

Equitas Small Finance Bank

Refer to important disclosures at the end of this report

Delivers strong earnings beat; robust liability profile

- Despite the sharp drop in NIM, Equitas SFB reported strong PAT of Rs1.1bn (vs. est. of Rs0.5bn), up 162% yoy, mainly driven by higher fees and contained provisions, partly offset by higher opex. The headline GNPA improved to 3.7% from pro forma GNPA of 4.2% in Q3. However, the restructuring pool has inched up to 2.6% of loans.
- Gross credit growth moderated and was up 17% yoy/3% qoq due to subdued growth in the MFI segment where the bank remains cautious. The share of MFI has now fallen to 18% of loans. Deposit growth has been far stronger, with CASA ratio now being the highest among SFBs at 34% due to focused approach.
- Overall collection/billing efficiency for Mar'21 improved to 109%/91% from 105%/89% in Q3, mainly due to healthy improvement in the VF portfolio (98.9% vs. 96% in Q3). The second Covid wave has impacted business operations a bit with some employees being unwell. However, the impact on growth/asset quality should be limited and manageable.
- The bank steered well through the pandemic and emerged far stronger on the liability front with limited asset-quality impact, delivering healthy RoA/RoE of 1.8%/13% in FY21, which we expect now to improve to 2%/15% by FY23E. We retain Buy and raise TP from Rs52 to Rs74, valuing the bank at 1.9x FY23E ABV (1.5x earlier). On Equitas Holding too, we maintain Buy with a TP of Rs152 (assuming a 25% holdco discount).

Deposit retailization picks up pace but NIMs shrink qoq: Gross credit growth moderated in the quarter and was up 17% yoy/3% qoq (albeit on a higher base) to Rs179bn, due to subdued growth in the MFI segment as bank continues its cautious stance on MFI. Disbursements, though up 5.4% yoy, remained low in MFI, and the book now contributes 18% of the portfolio, in line with the bank's strategy to diversify the loan book away from volatile MFI. Deposit growth remained healthy at 52% yoy/3% qoq, mainly driven by strong 174% yoy/45% qoq growth in SA, stemming from the bank's increased focus on retailization of deposits. Accordingly, CASA ratio improved sharply by 924bps to 34%, while Retail TD grew 54% yoy/7% qoq. However, NIM dropped 90bps qoq to 7.6%, mainly due to NPA recognition, interest wavier and lower LDR.

Improved asset quality but a higher contingent buffer would have been ideal: The headline GNPA ratio improved to 3.7% from pro forma GNPA of 4.2% in Q3, mainly due to heavy write-offs in the MFI portfolio (Rs1.7bn). The restructured pool inched up qoq to 2.6% of loans from ~2% in Q3. Overall collection/billing efficiency for Mar'21 improved to 109%/91%, compared to 105%/89% in Q3, mainly due to healthy improvement in the VF portfolio (98.9% vs. 96% in Q3). Collection efficiency for SBL too remained healthy at 99.6%, while for MFI at 98.7%. The bank has consumed Rs1.7bn of contingent provisions as NPA recognition begins and is left with a buffer amounting to ~15bps of loans in addition to a reasonable management overlay (provisions over and above IRAC norms) of Rs1.5bn (89bps of loans). We believe that a higher contingent buffer running into a second Covid wave would have been ideal.

Outlook and valuation: We like Equitas for its healthy asset diversification away from the volatile MFI space, best CASA/liability profile among listed SFBs, capital comfort and reasonable valuations. The overhang of promoter stake dilution is largely over with the RBI's IWG recommendations, while the transition to Universal Banking License from relatively restrictive SFB license should be a long-term positive for the bank. We retain Buy rating on Equitas SFB with a TP of Rs74, valuing the bank now at 1.9x FY23E ABV (1.5x earlier), factoring in better return ratios and growth trajectory. On Equitas Holding too, we retain Buy with a revised TP of Rs152 (assuming a 25% holdco discount). Key risks: Higher-than-expected NPAs due to the second Covid wave, loss of momentum in CASA flow and management attrition.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	17,777	22,152	26,584	31,649	38,610
Net profit	2,438	3,857	5,095	6,503	8,391
EPS (Rs)	2.4	3.5	4.5	5.7	7.4
ABV (Rs)	24.7	29.1	32.4	38.1	45.6
RoA (%)	1.4	1.8	1.9	2.0	2.0
RoE (%)	9.8	12.6	14.0	15.4	16.9
PE (x)	23.4	15.8	12.4	9.7	7.5
P/ABV	2.1	1.8	1.6	1.4	1.2

Source: Company, Emkay Research

CMP

Rs 56

as of (April 29, 2021)

Rating

BUY (■)

Target Price

Rs 74 (▲)

12 months

Upside

33.3 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	14.7/3.3
Target Price change (%)	NA
Target Period (Months)	12

Previous Reco

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	4.5	5.7
Consensus	4.6	6.1
Mean Consensus TP (12M)	Rs 66	

Stock Details

Bloomberg Code	EQUITASB IN
Face Value (Rs)	10
Shares outstanding (mn)	1,139
52 Week H/L	68 / 30
M Cap (Rs bn/USD bn)	63 / 0.85
Daily Avg Volume (nos.)	1,855,687
Daily Avg Turnover (US\$ mn)	1.4

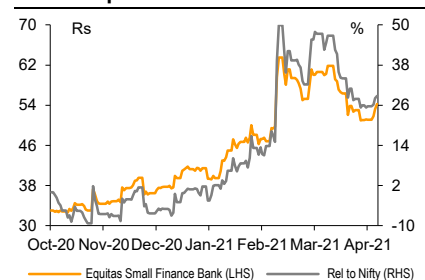
Shareholding Pattern Nov '20

Promoters	82.1%
FIIIs	1.3%
DIIIs	10.4%
Public and Others	6.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	41	68	-
Rel. to Nifty	(8)	31	34	-

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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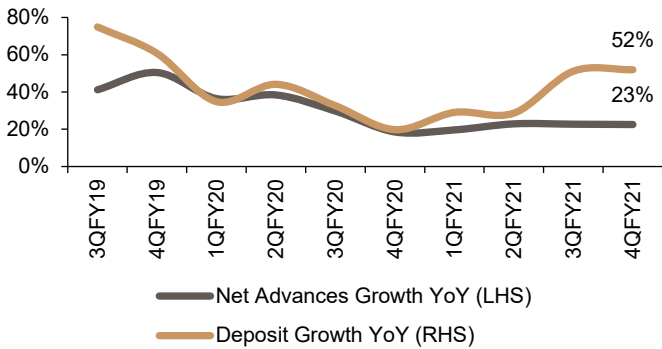
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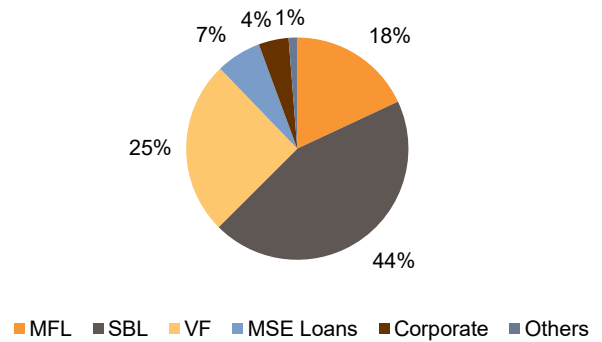
Story in Charts

Exhibit 1: Net advances growth remained stable while strong deposits momentum continued



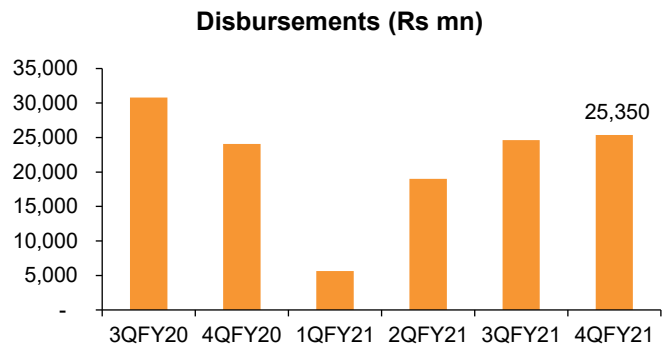
Source: Company, Emkay Research

Exhibit 2: Share of MFI further declined to 18% of the book, in line with management's strategy to trim volatile MFI



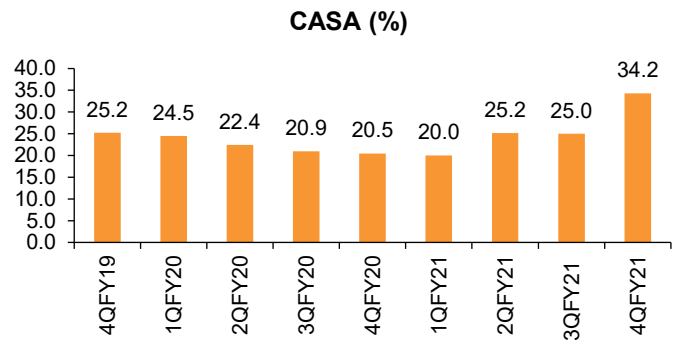
Source: Company, Emkay Research

Exhibit 3: Disbursements inching back to pre-Covid levels



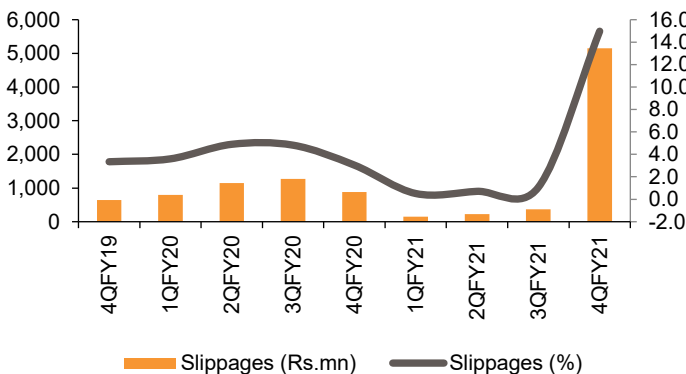
Source: Company, Emkay Research

Exhibit 4: Strong growth in SA, supported by reduction of bulk deposits led to a sharp improvement in CASA qoq



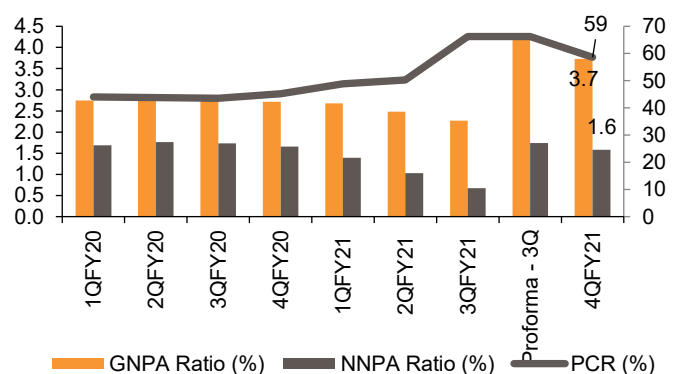
Source: Company, Emkay Research

Exhibit 5: Slippages optically look high due to the removal of SC standstill on NPA recognition



Source: Company, Emkay Research

Exhibit 6: GNPA at 3.7% is lower compared to pro forma 4.2% on higher write-offs



Source: Company, Emkay Research

Exhibit 7: Collection efficiency (%)

Particulars	X Bucket Collection Efficiency	X Bucket Collection Efficiency	X Bucket Collection Efficiency
	Mar-21	Dec-20	Feb-20
Small Business Loans	99.60%	99.05%	99.41%
Vehicle Finance	98.85%	95.72%	96.50%
Micro Finance	98.70%	98.30%	98.50%

Source: Company, Emkay Research

Exhibit 8: Actual vs. Estimates (Q4FY21)

Rs mn	Actuals	Estimates	% Variation	Comments
		Emkay	Emkay	
Net income	6,270	5,565	13%	Higher fee income led to a beat
PPOP	2,498	1,986	26%	Net income supported PPOP
PAT	1,129	524	116%	Contained provisions led to a beat

Source: Company, Emkay Research

Exhibit 9: Quarterly Summary

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21E	FY22E	YoY (%)
Interest Earned	7,258	7,210	7,975	8,572	8,183	13	-5	31,941	38,503	21
Interest Exp	3,019	3,170	3,363	3,734	3,698	22	-1	13,970	16,231	16
Net Interest Income	4,239	4,040	4,612	4,839	4,486	6	-7	17,971	22,273	24
Global NIMs (reported)	9.11	8.63	9.02	8.47	7.57	-154bps	-90bps	8.5	8.6	3bps
Non-interest Income	736	300	637	1,463	1,784	142	22	4,181	4,311	3
Operating Expenses	3,092	2,880	3,053	3,551	3,771	22	6	13,255	15,364	16
Pre Provisioning Profit	1,884	1,460	2,197	2,750	2,498	33	-9	8,897	11,220	26
Provision & Contingencies	1,299	680	839	1,261	970	-25	-23	3,750	4,411	18
PBT	585	780	1,358	1,490	1,529	161	3	5,147	6,808	32
Income Tax Expense (Gain)	154	180	328	383	400	159	5	1,290	1,714	33
Net Profit/(Loss)	431	600	1,030	1,107	1,129	162	2	3,857	5,095	32
Gross NPA (%)	2.72	2.68	2.48	2.27	3.73	101bps	146bps	3.73	3.36	-37bps
Net NPA (%)	1.66	1.39	1.03	0.67	1.58	-8bps	91bps	1.58	1.37	-21bps
Deposits (Rs in bn)	108	118	129	159	164	52	3	164	210	28
Net Advances (Rs in bn)	137	144	159	168	168	23	0	168	211	25

Source: Company, Emkay Research

Exhibit 10: Revision in estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	25,859	26,584	2.8%	31,426	31,649	0.7%	38,610
PPOP	10,801	11,220	3.9%	13,362	13,474	0.8%	16,716
PAT	4,488	5,095	13.5%	6,293	6,503	3.3%	8,391
EPS (Rs)	3.9	4.5	14.7%	5.5	5.7	3.8%	7.4
BV (Rs)	33	34	2.6%	39	40	2.8%	47

Source: Emkay Research

We have revised our earnings estimates for FY22/23E by 14%/3%, factoring in better growth trajectory, asset-quality trends and lower credit cost.

Exhibit 11: Key assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	22.6	25.2	30.2	25.1
Deposit Growth %	51.9	28.3	31.3	27.8
NIM %	8.5	8.6	8.4	8.3
GNPA %	3.7	3.4	2.9	2.6
Credit Cost %	2.2	2.1	1.7	1.5

Source: Emkay Research

Exhibit 12: Key trends and ratios

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans (Rs bn)	116	120	130	137	137	144	159	168	168
-Growth % (YoY)	48.7	36.4	38.4	29.8	18.6	19.7	22.9	22.7	22.6
-Growth % (QoQ)	9.8	3.7	7.8	5.7	0.3	4.7	10.7	5.6	0.2
Liability Profile									
Deposit	90,067	91,330	100,250	104,932	107,884	117,870	129,006	158,620	163,920
Deposit (Rs bn)	90	91	100	105	108	118	129	159	164
-Growth % (YoY)	62.3	34.8	44.1	32.6	19.8	29.1	28.7	51.2	51.9
-Growth % (QoQ)	13.8	1.4	9.8	4.7	2.8	9.3	9.4	23.0	3.3
Asset Quality (%)									
GNPA	2.5	2.8	2.9	2.9	2.7	2.7	2.5	2.3	3.7
NNPA	1.4	1.7	1.8	1.7	1.7	1.4	1.0	0.7	1.6
PCR	43.4	44.1	43.8	43.5	45.2	48.8	50.2	66.2	58.6
Slippages (Rs mn)	644	794	1,146	1,272	881	154	229	365	5,146
Slippages - annualized (%)	3.3	3.6	4.9	4.8	3.0	0.5	0.7	1.1	15.0
ROE Decomposition %									
NII	8.5	8.3	8.3	8.6	9.0	8.0	8.4	8.0	7.2
Other Income	1.9	1.5	1.5	1.9	1.6	0.6	1.2	2.4	2.8
Opex	7.1	6.8	6.8	7.0	6.5	5.7	5.6	5.9	6.0
PPOP	3.2	3.0	3.0	3.5	4.0	2.9	4.0	4.6	4.0
Provisioning Cost	0.7	0.8	1.1	0.9	2.7	1.4	1.5	2.1	1.5
PBT	2.6	2.3	2.0	2.6	1.2	1.6	2.5	2.5	2.4
Tax	0.9	0.8	0.8	0.5	0.3	0.4	0.6	0.6	0.6
ROA	1.7	1.5	1.1	2.1	0.9	1.2	1.9	1.8	1.8
Leverage (x)	6.8	7.0	7.2	6.6	6.9	7.2	7.5	7.4	7.4
ROE	11.6	10.2	8.1	13.9	6.3	8.6	14.2	13.5	13.3

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	14,954	17,971	22,273	26,881	33,328
Other income	2,824	4,181	4,311	4,768	5,282
Fee income	210	1,590	1,829	2,194	2,589
Net income	17,777	22,152	26,584	31,649	38,610
Operating expenses	11,801	13,255	15,364	18,174	21,895
Pre provision profit	5,977	8,897	11,220	13,474	16,716
PPP excl treasury	5,943	8,465	11,004	13,280	16,521
Provisions	2,466	3,750	4,411	4,785	5,502
Profit before tax	3,511	5,147	6,808	8,690	11,214
Tax	1,073	1,290	1,714	2,187	2,823
Tax rate	31	25	25	25	25
Profit after tax	2,438	3,857	5,095	6,503	8,391

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	10,534	11,393	11,393	11,393	11,393
Reserves	16,796	22,459	27,665	34,168	42,559
Net worth	27,330	33,851	39,058	45,561	53,952
Deposits	107,884	163,920	210,254	276,092	352,854
Borrowings	49,149	41,653	37,488	35,613	33,833
Total liabilities	193,145	247,152	294,738	369,381	457,945
Cash and bank	3,809	5,148	5,405	5,676	5,960
Investments	23,425	37,052	47,571	59,824	74,191
Loans	137,472	168,479	210,966	274,650	343,560
Others	4,751	5,984	6,800	7,730	8,796
Total assets	193,145	247,152	294,738	369,381	457,945

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	9.0	8.5	8.6	8.4	8.3
Non-ll/avg assets	1.6	1.9	1.6	1.4	1.3
Fee income/avg assets	0.1	0.7	0.7	0.7	0.6
Opex/avg assets	6.7	6.0	5.7	5.5	5.3
Provisions/avg assets	1.4	1.7	1.6	1.4	1.3
PBT/avg assets	2.0	2.3	2.5	2.6	2.7
Tax/avg assets	0.6	0.6	0.6	0.7	0.7
RoA	1.4	1.8	1.9	2.0	2.0
RoAE	9.8	12.6	14.0	15.4	16.9
GNPA (%)	3.0	3.7	3.4	2.9	2.6
NNPA (%)	1.8	1.6	1.4	1.0	0.8

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	2.4	3.5	4.5	5.7	7.4
BVPS	26.5	30.9	34.3	40.0	47.4
ABVPS	24.7	29.1	32.4	38.1	45.6
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	23.4	15.8	12.4	9.7	7.5
P/BV	2.2	1.9	1.7	1.5	1.2
P/ABV	2.1	1.8	1.6	1.4	1.2
P/PPOP	9.7	7.0	5.6	4.7	3.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	29.8	20.2	23.9	20.7	24.0
PPOP	40.2	48.9	26.1	20.1	24.1
PAT	15.8	58.2	32.1	27.6	29.0
Loans	18.6	22.6	0.0	0.0	0.0

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	4,239	4,040	4,612	4,839	4,486
NIM(%)	9.1	8.6	9.0	8.5	7.6
PPOP	1,884	1,460	2,197	2,750	2,498
PAT	431	600	1,030	1,107	1,129
EPS (Rs)	0.41	0.57	0.98	0.97	0.99

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-20	Nov-21
Promoters	82.1	81.9
FIIIs	1.5	1.02
DIIIs	11.7	12.8
Public and Others	4.7	4.2

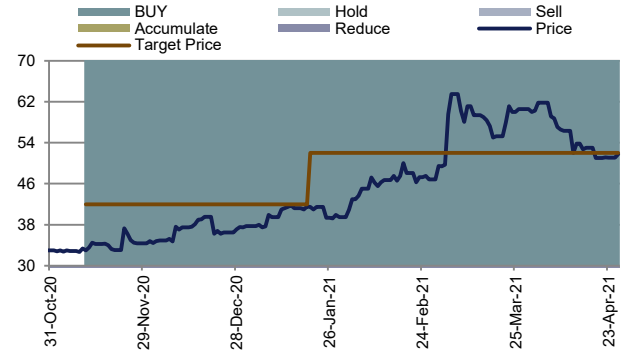
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Jan-21	39	52	12m	Buy	Anand Dama
20-Jan-21	41	52	12m	Buy	Anand Dama
11-Nov-20	33	42	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



Analyst: Anand Dama

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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	20.98	20.95	-0.1%	-3	100.00
Axis Bank	2.22	2.31	4%	9	11.00
AU Small Finance Bank	0.29	0.25	-13%	-4	1.19
Bandhan Bank	0.28	0.33	18%	5	1.59
Bank of Baroda	0.15	0.10	-31%	-5	0.50
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.15	0.22	48%	7	1.05
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00
Federal Bank	0.18	0.23	23%	4	1.09
HDFC Bank	7.16	7.29	2%	13	34.73
ICICI Bank	5.11	5.26	3%	15	25.08
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.63	0.71	13%	8	3.38
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.82	2.32	-18%	-50	11.08
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.12	0.12	0%	0	0.55
State Bank of India	1.66	1.81	9%	15	8.62
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.03	NA	3	0.15

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	01-Apr-19	29-Apr-20	28-Oct-20	27-Jan-21	26-Mar-21	28-Apr-21
EAP - BFSI-Banks	100.0	72.9	84.7	104.1	113.8	115.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	72.0	83.4	102.4	111.6	113.5

*Performance measurement base date 1st April 2019

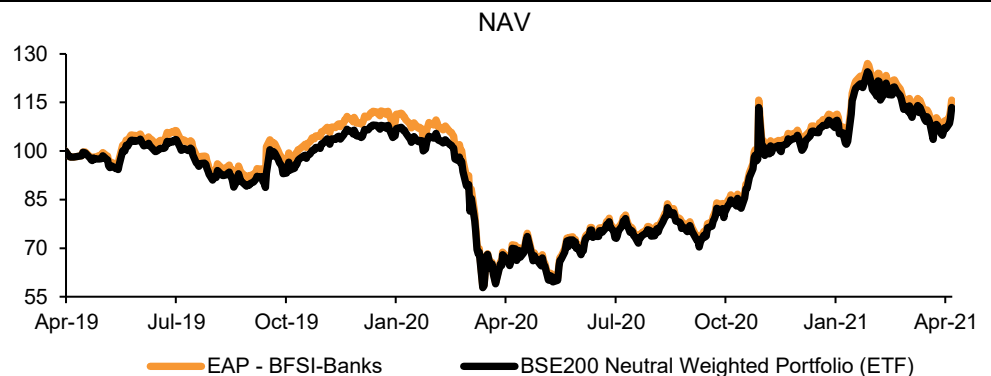
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	1.7%	11.1%	36.7%	58.7%
BSE200 Neutral Weighted Portfolio (ETF)	1.7%	10.8%	36.0%	57.6%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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