




EQUITAS Holdings Limited

Industry	Financial
Bloomberg	EQUITAS IN
BSE CODE	539844

Strong Quarter, Despite Industry Headwinds

RATING	NEUTRAL
CMP	104
Price Target	100
Potential Upside	-4%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	143/82
Mkt Capital (Rs Cr)	3570
Free float (%)	84%
Avg. Vol 1M (,000)	4076
No. of Shares (Cr)	34
Promoters Pledged %	

Fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
NII	1236	1582	2083
PPP	373	543	749
PAT	176	276	413
NIM %	12.4	11.4	11.2
EPS (Rs)	5	8	12
EPS growth	460	57	49
ROE (%)	4	11	14
ROA (%)	0.6	1.5	1.8
BV	72	80	92
P/B (X)	7.0	11.3	15.2
P/E (x)	21	13	9

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3QFY20 Result Update

- NII grew by 22% YoY mainly driven by 37% YoY growth in AUM. PAT stood at Rs 79 Cr growing by 48% YoY with C/I ratio reducing from 71% to 68% YoY
- AUM grew by 37%/11% on YoY/QoQ driven by small business loan which grew by 45% YoY. MSE finance segment grew by 448%/29% on YoY/QoQ basis
- GNPA stood at 2.86% v/s 3.14% YoY and 2.88% QoQ while the NNPA stood at 1.73% v/s 1.75% YoY and 1.63% QoQ.

NIM Improves

NII grew by 22% YoY mainly driven by 37% YoY growth in AUM. NIM improves sequentially from 8.63% to 9.17% with cost of fund at 7.96% v/s 8.49% in Q2FY20. PAT stood at Rs 79 Cr growing by 48% YoY with C/I ratio reducing from 71% to 68% YoY. The Employee expense during the quarter grew by 37% YoY while the other expenses decreased 18% YoY. Increase in employee expense was on account of employee's growth during Q2 and Q3 and other operating expense growth was due to increase in volume in business.

Asset quality improves However slippages remain elevated

GNPA during the quarter stood at 2.86% v/s 3.14% YoY and 2.86% QoQ while the NNPA stood at 1.73% v/s 1.77% YoY and 1.63 QoQ. The fresh slippages were Rs 127 Cr v/s the 74 Cr YoY and Rs 108 Cr QoQ. The recoveries were Rs 35 Cr v/s Rs 23 Cr in Q3FY19 and write off were Rs 22 Cr v/s Rs 6 Cr in Q3FY19 and the upgrades were Rs 29 Cr. The recoveries during the quarter were mainly from the CV and small business loan segment. Slippages are mainly from some district of Maharashtra in the Microfinance segment due to some political issues.

Healthy AUM growth

AUM grew by 37%/11% on YoY/QoQ mainly led by MSE finance segment which grew by 448%/29% on YoY/QoQ basis and small business loan segment which grew by 45%/11% on YoY/QoQ basis also the vehicle finance segment which grew by 32%/11% on YoY/QoQ basis. In the commercial vehicle segment management is only focusing on the LCV and SCV and have not seen stress in these segments. Disbursement grew by 36% YoY, management said that disbursement growth during H1FY20 was impacted due to floods and election and Q3FY20 was festive season which helped the growth.

View and Valuation

Despite the slow down in the economy, AUM growth of EQUITAS picked up considerably due to MSME segment. Margins improved on account of lower cost of fund. Asset quality showed sign of weakness due to pressure across the industry level. However, considering the growth and asset quality pressure at the industry level, we remain cautious on the MSME and CV front. On the listing front, DHRP has been filed for the SFB. Uncertainty on the reverse merger will continue to impact the holding company valuation. We value the stock at 1.1x BV FY21e to arrive at the target price of Rs 100 and remain NEUTRAL on the stock.

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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3QFY20 Results PAT IN LINE

Financials	3QFY19	4QFY19	Q1FY20	2QFY20	3QFY20	YoY %	QoQ%	Fig in Rs cr		
								FY18	FY19	YoY %
Interest Inc.	557	579	630	671	714	28.1%	6.3%	1,598	2,195	37.3%
Interest Exp.	237	241	267	293	303	27.9%	3.3%	674	959	42.4%
NII	320	338	363	378	411	28.2%	8.7%	925	1,236	33.7%
Other Income	65	23	26	25	24	-62.7%	-3.6%	189	75	-60.3%
Total Income	386	379	398	411	458	18.7%	11.3%	1,114	1,400	25.7%
Opex Exp.	263	272	277	289	313	18.9%	8.3%	891	1,027	15.3%
PPP	123	108	121	122	145	18.2%	18.4%	223	373	67.0%
Provisions	24	46	13	35	47	93.3%	34.6%	172	101	-41.1%
PBT	98	62	108	87	98	-0.4%	12.0%	51	271	430.0%
Tax	36	20	38	46	19	-48%	-59.8%	20	95	379.3%
Net Profit	63	42	70	41	79	26.8%	92.2%	31	176	462%

Concall Highlights

- EQUITAS has filed the IPO for small finance bank and is waiting for SEBI approval.
- EQUITAS has raised fresh capital of Rs. 250 crores via private placement.
- In new Commercial vehicle management they are only focusing on LCV and SCV and have not seen stress in these segment .
- During the quarter Company has Appointed Mr. Murali Vaidyanathan as President & Country Head – Branch Banking, Liabilities, Product & Wealth.
- Slippages are mainly from some district of Maharashtra in the Microfinance segment due to some political issues. In Karnataka management has not seen any issues in areas they operate.
- Number of TD customers are around 500000 out of which 65000 are Retail TD customers
- In small business loans are given to salaried class in informal economy which involves certain inherent risk but management is doing it for 8 year and had made a proper credit risk management. The NPA levels for banks is below market levels.
- The improvement in NIM was account of reduction in cost of fund.
- On slow CASA growth management said they were focusing on growing retail TD during the quarter.
- Increase in employee expense was on account of employee's growth during Q2 and Q3 and other operating expense growth was due to increase in volume in business.
- On disbursement growth management said that during H1FY20 floods and election impacted the disbursement and Q3FY20 is festive season which helped growth.
- On Tax rate management said it would be less than 25% for Q4FY20.
- Recovery was mainly from CV and Small business Loan.
- Management has not had any opportunity to sell any repossessed asset till now but are adequately collateralized on secured working capital portfolio. Looking at current environment management feels it is better to do highly secured kind of portfolio where coverage is more than 100%. Growth is going to come from ticket sizes of Rs 50 lakh to 1 Cr. Company is looking to target the customers of banks who have weakened on account of merger and primary focus is on acquiring customers who are uninitiated to working capital in NBFC Segment.
- On MSE segment management said it will be growth area with ticket size of Rs 50 lakh to 1 Cr.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	80.6	68.5	68.2	71.6	69.6	70.3	68.0	-0.24	-2.28
Empl. Cost/ Tot. Exp. %	58.4	57.9	50.9	54.5	61.4	60.6	61.8	10.90	1.18
Other Exp/Tot. Exp.%	32.4	32.3	40.3	36.7	26.1	26.7	26.5	-13.79	-0.20
Provision/PPP %	23.2	28.3	19.8	42.8	11.0	28.5	25.2	5.43	-3.28
Tax Rate %	35.4	35.6	36.3	32.0	34.8	52.8	25.5	-10.85	-27.29
Int Exp./Int Inc. (%)	46.4	48.0	42.5	41.6	42.4	43.7	44.3	1.74	0.56
Other Inc./NII %	0.5	0.6	0.6	0.4	0.3	0.3	0.3	-0.27	0.08
PPP/ Net Income %	19.4	31.5	31.8	28.4	30.4	29.7	32.0	0.24	2.28
PAT/ Net Income %	9.6	14.5	16.2	11.0	17.7	10.0	17.8	1.61	7.80
NII Growth % (YoY)	21.8	20.7	36.1	36.5	38.0	36.4	21.4	-14.77	-15.03
PPP Growth YoY %	(14.8)	142.0	192.2	59.7	104.7	13.6	10.8	-181.41	-2.82
PAT Growth %	87.9	356.1	310.4	20	139.3	(17.0)	20.9	-289.53	37.87

Margin Performance

Margin %	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	17.2	17.3	16.9	16.9	18.0	18.3	18.7	1.74	0.33
Cost Of Funds	9.6	9.8	8.4	8.1	8.6	8.9	8.5	0.15	-0.35
Spreads	7.5	7.5	8.6	8.8	9.4	9.5	10.2	1.59	0.68
NIM	7.3	7.8	9.0	8.9	8.6	8.8	9.2	0.19	0.34

Exhibit: Yield and Cost

Yield increases cost of fund decreases

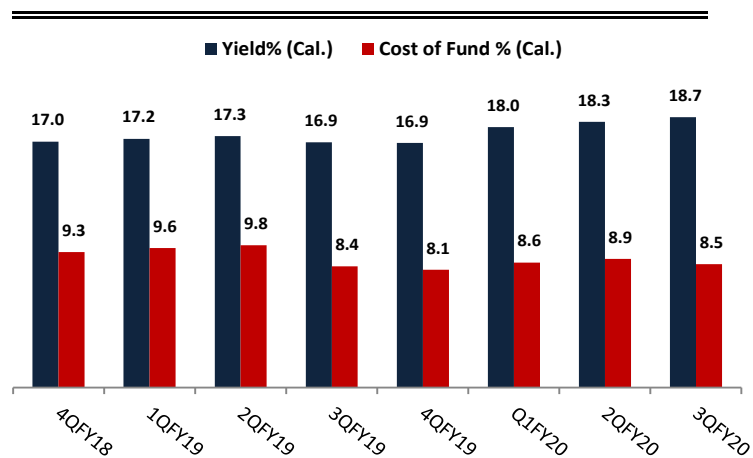
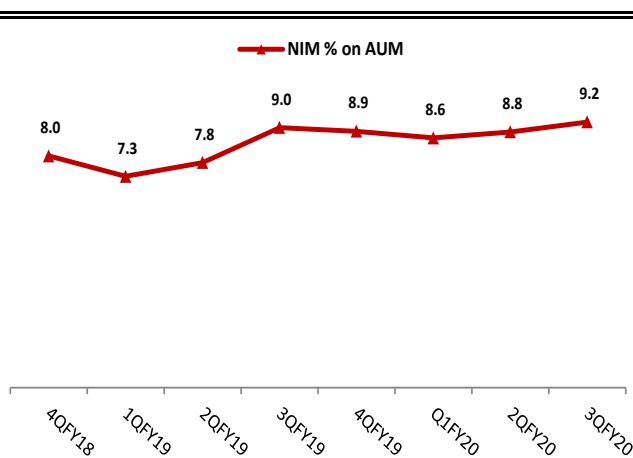


Exhibit: Net Interest Margin

NIM improved



Asset & Borrowings Growth Trend

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	2QFY20	3QFY20
Disbursements	1580	1679	1914	2171	2265	2215	2093	2407	3080
Growth YoY %	36	62	81	56	43	32	9	11	36
AUM	7720	8107	8925	9981	10861	11835	12355	13269	14235
Growth YoY %	8	13	27	36	41	46	38	33	31
Borrowings	8259	10607	11635	11212	11898	12801	13697	14399	15906
Growth YoY %	42	62	78	52	44	21	18	28	30

Exhibit: AUM Growth %

Steady AUM growth

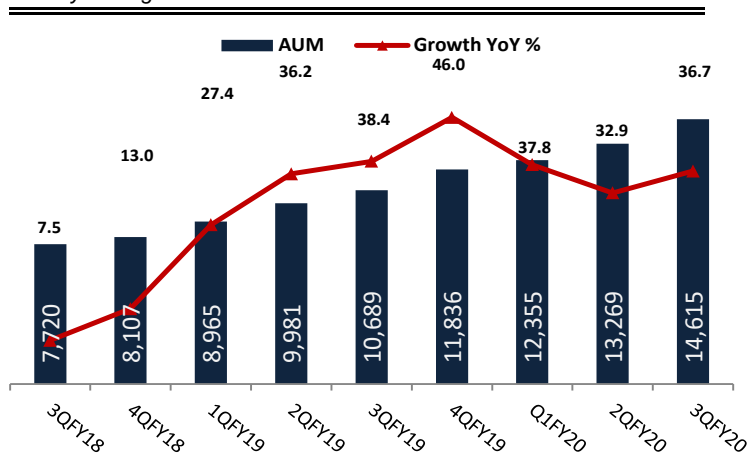
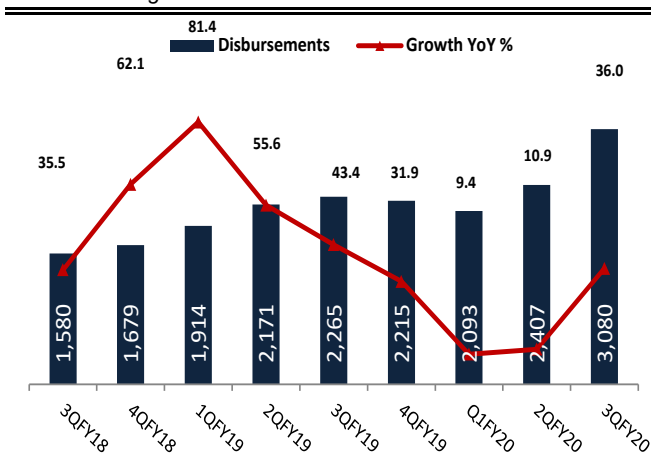


Exhibit: Disbursement Growth %

Disbursement growth increased



Asset Mix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	2QFY20	3QFY20
Micro Finance	32	28	27	27	27	26	25	24	25
Vehicle Finance	28	28	27	25	25	25	25	24	25
Micro LAP/Property finance	26	27	27	27	32	40	33	33	33
Other	14	17	19	21	16	10	17	19	17

Asset Quality

	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA	239	319	335	296	334	378	418	83	40
GNPA %	2.8	3.4	3.1	2.5	2.8	2.9	2.9	(0.3)	(0.1)
NNPA	127	188	187	167	187	212	236	49	24
NNPA %	1.5	2.0	1.8	1.6	1.5	1.6	1.7	(0.0)	0.1
Total Specific PCR %	53	55	47	38	50	44	44	(3)	(0)

Exhibit: Asset Quality

Asset Quality Deteriorate

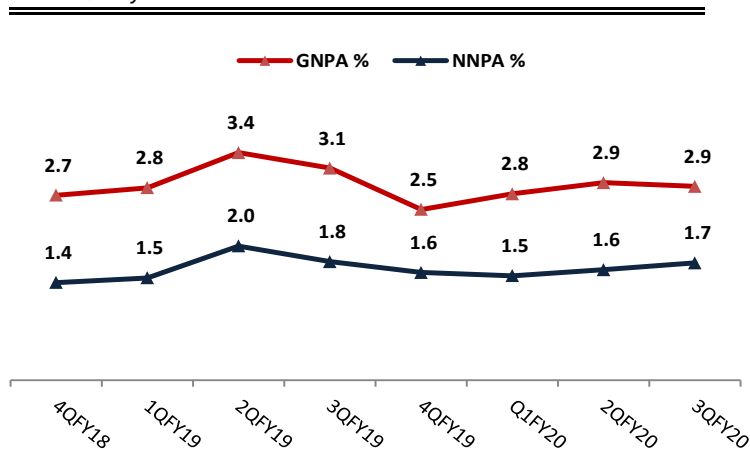


Exhibit: Provisions

PCR Decreased

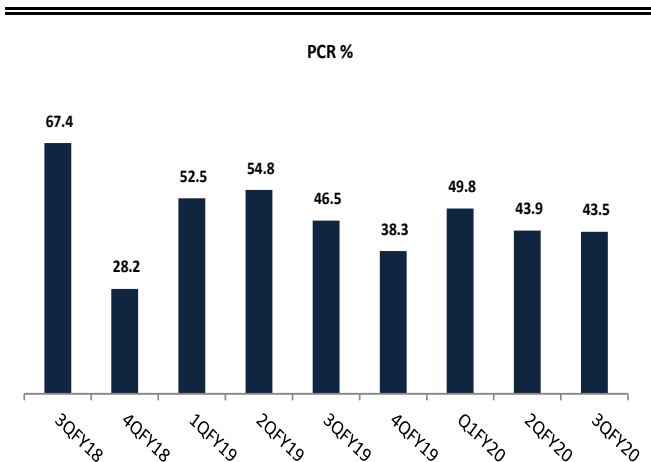


Exhibit: Liability Break Up

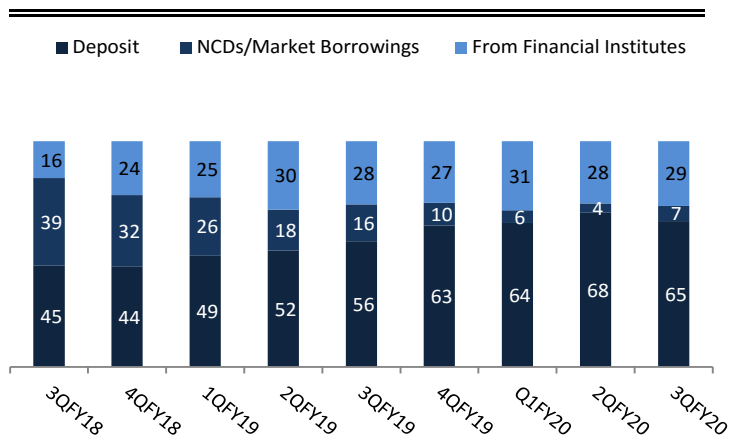
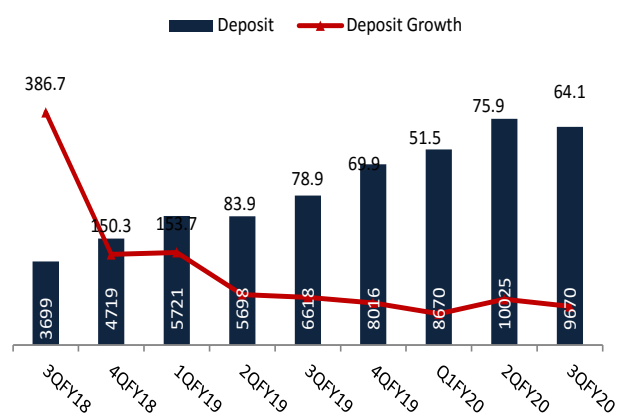


Exhibit: Deposit Growth

Healthy deposit Growth



Borrowing Mix

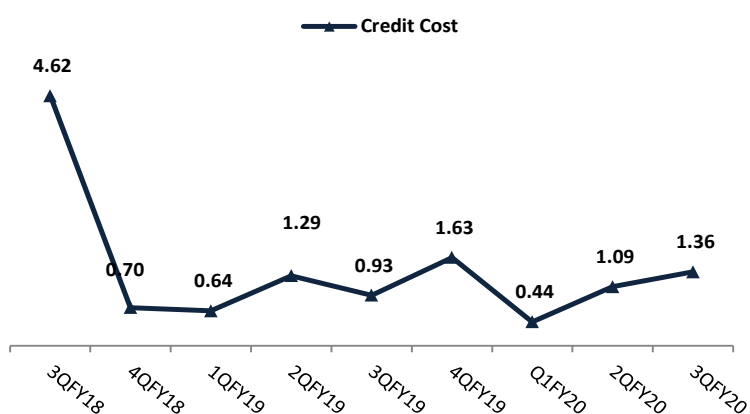
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	2QFY20	3QFY20
Deposits	4,719	5,721	5,698	6,618	8,016	8,670	10,025	10,026
NCDs/Market Borrowings	3,355	3,018	2,003	1,955	1,292	766	605	1,044
From Financial Institutes	2,533	2,895	3,361	3,325	3,493	4,161	4,054	4,443

Deposit

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	2QFY20	3QFY20
CASA	1634	1834	1972	2016	2272	2235	2249	2196
>> CA	385	509.0	329	460	480	472	384	394
>>SA	1249	1325	1643	1556	1792	1763	1865	1802
>>TD	3085	3887	3726	4602	5744	6435	7776	7474

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	2,378	2,791
Networth	742	1,171	1,341	2,231	2,276	2,444	2,720	3,132
Deposit	-	-	-	1,885	4,719	8,016	12,200	17,002
Change (%)	N/A	N/A	N/A	N/A	150	70	52	39
>> 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	17,429	23,355
Other Liabilities & Provisions	127	209	393	493	489	385	226	108
Total Liabilities	2,751	4,465	6,507	9,444	13,495	15,714	20,365	26,777
Cash Balances	415	557	947	1,065	1,192	1,261	1,525	1,274
Investments	4	176	12	1,896	3,857	2,345	2,806	3,911
Change (%)	(52)	4,779	(93)	15,610	103	(39)	20	39
Advances	2,123	3,465	5,070	5,829	7,800	11,720	15,702	21,040
Change (%)	75	63	46	15	34	50	34	34
Fixed Assets	27	47	62	329	330	292	292	321
Other Assets	182	220	415	325	315	96	41	231
Total Assets	2,751	4,465	6,507	9,444	13,495	15,714	20,365	26,777

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	2,770	3,639
Interest expended	190	295	436	587	674	959	1,188	1,557
Net Interest Income	293	392	601	855	925	1,236	1,582	2,083
Change (%)	68	34	53	42	8	34	28	32
Other Income	1	69	78	114	189	75	155	186
Change (%)	6	6,233	13	46	66	(60)	106	20
Total Net Income	294	461	679	969	1,114	1,400	1,737	2,269
Operating Expenses	162	247	360	615	891	1,027	1,194	1,520
Change (%)	28	53	45	71	45	15	16	27
>> Employee Expenses	100	155	234	396	520	568	726	930
Pre-provisioning Profit	132	214	319	354	223	373	543	749
Change (%)	167	62	49	11	(37)	67	46	38
Provisions	18	50	59	103	172	101	136	197
Change (%)	106	174	17	74	67	(41)	35	45
PBT	114	163	260	251	51	271	407	551
Tax	40	57	93	92	20	95	131	139
Profit After Tax	74	107	167	159	31	176	276	413
Change (%)	127	44	56	(5)	(80)	462	57	49

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	15,860	21,253
AUM Growth (%)	67.5	61.4	52.8	17.1	13.0	46.0	34.0	34.0
Borrowing Growth (%)	45.1	64.0	54.5	39.7	62.1	20.7	36.2	34.0
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	18.7	13.6
CRAR (%)	22.9	21.2	29.6	35.5	29.6	22.4	21.8	18.8
>> Tier 1 (%)	-	-	-	32.3	27.1	20.9	19.6	17.2
>> Tier 2 (%)	-	-	-	3.2	2.5	1.5	2.2	1.6

Assets Quality Metrics

Gross NPA (Rs)	-	37	68	206	356	296	449	630
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	247	347
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	45.0	45.0
Provision/Average Advances (%)	0.9	1.6	1.2	1.5	2.2	1.0	1.0	1.1

Margin Metrics

Yield On Advances (%)	24.3	21.1	24.3	25.4	20.5	22.5	18.6	18.3
Yield On Investment (%)	-	-	-	6.1	6.9	-	8.8	8.0
Yield On Earning Assets (%)	-	-	-	19.0	15.2	16.8	16.9	16.6
Cost Of Funds (%)	12.1	12.1	11.3	10.5	7.9	8.2	7.9	7.6
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	46.7	46.2
Cost to Income (%)	55.0	53.6	53.0	63.4	80.0	73.4	68.7	67.0
Cost on Average Assets (%)	7.0	6.9	6.6	7.7	7.8	7.0	6.6	6.4
Tax Rate (%)	34.9	34.6	35.8	36.7	38.7	35.0	32.2	25.2

Valuation Ratio Metrics

EPS (Rs)	10.2	4.0	6.2	4.7	0.9	5.2	8.1	12.1
Change (%)	80.4	(61.1)	55.8	(23.9)	(80.4)	460	56.5	49.4
ROAE (%)	12.2	11.2	13.3	8.9	1.4	3.7	10.7	14.1
ROAA (%)	3.2	3.0	3.0	2.0	0.3	0.6	1.5	1.8
Dividend Payout (%)	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-
Book Value(Rs)	51.1	43.5	49.7	66.0	66.9	71.6	79.7	91.7
Change (%)	25	(15)	14	33	1	7	11	15
ABVPS (Rs)	51	43	48	63	64	67	72	82
P/B (X)	-	-	-	2.6	2.1	1.5	1.3	1.2
P/E (X)	-	-	-	36.1	155.2	20.7	13.2	8.9

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	15.4	15.4
<i>Interest expended</i>	8.2	8.2	7.9	7.4	5.9	6.6	6.6	6.6
<i>Net Interest Income</i>	12.7	10.9	11.0	10.7	8.1	8.5	8.8	8.8
<i>Non-Fund Based Income</i>	0.0	1.9	1.4	1.4	1.7	0.5	0.9	0.8
<i>Total Income</i>	12.8	12.8	12.4	12.2	9.7	9.0	9.6	9.6
<i>Total Operating Expenses</i>	7.0	6.9	6.6	7.7	7.8	7.0	6.6	6.4
>> <i>Employee Expenses</i>	4.4	4.3	4.3	5.0	4.5	3.9	4.0	3.9
>> <i>Other Expenses</i>	2.7	2.6	2.3	2.7	3.2	3.1	2.6	2.5
<i>Operating Profit</i>	5.7	5.9	5.8	4.4	1.9	1.9	3.0	3.2
<i>Provisions</i>	0.8	1.4	1.1	1.3	1.5	0.7	0.8	0.8
<i>Others</i>								
<i>PBT</i>	4.9	4.5	4.7	3.2	0.4	1.3	2.3	2.3
<i>Tax</i>	1.7	1.6	1.7	1.2	0.2	0.7	0.7	0.6
<i>PAT/RoAA</i>	3.2	3.0	3.0	2.0	0.3	0.6	1.5	1.8
<i>Equity Multiplier (x)</i>	3.8	3.8	4.4	4.5	5.1	6.2	7.0	8.1
<i>ROAE</i>	12.2	11.2	13.3	8.9	1.4	3.7	10.7	14.1

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