

Industry
Bloomberg
BSE CODE

Financial
EQUITAS IN
539844

Elevated Slippages and DTA impacted the profitability

RATING	NEUTRAL
CMP	91
Price Target	96
Potential Upside	6%
Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	143/88
Mkt Capital (Rs Cr)	3105
Free float (%)	84%
Avg. Vol 1M (,000)	17024
No. of Shares (Cr)	34
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	1236	1557	1987
PPP	373	584	875
PAT	176	313	525
NIM %	9.5	9.6	9.5
EPS (Rs)	5	9	15
EPS growth (%)	460	77	68
ROE (%)	4	12	17
ROA (%)	0.6	1.7	2.3
BV	72	81	96
P/B (X)	1.3	1.1	0.9
P/E (X)	18	10	6

2QFY20 Result Update

- NII grew by 36% YoY mainly driven by 33% YoY growth in advances. PAT stood at Rs 41 Cr declined by 17% mainly on account of DTA reversal and higher credit cost. C/I ratio increased at 70.3% v/s 68.5% YoY.
- AUM grew by 33%/7% YoY/QoQ driven by Micro LAP and Vehicle Finance segment. Disbursement growth slowed down to 11% YoY.
- GNPA increased by 17 bps to 2.88% sequentially. NNPA increased by 7 bps from 1.56% to 1.63%. Slippages increased to Rs 115 Cr vs Rs 79 Cr sequentially.

Healthy NII growth

NII grew by 33% YoY driven by strong growth in advances. NIM increased from 8.62% to 8.83% QoQ due to increase in Yield. The yield on advances increased from 18.40% to 18.60% sequentially. Cost of fund decreased from 9.09 % to 8.49% YoY. C/I ratio stood at 70.28% vs 68.51% YoY as the total operating expenses growth moderated to 23% YoY with employee expense increasing by 29% and other expense increasing by 2% YoY. On cost to income ratio rising management said operating expense increase was due to hiring of staff and 10% increment given to the staff.

Steady AUM growth

AUM growth of 33%/7% YoY/QoQ driven by Micro LAP and Vehicle Finance segment which grew by 60% and 30% YoY respectively. Agri loans grew by 48% YoY and small and mid-corporate loan grew by 77% YoY and others segment which grew by 253% YoY. Disbursement grew by 11% YoY growth was mainly driven by new product lines like new, CV portfolio, small & mid corporate loan with a growth of 43% and 104% respectively

Moderate deterioration in asset quality

GNPA increased by 17 bps to 2.88% sequentially however it improved by 48 bps on YoY basis. NNPA increased by 7 bps from 1.56% to 1.63%. Slippage during the quarter increased from Rs 79 Cr to Rs 115 Cr, while recovery & up gradation increased from Rs 41 Cr to Rs 71Cr. PCR stood at 44%. Credit cost has increased from 1.04% to 1.45% QoQ. On asset quality front management said it is more off seasonal and were affected may be due to rains, elections and other factor which affects the collection efficiency.

Listing of Small finance bank

Management said that it is on the process of the small finance bank and is looking to reduce the promoter's stake as per the regulations and is exploring various options for it.

View and Valuation

AUM growth slowed down as disbursement moderated since last few quarters on account of impact of macro conditions. Near term growth likely to get impacted due to regulatory hurdle on branch expansion and economy pressure. Asset quality deteriorated and is likely to saw some more blip in near term which will keep credit cost elevated. However, we don't expect any major deterioration on asset quality front. In the absence of PSLC sales, other income growth has been muted. EQUITAS stock price has been under pressure due to regulatory issues on listing of its small finance bank hence the company is trading with holding company discount. Management expects small finance bank to get listed within 5-6 months. Uncertainly over the reverse merger will further impact the stock price. We reduce our earnings estimate by 16% for FY20 and reduced the target price to Rs 96 at 1x BV FY21e. Downgrade to Neutral.

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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2QFY20 Results

PAT Below Estimate Due to DTA impact

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	533	557	579	630	671	25.9%	6.6%	1,598	2,195	37.3%
Interest Exp.	256	237	241	267	293	14.6%	9.9%	674	959	42.4%
NII	277	320	338	363	378	36.4%	4.2%	925	1,236	33.7%
Other Income	65	65	23	26	25	-60.9%	-1.8%	189	75	-60.3%
Total Income	342	386	379	398	411	20.3%	3.3%	1,114	1,400	25.7%
Ope Exp.	234	263	272	277	289	23.5%	4.4%	891	1,027	15.3%
PPP	108	123	108	121	122	13.6%	0.9%	223	373	67.0%
Provisions	31	24	46	13	35	14.3%	162.3%	172	101	-41.1%
PBT	77	98	62	108	87	13.3%	-19.0%	51	271	430.0%
Tax	27	36	20	38	46	68%	22.8%	20	95	379.3%
Net Profit	50	63	42	70	41	-17.0%	-41.3%	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.
- Cost of fund on quarterly average basis was at 8.49% v/s 8.23% during Q1FY20.
- Bank has written down deferred tax asset on account of change in tax regime which has had impact to the tune of Rs 24 Cr.
- Yield on the Used CV is around 20-21%. Management said it is looking to get into less risk spectrum in Commercial vehicle by getting into small fleet operators which have low yield but also possess less risk.
- Company is exploring various ways to reduce the promoters holding to the limit specified for the small finance bank and will announce once decision is made.
- Yields on MLAP and Agri are around 23% and For GLAP is 18% and a business loan is 14-16%. Ticket size of secured business loan is above 10 lacs
- On cost to income ratio rising management said operating expense increase was due to hiring of staff and 10% increment given to the staff.
- Management said that the asset quality in small business loans.
- On asset quality front management said it is more off seasonal and were affected may be due to rains, elections and other factor like on going situations in commercial vehicle which affects the collection efficiency .
- On other income front management said that the reduction was due to no PSLC income during first two quarter.
- On slower disbursement growth management said that it was both because of trend in first half of year and microeconomic conditions.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	76.8	80.6	68.5	68.2	71.6	69.6	70.3	1.77	0.72
Empl. Cost/ Tot. Exp. %	54.6	58.4	57.9	50.9	54.5	61.4	60.6	2.71	-0.78
Other Exp/Tot. Exp.%	35.0	32.4	32.3	40.3	36.7	26.1	26.7	-5.58	0.59
Provision/PPP %	20.6	23.2	28.3	19.8	42.8	11.0	28.5	0.18	17.54
Tax Rate %	34.9	35.4	35.6	36.3	32.0	34.8	52.8	17.24	17.95
Int Exp./Int Inc. (%)	43.6	46.4	48.0	42.5	41.6	42.4	43.7	-4.33	1.31
Other Inc./NII %	0.5	0.5	0.6	0.6	0.4	0.3	0.3	-0.40	-0.03
PPP/ Net Income %	23.2	19.4	31.5	31.8	28.4	30.4	29.7	-1.77	-0.72
PAT/ Net Income %	12.0	9.6	14.5	16.2	11.0	17.7	10.0	-4.51	-7.63
NII Growth % (YoY)	11.9	21.8	20.7	36.1	36.5	38.0	36.4	15.73	-1.61
PPP Growth YoY %	42.5	(14.8)	142.0	192.2	59.7	104.7	13.6	-128.39	-91.17
PAT Growth %	408.7	87.9	356.1	310	20.1	139.3	(17.0)	-373.07	-156.31

Margin Performance

MARGIN %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	17.0	17.2	17.3	16.9	16.9	18.0	18.3	0.99	0.35
Cost Of Funds	9.3	9.6	9.8	8.4	8.1	8.6	8.9	-0.96	0.25
Spreads	7.6	7.5	7.5	8.6	8.8	9.4	9.5	1.95	0.10
NIM	8.0	7.3	7.8	9.0	8.9	8.6	8.8	1.06	0.21

Exhibit: Yield and Cost

Yield and cost of fund increase

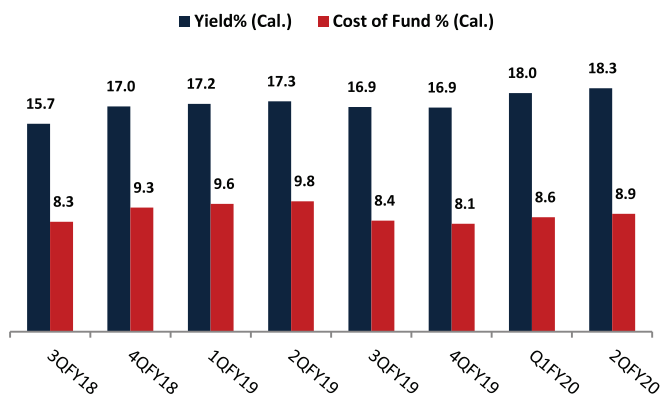
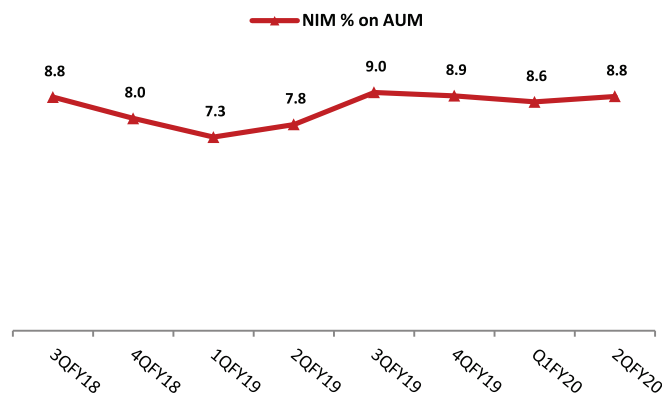


Exhibit: Net Interest Margin

NIM improved sequentially



Asset & Borrowings Growth Trend

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements	1395	1580	1679	1914	2171	2265	2215	2093	2407
Growth YoY %	-10	36	62	81	56	43	32	9	11
AUM	7326	7720	8107	8925	9981	10861	11835	12355	13269
Growth YoY %	3	8	13	27	36	41	46	38	33
Borrowings	7373	8259	10607	11635	11212	11898	12801	13697	14399
Growth YoY %	20	42	62	78	52	44	21	18	28

Exhibit: AUM Growth %

Steady AUM growth

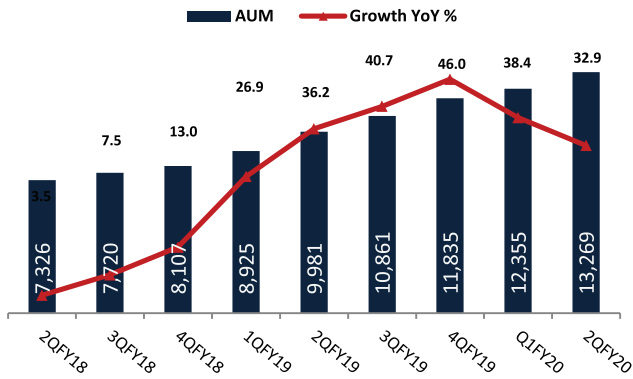
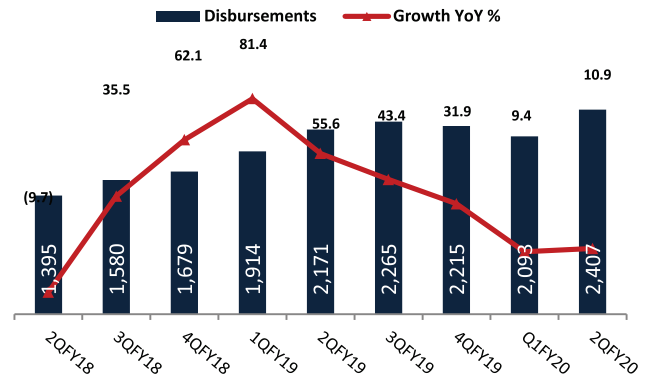


Exhibit: Disbursement Growth %

Disbursement growth increased sequentially



Asset Mix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Micro Finance	36	32	28	27	27	27	26	25	24
Vehicle Finance	28	28	28	27	25	25	25	25	24
Micro LAP/Property finance	24	26	27	30	27	32	32	33	33
Other	11	14	17	17	21	16	17	17	19

Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA	213	239	319	335	296	334	378	59	44
GNPA %	2.7	2.8	3.4	3.1	2.5	2.8	2.9	(0.5)	0.1
NNPA	112	127	188	187	167	187	212	24	25
NNPA %	1.4	1.5	2.0	1.8	1.6	1.7	1.6	(0.4)	(0.1)
Total Specific PCR %	47	47	41	44	43	44	44	3	(0)

Exhibit: Asset Quality

Asset Quality Deteriorate

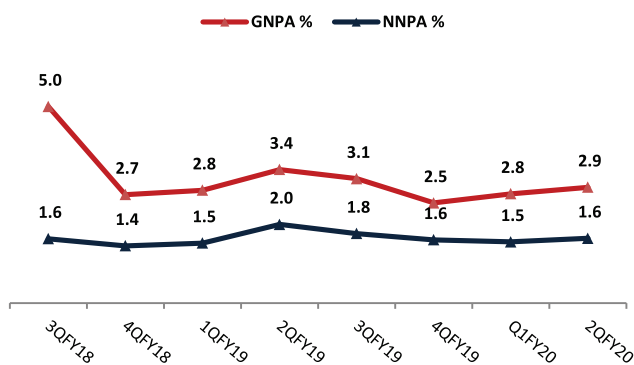


Exhibit: Provisions

PCR Decreased

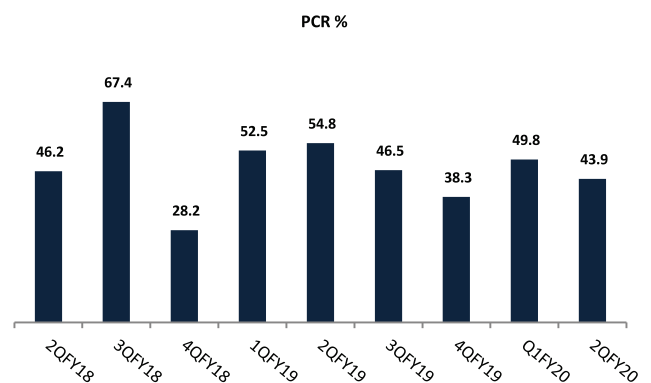


Exhibit: Liability Break Up

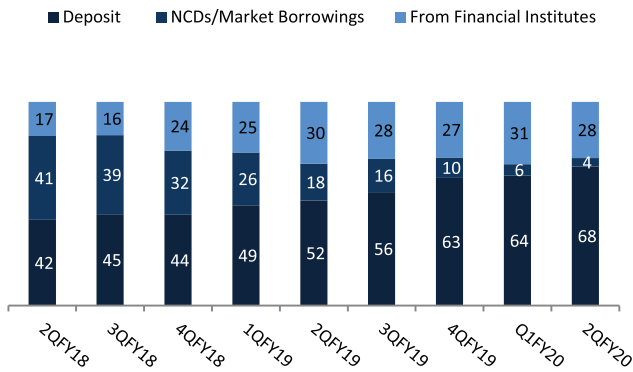
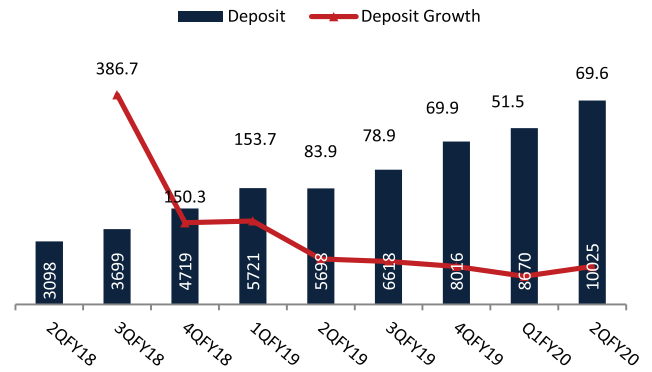


Exhibit: Deposit Growth

Healthy deposit Growth



Borrowing Mix

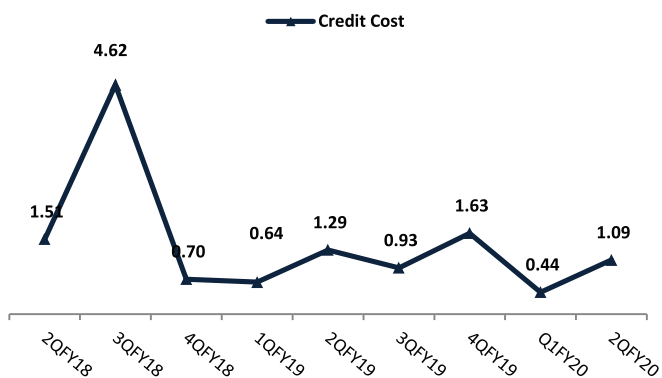
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Deposits	3,699	4,719	5,721	5,698	6,618	8,016	8,670	10,025
NCDs/Market Borrowings	3,205	3,355	3,018	2,003	1,955	1,292	766	605
From Financial Institutes	1,355	2,533	2,895	3,361	3,325	3,493	4,161	4,054

Deposit

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
CASA	1207	1634	1834	1972	2016	2272	2235	2249
CA	267	385.0	509	329	460	480	472	384
SA	940	1249	1325	1643	1556	1792	1763	1865
TD	2492	3085	3887	3726	4602	5744	6435	7931

Exhibit: Asset Quality

Increase in Credit Cost



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	2,415	2,940
Networth	742	1,171	1,341	2,231	2,276	2,444	2,756	3,282
Deposit	-	-	-	1,885	4,719	8,016	11,836	16,002
Change (%)	N/A	N/A	N/A	N/A	150	70	48	35
CASA Deposits	-	-	-	327	1,634	2,272	2,276	2,315
Change (%)	N/A	N/A	N/A	327	1,634	2,272	2,276	2,315
Borrowings	1,849	3,032	4,683	6,543	10,607	12,801	16,909	21,981
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	20,209	25,893
Cash Balances	415	557	947	1,065	1,192	1,261	1,827	1,940
Investments	4	176	12	1,896	3,857	2,345	2,722	3,681
Change (%)	(52)	4,779	(93)	15,610	103	(39)	16	35
Advances	2,123	3,465	5,070	5,829	7,800	11,720	15,233	19,803
Change (%)	75	63	46	15	34	50	30	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	20,209	25,893

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	2,747	3,439
Interest expended	190	295	436	587	674	959	1,189	1,452
Net Interest Income	293	392	601	855	925	1,236	1,557	1,987
Change (%)	68	34	53	42	8	34	26	28
Other Income	1	69	78	114	189	75	195	251
Change (%)	6	6,233	13	46	66	(60)	159	29
Total Net Income	294	461	679	969	1,114	1,400	1,752	2,238
Operating Expenses	162	247	360	615	891	1,027	1,168	1,363
Change (%)	28	53	45	71	45	15	14	17
Employee Expenses	100	155	234	396	520	568	712	843
Pre-provisioning Profit	132	214	319	354	223	373	584	875
Change (%)	167	62	49	11	(37)	67	57	50
Provisions	18	50	59	103	172	101	119	173
Change (%)	106	174	17	74	67	(41)	18	45
PBT	114	163	260	251	51	271	465	702
Tax	40	57	93	92	20	95	152	177
Profit After Tax	74	107	167	159	31	176	313	525
Change (%)	127	44	56	(5)	(80)	462	77	68

Financial Details

Key Ratios

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	2,485	4,010	6,126	7,176	8,107	11,836	15,387	20,003
AUM Growth (%)	67.5	61.4	52.8	17.1	13.0	46.0	30.0	30.0
Borrowing Growth (%)	45.1	64.0	54.5	39.7	62.1	20.7	32.1	30.0
Loan/Borrowing (%)	114.8	114.3	108.3	89.1	73.5	91.6	90.1	90.1
CASA (%)	-	-	-	17.5	34.6	28.3	19.2	14.5
CRAR (%)	22.9	21.2	29.6	35.5	29.6	22.4	22.2	20.3
Tier 1 (%)	-	-	-	32.3	27.1	20.9	20.1	18.6
Tier 2 (%)	-	-	-	3.2	2.5	1.5	2.2	1.7

Assets Quality Metrics								
Gross NPA (Rs)	-	37	68	206	356	296	443	594
Gross NPA (%)	0.7	1.1	1.3	3.5	2.7	2.5	2.9	3.0
Net NPA (Rs)	-	28	48	105	112	167	239	309
Net NPA (%)	0.6	0.8	0.9	1.5	1.4	1.6	1.6	1.6
Specific Provision Coverage (%)		25.6	29.9	49.0	47.3	43.5	46.0	48.0
Provision/Average Advances (%)	0.9	1.6	1.2	1.5	2.2	1.0	0.9	1.0

Margin Metrics								
Yield On Advances (%)	24.3	21.1	24.3	25.4	20.5	22.5	18.9	18.3
Yield On Investment (%)	-	-	-	6.1	6.9	-	8.1	7.2
Yield On Earning Assets (%)	-	-	-	19.0	15.2	16.8	17.0	16.5
Cost Of Funds (%)	12.1	12.1	11.3	10.5	7.9	8.2	8.0	7.5
Spread (%)	12.2	9.1	13.0	8.5	7.3	8.6	9.0	9.0
NIM on AUM (%)	14.8	12.1	11.9	12.9	12.1	12.4	11.4	11.2
NIM on Earning Assets (%)	-	-	-	11.3	8.8	9.5	9.6	9.5

Profitability & Efficiency Metrics								
Int. Expense/Int.Income (%)	39.3	42.9	42.0	42.4	48.2	43.7	46.8	45.2
Cost to Income (%)	-	-	-	-	-	-	-	-
Cost on Average Assets (%)	7.0	6.9	6.6	7.7	7.8	7.0	6.5	5.9
Tax Rate (%)	34.9	34.6	35.8	36.7	38.7	35.0	32.7	25.2

Valuation Ratio Metrics								
EPS (Rs)	10.2	4.0	6.2	4.7	0.9	5.2	9.2	15.4
Change (%)	80.4	(61.1)	55.8	(23.9)	(80.4)	460	77.4	67.9
ROAE (%)	12.2	11.2	13.3	8.9	1.4	3.7	12.0	17.4
ROAA (%)	3.2	3.0	3.0	2.0	0.3	0.6	1.7	2.3
Dividend Payout (%)	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-
Book Value(Rs)	51.1	43.5	49.7	66.0	66.9	71.6	80.7	96.1
Change (%)	25	(15)	14	33	1	7	13	19
ABVPS (Rs)	51	43	48	63	64	67	74	87
P/B (X)	-	-	-	2.6	2.1	1.3	1.1	0.9
P/E (X)	-	-	-	36.1	155.2	17.6	9.9	5.9

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	21.0	19.0	18.9	18.1	13.9	15.0	15.3	14.9
Interest expended	8.2	8.2	7.9	7.4	5.9	6.6	6.6	6.3
Net Interest Income	12.7	10.9	11.0	10.7	8.1	8.5	8.7	8.6
Non-Fund Based Income	0.0	1.9	1.4	1.4	1.7	0.5	1.1	1.1
Total Income	12.8	12.8	12.4	12.2	9.7	9.0	9.8	9.7
Total Operating Expenses	7.0	6.9	6.6	7.7	7.8	7.0	6.5	5.9
Employee Expenses	4.4	4.3	4.3	5.0	4.5	3.9	4.0	3.7
Other Expenses	2.7	2.6	2.3	2.7	3.2	3.1	2.5	2.3
Operating Profit	5.7	5.9	5.8	4.4	1.9	1.9	3.3	3.8
Provisions	0.8	1.4	1.1	1.3	1.5	0.7	0.7	0.8
Others								
PBT	4.9	4.5	4.7	3.2	0.4	1.3	2.6	3.0
Tax	1.7	1.6	1.7	1.2	0.2	0.7	0.8	0.8
PAT/RoAA	3.2	3.0	3.0	2.0	0.3	0.6	1.7	2.3
Equity Multiplier (x)	3.8	3.8	4.4	4.5	5.1	6.2	6.9	7.6
ROAE	12.2	11.2	13.3	8.9	1.4	3.7	12.0	17.4

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