

Industry	Financial
Bloomberg	EQUITAS IN
BSE CODE	539844

Strong Diversified Growth

RATING	BUY
CMP	107
Price Target	132
Potential Upside	23%

Rating Change	↔
Estimate Change	↔
Target Change	↓

Stock Info

52wk Range H/L	173/78
Mkt Capital (Rs Cr)	3667
Free float (%)	42%
Avg. Vol 1M (,000)	6211
No. of Shares	34
Promoters Pledged %	

Research Analyst

DEEPAK KUMAR

Deepak.kumar@narnolia.com

+91-22-62701205

Sweta Padhi

Shweta.padhi@narnolia.com

+91-22-62701227

Key Highlights -

- Growth in the new (Non MFI) portfolio has increased at an average run rate of 45% for last 2 years. EQUITAS has successfully transformed its loan book mix post demonetization it has lowered its MFI book from as high as 70% to 27% as at 1HFY19. Now with the stabilization of loan mix it continues to witness robust growth across portfolio. We expect AUM CAGR growth of 40% for FY18-20.
- Board of directors has constituted a listing committee for listing of EQUITAS SFB within 4th September 2019. Board will consider scheme of arrangement & reconstruction and other option considering various compliance without need to go for IPO presently. EQUITAS holding plans to dilute up to 60% of its holding in favor of its existing shareholders.
- The increase share in low yielding portfolio and rising cost of deposits scenario has raised concern over NIM improvement in near term.
- New method of recognizing NPA has raised GNPA level to 3.36% while on an apple to apple basis it has declined to 2.73% from 2.84% QoQ.

2Q FY19 Results-

EQUITAS reported strong 2QFY19 numbers with robust AUM growth of 36%. Net Interest Income (NII) grew by 21% YoY. NIM has increased to 7.77% from 7.29% QoQ. However operating expenditure grew by 7% YoY, total income grew by 30% YoY, which led to fall in the cost to income (C/I) ratio by 15 bps to 69%. Other income has grown at the rate of 90% YoY. PAT has registered a robust 356% YoY growth with the lower base effect. GNPA has further deteriorated from 2.84% from 3.36% QoQ while NNPA has risen to 1.51% from 1.98% QoQ. Provision growth has increased by 13% YoY.

View and Valuation

Loan book has picked up to 35% after restructuring of the portfolio towards lower risk assets. MFI book mix has declined to almost 1/4th of the portfolio. Management has reiterated AUM growth guidance of 40%+ in FY19. Increase share in low yielding portfolio and rising cost of deposits has raised concern over NIM improvement. Due to change in GNPA recognition method, credit cost is expected to increase. EQUITAS stock has been under pressure due to listing requirement of its small bank subsidiary which would have resulted in dilution in existing shareholders return. However management is exploring the ways to get it listed without IPO. We will wait and watch for the developments to take place. Considering rising cost, increase in GNPA and uncertainty over the process of listing its subsidiary, we reduce our valuation multiple to 1.7x P/BVS FY20e and arrive at the target price of Rs 132. We maintain BUY.

Key Risks to our rating and target

- Rise in asset quality.
- NIM pressure going ahead.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	601	855	925	1146	1535
PPP	319	354	223	438	720
PAT	167	159	31	227	356
NIM %	9.8	11.3	8.7	8.2	8.0
EPS (Rs)	6	5	1	7	10
EPS growth (%)	56	-24	-80	624	57
ROE (%)	13.3	8.9	1.4	9.5	13.3
ROA (%)	3.0	2.0	0.3	1.5	1.7
BV	50	66	67	74	84
P/B (X)		2.6	2.1	1.5	1.3
P/E (x)		36.1	155.2	16.1	10.3

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2Q FY 19 Results In Line with Expectation

Rising Productivity

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	388	397	439	482	533	37.4%	10.6%	1,442	1,598	10.8%
Interest Exp.	159	162	191	228	256	61.6%	12.4%	587	674	14.7%
NII	230	235	248	254	277	20.7%	8.9%	855	925	8.1%
Other Income	34	38	43	61	65	89.8%	5.8%	114	189	66.1%
Total Income	264	273	291	316	342	29.6%	8.3%	969	1,114	14.9%
Ope Exp.	219	231	223	239	234	6.8%	-2.2%	615	891	44.8%
PPP	44	42	68	76	108	142.0%	41.3%	354	223	-37.0%
Provisions	27	87	14	21	31	12.7%	45.9%	103	172	67.0%
PBT	17	(45)	54	55	77	342.8%	39.6%	251	51	-79.6%
Tax	7	(15)	19	20	27	321%	38.5%	92	20	-78.5%
Extra Items	-	-	-	-	-			-	-	
Net Profit	11	(30)	35	35	50	356.1%	40.2%	159	31	-80%

NIM under Pressure

NII growth has been strong at 21% YoY, backed by a strong AUM of 36% growth and disbursement growth of 56% YoY. NIM (reported) has increased sequentially to 7.77% from 7.29% in 1QFY19. The yield on advances has increased from 19.20% to 19.45% QoQ, while the cost of funds has increased by 74 bps to 8.74% QoQ. Cost of Deposit has increased from 6.9% to 7.1% QoQ. Cost of Customer deposit has increased from 6.80% to 6.90% QoQ. Deposit de grew this quarter as EQUITAS has available refinance fund up to of Rs 2000 Cr out of which Rs 1000 is used in 1HFY19; rest is expected to be availed in 2HFY19. It has enough excess liquidity in its balance sheet to fund its strong incremental growth without facing any liquidity crunch.

Strong Growth

AUM grew by 36% YoY on the back of lower base and disbursement grew by 56% YoY. Growth was mainly driven by new product lines like new CV portfolio, agri loans & small & mid corporate loan by 707%, 214% & 378%. Housing segment growth was at 110% YoY, micro lap segment growth was at 51% YoY, business loans at 111% & others portfolio at 335%. Securitization portfolio stands at 5% in the total portfolio. Disbursement was mainly driven by new CV, MFI & housing portfolio at 185%, 131% & 104% YoY. The share of MFI to Non MFI book stands at 27% & 73%. Investment book has declined to Rs 3283 Cr. Management has reiterated its previous guidance of 40%+ growth going forward.

Assets quality

GNPA has increased to 3.36% from 2.84% QoQ and NNPA sequentially has increased to 1.98% from 1.51% QoQ. Overall PCR has declined steady to 41% QoQ. GNPA of MFI has marginally declined from 90 bps to 88 bps QoQ. GNPA in MSE, business loan & vehicle finance is at 2.63%, 3.08% & 6.83% as at 2QFY19. With the rising collection efficiency of the overall bucket from 97% to 99% we expect asset quality to improve going forward. Collection efficiency of vehicle finance & small business loans stood at 87.3% & 98.2%.

Other Details

EQUITAS has slowed down branch expansion as asset and liability center have remained stable (598 & 393) QoQ. We expect cost to trend down as management diverts focus from expansion to productivity. Management has reiterated C/I ratio of 70% for FY19.

Capital adequacy ratio stood at 23.8% with Tier I of 22.27%.

Concall

- ❑ Cost to Income ratio guidance has been reiterated at 70% level. Number of branches will grow at a normal. Operating expenses to remain at Rs 250 Cr level for next 2 quarters.
- ❑ Even with strong disbursement 22% growth Used CV has run down is little higher pre-closure is high. Loan growth guidance is expected to be 40%+ for FY19.
- ❑ Management budgets to recognize 3% of NPA & 1.25 bps of credit cost.
- ❑ Board has constituted a listing committee for listing of EQUITAS SFB listing within 4th September 2019. The board is to consider scheme of arrangement & reconstruction and other option without need to go for IPO presently. EQUITAS holding would to dilute up to 60% of its holding in favor of its existing shareholders and remain as a non core operating Investment Company till it get approval to merge with the bank.
- ❑ 23.5% capital adequacy will be leveraged for growth going ahead. Management highlighted it does not has any capital raising plans for next 3 years.

Profitability Matrix

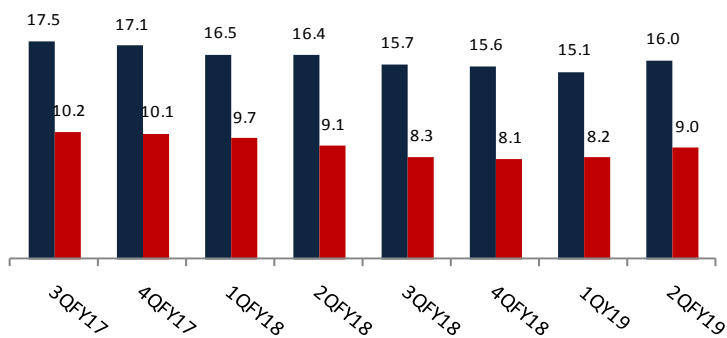
	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	80.4	76.7	83.1	84.7	76.8	75.9	68.5	-14.62	-7.35
Empl. Cost/ Tot. Exp. %	60.2	59.2	59.3	57.4	54.6	57.7	57.9	-1.46	0.19
Other Exp/Tot. Exp.%	32.4	31.7	30.5	32.9	35.0	42.3	32.3	1.79	-10.06
Provision/PPP %	77.0	63.5	60.8	207.1	20.6	27.4	28.3	-32.50	0.91
Tax Rate %	37.1	38.4	37.4	33.8	34.9	35.8	35.6	-1.87	-0.25
Int Exp./Int Inc. (%)	41.5	42.4	40.8	40.7	43.6	47.3	48.0	7.20	0.79
Other Inc./NII %	0.3	1.2	0.5	0.5	0.5	0.7	0.6	0.18	-0.04
PPP/ Net Income %	19.6	23.3	16.9	15.3	23.2	24.1	31.5	14.62	7.35
PAT/ Net Income %	2.8	5.2	4.1	(10.9)	12.0	11.2	14.5	10.41	3.30
NII Growth % (YoY)	30.0	5.6	14.5	2.7	11.9	17.9	20.7	6.20	2.77
PPP Growth YoY %	(45.8)	(39.0)	(67.7)	(59.9)	42.5	9.7	142.0	209.62	132.28
PAT Growth %	(85.3)	(74.5)	(76.5)	-166	408.7	127.2	356.1	432.54	228.88

Margin Performance

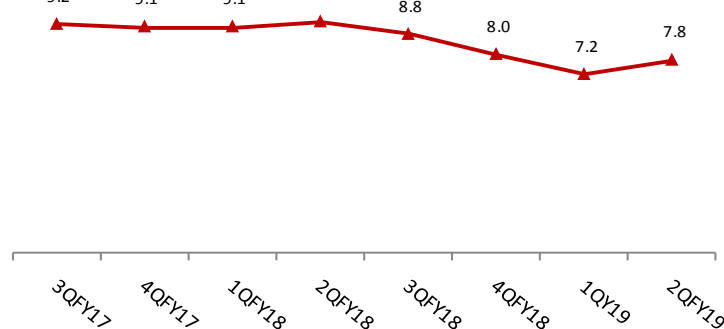
Margin %	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	17.1	16.5	16.4	15.7	15.6	15.1	16.0	-0.45	0.87
Cost Of Funds	10.1	9.7	9.1	8.3	8.1	8.2	9.0	-0.15	0.77
Spreads	7.0	6.8	7.3	7.4	7.4	6.9	7.0	-0.30	0.09
NIM	9.1	9.1	9.3	8.8	8.0	7.2	7.8	-1.53	0.57

Exhibit: Yield and Cost
Stable Margins

■ Yield% (Cal.) ■ Cost of Fund % (Cal.)

Exhibit: Net Interest Margin
NIM steady

—▲ NIM % on AUM



Asset & Borrowings Growth Trend

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Disbursements	1544	1166	1036	1055	1395	1580	1580	1914	2171
Growth YoY %	28	-17	-32	-24	-10	36	53	81	56
AUM	7079	7181	7176	7035	7326	7720	8238	8925	9981
Growth YoY %	45	30	17	7	3	8	15	27	36
Borrowings	6153	5822	6543	6532	7373	8259	10607	11635	11212
Growth YoY %	67	40	40	57	20	42	62	78	52

Exhibit: AUM Growth %

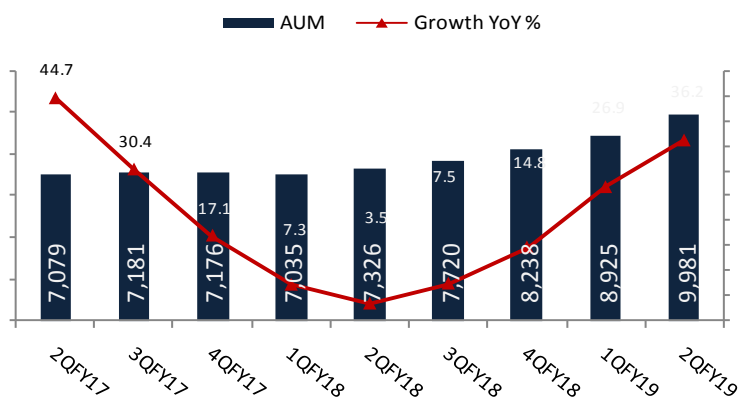
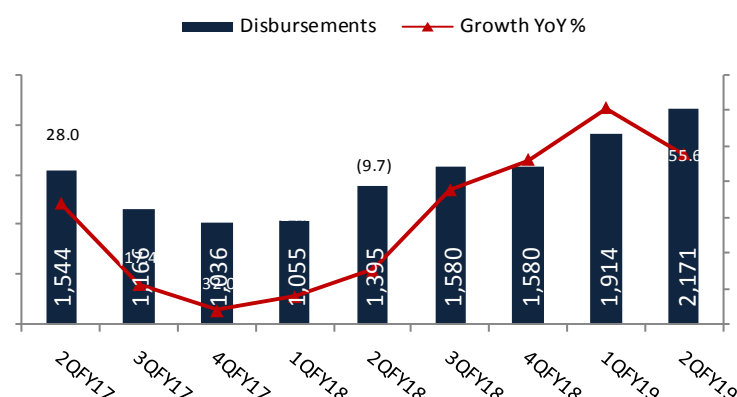


Exhibit: Disbursement Growth %



Asset Mix

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Micro Finance	51	49	46	42	36	32	28	27	27
Vehicle Finance	25	26	27	28	28	28	27	27	25
Micro LAP/Property finance	20	20	21	23	24	26	26	27	27
Other	4	4	6	7	11	14	18	19	21

Asset Quality

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
GNPA	206	300	370	356	213	239	319	19	80
GNPA %	3.5	4.9	5.8	5.0	2.7	2.8	3.4	(1.6)	0.5
NNPA	105	163	199	116	112	127	188	25	61
NNPA %	1.5	2.4	2.8	1.6	1.4	1.5	2.0	(0.4)	0.5
Total Specific PCR %	49	46	46	67	28	53	55	9	2

Collection Efficiency

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Karnataka	77.1	77.8	78.8	80.5	82.7	84.8	87.2	90.2	93.5
Maharashtra	76.0	77.0	78.4	80.4	82.4	84.5	87.0	89.5	92.7
Madhya Pradesh	83.2	83.3	83.4	82.8	85.4	86.5	87.7	90.2	92.4
All India	95.1	95.4	95.4	96.3	96.7	97.2	97.6	98.1	98.6

Exhibit: Asset Quality

Deterior asset quality

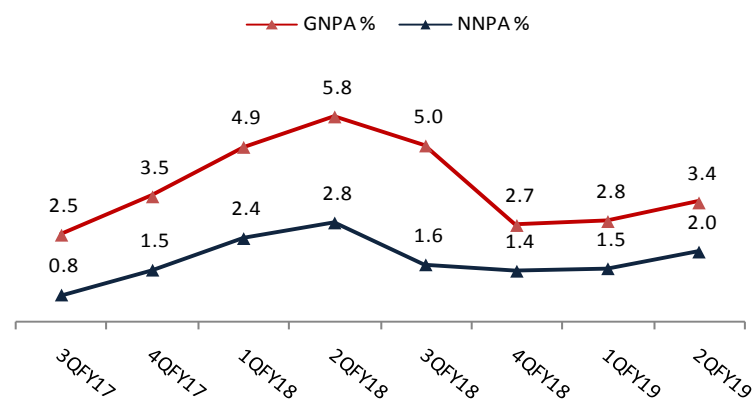


Exhibit: Provisions

PCR improvement

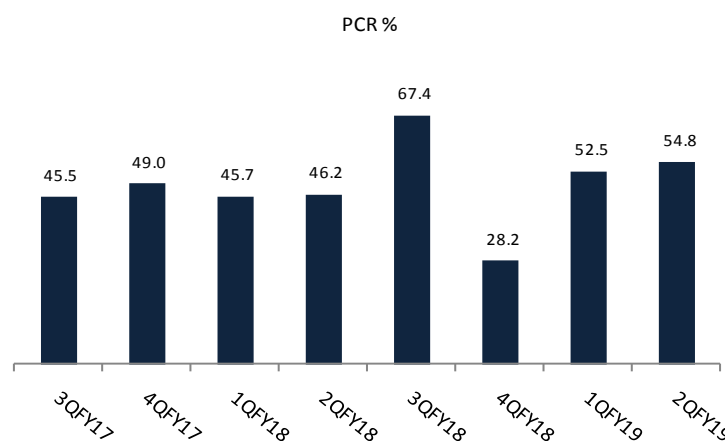


Exhibit: AUM Break Up

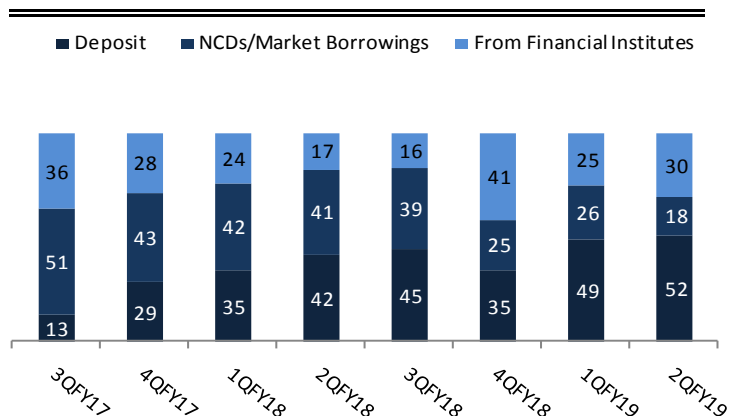
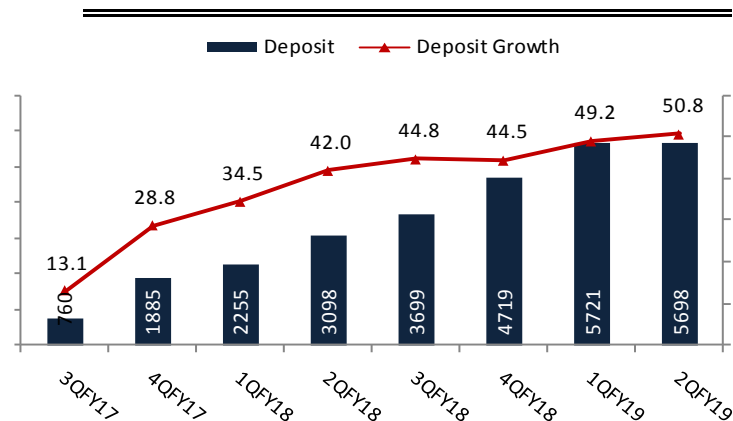


Exhibit: Deposit Break Up



Borrowing Mix

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Deposits	13	29	35	42	45	35	49	52
NCDs/Market Borrowings	51	43	42	41	39	25	26	18
From Financial Institutes	36	28	24	17	16	41	25	30

Deposit

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
CASA	760.0	1885	2255	3098	3699	4719	5721	5698
>> CA			133	225	267	385	509	329
>>SA		327	452	653	940	1249	1325	1643
>>TD		1558	1670	2220	2492	3085	3887	3726

Number of Customer

GLOBAL DEPOSITS	1,03,500	1,66,000	229000+	283000+	337000+	408121+
GLOBAL SAVINGS DEPOSITS	74,800+	1,16,000	171000+	218000+	265000+	325524+
GLOBAL CURRENT DEPOSITS	14,300+	30,000+	41000+	48000+	55000+	61922+
GLOBAL CASA DEPOSITS	89,100+	1,46,000	212000+	266000+	320000+	387446+
GLOBAL TERM DEPOSITS	14,300+	16,000+	17000+	17000+	17000+	20675+

Exhibit: Asset Quality

Rise in Credit Cost

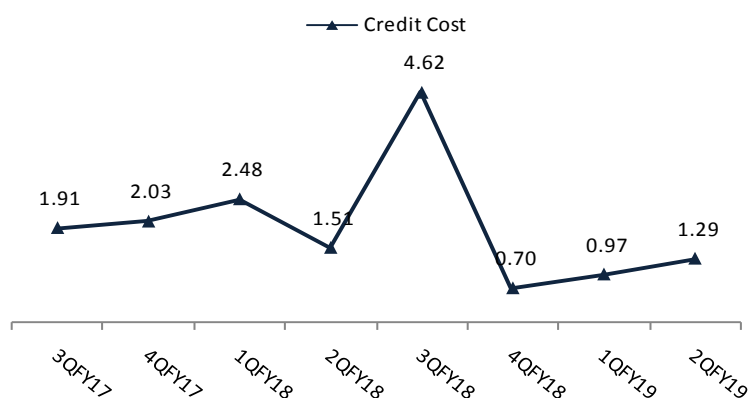
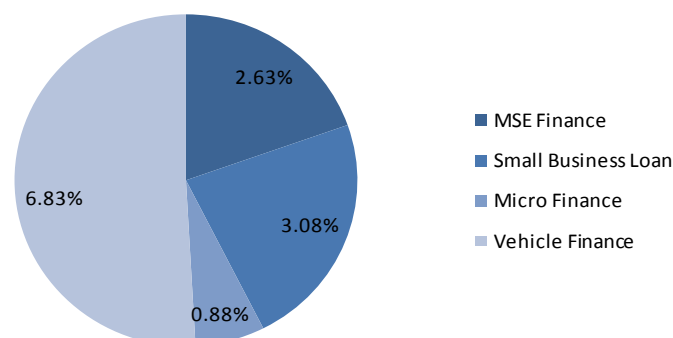


Exhibit: Provisions

GNPA Segmentwise



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	58	73	269	270	338	340	340	340
>> Equity Capital	58	73	269	270	338	340	340	340
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	414	669	902	1,071	1,893	1,936	2,163	2,518
Networth	472	742	1,171	1,341	2,231	2,276	2,503	2,859
Deposit	-	-	-	-	1,885	4,719	7,209	12,422
Change (%)	-	-	-	-	-	150	53	72
>> CASA Deposits	-	-	-	-	327	1,634	2,080	2,268
Change (%)	-	-	-	-	327	1,634	2,080	2,268
Borrowings	1,274	1,849	3,032	4,683	6,543	10,607	13,108	18,351
Other Liabilities & Provisions	82	127	209	393	493	437	1,789	2,846
Total Liabilities	1,854	2,751	4,465	6,507	9,444	13,495	17,662	24,423
Cash Balances	446	415	557	947	1,065	1,192	1,656	2,001
Investments	8	4	176	12	1,896	3,857	4,325	6,211
Change (%)	3,674	(52)	4,779	(93)	15,610	103	12	44
Advances	1,213	2,123	3,465	5,070	5,829	7,800	10,958	15,341
Change (%)	97	75	63	46	15	34	40	40
Fixed Assets	24	27	47	62	329	330	346	388
Other Assets	163	182	220	415	325	315	376	482
Total Assets	1,854	2,751	4,465	6,507	9,444	13,495	17,662	24,423

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	282	482	687	1,037	1,442	1,598	2,207	2,954
Interest expended	108	190	295	436	587	674	1,061	1,418
Net Interest Income	175	293	392	601	855	925	1,146	1,535
Change (%)	28	68	34	53	42	8	24	34
Other Income	1	1	69	78	114	189	263	368
Change (%)	65	6	6,233	13	46	66	39	40
Total Net Income	176	294	461	679	969	1,114	1,409	1,904
Operating Expenses	126	162	247	360	615	891	970	1,184
Change (%)	5	28	53	45	71	45	9	22
>> Employee Expenses	78	100	155	234	396	520	571	693
Pre-provisioning Profit	50	132	214	319	354	223	438	720
Change (%)	202	167	62	49	11	(37)	96	64
Provisions	9	18	50	59	103	172	130	173
Change (%)	39	106	174	17	74	67	(25)	33
PBT	41	114	163	260	251	51	309	548
Tax	8	40	57	93	92	20	82	192
Profit After Tax	33	74	107	167	159	31	227	356
Change (%)	(791)	127	44	56	(5)	(80)	624	57

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	1,484	2,485	4,010	6,126	7,176	8,239	11,535	16,148
AUM Growth (%)	105.0	67.5	61.4	52.8	17.1	14.8	40.0	40.0
Borrowing Growth (%)		45.1	64.0	54.5	39.7	62.1	23.6	40.0
Loan/Borrowing (%)	95.3	114.8	114.3	108.3	89.1	73.5	83.6	83.6
CASA (%)	-	-	-	-	17.5	34.6	28.9	18.3
CRAR (%)	27.2	22.9	21.2	29.6	35.5	29.6	22.9	19.0
>> Tier 1 (%)	-	-	-	-	32.3	27.1	20.8	17.2
>> Tier 2 (%)	-	-	-	-	3.2	2.5	2.1	1.8

Assets Quality Metrics

Gross NPA (Rs)	-	-	37	68	206	356	329	460
Gross NPA (%)	0.3	0.7	1.1	1.3	3.5	2.7	3.0	3.0
Net NPA (Rs)	-	-	28	48	105	112	148	207
Net NPA (%)	0.2	0.6	0.8	0.9	1.5	1.4	1.4	1.4
Specific Provision Coverage (%)			25.6	29.9	49.0	28.2	55.0	55.0
Provision/Average Advances (%)	0.8	0.9	1.6	1.2	1.5	2.2	1.3	1.2

Margin Metrics

Yield On Advances (%)	25.6	24.3	21.1	20.5	20.8	18.1	18.6	18.4
Yield On Investment (%)	-	-	-	-	6.1	6.9	8.9	7.7
Yield On Earning Assets (%)	-	-	-	-	19.0	15.1	15.8	15.5
Cost Of Deposit (%)								
Cost Of Funds (%)	16.9	12.1	12.1	11.3	10.5	7.9	8.9	9.0
Spread (%)	8.7	12.2	9.1	9.2	8.5	7.2	6.8	6.4
NIM on AUM (%)	15.8	14.8	12.1	11.9	12.9	12.0	11.6	11.1
NIM on Earning Assets (%)	-	-	-	9.8	11.3	8.7	8.2	8.0

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	38.1	39.3	42.9	42.0	42.4	48.2	57.6	55.7
Cost to Income (%)	71.8	55.0	53.6	53.0	63.4	80.0	68.9	62.2
Cost on Average Assets (%)	9.0	7.0	6.9	6.6	7.7	7.8	6.2	5.6
Tax Rate (%)	19.5	34.9	34.6	35.8	36.7	38.7	26.4	35.0

Valuation Ratio Metrics

EPS (Rs)	5.7	10.2	4.0	6.2	4.7	0.9	6.7	10.5
Change (%)	(631.7)	80.4	(61.1)	55.8	(23.9)	(80)	623.6	56.8
ROAE (%)	8.5	12.2	11.2	13.3	8.9	1.4	9.5	13.3
ROAA (%)	2.3	3.2	3.0	3.0	2.0	0.3	1.5	1.7
Dividend Payout (%)	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-
Book Value(Rs)	41	51	44	50	66	67	74	84
Change (%)	20.4	25.0	(14.7)	14.1	32.9	1.3	10.0	14.2
ABVPS (Rs)	41	51	43	48	63	64	69	78
P/B (X)	-	-	-	-	2.6	2.1	1.5	1.3
P/E (X)	-	-	-	-	36.1	155.2	16.1	10.3

Financial Details

Exhibit: DuPont Analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	20.1	21.0	19.0	18.9	18.1	13.9	14.2	14.0
<i>Interest expended</i>	7.6	8.2	8.2	7.9	7.4	5.9	6.8	6.7
<i>Net Interest Income</i>	12.4	12.7	10.9	11.0	10.7	8.1	7.4	7.3
<i>Non-Fund Based Income</i>	0.1	0.0	1.9	1.4	1.4	1.7	1.7	1.8
<i>Total Income</i>	12.5	12.8	12.8	12.4	12.2	9.7	9.0	9.0
<i>Total Operating Expenses</i>	9.0	7.0	6.9	6.6	7.7	7.8	6.2	5.6
<i>>> Employee Expenses</i>	5.5	4.4	4.3	4.3	5.0	4.5	3.7	3.3
<i>>> Other Expenses</i>	3.4	2.7	2.6	2.3	2.7	3.2	2.6	2.3
<i>Operating Profit</i>	3.5	5.7	5.9	5.8	4.4	1.9	2.8	3.4
<i>Provisions</i>	0.6	0.8	1.4	1.1	1.3	1.5	0.8	0.8
<i>Others</i>								
<i>PBT</i>	2.9	4.9	4.5	4.7	3.2	0.4	2.0	2.6
<i>Tax</i>	0.6	1.7	1.6	1.7	1.2	0.2	0.5	0.9
PAT/RoAA	2.3	3.2	3.0	3.0	2.0	0.3	1.5	1.7
<i>Equity Multiplier (x)</i>	3.6	3.8	3.8	4.4	4.5	5.1	6.5	7.8
ROAE	8.5	12.2	11.2	13.3	8.9	1.4	9.5	13.3

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*The name of the Company has been changed from “Microsec Capital Limited” to “Narnolia Financial Advisors Limited” pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of “Narnolia Financial Advisors Limited” pursuant to change of control is under process with SEBI.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.
Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFIRegistered Mutual Fund distributor: ARN 3087

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