

Equitas Holdings Limited

Industry
Bloomberg
BSE CODE

Financial
EQUITAS IN
539844

Sustained Strong Performance, Listing Deadline Likely to Miss

RATING	BUY
CMP	106
Price Target	151
Potential Upside	43%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	163/78
Mkt Capital (Rs Cr)	3732
Free float (%)	84%
Avg. Vol 1M (,000)	2759
No. of Shares (Cr)	34
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	1236	1548	2007
PPP	373	628	946
PAT	176	329	489
NIM %	12.4	11.2	11.1
EPS (Rs)	5	10	14
EPS growth	460	87	49
ROE (%)	4	13	16
ROA (%)	0.6	1.8	2.0
BV	72	81	96
P/B (X)	1.5	1.3	1.1
P/E (x)	21	11	7

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1QFY20 Result Update

- ❑ NII grew by 38% YoY growth was mainly driven by strong growth in advances. PAT is in-line with our estimates. PAT grew by 139% YoY from Rs 29 Cr to Rs 70 Cr. Spread declined by 133/21 bps YoY/QoQ to 10.47%. C/I ratio declined from 80.61% to 69.56% YoY due to decline in OPEX.
- ❑ AUM growth of 38.4%/4% YoY/QoQ driven by entire segment. Disbursement growth has slowed down to 9% YoY.
- ❑ GNPA increased by 23 bps to 2.75% sequentially however it improved by 9 bps on YoY basis. NNPA declined from 1.59% to 1.54% QoQ .
- ❑ On the listing front, management stated that IPO will not be in the best interest of existing shareholders. The scheme of arrangement has been submitted to SEBI for approval. Listing deadline is likely to miss.

NIM Contraction offset by Improved Efficiency

NII grew by 38% YoY growth was mainly driven by strong growth in advances. NIM declined by 133 bps from 11.20% to 10.47% YoY due to increase in cost of fund and change in assets mix. The yield on advances declined from 19.20% to 18.40% YoY. Cost of fund increased from 8.13% to 8.23% YoY. Cost of Deposit has increased from 7.08% to 7.76% YoY. Due to change in loan book composition yields will come. However, with the stabilization in expansion of network, opex growth is likely to remain below income growth. C/I ratio improved from 81% to 69.5% YoY as the total operating expenses growth moderated to 13% YoY. Management is not looking for much aggressive branch expansion and hence opex growth will remain under the earlier guidance of 15% growth.

Strong AUM growth

AUM growth of 38.4%/4% YoY/QoQ driven by entire segment and disbursement grew by 9% YoY. Growth was mainly driven by new product lines like new micro finance, CV portfolio, small & mid corporate loan with a sequential growth of 2%, 4%, & 14% respectively. Disbursement was mainly driven by CV, SBL & MSE portfolio at 6%, 69% & 27% YoY, while Micro finance de-grew by 13% YoY.

Deposit increased by 52% YoY from Rs 5721 Cr to Rs 8670 Cr, while CASA increased by 22% YoY.

Marginal Blip in Asset Quality

GNPA increased from 2.52% to 2.75% sequentially, while NNPA declined from 1.59% to 1.54% QoQ. GNPA of MF increased from 0.86% to 0.88%. GNPA in SBL, VF, MSE has increased by 2.72%, 4.36%, 1.08%. Slippage during the quarter increased from Rs 64 Cr to Rs 79 Cr, while recovery & up gradation declined from Rs 104 Cr to Rs 41Cr. PCR stood at 44%. Credit cost has increased from 0.89% to 1.02% QoQ. Management is comfortable with the collection efficiency and asset quality of the portfolio.

View and Valuation

Robust loan growth with healthy asset quality and efficiency improvement have been the growth driver for EQUITAS. Growth is expected to compound over 30% CAGR over the next two years given the healthier demand in the segment. Liability franchise is also showing strong trend. However, the growth in deposits were mainly due to high rates offering which has also resulted in CoF to increase. Going ahead due to change in assets mix towards low riskier assets will impact the NIM, however the improvement in efficiency will offset the impact. Growth and traction in fee income will drive the profitability going ahead. On the listing of SFB, it is likely to get delayed and management still holds the alternative scheme of listing instead of IPO to protect the shareholders interest. We maintain BUY with the target of Rs 151 at 1.5x BV FY21e.

Key Risks to our rating and target

- ❑ Slowdown in rural economy will impact the growth.
- ❑ Regulatory risk on listing of the small finance bank.

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1QFY20 Results In-Line with Our Estimate

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	Fig in Rs Cr		
								FY18	FY19	YoY %
Interest Inc.	491	533	557	579	630	28.4%	8.7%	1,598	2,195	37.3%
Interest Exp.	228	256	237	241	267	17.2%	10.7%	674	959	42.4%
Nil	263	277	320	338	363	38.0%	7.3%	925	1,236	33.7%
Other Income	20	65	65	23	26	28.8%	11.4%	189	75	-60.3%
Total Income	305	342	386	379	398	30.4%	4.9%	1,114	1,400	25.7%
Opex Exp.	246	234	263	272	277	12.5%	1.9%	891	1,027	15.3%
PPP	59	108	123	108	121	104.7%	12.3%	223	373	67.0%
Provisions	14	31	24	46	13	-3.0%	-71.2%	172	101	-41.1%
PBT	45	77	98	62	108	137.2%	74.9%	51	271	430.0%
Tax	16	27	36	20	38	133%	90.4%	20	95	379.3%
Net Profit	29	50	63	42	70	139.3%	67.6%	31	176	462%

Concall Highlights

- Listing Update- Board has approved the scheme of arrangement instead of an IPO. Management stated that the IPO will not be in the best interest of existing shareholders of EQUITAS Holding.
- Under the scheme bank will capitalize its free reserves and issue shares to the shareholders of the Holding Company in proportion to their holding in the holding company. Through this scheme 47% of the bank shares would be issued to the shareholders of the Holding company and 53% will be held with the holding company. Submitted the scheme to SEBI for approval and expect the same shortly. It will take 5-6 months to get NCLT approval, shareholders' approval and complete listing after SEBI approval. Accordingly, management is in touch with RBI to get the extension for listing.
- Micro finance disbursement slowed down due to election and sensitivity involved especially in Tamil Nadu.
- Inclusive branches started cross selling of the product and recurring deposits to MFI customer and bank has more than 1 Lakh recurring deposits account. And this is being roll over to other branches and is expected to complete in this quarter.
- Small loan business doing well in Maharashtra and Tamil Nadu and is expected to ramp up in the north for meaningful traction in the business.
- Vehicle Finance- New LCV market share is two and half percent and has good relationship with 125 dealers across the country. Have also preferred financier arrangement with all the major three OEMs. Objective is to increase this market share to 10% over the next 3 years.
- Used CV segment has seen pick up after FY18/FY19 and management expect the growth to pick up to 35% plus this year.
- Bank moved on with open architecture in insurance to single partner and management hope the productivity to improve in insurance distribution with the single partner.
- Management is comfortable with the collection efficiency and asset quality of the portfolio and holds the target to achieve 35% portfolio growth.
- In macro finance the rejection rate has gone up from 35-40% last year to 65% currently mainly because of number of institutions from whom client has taken and not much due overleveraging in terms of loan outstanding.
- Due to change in loan book composition yields will come and due to this operating expenses and credit risk will also come down, hence net effect on the margin including both will remain same.
- Management is not looking for much aggressive branch expansion and hence opex growth will remain under the earlier guidance of 15% growth.
- On the assets quality management expects better recoveries in Q2FY20.
- For semi and rural branches in south company is planning to launch a special saving account called NAMA account. This will help company to deeper mass penetration. This account offer insurance cover along with mutual fund.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	84.7	76.8	80.6	68.5	68.2	71.6	69.6	-11.05	-2.01
Empl. Cost/ Tot. Exp. %	57.4	54.6	58.4	57.9	50.9	54.5	61.4	2.98	6.83
Other Exp/Tot. Exp.%	32.9	35.0	32.4	32.3	40.3	36.7	26.1	-6.37	-10.64
Provision/PPP %	207.1	20.6	23.2	28.3	19.8	42.8	11.0	-12.18	-31.86
Tax Rate %	33.8	34.9	35.4	35.6	36.3	32.0	34.8	-0.57	2.83
Int Exp./Int Inc. (%)	40.7	43.6	46.4	48.0	42.5	41.6	42.4	-4.03	0.75
Other Inc./NII %	0.5	0.5	0.5	0.6	0.6	0.4	0.3	-0.19	-0.06
PPP/ Net Income %	15.3	23.2	19.4	31.5	31.8	28.4	30.4	11.05	2.01
PAT/ Net Income %	(10.9)	12.0	9.6	14.5	16.2	11.0	17.7	8.04	6.61
NII Growth % (YoY)	2.7	11.9	21.8	20.7	36.1	36.5	38.0	16.20	1.55
PPP Growth YoY %	(59.9)	42.5	(14.8)	142.0	192.2	59.7	104.7	119.58	45.05
PAT Growth %	(166.2)	408.7	87.9	356	310.4	20.1	139.3	51.35	119.15

Margin Performance

Margin %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	15.7	17.0	17.2	17.3	16.9	16.9	18.0	0.81	1.10
Cost Of Funds	8.3	9.3	9.6	9.8	8.4	8.1	8.6	-1.01	0.49
Spreads	7.4	7.6	7.5	7.5	8.6	8.8	9.4	1.82	0.60
NIM	8.8	8.0	7.3	7.8	9.0	8.9	8.6	1.33	-0.23

Exhibit: Yield and Cost

Yield and cost of fund increase

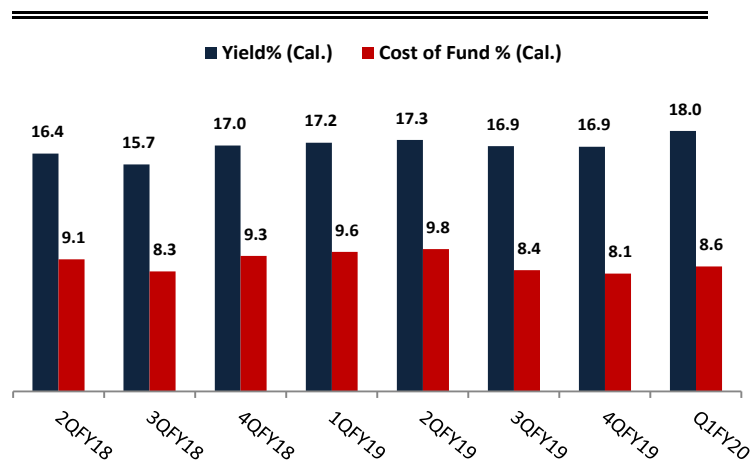
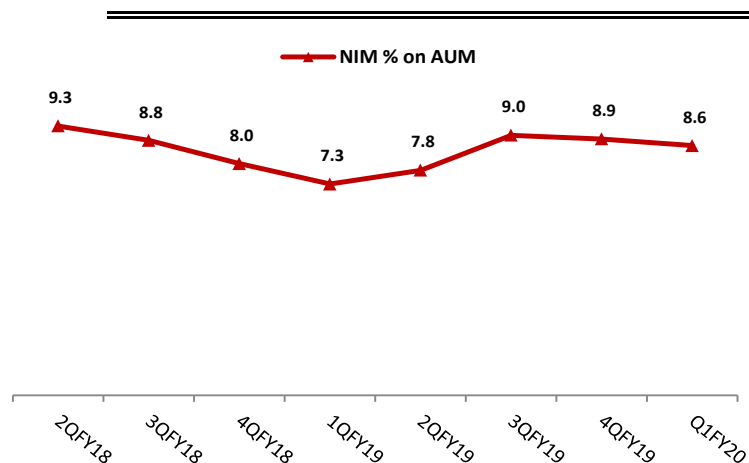


Exhibit: Net Interest Margin

NIM contracted



Asset & Borrowings Growth Trend

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Disbursements	1055	1395	1580	1679	1914	2171	2265	2215	2093
Growth YoY %	-24	-10	36	62	81	56	43	32	9
AUM	7035	7326	7720	8107	8925	9981	10861	11835	12355
Growth YoY %	7	3	8	13	27	36	41	46	38
Borrowings	6532	7373	8259	10607	11635	11212	11898	12801	13697
Growth YoY %	57	20	42	62	78	52	44	21	18

Exhibit: AUM Growth %

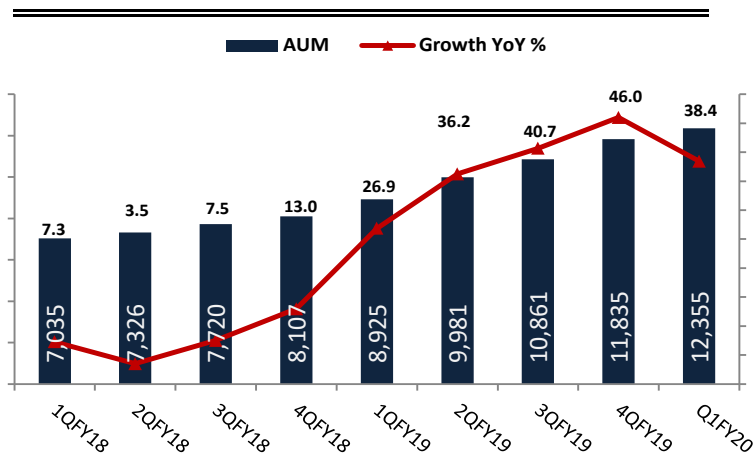
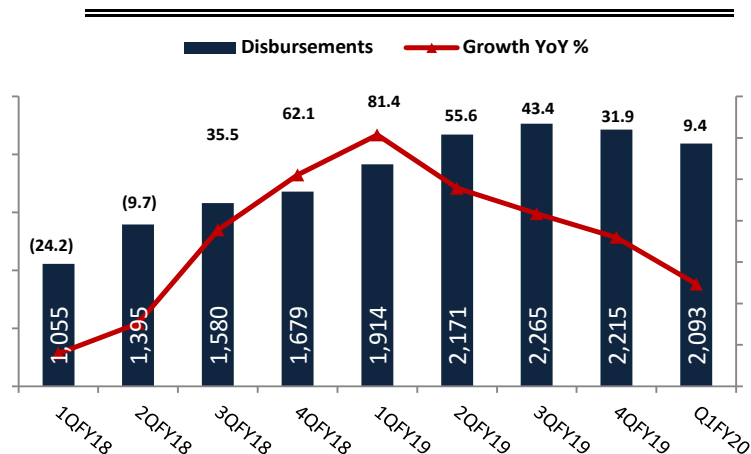


Exhibit: Disbursement Growth %



Asset Mix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Micro Finance	42	36	32	28	27	27	27	26	25
Vehicle Finance	28	28	28	28	27	25	25	25	25
Micro LAP/Property finance	23	24	26	27	27	27	32	40	33
Other	7	11	14	17	19	21	16	10	17

Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA	356	213	239	319	335	296	334	96	39
GNPA %	5.0	2.7	2.8	3.4	3.1	2.5	2.8	(0.1)	0.2
NNPA	116	112	127	188	187	167	187	60	20
NNPA %	1.6	1.4	1.5	2.0	1.8	1.6	1.5	0.0	(0.1)
Total Specific PCR %	67	28	53	55	47	38	50	(3)	11

Collection Efficiency

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Vehicle Finance	87.9	87.8	87.6	87.4	87.3	88.6	92.9	88.2
Small business Loans	98.2	98.2	98.2	98.2	98.2	98.1	98.0	98.7
Micro Finance Business				97.2	98.6	97.6	98.3	98.6

Exhibit: Asset Quality

Asset Quality Deteriorate

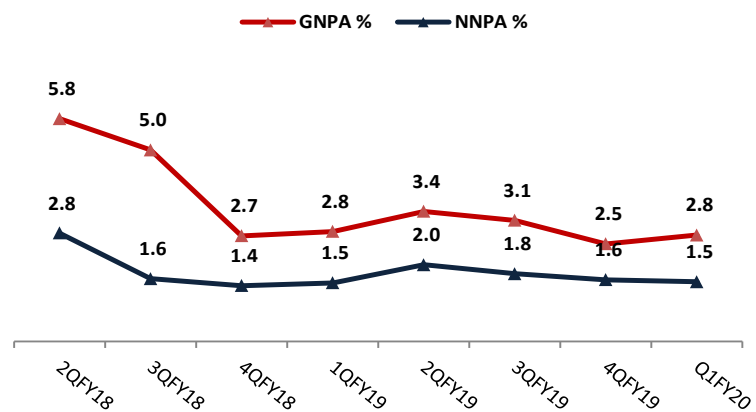


Exhibit: Provisions

PCR Increased

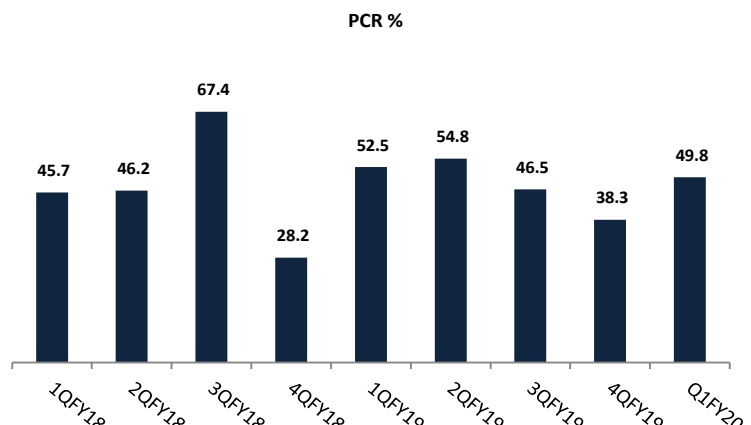


Exhibit: Liability Break Up

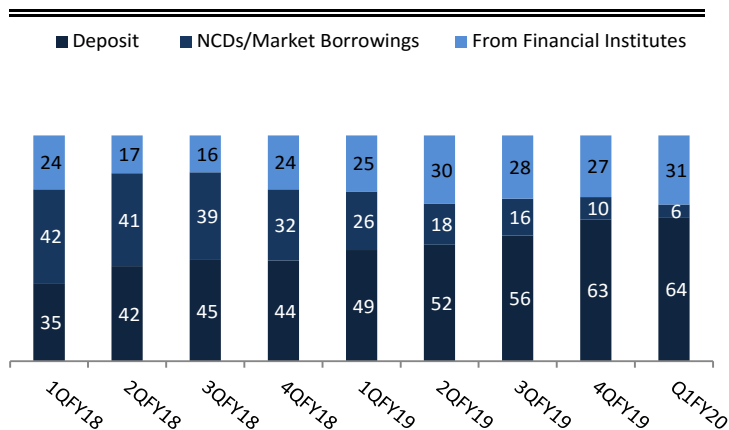
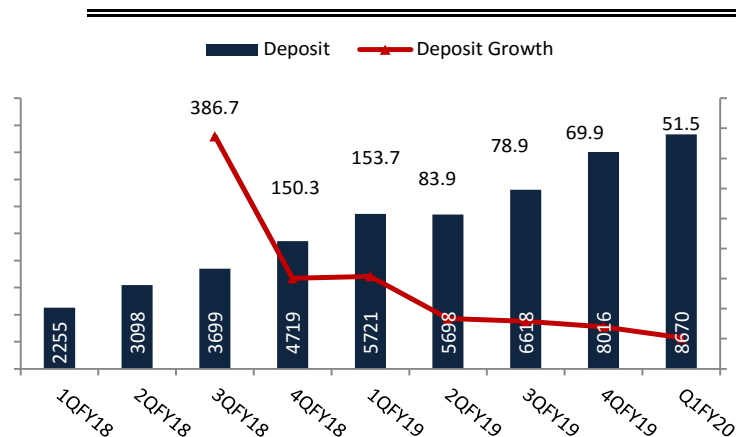


Exhibit: Deposit Growth



Borrowing Mix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Deposits	42	45	44	49	52	56	63	64
NCDs/Market Borrowings	41	39	32	26	18	16	10	6
From Financial Institutes	17	16	24	25	30	28	27	31

Deposit

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
CASA	878	1207	1634	1834	1972	2016	2272	2235
>> CA	225	267.0	385	509	329	460	480	472
>>SA	653	940	1249	1325	1643	1556	1792	1763
>>TD	2220	2492	3085	3887	3726	4602	5744	6435

Number of Customer

GLOBAL DEPOSITS	229000+	283000+	337000+	408121+	477933	441297	552934
GLOBAL SAVINGS DEPOSITS	74,800+	171000+	218000+	265000+	325524+	377824	416506
GLOBAL CURRENT DEPOSITS	14,300+	41000+	48000+	55000+	61922+	69142	79040
GLOBAL CASA DEPOSITS	89,100+	212000+	266000+	320000+	387446+	446966	397123
GLOBAL TERM DEPOSITS	14,300+	17000+	17000+	17000+	20675+	30967	44174

Exhibit: Asset Quality

Decline in Credit Cost

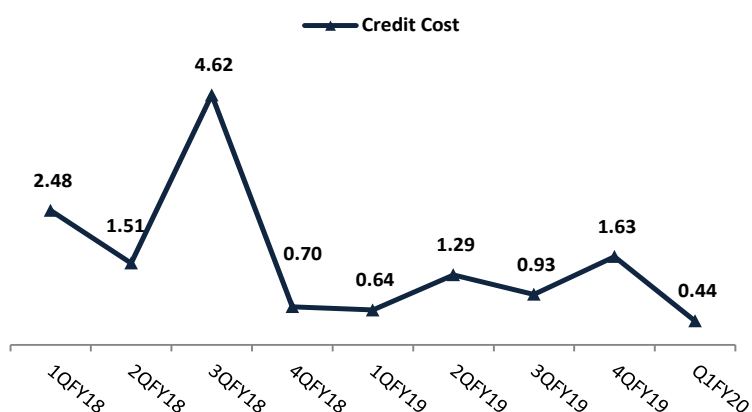
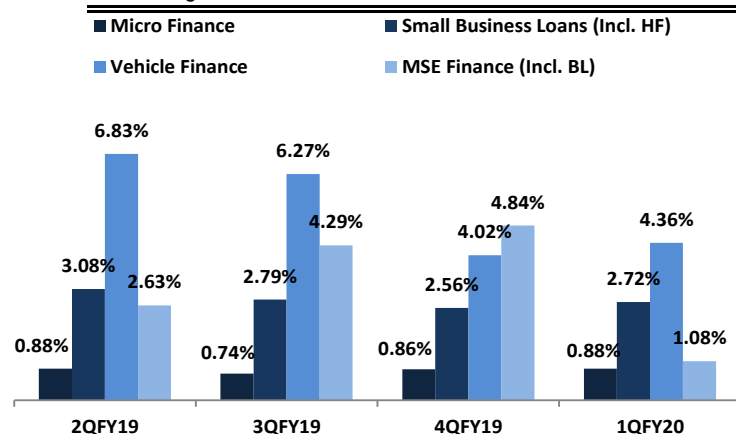


Exhibit: Provisions

GNPA Segment wise



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	73	269	270	338	340	341	341	341
>> Equity Capital	73	269	270	338	340	341	341	341
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	669	902	1,071	1,893	1,936	2,102	2,431	2,920
Networth	742	1,171	1,341	2,231	2,276	2,444	2,773	3,261
Deposit	-	-	-	1,885	4,719	8,016	14,311	16,062
Change (%)	N/A	N/A	N/A	N/A	150	70	79	12
>> CASA Deposits	-	-	-	327	1,634	2,272	2,349	2,390
Change (%)	N/A	N/A	N/A	327	1,634	2,272	2,349	2,390
Borrowings	1,849	3,032	4,683	6,543	10,607	12,801	17,688	23,255
Other Liabilities & Provisions	127	209	393	493	489	385	443	509
Total Liabilities	2,751	4,465	6,507	9,444	13,495	15,714	21,004	27,146
Cash Balances	415	557	947	1,065	1,192	1,261	1,543	1,505
Investments	4	176	12	1,896	3,857	2,345	3,291	4,707
Change (%)	(52)	4,779	(93)	15,610	103	(39)	40	43
Advances	2,123	3,465	5,070	5,829	7,800	11,720	15,742	20,464
Change (%)	75	63	46	15	34	50	34	30
Fixed Assets	27	47	62	329	330	292	321	353
Other Assets	182	220	415	325	315	96	106	116
Total Assets	2,751	4,465	6,507	9,444	13,495	15,714	21,004	27,146

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	482	687	1,037	1,442	1,598	2,195	2,754	3,519
Interest expended	190	295	436	587	674	959	1,206	1,512
Net Interest Income	293	392	601	855	925	1,236	1,548	2,007
Change (%)	68	34	53	42	8	34	25	30
Other Income	1	69	78	114	189	75	225	328
Change (%)	6	6,233	13	46	66	(60)	200	46
Total Net Income	294	461	679	969	1,114	1,400	1,773	2,335
Operating Expenses	162	247	360	615	891	1,027	1,145	1,389
Change (%)	28	53	45	71	45	15	12	21
>> Employee Expenses	100	155	234	396	520	568	664	817
Pre-provisioning Profit	132	214	319	354	223	373	628	946
Change (%)	167	62	49	11	(37)	67	69	51
Provisions	18	50	59	103	172	101	122	194
Change (%)	106	174	17	74	67	(41)	21	59
PBT	114	163	260	251	51	271	506	752
Tax	40	57	93	92	20	95	177	263
Profit After Tax	74	107	167	159	31	176	329	489
Change (%)	127	44	56	(5)	(80)	462	87	49

Financial Details

Key Ratios

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics	2,485	4,010	6,126	7,176	8,107	11,836	15,742	20,464
AUM	67	61	53	17	13	46	33	30
AUM Growth (%)	45.1	64.0	54.5	39.7	62.1	20.7	38.2	31.5
Borrowing Growth (%)	114.8	114.3	108.3	89.1	73.5	91.6	89.0	88.0
Loan/Borrowing (%)	-	-	-	17.5	34.6	28.3	16.4	11.7
CASA (%)								
CRAR (%)	22.9	21.2	29.6	35.5	29.6	22.4	21.5	19.3
>> Tier 1 (%)	-	-	-	32.3	27.1	20.9	19.4	17.7
>> Tier 2 (%)	-	-	-	3.2	2.5	1.5	2.1	1.6

Assets Quality Metrics

Gross NPA (Rs)	-	37	68	206	356	296	415	547
Gross NPA (%)	0.7	1.1	1.3	3.5	2.7	2.5	2.6	2.7
Net NPA (Rs)	-	28	48	105	112	167	207	273
Net NPA (%)	0.6	0.8	0.9	1.5	1.4	1.6	1.3	1.3
Specific Provision Coverage (%)								
Provision/Average Advances (%)	#DIV/0!	25.6	29.9	49.0	47.3	43.5	50.0	50.0

Margin Metrics

Yield On Advances (%)	24.3	21.1	24.3	25.4	20.5	22.5	18.6	17.9
Yield On Investment (%)	-	-	-	6.1	6.9	-	6.9	6.8
Yield On Earning Assets (%)	-	-	-	19.0	15.2	16.8	16.6	15.9
Cost Of Funds (%)	12.1	12.1	11.3	10.5	7.9	8.2	7.9	7.4
Spread (%)	12.2	9.1	13.0	8.5	7.3	8.6	8.7	8.5
NIM on AUM (%)	14.8	12.1	11.9	12.9	12.1	12.4	11.2	11.1
NIM on Earning Assets (%)	-	-	-	11.3	8.8	9.5	9.3	9.1

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	39.3	42.9	42.0	42.4	48.2	43.7	47.1	46.6
Cost to Income (%)	55.0	53.6	53.0	63.4	80.0	73.4	64.6	59.5
Cost on Average Assets (%)	7.0	6.9	6.6	7.7	7.8	7.0	6.2	5.8
Tax Rate (%)	34.9	34.6	35.8	36.7	38.7	35.0	35.0	35.0

Valuation Ratio Metrics

EPS (Rs)	10.2	4.0	6.2	4.7	0.9	5.2	9.6	14.3
Change (%)	80.4	(61.1)	55.8	(23.9)	(80.4)	460	86.5	48.5
ROAE (%)	12.2	11.2	13.3	8.9	1.4	3.7	12.6	16.2
ROAA (%)	3.2	3.0	3.0	2.0	0.3	0.6	1.8	2.0
Dividend Payout (%)	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-
Book Value(Rs)	51.1	43.5	49.7	66.0	66.9	71.6	81.2	95.5
Change (%)	25	(15)	14	33	1	7	13	18
ABVPS (Rs)	51	43	48	63	64	67	75	87
P/B (X)	-	-	-	2.6	2.1	1.5	1.3	1.1
P/E (X)	-	-	-	36.1	155.2	20.5	11.0	7.4

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	21.0	19.0	18.9	18.1	13.9	15.0	15.0	14.6
<i>Interest expended</i>	8.2	8.2	7.9	7.4	5.9	6.6	6.6	6.3
<i>Net Interest Income</i>	12.7	10.9	11.0	10.7	8.1	8.5	8.4	8.3
<i>Non-Fund Based Income</i>	0.0	1.9	1.4	1.4	1.7	0.5	1.2	1.4
<i>Total Income</i>	12.8	12.8	12.4	12.2	9.7	9.0	9.7	9.7
<i>Total Operating Expenses</i>	7.0	6.9	6.6	7.7	7.8	7.0	6.2	5.8
>> <i>Employee Expenses</i>	4.4	4.3	4.3	5.0	4.5	3.9	3.6	3.4
>> <i>Other Expenses</i>	2.7	2.6	2.3	2.7	3.2	3.1	2.6	2.4
<i>Operating Profit</i>	5.7	5.9	5.8	4.4	1.9	1.9	3.4	3.9
<i>Provisions</i>	0.8	1.4	1.1	1.3	1.5	0.7	0.7	0.8
<i>Others</i>								
<i>PBT</i>	4.9	4.5	4.7	3.2	0.4	1.3	2.8	3.1
<i>Tax</i>	1.7	1.6	1.7	1.2	0.2	0.7	1.0	1.1
<i>PAT/RoAA</i>	3.2	3.0	3.0	2.0	0.3	0.6	1.8	2.0
<i>Equity Multiplier (x)</i>	3.8	3.8	4.4	4.5	5.1	6.2	7.0	8.0
<i>ROAE</i>	12.2	11.2	13.3	8.9	1.4	3.7	12.6	16.2

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Disclosure of Interest Statement-

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