

Equitas Holding Ltd.

Industry	Financial
Bloomberg	EQUITAS IN
BSE CODE	539844

Strong AUM Growth and NIM Improvement Drives Profitability.

RATING	BUY
CMP	121
Price Target	151
Potential Upside	25%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	173/78
Mkt Capital (Rs Cr)	4129
Free float (%)	74%
Avg. Vol 1M (,000)	1938
No. of Shares (Crore)	34
Promoters Pledged %	

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3QFY19 Result Update

- NII & PAT was in line with our expectations. NII has grown at a robust rate of 36% YoY driven by strong growth in NIM. Pre provisioning profit grew at 192% YoY. PAT has grown at the rate of 26% QoQ to Rs 63 Cr.
- NIM expansion was 71 bps to 9.70% QoQ. Yield has increased by 31 bps to 16.88% while cost of fund has declined by 147 bps to 8.36% YoY. The NIM expansion was mainly led by hike in interest rate by 50 bps, pre-payment of high cost borrowings & lower investment book.
- AUM growth was strong at 41% YoY led by robust disbursement of 43% YoY. The growth was mainly driven by MFI, small business loan, New CV & agri loan segments. Deposit grew at 79% YoY to Rs 6618 Cr. CASA stood at 30.5% as at 3QFY19.
- GNPA has improved to 3.13% from 3.36% QoQ and NNPA sequentially has declined to 1.75% from 1.98% QoQ. Overall PCR has improved to 44 % from 41% QoQ.
- Board of directors has approved a composite scheme of arrangement of between EQUITAS & SFB. Whereby ESFBL will issue & allot 89.21 Cr of equity share for no cash consideration to the shareholder of the EQUITAS Holding by capitalizing security premium & reserves. This will lead to 47% dilution. The swap ratio will be fixed as per the record date; it may be near 2.6 ranges). Management stated that the aforesaid transaction will be tax neutral..

View and Valuation

Loan book has picked up the growth as the management is done with de-risking the portfolio. MFI book mix has declined to almost 1/4th of the portfolio as per the strategy of management. Disbursement growth has remained strong at 36% and management had reiterated its 35-40% growth guidance in FY20. Margins has improved due to prepayment of high cost legacy borrowings and benefit of utilization of excess liquidity, but NIM is expected to remain under pressure due to rising share of lower yield asset, however improvement in operation efficiency will provide cushion to profitability. Asset quality has shown overall improvement across portfolio except for MSE segment in unsecured segment, however management is cautious and will replace this segment with less risky assets over a period of time. For the listing of EQUITAS SFB management has approved to dilute the shareholding in EQUITAS SFB to 47%, by allotting 89.21 Cr of equity share in favour of existing shareholders. This scheme is subject to various regulatory approval. EQUITAS is currently trading at attractive valuation of 1.5x BVPS FY20e. We maintain BUY with the target price of Rs 151.

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	1195	1596
PPP	319	354	223	447	743
PAT	167	159	31	215	371
NIM %	9.8	11.3	8.7	8.6	8.5
EPS (Rs)	6	5	1	6	11
EPS growth (%)	56	-24	-80	586	72
ROE (%)	13.3	8.9	1.4	9.0	13.9
ROA (%)	3.0	2.0	0.3	1.4	1.8
BV	50	66	67	73	84
P/B (X)		2.6	2.1	1.7	1.5
P/E (x)		36.1	155.2	19.8	11.5

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3Q FY 19 Results
In Line with Expectation
Rising Productivity

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	397	439	482	533	557	40.4%	4.5%	1,442	1,598	10.8%
Interest Exp.	162	191	228	256	237	46.5%	-7.5%	587	674	14.7%
NII	235	248	254	277	320	36.1%	15.6%	855	925	8.1%
Other Income	38	43	61	65	65	72.1%	1.1%	114	189	66.1%
Total Income	273	291	316	342	386	41.1%	12.8%	969	1,114	14.9%
Opex Exp.	231	223	239	234	263	13.8%	12.4%	615	891	44.8%
PPP	42	68	76	108	123	192.2%	13.8%	354	223	-37.0%
Provisions	87	14	21	31	24	-72.1%	-20.5%	103	172	67.0%
PBT	(45)	54	55	77	98	-3.1868	27.4%	251	51	-79.6%
Tax	(15)	19	20	27	36	-335%	30.2%	92	20	-78.5%
Extra Items	-	-	-	-	-			-	-	
Net Profit	(30)	35	35	50	63	LTP	25.8%	159	31	-80%

NIM has expanded QoQ

NII growth has been strong at 36% YoY, backed by a strong AUM of 41% growth and disbursement growth of 43% YoY. NIM (Calc.) has increased sequentially to 9.70% from 8.99% in 2QFY19. The yield on advances has increased from 20.33% to 20.80% QoQ, while the cost of funds has decreased by 147 bps to 8.36% QoQ. Cost of Deposit has increased from 7.16% to 7.35% QoQ. Cost of Customer deposit has increased from 7.16% to 7.44% QoQ. Management has increased the yield by 50 bps, lower the lower yielding investment book & prepaid high cost legacy borrowing which resulted in NIM expansion to the tune 71 bps QoQ.

Strong Growth

AUM grew strong by 41% YoY on the back of lower base and disbursement grew by 43% YoY. Growth was mainly driven by new product lines like new micro finance, CV portfolio, agri, small & mid corporate loan by 20%, 282%, 121% & 244%. Housing segment declined by 9% YoY, micro lap segment growth was at 72% YoY, business loans at 52% & others portfolio at 84%. Securitization portfolio stands at 1% in the total portfolio. Disbursement was mainly driven by micro finance, new CV, SBL & housing portfolio at 69%, 53%, 69% & 49% YoY. The share of MFI to Non MFI book stands at 27% & 73%. Investment book has declined to Rs 3118 Cr. Management has reiterated its previous guidance of 35-40% growth going forward. Deposit book grew at 79% to Rs 6618 Cr, CASA standing at 31% of the total deposit.

Assets quality

GNPA has improved to 3.13% from 3.36% QoQ and NNPA sequentially has declined to 1.75% from 1.98% QoQ. Overall PCR has improved to 44 % from 41% QoQ. GNPA of MFI has marginally declined from 88 bps to 74 bps QoQ. GNPA in MSE, business loan & vehicle finance is at 4.29%, 2.79% & 6.27% as at 3QFY19. Collection efficiency of the overall bucket has declined to 98.6% to 97.6% we expect asset quality to improve going forward. Collection efficiency of vehicle finance & small business loans stood at 88.56% & 98.13%. Asset quality in the MSE book has declined due to spike in GNPA in the unsecured segment.

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 23.04% with Tier I of 21.57%.
- ✓ EQUITAS has 10 branches in 4 affected districts of GAJA cyclone hit. Collection efficiency has improved from 40% in Nov to 70% in Jan. In this areas share of fortnightly payment is 40% while monthly payment is at 60%.

Concall Highlights

- Increase of yield by 50 bps, lower investment book & prepayment of high cost legacy borrowings has resulted in NIM expansion. FD of Rs 900 Cr was mobilized in 3QFY19. Saving deposit has declined due to higher conversion to FD. Rate for 1 year is at 8.5% for 2 year 8.8%. Yield on unsecured business loan is at 18%, Used vehicle is at 20%.
- Board of directors has approved a composite scheme of arrangement of between EQUITAS & SFB. Whereby ESFBL will issue & allot 89.21 Cr of equity share for low cash consideration to the shareholder of the EQUITAS Holding by capitalizing security premium & reserves. This will lead to 47% dilution. The swap ratio will be fixed as per the record rate; it may be near 2.6 ranges). Management plans to put the scheme within 1 week.
- SFB has Rs 829 Cr of security premium & reserves as at 4QFY18. The scheme is tax neutral on bank & holding company also.
- PSLC expense of Rs 24 Cr is one off event; OPEX is expected to grow in the range of Rs 240 Cr range. 1HFY19 management plans to have sales expense in the existing branches while in 2HFY19 it plans to expand branches by 5-7% . C/I ratio is expected to trend downward in the next few quarter to 55-60% range. PSLC expense of Rs 6.5 Cr is expected to be booked in 4QFY19.
- In MSE segment, management is declining the share of unsecured book & increasing the secured & working capital. GNPA of MSE business has risen due to rise in NPA of unsecured book; recovery has started via legal proceedings.
- Investment is expected to remain in this range. EQUITAS will keep 15 day surplus liquidity for SLR requirement while declining non-SLR book.
- EQUITAS has 10 branches in 4 affected districts of GAJA cyclone hit. Collection efficiency has improved from 40% in Nov to 70% in Jan. In this areas share of fortnightly payment is 40% while monthly payment is at 60%.
- Banks has mobilized Rs 115 Cr in insurance premium, Rs 90 Cr in Mutual Fund. CP worth Rs 200 Cr & NCD worth Rs 25 Cr has redeemed this quarter. Refinance sanction of Rs 600 Cr is received from SIDBI.
- Tamil Nadu exposure is expected to come down by 5-7% every year.
- MSE is overlap between asset & liability portfolio.

Profitability Matrix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	76.7	83.1	84.7	76.8	75.9	68.5	68.2	-16.42	-0.27
Empl. Cost/ Tot. Exp. %	59.2	59.3	57.4	54.6	57.7	57.9	50.9	-6.49	-7.02
Other Exp/Tot. Exp.%	31.7	30.5	32.9	35.0	42.3	32.3	31.2	-1.69	-1.04
Provision/PPP %	63.5	60.8	207.1	20.6	27.4	28.3	19.8	-187.34	-8.53
Tax Rate %	38.4	37.4	33.8	34.9	35.8	35.6	36.3	2.51	0.80
Int Exp./Int Inc. (%)	42.4	40.8	40.7	43.6	47.3	48.0	42.5	1.78	-5.51
Other Inc./NII %	1.2	0.5	0.5	0.5	0.7	0.6	0.6	0.11	-0.05
PPP/ Net Income %	23.3	16.9	15.3	23.2	24.1	31.5	31.8	16.42	0.27
PAT/ Net Income %	5.2	4.1	(10.9)	12.0	11.2	14.5	16.2	27.09	1.67
NII Growth % (YoY)	5.6	14.5	2.7	11.9	17.9	20.7	36.1	33.44	15.47
PPP Growth YoY %	(39.0)	(67.7)	(59.9)	42.5	9.7	142.0	192.2	252.05	50.20
PAT Growth %	(74.5)	(76.5)	(166.2)	409	127.2	356.1	310.4	476.55	-45.66

Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	16.5	16.4	15.7	15.6	15.1	16.0	16.9	1.23	0.93
Cost Of Funds	9.7	9.1	8.3	8.1	8.2	9.0	8.4	0.08	-0.61
Spreads	6.8	7.3	7.4	7.4	6.9	7.0	8.5	1.14	1.54
NIM	9.1	9.3	8.8	8.0	7.2	7.8	9.0	0.18	1.21

Exhibit: Yield and Cost

Improving Margins

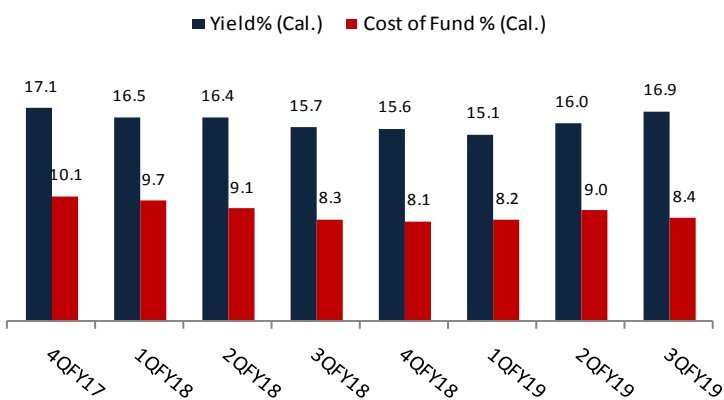
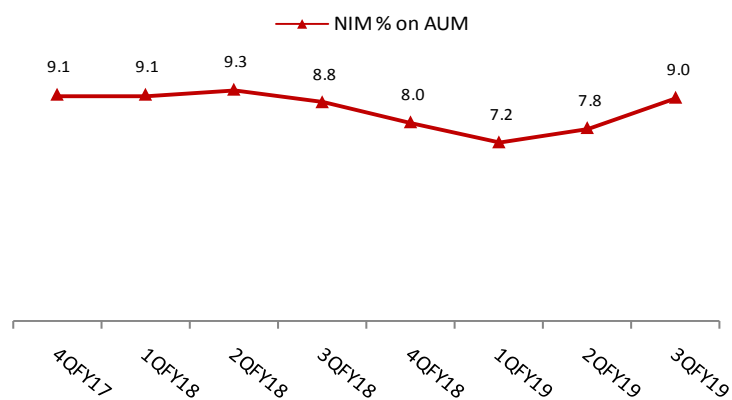


Exhibit: Net Interest Margin

NIM expansion



Asset & Borrowings Growth Trend

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Disbursements	1166	1036	1055	1395	1580	1580	1914	2171	2265
Growth YoY %	-17	-32	-24	-10	36	53	81	56	43
AUM	7181	7176	7035	7326	7720	8238	8925	9981	10861
Growth YoY %	30	17	7	3	8	15	27	36	41
Borrowings	5822	6543	6532	7373	8259	10607	11635	11212	11898
Growth YoY %	40	40	57	20	42	62	78	52	44

Exhibit: AUM Growth %

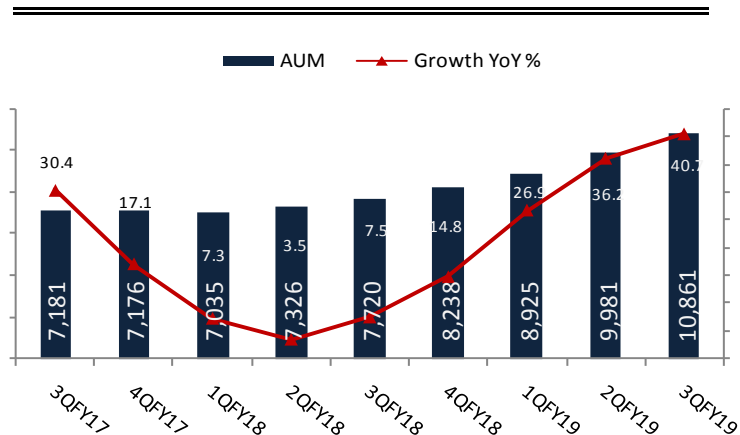
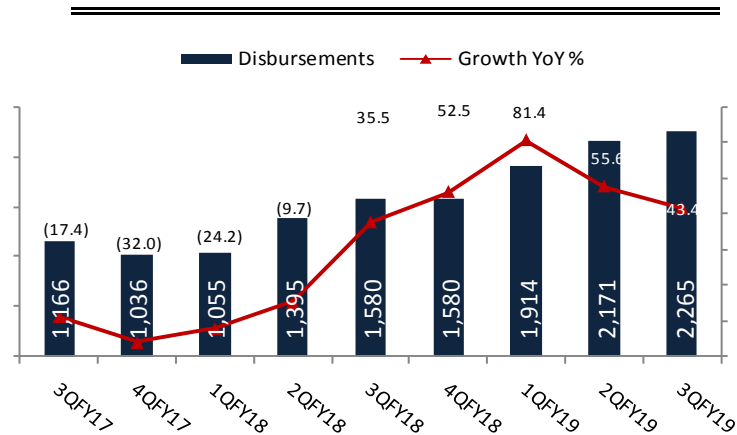


Exhibit: Disbursement Growth %



Asset Mix

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Micro Finance	49	46	42	36	32	28	27	27	27
Vehicle Finance	26	27	28	28	28	27	27	25	25
Micro LAP/Property finance	20	21	23	24	26	26	27	27	32
Other	4	6	7	11	14	18	19	21	16

Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
GNPA	300	370	356	213	239	319	335	(21)	16
GNPA %	4.9	5.8	5.0	2.7	2.8	3.4	3.1	(1.8)	(0.2)
NNPA	163	199	116	112	127	188	187	71	(1)
NNPA %	2.4	2.8	1.6	1.4	1.5	2.0	1.8	0.1	(0.2)
Total Specific PCR %	46	46	67	28	53	55	47	(21)	(8)

Collection Efficiency

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	
Vehicle Finance		84.5	87.9	87.8	87.6	87.4	87.3	88.6
Maharashtra		98.2	98.2	98.2	98.2	98.2	98.2	98.1

Exhibit: Asset Quality

Improvement in Asset Quality

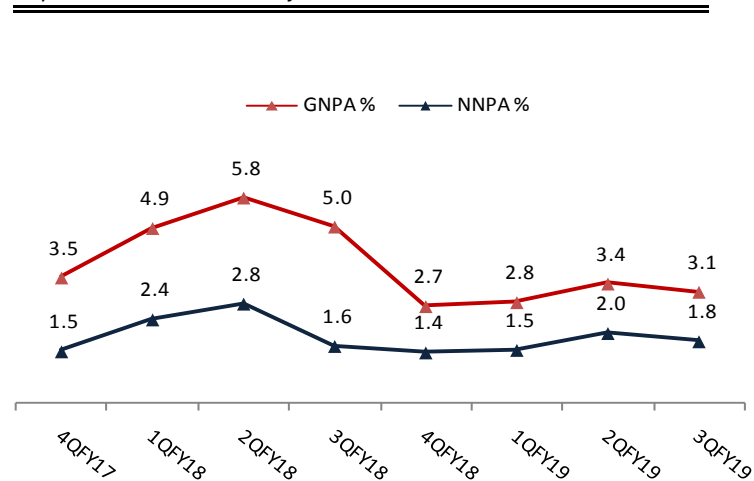


Exhibit: Provisions

PCR declined

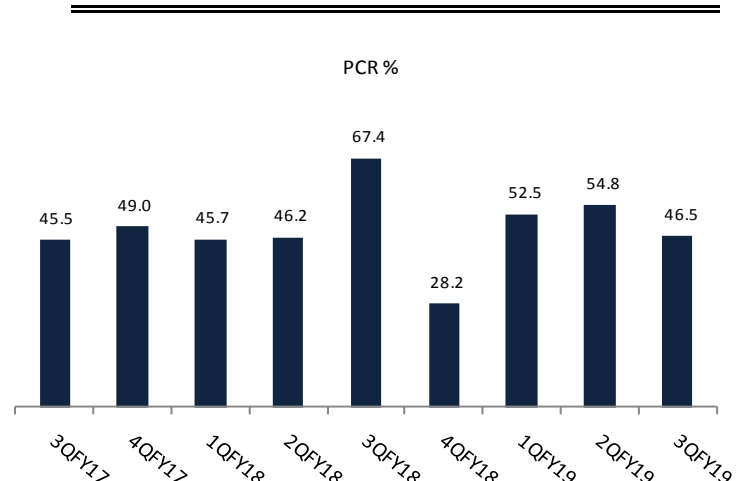


Exhibit: Liability Break Up

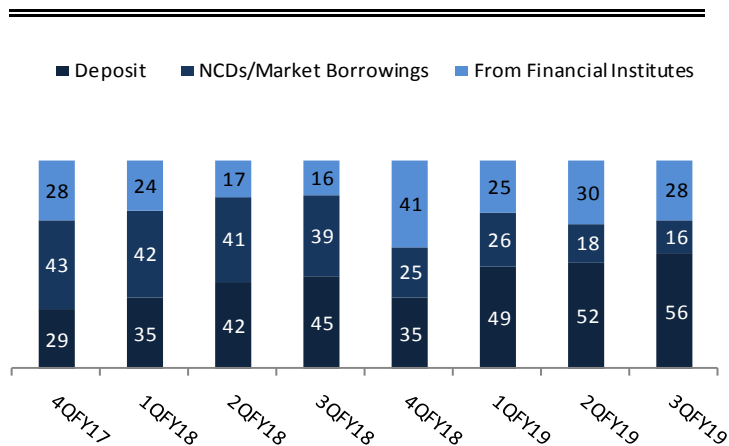
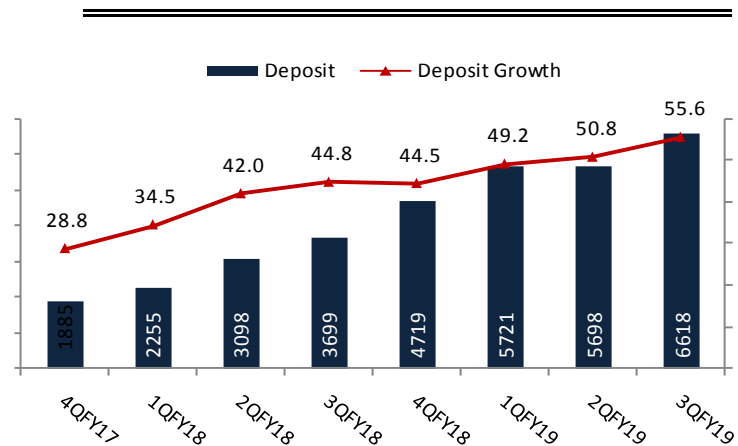


Exhibit: Deposit Growth



Borrowing Mix

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Deposits	29	35	42	45	35	49	52	56
NCDs/Market Borrowings	43	42	41	39	25	26	18	16
From Financial Institutes	28	24	17	16	41	25	30	28

Deposit

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
CASA	1885	2255	3098	3699	4719	5721	5698	6618
>> CA		133.0	225	267	385	509	329	460
>>SA		452	653	940	1249	1325	1643	1556
>>TD	1558	1670	2220	2492	3085	3887	3726	4602

Number of Customer

GLOBAL DEPOSITS	1,03,500	1,66,000	229000+	283000+	337000+	408121+	477933
GLOBAL SAVINGS DEPOSITS	74,800+	1,16,000	171000+	218000+	265000+	325524+	377824
GLOBAL CURRENT DEPOSITS	14,300+	30,000+	41000+	48000+	55000+	61922+	69142
GLOBAL CASA DEPOSITS	89,100+	1,46,000	212000+	266000+	320000+	387446+	446966
GLOBAL TERM DEPOSITS	14,300+	16,000+	17000+	17000+	17000+	20675+	30967

Exhibit: Asset Quality

Decline in Credit Cost

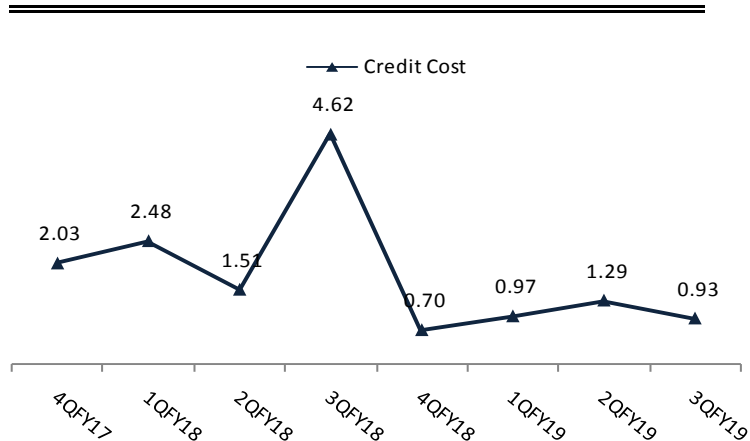
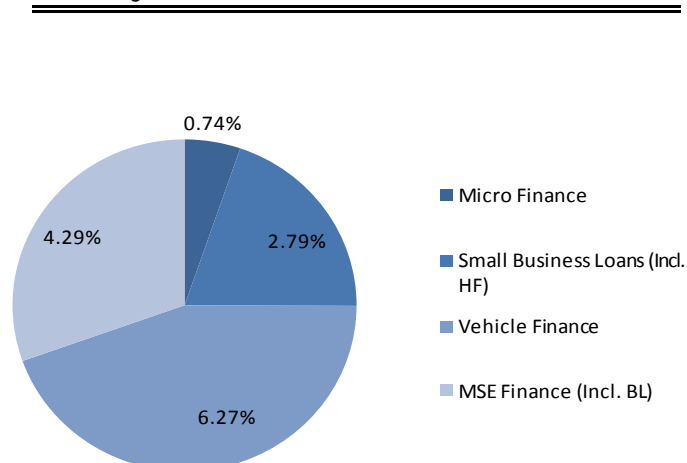


Exhibit: Provisions

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	2,151	2,522
Networth	472	742	1,171	1,341	2,231	2,276	2,491	2,862
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	1,920	2,296
Total Liabilities	1,854	2,751	4,465	6,507	9,444	13,495	17,716	23,784
Cash Balances	446	415	557	947	1,065	1,192	1,710	1,983
Investments	8	4	176	12	1,896	3,857	4,325	5,590
Change (%)	3,674	(52)	4,779	(93)	15,610	103	12	29
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	17,716	23,784

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	282	482	687	1,037	1,442	1,598	2,192	2,970
Interest expended	108	190	295	436	587	674	997	1,375
Net Interest Income	175	293	392	601	855	925	1,195	1,596
Change (%)	28	68	34	53	42	8	29	33
Other Income	1	1	69	78	114	189	252	369
Change (%)	65	6	6,233	13	46	66	33	46
Total Net Income	176	294	461	679	969	1,114	1,448	1,964
Operating Expenses	126	162	247	360	615	891	1,001	1,221
Change (%)	5	28	53	45	71	45	12	22
>> Employee Expenses	78	100	155	234	396	520	561	715
Pre-provisioning Profit	50	132	214	319	354	223	447	743
Change (%)	202	167	62	49	11	(37)	100	66
Provisions	9	18	50	59	103	172	112	173
Change (%)	39	106	174	17	74	67	(35)	54
PBT	41	114	163	260	251	51	335	571
Tax	8	40	57	93	92	20	119	200
Profit After Tax	33	74	107	167	159	31	215	371
Change (%)	(791)	127	44	56	(5)	(80)	586	72

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	22.8	19.6
>> Tier 1 (%)	-	-	-	-	32.3	27.1	20.7	17.7
>> Tier 2 (%)	-	-	-	-	3.2	2.5	2.1	1.9

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	1.1	1.2

Margin Metrics

Yield On Advances (%)	25.6	24.3	21.1	20.5	20.8	18.1	18.8	18.6
Yield On Investment (%)	-	-	-	-	6.1	6.9	8.1	8.0
Yield On Earning Assets (%)	-	-	-	-	19.0	15.1	15.7	15.8
Cost Of Funds (%)	16.9	12.1	12.1	11.3	10.5	7.9	8.4	8.7
Spread (%)	8.7	12.2	9.1	9.2	8.5	7.2	7.3	7.1
NIM on AUM (%)	15.8	14.8	12.1	11.9	12.9	12.0	12.1	11.5
NIM on Earning Assets (%)	-	-	-	9.8	11.3	8.7	8.6	8.5

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	38.1	39.3	42.9	42.0	42.4	48.2	53.6	53.4
Cost to Income (%)	71.8	55.0	53.6	53.0	63.4	80.0	69.1	62.2
Cost on Average Assets (%)	9.0	7.0	6.9	6.6	7.7	7.8	6.4	5.9
Tax Rate (%)	19.5	34.9	34.6	35.8	36.7	38.7	35.7	35.0

Valuation Ratio Metrics

EPS (Rs)	5.7	10.2	4.0	6.2	4.7	0.9	6.3	10.9
Change (%)	(631.7)	80.4	(61.1)	55.8	(23.9)	(80)	586.4	72.2
ROAE (%)	8.5	12.2	11.2	13.3	8.9	1.4	9.0	13.9
ROAA (%)	2.3	3.2	3.0	3.0	2.0	0.3	1.4	1.8
Dividend Payout (%)	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-
Book Value(Rs)	40.9	51.1	43.5	49.7	66.0	66.9	73.2	84.1
Change (%)	20	25	(15)	14	33	1	9	15
ABVPS (Rs)	41	51	43	48	63	64	69	78
P/B (X)	-	-	-	-	2.6	2.1	1.7	1.5
P/E (X)	-	-	-	-	36.1	155.2	19.8	11.5

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	14.0	14.3
<i>Interest expended</i>	7.6	8.2	8.2	7.9	7.4	5.9	6.4	6.6
<i>Net Interest Income</i>	12.4	12.7	10.9	11.0	10.7	8.1	7.7	7.7
<i>Non-Fund Based Income</i>	0.1	0.0	1.9	1.4	1.4	1.7	1.6	1.8
<i>Total Income</i>	12.5	12.8	12.8	12.4	12.2	9.7	9.3	9.5
<i>Total Operating Expenses</i>	9.0	7.0	6.9	6.6	7.7	7.8	6.4	5.9
>> <i>Employee Expenses</i>	5.5	4.4	4.3	4.3	5.0	4.5	3.6	3.4
>> <i>Other Expenses</i>	3.4	2.7	2.6	2.3	2.7	3.2	2.8	2.4
<i>Operating Profit</i>	3.5	5.7	5.9	5.8	4.4	1.9	2.9	3.6
<i>Provisions</i>	0.6	0.8	1.4	1.1	1.3	1.5	0.7	0.8
<i>Others</i>								
<i>PBT</i>	2.9	4.9	4.5	4.7	3.2	0.4	2.1	2.7
<i>Tax</i>	0.6	1.7	1.6	1.7	1.2	0.2	0.8	1.0
<i>PAT/RoAA</i>	2.3	3.2	3.0	3.0	2.0	0.3	1.4	1.8
<i>Equity Multiplier (x)</i>	3.6	3.8	3.8	4.4	4.5	5.1	6.5	7.8
<i>ROAE</i>	8.5	12.2	11.2	13.3	8.9	1.4	9.0	13.9

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Analyst's ownership of the stocks mentioned in the Report	NIL
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