposits	163,190	156,910	4.0	103,000	58.4
CASA	56,140	39,670	41.5	22,082	154.2
TD	107,050	117,240	(8.7)	80,918	32.3
Investments	37,052	37,660	(1.6)	23,425	58.2

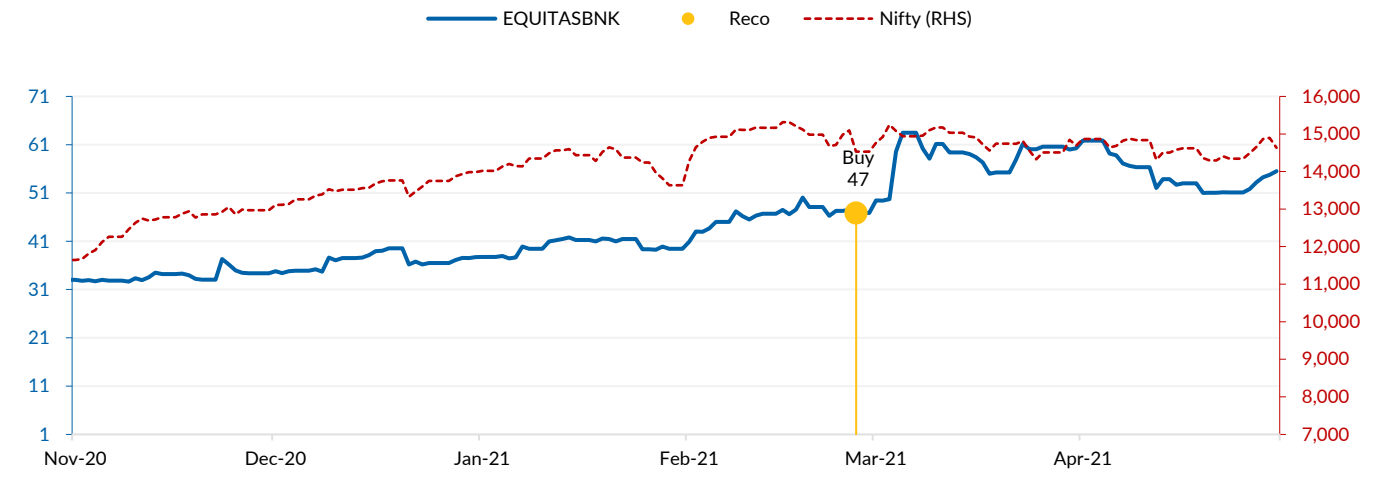
Source: Company, YES Sec – Research

Exhibit 3: Key Ratios

(%)	Q4 FY21	Q3 FY21	chg qoq	Q4 FY20	chg yoy
NIM	7.6	8.5	(0.9)	9.5	(2.0)
Yield on advances	19.5	18.9	0.6	18.9	0.6
Cost of Funds	7.2	7.3	(0.1)	7.8	(0.6)
CASA	34.4	25.3	9.1	21.4	13.0
Cost to Income	60.2	56.4	3.8	62.1	(2.0)
RoE	13.5	14.3	(0.8)	6.3	7.2
RoA	1.8	1.8	(0.1)	0.9	0.9
CAR	24.2	21.6	2.6	23.6	0.6
Gross NPA	3.7	2.3	1.5	2.7	1.0
Net NPA	1.6	0.7	0.9	1.5	0.1

Source: Company, YES Sec – Research

Recommendation Tracker



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